Press Conference Statement
Ricki Helfer
Chairman
Federal Deposit Insurance Corporation
on the release of the
Quarterly Banking Profile
December 13, 1996

The numbers, charts and graphs that you have before you this morning show that commercial banks continued to enjoy extraordinary profitability in the third quarter. Despite a one-time $1 billion special assessment that was part of the Savings Association Insurance Fund (SAIF) capitalization, as this chart shows (Chart #1), commercial banks registered their third-highest quarterly profits ever. That special assessment -- which translates into a reduction of approximately $650 million in after-tax net income -- accounted for virtually all of the decline in the banking industry's earnings for the quarter. Even with that special assessment, commercial bank earnings remain on track to surpass $50 billion in annual earnings for the first time at year end.

Commercial banks earned $13.2 billion in the third quarter, for an average return on assets (ROA) of 1.19 percent, annualized. Almost three quarters of all commercial banks reported ROAs above one percent. Average ROA -- a basic yardstick of profitability -- has exceeded one percent for the commercial banking industry as a whole for fifteen consecutive quarters.

More than half of all commercial banks reported higher earnings in the third quarter of 1996 compared to the third quarter of 1995.

The percentage of loans that were noncurrent at the end of the quarter fell to an all-time low of 1.11 percent, at least for the 15 years banks have been reporting this data. Noncurrent means that payments were 90 days or more past due.

Bank earnings in the third quarter of this year were supported by record net interest income of $41.4 billion, a 5.2 percent increase from the third quarter of last year. Net interest margins widened for the second consecutive quarter, as average asset yields rose and average funding costs remained stable. The increase in asset yields came as banks reduced their securities holdings and increased their loans, especially higher-yielding credit-card loans and loans to commercial borrowers.

The only blemish on the banking industry's performance is in credit card lending.

Bank credit card loans continued to increase rapidly. They grew more than $13.3 billion in the third quarter -- about the same amount as commercial and industrial loans grew -- although not as rapidly as they have grown in the recent past. Credit card loans and C&I loans had the two largest increases of any categories of loans at commercial banks.

As this chart shows, (Chart #2) while improvements in asset quality were evident in (one), commercial and industrial lending, (two), commercial real estate lending; and (three), other loan categories in the third quarter, deterioration continued to be concentrated in consumer loans, and especially in credit card loans. Charge-off rates on loans to individuals have risen sharply from 1.79 percent in the third quarter of 1995 to 2.29 percent in the third quarter of 1996.

As this chart (Chart #3) shows, net charge-offs of credit-card loans accounted for almost two-thirds of all loans charged-off in the third quarter. The annualized charge-off rate on those loans in the third quarter was 4.41 percent.

As you can see from this chart (Chart #4), the percentage of delinquent credit card loans increased even as charge-offs increased, from 4.1 percent in the second quarter to 4.5 percent in the third. The rising trend in credit-card delinquencies began two years ago, and delinquency rates are approaching the peak levels registered in 1991.

In addition, as you can see from this chart (Chart 5), the profitability of credit card lending has declined dramatically for the specialized credit card lenders that we track. Their average ROA peaked at 4.25 percent in the third quarter of 1994 and stood at 2.02 percent in the third quarter of this year. That compares, however, to the average ROA of 1.19 percent for the industry as a whole -- including all banking activities.

Another characteristic of credit-card lending that is somewhat worrisome is the apparent correlation -- at least since 1990 -- between credit card loss rates and personal bankruptcy filings -- a correlation that is clear from this chart (Chart #6), which we have been showing since June. Indeed, this chart shows that, in the third quarter, personal bankruptcies increased at a faster pace than credit card charge-offs.

Despite these concerns, the outlook for banking remains bright. During the third quarter, 46 new bank charters were issued, bringing the total of new bank charters during the three quarters of 1996 to 105, which exceeds the 102 new bank charters issued during all of 1995. Mergers absorbed 146 banks during the third quarter, and two banks failed. The number of banks on the FDIC's "Problem List" declined from 99 banks with $8 billion in assets at the end of the second quarter to 89 banks with $7 billion in assets at the end of September. This is the smallest number for problem assets since March, 1992.

The best news during the third quarter for all FDIC-insured institutions was the capitalization of the SAIF, as this chart shows (Chart #7). The remarkable recovery of both the SAIF and the Bank Insurance Fund is a reflection of the enormous improvement over the last five years in the health of the banking and thrift industries that support them, as well as of the continuing strength of the economy. The thrift industry's contribution to the SAIF capitalization cost an entire quarter's earnings, and caused net losses at about 60 percent of all savings institutions in the third quarter. Still, more than 96 percent of all savings institutions continue to meet the highest regulatory capital standards -- and the banking industry enjoys its highest capital level since 1941.

Now that the fund is capitalized, SAIF insurance premiums are expected to decline from an average of 23.4 basis points for every $100 of insured deposits to an average of seven basis points next year. As a result, institutions with SAIF-insured deposits will save approximately $875 million per year on deposit insurance costs, based on their current level of SAIF deposits. With the SAIF and the Bank Insurance Fund both fully capitalized, we all can now turn our attention to the issues of industry structure and competitiveness, which need to be addressed, as well as the ultimate merger of the two insurance funds.

With me today are Don Inscoe, the manager of the FDIC Statistics Branch, and Ross Waldrop, Tim Critchfield and Jim McFadyen, the FDIC analysts who put together the Quarterly Banking Profile.

The FDIC made the Quarterly Banking Profile available on the Internet two years ago. Our Web site -- www.fdic.gov -- now provides many of the same data as the QBP for each one of the 11,547 insured banks and thrifts through the FDIC's new Institution Directory, or "I.D." system. Since we unveiled this new Internet service only two days ago, we have recorded more than 18,000 "hits" from almost 1,400 users at this new site. My four colleagues here -- as well as the entire Division of Research and Statistics -- headed by Roger Watson -- who is here, too -- deserve great commendation for this outstanding effort of making more information available to the public on the financial institutions that the FDIC insures.

We will now take questions.

Last Updated 06/28/1999