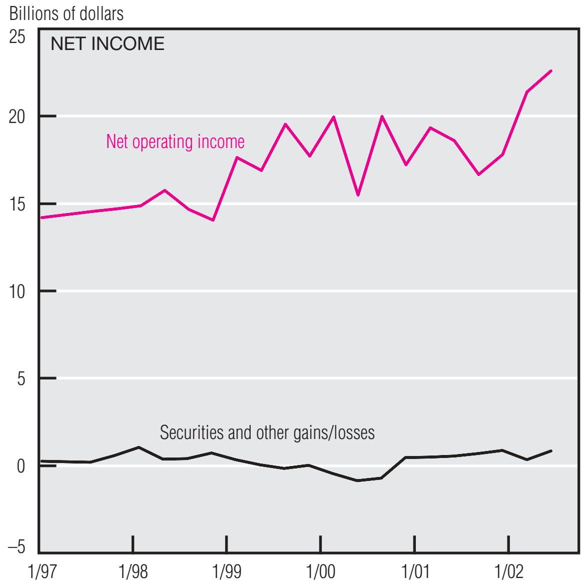
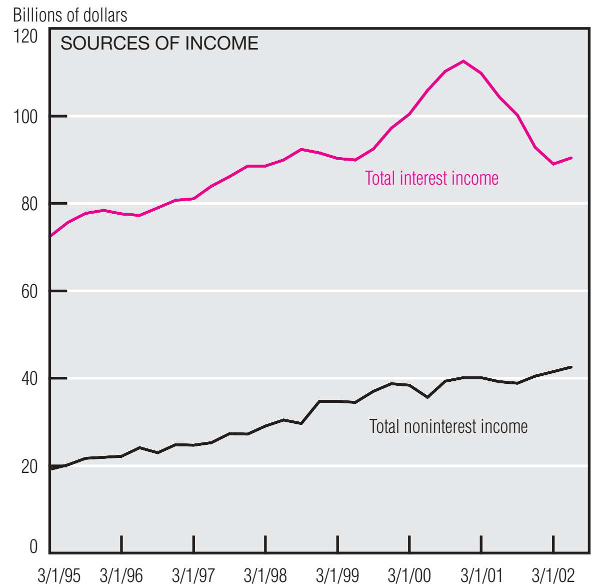
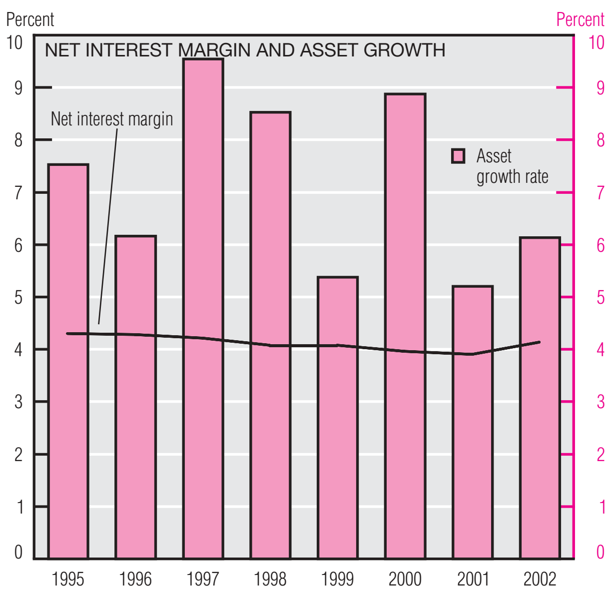
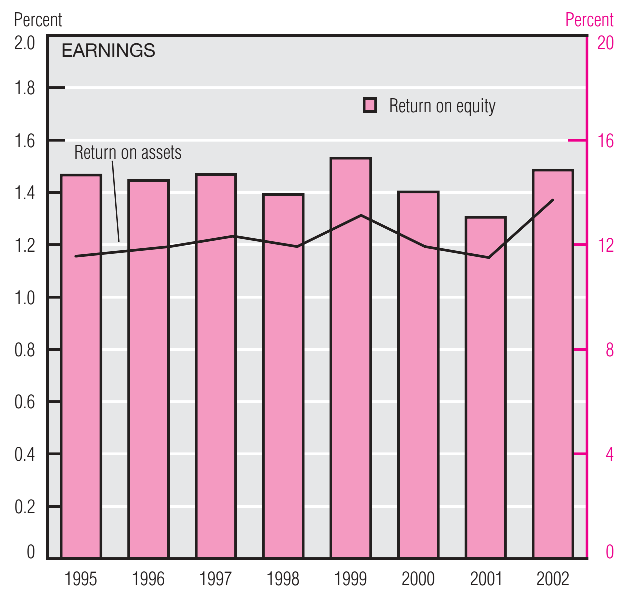
Commercial Banks









NOTE: Observation for 2002 is second-quarter annualized data.
SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

In 2002:IIQ, FDIC-insured depository institutions reported net income of $23.4 billion, representing a 7.9% increase from the previous quarter. Strong demand for consumer loans offset weaker demand for commercial loans, producing an increase in net income.

Depository institutions' total interest income increased slightly to $90 billion in 2002:IIQ, the first improvement in interest income since 2000. However, total noninterest income was 8.6% higher than in the same quarter a year ago, another sign that the earnings pressures that tormented banks in the second and third quarters of 2001 are finally abating.

Commercial banks' strong earnings performance is once again apparent in the net interest margin. Net interest is equal to interest plus dividends earned on interest-bearing assets minus interest paid to depositors and creditors. In 2002:IIQ, the net interest margin, which is net interest expressed as a percentage of average earning assets, rose to 4.13%, its highest level since 1997. This rise offset depository institutions' asset growth of 6.13%, pushing their return on assets to 1.37%, which matched the all-time high reached in 1999:IIIQ. Second-quarter return on equity, 14.85%, was also at its highest level since 1999.

Net loans and leases as a share of total assets decreased from 58.7% in 2002:IQ to 57.7% in 2002:IIQ. Net

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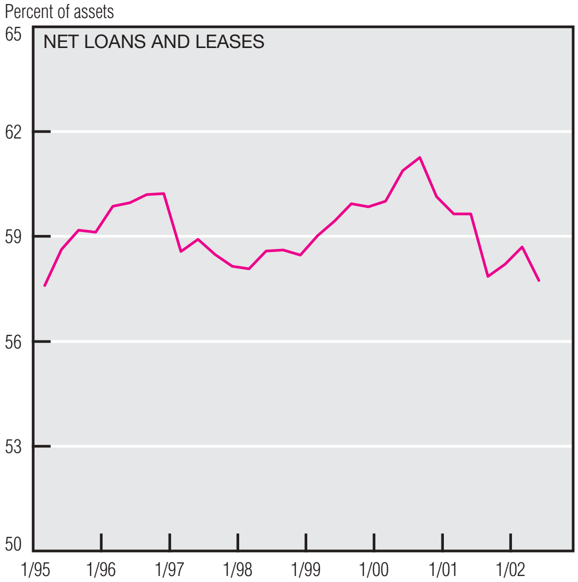
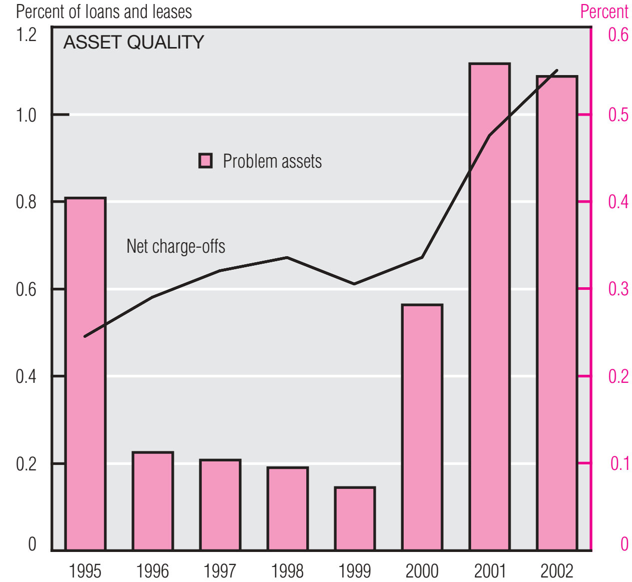
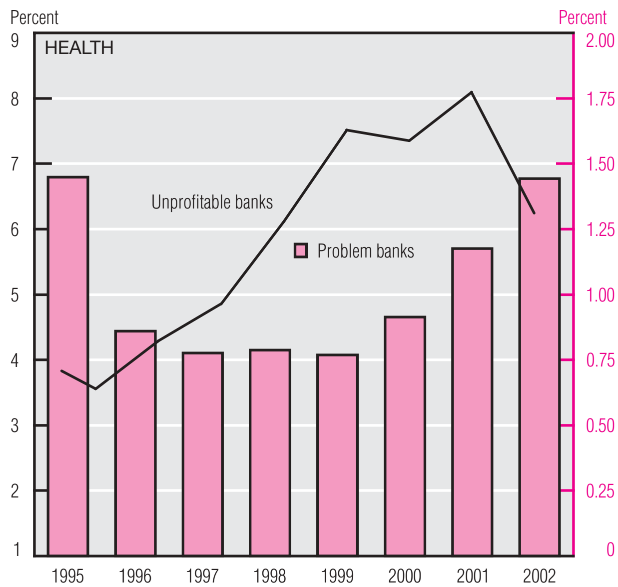
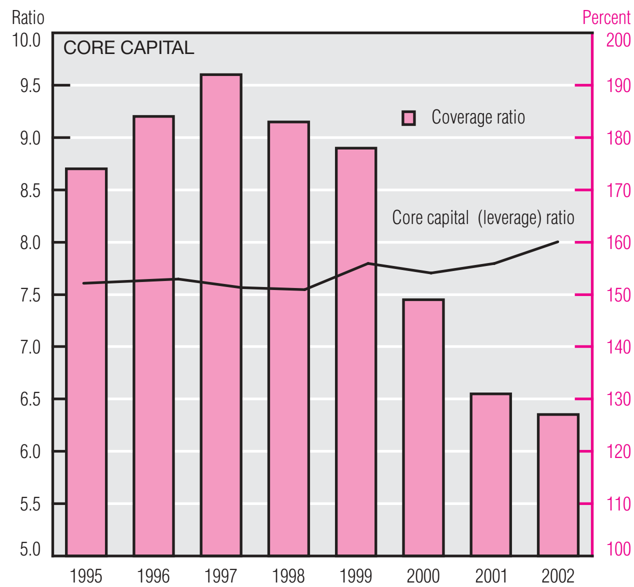
Commercial Banks (cont.)









NOTE: Observations for 2002 are second-quarter annualized data.
a. Net income equals net operating income plus securities and other gains and losses.
SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

loans and leases grew 2.1%, but total assets grew 3.8%, resulting in a slight drop in the ratio from the first quarter to the second. Although the ratio was well below its recent high of 61.3% in 2000:IIIQ, lending was brisk during the second quarter, partly because of refinancing activity spurred by low interest rates.

Asset quality gave mixed signals in the second quarter. Net charge-offs (total noncollectable loans and leases removed from balance sheet, minus recoveries), which have been rising since 1999, stood at $10.6 billion or about 1.1% of depository institutions' commercial and industrial loans. However, problem assets (nonperforming loans and repossessed real estate) as a share of loans and leases fell slightly to 0.54%, its first decrease since 1998.

Problem banks (those with substandard exam ratings) reached 1.44%, the highest level since 1995. However, declining asset quality is not a significant problem for FDIC-insured depository institutions, where the percent of unprofitable institutions is falling and currently stands at 6.24%. The coverage ratio (prudential reserves as a share of noncurrent loans and leases) fell to 127%. Core capital, which protects depository institutions against unexpected losses, is at 8%, its highest recorded level, up from 7.89% in 2001. Most of these performance indicators point to a strong banking sector.