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Fewer US banks fail as industry stronger

For first time since '09, earnings growth is driven by revenue, not savings

By Marcy Gordon
Associated Press

WASHINGTON — U.S. banks are ending the year with their best profits since 2006 and fewer failures than at any time since the financial crisis struck in 2008. They're helping support an economy slowed by high unemployment, flat pay, sluggish manufacturing and anxious consumers.

As the economy heals from the worst financial crisis since the Great Depression, more people and businesses are taking out — and repaying — loans.

And for the first time since 2009, banks' earnings growth is being driven by higher revenue — a healthy trend. Banks had previously managed to boost earnings by putting aside less money for possible losses.

Signs of the industry's gains:

» Banks are earning more. In the July-September quarter, the industry's earnings reached $37.6 billion, up from $35.3 billion a year earlier. It was the best showing since the July-September quarter of 2006, long before the financial meltdown.

» Banks are lending a bit more freely. The value of loans to consumers rose 3.2 percent in the 12 months that ended Sept. 30 compared with the previous 12 months, according to data from the Federal Deposit Insurance Corp. But overall lending remains well below levels considered healthy over the long run.

» Fewer banks are considered at risk of failure. In July through September, the number of banks on the FDIC's confidential "problem list" fell for a sixth straight quarter. These banks numbered 694 as of Sept. 30 — about 9.6 percent of all federally insured banks.

» Bank failures have declined. In 2009, 140 failed. This year, the number of failures has trickled to 51.

MOVE TO MERGERS

To avoid a collapse, some weak banks have sought mergers with larger institutions. In the July-September quarter, 49 banks were absorbed in mergers, up from 45 in the April-June quarter.

The torrent of failures after the crisis and the increased mergers have thinned the number of banks to 7,181 with about 2.1 million employees as of Sept. 30. That compares with 8,451 banks with 2.2 million employees in the second quarter of 2008.

"The pressure is on to consolidate the industry," said Siegel of Stonecastle Partners. He thinks more than 1,000 banks will be absorbed within 5 to 7 years.