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U.S. Banks Post $21.6 Billion Profit as ‘Problem’ Lenders Rise
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By Phil Mattingly

Aug. 31 (Bloomberg) -- U.S. lenders posted their biggest quarterly profit in almost three years, even as the number of banks at risk of failure rose to 11 percent of the insured institutions, the Federal Deposit Insurance Corp. said.

Bank profits rose to $21.6 billion in the three-month period that ended June 30, an increase from $18 billion in the first quarter, the FDIC said today in its quarterly report on industry performance.

“The economic recovery that began last year is beginning to be reflected in the rising earnings and improving credit quality,” FDIC Chairman Sheila Bair said in a statement.

As the largest banks continued to show improvement in earnings and credit quality, the FDIC’s “problem” bank list reached the highest level since 1992 amid slowing recovery from the worst economic crisis since the Great Depression, the Federal Deposit Insurance Corp. said.

The FDIC had 829 banks with $403 billion in assets on its list of so-called problem lenders at the end of the second quarter, a 7 percent increase from the 775 the on the list at the end of the first quarter, the regulator said.

“Earnings remain low by historical standards, and the numbers of unprofitable institutions, problem banks, and failures remain high,” Bair said.

Regulators are closing banks at the fastest pace since 1992, seizing 118 lenders so far this year after shutting 140 institutions in 2009 amid loan losses stemming from the collapse of U.S. mortgage markets. The total assets for the “problem” institutions fell from $431 billion last quarter, illustrating how the smallest lenders remain the hardest hit.

Lending Fell

Industry lending fell 1.4 percent as banks emerge from the worst financial crisis since the Great Depression. Net loan and lease balances declined $95.7 billion, reflecting tightened standards imposed on borrowers combined with a drop in consumer demand.

Loan-loss provisions set aside by banks fell 40.5 percent from the same quarter in 2009, to $40.3 billion in the second quarter from the year-earlier quarter, the FDIC said. The reduction in loan-loss provisions was the first since 2006, as some of the largest banks reduced provisions, causing a net reduction even as more than 60 percent of lenders increased their loan reserves.

The insurance fund deficit dropped to $15.2 billion from $20.7 billion in the previous quarter. The deficit has been reduced in each of the past two quarters after reaching a peak of $20.9 billion in the fourth quarter of 2009.

The FDIC last year required banks to prepay three years of premiums, raising $46 billion on Dec. 30. The agency also has the authority to tap a $500 billion credit line with the Treasury Department.

The FDIC insures deposits at 7,830 lenders with $13.2 trillion in assets. The insurance fund is used to reimburse customers for deposits of as much as $250,000 when a bank fails.

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--Editors: Gregory Mott, William Ahearn

To contact the reporter on this story:
Phil Mattingly in Washington at +1-202-654-4316 or pmattingly@bloomberg.net.

To contact the editor responsible for this story:
Lawrence Roberts at +1-202-624-1985 or lroberts13@bloomberg.net