

# TREASURY DEPARTMENT MONTHLY LENDING AND INTERMEDIATION SNAPSHOT

*Summary Analysis for August 2009*

## **Summary Analysis**

### **Economic Environment**

Treasury's ninth survey of banks' activities was conducted as the economy showed more signs that the pace of contraction was easing. Job losses continued to slow in August, with the average monthly decline in payroll employment during July and August about half that recorded in the second quarter. The unemployment rate moved higher, however, and at 9.7 percent was more than four percentage points above what economists believe to be full employment. The housing sector showed further signs of improvement, with housing starts, building permits and new home sales all rising in August. Even so, the August level of both sales and starts remained near historical lows. Consumer spending strengthened in August, boosted in large part by a surge in auto sales related to the Cash for Clunkers program, but has not yet returned to the level reached before the financial crisis intensified last fall. Financial conditions continued to show solid improvement. Short-term credit spreads narrowed further and the VIX continued to ease, moving closer to pre-crisis norms. Despite recent modest gains, the economy remains weak and forecasters continue to see the unemployment rate rising to 10 percent by the end of the year.

### **August Survey Results**

The overall outstanding loan balance (of all respondents) fell 1 percent from July to August at the top 22 participants in the Capital Purchase Program (CPP), due mainly to decreased demand from borrowers, payment of outstanding debt, charge-offs by banks, and some seasonal patterns. Total origination of new loans at the 22 surveyed institutions decreased 17 percent from July to August. In August, the 22 surveyed institutions originated approximately \$235 billion in new loans. Total originations of loans by all respondents rose in 1 category (other consumer lending products) and fell in 7 loan categories (mortgages, home equity lines of credit (HELOCs), credit cards, commercial and industrial (C&I) renewals and new commitments, and commercial real estate (CRE) renewals and new commitments).

New home purchases and refinancing originations fell in August. Respondents reported that both the number of fundings and the number of mortgage refinancing applications declined in August as interest rates were higher than in previous months, providing less incentive for homeowners to refinance. HELOCs saw a decrease in total originations, and institutions indicated that demand is below 2008 levels. Outstanding credit card balances held by the surveyed institutions were flat in August, indicating that consumers are spending conservatively and paying down existing debt. Other consumer lending was the only consumer category in which originations increased in August, as the onset of the academic year spurred student loan disbursements and the "Cash for Clunkers" program increased demand for auto loans. Banks again reported that demand in both the commercial real estate (CRE) market and the C&I market is well below normal levels.

- The total average outstanding balance of all loans decreased 1 percent from July to August. The median change in total average outstanding balances was a decrease of 1 percent. Of the 22 respondents, 4 reported increases in total outstanding balances from July to August (the largest increase was 4 percent) while 18 respondents experienced decreases in total outstanding balances (the largest decrease was 6 percent). Total originations of all loans decreased by 17 percent from July to August. Across all institutions, the median change in total originations was a decrease of 17 percent. Of the 22 respondents, 20 experienced decreases in total originations from July to August, 1 experienced an increase in total originations, and 1 experienced no change in total originations.
- The total outstanding mortgage balance of all respondents fell 2 percent. Total mortgage originations by all respondents decreased by 22 percent, driven largely by decreases in refinancing originations. The median change in total mortgage originations was a decrease of 26 percent. There was a decline in demand for refinancing mortgages as rates were higher in August than in previous months, thereby decreasing the incentive to refinance. Refinancing mortgage originations fell 32 percent from July to August, which is the largest decrease in refinancing originations since the beginning of this survey. New home purchase originations declined to a lesser extent, decreasing 5 percent from July to August.
- The total outstanding balance of HELOCs fell by 1 percent from July to August. Total HELOC originations decreased by 11 percent in August. The median change in originations was a decrease of 14 percent from July to August. Respondents noted that the pool of qualified HELOC borrowers has declined as home values have depreciated. Of the 16 entities active in the HELOC market, 1 experienced an increase in originations and 15 experienced declines in originations. Most respondents noted that demand was below 2008 levels.
- The total credit card outstanding balance of all respondents was flat in August, indicating that consumers are spending conservatively and paying down existing debt. Job losses, generally low levels of consumer spending, a higher savings rates, and a general reluctance to take on more debt contributed to stagnant credit card balances. Of the 14 respondents active in the credit card business, 9 experienced increases in outstanding balances, 4 experienced decreases in outstanding balances, and 1 experienced no change in its outstanding balance. Origination activity was split; 3 of the respondents making originations experienced increases, and 10 of the respondents making originations experienced decreases. Total credit card originations by all respondents decreased by 5 percent in August. The median change in credit card originations was a decrease of 9 percent.
- The total outstanding balance of other consumer lending products increased 1 percent in August. Of the 19 institutions active in other consumer lending, 10 institutions experienced decreases in outstanding balances, while 9 institutions experienced increases in outstanding balances. Total other consumer loan originations increased by 32 percent from July to August, as the onset of the academic year accounted for increased student

loan disbursements. Increased demand for auto loans, due largely to the “Cash for Clunkers” program, also fueled growth in the other consumer lending sector. The median percentage change in other consumer loan originations was an increase of 38 percent. Of the 17 respondents making other consumer loan originations, 12 experienced increases in originations and 5 experienced decreases in originations.

- The total outstanding balance of C&I loans fell 2 percent; the median change in average outstanding C&I balances was a decrease of 2 percent. Economic uncertainty has caused businesses to downsize, cut costs, reduce inventories, and delay capital expenditures. Lower overall merger and acquisition activity further contributed to the decreased demand for C&I credit. Nearly all respondents indicated that, throughout the recession, demand in C&I lending has remained well below pre-recession levels. Companies continued to focus on preserving liquidity, strengthening their balance sheets, building cash reserves and paying down existing debt rather than taking on new debt.

Total renewals of existing C&I accounts decreased 21 percent in August, and the median change in renewals was a decrease of 23 percent. Total new C&I commitments decreased 16 percent in August, with 5 banks reporting increases in new commitments and 15 banks reporting decreases. The median change in new commitments was a decrease of 22 percent.

- Demand for new CRE loans remains low due to the lack of new construction activity. Real estate developers are reluctant to begin new projects or purchase existing projects under current poor economic conditions, which include a surplus of office space as firms downsize and vacancies rise. Finally, nearly all respondents indicated that they are actively reducing their exposure to CRE loans, as banks expect CRE loan delinquencies to persist. The outstanding balance of CRE loans of all respondents was flat in August, and the median change in outstanding balances was a decrease of 1 percent.

Total renewals of existing CRE accounts decreased 16 percent from July to August. The median change in CRE renewals from July to August was a decrease of 9 percent. Total new CRE commitments decreased 1 percent from July to August, and the median change in new commitments was a decrease of 16 percent. Of the 16 institutions that made new CRE commitments, 4 experienced increases in new commitments and 12 experienced decreases in new commitments.

- In August, total small business outstanding balances decreased by 1 percent, and the median change in small business outstanding balances was a decrease of 1 percent. Total small business originations decreased by 8 percent. The median change in small business originations was a decrease of 7 percent. As most small business originations are included in either C&I or CRE originations (renewals plus new commitments), this trend is in line with overall declining trends in C&I and CRE originations in August.
- Equity underwriting was down in August compared to July, but respondents indicated that in general, the market exhibited overall stability in August. Debt underwriting decreased from July, but respondents reported that markets continued to be favorable to new debt issuance.

- The chart on page 6 (“Change in Loan Originations, August 2009 vs. July 2009”) illustrates the range of changes in loan originations among the 22 institutions. The bar on the far right, for example, indicates that the median change of loan originations of all types was a decrease of 17 percent in from July to August; originations of all types fell by 22 percent for the institution at the 25<sup>th</sup> percentile, and originations of all types fell by 14 percent for the institution at the 75<sup>th</sup> percentile. There was considerable variability in lending activity by category across banks, especially in other consumer lending products, C&I new commitments, and CRE new commitments.

## Loan Originations, August 2009

(\$ Millions)

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	Small Business <sup>1</sup>	Total Originations <sup>2</sup>	Change in Total Originations <sup>3</sup>
American Express	N/A	N/A	\$1,379	N/A	N/A	N/A	N/A	N/A	N/A	\$1,379	-15%
Bank of America	\$30,578	\$814	\$1,577	\$1,910	\$12,973	\$6,870	\$1,871	\$526	\$1,388	\$57,118	-22%
Bank of New York Mellon	\$55	\$3	N/A	\$0	\$348	\$18	\$20	\$0	N/A	\$444	101%
BB&T	\$2,063	\$57	\$180	\$400	\$474	\$820	\$1,319	\$297	\$798	\$5,610	-28%
Capital One	\$112	\$23	\$389	\$617	\$163	\$226	\$39	\$78	\$40	\$1,647	-13%
CIT	N/A	N/A	N/A	\$0	\$2,398	\$293	\$0	\$0	\$13	\$2,691	-20%
Citigroup	\$4,845	\$175	\$6,359	\$1,804	\$736	\$124	\$192	\$403	\$132	\$14,636	-8%
Comerica	\$24	\$11	\$18	\$33	\$2,734	\$619	\$374	\$13	\$261	\$3,826	-9%
Fifth Third	\$1,518	\$101	\$107	\$499	\$1,602	\$780	\$417	\$76	\$245	\$5,100	-17%
Goldman Sachs	\$55	\$0	\$0	\$68	\$172	\$325	\$0	\$0	\$5	\$620	-48%
Hartford	\$0	\$0	N/A	\$0	\$0	\$0	\$3	\$0	\$0	\$3	0%
JPMorgan Chase	\$12,319	\$156	\$3,058	\$4,069	\$13,105	\$10,265	\$370	\$459	\$810	\$43,800	-5%
KeyCorp	\$137	\$78	\$0	\$131	\$1,115	\$516	\$613	\$61	\$42	\$2,651	-15%
Marshall & Ilsley	\$194	\$68	\$6	\$88	\$109	\$85	\$57	\$71	\$23	\$678	-24%
Morgan Stanley	\$12	\$0	N/A	\$302	\$343	\$1,300	\$0	\$0	\$138	\$1,957	-37%
Northern Trust	\$93	\$47	N/A	\$66	\$562	\$404	\$9	\$33	\$34	\$1,214	-21%
PNC	\$1,138	\$403	\$205	\$734	\$3,451	\$1,987	\$605	\$235	\$306	\$8,758	-17%
Regions	\$575	\$102	N/A	\$222	\$1,514	\$787	\$1,586	\$365	\$573	\$5,151	-15%
State Street	N/A	N/A	N/A	N/A	\$692	\$75	\$0	\$0	N/A	\$767	-22%
SunTrust	\$3,636	\$121	\$5	\$576	\$1,266	\$656	\$283	\$132	\$45	\$6,675	-29%
U.S. Bancorp	\$4,966	\$460	\$589	\$1,209	\$3,842	\$2,270	\$1,093	\$468	\$2,625	\$14,897	-17%
Wells Fargo	\$28,727	\$557	\$1,358	\$3,608	\$10,966	\$5,999	\$2,537	\$1,282	\$2,609	\$55,034	-18%
<b>Total (All Institutions)</b>	<b>\$91,046</b>	<b>\$3,176</b>	<b>\$15,230</b>	<b>\$16,336</b>	<b>\$58,565</b>	<b>\$34,417</b>	<b>\$11,388</b>	<b>\$4,499</b>	<b>\$10,086</b>	<b>\$234,656</b>	<b>-17%</b>
<i>Change in Total (All Institutions)<sup>3</sup></i>	<i>-22%</i>	<i>-11%</i>	<i>-5%</i>	<i>32%</i>	<i>-21%</i>	<i>-16%</i>	<i>-16%</i>	<i>-1%</i>	<i>-8%</i>	<i>-17%</i>	

<sup>1</sup> These loans are already accounted for in either consumer lending, commercial lending, or a combination of both.

<sup>2</sup> Total Originations does not include the "Small Business Originations" column.

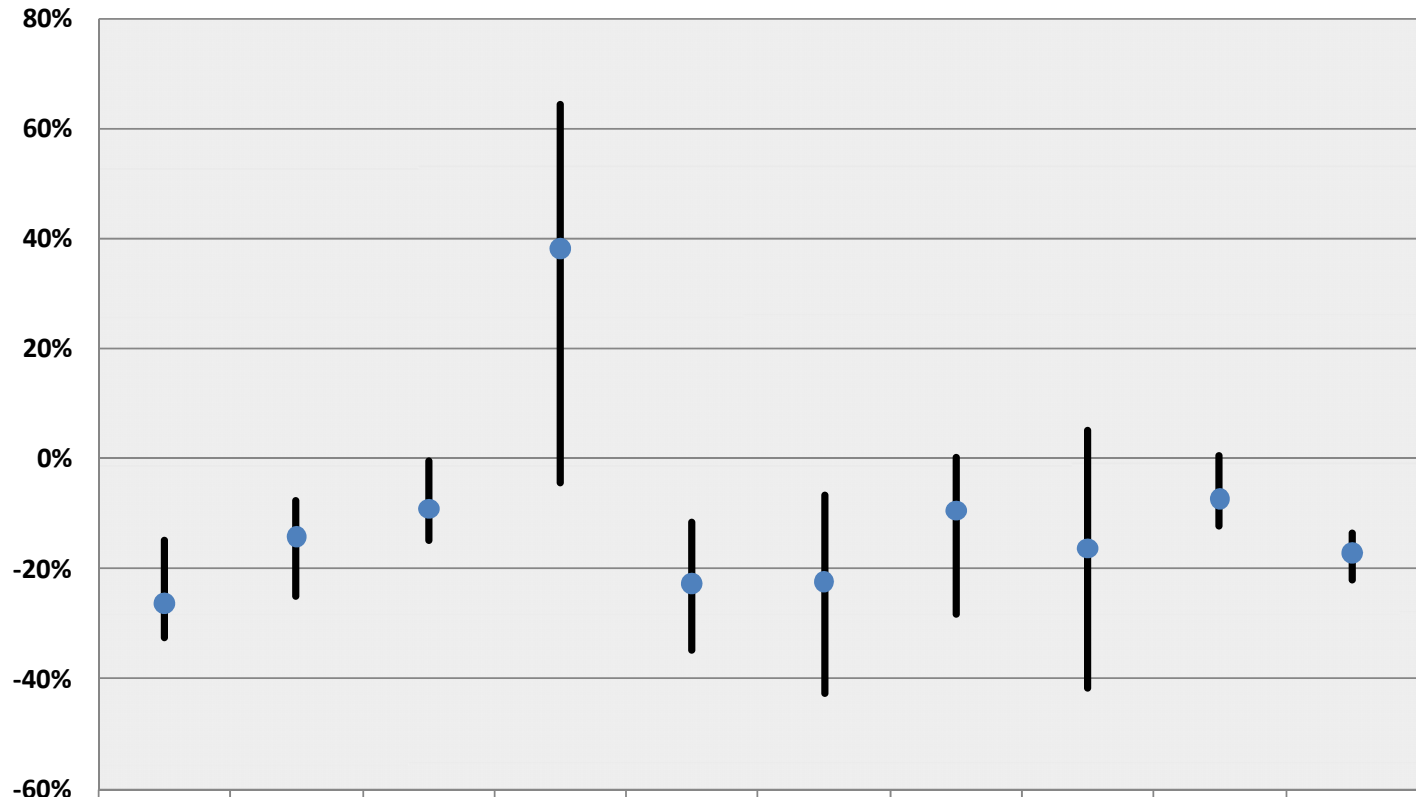
<sup>3</sup> Percentage changes are calculated versus July 2009 figures.

<b>Loan Category Key</b>	
<b>First Mortgages</b>	Loans secured by first liens on residential real estate
<b>HELOC</b>	Home equity lines of credit
<b>US Card (Managed)</b>	US credit cards (managed)
<b>C &amp; I</b>	Commercial and industrial
<b>CRE</b>	Commercial real estate
<b>Small Business</b>	Loans to small businesses
<b>N/A</b>	Denotes recipient is not active in this category

**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.

## Change in Loan Originations

August 2009 vs. July 2009



	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	Small Business Originations	Total
75th Percentile	-15%	-7%	0%	65%	-12%	-7%	0%	5%	0%	-14%
25th Percentile	-33%	-25%	-15%	-4%	-35%	-43%	-28%	-42%	-12%	-22%
● Median	-26%	-14%	-9%	38%	-23%	-22%	-9%	-16%	-7%	-17%
Total (Across All Institutions)	-22%	-11%	-5%	32%	-21%	-16%	-16%	-1%	-8%	-17%