



BANKING BRIEF

FOR PENNSYLVANIA, NEW JERSEY, AND DELAWARE

Second Quarter 2008

Profitability continued to fall in the second quarter at both large and small institutions. Moreover, with the exception of large tri-state area banks, the number of banks reporting losses increased. At large organizations, for the nation, 21 out of 98 institutions reported a quarterly loss, while two of 17 organizations in the tri-state area reported negative income. For the first quarter, these numbers were 10 and three, respectively. At community banks in the nation, 705 out of 5,625 institutions reported a loss, up from 481 in the first quarter. In the tri-state area, 24 out of 175 banks reported a loss in the second quarter, an increase of one from the first quarter.

At large organizations both locally and nationally, the problem remains poor quality in residential real estate (RRE) loans, but their commercial real estate (CRE) loan portfolios are showing increasing signs of weakness as well.¹ Additionally, they had losses in their securities portfolios. Loans and assets decreased as these institutions are scrambling to write off bad loans from their balance sheets. Also, a number of large institutions increased their sales of RRE loans to government-sponsored enterprises such as Fannie Mae and Freddie Mac. In addition to loans, the securities portfolios of large banks decreased. While some of this reflects banks writing down the value of their securities, there was likely also some liquidation of portfolios. Thus, it appears that some of the large

¹ RRE loans are defined as loans secured by one- to four-family properties (secured by both first and junior liens) plus home equity lines of credit (HELOCs). CRE loans are defined as the sum of construction loans, loans secured by multifamily properties, and loans secured by nonfarm, nonresidential real estate.

banks are de-leveraging. At the same time, capital ratios actually increased slightly.

At community banks there is substantial weakness in their CRE loans. This has been the case for more than a year, and the situation appears to be worsening. The quality of their RRE loans has worsened slightly as well, but these make up a smaller portion of their loan portfolios. Capital ratios decreased slightly at these banks both locally and nationally, but overall capital levels remain strong. As will be discussed below, there are increasing concerns about the level of reserves and provisioning at community banks.

Large Organizations

Return on average assets dropped to 0.33 percent locally and 0.44 percent nationally (see table on last page). Total assets, loans, and real estate loans also dropped, and the ratio of nonperforming loans to total loans continued to increase. In spite of the continuing asset quality problems, capital ratios rose slightly in the second quarter, and the vast majority of large institutions both locally and nationally still have equity-to-assets ratios of over 6 percent.² Net interest margins

² Regulation Y defines an institution as well-capitalized if it has a tier 1 leverage ratio of over 6 percent. Total equity contains some items not included in tier 1 capital, so this is not the same as saying they are well-capitalized for regulatory purposes. However, for most institutions, it is a close proxy. In the nation, 95 out of 98 institutions had an equity-to-assets ratio of at least 6 percent, a decrease of one from the first quarter. In the tri-state area, 16 of 17 institutions were above 6 percent this quarter, which is the same as in the first quarter.

dropped locally and were stable nationally. The ratio of noninterest income to average assets dropped both locally and nationally, and the ratio of noninterest expense to average assets was stable both locally and nationally.

Total nonperforming loans increased 16.9 percent nationally and 22.2 percent locally in the second quarter.³ On a managed basis, these increases were 16.1 and 18.6 percent, respectively.⁴ Net charge-offs also continued to grow. Total net charge-offs increased 31.2 percent nationally and 42.2 percent locally in the second quarter, to \$16.3 billion and \$5.9 billion, respectively. Also, as a percentage of average assets, quarterly net charge-offs have nearly tripled in the last year, from 0.08 to 0.19 percent nationally and from 0.07 to 0.20 percent locally (Figure 1).⁵

Among large banks, RRE loans outstanding dropped by \$41.7 billion nationally (2.7 percent) and \$30.5 billion locally (4.9 percent). Much of this decline was the result of a large increase in mortgages purchased by Fannie Mae and Freddie Mac during the quarter.⁶ Charge-offs of nonperforming mortgages also accounted for a significant portion of this decline. Net charge-offs on RRE loans were \$5.2 billion nationally and \$2.2 billion locally, an increase of 38.1 percent and 70.8 percent, respectively.

Indeed, nonperforming RRE loans and the resulting charge-offs continue to be the major problem plaguing large banking organizations. While the percentage of

³ Nonperforming loans are defined as loans past due 90 days or more plus nonaccruing loans. For historical perspective, the nonperforming loan ratio for all commercial banks between 1997 and 2007 was 1.07 percent. However, at the bottom of the last real estate cycle in 1991, this ratio was 3.70 percent. Source: FDIC Historical Statistics on Banking: <http://www2.fdic.gov/hsob/index.asp>.

⁴ Assets on a managed basis refer to assets on the balance sheet plus loans that have been securitized.

⁵ All income statement items reported here are numbers for the current quarter. To calculate the annualized net charge-off rate, based on performance in the quarter, multiply these numbers by four. Income statement numbers on the table on the last page are annual.

⁶ Combined mortgage purchases by the GSEs increased at an annualized rate of 23 percent in the second quarter, based on data reported in the July 2008 edition of *Inside Mortgage Finance*.

RRE loans in their loan portfolios has dropped, it is still over 30 percent nationally and 34 percent locally, and nonperforming RRE loans represent 43.2 percent of all nonperforming loans nationally and 45.2 percent locally. Nonperforming RRE loans grew 15.1 percent nationally and 21.7 percent locally in the second quarter. The nonperforming loan ratio for RRE loans reached 2.7 percent of total nationally and 2.4 percent locally (Figure 2).

Mortgages represent by far the largest part of large organizations' RRE loans (about 70 percent both locally and nationally), and they also are the worst-performing RRE loans. This is particularly true of mortgages secured by first liens. For the second quarter, first lien mortgages had a nonperformance rate of 3.4 percent nationally and 2.8 percent locally. The rates for mortgages secured by junior liens were 1.8 percent and 1.2 percent, respectively, and for HELOCs, 1.1 percent and 1.2 percent, respectively. Mortgages represent 63.5 percent of RRE charge-offs nationally and 62.9 percent locally. The remaining RRE charge-offs are home equity lines of credit (HELOCs).

On a managed basis, the situation is much the same except that managed RRE loans represent a higher proportion of managed assets – over 40 percent nationally and 32.6 percent at tri-state area banks. The ratio of nonperforming managed RRE loans to total managed loans was 2.4 percent both nationally and locally, and the charge-off and growth rates were similar as well.

In addition to the problems with RRE loans, there are increasing concerns about the quality of the large organizations' CRE loan portfolios. CRE loans make up 18.3 percent of all loans nationally and 17.0 percent locally – the second-largest portion of their portfolios and virtually the same percentages as commercial and industrial (C&I) loans. However, nonperforming CRE loans make up 29.0 percent of nonperforming loans nationally and 27.8 percent locally. Nonperforming CRE loans grew by almost 30 percent both locally and nationally in the second quarter. The ratio of nonperforming CRE loans to total CRE loans has nearly quadrupled both locally and nationally in the last year (Figure 3).

Net charge-offs of CRE loans are growing much faster than those of RRE loans. For the quarter, net

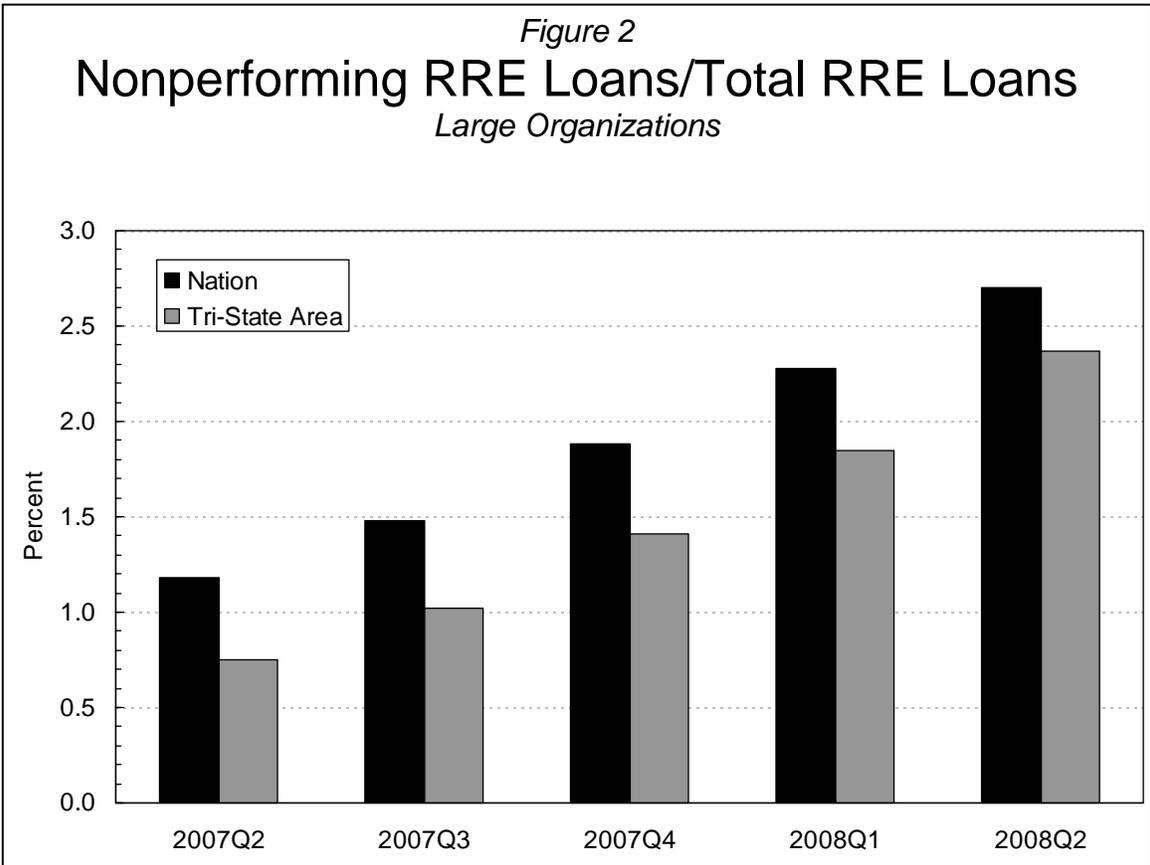
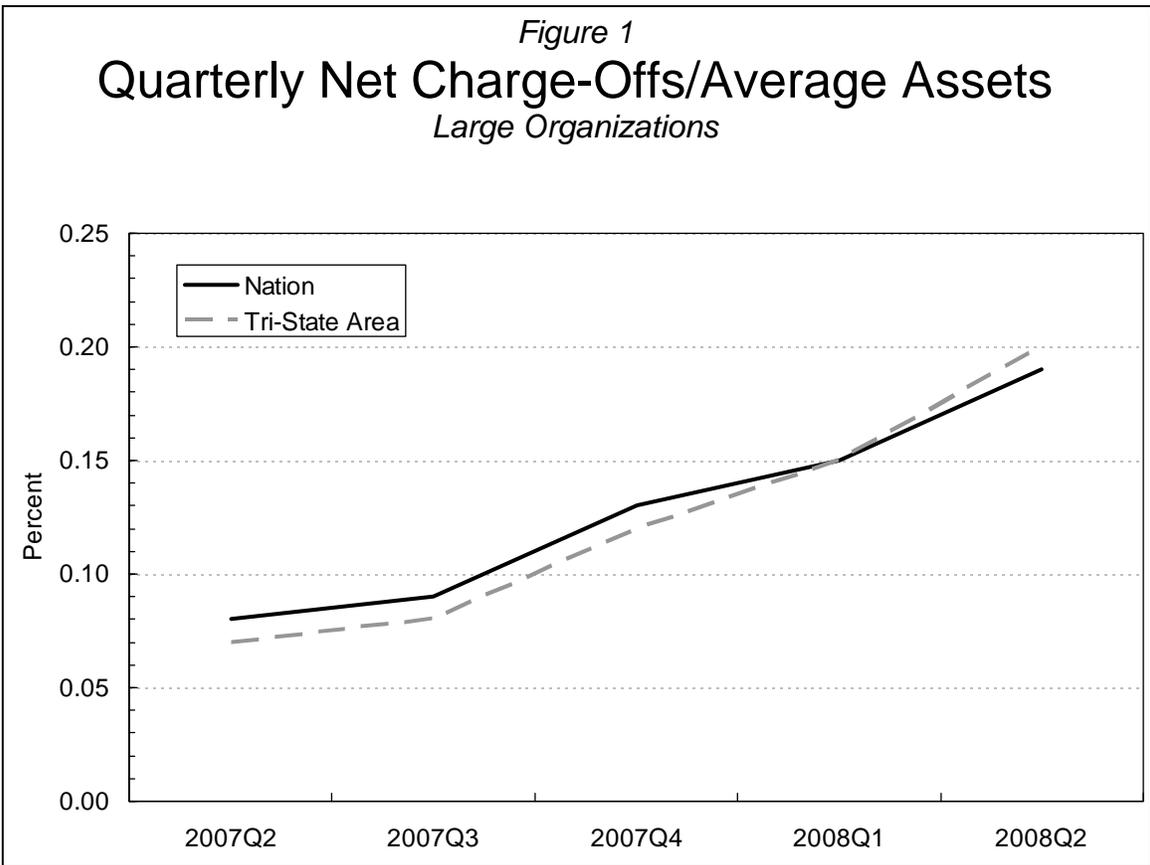


Figure 3
Nonperforming CRE Lns/CRE Lns
Large Organizations

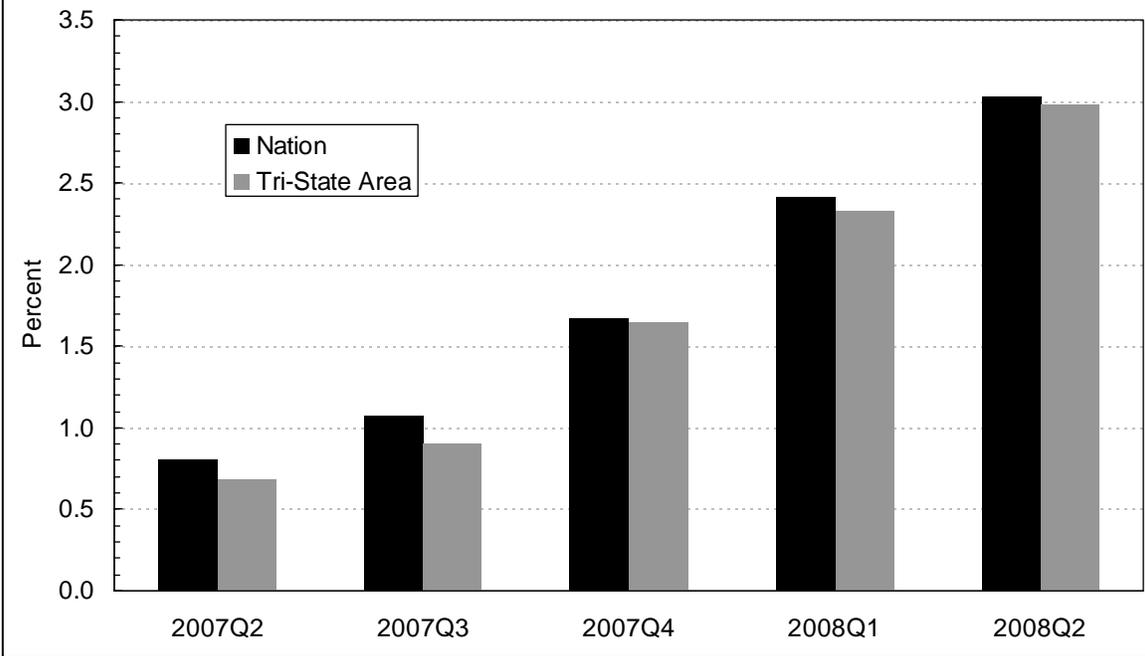
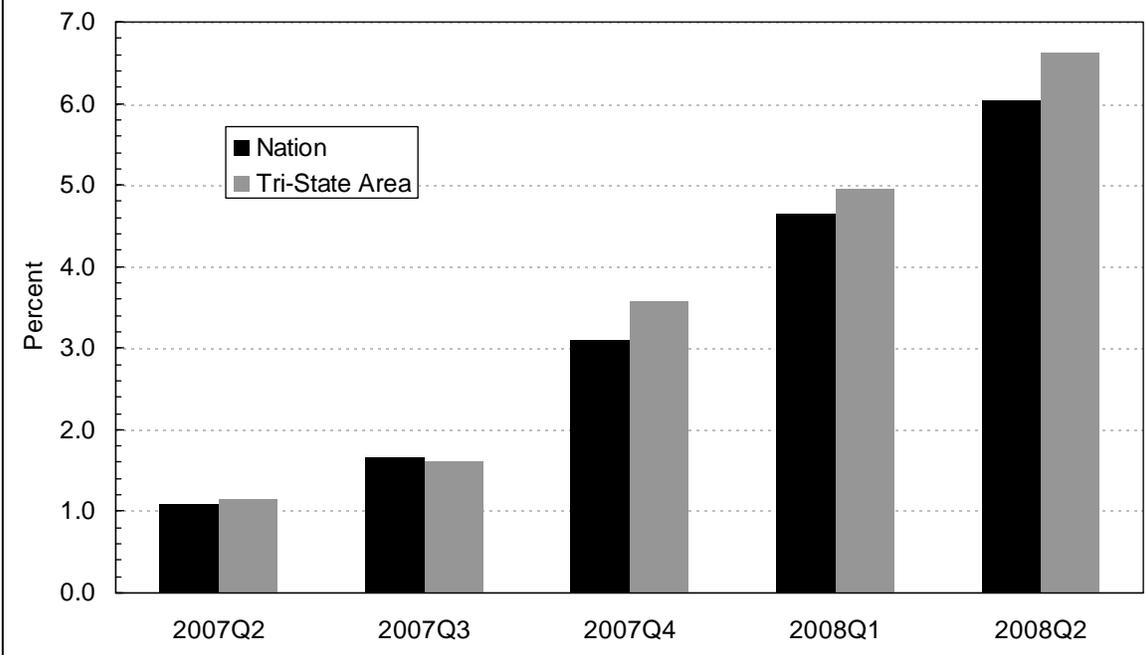


Figure 4
Nonperforming Construction Lns/Construction Lns
Large Organizations



charge-offs on CRE loans at banks nationwide were \$2.5 billion, an increase of 116.7 percent from the first quarter. At banks in the tri-state area, net charge-offs on CRE loans were \$580.3 million, an increase of 103.0 percent from the first quarter.

The largest portion of CRE loans in large organizations' portfolios is loans secured by nonfarm, nonresidential properties; they make up roughly 55-60 percent of CRE loans. However, these loans have performed fairly well, with nonperformance rates of 1.25 percent nationally and 1.24 percent locally. Also, net charge-offs of these loans make up less than 2 percent of all net charge-offs both locally and nationally.

The major problem with the large organizations' CRE lending is their construction loans. These represent only about one-third of CRE loans but nearly 75 percent of nonperforming CRE loans and over 80 percent of net charge-offs on CRE loans. The nonperformance rate on construction loans has risen dramatically in the last year, and it is now over 6 percent both locally and nationally (Figure 4). Most of the problems with CRE loans at large organizations are tied to the residential markets, because much of the construction lending that has gone bad was lent to finance the building of housing.

Large organizations have performed better in other types of lending. In C&I lending, the ratio of nonperforming C&I loans to total loans was 0.74 percent nationally and 1.01 percent locally. Although this ratio has been rising, it remains relatively low. This also applies to consumer loans, especially credit cards. The ratio of nonperforming credit card loans to total credit card loans is 2.55 percent nationally and 2.63 percent locally. Nonperforming credit card loans for the quarter were \$6.4 billion nationally and \$2.2 billion locally, and there was very little growth in either area. This may not last, however.

There was rapid growth in credit card delinquencies about a year ago, and while it has reached a plateau now, credit cards past due 30-89 days (not included in the calculation of nonperforming loans) are on the rise again. Net charge-offs on credit card loans, which make up about 20 percent of all net charge-offs both locally and nationally, have grown somewhat. Net charge-offs on credit card loans were \$3.3 billion for

the second quarter nationally, and they grew about 13 percent in the quarter. For the tri-state area, net charge-offs were \$1.1 billion, and they grew 14 percent in the quarter.

Consumer loans at tri-state area banks grew at a fairly rapid rate in the second quarter, faster than those loans nationally and much faster than other types of lending. While growth of credit card lending explains some of this increase, credit card loans also increased at banks in the nation, and by roughly the same percentage (about 5 percent). Some of the remainder of the jump can be explained because two large organizations decreased their securitizations of automobile loans in the quarter. Much of the rest of the jump is in installment loans. Whether this is an anomaly or a change in policy at some of the large tri-state area institutions is not known at the moment.

In addition to nonperforming loans, provisioning continues to be a problem for large organizations. Loan-loss reserves at the end of the second quarter were \$89.8 billion for banks nationally and \$32.2 billion for banks in the tri-state area. These numbers represent a 17.4 percent increase nationally and a 22.4 percent increase locally, but they are only just keeping up with the continued increases in nonperforming loans. Loan-loss provisions are now nearly one-third of operating income at tri-state area banks and slightly under 30 percent at banks nationally (Figure 5). Also, after falling for several quarters, the ratio of net charge-offs to loan-loss provision has increased as well (Figure 6). The loan-loss coverage ratio was basically stable both locally and nationally in the second quarter, but it is below 100 percent nationally and barely above it locally (Figure 7).⁷

In addition to the losses from lending, large organizations are being hurt by other factors as well. Large banks both locally and nationally reported realized net losses on their securities portfolios in the second quarter, although the overall reported value of

⁷ Loan-loss coverage ratio is defined as the ratio of loan-loss reserves to nonperforming loans.

Figure 5
Loan-Loss Provision/Operating Income
Large Organizations

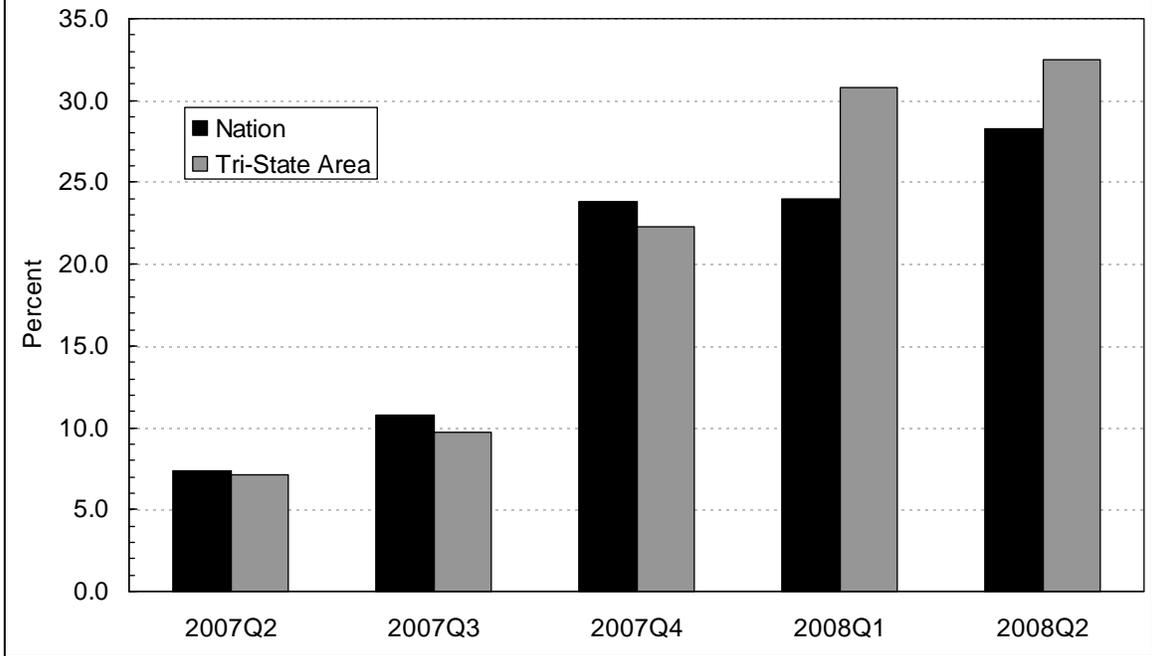


Figure 6
Net Charge-Offs/Loan-Loss Provision
Large Organizations

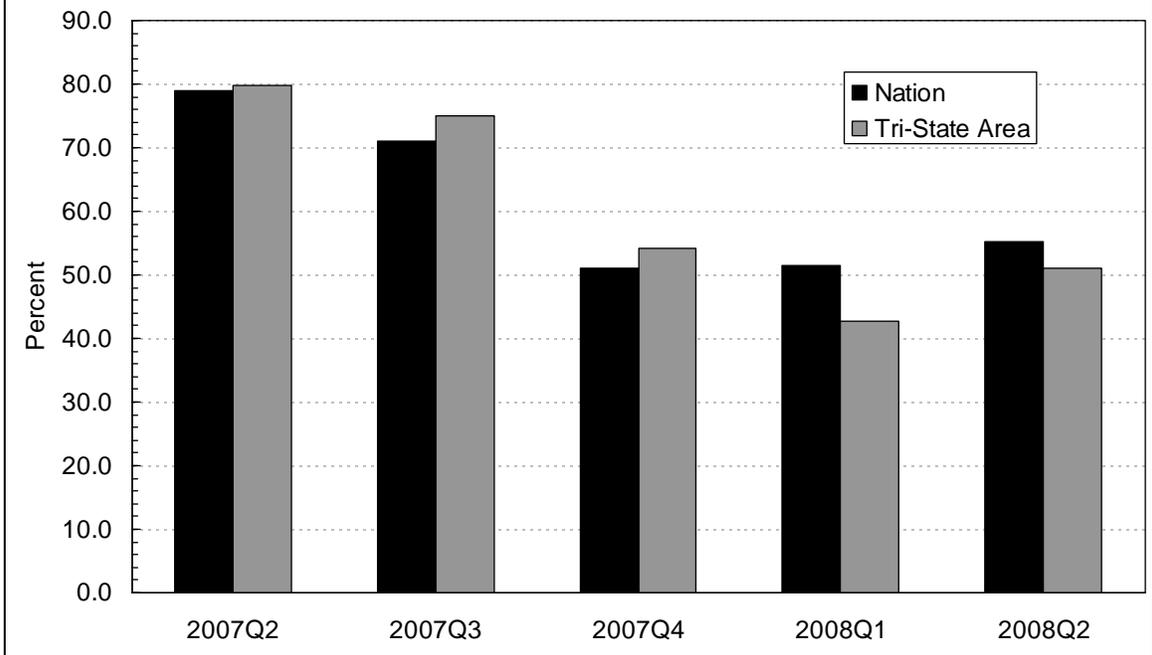


Figure 7
Loan-Loss Coverage Ratios
Large Organizations

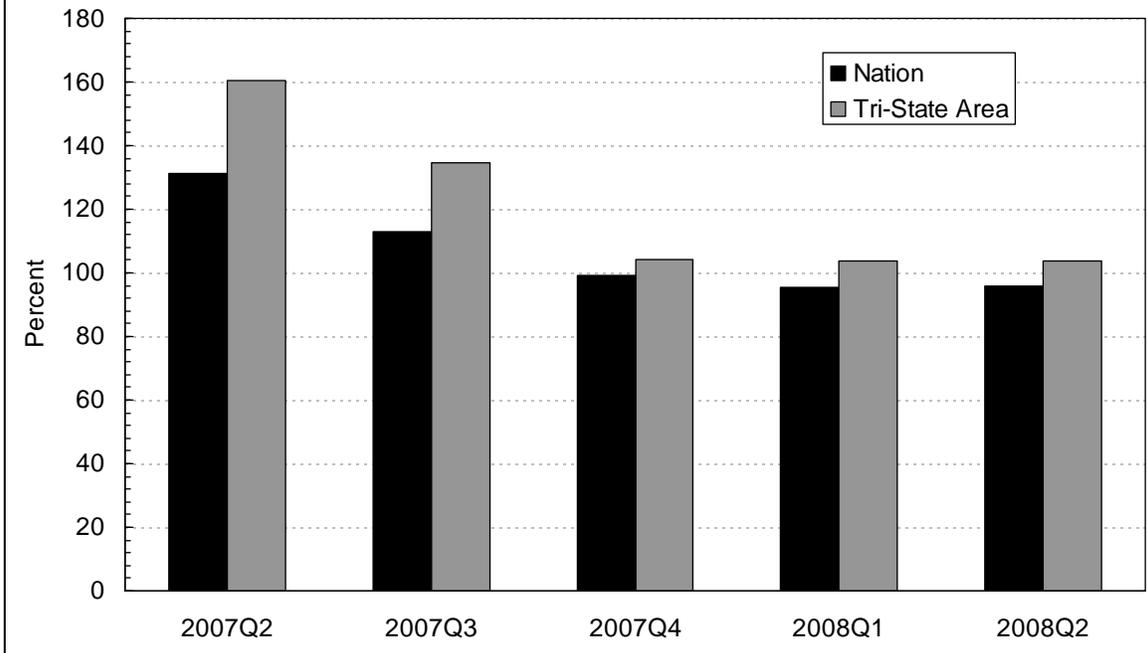
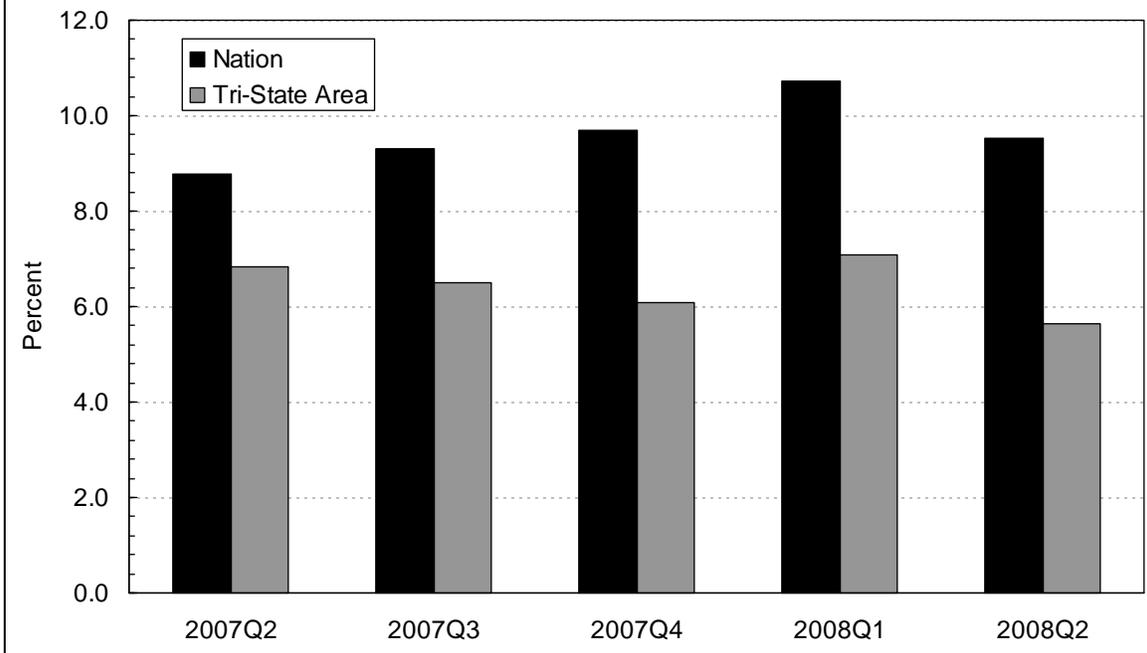


Figure 8
Trading Assets/Total Assets
Large Organizations



their securities increased 7.1 percent nationally and 13.0 percent locally.⁸ Income from asset sales dropped nationally but increased locally. After reporting losses on loan sales for the previous three quarters, banks both locally and nationally reported positive net income in that category. However, they continue to suffer large and increasing losses from sales of foreclosed real estate (other real estate owned) as the continued slump in the residential real estate markets depresses sales prices.

In recent quarters, large banking organizations have been consolidating the assets (mostly mortgage-backed securities) of unconsolidated affiliates, placing them in their trading accounts. This led to double-digit growth in trading assets and negative net trading income resulting from mark-to-market losses. In the second quarter, however, trading assets decreased 11.3 percent nationally and 19.2 percent locally and also as a percent of assets (Figure 8). In addition, large banks both locally and nationally showed positive net trading income. While it's still too soon to call a trend, the ratio of net trading income to average assets has increased for two consecutive quarters (Figure 9).

While this upward movement is encouraging, it is doubtful that banks have cleared up their securities problems. Mortgage-backed securities (MBS) in the trading account decreased 4.6 percent nationally and 15.9 percent locally in the quarter, but MBS holdings not in the trading account increased substantially. The reported value of MBS in banks' securities portfolios increased 6.06 percent nationally and 10.41 percent locally. Moreover, other asset-backed securities (ABS) increased 32.04 percent nationally and 45.11 percent locally.⁹ At the same time, banks nationally realized losses on securities of \$227 million, while tri-state area banks had realized losses of \$1.1 billion.¹⁰

⁸ Securities are reported at their book value if the institution intends to hold them to maturity and at their market value if they are available for sale.

⁹ ABS represent a small portion of the banks' portfolios. For banks both locally and nationally, ABS's share of the securities portfolio was about 8 to 9 percent.

¹⁰ Realized gains and losses on securities as reported are a net position. Thus, although tri-state area banks are a subset of the

An additional area of exposure for banks is unused commitments, that is, undrawn lines of credit that the bank had already made available and loans that have been contracted for but not yet originated.¹¹ In total, these commitments are substantial and haven't decreased very much. Total unused commitments were 81.7 percent of total assets at banks in the nation and 89.8 percent of assets at banks in the tri-state area. Unused commitments have decreased just 0.78 percent nationally and they actually showed a 0.86 percent increase locally in the last year. However, they have been decreasing at a faster rate in the last quarter or two, falling 2.6 percent nationally and 1.6 percent locally from the first to the second quarter of 2008.

A large part of these unused commitments are unused balances on credit cards, and when these are excluded, unused commitments show a greater decline. As a percent of total assets, these have decreased by about 10 percentage points in the last year (Figure 10). Moreover, unused commitments to fund real estate, which make up about one-sixth of total unused commitments, have fallen even faster. These decreased 3.2 percent nationally and 3.7 percent locally from the first to the second quarter.

To summarize, large organizations have made some progress in dealing with their problems, but there are still many challenges. Bad RRE loans continue to grow but at a slower rate. Bad CRE loans are also becoming a concern, as are MBS and ABS. Banks have begun to decrease their unused loan commitments, but their exposure to these is still high. Also, while the large organizations have been increasing their reserves for loan losses, they will likely have to continue their substantial provisioning. Thus, it will likely be some time before these banks return to higher profitability.

national sample, their total can exceed that of banks nationally. In other words, large banks not in the tri-state area had realized gains of about \$874 million.

¹¹ Specifically, unused commitments include home equity lines of credit, credit card lines, secured commitments to fund one- to four-family housing construction, secured commitments to fund other real estate construction, commitments to fund construction that are not secured, commitments to underwrite securities, financial standby letters of credit, performance standby letters of credit, commercial letters of credit, and securities lent.

Figure 9
Net Trading Income/Average Assets
Large Organizations

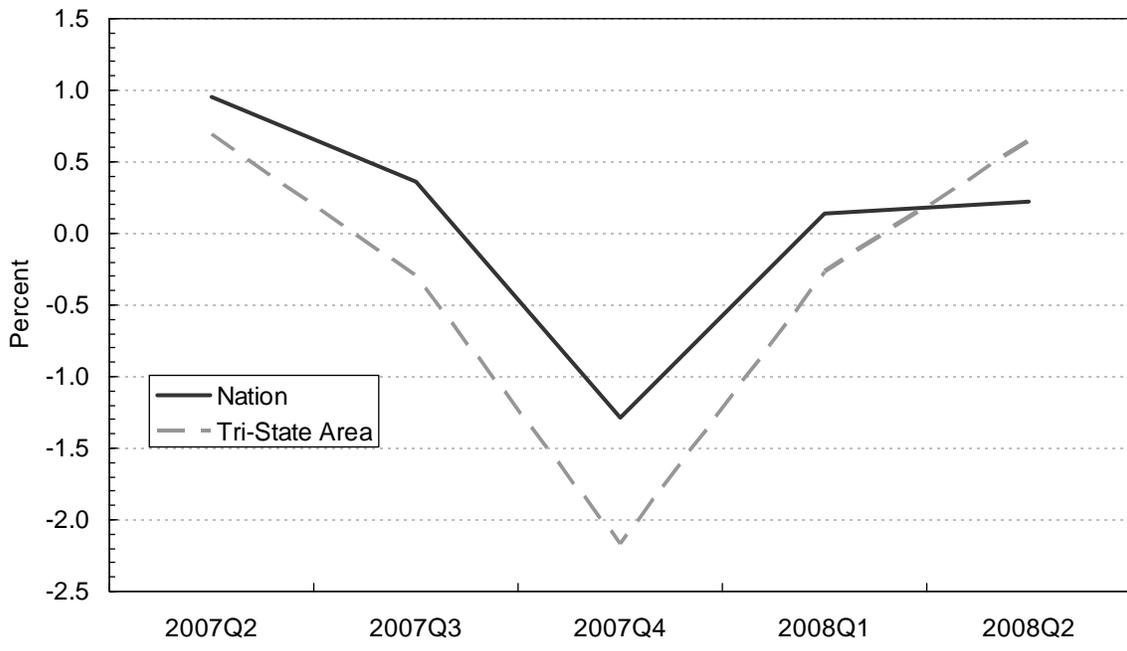
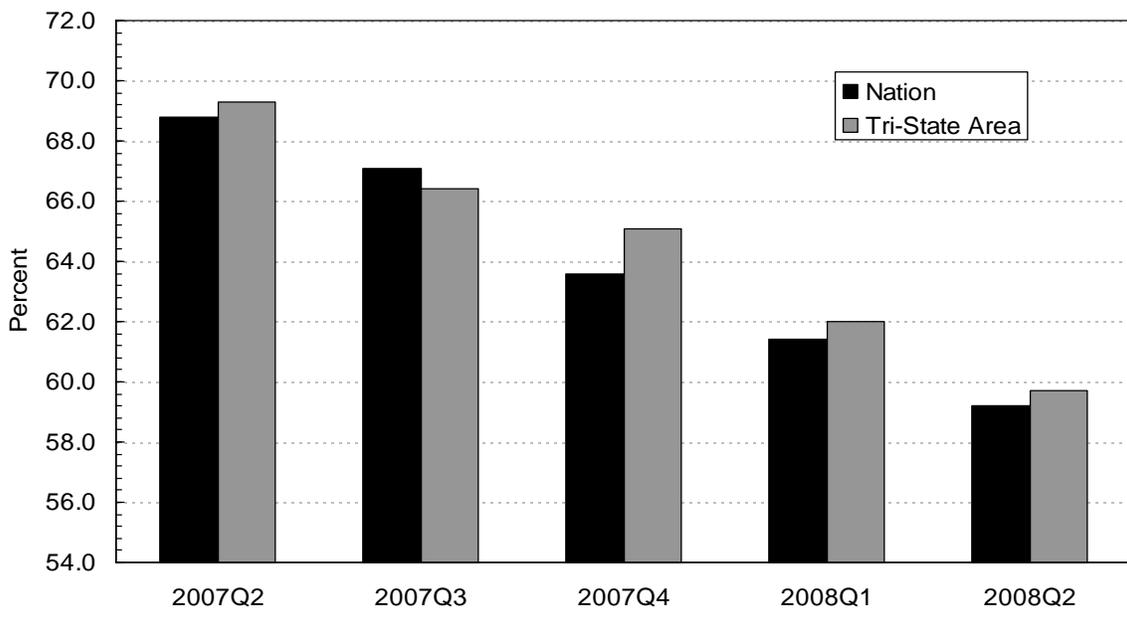


Figure 10
Unused Commitments/Assets
Excluding Unused Lines on Credit Cards
Large Organizations



Community Banks

Community banks continue to outperform the large organizations in terms of profitability, but they have substantial problems as well. While they had higher returns on average assets and net interest margins, they also have lower capital ratios and similar problems with nonperforming loans (see table on last page). As with the larger banks, the vast majority of community banks continue to have equity-to-assets ratios of over 6 percent. However, 28 additional banks nationally and two locally saw their capital ratios drop below 6 percent in the second quarter. While total nonperforming loans increased 18.9 percent nationally and 14.5 percent locally in the quarter, net charge-offs increased 50.1 percent and 141.7 percent, respectively. As a percentage of average loans, net charge-offs have more than doubled nationally and nearly tripled locally in the last year (Figure 11).

Unlike the larger banks, community banks both in the nation and the tri-state area saw substantial loan growth in some areas, particularly real estate lending and C&I loans. The growth in real estate lending was primarily in loans secured by multifamily properties, with some growth in mortgages at tri-state area banks. The growth in C&I lending appears to be the smaller banks taking over some of the business that tighter lending standards at larger banks have forced them to jettison. This may be the case in real estate lending as well. This raises a question as to the quality of these loans, since there are likely some marginal customers there that were unable to obtain financing elsewhere.

Problems with CRE lending continued at community banks last quarter. These loans represent between 45 and 50 percent of all loans at these banks. Nonperforming CRE loans increased 23.6 percent nationally and 16.3 percent locally, to \$18.3 billion and \$546.4 million, respectively. The rate of growth of nonperforming CRE loans has been slowing in the last two quarters nationally (but not locally), but the ratio of nonperforming CRE loans to total CRE loans continues to grow and is now over 2 percent at banks in the tri-state area and nearly 3 percent at banks nationally (Figure 12). A more worrisome development is that while charge-offs of CRE loans decreased in the first quarter, they grew substantially in the second quarter.

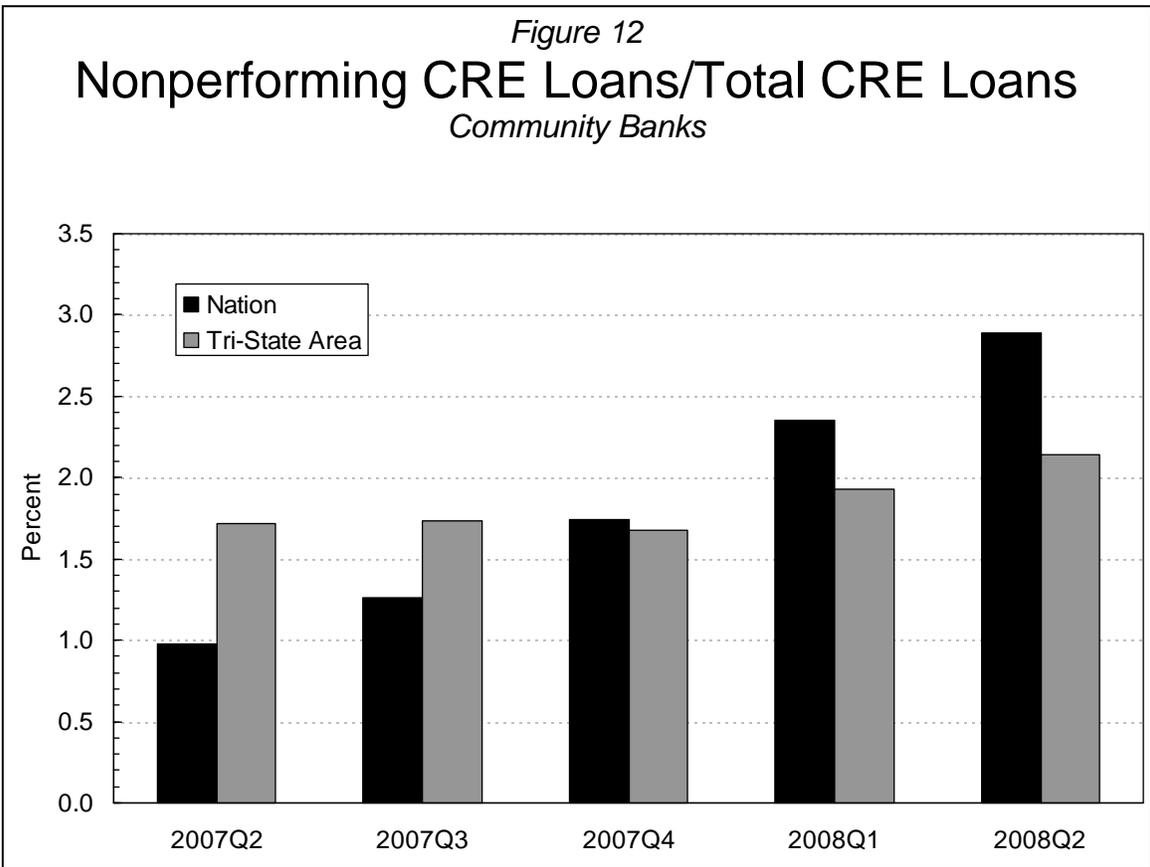
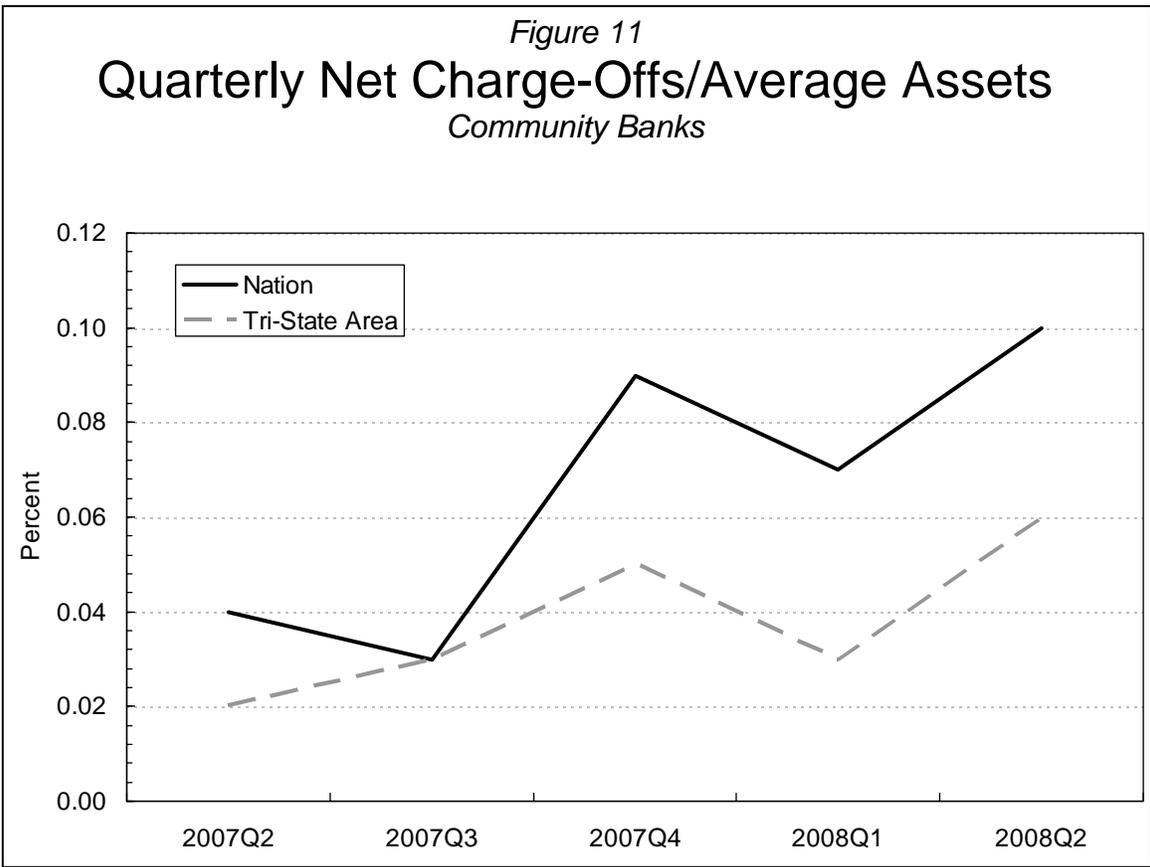
Net charge-offs on CRE loans increased 75.2 percent nationally and 325.5 percent locally in the second quarter, to \$969.3 million and \$26.1 million, respectively.

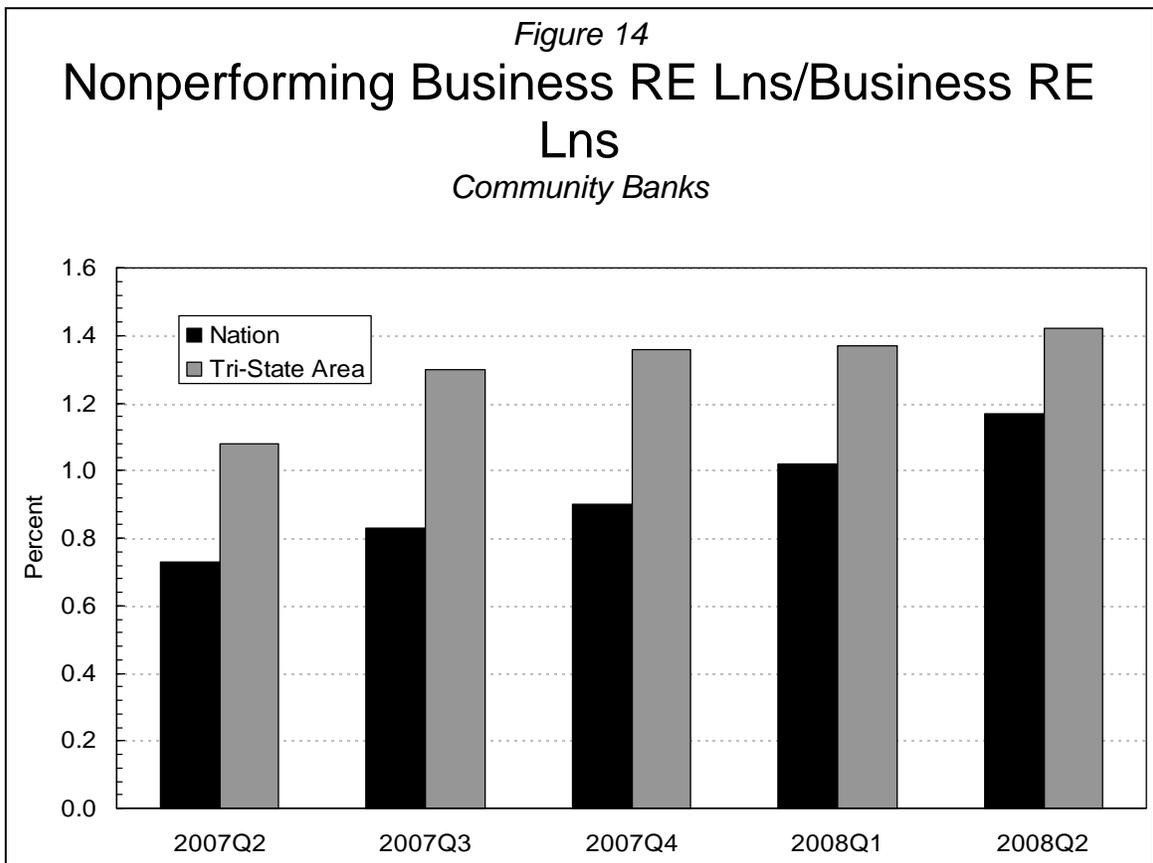
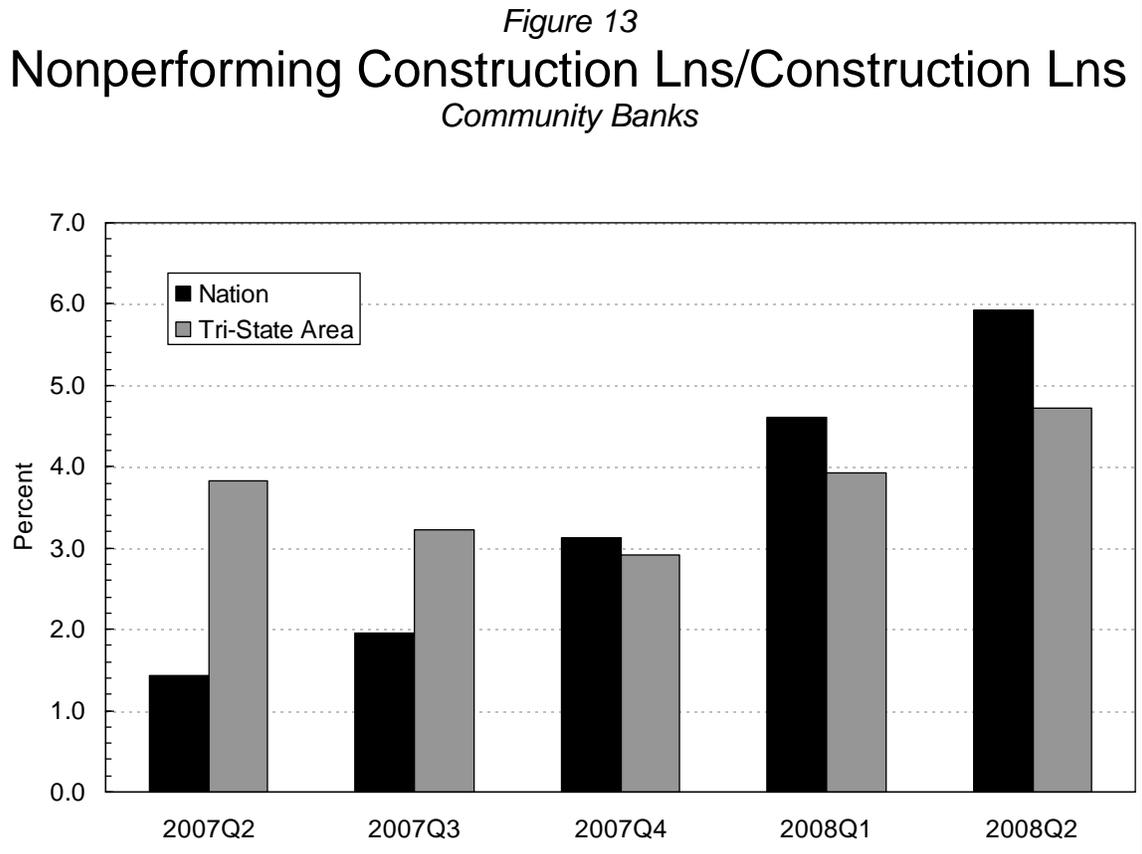
As with the larger banks, the major problem with CRE lending has been in construction loans. These types of loans represent approximately one-third of all CRE loans nationally and one-quarter of all CRE loans at local banks, yet nonperforming construction loans account for over 50 percent of all nonperforming loans at banks nationally and 34.3 percent at banks in the tri-state area. Nonperforming construction loans increased 25.4 percent nationally and 23.2 percent locally. For the nation, the ratio of nonperforming construction loans to total construction loans is now nearly 6 percent, and it is nearly 5 percent in the tri-state area (Figure 13).

The situation with net charge-offs is much the same. Net charge-offs on construction loans increased 85.8 percent in the second quarter nationwide, to \$824.8 million, and they have increased more than five-fold in the past year. Locally, after decreasing for the previous three quarters, net charge-offs on construction loans increased to \$19.0 million. Net charge-offs on construction loans represented over 40 percent of all net charge-offs at banks in the tri-state area and nationwide (43.7 percent and 42.3 percent).

Another problem area in CRE lending at community banks is loans secured by nonfarm, nonresidential properties. These loans represent 60 percent of all CRE loans nationally and over 70 percent of all CRE loans at banks in the tri-state area. Nonperforming loans in this category climbed 7.9 percent nationally and 24.6 percent locally. Net charge-offs on these loans have also increased. The ratio of nonperforming loans to total loans in this category is now over 1 percent nationally and nearly 1.5 percent locally, and it has increased substantially in the past year (Figure 14).

The community banks' performance in RRE lending is better than that of the large organizations, but there are still problems in this area. Both nonperforming RRE loans and net charge-offs increased a little over 12 percent nationally in the





second quarter. Locally, these figures were 14.1 percent for nonperforming loans and 1.2 percent for net charge-offs. At the end of the second quarter, nonperforming RRE loans were \$3.7 billion nationally and \$154.0 million locally, and net charge-offs on these loans were \$2.4 billion nationally and \$3.2 million locally.

The majority of both the nonperformers and the net charge-offs were in mortgages secured by first liens, but the fastest growth was among home equity lines of credit (HELOCs). Nonperforming mortgages were \$3.3 billion in the second quarter nationally and \$133.4 million locally, and over 80 percent of these were secured by first liens. Nonperforming HELOCs stood at \$351.9 million nationally and \$20.6 million locally, but they grew 23.7 percent nationally and 20.6 percent locally. The comparable rates for first lien mortgages were 11.4 percent and 12.4 percent, respectively. Net charge-offs on HELOCs increased by 17.9 percent nationally and 34.0 percent locally, to \$47.3 million and \$1.5 million. This is compared to growth of 22.7 percent nationally and negative 2.1 percent locally for first lien mortgages, to \$125.3 million and \$871,000, respectively. Unlike mortgages secured by first liens, for HELOCs there are seldom any recoveries through the sale of the property on junior liens. Generally, the holder of the senior lien receives nearly all of the proceeds from the asset sale.

Community banks now also have substantial portfolios of other real estate owned (OREO). These are foreclosed properties held for sale, usually at a loss, and as such are not earning assets.¹² In the past year, community bank holdings of OREO have increased

102.9 percent nationally and 38.8 percent locally. As a percentage of assets, OREO has nearly tripled nationally, but it has only grown by one-third locally, and it now stands at 0.32 percent for the nation and 0.23 percent for the tri-state area (Figure 15).¹³

A major concern of community banks is their loan-loss provisioning. Loan-loss reserves grew only 5.3 percent nationally and 4.1 percent locally in the second quarter. The loan-loss coverage ratios at these banks is now very low, well below 100 percent, and they continued to shrink (Figure 16). Thus, if all nonperforming loans were charged off there would be a substantial drop in capital at these banks. There is substantial room for growth in provisioning, especially at tri-state area banks, since the current ratio of loss provisioning to operating income is less than half that of the large organizations (Figure 17).

Community banks continue to pay high dividends to their shareholders. The percentage of institutions paying dividends increased substantially both nationally and locally in the second quarter, from 48.2 to 62.2 percent nationally and from 52.8 to 67.2 percent locally. Nationally, the dividend payout ratio is over 100 percent, while locally it is over 80 percent (Figure 18).¹⁴

To summarize, community banks are performing better than the large organizations, but problem loans and nonperforming loans are increasing. Unlike the larger banks, they do not appear to have responded sufficiently to the growth in their nonperforming loans. Their current provisioning appears inadequate. Thus, when loss provisioning is eventually increased, there will be substantial impacts on bank earnings.

¹² The mean ratio of recoveries to charge-offs on loans secured by one- to four-family properties (not including HELOCs) from 1991 to 2008 was 19.47 percent. However, since the first quarter of 2007, this ratio has dropped to 9.59 percent.

¹³ For historical perspective, the average ratio of OREO to total assets at all banks between 1997 and 2007 was 0.06 percent. Source: FDIC Historical Statistics on Banking: <http://www2.fdic.gov/hsob/index.asp>.

¹⁴ Dividend payout ratio is the percent of net income payed out in dividends.

Figure 15
Other Real Estate Owned/Total Assets
Community Banks

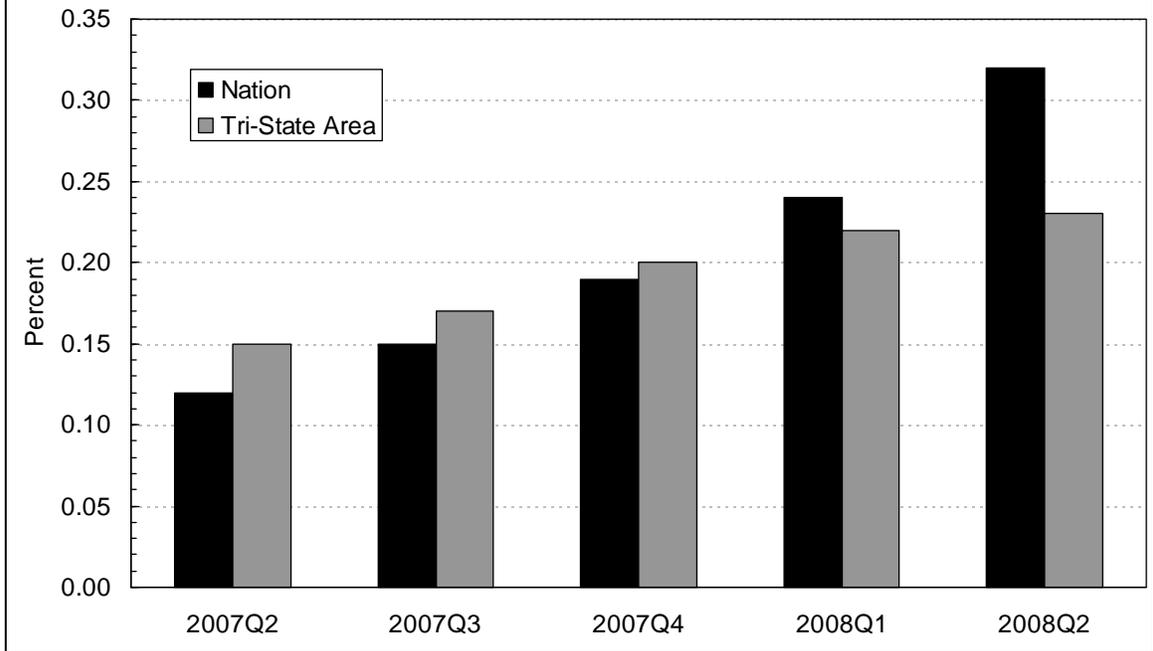


Figure 16
Loan-Loss Coverage Ratios
Community Banks

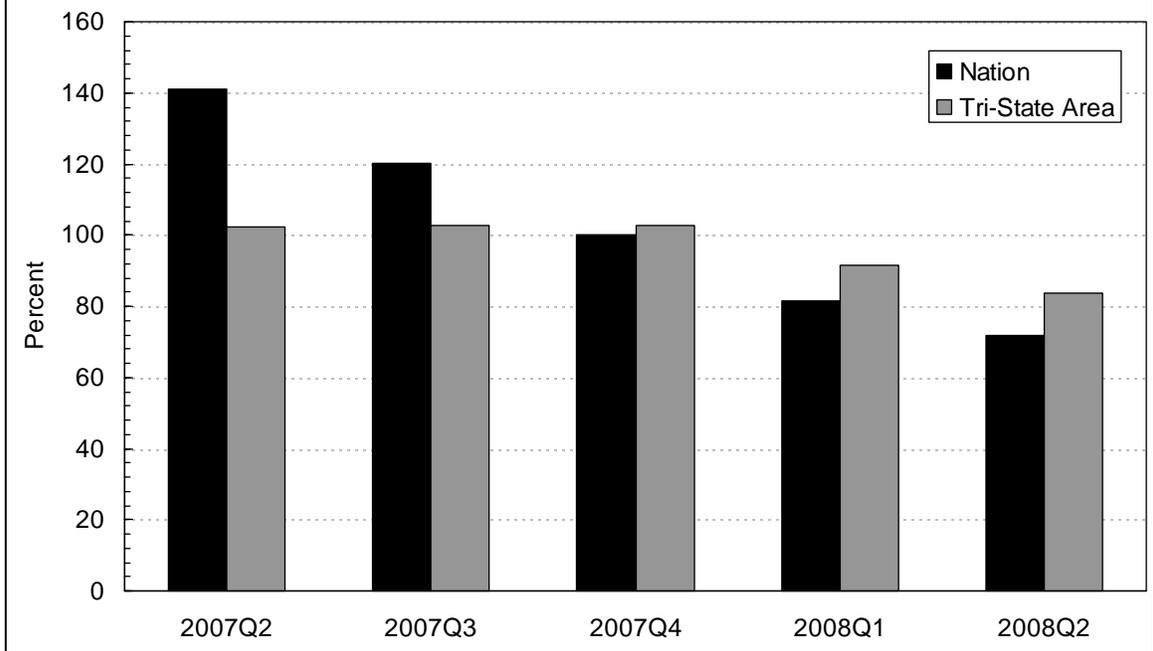


Figure 17
Loan-Loss Provision/Operating Income
Community Banks

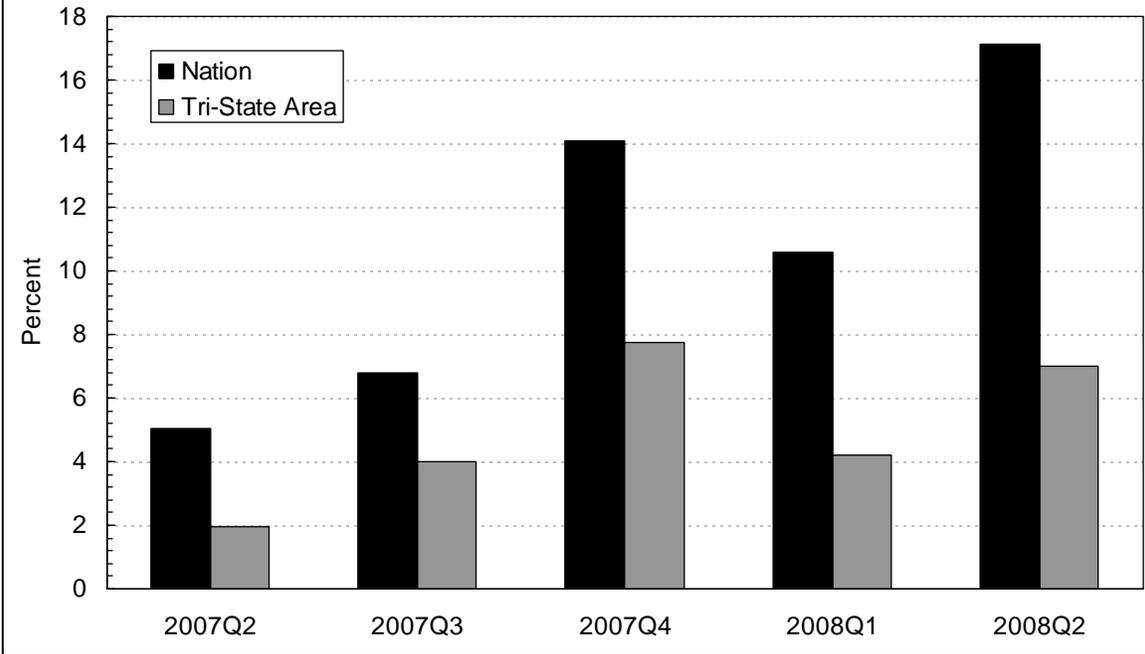
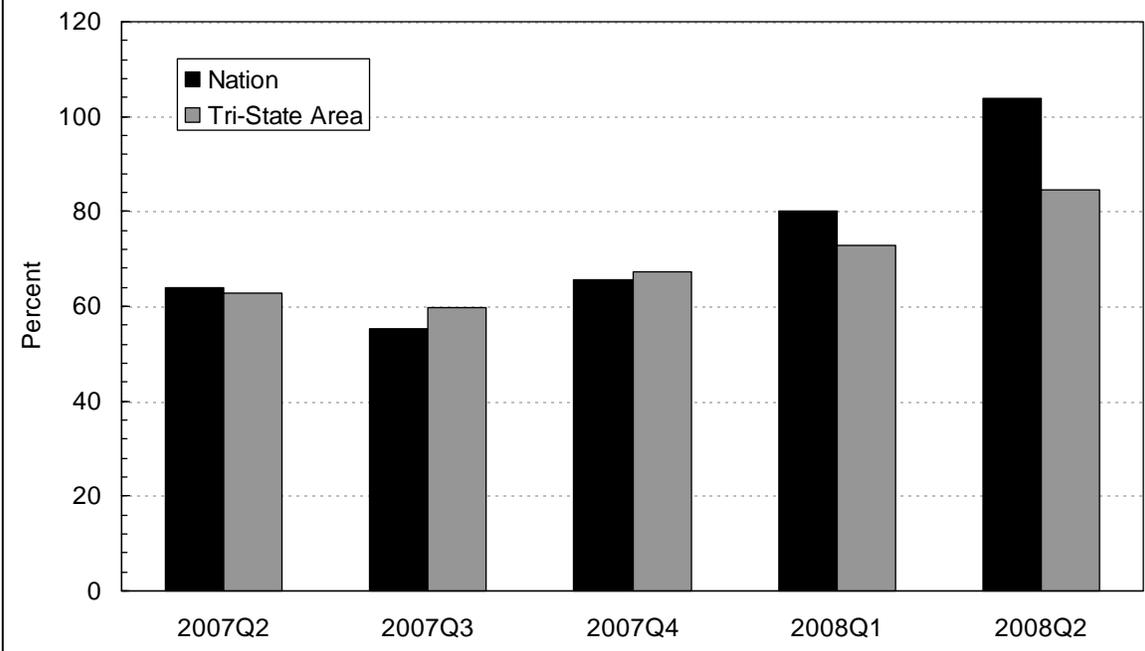


Figure 18
Dividend Payout Ratio
Community Banks



Second Quarter 2008

	<i>Community Banking Organizations</i>						<i>Large Banking Organizations</i>						
	<i>Tri-State</i>			<i>Nation</i>			<i>Tri-State</i>			<i>Nation</i>			
	<i>\$ Bill</i>	<i>% Change From</i>		<i>\$ Bill</i>	<i>% Change From</i>		<i>\$ Bill</i>	<i>% Change From</i>		<i>\$ Bill</i>	<i>% Change From</i>		
	08Q2	08Q1	07Q2	08Q2	08Q2	07Q2	08Q2	08Q1	07Q2	08Q2	08Q2	07Q2	
Total Assets	79.6	3.20	6.04	1769.2	4.95	7.82	Total Assets	3013.3	-3.29	11.58	8829.5	-4.48	9.89
Total Loans	55.7	14.41	9.21	1266.2	11.93	9.57	Total Loans	1654.1	-3.95	9.23	4863.2	-2.23	7.99
Business	7.2	22.85	10.00	201.2	12.90	10.40	Business	374.1	7.12	14.92	1128.6	-0.03	16.03
Real Estate	44.6	13.33	9.23	938.5	11.33	10.31	Real Estate	924.6	-15.50	1.98	2568.0	-6.50	2.49
Consumer	2.0	5.91	0.06	63.5	3.29	0.31	Consumer	159.2	21.87	25.57	627.0	6.51	13.80
Total Deposits	61.7	-0.29	2.61	1395.0	3.49	5.28	Total Deposits	1947.3	3.79	9.29	5657.9	-1.17	8.36
Ratios (in %)	08Q2	08Q1	07Q2	08Q2	08Q2	07Q2	Ratios (in %)	08Q2	08Q1	07Q2	08Q2	08Q2	07Q2
Net Income/Avg Assets (ROA)	0.91	0.98	1.06	0.73	0.92	1.16	Net Income/Avg Assets (ROA)	0.33	0.60	1.18	0.44	0.65	1.13
Net Interest Inc/Avg Assets (NIM)	3.21	3.20	3.24	3.55	3.61	3.75	Net Interest Inc/Avg Assets (NIM)	2.32	2.36	2.44	2.58	2.57	2.58
Noninterest Inc/Avg Assets	1.34	1.35	1.35	0.93	0.93	0.94	Noninterest Inc/Avg Assets	1.41	1.46	1.99	1.59	1.69	2.08
Noninterest Exp/Avg Assets	3.11	3.09	3.09	3.02	2.97	2.94	Noninterest Exp/Avg Assets	2.42	2.43	2.58	2.70	2.71	2.78
Loans/Deposits	90.28	87.23	84.82	90.77	89.01	87.22	Loans/Deposits	84.94	86.60	84.99	85.95	86.18	86.24
Equity/Assets	9.81	9.99	9.95	9.97	10.26	10.20	Equity/Assets	10.29	10.22	9.72	9.53	9.43	9.32
Nonperforming Loans/Total Loans	1.52	1.65	1.25	2.37	2.16	1.01	Nonperforming Loans/Total Loans	2.22	1.93	0.60	2.37	2.15	0.92

A banking organization is an independent bank or all the banks within a highest-level bank holding company; however, banks less than five years old and those whose credit card loans make up greater than 50 percent of their total loans are excluded. The large banking organization sample is based on banking organizations whose total assets were at least as large as those of the 100th largest banking organization in the United States as of December 31, 2007. The community banking organization sample is based on the remaining banking organizations. Tri-state large banking organizations are those large banking organizations that have either at least 5 percent of the deposits of the region or any state therein or at least 5 percent of their deposits in the region. Tri-state community banking organizations are those community banking organizations that are headquartered in the region. The numbers of banking organizations in the categories are as follows: (1) community banking organizations — 175 for the tri-state area and 5,625 for the nation; (2) large banking organizations — 17 for the tri-state area and 98 for the nation. Ratios are aggregates, that is, the numerators and denominators are summed across all banks in the group, then divided. Data are adjusted for mergers. Quarterly percentage changes are compound annualized rates.

Any questions or comments should be directed to Jim DiSalvo at (215) 574-3820 or jim.disalvo@phil.frb.org. Detailed documentation on the methodology used in constructing this document, back issues, and the current issue of *Banking Brief* are available on our website at www.philadelphiafed.org/research-and-data/publications/banking-brief/. To subscribe to this publication, please go to www.philadelphiafed.org/philscrubber/user/dsp_content.cfm.