Overview of the Industry

During 2002, insured commercial banks and savings institutions reported record earnings, as a recovering economy and favorable interest-rate environment created conditions conducive to strong performance. The 9,354* commercial banks and savings institutions insured by the FDIC earned $105 billion in 2002, an $18.1 billion (20.8 percent) improvement over 2001, and the first time their annual earnings have surpassed the $100 billion mark. Wider net interest margins and strong growth in consumer-related assets helped boost net interest income. Growth in noninterest revenues and higher gains on sales of securities also contributed to the improvement in revenues. These positive developments helped offset higher expenses for loan losses stemming from the 2001 recession.

Commercial banks reported record-high earnings for the second consecutive year. Net income at the 7,887 banks insured by the FDIC rose to $90.1 billion, from $74.0 billion in 2001. The improvement in earnings was widespread; almost three out of every four commercial banks – 73.3 percent – reported increased earnings in 2002. The industry's return on assets (ROA), a basic yardstick of earnings performance, also set a new record. The average ROA of 1.33 percent surpassed the previous record of 1.31 percent reached in 1999. Net interest income was $21.9 billion (10.2 percent) higher than a year earlier, as the industry's net interest margin improved to its highest level in five years, and its portfolio of interest-earning assets grew by 8.5 percent. Noninterest income was up by $14.4 billion (9.2 percent) from 2001. Falling interest rates caused the values of banks' fixed-rate securities portfolios to appreciate in 2002, and sales of securities during the year yielded gains totaling $6.5 billion, an increase of $2.0 billion (45.5 percent) compared to banks' gains in 2001. Against these positive developments, the main factor limiting the improvement in bank earnings was increased expenses to cover loan losses. Commercial banks charged off $44.5 billion in loans during 2002, an increase of $7.9 billion (21.7 percent) from 2001. To cover these and other expected losses, banks set aside a total of $48.1 billion in loan-loss provisions, an increase of $4.6 billion (10.6 percent) compared to the previous year. Most of the increases in charge-offs and loan-loss provisions occurred at large banks, which have experienced rising losses on loans to commercial and industrial borrowers, and on credit-card loans. In the latter part of the year, the deteriorating trend in asset quality, which has been underway for three years, showed signs of tapering off, as noncurrent loans declined in the fourth quarter for the first time since 1999.

Strong demand for residential mortgage loans – both to finance home purchases and to refinance existing mortgages – helped lift earnings at the nation's 1,467 insured savings institutions. The industry earned $15.2 billion in 2002, surpassing the record level of the previous year by $2.0 billion (14.8 percent). The average ROA of 1.16 was the third-highest ever, and the best result for the thrift industry in 56 years (in 1945, the industry's ROA was a record 1.27 percent; in 1946, it was 1.20 percent). It easily surpassed the 1.07 percent ROA that thrifts registered in 2001. As was the case with commercial banks, earnings improvements were widespread in the thrift industry. Almost four out of every five savings institutions – 79.1 percent – reported higher net income in 2002, compared to 2001. Net interest income was up by $3.3 billion (9.1 percent) from 2001, as the average net interest margin increased from 3.20 percent to 3.35 percent, its highest level since 1993. Gains on sales of securities totaled $5.6 billion in 2002, an increase of $1.4 billion (31.7 percent) from the previous year. Noninterest income fell for the first time in five years, declining by $692 million (5.9 percent). This drop was caused primarily by losses on servicing income stemming from the large wave of mortgage refinancings that occurred in 2002. Provisions for loan losses were $437 million (15.3 percent) higher than in 2001, as net loan charge-offs rose by $150 million (6.5 percent).

* Does not include 18 U.S. branches of foreign banks.