PRESS RELEASE

Federal Deposit Insurance Corporation

June 18, 1999

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FDIC REPORTS RECORD EARNINGS FOR COMMERCIAL BANKS THIRD-BEST EVER FOR SAVINGS INSTITUTIONS IN THE FIRST QUARTER

FOR IMMEDIATE RELEASE

FDIC-insured commercial banks earned a record $18.0 billion in the first quarter of 1999. The quarter was marked by an absence of major merger-related restructuring expenses at large banks, which had depressed industry earnings in recent periods. Large bank earnings also were boosted by improvements in international operations and a record quarter for trading income.

"The banking industry in the first quarter of this year continued to be a money creating machine in more ways than one," said Donna Tanoue, FDIC Chairman.

She added: "Even though it was a banner quarter for the industry, large banks and small, it is no time for bank supervisors to be complacent. We continue to monitor emerging risks that could affect institutions, and will address problems as they arise."

First-quarter results for the 8,721 commercial banks and 1,669 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 first quarter of 1999. Highlights follow.

Commercial Banks

The net income of $18.0 billion at insured commercial banks was $2.1 billion (12.9 percent) higher than in the first quarter of 1998. Bank profits also were $1.9 billion (11.6

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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percent) above the previous quarterly record of $16.1 billion set in the second quarter of 1998.

The average return on assets (ROA), a fundamental yardstick of earnings performance, rose to 1.32 percent from 1.26 percent a year ago. This matches the industry's record high set in the third quarter of 1995. More than half of all commercial banks (59 percent) reported an ROA of one percent or higher for the first quarter. The average return on equity (ROE) in the first quarter was 15.41 percent, compared to 15.02 percent in the first quarter of 1998.

The improvement in earnings was led by some of the largest banks, whose previous quarterly earnings had been limited by merger-related restructuring expenses, weak overseas results, and below-average trading revenues. Net income from international operations was $582 million (33.1 percent) higher than a year ago, and income from trading activities set a quarterly record of $3.6 billion, a $939 million (35.4 percent) improvement compared to the first quarter of 1998.

The average ROA at banks with more than $10 billion in assets was 1.24 percent, up from 1.11 percent a year ago. Many smaller banks had lower ROAs than a year ago because of declining net interest margins (the difference between the average yield on their interest-earning assets and the average cost of funding those assets). Smaller banks are more dependent on this differential than larger banks, which obtain more of their revenues from fees, service charges and other noninterest income. A majority of banks with less than $100 million in assets saw the dollar amount of their earnings decline compared to a year ago. The average ROA at banks with less than $100 million in assets declined to 1.10 percent from 1.19 percent a year ago.

Banks charged off $5.0 billion in bad loans during the quarter, an increase of $341 million (7.3 percent) over the first quarter of 1998. The annualized net charge-off rate on all loans and leases was 0.62 percent, the same as a year ago. Charge-offs on commercial and industrial loans were up sharply (up $429 million, or 73.6 percent), while charge-offs on credit-card loans were $171 million (6.0 percent) lower. Noncurrent loans -- loans that are 90 days or more past due or in nonaccrual status -- rose by $978 million during the first quarter, to 0.99 percent of total loans. Over the last 12 months, noncurrent loans increased by $2.7 billion (9.2 percent). Commercial and industrial loans accounted for much of this increase. Noncurrent commercial and industrial loans increased by $1.3 billion in the first quarter, and are $2.2 billion (28.3 percent) higher than a year ago. No other loan categories experienced comparable increases in charge-offs or noncurrent loans.

Total assets of commercial banks registered a seasonal decline of $34.1 billion during the first quarter. Commercial and industrial loans increased by $23.0 billion, the largest growth of any loan category. Banks increased their holdings of U.S. Treasury securities by $13.0 billion, while their holdings of mortgage-backed securities declined by $14.4 billion. During the 12 months that ended March 31, commercial bank assets increased

by 5.9 percent, loans and leases grew by 7.5 percent, and banks' securities portfolios increased by 9.9 percent.

The number of insured commercial banks reporting financial results declined from 8,774 to 8,721 during the quarter. There were 64 new charters, while 114 banks were absorbed by mergers and one bank failed. The number of commercial banks on the FDIC"s "Problem List" declined from 69 to 64 during the quarter, and "problem" bank assets fell from $5.4 billion to $4.7 billion.

Savings Institutions

Insured savings institutions reported $2.7 billion in net income for the first quarter, the third-highest quarterly total in the industry's history, and a 3.8 percent improvement compared to the first quarter of 1998. The higher earnings were made possible by record low expenses for credit losses and strong growth in interest-earning assets.

The average ROA for the first quarter was 0.98 percent, slightly below the 1.01 percent average of a year ago, as industry assets were 6.7 percent higher. The decline in profitability was caused by lower net interest margins. The average net interest margin was 10 basis points lower than a year ago. As was the case with commercial banks, profitability of smaller thrifts lost ground in comparison to the rest of the industry. The average ROA at thrifts with less than $100 million in assets declined to 0.65 percent for the first quarter, compared to 0.79 percent a year ago.

Last Updated 07/19/1999