PRESS RELEASE
Federal Deposit Insurance Corporation

May 27, 2004

Media Contact:
David Barr (202) 898-6992

FDIC-Insured Institutions Report Record Earnings in the First Quarter of 2004

FOR IMMEDIATE RELEASE

The 9,116 commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) earned a record $31.9 billion in the first quarter of 2004, marking the fifth consecutive quarter that industry profits set a new high. The industry benefited from falling interest rates, which prompted mortgage refinancing activity and lifted the value of investment securities, as well as from another large decline in provisions for loan losses. The numbers are contained in the FDIC's Quarterly Banking Profile, which was released today.

"The strong economic recovery has directly contributed to the impressive earnings performance of the banking industry," said FDIC Chairman Don Powell. "In turn, banks and savings institutions are in solid shape to make loans to America's families and businesses."

The results for the first quarter surpassed the total for the previous quarter by $858 million (2.8 percent) and were $2.3 billion (8.0 percent) more than the industry earned in the first quarter of 2003.

Gains on sales of securities and other assets were $1.9 billion (253.2 percent) higher than in the fourth quarter, as falling interest rates caused the market values of fixed-rate assets to appreciate. Provisions for loan losses were $1.3 billion (14.6 percent) lower, which also contributed to the earnings improvement. Net interest income - the difference between the interest that banks and thrifts earn on their loans and other investments and the interest that they pay to fund those assets - increased by $1.1 billion (1.5 percent) from the previous quarter. The improvement in earnings was limited by lower noninterest income and increased noninterest expense. Noninterest income, which includes fees, service charges, and gains on certain transactions, was $1.7 billion (3.2

percent) lower because of a decline of $2.2 billion in servicing income. Noninterest expenses increased by $596 million (0.8 percent), due to increased salary and employee benefits expenses.

FDIC Chief Economist Richard A. Brown emphasized the importance of improving commercial loan performance as a driver of earnings growth. "A resurgent economy has lifted credit quality across the board," he said. However, Brown added, "going forward, higher interest rates could pose a significant challenge for mortgage lenders and variable-rate borrowers."

The improving trend in asset quality that began at the end of 2002 continued through the first quarter of 2004. Loans to commercial and industrial (C&I) borrowers remain the primary source of the improvement. Total noncurrent loans - those that were 90 days or more past due or in nonaccrual status - declined by $4.6 billion (7.5 percent) during the quarter, led by noncurrent C&I loans, which declined by $1.8 billion (9.5 percent). Net charge-offs of bad loans were $1.9 billion (18.0 percent) lower than in the fourth quarter. Net charge-offs of C&I loans were $919 million (36.6 percent) lower than in the fourth quarter, accounting for 47.7 percent of the total improvement in net charge-offs. Charge-offs of residential mortgage loans were $642 million (64.5 percent) lower, while charge-offs of credit-card loans rose by $221 million (5.1 percent).

Renewed mortgage refinancing activity contributed to a sizable increase in the industry's portfolio of residential mortgage loans and other mortgage-related assets during the quarter. Mortgage loans increased by $62.7 billion (3.9 percent), home equity loans rose by $30.5 billion (8.8 percent), and mortgage-backed securities increased by $121.0 billion (12.3 percent). Together, these mortgage-related assets accounted for 71.0 percent of the total growth in industry assets in the first quarter. C&I loans continued to shrink due to declines at large commercial banks. The reduction of $12.0 billion (1.3 percent) in C&I loans during the first quarter marked the 13th consecutive quarter that the industry's holdings have fallen.

Return on assets (ROA), a basic yardstick of profitability, remained near an all-time high. The industry's ROA averaged 1.38 percent in the first quarter, slightly below the record level of 1.39 percent registered in the first quarter of 2003. More than half of all institutions - 55 percent - reported higher quarterly earnings compared to the first quarter of last year, and 50.3 percent reported higher ROAs.

The FDIC's Bank Insurance Fund (BIF) ended the quarter with a reserve ratio of 1.31 percent, down from 1.32 percent at the end of 2003. The reserve ratio of the Savings Association Insurance Fund (SAIF) rose from 1.36 percent to 1.39 percent during the quarter.