Press Conference Statement
Andrew C. Hove, Jr.
Chairman
Federal Deposit Insurance Corporation
on the release of the
Quarterly Banking Profile
for the
First Quarter, 1997
June 17, 1997

The numbers, graphs, and charts you have before you this morning show that the commercial banking industry continues to enjoy extraordinary profitability. The commercial banking industry never earned more than $10 billion in a single quarter until the first quarter of 1993. Since then, earnings for commercial banks have exceeded $10 billion in each of the following 16 quarters -- and in the first quarter of this year earnings exceeded $14 billion for the first time. In the first quarter of 1997, insured commercial banks reported a record $14.5 billion in total net income, a 20.4 percent increase over the first quarter of 1996.

Before coming to the Federal Deposit Insurance Corporation in 1990, I was a banker for 30 years. During the 1960s, 1970s, and 1980s, the banking industry never dreamed of attaining the high and steady profitability illustrated by the chart on quarterly net income.

The record earnings in the first quarter of this year translated into a 1.26 percent annualized return on assets (ROA) -- the fourth-best quarter for ROA in banking ever. The best was the 1.32 percent ROA commercial banks enjoyed in the third quarter of 1995.

For more than a decade we have seen a consistent, steady rise in the percentage of commercial bank earnings coming from sources other than interest on loans and investments. Thirty-seven percent of bank operating revenues in the first quarter were from noninterest income -- for example, service charges on deposit accounts and other fee income. To put that percentage into dollars, in the first quarter, banks had total revenues of $42 billion from interest on loans and investments, and $25 billion from other lines of business. Noninterest income was 11.6 percent higher in the first quarter of 1997 than the year before. By contrast, net interest income was only 5.5 percent higher.

The growth in the relative importance of noninterest income over the years reflects a diversifying industry, where risks are being spread wider.

Roughly half of the increase in noninterest income consisted of higher fee income, which includes services charges, credit card fees, loan commitment fees, automated teller machine add-on charges, and other fees not related to deposit accounts. We do not, however, have sufficient data to categorize that fee income by source.

Do we have areas of concern in the commercial banking industry? Certainly.

In the first quarter, banks charged off $4 billion in loans. Net charge-offs on loans at commercial banks were almost twelve and a half percent higher in the first quarter of 1997 than in the first quarter of 1996. The rise in net charge-offs comes from the category of loans to individuals, as compared to real estate, commercial and industrial, and other types of loans. In the first quarter of 1997, the charge-off rate for all real estate loans was 0.04 percent, for commercial and industrial loans it was 0.18 percent, and for the "all other loan" category it was 0.03 percent. However, the charge-off rate for loans to individuals was 2.59 percent. That relatively much higher figure was driven by charge-offs in credit-card loans -- a 4.93 percent rate in the first quarter, the highest quarterly rate since the second quarter of 1992.

As has been the case since the first quarter of 1995, in terms of dollars most of the charged-off loans in the first quarter of 1997 were credit-card loans -- $2.8 billion of the $4 billion in charge-offs, or more than 68 percent of the total.

Net charge-offs of credit-card loans were $560 million higher than a year ago -- or more than 25 percent -- while net charge-offs on all other loan categories were $113 million lower.

Loans to individuals in general -- and credit card loans in particular -- continue to be a highly profitable line of business for banks, so the higher spreads on these loans more than offset the higher charge-off rates they incur. Nevertheless, rises in charge-offs on credit cards in recent years have paralleled the rise in personal bankruptcy filings. In the first quarter, bankruptcy filings exceeded 300,000 in a quarter for the first time ever -- 321,242 in fact, according to the Administrative Office of the United States Courts. We continue to monitor closely the continued parallel rise in both measures.

Our concern, however, should not overshadow the continued good news about the profitability of the commercial banking industry. We had no insured commercial bank failures in the first quarter -- and our problem list dropped from 82 commercial banks to 77 commercial banks.

The first full year I was FDIC Vice Chairman -- 1991 -- 127 institutions insured by the Bank Insurance Fund either failed or received financial assistance to stay open. Those 127 institutions held $63 billion in assets. We had more than 1,000 commercial banks on the problem list at that time. We welcome the profitability that banks currently are enjoying, because strong banks support the economy and lower risks to the deposit insurance funds.

With me today are Don Inscoe, the manager of the FDIC Statistics Branch, and Ross Waldrop, Tim Critchfield and Jim McFadyen, the FDIC analysts who put together the Quarterly Banking Profile.

We will now take questions.

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