

# Higher interest rates not a panacea for bank profitability according to SNL's 2015 U.S. Bank and Thrift Market Report

Competition, regulation likely to limit the benefit of rate increases

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NEW YORK, Nov. 3, 2015 /PRNewswire/ -- New research on the US bank and thrift sector from SNL indicates that profitability in the industry will improve but not reach pre-crisis levels. The inaugural, 2015 edition of SNL's U.S. Bank and Thrift Market report also suggests that while loan and security yields are expected to expand from near 10-year lows, banks' cost of funds will increase by similar amounts, keeping net interest margins from expanding meaningfully from their historic lows. To view the 2015 SNL Financial US Bank and Thrift Report, [click here](#).

SNL projects that the credit environment will remain benign as the unemployment rate continues to improve over the next few years. Non-performing loans will steadily decrease, and charge-offs on those problem credits will remain relatively low, holding fairly consistent with the loss severities witnessed since 2013.

"The banking industry's net interest margin fell to the lowest level in 10 years at the end of the second quarter 2015," said Nathan Stovall, analyst, S&P Capital IQ and SNL. "Given the current environment, we believe much of the industry will remain under pressure through the remainder of the year. We also see a strong possibility that bank margins will rise slightly in 2016 before experiencing notable improvement in 2017."

Other forecasts in the SNL Financial report include:

- Returns on average assets and returns on average equity should expand as the impact of higher interest rates takes hold, pushing the industry's ROAA and ROAE as high as 1.12% and 9.95%, respectively, in 2017. SNL expects returns to stabilize as credit leverage wanes and deposit costs catch up with the expansion in earning-asset yields.
- Credit quality should remain strong in the near term, assuming the Federal Reserve begins raising interest rates after seeing steady economic growth and decreased unemployment levels.
- Deposits should continue to build in the industry as short-term rates move higher, but growth will moderate from current levels. SNL expects deposit costs to increase notably once the Fed begins increasing short-term rates and at a faster pace than witnessed during the last tightening cycle from 2004 to 2006.

To produce this report SNL analyzed nearly 10,000 banking subsidiaries, covering the core banking industry from 2004 to the second quarter of 2015. The analysis includes all commercial and savings banks and savings institutions and historical institutions as long as they were still considered current at the end of a given year. It excludes several hundred institutions that hold bank charters but do not principally engage in banking activities, among them industrial banks, nondepository trusts and cooperative banks. The examination divided the banking industry into five different asset groups to see which banks have changed the most, using key regulatory thresholds to define the separation. SNL looked at banks with assets of \$250 billion or more; \$50 billion to \$250 billion; \$10 billion to \$50 billion; \$1 billion to \$10 billion; and \$1 billion and below.

**For a full copy of the report, please email Christina Twomey directly at [ctwomey@snl.com](mailto:ctwomey@snl.com) or complete the form linked [here](#) for an instant download version.**

## About S&P Capital IQ and SNL

S&P Capital IQ and SNL, a business unit of McGraw Hill Financial (NYSE: MHFI), is a leading provider of multi-asset class and real time data, research and analytics to institutional investors, investment and commercial banks, investment advisors and wealth managers, governments, corporations and universities around the world. The newly combined firm, previously S&P Capital IQ and SNL Financial, integrates breaking news, comprehensive data and analysis into a variety of tools to help track performance, generate alpha, identify new trading and investment ideas, and perform risk analysis and mitigation strategies. The firm offers the S&P Capital IQ, SNL, Global Credit Portal and Market Scope Advisor desktops as well as enterprise

solutions, such as S&P Capital IQ Valuations; and research offerings from Leveraged Commentary & Data, Global Markets Intelligence, SNL Kagan, SNL Energy, SNL Real Estate and SNL Metals & Mining. Together, S&P Capital IQ and SNL sharpen financial intelligence into the wisdom today's investors need. For more information, visit [www.spcapitaliq.com](http://www.spcapitaliq.com) or [www.snl.com](http://www.snl.com).

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