FDIC

FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

FOR IMMEDIATE RELEASE PR-171-92 (12-10-92)

FDIC REPORTS THAT COMMERCIAL BANKS EARNED A RECORD $8.5 BILLION IN THE THIRD QUARTER OF 1992

Preliminary data released today by the FDIC show that insured commercial banks have earned record quarterly profits for the third consecutive quarter, with net income totaling $8.5 billion for the three-month period ended September 30. The quarterly earnings were $600 million above the previous record of $7.9 billion set in the second quarter of 1992 and were $4.3 billion higher than third-quarter earnings a year ago. The $24.1 billion earned during the first nine months of 1992 already is close to the full-year earnings record of $24.9 billion set in 1988.

Third-quarter results for the 11,590 FDIC-insured commercial banks and 421 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.

Low interest rates remain a major factor in the record earnings. Falling interest rates continued to boost earnings by increasing the spreads between the rates banks paid for liabilities (primarily deposits) and the rates they earned on loans and other assets. The low rates also increased the values of many fixed-rate assets, and banks realized some of these gains by selling investment securities in their portfolios.

Asset-quality problems showed further signs of easing in the third quarter, which also had a favorable effect on earnings. The amount of troubled assets (noncurrent loans and leases plus foreclosed real estate properties) shrank by $2.25 billion during the quarter, to $97.4 billion at the end of September. In the first nine months of 1992, troubled assets at

-morecommercial banks have fallen by $5.2 billion. Banks set aside $6.8 billion for reserves against future losses in the third quarter, compared to $8.9 billion in the third quarter of 1991. The lower amount added to reserves was a significant factor in the year-to-year earnings improvement.

Equity capital (typically common stock, surplus and retained earnings), another important cushion against credit losses, increased by $8.8 billion in the third quarter. In the first nine months of 1992, equity capital increased by $25.5 billion. Many factors played a role in the strong increase in equity capital in 1992, including record levels of retained earnings (banks' net income minus cash dividends paid to stockholders) and the low interest rates and other favorable conditions for issuing bank stock. The banking industry's capital-to-assets ratio stood at 7.39 percent at the end of the third quarter, the highest level since the end of 1966, when it was 7.44 percent.

Especially noteworthy is that the amount of loans held by commercial banks increased by $3.7 billion, to $2.04 trillion in the third quarter. That is the first quarterly increase in six quarters. The main areas of lending growth were in residential mortgages, consumer installment loans and home equity lines of credit.

FDIC Chairman Andrew C. Hove, Jr., said: "We still have problems in the commercial banking industry, in some cases significant problems. But higher capital and improved asset quality point to a stronger banking industry overall that is better positioned to make loans and bolster future economic growth."

The 421 savings banks insured by the Bank Insurance Fund reported an aggregate profit of $354 million for the third quarter. This marked the third consecutive quarterly profit for this group of institutions after eleven straight quarters of losses.

# # #