PRESS RELEASE
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FDIC REPORTS THAT BANKS EARNED $17 BILLION IN SECOND QUARTER OF 1999, SAVINGS INSTITUTIONS EARNED $2.9 BILLION

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Commercial bank earnings fell just short of a new record in the second quarter of 1999, according to preliminary data from the FDIC. Industry profitability remained strong, especially in banks' domestic operations. Commercial banks earned $17.0 billion during the three months from April through June. Bank earnings were $1.0 billion lower than the record quarterly total of $18.0 billion in the first quarter, but were still the second-highest quarterly earnings ever reported by the industry.

"It may have not been the very best quarter ever, but as a bank regulator and insurer - who has to address problems and pay for bank failures - the FDIC welcomed it as the second best," said Donna Tanoue, FDIC Chairman. Compared to the second quarter of 1998, industry earnings were up by $854 million (5.3 percent). For the first six months of 1999, commercial bank earnings totaled $34.9 billion, a $2.9 billion (9.1 percent) improvement over the same period in 1998.

Second-quarter results for the 8,675 commercial banks and 1,652 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 second quarter and for the first half of 1999. Highlights follow.

Commercial Banks

The decline in bank earnings from the first quarter was primarily attributable to higher expenses at one large institution that was acquired during the second quarter. Noninterest expenses were $1.2 billion (2.4 percent) higher than in the first quarter, and all but $52 million of the increase was caused by merger-related expenses at that one institution.

Industry earnings also were held down by lower income from international operations and lower trading revenue. Net income from international operations totaled $1.6 billion, down $742 million from the first quarter and $450 million less than a year earlier. Income from trading activities fell to $2.2 billion in the second quarter, from a record $3.6 billion in the first quarter. In the second quarter of 1998, banks' trading activities generated $2.5 billion in revenue. Earnings strength was evident in fee income, which rose by $1.4 billion (9.0 percent) from the first quarter. Fee income was up by $3.4 billion (26.8 percent) from a year ago. Earnings also benefited from lower expenses for loan losses. Banks set aside $4.9 billion in provisions for future loan losses; that amount is $490 million (9.0 percent) less than in the previous quarter and $172 million (3.4 percent) less than in the second quarter of 1998.

The industry's annualized return on assets (ROA), a fundamental yardstick of industry profitability, was 1.25 percent in the second quarter. That ROA is the same as a year ago, but down from 1.32 percent in the first quarter of 1999. The second quarter of 1999 marks the 26th consecutive quarter -- dating back to the first quarter of 1993 -- that the industry's ROA has been above one percent. Almost two out of every three banks -- 63.6 percent -- reported an ROA of one percent or higher in the second quarter.

Asset-quality indicators showed signs of improvement during the quarter. In addition to the decline in provisions for loan losses, both noncurrent loans and net loan charge-offs improved. Net charge-offs totaled $4.6 billion, down $424 million (8.5) percent from the first quarter and $197 million (4.1 percent) lower than in the second quarter of 1998. Noncurrent loans (those 90 days or more past due or in nonaccrual status) fell by $1.1 billion (3.3 percent), but ended the quarter $2.1 billion (7.1 percent) higher than a year earlier. The percentage of loans that were noncurrent fell from 0.99 percent to 0.94 percent, matching the all-time lows reached in the second and third quarters of last year.

The greatest improvement in asset quality occurred in consumer loans, especially credit cards. Net charge-offs on credit cards were $545 million (20.4 percent) lower than in the first quarter and $769 million (26.5 percent) less than a year ago. Loans to commercial and industrial borrowers were the only major exception to the trend of improving asset quality. Net charge-offs on loans to commercial and industrial borrowers were up by $269 million (26.6 percent) from the first quarter, and were $554 million (76.0 percent) higher than a year ago. Noncurrent commercial and industrial loans increased by $217 million (2.1 percent) during the quarter, and were up by $2.3 billion (29.2 percent) in the past 12 months.

Total assets of commercial banks rose by $58.0 billion during the quarter, following a seasonal decline of $31.5 billion in the first quarter. Through the first six months of 1999, industry assets have grown by only $26.5 billion, or 0.5 percent. Real estate loans increased by $26.9 billion (2.0 percent) in the second quarter, loans to depository institutions rose by $13.5 billion (13.0 percent), and commercial and industrial loans grew by $14.3 billion (1.6 percent). The quarterly increase in commercial loans was the smallest since the third quarter of 1997.

The number of insured commercial banks declined by 46 during the second quarter. One bank failed and 103 banks were merged into other institutions. There were 55 new banks added during the quarter. Six savings institutions converted to commercial bank charters, one commercial bank converted to a thrift charter, and two banks voluntarily liquidated. The number of commercial banks on the FDIC's "Problem List" declined from 64 to 62 during the quarter.

Savings Institutions

Insured savings institutions reported $2.9 billion in net income in the second quarter. Those earnings are the second-highest quarterly total ever reported by the thrift industry, exceeded only by the $3.0 billion earned in the third quarter of 1998. Earnings were $180 million (6.7 percent) higher than in the first quarter and $54 million (1.9 percent) more than thrifts earned in the second quarter of 1998.

Strong growth in noninterest income and lower expenses for future loan losses were two of the main sources of earnings improvement. The industry's ROA in the second quarter was 1.03 percent, an improvement from the 0.98 percent average of the first quarter, but below the 1.09 percent average in the second quarter of 1998. Larger thrifts enjoyed stronger profitability than smaller institutions; only 29 percent of all savings institutions had second-quarter ROAs above one percent.

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