PRESS RELEASE
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FDIC REPORTS THAT COMMERCIAL BANKS EARNED A RECORD $52.4 BILLION IN 1996

FOR IMMEDIATE RELEASE

The FDIC announced today that commercial banks earned record profits of $52.4 billion in 1996 -- the first time industry earnings surpassed the $50 billion mark. Strong growth in noninterest income, such as fees and service charges, was a key element in the higher commercial bank earnings in 1996. Wide net interest margins also contributed significantly to profits during the year. However, consumer loan delinquencies increased during the second half of 1996, and charge-offs rose dramatically.

The FDIC also reported that savings institutions recorded $7 billion in net income for the year, a $611-million decline from 1995. This earnings reduction was due to the industry's $3.5-billion, one-time payment in the third quarter to capitalize the Savings Association Insurance Fund (SAIF). The assessment reduced thrifts' after-tax earnings by $2.2 billion.

Only six FDIC-insured institutions -- five commercial banks and one savings institution -- failed in 1996. That is the lowest number of insured bank and thrift failures since 1972, when two FDIC-insured commercial banks and three savings institutions were closed.

Fourth-quarter and full-year results for 9,528 FDIC-insured commercial banks and 1,924 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

Insured commercial banks reported fourth-quarter earnings of $13.7 billion, the industry's third-highest quarterly total ever. Three of the four best quarterly earnings totals in the industry's history came during 1996.

For the full year, the industry's earnings of $52.4 billion were $3.6 billion (7.5 percent) above the previous record of $48.7 billion, set in 1995. Commercial bank profits would have been higher in 1996 if not for their $1 billion third-quarter payment to help capitalize the SAIF, which meant a $650 million reduction in after-tax net income.

Commercial banks' average return on assets (ROA) -- a basic yardstick of industry performance -- was 1.19 percent in 1996. That is just shy of the record 1.20 percent in 1993, and an increase over the 1.17 percent in 1995. Noninterest income of $93.6 billion was $11.1 billion (13.5 percent) higher than in 1995. Net interest income of $162.8 billion represented an $8.6-billion (5.6 percent) increase over 1995.

Commercial bank profits also would have been higher in 1996 if not for a $3.6-billion rise in provisions for loan losses. Actual net loan losses in 1996 totaled $15.5 billion, an increase of $3.3 billion (27.2 percent) over total net loan charge-offs in 1995.

The increase in loan losses was attributable to rising charge-offs on banks' credit-card loans and other loans to consumers. Nearly two-thirds of the net charge-offs at commercial banks in 1996 were in credit-card loans. For the full year, commercial banks charged-off 2.29 percent of their loans to individuals, compared to 1.73 percent in 1995. Credit cards alone had a charge-off rate of 4.37 percent for 1996, up from 3.40 percent in 1995. Credit-card charge-offs amounted to an annualized rate of 4.72 percent of total credit-card loans in the fourth quarter of 1996.

The industry's growth rate slowed for the second consecutive year. Total assets of commercial banks increased by 6.2 percent, after growing 7.5 percent and 8.2 percent in 1995 and 1994, respectively. Loans accounted for an increasing share of asset growth -- especially loans to commercial and industrial borrowers and for home mortgages. As banks' loans increased, their securities holdings declined by $10.2 billion.

There were 82 commercial banks with $5.1 billion in assets on the FDIC's "problem list" at year-end 1996. That represents a net decline of 62 institutions and $11.7 billion in assets during the year.

Savings Institutions

Insured savings institutions earned $2.2 billion in the fourth quarter of 1996, a 21 percent ($375 million) increase from the fourth quarter of 1995. Those earnings also represent a $2.3-billion improvement over the third quarter of 1996, when the one-time special assessment against SAIF-insured deposits and extraordinary losses caused a

$56-million net loss for the industry. For the full year, thrift earnings totaled $7 billion, down from $7.6 billion in 1995.

There were 35 savings institutions with just over $7 billion on the "problem list" at year-end 1996. That is a net decline of 14 institutions and $7 billion in assets.

The Insurance Funds

With the enactment of the Deposit Insurance Funds Act of 1996 on September 30, the SAIF became fully capitalized as of October 1. The $4.5 billion special assessment authorized by that law brought the SAIF's reserves on October 1 to $1.27 for each $100 of insured deposits (slightly above the statutory target of $1.25 per $100), compared to 55 cents per $100 at the end of June. Based on unaudited information, the SAIF reserve ratio increased to 1.30 percent on December 31.

The Bank Insurance Fund (BIF), which has been fully capitalized since May of 1995, had unaudited reserves of $1.34 for every $100 of insured deposits as of December 31, 1996. That represents a slight increase from $1.32 per $100 on September 30.

Prior to the capitalization of the SAIF fund in September, institutions were paying higher deposit insurance premiums for SAIF-assessable deposits than for BIF-assessable deposits. However, on December 11, 1996, the FDIC Board of Directors voted to reduce SAIF deposit insurance premiums to the same level as those for BIF deposits, effective January 1, 1997. Rates for both funds now range from 0 to 27 cents for each $100 of assessable deposits.

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