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## Failed Banks Dot Georgia's Vista

*How a Risk-Regulation Imbalance Drove Many Insolvencies -- With More Likely*

By **DAMIAN PALETTA** and **DAN FITZPATRICK**

The U.S. government's decision to let 10 big financial companies repay their taxpayer-funded investments is a break in the clouds for the banking system. In Georgia, though, the storm is raging unabated.

The state is home to just 4% of all U.S. banks, but 20% of the nation's bank failures since August. More banks have collapsed in Georgia than in any other U.S. state, even foreclosure-racked California and Florida. Six Georgia banks have been seized by regulators this year, burned by too much expansion in the past decade and bad real-estate bets.

Given the high level of delinquent loans haunting the remaining Georgia-based banks, more failures are expected. About 30 banks in the state are at risk of failing, according to bankers and lawmakers.

"Georgia is basically the Chernobyl of banking right now; it's radioactive down there," said Camden Fine, head of the Independent Community Bankers of America, a trade group.

Even after the recession ends, the problems dragging down Georgia banks could resurface in the next downturn, because the regulatory revamp being drawn up by the Obama administration likely won't tackle one cause of the problem: the division of power between state and federal regulators.

Georgia had 334 banks at the end of 2008, not counting branches of banks based elsewhere, such as [Bank of America Corp.](#), of Charlotte, N.C., and [Wells Fargo & Co.](#), of San Francisco. Since 2000, 112 banks and thrifts were started in Georgia, the third-highest total in the U.S., after California and Florida.

Rob Braswell, commissioner of the Georgia Department of Banking and Finance, the top regulator of banks that have Georgia charters rather than federal ones, said that if most people with banking experience applied for permission to open a new bank, "it was hard to say no when they had such an abundance of capital." Mr. Braswell has 62 examiners to monitor more than 150 state-chartered banks.

During a recent meeting with Georgia bankers, Federal Deposit Insurance Corp. Chairman Sheila Bair asked Christopher Maddox, head of Peoples Bank in Winder, Ga., why Georgia had so many banks. "Ma'am, may I respectfully submit that the FDIC approved every one of the applications," he recalls replying.

Georgia's predicament also is the result of a rapid expansion of the banking industry. Many of the new banks were small, and as they jostled for slivers of the market, they often made risky loans in speculative markets such as commercial real estate.

That was exacerbated by Atlanta's housing expansion and a decentralized government structure of 159 counties, where tradition holds that "every county has its own bank," said Christopher Marinac, managing principal at FIG Partners, a bank-research firm in Atlanta.

The troubles are straining the bonds that connect some Georgia banks to their hometowns. Mickey Thompson, mayor of Douglasville, a city of about 30,000 residents located 20 miles west of downtown Atlanta, pulled \$9.4 million of city money out of Douglas County Bank several months ago because of concern about the bank's solvency.

"It was a very tough decision, because I have known the owners of the bank the 35-plus years I've lived in Douglasville," Mr. Thompson said. "You see these people. You go to church with them. They are pillars of the community."

Douglas County Bank Chief Executive Billy Mayhew said it is "unconscionable" that Douglasville withdrew its money before speaking with him. The closely held bank is operating under a cease-and-desist order but will "absolutely not" fail, Mr. Mayhew said.

The struggles of Georgia banks have inflamed fights between regulators, politicians and local bankers about who is most to blame and what to do next. Some bankers in the state complain that regulators are making their problems worse, forcing banks to take big write-downs on loan values, a common response when bad assets start piling up.

Regulators respond that they are just trying to apply one of the big lessons from the savings-and-loan crisis of the late 1980s and early 1990s: If the government hesitates to deliver tough medicine to overextended lenders, things could get worse.

Still, the FDIC and other regulators are being more assertive, sending real-estate specialists into Georgia, California and Florida to scrutinize troubled loans. In Georgia, the FDIC has installed two new officials in its Atlanta office. To handle a wave of expected failures in the Eastern U.S., the FDIC recently opened a temporary office in Jacksonville, Fla., with 500 employees.

In March, Georgia's two U.S. senators recently summoned banking regulators to a private meeting and conveyed the fury that bankers back home felt toward the FDIC. "What I'm hearing from banks is that the FDIC is squeezing them so tight they can't breathe," said Republican Sen. Johnny Isakson, according to people at the meeting.

In Alpharetta, an Atlanta suburb that was home to three banks that failed since September 2007, longtime banker D.R. Grimes recently tried to start a new bank. He said he raised \$20.5 million, but his attorney was told by the FDIC's Georgia office that it didn't have the authority to grant any new charters. He sent the money back to investors.

"It is very frustrating to follow the rules and do everything you are supposed to do and just be ignored," Mr. Grimes said. State and federal regulators said they don't have a moratorium on new banks in Georgia but are giving applications close scrutiny.

Some bankers also have complained that they aren't getting enough access to the Troubled Asset Relief Program, which the federal government has used to pump \$199 billion into more than 600 U.S. banks. At the March meeting, lawmakers stopped short of demanding that Georgia banks get more money, but some regulators perceived that to be the point of the meeting.

"I represent all of the banks," Sen. Isakson said. "To call the Treasury and say, 'Hey, you need to let this bank have some money,' that's not my job. My job is to represent what's happening in banking in our state to try to get the answers to our questions."

A Treasury spokesman said many of the banks complaining about not getting TARP funds are troubled, and their "applications aren't passed to us by the regulators," who make the first call on whether a bank should get funds.

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