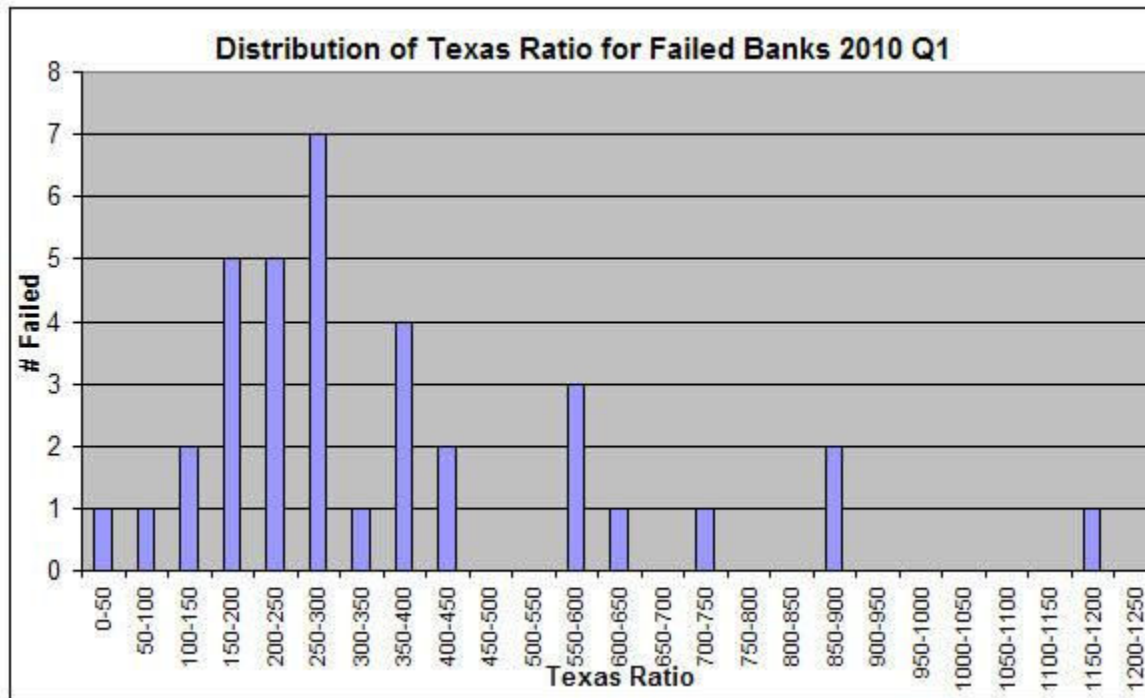




A bank's Texas ratio is calculated as the sum of nonperforming assets (NPAs) and real estate owned (REO) divided by the sum of tangible common equity (TCE) and the allowance for loan and lease losses (ALLL).

$$\text{Texas Ratio} = \frac{\text{NPAs} + \text{REO}}{\text{TCE} + \text{ALLL}}$$

Numerous analysts view the Texas Ratio as an indicator of a bank's financial strength. As introduced by Gerald Cassidy in the early 1980s, a bank's likelihood of failure increases sharply once the ratio exceeds 1.0 (100%), that is once problem assets exceeded capital. It is best viewed as a warning sign and not necessarily a predictor of failure. During the first quarter of 2010, 36 banks failed. The following chart notes that only one of these failed banks had a Texas Ratio under 100% with one bank sporting a ratio exceeding 1,150%.



Source: [www.thehardmoneypros](http://www.thehardmoneypros)

At the end of March, there were 360 banks with a Texas Ratio above 100. Not surprisingly, these banks are concentrated in states that have experienced the greatest problems with commercial real estate, particularly construction, land and development loans. The following table lists the number of banks with a Texas Ratio above 100 by state at the end of March. The highest Texas Ratio reported is 2,244% for a Massachusetts bank.

Florida	58	Illinois	31
Georgia	73	Nevada	6
Washington	19	Minnesota	23
South Carolina	12	California	20

### Breaking News

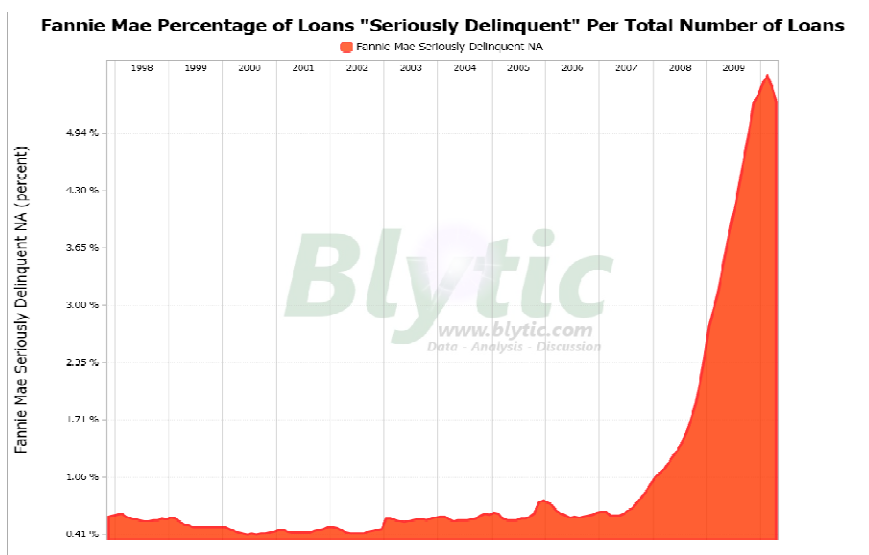
- Retail sales fell 0.5% from May levels, primarily due to a reduction in spending on automobiles and auto parts.
- High price homes are getting more affordable. One year ago, rates on 30-year jumbo mortgages were just under 6.90% but today are under 5.50%. Yesterday, Citibank announced that applications for jumbo mortgages had increased 60% in the past 60 days.
- The Council of Economic Advisors estimates that the federal stimulus has created or saved 3 million jobs.
- The June FOMC minutes indicate that the Fed intends to keep interest rates low for an extended period of time. Fed officials estimate that it will take 5-6 years before the economy will be operating at full capacity.

### Deal of the Day

Ally Financial continues to try and extricate itself from the GMAC label. It will soon change the name of its GMAC automobile and consumer finance units to Ally. GMAC, which took over \$16 billion in direct government financing assistance, is viewed as having a negative brand and Ally is trying to rebrand the company. GMAC was once a fully-owned subsidiary of General Motors. Ally is now majority owned by the U.S. government. It is one of banks' major competitors and markets aggressively via the national media. When and how will Ally separate itself from government control? When will a taxpayer funded organization not compete with taxpaying institutions?

### Economic News

Who said "I want to roll the dice a little bit more in this situation toward subsidized housing." Congress effectively encouraged Fannie and Freddie to make loans to high risk borrowers. Did it pay off? In March, 5.3% of Fannie Mae's loans were seriously delinquent.



Source: Ticking Time Bomb: Fannie Mae May 2010 Summary, [www.seekingalpha.com](http://www.seekingalpha.com), July 5, 2010