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Treasury Department Monthly Lending and Intermediation Snapshot: Summary Analysis for October – December 2008

U. S. Department of the Treasury

TREASURY DEPARTMENT MONTHLY LENDING AND INTERMEDIATION SNAPSHOT

Summary Analysis for October - December 2008

I. Purpose of the Snapshot

The purpose of the monthly snapshot is to provide the Treasury Department (Treasury) and the public with regular insight into the lending trends and intermediation activities -- including underwriting, buying and selling of securities, and other activities in capital markets -- of the banks that received the most funding via the Capital Purchase Program (CPP).

This snapshot seeks to gather information to help answer the question posed by many during this crisis: "Are banks doing what they are supposed to do, providing credit to borrowers in a safe and sound manner?"

Answering this question is difficult because we are in an economic downturn, during which it is common for lending levels to contract. During the past nine recessions, inflation-adjusted total private sector lending per quarter has contracted on average 30 percent from peak to trough, while real GDP has contracted 2.0 percent.[1] During the last quarter of 2008, unemployment rose from 6.5 to 7.2 percent and more than 1.5 million jobs were lost as real GDP decreased by 3.8 percent. The demand for credit by consumers and businesses typically falls during an economic downturn, reflecting caution by both lenders and borrowers to take on new risk during uncertain economic times. This snapshot cannot, by itself, answer what lending levels would have been without the CPP, but levels would likely have been lower had Treasury not taken actions to stabilize the financial system and provided additional capital to banks through the CPP, enabling banks to continue lending during the financial crisis. These surveys will help Treasury and the public better understand lending activity in our system during this crisis by looking at some key metrics, such as levels, volumes, and drivers of credit.

Why lending? Lending is clearly one of the most important ways CPP recipients can deploy this additional capital, as it affects Americans directly. The CPP was created to stabilize the financial system by directly and quickly infusing capital into viable banks, enabling them to continue to extend credit to businesses and consumers during this unprecedented financial market crisis and economic downturn. The snapshot is designed to complement a separate but related Treasury initiative, whereby Treasury, in collaboration with the four banking agencies, is coordinating a more robust statistical research initiative to analyze quarterly regulatory reporting data to measure the impact of the Capital Purchase Program on the banking sector.

Why monthly? Banks report a significant amount of data to bank regulators every quarter. This information is typically released to the public six weeks after quarter end. The Treasury Department believes it is worthwhile to obtain more frequent and more real-time information in order to assess the impact of the CPP on bank lending and to inform policymaking as market conditions change.

[1] Data derived from the Federal Reserve flow of funding data and from data released by the Commerce Department.

Why only the top banks? The largest recipients of CPP funds represent a significant proportion of the banking system, or roughly 75 percent of bank holding company assets. These banks are diverse in terms of size, business focus, customer base, geographic coverage and product and service offerings. Treasury wanted to quickly but effectively provide an objective analysis to the public on this important topic and this targeted survey allows us to do that faster than otherwise possible. In addition, Treasury is in the process of developing a more streamlined snapshot for smaller institutions.

II. Snapshot Design

The snapshot contains quantitative information on three major categories of lending – consumer, commercial, and other activities – based on banks' internal reporting, as well as commentary to explain changes in lending levels for each category. In addition, the snapshot contains a qualitative section that provides market color on lending demand and credit standards generally to help Treasury and the public meaningfully and accurately interpret the quantitative data.

Why base the quantitative data on internal reporting*?* Treasury believes that it is critical to provide the public and Congress with as much information as possible about the programs we are implementing to stabilize the financial system. In this spirit, the snapshot has been designed to collect new information on a more frequent basis from banks. In order to do this, Treasury must utilize banks' internal reporting. This snapshot complements the detailed quarterly reports provided by banks on activities and financial condition to regulators, which is also publicly available. The Treasury snapshot is focused on lending activities and will be issued on a monthly basis. This information will also help guide policy making going forward as Treasury and the federal regulators continue to coordinate to develop a comprehensive response to the unprecedented financial markets crisis.

Why include both commentary and a qualitative section*?* Lending levels are a function of credit availability, which is in banks' control, as well as a host of factors outside of banks' control: loan demand, borrower creditworthiness, capital markets liquidity, the macroeconomic environment, etc. The purpose of the commentary and qualitative section is to allow banks to provide color on the interaction of these variables so that readers can put the banks' information in context and draw meaningful conclusions from the quantitative data.

What are the limits of the snapshot*?* The snapshot's reliance on internal reporting means that aggregation by loan category and comparisons of asset and origination levels across firms may be imperfect. Snapshot readers should focus on trends within a firm across time, particularly in percentage change terms, a fact that is reflected in Treasury's summary analysis.

III. Summary analysis

1 <u>Despite significant headwinds posed by unprecedented financial market crisis and economic turn, banks continued to originate, refinance and renew loans</u>. Significant challenges facing both banks and consumers that impact demand for and extension of credit include the shut down of various credit markets and the process of loan

securitization. In addition, during the last quarter of 2008, unemployment rose from 6.5 to 7.2 percent and more than 1.5 million jobs were lost as real GDP decreased by 3.8 percent, all of which increase the caution of consumers in taking on new loans and typically reduce demand for loans during a downturn. In addition, the crisis has negatively impacted confidence in our financial system, limiting banks' ability to raise private capital that enables them to increase consumer and business lending.

Please see the attached table detailing each bank's loan originations over the period of the survey.

2 <u>Due to decreasing loan demand and tighter underwriting standards, as well as other factors such as charge-offs, or losses written off on loans, banks reported a general trend of modestly declining total loan balances.</u>
   a. *From October to December, total residential mortgage balances across the twenty banks was essentially flat.* The median percent change in total residential mortgage balances was a decrease of 1 percent.
   b. *For the same period, corporate loan balances decreased slightly*. The median percent change in total loan balances across banks was a decrease of 1 percent. Ten banks experienced increases in total loan balances. The driver of the decrease was softening loan demand, particularly by smaller businesses, as noted by several banks.
   c. *Credit card borrowing increased, while available credit decreased*. The median percent change in average total loan balance for U.S. credit cards was an increase of 2 percent. The median percent change in total used and unused commitments for U.S. credit cards was essentially flat. For banks with the largest credit card loan balances, the decrease was more marked.
   d. *In commercial real estate, renewals of existing accounts increased significantly, while new commitments decreased significantly*. The median percent change in renewals of existing accounts was an increase of 55 percent. The median percent change in new commitments was a decrease of 19 percent. Many banks noted challenges in this space, including "negligible" residential home builder loan demand and weaker construction and development activity, softening with regards to retailers, an uncertain outlook with regards to office space, and the continued dislocation of the commercial mortgage backed securities (CMBS) market.

3 <u>Outside factors played a big role in driving month-on-month changes.</u> In general, lending activity decreased from October to November and then picked back up from November to December. Drivers of this phenomenon varied by loan type.
   a. A substantial increase in residential mortgage demand/applications from November to December was largely attributed to falling rates, driven by initiatives by Treasury, the Federal Reserve and other federal regulators.
   b. A similar trend was observed in the area of corporate lending, where the December increase in loan demand was attributed by several banks to diminished borrower access to other debt markets such as the commercial paper market, which effectively shut down in October 2008 due to the credit crisis. This market funds both financial and non-financial companies across the U.S. and its

breakdown forced corporate borrowers to increase their relative use of bank debt as a source of replacement funding.

c. Similarly, the FDIC's Temporary Liquidity Guarantee Program (TLGP) provided a significant boost to debt underwriting which had been quiet for some time. The TLFP was launched in conjunction with the CPP in October 2008 as another measure by the federal government to strengthen confidence and encourage liquidity in the banking system by guaranteeing newly issued senior unsecured debt by banks and other institutions. The median percent change across firms from October to November was an increase of 39 percent, and from November to December the median percent change was an increase of was 74 percent.

IV. Process going forward

The Treasury Department will continue to refine this monthly analysis, including potentially other formats for presenting the data. While this initial snapshot included survey data from a three month period extending back to the launch of the CPP, monthly snapshots going forward will reflect data from the prior month only.

In addition, as noted above, Treasury is working with the federal banking agencies (Federal Reserve, FDIC, OCC and OTS) to conduct research on the impact that the Troubled Assets Relief Program and other federal programs have had on banks' health, lending and financial intermediation. Treasury anticipates publishing this analysis as it becomes available.

Loan Originations (Sum of October, November and December)

Name	First Mortgage	HELOC (Lines and Increases)	US Card (Managed): Initial Line Amount	Other Consumer Lending	C & I: Renewal of Existing Accounts	C & I: New Commitments	CRE: Renewal of Existing Accounts	CRE: New Commitments
Bank of America	$44,611	$5,326	$6,753	$6,986	$52,852	$49,004	$7,985	$7,343
BB&T	$3,682	$694	$401	$1,108	$1,779	$4,399	$3,271	$1,693
Bank of New York Mellon	$212	$34	$0	$17	$802	$1,055	$213	$195
Capital One	$7	$72	$3,671	$2,131	$576	$1,930	$183	$759
CIT	$0	$0	$0	$3	$10,387	$3,341	$0	$0
Citigroup	$16,274	$1,122	$27,121	$4,219	$3,553	$6,470	$955	$378
Comerica	$83	$102	$65	$129	$6,439	$1,255	$1,015	$284
Fifth Third	$2,551	$445	$541	$1,186	$843	$11,833	$1,322	$1,838
Goldman Sachs	$1,086	$150	$0	$203	$571	$3,686	$10	$0
JPMorgan Chase	$28,271	$1,606	$17,900	$6,037	$57,127	$48,533	$2,693	$2,560
KeyCorp	$315	$467	$0	$237	$3,439	$2,375	$2,575	$1,020
Marshall & Ilsley	$411	$130	$16	$155	$1,318	$777	$366	$545
Morgan Stanley	$0	$0	$0	$657	$1,098	$9,504	$0	$0
Northern Trust	$240	$319	$0	$421	$1,082	$2,709	$71	$317
PNC	$20	$766	$200	$551	$15,354	$5,546	$1,309	$1,915
Regions	$1,022	$487	$0	$310	$4,586	$2,627	$5,468	$1,990
State Street	$0	$0	$0	$0	$2,045	$890	$0	$800
SunTrust	$7,205	$440	$53	$1,151	$4,075	$3,628	$1,099	$1,303
U.S. Bancorp	$8,390	$1,427	$2,886	$2,692	$11,513	$9,062	$3,455	$2,452
Wells Fargo	$48,189	$1,736	$3,715	$2,571	$10,915	$17,623	$4,041	$4,415

Loan Category Key*	
First Mortgages	Loans secured by first liens on residential real estate
HELOC	Home equity lines of credit
US Card (Managed)	US credit cards (managed)
C & I	Commercial and industrial
CRE	Commercial real estate

NOTE: Reliance on internal reporting means that aggregation by loan category varies for each reporting bank. Because of the differences in loan category definitions, comparisons of origination levels across firms may be imperfect.