BANKING BRIEF
FOR PENNSYLVANIA, NEW JERSEY, AND DELAWARE

# Banking Brief

## For Pennsylvania, New Jersey, and Delaware

**Fourth Quarter 2001**

Nationally, smaller banks' reliance on real estate lending proved instrumental in securing a 10 percent growth rate in overall assets compared to last year. Over the same period, the asset base of large banks grew only 2.5 percent. Despite weakened economic conditions in the overall economy, anecdotal evidence suggests that low interest rates and anticipation of the improving health of the economy prompted local business borrowers to continue expanding during the last quarter.[1] This resulted in 6.7 percent growth for C&I loans among tri-state community banking organizations. This stands in contrast to C&I lending at large banking organizations, which declined last year.

The chargeoff rate for commercial loans rose over the quarter, with large banks contributing significantly to the rise. However, for the first time in 10 years, this rate exceeded 1.9 percent at smaller banks.[2] Fourth-quarter credit card loss rates and personal bankruptcy rates exceeded record-high levels last seen in 1997 and 1998. The chargeoff rate for real estate loans declined from 0.29 percent to 0.19 percent in the fourth quarter: a slight rise of 0.06 percent in the rate for commercial real estate was more than offset by a 0.22 percent decline in the chargeoff rate for residential loans. The latter might be the effect of consumers' taking advantage of low interest rates to refinance existing mortgages and repay existing debt.

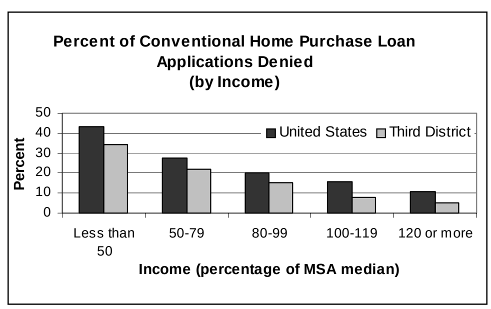
According to the Senior Loan Officer Opinion Survey for January, over the last quarter of 2001 the demand for consumer loans remained unchanged, but nearly 20 percent of all respondents tightened standards for these loans.[3] In the same survey, a substantial fraction of respondents continued to report tighter standards for C&I loans.

**Mortgage Lending in 2002**

In July 2001 the Federal Financial Institutions Examination Council released data on mortgage lending transactions in 2000 at financial institutions covered by the Home Mortgage Disclosure Act (HMDA). Nationally, the total volume of loans and applications decreased about 16 percent from 1999, reflecting decreased refinancing activity over 2000. The number of conventional and government-insured home purchase loans received by Asian and Hispanic borrowers increased 8 and 7 percent, respectively. Over the same period, lending to whites decreased 6 percent, lending to American Indians decreased 5 percent, and lending to blacks decreased 1 percent. In the Third District, the total volume of originations increased slightly by 0.4 percent. As in the nation, the breakdown by racial / ethnic groups reveals a mixed picture in the Third District: the number of home purchase loans extended in 2000 rose 13.4 percent for Hispanic borrowers, 10.8 percent for Asians, and 6.8 percent for blacks. During the year, lending to whites decreased almost 4 percent, and lending to American Indians decreased 2.6 percent.

For the second consecutive year, the overall denial rates for conventional home purchase loans fell slightly, totaling 27 percent for 2000, down from 28 percent in the prior year. Denial rates for these loans continued to vary among applicants by racial or ethnic characteristics and income. At the national level, 45 percent of black applicants, 42 percent of Native Americans, 31 percent of Hispanics, 22 percent of white, and 12 percent of Asian applicants were denied conventional home purchase loans. The denial rates were lower than in 1999 for all racial groups, except for Asians, for whom denial rates rose 1 percentage point. In the District, the overall denial rates for conventional home purchase loans were lower than for the nation, but the rate rose from 13 percent in 1999 to 14 percent in 2000. For the District, 19 percent of Native American, 8 percent of Asians, 25 percent of blacks, 19 percent of Hispanics, and 12 percent of whites were denied conventional home purchase loans.[4] These rates have increased for American Indians, Asians, and Hispanics but decreased for blacks and whites.[5]

In the nation, denial rates varied by applicants' income levels, ranging from 43 percent for applicants with incomes of less than 50 percent of an MSA's median income to 10.4 percent for high-income applicants (those with more than 120 percent of the median MSA income). In this District, the corresponding figures are 34 percent for low- and 8 percent for high-income applicants. These numbers represent an increase of 3 and 0.2 percentage points, respectively, compared to 1999. In general, the most frequently cited reason for denial of a single-family home loan application in the HMDA data, regardless of the applicant's race or ethnic status, was low income or no credit history.




Source: FFIEC, Home Mortgage Disclosure Act data

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[1] Based on the Beige Book for the Philadelphia District, January 2002.

[2] The chargeoff rate is the value of loans removed from the books and charged against reserves, less any recoveries, divided by average loans outstanding. "Small" banks are those smaller than the 100 largest in size, where size is measured by consolidated assets adjusted for mergers. Source: Federal Reserve Board.

[3] Federal Reserve Board, Senior Loan Officer Opinion Survey on Bank Lending Practices, January 2002.

[4] Rates for Native American applicants are based on a small sample.

[5] As always, it is important to interpret the HMDA data with care. Although the data provide useful information about trends in denial rates by racial / ethnic groups over time, the HMDA data lack key underwriting information, such as an applicant's loan-to-value ratio, household composition, liquid assets, and credit history, as well as information about the property itself, such as sales price and appraisal value. See this publication for the third quarter of 2000 for further discussion of these issues.

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*Fourth Quarter 2001*

## *Community Banking Organizations*

| | *Tri-State* | | | *Nation* | | |
|---|---|---|---|---|---|---|
| | $Bill | % change from | | $Bill | % change from | |
| | 01Q4 | 01Q3 | 00Q4 | 01Q4 | 01Q3 | 00Q4 |
| Total Assets | 80.1 | 8.0 | 8.7 | 1256.2 | 10.5 | 9.9 |
| Total Loans | 48.9 | 6.7 | 8.0 | 801.3 | 8.3 | 8.9 |
| Business | 6.8 | 20.7 | 11.4 | 141.6 | 5.7 | 6.7 |
| Real Estate | 35.4 | 6.7 | 8.7 | 530.1 | 13.1 | 11.8 |
| Consumer | 5.0 | -7.8 | -3.3 | 81.9 | -7.7 | -2.1 |
| Total Deposits | 63.0 | 8.1 | 8.6 | 1015.6 | 10.6 | 9.1 |
| **Ratios (in %)** | **01Q4** | **01Q3** | **00Q4** | **01Q4** | **01Q3** | **00Q4** |
| Net Income/ Avg Assets (ROA) | 1.1 | 1.1 | 1.2 | 1.1 | 1.1 | 1.2 |
| Net Interest Inc/ Avg Assets (NIM) | 3.6 | 3.5 | 3.7 | 3.9 | 3.9 | 4.0 |
| Noninterest Inc/ Avg Assets | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.0 |
| Noninterest Exp/ Avg Assets | 3.0 | 3.0 | 3.0 | 3.1 | 3.1 | 3.1 |
| Loans/Deposits | 77.6 | 77.9 | 78.1 | 78.9 | 79.3 | 79.1 |
| Equity/Assets | 8.8 | 8.8 | 8.8 | 9.3 | 9.3 | 9.2 |
| Nonperforming Loans/ Total Loans | 0.8 | 0.8 | 0.6 | 1.0 | 1.0 | 0.8 |

## *Large Banking Organizations*

| | *Tri-State* | | | *Nation* | | |
|---|---|---|---|---|---|---|
| | $Bill | % change from | | $Bill | % change from | |
| | 01Q4 | 01Q3 | 00Q4 | 01Q4 | 01Q3 | 00Q4 |
| Total Assets | 951.4 | -4.5 | 0.0 | 4780.2 | -5.4 | 2.5 |
| Total Loans | 565.7 | -12.4 | -5.1 | 2766.8 | -1.7 | -1.1 |
| Business | 182.5 | -20.8 | -12.6 | 804.5 | -14.2 | -9.3 |
| Real Estate | 241.8 | 2.7 | -0.1 | 1190.8 | 9.1 | 4.0 |
| Consumer | 54.3 | -7.3 | -6.1 | 349.5 | 4.6 | 4.2 |
| Total Deposits | 624.7 | -2.2 | -0.1 | 3093.5 | 5.9 | 2.2 |
| **Ratios (in %)** | **01Q4** | **01Q3** | **00Q4** | **01Q4** | **01Q3** | **00Q4** |
| Net Income/ Avg Assets (ROA) | 1.0 | 1.2 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net Interest Inc/ Avg Assets (NIM) | 3.0 | 3.1 | 3.3 | 3.1 | 3.0 | 3.1 |
| Noninterest Inc/ Avg Assets | 2.5 | 2.5 | 2.7 | 2.2 | 2.3 | 2.3 |
| Noninterest Exp/ Avg Assets | 3.3 | 3.2 | 3.7 | 3.2 | 3.2 | 3.3 |
| Loans/Deposits | 90.5 | 93.1 | 95.3 | 89.4 | 91.1 | 92.5 |
| Equity/Assets | 9.3 | 9.3 | 8.5 | 8.6 | 8.6 | 8.0 |
| Nonperforming Loans/ Total Loans | 1.5 | 1.5 | 1.2 | 1.5 | 1.5 | 1.1 |

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, 2000. 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 —189 for the tri-state area and 5963 for the nation; (2) large banking organizations —17 for the tri-state area and 94 for the nation. Ratios are aggregates, that is, the numerators and denominators are summed across all banks in the group, then divided.

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.