ORAL STATEMENT OF

L. WILLIAM SEIDMAN
CHAIRMAN
FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

ON

THE FINANCIAL CONDITION OF FDIC-INSURED INSTITUTIONS

BEFORE THE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

10 a.m.
May 21, 1987
Room SD-538, Dirksen Senate Office Building

Good morning, Mr. Chairman and members of the Committee. I appreciate this opportunity to address the condition of the banking industry and its insurance fund.

We have submitted written testimony for the record. Thus, my remarks today will give the key conclusions based on the data submitted.

Point 1: The series of banking data provided by the FDIC and my fellow regulators demonstrate both strength and weakness within the industry. The system remains viable despite the record numbers of problem and failed banks. In one sentence, on average, the system is adequately, but certainly not over capitalized, less profitable than in previous years and becoming more efficient under the prod of deregulation and increased competition.

Point 2: The industry averages mask some unsettling trends. The averages don't reveal that results of banks west of the Mississippi are at all time lows, while in the East banks are doing relatively well. I brought with me today final 1986 banking data (Tables A & B) that will appear in the next issue of our new Quarterly Banking Profile, a copy of which is attached to my statement. This publication, which we publish every three months, is the most timely data available to this Committee on the condition of the banking industry. I apologize for not submitting the data in the attached Tables A & B earlier, but they just became available.

I think these data reflect clearly the disparity among banks. For example, Table A shows the aggregate return on assets for the banking industry was 0.64%, but this ranged from a negative 0.32% for banks in the Southwest to a positive 1.02% for banks in the Southeast. Over 80% of the banks that lost money last year were west of the Mississippi River. Nonperforming assets represented 1.95% of total industry assets but the ratio ranged as high as 4.08% in the Southwest and as low as 1.02% in the Southeast.

Table B shows the same data as Table A broken down by size rather than geographic location. A quick review shows major differences among size groups. Aggregate earnings of small banks, those under $100 million, are way down compared to other banks. But, we believe it also reflects differences in banking structure. States in the mid and Southwest tend to have fairly restrictive branching laws which limit opportunities to diversify and reduce risk.

Incidentally, there are a number of ways to compute averages -- on aggregates or units -- and, thus, you will note differences based on the computation method used. Consider the difference between the industry equity ratios. The unweighted average bank equity ratio in Table IV of our written testimony is 8.18% while the dollar aggregate ratio in our Quarterly Banking Profile is 6.2%. Both ways of computing the "average" give us important insights in evaluating the system.

Point 3: While most of the recent bank failures can be attributed to weaknesses in well-defined sectors of the economy, it is clear that asset portfolio risk in the system is increasing. Both net charge-offs and nonperforming assets are increasing, even in areas of the country that have a robust economic base. Our experience in liquidating failed bank assets also reflects decreasing asset quality. Our loss rate on assets received from banks that failed during 1985 and the first half of 1986 showed an increase of over 75% since 1980 and now we are losing about 25% on every dollar. If failed banks located in the agricultural and energy sectors are excluded, the increase is still 60%.

We see a variety of reasons for the increased risks in bank portfolios. First, private debt in the economy has increased dramatically in recent years. Overall in our economy -- both consumer and corporate -- there is now about 40 cents more debt for every dollar of income than there was just five years ago. Between 1981 and 1985, corporate debt jumped from 30% of net worth to 47%. Household debt reached a post-World War II high equal to 89% of after-tax disposable income compared with 80% as the previous high.

Second, as the result of restrictive laws, banks have lost a chunk of their traditional business. This has forced banks to go further out on the risk curve to maintain market share and profit margins.

Third, in a few large banks there is large exposure to LDC debt. While the relative burden is decreasing, many of the large U.S.

banks still have significant exposure, especially to Latin American countries. In part, Citibank's recent decision to add $3 billion to reserves reflects this problem. On this point, let me emphasize that while asset risk has increased, the capital that is available to cushion potential losses also has increased.

Point 4: The FDIC insurance fund is solvent and our fund is sound and viable. However, our resources are beginning to show the effects of the unprecedented number of bank closings.

The ratio of reserves to insured deposits is dropping. As of year-end 1986, the reserve declined to $1.12 per $100 of insured deposits, from just under $1.20 a year earlier. Assuming a normal growth rate in insured deposits, about 200 bank failures this year and, thus, no net increase to the fund, the ratio will drop to about 1% by year-end. This is less than the 1.1% ratio below which assessment rebates are precluded. We will be fortunate to keep reserves at the current level of $18.2 billion at the end of 1987.

We shall be immeasurably aided in our endeavors by the recognition of our need to be free of OMB budgetary dictates which is granted us by the Senate banking bill. We thank you Mr. Chairman, Senator Riegle and members of the Committee for recognizing this most important aid to our ability to manage the fund.

Point 5: Restructuring of the financial services industry is needed now. The banking system and economic and competitive factors -- both national and international -- are changing with unprecedented speed. To date, the response to this evolution has been a hodgepodge of ingenious private sector initiatives that test the limits of existing legal frameworks. The archaic system of laws under which the banking industry operates has created an inefficient system that is contributing to some of the disturbing trends in the banking industry that are being discussed here today.

We believe that long-range financial services restructuring must be undertaken soon. We know that the issues are difficult and the turf to be protected is lucrative. However, the stakes for the stability and competitiveness of our banking industry and, thus, our economy is high. We stand ready to assist the Congress in any way possible in this very difficult undertaking.

Thank you. I will be happy to respond to any questions.

TESTIMONY OF

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Good morning, Mr. Chairman and members of the Committee. I am pleased to present the FDIC's views on the condition of the banking industry and its insurance fund. At your request, the regulators already have submitted, through the Federal Reserve, a variety of statistics. My testimony today will highlight those statistics by providing the FDIC's overview of the financial condition of FDIC-insured banks. It also will respond to the specific questions raised in your letter of invitation.

The entire financial services industry is undergoing a period of rapid evolution. This evolution is a challenge both to bankers and regulators. It is a challenge as great as any other time in history. Perhaps the hardest job falls to the Congress which has to determine how best to change the laws to respond to these marketplace occurrences. Opinion is divided on what needs to be done. The issues are difficult. The turf to be protected is lucrative. The stakes for the stability and competiveness of our economy are very high. We hope that these hearings will provide information that will assist the Congress in its deliberations. As the repository of the Call Report data for all U.S. banks, the FDIC stands ready to provide data or help in any other way it can. In this connection we call attention to our new Quarterly Banking Profile on the banking system (See Appendix A) which provides the most current information on the banking industry every three months and contains answers to many of the questions raised by this Committee.

FAILED AND PROBLEM BANKS

The condition of the banking system has been better and in a number of areas the trends are adverse. As you are aware, bank failures are at record levels. In 1986, 138 FDIC-insured banks failed and another 7 received financial assistance to avert failure. Unfortunately, we have been setting new records each year, as evidenced by Tables I and II of Appendix B which set forth the number of failed and assisted banks for 1970 through 1986. This year is not expected to be an exception. As of May 15th, there have been 78 failures and 3 assistance transactions, with several other assistance transactions in process. If the current pace continues, we can anticipate at least 200 failures and assistance transactions this year. It should be noted that 87 percent of these failures were West of the Mississippi River and banks in Texas and Oklahoma alone accounted for about half of all bank failures so far this year.

As indicated in Table III of Appendix B, the number of problem banks also is at a record level. As of the end of the first quarter of 1987, there were 1,531 FDIC-insured problem banks with total deposits of $237 billion, up from 1,484 as of year-end 1986 and 1,140 at year-end 1985. Of the 1,531 problem banks, approximately 600 were agricultural banks and 150 were energy banks. Eighty-five percent of the banks on the current problem list are West of the Mississippi River and over 55 percent are in just 6 states. In reviewing the trend in the number of problem banks, it is important to note that there is considerable turnover in the specific banks on the problem list. For example, in 1986, about 800 banks were added to the list, while around 350 were deleted because of improved condition. The current number of problem banks is a record, but the rate of increase has slowed markedly. In fact, the number in recent months has been relatively stable. We expect the number to increase moderately during the balance of the year. Our guess is that, barring any adverse change in the economy, the number of problem banks will top out in the next year.

As can be seen, the pattern of increases and decreases in the number of problem banks correlates with economic conditions. While much of the country and most sectors of the economy now are experiencing relative prosperity, the differences among areas are much wider than has been experienced historically. The areas West of the Mississippi River, with economies that are largely based on agriculture and energy, have pockets of severe recession or even depression. Most of the FDIC's problem banks today, and in the foreseeable future, are located in these distressed regions. As shown in Table III, the vast majority of problem banks have deposits of under $300 million and most agricultural-and energy-sector banks are in this deposit-size category. Our quarterly bank statistics contained in Appendix A indicate clearly the problems by geographic area.

Deficiencies in bank management and policy exacerbate the natural tendency for banks to suffer from weaknesses in the economy. Historically, inept or abusive management has been the primary cause of problem banks. However, the downturn in agriculture and energy has been so severe and protracted that we are past the time when we can simply point to management deficiencies as a general cause. Today, in the depressed areas of the country, many banks with good records and acceptable management are having financial difficulties. As regulators, we are using new approaches in supervising these institutions.

Traditionally, when bank management was the primary cause of bank difficulties, the FDIC initiated cease-and-desist actions or other formal enforcement procedures. These actions were designed to stop the unsafe and unsound activities and institute corrective measures. They also frequently required the immediate infusion of new equity or new management. This approach was appropriate when management was at fault and is still followed under those circumstances. In fact, enforcement actions against state, non-Federal Reserve members banks totalled 298 in 1985, 241 in 1986 and 75 through April of this year.

We believe that enforcement actions are often counterproductive when management is acceptable, the bank's problems are the result of adverse market conditions, and the prospects for recovery are good, given a reasonable economic cycle. The FDIC seeks to work cooperatively with the management of such banks in a joint effort to restore the financial stability of the banks. The supervisory approach in these circumstances may include meetings with a bank's board of directors, informal agreements in the form of memorandums of understanding or board resolutions detailing the bank's commitments for corrective action and ongoing correspondence with the bank to monitor its progress.

Early last year the FDIC, along with other bank regulators, adopted a formal policy of capital forbearance for banks in the agricultural and energy sectors with severe capital problems. If a bank is granted forbearance, the FDIC will not use its cease-and-desist powers under the Federal Deposit Insurance Act to require immediate restoration of adequate capital. Rather, the bank develops a plan for restoration over a reasonable period of time. Banks qualify for the program if they meet the definition of an agricultural or energy bank, have acceptable management, have capital problems resulting from economic factors, possess sufficient capital to protect against near-term insolvency -- generally considered to be about 3 percent -- and have a business plan that gives promise that the banks can survive. This program has been reasonably successful on a limited basis. As of April 30, 1987, the FDIC had approved 70 of the 154 applications for capital forbearance. Forty applications were denied and the remainder are being reviewed.

We are in the process of improving the effectiveness of the program. We expect to expand the use of capital forbearance beyond agricultural and energy banks to include other economically troubled sectors. Our basic test for forbearance will be geared to the survivability of the institution. If it has a reasonable chance for survival under foreseeable economic conditions then arbitrary benchmarks will be avoided. We expect to modify the program to eliminate fixed capital requirements, to expand it to include any bank that can demonstrate that its problems are primarily attributable to economic problems beyond the control of management and to extend the deadline for admittance.

In addition, the FDIC is considering the feasibility of a program similar to the Net Worth Certificate program used for savings banks under the Garn-St Germain Act. This particular program, however, is in an early stage of consideration and, if instituted, would be used in a limited way for appropriate cases where such use is likely to reduce insurance costs and strains on the banking system.

The thrust of our supervisory efforts is to do whatever we can, consistent with a safe and sound banking system, to limit our insurance losses by permitting viable banks with acceptable management to survive the present period of economic weakness and to recover financial strength once the economy improves. This does not mean that the FDIC intends to allow insolvent banks to continue operations; that every failing bank is viable and should be saved; or that incompetent or abusive management will be tolerated. There will be failures -- unfortunately, many of them -- but we will continue to take reasonable steps to reduce the number of failures and, thus, to lessen the adverse impact on local communities and on our insurance reserves.

GENERAL ECONOMIC CONDITIONS

Before turning to a discussion of the indicators of financial condition, I would like to make some general observations about the economy.

There are indications that the worst of the problems in some parts of the agricultural sector may be over. Land prices have reached levels where, with a reasonable downpayment, farming operations can generate sufficient cash flow for debt servicing. There is still a lot of available land and equipment depressing the resale market, but those prices may be near the bottom. Thus, while we see little evidence of a rapid upturn, we should see a gradual improvement in the condition of agricultural banks in upcoming years.

The energy economy also seems to have bottomed out, at least in terms of the price of oil. However, the secondary effects of the oil price decline are still working through the economy and the normal lag time between economic decline and a deterioration in the banking community has not yet run its full course.

Are there other economic problems that will affect banks adversely? No one really knows. Real estate of all kinds is a problem in certain areas, often the same areas adversely affected by energy or agriculture. For example, office vacancies and depressed housing values in some major cities in the Southwest are in part a reflection of over-optimism that preceded the energy problems.

On several occasions, I have expressed concern over the level of U.S. private debt -- both consumer and corporate -- much of which is owed to commercial banks. In all sectors of our economy debt is at or near record levels when compared with ability to repay. Overall in our society, there is now about 40 cents more debt for every dollar of income than there was just five years ago. Between 1981 and 1985, corporate debt jumped from 35 percent of net worth to 47 percent. Household debt has reached a post-World War II high equal to 89 percent of after tax disposable income. Prior to 1985, this ratio had never even reached 80 percent. Recent estimates are that debt service absorbs nearly a third of monthly household income and, for many families, more than half. I would be more comfortable if household and business debt levels could be returned to more normal levels.

No one knows how much private debt the economy prudently can carry. It seems obvious, however, that the higher the debt when compared with ability to repay, the worse the effects of any economic downturn are likely to be -- especially for the banking industry. While there is little indication of a near-term recession, our present recovery has gone on for an extended period by historical standards and based on history will not last indefinitely.

FINANCIAL CONDITION OF THE INDUSTRY

With problem and failed banks at record levels, it is important to maintain overall perspective. Approximately 90 percent of insured banks are not considered problems and failures last year represented only about 1 percent of the total number of banks. Indicators of the health of the banking industry are mixed, as demonstrated by the selected performance and condition indicators from our Quarterly Banking Profile. Overall the statistics show a reasonably sound industry, but the averages mask a number of problems.

Capital - The banking system as a whole seems to be maintaining adequate capital. As shown in Table IV of Appendix B, aggregate primary capital of all insured banks at year-end 1986 was $211 billion. This represents an increase of $82 billion over 1981 when specific minimum capital ratios first were mandated by the federal bank regulators. The aggregate equity capital of these institutions increased by $65 billion during the same period. The ratio of capital to assets -- the traditional measure of adequacy -- is higher among small banks than large banks, but aggregate capital of banks in all size categories exceeds the minimum ratio even with over 1,500 problem banks.

There has been considerable concern regarding banks' exposure to off-balance sheet risk. This is one of the primary factors behind the regulators' recent proposal for a risk-based system of capital analysis. Though the assessment of capital adequacy may be affected by the information received as a result of this proposal, the FDIC does not now have evidence indicating that the system as a whole is in need of substantial increases in capital. However, individual institutions may be required to increase capital. We strongly support bringing off-balance sheet activity into better focus through improved reporting and accounting techniques. This will enable regulators, as well as private industry analysts, to better and more consistently evaluate levels of capital adequacy.

Some of what has appeared as new equity capital in banks may be the result of so called double-leveraging by holding companies -- defined as equity investments in subsidiaries as a percent of the holding company equity. This occurs when the parent company incurs debt and uses the proceeds to purchase equity in its subsidiary bank(s). Double-leveraging can be a cause for concern. Since the normal practice is to service this debt through dividends from the banks, excessive payments can be a threat to the banks in the holding company. The FDIC analyzes double-leveraging, as well as other parent company information, on a case-by-case basis during the examination of individual banks. We have seen a number of examples of bank holding company leveraging for purchases of bank stock that have weakened the banks in the system. This is particularly evident in unit banking states such as Oklahoma and Texas. Note the difference in double-leveraging by region as indicated in Table V in Appendix B.

In addition to double leverage, many owners of independent banks also rely on loans to finance their stock purchases. Thus, the amount of tangible, nonfinanced bank equity is much less than the apparent capital in a number of states.

Earnings - If the level of bank capital is to remain adequate, banks must prosper. They must be sufficiently profitable to retain enough earnings to maintain capital and to make the bank's stock attractive to investors. Table VI of Appendix B indicates that on the average bank earnings have been declining. However, this kind of averaging can be misleading since it is heavily weighted by the significantly poorer results of small banks west of the Mississippi. (See the chart "Return on Average Assets, East vs. West" in our Quarterly Banking Profile.) Return on equity in 1986 averaged 8.75 percent and return on assets 0.74 percent for insured commercial banks. This compares to levels five years ago of roughly 13 percent and 1 percent, respectively. Moreover, in 1986, nonrecurring items and gains from the sale of securities amounted to nearly 25 percent of the total net income for insured commercial banks.

Early results for the first quarter of 1987 indicate that earnings deterioration is continuing. The aggregate net income of the 26 largest bank holding companies was down 16 percent or $342 million in the first quarter of 1987 when compared to the first quarter of 1986. The drop can be attributed in large part to the placement of large amounts of loans to Brazil into nonaccrual status. Even without the effect of the loans to Brazil, there was a decline in earnings, partially attributable to shrinking interest margins.

The earnings for smaller banks continue under pressure from high levels of loan losses and nonperforming assets. Preliminary data indicate that about 15.5 percent of banks under $100 million in assets lost money in the first quarter of 1987 or about the same as last year. Of the banks in the $100 million to $1 billion category, between 7 percent and 10 percent had losses. For the first quarter last year, 6.5 percent of these banks were unprofitable.

There have been a variety of developments in recent years that make satisfactory earnings more difficult to achieve. Among these are the poor economic conditions in certain parts of the country, an increasing tendency of the largest most creditworthy commercial loan customers to bypass banks and access credit markets directly, and intensified competition for both loan and deposit customers from nontraditional banking businesses. In addition, bank earnings will be affected adversely by recent tax reform. In the face of increasing credit problems, the elimination of the deduction for, and the recapture of, bad debt reserves is particularly unfortunate.

Banks have been creative in developing new products and services to combat these pressures. Assets are being securitized and sold rather than held in portfolios -- a practice which frees up capital. Significant fee income now is generated by letters of credit and the swap market -- which have grown from little or nothing to billions of dollars in a very short time. As of year-end 1986, letters of credit and loan commitments alone amounted to $750 billion. Despite these efforts, however, as evidenced by the statistics in Table VI, the profitability of banking appears to be declining.

Banks located in markets with limited opportunities for diversification have fared worse than the norm. The problems of agriculture, energy and real estate already have been discussed. Banks serving these markets are having a difficult time. In fact, there were six states in 1986 -- Oklahoma, Texas, Wyoming, Montana, Louisiana and Alaska -- in which the banking industry in the aggregate lost money.

The FDIC believes that if the banking system is to remain adequately profitable it must be allowed to pursue profit opportunities throughout the financial services industry. We believe these opportunities can be pursued in a manner that is consistent with safety and soundness considerations if appropriate safety surveillance is provided by the regulators.

<u>Asset Quality</u> - One of the results of the changing competitive climate has been a marked increase in the volume of problem loans and loan charge-offs. As noted in our <u>Quarterly Banking Profile</u>, net charge-offs to loans have increased steadily from 0.56 percent in 1982 to 0.99 percent in 1986. Despite

this increase, nonperforming assets continue to remain high at 1.96 percent. As additional proof of deteriorating loan quality, FDIC losses on failed banks have risen substantially to over 22 percent of total bank assets. These increased losses reflect the larger percentage of poor quality loans in failed banks.

As you would expect, the asset quality problem is most pronounced in depressed economic areas but, to a lesser degree, is reflected in the industry as a whole. The major recognized problem areas are agriculture, energy, real estate and LDC debt. While the agricultural and energy problems are common to many banks, LDC debt is concentrated in a small number of institutions. Nine money-center banks recently accounted for 60 percent of the U.S. banking system's exposure to foreign debt and 65 percent of the exposure to Latin American debt. However, Latin American debt, as a percent of primary capital at the nine money-center banks, has declined from 180 percent in 1982 to 100 percent in September 1986.

Even outside the recognized problem lending areas it appears that banks, overall, have had to accept greater loan risk in order to maintain earnings and loan volume. It seems clear that the risk in the system has been increased by deteriorating loan portfolio quality. Limiting the losses that result from this increased risk will be necessary to insure banks' future profitability.

<u>Liquidity</u> - Although one of the most important areas of banking, liquidity is the most difficult to measure and the area most subject to rapid change.

Currently, liquidity throughout the system would appear to be adequate judged by the satisfactory performance in recent years despite adverse economic conditions. But interest rates have been relatively low and funds plentiful. Though individual cases can be found where brokered deposits perhaps have increased the risk assumed by the FDIC in failing banks, experience has shown that brokered deposits are not the problem that they were a few years ago. As of year-end 1986, brokered deposits held by reporting banks totalled $6.2 billion compared to $17.9 billion at year-end 1984. Developments such as securitization and broadened secondary markets which were not previously available now also provide liquidity for many types of assets. Liquidity, however, is a creature of economic circumstance in which confidence is of the utmost importance. If a recession occurred or if interest rates rose and money became tight, today's favorable liquidity position could change markedly, particularly for our savings banks.

FDIC SUPERVISION

FDIC supervision is directed toward maintaining the safety and soundness of the banking system and protecting the insurance fund against unnecessary loss. Much of our resources are now focused on marginal or problem banks. The FDIC has a workload that is probably greater, and a role in the smooth operation of our financial system that is more important, than at any other time since the agency was created.

The FDIC currently employs 1,744 field bank examiners. As indicated in Table VII of Appendix B, this number is up sharply from recent figures, but is low relative to the number of examiners we employed in 1978. In that year our field examination force reached a record high of 1,760 examiners, with 342 problem banks and 7 bank failures. In contrast, as previously stated, currently there are over 1,500 problem banks and a possibility of 200 or more failures in 1987. As indicated, only 1,744 FDIC examiners are employed to handle this significantly more formidable environment. It is clear that our present number of examiners is insufficient to deal with our responsibilities and the current level of problems in the bank system.

We estimate a force of at least 2100 examiners will be necessary to achieve an acceptable examination frequency and scope. Our goal is to conduct a safety and soundness examination of satisfactory banks (CAMEL ratings of 1 or 2) once every three years, marginal banks (CAMEL 3) every 18 months and problem banks (CAMEL 4 or 5) every year. Currently, we are averaging once every four years for satisfactory banks, once every two years for marginal banks and about once every 19 months for problem banks.

Some of our regions are more behind schedule than others. In our Southwest region, for example, we examined only 11 percent of the 1 and 2 rated banks last year. The pressures on our work force also have caused us to fall behind in specialized exams such as those covering consumer compliance and trust department operations.

Beginning in 1978, the FDIC purposely reduced its number of examiners. We believed that our regulatory responsibilities could be accomplished with less of the traditional onsite examination, especially in satisfactorily rated banks. To supplement our reduced examination efforts, we used increased offsite surveillance, brief visitations, reliance on state regulators where appropriate, and increased market discipline. Though this effort was successful in the "old" banking industry, conditions have changed. We are not able to maintain even our more liberal examination schedule at the present time. Therefore, we have increased our staff and intend to continue to do so subject only to budgetary constraints.

We are in the process of trying to increase the field staff by about 350 employees during the next year. Because of the training period involved for new employees, there is and will continue to be a considerable strain on our experienced examiners in many parts of the country. To alleviate this strain, the FDIC is experimenting with supplementing our examination force with experienced certified public accountants who are hired on a per diem basis to assist our examiners in specific examinations. Early indications are that this experiment will be reasonably successful and some help can be furnished by this plan.

The current period is the most challenging and the need for effective safety and soundness supervision (<u>not</u> increased regulation) the greatest in the FDIC's history. We must adapt to a greater number of changes more quickly than ever before. Flexibility, creativity and innovation are absolutely essential if the FDIC is to continue to be effective in its critical role.

In the face of this environment, and after 36 years of precedent to the contrary, the Office of Management and Budget has asserted new and, we believe, unfounded jurisdiction over the FDIC. We applaud the Chairman, the members of this Committee and the Senate for including in the banking bill a provision expressly excluding the federal bank regulators from the apportionment provisions of the Anti-Deficiency Act. I would like to reemphasize the importance of that legislation to the effective operation of the Corporation.

ADEQUACY OF THE FDIC FUND

The FDIC insurance fund presently stands at about $18.2 billion and is adequate to handle foreseeable problems in the banking system. The fund, however, is beginning to show some effects from the unprecedented number of bank failures. Our ratio of reserves to insured deposits is declining. As of year-end 1986, the reserve slipped to $1.12 per $100 of insured deposits, from just under $1.20 a year earlier. Insured deposits grew about 8.7 percent last year. If we project a similar growth rate for 1987 and assume no growth in the $18.2 billion fund, then the projected ratio of the fund to insured deposits will drop to about 1 percent. Under the Federal Deposit Insurance Act, when the ratio of the fund to insured deposits is below 1.1 percent, the FDIC may not provide assessment rebates to insured banks.

Although the total reserves of the FDIC have increased every year, bank failures are absorbing substantially all of our current income. In 1986 the fund grew by less than $300 million in the wake of 145 bank failures or assisted transactions. With the prospect of 200 or more bank failures in 1987, we will have difficulty breaking even in 1987. We are confident that our financial resources are adequate for our present responsibilities, but insuring substantial amounts of deposits that now are FSLIC-insured certainly would stretch our reserves. Our estimates are that as many as 1,000 thrifts, with deposits of $184 billion, could meet FDIC capital requirements and have acceptable earnings. If all those institutions converted to FDIC insurance, our projected reserves to insured deposits ratio would decline by over 10 percent.

CONCLUSION

To conclude, I would like to underscore some of my opening remarks. Banking is experiencing and will continue to experience rapid and critical changes. Currently, the government's presence is a hodgepodge of state, regulatory and court rulings. This mixture, combined with ingenious private sector initiatives, has resulted in an inefficient and archaic system. Long-range banking industry restructuring is overdue and should be undertaken to improve competitiveness, reduce regulatory costs and provide increased safety and soundness for the financial system. The FDIC believes action is needed and we will be happy to cooperate with you in any way we can to help achieve it.

Thank you. I will be pleased to respond to any questions.

Quarterly Banking Profile

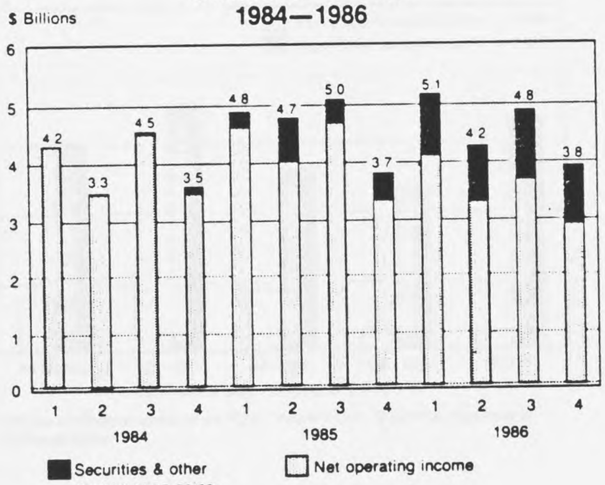
FEDERAL DEPOSIT INSURANCE CORPORATION L. William Seidman, Chairman

...th Quarter 1986

COMMERCIAL BANKING PERFORMANCE — FOURTH QUARTER, 1986

Commercial banks' net income totalled $17.8 billion in 1986, down 1.4 percent from the record $18.1 billion reported in 1985, but still the second highest total ever reported, according to preliminary data. Fourth-quarter net income was $3.8 billion, up 7.7 percent from the fourth quarter a year ago. Net operating earnings were down 16.3 percent in 1986, despite earning asset growth of nearly 8 percent. For the full year, nonrecurring items and gains from the sale of securities amounted to $4.2 billion, or nearly one-fourth of bottom-line net income.

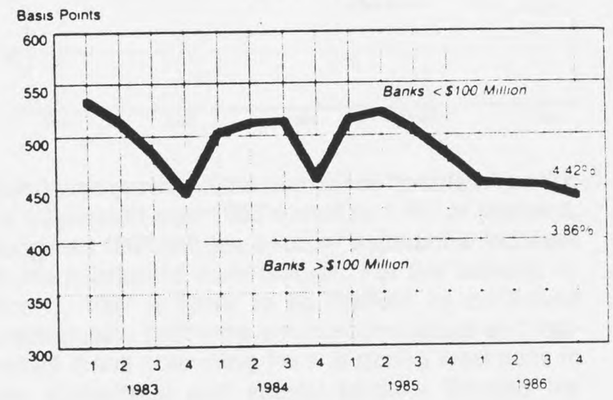
Quarterly Net Income of FDIC-Insured Commercial Banks 1984—1986



During 1986, total bank assets, loans, deposits and equity capital grew at almost identical rates. Weak loan demand and lower interest rates caused banks to adjust the composition of their balance sheets. The need to increase high-yielding assets prompted them to lengthen maturities in investment securities portfolios and to emphasize mortgage and consumer lending. While total loans grew 7.6 percent, real estate loans expanded a robust 17.2 percent and consumer loans increased 8.6 percent. Commercial and industrial loans, in contrast, grew only 4.0 percent, reflecting softness in demand and heightened nonbank competition.

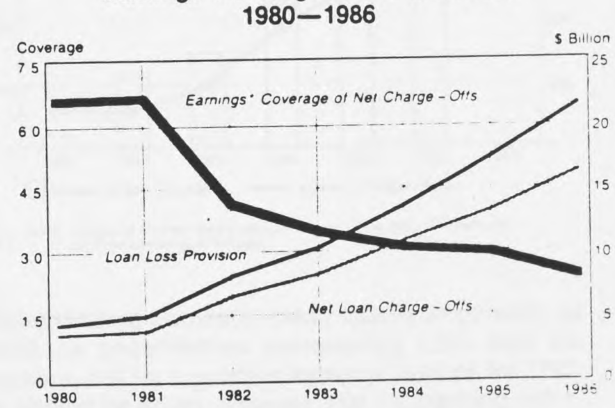
Falling interest rates also contributed to year-to-year reductions in both interest income and expense. Net

Commercial Bank Net Interest Margins 1983—1986



interest margins, which contracted 13 basis points for the year, were hurt by the 12.6 percent growth of nonperforming assets. Noninterest income made a larger contribution to earnings in 1986, growing nearly 16 percent. Noninterest expense grew roughly in line with assets, and as a result, net noninterest expense declined to 1.85 percent of assets from 1.88 percent in 1985. Most of this improvement was centered in the largest banks.

Loan-Loss Expense, Net Loan Charge-Offs and Earnings Coverage of Loan Losses 1980—1986



* Earnings are net operating earnings before loan loss provisions and taxes

Note: Left and right hand scales are not related

Banks' loan-loss expense continued to be a drag on earnings. Provisions totalled $21.7 billion in 1986, up over $4 billion from year-ago levels — a 22.7 percent increase. They covered $16.3 billion in net loan

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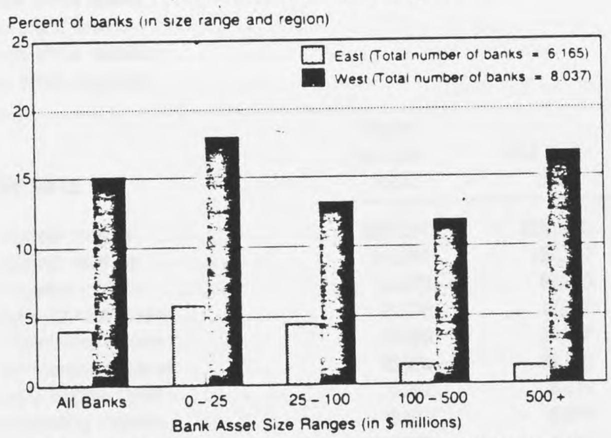
charge-offs, and still boosted loss reserves 23.6 percent during 1986. At year-end, the ratio of loss reserves to nonperforming assets stood at 50 percent, compared with 45 percent a year ago. Nonperforming assets ended the year at 1.96 percent of total assets, up from 1.87 percent in 1985.

The number of banks reporting losses (net income less than zero) in 1986 climbed to 2,784, or nearly 20 percent of all insured commercial banks, compared with 2,453 in 1985. In the fourth quarter, 4,354 banks reported a net loss, down from 4,395 in the same period of 1985. It should be noted that quarterly income and loss figures are affected by the fact that many banks concentrate loan loss provisions in the fourth quarter of each year.

Most (81.4 percent) of the unprofitable banks in 1986 were located west of the Mississippi. In general, banks in the eastern part of the U.S. have had better asset growth, better credit quality, higher profitability and fewer problem institutions or failures than their western counterparts. The influences of agricultural problems on smaller banks and energy-related problems on small and large banks in the west account for much of these differences.

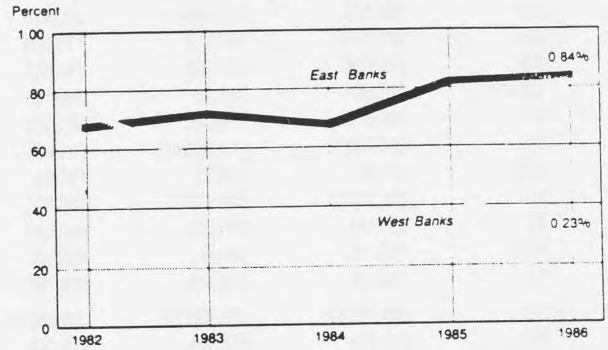
Distribution of Problem Banks by Asset Size and Region



Includes commercial banks on the FDIC "Problem List". East/West separated by Mississippi River.

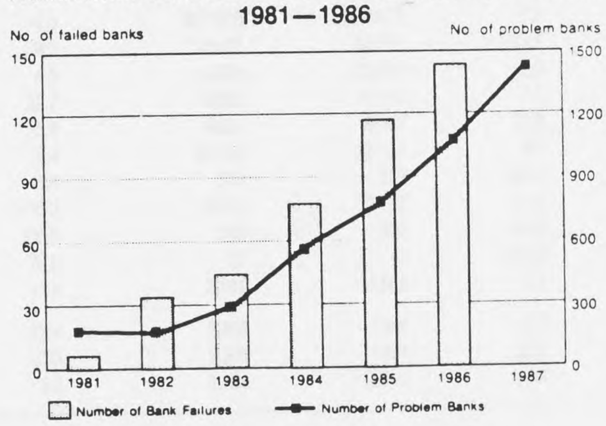
Banks in all three regions in the western half of the nation have seen their income reduced by exceptionally high loan losses. In the West region, these losses have centered around real estate and energy-related credits; banks in the Midwest region have been squeezed by losses stemming from depressed farm prices. The Southwest region has also had sizable losses associated with commercial real estate and agricultural problems, but loans to the energy sector have had the greatest negative impact. Despite the highest charge-off rate of any region in 1986, Southwest banks still were left with the highest level of nonperforming assets — over four percent of total assets — at year-end. Sixty-two of the 144 commercial banks that failed or received assistance in 1986 were in the Southwest. The region also had the highest proportion of unprofitable banks in 1986 — 35 percent — while the West region had the largest share of banks on the "problem" list. The Southeast, Northeast and Central regions had the fewest troubled institutions, and showed improving trends in this area.

Return on Average Assets, East vs. West 1982—1986



Continued growth in the number of "problem" banks, up 33 percent over 1985's level to 1,457 at year-end, suggests 1987 will see another substantial increase in the number of bank failures. For the banking industry, 1987 is likely to be marked by continued credit-quality problems among commercial and real-estate loans stemming from lingering weakness in the agricultural and energy sectors. Beyond the domestic portfolio, uncertainty has increased regarding LDC loans, although the level of exposure from these loans has fallen relative to bank capital.

Numbers of Problem and Failed Commercial Banks 1981—1986



NOTE: Number of problem banks represents those on the FDIC "Problem List" as of the beginning of the year.

Deteriorating domestic credit quality in general, as well as uncertainties surrounding LDC loan exposure, call for a guarded earnings outlook for 1987. It should be noted, however, that the banking industry has continued to augment its capital position. During 1986, total primary capital increased by 9.2 percent to $208 billion, the highest level ever. The ratio of primary capital to assets now stands at 7.04 percent, up from 6.97 percent a year ago.

U.S. COMMERCIAL BANKING INDUSTRY QUARTERLY PROFILE
Aggregate Condition and Income Data, FDIC-Insured Commercial Banks *(dollar figures in millions)*

	Preliminary 4th Qtr 1986	3rd Qtr 1986	4th Qtr 1985	% Change 85:4-86:4
Number of banks reporting	14,181	14,306	14,404	-1.5
Total employees (full-time equivalent)	1,562,433	1,568,231	1,561,698	0.0
CONDITION DATA				
Total Assets	$2,938,400	$2,801,855	$2,730,498	7.6
Real estate loans	514,001	486,839	438,426	17.2
Commercial & industrial loans	600,871	572,084	577,738	4.0
Loans to individuals	335,441	326,102	308,930	8.6
Farm loans	31,686	34,204	36,107	-12.2
Other loans and leases	272,750	263,913	269,581	1.2
Total loans and leases	1,754,749	1,683,142	1,630,782	7.6
LESS: Reserve for losses	28,701	27,252	23,216	23.6
Net loans and leases	1,726,048	1,655,890	1,607,566	7.4
Temporary investments	463,644	450,889	451,700	2.6
Securities over 1 year	367,249	343,163	303,381	21.1
All other assets	381,459	351,913	367,851	3.7
Total liabilities and capital	$2,938,400	$2,801,855	$2,730,498	7.6
Noninterest-bearing deposits	532,211	446,555	471,340	12.9
Interest-bearing deposits	1,748,603	1,713,022	1,646,436	6.2
Other borrowed funds	358,809	339,243	320,366	12.0
Subordinated debt	16,888	16,500	14,659	15.2
All other liabilities	99,394	107,012	108,497	-8.4
Equity capital	182,495	179,523	169,200	7.9
Nonperforming assets	57,526	58,749	51,090	12.6
Loan commitments and letters of credit	750,935	745,697	728,546	3.1
Domestic office assets	2,529,385	2,385,749	2,325,024	8.8
Foreign office assets	409,015	416,106	405,474	0.9
Domestic office deposits	1,967,019	1,834,817	1,795,932	9.5
Foreign office deposits	313,795	324,760	321,844	-2.5

INCOME DATA	Prelim. Full Year 1986	Full Year 1985	% Change	Prelim. 4th Qtr 1986	4th Qtr 1985	% Change
Total interest income	$237,661	$248,210	-4.3	$57,655	$62,479	-7.7
Total interest expense	142,691	157,300	-9.3	33,451	38,758	-13.7
Net interest income	94,970	90,910	4.5	24,204	23,721	2.0
Provisions for loan losses	21,738	17,717	22.7	6,621	6,146	7.7
Total noninterest income	35,869	31,037	15.6	9,834	8,702	13.0
Total noninterest expense	90,094	82,320	9.4	24,052	22,161	8.5
Applicable income taxes	5,397	5,644	-4.4	554	959	-42.2
Net operating income	13,610	16,266	-16.3	2,811	3,157	-11.0
Securities gains, net	3,927	1,567	150.6	944	386	144.6
Extraordinary gains, net	270	224	20.5	57	-5	1240.0
Net Income	17,807	18,057	-1.4	3,812	3,538	7.7
Net charge-offs	16,342	13,245	23.4	5,250	4,944	6.2
Net additions to capital stock	3,192	2,395	33.3	2,205	1,651	33.6
Cash dividends on capital stock	9,208	8,529	8.0	3,226	2,844	13.4

Selected Performance and Condition Indicators, FDIC-Insured Commercial Banks

	1982	1983	1984	1985	1986
Return on assets	0.71%	0.66%	0.65%	0.70%	0.64%
Return on equity	12.11	10.70	10.73	11.31	10.18
Equity capital to assets	5.87	6.00	6.15	6.20	6.21
Nonperforming assets to assets	1.85	1.97	1.97	1.87	1.96
Net charge-offs to loans	0.56	0.67	0.76	0.84	0.99
Asset growth rate	8.12	6.75	7.11	8.86	7.62
Net operating income growth	-0.62	-3.69	3.40	6.30	-16.20
Number of unprofitable banks	1,196	1,530	1,891	2,453	2,784
Number of problem banks	326	603	800	1,098	1,457
Number of failed banks	34	45	78	118	144

Preliminary Bank Data and Performance and Condition Ratios, Distributed by Asset Size and by Region, Fourth Quarter 1986 *(Dollar figures in billions, ratios in %)*

		Asset Size Distribution							Geographic Distribution					
									EAST			WEST		
	All Banks	Less than $25 Million	$25-100 Million	$100-300 Million	$300-1,000 Million	$1-10 Billion	Greater than $10 Billion	Northeast Region	Southeast, Region	Central Region	Midwest Region	Southwest Region	West Region
Number of banks reporting	14,181	4,813	6,581	1,899	549	306	33	1,080	1,950	3,122	3,315	3,135	1,579
Total assets	$2,938.4	$71.0	$333.5	$304.4	$276.2	$897.9	$1,055.4	$1,133.4	$380.7	$463.6	$205.1	$301.7	$453.9
Total deposits	2,280.7	63.0	298.9	268.7	232.3	680.8	737.1	826.2	304.2	370.9	160.1	246.2	373.1
% of total banks	100.0%	33.9%	46.4%	13.4%	3.9%	2.2%	0.2%	7.6%	13.8%	22.0%	23.4%	22.1%	11.1%
Asset share (%)	100.0	2.4	11.3	10.4	9.4	30.6	35.9	38.6	13.0	15.8	7.0	10.3	15.4
Deposit share (%)	100.0	2.8	13.1	11.8	10.2	29.8	32.3	36.2	13.3	16.3	7.0	10.8	16.4
Number of unprofitable banks	4,354	2,082	1,814	357	79	22	0	118	411	572	1,172	1,513	568
Number of failed banks	37	18	17	1	1	0	0	0	1	0	11	17	8
Performance ratios *(annualized)*													
Yield on earning assets	9.38%	10.10%	9.82%	9.68%	10.12%	9.11%	9.14%	9.15%	9.83%	9.20%	9.93%	8.92%	9.82%
Cost of funding earning assets	5.44	5.47	5.45	5.32	5.49	5.08	5.77	5.54	5.37	5.37	5.66	5.57	5.15
Net interest margin	3.94	4.63	4.37	4.37	4.63	4.03	3.37	3.61	4.47	3.83	4.27	3.35	4.67
Net noninterest expense to earning assets	2.31	3.66	2.99	2.73	2.81	2.32	1.73	1.92	2.78	2.28	2.03	2.60	2.92
Net operating income to assets	0.40	-0.66	-0.00	0.33	0.28	0.59	0.48	0.64	0.68	0.65	0.46	-1.30	0.32
Return on assets	0.54	-0.48	0.17	0.47	0.42	0.72	0.63	0.76	0.88	0.74	0.63	-1.04	0.42
Return on equity	8.46	-4.99	2.04	6.27	6.09	11.86	12.09	12.88	13.18	10.71	8.55	-15.67	7.38
Net charge-offs to loans and leases	1.24	2.99	2.24	1.62	1.62	0.95	1.01	0.74	0.90	0.96	2.48	3.26	1.37
Condition Ratios													
Loss reserve to loans and leases	1.64%	1.74%	1.53%	1.46%	1.59%	1.46%	1.83%	1.49%	1.29%	1.44%	1.93%	2.26%	1.86%
Nonperforming assets to assets	1.96	2.60	2.17	1.88	1.90	1.46	2.29	1.54	1.02	1.30	2.02	4.06	2.99
Equity capital ratio	6.21	9.59	8.16	7.28	6.74	5.95	5.14	5.81	6.57	6.80	7.15	6.46	5.68
Primary capital ratio	7.04	10.42	8.91	7.97	7.51	6.60	6.19	6.58	7.07	7.52	8.11	7.69	6.74
Net loans and leases to assets	58.74	48.20	50.49	54.43	59.25	60.45	61.69	59.62	57.58	56.16	51.88	55.00	65.69
Net assets repriceable in one year or less to assets	-5.14	-5.28	-7.25	-6.60	-6.52	-3.76	-4.87	-4.20	-9.35	-3.49	-10.88	-6.32	-2.28
Growth Rates *(from year-ago quarter)*													
Assets	7.6%	6.3%	8.0%	10.8%	12.6%	16.0%	6.7%	11.9%	18.2%	9.2%	14.4%	0.8%	9.0%
Earning assets	7.9	6.4	7.9	10.5	12.2	16.1	7.4	12.9	18.6	8.7	14.6	0.9	8.1
Loans and leases	7.6	4.1	5.0	9.1	13.7	18.1	7.3	13.5	18.8	9.9	11.5	-2.5	10.2
Loss reserve	23.6	15.3	17.2	23.3	31.7	30.8	29.0	24.2	22.2	15.8	33.0	44.0	35.7
Net charge-offs	6.2	2.1	1.9	21.9	45.6	34.2	2.3	25.3	10.4	4.0	-1.3	29.2	-10.4
Nonperforming assets	12.6	14.2	15.9	18.5	33.4	18.0	16.5	11.4	20.3	-4.4	4.7	57.1	18.5
Deposits	7.6	7.2	8.6	11.4	13.6	15.8	6.9	13.0	18.7	9.1	12.5	0.1	10.2
Equity capital	7.9	0.5	5.4	8.3	10.7	15.8	10.2	14.5	17.9	9.2	10.1	-6.1	12.4
Interest income	-7.7	-6.2	-5.4	-2.8	0.3	0.2	-11.5	-5.8	-1.4	-6.6	-9.4	-15.4	-10.8
Interest expense	-13.7	-10.2	-9.1	-7.4	-6.3	-7.5	-17.2	-13.3	-6.2	-12.0	-12.7	-16.1	-19.0
Net interest income	2.0	-0.7	-0.0	3.6	9.4	11.8	0.5	8.5	5.0	2.6	-4.8	10.1	0.6
Loan loss expense	7.7	-16.3	-5.7	22.1	33.5	30.6	12.5	42.4	-2.3	-8.5	-17.6	26.5	-8.9
Noninterest income	13.0	9.2	7.9	18.9	18.7	8.3	22.9	11.9	9.0	10.0	42.6	-0.2	15.8
Noninterest expense	8.5	2.9	5.3	8.2	14.1	14.1	13.4	13.1	9.6	6.5	8.0	3.4	5.1
Net operating income	-11.0	19.9	-94.6	-33.7	-51.3	-19.9	17.4	-4.8	-7.7	4.6	94.0	-317.2	448.1
Net income	7.7	32.2	3.9	-17.3	-33.8	-3.1	31.9	9.5	16.1	6.5	126.0	-587.2	222.5

REGIONS: Northeast — Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont

Southeast — Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia

Central — Illinois, Indiana, Kentucky, Michigan, Ohio, Wisconsin

Midwest — Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota

Southwest — Arkansas, Louisiana, New Mexico, Oklahoma, Texas

West — Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, Oregon, Pacific Islands, Utah, Washington, Wyoming

NOTES TO USERS

Computation Methodology for Performance and Condition Ratios

All income figures used in calculating performance ratios represent amounts for that quarter, annualized.

All asset and liability figures used in calculating performance ratios represent *average* amounts (beginning-of-period amount plus end-of-period amount, divided by two).

All asset and liability figures used in calculating the condition ratios represent amounts as of the end of the period.

Definitions

"Problem" Banks — Federal regulators assign to each financial institution a uniform composite rating, based upon an evaluation of financial and operational criteria. The rating is based on a scale of 1 to 5 in ascending order of supervisory concern. "Problem" banks are those institutions with financial, operational or managerial weaknesses that threaten their continued financial viability. Depending upon the degree of risk and supervisory concern, they are rated either "4" or "5".

Earning Assets — all loans and other investments that earn interest, dividend or fee income.

Yield on Earning Assets — total interest, dividend and fee income earned on loans and investments as a percentage of average earning assets.

Cost of Funding Earning Assets — total interest expense paid on deposits and other borrowed money as a percentage of average earning assets.

Net Interest Margin — the difference between the yield on earning assets and the cost of funding them, i.e., the profit margin a bank earns on its loans and investments.

Net Noninterest Expense — total noninterest expense, excluding the expense of providing for loan losses, less total noninterest income. A measure of banks' overhead costs.

Net Operating Income — income after taxes but before gains (or losses) from securities transactions and nonrecurring items. The profit earned on banks' regular banking business.

Return on Assets — net income (including securities transactions and nonrecurring items) as a percentage of average total assets. A basic yardstick of bank profitability.

Return on Equity — net income as a percentage of average total equity capital.

Net Charge-offs — total loans and leases charged off due to uncollectibility, less amounts recovered on previous charge-offs.

Nonperforming Assets — the sum of loans past-due 90 days or more, loans in nonaccrual status and real estate owned other than bank premises.

Primary Capital — total equity capital plus the allowance for loan and lease losses plus minority interests in consolidated subsidiaries plus qualifying mandatory convertible debt, less intangible assets except purchased mortgage servicing rights.

Net Loans and Leases — total loans and leases less unearned income and the allowance for loan and lease losses.

Net Assets Repriceable in One Year or Less — short-term and variable rate interest-earning assets, minus interest-bearing liabilities maturing or repriceable within the same one-year interval. A measure of banks' sensitivity to interest rate changes, where a positive value indicates that banks' income from assets is more sensitive to movements in interest rates than is the expense of their liabilities, and vice-versa for a negative value.

Temporary Investments — the sum of interest-bearing balances due from depository institutions, federal funds sold and resold, trading-account assets and investment securities with remaining maturities of one year or less. These are banks' more liquid investments.

Loan Loss Expense — the addition to the allowance for loan and lease losses, the reserve maintained to absorb expected loan losses.

Additional information regarding bank performance, bank failures and economic issues affecting the banking industry is available in the *Banking and Economic Review*, published by the Division of Research and Strategic Planning, FDIC. Information on legislative issues and changes in state and federal laws and regulations governing banks is contained in the *Regulatory Review*, also published by the Division of Research and Strategic Planning. Single-copy subscriptions are available to the public free of charge. Requests should be mailed to:

Banking and Economic Review or *Regulatory Review*
Division of Research and Strategic Planning
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

APPENDIX B

TABLE I

FDIC-INSURED CLOSED BANKS

YEAR-END	0 - $300* MILLION		$300 - $1,000 MILLION		OVER $1 BILLION		TOTAL	
	#	TOTAL ASSETS**	#	TOTAL ASSETS	#	TOTAL ASSETS	#	TOTAL ASSETS
1986	135	4,287,971	2	1,061,013	1	1,616,816	138	6,965,800
1985	116	2,851,969					116	2,851,969
1984	78	2,371,211	1	391,800			79	2,763,011
1983	43	1,954,397	1	778,434	1	1,404,092	45	4,136,923
1982	30	1,530,573	2	962,842			32	2,493,415
1981	7	260,060					7	260,060
1980	10	236,164					10	236,164
1979	10	132,988					10	132,988
1978	6	281,495	1	712,540			7	994,035
1977	6	232,612					6	232,612
1976	15	627,186	1	$412,107			16	1,039,293
1975	13	419,950					13	419,950
1974	3	166,934			1	3,655,662	4	3,822,596
1973	5	43,807			1	$1,265,868	6	1,309,675
1972	1	22,054					1	22,054
1971	6	196,520					6	196,520
1970	7	$62,147					7	$62,147

* CATEGORIES ARE BY ASSET SIZE.

** 000 OMITTED FROM "TOTAL ASSETS" FIGURES.

TABLE II

FDIC-INSURED OPEN BANKS WHICH RECEIVED FINANCIAL ASSISTANCE

YEAR-END	UNDER $300* MILLION		$300 - $1,000 MILLION		OVER $1 BILLION		TOTAL	
	#	TOTAL ASSETS**	#	TOTAL ASSETS	#	TOTAL ASSETS	#	TOTAL ASSETS
1986	6	220,694	1	500,000			7	720,694
1985	2	197,879	1	492,420	1	5,200,000	4	5,890,299
1984			1	513,400	1	35,900,000	2	36,413,400
1983	2	390,000			1	2,500,000	3	2,890,000
1982	2	206,000	5	3,533,000	3	5,400,000	10	9,139,000
1981			1	899,000	2	3,700,000	3	4,599,000
1980					1	5,500,000	1	5,500,000
1979								
1978								
1977								
1976			1	$350,000			1	350,000
1975								
1974	1	150,000					1	150,000
1973								
1972					1	$1,300,000	1	1,300,000
1971	1	$9,300					1	$9,300
1970								

* CATEGORIES ARE BY ASSET SIZE.

** 000 OMITTED FROM "TOTAL ASSETS" FIGURES.

TABLE III

FDIC-Insured Problem Banks[1]
Total Deposits by Year

Year-End	0 - $300 Million[2] #	0 - $300 Million[2] Deposits[3]	$300 - $1,000 Million #	$300 - $1,000 Million Deposits	Over $1 Billion #	Over $1 Billion Deposits	Total #	Total Deposits
1986	1,412	$54,915	46	$24,348	25	$191,683	1,484	$270,946
1985	1,069	41,317	41	23,217	30	132,593	1,140	197,127
1984	778	31,031	38	20,129	32	134,949	848	186,109
1983	591	26,828	31	16,513	20	85,740	642	129,081
1982	332	12,759	21	10,119	16	34,460	369	57,338
1981	197	5,659	15	9,423	11	27,482	223	42,564
1980	206	4,599	7	4,860	4	12,185	217	21,644
1979	274	6,995	11	6,559	2	6,763	287	20,317
1978	322	8,404	14	7,668	6	48,069	342	64,142
1977	348	10,036	13	7,307	7	44,561	368	61,904
1976	361	11,286	10	6,037	8	41,830	379	59,153
1975	340	9,971	7	3,955	2	6,517	349	20,443
1974	177	4,525	5	3,116	1	1,420	183	9,061
1973	154	3,107	2	1,499	0	0	156	4,036
1972	189	3,141	3	2,192	0	0	192	5,333
1971	239	3,504	2	1,453	0	0	241	4,957
1970	251	3,613	0	0	1	1,076	252	4,689

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[1] CAMEL ratings of 4 and 5 and pre-CAMEL equivalents.
[2] Categories are by asset size.
[3] Deposit amounts are shown in $Million.

TABLE IV

CAPITALIZATION DATA*
FDIC-INSURED COMMERCIAL BANKS, 1981-1986
(DOLLAR VALUES IN BILLIONS)

	1986	1985	1984	1983	1982	1981
EQUITY CAPITAL	$183	$169	$154	$140	$129	$118
PRIMARY CAPITAL**	$211	$192	$173	$156	$142	$129
EQUITY CAPITAL RATIO	8.18%	8.42%	8.42%	8.47%	8.52%	8.51%
PRIMARY CAPITAL RATIO	9.10%	9.20%	9.16%	9.04%	9.03%	9.04%

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* INFORMATION OBTAINED FROM THE UNIFORM BANK PERFORMANCE REPORTING SYSTEM. RATIOS REPRESENT THE UNWEIGHTED AVERAGE OF THE RATIO VALUE OF EACH INSURED COMMERCIAL BANK.

** EQUITY CAPITAL PLUS ALLOWANCE FOR LOAN LOSSES.

TABLE V

BANK HOLDING COMPANY
DOUBLE LEVERAGE RATIOS*
BY REGION, DECEMBER 31, 1985

REGION	ALL BHC'S	BHC'S UNDER $10 MILLION
NORTHEAST	99.8%	99.9%
SOUTHEAST	107.4	99.7
CENTRAL	109.8	157.9
MIDWEST	133.2	143.3
SOUTHWEST	135.2	178.1
WESTERN	108.7	207.0

* DOUBLE LEVERAGE IS DEFINED AS EQUITY INVESTMENTS IN SUBSIDIARIES AS A PERCENT OF TOTAL SHAREHOLDERS' EQUITY.

SOURCE: LYONS, ZOMBACK & OSTROWSKI, INC., DEPOSITORY INSTITUTIONS PERFORMANCE DIRECTORY, BANK HOLDING COMPANIES, YEAREND 1985.

TABLE VI

EARNINGS DATA*
FDIC-INSURED COMMERCIAL BANKS, 1981-1986

	1986	1985	1984	1983	1982	1981
RETURN ON ASSETS	0.74%	0.87%	0.94%	1.02%	1.10%	1.18%
RETURN ON EQUITY	8.75%	10.19%	10.96%	11.96%	12.90%	13.65%

* INFORMATION OBTAINED FROM THE UNIFORM BANK PERFORMANCE REPORTING SYSTEM. RATIOS REPRESENT THE UNWEIGHTED AVERAGE OF THE RATIO VALUE OF EACH INSURED COMMERCIAL BANK.

TABLE VII

NUMBER OF FDIC FIELD EXAMINERS

YEAR	NUMBER
1986	1,726
1985	1,547
1984	1,389
1983	1,481
1982	1,551
1981	1,655
1980	1,698
1979	1,713
1978	1,760
1977	1,644
1976	1,556
1975	1,455
1974	1,381
1973	1,622
1972	1,603
1971	1,606
1970	1,581