

16<sup>th</sup> May 2008

## A Gamble That Went Bust

ANB's Collapse From Real-Estate Bet Is Ominous for Small, Midsize Lenders  
By ALEX ROTH and VALERIE BAUERLEIN

Bentonville, Ark.

In the Quail Ridge subdivision, for-sale signs have popped up like the overgrown grass choking lawns of four-bedroom and five-bedroom homes, costing as much as \$450,000, that never should have been built.



Michael Woods/Arkansas Democrat  
Gazette

Was ANB a "bank on steroids"?

double whammy of the housing slump and credit crunch. Regulators are bracing for more failures. Even banks in no danger of collapse will need years to slog through their lending mistakes.

"People just naturally get ahead of themselves," says Daryl G. Byrd, president and chief executive of [IberiaBank](#) Corp., the Lafayette, La., parent of Pulaski Bank. "They get caught up in the growth. They think it will never end."

"If you had a tool belt and a pickup truck, you could get a construction loan," says Robert W. Abercrombie, owner of Betty's Homes Inc., which built some of the houses in Quail Ridge but filed for bankruptcy protection in 2006 after sales stalled.

Mr. Abercrombie's company defaulted on more than \$2.5 million in loans from ANB Financial, a local bank known for its enthusiastic lending. So did another Quail Ridge home builder that borrowed from ANB. By Friday, an epidemic of bad real-estate loans had overwhelmed the bank, which was seized by federal regulators in the second-biggest federally insured bank failure since 2001.

On Monday morning, nine ANB offices reopened as branches of Pulaski Bank & Trust Co., which took over some of the closed bank's assets and deposits. The bust is reverberating as a sign of turmoil at many small and medium-size banks throughout the U.S. that pinned huge hopes, and capital, on the housing boom.

Delinquencies and charge-offs are rising at lenders that barreled into real-estate loans but now are feeling a



ANB  
Dan Dykema

ANB was launched in 1994 by Dan Dykema, then 34 years old, who had been a star lender at Bank of Bentonville, now called Arvest Bank Group Inc.

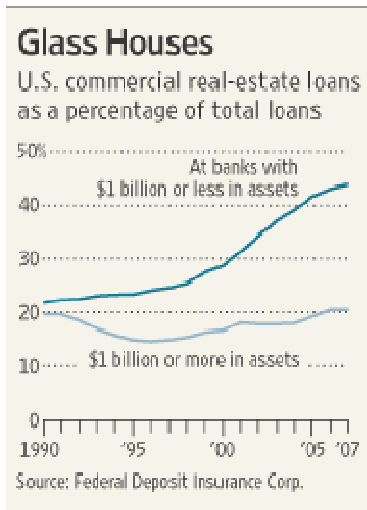
Mr. Dykema offered some of the highest interest rates in the country on certificates of deposit. ANB also aggressively sought deposits sold through securities firms. By last year, such brokered deposits had increased to more than 80% of the bank's total.

ANB's swelling deposits were funneled into real-estate loans tied to the fast growth of northwestern Arkansas. New employees and transplants lured by Wal-Mart, suppliers such as General Mills Inc. and Unilever, trucking company J.B. Hunt Transport Services Inc. and other companies turned the area into a sprawl of strip malls, restaurants and new subdivisions carved from forests and farmland.

By the end of last year, ANB had \$1.3 billion of construction and land-development loans on its books -- and \$114 million in conventional home mortgages, according to financial data filed with regulators. In contrast, Mr. Byrd says Iberia has 5.5% of its loan portfolio in construction and land development, while ANB's is more than 75%.

ANB also opened loan offices in resort communities such as Jackson Hole, Wyoming, and St. George, Utah. "One might characterize [ANB] as a bank on steroids," says John R. Davis, Iberia's senior executive vice president.

When he wasn't overseeing the lending surge as ANB's chief executive, Mr. Dykema dabbled in real-estate development. Documents indicate he was involved in various residential and commercial projects, though his exact role isn't clear. Mr. Dykema also co-owns Bentonville Butcher & Deli on South Walton Boulevard, according to his business partner. Mr. Dykema says he was told by his lawyer and the Federal Deposit Insurance Corp. not to comment.



The strategy backfired when housing sales began cooling in 2006. Soon, more than a dozen local real-estate developers filed for bankruptcy protection. In a lawsuit filed in a Benton County, Ark., court this year, ANB alleged a developer called Zachary Investments had defaulting on at least \$934,000 in loans used to build several homes in the Quail Ridge subdivision. In response, the developer accused ANB of renegeing on a promise to increase its credit line.

As loan losses ballooned, regulators in June ordered ANB and its parent company, ANB Bancshares Inc., to slow loan growth, bolster its capital and develop a plan to control risk.

As of March 31, past-due and nonaccrual loans -- or those for which full repayment is in doubt -- related to construction and land development had surged to \$732 million from \$123 million six months earlier.

The Office of the Comptroller of the Currency concluded ANB "had incurred and is likely to incur losses that will deplete all or substantially all of its capital." The failure is expected to cost the FDIC's deposit-insurance fund about \$214 million.

J. Neal Ethridge, a retired Archer-Daniels-Midland Co. manager whose family owns a now-worthless 5% stake in the bank, says the OCC field office that took over supervision of the bank last year "attacked us." To be sure, like most of its peers, the bank had long been regulated by the OCC, but there was a change in the tone of that regulation according to Mr. Ethridge when a new field office took over.

"Those statements are not accurate," says Kevin M. Mukri, an OCC spokesman. "Our job is to ensure the bank is properly capitalized and used proper accounting procedures, and that is what we did in this case."