Opening Statement
of
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Chairman
Federal Deposit Insurance Corporation
At a Press Conference
Announcing
Preliminary Bank Earnings for the First Quarter 2002
Washington, D.C.
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Today we are announcing preliminary earnings for commercial banks for the first quarter of the year, and for the first time in the industry's history, quarterly earnings exceeded $20 billion. As Chart 1 shows, in the first three months of the year, commercial banks earned $21.7 billion. That's 9.6 percent more than the previous quarterly record of $19.8 billion set just one year ago.

The driving force behind this performance was net interest income, particularly at larger institutions. The improvement in large-bank margins can be seen in Chart 2. It's been more than four years since banks had a better net interest margin. In the first quarter, the industry's net interest margin rose to 4.19 percent, up from 3.83 percent at this time last year. The last time the margin was higher was in the third quarter of 1997 when it stood at 4.24 percent.

Another bright spot was the industry's return on assets (ROA). For the quarter, ROA for all banks was 1.33 percent-the third highest quarterly ROA ever reported. Back when I was a young banker in Texas, an ROA of one percent was the elusive brass ring. The last time the industry had an ROA of less than one percent was 1992.

There are a couple of blemishes on this otherwise rosy picture, however.

Earnings would have been even higher but for increased expenses for loan losses and lower market-sensitive revenues. Chart 3 shows the rising level of loan-loss provisions, and the lower relative contribution of noninterest income, as well as the favorable trend in noninterest expenses. Gains on securities sales, trading revenues, investment banking income, venture capital revenues and net income from international operations were all lower than a year ago. In the past, several of these activities actually helped banks achieve record income while their core business functions were not as strong.

For the first time in five years, loan volume declined in the banking sector. While many banks saw their loans grow in the quarter, declines at large banks caused industry totals to fall. For the fifth consecutive quarter, commercial and industrial (C&I) loans declined. These loans were down $15.5 billion in the quarter, and during the five-quarter period, C&I loans are down a total $84.1 billion or 8.0 percent.

Other loan categories that registered declines during the first three months of 2002 include: residential mortgages, consumer loans (other than credit cards), and agricultural production loans.

Even though on the decline, C&I loans continue to be a concern. You can see the continued increase in noncurrent C&I loans in Chart 4, a trend that began back in 1999. Roughly one out of three banks reported an increase in noncurrent C&I loans during the quarter. At the end of March, 2.61 percent of banks' C&I loans were noncurrent, the highest level since the middle of 1993. Banks saw a ten-fold increase in noncurrent loans to foreign governments and official institutions during the quarter-going from $31 million to $325 million.

Noncurrent C&I loans accounted for about 75 percent of the $2.2 billion increase in total noncurrent loans in the quarter.

Net charge-offs were down from the record pace in the fourth quarter of 2001. Charge-offs of C&I loans and credit cards, however, were up substantially from year-ago levels in the first quarter. You can see the continued increase in noncurrent C&I loans in Chart 4, a trend that began back in 1999.

The silver lining in all this is that reserves are keeping pace with noncurrent loans and capital remains at historically high levels. The "coverage ratio" for noncurrent loans remained at $1.31 in reserves for every $1.00 of noncurrent loans, and the industry's equity-to-assets ratio rose from 9.09 percent to 9.30 percent.

Finally, the number of commercial banks on our "problem list" increased from 95 to 102. The last time we had more than 100 banks on our problem list was year-end 1995. The assets of the banks on the list inched up by $1 billion to $37 billion.

All in all, the banking sector remains strong-record earnings, high capital, adequate reserves and encouraging signals on core business functions-but there are still those blemishes that the regulators will need to continue to monitor.

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