

Are We Ready for Another Banking Crisis?

CRE and Consumer Credit Threats

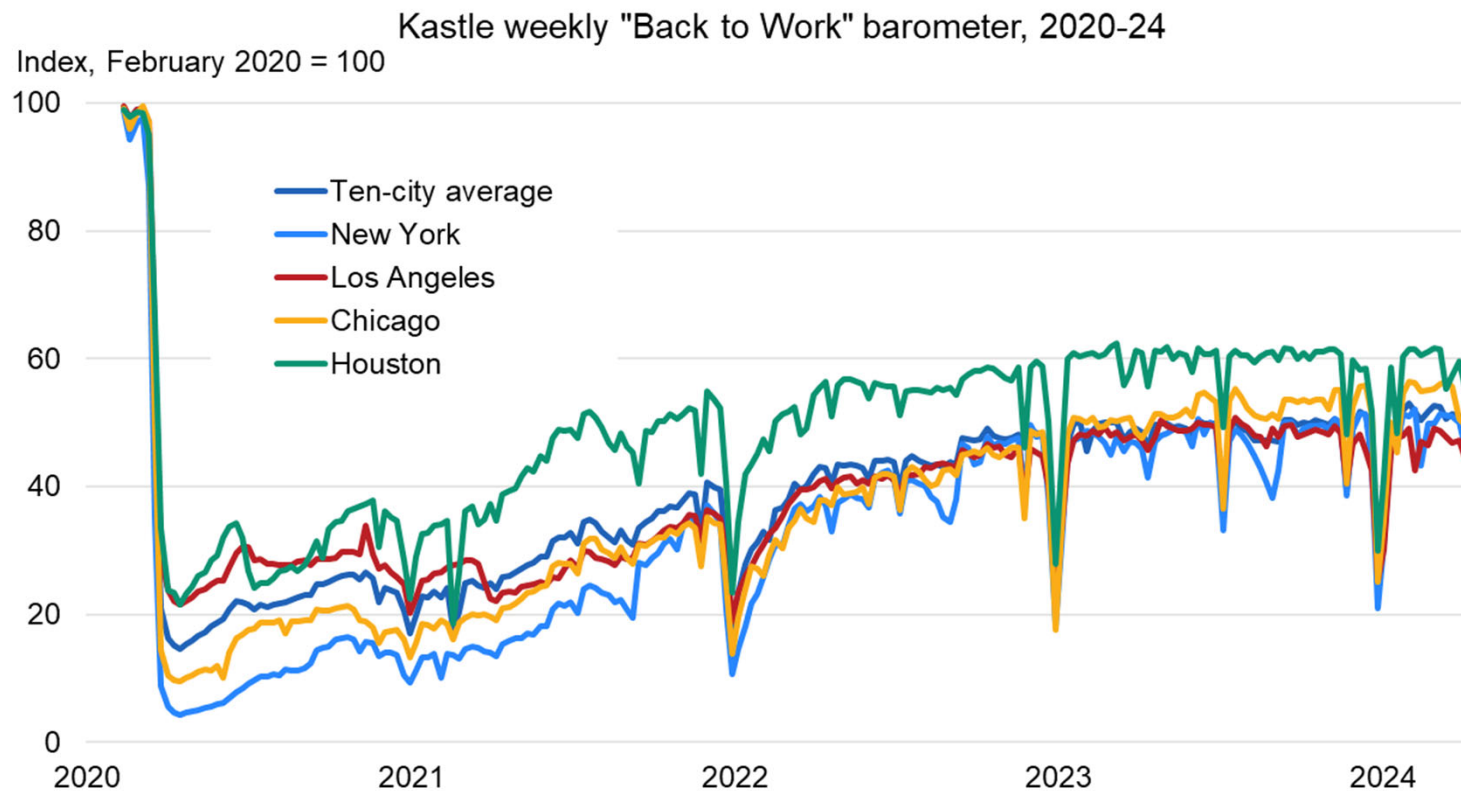
18 July 2024

Dana M Peterson



CRE

A smaller share of workers in the office



Note: 10-city average and selected city data as of March 13, 2024. The barometer reflects swipes of Kastle access controls from the top 10 cities, averaged weekly. It summarizes weekday building access activity among Kastle business partners, not a national statistical sample.

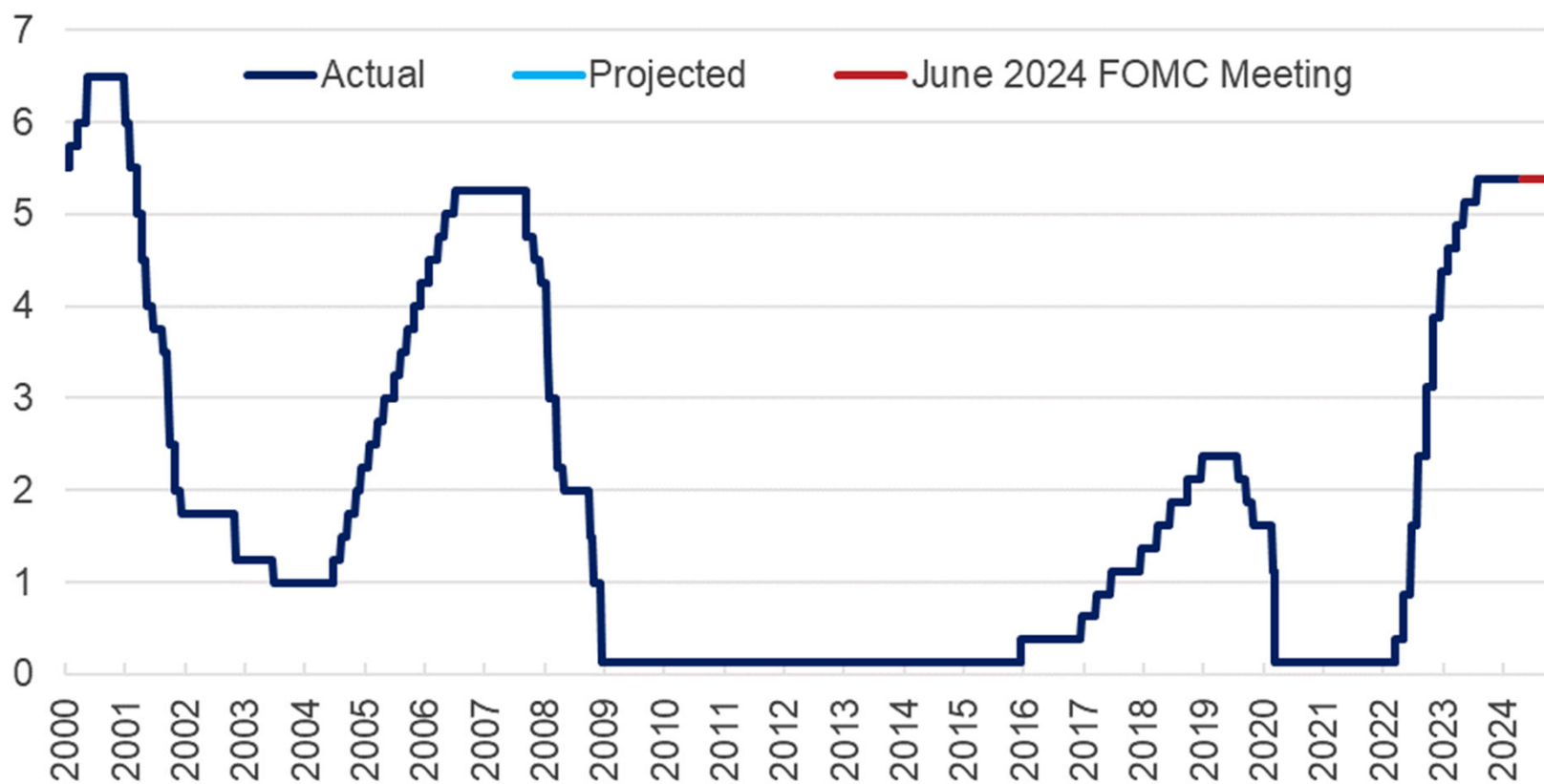
Source: Kastle, Bloomberg, The Conference Board, 2024



Fed Hikes to Quell Inflation

Interest Rates

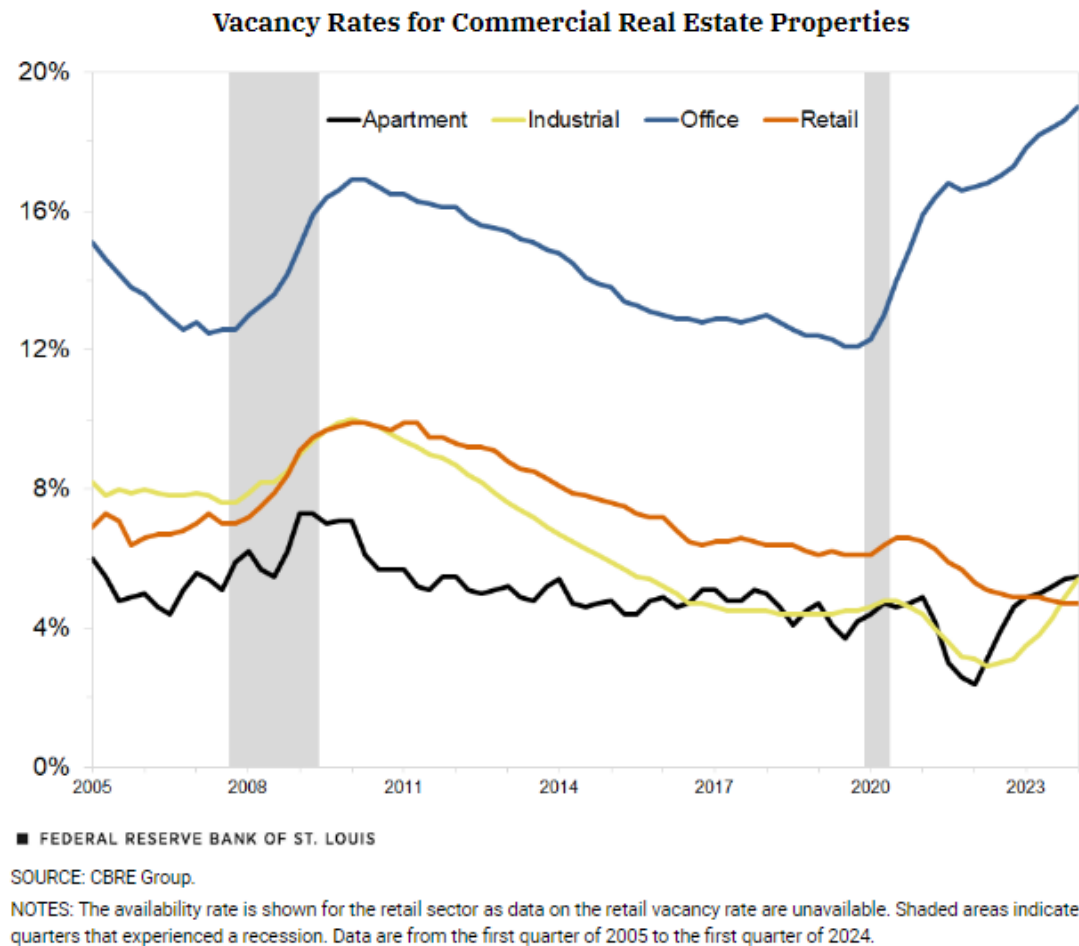
US: Federal Funds Rate Target (Midpoint of Range, %)



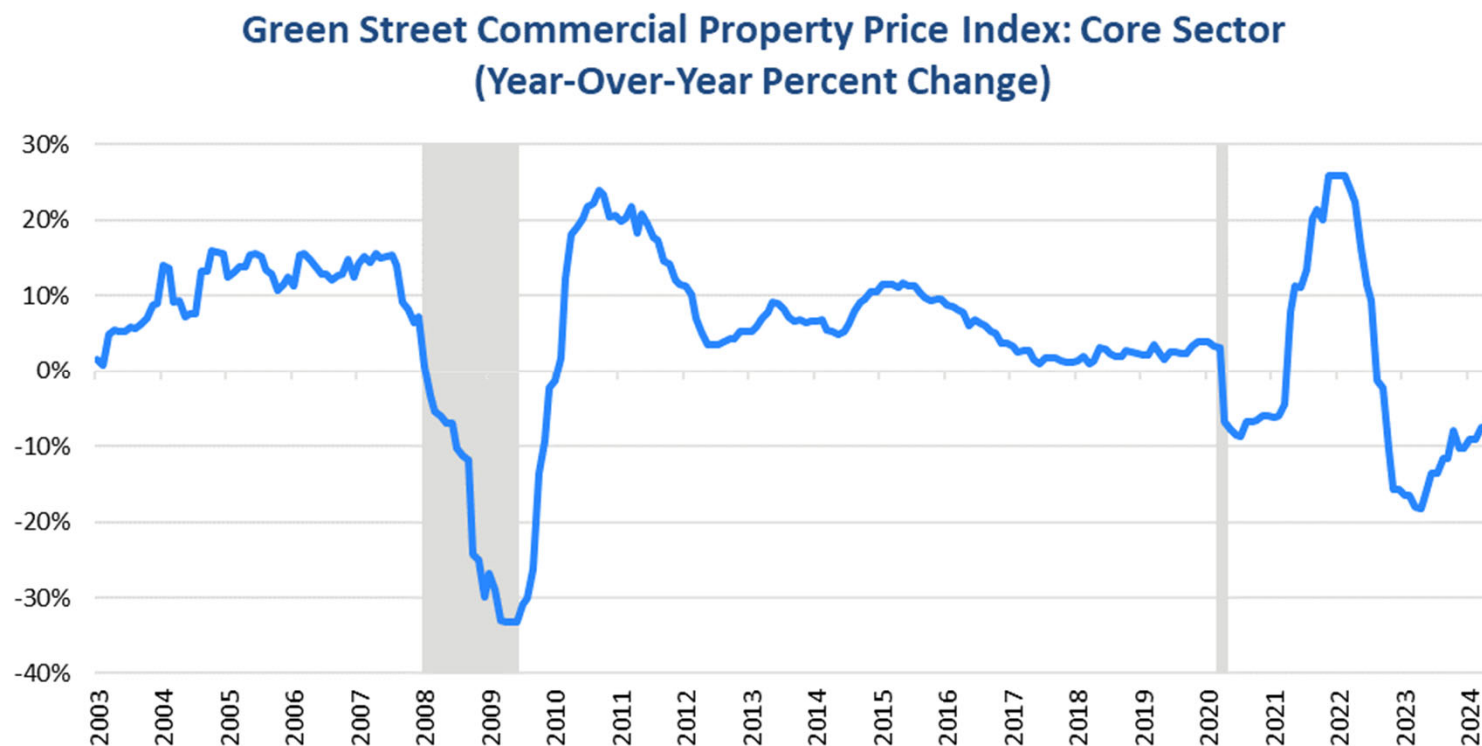
Sources: Federal Reserve Board and The Conference Board.



Office space vacancies rising aggressively



Commercial property prices declined, impacting valuations and loan refinancing

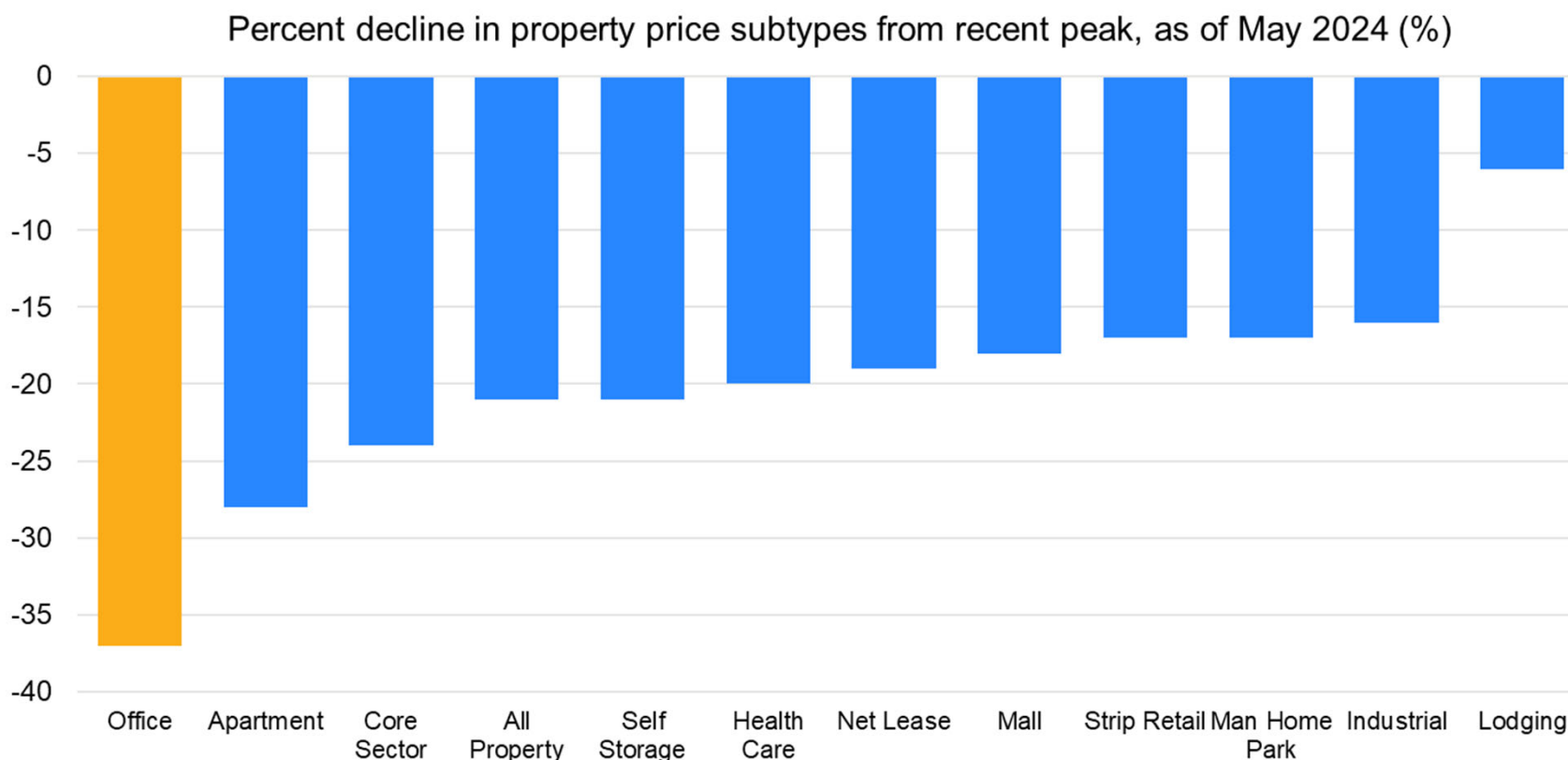


Note: **Core Sector CPPI®** weights: apartment (25%), industrial (25%), office (25%), and retail (25%)

Source: Green Street and The Conference Board.



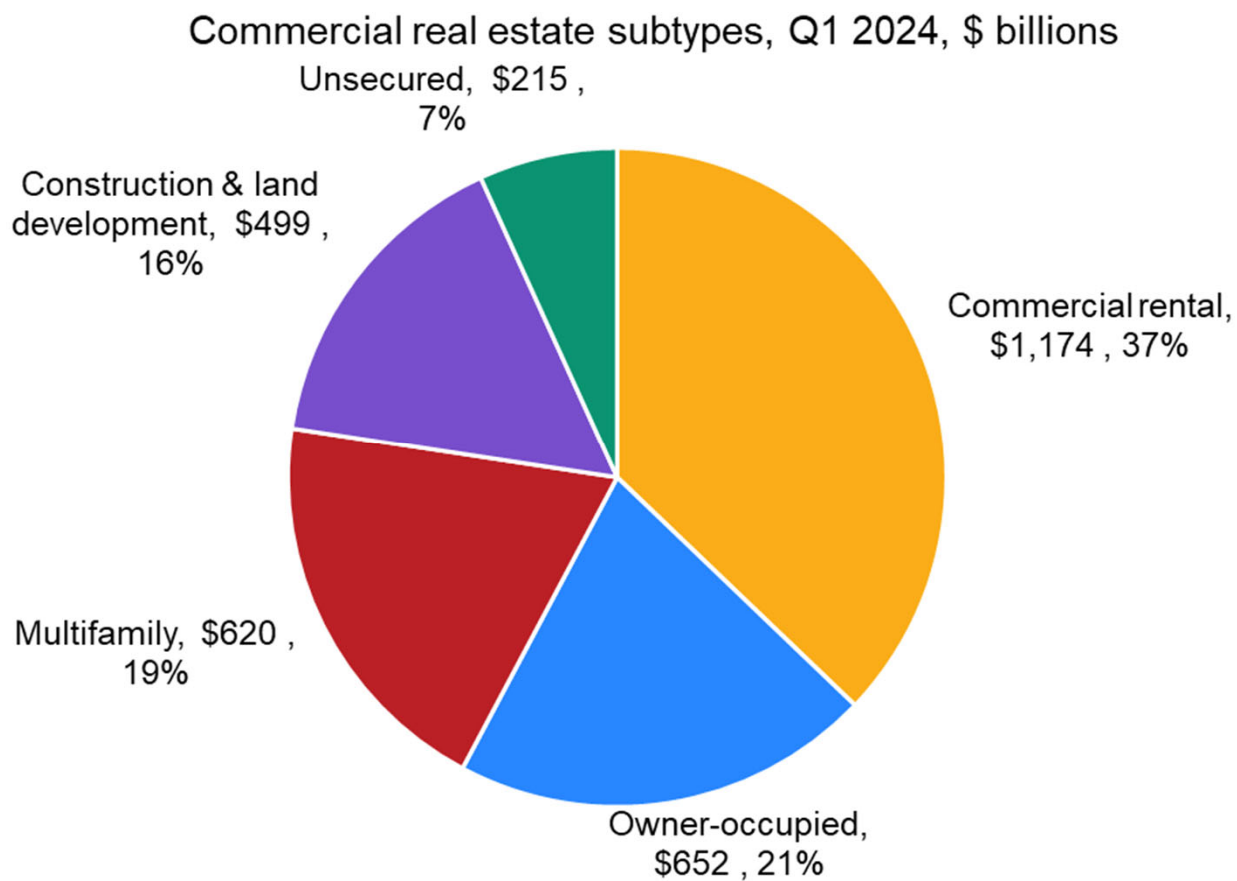
Office leading the downturn, but higher rates weighing across the board



Sources: Green Street and The Conference Board.



Bank CRE lending is diverse; office loans fall under “commercial rental”

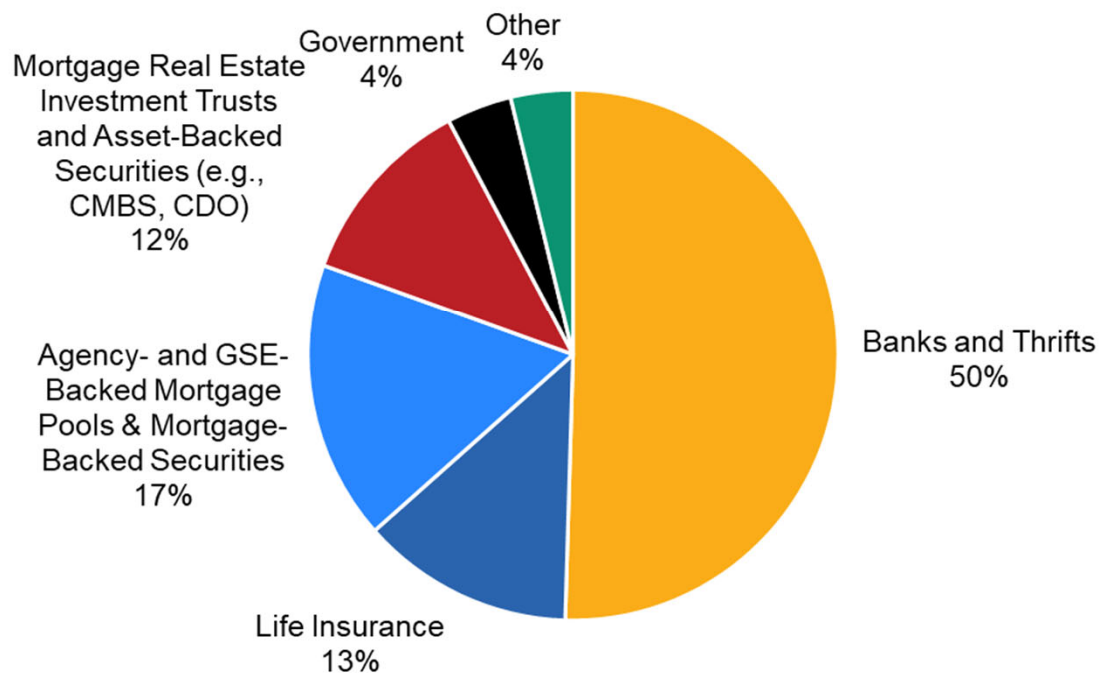


Sources: FDIC and The Conference Board.



Banks are the largest lenders to CRE projects

Commercial real estate holdings by asset owner, Q4 2023

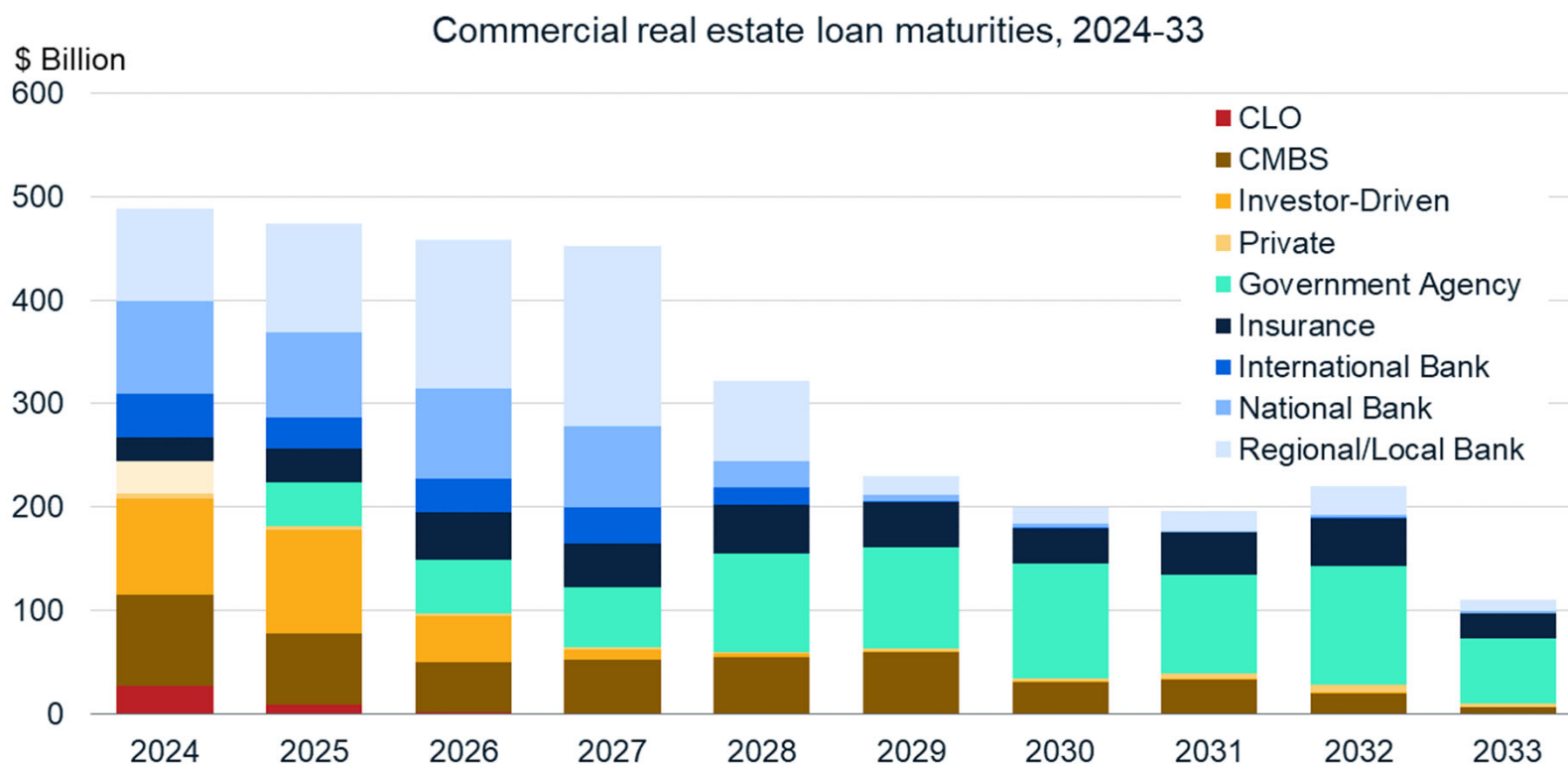


Note: Data as of the third quarter of 2023 and sourced from Tables L.219 and L.220 from the Flow of Funds Accounts. Total assets equal \$5.8 trillion, roughly two-thirds of which are commercial mortgages and one-third multifamily residential.

Sources: Federal Reserve Board and The Conference Board.



About \$1 Trillion in CRE Loans Due in 2024 and 2025, Half Held by Banks

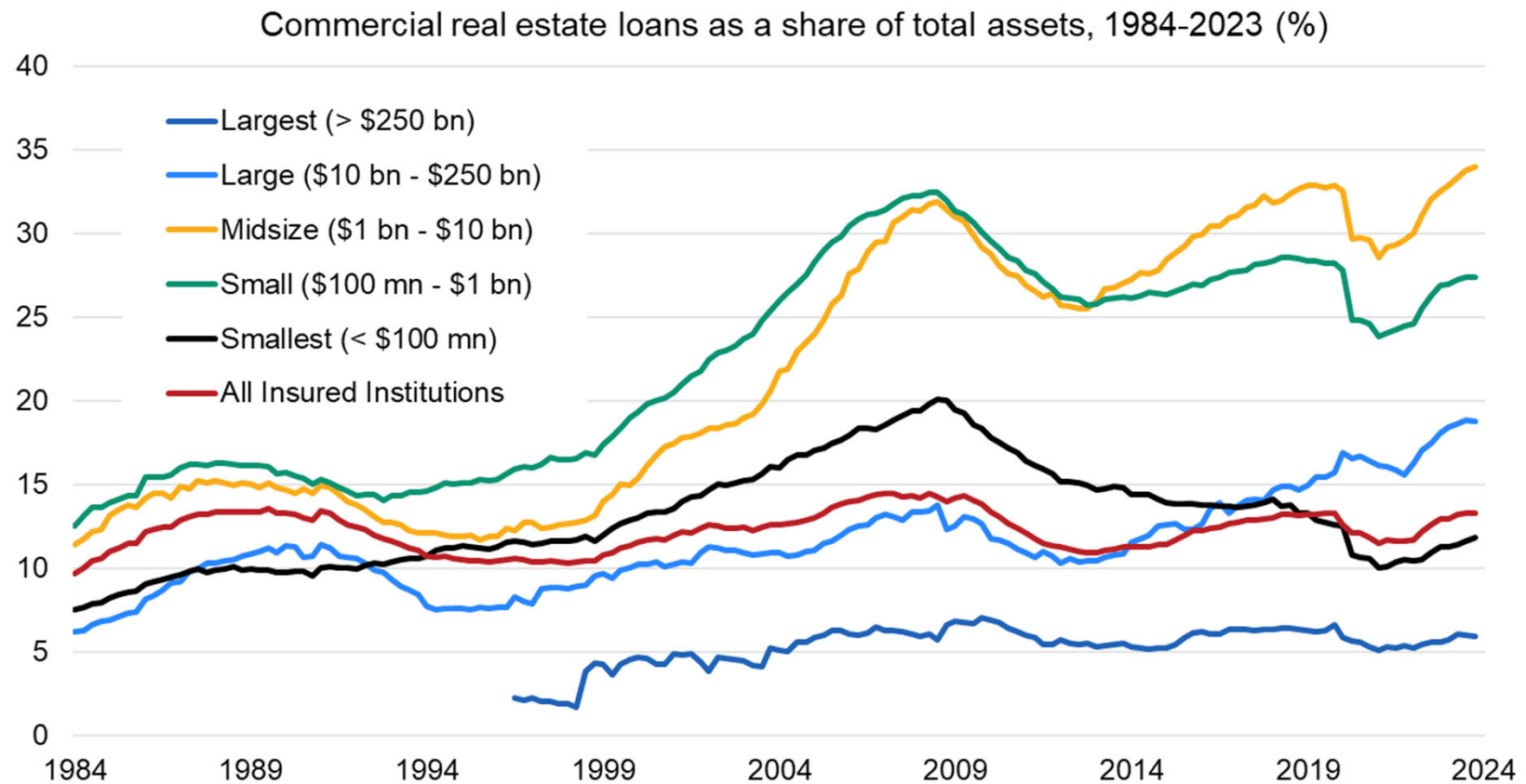


Note: Data as of Q4 2023. International banks include those banks with headquarters domiciled outside of the US. National banks include large banks subject to the Federal Reserve's strictest Comprehensive Capital Analysis and Review. Regional/local banks include all other banks. CMBS stands for Commercial Mortgage-Backed Security and CLO for Collateralized Loan Obligation.

Source: MSCI Real Assets, The Conference Board, 2024



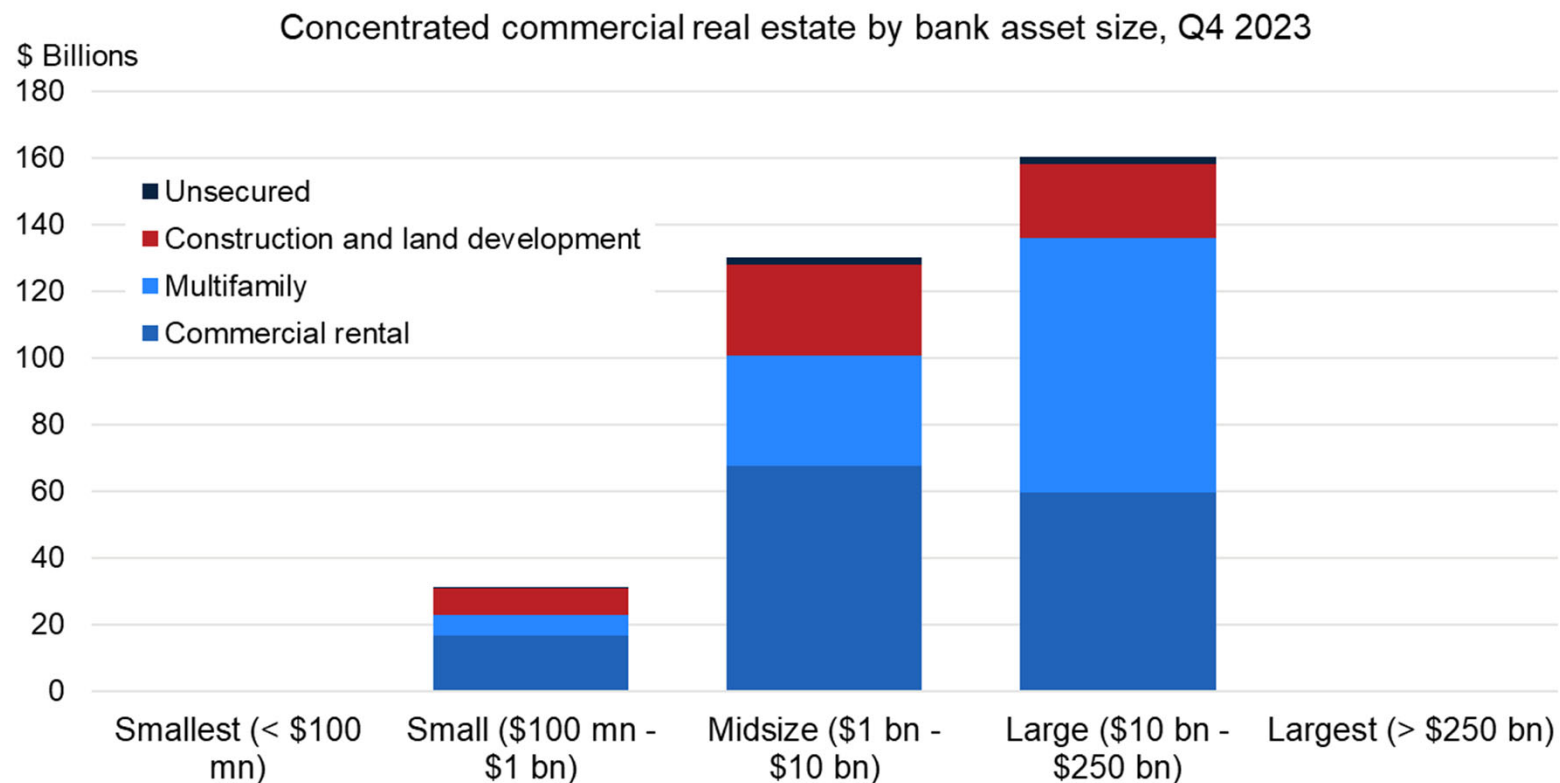
Large and midsize banks are primarily responsible for CRE loan growth



Sources: FDIC and The Conference Board.



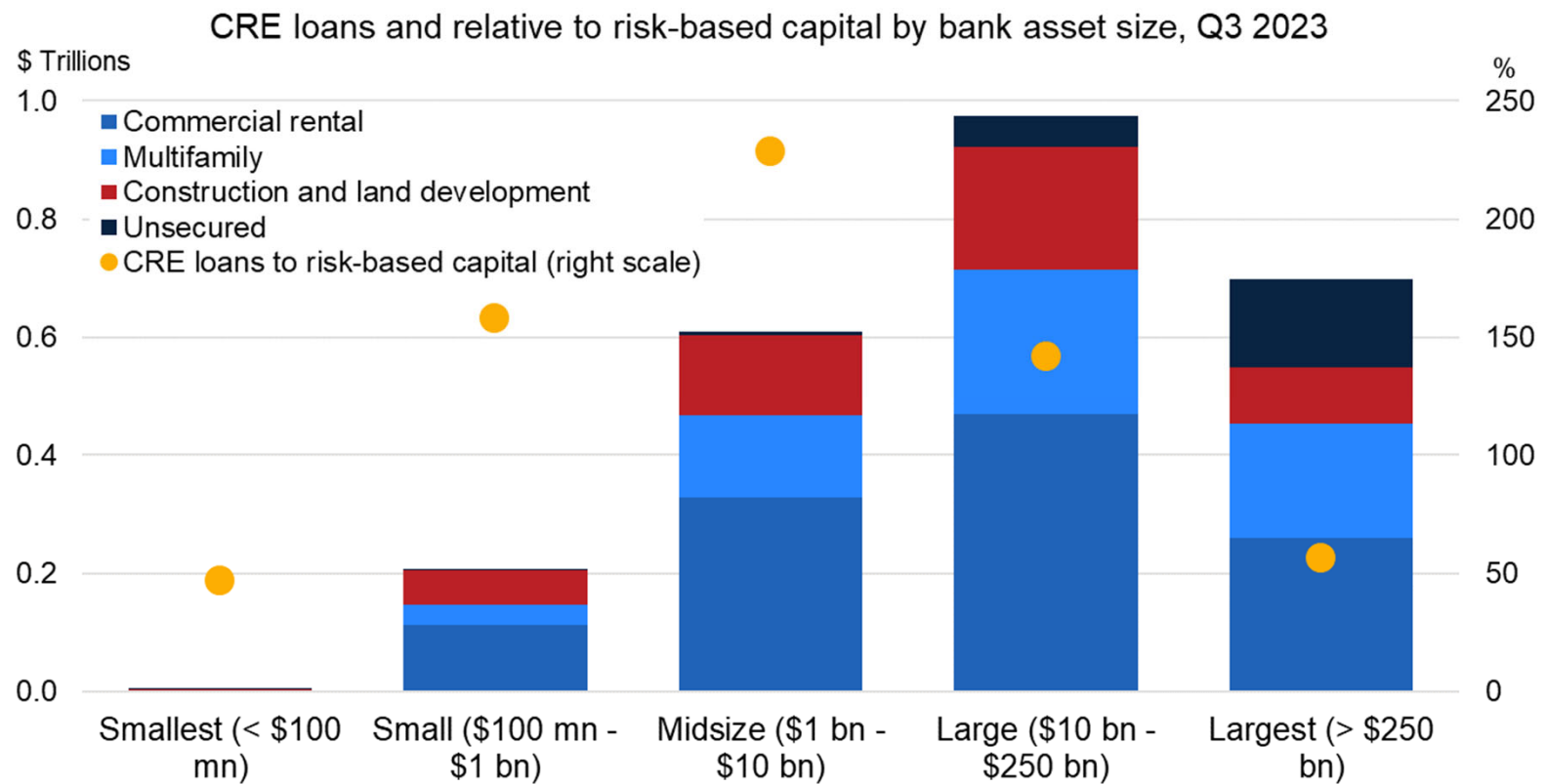
Most concentrated CRE loan books are found in midsize and large banks



Note: Data as of the third quarter of 2023. All commercial and savings banks in the U.S. Commercial real estate includes Commercial Real Estate Loans not Secured by Real Estate, Construction and Land Development Loans, 1-4 Family Residential Construction and Land Development Loans, Other Construction, All Land Development and Other Land Loans, Multifamily Residential Real Estate Loans and Commercial Real Estate Other Non-Farm Non-Residential. Sources: FDIC and The Conference Board.



Midsized banks' CRE loans exceed capital by 2.5 times

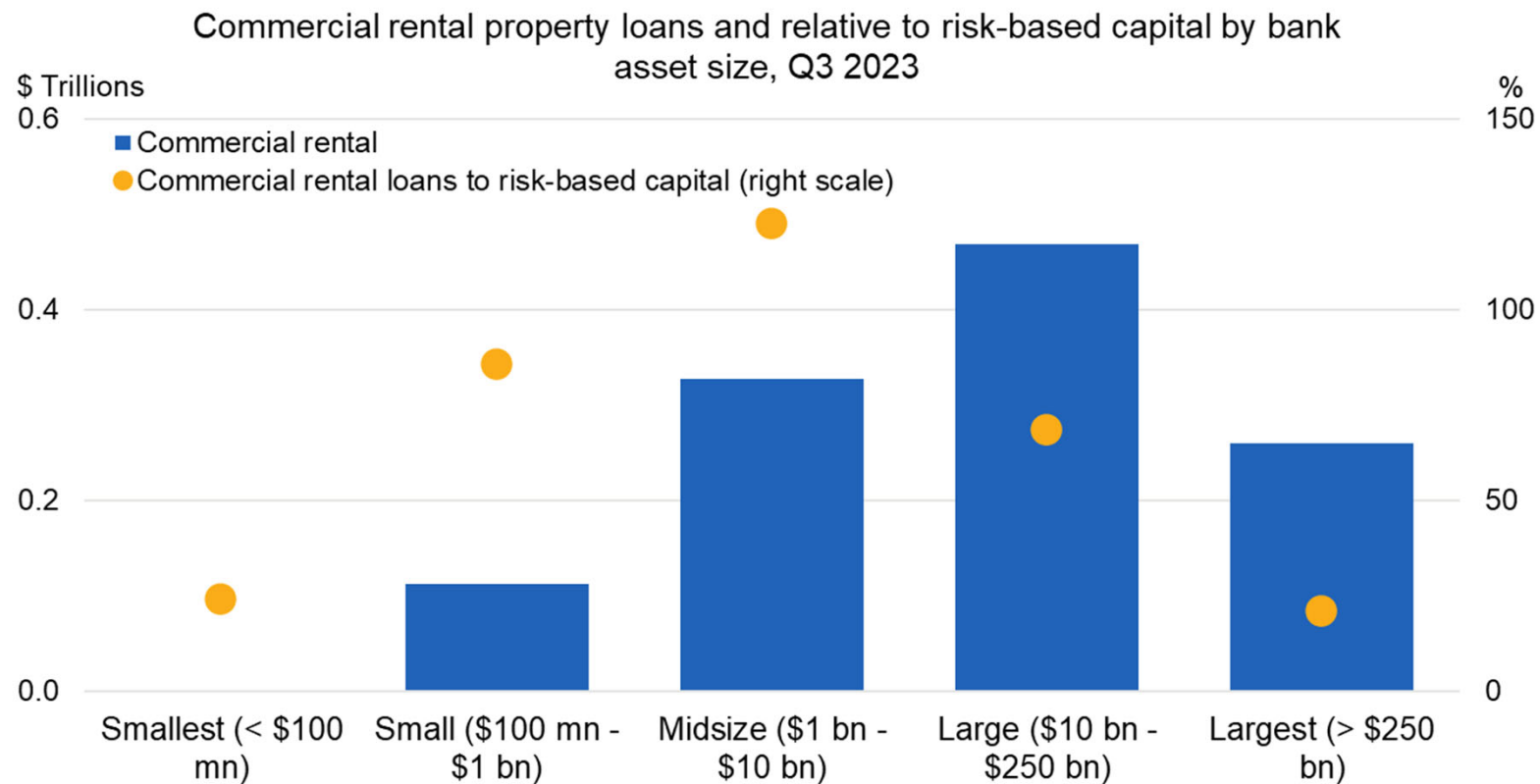


Note: Data as of the third quarter of 2023. Commercial real estate includes multifamily residential, construction and land development, commercial rental and unsecured commercial property loans, but excludes secured owner-occupied commercial property loans.

Sources: FDIC and The Conference Board.



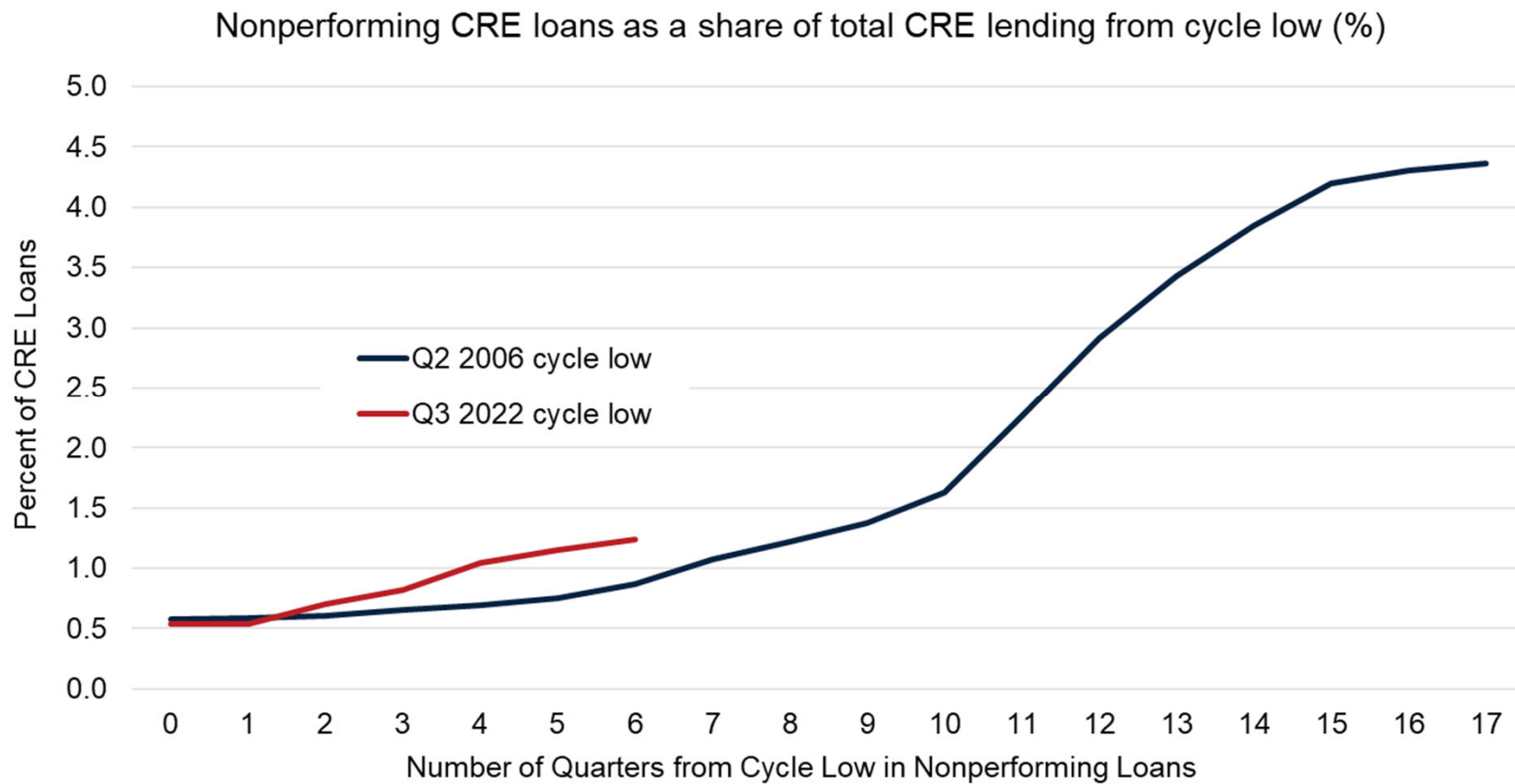
Midsized banks' loans to commercial rental properties exceed capital



Note: Data as of the third quarter of 2023.
Sources: FDIC and The Conference Board.



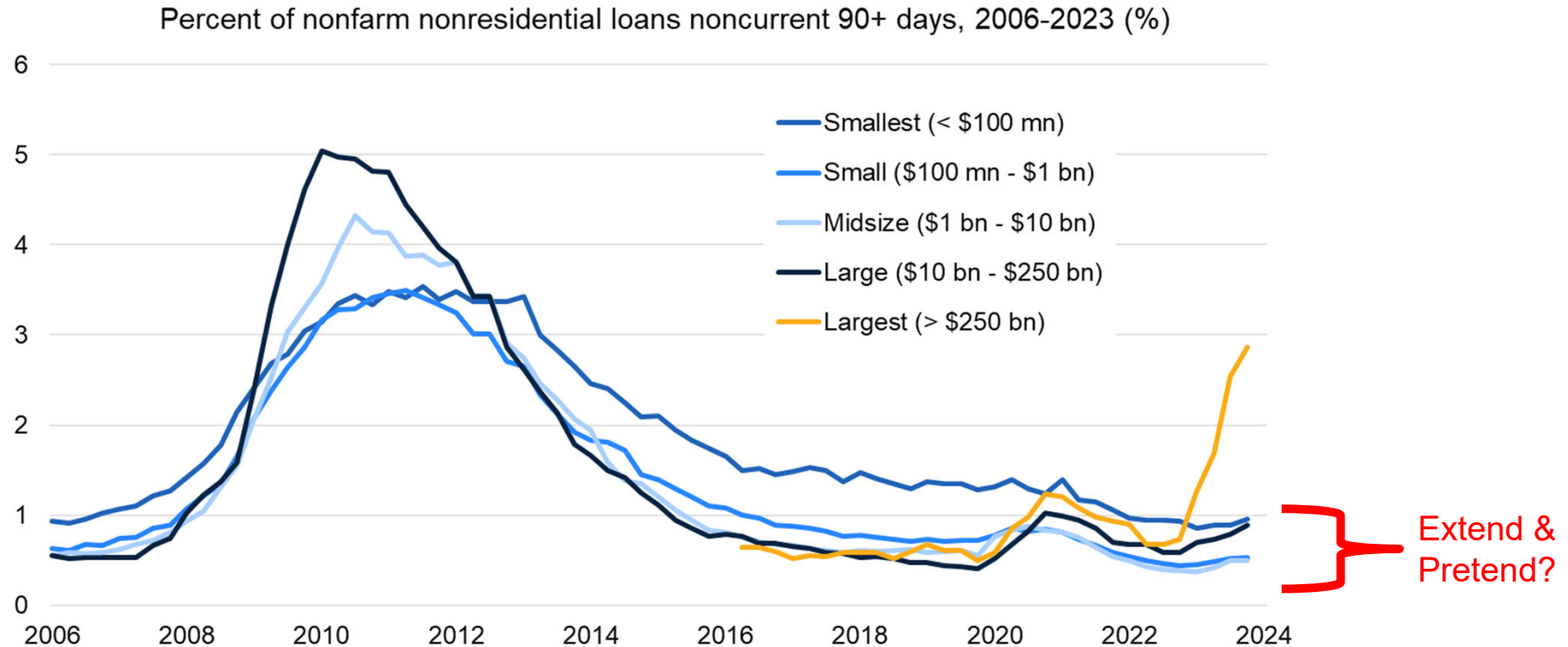
Nonperforming CRE loans exceeding global financial crisis pace



Sources: Bankregdata.com and The Conference Board.



Only the largest banks are recording loan delinquencies

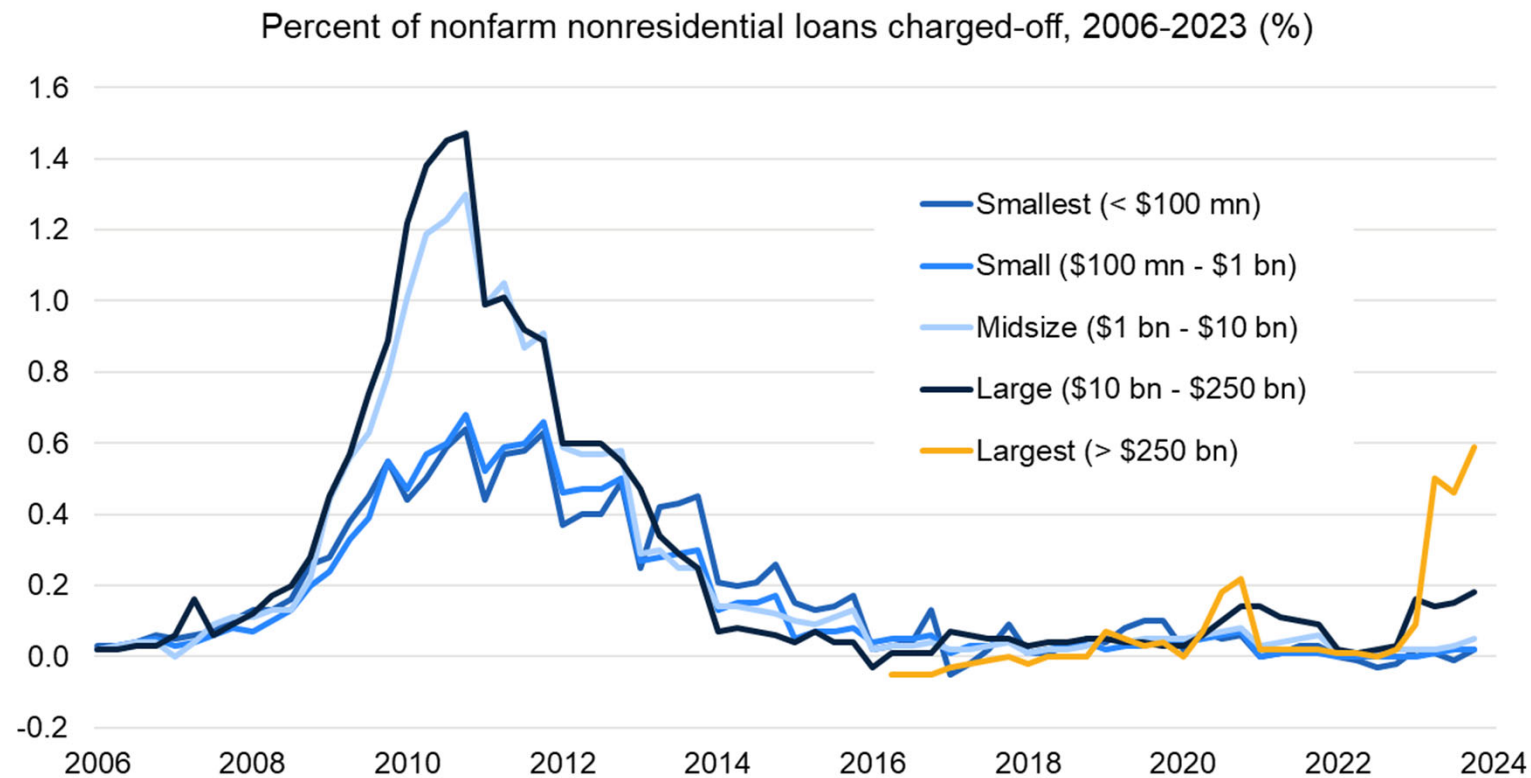


Note: Data as of the third quarter of 2023. Noncurrent loan rates represent the percentage of loans in each category that are past due 90 days or more or that are in nonaccrual status. The category for banks with assets greater than \$250 billion was introduced in 2016 when enough of the largest banks grew to this size. The FDIC labeled nonfarm nonresidential loans "commercial real estate" prior to 2007. Nonfarm nonresidential includes commercial rental and owner-occupied loans.

Sources: FDIC and The Conference Board.



Only the largest banks are recognizing losses on CRE loans

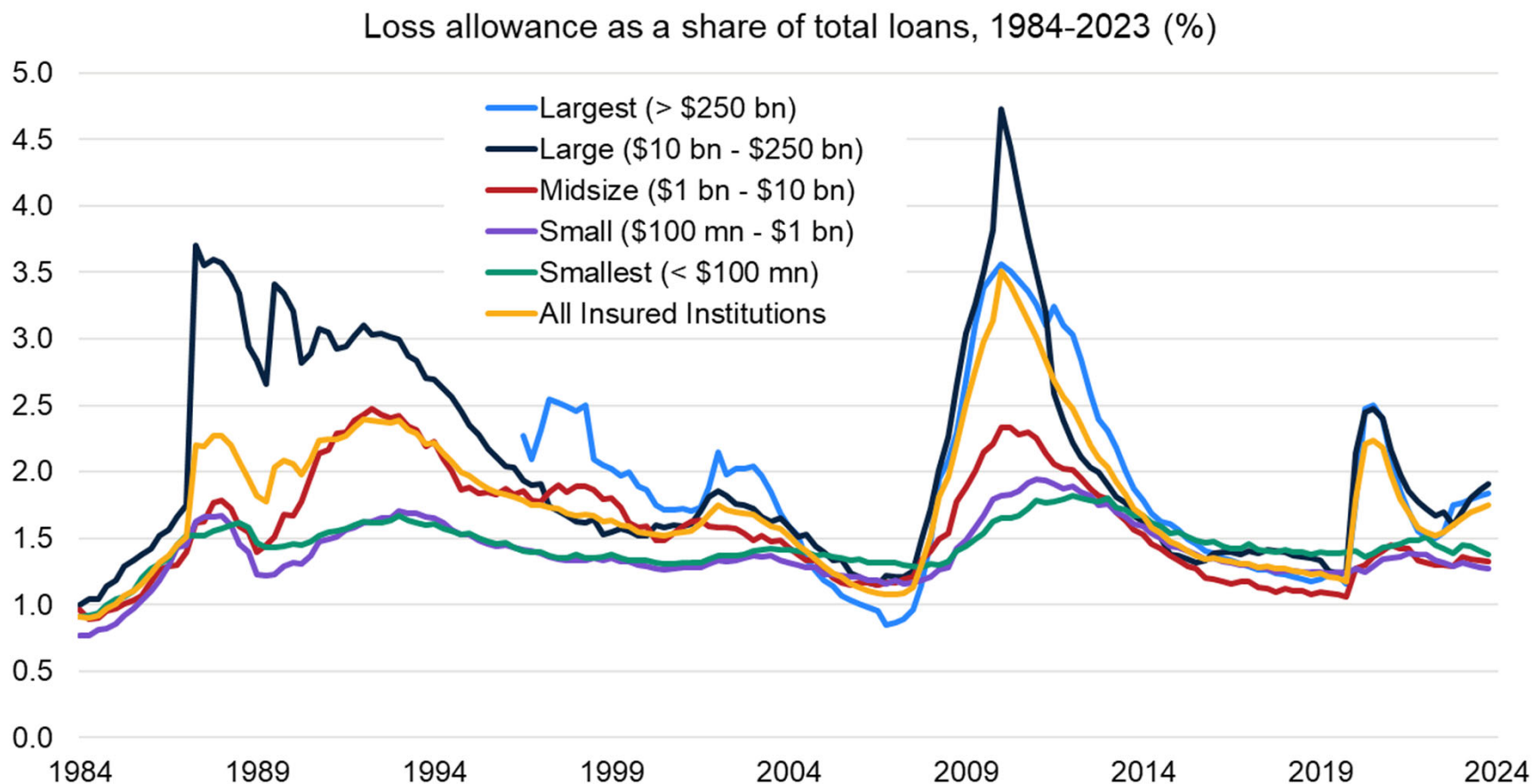


Note: Data as of the third quarter of 2023. The category for banks with assets greater than \$250 billion was introduced in 2016 when enough of the largest banks grew to this size. The FDIC labeled nonfarm nonresidential loans "commercial real estate" prior to 2007. Nonfarm nonresidential includes commercial rental and owner-occupied loans.

Sources: FDIC and The Conference Board.



Loan loss allowances have not risen to reflect a severe downturn in CRE



Sources: FDIC and The Conference Board.



Comparison: S&L Crisis

Selected Statistics, FSLIC-Insured Savings and Loans, 1980–1989
(\$Billions)

Year	Number of S&Ls	Total Assets	Net Income	Tangible Capital	Tangible Capital/Total Assets	No. Insolvent S&Ls*	Assets in Insolvent S&Ls*	FSLIC Reserves
1980	3,993	\$ 604	\$ 0.8	\$32	5.3%	43	\$ 0.4	\$ 6.5
1981	3,751	640	−4.6	25	4.0	112	28.5	6.2
1982	3,287	686	−4.1	4	0.5	415	220.0	6.3
1983	3,146	814	1.9	4	0.4	515	284.6	6.4
1984	3,136	976	1.0	3	0.3	695	360.2	5.6
1985	3,246	1,068	3.7	8	0.8	705	358.3	4.6
1986	3,220	1,162	0.1	14	1.2	672	343.1	−6.3
1987	3,147	1,249	−7.8	9	0.7	672	353.8	−13.7
1988	2,949	1,349	−13.4	22	1.6	508	297.3	−75.0
1989	2,878	1,252	−17.6	10	0.8	516	290.8	NA

* Based on tangible-capital-to-assets ratio.

¹ U.S. League of Savings Institutions, *Savings and Loan Sourcebook*, (1982), 37. It should be noted that during the 1980s, the state-sponsored insurance programs either collapsed or were abandoned.

Source: [An Examination of the Banking Crises of the 1980s and Early 1990s: The Savings and Loan Crisis and Its Relationship to Banking](#), FDIC.



Comparison: S&L Crisis

S&L Failures, 1980–1988 (\$Thousands)

Year	Number of Failures	Total Assets	Estimated Cost	Supervisory Mergers	Voluntary Mergers
1980	11	\$ 1,348,908	\$ 158,193	21	63
1981	34	19,590,802	1,887,709	54	215
1982	73	22,161,187	1,499,584	184	215
1983	51	13,202,823	418,425	34	83
1984	26	5,567,036	886,518	14	31
1985	54	22,573,962	7,420,153	10	47
1986	65	17,566,995	9,130,022	5	45
1987	59	15,045,096	5,666,729	5	74
1988	190	98,082,879	46,688,466	6	25

Sources: FDIC; and Barth, *The Great Savings and Loan Debacle*, 32–33.

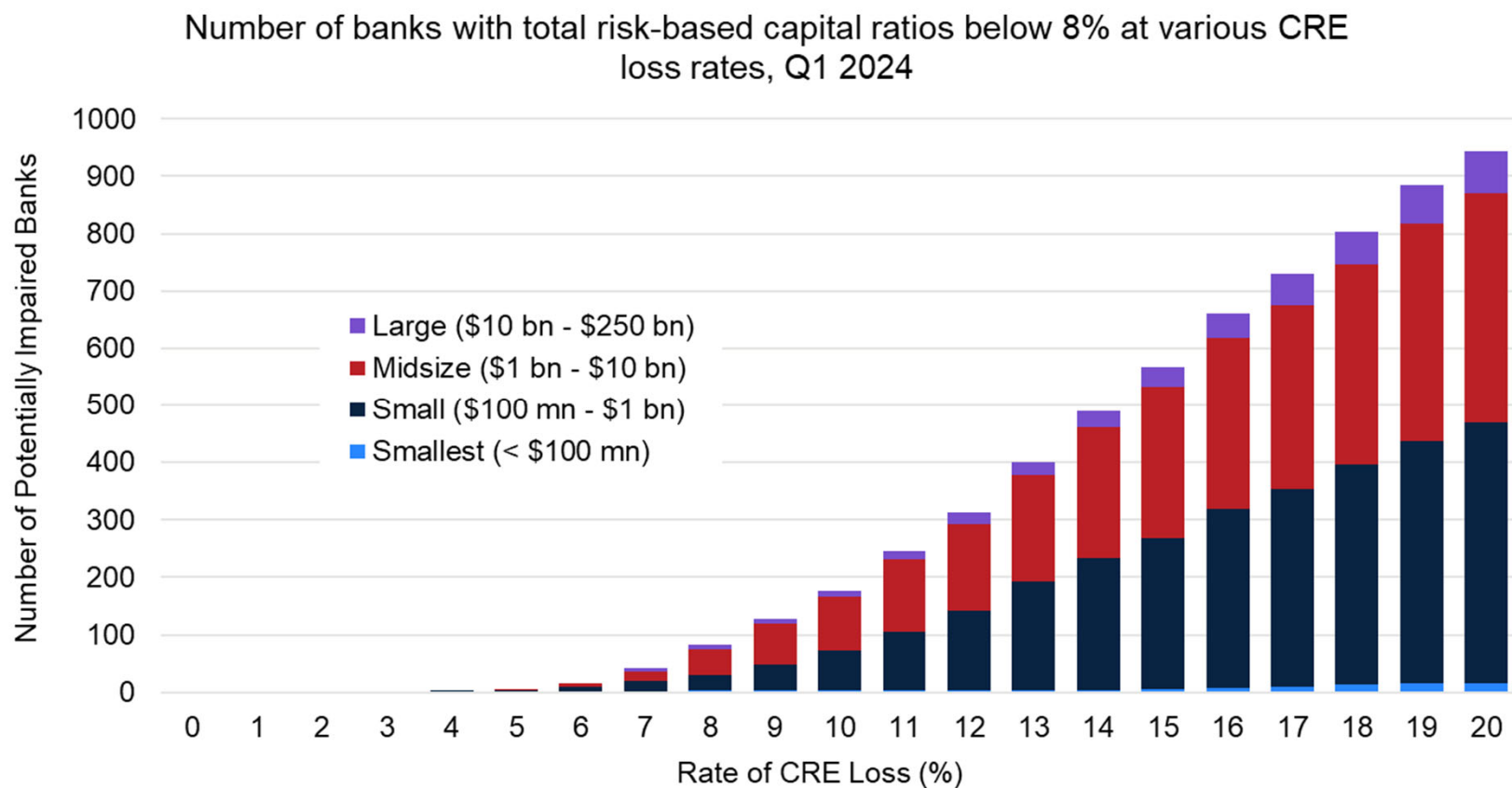
563

\$73.8
Billion

Source: [An Examination of the Banking Crises of the 1980s and Early 1990s: The Savings and Loan Crisis and Its Relationship to Banking](#), FDIC.



CRE loan losses endanger capital ratios at small and midsize banks

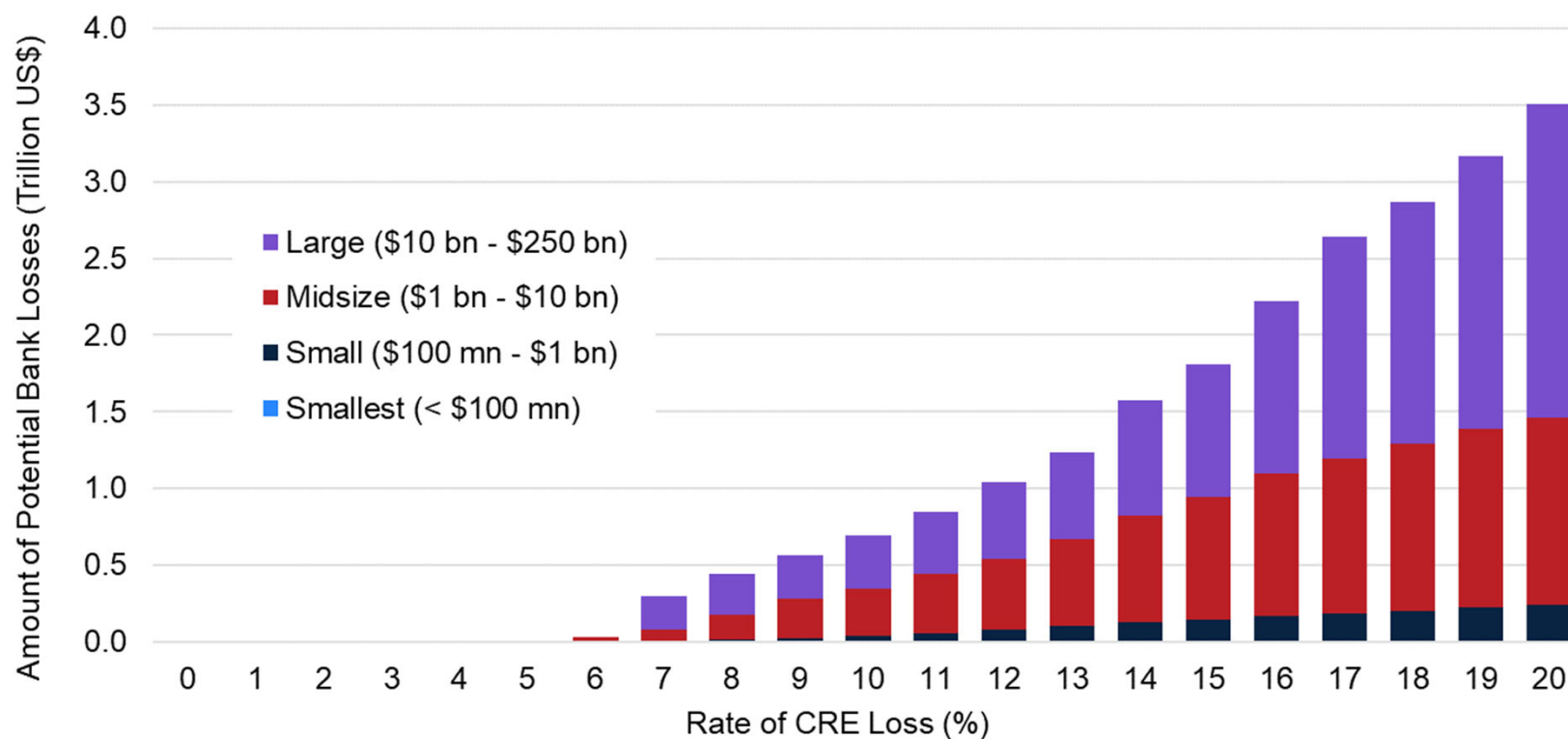


Sources: BankRegData.com and The Conference Board.



Higher CRE loss rates increasingly imperil capital ratios at large banks

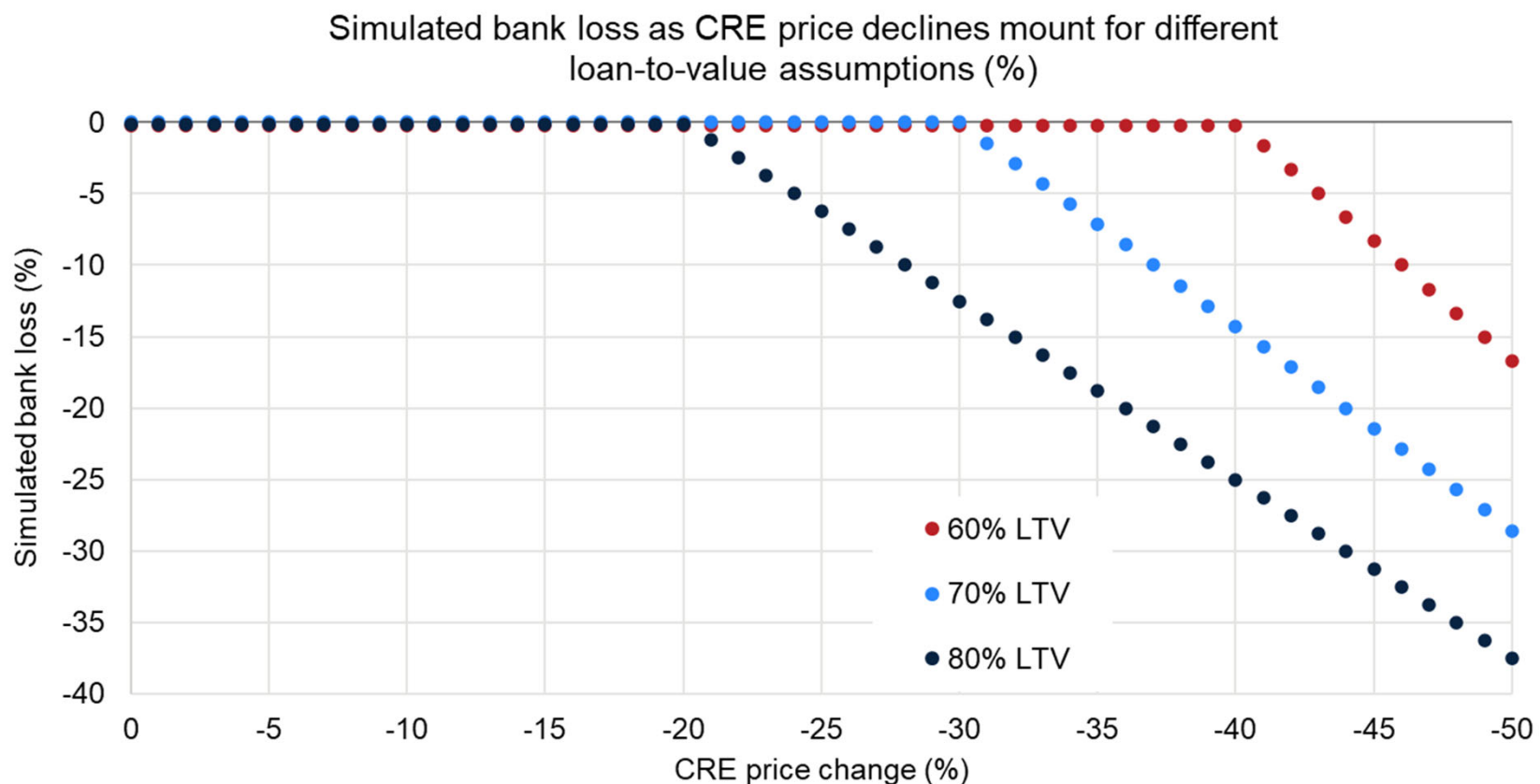
Assets of banks with total risk-based capital ratios below 8% at various CRE loss rates, Q1 2024 (\$ Trillions)



Sources: BankRegData.com and The Conference Board.



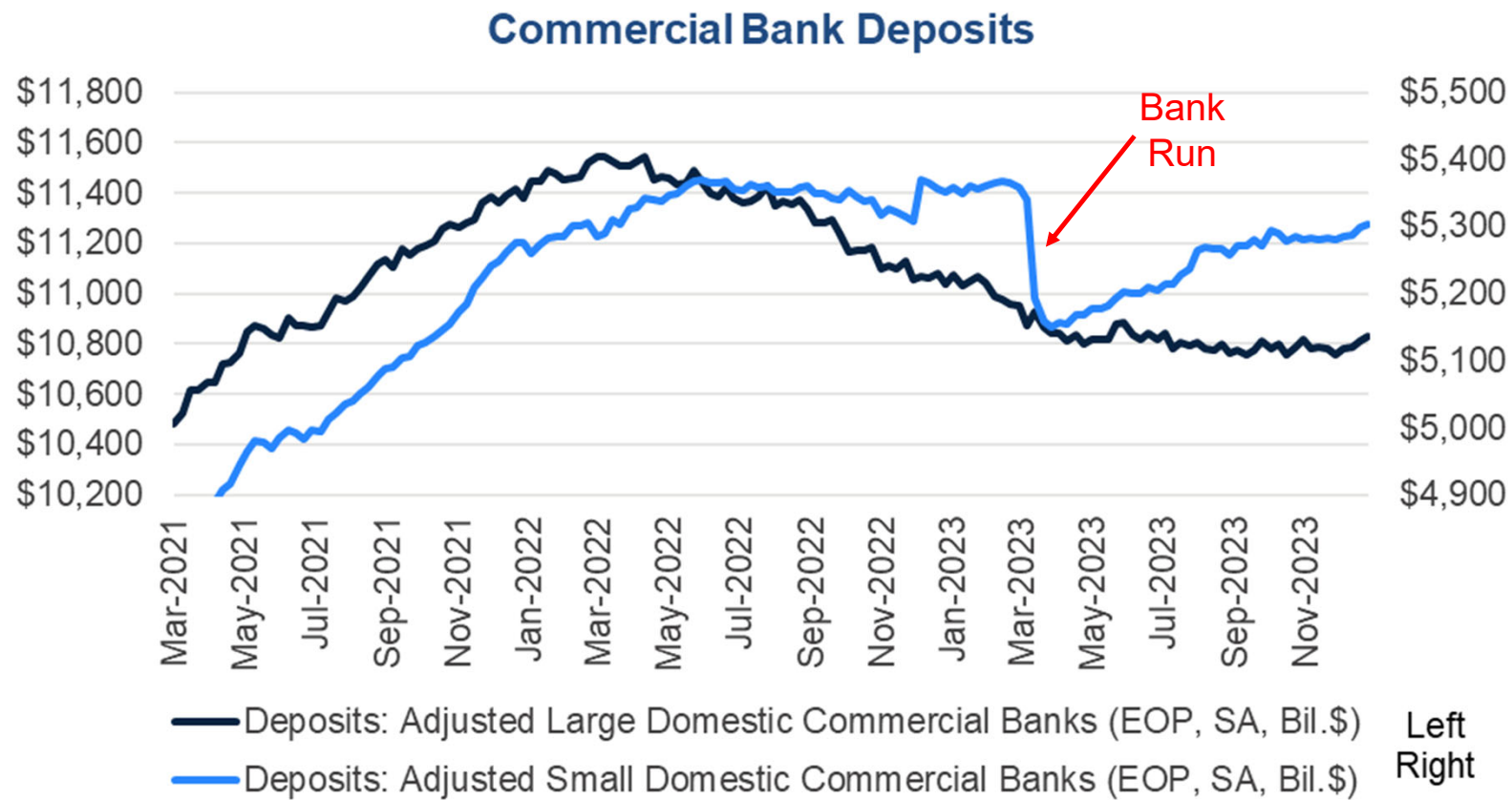
Lower loan-to-value ratios offer more cushion to absorb CRE price declines



Sources: The Conference Board.



March 2023 banking crisis stoked runs on smaller banks

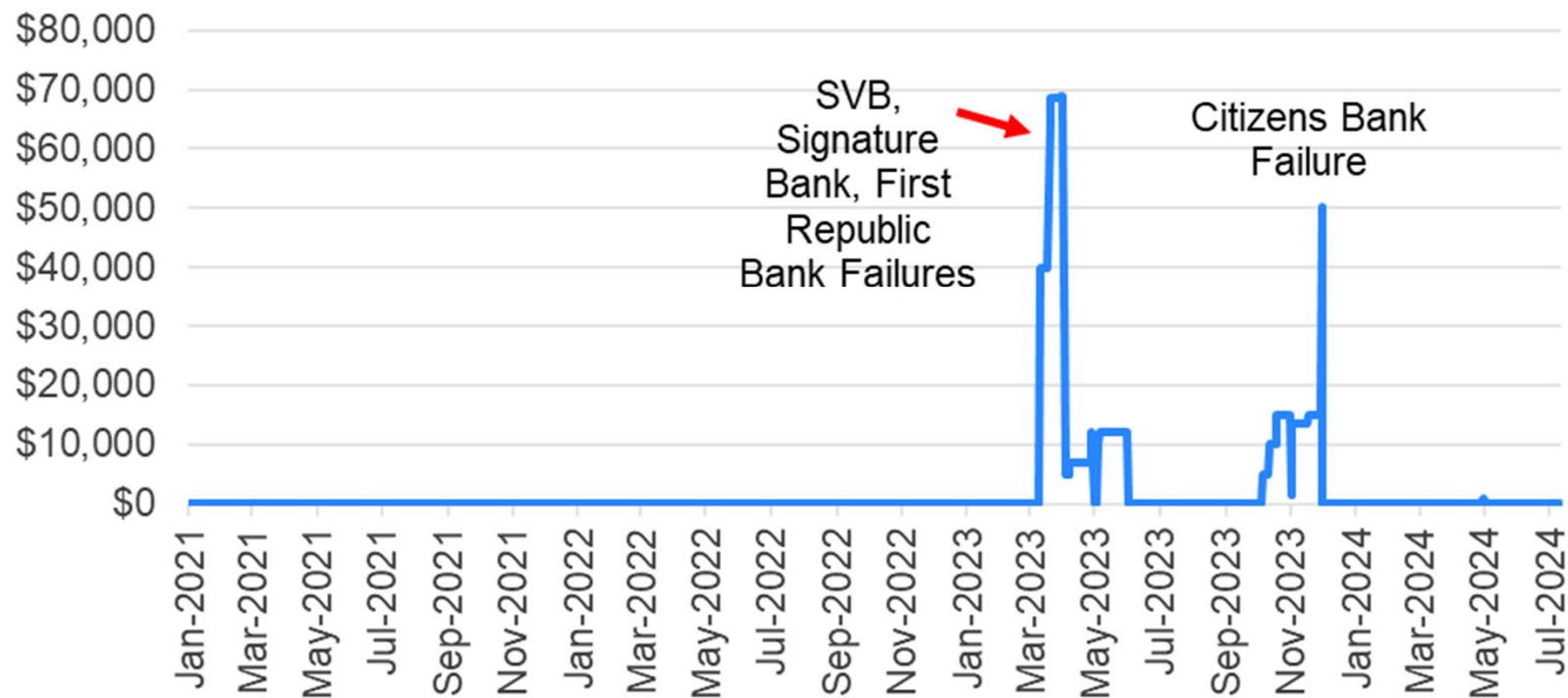


Sources: Federal Reserve Board and The Conference Board.



Massive FDIC withdrawals from wallet held at the Fed to save failing banks

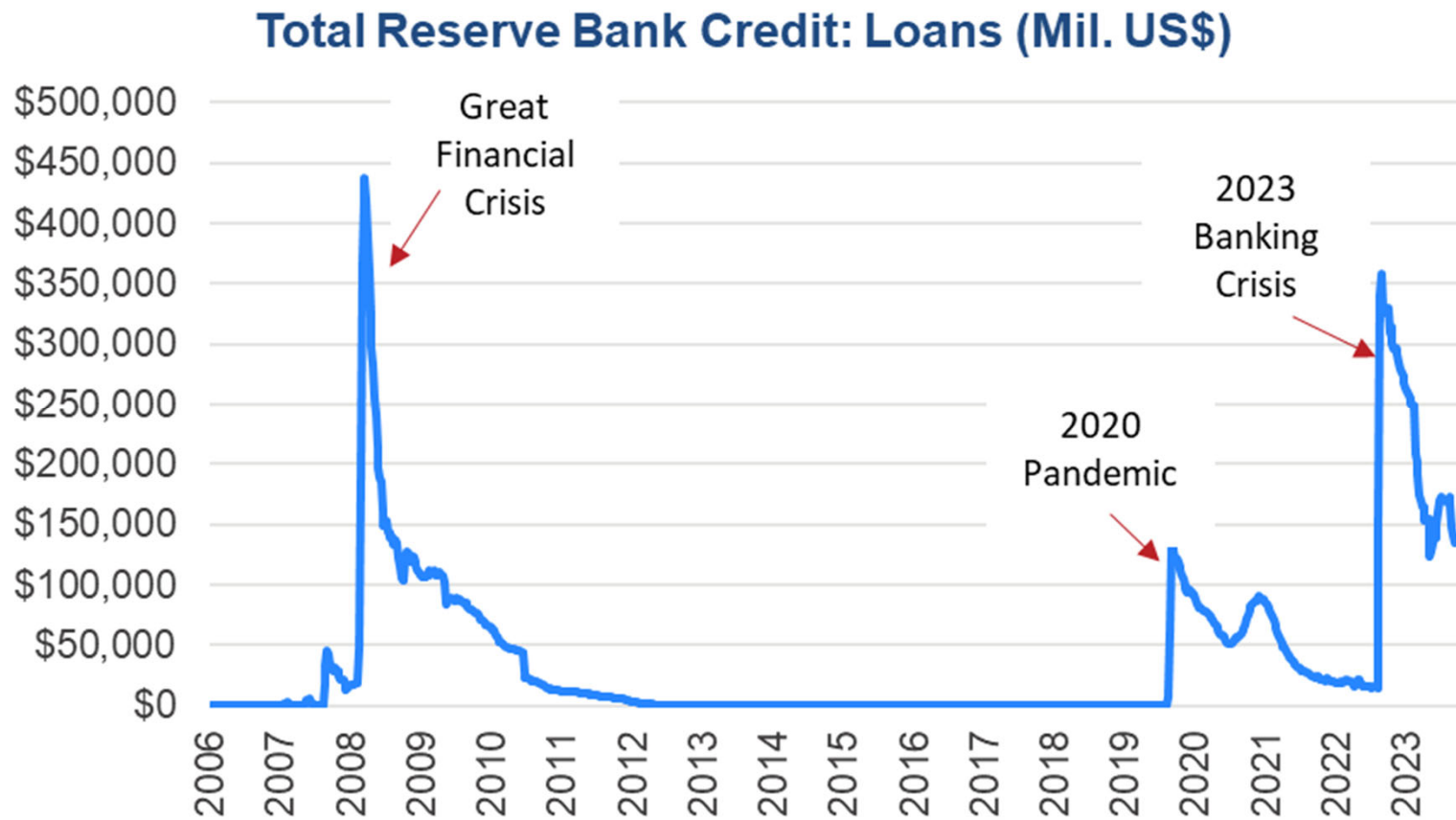
**Cash Withdrawals from Federal Reserve Account:
Federal Deposit Insurance Corp (Mil.\$)**



Sources: U.S. Treasury and The Conference Board.



Fed lending to banks is still outsized

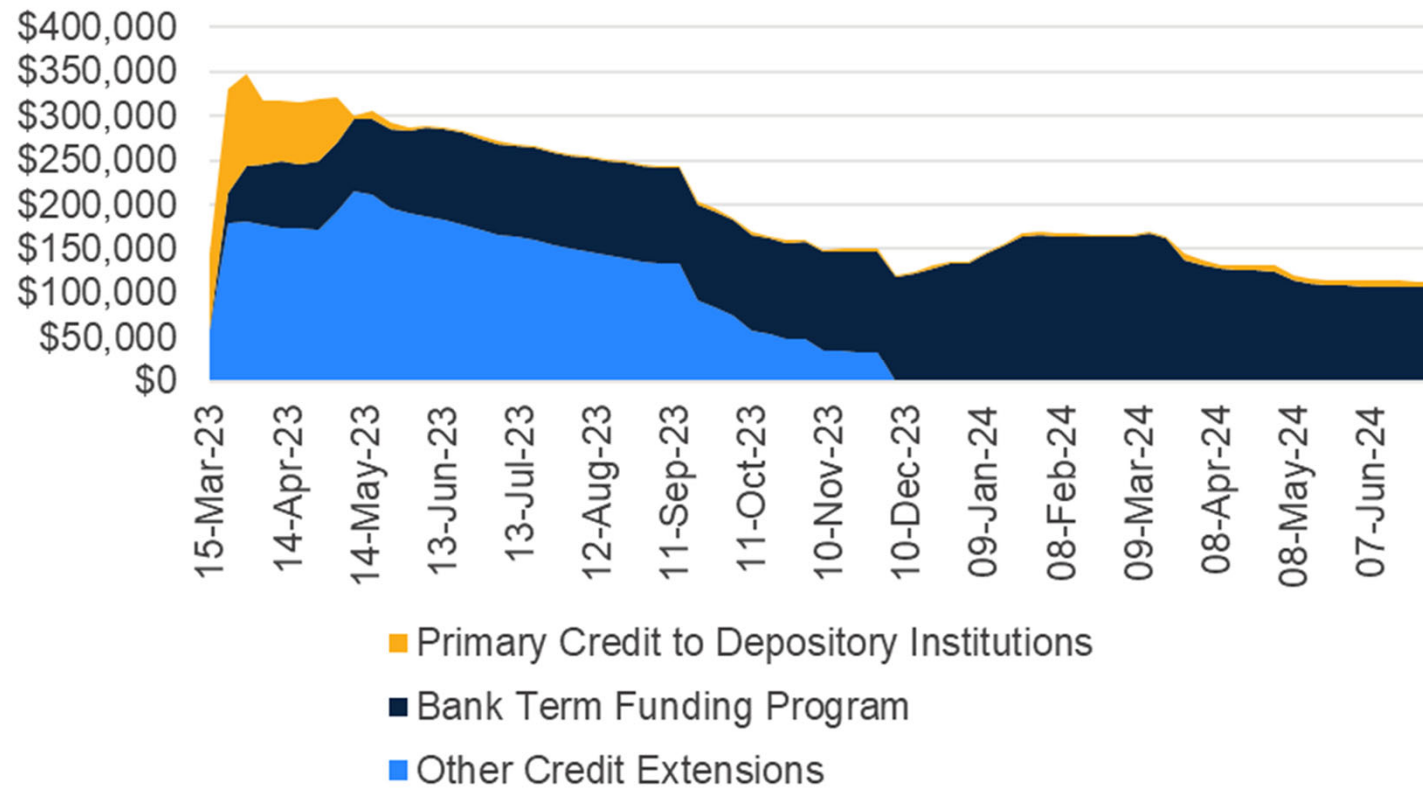


Sources: Federal Reserve Board and The Conference Board.



Fed lending from Bank Term Funding Program

2023 Banking Crisis: Reserve Bank Credit (Mil.US\$)

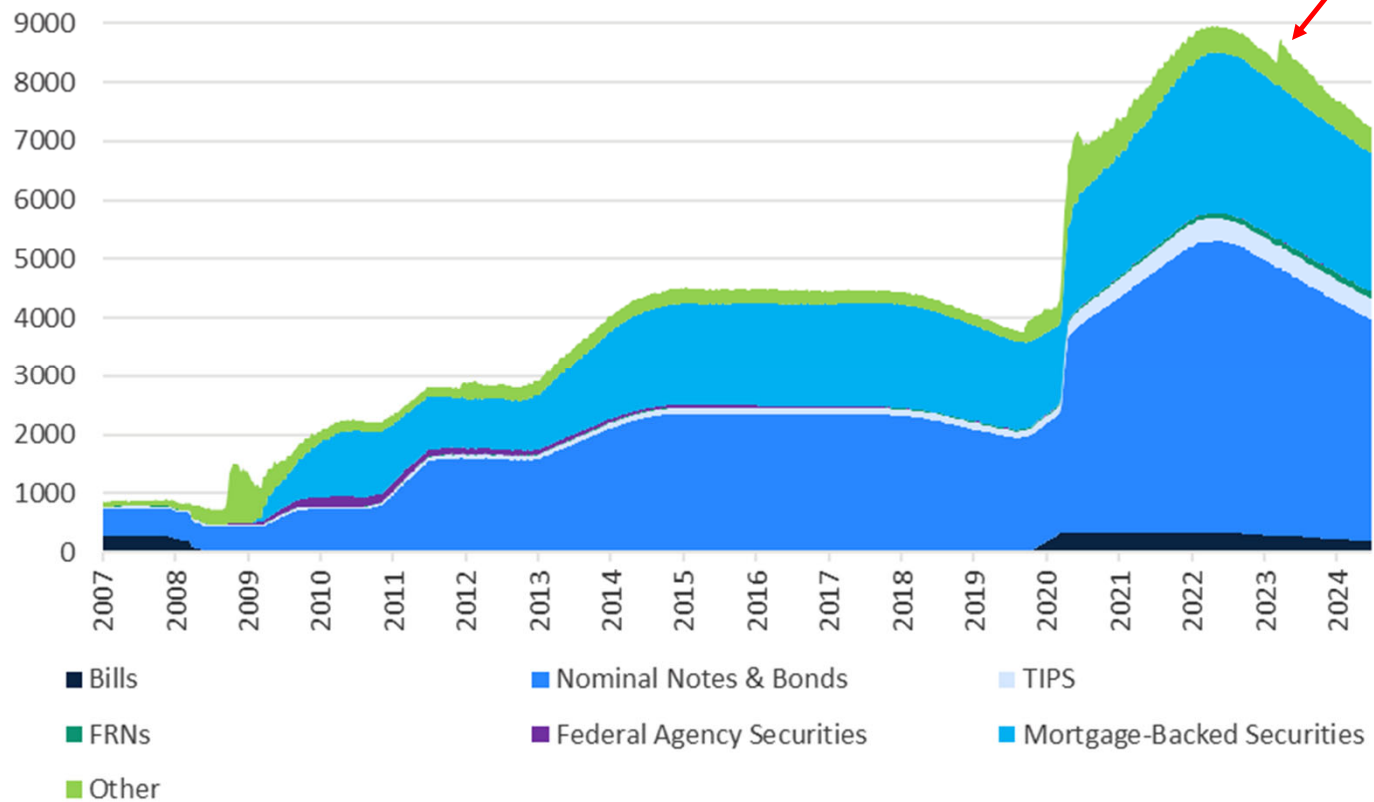


Sources: Federal Reserve Board and The Conference Board.



Crisis could unfold at a bad time: Fed Balance Sheet Expansion

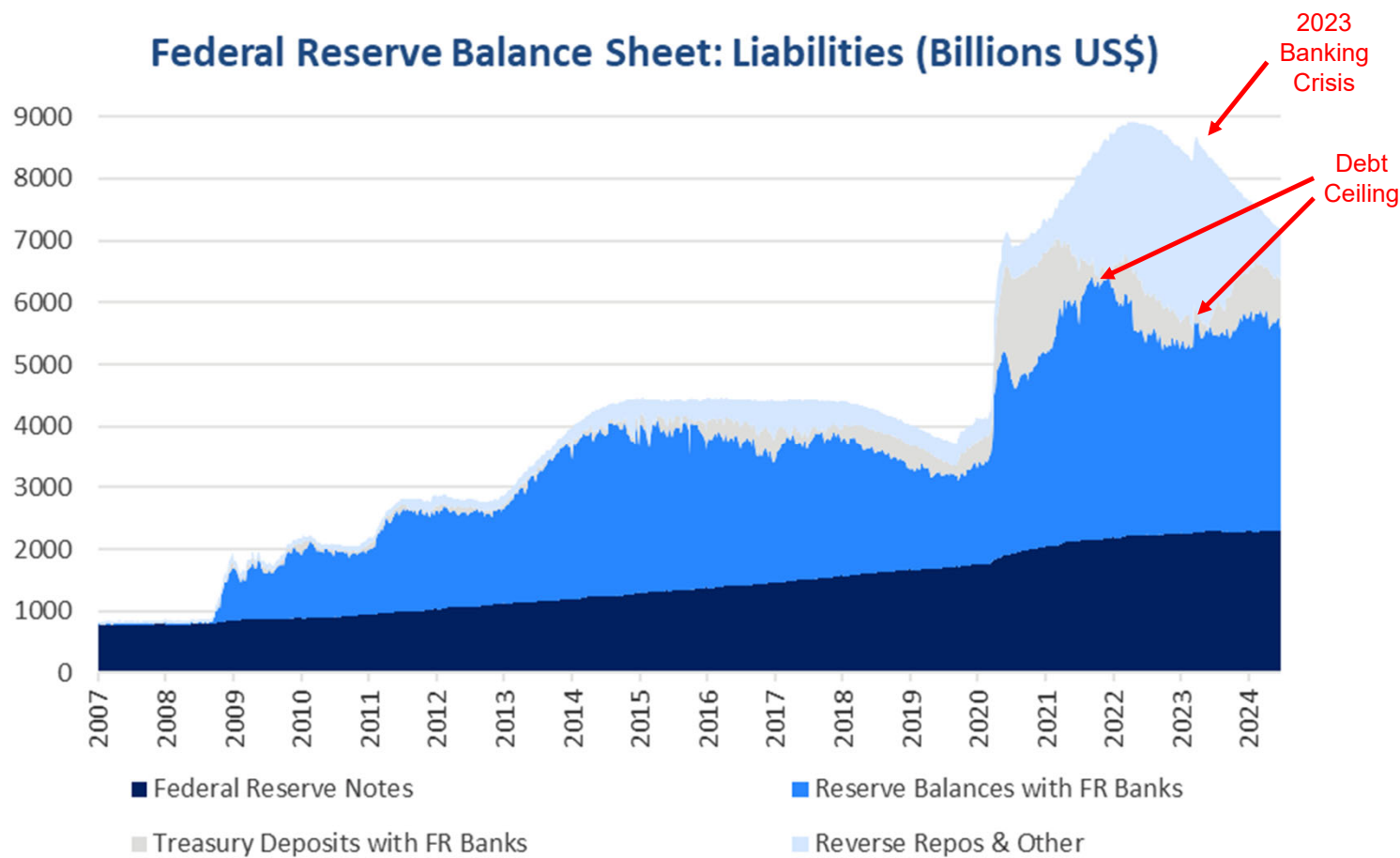
Federal Reserve Balance Sheet: Assets (Billions US\$)



Sources: Federal Reserve Board and The Conference Board.



Crisis could unfold at a bad time: Debt ceiling impasses

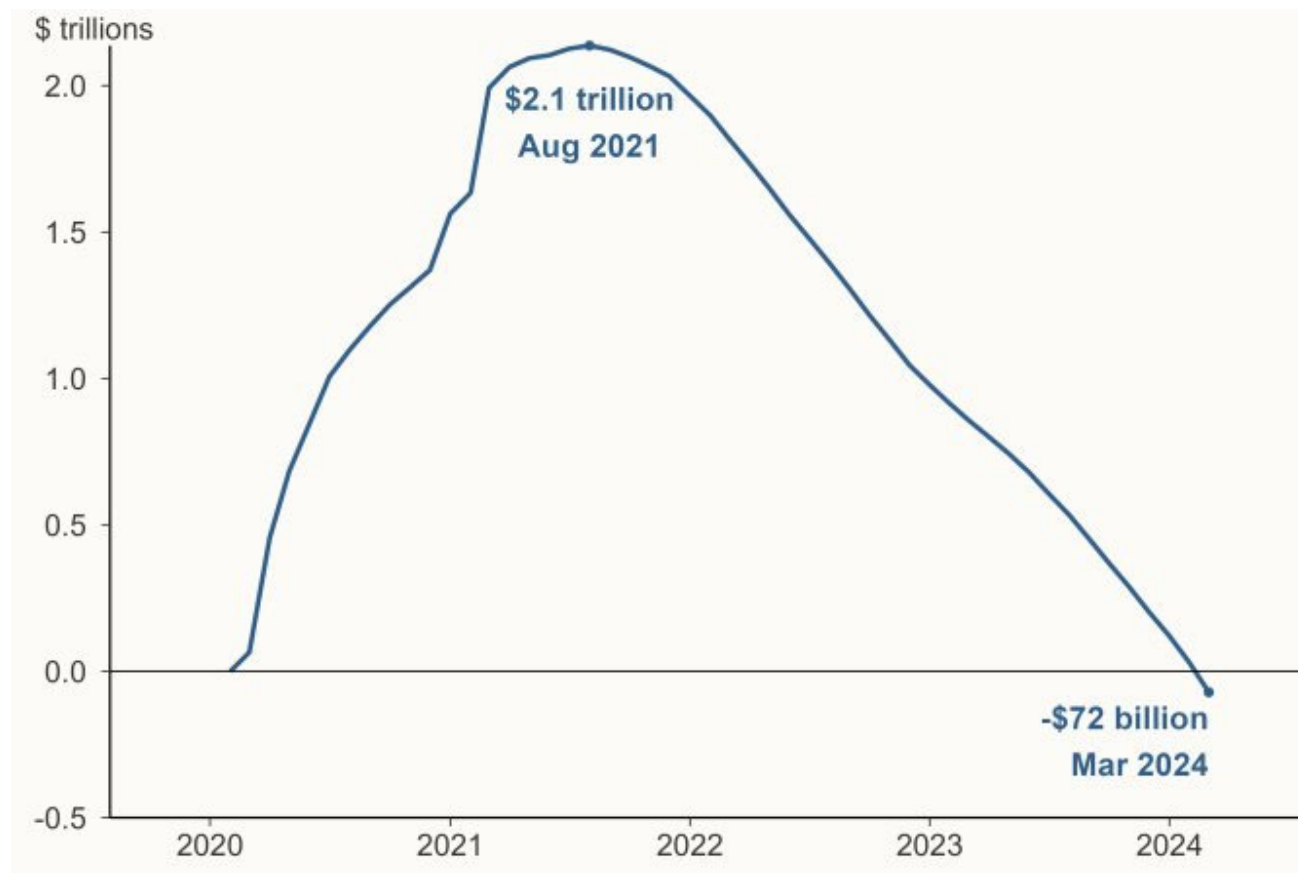


Sources: Federal Reserve Board and The Conference Board.



Consumer Credit

Pandemic-Era Excess Savings Is Depleted

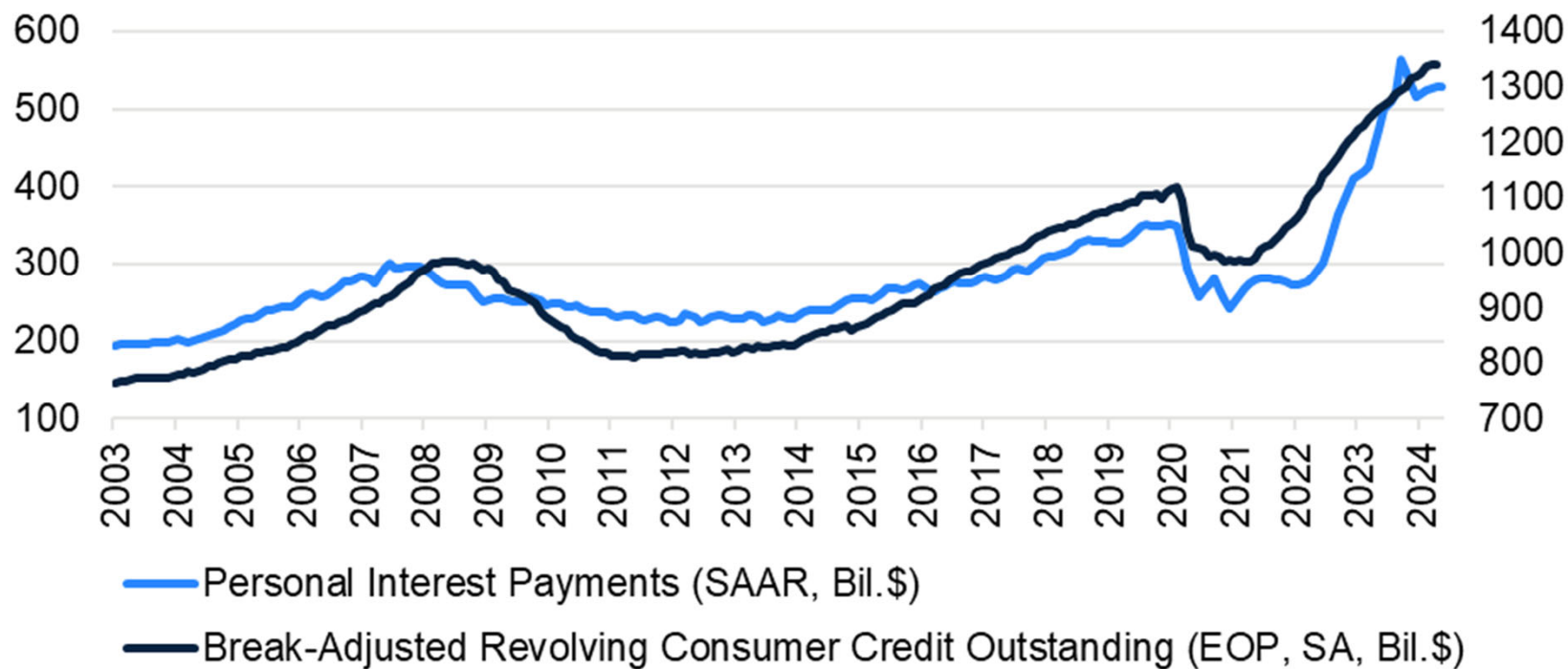


Sources: San Francisco Fed, Bureau of Economic Analysis, and The Conference Board.



Consumer Spending Increasingly Fueled by Debt

Consumer Credit Card Debt and Non-Mortgage Interest Payments (Billions US\$)

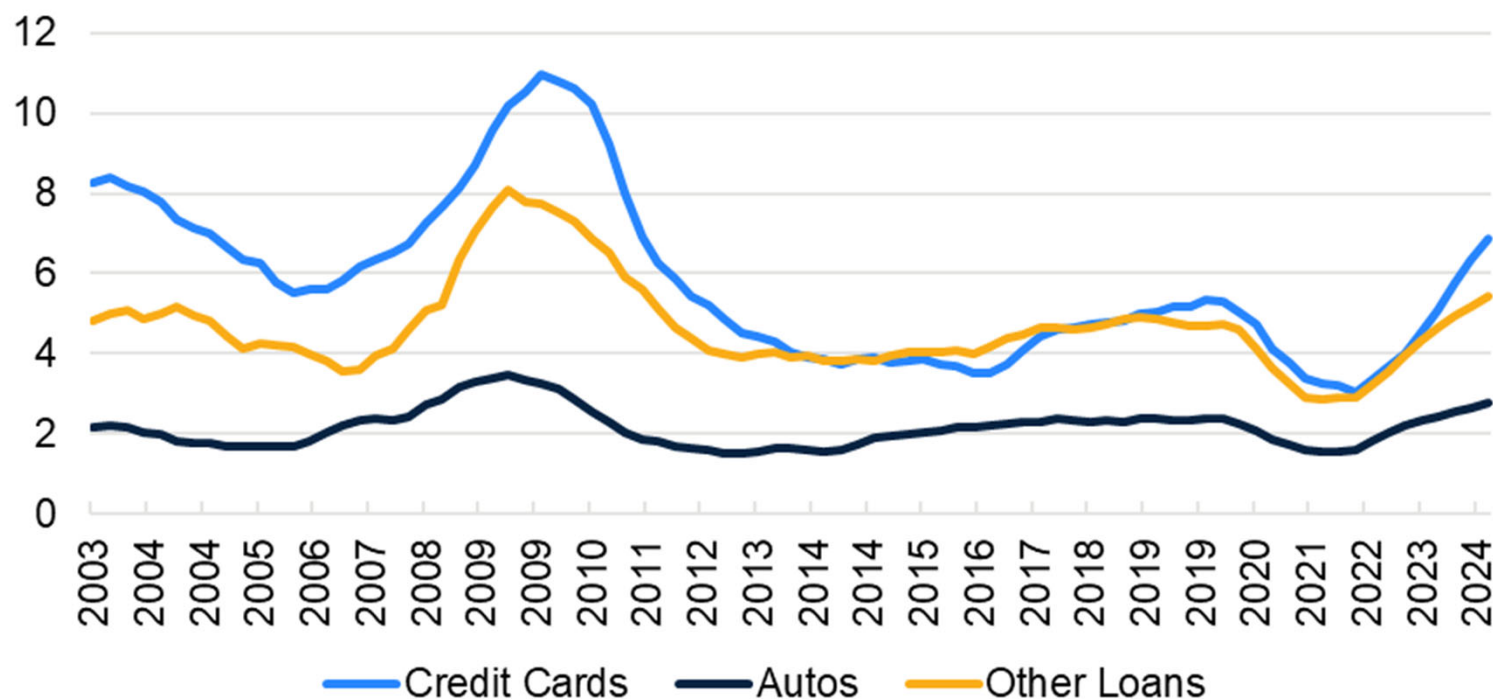


Sources: Bureau of Economic Analysis, Federal Reserve Board/Haver Analytics, and The Conference Board.



Consumer Credit Delinquencies On the Rise

NY Fed Credit Panel: New Seriously Delinquent Balances (% of Current Balances): 90+ days

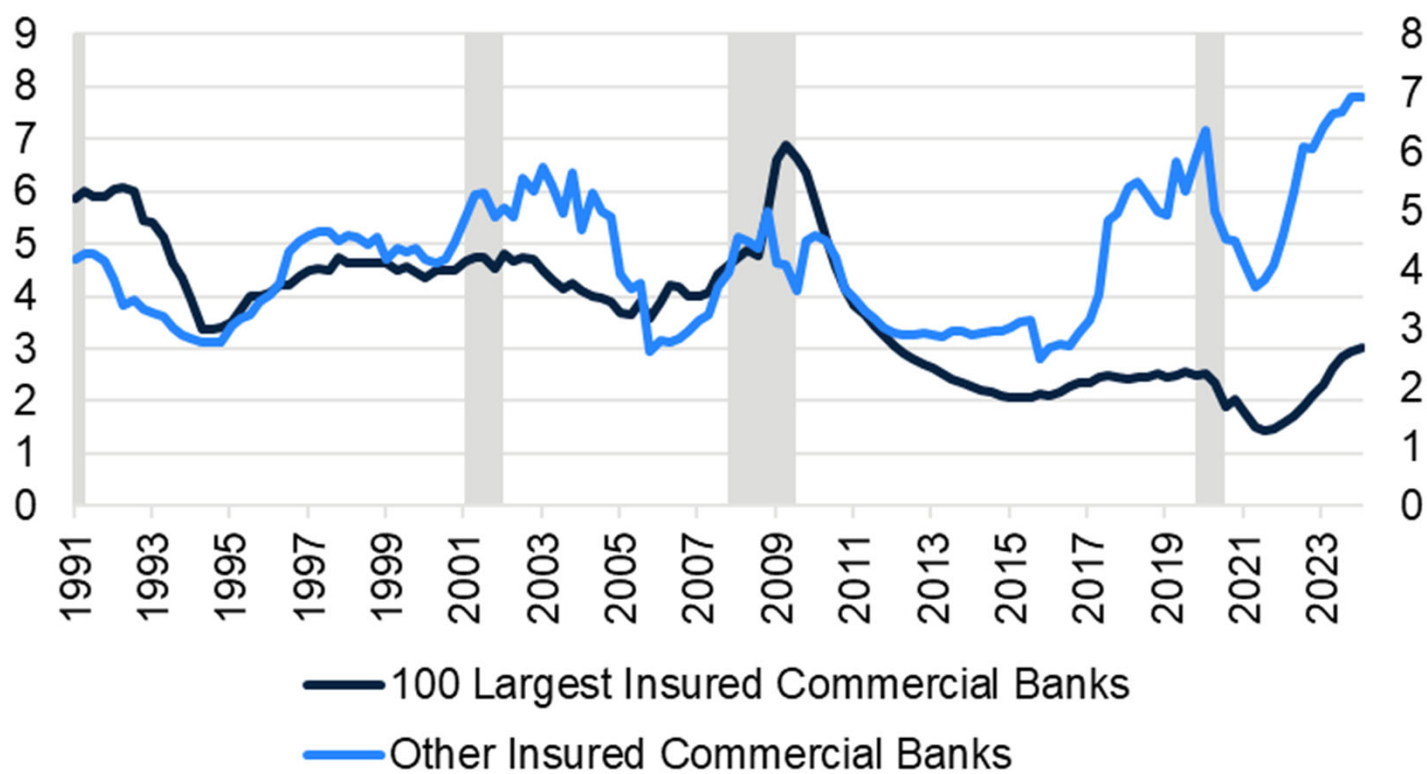


Sources: FRBNY Consumer Credit Panel/Equifax and The Conference Board.



Bank Loan Delinquencies On the Rise

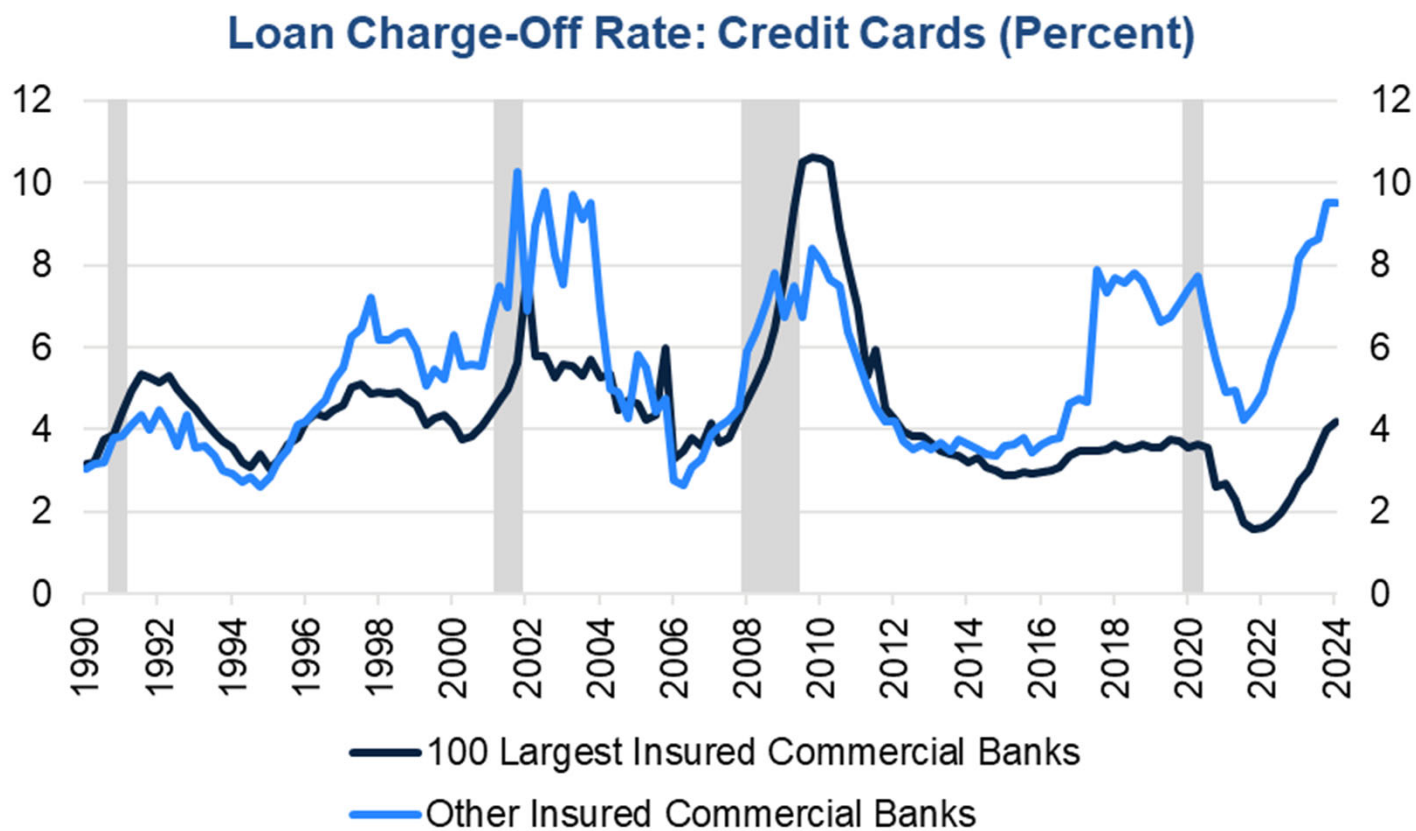
Loan Delinquency Rate: Credit Cards (Percent)



Sources: Federal Reserve Board and The Conference Board.



Bank Charge-offs Increasing

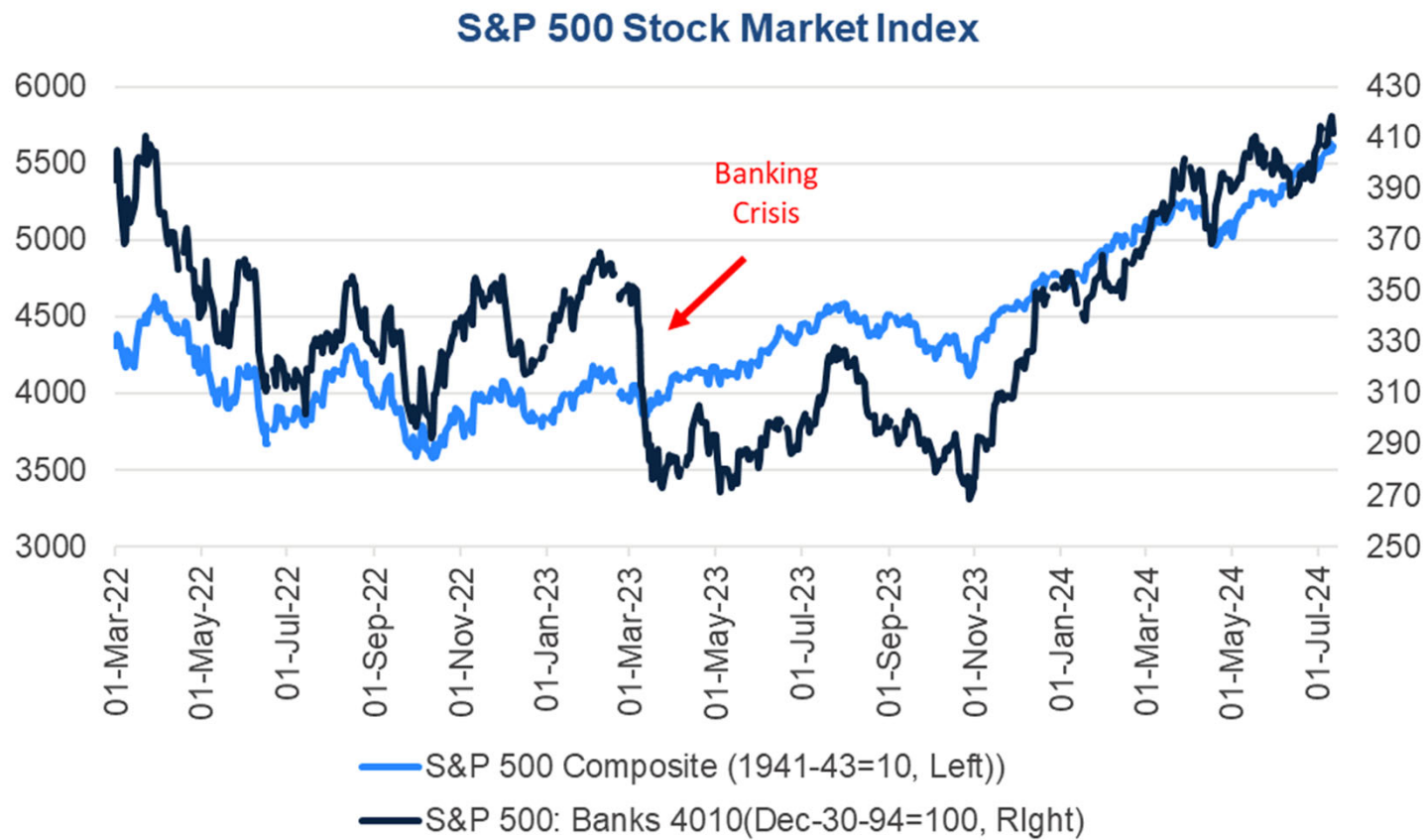


Sources: Federal Reserve Board and The Conference Board.



Questions

Did we get lucky last time?



Sources: S&P and The Conference Board.



Are We Ready For Another Banking Crisis?

- ✓ Did we get lucky last time?
 - ✓ Government guarantees
 - ✓ Regulator backstops
 - ✓ SIFI Rescues
 - ✓ Market complacency (Magnificent 7)
- ✓ Did we encourage risky behavior?
 - ✓ Moral hazard?
 - ✓ Hoping for the best?
- ✓ What might be different this time?
 - ✓ Mass instantaneous bank runs
 - ✓ Limited bailouts
 - ✓ Hundreds of failures
 - ✓ Banking desserts
 - ✓ Recession

Sources: The Conference Board.

