

Struggles continue in banking industry

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WASHINGTON—The U.S. banking industry continued to struggle in the fourth quarter, as the number of banks on the brink of failure continued to rise and the government's fund to protect deposits fell sharply into the red.

The Federal Deposit Insurance Corp. said Tuesday that its deposit-insurance fund's deficit widened by \$12.6 billion in the final three months of 2009 and hit \$20.9 billion at the end of the year, as bank failures continued at a pace not seen since the savings and loan crisis.

The fund's reserve ratio was minus-0.39% at the end of the quarter, the lowest on record for the combined bank and thrift fund.

The deposit insurance fund is unlikely to soon see a respite from a decline in the number of failing banks: The FDIC said the number of banks on its "problem" list climbed to 702 at the end of 2009 from 552 at the end of September and 252 at the end of 2008.

The number of banks on the list, which have combined assets of \$402.8 billion, is the highest since June 1993.

"The continued rise in loan losses and troubled assets points to further pressure on earnings," FDIC Chairman Sheila Bair said in a statement. "The growth in the numbers and assets of institutions on our 'Problem List' points to a likely rise in the number of failures."

Industry indicators deteriorated nearly across the board. The FDIC

said loan losses for U.S. banks climbed for the 12th straight quarter, while the total loan balances for U.S. banks continued to fall. The agency said the quarterly net charge-off rate and the total number of loans at least three months past due both were at the highest level ever recorded in the 26 years the data have been collected.

Net charge-offs of troubled loans occurred across all major loan categories, led by a \$3.3 billion increase in residential mortgage loans. The FDIC said U.S. banks' coverage ratio—reserves divided by the amount of noncurrent loans—fell to 58.1% in the fourth quarter from 60.1% in the third quarter.

The FDIC did cite some reasons for optimism. The banking industry was able to report a modest profit of \$914 million in the fourth quarter, compared with a record loss of \$37.8 billion in the final three months of 2008. And while the largest banks were the beneficiaries of much of the earnings improvement, the agency said more than half of FDIC-insured banks saw a year-over-year improvement in their net income.

Banks' profits were helped by improvements in trading revenue, which totaled \$2.8 billion the fourth quarter, and servicing income, which represented a gain of \$8.0 billion.

The FDIC also said that more than half of all banks reported higher net interest margins in the fourth quarter compared with third-quarter levels.

