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Banks Log Near-Record Loan Growth In 2022

The largest banks expanded their commercial-property loan books faster in 2022 than they have in any year since the global financial crisis, largely fueled by an uptick in multifamily lending.

The top 100 banks by debt holdings had just over $1.7 trillion of loans at yearend, up 15.1% year over year, according to regulatory data compiled by Trepp Bank Navigator. By comparison, total assets for the cohort rose just 0.9%.

Notably, much of last year's lending activity occurred before the recent upheaval facing the banking industry — and the story for 2023 likely will play out differently.

"I think this year was looking more problematic already, even before the banking turmoil in March," Trepp managing director Matt Anderson said. "Commercial real estate lending was already a big focus for regulators, interest rates are higher, and some of the sector specifics like the office market are providing a drag on the entire [commercial real estate] space. ... I don't think anyone wants to boost their commercial real estate allocations this year, if they can help it."

Bank portfolio growth reflects originations offset by the runoff of existing loans. The runoff rate likely has slowed, in part as more property owners have begun trying to extend existing loans rather than refinance assets at higher interest rates. Still, Trepp estimates that banks wrote $479.1 billion of loans last year, up 43.6% year over year. They were able to win more business as other lenders stepped back amid market volatility: CMBS shops saw a 54.3% drop in originations, according to the data firm, while agency originators were down 24.5%.

"Last year was a banner year for originations," Anderson said. "By our estimates, it was the biggest year, dollar-wise, for bank originations on record. And it's kind of funny to think about it coming in the face of rising interest rates. Rates were rising for most of the year — it wasn't like the increases only came late in the year."

Commercial-property debt portfolios also were juiced due to a spate of bank mergers that closed during the year. All but one of the banks in the top 30 that posted portfolio growth of more than 20% year over year purchased another big institution in 2022. In only two years since 2009 — 2015 and 2016 — have the biggest 100 lenders notched double-digit portfolio growth. But the trend was clear even through a wider lens — growth was 11.7% for the largest 300 banks.

As is usually the case, there was little movement at the top of the overall rankings. Wells Fargo, JPMorgan Chase, Bank of America and Truist repeated in first through fourth places. Wells, with a portfolio totaling $140.3 billion, and JPMorgan ($132.1 billion) each booked 5.4% increases. BofA ($76.8 billion) was up 1.8%, and Truist ($53.5 billion) recorded a 0.9% drop.

U.S. Bank climbed two places to capture fifth place. Its $53.2 billion portfolio was 44.7% larger year over year following its purchase of MUFG Union Bank in December. U.S. Bank has sought to shed a portion of Union Bank's mortgage holdings, but the current status of that effort isn't known.

The multifamily sector was the overwhelming growth area, as it was in 2021, reflecting market sentiment that such properties are less susceptible to economic gyrations.

The top 100 banks' portfolios of multifamily debt grew 24.8% last year, though some of that increase came through mergers. Construction and land loans — also largely linked to apartment development deals — were up 17.7%. Banks' commercial mortgage ledgers, which include loans on office properties, increased 10.9%.

In the multifamily class, JPMorgan remained by far the biggest lender, with $79.7 billion of apartment loans on its books at yearend, up 7.6%. New York Community Bank was a distant second, at $38.1 billion, up 10.1%. Wells was in third place ($26.3 billion, up 20.7%), and First Republic Bank was fourth ($21.6 billion, up 35.2%).

Signature Bank placed fifth with $19.5 billion of debt. That New York-based bank grew its apartment-loan book 21.4% last year, but it collapsed in early March following the failure of Silicon Valley Bank as jitters rippled through the banking industry. Signature's multifamily loan portfolio is part of a $60 billion swath of debt the FDIC took on and is
shopping
via Newmark.

Wells was the lead bank in construction loans, with $22.3 billion (up 19.4%). U.S. Bank was second with $11.1 billion (up 12.9%), while BofA came in third with a $9.7 billion book (down 0.2%). Rounding out the top five were JPMorgan ($9.3 billion, up 4.7%) and Truist ($8.9 billion, up 5.8%).

The commercial category showed expected signs of reluctance given the murky outlook for the office sector. While the top 100 banks grew their commercial portfolios 10.9% overall, Wells, the top lender, saw a 1.0% decline in its book to $91.7 billion. BofA ($61.1 billion) logged just 1.1% growth, and JPMorgan ($43.1 billion) notched a modest 1.8% expansion. Fourth-place Truist ($39.7 billion) was down 3.5%.

M&T Bank and U.S. Bank, the fifth- and sixth-place commercial lenders, posted big gains — 36.3% and 34.8%. So did eighth-place First Citizens Bank (up 47.6%), 10th-place Citizens Financial (63.7%) and 12th-place Valley National Bank (29.1%). Those jumps were connected to mergers rather than enthusiasm for general commercial loans. None of the other top-12 banks in the commercial-lending category for 2022 grew their holdings by more than JPMorgan's 1.8%.

U.S. Bank's purchase of Union Bank was the biggest merger to close last year. Completed in December, it resulted in an entity with nearly $53.2 billion of commercial real estate debt. Other major acquisitions included:

M&T Bank's purchase of People's United Bank, closed last April. Yearend loan holdings: $44.3 billion, up 25.9%.

Citizens Financial's acquisition of Investors Bank, closed last April. Yearend loan holdings: $32.8 billion, up 91.5%.

Valley National Bank's purchase of Bank Leumi, closed last April. Yearend loan holdings: $29.4 billion, up 41.6%.

First Citizens' acquisition of CIT Group, closed last January. Yearend loan holdings: $27.3 billion, up 66.3%.

Webster Bank's merger with Sterling Bank, closed last February. Yearend loan holdings: $19.7 billion, up 200.8%.

Commercial real estate loans represented 7.7% of the top 100 banks' total assets in 2022, up from nearly 7.1% in 2021 but off the recent peak achieved in 2019 of 7.8%. In 2012, such debt was just over 6.5%.

There was little movement in terms of nonperforming loans in 2022. The percentage of construction loans designated as nonperforming inched up 0.5%, while commercial loans in that category were down 5.3%. Multifamily debt tagged a nonperforming increased 4.8% among the top 100 but was down 15.7% among the top 300 banks.

That almost certainly will change next year due to the stress that deepened in the second half of 2022. "There are definitely some very high-profile loans that have blown up, and those make headlines — they're big. But at the same time, when you look at the aggregate figures, those default rates aren't really up as much as you might think," Anderson said. "It takes time for those defaults and delinquencies to show up."

The failures of Silicon Valley Bank and Signature Bank likely will result in increased regulatory scrutiny, particularly for smaller and regional banks. Coupled with the continuing general uneasiness about the economy, that will make negotiations over extensions and refinancings challenging.

Trepp estimated that bank debt maturities totaled $260.5 billion last year, and that number is expected to rise to $270.4 billion in 2023. Banks will have to cope with problematic maturing loans, especially in the office category, but it will be some time before the true fallout is known.

"The market itself has grown and values have grown, but the maturing volume is still a big number," Anderson said. "People are going to have to hold their nose and offer extensions. So what right now looks like the potential for a rout in office may turn into something more like a slow leak."