



# BANKING BRIEF

## FOR PENNSYLVANIA, NEW JERSEY, AND DELAWARE

### *Second Quarter 2009*

Commercial banks both locally and nationally performed poorly in the second quarter. Profitability continued to decrease, and the industry as a whole reported negative profits in the quarter. Asset quality continued to decline as well. Bank failures are accelerating: The Federal Deposit Insurance Corporation (FDIC) reported 24 bank failures in the second quarter, with an additional 32 so far in the third quarter.<sup>1</sup> All told, there have been 77 bank failures this year, compared with 25 for all of 2008 and 27 for the period 2000 to 2007. Total assets of failed banks in 2009 are \$74.4 billion, and the closed institutions ranged in size from total assets of \$12.9 million to \$25.5 billion.

Large banking organizations reported a small loss in the second quarter, with aggregate return on average assets (ROA) of -0.02 percent.<sup>2</sup> The ratio of nonperforming

loans to total loans is now at 4.60 percent, an increase of 74 basis points from the first quarter of 2009 and 273 basis points from last year.<sup>3</sup> The large organizations' residential real estate (RRE) lending portfolios, which had been the source of most asset-quality problems in the previous year, continued to deteriorate.<sup>4</sup> However, the commercial real estate (CRE) lending portfolios at these institutions have deteriorated at an ever faster rate, and CRE loans are now performing as badly as, if not worse than, RRE loans.<sup>5</sup> The quality of other types of lending is also deteriorating. Reserves are not keeping pace with the increasing nonperforming loans and charge-offs, but capital levels rose slightly in the second quarter.

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<sup>1</sup> See the FDIC's failed bank list at <http://www.fdic.gov/bank/individual/failed/banklist/> for additional information.

<sup>2</sup> See the Summary Table of Bank Structure and Conditions on the back page. Unless otherwise noted, all numbers are based on data obtained from Federal Financial Institutions Examination Council call reports. Also, because of industry consolidations, most of the larger banks (such as Bank of America and Wells Fargo) in the "tri-state large banking organizations" sample are either not headquartered in the area and/or have substantial operations elsewhere; therefore, they will no longer be discussed separately in the text but will continue to be listed separately in charts and tables.

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<sup>3</sup> Nonperforming loans are defined as the sum of loans past due 90 days or more plus nonaccruing loans. For historical perspective, the ratio of nonperforming loans to total loans for all commercial banks between 1998 and 2008 was 1.25 percent. At the bottom of the last real estate cycle in 1991, this ratio was 3.80 percent. Source: FDIC Historical Statistics on Banking: <http://www2.fdic.gov/hsob/index.asp>.

<sup>4</sup> RRE loans are defined as the sum of mortgages secured by one- to four-family properties (first and junior liens) plus home equity lines of credit (HELOCs).

<sup>5</sup> CRE loans are defined as the sum of construction and land development loans, loans secured by multifamily properties, and loans secured by nonfarm, nonresidential real estate.

By some measures, community banks both locally and nationally are outperforming larger organizations, but profitability isn't one of them. Both sets of banks posted aggregate losses in the second quarter, banks nationally for the second consecutive quarter. Although asset quality at these institutions is not as bad as at the larger organizations, particularly at tri-state area banks, it has still declined substantially in the past several quarters. The main asset-quality problem continues to be CRE loans, and this problem is worsening as the commercial real estate market deteriorates. Loan quality in the community banks' commercial and industrial (C&I) loan portfolios has declined as well. Net interest margins have also leveled off after increasing for the past several quarters.

### **Large Organizations**

The condition of large organizations continued to worsen in the second quarter. Not only did large organizations post an aggregate loss, but the number of firms reporting a quarterly loss increased from 32 in the first quarter to 40 in the second quarter. Also, while overall equity-to-assets ratios showed an increase, the number of firms reporting an equity-to-assets ratio under 6 percent increased by one, to seven.<sup>6</sup> Total assets decreased 3.15 percent in the quarter, while loan growth was flat. However, C&I loans outstanding fell substantially in the second quarter, while real estate loans posted a relatively large increase.

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<sup>6</sup> 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 an institution is well-capitalized for regulatory purposes. However, for most institutions, it is a close proxy.

In addition to the increase in the ratio of nonperforming loans to total loans mentioned above, the ratio of net charge-offs to average loans jumped by 15 basis points, to 0.62 percent (Figure 1).<sup>7</sup> Aggregate net charge-offs increased at annualized triple-digit rates for the second consecutive quarter as well.

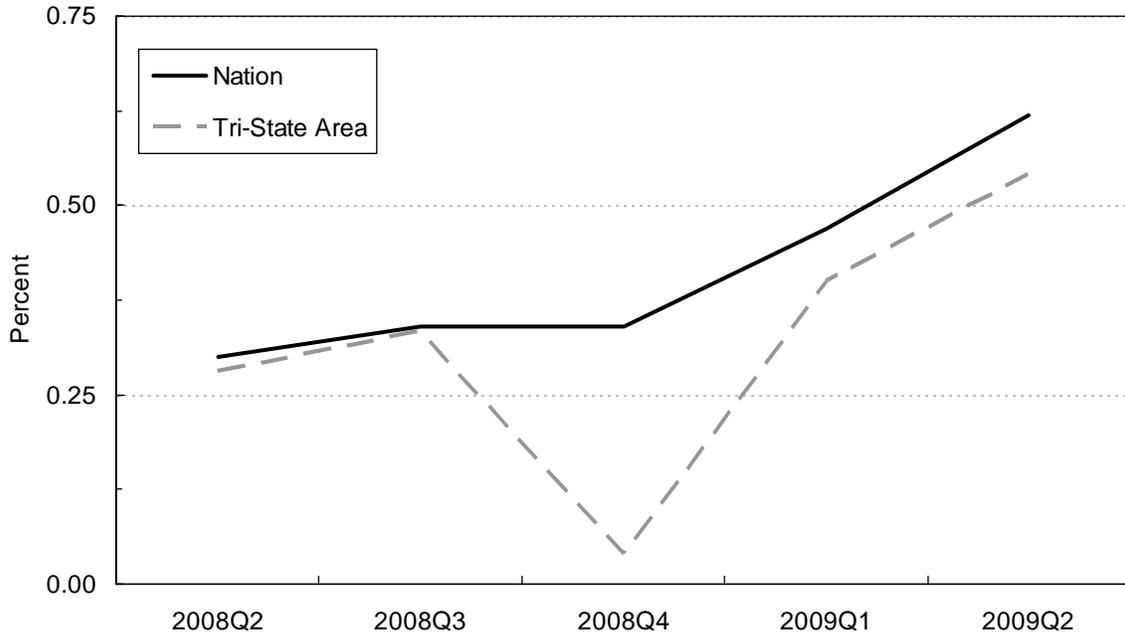
The largest portion of the large organizations' loan portfolios is RRE loans, representing 35.6 percent of all loans. During the second quarter, real estate loans in general and RRE loans in particular increased substantially to 9.6 percent for all real estate loans and 17.6 percent for RRE loans. All of this increase was in mortgages secured by first liens; loans secured by junior liens and HELOCs decreased. Other types of real estate lending, such as CRE loans, also decreased during the quarter.

The performance of RRE loans has been a significant drag on earnings at these institutions for over a year now and continues to be so. Nonperforming RRE loans represent 49.4 percent of all nonperforming loans. The ratio of nonperforming RRE loans to all RRE loans continued to increase in the second quarter, and the ratio is now above 6 percent nationally (Figure 2). For mortgages, particularly those secured by first liens, this number is significantly higher, 8.57 percent

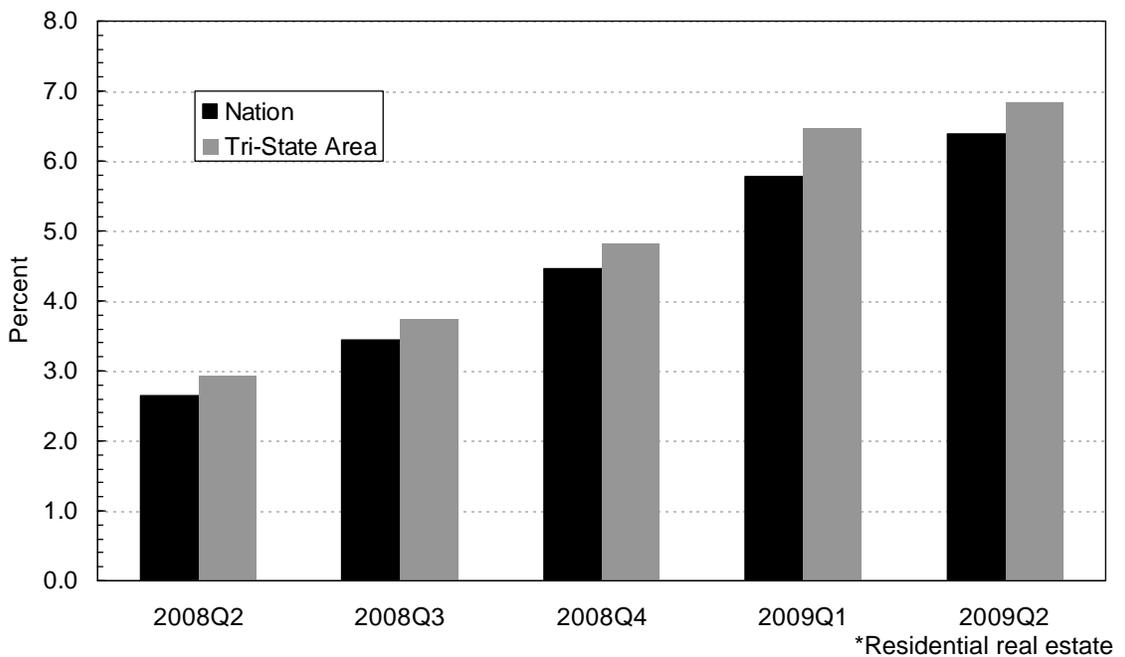
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<sup>7</sup> For historical perspective, the average ratio of quarterly net charge-offs to average loans for all commercial banks from 1998 to 2008 was approximately 0.19 percent. Source: FDIC Historical Statistics on Banking: <http://www2.fdic.gov/hsob/index.asp>. Tri-state area figures for the fourth quarter of 2008 were materially affected by the accounting treatment applied to two banks (PNC Financial Services Group and Wells Fargo & Company) that acquired troubled institutions. In both cases, the acquiring institutions were permitted to write down some nonperforming assets and adjust equity capital and reserves without having these adjustments reflected on their income statements. This tends to distort net charge-offs and nonperforming loans.

*Figure 1*  
**Quarterly Net Charge-Offs/Average Loans**  
*Large Organizations*



*Figure 2*  
**Nonperforming RRE\* Loans/Total RRE Loans**  
*Large Organizations*



for all mortgages and 9.30 percent for those secured by first liens. Net charge-offs on RRE loans continued to climb as well. As a percent of average RRE loans, net charge-offs on RRE loans are now 0.70 percent (Figure 3), and they are increasing at an annualized rate of more than 200 percent.

While the RRE loan market continues to remain depressed, the CRE loan market is not faring any better. CRE loans make up about 19.8 percent of all loans at large organizations. Until two quarters ago, CRE loans had been performing substantially better than RRE loans. This is no longer true as the ratios of nonperforming CRE loans to total CRE loans and net charge-offs on CRE loans to average CRE loans are now nearly identical to those of RRE loans (Figures 4 and 5). Construction loans, particularly those on residential real estate, continue to be the main problem, but other types of lending are now adversely affected as well.

Construction lending represents only about a quarter of all CRE lending but accounts for over half of the nonperforming loans and 80 percent of the net charge-offs. The ratio of nonperforming construction loans to total construction loans is now nearly 14 percent (Figure 6). The quality of other types of CRE lending is declining at a fairly rapid pace as well. For loans secured by multifamily properties, the ratio of nonperforming loans to total loans is nearly 3.5 percent. It increased 90 basis points in the second quarter, and it has more than doubled in the past year. Nonperforming loans and net charge-offs on loans secured by multifamily properties have been growing at triple-digit rates for nearly a year as well. Loans secured by nonfarm, nonresidential properties (business property loans) are going in the same direction, with large increases in both nonperforming loans and net charge-offs and a nonperforming-loan ratio that increased by 85 basis points

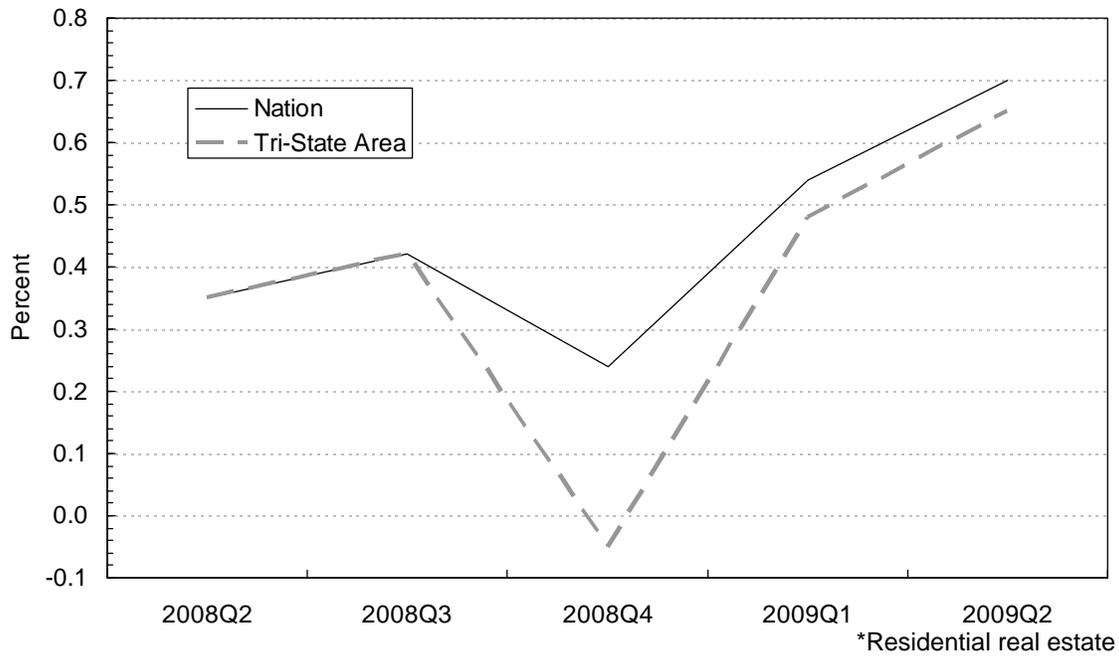
in the last quarter, has nearly tripled in the past year, and is now over 3 percent.

The downward trend is also evident in other types of lending but not to the same extent as real estate. C&I loans outstanding declined nearly 20 percent (annualized) in the second quarter, marking the third consecutive quarter it has decreased. C&I loan quality also continued to decrease as the ratio of nonperforming C&I loans to total C&I loans increased 76 basis points to 2.81 percent, and the ratio of quarterly net charge-offs on C&I loans to average C&I loans increased 11 basis points to 0.49 percent. Both nonperforming loans and net charge-offs have been increasing at annualized triple-digit rates for the previous several quarters.

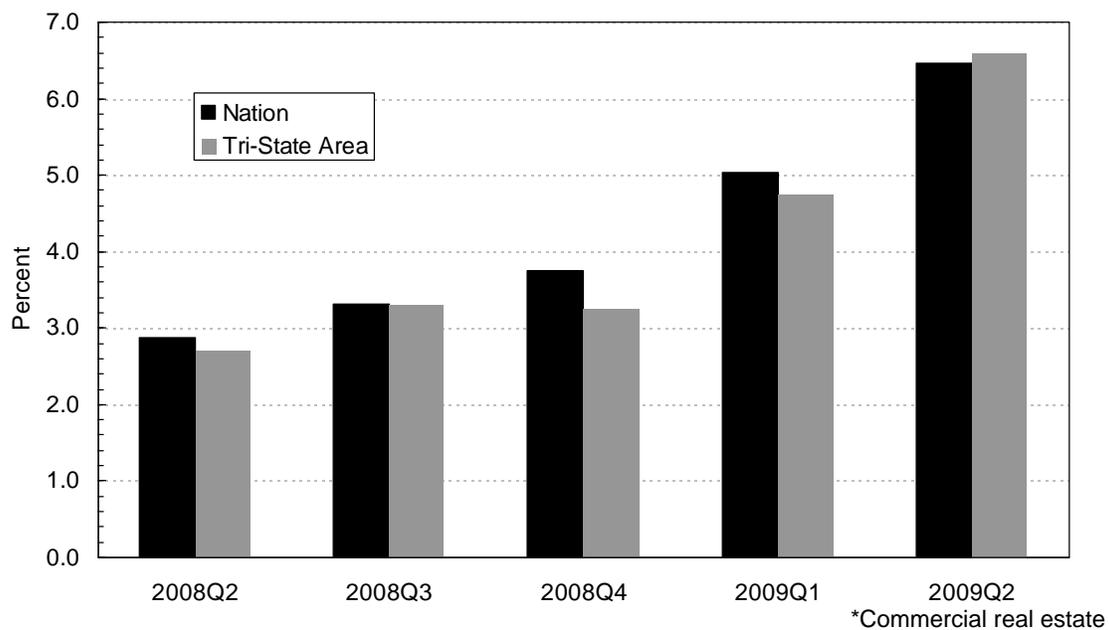
Consumer loans represent only a small portion of large organizations' loan portfolios — about 12.3 percent. The ratio of nonperforming consumer loans to total consumer loans increased 16 basis points in the second quarter, to 1.83 percent. While these nonperforming-loan ratios are low, it should be noted that nearly all consumer loans are unsecured; thus when charged off, they represent a total loss for the lender. Most of these nonperforming loans are credit card loans, which make up about 22 percent of consumer loans but over 44 percent of nonperforming consumer loans. The ratio of nonperforming credit card loans to total credit card loans is 3.7 percent, a 31-basis-point increase from the first quarter.

While nonperforming loans continue to increase, other types of nonperforming assets are increasing as well. Other real estate owned (OREO), essentially foreclosed real estate, increased at an annualized rate of 34.5 percent in the second quarter. Growth in OREO slowed down considerably starting last quarter as several states either negotiated or imposed moratoria on foreclosures of residential properties. As a percent of assets, OREO is only 0.17

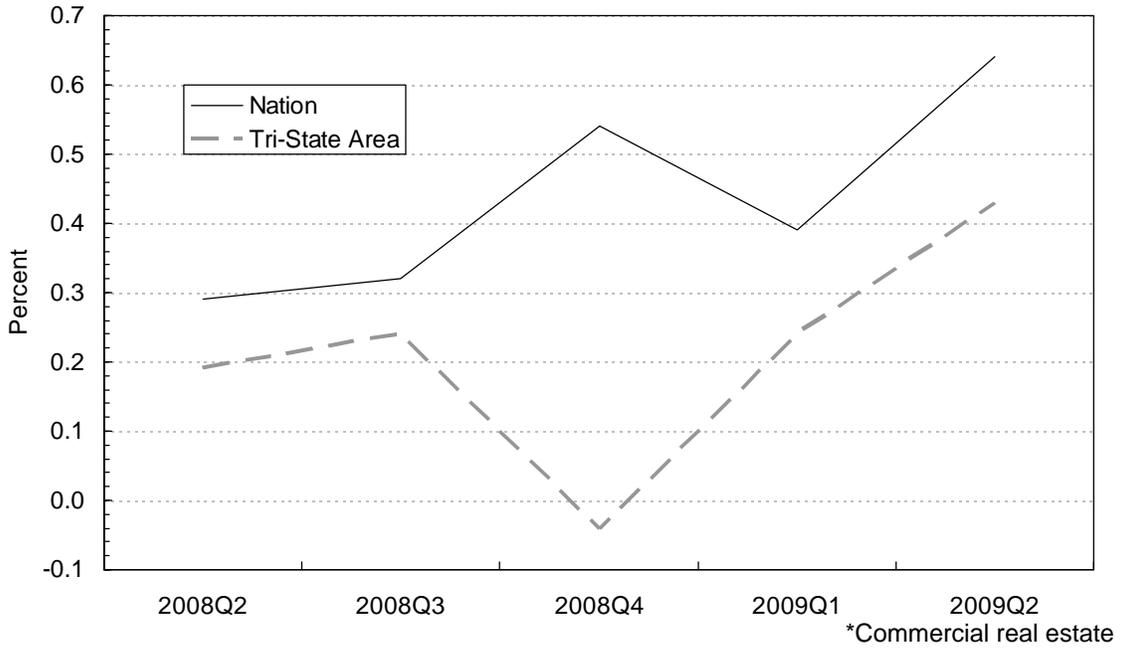
*Figure 3*  
**Net Charge-Offs on RRE\* Lns/Avg RRE Lns**  
*Large Organizations*



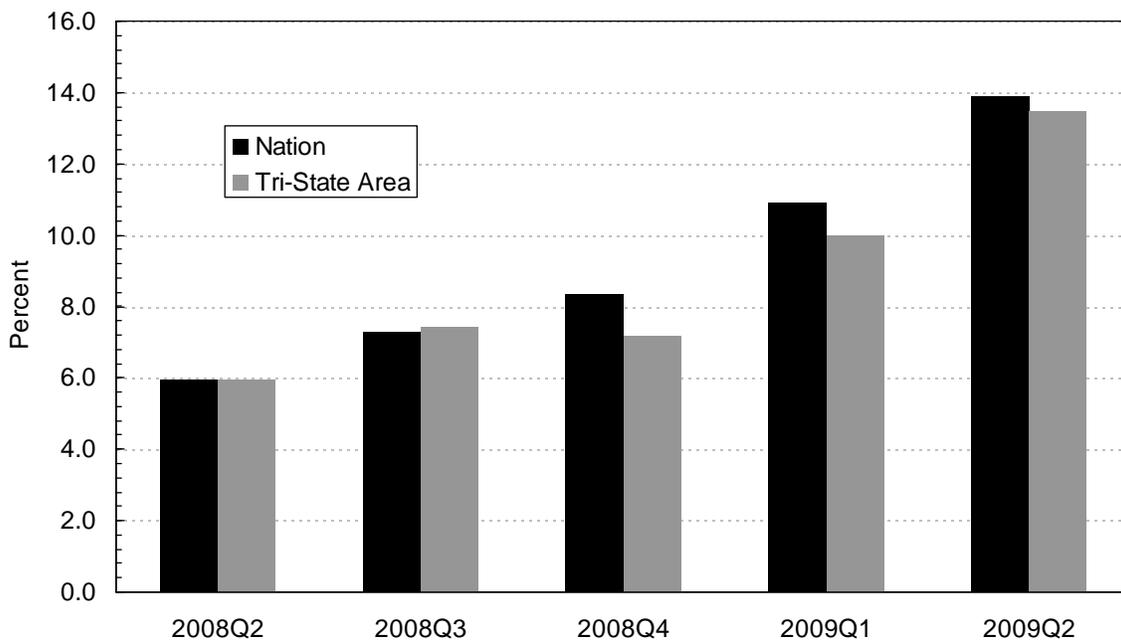
*Figure 4*  
**Nonperforming CRE\* Loans/Total CRE Loans**  
*Large Organizations*



*Figure 5*  
**Net Charge-Offs on CRE\* Lns/Avg CRE Lns**  
*Large Organizations*



*Figure 6*  
**Nonperforming Construction Lns/Construction Lns**  
*Large Organizations*



percent, but this percentage has nearly doubled in the past year. Also, losses from OREO sales have been increasing rapidly (see below). Goodwill also continued to increase, but only slightly, at an annualized rate of 8.6 percent.<sup>8</sup> As a percent of total equity, goodwill has dropped from 33.9 percent last June to 26.7 percent this quarter. However, large organizations reported a goodwill impairment loss of \$14.75 billion this quarter.

While nonperforming loans and net charge-offs continue to increase, loan-loss reserves are not keeping pace.<sup>9</sup> Total loan-loss reserves increased at an annualized rate of over 69 percent in the second quarter, but the loan-loss coverage ratio continued to decline.<sup>10</sup> It is now 62.2 percent, meaning that if all of the nonperforming loans on banks' books were to be charged off today, there would not be sufficient reserves to cover the loss (Figure 7). This situation is likely to continue for some time because banks have very little room to make large additions to loan-loss reserves. The ratio of loan-loss provision to operating income is about 40 percent, and it has been fluctuating between the mid-30 and mid-40 percentages

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<sup>8</sup> Goodwill represents the excess of the cost of a company over the sum of the fair values of the tangible assets and identifiable intangible assets acquired less the fair value of liabilities assumed in a business combination accounted for as a purchase.

<sup>9</sup> For purposes of this document, loan-loss reserves refer to the balance-sheet item; loan-loss provision is the income statement item, that is, what was added to loan-loss reserves in the quarter.

<sup>10</sup> Loan-loss coverage ratio is defined as the ratio of loan-loss reserves to nonperforming loans. For historical perspective, the average loan-loss coverage ratio for all commercial banks between 1998 and 2008 was 144.2 percent. At the bottom of the last real estate cycle in 1991, this number was 72.6 percent. Source: FDIC Historical Statistics on Banking: <http://www2.fdic.gov/hsob/index.asp>.

for the past several quarters (Figure 8).<sup>11</sup> If nonperforming loans and net charge-offs continue to grow at their current rates, in order to bring the loan-loss coverage ratio up to 100 percent, banks would have to add about \$165.4 billion to their loan-loss reserves. This amount exceeds second-quarter operating income by over 45 percent. Thus, without substantial increases in revenue, many large institutions will find it difficult to return to profitability for some time.

Total trading assets declined nearly 40 percent and now represent only 7.0 percent of total assets (Figure 9). Large organizations booked only \$132.9 million in realized gains on securities in the second quarter, compared with \$1.15 billion in the first quarter.<sup>12</sup> As a percent of average securities, this represents a significant drop, but realized gains and losses on securities have been fairly volatile for the past year or so (Figure 10).

The market value of the banks' securities portfolios increased at an annualized rate of 38.5 percent in the quarter. Securities as a percent of assets increased from 16.5 to 18.0 percent.<sup>13</sup> Almost every type of security — except U.S. agency-backed securities, asset-backed securities, foreign securities, and mutual funds — showed substantial gains. These represent only 19 percent of total securities held. The one area in which

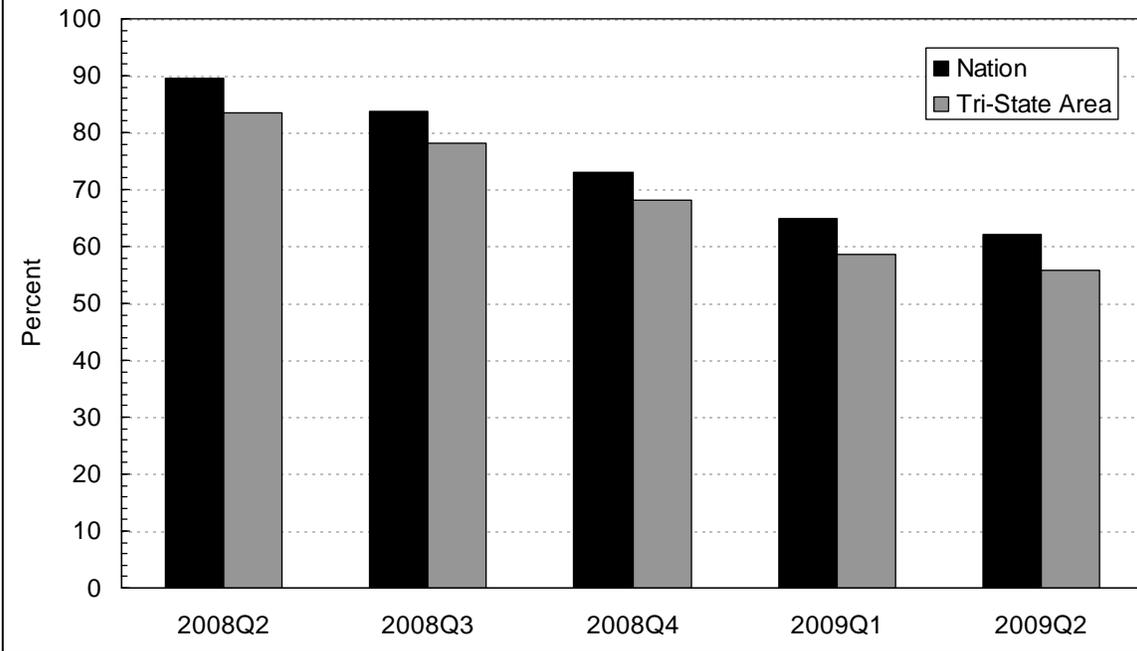
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<sup>11</sup> Operating income is defined as net interest income plus noninterest income.

<sup>12</sup> Realized gains and losses on securities is a net position. Thus, even though the tri-state area sample in the chart is a subset of the national sample, it can still have a larger gain or loss than the national sample.

<sup>13</sup> Securities as a percent of assets is calculated using the reported value of securities. The reported value of securities lists held-to-maturity securities at their book value and available-for-sale securities at their market value.

*Figure 7*  
**Loan-Loss Coverage Ratios**  
*Large Organizations*



*Figure 8*  
**Loan-Loss Provision/Operating Income**  
*Large Organizations*

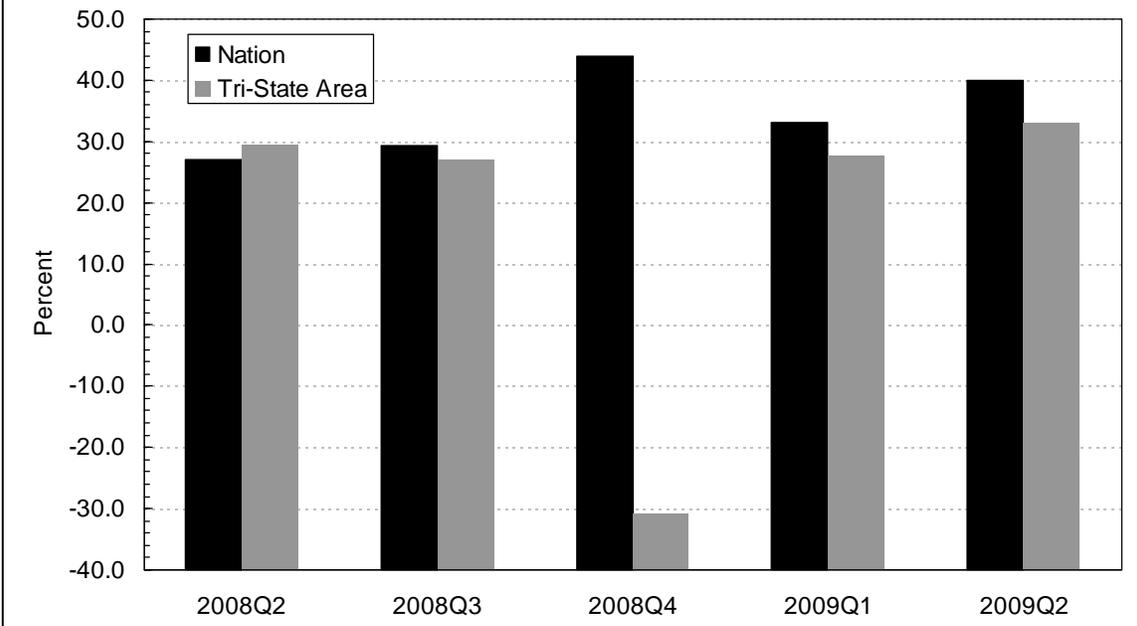


Figure 9  
**Trading Assets/Total Assets**  
*Large Organizations*

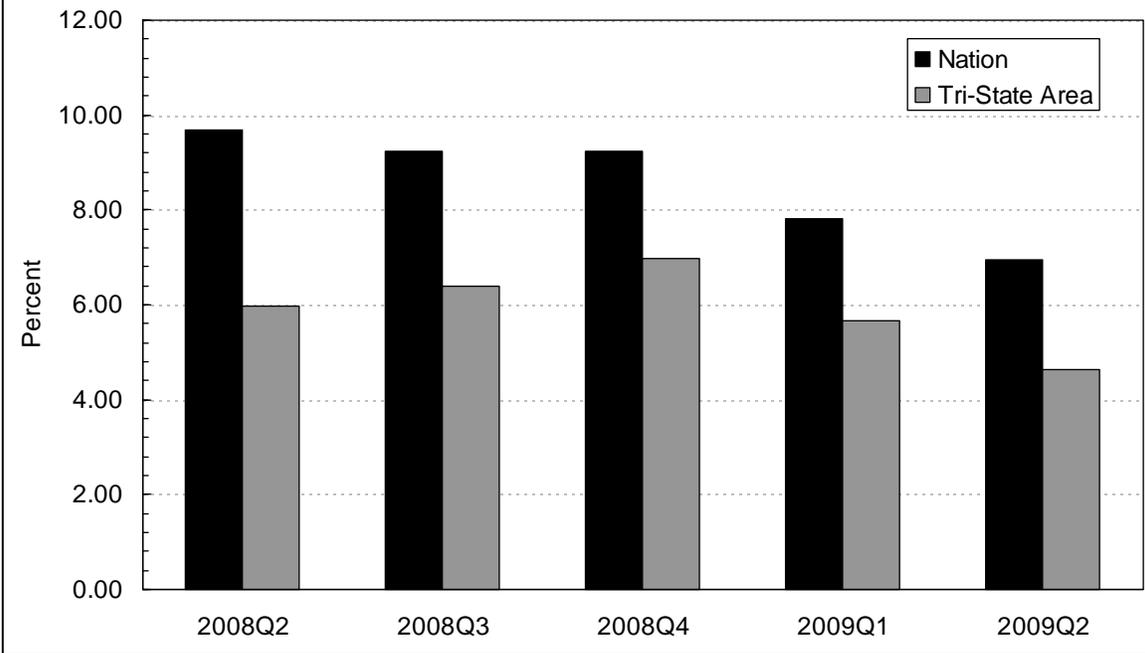
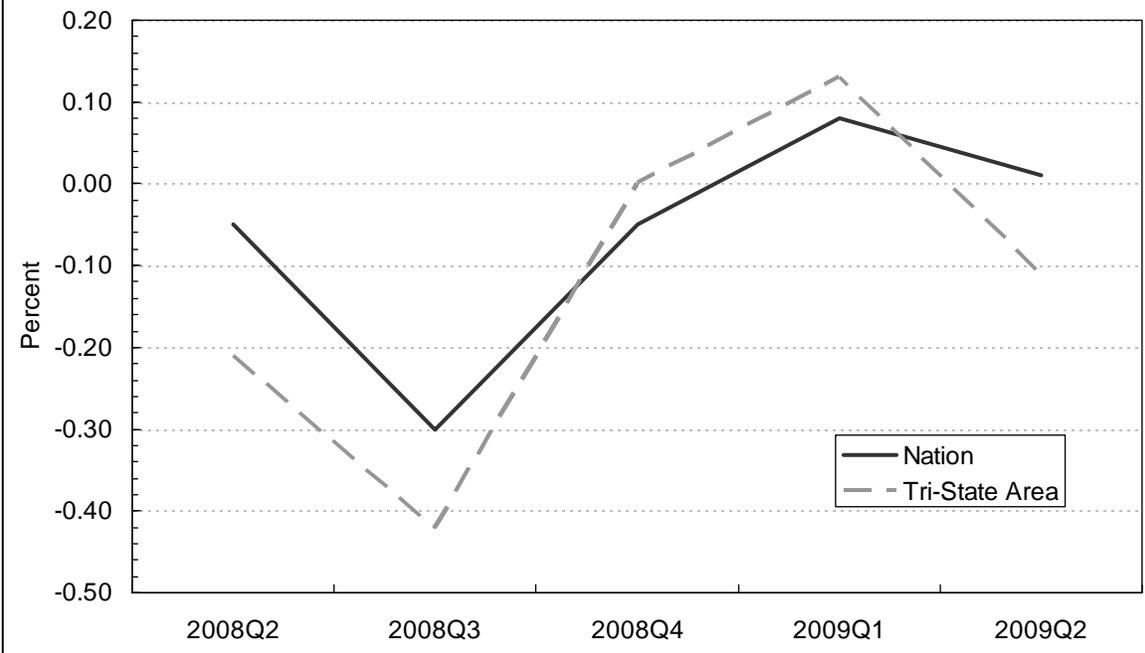
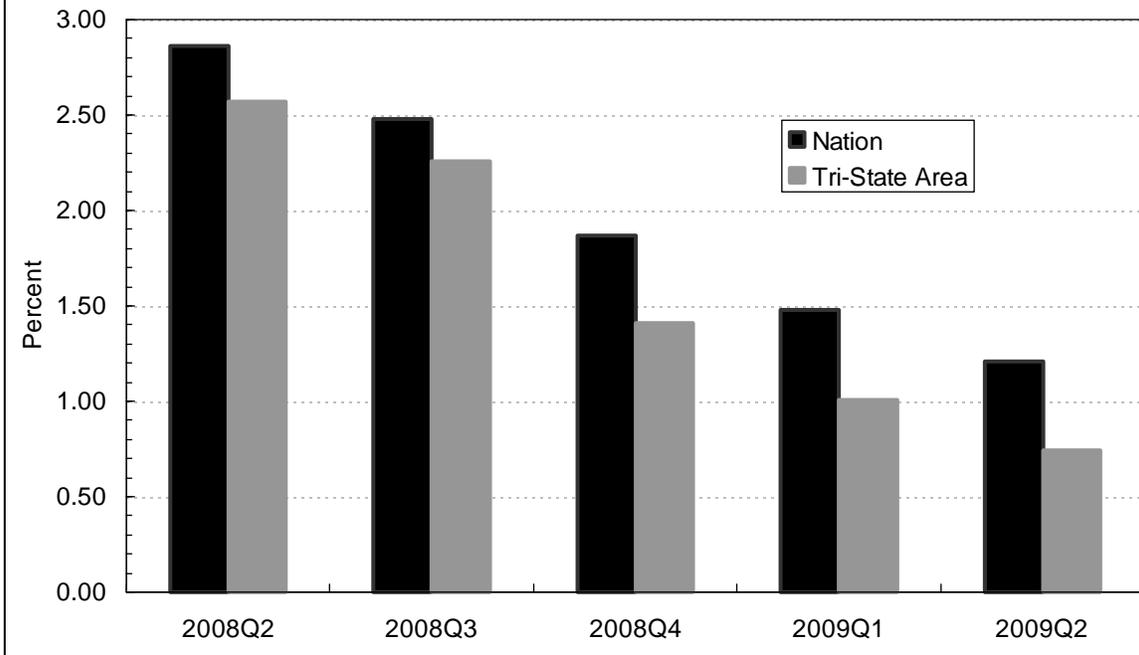


Figure 10  
**Realized Gains (Losses) on Securities/Average Securities**



*Figure 11*  
**Derived Interest Rate on Deposits**  
*Large Organizations*



banks' income showed substantial gains was asset sales. In spite of losses of \$623 million from OREO sales, income from asset sales increased over \$880 million, to nearly \$4 billion.

Deposits increased an annualized 8.8 percent in the quarter, while debt funding decreased 37.1 percent. However, core deposits, which are the lowest cost deposits, decreased slightly, mainly because of decreases in small-denomination time deposits.<sup>14</sup> The gain can be attributed to foreign deposits and savings deposits, particularly money market accounts. Still,

<sup>14</sup> Core deposits are defined as total domestic deposits minus the sum of brokered deposits in denominations of less than \$100,000 and all deposits in denominations greater than \$100,000. Noncore deposits are defined as all deposits less core deposits.

the banks' cost of funds continued to decrease, and it is now substantially lower than last year. The derived interest rate on all deposits has dropped by nearly two-thirds from the second quarter of 2008 (Figure 11).<sup>15</sup>

In summary, large organizations had a very difficult second quarter. Over 40 percent of the largest organizations in the nation reported a loss in the quarter. The problems they have experienced in RRE lending are now being compounded by the same problems in CRE lending. The quality of their commercial and consumer loan portfolios is also deteriorating, and other nonearning assets are increasing as well. Additionally, the large organizations are

<sup>15</sup> Derived interest rate is defined as the annualized quarterly interest expense divided by the quarterly average balance.

under-reserved and likely to stay that way for a while because the likely loan-loss provisioning necessary to raise reserves is not affordable until additional revenue can be generated. Income from other operations, such as trading, securities, and asset sales, has been volatile and unreliable.

### **Community Banks**

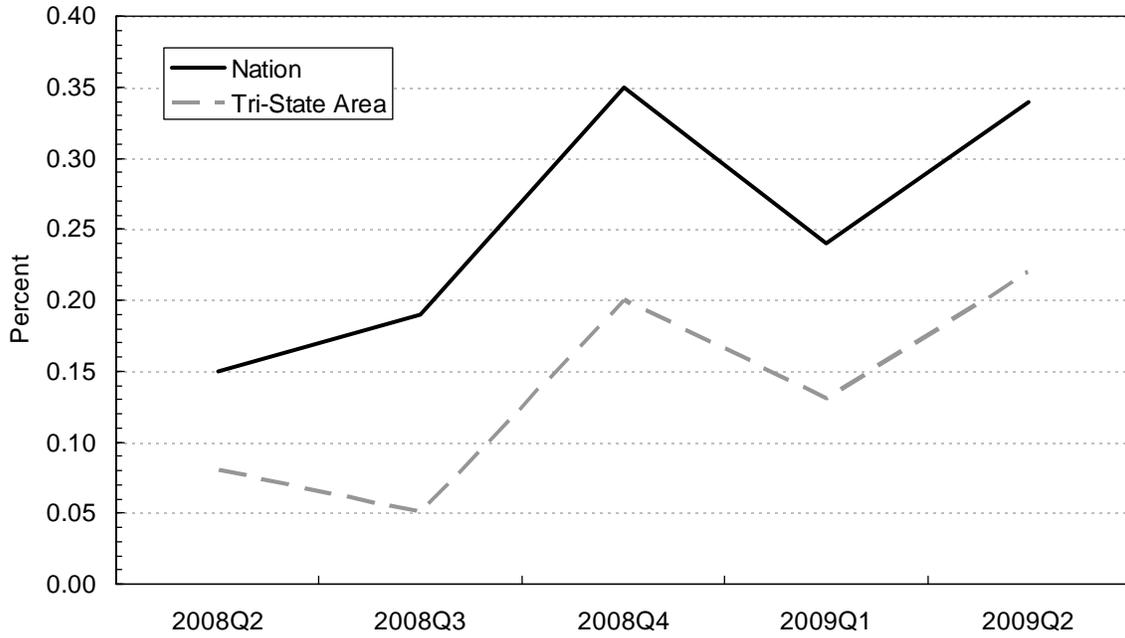
As stated above, community banks both locally and nationally posted aggregate losses in the second quarter. Locally, aggregate ROA dropped 48 basis points, to -0.14 percent, while nationally, aggregate ROA dropped 13 basis points, to -0.24 percent. Locally, 52 out of 174 organizations reported a loss in the second quarter, up from 39 in the first quarter. Nationally, 1,348 out of 5,649 reported a loss this quarter compared with 1,052 in the first quarter. Additionally, both locally and nationally the losses are consistently larger this quarter than in the first quarter. Capital levels also dropped 27 basis points locally, while they were basically stable nationally. In the tri-state area, eight banks reported capital less than 6 percent, down from 11 in the first quarter. However, many banks reported drops in capital. In the nation, 171 banks had equity-to-assets ratios less than 6 percent, an increase of 46 from the first quarter.

The ratio of nonperforming loans to total loans continued to increase. Although it is still lower at community banks than at large organizations, it is now nearly 2.4 percent locally and 3.6 percent nationally. Nonperforming loans increased at annualized rates of 55.8 percent nationally and 60.1 percent locally. The ratio of net charge-offs to average loans is also lower for community banks than for large organizations, but, with the exception of a dip in the first quarter, it has increased dramatically in the past year (Figure 12).

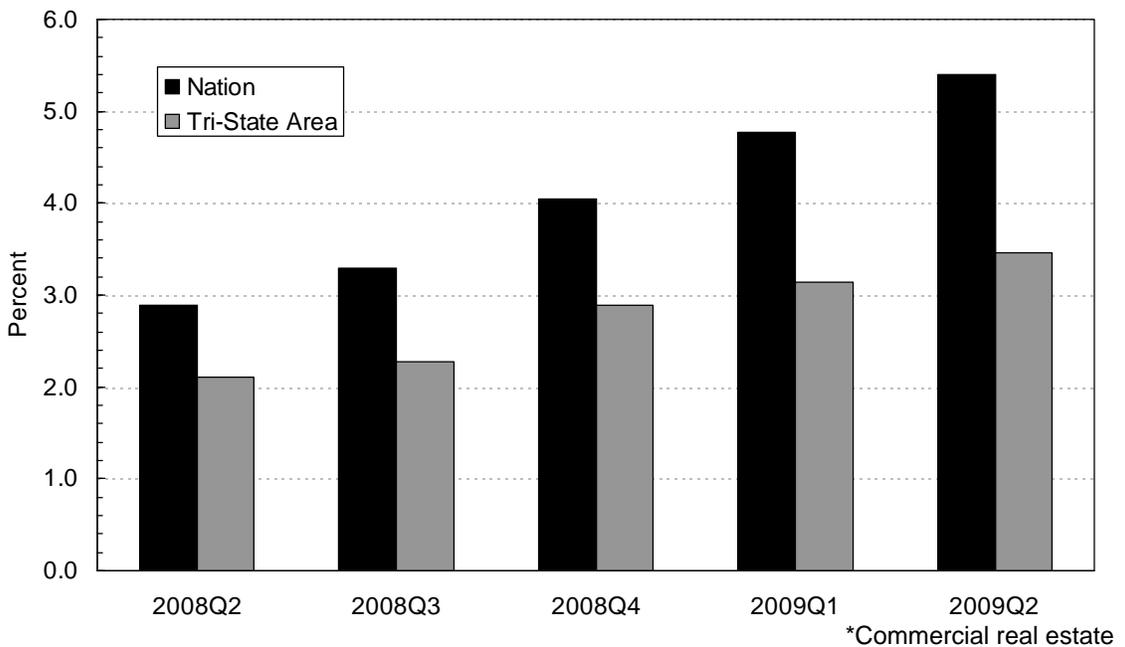
As has been the case for more than a year, CRE loans represent most of the problems experienced by community banks. CRE loans make up a little over 46 percent of loans at community banks locally and 47.8 percent nationally, yet nonperforming CRE loans represent 67.1 percent of nonperforming loans locally and 72.3 percent nationally. The increase in nonperforming CRE loans closely matched the increase in total nonperforming loans both locally and nationally. While community banks in the tri-state area have a much better ratio of nonperforming CRE loans to total CRE loans, the ratio is still nearly 3.5 percent and has climbed over 50 basis points in the past two quarters (Figure 13). Nationally, this ratio is now 5.4 percent. The ratio of net charge-offs on CRE loans to average CRE loans was 0.39 percent nationally and 0.15 percent locally. Given the level of nonperforming loans, it is likely that community banks both locally and nationally are forgoing charging off these loans.

As is the case with large organizations, most of the problems with CRE loans are due to construction loans. These loans represent a little over one-quarter of CRE loans locally and less than one-third of CRE loans nationally but account for nearly 55 percent of nonperforming CRE loans locally and almost two-thirds nationally. The ratio of nonperforming construction loans to total construction loans has increased nearly two percentage points per quarter for the past year at banks nationally, and it now stands at over 12 percent nationally (Figure 14). While tri-state area banks are performing better in construction lending, this ratio has also nearly doubled in the past year locally and is now just under 9 percent. Net charge-offs on construction loans increased at an annualized rate of over 250 percent nationwide but only 22 percent locally. Even with the increase at banks nationally,

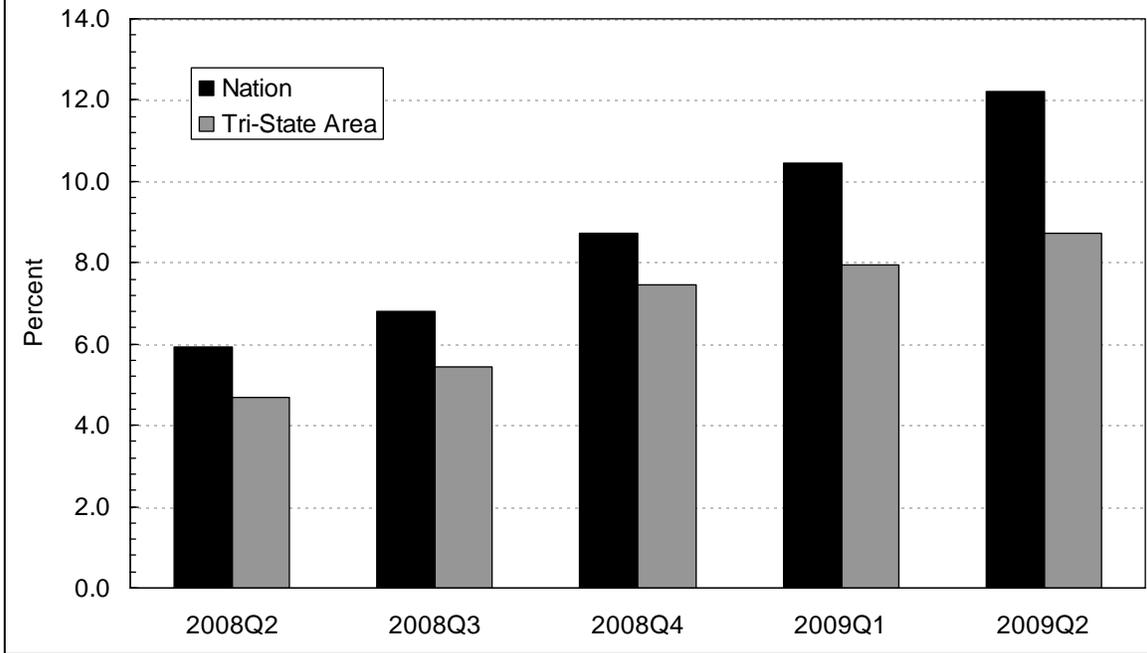
*Figure 12*  
**Quarterly Net Charge-Offs/Average Loans**  
*Community Banks*



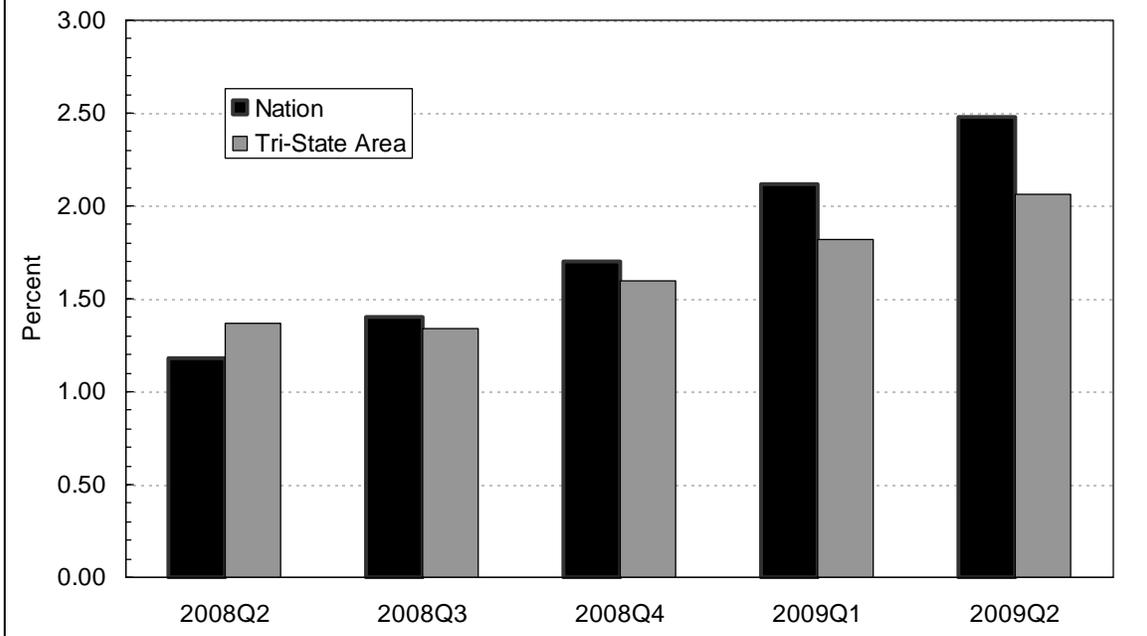
*Figure 13*  
**Nonperforming CRE\* Loans/Total CRE Loans**  
*Community Banks*



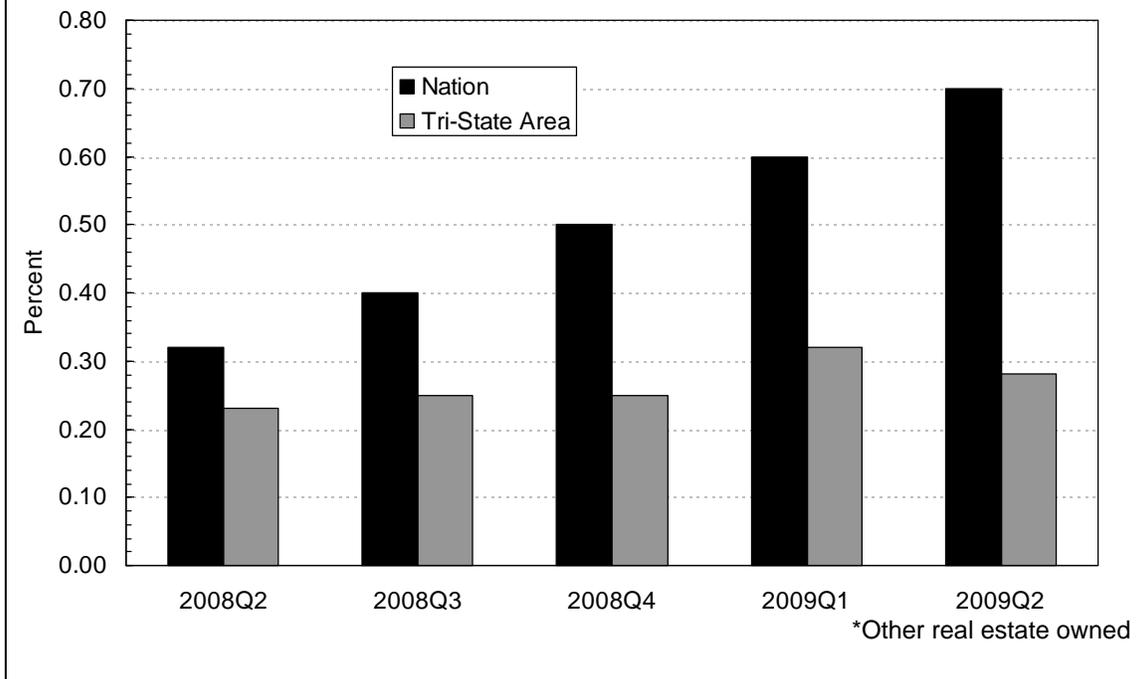
*Figure 14*  
**Nonperforming Construction Lns/Construction Lns**  
*Community Banks*



*Figure 15*  
**Nonperforming Commercial Mortgages/**  
**Commercial Mortgages**



*Figure 16*  
**OREO\*/Total Assets**  
*Community Banks*



charge-offs are not keeping pace with nonperforming loans; thus, these will likely increase in the future.

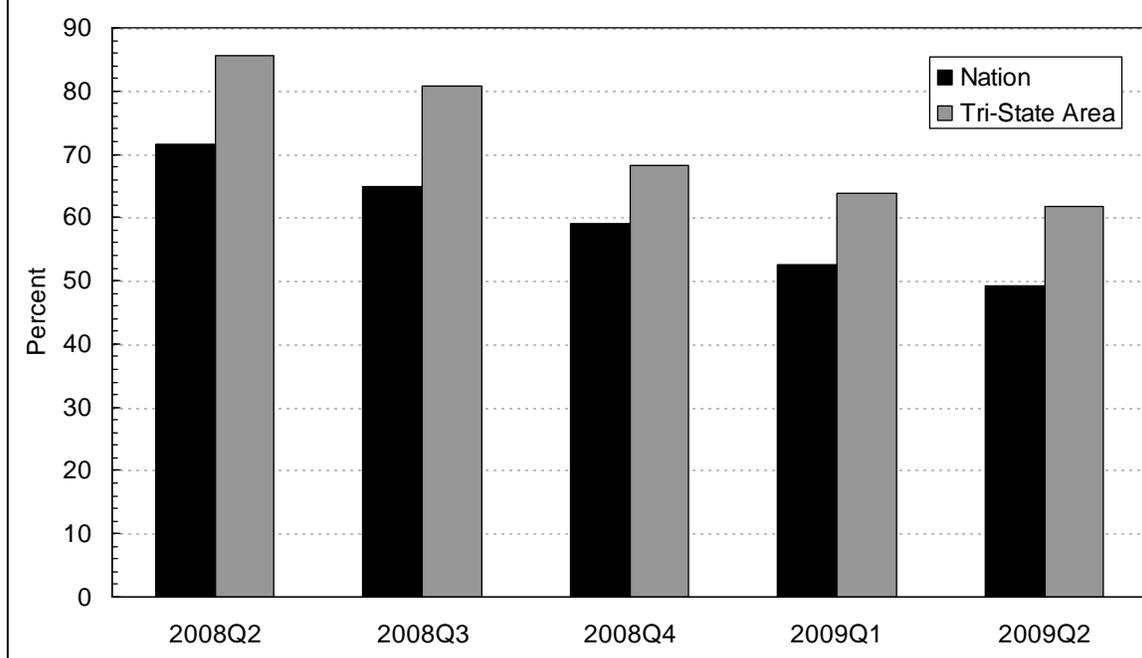
The single largest part of community banks' CRE loan portfolios is loans secured by nonfarm, nonresidential properties (commercial mortgages), representing 72.7 percent of all CRE loans locally and 64.2 percent nationally. While these loans are performing much better than construction loans, the ratio of nonperforming commercial mortgages to total commercial mortgages increased 24 basis points locally and 36 nationally and now stands at 2.1 percent locally and 2.5 percent nationally (Figure 15). Net charge-offs on these loans also showed large increases in the second quarter, but the ratio of net charge-offs on commercial mortgages to average commercial mortgages is still relatively low, 0.13 percent nationally and 0.07 percent locally.

One area in which community banks, especially tri-state area banks, are performing much better than larger

organizations is RRE lending. RRE lending represents a much smaller portion of community banks' loan portfolios compared with the large banks, 23.4 percent nationally and 33.7 percent locally. While they have many of the same problems as the large organizations, the magnitude is much smaller. The ratio of nonperforming RRE loans to total RRE loans was 2.22 percent nationally and 1.37 percent locally, showing increases of 29 and 18 basis points, respectively. However, nonperforming RRE loans increased at an annualized rate of 71.7 percent nationally and 95 percent locally. Net charge-offs on RRE loans also had large increases.

Like large banking organizations, community banks are performing better in types of lending not secured by real estate, but their portfolios are deteriorating there as well. C&I loans represent a little over 15 percent of loans at banks nationwide and about 12.5 percent of tri-state area banks' loans. The ratio of nonperforming C&I loans to total C&I loans was 1.97 percent

*Figure 17*  
**Loan-Loss Coverage Ratios**  
*Community Banks*



locally and 2.11 percent nationally, showing increases of seven and 14 basis points, respectively. The ratio of net charge-offs on C&I loans to average C&I loans was 0.53 percent locally and 0.51 percent nationally.

Consumer loans represent 3.7 percent of loans at banks locally and 5.2 percent of banks nationally. In the second quarter, the ratio of nonperforming consumer loans to total consumer loans was 0.99 percent nationally and only 0.53 percent locally. The main reason for the discrepancy between the performance of consumer loans at community banks and large organizations was credit card lending. Because credit cards are totally unsecured but easily available, they generally have high nonperforming-loan rates and charge-off rates that are much higher than other types of consumer lending. Credit cards represent 2.5 percent of consumer loans nationally and 3.0 percent locally, while they represent over 20 percent of consumer loans at large organizations. Credit card loans outstanding

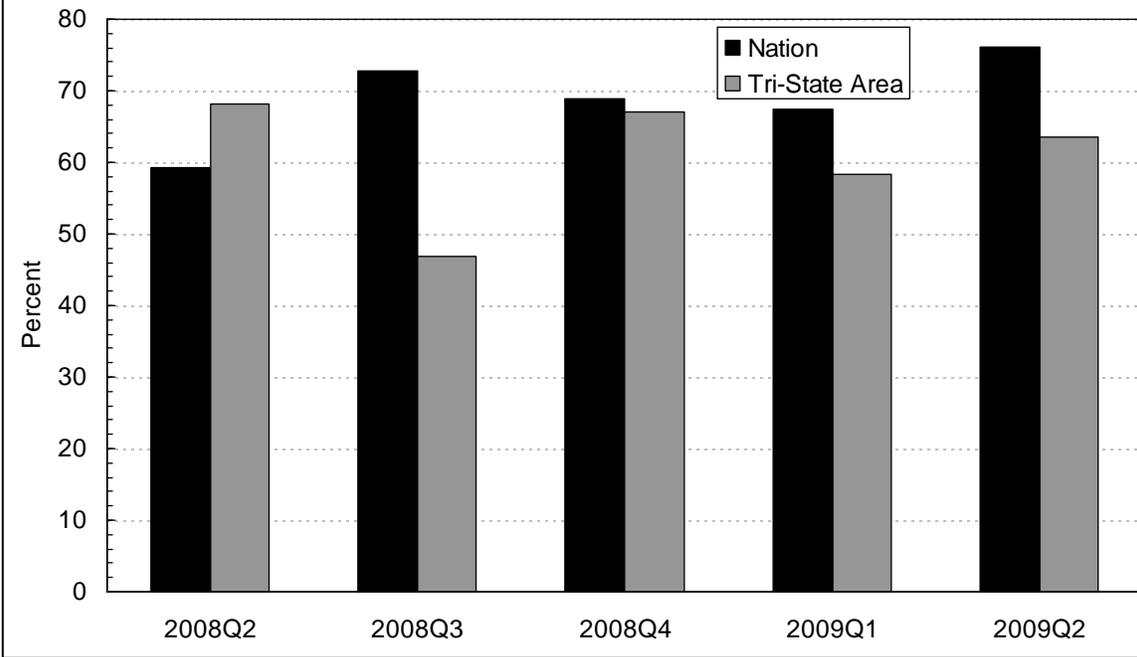
shrank slightly both locally and nationally in the second quarter, at an annualized rate of 5.3 percent locally and 49.4 percent nationally.<sup>16</sup>

OREO continued to increase at banks nationally but not locally. OREO increased at an annualized rate of 90.0 percent nationally but decreased 34.9 percent locally. This figure may represent some forbearance on the part of tri-state area banks, but it may also be due to the lower delinquency rates on RRE and commercial mortgages. As a percent of total assets, OREO is higher at community banks than large organizations, and it is increasing by about 10 basis points per quarter nationally (Figure 16).

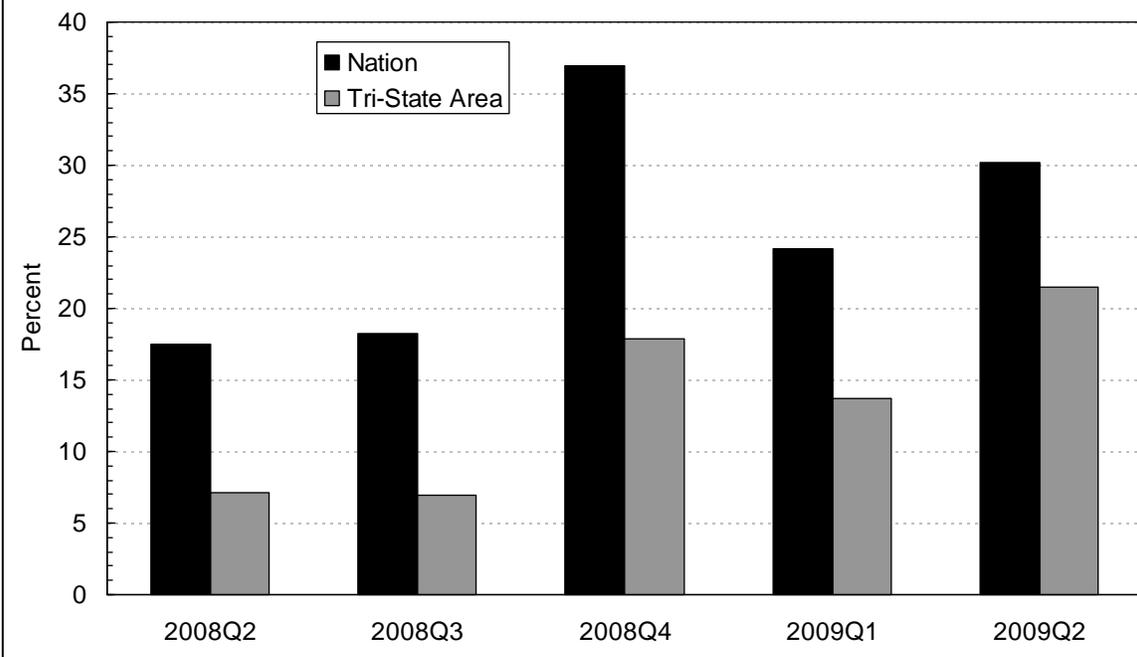
Community banks have been under-reserved for more than a year now and continue to be so. The loan-loss coverage

<sup>16</sup> Unused credit card balances decreased 48.4 percent (annualized) at community banks nationwide and fell 27.4 percent at community banks in the tri-state area. At large organizations unused credit card balances fell only 3.4 percent.

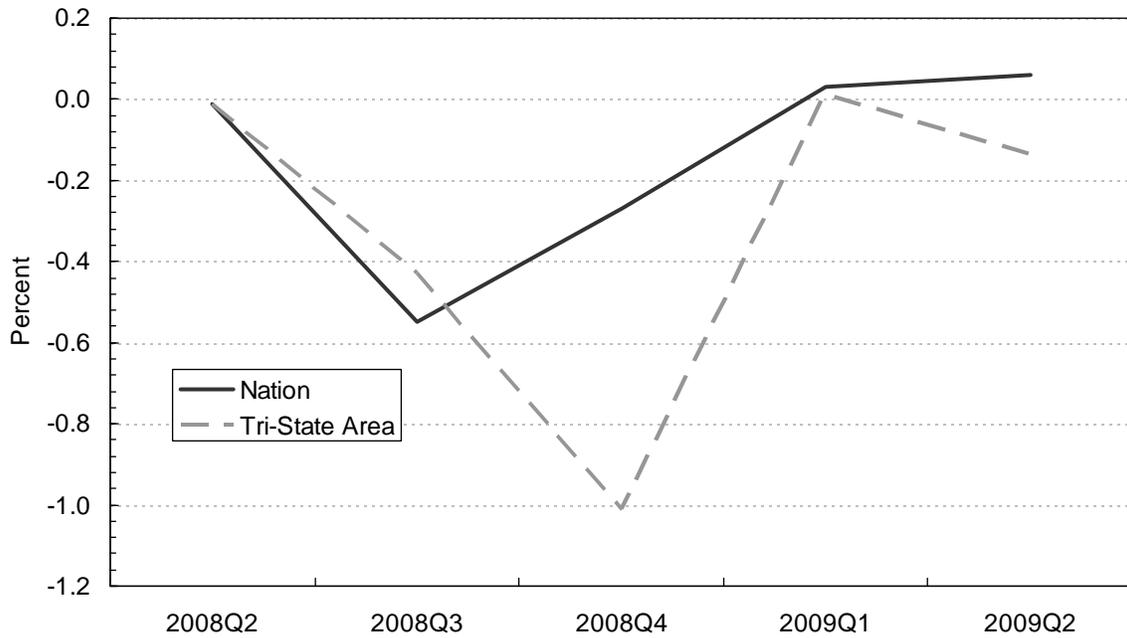
*Figure 18*  
**Net Charge-Offs/Loan-Loss Provision**  
*Community Banks*



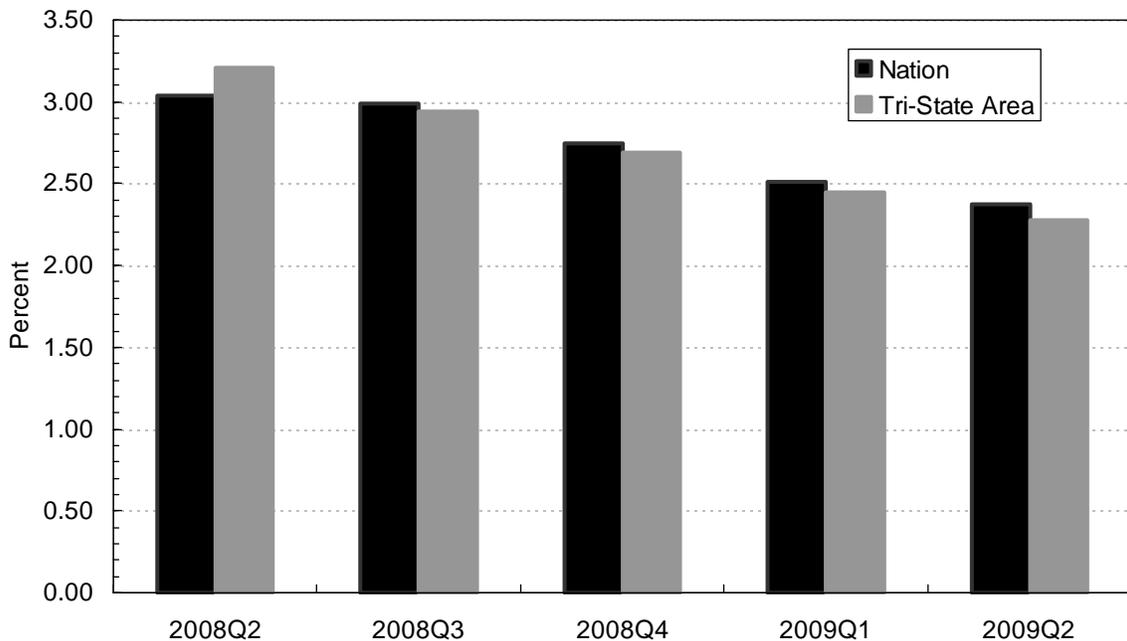
*Figure 19*  
**Loan-Loss Provision/Operating Income**  
*Community Banks*



*Figure 20*  
**Realized Gains (Losses) on Securities/  
 Average Securities**



*Figure 21*  
**Derived Interest Rate on Deposits**  
*Community Banks*



ratio continued to drop both locally and nationally (Figure 17). While nonperforming loans and net charge-offs continued to pile up, loan-loss reserves increased only 40.3 percent locally and 19.4 percent nationally (both annualized rates) in the second quarter. At the end of the second quarter, net charge-offs ate up nearly two-thirds of loan-loss provision locally and over three-fourths nationally (Figure 18). At the same time, loan-loss provision as a percentage of operating income remains small relative to that at the larger banks (Figure 19). If nonperforming loans and net charge-offs continue to increase at their current rates, community banks would need to increase their loan-loss reserves by \$35.6 billion nationally and \$970.9 million locally. These numbers represent approximately 184 percent of quarterly operating income nationally and 102 percent locally. Thus, it is likely that community banks will remain under-reserved for some time.

At the same time, they need to generate more revenue; revenue from sources other than loans is decreasing. Noninterest income as a percent of average assets decreased at tri-state area banks and has been doing so for at least a year. At banks nationally, the ratio of noninterest income to average assets has been basically flat. Income from sales of assets decreased at an annualized rate of 17.7 percent nationally but increased 166 percent locally. Both are substantially up from the second quarter of last year, but asset sales represent a small part of community banks' revenue, 2.0 percent of operating income nationally and 3.7 percent locally. Community banks nationally also realized gains on securities, but those locally suffered losses. This number has been very volatile in the past year (Figure 20).

Securities make up 17.8 percent of community bank assets nationally and 20.1 percent locally. The market value of the banks' securities decreased slightly nationally and increased slightly locally but overall was relatively stable. Mortgage-backed securities (MBS), debt securities of government-sponsored enterprises (GSEs such as Fannie Mae and Freddie Mac), and securities of state and local governments make up most of the portfolios of community banks both locally and nationally. Increases in MBS and state and local bonds were offset by decreases in GSE securities.

Deposits increased at an annualized rate of 9.6 percent locally and were basically flat nationally. However, all of the gain at local banks was in noncore deposits, especially time deposits. These are more expensive and less stable than core deposits. Debt funding decreased 15.4 percent nationally and 6.2 percent locally (annualized). The cost of deposits has come down considerably at community banks in the past year, but because of their heavier reliance on noncore deposits, community banks both locally and nationally pay a higher interest rate for deposits relative to large organizations (Figures 11 and 21).

In summary, community banks' CRE loan portfolios are deteriorating as problems in the real estate market spread to commercial properties. Community banks are badly under-reserved, and this situation is likely to continue for some time because of the amount of new reserves needed and the lack of income sources other than that generated by interest. They have higher funding costs relative to large banks, but these are offset by higher rates on loans as evidenced by net interest margins.

**Summary Table of Bank Structure and Conditions - Second Quarter 2009**

	<b>Community Banking Organizations</b>						<b>Large Banking Organizations</b>					
	<b>Tri-State</b>			<b>Nation</b>			<b>Tri-State</b>			<b>Nation</b>		
	<b>\$ Bill</b>	<b>% Change From</b>		<b>\$ Bill</b>	<b>% Change From</b>		<b>\$ Bill</b>	<b>% Change From</b>		<b>\$ Bill</b>	<b>% Change From</b>	
	<b>09Q2</b>	<b>09Q1</b>	<b>08Q2</b>	<b>09Q2</b>	<b>09Q1</b>	<b>08Q2</b>	<b>09Q2</b>	<b>09Q1</b>	<b>08Q2</b>	<b>09Q2</b>	<b>09Q1</b>	<b>08Q2</b>
Total Assets	88.6	6.49	12.32	1,868.3	-1.91	2.39	3,532.0	-3.93	-1.22	8,951.7	-3.15	2.72
Total Loans	61.1	3.40	10.60	1,308.8	-0.60	0.53	1,993.3	10.05	-0.65	4,789.4	0.23	-0.13
Business	7.6	0.02	5.71	197.9	-4.62	-2.97	424.6	-21.74	-7.68	1,013.6	-19.69	-9.55
Real Estate	49.3	4.62	12.02	979.0	-2.44	1.42	1,152.4	32.99	4.22	2,733.4	9.63	8.31
Consumer	2.2	5.60	7.31	68.3	34.58	4.10	233.3	-5.14	9.14	589.0	-5.41	-4.67
Total Deposits	70.8	9.57	15.76	1,509.2	-0.41	5.05	2,539.5	12.67	9.04	6,075.5	8.82	8.80
<b>Ratios (in %)</b>	<b>09Q2</b>	<b>09Q1</b>	<b>08Q2</b>	<b>09Q2</b>	<b>09Q1</b>	<b>08Q2</b>	<b>09Q2</b>	<b>09Q1</b>	<b>08Q2</b>	<b>09Q2</b>	<b>09Q1</b>	<b>08Q2</b>
Net Income/Avg Assets (ROA)	-0.14	0.34	0.91	-0.24	-0.09	0.56	0.40	0.30	0.42	-0.02	0.05	0.45
Net Interest Inc/Avg Assets (NIM)	3.18	3.22	3.24	3.25	3.24	3.16	2.17	2.06	2.52	2.47	2.42	2.65
Noninterest Inc/Avg Assets	1.17	1.19	1.33	0.81	0.80	0.82	1.75	1.56	1.61	1.75	1.64	1.64
Noninterest Exp/Avg Assets	3.46	3.11	3.14	3.09	3.01	2.75	2.18	2.14	2.61	2.74	2.70	2.76
Loans/Deposits	86.27	87.53	90.29	86.72	86.76	90.63	78.49	78.95	86.14	78.83	80.47	85.88
Equity/Assets	9.20	9.47	9.78	9.89	9.91	10.24	10.40	9.57	9.61	9.96	9.57	9.55
Nonperforming Loans/Total Loans	2.39	2.14	1.42	3.57	3.19	1.96	4.61	3.81	1.90	4.60	3.86	1.87

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 special purpose banks such as credit card banks 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, 2008. 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 — 174 for the tri-state area and 5,649 for the nation; (2) large banking organizations — 16 for the tri-state area and 99 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/](http://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](http://www.philadelphiafed.org/philscrubber/user/dsp_content.cfm).