

Regional banks' Q1 earnings signal a tough year ahead

Article

The news: PNC Bank, Regions Financial, Huntington Bancshares, and Fifth Third Bancorp all reported profit drops in their Q1 earnings.

What happened? All of these banks reported significant drops in interest income.

- Higher interest rates have pushed up deposit costs, decreased loan demand, and raised delinquencies.
- While larger national banks have more diverse revenue sources, regional banks' profitability relies heavily on the difference between the interest earned from loans and the interest paid on deposits.

The CRE factor: PNC, Fifth Third, and Regions loan charge-offs increased last quarter from their exposures to the commercial real estate (CRE) crisis. Huntington's remained stable.

- CRE makes up 15.5% of PNC's loan portfolio, 33.2% of Huntington's, 10% of Fifth Third's, and 11.5% of Regions', per UBS data.

What's next? The rest of the year will continue to be challenging.

- Huntington, Regions, and Fifth Third predicted ongoing net interest income drops between 2% and 11% for the full year.
- And PNC agrees—but believes the anticipated rate cuts later this year could lower deposit costs and boost loan demand, per Yahoo Finance.

Former Chair of the Federal Deposit Insurance Corporation (FDIC) Sheila Bair expressed concern for regional banks and has called for Congress to reinstate the transaction account guarantee, per CNBC. She believes this move would stabilize uninsured deposits.

- This guarantee, initiated during the 2008 financial crisis, ensured unlimited deposit insurance coverage for non-interest-bearing transaction accounts.
- It aimed to bolster depositor confidence and prevent bank runs.

Key takeaway: To navigate this challenging landscape, regional banks are not only exploring innovative methods to raise capital but also embracing strategic partnerships and technological advancements.

By leveraging AI and fintech collaborations to enhance operational efficiency and expand service offerings, regional banks can position themselves for sustained growth and competitiveness in the evolving financial ecosystem.

Level of Confidence in Their Primary Banks* According to US Adults, by Bank Type and Generation, March 2023

% of respondents in each group

Bank type

Regional bank customers



Credit union customers



National bank customers



Community bank customers



Digital bank customers



Generation

Gen Z (1997-2012)



Millennials (1981-1996)



Gen X (1965-1980)



Baby boomers (1946-1964)



Total



Very confident

Not too confident

■ Somewhat confident

■ Not confident at all

*Note: numbers may not add up to 100% due to rounding; *in their banks' ability to provide them with all of the money in their accounts if they requested it*
Source: Morning Consult as cited in company blog, March 15, 2023

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