BANKING BRIEF
FOR PENNSYLVANIA, NEW JERSEY, AND DELAWARE

Fourth Quarter 2009

Bank performance showed some signs of improvement in the fourth quarter of 2009, but overall the same problems that have plagued the industry for several years remain in place. Large banking organizations posted a small aggregate profit, and losses at community banks remained about the same as in the third quarter. However, asset quality continued to decline, particularly at large banks, and net charge-offs (NCOs) increased as well. Bank failures decreased slightly in the quarter. The Federal Deposit Insurance Corporation (FDIC) reported 45 total bank failures in the fourth quarter, down from 50 in the third quarter.[1] Total failures for 2009 were 141, compared with 26 in 2008 and 27 between 2000 and 2007. Only two of those failures were in the tri-state area, both in New Jersey and both in the second quarter. As of February 5, 2010, there were an additional 16 failures.

Large banking organizations reported positive profits for the first time in several quarters, with a return on average assets (ROAA) of 0.14 percent.[2] Net interest margins increased 17 basis points, to 2.78 percent, and capital ratios increased 14 basis points, to 10.46 percent. However, nonperforming loans continued to increase. The aggregate ratio of nonperforming loans to total loans (nonperforming loan ratio) now stands at 6.11 percent, an increase of 60 basis points from the third quarter and more than double what it was at year-end 2008.[3] Reserves have not kept pace with the growth of nonperforming loans, thus forcing large organizations to forgo charging off some of these bad loans. Loan and asset growth were basically flat in the fourth quarter, while deposits grew slightly. Although a substantial part of the nonperforming loans

[1] Source: FDIC failed bank list: http://www.fdic.gov/bank/individual/failed/banklist.html.

[2] See the Summary Table of Bank Structure and Conditions on the back page. All ratios are aggregates; that is, the numerator and denominator are summed over all banks in the sample, then divided. Unless otherwise noted, all data are from the Federal Financial Institutions Examination Council (FFIEC) call reports. Also, unless otherwise noted, all growth rates are annualized. With the exception of the table on the back page, all income statement items are for the quarter only. Those items on the back page and elsewhere (where noted) are for the full year ending when specified.

[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 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.

is concentrated in residential real estate (RRE) lending and construction loans, other parts of the large organizations' loan portfolios showed substantial deterioration as well.[4]

Community banks both locally and nationally reported an aggregate loss for the third consecutive quarter, with ROAAs of −0.14 percent and −0.19 percent, respectively. However, this was an improvement from the third quarter. While the difference is not as great as it was earlier in 2009, asset quality at tri-state area banks continued to be substantially better than at banks nationally. The nonperforming loan ratio was basically unchanged both locally and nationally from the third to the fourth quarter of 2009, at 2.85 percent locally and 3.86 percent nationally. The major loan-quality problems continued to be in commercial real estate (CRE) lending, particularly construction loans, but the quality of their commercial mortgages is declining as well.[5]

Large Organizations

As noted above, although they reported positive profits in the fourth quarter, large banking organizations continued to be plagued by asset-quality problems. Also, only 58 of the 97 organizations in the sample actually reported positive income in the fourth quarter, a gain of one from the third quarter. Moreover, while overall capital ratios increased, the number of firms reporting an equity-to-asset ratio greater than 6 percent actually decreased by three, to 92.[6] Total nonperforming loans increased at an annualized rate of 60.7 percent. NCOs did not match this growth, rising only 5.4 percent, and the ratio of net charge-offs to average loans (charge-off ratio) was nearly flat at 0.67 percent (Figure 1).[7] The low growth in NCOs relative to nonperforming loans is evidence that the large banks are delaying writing off bad loans. If this is the case, it is most likely due to the low level of loan-loss reserves to charge against (see the discussion on reserves below).

RRE loans make up a disproportionate share of nonperforming loans. RRE loans represent about 37 percent of all loans but 55.2 percent of nonperforming loans. Nonperforming RRE loans increased at an annualized rate of 137 percent in the fourth

[4] RRE loans are defined as the sum of mortgages secured by first liens, mortgages secured by junior liens, and home equity lines of credit (HELOCs).

[5] CRE loans are defined as the sum of construction and land development loans (construction loans), loans secured by multifamily properties (multifamily loans), and loans secured by nonfarm, nonresidential properties (commercial mortgages).

[6] 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.

[7] For historical perspective, the average ratio of quarterly NCOs 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 had a tendency to distort NCOs and nonperforming loans.

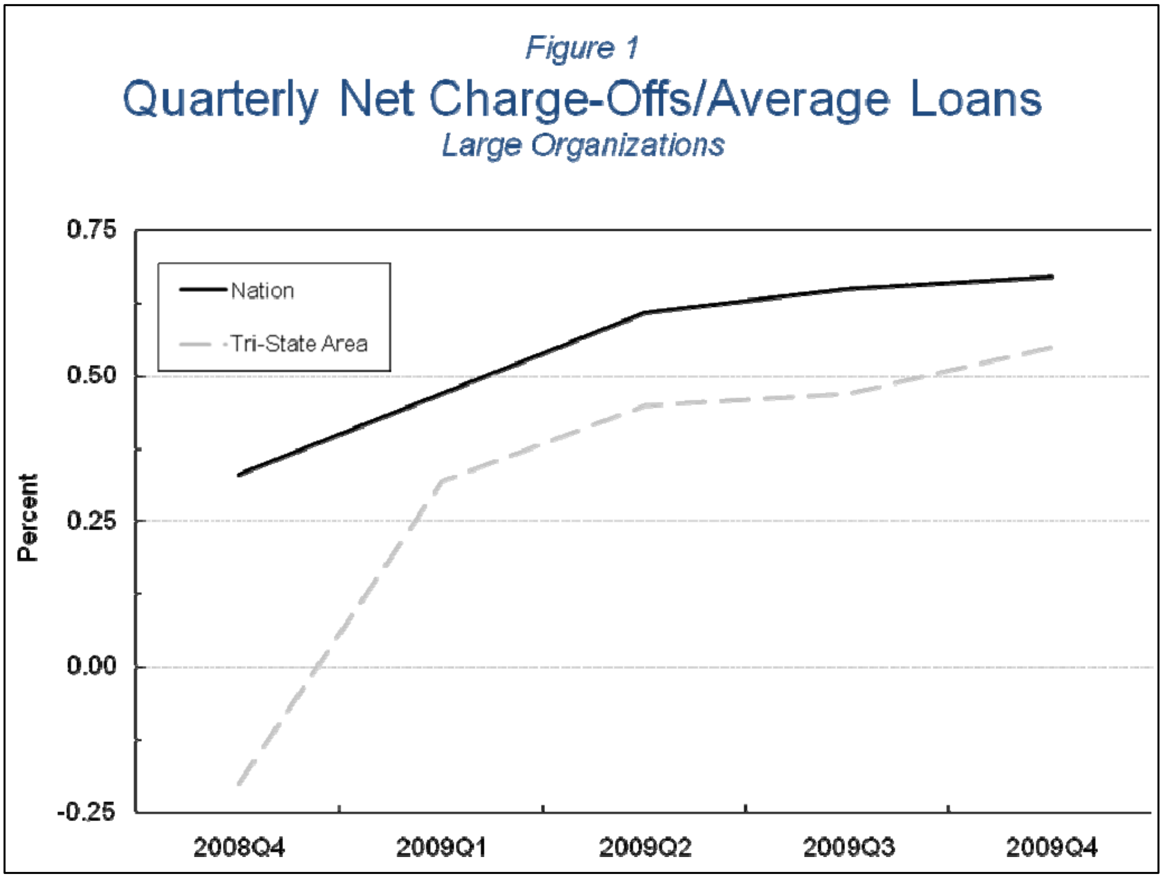


Figure 1
Quarterly Net Charge-Offs/Average Loans
Large Organizations
Nation
Tri-State Area
Percent
0.75
0.50
0.25
0.00
-0.25
2008Q4
2009Q1
2009Q2
2009Q3
2009Q4

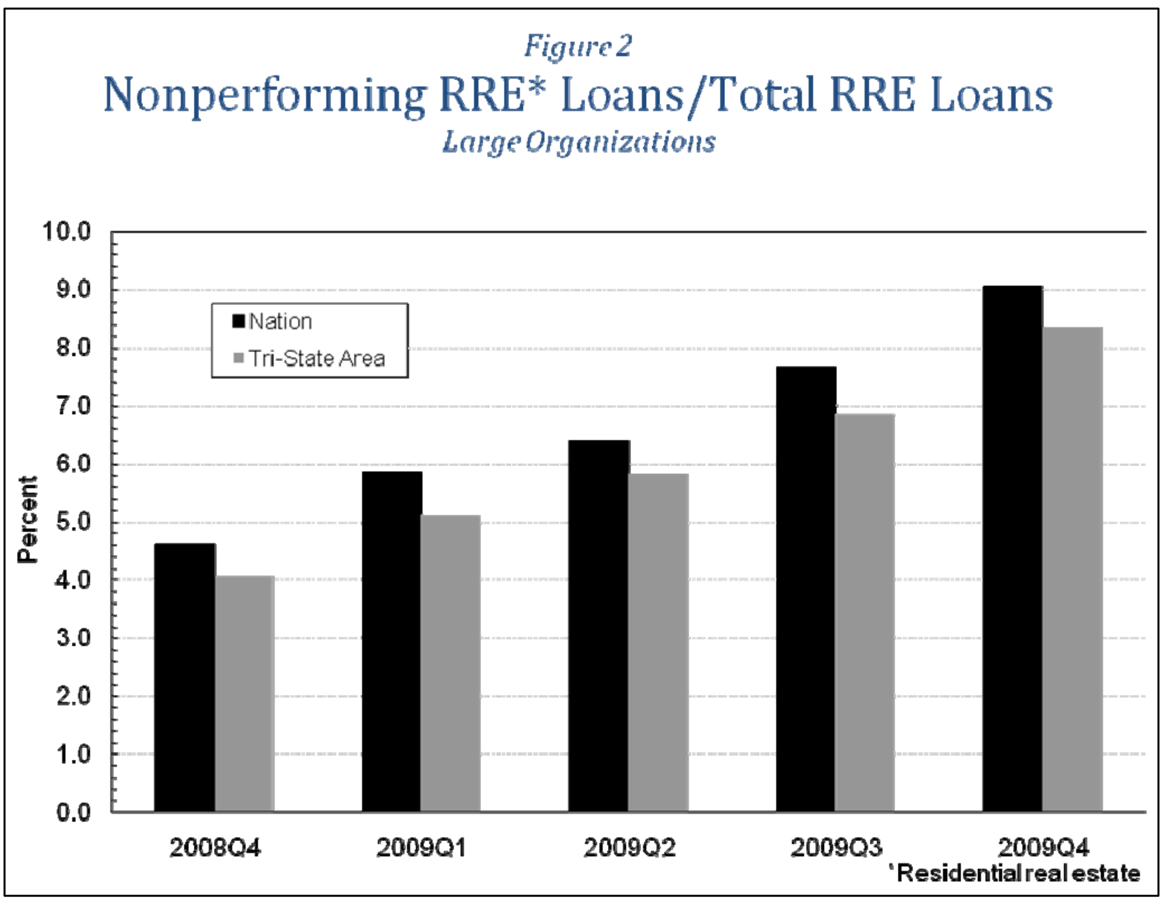
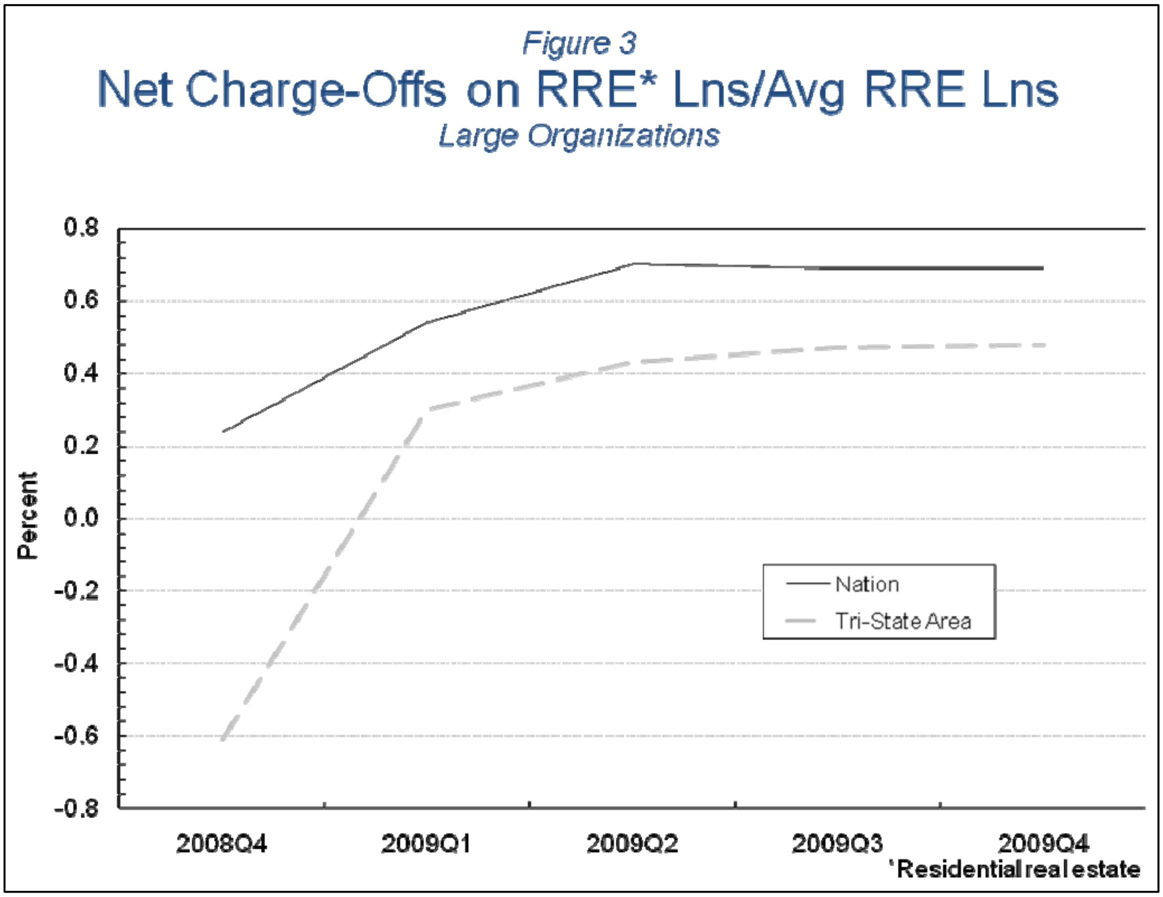


Figure 2
Nonperforming RRE* Loans/Total RRE Loans
Large Organizations
Nation
Tri-State Area
Percent
10.0
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
2008Q4
2009Q1
2009Q2
2009Q3
2009Q4
*Residential real estate



quarter. The nonperforming RRE loan ratio continued to rise in the fourth quarter, and it has nearly doubled in the past year, to 9.1 percent (Figure 2). While nonperforming RRE loans continued to rise, NCOs on RRE loans were relatively flat. Overall, NCOs increased at an annualized rate of just 5 percent in the fourth quarter, even though they've increased by over 200 percent in the past year. The RRE charge-off ratio was flat in the fourth quarter, but it has nearly tripled since the fourth quarter of 2008 (Figure 3).

Mortgages continue to be the primary problem in RRE lending. Mortgages make up 68.2 percent of RRE loans but 93.3 percent of nonperforming RRE loans. Nonperforming mortgages increased at an annualized rate of over 150 percent in the fourth quarter, but NCOs on mortgages increased at an annualized rate of 5.5 percent. The nonperforming loan ratio for mortgages is now over 12 percent, about double what it was last year (Figure 4).

The large organizations' CRE lending portfolios also continued to deteriorate in the fourth quarter. CRE loans represent about 19.7 percent of total loans but 25.7 percent of nonperforming loans and 23.2 percent of NCOs. Nonperforming CRE loans increased 34.5 percent (annualized) in the fourth quarter. The nonperforming CRE loan ratio increased 68 basis points in the quarter, to nearly 8 percent (Figure 5). NCOs on CRE loans increased 95 percent (annualized) in the quarter, and the CRE NCO ratio increased 123 basis points (Figure 6).

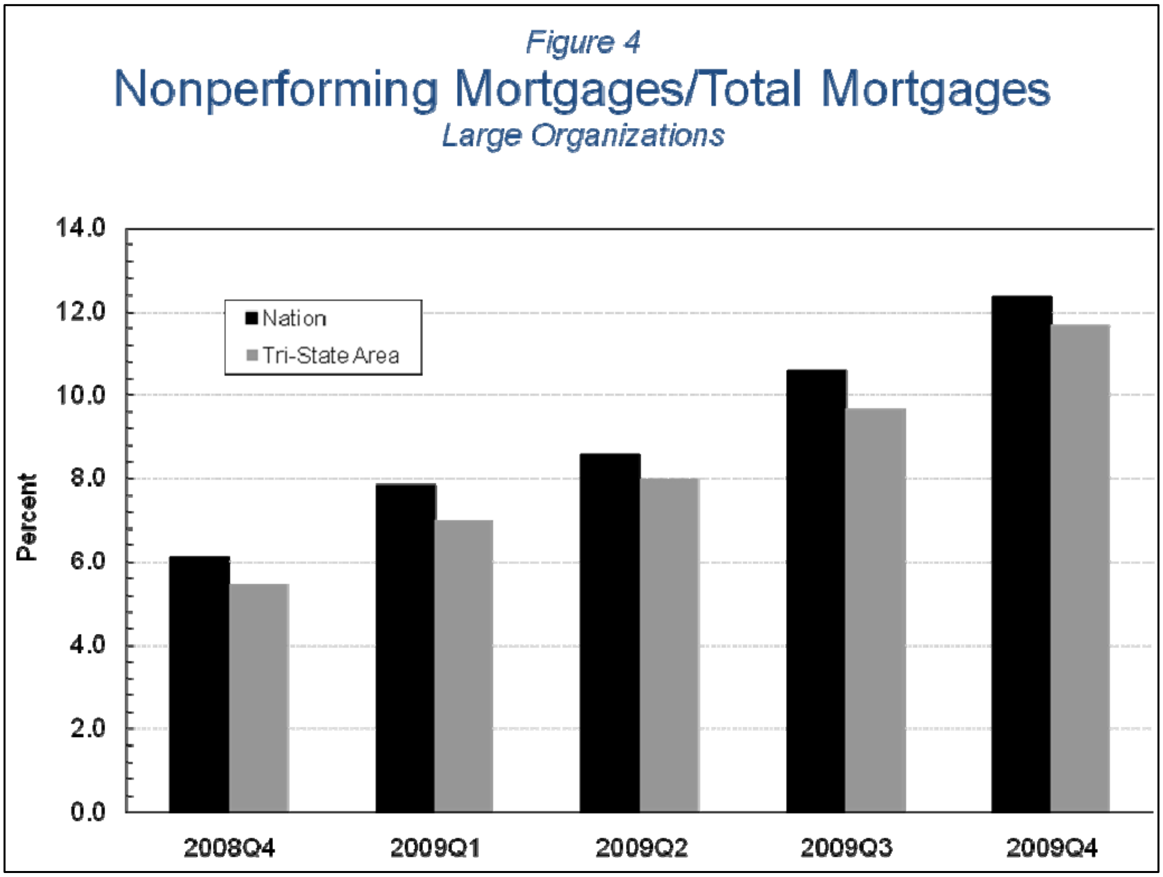


Figure 4
Nonperforming Mortgages/Total Mortgages
Large Organizations
Nation
Tri-State Area
Percent
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
2008Q4
2009Q1
2009Q2
2009Q3
2009Q4

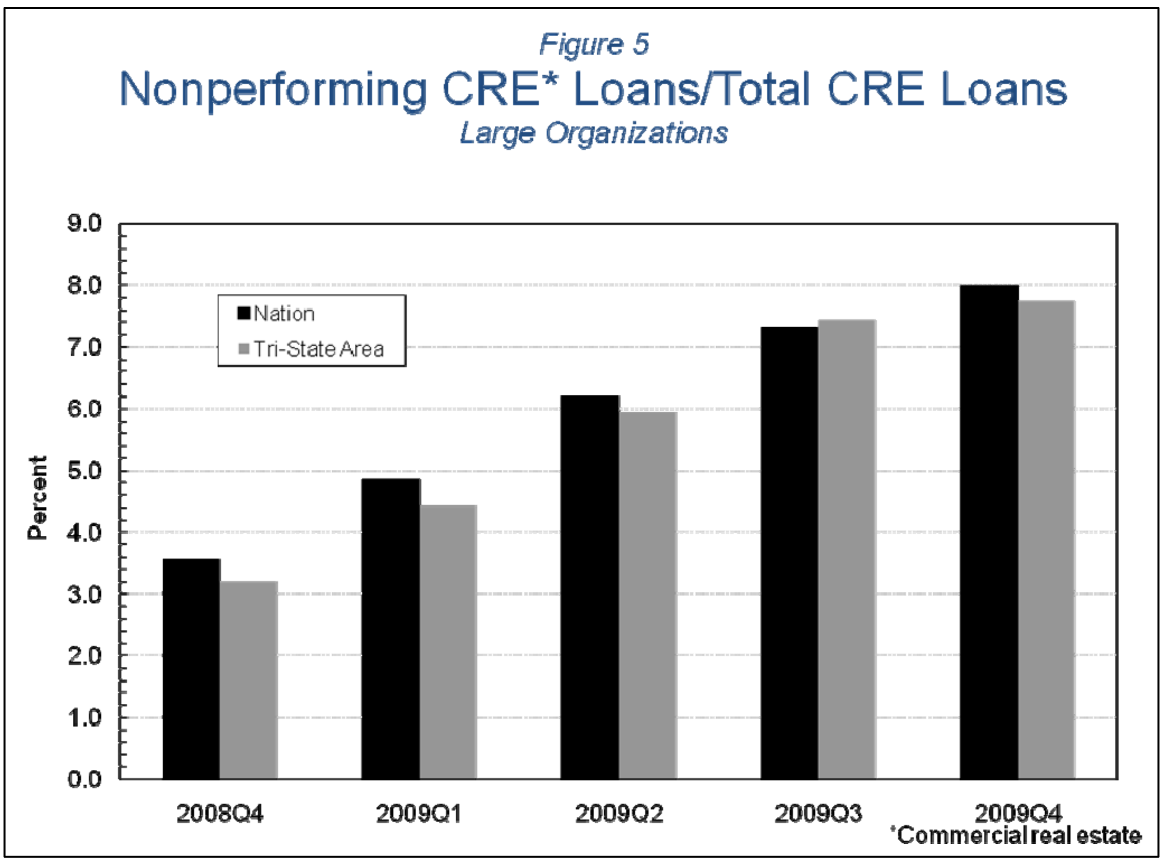


Figure 5
Nonperforming CRE* Loans/Total CRE Loans
Large Organizations
Nation
Tri-State Area
Percent
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
2008Q4
2009Q1
2009Q2
2009Q3
2009Q4
*Commercial real estate

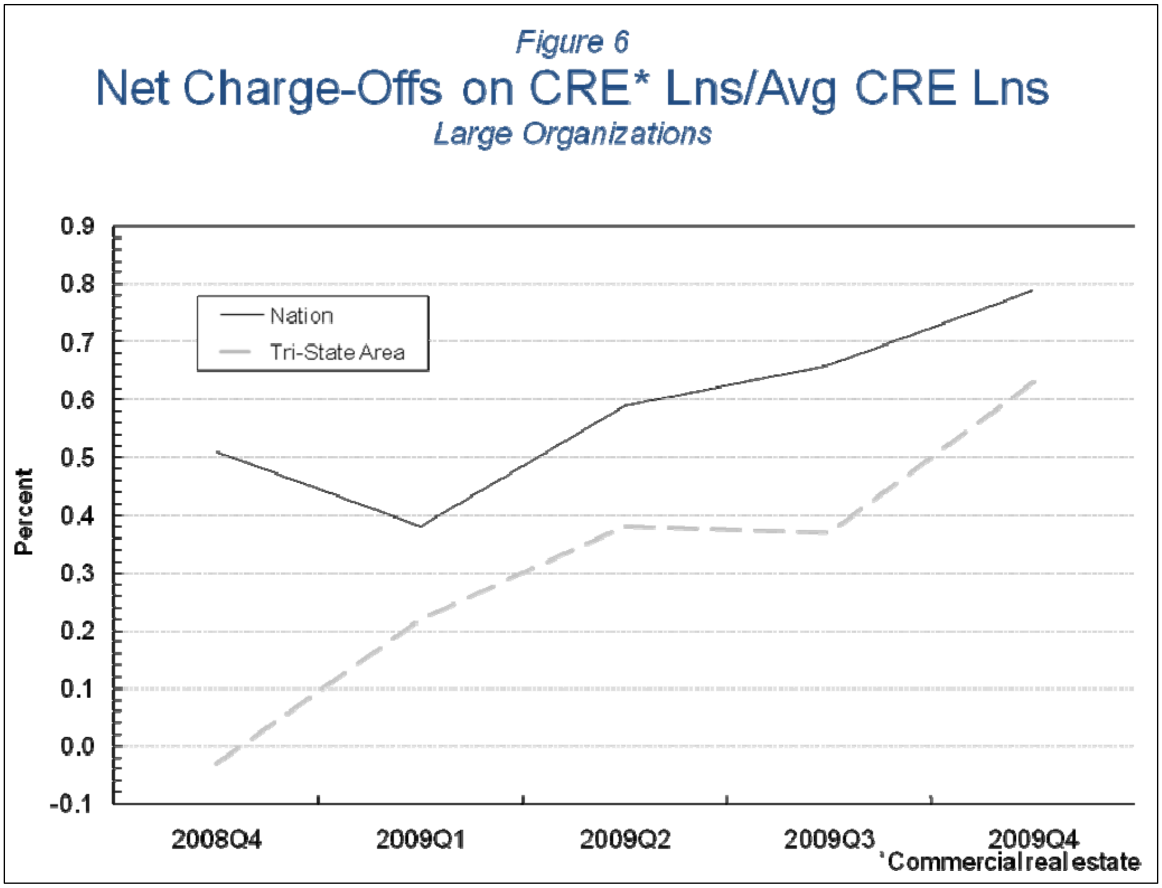


Figure 6
Net Charge-Offs on CRE* Lns/Avg CRE Lns
Large Organizations
Nation
Tri-State Area
Percent
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0.0
-0.1
2008Q4
2009Q1
2009Q2
2009Q3
2009Q4
*Commercial real estate

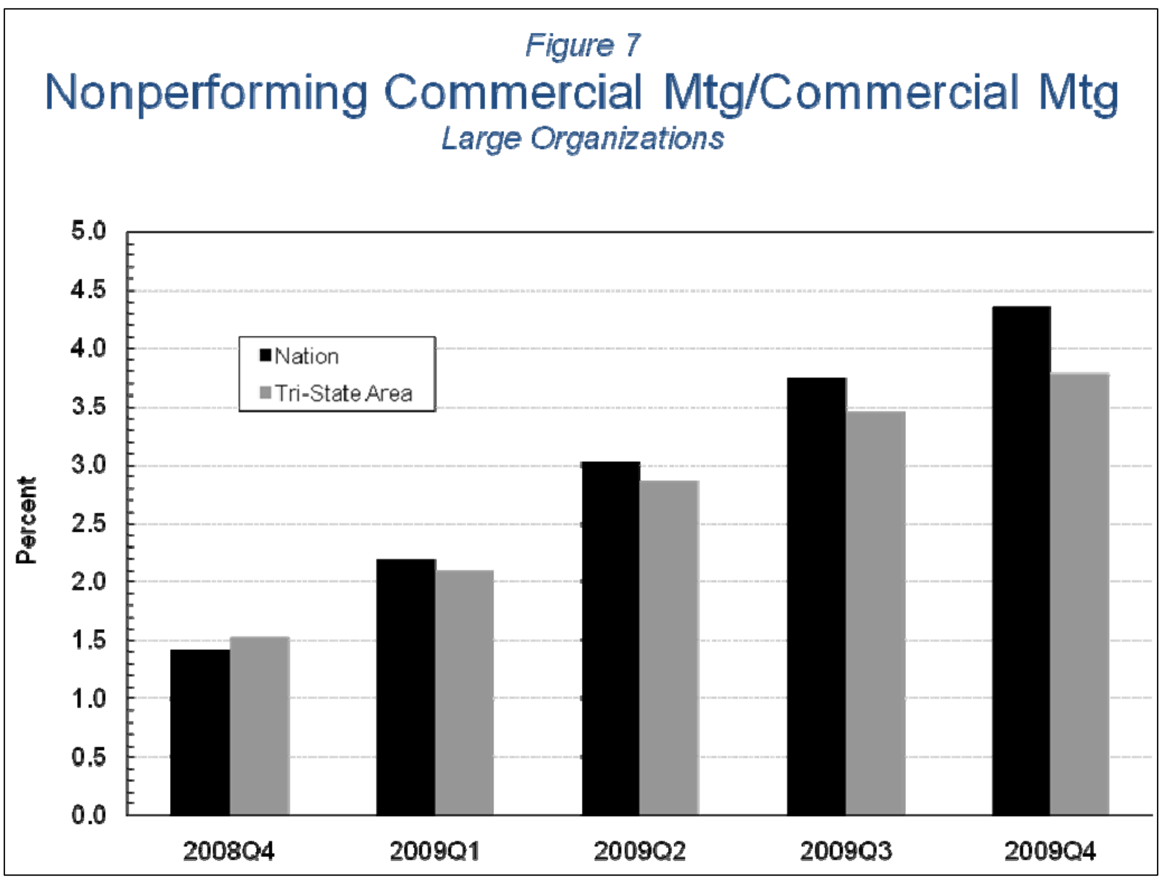


Figure 7
Nonperforming Commercial Mtg/Commercial Mtg
Large Organizations
Nation
Tri-State Area
Percent
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
2008Q4
2009Q1
2009Q2
2009Q3
2009Q4

Construction loans have been the primary source of CRE loan quality problems in the past, and they still are. However, there is some evidence that this is abating. Nonperforming construction loans increased only 2.3 percent (annualized) in the fourth quarter. The nonperforming construction loan ratio increased 122 basis points, to 16.92 percent, though, because overall construction loans outstanding fell nearly 23 percent (annualized).

The major growth in new CRE loan problems at large organizations was in the other categories. Commercial mortgages make up nearly 60 percent of all CRE loans, and the condition of the large organizations' commercial mortgage portfolios is deteriorating quickly. Nonperforming commercial mortgages increased over 85 percent (annualized) in the fourth quarter, and NCOs on commercial mortgages increased nearly 300 percent. The nonperforming commercial mortgage ratio increased 60 basis points in the quarter, to 4.35 percent, and it has increased 293 basis points in the past year (Figure 7). NCOs on commercial mortgages are increasing at a comparable rate.

Multifamily loans have deteriorated even more than commercial mortgages, but multifamily loans represent only a small portion (about 12 percent) of CRE loans. Nonperforming multifamily loans grew at an annualized rate of nearly 240 percent in the fourth quarter, and they have increased over 300 percent in the past year. Likewise, multifamily NCOs increased 71 percent in the quarter (annualized) and 164 percent in the past year. The nonperforming multifamily loan ratio increased 139 basis points in the fourth quarter, to 5.28 percent. In the past year, it has increased nearly 400 basis points. Thus, with the continued and worsening weakness of construction lending combined with the significant deterioration of what were relatively strong sectors, the outlook for CRE lending at large organizations would seem to be problematic at least in the near term.

In other types of lending, the large organizations are faring better, at least in terms of quality. Commercial and industrial (C&I) loans make up 19.3 percent of all loans but only 11.7 percent of nonperforming loans and 16.1 percent of NCOs. Nonperforming C&I loans fell 27.2 percent (annualized) in the quarter, and C&I NCOs fell 28.4 percent. The nonperforming C&I loan ratio fell 10 basis points, to 3.69 percent, and the C&I NCO ratio was flat. These numbers might have been better, but C&I loans outstanding fell nearly 20 percent (annualized) in the quarter.

Consumer loans stabilized in the quarter. Consumer loans represent about 13 percent of all loans but only 4 percent of nonperforming loans and 18.5 percent of NCOs.[8] Nonperforming consumer loans increased 6.5 percent (annualized) in the fourth quarter, while NCOs on consumer loans shrank 12.8 percent. The nonperforming consumer loan ratio increased only 4 basis points, to 1.85 percent, while the consumer NCO ratio shrank by 3 basis points, to 0.98 percent.

Credit cards, which make up about 21.5 percent of consumer loans, are responsible for most of the problems. Nonperforming credit cards make up about 41 percent of nonperforming consumer loans, and NCOs on credit cards make up a little over half of all consumer NCOs. The nonperforming credit card rate rose only 5 basis points in

[8] The reason for the wide disparity between nonperforming loans and NCOs is that consumer loans are generally unsecured. Thus, when they are charged off, they are nearly always a total loss. This is particularly true of credit cards.

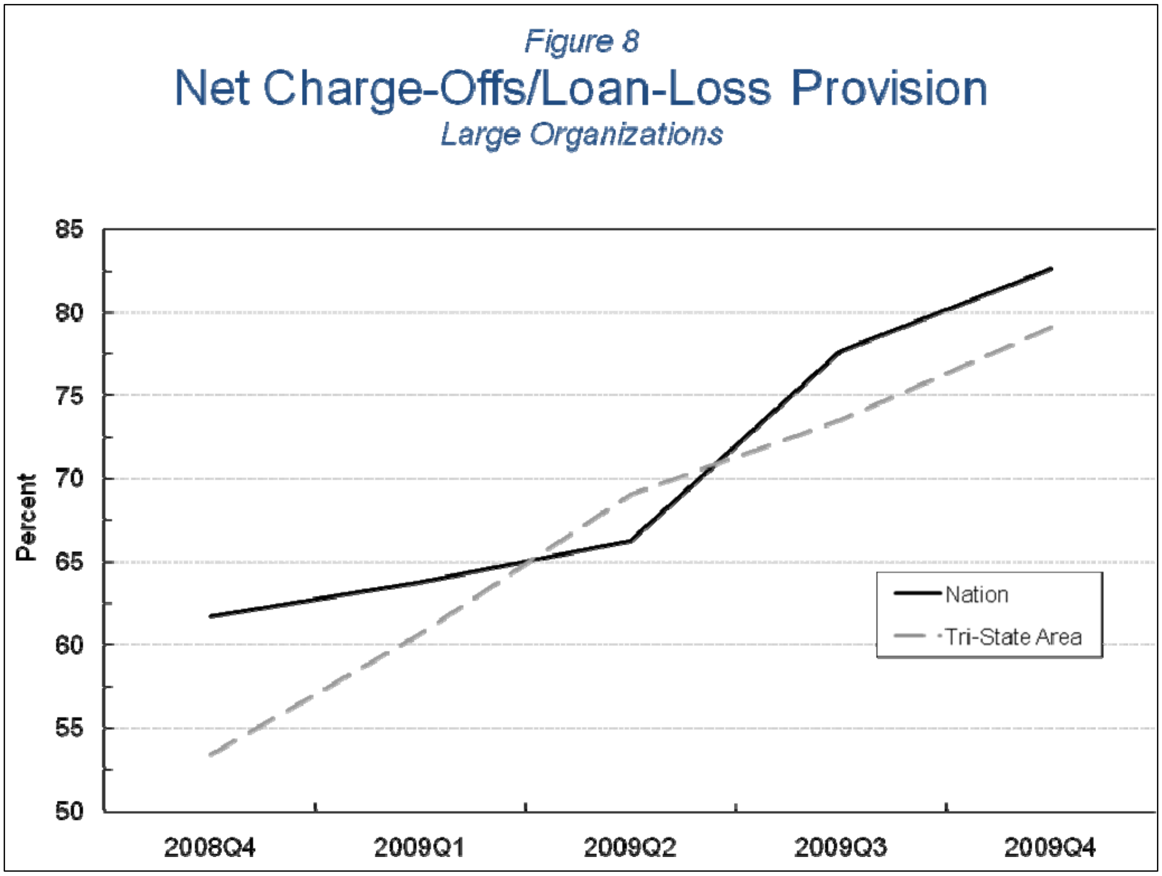


Figure 8
Net Charge-Offs/Loan-Loss Provision
Large Organizations
Percent
85
80
75
70
65
60
55
50
2008Q4
2009Q1
2009Q2
2009Q3
2009Q4
Nation
Tri-State Area

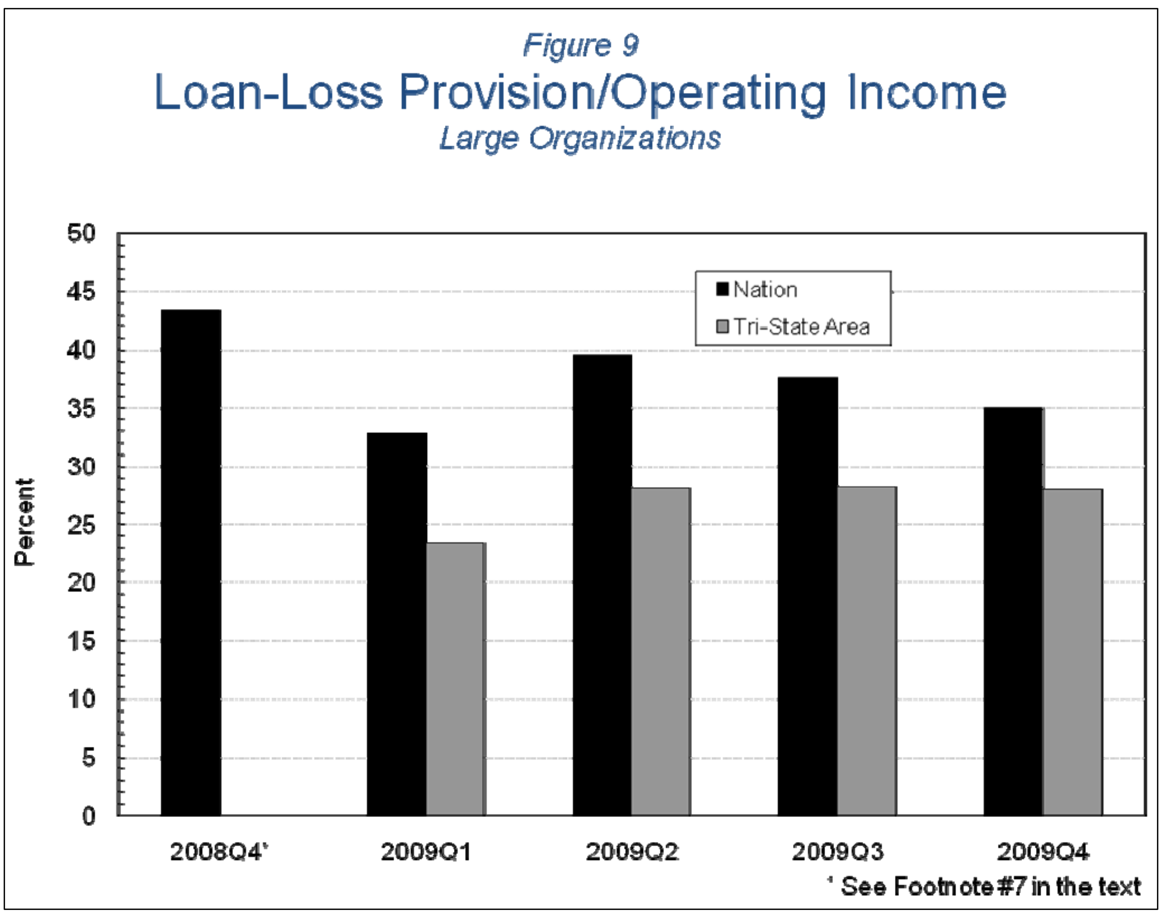


Figure 9
Loan-Loss Provision/Operating Income
Large Organizations
Percent
50
45
40
35
30
25
20
15
10
5
0
2008Q4*
2009Q1
2009Q2
2009Q3
2009Q4
Nation
Tri-State Area
* See Footnote #7 in the text

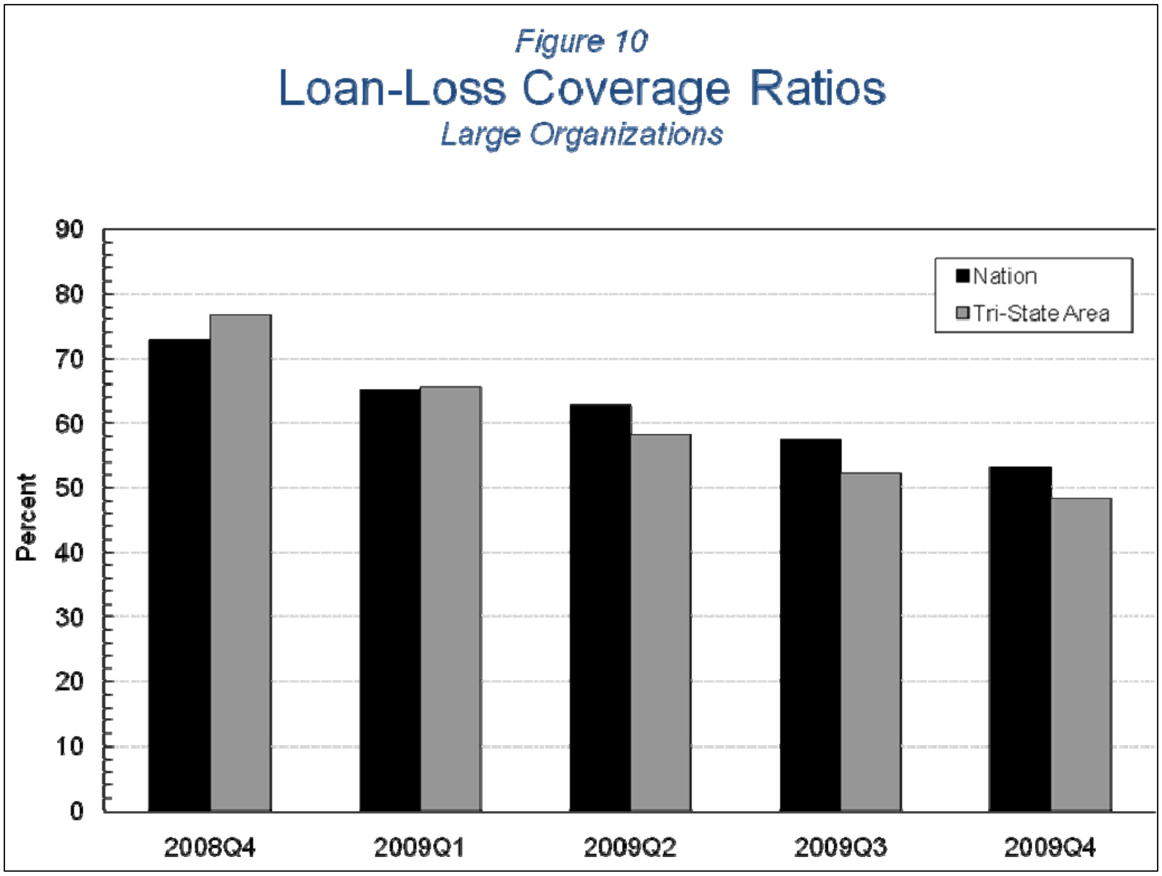


Figure 10
Loan-Loss Coverage Ratios
Large Organizations
90
80
70
60
50
40
30
20
10
0
Percent
Nation
Tri-State Area
2008Q4
2009Q1
2009Q2
2009Q3
2009Q4

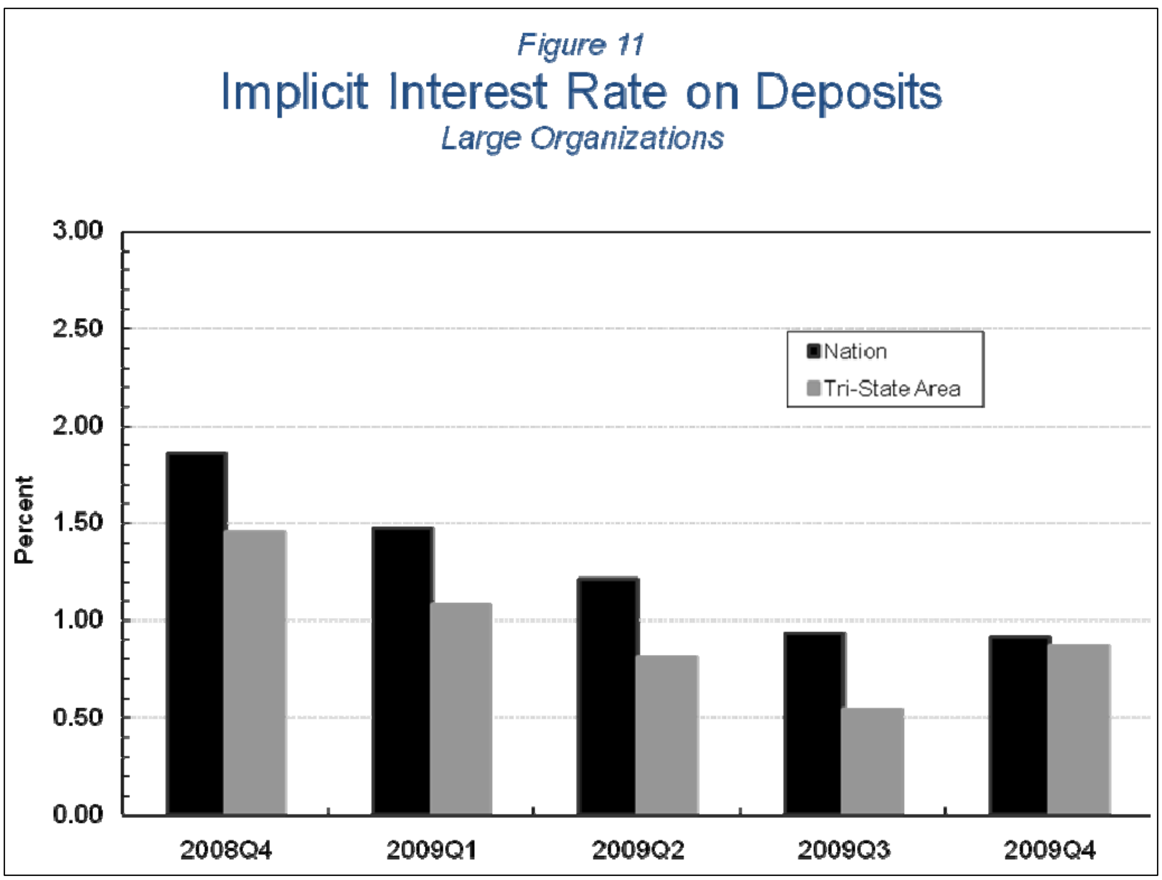


Figure 11
Implicit Interest Rate on Deposits
Large Organizations
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Percent
Nation
Tri-State Area
2008Q4
2009Q1
2009Q2
2009Q3
2009Q4

the fourth quarter, to 3.58 percent, and the credit card NCO rate dropped 9 basis points, to 2.31 percent.

The growth of loan-loss reserves continued to lag in the fourth quarter. Loan-loss reserves grew 18 percent (annualized) in the quarter, slower than that of nonperforming loans.[9] The ratio of NCOs to loan-loss provision grew to nearly 83 percent (Figure 8), meaning that 83 cents out of each dollar of loan-loss provision is used to cover loans charged off in the current quarter. The ratio of loan-loss provision to operating income fell to 34.9 percent (Figure 9).[10] The loan-loss coverage ratio[11] also continued to fall (Figure 10), and it is now at 53 percent. In addition to the increase in nonperforming loans, other nonperforming assets also continued to rise at a rapid pace. Other real estate owned (OREO), which is basically foreclosed real estate, increased at an annualized rate of 98 percent in the fourth quarter. As a percent of assets, OREO is still quite small, 0.21 percent, but this has increased 50 percent in the past year.

The market value of large organizations' securities portfolios increased 6.4 percent (not annualized) in the fourth quarter. U.S. Treasury securities, mortgage-backed securities (MBSs) issued by government-sponsored enterprises (GSEs), other non-MBS asset-backed securities, and foreign debt securities all showed substantial gains, while securities of U.S. agencies, privately issued MBSs, and mutual funds showed losses. Securities as a percent of assets have risen from 14.6 to 19.6 percent in the past year.

There were some positive developments on the banks' liabilities as they continued substituting away from the more expensive sources of funds. Deposits increased 10.2 percent in the quarter, while debt funding decreased 29.2 percent. Within deposits, transaction accounts increased substantially, 57.1 percent (annualized), while time deposits over $100,000 decreased nearly 30 percent, and brokered deposits decreased 9.3 percent. Thus, the implicit interest rate the large banks pay on deposits dropped slightly in the quarter, from 0.93 to 0.91 percent (Figure 11).[12] This rate has fallen 95 basis points in the past year. Within debt funding, fed funds and securities sold under agreements to repurchase decreased nearly 60 percent (annualized), while subordinated debt and Federal Home Loan Bank (FHLB) advances decreased about 10 percent each.

Community Banks

Community banks both locally and nationally had somewhat mixed results in the fourth quarter. Community banks in the tri-state area continued to outperform banks nationally, but the difference is shrinking. Both sets reported negative ROAAs, but losses were less than in the third quarter. Also, the nonperforming loan ratio was essentially flat both locally and nationally, and total nonperforming loans decreased slightly nationally and were flat locally. Finally, the improved outlook on nonperforming loans was offset by large increases in NCOs because community

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

10 Operating income is defined as the sum of net interest income and noninterest income.

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

12 Implicit interest rate is defined as interest expense on deposits over average deposits.

banks have been putting off charging off nonperforming loans in the past few quarters. In the past year, NCOs have increased 51.6 percent locally and 19.9 percent nationally. Also during that time, the NCO ratio increased 7 basis points locally, to 0.26 percent, and 8 basis points nationally, to 0.46 percent (Figure 12).[13]

As has been the case for over a year now, real estate loans, particularly CRE loans, are responsible for the vast majority of problems at community banks. CRE loans represent about 47 percent of the loans at banks both locally and nationally. They also represent 68.5 percent locally and 70.6 percent nationally of nonperforming loans, and 53.9 percent locally and 60.1 percent nationally of NCOs. The nonperforming CRE loan ratio appears to have stabilized both locally and nationally (Figure 13). Also, nonperforming CRE loans increased only 7.0 percent locally (annualized) and dropped over 12 percent nationally. As was the case with total loans, NCOs have risen substantially in the past year, both locally and nationally. Locally and nationally, the CRE NCO ratio increased 9 basis points, to 0.3 and 0.57 percent, respectively.

Construction loans have been responsible for the bulk of the asset-quality problems in CRE lending, but there are some signs that community banks have begun to get their construction loan exposures under control. Construction loans represent 18.9 percent of CRE loans locally and 25.5 percent nationally, yet they account for 45.8 percent and 59.6 percent of nonperforming CRE loans, respectively, and 71.6 percent and 65.9 percent of CRE NCOs. Nonperforming construction loans decreased 36.4 percent (annualized) locally and 27.3 percent nationally. However, since construction loan exposures (the denominator of the ratio) have also been significantly reduced, the nonperforming construction loan ratio has been more or less holding steady at a little over 13 percent nationally and 10 percent locally for several quarters (Figure 14). In the past year, NCOs on construction loans have increased over 40 percent locally but shrank 3.7 percent nationally. During that time, the construction NCO ratio increased 20 basis points nationally, to 1.28 percent, and 29 basis points locally, to 1.05 percent.

While construction lending may be stabilizing, the largest portion of CRE lending at community banks is commercial mortgages, and these appear to be deteriorating. Commercial mortgages represent nearly three-fourths of all CRE loans at tri-state area banks and over two-thirds at banks nationally. In the fourth quarter, nonperforming commercial mortgages rose at an annual rate of 91.7 percent locally and 27.4 percent nationally; however, in the past year, they have nearly doubled in each case. The nonperforming commercial mortgage ratio increased 39 basis points locally in the fourth quarter, to 2.89 percent, and 18 points nationally, to 2.99 percent (Figure 15). In the past year, NCOs on commercial mortgages have increased by 124 percent nationally and 172 percent locally. The commercial mortgage charge-off ratio has increased 6 basis points locally, to 0.11 percent, and 14 basis points nationally, to 0.26 percent. While the nonperforming loan and NCO ratios on commercial mortgages are still quite manageable, the large increases in nonperforming loans and NCOs, together with the fact that commercial mortgages represent such a large portion of overall lending, indicate that this area of the banks'

[13] There appears to be substantial quarter-to-quarter and seasonal volatility in NCOs at community banks (see Figure 12). Therefore, changes in NCOs will be reported on a year-over-year basis.

Figure 12

Quarterly Net Charge-Offs/Average Loans

Community Banks

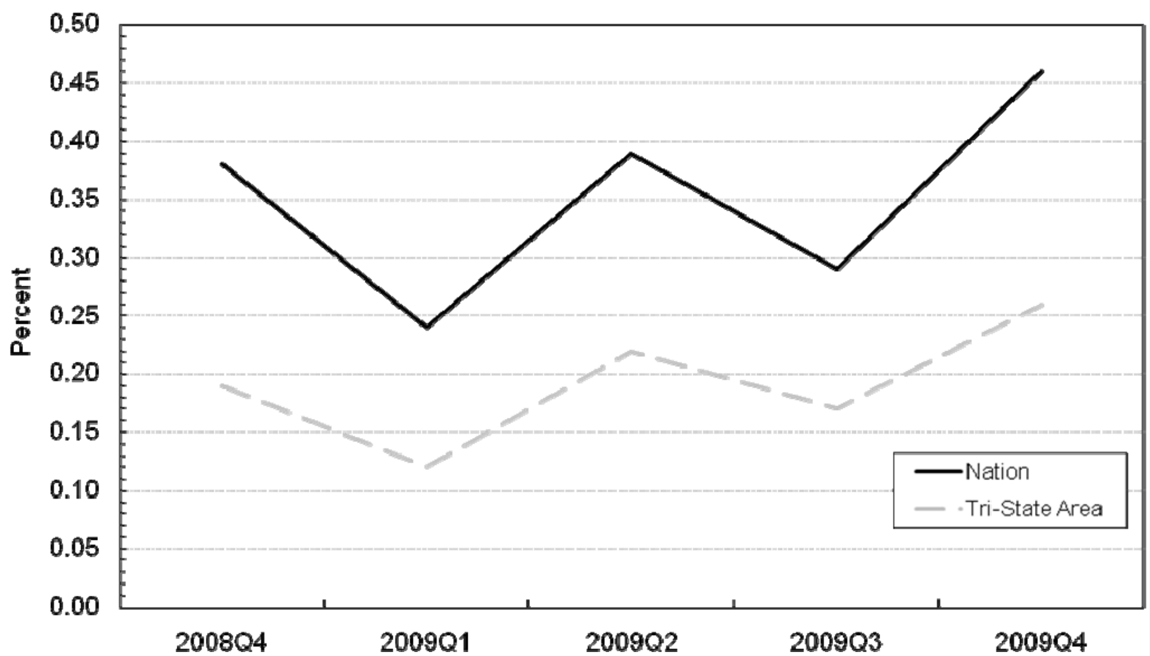
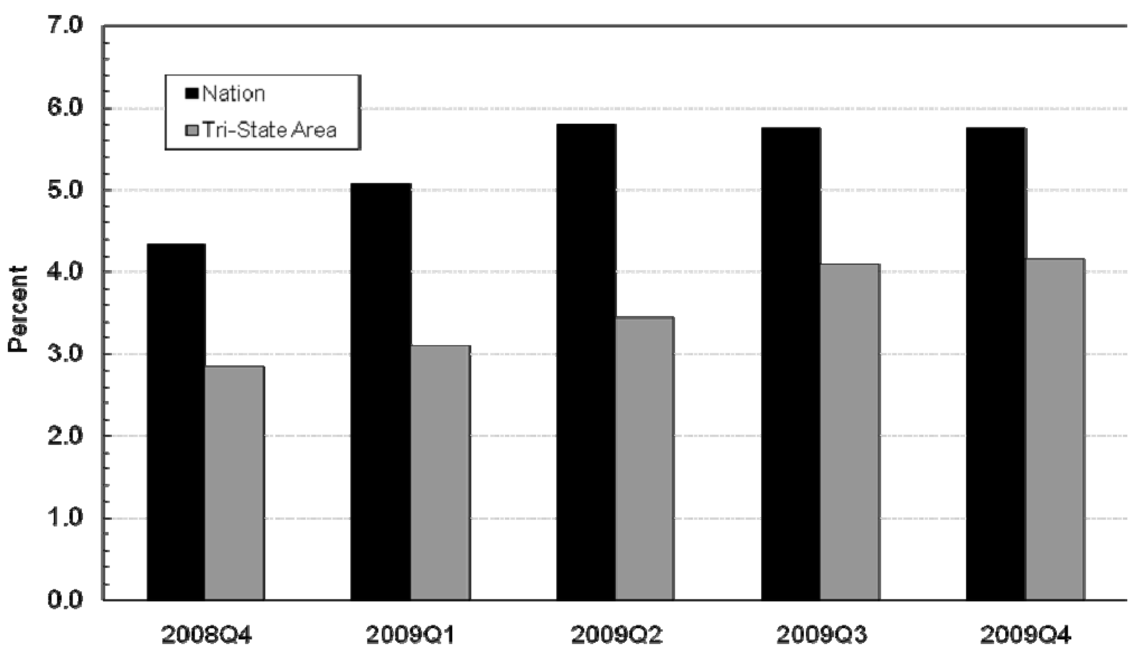


Figure 13

Nonperforming CRE* Loans/Total CRE Loans

Community Banks



*Commercial real estate

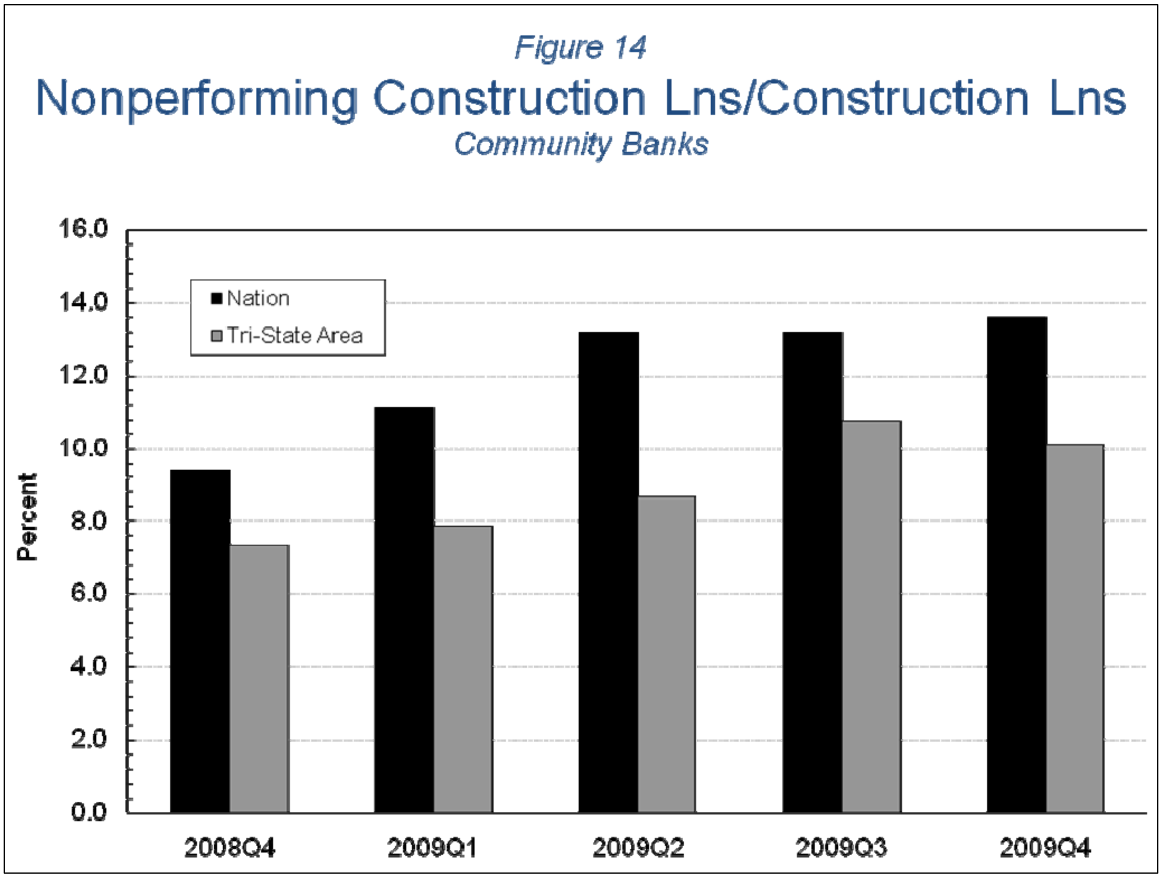


Figure 14
Nonperforming Construction Lns/Construction Lns
Community Banks
Nation
Tri-State Area
Percent
16.0
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
2008Q4
2009Q1
2009Q2
2009Q3
2009Q4

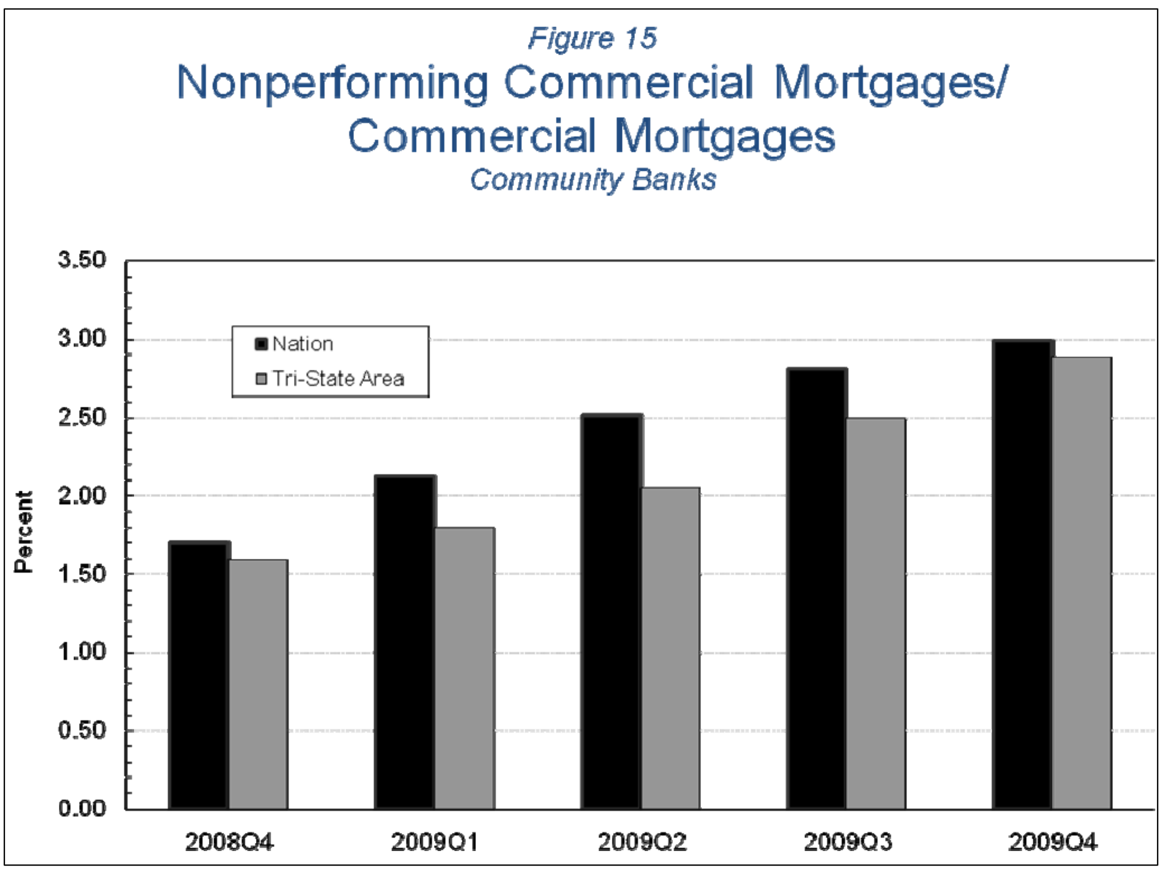
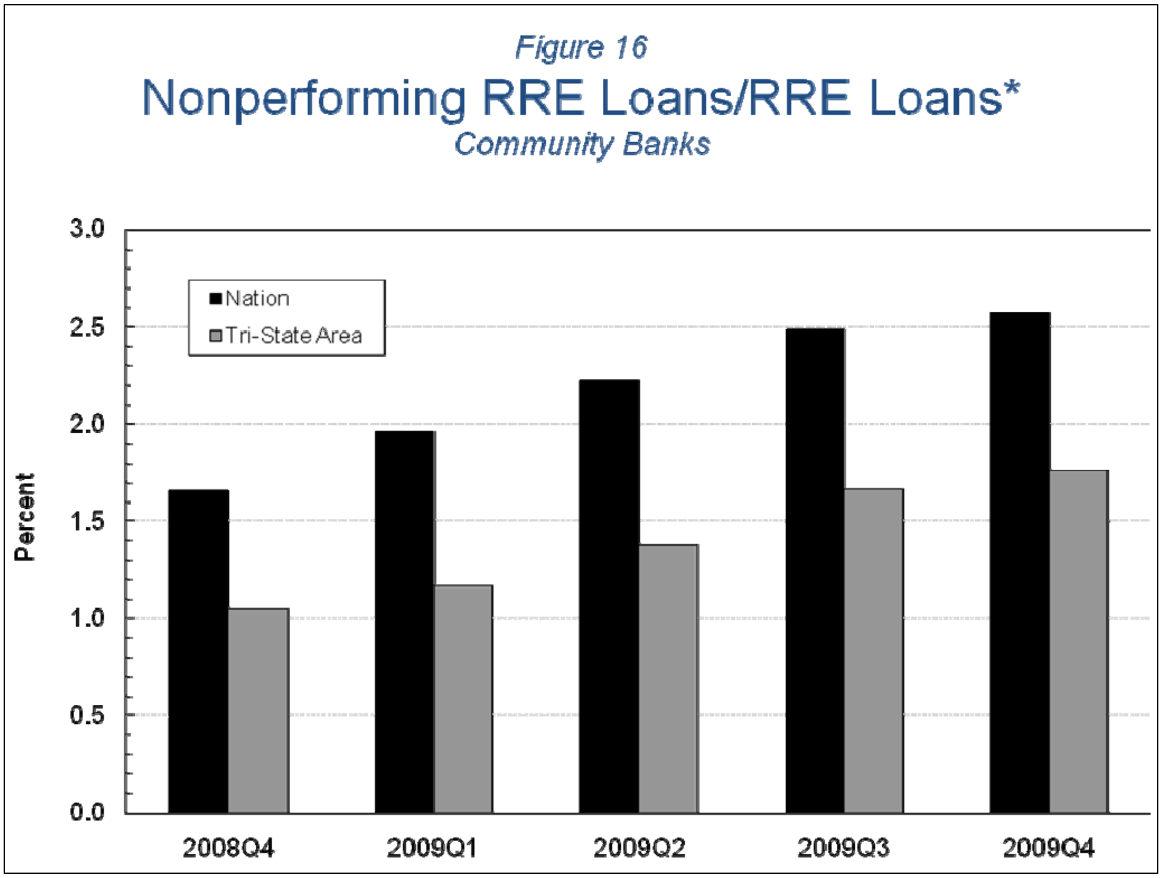


Figure 15
Nonperforming Commercial Mortgages/
Commercial Mortgages
Community Banks
Nation
Tri-State Area
Percent
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
2008Q4
2009Q1
2009Q2
2009Q3
2009Q4



loan portfolios will likely be a significant problem in the near future.

The declining quality of commercial mortgages is worrying because, until recently, most CRE loan problems at both large and small banks were mainly due to construction loans. While the construction loan market appears to be stabilizing, problems in commercial mortgages are starting to emerge, which is consistent with experiences in the last real estate downturn in the early 1990s.

The community banks' RRE loan portfolios are performing much like commercial mortgages. RRE loans make up a little less than one-quarter of all loans at banks nationally and about one-third at banks locally, and the vast majority of RRE loans at both are conventional mortgages. Nonperforming RRE loans have increased 14.2 percent (annualized) at banks nationally and 23.9 percent locally. The nonperforming RRE loan ratio jumped 9 basis points both locally and nationally in the fourth quarter, to 1.76 and 2.58 percent, respectively (Figure 16). NCOs on RRE loans increased 52.0 percent nationally and 45.6 percent locally, and the RRE NCO ratio has increased 8 basis points nationally in the past year, to 0.26 percent. Locally, the increase was only 2 basis points, and the ratio is only 0.1 percent. While these numbers are small compared with the RRE loan problems at large organizations, the increasing number of bad loans in the community banks' commercial and residential mortgage portfolios is not an encouraging sign of their return to profitability.

In both C&I and consumer lending, the community banks showed some improvement. C&I loans represent 14.8 percent of all loans nationally and 12.3 percent locally. In the fourth quarter, nonperforming C&I loans shrank at annualized rates of 12.4 and 49.1 percent, respectively, and the nonperforming C&I loan ratios also shrank, from 2.38 to 2.34 percent nationally and from 2.28 to 1.92 percent locally. However, it is too early to know whether the quarterly decreases in nonperforming C&I loans are part of a larger trend or an aberration. C&I NCOs increased 33.5 percent nationally in the past year, while locally the increase was 47.2 percent. This has resulted in increases in the C&I NCO ratio by 18 points nationally, to 0.63 percent, and 13 points locally, to 0.47 percent.

Because they are only minimally involved in credit card lending, community banks have very few problems with consumer loans. Consumer loans make up 4.8 percent of all loans nationally and only 3.7 percent locally, but credit cards represent only about 3 percent of consumer loans in each area. Thus, the nonperforming consumer loan ratio is only 0.81 percent nationally and only 0.53 percent locally. These actually increased by 7 and 8 basis points, respectively, but they are well within the manageable range.

It appears that small banks have begun addressing their loan-loss reserves, but there is still a long way to go. Overall, loan-loss reserves rose only 10.3 percent (annualized) locally and 5.0 percent nationally, but this was because NCOs were very high this quarter. As noted above, NCOs at small banks seem to go on a seasonal basis; thus, the ratio of NCOs to loan-loss provision was nearly 90 percent both locally and nationally (Figure 17). Loan-loss provision as a percent of operating income rose as well, especially at banks nationally (Figure 18). Nationally, this ratio is now nearly equal to that of large banks. As a result, the loan-loss coverage ratio has begun to increase (Figure 19). These positive developments are still overshadowed by the fact that community banks are still substantially under-reserved. As it stands now loan-loss coverage is just over 50 percent nationally and about 57 percent locally, meaning that if banks had to discharge all of their nonperforming loans in the next quarter, they would only have sufficient reserves to cover about half of them. If the changes to nonperforming loans and NCOs continue at their current rate, community banks in the tri-state area would need to add about $862 million to their loan-loss reserves in order to bring loan-loss coverage up to 100 percent. The comparable number for the nation is just under $27 billion. These amounts represent 86.2 percent of current operating income and 10.1 percent of total equity locally and 141.0 percent of operating income and 14.8 percent of equity nationally.

Income on asset sales dropped at an annualized rate of 99 percent last quarter; however, it did increase 11.7 percent locally. Most of the drop was due to losses on sales of OREO. Problems selling foreclosed real estate are likely to continue because community banks keep building up OREO. Holdings of OREO increased 40.1 percent nationally and 235 percent locally (annualized). OREO now represents nearly 1 percent of total assets nationally, and it has also risen substantially locally (Figure 20). These percentages are much higher than at the larger banks, indicating that it may be more difficult for the smaller banks to liquidate real estate once they foreclose on it. In addition to nonperforming loans, OREO represents another substantial part of assets that are nonperforming.

The market value of the community banks' securities portfolios was essentially unchanged from the third quarter to the fourth. Both locally and nationally, gains in GSE securities were offset by decreases in state and local bonds and MBS. Banks locally had realized losses on securities of

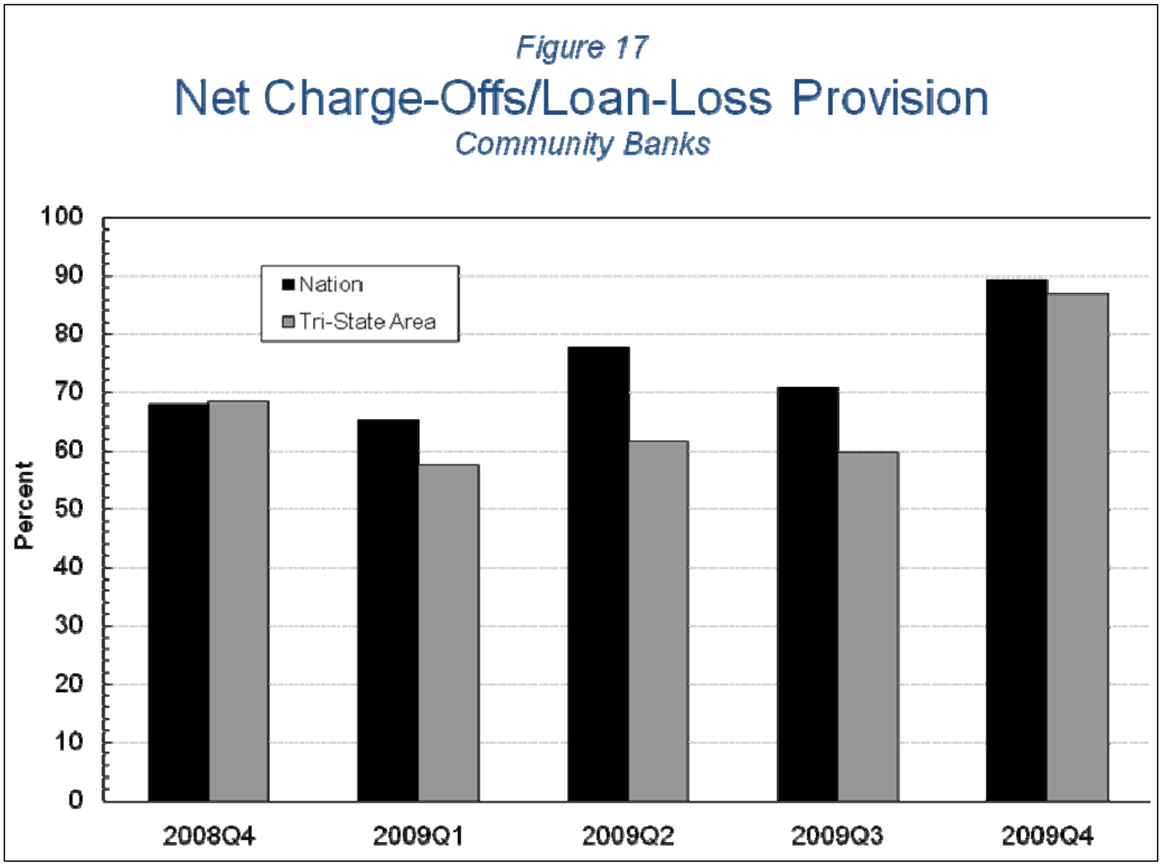


Figure 17
Net Charge-Offs/Loan-Loss Provision
Community Banks
Nation
Tri-State Area
Percent
100
90
80
70
60
50
40
30
20
10
0
2008Q4
2009Q1
2009Q2
2009Q3
2009Q4

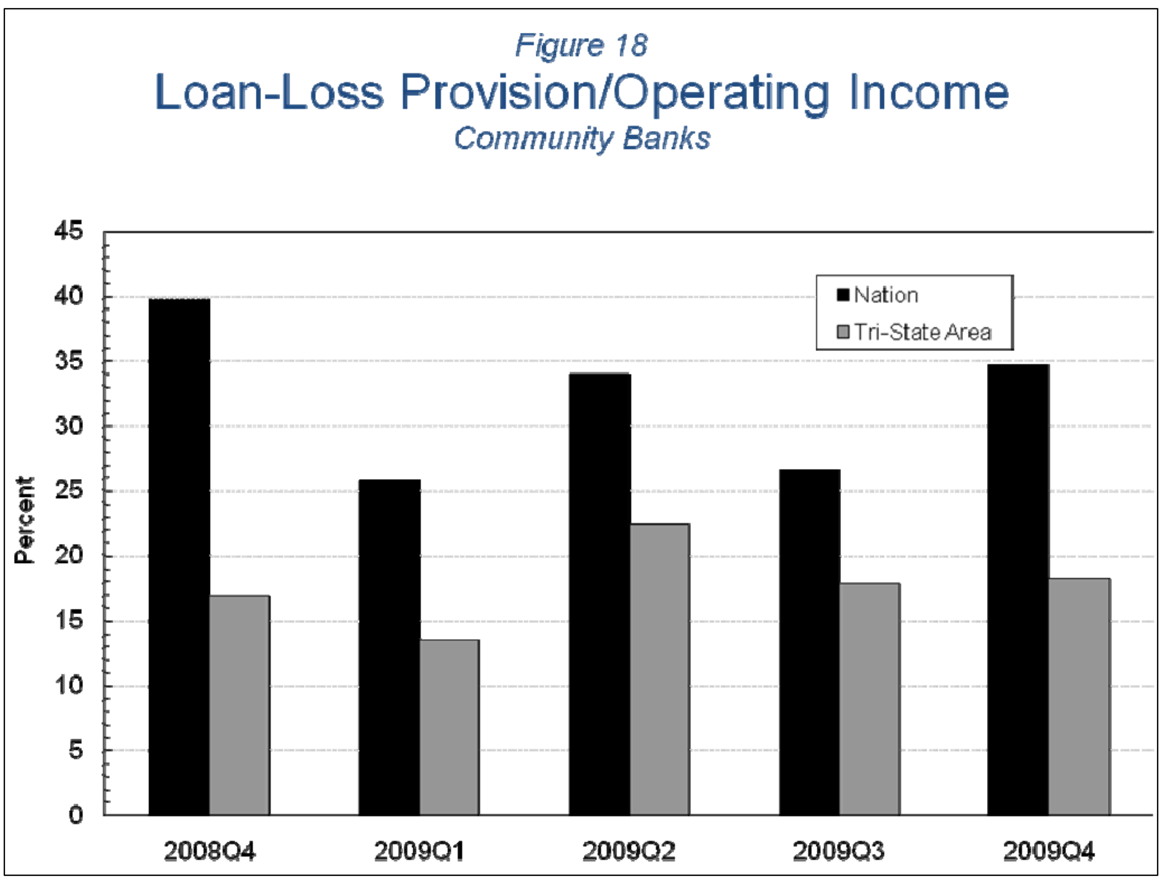


Figure 18
Loan-Loss Provision/Operating Income
Community Banks
Nation
Tri-State Area
Percent
45
40
35
30
25
20
15
10
5
0
2008Q4
2009Q1
2009Q2
2009Q3
2009Q4

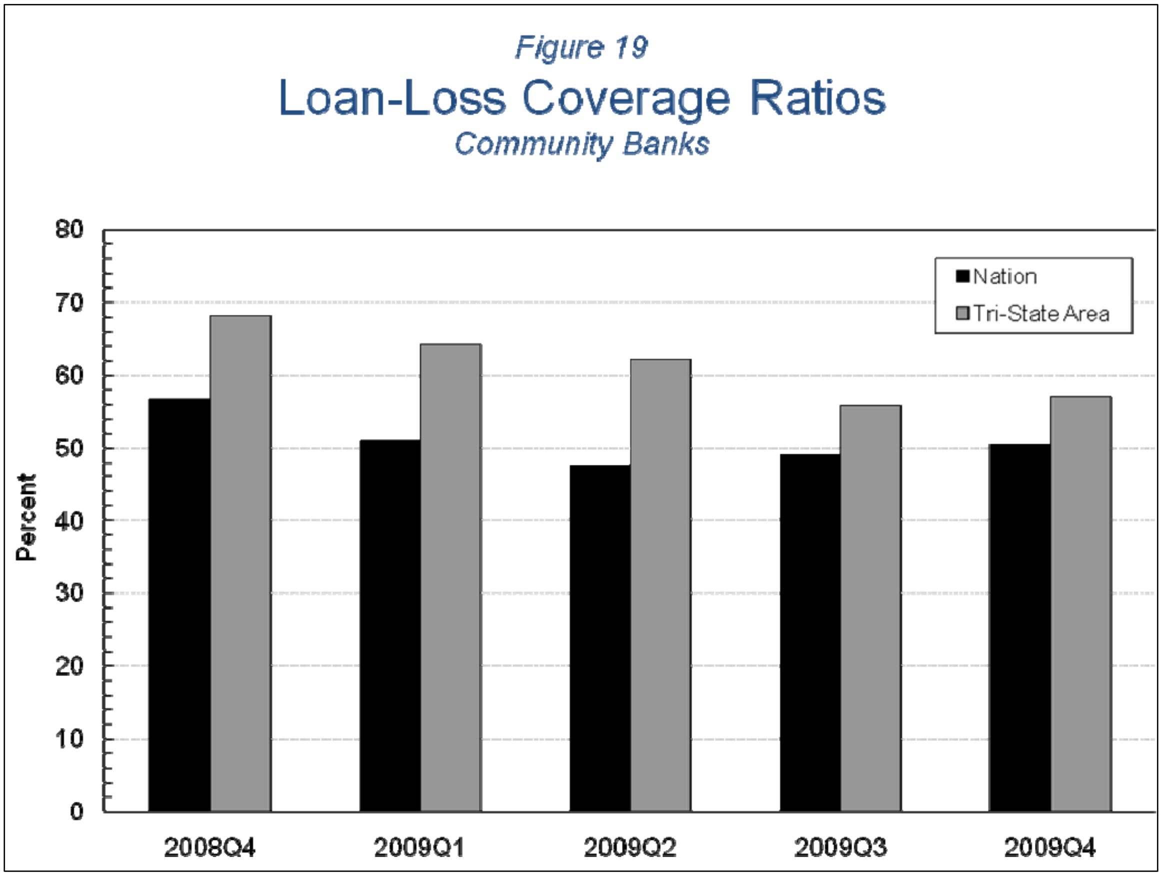


Figure 19
Loan-Loss Coverage Ratios
Community Banks
Nation
Tri-State Area
Percent
0
10
20
30
40
50
60
70
80
2008Q4
2009Q1
2009Q2
2009Q3
2009Q4

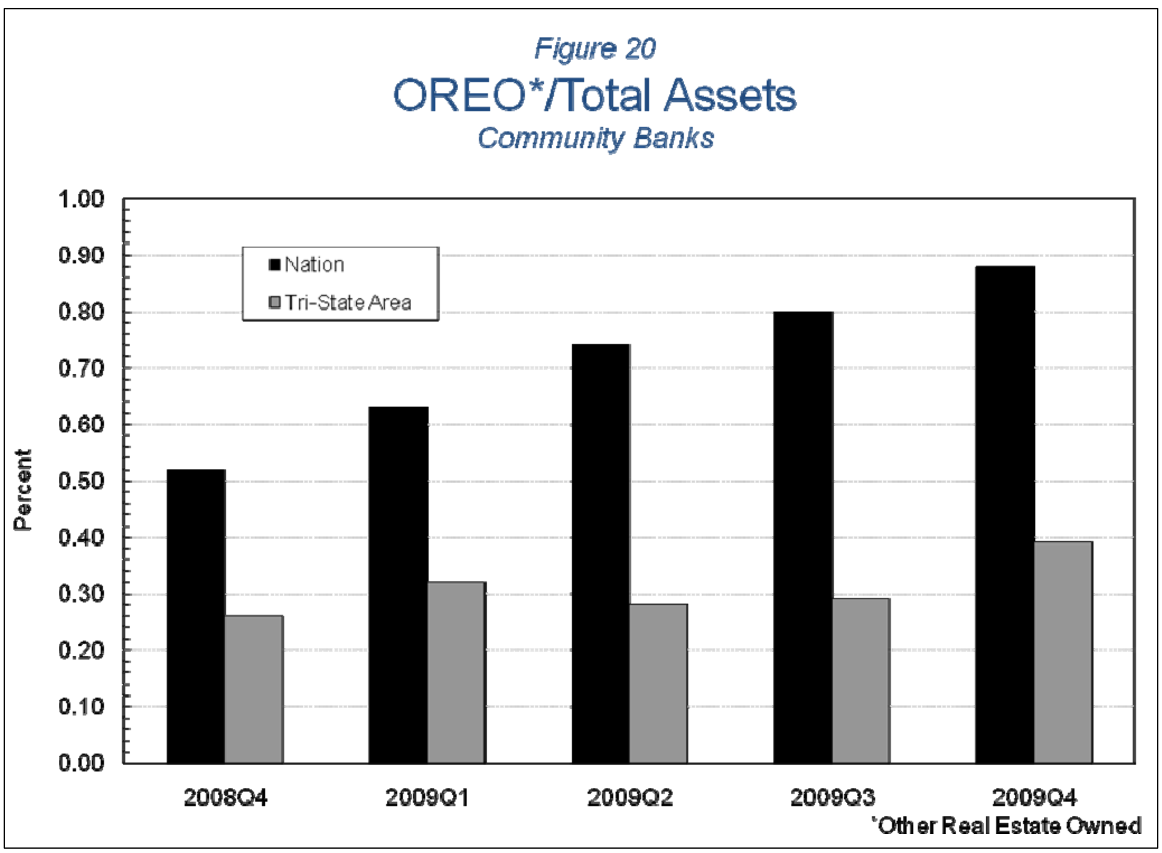
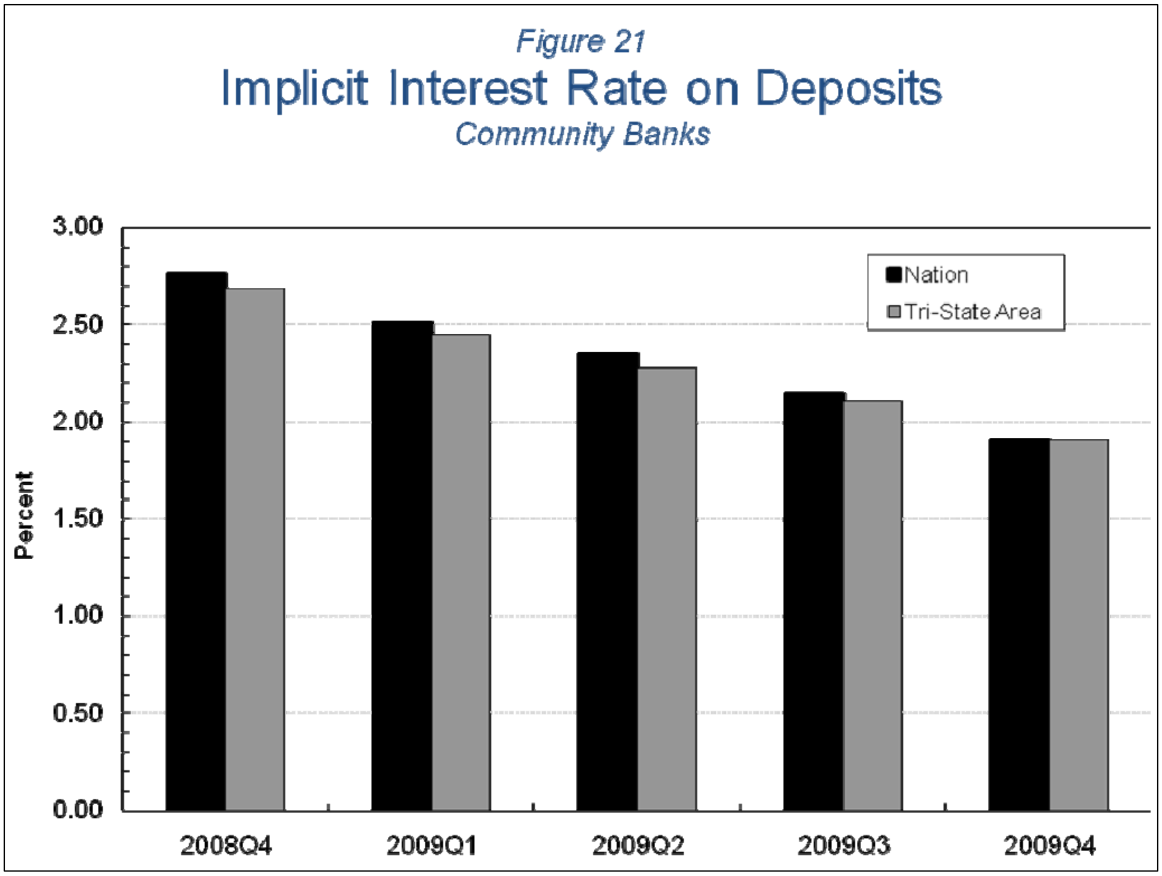


Figure 20
OREO*/Total Assets
Community Banks
Nation
Tri-State Area
Percent
0.00
0.10
0.20
0.30
0.40
0.50
0.60
0.70
0.80
0.90
1.00
2008Q4
2009Q1
2009Q2
2009Q3
2009Q4
*Other Real Estate Owned



$28.6 million, representing 0.16 percent of total securities. Banks in the nation as a whole did have realized gains of $110.8 million.

In the fourth quarter, deposits increased slightly, 2.2 percent nationally and 8.5 percent locally (annualized), while debt funding fell 21.7 and 19.3 percent, respectively. Transaction accounts showed a large gain both locally and nationally, while brokered deposits and large time deposits showed a large decrease. The shrinkage in both debt and "hot money" are generally positive developments because banks are moving to cheaper and more stable sources of funding. Thus, the implicit interest rate paid on deposits continued to fall (Figure 21). At 1.9 percent, this is a much higher rate than that paid by larger banks, even though the rate community banks pay has fallen substantially in the past year.

Summary Table of Bank Structure and Conditions - Fourth Quarter 2009

Community Banking Organizations

	Tri-State			***Nation***		
	$ Bill	**% Change From**		**$ Bill**	**% Change From**	
	09Q4	**09Q3**	**08Q4**	**09Q4**	**09Q3**	**08Q4**
Total Assets	90.5	4.55	7.20	1,856.9	-1.32	-0.56
Total Loans	61.2	0.38	2.86	1,259.6	-7.88	-5.21
Business	7.5	2.34	-1.38	186.5	-5.59	-9.31
Real Estate	49.6	1.10	3.86	948.7	-8.20	-4.55
Consumer	2.3	-3.99	2.02	60.3	-9.58	-6.91
Total Deposits	73.5	8.47	11.79	1,520.4	2.23	2.67
Ratios (in %)	**09Q4**	**09Q3**	**08Q4**	**09Q4**	**09Q3**	**08Q4**
Net Income/Avg Assets (ROA)	-0.14	-0.22	0.48	-0.19	-0.33	0.00
Net Interest Inc/Avg Assets (NIM)	3.16	3.16	3.25	3.23	3.23	3.30
Noninterest Inc/Avg Assets	1.19	1.17	1.23	0.89	0.86	0.82
Noninterest Exp/Avg Assets	3.56	3.48	3.11	3.10	3.13	3.03
Loans/Deposits	83.33	84.96	90.58	82.85	85.04	89.74
Equity/Assets	9.47	9.54	9.43	9.81	9.97	9.98
Nonperforming Loans/Total Loans	2.85	2.84	1.89	3.86	3.85	2.83

Large Banking Organizations

	Tri-State			***Nation***		
	$ Bill	**% Change From**		**$ Bill**	**% Change From**	
	09Q4	**09Q3**	**08Q4**	**09Q4**	**09Q3**	**08Q4**
Total Assets	480.3	-0.99	-3.40	8,992.4	0.28	-3.65
Total Loans	269.4	2.11	-2.51	4,655.5	-0.91	-4.32
Business	53.2	-16.36	-19.55	899.2	-19.63	-19.96
Real Estate	161.5	12.90	3.34	2,724.7	10.64	2.13
Consumer	31.1	3.96	9.63	603.4	-3.08	1.91
Total Deposits	351.0	10.99	2.70	6,278.1	10.19	2.89
Ratios (in %)	**09Q4**	**09Q3**	**08Q4**	**09Q4**	**09Q3**	**08Q4**
Net Income/Avg Assets (ROA)	0.34	0.54	0.30	0.14	-0.07	0.11
Net Interest Inc/Avg Assets (NIM)	3.07	2.33	2.12	2.78	2.51	2.40
Noninterest Inc/Avg Assets	2.20	1.66	1.34	2.07	1.77	1.52
Noninterest Exp/Avg Assets	3.11	2.12	2.15	2.84	2.74	2.64
Loans/Deposits	76.76	78.37	80.86	74.16	76.15	79.74
Equity/Assets	11.01	10.87	9.17	10.46	10.32	8.71
Nonperforming Loans/Total Loans	5.78	5.03	2.51	6.11	5.41	2.97

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 the balance sheet or income statement items of large banking organizations that have deposits in the region weighted by the percentage 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 — 173 for the tri-state area and 5,569 for the nation; (2) large banking organizations — 25 for the tri-state area and 97 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/philscriber/user/dsp_content.cfm.