

SNL Report: NPA drop continues as asset quality improves

Changes tone of banking
talk

By Ken McCarthy and Robert Clark, SNL Financial staff writers

Perhaps a sure sign of the steadily improving credit-quality metrics for U.S. commercial banks is that the issue is not the hot talking point that it was just a couple of years ago.

"At Sterne Agee's most recent investor conference down in Miami, panel discussions revolved around M&A, interest rates, and loan growth--not credit quality," Sterne Agee & Leach Inc.'s Matthew Breese told SNL. "The subject has certainly taken a back seat to low interest rates as the largest headwind for banks."

And the sector once again saw improvement during the fourth quarter of 2012. For many measures of U.S. commercial banks' credit quality, the end of 2009 and the beginning of 2010 was the low water mark. Since then, several metrics have shown slow but steady signs of improvement.

Getting down to specific performance

After topping out at \$314.43 billion in the first quarter of 2010, U.S. banks' adjusted nonperforming assets dropped to \$238.69 billion in the fourth quarter of 2012. This compares to \$247.72 billion in the linked quarter and \$278.01 billion in the fourth quarter of 2011. These figures exclude government-guaranteed assets and restructured consumer loans, which were not reported prior to the first quarter of 2011.

Net charge-offs resumed their steady descent in the fourth quarter of 2012, after an increase in the prior quarter. As a percentage of average loans, net charge-offs decreased to 0.99% in the fourth quarter of 2012 from 1.21% in the third quarter, according to SNL. Other than experiencing a slight increase to 1.81% from 1.65% from the second to the third quarter of 2011--and the blip in the third quarter of 2012--the percentage has fallen steadily since the first quarter of 2010, when it came in at 2.94%.

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of the chart, click on the image or [click here](#).

Sterne Agee's Breese echoed comments about credit quality he has expressed in recent quarters by saying that trends are slowly but surely showing signs of strength.

"I still think there's progress to be made before we hit trough level nonperforming assets akin to that of the early 2000s, which saw sub-0.50% of total assets for the Northeast, but directionally we're headed the right way," he said.

Loan-loss reserves peaked at \$248.20 billion in the first quarter of 2010 and have declined every quarter since, dropping to \$152.14 billion in the fourth quarter of 2012. Reserves stood at \$156.98 in the linked quarter. (See SNL's recent ABABJ.com report on reserve releases.) [LINK:](#)

In aggregate, adjusted nonaccrual loans, excluding government-guaranteed assets, dropped to \$120.69 billion by the end of 2012, down from \$220.88 billion in the first quarter of 2010, \$129.10 billion for the third quarter of 2012, and \$140.19 billion in the fourth quarter of 2011.

Adjusted past due loans have also dropped drastically from their peak of \$429.94 billion in the first quarter of 2010, falling to \$230.00 billion for the fourth quarter of 2012. At the same time, SNL data show that the level of current restructured loans has risen to \$84.15 billion from \$82.70 billion in the linked quarter.

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Banks see returning
stability

JPMorgan Chase Bank NA saw its adjusted nonaccrual loans as a percentage of total loans decrease to 1.60% in the fourth quarter of 2012 from 1.73% in the third quarter of 2012, while Bank of America NA's level fell to 2.60% from 2.81%.

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Gregory Dufour, president and CEO of Camden, Maine-based Camden National Corp., told SNL that asset quality has stabilized for the bank. He said the company has been fortunate because even though its credit losses in the wake of the 2008 financial crisis have been "higher" than historical norms, they have been well within what Camden can handle and compare favorably to the lender's peers.

Still, the commercial side has stabilized much more than the consumer side, where Dufour said he is "still a little bit concerned. Part of that is because Maine has such a long home foreclosure process, and plus you are dealing with individuals at that point." The bank has seen slight improvement on the consumer side, he said.

And the U.S. economy plays a large role in how credit metrics ultimately look, according to Dufour. And if there is no clarity coming out of Washington, D.C., on issues such as whether to raise the federal debt ceiling, "it hurts the person on the street and that trickles through to asset quality," he said.

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