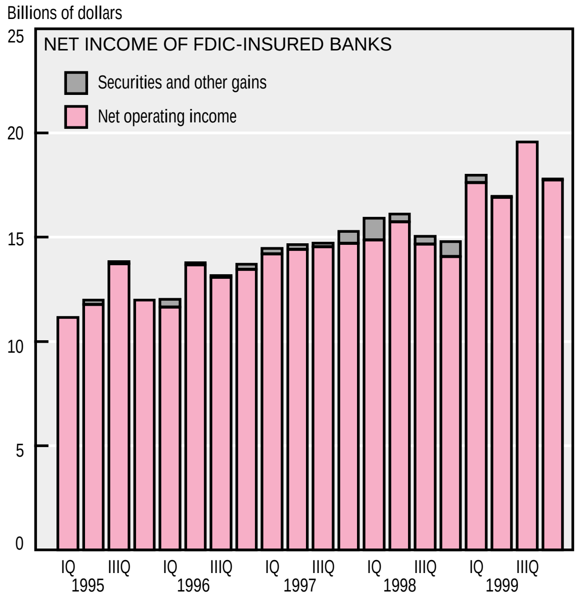
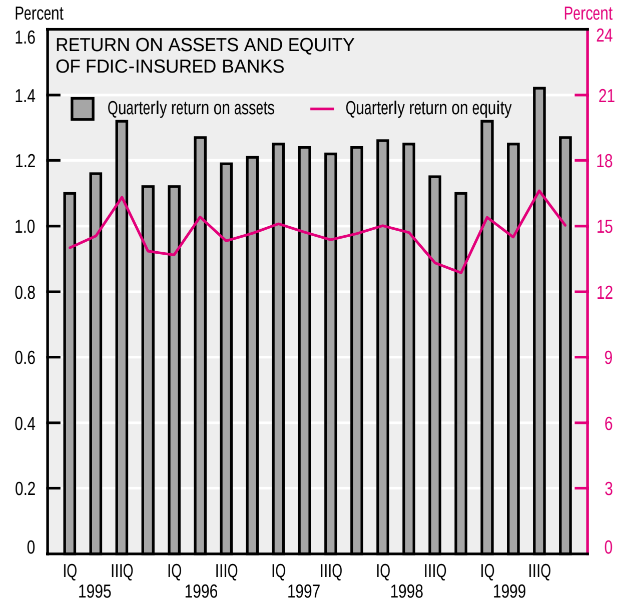
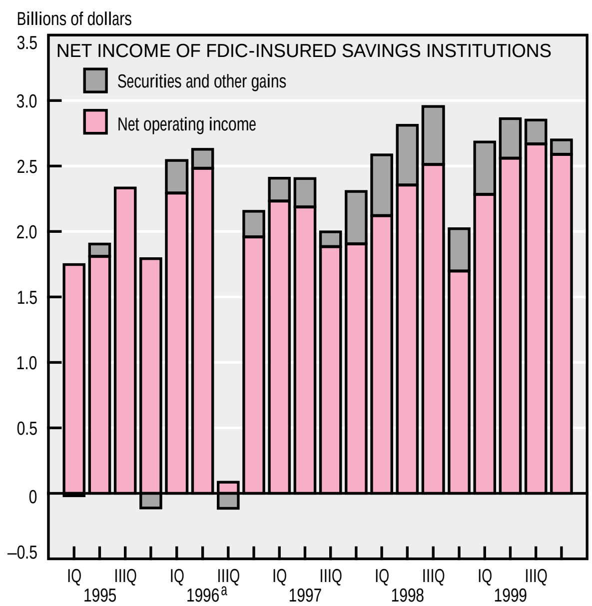
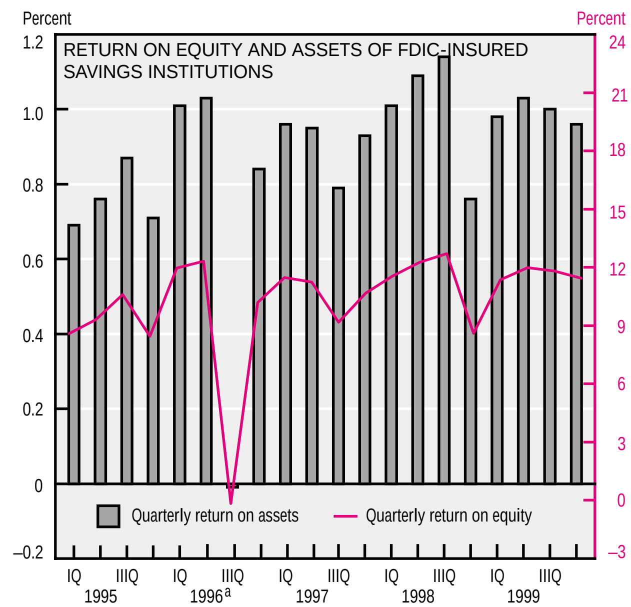
Banking Conditions









a. The sharp decline in 1996 was driven, in part, by a special insurance assessment on the deposits of savings institutions.
SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, 1999:IVQ.

FDIC-insured commercial banks reported record profits of $71.7 billion for 1999 along with an unprecedented 1.3% rate of return on assets. An important factor in commercial banks' strong profitability was a reduction in noninterest expenses relative to a year earlier. Although noninterest expenses rose in 1999:IVQ relative to 1999:IIIQ, they were nonetheless lower than in the previous year. Noninterest income continues to play an increasingly important role, accounting for 44.1% of net operating revenues.

Generally increasing interest rates during 1999:IVQ had a stronger effect on banks' interest costs than on their asset yields, causing the industry's interest margin to decline four basis points.

FDIC-insured savings institutions also reported record profit levels of $10.9 billion for 1999. Their rate of return on assets for the year was 1.0%, slightly lower than 1998. Savings institutions continue to show improved asset quality, with decreases in provisions for loan losses and net charge-offs on loans.