FDIC Report Shows that Despite Improvement Problem Banks Persist

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The FDIC's Quarterly Banking Profile for the second quarter of 2013, which the agency released on August 29, 2012, shows that the general positive trends in the banking industry are continuing, but revenue growth is weak and the low interest rate environment is creating challenges for many banks. In addition, the number of problem institutions, though down, remains stubbornly high.

The overall statistics show that banking industry profits are up by a substantial percentage from the second quarter a year ago. . The growth in profits represents the 16th consecutive quarter that earnings have registered a year-over-year increase. The earnings increases are a result of increased noninterest income, lower noninterest expenses and reduce provisions for loan losses.

The press release accompanying the report quotes the agency's Chairman as saying "overall these results show a continuation in the recovery in the banking industry." However, the Chairman is also quoted as saying that "industry revenue growth remains weak, reflecting narrow margins and modes loan growth." In addition the current low interest rate environment "creates an incentive for institutions to reach for yield, which is a matter of ongoing supervisory concern."

There is some good news about the number of problem institutions as well. (The agency calls those banks that it rates as a "4" or "5" in a 1-to-5 scale of risk and supervisory concern "problem institutions.") The number of problem institutions declined to 553 from 612 during the quarter. The number is down significantly from the end of the second quarter 2012, when there were 732 problem institutions. The number of problem institutions is down by over 40 percent from the high quarter-end number of 888 problem institutions at the end of the first quarter of 2011. The quarterly decline in the second quarter represented the ninth consecutive decline in the number of problem institutions.

But while the number of problem institutions is going down, it is worth noting that here we are nearly five years from the peak of the financial crisis and there are still well over 500 problem institutions. At the same time, which the number of problem institutions is down, so too is the overall number of banks. There were 6,940 institutions reporting to the FDIC at the end of the second quarter of 2013, compared to 7,245 at the end of the second quarter of 2012.

One of the more noteworthy effects of the crisis in the banking sector has been the dramatic shrinkage in the number of banks. At the end of 2007, there were 8,534 banking institutions, meaning that between December 31, 2007 and June 30, 2013, 1,584 banks went out of existence, representing a decline of over 18.5%. Yet despite that substantial decrease (resulting from closures, mergers and so on), there are still 553 problem institutions in the industry, as of June 30, 2013.

With the declining number of banks, the percentage of banks that are rated as problem institutions still remains high, despite the decline in the absolute number of problem banks. The 553 problem institutions at the end of the second quarter still represent nearly eight percent of all reporting institutions (down slightly from the 8.7% of all banking institutions at the end of the first quarter of 2013). . In other words, roughly one out of twelve of every bank in the United States is still regarded by the FDIC to be a "problem institution."

And not only that – banks are continuing to fail. Just this past Friday evening, two more banks failed, bringing the year to date total number of failed banks to 20. While it seems likely that the number of banks that fail in 2013 will be below the 51 that failed in 2012 and a far cry from the 157 that failed in 2010, the fact is that banks are continuing to fail. Even at this late date, five years after the peak of the financial crisis. The banking industry as a whole remains on the road to recovery. However, the problems from the credit crisis continue to haunt the industry. The number of problem institutions, though improving, persists at an elevated level.