Trepp®
Bank Research

July 2015

DFAST 10-50 Banks Publicly Report for the First Time on Stress Tests, Loan Losses, Risk Factors

In June 2015, banks with assets between $10 billion and $50 billion publicly reported summaries of their stress test results for the first time. The stress tests, which were performed by the banks themselves, used data as of September 30, 2014 and provide forecasts through December 31, 2016. Complete results from the 59 qualifying DFAST 10-50 banks were delivered to bank regulators in March 2015 and published in June 2015. (See Appendix for the full list of DFAST 10-50 banks.)

The following analysis of the results examines the varying contents of the banks' public releases, including the risks the DFAST 10-50 banks chose to highlight. In addition, it compares the loan loss results from the D-FAST 10-50 banks to the projections from the Trepp Capital Adequacy Stress Test (T-CAST) model for both DFAST 10-50 and CCAR banks, the results from the CCAR banks that were published earlier this year, and the Federal Reserve's forecasts for CCAR banks.

Varying Report Content

While the DFAST 10-50 banks were required to publicize summary results, there was no standard format for the summaries; the only requirement was that the banks include their results for the regulators' Severely Adverse Scenario. As a result, the amount of information provided by each bank varied widely. All of the banks reported a business model narrative, a discussion of the risks faced by the bank, and ending capital ratios as of Q4 2016. Nearly all of the banks also chose to report total loan losses, minimum capital ratios during the 9-quarter forecast period, and some information about projected earnings. Some banks reported more details on loan losses by loan type, although the reporting categories were not uniform. Only about a quarter of the banks reported information about their projected risk-weighted assets.

Figure 1. Items Reported by DFAST 10-50 Banks

Percent Reporting	Type of Risk
100%	Business Model Narrative
100%	Risk Discussion
100%	Ending Capital Ratios
98%	Loan Losses
98%	PPNR, Net Income
95%	Minimum Capital Ratios
54%	Losses by Loan Type
27%	Ending Risk-Weighted Assets

Source: Company Filings, Trepp LLC

Loan Loss Projections

Loan losses stemming from eroding credit quality are typically the main risk that banks face in a downturn. During the worst part of the credit crisis from Q2 2008 to Q4 2011, loan losses at banks totaled $650 billion, which drove down earnings and negatively impacted bank capital.

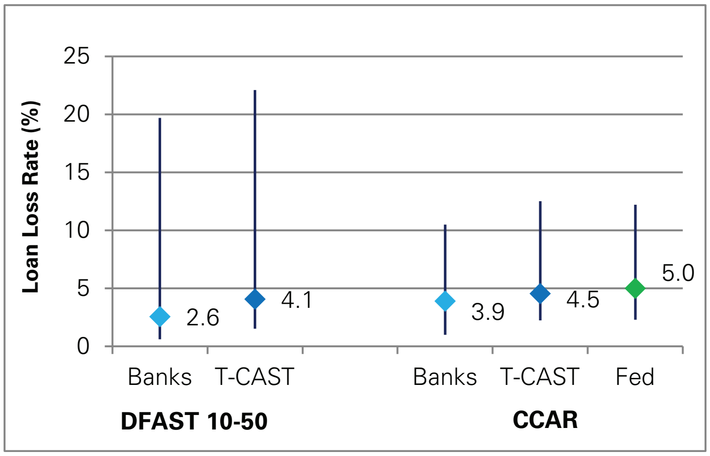
For the DFAST 10-50 banks, cumulative loss estimates in the recent disclosures ranged from 0.6% to 19.7%, with a median of 2.6%. The loss estimates range for the DFAST 10-50 banks is much wider than that of the CCAR banks, which reported results in March. CCAR banks' loan loss estimates ranged from 1.0% to 10.5%, with a median of 3.9%. The wider range for the DFAST 10-50 banks is most likely attributable to the banks' varying loan risk profiles and the use of a wide array of loss estimation processes. Banks can develop loss estimations using management-driven estimates, internally-derived models of loan behavior, or vendor-supplied models that forecast loan performance and losses.

Five sets of loan loss estimates are compared in Figure 2. Two of the estimates are for the DFAST 10-50 banks: the banks' own results and Trepp's T-CAST projections. The remaining three estimates are for the CCAR banks: the banks' own results, Trepp's T-CAST projections, and the Federal Reserve's forecasts.

- For the DFAST 10-50 banks, both the bank and T-CAST estimates show broad agreement. The ranges are similar, from 0.6% to 19.7% for the banks and 1.5% to 22.1% for T-CAST. The T-CAST projections are somewhat higher than the banks' results, with a median loss of 4.1%, compared to 2.6% for the banks'.[1]

Figure 2. Loan Loss Estimates of DFAST 10-50 and CCAR Banks

Cumulative 9-Quarter Loss Rate, Severely Adverse Scenario



- For the CCAR banks, the range of loss estimates is not as wide as that of the DFAST 10-50 banks. The banks' own results range from 1.0% to 10.5%, the T-CAST projections range from 2.2% to 12.5%, and the Fed forecasts range from 2.3% to 12.2%.

- There is more agreement between the three sets of models for the CCAR banks than the two for DFAST 10-50. The CCAR ranges are narrower and the median loss rates are closer, at 3.9% (banks), 4.5% (T-CAST) and 5.0% (Fed).

The DFAST 10-50 banks' risk profiles vary significantly and therefore contribute to the differences in loss estimates. Among the group, some banks focus primarily on consumer lending, which carries higher risk in a downturn. Other banks focus on either residential or commercial real estate, which create different risk exposures, while some have diversified loan portfolios with a blend of risks.

Figure 3 compares the bank and T-CAST loan loss estimates for DFAST 10-50 banks based on loan concentration.[2]

- Consumer Loan concentrations carry significantly higher risk than other loan types. Some types of consumer lending, such as auto lending, are secured, but student loans and credit cards are not. The banks' models and the T-CAST model generated similar loss rates, with a median total loss rate of 10.9% and 11.9%, respectively for banks in this concentration category.

- For banks with residential concentrations, the median estimated loss rate from the banks' models was 1.2%, compared with 1.9% from the T-CAST model.

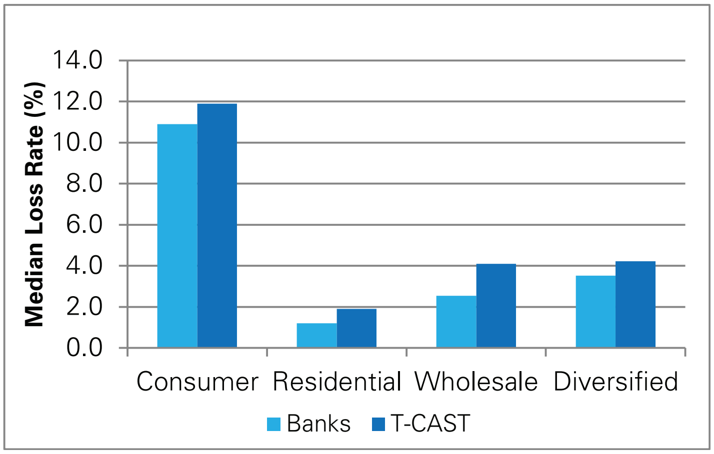
1 The "bank results" also include some T-CAST results. Trepp counts clients among both the DFAST 10-50 and the CCAR filers. Based on the level of detail in the banks' publicized results, it is not possible to extract the T-CAST results from the bank filings. Moreover, T-CAST clients can edit or customize the results they submit. The T-CAST figures used in this analysis are from Trepp's model without any customized adjustments.

2 To segment the banks, banks where consumer loans represent at least 40% of the loan portfolio are deemed to have a consumer concentration; banks with at least 50% of the loan portfolio in residential lending (first lien, junior lien and home equity) are deemed to have a residential concentration; banks whose C&I and CRE loan portfolios contribute more than half the loan portfolio are considered to have a wholesale lending concentration; the remaining banks are considered to be diversified.

• Banks with wholesale concentrations–C&I and commercial real estate loans–reported a median total loan loss of 2.5%, compared with the T-CAST median loss of 4.1%. Within these loan categories, the banks' exposures to different industries (for C&I loans) and property types (for CRE) can vary dramatically, as can the banks' underwriting criteria for these types of loans.

• The banks with diversified loan portfolios–where no individual loan type dominated the banks' exposures–reported median total loss rates of 3.5%. The median loss rate from the T-CAST model was modestly higher, at 4.2%.

Figure 3. Loan Loss Estimates by Loan Concentration Category



Types of Risk

In their summary narratives, all of the banks highlighted the most significant type of risks their institution faced. All 59 banks cited credit risk, namely losses stemming from borrower defaults on loans.

Figure 3. Top Risks Cited by DFAST 10-50 Banks

Type of Risk	Bank Count	Percent of DFAST 10-50 Banks
Credit	59	100%
Operations	56	95%
Liquidity	52	88%
Market	44	75%
Interest Rate	38	64%
Strategic	23	39%
Reputational	22	37%
Compliance	19	32%
Legal	15	25%

Source: Company Filings, Trepp LLC

A very high proportion also highlighted operational (95%) and liquidity (88%) risks. Three quarters of the banks cited market risk (75%) while more than half mentioned interest rate risks (64%). Strategic (39%) and reputational (37%) risks ranked moderately high on banks' lists. Rounding out the top concerns were compliance (32%) and legal (25%) risks. ■

For inquiries about the data analysis conducted in this research, contact press@trepp.com or call 212-754-1010. For more information about Trepp's commercial real estate data, contact info@trepp.com.

About Trepp

Trepp, LLC, founded in 1979, is the leading provider of information, analytics and technology to the CMBS, commercial real estate and banking markets. Trepp provides primary and secondary market participants with the web-based tools and insight they need to increase their operational efficiencies, information transparency and investment performance. From its offices in New York, San Francisco and London, Trepp serves its clients with products and services to support trading, research, risk management, surveillance and portfolio management. Trepp is wholly-owned by dmgi, the information publishing division of the Daily Mail and General Trust (DMGT).

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Appendix

List of DFAST 10-50 Banks, 2015 Filing Cycle

Bank Name	City	State	Total Assets	**Bank Name**	City	State	Total Assets
Apple Financial Holdings, Inc.	New York	NY	$11.7	Hudson City Savings Bank	Paramus	NJ	$37.2
Arvest Bank Group, Inc.	Bentonville	AR	$15.0	Iberiabank Corporation	Lafayette	LA	$15.5
Associated Banc-Corp	Green Bay	WI	$25.7	International Bancshares Corporation	Laredo	TX	$12.1
Astoria Bank	Long Island City	NY	$15.4	Investors Bancorp, Inc.	Short Hills	NJ	$17.8
Bancorpsouth, Inc.	Tupelo	MS	$13.1	New York Community Bancorp, Inc.	Westbury	NY	$48.7
Bank Of Hawaii Corporation	Honolulu	HI	$14.6	Onewest Bank, National Association	Pasadena	CA	$22.0
Bankunited, Inc.	Miami Lakes	FL	$17.7	People's United Bank, National Association	Bridgeport	CT	$34.5
Barclays Bank Delaware	Wilmington	DE	$24.2	Popular, Inc.	Hato Rey	PR	$34.1
BOK Financial Corporation	Tulsa	OK	$29.1	Privatebancorp, Inc.	Chicago	IL	$15.2
Cathay General Bancorp	Los Angeles	CA	$11.6	Prosperity Bancshares, Inc.	Houston	TX	$21.1
Central Bancompany, Inc	Jefferson City	MO	$11.0	Rabobank, National Association	Roseville	CA	$14.7
CIT Group Inc.	New York	NY	$46.5	Raymond James Bank, National Association	Saint Petersburg	FL	$12.5
City National Corporation	Los Angeles	CA	$32.0	Scottrade Bank	Saint Louis	MO	$19.3
Commerce Bancshares, Inc.	Kansas City	MO	$22.7	Signature Bank	New York	NY	$26.0
Cullen/Frost Bankers, Inc.	San Antonio	TX	$27.4	State Farm Bank, F.S.B.	Blooming-ton	IL	$17.0
E*Trade Bank	Arlington	VA	$44.5	Susquehanna Bancshares, Inc.	Lititz	PA	$18.6
East West Bancorp, Inc.	Pasadena	CA	$28.5	SVB Financial Group	Santa Clara	CA	$36.0
Everbank	Jacksonville	FL	$20.5	Synchrony Bank	Draper	UT	$46.1
F.N.B. Corporation	Hermitage	PA	$15.8	Synovus Financial Corp.	Columbus	GA	$26.5
First Bancorp	San Juan	PR	$12.6	TCF Financial Corporation	Wayzata	MN	$19.1
First Citizens Bancshares, Inc.	Raleigh	NC	$21.9	Texas Capital Bancshares, Inc.	Dallas	TX	$14.3
First Hawaiian Bank	Honolulu	HI	$18.1	Third Federal Savings And Loan Association Of Cleveland	Cleveland	OH	$11.8
First Horizon National Corporation	Memphis	TN	$24.0	Trustmark Corporation	Jackson	MS	$12.1
First National Of Nebraska, Inc.	Omaha	NE	$17.1	UMB Financial Corporation	Kansas City	MO	$16.3
First Niagara Financial Group, Inc.	Buffalo	NY	$38.0	Umpqua Holdings Corporation	Portland	OR	$22.5
First Republic Bank	San Francisco	CA	$46.7	Valley National Bancorp	Wayne	NJ	$16.7
Firstbank Holding Company	Lakewood	CO	$14.1	Washington Federal, Inc.	Seattle	WA	$14.8
Firstmerit Corporation	Akron	OH	$24.6	Webster Financial Corporation	Waterbury	CT	$21.8
Fulton Financial Corporation	Lancaster	PA	$17.2	Wintrust Financial Corporation	Lake Forest	IL	$19.2
Hancock Holding Company	Gulfport	MS	$20.0				

Total Assets as of Q3 2014