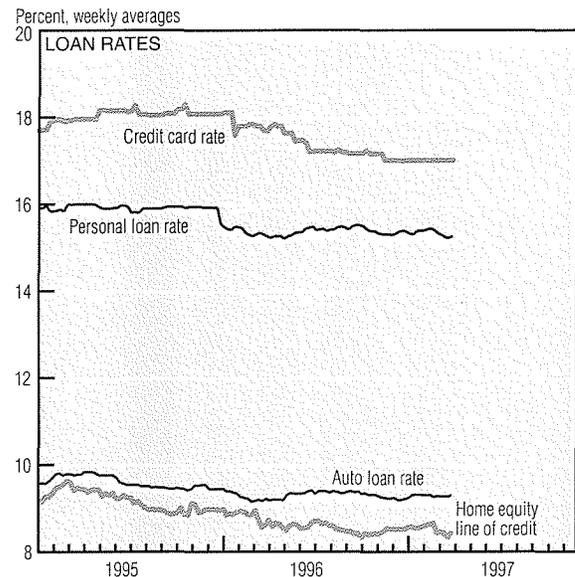
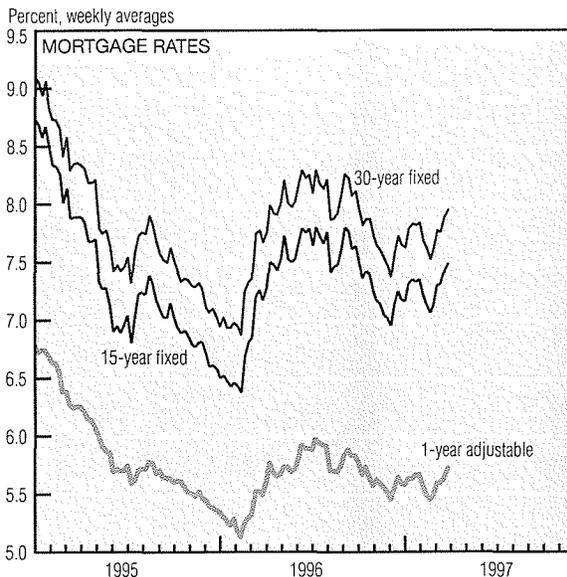
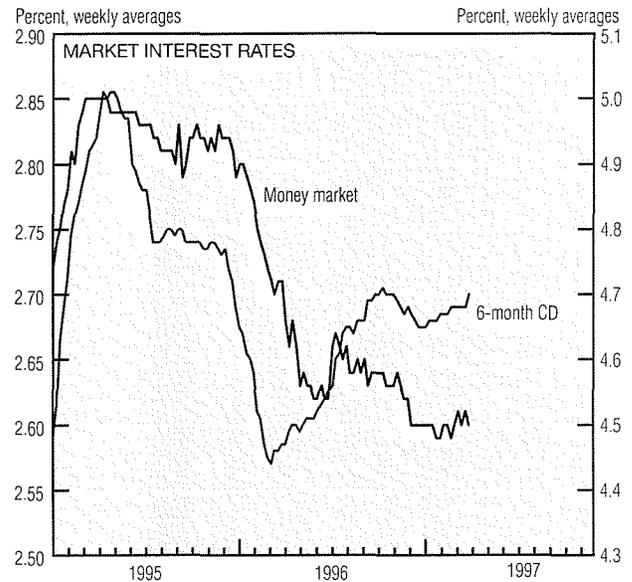
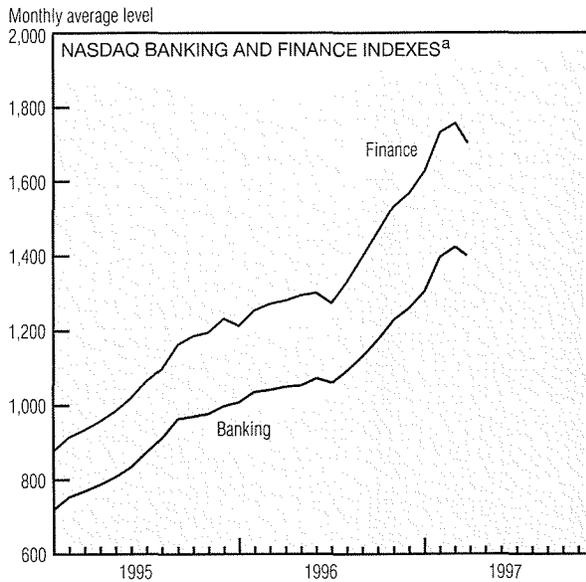


# Banking Conditions



a. The last data point in both series is a daily quote for March 27.  
 SOURCES: DRI/McGraw-Hill; and *Bank Rate Monitor*, various issues.

The run-up in bank share prices has recently abated. This is consistent with concerns about possible overvaluation of bank stocks and reports that bank insiders have been selling stocks for months. Insider sales may indicate that those with superior information about bank prospects anticipate weaker earnings down the road. Once made public, this infor-

mation could precipitate a drop in prices. If this interpretation is correct, news of insider selling could itself trigger a sell-off and price decline.

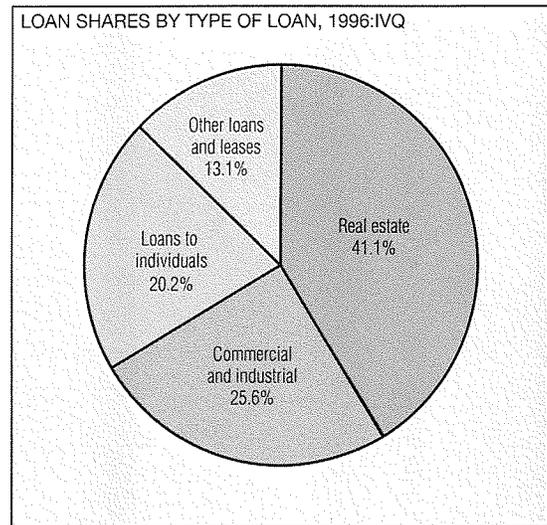
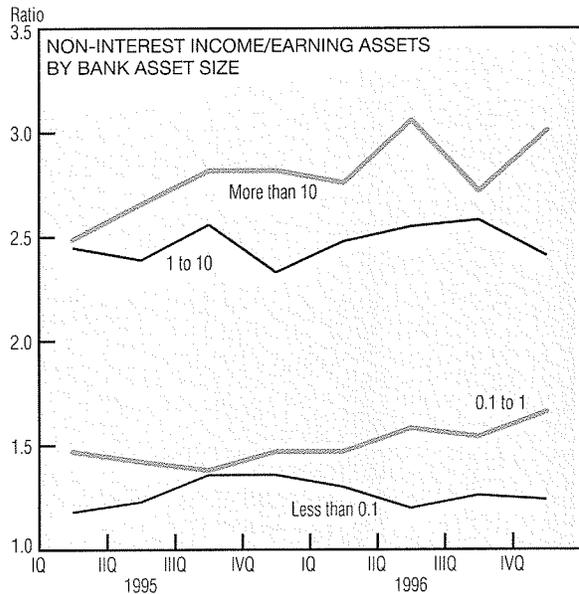
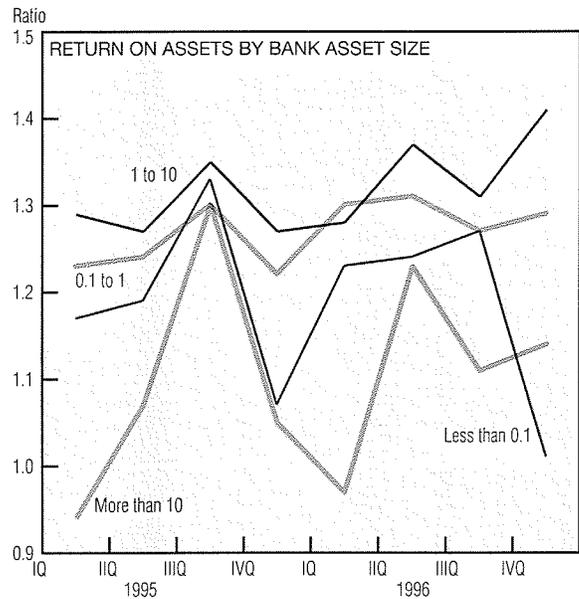
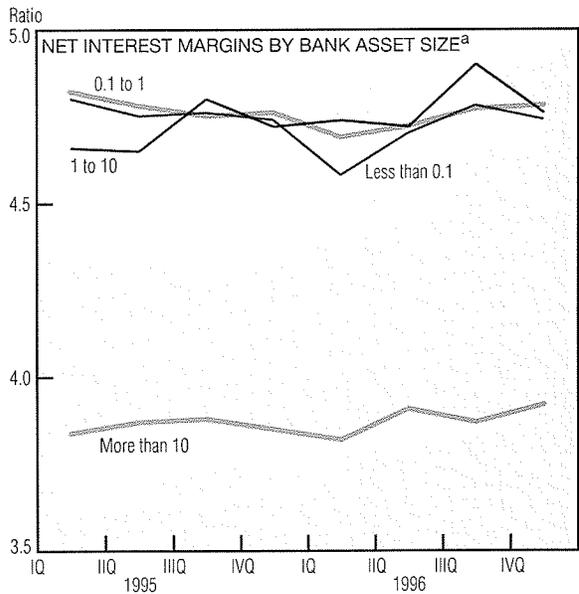
Anticipation of higher interest rates and tighter loan markets may also be dampening investors' enthusiasm. However, short-term market interest rates have shown little movement in the last few months. Some commentators indicate that

the recent firming of mortgage rates may have been related to anticipation of short-term interest rate hikes. On the other hand, rates for both personal and home-equity loans have dropped.

Credit card rates have shown little movement since last November; such loans remain one of commer-

*(continued on next page)*

# Banking Conditions (cont.)



a. Net interest margin is the difference between the yield on earning assets and the cost of earning assets, expressed as a percentage of average earning assets.  
 NOTE: All bank asset size ranges are expressed in billions of dollars.  
 SOURCE: FDIC, *Quarterly Banking Profile*, various issues.

cial banking's most profitable areas. News that credit card delinquencies reached a record high at the end of 1996 comes as a disappointment in the wake of some banks' efforts to tighten credit card standards and reduce mail solicitations.

Insured commercial banks reported the third-highest earnings total in history for 1996:IVQ, and the

return on assets was the second-highest ever. The largest boosts to earnings came from increased non-interest income (up 13.3% since 1995:IVQ) and net interest income (up 6%), the latter being boosted by both wider interest margins and greater interest-earning assets. Net interest margins at large banks rose the most, mainly because of lower funding costs.

Noncurrent loans (those 90 days or more past due and those in nonaccrual status) declined, mainly as a result of higher net charge-offs. However, noncurrent consumer loans increased, and consumer loans also had the largest share of the increase in delinquent loans (those with interest payments 30 to 89 days past due).