TEXAS RATIO - BANKS BELOW 1% THRESHOLD

by Steve Brown

While much is said about banks in the press that have a high Texas Ratio, those with a low ratio are virtually ignored. Maybe that's because it isn't sensationalistic enough to sell papers, or maybe people are so jaded right now they don't want to read about the banks not having loan quality issues. Since our focus is community banking, today we analyze those 466 banks (note the term "banks" is used interchangeably with "institutions") in the country that have a ratio less than or equal to 1% might be interesting. We wanted to see if we could uncover some trends that could be applied to the industry at large.

In addition to having a low Texas Ratio, our data set was scrubbed so that all specialty banks (i.e. credit card) or banks tied to a larger (or foreign) institution. After doing that, our analysis group drops to 420 banks. By comparing this least risky ("LR") group to the top 200 most strained banks in the country that we will call the higher risk ("HR") group, some data begins to surface that is worthy of discussing further.

The first takeaway from the data is higher asset quality banks employ less leverage. The LR group not only has a Texas Ratio below 1% (and a 0.22% weighted average), but it also carries a loan to asset ratio of only 47%. This compares to a loan to asset ratio for the HR group of 71%. While de novo banks due skew this result slightly, the difference still remains.

Given a lower loan to asset ratio, it is perhaps also not surprising that the LR group has a loan loss reserve to loan ratio of only 0.90%, compared to a 3.03% average for the HR group. Most likely higher underwriting standards, more resources per loan to manage the portfolio, better management and some luck all most likely play a par in explaining this difference. Regardless, the LR group also has plenty of room to deal with additional stress should it surface, since their Tier 1 capital ratio averages a whopping 23.9% vs. only 7.6% for the HR group. Given about 314% more capital cushion than the HR group, the LR group appears to have plenty of room to maneuver.

By state, the analysis is even more interesting. The HR group is represented by 34 states, while the LR group covers 43. When it comes to concentrations, the top 5 states account for 61% of all banks in the HR group. This compares to the LR group, where the top 5 states account for 41% of all banks. Also of interest, by state, the HR group is hardest hit by GA (with 41 banks), followed by FL (36), IL (23), WA (12) and CA (10). This compares to the LR group, where the best 5 states include Texas (hey, it is their ratio after all) at 68 banks, followed by NY (28), CA (26), IL (25) and KS (25). Interestingly, while GA holds the #1 spot in the HR group, it also has so many banks it comes in #12 on the LR list. Given a large geographic area, FL is in a similar position (coming in at #2 HR & #6 LR), along with CA (#5 HR & #3 LR).

The 3Q data has certainly been interesting and as one banker quipped to us just a few days ago, "so many banks are having problems nationwide, maybe the Texas Ratio should be renamed the U.S. National Ratio." We aren't yet ready to go that far, because as we hope today's edition has shown, there are banks still running around without many asset quality issues at all. While some may say that is like finding a needle in a haystack in today's stressed banking industry, we hold out hope that ratios will improve across the board in 2010, as the credit crisis eases.

BANK NEWS

BofA

Announced that it will repay $45B in TARP funds and escape both gov't imposed pay and operating restrictions. As part of the plan, the Bank will raise $19B in new equity and generate the rest of the required cash flow through operations and asset sales.

TARP

The Treasury announced that it would seek to wind down the program soon and will publish a plan with more details in the next several weeks.

Confirmation

In what is expected to be a contentious hearing, FRB Chair Bernanke goes before Congress today for re-confirmation. His current term expires the end of Jan.

CA Branch Closings

As part of its cost cutting plan, Wells Fargo announced it will shut 21 Wells-branded branches and 101 Wachovia-branded branches in CA by April 2010.

Bank Sale

US Bancorp ($260B, OH) is looking to sell North Houston Bank ($325mm, TX), which it picked up after being shut down by the FDIC back in Oct.

Unbanked

According to a new FDIC study, 25.6% of US households either do not have a bank account or rely on a non-bank financial firm (check cashing, etc.) for primary banking services.

Scary Stat

A study by Hewitt Associates finds 46% of employees who left their job last year took a cash distribution from their 401(k).

Bankruptcy

Consumer fillings increased by 33% over the 3Q and businesses were not far off with a 32% rise.