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NetBank Files for Bankruptcy After Regulators Take Over Unit

By Bill Rochelle - Sep 29, 2007

Sept. 29 (Bloomberg) -- The parent of NetBank, a pioneer in Internet banking, filed for bankruptcy protection after the savings-and-loan became the first in three years to fail.

The filing in U.S. Bankruptcy Court by NetBank Inc. in Jacksonville, Florida listed assets of \$87.2 million and debt totaling \$42.4 million.

The bankrupt holding company plans to sell real estate it owns in Columbia, South Carolina and its captive reinsurance subsidiary M.G. Reinsurance Inc. The Chapter 11 filing occurred after a sale of the savings-and-loan fell through and it was taken over by the Federal Deposit Insurance Corp. following a shutdown of the unit by U.S. regulators.

Federal law prohibits the savings-and-loan subsidiary from filing for bankruptcy protection from creditors like its parent. Federally chartered banks cannot be reorganized and must be liquidated by the FDIC.

NetBank was founded in 1996 and went public in 1997. The bank had 286,000 customers and \$4.8 billion in assets in 2005 before online competition from national and regional banks eroded the business.

The bank's failure this year was the result of margin compression from an inverted yield curve, fewer mortgage originations, and demands to repurchase delinquent loans, according to a bankruptcy court filing.

As part of the FDIC takeover, ING Bank announced it is assuming \$1.4 billion of the failed bank's deposits and 104,000 of its customers while EverBank Inc. acquired \$700 million of NetBank's mortgage assets.

The savings-and-loan subsidiary had \$2.5 billion in assets and \$2.3 billion in total deposits as of June 30, according to the FDIC.

NetBank said in filings with the Securities and Exchange Commission that its executive offices are in Alpharetta, Georgia while the bankruptcy petition listed Jacksonville as the main office.

NetBank's stock closed Sept. 28 at 7 cents a share, down 1 cent in over-the-counter trading.

The case is In re NetBank Inc., No. 07-04295, U.S. Bankruptcy Court, Middle District Florida (Jacksonville).

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