PRESS RELEASE

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

Media Contact:
Andrew Gray
(202) 898-7192
Email: angray@fdic.gov

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FDIC-Insured Institutions Earned $18 Billion in the First Quarter of 2010

Net Income Highest in Two Years

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reported an aggregate profit of $18.0 billion in the first quarter of 2010, a $12.5 billion improvement from the $5.6 billion the industry earned in the first quarter of 2009, but still well below historical norms for quarterly profits. More than half of all institutions (52.2 percent) reported year-over-year improvements in their quarterly net income. Fewer than one in five institutions (18.7 percent) reported net losses for the quarter, compared to 22.3 percent a year earlier. The average return on assets (ROA), a basic yardstick of profitability, rose to 0.54 percent, from 0.16 percent a year ago. This is the highest quarterly ROA for the industry since the first quarter of 2008.

"There are encouraging signs in the first-quarter numbers," said FDIC Chairman Sheila C. Bair. "Industry earnings are up. More banks reported higher earnings, and fewer lost money." She added that the $18 billion in net income during the quarter "is more than three times as much as banks earned a year ago, and it is the best quarterly earnings for the industry in two years."

The primary factor contributing to the year-over-year improvement in quarterly earnings was a reduction in provisions for loan losses. While first-quarter provisions were still high, at $51.3 billion, they were $10.2 billion (16.6 percent) lower than a year earlier. Lower expenses for goodwill impairment and other intangible asset charges added $5.0 billion to pretax earnings.

The FDIC noted signs of improvement in asset-quality trends as the growth of troubled loans slowed for a fourth consecutive quarter. The percentage of loans and leases that were noncurrent (90 days or more past due or in nonaccrual status) rose from 5.38 percent to 5.45 percent at the end of the first quarter, the highest level in the 27 years that insured institutions have reported these data. However, the $17.4 billion (4.4 percent) increase in noncurrent loans was the smallest quarterly increase in two and a half years, as the amounts of commercial and industrial loans and construction and development loans that were noncurrent each declined for the second consecutive quarter. Insured banks and thrifts charged off $52.4 billion in uncollectible loans during the quarter, up from $37.9 billion a year earlier, but less than the $53.6 billion they charged off in the fourth quarter of 2009.

The extent of improvement in both noncurrent loans and charge-offs was understated because of the implementation of new accounting standards – FAS 166 and 167. These rules require banks to report on their balance sheets many existing securitized credit card and other consumer loans that had not been included in banks' loan portfolios. The rules also require reporting the noncurrent loans and charge-offs associated with these securitized loans.

Total loans and leases increased by $220.4 billion (3.0 percent) during the quarter, but the growth in reported loan balances was the result of FAS 166 and 167, which caused more than $300 billion in existing securitized loans to be included in institutions' reported loans. Most of the loan balances added to reported totals under the new rules were credit cards and other loans to consumers. Total assets of insured institutions rose by $248.6 billion (1.9 percent), but the industry's total assets and total loans would have declined in the quarter absent the new accounting rules.

Financial results for the first quarter are contained in the FDIC's latest *Quarterly Banking Profile*, which was released today. Also among the findings:

The new accounting standards affected the reporting of cash flows and balance sheet totals. FAS 166 and FAS 167 limited the types of structures that can be used to securitize loans and report them as off-balance-sheet. In addition to consolidating some securitized loan balances into banks' balance sheets, the new standards resulted in the reclassification of some income and expense flows, but the impact on the industry's overall profitability was negligible. Banks that had securitized and sold large amounts of credit card receivables were most affected by the changes.

The number of institutions on the FDIC's "Problem List" rose to 775, up from 702 at the end of 2009. In addition, the total assets of "problem" institutions increased during the quarter from $403 billion to $431 billion. These levels are the highest since June 30, 1993, when the number and assets of "problem" institutions totaled 793 and $467 billion, respectively, but the increase in the number of problem banks was the smallest in four quarters. Forty-one institutions failed during the first quarter. Chairman Bair noted that the vast majority of "problem" institutions do not fail.

The Deposit Insurance Fund (DIF) balance improved for the first time in two years. The DIF balance – the net worth of the fund – increased slightly to negative $20.7 billion, from negative $20.9 billion (unaudited) on December 31, 2009. The fund balance reflects a $40.7 billion contingent loss reserve that has been set aside to cover estimated losses. Just as banks reserve for loan losses, the FDIC has to set aside reserves for anticipated closings. Combining the fund balance with this contingent loss reserve shows total DIF reserves of $20 billion. Total insured deposits increased by 1.3 percent ($70.0 billion) during the first quarter.

The FDIC's liquid resources – cash and marketable securities – remained strong. Liquid resources stood at $63 billion at the end of the first quarter, a decline from $66 billion at year-end 2009. To provide the funds needed to resolve failed institutions in 2010 and beyond without immediately reducing the industry's earnings and capital, the FDIC Board approved a measure on November 12, 2009, that required most insured institutions to prepay approximately three years' worth of deposit insurance premiums – about $46 billion – at the end of 2009.

Chairman Bair concluded by stating, "There will be more failures, to be sure. The banking system still has many problems to work through, and we cannot ignore the possibility of more financial market volatility. But the positive signs I've outlined today suggest that the trends continue to move in the right direction."

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