First Quarter 2015 Highlights

Federal Reserve Bank of Philadelphia
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Recent Trends in Tristate and U.S. Banking Markets

The first quarter of 2015 showed signs of robust loan growth among small banks and moderate growth among large banks. For small banks, both nationally and regionally, commercial and industrial (C&I), real estate, and consumer loan totals increased by double-digit rates from the first quarter of 2014. For large U.S. banks, C&I lending increased from 2014, and real estate lending stalled. With net interest margins holding nearly constant, the increased loan activity boosted banks' profitability. Adding to the positive lending environment for banks this quarter, nonperforming loans as a share of total loans (NPL ratio) decreased for all classes of loans. Banks had already adjusted to the new capital requirements that went into effect in 2015. Lastly, house prices in the tristate area rose more slowly than in the rest of the nation.

Summary Table of Bank Structure and Conditions — First Quarter 2015

Small Banks

	U.S.			Tristate		
	$ Billions	% Change from		$ Billions	% Change from	
	2015Q1	2014Q4	2014Q1	2015Q1	2014Q4	2014Q1
Total Assets	2,112.0	15.82	8.84	117.3	6.41	8.33
Total Loans	1,376.2	15.71	13.06	83.1	10.54	12.32
C&I	222.5	20.24	14.33	11.1	13.18	11.76
Real Estate	1,008.4	16.97	12.17	63.9	7.65	10.43
Consumer	56.3	-0.42	10.28	3.1	6.70	18.43
Total Deposits	1,748.7	16.88	7.66	94.7	6.77	5.98
Ratios (in %)						
	2015Q1	2014Q4	2014Q1	2015Q1	2014Q4	2014Q1
Net Income/Avg. Assets (ROAA)	0.99	0.97	0.96	0.89	0.88	0.83
Net Interest Inc./Avg. Assets (NIM)	3.35	3.36	3.35	3.17	3.17	3.18
Noninterest Inc./Avg. Assets	0.92	0.91	0.94	1.22	1.22	1.25
Noninterest Exp./Avg. Assets	2.92	2.94	3.02	3.10	3.11	3.18
Loans/Deposits	78.70	78.90	74.94	87.72	86.96	82.76
Equity/Assets	11.08	10.97	10.79	10.47	10.19	10.07
Nonperforming Loans/Total Loans	1.17	1.24	1.69	1.15	1.23	1.53

Large Banks

	U.S.		
	$ Billions	% Change from	
	2015Q1	2014Q4	2014Q1
Total Assets	11,888.6	5.79	7.44
Total Loans	5,821.1	3.03	6.53
C&I	1,393.8	8.86	9.14
Real Estate	2,676.8	2.22	1.38
Consumer	849.6	-8.25	15.86
Total Deposits	8,953.9	5.78	7.19
Ratios (in %)			
	2015Q1	2014Q4	2014Q1
Net Income/Avg. Assets (ROAA)	0.95	0.94	0.93
Net Interest Inc./Avg. Assets (NIM)	2.45	2.47	2.46
Noninterest Inc./Avg. Assets	1.67	1.67	1.70
Noninterest Exp./Avg. Assets	2.63	2.66	2.69
Loans/Deposits	65.01	65.44	65.42
Equity/Assets	10.95	10.91	11.02
Nonperforming Loans/Total Loans	1.97	2.12	2.74

Source: Unless otherwise noted, all data are from Federal Financial Institutions Examination Council (FFIEC) Call Reports.

Notes: The data are adjusted for mergers. Quarterly percentage changes are compound annualized rates except where noted. Ratios are aggregates; that is, the numerators and denominators are summed across all banks in the group, then divided.

Large U.S. banks are defined as banking organizations such as bank holding companies that are ranked in the top 100 in banking assets as of December 31, 2014, including assets of only their commercial bank subsidiaries. Large banks typically operate in multiple regions. The number of large banks may exceed 100 if during the calendar year some banking organizations' assets grow larger than those of the 100th largest bank at the beginning of the year.

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.

Small tristate banks are defined as those based in the tristate area that were not in the top 100 in assets as of December 31, 2014.

The *tristate* area consists of Pennsylvania, New Jersey, and Delaware.

Small U.S. banks are defined as those based outside the tristate area that were not in the top 100 in assets as of December 31, 2014, including assets of only their commercial bank subsidiaries.

U.S. excludes tristate banks.

The sample includes 158 small tristate banks, 4,899 small U.S. banks, and 102 large U.S. banks.

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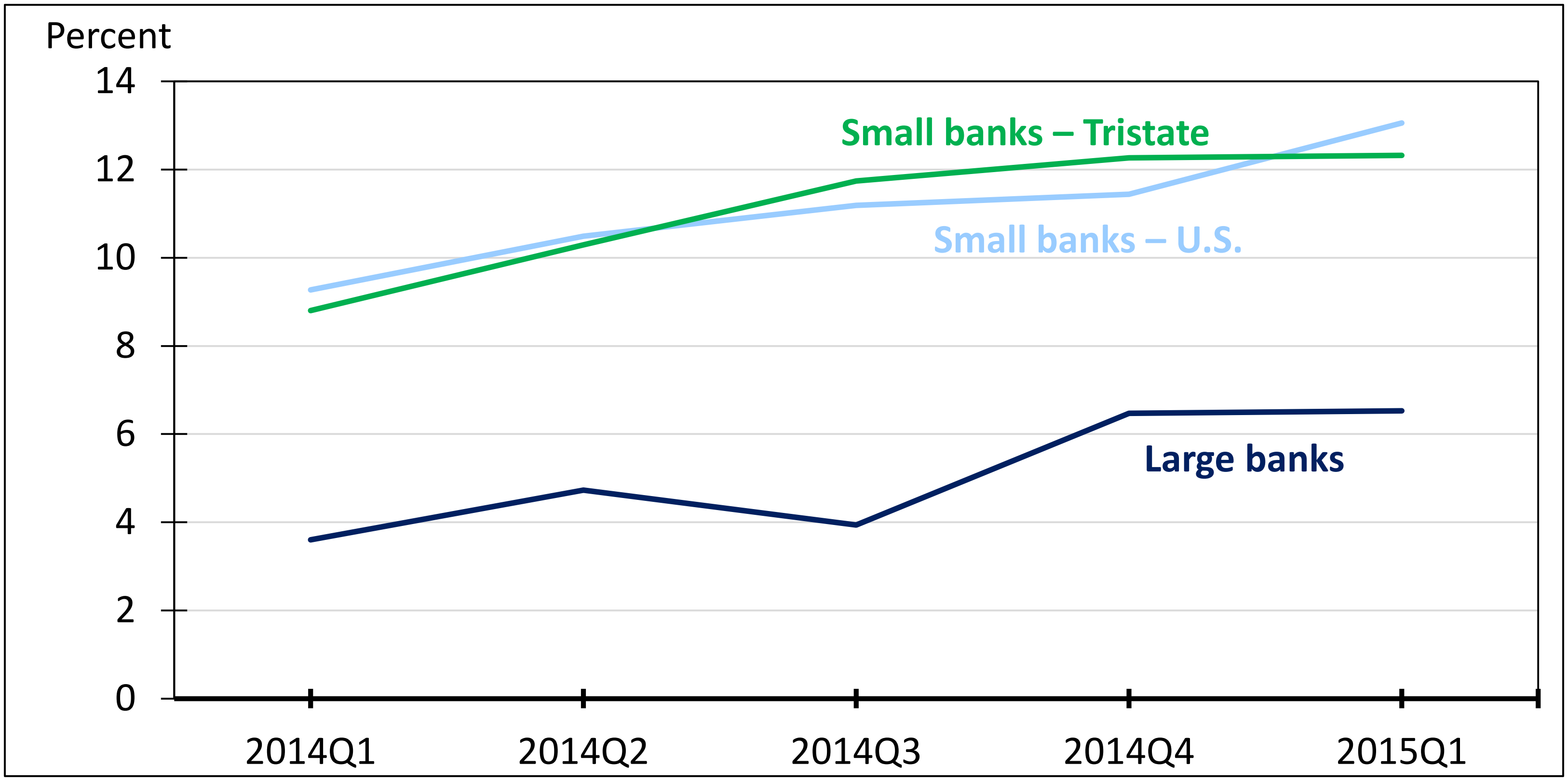
Chart 1

Robust Loan Growth Continues at Large and Small Banks

Annual growth of total loans.

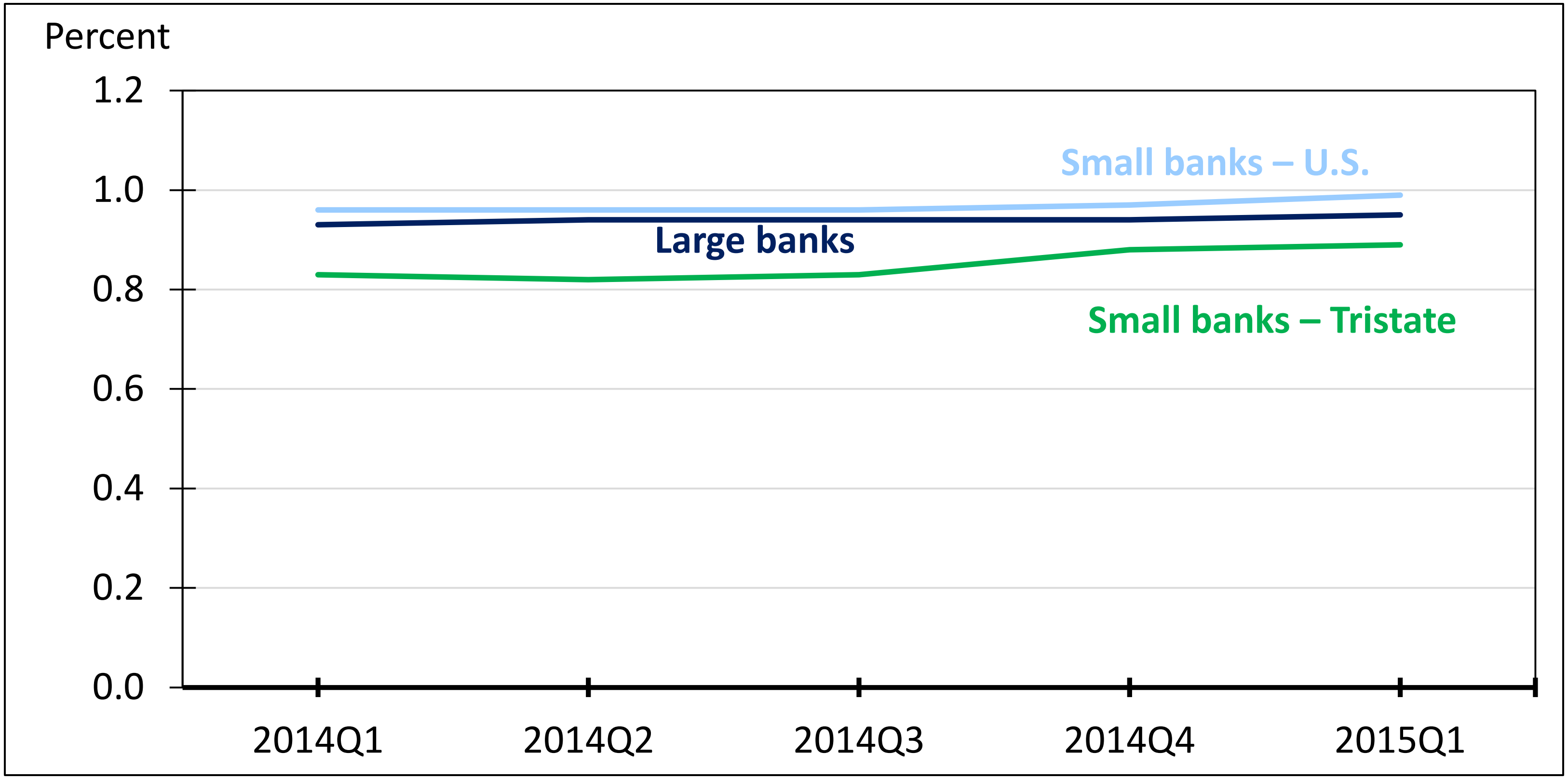


Growth of commercial and industrial (C&I) loans at small banks was particularly robust. At large banks, C&I lending remained strong and real estate lending was flat.

Chart 2

Profitability Increased Modestly at Large and Small Banks

Return on average assets (ROAA).

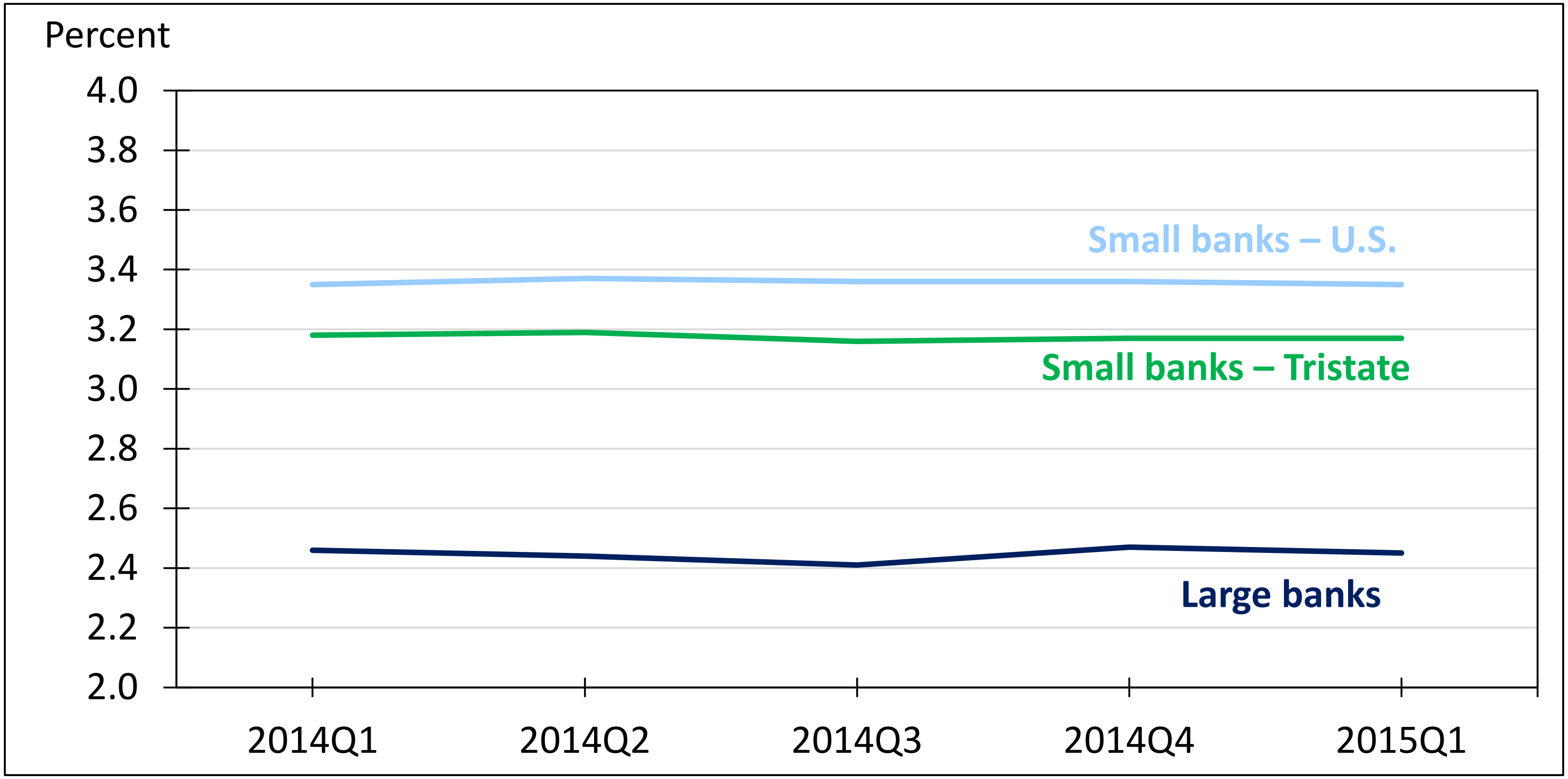


ROAA remains slightly below the 20-year average for all banks of 1.04 percent.

Chart 3

Loan Margins Remained Steady Despite Rapid Loan Growth

Net interest margin.

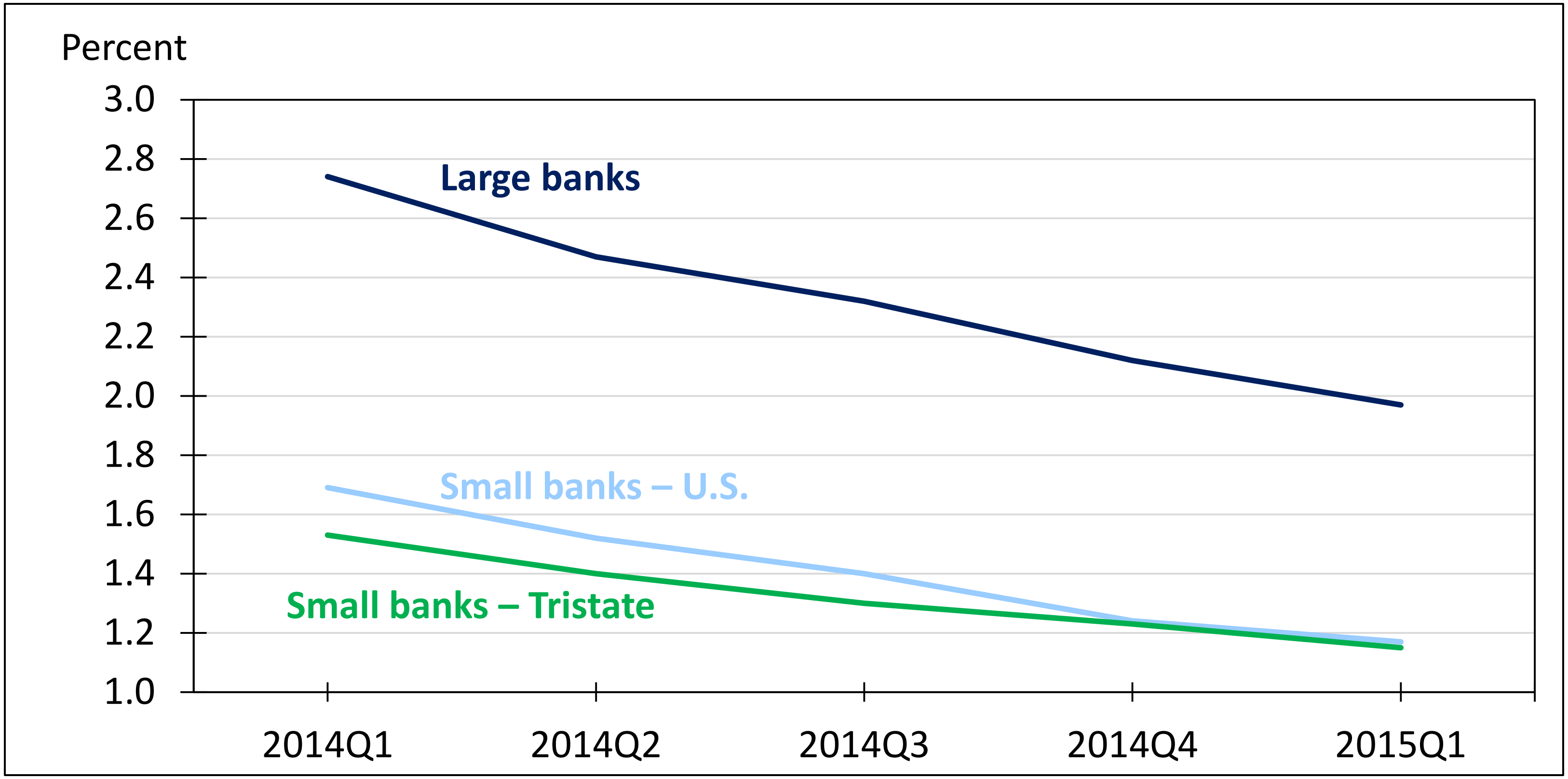


The growth in loans fueled increased profitability, as net interest margins were basically unchanged from the year before.

Chart 4

Bad Loans Decreased for All Types of Banks

Nonperforming loans as a share of total loans.

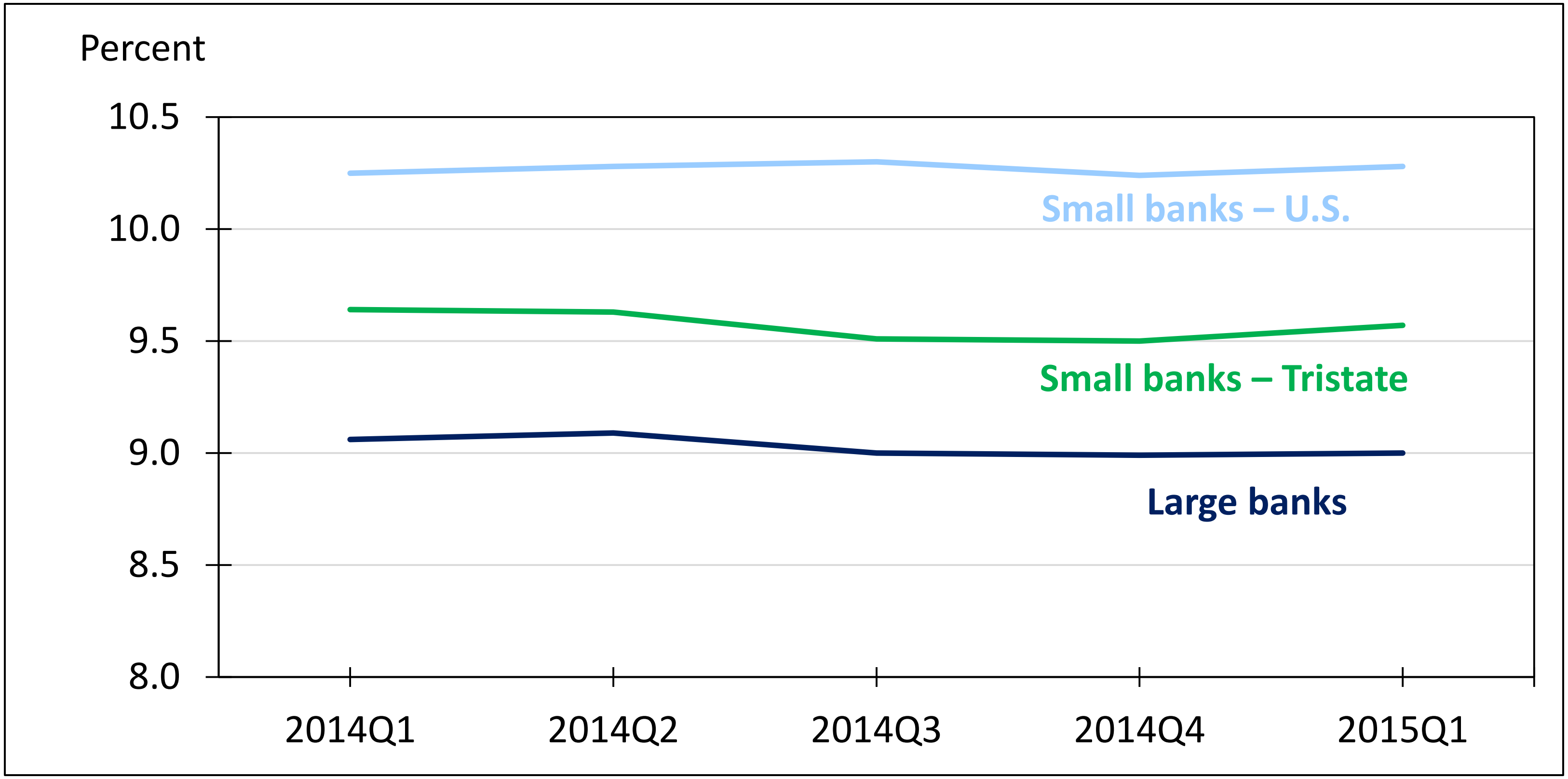


The ratio of nonperforming loans — those that are 90 or more days past due plus nonaccruing loans — to total loans (NPL ratio) decreased substantially for all categories of banks. Moreover, the NPL ratios decreased for C&I, real estate, and consumer loans.

Chart 5

Capital Ratios Had Already Risen Ahead of New Regulations

Tier one leverage ratios.



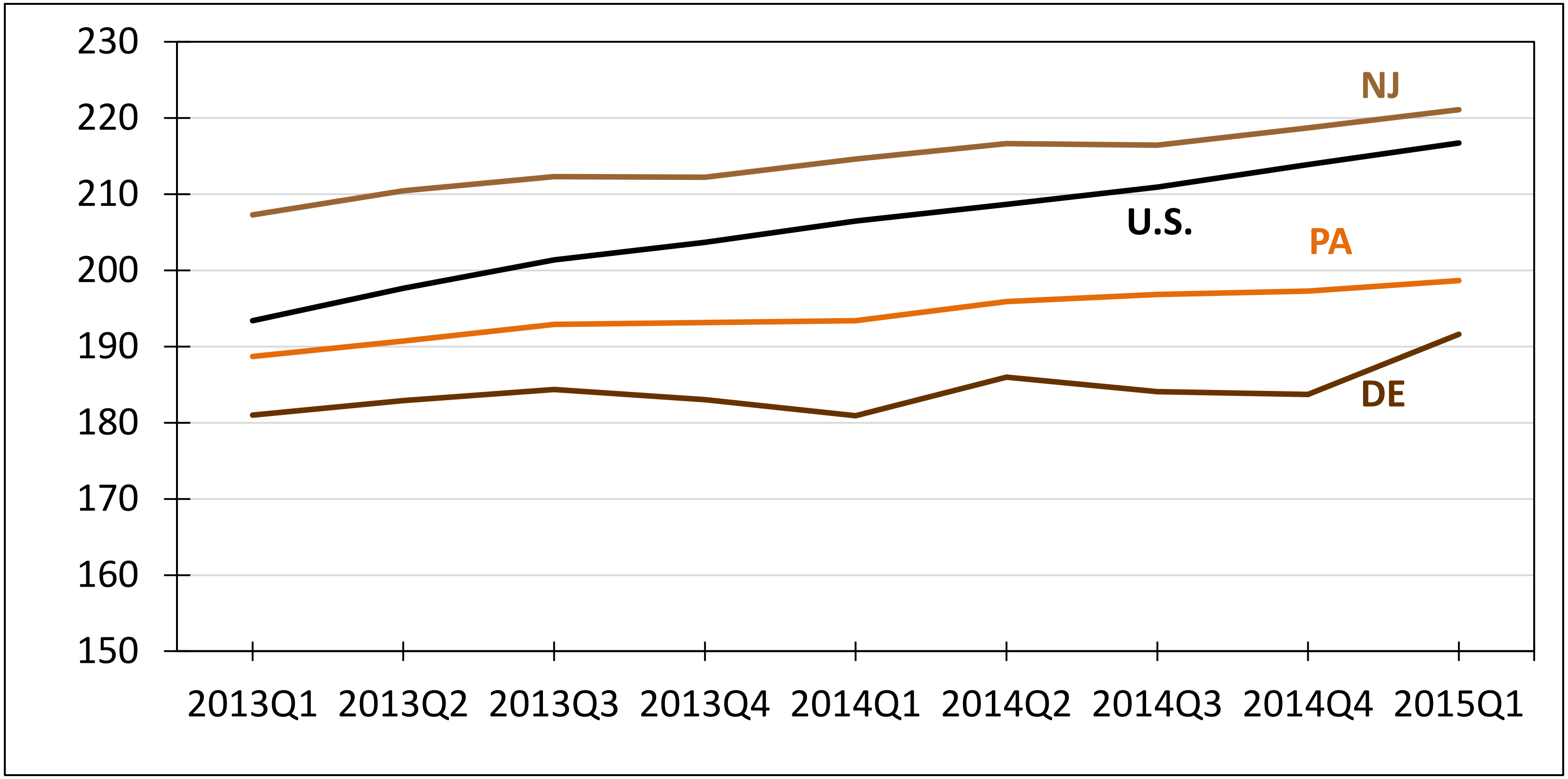
Note: A bank's tier one leverage ratio is calculated by dividing its tier one capital (the numerator of the ratio) by its average total consolidated assets (the denominator of the ratio). For a more detailed definition, see 12 CFR part 225, Appendix D.

Stricter capital requirements were imposed in 2015 for all banks; stricter requirements were already in place for large banks. These had little immediate effect, as banks had raised capital levels in the preceding years. For a summary of the new regulations, see *Banking Brief* (First Quarter 2014).

Chart 6

Tristate House Price Increases Lag Rest of Nation

Federal Housing Finance Agency (FHFA) house price index.



Source: Federal Housing Finance Agency via Haver Analytics.

Note: Index, 1991=100.

The FHFA's housing price index shows that house prices are lower in Pennsylvania and Delaware than in the rest of the nation. The index also shows that house price increases are smaller in all three states than in the nation as a whole.

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