ETI Trends

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Economic, Business, Social and Environmental Trends

The Loan Profile of Banks[1]

The projected demographic and economic conditions will require new approaches by the commercial banking institutions in 2020 and beyond

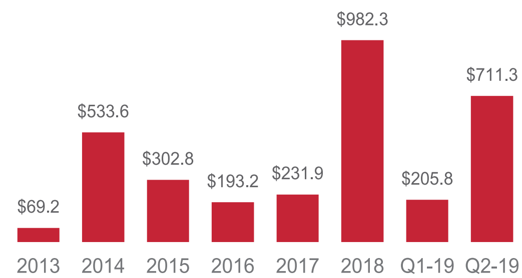
As of the second quarter of 2019, commercial banks accounted for 44.4% of the total assets of all financial institutions in Puerto Rico, up from 40.3% in 2006, the year prior to the economic contraction. Their profitability has improved markedly in the last two years. Yet, reflecting the state of the economy and the level of economic activity, the volume of lending for commercial, industrial, and agricultural activities, has decreased considerably, while that for consumption purposes increased, a reflection of the impact the reconstruction process has had on the consumption activity of individuals. Banks respond to demand and the situation described reflects a shift in the demand profile for loans. This situation represents a challenge to the immediate economic reconstruction process and for the mid and long-term recovery of the economy.

Figures 1 and 2 show how banks' financial position has improved by Q2-19. Net income (after taxes) rose from $69.2 million in 2013 to $711.3 in Q2-19. And ROE (before taxes) improved markedly, from -2.4% in 2013 to 14.7% in the second quarter.

On the other hand, the share of loans to private businesses (Commercial, industrial, and agricultural loans) in their total loan portfolio fell from 26.2% in 2006, to 11.4% in Q2-19. From a volume outstanding of $15.8 billion in 2006, it went down to $3.9 billion in Q2-19, almost unchanged since 2017.

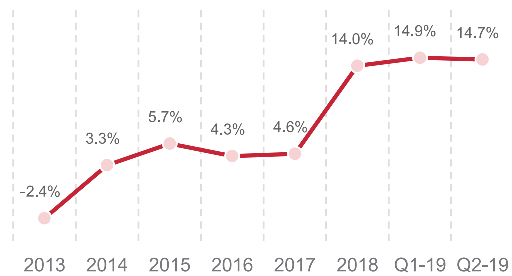
As reflected in Table 1, the total volume of loans fell by some 20.5% in the period 2006-2019 and its composition also changed. The share of loans to private business (excluding construction, for obvious reasons) fell, that of residential mortgages increased to 39.2% from 26.6% in 2006, and that of personal loans to 16.3% from 12.0% in 2006. The segment of other loans secured by nonfarm nonresidential properties, related to commercial activity, also experienced a decrease in volume, although its share in the total loan portfolio rose to 25.0% from 22.0% in 2006.

Figure 1: Net Income After Taxes Commercial Banks



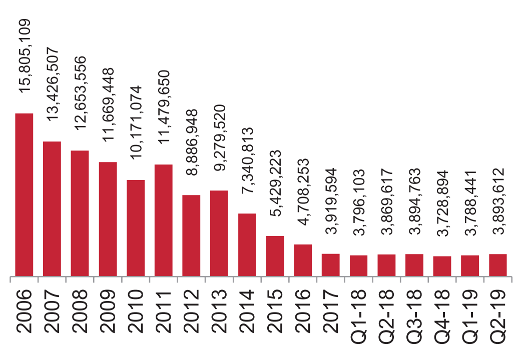
Source: OCFI (2019).

Figure 2: Pre-Tax Return on Equity (ROE) Commercial Banks



Source: OCFI (2019).

Figure 3: Net Income After Taxes Commercial Banks



Source: OCIF.

Estudios Técnicos Inc.
Investigación | Estrategias | Soluciones

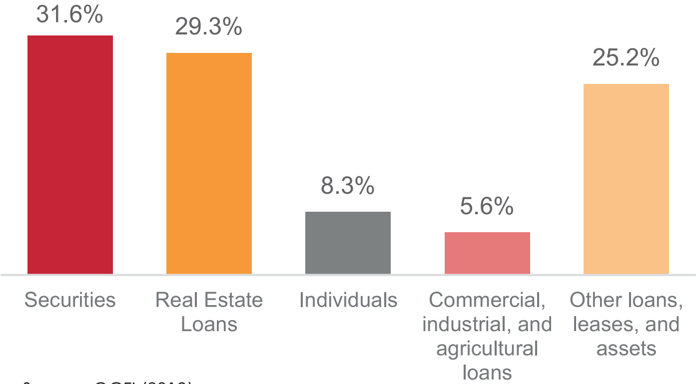
Estudios Técnicos, Inc.
www.estudiostecnicos.com
787-751-1675
Ave. Domenech #113,
San Juan PR 00918

Table 1: Distribution of Total Loans Portfolios

	2006		Q2-2019		Change (%)
Total Loans & Leases	**100.0%**	**$60,380,558**	**100.0%**	**$34,880,615**	**-42.2%**
Residential Mortgage	26.6%	16,084,801	39.2%	12,287,383	-23.6%
Credit Cards	3.0%	1,782,497	4.8%	1,499,144	-15.9%
Auto Loan	4.4%	2,636,613	6.2%	2,395,170	-9.2%
Other secured by nonfarm nonresidential properties	21.9%	13,249,489	24.8%	7,931,193	-40.1%
Commercial and Industrial	26.2%	15,805,109	11.4%	3,893,612	-75.4%
Leasing	1.1%	661,808	1.0%	430,695	-34.9%
Other Consumer Loans	4.7%	2,850,036	5.4%	1,881,843	-34.0%
Construction	8.5%	5,103,066	0.6%	183,122	-96.4%
Land Loans	0.3%	172,333	0.3%	73,402	-57.4%
All others	3.4%	2,034,806	6.3%	4,305,051	111.6%
Addenda: Personal loans	**12.0%**	**$7,269,146**	**16.3%**	**$5,776,157**	**-20.5%**

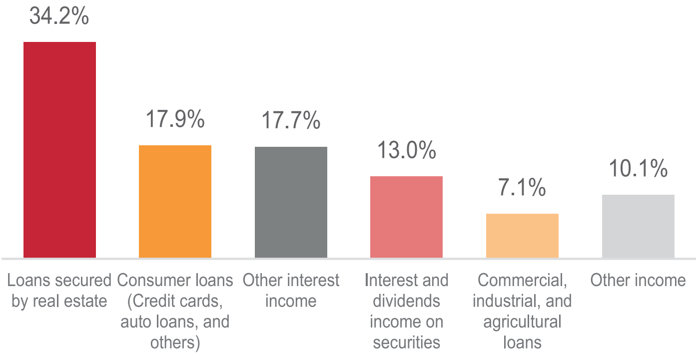
Source: OCIF.

Figure 4: Distribution of Assets, Commercial Banks, Q2-19



Source: OCFI (2019).

Figure 5: Distribution of Income by Source, Commercial Banks, Q2-19



Source: OCFI (2019).

In Q2-19, 32.0% of total bank assets were in securities, followed by real estate loans (29.3%), with those from commercial, industrial, and agricultural loans representing 5.6%. (see Figure 4). The same is the case with bank sources of income; loans secured by real estate accounting for the majority of income (34.2%), while commercial, industrial, and agricultural loans represent 7.1%, a share much lower than that of consumer loans (18.0%) (see Figure 5).

The decrease in lending to private businesses reflects the economic contraction that the local economy has been experiencing since 2006. The increasing shares of residential mortgage and personal loans (led by auto loans), should be worrisome for the commercial banks, given the projected decreases in population and its aging, which in turn impacts private consumption and residential construction, both major components of bank portfolios.

Moreover, there is the competition from local savings and loans cooperatives in those two segments. The Coops' share in the total assets of financial institutions doubled, from 3.0% in 2006 to 6.1% in Q2-19, increasing 72.0% in terms of value. Assets of federal credit unions increased by 42.2% since 2006.[2] Being non-profit entities, Coops have a marked competitive advantage.

The projected demographic and economic conditions will require new approaches by the commercial banking institutions in 2020 and beyond, recognizing a dramatic shift in the financing needs of the population and the business sector.

Notes:

1. This report was prepared by the Economic Analysis and Policy Division of Estudios Técnicos, Inc., under the supervision of Juan A. Castañer Martínez.
2. Data from OCFI (2019), All Financial Institutions – Total Assets, 2004 – Q2-2019.