BANKING BRIEF

Federal Reserve Bank of Philadelphia

For Pennsylvania, New Jersey, and Delaware

Second Quarter 2000

Most banks in the tri-state region and the nation experienced rapid growth in assets, deposits, and total loans over the second quarter of 2000. However, large banks in the region reported slow growth or declines in all these categories. The continuing effects of ongoing integration efforts by FleetBoston are still influencing the numbers for large tri-state area banks. As part of its divestiture plan, Fleet transferred 82 branches in Massachusetts and Rhode Island to Sovereign Bancorp, Wyomissing, PA, in June of this year.[1] Also in June, National City Corporation, Cleveland, OH, completed the sale of two-thirds of its student loan portfolio, resulting in a dramatic drop in consumer loans in large tri-state area banks. The company cited lower net interest margins due to rising interest rates as the reason for the sale.

During the second quarter, consumer loans at large banking organizations in the nation remained virtually flat. This is in line with the most recent findings of the Federal Reserve's August Senior Loan Officer Opinion Survey – weaker demand for consumer loans, especially at larger banks.

Although the decline in C&I lending at regional community banks was concentrated at a few larger community banks, almost one-third of the community banks reported reductions in business loans. This is consistent with evidence from tri-state area bankers, who report somewhat slower demand for business loans.

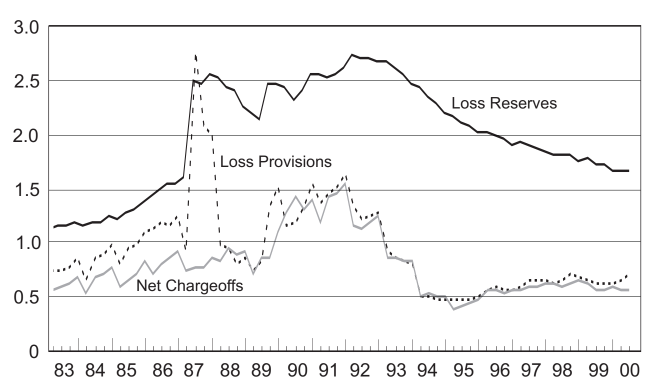
NONPERFORMING LOANS ARE ON THE RISE

Anecdotal information from bankers in the region suggests a potential deterioration in credit quality.[2] This evidence is reflected in the rising percentage of nonperforming loans at large banks. Almost half of all large regional banks reported higher nonperforming loan ratios than in the last quarter. The increase in the ratio for large tri-state area banks was mainly driven by continuing additions to nonperforming loans at First Union Corporation, Charlotte, NC, a trend that will continue according to the company's recent press release. The company has already taken steps to identify and sell poorly performing loans, including those that will be sold with the closing of the Money Store as part of the restructuring announced recently by First Union.

In the nation as a whole, some large banks have reported problems in their syndicated loan portfolios. In particular, Wachovia Corporation, Winston-Salem, NC, and Unionbancal in San Francisco, CA, announced they would post additional reserves to account for expected increases in nonperforming loans. Both attributed part of the increases to their exposures to syndicated loans. Articles in the banking press indicate that a number of other large U.S. banking companies had exposure to the same large syndicated loan that forced Wachovia to raise its reserves. Nonetheless, the latest issue of the Senior Loan Officer Opinion Survey indicates that it is premature to infer widespread problems in banks' syndicated loan portfolios. Although nearly a quarter of the large banks report that syndicated loans account for more than half of their business loan portfolios, over 40 percent report that such loans make up less than 20 percent of their outstanding business loans. More significant, nearly 90 percent of the banks surveyed said that delinquency rates on syndicated loans were either the same or lower than the rate on other C&I loans.

Banks maintain loan loss reserves that represent management's best estimate of the credit losses embedded in its loan portfolio. Banks make provisions, an expense category, for expected loan losses out of current revenue, and the provisions fund the reserves against which losses are eventually charged. Data limitations do not allow us to look much further than the early 1980s; however, from the data available we see that there is a largely contemporaneous relationship between loan loss provisions and net chargeoffs (see Figure). By historical standards both ratios are at low levels right now, but provisions have been trending up since 1995 while loan loss reserves and the coverage ratio – loan loss reserves divided by nonperforming loans – have been trending downward.

Reserves for Loan and Lease Losses, Loss Provisioning, and Net Chargeoffs



Source: Quarterly Reports of Condition and Income, Federal Reserve Board of Governors.

[1] Although Sovereign Bancorp is a large banking organization operating in our District, it has a thrift charter, and thus, it is not included in our sample.

[2] This information is summarized in the Beige Book, which includes similar reports from other Federal Reserve Districts. For more information, see: www.bog.frb.fed.us/FOMC/BeigeBook/2000/default.htm.

Second Quarter 2000

Community Banking Organizations

	Tri-State			*Nation*		
	$Bill	**% change from**		**$Bill**	**% change from**	
	00Q2	**00Q1**	**99Q2**	**00Q2**	**00Q1**	**99Q2**
Total Assets	75.9	7.9	9.4	1124.8	9.6	10.2
Total Loans	47.5	12.2	13.0	724.7	18.2	15.4
Business	6.3	-12.2	10.5	134.0	16.0	14.9
Real Estate	34.3	19.2	13.9	459.2	18.6	17.8
Consumer	5.3	8.6	10.9	85.6	10.8	8.8
Total Deposits	59.2	6.1	7.7	910.6	5.3	8.2
Ratios (in %)	**00Q2**	**00Q1**	**99Q2**	**00Q2**	**00Q1**	**99Q2**
Net Income/ Avg Assets (ROA)	1.2	1.2	1.2	1.2	1.2	1.2
Net Interest Inc/ Avg Assets (NIM)	3.7	3.8	3.8	4.1	4.1	4.1
Noninterest Inc/ Avg Assets	1.1	1.0	1.0	1.0	1.0	1.0
Noninterest Exp/ Avg Assets	3.0	3.0	3.0	3.2	3.2	3.2
Loans/Deposits	80.3	79.1	76.4	79.6	77.3	74.6
Equity/Assets	8.3	8.3	8.6	8.9	8.9	9.3
Nonperforming Loans/ Total Loans	0.7	0.8	0.7	0.8	0.8	0.9

Large Banking Organizations

	Tri-State			*Nation*		
	$Bill	**% change from**		**$Bill**	**% change from**	
	00Q2	**00Q1**	**99Q2**	**00Q2**	**00Q1**	**99Q2**
Total Assets	878.2	1.2	0.8	4536.7	7.8	7.7
Total Loans	546.7	-2.7	1.1	2755.0	13.5	9.2
Business	196.1	1.6	4.1	879.9	12.6	9.0
Real Estate	218.2	-1.7	2.1	1122.2	17.2	17.6
Consumer	48.0	-26.8	-5.9	335.5	0.1	-2.5
Total Deposits	563.6	-2.1	-0.6	2909.1	8.8	6.0
Ratios (in %)	**00Q2**	**00Q1**	**99Q2**	**00Q2**	**00Q1**	**99Q2**
Net Income/ Avg Assets (ROA)	1.1	1.2	1.1	1.2	1.2	1.1
Net Interest Inc/ Avg Assets (NIM)	3.3	3.3	3.2	3.2	3.2	3.2
Noninterest Inc/ Avg Assets	2.9	2.8	2.5	2.5	2.5	2.3
Noninterest Exp/ Avg Assets	3.9	3.8	3.8	3.4	3.4	3.6
Loans/Deposits	97.0	97.1	95.4	94.7	93.7	92.0
Equity/Assets	8.1	8.1	8.4	8.0	8.0	8.0
Nonperforming Loans/ Total Loans	1.2	1.1	0.8	1.0	1.0	1.0

A banking organization is an independent bank or all the banks within a highest-level bank holding company; however, banks less than five years old and those whose credit card loans make up greater than 50 percent of their total loans are excluded. The large banking organization sample is based on banking organizations whose total assets were at least as large as those of the 100th largest banking organization in the United States as of December 31, 1999. The community banking organization sample is based on the remaining banking organizations. Tri-state large banking organizations are those large banking organizations that have either at least 5 percent of the deposits of the region or any state therein or at least 5 percent of their deposits in the region. Tri-state community banking organizations are those community banking organizations that are headquartered in the region. The numbers of banking organizations in the categories are as follows: (1) community banking organizations —194 for the tri-state area and 6126 for the nation; (2) large banking organizations —18 for the tri-state area and 99 for the nation. Ratios are aggregates, that is, the numerators and denominators are summed across all banks in the group, then divided. Data are adjusted for mergers.

Any questions or comments should be directed to Victoria Geyfman at (215) 574-6431 or victoria.geyfman@phil.frb.org. Detailed documentation on the methodology used in constructing this document, back issues, and the current issue of *Banking Brief* are available on our web site at www.phil.frb.org/econ/bb/index.html. To subscribe to this publication, please contact the Publications Desk at (215) 574-6428 or lois.newell@phil.frb.org.

FEDERAL RESERVE BANK OF PHILADELPHIA