Economic Studies at BROOKINGS

[Biggest U.S. Banks Asset Share Today Smaller than Pre-Crisis; Rate of Asset Growth Exponentially Smaller]

Big Four share of bank assets lower now than in 2008 despite crisis mergers and acquisitions

Although it is generally believed that the shotgun weddings of firms orchestrated by policymakers during the onset of the financial crisis in 2008 would make big banks even bigger, the biggest U.S. banks have a smaller share of all assets today than they did during financial crisis, according to a new paper from the Brookings Initiative on Business and Public Policy. There has also been a strong decline in lending activity, which could hamper future economic growth and suggests that banks may not be lending due to excessive risk-aversion or in response to the post-crisis regulatory regime -- which should concern policymakers.

In "The Big Four Banks: The Evolution of the Financial Sector Part I" Bernard L. Schwartz Chair in Economic Policy Development and Director of the Business and Public Policy Initiative at Brookings Martin Baily and Research Assistants William Bekker and Sarah Holmes analyze how the financial sector has evolved over the periods both before and after the financial crisis of 2007-2008.

They find that the crisis acquisitions by the Big Four banks (JPMorgan Chase, Bank of America, Citigroup, and Wells Fargo) did push up their share of total banks assets and liabilities as a share of total banking at the height of the crisis, but not by very much -- the share of banking sector assets held by the Big Four declined after 2010 and is currently 51.2 percent – a 1.3 percentage point drop from their 52.5 percent share in 2008 after the crisis caused firm consolidation. Thanks to deregulation in the mid- to late 1990s, the assets of the Big Four banks in current dollar terms grew very rapidly, at an 14.8 percent compounded annual growth rate from 2003-2008, but from 2008-2014, the rate of increase slowed substantially, to 1.8 percent. The authors believe the slow growth trend is likely to continue given the current regulatory pressure and capital requirements placed on the largest institutions.

The Big Four have also changed their portfolios of assets and liabilities substantially since the crisis, holding more interest-bearing deposits as assets and relying less on short-term wholesale funding to finance their businesses, the research finds. In terms of the composition of assets, the share of trading assets fell sharply after 2008 and loans and leases fell from around 45 percent of assets in 2008 to 39 percent in 2014. The share of interest-bearing deposits and cash increased.

On the liability side, the deposit base increased its share after 2008, with domestic deposits rising from 38 percent in 2008 to 49 percent by 2013. The acquisitions of Countrywide and Wachovia contributed to this change, but the bulk of the increase occurred after these were completed, they write. Liabilities such as short-term borrowing and commercial paper declined with the push away from such short-term funding, but long-term borrowing also declined somewhat as a share of the total.

Other key findings:

- From 2003 to 2008 the value of deposits and the value of loans grew in lockstep, but after 2008 the value of loans and leases flattened out while deposits kept on growing.

- Net income for the Big Four grew solidly from 2003 through 2007; took a sharp dip in 2008; and was followed by a dramatic rise through 2009, fueled mostly by non-traditional income.

- The return on assets in the big banks was in the range of 1.5 to 2 percent prior to the crisis but turned negative in the crisis largely because of big losses at Citibank. Since 2008, the return on assets has moved up, and was in the 1 to 1.5 percent range by 2013, with Wells Fargo having the strongest performance on this metric both pre- and post-crisis, while Citi and Bank of America have struggled.

- The securitization business of the Big Four went through the roof 2006-2008, led by residential loans. It dropped sharply in 2009 and has been flat since then. Credit card securitization also fell off sharply. "Other" securitization business has grown since the crisis.

- JPMorgan's acquisitions of Washington Mutual and Bear Stearns added just over $550 billion of assets, based on the reported assets of the two institutions just prior to the acquisitions. Over the same period, JPMorgan's assets actually increased by a larger amount, some $613 billion, even though some fraction of the acquired assets were written down. It is hard to give a full account of full impact of the changes taking place; however, deposits were flowing into banks considered safe at this time and being placed into interest bearing assets.

"One of the most troubling signs our research uncovered is the decline in loans in relation to deposits. In the crisis, the demand for loans fell, but the economy is now recovering and it would have been expected that loans would pick up by more than they have. Banks may be reluctant to lend because of continued concerns about risk, or they may be restrained from lending by regulatory pressures. This trend should be a cause for concern among policymakers, consumers, and industry alike if it continues," Baily, Holmes and Bekker conclude.