

Fourth Quarter 1999

Tri-state area banks reported generally good financial conditions in the fourth quarter, with little change from the third quarter either regionally or nationally. Profitability and net interest margins were unchanged from the third quarter in both the region and the nation. The region trailed the nation in asset, loan, and deposit growth in the fourth quarter, reflecting slower economic growth in the region in the second half of 1999.

One possible area of concern is the continued decline in leverage ratios both regionally and nationally. Leverage ratios in the region also continued to be lower than those in the nation for both large and small banks. The ratio of nonperforming loans to total loans is very low right now, 0.9 percent both regionally and nationally, and the large majority of banks continue to be either well capitalized or adequately capitalized according to the leverage criteria. However, delinquency rates have been rising since 1998, and many banks polled in the January 2000 Senior Loan Officer Opinion Survey expect delinquencies to continue rising. As in the November 1999 survey, many bankers expect less favorable economic conditions in the future, and in response, a significant number of banks have raised lending standards, in particular risk premiums, on both commercial and industrial loans and commercial real estate loans.

Bankers surveyed in the January 2000 Senior Loan Officer Opinion Survey also reported that demand for home mortgages had decreased for the third consecutive quarter. However, the volume of real estate loans appears to have grown substantially in both the region and the nation, despite rising mortgage rates. This is due to a number of factors. As mortgage rates have risen, the use of adjustable-rate mortgages (ARMs), rather than fixed-rate mortgages, has risen. This shift limits the depressing effect of rising mortgage rates. The growth in ARMs also increases the amount of new originations that remain on banks' books because ARMs are more difficult to sell on secondary markets. A study of 355 community banks and thrifts conducted by America's Community Bankers reported that over one-half of these institutions sold no loans in 1999. In 1998 less than one-third of these institutions sold no loans. Also, rapid increases in housing prices in a number of markets have increased the dollar volume of loans even while the number of loans may have fallen.

Although the data are equivocal about the current strength of the real estate market, a decline in the demand for housing could especially affect tri-state area banks because they rely on residential real estate lending to a much greater extent than banks in other regions of the country.

^{*} 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. A small bank in Rhode Island and one in New Jersey were excluded as data outliers.

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All Commercial Banks

| | Tri-State | | | Nation | | |
|---------------------------------------|---------------|-------------|-------------|---------------|-------------|-------------|
| | 99Q4 | 99Q3 | 98Q4 | 99Q4 | 99Q3 | 98Q4 |
| No. of Banks | 236 | 239 | 252 | 7623 | 7712 | 8005 |
| | % change from | | | % change from | | |
| | 99Q4 | 99Q3 | 98Q4 | 99Q4 | 99Q3 | 98Q4 |
| Total Assets* | 302.2 | 3.3 | 2.2 | 5346.1 | 14.1 | 4.4 |
| Total Loans* | 201.5 | 7.2 | 2.2 | 3234.3 | 12.0 | 7.3 |
| Business* | 56.3 | 12.2 | 4.2 | 946.8 | 8.2 | 7.1 |
| Real Estate* | 107.1 | 13.8 | 8.1 | 1429.1 | 21.2 | 11.3 |
| Consumer* | 20.7 | -0.3 | -13.3 | 417.2 | 6.9 | -3.3 |
| Total Deposits* | 216.3 | 5.6 | 1.8 | 3625.6 | 10.8 | 2.6 |
| Ratios (in %) | 99Q4 | 99Q3 | 98Q4 | 99Q4 | 99Q3 | 98Q4 |
| 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 | 3.9 | 4.0 | 4.1 | 4.1 | 4.2 |
| Loans/Deposits | 78.1 | 76.7 | 73.5 | 75.7 | 77.1 | 70.4 |
| Equity/Assets | 9.4 | 9.6 | 10.0 | 10.0 | 10.3 | 10.4 |
| Liquid Assets/ Liquid Liabilities | 75.4 | 106.5 | 159.6 | 148 | 154.9 | 243.8 |
| Nonperforming Loans/Total Loans | 0.9 | 0.9 | 1.0 | 0.9 | 1.1 | 1.1 |
| Noninterest Expenses/Avg Assets | 3.1 | 3.2 | 3.2 | 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.

Fourth Quarter 1999

All Commercial Banks

| | Pennsylvania | | | New Jersey | | | Delaware | | |
|-------------------------------------|----------------------|-------------|-------------|----------------------|-------------|-------------|----------------------|-------------|-------------|
| | 99Q4 | 99Q3 | 98Q4 | 99Q4 | 99Q3 | 98Q4 | 99Q4 | 99Q3 | 98Q4 |
| | % change from | | | % change from | | | % change from | | |
| | 99Q4 | 99Q3 | 98Q4 | 99Q4 | 99Q3 | 98Q4 | 99Q4 | 99Q3 | 98Q4 |
| Number of Banks | 176 | 177 | 187 | 51 | 53 | 57 | 9 | 9 | 8 |
| Total Assets* | 193.3 | 3.2 | -1.9 | 98.7 | 2.7 | 10.4 | 10.2 | 12.0 | 8.4 |
| Total Loans* | 134.5 | 5.0 | -2.4 | 60.4 | 11.7 | 13.9 | 6.6 | 11.7 | 4.0 |
| Business* | 38.0 | 6.1 | -0.6 | 16.9 | 24.5 | 15.5 | 1.4 | 53.6 | 21.2 |
| Real Estate* | 68.5 | 11.3 | 3.8 | 34.7 | 19.5 | 18.3 | 3.9 | 11.0 | 4.7 |
| Consumer* | 14.9 | -9.6 | -20.1 | 4.8 | 41.1 | 17.9 | 1.0 | -11.8 | -13.1 |
| Total Deposits* | 134.2 | 3.1 | -1.5 | 74.2 | 9.2 | 7.2 | 7.9 | 14.6 | 11.1 |
| Ratios (in %) | 99Q4 | 99Q3 | 98Q4 | 99Q4 | 99Q3 | 98Q4 | 99Q4 | 99Q3 | 98Q4 |
| Net Income/Avg Assets (ROA) | 1.1 | 1.2 | 1.2 | 1.3 | 1.2 | 1.1 | 1.4 | 1.6 | 1.0 |
| Net Interest Inc/Avg Assets (NIM) | 3.9 | 3.9 | 4.0 | 4.0 | 3.9 | 4.1 | 4.3 | 4.4 | 4.4 |
| Loans/Deposits | 81.2 | 79.6 | 76.5 | 67.1 | 66.5 | 63.2 | 81.2 | 79.9 | 77 |
| Equity/Assets | 9.7 | 9.9 | 10.4 | 8.4 | 8.5 | 8.7 | 9.5 | 9.7 | 9.6 |
| Liquid Assets/Liquid Liabilities | 72.0 | 106.7 | 165.8 | 87.8 | 109.3 | 142.5 | 74.5 | 85.6 | 133.1 |
| Nonperforming Loans/ Total Loans | 0.9 | 0.9 | 1.0 | 0.8 | 0.9 | 1.0 | 0.7 | 0.9 | 1.4 |
| Noninterest Expenses/ Avg Assets | 3.0 | 3.0 | 3.0 | 3.5 | 3.5 | 3.7 | 3.3 | 3.4 | 4.8 |

Commercial Banks with Less than \$1 Billion in Assets

Commercial Banks with More than \$1 Billion in Assets

| | Tri-State | | | Nation | | |
|--------------------------|----------------------|-------------|-------------|----------------------|-------------|-------------|
| | 99Q4 | 99Q3 | 98Q4 | 99Q4 | 99Q3 | 98Q4 |
| | % change from | | | % change from | | |
| | 99Q4 | 99Q3 | 98Q4 | 99Q4 | 99Q3 | 98Q4 |
| No. of Banks | 207 | 209 | 223 | 7283 | 7372 | 7667 |
| Total Assets* | 53.4 | 5.5 | -0.2 | 924.2 | 2.3 | 0.2 |
| Total Loans* | 32.7 | 9.9 | 3.4 | 579.2 | 5.2 | 5.3 |
| Total Deposits* | 43.2 | 0.7 | -2.4 | 764.3 | 1.6 | -1.4 |
| Ratios (in %) | 99Q4 | 99Q3 | 98Q4 | 99Q4 | 99Q3 | 98Q4 |
| Net Inc/Avg Assets (ROA) | 1.1 | 1.1 | 1.1 | 1.2 | 1.2 | 1.2 |
| Equity/Assets | 9.7 | 9.9 | 10.3 | 10.1 | 10.4 | 10.4 |

| | Tri-State | | | Nation | | |
|---------------------------|----------------------|-------------|-------------|----------------------|-------------|-------------|
| | 99Q4 | 99Q3 | 98Q4 | 99Q4 | 99Q3 | 98Q4 |
| | % change from | | | % change from | | |
| | 99Q4 | 99Q3 | 98Q4 | 99Q4 | 99Q3 | 98Q4 |
| No. of Banks | 29 | 30 | 29 | 340 | 340 | 338 |
| Total Assets* | 248.8 | 2.9 | 2.7 | 4422 | 16.8 | 5.4 |
| Total Loans* | 168.9 | 6.7 | 1.9 | 2655 | 13.6 | 7.7 |
| Total Deposits* | 173.1 | 6.8 | 2.9 | 2861.4 | 13.5 | 3.7 |
| Ratios (in %) | 99Q4 | 99Q3 | 98Q4 | 99Q4 | 99Q3 | 98Q4 |
| Net Inc/ Avg Assets (ROA) | 1.4 | 1.4 | 1.5 | 1.4 | 1.4 | 1.4 |
| Equity/Assets | 7.3 | 7.5 | 8 | 8.3 | 8.4 | 8.5 |

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.