Monday, May 18, 2015 2:27 PM ET Exclusive

San Diego shimmers, allowing banks to boost lending

By Kevin Dobbs and Zuhaib Gull

The employment picture is brightening, real estate is on solid footing and business activity is humming along in San Diego, providing bankers in the market abundant drivers of loan growth and myriad reasons for optimism.

Competition is intense, bankers and observers note, resulting in pricing pressure. But they add that, with loan demand mounting, growth opportunities remain ample when looking out to the remainder of 2015.

During the first quarter, for example, Silvergate Capital Corp.'s Silvergate Bank generated loan growth "in pretty much every category," CEO Alan Lane, whose bank is based in the La Jolla section of San Diego, told SNL.

An SNL analysis found that Silvergate increased its first-quarter loans by nearly 40% from a year earlier. Several other San Diego-area banks generated robust double-digit growth in the same period, including San Diego Private Bank, Bank of Southern California NA and Seacoast Commerce Bank.

Among eight San Diego-area-based commercial banks, median first-quarter loan growth from a year earlier topped 27%, according to the analysis of regulatory filings.

"The bottom line is that the San Diego economy is doing well and so we are seeing some nice loan demand," Lane said.

Low long-term interest rates helped create a "mini boom" in residential mortgage refinancing early this year, he said. Now, with the summer home-shopping season on deck, Lane is looking for a rise in home purchases. The bank also is buying nonqualified mortgage loans from correspondents, adding to its loan totals. "That's been a nice little niche for us," Lane said.

Commercial-and-industrial loan activity is strong, he said, amid strength in tourism-related businesses, manufacturing, biotech, health care and construction.

"There is building getting done on both the residential and commercial sides," Lane said. "And there is a broad swath of activity in general."

Loan growth and yield at commercial banks based in the San Diego MSA*
Ranked by total assets as of March 31, 2014

			Loans and leases		Yield (%)^		
Company (top-level ticker)	City	Total assets ($M)	Total balance ($M)	YOY change (%)	Q1'15	Q4'14	Q1'14
California Bank & Trust (ZION)	San Diego	11,546.8	8,536.6	-1.09	4.44	4.68	5.06
Silvergate Bank	La Jolla	953.1	844.4	39.44	4.22	4.80	4.06
San Diego Private Bank (SDPB)	Coronado	445.0	336.1	35.50	5.64	5.39	5.60
Seacoast Commerce Bank (SCBH)	San Diego	436.8	368.8	39.17	5.53	5.98	5.73
Bank of Southern California NA (FBBN)	San Diego	332.8	238.4	32.47	4.96	5.18	4.82
Home Bank of California	San Diego	124.2	103.9	13.87	6.86	6.87	7.18
Neighborhood National Bank	San Diego	66.2	33.1	-30.87	5.88	6.07	5.98
Armed Forces Bank of California NA	San Diego	15.9	7.1	22.26	4.08	4.10	4.26
		MSA median		**27.37**	**5.25**	**5.29**	**5.33**

Data compiled May 13, 2015.
Based on regulatory filings as of March 31, 2015.
* Analysis limited to operating commercial banks headquartered in the San Diego-Carlsbad metropolitan statistical area (MSA).
^ Yield = Total interest income on loans and leases, as a percentage of average loans and leases
Top-level ticker is based on the highest traded entity within the corporate structure.
Source: SNL Financial

The latest S&P/Case-Shiller Home Price Indices show that San Diego-area home prices in February were up 4.7% from a year earlier.

The real estate market appeared to further strengthen in March, according to CoreLogic. It said 3,467 home sales closed in San Diego County that month, up more than 13% from a year earlier.

"The housing market is fully back," Lane said.

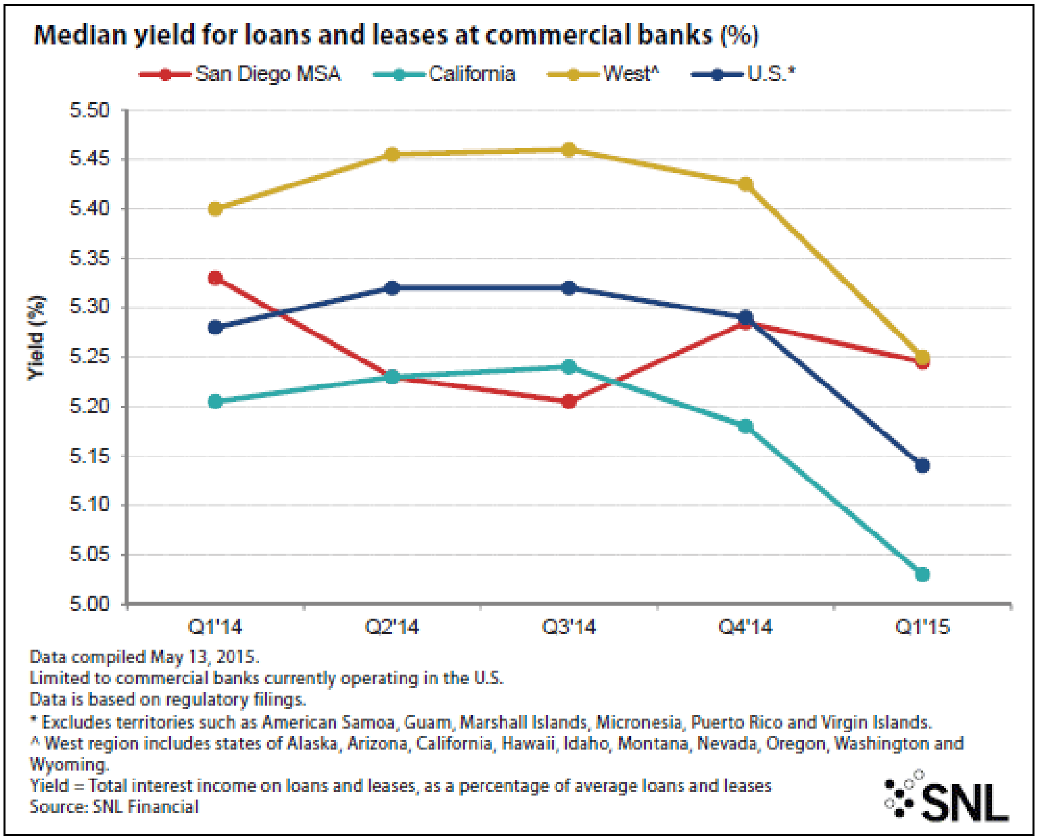
San Diego County's jobless rate, meanwhile, fell to 5.1% in March from 5.3% the previous month and 7.1% a year earlier, according to California's Employment Development Department. The March figure marked the lowest unemployment rate for San Diego since April 2008.

Steven Sumner, an economist at the University of San Diego, told SNL that job openings have been steadily increasing in number since late 2014. "That's been pretty strong the past five or six months," he said.

Sumner pointed to his university's Index of Leading Economic Indicators, which climbed 1.3% in March, the latest month available, indicating solid health, he said. The index rose at an equal pace in February and 1.4% in January.

The index tracks initial claims for unemployment insurance, help wanted advertising, building permits, consumer confidence, local stock prices and economic outlooks. For the third consecutive month, all six components were positive in March.

"Certainly, the economic recovery continues to go well, so I'm not surprised to see the loan growth," Sumner said.



The strength of the market has proven a lure for more lenders, Lane said, fueling competition. That, in combination with already low short-term interest rates, is putting downward pressure on prices, affecting loan profitability.

"It is intense," Lane said of competition in both the commercial and residential lending spaces. "It's about as intense as I've ever seen it."

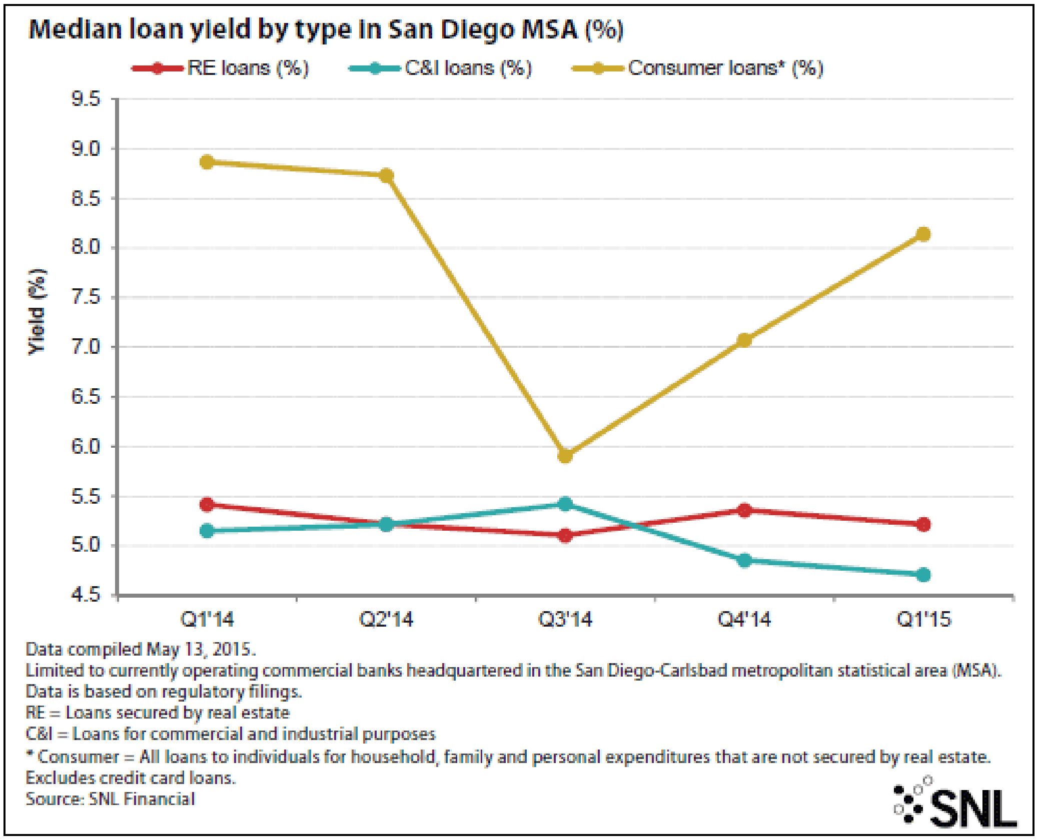
That helps explain why loan yields are declining in San Diego despite the healthy loan demand.

The SNL analysis found that the median loan yield among banks based in the San Diego area was 5.25% for the first quarter, down from 5.29% the previous quarter and down from 5.33% a year earlier.

But the first-quarter San Diego figure was on par with the loan yield median for all of the West region, SNL found, and it was above that for California and for the United States as a whole.

Lane said that while competition is clearly affecting yields in Southern California, he said he has not witnessed irrational moves on credit standards or on the structure of loans. He has not seen any competitor introduce no-documentation loans or products of that nature that helped deepen the last credit crisis. Lenders, he said, are instead competing primarily on pricing.

"We're not losing a lot of loans because people are starting to do stupid things," Lane said. "And that's good, because that would be the sign of the next downturn."



SNL Product Tips

Click here for a template that provides analysis of net interest margin for a commercial bank, savings bank or bank holding company, including factors such as yield, cost and volume.

To view a template that projects earnings for banks based on historical growth rates and yield/cost for various balance sheet and income statement items, click here.