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BEST BANKS
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America's Best And Worst Banks

By Kurt Badenhausen

The U.S. banking industry is slowly getting its footing after being on life support during much of the past three years ago. The FDIC's 7,436 banks and savings institutions collectively earned $35 billion in the third quarter. It was the most profitable quarter since the three months ending in June 2007 (banks lost $38 billion in the fourth quarter of 2008).

Banks have cleaned up their balance sheets and increased their capital. The median risk-based capital ratio for the 100 largest banks is now 16% versus 14.3% two years ago. Bank failures are down to 90 so far this year after a combined 305 banks failed during the prior two years.

Yet, banks are far from out of the woods. Those 90 failures are more than the combined total between 1994 and 2007. The FDIC's problem bank list has 844 names on it, down from 884 at the end of 2010, but up dramatically from 76 in 2007. The problems in Europe remain a great unknown and there is a fear that they could spread to the U.S. banks.

We turned to Charlottesville, Va. financial data provider SNL Financial to gauge the health of the biggest banks. SNL supplied data on eight metrics regarding the asset quality, capital adequacy and profitability of the 100 largest publicly traded banks and thrifts. The data is based on regulatory filings of banks and thrifts as of Dec. 1. The banks range in size from Beneficial Mutual Bancorp with $4.6 billion in assets to $2.3 trillion in assets JPMorgan Chase. SNL provides the data, but the rankings are done by Forbes.

Prosperity Bancshares ranks first in our third annual look at America's best and worst banks. The bank, with $9.6 billion in assets, operates 176 branches in Texas with one-third located in the Houston area where the bank is based.

The Texas housing market did not experience the boom that places like Florida and California did and the downturn was subsequently much milder. Texas is one of the few states where home prices are currently higher than they were five years ago. The Texas economy was one of the last states to enter into a recession and one of the first states to emerge from it.

Prosperity took advantage of the economic downturn and acquired $3.6 billion in deposits and assets of Franklin Bank in 2008 when federal regulators closed Franklin's doors.

Prosperity's balance sheet matches Texas' resilient economy as the bank's non-performing loans as a percent of total loans (0.1%) and non-performing assets as a percent of total assets (0.1%) are among the lowest of any bank. The bank's conservative nature is reflected in its ratio of reserves to non-performing loans which at 1,030% is tops among the 100 largest banks.

While other big banks were forced to cut their dividends during the banking crisis, Prosperity maintained its dividend and has raised the payout for 12 consecutive years. The stock is up 1% this year and currently trades at 1.2 times its book value.

The No. 2 ranked bank is Bank of Hawaii which topped our list last year. It continues to be among the most profitable banks with a return on average equity the last 12-months of 15.6% which ranks second among all banks.

The biggest U.S. banks had mixed results. Citigroup fared the best at No. 23 on the strength of its hefty reserves and low leverage ratio. No. 48 JPMorgan also scored in the top half thanks to a return on average equity of 11.6% that ranks tenth.

No. 79 Wells Fargo and No. 91 Bank of America did not fare as well. Wells, the country's fourth biggest bank with $1.3 trillion in assets, has one of the highest Tier 1 risk-based capital ratios at 11.3% of any bank. Its 9% leverage ratio is nearly 2 percentage points higher than its three big bank competitors.

Bank of America has been under fire on all fronts: from Wall Street, where its stock hit a a two-year low last month; from Occupy Wall Street protests that have put the bank in its crosshairs; and from customers who objected to the bank's now abandoned plan to charge debit card holders a $5 monthly fee.

Bank of America has gotten healthier the past three years, but its financial metrics still lag its competitors. Return on average equity was -0.8% over the last 12-months, tenth worst among banks. Its 2.2% net interest margin ranked No. 95.

The stock is off 59% this year and now trades at just 0.3 times its book value.

"All of those metrics have shown significant progress in the last three years and in particular in the last year as we continue to work to strengthen the company," says a Bank of America spokesman. The bank's profitability was hampered by more than $20 billion in charges during the second quarter from faulty mortgages related primarily to the acquisition of Countrywide Financial in 2008.

Clocking in at No. 100 on our ranking of banks is First Bancorp, based in San Juan, Puerto Rico, with $13 billion in assets. A spokesperson says the bank has taken steps to improve its financial condition. The bank completed a $525 million capital raise through a private placement in October that raised its Tier 1 capital ratio to 15.5% (it was 11.1% at the end of the third quarter). The bank has reduced non-performing assets by $413 million, or 23%, since the peak in the first quarter of 2010. Yet, First Bancorp's ratio of NPAs to total assets is still the highest of any bank at 10%.

The health of the biggest banks and the idea of "too-big-to-fail" continues to be a hot button issue. Richard Fisher, president of the Federal Reserve Bank of Dallas, quipped last month: "I believe that too-big-to-fail banks are too-dangerous-to-permit."

"There is a recognition that the Dodd-Frank regulation did not do anything towards too-big-to-fail," says bank analyst Nancy Bush, who is a contributing editor at SNL. Bush expects the debate over the size of the biggest banks to ramp up even more in 2012.

While banks firm up their balance sheets, their stocks continue to get punished by Wall Street. The KBW Bank Index is down 27% this year. If you are looking for winners and losers, our best banks is a good place to start. Last year's 10 best fell just 1% on average and was 26 percentage points better than the average big bank.

No. 15 National Penn Bancshares

Headquarters: Boyertown, PA
Assets: $9 billion
Price/Book value: 110%
NPLs*/Loans: 1.2%
Reserves/NPLs: 214%

*NPLs: Nonperforming loans include loans 90+ days past due and nonaccrual loans.

America's Best Banks*

Rank*	Company	Total Assets ($bil)	Return on avg. equity	NPL / Total Loans	Reserves/ NPLs**	Tier 1 ratio	Leverage ratio
11	CVB Financial	7	10.4	2.2	128	17.6	11.2
12	Westamerica Bancorp	5	16.6	1.8	70	14.3	8.4
13	BankUnited	11	14.7	2.6	25	37.3	10.8
14	State Street	207	8.6	0.5	39	17.9	7.8
15	**National Penn Bancshares**	**9**	**6.6**	**1.2**	**214**	**16.9**	**11.6**
16	Central BanCo	10	9.2	1.5	134	15.0	10.3
17	First National of Nebraska	15	15.0	2.1	155	13.0	9.9
18	NBT Bancorp	5	10.9	1.1	170	12.0	9.2
19	BancFirst	5	9.5	0.9	137	13.2	8.2

* This is only a portion of the list of America's Best Banks
**NPLs: Nonperforming loans include loans 90+ days past due and nonaccrual loans.
Source: SNL Financial