In 2001:IIIQ, poor loan performance continued to take its toll on the profitability of FDIC-insured commercial banks. The share of institutions showing earnings gains fell from 67.8% in 2000:IIIQ to 53.3% in 2001:IIIQ, the lowest level in eight years. The share of unprofitable commercial banks, which currently stands at 7.5%, has shown little change in the past two years.

Compared to 2000:IVQ, the share of unprofitable banks in 2001:IVQ rose in 23 states, was unchanged in four, and fell in 24 states. The most significant deterioration occurred in Rhode Island. In the Fourth District, the share of unprofitable banks fell from 6.5% to 4.3% in Ohio but rose from 7.0% to 16.7% in West Virginia. The deterioration was not significant in Kentucky and Pennsylvania.

Return on equity and return on assets continued to fall, reaching their lowest levels in eight years—13.42% and 1.17%, respectively—in 2001:IIIQ. The return on risk-weighted assets also indicates a decline in risk-adjusted bank profitability.

The decline in the ratio of risk-weighted assets to total assets shows that commercial banks’ risk exposure lessened. In 2001:IIIQ, the ratio stood at 77.3%, down from its all-time high of 79.9% in 2000:IIIQ. This is another indicator that banks are now adopting tighter lending standards.