Lending Declines as Bank Jitters Persist

- NOVEMBER 25, 2009

By DAMIAN PALETTA

U.S. lenders saw loans fall by the largest amount since the government began tracking such data, suggesting that nervousness among banks continues to hamper economic recovery.

Total loan balances fell by $210.4 billion, or 3%, in the third quarter, the biggest decline since data collection began in 1984, according to a report released Tuesday by the Federal Deposit Insurance Corp. The FDIC also said its fund to backstop deposits fell into negative territory for just the second time in its history, pushed down by a wave of bank failures.

The decline in total loans showed how banks remain reluctant to lend, despite the hundreds of billions of dollars the government has spent to prop up ailing banks and jump-start lending. The issue has taken on greater urgency with the U.S. unemployment rate hitting 10.2% in October, even as the economy appears to be stabilizing.

More

- **Real Time Econ:** Takeaways from the FDIC Report

"There is no question that credit availability is an important issue for the economic recovery," FDIC Chairman Sheila Bair told reporters Tuesday. "We need to see banks making more loans to their business customers."

She said large banks -- which account for 56% of industry assets and received a large share of the government's bailout funds -- accounted for 75% of the decline.

James Chessen, chief economist at the American Bankers Association, an industry trade group, said, "It's a very risky time for any lender because the probability of loss is greater, and they are being prudent in their approach to lending. Their regulators are demanding it."

The FDIC's quarterly banking profile, which analyzed data from 8,099 federally insured banks, reported that 552 financial institutions, with combined assets of $345.9 billion, were on the government's problem list at the end of September, up from 416 with $299.8 billion of assets at the end of June. That means roughly 7% of all U.S. banks are on the list and face a higher probability of failure.

FDIC officials don't disclose the names of banks on the list, in part because it could lead to bank runs.

Many banks on the problem list are expected to return to health, but the FDIC is seeing a jump in the number of failures. Fifty banks failed in the third quarter, the most in a single quarter since the fourth quarter of 1992. Three new banks were chartered in the third quarter, the lowest quarterly number since World War II.

The FDIC said its deposit-insurance fund, which backstops trillions of dollars in deposit accounts, fell to a negative $8.2 billion at the end of September, an $18.6 billion drop from the end of June. The FDIC said one reason for the decrease was that the agency shifted $21.7 billion from the fund into reserves for bank failures over the next 12 months.

Even though the FDIC's fund balance was negative, it still had reserves of cash. The FDIC said it had $23.3 billion in cash at the end of September to help resolve future bank failures.

FDIC officials recently agreed to require banks to prepay three years' worth of government insurance fees, which is expected to bring in an additional $45 billion by the end of the year.

The decrease in loan balances reported Tuesday likely reflects a decline in demand for loans among economically anxious businesses and consumers, as well as a reduced willingness by banks to lend.

The total of commercial and industrial loans, a category that includes business loans, fell to $1.28 trillion at the end of September, from $1.36 trillion at the end of June. The outstanding total of construction loans, credit cards and mortgages also fell.

Government officials have stepped up pressure on banks to make more loans in recent weeks.

The banking industry recorded a net profit of $2.8 billion for the third quarter, compared with a $4.3 billion loss in the second quarter, according to the FDIC report. Banks wrote off $50.8 billion in bad loans in the third quarter, $22.6 billion more than they did in the third quarter of 2008.

Ms. Bair said the industry wasn't likely to be profitable in the fourth quarter, in part because banks are expected to write off more bad loans before year-end.

http://online.wsj.com/article/SB125907631604662501.html?mod=googlenews_wsj