

## Opening Remarks for PBER Press Briefing.

Good morning

We're pleased to have you with us this morning to discuss the second quarter 2002 earnings results for FDIC-insured commercial banks.

The materials you have in front of you include:

1. The Preliminary Bank Earnings Report with details and descriptions of the second quarter results,
2. A set of charts that highlight the bank financial results, and
3. Today's issue of FYI, our electronic bulletin on emerging issues in banking. This FYI discusses how trends in the economy have shaped the second quarter banking results.

To summarize, the second quarter banking results show that the benefits of low interest rates and a steep yield curve outweighed the costs of higher credit losses. Banks earned a record \$23.4 billion in the second quarter. The industry return on assets (ROA) was 1.41 percent-tying the previous record posted in the third quarter of 1999.

Yes, credit losses were higher this year, showing the continuing effects of the recession that began early last year. But this increase in credit losses was more than offset by higher net interest margins and gains on the sale of securities. Both of these improvements were made possible by the favorable interest rate conditions.

The fact that the banking industry could post such strong results in a weak economy shows that the industry remains one of the bright spots in the U.S. economic outlook.

In the last recession, credit losses depleted bank earnings and contributed to hundreds of failed or undercapitalized institutions. Today, the overwhelming majority of FDIC-insured institutions display the kind of balance sheet and earnings strength that will allow them to support the economy by lending to creditworthy businesses and consumers.

Here are a few of the details of the second quarter financial results:

### Highlights Charts

#### Chart 1

This chart shows the record quarterly earnings. The red area of the bars represents net operating income, or banks' core earnings. The graph also illustrates how bank earnings have held up through the economic downturn.

## **Chart 2**

This chart shows the trend in quarterly net interest margins at community banks - those with less than \$100 million in assets - and the trend in margins at larger banks. It shows that community bank margins improved in the second quarter, for the first time in two years. It also shows that, although larger banks' margins declined in the second quarter, they still remain higher than they were a year ago.

## **Chart 3**

This chart shows that troubled loans to commercial and industrial borrowers continued to increase in the second quarter, continuing a trend that began back in 1997. What this chart doesn't show - that we cover in the PBER text - is the fact that the second-quarter increase was entirely due to increased noncurrent loans to non-U.S. C&I borrowers. The level of troubled C&I loans to U.S. domestic borrowers declined in the second quarter.

## **Chart 4**

This chart shows that personal bankruptcy filings continue to run at a record pace, and that net charge-off rates on banks' credit-card loans remain at very high levels. What this chart doesn't show is that most bank credit-card operations remain highly profitable. Credit-card lenders have been major beneficiaries of the low interest-rate environment, as their funding costs have fallen.

## **Chart 5**

This chart looks at 12-month growth in loans to commercial and industrial borrowers, based on the size of the loans. It shows that, while the volume of larger loans has fallen in each of the last 12-month periods, the volume of smaller commercial loans has continued to grow. We believe that this means that small businesses have been able to obtain bank financing throughout the economic downturn.

## **Chart 6**

This chart shows quarterly changes in savings deposits and all other domestic deposits at commercial banks. "All other" deposits here means demand deposits, or checking accounts, and time deposits, such as CDs. You can see that most of the growth in deposits in recent quarters has occurred in savings deposits.

Thank you we will now answer any questions you may have.