BANKING BRIEF

FOR PENNSYLVANIA, NEW JERSEY, AND DELAWARE

Third Quarter 2002

During the third quarter of 2002, banks continued to report improved net interest margins, which translated into higher earnings and record-high average return on assets (ROA). Large banks in the nation registered ROA of 1.2 percent, compared with 1.08 percent last year. Return on assets at community banks also edged higher, at 1.19 percent, compared with 1.11 percent last year.

Mortgage lending, fueled by low interest rates, contributed to growth in banks' loans and securities portfolios. Anecdotal evidence gathered from local bankers suggests that banks experienced strong demand for mortgage refinancing and purchase loans.[1] Both large and community banking organizations posted double-digit gains in real estate loans. There was an increase of almost 20 percent in these loans at large national banks. The corresponding figure for community banks in the nation was 15.4 percent. Large banks also saw a sharp rise in consumer loans since the second quarter, but large tri-state area banks actually reported a slightly lower volume of consumer loans compared with last year.

Loan quality has improved somewhat since the second quarter at all banks in the nation. The nonperforming loan ratio fell from 1.77 to 1.72 at large banks and 1.09 to 1.05 at community banks in the nation. Delinquency rates have remained stable since last quarter and have actually fallen in the business and real estate loan categories. However, delinquency rates for business loans were still higher than at any time since 1993. The delinquency rate for credit card loans rose from 4.61 in the second quarter to 4.96 in the third quarter.

Business loans and credit card chargeoffs contributed to the overall increase in annualized net charge-off rates during the third quarter of 2002. The rates rose from the second quarter, but were lower than they were at the end of last year. The one exception is the credit card charge-off rate at smaller banks, which, at 12.6 percent, is 2.3 percentage points higher than the previous record high reported at the end of 2001.

[1] See Beige Book for October 23, 2002.

MORTGAGE LENDING IN 2001

In August 2002, the Federal Financial Institutions Examination Council (FFIEC) released data on mortgage lending transactions in 2001 at 7631 financial institutions covered by the Home Mortgage Disclosure Act (HMDA). Nationally, the total volume of loans and applications rose from 19.2 million to 27.6 million, an increase of about 44 percent.[2] The rise was mostly due to a 119 percent increase in refinancing activity, triggered by the large decline in mortgage interest rates during 2001. In the Third District, the total volume of loans and applications rose by about 38 percent, again primarily because of a 92 percent increase in refinancing activity. The dollar amount of refinancing in the Third District rose sharply from $22.6 billion in 2000 to $62.5 billion in 2001, an increase of approximately 177 percent.

The HMDA data also report information about home purchase loans by race, ethnicity, and income of the borrower. Compared to data for 2000, the number of loans received by Asian, Hispanic, and white borrowers increased 4, 8, and 1 percent, respectively. Lending to American Indians and blacks decreased 39 and 7 percent, respectively.[3]

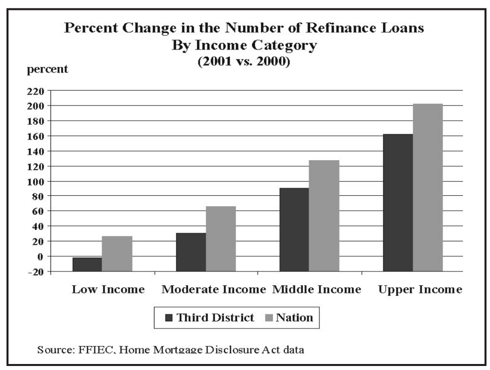
For this District, the number of home purchase loans decreased slightly, 0.6 percent. The number of home purchase loans extended in 2001 decreased for Native American, black, Hispanic, and white borrowers by 30, 23, 6, and 5 percent, respectively, but rose 11 percent for Asians.

In the nation, overall denial rates for conventional home purchase loans fell from 27 percent in 2000 to 21 percent in 2001. This was the third consecutive year of declining denial rates. While denial rates vary according to the race, ethnicity, and income of borrowers, denial rates were markedly lower than in 2000 for all racial/ethnic and income groups. At the national level, 36 percent of black applicants, 35 percent of Native American applicants, 23 percent of Hispanic applicants, 16 percent of white applicants, and 11 percent of Asian applicants were denied conventional home purchase loans. In the Third District, overall denial rates for conventional home purchase loans were lower than for the nation and also declined from 2000. In the District, 17 percent of Native American applicants, 7 percent of Asians, 22 percent of blacks, 14 percent of Hispanics, and 9 percent of whites were denied conventional home purchase loans.[4]

In the District, denial rates varied by applicants' income levels, ranging from 25 percent for applicants with low incomes to 6 percent for upper-income applicants in 2001.[5] The middle-income group experienced the greatest decrease in denial rates compared to 2000. 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.

[2] Total applications include loans originated and purchased, applications approved but not accepted by the applicant, applications denied or withdrawn, and applications closed because of incomplete information.
[3] The FFIEC noted that there was a problem in the reporting of loans to Native Americans in 2000, and possibly earlier years. This over-reporting occurred among just a few lenders and involved only a relatively small number of loans. But this may explain the large drop in loans to Native Americans reported in 2001.

[4] 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 2000 for a fuller discussion.
[5] The data on loans by income categories are based on loan activity in census tracts that are assigned to different income categories based on median family income in the census tract as compared to the median family income of the metropolitan area (for definitions, please consult FFIEC, Home Mortgage Disclosure Act data at http://www.ffiec.gov)



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Third Quarter 2002

Community Banking Organizations

	Tri-State			*Nation*		
	$Bill	**% change from**		**$Bill**	**% change from**	
	02Q3	**02Q2**	**01Q3**	**02Q3**	**02Q2**	**01Q3**
Total Assets	77.8	16.6	11.7	1320.6*	14.0	10.3
Total Loans	47.0	9.5	9.3	842.0	11.2	9.5
Business	6.2	-1.9	4.2	144.0	2.3	4.6
Real Estate	35.4	12.3	11.8	571.0	15.4	13.4
Consumer	3.7	4.4	-4.1	77.8	-1.3	-3.8
Total Deposits	61.2	14.6	11.6	1062.0	11.9	9.3

Ratios (in %)	**02Q3**	**02Q2**	**01Q3**	**02Q3**	**02Q2**	**01Q3**
Net Income/ Avg Assets (ROA)	1.2	1.2	1.2	1.2	1.2	1.1
Net Interest Inc/ Avg Assets (NIM)	3.7	3.7	3.6	3.9	3.9	3.9
Noninterest Inc/ Avg Assets	1.2	1.2	1.2	1.1	1.1	1.0
Noninterest Exp/ Avg Assets	3.1	3.1	3.1	3.1	3.1	3.1
Loans/Deposits	76.9	77.8	78.5	79.3	79.4	79.2
Equity/Assets	9.2	9.2	9.3	9.7	9.7	9.6
Nonperforming Loans/ Total Loans	0.9	1.0	0.9	1.1	1.1	1.0

Large Banking Organizations

	Tri-State			*Nation*		
	$Bill	**% change from**		**$Bill**	**% change from**	
	02Q3	**02Q2**	**01Q3**	**02Q3**	**02Q2**	**01Q3**
Total Assets	934.3	13.8	-0.2	5109.8	11.3	3.6
Total Loans	546.0	6.6	-5.6	2893.8	9.1	2.3
Business	158.0	-14.0	-15.6	748.4	-8.9	-12.0
Real Estate	250.7	13.7	2.4	1314.9	19.9	10.3
Consumer	53.8	16.2	-3.4	405.9	18.2	15.2
Total Deposits	615.0	13.1	-0.6	3231.9	9.2	3.9

Ratios (in %)	**02Q3**	**02Q2**	**01Q3**	**02Q3**	**02Q2**	**01Q3**
Net Income/ Avg Assets (ROA)	1.2	1.1	1.2	1.2	1.1	1.1
Net Interest Inc/ Avg Assets (NIM)	3.3	3.1	3.1	3.2	3.2	3.0
Noninterest Inc/ Avg Assets	2.5	2.4	2.4	2.3	2.2	2.2
Noninterest Exp/ Avg Assets	3.3	3.2	3.2	3.2	3.2	3.2
Loans/Deposits	88.8	90.1	93.5	89.5	89.6	91.0
Equity/Assets	9.4	9.4	9.2	8.7	8.7	8.4
Nonperforming Loans/ Total Loans	1.6	1.7	1.4	1.7	1.8	1.5

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, 2001. 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—198 for the tri-state area and 6036 for the nation; (2) large banking organizations—19 for the tri-state area and 100 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. Quarterly percentage changes are compound annualized rates.
* This quarter's sample excluded one bank that changed its charter from a thrift to a bank.

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.