

Special Report

# US Regional Banks' Crisis is Far From Over

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## Key Takeaways

### Underlying problems continue to persist

Valuation losses on fixed-income investments due to rising interest rates, increased funding costs, and high levels of uninsured deposits led to the US regional banking crisis. As a result, most of these banks have seen significant deposit outflows amid the sudden loss of confidence in the banking system. Thus, the deposit base of regional banks has shrunk and become less sticky.

### Liquidity remains tight

The crisis aggravated the liquidity problem that the regional banks were already facing. Borrowings from the Federal Home Loan Banks (FHLB) have reached an all-time high, surpassing levels seen during the global financial crisis in 2008. Banks are also extensively using the Bank Term Funding Program (BTFP) facility that was launched during the SVB collapse to help banks create an additional source of liquidity against high-quality securities. The high utilization of these funding resources indicates banks are in extreme need of liquidity.

### Heavy exposure to CRE

US regional banks have actively expanded their commercial real estate (CRE) loan book to support growth. Most banks have more than 25% of loan exposure to CRE, much higher than the average 11% of the big four US banks. The CRE sector is facing significant headwinds from reduced property valuations, increased refinancing risk, and softening of rents as the shift to work from home has affected demand for office space.

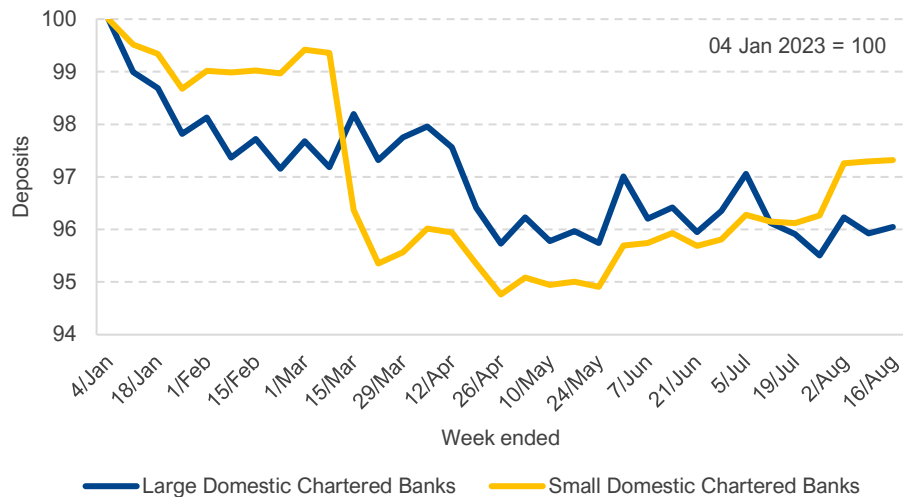
# Risk Map of US Regional Banks

Data as of 2Q'23 Currency: USD mn	Domicile	Total Assets	Unrealized Gains/(Losses) on AFS / Tangible Equity	Unrealized Gains/(Losses) on HTM / Tangible Equity	Deposits Growth (2Q'23 / 4Q'22)	Uninsured Deposits/ Total Deposits	CRE Loans / Gross Loans	Office CRE / CRE loans
<b>U.S. Bancorp</b>	Minnesota	680,825	-28%	-39%	-1%	50%	14%	24%
<b>Truist Financial</b>	North Carolina	554,549	-46%	-38%	-2%	43%	9%	18%
<b>Capital One Financial</b>	Virginia	467,800	-26%	0%	3%	21%	12%	10%
<b>Citizens Financial Group</b>	Rhode Island	223,066	-18%	-6%	-2%	30%	19%	21%
<b>M&amp;T Bank</b>	New York	207,672	-3%	-8%	-1%	41%	33%	11%
<b>Fifth Third</b>	Ohio	207,276	-57%	0%	0%	40%	9%	15%
<b>Ally Financial</b>	Michigan	197,241	-50%	-2%	1%	7%	4%	NA
<b>KeyCorp</b>	Ohio	195,037	-73%	-7%	2%	42%	16%	6%
<b>Huntington Bancshares</b>	Ohio	188,505	-36%	-22%	0%	29%	11%	15%
<b>Regions Financial</b>	Alabama	155,656	-37%	0%	-4%	37%	16%	11%
<b>Comerica</b>	Texas	90,761	-56%	0%	-8%	48%	15%	7%
<b>First Horizon</b>	Tennessee	85,071	-19%	-3%	3%	39%	23%	21%
<b>Webster Financial</b>	Connecticut	74,038	-17%	-17%	9%	36%	40%	6%
<b>East West Bancorp</b>	California	68,533	-14%	-9%	-1%	46%	40%	12%
<b>Western Alliance</b>	Arizona	68,160	-18%	-4%	-5%	23%	21%	23%
<b>BOK Financial</b>	Oklahoma	49,238	-24%	-5%	-3%	57%	21%	20%
<b>Cadence Bank</b>	Mississippi	48,839	-53%	0%	-1%	39%	29%	8%
<b>Cullen Frost</b>	Texas	48,597	-63%	-7%	-7%	51%	39%	NA
<b>F.N.B. Corporation</b>	Pennsylvania	44,778	-11%	-13%	-3%	23%	38%	22%
<b>Prosperity Bancshares</b>	Texas	39,905	0%	-44%	-4%	30%	26%	14%
<b>BankUnited</b>	Florida	35,871	-25%	0%	-6%	46%	29%	32%
<b>Commerce Bancshares</b>	Missouri	32,831	-56%	0%	-1%	40%	21%	3%
<b>Median</b>			<b>-27%</b>	<b>-6%</b>	<b>-1%</b>	<b>40%</b>	<b>21%</b>	<b>15%</b>

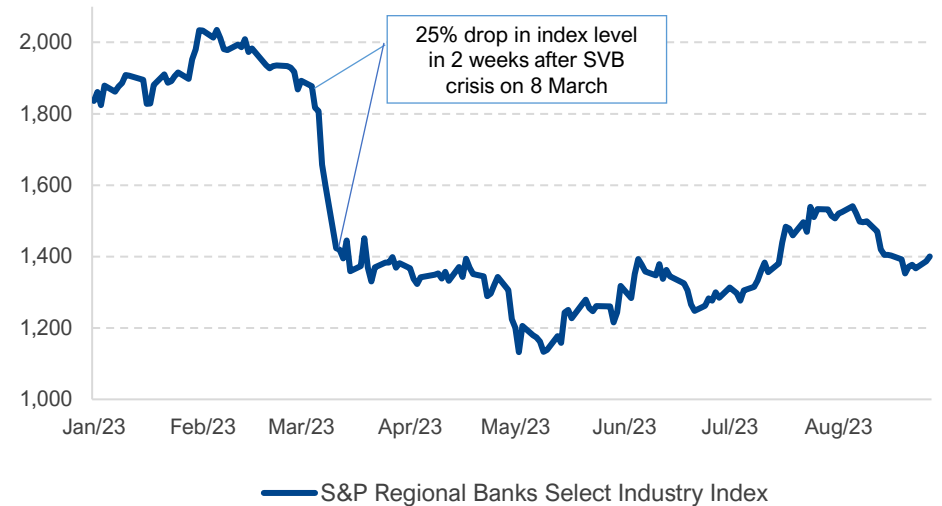
Source: Company filings

# The crisis of confidence in regional banks led to significant deposits outflow

## Small banks saw drastic drop in deposits during SVB crisis, while large banks benefited



## US banks' share prices yet to reach pre-SVB crisis levels

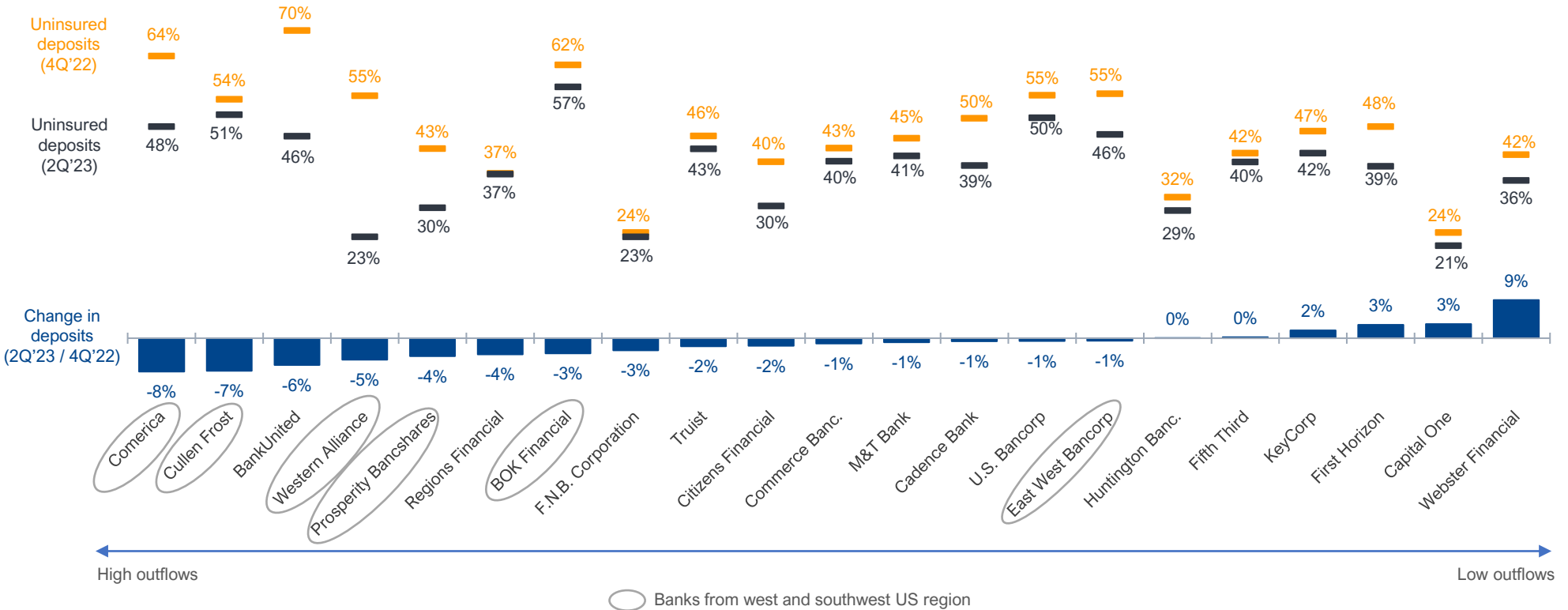


- What led to the crisis?:** Regional banks' crisis was fueled by multiple factors including a rapid rise in interest rates (leading to substantial market value losses on treasury bonds and other fixed-income investments held by regional banks), high levels of uninsured deposits, and lax supervision by the Federal Reserve for small regional banks.
- Impact:** The crisis led to an outflow of deposits from regional banks to large domestic banks and capital markets, particularly deposits beyond the Federal Deposit Insurance Corporation (FDIC) insurance limit of USD 250,000.
- Current context:** In August 2023, small domestic chartered banks' deposits increased as the dust from the crisis settled, and a from wide array of support initiatives rolled out by the FDIC and Federal Reserve, including guarantees on all deposits of failed institutions and emergency liquidity measures.

Source: Bloomberg; Federal Reserve H.8 data as of August 25, 2023

# Uninsured Deposits Remained High For Some Banks Despite Large Deposits Withdrawal

## Most regional banks saw significant decline in deposits

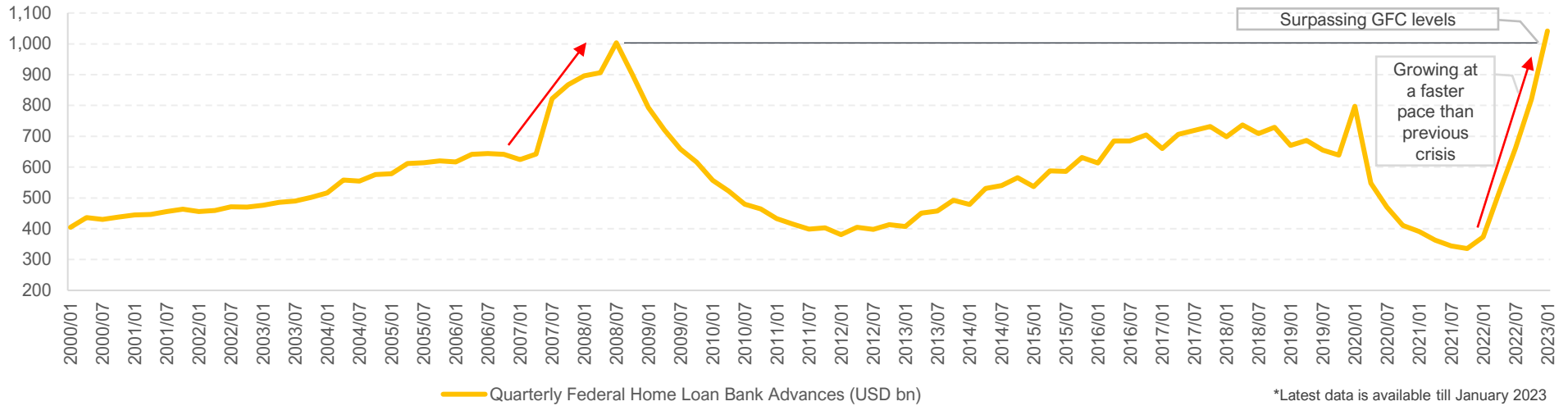


- Majority of the banks from the western region, especially California where the Silicon Valley is located, and the southwest region witnessed high deposit withdrawals.
- As customers withdrew their deposits, the share of uninsured deposits to total deposits declined for all banks, but remained high for some banks.

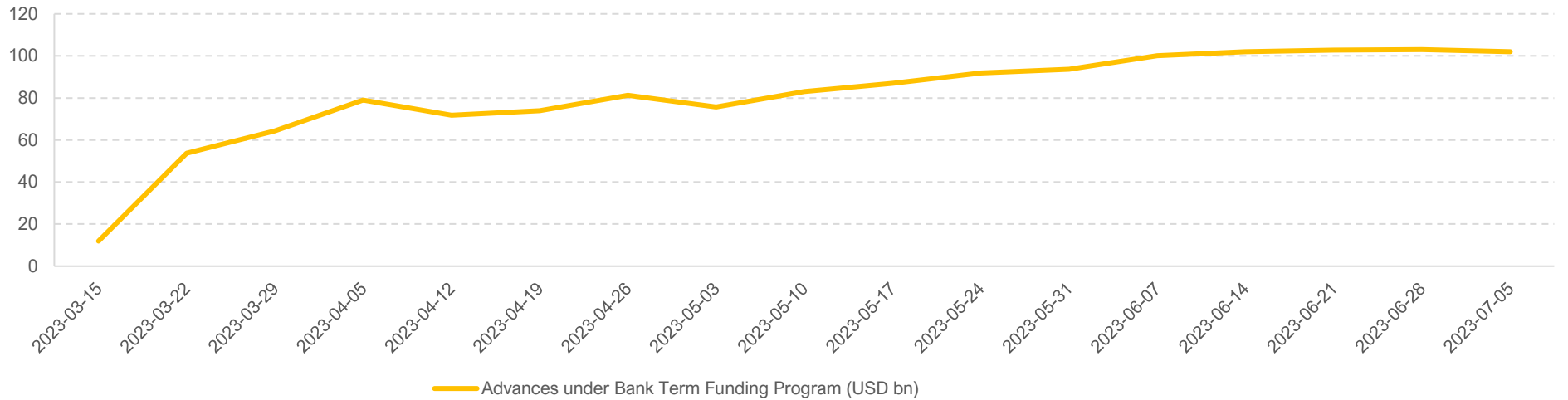
Source: Company filings

# Regional banks were already facing liquidity problem

## FHLB advances\* to banks increased abruptly and reached all-time high



## Banks increasingly tapping into BTFP funding to meet liquidity



Source: FRED



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