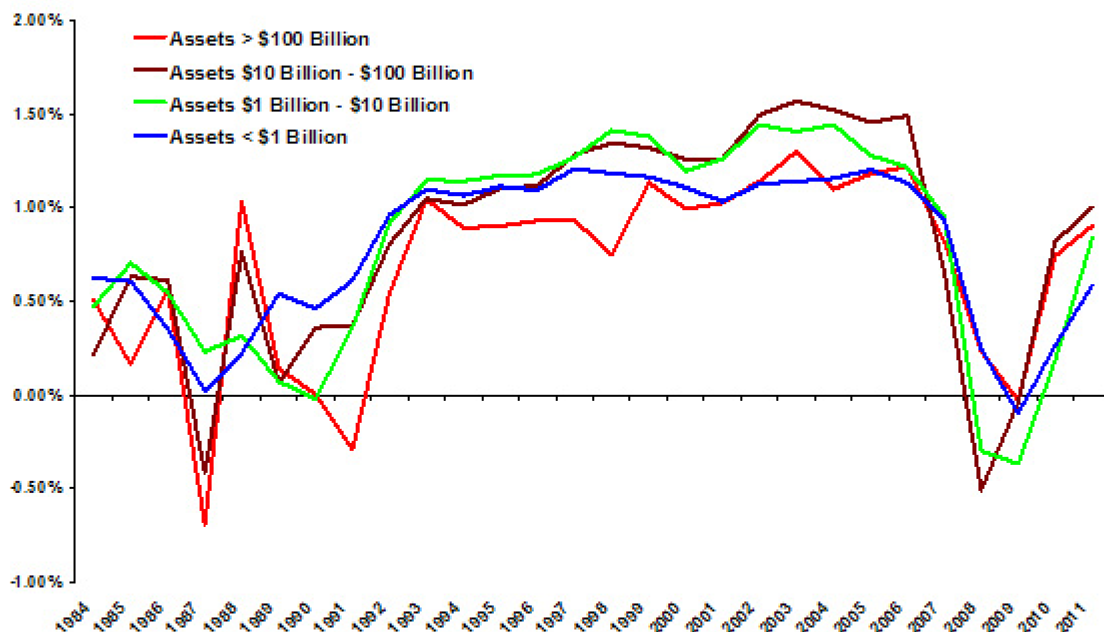
Remarks by Martin J. Gruenberg,
FDIC Acting Chairman
for the Quarterly Banking Profile, Fourth Quarter of 2011
February 28, 2012

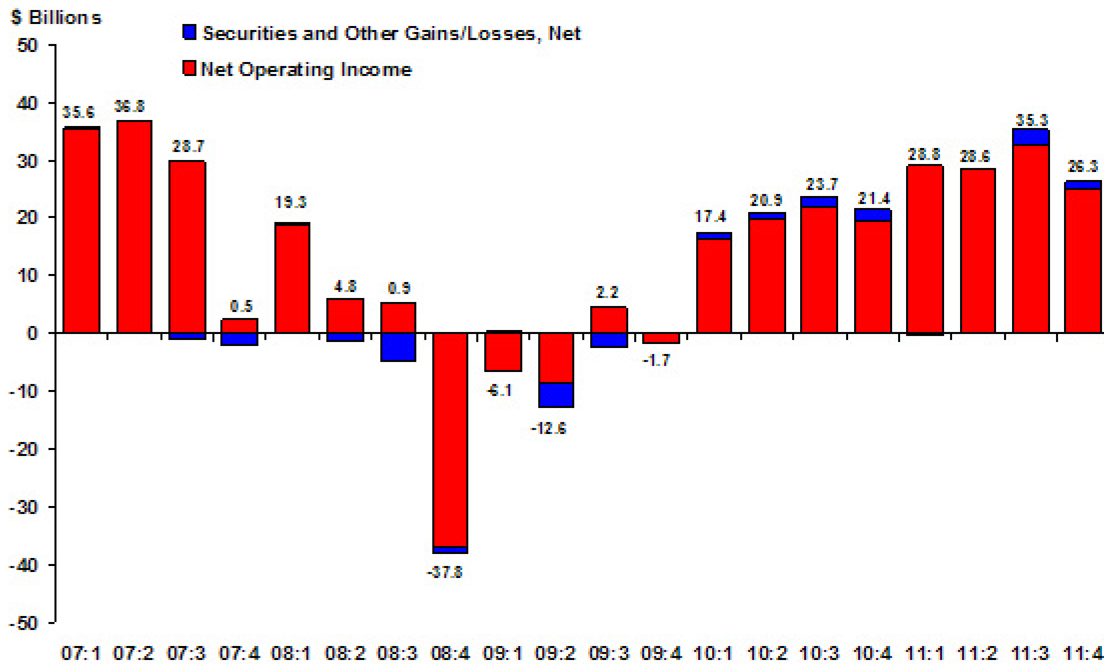
Good morning, and welcome to our release of fourth quarter and full year 2011 results for the banking industry.

2011 represented the second full year of improving performance by the banking system. Banks reported higher positive aggregate earnings, the numbers of “problem” banks and failures declined, and loan balances increased in the final three quarters of the year.

Full year earnings surpassed 100 billion dollars for the first time since before the crisis.



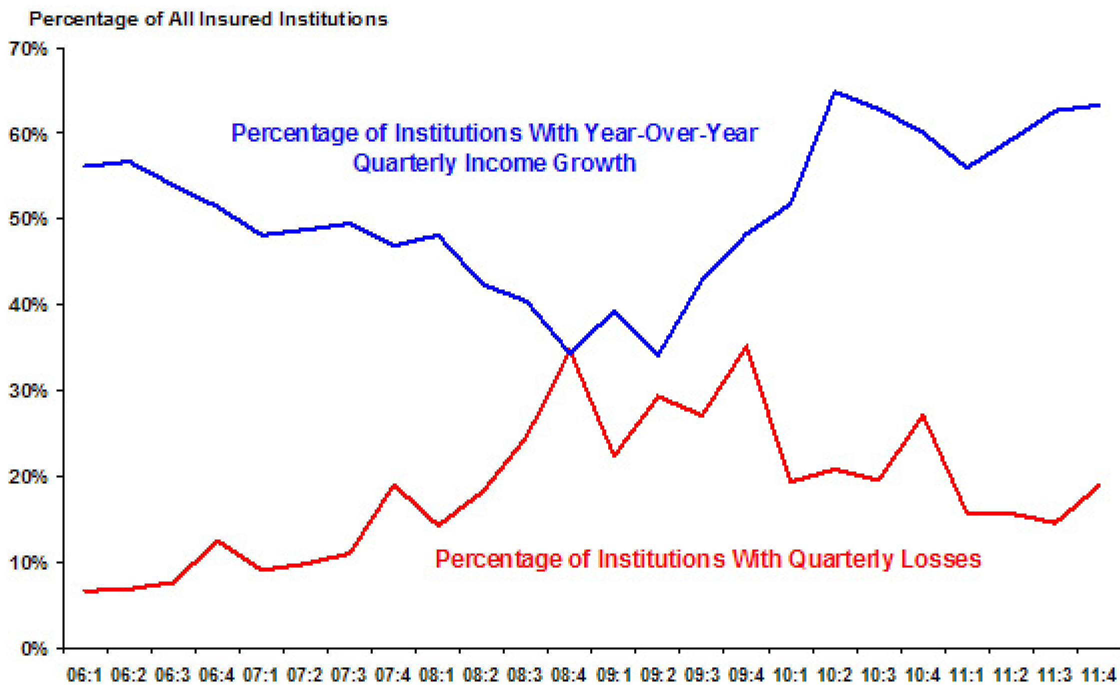
You can see in this chart that insured institutions of all sizes continued to make substantial progress in improving their profitability.



The next chart shows that earnings continued to improve on a year-over-year basis through the final quarter of 2011. Although there was a seasonal drop-off in fourth quarter earnings compared with the first three quarters of the year, the 26.3 billion dollars in net income reported for the fourth quarter represented a 23 percent increase over the same period in 2010.

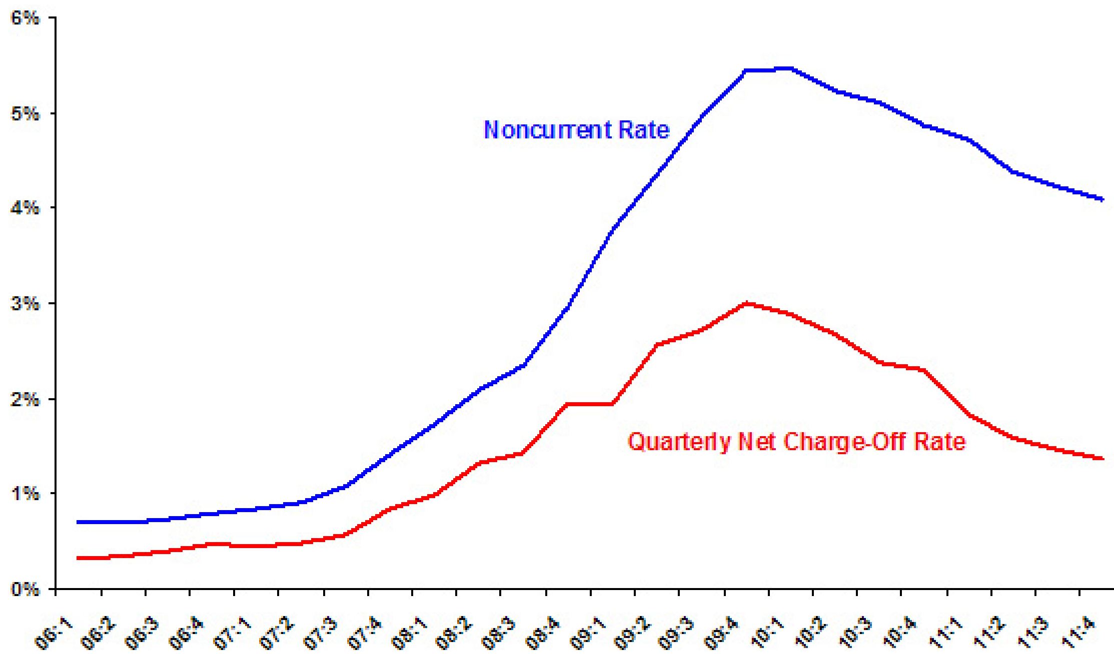
Earnings improvement continues to be driven by reductions in loan-loss provisions. Fourth quarter loss provisions were 13.1 billion dollars less than a year ago.

Also, more institutions are sharing in earnings improvement.



This chart shows that the share of banks that are reporting growth in their earnings continues to rise, while the share reporting net losses continues to diminish on a year-over-year basis.

The positive trend in earnings performance stems from steady improvement in the health of bank loan portfolios.

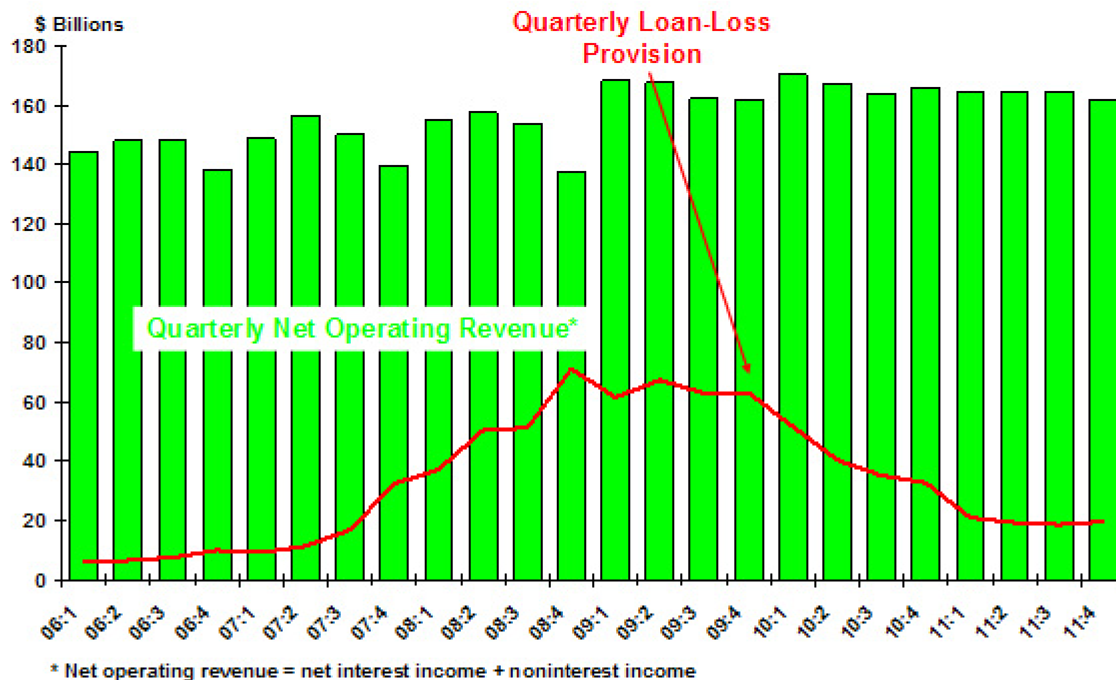


This next chart illustrates the improvement in asset quality that has been underway for about two years. This improvement has been achieved at a high cost. The industry has charged off more than 100 billion dollars in bad loans in each of the last four years. During that time, banks have set aside more than 660 billion dollars in provisions for loan losses.

The trend in loan performance is encouraging. But the chart also shows the distance that still remains before asset quality indicators return to more normal levels. While the noncurrent rate has fallen in each of the last seven quarters, it is still higher than it was at any time in the banking crisis of the late ‘80’s and early ‘90’s. This high level of noncurrent loans reflects the continued weakness in real estate markets. Real estate loans now account for 87 percent of all noncurrent loans, which is an all-time high.

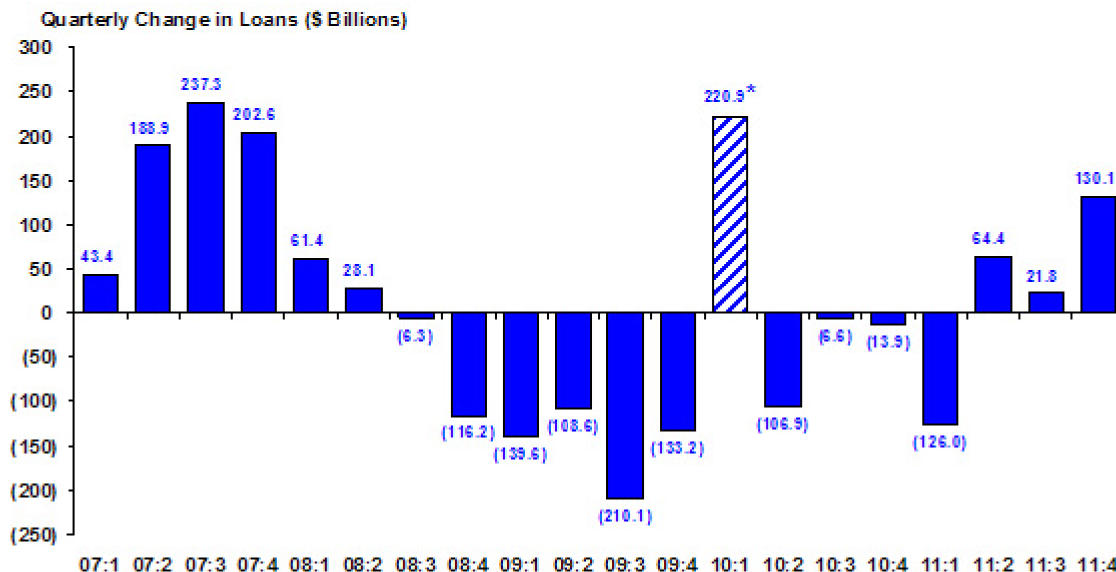
Despite the generally positive developments in 2011, bank revenues have been flat in an environment of low interest rates and slack loan demand.

Provision Declines are Diminishing, But Revenues Are Not Growing



This chart demonstrates the point. Noninterest income has been declining, as market-sensitive revenues have fallen at many of the largest banks. Net interest income has also been under pressure due to the low level of current asset yields and sluggish growth in interest-earning assets. You can also see in this chart that, while loss provisions are still declining on a year-over-year basis, the trend has been leveling off.

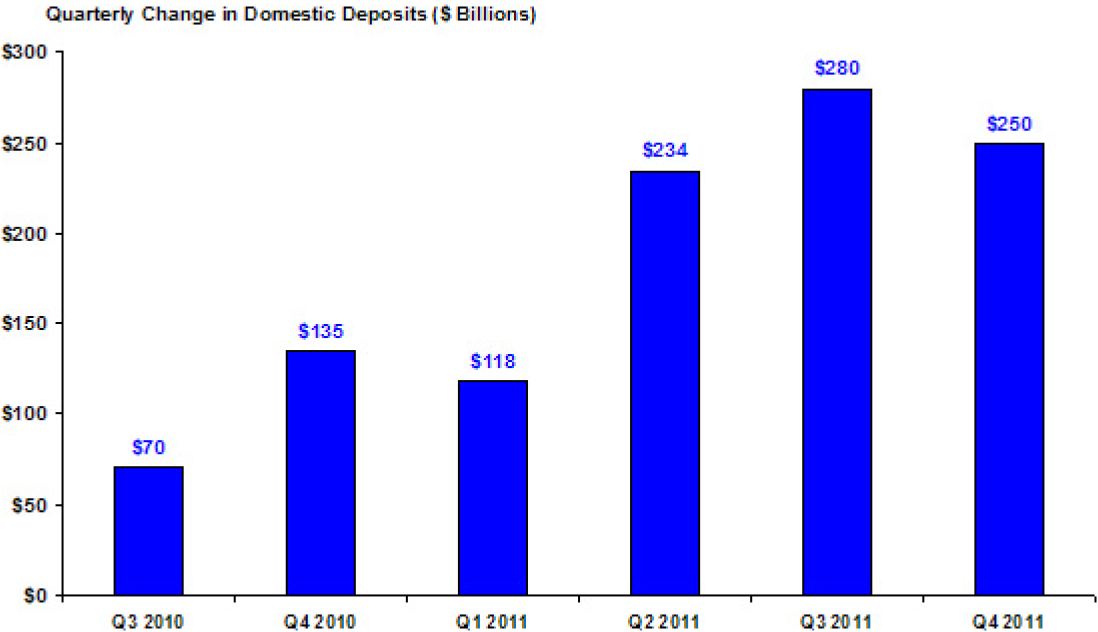
After Three Years of Declines, Loan Balances Have Grown for Three Consecutive Quarters



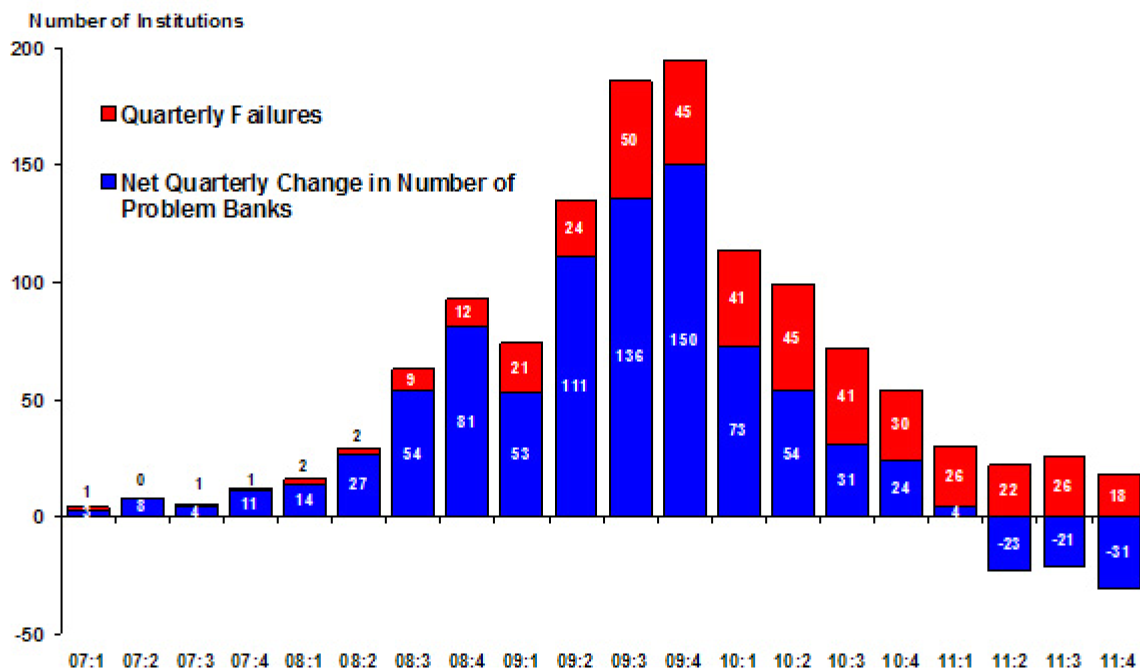
* FASB Statements 166 and 167 resulted in the consolidation of large amounts of securitized loan balances back onto banks' balance sheets in the first quarter of 2010. Although the total amount consolidated cannot be precisely quantified, the industry would have reported a decline in loan balances for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

The recent resumption in loan growth, illustrated in this chart, has helped to limit the erosion in net operating revenue. In the current environment of low short-term interest rates and a relatively flat yield curve, prudent loan growth offers the best hope for increasing net interest income.

The loan growth that has occurred so far has been led by lending to commercial borrowers. Loans to medium and large commercial and industrial borrowers have increased in each of the last six quarters. In the fourth quarter, we saw growth in small C&I loans as well. We began collecting quarterly data on small loans to businesses with the March 2010 Call Report; since that time, this is the first quarterly increase in small C&I loans.



As you can see in this next chart, the recent trend of very strong deposit growth continued in the fourth quarter, as deposits in domestic offices increased by almost a quarter of a trillion dollars. About three-quarters of this growth consisted of large noninterest-bearing transaction accounts that have temporary unlimited insurance coverage until the end of 2012. The 10 largest institutions accounted for over 73 percent of the growth in these balances.



The number of institutions on the “Problem List” fell for a third consecutive quarter, declining from 844 to 813. Total assets of “problem” institutions also fell from 339 billion dollars to 319 billion.

A total of 18 banks failed in the fourth quarter. For all of 2011, there were 92 bank failures, down from the 2010 total of 157. So far in 2012, 11 banks have failed.

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

The Deposit Insurance Fund rose to 9.2 billion dollars at year-end, up from 7.8 billion dollars at the end of September. This eighth consecutive quarterly increase in the DIF balance results from assessment income and fewer expected bank failures.

The reserve ratio – the DIF balance as a percentage of estimated insured deposits – stood at 0.13 percent at year-end, up slightly from 0.12 percent at September 30. A year ago, the ratio stood at negative 0.12 percent. The FDIC has until the year 2020 to raise the reserve ratio to the statutory minimum of 1.35 percent.

During the past two years, the banking industry has undergone a difficult process of balance sheet strengthening. Capital has been increased, asset quality has improved, and banks have bolstered their liquidity. The industry is now in a much better position to support the economy through expanded lending. However, levels of troubled assets and problem banks are still high. And while the economy is showing signs of improvement, downside risks remain a concern.

Most of the improvement in earnings over the last two years has been the result of lower loan-loss provisions. But future earnings gains will have to be based to a greater extent on increased lending, consistent with sound underwriting. Prudent loan growth is a necessary condition for a stronger economy. That is why we view the fourth quarter growth in the industry's loan portfolio as a hopeful sign.

Before concluding, I'd like to recognize a milestone. This is the twenty-fifth anniversary of the Quarterly Banking Profile. In 1986, FDIC Chairman Bill Seidman asked the research division to create what he called "a report card on the health of the banking industry." He felt that providing complete and accurate data and analysis on banks was one important way that the FDIC could fulfill its mission of promoting confidence in the financial system. We are proud that the Quarterly Banking Profile has stood the test of time as the authoritative source of information on industry conditions.

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