Commercial Banks in Pennsylvania and the Nation: Special Report

Prepared by the Federal Reserve Bank of Philadelphia, Research Department
January 22, 2010

Note: The Federal Reserve Bank of Philadelphia's District includes Delaware, southern New Jersey, and the eastern two-thirds of Pennsylvania. Consequently, some comparisons of banks are made using data for Pennsylvania, New Jersey, and Delaware combined and are called the tri-state area. Also, we report data for the third quarter of 2009, the most recent quarter for which data are available.

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Nationally, both small and large institutions posted aggregate losses in the third quarter of 2009, as did community banks in Pennsylvania. (Third quarter data are the most recently available.) Nonperforming loans and charge-offs continued to be a problem in all categories of loans. The Federal Deposit Insurance Corporation (FDIC) reported 50 bank failures in the third quarter (which partly explained the decline in the aggregate assets of community banks this quarter), and there were an additional 45 failures in the fourth quarter.[1] These additional numbers brought the total number of bank failures for 2009 to 140 institutions, and there have been an additional four failures thus far in 2010. There were only 26 failures in 2008 and 27 failures between 2000 and 2007. One Pennsylvania savings and loan association failed on August 14, 2009, but to date no commercial bank in the state has failed.[2]

Large banking organizations posted an aggregate return on average assets (ROAA) of -0.07 percent in the third quarter, down slightly from the second quarter.[3] Nonperforming loans as a percent of total loans continued to rise and are now 5.42 percent, up from 4.55 percent in the second quarter of 2009.[4] Total loans outstanding continued to shrink, although assets and deposits both grew somewhat. Declines in real estate and commercial and industrial (C&I) loans accounted for the decrease in loans. Real estate lending continues to be the source of most problems at large banking organizations. While problems in residential real estate (RRE) lending continued, a major trend developing over the past several quarters has been the decline in the large organizations' commercial real estate (CRE) loan portfolios.[5] The nonperforming loan ratio of CRE loans is now almost equal to that of RRE loans, as is the ratio of net charge-offs to average loans in each category.

Community banks both in-state and nationally posted aggregate negative ROAs in the third quarter, -0.08 and -0.30 percent, respectively. Their nonperforming loan ratios are not nearly as bad as those of large banking organizations, with ratios of nonperforming loans to total loans at 2.44 percent in-state and 3.82 percent nationally, but community banks depend on lending for a higher percentage of their income. Loan-to-asset ratios at community banks both in-state and nationally were about 69 percent, compared with just over 50 percent for large organizations. The bulk of lending at community banks is CRE loans, and this is where most of the asset-quality problems lie as well. However, the portfolios of community banks in most other types of lending deteriorated as well. Loan-loss provisioning and reserves are an even bigger problem at small banks than at large institutions because of both the low levels of

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[1] See the FDIC's failed bank list at http://www.fdic.gov/bank/individual/failed/banklist.html for additional information.

[2] The 2009 failure was Dwelling House Savings and Loan Association, Pittsburgh. The only other failures in the state since 2000 were Metropolitan Savings Bank, Pittsburgh, on February 2, 2007, and Pulaski Savings Bank, Philadelphia, on November 14, 2003.

[3] See the Summary Table of Bank Structure and Conditions on the back page. Unless otherwise noted, all numbers are based on data obtained from the Federal Financial Institutions Examination Council (FFIEC) call reports. Since large organizations in the tri-state area are merely a weighted subset of the national set of large organizations, we will not discuss them in the text. However, numbers on tri-state area large organizations will appear in any relevant charts and tables.

[4] Nonperforming loans are defined as loans past due 90 days or more plus nonaccruing loans. For historical perspective, the ratio of nonperforming loans to total loans for all commercial banks between 1998 and 2008 was 1.25 percent. At the bottom of the last real estate cycle in 1991, this ratio was 3.80 percent. Source: FDIC Historical Statistics on Banking: http://www2.fdic.gov/hsob/index.asp.

[5] RRE loans are defined as the sum of loans secured by one- to four-family properties (first and junior liens) and home equity lines of credit (HELOCs). CRE loans are defined as the sum of construction and land development loans, loans secured by multifamily properties, and loans secured by nonfarm, nonresidential properties (commercial mortgages).

reserves and the constraints on their ability to raise funds.

Large Organizations

There are some signs of improvement in the condition of large banking organizations but not enough to indicate that a corner has been turned. First, although large organizations in the aggregate suffered a loss in the third quarter, the number of firms actually reporting a quarterly loss decreased from 43 to 39 (out of 98). Second, equity-to-assets ratios continued to rise, and the aggregate ratio for all large organizations is now 10.32 percent. This represents an increase of 36 basis points from the last quarter and 128 basis points from last year. Total loans decreased, while deposits and assets increased, indicating increases in securities holdings. However, as noted above, the nonperforming loan ratio increased 87 basis points, to 5.42 percent. In addition, the ratio of net charge-offs to average loans outstanding continued to increase as well, and the ratio now stands at 0.65 percent (Figure 1).[6]

RRE loans still make up the bulk of nonperforming loans and net charge-offs. They make up 35.4 percent of total loans but 50.1 percent of nonperforming loans and 36.8 percent of net charge-offs. Nonperforming RRE loans increased by $17.6 billion in the third quarter, to $126.5 billion, and the ratio of nonperforming RRE loans to total RRE loans increased 129 basis points, to 7.68 percent. This ratio has more than doubled in the past year (Figure 2). The main reason for this increase is mortgages, which make up over two-thirds of RRE loans but 92 percent of nonperforming RRE loans. The ratio of nonperforming mortgages to total mortgages is now over 10.5 percent (Figure 3).

The situation with CRE lending is almost as bad, albeit on a smaller scale. CRE lending represents about 20 percent of total loans. Nonperforming CRE loans increased $9.7 billion in the third quarter, to nearly $68 billion. The ratio of non-performing CRE loans to total CRE loans is now 7.29 percent, nearly the same as that of RRE loans (Figure 4). Net charge-offs on CRE loans increased by $638.3 million, to $6.22 billion, and the net charge-off ratio for CRE loans is now 0.66 percent, virtually identical to that for RRE loans (Figure 5). The main problem with CRE lending continues to be construction and land development loans. Although construction and land development loans represent 29.4 percent of all CRE loans, they account for 63.6 percent of nonperforming CRE loans and 72.0 percent of net charge-offs on CRE loans. The ratio of nonperforming construction loans to total construction loans is nearly 16 percent and rising at an accelerating rate (Figure 6).

The performance of other components of CRE lending also continued to deteriorate. Nonperforming loans secured by multifamily properties increased $894 million in the third quarter, to $4.37 billion, and the nonperforming loan ratio in this category rose 70 basis points, to 3.87 percent. Net charge-offs on loans secured by multifamily properties increased $181.4 million in the third quarter, to $427.6 million, and the net charge-off ratio on multifamily properties increased 15 basis

[6] Unless otherwise noted, all income statement items are quarterly numbers only, and all growth rates are annualized. For historical perspective, the average ratio of quarterly net charge-offs to average loans for all commercial banks from 1998 to 2008 was approximately 0.19 percent. Source: FDIC Historical Statistics on Banking: http://www2.fdic.gov/hsob/index.asp. Tri-state area figures for the fourth quarter of 2008 were materially affected by the accounting treatment applied to two banks (PNC Financial Services Group and Wells Fargo & Company) that acquired troubled institutions. In both cases, the acquiring institutions were permitted to write down some nonperforming assets and adjust equity capital and reserves without having these adjustments reflected on their income statements. These adjustments tended to distort net charge-offs and nonperforming loans by artificially decreasing both.

Figure 1

Quarterly Net Charge-Offs/Average Loans

Large Organizations

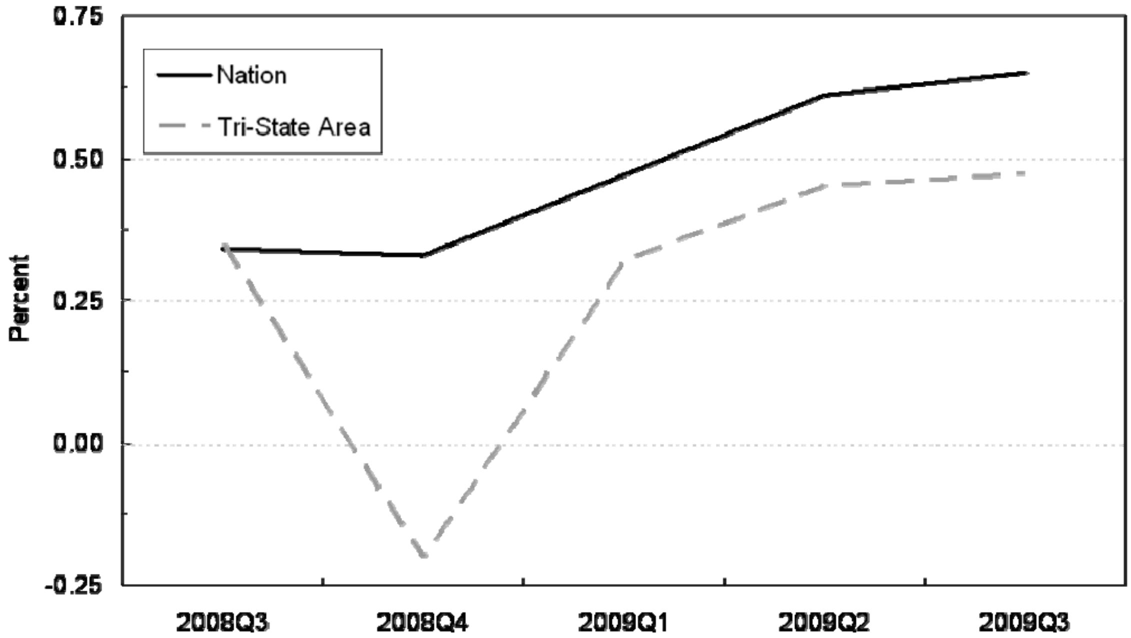
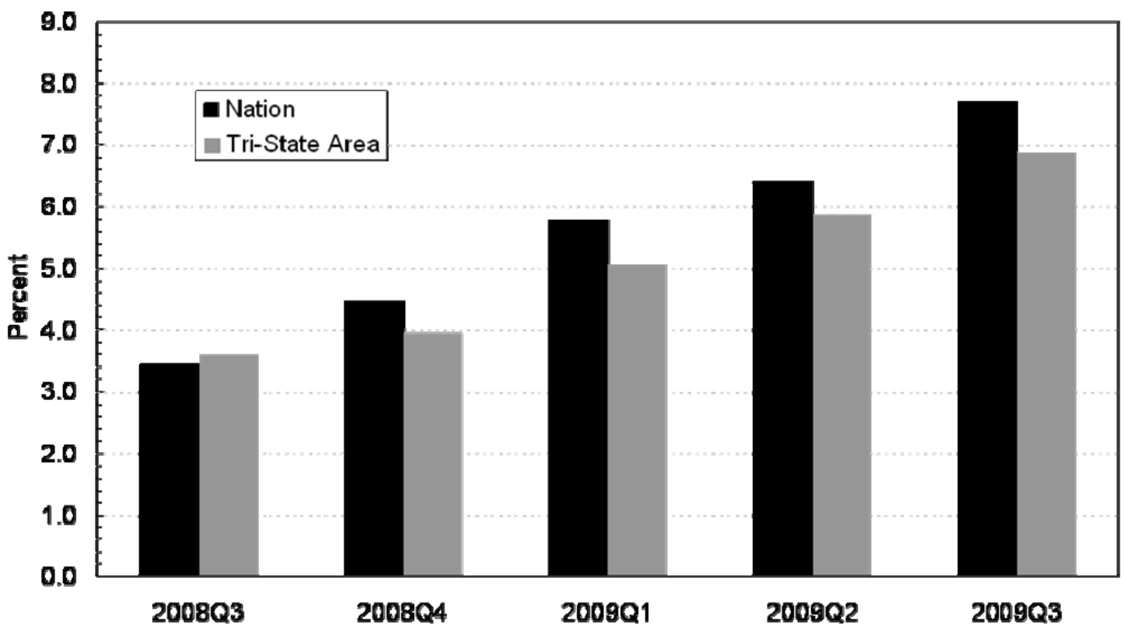


Figure 2

Nonperforming RRE* Loans/Total RRE Loans

Large Organizations



*Residential real estate

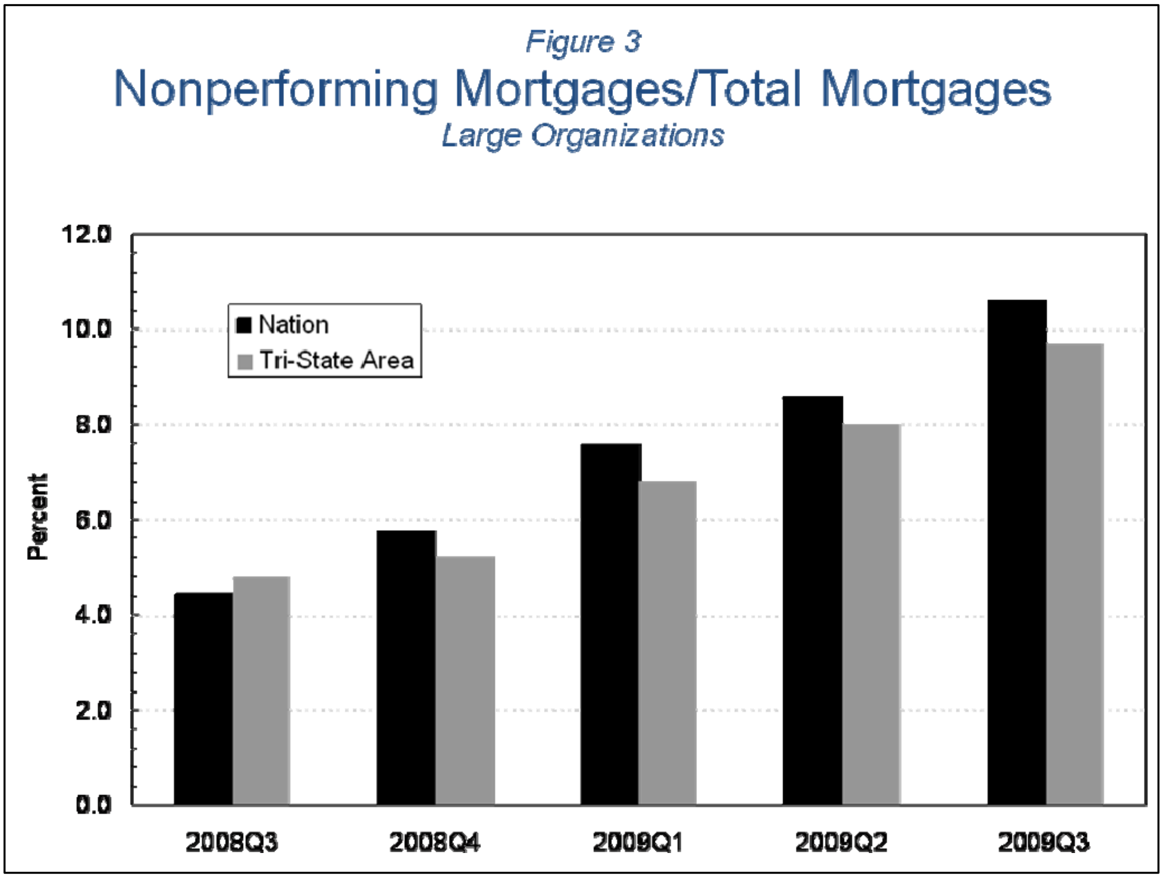


Figure 3
Nonperforming Mortgages/Total Mortgages
Large Organizations
Nation
Tri-State Area
Percent
12.0
10.0
8.0
6.0
4.0
2.0
0.0
2008Q3
2008Q4
2009Q1
2009Q2
2009Q3

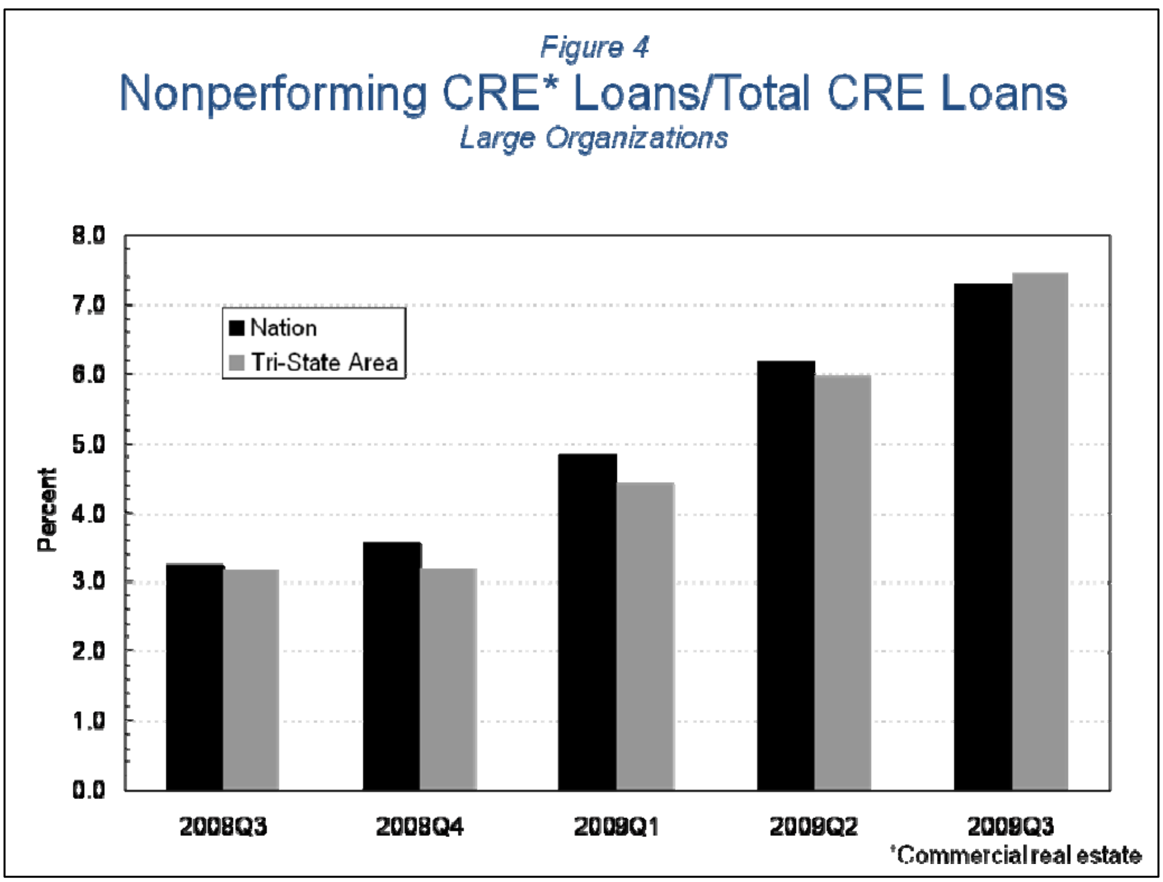


Figure 4
Nonperforming CRE* Loans/Total CRE Loans
Large Organizations
Nation
Tri-State Area
Percent
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
2008Q3
2008Q4
2009Q1
2009Q2
2009Q3
*Commercial real estate

points, to 0.39 percent. Commercial mortgages, which make up nearly 60 percent of all CRE loans, had similar increases in nonperforming loans and net charge-offs. Nonperforming commercial mortgages rose nearly $4 billion in the third quarter, to $20.5 billion, and the nonperforming loan ratio rose 71 basis points, to 3.75 percent. Net charge-offs increased $388.6 million, to $1.30 billion. The net charge-off ratio in this category is still relatively low at 0.24 percent, which is an increase of 7 basis points from the second quarter.

The condition of some other loan types in the large banking organizations' portfolios is also deteriorating. C&I loans represent about 20 percent of all loans at large organizations. Total C&I loans outstanding shrank over 20 percent, but nonperforming C&I loans grew nearly $7.5 billion, to $35.9 billion. The nonperforming C&I loan ratio is now 3.80 percent, up from 2.82 percent in the second quarter of 2009 and 1.05 percent from the third quarter of last year.

Large banking organizations' consumer loan portfolios are performing somewhat better, but the results are mixed. Consumer loans represent 12.9 percent of all loans at large organizations. Nonperforming consumer loans were basically flat between the second and third quarters, shrinking by $70.8 million, but net charge-offs on them grew by nearly $456 million, to $6.17 billion. The nonperforming loan ratio for consumer loans shrank 5 basis points, to 1.78 percent, but the net charge-off ratio grew 9 basis points, to 1.03 percent. The major reason for the performance of consumer loans was credit cards, which represent about 21 percent of all consumer loans but 42 percent of nonperforming consumer loans and 51 percent of charge-offs. Nonperforming credit card loans decreased 20 percent (annualized) in the third quarter, and their nonperforming loan ratio decreased 17 basis points, to 3.53 percent. The net charge-off ratio for credit card loans increased 22 basis points, to 2.40 percent, mainly due to an annualized 48.3 percent increase in net charge-offs.

While loans were dropping slightly this quarter, commitments to lend rose slightly (2.3 percent annualized rate) for the first time in at least a year. Commitments to fund real estate continued to drop, but unused credit card lines and securities lent increased substantially. The increase in unused credit card lines is partially due to consumers paying down their balances. Total credit card loans outstanding have decreased $11.7 billion in the past year, including a $1.16 billion decrease in the third quarter. Unused commitments on credit cards have increased over $90 billion in the past year, including an increase of $550 million between the second and third quarters. It is also possible that the increase in commitments to lend (e.g., by increasing the credit card lines of some consumers) represents a willingness to lend on the part of banks due to their improved capital position, but there is not sufficient demand on the part of consumers to take advantage of these opportunities.

In addition to bad loans, other nonperforming assets increased substantially as well. Other real estate owned (OREO), which is basically foreclosed real estate, increased $1.5 billion, to $16.1 billion. OREO still represents a relatively small part of total assets: 0.18 percent.

Loan-loss provisioning and reserves at large organizations have been inadequate to cover losses for some time now, and this trend continued in the third quarter. The ratio of net charge-offs to loan-loss provision increased to 77.7 percent in the third quarter, up 11 percentage points from the second quarter (Figure 7).[7] Although

[7] For purposes of this document, loan-loss reserves refer to the item reported on the banks' balance sheets, while loan-loss provision refers to what is reported on the income statements (that is, what was added to loan-loss reserves in the quarter).

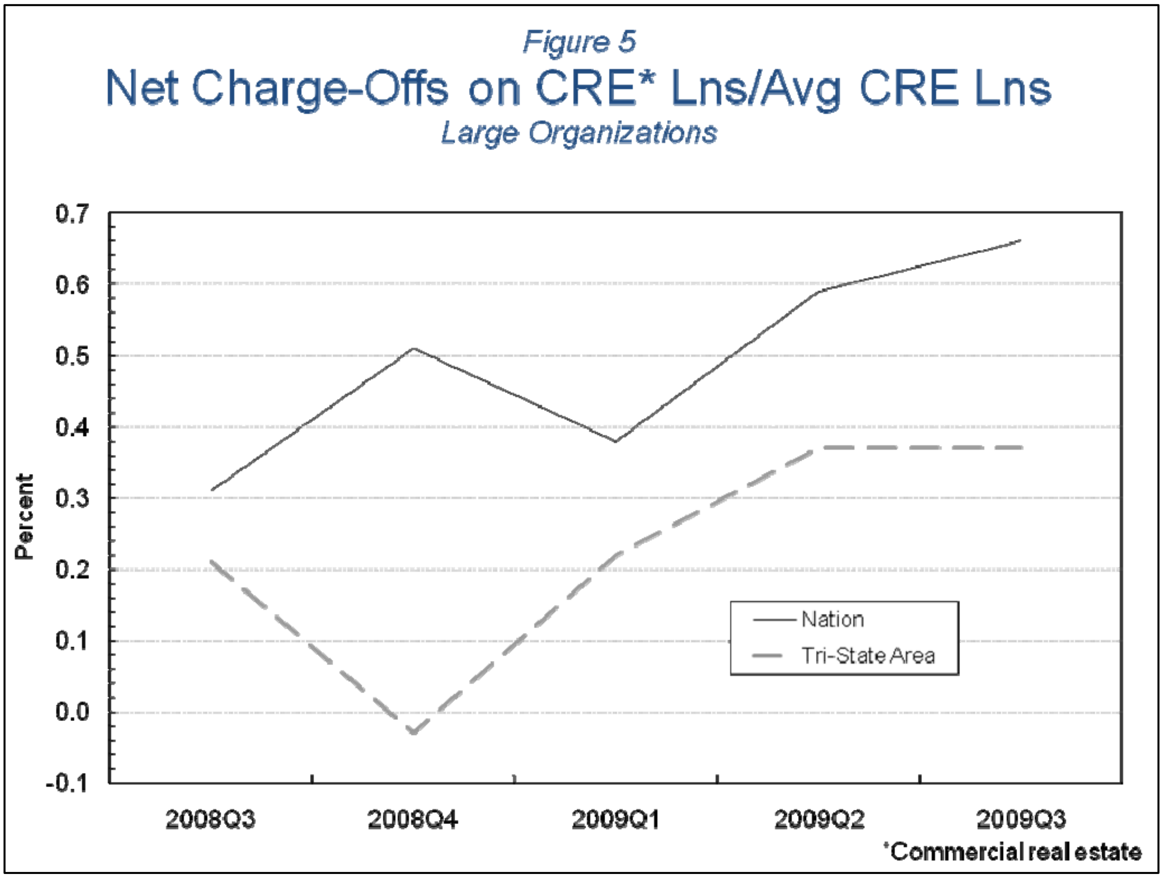


Figure 5
Net Charge-Offs on CRE* Lns/Avg CRE Lns
Large Organizations
Percent
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0.0
-0.1
2008Q3
2008Q4
2009Q1
2009Q2
2009Q3
Nation
Tri-State Area
*Commercial real estate

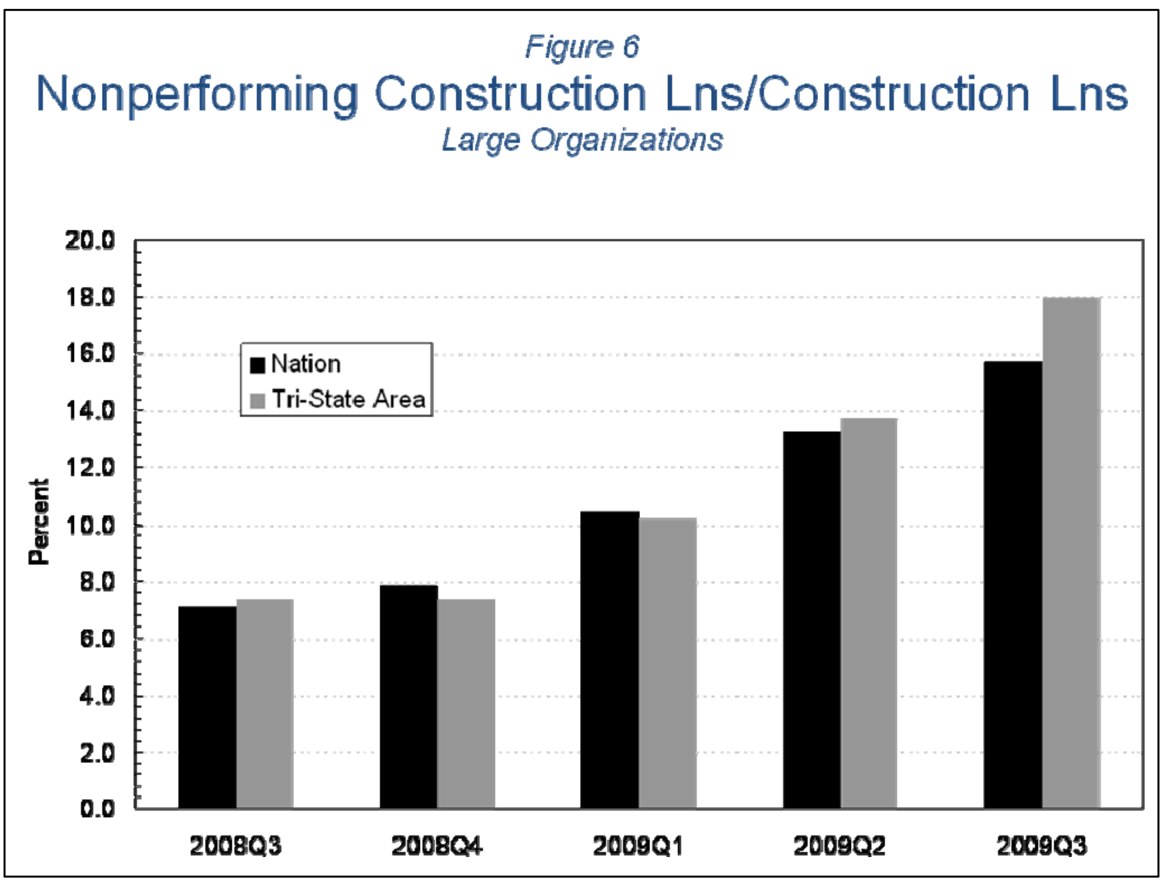


Figure 6
Nonperforming Construction Lns/Construction Lns
Large Organizations
Percent
20.0
18.0
16.0
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
Nation
Tri-State Area
2008Q3
2008Q4
2009Q1
2009Q2
2009Q3

Figure 7

Net Charge-Offs/Loan-Loss Reserves

Large Organizations

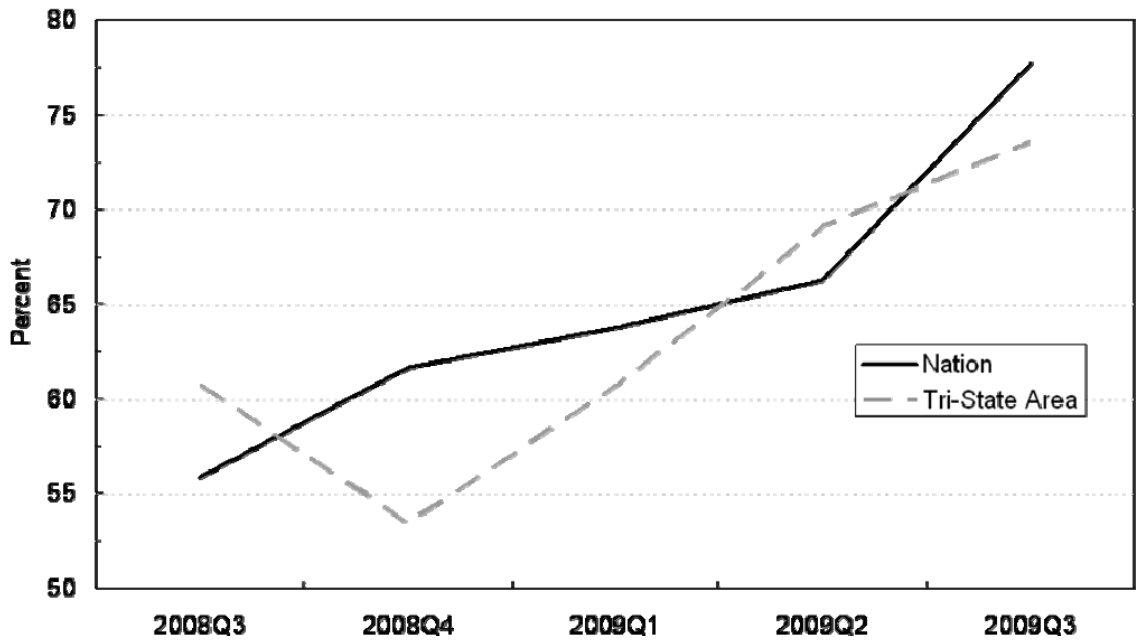
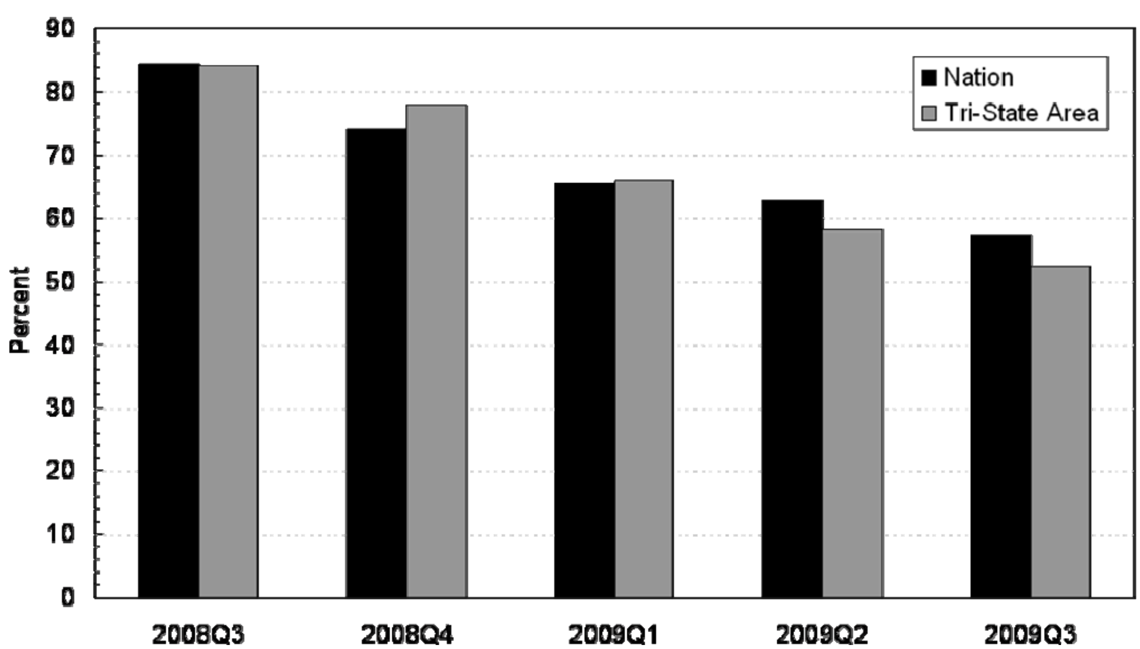
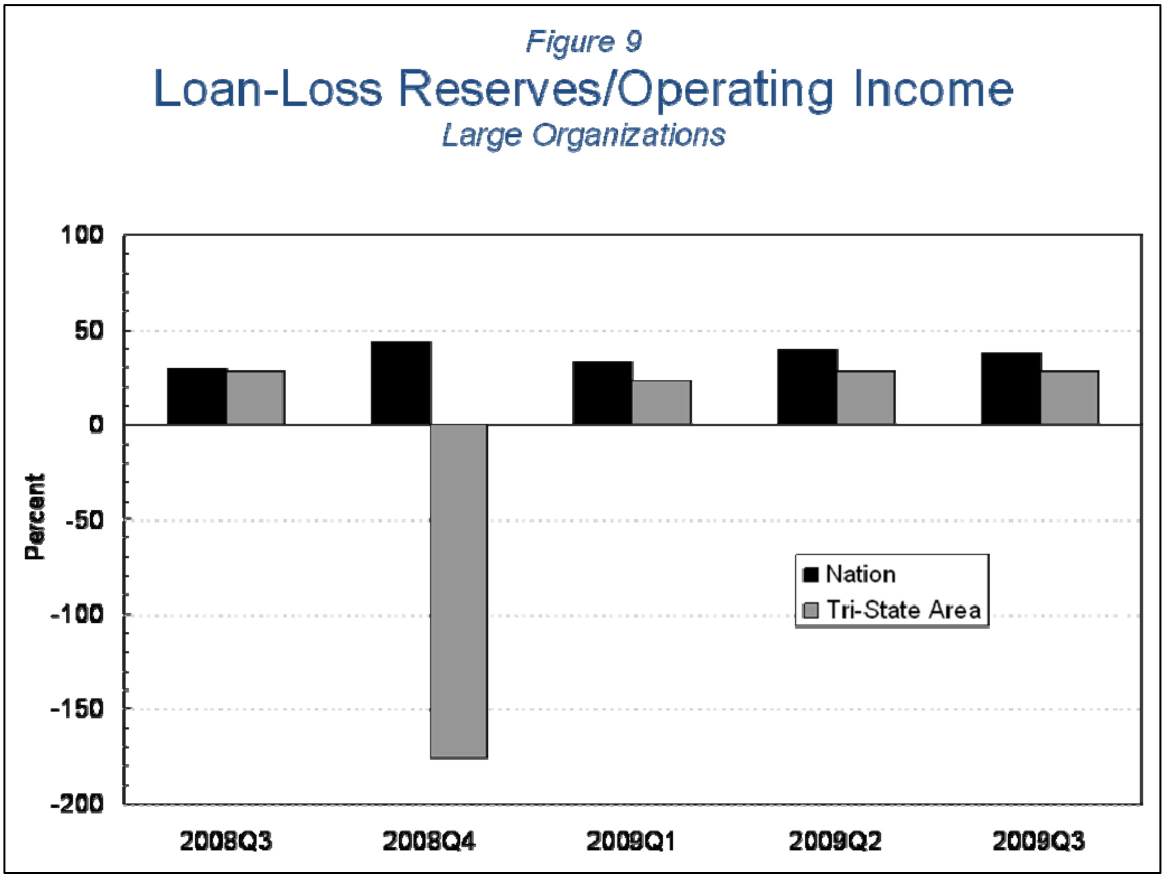


Figure 8

Loan-Loss Coverage Ratios

Large Organizations





loan-loss reserves grew nearly $8.5 billion, to $145 billion, the loan-loss coverage ratio still dropped, and at 57.43 percent, it is now extremely low (Figure 8).[8] This situation is likely to continue for a while because loan-loss provisioning is already eating up a substantial part of the banks' operating income.[9] The ratio of loan-loss provision to operating income dropped slightly in the third quarter, but it has been in the 30 to 40 percent range for nearly a year now (Figure 9). If nonperforming loans and net charge-offs continue to grow at the same rate as in the third quarter, these organizations would need to add nearly $178 billion to their loan-loss reserves next quarter in order to raise the coverage ratio to 100 percent. This represents 164 percent of their operating income this quarter.

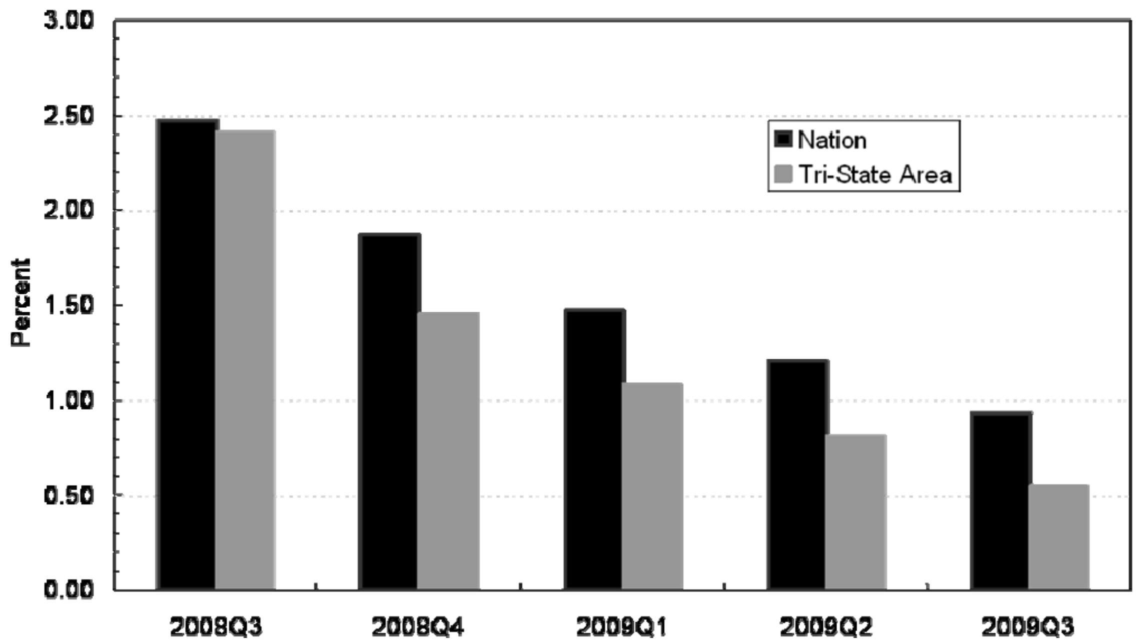
Although banks reported a realized loss on securities, the value of their securities portfolio increased. The market value of all securities owned by large organizations increased about 3.6 percent (not annualized) in the third quarter, to $1.654 trillion. The annualized gain in reported value, that is, what banks report on their balance sheets, was 13.0 percent.[10] Treasury securities, debt securities of government-sponsored enterprises (GSEs), foreign securities, asset-backed securities (ABS, this item does not include mortgage-backed securities), and

[8] Loan-loss coverage ratio is defined as the ratio of loan-loss reserves to nonperforming loans. For historical perspective, the average loan-loss coverage ratio for all commercial banks between 1998 and 2008 was 144.2 percent. At the bottom of the last real estate cycle in 1991, this number was 72.6 percent. Source: FDIC Historical Statistics on Banking: http://www2.fdic.gov/hsob/index.asp.

[9] Operating income is defined as net interest income plus noninterest income.

[10] The reported value of securities uses the book value if the security is to be held to maturity, and the market value if the security is available for sale.

Figure 10
Derived Interest Rate on Deposits
Large Organizations



other securities all increased in value, whereas securities of U.S. agencies, state and local governments, mortgage-backed securities (MBS), and mutual funds all declined in value. Within the MBS category, privately issued MBS reported a gain, but MBS issued by the government or GSEs, which represent about three-fourths of all MBS, reported a loss.

On the liability side of the balance sheets, deposits at large organizations increased 4.2 percent, while debt funding decreased 18.2 percent (both annualized). Within deposits, core deposits increased nearly 80 percent, while noncore deposits decreased 40 percent.[11] This is good news because deposits are generally less expensive than other types of debt funding and because core deposits are less expensive than noncore deposits. Thus, the derived interest rate large organizations pay on deposits has dropped below 1 percent (Figure 10).[12]

Community Banks

Pennsylvania community banks still substantially outperformed community banks in the nation as a whole in the third quarter. However, although community banks nationally appear to have stabilized according to most measures, the condition of Pennsylvania banks continued to worsen in

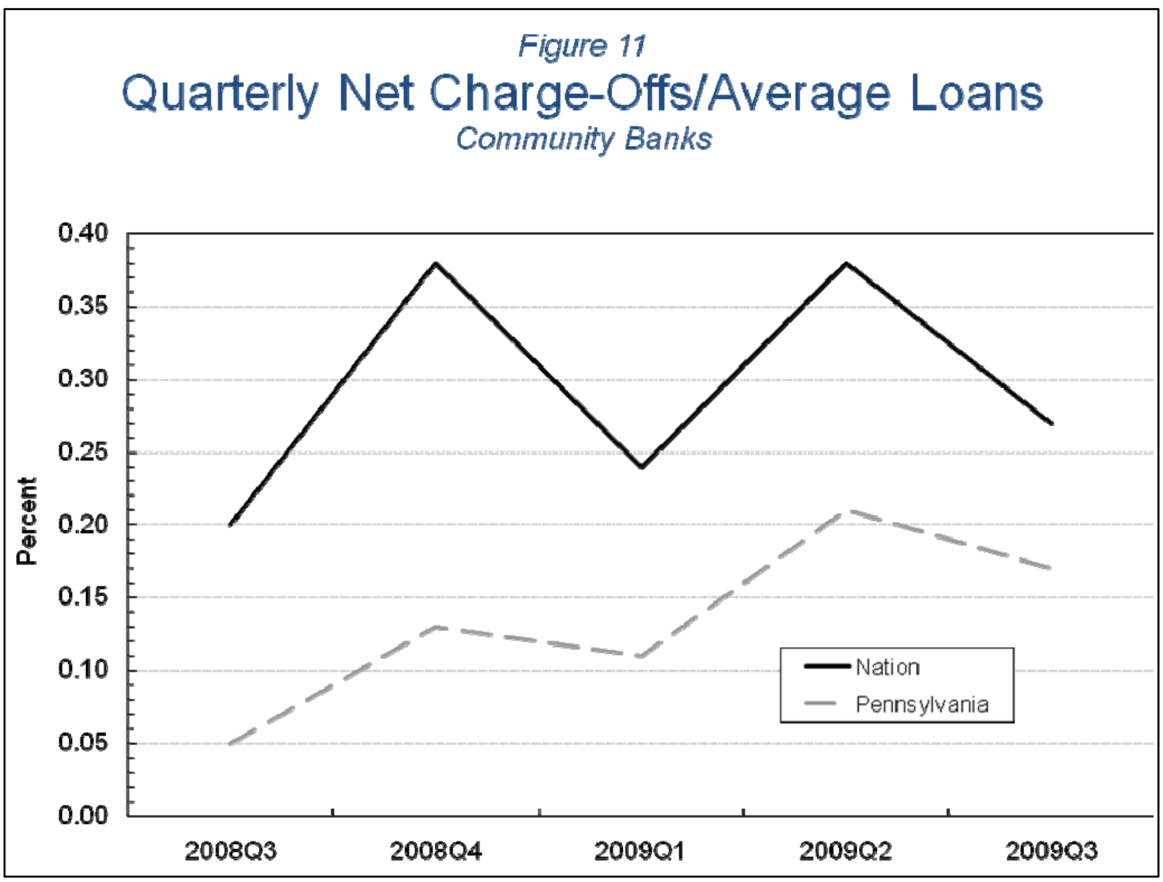
[11] Core deposits are defined as total domestic deposits minus the sum of brokered deposits in denominations of less than $100,000 and all deposits in denominations greater than $100,000. Noncore deposits are defined as total deposits less core deposits. In the third quarter, core deposits were 27.5 percent of assets, and noncore deposits were 40.7 percent of total assets. Debt funding was 15.5 percent of assets.

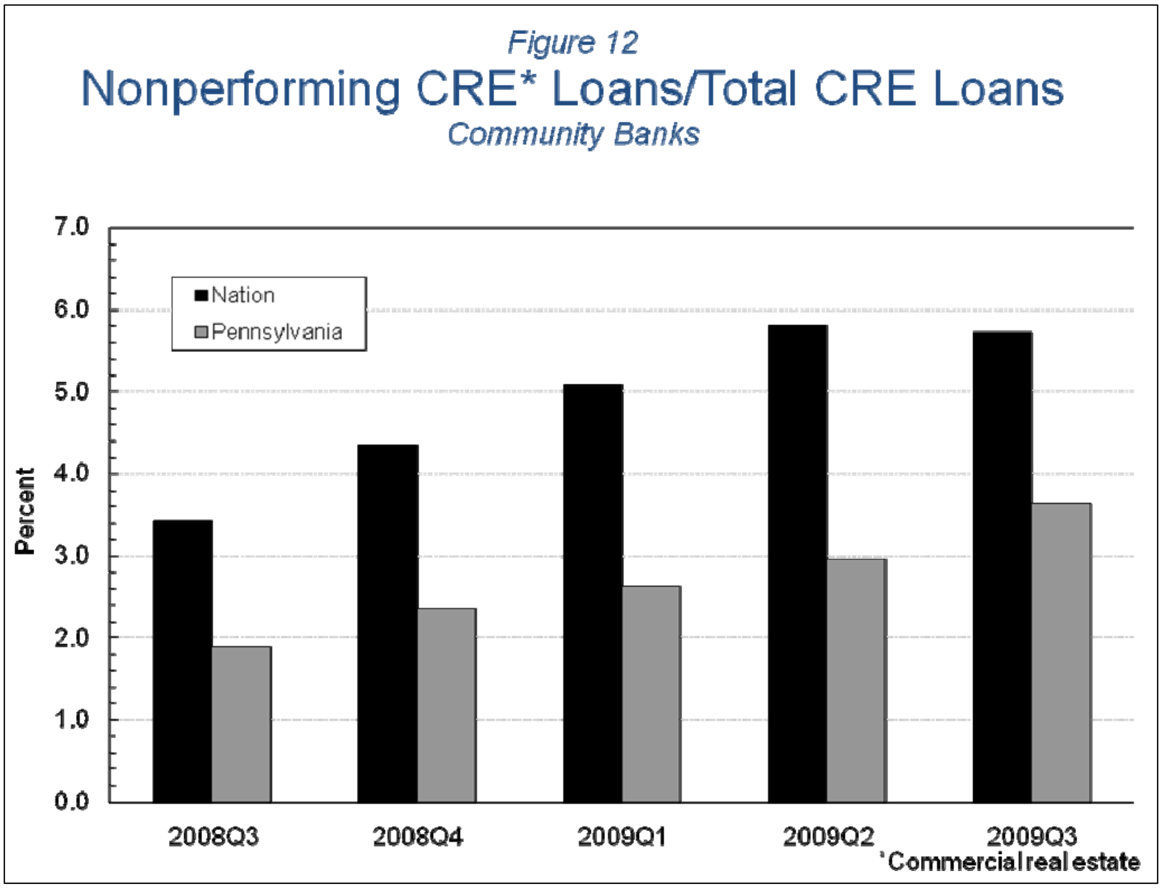
[12] Derived interest rate is defined as the annualized quarterly interest expense divided by the quarterly average balance.

nearly every area. Both local and national banks suffered aggregate losses in the third quarter, but ROA at local banks decreased 9 basis points, while nationally, it increased 3 points. In the state, 32 out of 121 organizations reported a loss in the quarter, an increase of two from last quarter, while nationally, 1,427 organizations out of 5,607 reported a loss.

The nonperforming loan ratio increased in the state to 2.44 percent, an increase of 39 basis points, and it increased by 5 basis points nationally, to 3.82 percent. Total nonperforming loans decreased by $410.4 million nationally, to $49.3 billion, but they increased by $166.4 million in-state, to $1.03 billion. Net charge-offs decreased by $1.5 billion nationally and $12.7 million in-state, to $3.61 billion and $70.7 million, respectively. Thus, the net charge-off ratio decreased substantially for both areas (Figure 11). However, given the continued high nonperforming loan ratio, it is likely the case that community banks are forgoing charging off their bad loans and carrying them longer than they normally do rather than a case of any real improvement in their loan portfolios.

The driver behind both nonperforming loans and charge-offs is CRE loans, which represent nearly half of all loans nationally and about 42 percent of loans in-state. Total CRE loans grew 7.5 percent in-state and shrank 11.1 percent nationally (annualized). However, nonperforming CRE loans shrank $1.65 billion nationally, to $35.0 billion, and grew $106.0 million in-state, to $642.5 million. Thus, the ratio of nonperforming CRE loans to total CRE loans grew 67 basis points at Pennsylvania banks (Figure 12). This is still well below the national level, but the gap is closing. Net charge-offs on CRE loans decreased both locally nationally. The net charge-off ratio on CRE loans decreased 1 basis point in-state, to 0.20 percent, but decreased 12 basis points nationally, to 0.30 percent.

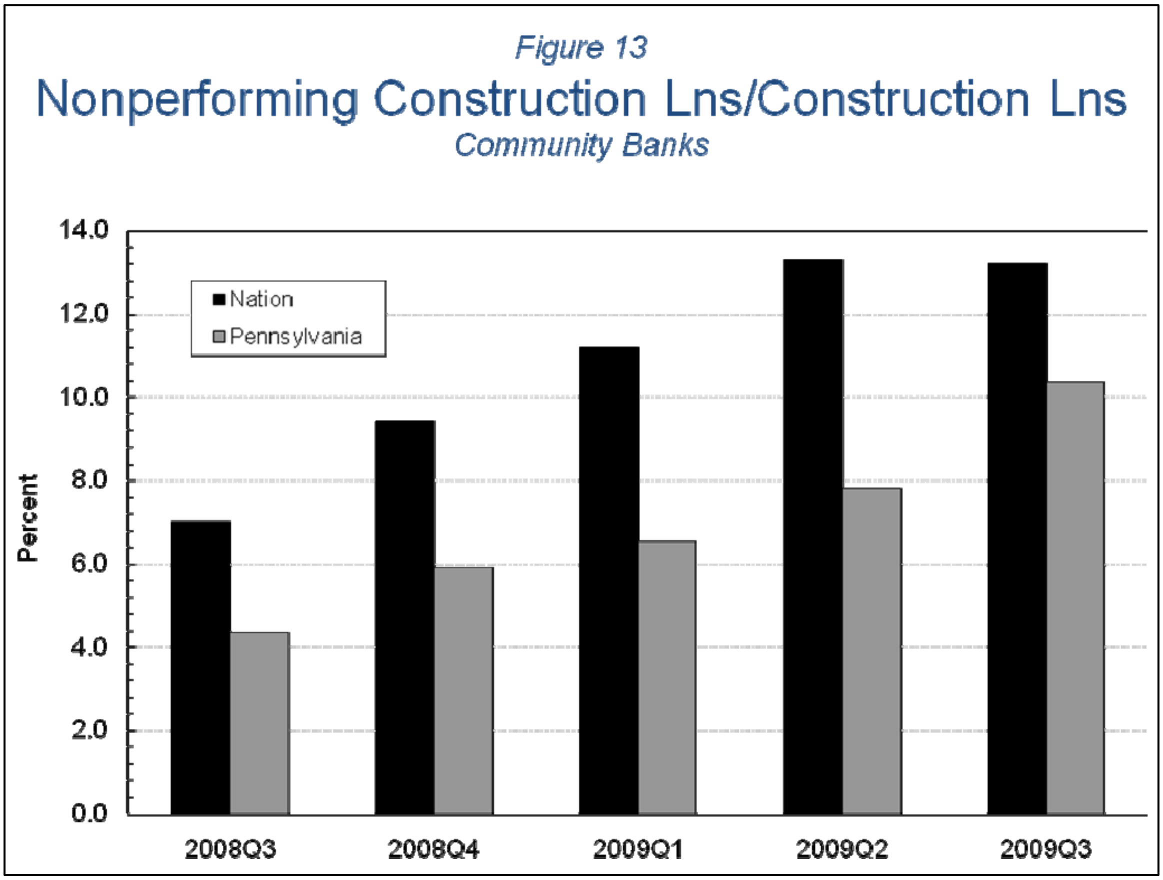




As is the case with the large banking organizations, construction loans account for most of the problems in CRE lending. Construction loans represent 17.6 percent of CRE loans in Pennsylvania and 27 percent nationally, but they account for about 62 percent of nonperforming CRE loans in both samples and 59.4 percent locally and 65.8 percent nationally of net charge-offs on CRE loans. Nonperforming construction loans dropped by $2.7 billion nationally but increased $62.6 million in the state, to $21.9 billion and $322.0 million, respectively. The ratio of nonperforming construction loans to total construction loans is now over 10 percent in the state and over 13 percent nationally, and the ratio showed a substantial increase in Pennsylvania in the third quarter (Figure 13). Net charge-offs of construction loans dropped from $2.38 billion to $1.25 billion nationally and increased from $20.1 million to $20.4 million in-state. The net charge-off ratio for construction loans was flat at 0.62 percent in-state, but it fell 51 basis points in-state, to 0.64 percent.

Loans secured by multifamily properties account for 7.1 percent of all CRE loans nationally and 8.0 percent in Pennsylvania. Nonperforming loans in this category dropped $110.8 million nationally, to $1.90 billion, but increased $5 million in-state, to $14.9 million. Net charge-offs on these loans also had a large drop nationally and are insignificant in the state. The nonperforming loan ratio for multifamily loans dropped 27 basis points nationally, to 4.40 percent, and it increased 42 basis points in-state, to 1.29 percent.

The largest part of CRE lending is commercial mortgages, representing about 65 percent of all CRE loans nationally and 76 percent locally. The performance of these loans is very similar both in-state and nationally. Nationally, the nonperforming loan ratio for total commercial mortgages



was 2.78 percent in the third quarter, an increase of 29 basis points (Figure 14). In-state, this ratio increased 38 basis points, to 2.28 percent. These ratios are still relatively modest, but the magnitude and direction are not encouraging.

The condition of other types of loans also deteriorated both in-state and nationally. RRE loans represent about 23.5 percent of total loans nationally and 35.9 percent in-state. The nonperforming RRE loan ratio increased 25 basis points nationally, to 2.48 percent, and 20 basis points in-state, to 1.44 percent. These numbers are substantially better than those of large organizations.

C&I loans represent 15 percent of total loans nationally and 13.1 percent in Pennsylvania. Nonperforming C&I loans increased $288.7 million nationally, to $4.51 billion, and $9.6 million in-state, to $125.7 million. The nonperforming C&I loan ratio increased 23 basis points nationally, to 2.33 percent, and 20 basis points in-state, to 2.28 percent. Consumer loans represent 5.3 percent of total loans nationally and 3.8 percent in-state. Nonperforming consumer loans increased $76.5 nationally, to $749.0 million, and decreased $1.1 million in-state, to $7.1 million. The nonperforming loan ratio for consumer loans increased 12 basis points nationally and decreased 6 basis points in-state, to 1.10 and 0.45 percent, respectively. One reason small banks perform very well in regard to consumer loans relative to large banks is that very few of their consumer loans are credit card loans. Nationally, about 2.5 percent of consumer loans are credit card loans; in Pennsylvania this number is 2.4 percent. As mentioned above, credit cards represent more than 20 percent of consumer loans at large organizations.

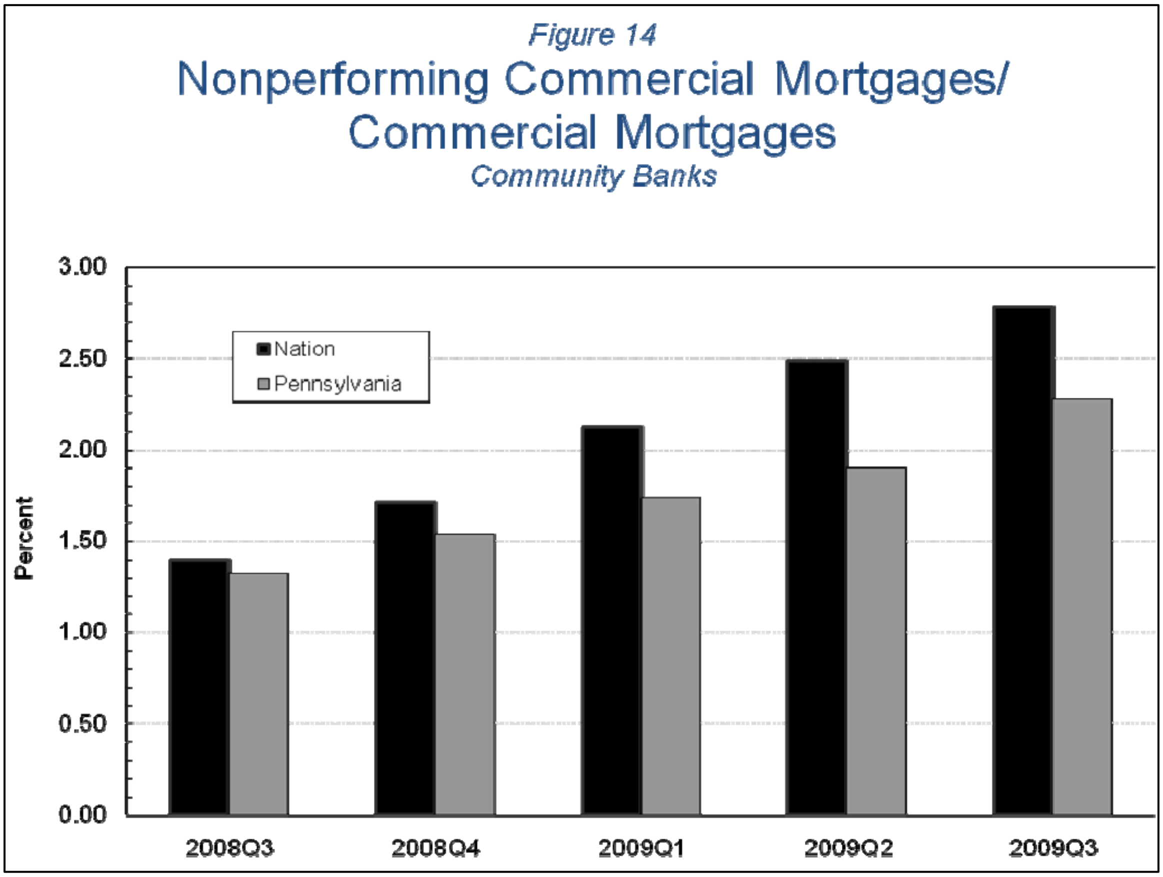


Figure 14
Nonperforming Commercial Mortgages/
Commercial Mortgages
Community Banks
Percent
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Nation
Pennsylvania
2008Q3
2008Q4
2009Q1
2009Q2
2009Q3

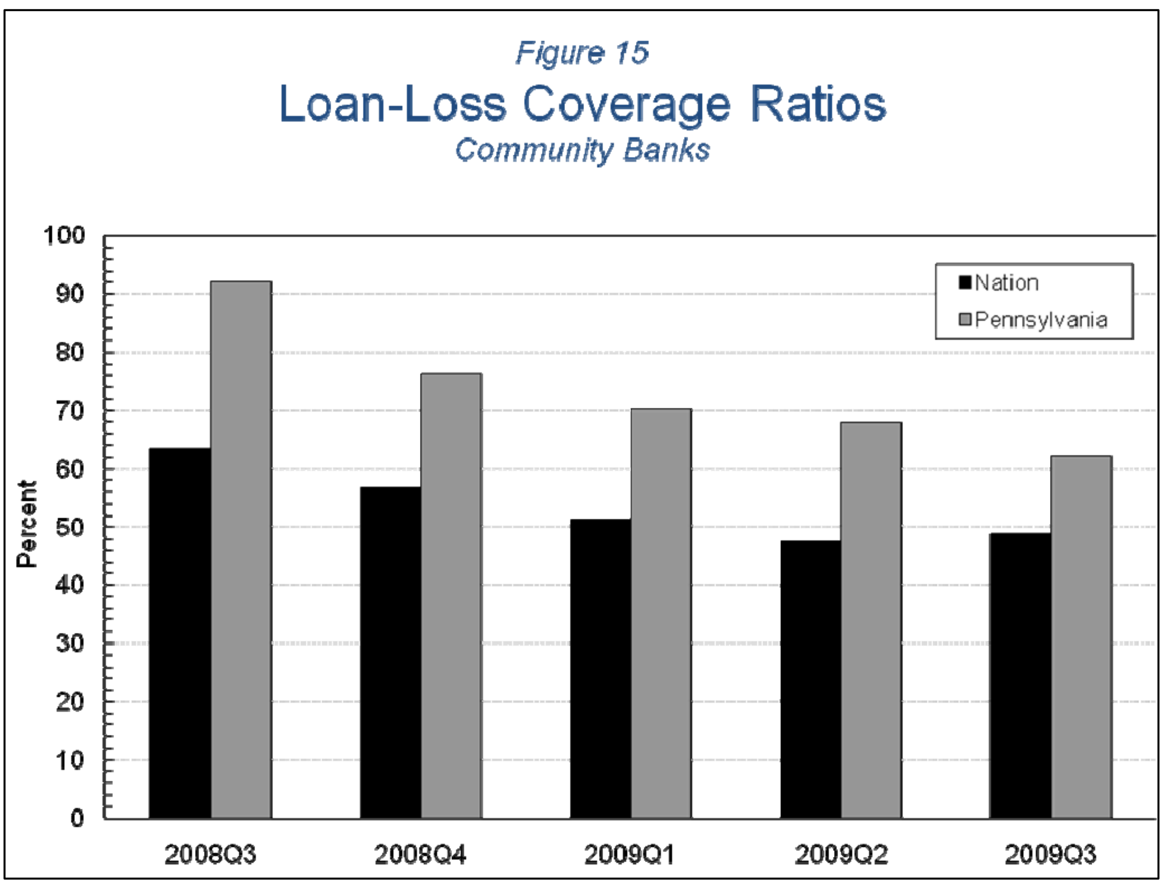
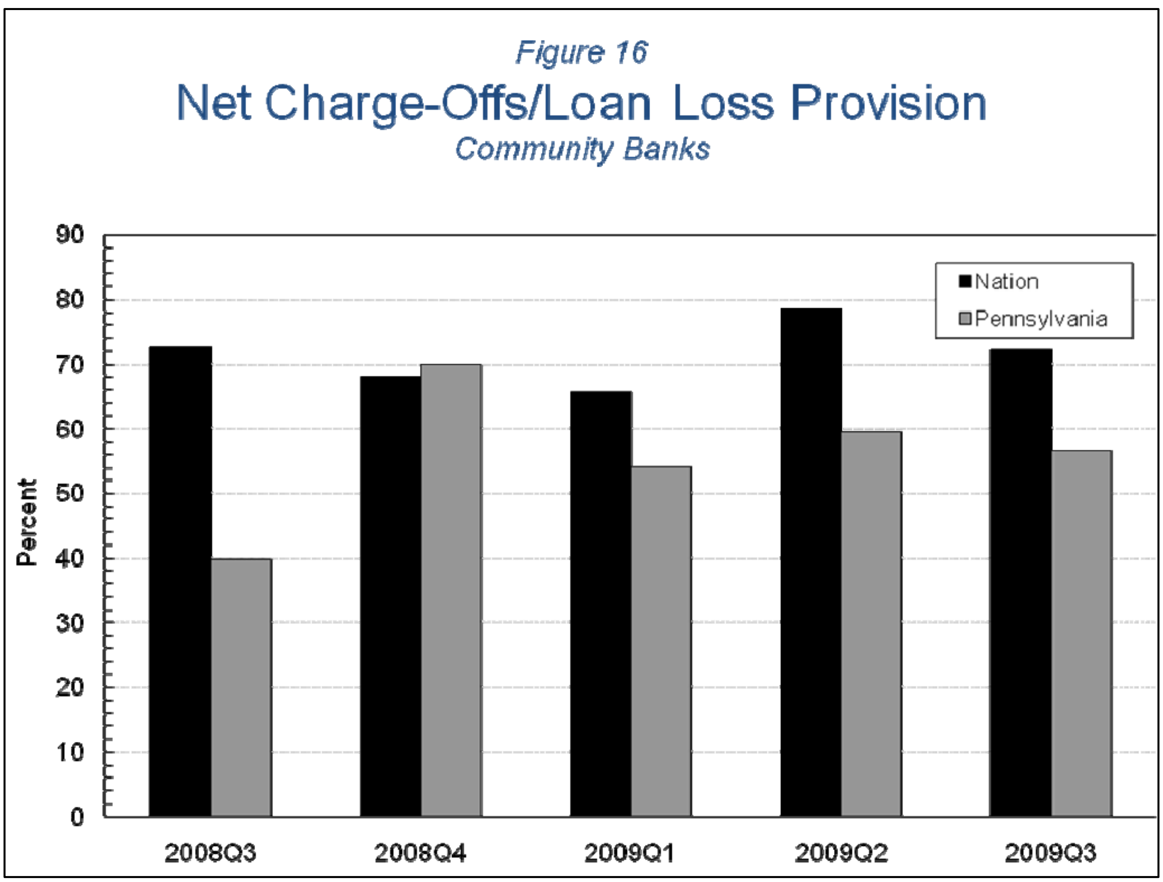


Figure 15
Loan-Loss Coverage Ratios
Community Banks
Percent
100
90
80
70
60
50
40
30
20
10
0
Nation
Pennsylvania
2008Q3
2008Q4
2009Q1
2009Q2
2009Q3

In spite of the slightly improved loan picture nationally, nonperforming assets continue to rise due to OREO. OREO increased $1.02 billion nationally and $16.3 million in-state, to $14.69 billion and $139.4 million, respectively. OREO as a percent of total assets continued to rise nationally, up 6 basis points to 0.78 percent. In-state, this number rose 3 basis points to 0.23 percent.

As mentioned above, it is highly likely that community banks are forgoing charging off some nonperforming loans to maintain income. One reason for this is the continued state of their reserves, which are very low. The loan-loss coverage ratio was flat at community banks nationally, at around 48 percent, and it fell more than 5 percentage points in-state, to 62.2 percent (Figure 15). Actual loan-loss reserves increased $385.2 million nationally, to $23.99 billion, and $54.2 million in-state, to $638.2 million. In order to bring loan-loss coverage up to 100 percent, community banks nationally would need to add nearly $30 billion to loan-loss reserves at the current rate of growth for nonperforming loans and net charge-offs. Local banks would need to add over $670 million. These numbers represent about 162 percent and 107 percent of their current quarterly operating income.

The ratio of net charge-offs to loan-loss provision fell 6 percentage points nationally, to 72.1 percent, and about 3 percentage points in-state, to 56.5 percent (Figure 16). Loan-loss provisioning remained low both in-state and nationally relative to larger banks. The ratio of loan-loss provision to operating income fell to 25 percent nationally and under 20 percent in-state (Figure 17). For large organizations, this



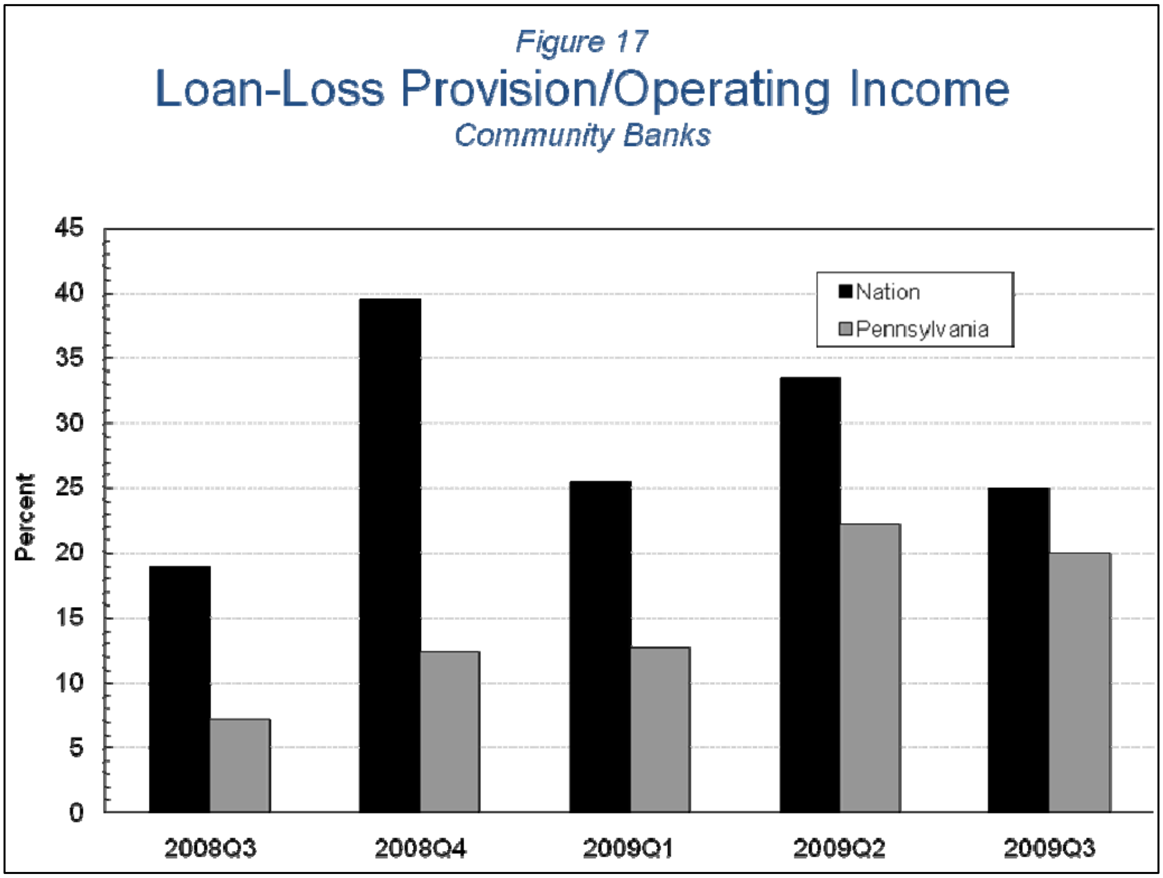


Figure 17
Loan-Loss Provision/Operating Income
Community Banks
45
40
35
30
25
20
15
10
5
0
Percent
Nation
Pennsylvania
2008Q3
2008Q4
2009Q1
2009Q2
2009Q3

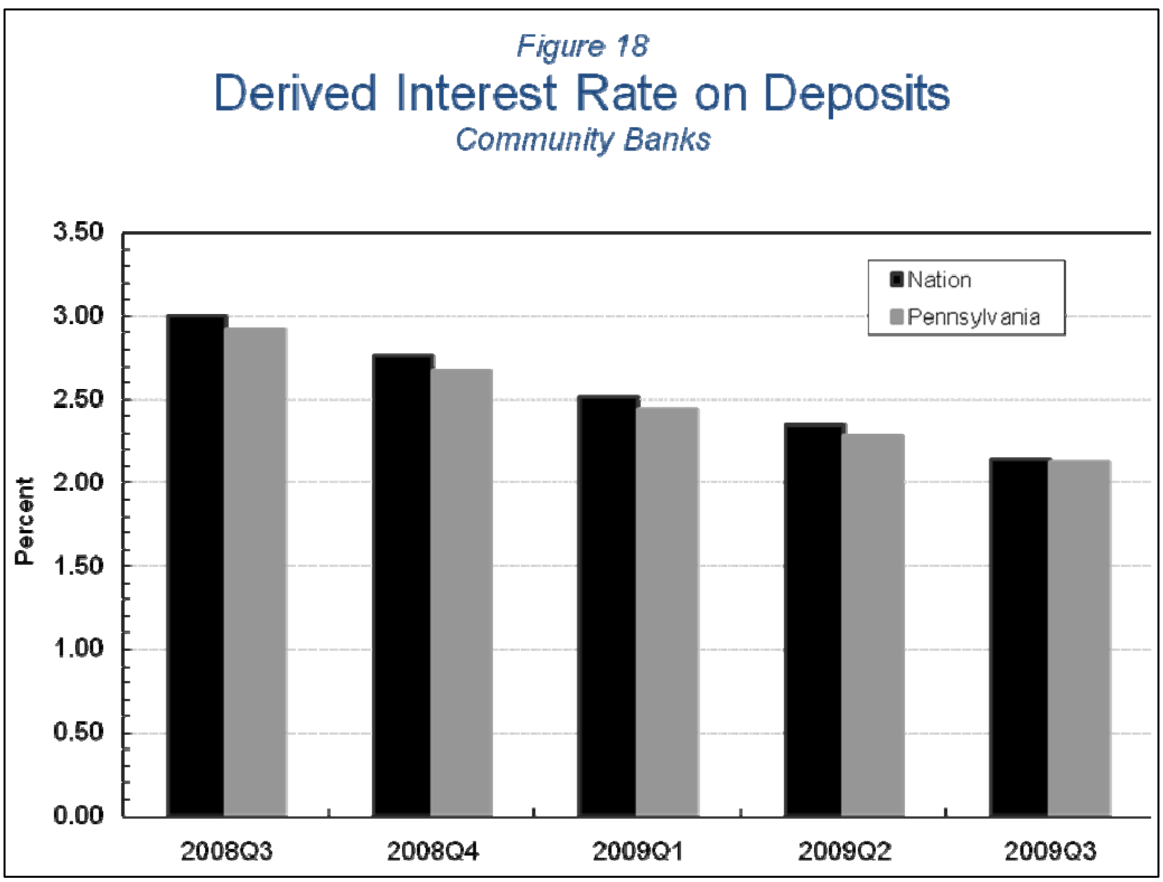


Figure 18
Derived Interest Rate on Deposits
Community Banks
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Percent
Nation
Pennsylvania
2008Q3
2008Q4
2009Q1
2009Q2
2009Q3

ratio is nearly 40 percent. One reason for this low level of provisioning is the uncertain state of operating income at community banks. Net interest margins have been decreasing for more than a year, while noninterest income as a percent of average assets has been flat in-state and has decreased nationally. As a result, in the past year operating income has fallen more than 7 percent nationally. In-state, it has increased 8.9 percent, but operating income fell in the third quarter at Pennsylvania banks. Given that community banks' equity-to-asset ratios have been dropping relative to those at larger organizations for several quarters (until this quarter it had been dropping in absolute terms for more than a year), and for the past two quarters community banks have been less well capitalized than larger organizations and do not have as much access to capital markets, it appears that they are being conservative in their provisioning in an attempt to preserve their capital. This is adversely affecting their ability to charge off loans and slowing down any attempts to reduce bad assets on their balance sheets.

The market value of community banks' securities increased only 1.9 percent nationally and 5.2 percent in-state (the increases are not annualized). Securities make up 18.4 percent of assets nationally and 20.7 percent in-state. MBS issued by GSEs, debt securities of GSEs, and debt securities issued by state and local governments make up nearly 90 percent of the community banks' securities portfolios both in-state and nationally. While GSE debt securities showed some increase in value, the value of state and local securities was nearly unchanged, and that of MBS declined sharply.

Deposits decreased 2 percent at community banks nationally, but there was a small increase in-state (8.4 percent). Debt funding decreased both in-state and nationally, 16.9 and 26.3 percent, respectively. Core deposits showed substantial increases in both areas, while noncore deposits fell substantially. The main reason for the decrease in deposits nationally was time deposits, particularly those in denominations of $100,000 or more, and all brokered deposits. This was also the case at tri-state area banks, but the decreases in time deposits were offset by increases in transaction accounts. Nationally, transaction accounts were flat. Small banks nationally have been relatively heavily dependent on "hot money," that is, brokered deposits and high-denomination deposits. Brokered deposits make up 7.4 percent of deposits, and time deposits greater than $100,000 make up 21.1 percent of deposits at those banks.[13] In-state, these numbers are 3.6 and 10.9 percent, respectively, while for large banking organizations, the numbers are 4.2 and 15.4 percent. Thus, small banks pay a somewhat higher effective interest rate on their deposits than large organizations, but their rate has been decreasing as well (Figure 18). Also, the decline in both deposits and debt may make it more difficult for community banks in the nation to grow out of their asset-quality problems through additional lending.

[13] It is highly likely that there is substantial crossover between brokered deposits and large time deposits.

Summary Table of Bank Structure and Conditions - Third Quarter 2009

	Community Banking Organizations					
	Pennsylvania			*Nation*		
	$ Bill	**% Change From**		**$ Bill**	**% Change From**	
	09Q3	**09Q2**	**08Q3**	**09Q3**	**09Q2**	**08Q3**
Total Assets	61.1	4.96	10.04	1,875.4	-2.97	1.98
Total Loans	42.0	-0.15	8.07	1,291.9	-7.88	-2.01
Business	5.5	-5.07	1.07	193.7	-13.26	-5.84
Real Estate	33.3	0.07	9.27	964.4	-8.19	-1.72
Consumer	1.6	-0.56	4.01	68.0	-3.84	3.26
Total Deposits	48.7	8.35	14.45	1,517.6	-2.05	4.88
Ratios (in %)	**09Q3**	**09Q2**	**08Q3**	**09Q3**	**09Q2**	**08Q3**
Net Income/Avg Assets (ROA)	-0.08	0.01	0.77	-0.30	-0.33	0.38
Net Interest Inc/Avg Assets (NIM)	3.20	3.22	3.25	3.22	3.24	3.34
Noninterest Inc/Avg Assets	0.92	0.91	0.91	0.87	0.80	0.89
Noninterest Exp/Avg Assets	3.32	3.28	2.79	3.12	3.10	2.98
Loans/Deposits	86.31	88.09	91.40	85.13	86.44	91.11
Equity/Assets	9.32	8.90	9.16	10.04	9.89	10.15
Nonperforming Loans/Total Loans	2.44	2.05	1.27	3.82	3.77	2.27

	Large Banking Organizations					
	Tri-State Area			*Nation*		
	$ Bill	**% Change From**		**$ Bill**	**% Change From**	
	09Q3	**09Q2**	**08Q3**	**09Q3**	**09Q2**	**08Q3**
Total Assets	481.5	1.24	-1.09	8,974.7	1.99	-3.56
Total Loans	268.0	-6.31	-4.49	4,660.0	-9.64	-6.98
Business	55.6	-20.16	-15.84	945.3	-23.46	-16.80
Real Estate	156.6	-7.99	-0.73	2,661.5	-9.34	-1.45
Consumer	30.8	14.87	9.88	602.0	9.40	-4.46
Total Deposits	342.0	1.89	3.88	6,122.1	4.18	3.58
Ratios (in %)	**09Q3**	**09Q2**	**08Q3**	**09Q3**	**09Q2**	**08Q3**
Net Income/Avg Assets (ROA)	0.54	0.47	0.05	-0.07	-0.01	0.30
Net Interest Inc/Avg Assets (NIM)	2.33	2.26	2.73	2.51	2.47	2.57
Noninterest Inc/Avg Assets	1.66	1.58	1.73	1.77	1.76	1.64
Noninterest Exp/Avg Assets	2.12	2.21	3.07	2.74	2.74	2.70
Loans/Deposits	78.37	80.04	85.25	76.12	78.88	84.75
Equity/Assets	10.87	10.40	9.73	10.32	9.96	9.04
Nonperforming Loans/Total Loans	5.03	4.14	2.27	5.42	4.55	2.26

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 special purpose banks such as credit card banks 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, 2008. There are 98 of them. The community banking organization sample is based on the remaining banking organizations. Large banking organizations in Pennsylvania are based on the balance sheet or income statement items of large national banking organizations that have deposits in the state weighted by the percentage of their deposits in the state. Pennsylvania community banking organizations are those community banking organizations that are headquartered in Pennsylvania. There are 121 of them, among 5,607 in 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. See Appendices A and B for a listing of the banking organizations used in the Pennsylvania large organization and community bank samples.

Any 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/research-and-data/publications/banking-brief. To subscribe to this publication, please go to www.philadelphiafed.org/philscriber/user/dsp_content.cfm.

Appendix A – List of Large Banking Organizations in the Tri-State Area

Organization	Total Bank Assets as of 9/30/09 ($ Millions)	Percent of Domestic Deposits in the Tri-State Area
Allied Irish Banks PLC	68,742.2	9.42
Bank of America Corporation	1,460,147.3	3.76
Bank of New York Mellon Corporation	178,253.3	20.19
Capital One Financial Corporation	126,533.8	3.61
Cathay Gen Bancorp	11,736.4	0.57
Citigroup	1,187,993.6	0.37
Dickinson Financial Corporation	5,525.2	0.15
Fifth Third Bancorp	109,196.3	0.31
First Commonwealth Financial Corp.	6,450.9	100
FirstMerit Corporation	10,745.6	3.33
FNB Corporation	8,389.9	95.77
Fulton Financial Corporation	16,634.3	80.50
HSBC Holdings PLC	168,962.7	10.46
Huntingdon Bancshares	51,988.3	6.89
J.P. Morgan Chase & Company	1,669,868.0	1.53
M B Financial Corporation	14,111.7	1.77
MetLife	13,139.9	50.65
National Penn Bancshares	9,833.7	99.66
PNC Financial Services Group	278,495.7	42.15
Popular	34,953.2	7.27
Susquehanna Bancshares	13,451.9	100
Toronto-Dominion Bank	141,945.8	21.70
Valley National Bancorporation	14,209.8	84.13
Wells Fargo & Company	1,088,005.1	9.08
Wilmington Trust Corporation	9,522.2	100

Appendix B – List of Community Banking Organizations in Pennsylvania

Organization	Total Bank Assets as of 9/30/09 ($ Millions)
1st Summit Bancorp of Johnstown	598.8
ACNB Corporation	952.2
Affinity Bank of Pennsylvania	158.3
Allegheny Valley Bancorp	393.4
Allegiance Bank of North America	148.0
American Bank, Inc.	477.1
Ameriserv Financial	930.3
Apollo Bancorp	115.2
Asian Financial	86.1
Bank of Landisburg	224.3

Organization	Total Bank Assets as of 9/30/09 ($ Millions)
Berkshire Bancorp	142.2
Bryn Mawr Bank Corporation	1,179.9
Bucks County Bank	200.6
CB Financial Services, Inc.	454.4
CBT Financial Corporation	352.3
CCFNB Bancorp, Inc.	590.6
Centric Financial Corporation	152.5
Citizens & Northern Corporation	1,267.2
Citizens Financial Services	706.3
Citizens National Bank	60.2
Clarion County Community Bank	93.8
CNB Financial Corporation	1,072.2
Codorus Valley Bancorp	864.6
Comm Bancorp	610.2
Commercial National Financial Corporation	370.4
Community Bankers Corporation	216.3
Community First Bancorp	76.8
Community National Bank of Northwestern PA	76.4
Conestoga Bancorp	670.7
Dimeco, Inc.	513.9
DNB Financial Corporation	642.1
Eagle National Bancorp	284.4
Earthstar Bank	124.0
Embassy Bancorp	461.9
Emclaire Financial Corporation	457.0
Farmers and Merchants Bancorp of Pennsylvania	358.0
Fidelity D&D Bancorp, Inc.	565.5
First Chester County Corporation	1,305.3
First Community Financial Corporation	351.7
First Cornerstone Bank	219.5
First Keystone Corporation	764.7
First National Community Bancorp	1,385.6
First National Bank of Fredericksburg	185.8
First Perry Bancorp	247.5
First Resource Bank	121.9
Fleetwood Bank Corporation	210.7
FNB Bancorp	671.6
FNBM Financial Corporation	92.0
Franklin Financial Services Corporation	973.3
Fryburg Banking Company	222.4
Gateway Bank of Pennsylvania	115.4
GNB Financial Services	132.2
Hamlin Bank & Trust Company	345.8
Harleysville National Corporation	5,154.9

Organization	Total Bank Assets as of 9/30/09 ($ Millions)
Haverford Trust Company	107.6
Herndon National Bank	29.7
Hibshman Trust for Ephrata National Bank Stock	718.4
Honat Bancorp	498.7
Hyperion Bank	82.0
Integrity Bancshares	474.6
Jonestown Bank and Trust Company	325.5
JTNB Bancorp	160.2
Juniata Valley Financial Corporation	474.2
Keystrong Financial, Inc.	174.0
Kish Bancorp	506.9
Landmark Bancorp	185.5
Lawrence Keister & Company	192.5
Luzerne National Bank Corporation	241.5
Mainline Bancorp	251.9
Malvern Bank Corporation	127.2
Manor Bank	19.3
Mars National Bank	323.6
Mauch Chunk Trust Financial Corporation	298.1
Mercer County State Bancorp	281.8
Mercersburg Financial Corporation	182.2
Meridian Bank	273.4
Mid Penn Bancorp	598.2
Mifflinburg Bancorp	293.8
MNB Corporation	288.9
Morebank	69.8
Muncy Bank Financial	239.9
Neffs Bancorp	255.2
New Century Bank	280.2
New Tripoli Bancorp	283.5
Nextier, Inc.	582.4
Northumberland Bancorp	383.3
Orbisonia Community Bancorp	243.7
Orrstown Financial Services	1,157.7
Palm Bancorp	615.3
Penn Liberty Financial Corporation	412.2
Penns Woods Bancorp	669.7
Pennsylvania Commerce Bancorp	2,084.8
Penseco Financial Services Corporation	868.1
Peoples Financial Services Corporation	470.2
Peoples Ltd.	209.9
Philadelphia Trust Company	19.7
Phoenix Bancorp	105.8
QNB Corporation	724.3

Organization	Total Bank Assets as of 9/30/09 ($ Millions)
Republic First Bancorp	950.0
Royal Bancshares of Pennsylvania	1,381.3
S&T Bancorp	4,183.8
Seed Money LP	188.8
Somerset Trust Holding Company	521.5
Stonebridge Financial Corporation	470.4
Tower Bancorp	1,377.5
Turbotville National Bancorp	106.5
UNB Corporation	122.5
Union Bancorp	127.8
Union National Financial Corporation	499.3
United Bancshares	68.9
Univest Corporation of Pennsylvania	2,092.0
Valley Green Bank	96.8
Vist Financial Corporation	1,256.2
West Milton Bancorp	302.1
Woodlands Financial Services Corporation	283.3
York Traditions Bank	224.4