PRESS RELEASE
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FDIC REPORTS THAT COMMERCIAL BANKS AND SAVINGS INSTITUTIONS SET NEW EARNINGS RECORDS IN 1998

FOR IMMEDIATE RELEASE

Strong contributions from fee income helped propel full-year earnings for commercial banks to a new record in 1998, the Federal Deposit Insurance Corporation announced today. The FDIC said the record profits were achieved despite restructuring expenses related to mergers and weaknesses in overseas markets that caused bank earnings to decline in each of the last two quarters of 1998.

"This is the seventh year the banking industry has set an earnings record, and the sixth year that annual return on assets has exceeded one percent," said Donna Tanoue, FDIC Chairman. "Healthy, profitable banks support the economic growth and prosperity we enjoy today."

The FDIC's preliminary data show that the banking industry earned a record $61.9 billion for the year and $14.9 billion in the fourth quarter of 1998. Full-year results were $2.8 billion (4.7 percent) higher than in 1997.

The latest results for the 8,774 commercial banks and 1,687 savings institutions that are insured by the FDIC 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 Profile analyzes trends in bank and thrift performance during the fourth quarter and the full year of 1998. Highlights follow.

Commercial Banks

Commercial bank earnings declined for a second consecutive quarter, falling below $15 billion for the first time in the last five quarters. Fourth-quarter earnings were $148 million (1.0 percent) less than in the third quarter and $379 million (2.5 percent) below the level of a year ago. As in the third quarter, earnings from international operations remained weak, and industry results were further depressed by rising overhead costs related to restructurings and other merger-related expenses at a few large banks.

Total noninterest expenses were $7.5 billion (15.7 percent) higher than in the third quarter and $10.5 billion (23.6 percent) higher than in the fourth quarter of 1997. These higher costs were partly offset by higher noninterest revenues, which increased by $4.7 billion (15.9 percent) from the third quarter and by $7.2 billion (26.5 percent) more than a year ago. The industry's return on average assets (ROA), a fundamental yardstick of profitability, was 1.11 percent in the fourth quarter, down from 1.15 percent in the third quarter and 1.24 percent a year ago. A majority of commercial banks (54.6 percent) reported lower ROAs than in the fourth quarter of 1997.

Full-year earnings surpassed $60 billion for the first time. Banks earned $61.9 billion in 1998, a $2.8 billion (4.7 percent) improvement over 1997 results. The industry's 1998 ROA of 1.19 percent was below the 1.23 percent in 1997. Almost two-thirds of all banks (63.2 percent) had ROAs of one percent or greater in 1998. However, the percentage of banks reporting net losses rose for the third consecutive year. In 1998, 5.8 percent of the banks were unprofitable, compared to 4.9 percent in 1997.

As was the case in the fourth quarter, bank earnings for all of 1998 were boosted by strong growth in noninterest income. Noninterest income was $19.2 billion (18.4 percent) higher than in 1997. Net interest income was up by $8.3 billion (4.7 percent), and gains from sales of securities were $1.3 billion higher. Against these improvements, noninterest expenses rose by $24.1 billion (14.2 percent), loan-loss provisions increased by $2.4 billion, and banks' earnings from international operations declined by $875 million.

Assets of commercial banks increased by a record $171.8 billion in the fourth quarter, led by growth in residential mortgage assets. Banks' holdings of one- to four-family residential mortgage loans increased by $26.0 billion during the quarter, and their mortgage-backed securities increased by $36.7 billion. Commercial real estate loans also registered strong growth, rising by $13.5 billion. The record asset growth was supported by a record quarterly increase in domestic office deposits, which grew by $157.4 billion. Deposits in savings accounts increased by $93.6 billion, with $63.6 billion of the growth occurring in money-market deposit accounts (MMDAs). Demand deposits had a strong seasonal increase of $45.5 billion in the quarter.

For all of 1998, assets of commercial banks increased by $426 billion (8.5 percent). Although this growth was slower than the 9.5 percent increase in 1997, it was still the second-highest percentage increase in assets since the 8.8 percent in 1985. The largest percentage increases occurred in mortgage-backed securities (up 22.4 percent), real estate construction loans (up 20.9 percent), and commercial and industrial loans (up 12.9 percent).

Asset-quality indicators declined slightly in 1998. The percentage of loans that were noncurrent -- either 90 days or more past due or in nonaccrual status -- ended the year at the same level (0.96 percent) as it began the year. This is close to the lowest level reported by banks in the 17 years the industry has reported noncurrent loans, as the ratio dipped to 0.94 percent at the end of the second and third quarters of 1998. Commercial and industrial loans were the only major loan category to experience an increase in the noncurrent rate. At the end of the year, 0.99 percent of banks' commercial and industrial loans were noncurrent, up from 0.85 percent at the end of 1997. The percentage of loans charged off rose for the third consecutive year. Banks charged off 0.67 percent of their loans in 1998, compared to 0.64 percent in 1997.

The number of commercial banks declined by 135 in the fourth quarter. For all of 1998, the net decline in banks totaled 368, as 557 banks were absorbed in mergers, three banks failed, 190 new banks were chartered, and two noninsured institutions became insured.

Savings Institutions

Despite a decline in earnings in the fourth quarter, insured savings institutions posted record profits in 1998, registering the industry's first annual ROA above one percent since 1946. Full-year earnings totaled $10.2 billion, an increase of $1.4 billion (15.6 percent) over 1997. The industry's ROA rose to 1.01 percent in 1998 from 0.93 percent in 1997. The earnings improvement was the result of lower expenses for credit losses, growth in interest-earning assets, and higher gains from sales of securities. For the second consecutive year, no federally insured savings institutions failed.

Data Available on the Internet are Updated

The electronic version of the Quarterly Banking Profile, along with its accompanying Graph Book, is being updated on the FDIC's Internet site at www.fdic.gov. To be updated later this week: the FDIC's Institution Directory (ID), with financial and demographic data on each of the more than 10,000 insured institutions, and the Call Reports and Thrift Financial Reports service, which allows the public to access copies of the complete quarterly financial reports filed by commercial banks and savings institutions.

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