Third Quarter 1999

Tri-state area banks reported generally good financial conditions in the third quarter, but activity is slowing both locally and nationally compared with the pace of the previous two years. Profitability was unchanged from the second quarter in both the region and the nation. Assets, loans, and deposits in the region all decreased in the third quarter, while showing small increases nationally.*

Nationally, real estate loans outstanding appear to have increased dramatically in the third quarter, up over 19 percent, which contradicts most other indicators of housing market activity. One reason for the apparent jump in real estate lending is that banks are holding, rather than selling, more of the loans they originate. As mortgage rates have risen, borrowers have shifted from fixed-rate to adjustable-rate mortgages (ARMs). ARMs now represent approximately one-third of originations each month, nearly a three-fold increase from the beginning of the year. ARMs are more difficult to securitize and sell on the secondary market than fixed-rate mortgages. This is reflected in a $21 billion decrease in loan purchases by Fannie Mae and Freddie Mac in the third quarter.

According to the November Senior Loan Officer Opinion Survey, credit standards were tightened on business loans, and loan terms became more stringent. Demand for business loans was reported to be virtually unchanged, and demand for mortgages of all kinds decreased, particularly for refinancings and fixed-rate mortgages. The survey also reported a slight decrease in the demand for consumer loans.

Of some concern is the continued decrease in net interest margins in the tri-state area. Interest margins here were already lower than in the nation as a whole, reflecting slower economic growth in the region, and they have decreased for the last three quarters. Interest margins nationally have also decreased in the last year but stabilized in the third quarter.

Leverage ratios at tri-state area banks have been consistently lower than in the nation as a whole. Leverage ratios have been declining both locally and nationally for the last year. While the decreases affect both large and small banks, they should not yet cause much concern. First, nonperforming loans to total assets have been declining for several years in the tri-state area. Second, all but two banks in the tri-state sample are well capitalized according to the leverage criterion, and those two are adequately capitalized.

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* In our sample, we excluded First Union Bank of Delaware and Mellon Bank Delaware because of their large credit card portfolios relative to the other assets of these institutions. One small bank in Rhode Island was excluded as a data outlier. The large decrease in consumer loans for the tri-state area between the third quarter of 1998 and the third quarter of 1999 is the result of PNC Bank's selling its credit card loan portfolio in 1999.

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All Commercial Banks

	Tri-State			*Nation*		
	99Q3	**99Q2**	**98Q3**	**99Q3**	**99Q2**	**98Q3**
No. of Banks	239	244	261	7712	7812	8186
		% change from			**% change from**	
	99Q3	**99Q2**	**98Q3**	**99Q3**	**99Q2**	**98Q3**
Total Assets*	299.7	-3.5	1.7	5173	2.8	4.1
Total Loans*	198.1	-2.4	0.2	3144.1	6.7	7.0
Business*	54.7	-7.5	3.6	928.2	4.7	7.9
Real Estate*	103.7	1.0	4.6	1362.2	19.4	9.3
Consumer*	20.7	2.7	-19.0	410.4	-5.4	-2.7
Total Deposits*	213.4	-5.0	0.9	3533.4	2.0	4.7
Ratios (in %)	**99Q3**	**99Q2**	**98Q3**	**99Q3**	**99Q2**	**98Q3**
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	4.1	4.3
Loans/Deposits	76.7	75.0	74.6	77.1	73.0	72.3
Equity/Assets	9.6	9.6	10.4	10.3	10.3	10.7
Liquid Assets/ Liquid Liabilities	106.5	115.5	156.4	153.6	171.6	198.9
Nonperforming Loans/Total Loans	0.9	0.9	1.0	1.1	1.1	1.1
Noninterest Expenses/Avg Assets	3.2	3.1	3.1	3.3	3.3	3.4

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.

Third Quarter 1999

All Commercial Banks

	Pennsylvania			*New Jersey*			*Delaware*		
	99Q3	**99Q2**	**98Q3**	**99Q3**	**99Q2**	**98Q3**	**99Q3**	**99Q2**	**98Q3**
Number of Banks	177	181	195	53	54	58	9	9	8
		% change from			**% change from**			**% change from**	
	99Q3	**99Q2**	**98Q3**	**99Q3**	**99Q2**	**98Q3**	**99Q3**	**99Q2**	**98Q3**
Total Assets*	191.8	-7.0	-3.2	98.0	3.3	12.0	10.0	2.7	9.5
Total Loans*	132.9	-5.2	-5.1	58.8	3.6	13.8	6.4	3.3	4.8
Business*	37.4	-10.0	-0.5	16.0	-2.5	13.7	1.3	5.7	15.0
Real Estate*	66.7	-2.8	-0.4	33.1	8.5	16.8	3.8	6.9	2.8
Consumer*	15.3	0.9	-25.4	4.4	10.6	8.3	1.0	-1.4	3.0
Total Deposits*	133.2	-9.0	-3.1	72.6	0.4	8.1	7.6	19.5	10.1
Ratios (in %)	**99Q3**	**99Q2**	**98Q3**	**99Q3**	**99Q2**	**98Q3**	**99Q3**	**99Q2**	**98Q3**
Net Income/Avg Assets (ROA)	1.2	1.2	1.2	1.2	1.2	1.2	1.6	1.5	1.0
Net Interest Inc/Avg Assets (NIM)	3.9	3.9	4.0	3.9	4.0	4.1	4.4	4.4	4.5
Loans/Deposits	79.6	77.6	77.8	66.5	65.8	63.5	79.9	77.1	76.9
Equity/Assets	9.9	10.0	10.8	8.5	8.5	9.2	9.7	9.6	9.7
Liquid Assets/Liquid Liabilities	106.7	113.0	161.2	109.3	114.9	142.0	85.6	169.9	139.2
Nonperforming Loans/ Total Loans	0.9	0.9	1.0	0.9	1.0	1.1	0.9	1.0	1.2
Noninterest Expenses/ Avg Assets	3.0	3.0	3.0	3.5	3.6	3.2	3.4	3.8	5.0

Commercial Banks with Less than $1 Billion in Assets

	Tri-State			*Nation*		
	99Q3	**99Q2**	**98Q3**	**99Q3**	**99Q2**	**98Q3**
No. of Banks	209	214	229	7372	7472	7855
		% change from			**% change from**	
	99Q3	**99Q2**	**98Q3**	**99Q3**	**99Q2**	**98Q3**
Total Assets*	52.7	-9.8	-4.0	918.8	-0.2	-1.6
Total Loans*	31.9	-6.1	-4.0	572.1	5.6	0.5
Total Deposits*	43.1	-11.5	-4.7	761.2	-2.5	-2.5
Ratios (in %)	**99Q3**	**99Q2**	**98Q3**	**99Q3**	**99Q2**	**98Q3**
Net Inc/Avg Assets (ROA)	1.1	1.2	1.2	1.2	1.2	1.2
Equity/Assets	9.9	9.9	10.6	10.4	10.3	10.8

Commercial Banks with More than $1 Billion in Assets

	Tri-State			*Nation*		
	99Q3	**99Q2**	**98Q3**	**99Q3**	**99Q2**	**98Q3**
No. of Banks	30	30	32	340	340	331
		% change from			**% change from**	
	99Q3	**99Q2**	**98Q3**	**99Q3**	**99Q2**	**98Q3**
Total Assets*	247.0	-2.1	3.0	4254.2	3.5	5.5
Total Loans*	166.2	-1.7	1.0	2572.0	6.9	8.6
Total Deposits*	170.3	-3.3	2.4	2772.2	3.3	6.9
Ratios (in %)	**99Q3**	**99Q2**	**98Q3**	**99Q3**	**99Q2**	**98Q3**
Net Inc/ Avg Assets (ROA)	1.4	1.4	1.4	1.4	1.4	1.4
Equity/Assets	7.5	7.5	8.8	8.4	8.5	8.9

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.