PRESS RELEASE

Federal Deposit Insurance Corporation ● Each Depositor insured to at least $250,000

February 26, 2004

Media Contact:
David Barr (202) 898-6992

FDIC-Insured Institutions Report Quarterly, Annual Earnings Records at Year-End 2003

FOR IMMEDIATE RELEASE

Industry continues to benefit from lower expenses for bad loans and higher noninterest revenues

The 9,182 commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) earned a record $31.1 billion in the fourth quarter of 2003, marking the fourth time in a row that earnings set a new high. The results for the fourth quarter also bring the industry's earnings for the full year to a record $120.6 billion. The numbers are contained in the FDIC's *Quarterly Banking Profile*, which was released today.

"A financially sound banking industry is essential to the success of every other industry in America," said FDIC Chairman Don Powell. "These record earnings indicate once again that banks and thrift institutions are at the forefront of the U.S. economic expansion." Earnings during the fourth quarter surpassed the total for the previous quarter by $755 million (2.5 percent) and were $5.7 billion (22.3 percent) more than in the fourth quarter of 2002. The $120.6 billion earnings for the year easily surpassed the previous record of $105.1 billion set in 2002.

Specifically, net interest income - the difference between the interest that banks and thrifts earn on their loans and other investments and the interest they pay to fund those assets - increased by $2.5 billion (3.6 percent) from the previous quarter. Noninterest income, which includes fees, service charges, and gains on certain transactions, was $1.8 billion (3.5 percent) higher than in the third quarter. A favorable trend in expenses for bad loans continued to play a key role in the industry's earnings improvement. Provisions for loan losses were $550 million (6.6 percent) higher than in the third quarter, but loss provisions are typically highest in the fourth quarter. Compared to the fourth quarter of 2002, the industry's loss provisions were $5.0 billion (36.0 percent) lower. The growth in earnings was limited by reduced gains on sales of securities and other assets, which were $1.4 billion (65.8 percent) lower than in the third quarter.

"The growth in assets and earnings was dominated by single-family mortgages in the first half of 2003 and credit card and home equity lending in the second half," added Richard Brown, FDIC Chief Economist. "Now we are waiting to see when commercial lending will finally begin to pick up." The improvement in asset quality that began in the fourth quarter of 2002 continued through all of 2003. Loans to commercial and industrial (C&I) borrowers have accounted for most of the improvement. Noncurrent loans - those that were 90 days or more past due or in nonaccrual status - declined by $1.3 billion (2.1 percent) during the quarter, as noncurrent C&I loans declined by $4.4 billion (18.9 percent). Net charge-offs of bad loans, as with provisions for loan losses, had a seasonal increase of $1.1 billion (1.2 percent) over the level of the third quarter but compared to the same quarter in 2002, net charge-offs were $1.6 billion (13.1 percent) lower. Net charge-offs of C&I loans fell by $1.8 billion (42.7 percent) from a year earlier.

Reduced mortgage refinancing activity caused a sizable slowdown in the growth of residential mortgage loans and other mortgage-related assets during the quarter. Mortgage loans declined by $43.4 billion (2.6 percent), while home equity loans rose by $31.2 billion (9.9 percent). Mortgage-backed securities increased by $30.0 billion (3.6 percent). Overall, mortgage-related assets accounted for 16.6 percent of the total growth in industry assets in the fourth quarter, and for the full year they accounted for 40.1 percent of all asset growth. C&I loans continued to shrink, led by declines at large commercial banks. The $9.2 billion (1.0 percent) decline during the third quarter marked the 12th consecutive quarter that the industry's holdings of C&I loans have fallen.

Return on assets (ROA) in the fourth quarter equaled the record highs registered in the first two quarters of 2003, at 1.38 percent. This basic yardstick of profitability also averaged 1.38 percent for the full year, easily surpassing the previous all-time high of 1.30 percent in 2002. More than half of all institutions - 52.7 percent - reported higher quarterly earnings compared to the fourth quarter of last year, and 58.8 percent reported higher full-year earnings.

The FDIC's Bank Insurance Fund (BIF) ended the quarter with a reserve ratio of 1.32 percent, unchanged from the end of September. The reserve ratio of the Savings Association Insurance Fund (SAIF) declined from 1.40 percent to 1.37 percent due to strong growth in insured deposits.

Attachment: Opening Remarks