FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

FOR IMMEDIATE RELEASE PR-64-93 (6-9-93)

FDIC REPORTS THAT COMMERCIAL BANKS EARNED A RECORD $10.9 BILLION IN THE FIRST QUARTER OF 1993

Preliminary data released today by the FDIC show that insured commercial banks earned $10.9 billion in the first quarter of 1993, a record total for a quarter. Industry profits were $3.3 billion higher than a year earlier, and $2.4 billion above the previous quarterly record set in the third quarter of last year.

The FDIC cited three main factors in the record earnings: (1) asset quality improvement, leading in part to lower provisions for loan losses; (2) continued wide margins between what banks earn on their loans and other investments versus what they pay for deposits and other liabilities; and (3) the adoption for regulatory reporting purposes of generally accepted accounting principles that permit the recognition of larger amounts of "deferred tax assets," the effect being a one-time increase in reported income. These assets include the tax benefits arising from loss carryforwards and from the different financial reporting and tax treatments of loan losses.

FDIC Chairman Andrew C. Hove, Jr., said: "The recovery in the banking industry is continuing nicely. The vital signs are reassuring, and barring an unforeseen setback, the prognosis for the near future is excellent."

The first-quarter performance results for 11,328 FDIC-insured commercial banks and for the 410 savings banks insured by the FDIC's Bank Insurance Fund (BIF) 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. The latest report analyzes banking performance during the first three months of this year.

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The average return on assets (ROA) -- the basic measurement of bank profitability -- rose to an annualized 1.24 percent for insured commercial banks during the first quarter. That is the first time since banks began reporting quarterly earnings in 1983 that their average ROA has been above one percent. Their average ROA was 0.88 percent a year ago and 0.94 percent for the fourth quarter of 1992. First quarter ROA excluding the accounting gains and other nonrecurring transactions was 0.96 percent -- also a record high.

The strong earnings performance was broad-based: banks in all six geographic regions and four asset-size groups covered in the Profile averaged ROAs above one percent. Almost two out of every three banks reported higher earnings than a year ago, and only one out of every twenty banks was unprofitable.

Total loans held by commercial banks declined for the eighth time in the last nine quarters. A combination of factors was responsible for the latest decrease: seasonal declines in consumer loans; longer-term shrinkage of commercial and industrial loans; and reduced loans for real estate construction and development. Most of the growth in commercial bank assets in the quarter consisted of mortgage-backed securities, which increased by $16.8 billion, and in U.S. Treasury securities, which grew by $9.9 billion.

The 410 savings banks insured by the FDIC's Bank Insurance Fund reported an aggregate net profit of $517 million in the first quarter, the fifth consecutive profitable quarter for this group of institutions. For the first time in 12 quarters, no BIF-insured savings banks failed during the quarter.

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