PRESS RELEASE

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

August 29, 2013

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

FDIC-Insured Institutions Earned $42.2 Billion in the Second Quarter of 2013

FOR IMMEDIATE RELEASE

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reported aggregate net income of $42.2 billion in the second quarter of 2013, a $7.8 billion (22.6 percent) increase from the $34.4 billion in profits that the industry reported a year earlier. This is the 16th consecutive quarter that earnings have registered a year-over-year increase. Increased noninterest income, lower noninterest expenses, and reduced provisions for loan losses accounted for the increase in earnings from a year ago. Year-over-year earnings increased at more than half (53.8 percent) of the 6,940 insured institutions reporting financial results. The proportion of banks that were unprofitable fell to 8.2 percent, from 11.3 percent a year earlier.

FDIC Chairman Martin J. Gruenberg said, "The trends we have seen in recent quarters continued in the second quarter. Asset quality continues to recover, loan balances are trending up, fewer institutions are unprofitable, the number of problem banks is down, and the number of failures is significantly below levels of a year ago. However, industry revenue growth remains weak, reflecting narrow margins and modest loan growth. And the current interest rate environment creates an incentive for institutions to reach for yield, which is a matter of ongoing supervisory attention. Nonetheless, overall these results show a continuation of the recovery in the banking industry."

The average return on assets (ROA), a basic yardstick of profitability, rose to 1.17 percent from 0.99 percent a year ago. This is the highest quarterly ROA for the industry since the 1.22 percent posted in the second quarter of 2007.

Second quarter net operating revenue (net interest income plus total noninterest income) totaled $170.6 billion, an increase of $4.9 billion (3 percent) from a year earlier, as noninterest income increased by $6.7 billion (11.1 percent) and net interest income declined by $1.8 billion (1.7 percent). The average net interest margin — the difference between the average yield banks earn on loans and other investments and the average cost of funding those investments — fell to 3.26 percent, its lowest level since the 3.20 percent reported in the fourth quarter of 2006. Total noninterest expenses were $1.4 billion (1.4 percent) below the level of the second quarter of 2012. Banks set aside $8.6 billion in provisions for loan losses, a reduction of $5.6 billion (39.6 percent) compared to a year earlier.

Asset quality indicators continued to improve as insured banks and thrifts charged off $14.2 billion in uncollectible loans during the quarter, down $6.3 billion (30.7 percent) from a year earlier. The amount of noncurrent loans and leases (those 90 days or more past due or in nonaccrual status) fell by $21.7 billion (8.3 percent) during the quarter, and the percentage of loans and leases that were noncurrent declined to 3.09 percent, the lowest level since the 2.97 percent posted at the end of 2008.

Financial results for the second quarter of 2013 are contained in the FDIC's latest Quarterly Banking Profile, which was released today. Also among the findings:

Total loan balances rose. Loan balances increased by $73.8 billion (1.8 percent) in the three months ending June 30, as commercial and industrial loan balances rose by $30.4 billion (2 percent). Balances also increased in real estate loans secured by nonfarm nonresidential properties (up $11.1 billion or 1 percent), credit cards (up $10.1 billion or 1.5 percent), and auto loans (up $10 billion or 3.1 percent). Balances declined in home equity loans (down $9.8 billion or 1.8 percent) and other loans secured by 1-4 family residential real estate (down $22.1 billion or 1.2 percent). For the 12 months through June 30, total loan and lease balances were up by $219.4 billion (2.9 percent).

Higher interest rates led to a decline in market values of securities portfolios. Insured institutions reported a $51.1 billion (89.1 percent) decline in unrealized gains in their holdings of available-for-sale securities during the quarter. This decline was due primarily to rising medium- and long-term interest rates, which eroded market values of fixed-rate securities. Unrealized gains and losses on available-for-sale securities do not affect current earnings, but they do have implications for future earnings if the securities are sold.

The number of problem banks continued to decline. The number of banks on the FDIC's "Problem List" declined from 612 to 553 during the quarter. The number of "problem" banks is down nearly 40 percent from the recent high of 888 institutions at the end of first quarter 2011. Twelve FDIC-insured institutions failed in the second quarter of 2013, up from four failures in the first quarter. Thus far in 2013, there have been 20 failures, compared to 40 during the same period in 2012.

The Deposit Insurance Fund (DIF) balance continued to increase. The DIF balance — the net worth of the fund — rose to $37.9 billion as of June 30 from $35.7 billion as of March 31. Assessment income remained the primary contributor to growth in the fund balance. Estimated insured deposits declined by 0.8 percent, and the DIF reserve ratio — the fund's balance as a percentage of estimated insured deposits — rose from 0.59 percent as of March 31 to 0.63 percent as of June 30. By law, the DIF must achieve a minimum reserve ratio of 1.35 percent by 2020.

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