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R&I Blog
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The Wilmington Trust Debacle

A brief look at Wilmington Trust's financial disclosures shows what investors are up against in the kept-on-life-support banking sector. As of 31 December 2009, Wilmington had non-accruing loans as follows

(all figures are in millions, and are from the June 30th 2010 and September 30th 2010 10-Q's):

Wilmington Trust Non-Accruing Loans	31 December 2009
Commercial, financial and industrial:	$080.9
Commercial real estate—construction	$264.8
Commercial mortgage	$069.0
Consumer/Retail	$040.9
Total	**$455.6**

By June 30th, the bleak construction loan portfolio appeared to be bottoming out and the rest were stable

Wilmington Trust Non-Accruing Loans	30 June 2010
Commercial, financial and industrial:	$097.5
Commercial real estate—construction	$246.7
Commercial mortgage	$094.9
Consumer/Retail	$046.8
Total	**$479.9**

Three months later, the deterioration (or more to the point, the recognition of it) was staggering:

Wilmington Trust Non-Accruing Loans	30 September 2010
Commercial, financial and industrial:	$**232.5**
Commercial real estate—construction	$**461.9**
Commercial mortgage	$131.7
Consumer/Retail	$079.9
Total	**$906.0**

Just about every other measure of Wilmington's troubled asset performance saw a similar deterioration in the September period. The December period was almost as bad. M&T is expected to take over Wilmington Trust in an all stock deal valued at less than $4 a share, a small fraction of what Wilmington shares were selling for earlier in the year.

Wilmington's biggest problem, construction loans, is said to be confined to regional banks. However, we don't really know how much trash, of all types, is sitting on the balance sheets of other banks, waiting for recognition. With luck, the Fed's extreme yield curve and other measures will enable U. S. banks to earn $100 billion or so a year, and in many cases, it will be enough to permit gradual deleveraging and recapitalization as bad assets are belatedly recognized and written off. But there are still a lot of unpleasant surprises to come. One can only imagine what awaits a number of financial institutions in Europe, where recognition of bad assets has been delayed far more than in the U. S.