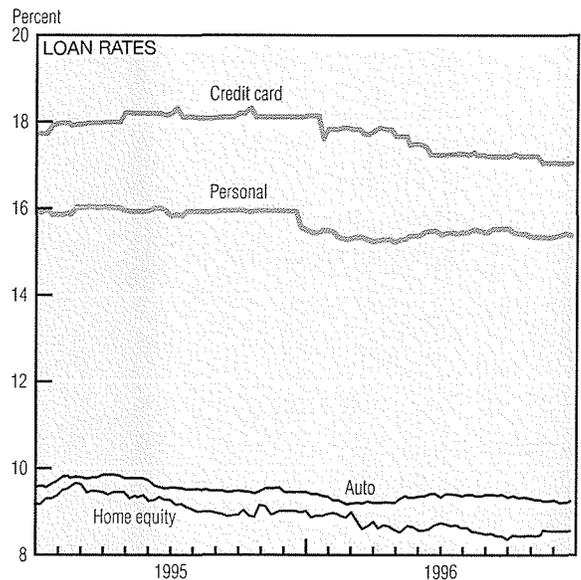
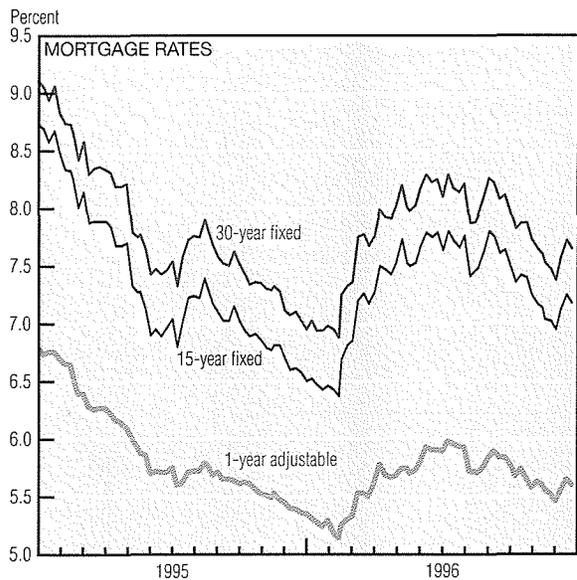
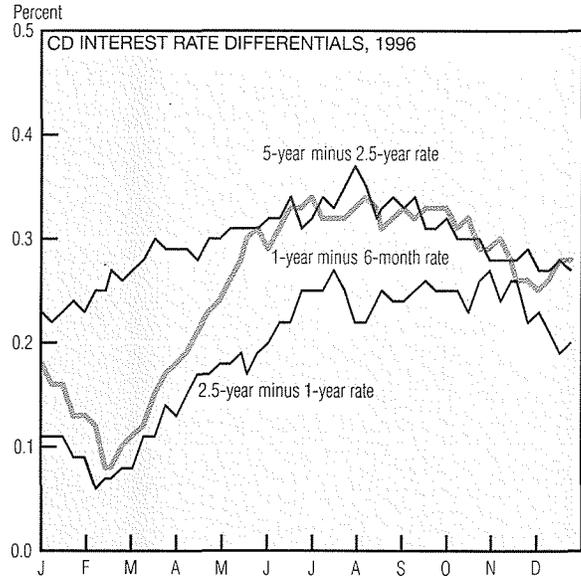
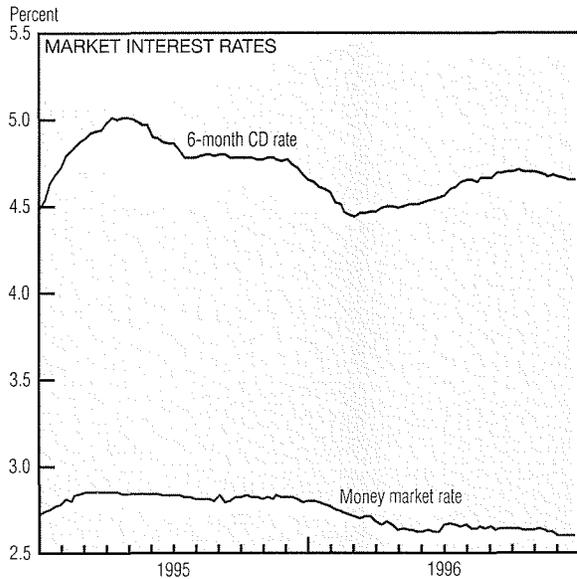


# Banking Conditions



SOURCE: *Bank Rate Monitor*, various issues.

Short-term bank deposit rates have declined slightly since October. Although business's demand for bank loans was strong in September and October, their increased utilization of alternative funding sources may portend a weakening in this area. Weaker loan demand would increase the pressure on banks to lower their deposit rates.

Since June, yield curve differentials have declined, consistent with expectations of lower interest rates. The widening between one-year and six-month CD rates since October

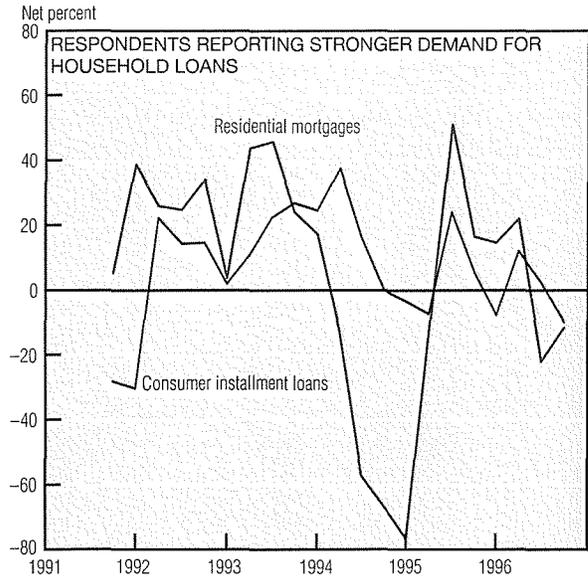
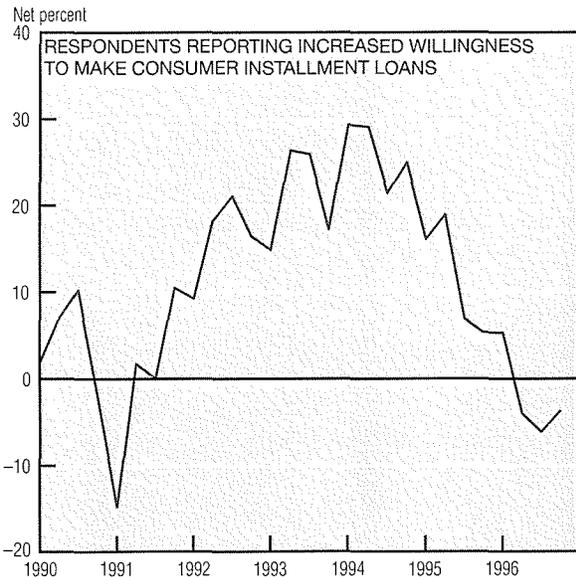
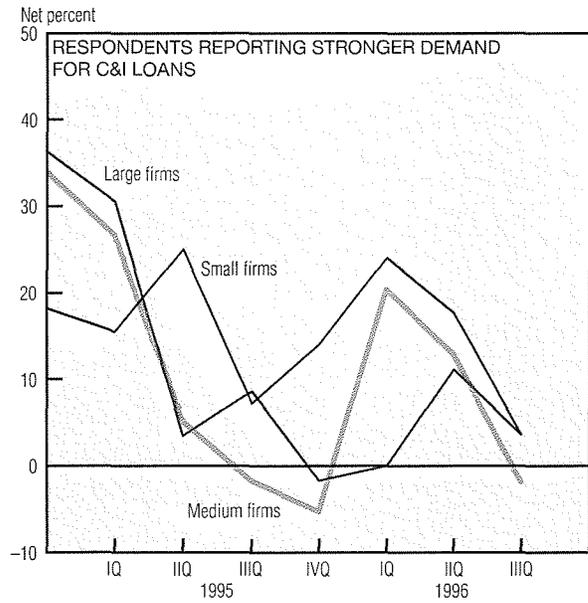
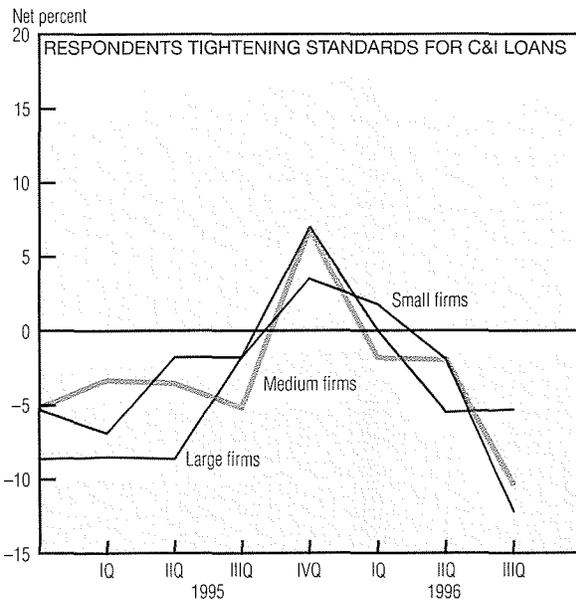
suggests that market participants might expect a temporary firming. However, such interpretations are problematic, in part because each yield curve segment may temporarily reflect supply and demand factors specific to particular portions of the market.

Mortgage rates have shown a slight firming, possibly because the volume of mortgages demanded may have responded to the lower rates witnessed since midyear. However, some reports indicate that demand is concentrated in refinancing rather than in new home loans.

Consumer loan rates (credit cards, auto loans, and personal loans) have been declining since last fall. Although delinquency rates on credit cards and closed-end consumer loans fell for the first time in two years, concerns are still being voiced about the quality of outstanding consumer loans and the debt burden facing American households. Bankruptcy filings for the 12 months ended September 30 reached a record high. On the other hand, high levels of credit card portfolio sales have enabled banks to shed

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# Banking Conditions (cont.)



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

some of their riskier consumer debt and thus lower their rates.

The November Senior Loan Officer Opinion Survey on Bank Lending Practices revealed that several banks reduced standards for business loans and eased terms. However, many also raised standards for credit card lending and other types of consumer loans.

Compared to the previous survey in August, there has been a slight easing of standards for business loans. The number of banks that reported easing terms for large and

small firms rose to 40% and 30%, respectively. An often-cited explanation was competition from either other banks or nonbanks. Reported increased sensitivity of loan demand to changes in bank terms was greatest for medium-size firms.

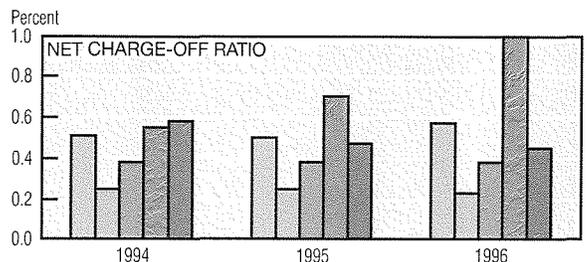
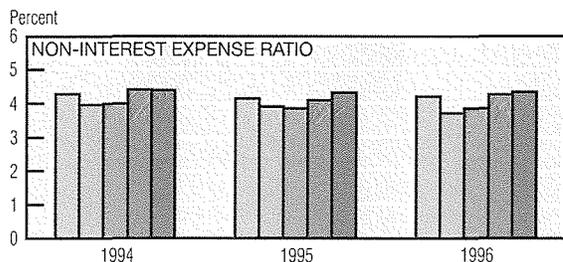
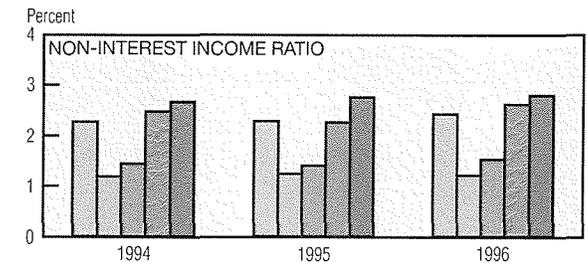
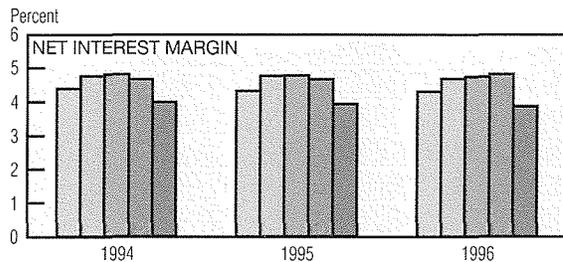
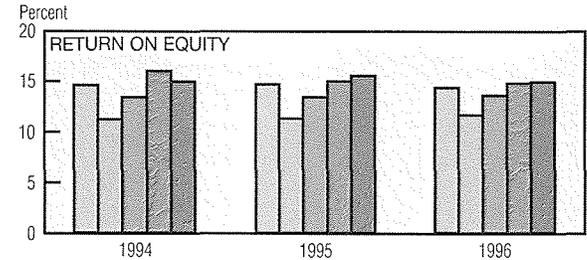
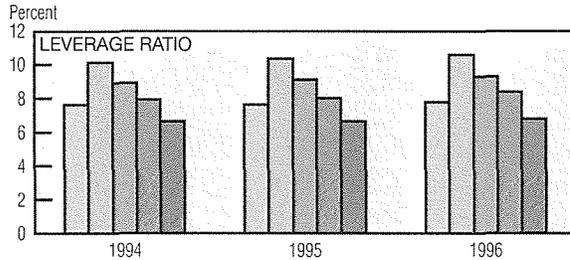
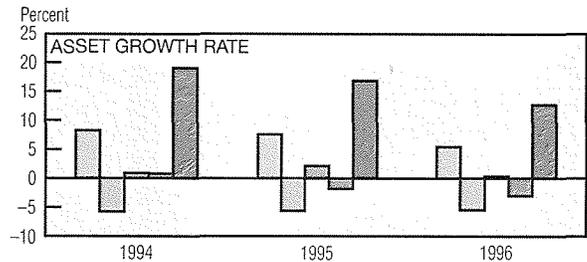
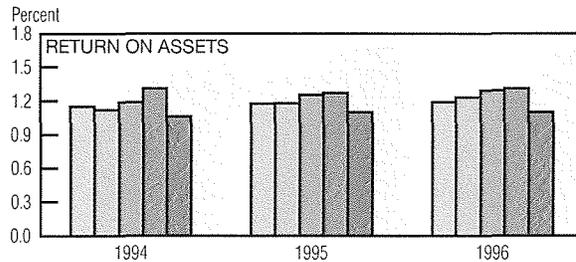
Although the volume of commercial and industrial (C&I) loans at commercial banks grew rapidly in November, little change in the demand for such loans was noted over the September–November period. Only a slightly greater percentage of respondents reported increased de-

mand for commercial real estate loans.

The survey also found continued evidence of tighter consumer lending practices, consistent with the deceleration in consumer credit in the third quarter. Similar to the results of the August survey, roughly 50% of respondents tightened credit card standards, and 25% tightened standards on other consumer loans. Standards on home equity loans were eased by 20%, although a few banks tightened standards on home mortgage applications.

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# Banking Conditions (cont.)



All institutions
  Less than \$100 million in assets
  \$100 million to \$1 billion in assets
  More than \$1 billion in assets

NOTE: Data for 1996 are for the first three quarters. All percent changes are year over year.  
 SOURCE: Federal Deposit Insurance Corporation.

Preliminary data for the first three quarters of 1996 show that commercial banks insured by the Federal Deposit Insurance Corporation (FDIC) recorded an average return on assets of 1.19%. Third-quarter net income of \$13.2 billion was the third-highest posting in history. Compared to 1995, however, asset growth dipped, although increases occurred in credit card and commercial loans. Asset quality indicators are positive, with the proportion of bank loans that are at least 90 days past due falling to the lowest level in 15 years.

Although the leverage ratio rose slightly, equity as a percentage of assets climbed to its highest level in half a century. As a ratio of the book value of debt to the book value of assets, the leverage ratio does not directly reflect either the market's evaluation of the quality of bank assets or the likelihood that bank debt will be repaid.

Bank profitability remains sound despite a decline of 4.8% relative to one year ago. Virtually all of the downturn was related to the requirement that the industry con-

tribute \$1 billion toward recapitalizing the Savings Association Insurance Fund (SAIF). Commercial banks hold more than 10% of the deposits insured by the SAIF.

As a signal of the soundness of the banking industry, the FDIC announced that the 94% of banks in the lowest risk category will no longer be required to pay premiums for maintaining the Bank Insurance Fund (BIF). Furthermore, banks with SAIF-insured deposits will no longer have to pay higher premiums now that the SAIF is fully capitalized.