FDIC Quarterly

Quarterly Banking Profile: Third Quarter 2019

Bank and Nonbank Lending Over the Past 70 Years

Leveraged Lending and Corporate Borrowing: Increased Reliance on Capital Markets, With Important Bank Links

Trends in Mortgage Origination and Servicing: Nonbanks in the Post-Crisis Period

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The ***FDIC Quarterly*** is published by the Division of Insurance and Research of the Federal Deposit Insurance Corporation and contains a comprehensive summary of the most current financial results for the banking industry. Feature articles appearing in the ***FDIC Quarterly*** range from timely analysis of economic and banking trends at the national and regional level that may affect the risk exposure of FDIC-insured institutions to research on issues affecting the banking system and the development of regulatory policy.

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2019 FDIC QUARTERLY

Volume 13 • Number 4

Quarterly Banking Profile: Third Quarter 2019

FDIC-insured institutions reported aggregate net income of $57.4 billion in third quarter 2019, a decline of $4.5 billion (7.3 percent) from a year earlier. The decline in quarterly net income was caused by nonrecurring events at three large institutions, which totaled $4.9 billion. These events resulted in higher noninterest expense and realized securities losses. Almost 62 percent of banks reported year-over-year increases in net income, and only about 4 percent of banks were unprofitable during the third quarter. *See page 1.*

Community Bank Performance

Community banks—which represent 92 percent of insured institutions—reported net income of $6.9 billion in third quarter 2019, up $466.2 million (7.2 percent) from third quarter 2018. Higher net interest income, noninterest income, and realized gains on securities more than offset growth in noninterest expense, provision for loan and lease losses, and income tax expense. *See page 15.*

Insurance Fund Indicators

The Deposit Insurance Fund (DIF) balance increased by $1.5 billion during the quarter to $108.9 billion on September 30, driven by assessment income and interest earned on investments. The DIF reserve ratio (the fund balance as a percent of estimated insured deposits) was 1.41 percent on September 30, 2019, up from 1.40 percent on June 30, 2019, and up from 1.36 percent on September 30, 2018. *See page 23.*

Featured Articles:

Bank and Nonbank Lending Over the Past 70 Years

Total lending in the U.S. has grown dramatically in the past 70 years and since the 1970s, the share of bank loans has generally fallen as nonbanks gained market share in residential mortgage and corporate lending. In other business lines, shifts in loan holdings from banks to nonbanks have been less pronounced as banks and nonbanks continue to play important roles in lending for commercial real estate, agricultural loans, and consumer credit. Studying the roles that banks and nonbanks play in lending markets allows for a better understanding of how banks respond to growth in nonbank lending and the implications of associated risks for the banking sector and the broader economy. *See page 31.*

Leveraged Lending and Corporate Borrowing: Increased Reliance on Capital Markets, With Important Bank Links

Over the past decade, U.S. nonfinancial corporate debt reached record highs as issuance of corporate bonds and leveraged loans grew rapidly while credit quality and lender protections deteriorated. Much of this growth in corporate borrowing came through capital markets, though important connections to the banking system remain. This article examines this shift in corporate borrowing to capital markets over the past several decades. It also details the ways corporate debt has grown, the resulting risks this shift poses to banks since the 2008 financial crisis, and what factors could mitigate those risks. *See page 41.*

Trends in Mortgage Origination and Servicing: Nonbanks in the Post-Crisis Period

The mortgage market changed notably after the collapse of the U.S. housing market in 2007 and the financial crisis that followed. A substantive share of mortgage origination and servicing, and some of the risk associated with these activities, migrated outside of the banking system. Some risk remains with banks or could be transmitted to banks through other channels, including bank lending to nonbank mortgage lenders and servicers. Changing mortgage market dynamics and new risks and uncertainties warrant investigation of potential implications for systemic risk. *See page 51.*

INSURED INSTITUTION PERFORMANCE

Net Income Declines 7.3 Percent From Third Quarter 2018 to $57.4 Billion, Due to Nonrecurring Events at Three Large Institutions

Revenue Increases 2.2 Percent From 12 Months Ago, Led by Noninterest Income

Net Interest Margins Decline From Year-Ago Levels to 3.35 Percent

Annual Loan and Lease Growth Rate Increases to 4.6 Percent

Noncurrent Rate Declines, While Net Charge-Off Rate Increases Modestly

Four New Banks Are Added in Third Quarter 2019

Net Income Declines 7.3 Percent From Third Quarter 2018 to $57.4 Billion, Due to Nonrecurring Events at Three Large Institutions

The aggregate net income for the 5,256 FDIC-insured commercial banks and savings institutions totaled $57.4 billion during the three months ended September 30, a decline of $4.5 billion (7.3 percent) from third quarter 2018. The decline in quarterly net income was caused by nonrecurring events at three large institutions, which totaled $4.9 billion. These events resulted in higher noninterest expense and realized securities losses. Almost 62 percent of banks reported year-over-year increases in net income, and only about 4 percent of banks were unprofitable during the third quarter.[1] The average return on assets declined from 1.41 percent in third quarter 2018 to 1.25 percent in third quarter 2019.

Net Interest Income Increases 1.2 Percent From a Year Ago

Net interest income totaled $138.8 billion in the third quarter, an increase of $1.7 billion (1.2 percent) from a year ago, the lowest annual growth rate since fourth quarter 2014. Slightly more than two-thirds of all banks (70.9 percent) reported year-over-year increases in net interest income. Net interest margin (NIM) for the banking industry declined from 3.45 percent in third quarter 2018 to 3.35 percent in third quarter 2019. The slowdown in NIM was broad-based and declined for all five asset groups featured in the Quarterly Banking Profile. For all size groups, the decline was caused by increases to funding costs exceeding the rise in yields on earning assets.

[1] Methodology used for calculating industry participation counts consists of institutions existing in both reporting periods.

Chart 1

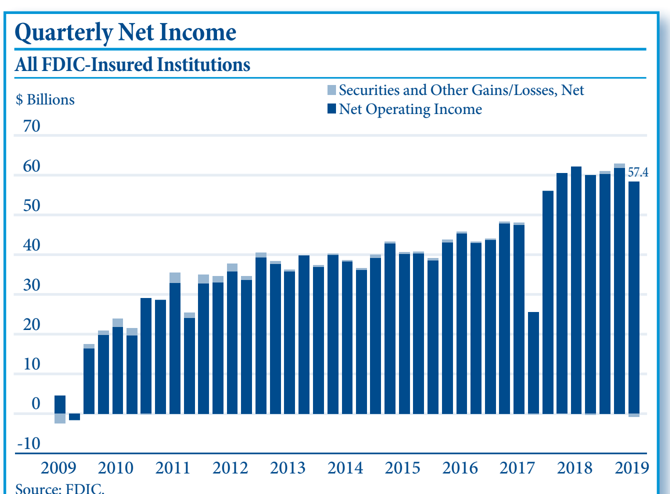
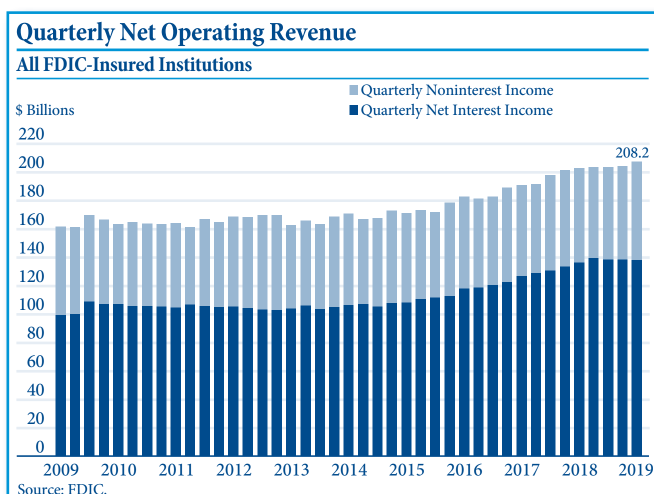


Chart 2



Loan-Loss Provisions Increase but Remain Relatively Low

Banks allocated $13.9 billion in loan-loss provisions during the third quarter, an increase of $2 billion (16.9 percent) from a year ago. The increase in loan-loss provisions was not broad-based, as less than 40 percent of all banks (38.1 percent) reported annual growth. Loan-loss provisions as a percentage of net operating revenue was 6.7 percent during the third quarter, with the annual increase primarily at banks with assets greater than $250 billion.

Noninterest Income Increases 4.3 Percent From a Year Ago

Noninterest income rose by $2.8 billion (4.3 percent) from a year ago, as almost two-thirds of all banks (63.9 percent) reported increases. The year-over-year growth in noninterest income was attributable to higher other noninterest income (up $3.6 billion, or 11.8 percent) and net gains on loan sales (up $1.1 billion, or 34 percent).[2]

Noninterest Expense Increases 5.7 Percent From Third Quarter 2018

Noninterest expense totaled $120.1 billion during the three months ended September 30, up $6.4 billion (5.7 percent) from third quarter 2018. The annual increase was broad-based, with 70.8 percent of all banks contributing to the growth. Salary and employee benefits (up $2.7 billion, or 5 percent), goodwill impairment charges (up $2 billion from a low base $7.2 million), and other noninterest expense (up $1.7 billion, or 3.6 percent) led the increase. The average assets per employee increased from $8.5 million in third quarter 2018 to $8.9 million.

Net Charge-Offs Increase by $1.9 Billion From 12 Months Ago

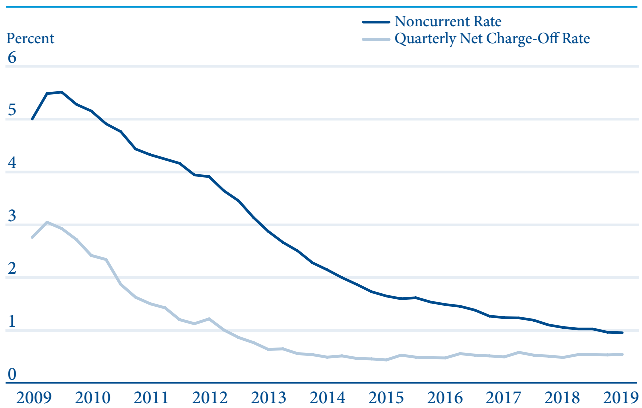
Banks charged off $13.1 billion in uncollectable loans during the third quarter, an increase of $1.9 billion (17.2 percent) from a year earlier. This was the largest annual dollar increase since first quarter 2010, but the charge-off rate remained low. The largest contributors to the annual increase in net charge-offs were the commercial and industrial (C&I) loan portfolio (up $1 billion, or 78.7 percent) and the credit card portfolio (up $513.7 million, or 6.7 percent). The average net charge-off rate increased by 6 basis points from third quarter 2018 to 0.51 percent. The C&I net charge-off rate increased to 0.41 percent from 0.25 percent a year earlier, but remains below the recent high of 0.50 percent reported in fourth quarter 2016.

[2] Other noninterest income includes service charges, commissions, and fees for services such as the rental of safe deposit boxes, notarization of forms and documents, and the use of ATMs. The category also includes interchange fees earned from bank card and credit card transactions and credits resulting from litigation or other claims.

Chart 3

Noncurrent Loan Rate and Quarterly Net Charge-Off Rate

All FDIC-Insured Institutions

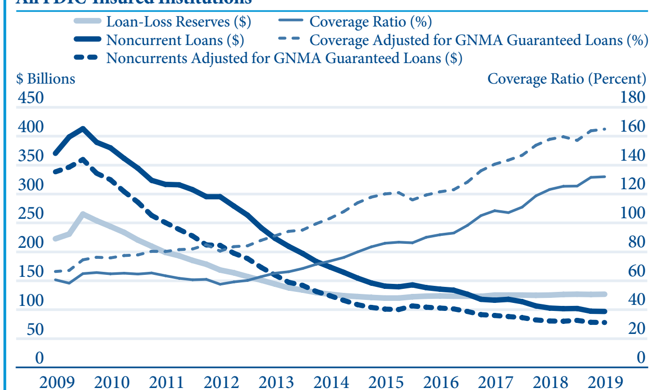


Source: FDIC.

Chart 4

Reserve Coverage Ratio

All FDIC-Insured Institutions



Source: FDIC.
Note: Loan-loss reserves to noncurrent loans and leases.

Noncurrent Loan Rate Remains Steady at 0.92 Percent

Noncurrent loan balances (90 days or more past due or in nonaccrual status) were almost unchanged from the previous quarter (down $184.8 million, or 0.2 percent). The average noncurrent rate remained stable at 0.92 percent. About half of all banks (47.6 percent) reported declines in noncurrent loan balances. Increases in noncurrent credit card balances (up $940.9 million, or 8.1 percent) and noncurrent C&I loans (up $263.5 million, or 1.5 percent) were partially offset by lower noncurrent residential mortgages (down $407.4 million, or 1 percent).

Loan-Loss Reserves Increase Modestly From Second Quarter 2019

Banks increased loan-loss reserves (up $251.6 million, or 0.2 percent) from the previous quarter, as quarterly loan-loss provisions of $13.9 billion exceeded quarterly net charge-offs of $13.1 billion. Almost two-thirds of all banks (62.1 percent) reported quarterly increases in loan-loss reserves. At banks that itemize their loan-loss reserves, which are banks with total assets of $1 billion or more and represent 90 percent of total industry loan-loss reserves, residential real estate reserves fell by $686 million (6.2 percent) and commercial real estate reserves declined by $547.2 million (3.8 percent). Loan-loss reserves for credit card portfolios increased by $618.3 million (1.5 percent) from the previous quarter.

Total Assets Increase 1.2 Percent From the Previous Quarter

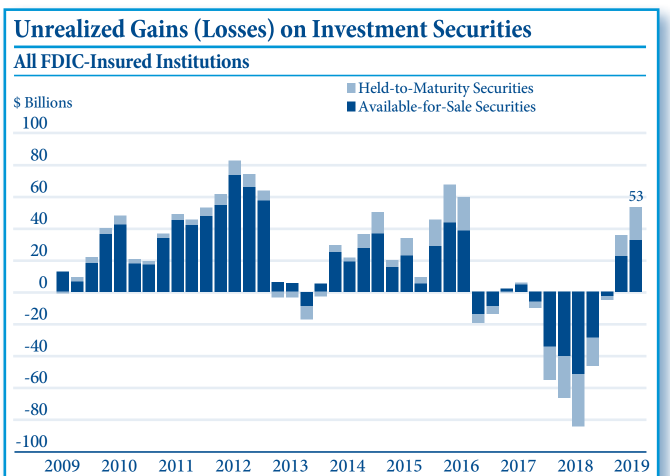
Total assets rose by $213.2 billion (1.2 percent) from second quarter 2019. Banks increased securities holdings by $156.9 billion (4.2 percent), as mortgage-backed securities increased by $86.8 billion (3.8 percent) and holdings of U.S. Treasury securities rose by $74.2 billion (13.5 percent). Unrealized gains on available-for-sale securities increased by $10 billion (44.6 percent), while unrealized gains on held-to-maturity securities increased by $7.6 billion (58.1 percent).

Loan Balances Increase From the Previous Quarter and a Year Ago

Total loan and lease balances increased by $99.5 billion (1 percent) from the previous quarter. Almost two-thirds of all banks (63.5 percent) grew loan and lease balances from the second quarter. All major loan categories reported quarterly aggregate increases, led by consumer loans (up $31.3 billion, or 1.8 percent), residential mortgage loans (up $22 billion, or 1 percent), and nonfarm nonresidential loans (up $18 billion, or 1.2 percent).[3] Over the past 12 months, total loan and lease balances increased by $460.2 billion (4.6 percent), slightly above the 4.5 percent annual growth rate reported in second quarter 2019. C&I loans reported the largest dollar increase from third quarter 2018 (up $131.9 billion, or 6.3 percent).

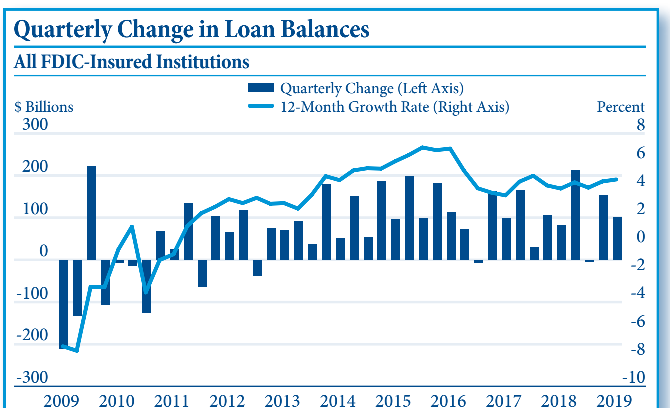
[3] Consumer loans include credit card balances.

Chart 5



Source: FDIC.

Chart 6



Source: FDIC.
Note: FASB Statements 166 and 167 resulted in the consolidation of large amounts of securitized loan balances back onto banks' balance sheets in the first quarter of 2010. Although the total amount consolidated cannot be precisely quantified, the industry would have reported a decline in loan balances for the quarter absent this change in accounting standards.

Deposits Increase 1.7 Percent From Second Quarter 2019

Total deposit balances rose by $235.9 billion (1.7 percent) from the second quarter, as deposits in domestic offices increased by $232.1 billion (1.8 percent) and deposits in foreign offices grew by $3.8 billion (0.3 percent). Interest-bearing accounts grew by $165.3 billion (1.7 percent) and noninterest-bearing accounts rose by $66.8 billion (2.2 percent). Nondeposit liabilities declined by $26.2 billion (1.2 percent) from the previous quarter, as Federal Home Loan Bank advances fell by $34.4 billion (6.5 percent) and other secured borrowings declined by $16.5 billion (7.5 percent).[4]

Equity Capital Remains Stable From Second Quarter 2019

Equity capital increased by $3.5 billion (0.2 percent) from the previous quarter. Declared dividends of $47.8 billion were below quarterly net income of $57.4 billion during the third quarter. Fifteen insured institutions with $2 billion in total assets were below the requirements for the well-capitalized category as defined for Prompt Corrective Action purposes.

Four New Banks Are Added in Third Quarter 2019

The number of FDIC-insured commercial banks and savings institutions fell from 5,303 to 5,256 during the third quarter. Four new banks were added, 46 institutions were absorbed by mergers, and no banks failed. The number of institutions on the FDIC's "Problem Bank List" fell from 56 to 55 at the end of third quarter. The list now contains the fewest institutions since first quarter 2007. Total assets of problem banks rose slightly from $48.5 billion to $48.8 billion.

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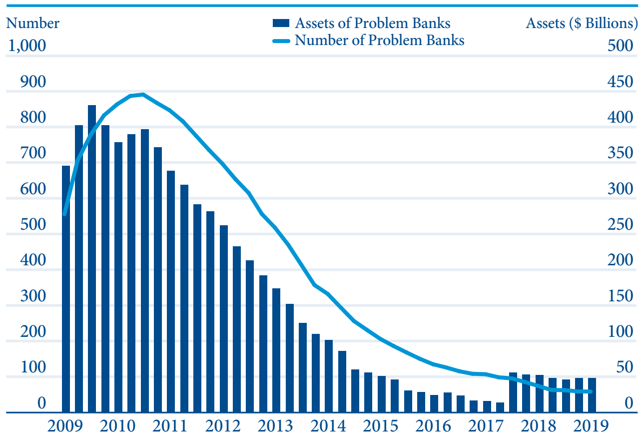
[4] Other noninterest expense includes retainer fees, legal fees, data processing expense, and accounting and auditing expenses.

Chart 7

Number and Assets of Banks on the "Problem Bank List"



Source: FDIC.

TABLE I-A. Selected Indicators, All FDIC-Insured Institutions*

	2019**	2018**	2018	2017	2016	2015	2014
Return on assets (%)	1.33	1.35	1.35	0.97	1.04	1.04	1.01
Return on equity (%)	11.67	12.03	11.98	8.60	9.27	9.29	9.01
Core capital (leverage) ratio (%)	9.68	9.77	9.70	9.63	9.48	9.59	9.44
Noncurrent assets plus other real estate owned to assets (%)	0.56	0.62	0.60	0.73	0.86	0.97	1.20
Net charge-offs to loans (%)	0.50	0.48	0.48	0.50	0.47	0.44	0.49
Asset growth rate (%)	4.57	2.50	3.03	3.79	5.09	2.66	5.59
Net interest margin (%)	3.38	3.38	3.40	3.25	3.13	3.07	3.14
Net operating income growth (%)	1.04	28.70	45.45	-3.27	4.43	7.11	-0.73
Number of institutions reporting	5,256	5,477	5,406	5,670	5,913	6,182	6,509
Commercial banks	4,587	4,774	4,715	4,918	5,112	5,338	5,607
Savings institutions	669	703	691	752	801	844	902
Percentage of unprofitable institutions (%)	3.46	3.40	3.42	5.61	4.48	4.82	6.27
Number of problem institutions	55	71	60	95	123	183	291
Assets of problem institutions (in billions)	$49	$53	$48	$14	$28	$47	$87
Number of failed institutions	1	0	0	8	5	8	18

* Excludes insured branches of foreign banks (IBAs).
** Through September 30, ratios annualized where appropriate. Asset growth rates are for 12 months ending September 30.

TABLE II-A. Aggregate Condition and Income Data, All FDIC-Insured Institutions

(dollar figures in millions)	3rd Quarter 2019	2nd Quarter 2019	3rd Quarter 2018	%Change 18Q3-19Q3
Number of institutions reporting	5,256	5,303	5,477	-4.0
Total employees (full-time equivalent)	2,065,576	2,069,198	2,070,600	-0.2
CONDITION DATA				
Total assets	$18,480,422	$18,267,203	$17,672,832	4.6
Loans secured by real estate	5,002,351	4,963,906	4,862,796	2.9
1-4 Family residential mortgages	2,182,308	2,160,308	2,112,199	3.3
Nonfarm nonresidential	1,491,704	1,473,730	1,426,248	4.6
Construction and development	359,843	357,222	351,299	2.4
Home equity lines	349,801	358,451	381,638	-8.3
Commercial & industrial loans	2,215,838	2,214,560	2,083,943	6.3
Loans to individuals	1,779,331	1,747,993	1,690,648	5.3
Credit cards	892,881	881,143	856,327	4.3
Farm loans	80,288	81,607	82,345	-2.5
Other loans & leases	1,323,677	1,293,967	1,221,644	8.4
Less: Unearned income	2,275	2,347	2,330	-2.4
Total loans & leases	10,399,209	10,299,686	9,939,046	4.6
Less: Reserve for losses	125,156	124,905	123,727	1.2
Net loans and leases	10,274,053	10,174,782	9,815,319	4.7
Securities	3,936,058	3,779,175	3,630,098	8.4
Other real estate owned	6,189	6,365	7,187	-13.9
Goodwill and other intangibles	394,024	397,156	397,116	-0.8
All other assets	3,870,098	3,909,725	3,823,113	1.2
Total liabilities and capital	18,480,422	18,267,203	17,672,832	4.6
Deposits	14,275,592	14,039,671	13,573,628	5.2
Domestic office deposits	12,979,742	12,747,614	12,321,793	5.3
Foreign office deposits	1,295,850	1,292,057	1,251,835	3.5
Other borrowed funds	1,460,169	1,496,825	1,497,303	-2.5
Subordinated debt	69,325	68,946	68,844	0.7
All other liabilities	574,108	564,069	535,741	7.2
Total equity capital (includes minority interests)	2,101,228	2,097,692	1,997,316	5.2
Bank equity capital	2,098,110	2,094,579	1,993,823	5.2
Loans and leases 30-89 days past due	64,013	60,731	63,198	1.3
Noncurrent loans and leases	95,543	95,728	101,255	-5.6
Restructured loans and leases	51,069	52,891	56,382	-9.4
Mortgage-backed securities	2,369,458	2,282,677	2,157,479	9.8
Earning assets	16,685,260	16,485,294	15,959,314	4.6
FHLB Advances	498,867	533,284	553,364	-9.9
Unused loan commitments	8,133,004	8,049,055	7,842,636	3.7
Trust assets	21,365,786	20,621,589	20,428,706	4.6
Assets securitized and sold	539,466	550,767	625,982	-13.8
Notional amount of derivatives	203,447,068	207,258,169	209,769,422	-3.0

INCOME DATA	First Three Quarters 2019	First Three Quarters 2018	%Change	3rd Quarter 2019	3rd Quarter 2018	%Change 18Q3-19Q3
Total interest income	$539,435	$484,959	11.2	$180,844	$169,022	7.0
Total interest expense	123,508	83,176	48.5	42,081	31,927	31.8
Net interest income	415,927	401,783	3.5	138,764	137,095	1.2
Provision for loan and lease losses	40,600	35,976	12.9	13,872	11,863	16.9
Total noninterest income	200,824	201,832	-0.5	69,462	66,627	4.3
Total noninterest expense	349,501	342,143	2.2	120,102	113,671	5.7
Securities gains (losses)	1,044	557	87.5	-956	130	-832.7
Applicable income taxes	47,361	47,980	-1.3	15,878	16,332	-2.8
Extraordinary gains, net*	167	-227	N/M	-2	-39	N/M
Total net income (includes minority interests)	180,501	177,844	1.5	57,416	61,947	-7.3
Bank net income	180,309	177,626	1.5	57,354	61,877	-7.3
Net charge-offs	38,545	34,894	10.5	13,088	11,164	17.2
Cash dividends	134,884	112,150	20.3	47,757	43,843	8.9
Retained earnings	45,425	65,476	-30.6	9,597	18,034	-46.8
Net operating income	179,474	177,625	1.0	58,173	61,883	-6.0

* See Notes to Users for explanation. N/M - Not Meaningful

TABLE III-A. Third Quarter 2019, All FDIC-Insured Institutions

THIRD QUARTER (The way it is...)		All Insured Institutions	Asset Concentration Groups*								
			Credit Card Banks	International Banks	Agricultural Banks	Commercial Lenders	Mortgage Lenders	Consumer Lenders	Other Specialized <$1 Billion	All Other <$1 Billion	All Other >$1 Billion
Number of institutions reporting		5,256	12	5	1,324	2,753	393	68	217	434	50
Commercial banks		4,587	11	5	1,312	2,481	112	47	196	380	43
Savings institutions		669	1	0	12	272	281	21	21	54	7
Total assets (in billions)		$18,480.4	$521.8	$4,509.3	$285.2	$6,672.2	$386.1	$225.8	$38.2	$76.9	$5,764.9
Commercial banks		17,308.0	429.8	4,509.3	278.9	6,237.3	113.0	114.3	34.6	64.1	5,526.6
Savings institutions		1,172.4	91.9	0.0	6.3	434.9	273.0	111.6	3.7	12.8	238.3
Total deposits (in billions)		14,275.6	351.7	3,253.2	235.4	5,227.9	301.0	184.7	30.0	64.2	4,627.8
Commercial banks		13,346.9	283.4	3,253.2	232.2	4,904.1	87.5	91.6	27.7	54.0	4,413.3
Savings institutions		928.7	68.3	0.0	3.2	323.8	213.5	93.0	2.3	10.2	214.6
Bank net income (in millions)		57,354	4,470	13,871	1,028	18,931	1,237	855	322	237	16,404
Commercial banks		53,096	3,544	13,871	974	17,892	553	479	136	206	15,441
Savings institutions		4,258	926	0	53	1,039	683	376	186	31	963
Performance Ratios (annualized, %)											
Yield on earning assets		4.37	13.29	3.79	4.87	4.47	3.80	5.31	3.52	4.39	3.81
Cost of funding earning assets		1.02	2.30	1.03	1.00	1.01	0.98	1.04	0.62	0.71	0.90
Net interest margin		3.35	10.99	2.76	3.88	3.46	2.83	4.27	2.89	3.68	2.92
Noninterest income to assets		1.51	4.49	1.86	0.70	1.09	1.51	1.50	7.62	1.08	1.47
Noninterest expense to assets		2.62	7.21	2.42	2.56	2.61	2.55	3.12	6.06	3.05	2.32
Loan and lease loss provision to assets		0.30	3.29	0.29	0.15	0.19	0.02	0.66	0.06	0.08	0.19
Net operating income to assets		1.27	3.43	1.21	1.42	1.13	1.26	1.36	3.33	1.22	1.25
Pretax return on assets		1.60	4.48	1.59	1.65	1.46	1.66	2.00	4.25	1.40	1.46
Return on assets		1.25	3.43	1.23	1.45	1.15	1.30	1.53	3.42	1.24	1.14
Return on equity		10.96	27.35	11.98	12.21	9.42	11.62	13.93	18.88	9.45	10.20
Net charge-offs to loans and leases		0.51	3.94	0.71	0.15	0.24	0.03	0.78	0.17	0.14	0.37
Loan and lease loss provision to net charge-offs		105.99	102.09	106.95	147.15	109.68	119.55	121.47	119.93	99.74	104.26
Efficiency ratio		56.23	47.67	56.27	58.84	58.69	60.48	54.99	58.91	67.43	55.57
% of unprofitable institutions		4.13	0.00	0.00	3.55	3.78	7.89	0.00	9.22	3.23	2.00
% of institutions with earnings gains		62.14	50.00	60.00	58.69	66.36	53.18	69.12	52.07	59.68	50.00
Structural Changes											
New reporters		4	0	0	0	0	0	0	4	0	0
Institutions absorbed by mergers		46	0	0	13	31	0	0	0	1	1
Failed institutions		0	0	0	0	0	0	0	0	0	0
PRIOR THIRD QUARTERS (The way it was...)											
Return on assets (%)	2018	1.41	3.09	1.21	1.42	1.31	1.22	1.38	3.82	1.22	1.48
	2016	1.10	2.26	0.90	1.29	1.01	1.03	1.02	2.68	0.95	1.21
	2014	1.01	3.10	0.79	1.28	0.95	0.83	1.18	2.12	0.92	0.96
Net charge-offs to loans & leases (%)	2018	0.45	3.70	0.44	0.13	0.17	0.01	0.69	0.23	0.14	0.37
	2016	0.44	3.11	0.48	0.09	0.22	0.04	0.66	0.16	0.19	0.41
	2014	0.46	2.62	0.68	0.09	0.25	0.15	0.57	0.30	0.24	0.26

* See Table V-A (page 10) for explanations.

TABLE III-A. Third Quarter 2019, All FDIC-Insured Institutions

		Asset Size Distribution					Geographic Regions*					
THIRD QUARTER (The way it is…)	**All Insured Institutions**	**Less Than $100 Million**	**$100 Million to $1 Billion**	**$1 Billion to $10 Billion**	**$10 Billion to $250 Billion**	**Greater Than $250 Billion**	**New York**	**Atlanta**	**Chicago**	**Kansas City**	**Dallas**	**San Francisco**
Number of institutions reporting	5,256	1,206	3,247	660	134	9	635	603	1,132	1,343	1,157	386
Commercial banks	4,587	1,068	2,854	539	117	9	333	550	971	1,298	1,085	350
Savings institutions	669	138	393	121	17	0	302	53	161	45	72	36
Total assets (in billions)	$18,480.4	$71.6	$1,083.1	$1,722.0	$6,435.6	$9,168.1	$3,357.4	$3,784.3	$4,240.1	$3,797.9	$1,193.3	$2,107.4
Commercial banks	17,308.0	63.6	936.2	1,405.8	5,734.3	9,168.1	2,953.2	3,682.5	4,135.2	3,752.3	1,039.3	1,745.5
Savings institutions	1,172.4	8.0	146.9	316.3	701.2	0.0	404.2	101.8	104.9	45.6	154.0	361.9
Total deposits (in billions)	14,275.6	59.0	900.9	1,387.8	4,949.9	6,977.9	2,596.7	2,975.1	3,091.3	2,974.5	961.0	1,677.0
Commercial banks	13,346.9	53.1	784.7	1,144.2	4,387.0	6,977.9	2,291.7	2,896.6	3,015.2	2,940.2	839.6	1,363.5
Savings institutions	928.7	5.9	116.3	243.6	562.9	0.0	305.0	78.5	76.0	34.3	121.5	313.5
Bank net income (in millions)	57,354	185	3,618	5,940	20,324	27,287	9,197	11,092	14,302	10,836	4,263	7,664
Commercial banks	53,096	161	3,134	5,105	17,410	27,287	8,285	10,863	13,838	10,704	3,767	5,641
Savings institutions	4,258	24	484	835	2,914	0	912	230	464	132	497	2,023
Performance Ratios (annualized, %)												
Yield on earning assets	4.37	4.67	4.79	4.79	4.83	3.91	4.32	4.37	3.92	4.31	4.77	5.18
Cost of funding earning assets	1.02	0.79	0.94	1.03	1.14	0.94	1.23	0.90	0.91	1.06	0.90	1.09
Net interest margin	3.35	3.87	3.86	3.76	3.69	2.97	3.09	3.46	3.01	3.26	3.87	4.09
Noninterest income to assets	1.51	1.41	1.33	1.22	1.45	1.63	1.30	1.44	1.89	1.31	1.38	1.67
Noninterest expense to assets	2.62	3.68	3.23	2.79	2.73	2.43	2.41	2.54	2.62	2.53	3.00	3.03
Loan and lease loss provision to assets	0.30	0.18	0.15	0.18	0.43	0.25	0.29	0.31	0.23	0.29	0.21	0.53
Net operating income to assets	1.27	1.00	1.32	1.37	1.25	1.26	1.09	1.35	1.34	1.12	1.40	1.44
Pretax return on assets	1.60	1.18	1.58	1.76	1.67	1.52	1.40	1.49	1.73	1.47	1.76	1.99
Return on assets	1.25	1.04	1.35	1.39	1.28	1.19	1.10	1.18	1.36	1.15	1.45	1.47
Return on equity	10.96	7.19	11.24	11.52	10.60	11.13	9.16	9.64	12.31	11.21	11.92	12.94
Net charge-offs to loans and leases	0.51	0.25	0.13	0.21	0.67	0.51	0.47	0.53	0.43	0.51	0.26	0.79
Loan and lease loss provision to net charge-offs	105.99	120.74	165.44	119.86	103.39	104.78	109.10	99.29	105.77	108.54	116.55	106.48
Efficiency ratio	56.23	73.42	65.30	58.76	53.55	56.43	58.37	54.65	56.95	58.93	60.43	48.96
% of unprofitable institutions	4.13	9.87	2.77	0.76	2.24	0.00	3.78	6.14	4.68	2.46	3.72	6.99
% of institutions with earnings gains	62.14	54.64	63.50	70.45	56.72	44.44	56.69	63.18	65.19	62.25	61.28	62.69
Structural Changes												
New reporters	4	3	1	0	0	0	1	2	0	0	0	1
Institutions absorbed by mergers	46	17	22	5	2	0	5	7	8	16	8	2
Failed institutions	0	0	0	0	0	0	0	0	0	0	0	0
PRIOR THIRD QUARTERS (The way it was…)												
Return on assets (%) 2018	1.41	1.09	1.28	1.42	1.50	1.36	1.28	1.48	1.29	1.37	1.49	1.74
2016	1.10	0.97	1.13	1.10	1.09	1.09	0.87	1.25	1.00	1.09	1.16	1.40
2014	1.01	0.88	1.04	1.12	1.06	0.95	0.87	0.89	0.82	1.14	1.17	1.61
Net charge-offs to loans & leases (%) 2018	0.45	0.19	0.13	0.19	0.65	0.41	0.55	0.53	0.19	0.48	0.24	0.68
2016	0.44	0.15	0.12	0.23	0.62	0.43	0.50	0.51	0.27	0.47	0.28	0.58
2014	0.46	0.22	0.18	0.25	0.66	0.41	0.68	0.35	0.32	0.55	0.21	0.45

* See Table V-A (page 11) for explanations.

TABLE IV-A. First Three Quarters 2019, All FDIC-Insured Institutions

FIRST THREE QUARTERS (The way it is…)	All Insured Institutions	Asset Concentration Groups*: Credit Card Banks	International Banks	Agricultural Banks	Commercial Lenders	Mortgage Lenders	Consumer Lenders	Other Specialized <$1 Billion	All Other <$1 Billion	All Other >$1 Billion
Number of institutions reporting	5,256	12	5	1,324	2,753	393	68	217	434	50
Commercial banks	4,587	11	5	1,312	2,481	112	47	196	380	43
Savings institutions	669	1	0	12	272	281	21	21	54	7
Total assets (in billions)	$18,480.4	$521.8	$4,509.3	$285.2	$6,672.2	$386.1	$225.8	$38.2	$76.9	$5,764.9
Commercial banks	17,308.0	429.8	4,509.3	278.9	6,237.3	113.0	114.3	34.6	64.1	5,526.6
Savings institutions	1,172.4	91.9	0.0	6.3	434.9	273.0	111.6	3.7	12.8	238.3
Total deposits (in billions)	14,275.6	351.7	3,253.2	235.4	5,227.9	301.0	184.7	30.0	64.2	4,627.8
Commercial banks	13,346.9	283.4	3,253.2	232.2	4,904.1	87.5	91.6	27.7	54.0	4,413.3
Savings institutions	928.7	68.3	0.0	3.2	323.8	213.5	93.0	2.3	10.2	214.6
Bank net income (in millions)	180,309	12,921	41,722	2,860	58,386	3,395	2,368	925	678	57,053
Commercial banks	168,305	10,374	41,722	2,757	55,381	1,503	1,487	359	584	54,138
Savings institutions	12,004	2,547	0	103	3,005	1,892	881	567	94	2,915
Performance Ratios (annualized, %)										
Yield on earning assets	4.39	13.02	3.81	4.79	4.49	3.81	5.26	3.53	4.33	3.88
Cost of funding earning assets	1.01	2.32	1.03	0.95	1.00	0.95	1.01	0.61	0.68	0.88
Net interest margin	3.38	10.70	2.78	3.84	3.49	2.86	4.25	2.92	3.65	2.99
Noninterest income to assets	1.48	4.42	1.82	0.65	1.07	1.31	1.33	7.13	1.01	1.43
Noninterest expense to assets	2.57	7.08	2.44	2.55	2.56	2.48	2.99	5.82	3.01	2.23
Loan and lease loss provision to assets	0.30	3.29	0.28	0.16	0.18	0.02	0.60	0.04	0.08	0.20
Net operating income to assets	1.32	3.30	1.22	1.34	1.19	1.19	1.36	3.20	1.16	1.36
Pretax return on assets	1.67	4.27	1.58	1.54	1.52	1.54	1.90	4.09	1.35	1.69
Return on assets	1.33	3.30	1.24	1.36	1.21	1.20	1.43	3.32	1.19	1.34
Return on equity	11.67	26.69	12.02	11.67	9.96	10.88	13.31	18.72	9.28	11.95
Net charge-offs to loans and leases	0.50	4.19	0.71	0.15	0.20	0.02	0.79	0.12	0.12	0.38
Loan and lease loss provision to net charge-offs	105.33	96.79	101.38	159.51	125.72	117.27	110.18	125.89	120.77	104.64
Efficiency ratio	55.86	47.89	56.80	60.01	59.04	61.30	54.25	59.30	68.06	53.29
% of unprofitable institutions	3.46	0.00	0.00	2.34	3.31	8.40	1.47	7.83	2.07	0.00
% of institutions with earnings gains	64.23	58.33	40.00	62.16	66.98	54.20	57.35	59.91	66.59	58.00
Condition Ratios (%)										
Earning assets to total assets	90.29	95.40	87.37	93.20	90.66	95.00	95.20	91.63	93.01	90.97
Loss allowance to:										
Loans and leases	1.20	4.47	1.44	1.40	0.96	0.61	1.07	1.46	1.21	1.01
Noncurrent loans and leases	130.99	276.58	164.24	129.54	125.61	32.19	158.46	118.69	127.35	100.48
Noncurrent assets plus other real estate owned to assets	0.56	1.33	0.36	0.86	0.60	1.15	0.48	0.40	0.68	0.54
Equity capital ratio	11.35	12.72	10.14	11.94	12.18	11.03	11.05	18.10	13.19	11.16
Core capital (leverage) ratio	9.68	12.31	8.73	11.40	10.19	10.79	11.04	17.24	12.89	9.28
Common equity tier 1 capital ratio	13.25	14.34	13.61	14.90	12.29	21.53	17.75	37.72	21.66	13.31
Tier 1 risk-based capital ratio	13.33	14.48	13.69	14.91	12.37	21.54	17.97	37.73	21.68	13.38
Total risk-based capital ratio	14.67	16.39	15.22	16.02	13.58	22.25	18.99	38.56	22.73	14.76
Net loans and leases to deposits	71.97	116.66	51.27	82.05	88.99	74.65	84.18	34.13	68.29	63.02
Net loans to total assets	55.59	78.63	36.99	67.71	69.72	58.19	68.83	26.74	56.99	50.59
Domestic deposits to total assets	70.24	66.45	47.92	82.52	77.99	77.68	81.76	78.37	83.45	77.27
Structural Changes										
New reporters	10	0	0	0	1	0	0	8	1	0
Institutions absorbed by mergers	149	0	1	31	109	1	1	1	4	1
Failed institutions	1	0	0	1	0	0	0	0	0	0

PRIOR FIRST THREE QUARTERS (The way it was…)		All Insured Institutions	Credit Card Banks	International Banks	Agricultural Banks	Commercial Lenders	Mortgage Lenders	Consumer Lenders	Other Specialized <$1 Billion	All Other <$1 Billion	All Other >$1 Billion
Number of institutions	2018	5,477	12	5	1,366	2,878	408	70	233	453	52
	2016	5,980	13	5	1,461	3,012	478	62	304	585	60
	2014	6,589	16	3	1,501	3,284	570	50	371	729	65
Total assets (in billions)	2018	$17,672.8	$640.0	$4,245.9	$285.2	$6,232.8	$352.0	$212.8	$36.0	$78.0	$5,590.2
	2016	16,766.6	500.8	4,145.8	273.5	5,678.8	386.7	205.5	54.7	103.3	5,417.6
	2014	15,348.7	605.5	3,690.9	254.1	5,186.3	435.5	167.5	60.5	128.5	4,819.9
Return on assets (%)	2018	1.35	2.83	1.22	1.35	1.27	1.12	1.46	3.82	1.16	1.39
	2016	1.04	2.30	0.90	1.24	0.99	0.98	1.01	2.57	0.96	1.07
	2014	1.03	3.20	0.81	1.20	0.97	0.86	1.10	2.08	0.89	0.97
Net charge-offs to loans & leases (%)	2018	0.48	3.90	0.50	0.13	0.17	0.01	0.74	0.15	0.13	0.38
	2016	0.45	3.21	0.53	0.11	0.20	0.05	0.65	0.16	0.18	0.42
	2014	0.49	2.86	0.73	0.09	0.26	0.19	0.62	0.24	0.23	0.29
Noncurrent assets plus OREO to assets (%)	2018	0.62	1.13	0.39	0.89	0.65	1.39	0.49	0.46	0.77	0.65
	2016	0.88	1.01	0.62	0.78	0.88	1.78	0.87	0.59	1.00	1.01
	2014	1.29	0.82	0.90	0.88	1.30	2.27	1.10	0.75	1.46	1.58
Equity capital ratio (%)	2018	11.28	15.27	9.98	11.32	11.96	10.99	10.67	16.87	12.05	11.06
	2016	11.21	15.16	9.79	11.61	11.98	11.32	10.00	15.49	12.01	11.10
	2014	11.20	14.90	9.50	11.40	11.97	12.02	9.96	14.30	11.91	11.09

* See Table V-A (page 10) for explanations.

TABLE IV-A. First Three Quarters 2019, All FDIC-Insured Institutions

FIRST THREE QUARTERS (The way it is...)		All Insured Institutions	Asset Size Distribution: Less Than $100 Million	$100 Million to $1 Billion	$1 Billion to $10 Billion	$10 Billion to $250 Billion	Greater Than $250 Billion	Geographic Regions*: New York	Atlanta	Chicago	Kansas City	Dallas	San Francisco
Number of institutions reporting		5,256	1,206	3,247	660	134	9	635	603	1,132	1,343	1,157	386
Commercial banks		4,587	1,068	2,854	539	117	9	333	550	971	1,298	1,085	350
Savings institutions		669	138	393	121	17	0	302	53	161	45	72	36
Total assets (in billions)		$18,480.4	$71.6	$1,083.1	$1,722.0	$6,435.6	$9,168.1	$3,357.4	$3,784.3	$4,240.1	$3,797.9	$1,193.3	$2,107.4
Commercial banks		17,308.0	63.6	936.2	1,405.8	5,734.3	9,168.1	2,953.2	3,682.5	4,135.2	3,752.3	1,039.3	1,745.5
Savings institutions		1,172.4	8.0	146.9	316.3	701.2	0.0	404.2	101.8	104.9	45.6	154.0	361.9
Total deposits (in billions)		14,275.6	59.0	900.9	1,387.8	4,949.9	6,977.9	2,596.7	2,975.1	3,091.3	2,974.5	961.0	1,677.0
Commercial banks		13,346.9	53.1	784.7	1,144.2	4,387.0	6,977.9	2,291.7	2,896.6	3,015.2	2,940.2	839.6	1,363.5
Savings institutions		928.7	5.9	116.3	243.6	562.9	0.0	305.0	78.5	76.0	34.3	121.5	313.5
Bank net income (in millions)		180,309	539	10,409	16,515	64,276	88,569	27,485	37,348	42,703	35,153	12,067	25,553
Commercial banks		168,305	468	9,002	14,159	56,106	88,569	24,864	36,748	41,473	34,764	10,784	19,671
Savings institutions		12,004	71	1,407	2,356	8,171	0	2,621	600	1,230	389	1,282	5,882
Performance Ratios (annualized, %)													
Yield on earning assets		4.39	4.57	4.74	4.76	4.83	3.96	4.34	4.42	3.91	4.37	4.77	5.15
Cost of funding earning assets		1.01	0.75	0.90	1.00	1.13	0.93	1.20	0.89	0.91	1.05	0.88	1.08
Net interest margin		3.38	3.82	3.84	3.75	3.71	3.03	3.14	3.53	3.01	3.32	3.89	4.07
Noninterest income to assets		1.48	1.36	1.23	1.13	1.44	1.59	1.29	1.43	1.83	1.26	1.27	1.63
Noninterest expense to assets		2.57	3.63	3.19	2.80	2.65	2.39	2.44	2.52	2.61	2.44	2.97	2.81
Loan and lease loss provision to assets		0.30	0.15	0.14	0.18	0.43	0.25	0.29	0.33	0.22	0.29	0.19	0.50
Net operating income to assets		1.32	0.98	1.27	1.29	1.36	1.31	1.10	1.39	1.34	1.23	1.37	1.62
Pretax return on assets		1.67	1.16	1.53	1.66	1.77	1.63	1.42	1.69	1.70	1.57	1.69	2.17
Return on assets		1.33	1.01	1.31	1.32	1.37	1.30	1.12	1.34	1.35	1.26	1.39	1.65
Return on equity		11.67	7.15	11.12	11.00	11.43	12.12	9.30	11.01	12.38	12.26	11.60	14.68
Net charge-offs to loans and leases		0.50	0.18	0.11	0.20	0.66	0.51	0.46	0.55	0.41	0.52	0.23	0.78
Loan and lease loss provision to net charge-offs		105.33	136.85	176.90	126.89	103.55	102.38	110.14	103.10	103.68	105.80	122.64	101.83
Efficiency ratio		55.86	73.95	66.05	60.33	53.29	55.47	58.40	54.08	57.42	56.70	60.75	49.25
% of unprofitable institutions		3.46	9.04	2.16	0.30	0.75	0.00	3.62	5.14	3.80	2.16	3.03	5.44
% of institutions with earnings gains		64.23	57.46	65.35	70.45	67.91	55.56	60.16	66.67	66.34	61.95	64.56	67.88
Condition Ratios (%)													
Earning assets to total assets		90.29	92.63	93.16	92.31	90.95	89.08	89.92	89.78	88.86	90.46	91.17	93.84
Loss allowance to:													
Loans and leases		1.20	1.39	1.24	1.08	1.22	1.22	1.14	1.17	1.20	1.26	1.01	1.39
Noncurrent loans and leases		130.99	106.58	151.36	147.00	131.14	124.87	126.01	127.45	132.12	115.27	100.51	216.34
Noncurrent assets plus other real estate owned to assets		0.56	0.98	0.73	0.61	0.60	0.49	0.54	0.57	0.52	0.61	0.76	0.42
Equity capital ratio		11.35	14.47	12.03	12.12	12.04	10.63	12.01	12.21	10.88	10.22	12.11	11.34
Core capital (leverage) ratio		9.68	14.13	11.67	11.09	10.20	8.78	10.16	9.62	9.25	9.17	10.49	10.37
Common equity tier 1 capital ratio		13.25	22.58	16.01	14.23	13.00	12.82	13.58	12.96	13.16	12.68	13.29	14.45
Tier 1 risk-based capital ratio		13.33	22.60	16.04	14.24	13.15	12.85	13.62	13.06	13.20	12.77	13.38	14.56
Total risk-based capital ratio		14.67	23.66	17.11	15.20	14.46	14.34	14.90	14.30	14.53	14.56	14.39	15.59
Net loans and leases to deposits		71.97	71.70	81.90	87.76	79.72	62.05	72.02	72.97	68.87	67.42	82.06	78.11
Net loans to total assets		55.59	59.05	68.13	70.73	61.32	47.23	55.70	57.37	50.21	52.80	66.09	62.16
Domestic deposits to total assets		70.24	82.37	83.18	80.33	74.48	63.74	71.47	76.16	63.92	62.29	80.50	78.84
Structural Changes													
New reporters		10	9	1	0	0	0	3	3	2	0	1	1
Institutions absorbed by mergers		149	36	85	22	6	0	24	20	31	38	26	10
Failed institutions		1	1	0	0	0	0	0	0	0	0	1	0
PRIOR FIRST THREE QUARTERS (The way it was...)													
Number of institutions	2018	5,477	1,335	3,369	635	129	9	671	633	1,180	1,397	1,193	403
	2016	5,980	1,589	3,656	621	104	10	731	731	1,287	1,500	1,280	451
	2014	6,589	1,940	3,966	575	100	8	816	823	1,427	1,614	1,387	522
Total assets (in billions)	2018	$17,672.8	$79.2	$1,107.7	$1,694.4	$6,036.1	$8,755.5	$3,275.4	$3,654.9	$3,996.3	$3,641.5	$1,119.5	$1,985.3
	2016	16,766.6	94.1	1,171.9	1,741.0	4,983.0	8,776.7	3,158.4	3,478.0	3,785.4	3,644.3	1,001.6	1,698.9
	2014	15,348.7	114.2	1,227.5	1,531.3	4,795.9	7,679.9	3,045.0	3,134.2	3,503.2	3,363.6	884.9	1,417.9
Return on assets (%)	2018	1.35	1.05	1.25	1.32	1.45	1.31	1.21	1.43	1.29	1.27	1.42	1.71
	2016	1.04	0.95	1.09	1.06	1.08	1.01	0.85	1.03	0.98	1.09	1.10	1.43
	2014	1.03	0.84	0.99	1.08	1.12	0.97	0.95	0.89	0.89	1.14	1.15	1.50
Net charge-offs to loans & leases (%)	2018	0.48	0.17	0.11	0.21	0.69	0.43	0.59	0.54	0.23	0.50	0.22	0.71
	2016	0.45	0.15	0.11	0.21	0.62	0.46	0.48	0.53	0.27	0.51	0.30	0.55
	2014	0.49	0.21	0.20	0.28	0.70	0.45	0.73	0.40	0.35	0.60	0.21	0.48
Noncurrent assets plus OREO to assets (%)	2018	0.62	1.01	0.77	0.68	0.63	0.58	0.61	0.66	0.56	0.71	0.76	0.45
	2016	0.88	1.19	1.02	0.84	0.82	0.89	0.70	1.07	0.81	1.04	1.04	0.53
	2014	1.29	1.56	1.53	1.50	0.87	1.47	0.92	1.71	1.19	1.60	1.29	0.69
Equity capital ratio (%)	2018	11.28	13.48	11.41	11.85	12.21	10.50	12.67	11.95	10.38	10.21	11.68	11.31
	2016	11.21	13.15	11.47	11.80	12.18	10.50	12.03	12.39	10.18	10.08	11.22	12.04
	2014	11.20	12.35	11.19	11.97	12.68	10.10	12.02	12.11	9.92	10.30	11.15	12.72

* See Table V-A (page 11) for explanations.

TABLE V-A. Loan Performance, All FDIC-Insured Institutions

		Asset Concentration Groups*								
September 30, 2019	**All Insured Institutions**	**Credit Card Banks**	**International Banks**	**Agricultural Banks**	**Commercial Lenders**	**Mortgage Lenders**	**Consumer Lenders**	**Other Specialized <$1 Billion**	**All Other <$1 Billion**	**All Other >$1 Billion**
Percent of Loans 30-89 Days Past Due										
All loans secured by real estate	0.55	0.18	0.65	0.63	0.42	0.78	0.36	0.91	0.94	0.76
Construction and development	0.33	0.00	0.05	0.62	0.37	0.66	0.71	0.54	0.47	0.16
Nonfarm nonresidential	0.26	0.00	0.24	0.59	0.23	0.23	0.50	0.56	0.80	0.30
Multifamily residential real estate	0.09	0.00	0.01	0.41	0.10	0.07	0.20	0.07	0.31	0.10
Home equity loans	0.60	0.00	1.06	0.45	0.49	0.39	0.42	0.84	0.56	0.65
Other 1-4 family residential	0.89	0.20	0.94	1.02	0.76	0.89	0.33	1.36	1.14	1.04
Commercial and industrial loans	0.33	0.78	0.42	0.94	0.31	0.47	0.58	1.48	0.97	0.25
Loans to individuals	1.46	1.74	1.04	1.11	1.46	1.05	0.86	1.72	1.29	1.73
Credit card loans	1.40	1.77	1.10	0.87	1.48	0.95	0.81	3.19	1.00	1.22
Other loans to individuals	1.52	1.27	0.82	1.13	1.46	1.06	0.88	1.62	1.30	2.04
All other loans and leases (including farm)	0.23	0.35	0.29	0.56	0.21	0.44	0.11	0.76	0.43	0.16
Total loans and leases	0.62	1.65	0.60	0.67	0.46	0.75	0.72	1.07	0.94	0.69
Percent of Loans Noncurrent**										
All real estate loans	1.15	1.06	1.42	1.03	0.79	2.05	1.32	1.35	1.02	1.74
Construction and development	0.44	0.28	0.66	0.48	0.44	0.50	0.86	1.06	0.82	0.35
Nonfarm nonresidential	0.55	38.67	0.51	0.83	0.52	0.46	1.43	1.27	1.10	0.64
Multifamily residential real estate	0.12	0.00	0.05	0.45	0.13	0.65	0.17	1.48	0.70	0.11
Home equity loans	1.78	0.00	3.97	0.35	1.12	0.89	1.86	0.39	0.43	2.25
Other 1-4 family residential	1.79	0.55	1.85	0.86	1.33	2.41	1.29	1.48	1.00	2.29
Commercial and industrial loans	0.81	0.66	0.87	1.40	0.86	0.85	0.21	0.85	0.98	0.68
Loans to individuals	0.97	1.71	0.91	0.65	0.77	0.43	0.51	1.25	0.48	0.69
Credit card loans	1.40	1.79	1.09	0.36	1.24	0.76	1.34	1.61	0.41	1.17
Other loans to individuals	0.53	0.57	0.28	0.67	0.74	0.40	0.32	1.23	0.48	0.40
All other loans and leases (including farm)	0.20	0.01	0.10	1.13	0.31	0.58	0.16	0.54	0.69	0.12
Total loans and leases	0.92	1.61	0.87	1.08	0.77	1.89	0.67	1.23	0.95	1.01
Percent of Loans Charged-Off (net, YTD)										
All real estate loans	0.00	0.02	0.00	0.05	0.02	-0.02	-0.01	0.04	0.04	-0.04
Construction and development	-0.01	0.18	0.04	0.04	-0.01	-0.04	0.03	0.02	-0.02	-0.04
Nonfarm nonresidential	0.04	0.00	0.06	0.06	0.04	0.00	0.18	0.01	0.06	0.02
Multifamily residential real estate	0.00	0.00	0.00	0.01	0.00	0.01	-0.02	0.78	-0.02	0.00
Home equity loans	-0.09	0.00	-0.08	0.02	0.03	-0.20	-0.02	0.05	0.03	-0.29
Other 1-4 family residential	0.00	0.01	-0.01	0.04	0.02	-0.01	-0.02	0.03	0.04	-0.03
Commercial and industrial loans	0.34	2.28	0.33	0.36	0.32	0.11	0.50	0.18	0.23	0.26
Loans to individuals	2.40	4.39	2.80	0.46	1.17	1.07	1.07	0.51	0.56	1.82
Credit card loans	3.87	4.51	3.43	1.37	4.27	1.82	2.84	2.15	2.00	3.37
Other loans to individuals	0.90	2.50	0.64	0.38	0.95	1.02	0.66	0.39	0.53	0.88
All other loans and leases (including farm)	0.14	0.98	0.08	0.25	0.19	0.24	0.01	0.22	0.38	0.13
Total loans and leases	0.50	4.19	0.71	0.15	0.20	0.02	0.79	0.12	0.12	0.38
Loans Outstanding (in billions)										
All real estate loans	$5,002.4	$1.3	$548.9	$121.1	$2,855.3	$200.6	$35.3	$7.3	$34.2	$1,198.4
Construction and development	359.8	0.1	16.2	7.8	275.8	5.3	0.5	0.7	2.2	51.4
Nonfarm nonresidential	1,491.7	0.0	56.9	32.6	1,114.4	17.9	2.0	2.5	7.8	257.6
Multifamily residential real estate	452.0	0.0	83.7	4.1	308.7	5.5	0.3	0.2	0.9	48.6
Home equity loans	349.8	0.0	39.6	2.4	187.2	10.5	3.1	0.3	1.2	105.5
Other 1-4 family residential	2,182.3	1.1	304.0	28.6	919.8	160.4	29.1	3.3	19.2	716.8
Commercial and industrial loans	2,215.8	39.5	353.2	23.4	1,071.6	6.4	6.4	1.4	3.8	710.1
Loans to individuals	1,779.3	388.4	384.2	6.9	386.0	4.8	112.4	1.2	3.7	491.7
Credit card loans	892.9	364.8	296.6	0.6	24.9	0.4	20.5	0.1	0.1	184.9
Other loans to individuals	886.5	23.6	87.6	6.3	361.0	4.4	91.8	1.2	3.7	306.9
All other loans and leases (including farm)	1,404.0	0.3	406.6	44.5	385.6	14.4	3.2	0.5	2.7	546.2
Total loans and leases (plus unearned income)	10,401.5	429.4	1,692.9	195.9	4,698.6	226.1	157.3	10.4	44.4	2,946.5
Memo: Other Real Estate Owned (in millions)										
All other real estate owned	6,189.1	0.6	437.2	324.6	3,987.7	166.3	26.5	24.6	98.3	1,123.3
Construction and development	1,479.2	0.4	4.0	54.9	1,263.3	25.2	5.0	5.8	14.5	106.1
Nonfarm nonresidential	1,995.6	0.0	74.0	101.8	1,422.2	18.8	6.3	10.6	41.2	320.8
Multifamily residential real estate	71.7	0.0	0.0	7.9	63.0	0.6	0.0	0.0	0.2	0.0
1-4 family residential	2,386.8	0.3	321.2	51.5	1,141.0	119.1	15.2	8.0	38.9	691.6
Farmland	217.7	0.0	0.0	108.5	98.2	2.6	0.0	0.2	3.5	4.7

* Asset Concentration Group Definitions (Groups are hierarchical and mutually exclusive):
Credit-card Lenders - Institutions whose credit-card loans plus securitized receivables exceed 50 percent of total assets plus securitized receivables.
International Banks - Banks with assets greater than $10 billion and more than 25 percent of total assets in foreign offices.
Agricultural Banks - Banks whose agricultural production loans plus real estate loans secured by farmland exceed 25 percent of the total loans and leases.
Commercial Lenders - Institutions whose commercial and industrial loans, plus real estate construction and development loans, plus loans secured by commercial real estate properties exceed 25 percent of total assets.
Mortgage Lenders - Institutions whose residential mortgage loans, plus mortgage-backed securities, exceed 50 percent of total assets.
Consumer Lenders - Institutions whose residential mortgage loans, plus credit-card loans, plus other loans to individuals, exceed 50 percent of total assets.
Other Specialized < $1 Billion - Institutions with assets less than $1 billion, whose loans and leases are less than 40 percent of total assets.
All Other < $1 billion - Institutions with assets less than $1 billion that do not meet any of the definitions above, they have significant lending activity with no identified asset concentrations.
All Other > $1 billion - Institutions with assets greater than $1 billion that do not meet any of the definitions above, they have significant lending activity with no identified asset concentrations.
** Noncurrent loan rates represent the percentage of loans in each category that are past due 90 days or more or that are in nonaccrual status.

TABLE V-A. Loan Performance, All FDIC-Insured Institutions

September 30, 2019	All Insured Institutions	Asset Size Distribution: Less Than $100 Million	$100 Million to $1 Billion	$1 Billion to $10 Billion	$10 Billion to $250 Billion	Greater Than $250 Billion	Geographic Regions*: New York	Atlanta	Chicago	Kansas City	Dallas	San Francisco
Percent of Loans 30-89 Days Past Due												
All loans secured by real estate	0.55	1.06	0.56	0.33	0.50	0.72	0.45	0.59	0.55	0.76	0.72	0.22
Construction and development	0.33	0.83	0.53	0.34	0.35	0.11	0.45	0.23	0.22	0.32	0.39	0.37
Nonfarm nonresidential	0.26	0.89	0.41	0.27	0.18	0.28	0.28	0.25	0.22	0.31	0.37	0.10
Multifamily residential real estate	0.09	0.55	0.26	0.11	0.08	0.04	0.08	0.04	0.08	0.23	0.11	0.06
Home equity loans	0.60	0.56	0.51	0.42	0.50	0.74	0.49	0.57	0.72	0.78	0.48	0.29
Other 1-4 family residential	0.89	1.43	0.79	0.46	0.90	1.02	0.75	0.94	0.82	1.16	1.47	0.33
Commercial and industrial loans	0.33	1.28	0.67	0.47	0.28	0.31	0.24	0.23	0.38	0.36	0.42	0.42
Loans to individuals	1.46	1.56	1.45	1.38	1.46	1.47	1.30	2.05	0.93	1.28	0.92	1.71
Credit card loans	1.40	1.17	2.25	3.17	1.65	1.15	1.49	1.55	1.02	1.26	0.80	1.83
Other loans to individuals	1.52	1.56	1.39	1.01	1.28	1.88	1.14	2.54	0.82	1.33	0.97	1.61
All other loans and leases (including farm)	0.23	0.50	0.50	0.28	0.17	0.24	0.14	0.13	0.25	0.36	0.19	0.17
Total loans and leases	0.62	1.04	0.60	0.40	0.61	0.67	0.51	0.72	0.52	0.68	0.63	0.62
Percent of Loans Noncurrent**												
All real estate loans	1.15	1.24	0.79	0.69	1.03	1.67	1.03	1.23	1.32	1.61	1.13	0.35
Construction and development	0.44	1.15	0.73	0.48	0.35	0.32	0.54	0.43	0.48	0.33	0.36	0.52
Nonfarm nonresidential	0.55	1.35	0.72	0.61	0.43	0.61	0.65	0.55	0.66	0.55	0.55	0.32
Multifamily residential real estate	0.12	0.71	0.26	0.17	0.11	0.07	0.12	0.23	0.12	0.10	0.14	0.07
Home equity loans	1.78	0.67	0.53	0.54	1.11	2.84	1.89	1.19	2.04	2.86	1.02	0.57
Other 1-4 family residential	1.79	1.17	0.83	0.97	1.83	2.21	1.63	1.88	1.86	2.38	2.43	0.37
Commercial and industrial loans	0.81	1.73	0.99	1.02	0.89	0.68	0.88	0.61	0.81	0.80	0.98	1.02
Loans to individuals	0.97	0.76	0.69	0.88	1.14	0.81	1.06	1.13	0.63	0.95	0.78	1.08
Credit card loans	1.40	0.58	1.83	3.08	1.69	1.12	1.66	1.44	0.98	1.26	1.31	1.80
Other loans to individuals	0.53	0.77	0.61	0.44	0.62	0.43	0.56	0.82	0.26	0.43	0.55	0.45
All other loans and leases (including farm)	0.20	1.52	0.99	0.38	0.22	0.12	0.16	0.17	0.15	0.28	0.32	0.21
Total loans and leases	0.92	1.30	0.82	0.73	0.93	0.97	0.91	0.92	0.91	1.09	1.00	0.64
Percent of Loans Charged-Off (net, YTD)												
All real estate loans	0.00	0.06	0.03	0.03	0.02	-0.04	0.04	-0.03	0.01	0.00	0.02	-0.01
Construction and development	-0.01	0.01	0.00	-0.01	-0.01	-0.02	0.02	-0.02	0.03	-0.04	0.00	-0.07
Nonfarm nonresidential	0.04	0.10	0.03	0.05	0.04	0.03	0.06	0.05	0.03	0.03	0.05	0.00
Multifamily residential real estate	0.00	-0.03	0.00	0.00	0.01	0.00	0.00	0.01	0.00	0.01	0.00	0.00
Home equity loans	-0.09	0.11	0.03	0.03	0.02	-0.22	0.03	-0.34	-0.01	-0.05	-0.02	-0.03
Other 1-4 family residential	0.00	0.04	0.02	0.03	0.02	-0.03	0.03	-0.03	-0.01	0.00	0.01	-0.01
Commercial and industrial loans	0.34	0.64	0.29	0.38	0.41	0.27	0.24	0.33	0.34	0.26	0.41	0.58
Loans to individuals	2.40	0.57	1.06	1.88	2.66	2.25	2.45	2.41	1.94	2.74	1.38	2.72
Credit card loans	3.87	3.03	5.53	6.98	4.34	3.39	3.92	3.93	3.29	3.73	2.68	4.71
Other loans to individuals	0.90	0.56	0.77	0.82	1.01	0.79	1.19	0.89	0.51	1.02	0.82	0.93
All other loans and leases (including farm)	0.14	0.21	0.19	0.21	0.13	0.13	0.13	0.14	0.15	0.13	0.19	0.06
Total loans and leases	0.50	0.18	0.11	0.20	0.66	0.51	0.46	0.55	0.41	0.52	0.23	0.78
Loans Outstanding (in billions)												
All real estate loans	$5,002.4	$29.1	$575.4	$900.0	$1,852.1	$1,645.7	$1,032.5	$941.0	$985.9	$897.4	$509.1	$636.4
Construction and development	359.8	1.7	54.5	89.5	149.8	64.4	69.2	59.5	59.9	50.8	79.0	41.6
Nonfarm nonresidential	1,491.7	6.6	217.8	370.0	605.1	292.2	342.1	293.1	222.7	205.0	210.1	218.7
Multifamily residential real estate	452.0	0.8	31.4	98.9	191.1	129.9	157.9	46.2	113.3	40.8	23.5	70.3
Home equity loans	349.8	0.6	20.4	38.7	135.9	154.1	72.2	84.5	86.2	60.2	19.9	26.8
Other 1-4 family residential	2,182.3	13.6	199.1	276.5	753.4	939.6	386.2	444.6	479.4	446.1	157.5	268.5
Commercial and industrial loans	2,215.8	5.0	92.8	195.5	853.6	1,069.1	344.9	548.8	487.9	441.8	152.1	240.3
Loans to individuals	1,779.3	2.8	30.6	69.1	824.5	852.3	300.0	421.1	342.4	319.0	68.0	328.7
Credit card loans	892.9	0.0	1.9	11.7	401.5	477.8	135.6	208.1	174.7	201.1	19.8	153.5
Other loans to individuals	886.5	2.8	28.7	57.4	423.0	374.5	164.4	213.0	167.7	117.9	48.2	175.2
All other loans and leases (including farm)	1,404.0	6.0	48.7	67.1	465.7	816.5	215.0	285.8	339.0	373.4	67.6	123.3
Total loans and leases (plus unearned income)	10,401.5	42.9	747.5	1,231.7	3,995.8	4,383.6	1,892.4	2,196.7	2,155.2	2,031.6	796.9	1,328.7
Memo: Other Real Estate Owned (in millions)												
All other real estate owned	6,189.1	144.5	1,687.8	1,337.4	1,643.4	1,376.1	1,063.2	1,357.0	1,199.9	1,112.2	1,124.5	332.4
Construction and development	1,479.2	25.3	663.6	413.4	287.4	89.5	188.0	407.2	175.8	254.6	353.4	100.3
Nonfarm nonresidential	1,995.6	47.5	561.9	542.1	479.2	364.9	276.1	400.2	367.3	386.4	482.7	82.8
Multifamily residential real estate	71.7	5.1	40.3	20.7	3.9	1.8	11.9	21.3	13.7	12.2	8.2	4.4
1-4 family residential	2,386.8	46.9	317.3	282.2	858.6	881.8	577.0	515.3	594.6	346.9	228.0	125.1
Farmland	217.7	19.8	104.7	78.9	14.3	0.0	10.1	13.0	24.4	98.1	52.3	19.9

*** Regions:**
New York - Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont, U.S. Virgin Islands
Atlanta - Alabama, Florida, Georgia, North Carolina, South Carolina, Virginia, West Virginia
Chicago - Illinois, Indiana, Kentucky, Michigan, Ohio, Wisconsin
Kansas City - Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota
Dallas - Arkansas, Colorado, Louisiana, Mississippi, New Mexico, Oklahoma, Tennessee, Texas
San Francisco - Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon, Pacific Islands, Utah, Washington, Wyoming
** Noncurrent loan rates represent the percentage of loans in each category that are past due 90 days or more or that are in nonaccrual status.

Table VI-A. Derivatives, All FDIC-Insured Call Report Filers

(dollar figures in millions; notional amounts unless otherwise indicated)	3rd Quarter 2019	2nd Quarter 2019	1st Quarter 2019	4th Quarter 2018	3rd Quarter 2018	% Change 18Q3-19Q3	Asset Size Distribution: Less Than $100 Million	$100 Million to $1 Billion	$1 Billion to $10 Billion	$10 Billion to $250 Billion	Greater Than $250 Billion
ALL DERIVATIVE HOLDERS											
Number of institutions reporting derivatives	1,337	1,343	1,322	1,311	1,347	-0.7	37	724	442	125	9
Total assets of institutions reporting derivatives	$16,897,616	$16,696,505	$16,499,238	$16,296,560	$16,058,176	5.2	$2,525	$317,701	$1,285,695	$6,123,641	$9,168,054
Total deposits of institutions reporting derivatives	13,004,386	12,778,822	12,647,947	12,555,763	12,291,565	5.8	2,066	261,867	1,032,474	4,730,071	6,977,909
Total derivatives	203,447,067	207,258,169	203,961,688	178,089,335	209,769,422	-3.0	250	28,094	159,494	60,347,026	142,912,203
Derivative Contracts by Underlying Risk Exposure											
Interest rate	147,099,769	151,863,618	149,193,449	128,182,078	156,781,236	-6.2	249	27,684	151,104	48,171,518	98,749,214
Foreign exchange*	46,666,516	46,115,633	45,570,306	40,948,207	43,473,496	7.3	0	0	6,161	11,556,284	35,104,071
Equity	3,835,456	3,722,531	3,675,244	3,374,363	3,644,559	5.2	0	19	186	173,062	3,662,189
Commodity & other (excluding credit derivatives)	1,662,059	1,482,094	1,377,390	1,314,571	1,525,680	8.9	0	0	92	106,190	1,555,778
Credit	4,182,691	4,073,984	4,145,034	4,269,954	4,341,695	-3.7	0	8	1,758	339,972	3,840,953
Total	203,446,491	207,257,860	203,961,423	178,089,173	209,766,666	-3.0	249	27,711	159,301	60,347,026	142,912,203
Derivative Contracts by Transaction Type											
Swaps	108,934,914	110,905,216	106,833,011	97,930,420	104,801,209	3.9	2	8,818	89,099	29,570,031	79,266,964
Futures & forwards	46,957,953	46,206,834	46,165,354	36,143,797	47,051,282	-0.2	6	3,488	31,232	14,637,679	32,285,548
Purchased options	20,727,431	21,893,579	21,854,715	18,707,980	25,031,776	-17.2	1	392	11,710	7,772,034	12,943,294
Written options	20,338,281	21,794,090	22,283,518	19,300,817	25,769,336	-21.1	2	2,501	17,330	7,362,372	12,956,076
Total	196,958,578	200,799,718	197,136,597	172,083,014	202,653,603	-2.8	11	15,199	149,371	59,342,116	137,451,881
Fair Value of Derivative Contracts											
Interest rate contracts	54,196	55,924	53,806	47,131	53,594	1.1	0	208	-67	15,971	38,084
Foreign exchange contracts	2,817	-2,565	10,800	11,282	25,827	-89.1	0	0	21	3,673	-877
Equity contracts	1,597	-1,110	-272	6,407	1,975	-19.1	0	2	2	529	1,064
Commodity & other (excluding credit derivatives)	-4,100	-2,161	-778	-1,873	2,948	N/M	0	0	0	-12	-4,088
Credit derivatives as guarantor**	20,454	18,529	16,412	6,715	26,237	-22.0	0	0	8	669	19,777
Credit derivatives as beneficiary**	-22,966	-21,734	-18,387	-6,765	-26,912	N/M	0	0	-10	-1,252	-21,703
Derivative Contracts by Maturity* **											
Interest rate contracts < 1 year	88,724,441	90,569,101	87,928,755	71,493,447	93,168,889	-4.8	1	2,872	29,762	24,531,533	64,160,272
1-5 years	37,506,725	39,191,526	38,988,277	36,682,682	42,735,097	-12.2	0	1,515	38,637	9,351,503	28,115,069
> 5 years	24,490,557	24,216,180	24,263,088	23,246,059	24,228,390	1.1	8	7,286	53,089	7,205,770	17,224,404
Foreign exchange and gold contracts < 1 year	33,602,158	32,804,737	32,626,686	28,891,823	29,674,897	13.2	0	0	4,009	8,167,235	25,430,914
1-5 years	4,279,836	4,340,277	4,364,397	4,218,682	4,928,405	-13.2	0	0	779	860,179	3,418,877
> 5 years	2,148,934	2,170,971	2,181,911	2,095,962	2,470,383	-13.0	0	0	0	612,348	1,536,586
Equity contracts < 1 year	2,687,265	2,725,454	2,714,590	2,448,707	2,825,222	-4.9	0	7	52	75,307	2,611,899
1-5 years	994,632	972,497	957,790	863,793	963,096	3.3	0	12	33	47,759	946,828
> 5 years	147,521	149,222	143,076	139,158	135,954	8.5	0	0	2	12,005	135,514
Commodity & other contracts (including credit derivatives, excluding gold contracts) < 1 year	1,960,750	2,008,663	1,754,422	1,745,343	1,896,551	3.4	0	0	45	66,421	1,894,284
1-5 years	2,819,249	2,803,027	2,847,105	3,105,744	3,017,006	-6.6	0	1	424	227,371	2,591,453
> 5 years	430,569	260,548	528,263	298,075	537,194	-19.8	0	5	619	35,726	394,220
Risk-Based Capital: Credit Equivalent Amount											
Total current exposure to tier 1 capital (%)	27.4	23.9	22.0	22.7	23.9		0.0	1.0	1.6	17.0	41.0
Total potential future exposure to tier 1 capital (%)	35.0	36.6	37.6	36.0	40.9		0.0	0.4	0.8	18.4	55.0
Total exposure (credit equivalent amount) to tier 1 capital (%)	62.4	60.5	59.5	58.8	64.8		0.1	1.3	2.4	35.4	96.0
Credit losses on derivatives******	22.0	26.0	9.0	12.0	12.0	83.3	0.0	0.0	-2.0	14.0	9.0
HELD FOR TRADING											
Number of institutions reporting derivatives	174	189	187	193	197	-11.7	0	24	76	66	8
Total assets of institutions reporting derivatives	13,311,871	13,222,401	12,931,735	12,768,696	12,612,012	5.5	0	11,832	278,454	4,164,568	8,857,016
Total deposits of institutions reporting derivatives	10,146,691	10,023,986	9,864,375	9,799,266	9,613,504	5.5	0	9,793	220,174	3,204,925	6,711,799
Derivative Contracts by Underlying Risk Exposure											
Interest rate	144,445,439	149,515,929	147,070,054	126,222,239	154,523,852	-6.5	0	550	37,788	47,407,516	96,999,585
Foreign exchange	43,902,530	43,278,150	42,441,525	38,768,802	40,241,704	9.1	0	0	5,416	10,858,222	33,038,892
Equity	3,817,653	3,704,416	3,659,003	3,359,405	3,628,434	5.2	0	0	26	162,316	3,655,311
Commodity & other	1,631,150	1,451,571	1,347,235	1,285,123	1,496,650	9.0	0	0	73	77,019	1,554,058
Total	193,796,771	197,950,066	194,517,817	169,635,569	199,890,639	-3.0	0	550	43,303	58,505,072	135,247,846
Trading Revenues: Cash & Derivative Instruments											
Interest rate**	1,526	2,730	4,080	2,306	1,998	-23.6	0	0	6	-757	2,277
Foreign exchange**	2,718	2,900	2,254	1,971	3,130	-13.2	0	0	4	903	1,811
Equity**	1,805	2,464	2,895	-43	1,444	25.0	0	0	7	116	1,682
Commodity & other (including credit derivatives)**	1,152	-14	808	-202	487	136.6	0	0	0	525	627
Total trading revenues**	7,201	8,080	10,037	4,031	7,059	2.0	0	0	17	787	6,397
Share of Revenue											
Trading revenues to gross revenues (%)**	4.3	4.8	6.2	2.5	4.5		0.0	0.0	0.4	1.6	5.6
Trading revenues to net operating revenues (%)**	18.6	19.0	24.4	10.1	16.8		0.0	0.0	2.0	8.2	22.6
HELD FOR PURPOSES OTHER THAN TRADING											
Number of institutions reporting derivatives	661	719	724	734	750	-11.9	5	193	336	118	9
Total assets of institutions reporting derivatives	16,312,457	16,229,106	16,008,092	15,816,221	15,575,002	4.7	389	92,263	1,094,973	5,956,778	9,168,054
Total deposits of institutions reporting derivatives	12,531,168	12,402,057	12,251,856	12,172,535	11,903,875	5.3	331	76,083	876,704	4,600,141	6,977,909
Derivative Contracts by Underlying Risk Exposure											
Interest rate	2,633,516	2,335,640	2,113,244	1,950,783	2,249,741	17.1	11	14,629	105,244	764,002	1,749,629
Foreign exchange	479,579	465,373	459,140	452,256	468,068	2.5	0	0	645	33,125	445,809
Equity	17,803	18,116	16,241	14,959	16,125	10.4	0	19	160	10,746	6,878
Commodity & other	30,910	30,523	30,155	29,448	29,030	6.5	0	0	19	29,171	1,720
Total notional amount	3,161,807	2,849,652	2,618,781	2,447,445	2,762,964	14.4	11	14,649	106,068	837,044	2,204,035

All line items are reported on a quarterly basis. N/M - Not Meaningful

* Includes spot foreign exchange contracts. All other references to foreign exchange contracts in which notional values or fair values are reported exclude spot foreign exchange contracts.

** Does not include banks filing the FFIEC 051 report form, which was introduced in first quarter 2017.

*** Derivative contracts subject to the risk-based capital requirements for derivatives.

**** Credit losses on derivatives is applicable to all banks filing the FFIEC 031 report form and banks filing the FFIEC 041 report form that have $300 million or more in total assets, but is not applicaable to banks filing the FFIEC 051 form.

TABLE VII-A. Servicing, Securitization, and Asset Sales Activities (All FDIC-Insured Call Report Filers)*

(dollar figures in millions)	3rd Quarter 2019	2nd Quarter 2019	1st Quarter 2019	4th Quarter 2018	3rd Quarter 2018	% Change 18Q3-19Q3	Asset Size Distribution: Less Than $100 Million	$100 Million to $1 Billion	$1 Billion to $10 Billion	$10 Billion to $250 Billion	Greater Than $250 Billion
Assets Securitized and Sold with Servicing Retained or with Recourse or Other Seller-Provided Credit Enhancements											
Number of institutions reporting securitization activities	67	65	65	64	64	4.7	0	5	19	36	7
Outstanding Principal Balance by Asset Type											
1-4 family residential loans	$452,433	$465,275	$486,472	$520,030	$542,310	-16.6	$0	$1,033	$14,146	$87,594	$349,661
Home equity loans	11	12	13	14	15	-26.7	0	0	0	11	0
Credit card receivables	0	0	0	22	24	-100.0	0	0	0	0	0
Auto loans	1,793	2,494	3,062	3,710	4,415	-59.4	0	0	0	1,793	0
Other consumer loans	1,738	1,603	1,668	1,738	1,806	-3.8	0	0	0	882	855
Commercial and industrial loans	537	558	550	453	360	49.2	0	0	0	0	537
All other loans, leases, and other assets	76,770	73,791	72,857	71,416	68,646	11.8	0	4	9,405	4,345	63,016
Total securitized and sold	480,045	491,891	512,764	543,560	562,500	-14.7	0	0	0	65,976	414,069
Maximum Credit Exposure by Asset Type											
1-4 family residential loans	1,371	1,055	1,050	1,102	1,228	11.6	0	0	50	746	576
Home equity loans	0	0	0	0	0	0.0	0	0	0	0	0
Credit card receivables	0	0	0	0	0	0.0	0	0	0	0	0
Auto loans	66	86	94	104	114	-42.1	0	0	0	66	0
Other consumer loans	72	111	89	86	85	-15.3	0	0	0	0	72
Commercial and industrial loans	0	0	0	0	0	0.0	0	0	0	0	0
All other loans, leases, and other assets	1,324	1,230	1,257	1,208	1,112	19.1	0	0	210	49	1,064
Total credit exposure	2,489	2,209	2,205	2,221	2,301	8.2	0	0	0	778	1,711
Total unused liquidity commitments provided to institution's own securitizations	203	185	230	213	226	-10.2	0	0	0	30	173
Securitized Loans, Leases, and Other Assets 30-89 Days Past Due (%)											
1-4 family residential loans	3.6	4.0	3.5	3.6	4.1		0.0	3.2	0.8	2.9	3.9
Home equity loans	7.8	7.1	5.7	8.0	8.9		0.0	0.0	0.0	7.8	0.0
Credit card receivables	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0
Auto loans	2.7	2.3	2.0	2.6	1.9		0.0	0.0	0.0	2.7	0.0
Other consumer loans	3.3	4.5	4.2	4.2	4.5		0.0	0.0	0.0	1.8	4.8
Commercial and industrial loans	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0
All other loans, leases, and other assets	0.3	0.2	0.2	0.2	0.2		0.0	0.0	0.0	1.4	0.2
Total loans, leases, and other assets	3.2	3.6	3.2	3.3	3.8		0.0	0.0	0.0	2.4	3.4
Securitized Loans, Leases, and Other Assets 90 Days or More Past Due (%)											
1-4 family residential loans	1.1	1.1	1.1	1.1	1.1		0.0	1.1	1.2	1.1	1.0
Home equity loans	33.5	35.9	39.4	39.0	40.2		0.0	0.0	0.0	33.5	0.0
Credit card receivables	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0
Auto loans	0.5	0.5	0.5	0.5	0.4		0.0	0.0	0.0	0.5	0.0
Other consumer loans	3.4	4.0	4.1	4.3	4.3		0.0	0.0	0.0	1.4	5.6
Commercial and industrial loans	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0
All other loans, leases, and other assets	0.3	0.2	0.3	0.5	0.6		0.0	0.0	1.2	0.4	0.2
Total loans, leases, and other assets	0.9	0.9	1.0	1.0	1.0		0.0	0.0	0.0	0.6	0.9
Securitized Loans, Leases, and Other Assets Charged-off (net, YTD, annualized, %)											
1-4 family residential loans	0.2	0.1	0.0	0.1	0.0		0.0	0.0	0.0	0.0	0.2
Home equity loans	6.9	3.6	0.9	18.2	13.9		0.0	0.0	0.0	6.9	0.0
Credit card receivables	0.0	0.0	0.0	9.1	4.2		0.0	0.0	0.0	0.0	0.0
Auto loans	1.2	0.7	0.3	1.4	1.0		0.0	0.0	0.0	1.2	0.0
Other consumer loans	0.5	0.4	0.2	1.0	0.8		0.0	0.0	0.0	0.5	0.5
Commercial and industrial loans	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0
All other loans, leases, and other assets	0.2	0.1	0.1	1.1	0.4		0.0	0.0	0.0	0.6	0.2
Total loans, leases, and other assets	0.2	0.1	0.1	0.2	0.1		0.0	0.0	0.0	0.0	0.2
Seller's Interests in Institution's Own Securitizations – Carried as Loans											
Home equity loans	0	0	0	0	0	0.0	0	0	0	0	0
Credit card receivables	0	0	0	0	0	0.0	0	0	0	0	0
Commercial and industrial loans	629	644	623	427	361	74.2	0	0	0	0	629
Seller's Interests in Institution's Own Securitizations – Carried as Securities											
Home equity loans	0	0	0	0	0	0.0	0	0	0	0	0
Credit card receivables	0	0	0	0	0	0.0	0	0	0	0	0
Commercial and industrial loans	0	0	0	0	0	0.0	0	0	0	0	0
Assets Sold with Recourse and Not Securitized											
Number of institutions reporting asset sales	388	437	442	469	476	-18.5	9	146	166	59	8
Outstanding Principal Balance by Asset Type											
1-4 family residential loans	29,841	96,968	25,577	26,292	25,822	15.6	86	4,424	13,596	10,145	1,590
All other loans, leases, and other assets	122,896	121,462	118,898	116,452	112,296	9.4	0	7	167	41,946	80,776
Total sold and not securitized	152,737	218,430	144,475	142,744	138,118	10.6	86	4,431	13,763	52,090	82,366
Maximum Credit Exposure by Asset Type											
1-4 family residential loans	10,181	10,410	7,376	7,665	7,932	28.4	5	570	4,697	4,167	742
All other loans, leases, and other assets	34,483	34,162	33,545	32,781	31,286	10.2	0	7	38	12,178	22,259
Total credit exposure	44,665	44,572	40,922	40,446	39,218	13.9	5	578	4,735	16,345	23,002
Support for Securitization Facilities Sponsored by Other Institutions											
Number of institutions reporting securitization facilities sponsored by others	0	0	0	0	0	0.0	0	0	0	0	0
Total credit exposure	23,169	23,532	22,527	23,013	24,792	-6.5	0	0	0	1,874	21,296
Total unused liquidity commitments	411	658	492	604	1,313	-68.7	0	0	0	295	116
Other											
Assets serviced for others**	6,102,608	6,079,397	6,128,925	6,061,102	5,984,042	2.0	4,100	143,310	310,931	1,593,302	4,050,965
Asset-backed commercial paper conduits											
Credit exposure to conduits sponsored by institutions and others	16,186	16,249	17,150	17,366	16,898	-4.2	0	0	0	0	16,186
Unused liquidity commitments to conduits sponsored by institutions and others	30,536	29,907	29,998	31,491	30,447	0.3	0	0	0	874	29,662
Net servicing income (for the quarter)	324	-334	1,524	1,462	2,699	-88.0	7	209	140	167	-200
Net securitization income (for the quarter)	65	72	79	65	64	1.6	0	1	20	15	29
Total credit exposure to Tier 1 capital (%)***	3.6	3.5	3.5	3.5	3.6		0.0	0.0	0.0	2.5	5.9

* Does not include banks filing the FFIEC 051 report form, which was introduced in first quarter 2017. N/M - Not Meaningful

** The amount of financial assets serviced for others, other than closed-end 1-4 family residential mortgages, is reported when these assets are greater than $10 million.

*** Total credit exposure includes the sum of the three line items titled "Total credit exposure" reported above.

COMMUNITY BANK PERFORMANCE

Community banks are identified based on criteria defined in the FDIC's *Community Banking Study*. When comparing community bank performance across quarters, prior-quarter dollar amounts are based on community banks designated as such in the current quarter, adjusted for mergers. In contrast, prior-quarter performance ratios are based on community banks designated during the previous quarter.

Community Bank Earnings Increase 7.2 Percent Year Over Year

The Pretax Return on Assets Ratio Climbs to Highest Level in More Than a Decade

Loan Balances Increase 6 Percent, Outpacing Growth at Noncommunity Banks

Asset Quality Metrics Remain Stable

Community Bank Earnings Increase 7.2 Percent Year Over Year

Net income increased among community banks in the year ending third quarter 2019 as higher net interest income, noninterest income, and realized gains on securities more than offset growth in noninterest expense, provision for loan and lease losses, and income tax expense. Third quarter 2019 net income totaled $6.9 billion, up $466.2 million (7.2 percent) from third quarter 2018. Nearly 62 percent of community banks reported annual net income growth. The quarterly pretax return on assets (ROA) ratio rose 3 basis points to 1.51 percent, marking the highest pretax ROA ratio reported by community banks since third quarter 2006. The share of unprofitable institutions was 4.3 percent, up from 3.8 percent in the year-ago quarter. There were 4,825 community banks at the end of the quarter, 48 less than the prior quarter. The quarterly decline was due to the fact that 43 fewer banks were operating, five banks were reclassified as noncommunity banks, two banks opened, and two banks had not filed a third quarter 2019 Call Report at the time this report was prepared.

Net Operating Revenue Increases at More Than 70 Percent of Community Banks

Net operating revenue—the sum of net interest income and noninterest income—totaled $24.1 billion, up $1.5 billion (6.4 percent) year over year. Growth in both net interest income and noninterest income contributed to the increase. Net interest income increased $736.3 million (4 percent), while noninterest income increased $716.7 million (16.4 percent). The annual increase in net interest income was attributable to growth in earning assets (up $115.9 billion, or 5.9 percent). Greater net gains on loan sales (up $508.8 million, or 66 percent) accounted for more than 70 percent of the total growth in noninterest income.

Chart 1

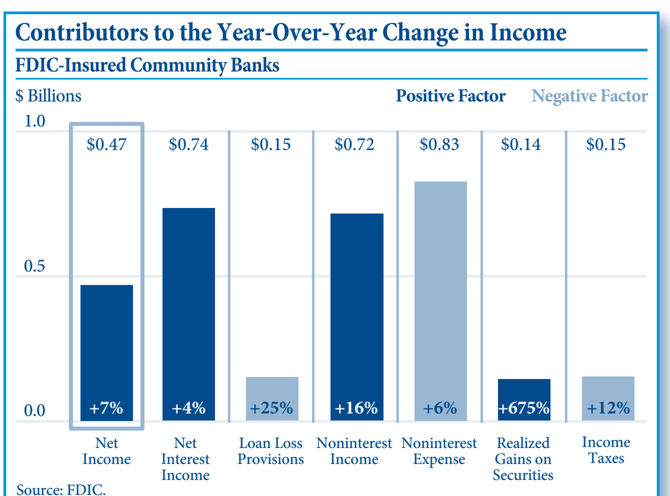
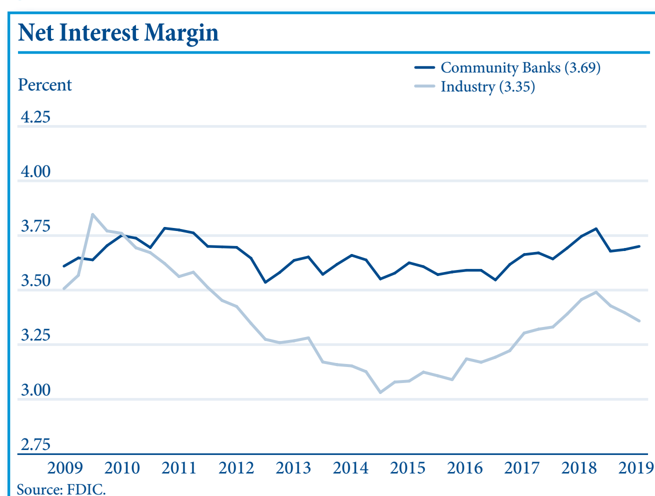


Chart 2



Net Interest Margin Declines as Funding Costs Rise Faster Than Asset Yields

The average community bank net interest margin (NIM) fell 5 basis points year over year to 3.69 percent, as the growth in the yield on earning assets (up 18 basis points) was not enough to offset the growth in the cost of funding earning assets (up 23 basis points). More than half of community banks (56 percent) reported an annual decline in NIM. The growth in funding costs is mostly attributable to higher rates paid on interest-bearing deposit products rather than a change in deposit composition. Over the past 12 months, community banks reported no shift from noninterest-bearing deposits to interest-bearing deposits. Similarly, within interest-bearing deposits, there has been little shift from checking and savings deposits to higher-cost time deposits.

Noninterest Expense Increases, but Efficiency Ratio Falls to Post-Crisis Low

Noninterest expense increased $828 million (5.8 percent) to $15.2 billion over the past 12 months. More than seven in ten community banks reported higher noninterest expense year over year. Growth in salaries and employee benefits of $681.3 million (8.3 percent) led the annual increase, while all other noninterest expenses rose $146.7 million (2.4 percent). The growth in salaries and benefit expense was a result of more employees (up 1.4 percent) and higher average expense per employee (up 6.8 percent). Nonetheless, community banks reported 2.7 percent growth in assets per employee and the lowest efficiency ratio (62.5 percent) since second quarter 2006.

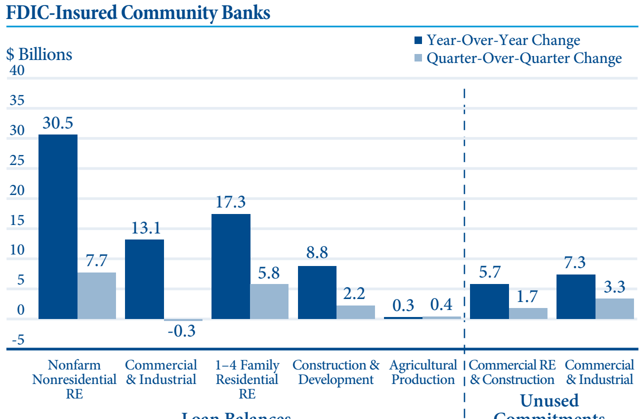
Nearly Three-Quarters of Community Banks Report Annual Deposit Growth

Total community bank deposits increased 5.9 percent to $1.8 trillion from the prior year, outpacing the 5.1 percent annual growth rate reported by noncommunity banks. Deposit growth was broad-based as nearly 75 percent of community banks reported annual increases. Growth occurred in both interest-bearing deposits (up 5.8 percent) and noninterest-bearing deposits (up 6.2 percent). The third quarter 2019 annualized quarterly deposit growth rate was 6.2 percent, indicating deposit growth remains steady.

Chart 3

Change in Loan Balances and Unused Commitments

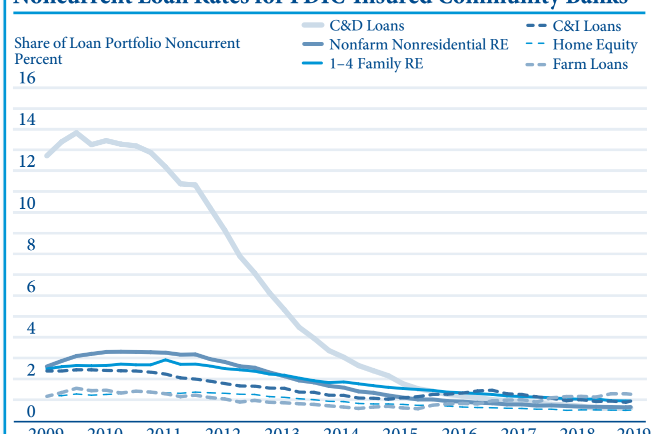
FDIC-Insured Community Banks



Source: FDIC.

Chart 4

Noncurrent Loan Rates for FDIC-Insured Community Banks



Source: FDIC.

Community Banks Report Quarterly and Annual Loan Growth

Community bank loan and lease balances rose $20.8 billion (1.3 percent) during the quarter to $1.6 trillion. More than 63 percent of community banks reported quarterly loan growth, which was led by the following categories: nonfarm nonresidential loans (up $7.7 billion, or 1.7 percent), 1–4 family residential loans (up $5.9 billion, or 1.3 percent), and construction and development (C&D) loans (up $2.2 billion, or 2.0 percent). Community banks reported a slight decline in commercial and industrial (C&I) loans (down $0.3 billion, or 0.2 percent), the only major category to decline during the quarter.

Over the past 12 months, loan and lease balances increased $89.7 billion (6 percent). Annual loan growth was broad-based as every major loan category increased, and nearly three-quarters of community banks reported higher loan balances year over year. Loan growth was led by the following categories: nonfarm nonresidential loans (up $30.5 billion, or 6.9 percent), 1–4 family residential loans (up $17.4 billion, or 4.1 percent), C&I loans (up $13.1 billion, or 6.6 percent), and C&D loans (up $8.8 billion, or 8.4 percent). Both quarterly and annual community bank loan and lease growth rates outpaced the rate of loan and lease growth at noncommunity banks.

The Noncurrent Loan Rate Remains Stable for Most Loan Categories

The noncurrent rate for total loans and leases was 0.77 percent, down 3 basis points year over year but up 2 basis points quarter over quarter. Total noncurrent balances increased $193.1 million (1.6 percent) during the quarter to $12.2 billion. The quarter-over-quarter increase in the noncurrent rate was driven by growth in commercial real estate and C&I noncurrent balances. The annual decline in the noncurrent rate was driven by loan growth. Noncurrent balances remained roughly flat from the previous year, as declines in commercial and residential real estate noncurrent balances were largely offset by higher noncurrent balances in agriculture and C&I portfolios.

The agriculture loan noncurrent rate of 1.27 percent remains the highest among major loan categories at community banks. This rate increased 11 basis points year over year, marking the 15th consecutive quarter with an annual increase. Loans secured by farmland (up 6 basis points to 1.47 percent) and agricultural production loans (up 17 basis points to 0.97 percent) contributed to the increase.

The Net Charge-Off Rate Rises but Remains Low

The community bank net charge-off rate for total loans and leases increased 4 basis points from third quarter 2018 to 0.14 percent. Less than half (47 percent) of community banks reported an annual increase in net charge-offs. While net charge-off rates increased year over year in all major loan categories, the increase was driven by C&I loans. The C&I net charge-off rate climbed 21 basis points to 0.48 percent. Commercial real estate, residential real estate, and agriculture net charge-off rates increased by 1 basis point each, and the consumer loan net charge-off rate increased 4 basis points.

Community Bank Capital Ratios Post Quarterly and Annual Increases

Equity capital totaled $263.9 billion at the end of third quarter 2019, up $5.6 billion (2.2 percent) from the previous quarter and $26.2 billion (11 percent) from the prior year. The growth in capital supported increases in all regulatory capital ratios. The leverage capital ratio and total risk-based capital ratio increased 18 basis points each, while the common equity tier 1 capital ratio and tier 1 risk-based capital ratio increased 21 basis points each.

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TABLE I-B. Selected Indicators, FDIC-Insured Community Banks

	2019*	2018*	2018	2017	2016	2015	2014
Return on assets (%)	1.22	1.17	1.19	0.96	0.99	0.99	0.93
Return on equity (%)	10.46	10.49	10.58	8.65	8.81	8.85	8.45
Core capital (leverage) ratio (%)	11.24	11.05	11.09	10.80	10.69	10.67	10.57
Noncurrent assets plus other real estate owned to assets (%)	0.67	0.72	0.70	0.78	0.94	1.07	1.34
Net charge-offs to loans (%)	0.11	0.13	0.13	0.16	0.16	0.15	0.21
Asset growth rate (%)	0.51	-0.57	2.22	1.17	2.97	2.74	2.20
Net interest margin (%)	3.69	3.68	3.72	3.62	3.57	3.57	3.61
Net operating income growth (%)	0.29	14.38	28.02	0.21	2.42	9.57	4.78
Number of institutions reporting	4,825	5,044	4,980	5,228	5,462	5,736	6,037
Percentage of unprofitable institutions (%)	3.63	3.59	3.61	5.72	4.67	5.04	6.44

* Through September 30, ratios annualized where appropriate. Asset growth rates are for 12 months ending September 30.

TABLE II-B. Aggregate Condition and Income Data, FDIC-Insured Community Banks

(dollar figures in millions)	3rd Quarter 2019	2nd Quarter 2019	3rd Quarter 2018	%Change 18Q3-19Q3
Number of institutions reporting	4,825	4,873	5,044	-4.3
Total employees (full-time equivalent)	402,653	407,787	411,389	-2.1
CONDITION DATA				
Total assets	$2,231,963	$2,265,552	$2,220,747	0.5
Loans secured by real estate	1,211,291	1,238,272	1,221,148	-0.8
1-4 Family residential mortgages	397,600	399,566	395,846	0.4
Nonfarm nonresidential	472,117	478,881	473,877	-0.4
Construction and development	113,074	113,702	110,458	2.4
Home equity lines	47,016	47,264	48,616	-3.3
Commercial & industrial loans	212,053	221,768	210,455	0.8
Loans to individuals	65,697	65,107	63,177	4.0
Credit cards	2,103	2,025	1,801	16.8
Farm loans	53,553	53,417	53,722	-0.3
Other loans & leases	43,632	43,260	39,742	9.8
Less: Unearned income	542	639	652	-16.9
Total loans & leases	1,585,683	1,621,185	1,587,593	-0.1
Less: Reserve for losses	18,002	18,287	18,263	-1.4
Net loans and leases	1,567,681	1,602,899	1,569,330	-0.1
Securities	376,068	388,829	396,603	-5.2
Other real estate owned	2,717	2,838	3,267	-16.8
Goodwill and other intangibles	17,326	17,000	15,599	11.1
All other assets	268,170	253,987	235,948	13.7
Total liabilities and capital	2,231,963	2,265,552	2,220,747	0.5
Deposits	1,830,920	1,858,019	1,821,830	0.5
Domestic office deposits	1,828,609	1,855,748	1,821,239	0.4
Foreign office deposits	2,311	2,271	591	291.3
Brokered deposits	69,827	75,388	73,148	-4.5
Estimated insured deposits	1,337,465	1,350,502	1,330,370	0.5
Other borrowed funds	116,362	123,165	131,529	-11.5
Subordinated debt	370	631	624	-40.7
All other liabilities	20,335	18,919	16,993	19.7
Total equity capital (includes minority interests)	263,976	264,817	249,772	5.7
Bank equity capital	263,888	264,741	249,663	5.7
Loans and leases 30-89 days past due	7,833	8,027	7,775	0.7
Noncurrent loans and leases	12,240	12,184	12,744	-3.9
Restructured loans and leases	5,751	5,975	6,486	-11.3
Mortgage-backed securities	173,910	179,279	174,430	-0.3
Earning assets	2,075,732	2,113,048	2,071,583	0.2
FHLB Advances	94,816	100,694	109,153	-13.1
Unused loan commitments	314,509	315,860	306,211	2.7
Trust assets	259,743	276,541	296,616	-12.4
Assets securitized and sold	17,241	12,908	14,891	15.8
Notional amount of derivatives	104,552	99,333	75,858	37.8

INCOME DATA	First Three Quarters 2019	First Three Quarters 2018	%Change	3rd Quarter 2019	3rd Quarter 2018	%Change 18Q3-19Q3
Total interest income	$70,483	$66,231	6.4	$24,060	$23,124	4.0
Total interest expense	14,432	10,159	42.1	5,045	3,864	30.6
Net interest income	56,051	56,072	0.0	19,015	19,259	-1.3
Provision for loan and lease losses	2,043	2,089	-2.2	754	628	20.1
Total noninterest income	13,874	13,752	0.9	5,096	4,659	9.4
Total noninterest expense	44,690	44,688	0.0	15,164	15,086	0.5
Securities gains (losses)	580	119	386.7	165	23	630.0
Applicable income taxes	3,991	3,834	4.1	1,413	1,356	4.2
Extraordinary gains, net*	117	-195	N/M	2	-33	N/M
Total net income (includes minority interests)	19,899	19,138	4.0	6,946	6,838	1.6
Bank net income	19,890	19,128	4.0	6,941	6,834	1.6
Net charge-offs	1,321	1,468	-10.0	559	413	35.3
Cash dividends	9,546	7,838	21.8	3,000	2,576	16.5
Retained earnings	10,344	11,289	-8.4	3,941	4,258	-7.4
Net operating income	19,290	19,235	0.3	6,802	6,853	-0.7

* See Notes to Users for explanation.

N/M - Not Meaningful

TABLE II-B. Aggregate Condition and Income Data, FDIC-Insured Community Banks
Prior Periods Adjusted for Mergers

(dollar figures in millions)	3rd Quarter 2019	2nd Quarter 2019	3rd Quarter 2018	%Change 18Q3-19Q3
Number of institutions reporting	4,825	4,823	4,816	0.2
Total employees (full-time equivalent)	402,653	403,094	397,010	1.4
CONDITION DATA				
Total assets	$2,231,963	$2,197,019	$2,103,445	6.1
Loans secured by real estate	1,211,291	1,194,019	1,145,160	5.8
1-4 Family residential mortgages	397,600	391,814	380,258	4.6
Nonfarm nonresidential	472,117	464,440	441,596	6.9
Construction and development	113,074	110,867	104,301	8.4
Home equity lines	47,016	46,899	46,938	0.2
Commercial & industrial loans	212,053	212,388	198,927	6.6
Loans to individuals	65,697	64,523	62,109	5.8
Credit cards	2,103	2,041	2,027	3.7
Farm loans	53,553	53,201	53,228	0.6
Other loans & leases	43,632	41,270	37,081	17.7
Less: Unearned income	542	559	556	-2.4
Total loans & leases	1,585,683	1,564,841	1,495,950	6.0
Less: Reserve for losses	18,002	17,871	17,505	2.8
Net loans and leases	1,567,681	1,546,971	1,478,445	6.0
Securities	376,068	378,468	379,813	-1.0
Other real estate owned	2,717	2,823	3,131	-13.2
Goodwill and other intangibles	17,326	17,176	15,734	10.1
All other assets	268,170	251,582	226,321	18.5
Total liabilities and capital	2,231,963	2,197,019	2,103,445	6.1
Deposits	1,830,920	1,802,935	1,728,708	5.9
Domestic office deposits	1,828,609	1,800,664	1,726,758	5.9
Foreign office deposits	2,311	2,271	1,950	18.5
Brokered deposits	69,827	73,898	70,866	-1.5
Estimated insured deposits	1,337,465	1,328,259	1,280,001	4.5
Other borrowed funds	116,362	117,116	120,395	-3.3
Subordinated debt	370	372	366	1.1
All other liabilities	20,335	18,239	16,145	26.0
Total equity capital (includes minority interests)	263,976	258,357	237,831	11.0
Bank equity capital	263,888	258,281	237,722	11.0
Loans and leases 30-89 days past due	7,833	7,926	7,554	3.7
Noncurrent loans and leases	12,240	12,047	12,244	0.0
Restructured loans and leases	5,751	5,889	6,313	-8.9
Mortgage-backed securities	173,910	171,022	162,860	6.8
Earning assets	2,075,732	2,046,614	1,959,803	5.9
FHLB Advances	94,816	95,257	99,069	-4.3
Unused loan commitments	314,509	309,286	294,367	6.8
Trust assets	259,743	272,451	263,358	-1.4
Assets securitized and sold	17,241	16,730	18,566	-7.1
Notional amount of derivatives	104,552	95,210	69,133	51.2

INCOME DATA	First Three Quarters 2019	First Three Quarters 2018	%Change	3rd Quarter 2019	3rd Quarter 2018	%Change 18Q3-19Q3
Total interest income	$70,483	$62,608	12.6	$24,060	$21,906	9.8
Total interest expense	14,432	9,516	51.7	5,045	3,627	39.1
Net interest income	56,051	53,091	5.6	19,015	18,278	4.0
Provision for loan and lease losses	2,043	1,873	9.1	754	604	24.9
Total noninterest income	13,874	12,960	7.1	5,096	4,380	16.4
Total noninterest expense	44,690	42,398	5.4	15,164	14,336	5.8
Securities gains (losses)	580	108	436.5	165	21	675.1
Applicable income taxes	3,991	3,570	11.8	1,413	1,261	12.0
Extraordinary gains, net*	117	3	N/M	2	1	N/M
Total net income (includes minority interests)	19,899	18,322	8.6	6,946	6,479	7.2
Bank net income	19,890	18,312	8.6	6,941	6,475	7.2
Net charge-offs	1,321	1,136	16.4	559	406	37.7
Cash dividends	9,546	7,746	23.2	3,000	2,583	16.1
Retained earnings	10,344	10,566	-2.1	3,941	3,892	1.3
Net operating income	19,290	18,231	5.8	6,802	6,461	5.3

* See Notes to Users for explanation.
N/M - Not Meaningful

TABLE III-B. Aggregate Condition and Income Data by Geographic Region, FDIC-Insured Community Banks

Third Quarter 2019 (dollar figures in millions)	All Community Banks	Geographic Regions*					
		New York	Atlanta	Chicago	Kansas City	Dallas	San Francisco
Number of institutions reporting	4,825	547	551	1,063	1,287	1,077	300
Total employees (full-time equivalent)	402,653	81,171	45,096	83,755	70,363	88,487	33,781
CONDITION DATA							
Total assets	$2,231,963	$576,877	$228,216	$406,136	$372,469	$427,597	$220,668
Loans secured by real estate	1,211,291	357,354	125,997	213,647	182,697	215,414	116,183
1-4 Family residential mortgages	397,600	137,221	38,956	69,150	54,818	70,444	27,011
Nonfarm nonresidential	472,117	129,408	55,800	80,892	61,277	87,242	57,498
Construction and development	113,074	25,182	14,182	17,306	16,286	29,886	10,233
Home equity lines	47,016	14,661	6,236	10,026	5,216	4,964	5,912
Commercial & industrial loans	212,053	49,521	18,975	42,122	38,287	42,271	20,877
Loans to individuals	65,697	16,318	6,322	12,652	11,150	12,904	6,351
Credit cards	2,103	440	142	242	608	211	460
Farm loans	53,553	647	1,513	8,363	29,921	9,952	3,157
Other loans & leases	43,632	11,225	3,269	9,539	6,495	8,712	4,392
Less: Unearned income	542	101	72	49	101	123	97
Total loans & leases	1,585,683	434,964	156,004	286,274	268,449	289,131	150,863
Less: Reserve for losses	18,002	4,157	1,734	3,218	3,523	3,465	1,905
Net loans and leases	1,567,681	430,807	154,269	283,056	264,926	285,665	148,958
Securities	376,068	82,976	40,243	71,868	62,938	81,324	36,719
Other real estate owned	2,717	458	527	511	474	614	134
Goodwill and other intangibles	17,326	4,853	1,218	3,277	2,472	3,163	2,342
All other assets	268,170	57,784	31,958	47,424	41,660	56,830	32,515
Total liabilities and capital	2,231,963	576,877	228,216	406,136	372,469	427,597	220,668
Deposits	1,830,920	459,755	189,888	334,040	306,958	357,725	182,555
Domestic office deposits	1,828,609	459,040	189,887	333,904	306,958	357,725	181,095
Foreign office deposits	2,311	715	1	135	0	0	1,460
Brokered deposits	69,827	23,364	4,486	13,373	13,841	9,118	5,646
Estimated insured deposits	1,337,465	336,330	137,306	259,612	236,327	253,925	113,966
Other borrowed funds	116,362	41,960	9,581	20,433	19,399	16,053	8,937
Subordinated debt	370	248	13	36	10	42	21
All other liabilities	20,335	6,634	1,863	3,321	2,840	3,308	2,369
Total equity capital (includes minority interests)	263,976	68,280	26,871	48,306	43,263	50,469	26,787
Bank equity capital	263,888	68,253	26,867	48,271	43,262	50,449	26,786
Loans and leases 30-89 days past due	7,833	1,801	883	1,465	1,352	1,889	443
Noncurrent loans and leases	12,240	3,442	1,154	2,308	2,115	2,461	761
Restructured loans and leases	5,751	1,848	576	1,322	913	729	364
Mortgage-backed securities	173,910	45,578	19,229	30,067	23,534	34,173	21,329
Earning assets	2,075,732	538,778	211,323	377,933	346,827	396,628	204,244
FHLB Advances	94,816	36,575	8,075	15,866	15,271	12,697	6,332
Unused loan commitments	314,509	82,429	27,916	57,276	55,191	54,769	36,928
Trust assets	259,743	54,264	7,787	57,849	83,660	39,136	17,046
Assets securitized and sold	17,241	7,509	75	5,007	2,875	1,004	770
Notional amount of derivatives	104,552	40,565	9,118	16,647	16,535	13,798	7,889
INCOME DATA							
Total interest income	$24,060	$5,934	$2,473	$4,311	$4,135	$4,817	$2,390
Total interest expense	5,045	1,519	475	882	881	908	380
Net interest income	19,015	4,415	1,998	3,428	3,254	3,909	2,010
Provision for loan and lease losses	754	166	61	108	138	172	108
Total noninterest income	5,096	1,003	493	1,263	876	1,045	416
Total noninterest expense	15,164	3,476	1,670	2,923	2,508	3,151	1,435
Securities gains (losses)	165	54	12	31	26	37	5
Applicable income taxes	1,413	408	141	285	194	199	186
Extraordinary gains, net**	2	0	0	0	2	0	0
Total net income (includes minority interests)	6,946	1,422	630	1,406	1,318	1,468	702
Bank net income	6,941	1,421	630	1,404	1,318	1,466	702
Net charge-offs	559	118	44	76	85	134	101
Cash dividends	3,000	391	240	702	566	688	413
Retained earnings	3,941	1,030	390	702	753	778	289
Net operating income	6,802	1,376	620	1,380	1,293	1,436	698

* See Table V-A for explanation.
** See Notes to Users for explanation.

Table IV-B. Third Quarter 2019, FDIC-Insured Community Banks

Performance ratios (annualized, %)	All Community Banks		Third Quarter 2019, Geographic Regions*					
	3rd Quarter 2019	2nd Quarter 2019	New York	Atlanta	Chicago	Kansas City	Dallas	San Francisco
Yield on earning assets	4.67	4.65	4.44	4.72	4.60	4.80	4.90	4.71
Cost of funding earning assets	0.98	0.97	1.14	0.91	0.94	1.02	0.92	0.75
Net interest margin	3.69	3.68	3.30	3.82	3.66	3.78	3.98	3.96
Noninterest income to assets	0.92	0.83	0.70	0.87	1.26	0.95	0.99	0.76
Noninterest expense to assets	2.74	2.73	2.43	2.96	2.91	2.72	2.98	2.62
Loan and lease loss provision to assets	0.14	0.12	0.12	0.11	0.11	0.15	0.16	0.20
Net operating income to assets	1.23	1.18	0.96	1.10	1.37	1.40	1.36	1.27
Pretax return on assets	1.51	1.48	1.28	1.37	1.68	1.64	1.57	1.62
Return on assets	1.25	1.23	0.99	1.11	1.40	1.43	1.38	1.28
Return on equity	10.64	10.63	8.41	9.51	11.79	12.33	11.76	10.57
Net charge-offs to loans and leases	0.14	0.11	0.11	0.11	0.11	0.13	0.19	0.27
Loan and lease loss provision to net charge-offs	134.95	157.84	140.08	139.95	141.77	161.92	128.73	106.97
Efficiency ratio	62.52	63.50	63.83	66.51	61.85	60.29	63.32	58.91
Net interest income to operating revenue	78.86	80.44	81.49	80.20	73.08	78.79	78.90	82.86
% of unprofitable institutions	4.27	4.06	4.02	6.35	4.80	2.49	3.81	8.33
% of institutions with earnings gains	62.03	59.74	57.59	62.98	64.82	62.24	61.28	60.33

Table V-B. First Three Quarters 2019, FDIC-Insured Community Banks

Performance ratios (%)	All Community Banks		First Three Quarters 2019, Geographic Regions*					
	First Three Quarters 2019	First Three Quarters 2018	New York	Atlanta	Chicago	Kansas City	Dallas	San Francisco
Yield on earning assets	4.64	4.35	4.43	4.71	4.55	4.72	4.85	4.70
Cost of funding earning assets	0.95	0.67	1.10	0.88	0.91	0.99	0.89	0.73
Net interest margin	3.69	3.68	3.32	3.83	3.64	3.74	3.95	3.97
Noninterest income to assets	0.85	0.84	0.65	0.81	1.15	0.86	0.91	0.72
Noninterest expense to assets	2.74	2.74	2.47	2.96	2.87	2.70	2.93	2.64
Loan and lease loss provision to assets	0.13	0.13	0.10	0.10	0.10	0.15	0.16	0.14
Net operating income to assets	1.18	1.18	0.92	1.06	1.30	1.31	1.32	1.28
Pretax return on assets	1.46	1.41	1.28	1.33	1.60	1.52	1.51	1.63
Return on assets	1.22	1.17	1.00	1.09	1.34	1.33	1.34	1.29
Return on equity	10.46	10.49	8.52	9.46	11.44	11.63	11.54	10.71
Net charge-offs to loans and leases	0.11	0.13	0.10	0.09	0.08	0.12	0.15	0.15
Loan and lease loss provision to net charge-offs	154.60	142.31	140.15	167.21	173.74	167.26	154.99	134.74
Efficiency ratio	63.53	63.67	65.40	67.29	62.84	61.64	63.72	59.69
Net interest income to operating revenue	80.16	80.30	82.75	81.49	74.70	80.13	80.05	83.67
% of unprofitable institutions	3.63	3.59	3.84	5.44	3.95	2.25	3.16	6.33
% of institutions with earnings gains	64.06	75.63	61.06	66.79	65.76	62.08	64.35	66.00

* See Table V-A for explanation.

Table VI-B. Loan Performance, FDIC-Insured Community Banks

September 30, 2019	All Community Banks	Geographic Regions*					
		New York	Atlanta	Chicago	Kansas City	Dallas	San Francisco
Percent of Loans 30-89 Days Past Due							
All loans secured by real estate	0.45	0.38	0.52	0.51	0.44	0.60	0.21
Construction and development	0.45	0.36	0.49	0.46	0.48	0.50	0.39
Nonfarm nonresidential	0.33	0.33	0.33	0.35	0.34	0.42	0.14
Multifamily residential real estate	0.16	0.07	0.09	0.35	0.38	0.13	0.03
Home equity loans	0.45	0.46	0.51	0.48	0.36	0.49	0.33
Other 1-4 family residential	0.66	0.51	0.87	0.75	0.61	0.90	0.35
Commercial and industrial loans	0.52	0.35	0.65	0.49	0.62	0.61	0.48
Loans to individuals	1.36	1.56	1.42	0.82	0.95	2.05	1.19
Credit card loans	2.45	2.86	1.68	1.06	3.71	1.22	1.95
Other loans to individuals	1.32	1.52	1.42	0.81	0.79	2.06	1.13
All other loans and leases (including farm)	0.41	0.14	0.23	0.37	0.55	0.43	0.27
Total loans and leases	0.49	0.41	0.57	0.51	0.50	0.65	0.29
Percent of Loans Noncurrent							
All loans secured by real estate	0.75	0.81	0.74	0.82	0.73	0.80	0.41
Construction and development	0.60	0.61	0.65	0.55	0.64	0.58	0.63
Nonfarm nonresidential	0.65	0.73	0.60	0.74	0.64	0.70	0.34
Multifamily residential real estate	0.22	0.21	0.28	0.37	0.21	0.21	0.05
Home equity loans	0.50	0.57	0.50	0.49	0.28	0.46	0.57
Other 1-4 family residential	0.94	1.12	0.93	0.98	0.58	1.04	0.43
Commercial and industrial loans	0.93	0.90	0.75	0.89	0.97	1.06	0.88
Loans to individuals	0.56	0.40	0.79	0.33	0.43	1.08	0.39
Credit card loans	1.20	1.33	0.48	0.62	1.58	0.58	1.39
Other loans to individuals	0.54	0.37	0.80	0.32	0.37	1.09	0.32
All other loans and leases (including farm)	0.80	0.20	0.57	0.78	1.01	0.78	0.95
Total loans and leases	0.77	0.79	0.74	0.81	0.79	0.85	0.50
Percent of Loans Charged-Off (net, YTD)							
All loans secured by real estate	0.03	0.05	0.02	0.03	0.03	0.04	0.00
Construction and development	0.00	0.01	-0.02	-0.02	0.04	0.00	-0.04
Nonfarm nonresidential	0.05	0.06	0.03	0.05	0.05	0.07	0.01
Multifamily residential real estate	0.00	0.01	-0.09	-0.01	0.01	0.02	-0.01
Home equity loans	0.03	0.04	0.01	0.06	0.01	0.02	-0.02
Other 1-4 family residential	0.03	0.05	0.02	0.03	0.02	0.03	-0.01
Commercial and industrial loans	0.31	0.23	0.29	0.20	0.26	0.40	0.65
Loans to individuals	0.86	0.84	0.91	0.36	1.07	1.00	1.18
Credit card loans	5.92	3.29	3.83	1.81	14.15	1.74	2.81
Other loans to individuals	0.69	0.77	0.84	0.33	0.34	0.99	1.05
All other loans and leases (including farm)	0.18	0.10	0.16	0.23	0.13	0.27	0.25
Total loans and leases	0.11	0.10	0.09	0.08	0.12	0.15	0.15
Loans Outstanding (in billions)							
All loans secured by real estate	$1,211.3	$357.4	$126.0	$213.6	$182.7	$215.4	$116.2
Construction and development	113.1	25.2	14.2	17.3	16.3	29.9	10.2
Nonfarm nonresidential	472.1	129.4	55.8	80.9	61.3	87.2	57.5
Multifamily residential real estate	104.1	48.4	6.3	18.4	10.8	8.6	11.5
Home equity loans	47.0	14.7	6.2	10.0	5.2	5.0	5.9
Other 1-4 family residential	397.6	137.2	39.0	69.1	54.8	70.4	27.0
Commercial and industrial loans	212.1	49.5	19.0	42.1	38.3	42.3	20.9
Loans to individuals	65.7	16.3	6.3	12.7	11.2	12.9	6.4
Credit card loans	2.1	0.4	0.1	0.2	0.6	0.2	0.5
Other loans to individuals	63.6	15.9	6.2	12.4	10.5	12.7	5.9
All other loans and leases (including farm)	97.2	11.9	4.8	17.9	36.4	18.7	7.5
Total loans and leases	1,586.2	435.1	156.1	286.3	268.5	289.3	151.0
Memo: Unfunded Commitments (in millions)							
Total Unfunded Commitments	314,509	82,429	27,916	57,276	55,191	54,769	36,928
Construction and development: 1-4 family residential	26,095	5,222	3,608	3,144	3,572	7,645	2,904
Construction and development: CRE and other	66,848	20,304	6,580	11,079	9,075	13,398	6,412
Commercial and industrial	101,265	25,512	7,512	20,913	17,219	17,878	12,232

* See Table V-A for explanation.
Note: Noncurrent loan rates represent the percentage of loans in each category that are past due 90 days or more or that are in nonaccrual status.

Insurance Fund Indicators

Deposit Insurance Fund Increases by $1.5 Billion

DIF Reserve Ratio Rises 1 Basis Point to 1.41 Percent

Small Bank Credits Will Be Applied to Third Quarter Assessments

During the third quarter, the Deposit Insurance Fund (DIF) balance increased by $1.5 billion to $108.9 billion. Assessment income of $1.1 billion and interest earned on investments of $544 million were the largest drivers of the increase. Negative provisions for losses added $192 million and unrealized gains on available-for-sale securities added $86 million. Operating expenses reduced the fund by $443 million. There were no failures during the third quarter of 2019.

The deposit insurance assessment base—average consolidated total assets minus average tangible equity—increased by 1.4 percent in the third quarter and by 4.4 percent over 12 months.[1,2] Total estimated insured deposits increased by 0.6 percent in the third quarter of 2019 and by 4.9 percent year over year.

The growth in the fund balance and relatively normal growth in insured deposits increased the DIF reserve ratio to 1.41 percent. The third quarter 2019 reserve ratio is 1 basis point higher than last quarter and 5 basis points higher than the previous year.

Small banks earned a total of $765 million in credits for the portion of their assessments that contributed to growth in the reserve ratio from 1.15 percent to 1.35 percent. The credits are automatically applied to offset the assessments of small banks when the reserve ratio is at least 1.35 percent.[3] Therefore, the FDIC will apply approximately $239 million of credits to offset the third quarter assessments of small banks, which will be due December 30, 2019.

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[1] There are additional adjustments to the assessment base for banker's banks and custodial banks.

[2] Figures for estimated insured deposits and the assessment base include insured branches of foreign banks, in addition to insured commercial banks and savings institutions.

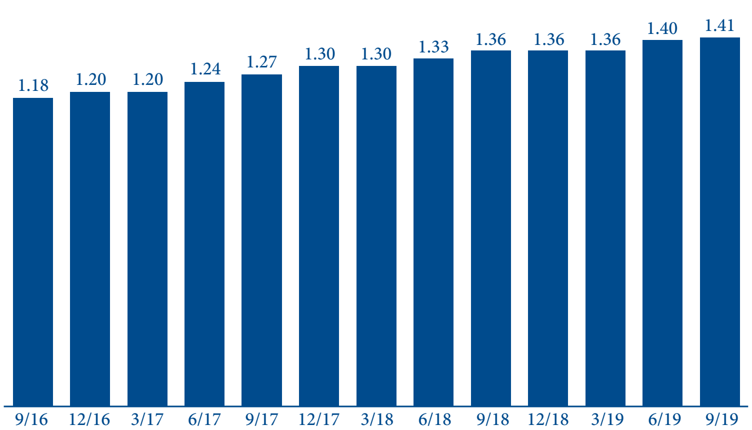
[3] In November 2019, the FDIC Board of Directors authorized a rule change that would require the FDIC to apply the small bank credits in any assessment quarter in which the reserve ratio is at least 1.35 percent.

Table I-C. Insurance Fund Balances and Selected Indicators

(dollar figures in millions)	Deposit Insurance Fund* 3rd Quarter 2019	2nd Quarter 2019	1st Quarter 2019	4th Quarter 2018	3rd Quarter 2018	2nd Quarter 2018	1st Quarter 2018	4th Quarter 2017	3rd Quarter 2017	2nd Quarter 2017	1st Quarter 2017	4th Quarter 2016	3rd Quarter 2016
Beginning Fund Balance	$107,446	$104,870	$102,609	$100,204	$97,588	$95,072	$92,747	$90,506	$87,588	$84,928	$83,162	$80,704	$77,910
Changes in Fund Balance:													
Assessments earned	1,111	1,187	1,369	1,351	2,728	2,598	2,850	2,656	2,568	2,634	2,737	2,688	2,643
Interest earned on investment securities	544	535	507	481	433	381	338	305	274	251	227	189	171
Realized gain on sale of investments	0	0	0	0	0	0	0	0	0	0	0	0	0
Operating expenses	443	459	434	453	434	445	433	443	404	450	442	437	422
Provision for insurance losses	-192	-610	-396	-236	-121	-141	-65	-203	-512	-233	765	-332	-566
All other income, net of expenses	4	9	2	2	2	3	1	3	1	4	2	3	3
Unrealized gain/(loss) on available-for-sale securities**	86	694	421	788	-234	-162	-496	-481	-33	-12	7	-317	-167
Total fund balance change	1,494	2,576	2,261	2,405	2,616	2,516	2,325	2,242	2,918	2,660	1,766	2,457	2,794
Ending Fund Balance	108,940	107,446	104,870	102,609	100,204	97,588	95,072	92,747	90,506	87,588	84,928	83,162	80,704
Percent change from four quarters earlier	8.72	10.10	10.31	10.63	10.72	11.42	11.95	11.53	12.14	12.42	13.06	14.55	15.10
Reserve Ratio (%)	1.41	1.40	1.36	1.36	1.36	1.33	1.30	1.30	1.27	1.24	1.20	1.20	1.18
Estimated Insured Deposits	7,736,888	7,692,823	7,699,601	7,525,393	7,377,158	7,355,373	7,334,658	7,156,067	7,101,090	7,049,332	7,081,096	6,917,200	6,817,375
Percent change from four quarters earlier	4.88	4.59	4.98	5.16	3.89	4.34	3.58	3.45	4.16	5.62	6.29	6.11	6.41
Domestic Deposits	13,018,939	12,788,773	12,725,363	12,659,395	12,367,954	12,280,904	12,305,817	12,129,503	11,966,478	11,827,933	11,856,691	11,693,371	11,506,877
Percent change from four quarters earlier	5.26	4.14	3.41	4.37	3.36	3.83	3.79	3.73	3.99	5.20	6.28	6.76	7.56
Assessment Base* **	15,901,944	15,680,460	15,560,454	15,450,503	15,227,783	15,112,230	15,068,162	15,000,707	14,833,667	14,702,427	14,620,376	14,562,697	14,382,474
Percent change from four quarters earlier	4.43	3.76	3.27	3.00	2.66	2.79	3.06	3.01	3.14	3.60	4.48	5.28	5.27
Number of Institutions Reporting	5,265	5,312	5,371	5,415	5,486	5,551	5,616	5,679	5,747	5,796	5,865	5,922	5,989

DIF Reserve Ratios

Percent of Insured Deposits



Deposit Insurance Fund Balance and Insured Deposits ($ Millions)

	DIF Balance	DIF-Insured Deposits
9/16	$80,704	$6,817,375
12/16	83,162	6,917,200
3/17	84,928	7,081,096
6/17	87,588	7,049,332
9/17	90,506	7,101,090
12/17	92,747	7,156,067
3/18	95,072	7,334,658
6/18	97,588	7,355,373
9/18	100,204	7,377,158
12/18	102,609	7,525,393
3/19	104,870	7,699,601
6/19	107,446	7,692,823
9/19	108,940	7,736,888

Table II-C. Problem Institutions and Failed Institutions

(dollar figures in millions)	2019****	2018****	2018	2017	2016	2015	2014	2013
Problem Institutions								
Number of institutions	55	71	60	95	123	183	291	467
Total assets	$48,779	$53,289	$48,489	$13,939	$27,624	$46,780	$86,712	$152,687
Failed Institutions								
Number of institutions	1	0	0	8	5	8	18	24
Total assets*****	$37	$0	$0	$5,082	$277	$6,706	$2,914	$6,044

* Quarterly financial statement results are unaudited.
** Includes unrealized postretirement benefit gain (loss).
*** Average consolidated total assets minus tangible equity, with adjustments for banker's banks and custodial banks.
**** Through September 30.
***** Total assets are based on final Call Reports submitted by failed institutions.

Table III-C. Estimated FDIC-Insured Deposits by Type of Institution

(dollar figures in millions) September 30, 2019	Number of Institutions	Total Assets	Domestic Deposits*	Est. Insured Deposits
Commercial Banks and Savings Institutions				
FDIC-Insured Commercial Banks	4,587	$17,307,998	$12,051,029	$6,943,568
FDIC-Supervised	3,053	2,729,431	2,167,428	1,469,880
OCC-Supervised	791	11,627,158	7,820,106	4,360,055
Federal Reserve-Supervised	743	2,951,410	2,063,496	1,113,634
FDIC-Insured Savings Institutions	669	1,172,424	928,712	758,620
OCC-Supervised	303	766,108	621,099	518,429
FDIC-Supervised	331	380,229	286,432	222,958
Federal Reserve-Supervised	35	26,086	21,181	17,233
Total Commercial Banks and Savings Institutions	5,256	18,480,422	12,979,742	7,702,188
Other FDIC-Insured Institutions				
U.S. Branches of Foreign Banks	9	82,432	39,198	34,700
Total FDIC-Insured Institutions	5,265	18,562,854	13,018,939	7,736,888

* Excludes $1.3 trillion in foreign office deposits, which are not FDIC insured.

Table IV-C. Distribution of Institutions and Assessment Base by Assessment Rate Range

Quarter Ending June 30, 2019 *(dollar figures in billions)*

Annual Rate in Basis Points*	Number of Institutions	Percent of Total Institutions	Amount of Assessment Base**	Percent of Total Assessment Base
1.50 - 3.00	3,359	63.23	$9,146.7	58.33
3.01 - 6.00	1,389	26.15	5,584.2	35.61
6.01 - 10.00	438	8.25	822.2	5.24
10.01 - 15.00	61	1.15	99.4	0.63
15.01 - 20.00	54	1.02	15.0	0.10
20.01 - 25.00	6	0.11	1.3	0.01
> 25.00	5	0.09	11.7	0.07

* Assessment rates do not incorporate temporary surcharges on large banks.
** Beginning in the second quarter of 2011, the assessment base was changed to average consolidated total assets minus tangible equity, as required by the Dodd-Frank Act.

Notes to Users

This publication contains financial data and other information for depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). These notes are an integral part of this publication and provide information regarding the comparability of source data and reporting differences over time.

Tables I-A through VIII-A.

The information presented in Tables I-A through VIII-A of the *FDIC Quarterly Banking Profile* is aggregated for all FDIC-insured Call Report filers, both commercial banks and savings institutions. Some tables are arrayed by groups of FDIC-insured institutions based on predominant types of asset concentration, while other tables aggregate institutions by asset size and geographic region. Quarterly and full-year data are provided for selected indicators, including aggregate condition and income data, performance ratios, condition ratios, and structural changes, as well as past due, noncurrent, and charge-off information for loans outstanding and other assets.

Tables I-B through VI-B.

The information presented in Tables I-B through VI-B is aggregated for all FDIC-insured commercial banks and savings institutions meeting the criteria for community banks that were developed for the FDIC's *Community Banking Study,* published in December, 2012: http://www.fdic.gov/regulations/resources/cbi/report/cbi-full.pdf.

The determination of which insured institutions are considered community banks is based on five steps.

The first step in defining a community bank is to aggregate all charter-level data reported under each holding company into a single banking organization. This aggregation applies both to balance-sheet measures and the number and location of banking offices. Under the FDIC definition, if the banking organization is designated as a community bank, every charter reporting under that organization is also considered a community bank when working with data at the charter level.

The second step is to exclude any banking organization where more than 50 percent of total assets are held in certain specialty banking charters, including: *credit card specialists, consumer nonbank banks, industrial loan companies, trust companies, bankers' banks,* and banks holding 10 percent or more of total assets in foreign offices.

Once the specialty organizations are removed, the third step involves including organizations that engage in basic banking activities as measured by the total loans-to-assets ratio (greater than 33 percent) and the ratio of core deposits to assets (greater than 50 percent). Core deposits are defined as non-brokered deposits in domestic offices. Analysis of the underlying data shows that these thresholds establish meaningful levels of basic lending and deposit gathering and still allow for a degree of diversity in how individual banks construct their balance sheets.

The fourth step includes organizations that operate within a limited geographic scope. This limitation of scope is used as a proxy measure for a bank's relationship approach to banking. Banks that operate within a limited market area have more ease in managing relationships at a personal level. Under this step, four criteria are applied to each banking organization. They include both a minimum and maximum number of total banking offices, a maximum level of deposits for any one office, and location-based criteria. The limits on the number of and deposits per office are adjusted upward quarterly. For banking offices, banks must have more than one office, and the maximum number of offices is 40 in 1985 and reached 87 in 2016. The maximum level of deposits for any one office is $1.25 billion in deposits in 1985 and reached $6.97 billion in deposits in 2016. The remaining geographic limitations are also based on maximums for the number of states (fixed at 3) and large metropolitan areas (fixed at 2) in which the organization maintains offices. Branch office data are based on the most recent data from the annual June 30 *Summary of Deposits Survey* that are available at the time of publication.

Finally, the definition establishes an asset-size limit, also adjusted upward quarterly and below which the limits on banking activities and geographic scope are waived. The asset-size limit is $250 million in 1985 and reached $1.39 billion in 2016. This final step acknowledges the fact that most of those small banks that are not excluded as specialty banks meet the requirements for banking activities and geographic limits in any event.

Summary of FDIC Research Definition of Community Banking Organizations

Community banks are designated at the level of the banking organization.

(All charters under designated holding companies are considered community banking charters.)

Exclude: Any organization with:

— No loans or no core deposits

— Foreign Assets ≥ 10% of total assets

— More than 50% of assets in certain specialty banks, including:

- credit card specialists
- consumer nonbank banks[1]
- industrial loan companies
- trust companies
- bankers' banks

Include: All remaining banking organizations with:

— Total assets < indexed size threshold[2]

— Total assets ≥ indexed size threshold, where:

- Loan to assets > 33%
- Core deposits to assets > 50%
- More than 1 office but no more than the indexed maximum number of offices.[3]
- Number of large MSAs with offices ≤ 2
- Number of states with offices ≤ 3
- No single office with deposits > indexed maximum branch deposit size.[4]

Tables I-C through IV-C.

A separate set of tables (Tables I-C through IV-C) provides comparative quarterly data related to the Deposit Insurance Fund (DIF), problem institutions, failed institutions, estimated FDIC-insured deposits, as well as assessment rate information. Depository insti-

[1] Consumer nonbank banks are financial institutions with limited charters that can make commercial loans or take deposits, but not both.

[2] Asset size threshold indexed to equal $250 million in 1985 and $1.39 billion in 2016.

[3] Maximum number of offices indexed to equal 40 in 1985 and 87 in 2016.

[4] Maximum branch deposit size indexed to equal $1.25 billion in 1985 and $6.97 billion in 2016.

tutions that are not insured by the FDIC through the DIF are not included in the *FDIC Quarterly Banking Profile.* U.S. branches of institutions headquartered in foreign countries and non-deposit trust companies are not included unless otherwise indicated. Efforts are made to obtain financial reports for all active institutions. However, in some cases, final financial reports are not available for institutions that have closed or converted their charters.

DATA SOURCES

The financial information appearing in this publication is obtained primarily from the Federal Financial Institutions Examination Council (FFIEC) *Consolidated Reports of Condition and Income (Call Reports)* and the OTS *Thrift Financial Reports* (TFR) submitted by all FDIC-insured depository institutions. (TFR filers began filing Call Reports effective with the quarter ending March 31, 2012.) This information is stored on and retrieved from the FDIC's Research Information System (RIS) database.

COMPUTATION METHODOLOGY

Parent institutions are required to file consolidated reports, while their subsidiary financial institutions are still required to file separate reports. Data from subsidiary institution reports are included in the *Quarterly Banking Profile* tables, which can lead to double-counting. No adjustments are made for any double-counting of subsidiary data. Additionally, certain adjustments are made to the OTS *Thrift Financial Reports* to provide closer conformance with the reporting and accounting requirements of the FFIEC *Call Reports.* (TFR filers began filing Call Reports effective with the quarter ending March 31, 2012.)

All condition and performance ratios represent weighted averages, which is the sum of the individual numerator values divided by the sum of individual denominator values. All asset and liability figures used in calculating performance ratios represent average amounts for the period (beginning-of-period amount plus end-of-period amount plus any interim periods, divided by the total number of periods). For "pooling-of-interest" mergers, the assets of the acquired institution(s) are included in average assets, since the year-to-date income includes the results of all merged institutions. No adjustments are made for "purchase accounting" mergers. Growth rates represent the percentage change over a 12-month period in totals for institutions in the base period to totals for institutions in the current period. For the community bank subgroup, growth rates will reflect changes over time in the number and identities of institutions designated as community banks, as well as changes in the assets and liabilities, and income and expenses of group members. Unless indicated otherwise, growth rates are not adjusted for mergers or other changes in the composition of the community bank subgroup. When community bank growth rates are adjusted for mergers, prior period balances used in the calculations represent totals for the current group of community bank reporters, plus prior period amounts for any institutions that were subsequently merged into current community banks.

All data are collected and presented based on the location of each reporting institution's main office. Reported data may include assets and liabilities located outside of the reporting institution's home state. In addition, institutions may relocate across state lines or change their charters, resulting in an inter-regional or inter-industry migration; institutions can move their home offices between regions, savings institutions can convert to commercial banks, or commercial banks may convert to savings institutions.

ACCOUNTING CHANGES

Financial accounting pronouncements by the Financial Accounting Standards Board (FASB) can result in changes in an individual bank's accounting policies and in the Call Reports they submit. Such accounting changes can affect the aggregate amounts presented in the QBP for the current period and the period-to-period comparability of such financial data.

The current quarter's Financial Institution Letter (FIL) and related Call Report supplemental instructions can provide additional explanation to the QBP reader beyond any material accounting changes discussed in the QBP analysis.

https://www.fdic.gov/news/news/financial/2019/fil19055.html

https://www.fdic.gov/news/news/financial/2019/fil19055.pdf

https://www.fdic.gov/regulations/resources/call/call.html

Further information on changes in financial statement presentation, income recognition and disclosure is available from the FASB. http://www.fasb.org/jsp/FASB/Page/LandingPage&cid=1175805317350.

DEFINITIONS (in alphabetical order)

All other assets – total cash, balances due from depository institutions, premises, fixed assets, direct investments in real estate, investment in unconsolidated subsidiaries, customers' liability on acceptances outstanding, assets held in trading accounts, federal funds sold, securities purchased with agreements to resell, fair market value of derivatives, prepaid deposit insurance assessments, and other assets.

All other liabilities – bank's liability on acceptances, limited-life preferred stock, allowance for estimated off-balance-sheet credit losses, fair market value of derivatives, and other liabilities.

Assessment base – effective April 1, 2011, the deposit insurance assessment base changed to "average consolidated total assets minus average tangible equity" with an additional adjustment to the assessment base for banker's banks and custodial banks, as permitted under Dodd-Frank. Previously the assessment base was "assessable deposits" and consisted of deposits in banks' domestic offices with certain adjustments.

Assessment rate schedule – Initial base assessment rates for small institutions are based on a combination of financial ratios and CAMELS component ratings. Initial rates for large institutions—generally those with at least $10 billion in assets—are also based on CAMELS component ratings and certain financial measures combined into two scorecards—one for most large institutions and another for the remaining very large institutions that are structurally and operationally complex or that pose unique challenges and risks in case of failure (highly complex institutions). The FDIC may take additional information into account to make a limited adjustment to a large institution's scorecard results, which are used to determine a large institution's initial base assessment rate.

While risk categories for small institutions (except new institutions) were eliminated effective July 1, 2016, initial rates for small institutions are subject to minimums and maximums based on an institution's CAMELS composite rating. (Risk categories for large institutions were eliminated in 2011.)

The current assessment rate schedule became effective July 1, 2016. Under the current schedule, initial base assessment rates range from 3 to 30 basis points. An institution's total base assessment rate may differ from its initial rate due to three possible adjustments: (1) Unsecured Debt Adjustment: An institution's rate may decrease by up to 5 basis points for unsecured debt. The unsecured debt adjustment cannot exceed the lesser of 5 basis points or 50 percent of an institution's initial base assessment rate (IBAR). Thus, for example, an institution with an IBAR of 3 basis points would have a maximum unsecured debt adjustment of 1.5 basis points and could not have a total base assessment rate lower than 1.5 basis points. (2) Depository Institution Debt Adjustment: For institutions that hold long-term unsecured debt issued by another insured depository institution, a 50 basis point charge is applied to the amount of such debt held in excess of 3 percent of an institution's Tier 1 capital. (3) Brokered Deposit Adjustment: Rates for large institutions that are not well capitalized or do not have a composite CAMELS rating of 1 or 2 may increase (not to exceed 10 basis points) if their brokered deposits exceed 10 percent of domestic deposits.

The assessment rate schedule effective July 1, 2016, is shown in the following table:

Total Base Assessment Rates*

	Established Small Banks			Large and Highly Complex Institutions**
	CAMELS Composite			
	1 or 2	3	4 or 5	
Initial Base Assessment Rate	3 to 16	6 to 30	16 to 30	3 to 30
Unsecured Debt Adjustment	-5 to 0	-5 to 0	-5 to 0	-5 to 0
Brokered Deposit Adjustment	N/A	N/A	N/A	0 to 10
Total Base Assessment Rate	1.5 to 16	3 to 30	11 to 30	1.5 to 40

* All amounts for all categories are in basis points annually. Total base rates that are not the minimum or maximum rate will vary between these rates. Total base assessment rates do not include the depository institution debt adjustment.

** Effective July 1, 2016, large institutions are also subject to temporary assessment surcharges in order to raise the reserve ratio from 1.15 percent to 1.35 percent. The surcharges amount to 4.5 basis points of a large institution's assessment base (after making certain adjustments).

Each institution is assigned a risk-based rate for a quarterly assessment period near the end of the quarter following the assessment period. Payment is generally due on the 30th day of the last month of the quarter following the assessment period. Supervisory rating changes are effective for assessment purposes as of the examination transmittal date.

Assets securitized and sold – total outstanding principal balance of assets securitized and sold with servicing retained or other seller-provided credit enhancements.

Capital Purchase Program (CPP) – as announced in October 2008 under the TARP, the Treasury Department purchase of noncumulative perpetual preferred stock and related warrants that is treated as Tier 1 capital for regulatory capital purposes is included in "Total equity capital." Such warrants to purchase common stock or non-cumulative preferred stock issued by publicly-traded banks are reflected as well in "Surplus." Warrants to purchase common stock or noncumulative preferred stock of not-publicly-traded bank stock are classified in a bank's balance sheet as "Other liabilities."

Common equity Tier 1 capital ratio – ratio of common equity Tier 1 capital to risk-weighted assets. Common equity Tier 1 capital includes common stock instruments and related surplus, retained earnings, accumulated other comprehensive income (AOCI), and limited amounts of common equity Tier 1 minority interest, minus applicable regulatory adjustments and deductions. Items that are fully deducted from common equity Tier 1 capital include goodwill, other intangible assets (excluding mortgage servicing assets) and certain deferred tax assets; items that are subject to limits in common equity Tier 1 capital include mortgage servicing assets, eligible deferred tax assets, and certain significant investments.

Construction and development loans – includes loans for all property types under construction, as well as loans for land acquisition and development.

Core capital – common equity capital plus noncumulative perpetual preferred stock plus minority interest in consolidated subsidiaries, less goodwill and other ineligible intangible assets. The amount of eligible intangibles (including servicing rights) included in core capital is limited in accordance with supervisory capital regulations.

Cost of funding earning assets – total interest expense paid on deposits and other borrowed money as a percentage of average earning assets.

Credit enhancements – techniques whereby a company attempts to reduce the credit risk of its obligations. Credit enhancement may be provided by a third party (external credit enhancement) or by the originator (internal credit enhancement), and more than one type of enhancement may be associated with a given issuance.

Deposit Insurance Fund (DIF) – the Bank (BIF) and Savings Association (SAIF) Insurance Funds were merged in 2006 by the Federal Deposit Insurance Reform Act to form the DIF.

Derivatives notional amount – the notional, or contractual, amounts of derivatives represent the level of involvement in the types of derivatives transactions and are not a quantification of market risk or credit risk. Notional amounts represent the amounts used to calculate contractual cash flows to be exchanged.

Derivatives credit equivalent amount – the fair value of the derivative plus an additional amount for potential future credit exposure based on the notional amount, the remaining maturity and type of the contract.

Derivatives transaction types:

Futures and forward contracts – contracts in which the buyer agrees to purchase and the seller agrees to sell, at a specified future date, a specific quantity of an underlying variable or index at a specified price or yield. These contracts exist for a variety of variables or indices, (traditional agricultural or physical commodities, as well as currencies and interest rates). Futures contracts are standardized and are traded on organized exchanges which set limits on counterparty credit exposure. Forward contracts do not have standardized terms and are traded over the counter.

Option contracts – contracts in which the buyer acquires the right to buy from or sell to another party some specified amount of an underlying variable or index at a stated price (strike price) during a period or on a specified future date, in return for compensation (such as a fee or premium). The seller is obligated to purchase or sell the variable or index at the discretion of the buyer of the contract.

Swaps – obligations between two parties to exchange a series of cash flows at periodic intervals (settlement dates), for a specified period. The cash flows of a swap are either fixed, or determined for each settlement date by multiplying the quantity (notional principal) of the underlying variable or index by specified reference rates or prices. Except for currency swaps, the notional principal is used to calculate each payment but is not exchanged.

Derivatives underlying risk exposure – the potential exposure characterized by the level of banks' concentration in particular underlying instruments, in general. Exposure can result from market risk, credit risk, and operational risk, as well as, interest rate risk.

Domestic deposits to total assets – total domestic office deposits as a percent of total assets on a consolidated basis.

Earning assets – all loans and other investments that earn interest or dividend income.

Efficiency ratio – Noninterest expense less amortization of intangible assets as a percent of net interest income plus noninterest income. This ratio measures the proportion of net operating revenues that are absorbed by overhead expenses, so that a lower value indicates greater efficiency.

Estimated insured deposits – in general, insured deposits are total domestic deposits minus estimated uninsured deposits. Beginning March 31, 2008, for institutions that file Call Reports, insured deposits are total assessable deposits minus estimated uninsured deposits. Beginning September 30, 2009, insured deposits include deposits in accounts of $100,000 to $250,000 that are covered by a temporary increase in the FDIC's standard maximum deposit insurance amount (SMDIA). The Dodd-Frank Wall Street Reform and Consumer Protection Act enacted on July 21, 2010, made permanent the standard maximum deposit insurance amount (SMDIA) of $250,000. Also, the Dodd-Frank Act amended the Federal Deposit Insurance Act to include noninterest-bearing transaction accounts as a new temporary deposit insurance account category. All funds held in noninterest-bearing transaction accounts were fully insured, without limit, from December 31, 2010, through December 31, 2012.

Failed/assisted institutions – an institution fails when regulators take control of the institution, placing the assets and liabilities into a bridge bank, conservatorship, receivership, or another healthy institution. This action may require the FDIC to provide funds to cover losses. An institution is defined as "assisted" when the institution remains open and receives assistance in order to continue operating.

Fair Value – the valuation of various assets and liabilities on the balance sheet—including trading assets and liabilities, available-for-sale securities, loans held for sale, assets and liabilities accounted for under the fair value option, and foreclosed assets—involves the use of fair values. During periods of market stress, the fair values of some financial instruments and nonfinancial assets may decline.

FHLB advances – all borrowings by FDIC-insured institutions from the Federal Home Loan Bank System (FHLB), as reported by Call Report filers, and by TFR filers prior to March 31, 2012.

Goodwill and other intangibles – intangible assets include servicing rights, purchased credit card relationships, and other identifiable intangible assets. Goodwill is the excess of the purchase price over the fair market value of the net assets acquired, less subsequent impairment adjustments. Other intangible assets are recorded at fair value, less subsequent quarterly amortization and impairment adjustments.

Loans secured by real estate – includes home equity loans, junior liens secured by 1-4 family residential properties, and all other loans secured by real estate.

Loans to individuals – includes outstanding credit card balances and other secured and unsecured consumer loans.

Long-term assets (5+ years) – loans and debt securities with remaining maturities or repricing intervals of over five years.

Maximum credit exposure – the maximum contractual credit exposure remaining under recourse arrangements and other seller-provided credit enhancements provided by the reporting bank to securitizations.

Mortgage-backed securities – certificates of participation in pools of residential mortgages and collateralized mortgage obligations issued or guaranteed by government-sponsored or private enterprises. Also, see "Securities," below.

Net charge-offs – total loans and leases charged off (removed from balance sheet because of uncollectability), less amounts recovered on loans and leases previously charged off.

Net interest margin – the difference between interest and dividends earned on interest-bearing assets and interest paid to depositors and other creditors, expressed as a percentage of average earning assets. No adjustments are made for interest income that is tax exempt.

Net loans to total assets – loans and lease financing receivables, net of unearned income, allowance and reserves, as a percent of total assets on a consolidated basis.

Net operating income – income excluding discretionary transactions such as gains (or losses) on the sale of investment securities and extraordinary items. Income taxes subtracted from operating income have been adjusted to exclude the portion applicable to securities gains (or losses).

Noncurrent assets – the sum of loans, leases, debt securities, and other assets that are 90 days or more past due, or in nonaccrual status.

Noncurrent loans & leases – the sum of loans and leases 90 days or more past due, and loans and leases in nonaccrual status.

Number of institutions reporting – the number of institutions that actually filed a financial report.

New reporters – insured institutions filing quarterly financial reports for the first time.

Other borrowed funds – federal funds purchased, securities sold with agreements to repurchase, demand notes issued to the U.S. Treasury, FHLB advances, other borrowed money, mortgage indebtedness, obligations under capitalized leases and trading liabilities, less revaluation losses on assets held in trading accounts.

Other real estate owned – primarily foreclosed property. Direct and indirect investments in real estate ventures are excluded. The amount is reflected net of valuation allowances. For institutions that filed a *Thrift Financial Report* (TFR), the valuation allowance subtracted also includes allowances for other repossessed assets. Also, for TFR filers the components of other real estate owned are reported gross of valuation allowances. (TFR filers began filing Call Reports effective with the quarter ending March 31, 2012.)

Percent of institutions with earnings gains – the percent of institutions that increased their net income (or decreased their losses) compared to the same period a year earlier.

"Problem" institutions – federal regulators assign a composite rating to each financial institution, based upon an evaluation of financial and operational criteria. The rating is based on a scale of 1 to 5 in ascending order of supervisory concern. "Problem" institutions are those institutions with financial, operational, or managerial weaknesses that threaten their continued financial viability. Depending upon the degree of risk and supervisory concern, they are rated either a "4" or "5." The number and assets of "problem" institutions are based on FDIC composite ratings. Prior to March 31, 2008, for institutions whose primary federal regulator was the OTS, the OTS composite rating was used.

Recourse – an arrangement in which a bank retains, in form or in substance, any credit risk directly or indirectly associated with an asset it has sold (in accordance with generally accepted accounting principles) that exceeds a pro rata share of the bank's claim on the asset. If a bank has no claim on an asset it has sold, then the retention of any credit risk is recourse.

Reserves for losses – the allowance for loan and lease losses on a consolidated basis.

Restructured loans and leases – loan and lease financing receivables with terms restructured from the original contract. Excludes restructured loans and leases that are not in compliance with the modified terms.

Retained earnings – net income less cash dividends on common and preferred stock for the reporting period.

Return on assets – bank net income (including gains or losses on securities and extraordinary items) as a percentage of average total (consolidated) assets. The basic yardstick of bank profitability.

Return on equity – bank net income (including gains or losses on securities and extraordinary items) as a percentage of average total equity capital.

Risk-weighted assets – assets adjusted for risk-based capital definitions which include on-balance-sheet as well as off-balance-sheet items multiplied by risk-weights that range from zero to 200 percent. A conversion factor is used to assign a balance sheet equivalent amount for selected off-balance-sheet accounts.

Securities – excludes securities held in trading accounts. Banks' securities portfolios consist of securities designated as "held-to-maturity" (reported at amortized cost (book value)), securities designated as "available-for-sale" (reported at fair (market) value), and equity securities with readily determinable fair values not held for trading.

Securities gains (losses) – realized gains (losses) on held-to-maturity and available-for-sale securities, before adjustments for income taxes. *Thrift Financial Report* (TFR) filers also include gains (losses) on the sales of assets held for sale. (TFR filers began filing Call Reports effective with the quarter ending March 31, 2012.)

Seller's interest in institution's own securitizations – the reporting bank's ownership interest in loans and other assets that have been securitized, except an interest that is a form of recourse or other seller-provided credit enhancement. Seller's interests differ from the securities issued to investors by the securitization structure. The principal amount of a seller's interest is generally equal to the total principal amount of the pool of assets included in the securitization structure less the principal amount of those assets attributable to investors, i.e., in the form of securities issued to investors.

Small Business Lending Fund – The Small Business Lending Fund (SBLF) was enacted into law in September 2010 as part of the Small Business Jobs Act of 2010 to encourage lending to small businesses by providing capital to qualified community institutions with assets of less than $10 billion. The SBLF Program is administered by the U.S. Treasury Department (http://www.treasury.gov/resource-center/sb-programs/Pages/Small-Business-Lending-Fund.aspx).

Under the SBLF Program, the Treasury Department purchased noncumulative perpetual preferred stock from qualifying depository institutions and holding companies (other than Subchapter S and mutual institutions). When this stock has been issued by a depository institution, it is reported as "Perpetual preferred stock and related surplus." For regulatory capital purposes, this noncumulative perpetual preferred stock qualifies as a component of Tier 1 capital. Qualifying Subchapter S corporations and mutual institutions issue unsecured subordinated debentures to the Treasury Department through the SBLF. Depository institutions that issued these debentures report them as "Subordinated notes and debentures." For regulatory capital purposes, the debentures are eligible for inclusion in an institution's Tier 2 capital in accordance with their primary federal regulator's capital standards. To participate in the SBLF Program, an institution with outstanding securities issued to the Treasury Department under the Capital Purchase Program (CPP) was required to refinance or repay in full the CPP securities at the time of the SBLF funding. Any outstanding warrants that an institution issued to the Treasury Department under the CPP remain outstanding after the refinancing of the CPP stock through the SBLF Program unless the institution chooses to repurchase them.

Subchapter S corporation – a Subchapter S corporation is treated as a pass-through entity, similar to a partnership, for federal income tax purposes. It is generally not subject to any federal income taxes at the corporate level. This can have the effect of reducing institutions' reported taxes and increasing their after-tax earnings.

Trust assets – market value, or other reasonably available value of fiduciary and related assets, to include marketable securities, and other financial and physical assets. Common physical assets held in fiduciary accounts include real estate, equipment, collectibles, and household goods. Such fiduciary assets are not included in the assets of the financial institution.

Unearned income and contra accounts – unearned income for *Call Report* filers only.

Unused loan commitments – includes credit card lines, home equity lines, commitments to make loans for construction, loans secured by commercial real estate, and unused commitments to originate or purchase loans. (Excluded are commitments after June 2003 for originated mortgage loans held for sale, which are accounted for as derivatives on the balance sheet.)

Yield on earning assets – total interest, dividend, and fee income earned on loans and investments as a percentage of average earning assets.

BANK AND NONBANK LENDING OVER THE PAST 70 YEARS

Introduction

In recent years, some banking activities and their inherent risks have migrated from banks to nonbanks. While banks have increased their share of outstanding loans since the financial crisis, a significant portion of residential mortgage lending and leveraged lending has migrated out of banks. Government-sponsored enterprises (GSEs) loosened their residential mortgage underwriting criteria, and nonbanks markedly increased their residential mortgage origination and servicing, which may increase risks to the financial system.

Banks' origination and distribution to nonbanks of a large volume of covenant-lite leveraged loans also have the potential to create unexpected vulnerabilities during a downturn. Competition between banks and nonbank financial companies may affect lending standards and strategies. Banks also have nonbank financial companies as customers, and this may expose banks to risk in many ways.

The FDIC continues to study the changing nature of the lending market and specific sectors, how banks are responding to the growth of nonbank lenders in certain lending areas, and the implications of these potential risks for the banking sector and the economy. This article provides an overview of broad trends in lending markets. The first two sections describe the lenders that are active in the market and summarize lending from 1952 to 2018. The last three sections discuss bank and nonbank lending in specific lending markets. Accompanying articles discuss residential mortgage lending and corporate debt in more detail.

Types of Lenders and Loan Holders

Many types of companies lend money, and some companies fund lending markets by purchasing loans. Some companies, like banks and credit unions, originate loans and either hold them on their balance sheets as assets or sell them to other investors. Other businesses, such as nonbank mortgage lenders and other finance companies, tend to have more limited balance sheet capacity and generally follow an originate-to-distribute model. These institutions originate loans to sell them immediately to investors. Other investors—like life insurance companies and some issuers of asset-backed securities (ABS)—do not originate many loans but purchase existing loans from originators. Life insurance companies purchase loans to hold as assets, while issuers of ABS buy and bundle the loans into securities, which they sell to investors.

In this article, loan holders are grouped according to Federal Reserve Flow of Funds categories. The main categories are banks, credit unions, GSEs, issuers of ABS, other financial companies, and nonfinancial companies. We separate banks and credit unions because their business lines and strategies differ in some ways. GSEs are federally chartered corporations: Fannie Mae, Freddie Mac, Federal Home Loan Banks, Farmer Mac, and the Farm Credit System, following the definitions in the Flow of Funds for GSEs and agency- and GSE-backed mortgage pools, unless otherwise noted. Ginnie Mae is wholly owned by the federal government and guarantees mortgage-backed securities (MBS) backed by mortgages that are insured by federal agencies.[1] Other financial companies include entities like finance companies, which make loans to hold or to sell; insurance companies, which tend to purchase loans as assets; and issuers of ABS, which purchase loans to securitize them.[2] The nonfinancial group includes the government, nonprofits, nonfinancial businesses, and households, and all of these hold loans as assets.

[1] We combine the categories of GSEs and agency- and GSE-backed mortgage pools because Financial Accounting Standards Board Statements No. 166 and No. 167 resulted in the consolidation of a large amount of securitized loan balances back onto lender balance sheets in first quarter 2010. Ginnie Mae mortgage pools are classified as agency- and GSE-backed mortgage pools.

[2] The complete list of other financial companies is monetary authority, property-casualty insurance company, life insurance company, private pension fund, federal government retirement fund, state or local government retirement fund, mutual fund, ABS issuer, finance company, real estate investment trust, broker-dealer, holding company, and funding corporation.

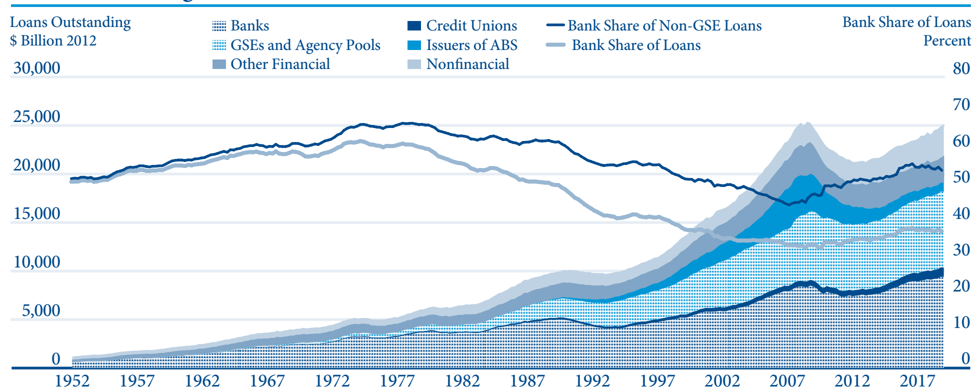
Historic Perspective of the Lending Market

Total lending has grown dramatically since the 1950s, with the largest growth in loan holdings in banks and the GSEs (Chart 1). The bank share peaked at 62 percent in 1974. It then fell fairly consistently and bottomed out in fourth quarter 2009 at 32 percent. Over the same period, corporations also shifted toward market-based financing and issued debt securities like bonds and commercial paper. Debt securities are a significantly larger portion of nonfinancial corporations' overall debt obligations than they were in past decades. Since 2008, the bank share of loans outstanding has increased modestly and has stabilized around 37 percent since first quarter 2016. In 2018, the total of corporate debt securities outstanding was about twice the sum of corporate bank loans and commercial mortgages.

The shifts in bank lending also reflect the growth of nonbank loan holders, primarily in the mortgage market. GSEs hold an increasing share of residential mortgages. The growth of mortgage securitization played a major role in the shift (see accompanying article, "Trends in Mortgage Origination and Servicing: Nonbanks in the Post-Crisis Period"). GSEs were created to serve as a secondary market for residential mortgages by purchasing mortgages from originators.[3] This allowed originators to make more loans. In the 1970s, Fannie Mae and Freddie Mac began securitizing the mortgages they had purchased into MBS, which contributed to the growth of the secondary market for mortgages. The rise of securitization enabled a broader range of investors to fund the mortgage market, generating growth in mortgages held by the GSEs. In second quarter 2019, the GSEs held about 31 percent of all loans outstanding. From the 1980s to about 2005, the bank share of non-GSE loans fell and then recovered, with a more pronounced rebound since the financial crisis that started in 2007.

Chart 1

The Bank Share of Loans Fell in the 1980s and 1990s as Securitization Developed, but Started Rising After 2009



Source: Federal Reserve Flow of Funds (Haver Analytics).
Note: Dollar values are adjusted for inflation.

Lending Trends by Sector

Nonbank lending also plays an important role over time in other markets. Except for leveraged loans, the bank shares of loans outstanding have been generally stable or increasing since 2010. Pre-financial crisis, bank shares of outstanding loans in several categories declined. In 1–4 family mortgage lending, bank shares decreased from 40 percent in 1990 to 25 percent in 2010, and in multifamily residential mortgages, from 44 percent in 1990 to 29 percent in 2010. As shown in the table on the following page, bank shares of commercial mortgages and agricultural loans grew over this period.

[3] For a history of the GSEs, see "A Brief History of the Housing Government-Sponsored Enterprises," Federal Housing Finance Agency Office of Inspector General, www.fhfaoig.gov/Content/Files/History%20of%20the%20Government%20Sponsored%20Enterprises.pdf, and "Our History," Farm Credit, https://farmcredit.com/history.

Many factors contributed to growth in the nonbank share of loans before the financial crisis, but the development and growth of loan securitization was an important one. Some investors prefer to or must hold rated, more-liquid securities like ABS rather than unrated, less-liquid assets such as loans. In the common securitization model, lenders originate loans and sell them to nonbanks that package the loans and issue ABS. Loan types with more standardized terms and more forecastable outcomes—like residential mortgages and some commercial real estate (CRE) mortgages—are easier to securitize, enabling greater participation by nonbanks that rely on an originate-to-distribute model. Securitization of other loan types—like large leveraged loans—involve pools with fewer but larger loans that are rated, which makes them more easily securitized. On the other hand, commercial and industrial loans tend to be smaller and more idiosyncratic than the larger leveraged loans, so they are generally not rated and have not been securitized to the same degree. The following sections describe the changes in different lending categories.

Bank Share of Loans by Type of Loan

	Bank Share of Loans Outstanding (%)			
Type of Loans	**1990**	**2000**	**2010**	**2018**
1–4 family mortgages	40	30	25	24
Leveraged loans	NA	25	8	3
CRE mortgages	50	49	47	50
Commercial mortgages	52	54	54	58
Multifamily residential mortgages	44	34	29	33
Consumer credit	52	35	45	42
Agriculture loans	35	46	39	42

Sources: Federal Reserve Flow of Funds (Haver Analytics), S&P Leveraged Commentary and Data, and USDA Economic Research Service.

Notes: Leveraged loans exclude revolving credit-only loans and left and right agent commitments (including administrative, syndication and documentation agent, and arranger). Data are as of the fourth quarter.

I. 1–4 Family Mortgages

One-to-four family mortgages, including home equity loans and home equity lines of credit, are loans that are secured by residential units. The share of 1–4 family mortgages outstanding held by banks declined dramatically from 74 percent in 1978 to 24 percent in second quarter 2019 as securitization of mortgages became an increasingly larger part of the market. From 1980 to 2000, the majority of MBS were issued by the GSEs, but private-label MBS (PLMBS) grew rapidly before the financial crisis.[4] Demand for PLMBS dried up during the financial crisis and remains well below pre-financial crisis levels, despite recent growth.[5] Government-backed MBS issuance, including GSE issuance, has continued to grow. In second quarter 2019, GSEs held 63 percent of residential mortgages outstanding.

Because of the demand for GSE MBS, both banks and nonbanks sell mortgages to the GSEs. Since the financial crisis, nonbanks have predominantly offered mortgages that conform to the criteria established by the GSEs, as nonbanks rely on an originate-to-distribute business model.[6] Banks are more likely to make jumbo and nonconforming loans that cannot be sold to the GSEs, and tend to hold more of their residential mortgages. As these banks retain the risk of the loans, they may perform more thorough underwriting than nonbank lenders who quickly sell their loans.

[4] PLMBS are MBS issued by private financial institutions. They are also called non-agency MBS.

[5] PLMBS issuance fell from $1.3 trillion in 2006 to $28 billion in 2012. As of second quarter 2019, private pools held $454 billion in residential mortgages, about 4 percent of the outstanding residential mortgages.

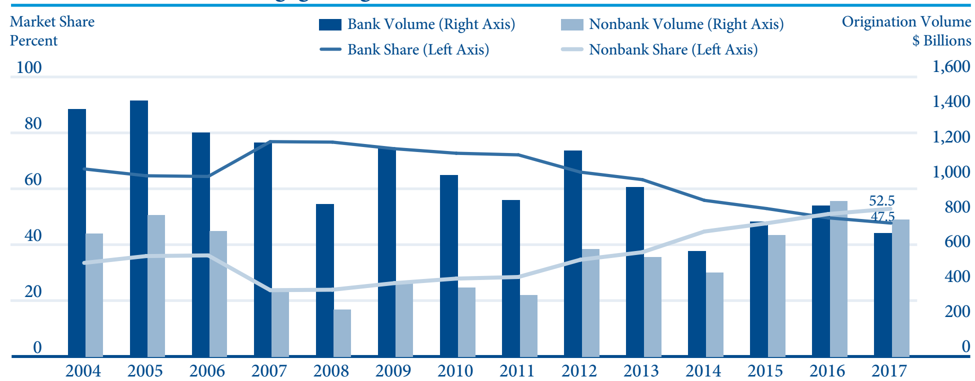
[6] These mortgages are known as conforming loans, since they conform to standards set by the GSEs and are eligible to be purchased by the GSEs.

In the early 2000s, bank and nonbank mortgage lenders loosened underwriting standards, and residential mortgage originations grew rapidly, partly driven by the demand for MBS. In the financial crisis that began in 2007, PLMBS issuance fell and many nonbank mortgage lenders failed or merged. The nonbank share of mortgage originations among Home Mortgage Disclosure Act (HMDA) report filers fell from 36 percent in 2006 to 24 percent in 2008 (Chart 2). After the financial crisis, new nonbank lenders entered the market, increasing from 820 lenders in 2011 to 919 in 2017. The number of bank mortgage lenders fell during that period. In 2017, nonbanks accounted for 53 percent of mortgages originated by HMDA filers.[7] Nonbanks originate a significant volume of loans for sale to GSEs. GSEs have loosened underwriting criteria in recent years, which could increase financial system vulnerability if pronounced housing market stress occurs (see accompanying article, "Trends in Mortgage Origination and Servicing: Nonbanks in the Post-Crisis Period").

Mortgage servicing also has shifted from banks to nonbanks. Nonbanks held 42 percent of mortgage servicing rights held by the top 25 servicers in 2018, up from 4 percent in 2008 and 38 percent in 2000. Large bank sales of financial crisis-era legacy servicing portfolios contributed to the shift in servicing from banks to nonbanks. Fines, legal fees, and other heightened expenses associated with litigation and with nonperforming loans in financial crisis-era servicing portfolios negatively affected profitability at some banks and may have deterred growth in servicing portfolios after the financial crisis.[8] Changes in the regulatory capital treatment of mortgage servicing assets may have contributed to the reduction in mortgage servicing rights by large banks.[9] Overall servicing volume rebounded to $10.9 trillion in 2018, only slightly below the peak of $11.2 trillion in 2007 and more than double the $5.1 trillion reported in 2000.[10]

Chart 2

Nonbanks Increased Mortgage Originations After the Financial Crisis



Source: FDIC analysis of Home Mortgage Disclosure Act data.
Notes: Nonbanks include all Department of Housing and Urban Development reporters. Banks include banks, credit unions, and their affiliates. Data are limited to single-family residential mortgage originations, defined as first-lien purchase or refinance loans secured by an owner-occupied, 1–4 family unit, site-built property.

[7] FDIC analysis of HMDA data. Bank mortgage lenders are banks that file HMDA reports.
[8] FDIC, Board of Governors of the Federal Reserve System (FRB), Office of the Comptroller of the Currency (OCC), National Credit Union Administration (NCUA), "Report to the Congress on the Effect of Capital Rules on Mortgage Servicing Assets," June 2016, pages 23–25, https://www.federalreserve.gov/publications/other-reports/files/effect-capital-rules-mortgage-servicing-assets-201606.pdf.
[9] FDIC, FRB, OCC, NCUA: 29–31.
[10] FDIC analysis of *Inside Mortgage Finance* data.

II. Corporate Debt and Leveraged Lending

Loans to corporations, including leveraged loans, have shifted out of banks over the past 60 years, and corporations have increased their use of debt securities to fund their businesses. Leveraged loans are syndicated loans made to below-investment-grade corporate borrowers.[11] Corporate debt securities include corporate bonds and commercial paper.

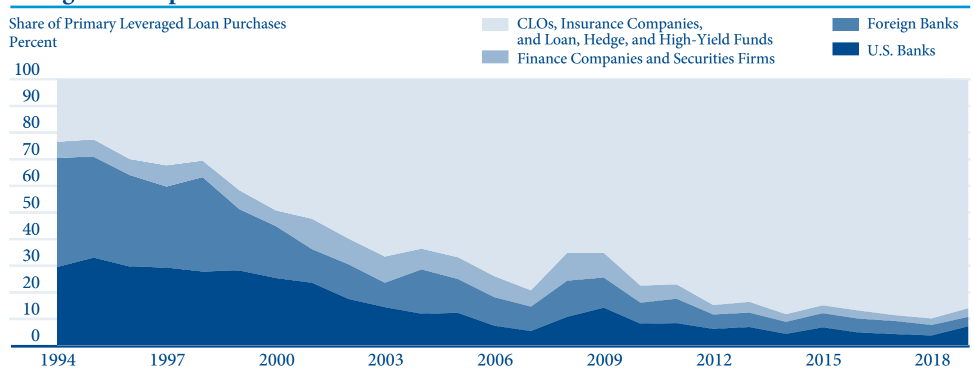
Institutional syndicated leveraged loans outstanding increased from $100 billion in 2000 to $1 trillion in 2018. Originations fell to $77 billion in 2009 but recovered to $625 billion in 2018. The share of primary leveraged loan purchases made by banks declined from 30 percent in 1994 to 3 percent in 2018 (Chart 3). Banks arrange almost all of the loans by providing information about the loan to investors and putting together a group of buyers. Banks often administer the loans. Of the top 20 leveraged loan administrative agents in the Leveraged Commentary and Data database for 2018, 18 were commercial banks or investment banks.

Over the past ten years, nonfinancial corporate debt securities grew from $4 trillion in first quarter 2009 to $6 trillion in first quarter 2019. Nonbank investors hold the majority of outstanding financial and nonfinancial corporate bonds. As of second quarter 2019, banks held only 3 percent of outstanding corporate bonds. Banks also underwrite corporate debt securities and provide other investment banking services.

Corporate debt has grown since 2008. Investors increased their demand for high-yielding leveraged loans and corporate debt securities, as they were willing to accept greater risk. To help satisfy the demand, underwriting standards deteriorated in this market and lenders issued loans to riskier corporations. The share of leveraged loans that lack strong covenants grew from near zero percent in the early 2000s, to 29 percent in 2007, and to 85 percent in 2018.[12] The leverage of the borrowers also increased over the same period.[13] Therefore,

Chart 3

U.S. Bank Share of Primary Leveraged Loan Purchases Has Declined Significantly, Though Risk Exposure Remains



Source: S&P LCD.

Notes: Excludes revolving credit-only loans as well as left and right agent commitments (including administrative, syndication and documentation agent, and arranger). Data are through second quarter 2019.

[11] Unless otherwise noted, we follow the S&P Global Market Intelligence Leveraged Commentary and Data definition of leveraged loans, which includes all syndicated loans that are below investment grade, are senior secured, and have a minimum spread of 125 basis points over LIBOR.

[12] Leveraged loans with strong covenants have both "incurrence covenants," which require financial tests if the borrower wants to perform certain actions such as paying dividends, and "maintenance covenants," which require the borrower to regularly pass financial health tests such as maximum leverage levels and minimum interest coverage, or risk defaulting on the loan. Covenant-lite leveraged loans have incurrence covenants but lack maintenance covenants.

[13] Leverage is measured as the ratio of total debt to earnings before interest, tax, depreciation, and amortization (EBITDA). The average debt-to-EBITDA ratio for leveraged loan borrowers was 5.2 at year-end 2018, its highest level since at least 2002 and well above the 4.9 level that it reached in 2007.

future recoveries on defaulted leveraged loans are likely to be lower than previously experienced because of lower credit quality and weakened lender protections. Risks have been building in corporate debt securities as well. Most of the change in corporate debt outstanding over the past ten years was from lower-rated investment grade bonds and the highest-rated high-yield bonds, rather than from higher-rated investment grade bonds.[14]

Banks' direct exposure to institutional leveraged loans has fallen during the past 20 years. But some banks still have direct exposure to revolving credit facilities that are often part of a leveraged loan deal and additional indirect exposure to institutional leveraged loans. This exposure includes (1) pro rata leveraged loans, (2) warehouse lines of credit used for collateralized loan obligations, and (3) subscription finance loans. Bank exposure to risk from nonbanks that participate in leveraged lending is opaque, and the nature and size of the risk is obscured. Risk is difficult to quantify because it is not reported in a standardized manner.

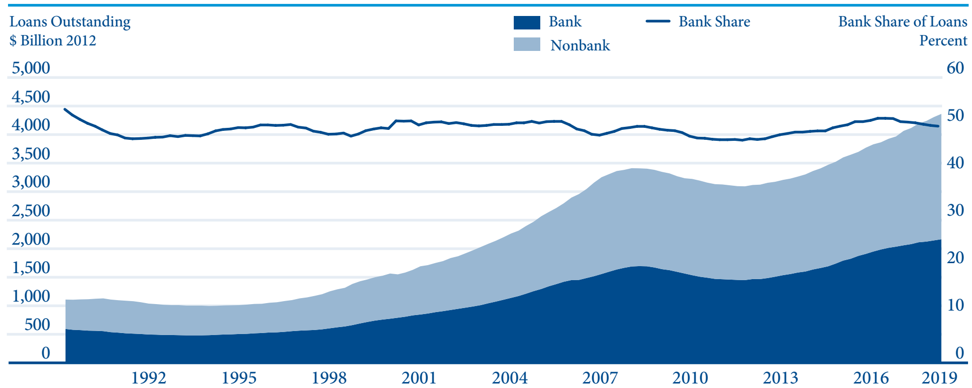
III. Other Lending Sectors

The migration of risks and activities between banks and nonbanks in lending sectors other than 1–4 family mortgages and leveraged lending has been less pronounced. This section summarizes market share developments in commercial real estate lending, agriculture lending, and consumer credit. Bank shares of outstanding loans in these sectors are significantly higher than in 1–4 family mortgage lending and in leveraged loans. Moreover, bank shares of outstanding commercial real estate loans and agriculture loans have increased, rather than decreased, since 2010.[15]

CRE Loans. CRE loans include loans secured by commercial or multifamily residential properties and unsecured loans to finance CRE activities. Banks have regained market share of CRE mortgages after a decline during the financial crisis (Chart 4). The bank share of commercial mortgages has been relatively steady at around 50 to 55 percent since the mid-1970s. In second quarter 2019, banks held 59 percent of commercial mortgages. In contrast, the bank share of multifamily residential mortgages decreased substantially between 1990 and 2012 and has modestly recovered since. Changes in bank share are largely attributable to GSE securitization activity. In second quarter 2019, GSEs held about half of the outstanding multifamily residential mortgages and banks held 33 percent.

Chart 4

The Bank Share of Commercial Real Estate Mortgages Has Been Around 50 Percent Since the 1990s



Source: Federal Reserve Flow of Funds (Haver Analytics).
Note: Dollar values are adjusted for inflation.

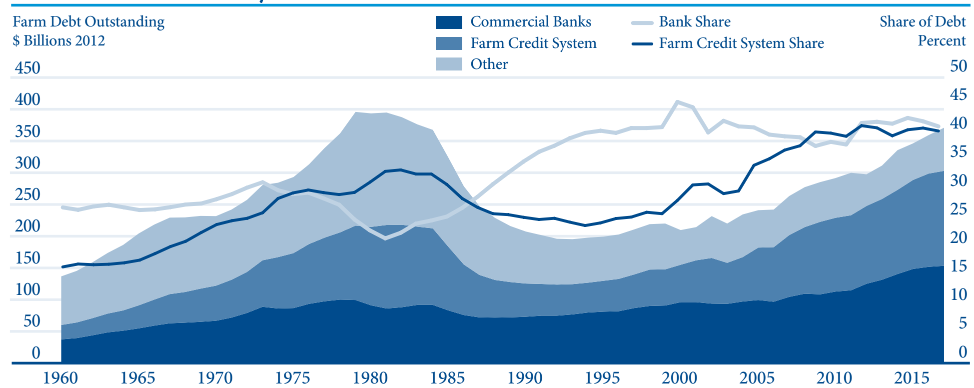
[14] ICE data services.

[15] For discussion of risks in these lending sectors see "FDIC 2019 Risk Review," https://www.fdic.gov/bank/analytical/risk-review/index.html.

Agriculture Lending. Quarterly Reports of Condition and Income (Call Reports) filed by FDIC-insured banks classify agricultural loans as (1) loans secured by agricultural land and (2) operating loans to farms and agricultural businesses. Agriculture loans are made primarily through banks and the Farm Credit System, a government-sponsored system of borrower-owned lenders that provide loans and related services to many rural customers. The bank share of agriculture lending is 42 percent and has varied between 37 and 45 percent since the early 1990s (Chart 5). The share of loans held by the Farm Credit System grew through the 1990s and early 2000s and is now around 41 percent of outstanding agriculture loans. In 2018, commercial banks and the Farm Credit System held 83 percent of farm sector loans, and the Farm Service Agency, Farmer Mac, life insurance companies, and individuals held the remainder of loans outstanding.[16]

Chart 5

The Bank Share of Agricultural Loans Has Been Around 40 Percent Since the Mid-1990s, While the Farm Credit System Share Has Risen



Source: USDA Economics Research Service.
Note: Dollar values are adjusted for inflation.

Consumer Credit. The bank share of consumer credit—loans to consumers that are not backed by real estate—fell from the late 1980s to the early 2000s because of securitization. Starting in the late 1980s, ABS backed by credit card debt, auto loans, and private student loans became widely used.[17] The bank share of consumer credit fell from 52 percent in fourth quarter 1990 to 35 percent in fourth quarter 2000. An accounting change in first quarter 2010, however, moved most ABS back onto the balance sheets of the firms that controlled the securities, causing a jump in the reported share of consumer credit held by banks from 35 percent in fourth quarter 2009 to 49 percent in first quarter 2010.[18] Because many of these loans are still securitized, some of the credit risk passes to the purchasers of the ABS even if the loans are on the bank's balance sheet. And in 2010, the federal government stopped subsidizing private lenders to make student loans and instead originates all federally subsidized loans itself.[19] This shift caused another decline in the bank share of consumer credit because only the federal government can make federally subsidized student loans (Chart 6). If student loans continue to grow faster than other forms of consumer credit, the bank share of consumer credit may continue to decline.

[16] USDA/ERS Farm Income and Wealth Statistics, https://data.ers.usda.gov/reports.aspx?ID=17835.

[17] Sumit Agarwal, Jacqueline Barett, Crystal Cun, and Mariacristina De Nardi, "The Asset-Backed Securities Market, the Crisis, and TALF," Federal Reserve Bank of Chicago *Economic Perspectives* 34, no. 4 (2010), www.chicagofed.org/publications/economic-perspectives/2010/4q-agarwal-barrett-cun-denardi.

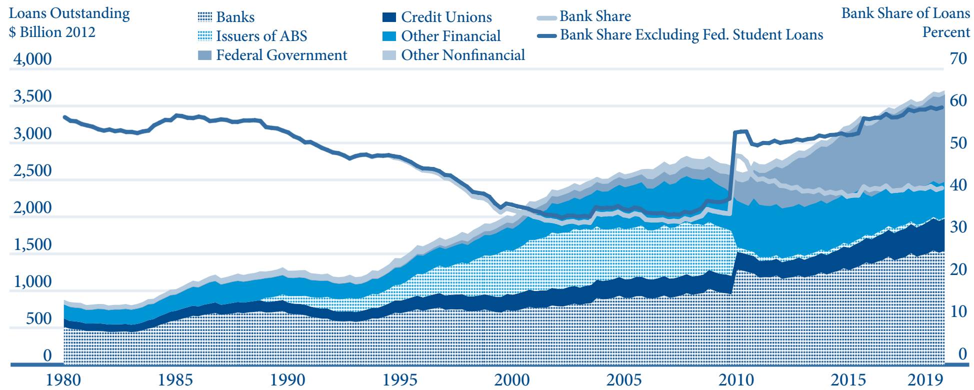
[18] The accounting change was released in Financial Accounting Standards Board Statements 166 and 167. See https://www.fasb.org/jsp/FASB/FASBContent_C/NewsPage&cid=1176156240834 for a detailed explanation.

[19] H.R. 4872: "Health Care and Education Reconciliation Act of 2010," https://www.congress.gov/bill/111th-congress/house-bill/4872.

While the shift of consumer credit from banks to nonbank financial companies has been less pronounced than in other bank lending categories, consumer lending within the banking industry has become more concentrated. The top ten credit card lending banks held 34 percent of bank credit card loans in 1984 and 88 percent of bank credit card loans in second quarter 2019. The top two banks alone hold more than 30 percent of credit card loans.[20] In auto lending, the bank share of outstanding auto loans changed little from first quarter 2011 (35 percent) to first quarter 2018 (33 percent).[21] But the top ten large bank auto lenders hold 71 percent of outstanding bank auto loans, according to second quarter 2019 Call Reports.

Chart 6

The Growth of ABS and Federal Student Loans Lowered the Bank Share of Consumer Credit



Source: Federal Reserve Flow of Funds (Haver Analytics).
Notes: Dollar values are adjusted for inflation. Financial Accounting Standards Board Statements No. 166 and No. 167 resulted in the consolidation of a large amount of securitized loan balances back onto lenders' balance sheets in first quarter 2010.

IV. Lending to Nondepository Financial Institutions

Although direct bank exposure to some lending categories has fallen, banks may still have indirect exposure through lending to nonbank financial institutions (NBFI). Bank lending to NBFIs grew from about $50 billion in 2010 to $442 billion in second quarter 2019 (Chart 7). NBFI loans include loans to special purpose vehicles, private equity funds, real estate investment trusts (REIT), and nonbank mortgage lenders. About 11 percent of banks held NBFI loans in second quarter 2019, and the four largest banks—JPMorgan Chase N.A., Bank of America N.A., Citibank N.A., and Wells Fargo N.A.—held about half of the total of NBFI loans outstanding.[22] Bank supervisory experience suggests that outside of the large banks, most NBFI lending is to nonbank mortgage lenders or to MBS warehouse lines.[23] Through these loans, banks retain exposure to many of the loans that have shifted to nonbanks.

Other potential exposure includes loans to business development companies, other business lenders, private equity funds, venture capital funds, real estate funds, and REITs. These loans may be accounted for under different loan categories on a bank balance sheet, which can make it difficult to identify a bank's credit risk exposure to NBFIs.

[20] Credit card data are based on Call Reports. Citibank held 17 percent of bank credit card loans, and JPMorgan Chase N.A. held 16 percent of credit card loans.

[21] Experian Automotive. In first quarter 2011, auto loans became a separate category on Call Reports. Before then, auto loans were included with other consumer loans and concentrations could not be identified.

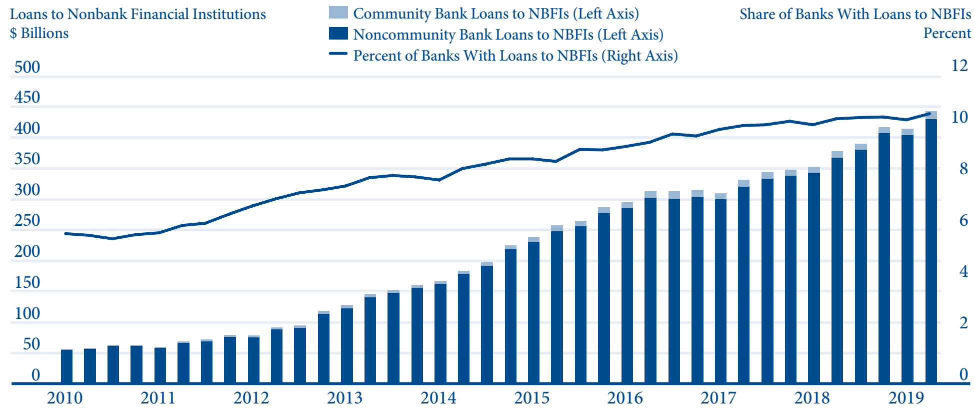
[22] FDIC analysis of Call Reports.

[23] FDIC.

Banks may also hold securities that expose them to risks from nonbanks. For example, banks may hold collateralized loan obligations that include leveraged loans. Because Call Reports do not require detail about these asset classes, understanding the underlying credit risk of a bank's portfolios of securities and loans to nonbank financial institutions is difficult.

Chart 7

Loans to Nonbank Financial Institutions Have Grown Dramatically Since Data Collection Began



Source: FDIC.
Note: Quarterly data through second quarter 2019. NBFI stands for nonbank financial institution.

Conclusion

The banking industry and its activities have changed dramatically in 70 years. Securitization is a primary cause of the shift in loan origination from banks to nonbanks. If less-regulated financial institutions play a larger role in lending, the shift may alter underwriting standards when loan demand increases. For private securities such as PLMBS, this shift creates a market that is more liquid but could dry up quickly in a financial crisis, as we saw in the Great Recession. Studying where loans have shifted in lending sectors and the linkages among lenders deepens our understanding of risk in the financial system. The FDIC will publish a series of articles that look closely at the factors driving these trends and the related risks of residential mortgages and corporate debt and leveraged lending.

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LEVERAGED LENDING AND CORPORATE BORROWING: Increased Reliance on Capital Markets, With Important Bank Links

Introduction

In the decade after the 2008 financial crisis, U.S. corporations have taken advantage of low interest rates to significantly increase their debt. The FDIC and other financial regulators are devoting significant attention to rising corporate debt as a potential source of economic and financial market risk.

Not only have the level of debt and the risks associated with it changed over the past decade, but the sources of borrowing have shifted from banks to nonbanks. Nonfinancial corporations are relying more on capital markets and less on bank loans as a funding source.[1] Despite a modest increase in use of bank loans by nonfinancial corporations since the end of the financial crisis, bank loans make up a significantly lower share of nonfinancial corporate debt obligations than in past decades. Most of this broad historical shift has been toward greater use of corporate bonds and other debt securities, though in the past two decades the market for syndicated leveraged loans has also grown.

The term “leveraged loan” is used differently by different sources. This article focuses on broadly syndicated institutional term leveraged loans as defined by Standard & Poor’s Leveraged Commentary and Data (LCD). Other types of leveraged loans such as revolving “pro rata” loans are discussed but are not included in most of the analysis.

With leveraged loans, banks have increasingly used an originate-to-distribute model instead of holding loans they have originated. Nonbanks such as loan mutual funds and collateralized loan obligation (CLO) securitization vehicles are the ultimate holders of a growing share of these loans. This shift from bank financing to capital market financing through bonds and leveraged loans could have implications for banking system stability.

The shift may reduce banking risk, because when corporations rely less on direct bank loans, direct bank exposure to corporate borrower credit risk is reduced. However, banks are still vulnerable to corporate debt distress during an economic downturn in several ways:

- Higher corporate leverage built up through capital markets could reduce the ability of corporate borrowers to pay bank and nonbank debt in times of distress.
- Banks lend to nonbank financial firms that in turn lend to corporations, so if corporations default on loans from nonbank financial firms, then nonbank financial firms may default on loans from banks.
- In a downturn, bond issuances and leveraged loan syndications could decline, and any income that a bank had been earning from organizing bond issuances and leveraged loan syndications would be likely to decline.
- The migration of lending activity away from the regulated banking sector has increased competition for loans and facilitated looser underwriting standards and risky lending practices that could expose the financial system to new risks.
- Any macroeconomic effects of corporate debt distress could affect the ability of small businesses, which borrow more heavily from banks, to service their debt.

This article discusses the growing volume of corporate debt and the changes in its balance between bank lending and nonbank sources. The next section examines bank exposure to the growth and increasing risk of leveraged loans. The article then discusses corporate bonds, including the role of banks in these markets and developing risks. The final section details the macroeconomic risks banks face from corporate debt as well as potential risk-mitigating factors.

[1] The Federal Reserve defines nonfinancial corporate businesses as “private for-profit domestic nonfinancial corporations.” This includes both large and smaller incorporated firms, corporate farms, small S corporations, and foreign-owned U.S. corporations. It excludes foreign subsidiaries of U.S.-owned firms and financial firms, including banks, finance companies, holding companies, and real estate investment trusts, among others.

Growth and Composition of Nonfinancial Corporate Debt

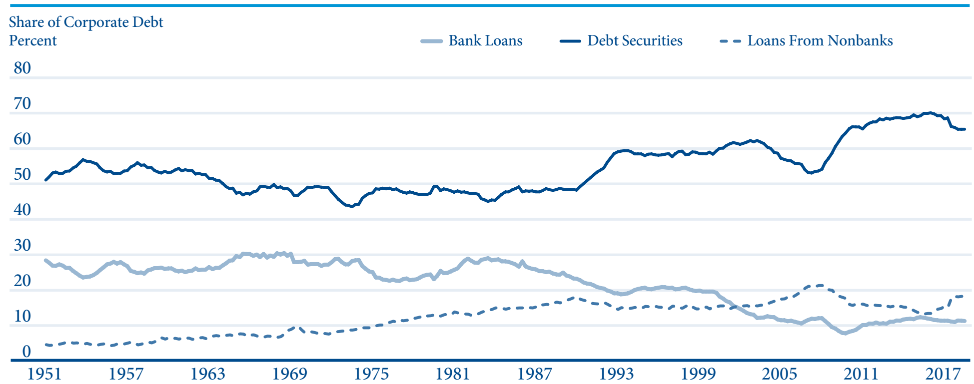
U.S. corporations have long relied on both banks and capital markets for debt financing. Banks finance corporations through commercial and industrial (C&I) loans and commercial mortgages. Businesses can be grouped into corporate and noncorporate. Corporations are generally larger businesses and are owned by shareholders. Larger corporations can raise funds by issuing shares of stock or bonds and can borrow from nonbank lenders and banks, but they rely less on banks for funding than do smaller, noncorporate businesses. Corporate borrowers account for less than half of total C&I bank loans and only 13 percent of commercial mortgages.[2] Noncorporate businesses are generally sole proprietorships and partnerships and rely more heavily on banks for financing because they cannot issue stock or bonds.

Community banks participate in both C&I and commercial mortgage lending and account for roughly 10 percent of C&I bank loans and 33 percent of commercial mortgage loans held by banks.[3] Data on the portion of these community bank loans that go to corporate versus noncorporate borrowers are unavailable, but it is possible that small noncorporate businesses are more likely to turn to community banks for debt financing than are larger corporations.

The balance between corporate borrowing via banks and corporate borrowing via capital markets has shifted over the decades, with the percentage of corporate debt in bank loans on a declining trend since the mid-1980s (Chart 1).[4] Since the financial crisis, nonfinancial corporations have used debt securities more and have used bank loans less than at any time since 1950. Bank loans recovered from a sharp decline in share after the financial crisis but remain around 12 percent of corporate borrowing, half the level in 1990. From 1990 through 2017, debt securities increased their share of corporate borrowing from 48 percent to around 69 percent.

Chart 1

Bank Loans Have Become a Smaller Part of Corporate Borrowing Since the 1980s, as the Use of Debt Securities and Nonbank Loans Increased



Source: Federal Reserve Board (Haver Analytics).
Notes: Bank loans do not include mortgages. Data are through second quarter 2019.

[2] Total C&I bank loans include those made to both corporate and noncorporate (such as single proprietorships and partnerships) borrowers. Banks hold only a portion of total outstanding commercial mortgages, according to the Federal Reserve Board, "Financial Accounts of the United States," and FDIC, "Quarterly Banking Profile," First Quarter 2019, https://www.fdic.gov/bank/analytical/qbp/2019mar/qbp.pdf.

[3] FDIC, "Quarterly Banking Profile," First Quarter 2019, https://www.fdic.gov/bank/analytical/qbp/2019mar/qbp.pdf.

[4] Bank loans exclude mortgages since only a portion of commercial mortgages are held by banks. The share of corporate debt represented by bank loans is larger when mortgages are included, but the trend in bank loans' share of corporate borrowing remains the same.

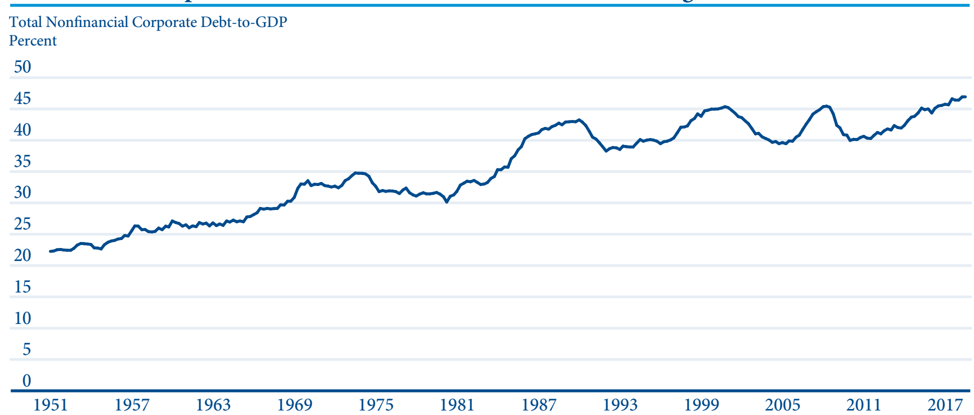
Since the financial crisis, some of the most rapid corporate debt growth has occurred in the corporate bond and syndicated leveraged loan markets. Syndicated leveraged loans are made to highly indebted borrowers and are funded by groups of investors and lenders. Similar to bond issuances, the loan offerings are typically arranged by large banks, but most of the funding comes from nonbank investors.[5]

From the end of 2008 to first quarter 2019, nonfinancial corporate bonds outstanding grew by 91 percent in nominal terms while institutional leveraged loans outstanding grew by 101 percent, not accounting for inflation. Corporate bonds were especially appealing to corporate borrowers during the prolonged post-crisis period of low interest rates. Floating-rate leveraged loans became appealing to lenders and investors as the Federal Reserve began raising interest rates in 2016.

While the composition of corporate debt has shifted over time, the level of debt relative to GDP has grown substantially over the past half century. Between 1951 and the 1970s, the nonfinancial corporate debt-to-GDP ratio ranged from 22 percent to 35 percent, growing steadily throughout the period (Chart 2).[6] Starting in the 1980s, the corporate debt-to-GDP ratio grew rapidly to exceed 43 percent. Since then, the corporate debt-to-GDP ratio has fluctuated with the business cycle, peaking at about 45 percent near the end of economic expansions before falling to about 39 percent during recession and recovery. As of second quarter 2019, the nonfinancial corporate debt-to-GDP ratio had reached an all-time high of 47 percent.

Chart 2

Nonfinancial Corporate Debt-to-GDP Has Reached an All-Time High



Sources: Federal Reserve Board and Bureau of Economic Analysis (Haver Analytics).
Note: Data are through second quarter 2019.

[5] Leveraged loan arrangers do not necessarily fund the loans and hold them on their books before selling them, but they set the terms of the debt offering and recruit investors to fund the leveraged loan. In "best-efforts" syndications, the arranger is not required to fund any unsold loan balance. In "underwritten" syndications, the arranger pledges to fund any unsold portion of the loan offering, though they have the flexibility to adjust the loan terms within a set range (called market price flexing) to attract investors.

[6] This article focuses on nonfinancial corporate debt as that is the area of debt which has grown substantially since the financial crisis.

Growth in Leveraged Loans Has Been Driven in Large Part by Nonbank Investors, as Riskiness of Loans Has Increased

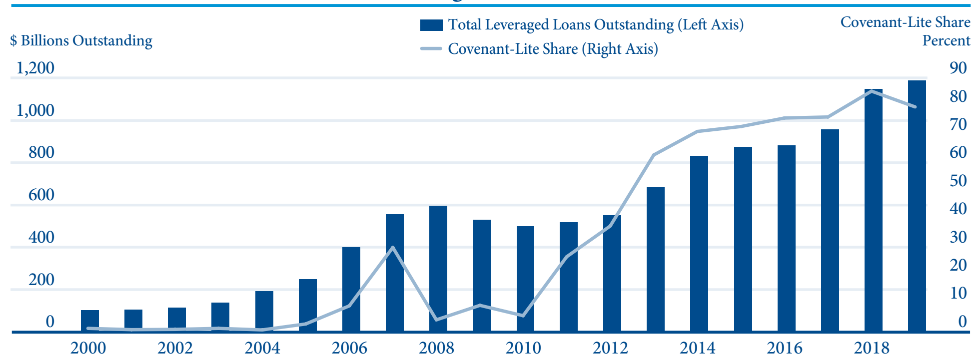
The growth in corporate debt has been partly driven by significant growth in leveraged lending. The leveraged loan market has grown dramatically over the past 20 years from about $100 billion outstanding in 2000 to almost $1.2 trillion in 2019 (Chart 3). Risks have also increased in this market. Leveraged loans are generally made to lower-rated corporate borrowers, which typically have high debt levels. They are frequently used to finance mergers and acquisitions, including leveraged buyouts. In addition, they generally carry floating interest rates, typically based on a spread over LIBOR, versus the fixed interest rates in most corporate bonds. Floating interest rates made them appealing to investors throughout 2017 and 2018 as the Federal Reserve accelerated the pace of interest rate increases. This increase in demand from nonbank investors with potentially greater tolerance for credit risk facilitated large increases in leveraged loan issuance, as well as deterioration in lender protections, which reached a record low in 2018, according to Moody's Investor Service.[7]

Traditionally, leveraged loans have included "maintenance covenants" that required the borrower to meet certain financial performance metrics to remain in compliance with their loan agreement. In the early 2000s, virtually all leveraged loans contained these covenants. In 2007, the share of leveraged loans lacking these covenants (called "covenant-lite" loans) rose sharply to 29 percent of new loans (Chart 3). The share of covenant-lite leveraged loans fell after the financial crisis, but increased sharply again, passed the previous record high in 2012, and reached 85 percent of new loans in 2018.[8]

Aside from covenants, other aspects of leveraged loan credit quality have deteriorated as well. Reported leverage for borrowers has risen significantly, with debt reaching 5.4 times earnings in the first half of 2019, up from 3.9 times in 2010. Actual leverage could be even higher, as the use of earnings "add-backs," which inflate earnings to account for future anticipated cost savings or revenue increases, has become more prevalent. In the first half of 2019, 43 percent of leveraged loan deals contained earnings add-backs, up from only 10 percent in 2010.

Chart 3

Outstanding U.S. Leveraged Loans Are Almost Double Their Pre-Crisis Level, and Covenant-Lite Share Is Near an All-Time High



Source: S&P Leveraged Commentary and Data.
Notes: Outstanding loan data cover loans included in the S&P/Loan Syndications and Trading Association Leveraged Loan Index and thus underestimate the full market. Covenant-lite share is of institutional leveraged loan issuance. Data are through July 2019.

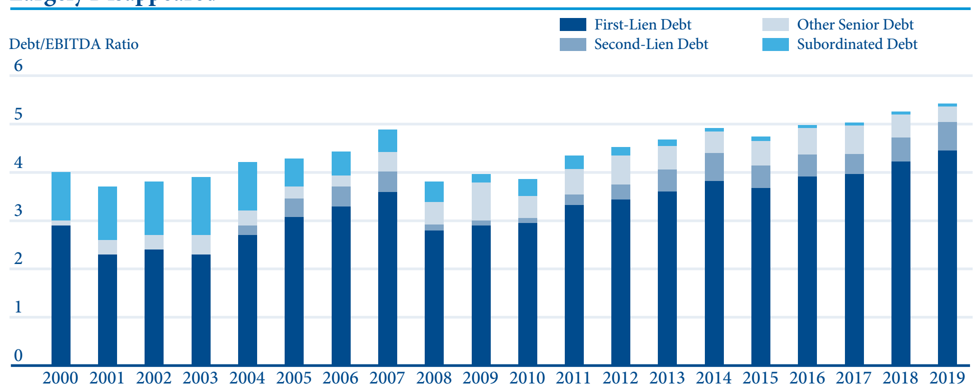
[7] Moody's Investor Service, "Leveraged Lending Risk Rising but Contained Barring Adverse Turn in Operating Conditions," February 20, 2019.
[8] S&P LCD.

The composition of borrower debt has deteriorated as well, with loss-absorbing subordinated debt declining significantly, leaving less protection for senior lenders (Chart 4).[9] Some borrowers have even been able to remove assets from the reach of creditors without violating the terms of their loans. All of these factors increase the risk to lenders in the leveraged loan market. Credit rating agency Moody's predicts that recovery rates on defaulted leveraged loans will be significantly lower during the next default cycle than they have been historically.[10]

Banks have increasingly used an originate-to-distribute model for leveraged loans, with the result that nonbank investors increasingly are the ultimate holders of these loans. In the mid-1990s, U.S. and foreign banks funded more than 70 percent of institutional leveraged loans. By the first half of 2019, they funded less than 11 percent (Chart 5).[11] Banks continued to fund the revolving credit "pro rata" portions of leveraged loans. Over the past 20 years those have become a smaller portion of total leveraged lending, with pro rata loans falling from 76 percent of leveraged loan issuance in 2000 to 30 percent in 2018.[11] The shrinking bank share of institutional leveraged loans was largely replaced with funding from collateralized loan obligations (CLOs) and loan mutual funds. CLOs are securitization vehicles that bundle leveraged loans and then sell debt tranches with varying levels of risk to investors.

Chart 4

Leverage in Leveraged Loans Is High, and Loss-Absorbing Subordinated Debt Has Largely Disappeared



Source: S&P Leveraged Commentary and Data.
Notes: EBITDA refers to earnings before interest, taxes, depreciation, and amortization. Data are through second quarter 2019.

[9] S&P LCD. Second-lien debt also provides loss-absorbing protection for first-lien debt, but growth in second-lien loans since the financial crisis has not been as large as the decline in subordinated debt.

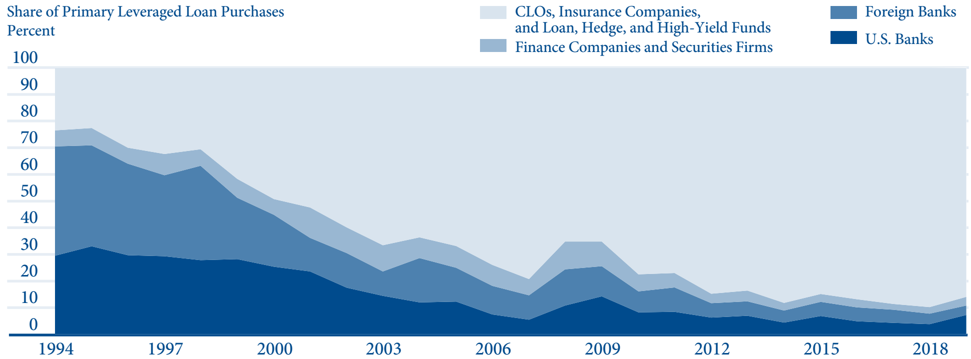
[10] Moody's Investor Service, "Convergence of Bonds and Loans Sets Stage for Worse Recoveries in the Next Downturn," August 8, 2018.

[11] S&P LCD.

[12] Revolving credits are lines of credit that the borrower can draw upon as needed. The term "pro rata" is simply a naming convention in the leveraged lending market. Data from LCD.

Chart 5

U.S. Bank Share of Primary Leveraged Loan Purchases Has Declined Significantly, Though Risk Exposure Remains



Source: S&P LCD.
Notes: Excludes revolving credit-only loans as well as left and right agent commitments (including administrative, syndication and documentation agent, and arranger). Data are through second quarter 2019.

Banks Still Face Exposure to Leveraged Loans

Bank exposure to leveraged loans includes their "pro rata" leveraged lending, holdings of CLOs, lending to CLO arrangers, and participation in leveraged loan syndication. Precise data on bank holdings of pro rata leveraged loans are not available, but data from the Federal Reserve's Enhanced Financial Accounts (EFA) provide insight. EFA data are not a perfect proxy for leveraged loans as they include a broader set of syndicated loans, not just those made to leveraged borrowers. However, these data can provide an estimate of the potential size of the pro rata lending market.[13] As of second quarter 2019, banks held about $2 trillion in revolving syndicated credit lines, of which $515 billion were drawn. Undrawn credit lines represent exposure for banks, as they can be drawn upon as borrowers encounter financial difficulties. Banks also held $443 billion in syndicated term loans, which would include institutional leveraged loans as well as pro rata term loans to leveraged borrowers and syndicated term loans to non-leveraged borrowers. This exposure has grown over the past decade (Chart 6). Nonbank financial institutions also provide revolving credit lines to syndicated loan borrowers. According to EFA data, nonbank financial institutions provided $893 billion in revolving credit lines, with $155 billion drawn upon.[14] Bank holdings of revolving and term loans to leveraged borrowers are a direct exposure to risk in the leveraged lending market.

Large banks also arrange the vast majority of leveraged loan issuances. In the first half of 2019, banks arranged 93 percent of U.S. leveraged loans, and the largest banks arranged more than 92 percent.[15] Arranging debt issuances provides banks with fee income but also exposes them to a degree of risk. When arranging leveraged loan issuances, banks face the possibility that market demand for the debt will contract, which could force the arranging bank to retain the debt on its books. This risk, known as "pipeline risk," caused challenges in the mortgage-backed securities and leveraged loan markets during the 2008 financial crisis.

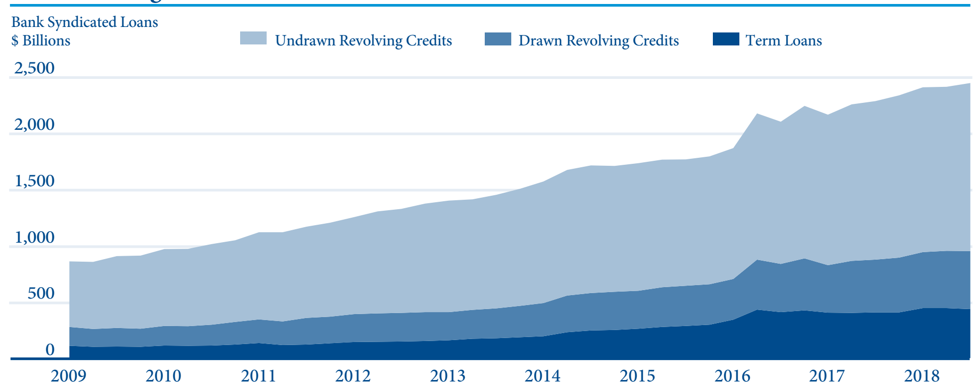
[13] Analyses based on EFA data and other data sources may differ from the results presented in this article because of differences in market coverage, leveraged loan definitions, and other factors.
[14] Federal Reserve Board.
[15] S&P LCD. The largest banks are defined as those listed by the Financial Stability Board as global systemically important banks. Share is by loan amount.

Banks have since improved their pipeline risk management, and the International Monetary Fund estimates that pipeline risk in leveraged loan arranging is only about a third of what it was before the financial crisis.[16] In addition, leveraged loans now typically contain "market flex pricing" provisions, which allow the arranger to adjust the loan terms to attract investor demand. Banks also face loss of the fee income they earn from arranging leveraged loan sales should demand for these products wane during periods of market turmoil.

Another source of exposure is bank ownership of tranches of CLOs containing leveraged loans. As of early 2019, the FDIC estimates that U.S. banks held about $95 billion in CLOs.[17] Bank CLO holdings are generally lower risk than direct leveraged loan holdings, since banks generally hold the safer, senior portions of CLOs.[18] Most of these CLO holdings are also concentrated in the largest banks; banks with at least $250 billion in assets account for 86 percent of estimated bank CLO holdings.[19] While banks primarily own the most senior tranches, they still could be affected by distress in the leveraged loan market. CLO market liquidity could decline during periods of corporate debt distress, exposing banks to market and liquidity risks. For example, while originally AAA-rated CLOs did not take credit losses during the financial crisis, many AAA-rated CLO tranches saw price declines of around 30 percent.[20] Banks also provide credit, in the form of warehouse lines of credit, to firms that arrange CLOs. CLO arrangers use warehouse lines of credit to purchase leveraged loans. However, this exposure appears to be fairly limited. The International Monetary Fund recently estimated total global CLO warehouse lines of credit to be only $20 billion, down from $200 billion in 2008.[21]

Chart 6

Bank Exposure to Syndicated Loans, Which Include Leveraged Loans, Is Significant and Increasing



Source: Federal Reserve Board Enhanced Financial Accounts data (Haver Analytics).
Note: Data are through second quarter 2019.

[16] International Monetary Fund, "Global Financial Stability Report," April 2019, https://www.imf.org/en/Publications/GFSR/Issues/2019/03/27/Global-Financial-Stability-Report-April-2019.
[17] Data from Quarterly Reports of Condition and Income (Call Reports). CLO holdings are approximated as the sum of the SCCIHA, SCCIAF, SCSCLNHA, SCSCLNAF, TRSCLN, and TRSCCI. Call Report data available on FDIC.gov. Data on CLO holdings are reported only by banks with $10 billion or more in assets, so this figure may underestimate total bank CLO holdings.
[18] Citi Research, "U.S. CLO 2018 Midyear Outlook," June 29, 2018.
[19] Call Report data.
[20] S&P Global Market Intelligence, "Those $700 billion in U.S. CLOs: Who Holds Them, What Risk They Pose," June 21, 2019; and Loan Syndications and Trading Association, "Risk Retention for CLOs," https://www.fdic.gov/regulations/laws/federal/2011/11c00ad74mem40-01.pdf.
[21] International Monetary Fund, "Global Financial Stability Report," April 2019.

Direct Bank Exposure to Increasing Risk in Corporate Bonds Is Limited

Depository institutions participate in corporate bond markets, but they provide only a small portion of the total funding. The vast majority of financing in corporate bond markets comes from nonbank institutional investors and investment funds. In second quarter 2019, U.S. commercial banks and savings institutions held only around $67 billion in corporate bonds compared with $11.5 trillion in total outstanding financial and nonfinancial U.S. corporate bonds.[22] Life insurance companies, mutual funds, pension funds, and non-U.S. individuals and entities, combined, hold more than $10.5 trillion in U.S. corporate bonds.[23] Banks increased their corporate bond holdings during the financial crisis, but their holdings as a share of total bonds has since fallen significantly, while the corporate bond market has grown (Chart 7).

An increase in risk in some areas has accompanied the growth in corporate bonds over the past decade. Most of the growth in corporate bonds since the financial crisis has been in lower-rated investment-grade borrowers and the highest-rated of the "high-yield" borrowers. The amount of BBB-rated bonds, the lowest investment-grade rating, almost quadrupled from the end of 2007 to late 2018, but the highest-rated AA and AAA bonds grew by only 12 percent in that period (Chart 8).[24] As of late 2018, the dollar volume of BBB-rated bonds made up 49 percent of the investment-grade bond market and was 2.5 times as large as that of the entire high-yield bond market. This presents risks to bond market borrowers and investors. If the rating agencies downgrade a significant portion of BBB-rated debt because of an economic slowdown or other factors affecting borrower creditworthiness, this would increase borrowing costs not only for the downgraded firms but potentially for other high-yield borrowers as well, as the much-smaller high-yield bond market struggles to absorb the additional supply of debt. Mutual funds and some other investors that are required to hold investment-grade bonds would be forced to sell downgraded bonds. This could exacerbate the effects of the downgrades. In 2018, about 45 percent of bonds held by U.S. investment-grade bond mutual funds were rated BBB.[25]

Chart 7

Bank Holdings of U.S. Corporate Bonds Have Fallen Substantially Since the Financial Crisis

Sources: Federal Reserve Board (Haver Analytics) and Federal Deposit Insurance Corporation.
Notes: Bank share is based on "other domestic debt securities" and may overestimate bank bond holdings. Data are through second quarter 2019.

[22] FDIC. This figure is for "other domestic debt securities," which could include securities other than corporate bonds and does not include U.S. bank holdings of foreign corporate bonds. Total foreign bond holdings (including all foreign bonds, not only corporate) for U.S. commercial banks and savings institutions totaled about $218 billion in second quarter 2019. Total outstanding bonds are from the Federal Reserve Board, "Financial Accounts of the United States."

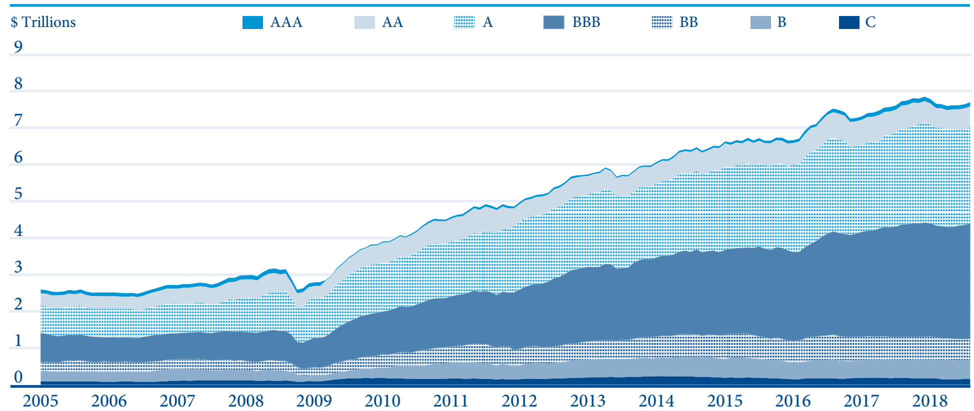
[23] This includes holdings of foreign bonds for all holders except non-U.S. individuals and entities, which cannot be separately determined from bonds issued by U.S. corporations. Total holdings of foreign bond issues by U.S. residents equaled $3.2 trillion in second quarter 2019.

[24] ICE Data Services. Bond rating data are through August 2018.

[25] Bank for International Settlements, *BIS Quarterly Review*, March 2019, https://www.bis.org/publ/qtrpdf/r_qt1903.htm.

Chart 8

BBB-Rated Bonds Have Grown Faster Than Other Bonds



Source: ICE Data Services.
Note: Data are through August 2018.

Macroeconomic Effects of Corporate Debt Distress Could Affect Other Types of Bank Loans

A potentially significant exposure of banks to corporate debt risks is through macroeconomic effects. In the event of corporate debt distress, firms may reduce investment and cut payrolls to continue servicing their debt. This would likely slow economic activity more broadly, potentially affecting noncorporate businesses such as small sole proprietorships and partnerships, as well as households.

Bank exposure to household and noncorporate business debt is more extensive than bank direct exposure to corporate debt. Bank lending to households and small noncorporate businesses include home mortgages, consumer loans, commercial mortgages, and business loans. In second quarter 2019, noncorporate U.S. businesses owed more than $1.4 trillion in loans from depository institutions, which exceeds the total of corporate bank loans. In addition, noncorporate businesses owed over $4.1 trillion in commercial mortgages, more than seven times the amount of corporate mortgages.[26] Were an economic slowdown to affect these noncorporate business borrowers' ability to pay their debts, banks could incur losses on those loans. A macroeconomic slowdown would potentially affect the ability of households and other non-business borrowers to service their debt, as distress in the business sector would likely have adverse effects on employment and household income, further increasing potential bank exposure.

High Corporate Profits and Low Interest Rates Should Aid Corporate Debt Servicing

While corporate debt levels are at an all-time high, the ability of corporations to service that debt is stronger than in the past. The extended period of historically low interest rates since the 2008 financial crisis has meant that from 2010 through at least early 2019, the rates corporations paid on their debt remained well below any other point between 1980 and the financial crisis.[27] These lower interest rates reduce corporate debt servicing costs. Additionally, the profits corporations have available to service their debt loads have increased substantially over the past two decades. Since the 1990–1991 recession, U.S. corporate after-tax profits as a share of GDP have reached a higher peak during each economic cycle than they reached in the previous one.

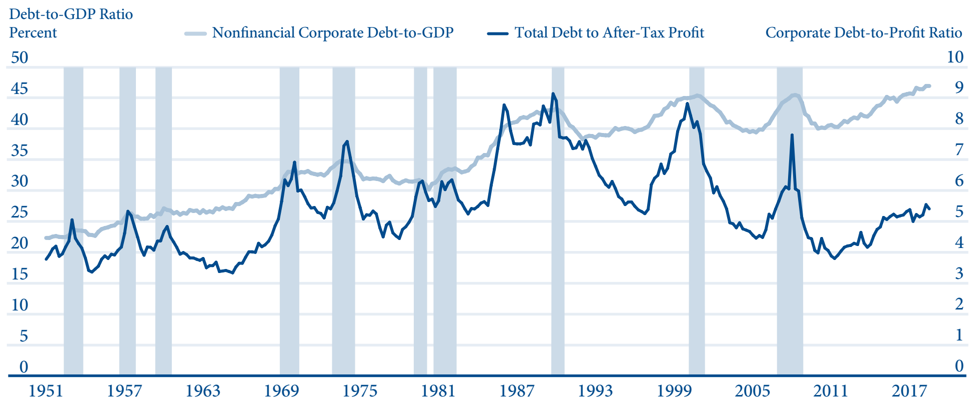
[26] Federal Reserve Board.

[27] U.S. Department of the Treasury, "The Treasury High Quality Market Corporate Bond Yield Curve," treasury.gov/resource-center/economic-policy/corp-bond-yield/Pages/Corp-Yield-Bond-Curve-Papers.aspx.

Corporate debt relative to profits has reached new lows during each expansion since 1990 (Chart 9).[28] In the 1990s, the corporate debt-to-profit ratio reached a low of 5.2. In the 2002–2007 economic expansion the corporate debt-to-profit ratio fell to 4.4. So far in the current economic cycle, which began after the 2008 financial crisis, the corporate debt-to-profit ratio has reached a new low of 3.8 and has averaged well below the average level from previous economic expansions, although it increased to 5.4 in second quarter 2019.[29] These higher profits can potentially support the higher debt loads corporations have accumulated since the financial crisis.

Chart 9

Corporate Profits Are Near All-Time Highs, Which Should Improve Debt-Servicing Capabilities



Sources: Federal Reserve Board and Bureau of Economic Analysis (Haver Analytics).
Notes: Recessions shaded. Data are through second quarter 2019.

Conclusion

Corporations have increased their debt significantly since the end of the financial crisis. Most of this lending has come not from banks but from capital markets in the form of corporate bonds and syndicated leveraged loans. This pattern of corporations receiving debt funding primarily through nonbank capital markets continues a long-term trend in corporate borrowing. Corporate debt has become riskier as lower-rated bonds have grown substantially and lender protections in leveraged loan markets have been reduced. Despite the concentration of corporate debt in nonbank credit markets, banks still face both direct and indirect exposure to corporate debt risks. Direct bank holdings of leveraged loans, pipeline risks in bond and leveraged loan issuance, and lending to nonbank financial firms expose banks to risks from corporate debt. Macroeconomic effects of corporate debt distress create indirect risks. As this distress affects the broader economy it can reduce the ability of noncorporate businesses and consumers to service their debt, a higher proportion of which is held by banks.

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[28] A lower debt-to-profit ratio means corporations have more profits available to service their debt.
[29] Federal Reserve Board and Bureau of Economic Analysis.

TRENDS IN MORTGAGE ORIGINATION AND SERVICING: Nonbanks in the Post-Crisis Period

Introduction

The mortgage market changed notably after the collapse of the U.S. housing market in 2007 and the financial crisis that followed. A substantive share of mortgage origination and servicing, and some of the risk associated with these activities, migrated outside of the banking system. Some risk remains with banks or could be transmitted to banks through other channels, including bank lending to nonbank mortgage lenders and servicers.[1] Changing mortgage market dynamics and new risks and uncertainties warrant investigation of potential implications for systemic risk.

This article covers trends in the volume of 1–4 family mortgages outstanding, migration of mortgages between market participants, and the drivers of these shifts. Next, the article discusses trends in residential mortgage origination and servicing from 2000 to early 2019 and discusses the landscape of the mortgage industry, key characteristics of nonbank originators and servicers, and the potential risks posed by nonbanks. Last, the article contemplates the implications that the migration of mortgage activities to nonbanks may have for banks and the financial system.

Trends in the Volume of and Competition for 1–4 Family Home Mortgage Loans

Mortgage originators and servicers have long competed for market share through innovations in capital markets, customer service, and funding and business structures, and in applying technology to make processes more efficient and cost-effective. The composition and the concentration of the dominant market participants have varied with developments in regulation, government intervention and guarantees, primary and secondary mortgage markets, securitization, technological innovation, dynamics in housing markets, financial markets, and the broader economy.

The share of 1–4 family mortgages outstanding held by banks has declined since the late 1970s as mortgages held by the government-sponsored enterprises (GSEs) and mortgages in agency- and GSE-backed mortgage pools became an increasingly dominant part of the U.S. mortgage market (Chart 1).[2] The share of mortgages outstanding held by banks declined from the 1970s through the 1990s and then leveled off near 24 percent in the past decade.[3] The bank share of mortgages held by non-GSE entities declined through 2007 to 46 percent, then rebounded to nearly 64 percent in 2019. This decline and recovery was largely driven by the rise and fall of private-label mortgage-backed securitization.[4] These historical shifts in outstanding mortgage volumes were largely driven by securitization trends and a robust secondary market for mortgages.[5]

Insolvency in thrifts in the early 1980s and the savings and loan crisis of the late 1980s contributed significantly to the decline in bank market share. These events in the 1980s ended the dominance of deposit-taking portfolio lenders in the mortgage markets, leaving mortgage lending largely to growing regional banks and a growing number of nonbanks.[6]

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[1] For this article, the financial crisis period is defined throughout as 2008 through 2009, corresponding roughly to the most acute phase of the financial crisis. The FDIC has referred to the broader banking crisis as extending through 2013. See FDIC, *Crisis and Response: An FDIC History, 2008–2013* (2017), https://www.fdic.gov/bank/historical/crisis/.

[2] Home equity loans and home equity lines of credit are included in 1–4 family mortgages outstanding.

[3] Board of Governors of the Federal Reserve System, "Z.1 Financial Accounts of the United States, Second Quarter 2019," https://www.federalreserve.gov/releases/z1/20190920/z1.pdf, L.218.

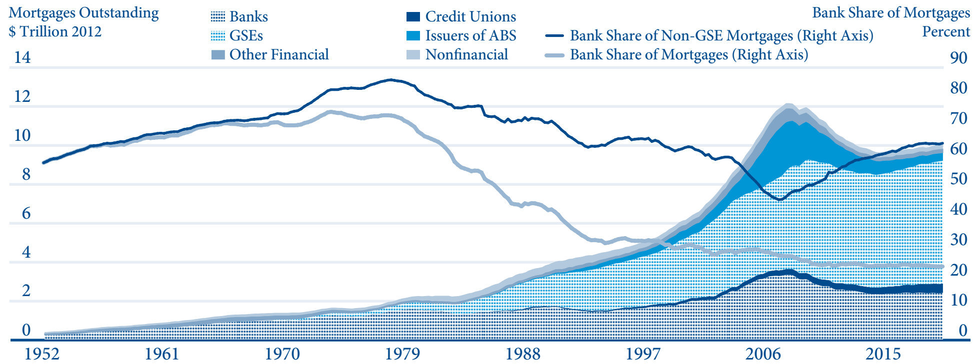
[4] Private-label issuance is 5.2 percent of all residential mortgage-backed securitization issuance, down from more than 50 percent in 2005 and 2006, and the 1995 to 2003 share of near 20 percent, according to the Urban Institute, "Housing Finance at a Glance," August 2019:12, https://www.urban.org/sites/default/files/publication/100866/august_chartbook_2019_0.pdf.

[5] According to the Urban Institute's July 2019 edition of "Housing Finance at a Glance," of all first-lien originations in first quarter 2019, 39.6 percent were GSE securitizations, 37.3 percent were portfolio originations, 20.2 percent were Federal Housing Administration (FHA) or Department of Veterans Affairs (VA) securitizations, and 2.9 percent were private-label securitizations. The percentage of private-label securitizations was the highest since 2007, but a small fraction of the private-label share in the years leading up to the crisis. https://www.urban.org/sites/default/files/publication/100723/july_chartbook_2019_1.pdf.

[6] Ben S. Bernanke, "Housing, Housing Finance, and Monetary Policy," speech at the Federal Reserve Bank of Kansas City Economic Symposium, Jackson Hole, Wyoming, August 31, 2007, https://www.federalreserve.gov/newsevents/speech/bernanke20070831a.htm; and Marshall Lux and Robert Greene, "What's Behind the Non-Bank Mortgage Boom?" Harvard Kennedy School, June 2015:5, https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/working.papers/42_Nonbank_Boom_Lux_Greene.pdf.

Chart 1

The Bank Share of 1–4 Family Mortgages Outstanding Declined Through the 1980s and Flattened in 2009



Source: Federal Reserve Flow of Funds (Haver Analytics).
Notes: Data as of June 2019. Dollar values are adjusted for inflation, expressed as trillions of chained 2012 dollars.
GSEs (government-sponsored enterprises) includes mortgages held by GSEs and mortgages held by agency- and GSE-backed mortgage pools.

Two types of entities originate and service mortgages: 1) banks and their affiliates and 2) nonbanks that are not part of or affiliated with depository institutions.[7] Banks have access to deposits and other borrowings for funding while nonbanks are financed through means other than deposits. Banks and nonbanks originate loans and either hold the loans on their balance sheets until maturity or securitize and sell the loans on the secondary market. The latter describes the originate-to-distribute model, which is the form of financing particularly prevalent among nonbank mortgage lenders.[8] Because they rely on the originate-to-distribute model, nonbank mortgage lenders are largely absent in measures of the holdings of mortgages outstanding in Chart 1, though they have been originating mortgages dating back to at least World War II.[9] The post-crisis shift in residential mortgage lending activity from banks to nonbanks has mostly involved originations and servicing rather than holdings of loans. In 2016, the volume of 1–4 family mortgages originated by nonbanks surpassed the volume originated by banks (Chart 2).

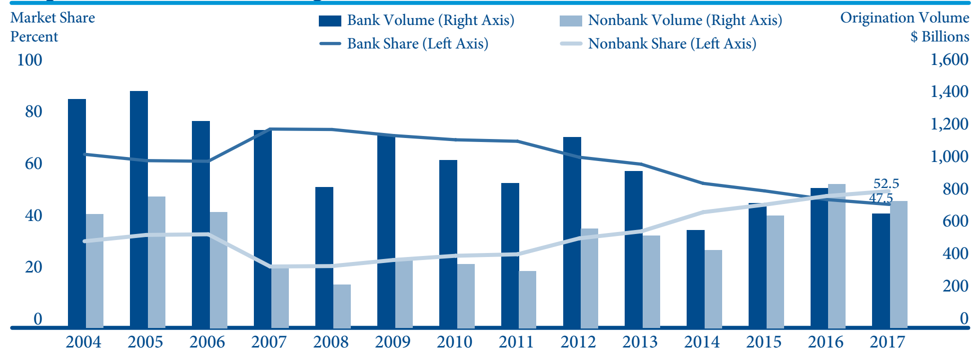
[7] Throughout this article, mortgage originators are generally classified as "bank" or "nonbank" using Home Mortgage Disclosure Act (HMDA) data. "Nonbanks" include all U.S. Department of Housing and Urban Development (HUD) reporters. "Banks" include banks, credit unions, and their affiliates. Any references to HMDA origination data includes single-family residential originations, defined as first-lien purchase or refinance loans secured by an owner-occupied, 1–4 family unit, site-built property. Mortgage servicers were categorized for this article using organization hierarchies published by the Federal Financial Institutions Examination Council National Information Center. For a given year, each entity identified in the Inside Mortgage Finance servicing rankings was located by name on the National Information Center website (https://www.ffiec.gov/npw) and an organization hierarchy for that year for that entity or that entity's parent holding company was searched. If the entity's organization hierarchy or the hierarchy of its parent holding company included a bank (depository institution), savings and loan association, or a credit union, the entity was categorized as a bank for that year. All other entities in that ranking year were categorized as nonbanks. Any references to Inside Mortgage Finance mortgage servicing data generally refer to the rankings of the top 25 mortgage servicing participants by total residential mortgages serviced. The Inside Mortgage Finance ranking includes entities that own mortgage servicing rights, but do not service loans directly, and some institutions that are subservicers only (firms that service mortgages on a contract basis).

[8] FDIC analysis of 2017 HMDA data indicates that through the first three quarters of 2017, banks sold nearly half of their 1–4 family originations in aggregate, while nonbanks sold more than 97 percent. In aggregate, nonbanks sold 34.1 percent to the GSEs, 20.8 percent into securitizations guaranteed by Ginnie Mae, and 42.7 percent to other entities. In aggregate, banks sold 27.2 percent to the GSEs, 7.2 percent into securitizations guaranteed by Ginnie Mae, and 19.0 percent to other entities. Disposition shares are based on originations from the first three quarters of 2017, to correct for censoring. "Other" dispositions include sales to commercial banks, mortgage banks, life insurance companies, affiliated institutions, and into private-label securities.

[9] According to Bernanke's "Housing, Housing Finance, and Monetary Policy," following World War II, the mortgage market took on the form that would last several decades. The market consisted of two main sectors. The first sector consisted of savings and loan associations, mutual savings banks, and, to a lesser extent, commercial banks, primarily financed by short-term deposits. These institutions made conventional fixed-rate long-term loans to homebuyers. Notably, federal and state regulations limited geographical diversification for these lenders. Largely the product of New Deal programs established in the 1930s, the second sector included private mortgage brokers and other lenders that largely originated standardized loans backed by the FHA and the VA. These guaranteed loans could be held in portfolio or sold to institutional investors through a nationwide secondary market.

Chart 2

Strong Post-Crisis Growth in Nonbank Mortgage Originations Enabled Nonbanks to Surpass the Bank Share of Originations Since 2016



Source: FDIC analysis of Home Mortgage Disclosure Act data.
Notes: Nonbanks include all Department of Housing and Urban Development reporters. Banks also include credit unions and their affiliates. Data are limited to single-family residential mortgage originations, defined as first-lien purchase or refinance loans secured by an owner-occupied, 1–4 family unit, site-built property.

Mortgage Origination and Servicing Trends in Banks and Nonbanks During the Pre- and Post-Crisis Period

The period from 2000 to 2008 was characterized by a rapid expansion followed by a sudden contraction in mortgage origination with large shifts in the participants in and composition of the mortgage market. In the pre-crisis period, home prices rose rapidly and the volume of 1–4 family mortgage originations grew to nearly $2.3 trillion in 2005, for which nonbanks originated just more than one-third (Chart 2).[10] Fueled by investor demand, the share of originations sold into private-label securitizations grew rapidly. Lenders that reached aggressively for growth used less stringent lending practices and underwriting standards, causing a rapid rise in risk.[11] These lenders increasingly offered loans with limited or no documentation of the consumer's income or assets, negative amortization, interest-only payments, and adjustable rates with low initial monthly payments and subsequent payment reset.[12]

Nonbanks and banks, particularly the largest banks and their affiliates, grew their mortgage originations at an unprecedented rate through 2005 before home prices peaked and mortgage delinquencies accelerated. With the onset of the housing crisis, nonbank originators faced funding strains. Dependence on credit to finance both mortgage origination and the costs of mortgages in default made nonbanks particularly vulnerable as banks either cancelled existing lines of credit or became unwilling or less willing to extend new lines. The slowdown in securitization markets made it difficult for nonbanks to move loan originations off the warehouse lines and to obtain financing.[13] Nonbanks yielded 12.4 percent of their market share of originations to banks between 2006 and 2007 and nonbank failures accelerated.[14]

[10] The pre-crisis period is defined throughout this article as 2000 through the start of the recession in December 2007, though the onset of the housing crisis preceded the onset of the recession.
[11] Urban Institute, "Housing Finance at a Glance," July 2019:8, https://www.urban.org/sites/default/files/publication/100723/july_chartbook_2019_1.pdf.
[12] Consumer Financial Protection Bureau, "Ability-to-Repay and Qualified Mortgage Rule Assessment Report," January 2019:9, https://files.consumerfinance.gov/f/documents/cfpb_ability-to-repay-qualified-mortgage_assessment-report.pdf.
[13] You Suk Kim, Richard Stanton, Steven M. Laufer, Nancy Wallace, and Karen Pence, "Liquidity Crises in the Mortgage Market," Brookings Papers on Economic Activity, March 8, 2018:348–349, 366, https://www.brookings.edu/wp-content/uploads/2018/03/5_kimetal.pdf.
[14] A number of nonbanks failed in 2007 and did not report HMDA data for 2007. Consequently, the volume of nonbank originations for 2007 may be understated.

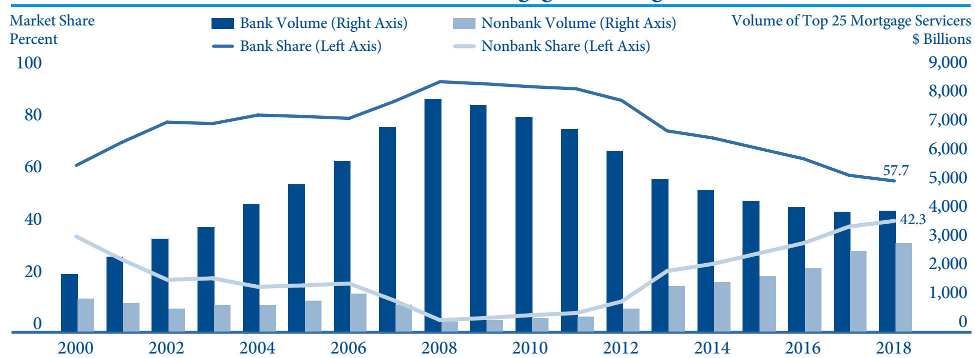
Through 2009, as mortgage delinquencies and defaults accelerated and securitization markets were strained, many banks and nonbanks with mortgage businesses could not offload originations to third parties and were instead left with large quantities of relatively inferior quality mortgage loans on their books.[15] During this period, many bank and nonbank lenders failed, faced bankruptcy, or merged with other lenders. Between 2005 and 2009, the number of banks reporting HMDA data declined by 3.7 percent while the number of nonbank reporters declined by 32.6 percent. The volume of 1–4 family mortgage originations declined from $1.6 trillion in 2007 to $1.1 trillion in 2008, but rose to $1.6 trillion in 2009.

After the financial crisis, demand has generally outpaced supply in the housing market and home price appreciation has exceeded income growth. An extended period of low interest rates boosted refinancing activity, while a decline in the inventory of existing homes for sale and moderate levels of new home construction restricted supply and increased home prices, which tempered growth in home sales.[16] After a prolonged period of low interest rates, mortgage rates climbed in 2013 and again in 2016, further reducing affordability of purchase loans and the appeal of refinancing.[17] The resulting decline in refinancing activity served as a major impediment to the refinancing-focused business models of some lenders. Nearly 40 percent of the origination activity of both banks and nonbanks is refinancing, and some of the largest nonbanks depend particularly on revenue from refinancings.[18] Overall, origination volume post-crisis has been low compared with pre-crisis.

Nonbank originators and servicers gained significant market share post-crisis. Nonbanks accounted for 52.5 percent of the volume of 1–4 family mortgages originated in 2017, up significantly from the financial crisis-era low of 23.5 percent in 2007 (Chart 2). Nonbank mortgage servicers also continue to gain significant market share (Chart 3). Among the top 25 servicers in 2018, nonbanks serviced 42.3 percent of mortgages, up from 4.0 percent in 2008. Overall servicing volume reached $10.9 trillion in 2018, down slightly from the peak of $11.2 trillion in 2007 but more than double the $5.1 trillion reported in 2000.[19]

Chart 3

Nonbanks Continue to Gain Market Share of Mortgage Servicing in the Post-Crisis Period



Source: FDIC analysis of Inside Mortgage Finance data.

Notes: Includes top 25 servicers by volume. Ranking includes entities that own mortgage servicing rights but do not service loans directly and some institutions that subservice only. Bank and nonbank classifications were performed using National Information Center organization hierarchies. Nonbanks include entities that are not insured depository institutions (IDIs) and that are not affiliated with IDIs (not a subsidiary or parent of an IDI and not a subsidiary or parent of a holding company that is parent to one or more IDI subsidiaries).

[15] Amiyatosh Purnanandam, "Originate-to-Distribute Model and the Subprime Mortgage Crisis," FDIC, August 9, 2010:2, https://www.fdic.gov/bank/analytical/cfr/2010/wp2010/2010-08.pdf.

[16] Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing 2018," Harvard Kennedy School:3–12, https://www.jchs.harvard.edu/sites/default/files/Harvard_JCHS_State_of_the_Nations_Housing_2018.pdf.

[17] Freddie Mac, Primary Mortgage Market Survey, http://www.freddiemac.com/pmms/.

[18] According to 2017 HMDA aggregate data, both banks and nonbanks reported nearly 36 percent of origination volume in refinance. However, the top seven nonbank lenders reported 51 percent of volume in refinance loans. The top two nonbank lenders specialize in refinance.

[19] Inside Mortgage Finance data compiled by the FDIC and servicing rankings are based on total residential mortgages serviced. The Inside Mortgage Finance ranking includes entities that own mortgage servicing rights, but do not service loans directly, and some institutions that subservice only. See footnote 7 for details.

The Shift in Mortgage Origination and Servicing to Nonbanks

In the financial crisis, many nonbanks, especially the largest, experienced significant funding strains and scaled back origination and servicing or left the business. Nearly all of the largest nonbank mortgage originators and servicers today were new to the market or quickly accumulated market share post-crisis, while many banks among the largest mortgage originators and servicers today also ranked among the largest before the financial crisis.

A sizeable share of the banks most active in mortgage origination and servicing before the financial crisis remained active in these markets after the crisis. The market share of many of these banks has diminished marginally, yet not enough for these banks to fall from the top rankings. Conversely, many of the nonbanks most active in the market today were inactive before and during the financial crisis, or had smaller operations that they built upon post-crisis.

The strong resurgence of nonbanks in mortgage origination and servicing post-crisis has largely been attributed to:

- litigation on crisis-era legacy portfolios at the largest bank originators
- more aggressive expansion by nonbanks
- mortgage-focused business models and technological innovation of nonbanks
- large bank sales of crisis-era legacy servicing portfolios because of servicing deficiencies and difficulties revealed in the financial crisis
- changes to the capital treatment of mortgage servicing assets (MSAs) applicable to banks.

Explanations for the shift in mortgage origination activity to nonbanks. Many of the largest banks that engaged in mortgage origination pre-crisis and survived the crisis faced post-crisis litigation for crisis-era legacy portfolios, particularly for Federal Housing Administration (FHA)-insured originations. This litigation and the associated fines and legal fees reduced the profitability of these large banks and may have served as deterrents to post-crisis mortgage origination, particularly of FHA-insured loans. Of particular concern to a mortgage originator is "put-back risk"—the risk that the originator will be asked to repurchase loans.[20]

As indicated by the shifts in the rankings of top originators, post-crisis nonbank mortgage originators generally did not have the same legacy exposure as these large banks, as many of these nonbanks were established in the post-crisis period or had limited operations leading up to the crisis. Nonbanks have increased their market share in origination of loans with mortgage insurance or other guarantees from federal government agencies (government loans), and often sell these loans into mortgage-backed securities (MBS) guaranteed by Ginnie Mae.[21]

Many nonbanks expanded operations more aggressively than did banks after the crisis, partially in response to the thriving refinancing market that resulted from low interest rates.[22] Some of the largest nonbanks that emerged in this period focused their business models on refinancing, which is particularly rate-sensitive, though in aggregate both banks and nonbanks report a similar share of refinance activity.

[20] Lux and Greene:17.

[21] Government loans include loans with mortgage insurance or other guarantees from federal government agencies, including the FHA, VA, and the U.S. Department of Agriculture (USDA) Farm Service Agency and Rural Housing Service.

[22] "Recent Trends in the Enterprises' Purchases of Mortgages From Smaller Lenders and Nonbank Mortgage Companies," Office of the Inspector General of the Federal Housing Finance Agency (FHFA), July 2014:17, https://www.fhfaoig.gov/Content/Files/EVL-2014-010_0.pdf.

Nonbank mortgage originators have generally focused on mortgage lending, while banks generally have multiple business lines and can shift resources in response to changes in profitability and in the housing market. Most nonbanks focus on mortgage lending and generally have fewer business lines. When faced with outsized losses, going out of business is a more viable option for nonbanks, as demonstrated through the financial crisis.[23]

Nonbank specialization in mortgage lending may also place banks at a disadvantage in the development and application of technology to streamline, automate, and reduce the expense of the origination process, allowing some nonbanks to reach more aggressively for market share.[24]

Explanations for the shift in mortgage servicing activity to nonbanks. The post-crisis increase in nonbank market share of servicing has largely been attributed to large bank sales of crisis-era legacy servicing portfolios and the increase in mortgage origination activity among nonbanks. Nonbanks boosted their mortgage servicing market share largely through bulk purchases of the rights to service portfolios of nonperforming loans originally held by banks. In 2013 alone, nonbank servicers purchased from banks in bulk sales the servicing rights to more than $500 billion in mortgages.[25]

The difficulties banks faced managing portfolios of nonperforming loans during the financial crisis seem to have played a key role in the growth of the post-crisis nonbank servicer sector. Fines, legal fees, and other heightened expenses associated with litigation and with the nonperformance of loans in crisis-era servicing portfolios negatively affected profitability at some banks and may have deterred growth in servicing portfolios after the crisis.[26]

Nonbanks have increased their servicing business, in part because many were not as active in pre-crisis servicing and did not have large crisis-era legacy portfolios of their own to deal with. While the cost to service performing and nonperforming loans has significantly increased post-crisis (Chart 4), nonbanks may have cost advantages over banks in servicing nonperforming loans, thanks to specialization and the use of technology.[27] These specialty servicers also received support from Fannie Mae's High-Touch Servicing Program, which facilitated the transfer of nonperforming loans from banks to specialty servicers.[28]

In 2013, the federal banking agencies issued a revised capital rule for banking institutions that, among other things, established standards to improve the quality and increase the quantity of regulatory capital. The revised capital rule tightened the limits on the amount of MSAs that could be included in regulatory capital and assigned higher-risk weights to MSAs included in regulatory capital.[29] A 2016 study by the federal banking agencies concluded that

[23] Kim et al.:356.

[24] Andreas Fuster, Matthew Plosser, Philipp Schnabl, and James Vickery, "The Role of Technology in Mortgage Lending," Federal Reserve Bank of New York Staff Report No. 836, February 2018:1, 49, https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr836.pdf; Tom Finnegan, "The Large Bank Mortgage Banking Profitability Conundrum," Stratmor Group, June 2019, https://www.stratmorgroup.com/insights_article/the-large-bank-mortgage-banking-profitability-conundrum/.

[25] FDIC, the Federal Reserve Board (FRB), Office of the Comptroller of the Currency (OCC), National Credit Union Administration (NCUA), "Report to the Congress on the Effect of Capital Rules on Mortgage Servicing Assets," June 2016:23–25, https://www.federalreserve.gov/publications/other-reports/files/effect-capital-rules-mortgage-servicing-assets-201606.pdf.

[26] FDIC, FRB, OCC, NCUA:23–25.

[27] Servicing costs can vary from servicer to servicer depending on the share of delinquent loans in portfolio, the share of these loans in judicial versus non-judicial foreclosure states, the share of conventional loans versus government loans, and overall servicer efficiency. Lux and Greene:26.

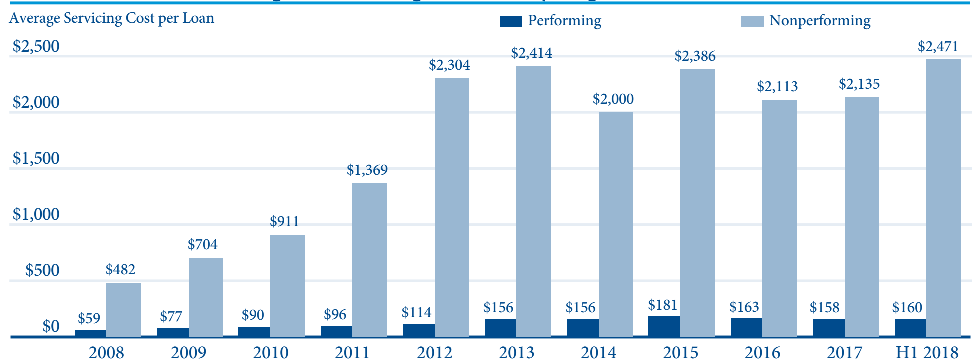
[28] "Evaluation of FHFA's Oversight of Fannie Mae's Transfer of Mortgage Servicing Rights From Bank of America to High-Touch Servicers," EVL-2012-008, FHFA Office of Inspector General, 2012, https://www.fhfaoig.gov/Content/Files/EVL-2012-008.pdf.

[29] While servicing is inherent in all mortgage loans, a mortgage servicing right (MSR) is created only when the act of servicing is contractually separated from the underlying loan. MSR represents the right to service mortgage loans and receive servicing fees. It is the present value of the net fee that servicers earn for servicing mortgages and advancing payments to investors. A firm, for example, that originates a mortgage, sells it to a third party, and retains the servicing would report an MSA on its balance sheet, if certain conditions are met. That MSA therefore would be subject to a capital requirement. Conversely, a firm would not report an MSA if the firm originates a mortgage, holds the mortgage on its balance sheet, and performs the servicing.

for larger banks, economic incentives to avoid the regulatory capital deduction is likely one factor influencing the size and distribution of MSAs. The report said that large aggregator banks reduced their purchases of loans and servicing rights from smaller banks after the financial crisis, likely in part a result of the revised capital treatment of MSAs.[30] The report also noted that most small banks either do not have MSAs or have them in small enough amounts that they would not be subject to capital deductions.[31]

Chart 4

Since 2008, the Cost of Servicing a Nonperforming Loan Increased More Than Fivefold, While the Cost of Servicing a Performing Loan Nearly Tripled



Source: Mortgage Bankers Association Servicing Operations Study and Forum.
Notes: 2018 data are through the first half of the year. Figures include servicing costs associated with single-family residential mortgages. Nonperforming loans are either delinquent or in default. Performing loans are loans for which the borrower is not behind on payments.

Characteristics of the Post-Crisis Generation of Nonbank Mortgage Lenders and Servicers

The nonbanks that top the rankings of mortgage originators and servicers post-crisis share certain similarities with pre-crisis nonbanks, many of which faltered in the crisis. Nonbank business models can vary significantly. Some nonbanks originate mortgages and retain the servicing. Others originate mortgages but do not retain the servicing. The nonbanks that originate mortgages typically obtain funding from warehouse lines of credit extended by banks. These nonbanks typically apply the originate-to-distribute model, selling originations into securitizations most often guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae. Nonbanks are also increasingly funding origination through cash sales to Fannie Mae and Freddie Mac. Other nonbanks are mortgage servicing rights (MSR) investors that purchase MSRs and outsource the servicing to another firm, called a subservicer. Some nonbanks are subservicers and provide servicing functions as third-party vendors.[32]

Nonbank and bank risk characteristics differ markedly. Nonbanks rely on external short-term credit and narrowly focused lines of business in mortgage origination or servicing, which may pose risks to the banking industry and the financial system. Short-term credit can become more expensive and less accessible when financial market conditions tighten. Nonbank originators rely on warehouse lines of credit, which is short-term funding primarily provided by banks.[33] Banks and their affiliates typically fund their mortgage origination with deposits or other borrowings.

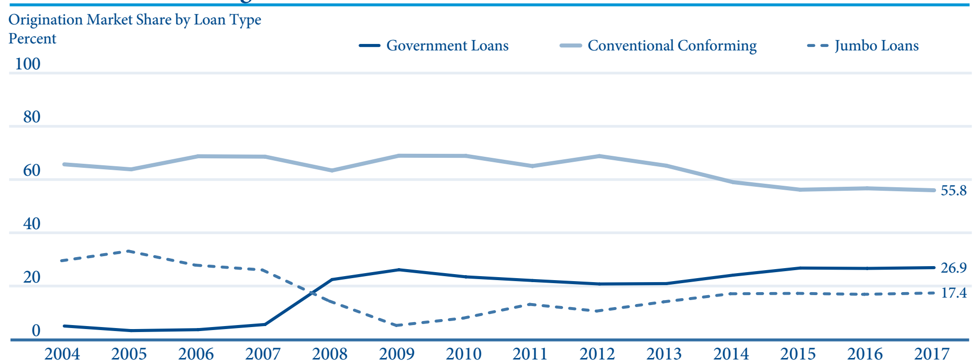
[30] FDIC, FRB, OCC, NCUA:29–31.
[31] FDIC, FRB, OCC, NCUA:2.
[32] "Reengineering Nonbank Supervision," The Conference of State Bank Supervisors, 2019, https://www.csbs.org/sites/default/files/chapter_one_-_introduction_to_the_nonbank_industry_cover_footer_1_v2.pdf.
[33] Kim et al.:357–358.

The federal government now backs a majority of new mortgages either directly at origination through the FHA, the U.S. Department of Veterans Affairs (VA), or the USDA, or indirectly in securitization through Ginnie Mae or through the GSEs, including Fannie Mae and Freddie Mac. Nonbanks now originate a majority of these mortgages.

The composition of 1–4 family mortgage originations shifted significantly in the financial crisis. Government loans grew from 5.0 percent of originations in 2004 to 26.9 percent in 2017 (Chart 5). Jumbo loans declined from 29.5 percent in 2004 to 17.4 percent in 2017. Conventional, conforming, single-family originations declined from 65.5 percent to 55.8 percent in the same period, but remain the dominant type of origination.

Chart 5

The Composition of 1–4 Family Mortgage Originations Shifted Significantly Through the Crisis, as Government Lending Gained Market Share

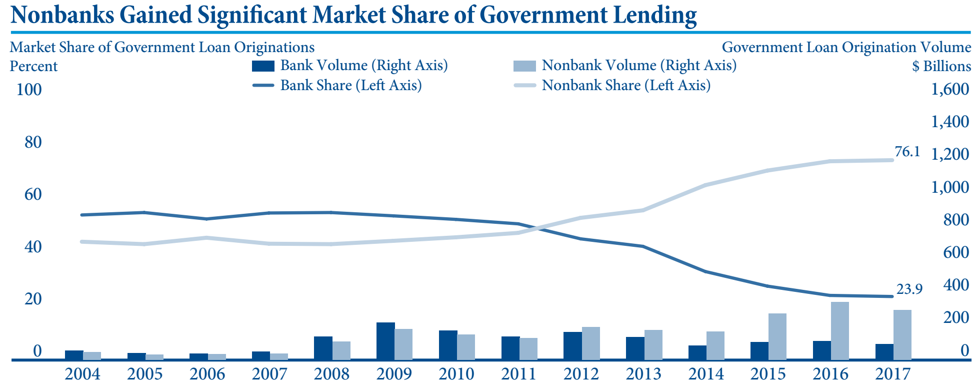


Source: FDIC analysis of Home Mortgage Disclosure Act data.
Note: Data are limited to single-family residential mortgage originations, defined as first-lien purchase or refinance loans secured by an owner-occupied, 1–4 family unit, site-built property.

Nonbank market share of government lending rose from 44.9 percent in 2004 to 76.1 percent in 2017 (Chart 6). Nonbank market share in the largest segment of single-family mortgage lending—originating new conventional, conforming loans—rose from 34.7 percent 2004 to 52.0 percent in 2017 (Chart 7). Banks have held their ground in jumbo loans, which have loan amounts exceeding the size limit for eligibility for purchase by the GSEs. Nonbanks originated 17.7 percent of jumbo loans in 2017, down from 27.3 percent in 2004 (Chart 8).

Chart 6

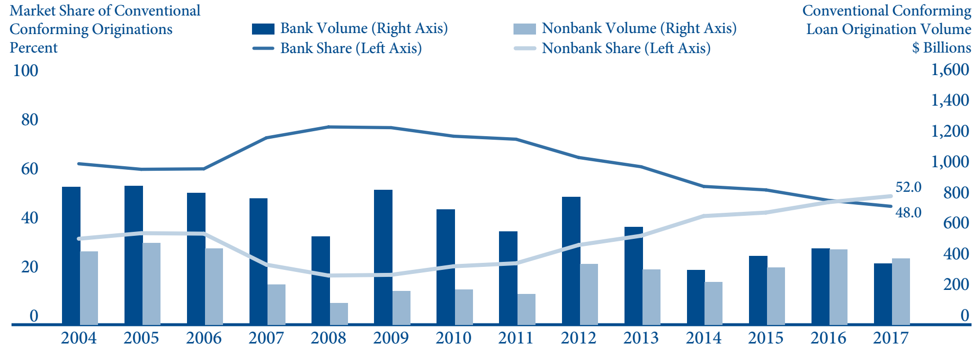
Nonbanks Gained Significant Market Share of Government Lending



Source: FDIC analysis of Home Mortgage Disclosure Act data.
Notes: Nonbanks include all Department of Housing and Urban Development reporters. Banks include banks, credit unions, and their affiliates. Data are limited to single-family residential mortgage originations, defined as first-lien purchase or refinance loans secured by an owner-occupied, 1–4 family unit, site-built property. Government loans consist of loans with insurance or other guarantees from the Federal Housing Administration, the U.S. Department of Veterans Affairs, and the U.S. Department of Agriculture.

Chart 7

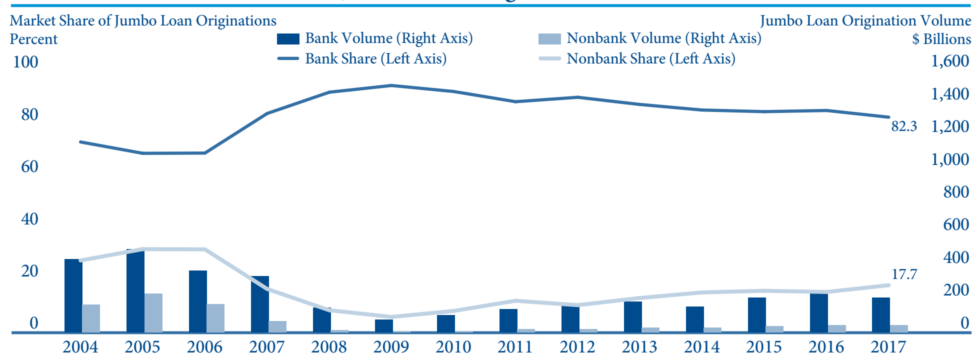
Nonbanks Gained Market Share of Conventional Conforming Originations



Source: FDIC analysis of Home Mortgage Disclosure Act data.
Notes: Nonbanks include all Department of Housing and Urban Development reporters. Banks include banks, credit unions, and their affiliates. Data are limited to single-family residential mortgage originations, defined as first-lien purchase or refinance loans secured by an owner-occupied, 1–4 family unit, site-built property. Conventional conforming loans conform to maximum loan amounts set by the government along with other rules and limits set by Fannie Mae or Freddie Mac.

Chart 8

Banks Retained Market Share of Jumbo Loan Originations



Source: FDIC analysis of Home Mortgage Disclosure Act data.
Notes: Nonbanks include all Department of Housing and Urban Development reporters. Banks include banks, credit unions, and their affiliates. Data are limited to single-family residential mortgage originations, defined as first-lien purchase or refinance loans secured by an owner-occupied, 1–4 family unit, site-built property. Jumbo loans have loan amounts in excess of the single-family conforming loan-size limits for eligibility for purchase by the government-sponsored enterprises.

Government loans consist of originations with mortgage insurance or other guarantees from federal government agencies (FHA, VA, and USDA) and are generally eligible to be pooled into MBS guaranteed by Ginnie Mae. A conventional mortgage is a loan that is not insured by the FHA, VA, or USDA. A conforming mortgage is one that meets GSE funding criteria and conforms to maximum loan amounts set by the government and to other rules and limits set by Fannie Mae or Freddie Mac, and is therefore eligible for purchase and securitization by either entity. Mortgages that do not conform to the GSE standards, such as jumbo loans, are called nonconforming loans. Other financial institutions without explicit or implicit government support, including both banks and nonbanks, also issue MBS, known as private-label MBS (PLMBS). Nonconforming loans often make up the majority of the pools underlying PLMBS.[34]

[34] N. Eric Weiss and Katie Jones, "An Overview of the Housing Finance System in the United States," Congressional Research Service, January 2017:5–8, https://fas.org/sgp/crs/misc/R42995.pdf.

Nearly all securitization now occurs through entities with government support, like the GSEs and Ginnie Mae. The private-label market that surged before the financial crisis has yet to regain much volume. Of all first-lien originations in first quarter 2019, 37.3 percent were portfolio originations (not securitized), 39.6 percent were securitized by the GSEs, 20.2 percent were sold into securitizations guaranteed by Ginnie Mae, and 2.9 percent were PLMBS (the highest since 2007, yet a small fraction of the private-label share in the years leading to the crisis).[35] In the post-crisis period, most loans that are securitized through the GSEs or pooled into securitizations guaranteed by Ginnie Mae are originated by nonbanks. As of June 2019, nonbanks originated 85 percent of all loans sold into securitizations guaranteed by Ginnie Mae, 53 percent of loans sold to Freddie Mac, and 60 percent of loans sold to Fannie Mae. In 2013, the nonbank share for each was below 40 percent.[36]

Nonbanks facilitate access to mortgage credit for a broad range of borrowers and have played a key role in opening up access to credit. As banks, particularly the largest banks, have largely pulled back from government lending, and to a lesser extent, conventional conforming lending, nonbanks have stepped up originations in the FHA market, especially where the borrowers are disproportionately either first-time borrowers or borrowers with lower credit scores and higher debt-to-income (DTI) ratios.

Banks generally have more conservative mortgage underwriting practices than nonbanks, as nonbanks gain market share in government and conventional conforming lending. As of June 2019, the median credit score was roughly 25 points lower on nonbank loans than bank loans in securitizations guaranteed by Ginnie Mae and 4 points lower on nonbank loans than bank loans sold to the GSEs. The median loan-to-value (LTV) for nonbank and bank originations are comparable, while the median DTI for nonbank loans is higher, indicating that nonbanks are more accommodating in DTIs and with credit scores. DTIs rose across the board in 2017 given rising interest rates, as borrower payments were driven up relative to incomes. The reduction in refinance volumes in the rising rate environment made lenders more competitive for loans to purchase homes and, therefore, apt to work hard to secure a loan approval for a wide range of borrowers, another factor that contributed to the rise in DTIs. However, with the decline in interest rates in 2019, DTIs have come down measurably, more so for banks.[37]

The Federal Housing Finance Agency (FHFA) and the GSEs have relaxed several underwriting standards for conforming loans since late 2014. Fannie Mae began accepting mortgages with LTV ratios of up to 97 percent in 2014 and Freddie Mac followed in 2015. Fannie Mae raised its DTI limit from 45 to 50 percent in 2017 and replaced a requirement for compensating factors with standards to reduce risk layering.[38] The GSEs also eliminated first-time homebuyer requirements for certain mortgage programs, removed income and geographic limitations, allowed non-borrower income to be included in the DTI calculation, and extended flexibility in evaluating borrowers with student debt.[39] This relaxation in underwriting standards for conforming loans affects credit risk in mortgage markets. And more risk layering has been noted, particularly in government loans and for first-time home purchase mortgages.[40]

[35] Urban Institute:8.

[36] Urban Institute:11.

[37] Urban Institute:17–18.

[38] Archana Pradhan, "Underwriting Loosening for Conventional Conforming Loans," CoreLogic Insights Blog, June 4, 2018, https://www.corelogic.com/blog/2018/06/underwriting-loosening-for-conventional-conforming-loans.aspx.

[39] Select standards apply to certain lending programs offered by Fannie Mae and Freddie Mac post-crisis, including Home Possible Mortgage and HomeOne from Freddie Mac and HomeReady from Fannie Mae.

[40] Risk layering refers to loans with some combination of multiple risk characteristics such as low credit scores, high DTIs, and high LTVs.

Some post-crisis nonbanks rely on technological innovation to improve efficiency. Technology plays an increasingly prominent role in facilitating access to mortgage credit, and some of the largest nonbank mortgage lenders are at the forefront in applying technology to streamline and automate the mortgage origination process. Nonbank mortgage servicers are also more technologically advanced than most bank competitors.[41]

Large banks have a significant disadvantage in mortgage origination expenses. Costs for corporate administration are on average three times higher for large banks than for large nonbanks because of 1) overhead administrative expenses that generally do not affect nonbanks and 2) the difficulty large banks reportedly face in providing efficient technology support for the mortgage origination business. Higher expenses and lower revenues meant large banks significantly lagged nonbank competitors in profitability on retail residential mortgages. According to the review by the Stratmore Group (see note 24), large banks lost $4,803 per retail mortgage loan originated in 2018 compared to large nonbank lenders, which earned $376 per loan, on average.[42]

The technical expertise and innovation of many nonbank servicers is said to have helped them to be leaders in customer experience and process efficiency. And nonbanks reportedly have lowered delinquency and default rates by using technology to educate borrowers, streamline processes, and make loan modification processes efficient and effective.[43]

Risks Posed by Post-Crisis Generation of Nonbank Originators and Servicers

While post-crisis nonbank originators and servicers have gained market share over banks in mortgage origination and servicing, competitive pressures have increased a number of risks. The sections that follow summarize the key risks posed by nonbank originators and servicers.

The nonbank structure is vulnerable to liquidity and funding risks. The new post-crisis generation of nonbanks seem vulnerable to liquidity pressures similar to those that nonbanks were subjected to during the financial crisis. Nonbanks depend on short-term credit, particularly warehouse lines of credit provided by banks.[44] This funding can become more expensive and less accessible when financial market conditions tighten, and this tightening alone can cause the nonbank to go out of business. In times of stress, warehouse lenders face strong incentives to cancel lines of credit and seize collateral as quickly as possible.[45]

When a nonbank draws on a line of credit to fund a mortgage, the nonbank transfers the mortgage to the bank warehouse lender to collateralize this draw on the line. The nonbank then finds investors for the mortgage, typically either the GSEs or Ginnie Mae investors, though investors in PLMBS made up a large part of the market pre-crisis. Once the mortgage is sold, the proceeds are paid to the bank, the bank releases the mortgage to the securitization vehicle, and the warehouse lender then pays down the dollar value of the draw to the nonbank's line of credit.[46]

[41] Lux and Greene:27–28.

[42] Finnegan, June 2019. The review also found that large bank revenue per loan was on average $1,712 lower than at large nonbanks, reflecting the lack of a robust secondary market and a competitive pricing environment for jumbo loans. The review noted that the servicing function, which produced modest profits for most of the large banks in 2018, offset origination losses to some extent. The report was based on a review of more than 100 lenders.

[43] Lux and Greene:28, and Fuster et al.:2, 15–16.

[44] According to Kim et al., (2018), while banks may allow nonbanks to finance servicing advances as part of the warehouse lines of credit primarily used for funding loan originations, nonbank mortgage servicers have other options for funding servicing advances, including securitization, cash from operations, unsecured loans, or credit lines collateralized by other assets, such as MSRs. Ginnie Mae recently released a "Report on Issuer Liquidity Meeting Series," https://www.ginniemae.gov/newsroom/publications/Documents/issuer_liquidity_meeting_series_report.pdf, which indicated that much of the shift in mortgage origination and servicing activity to the largest nonbanks was financed by private equity or other types of investment funds, which infused billions of dollars of capital either through direct ownership in the operating companies of nonbanks or the financing and ownership of mortgage servicing rights. The report also confirms that as the nonbank share of mortgage origination and servicing has risen, so has the sum of warehouse lines and servicing advance facilities largely provided by banks.

[45] Kim et al.:347-350.

[46] Kim et al.:361–362.

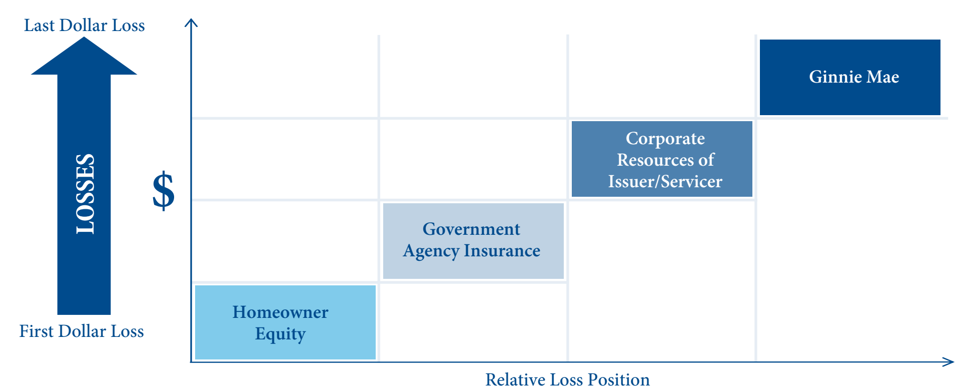
Kim et al. (2018) cite "vulnerabilities associated with the warehouse funding of nonbanks: (i) margin calls due to aging risk (that is, the time it takes the nonbank to sell the loans to a mortgage investor and repurchase the collateral), (ii) mark-to-market devaluations, (iii) rollover risk, (iv) cancellation of a line for covenant violations, and (v) changes in warehouse lender risk appetite."[47] In addition, the put-back risk for mortgages funded with warehouse lines remains with the nonbank originator, since the originator underwrote and funded the loan in its own name.[48]

Nonbank mortgage servicers face both liquidity and capital concerns because servicers of mortgages in securitized pools must make payments to investors, tax authorities, and insurers when mortgage borrowers skip their payments. While many servicers are eventually reimbursed for most of these advances, they need to finance them in the interim and obtaining such financing can be difficult in times of strain. Servicers can incur large costs servicing delinquent loans, especially those that end in foreclosure.[49]

Nonbank originations are 85 percent of all loans sold into securitizations guaranteed by Ginnie Mae and more than half of all loans sold to the GSEs, so there is a risk that if nonbanks have liquidity or solvency issues, nonbank servicers may not have cash on hand to fulfill advances to Ginnie Mae and GSE bondholders, particularly if delinquencies rise.[50] Credit risk and liquidity concerns can be more pronounced for Ginnie Mae servicers, which may need to advance more types of payments for much longer than GSE servicers when mortgage borrowers become delinquent, or default. Ginnie Mae-guaranteed pools are not limited in the time they must advance principal and interest on delinquent loans, and they may be required to absorb losses not covered by the FHA or VA, including property repair costs.[51] Chart 9 illustrates Ginnie Mae's relative loss position as guarantor of the servicing performance of the issuer. In general, by the time risk is passed on to Ginnie Mae, Ginnie Mae has no recourse against an issuer.

Chart 9

Credit Loss Priorities for a Defaulted Mortgage in a Pool Guaranteed by Ginnie Mae



Source: Ginnie Mae, 2016.

[47] Kim et al.:362.
[48] David Echeverry, Richard Stanton, and Nancy Wallace, "Funding Fragility in the Residential Mortgage Market," Berkeley Haas School of Business, December 31, 2016:7, https://www.aeaweb.org/conference/2017/preliminary/paper/zKz3shzZ.
[49] Kim et al.:376.
[50] Urban Institute:11.
[51] Kim et al.:376.

The liquidity issues associated with both nonbank origination and servicing have become more pressing because the nonbank sector is a larger part of the market than it was before the financial crisis. And because many nonbanks share similar business models, contagion is a concern as strains in one nonbank could cause creditors to question the viability of others. Given the outsized share of nonbank origination and servicing of government mortgages, including FHA-guaranteed loans to borrowers with higher risk of default, the government may incur insurance losses on the mortgages and on the securities that fund them. Government guarantees are conditional and somewhat limited, and a rise in defaults could expose nonbanks to insolvency.[52]

The refinancing-focused business models of some lenders, including some of the largest nonbanks, are vulnerable to changes in interest rates. Many lenders, including some of the largest nonbanks that emerged in the post-crisis period, benefited from the prolonged period of low interest rates and focused their business models on refinancing mortgages.[53] The demand for refinancing depends highly on interest rates. When rates rise and remain elevated, refinancing activity and the associated revenue declines.[54] Refinancing activity slowed with the increases in interest rates that started in 2013 and again in 2016, and both banks and nonbanks engaged in refinancing have attempted to shift their focus to the competitive market for purchase loans. Those that struggle to remain competitive may face acquisition by stronger peers, a trend increasingly prevalent among nonbanks in 2018 and that some analysts expect to continue in 2019.[55]

Access to mortgage credit could be more restricted if nonbanks experience difficulties. Banks have pulled back on government lending while nonbanks have stepped in to fill this void. Nonbanks have become the primary providers of credit in the FHA market in particular, where the borrowers are disproportionately either first-time buyers or borrowers with lower credit scores and higher DTIs. A large-scale failure or widespread consolidation of nonbanks could lead to significant contraction in mortgage origination capacity, since it is unclear to what extent banks would return to the FHA market.

Driven in part by nonbanks, the competitive lending environment is increasing credit risk. After a prolonged post-crisis period of tightened underwriting standards bolstered by post-crisis reforms aiming to improve mortgage credit quality and consumer protection, and the risk-aversion that mortgage lenders exhibited in the aftermath of the crisis, early signs of marginal deterioration in underwriting standards have emerged. This marginal loosening is largely in response to heightened competition among bank and nonbank mortgage originators as they compete for refinancing and purchase loan activity against the headwinds of higher interest rates, low inventory, and elevated home prices.

GSEs purchase a large share of new originations for securitization, and their recent relaxation of requirements for eligibility for purchase put competitive pressures on other entities that purchase and securitize mortgage loans. Partly in response to relaxed GSE underwriting standards and to competition, banks and nonbanks are exhibiting incremental easing of historically tight underwriting standards as they reach for growth in their lending portfolios, as indicated by continued increases in the Mortgage Credit Availability Index (Chart 10). Although performance of recent mortgage origination vintages has remained strong, performance may worsen if lenders' appetite for risk continues to increase, especially if macroeconomic conditions deteriorate.

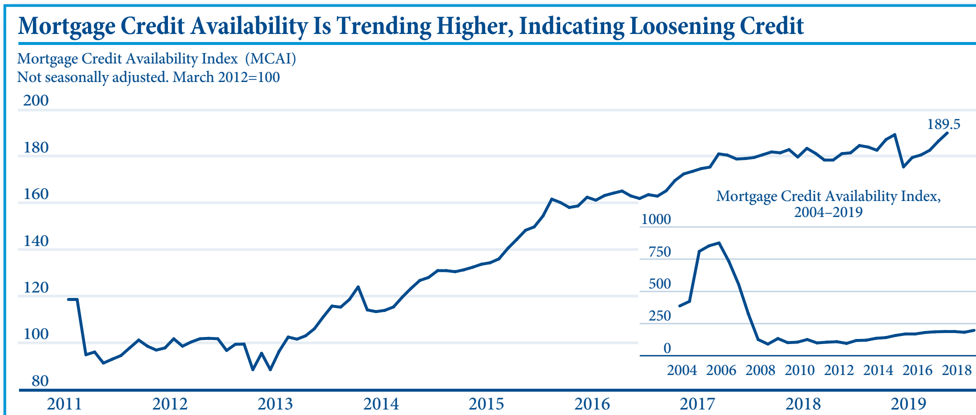
[52] Kim et al.:349.

[53] According to 2017 HMDA data, in aggregate, both banks and nonbanks reported nearly 36 percent of origination volume in refinance. However, the top seven nonbank lenders reported 51 percent of volume in refinance loans, driven in part by the two largest nonbank lenders that specialize in refinance.

[54] Kim et al.:387–390.

[55] "Mortgage M&As This Year Likely to Top 2018 Tally," Inside Mortgage Finance, January 3, 2019, https://www.insidemortgagefinance.com/articles/213439-mortgage-m-as-this-year-likely-to-top-2018-tally?v=preview."

Chart 10



Source: Mortgage Bankers Association (Haver Analytics).
Note: Data as of May 2019. The MCAI is calculated using several factors related to borrower eligibility, such as credit score, loan type, and loan-to-value ratio. These metrics and underwriting criteria for more than 95 lenders and investors are combined by the Mortgage Bankers Association (MBA) using data made available via the AllReg Market Clarity product and a proprietary formula derived by MBA to calculate the MCAI.

Nonbank mortgage lenders predominantly use an originate-to-distribute model, while in aggregate, banks keep nearly half of their single-family mortgage originations on balance sheet, according to FDIC analysis of HMDA data.[56] This practice may provide a stronger incentive for banks to underwrite more carefully and to invest in gathering information about borrowers and communities.[57] However, competition from nonbanks and slowing of the housing market could induce banks to ease historically tight underwriting standards. The Federal Reserve Senior Loan Officer Opinion Survey on Bank Lending Practices reported incremental easing in underwriting standards for residential real estate lending from late 2017 through third quarter 2018 and weaker demand for residential mortgages.[58]

Technological innovation led by nonbanks has resulted in efficiencies but may increase business model disruption, heighten risk of consolidation, amplify cybersecurity risks, and exacerbate operational risks. The competition for mortgage origination and servicing market share has helped to spur technological innovation beneficial to lenders, servicers, and consumers. Most nonbanks were new to mortgage origination and servicing and built their processes and platforms from the ground up using many technological innovations. Banks with long-established origination and servicing businesses must work to change existing processes and platforms to incorporate innovation. According to some observers, it is unclear whether traditional lenders or small institutions can adopt technological advances that require significant reorganization and investment. A more concentrated mortgage market dominated by innovative firms may result.[59]

While there are benefits to technological innovation, there are also potential risks. While replacing legacy systems may reduce cyber risks in some areas, cyber risks could be heightened in others, highlighting the importance of cybersecurity implementation, technological literacy, and risk awareness more broadly.[60]

[56] The share of originations that banks keep their on balance sheets varies greatly by type of origination. Most jumbo loans that banks originate are kept in portfolio, while a greater share of conforming and government loans are sold into securitizations guaranteed by the GSEs or Ginnie Mae.

[57] Lux and Greene:6.

[58] "Senior Loan Officer Opinion Survey on Bank Lending Practices," Board of Governors of the Federal Reserve System, January 2017 through January 2019, https://www.federalreserve.gov/data/sloos.htm.

[59] Fuster et al.:6, 37.

[60] "Financial Stability Implications From FinTech: Supervisory and Regulatory Issues That Merit Authorities' Attention," Financial Stability Board, June 27, 2017:30, http://www.fsb.org/wp-content/uploads/R270617.pdf.

Many bank and nonbank originators and servicers increasingly rely on third-party service providers, many of which are nonbanks and are subject to some federal and state oversight, yet are generally not federally regulated for safety and soundness. Banks and nonbanks that rely on third-party service providers are generally subject to operational risk management policies, including third-party or vendor management guidance. The subservicing sector allows firms to hold mortgage servicing rights without building and maintaining a servicing infrastructure. If a subservicer fails, a bank or nonbank relying on that subservicer may have difficulty finding another subservicer to pick up the portfolio and may not have the capacity to service the loans itself.[61]

In addition, aggressive growth of nonbank mortgage servicers in the post-crisis period may pose operational challenges, particularly in cases where support infrastructure is insufficient, and may result in harm to consumers, expose counterparties to operational and reputational risks, and complicate servicing transfers between institutions.[62]

Residential mortgage regulation was strengthened post-crisis, and nonbanks are subject to some federal and state oversight, but, unlike banks, nonbanks are not federally regulated for safety and soundness. A 2019 report from the U.S. Government Accountability Office (GAO) states that the lack of federal safety and soundness oversight of nonbank lenders and servicers may pose risks, particularly for the GSEs and federal housing finance entities.[63] The FHFA Office of Inspector General also found in 2014 that nonbank lenders may have limited financial capacity, are not subject to federal safety and soundness oversight, and are subject to rapid business growth that could place stress on their operational capacity or overrun their quality control procedures.[64]

Several oversight mechanisms in place or under development help to mitigate these risks. The Conference of State Bank Supervisors (CSBS) proposed nonbank mortgage servicer standards covering capital, liquidity, risk management, data standards, data protection (including cyber risk), corporate governance, servicing transfer requirements, and change of control.[65] Enhanced standards for more complex nonbanks would focus on capital, liquidity, stress testing, living wills, and recovery and resolution plans. The CSBS has also undertaken a comprehensive data collection effort aimed at enhancing a state regulator's ability to effectively supervise licensees. All state-licensed and state-registered companies must complete the CSBS Nationwide Multistate Licensing System Mortgage Call Report with information on the financial condition of licensed mortgage companies, their loan activities, and their mortgage loan originators.[66] The Consumer Financial Protection Bureau oversees nonbank issuers for compliance with consumer financial protection laws, and the GSEs apply FHFA standards in financial and operational reviews of counterparties, including nonbanks. The Consumer Financial Protection Bureau does not evaluate nonbanks for safety and soundness.[67] However, safety and soundness evaluations of nonbanks are conducted by state mortgage regulators.

Note: The text on this page has been slightly modified from the version published online on November 14, 2019, to clarify the role of state mortgage regulators with regard to nonbank safety and soundness examinations.

[61] Kim et al.:399.

[62] "Nonbank Mortgage Servicers: Existing Regulatory Oversight Could be Strengthened," U.S. Government Accountability Office, March 2016:25, https://www.gao.gov/assets/680/675747.pdf.

[63] "Prolonged Conservatorships of Fannie Mae and Freddie Mac Prompt Need for Reform," U.S. Government Accountability Office, January 2019:27, https://www.gao.gov/products/GAO-19-239.

[64] "Recent Trends in the Enterprises' Purchases of Mortgages from Smaller Lenders and Nonbank Mortgage Companies," Federal Housing Finance Agency, Office of Inspector General, July 17, 2014, https://www.fhfaoig.gov/Content/Files/EVL-2014-010_0.pdf.

[65] The CSBS represents financial regulators in 50 states, the District of Columbia, Guam, Puerto Rico, American Samoa, and the U.S. Virgin Islands.

[66] "Proposed Regulatory Prudential Standards for Nonbank Mortgage Servicers," CSBS, 2015, https://www.csbs.org/sites/default/files/2017-11/MSR-ProposedRegulatoryPrudentialStandardsforNon-BankMortgageServicers.pdf. The Nationwide Multistate Licensing System registers and collects data from nonbank financial service providers: mortgage providers, money services businesses, and consumer finance companies.

[67] "Prolonged Conservatorships:" 27–28.

Implications of the Post-Crisis Migration for the Banking Industry and the Financial System

While a substantive share of mortgage origination and servicing activity has migrated to nonbanks and transferred some of the risk outside of the banking system, a portion of the risk remains with banks or could be transmitted back to banks through other channels.

Banks generally have more conservative underwriting practices than do nonbanks, and while there are indications that banks have been easing standards and increasing risk, a corresponding deterioration in loan performance has not yet occurred; however, the housing and mortgage market should continue to be monitored carefully.

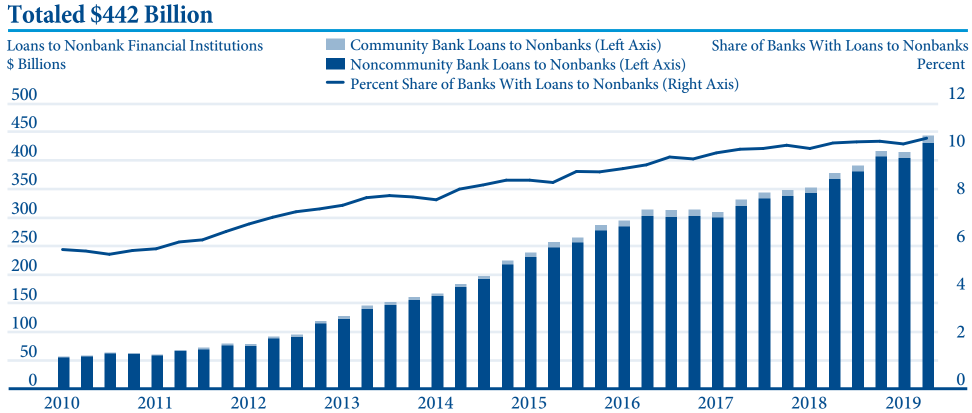
Banks retain direct exposure to the mortgage markets through their origination and servicing activities and through the portfolios they keep on their balance sheets, whether they have scaled back or increased production. From 2004 to 2017, the market share of the top seven bank originators of 1–4 family mortgages declined 13.6 percent, while the market share of all other banks declined 5.8 percent.

The composition of new bank single-family mortgage originations has shifted. In 2004, 63.9 percent were conventional conforming, 32.0 percent were jumbo loans, and 4.1 percent were government loans. In 2017, 56.4 percent were conventional conforming, 30.1 percent were jumbo loans, and 13.5 percent were government loans. Banks retain many of the new jumbo loans originated on their balance sheets, while they sell a larger share of new conforming and government loans.

In the post-crisis period, banks are directly exposed to nonbanks and the activities in which they engage through their extension of warehouse lines of credit to nonbank mortgage lenders and other types of financing to nonbank servicers to fund servicing advances. Bank lending to nonbanks includes loans to nonbank mortgage lenders yet also includes loans to other nonbanks that do not primarily make loans, including open- and closed-end investment funds, mutual funds, special purpose vehicles, other vehicles, and real estate investment trusts.[68] Outside of the loans extended by the four largest banks, supervisory experience indicates that some loans to nonbank financial institutions are to nonbank mortgage lenders or MBS warehouse lines. Overall, as illustrated in Chart 11, bank lending to nonbanks has expanded seven-fold since 2010 and exceeds $440 billion. While these loans have grown steadily since 2010, they account for less than 5 percent of total loans and leases reported by banks, and less than 11 percent of all banks are engaged in this type of lending.

Chart 11

During Second Quarter 2019, Loans to Nonbanks Held by FDIC-Insured Institutions Totaled $442 Billion



Source: FDIC.
Note: Quarterly data through second quarter 2019.

[68] Board of Governors of the Federal Reserve System, "Financial Stability Report," November 2018:29, https://www.federalreserve.gov/publications/files/financial-stability-report-201811.pdf.

Much of the funding that has supported increased nonbank engagement in mortgage origination and servicing activities is provided by banks through warehouse lines of credit. While in times of acute strain these lines of credit can be a source of significant losses to banks, as they were during the financial crisis, they generally are considered relatively low risk because they are typically overcollateralized and subject to frequent monitoring.

The lines of credit banks extend to nonbanks generally contain multiple protections for creditors, including personal guarantees, collateral beside the loan originations, and provisions that allow for the changing of the pricing on, or cancellation of, the warehouse line in the event that the nonbank violates any of its covenants.[69] And banks that extend warehouse lines are not subject to put-back risk for mortgages funded with these lines, as the put-back risk remains with the nonbank originator.[70]

The lines of credit are generally open for only a limited time and are collateralized by the loan origination until the nonbank can sell the origination to an investor or into a securitization. When the secondary market is liquid and is functioning normally, nonbanks can generally sell loans into securitization vehicles relatively quickly and then reimburse the bank for their draw on the line of credit. However, in the crisis, there were slowdowns in the securitization of mortgages in both the GSE and PLMBS markets. These slowdowns contributed to the cancellation of billions of dollars in lines of credit to nonbank mortgage originators, leaving the bank warehouse lender with few options but to seize the mortgage as collateral.[71] Ultimately, the extension of warehouse lines of credit to nonbank mortgage originators and servicers directly exposes banks to the liquidity and funding risks of nonbanks.

The extension of credit has important implications for the health of the economy. Unsustainable growth in credit can lead to risk for originators, servicers, and borrowers that face financial distress. If originators fund loans, particularly loans to borrowers with higher risk factors and insufficient resources to withstand resulting losses, the financial sector becomes more vulnerable to adverse shocks. Nonbanks rely primarily on warehouse lines of credit from banks and other financing firms to fund their operations, a source of funding that would become more expensive and less accessible in adverse market conditions. To the extent servicers fund their operations with short-term funding, if adverse market conditions make that credit less accessible and servicers ultimately yield to liquidity and funding concerns, borrowers may be at heightened risk of processing errors related to transfer of servicing rights or other servicing deficiencies, particularly if delinquencies rise.

As nonbanks continue to grow their market share of mortgage origination and servicing, the associated risk is increasingly shifting from banks to nonbanks and ultimately to the entities that guarantee payment on securities made up of these loans, namely Ginnie Mae, the GSEs and, to some extent, other investors.

[69] Kim et al.:357–369, 382, 398.
[70] Echeverry at al.:7.
[71] Kim et al.:357–369, 375, 398.

Conclusion

A review of the history of the U.S. mortgage market reveals that mortgage originators and servicers have adapted to changes in the regulatory landscape and evolution in the structure of the primary and secondary mortgage markets. Over time, competition for mortgage origination and servicing market share has helped to spur innovation that has enabled market participants to effectively and efficiently extend credit to borrowers. Risks have been redistributed in the system as a result and have increased in ways described in this article.

After many nonbank mortgage originators and servicers faced liquidity and funding strains and the threat of failure during the crisis, nonbanks have gained significant market share since the crisis.

The growth of nonbanks in mortgage origination and servicing after the crisis has largely been attributed to a handful of factors: litigation on crisis-era legacy portfolios at the largest bank originators, more aggressive post-crisis expansion by nonbanks, mortgage-focused business models and technological innovation at nonbanks, large bank sales of crisis-era legacy servicing portfolios because of servicing deficiencies and difficulties revealed in the crisis, and, possibly, large banks' responses to the capital treatment of mortgage servicing assets.

The characteristics of nonbanks that have, in part, enabled them to gain a competitive edge in mortgage origination and servicing include continued reliance on short-term credit, a focus in conventional conforming and government (FHA in particular) loan origination, origination of loans exhibiting incrementally eased underwriting standards, application of technological innovation to improve efficiency and origination profits, and less comprehensive regulatory oversight relative to banks.

Many nonbank characteristics subject these entities to several risks, and the new competitive pressures facilitated by nonbanks have increased several risks in the financial system. These risks include:

- liquidity and funding risks of the nonbank structure
- interest rate risk inherent in refinancing-focused lending
- risk of reduced availability of FHA-insured and other government loans in the case of widespread nonbank failures
- moderate growth in credit risk caused by heightened competition in the market driving incremental easing in historically tight credit standards
- cybersecurity and other risks related to increased reliance on technology
- risks posed by the less stringent and more fragmented regulation of nonbanks relative to banks

The funding structure of post-crisis nonbank mortgage originators and servicers appears similar to that of pre-crisis nonbanks, a generation of lenders and servicers that largely faltered during the crisis because of funding and liquidity strains. Many of the largest nonbank originators and servicers today are new to the market or were operating on a much smaller scale pre-crisis, and have not weathered a crisis or a stressed economy. Given their similar funding structures, in an episode of pronounced housing-market stress, these nonbanks could exhibit vulnerabilities similar to those of their predecessors.

Nonbanks have so far been well-positioned to compete for growth in the post-crisis mortgage market. While the post-crisis recovery in the housing market has been gradual, interest rates have been low, which boosted the market for both refinance and purchase loans. The securitization market for those loans has so far been functioning well, despite the collapse of private-label securitization markets after the crisis. Following several years of more stringent underwriting standards, delinquency rates have been low and nonbank servicers have generally not faced the strain of funding servicing advances. With the federal government now backing the majority of new mortgages, nonbanks now originating the majority and servicing a larger share of those mortgages, and banks providing warehouse lines of credit to nonbanks, the new structure of the mortgage market remains untested by considerable strain in the housing sector. Along with the positive aspects of the migration of mortgage activity to nonbanks, new uncertainties have emerged that warrant additional assessment and continued monitoring.

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