The FDIC Quarterly Banking Profile

L. William Seidman, Chairman

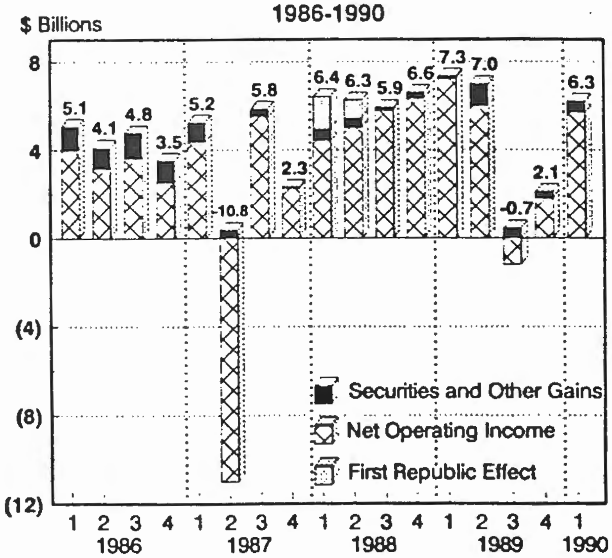
First Quarter, 1990

COMMERCIAL BANKING PERFORMANCE – FIRST QUARTER, 1990

- *Banks Earn $6.3 Billion In First Quarter*
- *Net Loan Charge-Offs Almost Twice As High As Year Ago*
- *Real Estate Lending Growth Remains Strong In West, Southeast And Central Regions*
- *Fifteen Percent of Northeast Banks Report Earnings Losses*
- *Earnings Restatements Reduce 1989 Industry Profits By $629 Million*

Insured commercial banks earned $6.3 billion in the first quarter of 1990, $1 billion less than in the record first quarter of 1989. The earnings decline was mainly attributable to higher provisioning for domestic credit losses, although net interest margins were narrower than a year earlier. Banks set aside $5.8 billion in loan-loss provisions in the first three months of this year, more than $2.2 billion above the the amount set aside in the first quarter of 1989. Actual net loan charge-offs, at $6.6 billion, were up by $3.1 billion from first quarter 1989. The failure of loss provisions to cover actual net loan losses resulted in a net draw-down of industry reserves during the quarter.

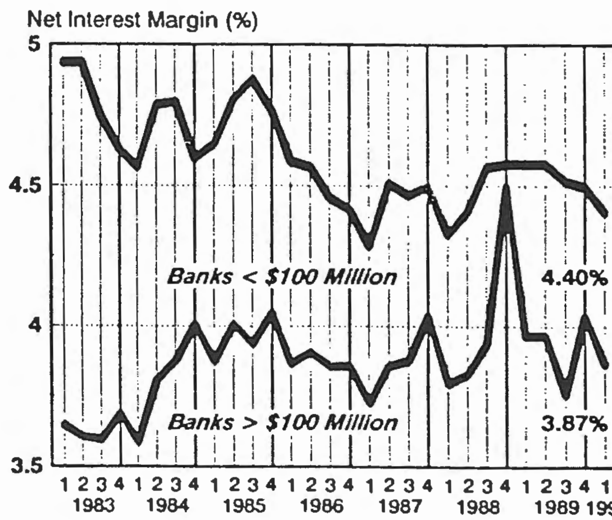
Chart A - Quarterly Net Income of FDIC-Insured Banks 1986-1990



Industry profitability, as measured by return on average assets, was 0.76 percent for the first quarter, 17 basis points lower than in 1989's first quarter. Fewer than half of the 12,593 banks reporting first-quarter results saw their earnings improve over last year's first quarter. For the first time in several years, the percentage of banks with quarterly earnings losses was up from the same quarter of the previous year. The drop-off in profitability was most evident among banks in the Northeast, where quarterly ROA, at 0.52 percent, was down by 35 basis points. More than 15 percent of the banks in the Northeast reported a net loss for the quarter, double the proportion of a year ago.

For the second consecutive quarter, commercial banks' percentage of troubled assets was higher than twelve months earlier. This trend was limited to banks in the eastern half of the country. Write-downs of loans to Mexico stemming from the debt restructuring agreement, as well as losses on domestic real estate loans in the Northeast, were primarily responsible for the $3.1 billion increase in net loan charge-offs. Several banks in the Northeast Region restated their 1989 results during the first quarter, recognizing higher levels of impaired real estate loans. These restatements reduced 1989 industry earnings by $629 million, increased net loan charge-offs by $687 million, and increased the amount of noncurrent loans and leases plus other real estate owned at year-end by $477 million.

Chart B - Quarterly Net Interest Margins, 1983-1990



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Asset growth remained slow in the first quarter. Total assets increased by $11.5 billion during the first quarter, and grew by 5.1 percent in the twelve months ending March 31. Sluggish demand in loan categories other than real estate was apparent; of the $110.8 billion net increase in total loans between the first quarters of 1989 and 1990, real estate loans accounted for $82.4 billion, or 74 percent. An increase of $39.4 billion in banks' holdings of mortgage-backed securities also contributed to the industry's year-to-year net asset growth. Together, the twelve-month increase in real estate loans and mortgage-backed securities was equivalent to 76 percent of the net increase in total bank assets.

A $1.1 billion decline in net income compared to the first quarter of 1989 at Northeast banks exceeded the $1 billion drop for the banking industry as a whole. But the first quarter's return on assets of 0.52 percent for banks located in the Northeast was a positive change from the two consecutive quarterly losses that preceded it. Bank performance in the Northeast remains dampened by asset quality problems in domestic real estate and international loan portfolios. Noncurrent loans and leases plus other real estate owned grew by $3.9 billion during the first quarter, ending the period $9.4 billion above the level of a year ago.

Banks in the Southeast Region enjoyed the highest 12-month asset growth rate of any region. Real estate loan growth in the Southeast was second only to the West Region, and mortgage-backed security holdings also showed rapid growth. Noncurrent loans and leases plus other real estate owned increased by $1 billion during the first quarter, to more than $2 billion above the level of a year earlier. Loss provisioning was $382 million higher than in the first quarter of 1989, and net charge-offs were $244 million higher. Problems in both real estate and commercial loans in Tennessee, Florida and Georgia were mainly responsible for the drop-off in asset quality indicators of the Region's banks.

Increased real estate lending accounted for 124 percent of net total asset growth at banks in the West Region during the first quarter. Apart from Arizona, the Region's banks show few signs of incipient real estate difficulties. Profitability showed continuing improvement despite narrower net interest margins; noninterest income was up by 20 percent over the first quarter of 1989, contributing 17 percent of total revenues.

The number of FDIC-insured commercial banks declined during the quarter, from 12,707 to fewer than 12,600. Industry consolidation continues despite a year-to-year drop in the number of bank failures. Thirty-six banks failed in the first quarter of 1990, compared to 64 failures during the first three months of 1989. The number of banks on the FDIC's "Problem List" continued to fall, albeit at a slower rate than in recent periods.

For the remainder of the year, the outlook for commercial banking performance is mixed. Small banks should continue to show improvement, especially in the Midwest and Southwest Regions. Many medium-to-large institutions in the eastern U.S. are likely to experience further difficulties with real estate loans. The annual joint examination of large commercial credits by Federal banking regulators will be completed later this year, and may lead to increased reserve requirements at larger banks for real estate loans and loans to highly-leveraged commercial borrowers. Money-center banks will probably take lower provisions for future losses this year, as they seek to boost internal capital generation through higher retained earnings.

Chart C - Noncurrent Real Estate Loan Rates by States
March 31, 1990

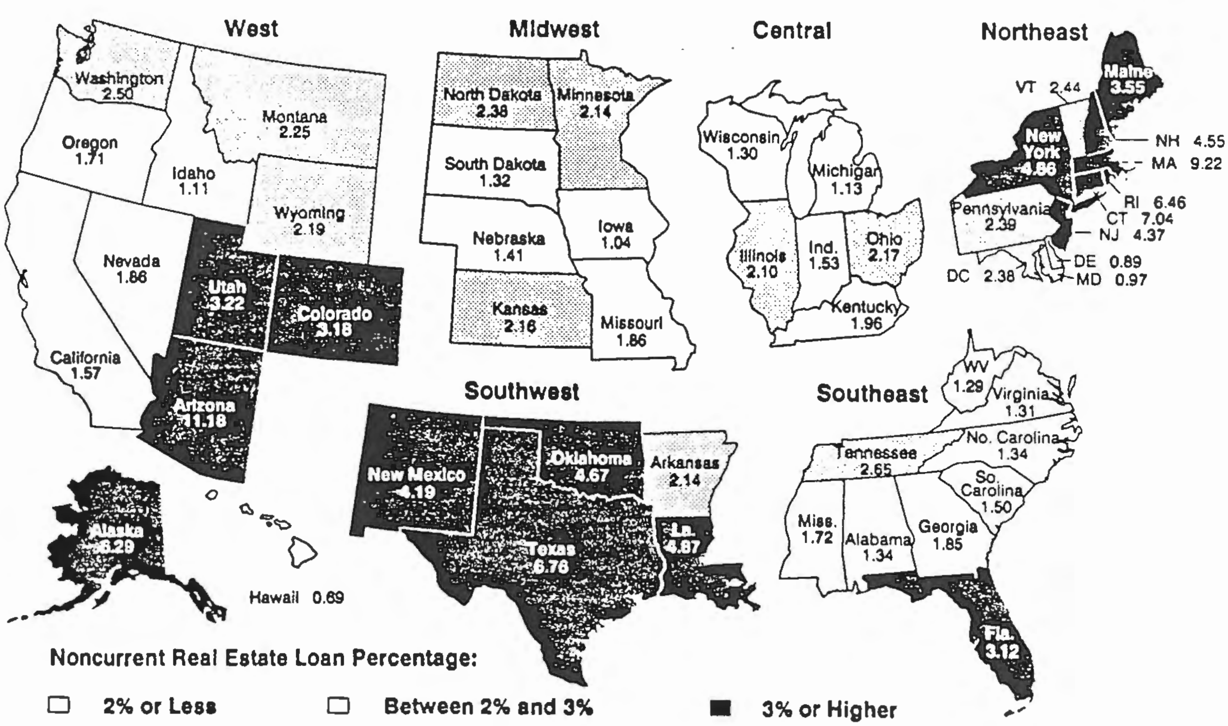

Table I. Selected Indicators, FDIC-Insured Commercial Banks

	*1990**	*1989**	*1989*	*1988*	*1987*	*1986*	*1985*
Return on assets	0.76%	0.93%	0.50%	0.82%	0.12%	0.63%	0.70%
Return on equity	12.08	14.57	7.82	13.31	2.00	9.94	11.31
Equity capital to assets	6.40	6.41	6.21	6.28	6.04	6.20	6.20
Primary capital ratio	7.99	7.99	7.92	7.85	7.70	7.22	6.91
Noncurrent loans and leases plus other real estate to assets	2.35	2.21	2.28	2.14	2.46	1.94	1.87
Net charge-offs to loans	1.29	0.73	1.16	1.00	0.92	0.98	0.84
Asset growth rate	5.11	4.38	5.38	5.68	2.03	7.71	8.86
Net operating income growth	-19.77	62.40	-38.52	1666.92	-85.27	-20.65	6.30
Percentage of unprofitable banks	10.20	9.12	12.10	14.63	17.66	19.79	17.09
Number of problem banks	1,058	1,289	1,092	1,394	1,559	1,457	1,098
Number of failed/assisted banks	36	64	206	221	201	144	118

*Through March 31; ratios annualized where appropriate

Table II. Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)

	Preliminary 1st Qtr 1990	*4th Qtr 1989*	*1st Qtr 1989*	*%Change 89:1-90:1*
Number of banks reporting	12,593	12,707	13,003	-3.1
Total employees (full-time equivalent)	1,524,427	1,531,350	1,526,255	-0.1
CONDITION DATA				
Total assets	$3,310,647	$3,299,176	$3,149,777	5.1
Real estate loans	777,535	761,613	695,182	11.8
Commercial & industrial loans	623,080	618,731	604,203	3.1
Loans to individuals	390,428	400,588	371,541	4.5
Farm loans	29,738	31,114	28,721	3.3
Other loans and leases	237,043	245,576	247,367	-4.2
Total loans and leases	2,057,825	2,057,621	1,947,013	5.7
LESS: Reserve for losses	52,604	53,707	45,929	14.5
Net loans and leases	2,005,221	2,003,915	1,901,084	5.5
Temporary investments	490,927	481,133	485,212	1.2
Securities over 1 year	420,427	402,653	386,009	8.9
All other assets	394,072	411,476	377,472	4.4
Total liabilities and capital	$3,310,647	$3,299,176	$3,149,777	5.1
Noninterest-bearing deposits	437,331	483,425	440,198	-0.6
Interest-bearing deposits	2,105,963	2,065,063	1,988,492	5.9
Other borrowed funds	426,649	418,675	399,422	6.8
Subordinated debt	19,369	19,651	17,353	11.6
All other liabilities	109,558	107,476	102,507	6.9
Equity capital	211,778	204,885	201,805	4.9
Primary capital	265,970	261,303	251,673	5.7
Noncurrent loans and leases	64,407	61,588	57,736	11.6
Other real estate owned	14,204	13,779	11,759	20.8
Loan commitments and letters of credit[1]	1,218,230	[1]	[1]	[1]
Domestic office assets	2,895,442	2,897,051	2,735,323	5.8
Foreign office assets	415,205	402,125	414,454	0.2
Domestic office deposits	2,216,563	2,236,733	2,103,838	5.4
Foreign office deposits	326,731	311,755	324,852	0.6
Earning assets	2,916,575	2,887,700	2,772,305	5.2
Volatile liabilities	1,149,898	1,128,383	1,116,549	3.0

INCOME DATA	*Full Year 1989*	*Full Year 1988*	*%Change*	*Preliminary 1st Qtr 1990*	*1st Qtr 1989*	*% Change*
Total interest income	$317,337	$272,289	$16.5	$81,347	$75,524	7.7
Total interest expense	205,119	165,033	24.3	52,984	47,506	11.5
Net interest income	112,218	107,255	4.6	28,363	28,019	1.2
Provision for loan losses	30,964	17,157	80.5	5,808	3,637	59.7
Total noninterest income	51,073	44,945	13.6	13,342	11,731	13.7
Total noninterest expense	108,071	101,322	6.7	27,754	25,939	7.0
Applicable income taxes	9,668	9,995	-3.3	2,376	2,986	-20.4
Net operating income	14,588	23,726	-38.5	5,767	7,188	-19.8
Securities gains, net	797	280	184.9	108	51	111.0
Extraordinary gains, net	307	841	-63.5	402	13	3112.6
Net income	15,692	24,847	-36.8	6,278	7,252	-13.4
Net charge-offs	22,850	18,627	22.7	6,624	3,567	85.7
Net additions to capital stock	1,488	3,185	-53.3	564	195	189.2
Cash dividends on capital stock	14,062	13,233	6.3	3,214	3,169	1.4

[1]See Notes to Users, p.6

Table III. First Quarter 1990 Bank Data *(Dollar figures in billions, ratios in %)*

		Asset Size Distribution				Geographic Distribution					
						EAST			WEST		
	All Banks	Less than $100 Million	$100 Million to $1 Billion	$1-10 Billion	Greater than $10 Billion	Northeast Region	Southeast Region	Central Region	Midwest Region	Southwest Region	West Region
FIRST QUARTER *Preliminary* *(The way it is . . .)*											
Number of banks reporting	12,593	9,611	2,612	327	43	1,084	1,958	2,807	2,987	2,285	1,472
Total assets	$3,310.65	$363.38	$627.11	$1,044.67	$1,275.48	$1,300.95	$490.91	$531.29	$211.60	$263.13	$512.76
Total deposits	2,543.29	323.31	539.67	775.15	905.17	930.72	383.08	422.97	171.35	225.44	409.73
Net income *(in millions)*	6,278	742	1,427	1,770	2,338	1,670	906	1,151	613	306	1,632
Percentage of banks losing money	10.2%	11.4%	5.4%	11.6%	13.9%	15.4%	10.9%	4.1%	5.4%	17.0%	16.3%
Percentage of banks with earnings gains	46.5%	45.4%	50.1%	49.5%	46.5%	39.2%	49.0%	49.0%	44.8%	47.0%	46.1%
Performance Ratios *(annualized)*											
Yield on earning assets	11.27%	10.34%	10.50%	10.67%	12.48%	12.39%	10.49%	10.38%	10.53%	10.00%	11.08%
Cost of funding earning assets	7.34	5.94	6.07	6.40	9.26	8.90	6.35	6.53	6.24	6.45	6.10
Net interest margin	3.93	4.40	4.43	4.27	3.23	3.49	4.13	3.86	4.29	3.54	4.98
Net noninterest expense to earning assets	2.00	2.78	2.57	1.96	1.48	1.72	2.30	2.03	1.87	2.27	2.30
Net operating cash flow to assets	1.70	1.47	1.69	2.04	1.48	1.55	1.63	1.63	2.18	1.09	2.32
Net operating income to assets	0.70	0.80	0.90	0.67	0.60	0.43	0.72	0.87	1.14	0.42	1.16
Return on assets	0.76	0.82	0.92	0.68	0.74	0.52	0.75	0.87	1.16	0.47	1.28
Return on equity	12.08	9.14	12.11	10.61	15.18	9.25	10.67	12.52	14.97	7.60	20.11
Net charge-offs to loans and leases	1.29	0.46	0.54	1.40	1.74	1.91	0.71	1.09	0.89	1.14	0.70
Loan loss provision to net charge-offs	87.68	137.29	127.43	119.57	55.98	75.06	151.10	74.98	105.78	92.62	119.38
Condition Ratios											
Loss allowance to:											
Loans and leases	2.56%	1.69%	1.64%	1.97%	3.72%	3.46%	1.48%	1.62%	1.86%	2.89%	2.39%
Noncurrent loans and leases	81.67	77.55	76.16	81.15	83.69	77.89	85.21	89.64	96.98	74.14	89.26
Noncurrent loans and leases plus other real estate to assets	2.35	1.79	1.83	1.93	3.12	3.11	1.40	1.29	1.47	3.22	2.39
Equity capital ratio	6.40	9.00	7.64	6.49	4.97	5.61	7.11	7.02	7.83	6.36	6.50
Primary capital ratio	7.99	9.91	8.58	7.62	7.46	7.89	7.98	7.94	8.78	7.55	8.20
Net loans and leases to deposits	78.84	57.97	69.82	87.38	84.37	85.14	78.81	75.01	69.63	53.94	86.09
Growth Rates *(year-to-year)*											
Assets	5.1%	7.3%	9.4%	8.9%	7.1%	3.1%	9.5%	5.0%	4.4%	1.8%	8.5%
Equity capital	4.9	4.9	10.5	8.4	4.2	-3.4	11.5	6.7	3.8	10.8	15.2
Net interest income	1.2	2.8	5.6	7.1	0.2	-0.4	4.9	1.1	-1.0	0.7	2.4
Net income	-13.4	-8.3	2.3	-26.9	-12.5	-38.8	-17.3	-16.8	-1.7	282.9	21.6
Noncurrent loans and leases plus other real estate owned	12.2	4.5	18.6	45.9	8.5	30.3	46.0	11.7	-4.8	-30.0	-0.1
Net charge-offs	85.7	3.0	11.7	83.3	164.9	230.1	82.5	89.8	-4.4	-35.2	-18.1
Loan loss provision	59.7	3.0	2.5	98.5	85.4	138.0	88.2	55.7	-13.1	-35.0	9.3
PRIOR FIRST QUARTERS *(The way it was . . .)*											
Return on assets . . . 1989	0.93%	0.92%	0.97%	0.93%	0.90%	0.87%	0.99%	1.10%	1.21%	0.12%	1.14%
. . . 1987	0.72	0.72	0.85	0.84	0.55	0.73	1.08	0.95	0.84	0.10	0.52
. . . 1985	0.75	0.92	0.91	0.78	0.60	0.78	1.14	0.83	0.82	0.59	0.52
Equity capital ratio . . . 1989	6.41	8.92	7.52	6.40	5.10	5.99	6.98	6.91	7.88	5.84	6.12
. . . 1987	6.43	8.54	7.39	6.16	5.32	6.01	6.85	7.05	7.39	6.55	5.96
. . . 1985	6.29	8.65	7.25	5.95	4.92	5.65	6.83	6.91	7.62	7.00	5.67
Noncurrent loans and leases plus other real estate to assets . . . 1989	2.21	1.92	1.71	1.47	3.13	2.46	1.05	1.21	1.61	4.68	2.60
. . . 1987	2.61	2.36	1.98	1.82	3.73	2.58	1.10	1.55	2.25	4.63	3.90
. . . 1985	2.09	2.06	1.65	1.74	2.67	1.84	1.12	1.73	2.32	2.48	3.34
Net charge-offs to loans and leases . . . 1989	0.74	0.54	0.60	0.81	0.79	0.61	0.42	0.61	0.95	1.68	0.96
. . . 1987	0.75	0.86	0.76	0.62	0.83	0.56	0.45	0.45	1.43	1.53	1.00
. . . 1985	0.58	0.72	0.50	0.54	0.60	0.37	0.35	0.48	1.08	0.93	0.82

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

Table IV. Full Year 1989 Bank Data *(Dollar figures in billions, ratios in %)*

		Asset Size Distribution				Geographic Distribution					
						EAST			WEST		
	All Banks	Less than $100 Million	$100 Million to $1 Billion	$1-10 Billion	Greater than $10 Billion	Northeast Region	Southeast Region	Central Region	Midwest Region	Southwest Region	West Region
Number of banks reporting	12,707	9,722	2,607	334	44	1,087	1,962	2,837	3,016	2,325	1,480
Total assets	$3,299.18	$365.62	$625.24	$1,056.02	$1,252.30	$1,292.63	$483.87	$533.70	$214.21	$267.34	$507.43
Total deposits	2,548.49	325.16	536.27	791.91	895.14	934.34	381.42	427.18	171.88	225.14	408.53
Net income (in millions)	15,692	2,755	5,356	6,345	1,237	-208	4,034	5,145	2,072	-189	4,838
Percentage of banks losing money	12.1%	13.3%	7.6%	11.4%	27.3%	15.8%	14.0%	4.5%	4.9%	24.4%	16.7%
Percentage of banks with earnings gains	63.9%	62.6%	69.8%	61.4%	38.6%	59.1%	63.0%	67.7%	61.8%	61.3%	70.1%
Performance Ratios											
Yield on earning assets	11.44%	10.53%	10.86%	11.07%	12.35%	12.35%	10.80%	10.66%	10.97%	10.18%	11.43%
Cost of funding earning assets	7.40	6.00	6.26	6.77	8.96	8.73	6.61	6.69	6.50	6.66	6.25
Net interest margin	4.05	4.53	4.59	4.30	3.40	3.62	4.20	3.97	4.46	3.52	5.18
Net noninterest expense to earning assets	2.06	2.80	2.58	2.19	1.44	1.74	2.36	1.98	2.10	2.17	2.59
Net operating cash flow to assets	1.74	1.57	1.82	1.87	1.66	1.65	1.63	1.77	2.12	1.15	2.23
Net operating income to assets	0.46	0.75	0.89	0.61	0.05	-0.05	0.85	1.02	0.97	-0.13	0.91
Return on assets	0.50	0.78	0.90	0.64	0.10	-0.02	0.88	1.00	1.01	-0.07	1.00
Return on equity	7.82	8.59	11.97	10.11	2.02	-0.28	12.56	14.61	13.09	-1.27	16.23
Net charge-offs to loans and leases	1.16	0.74	0.74	1.06	1.54	1.32	0.59	0.91	1.20	1.92	1.18
Loan loss provision to net charge-offs	135.51	120.37	121.87	140.30	137.59	172.42	134.83	82.76	99.12	122.34	98.24
Condition Ratios											
Loss allowance to:											
Loans and leases	2.61%	1.66%	1.58%	1.98%	3.89%	3.57%	1.41%	1.71%	1.83%	2.90%	2.39%
Noncurrent loans and leases	86.47	79.65	79.55	87.26	88.41	87.70	94.11	100.85	100.13	55.17	89.55
Noncurrent loans and leases plus other real estate to assets	2.28	1.75	1.68	1.84	3.12	2.82	1.21	1.18	1.40	4.40	2.36
Equity capital ratio	6.21	8.94	7.47	6.12	4.86	5.55	6.94	6.86	7.61	5.55	6.26
Primary capital ratio	7.92	9.87	8.45	7.45	7.48	7.91	7.85	7.91	8.75	7.11	8.07
Net loans and leases to deposits	78.63	58.26	69.96	85.90	84.79	85.18	78.28	73.46	71.28	56.17	84.86
Growth Rates *(year-to-year)*											
Assets	5.4%	6.4%	9.5%	9.8%	5.8%	3.9%	10.0%	5.4%	1.9%	2.2%	8.0%
Equity capital	4.3	5.3	10.1	8.6	0.8	-2.6	10.1	7.1	4.2	0.4	14.7
Net interest income	4.6	8.7	12.3	10.5	0.1	0.2	7.0	6.6	3.1	-0.2	12.5
Net income	-36.8	19.0	13.4	-18.3	-89.1	N/M	-1.1	-0.7	13.5	N/M	31.6
Noncurrent loans and leases plus other real estate owned	12.3	3.1	21.4	38.3	8.3	24.7	30.5	8.4	-5.8	-1.1	-4.1
Net charge-offs	22.7	0.2	19.3	12.3	46.9	67.4	4.2	32.7	-4.9	-23.8	3.6
Loan loss provision	80.5	-0.1	19.8	64.1	213.1	217.4	30.3	32.3	2.0	-10.9	25.1
PRIOR FULL YEARS *(The way it was . . .)*											
Return on assets 1988	0.82%	0.64%	0.75%	0.79%	0.95%	0.98%	0.98%	1.07%	0.90%	-0.73%	0.83%
1986	0.63	0.46	0.66	0.76	0.57	0.78	1.02	0.88	0.73	-0.39	0.34
1984	0.65	0.77	0.89	0.78	0.35	0.69	0.98	0.49	0.78	0.65	0.42
Equity capital ratio 1988	6.28	8.72	7.23	6.15	5.10	5.93	6.93	6.75	7.45	5.65	5.90
1986	6.20	8.35	6.97	5.95	5.14	5.81	6.57	6.79	7.12	6.39	5.67
1984	6.15	8.53	7.06	5.71	4.84	5.53	6.65	6.68	7.38	6.86	5.57
Noncurrent loans and leases plus other real estate to assets 1988	2.14	1.91	1.72	1.53	2.96	2.35	1.02	1.15	1.52	4.55	2.66
1986	1.94	2.24	1.89	1.44	2.30	1.55	0.96	1.30	2.01	4.10	2.98
1984	1.97	0.70	0.86	1.41	2.60	1.65	0.66	1.29	1.13	1.57	2.64
Net charge-offs to loans and leases 1988	1.00	0.89	0.78	1.06	1.08	0.82	0.63	0.73	1.33	2.39	1.27
1986	0.98	1.57	1.08	0.79	0.92	0.62	0.62	0.70	2.14	2.12	1.25
1984	0.76	0.92	0.63	0.65	0.81	0.39	0.43	1.14	1.07	1.13	0.94

N/M—not meaningful