FDIC

FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC REPORTS THAT COMMERCIAL BANKS EARNED A RECORD $7.9 BILLION IN THE SECOND QUARTER OF 1992

Preliminary data released today by the FDIC show that insured commercial banks have earned record profits for the second consecutive quarter, with net income totaling $7.9 billion for the three-month period from March through June. The quarterly earnings were $300 million above the previous record of $7.6 billion set in the first quarter of 1992 and $3.3 billion higher than the second-quarter earnings a year ago. Low interest rates continue to be a major factor in the record earnings.

Second-quarter results for 11,685 FDIC-insured commercial banks and 430 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 low interest rates affected earnings mainly by producing wider spreads between the rates institutions paid for liabilities (primarily deposits) and the rates they earned on loans and other assets. The low rates also raised the values of many fixed-rate assets, and banks realized some of these gains by selling investment securities in their portfolios.

Asset-quality problems also showed signs of easing in the second quarter, which in turn had a positive impact on earnings. For example, the amount of "troubled assets" (noncurrent loans and leases plus foreclosed real estate properties) shrank by $3.3 billion at commercial banks during the quarter, to $99.7 billion at mid-year. This is the first time since year-end 1990 that troubled assets fell below $100 billion.

Due to the improvements in loan quality, commercial banks were able to improve their cushion against losses with less of a drain on earnings than in

-morethe past. Specifically, at mid-year 1992 commercial banks had total loan loss reserves of $55.3 billion. That equals 77 cents in reserve for every dollar of non-current loans, up from 74 cents at the end of the first quarter. In boosting their reserves against future credit losses, commercial banks set aside $6.3 billion in the second quarter of 1992, compared to $8.3 billion in the second quarter of 1991. The lower amount added to reserves is a significant factor in the year-to-year earnings improvement.

Equity capital (typically common stock, surplus and retained earnings) is another important cushion against losses. Equity capital increased by $9.3 billion at commercial banks during the quarter, the largest one-quarter increase ever. In the first six months of the year, equity capital increased by $16.7 billion. Many factors played a role in the increase in equity capital, among them the low interest rates and other favorable market conditions for issuing bank stock. The banking industry's capital-to-assets ratio stood at 7.23 percent at mid-year, the highest level since year-end 1966, when it was 7.44 percent.

The dollar amount of loans held by commercial banks continued to shrink, reflecting a continuing softness in the economy. The industry's loans outstanding fell by $3.8 billion in the second quarter, to $2.07 trillion. This marked the sixth consecutive quarter of loan shrinkage at commercial banks. Since the end of 1990, total loans and leases at commercial banks have fallen by $77.4 billion, or 3.7 percent.

As for the 430 savings banks insured by the Bank Insurance Fund, they reported an aggregate net profit of $217 million for the second quarter. This was the second consecutive profitable quarter for this group of institutions after 11 straight quarters of losses. Five savings banks with assets of $4.2 billion failed during the quarter.

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