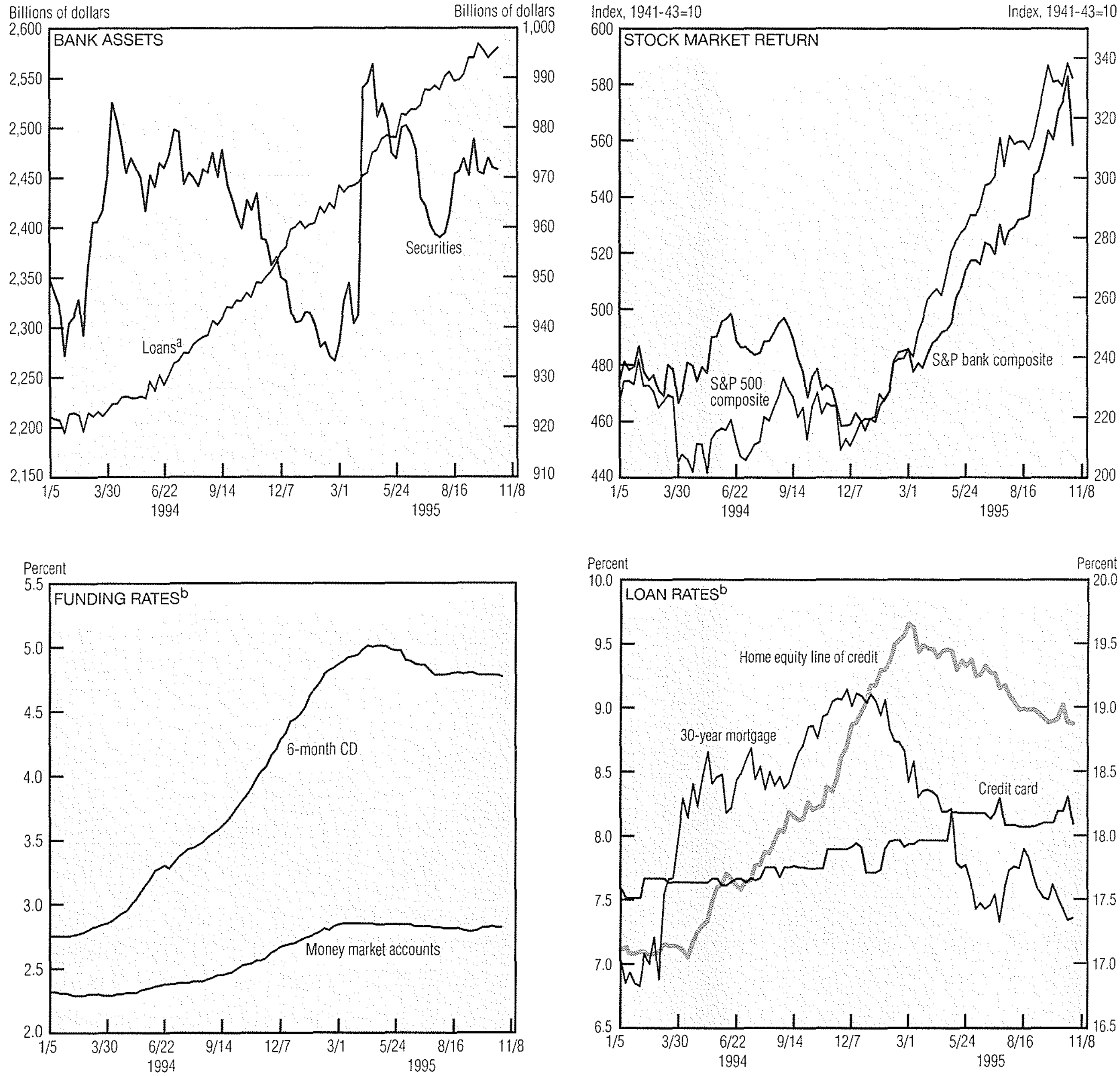
Banking Conditions



a. All data are pro rata monthly averages of Wednesday values.
b. *Bank Rate Monitor* national indexes for depository institutions.
SOURCES: Board of Governors of the Federal Reserve System; Standard & Poor's Corporation, and *Bank Rate Monitor*.

Loans by commercial banks continue to expand at a steady pace, up 10.5% over a year ago. By contrast, banks have seen low growth in their securities holdings which, despite some ups and downs, remain very close to their levels of late August.

The growth in loans does not seem to be a reaction to major changes on either the demand or the supply side of the banking market. While the 30-year mortgage rate has dropped from 9.14% last November to 7.36% now, its current level is just slightly above the rate posted in mid-July. Rates on home equity lines of credit show a similar but much more attenuated pattern: The current level of 8.87% represents a drop of only 78 basis points (1/100 of 1%) from its peak in March. As expected, credit-card rates remain fairly steady.

On the supply side, the rates banks pay for funds have entered a stable pattern not observed in a while. The six-month CD rate has dropped only one basis point (to 4.77%), the first decrease since September, and remains almost identical to the July rate (4.78%). Money market accounts show even more stability, with the current 2.82% rate almost even with late February's 2.83%.

The market for bank stocks took the continued increase in loans at steady or slightly tightening margins as good news, increasing in tandem with the Standard & Poor's 500 Composite. More recently, however, bank stocks have dropped sharply, perhaps reflecting uncertainty about how long profitable loan growth can continue.

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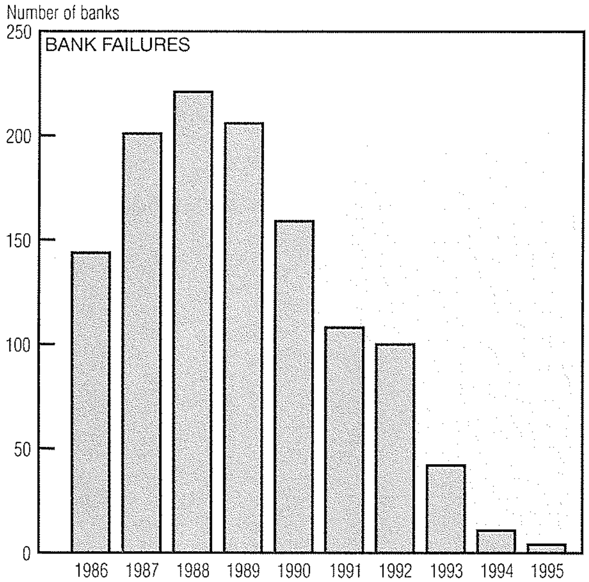
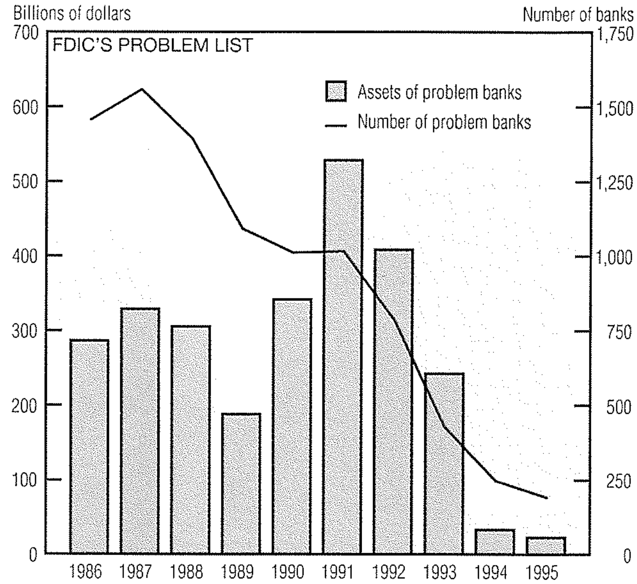
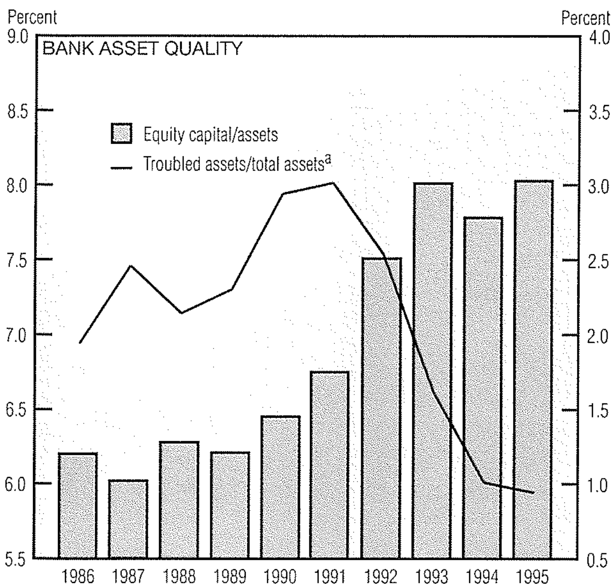
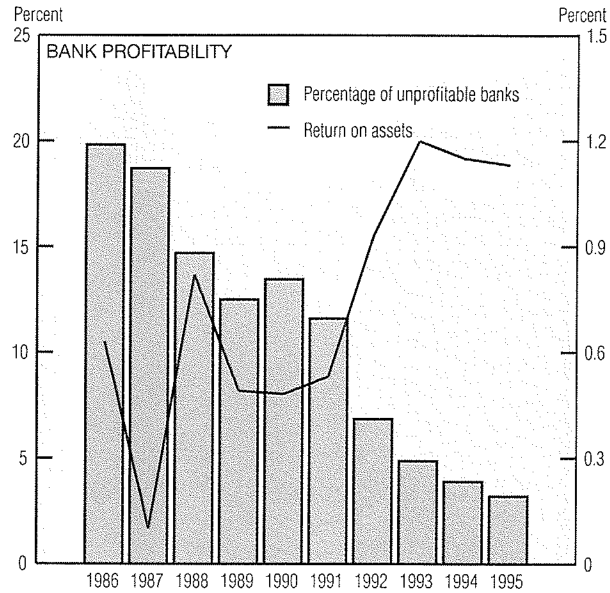
Banking Conditions (cont.)









a. Troubled assets include noncurrent loans and leases plus other real estate owned.
NOTE: All data are for FDIC-insured commercial banks. 1995 data are for the first half of the year and are annualized where appropriate.
SOURCE: Federal Deposit Insurance Corporation.

Midyear data also indicate a continued overall healthy performance by the commercial banking sector. Only four commercial banks were shut down during the first half of 1995, the same number as were closed during the first half of 1994.

The number of banks now classified as "problem institutions" has shown a marked decline—to 190, down from 247 at the end of 1994. The assets of these troubled banks have also fallen, from $33 billion to $23 billion, reflecting a decrease in the average size of the institutions as well as the dropoff in their number.

The quality of commercial bank assets has also continued to show significant improvement. Equity capital as a percentage of total assets reached 8.03% at midyear 1995, up from 7.83% one year earlier, as equity capital growth outpaced an increase in assets. Nonperforming assets, which stood at 1.27% of total assets in mid-1994, declined to 0.94% of total assets.

As the health of the commercial banking sector continues to improve, so does the profitability of commercial banks. The percentage of unprofitable banks fell to 3.20% at midyear 1995, down from 3.89% at the end of last year. Return on assets, although down slightly from last year's performance, remains above 1%, almost twice the level of 1989–91.