PRESS RELEASE

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FDIC REPORTS BANK EARNINGS DECLINED $1.1 BILLION IN THE THIRD QUARTER, FOREIGN OPERATIONS CITED FOR DROP; DOMESTIC EARNINGS REMAIN STRONG

FOR IMMEDIATE RELEASE

The commercial banking industry earned $15 billion in the third quarter of 1998, following the record $16.1 billion in profits it earned in the previous quarter, the Federal Deposit Insurance Corporation (FDIC) announced today. Weakness in overseas markets was largely responsible for the $1.1 billion decline in earnings, according to the preliminary data. Domestic operations remained strong. Earnings from domestic operations registered a 3.1 percent improvement, totaling $14.5 billion in the third quarter, the second best quarter for domestic earnings on record.

While return on assets fell to 1.15 percent in the third quarter, down from 1.25 in the second quarter, the measure remained exceptionally strong by historical standards. From 1934, when FDIC began operations, to 1993, the commercial banking industry had never surpassed a one percent ROA.

"In spite of the decline in earnings, the performance of the commercial banking industry in the third quarter gives us cause to celebrate as we enter into the holiday season," said Donna Tanoue, FDIC Chairman, who noted that equity capital had increased and now stands at the highest level since 1941.

She also noted that the percentage of total bank loans that were noncurrent remained at the lowest level in the 17 years the data have been reported.

FDIC

Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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"Even with the earnings decline, the numbers show a strong and resilient commercial banking industry well positioned to deal with problems from an economic downturn," Chairman Tanoue said.

The earnings decline ended a string of six consecutive quarters in which bank earnings had set records. However, industry earnings for the first nine months of 1998 totaled $47.1 billion, an increase of $3.2 billion -- or 7.4 percent -- over the same period in 1997.

Third-quarter results for the 8,910 commercial banks and 1,713 savings institutions that are insured by the FDIC 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 1998. Highlights follow.

Commercial Banks

The decline in bank earnings was concentrated among some of the largest institutions, which account for most of the industry's foreign operations. Net income from foreign operations declined by $1.5 billion (73.2 percent) compared with the second quarter. In contrast, earnings from domestic operations registered a $429 million (3.1 percent) improvement. The industry's annualized return on assets (ROA) -- a basic yardstick of profitability -- fell to 1.15 percent in the third quarter, from 1.25 percent in the second quarter of 1998 and 1.22 percent in the third quarter of 1997. The average ROA at banks with more than $10 billion in assets declined from 1.18 percent to 0.97 percent, while the average ROA for banks with less than $10 billion in assets rose from 1.37 percent to 1.47 percent. For the first three quarters of 1998, the industry's ROA was 1.22 percent, down from 1.24 percent for the same period of 1997.

The greatest drag on industry earnings came from banks' trading activities, which contributed $1.9 billion less to pre-tax revenues than in the second quarter. This decline coincided with extreme volatility in overseas interest rates and foreign exchange rates. Provisions for international loan and lease losses increased by $203 million (42.8 percent), while domestic loan-loss provisions increased by $1.2 billion (26.0 percent). The negative impact of lower noninterest revenues and higher credit expenses was only partially offset by a $1.3 billion decline in expenses for income taxes and a $792 million increase in net interest income.

Commercial banks charged off $5.7 billion in bad loans in the third quarter, up $853 million (17.7 percent) over the second quarter and $915 million (19.3 percent) over the third quarter of 1997. Net charge-offs on loans to foreign borrowers totaled $519 million, $220 million more than in the second quarter and $458 million more than a year earlier. Among charge-offs on loans to domestic borrowers, losses in the "all other loans" category registered a $491 million increase. This category includes loans for purchasing or carrying securities, and the increase in loan losses may be a further result of the volatility in financial markets that produced the decline in banks' trading income.

Noncurrent loans -- those with scheduled payments 90 days or more past due, or loans that are no longer accruing interest income -- increased by $468 million during the third quarter. Roughly one-third of the increase ($160 million) was in loans to foreign borrowers. During the 12 months ended September 30, noncurrent loans to foreign borrowers increased by $1.3 billion (80.3 percent), while noncurrent loans to domestic borrowers declined by $428 million (1.6 percent). The percentage of total bank loans that were noncurrent at the end of the third quarter stood at 0.94 percent, unchanged from the end of the second quarter. This is the lowest level for this ratio in the 17 years that banks have reported noncurrent loan amounts.

Assets of commercial banks increased by $86.4 billion in the third quarter, with much of the growth occurring in securities (up $29.1 billion), loans to commercial and industrial borrowers (up $23.6 billion), loans for commercial real estate properties and construction (up $9.3 billion and $6.7 billion, respectively), and consumer loans other than credit cards (up $8.3 billion). Total deposits increased by only $346 million, as banks continue to fund a growing share of their assets with nondeposit liabilities. The industry's equity capital increased by $11.4 billion to $457.4 billion, or 8.68 percent of industry assets. This is the highest level for this ratio since the end of 1941.

The number of insured commercial banks declined by 73 institutions during the third quarter. Mergers absorbed 124 banks, while 49 new banks were chartered. Three savings institutions converted to commercial bank charters, while one commercial bank converted to a savings institution charter. Two commercial banks failed during the quarter, marking the first time in two years that more than one bank has failed in a quarter.

Savings Institutions

Insured savings institutions reported $3.0 billion in net income for the third quarter, surpassing the previous industry record of $2.8 billion set in the second quarter. The earnings improvement was largely the result of an $899 million (41 percent) rise in noninterest income reflecting proceeds from asset sales by a few large institutions. Smaller thrifts did not show the same earnings gains as larger institutions. The average ROA for thrifts with less than $100 million in assets in the third quarter was 0.80 percent, compared with an average ROA of 1.16 percent at thrifts with assets greater than $100 million. Fewer than half -- 44 percent -- of all savings institutions reported higher earnings than in the second quarter.

Data Available on the Internet are Updated

Simultaneous with the release of the Quarterly Banking Profile, the electronic version of the Profile, along with its accompanying Graph Book, have been updated on the FDIC's Internet site at www.fdic.gov. In addition, the FDIC's Institution Directory (ID) has been updated with financial and demographic data on each of the more than 10,000 insured institutions through September 30, and the Call Reports and Thrift Financial Reports service that allows the public to access copies of the complete quarterly financial reports filed by commercial banks and savings institutions has also been updated.

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