

RANKING THE BANKS: In Consumer Loans, Smaller Banks Seize the Moment

By Sara Lepro

The financial crisis that erupted at the end of 2008 predictably wreaked havoc on consumer loan portfolios at some of the nation's largest banks last year — but, as detailed numbers show, there's more to that story.

Many financial institutions put the brakes on lending out of necessity to protect their dwindling capital levels, while consumers and businesses hunkered down in the midst of the recession, afraid to take on more debt in such an uncertain economic environment.

Yet data suggests that some players, particularly smaller regional and community banks, were able to take advantage of others' misfortunes.

"It seems like across the banking landscape, banks have been able to steal share at the expense of their larger competitors," said Jason O'Donnell, an analyst at Boenning & Scattergood.

The disparity was most evident in credit card portfolios. The top four lenders as ranked by outstanding credit card loans — Bank of America Corp., JPMorgan Chase & Co., Citigroup Inc. and HSBC North America Holdings Inc. — posted declines of more than 10% last year, according to data from SNL Financial in Charlottesville, Va.

However, just 44 of the rest of the top 200 credit card lenders saw their portfolios decline and many regional banks, including U.S. Bancorp, PNC Financial Services Group Inc., BB&T Corp. and SunTrust Banks Inc., increased their portfolios by double-digit percentage points.

Overall, though, consumer lending was stagnant. Consumer loan portfolios declined in 2009 at seven of the top 10 bank holding companies, as ranked by total consumer loans outstanding, including residential mortgages, according to SNL. Four of those seven banking companies — JPMorgan Chase, Citigroup, HSBC and Citizens Financial Group Inc. — saw double-digit percentage drops.

Among the top 200 banks by consumer loans, total outstanding balances inched up just 0.4%, to \$3.11 trillion from \$3.10 trillion in 2008.

Meanwhile, home equity and auto

loan portfolios suffered big decreases.

Nearly half of the top 200 bank holding companies and thrifts ranked by home equity holdings saw their lines of credit and closed-end loans decline last year. The combined volume of home equity loans outstanding at these banks fell 3.4%, to \$774.6 billion, SNL said, after a 25% jump in the category in 2008.

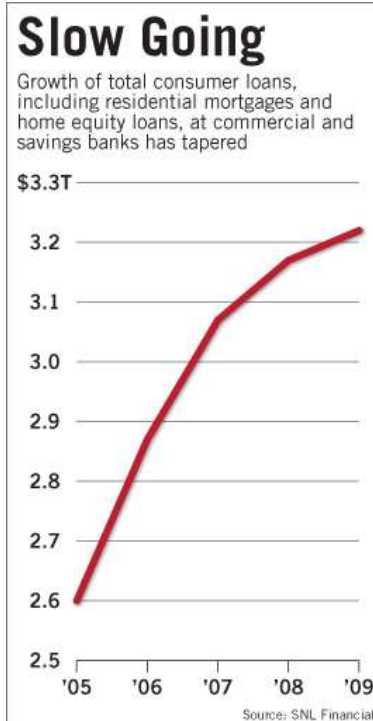
At the top 200 thrifts ranked by auto loan portfolios, total volume of those kinds of loans dropped 15%, to \$14.7 billion.

The moribund growth of consumer loan balances in 2009, and the sharp drop-off in some categories like home equity and auto loans, was due in large part to a slowdown in demand as consumers chose to pay off debt, rather than rack up more as unemployment levels crept up to a 26-year high and home prices tanked.

But the slowdown in consumer lending cannot be blamed on demand alone.

"Consumer loan demand has been way down. But, having said that, people still have to buy homes; people still have to buy cars," said **Mary Beth Sullivan**, managing partner at the consulting firm Capital Performance Group in Washington. "Demand is down from incredibly high levels, but demand has not gone away all together."

The primary reason why some banks were able to increase their loan levels, while others were forced to scale theirs back can be summed up in one word, analysts said: capital.



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“Given what has taken place over the last couple of years, a lot of banks weren’t in a capital position to grow their loan portfolios,” **Sullivan** said. “But smaller banks that didn’t have a problem with capital were in a great position to pick up market share.”

As loan losses escalated, especially in mortgage and credit card portfolios, and capital levels weakened at some of the biggest banks (recall that in May 2009, the federal government required 10 of the nation’s top 19 banks to raise additional capital as a buffer against future losses), some smaller institutions benefited from a “flight to quality,” **Sullivan** said. Some consumers, worried about the soundness of larger institutions, flocked to regional and community banks that were viewed as more stable.

At the same time, some banks were able to take advantage of the distress in the marketplace and grow their loan portfolios through acquisitions of faltering or failed institutions.

Consumer loan portfolios at New York Community Bancorp Inc. in Westbury, N.Y., and East West Bancorp Inc. in Pasadena, Calif., for example, grew by leaps and bounds last year following Federal Deposit Insurance Corp.-assisted deals.

The \$20.3 billion-asset East West saw its consumer loan balance more than triple to \$2.2 billion at the end of 2009 following the acquisition of the failed San Francisco bank United Commercial Bank. Through that transaction, East West Bancorp added \$7.7 billion of loans and \$6.5 billion of deposits. And because of a loss-sharing agreement with the FDIC, East West said the credit risk from the acquired loan portfolio would be minimal.

When the deal was announced in November, East West also said it had raised \$500 million in additional capital through the private placement of common stock. (That followed a capital raise earlier in the year that boosted the bank’s common equity by \$249 million.)

“The \$500 million in capital raised along with the FDIC loss-sharing protection on the acquired loan portfolio positions East West with industry leading, fortress-like capital that further cements the safety and security of East West for all our customers,” **Dominic Ng**, the chairman, president and chief executive of East West, said in a press release at the time.

At New York Community, meanwhile, total consumer loans outstanding grew 1,139% last year, to \$5.3 billion from \$431 million at the end of

2008. The increase was due in large part to its acquisition in December 2009 of the assets of failed AmTrust Bank of Cleveland, which added \$6 billion of loans and \$8 billion of deposits, as well as 66 branches in Ohio, Florida and Arizona.

Like East West, New York Community remained well capitalized throughout the crisis, declining to take any federal aid under the Treasury Department’s Troubled Asset Relief Program, even though it had received preliminary approval for \$596 million in Tarp capital.

Joseph R. Ficalora, the chairman, president and CEO of the \$42.4 billion-asset bank, said New York Community, which has grown steadily over the years through several acquisitions, has long had a conservative business model, which helped it weather the economic downturn better than some of its peers.

“We’re a lender that takes substantially less risk and therefore gets less reward” when times are good, he said in an interview. “In a credit cycle turn, risk actually results in charges, in some cases, a sufficient amount of charges to put [a] bank out of business.”

As a result of the crisis, many banks have adopted back-to-basics, plain-as-vanilla underwriting standards, and in turn, consumer loan balance growth is likely to be restrained for some time.

Some analysts believe there’s been an inaccurate perception that banks closed up shop in 2009 and refused to lend at all.

Part of the problem last year — and arguably in 2010 as well — was that high-quality borrowers were difficult to find.

“It’s hard for people to understand who was a good risk in this environment,” said **Aaron Fine**, a partner in the retail and business banking practice at Oliver Wyman. “It’s much different to write someone a home equity loan when you believe prices will continue to go up.”

“Clearly everybody would like to see more lending,” he said. “On the other hand, nobody wants to see ... more bad debt be written.”

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