



Department of Consumer and Business Services

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Closure of Silver Falls Bank Frequently Asked Questions

Why did Silver Falls Bank close?

The state closed Silver Falls Bank because it was insolvent. The bank had been experiencing critically low levels of capital, stemming primarily from a heavy dependence on commercial construction loans. Many of these loans were of poorer quality and were not performing or being repaid when the economy deteriorated.

In November, the Oregon Department of Consumer and Business Services (DCBS) and the Federal Deposit Insurance Corporation (FDIC) issued a cease-and-desist order against Silver Falls for unsafe and unsound banking practices. To read about the specific problems the agencies found, go to <http://www.cbs.state.or.us/dfcs/securities/enf/orders/FDIC-08-272b.pdf>.

The order specified that Silver Falls take many actions to improve its situation, but the management team was unable to address the bank's problems in a timely manner.

I'm a customer of Silver Falls Bank - are my deposits safe?

Yes. If you have an account with Silver Falls Bank, you should expect business as usual. Citizens Bank has acquired Silver Falls Bank's deposits, and you will automatically become a depositor of Citizens Bank. On Monday, Feb. 23, Silver Falls' three offices in Silverton, Salem, and Oregon City will reopen as Citizens Bank. In the meantime, you can continue to access your account through automated teller machine transactions, checks, and debit transactions.

Loan customers should make their payments as usual.

For more specific information about your account, please visit the FDIC's Web page on the closure of Silver Falls Bank at <http://www.fdic.gov/bank/individual/failed/silverfalls.html>, or call the FDIC's toll-free phone number at 1-800-760-3639.

I invested in Silver Falls' recent stock offering – how does the bank's closing affect my funds?

Silver Falls initiated a stock offering in January 2009 in an attempt to raise capital. Funds from the recent stock offering – totaling \$525,000 – were held in an escrow account and are being returned to those investors. If you have questions, please call the DCBS Division of Finance and Corporate Securities at 503-378-4140.

Will Silver Falls Bank's closure affect other banks in Oregon?

No. Silver Falls Bank's closure has no impact on other Oregon banks.

How are other banks performing?

The downturn in the economy, particularly the housing market, has had a significant impact on banks across the nation. Silver Falls Bank is the 14th FDIC-insured institution the government has taken over nationwide in 2009 and the second bank to close in Oregon this year. In 2008, 25 banks failed nationwide.

During the housing boom, many banks focused on real estate loans that funded construction and development of residential properties. When the real estate market dropped, these banks were faced with an increasing number of nonperforming loans, which has reduced capital and earnings. Until the real estate market improves, some banks may not be able to recover and must close or be acquired by another bank.

When was the last Oregon bank to fail?

The state closed Pinnacle Bank in Beaverton on Feb. 13; Washington Trust Bank of Spokane, Wash., acquired Pinnacle's deposits and operations. Prior to that, the state had not closed an Oregon-chartered bank since 1987, although a federal bank in Oregon was closed in 1991.

With two banks in Oregon closing already this year, will we see more?

The timing of the two bank closures in Oregon is coincidental. No other Oregon banks are in immediate danger of closing. However, there still may be some additional consolidation among Oregon banks during this economic downturn. Leading up to the downturn, Oregon banks had been experiencing significant growth, outpacing their national counterparts in profitability and asset quality. Five new banks received Oregon charters and entered the market in the mid-2000s. Consolidation typically occurs after periods of growth, and many banks may find that partnering makes them stronger.

How do I know if my bank accounts are safe?

Deposits in all state-chartered banks and financial institutions are federally insured up to \$250,000. In addition, businesses can receive unlimited insurance coverage on non-interest bearing transactional accounts. Go to http://egov.oregon.gov/DCBS/safe_money.shtml for more information on the safety of your banking and other types of financial accounts.

Even if a bank does fail, another institution typically acquires the failed bank's deposits. In that case, customers see no disruption. They can still access their deposits and conduct transactions.

How does the state protect bank customers?

DCBS' Division of Finance and Corporate Securities conducts regular examinations of Oregon's state-chartered banks to monitor their safety and soundness. To address the increasing challenges banks are facing during the current economic downturn, the division recently added five new financial examiner positions.

The division, along with the FDIC, examines all state banks at least once every two years, and when banks are rated less than satisfactory, the division revisits institutions at least every six months and often more frequently until their performance improves. Like all bank regulators, the division uses the "CAMELS" rating system adopted by the Federal Financial Institutions

Examination Council. The acronym, CAMELS, includes an individual rating for Capital, Asset (loan) quality, Management, Earnings, Liquidity, and Sensitivity to market risk.

When banks score less than satisfactory on their exams, they must enter into an agreement with the division – either formal or informal, depending on the severity of the problems – to take corrective action. The division will close the bank if the bank cannot make the necessary improvements and no longer can meet its financial obligations.

Where can I learn more about Oregon banks?

Visit the banks and trusts section of the Division of Finance and Corporate Securities' Web site at: http://www.cbs.state.or.us/dfcs/banks_trusts.html or call the division at 503-378-4140 or toll-free 866-814-9710.

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