PRESS RELEASE

Federal Deposit Insurance Corporation

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COMMERCIAL BANK EARNINGS RECOVER FROM DISAPPOINTING SECOND QUARTER; CONCERNS FOR THE FUTURE PERSIST, FEDERAL DEPOSIT INSURANCE CORPORATION REPORTS

FOR IMMEDIATE RELEASE

Commercial bank earnings rebounded sharply in the third quarter to $19.3 billion, up 32 percent from their performance in the second quarter, the Federal Deposit Insurance Corporation (FDIC) announced Tuesday.

In terms of dollars, it was commercial banks' third highest quarterly earnings performance. Average return on assets was 1.28 percent, compared to 0.99 percent in the second quarter, and a record high 1.41 percent in the third quarter of 1999.

The rebound occurred, in large part, because the commercial banking industry did not experience the types of sizable restructuring and credit-related charges at large banks that depressed its results in the second quarter. Rising loan-loss provisions and higher losses on sales of securities, however, did hold down third quarter earnings.

"Unlike earlier in the year, no large adverse events affected the commercial banking industry in the third quarter," FDIC Chairman Donna Tanoue said in announcing the results, "but concerns for the future remain, particularly in credit quality. These concerns darken an otherwise sunny picture."

The FDIC noted:

- Third-quarter loan-loss provisions were 26 percent above the level of a year ago - or $1.4 billion higher. Through the first nine months of this year, loss provisions absorbed 7.4 percent of the industry's net operating revenues, compared to 6.3 percent in the first three quarters of last year.

- The rising trend in loss provisions reflects rising loan losses and growing inventories of noncurrent loans. Net charge-offs were up more than 16 percent from the third quarter of 1999. And almost one third of all loan charge-offs occurred in loans to commercial and industrial borrowers. C&I charge-offs were almost 44 percent higher than a year ago. These charge-offs are concentrated at large institutions.

- Even as banks charge off loans at higher rates, remaining inventories of noncurrent loans - loans that are delinquent 90 days or more or are in nonaccrual status - continue to rise.

- With interest rates well above the level of a year ago, the values of commercial banks' securities have declined. Sales of securities in the third quarter produced a net loss of $713 million, significantly greater than the net loss of $198 million on securities sales in the third quarter of 1999.

- Total assets of insured commercial banks rose above the $6 trillion level for the first time. Asset growth, led by growth in loans, has been gaining momentum through the first three quarters of the year. As assets have increased, much of the growth has been funded by volatile wholesale deposits and nondeposit borrowings, rather than by stable, lower-cost "core deposits."

"While earnings strength remained widespread, we are seeing signs that banks may be having difficulty sustaining high profitability," Chairman Tanoue said. "Among those signs, less than half of all commercial banks reported a higher quarterly ROA than a year ago. Net interest margins continue to decline. Growth in several types of noninterest income - which has been the strongest source of rising bank revenues - is slowing. By historical standards, profitability remains strong, but bankers - and bank regulators - cannot be complacent."

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Attachment: Chairman’s Statement
Attachment: The FDIC Preliminary Bank Earnings Report Third Quarter, 2000