Quarterly Banking Profile - Third Quarter 2021

Last Updated: November 30, 2021

Good morning, and welcome to our release of third quarter 2021 performance results for FDIC-insured institutions.

The banking industry reported strong earnings in third quarter 2021, supported by continued economic growth and further improvements in credit quality. A third consecutive quarter of negative provision expense lifted earnings year over year, as banks continued to adjust expectations for potential credit losses. The banking industry reported a modest quarterly increase in total loan balances, while the net charge-off rate reached a new record low. The net interest margin rose modestly from last quarter's record low as asset yields improved and funding costs hit a new record low.

Community banks reported strong revenue growth, net interest margin expansion, and improved asset quality this quarter. Community banks reported increased balances in most loan categories relative to second quarter, despite a decline in aggregate loan balances because of repayment and forgiveness of Paycheck Protection Program (PPP) loans.

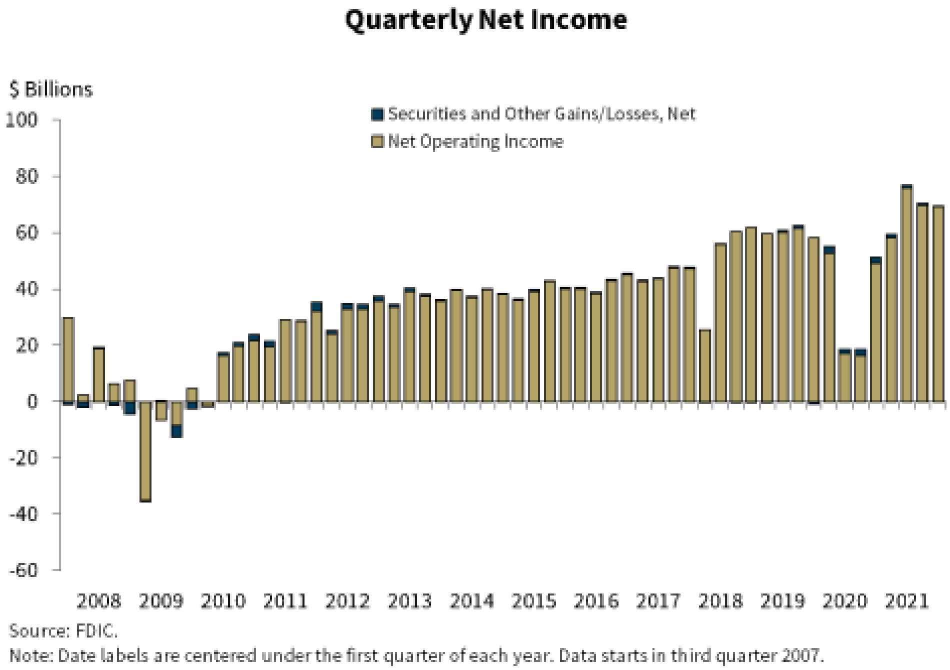
With strong capital and liquidity levels to support lending and protect against potential losses, the banking industry continued to support the country's needs for financial services while navigating the challenges presented by the pandemic.

The Deposit Insurance Fund (DIF) balance was $121.9 billion on September 30, up $1.4 billion from the end of the second quarter. The reserve ratio remained at 1.27 percent as growth in the fund balance kept pace with growth in insured deposits. In accordance with the Restoration Plan approved last year, FDIC staff continues to closely monitor the factors that affect the reserve ratio and will provide progress reports and, as necessary, modifications to the plan to the Board at least semiannually.

Diane Ellis, Director of the Division of Insurance and Research; Pat Mitchell, Deputy Director of the Division of Insurance and Research; and Doreen Eberley, Director of the Division of Risk Management Supervision, have joined me today to discuss bank performance in third quarter 2021.

Diane, I will turn this over to you. Thank you.

Chart 1:



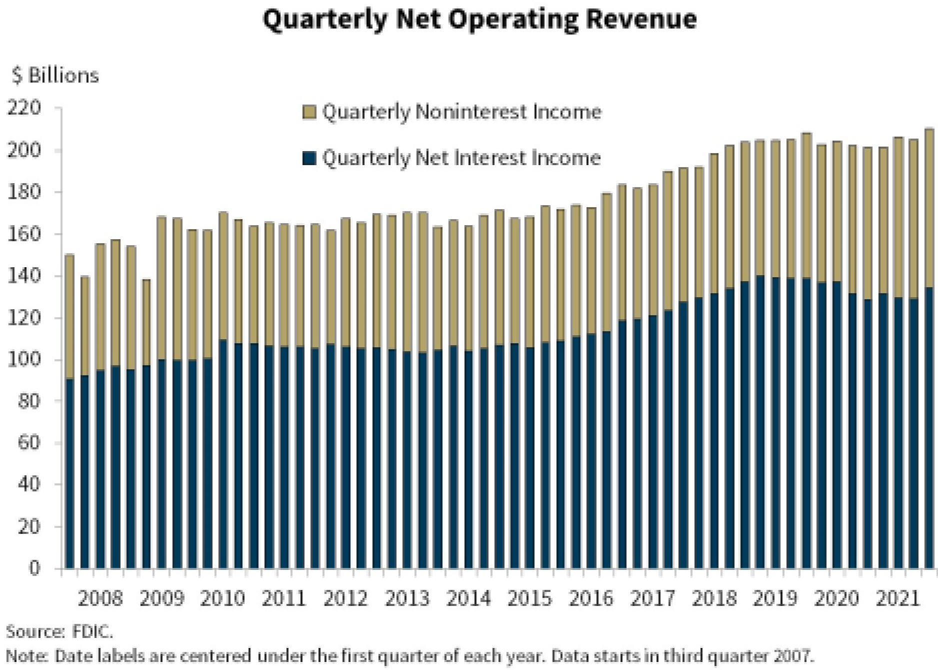
Thank you, Chairman McWilliams.

The banking industry reported net income of $69.5 billion this quarter, up $18.4 billion from third quarter last year. The gains were widespread as two-thirds of all banks reported higher net income this quarter, relative to a year ago. Along with the increase in income, the industry's return on average assets ratio rose from 0.97 percent in third quarter 2020 to 1.21 percent this quarter.

Provision expense for the banking industry totaled negative $5.2 billion. Aggregate provision expense has been negative for three consecutive quarters, but it was $5.5 billion less negative this quarter relative to second quarter of this year. As a result industry net income declined modestly by $875.5 million from the prior quarter. Year-to-date provisions in 2021 totaled negative $30.5 billion, well below the $132.6 billion in provision expenses incurred in 2020.

Community banks reported net income of $8.6 billion, up 20 percent from the same quarter a year ago. Higher net interest income and lower provision expense drove the improvement in net income for community banks.

Chart 2:

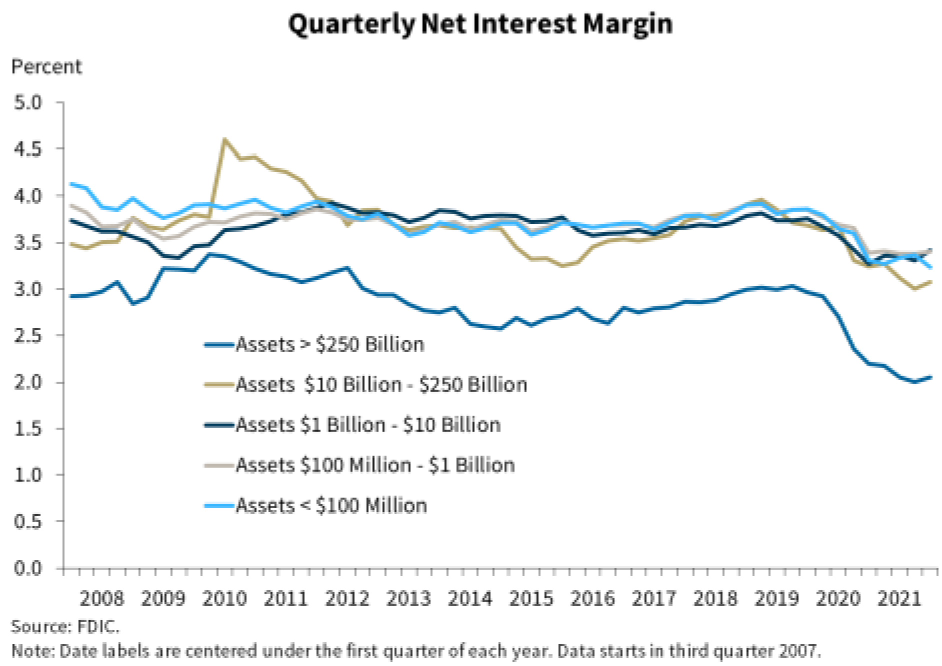


Quarterly net operating revenue increased 4.5 percent from third quarter 2020 to $210.4 billion, reaching its highest level ever reported in the QBP. Net interest income and noninterest income increased year over year.

A decline in interest expense drove the $5.6 billion improvement in net interest income from third quarter 2020. Net interest income reached its highest level since first quarter 2020. The improvement was broad-based, as nearly three-quarters of all banks reported higher net interest income compared with a year ago.

Noninterest income rose $3.4 billion from a year ago. Higher revenue from interchange fees and investment banking fees drove the year-over-year increase.

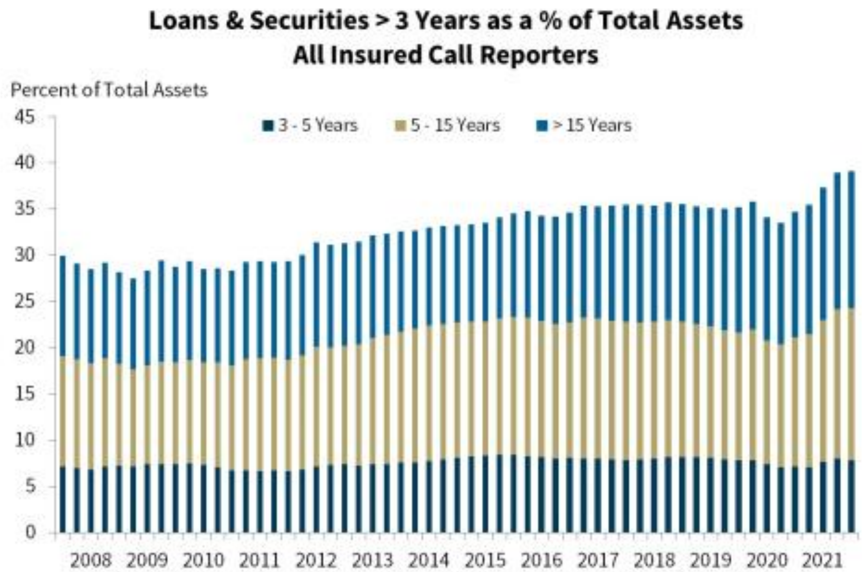
Chart 3:



Net interest margin (NIM) for the industry rose 6 basis points from the prior quarter's record low to 2.56 percent. While it improved from the prior quarter, the NIM is 12 basis points lower than the year ago level. All asset size groups except for the smallest institutions reported in the *Quarterly Banking Profile* (*QBP*) reported NIM expansion from the prior quarter, as asset yields increased slightly and funding costs reached new record lows.

The NIM for community banks also increased, widening 3 basis points from the same quarter a year ago to 3.31 percent.

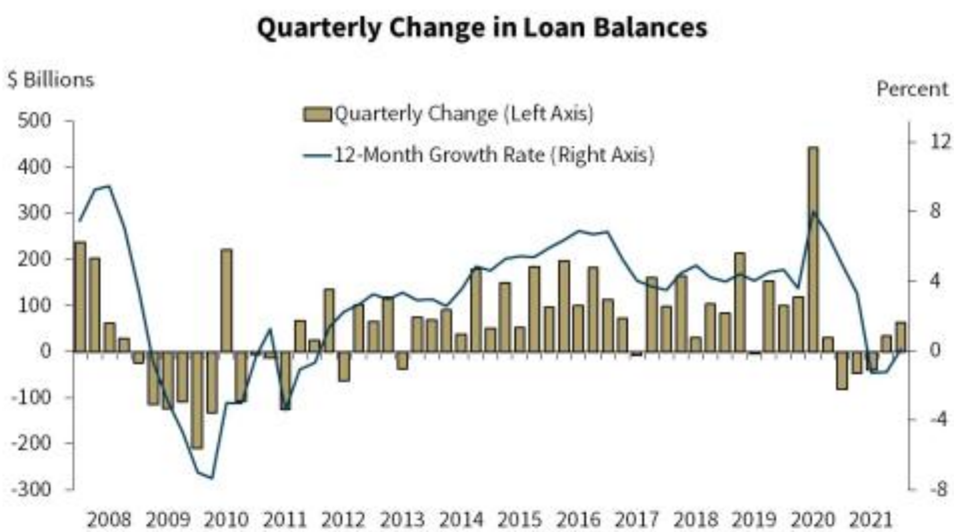
Chart 4:



Source: FDIC.
Note: Date labels are centered under the first quarter of each year. Data starts in third quarter 2007.

Banks continued to increase investments in longer-term loans and securities to offset low net interest margins. The share of longer-term assets rose during the quarter, led by an increase in loans and securities with maturities of greater than five years. Loan and securities with maturities over 5 years now make up 31 percent of total assets, up from 28 percent in fourth quarter 2019.

Chart 5:

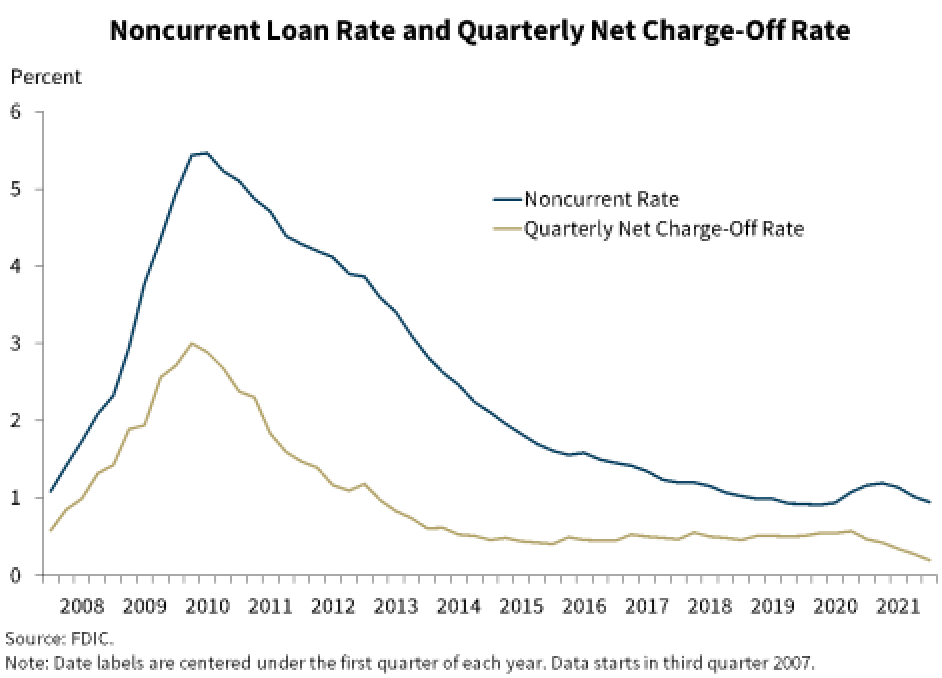


Source: FDIC.
Note: FASB Statements 166 and 167 resulted in the consolidation of large amounts of securitized loan balances back onto banks' balance sheets in the first quarter of 2010. Although the total amount consolidated cannot be precisely quantified, the industry would have reported a decline in loan balances for the quarter absent this change in accounting standards. Date labels are centered under the first quarter of each year. Data starts in third quarter 2007.

Despite continued payoff and forgiveness of PPP loans, total loan balances grew for a second consecutive quarter, increasing by $62.7 billion, 0.6 percent, between second and third quarter. Several portfolios contributed meaningfully to the industry's growth, including 1-4 family residential mortgages, consumer loans, commercial real estate loans, and loans to nondepository institutions. The industry's aggregate loan balance also increased 0.1 percent from a year ago. Excluding PPP loans, loan growth would have been 2 percent quarter over quarter and 3.1 percent year over year.

Due primarily to a reduction in PPP loans, community banks reported a 0.2 percent decline in loan balances from second quarter 2021. Community banks' PPP lending, relative to their size, exceeded that of the overall industry. Therefore, increased repayment and forgiveness of PPP loans has resulted in relatively lower loan growth for community banks. Excluding PPP loans, total loan growth for community banks would have been 2.6 percent quarter over quarter—greater than quarterly growth rates experienced before the pandemic. Community banks reported an annual loan contraction of $19.2 billion or 1.1 percent. Excluding PPP loans, the annual loan growth rate would have been 5.1 percent.

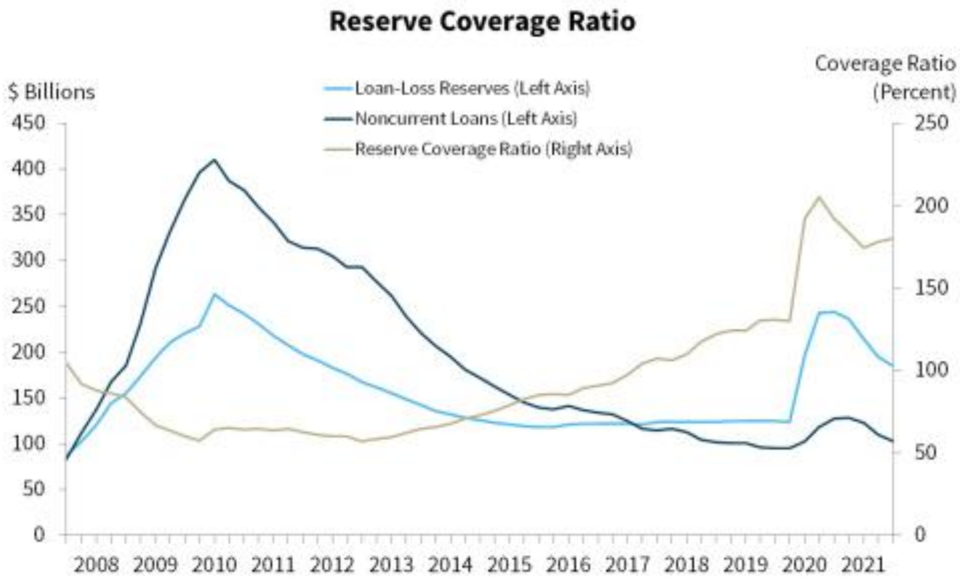
Chart 6:



A decline in both the noncurrent rate and the net charge-off rate reflect overall improvements in credit quality. The noncurrent loan rate declined 7 basis points from second quarter 2021 to 0.94 percent, driven by reductions in noncurrent C&I loans and 1-4 family residential mortgage loans. Annual reductions in credit card and C&I loan net charge-offs helped drive the industry's net charge-off rate down 27 basis points from one year ago to 0.19 percent—the lowest level on record since QBP data reporting began.

Community banks also reported improvements in credit quality. The noncurrent rate fell 4 basis points from the previous quarter to 0.65 percent and the net charge-off rate fell 4 basis points to 0.06 percent from the year ago quarter.

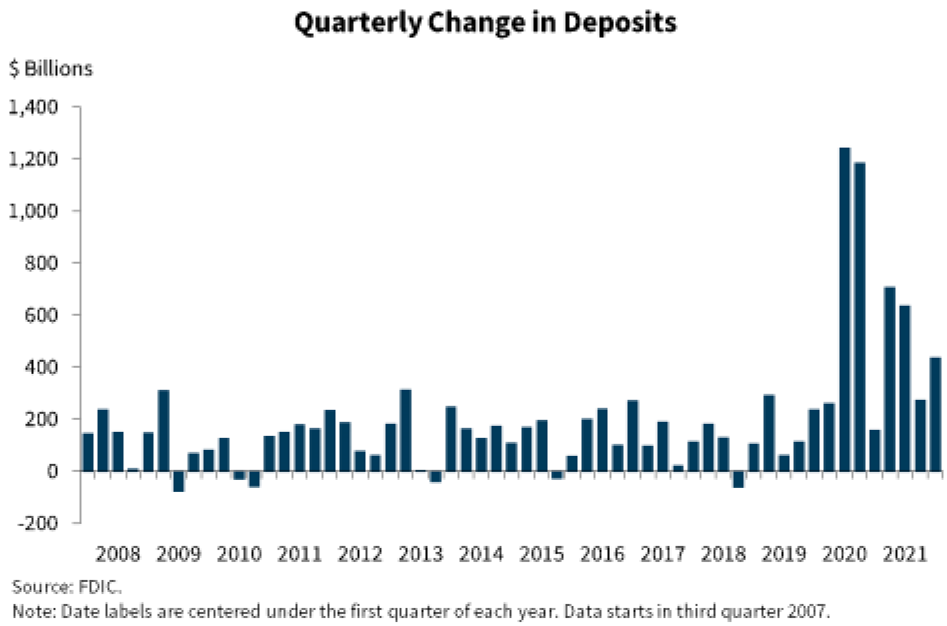
Chart 7:



Source: FDIC.
Note: The reserve coverage ratio is the loan loss reserves to noncurrent loans and leases. Date labels are centered under the first quarter of each year. Data starts in third quarter 2007.

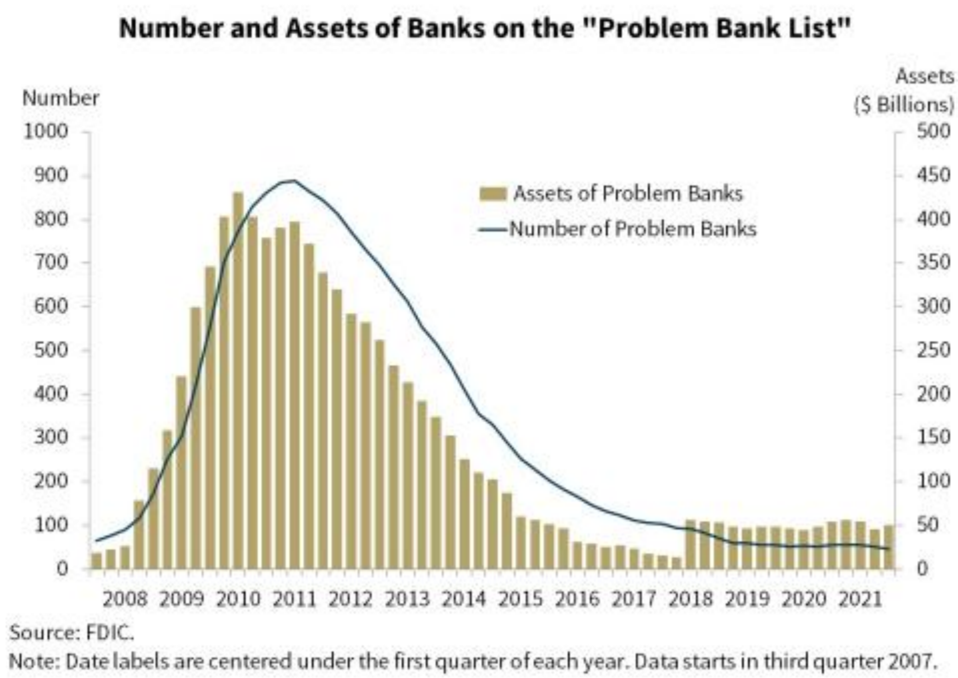
The rate of decline in noncurrent loans outpaced the decline in loan loss reserves in third quarter. As a result, the reserve coverage ratio for noncurrent loans increased 2.2 percentage points from the previous quarter to 180.1 percent. Despite negative provisions over the last three quarters, this coverage level remains well above the pre-pandemic level of 130 percent and the financial crisis average of 79 percent.

Chart 8:



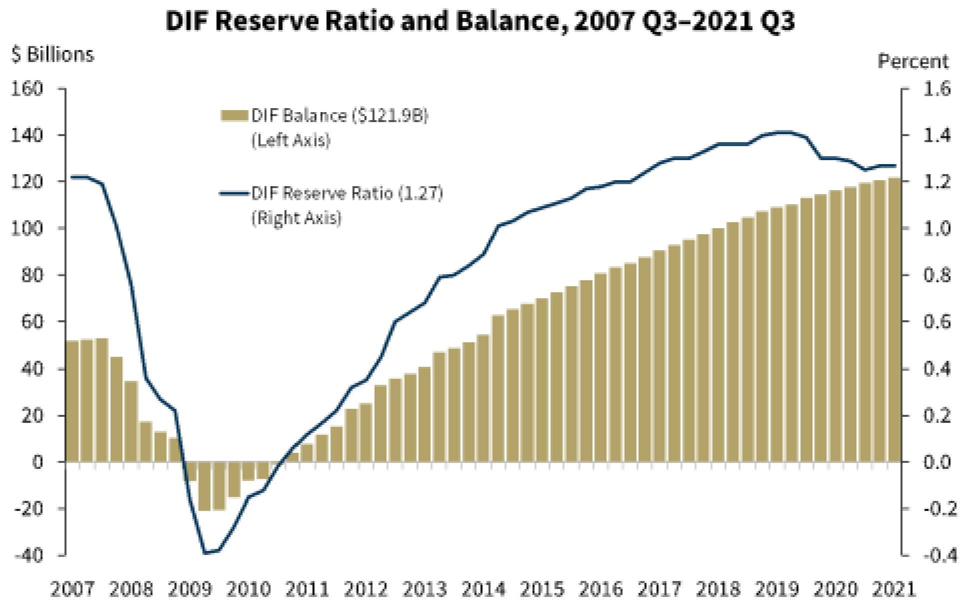
Deposits continued to increase in third quarter 2021. Total deposits were up by $436 billion or 2.3 percent from last quarter. This is above the second quarter gain of $271.8 billion but below the unprecedented growth rates of 2020 and first quarter 2021. The banking industry's cash position remains strong, supported by deposit growth.

Chart 9:



The "FDIC's Problem Bank List" declined by five banks from second quarter to 46. The number of problem banks is at the lowest level since QBP data began in 1984.

Chart 10:



Source: FDIC.
Note: The reserve ratio is calculated as the ratio of the DIF to insured deposits and is calculated as of quarter end.

The DIF balance was $121.9 billion on September 30, up $1.4 billion from the end of the second quarter. Assessment revenue was the primary driver of the increase in the fund. Insured deposits increased by 0.9 percent during the third quarter to $9.5 trillion, consistent with recent historical trends. As a result of the growth in insured deposits offsetting the growth in the DIF balance, the reserve ratio—the fund balance relative to insured deposits—remained at 1.27 percent as of September 30.

Overall, the banking industry remains strong. Revenue has increased along with stronger economic growth and improved credit conditions. The banking industry remains well positioned to support the country's lending needs as the economy continues to recover from the pandemic, with record deposits, favorable credit quality, and strong capital levels.

However, low interest rates and modest loan demand will likely continue to present challenges for the banking industry in the near term. Furthermore, the banking industry may face additional challenges as business and consumers transition out of the pandemic.

We will now answer questions regarding third quarter performance.

Thank you.