S&P Global Ratings

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Outlooks On 13 U.S. Banks Revised To Negative Due To Economic Downturn From COVID-19

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PRIMARY CREDIT ANALYSTS

Rian M Pressman, CFA
New York
(1) 212-438-2574
rian.pressman@spglobal.com

Brendan Browne, CFA
New York
(1) 212-438-7399
brendan.browne@spglobal.com

E.Robert Hansen, CFA
New York
(1) 212-438-7402
robert.hansen@spglobal.com

SECONDARY CONTACTS

Devi Aurora
New York
(1) 212-438-3055
devi.aurora@spglobal.com

Barbara Duberstein
New York
(1) 212-438-5656
barbara.duberstein@spglobal.com

Diogenes Mejia
New York
+ 1 (212) 438 0145
diogenes.mejia@spglobal.com

See complete contact list at end of article.

- Despite the government's extraordinary and rapid support measures to contain the coronavirus pandemic's impact on the U.S. economy, we expect substantial pressure on banks' asset quality, net interest margins, and earnings that could lead to substantial credit losses and capital declines if the downturn is long lasting or the rebound is tepid.
- As a result of our review of banks with significant exposures to areas facing elevated pandemic-related stress such as segments of commercial, commercial real estate (including multifamily), and consumer lending, we are revising the outlooks on our ratings on 13 U.S. banks to negative from stable.
- We are also revising the economic risk trend for banks in the U.S. to negative from stable.
- We could take further negative rating actions on these or other banks if the downturn is longer lasting or the rebound more tepid than our economists currently expect because this would imply a more negative, and likely sustained, effect on bank credit strength. Rating actions could also follow idiosyncratic negative developments at individual banks.

NEW YORK (S&P Global Ratings) May 4, 2020--S&P Global Ratings revised its outlooks to negative and affirmed its ratings on 13 U.S. banks and their rated operating subsidiaries.

We affirmed our ratings and revised to negative, from stable, the outlooks on Ally Financial Inc., Capital One Financial Corp., Discover Financial Services, Synchrony Financial, SLM Corp., American Savings Bank FSB, CIT Group Inc., East West Bancorp Inc., Investors Bancorp Inc., New York Community Bancorp Inc., Synovus Financial Corp., Trustmark Corp., and Valley National Bancorp.

We also affirmed our ratings and maintained a stable outlook on American Express and affirmed our ratings and maintained a negative outlook on UMB Financial Corp. (See the Ratings List.)

In addition, we revised the trend on our economic risk score--one of the two factors that drives our Banking Industry Country Risk Assessment (BICRA) and an important input to our bank ratings--to negative from stable for the U.S.

The COVID-19 pandemic and the associated sharp contraction in the U.S. economy have abruptly ended a long period of good fortune for U.S. banks and created their greatest challenge since the 2008-2009 financial crisis. The widespread halting of much business activity and the surge in unemployment is weighing on their revenue streams and earnings, weakening the creditworthiness of their borrowers, and forcing them to sharply increase the allowances they set aside for future losses on their loans.

Positively, unlike in the last crisis, U.S. banks enter this period largely from a position of strength with capital, liquidity, and profitability near the highest levels they have been in decades. In addition, the extraordinary and rapid actions by the federal government and the Federal Reserve have helped keep financial markets functioning and are offsetting at least a portion of the financial pain many bank customers are feeling (see "Who The U.S. Government Plans Help, Who They Don't, And What That Means For Financial Institutions," April 16, 2020). Without those strengths in the banking system and actions from the government, the fallout from the pandemic and pressure on bank ratings would undoubtedly be far greater.

Still, in their baseline forecast, our economists project U.S. GDP to contract at a 35% annualized rate in the second quarter and 5.2% for 2020, with a gradual recovery returning the economy to its prerecession level in the third quarter of 2021. They expect unemployment to peak at 19% in May and end the year at 8.8%, declining to 6.7% in 2021 (see "An Already Historic U.S. Downturn Now Looks Even Worse," April 16, 2020).

Given the severity of the downturn, we expect banks' asset quality to deteriorate significantly in the coming quarters, which speaks to the negative outlooks on bank ratings and the negative economic risk trend on the U.S. BICRA. Banks already have been sharply increasing their allowances for loan losses, extending deferrals, and making other accommodations to borrowers. Whether borrowers are ultimately able to meet the terms of the loans once the period of accommodation ends will depend on the duration of the pandemic and how quickly the economy rebounds.

Given that uncertainty, forecasting the ultimate level of charge-offs is difficult, but perhaps the stress tests conducted in recent years could serve as a guide if the economy continues to perform poorly. For instance, the Fed estimated in its 2019 stress test--which envisioned a longer, but shallower, downturn than the one our economists currently expect to play out--a 5.7% loan loss rate over the nine quarters of the severely adverse stress period for the 18 participating banks. We also conducted a stress test using loss rates similar to those in the 2008-2009 financial crisis, which are akin to loss rates used in the Fed's severely adverse stress test. If bank losses were to materialize at these levels or higher, particularly over a shortened horizon, capital declines would likely be material and downgrades could ensue.

We are not yet forecasting such levels of charge-offs, and therefore have not taken more extensive rating actions. In fact, while we have revised our outlooks on 30 banks so far either to negative from stable or to stable from positive, we have not downgraded any U.S. banks up to this point (see Related Research). That said, we expect banks that have the greatest proportional exposures to industries most directly affected by the pandemic, such as segments of commercial, commercial real estate (CRE) (including multifamily), and consumer lending, to be the most immediately negatively affected. The halting of business activity and social distancing measures are hurting many commercial borrowers and CRE owners, and the surge in unemployment is testing the ability of individuals to pay their credit card, auto, and other consumer loans. Banks that lack loan or business diversification could be especially tested if the areas where they have concentrations deteriorate meaningfully. The outlook revisions we have taken have been on banks with one or more of those characteristics, and for now, have a higher likelihood of more substantial losses materializing.

We believe the large U.S. banks we rate may be less immediately and proportionally affected by the pandemic because of their stronger diversification or greater ability to absorb that impact at their current ratings. That includes the eight globally systemically important banks and other large U.S. banks under enhanced supervision. We believe the stricter regulations and supervision they operate under, the various measures they have taken to boost their creditworthiness since the financial crisis, and their often superior business and loan diversification give them protections that more concentrated banks do not have. That said, the situation is fluid and there are downside risks to the economy. We could take further negative actions if our expectations for the economy worsen or more evidence emerges of deterioration in banks' creditworthiness.

The economic risk score of the U.S. BICRA is '3'. We could revise it to '4' if the economy's rebound is weaker than we currently expect, causing a surge in loan losses for banks. A change to '4' would not lead us to change the 'bbb+' anchor, or starting point, for our ratings on all U.S. banks. Still, a worsening of that economic risk score would negatively affect our proprietary risk-adjusted capital ratio (RAC) measure that we calculate on all rated banks. Under our criteria, when the economic risk score worsens, the risk weights we assign to exposures climbs and therefore weighs on RAC ratios.

American Express Co.

Primary: Rian Pressman

Rationale

Our affirmation of the ratings on American Express (Amex) reflects our view that the bank's financial performance will be more resilient to the economic fallout from the COVID-19 pandemic than its credit-card-focused peers.

Specifically, Amex's business model focuses more on higher-quality consumers, which has resulted in lower balances to borrowers with FICO scores of 660 or lower (the average FICO at acquisition was about 750 in 2019) and historically better asset-quality performance relative to peers. In addition, more than one-third of customer borrowings were originated on charge cards, which repay much more rapidly than traditional card loans. (Charge cards generally lack a revolving credit feature.) Historically, the charge card portfolio has had even lower losses than the loan book, partly owing to the significant proportion of large corporate customers.

Amex has demonstrated resilience through economic downturns and performs well in the Fed's annual stress tests. This is largely because of its spending-centric model owing to its proprietary network, which has historically resulted in noninterest income exceeding net interest income (NII) by more than 3x, in contrast to peers that are highly dependent on NII. We expect card spending to drop, likely precipitously in the first half of 2020, particularly given the almost 30% of spending historically generated by travel and entertainment. Nonetheless, we do not expect Amex's noninterest income buffer to decline sustainably, and we expect some rebound in spending in the latter half of the year. We also believe that Amex's flexible expense base will allow it to preserve profitability, as it works to cut customer acquisition and marketing costs, and benefits from a decline in rewards and card member services costs, which are closely correlated with card spending.

Amex reported net income of $367 million in the first quarter, mostly attributable to a $1.7 billion provision for credit losses. At quarter-end, the bank's reserve coverage for card loans and charge receivables was 6.7% and 1%, respectively. Amex's common equity Tier 1 (CET1) ratio was 11.7%--higher than most traditional commercial banks and above the high end of its 10%-11% long-term target--although its regulatory capital ratios benefited from regulatory rules regarding an extended recognition period for CECL provisions. Liquidity resources are strong at about $41.1 billion, or 22% of total assets, and deposits continue to grow. We believe Amex has limited capital markets funding needs for 2020, particularly given the likely decline in customer borrowings led by charge card receivables.

The U.S. government has been executing a number of programs designed to buttress consumer and business finances, although the ultimate impact on default rates is unclear at this point. Similar to its peers, Amex is offering customer remediation programs. As of April 19, card loan and charge receivable balances in deferment were 6% and 8%, respectively, of the total. We will be closely monitoring these statistics in the future, which may be useful to gauge the level of borrower distress and possibly the trajectory and severity of future loan losses. (These deferments will not be recognized as delinquent or restructured until the deferment period ends.)

Outlook

The stable outlook reflects our view that Amex's financial performance will be more resilient to the economic fallout from the COVID-19 pandemic than its credit-card-focused peers. Although we expect that Amex's earnings and asset quality will likely deteriorate significantly in 2020, we believe it will most likely remain profitable and maintain good capital and liquidity over the next two years. Nonetheless, we believe the increase in unemployment and weakened consumer confidence (leading to lower consumer spending and lending activity) from the COVID-related economic shutdown has resulted in substantial headwinds for U.S. consumer lenders like Amex.

We expect the recession triggered by the COVID-19 pandemic could result in Amex modifying a meaningful portion of loans and taking substantial credit provisions. We could lower the ratings if the length and severity of the recession is greater or the rebound slower than we currently anticipate or if the unique features of Amex's business model that we have identified fail to deliver loss resilience commensurate with its historical performance or the Fed's stress tests. For example, Amex's profitability might not support elevated credit provisions to the degree we currently expect, which could occur if customer spending declines more precipitously or for longer than we anticipate, or if its expense base proves less flexible than we expect.

We could also lower the rating if Amex's asset quality worsens to a degree not commensurate with its historical performance. For example, its higher FICO score borrowers may incur more economic hardship than we currently expect, or government programs designed to support small businesses may prove inadequate for the severity of the downturn for the bank's borrowers, leading to a rapid acceleration of customer deferrals and eventual losses. Amex is exposed to U.S. small businesses through its card loans (20% of the total) and charge receivables (35%), and over half of total payment deferral requests through April 19 have been to small businesses.

The adequacy of Amex's loss buffer, including capital and loan reserves, to absorb the evolving ramifications of the COVID-19 pandemic will be a key factor in determining the ratings. Other factors include the maintenance of stable funding, robust on-balance-sheet liquidity, and conservative capital management, including limiting share repurchases until economic conditions improve. We could lower the ratings if we believe that Amex's S&P Global Ratings' RAC ratio will remain sustainably below the lower bounds of our 7%-10% adequate range, or if we believe that credit reserves will be insufficient to absorb losses we expect will materialize.

An upgrade is unlikely based on weak economic conditions and comparisons with higher-rated peers.

UMB Financial Corp.

Primary: Barbara Duberstein

Rationale

The affirmation of our issuer credit ratings on UMB reflects the company's substantial contribution from its established fee-based businesses, its strong capital ratios, and its somewhat conservative credit culture. However, like other U.S. regional banks, UMB's asset quality will likely be hurt in 2020 by the sharp economic downturn caused by the COVID-19 pandemic. Although UMB has a long track record of superior asset quality relative to peers', we believe that UMB may have more inherent credit quality risk than in past cycles because of the rapid growth of its CRE business over the past six years.

In the first quarter of 2020, the company reported a $3.4 million net loss reflecting a large $88 million loan loss provision under the newly adopted Current Expected Credit Losses (CECL) accounting standards. UMB estimates that a substantial 15.7% of its loan portfolio is to highly impacted industries: oil and gas (3.3%), multifamily/student housing (4.8%), retail CRE (3.2%), hotel CRE (2.4%), and transportation C&I (2.1%). However, because of factors such as the strength of sponsors, the company believes that a subset of this exposure is potentially more vulnerable, totaling 8.7% of loans.

UMB has accommodated borrowers by modifying a substantial amount of loans since the onset of the pandemic in March 2020. We believe that some of those modified loans could become nonaccrual, resulting in potential loan losses. UMB said modification requests totaled 12% of total loans. Positively, UMB's reserves rose to 1.4% of loans. The RAC ratio, based on our measure, was strong at 11.65% as of year-end 2019.

The rating also incorporates the company's ample deposit funding, as well as its good balance sheet liquidity, given the large proportion of cash and securities. We expect UMB's preprovision earnings to remain satisfactory, although its net interest margin will weaken moderately because of lower interest rates, and its substantial noninterest income may be somewhat negatively affected by lower market values in coming quarters.

Outlook

The negative outlook reflects the possibility that, over the next two years, UMB's asset quality could deteriorate to a level that is no longer commensurate with the relatively high rating on the company. We believe that the company might not be able to maintain its track record of better than peers' loan performance, given the economic downturn from the COVID-19 pandemic as well as possible higher risks from its rapid commercial loan growth in recent years.

We could lower the ratings on UMB over the next two years if asset quality metrics deteriorate to a level that is no longer in line with our currently strong assessment of UMB's risk profile. We could also lower the rating if we expect sustained weak profitability, a significant decline in the proportion of noninterest income to total revenue, or a sustained decline in the RAC ratio to below 10%.

We could revise the outlook to stable if we believe that net loan losses will not be substantial, and if the economic environment rebounds so that we are more confident that UMB's asset quality, earnings and capital will remain solid and consistently better than peers'.

Ally Financial

Primary: Diogenes Mejia

Rationale

The revision of Ally Financial's outlook to negative reflects our view that the bank's financial performance could be more sensitive to the economic fallout from the COVID-19 pandemic than the average U.S. bank because of its sizable concentration in auto lending. Approximately $104 billion of the company's $128 billion in loans are auto related as of March 31, 2020, with retail composing 70% of its auto portfolio and commercial loans the remaining. The company reported that retail auto applications had decreased 50% by late March due to the pandemic, and it has predicted retail net charge-offs will be between 1.8% and 2.1% for the year compared with its prior guidance of 1.4% to 1.6%. The company's profitability, which is generally weaker than other rated banks, also may not be sufficient to absorb rising provisions. The company is still scheduled to close its acquisition of CardWorks Inc. in the third quarter of 2020, which would likely further increase provisions and charge-offs based on the subprime credit composition of that portfolio. CardWorks had $4.7 billion in total assets as of year-end 2019, including $3.4 of credit card loans with an average FICO score of 630.

We believe the U.S. government's launch of support programs is designed to buttress consumer and business finances, although the ultimate impact on default rates is unclear at this point. Similar to its peers, Ally is offering customer remediation programs. The programs allow customers to defer payments for up to 120 days with no late fees while finance charges accrue. The company disclosed that about 25% of its consumer auto customers had enrolled in the program, while over 70% of their automotive-dealer customers are receiving some kind of relief. While this participation is higher than most peers, we believe the company has been more proactive with its customers than some peers. However, it remains unclear how accounts on deferral may transition to delinquency at the end of the deferral term and ultimately charge off. As a result of expected credit deterioration, the company also increased reserves to 2.54% of loans from 0.99%, with 104 basis points (bps) of this increase due to the transition to Current Expected Credit Losses (CECL) methodology, with the remainder due to revised economic expectations factoring in the expected impact of the COVID-19 pandemic.

Ally reported a net loss of $319 million in the first quarter, mostly attributable to a $903 million provision for credit losses. At quarter-end, the bank's reserve coverage for retail auto loans was 3.91%. Ally's CET1 ratio was 9.3%--lower than peers. The company continues to maintain liquidity of $30 billion in mostly cash and highly liquid securities, has only $460 million of unsecured debt maturities for the rest of the year, and expects continued deposit growth. Liquidity is lower than peers, in our view, with other consumer-focused banks maintaining over 20% in liquid assets compared with 16% at Ally. Regulatory capital will be bolstered by the company's decision to suspend share repurchases and its election to defer CECL capital impact for two years in accordance with regulatory guidance.

Outlook

The negative outlook reflects our view that Ally's financial performance could be more sensitive to the economic fallout from the COVID-19 pandemic than the average U.S. bank. We attribute this sensitivity to Ally's sizable concentration in auto lending that may face heightened risk of financial distress in the current economic environment. We believe the increase in unemployment levels and weakened consumer confidence (leading to lower consumer spending and lending activity) from the COVID-19-related economic shutdown has resulted in substantial headwinds for U.S. consumer lenders like Ally. Our outlook also incorporates the fluidity of the situation and downside risks to the economic forecast over our two-year outlook horizon.

The recession triggered by the COVID-19 pandemic has resulted in Ally modifying a meaningful portion of loans and taking substantial credit provisions. We could lower the ratings if the economic environment weakens Ally's financial performance more than we currently anticipate. This could be caused by the length and severity of the recession being greater or the rebound being slower than we currently expect. For example, government programs designed to support consumer finances may prove inadequate for the severity of the downturn for the bank's borrowers, leading to a rapid acceleration of loan deferrals and eventual loan losses. Borrower behavior in terms of willingness to repay or collateral values may also differ from norms banks' experienced in prior downturns or simulated during stress testing, which could put additional pressure on credit metrics. At the same time, ultra-low interest rates will weigh on net interest income (which accounts for more than 70% of total net revenues, potentially weakening preprovision earnings).

The adequacy of Ally's loss buffer, including capital and loan reserves, to absorb the evolving ramifications of the COVID-19 pandemic will be a key factor in determining the ratings. Other factors include the maintenance of stable funding, adequate on-balance-sheet liquidity, and conservative capital management, including limiting share repurchases until economic conditions improve. We could lower the ratings if we believe that Ally's S&P Global Ratings' RAC ratio will remain sustainably below the lower bounds of our 7%-10% adequate range, or if we believe that credit reserves will be insufficient to absorb the losses we expect will materialize.

We would revise the outlook back to stable if we see convincing evidence of abatement in problem assets and normalization of earnings in line with an economic rebound. In order to revise the outlook to stable, we would need to see Ally demonstrate a track record of financial resilience through the economic downturn and a clear path to rebuilding its loan reserves, capital, and liquidity buffers to pre-pandemic levels, excluding the impact from CECL. An upgrade is unlikely based on comparisons with higher-rated peers.

American Savings Bank F.S.B.

Primary: Nicholas Wetzel

Rationale

The outlook revision on our ratings on American Savings Bank FSB (ASB) primarily reflects our view that the bank's earnings and asset quality could materially decline, given the company's geographic concentration in Hawaii, where the labor market has been severely weakened by the COVID-19 pandemic. As of mid-April, Hawaii's labor force had one of the highest rates of unemployment claims of any state. While the bank's direct exposure to tourism is manageable, the hit to leisure and hospitality sectors, which together account for 19% of Hawaii's total jobs, may generate significant headwinds for the bank's broader customer base. Government programs designed to support consumers and businesses may prove inadequate for the severity and duration of the downturn for the bank's borrowers, leading to an acceleration of loan deferrals and eventual loan losses. We believe ASB's loan portfolio could therefore see deterioration given it is heavily weighted toward residential mortgages and consumer loans.

Additionally, we think ASB's net interest margin will decline and overall profitability will weaken in 2020. Net income for the first quarter of 2020 declined 24% from the first quarter of 2019, primarily due to higher provisions for credit losses and lower net interest income.

Our ratings affirmation considers ASB's long history of good credit quality, conservative loan-to-value ratios, and minimal large direct loan exposures to the tourism/hospitality industry.

ASB has strong capital ratios, with a CET1 capital ratio at 12.75% as of March 31, 2020; remains well funded with low-cost deposits; and maintains adequate liquidity, in our assessment.

Outlook

The negative outlook on ASB reflects the potential that we could lower the ratings in the next two years should ASB's earnings and asset quality deteriorate to a point that could lead to a material weakening of its capital or overall financial standing. We expect a meaningful decline in earnings and a rise in modified loans, nonperforming assets, and ultimately net charge-offs in 2020. Still, given the fluidity of the situation, the downside risks to the economic forecast, and uncertainty regarding the effectiveness of government support programs, it remains difficult to forecast precisely how significantly earnings and asset quality will worsen.

As those variables become clearer, we could lower the ratings on the bank if we expect the weaker earnings and asset quality to meaningfully reduce the company's capital ratios, liquidity, or business strength. For instance, we could also lower our ratings on ASB if we expect the company's RAC ratio to fall below 10%--from 11.2% as of year-end 2019--on a sustained basis. Conversely, we could revise the outlook to stable if we see convincing evidence of a normalization in earnings and the company does not experience significant deterioration in its loan performance, or the Hawaiian economy and labor market rebound faster than we expect.

Capital One Financial Corp.

Primary: Rian Pressman

Rationale

The revision of our outlook on Capital One to negative reflects our view that the bank's financial performance could be more sensitive to the economic fallout from the COVID-19 pandemic than the average U.S. bank because of its sizable concentration in credit card and auto lending. Specifically, about 45% of loans are to credit card borrowers and 23% to auto borrowers as of March 31, 2020. Moreover, about 35% of domestic card borrowers and 53% of auto borrowers had FICO scores of 660 or below, which could make them particularly susceptible to economic distress, in our view. Capital One also has exposure to potentially vulnerable specialty finance segments, including its health care, multifamily, and CRE portfolios.

The U.S. government has been executing a number of programs designed to buttress consumer and business finances, although the ultimate impact on default rates is unclear at this point. Similar to its peers, Capital One is offering customer remediation programs. As of April 17, credit card and auto loan balances in deferment were 2% and 11%, respectively, of the total. We will be closely monitoring these statistics in the future, which may be useful to gauge the level of borrower distress and possibly the trajectory and severity of future loan losses. (These deferments will not be recognized as delinquent or restructured until the deferment period ends.)

Capital One reported a net loss of $1.3 billion in the first quarter, mostly attributable to a $5.4 billion provision for credit losses. At quarter-end, the bank's reserve coverage for domestic branded cards, auto, and commercial loans was 10.1%, 3.4%, and 1.9%, respectively. Capital One's CET1 ratio was 12%--higher than most traditional commercial banks and above its 11% long-term target--although its regulatory capital ratios benefited from regulatory rules regarding the exclusion of accumulated other comprehensive income and an extended recognition period for CECL provisions. Liquidity resources are robust at about $106 billion or 27% of total assets (a small portion of which reflects off-balance-sheet borrowing capacity), and deposits continue to grow. We believe Capital One has limited capital markets funding needs for 2020.

Outlook

The negative outlook reflects our view that Capital One's financial performance could be more sensitive to the economic fallout from the COVID-19 pandemic than the average U.S. bank because of its sizable concentration in consumer lending, including to subprime consumers through its credit card and auto lending businesses. We believe the increase in unemployment and weakened consumer confidence (leading to lower consumer spending and lending activity) from the COVID-related economic shutdown has resulted in substantial headwinds for U.S. consumer lenders like Capital One. Our outlook also incorporates the fluidity of the situation and downside risks to the economic forecast over our two-year outlook horizon.

We expect the recession triggered by the COVID-19 pandemic could result in Capital One modifying a meaningful portion of loans and taking substantial credit provisions. We could lower the ratings if the economic environment has a more severe impact on Capital One's financial performance than we anticipate. This could be caused by the length and severity of the recession being greater or the rebound being slower than we currently expect. For example, it is possible that government programs designed to support consumer finances will prove inadequate for the severity of the downturn for the bank's borrowers, leading to a rapid acceleration of loan deferrals and eventual loan losses. Borrower behavior in terms of willingness to repay or collateral values may also differ from the norms that Capital One experienced in prior downturns or simulated during stress testing, which could put additional pressure on credit losses. At the same time, ultra-low interest rates and higher on-balance-sheet liquidity will weigh on net interest income (which accounts for more than 80% of total revenues), and suppressed business activity will hurt fee income, although operating expenses rationalization may provide an offset.

The adequacy of Capital One's loss buffer, including capital and loan reserves, to absorb the evolving ramifications of the COVID-19 pandemic will be a key factor in determining the ratings. Other factors include the maintenance of stable funding, robust on-balance-sheet liquidity, and conservative capital management, including limiting share repurchases until economic conditions improve. We could lower the ratings if Capital One's S&P Global Ratings' RAC ratio declines and remains sustainably below the lower bounds of our 7%-10% adequate range or if we believe that credit reserves will be insufficient to absorb the losses that we expect will materialize.

We would revise the outlook back to stable if we see convincing evidence of abatement in problem assets and normalization of earnings in line with an economic rebound. In order to revise the outlook to stable, we would need to see Capital One demonstrate a track record of financial resilience through the economic downturn and a clear path to rebuilding its loan reserves, capital, and liquidity buffers to pre-pandemic levels. An upgrade is unlikely based on comparisons with higher-rated peers.

CIT Group Inc.

Primary: Robert Hansen

Rationale

The outlook revision on our long-term rating on CIT primarily reflects the company's likely deterioration in loan performance, particularly among its more vulnerable loan portfolios, as well as pressures on net interest margins (NIMs), earnings, and capital ratios. The downturn in the U.S. economy resulting from the COVID-19 pandemic is weighing on many of CIT's borrowers, particularly in areas like energy, retail, hospitality, commercial airline, and maritime. We estimate that CIT has roughly $6.4 billion (about 15% of total loans) in loans to borrowers in industries most affected by the pandemic.

CIT reported a net loss of $628 million in the first quarter--hurt by a goodwill impairment charge of $339 million, large loan loss provisions primarily due to the adoption of CECL, and lower NIMs. It also reported higher net charge-offs and a substantial decline in capital ratios. Specifically, CIT's CET1 ratio fell to 9.7% as of March 31, 2020, from 12.0% as of Dec. 31, 2019, due to the closing of the Mutual of Omaha Bank acquisition and the large net loss in the quarter, and we estimate that the company's RAC ratio, which was 12.2% as of Dec. 31, 2019, also fell by a similar amount. Given that profitability will likely remain weak on the back of continued pressure on asset quality and the net finance margin, the RAC ratio could fall further in the coming quarters. Still, we expect it to ultimately rebound above 10% in the next two years.

CIT's earnings and capital ratios will depend in large part on how much more it needs to add to its allowance for credit losses, which is difficult to predict. The company significantly built its allowance in the first quarter to 2.88% of loans from 1.56% as of Dec. 31, 2019, but it may have to go further than that, particularly if the economic downturn is long lasting or the rebound is weak.

Despite that uncertainty, we are affirming our ratings on CIT at this point largely because of the many improvements it has made to its balance sheet, risk management, and funding over the last several years. We believe CIT is a far different company than it was in the lead-up to the financial crisis--most importantly, with a much stronger and less risky financial position. For instance, CIT has a solid liquidity position in our assessment with unrestricted cash and unencumbered investment securities of roughly $9.5 billion or 16% of total assets as of March 31, 2020, as well as substantial contingent liquidity sources.

Still, we expect the pandemic and associated downturn to serve as a good test of the strength of its underwriting and more-specialized assets classes in areas like CRE, rail car leasing, asset-backed finance, factoring, and cash-flow lending.

Outlook

The negative outlook on CIT reflects our view that we could lower the rating given a likely deterioration in loan performance, particularly within more vulnerable loan portfolios, as well as pressures on the NIM, profitability, and capital ratios. Specifically, we expect that earnings will remain under pressure and that the dividend payout ratio will remain elevated in the near term. Nonetheless, we view capital ratios as strong and liquidity as adequate.

We could lower the ratings over the next two years if further deterioration in asset quality and earnings weighs heavily on CIT's financial position, leading us to believe that the company will be unable to maintain a RAC ratio above 10% after two years. Pursuant to our criteria, a one-notch lowering of the group credit profile (GCP), currently 'bbb-', would result in a two-notch downgrade of the holding company. To reflect structural subordination, we typically rate bank holding companies one notch below the GCP when the GCP is 'bbb-' or higher, and two notches below when the GCP is below that.

Conversely, we could revise the outlook to stable if it becomes clear that the company will be able to avoid the type of asset-quality deterioration that could eat materially into its capital and weaken its financial position, allowing it to maintain a RAC ratio of at least 10.0% after two years.

Discover Financial Services

Primary: Shameer Bandeally

Rationale

Our revision of the rating outlook on DFS to negative primarily reflects the banks higher sensitivity to the economic fallout resulting from the COVID-19 pandemic than the average U.S. bank because of its concentration in unsecured consumer lending. Approximately 80% of DFS' total loans are credit cards, with student lending and unsecured personal lending constituting 10.7% and 8.25%, respectively. We believe the increase in unemployment and weakened consumer confidence (leading to lower consumer spending and lending activity) from the COVID-related economic shutdown has resulted in substantial headwinds for U.S. consumer lenders like DFS. While DFS' card portfolio is predominantly prime (FICO 660 and above represent 79% of total loans), we expect higher delinquencies, increased charge-offs (well above DFS' long-term range of 3% to 3.5%), and lower loan and sales volumes over the next few quarters, depending on the length and depth of this downturn.

Similar to its peers, DFS is offering customer remediation programs, allowing principal and interest payment relief for up to two months. In parallel, the U.S. government has been executing a number of programs designed to buttress consumer and business finances, which could help consumer's liquidity. As of April 19, credit card, student, and personal loan accounts in deferment appeared to be quite manageable at 1.6%, 6.6%, and 5.7%, respectively. We will be closely monitoring these disclosures over the course of this year to gauge how many of these could ultimately end up getting charged off.

DFS posted a net loss in the first quarter driven by a sizable credit loss provision of $1 billion, reflecting CECL and the deteriorating credit conditions with the onset of COVID. Credit reserves now stand at 7.4% of total loans (more than double from 3.5% at Dec. 31, 2019). Given DFS' lend-centric business model, we expect further build-up of reserves over the remainder of 2020 alongside incremental NIM compression and weaker spending volumes (card sales volume fell 29% year over year month-to-date through April 19). The company has suspended share repurchases and announced expense reductions of $400 million, or about 10% of total expenses, both of which we view positively. Funding has thus far been stable, given the bank's much lower contribution of wholesale funding (including card asset-backed securities) currently than during the 2009 downturn. Contingent liquidity available to DFS is good, with $23 billion of liquid assets (as of April 20), $6 billion of committed undrawn borrowing capacity through privately placed asset-backed securitizations, and $35 billion in borrowing capacity at the Federal Reserve discount window.

Outlook

Our revision of DFS' outlook to negative primarily reflects the bank's higher sensitivity to the economic fallout resulting from the COVID-19 pandemic than the average U.S. bank because of its concentration in credit cards, as well as student and personal lending. We believe the increase in unemployment and weakened consumer confidence (leading to lower consumer spending and lending activity) from the COVID-19-related economic shutdown has resulted in substantial headwinds for U.S. consumer lenders like DFS. Our outlook also incorporates the fluidity of the situation and downside risks to the economic forecast over our two-year outlook horizon.

We expect loan modifications and charge-offs could sharply increase if unemployment remains high for an extended period. We believe the ultra-low interest rates and payment deferrals could pose another headwind to operating performance given its extensive reliance on spread revenues, which typically contributes over 80% of total revenues. We could lower the ratings if the recession deepens further or continues for an extended period (with a slower rebound in employment and economic activity) such we expect DFS' profitability and capital levels will be impaired from higher credit losses. The adequacy of DFS' loss buffer, including capital and loan reserves, to absorb the evolving ramifications of the COVID-19 pandemic will be a key factor in determining the ratings. Other factors include the maintenance of stable funding, robust on-balance-sheet liquidity, and conservative capital management, including limiting share repurchases until economic conditions improve. We could lower the ratings if we believe that DFS' S&P Global Ratings' RAC ratio will remain sustainably below the lower bounds of our 7%-10% adequate range or if we believe that credit reserves will be insufficient to absorb losses we expect will materialize.

Conversely, we would revise the outlook back to stable if we see convincing evidence of abatement in problem assets and normalization of earnings in line with an economic rebound. A stable outlook would also necessitate that DFS demonstrate a track record of financial resilience through the economic downturn and a clear path to rebuilding its loan reserves, capital, and liquidity buffers to pre-pandemic levels. An upgrade is unlikely based on the level of economic turbulence in the U.S. and comparisons with higher-rated peers.

East West Bancorp Inc.

Primary: Shameer Bandeally

Rationale

The outlook revision on EWBC primarily reflects the possibility that asset quality could worsen substantially, given the company's high concentration in sectors that may come under sustained stress during the economic downturn resulting from the COVID-19 pandemic.

We believe the bank has somewhat higher-than-peer exposures to commercial and industrial (C&I) and CRE sectors that are vulnerable to extended periods of social distancing and might suffer until the economy begins to function at full capacity.

In particular, we believe the bank's higher-than-peer combined exposures to retail CRE (9% of total loans), hospitality (5% of total loans), and construction (2% of total loans) remain the most vulnerable components of its CRE loans.

We believe approximately 5% of total loans are to businesses that are prone to U.S.-China trade-related turbulence (companies primarily based in California that import goods from Greater China for U.S. consumers); and another 5% of total loans are domiciled in mainland China. In addition, 4% of total loans are to the oil and gas industry. While about 60% of the oil borrowers have some protection from hedging, we believe credit losses in this sector will increase further given our expectations for protracted low oil prices.

Most of the EWBC's CRE exposures have a low loan-to-value (LTV) ratio, and, as of April 23, fewer than 2% of total commercial loans had deferral requests--a lower proportion than reported by many banks. Still, we believe the bank's small and midmarket clients based in California that have been hurt by the ongoing shutdown of nonessential businesses could be a source of incremental credit risk. We will continue to monitor the effectiveness of government support programs in providing borrower relief.

Our ratings affirmation recognizes EWBC's good track record of better-than-peer asset quality and low loan charge-offs over the past several years with substantially lower exposure to construction lending. Moreover, EWBC's strong capital ratios, including its 11.99% RAC ratio at year-end 2019 and 12.4% CET 1 ratio as of March 31, 2020, offer a solid bulwark through the current economic downturn.

Outlook

Our negative outlook on EWBC reflects the possibility that, over the next two years, nonperforming assets may rise significantly in its CRE and lower-to-midmarket C&I portfolios, particularly if downside risks to the pandemic-induced stress increase. Our outlook revision also considers the potential hit to EWBC's profitability from sustained low interest rates (given its high-than-peer asset sensitivity) and higher provisioning.

If loan losses increase meaningfully, leading to significant declines in earnings or capital, we could lower the ratings. We could also lower the ratings over the next two years if the RAC ratio were to decline sustainably below 10% because of higher loan loss provisions, weaker earnings, or from share buybacks. While less likely, we would also negatively view significantly weaker on-balance-sheet liquidity during this crisis. The adequacy of EWBCs reserve coverage and capital ratios will also be key factors in determining our ratings.

Conversely, we could revise the outlook to stable if we believe that net loan losses will be manageable and not outsize relative to peers, or if we see convincing evidence of abatement in potential problem assets and normalization of earnings in line with an economic rebound.

Investors Bancorp Inc.

Primary: Catherine Mattson

Rationale

The outlook revision on our ratings on Investors reflects the possibility that asset quality could worsen substantially, given the company's high concentration in CRE and multifamily loans, sectors that may come under sustained stress during the economic downturn resulting from the COVID-19 pandemic.

Total real-estate-related loans make up 72% of Investors' total loans, including 36% multifamily, 24% residential mortgage, and 24% CRE and construction loans. These loans are primarily based in the New York metropolitan market and in New Jersey, both of which, we believe, could face significant stress in the near term, given the high spike in unemployment and the ongoing shutdown of nonessential businesses. We believe that Investors' multifamily borrowers will likely have reduced cash flows at least in the near term, given the economic hardships on renters from the sudden sharp rise in regional unemployment. Although Investors reported good first-quarter asset-quality trends, a high 17% of its loans had requested deferral of payments as of April 22, 2020, which could suggest elevated stress among its borrowers in our view.

The outlook revision also reflects our expectation that Investors will likely incur higher provisions during this economic downturn, which could hurt earnings, even though the company's liability sensitivity could benefit the NIM somewhat. As an offset to these factors, we have a favorable view of Investors' good track record of better-than-peer asset quality and low loan charge-offs. Moreover, Investors' strong capital ratios, including its 11.76% RAC ratio as of Dec. 31, 2019, and

13.05% CET 1 ratio as of March 31, 2020, should help to sustain it through the current economic downturn. However, if Investors' loan losses increase meaningfully, leading to significant declines in earnings or capital, we could lower the ratings.

Outlook

Our negative outlook on Investors reflects the possibility that, over the next two years, nonperforming assets may rise significantly in the company's large real estate portfolios, particularly if the economic downturn in the New York metropolitan area and in New Jersey are sustained into 2021. Moreover, we believe Investors' profitability could be hurt by the need to increase loan loss reserves if credit quality deteriorates significantly.

We could lower the ratings over the next two years if we expect loan net charge-offs to increase meaningfully and if we believe that the company's profitability will be hurt for a sustained period because of higher loan loss provisions. We could also lower the rating if capital ratios decline to levels we no longer view as strong. Conversely, we could revise the outlook to stable if we believe that net loan losses will not be substantial, and if the economic environment rebounds so that we are more confident that Investors' asset quality will not deteriorate to a level that poses a risk to its earnings and capital.

New York Community Bancorp Inc.

Primary: Barbara Duberstein

Rationale

The outlook revision on our ratings on NYCB reflects the possibility that NYCB's asset-quality performance could worsen substantially, given the company's high concentration in the New York metropolitan area and in multifamily lending, a sector that may be under sustained stress during the economic downturn from the COVID-19 pandemic. Multifamily loans comprise 75% of NYCB's total loans and are mainly in the hard-hit New York City area.

We believe that NYCB's landlord borrowers will likely have reduced cash flows at least in the near term, given the economic hardships on renters from the sudden sharp rise in regional unemployment. In addition, NYCB has substantial retail CRE loan exposures, which we think could be more vulnerable. NYCB reported that, as of April 28, it agreed to allow deferred payments on approximately 12.6% of its multifamily and CRE loans, which could suggest elevated stress among its borrowers. However, we recognize that NYCB's multifamily portfolio has performed well with below-peer net losses during other economic cycles, largely reflecting NYCB's good underwriting and the financial strength of NYCB's long-time real estate borrowers.

Although NYCB does not have particularly strong core earnings, unlike many other regional banks, its preprovision earnings and net interest income will likely benefit somewhat in 2020 from the recent drop in interest rates because of the company's liability sensitivity. While NYCB's deposit-gathering franchise remains challenged, we expect the company's funding to remain stable from its retail deposit base and Federal Home Loan Bank advances. We also expect that NYCB's capital ratios will remain satisfactory.

Outlook

Our negative outlook on NYCB reflects the possibility that, over the next two years, nonperforming assets may rise significantly in NYCB's predominant multifamily portfolio, as well as among its retail CRE loans, particularly if the economic downturn in the New York metropolitan area is sustained into 2021. While NYCB's core earnings will benefit from lower interest rates, profitability could still be significantly hurt by the need to increase loan loss reserves.

We could lower the ratings over the next two years if we expect net charge-offs to increase meaningfully and if we believe that the company's profitability will be hurt for a sustained period because of higher loan loss provisions. We would also negatively view--but don't currently expect--significantly reduced capital ratios or weaker balance-sheet liquidity during this crisis.

Conversely, we could revise the outlook to stable if we believe that net loan losses will not be substantial, and if the economic environment rebounds so that we are more confident that NYCB's asset quality will not deteriorate to a level that poses a risk to NYCB's earnings and capital ratios.

SLM Corp.

Primary: Diogenes Mejia

Rationale

The revision of the outlook on SLM to negative reflects our view that the bank's financial performance could be more sensitive to the economic fallout from the COVID-19 pandemic than the average U.S. bank because of its sizable concentration in student loans. Approximately 93% of the company's loans outstanding were private student loans, with the remaining mostly split between student loans insured or guaranteed under the previously existing Federal Family Education Loan Program and personal loans. The company maintains cosign rates on its private student loan portfolio at approximately 90%, with average FICO scores of just below 750.

The U.S. government has been executing a number of programs designed to buttress consumer and business finances, although the ultimate impact on default rates is unclear at this point. Similar to its peers, SLM is offering customer remediation programs. The company disclosed that 11.8% of private student loans in repayment and forbearance were in forbearance as of April 21, 2020, up from 4.1% at year-end 2019, which is high related to peers. As a result of CECL and expected credit deterioration, the company increased reserves for private student loans to 7.01% as of March 31, 2020, from 1.61% of loans at year-end 2019. The company expects losses of 2.1% of loans in repayment based on current economic forecasts and its loan loss model. We will be closely monitoring these statistics, which may be useful to gauge the level of borrower distress and possibly the trajectory and severity of future loan losses. Despite the size of SLM's current allowance, it may need to build further, should economic conditions worsen.

SLM reported a net income of $362 million in the first quarter, mostly attributable to a $239 million gain on the sale of a $3 billion portfolio of student loans. SLM's CET 1 ratio was 12.4%--higher than most peers--although its regulatory capital ratios benefited from regulatory rules regarding the extended recognition period for CECL provisions. The company continues to maintain strong liquidity with $7.3 billion of cash and equivalents on a balance sheet with $31.8 billion in total assets. Regulatory capital will be bolstered by the company's decision to suspend share repurchases and to defer CECL capital impact for two years in accordance with regulatory guidance. There is some uncertainty as to its funding needs, as originations in the fall will be driven by college enrollment that could be materially weakened by COVID-19. The company may issue in the ABS market later this year but could also fund loans via use of brokered deposits, or use its ample liquidity already on the balance sheet.

Outlook

The negative outlook reflects our view that SLM's financial performance could be more sensitive to the economic fallout from the COVID-19 pandemic than the average U.S. bank. We attribute this sensitivity to SLM's sizable concentration in student lending that may face heightened risk of financial distress in the current economic environment. We believe the increase in unemployment and weakened consumer confidence (leading to lower consumer spending and lending activity) from the COVID-19-related economic shutdown has resulted in substantial headwinds for U.S. consumer lenders like SLM. Our outlook also incorporates the fluidity of the situation and downside risks to the economic forecast over our two-year outlook horizon.

We expect the recession triggered by the COVID-19 pandemic could result in SLM modifying a meaningful portion of loans and taking substantial credit provisions. We could lower the ratings if the economic environment has a more severe impact on SLM's financial performance than we currently anticipate. This could be caused by the length and severity of the recession being greater or the rebound being slower than we currently expect. For example, government programs designed to support consumer finances could prove inadequate for the severity and duration of the downturn for the bank's borrowers, leading to a rapid acceleration of loan forbearance and eventual loan losses. Borrower behavior in terms of willingness to repay may also differ from norms banks' experienced in prior downturns or simulated during stress testing, which could put additional pressure on credit losses.

The adequacy of SLM's loss buffer, including capital and loan reserves, to absorb the evolving ramifications of the COVID-19 pandemic will be a key factor in determining the ratings. Other factors include the maintenance of stable funding, robust on-balance-sheet liquidity, and conservative capital management, including limiting share repurchases until economic conditions improve. We could lower the ratings if we believe that SLM's S&P Global Ratings' RAC ratio will remain sustainably below the lower bounds of our 7%-10% adequate range or if we believe that credit reserves will be insufficient to absorb losses we expect will materialize.

We would revise the outlook back to stable if we see convincing evidence of abatement in problem assets and normalization of earnings in line with an economic rebound. An outlook revision to stable would also necessitate that SLM demonstrate a track record of financial resilience through the economic downturn and a clear path to rebuilding its loan reserves, capital, and liquidity buffers to pre-pandemic levels, excluding the impact from CECL. An upgrade is unlikely based on comparisons with higher-rated peers.

Synchrony Financial

Primary: Rian Pressman

Rationale

Our revision of the outlook on Synchrony to negative reflects our view that the bank's financial performance could be more sensitive to the economic fallout from the COVID-19 pandemic than the average U.S. bank because of its sizable concentration in credit card lending. Synchrony specializes in private label cards, which have historically had higher default rates because of their lower utility to borrowers. (Fewer than 25% of outstanding balances were originated on cards with general purpose features at March 31, 2020.) In addition, about 27% of borrowers had FICO scores of 660 or lower, which could make them particularly susceptible to economic distress, in our view.

Nonetheless, Synchrony's retailer share arrangements (RSAs) should help mitigate some of the risk of the higher loss profile of its private label portfolio, in our view. The RSAs generally provide for payments to its retail partners if the economic performance of a given program exceeds a contractual threshold. Management's ability to reduce such payments as the economics of a program decline provides a buffer to credit provisions in stressed economic environments.

Another risk factor is Synchrony's exposure to troubled retailers, including J.C. Penney Co. Inc. and The Gap Inc., which are among its five-largest partners. Historically, the bankruptcy of a retail partner has resulted in a reduction in borrowers' willingness to pay. (Synchrony generally has very low exposure to the retailer itself.) In recent years, the bank has proven its ability to manage such situations by actively engaging borrowers, liquidating balances, and migrating qualified customers to Synchrony-branded rewards cards. Nonetheless, executing this strategy in a severe economic downturn may be more difficult, thus adding incremental pressure on asset quality.

The U.S. government has been executing a number of programs designed to buttress consumer and business finances, although the ultimate impact on default rates is unclear at this point. Similar to its peers, Synchrony is offering customer remediation programs. As of April 21, credit card balances in deferment were approximately 2% of the total. We will be closely monitoring these statistics in the future, which may be useful to gauge the level of borrower distress and possibly the trajectory and severity of future loan losses. (These deferments will not be recognized as delinquent or restructured until the deferment period ends.)

Synchrony reported net income of $286 million in the first quarter, down 74% from the prior-year period, mostly attributable to a $1.7 billion provision for credit losses. At quarter-end, the bank's reserve for credit losses was about 11% of receivables. Synchrony's CET 1 ratio was 14.3%--higher than its card peers--although its regulatory capital ratios benefited from regulatory rules regarding an extended recognition period for CECL provisions. Liquidity resources are adequate at about $25 billion or 25% of total assets (about one-quarter of this reflects off-balance-sheet borrowing capacity), and deposits continue to grow. We believe Synchrony has limited capital markets funding needs for 2020.

Outlook

The negative outlook reflects our view that Synchrony's financial performance could be more sensitive to the economic fallout from the COVID-19 pandemic than the average U.S. bank because of its sizable concentration in credit card lending, including to subprime consumers through its private-label credit card business. We believe the increase in unemployment levels and weakened consumer confidence (leading to lower consumer spending and lending activity) from the COVID-19-related economic shutdown has resulted in substantial headwinds for U.S. consumer lenders like Synchrony. Our outlook also incorporates the fluidity of the situation and downside risks to the economic forecast over our two-year outlook horizon.

We expect the recession triggered by the COVID-19 pandemic could result in Synchrony modifying a meaningful portion of loans and taking substantial credit provisions. We could lower the ratings if the economic environment has a more severe impact on Synchrony's financial performance than we currently anticipate. This could be caused by the length and severity of the recession being greater or the rebound slower than we currently expect. For example, government programs designed to support consumer finances could prove inadequate for the severity of the downturn for the bank's borrowers, leading to a rapid acceleration of loan deferrals and eventual loan losses. Borrower behavior in terms of willingness to repay (including that of cardholders of troubled retail partners) may also differ from norms that Synchrony experienced in prior downturns or simulated during stress testing, which could put additional pressure on losses. At the same time, ultra-low interest rates and higher on-balance-sheet liquidity will weigh on net interest income, which accounts for more than 95% of total revenues, although reduced operating expenses may provide an offset.

The adequacy of Synchrony's loss buffer, including capital and loan reserves, to absorb the evolving ramifications of the COVID-19 pandemic will be a key factor in determining the ratings. The benefit of reduced RSA payments to retail partners will also be considered to the extent that it is an effective offset to higher credit provisions and preserves profitability. Other factors include the maintenance of stable funding, robust on-balance-sheet liquidity, and conservative capital management, including limiting share repurchases until economic conditions improve. We could lower the ratings if we believe that Synchrony's S&P Global Ratings RAC ratio will remain sustainably below the lower bounds of our 7%-10% adequate range or if we believe that credit reserves will be insufficient to absorb losses that we expect will materialize.

We would revise the outlook to stable if we see convincing evidence of abatement in problem assets and normalization of earnings in line with an economic rebound. In order for us to revise the outlook to stable, we would need to see Synchrony demonstrate a track record of financial resilience through the economic downturn and a clear path to rebuilding its loan reserves, capital, and liquidity buffers to pre-pandemic levels, while maintaining key retailer relationships. An upgrade is unlikely based on comparisons with higher-rated peers.

Synovus Financial Corp.

Primary: Erik Oja

Rationale

The revision in our outlook on Synovus to negative primarily reflects the possibility that Synovus' asset-quality performance might worsen substantially, given the company's high lending exposure to sectors stressed by the COVID-19 pandemic, including hotels, shopping centers, restaurants, nonessential retail trade, entertainment, and energy. The company estimated this exposure to be approximately $4.6 billion, equal to 12% of total lending, as of March 31, 2020.

Synovus also reported that its percentage of total deferrals is around 13% of the overall portfolio, with those industries more directly weakened by COVID-19 carrying higher percentages. Synovus reported the company has funded approximately $2.0 billion in Paycheck Protection Program (PPP) loans as of April 22, 2020. However, because of the sharp economic downturn, we see an increasing possibility that many of the bank's commercial clients may not return to normal levels of operation for several quarters, or beyond the periods covered by the PPP and loan modifications. We also consider that Synovus could see asset quality deteriorate in its construction portfolio, which was significant at 9% of total loans as of March 31. Thus, we expect that Synovus' troubled debt restructurings, nonaccrual loans, and net charge-offs could significantly increase once the PPP and modification periods end later this year.

As a buffer to these risks, Synovus, as of March 31, had an allowance for loan losses of $493.4 million, or 1.3% of total loans, and satisfactory regulatory capital ratios, including a Tier 1 capital ratio of 9.97%, a CET 1 ratio of 8.72%, as well as a Dec. 31, 2019 S&P Global Ratings' RAC ratio of 9.0%. Our ratings affirmation considers Synovus' improving operating performance, as well as the numerous steps that Synovus has taken over the last decade to diversify its loan portfolio and strengthen its balance sheet.

Outlook

Our negative outlook on Synovus reflects the possibility that, as a result of widespread closures from the pandemic-related stress, Synovus' asset quality and capital ratios may decline later this year to a level that may not be in line with the current ratings.

We could lower the ratings over the next two years if we expect a substantial increase in nonperforming assets or net charge-offs as a result of the COVID-19 pandemic and if we believe that the company's profitability will be hurt for a sustained period because of higher loan loss provisions.

Alternately, we could revise the outlook to stable if the U.S. economy were to rebound quickly and sustainably, such that loan performance does not deteriorate substantially, and if we are confident that Synovus' overall financial performance will remain in line with similarly rated peers.

Trustmark Corp.

Primary: Erik Oja

Rationale

The outlook revision on our ratings on Trustmark reflects the possibility that Trustmark's asset quality performance might worsen substantially, given the company's relatively high lending exposure to businesses we view as immediately vulnerable to the economic downturn resulting from the COVID-19 pandemic. Moreover, we believe that Trustmark's earnings could be hurt from higher loan loss provisions and pressured net interest margins, making it less likely that its RAC ratio will grow close to 10% over the next two years, as we had previously thought.

Our current ratings on Trustmark incorporate our expectation that its RAC ratio, which was 9.2% as of Dec. 31, 2019, would increase and approach 10% over the next two years. However, current economic headwinds could slow this process. We recognize Trustmark's strong regulatory capital ratios, including a Tier 1 capital ratio of 11.88%, and a CET 1 ratio of 11.35% at March 31, 2020. In addition, Trustmark recently suspended its share repurchase program to conserve capital.

We could also revise our ratings on Trustmark if asset quality deteriorates significantly. The company estimated its exposure to highly COVID-19-sensitive businesses, including restaurants, hotels, retail, energy, and higher-risk commercial lending, at approximately $1.1 billion, equal to 11.7% of total loans, as of March 31, 2020. Although loan modifications and PPP loans could support some of these businesses for up to the next six months, we see an increasing possibility that many of these businesses, such as restaurants and hotels, may likely not return to normal levels of operation for several quarters, or beyond the periods covered by the PPP and loan modifications. We also consider that Trustmark could see asset quality deteriorate in its construction portfolio, which was relatively significant at 12% of total lending as of March 31. Thus, we expect that Trustmark's troubled debt restructurings, nonaccrual loans, and net charge-offs may significantly increase once the PPP and modification periods end later this year.

Outlook

Our negative outlook on Trustmark reflects the possibility that its asset quality could worsen in a prolonged economic downturn, profitability could be hurt by higher loan loss provisions and margin pressures, or capital accumulation could stall.

We could lower the ratings over the next two years if we expect a substantial increase in nonperforming assets or net charge-offs as a result of the COVID-19 pandemic or if we project that capital ratios will decline and the company's profitability will be hurt for a sustained period because of higher loan loss provisions. Alternately, we could revise the outlook to stable if the U.S. economy rebounds quickly and sustainably, such that we believe that net loan losses will remain manageable; if the company's RAC ratio grows to the 10% range; and if we are confident that Trustmark's overall financial performance will remain in line with similarly rated peers.

Valley National Bancorp

Primary: Catherine Mattson

Rationale

The outlook revision on our ratings on Valley National Bancorp primarily reflects the possibility that asset quality could worsen substantially, given the company's high concentration in CRE and multifamily loans, sectors that may come under sustained stress during the economic downturn resulting from the COVID-19 pandemic. Non-owner-occupied CRE loans comprised 49% of Valley's total loans as of March 31, 2020, including 17% multifamily loans and 6% construction loans. About 64% of loans were based in the New York metropolitan market, 26% in the Florida/Alabama market, and 10% in other geographies at Dec. 31, 2019. We believe that New York area loans in particular could face significant stress in the near term, given the high spike in unemployment, and the ongoing shutdown of nonessential businesses. Nevertheless, we recognize Valley's generally conservative lending policies, with average LTVs of less than 60% in its CRE book, and long track record of strong loan performance through various economic downturns.

The outlook revision also reflects our expectation that Valley's earnings could be hurt by the need for higher provisions during this economic downturn. Although we recognize the recent improvement in Valley's capital ratios, including its 8.8% RAC ratio as of Dec. 31, 2019, capital ratios remain below peer averages, giving it slightly less of a cushion in the event of a prolonged downturn.

Outlook

Our negative outlook on Valley reflects the possibility that, over the next two years, nonperforming assets may rise significantly in Valley's large CRE and multifamily portfolios, particularly if the economic downturn in the New York metropolitan area is sustained into 2021. Moreover, we believe Valley's profitability could be hurt by a sustained period of low interest rates and the need to increase loan loss reserves, which could weaken its already below peer capital levels.

We could lower the ratings over the next two years if we expect loan losses to increase significantly, leading to meaningful declines in profitability or capital. We could also lower the ratings if the company's overall financial performance is weaker than similarly rated peers. Conversely, we could revise the outlook to stable if we believe that net loan losses will not be substantial, and if the economic environment rebounds so that we are more confident that Valley's asset quality will not deteriorate to a level that poses a risk to its earnings and capital.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Spain's Banco Santander Outlook Revised To Negative On Global Economic Downturn; 'A/A-1' Ratings Affirmed, April 29, 2020
- Outlook On MUFG Americas Holdings Corp. Revised To Stable From Positive Following Outlook Revision On Parent, April 24, 2020
- BNP Paribas And Most Core Subsidiaries Outlooks To Negative On Higher Industry Risks Amid COVID-19; Ratings Affirmed, April 23, 2020
- COVID-19 Deals A Larger, Longer Hit To Global GDP, April 16, 2020
- Who The U.S. Government Plans Help, Who They Don't, And What That Means For Financial Institutions, April 16, 2020
- Comparative Statistics: U.S. Banks (April 2020), April 13, 2020
- U.S. Financial Institutions Face A Rocky Road Despite A Boost From Government Measures, April 8, 2020
- Rating Component Scores For U.S., Canadian, And Bermudian Banks (March 2020), March 31, 2020
- Six U.S. Regional Banks Outlooks Revised To Negative On Higher Risks To Energy Industry, March 27, 2020
- Most U.S. Banks, Helped By Fed Actions, Are Well Positioned To Meet Corporate Borrowers' Demand For Cash, March 24, 2020
- IBERIABANK Outlook Revised To Negative, First Horizon National Corp. Ratings Removed From CreditWatch Positive, March 24, 2020

- Stress Scenarios Show How U.S. Bank Ratings Could Change Amid Pandemic-Induced Financial Uncertainty, March 24, 2020
- Outlooks On Six Banks Revised To Stable From Positive On Emerging Economic Downturn; Ratings Affirmed, March 23, 2020
- The Fed's New Rules Change Capital Management Dynamics For U.S. Banks, March 19, 2020

BICRA Score Snapshot

U.S.

	To	From
BICRA group	3	3
Economic risk	3	3
Economic resilience	Very low risk	Very low risk
Economic imbalances	Low risk	Low risk
Credit risk in the economy	High risk	High risk
Trend	Negative	Stable
Industry risk	3	3
Institutional framework	Intermediate risk	Intermediate risk
Competitive dynamics	Intermediate risk	Intermediate risk
Systemwide funding	Very low risk	Very low risk
Trend	Stable	Stable

Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores are on a scale from 1 (lowest risk) to 10 (highest risk). For more details on our BICRA scores on banking industries across the globe, please see "Banking Industry Country Risk Assessment Update," published monthly on RatingsDirect.

Ratings List

--American Express Co.--	
Ratings Affirmed	
American Express Co.	
Issuer Credit Rating	BBB+/Stable/A-2
American Express Travel Related Services Co. Inc.	
Issuer Credit Rating	A-/Stable/--
American Express National Bank	
Issuer Credit Rating	A-/Stable/A-2
American Express Credit Corp.	
Issuer Credit Rating	A-/Stable/A-2

--UMB Financial Corp.--		
Ratings Affirmed		
UMB Financial Corp.		
Issuer Credit Rating	A-/Negative/A-2	
UMB Bank N.A.		
Issuer Credit Rating	A/Negative/A-1	

	To	From
--Ally Financial Inc.--		
Ratings Affirmed; Outlook Action		
Ally Financial Inc.		
Issuer Credit Rating	BBB-/Negative/A-3	BBB-/Stable/A-3
--American Savings Bank F.S.B.--		
Ratings Affirmed; Outlook Action		
American Savings Bank F.S.B.		
Issuer Credit Rating	BBB/Negative/A-2	BBB/Stable/A-2
--Capital One Financial Corp.--		
Ratings Affirmed; Outlook Action		
Capital One Financial Corp.		
Issuer Credit Rating	BBB/Negative/--	BBB/Stable/--
Capital One N.A.		
Issuer Credit Rating	BBB+/Negative/A-2	BBB+/Stable/A-2
Capital One Bank (USA) N.A.		
Issuer Credit Rating	BBB+/Negative/A-2	BBB+/Stable/A-2
--CIT Group Inc.--		
Ratings Affirmed; Outlook Action		
CIT Group Inc.		
Issuer Credit Rating	BB+/Negative/B	BB+/Stable/B
CIT Bank N.A.		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--
--Discover Financial Services--		
Ratings Affirmed; Outlook Action		
Discover Financial Services		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--
Discover Bank		
Issuer Credit Rating	BBB/Negative/--	BBB/Stable/--
--East West Bancorp Inc.--		
Ratings Affirmed; Outlook Action		
East West Bancorp Inc.		
Issuer Credit Rating	BBB/Negative/A-2	BBB/Stable/A-2
East West Bank		
Issuer Credit Rating	BBB+/Negative/A-2	BBB+/Stable/A-2

--Investors Bancorp Inc.--		
Ratings Affirmed; Outlook Action		
Investors Bancorp Inc.		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--
Investors Bank		
Issuer Credit Rating	BBB/Negative/--	BBB/Stable/--

--New York Community Bancorp Inc.--		
Ratings Affirmed; Outlook Action		
New York Community Bancorp Inc.		
Issuer Credit Rating	BB+/Negative/--	BB+/Stable/--
New York Community Bank		
Issuer Credit Rating	BBB-/Negative/A-3	BBB-/Stable/A-3

--SLM Corp.--		
Ratings Affirmed; Outlook Action		
SLM Corp.		
Issuer Credit Rating	BB+/Negative/--	BB+/Stable/--
Sallie Mae Bank		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--

--Synchrony Financial--		
Ratings Affirmed; Outlook Action		
Synchrony Financial		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--
Synchrony Bank		
Issuer Credit Rating	BBB/Negative/--	BBB/Stable/--

--Synovus Financial Corp.--		
Ratings Affirmed; Outlook Action		
Synovus Financial Corp.		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--
Synovus Bank		
Issuer Credit Rating	BBB/Negative/--	BBB/Stable/--

--Trustmark Corp.--		
Ratings Affirmed; Outlook Action		
Trustmark Corp.		
Issuer Credit Rating	BBB/Negative/A-2	BBB/Stable/A-2
Trustmark National Bank		
Issuer Credit Rating	BBB+/Negative/A-2	BBB+/Stable/A-2

--Valley National Bancorp--		
Ratings Affirmed; Outlook Action		
Valley National Bancorp		
Issuer Credit Rating	BBB/Negative/--	BBB/Stable/--

Valley National Bank

Issuer Credit Rating	BBB+/Negative/A-2	BBB+/Stable/A-2

Contact List

PRIMARY CREDIT ANALYST

Rian M Pressman, CFA
New York
(1) 212-438-2574
rian.pressman@spglobal.com

PRIMARY CREDIT ANALYST

Brendan Browne, CFA
New York
(1) 212-438-7399
brendan.browne@spglobal.com

PRIMARY CREDIT ANALYST

E.Robert Hansen, CFA
New York
(1) 212-438-7402
robert.hansen@spglobal.com

SECONDARY CONTACT

Devi Aurora
New York
(1) 212-438-3055
devi.aurora@spglobal.com

SECONDARY CONTACT

Barbara Duberstein
New York
(1) 212-438-5656
barbara.duberstein@spglobal.com

SECONDARY CONTACT

Diogenes Mejia
New York
+ 1 (212) 438 0145
diogenes.mejia@spglobal.com

SECONDARY CONTACT

Nicholas J Wetzel, CFA
Centennial
+ 303-721-4448
nicholas.wetzel@spglobal.com

SECONDARY CONTACT

Shameer M Bandeally
Toronto
(1) 416-507-3230
shameer.bandeally@spglobal.com

SECONDARY CONTACT

Catherine C Mattson
New York
(1) 212-438-7392
catherine.mattson@spglobal.com

SECONDARY CONTACT

Erik M Oja
New York
+ 1 (212) 438 4314
Erik.Oja@spglobal.com