PRESS RELEASE

Federal Deposit Insurance Corporation

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FDIC REPORTS THAT COMMERCIAL BANKS EARNED $12 BILLION IN THE FIRST QUARTER, WHILE SAVINGS INSTITUTIONS EARNED $2.5 BILLION

FOR IMMEDIATE RELEASE

Helped by continued growth in net interest income, commercial banks earned just over $12 billion in the first three months of 1996, according to preliminary data from the FDIC. The earnings report marks the third consecutive quarter that industry profits have topped $12 billion and represents an 8.2 percent increase over the $11.1 billion banks earned in the year- earlier period.

In addition, the agency reported that FDIC-insured savings banks and savings and loan associations had record quarterly earnings of $2.5 billion, surpassing the previous high of $2.4 billion set in the first quarter of 1993. The latest record was made possible by one-time gains from branch sales and securities transactions.

First-quarter performance results for 9,841 FDIC-insured commercial banks and 2,004 FDIC-insured savings institutions are contained in the agency's latest Quarterly Banking Profile, which is based on quarterly income and condition reports filed by insured banks and savings institutions. The latest Profile analyzes trends in banking performance during the first three months of this year. Highlights follow.

Commercial Banks

Average return on assets (ROA) -- a basic yardstick of profitability -- stood at 1.12 percent for the first three months of the year, up slightly from the 1.10 percent recorded a year earlier. It was the 13th consecutive quarter that banks earned more than $1 for each $100 in average assets.

Strong profitability was evident throughout the industry. About seven out of 10 banks had a first-quarter ROA above one percent and a similar proportion showed higher earnings than a year ago.

The main source of earnings strength was higher net interest income, reflecting a significant addition of loans and other interest-earning assets in the past 12 months. Higher noninterest revenues, particularly fee income and earnings from trading activities, also helped raise industry profits. Earnings in the first quarter would have been higher if not for rising provisions for future loan losses (up $917 million, or 34 percent) and increased overhead expenses associated with recent mergers.

Total assets of commercial banks declined $4.3 billion in the first quarter, due to seasonal factors. Loans increased by only $29.3 billion, the smallest quarterly increase in two years. Growth in loans to commercial borrowers remained fairly strong, but credit card loans declined $13 billion due to seasonal pay-downs of card balances and the securitization of credit card receivables at several large credit card banks.

Although banks experienced an increase in noncurrent loans (those 90 days or more past due or no longer accruing interest income), levels still are running near historic lows. The FDIC said that noncurrent loans grew by $659 million -- only the second quarterly increase in the last five years. However, in the last two quarters the percentage of loans that were noncurrent (1.18 percent at the end of the first quarter, 1.17 percent at the end of 1995) were the two lowest in the 14 years that banks have reported noncurrent loan amounts.

The number of commercial banks declined by 100 during the quarter, to 9,841. Although 29 new banks were chartered in the first quarter, 131 institutions were absorbed in mergers and one was lost through a failure. At the end of the quarter, 127 banks with $13 billion in assets were on the FDIC's "problem list," down from 144 institutions with $17 billion in assets three months earlier.

Savings Institutions

FDIC-insured savings institutions recorded net income of $2.5 billion, up $817 million or 47 percent from a year ago. Industry ROA for the first quarter was 1.01 percent, or $1.01 for each $100 of assets, the first time savings institutions have earned more than $1 on assets. If the one-time gains from branch sales and securities transactions are excluded, ROA would have come in at about 0.83 percent -- a small improvement from recent quarters.

Much of the improvement in profitability came at savings institutions with more than $1 billion in assets. These thrifts increased their net interest margins (the difference between the rates they earn on their investments and the rates they pay for their funds) and limited their overhead. Almost four out of every five thrifts with assets above $1 billion reported higher earnings than a year ago, while fewer than half of the smaller savings institutions reported earnings gains.

There were 2,004 savings institutions at the end of the first quarter, down 26 from the beginning of the year. The quarter marked the third consecutive three-month period without a thrift failure. The number of problem institutions fell to 42, a decrease of seven from year-end 1995.

The Insurance Funds

Bank Insurance Fund (BIF) reserves moved up slightly, to $1.31 for each $100 of insured deposits from $1.30 at the end of 1995. The Savings Association Insurance Fund's (SAIF) reserves increased to 51 cents for each $100 of insured deposits, up from 47 cents three months earlier. However, the SAIF remains well below the $1.25 level mandated by law. As a result, SAIF premiums remain at 23 cents for each $100 of assessable deposits, compared to about a third of a penny per $100 for BIF members. In fact, the nation's largest thrift is expected to pay SAIF premiums in 1996 that nearly equal the total amount of premiums paid by all BIF members.

The BIF assessment base declined by $5 billion during the quarter, to $2.474 trillion. Deposits held by SAIF members declined by $7.5 billion in the first quarter, to $526 billion.