Proposed $700 Billion Bailout Is Too Little, Too Late to End the Debt Crisis; Too Much, Too Soon for the U.S. Bond Market

Submitted by
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to
United States Congress

Senate Banking Committee
and House Financial Services Committee

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A note on corrections: In our earlier edition of this report, two of the appendix tables (#4 and #5) produced by Weiss Research reported on banks and thrifts with exposure to nonperforming mortgages. However, the figures used were incorrectly portrayed as "times" risk-based capital, when in fact, they are a *percent* of risk-based capital. Exposure to nonperforming mortgages is still an issue for many institutions, albeit not as severe as the earlier report might have implied. Moreover, the general conclusion of the report is not affected by this correction.

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Executive Summary

New data and analysis demonstrate that the proposal before Congress for a $700 billion financial industry bailout is too little, too late to end the massive U.S. debt crisis; and, at the same time, too much, too soon for the U.S. Government bond market where most of the funds would have to be raised.

I. Too Little, Too Late to End the Debt Crisis. Congress should

1. Disregard data based on the list of troubled banks maintained by the Federal Deposit Insurance Corporation (FDIC). The FDIC's list currently has 117 institutions with $78 billion in assets. However, based on a broader analysis of recent FDIC call report data, we find that institutions at risk of failure include 1,479 FDIC member banks and 158 thrifts with total assets of $3.2 trillion, or 41 times the assets of banks on the FDIC's list.

2. Think twice before providing a broad bailout for U.S. debts given the wide diversity of mortgage holders and the great magnitude of the total debts outstanding in the United States. Just-released Federal Reserve Flow of Funds data show that, beyond mortgages, there are another $20.4 trillion in private-sector consumer and corporate debts, plus $2.7 trillion in municipal securities outstanding.

3. Recognize that, among banks and thrifts with $5 billion or more in assets, there are 61 banks and 25 thrifts that are heavily exposed to nonperforming mortgages.

4. Get a better handle on the enormous build-up of derivatives held by U.S. commercial banks.

5. Base any legislation on (a) realistic estimates of the loan amounts already delinquent or in default, and (b) reasonable forecasts of how many more are likely to go bad in a continuing recession.

6. Recognize the inadequacies in already-established safety nets, such as the FDIC for bank depositors, Securities Investor Protection Corporation (SIPC) for brokerage customers, and state guarantee associations for insurance policyholders.

There should be no illusion that the $700 billion estimate proposed by the Administration will be enough to end the debt crisis. It could very well be just a drop in the bucket.

II. Too Much, Too Soon for the U.S. Bond Market. There should also be no illusion that the market for U.S. government securities can absorb the additional burden of a $700 billion bailout without putting dramatic upward pressure on U.S. interest rates.

The Office of Management and Budget (OMB) projects the 2009 federal deficit will rise to $482 billion. But adding the cost of announced and proposed bailouts, now approximately $1 trillion, it is undeniable that the federal deficit could double or triple in a short period of time, driving interest rates sharply higher and aggravating the very debt crisis that the bailout plan seeks to alleviate.

III. Policy Recommendations to Congress

1. Congress should limit and reduce the funds allocated to any bailout as much as possible, focusing primarily on our recommendation #4 below.

2. If Congress is determined to provide substantial sums to a new government agency to buy up bad private-sector debts, we recommend that the new agency pay strictly fair market value for those debts, including a substantial discount that reflects their poor liquidity.

3. Congress should clearly disclose to the public that there are significant risks in the financial system that the government is not able to address.

4. Rather than protecting imprudent institutions and speculators, Congress should protect *prudent* individuals and savers by strengthening existing safety nets, including the FDIC for bank deposits, SIPC for brokerage accounts and state guarantee associations that cover insurance policies.

IV. Recommendations to Savers and Investors

Regardless of what Congress decides, savers and investors should continue to invest and save prudently, seeking the safest havens for their money, such as banks with a financial strength rating of B+ or better, U.S. Treasury bills, and money market funds that invest almost exclusively in short-term U.S. Treasury securities or equivalent.

Proposed $700 Billion Bailout Is
Too Little, Too Late for the Debt Crisis;
Too Much, Too Soon for the U.S. Bond Market

Martin D. Weiss, Ph.D. and Michael D. Larson

On September 18, 2008, the President, the Treasury Secretary and the Federal Reserve Chairman proposed a sweeping plan to bail out financial institutions, get to the root of the debt crisis afflicting the U.S. economy and put it to an end, requesting that Congress authorize approximately $700 billion in federal funding. In addition, Congress is seriously considering expanding the bailout to include a wide variety of credit sectors beyond mortgages.

In an earlier white paper, *How Federal Regulators, Lenders, and Wall Street Created America's Housing Crisis — Nine Proposals for a Long-Term Recovery*, we demonstrated that the debt crisis was far larger, more widespread, and more dangerous than most believed at the time.[1] Similarly, in this paper, we demonstrate that the proposed bailout is

- too little, too late to repair the massive U.S. debt crisis; and, at the same time,
- too much, too soon for the U.S. Government securities markets, where most of the funds would have to be raised.

I. Too Little, Too Late to End the Debt Crisis

To better understand the magnitude of the debt crisis, we urge Congress to complete a thorough review of the data, as follows:

First and foremost, we believe Congress should disregard data based on the list of troubled banks maintained by the Federal Deposit Insurance Corporation (FDIC).

The FDIC's list has 117 institutions with $78 billion in assets. But given the current proposal for a $700 billion bailout, it is clear that Administration officials tacitly recognize that the FDIC list understates the problem. There are many more financial institutions at risk or in need of assistance with their toxic paper.

We believe a more accurate count of problem banks can be derived from our analysis of: (a) the derivative risks assumed by major banks, (b) the mortgage holdings of the largest regional banks and (c) all banks and thrifts with

[1] How Federal Regulators, Lenders, and Wall Street Created America's Housing Crisis — Nine Proposals for a Long-Term Recovery, http://www.weissgroupinc.com/whitepaper1/

TheStreet.com's Financial Strength Rating of D+ (weak) or lower.[2] Based on this analysis, detailed in Appendixes A and C, we find that

- 1,479 FDIC member banks are at risk of failure with total assets of $2.4 trillion.
- In addition, 158 savings and loans are at risk with $756 billion in assets.
- In sum, banks and S&Ls at risk have assets of $3.2 trillion,[3] or *41 times* the assets of banks on the FDIC's watch list.

These numbers alone indicate that the $700 billion contemplated for the bailout plan could be severely inadequate.

Second, we believe Congress should look beyond mortgage-backed securities held by investors and seriously consider the data regarding nonperforming mortgages themselves.

These data show that among institutions with $5 billion or more in total assets, there are 61 banks and 25 thrifts holding 1.5% or more in nonperforming mortgages as a percent of risk-based capital.[4] (See Appendix B for listings.)

Third, Congress should think twice before providing a broad bailout for U.S. debts given the wide diversity of mortgage holders and the great magnitude of the total debts outstanding in the U.S., as detailed in the Federal Reserve's Second Quarter Flow of Funds Report.[5]

In this report, released on September 18, just one day before the President announced the Administration's $700 billion bailout proposal, the Fed estimates that the nation's mountain of interest-bearing debts has now grown to $51 trillion.[6]

Plus, it provides critical additional insights regarding the breadth of the debt problems facing the nation, as follows:

1. The ownership of residential mortgages is dispersed among many different sectors. There are $12.1 trillion in mortgages on single- and multi-family homes

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[2] TheStreet.com's Financial Strength Ratings, formerly the Weiss Safety Ratings published by Weiss Ratings, Inc., reflect each institution's capital, asset quality, liquidity and other factors.
[3] The $3.2 trillion in assets include the assets of Citibank NA, Wachovia Bank NA and SunTrust Bank cited in Appendix A, plus total assets of FDIC member banks listed in Appendix C.
[4] Earlier, Weiss Research incorrectly reported this figure as 1.5 times risk based capital. It is 1.5 percent of risk based capital. Although still an issue for many banks, it is less severe than originally portrayed.
[5] Federal Reserve's *Second Quarter Flow of Funds Report*, http://www.federalreserve.gov/releases/z1/Current/z1.pdf
[6] *Ibid.*, page 60 (pdf page 68), table L4, line 1.

in the United States.[7] But these are not held only by banks and S&Ls. They are spread among a wide variety of institutions and individuals, all of which could have similar claims to federal assistance, as described in items 2 through 6 below.

2. Fannie, Freddie and GSAs are still at risk. Despite the recent bailouts of Fannie Mae and Freddie Mac, Congress must not lose sight of the fact that these two institutions, along with U.S. government agencies (GSAs), currently hold $5.4 trillion in residential mortgages, according to the Federal Reserve.[8] The fact that these assets already enjoy a government guarantee does not prevent them from continuing to deteriorate and requiring substantially larger funding than currently contemplated.

3. Private sectors and local governments also own residential mortgages in substantial quantities. The bailout plan would also have to cover:

- The issuers of asset-backed securities, now holding $2.1 trillion in mortgages,[9]
- Nonbank finance companies ($426 billion),[10]
- Credit unions ($332.4 billion),[11]
- State and local governments ($159 billion),[12]
- Life insurance companies ($61.6 billion),[13] plus
- Private pension funds, government retirement funds and households themselves.

4. Commercial mortgages are now going bad as well. The current debate tends to focus exclusively on residential mortgages. But at many regional and super-regional banks, much of the risk is currently in the commercial mortgage sector, where recent data denotes many of the same difficulties as the residential sector. To truly get to the root of the problem, the Administration and Congress cannot exclude these either.

There are $2.6 trillion in commercial mortgages outstanding in the United States. As with residential mortgages, these are also dispersed widely *beyond* the banking

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[7] *Ibid.*, page 93 (pdf page 101), table L217, sum of line 2 and line 3.
[8] *Ibid.*, page 94 (pdf pages 102), tables L218 and L219, sum of lines 17 and lines 18.
[9] *Ibid.*, sum of line 19.
[10] *Ibid.*, sum of line 20.
[11] *Ibid.*, table L218, line 13.
[12] *Ibid.,* tables L218 and L219, sum of lines 16.
[13] *Ibid.,* tables L218 and L219, sum of lines 14.

sector — $644 billion held by issuers of asset-backed securities, $263 billion held by life insurers, $65 billion at nonbank finance companies and $37 billion at Real Estate Investment Trusts (REITs).[14]

5. Mortgages are less than half the problem. Although it is true that the current debt crisis in America originated in the mortgage market, it is not accurate to say that the root of the crisis is strictly in this one sector. Rather, the debt crisis has multiple and varied roots, with excessive risk-taking in credit cards, auto loans and virtually every other form of private-sector debt.

There are currently $14.8 trillion in residential and commercial mortgages in America. But beyond mortgages, there is *another* $20.4 trillion in consumer and corporate debt. This means that *mortgages represent only 42% of the private-sector debt problem in America.*

6. Local governments could be a higher priority. Overlooking the debt problems of state and local governments could also be a mistake. Indeed, given the essential nature of their services, including the pivotal role they play in homeland security, it could be argued that their credit challenges take priority over those faced by banks, S&Ls and Wall Street firms.

Currently, the Fed estimates $2.7 trillion in municipal securities outstanding,[15] most of which have been reliant on a bond insurance system that remains on the brink of collapse.[16]

In short, to truly get to the root of the problem as the President is requesting, Congress' new bailout plan would have to cover a lot of ground beyond just the banking industry.

Fourth, we urge Congress to get a better handle on the enormous build-up of derivatives in America, beginning with a thorough review of the OCC's Quarterly Report on Bank Trading and Derivatives Activities, First Quarter 2008.[17]

Although derivatives were originally designed to help reduce risk, it is widely acknowledged that their volume and usage have reached such an extreme level

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[14] *Ibid.,* page 95 (pdf page 104).
[15] *Ibid.*, page 60 (pdf page 68), table L4, line 5.
[16] *Money and Markets*, "Ratings Collapse," December 24, 2007, http://www.moneyandmarkets.com/issues.aspx?Ratings-Collapse-1301; "World's Largest Bond Insurers Collapsing," January 21, 2008, http://www.moneyandmarkets.com/issues.aspx?Worlds-Largest-Bond-Insurers-Collapsing-1381; "The Collapse of the Great Ratings Scam," March 18, 2008, http://www.moneyandmarkets.com/issues.aspx?The-Collapse-of-the-Great-Ratings-Scam.
[17] *OCC's Quarterly Report on Bank Trading and Derivatives Activities, First Quarter 2008*, http://www.occ.treas.gov/ftp/release/2008-74a.pdf

that many have become, instead, *speculative bets* which greatly *increase* the systemic risk to financial global markets.

And although regulators have few details about these derivatives, most officials now realize they were probably at the root of the panic that began to spread throughout the global banking system in the wake of the Lehman Brothers bankruptcy on September 15.

Therefore, it should be understood by all members of Congress that, to ward off possible renewed waves of global panic, the bailout plan would also have to address the following threats to the financial system:

- The notional (face value) amount of derivatives held by U.S. commercial banks is $180.3 trillion.[18]

- One single institution, JPMorgan Chase (JPM), holds $90 trillion, or 49.9% of all derivatives held by U.S. commercial banks, a concentration of risk that is unprecedented in modern U.S. history.[19] Therefore, any federal bailout of the derivatives market would necessarily benefit JPMorgan Chase to a far greater extent than any other financial institution, a pattern we have already witnessed in the wake of the failures at Bear Stearns and Lehman Brothers.

- Although it can be argued that notional values overstate the risk, the recent failures of Bear Stearns and Lehman Brothers, both large players in the derivatives market, illustrates that the large counterparty default risk underlying the $180.3 trillion in derivatives cannot be understated. Currently, the OCC reports that the credit exposure to derivatives (risk of default by trading partners) is $465 billion, up 159% from one year earlier.[20]

- U.S. banks with the greatest credit exposure to derivatives are HSBC (with $7.21 in risk per dollar of capital), JPMorgan Chase (with $4.11 in risk on the dollar), Citibank ($2.79), Bank of America ($2.15) and Wachovia ($.77).[21] We believe that exposure exceeding $.25 per dollar of capital is excessive.

- Further, after Bank of America's merger with Merrill Lynch, which reports $4 trillion in derivatives, and after a possible merger involving Morgan Stanley, which holds $7.1 trillion, these exposures will likely be intensified.[22]

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[18] *Ibid.,* page 1.
[19] *Ibid.,* page 22, Table 1.
[20] *Ibid.*, page 1.
[21] *Ibid.,* page13, Graph 5A table.
[22] Merrill Lynch and Morgan Stanley financial statements.

Overall, Congress should debate the bailout issues with its eyes open, recognizing that any bailout plan that does not include these banks and other players in the vast market for derivatives could leave a gaping hole through which financial panic can spread again.

Fifth, for all of these debts and derivatives, a bailout plan would, in normal circumstances, require (a) realistic estimates of the amount that is *already* delinquent or in default, and (b) reasonable forecasts of how many *more* are likely to go bad in a continuing recession.

However, the only estimates currently available are those reflecting actual write-downs recognized by large, global financial institutions — over $500 billion.[23] That figure does *not* include the thousands of other institutions among the sectors cited above. Nor does it include losses incurred but not yet properly booked — let alone losses not yet incurred.

To date, no government agency is providing such estimates. But without them, any budgetary planning for this bailout is next to impossible. No one will know, except in retrospect, if the bailout truly removes the cancerous debts from the economic body or leaves most of them to fester and spread.

Sixth, Congress should recognize the inadequacies in already-established safety nets, giving serious consideration to the following facts:

- **FDIC's safety net for bank depositors is not adequately funded:** The FDIC's funding, currently at $45 billion, is $32 billion less than the assets of banks on the FDIC's list of troubled institutions. Moreover, it represents only 1,9% of the assets of banks and S&Ls we believe to be at risk, as stated earlier.

- **SIPC's safety net for brokerage firm customers suffers two flaws:**

  1. *No coverage for market losses due to brokerage firm failure.* In a Wall Street meltdown scenario, it is possible that multiple brokerage firms would be unable to continue servicing customers due to financial or operational difficulties. And until the authorities can sort out the mess, customer accounts would be frozen, denying investors the ability to liquidate their securities to prevent portfolio losses. As SIPC is currently structured, even though the failures would clearly be a major factor contributing to the portfolio losses, the losses would not be covered.

[23] Bloomberg News, *Banks' Subprime Losses Top $500 Billion on Writedowns (Update1),* August 12, 2008, http://www.bloomberg.com/apps/news?pid=20601087&sid=aSKLfqh2qd9o&refer=worldwide.

2. *Member assessments have been laughably small*. Member firms are charged only $150 per member firm, regardless of their size. For large firms, this is less than the amount typically spent on paper clips.[24]

- **Safety net of insurance policyholders cannot handle large insurance company failures:** State guarantee associations have inadequate funds to cover policyholders in the event of the failure of several large insurers, with potentially severe consequences for millions of savers and investors.

  The experience of the early 1990s illustrates this severe weakness: Large life and health insurers, such as Executive Life of California, First Capital Life, Fidelity Bankers Life, and Mutual Benefit Life were taken over by state regulators. But state guarantee associations had insufficient funding and, in many states, surviving insurers could not afford the large amounts that would be required to cover policyholders. As a result, the savings of two million policyholders with cash value life and annuity policies were frozen for many months. And subsequently, those policyholders were required to accept either (a) as little as 50 cents on the dollar in an immediate payout or (b) replacement policies with inferior returns and terms.[25]

To adequately protect individual savers, investors and policyholders, each of these safety nets will require substantial additional funding.

In sum, after carefully reviewing the above data and facts, there should be no illusion that the $700 billion estimate proposed by the Administration will be enough to end the debt crisis. It could very well be just a drop in the bucket.

II. Too Much, Too Soon for the U.S. Bond Market

There should also be no illusion that the market for U.S. government securities can absorb the additional burden of funding massive government bailouts without traumatic consequences.

In its Fiscal Year 2009 Mid-Session Review, Budget of the U.S. Government, the Office of Management and Budget (OMB) projects the 2009 federal deficit will rise to $482 billion. At the same time, the OMB seeks to minimize this record deficit by stating it will be only 3.3% of estimated GDP, which is lower than the recent peak of 3.6% of GDP.[26]

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[24] *SIPC Annual Report 2007,* http://www.sipc.org/pdf/SIPC_Annual_Report_2007_FINAL.pdf, page 8.
[25] See July 1991 testimony by Martin D. Weiss before the House Subcommittee on Commerce, Consumer Protection, and Competitiveness and February 1992 testimony by Weiss before the Senate Committee on Banking, Housing, and Urban Affairs regarding the insurance industry failures.
[26] *Fiscal Year 2009 Mid-Session Review, Budget of the U.S. Government,* http://www.whitehouse.gov/omb/budget/fy2009/pdf/09msr.pdf, page 1.

However, the OMB made this projection before the recently announced or proposed bailouts. Considering those that have come to light in the last fortnight alone, the potential bill for the government's largesse can be calculated as follows:

Fannie Mae and Freddie Mac	$200 billion
AIG Insurance Corp.	85 billion
Financial market bailout proposal	700 billion
Total	$975 billion

This bill, approaching $1 trillion, is so extreme, it is undeniable that

1. It could double or triple the federal deficit in a very short period of time.[27]

2. Such a dramatic increase in the deficit would drive up the cost of borrowing not only for the U.S. Treasury, but also for other bonds and for millions of Americans seeking a mortgage or other credit, since Treasury yields are the benchmarks against which most borrowing is based.

3. To the degree that the Federal Reserve purchases U.S. government securities for its own account to help support bond prices, it would devalue the U.S. dollar, risking a dollar collapse and the flight of much-needed foreign capital from the U.S.

4. Ultimately, either of these outcomes — sharply higher U.S. interest rates or a U.S. dollar collapse — could seriously aggravate the very debt crisis that the bailout plan seeks to address.

[27] Economists should not seek to make a more precise federal deficit projection at this time, given the many uncertainties and clouds now hovering over the U.S. economy and financial markets. Among the major unknowable factors are: The final size and nature of any bailout legislation, unpredictable budget overruns in any bailout program, the recovery rates of any bad assets purchased, and any further spread or deepening of the debt crisis caused by a continuing recession, higher interest rates, or a falling dollar.

III. Recommendations to Congress

In light of these facts, we have four recommendations:

Recommendation #1. To avoid a sharp rise in interest rates or a collapse in the U.S. dollar, Congress should limit and reduce the funds allocated to any bailout as much as possible, focusing primarily on our recommendation #4 below.

Recommendation #2. If Congress is determined to provide substantial sums to a new government agency to buy up bad private-sector debts, that agency should pay strictly fair market value for the debts, including a substantial discount that reflects their poor liquidity. Further, it should be clearly understood that:

- Due to the recent sharp declines in market values and market liquidity, many of the bad debts on the books of U.S. financial institutions are currently worth only a fraction of their face value.

- When the government buys these debts at fair market value, it will still leave most of these institutions with severe losses.

- Many of these institutions do not have the capital to cover their losses and will fail despite the bailout.

Recommendation #3. Congress should clearly disclose to the public that there are several significant risks in the financial system that the government is unable to address with any new legislation, including the possibility of surging defaults on debts not covered by the bailout plan, a collapse in the derivatives market, and a chain reaction of corporate failures. It should also disclose that

- Whether the bailout legislation is adequate or not to stem the debt crisis and prevent financial panic, the government will need to prioritize the protection of its own credit and seek to ensure the stability of the U.S. dollar.

- The private sector, in turn, will need to handle any further spread of the debt crisis largely without government financial assistance.

Recommendation #4. Rather than provide a safety net for *imprudent* institutions and speculators, Congress should devote more effort to bolstering the safety nets for *prudent* individuals and savers. These include:

- The FDIC, which insures bank depositors, but has inadequate funding and staffing to handle a large wave of bank failures. These should be increased substantially.

- Securities Investor Protection Corporation (SIPC), which was designed to cover brokerage firm accounts, but, in practice, would not compensate investors for losses due to brokerage firm failures in a Wall Street meltdown.

- State insurance guarantee associations, which promise to cover insurance policyholders, but which have repeatedly failed to live up to their promise when large insurers fail.

In conclusion, unless Congress significantly modifies its approach and priorities, it could produce the worst of both worlds: A failure to resolve the current debt crisis *plus* the creation of a new set of crises that merely spread the panic and prolong the pain.

IV. Recommendations for Savers and Investors

Many investors have unrealistic hopes and expectations regarding what Washington can accomplish. Even if Congress moves swiftly to enact legislation allowing the government to buy up bad assets, the government is expected to pay far less than face value for them. In that case, banks will continue to suffer losses and fail, uninsured depositors will continue to lose money, and investors will continue to see their shares lose all, or nearly all, their value.

Therefore, regardless of what Congress decides, savers and investors should continue to save and invest prudently, seeking the safest havens for their money, such as banks with a Financial Strength Rating of B+ or better, U.S. Treasury bills, and money market funds that invest almost exclusively in short-term U.S. Treasury securities or equivalent.

In order to avoid banks, S&Ls and insurers that may be at risk as well as to find stronger institutions, Weiss Research recommends that consumers take advantage of the free financial strength ratings offered by www.TheStreet.com, under Portfolio Tools. In addition, as a public service, Weiss Research provides an informational 1-hour video on how to cope with the debt crisis, entitled "The X List," at www.moneyandmarkets.com.

Appendix A. Large U.S. Banks and Thrifts at Risk

Large U.S. banks and S&Ls at risk of failure may constitute the most immediate threat to the global financial system. Among institutions with $25 billion or more in assets, our analysis indicates that the institutions below are currently the most vulnerable.

Table 1. Largest Banks and Thrifts Believed to Be at Risk of Failure

Bank or Thrift	TheStreet.com Financial Strength Rating	Credit Exposure to Derivatives (% of risk-based capital)	Total Assets ($ billions)
Citibank NA	C-	279%	1,292.5
Wachovia Bk NA	C+	78%	665.8
Washington Mutual Bank	D+		317.8
HSBC Bk USA NA	D+	721%	188.3
SunTrust Bk	C-		174.7
National City Bk	D		152.5
Sovereign Bk	D+		81.9
Huntington NB	D+		55.6
E*Trade Bank	D+		48.2
First Tennessee Bk NA	D+		37.1

Data: Federal Deposit Insurance Corporation (FDIC), Call Reports, March 31, 2008, and Office of Thrift Supervision (OTS), Thrift Financial Reports, March 31, 2008.
Analysis: Weiss Research, Inc.

The analysis is based on:

1. TheStreet.com Financial Strength Rating of D+ or lower, reflecting low scores in capital adequacy, asset quality, liquidity or other factors. In the table above, three banks with a rating of C- or higher are included due to other weaknesses not reflected in TheStreet.com Financial Strength Rating, as specified below.

2. Credit exposure to derivatives, as reported in the *OCC's Quarterly Report on Bank Trading and Derivatives Activities, First Quarter 2008,* shown above as a percentage of risk-based capital.

3. Exposure to mortgages and mortgage-backed securities.

Appendix B. Large Banks and Thrifts with the Most Residential Mortgages and Heavy Exposure to Nonperforming Residential Mortgages

Beyond current concerns regarding mortgage-backed securities held by investors, there are two urgent questions for Congress that relate to the underlying mortgages themselves: (1) Which large banks and thrifts have the most residential mortgages in America? and (2) Which large banks and thrifts have the greatest exposure to nonperforming mortgages? The answers are provided in the tables below.

Table 2. Large Banks with the Most Residential Mortgages
(FDIC member banks with $10 billion or more in assets)

Bank	City	State	1-4 Family Residential Loans ($ thousands)
Bank of America NA	Charlotte	NC	311,957,932
Citibank NA	Las Vegas	NV	197,775,000
Wachovia Bk NA	Charlotte	NC	170,593,000
JPMorgan Chase Bk NA	Columbus	OH	156,937,000
Wells Fargo Bk NA	Sioux Falls	SD	123,021,000
SunTrust Bk	Atlanta	GA	54,138,579
National City Bk	Cleveland	OH	47,669,280
RBS Citizens, NA	Providence	RI	44,427,070
US Bk NA	Cincinnati	OH	41,681,614
HSBC Bk USA NA	Wilmington	DE	34,716,831
Bank of America RI	Providence	RI	33,447,908
Branch Bkg&TC	Winston-Salem	NC	32,143,712
Regions Bank	Birmingham	AL	30,310,331
Wells Fargo Bk South Central	Faribault	MN	26,833,000
PNC Bk NA	Pittsburgh	PA	22,846,064
GMAC Bank	Midvale	UT	17,557,666
Bank of America CA NA	San Francisco	CA	17,372,179
Union Bk of CA NA	San Francisco	CA	16,773,374
Huntington NB	Columbus	OH	13,906,057
Capital One, NA	McLean	VA	13,083,201
Fifth Third Bk	Cincinnati	OH	13,000,578
Keybank NA	Cleveland	OH	12,910,665
Bank of the West	San Francisco	CA	12,513,574
First Tennessee Bk NA	Memphis	TN	11,932,922
Manufacturers & Traders TC	Buffalo	NY	11,213,708
Harris NA	Chicago	IL	10,686,930
LaSalle Bank Midwest NA	Troy	MI	10,551,417
M&I Marshall & Ilsley Bk	Milwaukee	WI	10,098,683
Bank of America OR NA	Portland	OR	10,070,446

Data: Federal Deposit Insurance Corporation (FDIC), Call Reports, March 31, 2008
Analysis: Weiss Research, Inc., TheStreet.com

Table 3. Large Thrifts with the Most Residential Mortgages
(OTS member thrifts with $10 billion or more in assets)

Thrift	City	State	1-4 Family Residential Loans ($ thousands)
Washington Mutual Bank	Henderson	NV	191,621,666
Countrywide Bank, FSB	Alexandria	VA	91,381,293
Wachovia Mortgage, FSB	N Las Vegas	NV	57,822,468
ING Bank FSB	Wilmington	DE	27,678,391
E*Trade Bank	Arlington	VA	26,298,247
Hudson City Savings Bk	Paramus	NJ	24,822,785
Sovereign Bk	Wyomissing	PA	19,571,461
IndyMac Bk FSB	Pasadena	CA	16,545,208
Citicorp Trust Bank, FSB	Wilmington	DE	14,787,107
Merrill Lynch B&TC, FSB	New York	NY	14,477,450
USAA FSB	San Antonio	TX	13,146,234
Amtrust Bank	Cleveland	OH	11,825,127
Astoria FS&LA	New York	NY	11,699,995
BankUnited FSB	Coral Gables	FL	11,356,571
Downey S&LA FA	Newport Beach	CA	11,011,485

Data: Office of Thrift Supervision (OTS), Thrift Financial Reports, March 31, 2008
Analysis: Weiss Research, Inc., TheStreet.com

Table 4. 61 Large Banks with Exposure to Nonperforming Residential Mortgages
(FDIC member banks with $5 billion or more in assets and with an exposure to nonperforming 1-4 family mortgages representing 1.5% of risk-based capital or more)

Bank	City	State	Nonperforming 1-4s/ Risk-based Capital (percent)*	Total Assets ($ thousands)
Franklin Bk SSB	Houston	TX	31.60	5,922,659
R-G Premier Bk of PR	San Juan	PR	29.01	7,165,822
Doral Bank Puerto Rico	San Juan	PR	22.50	8,835,752
Emigrant Bk	New York	NY	21.10	12,890,324
Oriental B&TC	San Juan	PR	18.89	5,802,800
Bank of America OR NA	Portland	OR	15.98	10,697,284
Firstbank of PR	San Juan	PR	14.02	17,173,199
National City Bk	Cleveland	OH	13.14	152,519,145
Wells Fargo Bk S. Central	Faribault	MN	11.36	27,710,000
Banco Santander PR	San Juan	PR	10.02	9,103,575
Fremont Invest. & Loan	Anaheim	CA	9.86	6,047,598
LaSalle Bank Midwest NA	Troy	MI	8.57	37,008,195
Irwin Union Bk	Columbus	IN	6.62	5,425,343
SunTrust Bk	Atlanta	GA	6.60	174,716,429

GMAC Bank	Midvale	UT	6.32	30,329,334
Banco Popular de PR	San Juan	PR	5.98	26,137,000
Banco Popular N. America	New York	NY	5.08	12,738,302
TCF NB	Wayzata	MN	5.07	16,395,643
Wachovia Bk NA	Charlotte	NC	5.05	665,817,000
Arvest Bk	Fayetteville	AR	4.94	9,957,014
HSBC Bk USA NA	Wilmington	DE	4.75	188,284,200
Fifth Third Bk	Cincinnati	OH	4.62	64,564,486
Bank of America CA NA	S. Francisco	CA	4.41	18,878,893
Citizens Bk	Flint	MI	4.41	12,538,893
Banco Bilbao Vizcaya Arg.	San Juan	PR	4.36	6,644,109
First Bk	Creve Coeur	MO	4.36	10,782,714
Bank of America NA	Charlotte	NC	3.97	1,355,154,455
Fulton Bk	Lancaster	PA	3.95	8,337,152
Bank of North Georgia	Alpharetta	GA	3.54	5,433,034
Fifth Third Bk	Grand Rapids	MI	3.52	54,142,779
Branch Bkg&TC	Winston-Salem	NC	3.46	131,915,915
Bank of America RI	Providence	RI	3.38	35,790,853
Carolina First Bk	Greenville	SC	3.21	13,693,866
Amcore Bk NA	Rockford	IL	3.20	5,135,631
RBC Centura Bk	Raleigh	NC	3.09	25,548,477
Northwest Svgs Bk	Warren	PA	3.03	6,911,410
Webster Bk NA	Waterbury	CT	2.98	17,075,904
Ocean Bk	Miami	FL	2.96	5,120,611
Wells Fargo Financial Bk	Sioux Falls	SD	2.79	5,858,375
Regions Bank	Birmingham	AL	2.76	139,765,596
JPMorgan Chase Bk NA	Columbus	OH	2.68	1,407,568,000
First Tennessee Bk NA	Memphis	TN	2.61	37,063,967
Manufacturers & Traders	Buffalo	NY	2.60	65,263,266
Provident Bk	Baltimore	MD	2.54	6,130,241
RBS Citizens, NA	Providence	RI	2.52	130,820,181
Susquehanna Bk PA	Lititz	PA	2.50	6,516,448
United Community Bank	Blairsville	GA	2.45	8,379,863
M&L Marshall & Ilsley Bk	Milwaukee	WI	2.36	57,089,224
Pacific Capital Bk NA	Sta. Barbara	CA	2.15	7,392,474
Whitney NB	New Orleans	LA	2.02	10,765,499
Citibank NA	Las Vegas	NV	1.96	1,292,503,000
First Commonwealth Bk	Indiana	PA	1.93	6,063,860
Harris NA	Chicago	IL	1.80	41,430,553
Old NB	Evansville	IN	1.76	7,574,796
Colonial Bk NA	Montgomery	AL	1.69	27,302,220
Capital One, NA	McLean	VA	1.62	104,822,854
Associated Bk NA	Green Bay	WI	1.58	21,625,399
Trustmark NB	Jackson	MS	1.56	8,950,552
US Bk NA	Cincinnati	OH	1.53	237,269,315
First Midwest Bk	Itasca	IL	1.51	8,264,472
Wells Fargo Bk NA	Sioux Falls	SD	1.50	486,886,000

Data: Federal Deposit Insurance Corporation (FDIC), Call Reports, March 31, 2008
Analysis: Weiss Research, Inc., TheStreet.com
* In earlier edition, Weiss Research incorrectly portrayed this as “times” risk based capital.

Table 5. 25 Large Thrifts with Exposure to Nonperforming Residential Mortgages

(OTS member thrifts with $5 billion or more in assets and with an exposure to nonperforming 1-4 family mortgages representing 1.5% of risk-based capital or more)

Thrift	City	State	Nonperforming 1-4s/ Risk-based Capital (percent)*	Total Assets ($ thousands)
Sovereign Bk	Wyomissing	PA	105.58	81,906,412
USAA FSB	San Antonio	TX	59.83	31,898,576
American Express Bk, FSB	Salt Lake City	UT	50.73	24,560,329
ING Bank FSB	Wilmington	DE	44.70	78,064,701
Wachovia Mortgage, FSB	N Las Vegas	NV	36.71	67,911,515
Capitol Federal Svgs Bk	Topeka	KS	35.11	8,063,364
Raymond James Bk FSB	St Petersburg	FL	28.15	8,313,839
EverBank	Jacksonville	FL	27.20	5,922,591
Chevy Chase Bk FSB	McLean	VA	24.99	15,130,114
Anchorbank FSB	Madison	WI	19.83	5,088,062
Flagstar Bk FSB	Troy	MI	17.40	15,898,386
Washington FS&LA	Seattle	WA	15.84	11,738,021
Washington Mutual Bk FSB	Park City	UT	10.16	44,305,153
People's United Bank	Bridgeport	CT	9.35	20,541,299
Countrywide Bank, FSB	Alexandria	VA	7.38	121,412,048
IndyMac Bk FSB	Pasadena	CA	7.13	32,010,816
American Svgs Bk FSB	Honolulu	HI	5.91	6,844,771
Amtrust Bank	Cleveland	OH	5.84	17,301,384
Guaranty Bk	Austin	TX	5.31	16,303,016
GE Money Bank	Salt Lake City	UT	3.72	16,050,311
Merrill Lynch B&TC, FSB	New York	NY	3.64	31,036,835
State Farm Bk, FSB	Bloomington	IL	3.51	15,754,418
Morgan Stanley Trust	Jersey City	NJ	3.26	5,157,291
BankUnited FSB	Coral Gables	FL	3.08	14,312,695
Downey S&LA FA	Newport Beach	CA	2.43	13,130,348

Data: Office of Thrift Supervision (OTS), Thrift Financial Reports, March 31, 2008
Analysis: Weiss Research, Inc., TheStreet.com.
* In earlier edition, Weiss Research incorrectly portrayed this as “times” risk based capital.

Appendix C. U.S. Banks and Thrifts Believed to Be at Risk of Failure

As stated in Part I, banks and S&Ls at risk have assets of $3.2 trillion, or *41 times* the assets of banks on the FDIC's watch list. These include the assets of Citibank NA, Wachovia Bank NA and SunTrust Bank cited in Appendix A above, plus the assets of the banks and thrifts listed below.

U.S. Banks and Thrifts Believed to Be at Risk of Failure
(All institutions with a Financial Strength Rating of D+ or lower)

Bank or Thrift	City	State	TheStreet.com Rating	Total Assets ($ thousands)
Washington Mutual Bank	Henderson	NV	D+	317,823,952
HSBC Bk USA NA	Wilmington	DE	D+	188,284,200
National City Bk	Cleveland	OH	D	152,519,145
Countrywide Bank, FSB	Alexandria	VA	D	121,412,048
Sovereign Bk	Wyomissing	PA	D+	81,906,412
Huntington NB	Columbus	OH	D+	55,566,801
E*Trade Bank	Arlington	VA	D+	48,184,276
First Tennessee Bk NA	Memphis	TN	D+	37,063,967
LaSalle Bank Midwest NA	Troy	MI	D	37,008,195
IndyMac Bk FSB	Pasadena	CA	E-	32,010,816
Goldman Sachs Bk USA	Salt Lake City	UT	D	25,573,236
Amtrust Bank	Cleveland	OH	D-	17,301,384
Firstbank of PR	San Juan	PR	D+	17,173,199
Westernbank Puerto Rico	Mayaguez	PR	D-	15,971,230
Flagstar Bk FSB	Troy	MI	D-	15,898,386
Chevy Chase Bk FSB	McLean	VA	D+	15,130,114
BankUnited FSB	Coral Gables	FL	D+	14,312,695
Downey S&LA FA	Newport Beach	CA	D-	13,130,348
Banco Popular North America	New York	NY	D+	12,738,302
Lehman Brothers Bk FSB	Wilmington	DE	D-	12,246,720
Sterling Savings Bank	Spokane	WA	D+	12,189,506
Banco Santander PR	San Juan	PR	D	9,103,575
Corus Bk NA	Chicago	IL	D	8,976,744
Doral Bank Puerto Rico	San Juan	PR	D	8,835,752
R-G Premier Bk of PR	San Juan	PR	D+	7,165,822
Barclays Bank Delaware	Wilmington	DE	D	7,125,125
First Federal Bank of CA FSB	Santa Monica	CA	D+	7,083,638
BankAtlantic	Fort Lauderdale	FL	D	6,212,631
Fremont Investment & Loan	Anaheim	CA	E	6,047,598
Franklin Bk SSB	Houston	TX	D-	5,922,659
Irwin Union Bk	Columbus	IN	D+	5,425,343
Amcore Bk NA	Rockford	IL	D+	5,135,631
Ocean Bk	Miami	FL	D-	5,120,611
Anchorbank FSB	Madison	WI	D+	5,088,062
PFF B&T	Pomona	CA	E+	4,103,786
Hanmi Bk	Los Angeles	CA	D+	3,927,609
Imperial Capital Bk	La Jolla	CA	D+	3,530,257

First Community Bk	Taos	NM	D+	3,455,652
TierOne Bk	Lincoln	NE	D	3,374,893
First Place Bank	Warren	OH	D+	3,283,975
Independent Bk	Ionia	MI	D-	3,238,995
BLC Bank, NA	Strasburg	PA	D-	3,178,636
Superior Bank	Birmingham	AL	D	2,943,775
Orion Bk	Naples	FL	D	2,936,394
First NB of AZ	Scottsdale	AZ	E+	2,836,085
Eurobank	San Juan	PR	D-	2,792,787
Home S&LC	Youngstown	OH	D	2,716,625
Amboy Bank	Old Bridge	NJ	D-	2,695,636
West Coast Bk	Lake Oswego	OR	D	2,607,534
Meridian Bank NA	Wickenburg	AZ	D	2,505,730
Bank of the Cascades	Bend	OR	D+	2,403,853
Seacoast NB	Stuart	FL	D-	2,391,360
Vineyard Bk, NA	Rancho Cucamonga	CA	D	2,326,862
Macatawa Bk	Holland	MI	D	2,133,420
Americanwest Bk	Spokane	WA	D	2,106,351
Citizens First Svg BK	Port Huron	MI	D+	2,091,041
County Bk	Merced	CA	D	2,078,298
Intervest NB	New York	NY	D+	2,046,601
Lydian Private Bank	Palm Beach	FL	D+	2,008,561
New South FSB	Irondale	AL	D	1,986,425
ANB Financial NA	Rogers	AR	F	1,895,545
Hillcrest Bk	Overland Park	KS	D-	1,882,968
Great FL Bk	Miami	FL	D+	1,850,387
Guaranty Bank	Milwaukee	WI	D-	1,826,503
Wauwatosa Svgs Bk	Wauwatosa	WI	D+	1,771,794
Fidelity Bk	Norcross	GA	D+	1,732,780
First NB of Nevada	Reno	NV	D-	1,634,041
Silver St Bk	Henderson	NV	D	1,624,672
Premier Bk	Jefferson City	MO	D-	1,569,820
Ameriprise Bank, FSB	New York	NY	D	1,551,509
Mutual Bk	Harvey	IL	D-	1,532,589
Scotiabank DE PR	Hato Rey	PR	D-	1,529,267
TIB Bank	Naples	FL	D+	1,423,951
First Bank of Beverly Hills	Calabasas	CA	D+	1,410,692
Bridgeview Bk Group	Bridgeview	IL	D+	1,403,902
Temecula Valley Bk	Temecula	CA	D	1,373,343
Security Bank of Bibb County	Macon	GA	D-	1,315,478
Integrity Bk	Alpharetta	GA	E-	1,203,701
Bank of Granite	Granite Falls	NC	D	1,192,025
Merrick Bank Corp	S Jordan	UT	D+	1,181,376
First Mariner Bk	Baltimore	MD	D-	1,172,860
Affinity Bk	Ventura	CA	D-	1,172,207
Eastern Svgs Bk FSB	Hunt Valley	MD	D	1,132,481
Alliance Bk	Culver City	CA	D-	1,111,157
OmniAmerican Bank	Fort Worth	TX	D	1,086,199
Baylake Bk	Sturgeon Bay	WI	D	1,078,889
Fidelity Bank	Dearborn	MI	D	1,045,530

Midcountry Bank	Marion	IL	D-	1,025,760
Omni NB	Atlanta	GA	D-	992,505
Founders Bk	Worth	IL	D	980,356
LibertyBank	Eugene	OR	D	960,085
Avidia Bank	Hudson	MA	D+	954,640
Inter Svgs Bk FSB	Maple Grove	MN	D-	951,692
Crescent B&TC	Jasper	GA	D+	950,001
Buckhead Community Bk	Atlanta	GA	D-	943,151
Florida Community Bk	Immokalee	FL	E+	935,236
Century Bk FSB	Sarasota	FL	D-	929,123
Vision Bk	Panama City	FL	D-	922,174
Heartland Bk	Clayton	MO	D+	892,367
First NB of GA	Carrollton	GA	D-	882,993
Security Bk of Kansas City	Kansas City	KS	D+	880,439
Falcon International Bk	Laredo	TX	D+	871,386
Peoples Community Bank	W Chester	OH	D-	870,486
Florida Choice Bk	Mt Dora	FL	D	868,805
Park View FSB	Cleveland	OH	D	868,702
Lincoln Bank	Plainfield	IN	D+	862,451
First NB of the South	Spartanburg	SC	D+	850,717
Millennium BCP Bank, NA	Newark	NJ	D-	841,322
First Federal Bank	Harrison	AR	D	828,860
Florida Capital Bank, NA	Jacksonville	FL	D-	819,512
Home NB	Blackwell	OK	D	815,543
MidWestOne Bk	Oskaloosa	IA	D-	778,014
CapitalSouth Bank	Birmingham	AL	D-	756,441
Bank of Blue Valley	Overland Park	KS	D-	753,205
Mid-Missouri Bk	Springfield	MO	D+	752,747
Bank of East Asia USA NA	New York	NY	D	748,859
One United Bk	Boston	MA	D	742,866
First St Bk	Eastpointe	MI	D	738,642
Columbian B&TC	Topeka	KS	D-	735,766
Omni Bk	Metairie	LA	D	727,864
First Niagara Commercial Bk	Lockport	NY	D	717,088
Delaware County B&TC	Lewis Center	OH	D	716,851
First Georgia Banking Co	Franklin	GA	D+	715,523
1st Centennial Bk	Redlands	CA	D-	715,231
First St Bk	Stockbridge	GA	D-	705,237
Teambank NA	Paola	KS	D+	704,541
Bank of Florida-Southwest	Naples	FL	D+	698,891
First Gulf Bank, NA	Pensacola	FL	D+	698,875
Irwin Union Bk FSB	Columbus	IN	D+	692,224
American Bk of Commerce	Wolfforth	TX	D+	690,847
Tower B&TC	Fort Wayne	IN	D+	687,243
Conestoga Bank	Chester Springs	PA	D-	680,814
Haven SB	Hoboken	NJ	D+	680,150
Independence Bk	Owensboro	KY	D+	675,449
Sterling B&T FSB	Southfield	MI	D-	670,627
Federal Trust Bank	Sanford	FL	E-	670,589
Lowell Five Cents SB	Lowell	MA	D+	663,853

Beach Community Bk	Fort Walton Bch	FL	D-	660,975
Alliance Bank	Lake City	MN	D	651,634
Citizens-Union Svgs Bk	Fall River	MA	D	649,190
K Bk	Owings Mills	MD	D-	649,097
Redding Bk of Commerce	Redding	CA	D	646,946
Gainesville Bank & Trust	Gainesville	GA	D	646,373
First Central Svgs Bk	Glen Cove	NY	D-	645,056
Ponce De Leon Federal Bk	New York	NY	D+	643,478
Bank of Choice Colorado	Arvada	CO	D-	637,106
Vanguard B&TC	Valparaiso	FL	D+	633,756
Northwest Georgia Bk	Ringgold	GA	D+	633,733
BPD Bk	New York	NY	D+	632,610
Sovereign Bk NA	Dallas	TX	D	632,482
Marine Bk-Springfield	Springfield	IL	D	631,946
Community West Bk	Goleta	CA	D+	628,610
Community Bk	Loganville	GA	E+	623,764
Baltimore County Svgs Bk FSB	Baltimore	MD	D	615,915
Republic Federal Bank, NA	Miami	FL	D-	613,165
American Bk	St Paul	MN	D	612,162
Peninsula Bk	Englewood	FL	D-	606,312
Vantus Bk	Sioux City	IA	D+	597,030
Baraboo NB	Baraboo	WI	D+	596,978
Warren Bk	Warren	MI	D-	587,082
Helm Bk	Miami	FL	D+	586,280
American River Bk	Sacramento	CA	D	585,958
Security Pacific Bk	Los Angeles	CA	D-	585,184
Northeast Bk	Auburn	ME	D+	583,816
1st United Bk	Boca Raton	FL	D+	575,509
Transatlantic Bk	Miami	FL	D+	573,742
First Bk Fncl Centre	Oconomowoc	WI	D+	571,327
Central Co-Op Bk	Somerville	MA	D+	570,835
Community South Bk	Parsons	TN	D-	569,721
American Founders Bk Inc	Frankfort	KY	D-	561,375
Bank of Choice	Evans	CO	D-	560,922
Crescent B&TC	New Orleans	LA	D+	559,526
Northside Cmnty Bk	Gurnee	IL	D	554,194
Alliance Bk Corp	Fairfax	VA	D	553,450
Premier Bk-Maplewood	Maplewood	MN	D-	552,769
Bradford Bank	Baltimore	MD	D-	551,944
Signature Bk of Arkansas	Fayetteville	AR	D	549,211
Equitable Bk SSB	Wauwatosa	WI	D+	548,555
Peachtree Bk	Duluth	GA	E	545,076
Community Central BK	Mt Clemens	MI	D-	544,704
FirsTier Bk	Louisville	CO	D+	542,909
First American Intl Bk	Brooklyn	NY	D+	542,634
Riverside Bk of Gulf Coast	Cape Coral	FL	D-	535,046
Farmers & Merchants Bk	Lakeland	GA	D-	534,414
Presidential Bk FSB	Bethesda	MD	D+	534,166
Geauga Svg Bk	Newbury	OH	D+	530,388
Builders Bk	Chicago	IL	D-	527,387

Graystone Bank	Lancaster	PA	D	524,412
Habersham Bk	Clarkesville	GA	D-	520,216
Community First Bk	Harrison	AR	D+	519,235
Illinois NB	Springfield	IL	D-	517,987
Southport Bk	Kenosha	WI	D+	510,740
Central Progressive Bk	Lacombe	LA	D-	508,652
Highland Bk	St Michael	MN	D+	507,223
Magyar Bank	New Brunswick	NJ	D	504,200
Truman Bk	St Louis	MO	D	502,798
Westsound Bk	Bremerton	WA	D-	502,789
Desert Hills Bk	Phoenix	AZ	D+	502,374

Data: Federal Deposit Insurance Corporation (FDIC), Call Reports, March 31, 2008, and Office of Thrift Supervision (OTS), Thrift Financial Reports, March 31, 2008. Includes institutions that may have merged or failed since March 31, 2008.