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BANKING'S PROFIT OUTLOOK FOR THE 1980'S:
MORE OR LESS?

REMARKS BY
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CONSIDERABLE COMMENTARY IS BEING DEVOTED THESE DAYS TO THE TRANSITION OCCURRING IN BANKING AND TO WHAT THIS TRANSITION MEANS FOR BANKERS IN THE 1980's. WE READ ABOUT BANKING SURVIVAL STRATEGIES, AND WE SEE ARTICLES FORECASTING THE INDUSTRY'S FUTURE STRUCTURE. SOME OBSERVERS PREDICT LITTLE CHANGE IN BANK NUMBERS AND CLEARLY PRESERVE A PLACE FOR SMALL INSTITUTIONS IN BANKING'S FUTURE. OTHER COMMENTATORS SUGGEST THAT THERE MAY BE AS FEW AS 100 BANKS BY 1990.

WHILE I DO NOT BRING ANY SPECIAL INSIGHTS TODAY ABOUT TOMORROW'S FINANCIAL STRUCTURE, I DO THINK THAT THIS TRANSITION TOWARD A MORE MARKET-ORIENTED FINANCIAL SERVICES INDUSTRY HAS SOME IMPORTANT IMPLICATIONS. IN PARTICULAR, I BELIEVE THAT AS THE MARKETPLACE BEGINS TO DETERMINE THE FUTURE SUPPLIERS OF FINANCIAL SERVICES, BANKING PROFITABILITY WILL BE THE CRUCIAL VARIABLE THAT DETERMINES WHICH PREDICTIONS ABOUT INDUSTRY STRUCTURE BECOME FACT. AS WE ALL KNOW, RELATIVE PROFIT RATES NOT ONLY ENCOURAGE ENTRY OR CAUSE EXIT FROM THE INDUSTRY, BUT THEY ARE A KEY FACTOR IN DETERMINING WHICH BANKS EXPAND. THUS, IN MY JUDGMENT, PROFITS ARE THE PRINCIPAL DETERMINANTS OF BANKING'S FUTURE ROLE, AND BANKING PROFITS WILL HELP DECIDE WHICH BANKS SURVIVE.

WITH THESE CONSIDERATIONS IN MIND, I WANT TO FOCUS THIS AFTERNOON ON THE LONG-RUN PROFIT OUTLOOK FOR BANKING. I WILL IDENTIFY SOME FINANCIAL INDUSTRY CHANGES THAT ARE AFFECTING BANK PROFITS, ² ANALYZE THE IMPACT OF THESE CHANGES ON CURRENT AND

FUTURE BANK PROFITS, AND ³ CONSIDER WITH YOU SOME ALTERNATIVE STRATEGIES. *To meet the challenges that lie in the future.*

MANY FACTORS ARE CAUSING THE CHANGES WE SEE IN BANKING, BUT TWO APPEAR TO BE MOST SIGNIFICANT. ONE FACTOR IS THE INCREASE IN COMPETITION AMONG FINANCIAL INSTITUTIONS. A SECOND IS THE SHIFT IN REGULATORY POSTURE TOWARD BANKING.

AS FOR THE FIRST FACTOR, INCREASED COMPETITION FROM BOTH BANK AND NONBANK SOURCES HAS CAUSED BANKERS TO CHANGE THE WAY THEY DO BUSINESS. BANKING ORGANIZATIONS ARE USING IMPROVED TECHNOLOGY / TO OFFER NEW SERVICES, / EXPAND GEOGRAPHICALLY, / AND LOWER PERSONNEL AND FACILITIES COSTS. THEY ARE USING NONBANK HOLDING COMPANY SUBSIDIARIES AND THE RELAXATION OF STATE RESTRICTIONS ON BANKS TO COMPETE IN NEW MARKETS AND OFFER NEW PRODUCTS.

AT THE SAME TIME, TECHNOLOGY, / EXPANDED POWERS FOR THRIFTS AND CREDIT UNIONS, / AND RESTRICTIONS ON BANK PRICING AND PRODUCTS ALSO HAVE PROVIDED OPPORTUNITIES FOR NONBANK FIRMS TO OFFER BANKING SERVICES. THE ADVENT OF NOWs, SHARE DRAFTS, CASH MANAGEMENT, AND OTHER ACCOUNTS HAVE NEARLY TRIPLED THE NUMBER OF FIRMS THAT CAN OFFER TRANSACTION SERVICES. CLEARLY, COMPETITION WITHIN THE FINANCIAL INDUSTRY WILL BE A POWERFUL DETERMINANT OF ITS FUTURE STRUCTURE.

A SECOND FACTOR COMPLEMENTING THE CHANGES IN THE COMPETITIVE ENVIRONMENT HAS BEEN THE MOVEMENT TOWARD LESS DIRECT REGULATORY AND SUPERVISORY OVERSIGHT OF BANKING. MANY OF OUR BANKING LAWS WERE PASSED IN 1933, A YEAR WHEN APPROXIMATELY 4,000 BANKS FAILED. IN 1933, BANK SAFETY AND DEPOSITOR PROTECTION WERE THE

PREDOMINANT CONCERNS. TODAY, EVEN IN AN UNCERTAIN ENVIRONMENT, THE GOALS OF SAFETY AND PROTECTION APPEAR TO HAVE BEEN LARGELY ACCOMPLISHED. NOW, REGULATORS PLACE MORE EMPHASIS ON THE PERFORMANCE OF THE BANKING INDUSTRY IN MEETING THE PUBLIC'S NEEDS FOR DIVERSE AND COMPETITIVE FINANCIAL SERVICES.

COMPETITIVE AND REGULATORY EVENTS HAVE LED TO WIDESPREAD FINANCIAL INNOVATION AND IMAGINATIVE NEW SERVICES. WHILE THESE DEVELOPMENTS HAVE CREATED EXCITING HEADLINES, THEY ALSO MAY HAVE DIVERTED ATTENTION FROM THE TRADITIONAL BANKING MAINSTREAM, THE AREAS WHICH MOST AFFECT BANKING PROFITS ^{that is} TAKING DEPOSITS AND MAKING LOANS. INDEED, A RECENT SURVEY OF FINANCIAL INDUSTRY EXPERTS BY ARTHUR ANDERSON AND CO. AND THE BANK ADMINISTRATION INSTITUTE FOUND THAT THE CURRENT SOURCES OF BANK PROFITS ARE EXPECTED TO UNDERGO LITTLE CHANGE THROUGH 1990. I AGREE WITH THIS CONSENSUS. THROUGH THE REMAINDER OF THIS DECADE, THE COMPETITIVE AND REGULATORY CHANGES WE SEE TODAY WILL MOST LIKELY AFFECT TRADITIONAL BANK ACTIVITIES. THUS, THESE ACTIVITIES SHOULD REMAIN THE ^{PRIMARY} FOCUS OF BANKING'S FUTURE PROFIT STRATEGIES.

THE PROFIT OUTLOOK FOR THE REST OF THE 1980'S WILL BE DOMINATED BY THE THREE FACTORS THAT HAVE ALWAYS DETERMINED BANK PROFITABILITY: REVENUE, COSTS, AND CONTROL OF RISK. MOREOVER, I BELIEVE HELPFUL INSIGHTS ABOUT PROFITS FOR THE REST OF THE DECADE CAN BE DEVELOPED BY EXAMINING THE EFFECTS OF DEREGULATION ON THESE THREE FACTORS ^{each of 3 different size banks - i.e.} FOR LARGE MONEY CENTER BANKS, REGIONAL OR MEDIUM-SIZED BANKS, AND SMALL COMMUNITY BANKS.

AS BACKGROUND FOR THIS DISCUSSION OF PROFITABILITY, MOST OF US PROBABLY WOULD AGREE THAT FINANCIAL DEREGULATION HAS BEEN

UNDER WAY FOR SOME TIME AND MANY ASPECTS, SUCH AS INTEREST RATE DEREGULATION, HAVE LARGELY BEEN COMPLETED. FOR ^a PERSPECTIVE ON THE IMPACT OF DEREGULATION ON BANK PROFITABILITY, THEN, WE CAN LOOK BACK TO 1978, WHEN DEREGULATION BEGAN FOR MOST BANKS. IN THAT YEAR, WITH THE INTRODUCTION OF MONEY MARKET CERTIFICATES AND WIDENING EXPOSURE OF BANK DEPOSITS TO THE VAGARIES OF THE MARKET, WE BEGAN TO ^{feel the impact of} ~~LEARN ABOUT~~ DEREGULATION.

WHAT HAS HAPPENED TO BANK PROFITABILITY SINCE 1978? THE INTERESTING ANSWER, FOR ^{broad} A SAMPLE OF BANKS TAKEN FROM THE UNIFORM BANK PERFORMANCE REPORT, IS THAT BANK PROFITABILITY DURING THE 1978-1982 PERIOD WAS QUITE STABLE DESPITE DEREGULATION AND A VOLATILE RATE ENVIRONMENT. WHILE RETURN ON ASSETS FOR LARGE BANKS IN 1982 WAS ONLY SLIGHTLY BELOW ITS 1978 LEVEL, ^{the} ROAS FOR MEDIUM AND SMALL SIZED BANKS ACTUALLY INCREASED FROM 1978 LEVELS. THIS STRONG EARNINGS PERFORMANCE IS LARGELY ATTRIBUTED TO THE ABILITY OF BANKS TO MAINTAIN OR IMPROVE THEIR NET INTEREST MARGINS DESPITE INCREASED MARKET RATE LIABILITIES.

TO BE MORE SPECIFIC, BY THE END OF 1982, APPROXIMATELY 65 PERCENT OF LARGE BANK ASSETS WERE FUNDED BY MARKET RATE LIABILITIES, UP FROM 55 PERCENT IN 1978. YET NET INTEREST MARGINS FOR LARGE BANKS WERE AROUND 3 PERCENT FOR THE ENTIRE PERIOD. SMALLER BANK CATEGORIES EXPERIENCED GREATER GROWTH IN MARKET RATE LIABILITIES, BUT THESE BANKS, TOO, MANAGED TO IMPROVE THEIR NET INTEREST MARGINS. FOR THE REGIONAL BANKS, INTEREST MARGINS ROSE FROM 4 PERCENT IN 1978 TO AROUND 4.4 PERCENT IN 1982. COMMUNITY BANKS' MARGINS ROSE FROM 4.4 PERCENT IN 1978 TO ABOUT 5 PERCENT IN 1982.

IN ADDITION TO SOLID NET INTEREST MARGINS, DURING THIS PERIOD, INCREASED NONINTEREST INCOME, WHICH INCLUDES FEES, TRUST INCOME, AND OTHER REVENUE SERVICES, ALSO HELPED TO MAINTAIN BANK EARNINGS. NONINTEREST INCOME AS A PERCENT OF REVENUE INCREASED BY ABOUT 20 PERCENT ACROSS ALL SIZE GROUPS, APPARENTLY REFLECTING AN INCREASED TENDENCY FOR BANKS TO CHARGE DIRECTLY FOR THEIR SERVICES. BY 1982, NONINTEREST INCOME AS A PERCENT OF TOTAL REVENUE RANGED FROM 9 PERCENT FOR SMALL BANKS TO OVER 20 PERCENT FOR MEDIUM AND LARGE BANKS.

ON THE COST SIDE, OVERHEAD LEVELS ROSE MODERATELY IN ALL BANK CATEGORIES BETWEEN 1978 AND 1982, REFLECTING THE INABILITY OF BANKS TO FULLY APPLY THOSE COST-REDUCING ASPECTS OF DEREGULATION AND ELECTRONIC BANKING.

NO PROFITABILITY ANALYSIS IS COMPLETE WITHOUT LOOKING AT ACCOMPANYING RISK, MEASURED, IN PART, BY LOAN LOSSES. FOR 1982 AND THE FIRST HALF OF 1983, LOAN LOSSES WERE AS HIGH OR HIGHER THAN IN ANY OTHER PERIOD IN THE LAST TWO DECADES, REFLECTING A BROAD SPECTRUM OF PROBLEMS INVOLVING AGRICULTURE, ENERGY / AND FOREIGN LOANS. LOAN LOSSES AS A PERCENT OF TOTAL LOANS ROSE ACROSS ALL BANK SIZE GROUPS WITH THE GREATEST INCREASE, 180 PERCENT, OCCURRING AT SMALLER BANKS. OVERALL, THESE RECENT PROBLEMS HAVE ADVERSELY AFFECTED BANK ROAs BY AS MUCH AS 9 PERCENT.

IN SUMMARY, DURING THE 1978 TO 1983 PERIOD, BANKS HAVE SEEN A DRAMATIC INCREASE IN THEIR COST OF FUNDS, / SOME INCREASES IN OVERHEAD COSTS, AND TROUBLESOME INCREASES IN LOAN LOSSES. YET BANKS HAVE BEEN ABLE TO MAINTAIN THEIR MARGINS, INCREASE

NONINTEREST REVENUE AND, DESPITE INCREASED PROBLEMS, PRESERVE
THEIR PROFITABILITY. THIS SUGGESTS ^{to me} THAT BANKS SO FAR HAVE COPED
WELL WITH DEREGULATION. MOREOVER, THESE FACTS PROVIDE SOME
OPTIMISM AS WE LOOK FORWARD TO BANKING'S PROFITABILITY FOR THE
REMAINDER OF THE 1980'S.

IN LOOKING FORWARD, WE SHOULD KEEP ONE SIGNIFICANT ^{FACT} ~~VARIABLE~~
IN MIND. THE ECONOMIC CLIMATE TO 1990 IS LIKELY TO DIFFER
SOMEWHAT FROM WHAT WE'VE EXPERIENCED FOR THE LAST FIVE YEARS, A
PERIOD MANY OF US WOULD REGARD AS UNIQUE. THE RATE OF INFLATION
ROSE RAPIDLY THEN FELL, INTEREST RATES WERE HIGHLY VOLATILE, AND
THE ECONOMY PEAKED, MOVED INTO A PROTRACTED DOWNTURN, THEN
RECOVERED STRONGLY. IN LIGHT OF THESE EVENTS, THE RECENT PROFIT
PERFORMANCE OF BANKS SEEMS ^{rather} REMARKABLE. NEVERTHELESS, OUR RECENT
FINANCIAL TURMOIL GENERATES UNCERTAINTY ABOUT HOW BANKS CAN
~~PREPARE TO~~ ADJUST TO FUTURE FINANCIAL AND ECONOMIC EVENTS.

IF, AS WE EXPECT, BANK PROFITABILITY CONTINUES TO BE TIED
PRINCIPALLY TO THE INDUSTRY'S ROLE ^{financial} AS AN INTERMEDIARY, THEN
BANKING'S PERFORMANCE THROUGH THE REMAINDER OF THE 1980'S WILL
DEPEND LARGELY ON HOW WELL IT CONTINUES TO MANAGE INTEREST
MARGINS. WHILE NO ONE KNOWS FOR CERTAIN WHAT INTEREST MARGINS
WILL DO, THE GENERAL CONSENSUS SEEMS TO BE THAT FURTHER
DEREGULATION AND COMPETITION WILL PLACE INCREASING PRESSURE ON
THESE MARGINS.

IF INTEREST MARGINS DO COME UNDER FURTHER PRESSURE, WHAT
WILL HAPPEN TO BANKS' ROAS AND HOW CAN PROFITS BE PRESERVED?
THOUGH THE POSSIBLE SCENARIOS ARE NEARLY LIMITLESS, ~~LET'S~~ ^{let me}

EVALUATE THE IMPACT OF SHRINKING MARGINS ON BANK PROFITS BY

*Report on a study by The Federal Reserve Bank
of Kansas City designed to*

interest

ASSUMING THAT MARGINS DECLINE BY 10 PERCENT FROM CURRENT LEVELS FOR EACH BANK SIZE CATEGORY. THIS COULD HAPPEN, FOR EXAMPLE, FROM A COMBINATION OF LOAN RATE DECREASES OR COST OF FUND INCREASES OF ONLY 30 TO 50 BASIS POINTS.

OUR ANALYSIS SHOWS THAT A 10 PERCENT DECLINE IN MARGINS WOULD REDUCE THE ROA OF LARGE AND REGIONAL BANKS BY ALMOST 30 PERCENT, AND ROAs OF SMALLER BANKS BY 22 PERCENT. THE MAGNITUDE OF THESE FIGURES INDICATES THE IMPORTANCE OF NET INTEREST MARGINS TO THE INDUSTRY'S ^{*Future*} PROFIT PICTURE. THEY ALSO POINT OUT WHAT INTEREST RATE COMPETITION COULD MEAN FOR THE INDUSTRY'S FUTURE HEALTH. DESPITE THE POTENTIAL PROFITABILITY IMPACT OF THINNER MARGINS, I BELIEVE BANKERS HAVE SOME GOOD OPTIONS ^{*and opportunities available*} TO HELP STRENGTHEN PROFITS. AMONG THESE ARE FEE INCOME, COST REDUCTION, AND CONTROL OF RISK.

to maintain or

LET'S LOOK AT THE REVENUE SIDE FIRST. JUST AS THERE IS A CONSENSUS THAT MARGINS WILL DECLINE, THERE ALSO IS A GROWING CONSENSUS THAT SOME OF THIS DECLINE CAN BE OFFSET BY FEE INCOME. AS ALREADY NOTED, BANKS ARE BEGINNING TO CHARGE FOR SERVICES FORMERLY GIVEN AWAY IN AN ERA OF NONPRICE DEPOSIT COMPETITION. ALSO, MANY NEW AND PROPOSED BANKING SERVICES WILL GENERATE INCOME, MOST NOTABLY BROKERAGE FEES, MANAGEMENT FEES, COMMISSIONS, AND INSURANCE PREMIUMS. THUS, THERE IS REAL POTENTIAL TO AUGMENT BANK PROFITABILITY BY INCREASING FEE INCOME.

PRESERVING PROFITABILITY THROUGH INCREASED FEE INCOME, THOUGH, MAY BE A REAL CHALLENGE. FOR EXAMPLE, OUR ANALYSIS SUGGESTS THAT TO RESTORE THE INCOME LOST FROM A 10 PERCENT MARGIN DECLINE, SMALL BANKS WOULD HAVE TO DOUBLE THEIR NONINTEREST

INCOME. OUR ANALYSIS ALSO SHOWS THAT REGIONAL BANKS WOULD REQUIRE A 40 PERCENT INCREASE AND LARGE BANKS WOULD NEED TO INCREASE NONINTEREST INCOME BY 33 PERCENT TO RESTORE ^{LOST} INCOME. MOREOVER, AS A PERCENT OF BANK INCOME, NONINTEREST INCOME WOULD NEED TO INCREASE FROM JUST OVER 20 PERCENT TODAY FOR LARGE AND MEDIUM BANKS TO ABOUT 30 PERCENT IN THE FUTURE. FOR SMALL BANKS, THE RATIO WOULD NEED TO INCREASE FROM 9 TO 18 PERCENT.

A SECOND MAJOR ALTERNATIVE FOR MAINTAINING PROFITS IN THE FACE OF DECLINING MARGINS IS THE REDUCTION OF OVERHEAD COSTS. AS BANKS SUBSTITUTE ELECTRONIC BANKING FACILITIES FOR BRICK AND MORTAR, AND AS NONPRICE COMPETITION FOR DEPOSITS WEAKENS, BANKS MAY HAVE OPPORTUNITIES ALSO TO REDUCE OR CONTROL OVERHEAD.

AGAIN LET'S ASSUME THAT ALL BANKS EXPERIENCE A 10 PERCENT DECLINE IN NET INTEREST MARGINS. OUR ANALYSIS SHOWS THAT LARGE AND MEDIUM SIZED BANKS WANTING TO MAINTAIN PROFITS WOULD NEED TO CUT OVERHEAD BY 12 PERCENT; SMALL BANKS WOULD NEED TO CHOP 18 PERCENT FROM THEIR OVERHEAD TO MAINTAIN CURRENT PROFITABILITY.

FINALLY, A THIRD IMPORTANT EMPHASIS IN MAINTAINING PROFITABILITY IS CONTENDING WITH THE RISK FACTOR IN BANKING'S FUTURE. THE RECENT EXPERIENCE WITH LOAN LOSSES SHOWS CLEARLY HOW POOR LOAN QUALITY CAN AFFECT BANK INCOME. MOREOVER, DEFAULT RISK MAY ACTUALLY INCREASE OVER TIME AS OTHER SECTORS OF THE ECONOMY ARE DEREGULATED AND SUBJECTED TO THE RIGORS OF THE MARKETPLACE. BANKERS ALSO WILL ENCOUNTER NEW SOURCES OF RISK AS THEY ENTER AREAS FROM WHICH THEY HAVE BEEN TRADITIONALLY EXCLUDED. AS BANKS

EXPAND AND COMPETE, THEREFORE, THEY MUST ANALYZE EACH NEW OPPORTUNITY CAREFULLY TO SEE IF IT WILL MAKE A POSITIVE LONG TERM CONTRIBUTION TO PROFITS.

THE IMPORTANCE OF THIS OBSERVATION CAN BE PUT INTO SOME PERSPECTIVE BY CONSIDERING THAT IF INDUSTRY LOAN LOSSES WOULD DECLINE FROM THEIR 1982 LEVEL TO LONGER RUN HISTORICAL LEVELS, BANK ROAS WOULD IMPROVE BY 5 TO 9 PERCENT. SUCH AN IMPROVEMENT WOULD BE WELCOME IN THE FACE OF ANTICIPATED PRESSURES ON OPERATING INCOME. IN ANY EVENT, THE CONTROL OF RISK ^{Should} REMAINS A CRITICAL ELEMENT IN THE INDUSTRY'S STRATEGIC PLANS.

WHETHER BY CONTROLLING RISKS, BOOSTING FEE INCOME, OR REDUCING COSTS, BANKERS DO APPEAR TO HAVE GOOD OPPORTUNITIES TO HELP RESTORE PROFITABILITY SHOULD INTEREST MARGINS ERODE FURTHER. MOREOVER, SOME GENERAL AND SPECIFIC STRATEGIES ARE WORTH CONSIDERING, IN MY JUDGMENT. FIRST, IN GENERAL, THE RESULTS DISCUSSED HERE TODAY INDICATE THAT BANKING CAN ILL AFFORD TO EXPAND INTO NEW ACTIVITIES IF EXPANSION MEANS IGNORING ^{The} TRADITIONAL SOURCES OF PROFITS. AS WE HAVE SEEN, THE INDUSTRY IS VULNERABLE TO EVEN MODEST REDUCTIONS OF INTEREST MARGINS. ALSO, INCREASED ATTENTION MUST BE GIVEN TO ASSET QUALITY IN BOTH TRADITIONAL LENDING FUNCTIONS AND NEW ACTIVITIES.

MORE SPECIFICALLY, THERE ARE STRATEGIES THAT APPEAR APPROPRIATE FOR THE VARIOUS SIZES OF BANKS. FOR EXAMPLE, LARGE BANKS MIGHT WANT TO LOOK FIRST TO FEE AND SERVICE REVENUE TO OFFSET INCOME LOST BECAUSE OF NARROWING MARGINS. THEIR CURRENT OVERHEAD TO ASSETS RATIO IS RELATIVELY LOW, AND REDUCING OVERHEAD

MAY NOT BE A PRACTICAL RESPONSE TO ANY SUBSTANTIAL DECLINE IN REVENUES.

MEDIUM SIZED BANKS ALSO MAY FIND THAT INCREASING FEE INCOME IS A PRACTICAL WAY TO REPLACE LOST REVENUES, BUT REDUCING OVERHEAD COSTS MAY OFFER THEM THE GREATEST POTENTIAL GAINS. THESE BANKS HAVE THE HIGHEST RATIOS OF OVERHEAD TO ASSETS WHICH, ON THE SURFACE, SUGGESTS AN AREA FOR POTENTIAL SAVINGS.

SMALL BANKS APPEAR TO HAVE THE BIGGEST ADJUSTMENTS TO MAKE IF THEY ARE TO IMPROVE EARNINGS THROUGH FEE INCOME OR REDUCED OVERHEAD COSTS. OVERHEAD WOULD NEED TO BE REDUCED BY ABOUT ONE FIFTH, OR FEE INCOME WOULD NEED TO DOUBLE, TO RECOVER INCOME LOST FROM A 10 PERCENT DECLINE IN MARGINS. HOWEVER, SMALL BANKS ALSO HAVE BEEN MOST SUCCESSFUL AT MAINTAINING THEIR MARGINS, AND SO FAR HAVE CLEARLY PERFORMED WELL THROUGH THE DEREGULATED ENVIRONMENT.

IN CONCLUSION, I AM CONFIDENT THAT THE BANKING INDUSTRY'S PROFIT OUTLOOK IS GOOD AND WITHIN ITS CONTROL. THE CHICKEN LITTLE SYNDROME HAS NO PLACE IN BANKING. THE PROFITABILITY SKY IS NOT FALLING, THOUGH DEREGULATION MAY INDEED PLACE PRESSURE ON INTEREST MARGINS AND INCREASE THE NEED FOR ALTERNATIVE SOURCES OF REVENUE. FURTHERMORE, THE NEED TO MONITOR LOAN QUALITY WILL BECOME ^{even} MORE IMPORTANT BECAUSE OF THE INDUSTRY'S CURRENT ASSET PROBLEMS. ALSO, CARE WILL BE NEEDED AS THE INDUSTRY FACES INCREASED POTENTIAL RISK FROM EXPANSION INTO NEW ACTIVITIES. EVEN SO, THE INDUSTRY HAS WEATHERED DEREGULATION REMARKABLY WELL AND PROFITS AMONG ALL SIZE GROUPS OF BANKS REMAIN STRONG. MOREOVER, LOOKING AHEAD, BANKS CAN CHOOSE STRATEGIES TO HELP THEM

*have clear options available to them and
AN Appropriate*

ADJUST AND REMAIN PROFITABLE THROUGH THE REMAINDER OF THIS
DECADE.