# Banking Brief

RESEARCH DEPARTMENT

## Third Quarter 2020 Highlights

# Summary Table of Bank Structure and Conditions

**Third Quarter 2020**

| | Small Banks: U.S. $ Billion | % Change From | | Tristate $ Billion | % Change From | | Large Banks: U.S. | $ Billion | % Change From | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **20Q3** | **20Q2** | **19Q3** | **20Q3** | **20Q2** | **19Q3** | | **20Q3** | **20Q2** | **19Q3** |
| **Total Assets** | 2,782.4 | 6.20 | 19.43 | 199.9 | 5.01 | 24.08 | Total Assets* | 16,208.4 | 0.06 | 14.52 |
| **Total Loans** | 1,926.8 | 5.82 | 17.13 | 150.8 | 6.77 | 23.04 | Total Loans* | 7,727.6 | -5.67 | 3.74 |
| C&I | 433.3 | 2.76 | 72.07 | 40.8 | 19.16 | 134.45 | C&I | 1,954.8 | -26.28 | 7.15 |
| Real Estate | 1,300.9 | 6.10 | 7.17 | 92.9 | -3.03 | 2.16 | Real Estate | 3,327.1 | 2.06 | 2.50 |
| Consumer | 70.0 | 10.36 | 3.87 | 8.4 | 21.77 | 24.56 | Consumer* | 1,097.3 | 1.73 | -2.60 |
| **Total Deposits** | 2,296.9 | 7.46 | 19.41 | 155.3 | 1.92 | 17.69 | Total Deposits | 13,057.5 | 2.41 | 20.49 |

| **Ratios (in %)** | **20Q3** | **20Q2** | **19Q3** | **20Q3** | **20Q2** | **19Q3** | **20Q3** | **20Q2** | **19Q3** |
|---|---|---|---|---|---|---|---|---|---|
| Net Income/Avg. Assets (ROA) | 1.12 | 1.14 | 1.26 | 0.80 | 0.86 | 1.14 | 0.58 | 0.64 | 1.25 |
| Net Interest Inc./Avg. Assets (NIM) | 3.27 | 3.36 | 3.50 | 2.91 | 3.02 | 3.20 | 2.31 | 2.43 | 2.72 |
| Noninterest Inc./Avg. Assets | 1.07 | 1.02 | 0.95 | 1.04 | 1.05 | 1.05 | 1.34 | 1.38 | 1.47 |
| Noninterest Exp./Avg. Assets | 2.69 | 2.74 | 2.82 | 2.53 | 2.62 | 2.74 | 2.30 | 2.35 | 2.39 |
| Loans/Deposits | 83.89 | 84.21 | 85.52 | 97.12 | 95.99 | 92.89 | 59.18 | 60.41 | 68.74 |
| Equity/Assets | 10.84 | 10.75 | 11.84 | 9.52 | 9.51 | 11.12 | 10.18 | 10.02 | 11.24 |
| Nonperforming Loans/Total Loans | 0.75 | 0.74 | 0.72 | 0.63 | 0.66 | 0.63 | 1.11 | 1.03 | 0.86 |

**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, 2019, 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, 2019. 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, 2019, including assets of only their commercial bank subsidiaries. *U.S.* excludes tristate banks. The sample includes 113 small tristate banks, 3,891 small U.S. banks, and 100 large U.S. banks. *Data for Large Banks were adjusted due to an internal merger at one institution during the second quarter of 2019 in which credit card loans previously held at a nonbanking subsidiary were brought onto the bank's balance sheet, thus making assets, loans, and consumer loans appear to grow at an extremely and artificially high rate.

## Recent Trends in Tristate and U.S. Banking Markets

Large and small banks' profitability continued to decline in the third quarter of 2020, with large banks facing the largest decline. Net interest margins (NIM) fell at all banks, most dramatically at large banks. Asset growth increased in all bank categories, most notably at small banks in the tristate region. Loans, especially commercial and industrial (C&I) loans, were the primary driver of asset growth at community banks, while loan growth was modest at large banks. In contrast, large bank asset growth was mainly due to a rapid increase in holdings of Treasury securities. This is also evident in capital ratios; large banks experienced a decline in the leverage ratio, while the risk-weighted capital ratio grew rapidly. Small banks, however, saw a decline in both the leverage ratio and the risk-weighted capital ratio. Nonperforming loans (NPLs) rose moderately for community banks but increased significantly at large banks.

CHART 1

**Profitability Fell for All Banks**

Percent

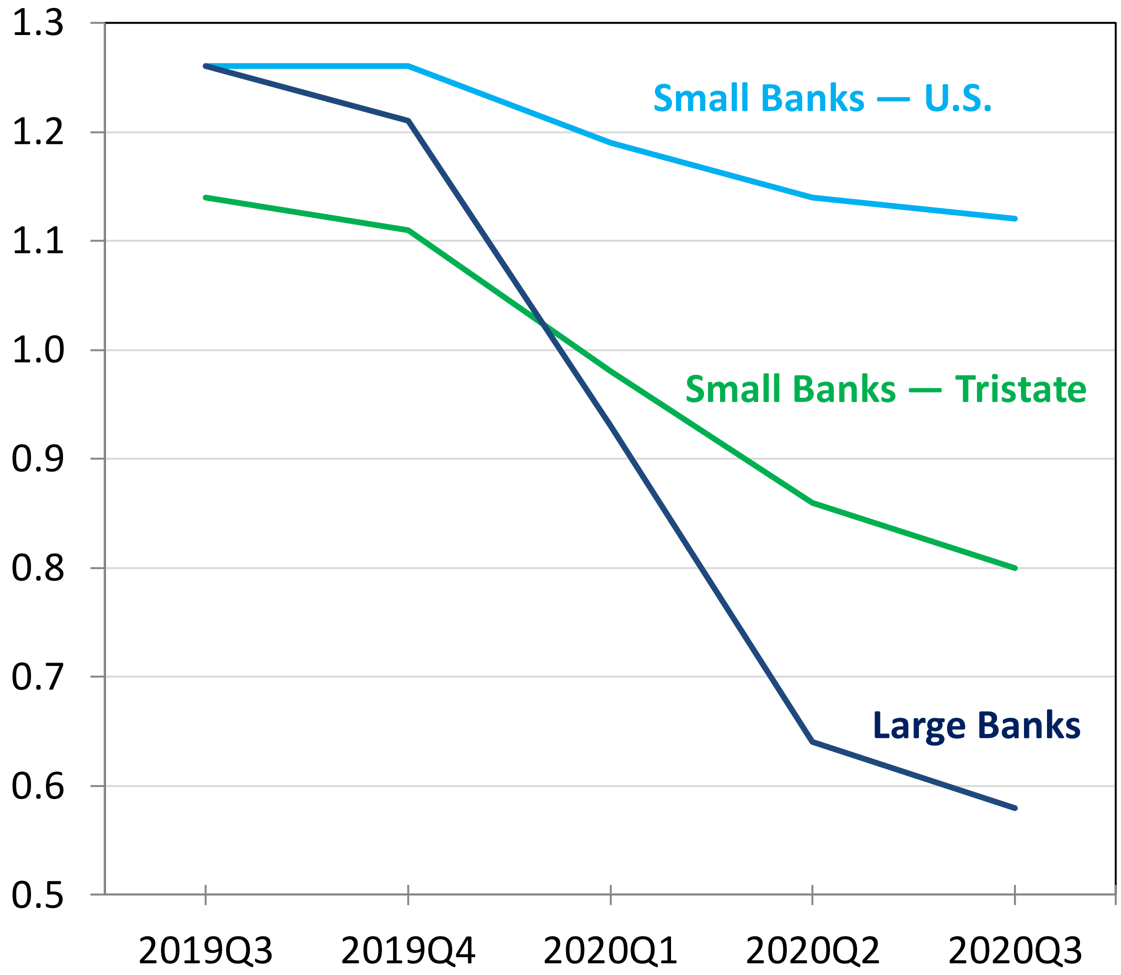


CHART 2

**NIM Continued to Decline**

Percent

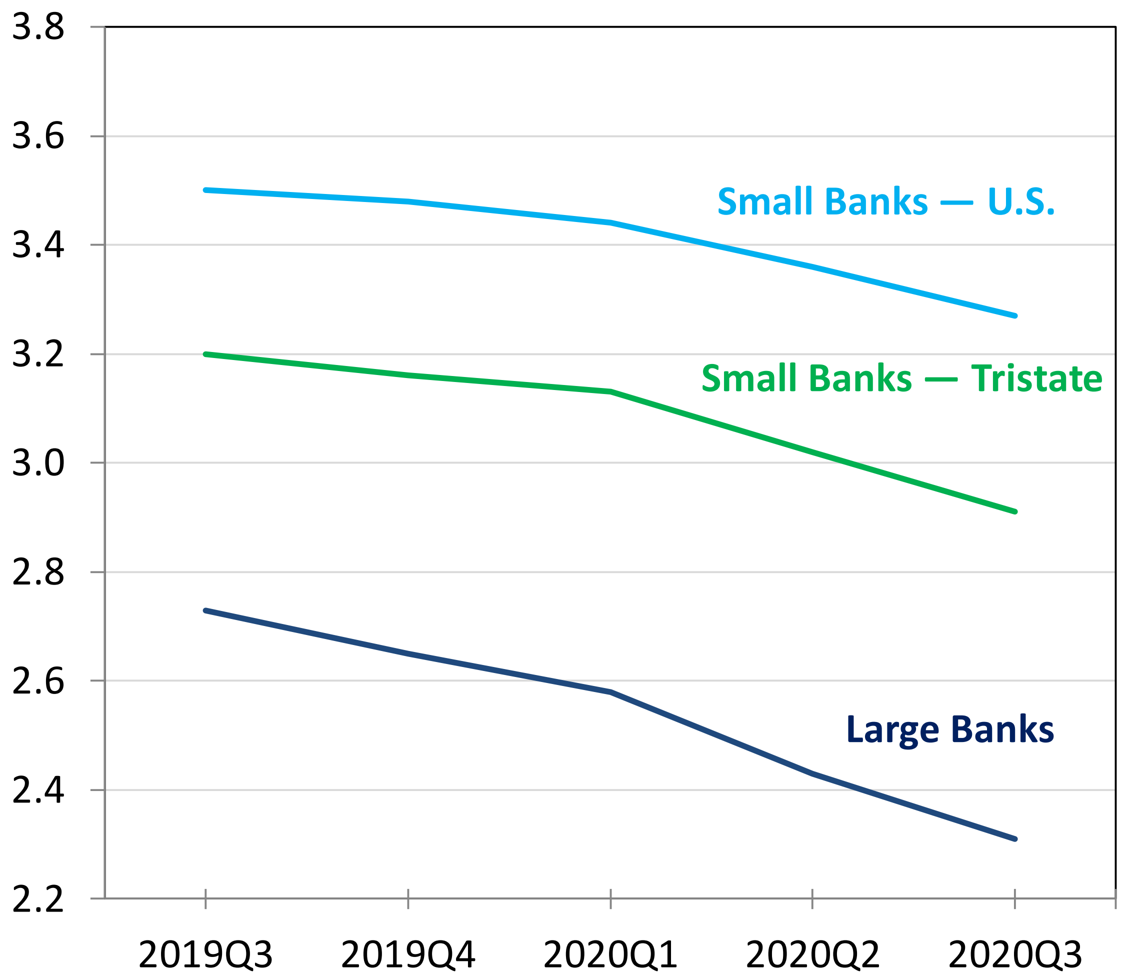
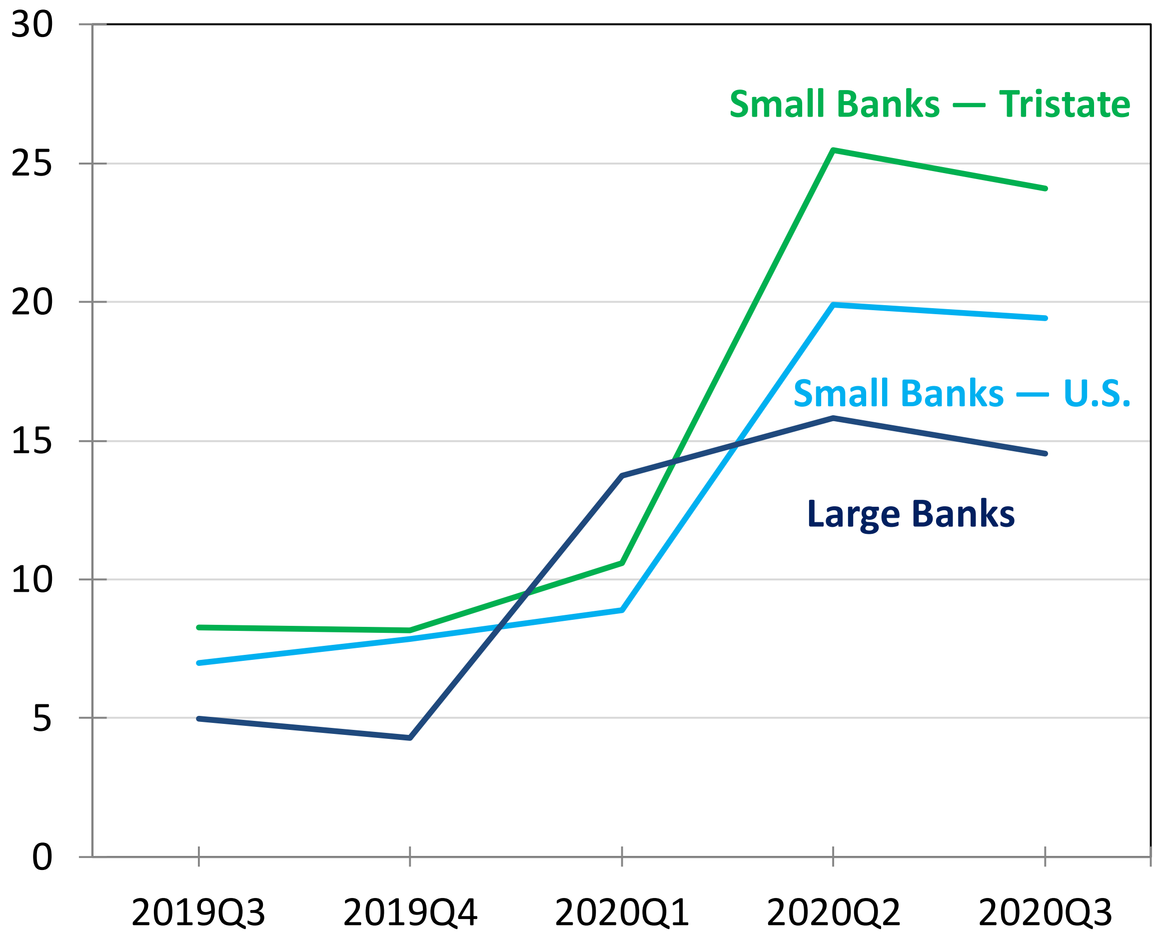


CHART 3

## Assets Grew for All Banks*

Percent




*Data for Large Banks were adjusted due to an internal merger at one institution during the second quarter of 2019 in which credit card loans previously held at a nonbanking subsidiary were brought onto the bank's balance sheet, thus making assets, loans, and consumer loans appear to grow at an extremely and artificially high rate.

CHART 4

**Small Banks Increased Lending***

Percent

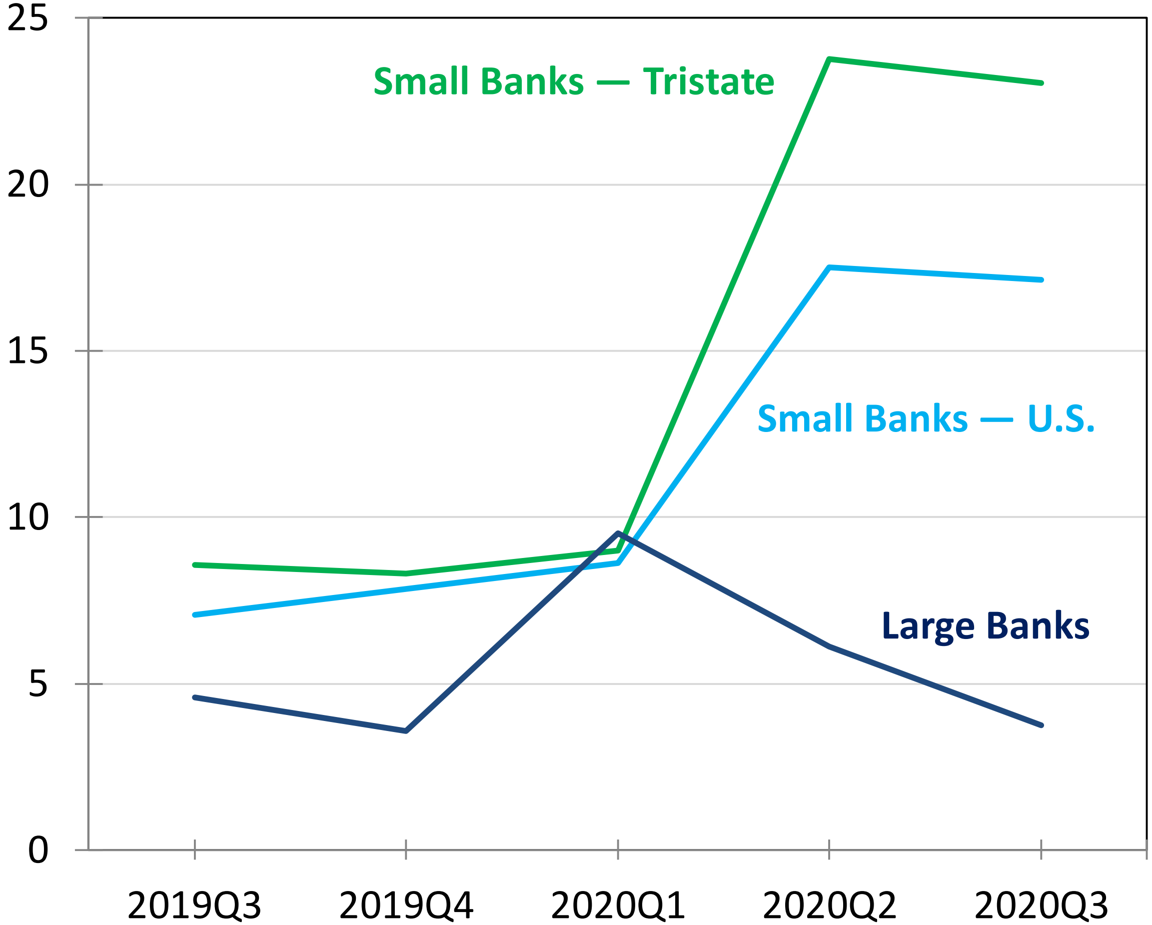



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CHART 5

**Commercial & Industrial Loans Drove Lending Growth at Small Banks**

Percent

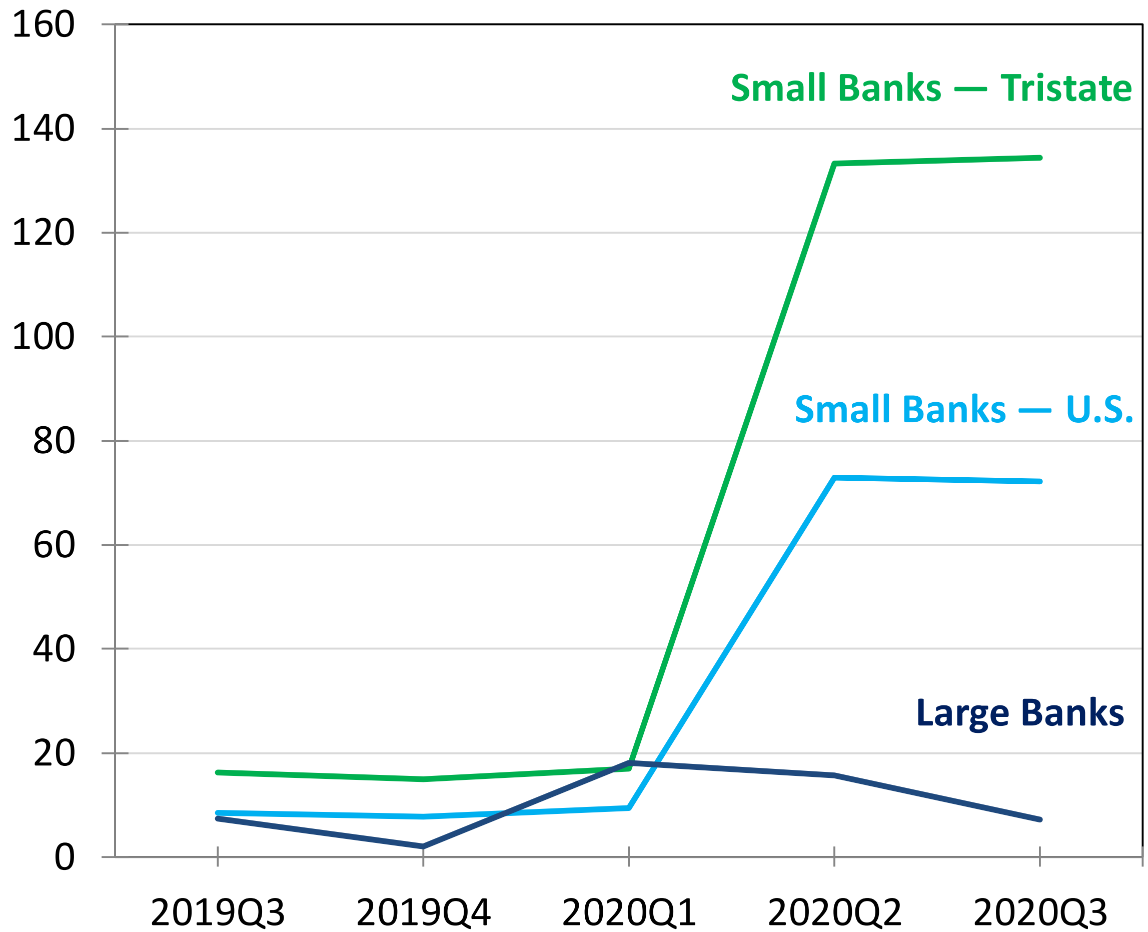


CHART 6

**Leverage Ratio Declined at All Banks**

Percent

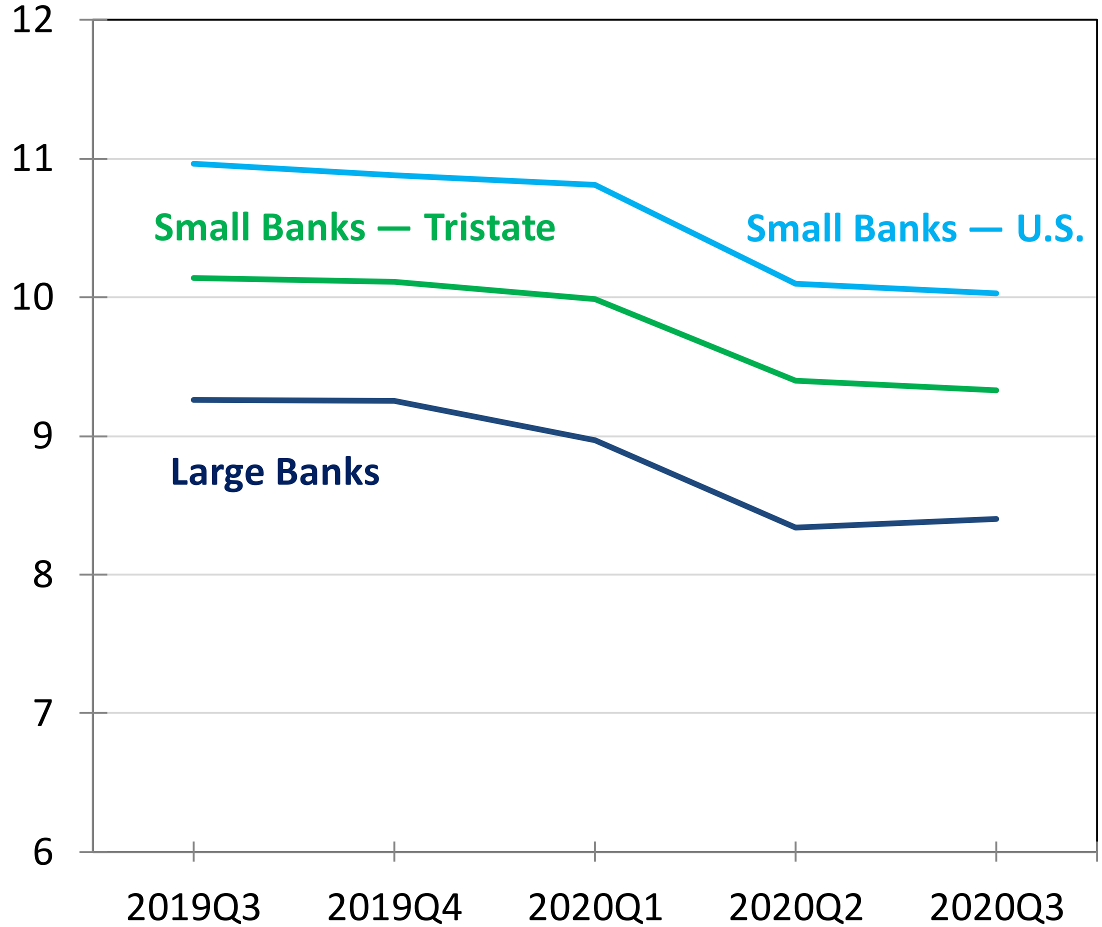


CHART 7

**Risk-Based Capital Ratio Increased for Large Banks**

Percent

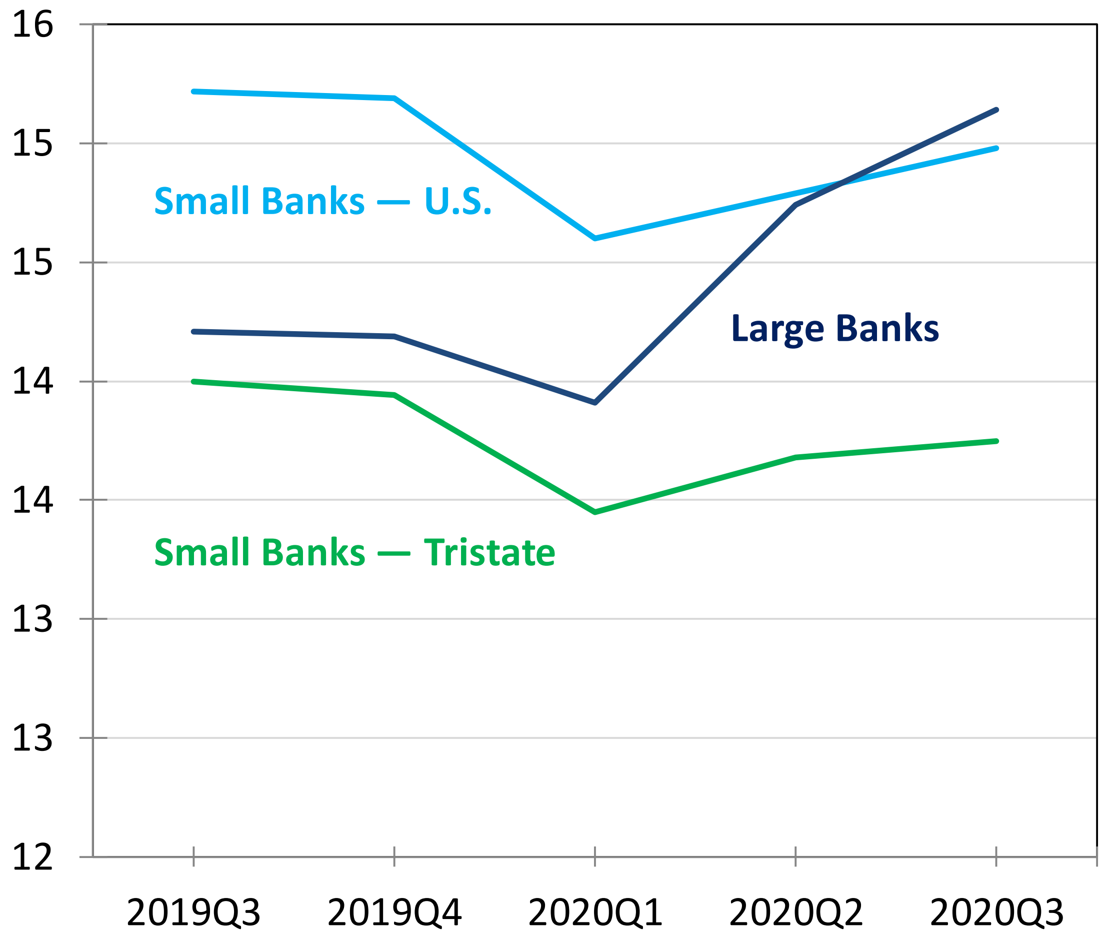
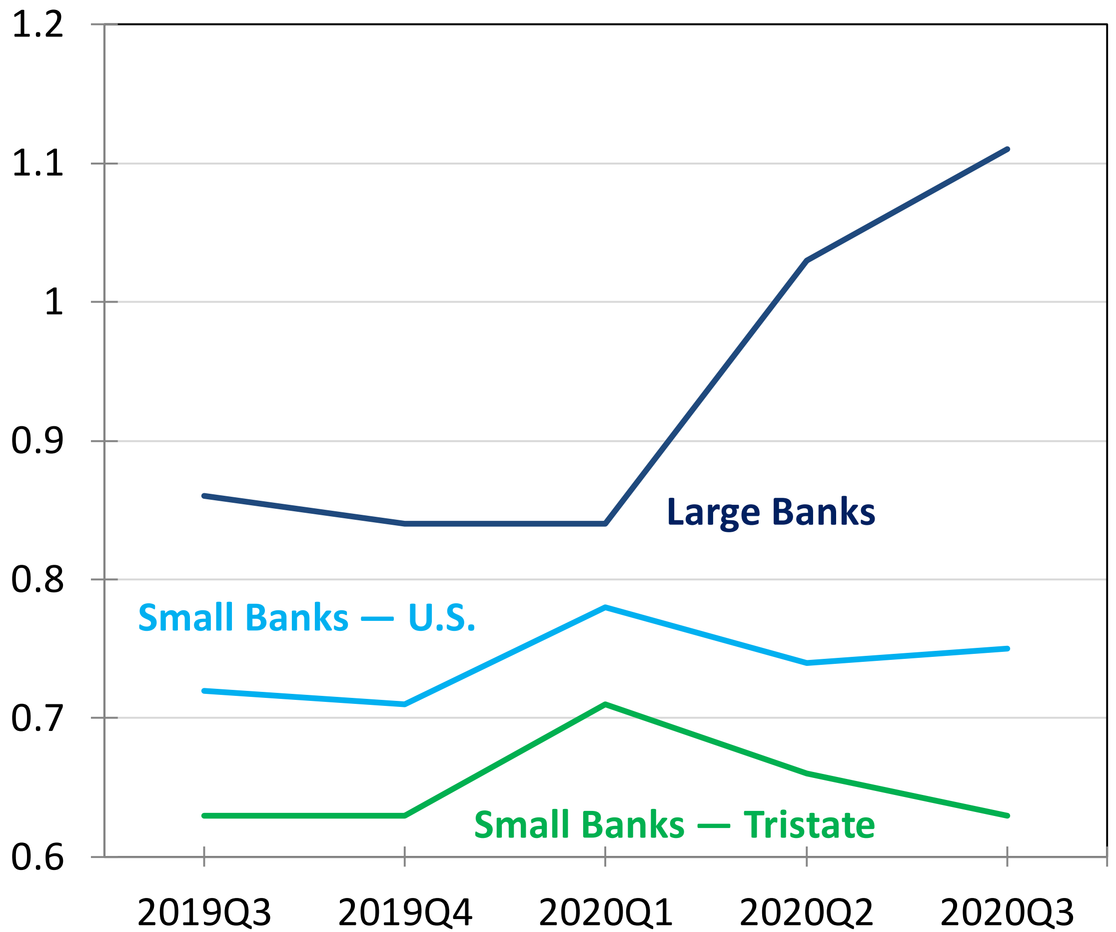


CHART 8

**Nonperforming Loans Increased Notably at Large Banks, Were Steady at Small**

Percent



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