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BANKS POST RECORD NET INCOME OF \$25.3 BILLION IN 1988, SEIDMAN REPORTS

The nation's commercial banks reported an aggregate net income of \$25.3 billion for 1988, making last year the most profitable in the commercial banking industry's history, Federal Deposit Insurance Corporation Chairman L. William Seidman announced today.

Mr. Seidman told securities analysts in New York the banking industry earned an unprecedented \$6.7 billion in the fourth quarter, exceeding the record earnings posted during the previous quarter by \$800 million. "This is the first time we have ever seen consecutive record-setting quarters," he observed.

The commercial banking industry concluded 1988 with a number of impressive achievements, such as the highest return on assets (0.84 percent) since 1973 and a decline in nonperforming assets. Mr. Seidman noted, however, that a good measure of the industry's strong performance was due to "many unusual nonrecurring events." For example, large banks booked past due interest on Brazilian loans as income, and the losses attributable to the failure of First RepublicBank Corporation are not deducted from the aggregate profits of ongoing institutions.

Future income could be affected by the increase in deposit insurance premiums now being considered by Congress, Mr. Seidman said. Moreover, he noted banks paid dividends totalling over \$13 billion in 1988, up 24 percent from 1987. "That amount represents 52 percent of the year's earnings. A

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more conservative approach would have provided a greater capital base to improve 1989 earnings."

Mr. Seidman said the emergence of real estate loan quality problems could affect future bank profitability, particularly in the East and in some areas in the western United States. "As an insurer, we urge caution," but he added that the industry's performance in these regions "is generally quite good. Nonetheless, prudence--not Go Go Growth--should be their motto these days."

Industry performance during 1989 will largely be determined by the state of inflation and the economy, Mr. Seidman observed. He noted that the record profits during 1988 were earned during one of the toughest years for banks and the FDIC.

"We handled 221 failures and assistance transactions, with total deposits of \$37 billion and total assets of \$54 billion. The record failures put us to the test, but we think a \$4 billion loss on more business in one year than in almost all of the FDIC's previous 54-year history isn't bad," Mr. Seidman said. "The good news," he added, "is that we see fewer bank failures in 1989 and beyond."

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