PRESS RELEASE

Federal Deposit Insurance Corporation

June 7, 2001

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COMMERCIAL BANKS REPORT RECORD QUARTERLY EARNINGS, BUT PERFORMANCE CONCERNS REMAIN, FDIC SAYS

Commercial banking industry profits rebounded in the first quarter of 2001 to a record $19.9 billion, up from $17.7 billion in the fourth quarter of 2000, the Federal Deposit Insurance Corporation announced Thursday.

The FDIC noted, however, that the first quarter record was made possible by gains from securities sales of $1.2 billion - and without such nonrecurring items, net operating income would have been almost three percent lower than a year ago, when banks earned a then-record $19.5 billion after securities sales produced net losses of $730 million. Net operating income reflects the strength of banking's core business, such as lending.

"Bank earnings were strong in the first quarter," said FDIC Chairman Donna Tanoue. "But, while we have not seen any dramatic reversals, earnings trends do continue to raise a number of nagging concerns. For example, troubled commercial and industrial loans continued to grow, particularly at larger institutions. Banks charged-off $7 billion in bad loans during the quarter, a 38 percent increase from the first quarter of 2000, and commercial and industrial loans accounted for more than half of that increase."

The agency reported that the average return on assets for the quarter was 1.27 percent, down from 1.34 percent in the first quarter of 2000, and that a majority of banks reported lower ROAs compared to a year ago. Even so, more than half of all banks reported return on assets (ROAs) of one percent or higher for the first quarter.

Narrower net interest margins have meant slower growth in net interest income, while a less-robust economy and lackluster stock market have contributed to a slowdown in growth in noninterest revenues, the FDIC said.

"Of particular note is the decline of net interest margins for the smallest banks, where margin erosion was greatest," said Chairman Tanoue. "For banks with less than $100 million in assets, the margin is the smallest it has been in the 17 years we have been collecting the data. As a general rule, the smaller an institution, the more it relies on lending for income." Of the 8,238 commercial banks the FDIC insures, 4,760 have less than $100 million in assets.

Other significant trends highlighted in The FDIC Preliminary Commercial Bank Earnings Report:

- Provisions for loan losses continued to rise in the first quarter, particularly at large banks, in response to increasing levels of troubled loans to commercial borrowers and the likelihood of higher credit losses in the near term.
- Even with the increase in charge-offs from the first quarter a year ago, noncurrent loans on banks' books continued to increase.
- Total loans registered their smallest quarterly increase in four years, and commercial and industrial loans declined for the first time since 1993.

Attachment: Chairman’s Statement

Attachment: The FDIC Preliminary Bank Earnings Report First Quarter, 2001