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FDIC-Insured Institutions Earned $21.7 Billion in the Fourth Quarter of 2010

Reduced Loss Provisions Contributed to Full-Year Profit of $87.5 Billion

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reported an aggregate profit of $21.7 billion in the fourth quarter of 2010, a $23.5 billion improvement from the $1.8 billion net loss the industry reported in the fourth quarter of 2009. This is the sixth consecutive quarter that earnings registered a year-over-year increase.

"Overall, 2010 was a turnaround year with four straight quarters of positive earnings," said FDIC Chairman Sheila C. Bair. "We are encouraged not only by the rising trend in total industry net income, but also by the fact that a substantial majority of insured institutions are participating in this trend."

Almost two-thirds of all institutions (62 percent) reported improvements in their quarterly net income from a year ago. The average return on assets (ROA), a basic yardstick of profitability, rose to 0.65 percent, from negative 0.06 percent a year ago. Although community banks' aggregate return on assets lags the ROA for larger institutions, as a group they are recovering, as most community banks reported higher earnings than a year ago.

As has been the case in each of the past five quarters, reductions in provisions for loan losses were responsible for most of the year-over-year improvement in earnings. Fourth-quarter loss provisions totaled $31.6 billion, slightly more than half the $62.9 billion that insured institutions set aside for losses in the fourth quarter of 2009. In addition to the savings from lower provisions, net operating revenue (net interest income plus total noninterest income) was $2.8 billion (1.7 percent) higher than a year earlier, and realized gains on securities increased by $2.3 billion.

Asset-quality trends showed further improvement as noncurrent loans and leases (those 90 days or more past due or in nonaccrual status) fell for a third consecutive quarter. Insured banks and thrifts charged off $41.9 billion in uncollectible loans during the quarter, down $13 billion (23.7 percent) from a year earlier.

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

Amended financial reports caused significant changes to industry earnings in three previous quarters. As a result of the restatements, first quarter 2009 net income declined from a previously reported $7.6 billion profit to a $6.5 billion net loss. Second quarter 2009 net income dropped from a $3.7 billion net loss to a $12.7 billion net loss. And, third quarter 2010 net income increased from $14.5 billion to $24.7 billion. Full-year 2009 net income declined from a $12.5 billion profit to a $10.6 billion net loss. Virtually all of the revisions resulted from corrections in the amounts and timing of the recognition of charges for goodwill impairment at one large institution.

Full-year net income rose to a three-year high. For all of 2010, insured institutions earned $87.5 billion, the highest full-year total since 2007, when the industry earned $99.9 billion. Lower expenses for loan-loss provisions and goodwill impairment were the principal factors in the $98.1 billion year-over-year improvement in net income. Provisions for loan losses were $92.6 billion lower than in 2009, while charges for goodwill impairment fell by $28.7 billion. Other positive contributions to the improvement in earnings came from net operating revenue, which was $10.8 billion higher than in 2009, and realized gains on securities, which were also $10.8 billion higher. More than two out of every three institutions (67.5 percent) reported higher earnings in 2010, and the proportion of institutions reporting net losses for the year improved from 31 percent in 2009 to 21 percent in 2010.

Loan balances continued to decline. Total loans and leases fell for the ninth time in the past ten quarters (the one exception resulted from changes in reporting rules, not from actual loan growth). The net decline in balances in the fourth quarter totaled $13.6 billion (0.2 percent). The largest reductions in loan portfolios occurred in real estate construction loans (down $32.5 billion, or 9.2 percent), non credit card consumer loans (down $29 billion, or 4.9 percent), and home equity lines of credit (down $11 billion, or 1.7 percent). Balances increased during the quarter in credit card portfolios (up $18.1 billion, or 2.6 percent), one- to four-family residential real estate loans (up $17 billion, or 0.9 percent), and loans to commercial and industrial borrowers (up $11.8 billion, or 1 percent). Almost 60 percent of insured institutions reported declines in loan balances in the fourth quarter.

The number of institutions on the FDIC's "Problem List" rose from 860 to 884. Total assets of "problem" institutions increased to $390 billion from $379 billion in the prior quarter, but are below the $403 billion reported at year-end 2009. The rate of increase in the number of "problem" banks has declined in each of the past four quarters. Thirty insured institutions failed during the fourth quarter, bringing the total number of failures for the full year to 157.

"As we have repeatedly stated, we believe that the number of failures peaked in 2010, and we expect both the number and total assets of this year's failures to be lower than last year's," added Chairman Bair.

The Deposit Insurance Fund (DIF) balance increased for the fourth consecutive quarter. The DIF balance — the net worth of the fund — rose from negative $8.0 billion to negative $7.4 billion (unaudited) during the fourth quarter. The increase in the fund stemmed primarily from assessment revenues and an improving outlook for losses from future failures. The contingent loss reserve, which covers the costs of expected failures, fell from $21.3 billion to $17.7 billion during the quarter. While part of the decline reflects the removal of amounts reserved for banks that failed, part also reflects lower anticipated costs from future failure activity. Liquid resources (cash and marketable securities) stood at $46.2 billion at the end of the year, compared to $43.7 billion at the end of the third quarter.

"We expect the DIF balance will turn positive in 2011," Chairman Bair said, adding that "there is ample liquidity to meet our obligations arising from past and future bank failures."

Total insured deposits increased by 14.8 percent ($799 billion) during the quarter. This increase reflects additional, temporary coverage of non-interest bearing transaction accounts authorized by the Dodd-Frank Act. This additional coverage will last through the end of 2012.

In conclusion, Chairman Bair said, "Insured institutions made considerable progress in 2010. The return to industry profitability and the improving trend in asset quality were positive developments. Cleaning up balance sheets is only a first step. Now, we are looking to the industry to take the next step, and begin to build their loan portfolios. The long-term health of both the industry and our economy will depend on a responsible expansion of bank lending at this pivotal point in the economic recovery."

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