



Second Quarter 2020 Highlights

FEDERAL RESERVE BANK OF PHILADELPHIA
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Summary Table of Bank Structure and Conditions — Second Quarter 2020

| | Small Banks | | | | | | Large Banks | | | |
|-------------------------------------|---------------|---------------|----------------------|---------------|---------------|---------------|-------------------------------------|----------------------|---------------|---------------|
| | \$ Billion | U.S. | | \$ Billion | Tristate | | \$ Billion | U.S. | | |
| | | 2020Q2 | % Change From 2020Q1 | | 2019Q2 | 2020Q2 | | % Change From 2020Q1 | 2019Q2 | 2020Q2 |
| Total Assets | 2,741.3 | 56.85 | 19.90 | 197.5 | 81.55 | 25.48 | Total Assets* | 16,205.6 | 13.64 | 15.81 |
| Total Loans | 1,900.0 | 52.04 | 17.48 | 148.3 | 84.55 | 23.78 | Total Loans* | 7,840.8 | -6.69 | 6.10 |
| C&I | 430.4 | 593.37 | 72.89 | 39.0 | 1685.41 | 132.83 | C&I | 2,109.7 | -5.16 | 15.66 |
| Real Estate | 1,281.9 | 5.57 | 7.41 | 93.6 | 3.31 | 4.11 | Real Estate | 3,309.8 | 1.30 | 2.46 |
| Consumer | 68.3 | -0.13 | 3.16 | 8.0 | 4.68 | 28.59 | Consumer* | 1,092.6 | -12.62 | -1.29 |
| Total Deposits | 2,256.4 | 58.20 | 19.63 | 154.5 | 57.06 | 20.76 | Total Deposits | 12,979.7 | 30.83 | 21.85 |
| Ratios (in %) | 2020Q2 | 2020Q1 | 2019Q2 | 2020Q2 | 2020Q1 | 2019Q2 | Ratios (in %) | 2020Q2 | 2020Q1 | 2019Q2 |
| Net Income/Avg. Assets (ROA) | 1.14 | 1.19 | 1.25 | 0.86 | 0.98 | 1.13 | Net Income/Avg. Assets (ROA) | 0.64 | 0.93 | 1.30 |
| Net Interest Inc./Avg. Assets (NIM) | 3.36 | 3.44 | 3.49 | 3.02 | 3.13 | 3.21 | Net Interest Inc./Avg. Assets (NIM) | 2.43 | 2.57 | 2.73 |
| Noninterest Inc./Avg. Assets | 1.02 | 0.99 | 0.93 | 1.05 | 1.08 | 1.04 | Noninterest Inc./Avg. Assets | 1.38 | 1.40 | 1.47 |
| Noninterest Exp./Avg. Assets | 2.74 | 2.82 | 2.81 | 2.62 | 2.73 | 2.75 | Noninterest Exp./Avg. Assets | 2.35 | 2.38 | 2.37 |
| Loans/Deposits | 84.20 | 85.04 | 85.74 | 95.99 | 92.20 | 93.65 | Loans/Deposits | 60.41 | 65.73 | 69.38 |
| Equity/Assets | 10.75 | 11.58 | 11.77 | 9.51 | 10.76 | 11.14 | Equity/Assets | 10.02 | 10.24 | 11.41 |
| Nonperforming Loans/Total Loans | 0.74 | 0.78 | 0.73 | 0.66 | 0.71 | 0.63 | Nonperforming Loans/Total Loans | 1.03 | 0.84 | 0.89 |

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 114 small tristate banks, 3,937 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 experienced a significant decline in profitability in the second quarter of 2020 as net interest margins fell at both large and small banks. Asset growth increased in all bank categories, most notably at small banks both in the tristate region and in the nation. Total lending grew, with small banks' increase largely driven by Commercial and Industrial (C&I) loans. In turn, C&I loan growth at small banks was driven by Paycheck Protection Program* (PPP) lending. Small banks experienced a moderate increase in Non-Performing Loans (NPLs) due to the regulatory guidance to treat loans in forbearance as performing loans; NPLs increased significantly at large banks. The Commercial Real Estate (CRE) NPL ratio trended upward for both small and large banks as the COVID-19–related downturn affected a wide range of real estate borrowers, including malls and REITs. All bank categories saw total deposits surge with borrowers depositing their funds at banks. Bank capital declined as regulators instructed banks to use their capital cushions to support borrowers. Additionally, the Coronavirus Aid, Relief, and Economic Security (CARES) Act** relaxed capital requirements for community banks to help further support their borrowers.

* The Small Business Administration (SBA) administers the Paycheck Protection Program, which it defines as “a loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. SBA will forgive loans if all employee retention criteria are met, and the funds are used for eligible expenses.”

** In addition to providing direct relief to individuals, the CARES Act reduced the leverage ratio requirements for community banks from 9% to 8% through the end of 2020.

CHART 1

Decline in NIM due to Lower Market Rates and Forbearance

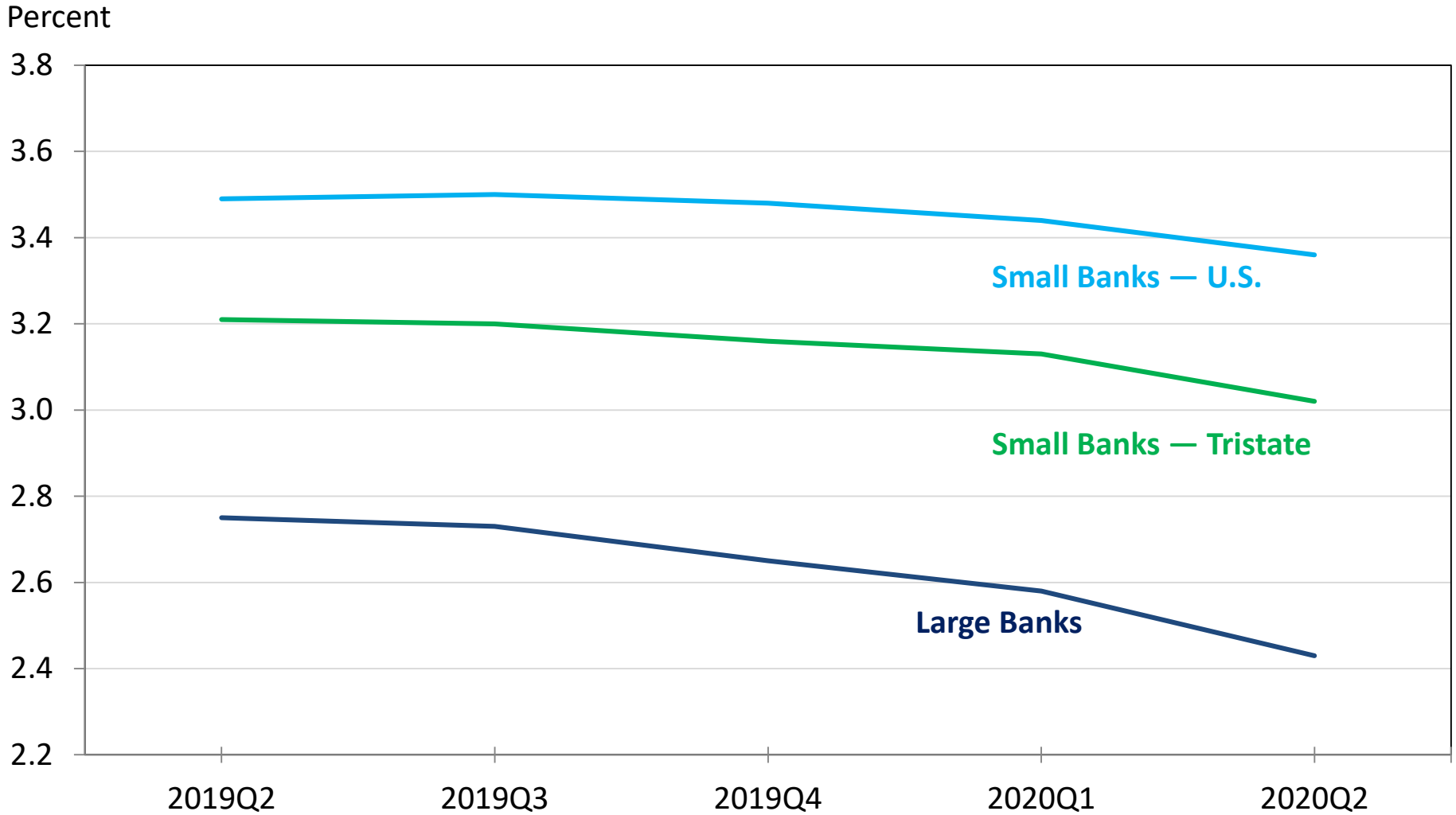


CHART 2 Large Decrease in Profitability at All Banks

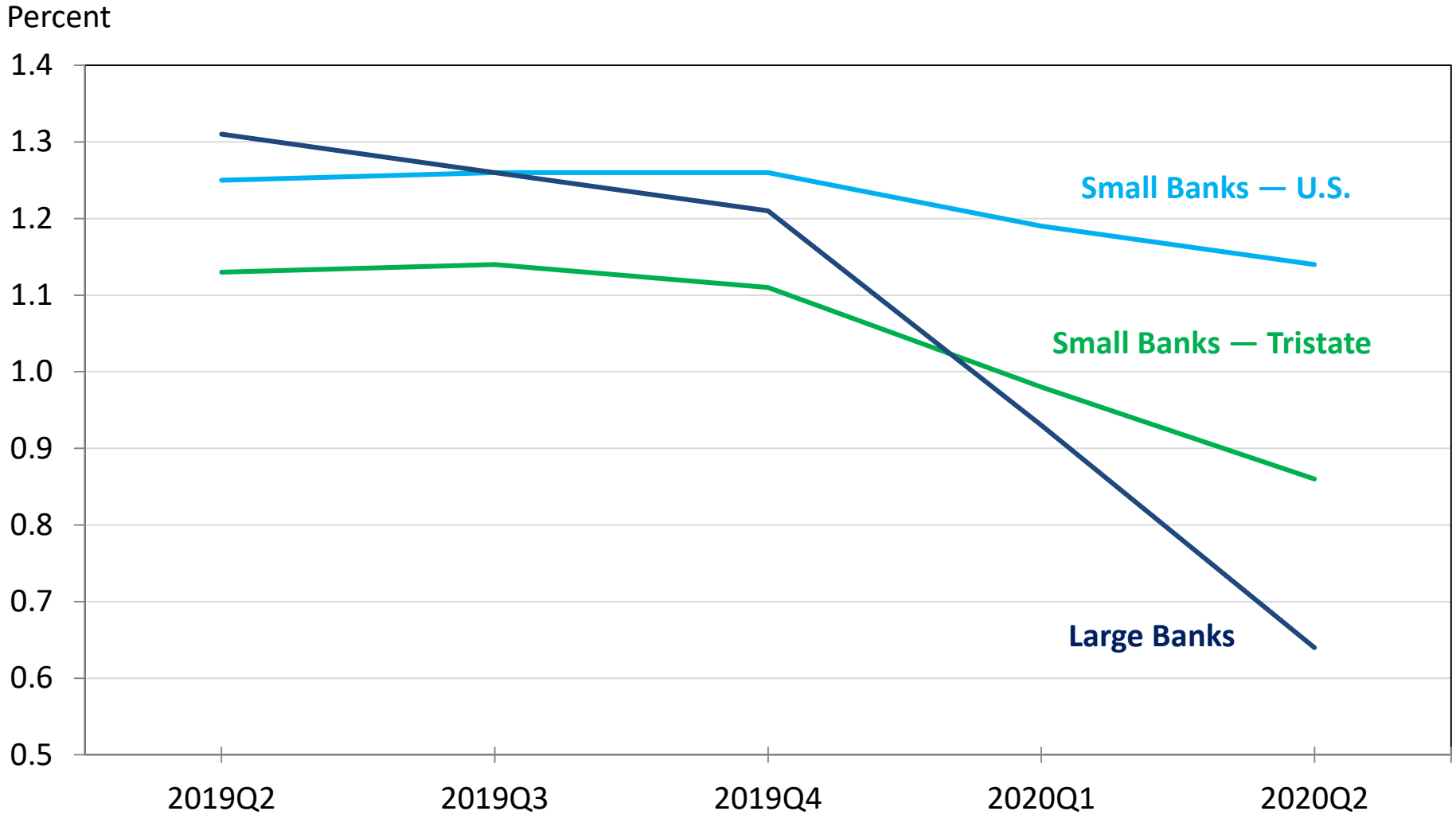
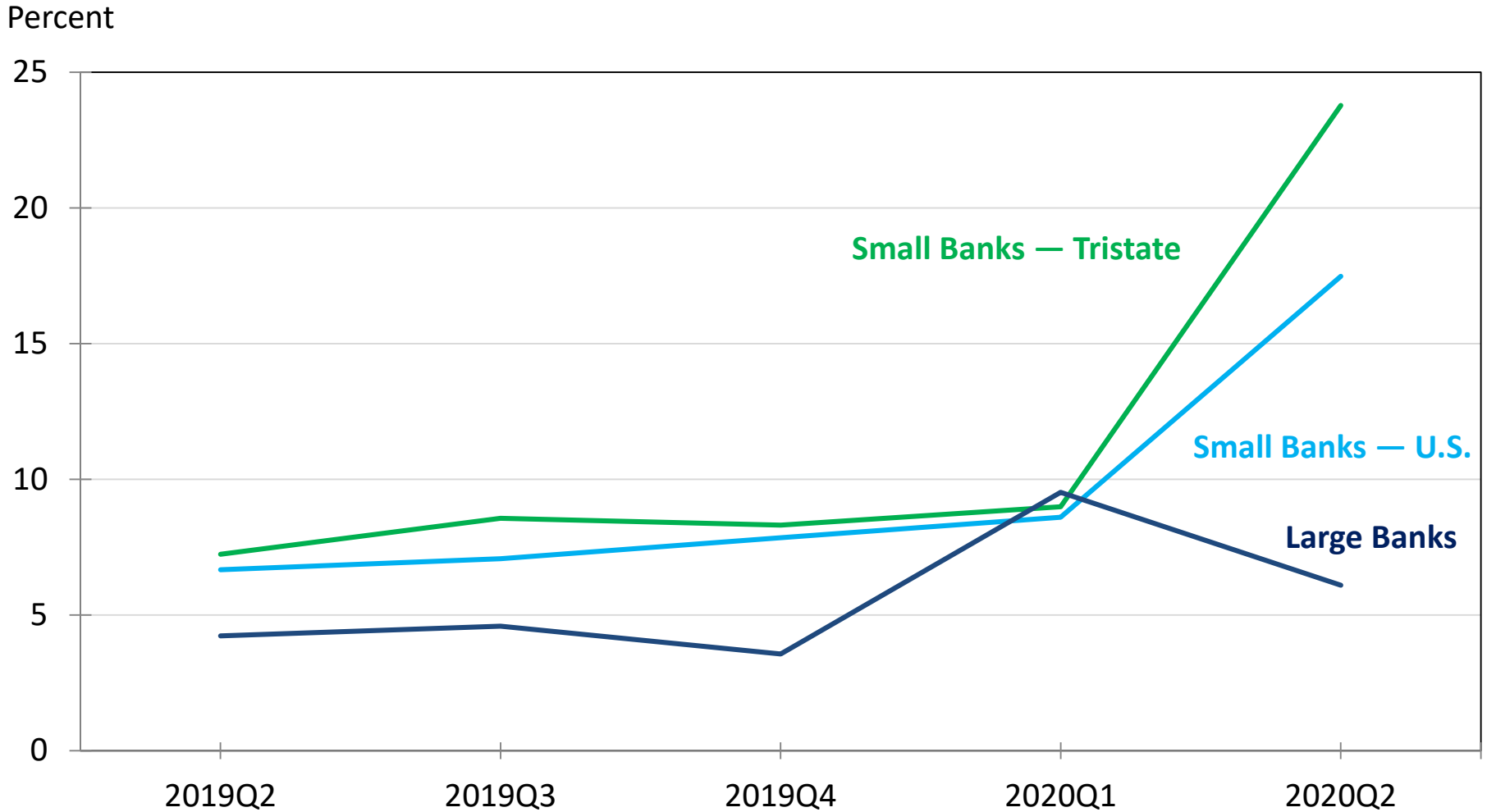


CHART 3

Large Increase in Lending at Small Banks, Moderate Growth at Large 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.

CHART 4

C&I Loans Driven by PPP Loans and Loans Taken Down Under Pre-Existing Lines of Credit

Percent

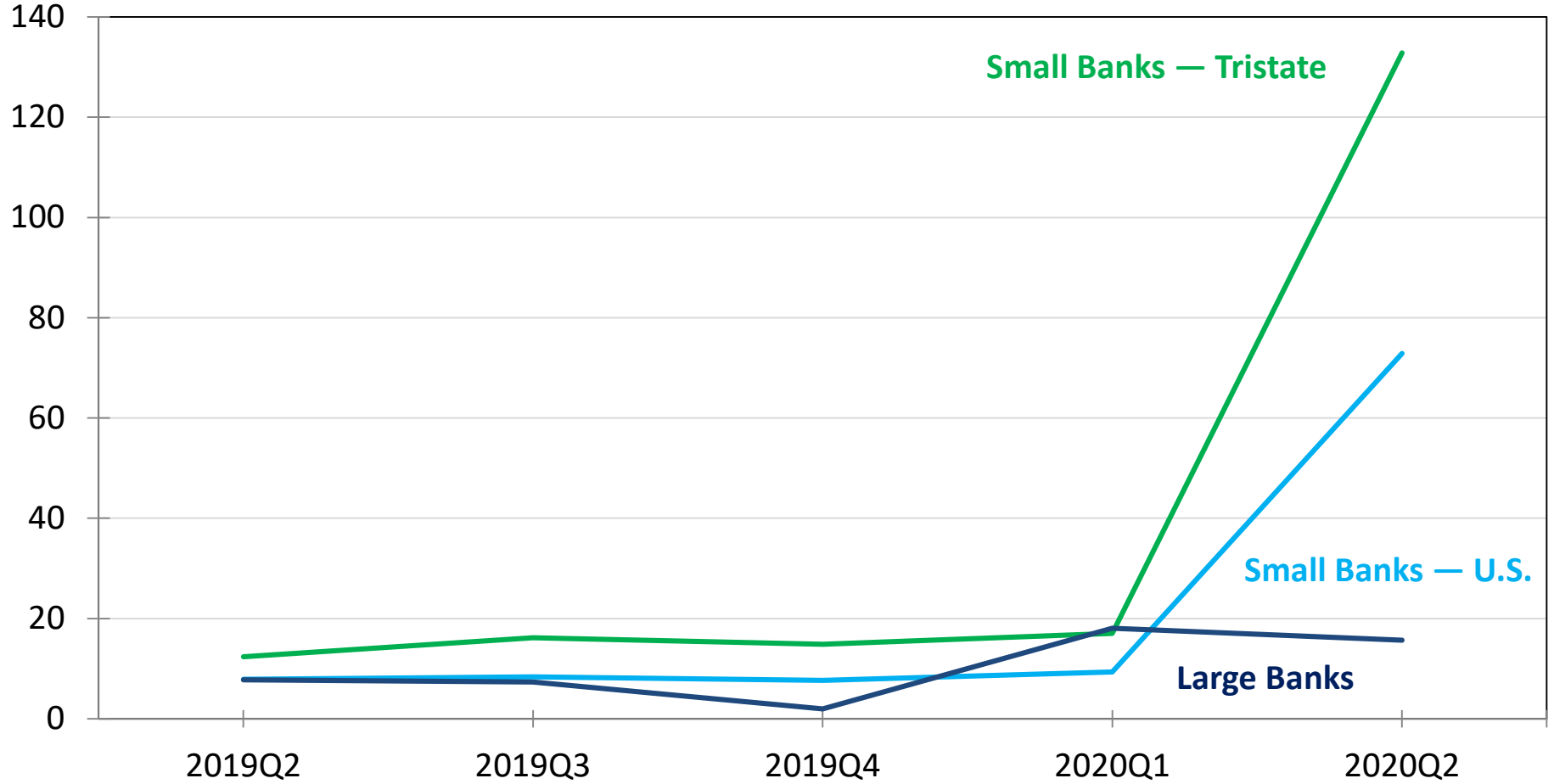


CHART 5

Large Banks Holding More Loans in Nonperforming Category, Small Banks to a Lesser Extent

Percent

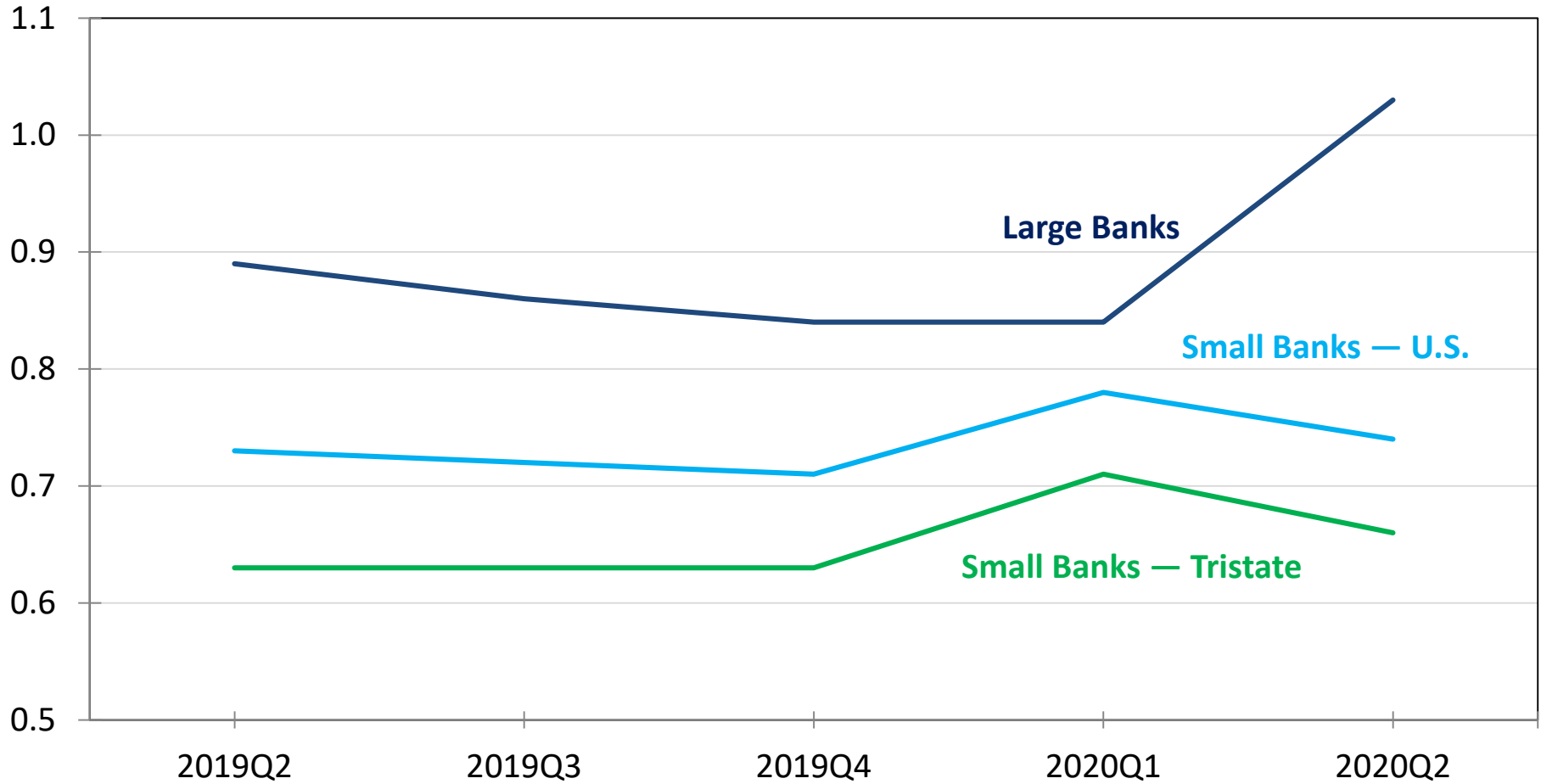


CHART 6

CRE Nonperforming Loans Increasing for All Banks

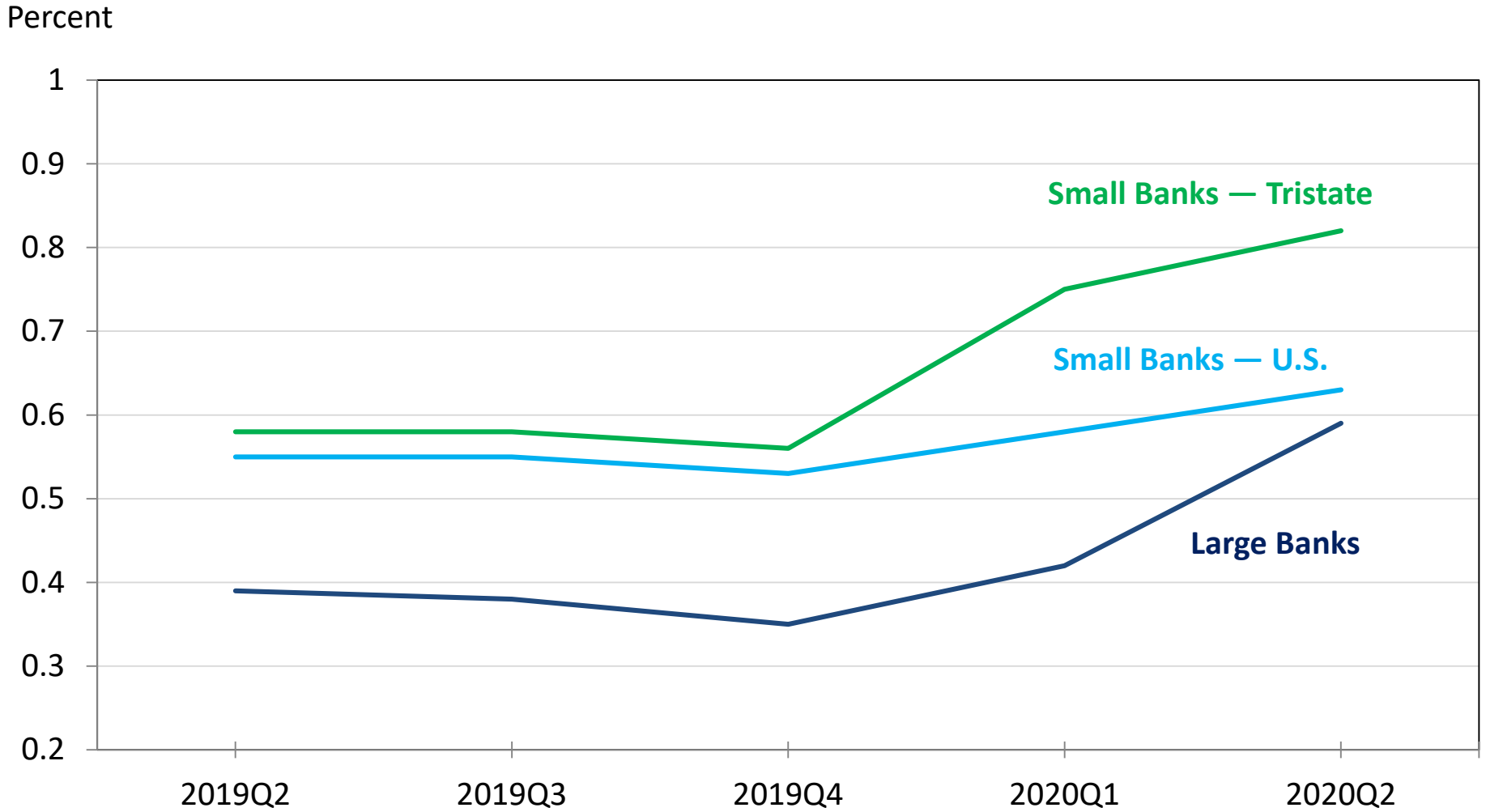


CHART 7

Large Increase in Deposits as Borrowers Deposited Funds

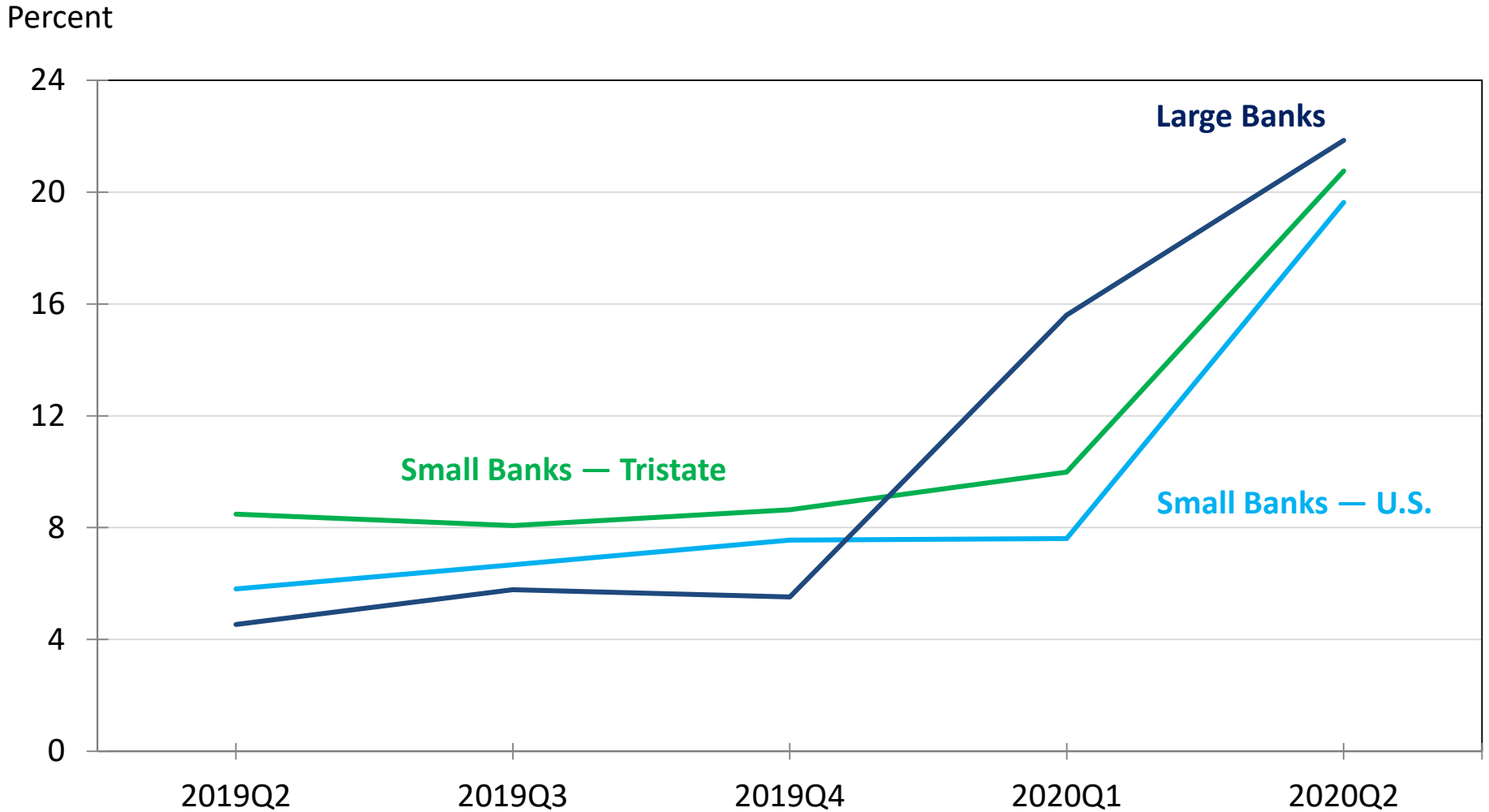
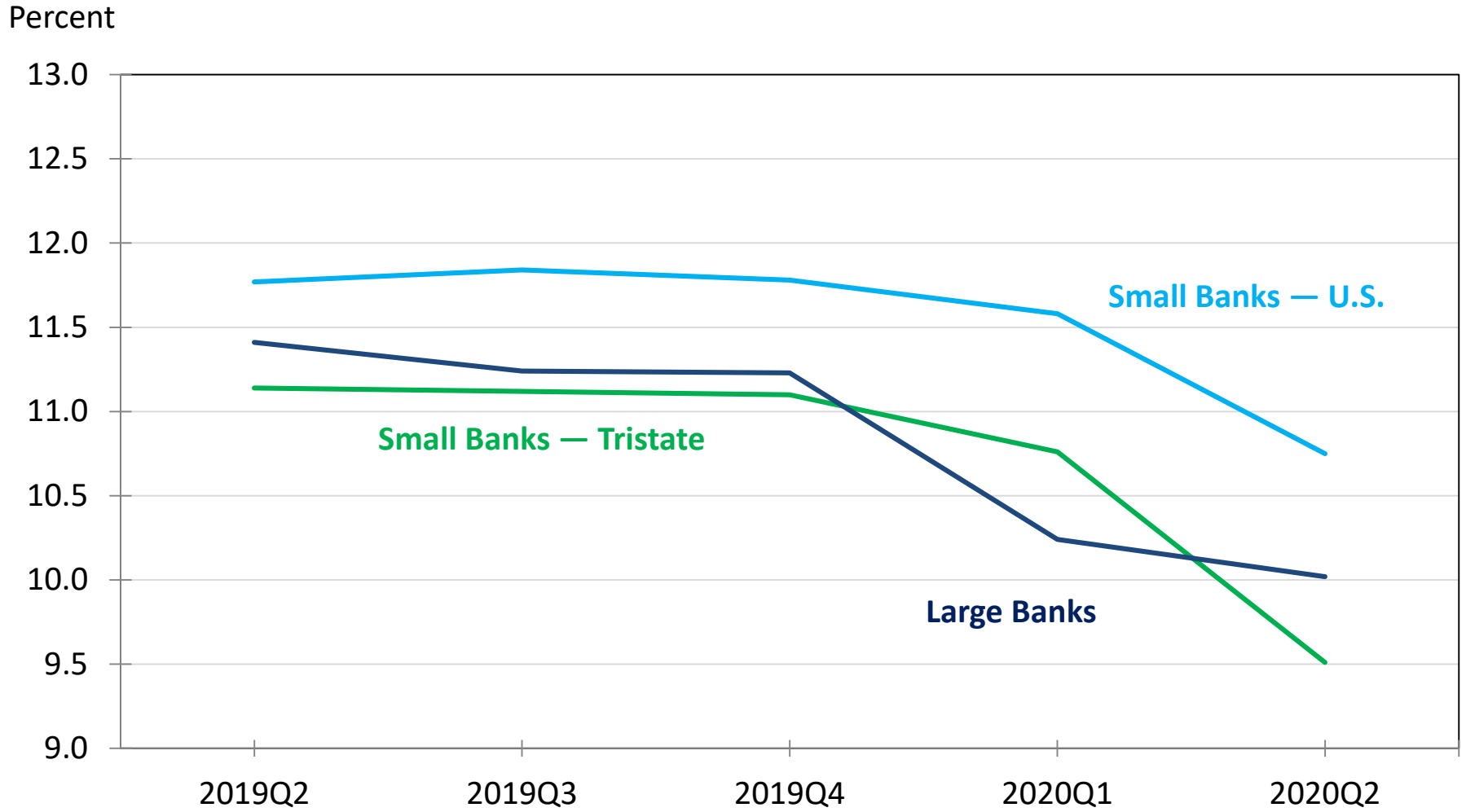


CHART 8

Bank Capital Declined as Banks Used Capital Cushions to Aid Borrowers





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