

Tennessee Commerce takes big hit, seeks cash

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The Middle Tennessee banking community was on watch this week as [Tennessee Commerce Bancorp](#) revealed a devastating \$120 million third-quarter loss and a frantic search for new capital to remain afloat.

Management at the parent company of the Franklin bank has hired investment bankers to explore what chairman, president and CEO [Mike Sapp](#) characterized to investors as “strategic alternatives.” The bank also had to disclose that it is “critically undercapitalized,” the lowest classification under federal regulatory standards.

“This has been the most difficult year in the company’s history,” Sapp told investors on a short conference call, adding later that the bank is in a “complex and fluid” situation. Area banking professionals of various types — some with knowledge of the bank’s situation — say that means a kind of limbo: Tennessee Commerce is still open, but management is searching for investors to avoid seizure by federal regulators. The bank likely needs tens of millions in new money, subject to negotiations over its loans and capital position.

In the call and in filings to investors, the bank was careful to note that it remains a member of the [Federal Deposit Insurance Corp.](#), which guarantees deposits up to \$250,000. As it stands now, sources say, whether that continues is in the hands of regulators — who have the legal option of putting the bank in receivership within 90 days of it becoming critically undercapitalized — as they assess the bank’s finances and watch to see if the situation worsens.

Disclosure of the situation — a rarity that occurred because Tennessee Commerce (Nasdaq: TNCC) is publicly traded — gives a window into the state’s efforts to prevent bank failures. Commissioner [Greg Gonzales](#) of the Tennessee Department of Financial Institutions has garnered a reputation for holding federal regulators at bay to allow banks to pursue investors or mergers with other banks. Tennessee is the largest state in the country that hasn’t had a bank fail.

Banking experts and professionals characterize Tennessee Commerce’s options as limited. “Private equity is probably the only hope for this bank,” said [Jon Bruss](#), managing principal and CEO of Wisconsin-based investment group Fortress Partners Capital Management. “If it turns out there isn’t anyone capable of picking up the tab, then it’s going to have to be the FDIC.” Analyst [Chris Marinac](#), director of research and a managing principal with [Fig Partners](#) of Atlanta, said the bank is in a position that requires new capital, either through private equity or some other investor.

“The company’s in a pretty tough predicament right now,” he said.

Tennessee Commerce’s situation is the latest manifestation of an ongoing saga with regulators, and raises debate about whether management and examiners took swift enough action. Over the summer, Tennessee Commerce was in negotiations over how risky its loan book was, and ultimately came under a formal enforcement action.

Bank management, which declined further comment this week, has said it’s reworking Tennessee Commerce’s business model while retaining a strong focus on business clients. Tennessee

Commerce did commercial lending and leasing around the country, making far fewer real estate loans than most banks facing problems.

In addition to dealing with problem loans, a key issue has been how to satisfy regulators' desire for more stable deposits, sources have said, as opposed to brokered money from the open market. In investor calls, bank management has characterized itself as serious about dealing with problem loans, but others say the issues appear to have gone back far enough to warrant swifter action. [Tom Lawless](#), a Nashville attorney who helps banks clean up their portfolios, said Tennessee Commerce is in sharp contrast to banks like [Pinnacle Financial Partners](#) — Nashville's largest local institution — which ultimately got a handle on its problems.

"The problem at (Tennessee Commerce) is that they were too slow in recognizing it," Lawless said. For now, the bank continues to work through its issues while additional signs of its problems trickle out. Tennessee Commerce is at risk of Nasdaq delisting its stock, and its independent auditor raised "substantial doubt" of its ability to remain a going concern independently, according to investor filings.

Tennessee Commerce also is in the process of re-examining its second-quarter financials to make adjustments, even as a current regulatory inspection spurring tougher treatment of problem loans was ongoing this week.