TEXAS RATIO - BANKS ABOVE 100% THRESHOLD

by Steve Brown

So far in this multi-day series, we have analyzed the top 15 most stressed states (as measured by the Texas Ratio) and those that seem to be less impacted by asset quality issues. Today, we analyze all banks (the term "bank" is used hereafter interchangeably with "institutions" and includes thrifts) with a ratio greater than 100% to see what other trends may surface.

As of the 3Q, the FDIC reported 552 banks on its "Problem" list (recall that the FDIC does not state publically what factors place a bank on that list). While likely just a coincidence (since we don't know the factors either), analysis of 3Q data interestingly shows the number of banks in the US with a Texas Ratio above 100% totaled 553 banks, with an additional 3 banks closed that reported highly negative quarterly data (due mostly to technical factors related to closure). By adjusting for all of these factors, the Texas Ratio calculates 556 banks that could possibly make this confidential list given the sheer level of stress they are seeing related to asset quality.

Given there were 8,069 FDIC insured banks at the end of the 3Q, that means about 7% had a Texas Ratio above 100% and were considered highly strained. Perhaps just as interesting but not as widely reported, at the other end of the spectrum, about 274 banks had a ratio of 0% (about 3% of the total).

Excluding the 29 banks that have failed since the 3Q and adjusting the total number, we arrive at about 8,040 remaining.

The top 10 banks have a median Texas Ratio of 775%, well in excess of the 100% threshold reflecting stress and placing these banks in a tough situation. Coming in at the #1 position overall, we find a bank in AZ with a ratio at a whopping 2,642%.

Further analysis of the top 100 most strained banks in the country reveals a simple average Texas Ratio of 384% and a median for this group of 300%. This is more than 3x the 100% threshold to be stressed, so it is surely worrisome to the FDIC. Perhaps even more worrisome, this group controls about $74.1B in assets and has a weighted average Total Risk Based Capital Ratio of only 7.61%. Further, the weighted average loan loss reserve to loan ratio for this top 100 grouping is a strong 3.16%, so perhaps there is some more room to maneuver, but things are certainly very rough. By state, those with the most banks in the top 100 list in order are: GA (30); FL (13); IL (13); WA (6); AZ (4) and CA, NV, NY (3 each). All other states in the top 100 had less than 3.

The 2nd grouping of banks, ranked as the most strained from bank #101 to #200 delivers equally interesting information. This group had a simple average Texas Ratio of 193% and a median of 189%. Compared to the top 100 group, this next group controls about $84.1B in assets, or roughly 14% more than the first. When combined with the first tier, the top 200 most strained banks in the country control a whopping $158.2B in assets. When you think about it that way, it is easy to see why the road ahead is a long one for bankers and regulatory agencies. On the good news front, this group does carry a weighted average loan loss reserve to loan ratio of 2.89%, adding time to fix problems. When it comes to capital, this group isn't as strained as the first 100, carrying a weighted average

Total Risk Based Capital Ratio of 10.3%. In this group, those states seeing most of the strain include: FL (23 banks); GA (11); IL (10); MN, CA (7 each); WA (6); KS (5); MO (4) and AZ, NV, MI (3 each). All other states had less than 3 banks each.

No matter how one breaks down the analysis of the top 200 banks, it is clear this crisis is far from over and that much more work will still remains.

On one final note, we thank one astute reader who pointed out our discussion yesterday mischaracterized the Federated States of Micronesia as a territory when it is in fact an independent nation. Even more interesting perhaps, FSM is the only foreign country with a bank insured by the FDIC.

BANK NEWS

BofA CEO

According to the WSJ, BofA is still actively searching for a replacement for Ken Lewis. This is against a backdrop where some candidates are urging BofA's board to break the Bank up.

Survey

A new Harris Poll shows 40% of Americans believe banks should be more regulated, up from 36% last year. The Poll also concluded that just 12% of the participants felt banks were "honest and trustworthy," down from 21% from last year.

Twice on the Big Screen

Over the next week, the FRB will air 45 second ads in 12 theaters at major metro regions advising consumers to watch their credit card spending. The Fed already aired an ad earlier this year warning of mortgage scams on movie screens.

Non-performing Loans:

Back in 2006 only 2% of the banks had non-performing loans that composed over 5% of total loans. Now, 17% of banks do as of 3Q.

Delinquencies

According to PayNet Inc, 4.07% of small and mid-sized business borrowers were 30 days or more past due in Nov, down from 4.25% in Oct. Those 90 days or more past due dropped to 1.43% from 1.45%.