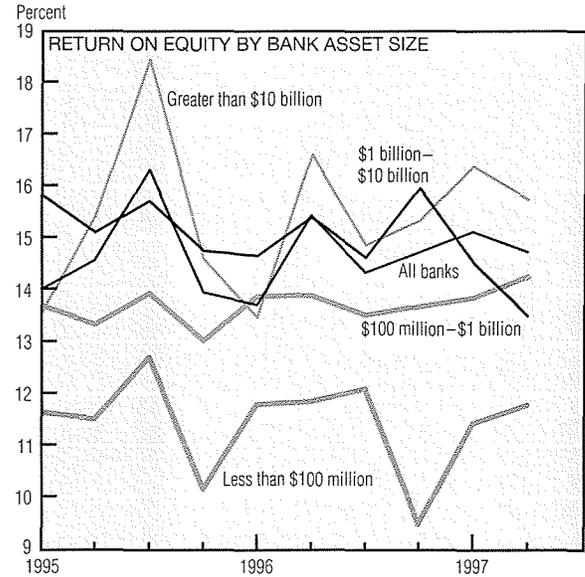
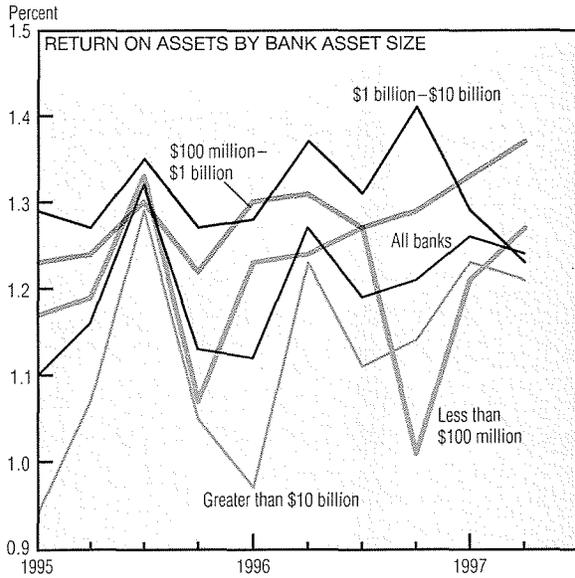
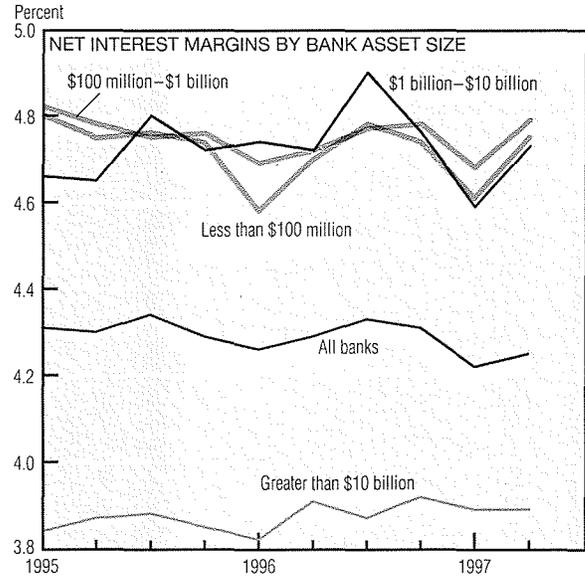
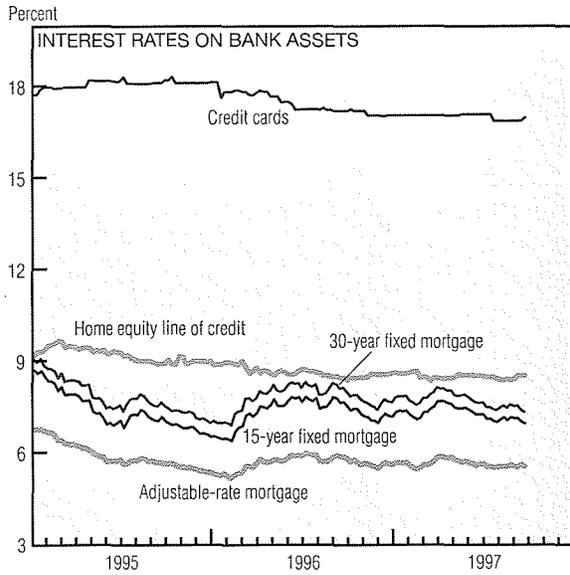


Banking Conditions



NOTE: All data are for FDIC-insured commercial banks.
 SOURCES: Federal Deposit Insurance Corporation; and *Bank Rate Monitor*, various issues.

FDIC-insured commercial banks reported record profits of \$14.6 billion in the second quarter, surpassing the previous high set in the first three months of the year. Net interest income and net non-interest income increased 7.9% and 8.9%, respectively.

Net interest margins, the difference between the rate earned on assets and the rate paid on liabilities, rose despite declines in 15- and 30-year fixed mortgage rates. However, margins so far in 1997 are no higher

than 1996 levels. The growth rate of bank assets, on the other hand, is well above last year's posting—8.5% versus 5.4%—reflecting strong loan demand. Commercial and industrial loan growth accounted for 56% of the increase in bank assets in the second quarter.

Net interest margins were markedly lower for the nation's largest banks, reflecting both reduced yields on earning assets and higher costs of funding those assets. Second-quarter

return on assets (ROA) stood at 1.24%, the fifth-highest ever for the industry. Differences among bank size categories were much less pronounced for ROA (net operating income after taxes divided by assets) than for net interest margins. Non-interest income reached 2.9% of assets for the largest banks, but only 1.4% for the smallest, while the comparable numbers for non-interest expense were 4.1% and 3.9%.