

Mixed economic messages as Michigan regional banks report earnings

NICK MANES  



Huntington Bank, which is set to move into its new building in downtown Detroit later this summer, reported a record quarterly profit.

While some top bank executives are warning of a pending "economic hurricane," many financial professionals are touting relatively calm seas this earnings season.

Most bank executives acknowledge some headwinds as inflation continues to hamper the economy, but regional and community banks operating in Michigan are showing generally strong financial performance, and CEOs say their clients remain upbeat.

By and large, bank executives are touting key metrics, such as loan growth — meaning businesses and consumers feel confident enough to continue taking on new debt — and overall increasing assets as signs that the economy remains strong.

That's despite consumer confidence being at "near all-time lows, according to a [monthly report](#) by the University of Michigan. UM's Survey of Consumers for consumer sentiment was down more than 37 percent year-over-year in July.

While many executives remain upbeat, several of the largest banks have reported slumping profits when compared with last year, as [Axios noted](#).

Peter Sefzik, executive vice president and executive director of commercial banking at Dallas-based Comerica Inc. — Michigan's third largest bank by deposits — acknowledged the "recession watch" that many business owners and other industry observers are on at the moment.

"That's not unique to you or all of us," Sefzik said to analysts of the feeling of a looming economic downturn. "Our customers are probably in the same boat. That said, I think that they are doing really well. Our pipeline is strong. Our activity levels are good. So it's hard to see ... immediate concerns. I think a lot of the concerns that we hear ... are further out."

Steve Steinour, the CEO of Huntington Bank in Columbus and Detroit, echoed that sentiment.



Stephen Steinour

"Huntington and the banking industry remain well positioned to withstand the current volatility," Steinour told analysts Thursday morning, adding that the bank is "not seeing substantive areas of concern within our current loan portfolio."

Huntington's reported net income last quarter of \$539 million represented a quarterly record for the bank, according to Steinour. The general optimism felt by bankers like Steinour appears widespread throughout the industry, according to a [report](#) this

week by Morningstar Research.

"Bank earnings remain strong amid the economic uncertainty," Eric Compton, a strategist at Morningstar, said in the article.

Still, "bank stocks could continue to face some pressure in the near term, as recession concerns do not seem likely to go away anytime soon," Compton said. "In the meantime, we think valuations for our U.S. bank coverage are looking much more interesting."

Adding to that positive economic sentiment are several top executives of Michigan's smaller, community banks, which are still churning out profits despite a challenging environment.

Mercantile Bank in Grand Rapids reported Tuesday that while its net income fell to just more than \$11.7 million in the second quarter, a decline of 35 percent year-over-year, the overall results underscore that core lines of business remain strong.

The bank, with assets of about \$5 billion, saw "substantial growth" in commercial loan activity and residential mortgage lending, according to a statement from Robert Kaminski, president and CEO of Mercantile.

The CEO also credited the bank's growth in assets, increased revenue from fees and controlling overhead costs with the bank's performance.

"The entire Mercantile team has adeptly pivoted from assisting clients with initial COVID-19 pandemic-related issues to helping them navigate through the latest economic challenges such as high inflation levels, rising interest rates, and staffing concerns," Kaminski said in the statement. "(A)nd we believe our commitment to serving as a trusted advisor will present us with additional opportunities to develop mutually beneficial relationships with new and existing customers."

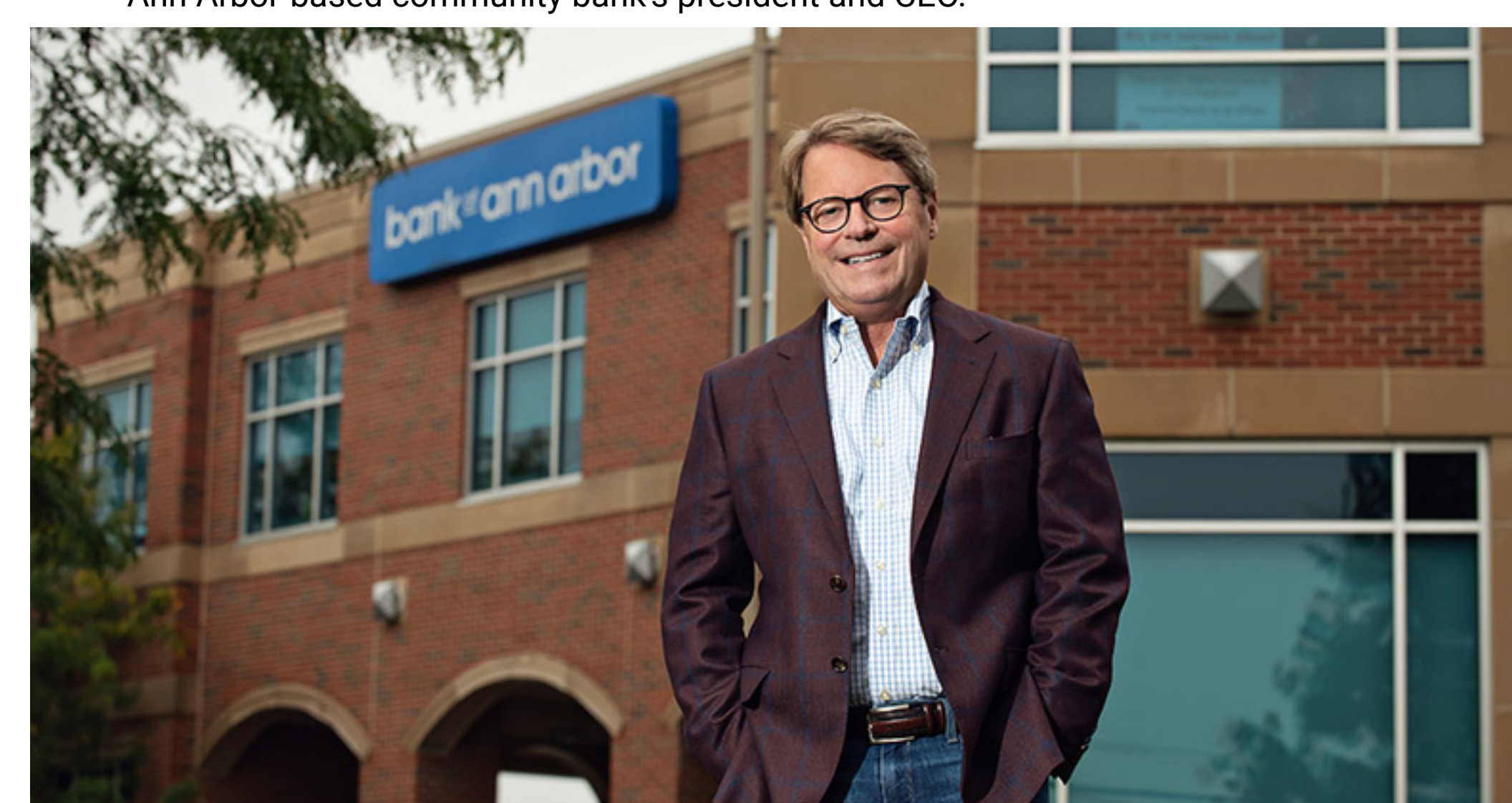
Despite the general feeling of optimism, and the notion that central bankers at the U.S. Federal Reserve might orchestrate a "soft landing" with interest rate hikes that leave the economy short of a recession, some larger banks are gearing up for a rainy day.

JPMorgan Chase & Co., the country's largest bank, earlier this month reported more than \$1 billion in credit costs, according to a Bloomberg report earlier this month.

The \$1.1 billion in provisions for credit losses included a \$428 million build in reserves for loans that go sour and \$657 million in net charge-offs, according to the bank's earnings report. Chase executives cited loan growth and "a modest deterioration in the economic outlook" as key drivers behind the spending.

Regional banks like Huntington and Cincinnati-based Fifth Third Bank have largely kept their allowance for credit losses flat over the last several quarters, according to earnings reports.

That's also been the case at Bank of Ann Arbor, where it's been "business as usual" as it relates to allowances for bad loans, according to Tim Marshall, the Ann Arbor-based community bank's president and CEO.



Bank of Ann Arbor President and CEO Tim Marshall said he feels "generally favorable" about the state of the economy, "but there's clouds on the horizon that don't allow you to be totally bullish."

Earnings for the first half of the year at the bank grew by 14.3 percent year-over-year, to \$20.9 million, Marshall told Crain's.

Marshall said he feels "generally favorable" about the state of the economy, "but there's clouds on the horizon that don't allow you to be totally bullish."

However, it's not macroeconomic pressures or the potential for loans going bad that's keeping Marshall up at night. Rather, it's the ever-present possibility of a cyberattack hitting the bank.

"What we've learned is, loan losses typically don't happen immediately. I have a runway that allows for an extended period of communication, and discussion and action planning," Marshall said. "Whereas, in the cyber and fraud world today it's immediate and it's completely unexpected."

— *Bloomberg contributed to this report*

SECOND QUARTER EARNINGS	
Regional banks reported Q2 financials in the last couple of weeks, including:	
Huntington Bank	<ul style="list-style-type: none"> • Net income: \$539 million • Revenue: \$1.26 billion • Average commercial loan growth: 2%
Mercantile Bank	<ul style="list-style-type: none"> • Net income: \$11.7 million • Revenue: \$42.1 million • Average commercial loan growth: 10%
Fifth Third Bank	<ul style="list-style-type: none"> • Net income: \$526 million • Revenue: \$2 billion • Average commercial loan growth: 9%
Source: Crain's research	