



BANKING BRIEF

FOR PENNSYLVANIA, NEW JERSEY, AND DELAWARE

Third Quarter 2004

Commercial banks in the nation continued to report strong performance in the third quarter of 2004. The profits were fueled in part by sustained strength in real estate loans and growing demand for commercial and industrial loans. The average return on assets (ROA) remained unchanged at 1.2 percent at both large and community banking organizations. Real estate lending at community banks was 17 percent higher than in the third quarter of 2003. Large banks experienced a 9 percent increase in this loan category during the same period. In the nation, the total volume of business loans grew 6 percent since last quarter at large banks and almost 7 percent at community banks.

Net interest margin was slightly below that reported during the third quarter of 2003. Noninterest income at large banks was down from the second quarter, reflecting lower trading revenues, servicing fees, and realized gains on securities.

Among banks in the tri-state area, deposits grew strongly: 10.2 percent at community banks and 12.8 at large banking organizations. Asset quality continued to improve, with the ratio of nonperforming loans falling below 1 percent for all banks. Net chargeoffs declined to 0.58 percent, a level last observed in 2000. Banks responded to the improvement in loan quality by reducing their provisions for loan and lease losses by 12 percent compared to the third quarter of 2003.

Mortgage Banking in 2003

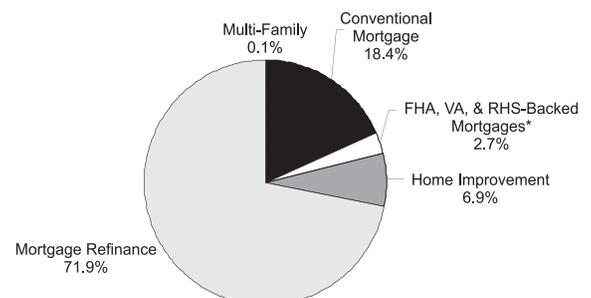
In July 2004 the Federal Financial Institutions Examination Council (FFIEC) released data on mortgage lending transactions during 2003 at commercial banks, savings associations, credit unions, and mortgage companies covered by the Home Mortgage Disclosure Act (HMDA). Nationally, the total volume of loans and applications in 2003 was 33 percent above the 2002 level. A sharp drop in interest rates on mortgage loans contributed to a 41 percent increase in loans and applications for refinancing compared to 2002. The number of home-purchase loans—comprising conventional loans and government-backed loans, including FHA and VA loans—extended to Asians, Hispanics, blacks, and whites increased about 16 percent, 18 percent, 15 percent, and 11 percent, respectively, from 2002 to 2003. Native Americans experienced a 5 percent decline in such lending from 2002 to 2003. Mirroring the national pattern, tri-state area lenders reported a 35 percent increase in the total number of loans and applications, primarily because of a 48 percent rise in refinancing activity. Home purchase lending to all racial and ethnic groups increased, but in varying degrees: 18 percent for Native Americans and for whites, 21 percent for blacks, 24 percent for Asians, and 35 percent among Hispanics.

Throughout the nation, home purchase lending increased for all income categories from 2002 to 2003. Applicants in the upper-income category had the greatest expansion: 13 percent.* Over the same period, home purchase lending increased 9 percent for middle-income applicants and 6 percent for low- and moderate-income applicants. In the tri-state area, loans to upper-income applicants rose 8 percent, lending to middle-income applicants rose 15 percent, and low- and moderate-income applicants had a 16 percent increase in loans.

For the nation, the overall denial rate for conventional home purchase loans in 2003 remained unchanged from 2002 but was well below the rate observed in 2001. The FFIEC attributes a large portion of the decline to a significant drop in 2002 and in 2003 in the number of applications for manufactured home loans, which have high denial rates. The HMDA data show that denial rates for conventional home purchase loans vary among applicants according to their race or ethnicity. Nationally, 24 percent of black applicants, 24 percent of Native American applicants, 18 percent of Hispanic applicants, 12 percent of white applicants, and 11 percent of Asian applicants were denied conventional home purchase loans. In the tri-state area, denial rates for 2003 were mostly unchanged from 2002: 14 percent each for black and Native American applicants, 12 percent for Hispanic applicants, and 7 percent each for white and Asian applicants.

* Income categories are 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>).

Applications by Type of Loans in the Tri-State Area 2003



* Includes loans backed by the Federal Housing Administration, the Department of Veterans Affairs, and the Rural Housing Service

Third Quarter 2004

| | Community Banking Organizations | | | | | | Large Banking Organizations | | | | | | |
|---------------------------------------|--|----------------------|-------------|---------------|----------------------|-------------|---------------------------------------|----------------------|-------------|---------------|----------------------|--------------|--------------|
| | Tri-State | | | Nation | | | Tri-State | | | Nation | | | |
| | \$Bill | % change from | | \$Bill | % change from | | \$Bill | % change from | | \$Bill | % change from | | |
| | 04Q3 | 04Q2 | 03Q3 | 04Q3 | 04Q2 | 03Q3 | | 04Q3 | 04Q2 | 03Q3 | 04Q3 | 04Q2* | 03Q3* |
| Total Assets | 85.2 | 8.0 | 8.1 | 1521.7 | 11.5 | 10.2 | Total Assets | 1900.0 | 10.7 | 11.9 | 6090.2 | 7.5 | 9.3 |
| Total Loans | 52.9 | 12.0 | 12.0 | 993.6 | 15.6 | 13.2 | Total Loans | 994.2 | 8.7 | 2.7 | 3390.2 | 6.7 | 7.8 |
| Business | 7.3 | 4.6 | 16.2 | 160.6 | 6.6 | 8.7 | Business | 199.4 | 3.8 | -4.8 | 691.0 | 6.1 | -0.9 |
| Real Estate | 40.8 | 14.4 | 12.7 | 707.7 | 19.1 | 16.6 | Real Estate | 569.8 | 15.6 | 5.5 | 1715.9 | 11.9 | 8.6 |
| Consumer | 3.0 | 3.1 | -1.9 | 72.1 | 2.0 | -1.3 | Consumer | 94.8 | 4.7 | 1.0 | 480.1 | 0.4 | 6.6 |
| Total Deposits | 66.3 | 10.2 | 7.8 | 1200.0 | 9.2 | 8.6 | Total Deposits | 1295.5 | 12.8 | 14.3 | 3933.1 | 3.9 | 10.1 |
| Ratios (in %) | 04Q3 | 04Q2 | 03Q3 | 04Q3 | 04Q2 | 03Q3 | Ratios (in %) | 04Q3 | 04Q2 | 03Q3 | 04Q3 | 04Q2 | 03Q3 |
| Net Income/ Avg Assets (ROA) | 1.1 | 1.1 | 1.2 | 1.2 | 1.2 | 1.2 | Net Income/ Avg Assets (ROA) | 1.4 | 1.4 | 1.4 | 1.2 | 1.2 | 1.2 |
| Net Interest Inc/ Avg Assets (NIM) | 3.4 | 3.4 | 3.4 | 3.7 | 3.7 | 3.8 | Net Interest Inc/ Avg Assets (NIM) | 2.8 | 2.8 | 3.0 | 2.8 | 2.9 | 3.0 |
| Noninterest Inc/ Avg Assets | 1.2 | 1.2 | 1.2 | 1.1 | 1.1 | 1.2 | Noninterest Inc/ Avg Assets | 2.0 | 2.2 | 2.3 | 2.1 | 2.3 | 2.3 |
| Noninterest Exp/ Avg Assets | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.1 | Noninterest Exp/ Avg Assets | 2.9 | 3.0 | 3.1 | 3.0 | 3.1 | 3.1 |
| Loans/Deposits | 79.8 | 79.5 | 76.8 | 82.8 | 81.6 | 79.4 | Loans/Deposits | 76.8 | 77.5 | 85.4 | 86.2 | 84.9 | 87.3 |
| Equity/Assets | 9.7 | 9.7 | 9.3 | 9.8 | 9.8 | 9.7 | Equity/Assets | 9.6 | 9.6 | 8.5 | 9.2 | 9.2 | 8.4 |
| Nonperforming Loans/ Total Loans | 0.6 | 0.7 | 0.8 | 0.8 | 0.8 | 1.0 | Nonperforming Loans/ Total Loans | 0.5 | 0.5 | 1.1 | 0.8 | 0.8 | 1.3 |

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, 2003. 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—193 for the tri-state area and 5941 for the nation; (2) large banking organizations—20 for the tri-state area and 96 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.

*Large banking organizations' growth rates in consumer loans and total loans were adjusted to exclude the effect of accounting changes due to the merger between J.P. Morgan Chase & Company (New York, NY) and Bank One Corporation (Chicago, IL), which was consummated on July 1, 2004.

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.PhiladelphiaFed.org/econ/bb/index.html. To subscribe to this publication, please go to www.PhiladelphiaFed.org/forms/orderform.htm and scroll down to Economic Research Publications.