



Monetary Policy and Bank Lending

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Difficult Period to Determine What is Impacting Lending

- Severe recession and slow recovery
 - Disentangling demand and supply is quite difficult even in normal circumstances
 - Lending categories differentially impacted – residential real estate disproportionately affected by falling housing prices, underwater borrowers, increased legal liability
- Balance sheets of many firms and households required significant adjustments

Impact of Regulatory Changes on Lending

- Capital regulation – change to Basel III
- Liquidity requirements – new rules
- What is binding capital requirement and when will it bind?
 - Leverage ratio, total risk based, tier-one common equity, SIFI surcharges
 - Phase in of capital regulations – How much brought forward?

Supervisory Impact on Lending

- Role of stress tests
 - Many institutions find the stress tests much more binding than capital regulation
 - Different institutions impacted differently depending on the nature of the stress
 - Capital could become binding in the future if supervisor chooses severe stress
- Stress tests have the potential to change more rapidly than capital regulation

Figure 1

Loan Growth at Banking Institutions: 2010:Q2-2011:Q2

Loan Growth 2010:Q2 - 2011:Q2						
	Asset Size				Foreign Branches and Agencies	Banks Only
	Less than \$250 Million	\$250 Million - \$1 Billion	\$1 Billion - \$250 Billion	Greater than or Equal to \$250 Billion		
Total Loans	-1.0%	-3.0%	-0.5%	-4.1%	5.7%	-2.4%
C&I Loans	-1.6%	-1.2%	5.6%	4.0%	-2.0%	4.2%
Commercial Real Estate Loans	-1.5%	-4.5%	-9.7%	-12.0%	-7.3%	-8.8%
Residential Real Estate Loans	-0.8%	-2.7%	-1.6%	-5.4%	3.5%	-3.9%
Consumer Loans	-5.9%	-7.9%	7.6%	-12.5%	NA	-5.6%
Total Assets	3.6%	1.0%	3.0%	3.4%	17.3%	3.1%
Number of Banking Organizations	4,011	1,584	523	6	219	6,124
Balances due from Federal Reserve Banks (\$ Bil)	\$0.6	\$28.5	\$345.1	\$368.2	\$675.0	\$742.4
Total Assets (\$ Bil)	\$444.5	\$750.0	\$4,753.0	\$6,680.7	\$2,144.2	\$12,628.2
Total Loans (\$ Bil)	\$274.0	\$485.7	\$2,573.9	\$2,917.5	\$463.4	\$6,251.1
Share of Loans	4.1%	7.2%	38.3%	43.5%	6.9%	--

Note: Domestic-Office Loans, C&I Loans to US Addressees, Constant Group, Merger-Adjusted where Possible

Source: Commercial and Savings Bank Quarterly Call Reports

Figure 2

Loan Growth at Banking Institutions: 2011:Q2-2012:Q2

Loan Growth 2011:Q2 - 2012:Q2						
	Asset Size				Foreign Branches and Agencies	Banks Only
	Less than \$250 Million	\$250 Million - \$1 Billion	\$1 Billion - \$250 Billion	Greater than or Equal to \$250 Billion		
Total Loans	1.9%	1.2%	5.6%	1.0%	3.5%	2.9%
C&I Loans	2.6%	3.4%	15.3%	15.5%	5.8%	14.2%
Commercial Real Estate Loans	0.6%	-1.6%	-5.5%	-3.6%	-3.4%	-4.0%
Residential Real Estate Loans	2.1%	2.8%	3.9%	-0.5%	38.1%	1.3%
Consumer Loans	-3.9%	-1.0%	8.4%	-3.0%	NA	1.4%
Total Assets	4.7%	3.8%	5.1%	2.0%	-2.4%	3.3%
Number of Banking Organizations	3,874	1,577	526	7	215	5,984
Balances due from Federal Reserve Banks (\$ Bil)	\$1.0	\$33.9	\$276.9	\$347.1	\$686.2	\$658.8
Total Assets (\$ Bil)	\$444.3	\$765.8	\$4,780.3	\$7,098.0	\$2,091.1	\$13,088.4
Total Loans (\$ Bil)	\$266.7	\$481.2	\$2,732.3	\$2,985.8	\$477.1	\$6,466.0
Share of Loans	3.8%	6.9%	39.4%	43.0%	6.9%	--

Note: Domestic-Office Loans, C&I Loans to US Addressees, Constant Group, Merger-Adjusted where Possible

Source: Commercial and Savings Bank Quarterly Call Reports

Figure 3

Loan Growth at Banking Institutions: 2012:Q2-2013:Q2

Loan Growth 2012:Q2 - 2013:Q2						
	Asset Size				Foreign Branches and Agencies	Banks Only
	Less than \$250 Million	\$250 Million - \$1 Billion	\$1 Billion - \$250 Billion	Greater than or Equal to \$250 Billion		
Total Loans	2.9%	3.4%	6.5%	0.7%	1.5%	3.5%
C&I Loans	3.5%	5.8%	10.1%	8.9%	2.2%	9.2%
Commercial Real Estate Loans	3.6%	2.7%	0.7%	-0.5%	-5.4%	1.0%
Residential Real Estate Loans	1.4%	1.5%	4.6%	-4.7%	23.7%	-0.9%
Consumer Loans	-2.6%	2.7%	7.7%	-0.4%	NA	2.9%
Total Assets	2.9%	2.3%	4.7%	2.9%	14.0%	3.5%
Number of Banking Organizations	3,666	1,621	534	7	214	5,828
Balances due from Federal Reserve Banks (\$ Bil)	\$1.1	\$31.3	\$308.4	\$557.6	\$956.5	\$898.3
Total Assets (\$ Bil)	\$421.4	\$782.7	\$5,157.4	\$7,303.6	\$2,383.3	\$13,665.1
Total Loans (\$ Bil)	\$252.2	\$501.3	\$3,010.7	\$3,007.2	\$485.0	\$6,771.4
Share of Assets	3.5%	6.9%	41.5%	41.4%	6.7%	--

Note: Domestic-Office Loans, C&I Loans to US Addressees, Constant Group, Merger-Adjusted where Possible

Source: Commercial and Savings Bank Quarterly Call Reports

Observations

- Loans declined in 2011 (-2.4%) but increased in 2012 (2.9%) and 2013 (3.5%)
- C&I loans grew in all three years but grew by 14% in 2012 and 9% in 2013.
- Largest banks growing C&I but shrinking consumer and real estate loans in all three years

More Observations

- Reserves held disproportionately by foreign branches and agencies
- Residential real estate loans continue to decline at banks with largest declines at largest banks

Questions

- Relatively weak lending?
 - Not for C&I
 - Residential – legal risk, underwater borrowers, some banks choosing to exit business
- Impact of large creation of reserves?
 - Reserves pay 25 basis points - much higher than short-term Treasury securities
 - Disproportionately held by foreign branches and agencies that are not big lenders particularly with close borrower relationships

Questions

- Impact on flattening yield curve through monetary policy?
 - Possibly discourage lending in low margin business
 - However, C&I growing rapidly during recovery
- Have low rates encouraged riskier lending?
 - Asset quality improving
 - Construction loans continue to decline