

Banks Just Ignored \$3 Of Commercial Real Estate Losses For Every \$1 They Reported

Vincent Fernando, CFA | Mar. 16, 2010, 10:23 AM

While U.S. banks reported a whopping \$59 billion in bad-loan charge-offs in the fourth quarter of 2009, research firm Audit Integrity believes they conveniently ignored another \$3 - \$4 dollars of further loan losses for every dollar loss they reported.

That's because most of the \$59 billion reported came from losses on home loans, not commercial real estate.

Yet nearly 3,000 commercial banks are classified as having a high commercial real estate concentration according to the Congressional Oversight Panel, and AI believes that there's a lot of commercial real estate loans out there which are in trouble.

So why so few losses reported?

It could be that modified accounting rules allow problematic loans to be ignored in the hope that they eventually end up performing:

Audit Integrity:

I refer to our recent INSIGHT, "Financial Institutions and Commercial Real Estate Risk" (attached), that directly addresses the reality of "Extend and Pretend." Commercial banks hold over \$1.7 trillion of commercial real estate, and are reluctant to write down their holdings. In fact, FASB has changed its interpretation of FAS 115-2 and FAS 124-2, making it extremely easy to avoid recognizing loss in value.

.A charge-off rate that more accurately reflects commercial real estate values would drive banks into a substantial negative earnings position.

A selection of banks who AI suspects are representative of the problem is shown below.

Commercial Real Estate (CRE) Data								
as of 9/30/2009 (in \$mm)								
Company	Ticker	CRE	Total	Total	CRE as %	CRE as %	Total	CRE NALs/
		Loans	Loans	Assets	of Total	of Tier 1	NALs*	Total NALs
Regions Financial Corporation	RF	28,293.0	92,754.0	139,986.0	30.5%	218.3%	3,216.0	50.8%
PNC Financial Services	PNC	24,064.0	160,608.0	271,407.0	15.0%	94.3%	5,126.0	36.5%
M&T Bank Corporation	MTB	20,843.0	52,560.9	68,997.5	39.7%	378.0%	1,228.3	51.9%
Fifth Third Bancorp	FITB	16,520.0	78,419.0	110,740.0	21.1%	138.5%	2,947.0	54.7%
Comerica Incorporated	CMA	14,250.0	43,571.0	59,590.0	32.7%	184.2%	1,194.0	56.9%
Marshall & Ilsley Corporation	MI	13,884.0	45,835.2	58,545.3	30.3%	282.5%	2,250.0	22.6%
Zions Bancorporation	ZION	13,366.0	39,782.2	53,403.7	33.6%	253.3%	1,812.0	61.5%
Synovus Financial Corp.	SNV	11,173.1	26,331.7	34,610.5	42.4%	375.7%	1,519.0	80.5%
Huntington Bancshares Incorporated	HBAN	8,715.0	37,304.1	52,512.0	23.4%	151.4%	2,181.1	54.8%
Wilmington Trust Corporation	WL	4,025.7	9,021.2	10,873.8	44.6%	369.3%	365.9	66.0%
Wintrust Financial Corporation	WTFC	3,392.1	8,275.0	12,136.0	41.0%	418.8%	231.7	63.8%
First Horizon National Corporation	FHN	2,667.8	18,524.7	26,465.9	14.4%	74.9%	1,119.7	17.9%

*Non-Accruing Loans