The FDIC Quarterly Banking Profile

L. William Seidman, Chairman

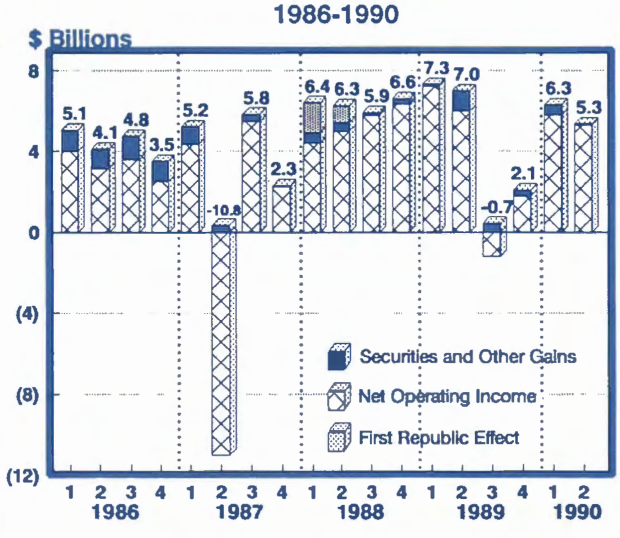
Second Quarter, 1990

COMMERCIAL BANKING PERFORMANCE – SECOND QUARTER, 1990

- ***Banks Earn $5.3 Billion In Second Quarter***
- ***Asset Quality Problems Deepen At Eastern Banks***
- ***Southwestern Banks Report Second Consecutive Quarterly Profit***
- ***Banks in Far West Report Strong Profitability And Asset Growth***

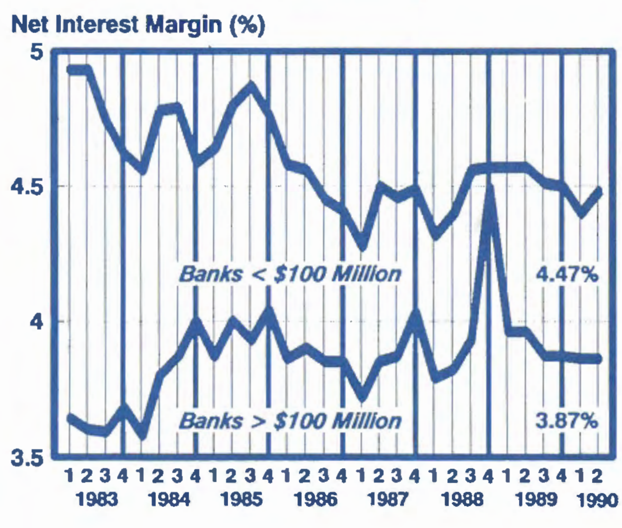
Sluggish asset growth and deepening credit quality problems held down bank profits in the second quarter of 1990. Insured commercial banks reported profits of $5.3 billion, 24 percent below the $7 billion earned in last year's record second quarter. For the first six months of this year, commercial bank earnings totalled $11.6 billion, down 18.5 percent from the first half of 1989. The main reason for the year-to-year decline continues to be provisioning for future credit losses, which was $2 billion higher in the second quarter than a year earlier. Net loan losses, at $8.6 billion in the second quarter, were 66 percent higher than a year earlier. As a result, reserve levels fell by more than $2.1 billion despite the increase in loan-loss provisions. Most of the reduction in reserves resulted from write-downs of loans to developing countries.

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



The return on assets for commercial banks was 0.64 percent in the second quarter, compared to 0.88 percent in the second quarter of 1989. Unlike the year-ago quarter, smaller banks enjoyed higher profitability than their larger counterparts. Banks with assets of less than $1 billion had more favorable asset-quality indicators, while larger institutions saw the credit quality of their loan portfolios deteriorate. Despite a combination of higher levels of troubled assets and decreased earnings, shareholder dividends increased 4.4 percent from a year earlier, consuming nearly 70 percent of the banking industry's net income in the second quarter.

Chart B - Quarterly Net Interest Margins, 1983-1990



Net interest margins improved from the previous quarter at smaller banks, and were unchanged at larger banks. Net interest income was slightly above the level of a year earlier, but interest-earning assets grew at a higher rate, so average margins were smaller than a year ago at both large and small institutions. Average funding costs were lower than a year ago, but asset yields fell even more. Noninterest expense growth remained high at large banks in the Northeast, reflecting the increased burden of higher levels of troubled assets.

FDIC
Division of Research & Statistics

Don Inscoe
(202) 898-3940

Ross Waldrop
(202) 898-3951

Noninterest income growth was flat. Overall, the increase in noninterest expense levels more than offset the modest year-to-year rise in net interest income.

Increasing credit-quality problems were evident at banks in the eastern half of the country. Noncurrent loans and leases and foreclosed real estate were higher than a year ago in the three eastern regions, but were lower in the three western regions. The highest percentage increase was registered by banks in the Southeast Region, where noncurrent loans and leases and foreclosed real estate were 51 percent above the level at mid-year 1989. At Northeast Region banks, troubled assets were 37 percent higher than a year earlier. Banks in these two regions also experienced the largest increases in net loan losses.

Almost all of the banking industry's $2 billion increase in loan-loss provisioning was registered by banks in the Northeast Region, where provisions were up by $1.9 billion. This was more than twice the amount set aside for future losses by Northeast banks in the second quarter of last year. Noncurrent loans and leases plus foreclosed real estate increased by $3.4 billion during the quarter, to more than $11.7 billion above the level of a year earlier. Net charge-offs of $5.1 billion were more than twice as high as in the second quarter of 1989. Loss reserves declined by $2 billion during the quarter, but were still $5.3 billion higher than a year ago. The credit quality problems of banks in the Northeast were not limited to real estate assets. Commercial credits, loans to developing countries and consumer loans all showed weakness, reflecting the increasing difficulties facing many large regional and money-center institutions.

Banks in the Southwest Region reported positive net income for the second consecutive quarter, the first time since 1985 that the Region's banks have had back-to-back profitable quarters. Net charge-offs at banks in the Southwest Region were 13.8 percent lower than in the same period of 1989, and noncurrent loans and leases and foreclosed real estate at mid-year were down almost $4.4 billion from a year ago.

Banks in the West Region continue to register above-average asset growth, led by expansion in residential real estate lending. At mid-year, real estate loans held by the Region's banks were 23.5 percent above the level of a year earlier; during the second quarter, real estate loans grew at a 29 percent annual rate. Despite ongoing difficulties in Arizona, Western banks had the strongest asset growth and highest profitability of banks in any region during the second quarter. At the same time, asset quality indicators remain favorable.

Ninety-nine commercial banks failed or required assistance to avert failure in the first half of 1990, compared to 101 failures in the first half of 1989. The number of banks on the FDIC's "Problem List" at the end of June was 1,014, the lowest level since 1985. The pace of bank failures is not expected to change significantly in the second half of this year.

The real estate problems of the Northeast have spread to the mid-Atlantic states, and signs of real estate weakness have appeared in several Southeastern states. For the remainder of this year, domestic asset quality problems will continue to hurt earnings at banks in the East. If the New England economy weakens further, losses in real estate assets and commercial loans can be expected to increase. Banks that are weakly capitalized can be expected to seek to boost their net worth ratios through sales of assets, loan securitization, and retained earnings.

Chart C - Noncurrent Real Estate Loan Rates by States
June 30, 1990

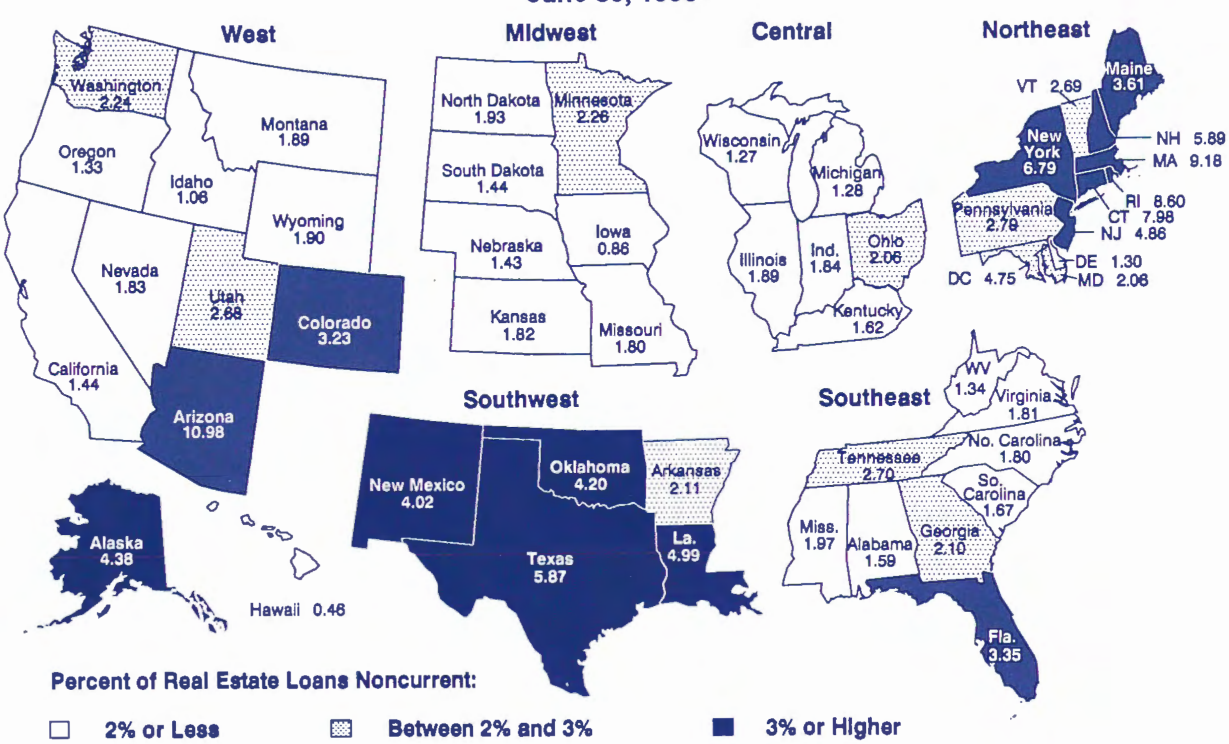


Table I. Selected Indicators, FDIC-Insured Commercial Banks

	1990*	1989*	1989	1988	1987	1986	1985
Return on assets	0.70%	0.90%	0.50%	0.82%	0.12%	0.63%	0.70%
Return on equity	11.04	14.14	7.80	13.31	2.00	9.94	11.31
Equity capital to assets	6.43	6.44	6.21	6.28	6.04	6.20	6.20
Primary capital ratio	7.90	7.99	7.92	7.85	7.70	7.22	6.91
Noncurrent loans and leases plus other real estate owned to assets	2.44	2.25	2.29	2.14	2.46	1.94	1.87
Net charge-offs to loans	1.47	0.89	1.16	1.00	0.92	0.98	0.84
Asset growth rate	4.73	4.93	5.37	5.68	2.03	7.71	8.86
Net operating income growth	-20.38	32.20	-38.69	1666.92	-85.27	-20.65	6.30
Percentage of unprofitable banks	10.59	10.01	12.18	14.63	17.66	19.79	17.09
Number of problem banks	1,014	1,256	1,092	1,394	1,559	1,457	1,098
Number of failed/assisted banks	99	101	206	221	201	144	118

Through June 30; ratios annualized where appropriate

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

(dollar figures in millions)

	Preliminary 2nd Qtr 1990	1st Qtr 1990	2nd Qtr 1989	%Change 89:2-90:2
Number of banks reporting	12,500	12,593	12,943	-3.4
Total employees (full-time equivalent)	1,530,856	1,525,783	1,541,487	-0.7
CONDITION DATA				
Total assets	$3,358,183	$3,310,613	$3,206,496	4.7
Real estate loans	802,981	777,497	719,610	11.6
Commercial & industrial loans	621,046	623,046	612,340	1.4
Loans to individuals	391,498	390,476	379,425	3.2
Farm loans	32,316	29,738	31,033	4.1
Other loans and leases	231,730	237,042	246,843	-6.1
Total loans and leases	2,079,571	2,057,799	1,989,251	4.5
LESS: Reserve for losses	50,130	52,609	45,111	11.1
Net loans and leases	2,029,441	2,005,191	1,944,140	4.4
Temporary investments	486,257	490,196	479,140	1.5
Securities over 1 year	433,550	421,157	394,647	9.9
All other assets	408,935	394,069	388,569	5.2
Total liabilities and capital	$3,358,183	$3,310,613	$3,206,496	4.7
Noninterest-bearing deposits	450,586	437,335	455,766	-1.1
Interest-bearing deposits	2,135,472	2,105,965	1,997,127	6.9
Other borrowed funds	420,520	426,645	420,899	-0.1
Subordinated debt	19,735	19,370	17,709	11.4
All other liabilities	115,794	109,559	108,560	6.7
Equity capital	216,075	211,739	206,435	4.7
Primary capital	266,153	265,938	255,173	4.3
Noncurrent loans and leases	66,277	64,405	60,624	9.3
Other real estate owned	15,608	13,546	11,398	36.9
Loan commitments and letters of credit[1]	1,288,563	1,235,103	[1]	[1]
Domestic office assets	2,940,240	2,895,412	2,791,148	5.3
Foreign office assets	417,943	415,201	415,348	0.6
Domestic office deposits	2,255,997	2,216,570	2,129,583	5.9
Foreign office deposits	330,061	326,731	323,311	2.1
Earning assets	2,949,248	2,916,544	2,817,927	4.7
Volatile liabilities	1,140,231	1,149,936	1,139,295	0.1

INCOME DATA	Preliminary First Half 1990	First Half 1989	%Change	Preliminary 2nd Qtr 1990	2nd Qtr 1989	% Change
Total interest income	$160,157	$155,519	3.0	$79,362	$80,186	-1.0
Total interest expense	103,229	99,339	3.9	50,587	51,956	-2.6
Net interest income	56,928	56,180	1.3	28,776	28,230	1.9
Provisions for loan & lease losses	12,194	8,060	51.3	6,428	4,438	44.8
Total noninterest income	27,015	24,539	10.1	13,736	12,829	7.1
Total noninterest expense	56,083	52,858	6.1	28,557	26,982	5.8
Applicable income taxes	4,633	5,943	-22.0	2,273	2,964	-23.3
Net operating income	11,033	13,857	-20.4	5,254	6,676	-21.3
Securities gains, net	158	212	-25.7	48	161	-70.0
Extraordinary gains, net	410	161	155.1	9	150	-94.0
Net income	11,600	14,230	-18.5	5,311	6,986	-24.0
Net charge-offs	15,128	8,732	73.3	8,565	5,183	65.3
Net additions to capital stock	805	300	168.4	105	102	2.5
Cash dividends on capital stock	6,846	6,667	2.7	3,662	3,507	4.4

[1]See Notes to Users, p.6

Table III. First Half 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 HALF *Preliminary* *(The way it is . . .)*											
Number of banks reporting	12,500	9,499	2,630	326	45	1,078	1,957	2,790	2,973	2,234	1,468
Total assets	$3,358.18	$362.62	$634.90	$1,046.72	$1,313.93	$1,312.94	$494.36	$540.10	$213.97	$263.88	$532.94
Total deposits	2,586.06	321.55	545.47	780.74	938.30	947.17	385.56	431.52	174.59	223.30	423.92
Net income *(in millions)*	11,600	1,452	2,840	3,353	3,956	2,676	1,846	2,295	1,144	737	2,903
Percentage of banks losing money	10.6%	11.7%	6.0%	13.5%	20.0%	17.7%	11.5%	4.0%	4.8%	18.1%	17.0%
Percentage of banks with earnings gains	49.9%	49.5%	52.2%	44.8%	42.2%	40.0%	53.6%	52.3%	48.8%	50.6%	49.3%
Performance Ratios *(annualized)*											
Yield on earning assets	11.06%	10.38%	10.57%	10.68%	11.84%	11.86%	10.53%	10.36%	10.57%	10.04%	11.04%
Cost of funding earning assets	7.13	5.94	6.08	6.44	8.60	8.39	6.37	6.49	6.28	6.39	6.10
Net interest margin	3.93	4.44	4.49	4.24	3.24	3.48	4.16	3.87	4.29	3.64	4.94
Net noninterest expense to earning assets	2.01	2.76	2.54	1.96	1.56	1.74	2.27	2.07	1.92	2.26	2.29
Net operating cash flow to assets	1.69	1.53	1.77	2.03	1.43	1.52	1.68	1.60	2.13	1.18	2.30
Net operating income to assets	0.67	0.79	0.90	0.65	0.54	0.37	0.74	0.87	1.07	0.53	1.07
Return on assets	0.70	0.81	0.91	0.65	0.61	0.41	0.76	0.86	1.08	0.57	1.12
Return on equity	11.04	8.94	11.88	10.13	12.41	7.38	10.75	12.37	13.83	8.83	17.57
Net charge-offs to loans and leases	1.47	0.65	0.65	1.36	2.13	2.19	0.71	0.96	0.96	1.42	1.11
Loan loss provision to net charge-offs	80.61	113.08	124.80	125.04	48.19	69.98	155.23	78.30	109.16	73.89	84.30
Condition Ratios											
Loss allowance to:											
Loans and leases	2.41%	1.66%	1.61%	2.08%	3.25%	3.23%	1.54%	1.56%	1.85%	2.70%	2.19%
Noncurrent loans and leases	75.64	81.14	77.71	77.72	73.51	68.83	80.95	83.70	99.57	74.41	89.86
Noncurrent loans and leases plus other real estate to assets	2.44	1.71	1.77	2.17	3.18	3.33	1.57	1.38	1.45	3.00	2.23
Equity capital ratio	6.43	9.09	7.76	6.52	4.99	5.66	7.17	7.04	7.94	6.61	6.36
Primary capital ratio	7.90	9.96	8.66	7.72	7.12	7.68	7.99	7.98	8.88	7.68	8.01
Net loans and leases to deposits	78.48	58.99	70.24	85.49	84.10	83.39	79.31	75.05	69.56	54.46	86.54
Growth Rates *(year-to-year)*											
Assets	4.7%	7.9%	10.1%	7.7%	7.7%	2.9%	8.0%	3.9%	3.1%	2.3%	9.3%
Equity capital	4.7	4.9	10.9	8.2	3.7	-3.8	10.3	6.2	4.7	16.1	12.9
Net interest income	1.3	4.3	6.6	6.8	1.5	-1.1	5.3	1.1	-0.2	3.6	2.6
Net income	-18.5	-6.8	-2.6	-22.3	-29.1	-51.3	-16.4	-16.8	-0.6	1075.2	13.4
Noncurrent loans and leases plus other real estate owned	13.7	2.3	18.0	45.8	13.0	36.6	50.9	11.1	-5.8	-35.6	-5.3
Net charge-offs	73.3	22.0	29.3	63.1	125.4	151.6	65.1	49.9	6.0	-25.1	17.3
Loan loss provision	51.3	6.3	24.3	69.6	82.4	135.1	81.2	26.6	-1.6	-44.5	2.7
PRIOR FIRST HALVES *(The way it was . . .)*											
Return on assets . . . 1989	0.90%	0.89%	0.96%	0.86%	0.92%	0.87%	0.99%	1.08%	1.13%	0.05%	1.08%
. . . 1987	-0.37	0.66	0.70	0.45	-2.00	-1.06	0.96	0.19	0.49	-0.51	-0.63
. . . 1985	0.75	0.90	0.91	0.87	0.48	0.80	1.10	0.84	0.84	0.64	0.34
Equity capital ratio . . . 1989	6.44	9.07	7.54	6.35	5.16	6.05	7.02	6.89	7.82	5.83	6.15
. . . 1987	6.02	8.65	7.38	6.09	4.22	5.29	6.92	6.68	7.45	6.39	5.47
. . . 1985	6.27	8.68	7.23	5.95	4.87	5.64	6.83	6.88	7.62	7.07	5.54
Noncurrent loans and leases plus other real estate to assets . . . 1989	2.25	1.92	1.76	1.58	3.16	2.51	1.12	1.29	1.59	4.76	2.58
. . . 1987	2.59	2.31	1.96	1.84	3.64	2.58	1.12	1.48	2.16	4.97	3.63
. . . 1985	2.08	2.08	1.67	1.66	2.67	1.85	1.07	1.65	2.33	2.62	3.22
Net charge-offs to loans and leases . 1989	0.89	0.64	0.63	0.87	1.09	0.90	0.46	0.67	0.93	1.78	1.06
. . . 1987	0.79	0.99	0.81	0.71	0.80	0.57	0.51	0.49	1.43	1.80	1.04
. . . 1985	0.66	0.93	0.60	0.56	0.67	0.39	0.44	0.56	1.27	1.03	0.95

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. Second Quarter 1990 Bank Data *(Dollar figures in billions, ratios in %)*

		Asset Size Distribution				Geographic Distribution					
						EAST			WEST		
PRELIMINARY SECOND QUARTER *(The way it is . . .)*	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	12,500	9,499	2,630	326	45	1,078	1,957	2,790	2,973	2,234	1,468
Net income *(in millions)*	$5,311	$710	$1,381	$1,602	$1,619	$1,026	$940	$1,151	$533	$391	$1,270
Percentage of banks losing money	11.2%	12.0%	7.6%	16.6%	15.6%	20.6%	12.0%	4.8%	5.2%	18.2%	17.1%
Percentage of banks with earnings gains	51.1%	50.6%	53.3%	48.8%	33.3%	41.4%	54.1%	52.3%	50.6%	52.4%	50.7%
Performance Ratios *(annualized)*											
Yield on earning assets	10.86%	10.41%	10.64%	10.75%	11.19%	11.31%	10.51%	10.35%	10.63%	10.09%	11.06%
Cost of funding earning assets	6.92	5.94	6.10	6.50	7.98	7.85	6.36	6.46	6.33	6.35	6.13
Net interest margin	3.94	4.47	4.53	4.26	3.21	3.46	4.15	3.89	4.30	3.74	4.93
Net noninterest expense to earning assets	2.03	2.75	2.52	1.98	1.60	1.76	2.24	2.11	1.97	2.30	2.30
Net operating cash flow to assets	1.68	1.57	1.82	2.02	1.37	1.48	1.71	1.59	2.09	1.22	2.29
Net operating income to assets	0.63	0.77	0.87	0.62	0.49	0.31	0.75	0.87	0.99	0.57	0.98
Return on assets	0.64	0.79	0.88	0.62	0.50	0.32	0.77	0.86	1.00	0.60	0.97
Return on equity	9.94	8.68	11.37	9.52	9.95	5.60	10.72	12.25	12.72	9.08	15.09
Net charge-offs to loans and leases	1.66	0.86	0.79	1.32	2.54	2.48	0.74	0.84	1.03	1.77	1.51
Loan loss provision to net charge-offs	75.05	98.66	119.91	132.05	41.87	66.29	153.47	82.83	111.81	61.10	68.29
Growth Rates *(year-to-year)*											
Net interest income	1.9	4.7	7.5	6.9	2.2	-0.7	6.4	1.3	-1.1	7.7	2.9
Net income	-24.0	-7.6	-5.9	-18.6	-43.4	-62.9	-15.8	-16.5	-1.6	N/M	4.3
Net charge-offs	65.3	37.1	39.4	48.9	103.3	112.4	56.9	18.3	15.1	-13.8	46.0
Loan loss provision	44.8	8.2	41.4	50.6	82.5	134.0	75.6	4.5	9.2	-50.4	-2.1
PRIOR SECOND QUARTERS *(The way it was . . .)*											
Return on assets . . . 1989	0.88%	0.85%	0.95%	0.79%	0.93%	0.87%	0.99%	1.08%	1.07%	-0.05%	1.01%
. . . 1987	-1.48	0.59	0.53	0.06	-4.57	-2.84	0.86	-0.56	0.11	-1.22	-1.80
. . . 1985	0.74	0.88	0.96	0.94	0.37	0.83	1.09	0.85	0.87	0.70	0.16
Net charge-offs to loans and leases . 1989	1.05	0.76	0.70	0.94	1.41	1.20	0.51	0.74	0.92	1.93	1.16
. . . 1987	0.86	1.17	0.91	0.81	0.78	0.60	0.58	0.54	1.44	2.13	1.08
. . . 1985	0.76	1.17	0.73	0.60	0.74	0.43	0.54	0.66	1.48	1.17	1.10

N/M - not meaningful

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NOTES TO USERS

COMPUTATION METHODOLOGY FOR PERFORMANCE AND CONDITION RATIOS

All income figures used in calculating performance ratios represent amounts for that period, annualized (multiplied by the number of periods in a year).

All asset and liability figures used in calculating performance ratios represent **average** amounts for the period (beginning-of-period amount plus end-of-period amount plus any periods in between, divided by the total number of periods).

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

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 and before gains (or losses) from securities transactions and from nonrecurring items. The profit earned on banks' regular banking business.

Net Operating Cash Flow—pre-tax net operating income before the provision for loan and lease losses; a measurement of banks' cash flow, net of interest and overhead expenses, from regular operations. Previously referred to as "adjusted net operating income".

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

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

Loan Commitments and Letters of Credit—includes unused credit card commitments and overdraft plans, reflecting Call report revisions effective March 31, 1990.

Net Charge-offs—total loans and leases charged off (removed from balance sheet because of uncollectibility) during the quarter, less amounts recovered on loans and leases previously charged off.

Noncurrent Loans & Leases—the sum of loans past-due 90 days or more and loans in nonaccrual status.

Primary Capital—total equity capital plus the allowance for loan and lease losses plus minority interests in consolidated subsidiaries plus qualifying mandatory convertible debt (cannot exceed 20 percent of total primary capital), 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.

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.

Volatile Liabilities—the sum of large denomination time deposits, foreign office deposits, federal funds purchased, and other borrowed money.

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