Statement by
Ricki Helfer
Chairman
Federal Deposit Insurance Corporation
On the Release of the
Quarterly Banking Profile
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The numbers you have before you show that commercial banks earned slightly more than $12 billion in the first quarter of 1996. This was the third consecutive quarter that commercial banks reported earnings of $12 billion or more and the thirteenth consecutive quarter that they reported earnings in excess of $10 billion. The average return on assets (ROA) -- a basic yardstick of profitability -- was 1.12 percent in the first quarter. It was the thirteenth consecutive quarter that average bank ROA exceeded one percent. Seventy percent of all banks reported ROAs above one percent. In banking, an ROA of one percent or more historically has marked strong earnings. The industry as a whole did not achieve an average ROA of one percent or more in any year between 1934 and 1992.

Commercial bank earnings in the first quarter of 1996 were 8.2 percent higher than those reported in the first quarter of 1995. More than two out of every three commercial banks reported higher earnings than a year ago. Higher net interest income was the main source of the strength in commercial bank earnings in the first quarter. Compared to a year ago, net interest income rose $2.2 billion, reflecting a significant increase in interest-earning assets over the past twelve months -- a 6.7 percent rise to be precise.

Higher noninterest revenues, particularly fee income and earnings from trading activities -- also contributed to commercial bank earnings.

In addition, sales of investment securities totaled $487 million -- in stark contrast to a year earlier, when sales of securities produced a net quarterly loss of $45 million. There were a few dark spots in the picture. Indicators of asset quality show a slight deterioration. First-quarter net charge-offs totaled $3.6 billion, a 58-percent increase from a year earlier. The annualized net charge-off rate was 0.55 percent, the highest first-quarter rate since 1993, but still well below the record high rate of 1.3 percent set in the first quarter of 1990. Noncurrent loans -- those 90 days or more past due or no longer accruing interest income -- grew by $659 million -- only the second quarterly increase in the last five years. However, in the last two quarters the percentage of loans that were noncurrent -- 1.18 percent at the end of the first quarter and 1.17 percent at the end of 1995 -- were the two lowest in the 14 years that banks have reported noncurrent loan amounts.

We have some specific areas of concern.

As this chart on credit card lines shows, lines of credit offered by commercial banks through credit cards, including loans outstanding and unused commitments, have more than doubled in the four years since March 31, 1992. Credit card loans held by commercial banks have increased by 56 percent. At the end of the first quarter of 1996, unused credit card commitments at commercial banks totaled more than a trillion dollars. Net charge-offs on credit-card loans in the first quarter of 1996 were $2.2 billion -- up from $1.35 billion in the first quarter of 1995.

As this chart on personal bankruptcy shows, quarterly filings for personal bankruptcies have increased substantially since mid-1994, and the 253,000 filings in the first quarter of 1996 exceeded the record for quarterly filings of 234,000 set in 1992. For 1996, the American Bankruptcy Institute is projecting more than a million personal bankruptcy filings -- a record for filings in one year -- and the result for the first quarter of 1996 supports that projection.

As you can see from this chart, which overlays quarterly credit card net charge-off rates and quarterly personal bankruptcy filings, there is a correlation between the two -- a correlation that has become especially clear since 1990. When the number of personal bankruptcy filings went up, the percentage of charge-offs rose -- when the number of personal bankruptcy filings went down, charge-offs declined. Note the increases in both bankruptcy filings and charge-offs over the last year. This chart is not in the graph book, but a copy is included in your press package.

Turning to another area of concern, as you are aware the extreme drought in the southern plains and record-high grain prices have combined to severely affect wheat and cattle production. Banks serving farm communities have high concentrations of agricultural-related credits. They therefore are exposed to the current adverse conditions in this sector. However, as a group, agricultural banks are well capitalized, with average equity to assets of 10.68 percent as compared to the industry average of 8.21 percent. While the level of noncurrent loans at farm banks has increased slightly beyond normal seasonal fluctuations, it remains less than 1 percent, which is low when viewed historically. [Nationwide, total assets of 2,639 banks specializing in agricultural lending are $117 billion.]

We are concerned about these trends, however, and we are monitoring the agricultural sector and the condition of insured institutions in drought-plagued areas closely. Even with these dark spots and concerns, the picture for the commercial banking industry remained bright. The number of banks on the FDIC's "Problem List" declined from 144 with $17 billion in assets at the end of 1995, to 127 banks with $13 billion in assets at the end of March. One bank failed in the

first quarter of this year. Five years ago, in 1991, there were 1,016 banks on the problem list; they held $528 billion in assets; and a total of 108 banks failed that year.

Consolidations in the banking industry have continued. In the first quarter of 1996, the number of insured commercial banks declined by 100 to 9,841. In addition to the single bank failure, there were 131 bank mergers. On the other hand, there were four conversions of savings institutions to commercial bank charters and new banks were being established: 29 new banks were chartered in the quarter, a pace that, if continued, would outdistance the 102 new bank charters issued last year. The year previous to 1995 when we saw more than 100 new bank charters was 1991.

As this chart on the insurance funds shows, the Bank Insurance Fund (BIF) increased slightly in the quarter to $25.7 billion -- or to $1.31 in reserves for every $100 in insured deposits -- while the Savings Association Insurance Fund (SAIF) grew to $3.7 billion -- or to 51 cents in reserves for every $100 in insured deposits.

Deposits held by SAIF members, however, declined for the 30th consecutive quarter. The decline in the first quarter of $7.5 billion was attributable to two reasons. The first reason was purchases of SAIF-assessable deposits by members of the BIF -- BIF members now hold 31.2 percent of SAIF deposits. A second reason -- suggested by call report data -- is that one large company continued to shift deposits from its SAIF-member affiliate to its BIF-member affiliate -- a shift of $3 billion in the first quarter of 1996 following a shift of about $3.5 billion in 1995. Given the disparity between BIF and SAIF premiums, based on call report data the institution has evidently reduced its annual deposit insurance assessment by about $15 million. In contrast, if current conditions continue, more than nine-out-of-ten commercial banks will each pay the $2,000 minimum for deposit insurance this year.

The largest thrift alone will pay approximately $71.5 million in SAIF premiums this year -- which is almost exactly the same amount that all the BIF-member institutions -- 10,000 or so -- are expected to contribute to the bank insurance fund.

Of the ten largest predominantly SAIF-insured thrift companies, three already have BIF-insured affiliates and three have applications pending to charter new BIF-insured institutions. These ten largest thrift companies hold $141.6 billion in SAIF-assessable deposits -- or 19.2 percent of the total SAIF assessment base.

Moreover, at least 154 SAIF institutions already have BIF member affiliations, 11 SAIF companies have acquisitions of existing BIF members pending, and 12 thrift companies have filed applications for 11 national bank and five state bank charters.

Our call report data cover the period January 1 through March 31. Until mid-March, the prospects for legislation to capitalize SAIF and to make it viable appeared bright. Since then the prospects have appeared to dim, and we have learned -- through anecdotes and press reports -- of increasing interest among SAIF-insured institutions in migrating deposits to BIF-insured affiliates.

Migrating deposits takes a great deal of effort. I would hope that those interested in migrating deposits would instead put the same level of effort into working for passage of legislation to capitalize SAIF and make it viable -- legislation that would lay the foundation for merging the two funds, the only long-term solution that will guarantee a stable deposit insurance system.

With me are Don Inscoe, the manager of the FDIC Statistics Branch, and Ross Waldrop, Tim Critchfield and Jim McFadyen, the FDIC analysts who put together the Quarterly Banking Profile. We will now entertain questions.

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