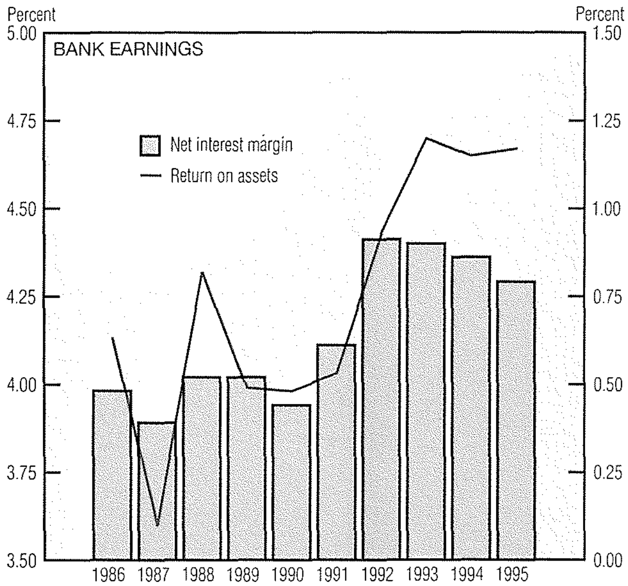
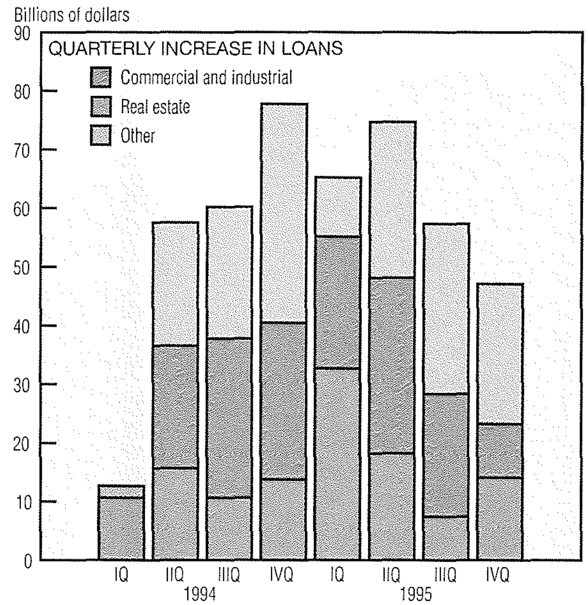
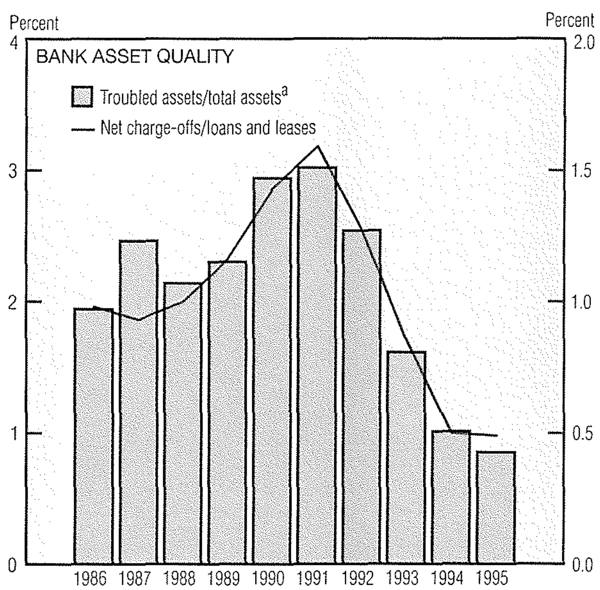
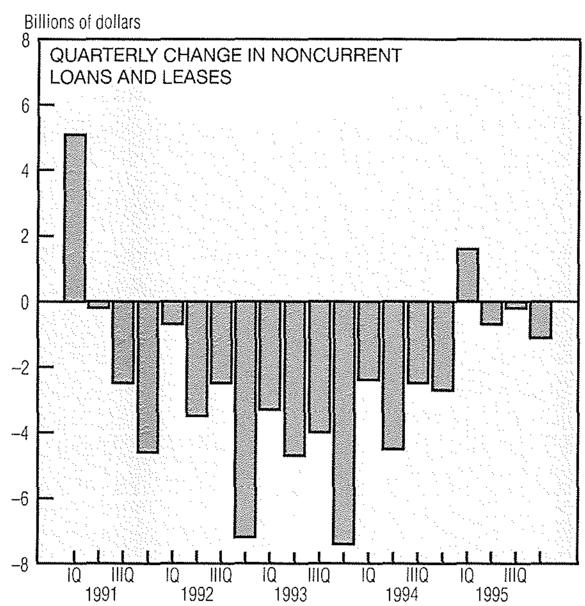
http://clevelandfed.org/research/trends
April 1996
Best available copy

Banking Conditions









a. Troubled assets include noncurrent loans and leases plus other real estate owned.
NOTE: All data are for FDIC-insured commercial banks.
SOURCE: Federal Deposit Insurance Corporation.

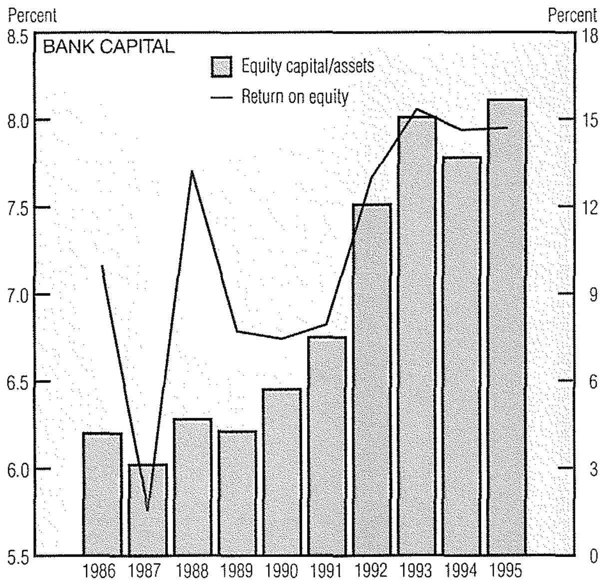
Insured commercial banks reported a near-record income of $12.1 billion in 1995:IVQ and set a yearly record for total income of $48.8 billion. Nearly 97% of all banks reported positive earnings for the year, and 68% saw higher incomes than in 1994. The good times were spread nationwide and across both big and small banks. This health was reflected in banks' return on assets, which came in above 1% for the third year in a row.

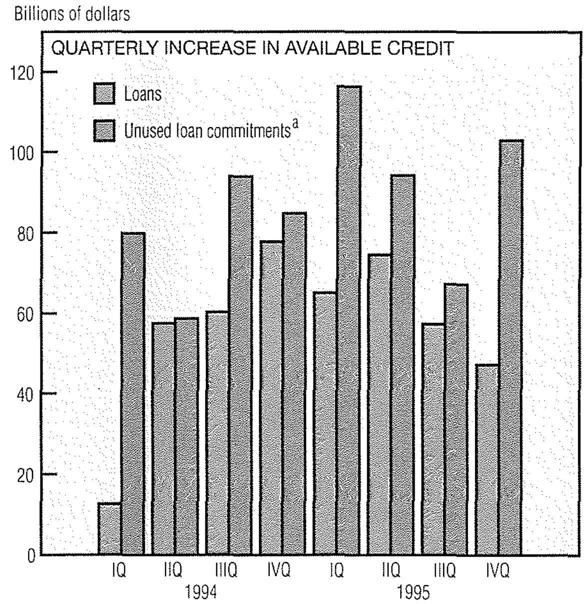
Several components contributed to the record earnings. Banks' net interest margin remained solid despite a slight decline, with increased earning assets, particularly loans, taking up the slack. Real estate loan growth, often volatile, slowed somewhat in the fourth quarter, increasing only $4.1 billion. Commercial and industrial loans advanced a healthy $14.1 billion and other loans rose $15.2 billion, led by credit card loans. Overall, 1995 saw the highest share of loan growth since 1984 and the largest dollar gains ever. Higher fee income, lower insurance assessments, and profitable sales of investment securities completed the rosy earnings picture.

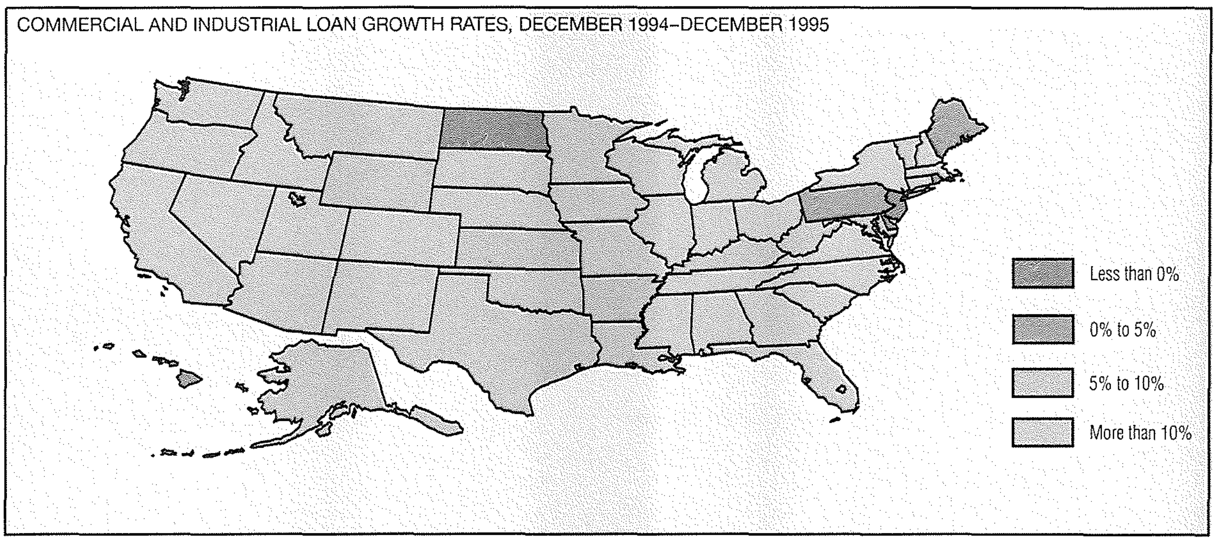
An absence of serious problems also helped. Although loan-loss provisions rose for the year (the first time since 1991), net charge-offs held steady and troubled assets fell. The fourth-quarter numbers could portend trouble, however: Net

(continued on next page)

Banking Conditions (cont.)







a. Includes credit card lines, home equity lines, commitments for construction loans, loans secured by commercial real estate, and unused commitments to originate or purchase loans.
NOTE: All data are for FDIC-insured commercial banks.
SOURCE: Federal Deposit Insurance Corporation.

charge-offs rose for the second consecutive quarter, delinquent consumer loans increased $1.2 billion, and credit card delinquencies rose to their highest level in two years. Overall, though, noncurrent loans and leases posted a decline, for the eighteenth time in twenty quarters.

The good news paid off handsomely on the equity side, with banks reporting an impressive 14.68% return on equity. At this rate of return, a dollar will double in less than five years. Small banks lagged somewhat, earning 11.4%. One sign of banks' strong profitability and continued good health is that despite growth in assets, the ratio of equity capital to assets surged above 8%.

From the borrower's perspective, available credit abounded, reflecting growth in both loans and unused lines of credit. In the fourth quarter, unused lines increased by more than twice as much as actual loans. Businesses and consumers apparently wanted to position themselves to take advantage of even faster growth, and banks seemed willing to lend. The continuing economic recovery has indeed bolstered banks' balance sheets, but some observers have cautioned that banks may be overlending in good times.

Strong loan growth across the country last year obscures a minor banking milestone: For the first time in recent history, the number of commercial banks dropped below 10,000.