Second Quarter 1999

Tri-state area banks reported generally healthy financial conditions in the second quarter of 1999. However, along with banks across the nation, local bankers reported a weakening in net interest margin and capital ratios.

The data for loans should be interpreted with caution. Regional numbers have been very volatile on a quarterly basis, but year-to-year growth figures are in line with the nation, and local bankers do not report unusually strong growth in business loans. However, they report strong competition for First Union's loan customers following last year's merger between First Union and CoreStates. Since business customers have shifted from First Union to banks headquartered in the tri-state area, regional lending will appear to grow faster than the nation for purely statistical reasons.

Local banks face narrower net interest margins, mirroring national decline over the last year. As noted in the fourth quarter's *Banking Brief*, lower NIMs in the region partially reflect the predominance of smaller banks here. Until the second quarter rise in mortgage rates, refinancing activity tended to depress NIMs at community banks that engage relatively heavily in mortgage lending. Community banks' traditional reliance on low-cost core deposits may be another cause of the comparatively low and weakening NIMs in the region. Competition for savers funds from mutual funds and credit unions has increased community banks' use of higher cost nondeposit funding sources to finance loan growth in a highly competitive environment.

According to the recent Senior Loan Officer Opinion Survey, there was a continued tightening of terms on business loans, with bankers reporting both higher average loan markups and higher loan spreads for riskier consumers. About a third of respondents said business loans have become somewhat more vulnerable to an economic downturn over the last year. Anecdotal evidence for the tri-state area suggests that local bankers are also concerned that competition among lenders has resulted in too many marginally qualified borrowers who might face repayment difficulties in case of an economic downturn. In this context, declining capital ratios in the region may be a cause for concern.

* In our sample, we excluded First Union Corporation's Pennsylvania subsidiary, CoreStates Bank, First Union Bank of Delaware, 10 Pennsylvania banks, and two banks in New Jersey due to corporate reorganizations. We continued to exclude Mellon Bank of Delaware and PNC Bank of Pennsylvania due to their sale of credit-card portfolios (see previous edition of Banking Brief). One small bank in Rhode Island was excluded as a data outlier.

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All Commercial Banks

	Tri-State			*Nation*		
	99Q2	**99Q1**	**98Q2**	**99Q2**	**99Q1**	**98Q2**
No. of Banks	239	239	255	7808	7897	8288
		% change from			% change from	
	99Q2	**99Q1**	**98Q2**	**99Q2**	**99Q1**	**98Q2**
Total Assets*	216.6	10.9	6.0	5054.5	4.2	5.2
Total Loans*	136.4	13.5	7.0	3033.6	9.0	7.6
Business*	35.9	26.7	11.9	897.6	6.5	10.0
Real Estate*	72.7	10.4	6.4	1272.2	6.6	5.6
Consumer*	15.2	-3.7	2.5	413.7	0.4	2.5
Total Deposits*	159.0	6.6	3.2	3458.6	3.8	4.1
Ratios (in **%**)	**99Q2**	**99Q1**	**98Q2**	**99Q2**	**99Q1**	**98Q2**
Net Income/ Avg Assets (ROA)	1.2	1.2	1.2	1.2	1.2	1.2
Net Interest Inc/ Avg Assets (NIM)	3.9	4.0	4.1	4.1	4.2	4.3
Loans/Deposits	74.8	74.1	73.7	73.4	71.2	71.4
Equity/Assets	9.7	10.0	10.2	10.3	10.4	10.6
Liquid Assets/ Liquid Liabilities	117.5	164.1	178.0	171.6	207.0	196.2
Nonperforming Loans/Total Loans	0.9	1.0	1.0	1.1	1.1	1.1
Noninterest Expenses/Avg Assets	3.1	3.1	3.1	3.3	3.3	3.3

Data exclude limited-purpose Delaware banks and banks less than five years old. All percentage changes are compound annualized rates. Ratios are averages of individual commercial bank ratios.

*Levels are in $ billions.

Second Quarter 1999

All Commercial Banks

	Pennsylvania			*New Jersey*			*Delaware*		
	99Q2	**99Q1**	**98Q2**	**99Q2**	**99Q1**	**98Q2**	**99Q2**	**99Q1**	**98Q2**
Number of Banks	178	177	189	52	53	58	9	9	8
		% change from			**% change from**			**% change from**	
	99Q2	**99Q1**	**98Q2**	**99Q2**	**99Q1**	**98Q2**	**99Q2**	**99Q1**	**98Q2**
Total Assets*	118.7	6.8	5.8	88.0	16.5	6.7	9.9	14.2	3.2
Total Loans*	76.5	8.8	5.4	53.6	22.0	9.8	6.3	4.4	2.9
Business*	19.4	25.9	9.4	15.3	27.9	16.0	1.3	25.6	3.5
Real Estate*	39.7	6.8	5.8	29.2	16.5	7.7	3.8	4.4	3.0
Consumer*	10.4	-8.3	1.9	3.9	11.0	4.8	1.0	-6.5	0.8
Total Deposits*	85.7	6.5	2.2	66.0	6.6	4.7	7.3	7.7	1.1
Ratios (in %)	**99Q2**	**99Q1**	**98Q2**	**99Q2**	**99Q1**	**98Q2**	**99Q2**	**99Q1**	**98Q2**
Net Income/Avg Assets (ROA)	1.2	1.2	1.2	1.2	1.2	1.2	1.5	1.0	1.2
Net Interest Inc/Avg Assets (NIM)	3.9	3.9	4.1	3.9	4.0	4.1	4.4	4.4	4.5
Loans/Deposits	77.4	76.9	76.5	65.5	64.0	64.1	77.1	76.8	77.2
Equity/Assets	10.0	10.4	10.6	8.5	8.8	9.1	9.6	9.8	9.6
Liquid Assets/Liquid Liabilities	114.2	169.1	184.6	119.3	149.4	159.5	169.9	149.4	151.2
Nonperforming Loans/ Total Loans	0.9	0.9	1.0	1.0	1.1	1.1	1.0	1.3	0.8
Noninterest Expenses/ Avg Assets	3.0	3.0	3.0	3.6	3.6	3.2	3.8	4.6	4.6

Commercial Banks with Less than $1 Billion in Assets

	Tri-State			*Nation*		
	99Q2	**99Q1**	**98Q2**	**99Q2**	**99Q1**	**98Q2**
No. of Banks	213	214	233	7471	7564	7973
	% change from			**% change from**		
	99Q2	**99Q1**	**98Q2**	**99Q2**	**99Q1**	**98Q2**
Total Assets*	53.1	2.5	0.3	918.1	0.9	-2.0
Total Loans*	32.0	5.7	0.3	563.9	9.1	-0.6
Total Deposits*	43.8	2.1	-0.3	765.4	-0.8	-2.8
Ratios (in %)	**99Q2**	**99Q1**	**98Q2**	**99Q2**	**99Q1**	**98Q2**
Net Inc/Avg Assets (ROA)	1.2	1.2	1.2	1.2	1.2	1.2
Equity/Assets	9.9	10.3	10.4	10.3	10.5	10.7

Commercial Banks with More than $1 Billion in Assets

	Tri-State			*Nation*		
	99Q2	**99Q1**	**98Q2**	**99Q2**	**99Q1**	**98Q2**
No. of Banks	26	25	22	337	333	315
	% change from			**% change from**		
	99Q2	**99Q1**	**98Q2**	**99Q2**	**99Q1**	**98Q2**
Total Assets*	163.5	13.9	8.0	4136.4	4.9	6.9
Total Loans*	104.4	16.1	9.2	2469.7	8.9	9.7
Total Deposits*	115.3	8.4	4.6	2693.2	5.2	6.3
Ratios (in %)	**99Q2**	**99Q1**	**98Q2**	**99Q2**	**99Q1**	**98Q2**
Net Inc/ Avg Assets (ROA)	1.4	1.4	1.5	1.4	1.4	1.4
Equity/Assets	7.4	7.7	7.9	8.5	8.7	8.7

Data exclude limited-purpose Delaware banks and banks less than five years old. All percentage changes are compound annualized rates. Ratios are averages of individual commercial bank ratios.
*Levels are in $ billions.

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