Section II: Economic, Financial Markets, and Banking Industry Overview

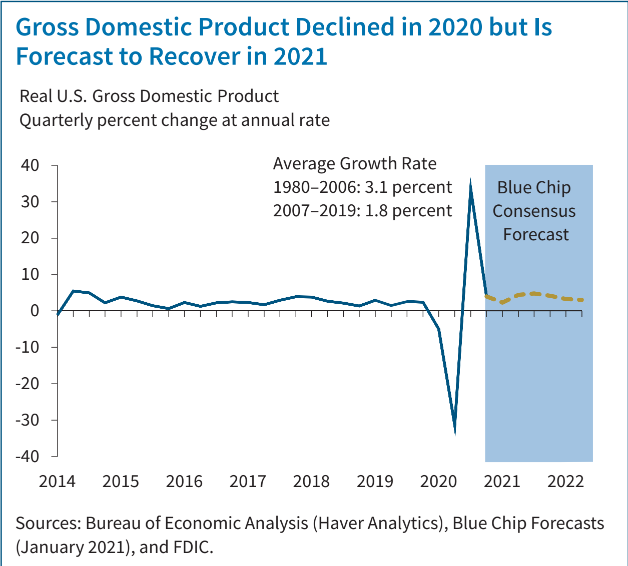
Economy

- *The U.S. economy entered a recession in February 2020 as the pandemic caused a historic decline in economic activity.*
- *Labor markets deteriorated significantly in 2020 and remained weak despite the recovery that began in the second half of the year.*
- *Throughout 2020, substantial fiscal and monetary policy measures were enacted to support consumers and businesses.*
- *Conditions remain weak for many service industries including restaurants, retail, entertainment, travel and tourism, and other discretionary services that are not essential or do not allow for remote work.*

The economy entered a recession in February 2020 as the onset of the pandemic halted economic activity. The economy started 2020 in a period of record-long expansion. The expansion ended abruptly with the onset of the pandemic and related restrictions on business and consumers. The decline in economic activity was swift, severe, and broad-based. U.S. real gross domestic product (GDP) contracted 5.0 percent in first quarter and continued to decline at a 31.4 percent annualized rate in second quarter, the sharpest decline on record (Chart 1).[3] The economic contraction was widespread across sectors (Chart 2).

Chart 1

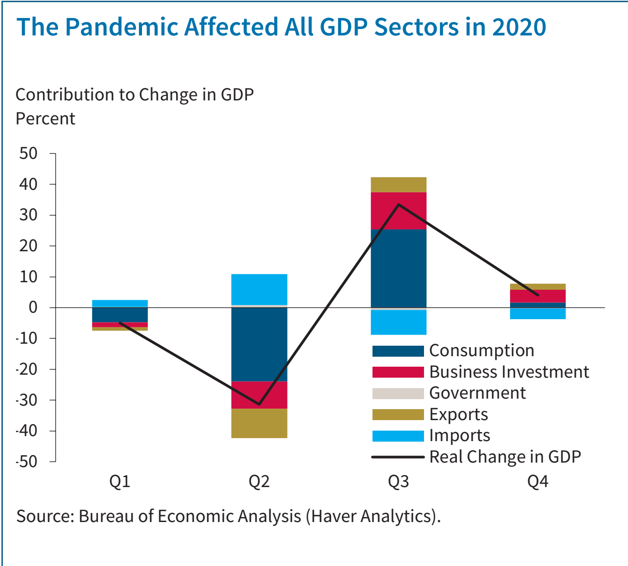
Gross Domestic Product Declined in 2020 but Is Forecast to Recover in 2021



Sources: Bureau of Economic Analysis (Haver Analytics), Blue Chip Forecasts (January 2021), and FDIC.

Chart 2

The Pandemic Affected All GDP Sectors in 2020



Source: Bureau of Economic Analysis (Haver Analytics).

[3] Quarterly GDP growth rates are expressed as a real seasonally adjusted annualized rate.

Containment efforts related to the pandemic contributed to declines in business and consumer spending. Both imports and exports declined in 2020 as domestic consumption and global trade fell. Government spending at the federal level supported the economy but declined at the state and local levels because of increasing budgetary pressures.

The economy began to slowly reopen in May and June. GDP grew by 33.4 percent in third quarter, recovering roughly two-thirds of the contraction in the first half of the year. Economic activity moderated in fourth quarter as the initial impact of reopening waned and resurgence of the pandemic resulted in tighter restrictions in some states. GDP grew by 4.0 percent in fourth quarter, well below the record third quarter pace.

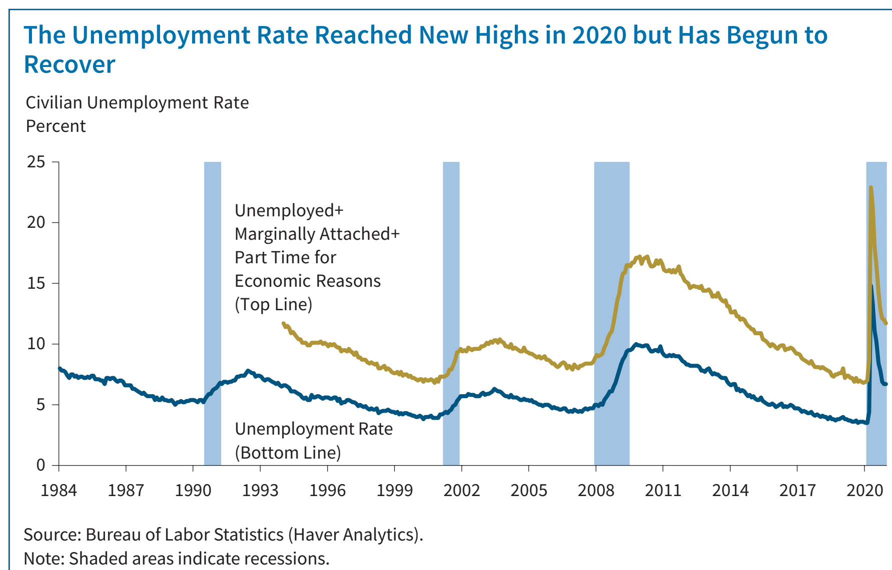
The economic recovery has been uneven across sectors, in a pattern that is atypical of recessions. While all sectors were initially hit hard during the onset of the pandemic, goods-producing sectors have recovered relatively quickly and service sectors have lagged. Traditionally, the services portion of consumption is less affected by downturns, but the unique nature of this pandemic-driven recession has hit this sector particularly hard. Goods-producing sectors have benefited from consumer and business spending related to the transition to a remote work environment.

The unemployment rate reached new highs in 2020, and employment prospects for key service sectors remain weak. The unemployment rate increased rapidly from 3.5 percent in February, the lowest level in decades, to 14.8 percent in April, the highest unemployment rate since the Great Depression (Chart 3). Initial unemployment insurance claims rose by more than one million, well above the previous recorded peak. The partial reopening of the economy caused the unemployment rate to retreat from its record highs, but labor market improvement moderated during the second half of the year. The unemployment rate at the end of 2020 was 6.7 percent.

While more than half of the jobs lost in March and April were recovered by year end, job growth was uneven across industries. Employment in industries that require face-to-face interaction with customers, jobs that cannot be performed remotely, and jobs related to discretionary and leisure activities had the largest losses and recovered the slowest (Chart 4). Leisure and hospitality—primarily restaurants and drinking establishments—have been especially hard hit as consumers reduced such activities and many state and local orders limited the operating capacity of these establishments through the end of 2020 and into early 2021. Government job losses have been elevated and have been concentrated at the state and local level as states contend with tight budgets from greater spending and lower tax revenue from the decline in economic activity. Job losses in education

Chart 3

The Unemployment Rate Reached New Highs in 2020 but Has Begun to Recover



Source: Bureau of Labor Statistics (Haver Analytics).
Note: Shaded areas indicate recessions.

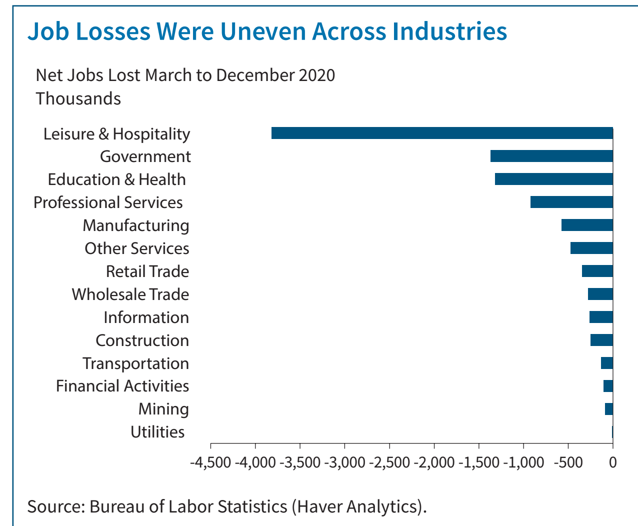
and healthcare were affected by school closures and by patients and providers forgoing nonemergency elective services.

Individual states and regions have faced uneven economic conditions owing to the spread of COVID-19 and the nature of public health orders.[4] As the virus first halted economic activity in the United States in March 2020, some states enacted stay-at-home orders sooner and with tighter restrictions than other states. Despite the recovery in the second half of the year, most states ended 2020 with higher unemployment rates than before the pandemic (Map 1). In addition, other factors at the state and local level affected the magnitude of the economic disruption and speed of reopening. States with a higher share of industries most affected by the pandemic, such as leisure and hospitality, experienced larger increases in unemployment. The speed of states' labor market recovery in the third and fourth quarters depended partly on when public health orders and other pandemic safeguards were lifted.

Both the federal government and the Federal Reserve enacted fiscal and monetary policies to support the economy. Monetary and fiscal policies were put in place quickly to help combat the economic effects of the pandemic on the economy. Congress passed stimulus packages in March, April, and December that included several major components to help households and businesses. Support to households included two rounds

Chart 4

Job Losses Were Uneven Across Industries

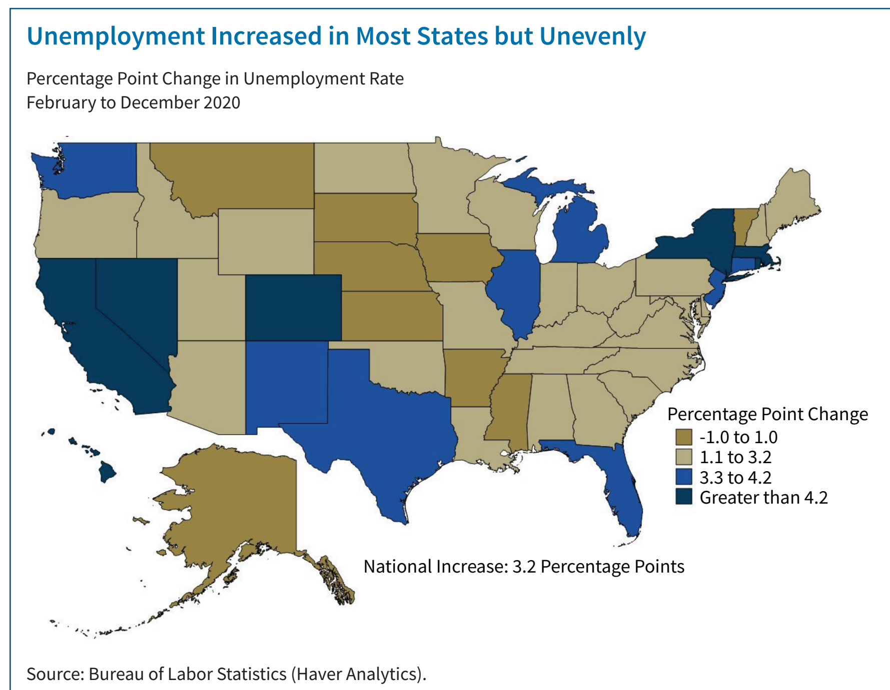


Source: Bureau of Labor Statistics (Haver Analytics).

Map 1

Unemployment Increased in Most States but Unevenly

Percentage Point Change in Unemployment Rate
February to December 2020



Source: Bureau of Labor Statistics (Haver Analytics).

[4] For this analysis, regions are Census Regions and Divisions of the United States. *See* U.S. Census Bureau at https://www2.census.gov/geo/pdfs/maps-data/maps/reference/us_regdiv.pdf.

of direct stimulus payments to qualifying individuals, expanded and extended unemployment insurance benefits, and new unemployment benefits that covered workers not traditionally covered by unemployment insurance. Congress also put in place eviction moratoria and forbearance programs. Businesses benefited from the creation of the PPP, which offered support in the form of loans. To extend the support to households and businesses, Congress passed additional rounds of stimulus in December 2020 and March 2021 that included an extension of unemployment benefits and the PPP, among other measures.

The Federal Reserve also took expansive action implementing monetary policies to support financial markets. The Federal Open Market Committee reduced the federal funds rate to the zero lower bound in two emergency meetings in March and signaled that rates will remain low until economic conditions have recovered (Chart 5).

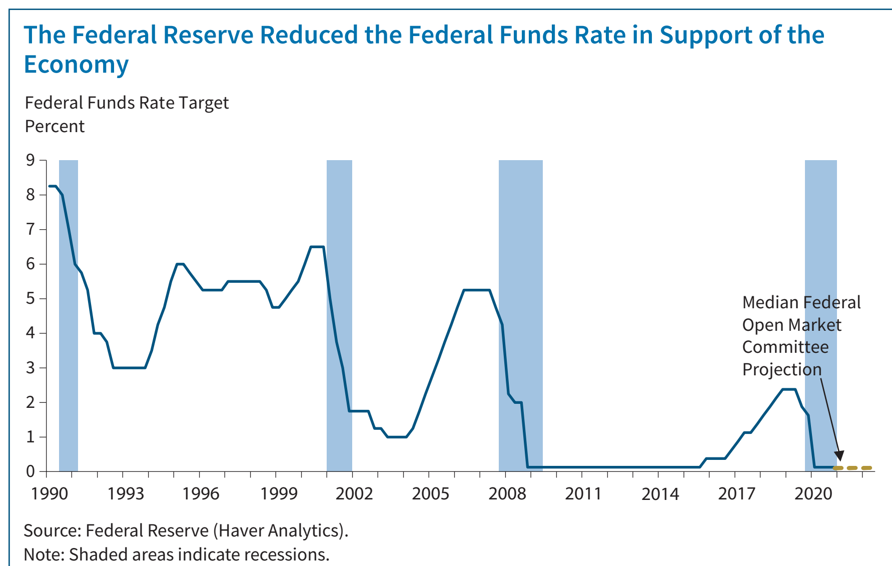
The Federal Reserve also restarted several emergency lending programs developed during the Great Recession and introduced new programs to support the economy. While the take-up of the new facilities was modest, they helped support market confidence.

Weak labor market conditions pose risks to banks through potential asset quality deterioration. As people are laid off from work, particularly for an extended period, they may be forced to draw down their savings and prioritize certain expenditures, increasing the risk of rising loan delinquency and default rates for consumer loans and residential mortgages. In addition to debt servicing issues, unemployment or uncertainty about employment also reduces demand for new loans, limiting the prospects for new loans in the medium term. Banks may also respond by tightening standards for loans, which would further reduce loan growth. Fiscal stimulus in the form of government transfer payments, extended and enhanced unemployment insurance benefits, forbearance programs, and eviction moratoria supported unemployed consumers in 2020. In fact, aggregate personal income increased in 2020.

Many businesses, especially small businesses, were closed due to public health orders in 2020, increasing risk to asset quality for banks. The unique nature of the pandemic-driven recession halted economic activity broadly, harming businesses and individuals. Surveys on business closures suggest that at the height of stay-at-home orders in April, almost 50 percent of businesses were temporarily closed. While those numbers improved as the economy reopened, surveys suggest that more than 20 percent of businesses remained closed at year-end 2020, relative to a year earlier. Missed payments on business loans increased across a wide range of industries during the early stages of the pandemic, though delinquency rates have stabilized as parts of the economy reopened and various federal programs were

Chart 5

The Federal Reserve Reduced the Federal Funds Rate in Support of the Economy



Source: Federal Reserve (Haver Analytics).
Note: Shaded areas indicate recessions.

implemented.[5] The public health aspect of this recession may affect or reshape whole industries, creating more prolonged distress to banks that specialize in certain types of loans. In addition, the economy re-entered a historically low interest rate environment that may alter, at least temporarily, the composition of bank profitability but also may provide new channels for lending and banking services for large and community banks. These risks and challenges are discussed in more detail later in this report.

The nation's economic outlook may improve as more of the population becomes vaccinated, but economic conditions remain uncertain and vary greatly across sectors and geographies. The banking outlook should improve with overall economic conditions, but improvement in the banking outlook may be more gradual than GDP growth or improvement in the unemployment rate.

[5] For more information, *see* the U.S. Census Bureau Small Business Pulse Survey at **https://www.census.gov/data/experimental-data-products/small-business-pulse-survey.html**.

Financial Markets

- *In March 2020, the onset of the COVID-19 pandemic severely disrupted financial markets; equity and corporate bond markets saw sharp selloffs.*
- *Market conditions improved with the help of unprecedented federal support programs. Most markets fully recovered by the end of 2020.*
- *Several key markets related to vulnerable industries, such as energy, remained below pre-pandemic highs.*
- *Corporate bond issuance set a record in 2020 as companies sought cash to ride out pandemic disruptions and later took advantage of historically low interest rates.*

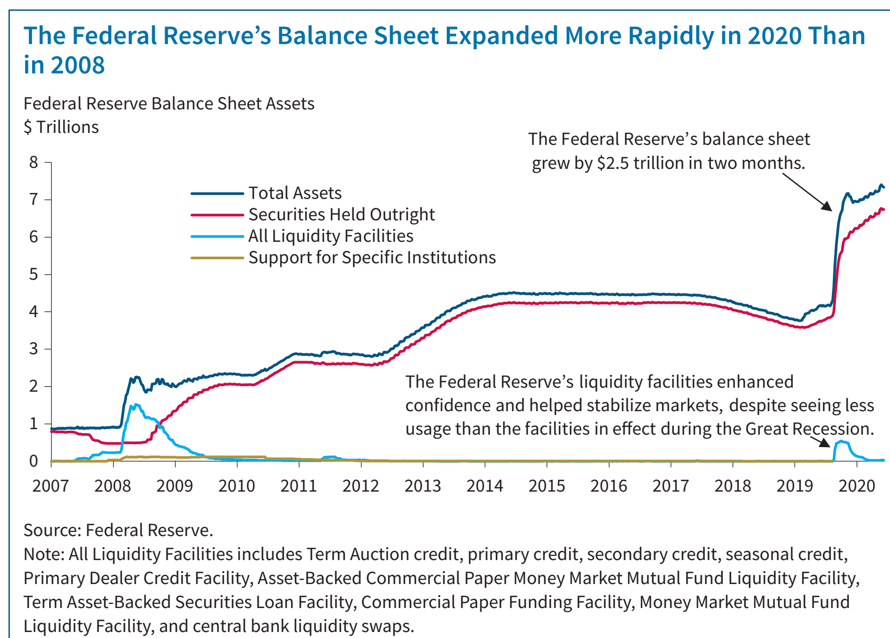
In March 2020, severe financial market disruptions were calmed with the help of unprecedented Federal Reserve support. Prices in oil and equity markets declined sharply in late February and early March, as these markets were among the first to anticipate the material effects that the pandemic would have on the economy. Corporate investment grade and high-yield bond markets as well as municipal bonds subsequently experienced a rapid selloff. Market liquidity deteriorated as transaction costs increased and some securities dealers pulled back from making markets.

One of the most concerning disruptions in the market selloff was the volatility of Treasury securities, critical benchmarks for financial assets. Treasury yields fell rapidly at the onset of the pandemic before forced selling (in a “dash for cash”) caused yields to shoot back up. One source of selling pressure was corporate bond funds. Outflows from corporate bond funds compelled those funds to sell Treasury securities they held as liquidity buffers. The selloff was exacerbated by hedge funds that were buying Treasuries but were forced to sell after reaching stop-loss limits. During the selloff, Treasury bid/ask spreads widened and liquidity deteriorated.

Financial markets stabilized in the days after the Federal Reserve dropped its target federal funds rate to near zero and pledged to purchase at least $500 billion of U.S. Treasuries. The Federal Reserve followed through on that pledge, purchasing Treasury and agency securities at an unprecedented rate (Chart 6).

Chart 6

The Federal Reserve’s Balance Sheet Expanded More Rapidly in 2020 Than in 2008



Source: Federal Reserve.

Note: All Liquidity Facilities includes Term Auction credit, primary credit, secondary credit, seasonal credit, Primary Dealer Credit Facility, Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, Term Asset-Backed Securities Loan Facility, Commercial Paper Funding Facility, Money Market Mutual Fund Liquidity Facility, and central bank liquidity swaps.

Beginning in late March through early April, the Federal Reserve increased its market support by unveiling 11 emergency lending programs.[6] These backstop programs contributed to lower interest rates and borrowing costs in corporate bond, securities, and other markets, despite limited usage. These programs also served to stabilize financial markets by providing liquidity during a period of heightened uncertainty. The Federal Reserve aided the recovery of financial markets throughout the rest of 2020 by setting expectations for maintaining an accommodative stance—both in terms of rates and asset purchases—into the foreseeable future.

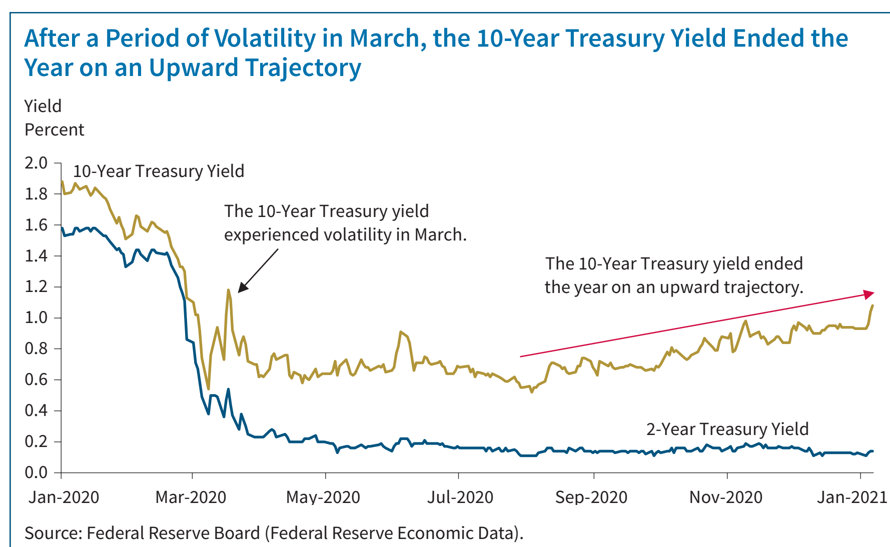
After touching all-time lows in August 2020, benchmark interest rates started on an upward trajectory that continued through the end of the year and into 2021. The 10-year Treasury yield fluctuated considerably in March with the heightened uncertainty at the onset of the pandemic, including setting an all-time low of 0.54 percent on March 9, 2020. The benchmark rate reached a new record low of 0.52 percent on August 4, 2020, amid renewed concerns about the economic outlook. The August low marked the beginning of a period of rising rates, as investors looked more optimistically toward a post-COVID-19 recovery. By year end, the yield on the 10-year Treasury had increased to 0.93 percent from its August low as prospects for the recovery improved (Chart 7).

The yield curve steepened throughout 2020. The difference between the 10-year Treasury yield and the 2-year Treasury yield, a commonly cited measure of the yield curve, more than doubled from 34 basis points at the beginning of 2020 to 80 basis points at the end of 2020. Another measure of the yield curve, the difference between 30-year and 5-year Treasury yields, increased from 70 to 129 basis points by the end of 2020. Early in the year, the yield-curve steepened as the decline in short-term interest rates outpaced the decline in long-term rates. During the last five months of 2020 (and into 2021), the yield curve saw additional steepening as long-term interest rates rose and short-term rates remained near zero.

Stabilizing debt markets and historically low yields led to a record amount of investment grade and high-yield corporate bond issuance in 2020. During the March 2020 market stress, corporate bond spreads widened dramatically. For example, the additional yield investors required for BBB-rated corporate bonds relative to Treasury bonds neared 5 percent at one point, up from 1.3 percent at the start of the year.[7] After the introduction of Federal Reserve support, corporate bond spreads gradually declined from March highs and reached pre-pandemic levels by the end of the year. The combination of low benchmark rates and declining spreads resulted in historically low borrowing rates. Several offerings

Chart 7

After a Period of Volatility in March, the 10-Year Treasury Yield Ended the Year on an Upward Trajectory



Source: Federal Reserve Board (Federal Reserve Economic Data).

[6] For more information on the Federal Reserve's funding, credit, liquidity, and loan facilities, *see* https://www.federalreserve.gov/funding-credit-liquidity-and-loan-facilities.htm.

[7] BBB-rated bonds are the lowest-rated bonds considered investment grade and also make up the largest segment of investment grade bonds.

from highly rated companies ranked among the lowest-coupon corporate issuances ever.

Companies responded to the low-rate environment by issuing $2.3 trillion in corporate bonds, the most ever in a year (Chart 8). The 2020 issuance was 60 percent above the 2019 level, despite slowing issuance at the end of the year. The largest increase was from investment grade issuers, but high-yield issuance also rose, up 51 percent from 2019. While companies benefited by locking in low rates, the continued rise in corporate debt levels makes bond issuers vulnerable to the risk of refinancing at higher interest rates.

The municipal bond market also saw record issuance in 2020 with an upward trend in taxable debt as a share of total municipal bonds. Like corporate bond spreads, municipal spreads widened in March and narrowed following the Federal Reserve's market support. Faced with low borrowing rates, municipalities set a record for issuance in 2020 with $476 billion in offerings. Taxable bond issuance more than doubled in 2020, while non-taxable bond issuance decreased. As a share of total municipal issuance, taxable debt rose to 31 percent in 2020 from 17 percent in 2019 and just 8 percent in 2018. Low interest rates have allowed cities and states to refinance older tax-exempt debt, replacing the older debt with lower-coupon taxable bonds.

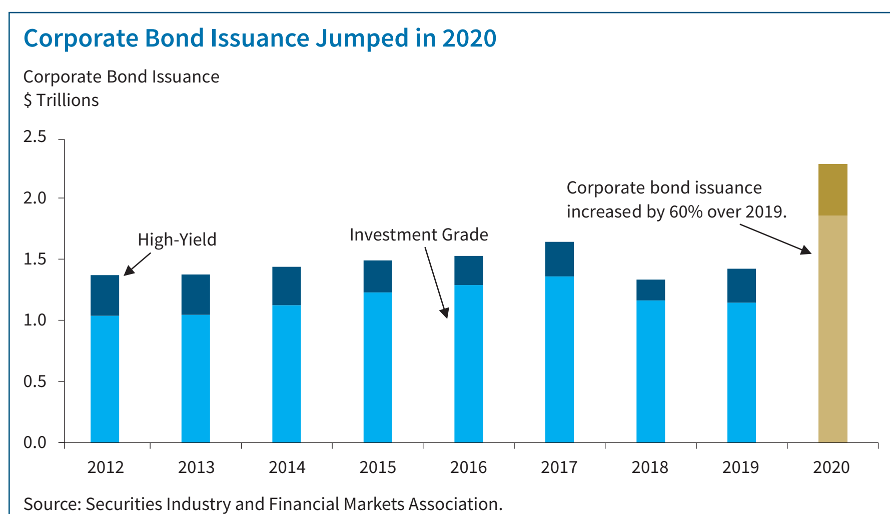
The pandemic and related government actions had a large impact on equity market movements throughout the year. Overall, the stock market performed well in 2020. The Standard and Poor's (S&P) 500 Index finished the year up 16.3 percent, and the Dow Jones Industrial Average finished up 7.3 percent. But this period was characterized by market movements responding to pandemic developments throughout 2020.

After falling as much as 34 percent from its peak, the S&P 500 Index rose largely on the performance of its five largest constituent companies. The companies were predominately technology providers whose business models performed well during the pandemic. By July, the top five stocks accounted for 22 percent of S&P 500 Index market capitalization, a record dating back to at least 1980. Technology stocks generally performed well in 2020, in part because demand for those companies' products increased sharply in the remote work world. Historically low benchmark rates also helped propel the NASDAQ Composite to a 43.6 percent return for the year.

News of vaccine developments in the latter part of the year contributed to strong performance of smaller stocks, as investors anticipated a recovery for companies affected by the pandemic. The Russell 2000, a small-cap index, had the best quarter in its history in fourth quarter 2020 with a return of 31.4 percent.[8]

Bank stocks underperformed in 2020. The KBW Bank Index, which includes 24 of the largest U.S. banking organizations, fell 13.6 percent in 2020. The broader S&P 500 Financials sector was the third-worst performer

Chart 8



Source: Securities Industry and Financial Markets Association.

[8] The full-year 2020 return for the Russell 2000 was 20.0 percent.

out of 11 sectors, falling 4.1 percent. Bank stock underperformance reflected the weak outlook for banks that persisted for much of 2020. However, this outlook improved at the end of the year on rising long-term interest rates, and bank stocks recovered some ground in early 2021.

The VIX, a frequently cited measure of expected volatility, remained elevated for the last ten months of 2020. The Chicago Board Options Exchange Volatility Index (VIX) jumped in March to more than six times its level at the start of the year and reached its highest mark since 2008 and the highest end-of-day reading ever. As market strains eased, the VIX fell but remained elevated for the rest of 2020.[9] It is somewhat unusual for the VIX to remain elevated while equities perform well, as they did the last three quarters of 2020.

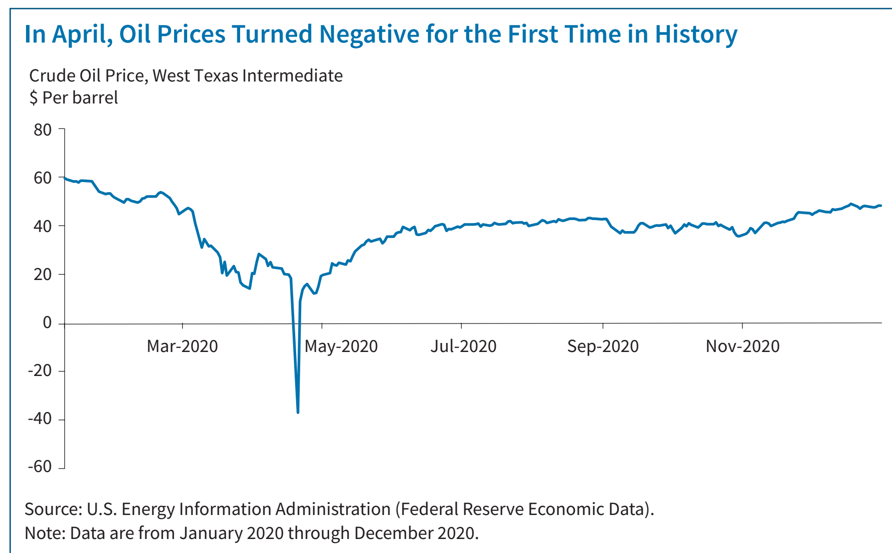
Oil companies were some of the hardest hit by the pandemic. Demand for oil dropped precipitously in the spring as businesses closed and people worldwide stayed home to combat the pandemic. Oil producers could not shut off supply fast enough and oil storage began to reach capacity. The supply and demand mismatch became so extreme in April that the price of oil, as measured by the West Texas Intermediate futures contract, briefly turned negative (Chart 9).

While other markets rebounded strongly, oil prices did not fully recover in 2020. The S&P 500 Energy sector dropped 37.3 percent in 2020 despite an overall increase in the S&P 500 of 16.3 percent.

By year end, financial market conditions were stable with strong price gains in many markets, particularly corporates and equities. Financial market conditions reflected the improved economic conditions and outlook. Investor risk appetite returned and markets' risky assets, including high-yield corporate bonds, recovered. While financial market conditions have improved significantly, they remain sensitive to developments related to the pandemic. Significant volatility and shifts in interest rates may pose challenges to the banking sector.

Chart 9

In April, Oil Prices Turned Negative for the First Time in History



Source: U.S. Energy Information Administration (Federal Reserve Economic Data).
Note: Data are from January 2020 through December 2020.

[9] The VIX did not close below 20 during the last ten months of 2020 compared to a long-term historical average of about 19 coming into the year.

Banking Industry

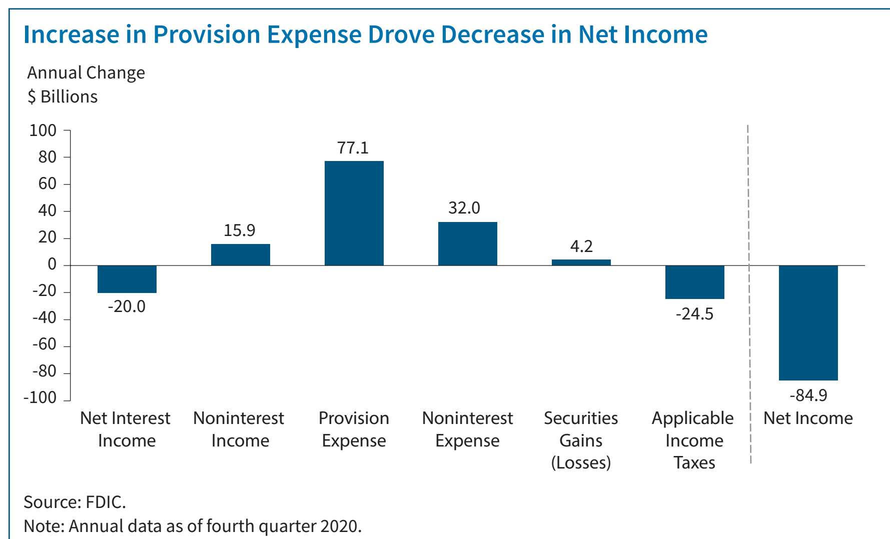
- *The COVID-19 pandemic introduced new challenges to the banking industry.*
- *FDIC-insured institutions reported lower net income in 2020 compared with 2019, primarily because of higher provision expense and lower net interest income.*
- *Deposits surged in 2020 on economic uncertainty and increased savings by consumers.*
- *The aggregate banking industry loan portfolio grew in 2020 owing to an increase in commercial and industrial (C&I) loans, which included PPP loan originations.*
- *Asset quality indicators deteriorated modestly in 2020 but remained strong partly because of government assistance for borrowers.*

The COVID-19 pandemic introduced new challenges. When mandatory stay-at-home orders were put in place at the onset of the pandemic, banks had to quickly adapt to provide and maintain an acceptable level of customer service while limiting branch access. Banks pivoted to remote access to banking services through online and mobile applications, and many banks shifted employees to remote work to ensure their safety. To safeguard the security and privacy of customer information, some banks built out telecommunications infrastructures, increased Internet capacity in data centers, and enhanced application portfolios to enhance remote productivity.

Despite changes in the operating environment and challenges presented by the pandemic, the banking industry continued to report positive financial performance and strong capital levels in 2020. The 5,001 FDIC-insured financial institutions benefited from positive net income, robust deposit growth, and strong asset quality metrics. Total bank equity capital grew 5.4 percent in 2020 and reached the highest level on record. Common equity tier 1 capital grew 7.5 percent, increasing resiliency to sustain potential losses in the future. As of December 31, the FDIC's "Problem Bank List" included 56 institutions, well below the crisis peak of 888 in 2011. Only four banks failed in 2020.

The banking industry reported net income of $147.9 billion in 2020, down 36.5 percent from a year earlier. The decline in banking industry net income was largely due to higher provisions for loan and lease losses reflecting economic concerns due to the pandemic and partially due to the implementation of the Current Expected Credit Losses (CECL) accounting standard that requires estimating credit allowances for the life of a loan. Insured institutions reported $132.2 billion in provisions in 2020, up $77.1 billion from 2019 (Chart 10). The increase in provisions, however,

Chart 10



Source: FDIC.
Note: Annual data as of fourth quarter 2020.

was largely concentrated in the first half of the year. Faced with much uncertainty and concerns due to the pandemic, government-issued lockdowns, and increase in unemployment, banks reserved $114.3 billion in the first half of the year. As the economic outlook improved and progress was made in developing a vaccine, banks released their provision expenses in the latter half of the year. In fourth quarter 2020, net provision expenses declined to $3.5 billion, the lowest quarterly level since second quarter 1995.

Interest rate cuts in the first half of 2020 pressured yields on earning assets. Net interest income decreased by 3.7 percent in 2020 to $526.6 billion. Annual net interest margin (NIM) for the industry fell to 2.82 percent, down 53 basis points from year-end 2019 (Chart 11). This was the lowest annual NIM since year-end 1984, when data collection began. Continued low interest rates and ensuing NIM compression may pose earnings and liquidity challenges for some institutions, particularly those that rely heavily on interest income.

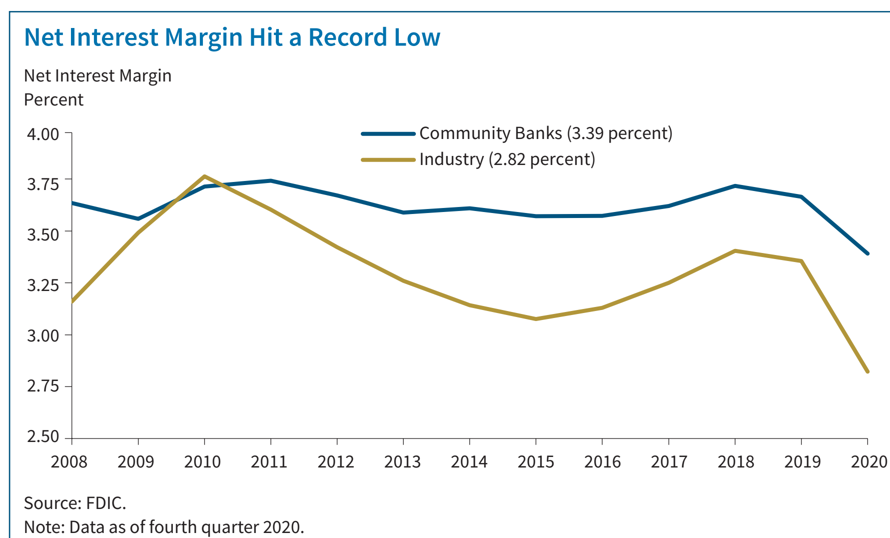
As of December 31, 2020, community banks reported an annual NIM of 3.39 percent, the lowest since year-end 1988. Relative to the banking industry as a whole, community bank NIM benefited from higher yields from holding more long-term earning assets. While this helped community banks in 2020, it may present challenges going forward as assets mature and begin to reprice at lower yields.

Noninterest income rose 6 percent to $280.2 billion from a year earlier, largely due to an 89.3 percent increase in net gains on loan sales as record low mortgage rates coupled with a strong demand for larger homes boosted housing sales and refinances. Noninterest expense rose 6.9 percent to $498.2 billion in 2020, primarily because of salary and employee benefits expenses.

The banking industry saw unprecedented deposit growth in 2020 as increased economic and market uncertainty shifted consumer and business spending and saving behavior. Expanded monetary policy, coupled with government assistance and support programs, including stimulus and unemployment payments and the PPP, bolstered cash for consumers and businesses, which further supported deposit growth and personal savings. Total deposits increased $3.3 trillion, or 22.6 percent, in 2020, the largest annual growth since 1984 (Chart 12). The influx of cash resulted in increased balance sheet liquidity and decreased reliance on wholesale funding. Community banks mirrored the industry's deposit growth, reporting a $330.5 billion (18.4 percent) increase in deposits during the year.

The growth in deposits resulted in a large increase in assets, which led to a lower return on assets ratio (ROA) in 2020. Assets grew $3.2 trillion (17.4 percent) in 2020, well above the 2008 to 2019 average of 3.1 percent. Much of the growth was in low-yielding assets. Cash and balances due from depository institutions increased $1.5

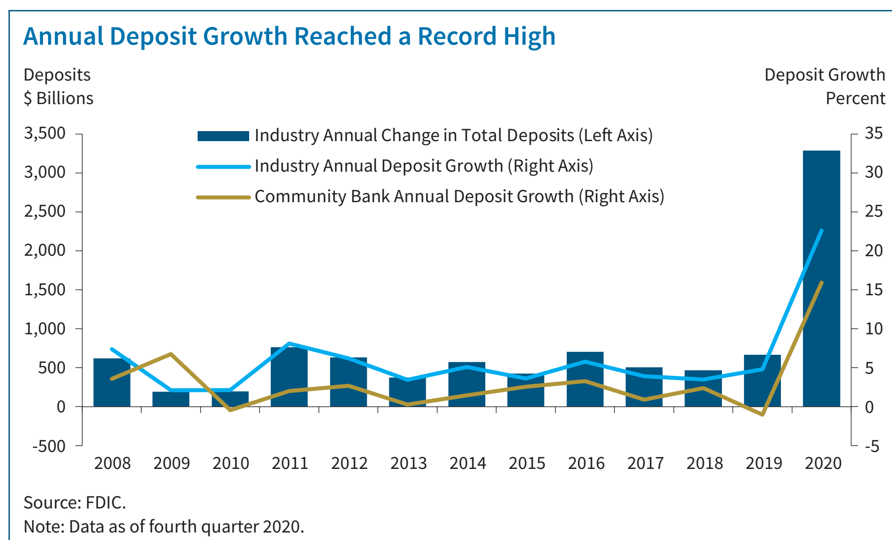
Chart 11



trillion (91.2 percent), while securities grew $1.1 trillion (28.4 percent) in 2020. Net loans and leases increased by a modest 2.2 percent. The annual ROA ratio for the industry fell to 0.72 percent at year-end 2020, 57 basis points lower than year-end 2019. Community banks reported a more modest decline in the ROA ratio to 1.09 percent, 10 basis points below year-end 2019. This was the first year since 2008 that the community bank ROA ratio surpassed the industry (Chart 13).

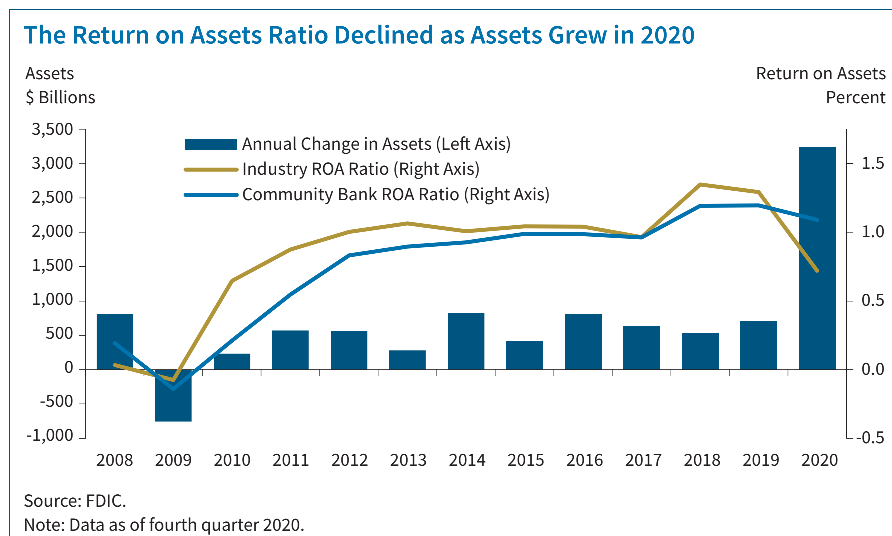
Banking industry loan growth was primarily driven by rapid growth in the C&I loan portfolio in 2020. Total loans increased $345 billion during the year, led by a $232.8 billion increase in C&I loans as businesses drew down credit lines as a precautionary measure to support liquidity and as banks provided PPP loans. Excluding PPP loans, total C&I loans would have contracted by nearly 8 percent in 2020. At the end of fourth quarter 2020, 83 percent of all banks and 84 percent of community banks held PPP loans totaling $407 billion. Growth in nonfarm nonresidential properties (up $52.4 billion) and construction and development loans (up $24.3 billion) also contributed to net loan growth (Chart 14). Due to increased saving and reduced spending stemming from stay-at-home restrictions and behavioral changes from the pandemic,

Chart 12



Source: FDIC.
Note: Data as of fourth quarter 2020.

Chart 13



Source: FDIC.
Note: Data as of fourth quarter 2020.

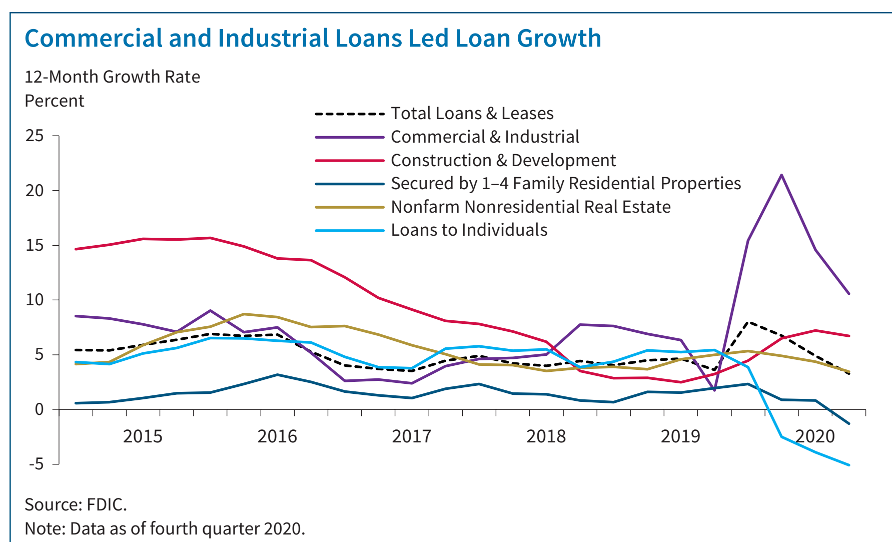
loans to individuals declined $93.3 billion (5.1 percent), led by a $119.5 billion (12.7 percent) decrease in credit card loans, the highest fourth quarter year-over-year reduction in both categories since 1985.

Despite modest deterioration, asset quality indicators remained relatively strong at year-end 2020. As of December 31, 2020, the noncurrent loan rate for the banking industry was 1.18 percent, up 28 basis points from year-end 2019 but well below the high of 5.44 reached in year-end 2009. The annual net charge-off rate was 0.50 percent, down 2 basis points from year-end 2019 and well below the high of 2.55 percent at year-end 2010 (Chart 15). Community banks also reported modest asset quality deterioration in 2020, but the noncurrent rate of 0.77 percent and the charge-off rate of 0.12 percent remained below the industry overall. The industry's coverage ratio, which compares the amount of loan-loss reserves to noncurrent loans, jumped to 184.1 percent in 2020 (up 54.2 percent from 2019) owing to the significant increase in provisions for loan and lease losses.

Government assistance and forbearance programs for some mortgages and student loans have helped to support asset quality during the pandemic. The

Chart 14

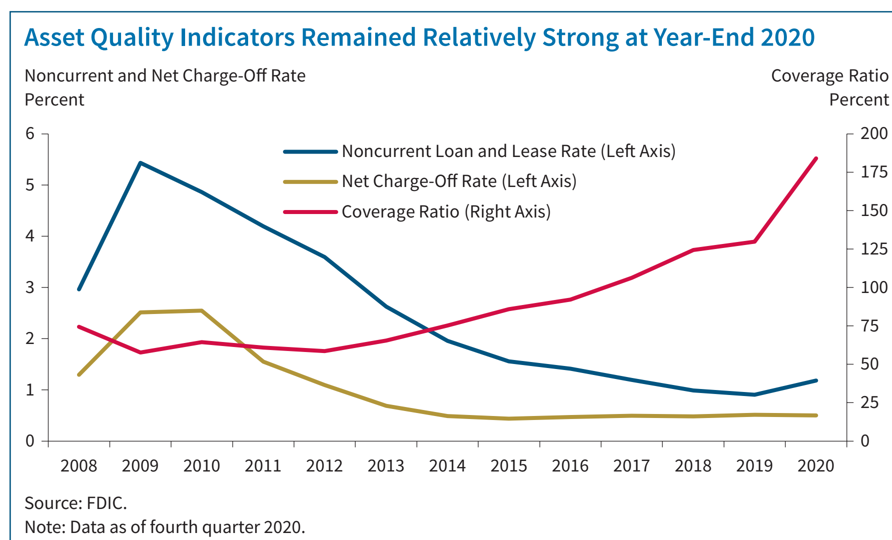
Commercial and Industrial Loans Led Loan Growth



Source: FDIC.
Note: Data as of fourth quarter 2020.

Chart 15

Asset Quality Indicators Remained Relatively Strong at Year-End 2020



Source: FDIC.
Note: Data as of fourth quarter 2020.

PPP further supported small businesses by providing potentially forgivable loans to cover eligible expenses. In addition, relief measures by federal banking regulators that have prevented loans from advancing to delinquency status have also helped to support asset quality at insured institutions.[10]

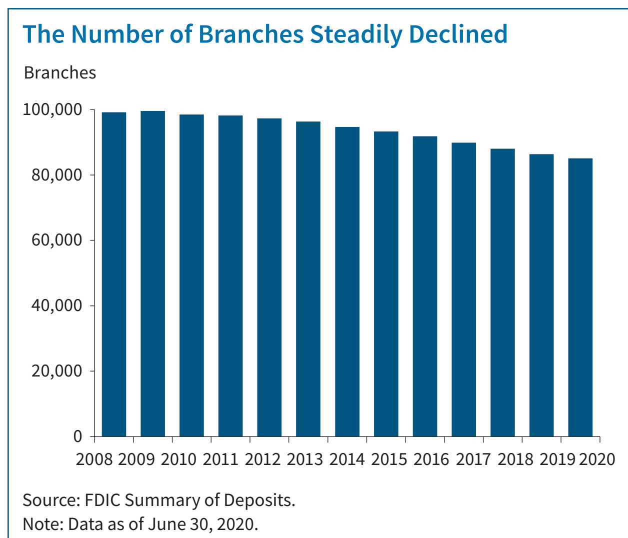
Consistent with pre-pandemic trends, branch reductions continued in 2020 as banks leveraged digital delivery channels and consumers embraced online banking. As of June 30, 2020, Summary of Deposits data showed there were 85,040 branches, down 1.6 percent from June 30, 2019 (Chart 16). Branches of community banks decreased at a higher rate of 2.7 percent.

Net charter consolidation rate slightly decreased between 2019 and 2020 (Chart 17).[11] The pandemic and challenging economic conditions could contribute to renewed consolidation and merger activity in the near term, particularly for banks already facing significant earnings pressure from low interest rates and a potential increase in credit losses.

Throughout 2020, the banking industry demonstrated resilience despite continued economic challenges and uncertainties relative to the COVID-19 pandemic. The next sections of this report explore the specific credit and market risks that will continue to challenge the banking industry in 2021.

Chart 16

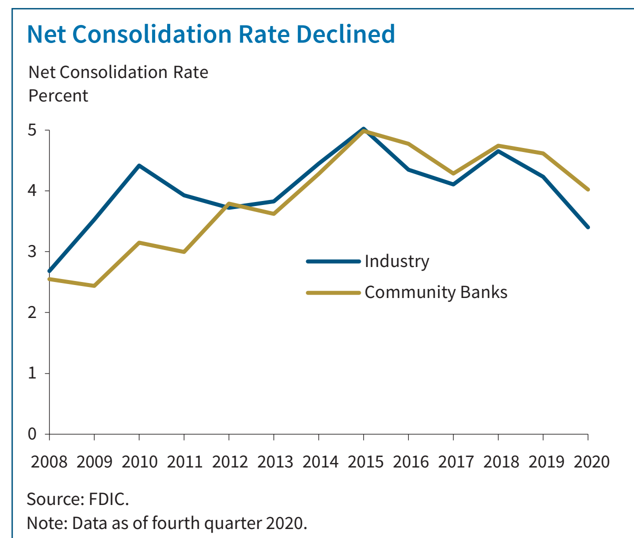
The Number of Branches Steadily Declined



Source: FDIC Summary of Deposits.
Note: Data as of June 30, 2020.

Chart 17

Net Consolidation Rate Declined



Source: FDIC.
Note: Data as of fourth quarter 2020.

[10] *See* Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working With Customers Affected by the Coronavirus, April 07, 2020, https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20200407a1.pdf.
[11] Net charter consolidation is the sum of the number of failures, intra-company consolidations, inter-company mergers, new charters, and other closings.