PRESS RELEASE

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FDIC REPORTS THAT COMMERCIAL BANKS EARNED A RECORD $14.8 BILLION IN THE THIRD QUARTER OF 1997

FOR IMMEDIATE RELEASE

Preliminary data from the FDIC show that insured commercial banks earned record profits in the third quarter of 1997 and are on a pace to break the full-year earnings record of $52.4 billion set in 1996. "As we head into the holiday season, it is clear that, for banks, the economy is a gift that keeps on giving," said FDIC Chairman Andrew C. Hove, Jr., at a press conference today.

Although banks generally experienced a strong growth in noninterest revenues, such as fee income and earnings from trading activities, the industry-wide growth in third-quarter profits was made possible by a rebound at several large banks that specialize in credit-card lending.

FDIC data show that commercial banks had net income of $14.8 billion for the three-month period ended September 30. Those profits are $131 million above the previous quarterly record, set in the second quarter of 1997. This also marks the third consecutive quarter that earnings reached an all-time high. Through the first nine months of 1997, commercial banks have earned a total of $43.9 billion.

The FDIC also reported that insured savings institutions posted earnings of $2.0 billion in the third quarter, a decline of $398 million from the second quarter. Even so, the thrift industry also is on a pace to break its record for full-year earnings.

Third-quarter results for 9,215 insured commercial banks and 1,812 insured savings institutions are contained in the agency's latest Quarterly Banking Profile, which is based on quarterly reports of condition and income filed by FDIC-insured institutions.

The latest Profile analyzes trends in bank and thrift performance during the third quarter and for the first nine months of this year. Highlights follow.

Commercial Banks

Banks' annualized return on assets (ROA) -- a basic yardstick of profitability -- was 1.22 percent in the third quarter. While third-quarter ROA was lower than the 1.24 percent registered in the previous quarter, it was higher than the 1.19 percent of a year ago. The industry's ROA now has been above the one-percent benchmark for 19 consecutive quarters. Three out of every four commercial banks -- 73.4 percent -- reported an ROA of one percent or higher in the third quarter. For the first nine months of 1997, the industry's ROA was 1.24 percent, up from 1.19 percent for the same period in 1996.

The third quarter marks a resurgence in earnings for specialized credit-card lenders -- those banks in which loans comprise more than half of all assets, and credit card loans are more than half of their total loans. These 74 institutions, which include some of the most profitable commercial banks, had a sharp decline in profits during the second quarter because of one-time expenses for restructuring and reserve-building. Their earnings fell from $1.1 billion in the first quarter of this year to $623 million in the second quarter. With no similar charges in the third quarter, their earnings more than doubled to $1.3 billion. Their ROA increased from 1.30 percent in the second quarter to 2.59 percent in the third quarter. Without the $634-million increase in third-quarter profits at credit-card banks, total industry earnings would have declined compared to the second quarter.

Industry-wide earnings in the third quarter were held back somewhat by one-time restructuring expenses and merger-related charges that added approximately $1 billion to the industry's pre-tax expenses. Total noninterest expenses, such as salaries, brick and mortar expenses, and other overhead costs, were $2.4 billion (5.7 percent) higher than in the second quarter and $3.6 billion (9.0 percent) more than a year ago.

Total loans held by commercial banks increased by $37.0 billion during the quarter, far below the $93.9 billion increase in the previous quarter. Credit-card loans declined by $4.9 billion during the third quarter because of a $12.0-billion increase in credit-card loans that banks securitized and sold to investors. Loans to commercial and industrial borrowers increased by $10 billion, their smallest quarterly increase since the first quarter of 1996.

Asset quality indicators remained favorable. The percentage of loans that are noncurrent -- 90 days or more past due on scheduled payments, plus loans that are no longer accruing interest income -- fell below 1.0 percent for the first time in the 16 years that noncurrent loan data have been reported. Net loan charge-offs, at $4.8 billion, were at the highest level since the fourth quarter of 1993 but almost two-thirds of the total ($3.0 billion or 62.6 percent) came from credit-card loans.

The number of insured commercial banks declined by 93 institutions in the third quarter. Mergers and consolidations absorbed 148 banks, while 46 new banks were chartered. For the fourth consecutive quarter, there were no failures of insured commercial banks.

Savings Institutions

Two main factors caused the $398-million decline in third-quarter earnings at insured savings institutions: noninterest expenses were $332 million higher because of one-time merger-related charges, and earnings from securities sales were $134 million lower. Despite the reduced quarterly earnings, the thrift industry in 1997 is expected to set a new record for full-year earnings, exceeding the $7.6 billion set in 1995. Through the first nine months of 1997, industry earnings totaled $6.6 billion, an increase of $1.7 billion compared to the same period of 1996.

The average ROA for savings institutions in the third quarter was 0.79 percent. For the first nine months of 1997, it was 0.90 percent.

Data on the Internet

The latest information about FDIC-insured commercial banks and savings institutions, including data on branch offices and deposits, is available on the FDIC's Internet site (www.fdic.gov). The Institution Directory (ID) system has been updated to provide financial and demographic information on more than 11,000 insured institutions through the third quarter of 1997, and it provides new ways to locate insured banks and thrifts. The latest data on branch offices and deposits - as of June 30, 1997 - also is being made available today in a new Summary of Deposits (SOD) system. This system provides addresses and deposit totals for the more than 82,000 offices that can accept FDIC-insured deposits. SOD data is significant and useful for many reasons. Regulators use the data to determine market share and assess compliance with antitrust laws. Bankers use the information to assess their operations and their competition.

Consumers can use the SOD system to locate convenient banking offices. The Institution Directory and Summary of Deposits systems can be found under the Data Bank selection on FDIC's Web site.

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