PRESS RELEASE
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FDIC REPORTS THAT COMMERCIAL BANKS EARNED A RECORD $14.6 BILLION IN SECOND QUARTER OF 1997

FOR IMMEDIATE RELEASE

The FDIC announced today that insured commercial banks posted record earnings for a second consecutive quarter. In the second three months of 1997, the industry earned $14.6 billion, an increase of $154 million over the previous quarterly earnings record of $14.5 billion set in the first quarter of 1997.

Higher net interest income, supported by strong loan growth, made the largest contribution to the improvement in industry profits. Overall asset quality showed continued improvement during the second quarter, but losses on credit card loans rose to record high levels.

The FDIC also reported that insured savings institutions earned $2.4 billion in the second quarter, matching first quarter results but falling 8.2 percent from the $2.6 billion earned by the industry in the second quarter of 1996. The decline reflects higher income tax payments in 1997.

For the third consecutive quarter, no insured commercial banks or savings institutions failed.

Second-quarter and first-half 1997 financial results for 9,308 FDIC-insured commercial banks and 1,852 FDIC-insured savings institutions are contained in the agency's Quarterly Banking Profile, which is based on quarterly reports of income and condition filed by FDIC-insured banks and savings institutions. Highlights follow.

Commercial Banks

The record $14.6 billion in second-quarter profits was achieved despite lower earnings from credit-card operations. Commercial banks that specialize in credit-card lending reported an earnings decline of $334 million from first-quarter levels.

Commercial banks' average return on assets (ROA) -- a basic yardstick of industry performance -- was 1.24 percent in the second quarter, compared to 1.25 percent in the previous three months and 1.27 percent in the year-earlier period.

Net interest income totaled $43.4 billion in the second quarter, up $1.3 billion from the first quarter. Noninterest income of $25.3 billion was $674 million higher than in the first quarter, but this increase was offset by a $694 million increase in provisions for loan losses. Noninterest expenses in the second quarter totaled $41.4 billion, an increase of $1.0 billion from the first quarter.

Industry earnings were also adversely affected by higher loan-loss provisions and significant one-time expenses at several large banks that specialize in credit-card lending. Profits at these institutions, which together account for two-thirds of all credit-card loans held by commercial banks, were $334 million lower than in the first quarter. About one-third of the earnings decline at these banks was attributable to higher loan-loss provisions, reflecting rising charge-off rates on credit-card loans. The remainder of the decline was due to accounting adjustments and other nonrecurring expenses.

Asset-quality indicators improved for most loan categories in the second quarter. An exception was credit-card loans, where net charge-offs rose to record levels. The annualized net charge-off rate on banks' credit-card loans rose to 5.22 percent in the second quarter, up from 4.92 percent in the first quarter and 4.48 percent in the second quarter of 1996. This is the highest quarterly charge-off rate on credit-card loans in the 14 years that banks have reported this information. The previous record high was 4.97 percent, in the second quarter of 1992. Losses on credit-card loans accounted for two-thirds of all loan charge-offs taken by banks during the second quarter.

Commercial bank assets grew by $129.4 billion in the second quarter, to $4.8 trillion at mid-year. Almost 72 percent of the increase in assets in the second quarter consisted of growth in loans and leases. Lending growth was led by commercial and industrial loans, which increased by $23 billion; by one- to four-family residential mortgage loans, which rose by $19.0 billion; and by credit-card loans, which increased by $9.4 billion.

In the first half of 1997, commercial banks posted profits of $29.1 billion -- the most the industry has ever earned in a six-month period. The industry's first-half earnings represent a 14.2 percent increase over the same period in 1996. Average ROA for the first half of 1997 was 1.25 percent, compared to 1.18 percent a year earlier.

Savings Institutions

Insured savings institutions earned $2.4 billion in the second quarter, for an annualized ROA of 0.95 percent. While virtually identical to the previous quarter's results, the performance failed to match that of the year-earlier period when the industry earned $2.6 billion and posted an ROA of 1.03 percent. In 1996's second quarter, a number of large savings institutions used deferred tax assets to limit their income taxes. Taxes in the second quarter of 1997 were $295 million higher than a year earlier, which accounts for the $214-million drop in industry earnings.

A record $20 billion in assets was transferred from the thrift industry to the commercial banking industry in the second quarter of 1997 due to mergers and charter conversions. However, total assets of insured savings institutions still increased by $7.9 billion.

The Insurance Funds

Rising investment income and a third consecutive quarter without failures of insured institutions helped both the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) continue to grow in the second quarter.

Despite virtually no income from deposit insurance premiums, the BIF increased by $347 million, to $27.4 billion. The SAIF increased by $124 million, to $9.1 billion. The BIF now has $1.35 in reserves for every $100 of deposits it insures, while the SAIF has reserves of $1.32 per $100.

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