

2007 Special Report: U.S. Banking Issues

Smaller Banks Are Better Prepared To Withstand Surge in Loan Delinquencies

The adequacy of U.S. banks' Allowance for Loan and Lease Losses (ALLL) levels was questioned in A.M. Best's March 26, 2007 special report, *Are Loss Reserves Adequate in Light of Rising Delinquencies?* Supplementing that report in **Tables 1** and **2** are lists of the top 50 large banks and the top 50 small banks with the highest ratios of ALLL to Total Loans and Leases as of Dec. 31, 2006.

Industrywide, smaller banks with assets less than \$1 billion showed higher levels of ALLL, leaving them better prepared to withstand a surge in loan delinquencies than larger institutions. On average, smaller banks have reserved an extra 0.15% of loans on their books compared with larger institutions, at

1.33% versus 1.18%, respectively. Furthermore, 24% of smaller institutions have ALLL ratios greater than 1.50%, compared with only 15% of larger institutions with ALLL ratios greater than 1.50%.

A higher ALLL ratio for smaller institutions is appropriate, however, given the higher concentration in risky loans. As shown in **Table 3**, Construction and Development, Commercial Real Estate and Construction & Industrial loans make up 15.58%, 30.31% and 15.34% of total loans and leases for smaller banks, respectively, compared with 7.29%, 13.15% and

This report was written by James Barnes, financial analyst at A.M. Best Co.

Table 1
Top 50 Small U.S. Banks with the Highest ALLL / Total Loans and Lease Ratio

Assets Less than \$1 Billion

Rank	Bank	Total Loans & Leases (\$000's)	ALLL (\$000's)	ALLL/Total Loans & Leases	Rank	Bank	Total Loans & Leases (\$000's)	ALLL (\$000's)	ALLL/Total Loans & Leases
1	Mitsubishi UFJ Trust & Banking (USA)	1,458	750	51.44%	27	The Jamestown State Bank	5,331	329	6.17%
2	The First National Bank of Aspermont	3,356	733	21.84%	28	Bank of the Fed. States of Micronesia	23,363	1,431	6.13%
3	Applied Card Bank	682,061	113,851	16.69%	29	Farmers State Bank	8,401	513	6.11%
4	Merrick Bank	721,111	106,095	14.71%	30	The Granger National Bank	3,888	236	6.07%
5	World Financial Capital Bank	172,292	22,084	12.82%	31	Commerce Bank, National Association	7,832	466	5.95%
6	First Illinois Bank	9,947	1,181	11.87%	32	Bank of Lake Village	34,435	2,039	5.92%
7	1st Financial Bank USA	95,268	9,904	10.40%	33	The State National Bank of Big Spring	41,776	2,457	5.88%
8	Advanta National Bank	2,896	282	9.74%	34	Central Illinois Bank	253,592	14,847	5.85%
9	Hart County Bank and Trust Company	6,149	569	9.25%	35	Robert Lee State Bank	19,866	1,160	5.84%
10	The Northern State Bank of Gonvick	6,660	600	9.01%	36	The First Farmers NB of Waurika	17,504	1,016	5.80%
11	Exchange Bank of Fairfax	4,347	378	8.70%	37	Cleveland Community Bank, SSB	16,263	933	5.74%
12	Universal Financial Corp.	570,015	46,659	8.19%	38	Langford State Bank	4,319	247	5.72%
13	De Witt Bank and Trust Company	68,772	5,458	7.94%	39	The First National Bank of Washington	17,732	989	5.58%
14	The FNB of New Holland	20,156	1,537	7.63%	40	Arkansas Bankers Bank	13,550	750	5.54%
15	Farmers Deposit Bank	43,767	3,230	7.38%	41	California Pacific Bank	58,306	3,215	5.51%
16	Target Bank	6,153	451	7.33%	42	InfiBank, National Association	228,403	12,517	5.48%
17	Target National Bank	122,009	8,835	7.24%	43	Traders Bank	59,603	3,201	5.37%
18	The First State Bank of Ransom	11,979	843	7.04%	44	Bank of Ringgold	10,218	544	5.32%
19	Bank of York	31,735	2,218	6.99%	45	Reynolds State Bank	4,111	218	5.30%
20	The First National Bank of Amherst	3,046	212	6.96%	46	The First National Bank of Lindsay	17,751	940	5.30%
21	Metro Bank, FSB	2,595	179	6.90%	47	Legacy State Bank	22,147	1,171	5.29%
22	First-Citizens Bank, National Assoc.	218,110	14,921	6.84%	48	Ocean Bank, FSB	74,748	3,939	5.27%
23	Crescent Bank & Trust	305,227	20,858	6.83%	49	The Pitney Bowes Bank, Inc.	382,719	20,021	5.23%
24	First National Bank	383,229	24,569	6.41%	50	The First National Bank of Fairfax	19,063	993	5.21%
25	Sumter National Bank	121,254	7,741	6.38%					
26	EastBank	16,383	1,017	6.21%					

Source: FDIC.



Table 2
Top 50 Large U.S. Banks with the Highest ALLL / Total Loans and Lease Ratio

Assets more than \$1 Billion

Rank	Bank	Total Loans and Leases (\$000's)	ALLL (\$000's)	ALLL/Total Loans and Leases
1	Wells Fargo Financial Bank	2,207,396	131,795	5.97%
2	Citibank (South Dakota), N.A.	29,714,198	1,654,359	5.57%
3	Bank of America, National Association (USA)	62,375,258	3,423,612	5.49%
4	Fireside Bank	1,171,288	62,636	5.35%
5	Wachovia Bank of Delaware, N.A.	2,001,102	93,093	4.65%
6	Capital One Bank	17,419,361	796,792	4.57%
7	U.S. Bank National Association ND	3,400,617	144,889	4.26%
8	Chase Bank USA, National Association	50,769,913	2,117,556	4.17%
9	Wells Fargo Financial National Bank	1,295,506	51,364	3.96%
10	Citibank (Nevada), National Association	13,236,204	510,080	3.85%
11	Juniper Bank	2,143,039	80,845	3.77%
12	Discover Bank	21,948,379	794,788	3.62%
13	Capital One, FSB	11,151,488	377,230	3.38%
14	Farmers and Merchants Bank of Long Beach	1,136,965	37,923	3.34%
15	GE Money Bank	11,308,787	351,913	3.11%
16	TrustCo Bank	1,470,719	45,377	3.09%
17	Hancock Bank	1,526,926	46,838	3.07%
18	GE Capital Financial Inc.	1,557,237	46,227	2.97%
19	American Express Centurion Bank	13,069,465	349,956	2.68%
20	American Express Bank, FSB	13,239,577	346,961	2.62%
21	First Indiana Bank, National Association	1,567,186	39,168	2.50%
22	Amboy National Bank	2,035,200	49,273	2.42%
23	Bank of Stockton	1,335,500	31,758	2.38%
24	Firsttrust Savings Bank	1,774,124	42,168	2.38%
25	Bank Leumi USA	2,716,910	64,086	2.36%
26	1st Source Bank	2,501,082	58,697	2.35%
27	Bank of Tokyo-Mitsubishi Trust Company	1,911,255	44,348	2.32%
28	Stearns Bank National Association	1,076,354	24,275	2.26%
29	MBNA America Bank, National Association	34,566,719	769,372	2.23%
30	Pinnacle Bank	1,486,893	31,167	2.10%
31	Westamerica Bank	2,672,220	55,849	2.09%
32	Citizens Bank	5,409,994	111,799	2.07%
33	Western Financial Bank	12,098,681	249,391	2.06%
34	National City Bank of Kentucky	7,006,410	139,502	1.99%
35	Iberiabank	1,929,031	38,082	1.97%
36	Banco Popular de Puerto Rico	14,730,000	290,000	1.97%
37	The Park National Bank	1,247,105	24,536	1.97%
38	Israel Discount Bank of New York	2,930,447	57,086	1.95%
39	Hancock Bank of Louisiana	1,375,629	26,325	1.91%
40	Ocean Bank	4,434,018	83,223	1.88%
41	National Penn Bank	3,049,808	56,064	1.84%
42	Greater Bay Bank, National Association	4,724,150	86,557	1.83%
43	MidFirst Bank	6,420,767	113,777	1.77%
44	Regency Savings Bank, A FSB	1,087,899	19,135	1.76%
45	Branch Banking and Trust Company of SC	4,911,179	86,254	1.76%
46	Citibank USA, National Association	5,755,454	100,225	1.74%
47	Washington Trust Bank	2,377,012	41,084	1.73%
48	International Bank of Commerce	4,121,801	70,222	1.70%
49	Community Bank	1,227,626	20,633	1.68%
50	Exchange Bank	1,032,972	17,351	1.68%

Source: FDIC.

1.99% for larger banks. With all of above-mentioned higher-risk asset categories combined, the smaller banks' loan portfolio included 61% of these riskier types of loans, compared with only 22% for the larger institutions.

A.M. Best Co.

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Table 3
Concentration of Loans & Leases
Small Versus Large Banks
 (As of Dec. 31, 2006)

	Banks with Total Assets < \$1 Billion	% of Net Loans & Leases	Banks with Total Assets > \$1 Billion	% of Net Loans & Leases
Total Net Loans and leases	\$815,724,778	100.00%	\$5,096,119,013	100.00%
Construction & Land Development	\$127,108,867	15.58%	\$371,403,170	7.29%
Commercial Real Estate	247,226,608	30.31%	669,912,690	13.15%
Commercial & Industrial	125,147,059	15.34%	101,397,512	1.99%
Total C&I, Const. & Dev. and Commercial Real Estate	\$499,482,534	61.23%	\$1,142,713,372	22.42%

Source: FDIC.



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