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S&P Global
Market Intelligence

Small-bank lending bounces back in Q2; outlook remains strong

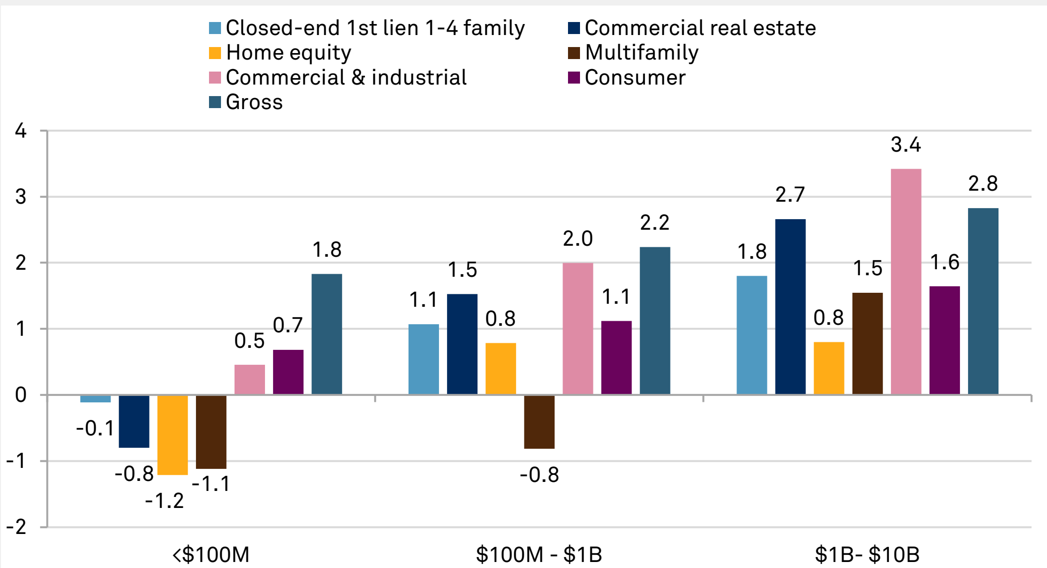
By Kelsey Bartlett and Zain Tariq **Aug. 17, 2017**

Small-bank loan growth expanded across most categories during the second quarter of 2017, outpacing large-bank loan growth in areas such as commercial-and-industrial lending.

C&I lending increased across each asset threshold for banks with less than $10 billion in assets. Banks in the $1 billion to $10 billion asset class experienced the strongest C&I growth, up by a median of 3.4% from the first quarter of 2017. Regionally, the Northeast experienced the strongest median C&I growth, up 3.0%. The national quarter-over-quarter increase was 1.9%.

Community bank median loan growth by asset size and type (%)

Q2'17 vs. Q1'17 change



Data compiled Aug. 9, 2017.
Analysis includes all U.S. commercial banks, savings banks, and savings and loan associations below $10 billion in total assets at the end of the second quarter and first quarter of 2017. The ultimate parent also must be below $10 billion in assets at June 30, 2017.
Nondepository trust-chartered banks, industrial banks and companies with a loans-to-assets ratio below 25% at June 30, 2017, are excluded.
Data based on calendar-year quarters from regulatory filings.
Commercial real estate is nonfarm and nonresidential.
Closed-end 1st lien 1-4 = closed-end, first-lien one- to four-family loans
Consumer loans exclude home equity loans.
Home equity loans include revolving open-end one- to four-family loans (home equity lines) and closed-end junior lien one- to four-family loans.
Loan categories are not representative of the entire loan portfolios.
Source: S&P Global Market Intelligence

Lending is expected to remain subdued at the nation's largest banks, where the Federal Reserve reported a flattening in C&I activity. But analysts say pipelines remain strong for community banks.

In an interview, Keefe Bruyette & Woods analyst Christopher McGratty said, based on earnings commentary, he expects small-bank loan growth to be in the high single digits in the back half of the year.

"You saw a decent rebound in commercial lending, and that's what most of these banks are trying to do, because of the variability of the interest rate and the asset sensitivity," McGratty said, "and typically, you get some deposits with it."

In a research note, Raymond James analysts also expressed optimism that the surge in C&I lending will accelerate loan growth in the second half of the year, "particularly if Congress can provide some conviction that it can get something done to stimulate the economy."

A slow first quarter was largely attributed to seasonality and uncertainty in Washington.

Among other trends, consumer lending rebounded in the second quarter, with the exception of the Southwest, where it experienced a 0.1% median decline.

For banks with $1 billion to $10 billion in assets, multifamily lending increased by a median of 1.5% from the linked quarter, but decreased 0.8% for banks with $100 million to $1 billion in assets, and 1.1% for banks with less than $100 million in assets.

Home equity lending shrank at banks with less than $100 million in assets, but the median increased quarter over quarter for banks with $1 billion to $10 billion in assets.

“In general, the mortgage market did pretty good in the second quarter,” McGratty said. “One benefit of the long-term rates coming down is that it spurts mortgage banking. Banks can either sell the production or retain it, and if they retain it, they typically show pretty good one- to four-family loan growth.”

Loan trends by region and type

As of June 30, 2017

	Gross loans & leases		C&I		CRE & multifamily		Consumer		Mortgage & home equity	
	Total ($B)	Median QOQ change (%)	Total ($B)	Median QOQ change (%)	Total ($B)	Median QOQ change (%)	Total ($B)	Median QOQ change (%)	Total ($B)	Median QOQ change (%)
Mid-Atlantic	290.09	2.1	31.90	1.9	122.87	2.5	12.72	0.8	98.45	1.0
Midwest	604.95	2.2	90.60	2.0	184.92	0.8	31.91	1.6	159.19	0.7
Northeast	177.54	2.0	17.54	3.0	60.57	2.0	4.54	2.4	80.80	1.1
Southeast	342.48	2.2	42.81	1.8	127.24	1.5	16.49	0.7	100.79	1.3
Southwest	274.28	2.2	50.39	1.1	93.26	1.9	10.84	-0.1	60.57	1.3
West	191.41	2.8	26.08	2.4	95.54	2.2	6.37	0.7	37.72	0.9
National	**1,880.76**	**2.2**	**259.34**	**1.9**	**684.40**	**1.4**	**82.87**	**1.1**	**537.53**	**1.0**

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Nondepository trust-chartered banks, industrial banks and companies with a loans-to-assets ratio below 25% at June 30, 2017 are excluded.
Data based on regulatory filings.
Banks are assigned regions based on headquarters.
Commercial real estate is nonfarm and nonresidential.
Mortgage includes closed-end, first-lien one- to four-family loans
Consumer loans exclude home equity loans.
Home equity loans include revolving open-end one- to four-family loans (home equity lines) and closed-end junior lien one- to four-family loans.
Loan categories are not representative of the entire loan portfolios.
C&I = commercial and industrial; CRE = commercial real estate
Source: S&P Global Market Intelligence