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Banks near peak risk appetite in Conn.

Connecticut banks gave a record amount of loans last year, and measured as a percentage of assets, lending is only slightly off the pace of the brisk economy of 2006 — reflecting banks' increased willingness to lend in the long shadow of the Great Recession, as well as their adaptation to the additional oversight requirements they must meet in extending credit.

Patty Sweeney, Maciel Valdez and Sara Tucker (L-R) ready a commercial banking compliance audit at First County Bank's headquarters at 3001 Summer Square in Stamford, Conn. In 2015, Conneecticut banks neared a record level of loans on the street as a percentage of total assets.

Last year, Connecticut institutions had loans and leases outstanding rose 8.5 percent to $71.7 billion — a slower rate of growth than the previous year, when lending escalated 12.8 percent from 2013.

Since lending is a direct reflection of increased deposits, a more telling measure of banks' willingness to absorb risk is the ratio of loans outstanding to total assets, which was 71.3 percent as of December 2015 — up from 70.5 percent a year earlier and near the all-time high of 71.5 percent a decade back.

The banks held customer deposits totaling $74.7 billion as of December and assets of $99.6 billion, up 9 percent and 7 percent respectively from the close of 2014.
"Wealth has been largely restored back to the peak we saw prior to the Great Recession," Joe Tracy, executive president of the Federal Reserve Bank of New York, said at an economic forum in Stamford earlier this month. "Since the beginning of the year … we have seen a decline in the (stock) markets … but we are still at very high levels."

Banks are extending loans thanks to deposits they are booking from customers as well as the confidence born of a significant decline in problem loans, which last year fell below the 1 percent threshold for the first time since before the recession. Delinquent loans peaked in 2010 at nearly 3 percent of all loans outstanding.

"Consumers have de-leveraged," Jack Barnes, CEO of Bridgeport-based People's United Financial (Nasdaq: PBCT), said during a January conference call reviewing his company's 2015 results. "You look at our numbers around problem loans and the like, and the demand side — things are pretty good … When we look at our portfolio and the performance of it, we feel very good about the consistency and our approach to underwriting over time and including right up until today."

In a mid-February statement accompanying a Federal Reserve report on household debt growing slightly in the fourth quarter, New York Fed President Bill Dudley dubbed the ongoing recovery "an elder statesman in the family of post-war U.S. expansions" for its longevity.

"This raises the question of whether this expansion has already entered its twilight years, with the risk of recession edging higher with each passing month," Dudley stated.

“Expansions do not simply die of old age — rather, expansions end either because a significant inflation risk emerges that requires a sharp tightening of monetary policy or the economy is adversely impacted by a large shock.”

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