PRESS RELEASE

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COMMERCIAL BANKS EARNED $11.2 BILLION IN SECOND QUARTER OF 1994 AND A RECORD $22.3 BILLION IN FIRST SIX MONTHS; SAVINGS INSTITUTIONS ALSO SHOW GAINS

FOR IMMEDIATE RELEASE

Preliminary data released today by the FDIC show that insured commercial banks earned $11.2 billion in the second quarter of 1994. That is the second-highest quarterly total in the industry's history and enough to bring earnings for the first six months of the year to a record $22.3 billion.

Banks' second-quarter earnings are $141 million higher than the previous quarter and $876 million higher than a year ago. The earnings record for a quarter is $11.5 billion, set in the third quarter of 1993. For the first half of 1994, commercial bank earnings are $1.2 billion higher than the same period in 1993 and slightly higher than the previous record set during the second half of 1993.

The FDIC cited the following as important factors in commercial banks' strong earnings performance during the second quarter of 1994:

- Increased loan demand: Total loans rose by $57.6 billion, the largest quarterly increase in more than seven years. Real estate loans, primarily residential mortgages, grew by $20.9 billion. Consumer loans increased by $16.7 billion, while commercial and industrial loans grew by $15.4 billion.

- Higher net interest income: The margin between what banks earn on their loans and other investments versus what they pay for deposits and other liabilities widened in the quarter as interest rates rose. The wider margins, along with strong asset growth, boosted net interest income.

- Continued improvement in asset quality: Provisions for future loan losses were $1.5 billion lower than a year earlier.

FDIC Chairman Andrew C. Hove, Jr., testifying at a Senate Banking Committee hearing today on conditions in the banking and thrift industries, said: "The banking industry's recovery from the troubles of the late 1980s and very early 1990s has been most impressive." He praised banks' efforts to improve their balance sheets during recent favorable economic conditions. Chairman Hove noted that while loan growth was a factor in the recent increase in bank earnings, "some caution is necessary" because of inevitable business cycles. "The mistakes of overlending during the 1980s should not be forgotten," he said.

Second-quarter performance results for 10,715 FDIC-insured commercial banks and 2,217 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 FDIC-insured institutions. The latest Profile analyzes bank and thrift performance during the first six months of this year.

Private-sector savings institutions, which include all FDIC-insured savings banks and savings and loans except for 18 operated in conservatorship by the Resolution Trust Corporation as of June 30, earned $1.9 billion in the second quarter. That is an increase of $562 million from the previous quarter and $111 million more than they earned a year ago.

Almost all of the thrift industry's second-quarter earnings consisted of net operating (core) income, as nonrecurring items such as proceeds from securities sales and extraordinary gains added only $2 million to their profits. Savings institutions were able to maintain their net interest margins in the second quarter despite rising interest rates. Thrift profits in the West continued to lag behind the rest of the industry as institutions there devoted a larger share of their revenues to reducing troubled real estate assets.