Press Releases

FDIC-Insured Institutions Earned $40.2 Billion in the Second Quarter of 2014

Quarterly Loan Growth is Largest Since 2007

FOR IMMEDIATE RELEASE
August 28, 2014

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

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reported aggregate net income of $40.2 billion in the second quarter of 2014, up $2.0 billion (5.3 percent) from earnings of $38.2 billion the industry reported a year earlier. The increase in earnings was mainly attributable to a $1.9 billion (22.4 percent) decline in loan-loss provisions and a $1.5 billion (1.4 percent) decline in noninterest expenses. Also, strong loan growth contributed to an increase in net interest income compared to a year ago. However, lower income from reduced mortgage activity and a drop in trading revenue contributed to a year-over-year decline in noninterest income. More than half of the 6,656 insured institutions reporting (57.5 percent) had year-over-year growth in quarterly earnings. The proportion of banks that were unprofitable during the second quarter fell to 6.8 percent from 8.4 percent a year earlier.

"We saw further improvement in the banking industry during the second quarter," FDIC Chairman Martin J. Gruenberg said. "Net income was up, asset quality improved, loan balances grew at their fastest pace since 2007, and loan growth was broad-based across institutions and loan types. We also saw a large decline in the number of problem banks. However, challenges remain. Industry revenue has been under pressure from narrow net interest margins and lower mortgage-related income. Institutions have been extending asset maturities, which is raising concerns about interest-rate risk. And banks have been increasing higher-risk loans to leveraged commercial borrowers. These issues are matters of ongoing supervisory attention. Nonetheless, on balance, results from the second quarter reflect a stronger banking industry and stronger community banks."

Total loan and lease balances rose by $178.5 billion (2.3 percent) in the second quarter to $8.1 trillion. This is the largest quarterly increase since the fourth quarter of 2007. Commercial and industrial loans increased by $49.9 billion (3.1 percent), residential mortgage loans rose by $22.7 billion (1.2 percent), credit card balances were up by $20.0 billion (3.0 percent), and auto loans grew by $10.9 billion (3.0 percent). Over the last 12 months, loan and lease balances increased by 4.9 percent, the highest 12-month growth rate since before the recent financial crisis.

Asset quality indicators continued to improve as insured banks and thrifts charged off $9.9 billion in uncollectible loans during the quarter, down $4.1 billion (29.5 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 $13.4 billion (6.9 percent) during the quarter. The percentage of loans and leases that were noncurrent declined to 2.24 percent, the lowest level since the 2.09 percent posted at the end of the second quarter of 2008.

Despite the quarterly increase in mortgage balances, income from mortgage-related activity remained well below the level of a year earlier. Noninterest income from the sale, securitization and servicing of mortgages was $3.7 billion (42.5 percent) lower than a year ago. One- to four-family residential real estate loans originated and intended for sale during the quarter were $290.6 billion (63.9 percent) lower than in the second quarter of 2013, as higher interest rates reduced the demand for mortgage refinancing. Realized gains on securities sales 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 $770 million in pretax income from realized gains in the second quarter, a decline of $601 million (43.8 percent) from the second quarter of 2013.

Second quarter net operating revenue (the sum of net interest income and total noninterest income) of $169.0 billion was $1.5 billion (0.9 percent) lower than a year earlier, as a $2.0 billion (1.9 percent) increase in net interest income was outweighed by a $3.6 billion (5.3 percent) drop in noninterest income. 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 3.15 percent, the lowest since 3.11 percent in the third quarter of 1989, as declining asset yields at larger institutions outpaced the decline in the cost of funds.

Noninterest expenses for goodwill impairment declined by $4.4 billion, and expenses for salaries and employee benefits were $399 million (0.8 percent) lower than in the second quarter of 2013. Banks set aside $6.6 billion in provisions for loan losses, down 22.4 percent from $8.5 billion a year earlier. This is the 19th consecutive quarter that the industry has reported a year-over-year decline in loss provisions.

The average return on assets (ROA) rose slightly to 1.07 percent in the second quarter from 1.06 percent a year earlier. The average return on equity (ROE) rose from 9.46 percent to 9.54 percent.

Financial results for the second quarter of 2014 are contained in the FDIC's latest *Quarterly Banking Profile*, which was released today. Also among the findings:

Community banks earned $4.9 billion during the quarter. In the last *Quarterly Banking Profile*, the FDIC added a new section that reports on the performance of community banks – those institutions that provide traditional, relationship-based banking services in their local communities. Based on criteria developed for the FDIC *Community Banking Study* published in December 2012, there were 6,163 community banks (93 percent of all FDIC-insured institutions) in the second quarter of 2014 with assets of $2.0 trillion (13 percent of industry assets). Second quarter net income at community banks of $4.9 billion was up $166 million (3.5 percent) from a year earlier, driven by higher net interest income and lower loan loss provisions. The report also found that loan balances at community banks in the second quarter grew at a faster pace than in the industry as a whole, asset quality indicators continued to show improvement, and community banks again accounted for 45 percent of small loans to businesses.

The number of "problem banks" fell for the 13th consecutive quarter. The number of banks on the FDIC's "Problem List" declined from 411 to 354 during the quarter. The number of "problem" banks now is 60 percent below the post-crisis high of 888 at the end of the first quarter of 2011. Seven FDIC-insured institutions failed in the second quarter, compared to 12 in the second quarter of 2013.

The Deposit Insurance Fund (DIF) balance continued to increase. The DIF balance — the net worth of the Fund — rose to $51.1 billion as of June 30 from $48.9 billion at the end of March. Assessment income was the primary contributor to the growth in the Fund balance. Estimated insured deposits declined by 0.2 percent, and the DIF reserve ratio (the Fund balance as a percentage of estimated insured deposits) rose to 0.84 percent as of June 30 from 0.80 percent as of March 31. A year ago, the DIF reserve ratio was 0.64 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.

# # #

Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. The FDIC insures deposits at the nation's banks and savings associations, 6,656 as of June 30, 2014. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

FDIC press releases and other information are available on the Internet at www.fdic.gov, by subscription electronically (go to www.fdic.gov/about/subscriptions/index.html) and may also be obtained through the FDIC's Public Information Center (877-275-3342 or 703-562-2200). **PR-71-2014**