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C&I loan growth halts during Q3 for nation's small banks

By Kelsey Bartlett and Zain Tariq **November 15, 2017**

Following a second quarter of strong commercial-and-industrial loan growth, small-bank C&I lending was generally weaker during the third quarter of 2017.

Also during the quarter, multifamily loan growth continued to decline.

Community banks between $1 billion and $10 billion in assets grew C&I loans 0.5% quarter over quarter, and multifamily loans 1.2%. Meanwhile, smaller community banks struggled in both categories. Median multifamily lending sank 0.8% at banks between $100 million and $1 billion in total assets, and C&I lending was flat. For banks with less than $100 million in total assets, multifamily loans decreased 1.2%, and C&I loans fell 0.7%.

Regionally, the West experienced the weakest median C&I loan growth, down 0.7% from the second quarter. Only the Southeast and the Northeast experienced median C&I growth quarter over quarter, up 0.6% and 0.1%, respectively. Nationally, C&I loans fell 0.1% quarter over quarter.

The Northeast's third-quarter growth was down from a rate of 3.0% in the prior quarter. Piper Jaffray's Matthew Breese wrote that, among the banks he covers in the region, third-quarter loan growth was disappointing, and he lowered his 2018 and 2019 loan-growth projections. He said a higher cost of funding and lower transaction volumes attributed to pricing changes and weaker loan growth.

"In our view, the combination of a flatter yield curve and slower loan growth outlook were the primary drivers of weaker post 3Q17 performance for the Northeast banks," Breese wrote.

Overall, small-bank lending improved marginally across most categories during the third quarter. In a research note, Baird Equity Research's David George wrote investor sentiment remains "broadly positive" across the industry.

But George wrote post-election improvement in borrower sentiment has "yet to translate into improving loan growth." He said he expects lending to "remain constrained by a confluence of factors." He noted the outlook for credit demand was mixed, with some banks citing improving production pipelines, and other increasingly passing on commercial lending opportunities.

The nation's smallest banks, or those with less than $100 million in assets, were hit the hardest. Compared to the second quarter, banks smaller than $100 million experienced losses in nearly every category, aside from gross and consumer loans. Median gross loans increased by 1.1% quarter over quarter, and median consumer loans were up 0.2%.

Median commercial real estate loan growth was the strongest category for banks with $1 billion to $10 billion in assets, up 1.8% quarter over quarter. Median CRE lending grew 1.0% at banks with $100 million to $1 billion in assets. Both asset classes experienced median gross loan growth of 1.6%.

Raymond James analyst David Long noted recent data released by the Federal Reserve suggests small-bank commercial loan growth is on the rise in the fourth quarter. For the week ending Nov. 1, small-bank loan balances rose 0.3%, while falling 0.1% at large banks. Long wrote the increase reflects a 0.8% increase in the "inherently volatile" other loans category, a 0.3% increase in C&I, consumer real estate and consumer loans, and a 0.1% increase in CRE loans.

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