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CRE-concentrated banks decline in Q2

By Maria Tor and Venkatesh Iyer **September 19, 2017**

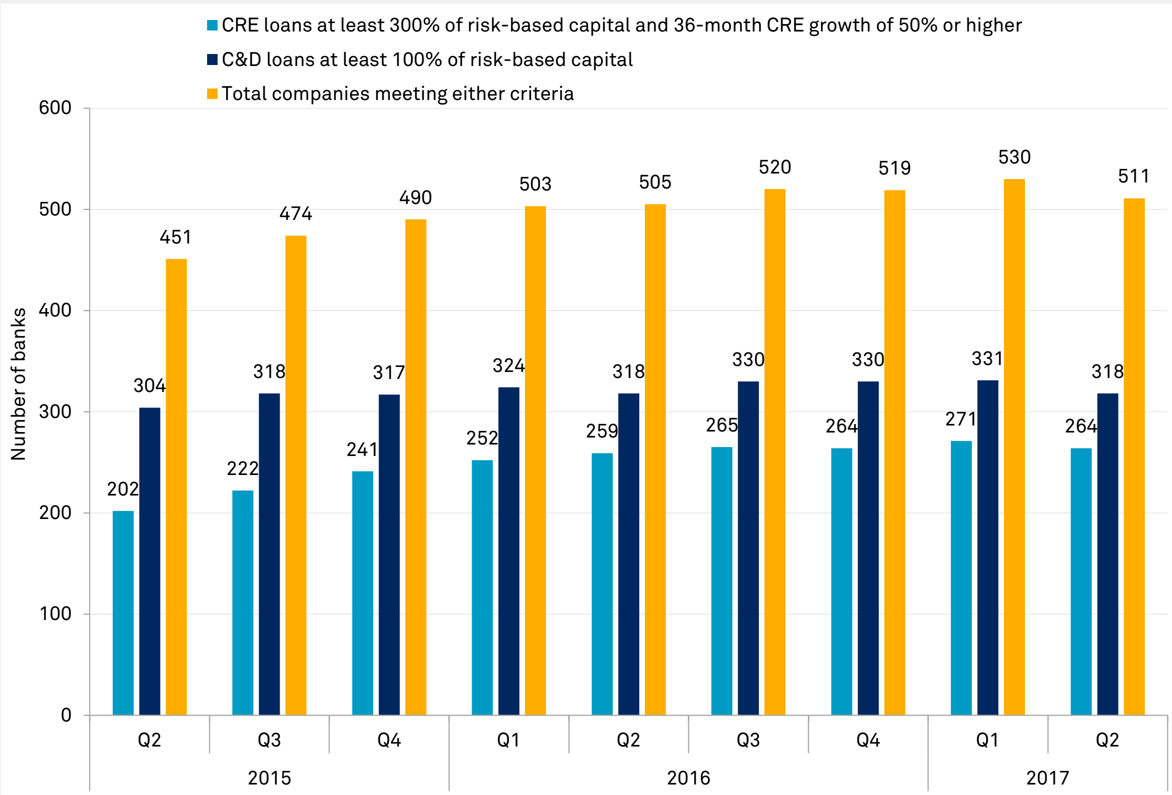
Second-quarter growth in commercial real estate loans continued to outpace overall loan growth in the banking industry, but the number of banks and thrifts concentrated in CRE loans declined during the period.

As of June 30, 511 banks were concentrated in commercial real estate loans, down from 530 as of March 31. The number of concentrated banks increased year over year, rising from 505 as of June 30, 2016.

Sixty-eight banks became concentrated in CRE during the second quarter of 2017, while 86 dropped off the March 31 list.

Regulators have guided banks since 2006 that they could be subject to increased regulatory scrutiny if they become concentrated in CRE loans. Regulators define CRE loans in their guidance as: construction and land development loans, or C&D; multifamily loans; loans secured by non-owner-occupied nonresidential, nonfarm properties; and loans

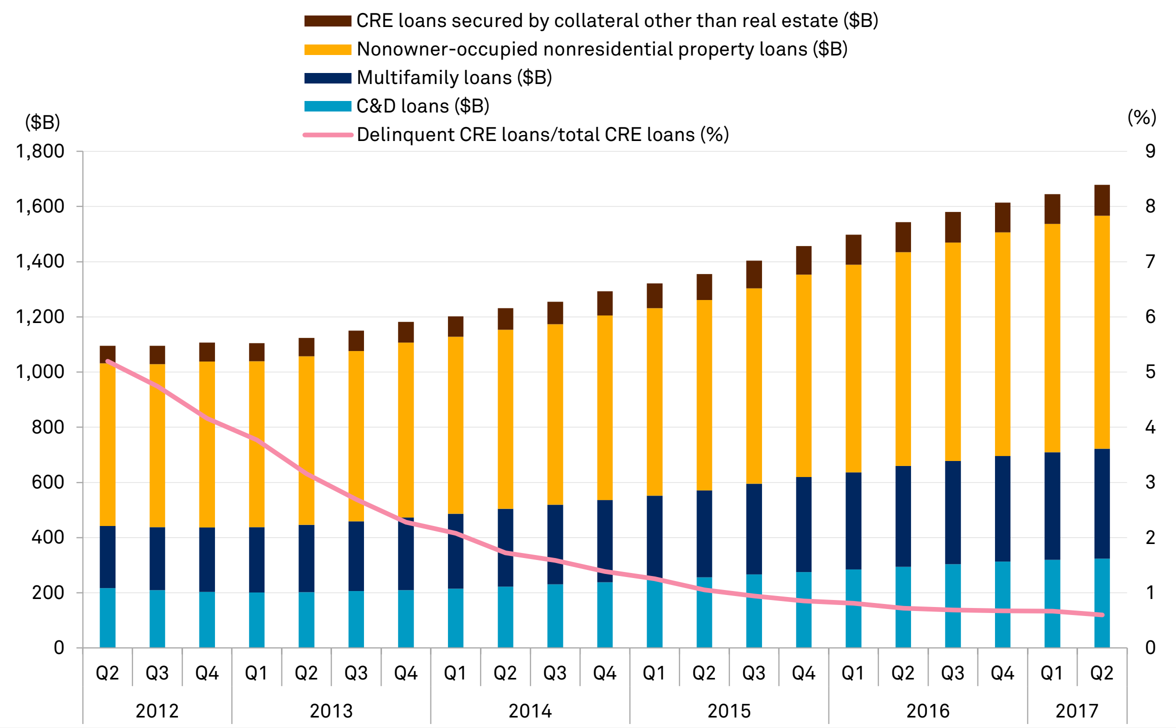
Banks exceeding regulators' 2006 guidance on CRE loan concentrations



Data compiled Aug. 30, 2017.
Analysis represents operating and historical U.S. banks and thrifts that had CRE loans greater than or equal to 300% of risk-based capital and growth in CRE loans greater than or equal to 50% over the last 36 months, or C&D loans greater than or equal to 100% of risk-based capital, at the end of each period shown.
Companies that met both criteria are included in the totals for each criteria, causing overlap between the totals of each criteria.
Companies that reported negative risk-based capital are considered concentrated in CRE and included in the totals.
Data based on regulatory filings.
CRE = commercial real estate; regulators define commercial real estate loans as: construction and land development loans + multifamily loans + nonowner-occupied nonresidential property loans + commercial real estate loans secured by collateral other than real estate
C&D = construction and development
Source: S&P Global Market Intelligence

212 7th Street NE, Charlottesville, VA 22902 Phone: +1.434.977.1600 Fax:+1.434.293.0407 www.spglobal.com/marketintelligence

CRE trends at US banks and thrifts



Data compiled Aug. 30, 2017.
Analysis based on aggregates for operating and historical U.S. commercial banks, savings banks, and savings and loan associations.
Data based on regulatory filings.
CRE = commercial real estate; regulators define commercial real estate loans as: construction and land development loans + multifamily loans + nonowner-occupied nonresidential property loans + commercial real estate loans secured by collateral other than real estate
Delinquent loans = loans more than 30 days past due or nonaccruing
C&D = construction and development
Source: S&P Global Market Intelligence

used to finance CRE or C&D activities that are not secured by real estate.

Regulators consider a bank concentrated in CRE loans if they meet at least one of two thresholds:

* CRE loans are greater than 300% of risk-based capital and CRE loans have grown by more than 50% during the prior three years.

* Construction and land development loans are above 100% of risk-based capital.

Despite the caution expressed by regulators, CRE loans continue to be one of the drivers of overall loan growth for banks. While total loans and leases rose by just 1.7% during the quarter and by 3.7% compared to a year ago, commercial real estate loans at banks grew by 2.0% during the quarter and 8.8% compared to a year ago.

Non-owner-occupied nonresidential real estate loans make up half of CRE loans held at banks and grew by 9.0% year over year. The highest-growing bucket in the CRE loan categories was C&D loans, which grew by 10.1% compared to a year ago.

The largest bank to become concentrated during the second quarter was Vienna, Va.-based United Bank, a unit of West Virginia-based United Bankshares Inc. United Bank has had CRE loans above 300% of risk-based capital since 2013, but it has wavered off and on the list over the years due to the component of the threshold that measures CRE loan growth over the last three years. If the growth is not above 50%, the bank is not considered concentrated under the criteria laid out in the 2006 guidance.

First Bancorp unit First Bank, based in Southern Pines, N.C., became concentrated in CRE due to its C&D loans creeping above 100% of total risk-based capital.

Largest companies that crossed the 2006 CRE guidance in Q2'17

Ranked by total assets

			CRE guidance criteria					
			CRE/total risk-based capital (%)	AND	Growth in CRE last 36 months (%)	OR	C&D/total risk-based capital (%)	
Company (top-level ticker)	City, state	Total assets ($B)	At least 300%		At least 50%		At least 100%	Total risk-based capital ratio (%)
United Bank (UBSI)	Vienna, VA	13.31	364.9		95.0		92.7	12.82
First Bank (FBNC)	Southern Pines, NC	4.53	254.1		62.0		101.0	12.50
Burke & Herbert Bank & Trust Co. (BHRB)	Alexandria, VA	3.12	309.1		78.5		33.2	15.74
First A National Banking Association (FBMS)	Hattiesburg, MS	1.79	242.3		144.7		100.8	12.41
First Business Bank (FBIZ)	Madison, WI	1.76	325.4		87.0		72.7	11.83
Carrollton Bank	Carrollton, IL	1.57	304.1		54.2		46.3	10.23
Bank of Ann Arbor	Ann Arbor, MI	1.53	341.8		193.9		27.8	11.46
Reliance Bank (RLBS)	Frontenac, MO	1.37	464.1		59.6		39.6	13.16
Provident Savings Bank F.S.B. (PROV)	Riverside, CA	1.20	463.1		51.7		5.5	17.28
Evans Bank NA (EVBN)	Hamburg, NY	1.17	363.4		52.6		76.0	13.32
Bank of Utah	Ogden, UT	1.16	297.8		45.5		107.4	16.35
Lubbock National Bank	Lubbock, TX	1.06	236.4		43.2		106.1	16.16
Cache Valley Bank	Logan, UT	1.04	241.4		55.9		108.0	13.58
Reliant Bank (CUBN)	Brentwood, TN	1.00	256.6		145.9		104.6	13.23
Planters Bank Inc.	Hopkinsville, KY	0.98	273.0		35.3		102.5	12.05
Illinois National Bank	Springfield, IL	0.97	428.9		56.6		102.7	11.48
Citizens National Bank	Sevierville, TN	0.97	325.6		34.0		102.6	14.13
Security State Bank & Trust	Fredericksburg, TX	0.92	191.8		46.5		104.3	18.56
First State Bank of the Florida Keys	Key West, FL	0.91	312.8		91.3		31.5	14.94
Ponce De Leon Federal Bank	Bronx, NY	0.81	312.0		52.9		38.4	17.34
Texas Regional Bank	Harlingen, TX	0.81	299.4		153.0		103.2	12.50
Beneficial State Bank	Oakland, CA	0.74	330.4		215.3		8.3	13.58
State Bank (FETM)	Fenton, MI	0.73	322.1		104.7		80.6	11.03
Opportunity Bank of Montana (EBMT)	Helena, MT	0.70	225.9		493.3		100.2	15.09
Bank of Blue Valley (BVBC)	Overland Park, KS	0.69	239.3		41.6		101.0	12.19
Group median			**309.1**		**59.6**		**100.2**	**13.23**
Industry median			**108.0**		**31.3**		**23.4**	**16.23**

Data compiled Aug. 30, 2017.
Analysis represents the 25 largest U.S. banks and thrifts by total assets at June 30, 2017, that met at least one of the two CRE guidance criteria: 1) CRE loans greater than or equal to 300% of risk-based capital and growth in CRE loans greater than or equal to 50% over the last 36 months, or 2) C&D loans greater than or equal to 100% of risk-based capital, as of June 30, 2017, and did not meet the criteria as of March 31, 2017. Some of the banks listed may have met the criteria in periods prior to the first quarter of 2017.
Data based on regulatory filings.
CRE = commercial real estate; regulators define commercial real estate loans as: construction and land development loans + multifamily loans + nonowner-occupied nonresidential property loans + commercial real estate loans secured by collateral other than real estate
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