FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

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FDIC REPORTS COMMERCIAL BANKS EARNED A RECORD $32.2 BILLION IN 1992

Preliminary data released today by the FDIC show that insured commercial banks earned record profits of $32.2 billion in 1992. Net income for the year was 30 percent above the previous record ($24.8 billion in 1988) and 80 percent above earnings a year ago ($17.9 billion). Favorable interest rates, improving asset quality and lower loan loss provisions were major factors in the record earnings.

In announcing the year-end results, FDIC Chairman Andrew C. Hove, Jr., said that while problems still exist, for the commercial banking industry "the numbers also tell a story of strong, clear, undeniable improvement in earnings, capital, loan losses, charge-offs -- all the vital signs." Mr. Hove said such developments "mean that it becomes more and more unlikely that the public will have to pick up the bill for bank failures."

The full-year and fourth-quarter results for the 11,461 FDIC-insured commercial banks as well as the 414 savings banks insured by the FDIC's Bank Insurance Fund are contained in the agency's latest Quarterly Banking Profile, which is based on quarterly Reports of Condition and Income filed by FDIC-insured banks.

Spreads between the rates commercial banks earned on loans and other assets and the rates they paid for deposits and other liabilities increased throughout 1992, as the general level of interest rates fell and the difference between short- and long-term interest rates remained unusually wide. Net interest income was $12.6 billion higher than in 1991.

Among the signs of improving asset quality during the year was the $14.5 billion shrinkage in the amount of commercial banks' troubled assets

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(noncurrent loans and leases plus foreclosed real estate properties), to $88 billion at year-end. In the fourth quarter alone, troubled assets at commercial banks fell by $7 billion.

The improvements in loan quality enabled commercial banks to increase their cushion against potential credit losses with less of a drain on earnings than in the recent past. At year-end, commercial banks had loan loss reserves of $54.5 billion, or about 87.3 cents in reserve for every dollar of noncurrent loans, compared to 79.7 cents at the beginning of the fourth quarter of 1992 and 72.6 cents at the end of 1991.

Equity capital, another important cushion against credit losses, increased by $31.9 billion in 1992. Many factors played a role in the strong increase in equity capital in 1992, including record levels of retained earnings (net income after dividends) and other favorable conditions for issuing bank stock. The banking industry's capital-to-assets ratio stood at 7.52 percent at year-end, the highest level since year-end 1965 when it was 7.53 percent.

The dollar amount of loans held by commercial banks fell by $4.2 billion, to $2.03 trillion in the fourth quarter, the seventh quarterly decrease in the last eight quarters. For all of 1992, total loans fell by $29.6 billion. Commercial and industrial loans and consumer loans led the shrinkage. The main areas of loan growth were residential mortgages, commercial real estate loans and home equity lines of credit.

As for the 414 savings banks insured by the Bank Insurance Fund, they reported an aggregate profit of $385 million for the fourth quarter and net earnings of $1.4 billion for the year. This marked the fourth consecutive quarterly profit for this group of institutions after 11 consecutive quarters of losses, and the first full-year profit since 1988.

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