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

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FDIC REPORTS THAT COMMERCIAL BANKS EARNED A RECORD $14.5 BILLION IN THE FIRST QUARTER OF 1997

FOR IMMEDIATE RELEASE

The FDIC announced today that insured commercial banks earned a record $14.5 billion in the first quarter of 1997 -- the first time that quarterly profits exceeded the $14 billion level. Industry earnings were fueled by strong growth in interest-earning assets, as well as continued increases in noninterest income.

The agency also said that insured savings institutions earned $2.4 billion in the first quarter of 1997, down $136 million or 5.4 percent from the same period last year, when industry earnings received a one-time boost from branch sales.

No FDIC-insured institutions failed in the first quarter, the second consecutive three-month period with no commercial bank or thrift failures.

First-quarter results for 9,451 FDIC-insured commercial banks and 1,886 FDIC-insured savings institutions appear in the agency's Quarterly Banking Profile, which is based on quarterly reports of condition and income filed by FDIC-insured institutions. Highlights follow.

Commercial Banks

The record $14.5 billion in first-quarter earnings represents a $2.5 billion (20.4 percent) improvement over the same period in 1996. First-quarter 1997 profits also were $651 million, or 4.7 percent above the previous high of $13.8 billion set in the third quarter of 1995.

Commercial banks' average return on assets (ROA) -- a basic yardstick of industry performance -- was 1.26 percent in the first quarter. It was the 17th consecutive quarter that the industry's ROA exceeded one percent and the fourth highest ever reported.

Service charges, trading income, trust fees and other noninterest income totaled $24.7 billion in the first quarter, up $2.6 billion or 11.6 percent from the year-earlier reporting period. Roughly half the increase came from fee income.

Noninterest expenses, such as payroll and building costs, were $136 million (0.3 percent) lower than a year ago, when several large-bank mergers resulted in one-time charges that inflated industry-wide expenses.

The positive impact of the growth in noninterest income and reduction in noninterest expenses was partially offset by a $673 million (18.6 percent) increase in loan-loss provisions compared to the first quarter of 1996. Net loan losses totaled $4.0 billion, up from $3.6 billion a year earlier. Credit card loans accounted for $2.8 billion (68.2 percent) of all net loan charge-offs in the first quarter. Net charge-offs of credit-card loans were $560 million (25.2 percent) higher than a year ago, while net charge-offs on all other commercial bank loans declined by $130 million.

There were 77 commercial banks (with assets of $5.0 billion) on the FDIC's "problem list" at the end of March, down from 82 banks (with $5.1 billion in assets) at year-end 1996.

Savings Institutions

Net interest income in the first quarter of 1997 was the only component of thrift earnings to show improvement over the first quarter of 1996. Net interest income increased by 4.4 percent, or $329 million, as net interest margins improved at larger institutions. Noninterest income was down $129 million, or 6.6 percent from the year-earlier period, while loan-loss provisions rose $82 million, or 16.1 percent, and noninterest expenses increased by $53 million, or 1.0 percent.

Noninterest expenses were up, but growth in this area was held down by the reduction in insurance premiums paid by members of the Savings Association Insurance Fund (SAIF). The lower assessments saved the industry about $200 million compared to a year ago.

The number of savings institutions on the "problem list" at the end of March remained unchanged from year-end, at 35. However, total assets of institutions on the list declined to $5.3 billion from $7.0 billion.

The Insurance Funds

Investment earnings helped the FDIC's Bank Insurance Fund (BIF) grow by $188 million during the first quarter, to an unaudited balance of $27.0 billion as of March 31. The BIF's ratio of reserves to insured deposits remained unchanged from year-end 1996 at $1.34 for every $100 of insured deposits.

The SAIF's unaudited balance increased by $122 million during the first quarter, to $9.0 billion. The fund's reserve ratio edged up slightly, to $1.31 for every $100 of insured deposits, from $1.30 per $100.

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