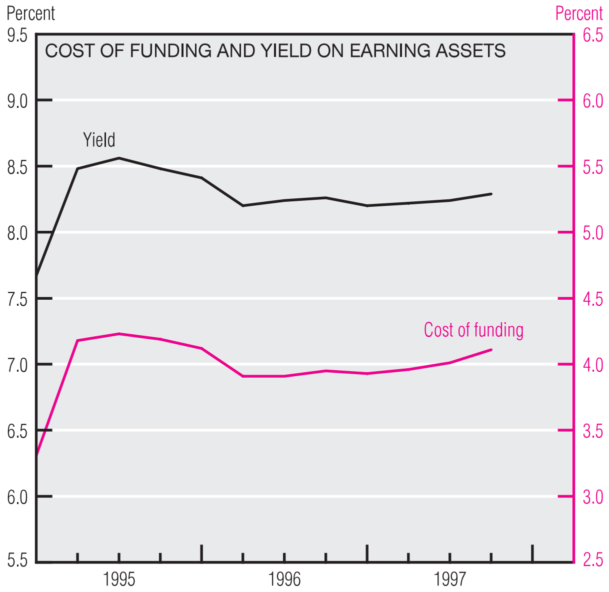
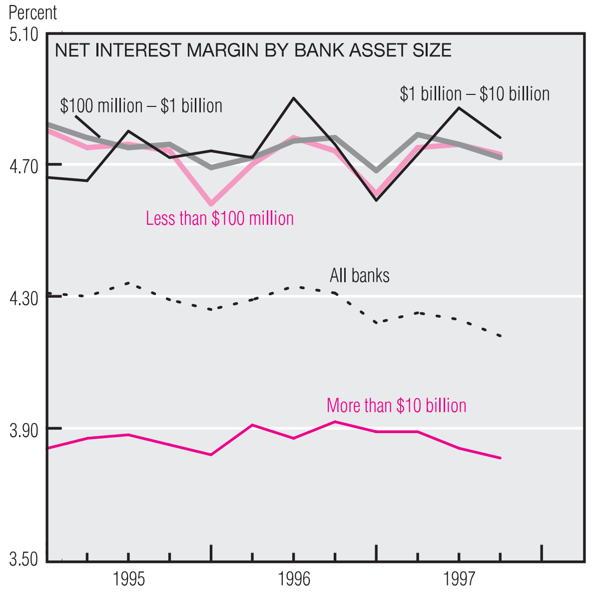
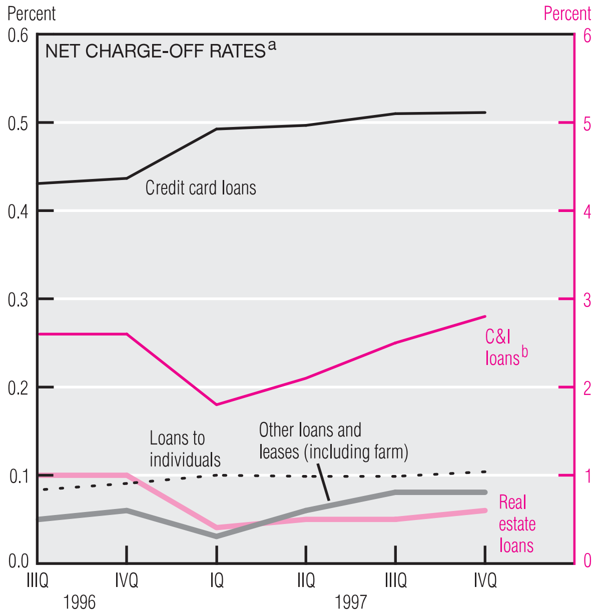
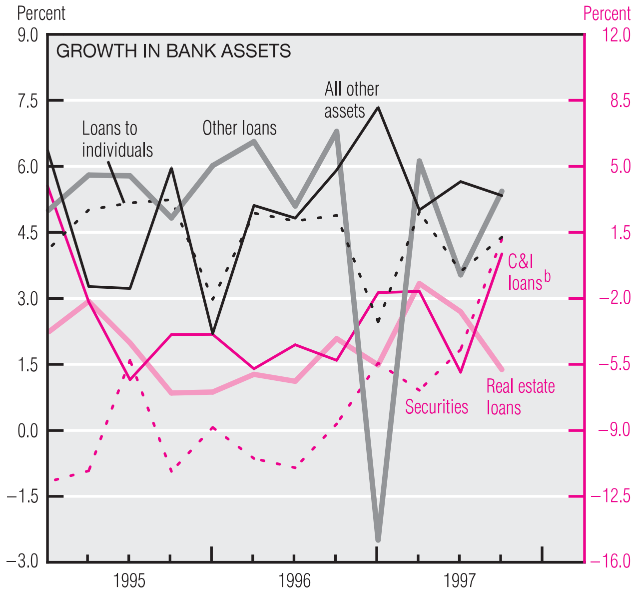
Banking Conditions









a. The net charge-off rate is the percentage of total loans that banks remove from their balance sheets because of uncollectibility, less amounts recovered on loans previously charged off, expressed as an annual rate.
b. Commercial and industrial.
NOTE: All data are for FDIC-insured commercial banks.
SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

Insured commercial banks reported net income of $15.3 billion for 1997:IVQ, surpassing the previous quarter's record high. Net interest income was a major contributor to the record-breaking net income and to quarterly earnings that were 11.5% higher than a year earlier.

Despite a narrower margin between the yield on earning assets and the cost of funding such assets, growth in earning assets fueled the rise in net interest income. In 1997:IVQ, margins narrowed for all asset-size classes of banks. In the two previous quarters, banks with assets between $1 billion and $10 billion saw widening margins. For the industry as a whole, 1997 was the fifth consecutive year of declining net interest margins.

Net charge-off rates for 1997 increased from a year earlier. In the fourth quarter, charge-off rates rose on commercial real estate loans and consumer loans other than credit cards. According to some measures, the credit risk of bank asset portfolios has risen while loan portfolios have shifted toward higher-risk loans and lower-risk securities have been replaced by higher-risk loans. Overall, bank asset quality is neither improving nor deteriorating.