

THE WORRY ABOUT BANKS: LOW EQUITY

Just as putting 5% down on a house leaves you at risk of going underwater if prices fall, a bank's modest equity can be dangerous if its investments go sour.

TOO LITTLE EQUITY
IS RISKY FOR YOU ...

\$300,000 house
with 5% equity

Mortgage: \$285,000
Equity: \$15,000

Home prices drop 6%

\$15,000 equity
- \$18,000 drop
= **-\$3,000**

You'd owe the bank
\$3,000 if you had to sell

Underwater

... AND THE SAME GOES
FOR BANKS.

Bank has \$1 trillion in assets
with 5% shareholder equity

Debt: \$950 billion
Equity: \$50 billion

Bad investments lead
to 6% decline in assets

\$50 billion equity
- \$60 billion decline
= **-\$10 billion**

Bank owes \$10 billion
more than it's worth

Insolvent