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FINANCE

Coronavirus Has Left Banks With Lots of Cash and Little to Do With It

Profits are down. Margins are low. Banks are bracing for a wave of soured loans. On the other hand, they're raking in fees and deposits.



Banks, a gauge for the broader economy, have signaled they anticipate a longer, deeper recession than they first expected in the spring.

PHOTO: PETER FOLEY/BLOOMBERG NEWS

By [David Benoit](#)

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The coronavirus threw the U.S. banking system into extreme gyrations.

The normally unexciting quarterly industry report from the Federal Deposit Insurance Corp., released last week, showed in stark detail how the pandemic is ensnaring banks big and small.

Profits tumbled as the banks put aside billions for loan losses. Margins hit an all-time low. Fee income hit a record high. Customers flooded banks with more deposits than they had ever seen, so much so that the nation's safety net for bank failures fell below a legal limit.

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What long-term impact will the pandemic have on the banking industry? Join the conversation below.

The banks, a gauge for the broader economy, have signaled they anticipate a longer, deeper recession than they first expected in the spring. Though much of the economy has held up relatively well, the banks say government stimulus and other temporary reprieves have likely delayed the pain, not overcome it. Many lenders are bracing for a wave of defaults.

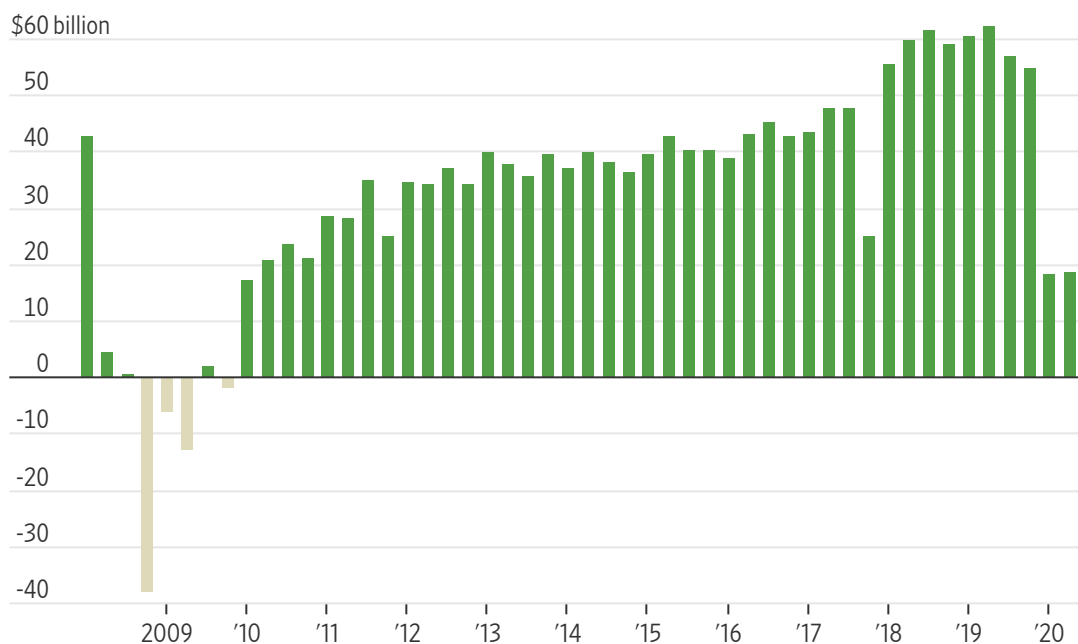
The turmoil has made it hard to see how banks will grow profits, one reason shares have failed to rally along with the market.

“The banks have been flooded by cash and it's hard to know what to do with it,” said Brian Foran, an analyst at Autonomous Research. “That narrative is not an attractive investment story.”

Profits

Net income for the banking industry as a whole plunged 70% from a year before to \$18.78 billion, according to the FDIC report. It was up slightly from the first quarter, but both periods represent the lowest quarterly income since early 2010. The profits are skewed by the big four banks, JPMorgan Chase & Co., Bank of America Corp., Citigroup Inc. and Wells Fargo & Co., which make up roughly half the drop. The FDIC said the 4,624 community banks in its data actually posted an aggregate increase in net income of \$202.5 million.

U.S. banks' industrywide quarterly net income



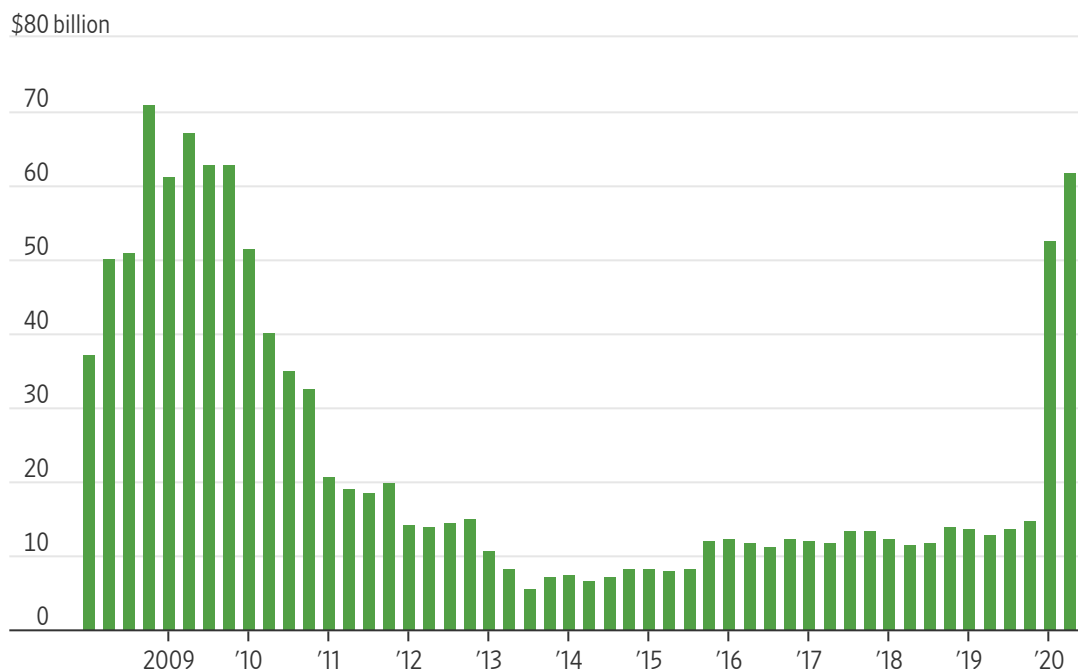
Source: FDIC

Provisions

Profits were sunk by increased credit loss provisions, money the banks stash aside to deal with potential future loan trouble. The banks parked away \$62 billion in the second quarter, on top of \$53 billion in the first quarter.

The banks were also implementing new accounting standards that forced more provisions up front. The FDIC said the 253 banks that used the new standards in the second quarter accounted for 90% of provisions. That figure was again driven by the big four banks, which combined for \$33 billion—JPMorgan alone had \$10.5 billion. Actual losses remained at an average of just 0.57% of loans, but the provisions brace them for more.

Quarterly loan-loss provisions



Source: FDIC

Margins

Banks were whacked with the lowest lending margin in the history of the FDIC's data, which goes back to 1984. The average net interest margin, the difference between what the banks make on loans and pay out on deposits, shrank to 2.81% compared with 3.39% a year ago. The Federal Reserve slashed interest rates to near zero in March, and emergency cuts hit income faster than the banks could reduce their deposit costs.

Average net interest margin, quarterly

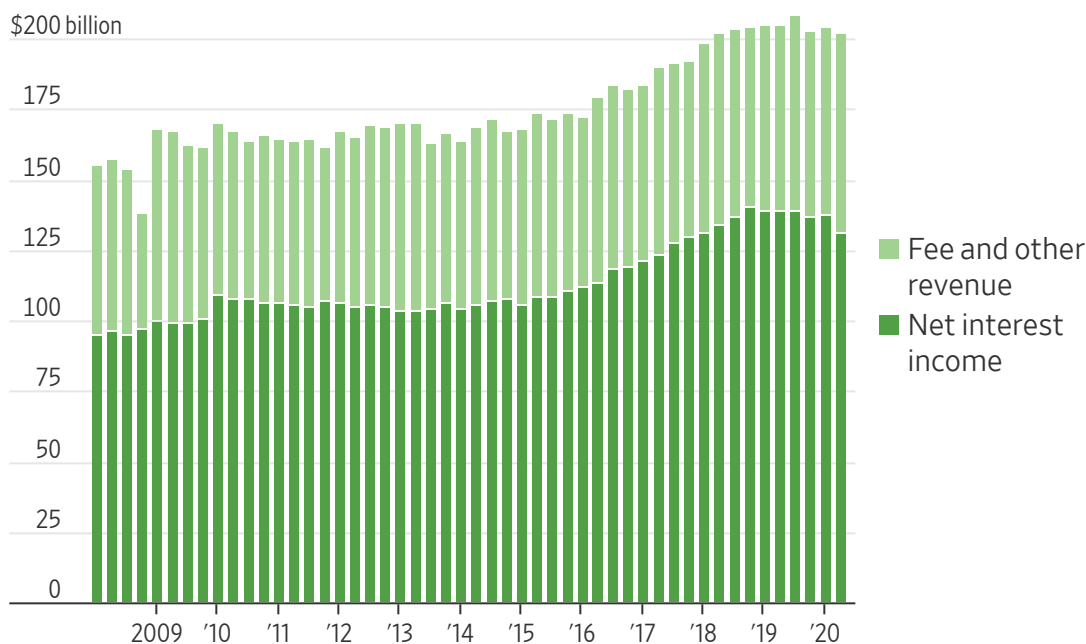


Source: FDIC

Fee income

With the Fed expected to keep interest rates low for the foreseeable future, banks will need to increase fees or find other ways to replace some of that income. In the second quarter, revenue from non-lending operations increased 7% for the industry, hitting a new record. It was boosted by investment banking, mortgage fees and by smaller banks selling loans.

Banking revenue



Source: FDIC

Deposits

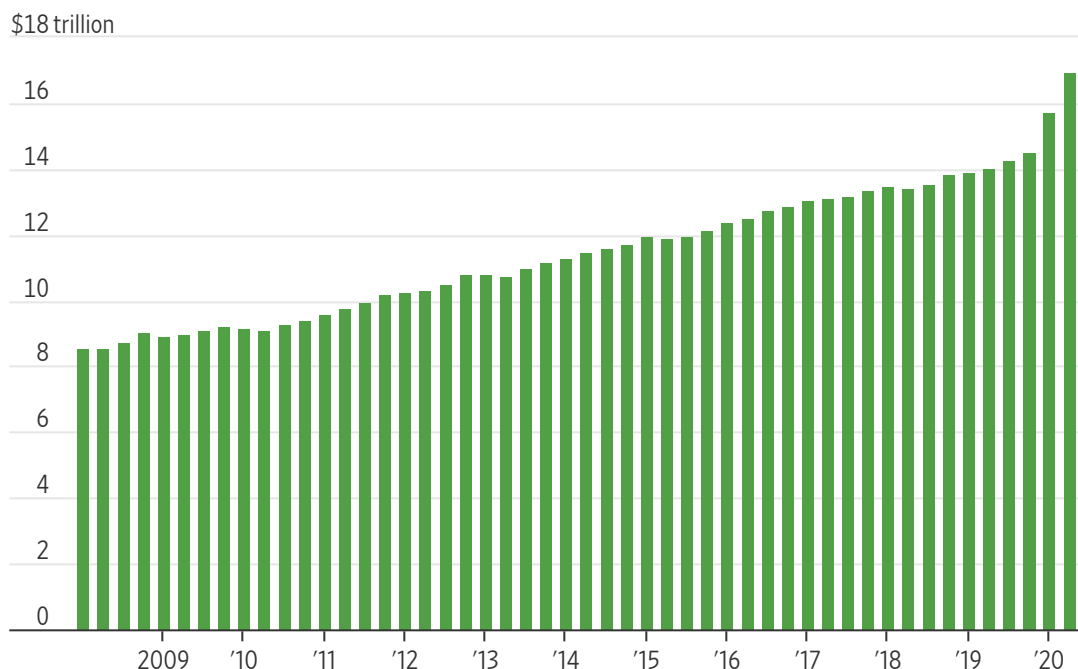
For the second quarter in a row, deposits increased by more than \$1 trillion. There has been \$2.4 trillion added in six months, five times any other six-month period, and roughly equal to the deposits of the entire industry in 1984. The big four banks have taken in \$900 billion of the year's gains.

Corporate customers have loaded up with cash to backstop their businesses through a long slowdown. Consumers with nowhere to go have slowed spending and received stimulus checks and increased unemployment assistance.

The surge was so quick that the FDIC insurance fund fell to just 1.3% of all deposits, breaching its legal requirement of holding enough to cover 1.35% of all deposits.

The agency expects the deposits to normalize and said the fund would self-correct.

Total deposits, quarterly



Source: FDIC

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Corrections & Amplifications

JPMorgan, Bank of America, Citigroup and Wells Fargo have taken in \$900 billion in deposits in 2020. An earlier version of this article incorrectly said \$900 million. (Corrected on Aug. 30)

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