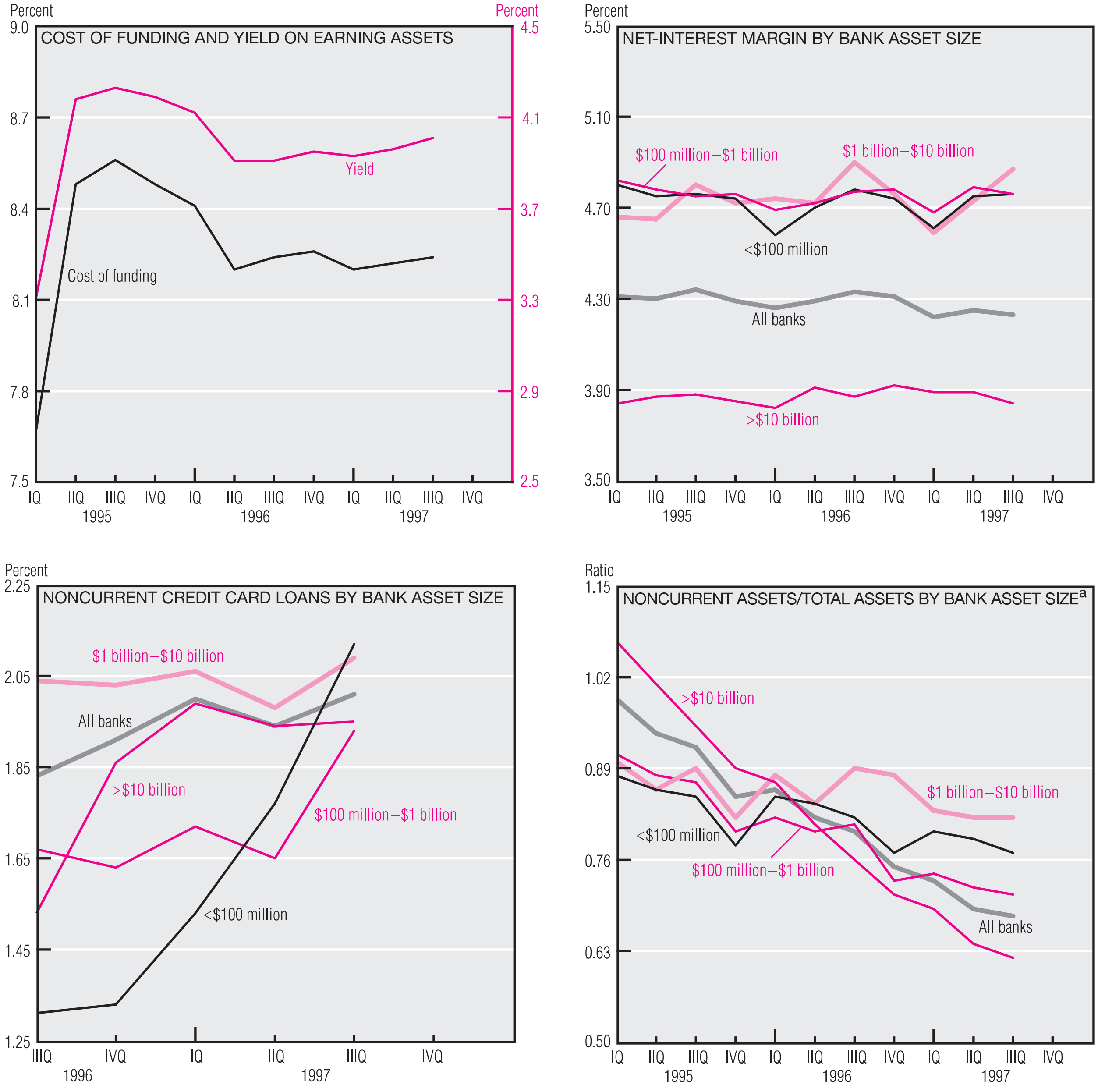
Banking Conditions



a. Banks' noncurrent assets include "other real estate owned."
NOTE: All data are for FDIC-insured commercial banks.
SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

The first three quarters of 1997 set consecutive earnings records for U.S. commercial banking. Although the dollar amount of earnings continued to rise in the third quarter, the return on assets fell slightly to 1.22% (from 1.24% in the second quarter). The industry's position seems much strengthened since the first nine months of 1996, partly because earnings for 1996:IIIQ were depressed by a one-time assessment to capitalize the Savings Association Insurance Fund.

In 1997:IIIQ, net-interest income rose for the industry as a whole because the amount of interest-earning assets increased. Net-interest margins actually declined because the cost of funding earning assets increased more than the average asset yield. Margins remained lowest for the largest banks and increased sharply for the second consecutive quarter for banks with $1 billion to $10 billion in assets.

Although the latest gain in quarterly earnings came largely from banks specializing in credit card lending, the share of noncurrent credit card loans continued to grow for the industry as a whole. Credit card loan charge-offs were the largest contributor to the $4.8 billion in net loan charge-offs, the highest posting since 1993. Other asset quality indicators continue to improve. For example, the ratio between noncurrent assets and total assets is still declining sharply.