PRESS RELEASE
Federal Deposit Insurance Corporation

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FDIC-INSURED INSTITUTIONS EARN A RECORD $105.4 BILLION IN 2002

FOR IMMEDIATE RELEASE

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) earned a combined $105.4 billion during 2002, the first time annual earnings of the industries topped $100 billion. The FDIC released the numbers today in a new format that presents the condition and performance of both sectors as a single industry. Previously, the FDIC reported numbers separately for commercial banks and savings institutions.

"The slow pace of the economic recovery last year failed to slow down the performance of FDIC-insured commercial banks and savings institutions," said Rich Brown, the FDIC's Chief Economist. "While the 2001 recession contributed to higher loan losses in 2002, low interest rates and strong consumer demand helped boost earnings to record levels."

Return on Assets (ROA)—a basic yardstick of industry profitability—reached a new high of 1.31 percent, surpassing the old record of 1.25 percent reached in 1999. According to Brown, "This report card reflects a strong performance by the banking and thrift industries in a slow-growth economic recovery. The ingredients remain in place for continued earnings growth once the recovery picks up steam, as expected later this year."

While credit losses rose again for the year as a whole, signs emerged in the fourth quarter that problem loans are leveling off. Noncurrent loans (delinquent 90 days or more or nonaccruing) at FDIC-insured institutions declined in the fourth quarter of 2002 by $21 million, the first decrease since the fourth quarter of 1999. The largest decrease came in noncurrent Commercial and Industrial (C&I) loans, which fell by $1.2 billion. Provisions for loan losses were $2.5 billion lower in the fourth quarter than a year earlier, a 15.7-percent decrease. This is the first year-over-year decline in quarterly loss provisions since the fourth quarter of 1999.

The FDIC's Bank Insurance Fund (BIF) ended the year with a reserve ratio of 1.27 percent, up two basis points from the third quarter. Meanwhile, the reserve ratio for the Savings Association Insurance Fund (SAIF) dipped slightly in the quarter to end the year at 1.37 percent.

The new reporting format was released today in the FDIC's quarterly publication, the Quarterly Banking Profile. The revamped format contains new groupings of institutions that are based on specific business line concentrations. These changes recognize the elimination of most of the restrictions that differentiated commercial banks from savings institutions in the past, as well as the fact that specialized charters account for a significant segment of the industry.

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Attachments: Chief Economist’s Opening Statement
Quarterly Banking Profile

Opening Comments by Richard A. Brown, Chief Economist, FDIC
Quarterly Banking Profile Press Briefing
Tuesday, March 4, 2003

Overview

The slow pace of the economic recovery last year failed to slow down the performance of FDIC-insured commercial banks and savings institutions.

Together, the banking and thrift industries earned $25.6 billion in the fourth quarter of 2002—the third highest quarterly figure ever.

Net income for the year was $105.4 billion—the first time annual earnings have topped the $100 billion mark.

While the 2001 recession contributed to higher loan losses in 2002, low interest rates and strong consumer demand helped boost bank earnings to record levels.

The following is a summary of how we see the economy driving credit quality, lending activity, and the components of net income for FDIC–insured institutions.

Credit Quality

Loan losses in commercial and consumer portfolios have remained concentrated at large banks that have—for the most part—found them to be manageable.

Losses on commercial and industrial (or C&I) loans at FDIC–insured institutions rose by $2.1 billion last year.

C&I loan losses were concentrated at large banks; in fact, three banks accounted for all of the increase.

However, we may be seeing some light at the end of the tunnel in terms of commercial credit quality.

C&I chargeoffs declined in the fourth quarter by almost 30 percent from a year ago.

Noncurrent C&I loans, those 90 days or more past due or in nonaccrual status, fell by $1.2 billion during the quarter—the first quarterly decline in three years.

Credit card chargeoffs topped 6 percent of average balances for the year as personal bankruptcy filings topped 1.5 million for the first time.

A weak job market explains part of this increase.

But the extension of credit to higher—risk borrowers—part of a long–term "consumer lending revolution" we discussed at the FDIC consumer debt roundtable last week—is an even more important factor.

Despite sharply higher loan losses, credit card lenders earned a combined return on assets of 3.6 percent for the year.

Lending Activity

Consumer lending was a pillar of strength for insured institutions in 2002.

The resilience of the consumer sector was apparent in the economic data.

Mortgage applications increased by 28 percent last year from record–high levels in 2001, while refinancing activity rose by 36 percent.

Total consumer and mortgage credit provided by banks and thrifts increased by $375 billion, accounting for two–thirds of total asset growth for the year.

By contrast, commercial credit provided by banks and thrifts increased by only $13.8 billion.

In terms of earnings, consumer and mortgage specialists generally outperformed commercial lenders.

Components of Net Income

Higher loan losses for the industry during the year were far outweighed by a large increase in net operating revenue.

Low interest rates led to record gains of $12.1 billion on the sale of securities.

A historically steep yield curve helped boost the industry net interest margin for the year to 3.96 percent, a 5-year high.

Net interest income increased by $25.2 billion during the year.

Noninterest revenue increased by $13.7 billion despite a decline in revenues associated with capital market activities.

In total, the net operating revenue of the combined banking and thrift industries increased by $38.9 billion.

This surge in operating revenue far outweighed the $5.1 billion increase in loan loss provisions during the year.

Even so, fourth quarter loss provisions fell by 16 percent from a year ago, showing signs that credit problems may be leveling off.

The Deposit Insurance Funds

Earnings strength during the year was also reflected in the number of unprofitable institutions, which fell by 25 percent.

The number of problem institutions fell slightly in the fourth quarter.

Meanwhile, the BIF reserve ratio improved by 2 basis points and the SAIF reserve ratio declined by 1 basis point during the fourth quarter.

The reserve ratio for a consolidated fund would have risen by 1 basis point.

Insured deposits for the industry increased by $41 billion, or 1.2 percent, in the fourth quarter.

Outlook for 2003

The outlook is positive for the economy and for industry earnings over the remainder of 2003.

For the economy, much depends on the progress made in resolving the widely-cited uncertainties associated with war and corporate governance reform.

Things could still get worse before they get better, but the fourth quarter turnaround in corporate loan performance—if sustained—would be a sign that job growth and investment spending may be poised to rebound from a relatively weak performance in 2002.

While banks and thrifts did very well last year in a slow-growth recovery, the industry can continue to prosper in a faster-growth environment.

Faster growth should help reduce loan loss provisions and boost lending activity, particularly on the commercial side.

A better economy would also probably result in higher interest rates and a flatter yield curve, which would result in smaller net interest margins.

On net, these income-statement tradeoffs appear to be working about as they should over the business cycle.

The industry is in solid shape overall. We will now take your questions about today's report.