Press Releases

FDIC-Insured Institutions Lost $3.7 Billion in the Second Quarter of 2009

Total Reserves of the Deposit Insurance Fund Stood at $42 Billion

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Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reported an aggregate net loss of $3.7 billion in the second quarter of 2009, a decline of $8.5 billion from the $4.8 billion in profits the industry reported in the second quarter of 2008. Insured institutions earned $424 million in net operating income during this latest quarter even after a special assessment of $5.5 billion to bolster the FDIC's insurance fund. However, one-time losses and other items totaling $4.1 billion pulled the industry results into negative territory.

"While challenges remain, evidence is building that the U.S. economy is starting to grow again," said FDIC Chairman Sheila Bair. "Banking industry performance is -- as always -- a lagging indicator. The banking industry, too, can look forward to better times ahead. But, for now, the difficult and necessary process of recognizing loan losses and cleaning up balance sheets continues to be reflected in the industry's bottom line."

Chairman Bair went on to say, "The FDIC was created specifically for times such as these. No matter how challenging the environment, the FDIC has ample resources to continue protecting depositors as we have for the last 75 years. No insured depositor has ever lost a penny of insured deposits...and no one ever will."

Provisions for loan losses totaled $66.9 billion in the quarter, an increase of $16.5 billion (32.8 percent) over the second quarter of 2008. Extraordinary losses stemming from writedowns of asset-backed commercial paper totaled $3.6 billion, compared to extraordinary losses of $366 million a year earlier. Noninterest expenses were $1.7 billion (1.7 percent) higher, primarily due to increased FDIC deposit insurance premiums.

Indicators of asset quality continued to worsen during the second quarter. Both the quarterly net charge-off rate and the percentage of loans and leases that were noncurrent (90 days or more past due or in nonaccrual status) reached the highest levels registered in the 26 years that insured institutions have reported these data. Insured institutions charged off $48.9 billion in uncollectible loans during the quarter, up from $26.4 billion a year earlier, and noncurrent loans and leases increased by $40.4 billion during the second quarter. At the end of June, noncurrent loans and leases totaled $332 billion, or 4.35 percent of the industry's total loans and leases.

"Deteriorating loan quality is having the greatest impact on industry earnings as insured institutions continue to set aside reserves to cover loan losses," Chairman Bair noted. "Of all the major earnings components, the amount that insured institutions added to their reserves for loan losses was, by far, the largest drag on industry earnings compared to a year ago."

All told, more than 28 percent of all insured institutions reported a net loss in the second quarter, compared with 18 percent a year earlier.

Financial results for the second quarter and first half of 2009 are contained in the FDIC's latest *Quarterly Banking Profile*, which was released today. Also among the major findings:

Net interest margins improved in the quarter. The average margin (the difference between the average yield on interest-earning assets and the average interest expense of funding those assets) rose to 3.48 percent from 3.39 percent in the first quarter and 3.37 percent in the second quarter of 2008. More than half of all institutions reported higher margins than in the first quarter. Net interest income totaled $100 billion in the quarter, up from $96.6 billion a year earlier.

Net interest margins improved from the previous quarter at community banks and at larger institutions.

"This is good news for community banks, since three-fourths of their revenues come from net interest income," Chairman Bair said.

Total assets of insured institutions declined by $238 billion. A $125.5 billion decline in loan and lease balances accounted for more than half of the decline in total assets of insured institutions during the second quarter. The 1.8 percent decline in industry assets followed a $303.2 billion decline in the first quarter of 2009. Banks' balances with Federal Reserve banks fell by $99.4 billion (20.4 percent) during the quarter, and assets in trading accounts declined by $65.5 billion (7.9 percent). The industry's investment securities portfolio increased by $130.6 billion (5.9 percent).

The number of institutions on the FDIC's "Problem List" rose. At the end of June, there were 416 insured institutions on the "Problem List," up from 305 on March 31. This is the largest number of institutions on the list since June 30, 1994, when there were 434 institutions on the list. Total assets of "problem" institutions increased during the quarter from $220.0 billion to $299.8 billion, the highest level since December 31, 1993.

Total reserves of the Deposit Insurance Fund (DIF) stood at $42 billion. Just as insured institutions reserve for loan losses, the FDIC has to provide for a contingent loss reserve for future failures. To the extent that the FDIC has already reserved for an anticipated closing, the failure of an institution does not reduce the DIF balance. The contingent loss reserve, which totaled $28.5 billion on March 31, rose to $32.0 billion as of June 30, reflecting higher actual and anticipated losses from failed institutions. Additions to the contingent loss reserve during the second quarter caused the fund balance to decline from $13.0 billion to $10.4 billion. Combined, the total reserves of the DIF equaled $42.4 billion at the end of the quarter.

Chairman Bair distinguished the DIF's reserves from the FDIC's cash resources, which included $22 billion of cash and U.S. Treasury securities held as of June 30, as well as the ability to borrow up to $500 billion from the Treasury. "A decline in the fund balance does not diminish our ability to protect insured depositors," Chairman Bair concluded.

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Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. The FDIC insures deposits at the nation's 8,195 banks and savings associations and it promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars – insured financial institutions fund its operations.

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