

We help education professionals reach their financial goals.



Get Started Now

- Build a comprehensive financial plan
- Create a retirement strategy
- Get a complimentary consultation

Investing involves risk, including risk of loss. Fidelity Brokerage Services, Member NYSE, SIPC © 2010 FMR LLC. All rights reserved. 541545.2.0

Turn here™



Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

See a sample reprint in PDF format.

Order a reprint of this article now

THE WALL STREET JOURNAL.

WSJ.com

BUSINESS | JULY 27, 2009

Loans Shrink as Fear Lingers

By DAVID ENRICH and DAN FITZPATRICK

See *Corrections & Amplifications* item [below](#).

Lending continues to slow as bankers and borrowers refrain from taking risks, in a bearish sign for the economy.

The total amount of loans held by 15 large U.S. banks shrank by 2.8% in the second quarter, and more than half of the loan volume in April and May came from refinancing mortgages and renewing credit to businesses, not new loans, an analysis by The Wall Street Journal shows.

Shift in Lending

Change in loan volume this year for 15 large U.S. banks

	Value of portfolios in trillions	New/renewed credit in billions
2Q	\$4.21	\$802.79
1Q	\$4.33	\$712.34
Pct. chg.	-2.8%	12.7%

Sources: company reports; Treasury Dept.

The numbers underscore two related trends weighing on the economy.

Financial institutions are clamping down on lending to conserve capital as a cushion against mounting loan losses. And loan demand is falling as companies shelve expansion plans and consumers trim spending to ride out the recession.

That combination is making it harder for the U.S. economy to rebound, and some analysts predict that loan portfolios won't start growing until the second half of 2010.

"I think it is good for banks if we continue to be prudent as an industry and not reach to get loan growth by reducing our underwriting," Richard Davis, chief executive of U.S. Bancorp, said last week. The Minneapolis regional bank's overall loan portfolio declined 1.2% to \$182 billion from March to June, despite issuing \$16 billion of mortgages. Most of the mortgages came from refinancing existing loans.

The loan figures reviewed by the Journal include giants such as J.P. Morgan Chase & Co., Bank of America Corp. and Citigroup Inc., as well as regional banks such as Fifth Third Bancorp, based in Cincinnati, and Regions Financial Corp., of Birmingham, Ala. The 15 banks hold 47% of federally insured deposits and got \$182.5 billion in taxpayer-funded capital infusions through the Troubled Asset Relief Program. As of June 30, the banks had \$4.2 trillion of loans on their balance sheets, down from \$4.3 trillion as of March 31.

Loan portfolios shrank at 13 of the big banks, with the steepest decline at Comerica Inc., Dallas, where the loan total was down 4.3% to \$46.6 billion in the latest quarter. Just \$1.6 billion of the \$10.2 billion in credit extended by Comerica in the second quarter came from new commitments. A bank spokesman said many borrowers "are being cautious."

Bank of America, Charlotte, N.C., reported its loan portfolio slipped 3.6% to \$942.2 billion in the second quarter. A spokesman for the largest U.S. bank by assets said the decrease reflects higher loan losses and lower loan

demand as borrowers pay off outstanding debts. "There were fewer opportunities to make high-quality loans because of the recession," he added.

Some borrowers complain banks aren't trying hard enough to expand credit. Ernie Cambo, a principal with Miami real-estate developer CPF Investment Group, had to halt work earlier this year on a 2.5-million-square-foot project called AVE Aviation and Commerce Center because he couldn't line up financing beyond the initial phases.

Now he isn't certain he will be able to find bank financing for a planned \$4 million building for a South Florida auto auctioneer, despite having a signed lease. "You will find no more frustrated borrower than me right now," said Mr. Cambo, 39 years old. "I am growing in this downturn, and I can't get any incremental debt."

The slow pace of lending has created political heat for the Obama administration. On Friday, Rep. Spencer Bachus (R., Ala.) pressed Treasury Secretary Timothy Geithner to "tell me why we didn't really see that multiplier effect" from banks funneling their TARP money into lots of loans.

Shrinking, Growing

Banks' loan portfolios declined in the second quarter, even as they reported making and renewing more loans.

	LOAN PORTFOLIOS		NEW AND RENEWED CREDIT	
	2Q 2009 in billions	Change from 1Q	2Q 2009 in billions	Change from 1Q
Comerica	\$46.6	-4.1%	\$10.2	82.1%
Marshall & Ilsley	\$48.3	-1.8	3.5	29.6
Wells Fargo	\$821.6	-2.6	206.0	20.2
Fifth Third	\$81.4	-1.5	21.0	19.3
SunTrust	\$122.8	-0.9	27.2	18.3
Regions	\$96.2	0.5	18.1	16.0
Citigroup	\$641.7	-2.4	41.0	15.5
Bank of America	\$942.2	-3.6	211.0	15.3
US Bancorp	\$182.3	-1.1	48.4	14.2
PNC	\$165.0	-3.7	29.0	11.5
BB&T	\$100.3	0.1	21.2	8.2
KeyCorp	\$70.8	-3.9	8.2	5.1
J.P. Morgan Chase	\$680.6	-3.9	150.0	-1.3
American Express	\$62.9	-3.2	3.0	-1.6
Capital One	\$146.3	-2.7	5.0	-30.6

Sources: company reports; Treasury Dept.

"I think you did," Mr. Geithner responded. Each dollar of taxpayer-funded capital gave banks \$8 to \$12 of lending capacity, and the initial \$200 billion infusion by the Bush administration prevented a decline of more than \$1 trillion in the overall loan supply, the Treasury secretary said.

Supporters of the bank bailout concede that lending has dipped, but note that the program wasn't meant to expand loan volume, but rather to prevent a collapse -- and has succeeded on that score.

Richard Neiman, a member of the committee formed by Congress to assess the effectiveness of TARP, said in an interview that "you need to be cautious in reading too much into these numbers." Congress intended to "stabilize the financial markets," he added, and there "is no specific reference to increasing lending" in the rescue-program legislation that was signed into law last year.

The 15 banks reported about \$803 billion in loan volume in the second quarter, up 12.7% from the first quarter. But nearly 60% of the increase in April and May came from

refinancing mortgages and renewing business loans, according to data Treasury collected from the banks. In contrast, new home purchases accounted for just 23% of all mortgage loans. May is the latest month for which the government's figures are available.

At BB&T Corp., of Winston-Salem, N.C., a surge in mortgage refinancing fueled the regional bank's increase of 0.1% in the size of its overall loan portfolio, which hit \$100.3 billion as of June 30. Mortgage lending "is really booming," CEO Kelly King said, but loan growth slowed in May and June, "especially in the commercial area."

Banking analysts said the fact that less than half of loan volume is coming from new loans shows how far the economy still has to go to dig out of the recession. "You are looking for net new loans in the marketplace to be a

signal of true change, and we have not seen that yet," said Christopher Marinac, research director at FIG Partners in Atlanta.

"You've got to have fewer people paying down loans...and you've got to get banks to loosen underwriting standards," said RBC Capital Markets analyst Gerard Cassidy. "That is when you will see loan balances in the U.S. banking system expand from where they are today. When that happens, you will see the economy really start to blossom."

On a year-over-year basis, total loans held by the 15 big banks rose 17% from \$3.6 trillion in 2008's second quarter. The increase was skewed by the impact of acquisitions that included J.P. Morgan's takeover of the banking operations of Washington Mutual Inc. and Wachovia Corp.'s purchase by Wells Fargo & Co. Excluding purchases, loan portfolios shrank by about 10% as of June 30 from a year earlier.

The figures are a strong but imperfect indicator of loan activity. For example, loans sold to other institutions aren't counted on a bank's balance sheet at the end of the quarter. Since the financial crisis erupted, though, sales of loans have withered.

Write to David Enrich at david.enrich@wsj.com and Dan Fitzpatrick at dan.fitzpatrick@wsj.com

Corrections & Amplifications:

Miami real-estate developer Ernie Cambo has been trying to line up additional financing for a project called AVE Aviation and Commerce Center. A previous version of this article incorrectly gave the project's name as Ace Aviation and Commerce Center.

Printed in The Wall Street Journal, page A1

Copyright 2009 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com