NJBankers 2014 Economic Survey

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The sample frame included all 119 member institutions of the New Jersey Bankers Association. Of the 119 banks in the panel, 75 completed the survey questionnaire, for an overall response rate of 63 percent (75/119).

Summary: Sample and Protocol

- Sample Frame: 119 Banking Institutions
- Number of Completed Interviews: 75
- Response Rate: 63 percent

The survey was fielded from Thursday, September 19 through Monday, November 4, 2013. The following contacts were made to the panel:

- September 23 - Advance notification hard-copy letters from Dean Hughes and NJBankers President John McWeeney
- September 19 – E-mail invitation with “clickable” link
- September 24 - Four-day reminder e-mail
- October 7 - Two-week reminder e-mail
- October 17 - One-month follow-up e-mail
- October 17 - Follow-up phone calls performed by NJBankers

Note: The survey administration took place during the United States Federal Government shutdown (from October 1 to October 16, 2013); we tested the outcomes and found that the shutdown did not have any statistically significant effect on the results of the survey.
SURVEY CONTEXT: STAGE OF THE BUSINESS CYCLE

The stage of the business cycle has a significant impact on economic survey responses and the expectations/outlooks of respondents, as well as on shifts in responses and expectations over time. Annual change in private-sector payroll employment is a simple metric to gauge phases of the cycle as well as the overall status of the economy. During recessions, employment change turns sharply negative; during economic expansions, it turns sharply positive. Two simple charts – one for the nation and one for the state – provide the context for the current survey.

As a point of reference, the last recession – the Great Recession – started in December 2007 and ended in June 2009. The economic expansion that followed reached 54 months in length by December 2013. Thus, during the three months (September–November 2013) when the 2014 economic survey was conducted, the expansion was between 51 and 53 months long. Since the average length of all post–World War II expansions is 59 months, the current expansion is approaching maturity, and most of the highly negative effects of the Great Recession are fading into history. Thus, there may be a sense that the economy is in a new post-recession “normal,” that it is on a sustainable modest trajectory, and that – despite the uncertainties in Washington – this trajectory should extend into the short-term future. Therefore, it is assumed that the current level of activity in many economic subsectors will also probably remain the same going forward. This appears to be reflected in a number of the survey responses.

Chart 1 shows annual private-sector employment change – measured December to December – in the United States for the 2009–2013 period. The year 2009 registered the worst employment loss in the nation’s history, when nearly 5 million jobs were lost, even though the second half of the year was technically in economic recovery. Growth then advanced modestly in 2010 (+1.2 million jobs), and then doubled in 2011 (+2.4 million jobs). Employment gains almost sustained that level in 2012 and 2013. Thus, 2013 was the third straight year of employment of over 2.2 million jobs. As a result, it appears that there is substantial momentum going forward, suggesting that the economy in 2014 should not veer off its current course. However, since the nation lost approximately 8.8 million private-sector jobs during the Great Recession, there was a deep employment hole to climb out of. Significant progress has been made, but full employment recovery has yet to be achieved. This suggests a cautious outlook.

Chart 2 provides the equivalent data for New Jersey. In 2009, the year the recession ended, the state was still hemorrhaging employment (-115,700 jobs). Growth was then modest in 2010 (+9,200 jobs), the first full year of recovery. Growth more than tripled in 2011 (+28,400 jobs), and then more than doubled in 2012 (+59,100 jobs). For the first half of 2013, the state was on track to add nearly 70,000 jobs. However, the pause button was seemingly hit as the summer unfolded. A very weak shore season rippled through the state economy, and vacation dollars fled to out-of-state destinations. Nonetheless, it was evident that the New Jersey economy was on a positive trajectory, although a significant amount of ground still had to be recovered.
The reality of the current business cycle helps explain one of the key themes of the 2014 survey: Conditions are improving, but full economic lift-off has not yet arrived. This perception is marked by the sheer paucity of “excellent” responses to a number of condition-related questions. However, at the same time the negative ratings were substantially decreasing and the positives were substantially increasing.
Synopsis of Key Findings

• The 2014 survey respondents apparently did recognize improvements in the health of the economy in both New Jersey and the United States. Their pattern of responses suggests there is a general sense that the economy has gotten better, but certainly “boom” times have not yet returned. “Fair”-“good” ratings predominated, with “fair” the primary assessment.

• Short-term future economic expectations (for the next six months) are for current economic conditions (“fair”/“good”) of the state and nation to continue. Only a small minority expected the economy to weaken.

• The basic expectation for the next six months is a rise in long-term interest rates and stability in short-term interest rates.

• Business loan demand, in general, is improving. Despite this improvement, a majority of those surveyed still rated demand only as “fair.” This is similar to the assessment of the national and state economies. There was strong consensus that business loan demand would not experience any substantial change in the short-term future – seemingly business as usual going forward.

• Current commercial real estate loan demand also stands at what could be considered a “modest” level, with “modest” technically measured by the sum of the “fair” and “good” ratings. This is the demand level that the respondents also expect to prevail six months from now.

• In terms of commercial real estate submarket demand, only multi-family rental achieved a strong rating. Industrial demand took second place, albeit a weak second place. This is consistent with national markets, where multi-family rental and industrial are the leading real estate development sectors.

• Demand for office space, strip malls, and “big box” retail generally scored low. Not a single survey respondent rated demand for the latter three submarkets as “excellent.” In contrast, one-out-of-five respondents rated multi-family demand as “excellent.”

• The “six-months-in-the-future” demand expectation for the five submarket segments is predominantly one of stability, i.e., current demand levels and patterns will not change very much. Not surprisingly, expectations for future multi-family rental demand are the most optimistic.
• The survey respondents have a generally favorable assessment of current residential loan demand and express optimism for demand for the next six months.

• After years of heavy residential refinancing at record-low interest rates, and expectations of higher long-term interest rates, it is not surprising that the current demand for residential refinance has weakened.

• For the “next-six-months” expectations of residential refinance demand, the majority of the respondents expect little change from the weakening present.

• The predominant sentiment is that home values will remain “unchanged” in the next six months.

• Future expectations – as determined by the “next-six-months” question – reveal that property values within the five commercial real estate submarkets will experience little change.

• In general, the portfolio of negative indicators – the number of customer bankruptcy filings, customer foreclosures, and “past dues” for residential mortgage payments in the past six months – has shown steady improvement from past surveys. The respondents also see steady improvements in the foreclosure process.

• The leading concerns for consumer lending were the regulatory environment and a lack of demand. Lack of demand was viewed as the most significant obstacle to business lending.

• As would be anticipated, given the passage of time, the impact of Hurricane Sandy on banking and its customers has diminished in all areas.

• And virtually all respondents reported their CAMELS rating accurately reflected their bank’s true risk profile.
DETAILED ANALYSIS OF SURVEY RESULTS

The Current Health of the Economies of the United States and New Jersey

The 18-month-long Great Recession started in December 2007 and ended in June 2009, when economic recovery officially began. Consequently, all of the NJBankers Annual Economic Surveys took place during years of economic expansion. Nonetheless, in all four years of the survey, there was not a single respondent who gave an “excellent” rating to the current health of the United States economy, or to the current health of the New Jersey economy. This is particularly surprising since the latest survey took place during the beginning of the fifth year of economic expansion, which started in June 2009. This reflects the reality that the Great Recession has been followed by the less-than-great recovery. In fact, both the state and nation have not yet fully recovered the job losses suffered during the 2007–2009 downturn.

However, what is not surprising given the now mature length of the expansion – 54 months as of December 2013 – is that the survey respondents did see improvements in the economy’s health compared with past surveys. In the 2011 survey, more than one-out-of-three respondents (35.2 percent) gave the current health of the United States economy a “poor” rating (chart 3). In the 2014 survey, the “poor” rating was given by only one-out-of-ten respondents (10.7 percent). Similarly, the combined “fair”/“good” rating increased from 64.8 percent to 89.3 percent, with the “fair” ranking most pronounced. Thus, there is a general sense that the economy has gotten better, but certainly “robust” times have not yet returned. However, there is a distinct minority, one-out-of-ten, who still consider things “poor.”

The same pattern is evident in the evaluation of the current health of the New Jersey economy. There was a sharp drop in the “poor” rating – from 31.5 percent to 9.3 percent – between the 2011 and 2014 surveys, and a sharp increase in the combined “fair”/“good” rating – from 68.6 percent to 90.7 percent, with “fair” the overwhelming ranking (chart 4). So, the general perception is that the state’s economy has “life” and is performing adequately, but it has certainly not yet achieved peak performance.

Six-Months Expectations for the U.S. and New Jersey Economies

There is a general expectation that current (“fair”/“good”) economic conditions will continue into the short-term future. The six-months-in-the-future expectations strongly tend toward stability, i.e., the economy’s current “fair”/“good” condition will remain unchanged six months from now. Indeed, that was the dominant response of the 2014 survey: 60.0 percent expected

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1 The Business Cycle Dating Committee of the National Bureau of Economic Research is the organization that specifies the precise dates of recessions and expansions in the United States.
2 Chart 3 and all remaining charts are found in the appendix.
that the national economic conditions would “remain unchanged.” Only 10.7 percent thought they would “weaken,” a sharp drop from 59.3 percent in 2011 (chart 5). In retrospect, that dismal expectation in 2011 probably reflected an extraordinarily tepid early recovery that still felt recession-like at the time of that survey.

Consistent with general expectations of overall stability, there was a slight reduction in the proportion expecting the United States economy to “improve,” from 37.0 percent in 2011 to 29.3 percent in 2014. Again, the higher figure in 2011 probably reflected the opinion at that time that the economy was so weak that it would be hard not to see improvement over the next six months.

There is an almost identical pattern of future expectations for the New Jersey economy: the current “fair/good” economic conditions will largely remain the same six months from now. This was the response of more than six-in-ten respondents (62.7 percent), indicating expectations of future stability. At the same time, there was a dramatic decrease in those expecting that the economy would “weaken,” from 63.0 percent in 2011 to just 8.0 percent in 2014. Significantly, 29.3 percent indicated that they expected the economy would strengthen (chart 6).

Stability of present conditions was also evident when respondents were asked to project whether, over the next six months, businesses in their market were likely to “hire employees,” “maintain current staffing levels,” or “lay off employees.” The overwhelming majority – 85.2 percent in 2011 and 77.8 percent in 2014 – indicated that businesses in their market would maintain current staffing levels. In 2014, fewer than one-in-ten respondents (9.7 percent) expected layoffs to occur, while a slightly higher proportion (12.5 percent) expected hirings to take place (chart 7).

**Interest Rates Over the Next Six Months**

Interest-rate expectations have changed dramatically in the surveys since 2011. The basic expectation in the 2014 survey is a rise in long-term interest rates and stability in short-term interest rates. A clear majority of respondents (nearly six-out-of-ten, or 57.3 percent) in 2014 expect long-term interest rates to “go up” during the next six months (chart 8). Virtually no one (2.7 percent) expected long-term interest rates to “go down.”

Short-term interest rates are not expected to change six months from now. In 2011, almost 4 out of 5 respondents – 77.8 percent – expected short-term interest rates to “go down”; by 2014, no one (0.0 percent) expected that six-month outcome. In sharp contrast, in 2011, no one (0.0 percent) expected short-term interest rates to “remain unchanged” (chart 9). By 2014, 81.3 percent – more than four-out-of-five – expected short-term interest rates to “remain unchanged.”
Demand

Business Loan Demand

Business loan demand, in general, is improving. The net proportion of the sample rating current demand for business loans in their market as either “excellent” or “good” more than doubled, from 11.8 percent in 2011 to 26.1 percent in 2014 (chart 10). In contrast, only 9.6 percent of the respondents rated business loan demand “poor,” less than one-third that (29.4 percent) reported in the 2011 survey. Despite this improvement, a majority of those in the 2014 survey still rated demand only as “fair.”

Business loan demand expectations, however, are similar to earlier observations of stability, i.e., little change from current conditions. In 2011, only 1.9 percent projected that business loan demand over the next six months would “remain unchanged” – most thought it would either go down (53.8 percent) or up (44.2 percent). In sharp contrast, in 2014, the overwhelming majority of respondents (78.7 percent) expected loan demand to “remain unchanged” – many fewer expected it to go down (2.7 percent) or up (19.2 percent) (chart 11). Thus, there was strong consensus in 2014 that loan demand would not experience any change.

Commercial Real Estate Loan Demand

Current commercial real estate loan demand, a question first posed in 2014, stands at what could be considered a “modest” level, with “modest” technically measured by the sum of the “fair” and “good” ratings. More than 9 out of 10 (90.2 percent) respondents reported a “fair”/“good” current demand assessment, with “fair” (45.8 percent) slightly edging “good” (44.4 percent). This majority “middle” compares with a distinct minority at the positive and negative margins – 1.4 percent rated demand as “excellent” while 8.3 percent rated it “poor” (chart 12).

Expectations for the six-month future of commercial real estate loan demand remained remarkably stable, i.e., “remain unchanged,” from 2011 to 2014. In both years, approximately 72 percent of respondents expected little change in commercial real estate demand (chart 13). Thus, in 2014, future demand is overwhelmingly expected to remain at today’s “modest” levels; only 2.8 percent expected loan demand to “go down,” while 25.0 percent expected it to “go up.”

Commercial Real Estate Submarket Demand

The series of questions on current commercial real estate submarket demand was asked for the first time in 2014. Nationally, at present, the strongest real estate submarkets are multi-family rental housing and industrial (warehouse/distribution); this is clearly reflected in the results of the current survey, where multi-family is the primary market leader, with industrial taking second place. Only the multi-family rental (21.4 percent) and industrial (1.4 percent) received
an “excellent” rating (chart 14). The survey respondents rated demand for the other sectors – office space, strip malls, and “big box” retail – as “poor” to “fair,” with “big box” retail the worst submarket; 95.7 percent of survey respondents rated demand for “big box” as “fair”/“poor.” Office space (88.8 percent) and strip malls (87.2 percent) achieved similar “fair”/“poor” scores.

The “six-months-in-the-future” demand expectation for the five submarket segments is predominantly one of stability; current demand will not change very much. For office space, 81.7 percent believe that demand will “remain unchanged,” with 8.5 percent and 9.9 percent, respectively, anticipating it will “go up,” or “go down.” Not surprisingly, expectations for future multi-family rental demand are the most optimistic. While 69.0 percent believe that current strong demand will “remain unchanged,” more than one-quarter (28.2 percent) of the respondents actually anticipate that demand will “go up,” while only 2.8 percent expect demand to “go down.” The strip mall survey results are virtually identical to those of office, i.e., weak demand will not change very much, while “big box” fares the worst. One-in-five respondents (20.3 percent) expect current weak demand for “big box” to “go down” (chart 15). In contrast, expectations for future industrial demand, while lagging those for multi-family rental, are still stronger than expectations for office, strip mall, and “big box.”

Residential Loan Demand

The general pattern is a more favorable assessment of current residential loan demand and a somewhat more optimistic expectation for the next six months. In neither 2011 nor 2014 did any respondent report that the current demand for residential loans in their market was “excellent.” That is the only similarity in the two surveys (chart 16). Between 2011 and 2014, the proportion reporting that demand was “poor” decreased from 25.0 percent to 8.1 percent, with the combined “good”/“fair” category increasing from 75.0 percent to 91.9 percent. Thus, there has been a substantial improvement in the ratings for current residential loan demand.

A similar pattern of improvement shows up in the expected residential loan demand six months from now. Between 2011 and 2014, expectations that demand would “go down” dropped from 22.6 percent to 14.9 percent, while expectations that it would “go up” increased from 20.8 percent to 23.0 percent. Those expecting stability, i.e., that residential loan demand will remain “unchanged,” increased from 56.6 percent to 62.2 percent (chart 17). Again, the latter must be interpreted in the context that current demand in 2014 is stronger than that in 2011. Thus, the “unchanged” rating in 2014 is a more positive metric.

Residential Refinance Demand

After years of heavy residential refinancing at record-low interest rates, and expectations of higher long-term interest rates (that have already started to rise), it is not surprising that the current demand for residential refinance demand has weakened. Between 2011 and 2014, the proportion of survey respondents indicating that demand is “poor” more than tripled, from
7.7 percent in 2011 to 25.7 percent in 2014. In contrast, those respondents rating demand as “excellent” dropped precipitously, from 9.6 percent in 2011 to 1.4 percent in 2014, while the “good” rating of refinance demand also tumbled, from 34.6 percent in 2011 to 17.6 percent in 2014 (chart 18).³ Thus, the survey results strongly show a weakening demand for residential refinances.

For the “next six months” expectations of residential refinance demands, the majority of the respondents expect little change from the present. In 2014, 54.1 percent indicated that demand would remain “unchanged,” while 43.2 percent expected it to “go down.” Only a minuscule 2.7 percent expected demand to “go up.” These results are not appreciably different from the 2011 survey (chart 19).

**Real Estate Values**

*The predominant sentiment is that home values will remain “unchanged” in the next six months.* This question was asked for the first time in 2014. The result was that 56.0 percent expected home values over the next six months to “remain unchanged.” However, there was a dose of optimism, i.e., those expecting home values to “go up” (42.7 percent) greatly exceeded the proportion expecting that they will “go down” (1.3 percent) (chart 20).

*Future expectations – the “next six months” question – revealed that property values within the five commercial real estate submarkets will experience little change.* The outlook is a story of stability in expectations, with the multi-family rental and industrial sectors viewed most positively. For office space, 79.2 percent believe that submarket’s values will “remain unchanged,” with 9.7 percent and 11.1 percent, respectively, anticipating it will “go up” or “go down.” Again, expectations for values of multi-family rentals are somewhat more optimistic: While 63.0 percent believe that this submarket will “remain unchanged,” a fairly robust 32.9 percent anticipate increased values (chart 21). No other property category comes close to this percentage.

The distribution for strip malls is close to that for office space, with 84.9 percent believing that submarkets’ values will “remain unchanged”; only one-in-twenty (5.5 percent) anticipate they will “go up,” while nearly one-in-ten (9.6 percent) expect them to “go down.” Nearly four-out-of-five respondents (79.2 percent) expect “big box” retail value to “remain unchanged,” with 16.7 percent expecting decreased values and only 4.2 percent expecting increases. Finally, for the industrial submarket, while the “unchanged” proportion is almost at the levels for “big box” and office space (76.7 percent), there was a much greater tendency to expect values to “go up” (15.1 percent). Only the multi-family rental had a greater positive expectation.

³ In this case, combining the “good” and “fair” categories would obscure the overall negative picture.
Negative Indicators

In general, negative indicators – the number of customer bankruptcy filings, customer foreclosures, and “past dues” for residential mortgage payments in the past six months – have shown steady improvement. In 2011, the “increased” response for each category was 48.1 percent for the number of customer bankruptcy filings (chart 22), 53.7 percent for customer foreclosures (chart 23), and 54.7 percent for past-due residential mortgage payments (chart 24). By 2014, the “increased” responses had dropped, respectively, to 9.6 percent (bankruptcy), 12.3 percent (foreclosure), and 8.3 percent (“past dues”). Just as dramatically, the 2011 to 2014 change in the “decreased” rate reveals the same pattern of improvement: 7.4 percent to 31.5 percent (bankruptcy), 9.3 percent to 42.5 percent (foreclosure), and 9.4 percent to 43.1 percent (“past dues”). Still, the “unchanged” response was the largest for each category, but it exceeded one-half (58.9 percent) only for customer bankruptcy.

There are also steady improvements in the foreclosure process. Ratings of the current commercial foreclosure process began in 2012 and for the residential foreclosure process in 2013, so time analyses are somewhat limited. Yet, some meaningful changes are evident. In 2012, 80.9 percent of respondents indicated that the commercial foreclosure process was “worsening.” By 2014, only 2.9 percent believed the process was “worsening.” Those indicating “improvement” jumped from 17.0 percent to 30.0 percent. The “remains unchanged” response moved from 2.1 percent in 2012 to 67.1 percent in 2014 (chart 25). Perhaps the big picture is captured by combining categories for each year. In 2012, 83.0 percent indicated the commercial foreclosure process “remains unchanged” and “worsening.” In 2014, 97.1 percent rated the process as “remains unchanged” and “improving.”

In 2013, almost one-in-ten (9.8 percent) rated the current residential foreclosure process as “improving”; that figure nearly doubled, to 17.6 percent, in one year (2014). The proportion indicating the rating has remained unchanged was relatively stable from 2013 (64.7 percent) to 2014 (63.5 percent). Consistent with those responses is the decline in those rating the current residential foreclosure process as “worsening”: It declined from 25.5 percent in 2013 to 18.9 percent in 2014 (chart 26).

Common Obstacles to Lending

The “Common Obstacles to Lending” set of questions was first asked in 2014. Here, respondents were asked to rank-order four common obstacles to consumer and business lending: lack of demand; lack of qualified borrowers; interest rate risk; and regulatory concerns. In addition, there was an “other, please specify” catchall category.

The leading concerns for consumer lending were the regulatory environment (37.5 percent) and a lack of demand (36.6 percent), with more than one-third of the respondents selecting those categories as the “most” significant obstacles (chart 27). Lack of demand was indicated by 44.8 percent of the sample as the most significant obstacle to business lending, with lack of qualified
borrowers (22.4 percent) being more significant than regulatory concerns (11.9 percent) or, almost equally, interest rate risk (11.8 percent) (chart 28).

Impact of Hurricane Sandy

As would be anticipated, given the passage of time, the impact of Hurricane Sandy has diminished in all areas. Overall, the percentage of the sample indicating that Hurricane Sandy continues to “not at all” affect their bank and customers grew from 7.3 percent in 2013 to 36.0 percent in 2014, while those affected “very much” declined from 14.5 percent to 8.0 percent. Those rating Sandy’s impact as “slightly” dropped, from 78.2 percent to 64.0 percent (chart 29).

Similarly, those reporting “not at all” to the question of whether Hurricane Sandy created opportunities for additional consumer lending increased from 7.5 percent in 2013 to 51.4 percent in 2014 (chart 30). A similar response was made to the question of opportunities for additional business lending (chart 31). Almost one-in-five (19.2 percent) indicated “not at all” in 2013; this jumped to one-in-two (54.8 percent) one year later (2014).

CAMELS Score Rating

Four-out-of-five institutions (79.7 percent) reported their CAMELS rating accurately reflected their bank’s true risk profile (chart 32).
APPENDIX

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NJBankers 2014 Economic Survey
— Survey Questions and Responses —
Chart 3
How would you rate the current health of the United States economy?

- **Excellent**: 0.0% (2011), 0.0% (2014)
- **Good**: 13.3% (2011), 10.7% (2014)
- **Fair**: 64.8% (2011), 76.0% (2014)
- **Poor**: 35.2% (2011), 13.3% (2014)
Chart 4
How would you rate the current health of the New Jersey economy?

- Excellent: 0.0% (2011), 0.0% (2014)
- Good: 0.0% (2011), 0.0% (2014)
- Fair: 63.0% (2011), 78.7% (2014)
- Poor: 31.5% (2011), 12.0% (2014)
Chart 5
In the next six months, do you expect the United States economy to...

- grow: 29.3% (2011) vs 60.0% (2014)
- remain unchanged: 37.0% (2011) vs 10.7% (2014)
- weaken: 3.7% (2011) vs 10.7% (2014)
Chart 6
In the next six months, do you expect the New Jersey economy to…

<table>
<thead>
<tr>
<th>Year</th>
<th>Grow (%)</th>
<th>Remain Unchanged (%)</th>
<th>Weaken (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>33.3%</td>
<td>3.7%</td>
<td>62.7%</td>
</tr>
<tr>
<td>2014</td>
<td>62.7%</td>
<td>8.0%</td>
<td>29.3%</td>
</tr>
</tbody>
</table>
Chart 7
In the next six months, do you expect that businesses in your bank's market are likely to...

- ...hire employees?
- ...maintain current staffing levels?
- ...lay off employees?

Year 2011:
- 14.8% likely to hire employees
- 9.7% likely to lay off employees
- 85.2% likely to maintain current staffing levels

Year 2014:
- 12.5% likely to hire employees
- 0.0% likely to lay off employees
- 77.8% likely to maintain current staffing levels
Chart 8
In the next six months, do you expect long-term interest rates to…

...go up?
...remain unchanged?
...go down?
Chart 9
In the next six months, do you expect short-term interest rates to...

- go up?
- remain unchanged?
- go down?

2011:
- Go up: 0.0%
- Remain unchanged: 22.2%
- Go down: 77.8%

2014:
- Go up: 18.7%
- Remain unchanged: 81.3%
- Go down: 0.0%
Chart 10
Please rate the current demand for business loans in your market.

0.0%  1.4%  11.8%  24.7%  58.8%  64.4%  29.4%  9.6%

0%  20%  40%  60%  80%  100%

2011  2014
Excellent  Good  Fair  Poor

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Chart 11
In the next six months, do you expect that business loan demand will...

- go up?
- remain unchanged?
- go down?

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>go up</td>
<td>1.9%</td>
<td>78.7%</td>
</tr>
<tr>
<td>remain</td>
<td>53.8%</td>
<td>19.2%</td>
</tr>
<tr>
<td>go down</td>
<td>44.2%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>
Chart 12

Please rate the current demand for commercial real estate loans in your market.

- Excellent: 1.4%
- Good: 44.4%
- Fair: 45.8%
- Poor: 8.3%
Chart 13

In the next six months, do you expect that commercial real estate loan demand will…

- go up?
- remain unchanged?
- go down?

<table>
<thead>
<tr>
<th>Year</th>
<th>Go Up</th>
<th>Remain Unchanged</th>
<th>Go Down</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>28.8%</td>
<td>71.2%</td>
<td>0.0%</td>
</tr>
<tr>
<td>2014</td>
<td>25.0%</td>
<td>72.2%</td>
<td>2.8%</td>
</tr>
</tbody>
</table>
Chart 14 - We would like your assessment of the current demand for the following commercial real estate submarkets in your region:

- Office Space
- Multi-Family Rental
- Strip Malls
- "Big Box" Retail
- Industrial

The chart indicates the percentage distribution of assessments as follows:

- Office Space: 0.0% Excellent, 31.9% Good, 56.9% Fair, 11.1% Poor
- Multi-Family Rental: 21.4% Excellent, 30.0% Good, 48.6% Fair, 0.0% Poor
- Strip Malls: 0.0% Excellent, 12.9% Good, 52.9% Fair, 0.0% Poor
- "Big Box" Retail: 4.2% Excellent, 38.0% Good, 57.7% Fair, 0.0% Poor
- Industrial: 23.6% Excellent, 23.6% Good, 51.4% Fair, 1.4% Poor

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Chart 15 - For each of the following commercial real estate submarkets in your region, please indicate whether—in the next six months—you expect demand to go up, remain unchanged, or go down:

- **Office Space**
  - Go Up: 81.7%
  - Remain Unchanged: 9.9%
  - Go Down: 8.5%

- **Multi-Family Rental**
  - Go Up: 69.0%
  - Remain Unchanged: 28.2%
  - Go Down: 2.8%

- **Strip Malls**
  - Go Up: 81.4%
  - Remain Unchanged: 10.0%
  - Go Down: 8.6%

- **“Big Box” Retail**
  - Go Up: 75.4%
  - Remain Unchanged: 20.3%
  - Go Down: 4.3%

- **Industrial**
  - Go Up: 77.5%
  - Remain Unchanged: 16.9%
  - Go Down: 5.6%
Chart 16
Please rate the current demand for residential loans in your market.

2011
2014

Excellent: 0.0% 0.0%
Good: 25.0% 31.1%
Fair: 48.1% 60.8%
Poor: 26.9% 8.1%
Chart 17
In the next six months, do you expect that residential loan demand will....

<table>
<thead>
<tr>
<th>2011</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>go up?</td>
<td>22.6%</td>
</tr>
<tr>
<td>remain unchanged?</td>
<td>20.8%</td>
</tr>
<tr>
<td>go down?</td>
<td>56.6%</td>
</tr>
</tbody>
</table>
Chart 18
Please rate the current demand for residential refinance in your market.

- Excellent: 48.1% in 2011, 55.4% in 2014
- Good: 34.6% in 2011, 25.7% in 2014
- Fair: 9.6% in 2011, 17.6% in 2014
- Poor: 7.7% in 2011, 1.4% in 2014
Chart 19
In the next six months, do you expect that residential refinance demand will…

- go up?
- remain unchanged?
- go down?

- 5.7% in 2011, 2.7% in 2014
- 47.2% in 2011, 43.2% in 2014
- 47.2% in 2011, 54.1% in 2014
Chart 20
In the next six months, do you expect that home values will...

...go up? 42.7%
...remain unchanged? 56.0%
...go down? 1.3%
Chart 21 - For each of the following commercial real estate submarkets in your market, please indicate whether—in the next six months—you expect that property values will go up, remain unchanged, or go down:

- Office Space
- Multi-Family Rental
- Strip Malls
- "Big Box" Retail
- Industrial

- Go Up
- Remain Unchanged
- Go Down
Chart 22
In the past six months, has the number of customer bankruptcy filings increased? remain unchanged? decreased?

- 2011:
  - Increased: 7.4%
  - Remained unchanged: 44.4%
  - Decreased: 48.1%

- 2014:
  - Increased: 9.6%
  - Remained unchanged: 58.9%
  - Decreased: 31.5%
Chart 23
In the past six months, has the number of customer foreclosures...

- ...increased?
- ...remained unchanged?
- ...decreased?

2011:
- Increased: 53.7%
- Remained unchanged: 37.0%
- Decreased: 9.3%

2014:
- Increased: 45.2%
- Remained unchanged: 42.5%
- Decreased: 12.3%
Chart 24

In the past six months, has the number of past-dues for residential mortgage payments…
Chart 25
Please rate the current commercial foreclosure process.

- 80.9% Improving in 2014
- 67.1% Remains unchanged in 2014
- 30.0% Worsening in 2014

- 17.0% Improving in 2012
- 2.1% Remains unchanged in 2012
- 2.9% Worsening in 2012
Chart 26
Please rate the current residential foreclosure process.

- 9.8%
- 17.6%
- 64.7%
- 63.5%
- 25.5%
- 18.9%
- 17.6%

- Improving
- Remains unchanged
- Worsening

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Chart 27 - Here are some common obstacles to consumer lending. Using the drop-down answer indicators, please rank-order these obstacles from “most” to “least” significant obstacles to consumer lending for your bank:

- Regulatory concerns
- Lack of demand
- Lack of qualified borrowers
- Interest rate risk
- Other, please specify
Chart 28 - Here are some common obstacles to business lending. Using the drop-down answer indicators, please rank-order these obstacles from “most” to “least” significant obstacles to business lending for your bank:
Chart 29
How much does Hurricane Sandy continue to affect your bank and customers?

- Very much: 78.2% in 2013, 64.0% in 2014
- Slightly: 14.5% in 2013, 36.0% in 2014
- Not at all: 7.3% in 2013, 8.0% in 2014
Chart 30
Has Hurricane Sandy created opportunities for additional consumer lending?

<table>
<thead>
<tr>
<th>Year</th>
<th>Very much</th>
<th>Slightly</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>20.8%</td>
<td>71.7%</td>
<td>7.5%</td>
</tr>
<tr>
<td>2014</td>
<td>4.1%</td>
<td>51.4%</td>
<td>44.6%</td>
</tr>
</tbody>
</table>
Chart 31
Has Hurricane Sandy created opportunities for additional business lending?

- **2013**
  - Very much: 19.2%
  - Slightly: 61.5%
  - Not at all: 20%

- **2014**
  - Very much: 4.1%
  - Slightly: 41.1%
  - Not at all: 54.8%
Do you believe that your CAMELS rating accurately reflects your bank's true risk profile?

Chart 32

Yes: 79.7%
No: 20.3%