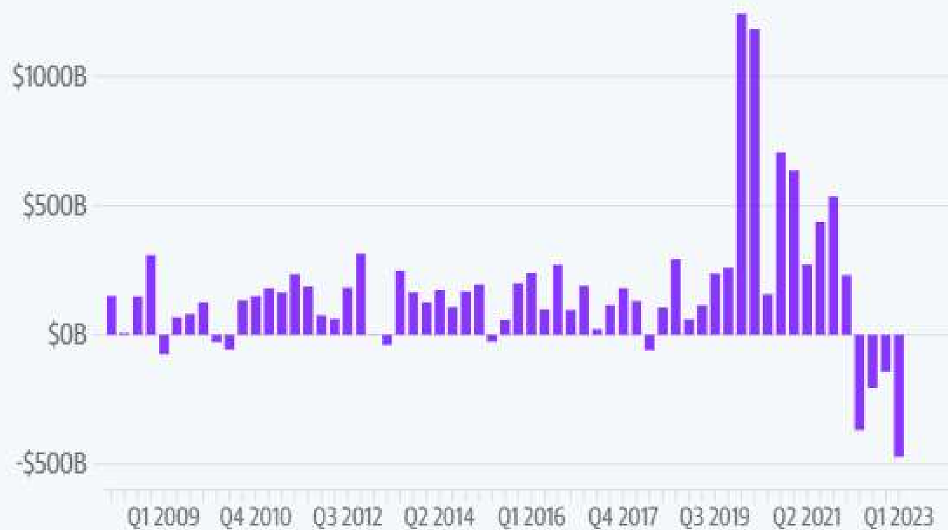
FDIC: US bank deposits dropped by most in 39 years to start 2023

yahoo!finance

DAVID HOLLERITH
Updated May 31, 2023 at 10:05 AM

US banks lost $472 billion in deposits in the first quarter, according to a new quarterly report from the Federal Deposit Insurance Corporation (FDIC) that offers a comprehensive look at how the industry navigated its most challenging period since the 2008 financial crisis.

The deposit decline was the largest since the FDIC began collecting quarterly industry data in 1984 and marked the fourth consecutive quarter of industry outflows. The regulator tracks performance for 4,672 commercial banks and savings institutions.



The drop in deposits, which amounted to 2.5%, was largely due to movement by uninsured depositors who were above the $250,000-per-account level backstopped by the FDIC. They pulled $663 billion, while insured deposits actually increased by $255 billion.

The FDIC report covers a tumultuous period marked by an aggressive rise in interest rates and the failures of three banks in a matter of days, including Silicon Valley Bank and Signature Bank on March 10 and March 12.

First Republic later went down in the second quarter, on May 1, in what was the second-largest bank failure in US history.

"The more lasting effects of the industry's response to that stress may not become fully apparent until we've received the second-quarter results," FDIC chair Martin Gruenberg said in a press briefing with reporters.

Stocks of several regional banks that came under scrutiny during the turmoil of the first quarter were down again Wednesday, including PacWest (PACW), Western Alliance (WAL), Zions (ZION), and Comerica (CMA).

The problem list

The new report shows that other lenders beyond Silicon Valley Bank experienced extreme stress during the first quarter. The number of banks on the FDIC's "problem list" increased by four to 43, and assets held by banks on that list rose to $58 billion.

Banks on the FDIC's problem list typically have multiple weaknesses identified by regulators in confidential supervisory ratings and can be seized and shut down unless the issues are resolved quickly. That list swelled into the hundreds during the industry's last big crisis which began in 2008.

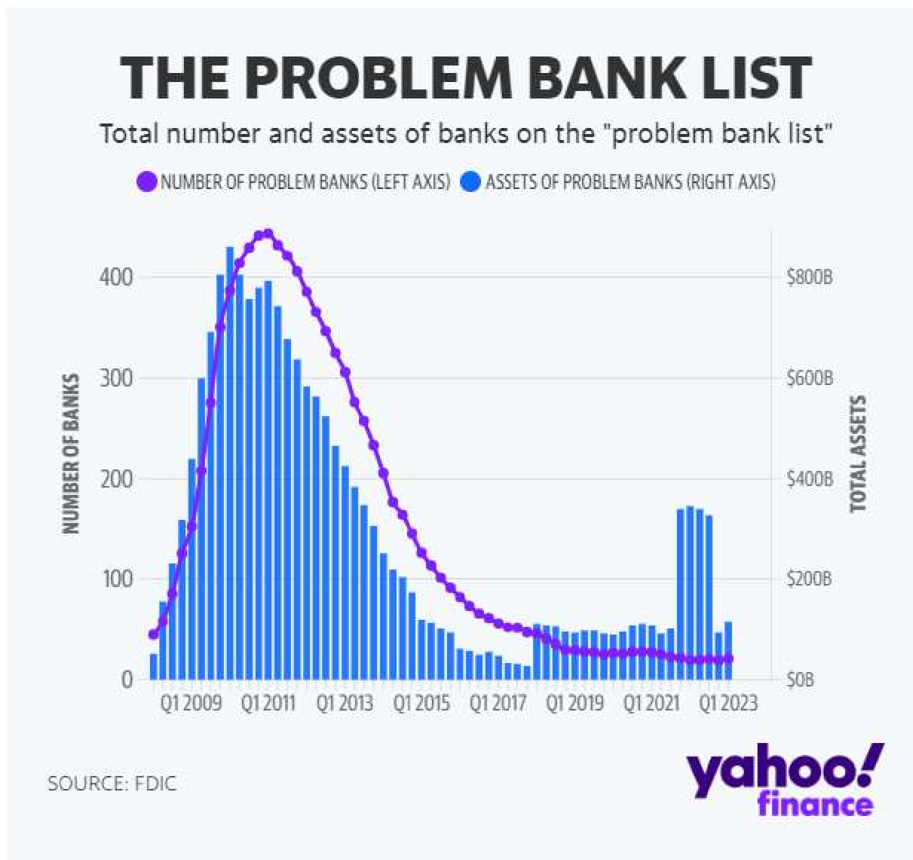
Silicon Valley Bank was one of three banks that failed during the first quarter. (AP Photo/Jeff Chiu, File)

What was also clear from the FDIC's new report is that a core measure of profitability declined during the first quarter as interest rates rose and depositors began moving their money elsewhere.

The outflows forced many banks to start paying more to keep depositors and those higher costs cut into the industry's net interest margins, which measure the difference between what banks earn on their loans and pay for their deposits.

The FDIC said those margins declined by 7 basis points from the previous quarter to 3.31%, as the cost of deposits for banks rose faster than the yield earned on their loans.

Loan yields increased 32 basis points during the quarter to 6.08% while deposits increased 43 basis points to 1.42%.



'Downside risks'

Overall profits were up 17% for all FDIC-insured institutions during the first quarter but that net income would have been flat after excluding accounting gains recorded by institutions that acquired two failed banks.

The industry also ended the quarter with a sizable amount of unrealized losses on securities held by banks. But that amount, $515 billion, was down 16.5% from the prior quarter. These paper losses don't count against earnings for most banks unless the assets are sold.

Gruenberg said the industry remains under pressure on a number of fronts. "The banking industry continues to face significant downside risks from the effects of inflation, rising market interest rates, slower economic growth, and geopolitical uncertainty," he said.

"Credit quality and profitability may weaken due to these risks and may result in a further tightening of loan underwriting, slower loan growth, higher provision expenses and liquidity constraints," he added, citing specific challenges from commercial real estate loans backed by office properties.

"These will be matters of ongoing supervisory attention by the FDIC."