PRESS RELEASE

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September 21, 2000

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FDIC REPORTS SHARP DECLINE IN SECOND-QUARTER EARNINGS AT COMMERCIAL BANKS

FOR IMMEDIATE RELEASE

Commercial bank earnings during the second quarter dropped 13.2 percent from the year before, falling to the lowest quarterly total since the second quarter of 1997, according to preliminary data from the FDIC. Total net income of $14.7 billion was $2.4 billion less than in the second quarter of 1999. Unusually high expenses at several large banks - primarily involving the restructuring of unprofitable or unproductive business lines and increased reserves for future loan losses - were the main reasons for the industry's earnings decline. The industry's average return on assets (ROA) fell below the one-percent benchmark for the first time in 30 quarters, dating back to the fourth quarter of 1992. This fundamental yardstick of industry profitability declined to 0.99 percent in the second quarter, from 1.25 percent a year ago.

"For the past several months, the FDIC has been saying that yellow caution lights are flashing," said Donna Tanoue, FDIC Chairman. "This report shows that some are flashing brighter."

Loan-loss provisions were up by $2.2 billion (45.9 percent) - again with a few large banks accounting for a big part of the increase. Asset-quality indicators continued to worsen for banks' loans to commercial and industrial (C&I) borrowers. This deterioration was limited to larger banks, as C&I loans at smaller institutions showed some improvement. The industry's annualized net charge-off rate on C&I loans rose to 0.67 percent, from 0.54 percent a year ago. Despite the higher rate of charge-off activity, the proportion of banks' commercial and industrial loans that were noncurrent (past due 90 days or more or in nonaccrual status) rose during the quarter from 1.28 percent to 1.41 percent. No significant deterioration was evident in any other loan category, and charge-off rates on banks' credit-card loans continued to improve.

Despite the dip in earnings, a majority of banks reported improved profitability, which the FDIC cited as evidence of continued strength in the economy and favorable conditions in financial markets. About two-thirds of all banks (65.6 percent) reported quarterly ROAs of one percent or higher, and more than half (57.0 percent) reported a higher ROA than a year ago. However, the FDIC noted that the earnings problems experienced by a few large banks reflect a rising trend in the riskiness of banks' assets.

The FDIC also announced that insured savings institutions earned $2.8 billion in the second quarter, a decline of $106 million (3.7 percent) from their profits in the second quarter of 1999. The thrift industry's quarterly ROA fell to 0.95 percent, from 1.03 percent a year earlier. Higher loan-loss provisions and lower net interest margins were responsible for the drop in earnings.

Preliminary results for the second quarter of 2000 for the 8,477 commercial banks and 1,624 savings institutions that are insured by the FDIC are presented in the FDIC's latest Quarterly Banking Profile. The Profile provides the earliest comprehensive look back at the industry's most recent past performance, based upon quarterly reports of condition and income submitted by all FDIC-insured banks and thrifts. Additional highlights follow.

Commercial Banks

Sales of securities by commercial banks produced $1.0 billion in losses in the second quarter, in contrast to a $141-million net gain on such sales a year ago. Noninterest expenses were $4.3 billion (8.5 percent) higher than a year earlier, with more than half of the increase attributable to restructuring charges taken by a few large banks. Transactions related to restructurings at a few large banks also were significant factors in the lower-than-average growth in banks' noninterest revenues. These revenues, which have been leading the growth in bank profits, were up by only $1.1 billion (3.5 percent) compared to a year ago. Noninterest income was also limited by a smaller contribution from market-related revenues, such as gains on venture capital investments.

Even so, strong asset growth, especially growth in loans, helped limit the decline in industry earnings. Total assets of insured commercial banks were 9.4 percent higher than a year ago, and total loans were 12.0 percent higher. The strong asset growth offset a decline in net interest margins, so that net interest income was $3.3 billion (6.9 percent) higher than a year ago. The average net interest margin improved during the quarter at smaller banks, but declined at larger institutions. More than half of all commercial banks reported higher net interest margins than in the first quarter, but declines at large banks caused the industry's margin to decline slightly, from 4.00 percent to 3.99 percent. This period marks the first time since the third quarter of 1990 that the industry's net interest margin has been below the four-percent level.

Total assets of commercial banks rose by $138 billion (2.4 percent) during the quarter, as loans increased by $137 billion. Loans secured by real estate increased by $65.9 billion, and loans to commercial and industrial borrowers were up by $33.5 billion. Construction lending continued to grow at a rapid rate, with loans increasing by $7.8 billion (5.5 percent) during the quarter and by $32.1 billion (27.2 percent) in the last 12 months. Total deposits increased by $96.9 billion during the quarter, but most of the growth occurred in rate-sensitive "wholesale" deposits and deposits in banks' foreign offices. Only $17.2 billion of the increase in total deposits consisted of lower-cost, relatively stable core deposits.

Banks increased their reserves for losses by $2.1 billion in the second quarter. This is the industry's largest quarterly addition to reserves since the fourth quarter of 1990, but it fell short of the rise in both total loans and noncurrent loans. During the second quarter, the industry's reserve ratio declined from $1.68 to $1.67 in reserves for every $100 in loans, the lowest level since the end of 1986. The "coverage ratio" also declined, to $1.69 in reserves for every $1.00 in noncurrent loans, its lowest level since the third quarter of 1995.

For the first six months of the year, commercial banks' earnings totaled $34.2 billion, down $665 million (1.9 percent) from the $34.9 billion earned in the first half of 1999.

Savings Institutions

Provisions for credit losses were $169 million (42.4 percent) higher than in the second quarter of 1999, and net interest income was only $16 million (0.2 percent) higher. Securities sales netted $221 million in gains, a drop of $226 million from a year earlier. These negative factors were partially offset by sharply higher noninterest income, which rose $235 million (18.0 percent). Asset growth was strong in the second quarter, with home mortgage loans comprising most of the increase. Federal Home Loan Bank advances provided much of the funding for the increase in assets.

Thrifts' earnings for the first half of 2000 were $5.7 billion, up $127 million (2.3 percent) from the same period of 1999.