A Selected Compilation of U.S. Banks' Accomplishments in 2020

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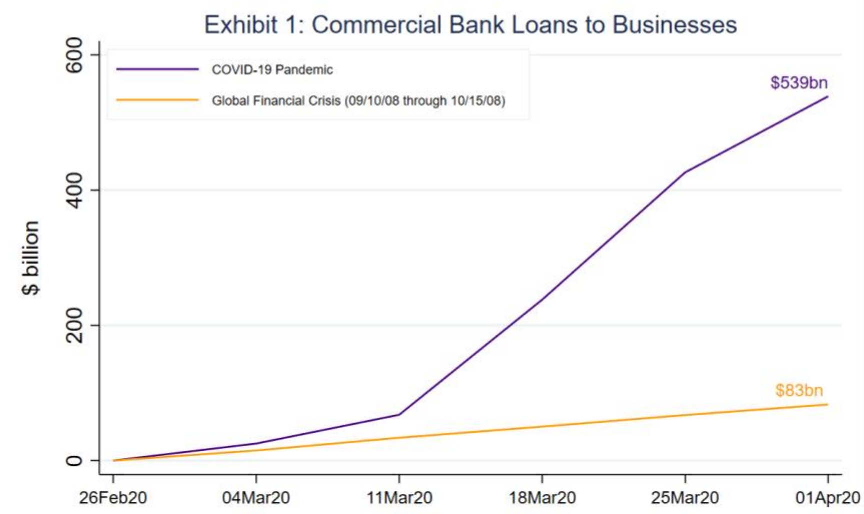
Throughout the COVID-19 crisis of 2020, banks provided credit and liquidity to businesses across the U.S., supporting small businesses through the Paycheck Protection Program (PPP), and taking unprecedented actions to accommodate borrowers, all while maintaining a high degree of resiliency. But as we approach earnings season, the focus of investors and the public will inevitably be on bank profits, the allowance for credit losses and capital distributions to shareholders. As a complement to this discussion, this post provides a summary of six of the major contributions made by U.S. banks last year. This list demonstrates the importance of banks' role in supporting our nation's ability to overcome the COVID-19 crisis and how their efforts also benefited low- and moderate-income communities. These contributions would not have been possible without a resilient and profitable banking sector, which is always necessary but especially so during periods of economic stress to help support the flow of credit to households and businesses during challenging times.

1. BANKS DEPLOYED ALMOST $540 BILLION IN LIQUIDITY TO BUSINESSES DURING MARCH, INCREASING THEIR LENDING 12 PERCENT DURING THAT PERIOD, OR 125 PERCENT ON AN ANNUALIZED BASIS.

While fiscal and central bank support for the economy was still nascent at the onset of the COVID-19 pandemic, firms turned to the banking system for financing support. Weekly data from the Federal Reserve's H.8 release shows that commercial loans to businesses increased approximately $539 billion between Feb. 26 and April 1. The unprecedented increase in loans in the H.8 clearly demonstrated that banks had the necessary strength to provide a massive amount of funds to nonfinancial businesses during a stress event. Moreover, the drawdown of bank lending commitments was far more intense in the early stages of the pandemic than during the period around the failure of Lehman Brothers in September/October 2008. Had banks not had the capital necessary to support the unprecedented spike in lending, the draws would have put strains on the banking system and would have led to broader financial distress. Note that the aggregate amount of common equity tier 1 capital held by banks rose more than $1 trillion since the global financial crisis (from $665 billion at the end of 2007 to 1,719 billion at the end of 2019).[1]

[1] Source is Federal Reserve Bank of New York, "Quarterly Trends for Consolidated U.S. Banking Organizations," available at https://www.newyorkfed.org/research/banking_research/quarterly_trends.html.



Source: Federal Reserve Board, Assets and Liabilities of Commercial Banks in the United States, H.8 release.

Note: Commercial lending is defined as the sum of commercial and industrial loans, commercial real estate loans secured by nonfarm nonresidential properties and loans to nondepository financial institutions.

2. BANKS DISBURSED MORE THAN $500 BILLION IN PPP FUNDS, PRIMARILY TO AREAS THAT EXPERIENCED THE HIGHEST ECONOMIC DISRUPTION BECAUSE OF THE PANDEMIC, AND THEY INCREASED THE AMOUNT OF SMALL BUSINESS LOANS ON THEIR BOOKS MORE THAN 50 PERCENT.

The Paycheck Protection Program offered forgivable loans to small businesses to help maintain employment and wages during the COVID-19 pandemic. The program involved nearly 5,500 lending institutions and disbursed 5.2 million loans totaling $525 billion between April 3 and Aug. 8, 2020. Analysis of the geographic distribution off PPP loans indicates that the PPP effectively channeled loans to states most affected by the COVID-19 pandemic. Exhibit 2 displays a scatterplot of PPP loan amounts per small business employee in each state (y-axis) and the percentage decline in workplace mobility (x-axis). The chart shows strong positive correlation (56 percent) between PPP dollars per small business employee and decline in workplace mobility. This demonstrates that banks dispersed more PPP loans to states that experienced the highest economic disruption because of the pandemic.

The data also indicate that large banks were especially active in the areas hardest hit by the pandemic and attentive to the credit needs of the smallest firms. For instance, the mean PPP loan amount of the nine largest retail banks was 93,000 (compared to 103,000 for all other lenders), and about 70 percent of the loans of these nine large banks were for amounts under $50,000 (similar to other lenders.)[2]

[2] The largest nine banks as measured by their amount of deposits outstanding are Bank of America, Capital One, Citibank, JPMorgan Chase, PNC, TD Bank, Truist, US Bank and Wells Fargo. See also the post here for the results of our first survey on average loan size and the number of employees of the small businesses they served.

Exhibit 2: States Experiencing Greater Economic Disruption Received More PPP Loans

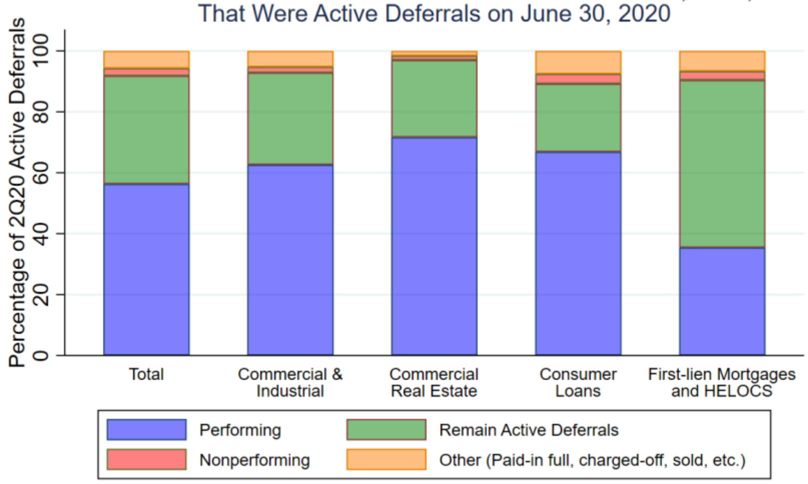
Source: U.S. Small Business Administration, Paycheck Protection Program Report; U.S. Census Bureau; Google.

Note: The series plotted in the x-axis is the average percent decline in visits to the workplace relative to Google's baseline between February 15 and May 2, 2020.

3. LARGE BANKS MODIFIED ABOUT $330 BILLION IN LOANS (OR ABOUT 6 PERCENT OF ALL LOAN BALANCES) IN THE EARLY STAGES OF THE PANDEMIC.

Certain segments of U.S. consumers and economic sectors were made especially vulnerable during the pandemic. As a result, banks undertook unprecedented actions to ease the financial burden on U.S. households during the COVID-19 event and help mitigate delinquencies and prevent harm to borrowers' credit scores. According to the Federal Reserve's Supervision and Regulation [report](), banks have accommodated their borrowers in many ways, including payment deferrals, interest-only payment periods, fee waivers, forbearance and temporary suspensions from credit reporting. The Federal Reserve and other banking agencies encouraged banks to prudently work with borrowers in a safe and sound manner to mitigate adverse effects on consumers due to the pandemic.

Exhibit 3: Distribution of Loan Status on November 30, 2020, That Were Active Deferrals on June 30, 2020

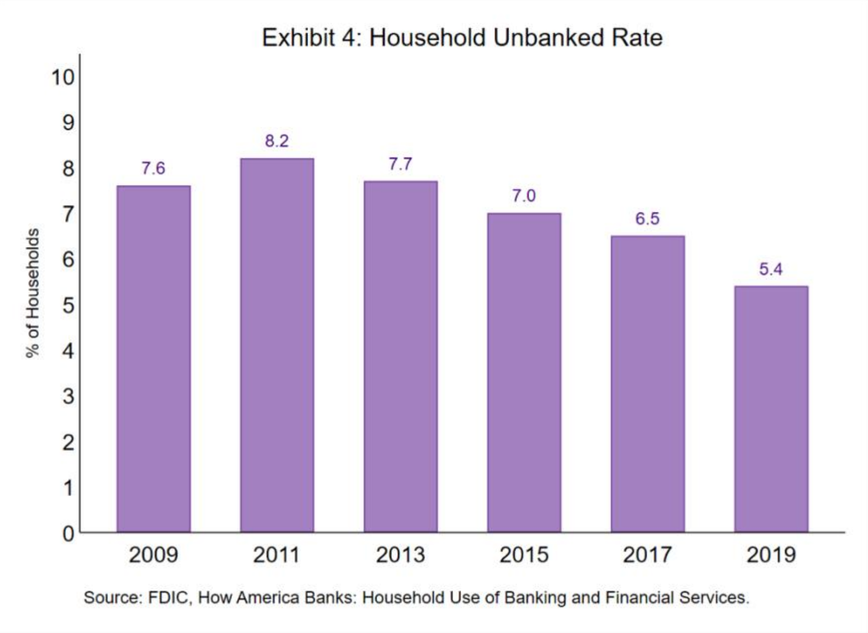


Note: Non-performing loans include accruing past due 90 days or more.
Source: Bank survey data, BPI calculations.

In addition, according to BPI's survey results the majority of loans that were in active deferral as of June 30, 2020 were performing as of Nov. 30, 2020. As shown in Exhibit 3, the share of performing loans is higher for business loans (the sum of commercial and industrial loans and commercial real estate loans) and consumer loans than for residential real estate loans. The higher share of residential real estate loans under deferral reflects the nature of the deferral tenor in residential real estate loans and does not represent a sign that those loans are experiencing more difficulties in migrating from the deferral status back to the performing status.

4. THE PROPORTION OF U.S. HOUSEHOLDS THAT WERE UNBANKED REACHED THE LOWEST LEVEL SINCE THE START OF FDIC'S BIENNIAL SURVEY IN 2009.

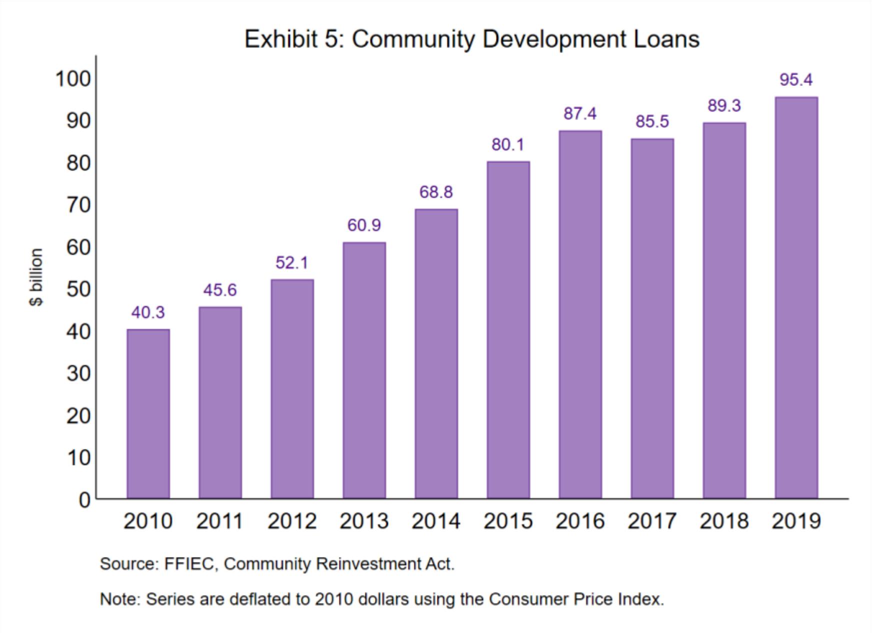
Bank accounts are essential to daily economic life and help foster household wealth accumulation through better access to saving tools and loans. In October 2020, the FDIC reported the results of its most recent survey on the household use of banking and financial services. Less than 5½ percent of U.S. households are unbanked (i.e., none of the members of the household had a bank account), the lowest level since the start of the biennial survey in 2009. Between 2011 and 2019 the unbanked rate declined 2.8 percentage points, which corresponds to approximately an increase of almost 2 million banked households over the past decade.



5. THE DOLLAR AMOUNT OF COMMUNITY DEVELOPMENT LENDING REACHED A RECORD LEVEL.

Community development loans play an important role to promote economic growth in the most underserved and distressed communities. Banks play a key role in financing such investments as a result of requirements embedded in the Community Reinvestment Act (CRA). During 2020, banks augmented their traditional community development financing with special initiatives aimed at mitigating harm wrought by the pandemic, improving economic mobility and building household wealth in low- and moderate-income communities (for example, see here, here and here).

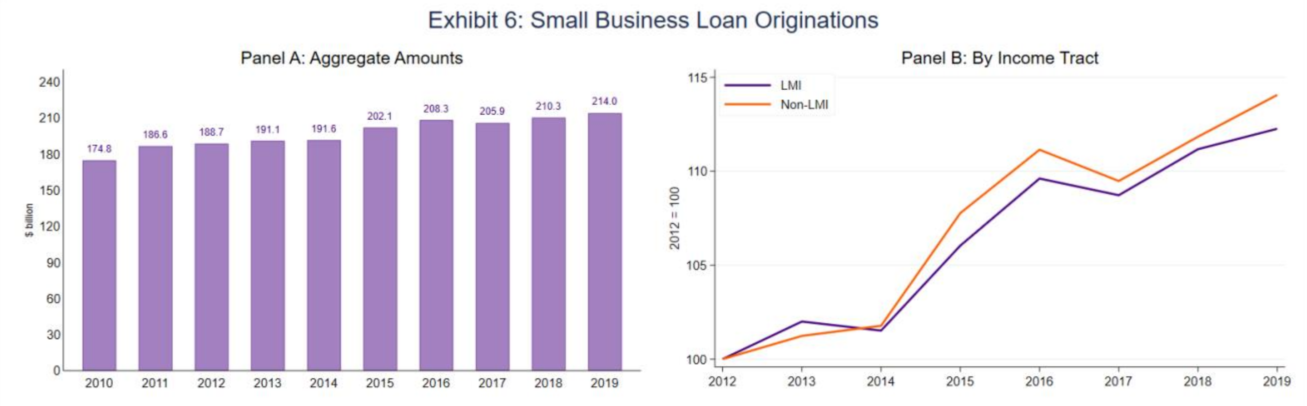
In December 2020, the FFIEC released its latest data on origination of community development and small business loans by banks, collected annually in accordance with CRA requirements. These data show that the dollar amount of community development lending reached nearly $112 billion in 2019 ($95 billion measured in constant, 2010 dollars), continuing a long-run upward trend as shown in Exhibit 4, a 7 percent increase from the prior year in real terms. These loans include affordable housing and community services targeted to LMI individuals, activities that promote economic development by financing small businesses and farms and the financing of activities that revitalize LMI and distressed and underserved areas. (The data do not incorporate much of the lending done by small community banks—those with less than $1 billion in assets—as they are not required to submit, although some do on a voluntary basis.)



6. SMALL BUSINESS LENDING HAS CONTINUED TO GROW APACE BOTH INSIDE AND OUTSIDE OF LOW- AND MODERATE-INCOME AREAS.

Lending by banks to small businesses is crucial for sustaining and growing this vital sector of the U.S. economy, and accordingly policymakers place high priority on maintenance of a robust small-business lending environment. The latest CRA data on small business loans originations by banks above $1 billion, released by the FFIEC in December 2020, show continued expansion of small business lending during 2019. These data show that the dollar amount of small business loans has continued its long-run upward trend, reaching $251 billion in 2019 ($214 billion measured in constant, 2010 dollars). This trend is depicted in Exhibit 5, which presents the time series of banks' small business loan originations (in constant, 2010 dollars) based on the CRA data. Small business lending has continued to grow apace both inside and outside of low- or moderate-income areas, as shown in Exhibit 6, which shows annual loan volume by neighborhood classification relative to 2012 (indexed at 100).[3]

[3] Note that a consistent comparison pre-2012 is not readily available due to a significant change in the census-tract geographic designations and therefore in the number of tracts that are classified low- and moderate-income.



Source: FFIEC, Community Reinvestment Act.

Note: Series are deflated to 2010 dollars using the Consumer Price Index.

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