

The Risk Professional: US Bank failures hit 120 affecting customers in HK and China



The collapse, on 6th November of US bank United Commercial Bank of San Francisco, California is the first collapse of a US retail bank to have widespread international implications. Customers in Hong Kong, Taiwan and China are amongst those affected.

The collapse of United Commercial is the first significant international collapse in retail / commercial banking in the financial crisis.

The bank was founded in 1974 as United Federal Savings and Loan Association. A series of name changes followed until it became United Commercial Bank in 1998.

The bank's holding company, UCBH Holdings, bought The Chinese American Bank which had two branches in New York and Business Development Bank of Shanghai, this latter purchase giving it the generally elusive banking licence in China. That purchase brought with it full banking licence holders in Shanghai, Shantou and Hong Kong.

UCB was already in trouble: it had announced that its accounts were inaccurate and in September 2009 its CEO and COO resigned, allegedly after disclosures of their role in deliberate misstatements in an effort to hide the bank's worsening financial position.

Operating under the slogan "Beyond a local bank," United Commercial described itself as "United Commercial Bank (China) Limited, operate 51 [California](#) branches/offices located in the San Francisco Bay Area, Sacramento, Stockton, Los Angeles and Orange counties, nine branches in [New York](#), five branches in metropolitan [Atlanta](#), three branches in [New England](#), two branches in the [Pacific Northwest](#), a branch in [Houston](#), branches in [Hong Kong](#), [Shanghai](#) and [Shantou China](#), and representative offices in [Beijing](#), [Guangzhou](#) and [Shenzhen](#), China and [Taipei, Taiwan](#)."

The holding company was warned by both the NASDAQ and the SEC about late filings. On 5 August, the SEC granted the company a 180 day extension, expiring on 16th November 2009, to the filing date for its reports due on 31 March. That had to include the bank's plans for regaining compliance with the Listing Rule. On 14th August, the company said it was taking all appropriate

actions to regain compliance with the Listing Rule." The company had, in May, postponed its annual general meeting. It also announced attempts to raise additional capital.

Three days later, it appointed Joseph E Vaez to its board to strengthen its internal supervision and credit risk management. He had extensive financial sector experience including a stint at the Office of the Comptroller of the Currency's supervision department.

But it was in September that the real shake-up came.

Chairman, President and CEO Thomas S Wu and Chief Operating Officer and Former Chief Credit Officer Ebrahim Shabudin resigned without warning and with immediate effect. Doreen Wu Ho was named as acting president and CEO and Joseph J Jou was named as chairman. Existing CFO Craig On was to continue until a suitable position could be found, when he would step back to Deputy CFO. The company also said it was looking for a new Chief Credit Officer.

It was announced, simultaneously, with the new appointments, that the bank had "entered into an agreement with FDIC and California's Department of Financial Institutions to enhance the strength and stability of the Bank and its operations."

It also read and adopted the result of an internal independent investigation, begun 15 May.

The Board also noted that China Minsheng Banking Corporation, a mainland Chinese Bank would continue its support of United Commercial, saying that it viewed its holding in UCBH as "long term and strategic."

And that report contained what may now be seen as the death-blow: it "identified problems resulting from both weaknesses in internal controls ... and from improper actions and omissions of certain bank officers... probably driven by an apparent desire to downplay deteriorating financial conditions by delaying or abating risk-rating downgrades and minimizing the Bank's overall loan loss allowance."

The report revealed "non-performing assets" of between USD985 million and USD995 million as at 30 June 2009.

In both the USA and China, East West Bancorp has been granted regulatory approval for the takeover of United Commercial. That, under passport arrangements, covers the bank in Hong Kong, the Hong Kong Monetary Authority has said.

East West is also headquartered in California. But it is not a big bank: it has only USD1,800 million in "assets." In only October, it opened its own representative office in Taiwan. According to US regulator FDIC, "

As of October 23, 2009, United Commercial Bank had total assets of USD11,200 million and total deposits of approximately USD7,500 million."

East West Bank paid the FDIC a premium of 1.1 percent for the right to assume all of the deposits of United Commercial Bank. Those taking over many recently closed banks have paid no premium. In addition, East West has agreed to buy USD10,200 million of the failed bank's "assets" of which some USD7,700 million are subject to a shared loss agreement - that is to say that, if the assets turn out to be worth less than the agreed figure, the bank and FDIC will share the losses.

But FDIC only covers deposits etc. in the USA. Should there be losses in China, Hong Kong or Taiwan, customers there would have to look to local arrangements.

The announcement of the closure from FDIC had another unusual factor: it was released, simultaneously, in English, Simplified Chinese and Traditional Chinese.