PRESS RELEASE
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FDIC REPORT FOR FIRST QUARTER SHOWS FIFTH STRAIGHT EARNINGS RECORD FOR COMMERCIAL BANKS, NEAR-RECORD PROFITS FOR SAVINGS INSTITUTIONS

FOR IMMEDIATE RELEASE

Insured commercial banks reported record profits in the first quarter of 1998, marking the fifth consecutive quarter that earnings set a new high, according to preliminary data released today by the FDIC. First-quarter 1998 net income totaled $15.9 billion, which is $621 million higher than the previous record set in the fourth quarter of 1997.

The FDIC attributed much of the increase in banks' first-quarter earnings to the continued strong growth in noninterest income, especially from trust activities and other sources of fees. Bank revenues also received a boost from one-time gains from sales of securities and other assets.

In addition, the FDIC reported that insured savings institutions earned $2.58 billion in the first quarter - their second-best quarterly total after the $2.63 billion recorded in the second quarter of 1996.

First-quarter results for 9,024 insured commercial banks and 1,755 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 first three months of this year. Highlights follow.

Commercial Banks

Commercial bank earnings of $15.9 billion during the first quarter were $1.5 billion (10.1 percent) higher than a year ago. Banks' annualized return on assets (ROA) - a basic yardstick of profitability - was 1.26 percent in the first quarter, up from 1.24 percent in the fourth quarter of 1997 and 1.25 percent in the first quarter of 1997. The industry has now posted a quarterly ROA of one percent or higher for 21 consecutive quarters, dating back to the first quarter of 1993. Prior to this streak, the industry never reported a quarterly ROA as high as one percent. More than two out of every three banks (67.0 percent) reported ROAs of one percent or higher in the quarter. A similar proportion (63.6 percent) reported higher earnings than a year earlier.

The increase in industry earnings was supported by the growth in noninterest income, which was $4.6 billion (18.8 percent) higher than a year ago. Also, one-time gains on securities and other asset sales contributed $777 million - more than half of the year-to-year increase in after-tax profits.

Bank earnings would have been higher in the first quarter if not for three factors: a decline in net interest margins (the spread between the average yield on interest-earning assets and the average interest expense of funding those assets); an increase in banks' provisions for credit losses; and higher noninterest expenses associated with mergers and holding company restructurings.

The industry's net interest margin, at 4.06 percent, was 16 basis points lower than a year ago, when it was 4.22 percent. Despite the margin decline, industry net interest income was up by $2.2 billion (5.2 percent) compared to a year earlier because of a 9.9 percent increase in banks' interest-earning assets during the 12 months that ended March 31, 1998. Provisions for credit losses were $673 million (15.7 percent) higher than a year ago, with almost half of the increase earmarked for banks' international loans. Total noninterest expenses were up $5.4 billion (13.3 percent) from a year ago, and more than $1.4 billion of that increase consisted of charges related to bank mergers or restructurings.

Asset growth remained strong in the first quarter. Total assets increased by $96.3 billion (1.9 percent). Loan growth of $52.1 billion accounted for more than half of the increase, with lending strength particularly evident in loans to commercial and industrial borrowers and residential mortgage loans. Banks also increased their securities holdings during the quarter.

Total securities increased by $33.5 billion, with mortgage-backed securities increasing by $18.3 billion. Deposit growth was strong for the second consecutive quarter, increasing by $46.1 billion (1.3 percent) during the first-quarter period that typically experiences a net decline because of seasonal factors.

Asset-quality indicators remained largely favorable through the end of March. Noncurrent loans - those 90 days or more past due or in nonaccrual status - increased by $945 million during the first quarter. While the percent of bank loans that were noncurrent rose slightly to 0.98 percent from 0.96 percent at the end of 1997, the latest level still is the second lowest since the industry began reporting noncurrent loan data in 1982. Noncurrent commercial and industrial loans increased by $1.1 billion in the first quarter, as noncurrent loans to foreign commercial borrowers increased by $590 million. Net loan charge-offs totaled $4.8 billion in the first quarter, with credit-card loans accounting for almost two-thirds (62.3 percent) of all loan charge-offs.

The number of insured commercial banks declined by 120 institutions during the first quarter. Mergers absorbed 146 banks, while 27 new banks were chartered. No insured commercial banks failed during the first quarter.

Savings Institutions

The $2.6 billion earned by insured savings institutions in the first quarter resulted in an annualized ROA of 1.01 percent. That ROA matches the second highest reported by the industry.

Industry earnings were $178 million (7.4 percent) higher than a year ago, propelled by higher gains on securities sales and lower expenses for credit-loss provisions. Securities sales earned $399 million more than in the first quarter of 1997, while provisions for credit losses were $165 million lower than a year ago.

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