



## NEWS RELEASE

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**BANKS POST LOWEST PROFITS SINCE GREAT DEPRESSION;  
FDIC'S SEIDMAN PREDICTS '88 WILL BE A BETTER YEAR**

Banking industry profitability during 1987 was at the lowest level recorded since the Great Depression, but the industry's performance is expected to improve during 1988, according to Federal Deposit Insurance Corporation Chairman L. William Seidman. Profits should return to more normal levels in 1988, Mr. Seidman said.

In remarks delivered today to the Conference Board in New York, Mr. Seidman reported that the banking industry ended 1987 with a net profit of only \$3.7 billion, or a return on assets of .13 percent, the lowest rate in the history of the FDIC. In 1986, the banks earned .64 percent on assets. This lackluster performance was principally due to the establishment of sizable loan loss reserves relating to loans to Latin America and to loans to real estate borrowers in the Southwest.

In addition, "profitability of commercial banks has been dropping steadily since 1979, and the industry's asset growth rate--at eight percent--is far behind other competitors in the financial services industry," he said. "If the industry had not set aside reserves of \$37 billion on problem loans, including those to less developed countries, profits from operations would have been about the same as the \$13.3 billion reported in 1986. Hopefully, 1988 will be the year this downward trend in bank profits will be reversed."

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Mr. Seidman noted that the industry's poor performance in recent years was due, in part, to increased competition from less regulated competitors in the financial services industry and localized economic conditions, particularly in the Southwest and the Farm Belt.

Banks in the Southwest are expected to have another tough year due to depressed energy markets, Mr. Seidman said. However, he pointed out that farm banks are on the rebound as economic conditions in the farm belt continue to improve. Furthermore, the sizable reserves established last year by large institutions for their loans to less developed countries likely will have been a one-time occurrence. "With a continuation of the nation's economic expansion, aggregate profitability of all banks will move to normal levels during 1988," he said.

Mr. Seidman said there is a chance Congress will enact some form of legislation that will help banks compete in the marketplace, and the outlook for the U.S. economy is positive. Even if Congress doesn't act, recent court decisions have established new opportunities for banks and this trend will continue.

"Almost all of the major indicators--inflation, GNP, unemployment, industrial output, business confidence, manufacturing capacity utilization, the federal budget deficit, interest rates, productivity and retail sales--are demonstrating trends that bode well for continuation of a healthy expansion of the nation's economy, at least over the near term," Mr. Seidman said.

"Americans still need to save more, and the government must learn to live within its income, but for banking 1988 certainly looks to be a much improved year," he commented.