Opening Statement
Of
John Reich
Vice Chairman
Federal Deposit Insurance Corporation
At a Press Conference
Announcing Bank Earnings for the Third Quarter 2002
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Good morning, I am John Reich, Vice Chairman of the Federal Deposit Insurance Corporation, and I want to welcome you to this press conference announcing earnings figures for the commercial banking industry in the third quarter of this year.

Banks earned $23.4 billion in the quarter -- $11 million less than the record set in the previous quarter. So far this year, the industry has earned $68.5 billion, compared to the $74.7 billion banks earned in all of 2001. The industry's ROA is 1.37 percent, compared to 1.17 percent for the first three quarters of last year. Almost three out of every four banks have reported improved year-to-date earnings, primarily because of higher net interest income.

For reasons I'll touch on momentarily, the ride became a little bumpier - particularly for a few large institutions - in the third quarter, but the industry as a whole enjoyed near record earnings. It remains well positioned to continue to be an engine of growth for the economy.

Profits in the third quarter were held back by foreign operations. Income from international operations fell almost 60 percent. That decline compares to a 5.5 percent rise in income from domestic operations in the third quarter - though much of that improvement came from nonrecurring items, such as securities sales, rather than in revenues from ongoing operations. Even so, net operating income grew almost 22 percent in the first nine months of 2002 compared to the same period in 2001.

Earnings in the third quarter were also held down by higher expenses for loan losses, among other factors. Those higher loan losses were concentrated among the larger banks. Because of these losses, as well as lower revenues from market-related activities, five of the 10 largest commercial banks had lower earnings in the third quarter than in the second quarter. Another weak spot at large banks is the quality of their commercial and industrial loans. The industry's noncurrent rate on C&I loans topped three percent for the first time since 1993 - with virtually all the increase occurring in loans to domestic borrowers. Also, charge-offs of credit-card loans totaled $3.9 billion in the third quarter - more than a third higher than a year ago.

These areas of weakness - international operations, large corporate borrowers, and credit cards - are mostly centered in larger banks. The vast majority of community banks have not been subject to these problems.

All that being said, bank profitability remains strong. Demand for consumer loans, especially residential mortgages and home equity loans, grew. In short, we see no systemic concerns.

Attachment: FYI - Quarterly Banking Profile - Commercial Banking Performance, Third Quarter 2002

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