FDIC Chairman Martin J. Gruenberg:

Opening Statement

Second Quarter 2016 Quarterly Banking Profile

August 30, 2016

Good morning, and welcome to our release of second quarter 2016 banking results for FDIC-insured institutions.

Results for the banking industry were largely positive in the second quarter. Income and revenue both increased from a year ago, loan growth remained strong, there were fewer unprofitable banks, and the number of “problem banks” continued to decline.

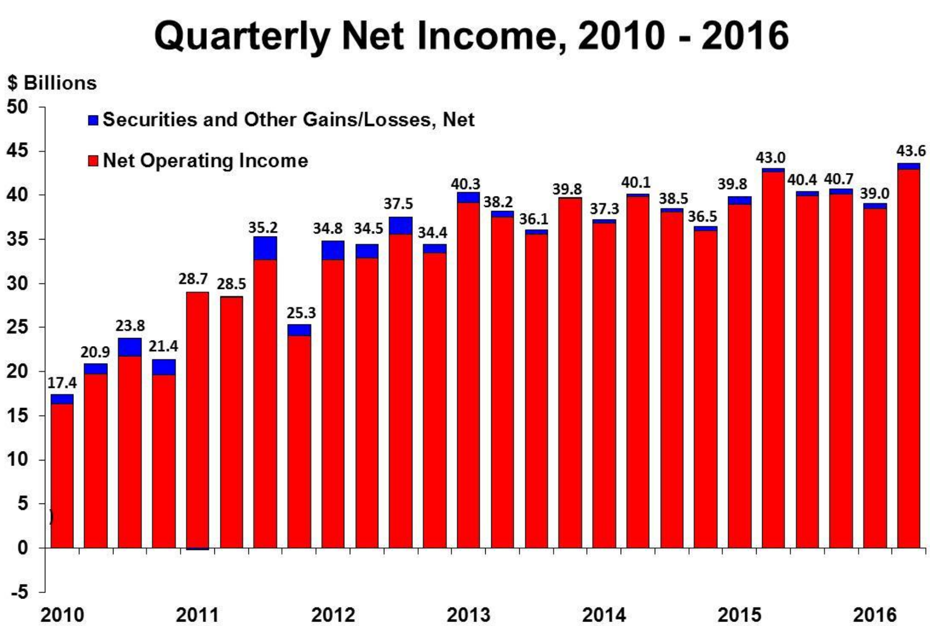
Community banks reported another solid quarter as their net income growth, revenue growth, loan growth, and net interest margins remained appreciably higher than the overall industry.

However, banks are still operating in a challenging environment. Net interest margins and return on assets remained low by historical standards, noncurrent commercial and industrial (C&I) loans increased, and loan charge-offs rose for a third consecutive quarter.

At the end of June, the Deposit Insurance Fund reserve ratio, which is the fund balance as a percent of estimated insured deposits, rose to 1.17

percent, the highest ratio in more than eight years. This marks a significant milestone for the fund, which fell into negative territory following the financial crisis. Since the fund's reserve ratio is now greater than 1.15 percent, most banks will pay lower deposit insurance assessments going forward as a result of previously adopted FDIC regulations. I will come back to this point later in my statement.

Chart 1:



Our first chart shows that net income was 43.6 billion dollars in the second quarter, up 1.4 percent from a year earlier. This increase reflects higher net operating revenues, combined with reduced litigation expenses at some of the largest institutions. These positive factors were partially offset by loan loss provision expenses, which were up from a year ago.

At community banks, net income was 9 percent higher than a year ago. More than 60 percent of all community banks reported higher net income than a year ago, and less than 5 percent of community banks were unprofitable in the second quarter.

Chart 2:

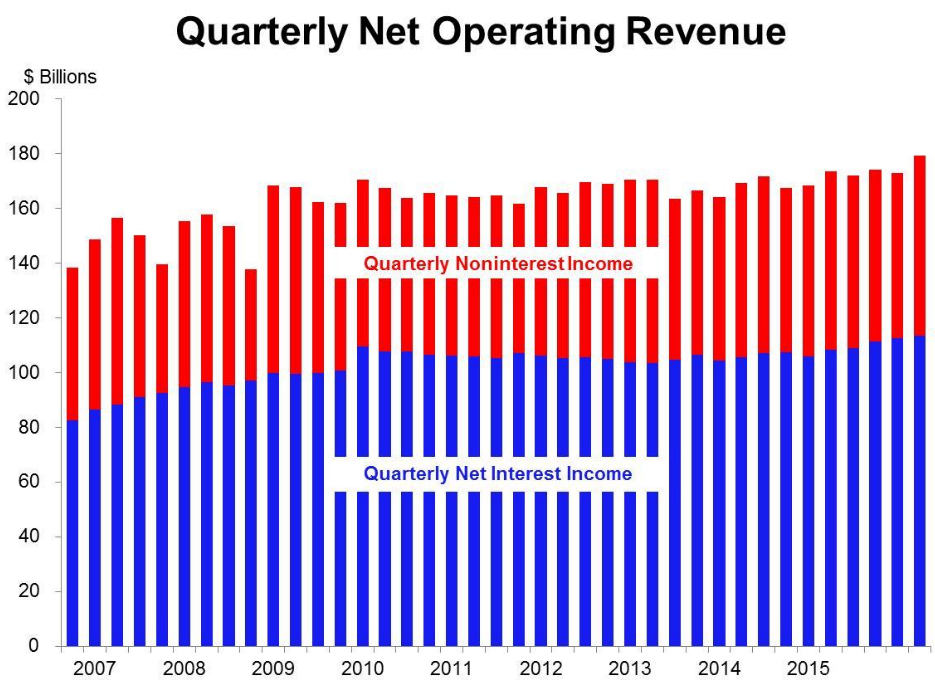
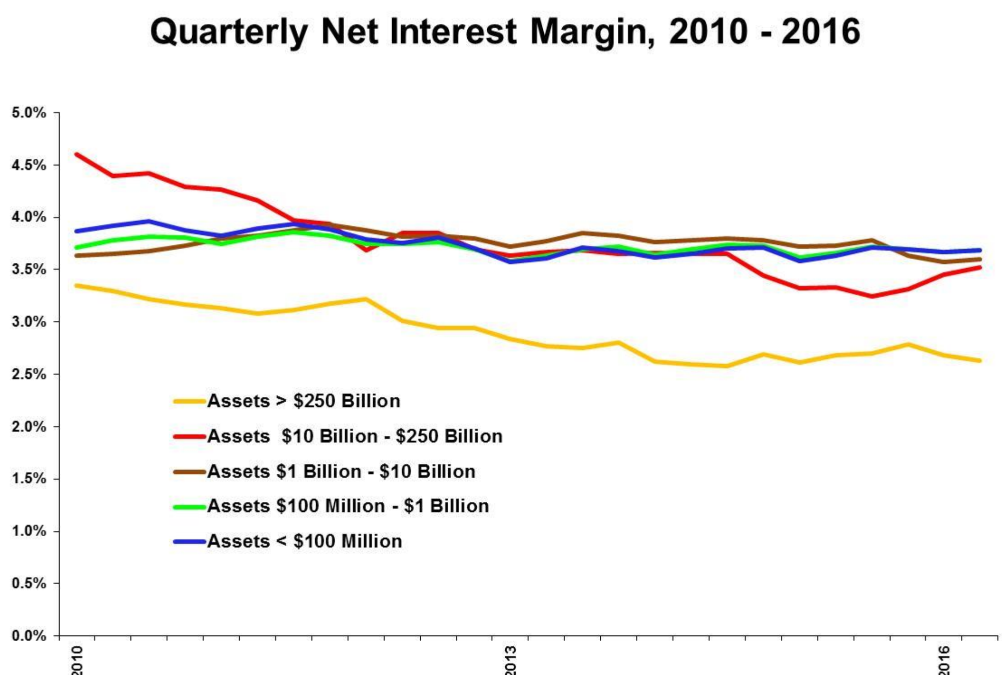


Chart 2 shows that net operating revenue was 179 billion dollars in the second quarter, up 3.3 percent from a year ago. Most of the improvement came from higher net interest income, which increased nearly 5 percent.

Noninterest income also was up, but by less than one percent due to weakness in servicing income.

Revenue growth was stronger at community banks, where net operating revenue was more than 7 percent higher than in the second quarter of 2015.

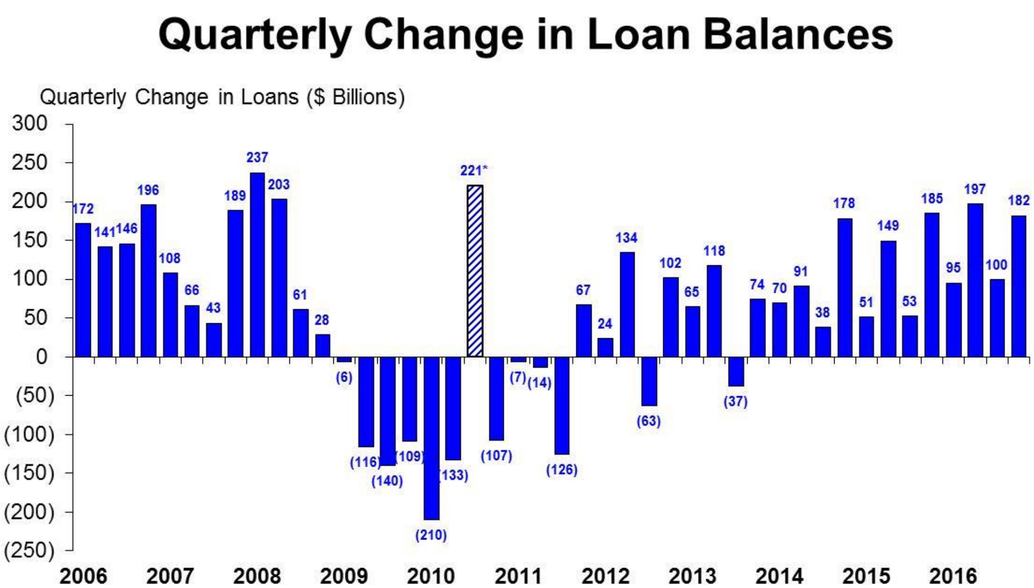
Chart 3:



This quarter, the Quarterly Banking Profile will begin presenting condition and performance data for five asset size groups instead of four. The addition of an asset size threshold of 250 billion dollars will allow readers to see how the largest banks compare to the rest of the industry. This new, expanded presentation is reflected in our next chart, which shows trends in net interest margins across the five asset size groups.

The industry's average net interest margin was 3.08 percent in the second quarter. However, Chart 3 shows that banks in the three size groups with assets of less than 10 billion dollars have the highest average margins, banks with assets over 250 billion dollars have the lowest, and banks with assets between 10 and 250 billion dollars have seen their average margin increase over the past three quarters. The differences in margins across size groups reflect differences in business models, including their asset mix and funding sources.

Chart 4:

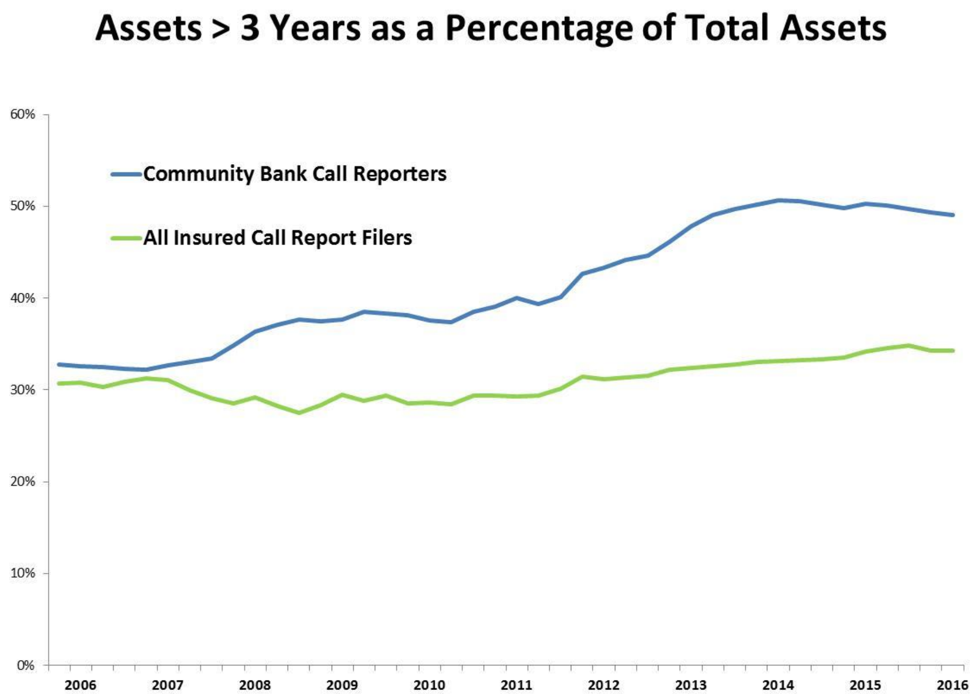


* FASB Statements 166 and 167 resulted in the consolidation of large amounts of securitized loan balances back onto banks' balance sheets in the first quarter of 2010. Although the total amount consolidated cannot be precisely quantified, the industry would have reported a decline in loan balances for the quarter absent this change in accounting standards.

Chart 4 shows that loan balances grew 182 billion dollars during the second quarter. Loan growth during the quarter was led by an increase in residential mortgages, followed by growth in nonfarm nonresidential real estate loans, and credit card balances. C&I loan balances outstanding also rose during the quarter. However, it is worth noting that there was a large decline in lines of credit to C&I borrowers during the quarter, which may reflect the stress occurring in the energy sector.

Community banks grew their loan balances 9.1 percent during the past 12 months, which outpaced the overall industry average of 6.7 percent. Loan growth at community banks was led by commercial real estate loans, C&I loans, and residential mortgages. Community banks, which account for 44 percent of the industry's small loans to businesses, continued to grow their small business loans at a faster pace than the industry.

Chart 5:



Our next chart shows that community banks continued to hold a larger share of longer-term assets on their balance sheets than the overall industry. This has helped community banks sustain their net interest margins in a low rate environment, but it has left them more vulnerable to higher short-term interest rates. This heightened exposure to interest-rate risk continues to be a focus of supervisory attention.

Chart 6:

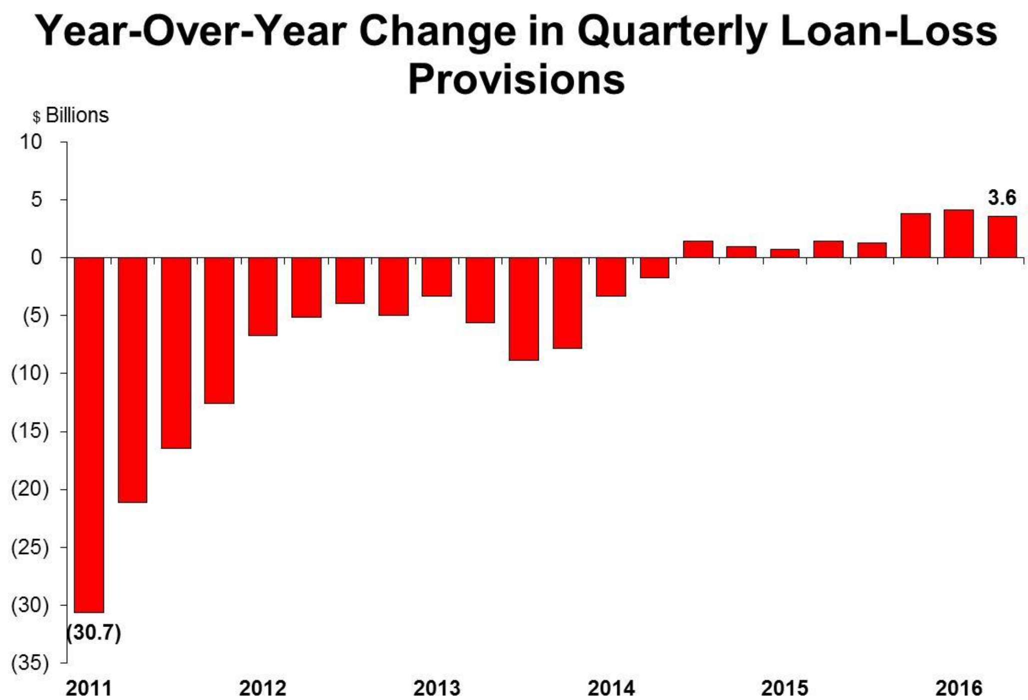


Chart 6 shows that provision expenses have increased on a year-over-year basis for the past eight quarters. Some of this increase reflects the general growth in loan portfolios and associated credit risk. And some of the increase is attributable to heightened stress in loans to oil and gas producers related to low energy prices.

Chart 7:

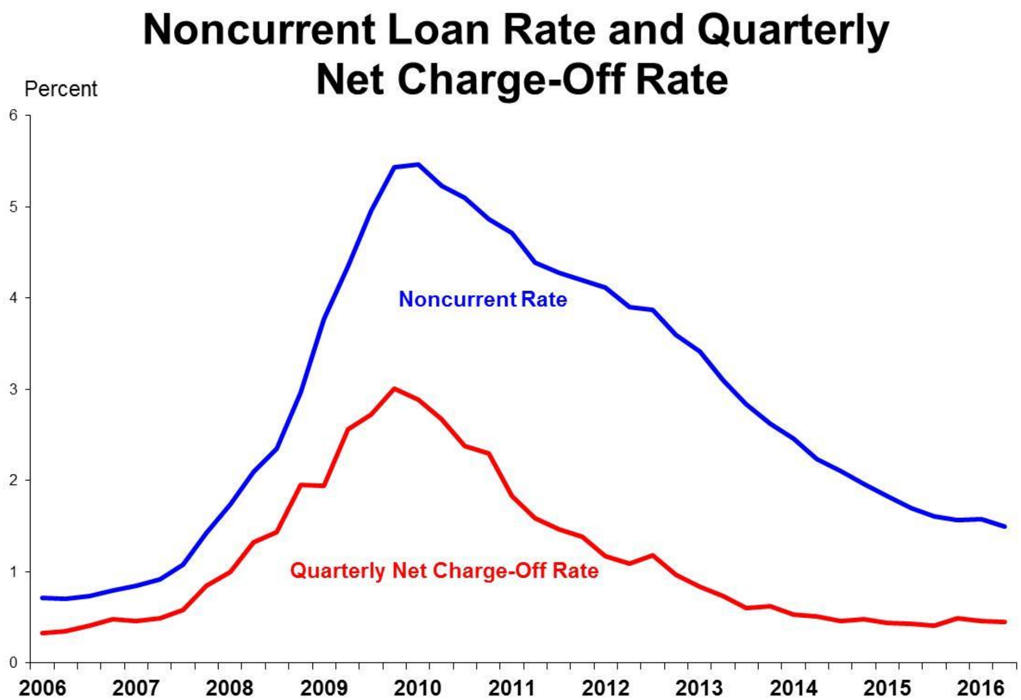


Chart 7 shows the trend in overall asset quality for the banking industry.

In the first quarter, stress in energy-sector C&I loans caused total noncurrent loan balances to increase for the first time in six years. In the second quarter, the volume of noncurrent C&I loans continued to increase, but at a much slower rate than in first quarter. In addition, the volume of noncurrent loans declined in all other loan portfolios by enough to reduce the aggregate volume of noncurrent loans.

Net charge-offs rose from a year earlier for the third consecutive quarter. However, fewer than half of all banks reported an increase and the aggregate net charge-off rate remained at a pre-crisis level.

C&I loans accounted for much of the increase in charge-offs. The net charge-off rate for C&I loans has risen for five consecutive quarters and is now more than double the cyclical low reached in the first quarter of 2015. Still, the net charge-off rate for C&I loans remains near its pre-crisis level.

Chart 8:

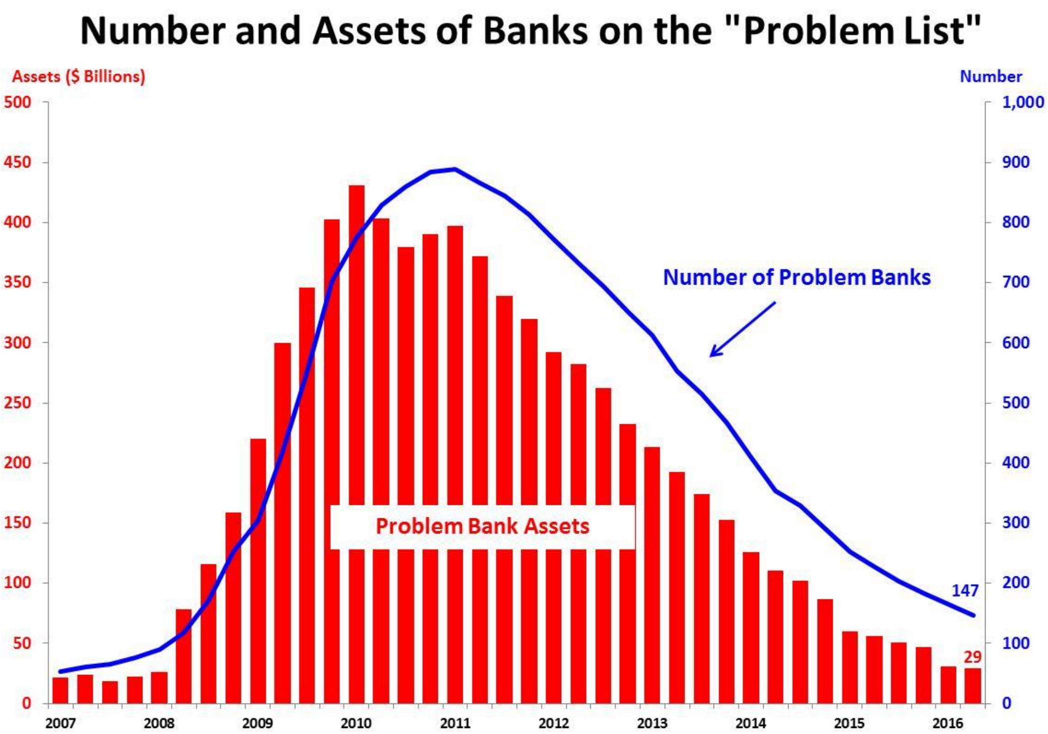
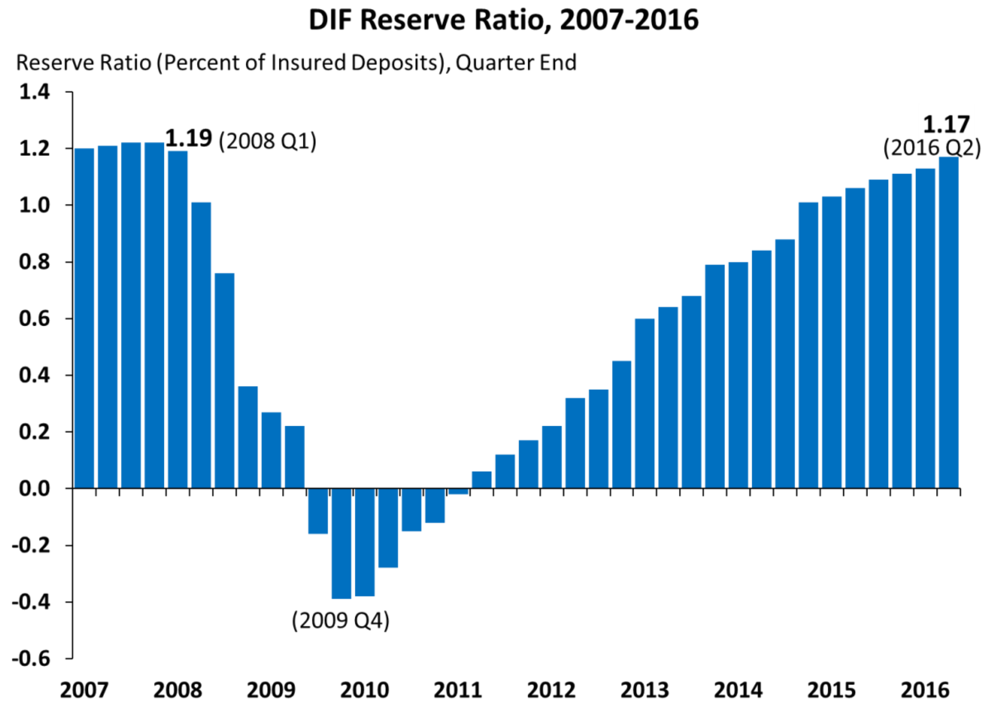


Chart 8 shows there were 147 banks on the "Problem List" at the end of the second quarter with assets of 29 billion dollars, down from 165 banks with 31 billion dollars in assets at the end of the first quarter. This is the smallest number of problem banks and the lowest total assets since the first half of 2008. There were two bank failures during the quarter.

Chart 9:



The Deposit Insurance Fund balance was 77.9 billion dollars on June 30, up 2.8 billion dollars from last quarter. Revenues from assessments were primarily responsible for the increase.

Estimated insured deposits rose to 6.7 trillion dollars at the end of June, an increase of 0.2 percent during the quarter.

Chart 9 shows what I mentioned at the beginning – that the fund's reserve ratio increased to 1.17 percent on June 30 from 1.13 percent at the end of March. And as I indicated earlier, lower regular assessment rates will go into effect now that the reserve ratio exceeds 1.15 percent. We estimate that regular assessments will decline on average by one-third as a result of lower rates.

The improvement in the fund's balance and reserve ratio since the financial crisis reflects progress in implementing the long-term fund management plan put into place by the FDIC, as well as improving conditions in the banking industry.

The law requires that the Deposit Insurance Fund achieve a minimum reserve ratio of 1.35 percent by September 30, 2020, and mandates that institutions with total assets of 10 billion dollars or more bear the cost of the increase in the reserve ratio from 1.15 percent to 1.35 percent. To implement this requirement, the FDIC Board approved a final rule earlier this year that imposes a surcharge on large banks. Beginning in the third quarter of 2016, large banks will pay quarterly surcharges in addition to their lower, regular risk-based assessments. The FDIC projects the reserve ratio will reach 1.35 percent in 2018, after which surcharges will cease.

In summary, the banking industry reported largely positive results in the second quarter. Income and revenue both increased from a year ago, loan growth remained strong, the number of unprofitable banks was at an 18-year low, and there were fewer banks on the problem list. Community banks reported strong net income, revenue, and loan growth.

However, challenges continue to confront the banking industry. Revenue growth remains sluggish as a prolonged period of low interest rates has put downward pressure on net interest margins. This has led some institutions to reach for yield, increasing their exposure to interest-rate risk and credit risk. Overall, growth in loan balances highlights the need for institutions to maintain strong underwriting and loan administration practices to mitigate building credit risk.

More recently, persistent stress in the energy sector has resulted in a decline in asset quality at banks that lend to oil and gas producers, as well as banks that serve local economies reliant on the energy sector. We likely have not yet seen the full impact of low energy prices on the banking industry, particularly for consumer and C&I loans in energy-producing regions of the country.

We will continue to closely monitor the environment in which banks operate, and we will remain vigilant as we conduct our supervision of the industry.

Thank you.

I am happy to take your questions.