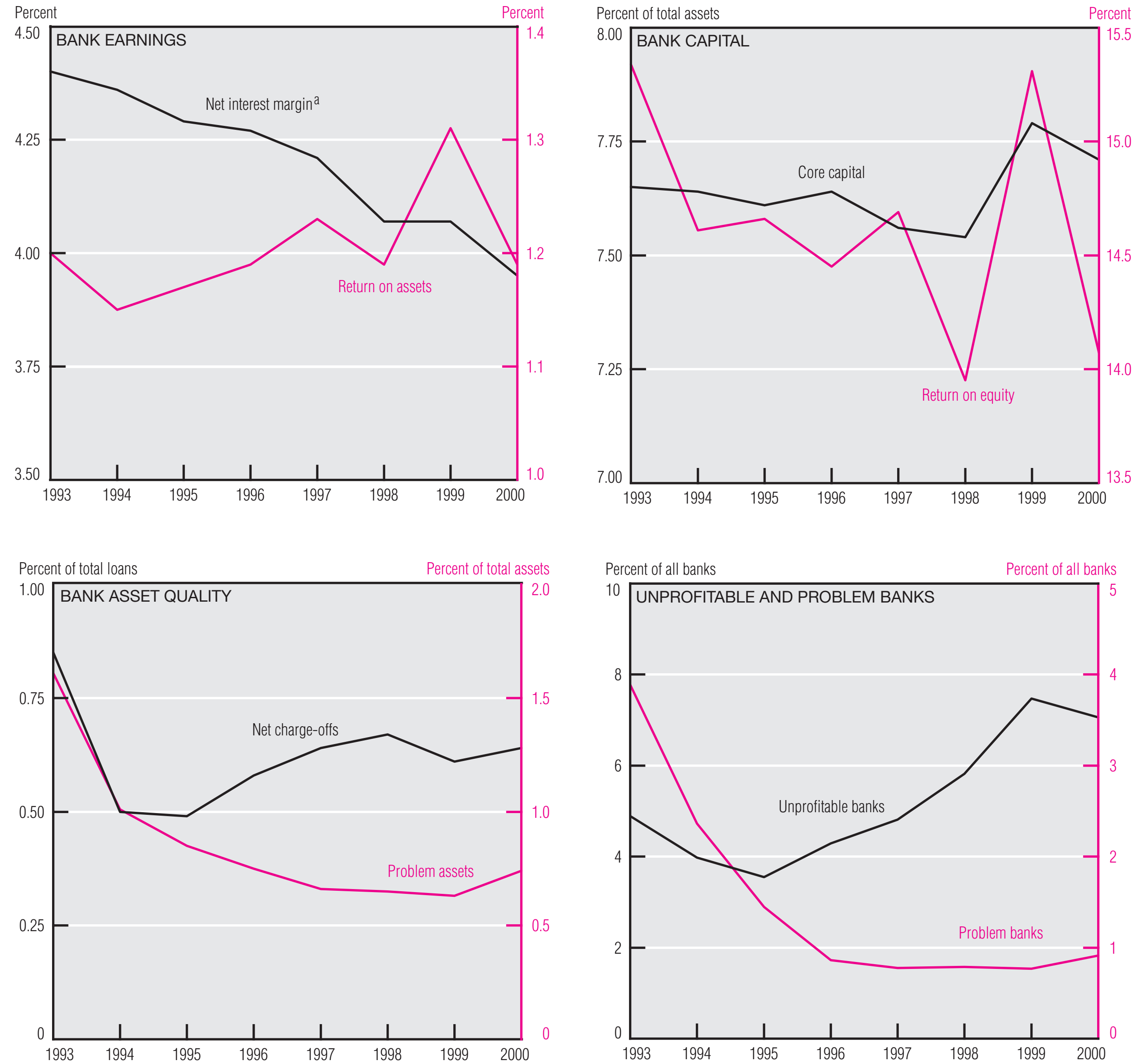
# Commercial Banks




a. The net interest margin equals interest income less interest expenses, both divided by average earning assets.
SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

Commercial banks showed negligible deterioration in 2000, with earnings of $71.176 billion, off slightly from 1999. Return on assets also declined somewhat (1.19% in 2000, compared to 1.31% in 1999). Downward pressure on profits was apparent in the net interest margin, which dropped from 4.07% at the end of 1999 to a 10-year low of 3.95% at year-end 2000.

Return on equity for 2000 was 14.07%, compared to 15.31% the previous year. This drop must have been due primarily to a lower return on assets, since core capital remained a healthy 7.71% of total assets, only a small decrease from 1999. Asset quality continued strong, with problem assets still less than 1.00% of the total. However, the increase in this share (from 0.63% in 1999 to 0.74% in 2000) could indicate some weakness in asset quality. This bears watching, especially as the economy slows down. In addition, net charge-offs increased slightly (from 0.61% of loans at year-end 1999 to 0.64% at year-end 2000, but still below the 1998 peak of 0.67%).

While earnings have slowed somewhat, the share of unprofitable banks fell from 7.47% of all banks at year-end 1999 to 7.06% in 2000:IVQ. On the other hand, the share of problem banks (those with substandard examination ratings) rose slightly to 0.91% at year-end 2000.

Although these changes in performance indicators are consistent with some weakening in the banking sector, they do not suggest significant deterioration. However, the current economic slowdown raises the question of whether the deterioration observed in 2000 will remain negligible in 2001.