PRESS RELEASE

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FDIC-Insured Institutions Earned $40.3 Billion in the Fourth Quarter of 2013
Full-Year Net Income Rose to $154.7 Billion

FOR IMMEDIATE RELEASE

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reported aggregate net income of $40.3 billion in the fourth quarter of 2013, a $5.8 billion (16.9 percent) increase from the $34.4 billion in earnings that the industry reported a year earlier. This is the 17th time in the last 18 quarters — since the third quarter of 2009 — that earnings have registered a year-over-year increase. The improvement in earnings was mainly attributable to an $8.1 billion decline in loan-loss provisions. Lower income stemming from reduced mortgage activity and a drop in trading revenue contributed to a year-over-year decline in net operating revenue (the sum of net interest income and total noninterest income). More than half of the 6,812 insured institutions reporting (53 percent) had year-over-year growth in quarterly earnings. The proportion of banks that were unprofitable fell to 12.2 percent, from 15 percent in the fourth quarter of 2012.

"The trend of slow but steady improvement that has been underway in the banking industry since 2009 continued to gain ground," said FDIC Chairman Martin J. Gruenberg. "Asset quality improved, loan balances were up, and there were fewer troubled institutions. However, challenges remain in the industry. Narrow margins, modest loan growth, and a decline in mortgage refinancing activity have made it difficult for banks to increase revenue and profitability. Nonetheless, 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 1.10 percent in the fourth quarter from 0.96 percent a year ago. The average return on equity (ROE) increased from 8.53 percent to 9.87 percent.

Fourth quarter net operating revenue totaled $166.1 billion, a decline of $2.8 billion (1.7 percent) from a year earlier, as noninterest income fell by $4.2 billion (6.6 percent) and net interest income increased by $1.4 billion (1.3 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 — was 3.28 percent, the highest average of any quarter in 2013, but down from 3.34 percent in the fourth quarter of 2012.

Total noninterest expenses were $5.8 billion (5.3 percent) lower than in the fourth quarter of 2012, as litigation expenses fell by $3.1 billion at one large institution. Banks set aside $7 billion in provisions for loan losses, a reduction of $8.1 billion (53.7 percent) compared to a year earlier. This is the 17th consecutive quarter that the industry has reported a year-over-year decline in quarterly loss provisions.

Asset quality indicators continued to improve as insured banks and thrifts charged off $11.7 billion in uncollectible loans during the quarter, down $6.8 billion (37 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 $14 billion (6.3 percent) during the quarter. The percentage of loans and leases that were noncurrent declined to 2.62 percent, the lowest level since the 2.35 percent posted at the end of the third quarter of 2008.

Net income over the full year of 2013 totaled $154.7 billion, an increase of $13.6 billion (9.6 percent) compared to 2012. The average full-year ROA rose to 1.07 percent from 1.00 percent in 2012. More than half of all institutions (54.2 percent) reported higher net income in 2013, while only 7.8 percent were unprofitable. This is the lowest annual proportion of unprofitable institutions since 2005.

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

Total loan balances increased. Loan balances increased by $90.9 billion (1.2 percent) in the three months ending December 31, as all major loan categories except one- to four-family residential real estate loans experienced growth during the quarter. Loans to commercial and industrial (C&I) borrowers increased by $27.3 billion (1.7 percent), loans secured by nonfarm nonresidential real estate properties rose by $17.1 billion (1.6 percent), and credit card balances posted a $14.3 billion (2.1 percent) increase. Home equity loan balances declined for a 19th consecutive quarter, falling by $6.9 billion (1.3 percent). Balances of other loans secured by one- to four-family residential real estate properties fell by $13 billion (0.7 percent), as the amount of mortgage loans sold during the quarter exceeded by $29 billion the amount of mortgage loans originated and intended for sale. For the 12 months through December 31, total loan and lease balances were up by $197.3 billion (2.6 percent).

Mortgage activity remained well below year-ago levels. One- to four-family residential real estate loans originated and intended for sale were $307.7 billion (62 percent) lower than in the fourth quarter of 2012, as rising interest rates in the first half of 2013 reduced the demand for mortgage refinancings. Noninterest income from the sale, securitization and servicing of mortgages was $2.8 billion (34 percent) lower than a year ago. Realized gains on available-for-sale securities also were lower than a year ago, as higher medium- and long-term interest rates reduced the market values of fixed-rate securities. Banks reported $506 million in pretax income from realized gains in the fourth quarter, a decline of $1 billion (66.6 percent) from a year ago.

The number of "problem banks" fell for the 11th consecutive quarter. The number of banks on the FDIC's "Problem List" declined from 515 to 467 during the quarter. The number of "problem" banks is down by almost half from the recent high of 888 at the end of the first quarter of 2011. Two FDIC-insured institutions failed in the fourth quarter of 2013, down from eight in the fourth quarter of 2012. For all of 2013, there were 24 failures, compared to 51 in 2012.

The Deposit Insurance Fund (DIF) balance continued to increase. The unaudited DIF balance — the net worth of the fund — rose to $47.2 billion as of December 31 from $40.8 billion as of September 30. Assessment income and a reduction in estimated losses from failed institution assets were the primary contributors to growth in the fund balance. Estimated insured deposits increased 0.7 percent, and the DIF reserve ratio — the fund's balance as a percentage of estimated insured deposits — rose to 0.79 percent as of December 31 from 0.68 percent as of September 30. A year ago, the DIF reserve ratio was 0.44 percent. 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.

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