

February 24, 2010



Jamie Farnham
Director of Credit Research
U.S. Fixed Income

FDIC’s Problem Bank Tide Still Rising

While the worst is likely in the rear view mirror for the largest banks, the same cannot be said for smaller banks. Problem bank totals are at the highest levels since the S&L crisis days of the early '90's. The table at right depicts the sequential deterioration as illustrated by the increase in the number of problem banks. Note that the average size of a problem bank has slightly decreased compared to recent historical periods. This is consistent with the relatively higher concentrations of commercial real estate exposures among smaller banks. FDIC Chair Sheila Bair commented earlier this week that she expects bank failures to peak this year.

The FDIC report (see link at the end of the article to review the most recent FDIC quarterly banking profile) references the continuation in banking sector consolidation. Over the course of 2009, the number of reporting commercial bank and savings institutions fell from 8,305 to 8,012. Only 31 new charters were added in 2009, the smallest annual total since 1942 (of these, only three were added in Q4 2009). Mergers absorbed 179 institutions during the year, and 140 insured institutions failed. This is the largest number of bank failures in a year since 1992. The number of institutions

on the FDIC's "Problem List" rose to 702 at the end of 2009, from 552 at the end of the third quarter and 252 at the end of 2008. Total assets of "problem" institutions were \$402.8 billion at year end 2009, compared with \$345.9 billion at the end of September and \$159.0 billion at the end of 2008. Both the number and assets of "problem" institutions are at the highest level since June 30, 1993.

	4Q'09	3Q'09	Q4'08
Problem bank assets (\$b)	\$402.8	\$345.9	\$159.0
Problem banks	702	552	252
Assets/institution (\$b)	\$0.57	\$0.63	\$0.63

<http://www2.fdic.gov/qbp/2009dec/qbp.pdf>

Any opinions expressed are current only as of the time made and are subject to change without notice. TCW assumes no duty to update any such statements. The views expressed herein are solely those of the author and do not represent the views of TCW as a firm or of any other portfolio manager or employee of TCW. Any holdings of a particular company or security discussed herein are under periodic review by the author and are subject to change at any time, without notice. In addition, TCW manages a number of separate strategies and portfolio managers in those strategies may have differing views or analyses with respect to a particular company, security or the economy than the views expressed herein. This report may include estimates, projections and other "forward-looking statements." Due to numerous factors, actual events may differ substantially from those presented. This publication is not to be used or considered as an offer to sell, or a solicitation to an offer to buy, any security. Nothing contained herein should be considered a recommendation or advice to purchase or sell any security. TCW, its officers, directors, employees or clients may have positions in securities or investments mentioned in this publication, which positions may change at any time, without notice. This publication is for information purposes only. While the information and statistical data contained herein are based on sources believed to be reliable, we do not represent that it is accurate and should not be relied on as such or be the basis for an investment decision. Any opinions expressed are current only as of the time made and are subject to change without notice. TCW assumes no duty to update any such statements. Copyright TCW 2010