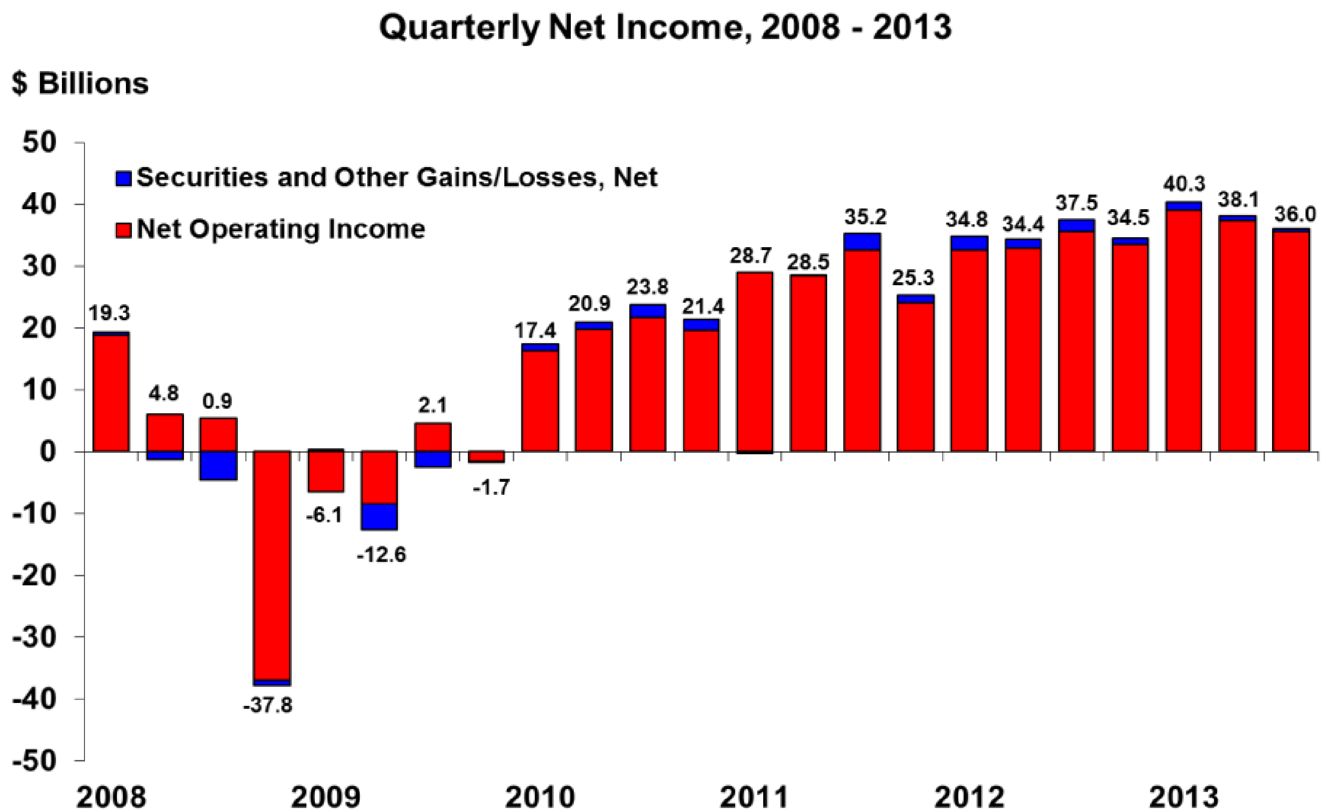
Chairman Gruenberg
Press Conference Opening Statement
on the Third Quarter 2013 Quarterly Banking Profile
November 26, 2013

Good morning, and welcome to our release of third quarter results for the banking industry.

Chart 1

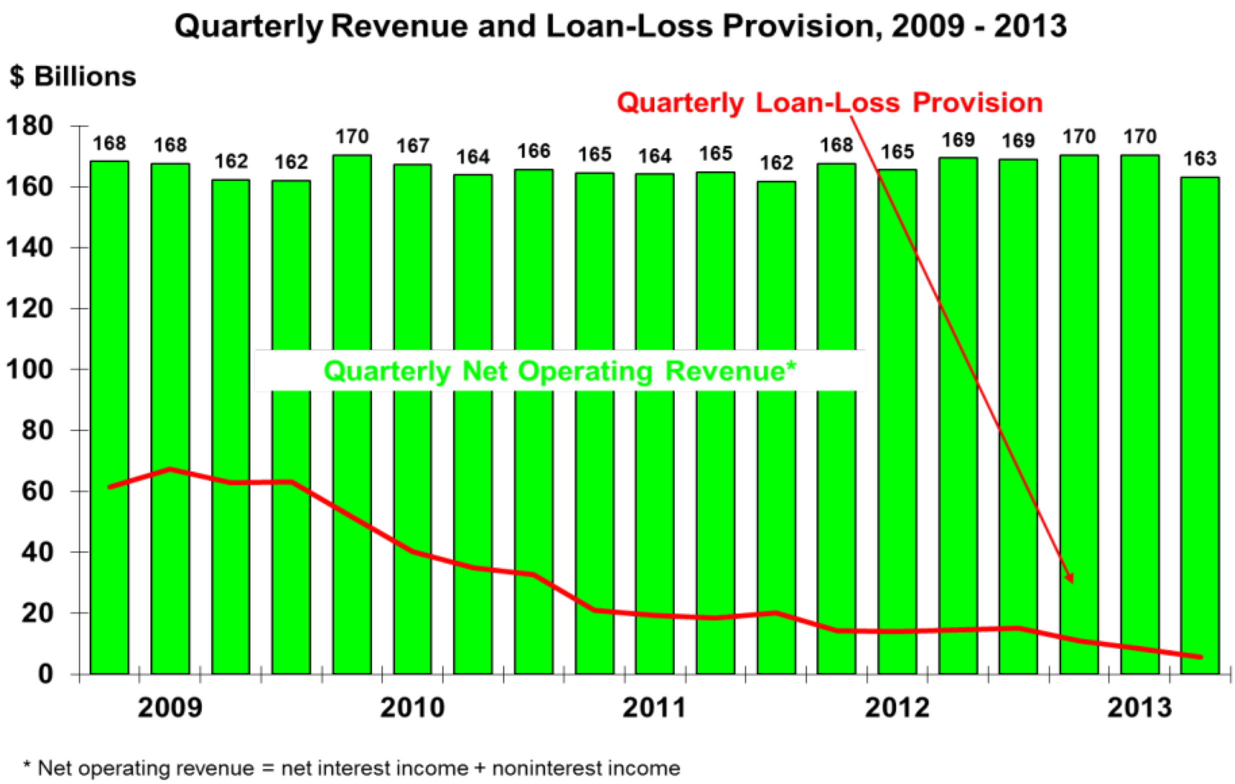


Insured institutions earned 36 billion dollars in net income in the third quarter. That is 1.5 billion dollars less than the industry earned in the same quarter a year ago. This is the first year-over-year decline in over four years, and it is mainly attributable to a 4 billion dollar increase in litigation expenses at one institution. Had it not been for that, the upward trend in earnings would have continued.

Also contributing to the earnings decline was a drop in net operating revenue. That's because of a reduction in mortgage lending activity, which I'll discuss in a moment. Overall, however, most of the positive trends we have been seeing in industry performance continued in the third quarter. Fewer institutions reported quarterly losses, lending grew at a modest pace, credit quality continued to improve, more banks came off the "Problem List," and fewer banks failed.

Revenue

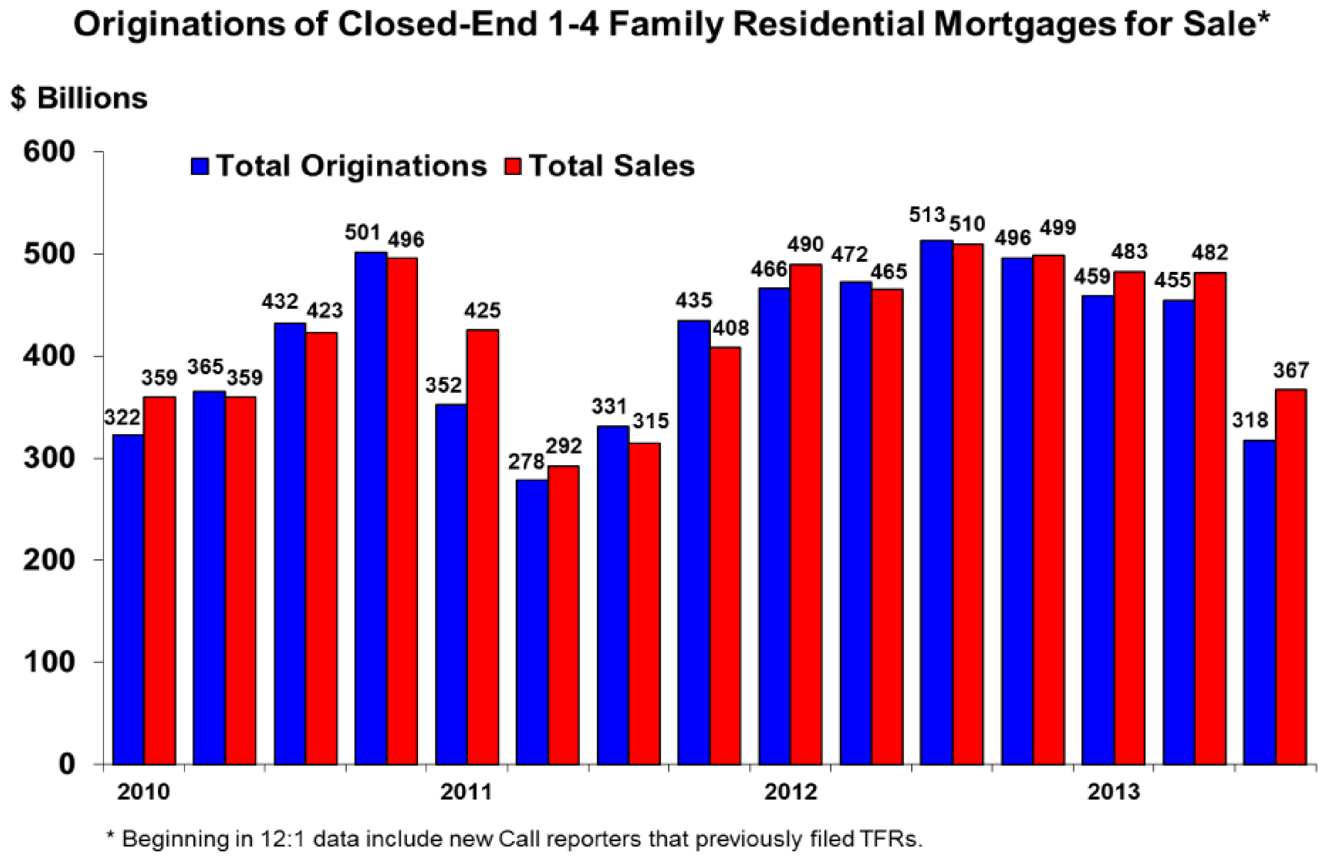
Chart 2



As I noted, quarterly revenue declined because of lower mortgage lending and asset sales gains.

This next chart shows that net operating revenue was 6.1 billion dollars lower than a year ago. This decline was largely driven by the increase in medium- and long-term interest rates that occurred in the second quarter. Higher interest rates have significant effects on mortgage refinance and other activity, which we are now seeing in the third quarter results.

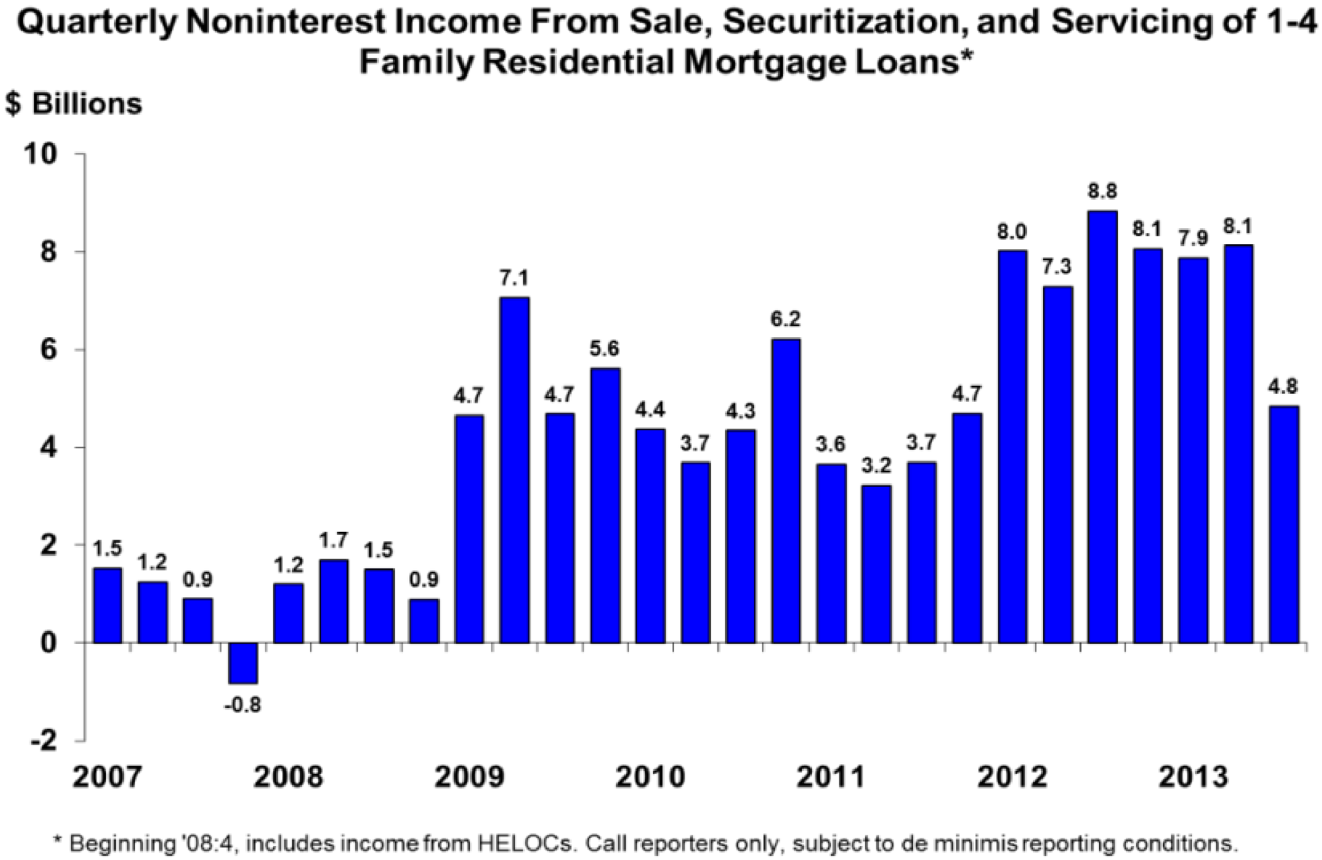
Chart 3



The decline in mortgage activity is evident in this next chart.

Originations in the third quarter were 30 percent lower than in the second quarter, and mortgage sales were down 24 percent.

Chart 4

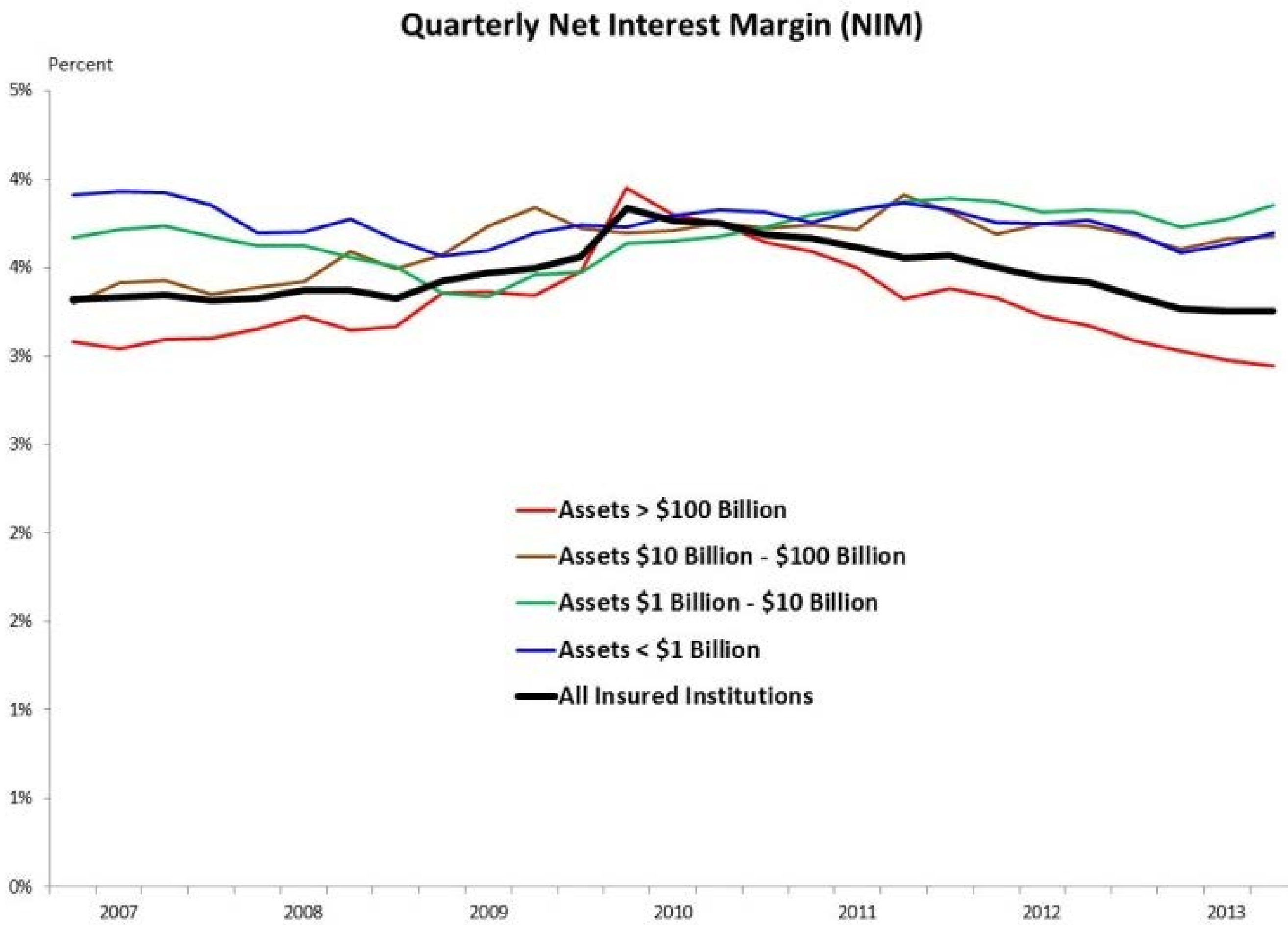


This reduced level of mortgage lending led to a 4 billion dollar, year-over-year decline in noninterest income from mortgage activities, as you can see in this chart.

And as we also noted last quarter, higher interest rates reduce market values of fixed-rate loans and securities, which, in turn, reduce income from asset sales. In the third quarter, gains from loan sales -- including mortgages -- were almost 3 billion dollars lower than a year ago, while realized gains on investment securities fell by 2.2 billion dollars.

Net Interest Margin

Chart 5



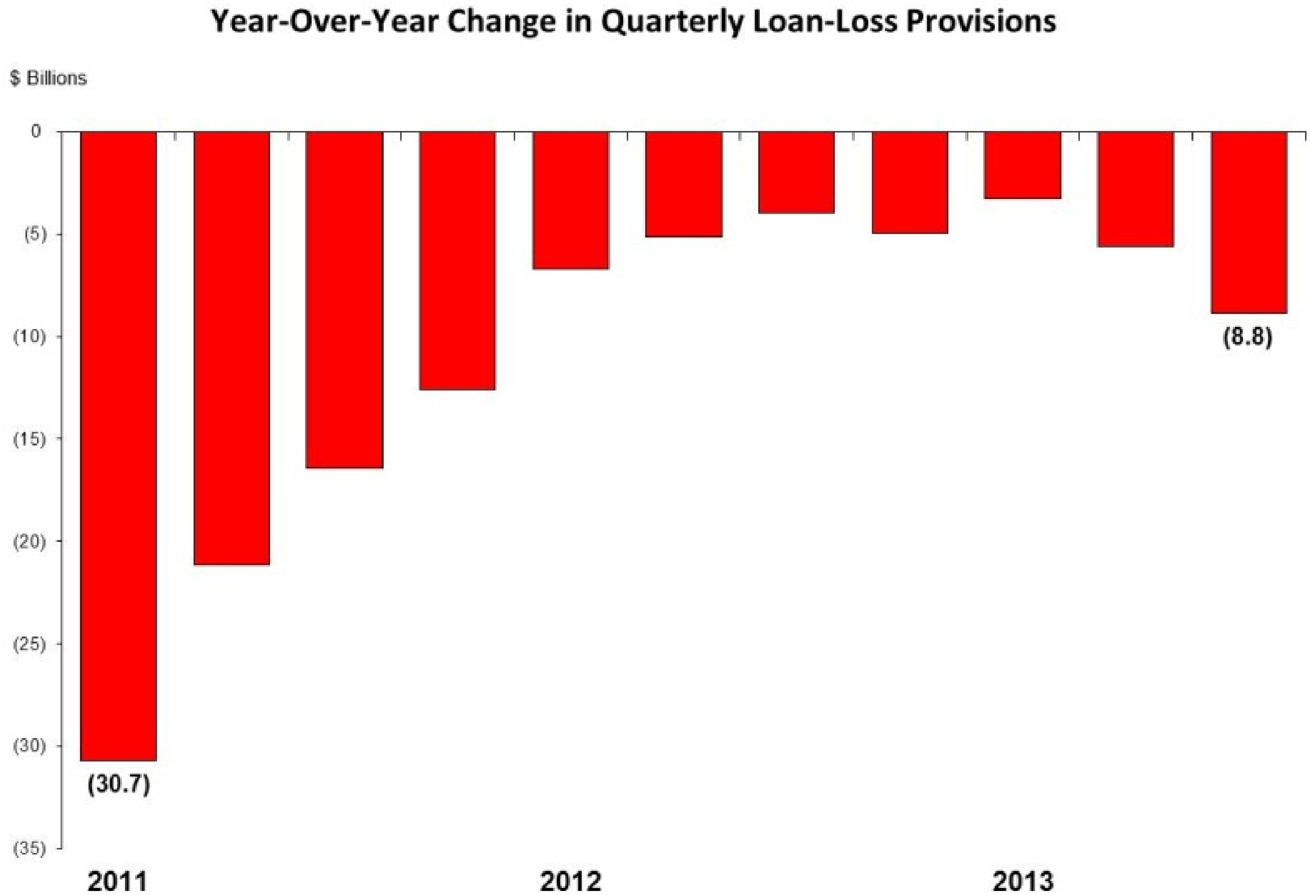
Nevertheless, higher interest rates have had some positive effects. The steeper yield curve is favorable for net interest margins, because banks generally borrow short and lend long.

Average margins rose in the last two quarters at all but the largest institutions, where they declined due to a large increase in balances held at Federal Reserve banks. And while margins remain below year-ago levels, net interest income increased on a consecutive-quarter basis for only the second time in the last 7 quarters.

This improving environment for margins is especially good for smaller banks, which get a larger share of their revenue from net interest income.

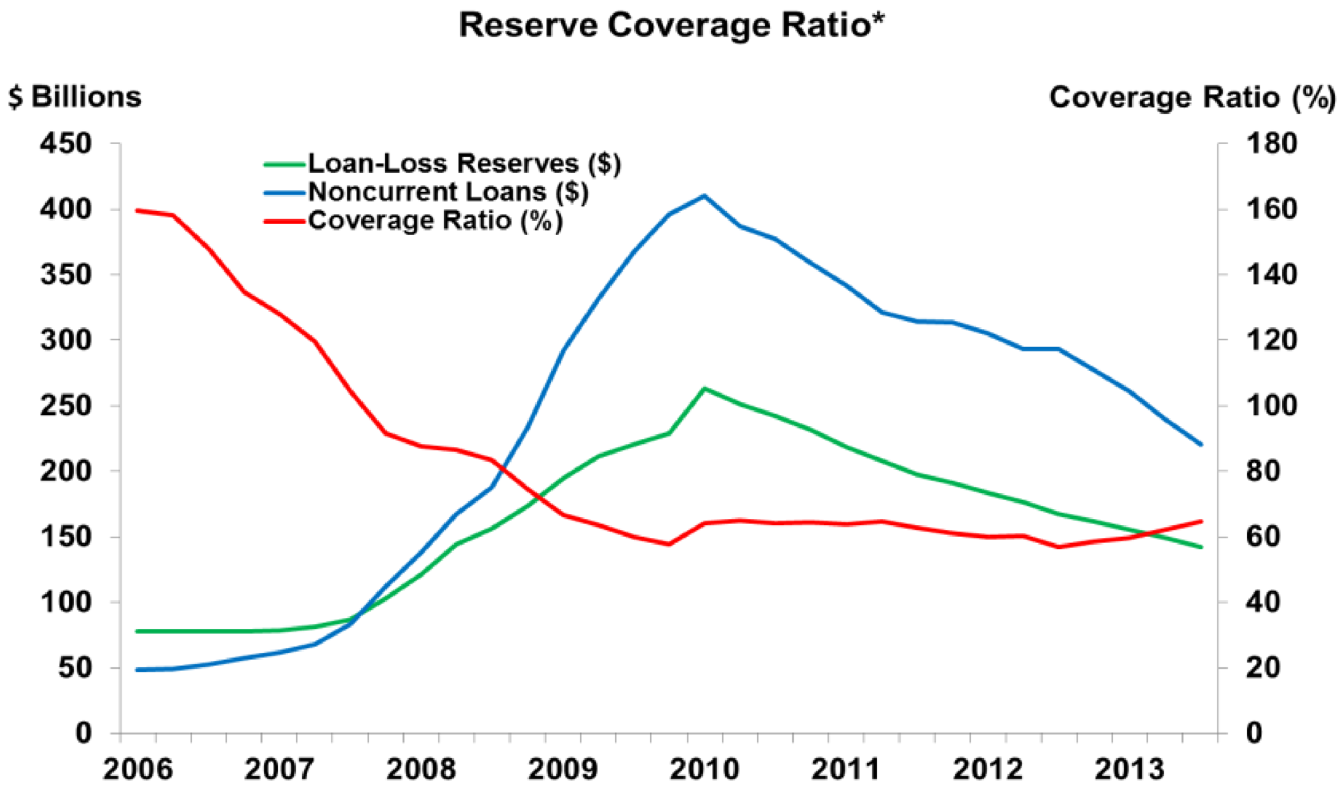
Loan Loss Provisions

Chart 6



The largest positive contribution to the year-over-year change in quarterly earnings came from lower loan loss provisions. Banks added just 5.8 billion dollars to reserves in the third quarter. This is 8.8 billion dollars less than banks set aside in the third quarter of last year, and the smallest quarterly total in 14 years.

Chart 7



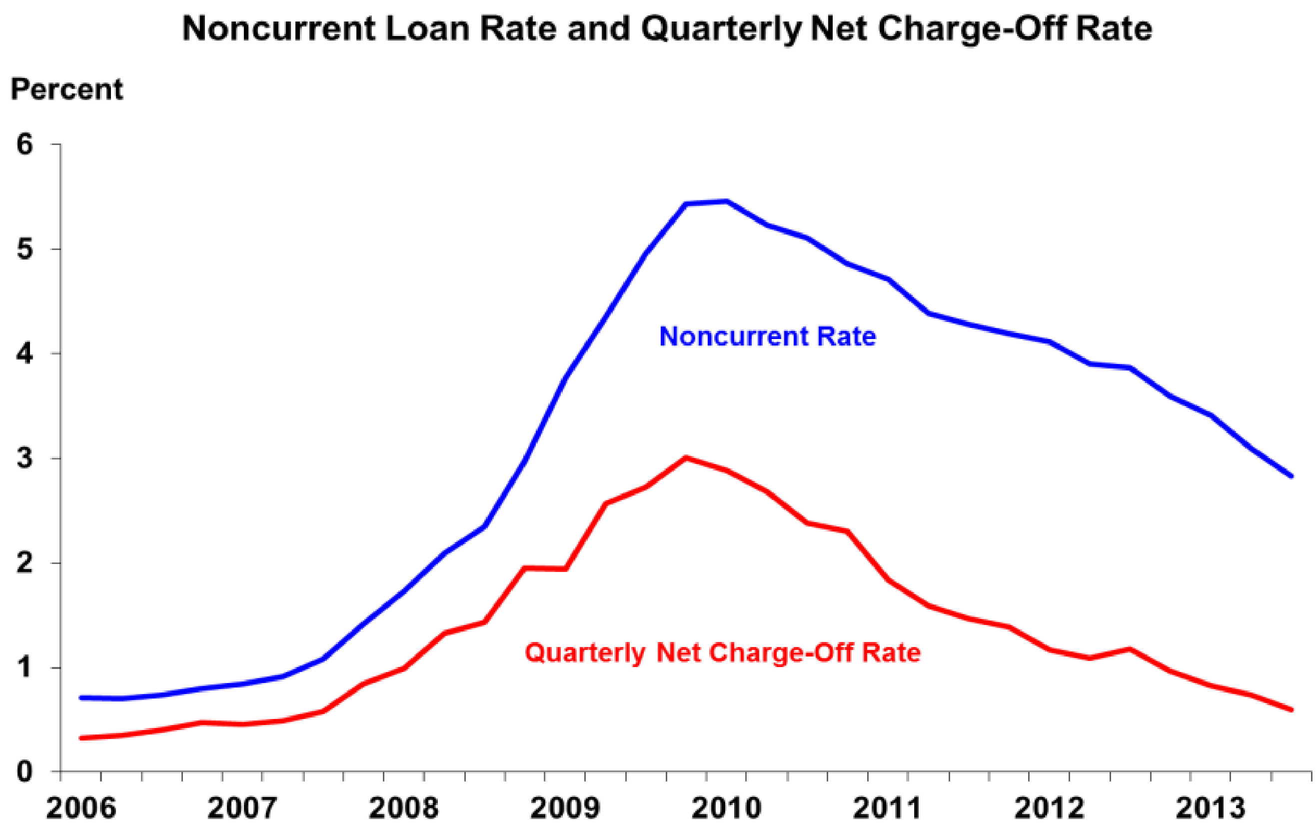
* Loan-loss reserves to noncurrent loans & leases.

Asset Quality

Although the decline in loss provisions resulted in a 6.5 billion dollar reduction in reserves for future loan losses, the decline in reserves was surpassed by an 18 billion dollar drop in troubled loan balances.

As a result, the industry's coverage ratio – the ratio of reserves to noncurrent loans -- improved for the fourth quarter in a row, from 62.3 percent to 64.5 percent.

Chart 8

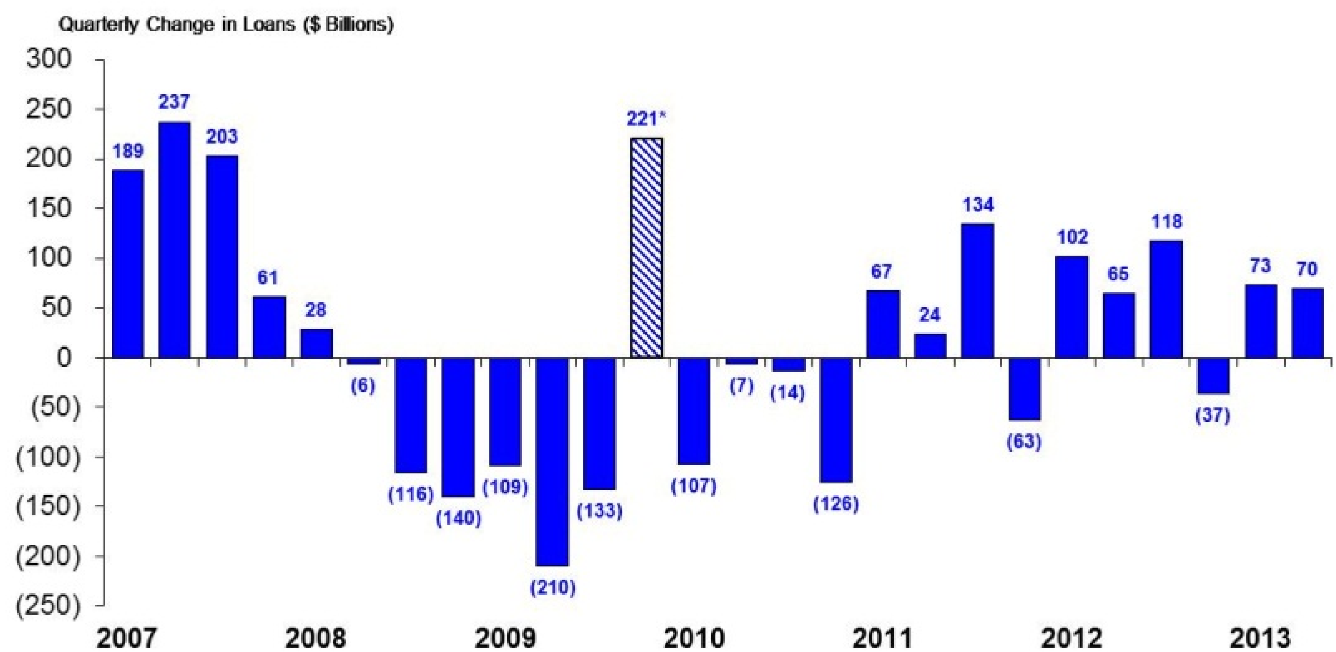


You can see in this next chart that this improving trend in asset quality has been remarkably consistent.

Noncurrent loan balances still remain well above pre-crisis levels, but declined by 46 percent over the past 14 quarters. And net charge-off rates are now much closer to pre-crisis levels.

Chart 9

Quarterly Change in Loan Balances

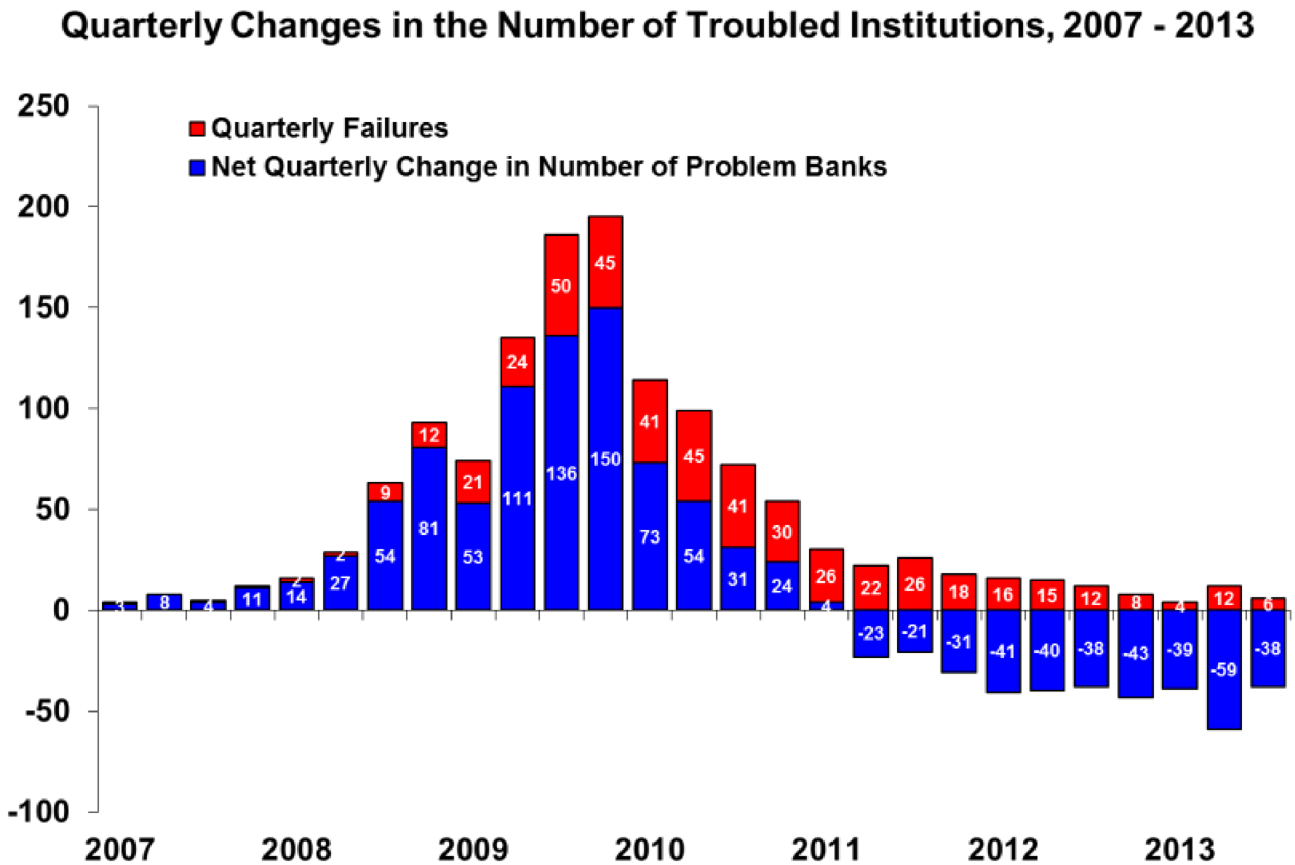


* FASB Statements 166 and 167 resulted in the consolidation of large amounts of securitized loan balances back onto banks' balance sheets in the first quarter of 2010. Although the total amount consolidated cannot be precisely quantified, the industry would have reported a decline in loan balances for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

Loan balances continued to increase in the third quarter, but the rate of growth remained modest. Total loans and leases rose by 70 billion dollars in the third quarter. Over the last 12 months, loan and lease balances have risen by 3 percent. The drop-off in origination activity contributed to lower mortgage balances during the quarter. C&I loan growth, which has been the strongest of any major loan category, slowed but remained at a significant level. Consumer loans, notably auto loans, posted relatively strong growth. And while loans to small businesses were down at larger banks, they increased at smaller institutions.

Problem Banks

Chart 10



As for “problem” banks and bank failures, the numbers keep improving. The number of banks on the “Problem List” declined from 553 to 515 in the third quarter. This is the tenth quarter in a row that fewer banks were on the list, which is now more than 40 percent below the peak of 888 in first quarter 2011.

Six insured institutions failed in the third quarter. This is half the number that failed in third quarter 2012. So far this year, 23 banks have failed, compared to 50 over the same period last year.

Deposit Insurance Fund

The Deposit Insurance Fund balance rose to 40.8 billion dollars as of September 30, up from 37.9 billion dollars at the end of June. Assessment income and a reduction in estimated losses from anticipated failures drove the third quarter increase.

Estimated insured deposits were essentially unchanged from the previous quarter (increasing by only 0.1 percent), and the reserve ratio — which is the Fund balance as a percentage of estimated insured deposits — increased to 0.68 percent at September 30 from 0.64 percent at June 30.

As required by law, the Deposit Insurance Fund must achieve a minimum reserve ratio of 1.35 percent by 2020.

Summing up, we saw a continuation of many positive trends that we have noted in prior quarters. Asset quality continues to improve, loan balances are up, and the numbers of unprofitable institutions, problem banks, and bank failures continue to decline. While industry revenue was lower, due in large part to a reduction in mortgage originations caused by higher interest rates, today's report shows further progress in the gradual recovery of the banking industry.

Thank you. I am happy to take a few questions.

Quarterly Banking Profile