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Bank and Thrift Income Rebounds to New Record in Third Quarter of 2004

FOR IMMEDIATE RELEASE

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reported record net income of $32.5 billion for the third quarter of 2004, surpassing the previous quarterly high of $31.8 billion in the first quarter of the year. The record profits were fueled in part by increased lending to consumers and businesses and higher gains on sales of securities and other assets. Third-quarter profits also were 6.9 percent higher than in the third quarter of 2003.

"Credit quality on average is the best we've ever seen, and banks are actively making loans," said FDIC Chairman Don Powell. "Commercial lending is clearly on the way back." FDIC analysts did note some weaknesses in noninterest sources of revenue earned by large banks. They also emphasized the fact that the industry benefited from a unique combination of positive factors during the quarter.

Preliminary results for the third quarter are contained in the FDIC's *Quarterly Banking Profile*, which was released today. Among the major findings in the latest report:

- **Net interest income grew strongly, boosted by growth in lending.** The $198 billion increase in loans and leases was the second largest quarterly increase ever reported by the industry. Growth in consumer loans remained robust, while commercial and industrial loan demand showed signs of picking up momentum.

- **Net interest margins improved at community banks.** At institutions with assets of less than $1 billion, the average net interest margin grew by nine basis points during the quarter. Since net interest income is the main source of revenue for smaller institutions, the improvement in margins meant improved profitability as well. The 1.20 percent return on assets (ROA) for these banks and thrifts was the highest quarterly result since the third quarter of 1998.

- **Asset quality indicators continued to improve.** Noncurrent loans -- those that were 90 days or more past due or in nonaccrual status -- fell for the eighth consecutive quarter. The percent of loans that were noncurrent declined from 0.89 percent at midyear to 0.85 percent at the end of September. This is the lowest level for this ratio in the more than 20 years that banks have reported noncurrent loan data. Net charge-offs of nonperforming loans also declined during the quarter.

- **Noninterest income declined, reflecting weakness in trading revenues and servicing income.** Most of the weakness was concentrated among larger institutions. The $2.6 billion net decline in noninterest income was caused by a $1.3 billion decline in trading income, a $1.5 billion decline in gains on sales of loans and other assets, and a $1.3 billion drop in servicing income.

"The combination of rising short-term interest rates and falling long-term rates during the quarter was particularly conducive to boosting the industry's bottom line to a new record," said Richard A. Brown, FDIC Chief Economist. He added, however, that there are risks to the economic outlook.

"Some of the factors that have contributed to the string of record or near-record earnings during the last four years will not continue," Brown said. "Further increases in interest rates will eventually limit the ability of the industry to realize gains on securities sales, and could also pressure net interest margins for some segments of the industry."

The FDIC's Bank Insurance Fund (BIF) ended the quarter with a reserve ratio of 1.32 percent, an increase from 1.31 percent at midyear. The reserve ratio of the Savings Association Insurance Fund (SAIF) remained unchanged at 1.34 percent.

The complete report is available on the FDIC Web site at http://www2.fdic.gov/qbp/index.asp.