Banking profits hit pre-crisis levels
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Big lenders perform better than small ones. Falling loan losses assist rebound .

The healing of the US banking sector picked up pace in the second quarter with lenders' profits rebounding to pre-crisis levels amid falling loan losses, according to official data yesterday.

However, the earnings performance masked the wide gap between resurgent large banks and their struggling smaller rivals. During the quarter, the number of banks considered at risk of failure by regulators surged to the highest level in 17 years as the sluggish economy continued to take its toll on local lenders.

The 7,000-plus commercial banks overseen by the Federal Deposit Insurance Corporation reported total profits of $21.6bn in the three months to June, a sharp swing from the $4.4bn loss suffered by the sector a year ago, the regulator said.

The aggregate profit number – the highest quarterly earnings total since the third quarter of 2007 – underlines the recovery of an industry that needed billions of dollars in government help to survive the financial crisis.

"Nearly two out of every three banks are reporting better year-over-year earnings," said Sheila Bair, chairman of the FDIC, which insures the deposits of 7,830 US banks. "As long as economic conditions remain supportive, most institutions should maintain profitability."

Big institutions were the primary driver of the improved earnings as lower defaults on loans prompted them to reduce provisions.

Uncollectable loans fell $214m during the quarter, their first decrease since the last three months of 2006 and yet another sign that the financial health of companies and consumers is slowly getting better. Big banks responded to the improving conditions, especially for business loans, by reducing reserves by $11.8bn during the quarter – a 4.5 per cent fall on a year ago.

But smaller rivals suffered. The FDIC list of "problem banks" – lenders deemed at risk of failure – rose from 775 to 829 during the period, the highest number since March 1993.

The regulator does not reveal the banks on the list but the fact that total assets of the lenders fell while their numbers rose suggests more small institutions got into trouble in the quarter.

Better profitability did not translate into more loans – a fact that could deepen political hostility towards the sector. Aggregate loans and leases fell by $95.7bn, or more than 1 per cent, amid big drops in construction and credit card loans.

Mortgage loans were also down as lenders remained cautious about increasing their exposure to the fragile US housing market. Figures yesterday showed US home prices rose more than expected in June, but the pace of the climb slowed for the first time in 16 months.

The contraction in lending contributed to the fifth quarterly fall in banks' assets in the past six quarters, as lenders shrink their balance sheets.

Fonte: Financial Times, London, Sep. 1st 2010, online.