After Repairing CRE Damage, Many Banks Re-Entering Lending Arena

More Than Half U.S. Banks Posting Noteworthy Increases in Nonresidential, Multifamily Lending

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While commercial real estate continues to burden the nation's 7,522 banks and thrifts that reported results to the FDIC as of June 30, the severity of the CRE-related impairment is gradually decreasing and lending is on the increase.

Overall, banks continued to scale back the total amount of commercial real estate loans on their books. However, most of the drop came from loans for construction and development activities. Banks actually increased lending for multifamily projects over the first quarter by about $1.4 billion.

Significantly too, half the nation's banks boosted their lending on nonresidential and multifamily properties by $50 million or more in the second quarter of the year.

Five banks did so by more than $1 billion.
* Manufacturers and Traders Trust Co., $3.36 bl
* Hancock Bank of Louisiana, $2.58 bl
* First Niagara Bank, $1.55 bl
* NAFH National Bank, $1.35 bl
* Wells Fargo Bank, $1.13 bl

All but Wells Fargo of that group increased commercial real estate lending across the board, including construction and development loans. Wells Fargo's construction and development loan portfolio dropped by $2.2 billion.

Banks continued to increase their own holdings in real estate as well in the form of bank buildings and fixed assets with the amount increasing from $120.7 billion to $121.2 billion first quarter to second quarter. The number of full-time equivalent employees reported by insured institutions - 2,104,698 - was 12,124 (0.6%) higher than in first quarter 2011.

Impairments on the Mend

The total amount of foreclosed commercial real estate and delinquent or restructured CRE loans for the nation's banks dropped 7.5% from $187.7 billion to $173.6 billion at the end of the second from the first quarter.

Most of the recuperation is stemming from write-downs and attrition in construction and development loans, and the lack of new lending in that area.

Of the 7,522 insured reporting banks in the country as of June 30, distressed commercial real estate assets made up 1% or less of total assets at 4,177 banks -- 56% of the banks in the country. That was down from 4,298 banks in the first quarter.

As deteriorating conditions lessen, the amount of capital that banks have available to loan should increase. Banks are already setting aside fewer dollars to deal with the losses, according to the FDIC. Loan-loss provisions totaled $19 billion, a decline of $21.4 billion (53%) from second quarter 2010. This is the seventh consecutive quarter that provisions have declined from year-earlier levels.

The nation's banks have also been whittling away at the amount of assets held for sale.

Foreclosed real estate holdings including single-family dropped from $52.5 billion in the first quarter of this year to $51.4 billion as of June 30. The commercial real estate portion of that stood at $31 billion down slightly from the first quarter. Multifamily was up from $2.48 billion to $2.67 billion. Nonresidential was basically unchanged at $10.7 billion. Construction and development projects property holdings dropped from $18 billion to $17.7 billion.

The total amount of loans and leases banks held for sale also declined significantly from the first quarter - dropping from $121.2 billion to $108.6 billion.

Delinquencies

The amount of commercial real estate loans delinquent more than 30 days also showed significant improvement dropping 12% in the second quarter from the first quarter. The amount dropped from $121.6 billion in the first quarter to $107 billion at the end of June. The biggest improvement came from construction and development loan category dropping from $53.8 billion to $45.8 billion - a 15% decline. Multifamily dropped from $10 billion to $8.8 billion - a 12% decline. Delinquent nonresidential loans dropped from $57.8 billion to $52.4 billion - a 9% decline.

Restructurings

Banks continued to work with commercial real estate borrowers in restructuring their loans. The total amount of restructured CRE loans went up from $34.9 billion to $35.7 billion. Of the total amount of CRE loans restructured, $16.7 billion was classified as delinquent more than 30 days as of June 30.

Individual Bank Distress

Six banks decreased their total CRE lending by more than $1 billion.
* Wilmington Trust Co., -$3.42 bl
* Bank of America, -$3.1 bl
* Regions Bank, -$1.34 bl
* JPMorgan Chase Bank, -$1.31 bl
* Branch Banking and Trust Co., -$1.12 bl
* KeyBank, -$1.05 bl

The 10 largest banks in the country hold $35.5 billion in delinquent, foreclosed or restructured assets (20% of the total in the country), down significantly from $41.6 billion at the end of the first quarter.

Distressed commercial real estate assets made up 30% or more of total assets at four banks closed since June 30, 2011. Three existing banks had ratios of more than 40% as of June 30.
Name, Location, Total Assets
* SunBank, Phoenix, AZ, $31.8 ml
* The First State Bank, Stockbridge, GA, $564.2 ml
* Builders Bank, Chicago, IL, $301.5 ml

Officially, the number of institutions on the FDIC's "Problem List" declined for the first time since third quarter 2006. At the end of the second quarter, there were 865 "problem" institutions, down from 888 at the end of the first quarter. The total assets of so-called "problem" institutions declined from $397 billion to $372 billion.