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Headline: How to take institution's pulse

For nearly three decades, industry analysts have used the Texas ratio to measure a bank's credit vulnerabilities. It is calculated by dividing a bank's bad debt by how much capital it has to absorb the bad debt. A high Texas ratio may indicate trouble. Some bankers say this metric is outdated. Should the Texas ratio be modified to better gauge banks' financial health?

Yes

Joe Brannen, president and CEO, Georgia Bankers Association

It's high time people stop using the Texas ratio as a general indicator of a bank's health. The primary reasons? It is not an actual regulatory measure and it does not include important variables. Imagine a doctor giving you six months to live based only on your cholesterol levels. The ratio doesn't measure a bank's liquidity, collateral values securing loans or capital raised since a bank reported its information, among other things. Also, different analysts use slightly different measures to define their Texas ratio lists. For example, some analysts exclude loans that have been renegotiated with the borrower and are being paid on time. A bank should not be penalized in the court of public opinion for working with customers to avoid default or foreclosure. Using --- and publishing --- such incomplete measures causes unnecessary anxiety for bank customers who have never lost a penny of Federal Deposit Insurance Corp. insured deposits.

No

Christopher Marinac, managing principal and research analyst, FIG Partners

The Texas ratio should remain a key statistic for all bank constituents to monitor. It is comprised of nonperforming loans, foreclosed properties and 90-day past-due loans as a percentage of capital and loan-loss reserves. While this is one way to inform bank customers and investors on a bank's problem level, it should not be seen as a "silver bullet" determinant on any bank's health. We still focus on liquidity or banks' access to cash for deposit obligations. Numerous banks in Georgia with high Texas ratios also enjoy strong liquidity and are in no imminent danger of failing. The Texas ratio is one measure, but it is not the only way to assess a bank as "healthy" or "unhealthy." Many factors determine the relative health and stability of a financial institution. This is still an important measure, but only if used in conjunction with deeper analysis to assess a bank's quality.