

Financial Condition of the U.S. Banking Institutions – Third Quarter 2011

January 5, 2012

In total, ninety-two banking institutions failed in 2011, compared to 157 in 2010.¹ KBRA currently believes that forty-five additional banking institutions have a greater than fifty percent likelihood of failing within the next fifteen months (as compared to fifty-two a quarter ago). Of these banks, eight are based in Florida, seven are based in Georgia, while Illinois and North Carolina each contain four troubled banks. As was the case in the second quarter, the Southern region is in the weakest condition, with twenty-eight banking institutions facing a likelihood of failure greater than fifty percent.² Eight banking institutions in the West and nine in the Midwestern states face a similar risk of failure. Based on third quarter 2011 financial data, no banks in the Northeast face an elevated risk of failure. The FDIC's "Problem List" decreased for the second time to total 844, a reduction of twenty-one institutions, as compared to 865 in the second quarter of 2011. KBRA's *Troubled Bank List* amounted to 612 "D" and "E" rated institutions – down from 633 in the prior quarter.

As of September 30, 2011, 157 banks and ten thrifts were undercapitalized by regulatory standards, a 3.5 percent decline as compared to 164 undercapitalized banks and nine undercapitalized thrifts, which filed call reports in the prior quarter.³ Overall, bank equity increased by 1.6 percent on a linked-quarter basis and by 3.7 percent since the third quarter of 2010.

On a cumulative basis, reported net income increased by 68.3 percent as compared to September 30, 2010, largely due to a decrease in provisioning expenses, which declined by 54.6 percent as compared to September 30, 2010. The banking industry's overall income growth is also attributable to decreased interest expenses, which declined by 19.8 percent as compared to the year-ago period. In the third quarter of 2011, the median return on assets for U.S. commercial banks totaled 0.74 percent, up from 0.68 percent in the first quarter. The improvement was more dramatic for thrifts, which saw their median return on assets rise from 0.10 percent in the first quarter to 0.45 percent in the third quarter.

Once again, asset quality improved as compared to the previous quarter with total nonperforming assets decreasing by 5.3 percent. Other real estate owned, which comprises 18.6 percent of total nonperforming assets, decreased by 1.7 percent. On a cumulative basis, charge-offs decreased by 35.1 percent over the third quarter 2010 and decreased by 9.5 percent on a linked-quarter basis.

Total loans fell by 0.4 percent from mid-year 2011, but increased by 2.6 percent from a year ago. Commercial and industrial loans increased by 3.7 percent over the second quarter of 2011 and residential real estate loans were up by 0.7 percent during the same timeframe. However, construction loans continued to decline, falling by 7.4 percent as compared to the second quarter of 2011.

¹ The terms bank and banking institution, as used in this analysis, refers to U.S. commercial banks and thrifts.

² Regional statistics exclude institutions in Guam, Puerto Rico, and the Virgin Islands.

³ All numbers are based on preliminary call report data.

Total assets, increased by 1.5 percent on a quarterly basis and by 3.2 percent on an annual basis. Additionally, total deposits grew by 2.4 percent in the second quarter of 2011 and by 7.9 percent compared to the first three quarters of 2010. Note that the Regional Data chart below shows significant changes to the Western and Midwestern regions, which is largely due to CitiBank, N.A. relocating from Las Vegas, Nevada to Sioux Falls, South Dakota at the beginning of the third quarter.

The U.S. commercial banking industry is obviously returning to a healthy status as profitability and asset quality have been steadily improving. However, KBRA feels that while the worst is over, banks will continue to fail throughout 2012, but at a slower pace than in the previous few years.

Third Quarter 2011 Regional Data										
	Total Assets	Total Equity	Net Income	Total Deposits	Total Loans	NPAs	Provisions	Construction Loans	Residential Loans	C&I Loans
West										
Total (\$Mil)	1,216,179	174,445	-1,090,275	863,380	706,478	21,926	-1,721	22,880	223,711	130,855
% Change from previous quarter	-49.58%	-41.51%	-198.85%	-49.55%	-43.91%	-40.37%	-130.37%	-16.19%	-37.40%	-8.86%
Midwest										
Total (\$Mil)	6,017,960	592,191	-2,296,161	4,282,162	2,907,621	112,179	9,705	74,977	1,063,352	407,173
% Change from previous quarter	27.01%	29.66%	-198.32%	28.39%	19.51%	4.68%	5.36%	77.18%	0.00%	14.87%
Northeast										
Total (\$Mil)	1,709,493	200,798	-610,557	1,235,657	748,076	19,943	840	24,959	361,902	96,791
% Change from previous quarter	3.26%	2.53%	58.58%	-198.48%	4.01%	1.47%	0.14%	2.60%	43.56%	0.00%
South										
Total (\$Mil)	4,810,128	600,148	-2,510,786	3,566,378	2,756,127	113,870	8,810	123,862	1,010,983	420,013
% Change from previous quarter	1.28%	1.35%	54.07%	-198.76%	2.53%	-0.56%	-4.35%	-1.86%	46.70%	0.00%

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