Speeches & Testimony

Opening Statement of FDIC Chairman Martin Gruenberg: Second Quarter 2015 Quarterly Banking Profile

September 2, 2015

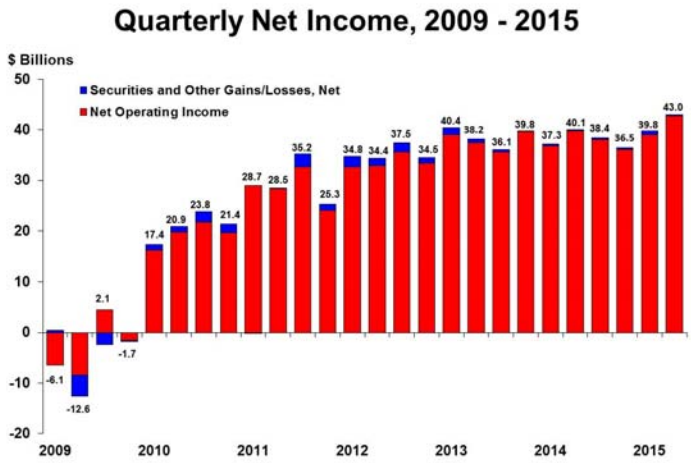
Good morning, and welcome to our release of second quarter results for FDIC-insured institutions.

The banking industry had another positive quarter, as recent trends have continued. Revenues and earnings were up, loan portfolios grew, asset quality improved, the number of problem banks declined, and only one insured institution failed.

However, the interest-rate environment remains challenging for banks. Revenue growth has been modest and net interest margins continued to decline – even as banks extended asset maturities to mitigate the impact of low rates.

Meanwhile, community banks had another strong quarter. Revenue and income growth outpaced the rest of the industry, and loan balances rose at a faster rate than at larger banks.

Chart 1:



Our first chart shows that net income was 43 billion dollars in the second quarter. Net income was up by more than 7 percent from a year ago, and it is a record-high quarterly income for the banking industry.

Community banks reported net income of 5.3 billion dollars, which is nearly 12 percent higher than a year ago. Community banks benefited from strong growth in both net interest income and noninterest income.

Chart 2:

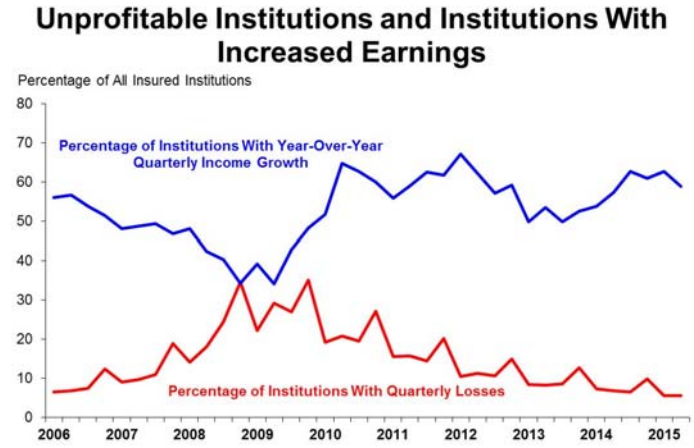
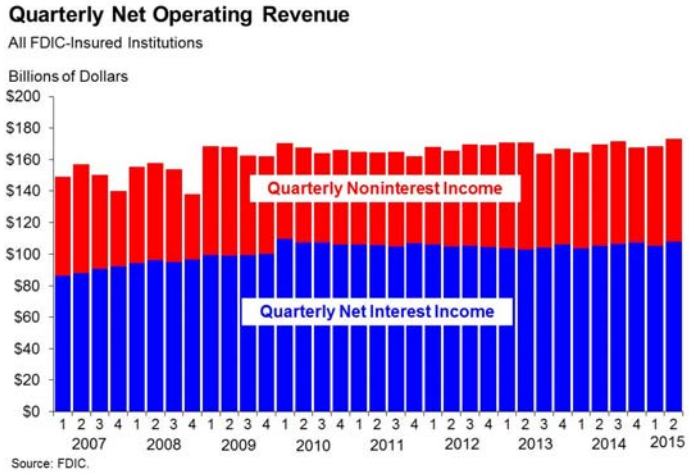


Chart 2 shows that the increase in earnings was broad-based. Nearly 60 percent of all banks reported year-over-year growth in their quarterly net income, and less than 6 percent reported a net loss for the quarter.

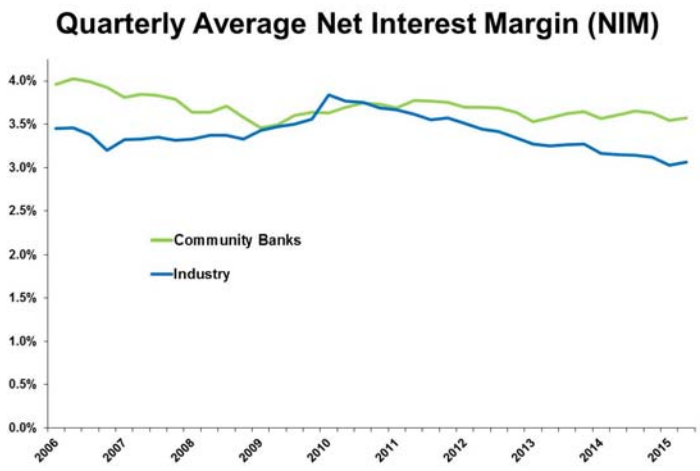
Chart 3:



Our next chart shows that net operating revenue grew by just over 2 percent from a year ago. Net interest income and noninterest income were both higher. And more than two-thirds of all banks reported higher year-over-year revenue.

Chart 3 also shows that revenue growth in the industry has been modest since 2009. This is partly a reflection of the challenging interest-rate environment.

Chart 4:

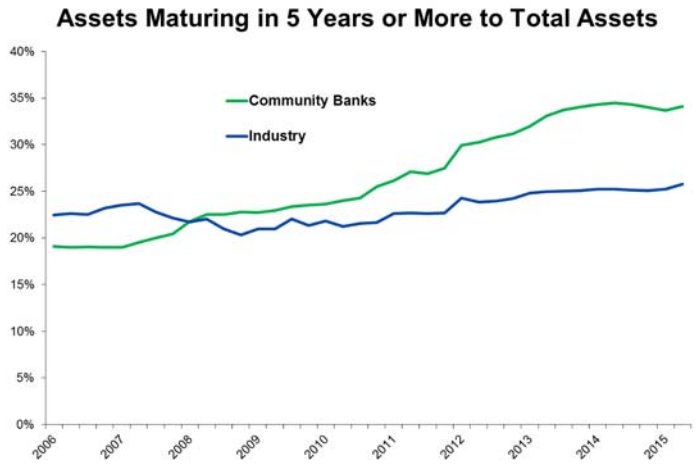


Net interest margins remain under pressure as higher-yielding assets mature and are replaced by lower-yielding investments.

Chart 4 shows that the average net interest margin for the industry has trended down by nearly 80 basis points since 2009. It is now just over three percent.

Meanwhile, community banks have limited much of the erosion in margins experienced by larger banks. The average net interest margin at community banks is more than 50 basis points higher than the industry.

Chart 5:

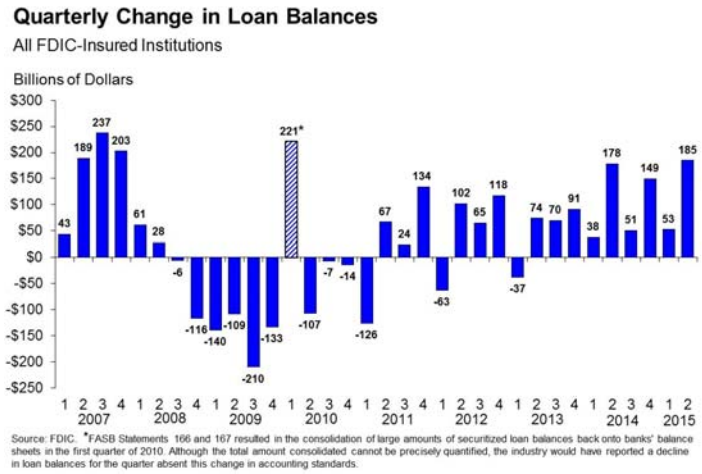


Banks have been extending asset maturities to mitigate the downward pressure on margins.

Chart 5 shows that the share of longer-term assets has been increasing for the industry as a whole since 2009. Over the same period, community banks have increased the share of longer-term assets at a faster pace than the rest of the industry.

On the liability side, the industry has not increased the share of longer-term funding at the same rate. This has left banks more vulnerable to interest-rate risk, and is a matter of ongoing supervisory attention.

Chart 6:



Our next chart shows that total loan balances rose by 185 billion dollars during the second quarter. This was led by a 49 billion dollar increase in commercial and industrial loans, followed by a 25 billion dollar increase in 1-to-4 family residential mortgages.

Over the past 12 months, loan portfolios grew by 5.4 percent, with all major loan categories posting an increase.

At community banks, loan portfolios grew by 8.8 percent during the past 12 months. Balances in all major loan categories at community banks were up from a year ago, led by 9.8 percent growth in commercial real estate loans, 6.5 percent growth in 1-to-4 family residential mortgages, and 9.0 percent growth in commercial and industrial loans.

Chart 7:

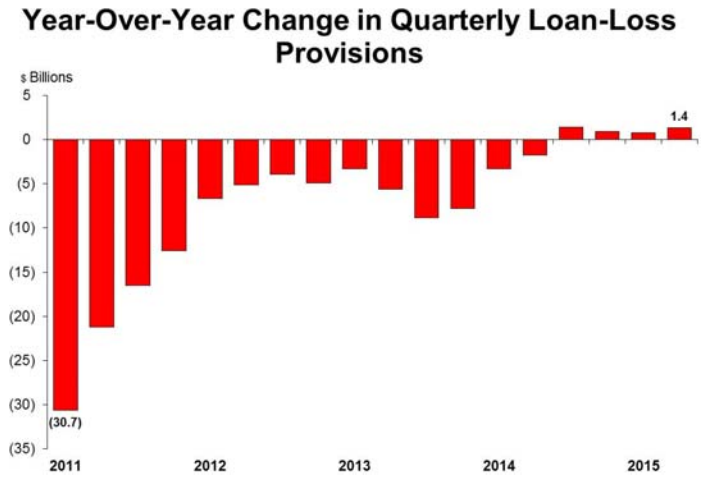
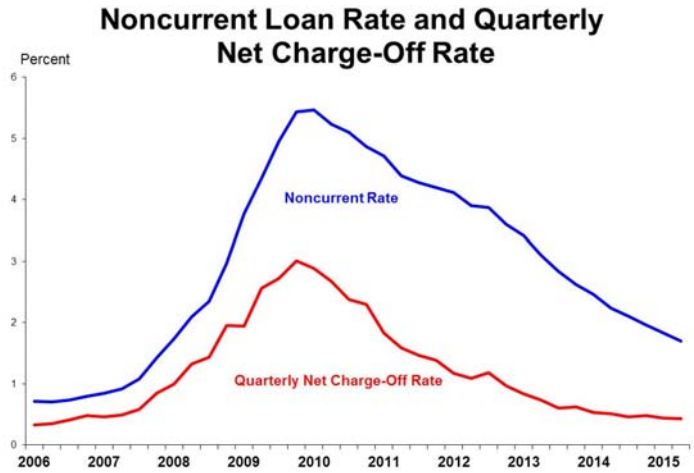


Chart 7 shows that loan-loss provisions rose in the second quarter from a year ago. However, the increase was concentrated among larger institutions, as overall provision expenses at community banks continued to decline.

Quarterly provision expenses have increased year-over-year for the past four quarters. This is a return to the normal pattern for loss provisions. It reflects the increase in industry loan balances over the past four years. And it reflects the credit risk embedded in the loan portfolios.

Chart 8:



Measures of asset quality showed further improvement during the quarter.

Chart 8 shows that the noncurrent and net charge-off rates continued to trend downward.

The noncurrent rate declined in all major loan categories during the quarter – with the exception of commercial and industrial loans, which rose slightly.

The net charge off rate of 42 basis points is now at its lowest level since the third quarter of 2006.

Chart 9:

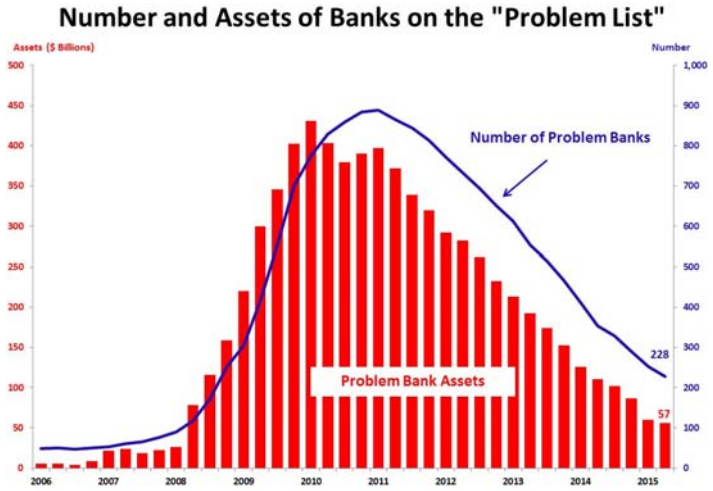
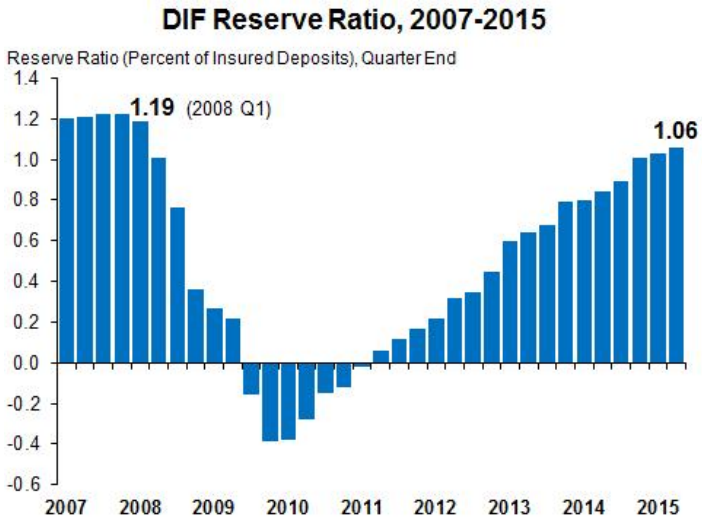


Chart 9 shows that the number of banks on the "problem list" fell to 228 during the second quarter. This is the smallest number of problem banks since 2007, and it is about one-quarter of the 888 problem banks at the peak in early 2011.

Only one insured institution failed during the second quarter. This is the first time since 2007 that only one bank failed during a quarter.

Through the first half of 2015, there were 5 bank failures. This is down from 12 bank failures during the first half of 2014.

Chart 10:



The Deposit Insurance Fund balance was 67.6 billion dollars on June 30, an increase of 2.3 billion dollars from March 31. Higher revenues from assessments were primarily responsible for the increase.

Estimated insured deposits of 6.35 trillion dollars at the end of June were up slightly over the quarter.

Chart 10 shows that the reserve ratio, which is the Fund balance as a percentage of estimated insured deposits, increased to 1.06 percent on June 30.

As required by law, the Deposit Insurance Fund must achieve a minimum reserve ratio of 1.35 percent by September 30, 2020. We are on track to achieve this.

In conclusion, the industry experienced a continuation of positive trends observed over recent quarters. Revenue and income growth was broad-based, asset quality improved, loan balances increased, there were fewer problem banks, and only one bank failed during the quarter.

However, the banking industry continues to face challenges. Revenue growth has lagged behind asset growth, as exceptionally low interest rates put downward pressure on net interest margins.

Many institutions have responded by reaching for yield, which is a matter of ongoing supervisory attention.

On balance, the industry—and community banks in particular—experienced another positive quarter.

Thank you.

I am happy to take your questions.
