

## QUICK INFO FROM CBW

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A Pacific Northwest location has hurt many smaller banks, but might also be what saves some of them.

While states like Washington and Oregon have had their share of failures, there have been several deals to save larger struggling banks there, too. Add Cascade Financial Corp. in Everett, Wash., to that pile. On Friday, the \$1.5 billion-asset company announced it had [agreed to be acquired](#) by Opus Bank, a small lender in Irvine, Calif., which is backed by \$460 million of capital.

"Banks with sizable balance sheets [over \$1 billion of assets] have tended to get capital in that region," said Brett Rabatin, an analyst at Sterne, Agee & Leach Inc. "For some of them, had they been in another part of the country, they would have been shut down. This partially has to do with the desirability of the Seattle and other metro areas as well as franchise values of some of the names."

Stephen M. Klein, an attorney at Graham & Dunn PC in Seattle, said that perhaps the reason more recapitalizations are occurring in the Pacific Northwest is openness among the Federal Deposit Insurance Corp.'s leadership on the West Coast, who is more willing to consider private equity, other investor-backed groups and other creative dealmaking. So long as the struggling bank is not facing a liquidity crisis, regulators appear to be giving banks more time to complete a recapitalization.

An FDIC spokesman said it does not dictate when banks are closed, but bank recapitalizations outside of resolution are good for the Deposit Insurance Fund and the industry. The other deals include: the private-equity recapitalization of the \$2 billion-asset Cascade Bancorp in Bend, Ore.; the recapitalization of the \$9.5 billion-asset Sterling Financial Corp. in Spokane, Wash., through private equity and a common equity raise; and the bankruptcy of AmericanWest Bancorp in Spokane, which facilitated the purchase and recapitalization of its \$1.5 billion-asset bank unit by a group backed by private equity and other investors.

Noticeably absent from the list of saviors are in-market banks. Rabatin said their attention is still consumed by failed-bank deals brokered by the FDIC. Joe Gladue, a senior analyst at B. Riley & Co. LLC, said, "They are probably interested in some of these strugglers, but either can't make the numbers work or are hoping to get a good deal on an FDIC transaction."

But for an outsider with a lot of cash, these sorts of deals can make a lot of sense, Gladue said. Stephen H. Gordon, the chairman, chief executive and president of the \$700 million-asset Opus Bank, agreed. "Cascade is a great relationship-based bank with a long heritage that is now a

troubled institution in need of capital. We view that as a tremendous opportunity," Gordon said.

He said that the deal would be immediately accretive to Opus' earnings. The deal is valued at \$21.75 million, with \$16.25 million of that going toward a discounted exchange for Cascade's \$39 million in preferred stock held by the Treasury Department as part of the Troubled Asset Relief Program. Common shareholders would receive \$5.5 million in cash. At 45 cents per share, the deal is priced at a 15% discount to the company's closing price on Friday at about 26% of its tangible book value at Dec. 31.

Despite the deep discount to tangible book value, Carol K. Nelson, the president and CEO of Cascade, said she hopes shareholders will view the deal positively. "If you look at the shareholders in the Pacific Northwest, many have been hurt very much by the failures," Nelson said. "So to bring our transaction that calls for them to receive slightly under market value, it really is in their best interest."

Cascade has been searching for capital since late 2009. Like so many banks in that region and across the country, its problems are concentrated on bets made on residential real estate development. At Dec. 31, it had nonperforming assets of \$82.5 million, down a fifth from a year earlier. Still, at 5.51% of total assets, the problems are high. The company said Friday it has a \$68 million gap between its current capital ratios and where regulators ordered them to be in a July 2010 consent order.

Gordon said as part of the integration of Cascade, Opus would look to divide the problem assets worth working out and dispose of the others. The deal is expected to close in the second quarter of 2011; Cascade Bank would be merged into Opus Bank.

In September 2010, Gordon took over the \$270 million-asset undercapitalized Bay Cities Bank, infused it with \$460 million of capital he raised from investors and changed its name to Opus. His goal is aggressive — he wants to build a superregional bank on the West Coast, stretching from Washington to California. "There are plenty of banks that are paralyzed in what they can do," Gordon said. "Those of us who can, need to lead the turnaround."