



# Banks Build Capital Reserves as Loan Delinquencies Mount

JPMorgan Chase, Wells Fargo Report Growth in Commercial Real Estate Lending



JPMorgan Chase increased commercial real estate loans but also built up its credit reserves for potential losses. (Getty Images)

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CoStar News



April 14, 2020 | 05:21 P.M.

The time devoted to stemming the spread of the coronavirus was just one month of the first quarter, but its impact on bank balance sheets could be widespread based on early earnings reports that reflect commercial real estate loans.

JPMorgan Chase, the nation's largest bank at the end of 2019, and Wells Fargo, the third largest, were among the first to disclose first-quarter earnings among thousands that will report over the next two weeks. Both reported increases in the provisions for loan losses and the amount of loans more than 90 days past due, related to commercial property.

Notably, both banks increased commercial real estate lending. JPMorgan reported loans of \$102.8 billion on its balance sheet, up from \$102 billion at year-end 2019. Wells Fargo disclosed \$142.3 billion in loans, up \$1.8 billion from the fourth quarter.

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“In the first quarter, the underlying results of the company were extremely good, however given the likelihood of a fairly severe recession, it was necessary to build credit reserves of \$6.8 billion,” Jamie Dimon, chairman and CEO of JPMorgan, said in a statement.

The reserve build-up reflects deterioration in the economic environment as a result of the impact of the coronavirus pandemic, Dimon said.

Out of the total reserves, JPMorgan reported the provision of losses were \$1 billion, predominantly driven by continued pressure on oil prices, real estate and the consumer and retail industries.

“We continued to support our wholesale clients throughout this challenging period, as they drew over \$50 billion on their existing lines,” Dimon said. “We also provided over \$25 billion of new credit extensions in March for companies most impacted by the crisis.”

JPMorgan reported that net income for commercial banking, which includes commercial real estate, was down 86% to \$147 million, predominantly driven by the build-up in reserves.

John Shrewsbury, chief financial officer of Wells Fargo, reported a reserve stockpile of \$3.1 billion.

Commercial loans 90 days past due increased \$621 million, mainly caused by commercial real estate as the effect of the pandemic spread throughout the bank's customer base, Wells Fargo said.

“Our results also included an impairment of securities of \$950 million driven by economic and market conditions,” Shrewsberry said in a statement.

JPMorgan's stock price closed down about 2.8% Tuesday to \$95.47 per share. Wells Fargo's stock ended trading down about 4% to \$30.17 per share.

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