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FDIC REPORTS COMMERCIAL BANKS EARNED $13.8 BILLION IN THE SECOND QUARTER

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Strong growth in fee income and other noninterest revenues helped lift commercial bank earnings to a near-record $13.78 billion in the second quarter of 1996, according to preliminary data from the FDIC. The second-quarter earnings, just $45 million below the all-time high of $13.83 billion earned in the third quarter of 1995, mark only the second time that the industry's profits exceeded $13 billion.

The noninterest income in the second quarter (a record $24.1 billion) combined with improved net interest income from loans and other assets outweighed rising loan-loss expenses. The resulting $13.78 billion net profit was a 15 percent improvement over the $12 billion banks earned in both the first quarter of 1996 and in the second quarter of last year.

In addition, the FDIC reported that insured savings banks and savings and loan institutions together had record quarterly earnings of $2.6 billion, surpassing the previous quarterly record of $2.5 billion set in the first quarter of 1996. Increased net interest income contributed to the increase in earnings.

Second-quarter performance results for 9,689 FDIC-insured commercial banks and 1,981 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 commercial banks and savings institutions. The latest Profile analyzes trends in banking performance from April through June of this year. Highlights follow.

Commercial Banks

The average return on assets (ROA) -- a basic yardstick of profitability -- stood at 1.27 percent for the quarter, up from 1.12 percent the previous quarter and 1.16 percent a year ago. This is the third-highest quarterly average ROA in the industry's history (after the 1.32 percent in the third quarter of 1995 and the 1.28 percent in the third quarter of 1993). The average ROA at commercial banks now has exceeded one percent for 14 consecutive quarters.

Earnings strength was evident throughout the industry. About seven out of 10 banks (72 percent) reported higher earnings than a year earlier, and a similar proportion (70 percent) reported ROAs above one percent.

The record level of noninterest income was responsible for much of the improvement in earnings. Increased fee income and gains on merger-related sales of assets by large banks helped lift noninterest revenues by 19.8 percent compared to the second quarter last year. Net interest income was 5.3 percent higher than a year ago and helped boost bank profits in the second quarter. Net interest margins (essentially the difference between earnings on interest-bearing assets and interest paid to depositors and other creditors, expressed as a percentage of average earning assets) increased for the industry as a whole, with the greatest improvement coming at smaller banks.

Commercial bank assets increased by $88.6 billion in the second quarter, with a large share of the increase coming in loans (up $57.5 billion). Most loan categories registered strong growth during the quarter, with large percentage gains coming in loans to commercial borrowers and consumers. Net loan losses were 36 percent higher than a year ago, but overall charge-off rates remain low by historic standards. The $3.8 billion banks charged off in the quarter was the second-highest total in the last 10 quarters, after the $4.0 billion banks charged off in the fourth quarter of 1995. On the positive side, there was an $832 million reduction in banks' noncurrent loans (loans past due 90 days or more or in nonaccrual status) during the quarter.

The number of commercial banks declined by 149 during the second quarter, to 9,689. Although 175 banks were absorbed by mergers and two were lost through failures, 30 new banks were chartered in the second quarter. A total of 59 new banks were established during the first six months of the year, which suggests that new charters for 1996 may exceed the 102 for last year. At mid-year, 99 banks with $8 billion in assets were on the FDIC's "problem list," down from 127 banks with $13 billion in assets at the start of the second quarter.

Savings Institutions

The record $2.6 billion in second-quarter net income for FDIC-insured savings institutions represents an increase of $687 million from a year earlier and $50 million more than the previous record set in the first quarter of 1996. The average ROA for the quarter, at 1.02 percent, also represents a new industry record. The increase in second-quarter profits primarily resulted from a $207 million boost in net interest income industry-wide and a $110 million net tax benefit booked by one large savings institution.

The number of insured savings institutions fell below 2,000 for the first time since 1937. There were 1,981 thrifts at the end of the second quarter, a net decline of 24 from the end of the first quarter. The commercial banking industry absorbed 17 savings institutions through mergers and charter conversions, while mergers within the thrift industry absorbed an additional 12 institutions. For the fourth consecutive quarter there were no thrift failures. There were 38 thrift institutions with $10 billion in assets on the "problem list" at mid-year, down from 42 institutions with $13 billion in assets at the end of the first quarter.

The Insurance Funds

The Bank Insurance Fund's (BIF) reserves increased from $1.31 to $1.32 for each $100 of insured deposits for the second consecutive quarter. The Savings Association Insurance Fund's (SAIF) reserves increased to 55 cents for each $100 of insured deposits, up from 50 cents three months earlier. However, the SAIF remains well below the $1.25 level mandated by law. As a result, premiums for most SAIF members 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 estimated to pay SAIF premiums in 1996 that exceed the total amount of premiums paid into the BIF.

The BIF assessment base increased $21 billion during the quarter, to $2.494 trillion. During the same period, the SAIF assessment base decreased $2.5 billion, to $736 billion, as migration to the BIF continued.