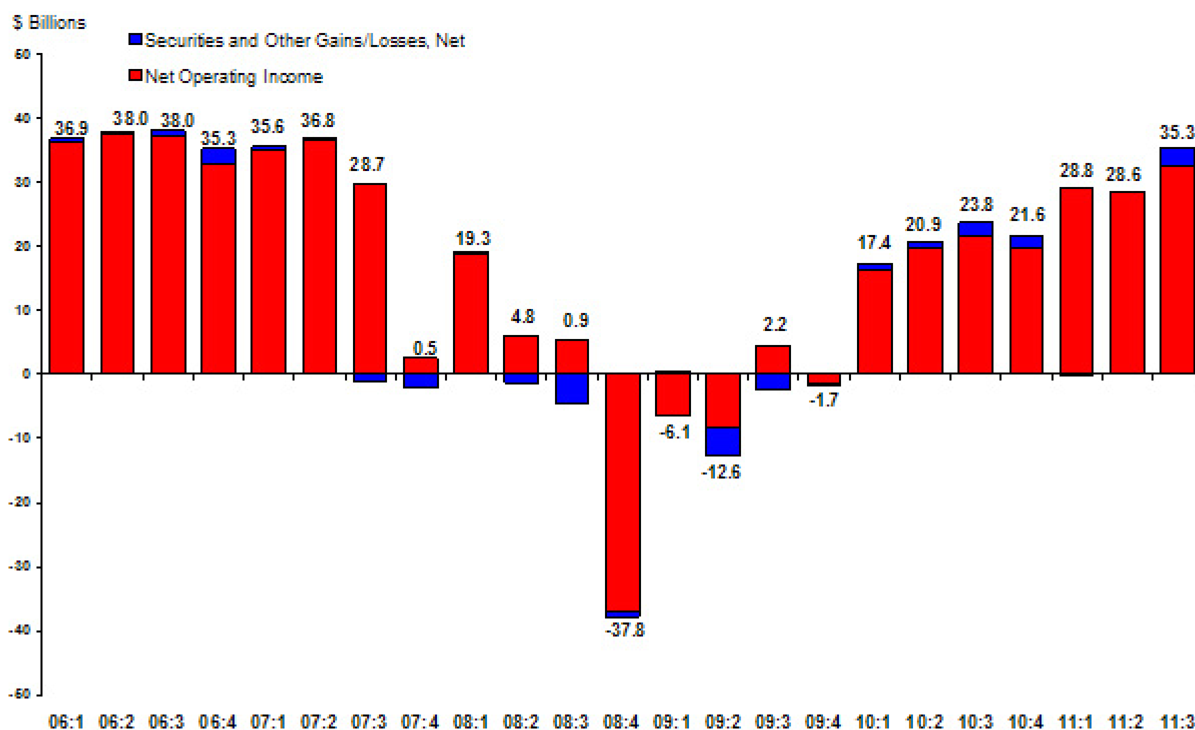
Remarks by Martin J. Gruenberg,
FDIC Acting Chairman
for the Quarterly Banking Profile, Third Quarter of 2011
November 22, 2011

Good morning, and welcome to our release of quarterly results for the banking industry. Third quarter data show that the ongoing recovery in credit quality continued in the third quarter, supporting improved profitability for the industry as a whole and for the majority of FDIC-insured institutions.

Industry earnings were positive for a seventh consecutive quarter, as shown in this first chart.

Chart 1

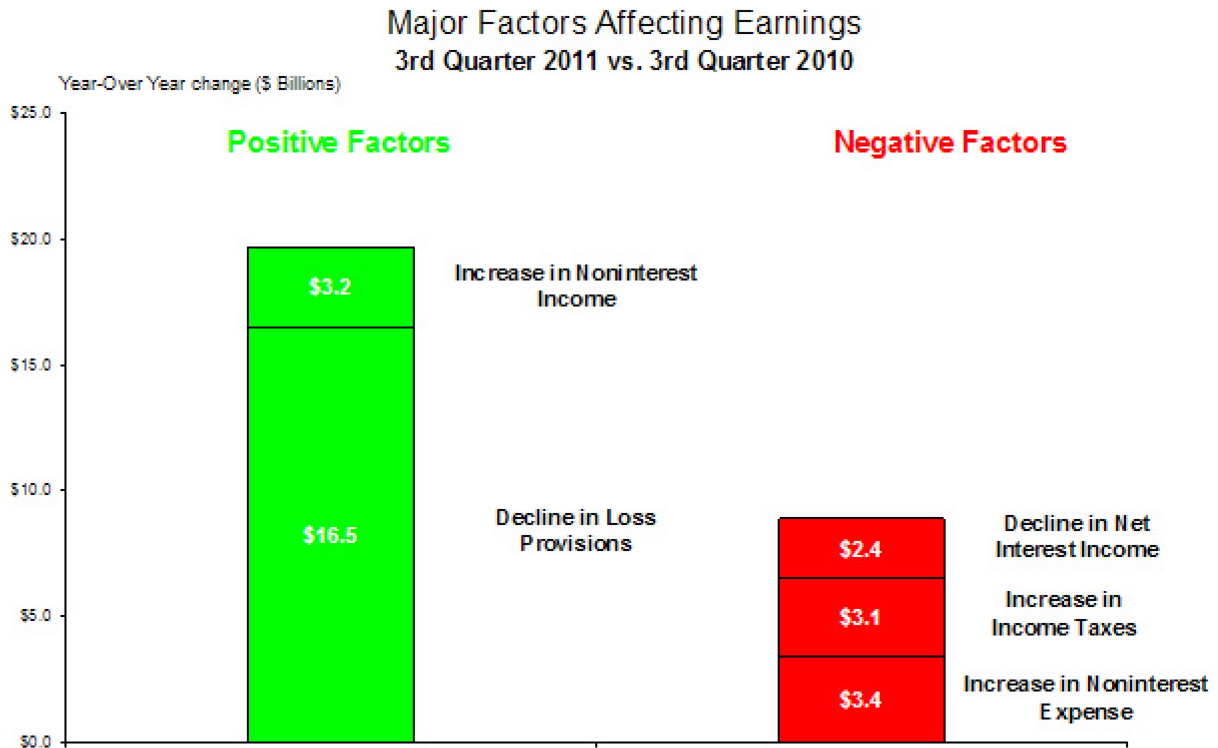
Quarterly Net Income, 2006 - 2011



Insured institutions reported $35.3 billion in net income in the third quarter. This was almost 50 percent more than reported a year ago, and it represents the highest quarterly total in more than four years. More than 60 percent of banks reported improved earnings, while the percentage that were unprofitable fell to the lowest level since the first quarter of 2008.

You can see in the next chart that lower expenses for loan losses were once again the largest contributor to the year-over-year improvement in earnings.

Chart 2

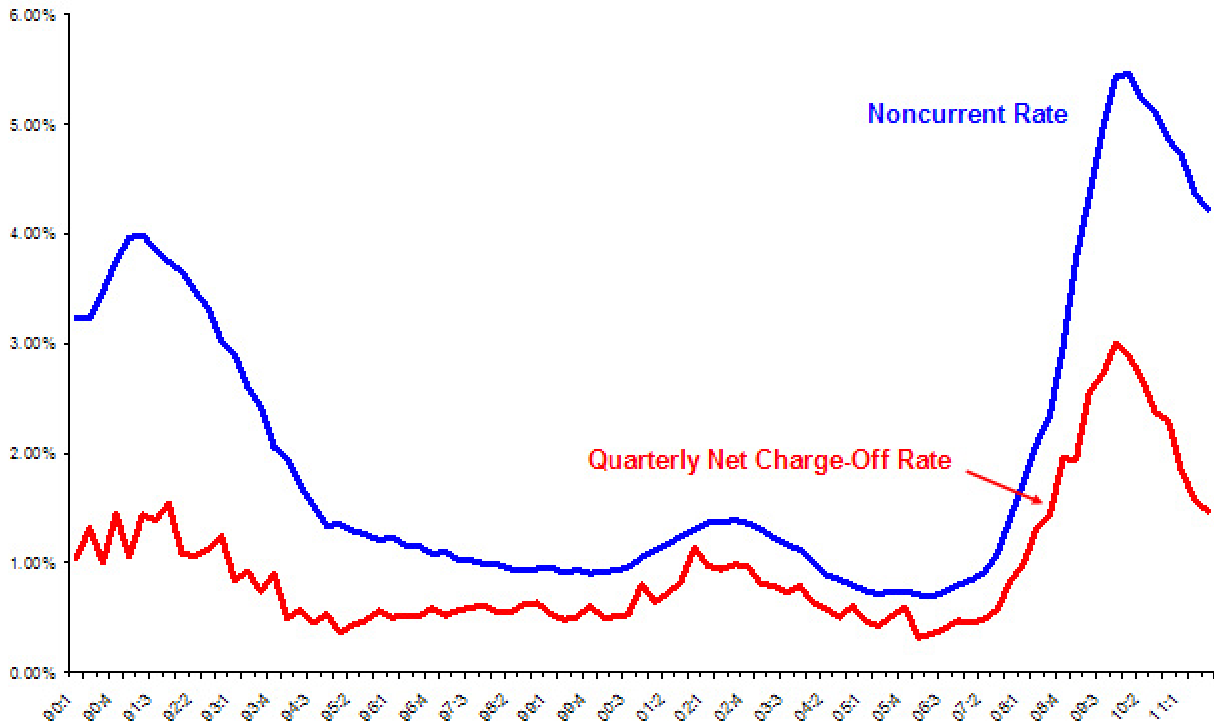


Banks set aside $18.6 billion in provisions for loan losses in the third quarter. This was $16.5 billion less than a year ago and the lowest quarterly total in four years. Provisions have been declining from year-ago levels for eight consecutive quarters.

The ongoing reduction in loss provisions has stemmed from improvements in the credit quality of banks' loan portfolios. The next chart illustrates the improving trend in credit quality that has been underway since the first half of last year.

Chart 3

Noncurrent Loans and Loan Losses Continue to Fall
But Remain Above Pre-Crisis Levels

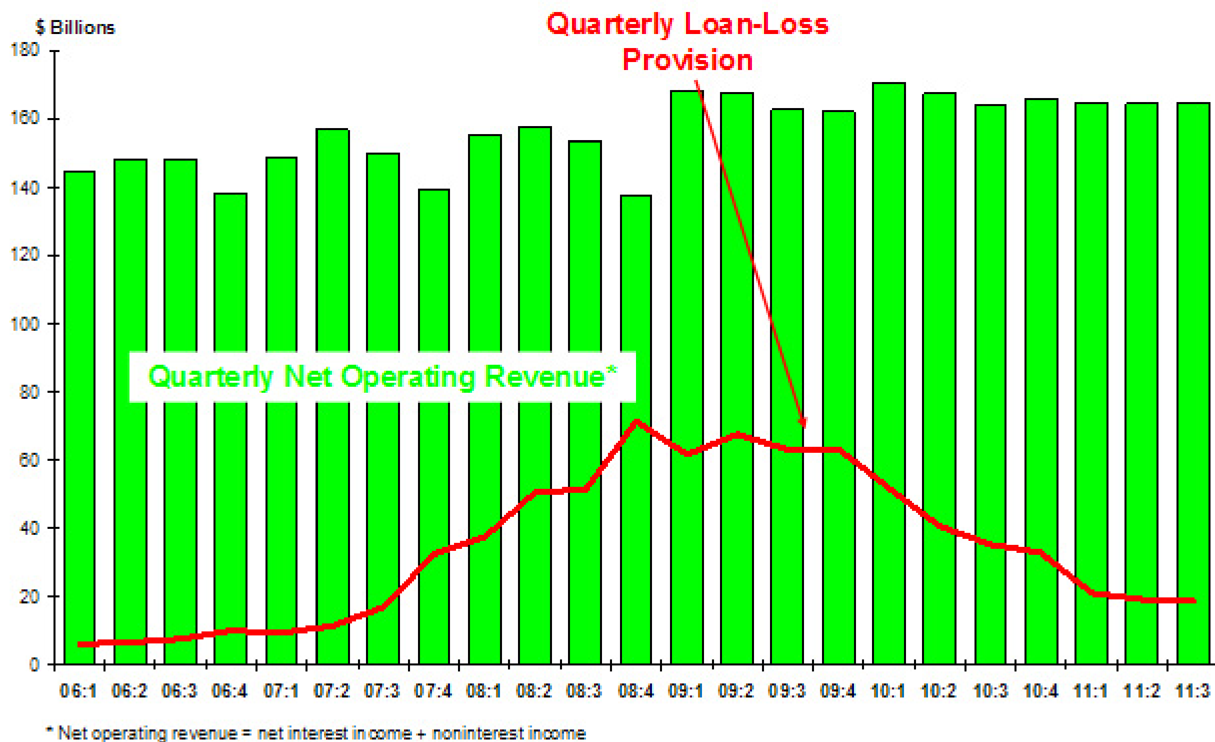


The chart also shows that loss rates and noncurrent rates still remain well above historic norms and above levels seen in the crisis of the late ‘80’s and early ‘90’s.

The net charge-off rate has fallen for seven consecutive quarters, while the percentage of loans that are noncurrent has declined in each of the last six quarters. These improvements have occurred across all major loan categories, with commercial and industrial loans showing the greatest improvement.

However, the next chart shows that industry revenue remained relatively flat in the quarter.

Chart 4



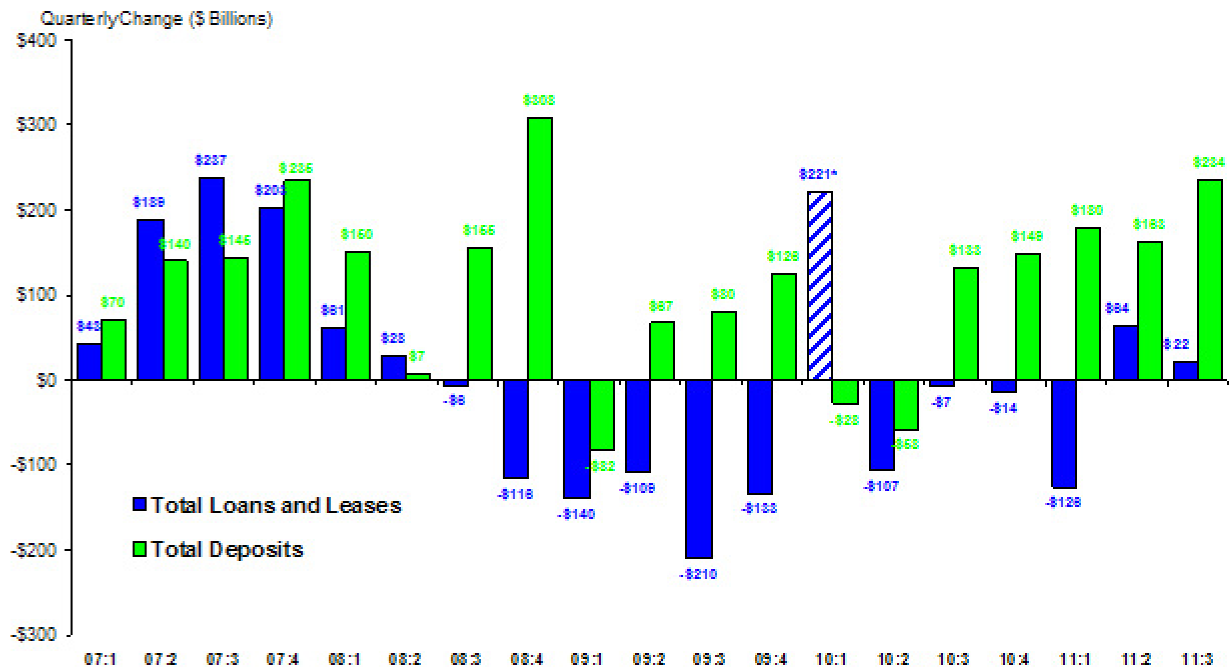
Improvement in industry earnings has been almost entirely dependent on reduced loss provisions.

The traditional banking business of taking deposits and making loans accounts for almost two-thirds of net operating revenue. Future revenue growth will likely depend on increased lending.

Our latest data show that loan balances at insured institutions increased for a second consecutive quarter, rising by almost $22 billion.

Chart 5

Strong Deposit Inflows Have Not Been Accompanied by Loan Growth



* FASB Statements 166 and 167 resulted in the consolidation of large amounts of securitized loan balances back onto banks' balance sheets in the first quarter of 2010. Although the total amount consolidated cannot be precisely quantified, the industry would have reported a decline in loan balances for the quarter absent this change in accounting standards.

Loans to commercial and industrial borrowers increased for a fifth consecutive quarter, while balances of residential mortgages also increased.

Banks continued to reduce their portfolios of commercial real estate loans, and a sizable amount of intra-company lending between related banks was eliminated in the third quarter by a merger. This elimination accounts for the reduction in loan growth between the second and third quarters.

After three years of shrinking loan portfolios, any loan growth is positive news for the industry and the economy, but the lending growth we are seeing remains well below normal levels.

This chart also shows that deposit growth continued to surge in the third quarter, led by large denomination accounts at the biggest banks. Deposits in domestic offices increased by almost $280 billion during the quarter, following a $234 billion increase in the second quarter.

Most of the increase in domestic deposits consisted of large denomination, noninterest-bearing transaction accounts that have temporary unlimited deposit insurance coverage through the end of 2012.

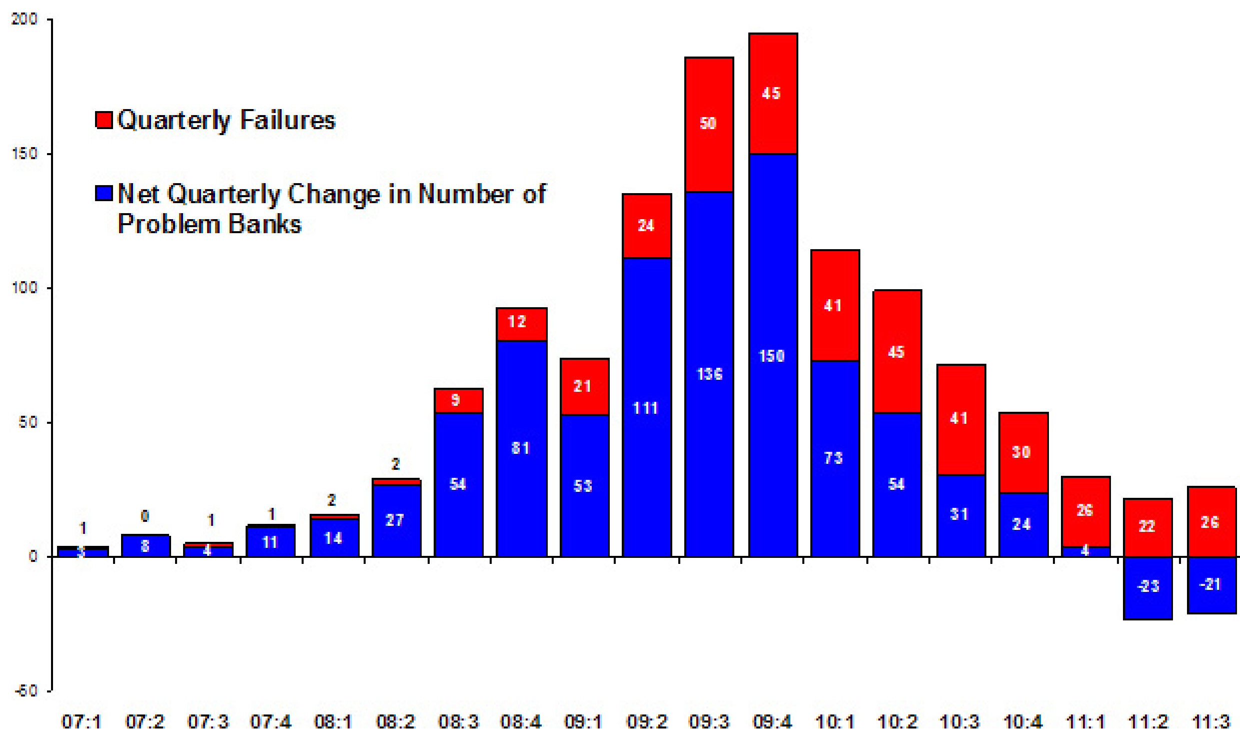
Most of this growth was at the largest banks, but a majority of institutions reported increases in these fully insured accounts.

Some of the growth in deposits has replaced higher-cost liabilities, but the inflows have also expanded balance sheets. Banks have invested many of these new funds in U.S. Treasury and GSE securities and other low-risk, low-yield assets. The result has been downward pressure on asset yields and net interest margins, particularly at the largest banks.

We saw further improvement in the number of “problem banks” in the third quarter. The number of institutions on our Problem List fell from 865 to 844. This is the second quarter in a row that the Problem List has declined.

Chart 6

Quarterly Changes in the Number of Troubled Institutions, 2007 - 2011



A total of 26 banks failed in the third quarter, four more than in the second quarter, but 15 fewer than in the same quarter of 2010. So far this year, there have been 90 bank failures; at this time last year, the FDIC had resolved 149 failures.

Although the trend in troubled institutions has been improving, current numbers of both failures and problem institutions remain high by historical standards.

The Deposit Insurance Fund rose to $7.8 billion at September 30, up from $3.9 billion as of June 30. The DIF balance has now risen seven quarters in a row. Assessment income and fewer expected bank failures continue to drive growth in the fund balance.

Estimated insured deposits at September 30 were $6.8 trillion, 3.6 percent higher than June 30 levels. About three fourths of the increase came from temporarily insured balances exceeding $250,000 in non-interest bearing transaction accounts, which totaled $1.2 trillion at September 30.

The reserve ratio – the DIF balance as a percentage of estimated insured deposits – stood at 0.12 percent at September 30, up from 0.06 percent at June 30.

In summary, we continue to see income growth that reflects improving asset quality and lower loss provisions. Although loan balances showed a second quarter of modest increases, this did not translate into meaningful revenue growth, which would require expanded lending. The number of problem banks fell for a second consecutive quarter and the DIF balance continued to rise.

The U.S. economy and U.S. banks have come a long way from the depths of the financial crisis. Bank balance sheets are stronger in a number of ways, and the industry is generally profitable.

But the recovery is by no means complete.

Ongoing distress in real estate markets and slow growth in jobs and incomes continue to pose risks to credit quality. The U.S. economic outlook is also clouded by uncertainties in the global economy and by volatility in financial markets.

So even as the banking industry recovers, the FDIC remains vigilant for new economic challenges that could lie ahead.

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