FDIC-insured commercial banks headquartered in the Fourth Federal Reserve District posted net income of $5.6 billion for the first two quarters of 2006, or $11.21 billion on an annual basis. (JPMorgan Chase, chartered in Columbus, is not included in this discussion because its assets are mostly outside the District and its size—roughly $1 trillion—dwarfs other District institutions.) The U.S. banking industry as a whole posted earnings of $75.46 billion for the same period, or $150.92 billion on an annual basis.

Fourth District banks’ net interest margin (core profitability computed as interest income minus interest expense divided by average earning assets) at the end of 2006:IIQ fell slightly to 3.09% of total income, but still exceeded the 2.98% U.S. average. Fourth District banks’ non-interest income edged up to 30.88%, while the national average slipped to 31.14% of total income.

Fourth District banks’ efficiency (operating expenses as a percent of total income) stabilized near 54.92% by the end of 2006:IIQ; after deteriorating from the record of 52.64% set in 2002. (Lower numbers correspond to greater efficiency.) Banks outside the Fourth District fared better, as the national average continued to improve to 54.47% at mid-2006 from 56.40% at the end of 2005.

At the end of 2006:IIQ, District banks posted a 1.45% return on assets (up from 1.43% at the end of 2005) and a 15.52% return on equity (up from 15.32% at the end of 2005). The District’s performance was in line with the nationwide trend: At the end of 2006:IIQ, the U.S. banking industry reported that return on assets rose to 1.21% (from 1.08% at the end of 2005); return on equity rose to 13.06% (from 11.55% at the end of 2005).

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Overall, Fourth District banks’ financial indicators point to stable balance sheets. Asset quality continued to improve in 2006:IQ. Net charge-offs (losses realized on loans and leases currently in default minus recoveries on previously charged-off loans and leases) dropped to 0.29% of total loans (from 0.38% at the end of 2005), the lowest level in more than a decade. Problem assets (nonperforming loans and reposessed real estate) as a share of total assets also fell, reaching 0.55%, from 0.59% at the end of 2005. District Banks’ asset quality was in line with that of the U.S. banking industry, where net charge-offs and nonperforming loans fell to a historically low 0.30% of loans (down from 0.46% at the end of 2005), and nonperforming loans were 0.41% of assets (down from 0.45% at the end of 2005).

Fourth District banks held $21.17 in equity capital and loan loss reserves for every dollar of problem loans, far above the recent coverage ratio low of 10.75 at the end of 2002 but below the record high of 25.46 at the end of 2004. Equity capital as a percent of these banks’ assets (the leverage ratio) fell slightly to 9.35% from 9.36% at the end of 2005.

The share of unprofitable institutions in the Fourth District fell to 4.87% for the first half of 2006 from 5.43% at the end of 2005. Unprofitable banks’ asset size also dropped because the share of District banks’ assets accounted for by unprofitable banks fell from 0.56% to 0.12%. Industrywide, the proportion of unprofitable institutions rose from 6.28% at the end of 2005 to 6.63% by mid-2006. However, their asset size fell from 1.13% at the end of 2005 to 0.59% at the end of 2006:IQ.