PRESS RELEASE
Federal Deposit Insurance Corporation

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FDIC REPORTS RECORD EARNINGS FOR COMMERCIAL BANKS IN THIRD QUARTER OF 1994

FOR IMMEDIATE RELEASE

Commercial banks had their best quarter ever during the third quarter of 1994, with preliminary data from the FDIC showing record earnings of $11.8 billion. Profits were $347 million above the previous record of $11.5 billion, set in the third quarter of 1993.

The industry earned $34 billion during the first nine months of 1994, a record for any nine-month period and $1.4 billion ahead of the first nine months of last year. "In all likelihood," FDIC Chairman Ricki R. Tigert said today, "1994 will be another record year for commercial bank profits, above last year's $43.4 billion."

The FDIC cited two main reasons for the record-setting performance during the third quarter:

(1) Strong loan growth, which increased the industry's interest-earning assets and raised the average yields of those assets. Loan growth was led by increases in home mortgages, consumer loans and loans to businesses. Banks reduced their securities holdings for the second consecutive quarter.

(2) A 10-year low in provisions for future loan losses, reflecting continuing declines in troubled loans. Banks charged off $2.4 billion in loans in the third quarter, the smallest level since the first quarter of 1985. They also reduced provisions for future losses to $2.6 billion, the smallest amount since the first quarter of 1984.

Chairman Tigert said the data indicate that "the commercial banking industry has never been in better shape," but as the insurer of banks and thrifts, the FDIC will be monitoring such areas as derivative investments and loan approval standards.

The third-quarter performance results for 10,592 FDIC-insured commercial banks and 2,182 FDIC-insured savings institutions are contained in the agency's latest Quarterly Banking Profile, which is based on quarterly reports of condition and income filed by all insured depository institutions. The latest Profile analyzes bank and thrift performance in the third quarter and during the first nine months of this year. Other highlights follow.

Commercial banks: Their average return on assets (ROA) -- a basic yardstick of bank profitability -- rose to an annualized 1.21 percent in the third quarter. That is the third-highest quarterly ROA since banks began reporting quarterly income in 1983. A year ago, the industry's average ROA was 1.28 percent. In the second quarter of 1994, the average ROA was 1.16 percent. Nearly 96 percent of all commercial banks reported a profit for the third quarter of 1994. Seven commercial banks failed in the quarter, bringing the total number for the first nine months of the year to 11. In contrast, 36 commercial banks failed during the first nine months of last year.

Savings institutions: FDIC-insured savings banks and savings and loan associations reported earnings of $2.1 billion in the third quarter, an improvement of $349 million from the previous quarter and $950 million from a year ago. Lower overhead expenses and reduced provisions for future loan losses were the main factors contributing to the earnings improvement. The thrift industry's average ROA rose to an annualized 0.86 percent in the third quarter, from 0.73 percent in the previous quarter and 0.48 percent a year ago. Ninety-three percent of all savings institutions were profitable in the third quarter, and no insured thrift failed during the period. Only two thrifts failed in the first nine months of 1994, while eight failed in the first nine months of 1993.