

## **Comparative Safety and Soundness The Industrial Banking Industry Third Quarter 2009**

Key measures of an insured institution's safety and soundness are capital adequacy, asset quality and profitability. We have compiled and analyzed data related to these measures to provide what we believe is an objective view of the US banking industry's or a banking industry segment's safety and soundness profile. Industry segments in our report include: all insured institutions; industrial banks (a/k/a industrial loan companies or ILC's); commercially-owned industrial banks; and insured institutions net of industrial banks ("Other Banks"). All data is derived from FDIC quarterly call reports as of September 30, 2009. Our findings are summarized below, and along with the data are contained in the attached report.

### **CAPITAL RATIOS**

As of September 30, 2009, the US banking industry has \$13.2 trillion in Assets and \$1.4 trillion in Capital<sup>1</sup> resulting in a Capital to Asset Ratio of 10.9%. Industrial banks have \$131.4 billion in Assets and Capital of \$20.1 billion resulting in a Capital to Asset Ratio of 15.3%. Commercially owned industrial banks have \$18.7 billion in Assets and \$3.2 billion in Capital resulting in a Capital to Assets Ratio of 17.4%. Other Banks have substantially the same ratio as the whole banking industry. Industrial banks have a significantly higher Capital to Asset Ratio than the banking industry as a whole, and commercially-owned industrial banks have the highest Capital to Asset Ratio of the group.

### **TROUBLED ASSET RATIOS**

We define Troubled Assets as the sum of a) loans 90 days or more past due, b) non-accrual loans, and c) other real estate owned (net of any federally guaranteed loans) ("Total Troubled Assets"). Our report combines a) and b) into Non-current Loans and Leases which is then added to Other Real Estate Owned to equal Total Troubled Assets. The Troubled Asset Ratio is a measure of the stress placed on banks by loans. It compares loans that are not being paid on time, and property already acquired by the bank, against the bank's capital and loan loss reserves.

As of September 30, 2009, the banking industry has \$404.0 billion in Total Troubled Assets and \$1.7 trillion in Capital Plus Reserves resulting in a Troubled Asset Ratio of 24.3%. Industrial banks have Total Troubled Assets of \$2.8 billion and Capital Plus Reserves of \$22.9 billion resulting in a Troubled Asset Ratio of 12.2%. Commercially owned industrial banks have Total Troubled Assets of \$174.2 million and Capital Plus Reserves of \$3.5 billion resulting in a Troubled Asset Ratio of 4.9%. Other Banks have substantially the same ratio as the whole banking industry. Industrial banks have a significantly lower Troubled

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<sup>1</sup> Total Bank Equity Capital as reported in FDIC quarterly call reports.

Asset Ratio than the banking industry as a whole, and commercially-owned industrial banks have the lowest Troubled Asset Ratio of the group.

### **PROFITABILITY**

For the nine months ended September 30, 2009, the banking industry reported Net Income totaling \$9.6 billion resulting in an annualized ROA of 0.09%. Industrial banks reported Net Income for the period totaling \$555.0 million resulting in an annualized ROA of 0.70%. Commercially owned industrial banks reported Net Income for the period totaling \$254.6 million resulting in an annualized ROA of 1.78%. Industrial banks have a significantly higher ROA than the banking industry as a whole, and commercially-owned industrial banks have the highest ROA of the group.

### **CONCLUSION**

Compared to Other Banks, as of September 30, 2009, industrial banks remain safer and sounder institutions, having a significantly stronger Capital to Asset Ratio, a lower Troubled Asset Ratio and a higher annualized ROA. Commercially-owned industrial banks have 59.6% more capital compared to the national banking industry (17.4% compared to 10.9%); a Troubled Asset Ratio that is less than 1/5 that of the national banking industry (4.9% compared to 24.3%); and an annualized ROA that is twenty times that of the national banking industry (1.78% compared to 0.09%).

Attachments:

- *Safety and Soundness Statistics – Industrial Banking Industry*

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