US bank profits soar while lending drops

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US bank profits rose sharply during the first quarter of 2012, according to figures compiled by the Federal Deposit Insurance Corporation (FDIC), the eleventh consecutive quarter in which net earnings were higher than the previous year.

Aggregate profits of all the banks and savings institutions insured by the FDIC rose to $35.3 billion in the January-March period, up from $28.7 billion in the fourth quarter of 2011 and the highest quarterly profit figure since 2007.

The five-year record profits come on top of bumper earnings in 2011, the most profitable year for banking since 2006. While jobs and wages for working people remain deeply depressed, the financial sector, which caused the economic slump, is doing better than ever.

This applies particularly to the financial giants. Two-thirds of all US financial institutions reported increased profits, but the vast bulk of these profits were concentrated in the largest banks, those with assets over $10 billion. While they make up only 1.4 percent of all banks, these institutions raked in 81 percent of the net earnings.

While profits rose 23 percent compared to a year earlier, net operating income revenue was up only five percent. This means most banks boosted their profits not from lending activities, but through bookkeeping operations, like reducing the amount they set aside to cover loan losses (down $6.6 billion compared to the same quarter in 2011).

Overall, banks cut their total lending by about one percent in the first quarter of 2012 compared to the previous quarter. This once again disproves the rationale for the Bush-Obama bank bailout: the claim that rescuing the banks would enable them to resume lending on a wider scale and thus fuel an economic recovery in the United States.

Consumer lending fell in most categories, with the biggest drop in credit card debt, $38.2 billion, a 5.6 percent decline typical of the post-Christmas quarter. Home mortgages fell by $19.2 billion and home equity lines of credit by $13.1 billion. Auto loans rose by $4.5 billion.

Loans to businesses were mixed, with construction and real estate development loans declining by $11.7 billion, offset by an increase in loans to commercial and industrial borrowers, which rose $27.3 billion, or 14 percent.

Combining both consumer and business lending, bank credit fell by $56.3 billion compared to the fourth quarter of 2012, reversing the previous nine months in which aggregate lending increased.

Acting FDIC Chairman Martin Gruenberg said in a statement, “The overall decline in loan balances is disappointing after we saw three quarters of growth last year.”

There were some signs of distress. More than 10 percent of banks reported net losses in the first quarter, while the proportion of loans and leases not up-to-date on payments remained high.

The FDIC report comes just over two weeks after Federal Reserve Board Chairman Ben Bernanke told a banking conference in Chicago that big banks and corporations now faced credit conditions that “have improved significantly in a number of areas.”

Bernanke said that large companies and wealthy individuals could find credit easily, but admitted that for small business owners the conditions were “challenging,” a word that should be translated into ordinary English as “desperate.”

Bank loans to small businesses were still 15 percent below their 2008 peak at the end of last year, he said.

With the slowdown in the US economic “recovery” that has been reflected in stagnant job figures for the last two months, the credit situation facing working people, students and small businesses is likely to worsen.