TEXAS RATIO - LARGEST US BANKS

by Steve Brown

We spent this whole week drilling down from various angles on the Texas Ratio. We received many emails seeking clarification, edification and expressing consternation from bankers across the country on this subject. As we close our 5 part series today and move on to other subjects next week, we zero in on the largest banks to see what surfaces.

To do this analysis, we began by sorting banks descending by asset size, then added in any subsidiaries (as tracked by the Call Report 3Q data) into the mix and came up with our adjusted list of the largest banks. As you can imagine, this took sometime because of the M&A activity, FDIC assisted transactions and sheer number of subsidiaries of all these large banks. The results are reflected below for the 5 largest based on this analysis.

The top spot is held by JPMorgan, which tipped the scales at $1.769T in assets. JP has an aggregate 12.93% Total Risk Based Capital (TRBC) ratio, a 4.67% loan loss reserve to loans and a 45.4% Texas Ratio. Recall that we are calculating the Texas Ratio by taking all loans past due 30 days or more and then adding to that number all nonaccrual loans plus OREO. Once we have the numerator, we then take it and divide it by the denominator, which is calculated by adding Tier 1 Capital and loan loss reserves. This gives us the ratio of how much "bad stuff" there is vs. "cushion available" to absorb it.

Just behind JPMorgan in the 2nd position, we find Bank of America, with about $1.715T in assets. Interestingly, despite the negative press around performance as of late, BofA is carrying about 11% more in TRBC than JP at 14.31% and a 14% lower Texas Ratio at 39.1%. While BofA has a lower loan loss reserve to loan ratio than JP at 3.83%, that rate is nonetheless also robust.

In the #3 slot, we find Citibank, with about $1.306T in assets. Here too, despite the negative press, the bank is actually doing quite well when we examine a few key metrics. For example, Citi has a Texas Ratio of only 36.9%, a loan loss reserve to loan ratio of 4.61% and a TRBC ratio of 16.87%.

Holding onto the 4th spot is Wells Fargo at $1.207T in assets. Here things are quite interesting, as the data shows Wells has a Texas Ratio of 66.7%. At that level, Wells has a Texas Ratio 47% higher than JP, 71% higher than BofA and 81% higher than Citi. Looking at the rest of the metrics, we find Wells with a 13.09% TRBC and a 2.73% loan loss reserve to loan ratio.

Rounding out the #5 position, we have nearly a dead heat between PNC Bank and US Bank. PNC is technically larger, with $278.5B in assets, while US comes in at $265.2B. As for metrics, PNC has a TRBC ratio of 13.80%, a loan loss reserve to loan ratio of 2.90% and a Texas Ratio of 51.5%. This compares to US Bank with a TRBC ratio of 11.33%, a loan loss reserve to loan ratio of 2.55% and a Texas Ratio of 55.8%.

Finally, we close our discussion by focusing in on Pacific Coast Bankers' Bank. While obviously not in the same behemoth asset category as the banks listed above (with only $641mm in assets), PCBB stacks up quite well as a bankers' bank correspondent based on the other metrics. As of the 3Q, PCBB had a TRBC ratio of 21.51%, a loan loss reserve to loan ratio of 3.34% and a Texas Ratio of 49.8%. At these levels, PCBB has a Total Risk Based Capital ratio over 66% higher than JPMorgan, a loan loss reserve to loan ratio nearly 17% higher than US Bank and a Texas Ratio 37% lower than Wells Fargo.

We hope you have enjoyed learning more about this ratio this week and close by reminding all of our readers that no single ratio can capture everything, so caution must be taken and this ratio is no different.

BANK NEWS

Mortgage Rates

The rate for conforming 30-year mortgages dropped to an average of 4.71% from 4.78% last week. This marks this period of time as one with the lowest mortgage rate in recorded history (which goes back to 1971).

Glum Fed

The President of the Atlanta FRB, Dennis Lockhart, said in a recent speech the banking industry was "far from (it) recovery," that bank credit losses were still climbing, capital was constrained and he was worried about the risk of a downturn in CRE. He added, however, that he did not see CRE as posing a "broad risk to the financial system." In general, he also predicted a sluggish recovery and continued weakness among banks through the medium term.