Financial Condition of the U.S. Banking Institutions – Fourth Quarter 2010

April 14, 2011

As stated in the third quarter 2010 Domestic Banking Trends analysis, KBRA believes that the domestic banking industry (banks and thrifts) is returning to health as the pace of new failures has eased, and profitability and asset quality have both improved.

Year-to-date, twenty-eight banks have been seized by regulators in 2011, twenty-six of them failing in the first quarter, compared to thirty-seven in the first three months of 2010.[1] KBRA currently believes that seventy-two additional banking institutions have a greater than fifty percent likelihood of failing before the second quarter of 2012. Of these banks and thrifts, eighteen are based in Georgia, eight are based in Florida, four are based in Illinois, and four in Washington State. Regionally, the southern states are in the weakest condition with forty-two banking institutions facing a likelihood of failure greater than fifty percent. Fifteen banking institutions in the Midwest and twelve in the western states face a similar risk of failure.[2] In comparison, banks in the Northeast are relatively sound with only three institutions carrying high risk of failure. At a macro level, the FDIC's "Problem List" increased from 860 to 885 and KBRA's *Institutions of Concern* list grew from 1,372 to 1,431 in the fourth quarter of 2010. (See chart below)

Reported net income increased sharply in 2010, jumping 615.7 percent against earnings reported for 2009. The improved earnings are largely attributable to decreased provisioning expenses for loan and lease losses and lower goodwill impairments. Additionally, interest expenses fell by 26.8 percent as compared to year-end 2009.

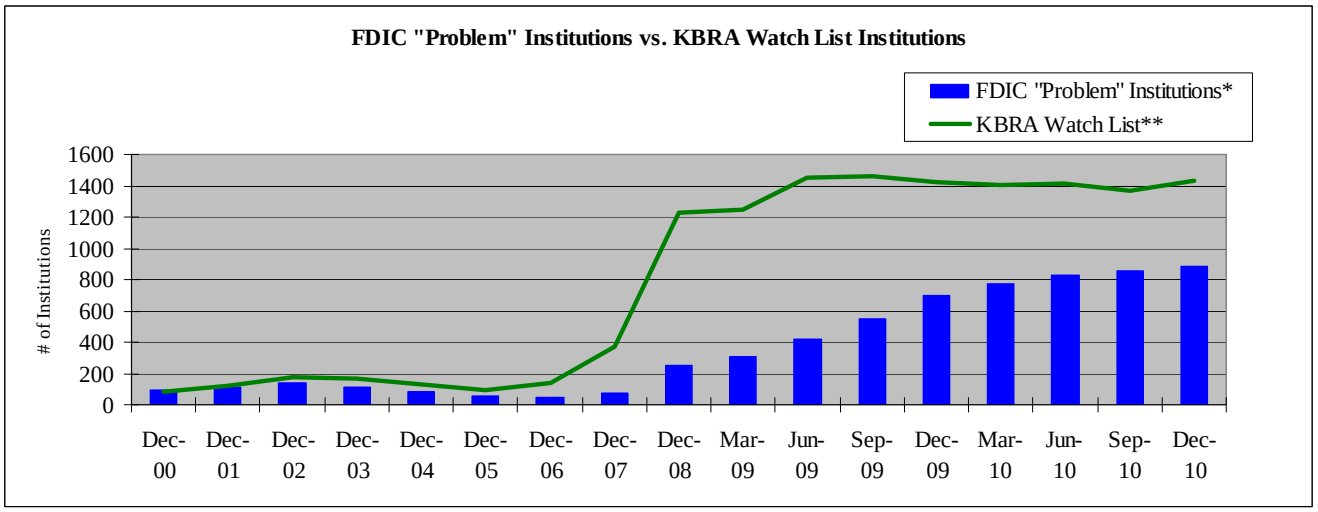
Total assets increased by 1.6 percent year-over-year but decreased by approximately 50 basis points in the fourth quarter of 2010.[3] Similarly, total equity capital increased by 2.7 percent over 2009's total but decreased by 1.3 percent in the final quarter of 2010. As of year-end 2010, 268 banks were undercapitalized by regulatory standards, a 6 percent decline compared to 285 undercapitalized institutions as of December 31, 2009. Additionally, total deposits grew by 1.6 percent in the fourth quarter of 2010 and by 2.1 percent compared to 2009.

Nonperforming assets (NPAs) declined by $20.7 billion, or 5.9 percent in the fourth quarter of 2010, and compared to year-end 2009, nonperforming assets decreased by $41.7 billion, or 11.3 percent.[4] Overall asset quality improvements were tempered by a 27.5 percent increase in *other real estate owned* (OREO), primarily repossessed property held by the bank, compared to 2009. Consequently, loan and lease loss provisions decreased by 36.6 percent on a year-over-year basis. The lower provisioning expenses indicate a break in the growth of nonperforming loans and imply a healthier banking environment overall. Likewise, reserves for loan and lease losses totaled $230.8

[1] The term *bank*, as used in this analysis, refers to both 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.
[4] Kroll Bond Rating Agency, Inc. defines nonperforming assets as loans and leases that are 90 days or more past due or in nonaccrual status plus other real estate owned, net of government guaranteed portions of the afore mentioned items.

billion in the fourth quarter of 2010, a 4.6 percent decrease compared to the previous quarter. However, on an annual basis, overall reserves increased slightly, 1.5 percent.

Construction and land development loans are down significantly, falling by 28.9 percent compared to levels reported in 2009 and 9.2 percent lower than in the third quarter of 2010. Residential loans are essentially flat on a quarterly basis and commercial and industrial loans grew by 1.7 percent over the third quarter of 2010.



* Defined as having a composite CAMELS rating of "4" or "5".
**Defined as the number of institutions that were rated either "D" or "E" for the period.

Regional - Quarterly Changes

	Total Assets	Total Equty	Net Income	Total Deposits	Total Loans	NPAs	Provisions	Construction Loans	Residential Loans	C&I Loans
West										
Change ($Mil)	-41,306	2,878	4,121	-6,230	-10,683	-4,907	3,775	-4,136	6,452	790
% Change	-1.73%	1.00%	33.29%	-0.38%	-0.94%	-9.08%	23.15%	-11.10%	1.71%	0.59%
Midwest										
Change ($Mil)	37,755	-10,275	8,486	101,120	-4,982	-7,249	11,369	-9,645	-10,017	6,873
% Change	0.83%	-2.27%	36.39%	3.22%	-0.21%	-5.65%	27.06%	-9.37%	-1.03%	1.94%
Northeast										
Change ($Mil)	-251,404	-28,705	764	-163,245	-122,117	-8,466	-350	-5,886	-55,285	-36923
% Change	-13.10%	-12.31%	7.38%	-12.50%	-13.32%	-26.88%	-5.09%	-16.04%	-12.50%	-26.95%
South										
Change ($Mil)	232,003	19,564	18,204	241,038	150,081	1,691	14,411	-9,668	68,462	48,452
% Change	5.18%	2.36%	5.47%	7.48%	5.69%	0.38%	3.79%	-1.98%	6.05%	7.41%

Regional - Annual Changes

	Total Assets	Total Equty	Net Income	Total Deposits	Total Loans	NPAs	Provisions	Construction Loans	Residential Loans	C&I Loans
West										
Change ($Mil)	39,814	27,085	22,687	48,518	4,203	-16,571	-27,142	-20,225	411	-8,544
% Change	1.72%	10.21%	-367.10%	3.08%	0.37%	-25.27%	-57.59%	-37.98%	0.11%	-5.97%
Midwest										
Change ($Mil)	556,312	72,354	16,217	391,074	337,574	10,250	-13,946	-16,634	114,402	34,972
% Change	13.80%	19.50%	105.70%	13.73%	16.55%	9.28%	-20.64%	-15.15%	13.45%	10.74%
Northeast										
Change ($Mil)	-238,913	-11,984	7,090	-163,093	-146,486	-9,630	-7,365	-17,172	-60,503	-39,517
% Change	-12.52%	-5.53%	164.74%	-12.46%	-15.54%	-29.25%	-54.74%	-35.83%	-13.51%	-28.27%
South										
Change ($Mil)	-121,475	-47,183	26,130	-66,126	-102,011	-22,568	-37,335	-70,865	-92,616	-16,523
% Change	-2.52%	-7.81%	-2632.88%	-1.91%	-3.70%	-14.70%	-35.21%	-31.34%	-8.49%	-4.12%

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