PRESS RELEASE

Federal Deposit Insurance Corporation

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FDIC REPORTS THAT BANKS EARNED A RECORD $19.4 BILLION IN THE THIRD QUARTER OF 1999, WHILE SAVINGS INSTITUTIONS EARNED $2.8 BILLION

FOR IMMEDIATE RELEASE

The FDIC today released preliminary data that showed commercial banks earned $19.4 billion during the three months from July through September. Bank earnings were $1.4 billion higher than the previous quarterly record of $18.0 billion, set in the first quarter of 1999. Profits were up by $4.4 billion (29.1 percent) from a year ago, when weakness in overseas markets held down industry earnings. For the first nine months of 1999, banks earned $54.3 billion, an increase of $7.2 billion (15.3 percent) over the same period in 1998.

"In a quarter in which almost everything went right, strong growth in noninterest income, combined with fewer expenses related to mergers and restructurings, helped lift commercial bank earnings to new heights," said FDIC Chairman Donna Tanoue. "This achievement was clouded, however, by rising levels of noncurrent commercial and consumer installment loans, which outpaced growth in banks' reserves for losses."

Third-quarter results for the 8,621 commercial banks and 1,650 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 1999. Highlights follow.

Commercial Banks

The industry's record-breaking performance was propelled by improved results at many of the largest banks, where earnings in earlier quarters had been held down by weak results from overseas operations and one-time expenses related to mergers and restructurings. The surge in bank earnings reflected continued strength in noninterest revenues, especially fee income, as well as a moderation in noninterest expenses. Noninterest income rose to $36.9 billion, from $34.5 billion in the second quarter, and $29.6 billion a year ago. Revenues in the earlier quarters were limited by weaknesses that were not present in the third quarter. A year ago, for example, trading revenues were $1.6 billion lower, due to volatility in foreign markets. Also, in the second quarter of 1999, revaluation losses at one institution caused a decline in the industry's noninterest income. Third-quarter results also received a $1 billion boost from the sale of assets at one bank.

The absence of merger-related charges in the third quarter helped produce an $852 million decline in the industry's noninterest expenses from second-quarter levels. Compared to a year ago, noninterest expenses were up by only $2.6 billion (5.4 percent). Bank earnings also benefited from relatively modest charges for loan-loss provisions. Provisions for credit losses were $357 million (7.2 percent) higher than in the second quarter, but were $1.2 billion (19.0 percent) lower than in the third quarter of 1998.

Commercial banks' net interest margins increased for the second consecutive quarter, helping lift net interest income. The industry's net interest margin rose to 4.13 percent for the third quarter, up from 4.07 percent in the second quarter and 4.12 percent a year ago. Net interest income increased by $1.1 billion (2.3 percent) from the second quarter, and was $2.6 billion (5.6 percent) higher than a year ago.

The industry's return on assets (ROA), a fundamental gauge of industry profitability, climbed to an all-time high of 1.42 percent in the third quarter, from 1.25 percent in the second quarter and 1.15 percent a year ago. The previous quarterly record of 1.32 percent was reached in the third quarter of 1995, and again in the first quarter of 1999. Almost two out of every three banks -- 66 percent -- had an ROA of one percent or higher in the third quarter. For the first nine months of 1999, the average ROA was 1.33 percent, compared to 1.22 percent for the same period in 1998.

Asset-quality indicators remained fairly stable during the third quarter, as improvements in credit card portfolios offset deterioration in commercial loans and consumer installment loans. Net loan charge-offs were $254 million (5.5 percent) higher than in the second quarter, but were $696 million (12.6 percent) below the level of a year ago, when charge-offs on credit card loans were $696 million higher than in this most recent quarter. Noncurrent loans -- those that are 90 days or more past due or in nonaccrual status -- increased by $1.1 billion (3.7 percent) during the quarter, and are $2.8 billion (9.5 percent) higher than a year ago. The industry's noncurrent loan rate rose to 0.96 percent at the end of the third quarter. At the end of the second quarter of 1999 and at the end of the third quarter of 1998, the noncurrent rate stood at 0.94 percent, its lowest level in the 17 years that banks have reported noncurrent loan data. The noncurrent rate on commercial and industrial loans rose to 1.15 percent during the quarter, the highest level since the first quarter of 1996. The noncurrent rate on consumer installment loans rose to 1.16 percent, a seven-year high.

Banks' reserves for future loan losses increased by $632 million during the third quarter of 1999, but this increase failed to keep pace with growth in noncurrent loans. As a result, the industry's "coverage ratio" declined to $1.80 in reserves for every $1.00 of noncurrent loans, from $1.85 at mid-year. Also, the level of reserves to total loans declined to a 22-year low; at the end of September, commercial banks held $1.73 in reserves for every $100 of loans, down from $1.74 at the end of June and $1.82 a year ago.

Assets of commercial banks increased by only $38.8 billion (0.7 percent) during the quarter, and $238.8 billion (4.5 percent) in the last year. That 12-month growth rate is the lowest in the past five years. Loans increased by only $49.5 billion (1.5 percent) during the quarter, led by a $55.5 billion (4.0 percent) increase in real estate loans. Commercial and industrial loans increased by only $11.2 billion, the smallest quarterly increase in two years.

The number of commercial banks declined by 53 institutions during the third quarter. Mergers absorbed 109 banks, and three banks failed. There were 59 new charters. The number of banks on the FDIC's "Problem List" rose from 62 to 69 during the quarter.

Savings Institutions

Insured savings institutions reported $2.8 billion in net income for the third quarter, only $13 million less than in the second quarter, and $105 million (3.5 percent) below the record level of a year ago. The decline in industry earnings was caused by lower gains on sales of securities, reflecting the negative effect of higher interest rates on the value of fixed-rate securities. Gains on securities sales fell to $276 million in the third quarter, from $445 million in the second quarter and $649 million in the third quarter of 1998.

The industry's net operating income, which excludes proceeds from securities sales and other nonrecurring items, reached a record high for the second consecutive quarter. Net operating income totaled $2.7 billion, up from $2.6 billion in the second quarter and $2.5 billion a year ago. The average ROA was 1.00 percent in the third quarter, down from 1.03 percent in the second quarter and a record 1.14 percent a year ago.

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