Dangerous Unintended Consequences:
How Banking Bailouts, Buyouts and Nationalization
Can Only Prolong America's Second Great Depression
and Weaken Any Subsequent Recovery

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Weiss Research, Inc. is an independent investment research firm founded in 1971, providing information and tools to help investors and savers make sound financial decisions through its free daily e-letter, *Money and Markets*, its monthly *Safe Money Report*, and other investor publications.

Although TheStreet.com has provided data and ratings used in this report, the opinions and analysis expressed here are strictly those of Martin D. Weiss and Weiss Research, Inc.

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Executive Summary

The Fed Chairman, the Treasury Secretary, and Congress have now done more to bail out financial institutions and pump up financial markets than any of their counterparts in history.

But it's not nearly enough; and, at the same time, it's already far too much.

Two years ago, when major banks announced multibillion losses in subprime mortgages, the world's central banks injected unprecedented amounts of cash into the financial markets. But that was not enough.

Six months later, when Lehman Brothers and American Insurance Group (AIG) fell, the U.S. Congress rushed to pass the Troubled Asset Relief Program, the greatest bank bailout legislation of all time. But as it turned out, that wasn't sufficient either.

Subsequently, in addition to the original goal of TARP, the U.S. government has loaned, invested, or committed $400 billion to nationalize the world's two largest mortgage companies, $42 billion for the Big Three auto manufacturers; $29 billion for Bear Stearns, $185 billion for AIG; $350 billion for Citigroup; $300 billion for the Federal Housing Administration Rescue Bill; $87 billion to pay back JPMorgan Chase for bad Lehman Brothers trades; $200 billion in loans to banks under the Federal Reserve's Term Auction Facility (TAF); $50 billion to support short-term corporate IOUs held by money market mutual funds; $500 billion to rescue various credit markets; $620 billion in currency swaps for industrial nations, $120 billion in swaps for emerging markets; trillions to cover the FDIC's new, expanded bank deposit insurance plus trillions more for other sweeping guarantees; and it *still* wasn't enough.

If it *had* been enough, the Fed would not have felt compelled yesterday to announce its plan to buy $300 billion in long-term Treasury bonds, an *additional* $750 billion in agency mortgage backed securities, plus $100 billion *more* in GSE debt.

Total tally of government funds committed to date: Closing in on $13 trillion, or $1.15 trillion more than the tally just 24 hours ago, when the body of this white paper was printed. And yet, even that astronomical sum is *still* not enough for a number of reasons:

First, most of the money is being poured into a virtually bottomless pit. Even while Uncle Sam spends or lends hundreds of billions, the wealth destruction taking place at the household level in America is occurring in the trillions — $12.9 trillion vaporized in real estate, stocks, and other assets since the onset of the crisis, according to the Fed's latest *Flow of Funds*.

Second, most of the money from the government is still a promise, and even much of the disbursed funds have yet to reach their destination. Meanwhile, all of the wealth lost has *already* hit home — in the household.

Third, the government has been, and is, greatly underestimating the *magnitude* of this debt crisis. Specifically,

- The FDIC's "Problem List" of troubled banks includes only 252 institutions with assets of $159 billion. However, based on our analysis, a total of 1,568 banks and thrifts are at risk of failure with assets of $2.32 trillion due to weak capital, asset quality, earnings and other factors. (The details are in Part I of our paper, and the institutions are named in Appendix A.)

- When Treasury officials first planned to provide TARP funds to Citigroup, they assumed it was among the strong institutions; that the funds would go primarily toward stabilizing the markets or the economy. But even before the check could be cut, they learned that the money would have to be for a very different purpose: an emergency injection of capital to prevent Citigroup's collapse. Based on our analysis, however, Citigroup is not alone. We could witness a similar outcome for JPMorgan Chase and other major banks. (See Part II.)

- AIG is big, but it, too, is not alone. Yes, in a February 26 memorandum, AIG made the case that its $2 trillion in credit default swaps (CDS) would have been *the* big event that could have caused a global collapse. And indeed, its counterparties alone have $36 trillion in assets. But AIG's CDS portfolio is just one of many: Citibank's portfolio has $2.9 trillion, almost a trillion more than AIG's at its peak. JPMorgan Chase has $9.2 trillion, or almost five times more than AIG. And globally, the Bank of International Settlements (BIS) reports a total of $57.3 trillion in credit default swaps, more than 28 times larger than AIG's CDS portfolio.

Clearly, the money available to the U.S. government is too small for a crisis of these dimensions. But at the same time, the massive sums being committed by the U.S. government are also too much: In the U.S. banking industry, shotgun mergers, buyouts and bailouts are accomplishing little more than shifting their toxic assets like DDT up the food chain. And the government's promises to buy up the toxic paper have done little more than encourage banks to hold on, piling up even bigger losses.

The money spent or committed by the government so far is also too much for another, less-known reason: Hidden in an obscure corner of the derivatives market is a unique credit default swap that virtually no one is talking about — contracts on the default of the United States Treasury bonds. Quietly and without fanfare, a small but growing number of investors are not only thinking the unthinkable, they're actually spending money on it, bidding up the premiums on Treasury bond credit default swaps to 14 times their 2007 level. This is an early warning of the next big shoe to drop in the debt crisis — serious potential damage to the credit, credibility and borrowing power of the United States Treasury.

We have no doubt that, when pressed, the U.S. government will take whatever future steps are necessary to sufficiently control its finances and avoid a fatal default on its debts. However, neither the administration nor any other government can control the *perceptions* of its creditors in the marketplace. And currently, the market's perception of the U.S. government's credit is falling, as anticipation of a possible future default by the U.S. government, no matter how unlikely, is rising.

This trend packs a powerful message — that there's no free lunch; that it's unreasonable to believe the U.S. government can bail out every failing giant with no consequences; and that, contrary to popular belief, even Uncle Sam must face his day of reckoning with creditors.

We view that as a positive force. We are optimistic that, thanks to the power of investors, creditors, and the people of the United States, we will ultimately guide, nudge and push ourselves to make prudent and courageous choices:

1. We will back off from the tactical debates about how to bail out institutions or markets, and rethink our overarching goals. Until now, the oft-stated goal has been to prevent a national banking crisis and avoid an economic depression. However, we will soon realize that the true costs of that enterprise — the 13-digit dollar figures and damage to our nation's credit — are far too high.

2. We will replace the irrational, unachievable goal of jury-rigging the economic cycle, with the reasoned, achievable goal of rebuilding the economy's foundation in preparation for an eventual recovery.

- Right now, the public knows intuitively that a key factor that got us into trouble was too much debt. Yet, the solution being offered is to encourage banks to lend more and people to borrow more.

- Economists almost universally agree that one of the grave weaknesses of our economy is the lack of savings needed for healthy capital formation, investment in better technology, infrastructure, and education. Yet, the solution being offered is to spend more and, by extension, to save less.

These disconnects will not persist. Policymakers will soon realize they have to change course.

3. When we change our goals, it naturally follows that we will also change our priorities — from the battles we can't win to the war we can't afford to lose: Right now, for example, despite obviously choppy seas, the prevailing theory seems to be that the ship is unsinkable, or that the government can keep it afloat no matter how bad the storm may be.

With that theory, they might ask: "Why have lifeboats for every passenger? Why do much more for hospitals that are laying off ER staff, for countless charities that are going broke, or for one in 50 American children who are homeless? Why prepare for the financial Katrinas that could strike nearly every city?"

The answer will be: Because we have no other choice; because that's a war we can and *will* win. It will not be very expensive. We have the infrastructure. And we'll have plenty of volunteers.

4. Right now, our long-term strategies and short-term tactics are in conflict. We try to squelch each crisis and kick it down the road. Then we do it again with each *new* crisis. Meanwhile, fiscal reforms are talked up in debates but pushed out in time. Regulatory changes are mapped out in detail, but undermined in practice. Soon, however, with more reasonable, achievable goals, theory and practice will fall into synch.

5. Instead of trying to plug our fingers in the dike, we're going to guide and manage the natural flow of a deflation cycle to reap its silver-lining benefits — a reduction in burdensome debts, a stronger dollar, a lower cost of living, a healthier work ethic, an enhanced ability to compete globally.

6. We're going to buffer the population from the most harmful social side-effects of a worst-case scenario. Then we're going to step up, bite the bullet, pay the penalty for our past mistakes, and make hard sacrifices *today* that build a firm foundation for an eventual economic recovery. We will not demand instant gratification. We will assume responsibility for the future of our children.

7. We will cease the doubletalk and return to some basic axioms, namely that:

- *The price is the price.* Once it is established that our overarching goal is to manage — not block — natural economic cycles, it will naturally follow that regulators can guide, rather than hinder, a market-driven cleansing of bad debts. The market price will not frighten us. We can use it more universally to value assets.

- *A loss is a loss.* Whether institutions hold asset or sell assets, whether they decide to sell now or sell later, if the asset is worth less than what it was purchased for, it's a loss.

- *Capital is capital.* It is not goodwill, or other intangible assets that are unlikely to ever be sold. It is not tax advantages that may never be reaped.

- *A failure is a failure.* If market prices mean that institutions have big losses, and if the big losses mean all capital is gone, then the institution has failed.

8**.** We will pro-actively shut down the weakest institutions no matter how large they may be; provide opportunities for borderline institutions to rehabilitate themselves under a slim diet of low-risk lending; and give the surviving, well-capitalized institutions better opportunities to gain market share.

Kansas City Federal Reserve President Thomas Hoenig recommends that "public authorities would be directed to declare any financial institution insolvent whenever its capital level falls too low to support its ongoing operations and the claims against it, or whenever the market loses confidence in the firm and refuses to provide funding and capital. This directive should be clearly stated and consistently adhered to for all financial institutions that are part of the intermediation process or payments system." We agree.

9. We will build confidence in the banking system, but in a very different way: Right now, banking authorities are their own worst enemy. They paint the entire banking industry with a single broad brush — "safe." But when consumers see big banks on the brink of bankruptcy, their response is to paint the entire industry with an alternate broad brush — that the entire banking industry is "unsafe." To prevent that outcome, we will challenge the authorities to release their confidential CAMELS ratings on each bank in the country. And to restore some risk for depositors, we will ask them to reverse the expansion of FDIC coverage limits, bringing back the $100,000 cap for individuals and businesses.

Although these steps may hurt individual banks in the short run, it will not harm the banking system in the long run. Quite the contrary, when consumers have a reason to discriminate rationally between safe and unsafe institutions, and when they have a motive to shift their funds freely to stronger hands, they will strengthen the banking system.

I am making these recommendations because I am optimistic we can get through this crisis. Our social and physical infrastructure, our knowledge base, and our Democratic form of government are strong enough to make it possible. As a nation, we've been through worse before, and we survived then. With all our wealth and knowledge, we can certainly do it again today.

But my optimism comes with no guarantees. Ultimately, we're going to have to make a choice: The right choice is to make shared sacrifices, let deflation do its work, and start regenerating the economic forces that have made the United States such a great country. The wrong choice is to take the easy way out, try to save most big corporations, print money without bounds, debase our dollar, and ultimately allow *inflation* to destroy our society.

This white paper is my small way of encouraging you, with data and reason, to make the right choice starting right now.

Introduction

Within fewer than 18 months, the U.S. government has spent, loaned, guaranteed or committed an astronomical sum of $11.6 trillion in an all-out attempt to bail out failing companies, save Wall Street from a financial meltdown, and prevent an economic disaster. Yet, despite these Herculean efforts, American households have lost $12.9 trillion in wealth, millions are losing their jobs, and the economy is sinking into a depression.

The bailouts are not working. And six months ago, in our white paper, "Proposed $700 Billion Bailout Is Too Little, Too Late to End the Debt Crisis; Too Much, Too Soon for the U.S. Bond Market," we explained why.

We argued that

1. The $700 billion requested by the Bush administration under the Troubled Asset Relief Program (TARP) to rescue the nation's banks and other financial institutions would be vastly inadequate to cover the probable losses in America's vast credit markets.

2. The burden of such massive rescues would make it increasingly expensive and difficult for the U.S. government to sell its bonds.[1]

Today, in the half-year that has elapsed since our paper's publication, an abundance of new evidence makes it plainly evident that our first argument was, if anything, understated. Meanwhile, stronger evidence validating our second argument — regarding potential U.S. government funding difficulties — is just beginning to come to light. In this paper, we provide updated and expanded research on both issues:

We estimate the dimensions of the debt crisis, including the number of U.S. banks and thrifts we believe to be at risk of failure, a total tally of their assets, and the names of each.

We explain the threat to the Treasury bond markets, showing how difficult it could become for the U.S. government to refund its maturing debts — let alone finance its bulging deficits.

And we provide new recommendations for averting a worst-case scenario. Bank failures and a depression are not the end of the world. Provided the crisis is managed properly, its most damaging impacts *can* be avoided and long-term benefits *will* accrue.

[1] In our 2008 paper (available at http://www.weissgroupinc.com/bailout/Bailout-White-Paper-Sept-24-2008(2).pdf) we combined the analysis of TheStreet.com ratings with our own evaluation of derivatives and other risks of large institutions which we feel are not adequately captured by the TheStreet.com ratings model. In this paper, for the sake of better clarity, we provide TheStreet.com list based on the Call Report data and a separate, shorter, list based on Weiss Research's analysis of derivatives and other risks.

Part I
The FDIC Greatly Understates the Number and Assets of U.S. Banks Currently at Risk of Failure

Financial failure can appear in many forms. Sometimes the company files for bankruptcy voluntarily; sometimes it's bought out, bailed out or simply liquidated. No matter what the final outcome, for the purposes of this paper, we consider it a failure.

To flag potential failures in the banking system, the Federal Depositors Insurance Corporation (FDIC) maintains a "Problem List" of banks, often used by the public and policymakers to gage the severity of the banking crisis. And in its most recent release,[2] the FDIC reported that

- Its Problem List grew during the fourth quarter from 171 to 252 institutions, the largest number since the middle of 1995.
- The total assets of institutions on the Problem List increased from $115.6 billion to $159 billion.
- Compared to a year earlier, the number of institutions on the list rose 232 percent, while their total assets surged by a surprisingly sharp 623 percent.

The FDIC does not disclose the names of the institutions on its Problem List. However, there is abundant evidence that it understates the risk of bank failures in the U.S. by a wide margin, as follows:

First, it was widely reported that one of the largest banks to fail in 2008, IndyMac Bank of Pasadena, California, with assets of $32 billion, was not on the FDIC's Problem List, evidence that the list is not capturing the broader threats to the U.S. banking system.

Second, several large institutions, each of which has assets many times larger than the $159 billion tally of the FDIC's Problem List, were troubled enough to receive large emergency injections of TARP funds. Therefore, it's obvious that they are also not on the FDIC's list.

Third, a statistical ratings model conceptually similar to those used by federal regulators for identifying high-risk banks generates a list of institutions at risk of failure which we believe is more comprehensive and accurate than the Problem List maintained by the FDIC.

A Brief History of Some Statistical Ratings Models for Banks and Thrifts

The banking regulators have developed a methodology for flagging troubled banks, currently called CAMELS ratings, which evaluate capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk.

The results of this model are not published. However, in the 1980s, when the official Call Report data became more readily available to the public, independent research firms, such as Veribanc of Massachusetts and T. J. Holt and Co. of Connecticut, developed ratings methodologies that were based conceptually (albeit not

[2] Quarterly Banking Profile, Fourth Quarter 2008, available at http://www2.fdic.gov/qbp/2008dec/qbp.pdf

mathematically) on the Fed's CAMELS ratings. Subsequently, actuarial studies performed on both the T. J. Holt and Veribanc ratings demonstrated a consistent pattern whereby

- virtually all institutions that subsequently failed had received a low rating months earlier;
- few, if any, institutions with a high rating failed within a year after the ratings were published.

Although not all low-rated institutions subsequently failed, the failure rate of low-rated institutions was very high, validating our view that they are at risk of failure, especially in a deep recession or depression.

In 1987, Weiss Research purchased the Holt bank ratings database and quantitative models, incorporating elements of its own qualitative bank ratings methodology and publishing these under the banner of Weiss Safety Ratings.

In its 1994 study, Insurance Ratings: Comparison of Private Agency Ratings for Life/Health Insurers,[3] the U.S. General Accountability Office (GAO) reviewed the Weiss ratings scale (from A to F) and determined that a Weiss Safety Rating of D+ or lower denotes institutions that are "vulnerable" to future financial failures. Further, the high percentage of companies rated D+ or lower that subsequently failed again validated the general accuracy of that designation. Although the GAO was referring to a different industry (life and health insurers), the Weiss ratings scale was designed to convey the same significance across various financial industries, including commercial banks, savings banks, and savings and loan associations.

In 2006, the New York media firm TheStreet.com purchased the Weiss Ratings, now called Financial Strength Ratings. However, TheStreet.com ratings scale (A through F) is the same as the earlier Weiss ratings scale, while the ratings methodology has remained virtually the same as well.

Now, for the purposes of this paper, TheStreet.com has provided a list of all rated depository institutions with a Financial Strength Rating of D+ (weak) or lower.[4] And based on the background cited above, we believe the list is both more comprehensive and more accurate than the FDIC's.[5] From the list, Weiss Research finds that:

- 1,372 commercial and savings banks are at risk of failure with total assets of $1.79 trillion (Appendix A).
- 196 savings and loan associations are at risk with $528 billion in assets (Appendix B).
- In sum, a total of 1,568 banks and thrifts are at risk with assets of $2.32 trillion. That's 6 times the number or institutions and 15 times the assets of banks and thrifts on the FDIC's fourth quarter 2008 Problem List.
- Given the deterioration in banks and in the economy reported by the FDIC and the Commerce Department, it is likely that more banks and thrifts will be added to the list once fourth quarter ratings become available.

[3] Available in pdf image format provided by the GAO at http://archive.gao.gov/t2pbat2/152669.pdf.
[4] TheStreet.com's data sources are the Federal Financial Institutions Examination Council Call Report and the Office of Thrift Supervision's Thrift Financial Reports for the third quarter of 2008, as provided by Highline Financial, Inc., with reference to the fourth quarter Call Reports strictly to determine which banks were still in business at yearend.
[5] The opinions expressed here regarding TheStreet.com ratings are exclusively those of Martin Weiss and Weiss Research.

The precise differences between the FDIC's method for flagging problem banks and the method used here are not known. However, the aggregate results should make it clear that the magnitude of the banking troubles in the U.S. today could be far greater than what the FDIC is publicly recognizing.

Part II
U.S. Commercial Banks Have Taken Massive, Often Unquantifiable, Risks in Their Derivatives Holdings

The collapse of major financial institutions since 2008 has come as a shock to both Wall Street and Washington. But nearly 15 years ago, the U.S. Government Accountability Office (GAO) explicitly warned of this possibility. On May 18, 1994, in a landmark study, Financial Derivatives, Actions Needed to Protect the Financial System,[6] it stated that:

1. Derivatives trading involves exposure to five different risks:

   (a) **credit risk**, defined as "the possibility of loss resulting from a counterparty's failure to meet its financial obligations";

   (b) **market risk**, "adverse movements in the price of a financial asset or commodity";

   (c) **legal risk**, "an action by a court or by a regulatory or legislative body that could invalidate a financial contract";

   (d) **operations risk**, "inadequate controls, deficient procedures, human error, system failure, or fraud"; and

   (e) **system risk**, a chain reaction of financial failures that could threaten the national or global banking system.

2. Over-the-counter (OTC) derivatives trading at affiliates of securities and insurance companies are unregulated and growing too rapidly.

3. Just five major securities firms, three insurance companies and seven commercial banks account for the overwhelming bulk of the derivatives trading.

4. "If one of these large OTC dealers failed, the failure could pose risks to other firms — including federally insured depository institutions — and the financial system as a whole."

5. "Financial linkages among firms and markets could heighten this risk. Derivatives clearly have expanded the financial linkages among the institutions that use them and the markets in which they trade. Various studies of the October 1987 market crash showed linkages between markets for equities and their derivatives. According to those studies, prices in the stock, options, and futures markets were related, so that disruptions in one were associated with disruptions in the others."

6. "The concentration of OTC derivatives activities among a relatively few dealers could also heighten the risk of liquidity problems in the OTC derivatives markets, which in turn could pose risks to the financial system. Because the same relatively few major OTC derivatives dealers now account for a large portion of trading in a number of markets*, the abrupt failure or withdrawal from trading of one of these dealers could*

[6] Available at http://archive.gao.gov/t2pbat3/151647.pdf.

undermine stability in several markets simultaneously, which could lead to a chain of market withdrawals, possible firm failures, and a systemic crisis." (Italics are ours.)

7. "The federal government would not necessarily intervene just to keep a major OTC derivatives dealer from failing, but to avert a crisis, the Federal Reserve may be required to serve as lender of last resort to any major U.S. OTC derivatives dealer, whether regulated or unregulated."

In response to the GAO's 1994 warnings above, the financial industry's response was both audible and caustic. Major Wall Street firms pushed back with concerted lobbying efforts to block any regulatory changes at the pass, while "Chicken Little" accusations were leveled at the authors, Congressional requesters of the study, and any independent firm, such as Weiss Research, that made forecasts based on its conclusions.[7]

The industry's primary argument in defense of derivatives was that they helped to reduce risk through hedging, and that each derivatives position was generally balanced against offsetting positions. However, many large financial institutions — such as Bear Stearns, Lehman Brothers, Merrill Lynch and the American Insurance Group (AIG) — went far beyond hedging, transforming their derivatives divisions into major profit centers based on speculative trading. Moreover, they did not adequately protect themselves against defaults by their trading partners or anticipate the severity of the system risk stressed by the GAO.

Subsequently, as detailed in the GAO's follow-up report, Financial Derivatives: Actions Taken or Proposed Since May 1994,[8] some, mostly cosmetic, changes were made. But they did nothing to slow the meteoric growth of the very instruments and practices that the GAO identified as posing the greatest threats to financial institutions and the financial system. Specifically,

- In its 1994 study, the GAO reported, "The best available data indicate that the total volume of worldwide derivatives outstanding as of year-end 1992 was at least $12.1 trillion in terms of the notional, or principal, amount of derivatives contracts." Although the GAO recognized that the $12.1 trillion overstated the actual risk, it also stated that "firms that use derivatives can sustain significant losses," implying that $12.1 trillion was already considered a dangerously large number.

  However, that number pales in comparison to the latest tally of notional OTC derivatives by the Bank of International Settlements (BIS).[9] At mid-year 2008, the BIS reported $683.7 trillion, or 56.5 times the level reported by the GAO for 1992.

  Worse, among these were $57.3 trillion in credit default swaps, or bets on the failure of named corporations. These contracts are widely recognized as the highest risk category of derivatives and are directly responsible for the demise of AIG, one of the largest threats to the global financial system today.

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[7] In *Safe Money Report*, Issue #294, October 2, 1998, we wrote "Even as the Dow makes new highs, Wall Street and the world's financial markets sit atop a gigantic mountain of derivatives — high-risk bets and debts that total a mind-boggling $285 trillion." http://www.martinweiss.com/images/PDF/SMR/SMR294.pdf. Similarly, in *Safe Money Report*, Issue #391, November 2006, we wrote "It's a global Vesuvius that could erupt at almost any time, instantly throwing the world's financial markets into turmoil ... bankrupting major banks ... sinking big name insurance companies ... scrambling the investments of hedge funds ... overturning the portfolios of millions of average investors," http://www.martinweiss.com/images/pdf/SMR/SMR391.pdf.

[8] http://www.gao.gov/archive/1997/g197008.pdf

[9] http://www.bis.org/statistics/otcder/dt1920a.pdf

At the time of the 1994 GAO study, credit default swaps barely existed; now they are nearly five times larger than the *total* tally of global derivatives *in all categories* reported by the GAO for 1992.

- In its 1994 study, the GAO warned of extreme concentration in the derivatives market, with the top seven domestic bank derivatives dealers accounting for more than 90 percent of all U.S. bank derivatives activity as of December 1992.

  Today, the data reported by the Comptroller of the Currency (OCC) demonstrates that not only has there been a failure to better diversify derivatives trading across a broader range of players, the concentration has actually increased. As of September 30, 2008, instead of seven major players among U.S. commercial banks, there were only five. And instead of controlling 90 percent, these five banks controlled 97 percent of the total industry notional amount.[10]

  Moreover, the OCC also reports that, of the $175.8 trillion in notional derivatives held by U.S. commercial banks at September 30, 2008, one single player, JPMorgan Chase Bank NA, controls $87.7 trillion, or 49.9%, raising serious questions regarding its virtual monopoly in the U.S. derivatives market and the systemic risk implied by any failure.[11] (See accompanying table.)

Rank	Bank Name	State	Total Assets	Total Derivatives	Total Futures (EXCH TR)	Total Options (EXCH TR)	Total Forwards (OTC)	Total Swaps (OTC)	Total Options (OTC)	Total Credit Derivatives (OTC)	Spot FX
1	JPMORGAN CHASE BANK NA	OH	$1,768,65	$87,688,008	$1,442,086	$2,349,629	$8,949,110	$54,385,247	$11,384,205	$9,177,731	$218,733
2	BANK OF AMERICA NA	NC	1,359,071	38,673,967	1,622,080	643,185	3,651,347	26,796,894	3,479,789	2,480,672	237,758
3	CITIBANK NATL ASSN	NV	1,207,007	35,645,429	253,586	432,226	5,071,607	20,210,646	6,737,581	2,939,783	536,543
4	WACHOVIA BANK NATL ASSN	NC	664,223	4,221,834	223,423	87,961	211,515	2,913,470	464,389	321,076	15,248
5	HSBC BANK USA NATL ASSN	DE	181,587	4,133,712	85,293	113,974	565,779	1,938,203	277,515	1,152,948	76,457
6	WELLS FARGO BANK NA	SD	514,853	1,429,088	174,358	21,694	468,891	562,659	199,766	1,720	19,149
7	BANK OF NEW YORK MELLON	NY	218,699	1,193,652	28,549	58,355	383,966	384,724	336,641	1,417	56,668
8	STATE STREET BANK & TRUST CO	MA	276,291	869,294	2,054	713	786,206	17,927	57,249	5,145	54,802
9	SUNTRUST BANK	GA	170,007	276,689	63,232	26,671	14,275	137,461	31,987	3,063	407
10	PNC BANK NATL ASSN	PA	134,780	198,478	26,441	12,500	6,079	124,859	23,660	4,940	1,580
11	NORTHERN TRUST CO	IL	68,930	175,128	0	0	165,238	9,232	389	269	22,761
12	KEYBANK NATL ASSN	OH	97,811	136,302	20,652	4,400	15,325	79,430	8,805	7,690	1,277
13	NATIONAL CITY BANK	OH	141,501	123,530	16,007	350	12,326	49,853	42,700	2,293	123
14	U.S. BANK NATL ASSN	OH	242,597	97,056	1,640	9,000	23,871	51,272	9,618	1,655	878
15	MERRILL LYNCH BANK USA	UT	61,643	94,255	72,285	246	614	12,086	0	9,025	0
16	REGIONS BANK	AL	139,556	80,094	13,964	3,500	1,222	59,482	1,487	439	7
17	BRANCH BANKING AND TRUST CO	NC	133,166	71,044	3,599	0	8,632	49,228	9,533	52	57
18	RBS CITIZENS NATL ASSN	RI	132,609	59,474	0	0	4,890	53,129	1,228	228	37
19	FIFTH THIRD BANK	OH	67,318	58,101	94	0	8,999	39,367	9,333	308	863
20	LASALLE BANK NATL ASSN	IL	63,388	33,701	0	0	0	24,414	7,398	1,890	0
21	UNION BANK OF CALIFORNIA NA	CA	62,431	33,557	2,361	0	4,371	18,303	8,522	0	1,059
22	UBS BANK USA	UT	26,176	33,317	0	0	0	33,317	0	0	0
23	DEUTSCHE BANK TR CO	NY	43,932	27,004	0	0	391	20,941	601	5,071	0
24	MORGAN STANLEY BANK NA	UT	37,638	25,941	0	0	0	2,156	0	23,785	0
25	FIRST TENNESSEE BANK NA	TN	32,587	24,546	287	0	10,870	11,200	2,189	0	2
Top 25 Commercial Banks & TCs With Derivatives			$7,846,46	$175,403,202	$4,051,991	$3,764,404	$20,365,524	$107,985,498	$23,094,585	$16,141,200	$1,244,408
Other Commercial Banks & TCs With Derivatives			2,703,969	438,563	6,816	2,869	58,678	290,590	72,421	7,188	1,523
Total Commercial Banks & TCs With Derivatives			10,550,43	175,841,765	4,058,807	3,767,273	20,424,203	108,276,088	23,167,006	16,148,388	1,245,931

Source: OCC

- In its 1994 study, the GAO also reported "a similar concentration of activity among U.S. securities derivatives dealers. The top five by notional/contract amounts accounted for about 87 percent of total derivatives activity for all U.S. securities firms as of their fiscal year-end 1992."

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[10] OCC's Quarterly Report on Bank Trading and Derivatives Activities Third Quarter 2008, http://www.occ.treas.gov/ftp/release/2008-152a.pdf, page 1.

[11] Ibid., Table 1, pdf page 22.

Today, most of the major U.S. securities derivatives dealers have failed, been bought out, or bailed out by the federal government.

- In its 1994 study, the GAO stressed that "credit risk is a key consideration in managing OTC derivatives," but pointed out that "managing credit risk can be difficult for OTC derivatives because credit exposure can change rapidly."

  Today, the OCC data demonstrate that the credit risk is beyond excessive: Four out of five of the major U.S. commercial bank derivatives players have total credit exposure that exceeds their risk-based capital. (More on this subject below.)

Thus, despite the modest reforms discussed in the GAO's 1996 follow-up report, the dangers associated with derivatives — their accelerated pace of growth and multiple levels of risk — only changed for the worse.

Meanwhile the GAO's warnings about the possible disasters resulting from a derivatives-related failure were prescient:

1. As the GAO clearly implied in its report, the rapid growth of unregulated OTC derivatives now poses a serious threat to the global financial system.

2. As the GAO warned, the concentration of trading among a small number of large players has pinned the future of the financial system on a handful of high-rollers.

3. As the GAO warned, each of the five risks it cited — credit risk, market risk, legal risk, operations risk and system risk — have come together in a single explosive mix now threatening stability.

4. As the GAO warned, the failure of one large OTC derivatives dealer has posed risks to other major firms, including federally insured depository institutions and the financial system as a whole. Its name: Lehman Brothers. Moreover, as explained below, the near failure of a larger firm, American Insurance Group (AIG), poses even greater threats.

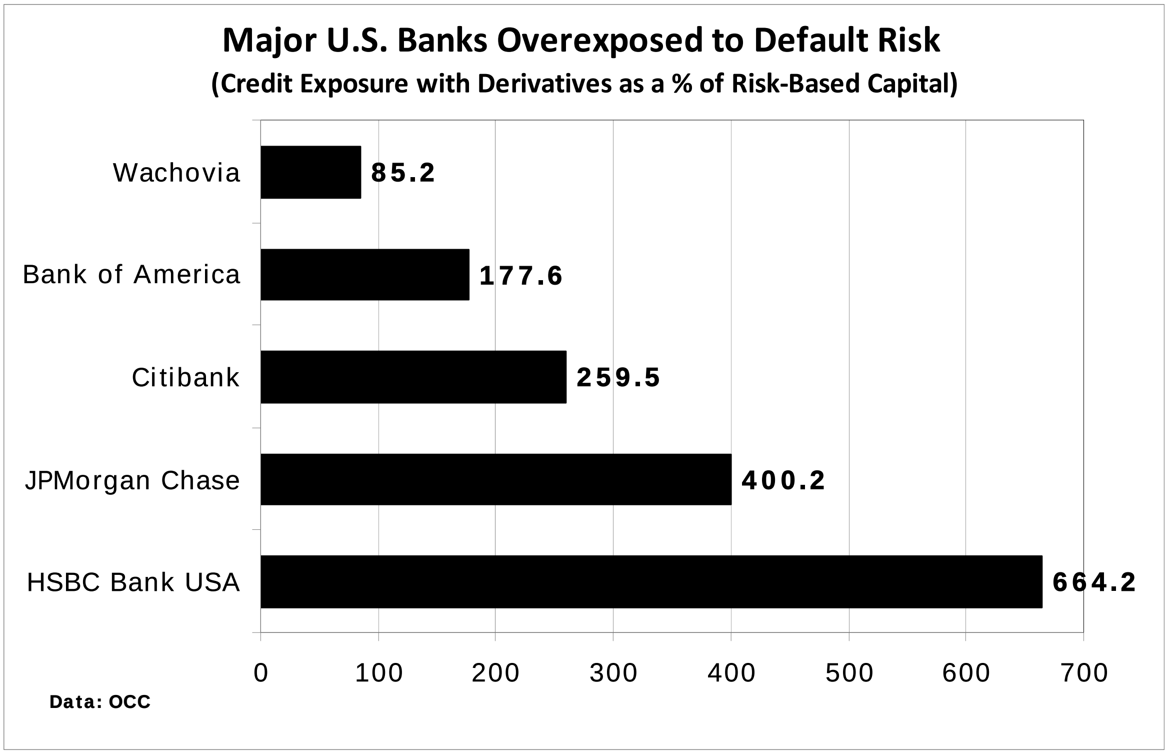
5. As the GAO warned, the financial linkages among firms have heightened this risk. Moreover, as it explained with its reference to the 1987 stock market crash, these linkages have become especially critical in the wake of recent market crashes — in both the U.S. housing market and global stock markets.

6. As the GAO warned, the abrupt failure or withdrawal from trading of one of the large dealers has undermined the stability of several markets simultaneously, leading to a chain of market withdrawals, firm failures and systemic crisis: We've seen simultaneous and extreme instability in the markets for mortgages, interbank loans, asset backed securities (ABS), commercial paper, corporate bonds and even money market funds.

7. Finally, as the GAO also warned, the Federal Reserve has been required to serve as a lender of last resort to major U.S. OTC derivatives dealers, whether regulated or unregulated: The Fed has jumped in to extend massive loans not only to commercial banks under its jurisdiction but also to broker-dealers, insurers and others.

Major Financial Institutions at Risk of Failure

Due to the continuing scarcity of detailed data on the multiple risk factors associated with derivatives, it is difficult to pinpoint precisely which large institutions are at greatest risk. However, the OCC has developed a measure of the total credit exposure of major derivatives players, as follows:



This chart answers the question: For each dollar of capital, how much exposure does each bank have to the possible defaults of its derivatives trading partners? And it shows that among commercial banks, all but one of the five largest players are exposed to the tune of over 100 percent of their capital, an alarming level even in the absence of a financial crisis or depression.

Below is a more detailed analysis of the two largest of the five banks covered by the OCC report — Citibank and JPMorgan Chase — along with a summary review of the remaining three.

Citibank NA (NV) is the nation's third largest commercial bank, with $1.2 trillion in total assets. Despite its large size, however, Weiss Research placed Citibank on its list of banks at risk in August of 2008. Below is an updated summary of our analysis that formed the basis of this decision.

1. Citibank has a very high credit exposure representing 259.5 percent of its risk-based capital, as indicated in the chart above.
2. It holds $2.94 trillion in credit derivatives, almost entirely composed of credit default swaps,[12] known to be the most dangerous category of derivatives.

[12] The OCC reports that, based on industry-wide figures, 99 percent of credit derivatives are credit default swaps.

3. And it receives a borderline Financial Strength Rating of C- (fair) due primarily to net losses from provisions for loan losses and trading losses and a decline in the quality of its assets.

In addition, Citigroup's December 31, 2008 10-K report[13] shows that

4. The company suffered a net loss of $27.7 billion, or $5.59 cents per share, vs. a fiscal year 2007 profit of $3.62 billion, or $0.72 per share (pdf page 4).
5. Net revenues declined 33% to $52.8 billion from $78.5 billion (page 4).
6. Its provision for loan losses nearly doubled to $33.6 billion from $16.8 billion in the year-earlier quarter (page 54).
7. Its overall allowance for loans, leases, and unfunded lending commitments climbed to $30.5 billion from $17.4 billion (page 53).
8. And there was a huge exposure to sinking consumer loans, with over three fourths (78.2%) of the $664.6 billion loan portfolio in that sector (page 53).

Further, based on its Q4 2008 quarterly financial supplement,[14] we find that

9. The company's global credit card portfolio is highly vulnerable to an economic depression, with 175.5 million accounts and $191.3 billion in average loans outstanding (page 9).
10. Net credit losses in the total worldwide credit card business surged 49% to $1.67 billion from $1.12 billion in year-earlier period (page 9).
11. Foretelling of future credit card losses, delinquency rates (90+ days past due) jumped to 2.62% of North American credit card loans, from 1.77% a year earlier (page 10).
12. Consumer banking operations had credit losses of $3.44 billion vs. $1.77 billion in the year-earlier period (page 12).
13. With the exception of student loans, delinquency rates (90+ days past due as a percent of end-of-period loans) in North America rose sharply across the board, as follows:
    - Residential real estate — 4.73% in Q4 2008 vs. 2.22% in Q4 2007;
    - Auto loans — 1.85% vs. 1.36%;
    - Personal loans — 3.36% vs. 2.57%;
    - Commercial loans — 0.81% vs. 0.37%
    - Student loans — 2.75% vs. 3.23% (page 15)

Weiss Research action: Given the above facts as well as the bank's continuing need for emergency capital injections under TARP, the bank remains on Weiss Research's list of banks at risk of failure.[15]

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[13] Citigroup's 10-K filing, available at http://www.citigroup.com/citi/fin/data/k08c.pdf?ieNocache=274.

[14] Available at http://www.citigroup.com/citi/fin/data/qer084s.pdf?ieNocache=105

[15] Recent company claims about positive earnings in the first two months of 2009 do not change that outlook. CEO Vikram Pandit said Citigroup was profitable for the first two months of 2009, before taxes, provisions for loan losses and extraordinary items. While Citigroup may well become profitable by reserving less for loan losses in the current period after aggressively reserving in previous periods, the company may also face additional extraordinary writedowns.

JPMorgan Chase Bank NA (OH), or "JPM," is the largest U.S. commercial bank with $1.8 trillion in total assets.

- It has extremely elevated derivatives-related credit exposure to the tune of 400.2 percent of its risk-based capital.

- It holds nearly $9.2 trillion in credit derivatives.[16]

- It has approximately half of all derivatives held by U.S. commercial banks. As such, it would be at ground zero of any systemic crisis.

- Apart from its derivatives risks, it merits no more than a "fair" Financial Strength Rating of C+ from TheStreet.com, based primarily on several years of mediocre earnings performance, a factor that could threaten its capital.

In response to concerns such as these, on February 26, 2009, JPM provided a presentation, entitled "Derivatives," in which it sought to reassure investors regarding the quality and risk management of its derivatives portfolio.[17] In the report, while acknowledging that its derivatives are a core component of its assets and that there are multiple risks associated with derivatives, it seeks to make the case that it has adequate tools for measuring and managing the associated risk. However,

- JPM does not demonstrate how its risk management tools are any better than those used by other sophisticated derivatives players that failed, such as AIG, Bear Stearns, Lehman Brothers and Merrill Lynch. Those tools did not provide adequate protection against unexpected "Black Swan" events, such as the collapse of the U.S. mortgage market or the failure of triple-A rated companies like Fannie Mae, raising serious questions about JPM's ability to withstand shocks of similar magnitude in the future.

- JPM states that, through the use of collateral and hedges, it reduces its derivatives counterparty exposure almost in half. However, with 400.2 percent credit exposure, even a 50 percent reduction does not bring the bank back down to acceptable risk levels.

- JPM acknowledges that it remains exposed to "gap risk" — changes in market value that are too sudden to allow for additional collateral calls or hedging. Given the likely volatility of market prices in a continuing financial crisis, this risk, no matter how well monitored, can be difficult to contain.

- JPM's report seems to minimize the threat of its "Level 3" assets — assets typically valued using uncertain financial models rather than actual market prices. Although JPM states that these represent only 6.4 percent of JPM's assets, a figure that may appear small, JPM fails to explicitly point out that they represent a very high 91.2 percent of risk-based capital.[18] By comparison, prior to their demise, Bear Stearns had Level 3 assets representing 155 percent of capital and Lehman Brothers had Level 3 assets of 160 percent of capital. Although these Level 3/capital ratios may not be directly comparable due to inherent differences in the business models of securities firms and commercial banks, they do indicate that JPM's

[16] See note 11 above.
[17] JPMorgan Chase & Co., "Derivatives," February 26, 2009, http://files.shareholder.com/downloads/ONE/581850745x0x275126/19682387-d023-4e95-bf23-287d789ff656/Derivatives-BillWinters.pdf
[18] *Ibid.,* page 12. JPM states level 3 assets were $145 billion as of September 30, 2008, or 6.44 percent of total assets, which were $2.251 trillion. Since JPM's total risk-based capital was $159 billion, the ratio of Level 3 assets to risk-based capital was 91.2 percent.

exposure to these assets may be different in degree — but not significantly different in kind — from those of other large derivatives players that have failed.

- Most important, although JPM highlights its monitoring of risk, it does not disclose detail regarding its assumptions or scenarios used in stress testing, a significant omission given the extreme nature of recent derivatives collapses and economic dislocations.

Weiss Research action: In light of mounting dangers in the financial markets and the economy, as well as the additional data revealed by the company in its report on derivatives of February 26, Weiss Research has added JPM to its list of U.S. banks at risk of failure.

HSBC Bank USA NA (DE) is the U.S.-based operation of this global bank and was included on Weiss Research's list of banks at risk in August 2008. It currently has an extremely high credit exposure of 664.2 percent of its risk-based capital. In addition, separate from its derivatives risk, this bank merits a borderline Financial Strength Rating of C- (fair) because of continuing declines in the quality of its assets and weak earnings.

Weiss Research action: It remains on the Weiss Research list of banks at risk of failure.

Bank of America, NA (NC) has a high credit exposure of 177.6 percent. However, unlike the other major derivatives players, its Financial Strength Rating of B- ("good") is a positive, reflecting several years of strong asset quality and positive earnings through the first three quarters of 2008.

Weiss Research action: Thanks to its positive Financial Strength Rating, Bank of America is not currently on Weiss Research's list of banks at risk of failure.

Wachovia Bank NA (NC) has already suffered a de facto failure and was purchased by Wells Fargo in an all-stock transaction announced on October 3, 2008.

Weiss Research action: Based on its broad definition of failure cited at the outset, Weiss considers Wachovia a failed institution and therefore does not include it on its list of banks at risk of future failure.

In addition, in August of 2008, due to elevated exposure to real estate lending, Weiss added SunTrust Bank to its list as well.

In sum, in addition to the list of institutions with TheStreet.com Financial Strength Ratings of D+ or lower, Weiss Research has added four banks to its list of institutions at risk of failure, as follows:

Banks Added by Weiss Research to List of Banks at Risk of Failure

Bank name	Total assets ($billions)
Citibank	1,207.0
HSBC Bank USA	181.6
JPMorgan Chase	1,768.7
SunTrust Bank	174.7
Total	3,157.3

In conclusion, beyond the $2.32 trillion in assets of banks at risk based on their Financial Strength Ratings cited in Part I, Weiss Research estimates there are additional assets of $3.16 trillion in large institutions at risk, for a total of $5.48 trillion in at-risk institutions.

Part III
Silencing the Potential Triggers of Global Collapse Does Not Address Its Causes

Anyone still skeptical of the nature and magnitude of the systemic dangers need only review the February 26, 2009 draft memorandum issued by AIG, titled "AIG: Is the Risk Systemic?" Although marked "strictly confidential," it found its way into the public domain in early March.[19] In it, AIG states:

- "Systemic risk is the risk imposed by *inter-linkages* and *interdependencies* in a system or market, which could potentially bankrupt or bring down the entire system or market if one player is eliminated, or a cluster of failures occurs.

- "Systemic financial risks occur when contingency plans that are developed individually to address selected risks are collectively incompatible. It is the quintessential 'knee bone is connected to the thigh bone ...' where every element that once appeared independent is connected to every other element.

- "AIG's business model — a sprawl of $1 trillion of insurance and financial services businesses, whose AAA credit was used to backstop a $2 trillion dollar financial products trading business — has many inherent risks that are correlated with one another. As the global economy has experienced multi-sector failures, AIG's vast business has been weakened by these multi-sector failures. ...

- "If AIG were to fail notwithstanding the previous substantial government support, it is likely to have a cascading impact on a number of U.S. life insurers already weakened by credit losses. State insurance guarantee funds would be quickly dissipated, leading to even greater runs on the insurance industry. ...

- "In addition, the government's unwillingness to support AIG could lead to a crisis of confidence here and abroad over other large financial institutions, particularly those that have thus far remained viable because of government support programs.

- "The loss of confidence is likely to be particularly acute in countries that have large investments in U.S. companies and securities and whose citizens may suffer significant losses as a result of the failure of AIG's foreign insurance subsidiaries.

- "This could lead directly to a decrease in the attractiveness of U.S. government securities and a consequent increase in borrowing costs for the U.S. government and related issuing entities ...

- "The extent and interconnectedness of AIG's business is far-reaching and encompasses customers across the globe ranging from governmental agencies, corporations and consumers to counterparties. A failure of AIG could create a chain reaction of enormous proportion ...

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[19] AIG, Strictly Confidential. "AIG: Is the Risk Systemic." Draft - February 26, 2009. http://www.scribd.com/doc/13112282/Aig-Systemic-090309

- "Just as the government was unable to predict that the failure of Lehman would lead to the collapse of the Reserve Fund, followed by much of the money market industry, the government would be even less capable of predicting the fallout from the collapse of a much larger, more global and more consumer-oriented institution such as AIG."

The agenda behind AIG's confidential memorandum is precisely the opposite of a company's typical agenda in public communications: Rather than sugar-coat the facts, they sought to make the gloomiest possible argument to persuade regulators to provide more bailout funds.

AIG's thesis: The company is so large and has linkages to so many other major players in the derivatives market, its demise would cause a chain reaction of financial collapses.

It is true that AIG is very large. And based on its recent disclosures, it's also true that it is linked to major derivatives players around the globe. As depicted in the accompanying chart,

- AIG does business with at least 30 financial institutions, primarily in the U.S. and Western Europe.

- Some of those companies have significant financial weaknesses of their own, as indicated by the borderline ratings issued by TheStreet.com and less-than-stellar ratings by Moody's.

- Those companies have total assets of at least $36 trillion, far more than the total committed by the U.S. and European governments for corporate bailouts.

AIG Counterparties	**Ticker**	**TheStreet.com Rating**	**Moody's Issuer**	**Total Assets ($ Mil.)**
AIG International Inc	AIG US		A3	860,418
Banco Santander	SAN SM		Aa1	1,464,499
Bank of America	BAC US	B-	A1 *-	1,817,943
Bank of Montreal	BMO CN		N/A	358,947
Barclays	BARC LN		A1	2,992,218
BNP Paribas	BNP FP		Aa1	2,859,535
Calyon	N/A		N/A	902,427
Citadel	N/A		N/A	N/A
Citigroup	C US	C-	N/A	1,938,470
Credit Suisse	CSGN VX		N/A	1,095,013
Danske	DANSKE DC		Aa3	664,294
Deutsche Bank	DBK GR		Aa1	2,898,465
Deutsche Zentral-Genossenschaftsbank	DZBK GR		N/A	676,436
Dresdner Bank AG	DRB GR		Aa3	753,139
Dresdner Kleinwort	N/A		N/A	729,830
Goldman Sachs	GS US		A1	884,547
HSBC Bank USA	521903Z US	C-	Aa3	186,583
ING	INGA NA		N/A	1,935,151
JPMorgan	JPM US	C+	Aa3	2,175,052
KFW	N/A		N/A	517,279
Landesbank Baden-Wuerttemberg	2525Z GR		N/A	787,371
Merrill Lynch	MER US		A1 *-	667,543
Morgan Stanley	MS US		A2	658,812
Paloma Securities	1788305Z LN		N/A	221
Rabobank	RABO NA		Aaa	854,061
Reconstruction Finance Corp	N/A		N/A	N/A
Royal Bank of Scotland	RBS LN		N/A	3,500,408
Societe Generale	GLE FP		N/A	1,576,637
UBS	UBSN VX		Aa2	1,885,384
Wachovia	WB US		N/A	764,378
Data: Bloomberg, TheStreet.com, Moody's			**TOTAL ASSETS:**	**$ 36,405,060**

However, if this global structure is shaky, neither a future failure of AIG nor the 2008 bankruptcy of Lehman Brothers can be properly construed as the *underlying cause*. Rather, they are merely *potential triggers* of a global collapse.

The *underlying causes* of global instability are many years of overborrowing and undersaving, plus the cumulative weight of the U.S. housing bust, mortgage meltdown, widespread deleveraging in the financial system, and the deepest economic downturn since the Great Depression.

Meanwhile, the *potential triggers* of a global collapse are ubiquitous — not limited to just one or two firms such as AIG or Lehman Brothers. As we demonstrate in this paper, in the banking industry alone, there are at least four megabanks and thousands of smaller institutions at risk. Thus, although abundant taxpayer funds may lock down some of the potential triggers some of the time, it is unreasonable to expect the government to silence *all* the guns *all* the time.

Part IV
U.S. Commercial Banks Are Vulnerable to Contagion Despite Expanded Deposit Insurance

One justification often cited privately — and sometimes publicly — for government actions to avert large bank failures is the concern that

- the failures might lead to hasty withdrawals by depositors,
- the panic could spread to other institutions, and
- in a worst-case scenario, the contagion could shut down the entire banking system.

This fear is not totally unjustified. Banking and related panics *have* occurred before — not only in prior eras but also in more recent times.

In January 1991, for example, due to a flood of withdrawals by panicked depositors, Rhode Island Governor Bruce Sundlun declared a banking emergency and shut down all 45 state-chartered savings banks and credit unions in his state. Shortly thereafter, we witnessed a similar situation in Maryland. The lesson was that panic and contagion was not strictly a phenomenon that ended in the 1930s.

An Instructive Case Study: The Role of Regulators in a Major Disintermediation Crisis Among Life Insurers

Even more pertinent lessons can be learned from the disintermediation that struck several large U.S. life and health insurers in the early 1990s.

Their problems can be traced to the early 1980s when many insurers had guaranteed to pay high, fixed yields to investors, but found themselves unable to meet those promises as interest rates declined. To bridge the gap, several reached out to lower rated, higher-yielding securities, including junk bonds and unrated bonds.

Until this juncture, higher risk bond portfolios in the industry could be explained as a stopgap solution to falling interest rates. But a few insurers — especially Executive Life of California, Fidelity Bankers Life, and First Capital Life — saw the potential of high-risk bond portfolios as a major business opportunity.

These companies weren't simply reluctant buyers of junk and unrated bonds to fulfill prior commitments. Their entire business plan was largely predicated on the concept of junk bonds from the outset. The key was to keep the junk bond aspect largely hidden from public view, while exploiting the faith the public still had in the inherent safety of insurance. To make the model a success, however, they needed two additional elements: the cooperation of the Wall Street ratings agencies and the blessing of the state insurance commissioners.

The cooperation of the rating agencies was relatively easy. For many years, the standard operating procedure of the leading insurance company rating agency, A. M. Best & Co., was to work closely with the insurers: If the company did not like the rating and requested it not be published, Best complied. If the company was satisfied with the rating, Best would charge the company to print its rating reports, which could be used by the insurer's sales force to market its products.

Three newer entrants to the business of rating insurance companies — Moody's, S&P, and Duff & Phelps (now Fitch) — offered essentially the same service. But instead of earning their money from reprints of ratings reports, they charged the insurance companies a flat fee for each rating, ranging from $10,000 to $50,000 per insurance company subsidiary, per year. Later, A. M. Best decided to change its price structure to match the other three, charging the rated companies similar up-front fees.

As a whole, the ratings process was stacked in favor of the companies from start to finish. The companies were empowered to decide if and when and by whom they were to be rated. They were given a preview of their rating before it was revealed to the public. They had the right to appeal an adverse rating and delay its publication. And, as mentioned above, if they were still unhappy with the rating, most of the rating agencies allowed them to suppress its publication.

Not surprisingly, the rating agencies gave out good grades like candy. At A. M. Best, the grade inflation was so severe that industry insiders widely recognized that a "good" Best rating was actually bad. It had to be "excellent" to really be good.

Thus, in this friendly ratings environment, it was not difficult for the insurers with large junk bond portfolios to get excellent grades from most of the rating agencies.

Getting similar cooperation from the insurance regulators was not quite as easy. In fact, state insurance commissioners were getting so concerned about the industry's bulging investments in junk and unrated bonds, they decided to set up a special office in New York — the Securities Valuation Office — to monitor the situation.

A key question hotly debated between the industry and regulators was: What's a junk bond? The standard Wall Street answer was undisputed: any bond with a rating from S&P or Moody's of double-B or lower. However, insurers with substantial holdings of junk bonds were not satisfied with that definition. They knew it would expose the true size of their junk bond holdings to the public. So they lobbied the insurance commissioners to redefine the definition of a junk bond. The commissioners initially struggled with this request, but they ultimately obliged.

Instead of the standard Wall Street definition of junk, the Securities Valuation Office established the following four bond classes "yes," "no*," "no**," and "no." The first category was considered investment grade, while the three "no" categories were considered junk bonds. However, the "yes" category actually included billions of dollars of bonds rated BB or lower (the standard definition of junk) by the leading rating agencies.

This continued for several years. Finally, however, after protests from industry watchdogs, the insurance commissioners realized this amounted to a junk bond cover-up and made the decision to end the charade, adopting the standard double-B definition, and reclassifying over $30 billion in "secure" bonds as junk bonds.

Based on the faulty definition of junk bonds used until 1989, the insurance commissioners had reported that First Capital Life had $842 million, or 20.2 percent of its invested assets in junk bonds at year-end 1989. However, based on the correct, standard definition of junk bonds, which the commissioners finally began using in 1990, it turned out that First Capital actually had $1.6 billion in junk bonds, or 40.7 percent of its invested assets. Fidelity Bankers Life's junk bond holdings, previously reported at $639 million, or 18.3 percent of invested assets, jumped to $1.5 billion, or 37.6 percent of invested assets. All told, the industry's junk bond holdings reported by the regulators surged from $51 billion on December 31, 1988 to $84 billion on December 31, 1990, with virtually the entire increase attributable to the change in definition.[20]

Large, institutional investors holding guaranteed investment contracts (GICs) were the first to rush for the exits, creating a silent run on the companies' assets; and in response, company and state officials declared that they were "safe." But the press publicized the new official junk bond data, triggering mass withdrawals by the public. To stem the tide of disintermediation, all four were taken over by the state insurance commissioners. And this action, in turn, was the prelude to an even larger failure — Mutual Benefit Life of New Jersey, which fell under the weight of losses in speculative real estate.

Meanwhile, the state guarantee mechanism also failed. Most insurance policyholders had been given the impression that, in the event of a failure, their state guarantee associations would promptly reimburse them, much like the FDIC does for depositors in failed banks. However, as a rule, the insurance guarantee funds had little or no funds; their standard operating procedure was to raise the money with new premium assessments after the fact. That approach tends to work efficiently when just a few small companies fail. But when the failures are large, there is insufficient time and resources to raise the needed premiums from the surviving insurers, most of which are smaller than the large failed companies. As a result, in addition to taking over the operations of the failed insurers, the state insurance commissioners had no choice but to declare a long-term blanket moratorium on all cash withdrawals by policyholders.

We reviewed the statutory filings of each of the failed insurers and determined that they had 5.95 million individual and group policyholders, among which 1.9 million held fixed annuities and other policies with cash value. Consumers in this latter group were denied access to their funds for many months. Moreover, as a device to legally avoid invoking the state guarantee mechanism, rather than declaring the companies bankrupt, they pronounced the firms "financially impaired," or "in rehabilitation."

After many months, the authorities then created new companies with new, reformed annuities yielding far less than the original policies, while giving policyholders two choices. Either ...

- to "opt in" to the new company and accept a loss of yield for years to come, or ...
- to "opt out" and accept their share of whatever cash was available, often as little as 50 cents on the dollar.

Further, in order to discourage opt-outs, the authorities imposed an additional penalty for those seeking immediate reimbursement. Overall, however, both choices involved similarly large losses, either accepted immediately up front via a loss of principal or incurred over time via a loss of income.

This episode was the worst insurance industry disaster since the Great Depression. And although in a different industry, the lessons to be learned from this experience can be very instructive for the banking industry and its regulators:

Lesson 1. It is a mistake for banks to provide, or for regulators to permit, guaranteed or above-market yields. Yet, this is an error that has been frequently repeated in the recent history of banking troubles.

[20] Data source: Statutory reports ("Blue Books") filed with the state insurance commissioners.

Lesson 2. It was also a grave error to allow companies to market themselves or their products as "safe" despite high-risk investment portfolios — a combination that attracted a large number of investors like sheep to slaughter. Yet, by providing (a) FDIC deposit insurance coverage on up to $250,000 per individual, (b) unlimited FDIC coverage for business checking accounts, (c) emergency capital injections to large, insolvent institutions, and (d) additional guarantees to backstop their present and future losses — all despite underlying investment and loan portfolios that are known to be of questionable value — the federal authorities are not only allowing this grave error to be repeated, they are actively encouraging it.

Lesson 3. Many players naturally perceive the above combination as a major business opportunity. It allows them to market their products as "safe." At the same time, it allows them to outbid healthier competitors, both in and outside of their industry, by offering substantially higher returns.

Lesson 4. The business model of Wall Street rating agencies harbors conflicts of interest that favor the industry, facilitating the marketing of supposedly "safe" high-return products and further undermining the financial system.[21]

Lesson 5. During a period of growth in the industry, regulators may also have an incentive to support, rather than disrupt, the status quo by failing to disclose, or even covering up, the magnitude of the financial weaknesses.

Lesson 6. In the short term, the penchant for secrecy and rose-colored pronouncements by government officials may quell or postpone a negative reaction by the public. But sooner or later, the truth comes out; and in a democratic, information-savvy society, it's often sooner.

Lesson 7. Typically, when pent-up truths are finally revealed, the bad numbers are worse, the shock is greater, and the reaction of the public is more panicked than it might have been otherwise. By attempting to delay or block full disclosure, the authorities inadvertently create the very panic they're seeking to prevent.

Lesson 8. Guarantee systems, like any form of insurance, are designed to protect a group against relatively infrequent or incidental events among a minority of its members. It's viable when limited to covering *some* of the risk. However, when insurance protection is extended to cover all, or nearly all, the expected risk, it ceases to be viable. The insurance either becomes prohibitively expensive, or the insurers risk failure. The same general principle ultimately applies to guarantees in the financial industry, whether provided by the industry, at the state level, or by a federal agency.

Lesson 9. Panic is not always irrational. Quite to the contrary, in most historical examples of banking and financial panics, where there was smoke, there was fire. Panicky reaction by the public, although sometimes prompted by false rumors, is usually motivated by verifiable facts.

As authorities respond to the current crisis, these lessons must not be forgotten. And as we describe in the section below, they are especially relevant to bank safety and FDIC insurance.

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[21] Martin D. Weiss, *The Ultimate Safe Money Guide,* pp. 134 - 153. John Wiley & Sons, Inc., 2003.

Why FDIC Insurance Coverage Does Not Protect the Banking System

There are several reasons banks and thrifts remain vulnerable to a run on their assets, despite expanded FDIC insurance coverage.

First, an analysis of third quarter Call Reports shows that banks still rely heavily on what's often termed "hot money" deposits — those that have historically been more prone to rapid, mass withdrawals. Specifically,

1. Among 7,400 reporting banks, total domestic deposits were $6.48 trillion. Of these, $1.18 trillion, or 18.21%, were time deposits in accounts exceeding $100,000, considered hot money.

2. Data is not available regarding the proportion of hot money deposits that are in accounts affected by the new expanded FDIC limits — those exceeding $100,000 but less than $250,000. However, we know that many banks routinely provide yield incentives for jumbo deposits and that these can attract investors with accounts exceeding $250,000. Although the *number* of these jumbo accounts is not likely to be large, the total dollars invested could be.

3. The 7,400 reporting banks also had $353 billion, or 5.45% of the total, in FDIC-insured *brokered deposits*.[22] Despite the insurance coverage, these can also be volatile. Unlike deposits gathered in each bank's local community, they are acquired through intermediaries from depositors around the country that have historically tended to be less loyal and more likely to shift institutions. Moreover, the movement of funds can be motivated by various factors that transcend FDIC insurance coverage:

    a. the search for higher yields in other depository institutions;

    b. the desire to shift to higher-yielding instruments available *outside* of the banking system, including annuities, corporate bonds, or foreign currency deposits, plus,

    c. the fear that, in the event of an FDIC takeover, yields on Certificates of Deposit and other bank deposits will be summarily reduced;

    d. the fear of disruption and inconvenience that can accompany a failure, despite FDIC intervention.

4. Summing the jumbo deposits and brokered deposits, we find that banks were dependent on $1.53 trillion in hot money, representing a substantial 23.66% of their total domestic deposits, with many individual institutions significantly more reliant on hot money than the overall industry.

Second, an analysis of third quarter Thrift Financial Reports reveals that the reliance on hot money in the S&L industry is even greater than among banks, as follows:

1. Among 819 reporting thrifts, deposits totaled $734 billion. Of these, $107.1 billion, or 14.59%, were in time deposit accounts exceeding $100,000.[23]

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[22] In order to avoid double counting, the brokered deposits cited here exclude those with starting amounts exceeding $100,000.
[23] Excludes retirement accounts.

2. Another $85.2 billion, or 11.60% were in fully insured brokered deposits.[24]

3. In total, the thrifts were dependent on $192.3 billion in hot money deposits, representing 26.19% of the total, with many individual institutions more reliant on hot money than the industry as a whole.

Third, government officials have historically recognized that, in the long term, expanded FDIC coverage limits can be counterproductive, raising — rather than diminishing — systemic risk.

It was for this reason, for example, that National Economic Council chief Lawrence Summers spoke out in opposition to higher FDIC coverage limits when he was Treasury Secretary in the last year of the Clinton Administration, stating "such an increase would be ill-advised and would represent a serious policy error that could increase systemic risk by eroding market discipline."

It was also for this reason that Former Fed Chairman Alan Greenspan stated that most economists considered prior coverage increases to be "a bad mistake," and that any new proposal to do so would also be "a major policy mistake."

Similarly, we believe the most recent increase in FDIC coverage limit was yet another rush to judgment by policymakers lacking the critical data needed to support prudent decisions for the benefit of the economy as a whole.

Fourth, most recent bank runs have not been caused by insured depositors. They have been caused by the exodus of large, uninsured institutional depositors who are typically the first to rush for cover at the earliest hint of trouble. That's the main reason Washington Mutual, America's largest savings and loan, lost over $16 billion in deposits in its final eight days in 2008. That's also a major reason Wachovia Bank suffered a similar run soon thereafter. During the many financial failures of the 1980s and 1990s, the story was similar: we rarely saw a run on the bank by individuals. Rather, it was uninsured institutional investors that jumped ship long before most consumers realized the ship was sinking.

Fifth, even if the government can calm nervous depositors, it has no control over shareholders, who, in recent months, have demonstrated that they can swiftly drive a company's stock into the gutter. The investor panic, in turn, sends the signal to depositors that trouble is brewing, greatly diminishes each bank's market capitalization, and makes it more difficult for the institution to raise additional capital.

Sixth, banks and banking regulators have so far made it difficult for consumers to discriminate between weak and strong institutions, as follows:

1. Despite known, endemic vulnerabilities, officials paint the entire banking industry with the broad brush of safety and trustworthiness. The FDIC expands its coverage to deliberately create an aura of blanket protection for consumers and businesses. The Treasury promises that it will backstop Citigroup and Bank of America. The Fed Chairman promises Congress that no large institutions will be allowed to fail.

2. But if the aura of safety is not matched by an underlying reality of security, the public will sooner or later perceive that the official broad brush is false or misleading. Worse, they may replace it with an equally

[24] As with the banks, to avoid duplication, this figure only includes fully insured brokered deposits.

false broad brush of their own that paints the entire industry as unsafe and untrustworthy. Given the large number of stronger banks and thrifts in the country, this perception would be a great loss for the banking system as a whole.

3. Newly expanded FDIC insurance further blurs the distinction between safe and unsafe institutions. As long as the coverage was limited, consumers continued to have an incentive to make that distinction. However, with coverage increased to $250,000 and with unlimited coverage provided for business checking, the FDIC is sending the message to individuals and businesses that virtually all their deposits are covered, leaving little remaining incentive for them to distinguish between weak and strong institutions or take rational safety precautions.

4. As explained in Part I, the FDIC both understates the number of problem banks *and* fails to provide a mechanism for consumers to discriminate between weak and strong institutions. As it becomes more widely known that the FDIC's Problem List is *both* inadequate *and* unavailable to the public, the danger of panicky responses could be heightened.

5. Other than some commentary about uninsured deposits, the FDIC provides little or no education regarding bank safety. As a result, the overwhelming majority of consumers

   - do not understand why or how banks are failing,
   - cannot fathom the labyrinthine world of derivatives,
   - have little understanding of government rescue efforts,
   - do not know how to evaluate a bank's relative safety,
   - are unaware of private sector bank ratings, and
   - are at a loss regarding where to go for further information.

In sum, we have a dangerous combination of (a) official statements the public cannot trust and (b) critical information the public cannot find, leaving the field wide open to rumor and contagion.

Rather than making it possible for consumers to rationally shift their funds from weaker to stronger institutions, banking regulators have created an environment that, in a deepening depression, may drive consumers to withdraw their funds from the banking system as a whole. In its efforts to protect *all* banks and depositors, the government is ultimately protecting *none*. In its zeal to avert panic at all costs, it may actually be rendering the system *more* vulnerable to a far more costly panic.

Part V
Government Rescues Have Both Failed to Resolve the Debt Crisis AND Weakened the Banking System

With the exception of Lehman Brothers, the federal government's response to the debt crisis has been to avoid large financial failures at all costs. Moreover, the consensus view is that the Lehman failure was responsible for the implosion of global credit markets in the fall of 2008, reinforcing the "too big to fail" doctrine.

In line with this doctrine, multiple novel strategies have been implemented and many more proposed. However, most tend to fall under one of the three following general approaches: (1) government-backed mergers or buyouts, (2) government purchases of toxic paper, and (3) nationalization. Below are their general goals, along with our comments on their likely consequences.

Approach #1. Government-Backed Mergers and Buyouts

Traditionally, when a financial institution fails, the applicable regulatory authorities step in, take over the operation, and fire the senior management. They then seek to find a buyer for the company, rehabilitate the institution under receivership, or sell the assets. However, under the too-big-to-fail doctrine, the authorities bypass standard bankruptcy procedures: They broker a shotgun merger or buy-out, typically assuming some responsibility for future losses if the assets sink further or the deal turns sour. All parties involved in the transaction — the seller, the buyer and the regulators — recognize that the institution has failed. But they tacitly agree to maintain the fiction it has not.

Accordingly, in recent months, federal authorities have arm-twisted large financial conglomerates to acquire failing companies in the midst of the debt crisis, turning a blind eye to the enormous risks, while offering the carrot of much larger market shares. Three megabanks — Bank of America, JPMorgan Chase and Wells Fargo — stand out as prime examples and serve as immediately relevant case studies.

Case Study #1. Bank of America

In 2007, as the real estate bubble was bursting, Bank of America stepped up to assist Countrywide Financial, making a $2 billion investment in what was then the nation's largest residential mortgage lender by volume.

However, as Countrywide's losses mounted through the second half of 2007, it became clear that Bank of America would have to pour in more capital to protect its investment. In January 2008, the Charlotte, N.C. banking giant agreed to purchase Countrywide for an additional $4 billion, transforming Bank of America into the largest home mortgage lender and mortgage servicer in the world. Completed on July 1, it was the largest merger in the history of the mortgage industry.

Just ten weeks later, on September 15, 2008, in the wake of the collapse of Lehman Brothers Holdings, Bank of America embarked on a far larger deal, agreeing to acquire Merrill Lynch & Co. in an all-stock transaction valued at $50 billion when the agreement was signed, with Bank of America receiving a $15 billion TARP infusion on October 28.

When it became apparent that Merrill Lynch would post net losses in the fourth quarter exceeding $15 billion, Bank of America seriously considered backing out of the deal. However, with some forceful persuasion from government officials, the merger was completed on Dec. 31, and Bank of America received an additional $10 billion in TARP money on January 9, 2009.

Just one week later, on January 16, the Treasury announced it would “provide protection against the possibility of unusually large losses on an asset pool of approximately $118 billion” in loans and securities, mostly from Merrill, that had already been marked down to current market value. At the same time, the Treasury announced it would boost Bank of America’s capital a third time, by purchasing an additional $20 billion in preferred shares.

With the Merrill acquisition delivering to Bank of America a team of 20,000 brokers and financial advisers, the business strategy was to use the market disruptions as an opportunity to gain overwhelming market share in key sectors of the financial services industry. The move would be supported by a government backstop against “unusually large losses” that was not clearly defined, with an outcome for the bank or the government that is even murkier.

Currently, the most recent financial data available for Bank of America and Merrill Lynch are as of December 31, 2008, when each reported separately. So we can only guess at the negative impact the merger will have on Bank of America’s finances. However, if the experience of the Countrywide acquisition is any indication, Bank of America’s risk profile has likely increased considerably.

The following table — with key financial ratios measuring Bank of America’s asset quality, reserve coverage and capital adequacy — provides insights into the impact of the Countrywide acquisition.

Bank of America Corp. ($Bil)				
	Dec. 2008	Sep. 2008	June 2008	Mar. 2008
Total Assets	$1,822.1	$1,836.5	$1,723.3	$1,743.5
Net Income	**-$1.8**	$1.2	$3.4	$1.2
Provision for Loan Losses	**$8.7**	$6.4	$5.8	$6.0
Net Loan Charge-offs	**$5.6**	$4.3	$3.6	$2.7
% NPL	**3.66**	2.44	1.54	1.26
% NPA	**2.05**	1.43	0.85	0.72
Net Charge-offs/ Avg. Loans (YTD), Annualized	1.74	1.55	1.40	1.20
Loan Loss Reserves/ TL	2.40	2.10	1.92	1.65
Loan Loss Reserves/ NPL	65.59	86.17	124.90	130.14
Nonperf. Loans and Debt Sec./ Core Capital & Reserves	**24.74**	20.31	11.94	11.02
Tier 1 Leverage Ratio	6.45	5.51	6.07	5.59
Total Risk-based Capital Ratio	13.00	11.54	12.60	11.67

NPL - Nonperforming Loans - Loans past due 90 days or in nonaccrual status, less government-guaranteed balances.

NPA - Nonperforming Assets - NPL and repossessed real estate.

Source: Consolidated Financial Statement for Bank Holding Companies (FR Y-9C), via Highline Financial, Inc.

Prior to the Countrywide acquisition (June 30, 2008), for each dollar of core capital and reserves, Bank of America had 11.94 cents in nonperforming loans and debt securities. After the acquisition (December 31), that ratio more than doubled to 24.74 cents, *despite the government's capital infusions.* Given the bank's enormous size, this represents an unusually high level of exposure. Separately, for purpose of comparison, we find that

- WaMu's primary thrift unit, Washington Mutual Bank, FA, had a comparable ratio of 19.17 percent in June 2007, and

- Cleveland-based National City Corp.'s ratio was 19.72 percent, also in 2007, climbing to 22.48 percent as of Sep. 30, 2008.

The former failed; and the latter may have failed had it not been acquired by PNC Financial Services on December 31. Given the $10 billion additional Treasury capital received on January 9, plus another $20 billion on the way, we do not anticipate a similar outcome for Bank of America. As stated earlier, it is *not* currently on Weiss Research's list of banks at risk of failure. However, closely on the heels of its absorption of Countrywide Financial, its acquisition of Merrill Lynch is likely to further weaken its balance sheet, forcing it to sell off non-core assets to preserve capital.

Case Study #2. Wells Fargo

Citigroup agreed to buy Wachovia Corp's banking business for $2.1 billion on September 29, 2008, with the FDIC providing loss protection on $312 billion in Wachovia's assets. But on October 3, Wells Fargo & Co. trumped Citigroup's bid, agreeing to buy all of Wachovia for about $15.1 billion, with no FDIC backstop on Wachovia's assets. While Citigroup initially protested Wachovia's breach of its original purchase agreement, objections were dropped soon after it became evident that regulators favored the Wells Fargo deal, completed on Dec. 31.

According to its fourth quarter 2008 earnings release, Wells Fargo made credit write-downs of $37.2 billion on $93.9 billion in "high-risk loans" (primarily Pick-a-Pay and commercial real estate loans). The aptly-named "Pick-a-Pay" loans are option adjustable-rate mortgages (option ARMs) that Wachovia had acquired primarily through its early purchase of Golden West Financial in October 2006.

However, option ARMs are known to be among the riskiest residential mortgages made during the housing boom. They typically provide the borrower with three options for monthly payments: The highest option payment includes a fully amortized principal and interest payment. The middle option only requires payment of the previous month's accrued interest. And the lowest option allows the borrower to pay less than the previous month's accrued interest, with the unpaid amount added to the loan balance. In addition, many of the loans featured low introductory, or "teaser," rates.

Initially, the industry defended the option ARMs by stressing certain safeguards, such as "recasting" to fully amortized payments if the loan balances rose above a certain level, such as 115% of the value of the home. But later, the combination of increasing loan balances, declining collateral value and poorly underwritten home equity loans became a recipe for disaster.

Wells Fargo has aggressively written down Wachovia's high-risk loans. However, with home prices falling and mortgage defaults rising, it is uncertain how this acquisition, which more than doubled Wells Fargo's total assets, will play out. The table below compares Wells Fargo's numbers before and after the merger:

Wells Fargo & Co. ($Bil)	Dec. 2008	Sep. 2008	June 2008	Mar. 2008
Total Assets	**$1,309.6**	$622.4	$609.1	$595.2
Net Income	-$2.7	$1.6	$1.8	$2.0
Provision for Loan Losses	**$7.9**	$2.5	$3.1	$2.0
Net Loan Charge-offs	$2.8	$2.0	$1.5	$1.5
% NPL	**2.37**	1.55	1.28	1.07
% NPA	**1.76**	1.25	1.05	0.93
Net Charge-offs/ Avg. Loans (YTD), Annualized	1.45	1.60	1.46	1.48
Loan Loss Reserves/ TL	2.36	1.83	1.73	1.39
Nonperf. Loans and Debt Sec./ Core Capital & Reserves	**19.65**	12.69	10.94	9.99
Tier 1 Leverage Ratio	14.52	7.54	7.35	7.04
Total Risk-based Capital Ratio	11.83	11.51	11.23	11.01

NPL - Nonperforming Loans - Loans past due 90 days or in nonaccrual status, less government-guaranteed balances.

NPA - Nonperforming Assets - NPL and repossessed real estate.

Source: Consolidated Financial Statement for Bank Holding Companies (FR Y-9C), via Highline Financial, Inc.

On the surface, it may appear that Wells Fargo's tier 1 leverage ratio of 14.52% (much higher than a 7.54% ratio in the previous quarter before the merger) is an indication of strength. But the tier 1 leverage ratio is skewed due to the doubling of total assets in the fourth quarter.

More indicative of the merger's impact is the nonperforming loans. As we saw with the Bank of America's acquisition of Countrywide, Wells Fargo suffered a sharp increase in its exposure: Before the acquisition (September 30, 2008), for each dollar of core capital and loan loss reserves, Wells Fargo already had an uncomfortably high 12.69 cents in nonperforming loans and debt securities. After the acquisition (December 31), that ratio jumped to a dangerously high 19.65 percent.

Case Study #3. JPMorgan Chase

When Washington Mutual Bank failed in September 2008, JPMorgan Chase purchased all of the thrift's assets and liabilities from the FDIC for $1.9 billion.

For depositors, it was a good deal; even uninsured deposits were taken over by JPM. But for JPM, it was not: Like Countrywide and Wachovia, Washington Mutual was another major institution that was greatly overexposed to toxic option ARMs.

With its acquisition of Washington Mutual, JPMorgan inherited an option ARM portfolio of $41.6 billion as of September 30, including $22.6 listed as "purchased credit impaired loans." That meant a shockingly large 54 percent of the portfolio was impaired. But the damage was still apparently understated because JPM's fourth quarter financial supplement reported $40.6 billion in option ARMs, with $31.6 billion, or 78 percent, listed as impaired.

As with Bank of America, despite JPM's large size, the absorption of these toxic assets is debilitating.

JPMorgan Chase & Co. ($Bil)				
	Dec. 2008	Sep. 2008	June 2008	Mar. 2008
Total Assets	$2,175.1	**$2,251.5**	$1,775.7	$1,642.9
Net Income	$0.7	$0.5	$2.0	$2.4
Provision for Loan Losses	$7.4	$5.8	$3.6	$4.4
Net Loan Charge-offs	**$761.2**	**$785.4**	$566.4	$539.4
% NPL	**2.98**	1.95	1.25	0.57
% NPA	**1.23**	0.83	0.47	0.25
Net Charge-offs/ Avg. Loans (YTD), Annualized	1.48	1.42	1.46	1.39
Loan Loss Reserves/ TL	3.04	2.43	2.34	2.18
Nonperf. Loans and Debt Sec./ Core Capital & Reserves	**14.90**	11.76	6.37	3.08
Tier 1 Leverage Ratio	6.92	6.51	6.13	5.95
Total Risk-based Capital Ratio	14.85	11.56	11.90	12.55

NPL - Nonperforming Loans - Loans past due 90 days or in nonaccrual status, less government-guaranteed balances.

NPA - Nonperforming Assets - NPL and repossessed real estate.

Source: Consolidated Financial Statement for Bank Holding Companies (FR Y-9C), via Highline Financial, Inc.

With the recognition of so many Washington Mutual loans as impaired, or nonperforming, during the fourth quarter, JPM's ratio of nonperforming loans and debt securities to core capital and reserves rose from 11.76 percent before the merger (September 30, 2008) to 14.90 percent after the merger (December 31).

Meanwhile, the ratio of nonperforming loans to total loans jumped from 1.25 percent in June to 1.95 percent in September and, with the merger, even further, to 2.98 percent by year-end.

Dangerous Unintended Consequences

Each of these government-inspired mergers may have helped quell the immediate crisis, while relieving regulators of the immediate burden of a takeover. However, they also came with dangerous unintended consequences, as follows:

1. Concentration of risk. Most toxic assets that would be liquidated in a bankruptcy or regulatory takeover were, instead, shuffled from weaker to stronger institutions. Like DDT moving up the food chain, the toxic paper becomes more concentrated on the balance sheets of financial institutions.

2. Worst of both worlds for taxpayers: To the degree that the government backstopped the mergers, taxpayers got responsibility for future losses but little or no authority over management decisions.

3. Weaker banking system: With three of the nation's largest banks bogged down by massive portfolios of nonperforming loans, the nation's entire banking system is weakened. The mergers increase the system's vulnerability to a depression and hamper credit creation in any subsequent recovery.

Approach #2. Government Purchases or Subsidies of Toxic Assets

This concept has various permutations:

- In the original proposal under TARP, the Treasury would use taxpayer funds to buy up toxic assets from banks, helping to remove them from their books.

- Subsequently, during the transition period following the 2008 election, there was much discussion of a "bad bank" which would serve a similar purpose, but with a more permanent structure reminiscent of the Resolution Trust Corporation, created to house the toxic paper during the S&L crisis of the 1980s.

- Most recently, in a proposal reminiscent of the Treasury's failed "Super-SIV" program of late 2007, Treasury Secretary Geithner has proposed a plan whereby taxpayers would subsidize the purchase of the banks' toxic assets by investors. Banks selling their bad assets would get a higher price than they could achieve otherwise, and investors buying the assets would get financing plus guarantees against losses. Although the idea is to avoid the astronomical expenses of a program fully funded by the government, early estimates of the cost run as high as $1 trillion.

Dangerous Unintended Consequences

These plans come on the heels of earlier failed plans, including the TAF, the TSLF, the PDCF, and the "Super SIV," all of which have done little more than keep "zombie" financial institutions alive, even as deterioration in the marketplace continues. Despite massive and multiple government interventions, we have witnessed an 80 percent year-over-year decline in commercial mortgage originations in the fourth quarter of 2008, a 58 percent delinquency rate on mortgages that had been modified just eight months earlier, and further sharp declines in the value of toxic assets still clogging the books of the nation's largest banks.

Regardless of the plan's acronym, the benefits are uncertain, but the damage is not. In anticipation of a possibly better deal from the government, banks, which otherwise might bite the bullet and sell, instead turn down bona fide investor bids. Similarly, in anticipation of possible government guarantees against losses, private investors, who might be willing buyers, withdraw their bids and bide their time.

Banks, which might have long ago dumped their toxic assets, wind up holding them on their books. Trading volume, already thin, dries up. The market, already limping along, freezes. In the interim, as the economy slides and delinquency rates rise, bank losses continue to pile higher.

Approach #3. Nationalization

Nationalization is the hot word of the moment, but the term itself is frequently misused.

Correct usage would restrict it exclusively to a *permanent or semi-permanent shift of corporate assets from the private to the public sector,* e.g., the nationalization of Mexico's oil industry with the creation of Petróleos

Mexicanos (PEMEX), the Brazilian government's control over Banco do Brasil, America's control over its postal services, or, in the more extreme historical examples, the wholesale nationalization of private enterprises in Nazi Germany, Bolshevik USSR and post-revolutionary Cuba. Nationalization is the opposite of privatization. It is *not* a synonym for temporary government takeovers.

Incorrect usage applies the term to virtually any government actions to rehabilitate or liquidate failed companies. If this definition were to be accepted, it would have to also apply to every receivership under the auspices of a federal judge, every insurance company takeover by state insurance commissioners, and every shutdown of failed banks by the FDIC.

Intentionally or unintentionally, the politically-loaded "N" word casts a shroud of doubt over the much-feared "B" word: bankruptcy.

The dangerous unintended consequences of nationalization, correctly defined, are clear: They would undermine and stifle the nation's future growth, creating even larger, less efficient institutions.

Part VI

The Most Dangerous Unintended Consequence of All:

A Continuing Expansion of Federal Rescues Can Severely Damage the Government's Borrowing Power

The government's most precious asset is not federal lands, military hardware or even its gold in Fort Knox. It's the power to borrow money readily in the open market, without which it would be unable to run the country's basic operations, finance the deficit, or refund maturing debt. Unfortunately, however, that borrowing power could be jeopardized by a perfect storm of forces, beginning with a ballooning budget deficit.

The budget proposal submitted to Congress by the administration on February 26, 2009, assumes a 1.2% decline in real GDP in 2009 and forecasts a $1.75 trillion deficit for the year. However, in our view, this deficit forecast is greatly understated due to a series of flawed assumptions underlying the current budget planning process, as follows:

Flawed assumption #1. It assumes that the banking crisis will not act as a serious continuing drag on the economy.

Why it's flawed: As demonstrated in this paper, the number of institutions at risk of failure is larger than generally believed; the risks to credit markets are deeper; and the government's response, less likely to succeed.

Flawed assumption #2. Econometric GDP forecasting models are reliable tools to establish a basis for budgetary planning even in the midst of a debt crisis.

Why it's flawed: GDP models are primarily designed to forecast gradual, continuous, linear changes in the economy. They are poorly equipped to handle sudden, discontinuous, structural changes, such as those we have experienced in recent months, including the housing market collapse, the mortgage meltdown, major financial failures, credit market shutdowns, and a deep decline in equities.

Flawed assumption #3. In GDP forecasting models, the sharp declines in the U.S. economy recorded in the most recent six months are less important than the growth patterns established over a period of many years since the end of World War II.

Why it's flawed: There is abundant empirical evidence that, in September 2008, the bankruptcy of Lehman Brothers and the subsequent disruptions in global credit markets marked a break with historical patterns, ending the six-decade era of growth since World War II. Therefore, any viable GDP forecasting model must reduce its weighting for prior growth pattern and increase its weighting for the contraction in the economy since September 2008. In addition, GDP forecasting models must also consider the patterns associated with the prior depression cycle of the 1930s.

Flawed assumption #4. The Great Depression was an anomaly that will not repeat itself and therefore is irrelevant to GDP forecasting in the modern era.

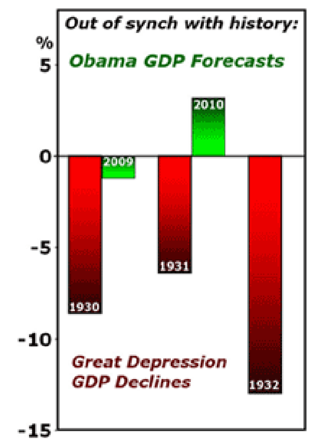
Why it's flawed: Other than the 1930s Great Depression, there are no modern precedents for the current crisis. In the first three years of that cycle, GDP contracted as follows:

1930: -8.6 percent
1931: -6.4 percent
1932: -13.0 percent

These data points, no matter how extreme they may appear, must be considered in any objective model that seeks to forecast GDP for the period 2009-2011.

Flawed assumption #5. Thanks to a more assertive role by government, the current crisis cannot be — and will not be — as severe as the Great Depression.

Why it's flawed: To our knowledge, administration economists and budget planners have not undertaken the in-depth comparison between the most recent events and the 1930s that would be needed to make such an assumption. Moreover, a cursory comparison reveals the assumption may be incorrect:



- The 1930s depression was precipitated by a severe stock market decline and loss of wealth in 1929. The loss of wealth in this cycle so far — $12.9 trillion — is similar.

- In the 1930s, the U.S. was a creditor nation. Today, it is the world's largest debtor nation.

- The 1930s depression was deepened and prolonged by financial collapses. This tine, despite government intervention, the collapses experienced to date in this cycle may have an equal, or even greater, impact.

Flawed assumption #6. With the help of the stimulus package, the typical GDP growth pattern of prior years will reassert itself, containing the recession to a meager 1.2 percent GDP contraction in 2009, and ending the recession with a 3.2 percent GDP e*xpansion* in 2010.

Why it's flawed:

- For the fourth quarter of 2008, the government estimates that GDP contracted 6.2 percent, and due to a sharper-than-expected drop in construction spending, it may have to revise that figure to a 7 percent decline.

- In the first quarter of 2009, the recently-released unemployment data (651,000 jobs lost in February plus 161,000 additional job losses beyond those previously reported in prior months) indicates that the economy is contracting at a similar pace.

- Therefore, to contain the economy's contraction to a meager 1.2 percent in 2009 would require a dramatic second-half turnaround that is highly unlikely; and attempts made in mid-March 2009 by large banks and the administration to talk up hope for an early recovery seem premature.

The fact that the financial crisis so far could be similar to the equivalent period in the 1930s depression does not necessarily mean that the subsequent GDP declines will also be similar. But it does clearly imply that the government's GDP forecasts — the meager 1.2 percent decline in 2009 and the relatively robust 3.2 percent growth in 2010 — are unrealistic.

Flawed assumption #7. With a 1.2 percent GDP decline in 2009 and 3.2 percent growth in 2010, the budget deficit will be $1.75 trillion in the current fiscal year and will decline substantially in future years.

Why it's flawed: For the reasons cited above, it is unreasonable to assume that economists can use their traditional tools to forecast GDP and the budget deficit in this environment. Much as with the stress-testing currently proposed for banks, a common-sense approach to budgeting must assume a wider range of possible GDP scenarios, including a worst-case scenario similar to the 1930s. Even in a GDP scenario that's only half as severe as the 1930s, the federal budget deficit for 2009 and 2010 would dramatically exceed the $1.75 trillion now forecast by the administration.

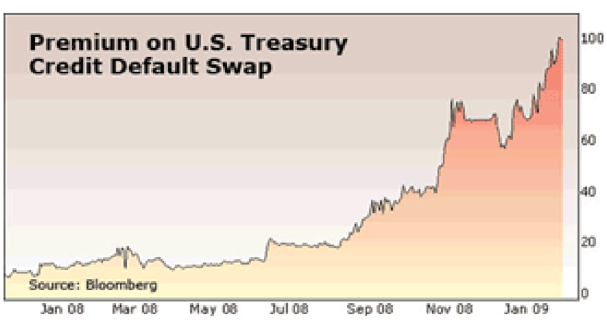
In conclusion, the combination of (a) multi-trillion federal commitments to financial bailouts plus (b) multi-trillion federal deficits would place a financing burden on the government that is both unprecedented and overwhelming.

Why Additional Trillions Needed to Finance Further Bailouts, Rescues and Deficits Could Fatally Cripple the Credit and Borrowing Power of the U.S. Government

In an environment of already-bulging federal deficits, continuing attempts by the U.S. government to provide all or most of that capital needed to bail out failing institutions can only force it to

- borrow even larger amounts in the open market,
- drive up market interest rates,
- damage its credit rating,
- jeopardize its borrowing power in the financial markets,
- make it increasingly difficult or expensive to finance its bulging deficits, and
- in a worst-case scenario, make it next to impossible to refund maturing debts.

In response to these growing concerns, America's largest creditor[25], the People's Republic of China, has explicitly stated doubts regarding the security of U.S. Treasury debt, to which the administration has quickly responded with assurances.[26]



We have no doubt that, when pressed, the U.S. government will take whatever future steps are necessary to sufficiently control its finances and avoid a fatal default on its debts. However, neither the administration nor any other government can control the *perceptions* of its creditors in the marketplace. And currently, the market's perception of the U.S. governments credit is falling, as anticipation of a possible future default by the U.S. government, no matter how unlikely, is rising.

[25] Treasury International Capital figures show that mainland China held $739.6 billion in U.S. Treasuries as of January 2009. Detailed figures may be obtained here: http://www.treas.gov/tic/ticsec2.shtml#ussecs
[26] "China Worried About U.S. Debt," Anthony Faiola, Washington Post, March 14, 2009, http://www.washingtonpost.com/wp-dyn/content/article/2009/03/13/AR2009031300703.html?hpid=topnews

Already, as an indication of this rising perception of risk, owners of U.S. government securities and other investors are flocking to purchase insurance against a possible future default by the U.S. Treasury, driving the premiums on U.S. Treasury credit default swaps to new highs.

Thus, it recently cost investors 98 basis points to buy protection against a Treasury default, up 14-fold from just 7 basis points in late 2007, or a premium cost of $9,800 per $1 million of U.S. debt, compared to only $700 previously. If this premium cost becomes prohibitive, lenders will demand higher yields on U.S. Treasuries or may begin to reduce their current Treasury bond holdings, making it increasingly expensive for the U.S. Treasury to refund its maturing debts — let alone raise new funds to finance its bulging deficits.

This is evidence that, even in the absence of a depression, the credit of the U.S. government is being damaged by its assumption of trillions of dollars in direct or indirect liabilities for companies like Fannie Mae, Freddie Mac, AIG, Citigroup, and many others. In a depression, unless the U.S. government ceases to assume responsibility for these liabilities, the credit and credibility of the U.S. government can be damaged far more.

Moreover, there are other powerful factors that can make it more expensive and difficult for the U.S. Treasury to finance its rescues and bailouts:

1. The capital and liquidity of lenders.

U.S. debt is funded by individuals, domestic financial institutions and foreign governments. In a depression, each of these may suffer a decline in capital and liquidity, may have reduced funds available for investment, or may have to cash out their holdings due to other, more pressing demands.

2. The participation of government securities dealers.

The U.S. government sells its debt securities much like an auto manufacturer sells its cars. Ford, for example, rarely sells directly to the public. Instead, it uses a national network of dealers. These dealers buy the cars at auction, paying a wholesale price; hold the cars on their lots; and then mark up the price to sell them retail. Similarly, the U.S. government sells its securities at auction to a nationwide network of bond dealers who buy them wholesale, put them on their shelves, and mark them up for sale to the public.

Without the active, continuing participation of this network of private government-security dealers, the U.S. Treasury would be unable to raise the funds needed to finance its operations.

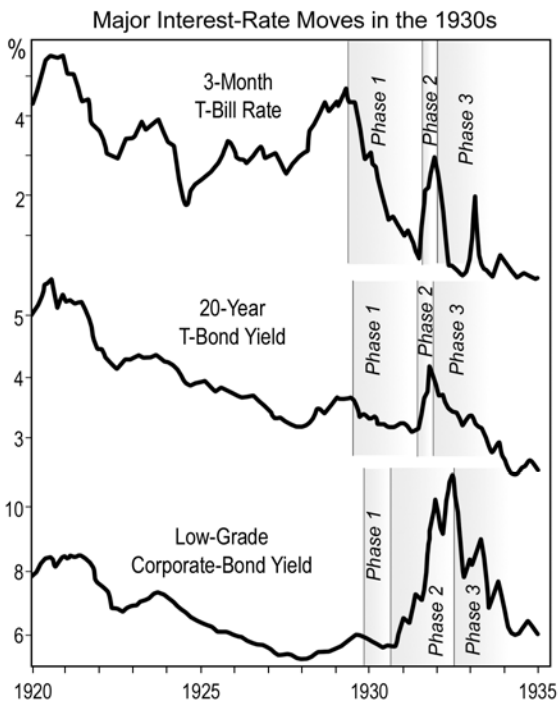
These dealers, in turn, require relatively stable prices and fluid financing to continue to exercise that function. If markets are flooded with an unusually large supply of Treasuries, if there is damage to the credit of the U.S. government, if U.S. and foreign bond buyers suffer a liquidity squeeze, or if those investors are fearful of an inflation revival, the market mechanism itself could suffer serious disruptions.

Specifically, the resulting sharp price declines in the market value of bond inventories held by dealers would threaten their capital, forcing them to withdraw from the Treasury auctions. Parallel disruptions in the interest-rate futures markets, where dealers seek to hedge their risk, would have a similar impact.

In this scenario, the dealers would cease their bidding in Treasury auctions and U.S. government would find that deficit financing is impossible at any price.

Modern history provides a precedent for precisely this situation. In early 1980, President Carter and Fed Chairman Paul Volcker were forced to impose draconian measures, including credit controls, to restore faith in the U.S. government securities markets. Although current market conditions are different due to the relative absence of inflation and inflation fears, it can certainly happen again in the current era of financial collapses, surging premiums on U.S. Treasury credit default swaps and trillion-dollar deficits.

The early 1930s also provides a precedent, although not as severe. Despite a contracting GDP and deflation — an environment in which bond prices were expected to rise and interest rates were expected to decline — they did precisely the opposite. (See the accompanying charts, derived from a 1950s edition of the Federal Reserve's *Historical Chart Book.*)



In the 1930s, interest rates moved down, up, and then down again, in three distinct phases:

In Phase 1, all interest rates declined due to deflation.

In Phase 2, however, despite sharp GDP declines, interest rates surged unexpectedly: The 3-month Treasury-bill rate jumped six fold — from about a half percent to 3 percent; the yields on 20-year Treasury bonds surged beyond their precrash peak; and the average yield on low-grade corporate bonds exploded higher to 11 percent.

At this juncture, like today, the federal government came under increasingly intense pressure from creditors to

- reduce its federal deficit;
- limit its efforts to save failing banks; and,
- shift to a more disciplined, austere, tough-love approach.

Finally, in Phase 3, interest rates fell and mostly remained low for the balance of the decade. The author's father, J. Irving Weiss, was a stock broker and bank analyst during that period. In his memoirs, he explained his views as follows:

> "In the 1930s, I was tracking the facts and the numbers as they were being released — to figure out what might happen next. I was an analyst, and that was my job. So I remember them well.
>
> "Years later, economists like Milton Friedman and my young friend Alan Greenspan looked back at those days to decipher what went wrong. They concluded that it was mostly the government's fault, especially the Federal Reserve's. They developed the theory that the next time we're on the brink of a depression, the government can nip it in the bud simply by acting sooner and more aggressively.
>
> "Bah! Those guys weren't there back then. When I first went to Wall Street, Friedman was in junior high and Greenspan was in diapers.

“I saw exactly what the Fed was doing in the 1930s: They did everything in their power to try to stop the panic. They coddled the banks. They pumped in billions of dollars. But it was no use. They eventually figured out they were just throwing good money after bad.

“You didn’t have to be an economist to understand what the real problem was. It was sinking public confidence, and money didn’t buy confidence. To restore confidence would take more than just money. It would also take time.

“The true roots of the 1930s bust were in the 1920s boom, the Roaring Twenties. That’s when the Fed gave cheap money to the banks like there was no tomorrow. That’s why the banks loaned the money to the brokers, the brokers loaned it to speculators, and the speculation created the stock market bubble. That was the real cause of the crash and the depression! Not the government’s “inaction” in the 1930s!

“By 1929, our economy was a house of cards. It didn’t matter which cards we propped up or which ones we let fall. We obviously couldn’t save them all. So no matter what we did, it was going to come down anyway. The longer we denied that reality and tried to fight it, the worse it was for everyone. The sooner we accepted it, the sooner we could get started on a real recovery.”

Part VII
The "Too-Big-Too-Fail" Doctrine Has Failed

Over the past two years, the too-big-to-fail doctrine has had a track record that is both big and bad.

Mid-year 2007. Major banks in the U.S. and Europe announced multibillion losses in subprime mortgages, investors recoiled in horror, and many feared the world's financial markets would collapse. They didn't — but only because the U.S. Federal Reserve and European central banks intervened. The authorities injected unprecedented amounts of cash into the world's largest banks; the credit crunch subsided, and market participants breathed a great sigh of relief. But it was a pyrrhic victory.

Early 2008. The crunch struck anew, this time in a more virulent and violent form, impacting a much wider range of players. The nation's largest mortgage insurers, responsible for protecting lenders and investors from mortgage defaults on millions of homes, were ravaged by losses. Municipal governments and public hospitals were shocked by the failure of nearly 1,000 auctions for their bonds, causing their borrowing costs to triple and quadruple. Many low-rated corporate bonds were abandoned by investors, their prices plunging to the lowest levels in history. Hedge funds were hurt badly, with one fund, CSO Partners, losing so much money and suffering such a massive run on its assets that its manager, Citigroup, was forced to shut it down. And above all, major financial firms, at the epicenter of the crisis, were hit with losses that would soon exceed $500 billion.

March 2008: The question asked on Wall Street was no longer "Which big firm will post the worst losses?" It was "Which big firm will be the first to go bankrupt?" The answer: Bear Stearns, one of the largest investment banks in the world. Again, the Federal Reserve intervened. Not only did they finance a giant buyout for Bear Stearns, but, for the first time in history, they also began lending hundreds of billions to any other primary broker-dealer that needed the money. Again, the crisis subsided temporarily. Again, Wall Street cheered, and the authorities won their battle. But the war continued.

Fall 2008. Despite the Fed's special lending operations, another Wall Street firm — almost three times larger than Bear Stearns — was going down: Lehman Brothers. For the Fed chairman and Treasury secretary, it was the long-dreaded day of reckoning, the fateful moment in history that demanded a life-or-death decision regarding one of the biggest financial institutions in the world — bigger than General Motors, Ford, and Chrysler put together. Should they save it? Or should they let it fail? They let Lehman fail, and the response of global markets was immediate. Bank lending froze. Interbank borrowing costs surged. Global stock markets collapsed. Corporate bonds tanked. The entire global banking system seemed like it was coming unglued.

"I guess we made a mistake!" were, in essence, the words of admission heard at the Fed and Treasury. "Now, instead of just a bailout for Lehman, what we're really going to need is the Mother of All Bailouts — for the entire financial system." The U.S. government promptly complied, delivering precisely what was asked — the $700-billion Troubled Asset Relief Program (TARP), rushed through Congress and signed into law by the president in record time.

Early 2009. To counter "continuing substantial strains in many financial markets," the Fed announced the extension through October 30, 2009, of its existing liquidity programs that were scheduled to expire on April 30, 2009. The Board of Governors approved the extension through October 30 of the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), the Commercial Paper Funding

Facility (CPFF), the Money Market Investor Funding Facility (MMIFF), the Primary Dealer Credit Facility (PDCF), and the Term Securities Lending Facility (TSLF).

Latest "too-big-to-fail" tally. In addition to TARP, the U.S. government has loaned, invested, or committed $400 billion to nationalize the world's two largest mortgage companies, Fannie Mae and Freddie Mac; over $42 billion for the Big Three auto manufacturers; $29 billion for Bear Stearns, $185 billion for AIG, and $350 billion for Citigroup; $300 billion for the Federal Housing Administration Rescue Bill to refinance bad mortgages; $87 billion to pay back JPMorgan Chase for bad Lehman Brothers trades; $200 billion in loans to banks under the Federal Reserve's Term Auction Facility (TAF); $50 billion to support short-term corporate IOUs held by money market mutual funds; $500 billion to rescue various credit markets; $620 billion for industrial nations, including the Bank of Canada, Bank of England, Bank of Japan, National Bank of Denmark, European Central Bank, Bank of Norway, Reserve Bank of Australia, Bank of Sweden, and Swiss National Bank; $120 billion in aid for emerging markets, including the central banks of Brazil, Mexico, South Korea, and Singapore; trillions to guarantee the FDIC's new, expanded bank deposit insurance coverage from $100,000 to $250,000; plus trillions more for other sweeping guarantees.

The grand total of U.S. public funds spent, lent, committed or guaranteed to date: An astronomical $11.6 trillion, and counting.

The table below summarizes the most recent details.

U.S. Government Funds Loaned, Guaranteed or Committed to Bailouts

	Amounts (Billions)	
	Limit	**Current**
Primary Credit Discount (Original lending program for commercial banks - Fed)	$110.74	$65.14
Secondary Credit (Fed)	$0.19	$0.00
Primary dealer and others (A discount window for all primary dealers and securities firms - Fed)	$147.00	$25.27
Asset-Backed Commercial Paper (ABCP) Liquidity (Fed)	$152.11	$12.72
AIG Credit (Fed)	$60.00	$37.36
Net Portfolio Commercial Paper Funding (Purchases ST Debt directly from corporate issuers – Fed)	$1,800.00	$248.67
Net Portfolio Maiden Lane (Bear Stearns – Fed)	$29.50	$28.82
Maiden Lane II (AIG - Fed)	$22.50	$18.82
Maiden Lane III (AIG - Fed)	$30.00	$24.34
Term Securities Lending Facility (TSLF) (Fed)	$250.00	$115.28
Term Auction Facility (TAF) (Banks get loans for as many as 28 days by posting collateral - Fed)	$900.00	$447.56
Securities lending overnight (one-day loans to banks on collateral - Fed)	$10.00	$5.59
Public-Private Investment Fund (Treasury)	$1,000.00	$0.00
Term Asset-Backed Loan Facility (TALF) (Fed)	$1,000.00	$0.00
Currency Swaps/Other Assets (Fed)	$606.00	$417.86
Money Market Investor Funding Facility (MMIFF) (Fed)	$540.00	$0.00
GSE Debt Purchases (Fed/Treasury)	$600.00	$33.58
Citigroup Bailout Fed Portion	$220.40	$0.00
Bank of America Bailout (Treasury)	$87.20	$0.00
FDIC Liquidity Guarantees (Guarantees bank-to-bank loans)	$1,400.00	$261.30
Loan Guarantee to Lending Arm of GE (FDIC)	$139.00	$139.00
Citigroup Bailout FDIC	$10.00	$0.00
Bank of America Bailout FDIC	$2.50	$0.00
Total	**$11,623.63**	**$3,802.31**

Data: Bloomberg, Federal Reserve, FDIC

By any measure, under any academic discipline, or any political philosophy, clearly, the too-big-to-fail doctrine has surpassed the threshold of the absurd. Former Treasury Secretary and Secretary of State Baker James Baker recently put it this way:

> "Our ad hoc approach to the banking crisis has helped financial institutions conceal losses, favored shareholders over taxpayers, and protected senior bank managers from the consequences of their mistakes. Worst of all, it has crippled our credit system just at a time when the US and the world need to see it healthy.
>
> "Many are to blame for the current situation. But we have no time for finger-pointing or partisan posturing. This crisis demands a pragmatic, comprehensive plan. We simply cannot continue to muddle through it with a Band-Aid approach.
>
> "During the 1990s, American officials routinely urged their Japanese counterparts to kill their zombie banks before they could do more damage to Japan's economy. Today, it would be irresponsible if we did not heed our own advice." [27]

But There Are Still Far LARGER Potential Demands for Bailouts

As we concluded in Part II, banks and thrifts that we believe are at risk of failure hold assets of $5.48 trillion. And as we showed in Part III, the daisy-chain of broader systemic risks can be triggered by any number of these — or other — large failures around the globe.

Thus ...

- Although it may be argued that a *small* number of large institutions can be bailed out by the system in order to protect itself from collapse, it cannot be reasonably argued that a *large* number of large institutions can be bailed out by the system, for the simple reason that, in the aggregate, they *are* the system.

- In other words, although it may be possible to bail out individual institutions with the infusion of capital drawn from elsewhere in the system, it is *not* possible to apply a similar approach to bail out the system as a whole. Any attempt to do so begs the simple question: Where would the capital come from?

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[27] "How Washington can prevent 'zombie banks'," James Baker, Financial Times, March 1, 2009, http://www.ft.com/cms/s/0/b3f299a6-0697-11de-ab0f-000077b07658.html

Part VIII
Recommendations for a Balanced, Sustainable Recovery

An economic depression, although traumatic, is not the end of the world. Moreover, if managed wisely, it can deliver fundamental benefits: A cleansing of excess debts, a reduction in the cost of living, and a firmer foundation for subsequent growth.

To maximize those silver-lining benefits, while minimizing the most damaging consequences, we recommend the following steps:

Step 1. The doctrine of too big to *fail* must be promptly replaced by the recognition that troubled megabanks are too big to *bail.*

Step 2. Before debating strategies and tactics, policymakers must seriously consider the fundamental, long-term *goals* of government intervention in the debt crisis. Until now, the oft-stated goal has been to prevent a national banking crisis and avoid an economic depression. However, it is now becoming increasingly apparent that the true costs of that enterprise — not only 13-digit dollar figures but potentially fatal damage to the nation's credit — are far too high.

Step 3. Replace the irrational, largely unachievable goal of jury-rigging the economic cycle, with the reasoned, readily achievable goal of rebuilding the economy's foundation in preparation for an eventual recovery.

Step 4. Switch priorities from the battles we can't win to the war we can't afford to lose: Emergency assistance for the millions most severely victimized by a depression. Until it is recognized that our economy is not unsinkable, it will not be politically possible to provide financial or infrastructural lifeboats to cover all passengers on board. However, once it's fully recognized that financial hurricanes almost inevitably come with deep depressions, the appropriate emergency preparations can be made swiftly and with relatively low cost.

Step 5. Bring into alignment (a) overarching goals, (b) long-term strategies, and (c) short-term tactics. Currently, they are in conflict: We seek to squelch each crisis and kick it down the road. We then repeat the process for each succeeding crisis, trying to resolve the debt crisis with more debts, and the dearth of thrift with still less. The undersaving, overborrowing, overspending and overspeculation that got us into trouble in the first place are fed with more of the same. Meanwhile, fiscal reforms are talked up in debates but pushed out in time. Regulatory changes are mapped out in detail, but undermined in practice.

In contrast, with reasonable, achievable and right-headed goals, theory and practice naturally come into synch. The new overarching goals:

- To guide and manage the natural depression cycle in order to reap its benefits, such as the cleansing of bad debts and a reduction in the cost of living.
- To buffer the population from its most harmful social side effects.
- To make sacrifices *today* that build a firm foundation for an economic recovery in the *future*.

Step 6. Restore tried and tested accounting principles, healthy transparency and honest reporting, adhering to the following axiomatic definitions.

- **The price is the price.** Until now, Congress, bankers and regulators have debated how to properly value the assets on the books of banks, seeking various ways to justify above-market valuations. Not surprisingly, few in the industry pushed for this approach when bubble-market prices overstated values. However, once it is established that the overarching goal is to manage — not block — natural economic cycles, it will naturally follow that regulators can guide, rather than hinder, a market-driven cleansing of bad debts.

- **A loss is a loss.** Whether an institution holds an asset or sells an asset, whether it decides to sell now or sell later, if the asset is worth less than what it was purchased for, it's a loss. Moving it around on the balance sheet or time-shifting it to a different period does not change that loss.

- **Capital is capital.** It is not goodwill, or other intangible assets that are unlikely to ever be sold. It is not tax advantages that may never be reaped. Capital is strictly the difference between assets and liabilities.

- **A failure is a failure.** If market prices mean that institutions have big losses, and if the big losses mean capital has been wiped out, then the institutions have failed. Precisely how that failure is subsequently resolved is a separate issue.

With a more sober recognition of (a) the market value of toxic assets, (b) the true losses banks have incurred, (c) the actual depletion of their capital, and (d) the large number of banks already vulnerable to failure in a depression, the next steps flow naturally.

Step 7. Abandon the endless, fruitless and largely counterproductive buyouts and bailouts in favor of traditional triage for financial institutions, as follows:

- proactively shut down the weakest institutions, no matter how large they may be;

- provide opportunities for borderline institutions to rehabilitate themselves under a strict regulatory regime and a slim diet of low-risk lending;

- give the surviving well-capitalized, liquid and prudently-managed institutions better opportunities to gain market share.

Kansas City Federal Reserve President Thomas Hoenig's broad framework, outlined in a speech earlier this month,[28] proposes a similar approach. Here are his recommendations, *followed by our comments in italics.*

- **Declare bankruptcy.** "First, public authorities would be directed to declare any financial institution insolvent whenever its capital level falls too low to supports its ongoing operations and the claims against it, or whenever the market loses confidence in the firm and refuses to provide funding and capital." *We agree.*

- **Apply one policy for all.** "This directive should be clearly stated and consistently adhered to for all financial institutions that are part of the intermediation process or payments system." *We agree.*

[28] Thomas M. Hoenig "Too Big Has Failed," Omaha, Neb., March 6, 2009, http://www.kc.frb.org/speechbio/hoenigPDF/Omaha.03.06.09.pdf

- **Accept the FDIC's limitations.** "We must also recognize up front that the FDIC's resources and other financial industry support funds may not always be sufficient for this task and that the Treasury money may also be needed." *We agree. However, unlimited contingent liabilities that threaten the credit of the U.S. Treasury must be strictly avoided. (See Step 10 below.)*

- **Put failed banks under government receivership.** "Next, public authorities should use receivership, conservatorship, or 'bridge bank' powers to take over the failing institution and continue its operations under new management." *Agreed. This must not, however, be used as an excuse to nationalize.*

- **Dispose of the bad assets.** "Following what we have done with banks, a receiver would then take out all or a portion of the bad assets and either sell the remaining operations to one or more sound financial institutions or arrange for the operations to continue on a bridge basis under new management and professional oversight." *Agreed. However, no buying institution should be encouraged to make bad business decisions in order to sweep toxic assets under the rug.*

- **Be mindful of complex operations.** "In the case of larger institutions with complex operations, such bridge operations would need to continue until a plan can be carried out for cleaning up and restructuring the firm and then reprivatizing it." *Agreed. But an expected chain reaction of losses or failures, such as in the AIG rescue, is no excuse for perpetuating complex operations. The counterparties in any broken trades must share the losses in accordance with the risks they assumed.*

- **Let shareholders take their lumps.** "Shareholders would be forced to bear the full risk of the positions they have taken and suffer the resulting losses. The newly restructured institution would continue the essential services and operations of the failing firm." *Agreed, but such operations must be restricted to those that are essential for the infrastructure of financial transactions.*

- **Follow the natural hierarchy of claims.** "All existing obligations would be addressed and dealt with according to whatever priority is set up for handling claims. This could go so far as providing 100 percent guarantees to all liabilities, or, alternatively, it could include resolving short-term claims expeditiously and, in the case of uninsured claims, giving access to maturing funds with the potential for haircuts depending on expected recoveries, any collateral protection and likely market impact." *Agreed. However, 100 percent guarantees should be strictly limited.*

Step 8. Seriously consider breaking up megabanks, following the model of the Ma Bell breakup of January 1, 1984. At that time, AT&T was split into seven independent Regional Bell Operating Companies as part of an antitrust lawsuit settlement with the U.S. government, and we believe something similar would be appropriate today.[29]

[29] Christopher Whalen, co-founder and managing director of Institutional Risk Analytics in Torrance, Calif. explains it this way: "Breaking up larger institutions such as Citigroup, Inc. and JPMorgan Chase & Co. may be the best course for industry in terms of competition, safety and soundness, and most important, reviving credit availability to the economy." HousingWire Magazine, Volume 2, Issue 1, January/February 2009.

Step 9. Ward off disintermediation with consumer-friendly education and continuing information. The FDIC and other banking regulators must recognize that a shift to safety by consumers in response to true underlying weaknesses of individual banks is not irrational.
It is rational; and although rational behavior may be disruptive, it is not necessarily destructive. Although it may harm individual banks in the short run, it does not necessarily harm the banking system in the long run. Quite the contrary, when consumers can discriminate rationally between safe and unsafe institutions, and when they can shift their funds freely to stronger hands, they naturally strengthen the banking system. They punish banks that have made imprudent decisions, while rewarding those that are more worthy of their trust. They fulfill a role similar to the traditional role of banking regulators whose overriding objective is — or should be — to restrict or shut down individual weak banks for the sake of fortifying the system as a whole.

To assist consumers in that role, we recommend the regulators continually release their CAMELS or similar ratings for each institution for which adequate data is reported. Contrary to the prevailing official view, although the release of negative ratings may have a short-term negative impact on some institutions, the transparency will help build greater public confidence in the banking system as a whole.

Step 10. Pass new legislation to reverse the expansion of FDIC insurance coverage, restoring the prior limits of $100,000 for both individual deposits and business checking accounts.

Step 11. Prepare the public for the worst: Research and publish worst-case depression scenarios for the banking system, the housing market, and the economy. Almost invariably, a clear vision of dark clouds is healthier than wanton fear of the unknown.

Commercial and Savings Banks Rated D+ (Weak) or Lower

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
1st Advantage Bank	St Peters	MO	D+	$126,262
1st Centennial Bank	Redlands	CA	E	$797,959
1st Financial Bank	Overland Park	KS	D-	$132,562
1st National Bank of South Florida	Homestead	FL	D+	$346,201
1st Regions Bank	Andover	MN	D+	$82,733
1st State Bank	Saginaw	MI	D+	$137,981
1st United Bank	Boca Raton	FL	D+	$618,037
AB&T National Bank	Dothan	AL	D	$55,128
ACB Bank	Cherokee	OK	D-	$52,739
Access Bank	Champlin	MN	E	$38,301
Adams Co-operative Bank	Adams	MA	D+	$204,158
Adams National Bank	Washington	DC	D+	$331,423
Advantage Bank	Loveland	CO	D	$426,541
Advantage Bank	Cambridge	OH	D+	$1,001,424
Affinity Bank	Ventura	CA	D-	$1,245,142
Affinity Bank of Pennsylvania	Wyomissing	PA	D+	$134,864
Albany Bank & Trust Company NA	Albany	GA	D	$136,413
Albina Community Bank	Portland	OR	D-	$213,506
Alden State Bank	Alden	MI	D	$175,962
All American Bank	Des Plaines	IL	D	$25,082
Allegiance Bank of NA	Bala Cynwyd	PA	D-	$161,695
Allegiance Community Bank	S Orange	NJ	D	$110,089
Allegiance Community Bank	Tinley Park	IL	D+	$181,028
Alliance Bank	Lake City	MN	D	$714,662
Alliance Bank	Cape Girardeau	MO	D-	$121,570
Alliance Bank	Culver City	CA	E-	$1,113,361
Alliance Bank Central Texas	Waco	TX	D+	$97,916
Alliance Bank Corporation	Fairfax	VA	D-	$572,102
Alliance Banking Company	Winchester	KY	E+	$57,295
Alliant Bank	Sedgwick	KS	E-	$15,040
Allied First Bank Savings Bank	Oswego	IL	D-	$158,384
Almena State Bank	Almena	KS	D-	$16,883
Alta Vista State Bank	Alta Vista	KS	D+	$18,369
Amboy Bank	Old Bridge	NJ	D-	$2,583,468
Amcore Bank NA	Rockford	IL	D-	$5,036,230
America West Bank	Layton	UT	D-	$299,424
American Bank	St Paul	MN	D-	$668,223
American Bank	Baxter Springs	KS	D+	$120,637
American Bank & Trust Company	Livingston	TN	E+	$92,893
American Bank North	Nashwauk	MN	D+	$634,483

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
American Bank of Commerce	Wolfforth	TX	D	$692,791
American Bank of Missouri	Wellsville	MO	D+	$113,258
American Enterprise Bank	Buffalo Grove	IL	D	$390,928
American Enterprise Bank of Florida	Jacksonville	FL	D	$206,142
American Founders Bank Inc	Frankfort	KY	D-	$523,071
American Marine Bank	Bainbridge Isld	WA	D+	$405,738
American Metro Bank	Chicago	IL	E-	$90,856
American National Bank	Beaver Dam	WI	D	$117,022
American National Bank of Minnesota	Baxter	MN	D+	$283,986
American Patriot Bank	Greeneville	TN	D	$120,321
American Premier Bank	Arcadia	CA	D+	$81,126
American Southern Bank	Roswell	GA	E+	$110,070
American State Bank	Tulsa	OK	E-	$10,617
American Trust & Savings Bank	Lowden	IA	D	$31,121
American Trust Bank	Roswell	GA	D-	$261,928
American United Bank	Lawrenceville	GA	D-	$118,737
Americana Community Bank	Sleepy Eye	MN	E	$183,608
AmericanFirst Bank	Clermont	FL	D-	$93,827
AmericanWest Bank	Spokane	WA	E+	$1,904,207
Americasbank	Towson	MD	E-	$145,859
Ames Community Bank	Ames	IA	D+	$184,757
Anadarko Bank & Trust Company	Anadarko	OK	D-	$63,575
Anchor Commercial Bank	Juno Beach	FL	D+	$150,701
Anchor Mutual Savings Bank	Aberdeen	WA	D	$653,590
Anchor State Bank	Anchor	IL	D	$13,968
Appalachian Community Bank	Ellijay	GA	D+	$1,102,854
Apple Valley Bank & Trust Company	Cheshire	CT	E+	$81,394
Archer Bank	Chicago	IL	D	$526,380
Arcola Homestead Savings Bank	Arcola	IL	D+	$14,834
Arrowhead Community Bank	Glendale	AZ	D+	$80,943
Artisans Bank	Wilmington	DE	D+	$632,846
Asian Bank	Philadelphia	PA	E-	$87,612
Atlanta Business Bank	Atlanta	GA	D-	$395,649
Atlantic Central Bankers Bank	Camp Hill	PA	D+	$580,933
Atlantic Community Bank	Bluffton	SC	D+	$95,036
Audubon Savings Bank	Audubon	NJ	D+	$189,426
Austin Bank of Chicago	Chicago	IL	D+	$308,866
AVB Bank	Broken Arrow	OK	D+	$258,011

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Avenue Bank	Nashville	TN	D	$399,011
Avidia Bank	Hudson	MA	D	$939,313
AztecAmerica Bank	Berwyn	IL	D-	$72,387
Badger State Bank	Cassville	WI	D+	$104,748
Banco Popular de Puerto Rico	San Juan	PR	D	$25,522,000
Banco Popular North America	New York	NY	D	$12,440,891
Banco Santander Puerto Rico	San Juan	PR	D	$7,724,708
Bank	Weatherford	TX	D-	$77,091
Bank 1440	Phoenix	AZ	D	$45,017
Bank Forward	Hannaford	ND	D+	$458,913
Bank of Alpena	Alpena	MI	D+	$80,938
Bank of American Fork	American Fork	UT	D+	$877,839
Bank of Anderson NA	Anderson	SC	D	$135,820
Bank of Auburn Hills	Auburn Hills	MI	D+	$43,868
Bank of Bartlett	Bartlett	TN	D	$482,066
Bank of Belton	Belton	MO	D-	$53,840
Bank of Bennington	Bennington	NE	D-	$52,361
Bank of Blue Valley	Overland Park	KS	D-	$800,974
Bank of Bonifay	Bonifay	FL	E+	$246,218
Bank of Bozeman	Bozeman	MT	D-	$78,627
Bank of Cashton	Cashton	WI	D	$51,647
Bank of Chestnut	Chestnut	IL	D	$16,178
Bank of Choice	Arvada	CO	D-	$1,179,903
Bank of Clark County	Vancouver	WA	D	$441,085
Bank of Clarks	Clarks	NE	D	$35,526
Bank of Commerce	Wood Dale	IL	D-	$245,948
Bank of Commerce	Sarasota	FL	D-	$350,917
Bank of Commerce	Chelsea	OK	D+	$160,637
Bank of Commerce	Chouteau	OK	D+	$32,253
Bank of Commerce & Trust Company	Wellington	KS	D-	$46,644
Bank of Doniphan	Doniphan	NE	E+	$88,991
Bank of East Asia USA NA	New York	NY	D-	$689,330
Bank of Elk River	Elk River	MN	D+	$468,807
Bank of Ellijay	Ellijay	GA	D-	$170,751
Bank of Elmwood	Racine	WI	E+	$349,943
Bank of Fairport	Maysville	MO	D+	$20,659
Bank of Fayetteville	Fayetteville	AR	D	$495,622
Bank of Florida - Southeast	Fort Lauderdale	FL	D+	$538,923

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Bank of Florida - Tampa Bay	Tampa	FL	D+	$255,783
Bank of Florida-Southwest	Naples	FL	D-	$747,178
Bank of Granite	Granite Falls	NC	D-	$1,136,770
Bank of Greensburg	Greensburg	LA	D	$95,819
Bank of Harlan	Harlan	KY	D+	$123,969
Bank of Hiawassee	Hiawassee	GA	D-	$436,349
Bank of Illinois	Normal	IL	E+	$238,907
Bank of Indiana, NA	Dana	IN	D-	$64,454
Bank of Jackson County	Graceville	FL	D	$38,537
Bank of Lake Mills	Lake Mills	WI	D+	$161,860
Bank of Leeton	Leeton	MO	E-	$25,594
Bank of Lenox	Lenox	GA	E-	$38,453
Bank of Lincolnwood	Lincolnwood	IL	D-	$221,208
Bank of Lindsay	Lindsay	NE	D+	$34,832
Bank of Macks Creek	Macks Creek	MO	E	$29,285
Bank of Miami, National Association	Coral Gables	FL	D	$717,831
Bank of Naples	Naples	FL	D+	$157,103
Bank of New Madrid	New Madrid	MO	D+	$85,547
Bank of North Georgia	Alpharetta	GA	D+	$6,270,436
Bank of Otterville	Otterville	MO	D+	$41,073
Bank of Palatine	Palatine	IL	D+	$55,693
Bank of Paxton	Paxton	NE	D+	$17,154
Bank of Shorewood	Shorewood	IL	D-	$140,610
Bank of Soperton	Soperton	GA	D-	$48,388
Bank of Stapleton	Stapleton	NE	D+	$19,808
Bank of the Bluegrass & Trust Company	Lexington	KY	D	$237,934
Bank of the Carolinas	Mocksville	NC	D	$563,042
Bank of the Cascades	Bend	OR	D-	$2,374,394
Bank of the Prairie	Olathe	KS	D+	$120,541
Bank of Venice	Venice	FL	D+	$91,829
Bank of Virginia	Midlothian	VA	D+	$203,712
Bank of Wausau	Wausau	WI	D+	$84,033
Bank of Westminster	Westminster	SC	D+	$29,707
Bank of Wyandotte	Wyandotte	OK	D	$12,254
Bank of Wyoming	Thermopolis	WY	D-	$118,376
Bank Trust	Mobile	AL	D+	$2,088,839
BankCherokee	St Paul	MN	D-	$239,348
BankEast	Knoxville	TN	D-	$368,266

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Bankfirst	Sioux Falls	SD	D-	$294,800
Bankhaven	Haven	KS	E	$24,091
Banner Bank	Walla Walla	WA	D+	$4,396,379
Baraboo National Bank	Baraboo	WI	D-	$707,309
Barclays Bank Delaware	Wilmington	DE	D+	$12,418,273
Barnes Banking Company	Kaysville	UT	D	$970,277
Bartow County Bank	Cartersville	GA	D	$419,398
Barwick Banking Company	Barwick	GA	D+	$13,550
Bay National Bank	Lutherville	MD	E+	$270,896
Bay Port State Bank	Bay Port	MI	D+	$68,984
Baylake Bank	Sturgeon Bay	WI	D	$1,064,476
Baytree National Bank & Trust Company	Lake Forest	IL	E	$276,074
BBVA Bancomer USA	Diamond Bar	CA	D+	$129,666
BC National Banks	Butler	MO	D	$93,433
Beach Community Bank	Fort Walton Bch	FL	D-	$812,681
Beach First National Bank	Myrtle Beach	SC	D+	$658,614
Beardstown Savings Bank	Beardstown	IL	D-	$47,075
Belmont Bank & Trust Company	Chicago	IL	D+	$128,868
Benchmark Bank	Plano	TX	D	$210,685
Benchmark Bank	Aurora	IL	D-	$222,708
Berkshire Bank	Wyomissing	PA	D-	$131,793
Berkshire Bank	New York	NY	E-	$902,619
Biltmore Bank of Arizona	Phoenix	AZ	D+	$235,083
Bison State Bank	Bison	KS	D+	$8,364
Blaine State Bank	Blaine	MN	D+	$28,849
Bloomfield State Bank	Bloomfield	IN	D+	$440,602
Blue Ridge Bank & Trust Company	Independence	MO	D+	$466,625
Blue Ridge Savings Bank	Asheville	NC	D-	$294,286
BN Bank, NA	Fort Lee	NJ	D-	$315,577
Bonanza Valley State Bank	Brooten	MN	D+	$41,678
Border State Bank	Greenbush	MN	D	$386,659
Border Trust Company	Augusta	ME	E+	$92,099
Borrego Springs Bank NA	La Mesa	CA	D	$118,793
BPD Bank	New York	NY	D	$595,919
Bramble Savings Bank	Milford	OH	E	$49,928
Brazos Valley Bank NA	College Station	TX	D	$124,639
Bremen Bank & Trust Company	St Louis	MO	D+	$248,728
Brickwell Community Bank	Woodbury	MN	E-	$85,233

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Brickyard Bank	Lincolnwood	IL	E	$185,926
Bridgeview Bank Group	Bridgeview	IL	D+	$1,506,654
Bridgewater Bank	Bloomington	MN	D+	$319,295
Brighton Bank	Brighton	TN	D+	$80,144
Broadway Bank	Chicago	IL	D-	$1,198,828
Brush Country Bank	Freer	TX	D+	$39,856
Buckeye Community Bank	Lorain	OH	D+	$155,402
Buckhead Community Bank	Atlanta	GA	D-	$936,623
Builders Bank	Chicago	IL	D-	$512,852
Busey Bank, National Association	Fort Myers	FL	D+	$452,416
Business Bank	Burlington	WA	D+	$125,811
Business Bank of St Louis	Clayton	MO	D	$536,619
Butler Bank	Lowell	MA	E+	$333,725
California Business Bank	Los Angeles	CA	D	$106,718
California National Bank	Los Angeles	CA	D-	$6,309,929
Canton State Bank	Canton	MO	D+	$31,284
Canton State Bank	Canton	MN	D+	$27,947
Canyon National Bank	Palm Springs	CA	D	$297,095
Cape Fear Bank	Wilmington	NC	E+	$473,463
Capital Bank	Fort Oglethorpe	GA	D+	$142,686
Capitalbank	Greenwood	SC	D	$788,678
CapitalSouth Bank	Birmingham	AL	E	$663,380
Capitol City Bank & Trust Company	Atlanta	GA	D-	$302,107
Capitol National Bank	Lansing	MI	D+	$248,179
Carney State Bank	Carney	OK	D	$16,948
Carolina Commerce Bank	Gastonia	NC	D+	$104,090
Carolina First Bank	Greenville	SC	D+	$13,568,284
Carson River Community Bank	Carson City	NV	D	$46,283
Carver State Bank	Savannah	GA	D-	$41,794
Castle Bank & Trust Company	Meriden	CT	D-	$72,520
Castle Rock Bank	Castle Rock	CO	D+	$125,417
Cecil Bank	Elkton	MD	D	$491,242
Cedar Rapids State Bank	Cedar Rapids	NE	D	$25,805
Cedarstone Bank	Lebanon	TN	D-	$147,802
Centennial Bank	Ogden	UT	E+	$215,322
Centerbank	Milford	OH	E-	$92,235
CenterBank of Jacksonville NA	Jacksonville	FL	E-	$199,461
Central Bank	Russiaville	IN	D	$58,682

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Central Bank Illinois	Fulton	IL	D+	$361,420
Central Co-operative Bank	Somerville	MA	E+	$551,644
Central Illinois Bank	Champaign	IL	D	$487,771
Central National Bank & Trust of Enid	Enid	OK	D	$529,549
Central Pacific Bank	Honolulu	HI	D	$5,422,926
Central Progressive Bank	Lacombe	LA	E+	$437,421
Centrebank	Veedersburg	IN	D	$51,754
Centric Bank NA	Harrisburg	PA	D	$125,451
Centrust Bank, NA	Deerfield	IL	D	$130,772
Century Bank of Florida	Tampa	FL	D+	$84,399
Century Bank of Kentucky	Lawrenceburg	KY	D+	$130,808
Century Security Bank	Duluth	GA	D-	$117,602
Chambers Bank	Danville	AR	D+	$707,182
Champion Bank	Parker	CO	D-	$93,949
Champion Bank	St Louis	MO	E-	$234,061
Charter National Bank & Trust Company	Hoffman Estates	IL	D	$124,061
Cherokee Bank NA	Canton	GA	D	$197,902
Chesapeake Bank & Trust Company	Chestertown	MD	D+	$89,229
Chestatee State Bank	Dawsonville	GA	D-	$269,774
Cheyenne State Bank	Cheyenne	WY	D+	$37,410
Chicago Community Bank	Chicago	IL	D	$322,664
ChinaTrust Bank USA	Torrance	CA	D-	$2,564,308
ChoiceOne Bank	Sparta	MI	D+	$460,219
Citizens Bank	New Tazewell	TN	D	$142,174
Citizens Bank	Rogersville	MO	D-	$59,183
Citizens Bank	Chatsworth	IL	D+	$47,080
Citizens Bank & Trust Company Chicago	Chicago	IL	E-	$84,788
Citizens Bank & Trust Company of Jackson	Jackson	KY	D+	$107,981
Citizens Bank of De Graff	De Graff	OH	D	$28,045
Citizens Bank of Edina	Edina	MO	D+	$70,375
Citizens Bank of Newburg	Rolla	MO	D	$203,719
Citizens Bank of Northern California	Nevada City	CA	D	$372,202
Citizens Bank of Weir	Weir	KS	E+	$8,357
Citizens Community Bank	Ridgewood	NJ	E-	$44,296
Citizens Community Bank Illinois	Berwyn	IL	D	$231,025
Citizens First Savings Bank	Port Huron	MI	E+	$1,981,370
Citizens First State Bank Walnut	Walnut	IL	D+	$61,219
Citizens Independent Bank	St Louis Park	MN	D	$304,465

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Citizens National Bank	Macomb	IL	E	$445,660
Citizens National Bank of Chillicothe	Chillicothe	OH	D+	$148,202
Citizens National Bank Springfield	Springfield	MO	D+	$352,958
Citizens State Bank	Kelliher	MN	D	$15,291
Citizens State Bank	New Baltimore	MI	D-	$200,690
Citizens State Bank	Hudson	WI	D-	$191,590
Citizens State Bank	Cropsey	IL	D-	$36,574
Citizens State Bank	Shakopee	MN	D-	$23,584
Citizens State Bank	Anton	TX	D+	$29,081
Citizens State Bank	Perry	FL	D+	$75,309
Citizens State Bank	Lankin	ND	E	$36,604
Citizens State Bank	Woodville	TX	E-	$119,662
Citizens State Bank of Clayton	Clayton	WI	D+	$66,982
Citizens Trust Bank	Atlanta	GA	D-	$347,751
City Bank	Lynnwood	WA	D	$1,351,344
City Bank	Lubbock	TX	D+	$1,863,661
City Bank & Trust Company	Lincoln	NE	D+	$275,316
City National Bank of Greeley	Greeley Center	NE	D+	$19,789
City National Bank of New Jersey	Newark	NJ	D+	$494,390
City State Bank	Central City	IA	D-	$86,644
City State Bank of Palacios	Palacios	TX	D+	$43,627
Clarkston State Bank	Clarkston	MI	E	$135,418
Claxton Bank	Claxton	GA	D+	$99,022
CNLBank	Orlando	FL	D+	$1,222,041
Coast National Bank	San Luis Obispo	CA	D-	$186,287
Coastal Bank	Savannah	GA	D-	$442,610
Coastal Community Bank	Apalachicola	FL	D-	$360,589
CoastalStates Bank	Hilton Head Isld	SC	D+	$394,665
Coatesville Savings Bank	Coatesville	PA	D+	$239,134
Cole Taylor Bank	Chicago	IL	D-	$4,378,470
College Savings Bank	Princeton	NJ	D-	$620,870
Colorado East Bank Bank & Trust	Lamar	CO	D+	$799,127
Colorado Mountain Bank	Westcliffe	CO	D+	$85,585
Colorado National Bank	Colorado Springs	CO	D	$123,508
Colorado Valley Bank SSB	La Grange	TX	D	$29,025
Columbia River Bank	The Dalles	OR	E+	$1,121,497
Columbia Savings Bank	Cincinnati	OH	D-	$61,257
Columbus Community Bank	Columbus	GA	D	$72,136

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Commerce Bank	Geneva	MN	D	$207,903
Commerce Bank of Southwest Florida	Fort Myers	FL	E	$77,381
Commercial Bank	De Kalb	MS	D	$159,011
Commercial Bank	Bassett	NE	E+	$31,661
Commercial Savings Bank	Upper Sandusky	OH	D+	$259,869
Commercial State Bank	Waterloo	IL	D-	$113,309
Commercial State Bank El Campo	El Campo	TX	D	$144,012
Communinty Bank Missouri	Richmond	MO	D+	$65,742
Community Bank	Alton	IA	D	$41,073
Community Bank	Alma	NE	D	$52,309
Community Bank	Austin	MN	D	$54,383
Community Bank	Noblesville	IN	D+	$236,030
Community Bank	Glen Ellyn	IL	D+	$293,492
Community Bank & Trust Company	Sheboygan	WI	D+	$673,583
Community Bank Central Wisconsin	Colby	WI	D	$137,771
Community Bank Lemont	Lemont	IL	E-	$93,550
Community Bank Mass. Co-Op Bank	Brockton	MA	D+	$405,134
Community Bank Oak Park River Forest	Oak Park	IL	D	$345,030
Community Bank of Arizona	Phoenix	AZ	D	$161,391
Community Bank of Cape Coral	Cape Coral	FL	D-	$101,232
Community Bank of Manatee	Bradenton	FL	D-	$272,509
Community Bank of Nevada	Las Vegas	NV	D-	$1,761,933
Community Bank of Rockmart	Rockmart	GA	E+	$71,966
Community Bank of Shell Knob	Shell Knob	MO	D-	$11,611
Community Bank of The Bay	Oakland	CA	D	$68,871
Community Bank of the South	Smyrna	GA	D-	$407,974
Community Bank of West Georgia	Villa Rica	GA	D-	$203,107
Community Bank Plymouth	Plymouth	MN	D	$71,244
Community Bank, Destin	Miramar Beach	FL	D	$46,121
Community Banks Northern California	Tracy	CA	D-	$187,565
Community Bank-The Cumberlands	Jamestown	TN	D+	$125,708
Community Business Bank	W Sacramento	CA	D	$129,395
Community Capital Bank	Jonesboro	GA	E+	$185,350
Community Central Bank	Mt Clemens	MI	D-	$554,415
Community Commerce Bank	Los Angeles	CA	D+	$393,077
Community First Bank	Boscobel	WI	D+	$249,464
Community First Bank	Prineville	OR	E+	$211,581
Community First Bank-Chicago	Chicago	IL	D-	$63,389

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Community National Bank	N Branch	MN	D-	$56,379
Community National Bank	Waterloo	IA	D-	$250,875
Community National Bank	Bartow	FL	D+	$90,896
Community National Bank	Topeka	KS	D+	$91,284
Community National Bank	Great Neck	NY	D+	$340,395
Community National Bank	Franklin	OH	E+	$106,360
Community National Bank of the Lakeway	Morristown	TN	D+	$118,574
Community National Bank Sarasota County	Venice	FL	E+	$99,993
Community Shores Bank	Muskegon	MI	D+	$255,642
Community South Bank	Parsons	TN	D+	$715,302
Community State Bank	Austin	TX	D	$28,903
Community State Bank	St Charles	MI	D+	$186,958
Community State Bank NA	Ankeny	IA	D	$651,911
Community State Bank Rock Falls	Rock Falls	IL	D+	$177,584
Community West Bank	Goleta	CA	D	$656,886
Communityone Bank, NA	Asheboro	NC	D+	$2,099,191
Community's Bank	Bridgeport	CT	D	$55,416
CommunitySouth Bank & Trust	Easley	SC	D	$388,469
Compass Bank	Birmingham	AL	D+	$62,251,283
Concord Bank	St Louis	MO	D+	$190,853
Concorde Bank	Blomkest	MN	D	$45,453
Conestoga Bank	Chester Springs	PA	D	$703,332
Congaree State Bank	W Columbia	SC	D	$131,799
Connecticut Bank & Trust Company	Hartford	CT	D-	$225,078
Cooperative Bank	Wilmington	NC	D-	$974,556
Copper Star Bank	Scottsdale	AZ	D+	$276,017
Corn Belt Bank & Trust Company	Pittsfield	IL	E-	$260,201
Cornerstone Bank	Moorestown	NJ	D-	$247,563
Cornerstone Community Bank	St Petersburg	FL	D	$321,558
Cortez Community Bank	Brooksville	FL	D	$77,766
Corus Bank NA	Chicago	IL	D-	$8,387,948
Cottonport Bank	Cottonport	LA	D+	$240,444
County Bank	Merced	CA	E-	$1,711,552
Covenant Bank	Chicago	IL	D	$57,452
Covenant Bank	Leeds	AL	D	$107,925
Covenant Bank & Trust Company	Rock Spring	GA	E+	$110,861
Cowlitz Bank	Longview	WA	D+	$586,479
CrediCard National Bank	Tucson	AZ	D+	$15,897

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Creekside Bank	Woodstock	GA	D	$109,598
Crescent Bank & Trust	New Orleans	LA	D+	$651,188
Crescent Bank & Trust Company	Jasper	GA	D	$1,044,442
Currie State Bank	Currie	MN	E-	$49,863
Dairyland State Bank	Bruce	WI	D	$87,257
Darby Bank & Trust Company	Vidalia	GA	D+	$784,900
Darien Rowayton Bank	Darien	CT	D+	$99,363
Davison State Bank	Davison	MI	D-	$46,062
De Witt State Bank	De Witt	NE	D+	$38,547
Dean Co-operative Bank	Franklin	MA	D+	$223,503
Delaware County Bank & Trust Company	Lewis Center	OH	D+	$713,755
Delaware Place Bank	Chicago	IL	D+	$294,078
Delta Trust & Bank	Parkdale	AR	D+	$242,810
Desert Commercial Bank	Palm Desert	CA	D-	$148,416
Desert Hills Bank	Phoenix	AZ	D-	$531,592
DeSoto County Bank	Horn Lake	MS	D	$47,882
Detroit Commerce Bank	Detroit	MI	D+	$101,169
Discovery Bank	San Marcos	CA	D-	$171,266
Doral Bank Puerto Rico	San Juan	PR	D-	$9,188,422
Douglas County Bank	Douglasville	GA	D	$391,391
Drake Bank	St Paul	MN	D+	$84,123
DuPage National Bank	W Chicago	IL	D	$95,536
Durden Banking Company, Inc	Twin City	GA	D+	$162,139
Eagle Bank	Jarrell	TX	D+	$18,032
Eagle Community Bank	Maple Grove	MN	D-	$34,222
Eagle Valley Bank NA	St Croix Falls	WI	D-	$219,607
Earthstar Bank	Southampton	PA	D-	$150,066
East Dubuque Savings Bank	Dubuque	IA	D	$205,943
Eastbank	Minneapolis	MN	D	$20,915
Eastside Commercial Bank	Conyers	GA	D-	$225,002
Eastside Commercial Bank NA	Bellevue	WA	D-	$69,145
Eclipse Bank	Louisville	KY	D-	$93,216
Edgebrook Bank	Chicago	IL	D-	$87,155
Elgin State Bank	Elgin	IA	D	$21,627
Elk State Bank	Clyde	KS	D+	$45,345
Elkhart Community Bank	Elkhart	IN	D-	$99,918
Embassy National Bank	Lawrenceville	GA	D	$50,452
Empire State Bank NA	Newburgh	NY	D-	$145,253

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Enterprise Bank	Allison Park	PA	E+	$185,112
Enterprise National Bank New Jersey	Kenilworth	NJ	D+	$97,289
Equitable Bank State Savings Bank	Wauwatosa	WI	D-	$548,778
Equitable Co-operative Bank	Lynn	MA	D+	$95,142
Equity Bank	Dallas	TX	D-	$269,082
Espirito Santo Bank	Miami	FL	D-	$493,315
Eurobank	Boca Raton	FL	D-	$101,514
Eurobank	San Juan	PR	D-	$2,859,489
Evabank	Eva	AL	D-	$421,262
Evergreen State Bank	Stoughton	WI	D-	$296,485
Excel National Bank	Beverly Hills	CA	D-	$219,950
Exchange Bank	Santa Rosa	CA	D+	$1,629,346
Exchange Bank	Skiatook	OK	E	$97,453
Exchange State Bank	Lanark	IL	D+	$71,456
Exchange State Bank	Adair	IA	D+	$62,291
Family Bank & Trust Company	Palos Hills	IL	E-	$71,193
Family Merchants Bank	Cedar Rapids	IA	D+	$37,265
FamilyFirst Bank	Ware	MA	D-	$61,483
Farmers & Merchants National Bank	Hatton	ND	E	$33,718
Farmers & Merchants Bank	Lakeland	GA	D-	$605,932
Farmers & Merchants State Bank	Scotland	SD	D+	$22,548
Farmers & Merchants State Bank	Argonia	KS	E+	$22,709
Farmers & Traders Savings Bank	Douds	IA	D+	$15,887
Farmers Bank	Lincoln	NE	D	$18,982
Farmers Bank	Forsyth	GA	D+	$80,643
Farmers Bank	Cook	NE	D+	$88,478
Farmers Bank & Trust Company	Blytheville	AR	D-	$362,154
Farmers Deposit Bank	Middleburg	KY	D	$41,610
Farmers Exchange Bank	Cherokee	OK	D	$103,616
Farmers Savings Bank	Walford	IA	D-	$44,759
Farmers State Bank	Alto Pass	IL	D	$238,431
Farmers State Bank	Lumpkin	GA	D-	$56,818
Farmers State Bank	Fairmont	NE	D-	$7,016
Farmers State Bank	Schell City	MO	D+	$68,483
Farmers State Bank	Waterloo	IA	D+	$208,555
Farmers State Bank	Phillipsburg	KS	D+	$33,422
Farmers State Bank	Holton	KS	D+	$45,528
Farmers State Bank	Fairview	KS	D+	$19,645

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Farmers State Bank	Carroll	NE	D+	$19,382
Farmers State Bank of Dent	Dent	MN	D	$30,581
Farmers State Bank of Munith	Munith	MI	D+	$63,171
Farmers-Merchants Bank & Trust Company	Breaux Bridge	LA	D-	$236,164
Fidelity Bank	W Des Moines	IA	D-	$51,952
Fidelity Bank	Baton Rouge	LA	D-	$163,184
Fidelity Bank	Dearborn	MI	D-	$1,119,647
Fidelity Bank	Norcross	GA	D+	$1,759,643
Fidelity Bank of Florida NA	Merritt Island	FL	D	$411,587
Fidelity National Bank	Medford	WI	D	$91,655
Fifth Third Bank	Grand Rapids	MI	D+	$54,116,388
Filley Bank	Filley	NE	D	$15,284
Financial Security Bank	Kerkhoven	MN	D+	$29,848
First Alliance Bank	Cordova	TN	D-	$134,422
First American International Bank	Brooklyn	NY	D+	$604,374
First American State Bank of Minnesota	Hancock	MN	E	$26,154
First and Farmers Bank	Portland	ND	D-	$63,146
First Bank	Creve Coeur	MO	D	$10,747,552
First Bank	Farmersville	TX	D	$110,479
First Bank	Tomah	WI	D+	$88,444
First Bank	W Des Moines	IA	E-	$168,321
First Bank & Trust Company	Dawson	TX	D	$32,783
First Bank & Trust Company of Illinois	Palatine	IL	D-	$367,170
First Bank & Trust of Indiantown	Indiantown	FL	D-	$83,327
First Bank Financial Centre	Oconomowoc	WI	D	$650,247
First Bank Jacksonville	Jacksonville	FL	D	$98,758
First Bank of Beverly Hills	Calabasas	CA	D	$1,491,148
First Bank of Dalton	Dalton	GA	D	$128,374
First Bank of Georgia	Augusta	GA	D	$460,726
First Bank of Kansas City	Kansas City	MO	E	$17,922
First Bank of Linden	Linden	AL	D+	$84,905
First Bank of The Lake	Osage Beach	MO	D-	$46,515
First Bank of the South	Rainsville	AL	D+	$79,981
First Bankamericano	Elizabeth	NJ	D-	$180,305
First Bankcentre	Broken Arrow	OK	D	$55,062
First Bus Bank NA	San Diego	CA	D	$99,543
First Business Bank	Melbourne	FL	D-	$146,736
First Capital Bank	Guthrie	OK	D	$127,365

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
First Carolina State Bank	Rocky Mount	NC	D+	$119,776
First Central Savings Bank	Glen Cove	NY	E	$702,304
First Century Bank, National Association	Gainesville	GA	E-	$62,905
First Cherokee State Bank	Woodstock	GA	D-	$308,589
First Choice Bank	Geneva	IL	D-	$190,865
First Choice Community Bank	Newnan	GA	D	$218,479
First Choice Community Bank	Dallas	GA	D+	$106,625
First Citizens Bank	Glennville	GA	D-	$104,388
First Citizens Bank Polson NA	Polson	MT	D+	$30,192
First Citrus Bank	Tampa	FL	D+	$233,740
First City Bank of Florida	Fort Walton Bch	FL	D-	$299,144
First Colorado National Bank	Paonia	CO	D+	$39,982
First Commerce Community Bank	Douglasville	GA	D-	$295,668
First Commercial Bank	Chicago	IL	D	$324,423
First Commercial Bank	Bloomington	MN	D	$360,049
First Commercial Bank of Florida	Orlando	FL	D-	$703,682
First Commercial Bank Tampa	Tampa	FL	D-	$153,784
First Community Bank	Taos	NM	D	$3,440,854
First Community Bank	Harbor Springs	MI	D	$213,126
First Community Bank	Joliet	IL	D-	$528,604
First Community Bank	Santa Rosa	CA	D+	$718,302
First Community Bank Central Texas, NA	Meridian	TX	D-	$199,247
First Community Bank East Texas, NA	Crockett	TX	D	$199,156
First Community Bank of Southwest Florida	Fort Myers	FL	D-	$222,499
First Community Bank, National Association	Sugar Land	TX	D-	$464,901
First Community State Bank	Staunton	IL	E+	$52,533
First Cornerstone Bank	King Of Prussia	PA	D-	$206,555
First Covenant Bank	Woodstock	GA	E-	$189,665
First Coweta Bank	Newnan	GA	D-	$169,752
First Dupage Bank	Westmont	IL	D-	$312,260
First Financial Bank	Bessemer	AL	D+	$249,753
First Freedom Bank	Lebanon	TN	D	$200,867
First Georgia Banking Company	Franklin	GA	D	$821,613
First Guaranty Bank & Trust Company	Jacksonville	FL	D-	$487,092
First Heritage Bank	Snohomish	WA	D+	$207,712
First Independent Bank	Vancouver	WA	D+	$960,526
First Intercontinental Bank	Doraville	GA	D	$249,885
First International Bank	Plano	TX	D+	$385,795

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
First Lowndes Bank	Fort Deposit	AL	E	$156,654
First Mariner Bank	Baltimore	MD	D-	$1,196,580
First National Bank	Mattoon	IL	D	$54,817
First National Bank	Shenandoah	IA	D+	$31,719
First National Bank	Smith Center	KS	D+	$42,656
First National Bank	Bellevue	OH	D+	$101,390
First National Bank	Lebanon	OH	D+	$103,848
First National Bank & Trust Company	Powell	WY	D	$282,474
First National Bank & Trust Co. in Larned	Larned	KS	D-	$53,857
First National Bank & Trust	Barron	WI	D+	$54,469
First National Bank at St James	St James	MN	D+	$27,707
First National Bank Central Florida	Winter Park	FL	D-	$519,080
First National Bank Grant Park	Grant Park	IL	D	$121,260
First National Bank in Edinburg	Edinburg	TX	D+	$4,184,844
First National Bank in Green Forest	Green Forest	AR	D+	$337,288
First National Bank in Howell	Howell	MI	D-	$393,842
First National Bank in Pawhuska	Pawhuska	OK	D	$39,297
First National Bank Midwest	Oskaloosa	IA	D-	$120,737
First National Bank of Anthony	Anthony	KS	E+	$163,672
First National Bank of Baldwin County	Foley	AL	D+	$267,207
First National Bank of Barnesville	Barnesville	GA	D-	$143,006
First National Bank of Berlin	Berlin	WI	D+	$253,362
First National Bank of Brookfield	Brookfield	IL	D-	$264,287
First National Bank of Buhl	Buhl	MN	D+	$27,656
First National Bank of Catlin	Catlin	IL	D	$40,717
First National Bank of Clinton	Clinton	MO	D+	$77,815
First National Bank of Coweta	Coweta	OK	D+	$66,005
First National Bank of Davis	Davis	OK	D+	$72,508
First National Bank of Elk River	Maple Lake	MN	D	$430,456
First National Bank of Florida	Milton	FL	D-	$440,956
First National Bank of Georgia	Carrollton	GA	D-	$888,950
First National Bank of Germantown	Germantown	OH	D-	$52,633
First National Bank of Griffin	Griffin	GA	D-	$302,112
First National Bank of Ipswich	Ipswich	MA	D	$284,264
First National Bank of Jacksboro	Jacksboro	TX	D-	$489,261
First National Bank of La Follette	La Follette	TN	D+	$201,042
First National Bank of Lacon	Lacon	IL	D+	$53,812
First National Bank of Layton	Layton	UT	D-	$271,378

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
First National Bank of Lindsay	Lindsay	OK	E-	$23,438
First National Bank of Mineola	Mineola	TX	D	$26,682
First National Bank of Proctor	Proctor	MN	D+	$23,351
First National Bank of Southern Kansas	Mt Hope	KS	D	$56,540
First National Bank of St Ignace	St Ignace	MI	D+	$192,026
First National Bank of Summerfield	Summerfield	KS	D+	$6,123
First National Bank of the South	Spartanburg	SC	D-	$850,572
First National Bank of Trenton	Trenton	TX	D-	$142,411
First National Bank of Utica	Utica	NE	D+	$30,456
First National Bank of Valentine	Valentine	NE	D	$148,378
First National Bank USA	Boutte	LA	D-	$225,842
First National Community Bank	New Richmond	WI	D	$144,124
First Pacific Bank of California	San Diego	CA	D-	$427,391
First Peoples Bank	Port St Lucie	FL	D-	$238,922
First Personal Bank	Orland Park	IL	E+	$179,055
First Piedmont Bank	Winder	GA	E+	$122,806
First Private Bank & Trust	Encino	CA	D+	$555,208
First Pryority Bank	Pryor	OK	D	$114,288
First Resource Bank	Savage	MN	D+	$24,822
First Savanna Savings Bank	Savanna	IL	D	$11,370
First Security Bank	Mackinaw	IL	D+	$79,498
First Security Bank	Union Star	MO	E+	$20,350
First Security Bank & Trust Company	Oklahoma City	OK	D-	$45,637
First Security Bank of Helena	Helena	MT	D+	$43,246
First Security Bank of Kentucky, Inc	Island	KY	D-	$36,321
First Security Bank of Nevada	Las Vegas	NV	D	$104,009
First Security Bank-Hendricks	Hendricks	MN	D	$20,683
First Security National Bank	Norcross	GA	D-	$137,862
First Security State Bank	Evansdale	IA	D+	$88,950
First Southern National Bank	Statesboro	GA	D	$234,412
First SouthWest Bank	Alamosa	CO	D+	$238,169
First Standard Bank	Los Angeles	CA	D	$130,878
First State Bank	Shelton	NE	D	$38,371
First State Bank	Eastpointe	MI	D	$664,114
First State Bank	Camargo	OK	D-	$31,068
First State Bank	Picher	OK	D-	$11,308
First State Bank	Stockbridge	GA	D-	$663,466
First State Bank	Flagstaff	AZ	D-	$121,474

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
First State Bank	Grandfield	OK	D+	$25,552
First State Bank	Rice	TX	D+	$31,238
First State Bank	Dix	IL	D+	$42,736
First State Bank	Bigfork	MN	D+	$40,927
First State Bank	Winchester	IL	D+	$36,391
First State Bank	Beaver City	NE	D+	$45,983
First State Bank	Gothenburg	NE	D+	$338,879
First State Bank	Tabor	IA	D+	$24,915
First State Bank	Wilmot	SD	D+	$42,668
First State Bank	Crossett	AR	D+	$32,226
First State Bank	Sarasota	FL	D+	$470,811
First State Bank	Danville	VA	E	$27,655
First State Bank	Altus	OK	E	$105,457
First State Bank	Keyes	OK	E-	$40,721
First State Bank	Cranford	NJ	E+	$234,525
First State Bank & Trust Company	Tonganoxie	KS	D+	$324,775
First State Bank in Tuscola	Tuscola	TX	D+	$21,051
First State Bank Kiester	Kiester	MN	D-	$19,762
First State Bank of Burlingame	Burlingame	KS	E-	$52,206
First State Bank of Kensington	Kensington	MN	E+	$54,777
First State Bank of Red Bud	Red Bud	IL	D-	$106,063
First State Bank of Sharon	Sharon	ND	D	$42,631
First State Bank of Warner	Warner	SD	D-	$43,543
First Suburban National Bank	Maywood	IL	E-	$189,723
First Tennessee Bank NA	Memphis	TN	D-	$30,786,926
First Tri-County Bank	Swanton	NE	D+	$41,621
First Trust & Savings Bank	Coralville	IA	D-	$51,148
First Tuskegee Bank	Tuskegee	AL	D-	$78,396
First United Bank	Crete	IL	D	$483,516
First United Bank & Trust Company	Durant	OK	D	$2,039,978
First Utah Bank	Salt Lake City	UT	D-	$398,454
First Vietnamese American Bank	Westminster	CA	D	$53,280
First Western Bank	Booneville	AR	D	$289,049
First Western Trust Bank	Denver	CO	D	$344,297
FirstBank Financial Services	McDonough	GA	E	$317,237
Firstbank of Puerto Rico	San Juan	PR	D+	$18,492,607
FirstCity Bank	Stockbridge	GA	D-	$285,015
Firstcity Bank of Commerce	N Palm Beach	FL	D	$28,406

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Fisher National Bank	Fisher	IL	D+	$67,113
Flagship National Bank	Bradenton	FL	E-	$210,961
Flint River National Bank	Camilla	GA	D	$32,426
Florida Bank	Tampa	FL	D+	$619,918
Florida Bank of Commerce	Orlando	FL	D-	$156,787
Florida Bank of Jacksonville	Jacksonville	FL	D+	$146,099
Florida Capital Bank, NA	Jacksonville	FL	E+	$968,239
Florida Community Bank	Immokalee	FL	E+	$987,072
Florida Traditions Bank	Dade City	FL	D	$78,082
FNB Financial	Three Rivers	MI	D+	$156,016
Forest Park Bank & Trust	Forest Park	IL	D+	$170,157
Forreston State Bank	Forreston	IL	D+	$143,736
Fort Gibson State Bank	Fort Gibson	OK	D+	$57,776
Fort Madison Bank & Trust Company	Fort Madison	IA	D	$124,699
FortuneBank	Arnold	MO	D	$130,660
Foundations Bank	Pewaukee	WI	D+	$202,469
Founders Bank	Worth	IL	D	$941,928
Fox River State Bank	Burlington	WI	D+	$114,227
Freedom Bank	Sterling	IL	D+	$89,206
Freedom Bank of America	St Petersburg	FL	D	$101,574
Freedom Bank of Georgia	Commerce	GA	E-	$172,454
Freedom Bank of Virginia	Vienna	VA	D+	$144,201
Freedom Financial Bank	W Des Moines	IA	D+	$152,699
Freedom State Bank	Freedom	OK	D+	$18,546
Freeport State Bank	Harper	KS	D	$19,231
Front Range Bank	Lakewood	CO	D-	$128,062
Frontenac Bank	Earth City	MO	D+	$464,294
Frontier Bank	Everett	WA	D	$4,099,493
Frontier Bank	Lagrange	GA	D+	$309,235
Frost State Bank	Frost	MN	D	$27,290
Garden City Bank	Garden City	MO	D+	$98,033
Garnavillo Savings Bank	Garnavillo	IA	D	$30,536
Gateway Bank	St Louis	MO	E-	$30,772
Gateway Community Bank	Roscoe	IL	D+	$66,930
Geauga Savings Bank	Newbury	OH	D+	$522,307
Genoa National Bank	Genoa	NE	D	$54,793
Georgia Bank & Trust Company	Augusta	GA	D	$1,284,796
Georgia Banking Company	Atlanta	GA	D+	$234,521

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Georgia Heritage Bank	Dallas	GA	D-	$98,010
Georgia Trust Bank	Buford	GA	D-	$146,952
Gilmore Bank	Los Angeles	CA	D	$166,082
Gold Canyon Bank	Gold Canyon	AZ	D	$37,308
Gold Country Bank NA	Marysville	CA	D+	$95,127
Golden Coast Bank	Long Beach	CA	D	$40,198
Golden State Bank	Upland	CA	D+	$164,570
Goldman Sachs Bank USA	Salt Lake City	UT	D	$162,474,000
Golf Savings Bank	Mountlake Ter	WA	D	$519,651
Goose River Bank	Mayville	ND	D+	$98,050
Gordon Bank	Gordon	GA	D-	$34,988
Grand Haven Bank	Grand Haven	MI	D+	$121,276
Grand Timber Bank	McGregor	MN	D-	$50,985
Granite Community Bank NA	Granite Bay	CA	D	$141,258
Granville National Bank	Granville	IL	D	$43,175
Great Basin Bank of Nevada	Elko	NV	E-	$264,325
Great Eastern Bank of Florida	Miami	FL	D	$82,126
Great Florida Bank	Miami	FL	D-	$1,843,534
Great Northern Bank	St Michael	MN	E-	$85,073
Greater Hudson Bank, NA	Middletown	NY	D	$105,247
Greater South Texas Bank	Falfurrias	TX	D+	$41,007
Greer State Bank	Greer	SC	D-	$435,522
Greystone Bank	Raleigh	NC	D-	$604,290
Griffith Savings Bank	Griffith	IN	D+	$99,659
Guaranty Bank & Trust Company	Denver	CO	D+	$2,098,387
Guide Rock State Bank	Guide Rock	NE	D-	$30,505
Gulf State Community Bank	Carrabelle	FL	D-	$122,452
Gunnison Valley Bank	Gunnison	UT	D-	$77,680
Guthrie County State Bank	Panora	IA	D+	$93,584
Habersham Bank	Clarkesville	GA	D-	$491,952
Haddon Savings Bank	Haddon Heights	NJ	D	$268,114
Hamilton State Bank	Hoschton	GA	D+	$283,616
Hamptons State Bank	Southampton	NY	D-	$60,741
Hanmi Bank	Los Angeles	CA	D	$3,868,533
Harbor Bank of Maryland	Baltimore	MD	D	$284,864
Hardin County Savings Bank	Eldora	IA	D+	$130,971
Harvard Savings Bank	Harvard	IL	D+	$158,610
Harvest Bank of Maryland	Rockville	MD	D	$207,176

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Hastings State Bank	Hastings	NE	E-	$161,753
Haven Trust Bank Florida	St Augustine	FL	D-	$164,937
Haverhill Bank	Haverhill	MA	D+	$251,869
Heartland Bank	Leawood	KS	D+	$196,034
Heartland Community Bank	Bennet	NE	D	$50,003
Heartland State Bank	Redfield	SD	D-	$52,720
Hedrick Savings Bank	Ottumwa	IA	D+	$66,165
Helm Bank	Miami	FL	D+	$639,659
Heritage Bank	Jonesboro	GA	D-	$461,910
Heritage Bank	Topeka	KS	E	$60,544
Heritage Bank & Trust	Columbia	TN	D	$125,393
Heritage Bank Central Illinois	Trivoli	IL	D	$394,710
Heritage Bank Minnesota	Spicer	MN	D+	$179,534
Heritage Bank NA	Holstein	IA	D+	$133,851
Heritage Bank of North Florida	Orange Park	FL	D-	$174,900
Heritage Community Bank	Randolph	NJ	D+	$92,456
Heritage Community Bank	Glenwood	IL	E	$235,154
Heritage First Bank	Orange Beach	AL	D-	$52,262
Herrin Security Bank	Herrin	IL	D-	$113,524
Herritage Banking Group	Carthage	MS	D-	$246,879
Hertford Savings Bank, State Savings Bank	Hertford	NC	D+	$15,342
Hiawatha National Bank	Hager City	WI	D	$41,541
Hicksville Bank	Hicksville	OH	E+	$148,797
High Desert State Bank	Albuquerque	NM	D-	$98,286
High Trust Bank	Stockbridge	GA	D+	$204,889
Highland Bank	St Michael	MN	D	$619,220
Highland Community Bank	Chicago	IL	D	$111,723
Highlands State Bank	Vernon	NJ	D+	$119,647
Hillcrest Bank	Overland Park	KS	D-	$1,934,302
Hillcrest Bank Florida	Naples	FL	D-	$104,563
Holladay Bank & Trust Company	Salt Lake City	UT	D+	$66,670
Home Loan State Bank	Grand Junction	CO	D+	$39,922
Home National Bank	Blackwell	OK	D	$754,735
Home Savings & Loan Company	Youngstown	OH	D	$2,615,433
Home Savings Bank	Madison	WI	D	$148,488
Home Savings Bank	Salt Lake City	UT	D-	$147,522
Homestreet Bank	Seattle	WA	D+	$2,935,360
Hometown Bank	Roanoke	VA	D+	$234,195

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Hometown Bank NA	Carthage	MO	D-	$258,039
Hometown Community Bank	Braselton	GA	D	$131,013
Hometown Community Bank	Cyrus	MN	D-	$22,973
Honor State Bank	Honor	MI	D+	$211,059
Horizon Bank	Bellingham	WA	D-	$1,471,821
Horizon Bank	Bradenton	FL	D+	$209,274
Horizon Bank	Pine City	MN	E-	$92,845
Howard Bank	Ellicott City	MD	D+	$229,395
Huntingdon Valley Bank	Huntingdon Vlly	PA	D	$138,774
Huntington National Bank	Columbus	OH	D+	$53,586,626
Idaho First Bank	McCall	ID	D	$64,375
Idaho Trust Bank	Boise	ID	D	$106,028
Illinois National Bank	Springfield	IL	D	$614,724
Imperial Capital Bank	La Jolla	CA	D-	$4,432,420
Inbank	Oak Forest	IL	D-	$214,332
Independence Bank	Newport Beach	CA	D	$394,037
Independence State Bank	Independence	WI	D	$60,293
Independent Bank	Ionia	MI	D-	$2,956,914
Independent Bank of Texas	Irving	TX	D-	$93,468
Independent Bankers Bank of Florida	Lake Mary	FL	D	$446,826
Independent National Bank	Ocala	FL	D+	$208,577
Indiana Business Bank	Indianapolis	IN	D-	$90,003
Inland Bank & Trust	Lake Zurich	IL	D-	$1,105,396
Inland Community Bank NA	Ontario	CA	D+	$252,111
Innovative Bank	Oakland	CA	D+	$293,762
Insignia Bank	Sarasota	FL	D	$117,063
Insouth Bank	Brownsville	TN	D	$474,413
Integrity Bank	Jupiter	FL	E+	$129,448
Integrity Bank Plus	Wabasso	MN	D	$46,008
Intercredit Bank NA	Miami	FL	D	$339,653
International City Bank NA	Long Beach	CA	D+	$238,742
Intervest National Bank	New York	NY	D-	$2,200,895
Investorsbank	Pewaukee	WI	D-	$270,391
Iowa Savings Bank	Carroll	IA	D-	$155,789
Iowa State Bank	Clarksville	IA	D+	$141,525
Irwin Union Bank	Columbus	IN	D-	$4,327,766
ISN Bank	Cherry Hill	NJ	E-	$128,789
Jefferson Bank	Dallas	TX	D	$381,664

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Jefferson Federal Bank	Johnson City	TN	E-	$658,133
Jennings State Bank	Spring Grove	MN	E-	$50,810
Joy State Bank	Joy	IL	D+	$41,862
K Bank	Owings Mills	MD	D-	$680,478
Kalamazoo County State Bank	Schoolcraft	MI	D+	$76,450
Kaw Valley State Bank	Eudora	KS	D-	$38,943
KCB Bank	Kearney	MO	D	$141,467
Kendall State Bank	Valley Falls	KS	D-	$35,822
Kent Bank	Kent	IL	D+	$99,411
Keokuk Savings Bank	Keokuk	IA	D	$106,675
Kerndt Brothers Savings Bank	Lansing	IA	D+	$190,686
Key Community Bank	Inver Grove Hgts	MN	D+	$71,961
Keysavings Bank	Wisconsin Rapids	WI	D+	$75,433
Kinderhook State Bank	Kinderhook	IL	D	$16,324
Lafayette Community Bank	Lafayette	IN	D-	$130,888
Lake Area Bank	Lindstrom	MN	D	$321,573
Lake Bank	Two Harbors	MN	D+	$116,276
Lake Community Bank	Long Lake	MN	D	$175,734
Lake Country Community Bank	Morristown	MN	E	$43,055
Lake Region Bank	New London	MN	D+	$100,181
Lake-Osceola State Bank	Baldwin	MI	D+	$158,444
Lakeside Community Bank	Sterling Heights	MI	E+	$62,645
Lakeview Bank	Lakeville	MN	D-	$64,071
Landmark Bank of Florida	Sarasota	FL	D+	$362,356
Landmark Community Bank	Collierville	TN	D	$71,306
Landmark Community Bank NA	Isanti	MN	D+	$111,079
Laona State Bank	Laona	WI	D+	$135,650
Lapeer County Bank & Trust Company	Lapeer	MI	D-	$256,139
Layton State Bank	Milwaukee	WI	D	$122,071
Leaders Bank	Oak Brook	IL	D+	$647,761
Legacy Bank	Altoona	IA	D-	$87,113
Legacy Bank	Milwaukee	WI	D+	$226,267
Legacy Bank of Florida	Boca Raton	FL	D	$224,902
Legacy National Bank	Springdale	AR	D-	$234,137
Legacy State Bank	Loganville	GA	D	$112,605
Lewis & Clark Bank	Oregon City	OR	D	$96,210
Liberty Bell Bank	Cherry Hill	NJ	D	$157,498
Liberty First Bank	Monroe	GA	D	$72,616

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Liberty National Bank	Lawton	OK	D-	$156,468
LibertyBank	Eugene	OR	D-	$912,705
LibertyPointe Bank	New York	NY	D-	$255,365
Lighthouse Bank	Santa Cruz	CA	D	$64,956
Lincoln Bank	Plainfield	IN	D+	$876,435
Lincoln Park Savings Bank	Chicago	IL	D-	$236,960
Lincoln State Bank	Hankinson	ND	D	$43,680
Lincoln State Bank Savings Bank	Rochelle	IL	E+	$43,681
Little Horn State Bank	Hardin	MT	D-	$67,254
Live Oak Banking Company	Wilmington	NC	D+	$100,762
Lone Star Bank	Houston	TX	D+	$103,525
Lone Summit Bank	Lake Lotawana	MO	D+	$27,595
Los Alamos National Bank	Los Alamos	NM	D+	$1,409,086
Loveland Bank of Commerce	Loveland	CO	D+	$32,034
Lowell Co-operative Bank	Lowell	MA	E-	$88,848
Lowell Five Cents Savings Bank	Lowell	MA	D+	$654,442
Lowry State Bank	Lowry	MN	D-	$32,318
Lusk State Bank	Lusk	WY	D+	$40,348
Macatawa Bank	Holland	MI	D-	$2,147,294
Macomb Community Bank	Clinton Twp	MI	E+	$92,232
Madison Bank	Richmond	KY	D+	$141,740
Madison County Bank	Madison	MS	E	$69,508
Madisonville State Bank	Madisonville	TX	D	$244,411
Magyar Bank	New Brunswick	NJ	D-	$542,753
Main Bank	Albuquerque	NM	D+	$63,469
Mainstreet Bank	Forest Lake	MN	E+	$483,457
Maple Bank	Champlin	MN	D	$46,641
Marco Community Bank	Marco Island	FL	D	$132,482
Marine Bank	Wauwatosa	WI	D	$401,007
Marine Bank & Trust Company	Vero Beach	FL	D	$133,856
Marine Bank-Springfield	Springfield	IL	D+	$639,100
Marquette Farmers St Bank of Marquette	Marquette	KS	D+	$28,715
Marquis Bank	N Miami Beach	FL	D	$36,645
Marshall Bank NA	Hallock	MN	D-	$69,989
Marshall County State Bank	Varna	IL	D+	$23,771
Maryland Financial Bank	Towson	MD	D-	$68,065
Mayville Savings Bank	Mayville	WI	D+	$45,329
Mazon State Bank	Mazon	IL	D-	$72,719

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
mBank	Manistique	MI	D	$452,006
MBank	Gresham	OR	D-	$301,428
McClave State Bank	McClave	CO	E+	$19,100
Mchenry Savings Bank	McHenry	IL	D-	$271,558
Mcintosh Commercial Bank	Carrollton	GA	D-	$380,695
McIntosh State Bank	Jackson	GA	D-	$450,939
McVille State Bank	McVille	ND	D	$34,573
Meeting House Co-operative Bank	Newton Center	MA	D+	$58,775
Mega Bank	San Gabriel	CA	D	$60,075
Meramec Valley Bank	Valley Park	MO	D+	$143,866
Mercantil Commercebank, NA	Miami	FL	D+	$6,024,301
Merchants & Farmers Bank	Dumas	AR	D+	$74,443
Merchants & Farmers Bank	Melville	LA	D+	$9,308
Merchants Bank of Alabama	Cullman	AL	E+	$246,700
Meridian Bank	Devon	PA	D+	$268,333
Meridian Bank National Association	Wickenburg	AZ	D+	$2,090,897
Merrick Bank Corporation	S Jordan	UT	D+	$1,171,041
Merrimac Savings Bank	Merrimac	MA	E-	$59,433
Mesa Bank	Mesa	AZ	D+	$248,262
Mesilla Valley Bank	Las Cruces	NM	D-	$22,960
MetroPacific Bank	Irvine	CA	D-	$80,432
Metropolitan Bank	Oakland	CA	D+	$143,721
Metropolitan Bank & Trust Company	Chicago	IL	D	$344,886
Metropolitan National Bank	Little Rock	AR	D+	$1,683,467
Michigan Heritage Bank	Farmington Hills	MI	E-	$179,653
Mid America Bank	Janesville	WI	D	$51,174
Mid America Bank & Trust Company	Dixon	MO	D	$92,000
Mid City Bank	Omaha	NE	D+	$227,038
Mid-Missouri Bank	Springfield	MO	D	$590,611
MidWest Bank & Trust Company	Elmwood Park	IL	D+	$3,552,033
Midwest Community Bank	Plainville	KS	D-	$118,182
Midwest Independent Bank	Jefferson City	MO	D-	$371,699
Midwestone Bank	Iowa City	IA	D+	$1,521,014
Milford National Bank & Trust Company	Milford	MA	D+	$317,266
Millennium Bank	Edwards	CO	D	$297,322
Millennium Bank NA	Reston	VA	D-	$311,243
Millennium BCP Bank, NA	Newark	NJ	D-	$789,267
Millennium State Bank of Texas	Dallas	TX	D-	$118,457

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Milton Savings Bank	Milton	WI	D	$17,938
Minden Exchange Bank & Trust Company	Minden	NE	D+	$126,951
MinnWest Bank Central	Montevideo	MN	D+	$328,437
MinnWest Bank Metro	Rochester	MN	D+	$296,585
MinnWest Bank South	Tracy	MN	D+	$233,744
Mirae Bank	Los Angeles	CA	D-	$444,994
Mission Community Bank	San Luis Obispo	CA	D+	$216,245
Modern Bank, NA	New York	NY	D-	$595,625
Mohave State Bank	Lake Havasu City	AZ	D	$360,737
Montgomery Bank & Trust Company	Ailey	GA	D+	$261,829
Morris County National Bank of Naples	Naples	TX	D	$80,060
Mother Lode Bank	Sonora	CA	D-	$68,952
Mount Washington Co-operative Bank	S Boston	MA	D	$540,052
Mountain Commerce Bank	Erwin	TN	D-	$343,770
Mountain Heritage Bank	Clayton	GA	D	$130,164
Mountain Pacific Bank	Everett	WA	D	$132,912
Mountain Valley Community Bank	Cleveland	GA	D	$144,202
Muskegon Commerce Bank	Muskegon	MI	D+	$91,652
Mutual Bank	Harvey	IL	D-	$1,701,820
Mutual Savings Bank	Franklin	IN	D+	$135,894
Nantahala Bank & Trust Company	Franklin	NC	D-	$195,584
National Bank of Arkansas	N Little Rock	AR	D	$203,910
National Bank of Commerce	Berkeley	IL	E-	$419,741
National Bank of Harvey	Harvey	ND	D-	$66,456
National City Bank	Cleveland	OH	D	$146,057,789
Native American Bank NA	Denver	CO	D+	$96,541
NBRS Financial Bank	Rising Sun	MD	D+	$246,380
Nebraska Bankers Bank	Lincoln	NE	D	$54,623
Necedah Bank	Necedah	WI	D	$46,587
Neighborhood Community Bank	Newnan	GA	E+	$230,492
Neighborhood National Bank	San Diego	CA	D	$133,812
Neighborhood National Bank	Alexandria	MN	D+	$54,478
Nevada Bank & Trust	Caliente	NV	D	$95,386
Nevada Commerce Bank	Las Vegas	NV	D	$182,315
Nevada Security Bank	Reno	NV	D-	$551,603
New Century Bank	Phoenixville	PA	D-	$274,039
New Century Bank	Chicago	IL	D-	$480,436
New Frontier Bank	Greeley	CO	D+	$2,009,347

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
New Frontier Bank	St Charles	MO	D+	$155,417
New Horizons Bank	E Ellijay	GA	D+	$129,706
New Liberty Bank	Plymouth	MI	E+	$120,815
New Millennium Bank	New Brunswick	NJ	D+	$223,625
New Resource Bank	San Francisco	CA	D	$170,416
New Windsor State Bank	New Windsor	MD	D+	$206,073
Newbridge Bank	Lexington	NC	D+	$2,073,836
Nexity Bank	Birmingham	AL	D-	$1,057,227
Norstates Bank	Waukegan	IL	D	$631,686
North Akron Savings Bank	Akron	OH	D+	$153,978
North American Banking Company	Roseville	MN	E+	$213,411
North American State Bank	Belgrade	MN	D	$116,909
North County Bank	Arlington	WA	D+	$353,029
North Georgia Bank	Watkinsville	GA	D-	$178,703
North Milwaukee State Bank	Milwaukee	WI	D-	$93,790
North Salem State Bank	N Salem	IN	D	$128,063
North Star Bank	Roseville	MN	D+	$251,240
NorthEast Bank Bank	Minneapolis	MN	D	$398,907
NorthEast Bank Bank	Auburn	ME	D+	$616,325
Northern Hancock Bank & Trust Company	Newell	WV	D+	$29,925
Northern Star Bank	Mankato	MN	E+	$56,592
Northern State Bank	Closter	NJ	D+	$53,233
Northland Financial	Steele	ND	D-	$153,670
Northland National Bank	Gladstone	MO	D-	$78,093
Northpointe Bank	Grand Rapids	MI	D	$288,771
Northside Bank	Adairsville	GA	D-	$146,224
Northside Community Bank	Gurnee	IL	D	$555,326
NorthWest Bank	Lake Oswego	OR	D	$131,975
NorthWest Bank & Trust Company	Acworth	GA	D-	$152,646
Northwest Georgia Bank	Ringgold	GA	D+	$599,060
Northwestern Bank	Chippewa Falls	WI	D-	$351,115
NOVA Savings Bank	Berwyn	PA	D	$545,202
NStar Community Bank	Bingham Farms	MI	D+	$36,380
Nuestro Banco	Raleigh	NC	D+	$16,843
Oakland Commerce Bank	Farmington Hills	MI	D+	$93,132
Oakland Deposit Bank	Oakland	TN	E-	$124,749
OakStar Bank, NA	Springfield	MO	D	$110,391
Ocala National Bank	Ocala	FL	E-	$219,424

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Ocean Bank	Miami	FL	E+	$4,810,410
Oceanside Bank	Jacksonville Bch	FL	D-	$267,795
Oconee State Bank	Watkinsville	GA	D-	$309,029
Odin State Bank	Odin	MN	D+	$35,738
Oglesby State Bank	Oglesby	TX	D-	$12,724
Ohio Legacy Bank NA	Wooster	OH	E	$187,295
Ohio State Bank	Marion	OH	D-	$146,185
Old Harbor Bank	Clearwater	FL	D-	$247,370
Old Southern Bank	Orlando	FL	D-	$330,386
Olmsted National Bank	Rochester	MN	D-	$61,798
Omni Bank	Metairie	LA	D	$744,426
Omni National Bank	Atlanta	GA	E-	$979,585
Omnibank	Mantee	MS	D	$74,366
One Georgia Bank	Atlanta	GA	D+	$247,853
Oneida Savings Bank	Oneida	NY	D+	$540,150
Onsted State Bank	Brooklyn	MI	D	$59,260
Orange Bank of Florida	Orlando	FL	D-	$256,437
Oregon Community Bank & Trust Company	Oregon	WI	D+	$220,808
Oriental Bank & Trust Company	San Juan	PR	D+	$5,831,461
Orion Bank	Naples	FL	D-	$2,866,585
Ossian State Bank	Ossian	IN	D-	$80,353
Oxford Bank	Oxford	MI	D-	$370,651
Pacific Coast National Bank	San Clemente	CA	E+	$147,676
Pacific National Bank	San Francisco	CA	D	$1,887,198
Pacific Valley Bank	Salinas	CA	D-	$192,724
Palm Bank	Tampa	FL	D-	$171,819
Palm Desert National Bank	Palm Desert	CA	D	$301,754
Palos Bank & Trust Company	Palos Heights	IL	D-	$521,195
Paragon Bank	Wells	MN	E	$34,262
Paragon Bank & Trust Company	Holland	MI	D+	$107,583
Paragon National Bank	Memphis	TN	D-	$310,616
Paramount Bank	Farmington Hills	MI	E-	$277,998
Park Avenue Bank	Valdosta	GA	D	$1,349,068
Park Avenue Bank	New York	NY	E-	$495,291
Park State Bank	Duluth	MN	E+	$31,420
Park State Bank & Trust	Woodland Park	CO	D	$97,266
Parkway Bank	Lenoir	NC	D	$126,097
Parkway Bank	Rogers	AR	D-	$130,180

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Pascack Community Bank	Westwood	NJ	D+	$182,126
Patapsco Bank	Dundalk	MD	D+	$267,519
Pataskala Banking Company	Pataskala	OH	D+	$30,298
Patriot Bank	Brooklyn	IA	D-	$97,092
Patriot Bank	Trinity	FL	D-	$106,074
Patriot Bank of Georgia	Cumming	GA	D-	$155,984
Patriot National Bank	Stamford	CT	D	$920,126
Patriots Bank	Liberty	MO	D+	$109,082
Peninsula Bank	Englewood	FL	D-	$655,038
Penn Liberty Bank	Wayne	PA	D+	$368,235
Pennsylvania Business Bank	Philadelphia	PA	E+	$117,857
Peoples Bank	Lithonia	GA	D	$220,875
Peoples Bank	Lawrence	KS	D	$368,229
Peoples Bank	Ewing	VA	D	$79,832
Peoples Bank	Lebanon	KY	D-	$52,813
Peoples Bank	Winder	GA	D+	$524,773
Peoples Bank & Trust Company	Buford	GA	D-	$448,142
Peoples Bank & Trust Company	Hazard	KY	D+	$279,956
Peoples Bank & Trust Co. of Clinton County	Albany	KY	D+	$26,064
Peoples Bank & Trust Co. Pickett County	Byrdstown	TN	D+	$112,606
Peoples Community National Bank	Bremen	GA	D-	$66,772
Peoples National Bank	Easley	SC	D	$358,031
Peoples Nb	Colorado Springs	CO	D	$181,628
Peoples State Bank	Ellettsville	IN	D+	$226,952
Peoples State Bank	Fairmount	ND	D+	$18,197
Peoples State Bank	Hamtramck	MI	E-	$463,575
Peoples State Bank Madison Lake	Madison Lake	MN	D+	$25,422
Peoples Trust & Savings Bank	Clive	IA	D+	$243,057
Piedmont Community Bank	Gray	GA	D	$258,236
Pigeon Falls State Bank	Pigeon Falls	WI	D+	$51,722
Pilot Bank	Tampa	FL	D-	$252,566
Pinehurst Bank	St Paul	MN	D+	$60,074
Pinnacle Bank	Marshalltown	IA	D+	$66,026
Pinnacle Bank of Oregon	Beaverton	OR	E-	$71,921
Pioneer Bank	Mapleton	MN	D	$255,918
Piqua State Bank	Piqua	KS	D	$24,124
Plantersfirst	Cordele	GA	D-	$370,669
Platinum Bank	Lubbock	TX	D+	$103,519

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Plaza Bank	Norridge	IL	D	$392,324
Plaza Bank	Irvine	CA	D-	$87,715
Polk County Bank	Johnston	IA	D	$154,884
Pony Express Bank	Braymer	MO	D+	$138,698
Preferred Bank	Los Angeles	CA	D	$1,487,851
Preferred Bank	Casey	IL	D	$53,785
Premier American Bank	Miami	FL	D-	$375,481
Premier Bank	Medford	OR	D	$1,483,255
Premier Bank	Tallahassee	FL	D	$430,848
Premier Bank	Rochester	MN	D-	$152,939
Premier Bank	Jefferson City	MO	D-	$1,523,574
Premier Bank	Denver	CO	D-	$90,317
Premier Bank	Wilmette	IL	D+	$342,644
Premier Bank Minnesota	Farmington	MN	D-	$198,601
Premier Bank-Maplewood	Maplewood	MN	D-	$590,699
Premier Business Bank	Los Angeles	CA	D+	$94,633
Premier Service Bank	Riverside	CA	D+	$151,408
Prime Alliance Bank	Woods Cross	UT	D	$135,251
Prime Security Bank	Karlstad	MN	D	$103,024
Primesouth Bank	Blackshear	GA	D	$409,031
Princeville State Bank	Princeville	IL	E-	$65,128
Private Bank of the Peninsula	Palo Alto	CA	D	$271,507
Professional Bank NA	Dallas	TX	D-	$115,739
Professional Business Bank	Pasadena	CA	D	$384,764
Profinium Financial	Truman	MN	D	$314,327
Progress Bank of Florida	Tampa	FL	D	$104,432
Progrowth Bank	Nicollet	MN	D	$146,496
Prosper Bank	Prosper	TX	D-	$106,386
Prosperan Bank	Oakdale	MN	E	$219,420
Prosperity Bank	St Augustine	FL	D+	$1,098,899
Providence Bank	Alpharetta	GA	D	$116,947
Providence Bank	Columbia	MO	D+	$96,678
Provincial Bank	Lakeville	MN	D-	$89,561
Public Savings Bank	Southampton	PA	D-	$46,975
Pueblo Bank & Trust Company	Pueblo	CO	D	$343,465
Purdum State Bank	Purdum	NE	D	$18,483
Putnam State Bank	Palatka	FL	D	$195,915
Qualtiy Bank	Fingal	ND	E-	$26,090

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Quoin Financial Bank	Miller	SD	D+	$127,638
Rainier Pacific Savings Bank	Tacoma	WA	D+	$871,550
RCSBank	New London	MO	D-	$61,296
Red Mountain Bank NA	Birmingham	AL	D	$358,830
Redding Bank of Commerce	Redding	CA	D	$769,179
Regal Bank & Trust Company	Owings Mills	MD	D-	$169,324
Regal Financial Bank	Seattle	WA	D+	$153,962
Regent Bank	Nowata	OK	D+	$136,181
Reliance Bank	Athens	AL	D+	$163,221
Reliance Bank	Des Peres	MO	D+	$1,448,619
Republic Bank of Chicago	Oak Brook	IL	D	$906,275
Republic Bank of Georgia	Suwanee	GA	D-	$156,851
Republic Federal Bank, National Association	Miami	FL	E	$482,627
R-G Premier Bank of Puerto Rico	San Juan	PR	D-	$7,059,832
Riverbank Minnesota	Wyoming	MN	D-	$493,442
Riverland Bank	Jordan	MN	D+	$50,900
Riverside Bank of Central Florida	Winter Park	FL	D-	$135,769
Riverside Bank of Gulf Coast	Cape Coral	FL	E-	$523,673
Riverside National Bank of Florida	Fort Pierce	FL	D-	$3,962,410
Riverview Community Bank	Otsego	MN	E	$124,274
Rock River Bank	Oregon	IL	D	$79,360
Rockbridge Commercial Bank	Atlanta	GA	D-	$263,263
Rockhold Brown & Company Bank	Bainbridge	OH	D+	$36,667
Rocky Mountain Bank & Trust	Florence	CO	D+	$233,536
Rosemount National Bank	Rosemount	MN	D-	$43,370
Royal Asian Bank	Philadelphia	PA	D+	$106,871
Royal Bank America	Narberth	PA	D-	$1,073,513
Royal Banks of Missouri	University City	MO	D+	$433,580
Royal Palm Bank of Florida	Naples	FL	D-	$180,045
Royal Savings Bank	Chicago	IL	D	$110,460
Rushford State Bank	Rushford	MN	D+	$41,984
Rushville State Bank	Rushville	MO	D+	$26,200
Saehan Bank	Los Angeles	CA	D	$842,627
San Antonio National Bank	Refugio	TX	D-	$227,817
San Diego National Bank	San Diego	CA	D-	$3,036,766
San Joaquin Bank	Bakersfield	CA	D+	$934,846
Sandhills Bank	Bethune	SC	D-	$66,786
Sanibel Captiva Community Bank	Sanibel	FL	D	$200,283

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Satilla Community Bank	St Marys	GA	D+	$148,534
Saugusbank a Co-operative Bank	Saugus	MA	D+	$183,978
Sauk Valley Bank & Trust Company	Sterling	IL	D	$204,134
Savannah Bank NA	Savannah	GA	D+	$664,146
Savanna-Thomson State Bank	Thomson	IL	D-	$70,475
Savings Bank	Wakefield	MA	D+	$390,866
Scotiabank Delaware Puerto Rico	Hato Rey	PR	D-	$1,525,092
Seacoast Commerce Bank	Chula Vista	CA	D-	$81,176
Seacoast National Bank	Stuart	FL	D-	$2,317,149
Seattle Bank	Seattle	WA	D-	$665,426
Security Bank	Rich Hill	MO	D+	$61,765
Security Bank	New Auburn	WI	D+	$79,040
Security Bank Gwinnett County	Suwanee	GA	E+	$357,199
Security Bank NA	N Lauderdale	FL	D-	$164,161
Security Bank of Bibb County	Macon	GA	D-	$1,251,919
Security Bank of Houston County	Perry	GA	D-	$383,678
Security Bank of Jones County	Gray	GA	D-	$442,269
Security Bank of North Fulton	Alpharetta	GA	D-	$203,660
Security Bank of North Metro	Woodstock	GA	D-	$241,161
Security Bank Savings Bank	Springfield	IL	D+	$185,045
Security Bank USA	Bemidji	MN	D+	$102,967
Security Exchange Bank	Marietta	GA	D-	$192,092
Security Savings Bank	Henderson	NV	E	$238,307
Security State Bank	Ansley	NE	D-	$58,288
Security State Bank	Lewiston	MN	D+	$77,357
Security State Bank	Centralia	WA	D+	$375,822
Security State Bank	Littlefield	TX	D+	$100,603
Security State Bank	Radcliffe	IA	D+	$39,039
Security State Bank of Kenyon	Kenyon	MN	D-	$58,693
Select Bank	Grand Rapids	MI	D-	$132,616
Seneca National Bank	Seneca	SC	D+	$65,856
Sevier County Bank	Sevierville	TN	D	$420,389
Sherburne State Bank	Becker	MN	D-	$75,126
Sherman County Bank	Loup City	NE	D+	$135,431
Sherwood State Bank	Sherwood	OH	D-	$46,883
Shinhan Bank America	New York	NY	D+	$933,968
Shore Community Bank	Toms River	NJ	D+	$208,130
Shorebank	Chicago	IL	D+	$2,433,071

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
ShoreBank Pacific	Ilwaco	WA	D+	$216,502
Shoreline Bank	Shoreline	WA	D+	$129,909
Signature Bank	Minnetonka	MN	D+	$179,795
Signature Bank	Windsor	CO	D+	$78,270
Signature Bank of Arkansas	Fayetteville	AR	D+	$650,723
Signature Bank of Georgia	Sandy Springs	GA	D-	$200,026
Silver Falls Bank	Silverton	OR	E	$134,206
Silverton Bank, NA	Atlanta	GA	D-	$3,155,328
South Carolina Community Bank	Columbia	SC	D	$81,222
South Coastal Bank	Rockland	MA	D+	$259,278
South County Bank NA	Rancho Santa Mar	CA	D-	$191,038
South Georgia Bank	Glennville	GA	D-	$134,317
Southbridge Savings Bank	Southbridge	MA	D	$448,678
Southern Bank of Commerce	Paragould	AR	D-	$28,385
Southern Colorado National Bank	Pueblo	CO	E+	$58,631
Southern Community Bank	Fayetteville	GA	E-	$381,791
Southport Bank	Kenosha	WI	D	$483,376
SouthWest Bank	Fort Worth	TX	D+	$653,393
Southwest Capital Bank, NA	Fort Myers	FL	D+	$89,998
SouthwestUSA Bank	Las Vegas	NV	D	$222,823
Spencer State Bank	Spencer	NE	D	$18,229
Spirit of Texas Bank, SSB	Snook	TX	E-	$53,205
Springs Valley Bank & Trust	French Lick	IN	D+	$250,605
SSBBank	Stockbridge	MI	D+	$85,570
St Johns Bank & Trust Company	St John	MO	D-	$337,676
St Louis Bank	Town & Country	MO	D	$549,034
St Stephen State Bank	St Stephen	MN	D-	$32,689
Standard Bank & Trust Company	Hickory Hills	IL	D+	$2,310,882
Standing Stone National Bank	Lancaster	OH	D	$70,990
State Bank	Fenton	MI	D-	$366,885
State Bank	Green River	WY	D+	$45,188
State Bank & Trust Company	Carrollton	TX	D	$206,761
State Bank of Aurora	Aurora	MN	D	$31,887
State Bank of Bussey	Bussey	IA	D	$48,158
State Bank of Chilton	Chilton	WI	D	$160,421
State Bank of Cokato	Cokato	MN	E-	$65,800
State Bank of Conway Springs	Conway Springs	KS	D+	$20,052
State Bank of Delano	Delano	MN	D-	$107,252

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
State Bank of Hamburg	Hamburg	MN	D+	$18,793
State Bank of Lebo	Lebo	KS	E-	$23,249
State Bank of Leon	Leon	KS	D+	$9,835
State Bank of Park Rapids	Park Rapids	MN	D+	$106,526
State Bank of Southwest Missouri	Springfield	MO	D+	$90,069
State Bank of Table Rock	Table Rock	NE	D-	$43,276
State Bank of Viroqua	Viroqua	WI	D-	$76,322
State Central Bank	Keokuk	IA	D	$274,390
State Exchange Bank	Lamont	OK	D	$51,833
State National Bank of Groom	Groom	TX	D	$35,066
Statewide Bank	Covington	LA	E	$272,126
Sterling Bank	Lantana	FL	D-	$399,781
Sterling Bank	Mt Laurel	NJ	D-	$381,550
Sterling Savings Bank	Spokane	WA	D-	$12,264,416
Sterling State Bank	Austin	MN	D+	$274,198
Stockmans Bank	Altus	OK	E	$112,618
Strata Bank	Medway	MA	E	$385,809
Strategic Capital Bank	Champaign	IL	E	$598,234
Summit Community Bank	E Lansing	MI	D+	$170,293
Summit Community Bank, Inc	Moorefield	WV	D	$1,613,240
Sun American Bank	Boca Raton	FL	D-	$590,920
Sun Security Bank	Ellington	MO	E+	$381,599
Sunfirst Bank	St George	UT	D	$248,934
Sunrise Bank	Cocoa Beach	FL	D+	$117,005
Sunrise Bank Arizona	Phoenix	AZ	D+	$119,395
Sunrise Bank San Diego	San Diego	CA	D+	$86,322
Sunset Bank & Savings	Waukesha	WI	D-	$143,814
Sunshine State Community Bank	Port Orange	FL	D	$171,313
Superior Bank	Hazelwood	MO	D+	$57,542
Sussex Bank	Franklin	NJ	D-	$436,789
Swedish American State Bank	Courtland	KS	D+	$29,935
Symphony Bank	Indianapolis	IN	D-	$55,030
Synergy Bank State Savings Bank	McKinney	TX	D-	$151,521
T Bank, NA	Dallas	TX	D+	$136,000
Target Bank	Salt Lake City	UT	D	$104,443
Tattnall Bank	Reidsville	GA	E-	$67,899
Teambank NA	Paola	KS	D-	$669,830
Temecula Valley Bank	Temecula	CA	D	$1,553,009

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Terrabank NA	Miami	FL	D	$242,688
Texas Champion Bank	Alice	TX	D+	$311,878
Texas Enterprise Bank	Bryan	TX	D	$53,786
Texas National Bank	Mercedes	TX	E-	$66,107
Texas Republic Bank NA	Frisco	TX	E+	$38,567
Texico State Bank	Texico	IL	E+	$8,952
The First Bank	Roxton	TX	D	$18,139
The PrivateBank	Bloomfield Hills	MI	D+	$1,087,852
Thumb National Bank & Trust	Pigeon	MI	D+	$216,508
Thunder Bank	Sylvan Grove	KS	E	$41,075
Thurston First Bank	Olympia	WA	D-	$89,776
TIB Bank	Naples	FL	D	$1,520,448
Tilden Bank	Tilden	NE	D	$39,826
Timberland Bank	El Dorado	AR	D-	$139,402
Timberwood Bank	Tomah	WI	D+	$173,550
TNBANK	Oak Ridge	TN	D	$200,282
Towanda State Bank	Towanda	KS	D	$7,967
Tower Bank & Trust Company	Fort Wayne	IN	D+	$692,745
Town & Country Bank	Leawood	KS	D	$102,251
Town & Country Bank	Watertown	WI	D+	$51,664
Town & Country Bank of Missouri	La Grange	MO	D+	$25,105
Town & Country Bank of Quincy	Quincy	IL	D+	$116,041
Town Center Bank	Coppell	TX	E-	$56,524
Town Community Bank & Trust	Antioch	IL	D-	$86,333
Towne Bank of Arizona	Mesa	AZ	D	$155,039
Toyota Financial Savings Bank	Henderson	NV	D+	$607,509
Traverse City State Bank	Traverse City	MI	D-	$201,570
Treaty Oak Bank	Austin	TX	D+	$135,990
Tremont Savings Bank	Tremont	IL	D	$43,607
Triad Bank	Frontenac	MO	D	$146,340
Trinity Bank	Dothan	AL	D-	$64,050
Tri-State Bank of Memphis	Memphis	TN	D	$119,722
Tristate Capital Bank	Pittsburgh	PA	D+	$1,285,803
Tri-Valley Bank	San Ramon	CA	D	$93,777
Truman Bank	St Louis	MO	D-	$514,656
TrustAtlantic Bank	Raleigh	NC	D+	$300,920
Tulsa National Bank	Tulsa	OK	D+	$179,337
Twin City Bank	Longview	WA	D+	$46,799

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Two Rivers Bank & Trust	W Des Moines	IA	D	$219,498
Uinta Bank	Mountain View	WY	D+	$43,498
Umpqua Bank	Roseburg	OR	D+	$8,599,058
Union Bank	Marksville	LA	D-	$280,230
Union Bank	Lake Odessa	MI	D-	$187,554
Union Bank	Kansas City	MO	D+	$668,089
Union Bank & Trust Company	Pottsville	PA	D+	$119,345
Union Bank, NA	Gilbert	AZ	D-	$136,145
Union Credit Bank	Miami	FL	D	$154,311
Union State Bank	Kerrville	TX	D	$36,172
Union State Bank	Pell City	AL	D+	$310,068
Union State Bank	Winterset	IA	D+	$71,517
Union State Bank	Clay Center	KS	D+	$136,734
United American Bank	San Mateo	CA	D+	$296,652
United Bank & Trust	Tecumseh	MI	D+	$491,168
United Bank & Trust Company	New Orleans	LA	E	$25,523
United Bank & Trust Washtenaw	Ann Arbor	MI	D	$348,382
United Bank of Philadelphia	Philadelphia	PA	D	$69,526
United Minnesota Bank	New London	MN	D	$24,097
United Security Bank	Fresno	CA	D-	$758,810
United Security Bank	Sparta	GA	E+	$153,718
United SouthWest Bank	Cottonwood	MN	D-	$40,610
United-American Savings Bank	Pittsburgh	PA	E+	$58,966
Unity Bancorp, Inc	Clinton	NJ	D+	$897,635
Unity National Bank	Houston	TX	D	$59,833
Unity National Bank	Cartersville	GA	D-	$313,256
University Bank	Ann Arbor	MI	D+	$129,321
Upstate National Bank	Lisbon	NY	D	$96,454
USA Bank	Port Chester	NY	D-	$211,051
Valley Bank	Moline	IL	D+	$703,483
Valley Bank	Fort Lauderdale	FL	D+	$172,202
Valley Bank & Trust Company	Brighton	CO	D-	$252,470
Valley Capital Bank, National Association	Mesa	AZ	D-	$50,865
Valley Community Bank	St Charles	IL	D	$168,606
Valley Green Bank	Philadelphia	PA	D+	$89,621
VantageSouth Bank	Burlington	NC	D+	$95,245
Ventura County Business Bank	Oxnard	CA	D-	$108,763
Venture Bank	Lacey	WA	D-	$1,180,682

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Viking Bank	Seattle	WA	D	$580,422
Village Bank	Midlothian	VA	D-	$557,373
Village Bank	St Francis	MN	D+	$257,064
Village Bank	Springfield	MO	E+	$105,639
Vineyard Bank, NA	R. Cucamonga	CA	E+	$2,014,953
Virginia Business Bank	Richmond	VA	D-	$167,843
Vision Bank	St Louis Park	MN	D	$35,596
VisionBank	Topeka	KS	D-	$67,591
VisionBank of Iowa	W Des Moines	IA	D+	$110,270
Vista Bank Texas	Houston	TX	D+	$319,167
Wachovia Bank NA	Charlotte	NC	D+	$635,476,000
Walton State Bank	Walton	KS	D-	$7,793
Warren Bank	Warren	MI	E+	$604,387
Washington Business Bank	Olympia	WA	D	$68,352
Washington First International Bank	Seattle	WA	D+	$658,636
Washingtonfirst Bank	Reston	VA	D+	$299,377
Waterford Village Bank	Williamsville	NY	E	$63,339
Waterstone Bank	Wauwatosa	WI	D-	$1,877,014
Waukegan Savings Bank	Waukegan	IL	D-	$103,295
West Coast Bank	Lake Oswego	OR	D-	$2,511,006
West Michigan Community Bank	Hudsonville	MI	D-	$167,794
West Town Savings Bank	Cicero	IL	E+	$57,651
West Valley National Bank	Avondale	AZ	D	$43,460
Westbridge Bank & Trust Company	Chesterfield	MO	E-	$129,802
Western Commercial Bank	Woodland Hills	CA	D-	$121,943
Western Community Bank	Orem	UT	D-	$124,963
Western Springs National Bank & Trust	Western Springs	IL	D-	$226,569
Westernbank Puerto Rico	Mayaguez	PR	E-	$15,256,997
Westside Bank	Hiram	GA	D+	$133,886
Westsound Bank	Bremerton	WA	E	$365,078
Wheatland Bank	Naperville	IL	D+	$490,506
White Oak State Bank	White Oak	TX	D+	$71,488
Whitney National Bank	New Orleans	LA	D+	$12,368,310
Williamsburg First National Bank	Kingstree	SC	D	$140,580
Wilton Bank	Wilton	CT	D+	$106,311
Winfield Community Bank	Winfield	IL	D+	$65,661
Woodland Bank	Deer River	MN	D	$98,447
Woodlands Bank	Williamsport	PA	D+	$249,808

Bank Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Worthington National Bank	Arlington	TX	D-	$180,301
Young Americans Bank	Denver	CO	D-	$13,830

Total Number of Institutions: 1,372 **Total assets: $1,793,017,406**

Data: Federal Reserve, Third Quarter 2008
Ratings source: TheStreet.com Ratings, Inc.

Select: All rated institutions rated D+ or lower in business at yearend 2008
Weiss Research opinion: Institutions rated D+ or lower are at risk of failure

Appendix B

Savings and Loans Rated D+ (Weak) or Lower

Thrift Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Alaska Pacific Bank	Juneau	AK	D+	$190,836
Allstate Bank	Vernon Hills	IL	D+	$1,043,991
American Bank	Rockville	MD	D+	$530,010
American Eagle Savings Bank	Boothwyn	PA	D	$30,051
American Investors Bank & Mortgage	Eden Prairie	MN	D	$69,459
American Savings Bank	Middletown	OH	D+	$34,568
American Savings, Federal Savings Bank	Munster	IN	D+	$177,623
American Sterling Bank	Sugar Creek	MO	E-	$181,275
Ameriprise Bank, Federal Savings Bank	New York	NY	D-	$1,476,384
Amtrust Bank	Cleveland	OH	D-	$15,684,605
Anchorbank, Federal Savings Bank	Madison	WI	D-	$4,823,815
Argentine Federal Savings	Kansas City	KS	D+	$55,153
Auburn Savings Bank, Federal Savings Bank	Auburn	ME	D+	$72,122
Bank of Atlanta	Atlanta	GA	D	$274,776
Bank of Maumee	Maumee	OH	D	$56,812
BankAtlantic	Fort Lauderdale	FL	D	$5,784,056
BankLiberty	Liberty	MO	D	$385,262
BankUnited Federal Savings Bank	Coral Gables	FL	E-	$13,951,805
Bayside Savings Bank	Port St Joe	FL	D-	$84,336
Bay-Vanguard Federal Savings Bank	Baltimore	MD	D	$156,821
Beacon Federal	E Syracuse	NY	D+	$1,021,432
Ben Franklin Bank of Illinois	Arlington Hghts	IL	D+	$124,306
Boonville Federal Savings Bank	Boonville	IN	D+	$41,962
Bradford Bank	Baltimore	MD	E-	$504,385
Brainerd Savings & Loan Assoc Federal Assoc.	Brainerd	MN	D	$66,486
Buffalo Federal Savings & Loan Association	Buffalo	WY	D+	$137,680
Canisteo Savings & Loan Association	Canisteo	NY	D-	$6,890
Carolina Federal Savings Bank	Charleston	SC	D-	$58,745
Carrollton Federal Bank	Carrollton	KY	D-	$34,412
Carver Federal Savings Bank	New York	NY	D-	$793,531
Century Bank	Parma	OH	D	$140,693
Century Bank Federal Savings Bank	Sarasota	FL	E	$922,194
Chesapeake Bank of Maryland	Baltimore	MD	D+	$209,181
Chevy Chase Bank Federal Savings Bank	McLean	VA	D	$16,022,456
Citizens Financial Bank	Hammond	IN	D	$1,121,586
Clay County Savings Bank	Liberty	MO	D+	$97,060
Coastal Bank	Merritt Island	FL	D+	$161,770
Colorado Federal Savings Bank	Greenwood Vlg	CO	D-	$77,289
Community Bank	Staunton	VA	D	$510,296
Community Federal Savings Bank	Woodhaven	NY	E+	$74,563

Thrift Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Community Mutual Savings Bank	Mt Vernon	NY	D+	$204,186
CornerstoneBank	Atlanta	GA	D-	$451,764
Corning Savings & Loan Association	Corning	AR	D+	$31,743
Countrywide Bank, Federal Savings Bank	Alexandria	VA	D-	$117,978,966
County Savings Bank	Essington	PA	D+	$54,134
Crossroads Bank	Wabash	IN	D	$326,767
Del Norte Federal Bank	Del Norte	CO	D+	$46,885
Delanco Federal Savings Bank	Delanco	NJ	D-	$135,664
Domestic Bank	Cranston	RI	D	$248,524
Doral Bank Federal Savings Bank	New York	NY	D	$100,699
Dryades Savings Bank Federal Savings Bank	New Orleans	LA	D+	$69,727
Dwelling House Savings & Loan Association	Pittsburgh	PA	D+	$14,350
E*Trade Bank	Arlington	VA	D-	$44,958,963
Eagle Savings Bank	Cincinnati	OH	D	$99,078
East Wisconsin Savings Bank	Kaukauna	WI	D+	$240,380
Eastern Federal Bank	Norwich	CT	E+	$208,150
Eastern Savings Bank Federal Savings Bank	Hunt Valley	MD	D	$1,025,067
EBank	Atlanta	GA	E-	$153,000
Edgewater Bank	Buchanan	MI	D	$187,684
Elberton Federal Savings & Loan Association	Elberton	GA	D+	$21,446
Equitable Bank	Grand Island	NE	D	$210,026
Equitable Savings & Loans Company	Cadiz	OH	D+	$13,215
Fairfield Federal Savings & Loan Association	Lancaster	OH	D+	$260,780
Family Federal Savings of Illinois	Cicero	IL	D-	$62,079
Federal Trust Bank	Sanford	FL	E-	$585,006
First Arizona Savings Federal Savings Bank	Scottsdale	AZ	D+	$354,100
First Bank of Idaho Federal Savings Bank	Ketchum	ID	D+	$491,728
First Community Bank of America	Pinellas Park	FL	D+	$503,462
First Federal Bank	Harrison	AR	D	$795,143
First Fed Bank of California Fed Savings Bank	Santa Monica	CA	D-	$7,452,064
First Federal Bank of North Florida	Palatka	FL	D-	$412,737
First Federal of Northern Michigan	Alpena	MI	D	$247,614
First Federal Savings & Loan Assoc	Lexington	KY	D+	$138,069
First Fed Savings & Loan Assoc of Bucks County	Bristol	PA	D+	$552,937
First Federal Savings & Loan Assoc of Pekin	Pekin	IL	D-	$28,463
First Federal Savings Bank of Boston	Boston	MA	D	$65,975
First Place Bank	Warren	OH	D-	$3,396,755
FirstBank Florida	Miami	FL	D	$984,500
Flagstar Bank Federal Savings Bank	Troy	MI	D-	$14,163,837
Fort Lee Federal Savings Bank	Fort Lee	NJ	D	$61,141
Franklin Bank	Pilesgrove Twnsh	NJ	D	$263,899

Thrift Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Franklin Fed Savings & Loan Assoc of Richmond	Glen Allen	VA	D+	$992,840
Franklin Savings & Loans Company	Cincinnati	OH	D+	$318,049
Frontier Bank	Rock Rapids	IA	E+	$179,440
Fullerton Federal Savings Association	Baltimore	MD	D+	$9,404
Gateway Bank Federal Savings Bank	San Francisco	CA	D+	$479,176
GCF Bank	Washington	NJ	D+	$430,355
Georgetown Savings Bank	Georgetown	MA	D-	$202,463
Gibraltar Savings Bank, Federal Savings Bank	Oak Ridge	NJ	D	$86,826
Golden First Bank	Great Neck	NY	D	$28,718
Greater Atlantic Bank	Reston	VA	E-	$215,353
Greenville Federal	Greenville	OH	D+	$121,362
Guaranty Bank	Milwaukee	WI	D-	$1,629,217
Guaranty Bank	Austin	TX	D+	$15,058,289
H&R Block Bank	Kansas City	MO	D+	$1,900,148
Harbourside Community Bank	Hilton Head Isld	SC	D+	$77,884
Harrington Bank Federal Savings Bank	Chapel Hill	NC	D+	$321,932
Heartland Bank	Clayton	MO	D	$962,062
Heritage First Bank	Rome	GA	D-	$94,946
Home City Federal Savings Bank of Springfield	Springfield	OH	D+	$139,176
Home Federal Bank of Hollywood	Hallandale	FL	D+	$87,210
Home Federal Svgs & Loan Assoc of Collinsville	Collinsville	IL	D+	$136,186
Home Federal Savings Bank	Rochester	MN	D+	$1,144,967
Home Federal Savings Bank	Detroit	MI	E-	$14,919
Home Loan Investment Bank, Fed Savings Bank	Warwick	RI	D+	$242,361
Home Savings Bank	Jefferson City	MO	D	$33,303
Home Savings of America	Little Falls	MN	D+	$427,899
Ideal Federal Savings Bank	Baltimore	MD	E+	$7,194
Imperial Savings & Loan Association	Martinsville	VA	D-	$9,648
Independence Federal Bank	Independence	IA	D	$23,924
Independence Federal Savings Bank	Washington	DC	D-	$183,793
Inter Savings Bank Federal Savings Bank	Maple Grove	MN	D-	$843,853
Irwin Union Bank, Federal Savings Bank	Columbus	IN	D-	$630,032
Kennebec Fed Savgs & Loan Assoc of Waterville	Waterville	ME	D-	$80,940
Kentucky Federal Savings & Loan Association	Covington	KY	D	$36,814
Key West Bank	Key West	FL	D-	$104,567
Lafayette Savings Bank Federal Savings Bank	Lafayette	IN	D+	$372,127
Lake City Federal Bank	Lake City	MN	D	$81,123
Lehman Brothers Bank Federal Savings Bank	Wilmington	DE	D+	$6,513,521
Liberty Bank	Naples	FL	E	$166,321
Liberty Savings Bank, Federal Savings Bank	Wilmington	OH	D+	$1,522,932
Liberty Savings Bank, Federal Savings Bank	Pottsville	PA	E	$35,215

Thrift Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Los Padres Bank	Solvang	CA	D+	$1,193,196
Lydian Private Bank	Palm Beach	FL	D	$2,118,855
M & I Bank Federal Savings Bank	Las Vegas	NV	E-	$2,568,044
Mackinac Savings Bank Federal Savings Bank	Boynton Beach	FL	D+	$130,183
Madison Bohemian Savings Bank	Forest Hill	MD	D+	$176,070
Madison Square Federal Savings Bank	Baltimore	MD	D	$134,699
Magna Bank	Brentwood	TN	D+	$520,048
Mainstreet Savings Bank Federal Savings Bank	Hastings	MI	E	$111,728
Manatee River Bank	Palmetto	FL	D-	$156,566
Maritime Savings Bank	W Allis	WI	D-	$409,805
Members Trust Company	Tampa	FL	D	$26,029
MetaBank	Storm Lake	IA	D	$857,466
Midcountry Bank	Marion	IL	D-	$967,308
Milford Bank & Loan Association	Milford	IL	D-	$20,065
Mississippi County Savings & Loan Association	Charleston	MO	D+	$8,455
MWABank	Rock Island	IL	D	$208,407
Natick Federal Savings Bank	Natick	MA	D+	$158,111
New Buffalo Savings Bank Federal Savings Bank	New Buffalo	MI	D	$109,735
New South Federal Savings Bank	Irondale	AL	D-	$1,914,108
Newton County Loan & Savgs Fed Savings Bank	Goodland	IN	D	$6,645
Northwest Bank & Trust Company	Davenport	IA	D+	$192,329
Northwoods Bank of Minnesota	Park Rapids	MN	D+	$122,371
Olde Cypress Community Bank	Clewiston	FL	D-	$169,118
OmniAmerican Bank	Fort Worth	TX	D+	$1,067,945
Owen Community Bank Savings Bank	Spencer	IN	D+	$71,091
Pacific Trust Bank	Chula Vista	CA	D+	$876,524
Park Federal Savings Bank	Chicago	IL	D+	$219,631
Park View Federal Savings Bank	Cleveland	OH	D	$901,703
Partners Bank	Naples	FL	D-	$76,206
Peoples Community Bank	W Chester	OH	E-	$732,154
Peoples First Community Bank	Panama City	FL	D-	$1,890,369
Platinum Community Bank	Rolling Meadows	IL	E	$86,519
Polonia Bank	Philadelphia	PA	D	$220,580
Presidential Bank Federal Savings Bank	Bethesda	MD	D	$564,298
Progressive-Home Fed Savings & Loan Assoc	Pittsburgh	PA	D	$47,745
Putnam Bank	Putnam	CT	D+	$477,899
Reliance Bank, Federal Savings Bank	Fort Myers	FL	D+	$123,795
Ripley Federal Savings & Loan Association	Ripley	OH	D-	$95,632
Saddle River Valley Bank	Saddle River	NJ	D	$54,797
Savings Bank of Maine	Gardiner	ME	D+	$972,787
SCB Bank	Shelbyville	IN	D+	$252,152

Thrift Name	City	State	TheStreet.com Rating (Based on Sep 2008 Data)	Total Assets
Second Fed Savings & Loan Assoc of Chicago	Chicago	IL	D+	$265,686
Security Savings Bank Federal Savings Bank	Olathe	KS	D	$649,555
Share Plus Federal Bank	Plano	TX	D+	$191,004
SouthFirst Bank	Sylacauga	AL	D	$133,728
Sovereign Bank	Wyomissing	PA	D-	$78,356,709
State Farm Bank, Federal Savings Bank	Bloomington	IL	D-	$16,668,617
Stephens Federal Bank	Toccoa	GA	D+	$235,075
Sterling Bank & Trust Federal Savings Bank	Southfield	MI	D-	$678,685
Suburban Federal Savings Bank	Crofton	MD	E-	$347,408
Superior Bank	Birmingham	AL	E+	$3,193,418
Sykesville Federal Savings Association	Sykesville	MD	D-	$96,656
The Oculina Bank	Fort Pierce	FL	D	$96,124
TierOne Bank	Lincoln	NE	D	$3,316,406
Turnberry Bank	Aventura	FL	D-	$259,014
Union Federal Savings & Loan Association	Kewanee	IL	D+	$119,845
United Bank	Springdale	AR	D+	$179,519
United Labor Bank Federal Savings Bank	Oakland	CA	D+	$247,050
United Medical Bank, Federal Savings Bank	Baltimore	MD	D+	$111,714
United Midwest Savings Bank	De Graff	OH	D	$274,379
United Security Savings Bank Fed Savings Bank	Marion	IA	D-	$43,468
United Trust Bank	Bridgeview	IL	D-	$33,303
Universal Savings Bank Federal Association	Milwaukee	WI	D-	$3,075
Urban Trust Bank	Orlando	FL	D	$249,756
Vantus Bank	Sioux City	IA	D-	$523,714
Vigilant, Federal Savings Bank	Baltimore	MD	D-	$55,744
Virginia Savings Bank, Federal Savings Bank	Front Royal	VA	D+	$135,145
Wachovia Bank, Federal Savings Bank	Houston	TX	D+	$29,508,742
Wachovia Mortgage, Federal Savings Bank	N Las Vegas	NV	D+	$69,166,325
Waterfield Bank	Germantown	MD	E+	$287,399
Wells Federal Bank, Federal Savings Bank	Wells	MN	D+	$253,306
Woodforest Bank	Refugio	TX	D+	$64,997
Woodlands Bank	Bluffton	SC	D	$354,325
Worthington Federal Bank	Huntsville	AL	D	$120,297

Total Number of Institutions: 196 **Total assets: $527,969,229**

Data: Office of Thrift Supervision, Third Quarter 2008
Ratings source: TheStreet.com Ratings, Inc.

Select: All rated institutions rated D+ or lower in business at yearend 2008
Weiss Research opinion: Institutions rated D+ or lower are at risk of failure

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