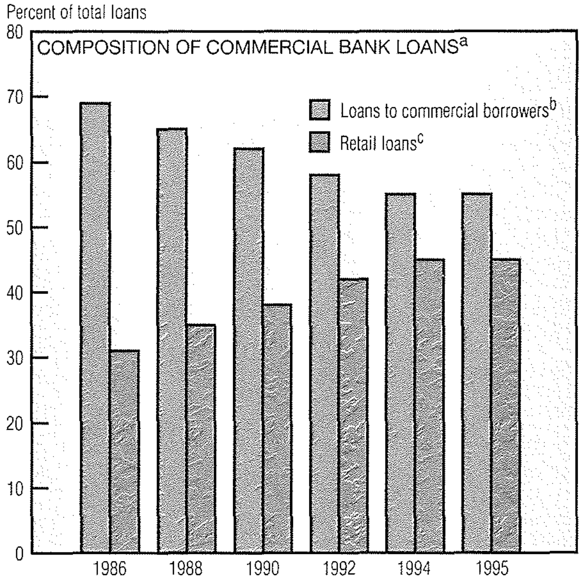
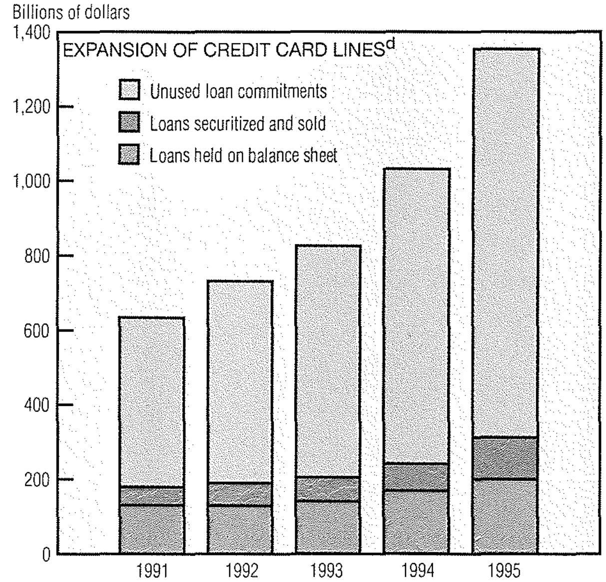
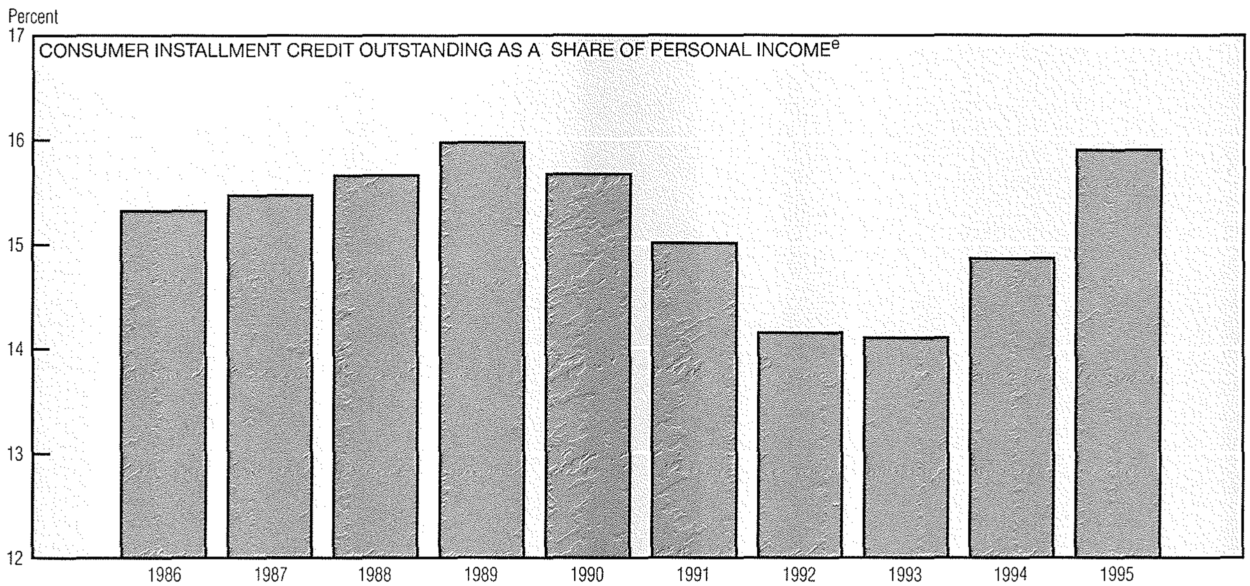
Banking Conditions







a. Figures are for December of years shown, except for 1995, which is for September. Data are for FDIC-insured commercial banks.
b. Includes commercial and industrial loans, multiple mortgages, commercial real estate, construction, and agricultural loans.
c. Includes consumer and credit card loans, one- to four-family residential mortgages, and home equity loans.
d. Figures are for September of years shown and are for FDIC-insured commercial banks.
e. 1995 figure is through August.
SOURCES: Federal Deposit Insurance Corporation; and U.S. Department of Commerce, Bureau of Economic Analysis.

Since 1986, commercial banks have been substituting retail loans for loans to commercial borrowers. Although the trend appears to have stopped in 1995, this does not imply a reduction in the credit available to consumers, who experienced an expansion of their credit lines.

As reported on bank balance sheets, consumer credit rose $57.6 billion in the 12-month period ended September 30, 1995—an increase identical to that posted over the prior 12 months. On-balance-sheet figures, however, mask much of the growth in consumer credit. More than two-thirds of the consumer credit available at the end of September appeared as off-balance-sheet items, primarily unused loan commitments (unused lines of credit extended to credit card customers) and outstanding credit card loans that have been securitized and sold to others.

The value of unused loan commitments to credit card holders was up $252.1 billion in the 12 months ended September 30, 1995, a significant increase from the previous 12-month period, when a $168.3 billion gain was reported. Over the latest 12 months, the increase in credit card loans securitized and sold also escalated, up $38.8 billion, compared with only $8.6 billion in the prior 12-month period.

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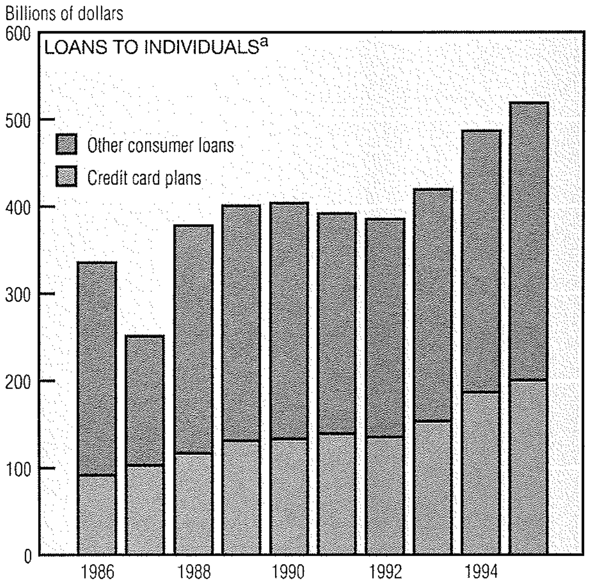
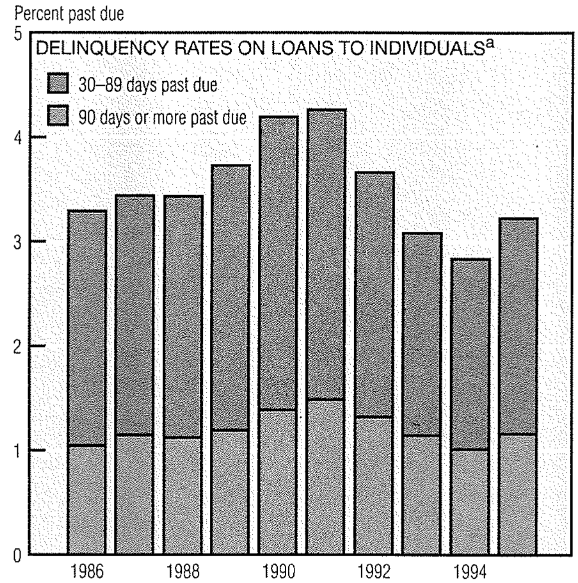
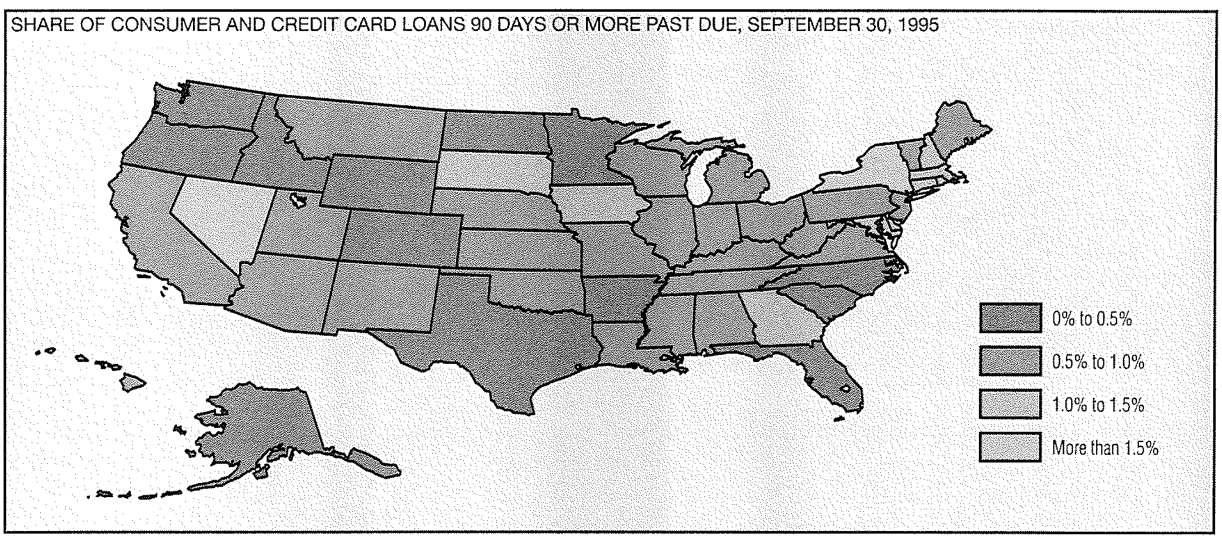
Banking Conditions (cont.)







a. Figures are for December of years shown, except for 1995, which is for September.
NOTE: All data are for FDIC-insured commercial banks.
SOURCE: Federal Deposit Insurance Corporation.

The rapid growth in loan commitments made available to consumers has been motivated by the high yields associated with credit card loans. In the first three quarters of 1995, credit card loans accounted for only 7.8% of total bank lending, but were responsible for 12.2% of the loan income that banks received. Credit card lending remained a highly concentrated business: The 50 largest credit card lenders owned almost 80% of all credit card loans.

The sustainability of credit card loan profits has been questioned because of the increase in delinquency rates observed in the first three quarters of 1995. Furthermore, the rapid growth in loan commitments may also be a sign of increased competition, which could have a negative impact on the attractive yields that banks are currently receiving on credit card loans.

Some bank industry observers have expressed concern about the rise in credit card delinquencies and the growing level of consumer debt. With the ratio of outstanding consumer installment credit to personal income only slightly below its 1989 peak, there is some question about the implications for bank credit quality. As yet, however, overall bank asset quality and capital remain strong.