Opening Statement
of
Donald E. Powell
Chairman
Federal Deposit Insurance Corporation
at a Press Conference
Announcing
The FDIC Preliminary Bank Earnings Report
Second Quarter, 2001
September 5, 2001

I'm Don Powell. I've been Chairman of the FDIC for almost a week, but before being sworn in to my new job last Wednesday, I was a banker for more than 30 years. The numbers, tables and charts you have before you speak to me as someone who has fresh, personal experience in the reality they represent.

When I look at them, what do I see?

Insured commercial banks earned $19.2 billion in the second quarter of the year - the fifth best quarter ever and about a four percent drop from the all-time quarterly record of $19.9 billion in the first quarter of this year. More generally, with the exception of the second quarter of 2000, what we have been seeing over the past ten quarters is bank earnings bouncing around, but bouncing around on a historically high plateau.

The story the most recent numbers tell, however, is a bit more complex than simply a continuation of historically high earnings.

For example, for a number of the smallest banks in the country, profitability eroded in the second quarter, again. One reason was that banks with less than $100 million in assets continued to see their margins decline. Over the past year, the smallest institutions have - as a group - seen margins drop 36 basis points. By contrast, banks with assets of more than $1 billion as a group saw margins rise in the second quarter. Interest rate margins aren't quite as important to larger banks as they are to small banks because larger banks engage in more types of businesses. Fees reflect a much greater proportion of their income.

In addition, banks charged off almost $8 billion in the second quarter, a 50 percent increase in charge offs from a year ago. Charge offs on commercial and industrial loans in the second quarter were up almost 77 percent from the year before. Although charge offs rose, total noncurrent loans continued to rise as well, increasing almost 6 percent during the quarter alone. Commercial and industrial loans accounted for two-thirds of that increase. Although C&I loans represent only a little more than a quarter of commercial bank loans, they are driving the overall trend for both charge offs and noncurrent loans. Other types of loans, however, are also showing deterioration in credit quality.

For example, banks charged off $2.8 billion in credit card loans during the quarter, almost a 27 percent increase in charge offs over the second quarter of 2000. This run up accompanies a similar rise over recent quarters in personal bankruptcy filings. As these trends, and those we've seen in C&I lending, demonstrate, banking reflects the general condition of the economy -- one follows the other.

These are notable soft spots in the industry's performance. Nevertheless, I want to stress that we're not seeing a general downturn in banking. The industry's return on assets in the second quarter was 1.21 percent - very high by historical standards. Through the first six months of the year, banks earned a record $39 billion. The industry did well in the second quarter, though not quite as well as in previous quarters. Life wasn't quite as easy as it has been - but that doesn't mean it has been difficult.

Last Updated 09/05/2001