BANKING BRIEF
FOR PENNSYLVANIA, NEW JERSEY, AND DELAWARE

First Quarter Highlights

- *Year over year, profitability (ROA) continued to improve at both large and community banking organizations.*

- *Year over year, loans grew at all categories of banks, mainly driven by commercial and industrial lending. Loans grew more at large organizations, while community banks saw only slight growth. Loan quality improved slightly at community banks and declined slightly at large organizations.*

- *Large organizations and community banks saw an increase in total residential real estate (RRE) loans, accompanied by an increase in nonperforming loans (NPLs). The RRE NPL ratio was basically flat at community banks and increased somewhat at large organizations.*

- *Year over year, total volume of nonperforming commercial real estate loans (CRE NPL) dropped substantially at community banks nationally and large organizations. It also fell at local community banks but to a smaller degree. The CRE NPL ratio fell at all categories of banks.*

- *Loan-loss coverage increased at community banks but decreased at large organizations. In both cases, it has remained well below historical norms for several years. Both loan-loss provisions and reserves fell.*

- *Year over year, capitalization at community banks improved slightly, while capital ratios generally remained flat at large organizations. Overall, capitalization remains high compared with historical standards.*

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Summary Table of Bank Structure and Conditions – First Quarter 2012

	Community Banking Organizations					
	Nation			*Tri-State*		
	$ Bill	**% Change From**		**$ Bill**	**% Change From**	
	12Q1	**11Q4**	**11Q1**	**12Q1**	**11Q4**	**11Q1**
Total Assets	1,939.1	12.05	6.08	93.8	0.79	5.89
Total Loans	1,183.8	3.08	2.25	61.1	1.73	4.24
C&I	184.2	15.19	5.98	8.2	1.18	7.89
Real Estate	886.8	3.11	1.61	48.3	2.06	2.51
Consumer	51.2	-1.42	-1.36	1.9	-8.06	-3.96
Total Deposits	1,609.2	13.17	5.78	78.8	3.33	6.62
Ratios (in %)	**12Q1**	**11Q4**	**11Q1**	**12Q1**	**11Q4**	**11Q1**
Net Income/Avg Assets (ROA)	0.67	0.59	0.25	0.56	0.51	0.39
Net Interest Inc/Avg Assets (NIM)	3.48	3.48	3.43	3.34	3.35	3.36
Noninterest Inc/Avg Assets	0.91	0.89	0.90	1.21	1.21	1.27
Noninterest Exp/Avg Assets	3.05	3.05	3.08	3.27	3.28	3.36
Loans/Deposits	73.57	75.31	76.10	77.51	77.82	79.29
Equity/Assets	10.71	10.71	10.23	9.99	9.86	9.83
Nonperforming Loans/Total Loans	3.12	3.20	3.68	2.88	2.90	3.13

	Large Organizations		
	Nation		
	$ Bill	**% Change From**	
	12Q1	**11Q4**	**11Q1**
Total Assets	10,003.5	3.75	5.30
Total Loans	4,915.2	3.61	5.02
C&I	1,066.2	14.64	17.53
Real Estate	2,554.7	3.70	-0.23
Consumer	697.2	-5.64	2.26
Total Deposits	7,287.1	3.96	8.21
Ratios (in %)	**12Q1**	**11Q4**	**11Q1**
Net Income/Avg Assets (ROA)	0.83	0.79	0.71
Net Interest Inc/Avg Assets (NIM)	2.68	2.70	2.82
Noninterest Inc/Avg Assets	1.84	1.82	1.89
Noninterest Exp/Avg Assets	2.98	2.96	2.93
Loans/Deposits	67.45	67.51	69.50
Equity/Assets	11.08	10.90	11.10
Nonperforming Loans/Total Loans	4.60	4.56	5.27

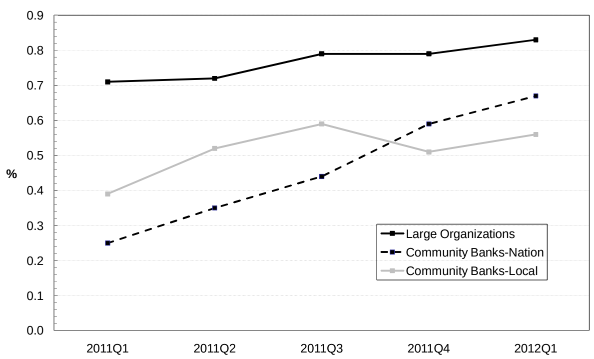
A banking organization is an independent bank or all the banks within a highest-level bank holding company; however, banks less than five years old and special purpose banks such as credit card banks are excluded. However, some numbers were skewed by Citigroup's third quarter of 2011 reorganization involving the merger of its credit card operation (Citibank South Dakota) into its lead commercial bank subsidiary (Citibank N.A.). Thus, this credit card operation is included in the numbers for large banking organizations for the entire length of the sample, even though it was a credit card bank and would normally not be included. 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, 2011. The community banking organization sample is based on the remaining banking organizations. 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 — 177 for the tri-state area and 5,437 for the nation; (2) large banking organizations — 99 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.

First Quarter 2012

Year-over-year profitability continued to improve at all organizations (Figure 1).[1] Since last year, return on assets (ROA) at large organizations has increased 12 basis points, to 0.83 percent. At community banks nationally, ROA increased to 0.67 percent, a rise of 42 basis points from the first quarter of 2011. At local community banks, ROA has increased 17 basis points, to 0.56 percent, from a year ago. Overall, less than 10 percent of community banks nationally reported losses in the first quarter, and 10.2 percent of local community banks were unprofitable.[2] For large organizations, all except three were profitable.

Figure 1

Return on Average Assets

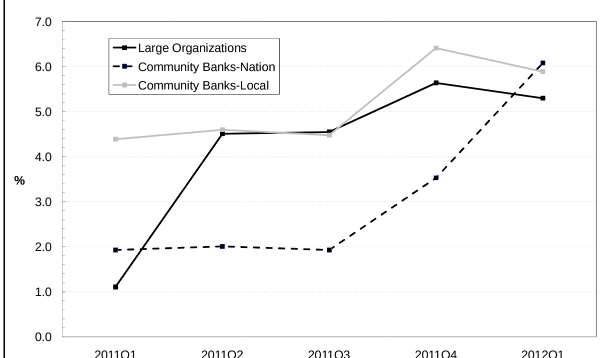


There are several reasons for the improved profitability. At all categories of banks, net charge-offs (NCOs) have decreased substantially in the past year. The drop in NCOs allowed banks to decrease their loan-loss provisioning substantially (see “Provisioning and Reserves” below). In addition to the decreases in NCOs and loan-loss provisions, the main reason for the increase in profitability at large organizations was asset sales, mainly loan sales and sales of other assets. Income from sales of assets at large organizations was $2.2 billion, up from $179.7 million a year ago and negative $58.4 million last quarter. Over the year, asset sales at community banks in the nation also helped improve profitability. Lastly, profitability at community banks, locally and in the nation as well, benefited from increased realized gains on securities.

Year over year, assets at all categories of banks grew at rates above 5 percent (Figure 2). In particular, after lagging large organizations for more than a year, assets at community banks nationally expanded at a higher rate than those at large organizations. In general, much of the expansion can be attributed to loan growth, most notably commercial and industrial (C&I) lending. The market value of securities also increased, particularly at large organizations and community banks nationally.

Figure 2

Year-Over-Year Asset Growth



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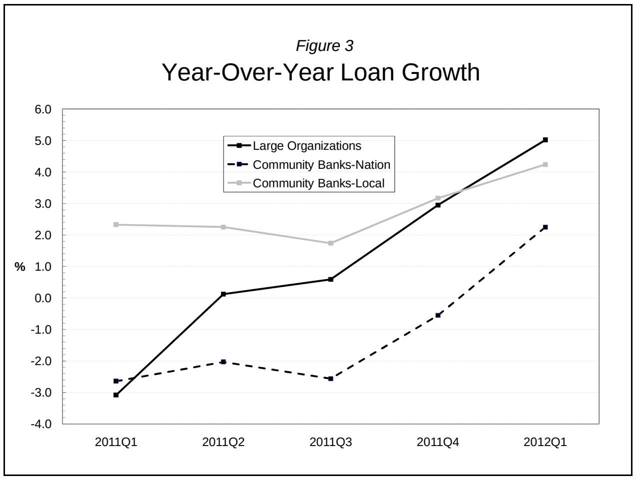
[1] See the Summary Table of Bank Structure and Conditions on page 2 for some of the numbers cited in this section. Unless otherwise noted, all data are from Federal Financial Institutions Examination Council (FFIEC) call reports. Ratios presented are aggregates. That is, the numerator and denominator are summed, then divided. All growth rates are annualized unless otherwise noted. Also, with the exception of the data on page 2, all income statement items reported are for the quarter only.

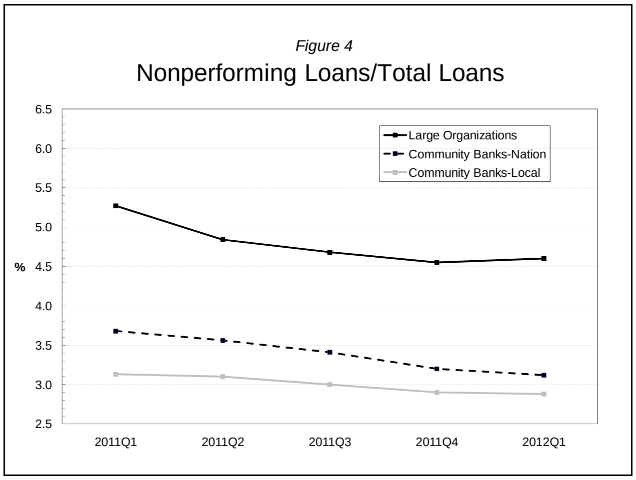
[2] Out of 5,437 community banks in the national sample, 4,902 reported positive profits. This was an increase of 308 from the fourth quarter of 2011. Locally, 159 out of 177 banks reported positive profits, an increase of eight from the fourth quarter of 2011. For large organizations, 96 out of 99 were profitable, an increase of three banks.

Loans at large organizations continued to grow, and at community banks nationally loans showed some growth for the first time in over a year (Figure 3). Over the past year, total loans at large organizations grew at about 5 percent. As stated above, most of this growth in loans was in commercial loans, whereas consumer lending grew slightly and real estate lending stayed generally flat. At community banks, lending grew 2.25 percent in the nation and 4.24 percent locally. In both cases, the main area of growth was in commercial loans, with some small growth in real estate.



Loan quality at large organizations continued to improve substantially over the year, with the ratio of nonperforming loans (NPLs) to total loans (the NPL ratio) decreasing by 67 basis points, to 4.60 percent (Figure 4).[3] Total NPLs have decreased 8.3 percent since the first quarter of 2011, but they did show an annualized quarterly increase of 8.2 percent.

At community banks nationally, the NPL ratio has decreased 56 basis points since last year, to 3.12 percent. There was also a modest decrease of 8 basis points from the fourth quarter of 2011 to the first quarter of 2012. Locally, the NPL ratio fell over the past year as



well, by 25 basis points, to 2.88 percent. Over the quarter, the NPL ratio was basically flat locally. Total NPLs at community banks have fallen 13.3 percent nationally but only 3.4 percent locally since the first quarter of 2011. From the previous quarter, they fell 6.6 percent nationally and were flat locally.

In addition to loan quality, overall asset quality has also improved at all categories of banks.[4] Foreclosed real estate, known as other real estate owned (OREO), fell at large organizations and community banks nationally, by 19.2 and 4.2 percent, respectively, but rose 12.9 percent locally. The ratio of nonperforming assets (NPAs) to total assets has fallen at all three categories of banks in the past year (Figure 5).[5]

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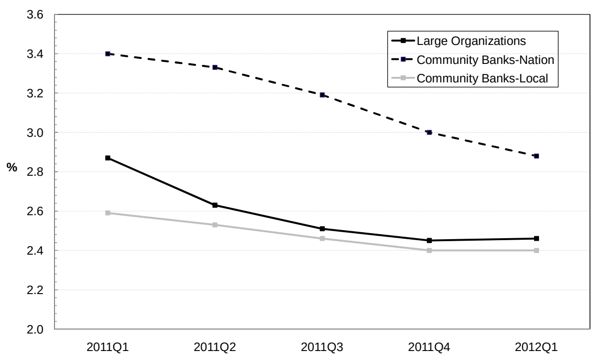
[3] NPLs are defined as loans past due 90 days or more plus nonaccruing loans. For historical perspective, the average NPL ratio for all commercial banks between 2000 and 2010 was 2.24 percent. At the bottom of the last real estate cycle in 1991, this ratio stood at 3.70 percent. Source: FDIC Historical Statistics on Banking, http://www2.fdic.gov/hsob/index.asp.

[4] Asset quality refers to nonperforming assets. These are defined as NPLs plus other real estate owned.

[5] Loan quality refers to NPLs only, while asset quality refers to NPAs. These are the sum of NPLs and OREO, which is basically foreclosed real estate. For historical perspective, the average ratio of nonperforming assets to total assets for all commercial banks between 2000 and 2010 was 1.43 percent. At the bottom of the last real estate cycle in 1991, this ratio stood at 3.02 percent. Source: FDIC Historical Statistics on Banking, http://www2.fdic.gov/hsob/index.asp.

Figure 5

Nonperforming Assets/Total Assets



The ratio of NCOs to average loans (NCO ratio) fell as well (Figure 6). At large organizations, the NCO ratio is now 0.28 percent, after declining by 16 basis points from the first quarter of 2011 and by 4 basis points over the quarter. It has however remained higher than that of community banks. For community banks in the nation, the NCO ratio fell 8 basis points over the year and 13 points in the last quarter, to 0.14 percent. Likewise, at tri-state area community banks the NCO ratio has fallen 6 basis points since a year ago but dropped 10 points in the past quarter. This was the first decline in local community banks' NCO ratio in three quarters. For all categories of banks, the decrease in NCO ratios was driven by lower charge-offs, which more than offset declining recoveries.

Figure 6

Quarterly Net Charge-Offs/Average Loans

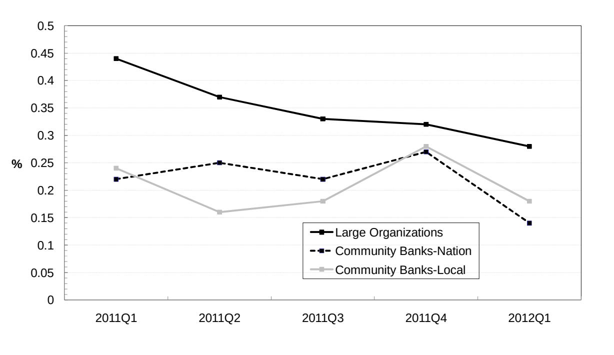
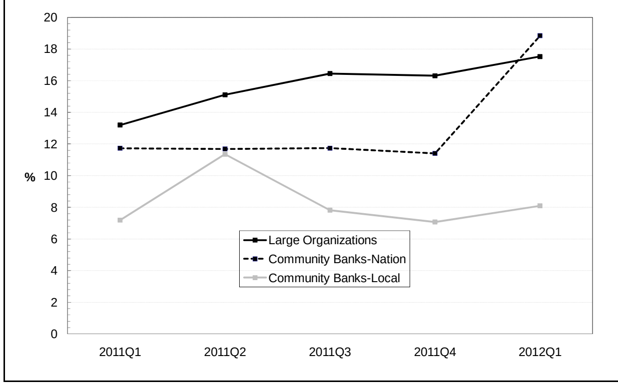


Figure 7

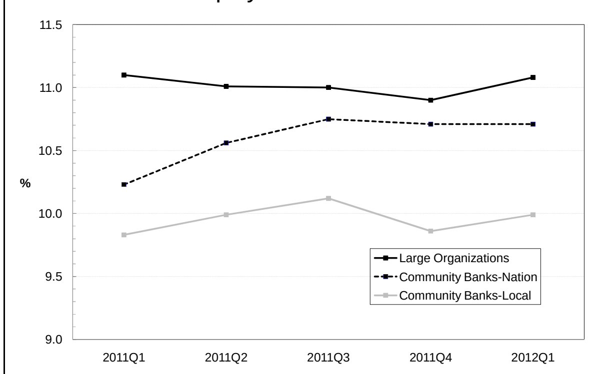
Recoveries/Charge-Offs



As a result of declining charge-offs, the ratio of recoveries to charge-offs (the recovery ratio) increased at all categories of banks as well. At large organizations, the recovery ratio increased 433 basis points, to 17.53 percent (Figure 7). At community banks nationally, the recovery ratio rose 711 basis points, to 18.84 percent. Most of this increase took place in the first quarter of this year. The recovery ratio also jumped from the fourth quarter of 2011 to the first quarter of 2012. Locally, the ratio increased 91 basis points, to 8.10 percent.

Figure 8

Equity-to-Assets Ratios



Capital ratios, defined as the ratio of total equity to assets, rose somewhat from a year ago at community banks both locally and nationally but were virtually unchanged at large organizations (Figure 8). Over the year, capital ratios appear to be more or less static at large organizations and stabilizing at community banks.

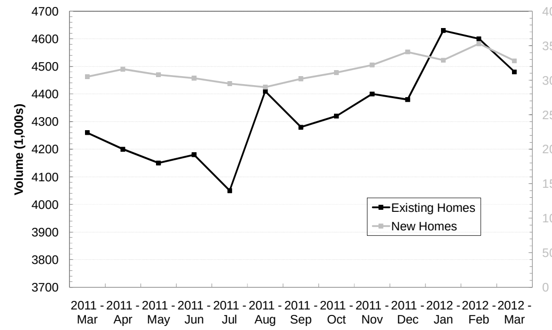
The number of bank failures has dropped over the past several quarters, but it remains high relative to historic levels. In the first quarter of 2012, the Federal Deposit Insurance Corporation reported 16 bank failures. This represents a reduction both from the first quarter of 2011, when there were 26 failures, and the fourth quarter of 2011, when 18 institutions failed. Additionally, seven banks have failed so far in the second quarter (as of May 15, 2012). In all of 2011, there were 92 bank failures, including two in the tri-state area. Two local institutions, both savings banks, have already failed so far in 2012.

Residential Real Estate Lending[6]

Though there have been signs of improvement, the nationwide and local residential real estate (RRE) markets remained weak overall. The Federal Reserve Board's *Beige Book*, as of April 11, 2012, reported flat or decreasing prices and low sales activity in at least four of the 12 Federal Reserve Districts.[7] However, several Districts, including Philadelphia, reported slightly increased activity. Most of the reported improvement, both in terms of construction and sales, was in multifamily properties such as apartments, condominiums, and senior housing rather than single-family homes. The *Beige Book* reported very little single-family home construction in most areas, although building permits did increase in some areas. Results locally were mixed, with Pennsylvania showing some growth but New Jersey and Delaware remaining sluggish.

Figure 9

Sales of New and Existing Homes

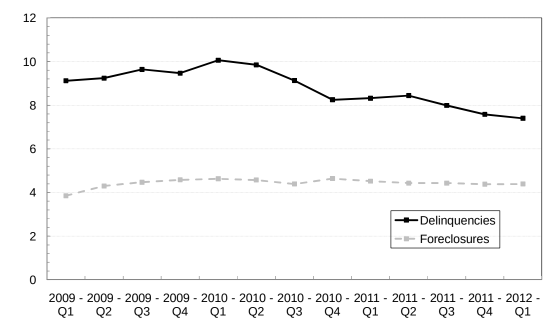


Source: Haver Analytics

Sales of existing single-family homes have increased since the first quarter of last year, but they have been declining since January 2012 (Figure 9). Sales of new homes remained weak and have not shown much change from last year. The percentage of delinquent mortgages decreased from a year ago and over the quarter as well (Figure 10).

Figure 10

Delinquency and Foreclosure Rates



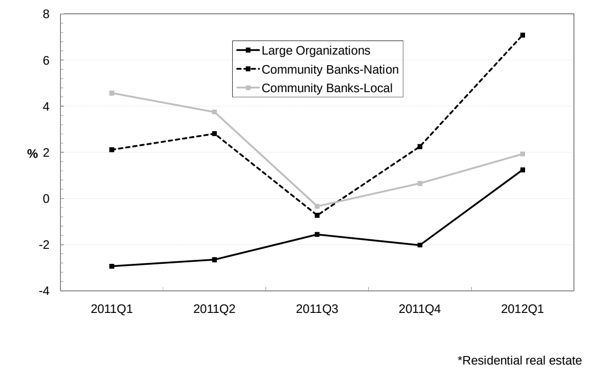
Source: Haver Analytics

RRE loans outstanding increased, particularly at community banks nationwide (Figure 11). At large organizations, RRE loans increased 1.2 percent from a year ago, the first annual increase in more than a year. At community banks, RRE loan growth jumped to 7.1 percent nationally in the first quarter of 2012 but stayed at 1.9 percent locally, which is significantly below the growth rate four quarters ago.

[6] See Table 1 in the Appendix for a full summary of the data used in this section.

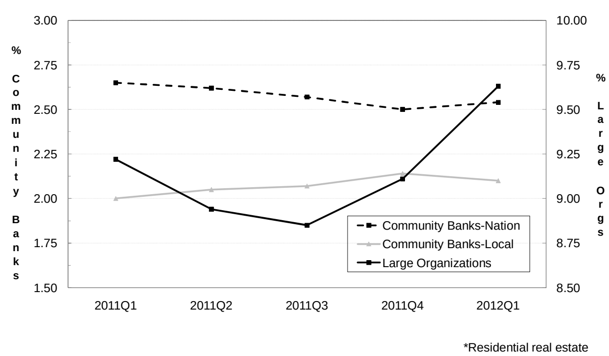
[7] For further information see http://www.federalreserve.gov/monetarypolicy/beigebook/files/fullreport20120411.pdf.

Figure 11
Annual Change in RRE* Loans Outstanding



RRE loan quality at large organizations declined from the first quarter of 2011. The NPL ratio started rising in the fourth quarter of 2011, and the deterioration continued through the first quarter of 2012. It now stands at 9.63 percent, 41 basis points higher than a year ago (Figure 12 – Note the different scales for community banks (left y-axis) and large organizations (right y-axis)).

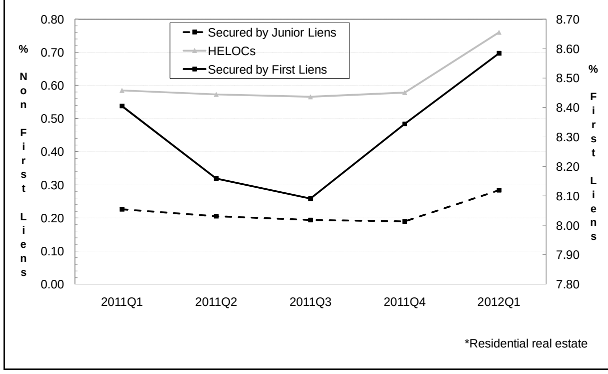
Figure 12
Nonperforming RRE* Loans/Total RRE Loans



The increase in the NPL ratio at large organizations was due to a sharp increase in NPLs, which outpaced RRE lending activities. RRE NPLs at large organizations have increased 5.8 percent since the first quarter of 2011. Additionally, this increase was mainly driven by mortgages secured by first liens, which represent about 66 percent of all RRE loans.

NPLs for mortgages secured by junior liens and HELOCs also rose (Figure 13 – note that the scales are different on each axis).

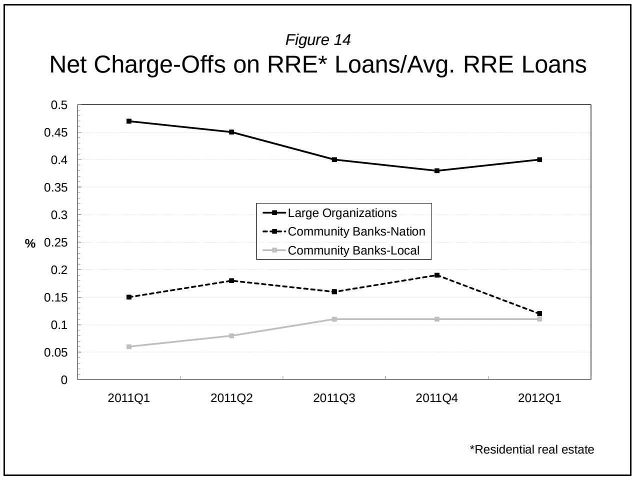
Figure 13
RRE NPLs as a Percent of Total RRE Loans by Type of Loan
Large Organizations



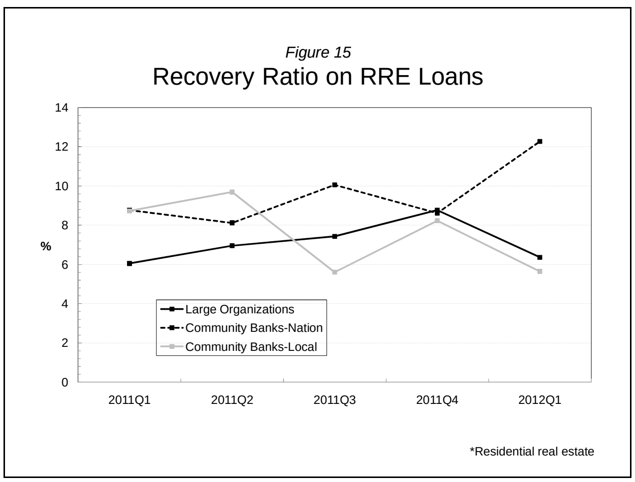
Loan quality at community banks remained more or less constant over the past year, both nationally and in the region (Figure 12). Over the past year nationally, the NPL ratio fell 9 basis points, to 2.54 percent, but it rose 4 points in the first quarter. Local community banks have better RRE loan quality than either the large organizations or national community banks. The RRE NPL ratio at local community banks increased 10 basis points in the past year, to 2.10 percent, although it fell 4 points in the first quarter after increasing steadily during 2011.

The RRE NCO ratio at large organizations is down 7 basis points from one year ago, to 0.40 percent (Figure 14). NCOs at community banks nationally fell substantially both year over year and in the first quarter, and their NCO ratio is now 0.12 percent. Despite the fact that local community banks saw NCOs rising substantially both from last year and over the quarter, their NCO ratio rose only 5 basis points over the year and stayed the same quarter to quarter at 0.11 percent, due to the RRE lending growth throughout the year.

The recovery ratio on RRE loans at large organizations increased 31 basis points over the year, but it has decreased since the fourth

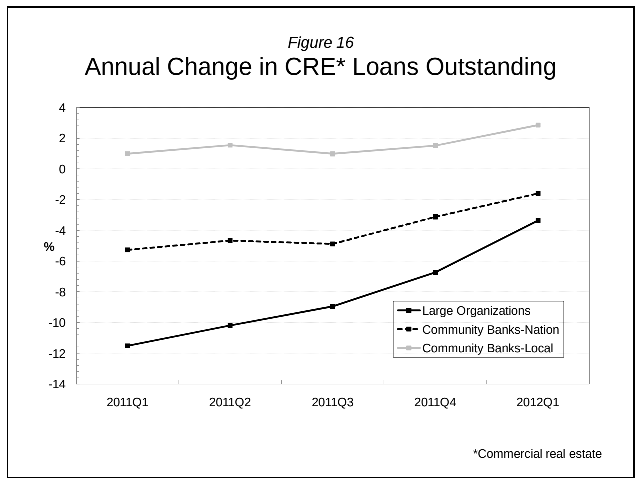


quarter of 2011 (Figure 15). At community banks nationally, the recovery ratio has increased 350 basis points. The recovery ratio at local banks has decreased 308 basis points since a year ago.



Commercial Real Estate Lending[8]

Commercial real estate lending remains sluggish at best. Year over year, overall commercial real estate (CRE) lending continued to decrease except at tri-state area community banks, where it grew only 2.9 percent (Figure 16). However, there may be signs of impending improvement. The *Beige Book* reported most CRE markets nationwide as either improving slowly or holding steady both in terms of construction and demand for existing space. For the most part, the Third District reported a modest increase in construction and somewhat higher demand for some types of properties. Demand for industrial properties, high-end office space, and laboratories reportedly rose, while demand for other types of properties remained weak. CRE lending is especially important to community banks because CRE loans make up 44 percent of all loans at banks nationally and over 46 percent at tri-state area banks. Thus, community banks' overall lending condition is highly dependent on their CRE portfolios.



The quality of CRE loans either improved or remained steady in the first quarter at all categories of banks. First, CRE NPLs decreased year over year at all categories of banks, especially at large organizations. Second, the quarterly change in CRE NPLs was also negative except at tri-state area community banks, where it increased 2.9 percent. Third, NPL ratios continued to decrease. At large organizations, the CRE NPL ratio decreased 50 basis points in the first quarter, to 4.86 percent, down 224 basis points from one year ago (Figure 17). The CRE NPL ratio decreased 90 basis points at community banks nationally from last year, to 4.54 percent, and 37 basis points at

[8] See Table 2 in the Appendix for a full summary of the data used in this section.

community banks locally, to 4.15 percent. Similar to the case of RRE loans, tri-

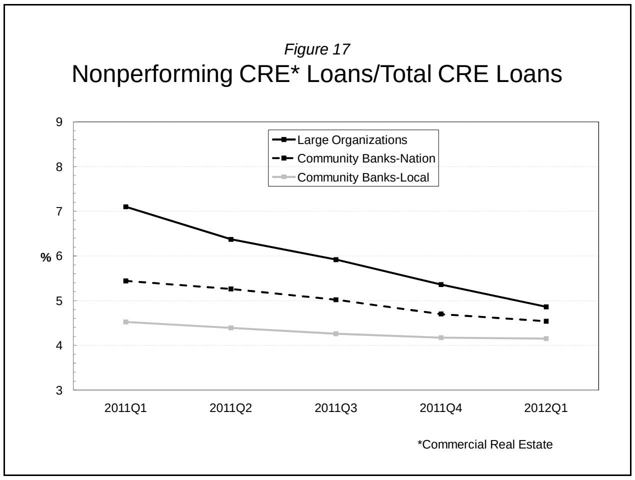


Figure 17
Nonperforming CRE* Loans/Total CRE Loans

state area banks continued to have better loan quality than both community banks in the nation and large organizations.

Overall, NCOs for CRE loans were down substantially both annually and quarterly at all categories of banks. The CRE NCO ratio has decreased 21 basis points since last year at large organizations, 12 basis points at community banks nationally, and 10 basis points at local community banks (Figure 18).

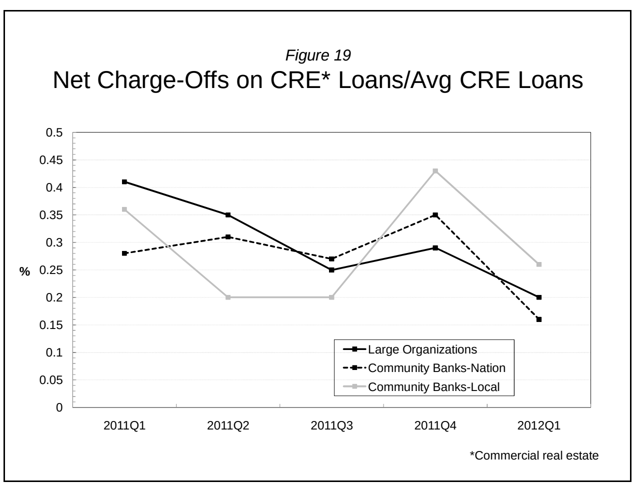


Figure 19
Net Charge-Offs on CRE* Loans/Avg CRE Loans

The improvement in CRE loan quality at large organizations was driven by banks' continued cleanup of both their construction loan and commercial mortgage portfolios. CRE loans can be broken down into three categories: construction loans, loans secured by multifamily properties, and commercial mortgages. These make up 15.7, 15.1, and 69.2 percent of all CRE loans, respectively. As shown in Figure 19, construction loans' share of CRE NPLs has been disproportionately high at large organizations, but it has dropped substantially. Until the past two quarters, there were more construction NPLs at large organizations than any other type of CRE NPL.[9]

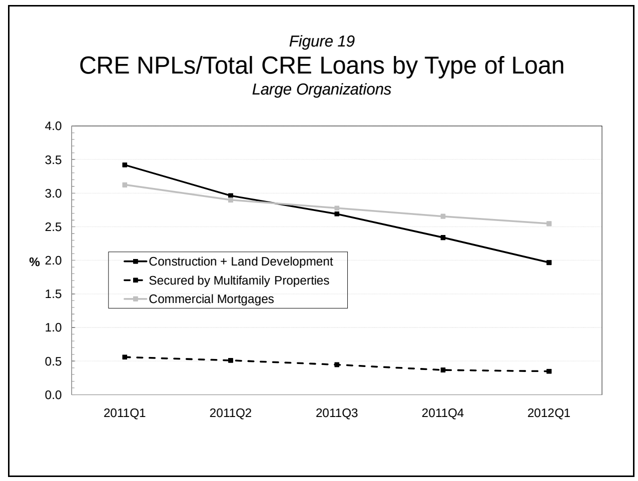


Figure 19
CRE NPLs/Total CRE Loans by Type of Loan
Large Organizations

For community banks, commercial mortgages make up over three quarters of all CRE loans at these banks nationally and over 78 percent of CRE loans locally. Moreover, they are the largest single type of loan in community banks' portfolios. The NPL ratio on commercial mortgages has been falling or flat for four quarters at both national and local community banks. It now stands at 3.29 percent nationally and 3.05 percent locally (Figure 20).

[9] Another way of assessing the impact of construction lending on large organizations' CRE loan performance is to calculate how much changes in construction NPLs and NCOs have contributed to the decrease in total CRE NPLs and NCOs. In the past year, improvements in construction loan quality have accounted for 63.1 percent of the annual decrease in total CRE NPLs and 61.0 percent of the annual decrease in total CRE NCOs.

Figure 20
Nonperforming Commercial Mortgages/ Commercial Mortgages

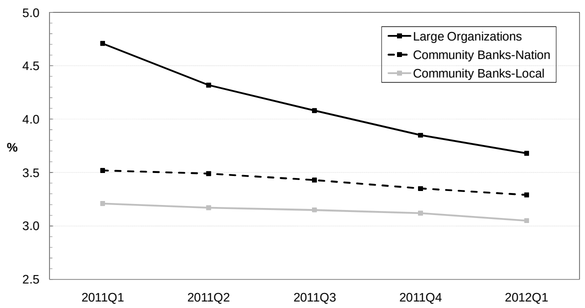
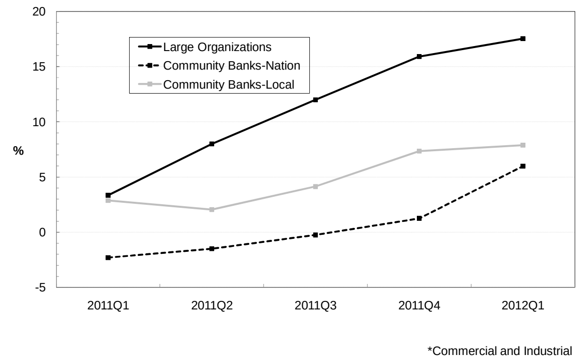


Figure 21
Year-Over-Year C&I* Loan Growth



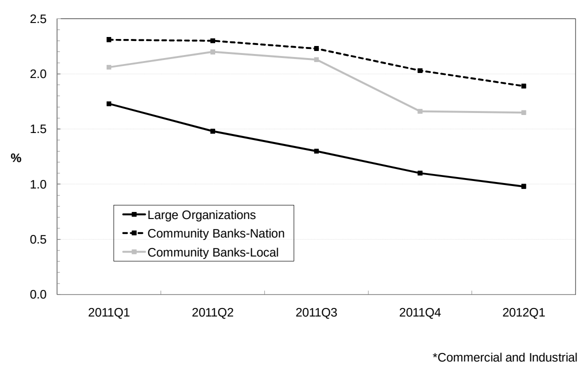
<u>Commercial & Industrial Lending</u>[10]

Over the past several quarters, C&I lending accounted for nearly all of the loan growth at both large organizations and community banks. At large organizations, C&I loans grew 17.5 percent in the past year and 14.6 percent in the past quarter (Table 1 and Figure 21). C&I lending also led loan growth at community banks, although not at a rate as high as that of large banks.

Both demand-side and supply-related factors appear to be driving C&I lending. The Federal Reserve Board's *Senior Loan Officer Opinion Survey* for April 2012 reported that loan demand had increased from most types of borrowers due to depleted inventories, new investment in plant and equipment, or mergers and acquisitions. On the supply side, most domestic institutions had not loosened their lending standards, but they had reportedly eased their pricing terms.[11] Many lenders also noted higher competition in the C&I loan market.

Both NPLs and NCOs fell substantially at all categories of banks, both year over year and from the fourth quarter of 2011. Given that C&I loans are generally issued with terms of less than a year, any deterioration in quality will quickly translate into NPLs and NCOs. As a result, falling C&I NPLs and NCOs suggest that the recent C&I loan growth has so far been achieved without compromising loan quality. The C&I NPL ratio at both the large organizations and community banks fell over the year as well (Figure 22).

Figure 22
Nonperforming C&I* Loans/C&I Loans



Likewise, the NCO ratio has also fallen significantly at all categories of banks (Figure 23). At large organizations, the C&I NCO ratio

[10] See Table 3 in the Appendix for a full summary of the data used in this section.

[11] An exception was branches of foreign banks, which tightened lending standards substantially. See http://www.federalreserve.gov/boarddocs/SnLoanSurvey/201108/default.htm for further information.

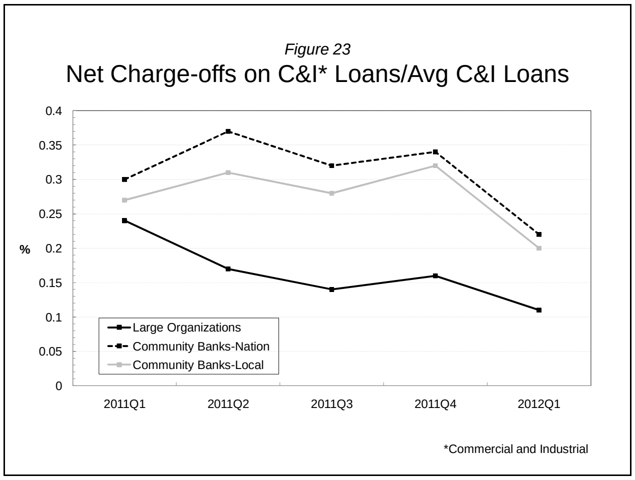


Figure 23
Net Charge-offs on C&I* Loans/Avg C&I Loans

*Commercial and Industrial

has fallen 13 basis points since a year ago. At community banks, it has fallen 8 basis points nationally and 7 basis points locally.

Consumer Lending[12]

Overall, consumer lending has mainly been weak in the past year, although large organizations have experienced some growth. At community banks, consumer lending has been shrinking for over a year (Figure 24). At

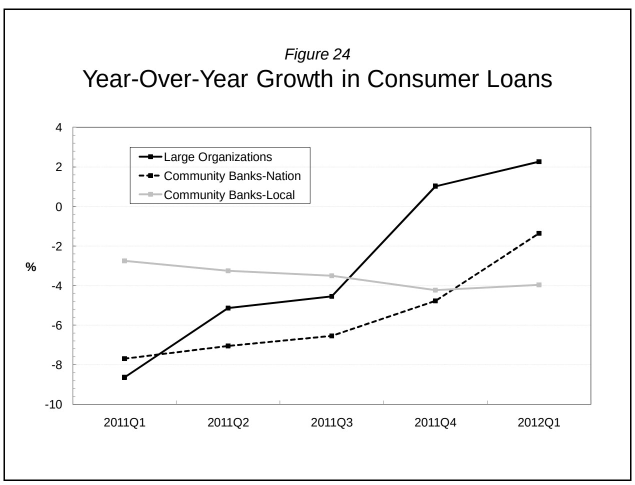


Figure 24
Year-Over-Year Growth in Consumer Loans

large organizations, year-over-year consumer lending grew at a higher pace for the second consecutive quarter, but consumer lending still shrank 5.6 percent from the fourth quarter of 2011.

At large organizations, consumer loans represent about 14.2 percent of all loans. At community banks, the share of consumer loans is 4.3 percent nationally and about 3.1 percent locally. NPL ratios on consumer loans have been low: 1.41 percent for large organizations, 0.75 percent for community banks nationally, and 0.62 for tri-state area community banks.

The NCO ratio for large organizations is about triple that for community banks nationally and more than eight times that of local community banks (Figure 25).

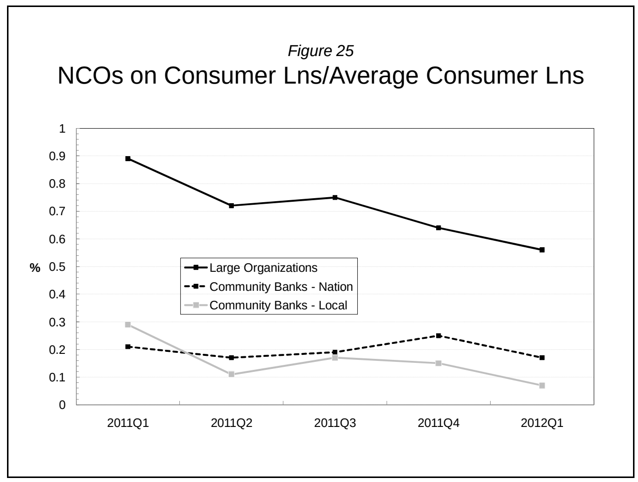


Figure 25
NCOs on Consumer Lns/Average Consumer Lns

Provisioning and Reserves[13]

In all categories of banks, loan-loss provisions have decreased from a year ago, both overall and as a percentage of operating income.[14] This decline happened even as

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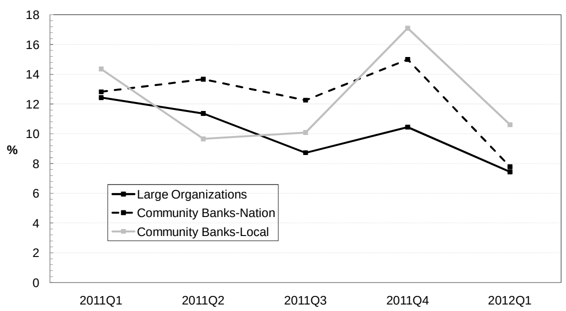
[12] See Table 4 in the Appendix for a full summary of the data used in this section.

[13] See Table 5 in the Appendix for a full summary of the data used in this section.

[14] As reported here, loan-loss reserves are the balance-sheet item, and loan-loss provisions are from the income statement. Operating income is defined as the sum of net interest income and noninterest income. For historical perspective, the aggregate ratio of loan-loss provision to operating income for all commercial banks between 2000 and 2010 was 15.8 percent. At the bottom of the last real estate cycle in 1991, this ratio was 18.9 percent. Source:

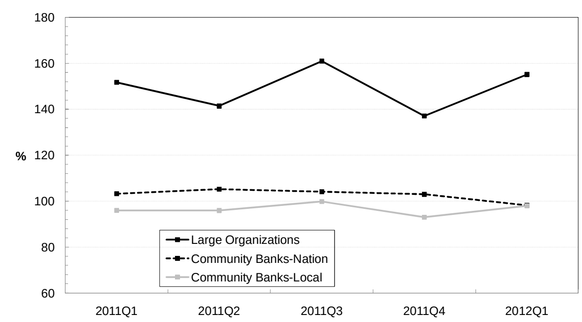
operating income increased. Over the year, the ratio of loan-loss provisions to operating income fell 499 basis points, to 7.44 percent, at large organizations; decreased 503 basis points, to 7.79 percent, at community banks nationally; and fell 374 basis points, to 10.61 percent, at local community banks (Figure 26).

Figure 26
Loan-Loss Provision/Operating Income



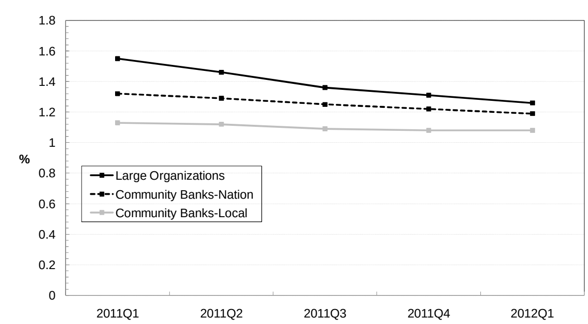
In previous quarters, banks may have been cutting their reserves because of falling NPLs and lower additions to nonaccruing loans, but in the first quarter, NPLs started increasing at large organizations and were basically flat at community banks (see Figure 4 and the accompanying text).[15] Moreover, the ratio of NCOs to loan-loss provisions has been above 100 percent at large organizations and was just below it at community banks both nationally and locally in the first quarter (Figure 27).[16]

Figure 27
Net Charge-offs/Loan-Loss Provision



The decrease in provisioning has resulted in a drop in overall reserves. Loan-loss reserves as a percent of total assets have decreased from the first quarter of last year in all categories of banks (Figure 28). The decrease in this ratio flattened somewhat in the past quarter or two, but the downward trend continues. Total loan-loss reserves also decreased from last year except at local community banks. In terms of quarterly growth, reserves at community banks both locally and nationally were basically flat, while they continued to fall at large organizations.

Figure 28
Loan-Loss Reserves/Assets



Even though NCOs are decreasing, declining loan-loss reserves might limit banks' capacity to recognize losses going forward. Over the year, loan-loss coverage fell 402 basis points at large organizations, to 55.67 percent

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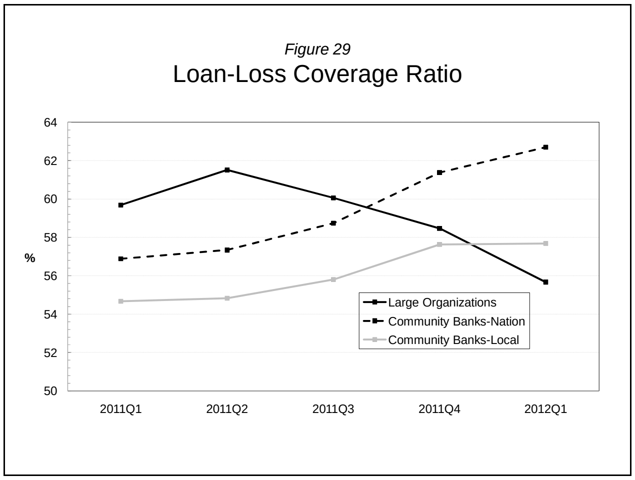
FDIC Historical Statistics on Banking, http://www2.fdic.gov/hsob/index.asp.

[15] Net nonaccruing loans are defined as additions to nonaccruing loans minus nonaccruing loans sold during the quarter.

[16] For historical perspective, the aggregate ratio of NCOs to loan-loss provision for all commercial banks between 2000 and 2010 was 85.4 percent. At the bottom of the last real estate cycle in 1991, this ratio was 95.8 percent. Source: FDIC Historical Statistics on Banking, http://www2.fdic.gov/hsob/index.asp.

(Figure 29). It also fell in the quarter by 280 basis points. The ratio increased year over year at community banks both nationally and locally.[17] Loan-loss provisioning at large banks has fallen over 37 percent in the past year. With NCOs and loan-loss provisioning both falling at large banks, it appears that these institutions expect the quality of their loan portfolios to continue improving, and therefore large additions to reserves may not be necessary. However, it is worth noting that, after falling for several quarters, additions to nonaccruing loans increased in the first quarter of 2012, both from the fourth quarter and over the year.



At community banks nationally, the year-over-year loan-loss coverage increased 582 basis points, to 62.70 percent, and locally it increased 301 basis points, to 57.68 percent. In both cases, the loan-loss coverage ratio increased somewhat from the previous quarter as well. Also, additions to nonaccruing loans fell substantially year over year and quarter over quarter both locally and nationally.

Securities[18]

The market value of securities increased at all categories of banks in the first quarter of 2012, both from the fourth quarter of 2011 and year over year.[19] Large organizations had year-over-year gains in the value of their mortgage-backed securities (MBS), foreign securities, securities of state and local governments (munis), securities of U.S. agencies, and asset-backed securities (ABS). These gains were somewhat offset by decreases in Treasuries, securities of government-sponsored agencies (GSEs such as Fannie Mae and Freddie Mac), and mutual funds. Large organizations also posted a realized gain of about $1.35 billion.[20]

The story was much the same at community banks both nationally and locally. U.S. agency securities, munis, MBS, ABS, and other domestic, foreign, and mutual funds all increased in market value, while Treasuries and securities of GSEs showed substantial decreases in value. Community banks nationally reported a realized gain of $341.4 million on securities in the first quarter, and local community banks reported a realized gain of $16.9 million on their securities.

[17] The loan-loss coverage ratio is defined as the ratio of loan-loss reserves to NPLs. For historical perspective, the average loan-loss coverage ratio for all commercial banks between 2000 and 2010 was 89.2 percent. At the bottom of the last real estate cycle in 1991, this ratio stood at 72.6 percent. Source: FDIC Historical Statistics on Banking, http://www2.fdic.gov/hsob/index.asp.

[18] See Table 6 in the Appendix for a full summary of the data used in this section.

[19] The figure for percent of assets uses the value of securities as reported on the banks' balance sheets. Securities there are reported at book value if they are held to maturity and market value if they are available for sale. Changes in market value can either be indicative of increases in the value of securities that were already owned or due to purchases or sales of securities.

[20] Realized and unrealized gains and losses are net positions. Thus, the tri-state area sample can have larger gains or losses than the national sample, even though the tri-state sample is a subset of the national sample.

Funding Sources[21]

Deposits rose at all categories of banks, both over the year and from the previous quarter. The annual growth was higher at large organizations (Figure 30). Nondeposit funding continued to fall year over year at large organizations and local community banks but was flat at national community banks after falling for the past several quarters (Figure 31).

Figure 30
Year-Over-Year Growth in Deposits

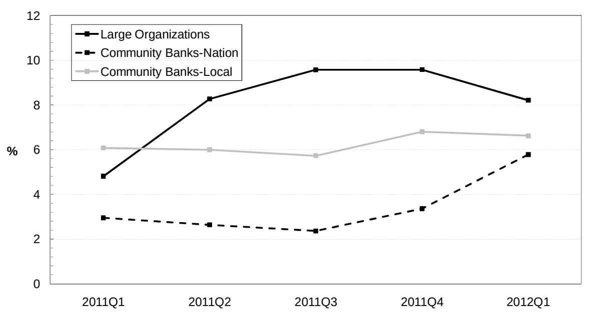
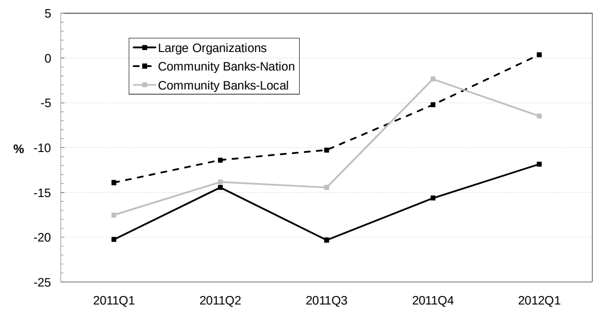


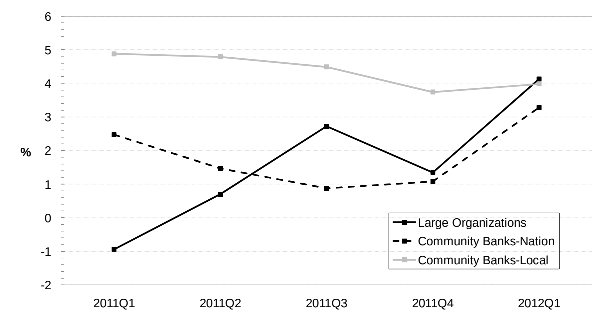
Figure 31
Year-Over-Year Growth in Nondeposit Debt



However, from the fourth quarter of 2011 to the first quarter of 2012, community banks nationally showed a small decrease in their nondeposit funding, and local community banks had a somewhat larger decrease. However, large organizations showed an increase in their nondeposit liabilities.[22]

For all categories of banks not only did overall deposits increase year over year but core deposits increased as well (Figure 32).[23] This is good news for community banks because core deposits are the least expensive form of funding. Deposits are a much less expensive source of funds for banks, and core deposits are the least expensive and most stable type of deposit.

Figure 32
Year-Over-Year Growth in Core Deposits



Large organizations continue to have a funding advantage over community banks in terms of both deposits and nondeposit funding. The implicit interest rate on deposits continued to fall at all categories of banks, but large organizations pay only a fraction of what community banks pay both nationally and locally (Figure 33).[24] This holds true for nondeposit funding as well.

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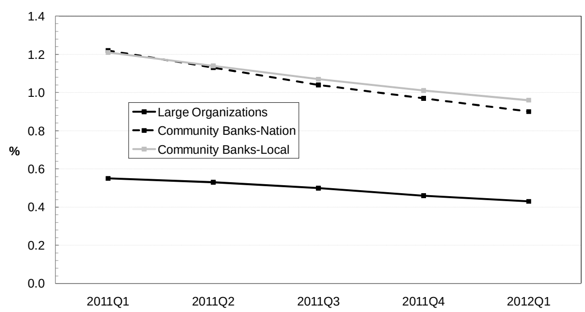
[21] See Table 7 in the Appendix for a full summary of the data used in this section.

[22] Nondeposit funding consists of fed funds purchased, securities sold under agreements to repurchase (repos), subordinated debt, Federal Home Loan Bank (FHLB) advances, and other borrowings.

[23] Core deposits are defined as total domestic deposits less the sum of brokered deposits in denominations of less than $100,000 and all deposits in denominations greater than $100,000.

[24] The implicit interest is computed by dividing the annualized interest paid by the average total balance.

Figure 33
Implicit Interest Rate on Deposits

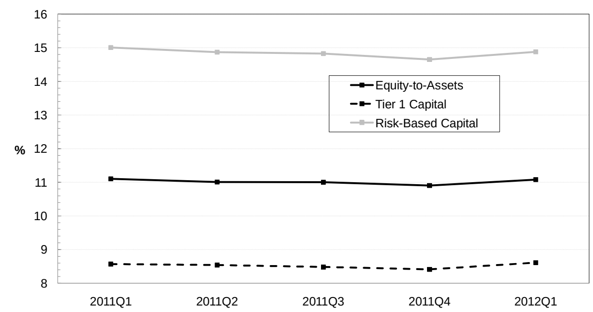


Regulatory Capital[25]

Overall, of the 99 large organizations in the sample, 98 of them had equity-to-assets ratios of at least 6 percent, and all but three had equity-to-assets ratios of over 7 percent.[26] At community banks nationally, 96.9 percent of the institutions had equity-to-assets ratios of at least 6 percent, and 94.9 percent had ratios of at least 7 percent. Locally, 97.7 percent of the institutions had a capital ratio of at least 6 percent and 96.0 percent had a ratio of at least 7 percent.

Year over year, capitalization at large organizations was basically flat. Even so, capitalization is high by historical standards.[27] The equity-to-assets ratio at large organizations decreased 2 basis points, the Tier 1 leverage ratio increased 4 basis points, and the risk-based capital ratio decreased 13 basis points.[28] Capital ratios at large banks have been fluctuating over the past several quarters (Figure 34).

Figure 34
Regulatory Capital – Large Organizations



Community banks have increased their capitalization from last year, but it appears that increases in their capital ratios have leveled off. At banks nationally, the equity-to-assets ratio has increased 68 basis points since last year; the Tier 1 capital ratio has increased 35 basis points since last year; and the risk-based capital ratio has increased 78 basis points since last year (Figure 35). At local banks, the equity-to-assets ratio has increased 16 basis points since last year; the Tier 1 leverage ratio has increased 3

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[25] See Table 8 in the Appendix for a full summary of the data used in this section.

[26] Regulation Y defines capital in terms of zones. Institutions in Zone 1 have Tier 1 capital-to-assets ratios above 7 percent, those in Zone 2 are between 6 and 7 percent, and those in Zone 3 have ratios below 6 percent. An institution is considered well capitalized if it is in Zones 1 or 2 and undercapitalized if it is in Zone 3. While total equity capital and Tier 1 capital are not identical, in most cases they are close proxies. For further information on capital guidelines, see http://www.federalreserve.gov/bankinforeg/reglisting.htm#Y.

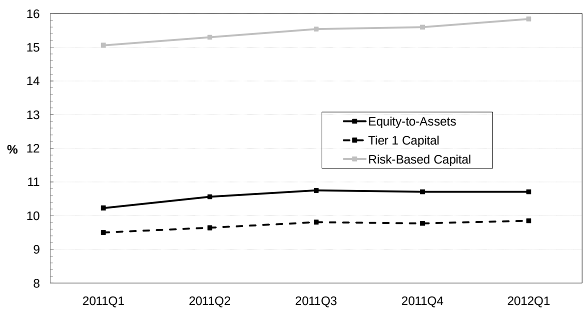
[27] The average ratio of total equity to total assets at all commercial banks from 2000 to 2010 was 9.80 percent.

Source: FDIC Historical Statistics on Banking, http://www2.fdic.gov/hsob/index.asp.

[28] Tier 1 leverage and risk-based capital are the two main ratios regulators use to determine if a bank is adequately capitalized. For further information, see the call report instructions at http://www.ffiec.gov/forms031.htm.

Figure 35

Regulatory Capital – All Community Banks

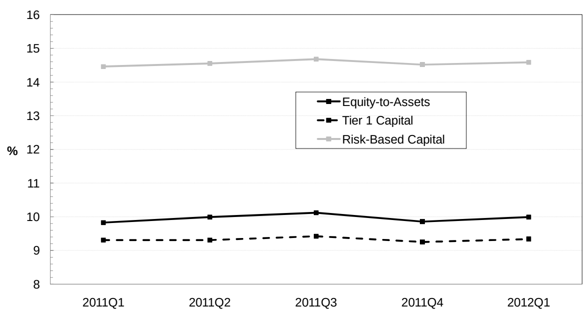


basis points since last year; and the risk-based capital ratio has increased 13 basis points for the year (Figure 36). However, both locally and nationally, most of these remained flat over the past quarter.

The primary drivers of these capital increases at community banks were additional retained earnings and surplus. Also, all categories of banks had relatively large unrealized gains on available-for-sale securities.

Figure 36

Regulatory Capital – Local Community Banks



Appendix – Data Tables for Each Section

Table 1 -Summary of Residential Real Estate Lending

	Large Organizations	Community Banks	
	Nation	Tri-State Area	Nation
1. Year-over-year growth			
Total RRE loans	1.2%	1.9%	7.1%
RRE NPLs	5.8%	6.8%	2.6%
RRE NCOs	-17.6%	76.4%	-17.6%
2. Shares			
RRE Lns/Total Lns	34.3%	31.8%	26.7%
RRE NPLs/Total NPLs	71.8%	23.1%	21.7%
RRE NCOs/Total NCOs	49.6%	19.4%	23.2%
3. Performance Ratios			
RRE NPLs/Total RRE Lns	9.63%	2.10%	2.54%
RRE NCOs/Avg. RRE Lns	0.40%	0.11%	0.12%
4. Outstandings ($millions)			
Total RRE Lns	1,687,267.6	19,395.1	315,601.8
RRE NPLs	162,446.6	407.0	8,004.5
RRE NCOs	6,643.7	21.3	378.2

Table 2 - Summary of Commercial Real Estate Lending

	Large Organizations	Community Banks	
	Nation	Tri-State Area	Nation
1. Year-over-year growth			
Total CRE loans	-3.4%	2.9%	-1.6%
CRE NPLs	-33.9%	-5.4%	-17.9%
CRE NCOs	-55.8%	-28.2%	-46.7%
2. Shares			
CRE Lns/Total Lns	16.1%	46.4%	44.0%
CRE NPLs/Total NPLs	17.0%	66.8%	64.0%
CRE NCOs/Total NCOs	11.9%	65.2%	50.3%
3. Performance Ratios			
CRE NPLs/Total CRE Lns	4.86%	4.15%	4.54%
CRE NCOs/Avg. CRE Lns	0.20%	0.26%	0.16%
4. Outstandings ($millions)			
Total CRE Lns	792,487.0	28,321.9	520,733.1
CRE NPLs	38,520.9	1,176.2	23,629.4
CRE NCOs	1,588.6	71.6	820.5

Table 3 - Summary of Commercial & Industrial Lending

	Large Organizations	Community Banks	
	Nation	Tri-State Area	Nation
1. Year-over-year growth			
Total C&I loans	17.5%	7.9%	6.0%
C&I NPLs	-33.3%	-13.7%	-13.0%
C&I NCOs	-47.0%	-22.5%	-25.9%
2. Shares			
C&I Lns/Total Lns	21.7%	13.4%	15.6%
C&I NPLs/Total NPLs	4.6%	7.7%	9.5%
C&I NCOs/Total NCOs	8.4%	14.3%	24.3%
3. Performance Ratios			
C&I NPLs/Total C&I Lns	0.98%	1.65%	1.89%
C&I NCOs/Avg. C&I Lns	0.11%	0.20%	0.22%
4. Outstandings ($millions)			
Total C&I Lns	1,066,174.8	8,204.6	184,158.8
C&I NPLs	10,488.4	135.0	3,488.9
C&I NCOs	1,123.8	15.7	396.6

Table 4 - Summary of Consumer Lending

	Large Organizations	Community Banks	
	Nation	Tri-State Area	Nation
1. Year-over-year growth			
Total Consumer loans	2.3%	-4.0%	-1.4%
Consumer NPLs	-11.7%	5.0%	-0.6%
Consumer NCOs	-39.8%	-76.1%	-24.5%
2. Shares			
Consumer Lns/Total Lns	14.2%	3.1%	4.3%
Consumer NPLs/Total NPLs	4.4%	0.7%	1.0%
Consumer NCOs/Total NCOs	28.8%	1.3%	5.4%
3. Performance Ratios			
Cons NPLs/Total Cons Lns	1.41%	0.62%	0.75%
Cons NCOs/Avg. Cons Lns	0.56%	0.07%	0.17%
4. Outstandings ($millions)			
Total Consumer Lns	697,193.7	1,901.0	51,161.6
Consumer NPLs	9,858.1	11.7	381.3
Consumer NCOs	3,866.9	1.4	88.6

Table 5 - Provision for Loan Losses and Loan-Loss Reserves

	Large Organizations	Community Banks	
	Nation	Tri-State Area	Nation
Loan-loss Reserve ($Millions)	126,006.4	1,015.6	23,144.8
Change from Last Quarter	-11.1%	0.3%	1.7%
Change from Last Year	-14.5%	1.4%	-4.4%
Net Charge-Offs/LL Provision	155.17%	97.94%	98.19%
LL Provision/Operating Inc.	7.44%	10.61%	7.79%
Loan-loss Coverage Ratio	55.67%	57.68%	62.70%

Table 6 - Summary of Securities Portfolios

	Large Organizations	Community Banks	
	Nation	Tri-State Area	Nation
Securities/Assets	21.3%	23.0%	23.5%
Market Value ($Millions)	2,127,830.9	21,639.2	456,101.6
Change from Last Quarter	16.1%	8.7%	28.0%
Change from Last Year	9.6%	8.4%	15.8%
Realized Gain/Loss	1,348,489	16,936	341,430
Pct of Average Securities	0.06%	0.08%	0.08%
Market Value/Book Value	101.79%	102.11%	102.07%

Table 7 - Structure of Liabilities

	Large Organizations	Community Banks	
	Nation	Tri-State Area	Nation
Deposits ($millions)	7,287,143.6	78,778.5	1,609,190.9
Pct. of Assets	72.9%	83.9%	83.0%
Change from Last Quarter	4.0%	3.3%	13.2%
Change from Last Year	8.2%	6.6%	5.8%
Core Deposits/Deposits	37.2%	67.9%	66.7%
Implicit Rate on Deposits	0.43%	0.96%	0.90%
Nondeposit Debt ($millions)	1,004,682.8	4,756.7	106,700.4
Pct. of Assets	10.0%	5.1%	5.5%
Change from Last Quarter	3.6%	-6.5%	-3.4%
Change from Last Year	-11.9%	5.1%	0.4%
Implicit Rate on Debt	1.69%	2.64%	2.28%

Table 8 - Capitalization Measures

	Large Organizations	Community Banks	
Ratios	Nation	Tri-State Area	Nation
Total Equity/Total Assets	11.08%	9.99%	10.71%
Change fr. Last Qtr. (basis pts)	+18	+13	0
Change fr. Last Yr. (basis pts)	-2	+16	+68
Tier 1 Leverage Ratio	8.61%	9.34%	9.85%
Change fr. Last Qtr. (basis pts)	+20	+9	+8
Change fr. Last Yr. (basis pts)	+4	+3	+35
Risk-Based Capital Ratio	14.88%	14.59%	15.84
Change fr. Last Qtr. (basis pts)	+23	+7	+24
Change fr. Last Yr. (basis pts)	-13	+13	+78