

**Opening Remarks
Don Powell
Chairman
Federal Deposit Insurance Corporation
at a Press Conference Announcing the Release of
The FDIC's Preliminary Bank Earnings Report
November 29, 2001**

Welcome to this press briefing, where we are announcing preliminary earnings for commercial banks in the third quarter of 2001. For the past 10 years, commercial banks have routinely reported record profits. That isn't the case today.

As chart number one shows, earnings for the industry dropped from \$19.3 billion in the third quarter last year to \$17.4 billion in the third quarter of 2001. That's a decline of almost 10 percent.

Why the drop?

One big reason was that larger banks anticipated harder times to come by increasing their loss provisions. In all, banks set aside \$11.6 billion to cover the loan losses they expected. For the industry, that was an increase of \$4.8 billion -- more than 70 percent -- and it was the largest quarterly provision since 1990. Again, large banks accounted for most of the increase. In fact, more than half of all banks reported higher earnings than a year ago.

As chart number two illustrates, the decline in earnings occurred even while net interest margins at larger banks improved. What the chart doesn't show is that banks with less than \$100 million in assets did not see their margins improve. Their average margin remained at 4.26 percent, well below the 4.59 percent of a year ago.

Chart number three shows that the industry has significant resources to absorb credit losses. Noncurrent loans are rising, but equity capital, reserves and pre-tax income together have never been higher. That's a good thing. The industry charged off \$9.3 billion in loans during the quarter, almost two-thirds more than they charged off a year ago. Provisions of \$11.6 billion to the loan loss reserve outpaced quarterly charge offs by more than \$2 billion. Where are the problems?

As we see in chart number four, troubled commercial and industrial loans continued their dramatic rise of the past several years. Roughly one-third of loan losses in the third quarter continued to come from C&I portfolios. Net charge-offs of C&I loans were up almost 84 percent from a year ago.

Chart number five shows how deterioration in C&I loans has been greatest at large banks. While banks of all sizes had about the same noncurrent loan rate just last year, large banks saw much faster deterioration in recent months. Other loan categories also experienced significant deterioration, including residential mortgage loans, loans

secured by commercial real estate properties, and real estate construction and development loans.

On a more positive note, as chart number six illustrates, deposits continue to grow more rapidly than domestic loans. The funding concerns of a year ago have become less pronounced. In other words, banks have money to lend to creditworthy borrowers. To recap briefly: Like the rest of the economy, banks are feeling the effects of the recession, as well as the aftershocks of the terrorist attacks on America in September. But banks today have positioned themselves better to ride out problems than they did going into the previous recession of the early 1990s. No one can forecast the duration of a recession, however. Obviously, the longer this one lasts, the more stress it will put on the entire economy, including the banking industry.

Today I am joined by two of the analysts who produce the FDIC Commercial Bank Earnings Report, They are Don Inscoe and Ross Waldrop. We're ready to address your questions.

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