Opening Statement
of
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Chairman
Federal Deposit Insurance Corporation
At a Press Conference
Announcing
Preliminary Bank Earnings for 2001
Washington, D.C.
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Today we are announcing preliminary earnings for commercial banks for the fourth quarter of 2001 and for the entire year. The good news is that commercial banks had record fourth-quarter earnings of $19 billion and record annual earnings of $74.6 billion - that is $3.5 billion more than the previous record of $71.1 billion set in 1999. Nearly half of all banks reported higher earnings last year than in 2000, which is quite an accomplishment, considering the broader economy.

Sharply lower funding costs helped the industry deliver its record performance. Net interest margins shot up at larger banks, those banks with assets of more than $1 billion, and the net interest margin at smaller institutions improved as well.

All that is good news, but the news is not all good.

If you look at industry earnings more closely, you'll see that the record for 2001 was made possible only by $4.5 billion in gains on sales of securities, and in fact, net operating income - which excludes these gains and other nonrecurring items - was 1.2 percent lower in 2001 than in the year 2000, about $830 million lower. Without these gains, fourth quarter earnings last year would have been about equal to the fourth quarter earnings in 1999, when such gains played almost no role. In other words, earnings from core banking operations have dipped.

As we discussed yesterday in our publication FYI, asset quality continues to deteriorate, and today I want to stress that concerns about those problems continue to grow.

The provision for loan losses in 2001 increased more than at any time in the past 12 years, growing from $30 billion in 2000 to $43 billion. Net charge-offs for the year reached an all-time high of $36.5 billion.

Net charge-offs in the fourth quarter increased 44.3 percent from a year ago. At $12.7 billion, they were the highest quarterly total ever reported by the industry, and charge-offs of commercial and industrial loans accounted for almost half of that record.

Commercial and industrial loan charges-offs totaled $6 billion - up dramatically from the third quarter. Even with this dramatic increase in charge-offs, noncurrent C&I loans continued to rise as well, and together, they came to almost $30 billion in the fourth quarter. That compares to the low of $7.4 billion recorded in the first quarter of 1997.

Most of the problems in C&I lending remain centered in larger banks. Over the past two years, larger banks have experienced a faster decline in asset quality than smaller banks have, and in the fourth quarter, troubled C&I loans at larger banks rocketed from 2.60 percent to 3.18 percent. The deterioration at smaller banks has been more recent and more gradual.

Banks are recognizing asset quality problems, as the figures for loan losses show. And for the first time in eight quarters, loss reserves are keeping pace with their noncurrent loans.

But problems are still growing, and if you were to look at the industry figures as if they were the returns from one bank, you could conclude that asset quality may be even more of a problem in the near future.

I want to make one more point. There was a significant increase in the number of banks on our problem list in the fourth quarter and in their total assets. The 21 banks going on the list was the largest quarterly increase in problem banks since the third quarter of 1991, and the $22 billion increase in problem bank assets was the largest increase since the fourth quarter of that same year.

The last time we had $36 billion in problem bank assets was in 1994.

To sum up: The banking industry in 2001 again enjoyed record earnings. Capital levels remain high and the industry continues strong, but there are concerns - the integrity of the earnings, the decline of asset quality, the increase in troubled institutions - and these concerns continue to grow.

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