PRESS RELEASE

Federal Deposit Insurance Corporation ● Each Depositor insured to at least $250,000

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FDIC-Insured Institutions Earned $2.8 Billion in the Third Quarter of 2009
Loan Balances Declined for Fifth Straight Quarter

FOR IMMEDIATE RELEASE

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reported aggregate net income of $2.8 billion in the third quarter of 2009, but loan balances declined by the largest percentage since quarterly reporting began in 1984. Quarterly earnings were more than three times the $879 million the industry earned a year earlier and represented an improvement over the industry's $4.3 billion net loss in the second quarter of 2009. More than 26 percent of all insured institutions reported a net loss in the latest quarter, up slightly from nearly 25 percent a year earlier.

"Today's report shows that, while bank and thrift earnings have improved, the effects of the recession continue to be reflected in their financial performance," said FDIC Chairman Sheila Bair.

With regard to the decline in loan balances, Chairman Bair said, "There is no question that credit availability is an important issue for the economic recovery. We need to see banks making more loans to their business customers. This is especially true for small businesses that rely on FDIC-insured institutions to provide over 60 percent of the credit they use."

Provisions for loan losses totaled $62.5 billion in the quarter, an increase of $11.3 billion (22.2 percent) over the third quarter of 2008. Net interest income was $4.6 billion (4.8 percent) higher than a year earlier, noninterest income increased by $4.0 billion (6.8 percent), realized losses on securities and other assets were $3.8 billion lower, and noninterest expenses declined by $1.6 billion (1.7 percent).

The FDIC noted that indicators of asset quality continued to deteriorate during the third quarter; however, the pace of deterioration slowed for the second consecutive 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) rose to the highest levels in the 26 years that insured institutions have reported these data. Insured institutions charged off $50.8 billion in uncollectible loans during the quarter, up from $28.1 billion a year earlier, and noncurrent loans and leases increased by $34.7 billion during the third quarter. At the end of September, noncurrent loans and leases totaled $366.6 billion, or 4.94 percent of the industry's total loans and leases.

Total loans and leases declined by $210.4 billion (2.8 percent) during the quarter. Loans to commercial and industrial borrowers declined by $89.1 billion (6.5 percent), residential mortgage loan balances fell by $83.7 billion (4.2 percent), and real estate construction and development loans declined by $43.6 billion (8.1 percent). Total assets of insured institutions declined by $54 billion. Banks' balances with Federal Reserve banks increased by $142.4 billion (36.7 percent) during the quarter, and investments in U.S. Treasury securities rose by $28.6 billion (49.3 percent), as institutions increased their lower-risk assets.

Financial results for the third quarter and the first nine months of 2009 are contained in the FDIC's latest *Quarterly Banking Profile*, which was released today. Among the other findings:

Net interest margins improved to a four-year high. The average margin (the difference between the average yield on interest-earning assets and the average interest expense of funding those assets) rose to 3.51 percent from 3.48 percent in the second quarter and 3.37 percent in the third quarter of 2008. Almost two-thirds of all institutions (62 percent) reported higher margins than in the second quarter. Net interest income totaled $99.9 billion in the quarter, up from $95.3 billion a year earlier.

The number of institutions on the FDIC's "Problem List" rose to its highest level in 16 years. At the end of September, there were 552 insured institutions on the "Problem List," up from 416 on June 30. This is the largest number of "problem" institutions since December 31, 1993, when there were 575 institutions on the list. Total assets of "problem" institutions increased during the quarter from $299.8 billion to $345.9 billion, the highest level since the end of 1993, when they totaled $346.2 billion. Fifty institutions failed during the third quarter, bringing the total number of failures in the first nine months of 2009 to 95.

"For now, the credit adversity we have been observing for some time remains with us, and we expect that it will be at least a couple of more quarters before we see a meaningful improvement in that trend," Chairman Bair added. "Despite the challenges, depending on the economy, I am optimistic that if we address these problems head-on we will see clear signs of improvement in bank earnings and lending in 2010."

As projected in September, the FDIC's Deposit Insurance Fund (DIF) balance – or the net worth of the fund – fell below zero for the first time since the third quarter of 1992. The fund balance of negative $8.2 billion as of September already reflects a $38.9 billion contingent loss reserve that has been set aside to cover estimated losses over the next year. Just as banks reserve for loan losses, the FDIC has to set aside reserves for anticipated closings over the next year. Combining the fund balance with this contingent loss reserve shows total DIF reserves with a positive balance of $30.7 billion.

Chairman Bair distinguished the DIF's reserves from the FDIC's cash resources, which stood at $23.3 billion of cash and marketable securities. To further bolster the DIF's cash position, the FDIC Board approved a measure on November 12th to require insured institutions to prepay three years' worth of deposit insurance premiums – about $45 billion – at the end of 2009. "This measure will provide the FDIC with the funds needed to carry on with the task of resolving failed institutions in 2010, but without accelerating the impact of assessments on the industry's earnings and capital," Chairman Bair said.

Total insured deposits increased by 10 percent ($491.5 billion), reflecting new data collected on the temporary increase in the standard maximum FDIC deposit insurance amount from $100,000 to $250,000.

The complete *Quarterly Banking Profile* is available at http://www2.fdic.gov/qbp on the FDIC Web site.

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