Schueller, Shelly

From:	roxanne.brazeau@micorp.com
Sent:	Tuesday, August 25, 2009 2:53 PM
To:	shelly.schueller@etf.state.wi.us
Subject:	Re: Link shared by shelly.schueller@etf.state.wi.us

Hi Shelly-

M&I is taking a very aggressive approach to dealing with any nonperforming loans. The industry benchmark for reporting nonperforming loans is at the 90 day level we are accounting for them once they become past due. If we were to report our nonperforming loans consistent with the benchmark that most other banks utilize we would be at 3.7%.

M&I remains very well capitalized, with $2.1 billion in excess of regulatory "well-capitalized" requirements, a tier one risk-based ratio of approximately 10 percent and a tangible common equity ratio of 7.2%.

An equity-to assets ratio of 11%, as of June 30, 2009.

In the August 10, 2009 press release it was stated that M&I expects a relative stabilization in its nonperforming loan and lease levels based on early third quarter results.

The article from Madison.com was actually taken from a Bloomberg article

A link to the Bloomberg.com article:
http://www.bloomberg.com/apps/news?pid=20670001&sid=aTTT9jivRIWE

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08/24/2009 10:58 AM

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Please respond to shelly.schueller@etf.state.wi.us

Subject Link shared by shelly.schueller@etf.state.wi.us

Nonperforming loans make M&I Bank vulnerable, report says

Mike Ivey
August 18, 2009

Milwaukee-based Marshall & Ilsley, Wisconsin's largest bank, is at risk of failure because of a high percentage of nonperforming loans, according to a report in Bloomberg News.

M&I was named in the report as the largest U.S. bank with nonperforming loans making up 5 percent or more of its holdings. Regulators say that when the percentage of bad loans reaches that level it can wipe out a bank's equity and threaten its survival.

In a report called "Toxic loans topping 5% may push 150 banks to point of no return," Bloomberg this week compiled a list of publicly traded U.S. lenders with nonperforming loans making up 5 percent or more of their holdings. The number of U.S. banks exceeding the 5 percent threshold has more than doubled in the year through June, as real estate and credit card defaults surged, the report said.

Defaults by homeowners, consumers, builders and small businesses have pushed 72 U.S. lenders into failure so far this year, the most since 1992. More collapses lie ahead as the recession causes increased defaults and swells the confidential U.S. list of "problem banks," Bloomberg reported.

M&I did reduce its percentage of nonperforming loans last month to 5.01 percent from 5.18 percent after selling $297 million in soured loans, mostly residential mortgages in Arizona.

The bank has "been very aggressive in identifying and tackling credit challenges," M&I chief financial officer Greg Smith told Bloomberg. Smith said 26 percent of loans classified as nonperforming are overdue by less than the industry's typical standard of 90 days. With those excluded, the bank's nonperforming ratio would be around 3.7 percent, Smith said.

Also, M&I officials said the bank remains well-capitalized, with an equity to assets ratio of 11 percent.

Last week, the bank said in a press release that it expects a "relative stabilization in its nonperforming loan and lease levels based on early third quarter results."

Still, new national data show that more and more borrowers are having trouble meeting their payments because of job losses and the ongoing recession.

The deliquency rate of U.S. mortgages hit an all-time high in the second quarter of 2009. Data from credit rating agency TransUnion showed the ration of mortgage holders more than 60 days behind on payments has reached 5.81 percent. That compares to a deliquency rate of 3.53 percent for the second quarter of 2008.

While 5 percent can be "fatal" for home lenders, commercial real estate lenders may be able to withstand higher rates, said William Black, former lawyer at the Federal Home Loan Bank of San Francisco and the Office of Thrift Supervision. Commercial loans carry higher interest rates because they are riskier, he said.

"At the 5 percent range, you're probably hurting," said Black, an associate professor of economics and law at the University of Missouri-Kansas City told Bloomberg. "Once it gets around 10 percent, you're likely toast."

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Toxic Loans Topping 5% May Push 150 Banks to Point of No Return

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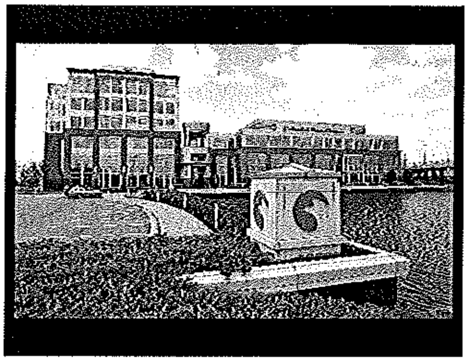
By Ari Levy



Aug. 14 (Bloomberg) -- More than 150 publicly traded U.S. lenders own nonperforming loans that equal 5 percent or more of their holdings, a level that former regulators say can wipe out a bank's equity and threaten its survival.

The number of banks exceeding the threshold more than doubled in the year through June, according to data compiled by Bloomberg, as real estate and credit-card defaults surged. Almost 300 reported 3 percent or more of their loans were nonperforming, a term for commercial and consumer debt that has stopped collecting interest or will no longer be paid in full.

The biggest banks with nonperforming loans of at least 5 percent include Wisconsin's **Marshall & Ilsley Corp.** and Georgia's **Synovus Financial Corp.**, according to Bloomberg data. Among those exceeding 10 percent, the biggest in the 50 U.S. states was Michigan's **Flagstar Bancorp**. All said in second- quarter filings they're "well-capitalized" by regulatory standards, which means they're considered financially sound.

"At a 3 percent level, I'd be concerned that there's some underlying issue, and if they're at 5 percent, chances are regulators have them classified as being in unsafe and unsound condition," said **Walter Mix**, former commissioner of the California Department of Financial Institutions, and now a managing director of consulting firm **LECG** in Los Angeles. He wasn't commenting on any specific banks.

Missed payments by consumers, builders and small businesses pushed 72 lenders into failure this year, the most since 1992. More collapses may lie ahead as the recession causes increased defaults and swells the confidential U.S. list of "problem banks," which stood at 305 in the first quarter.

Cash Drain

Nonperforming loans can eat into a company's earnings and deplete cash, leaving banks below the minimum capital levels required by regulators. Three lenders with nonaccruing ratios of at least 6.2 percent as of March were closed last week. In addition, Chicago-based **Corus Bankshares Inc.**, Austin-based Guaranty Financial Group Inc. and **Colonial BancGroup Inc.** in Montgomery, Alabama, each with ratios of at least 6.5 percent, said in the past month that they expect to be shut.

"This is a fairly widespread issue for the larger community banks and some regional banks across the country," said Mix of LECG, where **William Isaac**, former head of the Federal Deposit Insurance Corp., is chairman of the global financial services unit.

Ratios above 5 percent don't always lead to failures because banks keep capital cushions and set aside reserves to absorb bad loans. Banks with higher ratios of equity to total assets can better withstand such losses, said **Jim Barth**, a former chief economist at the Office of Thrift Supervision. Marshall & Ilsley and Synovus said they've been getting bad loans off their books by selling them.

Exclusions

Bloomberg's list was compiled by screening U.S. banks for nonperforming loans of 5 percent or more, and then ranked by assets. The list excluded U.S. territories and lenders that have already failed. Also left out were the 19 lenders that underwent the Treasury's stress tests in May; they were deemed "too big to fail" and told by regulators that government capital was available to keep them in business.

Excluding the stress-test list, banks with nonperformers above 5 percent had combined deposits of $193 billion, according to Bloomberg data. That's almost 15 times the size of the FDIC's deposit insurance fund at the end of the first quarter.

About 2.6 percent of the $7.74 trillion in bank loans outstanding in the U.S. at the end of March were nonaccruing, the highest in 17 years, according to the most recent data from the **FDIC.** Nonaccrual loans peaked at 3.27 percent in the second quarter of 1991, during the savings and loan crisis, and averaged 1.54 percent over the past 25 years.

'Off the Charts'

"These numbers are off the charts," said **Blake Howells**, an analyst at Becker Capital Management in Portland, Oregon, referring to the nonperforming loan levels at companies he follows. Banks are losing the "ability to try and earn their way through the cycle," said Howells, who previously spent 13 years at Minneapolis-based **U.S. Bancorp.**

Corus, with more than two-thirds of its loans nonperforming, has the highest rate among publicly traded banks. The company said last month that it's "critically undercapitalized" after five consecutive quarterly losses tied to defaults on condominium construction loans. **Randy Curtis**, Corus's interim chief executive officer, didn't respond to calls for comment.

Marshall & Ilsley, Wisconsin's biggest bank, reduced its nonperforming loans last month to 5.01 percent from 5.18 percent after selling $297 million in soured loans, mostly residential mortgages in Arizona, the Milwaukee-based company said Aug. 10.

Deadline for Nonperformers

The bank has "been very aggressive in identifying and tackling credit challenges," Chief Financial Officer **Greg Smith** said in an Aug. 12 interview. Smith said 26 percent of loans classified as nonperforming are overdue by less than the industry's typical standard of 90 days. With those excluded, the ratio would be around 3.7 percent, he said.

Synovus, plagued by defaulting construction loans in the Atlanta area, said nonperforming loans rose to 5.4 percent in the second quarter from 5.2 percent the previous period. Disposals of nonperforming assets reached $404 million in the quarter ended in June, the Columbus, Georgia-based company said.

Synovus is selling troubled loans and will continue its "aggressive stance on disposing of nonperforming assets" as long as the level is elevated, spokesman **Greg Hudgison** said in an e-mailed statement.

Michigan Home

Flagstar is based in Troy, **Michigan**, the state with the nation's highest unemployment rate. Flagstar has $16.4 billion in assets and reported last month that 11.2 percent of its loans were nonperforming; about two-thirds were home mortgages. Flagstar CFO **Paul Borja** didn't return repeated calls for comment.

The bank's allowance for loan losses was 5.4 percent of total loans at the end of the second quarter, compared with 3.3 percent at Synovus and 2.8 percent at Marshall & Ilsley, according to company filings. All three reported at least three straight quarterly deficits.

The FDIC doesn't comment on lenders that are open and operating and doesn't disclose which banks are on its problem list. The agency will probably impose an emergency fee on the more than 8,200 banks it insures in the fourth quarter to replenish the insurance fund, the second special assessment this year, Chairman **Sheila Bair** said last week. The FDIC attempts to sell deposits and assets of seized banks to healthier firms to avoid eroding the fund, said agency spokesman **David Barr**.

Capital Levels

To determine which banks are most troubled, regulators compare the ratio of nonperforming loans to the percentage of equity a firm has relative to its assets, said **Barth**, the former OTS economist. A company with 5 percent nonperforming loans and equity of 8 percent is better positioned than one with the same amount of troubled loans and equity of 4 percent, he said.

Flagstar's equity-to-assets ratio in the second quarter was 5.4 percent, Synovus's was 8.9 percent and Marshall & Ilsley, which raised $552 million through a stock sale in June, was at 11 percent, according to the banks.

The three lenders that failed last week -- Florida's First State Bank and Community National Bank and Oregon's Community First Bank -- all had nonperforming loans above 6 percent and equity ratios below 4.5 percent.

"The nonperforming ratio, in and of itself, should be a great concern," said Barth, a professor of finance at Auburn University in Alabama and senior finance fellow at the Milken Institute in Santa Monica, California. "It becomes even more troublesome when it goes above 3 percent and the equity-to-asset ratio is quite low."

Toast Time

While 5 percent can be "fatal" for home lenders, commercial real estate lenders may be able to withstand higher rates, said **William K. Black**, former lawyer at the Federal Home Loan Bank of San Francisco and the OTS. Commercial loans carry higher interest rates because they're riskier, he said.

"At the 5 percent range, you're probably hurting," said Black, an associate professor of economics and law at the University of Missouri-Kansas City. "Once it gets around 10 percent, you're likely toast."

To contact the reporter on this story: **Ari Levy** in San Francisco at **alevy5@bloomberg.net**

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