Statement
of
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On the Release
Of
The FDIC's Preliminary Commercial Bank Earnings Report
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Commercial banks enjoyed record earnings in the first quarter - $19.9 billion, compared to the previous record of $19.5 billion the first quarter of 2000. Gains on securities sales of $1.2 billion in the first quarter lifted earnings to the new record. Without those sales and other nonrecurring items, banks would have earned $18.7 billion - almost three percent less than they earned a year ago, and the record earnings in the first quarter of 2000 came on top of $730 million in losses on securities sales.

For the first quarter of 2001, more than half of all commercial banks reported a return on assets (ROA) of one percent or higher. Bank earnings were strong, but - while we have not seen any dramatic reversals - earnings trends do continue to raise a number of nagging concerns. We have seen a sharp rise in troubled commercial and industrial loans in recent years - from $7 billion in 1997 to $21 billion in the first quarter of 2001. During the first quarter, banks charged off $7 billion in bad loans -- that was a 38 percent increase from the first quarter of 2000. Commercial and industrial loans accounted for more than half of that increase. Even with the increase in charge-offs, however, noncurrent loans continued to increase as well. During the quarter, noncurrent C&I loans increased 7.4 percent - to $19 billion. And - in fact - the noncurrent rate for C&I loans rose to 1.82 percent at the end of the quarter - a seven year high.

In addition, during the quarter net interest margins continued to decline. Narrower net interest margins meant slower growth in net interest income. For the industry as a whole, the net interest margin declined to 3.83 percent - the lowest level since the first quarter of 1987. For banks with less than $1 billion in assets, the margin declined to 4.31 percent. Of particular note is the decline of net interest margins for the smallest banks, where margin erosion was greatest. In fact, for banks with less than $100 million in assets, the margin is the smallest it has been in the 17 years we have been collecting the data - 4.28 percent. As a general rule, the smaller an institution, the more it relies on lending for income.

In short, while earnings strength remained widespread, we are seeing signs that banks may have difficulty sustaining their profitability

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