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Fewer banks are concentrated in CRE as loan growth slows to late 2013 levels

By Maria Tor and Venkatesh Iyer **December 13, 2017**

As commercial real estate loan growth slows after a boom in 2015 and 2016, fewer banks are concentrated in these loans.

The number of banks concentrated in CRE loans fell to 496 at the end of the third quarter of 2017, from 509 at the end of the second quarter and 520 at the end of the third quarter of 2016. It is the first time that the number of banks concentrated in CRE has been under 500 since the fourth quarter of 2015. (Totals reported in prior articles may not match the totals reported in this article due to the frequency of call report restatements.)

Banks are pulling back on growth in CRE, which is composed of construction and land development loans, nonowner-

Banks exceeding regulators' 2006 guidance on CRE loan concentrations

Data compiled Dec.5, 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

occupied nonresidential nonfarm loans, multifamily loans, and loans for commercial real estate secured by collateral other than real estate. The year-over-year increase in CRE in the third quarter was down to 7.4%, the lowest growth rate since the fourth quarter of 2013.

Growth was down across all the loan categories that make up CRE. Twelve-month growth in construction and land development as of Sept. 30 was in the single digits for the first time since the second quarter of 2014.

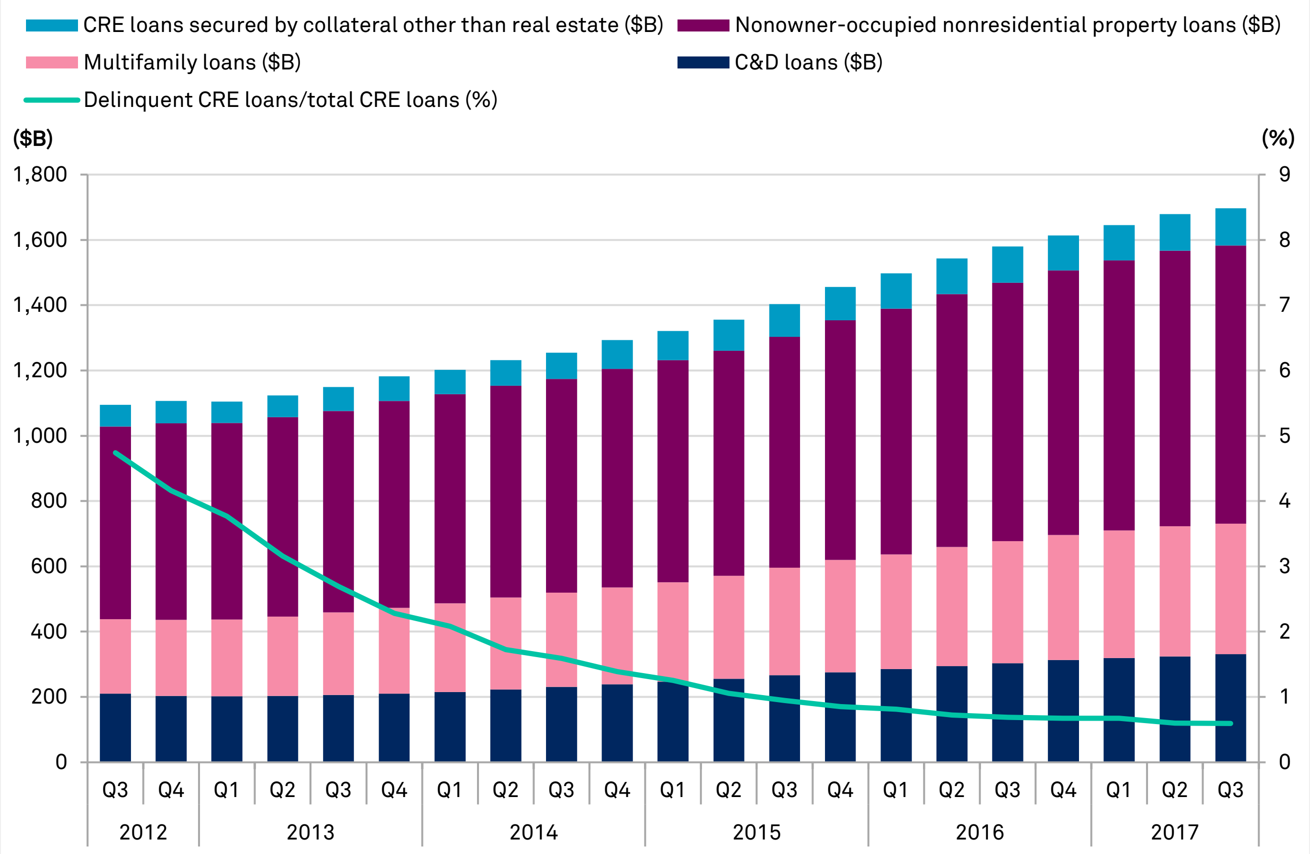
Regulators have guided banks since 2006 that they could be subject to increased regulatory scrutiny if they became concentrated in CRE loans. The banking regulatory agencies reissued their CRE guidance in late 2015 after noting substantial growth in CRE loan types.

The guidance states that banks may be considered 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.

CRE trends at US banks and thrifts



Data compiled Dec. 5, 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

Largest companies exceeding 2006 CRE guidance as of Sept. 30, 2017

			CRE guidance criteria					
Company (top-level ticker)	City, state	Total assets ($B)	CRE/total risk-based capital (%) At least 300%	AND	Growth in CRE last 36 months (%) At least 50%	OR	C&D/total risk-based capital (%) At least 100%	Total risk-based capital ratio (%)
Signature Bank (SBNY)	New York, NY	41.33	554.4		101.3		19.9	13.32
Investors Bank (ISBC)	Short Hills, NJ	24.78	417.4		74.4		13.6	15.47
Valley National Bank (VLY)	Wayne, NJ	23.74	387.9		92.6		41.3	12.26
Bank of the Ozarks (OZRK)	Little Rock, AR	20.77	344.4		261.0		203.1	12.83
Centennial Bank (HOMB)	Conway, AR	14.24	301.5		124.3		100.0	14.55
Bank of Hope (HOPE)	Los Angeles, CA	14.14	354.3		109.4		19.5	13.65
United Bank (UBSI)	Vienna, VA	13.17	354.4		86.0		89.3	13.51
Customers Bank (CUBI)	Phoenixville, PA	10.47	436.8		64.5		7.6	14.14
Banner Bank (BANR)	Walla Walla, WA	10.16	301.5		134.2		83.3	12.14
Banco Popular North America (BPOP)	New York, NY	9.32	316.4		88.2		69.2	17.88
LegacyTexas Bank (LTXB)	Plano, TX	9.07	304.7		584.8		30.3	11.06
Independent Bank (IBTX)	McKinney, TX	8.87	392.6		184.3		129.7	11.37
International Bank of Commerce (IBOC)	Laredo, TX	8.66	216.8		6.3		125.9	18.44
Mercantil Bank NA (MVZ.B)	Coral Gables, FL	8.49	338.4		173.5		62.3	12.35
EagleBank (EGBN)	Bethesda, MD	7.38	365.4		89.3		142.5	13.98
S&T Bank (STBA)	Indiana, PA	7.15	380.8		69.1		65.9	11.75
Bank Leumi USA (LUMI)	New York, NY	6.76	337.5		82.6		65.7	13.92
HomeStreet Bank (HMST)	Seattle, WA	6.76	322.1		160.3		100.1	13.65
Pacific Premier Bank (PPBI)	Irvine, CA	6.53	339.9		254.7		50.3	12.31
Flushing Bank (FFIC)	Uniondale, NY	6.27	551.0		52.4		4.2	14.6
First United Bank and Trust Co.	Durant, OK	6.16	368.6		398.8		120.2	12.95
Mechanics Bank (MCHB)	Walnut Creek, CA	5.70	321.4		110.3		20.3	12.44
Lakeland Bank (LBAI)	Oak Ridge, NJ	5.39	398.1		126.5		44.2	12.83
Sandy Spring Bank (SASR)	Olney, MD	5.33	306.5		65.4		108.8	11.54
State Bank and Trust Co. (STBZ)	Macon, GA	5.14	349.9		78.3		102.6	11.31
Group median			**349.9**		**101.3**		**65.9**	**12.95**
Industry median			**108.3**		**32.5**		**24.0**	**16.25**

Data compiled Dec. 5, 2017.
Analysis represents the 25 largest U.S. banks and thrifts by total assets at Sept. 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 Sept. 30, 2017.
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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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While the overall delinquency rate of CRE loans remained flat at 0.59% as of the end of the third quarter, the largest category of CRE loans, nonowner-occupied nonresidential properties, saw an uptick in delinquencies during the period to 0.67% from 0.63%.

Sixty-four banks became concentrated in CRE during the quarter, while 78 banks dropped off the list.

The largest banks concentrated in CRE are three New York-area banks: Signature Bank, Investors Bancorp Inc. and Valley National Bancorp. The largest bank to become newly considered concentrated in CRE was Banco Popular North America, also based in New York.