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FDIC REPORTS COMMERCIAL BANKS, SAVINGS INSTITUTIONS POSTED RECORD SECOND QUARTER PROFITS

FOR IMMEDIATE RELEASE

Commercial banks and thrift institutions broke a string of records during the second quarter of 1998, but the banking industry's long streak of outstanding financial performance may end during the third quarter due to losses expected on trading and international activities, the Federal Deposit Insurance Corporation reported today.

The second quarter of 1998 "was a quarter of firsts" for the banking and thrift industries, FDIC Chairman Donna Tanoue announced during a press briefing on the FDIC's Quarterly Banking Profile.

Preliminary data show that insured commercial banks posted record profits, with net income for the three-month period at an all-time high of $16.1 billion. Earnings for the first six months of 1998 reached $32 billion, up $2.9 billion (9.9 percent) over the same period in 1997. The quarterly earnings record represents an increase of $210 million over the previous quarterly record, set in the first quarter. Net interest income and noninterest income also moved to new highs, and the industry reported its lowest level of noncurrent loans in more than 17 years.

While the second quarter of 1998 is the sixth consecutive quarter that bank earnings have reached a record high, Chairman Tanoue said the commercial banking industry's long run of record-breaking performance may be coming to an end.

"Several of the largest banking companies have disclosed that losses from their trading and other international activities will affect their third quarter earnings," Chairman

Tanoue said. She noted that international operations have, on average, contributed about 12 percent to bank earnings since 1994. How the economic slump abroad affects the industry's third quarter earnings will not be fully known until December, she added.

The second-quarter results for 8,984 insured commercial banks and 1,728 insured savings institutions described in the FDIC's Quarterly Banking Profile are 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 second quarter and for the first half of 1998. Highlights follow.

Commercial Banks

The banking industry's annualized return on assets (ROA) - a basic yardstick of profitability - was 1.25 percent in the second quarter, compared to 1.26 percent in the first quarter and 1.24 percent in the second quarter of 1997. More than two-thirds of all commercial banks - 69.6 percent -- reported an ROA of 1 percent or higher for the quarter. For the first six months of 1998, the industry's ROA was 1.25 percent, unchanged from the same period in 1997.

As has been the case in recent quarters, strong growth in noninterest revenues, especially income from trust activities and other fees, made the largest contribution to the improvement in earnings. Noninterest income rose to $30.7 billion in the second quarter, from $29.2 billion in the first quarter, and $25.3 billion in the second quarter of 1997. Net interest income was $1.2 billion higher than in the first quarter and $2.0 billion higher than a year earlier, thanks to growth in banks' interest-earning assets. The industry's net interest margin - the difference between the average yield on their earning assets and the average cost of funding those assets - rose slightly, to 4.10 percent from 4.06 percent in the first quarter. These are the lowest quarterly margins in the past 7 years.

Asset quality remained largely favorable. Provisions for future credit losses were $235 million (4.7 percent) higher than a year earlier, but all of the increase occurred in provisions for losses on banks' international operations. Net loan charge-offs totaled $4.9 billion in the second quarter, up $507 million from the second quarter of 1997. Almost half of this increase was attributable to charge-offs on international operations, which were $247 million higher than a year earlier. Most of the loan charge-offs continue to come from banks' credit-card loans, which accounted for 61.8 percent ($3.0 billion) of all charge-offs in the quarter. The annualized net charge-off rate in the second quarter was 0.64 percent, the same as in the first quarter, and only 2 basis points higher than in the second quarter of 1997. Noncurrent loans - loans that are 90 days or more past due or in nonaccrual status - declined by $413 million in the second quarter, but remained $505 million (1.8 percent) above the level of a year ago. Noncurrent loans to foreign borrowers increased by $167 million during the quarter, and are $1.1 billion higher than a year ago. At midyear, 0.94 percent of all commercial bank loans were noncurrent, the lowest percentage in the 17 years that banks have been reporting noncurrent loan data.

Asset growth showed signs of slowing in the second quarter. Total assets increased by $71.8 billion, compared to a $96.0-billion increase in the first quarter and a $129.9-billion increase in the second quarter of 1997. Loans increased by $67.0 billion, while banks' securities holdings declined by $10.9 billion. Commercial and industrial loans continued to register strong growth, increasing by $30.3 billion in the quarter. In the 12 months ended June 30, total assets of commercial banks increased by 8.6 percent, while banks' commercial and industrial loans grew by 12.6 percent.

The number of insured commercial banks fell below 9,000 for the first time since the FDIC was created in1934, as 8,984 banks reported financial results at midyear. During the second quarter, 91 banks were absorbed by mergers, and 49 new banks were chartered. One insured commercial bank failed in the quarter.

Savings Institutions

Insured savings institutions posted record earnings of $2.8 billion in the second quarter, eclipsing the previous record of $2.6 billion set in the second quarter of 1996. The annualized ROA rose to a record 1.09 percent in the second quarter, compared to 1.01 percent in the first quarter and 0.95 percent in the second quarter of 1997. The most significant contributing factor to the record quarterly results was a $250-million tax benefit recognized by one large savings institution.

New Data Available on the Internet

The latest information on FDIC-insured commercial banks and savings institutions is available on FDIC's Worldwide Web site (www.fdic.gov). The Institution Directory (ID) has been updated and expanded to provide financial and demographic information on each of the more than 10,000 insured institutions through midyear 1998. This release of ID allows users for the first time to create aggregate financial reports for all insured depository subsidiaries in any of almost 800 multi-bank holding companies. The FDIC today also unveiled a new service that enables the public for the first time to access copies of the complete quarterly financial reports filed by commercial banks and savings institutions. The quarterly financial reports can be found on the Web site under "Bank Data" and "Banking News."

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