US banks

US regional banks hope for profit revival as pain from SVB fallout eases

Depositors are less likely to flee mid-sized lenders than they were following the banking turmoil of 2023

Cincinnati-based Fifth Third is one of the regional lenders that suffered a fall in profits in the fourth quarter because of the lingering fallout of last year's banking crisis

Joshua Franklin and **Stephen Gandel** in New York JANUARY 29 2024

US regional bank executives say the pressure to pay up to keep depositors from leaving, which cut profits last year, is easing, paving the way for better earnings after the collapse of Silicon Valley Bank hurt mid-sized lenders last year.

Tim Spence, chief executive at Fifth Third Bank, based in Cincinnati, Ohio, said the competition for deposits remained "robust", but that banks were no longer having to offer customers such generous terms to keep their business.

"You still have to be competitive," Spence told the Financial Times. "I just think you're not fighting irrationality the way maybe we would have been before."

Bruce Van Saun, chief of Rhode Island-based regional lender, Citizens Financial, said pressure on deposit costs had been slowing every quarter since the end of June. "You're starting to see those pressures abate somewhat," Van Saun said.

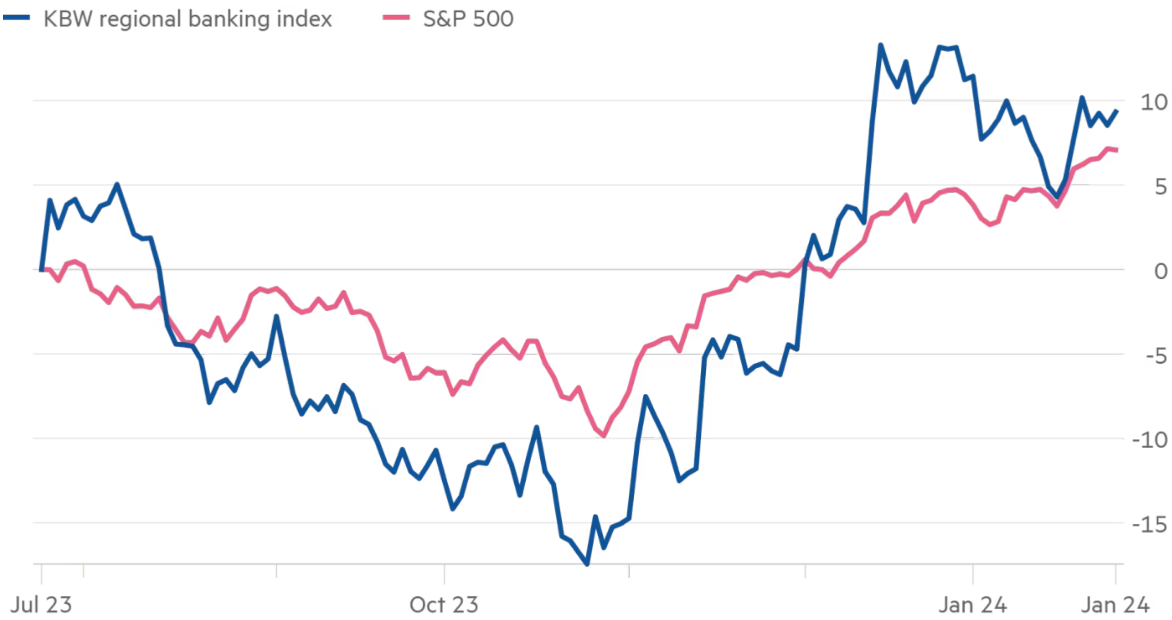
Nonetheless, profits at regional banks across the US, the biggest of which have reported their earnings during the past two weeks, continued to slump in the fourth quarter.

Profits at Fifth Third plunged nearly 30 per cent in the quarter compared with the same period a year ago, while profits at Citizens fell about 70 per cent.

The bottom lines at Comerica, based in Dallas, Texas, Zions Bank, based in Salt Lake City, Utah, and PNC in Pittsburgh, Pennsylvania, fell roughly 90 per cent, 55 per cent and 40 per cent, respectively.

Regional bank index outperforms S&P 500 over past six months

Percentage change



Source: S&P Capital IQ

Part of the reason for the profit drop was last year's banking turmoil — the Federal Deposit Insurance Corporation imposed a one-time charge on many US banks in order to pay for losses, which the FDIC's deposit insurance fund had to cover, from the bank failures last year.

The need to offer higher rates to keep deposits, which is the primary source of funding for banks, has remained a strain on the profit margins of smaller banks, even as larger lenders like JPMorgan Chase have been able to report bumper profits.

Banks have been under pressure to pay higher interest to depositors ever since the Fed began rapidly raising rates in early 2022. But what had been a measured exit of depositors at mid-sized banks turned into a rush for the exits after the failure of SVB raised concerns about the safety of keeping money at any mid-sized lender.

Nearly a year later, bank executives said customers seemed satisfied with what the banks were now paying for deposits.

Investors have been anticipating the improvement. Regional bank stocks, as measured by the KBW Regional Bank index, have risen by a third in the past three months, though they are still down from where they were before the collapse of SVB.

Investors are "still not all in on the banks", said RBC banking analyst Gerard Cassidy. "It's because of the scar tissue that's still around from March of last year."

But banks' wounds could heal quickly, especially if rate cuts by the Federal Reserve release pent up demand from home buyers and others who have been holding back for the past two years on purchases or investment because of high borrowing costs.

"The cost of deposits are going to come down," said Christopher Whalen, who is the head of Whalen Global Advisors. "And if rates drop even a little bit, you could see a boom in lending."