EXPENSIVE ANALYSIS OF THE TEXAS RATIO

by Steve Brown

According to research by CNBC, the most expensive states to live in (based on a 50 point scale calculating the cost of living), in order are: #1 HI (most expensive area is Honolulu); #2 AK (Juneau); #3 CT (Stamford); #4 NY (Manhattan) and #5 CA (San Francisco). Interestingly, while going to the movies costs 5% less in HI than CA ($10.31 vs. $10.81, respectively), seeing a doctor is 6% more expensive ($121.27 vs. $129.13) and a gallon of gas is also 7% more ($3.74 vs. $3.99). The biggest drivers for the highest cost of living were of course housing and rent, but they were less interesting than these little tidbits so we ignored them this morning. Speaking of interesting information, this morning we review the group of banks that have Texas Ratios (TR) greater than 100 to see what surfaces. Adjusting the data to eliminate all banks that have been closed through Sept, we find there are 248 banks remaining with a TR greater than 100% scattered across 39 different states. Overall, given there were 6,639 institutions ("banks") in the country, this group represents about 3.7% of the total. That is a strong improvement from the peak when it was much higher. Broken down by state, GA still has the most strained banks by this measure at 49, followed by IL (31) and FL (30). Taken as a group, these three states alone represent about 44% of all the troubled banks in the country. Rounding out the rest of the double-digit states, in order we find MN (12), MO (10) and TN (10). As a group, this set of five states captures about 57% of all banks in the country with a TR > 100%. To better understand the situation in context of the state itself, we switch and take a look at the total number of strained banks as a percentage of the total number of banks operating in the state. Here we find GA remains in the top spot, with 21% of all banks carrying a TR of 100% or more. Also of interest and holding the 2nd highest percentage we find DC at 20% of all banks. This is because there are so few to begin with (only 5), but given all the government stimulus, it seems strange to us that any bank in DC would have a high TR. Nonetheless, rounding out the rest of the states that have double digit percentages to the total number of banks operating in each state, we find PR (14%), FL (14%), AZ (13%), NV (13%), SC (11%) and NC (10%). Returning to our analysis based on overall count, we note it takes another eight states (beyond the original group of five above) to add up to 80% (i.e. the 80/20 rule). Here we find NC (9), SC (8), CO and WI (7 each), WA (6) and AL, CA and TX (at 5 banks each). All told, this group of 14 states equals a cumulative total of just about 80% of all banks with a TR > 100%. Looking at individual banks, we find the top five in the country have an average TR of 645% (a high of 722% and a low of 565%) and the top 10 have an average of 545%. Finally, as we wind down our analysis we look at how the TR bands are grouped for additional insight. Here, we find there are 5 banks with a TR > 500%, another 6 between 400% and 500%, 15 between 300% to 400%, 52 between 200% and 300% and the remaining 169 are between 100% and 200%. The good news for all of these banks and others is that while anecdotal, as we talk to bankers all over the country, we are hearing more and more that things are slowly improving. Yes, there are historical problem credit portfolios still to work through and small business activity is spotty in general. However, things are slowly finding a footing and the spirit of the community banker remains strong. We know there is plenty of fight left in community bankers no matter what regulations, credit issues or other stresses are thrown their way. In the coming quarters, as the economy slowly recovers and we crawl our way steadily out of this hole, we expect community bankers will see their business improve in like fashion.

BANK NEWS

Loan Loss Reserves

The OCC warned banks not to release too much from loan loss reserves, given the difficult environment ahead.

More AML Work

The Treasury said it plans to require financial institutions to collect and verify information on all customer accounts in an effort to thwart money laundering and terrorist financing. The move would increase compliance costs even further for banks, so it is not likely to be happily received by the already heavily burdened industry. Under the plan, institutions would have to understand who owns or controls each account (including corporate structures) and keep detailed records.

Higher Fees

The FHFA said it will have FNMA & FHLMC charge more for mortgages in five states where it takes longer for banks to foreclose. The states are CT, FL, IL, NJ & NY.

Legal Action Coming

NY A.G. Eric Schneiderman co-chair of the mortgage task force formed by President Obama to probe misconduct that contributed to the financial crisis, said legal action will soon be forthcoming.

Repurchase Lawsuit

A group of about 20 of the largest bondholders in the world are demanding Wells Fargo and Morgan Stanley repurchase bad loans from billions of dollars of MBS the banks issued. This group won an $8.5B settlement with Bank of America last year.

Muni Stress

Moody's said the credit outlook for U.S. states remains negative due to a protracted period of economic and fiscal stress.

Muni Reform

As concerns increase about the health of cities and municipalities nationwide, the SEC is seeking broad reforms for investors (but admits such changes would require an act of Congress). The SEC notes municipalities are not even required to provide audited financial statements.

Competition

Moody's said it may downgrade U.S. Bancorp from AA3 to A1 due to rising competition from healthier peers seeking to expand.