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MARKETS

For Banks, Harvey's Hit Shouldn't Prove Long-Lasting

Longer term pick up expected from insurance payouts, rebuilding efforts

A shopping center with a Chase Bank location is overtaken by floodwater from Hurricane Harvey on Monday. **PHOTO:** NICK OXFORD/REUTERS

By Telis Demos

Updated Aug. 29, 2017 4:18 pm ET

Banks may take a short-term hit as Tropical Storm Harvey paralyzes parts of Texas, but analysts say that, as in previous storms, disruptions are likely to be modest and could even portend a longer-term pickup.

The KBW Nasdaq Bank index is down 1.3% since the storm initially made landfall Friday night, versus a virtually flat S&P 500 index. Shares of banks more heavily concentrated in Texas and the cities affected are down more sharply.

Houston, as the country's fourth-largest city, is a significant market for many banks, representing about 2% of big-bank deposits and U.S. mortgage origination volume, according to analysts at Autonomous Research. Texas is a bigger market for auto loans, but unlike home loans, most car-insurance policies cover flooding, Autonomous analyst Brian Foran said.

Some regional and local banks have higher concentrations of loans and deposits, however.

Regional banks Prosperity Bancshares PB 3.33% ▲ and Zions Bancorp ZION -0.29% ▼ have 30% and 19%, respectively, of their deposits in the Houston area, according to analysts at Barclays PLC. Their shares are off around 2.9% and 2.2%, respectively, since Friday's close.

> Houston-based Allegiance Bancshares Inc., a commercial bank to small- and medium-size businesses, has virtually all of its deposits in the Houston metropolitan area, analysts said.

George Martinez, CEO of Allegiance, said that the bank planned to begin reopening some branches on Wednesday. "We have to go through a period of adjustment for our business customers, but then they'll return to their regular strategies," he said. He noted that customers who used electronic banking "hadn't been slowed down."

Allegiance shares are down 7.5% since Friday's close.

Prosperity CEO David Zalman said the bank closed about 25% of its Texas branches on Monday—or about 60 branches, mostly in coastal towns such as Rockport—but had reopened many the next day. It also shifted some operations to West Texas and Dallas, he said.

"We're used to this," he said, citing Texas's history with past hurricanes. Despite Harvey's unusually dramatic impact, he said that "in the long run, this will create a robust economy for the state. You'll see deposits increase in Texas banks because of the insurance money."

Shares of Green Bancorp Inc., a commercial and consumer bank also based in Houston, are off 8.9%. It has about 60% of its loans and deposits in the Houston area.

Green has closed its Houston area branches and waived ATM and late fees, with staff either working remotely or staying at a hotel next to the bank's operations center in Houston. Branches in Austin and Dallas remained open.

Geoff Greenwade, Green's CEO, said he anticipated a slowdown in loan growth in the third quarter, with some loan closings deferred until later in the year.

But he said he anticipated "normal or above normal" growth in the fourth quarter and beyond.

"What we've typically seen, because of insurance money and federal assistance and construction, it will provide somewhat of an economic boom for the community over the next year or two," Mr. Greenwade said in an interview.

He anticipated pickups in the construction and real-estate sectors, as multifamily properties may find it easier to attract tenants who may be rebuilding their homes.

> Banks typically slash fees on banking services during disasters, and have less customer activity, which can lead to a dip in revenue.

Big banks waiving certain fees, such as ATM or late charges, include J.P. Morgan Chase & Co., Wells Fargo & Co., and Bank of America Corp. , which each have roughly 2% of their deposits in the Houston metropolitan area, excluding corporate deposits.

In the short term, based on patterns experienced in past storms such as Katrina and Sandy, analysts also expect loan activity to drop off and losses to pick up.

After Hurricane Katrina, for example, New Orleans banks saw net charge-off rates double over the next year, though they remained small going from 0.2% to 0.4%, before quickly improving again, Autonomous said.

Banks also saw a surge of deposits in the wake of past storms as insurance claims paid out. Annual deposit growth for local banks after Katrina went from 10% to 30% after the storm, Autonomous said.

And once a storm passes, lending activity for rebuilding and other reinvestment can boost banks' lending books and fee revenue, analysts at Jefferies said.

"Headwinds are likely temporary," Jefferies analysts wrote in a note. "We expect the storm to have a positive impact as the rebuilding campaign pumps dollars into the local economy."

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Appeared in the August 30, 2017, print edition as 'Harvey Won't Hurt Lenders for Long.'