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**Subject:** Lydian

**Date:** Fri, 19 Aug 2011 22:36:12 +0000

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## Palm Beach-based Lydian Private Bank fails

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Updated: 6:08 p.m. Friday, Aug. 19, 2011

Posted: 5:05 p.m. Friday, Aug. 19, 2011

Lydian Private Bank was born during one bubble and died in the aftermath of another.

Federal regulators Friday closed Palm Beach-based Lydian in a bank failure that's expected to cost the Federal Deposit Insurance Corp.'s Deposit Insurance Fund \$293.2 million.

Lydian's five branches will open Monday as offices of Sabadell United Bank of Miami. Lydian Private Bank customers' deposits will be transferred to Sabadell United Bank, the FDIC said.

Lydian Private Bank had \$1.7 billion in assets and \$1.2 billion in deposits as of June 30 - totals that made it the largest financial institution headquartered in Palm Beach County. It also managed \$1.2 billion through its wealth advisory business. The FDIC and Sabadell United Bank agreed to a loss-share arrangement for \$907.1 million of Lydian Private Bank's assets. Lydian Private Bank was founded as VirtualBank in early 2000, as the dot-com bubble raged. The bank was profitable through 2007 but began losing money in 2008. Lydian posted losses of \$18.9 million in 2010 and \$15.9 million in the first quarter of 2011.

As the losses accelerated, so did questions about Lydian's ability to survive. The federal Office of Thrift Supervision last year issued a cease-and-desist order that criticized Lydian on a variety of fronts.

Regulators said Lydian had an "inadequate level of capital" and must hire "experienced and qualified managers and lending staff." The order also said Lydian's board "failed to exercise adequate supervision" and cited the bank for filing inaccurate financial reports.

In another blow, research firm BauerFinancial downgraded Lydian's safety rating to zero stars, its lowest grade, as the bank's capital disappeared.

Lydian executives had said since last year that they were close to completing a stock sale that would bring in \$155 million to replace capital depleted by red ink. However, the capital infusion never materialized.

"They kept saying, 'We have an investor in the wings,'" Miami banking analyst Ken Thomas said. "There were so many red flags at this bank that I don't know how they could get an investor."

Connecticut furniture maker William Hildreth saw a red flag in the form of an unpaid bill. Hildreth said Lydian hired him earlier this year to build a custom conference table for its Naples office but refused to pay him \$15,000 he was owed after he finished the project.

Lydian's failure follows a promising start for a company originally envisioned as a high-tech bank. Founder Rory Brown, a former executive at Ocwen Financial Corp., launched VirtualBank as an online institution based on PGA Boulevard in Palm Beach Gardens.

In 2002, Brown decided to morph the company into a high-end private bank with a fancy office at Royal Palm Way and County Road in Palm Beach. Brown changed VirtualBank's name to Lydian Private Bank, a nod to the Lydian society of ancient Asia Minor, which invented gold and silver coins.

However, Lydian Private Bank never completely transformed itself into a private bank in the style of Northern Trust or Bessemer Trust. Institutions that followed the traditional wealth-management business model have survived the banking meltdown. In an ill-fated move, Lydian started a mortgage origination arm during the real estate boom.

"They were a private bank in name only," Thomas said. "Can you name one private bank that failed?"

Lydian's new owner plans to keep its offices in Palm Beach and North Palm Beach, and employees have been promised that they'll keep their jobs through March, said Dwight Hill, executive vice president at Sabadell United.

Lydian Private Bank is the 66th FDIC-insured institution to fail in the nation this year, and the 10th in Florida.

Sabadell United Bank is a division of Spanish bank Banco Sabadell.