PRESS RELEASE
Federal Deposit Insurance Corporation

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# FDIC-INSURED INSTITUTIONS POST RECORD SECOND-QUARTER EARNINGS

**FOR IMMEDIATE RELEASE**

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) earned a record $30.2 billion in the second quarter of 2003, breaking the previous quarterly high of $29.4 billion set in the first quarter of the year. Factors contributing to the rise in quarterly net income included gains on the sale of assets, strong loan growth, and declining loan losses. However, improvement in the economic outlook since mid-year may not automatically translate into higher industry earnings in future quarters. These results are contained in the FDIC's Quarterly Banking Profile, which was released today.

FDIC Chief Economist Richard A. Brown said, "The financial strength of the industry remains evident. However, the sharp rise in long-term interest rates since June creates 'headwinds' that could make it harder for the industry to set new earnings records in the quarters ahead."

Gains on sales of securities and other assets figured prominently in the industry's second-quarter earnings increase. These sales yielded a record $4.9 billion, compared to $3.7 billion in the first quarter. Noninterest income was $1.8 billion higher than in the first quarter, and net interest income was up by $656 million. Earnings also received a boost from lower expenses for loan losses, which were $333 million below the level of the first quarter.

Asset-quality indicators improved for the third consecutive quarter. The percentage of loans that were noncurrent - 90 days or more past due or in nonaccural status - fell from

1.31 percent to 1.24 percent during the quarter. The amount of loans charged off was $118 million below the level of the first quarter and $1 billion less than a year earlier. Most of the improvement in asset quality has occurred in the commercial loan portfolios of large banks.

Brown added, "Business loan demand should pick up in the second half of the year along with overall economic activity. Given their generally strong financial condition, FDIC-insured institutions will remain reliable providers of credit for both businesses and households."

Asset growth remained very strong in the second quarter, in large part because of continued robust growth in residential mortgage lending. The low level of interest rates has provided a stimulus to home sales and has spurred a wave of mortgage refinancing activity. Residential mortgages and home equity loans accounted for almost three-quarters (72 percent) of all loan growth in the second quarter.

Profitability remained at a record level in the second quarter. For the second consecutive quarter, the industry's return on assets (ROA), a fundamental yardstick of earnings performance, remained at 1.38 percent, the highest quarterly average in the industry's history. More than half of all banks and savings associations (55 percent) reported a quarterly ROA of 1 percent or better.

The reserve ratio of the FDIC's Bank Insurance Fund (BIF) rose by one basis point to 1.29 percent. The reserve ratio of the Savings Association Insurance Fund (SAIF) also rose by one basis point to 1.38 percent.

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Attachment: Quarterly Banking Profile Press Briefing