The FDIC Quarterly Banking Profile

Donald E. Powell, Chairman

Fourth Quarter 2001

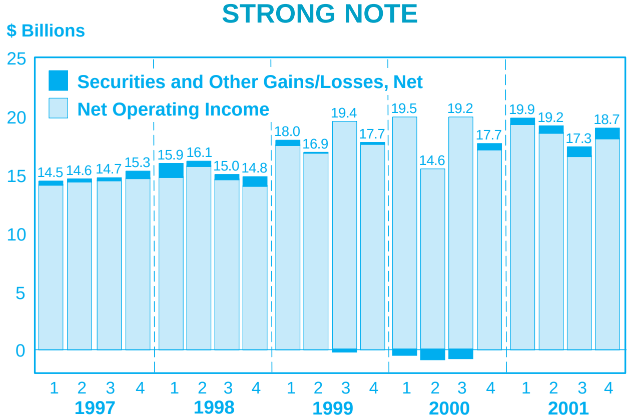
COMMERCIAL BANK PERFORMANCE — FOURTH QUARTER 2001

- *Best Fourth Quarter Ever Helps Full-Year Earnings To Record Level*
- *Lower Interest Rates Boost Securities Gains, Net Interest Income*
- *Rising Loss Provisions Mirror Declining Asset Quality Indicators*
- *Number And Assets Of "Problem" Banks Surge During The Quarter*
- *Deposit Growth Picks Up Momentum, As Loan Growth Continues To Slow*

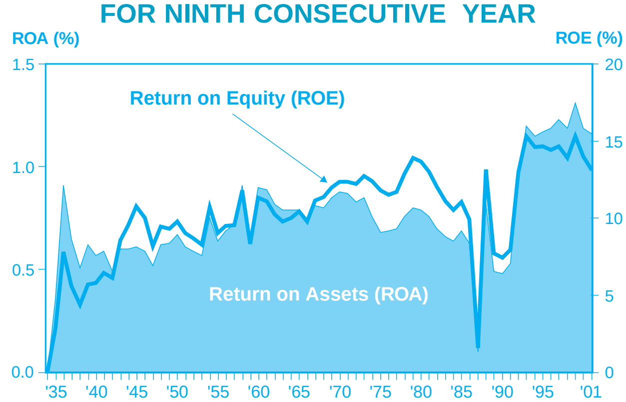
Benefits of Lower Interest Rates Outweigh Credit-Quality Problems

Insured commercial banks registered their best fourth quarter earnings ever, reporting $18.7 billion in net income in the final quarter of 2001, an increase of $993 million (5.6 percent) from the fourth quarter of 2000. Key factors in the improvement in industry earnings included sharply lower funding costs and higher gains on sales of securities and other assets. The increase in profits was limited by rising provisions for loan losses and lackluster growth in noninterest revenues. More than half of all commercial banks — 58.4 percent — reported higher earnings than in the fourth quarter of 2000, and slightly over half — 51.3 percent — reported higher quarterly returns on assets (ROAs). The average ROA for the fourth quarter was 1.13 percent, down from 1.15 percent a year earlier. Full-year earnings of $74.3 billion easily eclipsed the previous record of $71.1 billion, set in 1999. Compared to 2000, 56.7 percent of all banks reported higher annual earnings in 2001.

BANK EARNINGS FINISH THE YEAR ON A STRONG NOTE



INDUSTRY ROA SURPASSES ONE PERCENT FOR NINTH CONSECUTIVE YEAR



Steeper Yield Curve Helps Net Interest Margins at Larger Banks

As was the case through much of 2001, lower interest rates continued to boost the values of banks' fixed-rate securities in the fourth quarter. Sales of securities yielded gains totaling $1.2 billion in the fourth quarter, compared to $207 million in gains a year earlier. Lower interest rates also helped produce a $26.1-billion (43.0-percent) decline in total interest expense from the fourth quarter of 2000, which contributed to a $6.3-billion (12.2 percent) improvement in net interest income. The improvement in net interest income was concentrated among large banks. The industry's average net interest margin rose to 4.15 percent in the fourth quarter, from 3.93 percent in the third quarter and 3.90 percent in the fourth quarter of 2000. Community banks were not a part of this trend, however. The average margin at banks with less than $100 million in assets did not improve; at 4.26 percent, it was unchanged from the third quarter, and was 20 basis points below the level of a year earlier.

FDIC

Division of Research & Statistics

Don Inscoe
Associate Director
Statistics Branch
(202) 898-3940

Kevin Brown
(202) 898-6817

Tim Critchfield
(202) 898-8557

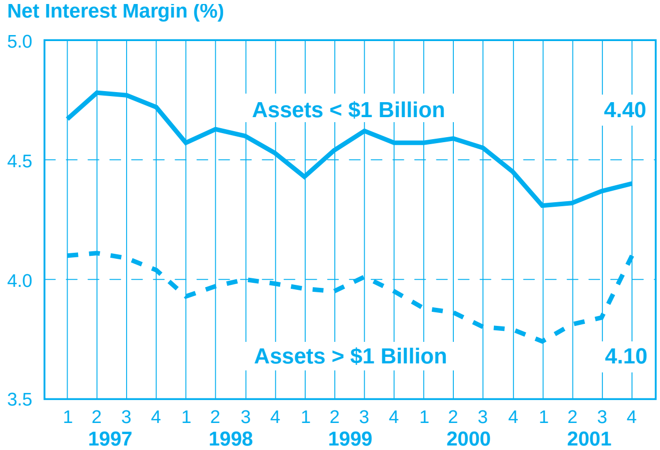
Ross Waldrop
(202) 898-3951

Jim McFadyen
1946–2002

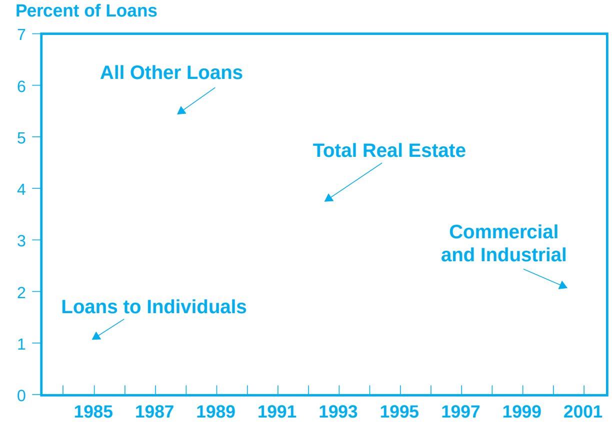
Requests for copies of and subscriptions to the FDIC Quarterly Banking Profile should be made through the FDIC's Public Information Center, 801 17th Street, NW, Washington, DC 20434; telephone (202) 416-6940 or (800) 276-6003; or Email: publicinfo@fdic.gov.

Also available on the Internet at www.fdic.gov. Comparable financial data for individual institutions can now be obtained from the FDIC's Institution Directory (I.D.) System on this Web site.

MARGINS IMPROVE IN FOURTH QUARTER



NONCURRENT RATES ROSE FOR MOST LOAN CATEGORIES IN 2001



Rising Loss Provisions, Slowing Noninterest Income Limit Earnings Gains

Not all income and expense trends were favorable. Loss provisions soared to a 14-year high as asset-quality problems continued to mount. Banks set aside $15.2 billion in provisions for loan losses in the fourth quarter, an increase of $5.0 billion (48.8 percent) from a year earlier. It was the industry's largest quarterly loss provision since the second quarter of 1987. A slowing rate of growth in noninterest revenues also limited the improvement in bank earnings. Noninterest income was only $368 million (0.9 percent) higher than in the fourth quarter of 2000. Noninterest income provided 41.0 percent of banks' net operating revenue (net interest income plus noninterest income) in the fourth quarter, compared to 43.6 percent a year earlier. Net income from banks' overseas operations fell below $1 billion for the first quarter since the fourth quarter of 1998. Income from international operations totaled $988 million, compared to $1.7 billion in the fourth quarter of 2000. The quarterly loan-loss provision for international operations rose to $1.5 billion, from $569 million a year ago.

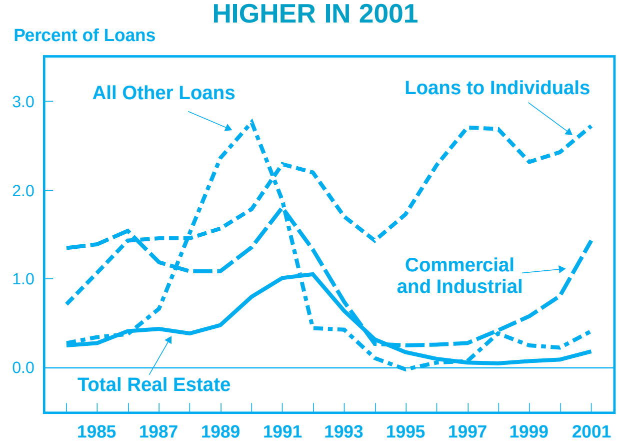
Nonrecurring Gains Help Deliver New Annual Earnings Record

After a slight dip in 2000, full-year earnings returned to record levels in 2001. For the ninth consecutive year, the industry's ROA surpassed the 1-percent benchmark level. In an environment of falling short-term interest rates and an unfolding recession, the industry's record earnings in 2001 were made possible by $4.5 billion in gains on sales of securities. Net operating income, which excludes these gains and other nonrecurring items, was $1.1 billion (1.5 percent) lower than in 2000. Industry profits also received a boost from an $11.2-billion (5.5-percent) increase in net interest income. Noninterest expenses increased by only 2.9 percent from the previous year, the smallest annual increase since 1942. However, noninterest income growth was also modest; banks reported $157.2 billion in noninterest revenues in 2001, a $3.7-billion (2.4-percent) improvement over 2000. Loan-loss provisions registered their largest annual increase in 12 years, increasing to $43.1 billion from $30.0 billion in 2000. The average ROA of 1.16 percent was down from 1.19 percent in 2000. More than half — 56.8 percent — of all commercial banks reported higher net income in 2001, but only 42.1 percent reported higher ROAs.

Large Banks' Commercial Loans, Credit Cards Lead Rise in Troubled Credits

Asset-quality indicators continued to worsen in the fourth quarter. Net charge-offs of $12.7 billion were up by $3.9 billion (44.2 percent) from a year ago, and represent the highest quarterly total ever reported by the industry. Charge-offs of commercial and industrial (C&I) loans totaled $6.0 billion, accounting for 47.3 percent of all loans and leases charged-off in the fourth quarter. C&I charge-offs were $2.6 billion (77.1 percent) higher than in the fourth quarter of 2000. Charge-offs of credit-card loans also rose in the fourth quarter. Banks charged-off $3.5 billion in credit-card loans during the quarter, $724 million (25.8 percent) more than a year earlier, as the net charge-off rate on the industry's credit-card portfolio rose to a record-high 6.26 percent. Higher charge-offs were also reported in leases (up $198 million from a year earlier), commercial real estate loans (up $191 million), construction and development loans (up $74 million), home equity loans (up $72 million), and residential mortgage loans (up $67 million). As has been the case throughout the past two years of declining asset quality, the level of problems and the pace of deterioration continue to be significantly greater at large banks. During the fourth quarter, the overall net charge-off rate on all loans at banks with more than $1 billion in assets was 1.46 percent, up from 1.03 percent a year earlier. At banks with less than $1 billion in assets, the net charge-off rate was 0.57 percent, up from 0.45 percent in the fourth quarter of 2000.

C&I LOAN CHARGE-OFFS WERE SHARPLY HIGHER IN 2001



Rising Charge-offs Fail to Halt Increase in Noncurrent Loans

Even with the stepped-up rate of charge-off activity, the level of noncurrent loans (loans 90 days or more past due or in nonaccrual status) increased by $3.3 billion (6.4 percent) during the quarter. During the 12 months ended December 31, commercial banks' noncurrent loans increased by $12.1 billion (28.1 percent). Most of the increase in noncurrent loans during both the quarter and the entire year has occurred in large banks' C&I loan portfolios. Total noncurrent C&I loans increased by $1.7 billion (7.6 percent) during the fourth quarter, and by $6.1 billion (35.1 percent) for all of 2001. These increases represent slightly more than 51 percent of the increases in total noncurrent loans for the quarter and the year. The only other loan categories that showed sizable increases in noncurrent levels during the quarter were consumer loans other than credit cards, where noncurrents increased by $596 million (15.4 percent), and residential mortgage loans, up $671 million (9.4 percent). The percentage of loans that were noncurrent at year-end averaged 0.98 percent at banks with less than $1 billion in assets, compared to 1.50 percent for banks with more than $1 billion in assets.

C&I Loans Decline Further; MBSs, Commercial Real Estate Continue to Grow

Total assets of commercial banks increased by $13.6 billion during the fourth quarter, the smallest increase since industry assets declined in the first quarter of 1999. The small increase in assets was caused primarily by the merger of two large affiliated banks. The merger produced a reduction of roughly $125 billion in assets and liabilities representing transactions between the two banks that were netted-out when their accounts were consolidated[1]. Commercial banks' holdings of C&I loans declined for the fourth consecutive quarter, falling by $27.9 billion (2.8 percent). The decline was concentrated among large banks; more than 80 percent of the decline was attributable to 10 banks. More than half of all banks (51.4 percent) reported increases in their C&I loans during the fourth quarter. Banks' holdings of mortgage-backed securities (MBSs) grew by a record amount for the second consecutive quarter, rising by $53.3 billion, after increasing by $51.6 billion in the third quarter. Commercial real estate loans also continued to grow at a rapid rate, increasing by $13.8 billion (2.8 percent).

Domestic Savings Deposits Show Strong Growth

On the funding side, domestic savings deposits posted a quarterly record increase of $119.4 billion (6.7 percent). Domestic demand deposits registered a strong seasonal increase of $76.8 billion. Commercial bank borrowings from Federal Home Loan Banks rose by $7.1 billion. Deposits in foreign offices declined by $51.2 billion, while time deposits in domestic offices fell by $47.7 billion.

Asset Growth Slowed to 9-Year Low in 2001

For the year, asset growth slowed to 5.2 percent, the lowest annual rate since 1992. Loans increased by only 2.0 percent in 2001, after growing by 9.4 percent in 2000. C&I loans had a net decline for the first year since 1992, falling by $68.6 billion (6.5 percent). Banks continued to reduce their holdings of U.S. Treasury securities, which declined by $30.7 billion (40.5 percent). In the past two years, banks have reduced their Treasury securities by $68.0 billion (60.1 percent). In contrast, banks have been accumulating mortgage-backed securities, and the rate of accumulation jumped sharply in 2001. MBS portfolios increased by $142.3 billion (30.2 percent) during 2001, after rising by $16.8 billion (3.7 percent) in 2000.

Reserve Growth Keeps Pace With Growth in Noncurrent Loans

Banks increased their loss reserves by $3.9 billion (5.7 percent) in the fourth quarter, lifting the industry's reserves-to-loans ratio from 1.77 percent to 1.85 percent. However, the continued strong growth in noncurrent loans meant that the industry's "coverage ratio" remained unchanged from the end of the third quarter, at $1.32 in reserves for every $1.00 of noncurrent loans. Before the fourth quarter, the coverage ratio had declined for 7 consecutive quarters.

Intangible Assets Lift Equity Capital

Equity capital increased by $11.5 billion (1.9 percent) during the quarter, and the industry's equity-capital-to-assets ratio rose from 8.93 percent to 9.09 percent. Most of the increase in equity consisted of goodwill and other intangible assets. The industry's leverage capital ratio, which excludes intangibles, declined by one basis point during the quarter, from 7.81 percent to 7.80 percent.

"Problem" Banks Register Sharp Increase

The number of insured commercial banks reporting financial results declined from 8,149 to 8,080 during the quarter. There were 42 new banks added during the quarter, while 108 were absorbed by mergers. No commercial banks failed during the fourth quarter. However, the number of commercial banks on the FDIC's "Problem List" increased from 74 to 95, and total problem bank assets rose from $14.4 billion to $36.1 billion. This is the largest quarterly increase in problem banks since the third quarter of 1991, and the largest increase in problem-bank assets since the fourth quarter of 1991.

[1]The Chase Manhattan Bank and Morgan Guaranty Trust Co., both subsidiaries of J.P. Morgan Chase & Co., merged during the fourth quarter to form JPMorgan Chase Bank.

MERGER, CHARTER ACTIVITY DROPPED OFF IN 2001

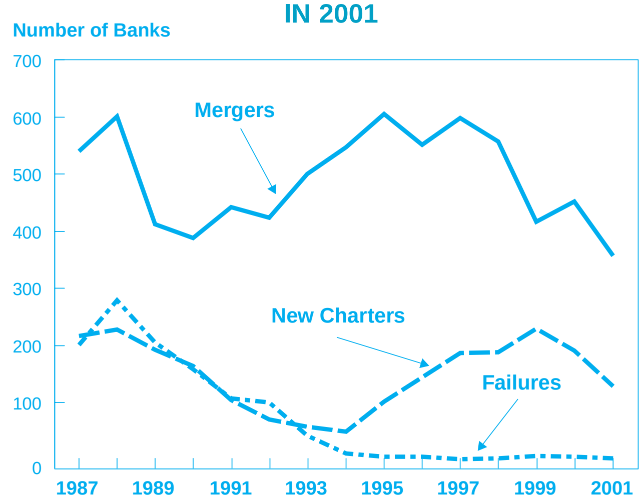


TABLE I-A. Selected Indicators, FDIC-Insured Commercial Banks

	2001	2000	1999	1998	1997	1996	1995
Return on assets (%)	1.16	1.19	1.31	1.19	1.23	1.19	1.17
Return on equity (%)	13.10	14.02	15.31	13.93	14.68	14.45	14.66
Core capital (leverage) ratio (%)	7.79	7.70	7.79	7.54	7.56	7.64	7.61
Noncurrent assets plus other real estate owned to assets (%)	0.92	0.74	0.63	0.65	0.66	0.75	0.85
Net charge-offs to loans (%)	0.94	0.67	0.61	0.67	0.64	0.58	0.49
Asset growth rate (%)	5.20	8.88	5.38	8.53	9.54	6.16	7.53
Net interest margin (%)	3.90	3.95	4.07	4.07	4.21	4.27	4.29
Net operating income growth (%)	-1.54	1.80	20.40	2.24	12.46	6.43	7.48
Number of institutions reporting	8,080	8,315	8,579	8,773	9,142	9,527	9,940
Percentage of unprofitable institutions (%)	7.54	7.34	7.51	6.11	4.85	4.28	3.55
Number of problem institutions	95	76	66	69	71	82	144
Assets of problem institutions (in billions)	$36	$17	$4	$5	$5	$5	$17
Number of failed/assisted institutions	3	6	7	3	1	5	6

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

(dollar figures in millions)	Preliminary 4th Quarter 2001	3rd Quarter 2001	4th Quarter 2000	%Change 00:4-01:4
Number of institutions reporting	8,080	8,149	8,315	-2.8
Total employees (full-time equivalent)	1,704,931	1,671,162	1,670,857	2.0
CONDITION DATA				
Total assets	$6,569,240	$6,555,671	$6,244,622	5.2
Loans secured by real estate	1,803,587	1,749,213	1,673,185	7.8
Commercial & industrial loans	982,480	1,010,372	1,051,060	-6.5
Loans to individuals	631,160	607,557	606,664	4.0
Farm loans	47,762	48,280	48,099	-0.7
Other loans & leases	433,476	448,059	443,469	-2.3
Less: Unearned income	3,110	2,665	2,931	6.1
Total loans & leases	3,895,355	3,860,817	3,819,547	2.0
Less: Reserve for losses	72,110	68,215	64,137	12.4
Net loans and leases	3,823,246	3,792,601	3,755,409	1.8
Securities	1,179,562	1,106,817	1,078,981	9.3
Other real estate owned	3,568	3,457	2,912	22.5
Goodwill and other intangibles	122,415	111,689	103,781	18.0
All other assets	1,440,449	1,541,107	1,303,538	10.5
Total liabilities and capital	6,569,240	6,555,671	6,244,622	5.2
Noninterest-bearing deposits	873,671	777,646	756,561	15.5
Interest-bearing deposits	3,517,952	3,517,030	3,423,073	2.8
Other borrowed funds	1,129,752	1,167,113	1,108,777	1.9
Subordinated debt	95,317	92,442	87,043	9.5
All other liabilities	355,092	415,440	338,436	4.9
Equity capital	597,457	585,999	530,731	12.6
Loans and leases 30-89 days past due	53,294	52,561	47,953	11.1
Noncurrent loans and leases	55,028	51,697	42,941	28.1
Restructured loans and leases	1,030	1,063	1,312	-21.5
Direct and indirect investments in real estate	265	253	297	-10.9
1-4 Family residential mortgages	966,299	931,451	917,657	5.3
Mortgage-backed securities	613,586	560,254	471,243	30.2
Earning assets	5,598,734	5,584,869	5,380,269	4.1
Long-term assets (5+ years)	1,341,749	1,264,512	1,187,694	13.0
Volatile liabilities	2,061,424	2,180,294	2,184,056	-5.6
Foreign office deposits	629,681	680,900	706,666	-10.9
FHLB Advances (Source: FHFB, Call Reports)	198,620	191,550	174,742	13.7
Unused loan commitments	4,872,474	4,763,651	4,469,121	9.0
Derivatives	45,518,038	50,324,021	40,760,447	11.7

INCOME DATA	Preliminary Full Year 2001	Full Year 2000	%Change	Preliminary 4th Quarter 2001	4th Quarter 2000	%Change 00:4-01:4
Total interest income	$402,915	$428,449	-6.0	$92,746	$112,504	-17.6
Total interest expense	187,713	224,488	-16.4	34,558	60,636	-43.0
Net interest income	215,202	203,962	5.5	58,188	51,868	12.2
Provision for loan and lease losses	43,074	30,001	43.6	15,195	10,211	48.8
Total noninterest income	157,172	153,452	2.4	40,450	40,082	0.9
Total noninterest expense	222,316	216,105	2.9	57,608	55,431	3.9
Securities gains (losses)	4,478	-2,283	N/M	1,210	207	484.8
Applicable income taxes	36,904	37,983	-2.8	8,392	8,790	-4.5
Extraordinary gains, net	-248	-32	N/M	19	-46	N/M
Net income	74,310	71,009	4.7	18,672	17,679	5.6
Net charge-offs	36,459	24,785	47.1	12,725	8,824	44.2
Cash dividends	54,085	53,844	0.5	15,070	18,636	-19.1
Net operating income	71,480	72,598	-1.5	17,803	17,217	3.4

N/M - Not meaningful

TABLE III-A. Full Year 2001, FDIC-Insured Commercial Banks

		Asset Size Distribution				Geographic Distribution by Region					
						East			West		
FULL YEAR Preliminary ***(The way it is…)***	All Institutions	Less than $100 Million	$100 Million to $1 Billion	$1 Billion to $10 Billion	Greater than $10 Billion	North-east	South-east	Central	Mid-west	South-west	West
Number of institutions reporting	8,080	4,486	3,194	320	80	651	1,392	1,721	2,094	1,342	880
Total assets (in billions)	$6,569.2	$221.6	$819.4	$915.4	$4,612.8	$2,259.3	$1,634.0	$1,321.6	$363.2	$276.7	$714.4
Total deposits (in billions)	4,391.6	187.7	668.4	625.0	2,910.5	1,432.7	1,127.4	860.7	253.9	226.1	491.0
Net income (in millions)	74,310	1,912	9,322	11,518	51,559	23,703	18,268	13,284	5,012	3,098	10,945
% of unprofitable institutions	7.5	11.2	3.0	3.1	1.3	10.6	12.3	5.6	4.2	5.4	12.7
% of institutions with earnings gains	56.7	49.5	65.5	69.1	62.5	66.4	56.0	60.4	55.2	50.6	56.7
Performance ratios (%)											
Yield on earning assets	7.29	7.83	7.90	7.76	7.06	6.96	7.20	7.31	8.03	7.62	8.05
Cost of funding earning assets	3.40	3.61	3.54	3.45	3.35	3.50	3.31	3.52	3.52	3.21	3.06
Net interest margin	3.90	4.23	4.37	4.31	3.71	3.46	3.89	3.79	4.52	4.41	4.99
Noninterest income to earning assets	2.85	1.11	1.71	2.62	3.19	3.66	2.45	2.05	2.88	1.58	3.22
Noninterest expense to earning assets	4.03	3.74	3.87	4.02	4.07	4.36	3.87	3.40	4.33	3.90	4.44
Loan and lease loss provision to assets	0.67	0.30	0.37	0.66	0.74	0.74	0.51	0.73	0.66	0.33	0.87
Net operating income to assets	1.11	0.89	1.16	1.26	1.08	1.01	1.09	0.99	1.46	1.11	1.56
Pretax return on assets	1.73	1.19	1.69	2.02	1.71	1.61	1.67	1.51	2.17	1.63	2.51
Return on assets	1.16	0.91	1.20	1.31	1.13	1.05	1.13	1.04	1.49	1.17	1.63
Return on equity	13.10	8.07	12.24	13.77	13.43	12.74	12.22	12.36	16.50	12.16	15.96
Net charge-offs to loans and leases	0.94	0.34	0.41	1.03	1.06	1.20	0.74	0.80	0.87	0.44	1.24
Loan and lease loss provision to net charge-offs	118.14	147.62	139.23	101.73	119.45	120.77	105.38	133.67	112.69	125.27	110.74
Efficiency ratio	57.72	69.59	62.84	55.75	56.83	59.37	58.65	56.08	57.60	63.34	52.11
Condition Ratios (%)											
Earning assets to total assets	85.23	91.39	91.15	89.49	83.03	82.09	84.28	88.11	90.42	89.41	87.71
Loss allowance to:											
Loans and leases	1.85	1.41	1.44	1.79	1.97	2.12	1.61	1.76	1.72	1.42	2.08
Noncurrent loans and leases	131.04	128.12	151.78	167.67	123.46	124.94	125.29	120.55	166.13	135.90	174.25
Noncurrent assets plus											
other real estate owned to assets	0.92	0.81	0.73	0.73	1.00	0.97	0.88	1.04	0.77	0.72	0.81
Equity capital ratio	9.09	10.90	9.68	9.76	8.77	8.60	9.73	8.45	8.93	9.49	10.34
Core capital (leverage) ratio	7.79	10.63	9.17	8.74	7.23	7.24	7.99	7.60	8.49	8.58	8.82
Tier 1 risk-based capital ratio	9.90	15.87	12.88	11.83	8.86	9.74	9.76	9.02	11.34	12.56	10.83
Total risk-based capital ratio	12.72	16.96	14.06	13.77	12.16	12.69	12.64	12.15	13.03	14.10	13.51
Net loans and leases to deposits	87.06	71.11	78.51	88.73	89.69	79.26	88.06	99.43	94.46	70.09	89.82
Structural Changes											
New Charters	129	123	5	0	1	18	37	19	14	8	33
Banks absorbed by mergers	357	159	164	25	9	36	73	97	60	44	47
Failed banks	3	3	0	0	0	1	0	1	0	1	0
PRIOR FULL YEARS ***(The way it was…)***											
Number of institutions 2000	8,315	4,837	3,081	314	83	664	1,426	1,792	2,144	1,383	906
1998	8,773	5,408	2,973	321	71	693	1,445	1,904	2,265	1,517	949
1996	9,527	6,203	2,926	325	73	743	1,577	2,109	2,401	1,683	1,014
Total assets (in billions) 2000	$6,244.6	$230.9	$773.6	$879.4	$4,360.7	$2,180.8	$1,611.9	$1,072.4	$419.0	$302.3	$658.2
1998	5,442.5	252.3	726.8	921.8	3,541.6	1,922.3	1,211.4	889.3	376.5	304.7	738.3
1996	4,578.3	280.0	713.5	1,002.4	2,582.5	1,730.7	805.4	716.8	297.2	334.4	693.8
Return on assets (%) 2000	1.19	1.00	1.28	1.28	1.16	1.30	1.05	1.03	1.42	0.97	1.38
1998	1.19	1.13	1.31	1.52	1.08	1.06	1.30	1.25	1.50	1.13	1.11
1996	1.19	1.16	1.28	1.31	1.12	1.10	1.22	1.21	1.43	1.22	1.24
Net charge-offs to loans & leases (%)											
2000	0.67	0.41	0.33	0.70	0.75	0.79	0.61	0.40	0.83	0.43	1.00
1998	0.67	0.31	0.40	1.02	0.65	0.91	0.43	0.44	0.74	0.43	0.87
1996	0.58	0.27	0.42	0.89	0.52	0.63	0.45	0.44	0.70	0.35	0.79
Noncurrent assets plus											
OREO to assets (%) 2000	0.74	0.67	0.61	0.64	0.79	0.74	0.82	0.74	0.61	0.62	0.73
1998	0.65	0.71	0.62	0.71	0.64	0.78	0.55	0.56	0.57	0.59	0.67
1996	0.75	0.77	0.74	0.85	0.71	0.84	0.68	0.57	0.65	0.61	0.88
Equity capital ratio (%) 2000	8.50	11.06	9.59	8.98	8.07	8.00	8.66	7.91	9.49	8.93	9.87
1998	8.49	10.95	9.52	9.46	7.85	7.80	9.10	8.27	8.72	8.83	9.29
1996	8.20	10.54	9.44	8.77	7.38	7.36	8.48	8.43	8.74	8.74	9.22

REGIONS: Northeast - Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont, U.S. Virgin Islands

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-A. Fourth Quarter 2001, FDIC-Insured Commercial Banks

		Asset Size Distribution				Geographic Distribution by Region					
						East			West		
FOURTH QUARTER Preliminary (The way it is…)	All Institutions	Less than $100 Million	$100 Million to $1 Billion	$1 Billion to $10 Billion	Greater than $10 Billion	North-east	South-east	Central	Mid-west	South west	West
Number of institutions reporting	8,080	4,486	3,194	320	80	651	1,392	1,721	2,094	1,342	880
Total assets (in billions)	$6,569.2	$221.6	$819.4	$915.4	$4,612.8	$2,259.3	$1,634.0	$1,321.6	$363.2	$276.7	$714.4
Total deposits (in billions)	4,391.6	187.7	668.4	625.0	2,910.5	1,432.7	1,127.4	860.7	253.9	226.1	491.0
Net income (in millions)	18,672	417	2,345	3,025	12,885	4,321	5,811	3,357	1,464	773	2,946
% of unprofitable institutions	12.8	18.1	5.9	7.5	13.8	13.1	14.6	9.3	11.7	14.1	17.4
% of institutions with earnings gains	58.4	53.7	64.5	66.3	52.5	61.4	59.5	61.6	58.9	53.3	54.9
Performance Ratios (annualized, %)											
Yield on earning assets	6.62	7.35	7.37	7.00	6.35	5.98	6.81	6.53	7.94	6.98	7.50
Cost of funding earning assets	2.46	3.09	2.93	2.64	2.31	2.30	2.64	2.59	2.80	2.52	2.15
Net interest margin	4.15	4.26	4.44	4.36	4.04	3.68	4.16	3.94	5.14	4.46	5.35
Noninterest income to earning assets	2.89	1.19	1.84	2.76	3.20	3.64	2.71	2.12	2.98	1.63	2.86
Noninterest expense to earning assets	4.11	3.98	4.01	4.08	4.14	4.36	4.18	3.43	4.39	4.02	4.34
Loan and lease loss provision to assets	0.92	0.39	0.49	0.67	1.07	1.31	0.53	0.85	0.98	0.39	0.90
Net operating income to assets	1.08	0.72	1.13	1.30	1.05	0.72	1.31	1.02	1.65	1.02	1.60
Pretax return on assets	1.64	1.01	1.63	2.11	1.59	1.16	1.90	1.46	2.44	1.63	2.61
Return on assets	1.13	0.76	1.16	1.34	1.11	0.75	1.42	1.02	1.68	1.13	1.68
Return on equity	12.57	6.88	11.85	13.69	12.81	8.93	14.67	12.04	18.47	11.74	16.23
Net charge-offs to loans and leases	1.31	0.52	0.59	1.47	1.46	1.95	0.92	0.95	1.36	0.61	1.46
Loan and lease loss provision to net charge-offs	119.42	123.79	129.33	73.34	128.36	133.43	91.55	135.86	106.52	109.89	98.04
Efficiency ratio	56.36	72.54	62.91	55.41	54.84	57.83	58.10	54.52	53.21	64.37	50.83
Structural Changes (QTR)											
New charters	37	34	2	0	1	8	13	2	3	2	9
Banks absorbed by mergers	107	49	49	6	3	8	31	19	18	13	18
Failed banks	0	0	0	0	0	0	0	0	0	0	0
PRIOR FOURTH QUARTERS (The way it was…)											
Return on assets (%) 2000	1.15	0.76	1.18	1.07	1.18	1.32	1.05	0.95	1.38	0.70	1.23
1998	1.10	0.83	1.20	1.35	1.04	1.01	1.36	1.09	1.46	0.99	0.80
1996	1.21	0.97	1.28	1.42	1.14	1.17	1.26	1.28	1.39	1.20	1.12
Net charge-offs to loans & leases (%)											
2000	0.93	0.45	0.46	0.90	1.05	0.92	1.16	0.55	0.92	0.66	1.15
1998	0.73	0.48	0.56	1.11	0.67	0.95	0.52	0.57	0.81	0.56	0.81
1996	0.64	0.42	0.56	1.01	0.52	0.67	0.53	0.53	0.84	0.48	0.79

TABLE V-A. Loan Performance, FDIC-Insured Commercial Banks

		Asset Size Distribution				Geographical Distribution by Region					
						East			West		
December 31, 2001	All Institutions	Less than $100 Million	$100 Million to $1 Billion	$1 Billion to $10 Billion	Greater than $10 Billion	North-east	South-east	Central	Mid-west	South-west	West
Percent of Loans 30-89 Days Past Due											
All loans secured by real estate	1.31	1.56	1.20	1.05	1.41	1.38	1.19	1.65	0.95	1.23	1.07
Construction and development	1.21	1.64	1.16	1.07	1.26	1.23	0.89	1.45	1.20	1.28	1.49
Commercial real estate	0.90	1.17	0.87	0.81	0.94	0.80	0.84	1.24	0.83	0.91	0.65
Multifamily residential real estate	0.69	0.77	0.61	0.48	0.78	0.51	0.75	1.08	0.40	0.60	0.32
Home equity loans	0.91	0.87	0.82	0.81	0.94	0.68	0.81	1.34	0.64	0.49	0.55
Other 1-4 Family residential	1.67	2.01	1.68	1.36	1.71	1.57	1.62	2.10	1.03	1.59	1.48
Commercial and industrial loans	1.02	1.85	1.38	1.27	0.91	0.91	0.71	1.29	1.40	1.17	1.30
Loans to individuals	2.47	2.88	2.60	2.40	2.45	2.70	2.36	2.81	1.77	2.16	2.10
Credit card loans	2.69	2.52	5.08	2.76	2.59	3.20	3.25	2.13	1.58	1.70	2.23
Other loans to individuals	2.34	2.89	2.26	2.19	2.35	2.30	2.15	2.92	2.02	2.17	1.87
All other loans and leases (including farm)	0.84	1.05	0.98	0.92	0.82	0.79	0.45	1.26	0.87	0.96	1.00
Memo: Commercial RE loans not secured by RE	1.02	0.47	0.24	1.02	1.05	0.27	1.44	0.79	2.14	1.38	1.18
Percent of Loans Noncurrent*											
All real estate loans	0.96	0.97	0.83	0.84	1.04	1.08	0.81	1.26	0.66	0.90	0.74
Construction and development	1.06	1.03	0.94	1.05	1.13	1.10	1.05	1.05	0.87	0.96	1.20
Commercial real estate	0.98	1.14	0.91	0.89	1.04	0.85	0.89	1.32	0.92	0.92	0.79
Multifamily residential real estate	0.43	0.62	0.50	0.45	0.39	0.26	0.41	0.58	0.47	0.60	0.41
Home equity loans	0.39	0.30	0.34	0.41	0.40	0.29	0.35	0.56	0.28	0.30	0.28
Other 1-4 Family residential	0.96	0.88	0.76	0.80	1.06	0.99	0.79	1.49	0.47	0.82	0.56
Commercial and industrial loans	2.40	1.62	1.35	1.68	2.67	2.82	2.39	2.25	1.22	1.62	2.18
Loans to individuals	1.50	1.00	0.97	1.22	1.65	2.07	0.84	1.16	1.68	0.65	1.35
Credit card loans	2.15	1.67	3.36	2.05	2.13	2.53	1.47	1.55	2.24	1.05	1.83
Other loans to individuals	1.12	0.99	0.64	0.72	1.31	1.70	0.69	1.10	0.90	0.63	0.50
All other loans and leases (including farm)	0.96	1.04	0.98	0.74	0.97	0.56	1.70	0.93	1.13	1.18	1.16
Memo: Commercial RE loans not secured by RE	1.56	0.47	0.08	0.54	1.70	0.26	3.34	0.54	1.01	0.38	0.20
Percent of Loans Charged-off (net)											
All real estate loans	0.19	0.08	0.08	0.13	0.24	0.11	0.27	0.25	0.06	0.07	0.08
Construction and development	0.13	0.10	0.13	0.18	0.12	0.10	0.13	0.16	0.10	0.06	0.16
Commercial real estate	0.13	0.10	0.08	0.11	0.18	0.11	0.14	0.22	0.08	0.07	0.06
Multifamily residential real estate	0.03	0.12	0.06	0.00	0.03	0.03	0.03	0.09	-0.01	0.04	-0.02
Home equity loans	0.27	0.04	0.09	0.17	0.32	0.06	0.29	0.44	0.16	0.21	0.12
Other 1-4 Family residential	0.22	0.07	0.08	0.13	0.29	0.10	0.39	0.27	0.05	0.07	0.05
Commercial and industrial loans	1.43	0.74	0.80	1.53	1.51	1.54	1.40	1.38	0.76	0.97	1.69
Loans to individuals	2.72	0.92	1.63	3.39	2.78	3.25	1.75	1.86	3.30	1.01	3.92
Credit card loans	5.12	2.93	6.92	6.72	4.70	5.25	3.62	4.99	6.20	2.68	5.33
Other loans to individuals	1.28	0.87	0.90	1.23	1.40	1.49	1.18	1.36	0.62	0.95	1.30
All other loans and leases (including farm)	0.41	0.36	0.46	0.53	0.40	0.25	0.31	0.70	0.44	0.38	0.77
Memo: Commercial RE loans not secured by RE	0.17	0.82	0.54	0.49	0.12	0.21	0.13	0.25	0.09	0.21	0.10
Loans Outstanding (in billions)											
All real estate loans	$1,803.6	$79.5	$352.3	$320.2	$1,051.6	$373.6	$538.2	$440.9	$118.0	$90.9	$242.0
Construction and development	193.2	7.5	43.6	41.9	100.3	20.4	68.5	48.4	10.6	14.1	31.3
Commercial real estate	507.6	23.1	134.9	113.2	236.4	83.4	154.4	121.6	31.3	33.8	83.1
Multifamily residential real estate	64.1	1.8	11.8	14.0	36.5	15.6	15.9	16.7	3.2	2.7	10.1
Home equity loans	154.3	2.2	15.4	19.6	117.1	31.1	49.3	48.9	5.4	1.6	17.9
Other 1-4 Family residential	812.0	34.9	132.0	127.0	518.0	188.4	240.2	196.4	56.7	34.7	95.6
Commercial and industrial loans	982.5	23.3	94.7	113.8	750.7	336.3	245.5	225.4	41.2	37.3	96.7
Loans to individuals	631.2	16.9	58.4	98.5	457.4	244.8	126.4	99.0	53.8	22.6	84.6
Credit card loans	232.4	0.4	7.0	37.0	188.0	108.3	23.9	13.9	31.3	0.7	54.4
Other loans to individuals	398.7	16.5	51.4	61.4	269.4	136.5	102.5	85.0	22.5	21.9	30.2
All other loans and leases (including farm)	481.2	15.9	27.7	32.8	404.8	207.0	99.6	106.1	31.0	10.1	27.4
Memo: Commercial RE loans not secured by RE	48.6	0.3	1.3	3.6	43.5	11.7	19.8	8.1	1.0	0.7	7.4
Memo: Other Real Estate Owned (in millions)											
All other real estate owned	$3,568.3	$309.8	$909.2	$537.0	$1,812.3	$592.0	$1,349.1	$686.2	$262.7	$297.2	$381.1
Construction and development	310.1	29.8	154.9	61.7	63.7	37.8	111.8	47.6	35.6	40.7	36.6
Commercial real estate	1,624.2	138.6	388.0	230.2	867.3	263.2	690.4	231.1	100.6	140.9	198.1
Multifamily residential real estate	64.0	8.7	33.0	7.3	15.1	8.5	14.9	15.8	12.4	4.7	7.6
1-4 Family residential	1,377.0	108.8	291.1	231.9	745.2	167.9	516.6	380.6	94.0	89.4	128.6
Farmland	76.4	23.9	40.8	4.6	7.2	1.3	15.4	11.1	20.0	21.6	7.0
Other real estate owned in foreign offices	116.6	0.0	1.4	1.3	113.9	113.3	0.0	0.0	0.0	0.0	3.3

*Noncurrent loan rates represent the percentage of loans in each category that are past due 90 days or more or that are in nonaccrual status.

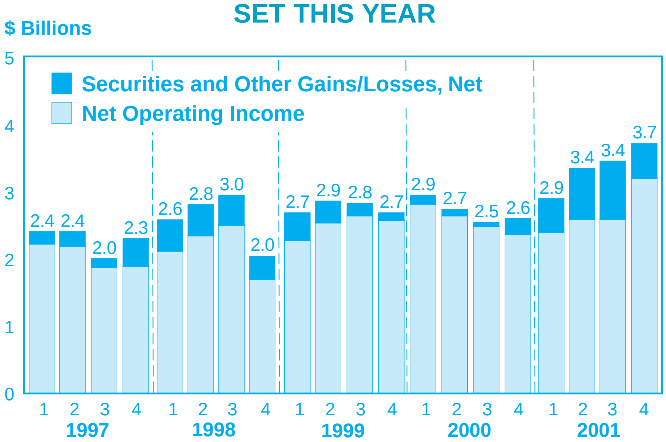
SAVINGS INSTITUTIONS PERFORMANCE—FOURTH QUARTER, 2001

- ***Settlement Of A Large Thrift Failure Leads To Record Quarterly Earnings***
- ***Full-Year Earnings Of $13.3 Billion Sets New Record***
- ***Net Charge-Offs And Noncurrent Loans Both Increase In The Quarter***
- ***Failed Thrift Assets During 2001 Are The Highest Since 1993***

Record Earnings Driven by Settlement of Failed Thrift

FDIC-insured savings institutions reported their third consecutive quarterly earnings record in the fourth quarter, with net income of $3.7 billion, for an average return on assets (ROA) of 1.16 percent. This was the highest quarterly ROA ever reported by the industry. Fourth-quarter earnings included proceeds from a settlement reached with the owners of a failed thrift plus proceeds from the sale of the institution's branches, which together resulted in $514 million in noninterest income. The FDIC currently operates this institution as a conservatorship and the losses recognized when the institution failed were not included in industry earnings this year because they were not carried over in the earnings reported by the conservatorship. Without the proceeds of this resolution, the industry would have reported fourth-quarter earnings of $3.3 billion, for an ROA of 1.02 percent.

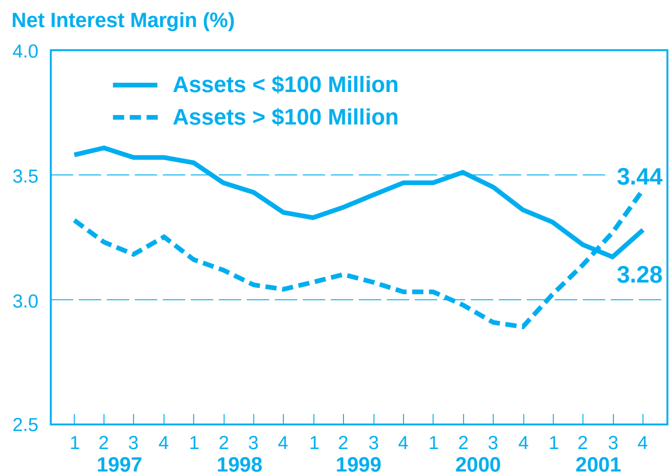
THREE QUARTERLY RECORDS FOR EARNINGS SET THIS YEAR



Industry Achieves Highest Annual Earnings Ever Reported

Full-year earnings of $13.3 billion were the highest ever reported by the industry. The aggregate ROA of 1.08 percent was the highest since 1946. Annual earnings included the proceeds from the large failed thrift resolution, and omitted most of the thrift's losses. Without these distortions, the industry would have earned a record $12.9 billion for an ROA of 1.05 percent, which would still register as the highest earnings and the best ROA since 1946. Declining short-term interest rates resulted in improved net interest margins and net interest income growth in every quarter of the year. Full-year net interest income totaled $36.6 billion which was $4.8 billion (15 percent) higher than in 2000. Lower interest rates allowed thrifts to sell securities and mortgages for gains that amounted to $4.2 billion during the year, over 5 times the gains of $799 million realized in 2000. Provisions for loan losses were $770 million (38 percent) higher this year than last year as the industry responded to deteriorating asset quality. Fourth-quarter provisions were the lowest of the year, but still higher than in any quarter in 2000. Full-year earnings were limited by slow growth in noninterest income, up $336 million (3 percent), while operating expenses rose $3.2 billion (13 percent). A large volume of refinancings led to a reduction in mortgage servicing rights and lowered noninterest income, while operating expenses rose as a result of the higher lending activity. Extraordinary losses of $401 million for the year were primarily the result of losses at one large institution that exited an unprofitable business line in the fourth quarter. Over half (56 percent) of all savings institutions reported higher earnings this year compared to 2000.

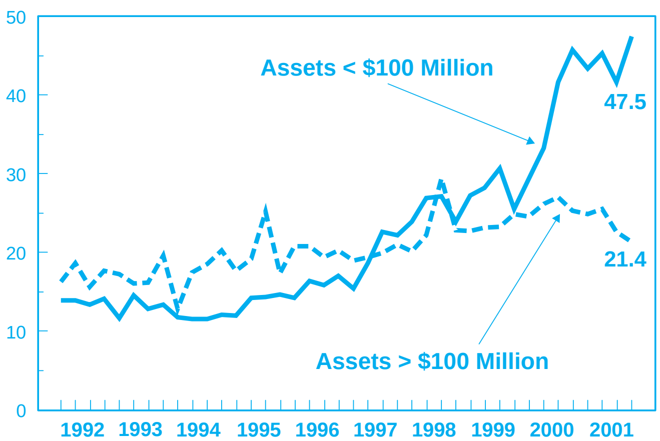
NET INTEREST MARGIN IMPROVEMENT FINALLY ARRIVED FOR SMALL THRIFTS



Net Interest Margins Improve In All Regions and All Size Groups

The industry's net interest margins responded to a yield curve that became steeper during the fourth quarter, rising 17 basis point to 3.44 percent. The cost of funding earning assets declined by 63 basis points, while the yield on earning assets declined by 46 basis points. Small thrifts, with assets of less than $100 million, reported their first increase in margins since the middle of last year, up 11 basis points to 3.28 percent. Most small thrifts rely heavily on margins for profitability and the reversal of the decline in margins helped lift profitability for most of the institutions in this group.

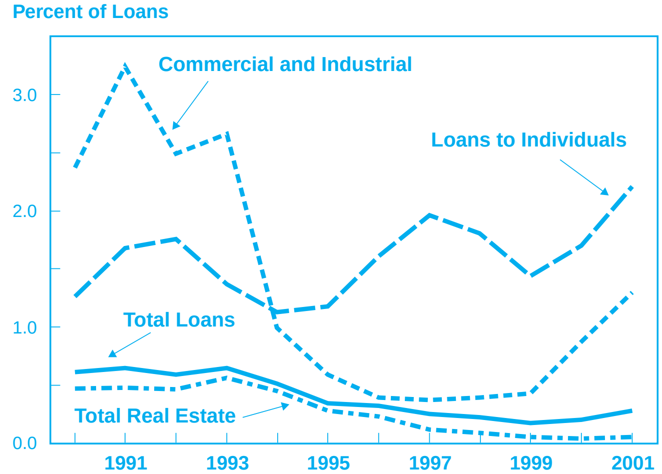
FEE INCOME GENERATION DRIVES EARNINGS OF A FEW SPECIALTY THRIFTS



Small Thrift Earnings Decline Due to Higher Operating Expenses at a Few Thrifts

Profitability of small thrifts, those with assets of less than $100 million, declined and the group reported a weighted average ROA of 0.44 percent for the fourth quarter, down from 0.73 percent in the third quarter and 0.63 percent in the fourth quarter of 2000. An increase in the proportion of operating expenses to earning assets to 5.34 percent from 4.29 percent led to the decline in profitability. While net interest margins improved, noninterest income did not rise as fast as operating expenses. This group generates almost 48 percent of its net operating revenues from fees that are a part of noninterest income. There were 15 specialty thrifts with less than $100 million in assets that generated over 90 percent of their revenue from fees. Without these institutions the remaining thrifts showed improved profitability, primarily because of wider net interest margins, with an ROA of 0.45 percent, up 6 basis points from last quarter.

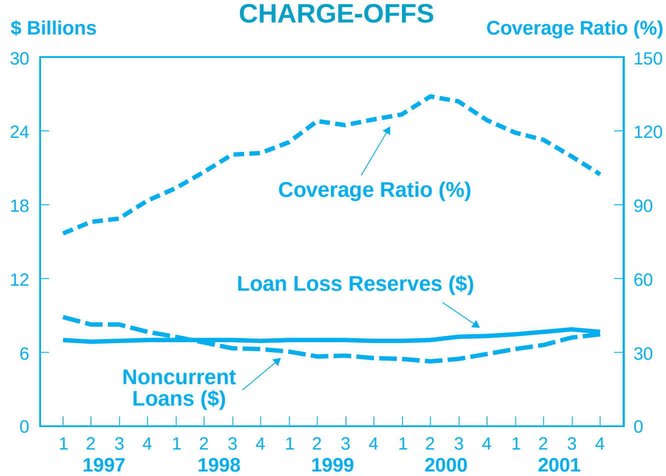
CREDIT CARD LOANS AND COMMERCIAL LOANS DRIVE NET CHARGE-OFF RATES HIGHER



Net Charge-offs for the Year Were Almost Twice as Much as Last Year

Net charge-offs of $725 million in the fourth quarter were the highest since the third quarter of 1994 and they lifted the annual total to $2.3 billion, a $762 million rise (49 percent) over the total for 2000. In the fourth quarter, net charge-offs on credit card plans accounted for 45 percent of all charge-offs and were an annualized 7.72 percent of credit card loans, the highest quarterly rate ever reported. The next highest quarterly rate for credit cards was reported in the third quarter of 1998 when it was an annualized 6.86 percent. For the full year the net charge-off rate on credit card plans was 5.50 percent, up from 3.96 percent in 2000. Commercial and industrial loan net charge-offs declined slightly in the fourth quarter to an annualized 1.15 percent from 1.40 percent in the third quarter. For the full year charge-offs for this category were 1.30 percent, up from 0.87 percent in 2000. Because the charge-off rate on real estate loans rose only 1 basis point to 0.05 percent, total charge-offs rose just 8 basis points to 0.28 percent for the full year.

NONCURRENT LOANS RISE DESPITE HIGHER CHARGE-OFFS



Loan Loss Reserves Declined With Lower Provisions in Fourth Quarter

Loan loss provisions, at $601 million, were almost one-third ($285 million) lower in the fourth quarter compared to the third quarter, but provisions for the year at $2.8 billion were 38 percent higher than in 2000. Net charge-offs were $135 million (23 percent) higher in the fourth quarter and at $725 million they exceeded loan loss provisions for the first time since 1995. The combination of lower provisions and higher net charge-offs drew down loan loss reserves in the fourth quarter by $212 million. Noncurrent loans increased by $317 million during the quarter despite the aggressive charge-offs taken. As a result, the coverage ratio — loan loss reserves to noncurrent loans — declined to 102 percent from 110 percent last quarter.

Industry Asset Growth Was Strong for Fourth Year in a Row

Industry assets have grown by between 6 and 7 percent over each of the past four years after two years of virtually no growth. The assets of insured savings institutions, at $1.3 trillion, grew by $10.3 billion during the fourth quarter. Home equity loans ranked as the fastest growing asset category, rising 30 percent over the past year and up $1.9 billion in the fourth quarter. Credit card plans also showed strong growth in the fourth quarter, up $869 million (5 percent) to $17.4 billion. Securities increased $9.3 billion to $285 billion, but their share of industry assets fell to its lowest level at year-end since 1982. U.S. government obligations increased by $19.9 billion during the fourth quarter, while mortgage backed securities including collaterallized mortgage obligations showed a decline.

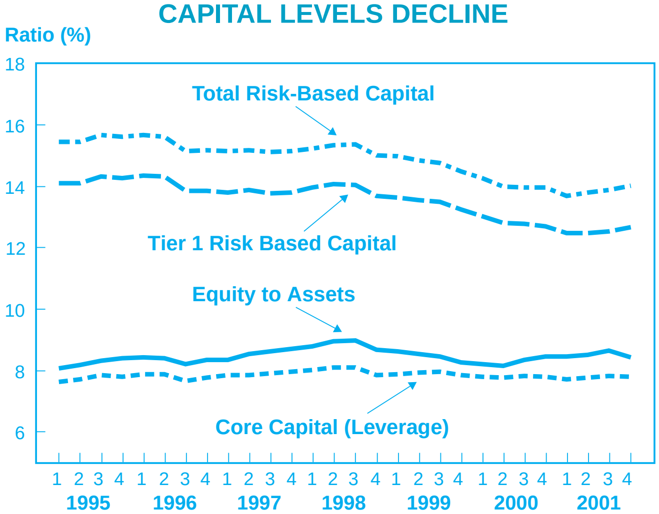
Deposit Growth Funded Most Asset Growth

Asset growth was funded primarily with deposits, up $8.1 billion in the fourth quarter. Deposits represent 67 percent of funding, up from a low of 66 percent last year. This was the first time since 1991 that deposits funded a higher share of liabilities. Demand deposits declined by $2.3 billion during the quarter, while large deposit accounts increased by $5.7 billion. Other borrowed funds increased $6.3 billion, but Federal Home Loan Bank advances fell $1.3 billion as thrifts paid down some of their high cost borrowings. Equity capital declined by $1.7 billion primarily because of a $2-billion decline in the after-tax value of available-for-sale (AFS) securities. Capital was 8.44 percent of assets at year-end, down from 8.64 percent at the end of the third quarter. Core capital, which does not include changes in the value of AFS securities, was 7.80 percent of assets, down slightly from 7.82 percent because of asset growth.

New Charter Growth Slows

After three years of strong charter formation, 2001 ended with only 17 new charters, down from 32 in 2000. Two of these new charters were issued to absorb other charters, leaving just 15 de novo charters for the year including 4 that began operations in the fourth quarter. There were 6 mergers with other thrifts and commercial banks absorbed 12 thrifts by merger during the fourth quarter. Another 6 thrifts converted their charter to commercial bank charters in the fourth quarter. Assets of the 18 thrifts absorbed into the commercial banking industry totaled $31 billion. As a result of these changes, there were 1,533 savings institutions that filed a report for the fourth quarter. Other structural changes included 9 mutual to stock ownership conversions involving $2.2 billion in assets. There were no failures during the fourth quarter, but the 1 failed institution in the third quarter involved $2.2 billion in assets. This was the highest annual total for failed thrift assets since 1993, when 10 thrifts with $7.1 billion in assets failed. The number of "problem" thrifts declined to 19 with $3.7 billion in assets from 20 with $3.9 billion in assets. Assets of "problem" thrifts were at the lowest level since the third quarter of 1998 when they were $2.9 billion.

CAPITAL LEVELS DECLINE



THE NUMBER OF NEW CHARTERS DROPS BY ALMOST HALF