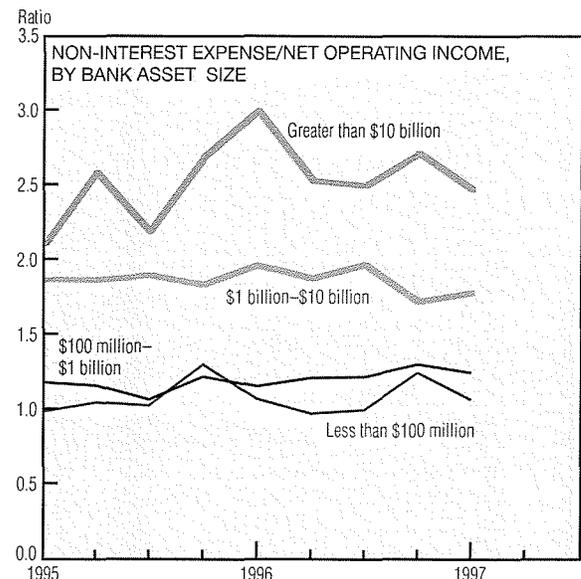
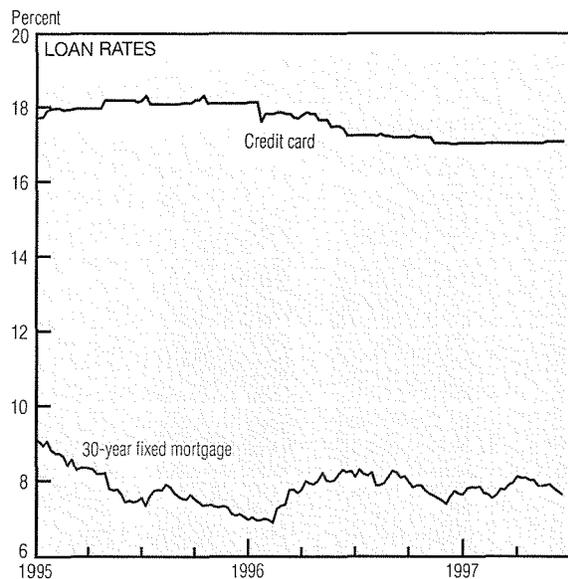
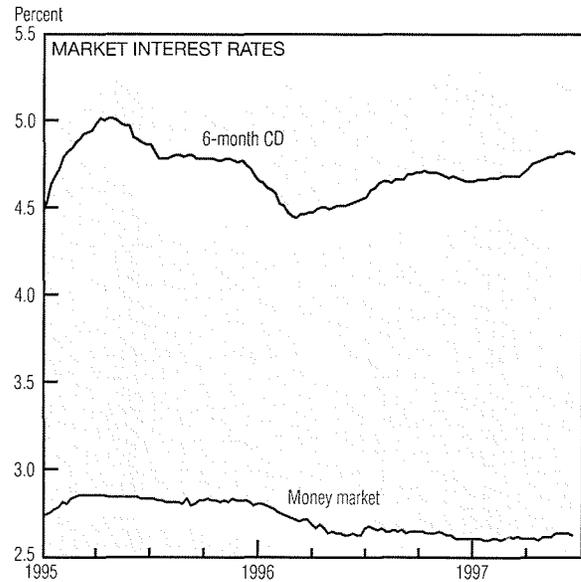
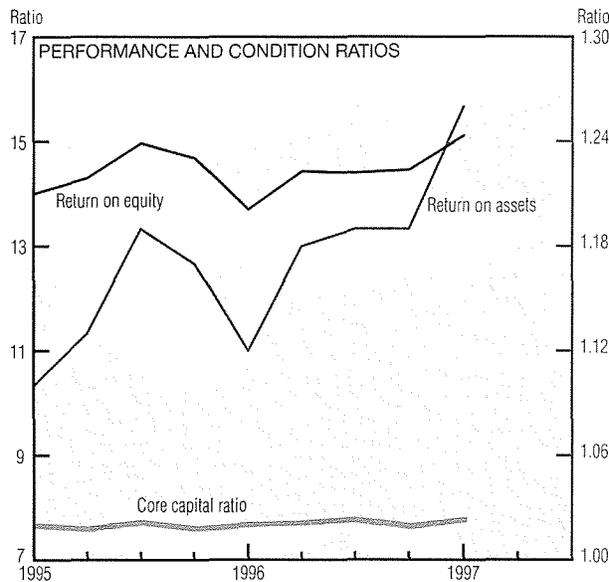


# Banking Conditions



SOURCES: Federal Deposit Insurance Corporation; and *Bank Rate Monitor*, various issues.

Insured commercial banks reported record levels of net income in the first quarter, which translated into the fourth-highest return on assets (ROA) ever. Non-interest income was up 11.6% over last year's level and was largely responsible for the increase in ROA.

Higher fee income accounted for half of the rise in non-interest income. Net-interest income was boosted by growth in interest-earning assets, despite a decline in the net-interest margin associated with those assets. Rates of return on earning assets (such as credit cards

and loans) have weakened recently, while indicators of the cost of bank funds (such as money market rates and rates on 6-month CDs) have been rising.

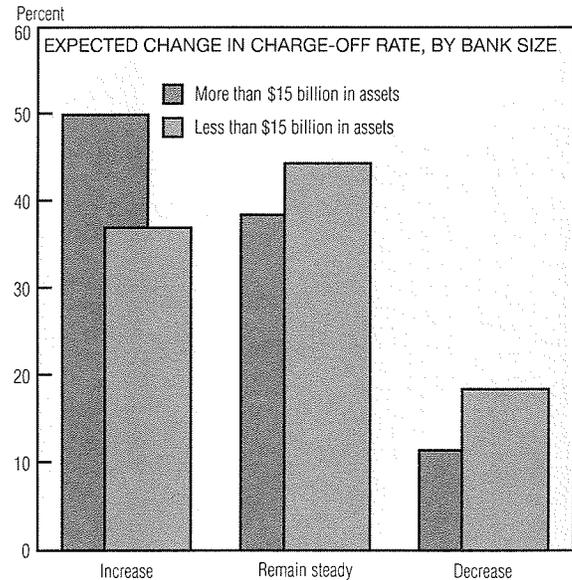
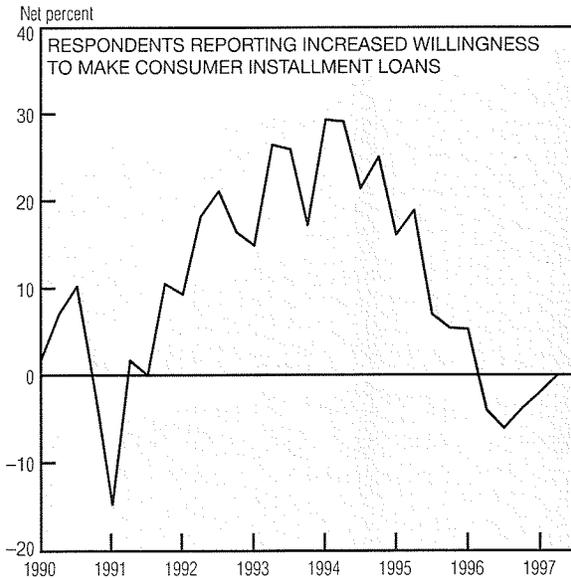
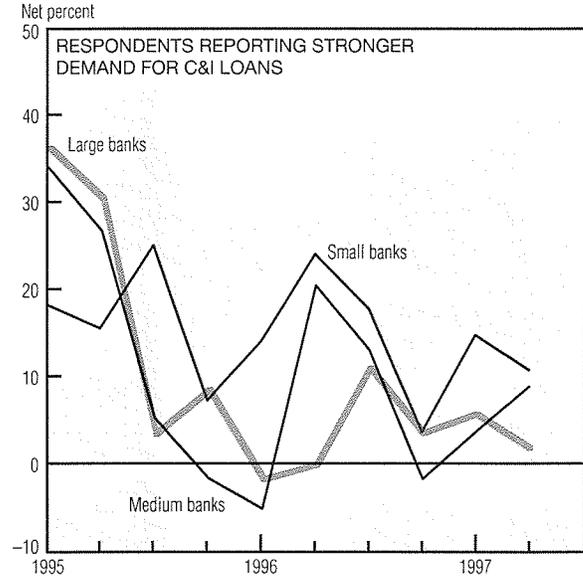
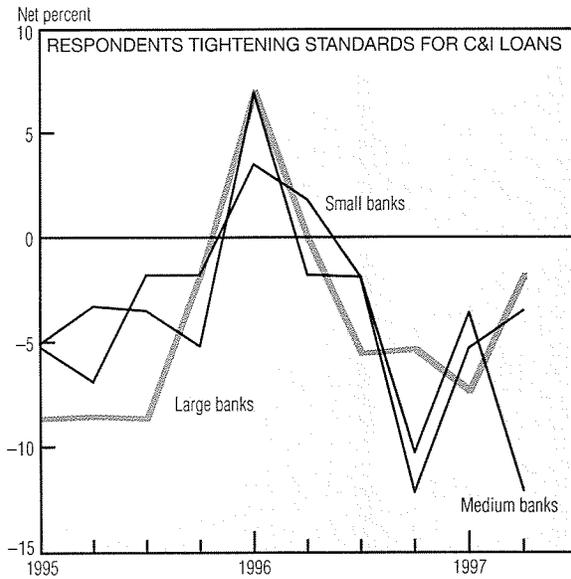
One of the dimensions along which large and small banks differ is their reliance on non-interest income. Banks with less than \$100 million in assets gain roughly 20% of their net revenues from this source, compared to almost 40% for larger banks. Net revenues at both the largest (over \$10 billion) and smallest (under \$100 million) institutions have also been boosted by declines in non-interest expenses.

Loan-loss provisions totaling \$4.3 billion cut into banks' first-quarter earnings, as did net charge-offs of \$4.0 billion. The credit card component of net charge-offs continues to be problematic. Credit card charge-offs were up \$560 million over last year's level, while all other categories of charge-offs fell \$113 million.

May's Senior Loan Officer Survey indicates that since February, banks have become more accommodating to businesses but have tightened credit for households.

*(continued on next page)*

## Banking Conditions (cont.)



SOURCE: Board of Governors of the Federal Reserve System, Senior Loan Officer Opinion Survey on Bank Lending Practices.

Banks that eased their terms on commercial and industrial (C&I) loans indicated that they had done so in response to competition from other banks as well as nonbank lenders. In regard to C&I loans to large- and middle-market borrowers, one-third of the domestic respondents indicated that they had reduced their rate spread over market rates, while one-fourth lowered the cost of their credit lines. Small-market borrowers were less likely to experience an easing of terms. In fact, foreign banks' branches and of-

fices, representing almost 30% of the respondents, tightened terms somewhat on these loans. The survey showed no strong indication of either weaker or stronger demand for C&I loans.

A significant fraction of banks continue to report tighter standards on consumer loans. Indeed, nearly half reported raising their terms on new credit card accounts. However, banks' willingness to make consumer loans is essentially unchanged since the previous survey.

The May report also included a

new set of questions regarding loan officers' expectations of changes in charge-off rates on consumer and C&I loans for the rest of 1997. One-third of the respondents noted that they foresee charge-off rates on consumer loans rising as a result of the presumed increase in households' willingness to declare bankruptcy. One-fourth anticipate higher charge-off rates on C&I loans because of an easing of standards and a deterioration in both business financial conditions and the general economic outlook.