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Feds forge \$8 million settlement with ex-leaders of failed First Chicago Bank

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Most of the bank-failure carnage of the Great Recession is in the past, but the bills are only now coming due.

Federal bank regulators are beginning to nail down settlements with former directors and officers of some of the area's 40-plus failed banks. Biggest so far: an \$8 million pact, finalized in June, with [leaders of failed First Chicago Bank & Trust](#), at its peak a \$1.3 billion-asset lender with ambitions to forge a far larger franchise and the audacity to [repurpose the name](#) of what once was Chicago's largest commercial bank.

The settlement also is one of the first in which some former directors had to dig in their own pockets to finance part of it. Many such pacts are paid strictly out of insurance funds covering directors and officers.

But the Federal Deposit Insurance Corp.'s First Chicago settlement called on directors and officers to cover \$1.4 million of the \$8 million cost, with Bermuda-based Arch Insurance Co. covering the remainder.

Nine former directors and officers, including former First Chicago CEO J. Mikesell "Mike" Thomas and [Chairman William Ruh](#), are signatories to the settlement. But Messrs. Thomas and [Ruh](#), who also were partners at the California-based private-equity firm that owned First Chicago until shortly before its demise, won't be paying personally. They're covered by a separate policy paid for by Rancho Santa Fe, California-based Castle Creek Capital LLC, their lawyers confirmed.

More than half of the \$1.4 million, according to a person familiar with the settlement, is coming from Lowell Stahl, who is credited with [pioneering the franchising of real estate agencies in the Chicago area](#) via Century 21 beginning in the 1970s and later got into banking. He [sold his Chicago-based Labe Bank](#) to Castle Creek in 2005 for \$53 million. Mr. Stahl served on the bank's board for less than a year after the deal, but he was among the signatories to the settlement.

Mr. Stahl's son Jeff, a Chicago attorney speaking on his behalf, declined to comment.

Others who had to pay out of their pocket include [James Goodwin](#), former CEO of United Airlines and a director at Labe Bank and later First Chicago.

An attorney representing Mr. Goodwin didn't respond to an email requesting comment.

'NO LIABILITY'

As for Mr. Thomas, the [veteran Chicago banker](#) who took over First Chicago in late 2008 and ran it until its [July 2011 failure](#), an attorney for him said he admitted no responsibility for the bank's demise.

“Under the circumstances, it made sense to avoid the time and money that it would have taken to debate with the FDIC the significant efforts Mr. Thomas made to save the bank under the worst financial conditions our country's economy had experienced in approximately 80 years,” Washington attorney Thomas Vartanian wrote in an email. “The FDIC release clearly states that Mr. Thomas admitted no liability.”

Nor did any of the other directors and officers who signed the settlement, including Messrs. Stahl and Goodwin. “The settling individuals deny liability for the claims,” the settlement reads. “The . . . parties deem it in their best interests to enter into this agreement to avoid the uncertainty and expense of litigation.”

An attorney for Mr. Ruh confirmed that his share was covered by the Castle Creek policy but declined to elaborate.

Mr. Thomas remains a managing principal with Castle Creek. Mr. Ruh no longer is affiliated with the firm.

Castle Creek continues to own substantial stakes in banks all over the country. Most recently, it participated in a [\\$175 million recapitalization](#) of the parent of Madison, Wisconsin-based AnchorBank, which emerged from bankruptcy late last year after erasing nearly all of the \$139 million it owed the Treasury Department under the Troubled Asset Relief Program.

OTHER SIGNATORIES

A number of current and former local bankers also are signatories to the First Chicago settlement. None of these former officers were required to pay, the source said.

They include Matthew Gambs, who was [president of a Bloomingdale bank](#) Castle Creek bought in 2006 and later folded into First Chicago. He then went on to run Diamond Bank in northwest suburban Schaumburg, which Rosemont-based Wintrust Financial Corp. [bought late last year](#). He currently is a senior vice president at Wintrust.

Wintrust also acquired the assets and deposits of First Chicago from the FDIC after it failed.

An attorney for Mr. Gambs confirmed that he wasn't required to pay any of the settlement and was released from liability.

The \$8 million settlement is a pittance compared with the loss the FDIC estimates its insurance fund will absorb from First Chicago's failure. That stood at \$237 million as of the end of 2013.