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The Banking Industry Has Almost Recovered – Why Hasn't The Economy?

VERIBANC's guaranteed no conflict of interest ratings are an unbiased indicator of the health of the banking industry. For the quarter ending March 31, 2007, more than 74 percent of all banks received our highest rating of Green with Three Stars. Beginning with the quarter ending June 30, 2007 until bottoming out in December 31, 2009 the percentage of Green with Three Star banks fell steadily.

Starting with the quarter ending March 31, 2010 the trend turned positive, except for the usual fourth quarter dip. The latest data (June 30, 2011) shows that the percentage of banks rated Green with Three Star is back to almost 68% of the industry.

Blue Ribbon is our rating for the safest banks of the Green with Three Stars group. Examining that subset alone during the same time frame shows similar results. It also provides confirmation of the conservative nature of Blue Ribbon banks. Even for the quarter ending 12/31/2009, the worst quarter in terms of the number of Blue Ribbon banks as a percentage of all banks, over 25% of the industry maintained their Blue Ribbon status.

Most Blue Ribbon banks, nearly 90 percent, are small to medium sized community banks with assets less than \$700 Million. Interestingly, for all quarters examined (March 31, 2007 through June 30, 2011) there were less than 20 Blue Ribbon banks that securitized loans. Almost all Blue Ribbon banks avoided the securitization "game".

Quarterly income as a percentage of assets (QROA) for Blue Ribbon banks ranged from a low of 0.25 percent to a high of 0.32 percent. This range is in sharp contrast to non-Blue Ribbon banks that reached a QROA high of only 0.18 percent in the second quarter of 2007 and then had a steady decline with six quarters in a row of negative QROA. These non-Blue Ribbon banks then regained some traction with three positive quarters of QROA, then slipped back into the negative for one quarter, and as of the quarter ending June 30, 2011 have had two positive quarters of QROA. The last quarter represents a high of almost 0.22 percent.

Blue Ribbon banks with assets between \$100 and \$300 Million reached a high QROA of almost 0.32 percent for the quarter ending September 30, 2007. Their QROA decline was very gradual and bottomed out at just under 0.25 percent in the fourth quarter of 2009. Since then their QROA has gradually increased to its present (June 30, 2011) position of almost 0.30 percent.

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The previous range for Blue Ribbon banks contrasts markedly to non-Blue Ribbon banks in the same asset group. For the period studied, the first quarter of 2007 yielded the non-Blue Ribbons' highest QROA of 0.23 percent. Then the next fourteen quarters show a steady decline with eight of those quarters reflecting negative results. In the fourth quarter of 2010 this group managed a measly QROA of just under 0.02 percent and still shows signs of struggling with a QROA of just under 0.06 percent for the second quarter of 2011.

Blue Ribbon banks with assets between \$300 and \$700 Million had roughly the same distribution of QROA as did their smaller cousins. However, non-Blue Ribbon banks in this asset range fared better than their bigger brothers, although marginally, with only six (non-consecutive) quarters of negative QROA. This group had a high of 0.28 percent for the quarter ending June 30, 2007 and has demonstrated positive QROAs of 0.10 and almost 0.90 for the first and second quarters of 2011, respectively.

Quite reassuringly, Blue Ribbon banks with assets between \$700 Million and \$2 Billion weathered the epoch studied very nicely. Their QROA at the beginning of this period (March 31, 2007) and as of June 30, 2011 was 0.29 percent. This group's lowest QROA was 0.21 percent and have the most stable QROAs of all asset sizes. In contrast, their non-Blue Ribbon peers were much more volatile with eight out of 13 declining quarters having a negative QROA. This group's latest two quarters (first and second of 2011) QROA are under 0.11 percent which is better than being negative but does not instill much confidence.

Blue Ribbon banks with assets over \$2 Billion had QROA that was more volatile than the previous asset group but were never close to going negative. This group did dip to a QROA of almost 0.15 percent in the second quarter of 2009 but have rebounded nicely to a very encouraging 0.23 percent QROA for the quarter ending June 30, 2011. The reader might be interested that this asset groups' non-Blue Ribbon peers only had two negative quarters of QROA. Compared with their QROA high of almost 0.32 percent for the first quarter of 2007 their current QROA of over 0.22 percent although significantly lower is still greater than any QROA in any quarter from 2008 through 2009.

In summary, with at least a couple thousand Blue Ribbon banks positioned to lend, too bad Washington can't get its act together and leave the economy to business so business can get us out of the doldrums.