Press Conference Statement
Andrew C. Hove, Jr.
Chairman
Federal Deposit Insurance Corporation
on the release of the
Quarterly Banking Profile
for the
Second Quarter, 1997
September 11, 1997

The numbers, graphs, and charts you have before you this morning show that the strong economy continues to help the commercial banking industry report record profits. Income in the second quarter was $14.6 billion -- a $154 million improvement over the record the industry set in the first quarter. In the first six months of 1997, banks earned $29.1 billion, a $3.6 billion improvement over the first half of 1996 -- or an increase of more than 14 percent. If banks maintain this pace, they will surpass 1996's full-year earnings record of $52.4 billion.

Return on assets (ROA) for the first half of 1997 was 1.25 percent, up from 1.18 percent in the first half of 1996.

The commercial banking industry never earned more than $10 billion in a single quarter until the first quarter of l993. We have enjoyed 18 consecutive quarters -- four-and-a-half years -- where quarterly profits have exceeded $10 billion -- and ROAs have exceeded one percent.

The strong results in the second quarter of 1997 in large part resulted from a surge in lending growth. Loan growth, in turn, was led by commercial and industrial loans. Lending to small and to large businesses has increased steadily in recent years -- and, in fact, during the last 12 months the rate of growth in lending to small businesses has been higher than the rate of growth of lending to large businesses.

The profitability of one segment of the industry, however, has eroded significantly over time -- and it dropped sharply in the second quarter. Three years ago specialized credit card lenders had ROAs more than three times that of all other insured commercial banks. In the second quarter, their ROAs were virtually the same as the ROAs of all other commercial banks.

These are institutions where total loans are more than half of total assets and where credit card loans are more than half of total loans. Today there are 74 of these institutions. Together, they account for more than two-thirds of all credit-card loans held by commercial banks.

Thirty-five of the 74 -- almost half -- reported declining income in the second quarter. Fourteen credit card banks lost money in the quarter.

All together, these 35 institutions reported a decline in income of about $334 million from the first quarter.

We estimate that roughly two-thirds of the decline -- $200 million or more -- was the result of one-time accounting adjustments and other nonrecurring expenses at a few institutions. The remaining decline in the second quarter, however, represents a drop in core profitability -- as reflected in a rise in charge-offs. Credit-card charge-offs accounted for two-thirds of all loan charge-offs taken by commercial banks during the second quarter.

The annualized net charge-off rate on banks' credit-card loans rose to 5.22 percent in the second quarter, from 4.92 percent in the first quarter and 4.48 percent a year earlier. This is the highest quarterly charge-off rate for credit-card loans in the l4 years that banks have reported this information. In contrast, net charge-off rates on other loan categories were lower than a year ago.

In addition, the record rate of loss on credit cards continues to parallel the record level of personal bankruptcy filings. It has been estimated that bankruptcy accounts for about half of credit card charge-offs. We continue to monitor closely the continued parallel rise in both measures -- just as, through examinations, we continue to monitor the condition of the specialized credit card banks.

I want to stress that these banks are still profitable and that we see them posing no immediate short-term threat to the insurance funds.

I also want to stress that this concern does not cast a shadow on the condition of the commercial banking industry as a whole. The industry achieved record profits despite the decline in profits at the specialized credit card banks.

No banks or thrifts failed in the second quarter -- or so far in the third quarter. We haven't had a bank or thrift failure since August of 1996. The last time we went 12 months without a bank failure was the early 1960s -- about 35 years ago.

We have made the information we are releasing today available on the Internet at www.fdic.gov/databank. In addition, the Institution Directory on our Web site displays the latest financial data for individual institutions.

With me today are Don Inscoe, who heads 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 take questions.

Last Updated 06/25/1999