PRESS RELEASE
Federal Deposit Insurance Corporation

August 26, 2004

Media Contact:
David Barr (202) 898-6992

Bank and Thrift Earnings Just Below Record Level in Second Quarter

FOR IMMEDIATE RELEASE

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) earned net income of $31.2 billion in the second quarter of 2004, the second highest total ever. Although this marks the first time in six quarters that earnings failed to set a new record, profits for the second quarter surpassed the total for the same period in 2003 by $986 million (3.3 percent). The numbers are contained in the FDIC's *Quarterly Banking Profile*, which was released today.

"Second quarter results continue to reflect the core earnings strength of the banking industry," said FDIC Chairman Don Powell. "High earnings and improved credit quality allowed the industry to make a record volume of new loans to households and businesses."

Among the major findings in the second-quarter report:

- **Net operating income for the quarter was a record-high $30.0 billion.** However, net income declined by $656 million due to lower gains on the sale of securities. Still, almost 60 percent of all insured institutions reported higher earnings compared to the first quarter, and only six percent were unprofitable.

- **Net interest margins narrowed slightly.** A majority of institutions (52 percent) reported improved net interest margins during the quarter, but narrower margins at larger institutions caused the industry average to fall by four basis points to 3.64 percent.

- **Noncurrent loans fell to a historic low as loan performance continued to improve.** Loans 90 days or more past due or in nonaccrual status declined by

$4.2 billion during the quarter to just 0.89 percent of total loans - the lowest ratio in the 20-year history of the data series.

- **Total loans grew by a record $234.6 billion.** One- to four-family residential loans made up almost one-third of loan growth in the quarter, while home equity lending surged by $39.3 billion (10.4 percent).

- **Commercial and industrial (C&I) loans outstanding rose for the first time in more than three years.** A relaxation of loan standards and higher loan demand helped break the drought in overall industry C&I loan growth.

"The second quarter data confirm that a turnaround in commercial lending is indeed taking place," said Richard A. Brown, FDIC Chief Economist. "Expansion in bank C&I lending is now a matter of fact."

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 March. The reserve ratio of the Savings Association Insurance Fund (SAIF) also fell slightly, from 1.36 percent to 1.34 percent.

Attachments: Statement by Chief Economist
Quarterly Banking Profile