PMA™
FINANCIAL NETWORK

# CREDIT QUARTERLY

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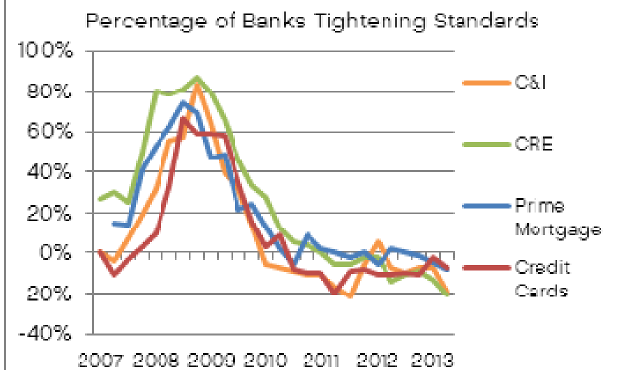
## RECENT NEWS

### Loosening Underwriting Standards Spur Lending

Consumers and businesses have struggled to obtain credit for the past six years, as underwriting standards significantly tightened during the financial crisis. However, it is gradually becoming easier for borrowers to obtain loans as credit standards have eased due to rising loan competition. In the Federal Reserve's most recent Senior Loan Officer Survey, banking officials reported that lending standards loosened across all major loan categories during the first quarter of 2013 while loan demand strengthened, particularly for business lending.

Underwriting standards loosened the most for commercial real estate and commercial & industrial lending during the quarter, as survey respondents cited "intensified competition" in the sector. Only a few banks reported loosening standards for consumer and mortgage loans; however, these too are gradually becoming easier to obtain.




Many institutions reported stronger loan demand for commercial real estate loans, prime residential mortgages and credit cards while demand for auto and other consumer loans somewhat weakened.

Loosening credit standards combined with higher loan demand over the past year led to a significant increase in credit flows during 2012, as $713 billion in credit flowed to U.S. households and nonfinancial businesses, up from $336 billion in 2011. The increase in credit has helped fuel the economy, as spending remains the biggest driver of growth. Additional improvement in access to credit should continue to speed the recovery.

Sources: Federal Reserve Bank; Wall Street Journal

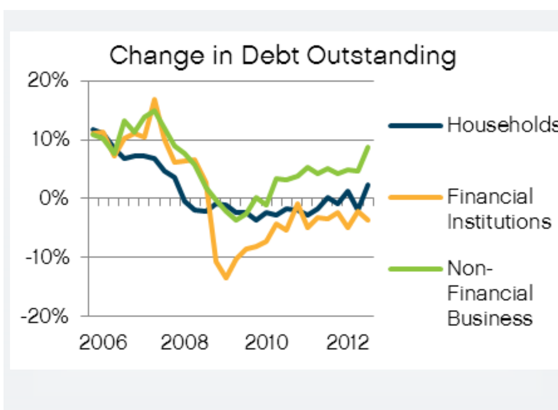
## CREDIT TRENDS

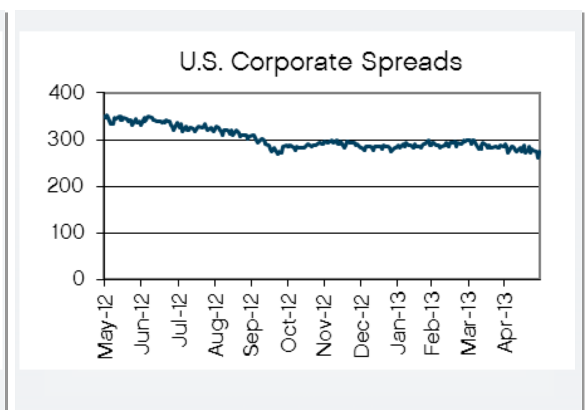
**CHANGE IN DEBT OUTSTANDING:**

The annual percent change in credit market debt by sector.

**U.S. CORPORATE SPREADS:**

The spread between U.S. 10-year Moody's Baa-rated corporate bonds and 10-year U.S. Treasuries.




Sources: Federal Reserve Bank; Bloomberg

## BANKING TRENDS
### 1st Quarter 2013 Highlights

FDIC insured financial institutions reported record net income of $40.3 billion during the quarter, driven largely by lower provisions for loan loss and higher noninterest income. However, most of the increase in noninterest income was driven by one-time items at the industry's largest institutions. Only half of the industry reported net income improvement from the prior year.

The average net interest margin (NIM) for the industry declined to 3.27% from 3.51% in the first quarter of 2012, representing the lowest NIM since 2006.

Asset quality continued to improve during the quarter as chargeoffs and nonaccrual loans declined. Residential mortgage loans showed the greatest asset quality improvement.

Total assets of insured institutions declined by 0.2% in the first quarter led by a drop in securities purchased under resale agreements and a seasonal decline in credit card balances. With the expiration of temporary unlimited deposit insurance for noninterest-bearing transaction accounts, non-interest bearing deposits with balances over $250,000 declined by 4.3% during the quarter while total deposits remained flat.

During the first quarter, mergers absorbed 55 institutions while just 5 institutions failed. The number of institutions on the FDIC's "problem list" declined for the seventh consecutive quarter to 612 from 651.

Source: FDIC: Quarterly Banking Profile

## BANK FAILURES

| 2013 | 13 |
|---|---|
| Georgia | 3 |
| North Carolina | 2 |
| Arizona | 2 |
| Florida | 2 |
| **2012** | **51** |
| Georgia | 10 |
| Illinois | 8 |
| Florida | 8 |
| Minnesota | 4 |
| Missouri | 4 |

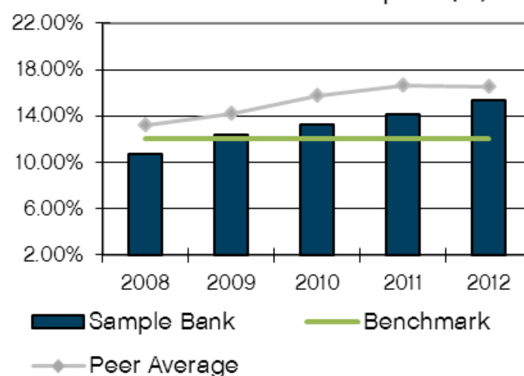
Source: Federal Deposit Insurance Corporation (FDIC)

## PRUDENT MAN PROCESS
### The Prudent Man Analysis

The Prudent Man Process includes a four step process which begins with gathering data and analyzing a bank's credit quality and continues with ongoing risk management throughout the life of a deposit. The process helps public funds investors avoid repayment, reinvestment and reputation risk that may be associated with a bank failure.

### Step 2: Data Analysis – Quantitative

Total Risk-Based Capital / Risk-Weighted Assets (%) is one of three regulatory capital ratios used to determine capital adequacy for regulatory purposes. Capital provided by stockholders and owners provides a cushion against default in the event that profitability deteriorates. A bank is expected to maintain capital levels proportionate to the bank's risk profile and management's capabilities. Total Risk Based Capital is graphed to compare a bank to historical trends, bank peers and performance benchmarks.

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