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Monday, January 26, 2009

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JANUARY 26, 2009

Lending Drops at Big U.S. Banks

Top Beneficiaries of Federal Cash Saw Outstanding Loans Decline 1.4% Last Quarter

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By DAVID ENRICH

Lending at many of the nation's largest banks fell in recent months, even after they received $148 billion in taxpayer capital that was intended to help the economy by making loans more readily available.

Ten of the 13 big beneficiaries of the Treasury Department's Troubled Asset Relief Program, or TARP, saw their outstanding loan balances decline by a total of about $46 billion, or 1.4%, between the third and fourth quarters of 2008, according to a Wall Street Journal analysis of banks that recently announced their quarterly results.

Those 13 banks have collected the lion's share of the roughly $200 billion the government has doled out since TARP was launched last October to stabilize financial institutions. Banks reporting declines in outstanding loans range from giants Bank of America Corp. and Citigroup Inc., each of which got $45 billion from the government; to smaller, regional institutions. Just three of the banks reported growth in their loan portfolios: U.S. Bancorp, SunTrust Banks Inc. and BB&T Corp.

The loan figures analyzed by the Journal exclude some big TARP recipients that haven't reported fourth-quarter results yet, such as Wells Fargo & Co.

The overall decline in loans on the 13 banks' books -- from about $3.36 trillion as of Sept. 30 to $3.31 trillion at year's end -- raises fresh questions about TARP's effectiveness at coaxing banks to reopen their lending spigots.

"It has failed," said Campbell Harvey, a finance professor at Duke University's business school. "Basically we have dropped a huge amount of money ... and we have nothing to show for what we actually wanted to happen."

Credit Constraints

In a survey last month of 569 U.S. companies, Mr. Harvey and researchers at Duke and the University of Illinois found that 59% felt constrained by a lack of credit. Many of those firms are shelving expansion plans and cutting jobs as a result of funding shortages, according to the survey, which is expected to be released this week.

Bankers say it is unfair to expect them to funnel a large portion of their government capital into loans so soon after receiving it. They say it takes time to make prudent loans and to attract new deposits that will allow them to lend out their new capital efficiently.

Demand for low-risk loans is also ebbing as consumers and businesses rein in their spending and try to conserve cash, according to bank executives. Even though mortgage rates are down, for example, applications in the week ended Jan. 16 declined about 10% from the previous week, according to the latest data from the Mortgage Bankers Association.

Meanwhile, federal regulators have been pushing many banks to set aside extra capital to cushion against losses. Bankers say that is at odds with the government's encouragement to make more loans.

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Companies within this Article

BBT Corp.(BBT)	20.04	0.39	1/23
KeyCorp(KEY)	7.62	0.58	1/23
JPMorgan Chase Co.(JPM)	24.28	1.18	1/23
Bank of America Corp.(BAC)	6.24	0.53	1/23
SunTrust Banks Inc.(STI)	14.97	1.42	1/23
Wells Fargo Co.(WFC)	15.87	0.08	1/23
U.S. Bancorp(USB)	14.64	0.76	1/23

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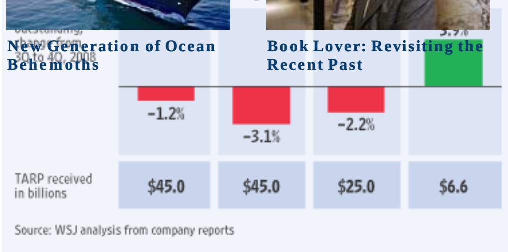

strings Treasury Department officials attached to the infusions. That has made it hard to prevent banks from using the money to pay dividends, make acquisitions and fund bonuses for top executives.

Federal officials argue that the downturn in lending would have been much more acute without the TARP funding, and that attaching additional strings to the money could have led banks to make risky loans or to refuse to accept the government capital.

Obama administration officials acknowledge that TARP hasn't managed to jump start lending as intended, and say they plan to overhaul the program to address the shortcomings. TARP recipients must submit lending data to the Treasury Department by the end of January, though industry officials don't expect the disclosures to divulge much more than what banks already include in routine regulatory filings.

Around the world, bankers are under pressure from regulators and lawmakers struggling to prop up the financial system. Politicians in the U.S. and overseas are ratcheting up their rhetoric about banks needing to do their part. On Sunday, Franz Müntefering, chairman of Germany's Social Democrats, said in an interview with a German newspaper that "most of the bankers are competent and responsible, but there are also some beatniks, pyromaniacs and gangsters."

New Student Loans

In a sign that banks are feeling political heat, Citigroup is expected to announce Tuesday a plan to use some of its TARP money to finance tens of billions of dollars in new loans this year, according to people familiar with the situation. The push will include credit cards, student loans and mortgages aimed at specific segments of the population, one person said.

Lending Less

Some of the biggest recipients of U.S. capital saw loan volumes decline in the fourth quarter

	TARP received in billions	4Q '08 loans in billions	Change from 3Q '08 loans
Bank of America	$45	$931.45	-1.2%
Citigroup	45	694.50	-3.1
J.P. Morgan Chase	25	744.90	-2.2
U.S. Bancorp	6.6	168.13	3.9%
SunTrust Banks	4.85	127.00	0.2
Capital One	3.56	146.94	-0.3
Regions Financial	3.5	97.42	-1.3
Fifth Third Bancorp	3.41	85.60	-1.0
BB&T	3.13	98.67	2.1
KeyCorp	2.5	76.50	-0.3
Comerica	2.25	50.51	-2.0
Marshall & Ilsley	1.72	49.99	-0.9
Huntington Bancshares	1.4	41.09	-0.2
TOTAL	$147.91	$3,312.68	-1.37%

Source: WSJ analysis from company reports

Of the $45 billion it got from the government, Citigroup last fall invested $10 billion in Fannie Mae's short-term commercial paper, which the company views as relatively low risk, according to the person familiar with the matter. The remaining $35 billion hasn't been put to use yet.

Even critics of TARP's capital injections say that they steadied financial institutions and soothed investors, averting possible catastrophe. The first capital infusions were announced about a month after Lehman Brothers Holdings Inc. filed for bankruptcy protection, igniting fears that other shaky financial companies could collapse.

The fourth-quarter decline in overall loan volume at the 13 banks coincides with an industry-wide retreat from broad swaths of consumer lending. Banks have scaled back on mortgage lending, canceled or substantially reduced many home-equity and credit-card lines and, in some cases, simply stopped making certain types of loans unless they're guaranteed by the U.S. government.

Recession Woes

Despite dismal economic conditions, many bankers insist they are making every good loan that they can. Bank of America and J.P. Morgan Chase & Co., which got a combined $70 billion in

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government capital, said they originated a total of $215 billion in loans in the fourth quarter. Their combined loan portfolios shrank by a llion in the same period.

Scott Silvestri, a Bank of America spokesman, said the Charlotte, N.C., bank's loan balances declined in part because more borrowers have been paying off their debts. In addition, "there were fewer opportunities to make high-quality loans because of the recession," he said. A spokesman for J.P. Morgan declined to comment.

The loan volumes that banks disclose publicly only reflect outstanding loans on their books, many originated years ago, not the actual amount of new loans made in a given quarter. While several banks reported the amount of new loans they made in the fourth quarter, they didn't disclose comparable figures from prior periods.

"What you can't tell is how low they would have sunk in the recession we're in were it not for the TARP money," said Walter Moeling, a partner in the banking practice at law firm Bryan Cave LLP.

The overall decline in loan balances during the fourth quarter reflects the huge hurdles and conflicting agendas that need to be overcome before credit can start flowing smoothly again.

European Pressphoto Agency

Loans have declined at Citigroup.

For instance, many banks have said they are using TARP funds to cover current or anticipated defaults on a wide variety of loans.

At the same time, shareholders at many institutions have demanded that they slim down their balance sheets to reflect the new risk-averse environment.

At BB&T, a Winston-Salem, N.C., bank that got $3.13 billion from TARP, fourth-quarter lending volume rose about 2%, or $2 billion. While BB&T is making new loans, Chief Executive Kelly King said the bank invested much of its taxpayer capital as a way to earn a decent return while shunning risk.

"We parked it there, and will redeploy it as quickly as we can, not in a panic," Mr. King said last week on a conference call with analysts. "We're not going to make a bunch of bad loans."

The overall loan decline likely understates the magnitude of the industry's retrenchment.

In normal times, banks would make loans and then sell many off to investors or financial institutions. But that practice has ground to a halt, so more loans today are staying on banks' books. As a result, some banks' loan portfolios could appear larger than they would have in the past, even though they aren't actually making more loans.

Bank balance sheets also have been inflated as more companies draw on credit lines that banks committed to before the financial crisis erupted. Last fall, an increasing number of borrowers started tapping those lines, banks say, either because other types of credit were evaporating or out of an abundance of caution.

For example, KeyCorp, where total loan balances declined by about $200 million in the fourth quarter, saw a $1.3 billion leap in its commercial, financial and agricultural loans. Chief Financial Officer Jeffrey Weeden said that was primarily the result of clients dipping into their revolving lines.

KeyCorp, which is based in Cleveland and received $2.5 billion in federal capital, made or renewed $5.7 billion of loans in the fourth quarter. But KeyCorp has stopped making student loans unless they're backed by the U.S. government.

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