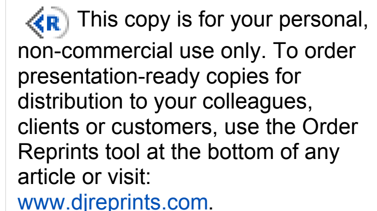
THE WALL STREET JOURNAL. ONLINE

June 19, 2008

Banks Find New Ways To Ease Pain of Bad Loans

By DAVID ENRICH
June 19, 2008; Page C1

DOW JONES REPRINTS



This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit: www.djreprints.com.

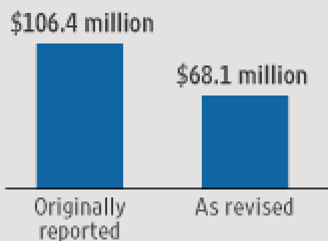
• See a sample reprint in PDF format.
• Order a reprint of this article now.

In January, **Astoria Financial** Corp. told investors that its pile of nonperforming loans had grown to about $106 million as of the end of last year. Three months later, the thrift holding company said the number was just $68 million.

How did Astoria do it? By changing its internal policy on when mortgages are classified on its books as troubled. The Lake Success, N.Y., company now counts home loans as nonperforming when the borrower misses at least three payments, instead of two.

Disappearing Act

Astoria Financial shrank by 36% its pool of troubled loans* by not counting mortgages as "non-performing" until the borrower misses at least three payments, instead of two



Source: the company *As of Dec. 31

Astoria says the change was made partly to make its disclosures on shaky mortgages more consistent with those of other lenders. An Astoria spokesman didn't respond to requests for comment. But the shift shows one of the ways lenders increasingly are trying to make their real-estate misery look not quite so bad.

From lengthening the time it takes to write off troubled mortgages, to parking lousy loans in subsidiaries that don't count toward regulatory capital levels, the creative maneuvers are perfectly legal.

Yet they could deepen suspicion about financial stocks, already suffering from dismal investor sentiment as loan delinquencies balloon and capital levels shrivel with no end in sight.

"Spending all the time gaming the system rather than addressing the problems doesn't reflect well on the institutions," said David Fanger, chief credit officer in the financial-institutions group at Moody's Investors Service, a unit of Moody's Corp. "What this really is about is buying yourself time. ... At the end of the day, the losses are likely to not be that different."

Still, as long as the environment continues to worsen for big and small U.S. banks, more of them are likely to explore such now-you-see-it, now-you-don't strategies to prop up profits and keep antsy regulators off their backs, bankers and lawyers say.

At **Wells Fargo** & Co., the fourth-largest U.S. bank by stock-market value, investors and analysts are jittery about its $83.6 billion portfolio of home-equity loans, which is showing signs of stress as real-estate values tumble throughout much of the country.

Until recently, the San Francisco bank had written off home-equity loans -- essentially taking a charge to earnings in anticipation of borrowers' defaulting -- once borrowers fell 120 days behind on payments. But

on April 1, the bank started waiting for up to 180 days.

'Out of Character'

Some analysts note that the shift will postpone a potentially bruising wave of losses, thereby boosting Wells Fargo's second-quarter results when they are reported next month. "It is kind of out of character for Wells," says Joe Morford, a banking analyst at RBC Capital Markets. "They tend to use more conservative standards."

Wells Fargo spokeswoman Julia Tunis says the change was meant to help borrowers. "The extra time helps avoid having loans charged off when better solutions might be available for our customers," she says. In a securities filing, Wells Fargo said that the 180-day charge-off standard is "consistent with" federal regulatory guidelines.

BankAtlantic Bancorp Inc., which is based in Fort Lauderdale, Fla., earlier this year transferred about $100 million of troubled commercial-real-estate loans into a new subsidiary.

That essentially erased the loans from BankAtlantic's retail-banking unit. Since that unit is federally regulated, BankAtlantic eventually might have faced regulatory action if it didn't substantially beef up the unit's capital and reserve levels to cover the bad loans.

Because the BankAtlantic subsidiary that holds the bad loans isn't regulated, it doesn't face the same capital requirements. But the new structure won't insulate the parent company's profits -- or shareholders -- from losses if borrowers default on the loans, analysts said.

Alan Levan, BankAtlantic's chief executive, declined to comment on how much the loan transfer bolstered the regulated unit's capital levels. "The reason for doing it is to separate some of these problem loans out of the bank so that they can get special focus in an isolated subsidiary," he said.

Other lenders have been considering the use of similar "bad-bank" structures as a way to cleanse their balance sheets of shaky loans. In April, Peter Raskind, chairman and CEO of **National City** Corp., said the Cleveland bank "could imagine...several different variations of good-bank/bad-bank kinds of structures" to help shed problem assets.

Two banks that investors love to hate, **Wachovia** Corp. and **Washington Mutual** Inc., troubled some analysts by using data from the Office of Federal Housing Enterprise Oversight when they announced first-quarter results. Other lenders rely on a data source that is more pessimistic about the housing market.

Charter Switch

Another eyebrow raiser: switching bank charters so that a lender is scrutinized by a different regulator.

Last week, **Colonial BancGroup** Inc., Montgomery, Ala., announced that it changed its Colonial Bank unit from a nationally chartered bank to a state-chartered bank, effective immediately.

That means the regional bank no longer will be regulated by the Office of the Comptroller of the Currency, which has become increasingly critical of banks such as Colonial with heavy concentrations of loans to finance real-estate construction projects.

Instead, Colonial's primary regulators now are the Alabama Banking Department, also based in Montgomery, and the Federal Deposit Insurance Corp. The change probably "is meant to distance [Colonial] from what is perceived as the more aggressive and onerous of the bank regulators," said Kevin

Fitzsimmons, a bank analyst at Sandler O'Neill & Partners.

Colonial spokeswoman Merrie Tolbert denies that. Being a state-chartered bank "gives us more flexibility" and will save the company more than $1 million a year in regulatory fees, she said.

Trabo Reed, Alabama's deputy superintendent of banking, said his examiners won't give Colonial a free pass. "There's not going to be a significant amount of difference" between the OCC and state regulators, he says.

Write to David Enrich at david.enrich@wsj.com[1]

URL for this article:
http://online.wsj.com/article/SB121383327218786693.html

Hyperlinks in this Article:
(1) mailto:david.enrich@wsj.com

Copyright 2008 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our **Subscriber Agreement** and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit **www.djreprints.com**.

RELATED ARTICLES FROM ACROSS THE WEB

Related Articles from WSJ.com

- FDIC Shuts Down Arkansas's ANB May. 10, 2008

Related Web News

- Fallout From Bad Loans Rocks Regional Banks - NYTimes.com Jun. 19, 2008 nytimes.com
- U.S. banks may need $65 bln new capital: Goldman Jun. 17, 2008 news.yahoo.com
- UCBH tumbles again as bank prices $135 million offering Jun. 06, 2008 marketwatch.com