



BANKING BRIEF

FOR PENNSYLVANIA, NEW JERSEY, AND DELAWARE

Third Quarter 2005

Commercial banks in the nation continued to report strong performance in the third quarter of 2005. Profits were fueled in part by higher noninterest income, such as earnings from trading activities and service charges, particularly at large banks. Banks in the nation also benefited from sustained strength in real estate and consumer lending. The average return on assets (ROA) remained unchanged at 1.2 percent at both large and community banking organizations. In the nation, the total volume of real estate lending has risen 15 percent since the third quarter of 2004.

Among banks in the nation, deposits grew strongly: 12 percent at community banks and 7 percent at large banking organizations. Asset quality continued to remain favorable, with banks maintaining the ratio of nonperforming loans below 1 percent at banks across all categories. Net chargeoffs have risen slightly, to 0.59 percent, since last quarter. According to the Senior Loan Officer Opinion Survey, banks have not changed their business and consumer lending standards and terms in response to the new bankruptcy law. Furthermore, banks do not expect the new law to have a significant impact on the demand for credit from existing customers, and they expect lower credit losses on new business and consumer loans.¹

Mortgage Banking in 2004

In September 2005 the Federal Financial Institutions Examination Council (FFIEC) released data on mortgage lending transactions in 2004 at commercial banks, savings associations, credit unions, and mortgage companies covered by the Home Mortgage Disclosure Act (HMDA). The release reflects information collected for the first time in 2004, such as pricing data on interest rates and fees for higher-priced loans (those loans with prices above designated thresholds).² The release also contains information on the lien status of the loan (a first lien, a subordinate lien, or unsecured) and whether a loan is for a manufactured home. The FFIEC anticipates that the expanded pricing data will enhance supervisors' ability to detect potential violations of the fair lending laws.

The initial public review of the data has focused on the incidence of higher-priced lending among minorities. A recent *Federal Reserve Bulletin* article reports the share of black applicants obtaining higher-priced loans was about 24 percentage points higher than the share among non-Hispanic white applicants.³ However, the disparity in the share of higher-priced mortgages is substantially reduced, to seven percentage points, after controlling for borrower- and lender-related characteristics. Borrower-related characteristics include applicant's income, loan amount, the property's location, and co-applicants. The HMDA data also exclude critical factors that may explain variations in the prices of reported loans, including the cost of funds, credit, prepayment risk, and other expenses and servicing fees.

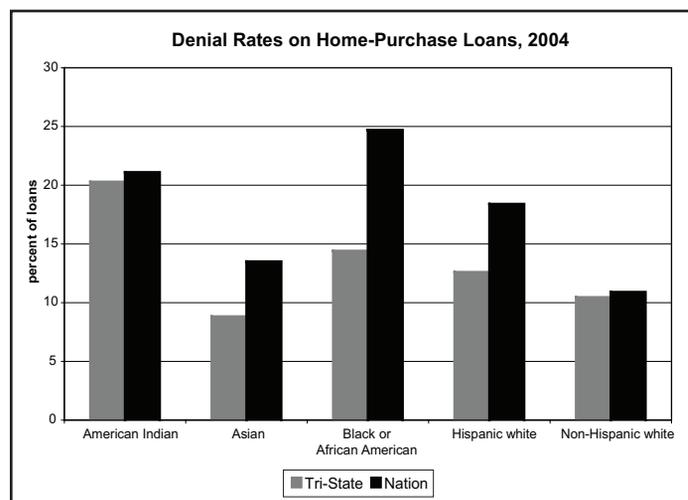
For the nation as a whole, the total volume of loans and applications in 2004 fell 18 percent from 2003 levels. This was due to a 35 percent drop in refinancing activity as mortgage rates began to rise. The number of home-purchase loans—conventional loans and government-backed loans, including FHA and VA loans—increased about 20 percent. Tri-state area lenders reported a 24 percent decline in the total number of loans and applications, which was largely due to a 39 percent drop in refinancing activity; home purchase lending rose about 11 percent in 2004.

In the nation, the overall denial rate for conventional home purchase loans (first mortgages) was roughly unchanged from last year, about 15 percent of all applications. The HMDA data show that denial rates vary among applicants according to their race or ethnicity. Nationally, 25 percent of black applicants, 21 percent of Native American applicants, 18 percent of Hispanic applicants, 11 percent of white applicants, and 14 percent of Asian applicants were denied conventional home purchase loans. The corresponding denial rates for loan applicants in the tri-state area were 14 percent for blacks, 20 percent for Native Americans, 13 percent for Hispanics, 10 percent for whites, and 9 percent for Asians.

¹ Senior Loan Officer Opinion Survey on Bank Lending Practices, October 2005 (www.federalreserve.gov/boarddocs/SnLoanSurvey/200510/default.htm)

² Information on the new HMDA data definitions and requirements is available at www.federalreserve.gov/boarddocs/press/bcreg/2005/20050331/attachment.pdf.

³ Robert B. Avery, Glenn B. Canner, and Robert E. Cook, "New Information Reported Under HMDA and Its Application in Fair Lending Enforcement," *Federal Reserve Bulletin*, Summer 2005, p. 379.



Third Quarter 2005

Community Banking Organizations

Tri-State

Nation

	\$Bill	% change from		\$Bill	% change from	
	05Q3	05Q2	04Q3	05Q3	05Q2	04Q3
Total Assets	87.3	7.1	6.3	1627.1	10.0	10.0
Total Loans	56.4	10.3	10.6	1088.7	12.3	12.8
Business	8.0	6.3	10.8	171.6	4.5	9.2
Real Estate	43.9	11.7	11.9	791.7	14.0	15.2
Consumer	2.7	1.7	-3.0	70.2	7.8	1.4
Total Deposits	67.9	10.1	6.4	1287.3	11.9	10.6

Large Banking Organizations

Tri-State

Nation

	\$Bill	% change from		\$Bill	% change from	
	05Q3*	05Q2	04Q3	05Q3	05Q2	04Q3
Total Assets	2184.8	7.0	9.9	6679.3	8.2	7.4
Total Loans	1176.2	16.2	11.5	3767.1	11.6	8.3
Business	230.4	-1.2	7.7	770.2	1.3	10.0
Real Estate	698.1	20.2	15.3	2038.2	18.2	14.8
Consumer	101.2	38.4	4.7	504.7	10.1	2.9
Total Deposits	1451.0	5.1	7.3	4360.8	7.4	8.6

Ratios (in %)

	05Q3	05Q2	04Q3	05Q3	05Q2	04Q3
Net Income/ Avg Assets (ROA)	1.2	1.1	1.1	1.2	1.2	1.2
Net Interest Inc/ Avg Assets (NIM)	3.4	3.4	3.4	3.8	3.8	3.7
Noninterest Inc/ Avg Assets	1.2	1.2	1.2	1.0	1.0	1.1
Noninterest Exp/ Avg Assets	2.9	2.9	3.0	2.9	2.9	3.0
Loans/Deposits	83.1	83.0	79.9	84.6	84.5	82.9
Equity/Assets	10.1	10.1	9.7	9.8	9.8	9.9
Nonperforming Loans/ Total Loans	0.6	0.6	0.6	0.6	0.6	0.8

Ratios (in %)

	05Q3	05Q2	04Q3	05Q3	05Q2	04Q3
Net Income/ Avg Assets (ROA)	1.4	1.4	1.4	1.2	1.2	1.2
Net Interest Inc/ Avg Assets (NIM)	2.7	2.8	2.8	2.7	2.7	2.8
Noninterest Inc/ Avg Assets	2.0	2.0	2.0	2.2	2.1	2.1
Noninterest Exp/ Avg Assets	2.7	2.7	2.9	3.0	2.9	3.0
Loans/Deposits	81.1	79.1	78.1	86.4	85.6	86.7
Equity/Assets	9.9	9.9	9.6	9.4	9.4	9.3
Nonperforming Loans/ Total Loans	0.5	0.4	0.5	0.7	0.7	0.8

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, 2004. 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—187 for the tri-state area and 5866 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.

*The reported jump in consumer loans is due in part to merger-related accounting changes.

Questions or comments should be directed to Jim DiSalvo at (215) 574-3820 or jim.disalvo@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 website at www.philadelphiafed.org/econ/bb/index.html. To subscribe to this publication, please go to www.philadelphiafed.org/forms/orderform.htm.