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Number of Illinois thrifts shrinks by about two-thirds since 1992 (Chicago Tribune)

By Becky Yerak

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On the sixth floor of Diamond Bank's headquarters on the outskirts of Woodfield Mall, Chief Executive Matt Gambs tells how he once had visions of building his Schaumburg-based thrift into a $500 million-asset institution.

It peaked at about $300 million but has since shrunk to $250 million in loans and other assets. By getting smaller, Diamond Bank is better able to preserve its capital levels, which serve as a cushion against unexpected losses.

"I still have dreams and aspirations," said Gambs, 41. "But I've had to adjust."

When his part-time secretary moved to Florida, he didn't replace her. "It's an uncertain time," Gambs explained. "You have to be sensitive to costs."

Gambs, who in December 2009 was part of a group of small bankers who met with President Barack Obama at the White House, is hardly the only CEO of a thrift facing challenges. A report released July 6 by the U.S. Office of Thrift Supervision — which was abolished last week — shows that the number of Illinois-based thrifts that it regulated dropped from 151 lenders with total assets of $43.43 billion in 1992 to 45 with $26 billion in assets in 2010. And, as a group, they were unprofitable for the fourth straight year.

The OTS had been the primary regulator of all federal and some state-chartered thrifts, which include savings banks and savings and loan associations. On Thursday, the OTS became part of the U.S. Office of the Comptroller of the Currency. The consolidation was triggered by the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, whose goals

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Gambs, hired by Diamond Bank as CEO in 2008, is the first to acknowledge that his privately held thrift is "looking at every option" to ensure it weathers a difficult economy.

He said the Diamond job has been tougher than expected.

"I think I was a little naive in 2008," Gambs — who had estimated that he could fix Diamond's problems in six months — said in a July 13 interview. "You have to humble yourself, and I had to bring in people who knew a lot more about loan workouts than I did."

The Loveland, Colo., native and noncommissioned officer in the Marines also finds inspiration in the Western-themed artwork in his office.

"When you think about the Indians, they never gave up," Gambs said. "It's always a matter of persevering."

The thrift industry was set up to provide home mortgages. Diamond's predecessors, including North Avenue Building & Loan Association, spent more than 100 years making home loans in and around Chicago's Gold Coast.

But a few decades ago, the lines between banks and thrifts began to blur amid changing regulations. Thrifts began making more commercial loans, for example.

"All of this has combined to make thrifts much less relevant in today's financial marketplace," said Terry Keating, managing director of the investment banking firm Amherst Partners.

And that's not necessarily a good thing.

"We've made the thrift industry irrelevant by regulatory shifts, and while this initially led to a more competitive landscape for depositors and more liberal terms for home loans, it also led to a much less stable system that benefits Wall Street more than it benefits Main Street," said Keating, who works with financial services firms.

Originations of mortgages for one- to four-family properties in the Chicago area have cratered in recent years, with thrifts regulated by the OTS seeing the biggest falloff percentagewise, said Tom Feltner, vice president of the Woodstock Institute, a Chicago-based nonprofit research group focused on fair lending issues.

Nationally, the thrift industry was profitable in 2010, ending a three-year string of losses. Ranks of thrifts supervised by the OTS fell, however, from 765 in 2009

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to 731 in 2010.

Of that net decline of 34 thrifts in 2010, more than half had failed. A handful went away when they were acquired by commercial banks. Chicago operations of PNC Bank and Bank of America, for example, have been built at least partly by the acquisitions of S&Ls that their Chicago predecessors had made.

Thrifts that have collapsed or been taken over since the start of the 2008 financial crisis include Washington Mutual, IndyMac and Countrywide.

In October, Diamond Bank was ordered by regulators to maintain certain capital levels. Gambs said the bank has been exceeding those minimums thanks to capital infusions from its supportive existing owners.

Diamond Bank lost $1.6 million in the first quarter of 2011, nearly all of which occurred as it set aside money for potential loan losses. More than 6 percent of its loans are seriously delinquent; the industry average is about 4 percent.

The thrift has a Texas ratio of 51.5 percent as of March 31, according to the bank-turnaround consulting firm Loan Workout Advisers LLC. A Texas ratio tallies up the severely past-due loans and foreclosed real estate on a bank's books and weighs them against its capital and the money that it has set aside for potential loan losses.

A Texas ratio exceeding 100 means that a bank is in serious trouble and needs to take one or several actions: lower its levels of souring loans, sell the real estate it has repossessed, raise capital or set aside more reserves for potential loan losses.

A thrift facing greater challenges is Little Village's Second Federal Savings, which has a Texas ratio of 168, according to Loan Workout Advisers. The Chicago-based minority institution was ordered by regulators last year to raise capital but has been unable to do so.

But Hunter Westbrook, Second Federal's CEO, said his thrift is heartened by the recent rescue of Carver Bancorp Inc. in New York's Harlem neighborhood. Carver recently raised $55 million, mostly from Wall Street megabanks, according to the trade publication American Banker.

Carver, however, has been in better financial shape than Second Federal.

"We're optimistic that we'll be successful in our capital-raising efforts," said Constance Lara, chairwoman of Second Federal. Second Federal serves the

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unbanked in the largely Hispanic neighborhood and therefore hopes to get the attention of a socially conscious investor, she and Westbrook said in a recent interview.

But with the economy uncertain, it's tough to find new investors to raise capital. And healthy institutions have been reluctant to step in and acquire struggling ones until they fail and are seized by the government; at that point, the buyer of the failed lender typically gets to share future losses with the Federal Deposit Insurance Corp.

It also can be tough to get existing investors to contribute more money to their institutions because at some point the law of diminishing returns kicks in.

"What creates challenges for any company is you can't see the bottom," making it difficult for potential investors to assess the business, Diamond Bank's Gambs said. "You can't ask people to invest in something if you don't know what the bottom is."

Take recently failed First Chicago Bank & Trust. The bank's key owner, a California private equity firm, had injected fresh capital into the bank to keep regulators at bay. But eventually the investors decided that continuing to pour money into First Chicago was a losing proposition.

On July 7, the First Chicago investors sank $27 million into a New Orleans lender. The next day, First Chicago, unable to raise additional capital from existing or new investors, failed and was seized by the government. Its operations were taken over by Wintrust Financial.

Today, Diamond has 43 workers, including the 18 at its headquarters. It has branches in the Schaumburg office building and at locations in Northbrook, Elmhurst and in Chicago at 100 W. North Ave., near the Chicago History Museum.

"You're seeing the end of an idea," Gambs said of the shrinking ranks of thrifts.

He said he had an epiphany recently when he saw a TV ad for $14.9 billion-asset State Farm Bank — itself an Illinois-based thrift supervised by the OTS — touting how consumers can take photos of their checks with their cell phones and deposit them instantly through a mobile app.

"'You can get our services from anyone,'" Gambs said he thought when he saw the ad. "Young people today identify with a machine. What makes our business unique is the relationships we develop with individuals."

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But "there's no more magic behind the curtain," Gambs said.

"Banking services are like a light switch, like a utility. You assume there'll always be an ATM," Gambs said. "When you need gas, you'll stop at a Mobil, BP or Texaco. You might like Mobil better, but you're not going to drive by three gas stations on a morning when you need gas to get to Mobil. For a certain segment of the population, that's the reason they like Chase or Bank of America."

Dan McKay, a banking lawyer at Vedder Price in Chicago, points out that it's not just the ranks of thrifts that are shrinking.

"Thirty years ago, there were about 16,000 banks and thrifts in the United States," said McKay, also a former federal banking regulator. "Today, the FDIC insures approximately 7,500 banks and thrifts, and that number could get to 6,000 as a result of mergers and acquisitions and FDIC takeovers."

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