PRESS RELEASE
Federal Deposit Insurance Corporation

December 11, 1996

Media Contact:
Robert M. Garsson
(202) 898-6993

FDIC REPORTS COMMERCIAL BANKS EARNED $13.2 BILLION IN THIRD QUARTER

FOR IMMEDIATE RELEASE

Commercial banks reported net income of $13.2 billion in the third quarter of 1996, their third-highest quarterly total ever, according to preliminary data released today by the FDIC. Earnings were supported by record net interest income of $41.4 billion.

For the first nine months of 1996, commercial banks earned $38.6 billion during the period. At this pace, the industry could surpass $50 billion in annual earnings for the first time. The average return on assets (ROA) at commercial banks -- a basic yardstick of industry performance -- was 1.19 percent. That is identical to the ROA recorded by the industry during the first nine months of last year.

Third-quarter financial results for the nation's 9,586 FDIC- insured commercial banks and 1,961 insured savings institutions are contained in the agency's latest Quarterly Banking Profile, which is based on income and condition reports filed by FDIC- insured banks and savings institutions every three months. The latest Profile analyzes performance trends during the first nine months of this year.

Almost three out of every four banks reported ROAs above one percent for the third quarter. Total assets increased by $61.4 billion during the three-month period, with much of the growth occurring in credit card loans and loans to commercial borrowers. Asset-quality indicators remained favorable, as noncurrent loans and net losses on loans to commercial borrowers declined. Banks experienced an increase in troubled loans to individuals, especially credit card loans. However, the proportion of bank loans that are noncurrent (at least 90 days past due on scheduled interest payments) fell to the lowest level in the 15 years that the industry has reported noncurrent loan data.

Stock buy-back programs at several large banking companies led to a surge in dividend payments at their subsidiary banks in the third quarter. A total of 827 banks paid $3.5 billion more in dividends than they earned, with the difference coming out of their equity capital. For the industry as a whole, however, equity capital increased by $5.5 billion, to the highest percentage of total assets -- 8.31 percent -- in more than 50 years.

Commercial bank profits during the third quarter were 4.5 percent below the previous quarter and 4.8 percent less than a year earlier. Virtually all of the decline in earnings was due to the industry's approximately $1 billion share of the $4.5 billion one- time payment by banks and thrifts to capitalize the Savings Association Insurance Fund (SAIF). Fewer than 10 percent of the nation's commercial banks have deposits insured by SAIF, but together they hold more than one-fourth of all SAIF-insured deposits. The impact of the SAIF capitalization charge on the industry's after-tax net income was approximately $650 million.

The 1,961 savings institutions insured by the FDIC reported a net loss of $55 million in the third quarter, down from $2.6 billion in profits the previous quarter. Without the $3.5 billion special SAIF assessment, the thrift industry would have earned approximately $2.2 billion.

Almost two out of every three savings institutions reported a net loss for the quarter. By contrast, at thrifts that were not affected by the special assessment (because they had no SAIF deposits), only five percent were unprofitable during the third quarter. The FDIC estimates that thrifts with SAIF deposits will save about $875 million per year on deposit insurance premiums now that the SAIF is fully capitalized.

With the enactment of the Deposit Insurance Funds Act of 1996 on September 30, the SAIF became fully capitalized as of October 1. The $4.5 billion special assessment authorized by the new law brought the SAIF's reserves to $1.27 for each $100 of insured deposits (slightly above the statutory target of $1.25 per $100), compared to 55 cents per $100 at the end of June. The Bank Insurance Fund (BIF), which has been fully capitalized since May 31, 1995, had reserves of $1.32 for every $100 of insured deposits as of June 30, 1996.

Because the SAIF fund was undercapitalized, institutions had been paying higher deposit insurance premiums for SAIF- insured deposits than for BIF-insured deposits. However, on December 11, 1996, the FDIC Board of Directors voted to reduce SAIF deposit insurance premiums to the same level as those for BIF deposits, starting January 1, 1997. Rates for both funds will now range from 0 to 27 cents for each $100 of assessable deposits.