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

FDIC REPORTS RECORD EARNINGS FOR COMMERCIAL BANKS IN 1995

FOR IMMEDIATE RELEASE

Commercial banks earned $48.8 billion in 1995, surpassing the record set in 1994 when the industry reported profits of $44.6 billion, according to preliminary data from the FDIC. The 1995 results mark the fourth consecutive year of record bank earnings.

The jump in earnings resulted primarily from increased interest and fee income. Earnings growth was broadly based, with nearly two out of every three banks (63.2 percent) reporting higher earnings than in 1994.

A strong fourth quarter helped propel full-year earnings to their new record. The industry earned $12.1 billion during the October-to-December period, which was second only to the $13.8 billion banks earned in the third quarter of 1995. The fourth- quarter earnings also are 13.3 percent higher than in the comparable period of 1994, primarily due to higher net interest income from loans and other interest-earning assets.

Fourth-quarter and full-year 1995 performance results for 9,941 insured commercial banks and 2,029 insured savings institutions are contained in the agency's latest Quarterly Banking Profile, which is based on reports of condition and income filed by all insured depository institutions. The latest Profile analyzes trends in banking performance during 1995, with emphasis on the last quarter of the year. Other highlights follow.

Commercial Banks

For the year, the dollar amount of loans held by commercial banks grew by $244.5 billion (10.4 percent), surpassing the previous record annual increase of $208.4 billion in 1994. Real estate loans accounted for the largest share of the increase in total credit, growing by $82.3 billion. Commercial and industrial loans (up $72.4 billion) and loans to individuals (up $48.2 billion) also contributed to the rise.

However, loan growth slowed in the second half of the year. The $47.2 billion increase in the fourth quarter was the smallest since the first three months of 1994.

Bank deposits rose $96.3 billion during the fourth quarter - - the largest quarterly increase in nine years, second only to the $123.9 billion increase in the fourth quarter of 1986.

Average return on assets (ROA) -- a basic yardstick of bank profitability -- rose slightly to 1.17 percent in 1995 from 1.15 percent in 1994. Only 1993's ROA of 1.20 percent ranks higher. The average ROA in the fourth quarter was 1.13 percent. That result was higher than the 1.07 percent a year earlier, but down from the 1.32 percent record set in the third quarter of 1995.

Despite the bright earnings picture, some problems showed up in the area of consumer loans. Net charge-offs on credit card loans were up 36 percent, or $1.8 billion, while charge-offs on other consumer loans increased by $608 million. The period also saw a $1.2 billion increase in loans 30 to 89 days past due. At the end of 1995, 2.43 percent of all credit card loans were delinquent, the highest level in two years.

No commercial banks failed in the fourth quarter. For all of 1995, only six commercial banks failed, the fewest since 1977. There were 9,941 insured commercial banks at year-end -- the first time the number of banks dipped below 10,000 since the start of the FDIC in 1934. The decline is due primarily to mergers.

Savings Institutions

FDIC-insured savings banks and savings associations reported earnings of $7.6 billion in 1995, an increase of $1.3 billion or 19.9 percent over 1994's results. Fourth-quarter earnings of $1.8 billion were $181 million higher than a year earlier, but $417 million below the $2.2 billion earned in the third quarter of 1995. For the full year, the thrift industry's average ROA was 0.78 percent, the highest level since 1962.

Most of the improvement in savings institutions' earnings in 1995 came at large thrifts (those with more than $5 billion in assets). These large institutions had lower expenses from balance-sheet restructurings, including sales of troubled assets, than in previous years.

For the second consecutive quarter, there were no failures of insured savings institutions. For the full year, only two savings institutions failed, the smallest annual total since 1975.

The Insurance Funds

The Bank Insurance Funds reserve ratio dropped slightly -- to 1.30 percent from 1.31 percent -- but remained above the statutory minimum of 1.25 percent. The Savings Association Insurance Fund's reserve ratio rose to .47 percent from .43 percent, but remained well below the 1.25 percent requirement. Nearly a quarter of the increase in the SAIF balance -- 23 percent -- stemmed from a one-time occurrence: $321 million from reserves no longer needed for projected failures were transferred into the fund.

The bank funds assessment base grew $110 billion, or 4.6 percent during the year, with most of the increase -- $83 billion -- coming during the fourth quarter. The savings industry fund also grew during the year by $20 billion, or 2.8 percent, but dipped slightly during the fourth quarter.

At the same time, the percentage of SAIF-assessable deposits held by banks grew during the quarter. Oakar deposits -- SAIF deposits held by banks -- climbed $8.5 billion during the three- month period, to $219 billion and accounted for 29.8 percent of the SAIF assessment base on Dec. 31. Sasser institutions -- former savings associations that converted to bank charters while maintaining their SAIF membership -- held $56.4 billion in SAIF deposits, or 7.7 percent of the funds assessment base. Together, Oakar and Sasser institutions accounted for 37.5 percent of the SAIF assessment base, up from 32.7 percent a year earlier.

The assessment base for FICO bonds, which excludes deposits held by Oakar and Sasser institutions, dropped to $459 billion on Dec. 31, from $479 billion at year-end 1994. At current premium rates, FICO requires an assessment base of at least $329 billion to meet its annual draw.