

Profits and Balance Sheet Developments at U.S. Commercial Banks in 2003

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The U.S. commercial banking industry remained highly profitable in 2003. The return on assets at banks surpassed the previous year's record level, and the return on equity approached the top of its recent range (chart 1). Banks' profits and balance sheets were shaped in part by the financial and economic conditions that prevailed during the year. Perhaps most important, monetary policy remained highly accommodative. The Federal Reserve reduced the intended federal funds rate at midyear from an already low level; and with short-term rates anchored by policy, longer-term interest rates, although volatile, generally remained low (chart 2). Home mortgage interest rates dropped to very low levels in the first half of the year, and yields on many corporate bonds, especially non-investment-grade bonds, fell

noticeably as risk spreads contracted to the lowest levels in more than five years.

This supportive interest rate backdrop, coupled with stimulative fiscal policy, helped broaden and strengthen the economic expansion last year. Household spending continued to be strong. Low residential mortgage rates spurred home sales to record levels, and mortgage refinancing swelled. Low interest rates, along with the attractive incentives for automobile purchases, contributed to a pickup in spending on consumer durables. Also, many corporations took advantage of attractive costs of funds to strengthen their balance sheets, often by issuing long-term debt and using the proceeds to pay down commercial paper and bank loans. The pickup in aggregate spending, together with continued favorable productivity trends, boosted corporate profits. And in the second half of the year, brighter business prospects finally began to show through to equipment spending, which had been anemic for several quarters.

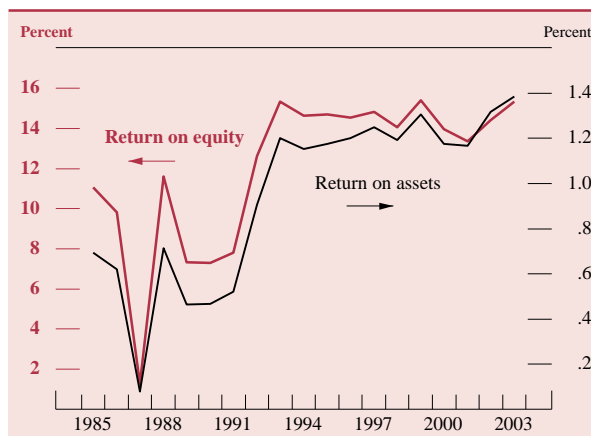
These economic developments left an imprint on banks' balance sheets. The strength of the housing market and the record levels of refinancing activity boosted the share of total bank assets accounted for by residential mortgages and mortgage-backed securities to 28.5 percent by the end of 2003. Business loans declined for the third consecutive year as businesses used the proceeds of bond issuance to pay

NOTE. Except where otherwise indicated, data in this article are from the quarterly Reports of Condition and Income (Call Reports) for insured domestic commercial banks and nondeposit trust companies (hereafter, banks). The data consolidate information from foreign and domestic offices and have been adjusted to take account of mergers. For additional information on the adjustments to the data, see the appendix in William B. English and William R. Nelson, "Profits and Balance Sheet Developments at U.S. Commercial Banks in 1997," *Federal Reserve Bulletin*, vol. 84 (June 1998), p. 408. Size categories, based on assets at the start of each quarter, are as follows: the ten largest banks, large banks (those ranked 11 through 100), medium-sized banks (those ranked 101 through 1,000), and small banks. At the start of the fourth quarter of 2003, the approximate asset sizes of the banks in those groups were as follows: the ten largest banks, more than \$92 billion; large banks, \$7.2 billion to \$92 billion; medium-sized banks, \$398 million to \$7.1 billion; and small banks, less than \$398 million.

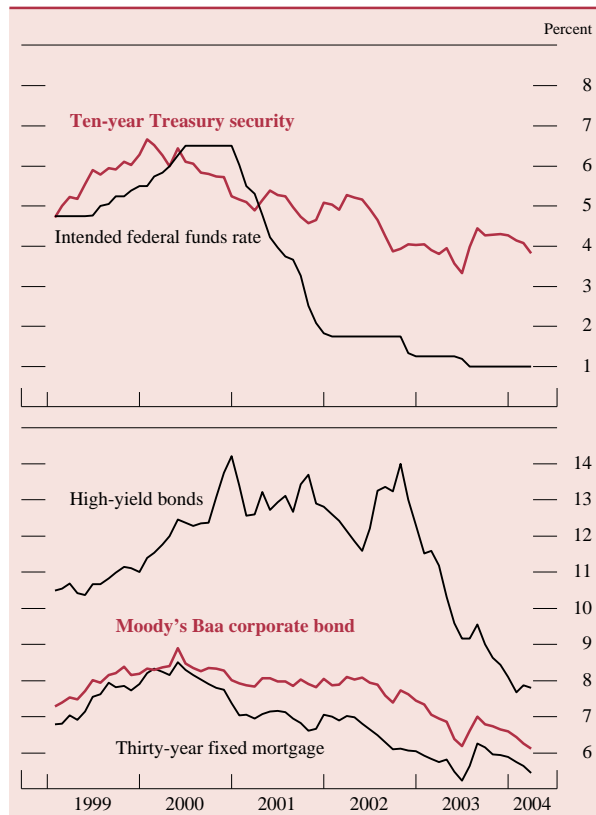
Many of the data series reported here begin in 1985 because the Call Reports were significantly revised in 1984. Data for 1984 and earlier years are taken from the Federal Deposit Insurance Corporation, *Historical Statistics on Banking*, 1999. The pre-1985 data reported here are also available on the Internet at www2.fdic.gov/hsob/index.asp.

Data shown in this article may not match data published in earlier years because of revisions and corrections. In the tables, components may not sum to totals because of rounding. Appendix table A.1 reports income statement data for all banks. Appendix table A.2, A–E, reports portfolio composition, income, and expense items, all as a percentage of overall net consolidated assets.

1. Measures of bank profitability, 1985–2003



2. Selected interest rates, 1999–2004:Q1



SOURCE: Data are monthly. For the intended federal funds rate, Federal Reserve Board (www.federalreserve.gov/fomc/fundsrate.htm); for Treasury security rates, mortgage rate, and Moody's bond rates, Federal Reserve Board, Statistical Release H.15, "Selected Interest Rates" (www.federalreserve.gov/releases/h15); for high-yield bond rates, Merrill Lynch Master II index.

down short-term debt and financed many of their investment outlays with internal funds. But the runoff was slower in 2003 than in 2001 and 2002, and as equipment spending recovered and inventories were built up late in the year, demand for business loans showed signs of turning around. Inflows of core deposits remained strong, as deposit rates fell less than market yields and households responded to the low opportunity cost of holding liquid assets.

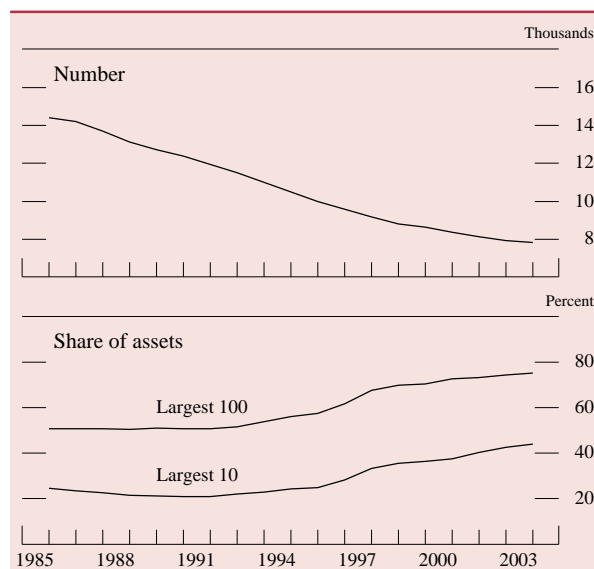
Economic developments also significantly affected banks' profitability. The wave of residential mortgage refinancing led to a surge in income from fees associated with the origination, sale, and servicing of these loans. An elevated level of corporate bond issuance supported investment banking income. Debt refinancing led to a reduction in borrowers' debt-service burdens, which in turn lowered delinquency rates. The decline in interest rates, especially during the first half of the year, allowed banks to realize gains by selling some of their investment securities; however, it also likely contributed to a further narrowing of net interest margins.

With increasing business profitability and lower business debt-service burdens, delinquency rates on commercial and industrial loans, which had risen in the previous three years, dropped back notably. Because of lower residential mortgage interest rates and increased house prices, households could extract equity from their homes by taking out cash through either refinancing or home equity loans; the proceeds were used partly to pay down higher-rate debt. With the credit quality of their loan portfolios improving considerably during the year, banks were able to reduce loan-loss provisions; such reduction was a substantial contributor to the increase in bank profitability.

The number of commercial banks in the United States moved down to 7,825 at the end of 2003 from 7,936 a year earlier—the smallest decrease in more than a decade (chart 3).¹ The decline occurred as the number of mergers—which fell to 245, also the smallest number in more than a decade—continued to exceed the number of new bank charters, which was slightly higher last year. According to the Federal Deposit Insurance Corporation, only three banks failed in 2003. These banks held \$1.1 billion in assets at the time of failure, a tiny fraction of industry assets and less than half the assets at failed banks during 2002. The shares of industry assets held by

1. This count of commercial banks may vary slightly from measures, such as those in the Federal Reserve's *Annual Report*, that are based on the definition of a bank given in the Bank Holding Company Act and implemented in the Federal Reserve's Regulation Y.

3. Number of banks and share of assets at the largest banks, 1985–2003



NOTE: For the definition of bank size, see the text note.

third straight year as nonfinancial firms relied heavily on capital markets and internal funds to finance their activities. Overall, total loans and leases increased 6.5 percent, and securities expanded 9.4 percent.

On the liability side of the balance sheet, banks were again able to attract strong inflows of core deposits, especially into savings and money market deposit accounts, because banks reduced deposit rates less than money market yields declined; consequently, the opportunity costs for households of holding liquid deposits fell further. Nonetheless, banks also had to increase their managed liabilities to finance asset growth.

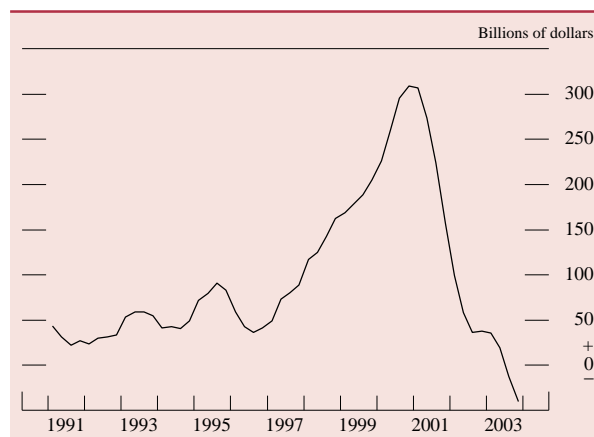
Banks continued to add to their capital in 2003, and their overall capital positions remained robust. While equity capital increased somewhat more slowly than assets did, risk-based regulatory capital ratios still edged up a bit, an uptick driven both by a shift in asset composition toward assets with low risk weights—such as government and agency-related mortgage-backed securities and residential real estate loans—and by the brisk expansion of tier 1 capital.

Loans to Businesses

Commercial and industrial (C&I) loans declined 4.6 percent in 2003, a fair bit less than in 2001 and 2002.⁴ Issuance of bonds, particularly those rated below investment grade, was strong last year, as low interest rates and declining risk spreads offered corporations the opportunity to lock in low-cost long-term financing. The proceeds were used, in part, to pay down short-term obligations, including C&I loans. Because the customers of large banks are more likely to be large corporations with access to bond markets, the erosion in C&I lending was concentrated at large banks (those ranked in the top 100 in terms of assets, which account for about three-fourths of total C&I loans). At smaller banks, on a merger-adjusted basis, commercial loan portfolios actually expanded, although their growth was about flat before adjustment.

The improved profitability of nonfinancial firms also damped loan demand, as substantial gains in profits outpaced the growth of firms' capital expenditures; consequently, the financing gap—the difference between investment outlays and internally generated funds—fell and became negative in 2003 (chart 4). A boost in inventory spending by nonfinan-

4. Financing gap at nonfarm nonfinancial corporations, 1991–2003



NOTE. The data are four-quarter moving averages. The financing gap is the difference between capital expenditures and internally generated funds.

SOURCE. Federal Reserve Board, Statistical Release Z.1, "Flow of Funds Accounts of the United States," table F. 102 (www.federalreserve.gov/releases/z1).

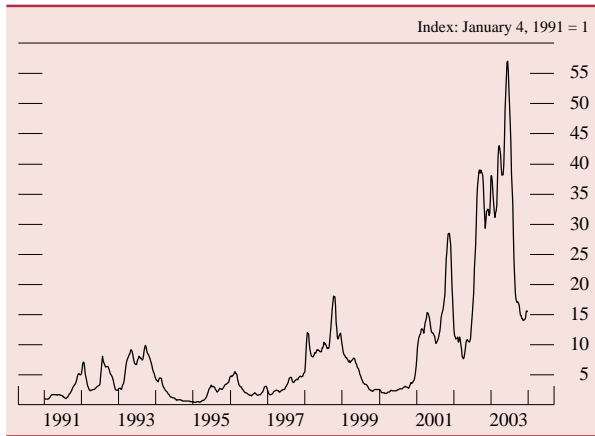
cial firms late last year, however, likely helped limit the contraction in business loans.

Responses to the Senior Loan Officer Opinion Survey on Bank Lending Practices (BLPS) also suggest that the drop in aggregate business loans resulted primarily from decreased demand. Survey responses, especially early in the year, often pointed to weak investment and inventory spending by businesses and to the shift to other forms of financing as factors explaining the drop in C&I loans. However, the margin by which respondent banks reporting decreases in demand exceeded those reporting increases in demand diminished over 2003, and a small net fraction reported stronger demand in the January 2004 BLPS (chart 5, top panel). According to respondent banks, the strengthening of demand was spurred by spending on plant and equipment and by increased funding needs to finance accounts receivable and inventories.

Supply conditions apparently played only a secondary role in the weakness of C&I loans. In the first part of 2003, banks reported tightening both standards and terms somewhat; but by the end of the year, a substantial net fraction of respondents had begun easing terms, and in the January 2004 BLPS a significant net fraction reported easier standards (chart 5, bottom panel). The reasons cited most often for the increased willingness to lend were more-aggressive competition from other banks and nonbanks and an improved economic outlook. According to the Survey of Terms of Business Lending (STBL), banks also appeared to perceive a reduction in the risk of their C&I borrowers for most of the year, a pos-

4. For a more detailed analysis of recent trends in C&I lending, see William Bassett and Egon Zakrajšek, "Recent Developments in Business Lending by Commercial Banks," *Federal Reserve Bulletin*, vol. 89 (December 2003), pp. 477–92.

7. Index of home mortgage refinancing activity, 1991–2003

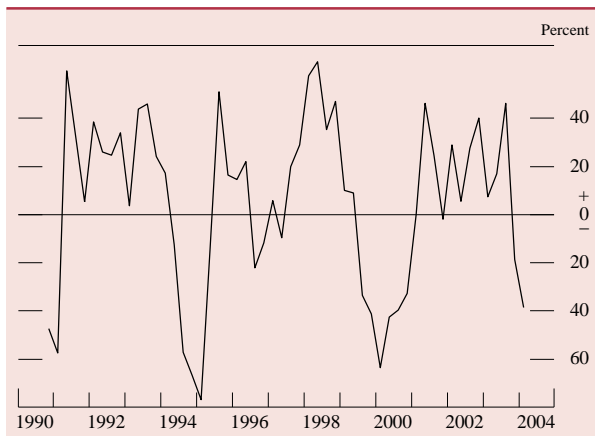


NOTE. Data are weekly.
SOURCE. Mortgage Bankers Association.

their other one- to four-family mortgage lending in the first two quarters of 2003.

As bond yields and mortgage rates rebounded sharply starting in mid-June, however, the demand for one- to four-family mortgages appeared to decline, consistent with responses to the October 2003 and January 2004 BLPSs (chart 8). Given the continued brisk pace of home sales, however, much of the fall in reported demand presumably reflected the drop-off in refinancing rather than a decline in the demand for mortgages to purchase homes. But because of the decline of mortgage originations from their previous record pace and the resulting reduction in mortgage loans temporarily held for later sale in

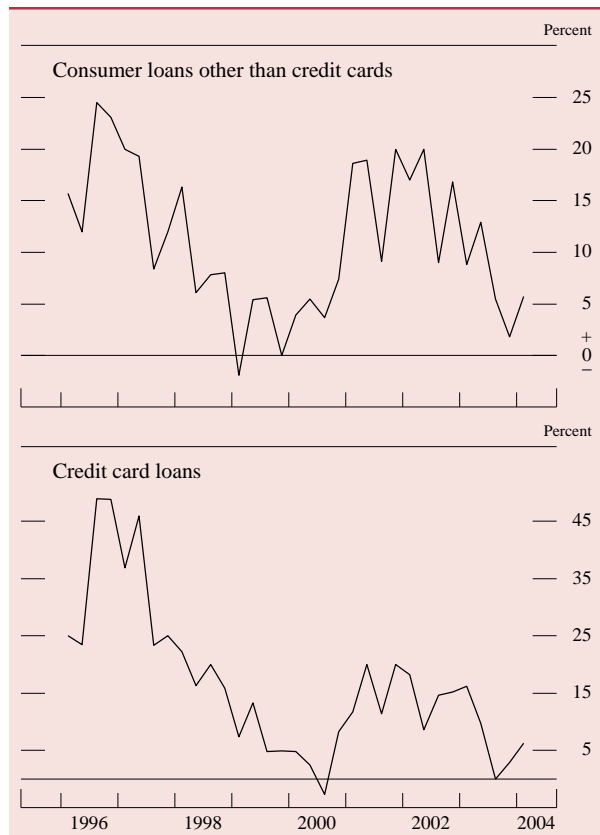
8. Net percentage of selected banks reporting stronger demand for residential mortgages, 1990:Q4–2004:Q1



NOTE. Data are quarterly. Net percentage is the percentage of banks that reported stronger demand less the percentage that reported weaker demand.
SOURCE. Federal Reserve Board, “Senior Loan Officer Opinion Survey on Bank Lending Practices.”

the secondary market, residential mortgage loans on banks’ balance sheets actually contracted in the fourth quarter. Revolving home equity loans, however, continued to grow swiftly. One reason for their rapid growth was the sustained increase in residential real estate values. Another possible reason is that most home equity loans carry variable interest rates—tied to short-term rates—that remained very low last year and even declined a bit in the second half after the easing of monetary policy in June. On net, total residential mortgage loans on banks’ books expanded 10 percent in 2003. As in 2002, the expansion was accompanied by a reduction of close to 19 percent in the volume of residential mortgages securitized or sold, but for which banks retained servicing rights or provided credit enhancements. Because banks do not report securitized loans for which they provide neither servicing rights nor credit enhancements, a portion of the decline in reported securitizations may simply reflect a relative increase in loans securitized without recourse.

9. Net percentage of selected banks tightening standards for consumer lending, 1996:Q1–2004:Q1



NOTE. Data are quarterly. Net percentage is the percentage of banks that reported tighter standards less the percentage that reported easier standards.
SOURCE. Federal Reserve Board, “Senior Loan Officer Opinion Survey on Bank Lending Practices.”

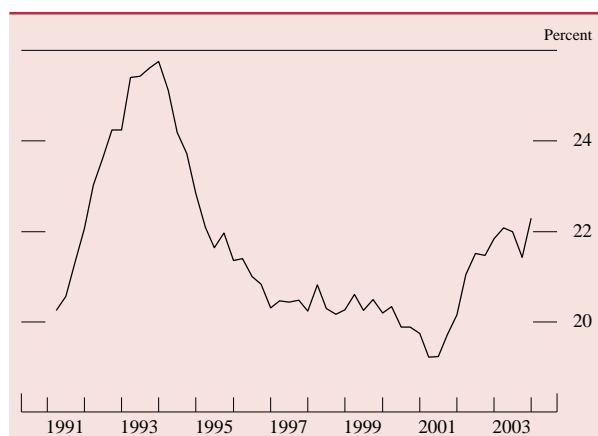
While loans to other depository institutions and to states and other political subdivisions increased, lease financing receivables declined for the second straight year. Since many leases are made to businesses, the weak performance was likely attributable, in part, to some of the same factors that depressed C&I loans.

Securities

Securities held on banks' balance sheets expanded strongly in 2003. At 9.4 percent, the growth rate was less than the extraordinary 16.2 percent of 2002, but it was still the second-highest in the past ten years. Securities in both investment accounts and trading accounts expanded briskly. As a share of total bank assets, securities continued to increase; the rise is an extension of a trend initiated in 2001 (chart 10).

Mortgage-backed securities (MBS) held in investment accounts posted a solid advance—in excess of 10 percent—for the third consecutive year, and Treasury and non-mortgage-backed agency securities grew even faster. Banks accumulated MBS at a particularly rapid rate in the first half of the year, as interest rates declined and refinancing picked up. When long-term rates rose sharply in the summer, however, and the pace of refinancing slowed, banks responded by paring back their MBS positions considerably, and securities reported on their balance sheets actually contracted for the first time since the first quarter of 2001. Growth in banks' securities holdings resumed, however, as rates stabilized in the fall.

10. Bank holdings of securities as a share of total bank assets, 1991–2003



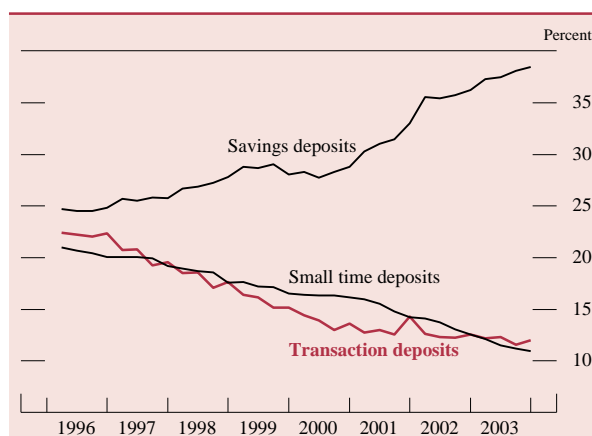
NOTE. Data are quarterly.

Liabilities

Core deposits increased 7.1 percent in 2003. Banks reduced the rates they paid on savings and money market deposit accounts by less than the decline in money market yields. As a result, those liquid deposits grew substantially, rising to more than 38 percent of total domestic liabilities by the end of the year (chart 11). By contrast, yields on small time deposits dropped more sharply than those on liquid deposits last year, a possible factor in the slight acceleration of their ongoing declining trend. Moreover, with market interest rates already low and the stock market recovering from its 2002 trough, some households may have chosen to invest in long-term mutual funds, which experienced strong net inflows last year, rather than locking in the low rates offered by time deposits. Transaction deposits grew a good bit in the first half of the year but then fell in the third quarter as the flows associated with mortgage refinancing slowed substantially; on net, such deposits rose only a bit during the year.

Even with the growth in core deposits, banks expanded their managed liabilities 7.2 percent last year. This increase was especially notable for banks outside the top 100, which experienced stronger growth in assets. Across all banks, deposits booked in foreign offices rose 12.6 percent, while the growth of subordinated notes and debentures, which had been briefly interrupted by a slight contraction the previous year, resumed. Large time deposits edged higher.

11. Selected domestic liabilities at banks as a share of their total domestic liabilities, 1996–2003



NOTE. Data are quarterly. Savings deposits include money market deposit accounts.

smaller than its notional value. Banks enter into derivatives contracts both for their own account (to manage their own market and credit risks) and in their role as dealers. When acting in the second role, banks often enter into at least partially offsetting contracts with different counterparties. Such offsetting transactions appear to constitute a substantial fraction of banks' activities in derivatives. At the end of 2003, the fair market value of contracts with positive value was \$1.173 trillion, about unchanged from the previous year, and the fair market value of contracts with negative market value was \$1.150 trillion, slightly more than in 2002. The net fair value was thus \$23 billion, down about \$4 billion from the year before. Consistent with previous years, large banks held the bulk of derivatives contracts, with the top ten banks by assets accounting for 96 percent of the total.

Interest rate swaps—agreements in which two parties agree to exchange a stream of floating-interest-rate payments for a stream of fixed-interest-rate payments based on a notional principal amount—are the most common derivatives held by banks. The share of interest rate contracts in the total notional principal amount of all bank derivatives contracts climbed to 59 percent in 2003, up more than 4 percentage points from the previous year. Investors often use interest rate swaps to hedge interest rate risk. The growing presence of interest-sensitive assets, particularly MBS and mortgages, in investors' portfolios, along with the volatility of long-term interest rates last summer, may have boosted investor demand for interest rate swaps last year, thereby increasing banks' holdings of those contracts in their role as dealers in that market. Interest rate futures, forwards, and options; foreign exchange derivatives; and equity derivatives accounted for almost 40 percent of the total notional amount of banks' derivatives contracts at the end of 2003.

The remaining derivatives contracts that banks held were credit derivatives—agreements in which the risk of default of a certain reference entity is transferred from one party (the beneficiary) to another (the guarantor). Use of credit derivatives has grown rapidly in recent years, and the notional amount held by banks surged more than 56 percent in 2003, to slightly more than \$1 trillion. As is the case for other derivatives, however, banks are both buyers and sellers of these contracts. At the end of last year, the notional quantity of banks' positions as beneficiaries amounted to about \$530 billion, and their positions as guarantors totaled about \$471 billion. On net, therefore, banks were recipients of credit protection, as they have typically been in the past. Like other

derivatives, the market for credit derivatives is dominated by the largest institutions, with the top ten banks by assets holding almost 96 percent of the total notional amount outstanding. However, the share held by banks outside the top ten, while still quite small, nearly doubled in 2003; on balance, those banks are also net receivers of credit protection.

TRENDS IN PROFITABILITY

The banking industry continued to be very profitable in 2003. Bank's return on assets rose to 1.40 percent, surpassing last year's record. Return on equity (ROE) increased to 15.3 percent, up about 90 basis points from the previous year. Profitability was especially strong at the ten largest banks, where ROE jumped 2.8 percentage points, to 16 percent, the highest level since 1993. While the largest banks stood out, banks of all sizes posted high returns. The proportion of banks with negative net income declined for the second consecutive year, to 6 percent, and these banks held only 0.7 percent of industry assets, the lowest share since 1997.

The improvement in profitability last year reflected a reduction in expenses and an increase in some income items. Better credit quality—which was due in part to low interest rates, the strengthening economy, and improved corporate profitability—allowed banks to substantially reduce loss provisioning. The reduction in loss provisioning was most pronounced at the ten largest banks, where it had increased the most in recent years, and contributed significantly to their exceptional performance last year. Non-interest expense grew at a moderate pace as banks held down the growth of non-salary-related expenses. Non-interest income rose at its fastest rate since 1999 because of increased earnings from the sale and securitization of loans as well as from fees for fiduciary and investment banking services. Realized gains on securities continued to boost income, particularly as medium-term and long-term interest rates fell in the first half of the year. Profitability was restrained, however, by a further narrowing of net interest margins.

Bank profitability was notably affected in 2003 by the wave of debt refinancing by households and businesses that resulted from the decline in long-term interest rates. Fees associated with the origination, sale, and servicing of refinanced residential mortgages bolstered banks' non-interest income. Underwriting income increased as businesses issued bonds to lock in long-term financing at favorable rates and to pay down C&I loans and other short-term debt.

The Role of Non-Interest-Bearing Instruments in the Net Interest Margin

For most of the past fifteen years, the net interest margin has moved fairly closely with the slope of the yield curve (chart A), a relationship that reflects banks' intermediation across maturities. The recent decline in the net interest margin while the yield curve has remained steep represents a substantial divergence from this pattern.

To help understand this development, we decompose the net interest margin into two parts (figure). One component is the spread between the average return on bank assets and the average rate paid on interest-bearing liabilities times the share of interest-earning assets funded by these liabilities. The second component is the average rate on assets times the share of assets funded with non-interest-bearing liabilities and capital (calculated as 1 minus the share of interest-earning assets funded by interest-bearing liabilities). The second component depends on the level of the return on bank assets rather than the spread between the average rate on assets and the average rate on liabilities since non-interest-bearing instruments, by definition, have no explicit interest expense. Last year, about 15 percent of interest-earning assets were funded with non-interest-bearing instruments.¹

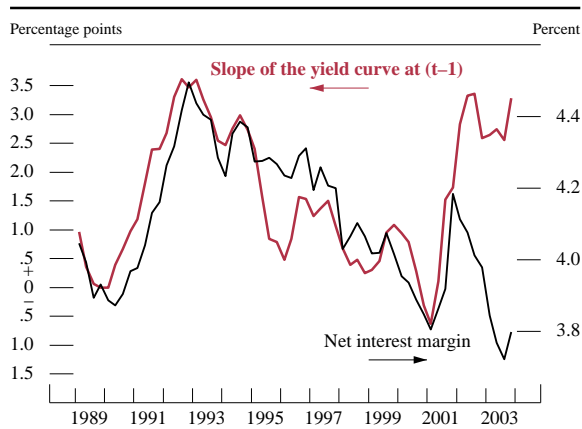
The sharp decline in interest rates to historically low levels over the past few years reduced the contribution of the second component to the net interest margin (chart B). This decrease accounted for slightly less than half of the reduction in the net interest margin in 2003 and has accounted for a somewhat larger fraction of the decline since the end of 2001. Although the first component decreased between 2002 and 2003, it remained above its level in the late 1990s, when the yield curve was significantly flatter. Thus, the recent decline in the net interest margin reflected importantly the decline in the level of interest rates, whereas the steep yield curve continued to support the net interest margin.

1. While the separation of the net interest margin into these two components provides some useful insights about the importance of the level of interest rates and banks' funding mix, it describes only one facet of a bank's overall interest rate sensitivity. Perhaps especially when interest rates are very low, banks' earnings can be affected by balance sheet shifts, including shifts in the composition of funding.

Decomposition of the net interest margin

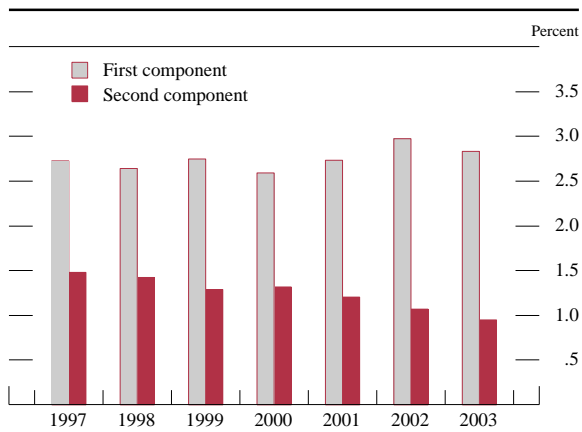
$$\begin{aligned}
 \text{Net interest margin} &= \frac{\text{net interest income}}{\text{interest-earning assets}} \\
 &= (\text{rate earned} - \text{rate paid}) \times \left[\frac{\text{interest-bearing liabilities}}{\text{interest-earning assets}} \right] \\
 &\quad \boxed{\text{First component}} \\
 &+ (\text{rate earned}) \times \left[1 - \frac{\text{interest-bearing liabilities}}{\text{interest-earning assets}} \right] \\
 &\quad \boxed{\text{Second component}}
 \end{aligned}$$

A. Net interest margin and the slope of the yield curve, 1989–2003



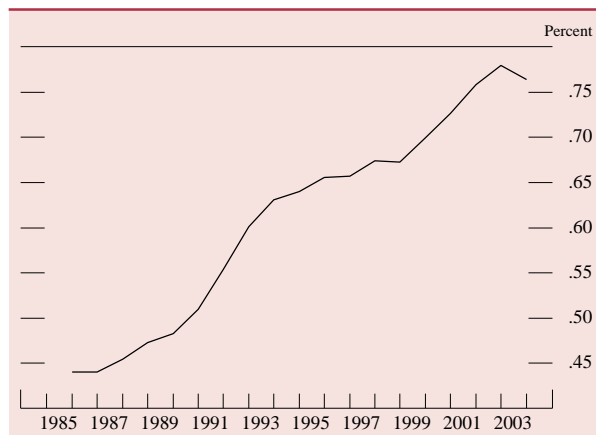
NOTE. Data are quarterly. The net interest margin is net interest income as a share of average interest-earning assets. The slope of the yield curve is the difference between the average ten-year Treasury yield and the three-month bill yield. The slope of the yield curve is lagged one quarter.
SOURCE. Call Report and Federal Reserve Board, Statistical Release H.15, "Selected Interest Rates" (www.federalreserve.gov/releases/h15).

B. Components of net interest margin, 1997–2003



NOTE. Data are annual. The sum of the two components is the net interest margin.

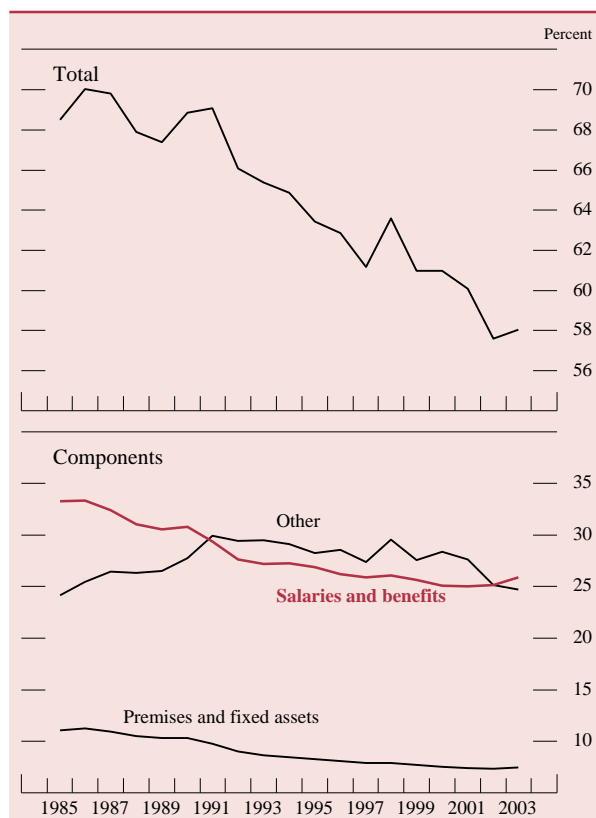
18. Ratio of deposit fee income to total domestic deposits, 1985–2003



steady in every year during the past two decades, dropped back somewhat in 2003 (chart 18).

Non-interest expense grew moderately during 2003 and ticked up slightly relative to total revenue, a partial reversal of the sharp decline of the previous year (chart 19). The growth in non-interest expense was due mainly to higher pay per employee, which advanced at its fastest pace since 1996. The number

19. Non-interest expense as a proportion of revenue, 1985–2003



of bank employees rose at about the average rate of the past five years. The ratio of expenses for banks' premises to total revenue continued to be little changed. Other components of non-interest expense grew, but at a slower pace than total revenue.

Loan Performance and Loss Provisioning

With interest rates low and the economic expansion gaining traction during the year, credit quality improved considerably in 2003. Delinquency rates for nearly all types of loans and leases fell, and by year-end the delinquency rate for all loans and leases was near the low levels of the late 1990s. C&I loans showed the largest improvement, with much of the deterioration posted in the previous few years being reversed. Overall, charge-off rates also moved down significantly but remained above the average level of the middle and late 1990s.

C&I Loans

The delinquency rate on C&I loans fell 1 full percentage point during 2003, to 2.9 percent in the fourth quarter, the lowest level since the first quarter of 2001 (chart 20). The improvement was particularly notable at the largest 100 banks, where delinquency rates had risen the most. Charge-off rates on these loans also moved down sharply throughout the year.

Respondents to the April 2003 BLPS pointed to lower debt-service burdens as the most important reason for the stabilization in C&I loan quality. Firms' restructuring of balance sheets to take advantage of low interest rates, as well as the rebound in corporate profits, resulted in a notable decline in business debt-service burdens (chart 21). Banks also cited their own aggressive tightening of lending standards and terms during previous years as a reason for a reduced incidence of problem loans. Indeed, banks first reported tightening C&I loan standards in 1998, before delinquency rates had begun to rise, and they had tightened standards further, on net, until recently.

Sales by banks of their adversely rated loans to nonbanks was also a likely factor holding down delinquency rates, but charge-offs may have been boosted as banks booked losses on the loans being sold.⁸ Of the largest banks that responded to the October 2003 BLPS, more than 90 percent stated that they had sold at least some adversely rated credits in the secondary

8. Adversely rated loans are loans rated as special mention or classified as substandard, doubtful, or loss. When a bank sells a problem asset, it must charge off the difference between the book value and the selling price.

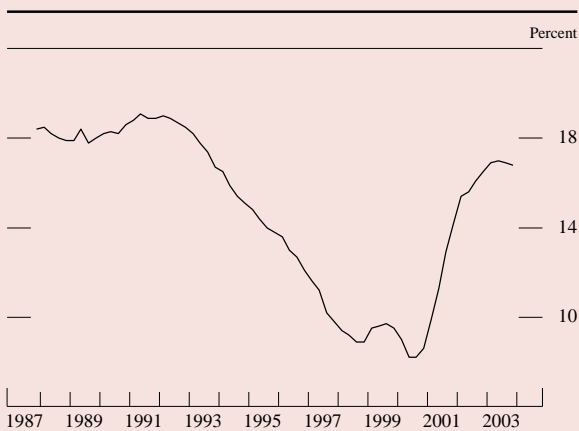
Quality of Commercial Real Estate Loans

Conditions in the commercial real estate market have deteriorated during the past few years. Vacancy rates for office buildings began to increase in 2001 and remained near historical highs in 2003 (chart A). Rents on office buildings began to fall in 2001 and tumbled a total of 20 percent through 2003, a larger decline than the one during the downturn in the early 1990s (chart B). Rents on retail properties also declined, though by considerably less.

Despite the deterioration in market conditions, the delinquency rate on commercial mortgages held by banks dropped last year to about 1.5 percent. This rate is well below the nearly 12 percent levels of the early 1990s and is also below the levels of the mid-1990s, when vacancy rates were low and rents were increasing.

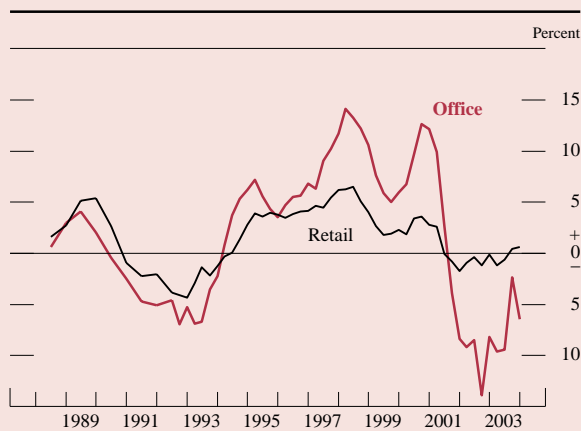
The delinquency rate has remained low for two possible reasons. First, many borrowers have been able to refinance or roll over their previous mortgages at lower interest rates. Yields on commercial mortgages, in general, have trended down since early 2000 (chart C), so refinancing would have helped borrowers meet their payment obligations. Although still low, the delinquency rate on commercial real estate loans used to back commercial-mortgage-backed securities has risen since 2001. On the January 2004 BLPS, banks reported that the greater difficulty in refinancing such loans, which tend to feature larger prepayment penalties and other prepayment restrictions, was an important reason for the increase in the delinquency rate on securitized loans relative to that on the loans held on banks' books.

A. Vacancy rates on office real estate, 1987:Q4–2003:Q4



NOTE. Data are quarterly.
SOURCE. Torto Wheaton Research.

B. Change in rent for office and retail space, 1988–2003



NOTE. The data are four-quarter rates of change. Data before 1991:Q2 are plotted at their available biannual frequency.
SOURCE. National Real Estate Index: Market Monitor.

six quarters of decline, the delinquency rate on credit card loans held by banks rose in the fourth quarter of last year, apparently the result of a large bank's acquisition from a nonbank finance company of a sizable portfolio of credit card receivables with a delinquency rate higher than that of the banking system as a whole.) Household balance sheets improved last year as homeowners refinanced their mortgages at lower interest rates, with many extracting equity from their homes through cash-out refinancing or home equity loans and using part of those funds to pay down other, more-expensive debt.

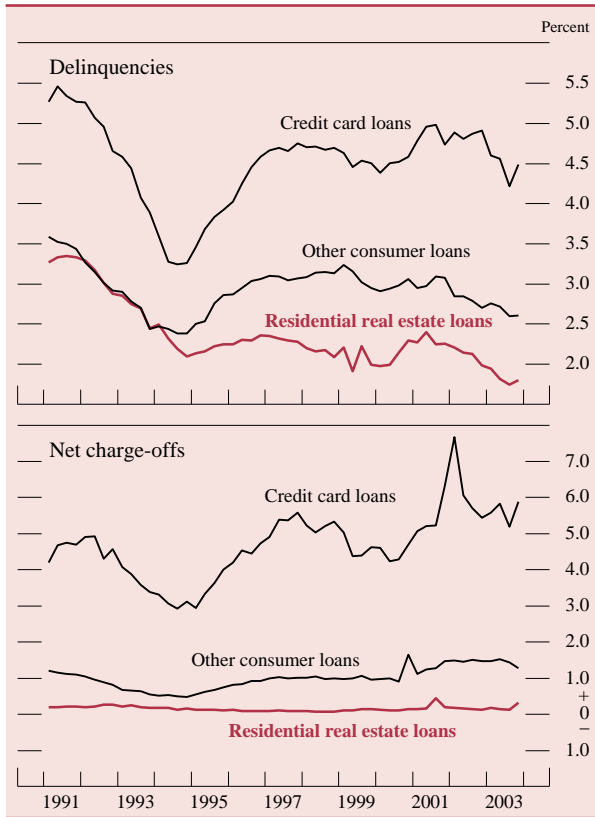
Loss Provisioning

With the improvement in overall credit quality, banks cut back their loan-loss provisioning in 2003, both

in dollar terms and in relation to total revenue (chart 24). The decline was most pronounced at the largest banks, where the ratio had been highest and where credit quality was most improved last year. As loans continued to expand, the ratio of provisioning to loans also declined.

With provisioning just outpacing charge-offs, loan-loss reserves grew 2 percent in 2003—the slowest pace since 1997. The significant improvement in credit quality, however, caused the ratio of loan-loss reserves to delinquent loans to rise 6 percentage points, to 75 percent (chart 25). The ratio of reserves to charge-offs also rose last year, but it remained near the low end of its range over the past decade. With bank balance sheets expanding moderately, reserves as a proportion of total loans slipped to 1.8 percent from 1.9 percent the previous year.

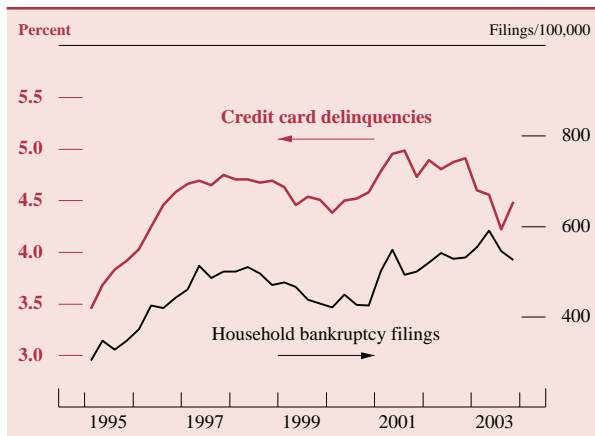
22. Delinquency and charge-off rates for loans to households, by type of loan, 1991–2003



NOTE. See note to chart 20.

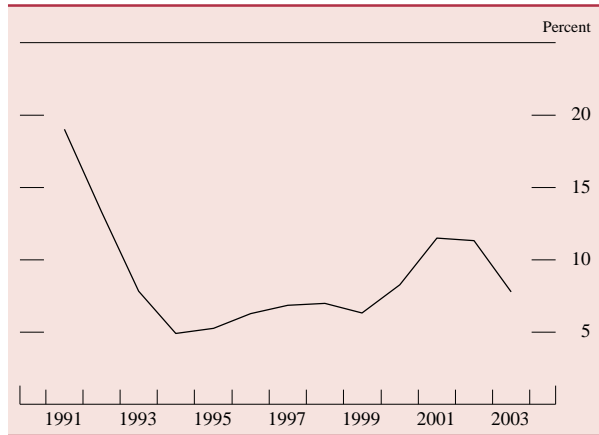
First-quarter earnings statements of several large bank holding companies suggest that bank profitability remained strong in early 2004. These institutions indicated that the trends of the previous year continued. Improvements in credit quality allowed

23. Credit card delinquency rate and household bankruptcy filings, 1995–2003



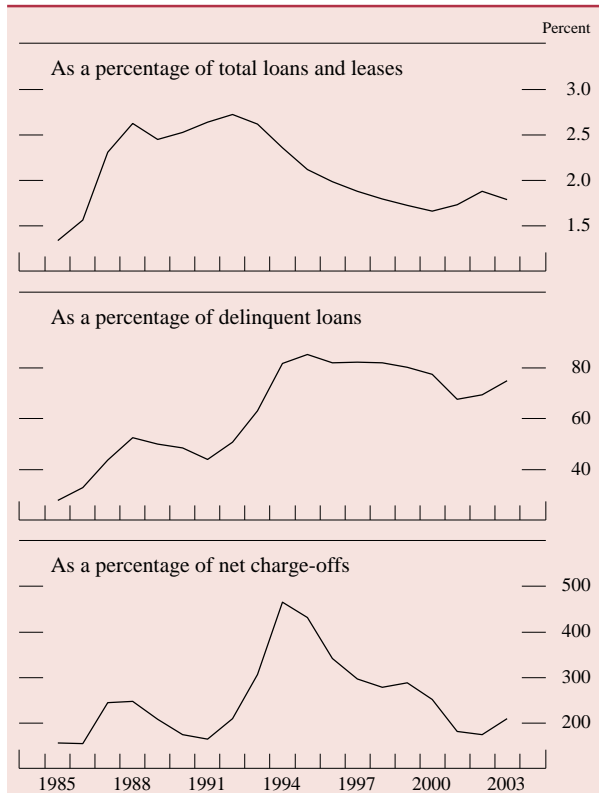
NOTE. Data are quarterly.
SOURCE. Call Report and Visa Bankruptcy Notification Service.

24. Provisioning for loan and lease losses as a percentage of total revenue, 1991–2003



for further reductions in loss provisioning. Non-interest income benefited from increased fees from trust and investment services. With net interest margins still under pressure, growth in net interest income remained sluggish. Stock prices of bank holding companies generally moved with the Wilshire 5000 during the first quarter before falling

25. Reserves for loan and lease losses, 1985–2003



NOTE. For definitions of delinquencies and net charge-offs, see note to chart 20.

A.1. Report of income, all U.S. banks, 1994–2003

Millions of dollars

Item	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Gross interest income	256,854	302,202	313,240	338,216	359,138	366,123	423,823	404,564	350,217	329,765
Taxable equivalent	259,610	304,838	315,700	340,648	361,601	368,750	426,459	407,246	352,965	332,548
Loans	189,567	227,049	239,395	255,492	270,904	278,524	326,789	311,858	270,070	258,160
Securities	48,286	51,029	50,631	52,659	56,596	62,115	67,659	63,064	59,316	53,310
Gross federal funds sold and reverse repurchase agreements	6,415	9,744	9,272	13,658	14,999	12,327	13,546	12,647	6,222	5,122
Other	12,587	14,382	13,944	16,406	16,637	13,155	15,829	16,994	14,610	13,176
Gross interest expense	110,785	147,909	150,097	164,511	178,021	174,939	222,146	188,793	118,915	94,419
Deposits	79,086	105,326	107,512	117,350	125,217	119,665	151,138	132,368	81,894	62,705
Gross federal funds purchased and repurchase agreements	12,474	18,424	16,780	20,439	22,182	21,130	26,859	19,583	9,919	7,590
Other	19,224	24,158	25,806	26,721	30,620	34,143	44,151	36,841	27,101	24,125
Net interest income	146,069	154,293	163,143	173,705	181,117	191,184	201,677	215,771	231,302	235,346
Taxable equivalent	148,825	156,929	165,603	176,137	183,580	193,811	204,313	218,453	234,050	238,129
Loss provisioning	10,930	12,570	16,211	19,176	21,249	21,182	29,381	43,236	45,297	32,682
Non-interest income	77,231	83,846	95,305	105,628	123,516	144,400	153,154	160,297	168,540	183,520
Service charges on deposits	15,279	16,056	17,050	18,558	19,769	21,497	23,719	26,873	29,631	31,692
Fiduciary activities	12,148	12,889	14,296	16,584	19,268	20,502	22,220	21,989	21,637	22,306
Trading revenue	6,249	6,337	7,525	8,018	7,693	10,429	12,235	12,547	10,734	11,444
Other	43,556	48,563	56,433	62,468	76,786	91,972	94,980	98,886	106,536	118,077
Non-interest expense	144,837	151,077	162,450	170,880	193,701	204,625	216,423	226,025	230,331	243,184
Salaries, wages, and employee benefits ..	60,884	63,996	67,796	72,310	79,503	86,150	89,034	94,234	100,483	108,437
Occupancy	18,972	19,758	20,888	22,074	24,160	25,865	26,764	27,940	29,317	31,313
Other	64,982	67,323	73,765	76,495	90,038	92,610	100,626	103,852	100,529	103,433
Net non-interest expense	67,606	67,231	67,145	65,252	70,185	60,225	63,269	65,728	61,791	59,664
Gains on investment account securities	-573	481	1,123	1,825	3,090	250	-2,280	4,624	6,415	5,639
Income before taxes	66,959	74,974	80,907	91,101	92,774	110,028	106,746	111,427	130,502	148,537
Taxes	22,427	26,221	28,448	31,973	31,872	39,202	37,250	37,112	42,973	48,446
Extraordinary items, net of income taxes ..	-17	28	88	56	506	169	-31	-324	-78	428
Net income	44,515	48,780	52,550	59,184	61,408	70,996	69,464	73,992	87,451	100,520
Cash dividends declared	28,167	31,106	39,419	42,752	41,205	51,955	52,547	54,821	67,218	77,750
Retained income	16,347	17,676	13,131	16,433	20,202	19,042	16,917	19,171	20,233	22,770

A.2.—Continued

A. All banks

Item	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
	Effective interest rate (percent) ⁴									
<i>Rates earned</i>										
Interest-earning assets	7.61	8.33	8.14	8.15	7.99	7.70	8.22	7.36	6.08	5.27
Taxable equivalent	7.69	8.40	8.22	8.22	8.06	7.76	8.26	7.44	6.17	5.35
Loans and leases, gross	8.62	9.24	9.00	9.01	8.85	8.47	9.00	8.16	6.91	6.16
Net of loss provisions	8.32	8.92	8.56	8.50	8.30	7.97	8.33	7.15	5.86	5.48
Securities	5.97	6.51	6.46	6.54	6.45	6.27	6.47	6.08	4.98	3.99
Taxable equivalent	6.20	6.73	6.66	6.73	6.63	6.46	6.65	6.26	5.14	4.13
Investment account	5.80	6.35	6.39	6.50	6.38	6.25	6.45	6.05	5.04	4.00
U.S. Treasury securities and U.S. government agency obligations (excluding MBS)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.76	4.42	3.29
Mortgage-backed securities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.45	5.44	4.24
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.60	4.74	4.08
Trading account	7.41	7.73	6.86	6.75	6.85	6.47	6.63	6.34	4.59	3.94
Gross federal funds sold and reverse RPs	4.26	5.63	5.21	5.45	5.29	4.78	5.56	3.86	1.93	1.43
Interest-bearing balances at depositories	5.71	6.84	6.20	6.23	6.32	5.95	6.48	4.01	2.79	2.09
<i>Rates paid</i>										
Interest-bearing liabilities	4.01	4.99	4.82	4.92	4.88	4.47	5.17	4.15	2.54	1.87
Interest-bearing deposits	3.53	4.47	4.34	4.39	4.31	3.87	4.45	3.61	2.12	1.48
In foreign offices	5.59	6.12	5.54	5.44	5.66	4.91	5.61	3.94	2.38	1.64
In domestic offices	3.14	4.11	4.07	4.16	4.01	3.63	4.17	3.54	2.07	1.45
Other checkable deposits	1.85	2.06	2.04	2.25	2.29	2.08	2.34	1.96	1.06	.77
Savings (including MMDAs)	2.58	3.19	3.00	2.92	2.79	2.49	2.86	2.19	1.13	.74
Large time deposits ⁵	4.09	5.47	5.39	5.45	5.22	4.92	5.78	5.04	3.38	2.58
Other time deposits ⁵	4.17	5.44	5.40	5.54	5.48	5.09	5.69	5.43	3.73	2.91
Gross federal funds purchased and RPs	4.18	5.65	5.12	5.17	5.19	4.73	5.77	3.83	1.88	1.30
Other interest-bearing liabilities	7.25	7.46	6.93	6.94	6.89	6.48	6.97	5.92	4.32	3.57
	Income and expense as a percentage of average net consolidated assets									
Gross interest income	6.65	7.29	7.16	7.15	6.98	6.73	7.18	6.39	5.28	4.55
Taxable equivalent	6.72	7.35	7.21	7.20	7.03	6.78	7.22	6.43	5.32	4.59
Loans	4.91	5.47	5.47	5.40	5.27	5.12	5.53	4.92	4.07	3.56
Securities	1.25	1.23	1.16	1.11	1.10	1.14	1.15	1.00	.89	.74
Gross federal funds sold and reverse RPs	.17	.23	.21	.29	.29	.23	.23	.20	.09	.07
Other	.33	.35	.32	.35	.32	.24	.27	.24	.18	.15
Gross interest expense	2.87	3.57	3.43	3.48	3.46	3.22	3.76	2.98	1.79	1.30
Deposits	2.05	2.54	2.46	2.48	2.43	2.20	2.56	2.09	1.23	.86
Gross federal funds purchased and RPs	.32	.44	.38	.43	.43	.39	.45	.31	.15	.10
Other	.50	.58	.59	.56	.60	.63	.75	.58	.41	.33
Net interest income	3.78	3.72	3.73	3.67	3.52	3.51	3.41	3.41	3.49	3.25
Taxable equivalent	3.85	3.78	3.78	3.72	3.57	3.56	3.46	3.45	3.53	3.28
Loss provisioning ⁶	.28	.30	.37	.41	.41	.39	.50	.68	.68	.45
Non-interest income	2.00	2.02	2.18	2.23	2.40	2.65	2.59	2.53	2.54	2.53
Service charges on deposits	.40	.39	.39	.39	.38	.40	.40	.42	.45	.44
Fiduciary activities	.31	.31	.33	.35	.37	.38	.38	.35	.33	.31
Trading revenue	.16	.15	.17	.17	.15	.19	.21	.20	.16	.16
Interest rate exposures	n.a.	n.a.	.09	.08	.05	.07	.08	.10	.08	.06
Foreign exchange rate exposures	n.a.	n.a.	.06	.08	.09	.09	.08	.07	.07	.07
Other commodity and equity exposures	n.a.	n.a.	.02	*	.01	.03	.04	.03	.01	.02
Other	1.13	1.17	1.29	1.32	1.49	1.69	1.61	1.56	1.61	1.63
Non-interest expense	3.75	3.64	3.71	3.61	3.77	3.76	3.66	3.57	3.47	3.35
Salaries, wages, and employee benefits	1.58	1.54	1.55	1.53	1.55	1.58	1.51	1.49	1.51	1.50
Occupancy	.49	.48	.48	.47	.47	.48	.45	.44	.44	.43
Other	1.68	1.62	1.69	1.62	1.75	1.70	1.70	1.64	1.52	1.43
Net non-interest expense	1.75	1.62	1.53	1.38	1.36	1.11	1.07	1.04	.93	.82
Gains on investment account securities	-.01	.01	.03	.04	.06	*	-.04	.07	.10	.08
Income before taxes and extraordinary items	1.73	1.81	1.85	1.92	1.80	2.02	1.81	1.76	1.97	2.05
Taxes	.58	.63	.65	.68	.62	.72	.63	.59	.65	.67
Extraordinary items, net of income taxes	*	*	*	*	.01	*	*	-.01	*	.01
Net income	1.15	1.18	1.20	1.25	1.19	1.31	1.18	1.17	1.32	1.39
Cash dividends declared	.73	.75	.90	.90	.80	.96	.89	.87	1.01	1.07
Retained income	.42	.43	.30	.35	.39	.35	.29	.30	.30	.31
MEMO: Return on equity	14.63	14.69	14.53	14.84	14.05	15.39	13.97	13.35	14.41	15.34

* In absolute value, less than 0.005 percent.

n.a. Not available. MMDA Money market deposit account. RP Repurchase agreement. CD Certificate of deposit.

1. Includes allocated transfer risk reserves.

2. As in the Call Report, equity securities were combined with "other debt securities" before 1989.

3. Before 1994, the netted value of revaluation gains and losses appeared in "trading account securities" if it was a gain and in "other non-interest-bearing liabilities" if it was a loss.

4. When possible, based on the average of quarterly balance sheet data reported on schedule RC-K of the quarterly Call Reports.

5. Before 1997, large time open accounts included in other time deposits.

6. Includes provisions for allocated transfer risk.

A.2.—Continued

B. Ten largest banks by assets

Item	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
	Effective interest rate (percent) ⁴									
<i>Rates earned</i>										
Interest-earning assets	8.15	8.20	7.72	7.55	7.54	7.35	7.77	6.82	5.81	5.00
Taxable equivalent	8.18	8.22	7.74	7.60	7.57	7.39	7.78	6.89	5.89	5.06
Loans and leases, gross	8.89	8.84	8.32	8.25	8.21	7.99	8.46	7.52	6.54	5.78
Net of loss provisions	8.66	8.88	8.31	8.10	7.77	7.65	7.92	6.56	5.32	5.21
Securities	7.09	7.40	6.80	6.78	6.83	6.58	6.48	6.36	5.14	4.23
Taxable equivalent	7.19	7.47	6.85	6.85	6.89	6.65	6.55	6.44	5.21	4.29
Investment account	6.57	7.04	6.70	6.76	6.78	6.59	6.40	6.23	5.30	4.26
U.S. Treasury securities and U.S. government agency obligations (excluding MBS)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.01	3.74	2.62
Mortgage-backed securities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.42	5.55	4.51
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.34	5.30	4.28
Trading account	7.79	7.83	6.90	6.81	6.92	6.56	6.70	6.66	4.75	4.15
Gross federal funds sold and reverse RPs	4.52	5.20	4.92	5.45	5.20	4.52	4.93	3.86	2.20	1.66
Interest-bearing balances at depositories	7.27	7.15	6.71	6.91	7.16	7.22	7.43	3.73	3.40	2.49
<i>Rates paid</i>										
Interest-bearing liabilities	5.43	5.88	5.44	5.41	5.29	4.79	5.37	4.09	2.55	1.86
Interest-bearing deposits	4.32	4.99	4.57	4.54	4.40	3.82	4.40	3.27	1.95	1.36
In foreign offices	6.04	6.07	5.62	5.52	5.83	4.99	5.67	4.02	2.59	1.76
In domestic offices	2.35	3.42	3.32	3.69	3.39	3.04	3.51	2.85	1.68	1.20
Other checkable deposits	1.10	1.29	1.32	1.97	1.67	1.44	1.61	1.67	.93	.87
Savings (including MMDAs)	2.35	3.11	2.76	2.68	2.45	2.11	2.43	1.92	1.02	.73
Large time deposits ⁵	3.12	3.73	4.62	5.17	4.53	4.36	5.32	4.40	3.26	2.36
Other time deposits ⁵	2.80	5.08	4.58	5.45	5.21	4.95	5.53	5.14	3.55	2.86
Gross federal funds purchased and RPs	4.05	5.22	4.93	5.02	5.18	4.53	5.47	3.81	2.02	1.39
Other interest-bearing liabilities	10.87	9.80	8.86	9.13	8.85	8.61	8.15	7.00	5.39	4.20
	Income and expense as a percentage of average net consolidated assets									
Gross interest income	6.37	6.42	6.26	6.31	6.21	6.01	6.39	5.56	4.78	4.06
Taxable equivalent	6.40	6.43	6.27	6.33	6.22	6.03	6.41	5.58	4.80	4.08
Loans	4.49	4.44	4.48	4.31	4.27	4.35	4.74	4.14	3.58	3.05
Securities	.77	.75	.71	.73	.81	.85	.88	.72	.73	.63
Gross federal funds sold and reverse RPs	.15	.21	.18	.45	.42	.30	.25	.25	.12	.10
Other	.97	1.00	.88	.82	.70	.51	.51	.43	.34	.27
Gross interest expense	3.52	3.74	3.52	3.55	3.48	3.16	3.60	2.69	1.65	1.20
Deposits	2.15	2.43	2.26	2.26	2.20	1.97	2.33	1.74	1.06	.75
Gross federal funds purchased and RPs	.24	.35	.31	.54	.54	.40	.49	.35	.18	.13
Other	1.13	.95	.95	.75	.74	.79	.78	.59	.41	.33
Net interest income	2.86	2.68	2.73	2.76	2.73	2.84	2.78	2.87	3.13	2.86
Taxable equivalent	2.88	2.70	2.75	2.79	2.75	2.86	2.80	2.89	3.15	2.88
Loss provisioning ⁶	.26	.11	.11	.16	.31	.26	.38	.59	.73	.35
Non-interest income	2.33	2.16	2.34	2.12	2.15	2.55	2.54	2.23	2.32	2.31
Service charges on deposits	.26	.25	.28	.32	.33	.37	.40	.44	.48	.46
Fiduciary activities	.36	.30	.31	.34	.32	.31	.27	.29	.26	.27
Trading revenue	.53	.46	.52	.43	.33	.46	.48	.43	.32	.30
Interest rate exposures	n.a.	n.a.	.30	.23	.10	.17	.20	.21	.15	.12
Foreign exchange rate exposures	n.a.	n.a.	.17	.20	.20	.19	.18	.14	.14	.14
Other commodity and equity exposures	n.a.	n.a.	.05	*	.03	.09	.11	.08	.03	.04
Other	1.18	1.15	1.23	1.04	1.17	1.41	1.39	1.06	1.25	1.29
Non-interest expense	3.56	3.32	3.57	3.24	3.47	3.45	3.31	3.13	3.16	3.02
Salaries, wages, and employee benefits	1.65	1.58	1.57	1.45	1.45	1.57	1.46	1.38	1.41	1.39
Occupancy	.55	.50	.50	.47	.47	.50	.47	.45	.46	.45
Other	1.36	1.24	1.50	1.33	1.54	1.38	1.39	1.30	1.28	1.18
Net non-interest expense	1.23	1.16	1.23	1.12	1.32	.90	.77	.90	.84	.71
Gains on investment account securities	.02	.03	.04	.08	.11	.03	-0.03	.08	.13	.11
Income before taxes and extraordinary items	1.39	1.44	1.44	1.56	1.22	1.71	1.60	1.46	1.69	1.91
Taxes	.48	.55	.52	.58	.44	.66	.60	.48	.57	.62
Extraordinary items, net of income taxes	*	*	*	*	*	*	*	-.01	*	*
Net income	.91	.88	.92	.98	.78	1.05	1.00	.97	1.12	1.29
Cash dividends declared	.58	.57	.70	.82	.53	.79	.86	.66	1.05	.99
Retained income	.33	.31	.21	.15	.25	.26	.13	.31	.07	.30
MEMO: Return on equity	13.86	13.78	13.21	13.22	10.53	13.58	13.04	12.34	13.24	16.01

* In absolute value, less than 0.005 percent.

n.a. Not available. MMDA Money market deposit account. RP Repurchase agreement. CD Certificate of deposit.

1. Includes allocated transfer risk reserves.

2. As in the Call Report, equity securities were combined with "other debt securities" before 1989.

3. Before 1994, the netted value of revaluation gains and losses appeared in "trading account securities" if it was a gain and in "other non-interest-bearing liabilities" if it was a loss.

4. When possible, based on the average of quarterly balance sheet data reported on schedule RC-K of the quarterly Call Reports.

5. Before 1997, large time open accounts included in other time deposits.

6. Includes provisions for allocated transfer risk.

A.2.—Continued

C. Banks ranked 11 through 100 by assets

Item	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
	Effective interest rate (percent) ⁴									
<i>Rates earned</i>										
Interest-earning assets	7.29	8.31	8.16	8.31	8.10	7.84	8.46	7.53	6.00	5.26
Taxable equivalent	7.36	8.37	8.23	8.36	8.17	7.88	8.48	7.58	6.07	5.33
Loans and leases, gross	8.22	9.10	8.88	9.03	8.82	8.50	9.14	8.26	6.80	6.11
Net of loss provisions	7.87	8.67	8.21	8.27	8.15	7.80	8.25	6.96	5.59	5.11
Securities	5.75	6.38	6.49	6.55	6.31	6.32	6.64	5.96	4.79	3.80
Taxable equivalent	5.92	6.56	6.66	6.70	6.46	6.46	6.77	6.08	4.91	3.91
Investment account	5.75	6.35	6.49	6.57	6.33	6.34	6.66	6.04	4.86	3.87
U.S. Treasury securities and U.S. government agency obligations (excluding MBS)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.83	4.28	3.17
Mortgage-backed securities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.60	5.34	4.20
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.13	4.22	3.61
Trading account	5.75	7.27	6.53	6.05	5.86	5.58	6.25	4.83	3.59	2.62
Gross federal funds sold and reverse RPs	4.31	5.91	5.31	5.45	5.46	5.12	6.06	3.86	1.68	1.14
Interest-bearing balances at depositories	4.69	6.78	5.82	5.76	5.67	4.81	5.49	4.38	2.46	1.93
<i>Rates paid</i>										
Interest-bearing liabilities	3.71	4.94	4.70	4.79	4.77	4.38	5.22	4.16	2.41	1.79
Interest-bearing deposits	3.25	4.35	4.15	4.22	4.15	3.76	4.42	3.60	1.96	1.35
In foreign offices	4.60	6.30	5.29	5.23	5.22	4.70	5.38	3.67	1.70	1.22
In domestic offices	3.03	4.01	3.96	4.04	3.96	3.60	4.26	3.60	1.99	1.37
Other checkable deposits	1.61	1.89	1.78	2.01	2.41	2.03	2.57	2.32	.94	.67
Savings (including MMDAs)	2.46	3.10	2.91	2.84	2.76	2.49	2.94	2.30	1.08	.66
Large time deposits ⁵	4.21	5.70	5.50	5.47	5.32	4.96	5.88	5.11	3.36	2.70
Other time deposits ⁵	4.17	5.35	5.26	5.43	5.35	5.03	5.73	5.42	3.68	2.95
Gross federal funds purchased and RPs	4.28	5.86	5.19	5.29	5.22	4.87	6.02	3.86	1.73	1.20
Other interest-bearing liabilities	5.24	6.43	5.95	5.85	5.81	5.41	6.36	5.30	3.54	3.01
	Income and expense as a percentage of average net consolidated assets									
Gross interest income	6.46	7.40	7.24	7.26	7.16	6.98	7.54	6.70	5.31	4.67
Taxable equivalent	6.51	7.45	7.28	7.30	7.19	7.02	7.57	6.73	5.34	4.70
Loans	4.91	5.79	5.80	5.87	5.79	5.56	6.05	5.28	4.15	3.72
Securities	1.13	1.13	1.03	.98	1.00	1.10	1.09	1.06	.90	.75
Gross federal funds sold and reverse RPs	.21	.27	.23	.22	.19	.18	.22	.15	.08	.04
Other	.21	.21	.18	.19	.18	.14	.18	.15	.11	.08
Gross interest expense	2.67	3.62	3.39	3.41	3.45	3.26	3.96	3.14	1.77	1.30
Deposits	1.73	2.29	2.18	2.23	2.23	2.02	2.41	2.01	1.09	.77
Gross federal funds purchased and RPs	.51	.67	.55	.51	.51	.51	.56	.38	.17	.12
Other	.43	.66	.66	.68	.71	.74	.99	.75	.51	.41
Net interest income	3.79	3.78	3.84	3.85	3.71	3.72	3.58	3.56	3.54	3.37
Taxable equivalent	3.84	3.84	3.89	3.89	3.74	3.75	3.61	3.59	3.57	3.40
Loss provisioning ⁶	.32	.39	.54	.60	.54	.55	.68	.91	.80	.67
Non-interest income	2.25	2.38	2.61	2.76	3.07	3.36	3.18	3.36	3.30	3.28
Service charges on deposits	.45	.44	.44	.44	.42	.41	.42	.42	.42	.42
Fiduciary activities	.39	.40	.43	.44	.49	.48	.52	.42	.42	.37
Trading income	.08	.09	.08	.08	.09	.08	.07	.08	.08	.09
Interest rate exposures	n.a.	n.a.	.03	.02	.03	.02	.02	.04	.04	.04
Foreign exchange rate exposures	n.a.	n.a.	.04	.05	.06	.05	.04	.03	.04	.04
Other commodity and equity exposures	n.a.	n.a.	.01	*	*	*	*	*	*	.01
Other	1.33	1.45	1.67	1.79	2.07	2.39	2.18	2.44	2.37	2.40
Non-interest expense	3.86	3.79	3.85	3.85	4.03	4.12	4.00	3.95	3.73	3.63
Salaries, wages, and employee benefits	1.50	1.47	1.51	1.51	1.53	1.53	1.44	1.47	1.49	1.47
Occupancy	.47	.47	.48	.46	.46	.45	.43	.42	.40	.41
Other	1.89	1.85	1.86	1.88	2.04	2.14	2.14	2.07	1.84	1.76
Net non-interest expense	1.61	1.41	1.24	1.10	.96	.76	.82	.59	.43	.35
Gains on investment account securities	-.01	.02	.02	.02	.03	-.01	-.05	.09	.10	.06
Income before taxes and extraordinary items	1.85	2.01	2.09	2.18	2.24	2.40	2.02	2.15	2.41	2.41
Taxes	.63	.70	.75	.77	.78	.86	.70	.74	.82	.82
Extraordinary items, net of income taxes	*	*	*	*	*	*	*	*	*	*
Net income	1.22	1.31	1.34	1.42	1.45	1.54	1.32	1.40	1.59	1.59
Cash dividends declared	.86	.85	1.07	.93	.96	1.16	.94	.96	.99	1.05
Retained income	.36	.46	.26	.48	.50	.38	.38	.44	.60	.54
MEMO: Return on equity	16.27	16.84	16.78	17.36	17.38	18.46	15.72	15.79	17.26	17.01

* In absolute value, less than 0.005 percent.

n.a. Not available. MMDA Money market deposit account. RP Repurchase agreement. CD Certificate of deposit.

1. Includes allocated transfer risk reserves.

2. As in the Call Report, equity securities were combined with "other debt securities" before 1989.

3. Before 1994, the netted value of revaluation gains and losses appeared in "trading account securities" if it was a gain and in "other non-interest-bearing liabilities" if it was a loss.

4. When possible, based on the average of quarterly balance sheet data reported on schedule RC-K of the quarterly Call Reports.

5. Before 1997, large time open accounts included in other time deposits.

6. Includes provisions for allocated transfer risk.

A.2.—Continued

D. Banks ranked 101 through 1,000 by assets

Item	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
	Effective interest rate (percent) ⁴									
<i>Rates earned</i>										
Interest-earning assets	7.57	8.42	8.41	8.49	8.32	7.83	8.50	7.82	6.40	5.56
Taxable equivalent	7.67	8.51	8.50	8.59	8.44	7.92	8.56	7.94	6.51	5.67
Loans and leases, gross	8.63	9.43	9.38	9.48	9.37	8.74	9.42	8.76	7.33	6.56
Net of loss provisions	8.28	8.93	8.76	8.76	8.76	8.26	8.75	7.87	6.57	6.02
Securities	5.68	6.24	6.34	6.43	6.31	6.03	6.45	5.96	4.93	3.80
Taxable equivalent	5.93	6.50	6.60	6.69	6.57	6.29	6.71	6.24	5.19	4.05
Investment account	5.68	6.24	6.34	6.43	6.30	6.03	6.45	5.96	4.93	3.82
U.S. Treasury securities and U.S. government agency obligations (excluding MBS)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.85	4.54	3.42
Mortgage-backed securities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.33	5.38	3.95
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.40	4.51	4.07
Trading account	5.29	5.55	5.94	6.37	6.84	7.33	9.30	6.60	3.82	1.67
Gross federal funds sold and reverse RPs	4.05	5.45	5.29	5.42	5.31	4.98	6.15	3.91	1.73	1.27
Interest-bearing balances at depositories	4.28	6.07	5.69	5.44	5.76	5.07	5.76	3.93	1.79	1.27
<i>Rates paid</i>										
Interest-bearing liabilities	3.57	4.64	4.58	4.66	4.60	4.19	4.93	4.11	2.54	1.88
Interest-bearing deposits	3.31	4.26	4.27	4.34	4.28	3.84	4.46	3.81	2.28	1.60
In foreign offices	4.31	5.94	5.72	5.42	5.55	5.07	6.12	4.27	2.14	1.43
In domestic offices	3.28	4.21	4.23	4.32	4.25	3.82	4.43	3.81	2.28	1.61
Other checkable deposits	1.87	2.02	1.96	2.16	2.15	1.99	2.27	1.81	1.06	.74
Savings (including MMDAs)	2.64	3.24	3.11	3.08	2.97	2.65	3.07	2.22	1.17	.75
Large time deposits ⁵	4.23	5.62	5.48	5.56	5.51	5.17	6.00	5.27	3.34	2.57
Other time deposits ⁵	4.40	5.53	5.57	5.57	5.64	5.11	5.74	5.51	3.77	2.86
Gross federal funds purchased and RPs	4.12	5.61	5.16	5.21	5.14	4.83	5.95	3.82	1.83	1.29
Other interest-bearing liabilities	4.92	6.28	5.90	6.09	6.00	5.36	6.45	5.41	4.17	3.59
	Income and expense as a percentage of average net consolidated assets									
Gross interest income	6.89	7.68	7.68	7.75	7.63	7.19	7.79	7.16	5.85	5.07
Taxable equivalent	6.98	7.76	7.75	7.83	7.71	7.27	7.86	7.24	5.93	5.15
Loans	5.25	5.98	5.99	6.00	5.85	5.47	5.96	5.59	4.58	4.07
Securities	1.45	1.43	1.42	1.50	1.50	1.51	1.57	1.33	1.15	.91
Gross federal funds sold and reverse RPs	.14	.21	.20	.19	.22	.17	.21	.16	.07	.05
Other	.06	.07	.06	.06	.06	.04	.04	.04	.02	.01
Gross interest expense	2.65	3.46	3.40	3.47	3.44	3.20	3.79	3.14	1.92	1.41
Deposits	2.01	2.56	2.57	2.70	2.71	2.44	2.87	2.48	1.49	1.04
Gross federal funds purchased and RPs	.35	.46	.43	.37	.32	.34	.38	.22	.09	.07
Other	.29	.44	.40	.40	.41	.42	.54	.44	.34	.30
Net interest income	4.24	4.23	4.27	4.28	4.19	3.99	4.00	4.02	3.93	3.67
Taxable equivalent	4.33	4.31	4.35	4.36	4.27	4.07	4.07	4.10	4.00	3.74
Loss provisioning ⁶	.32	.43	.50	.56	.48	.39	.52	.65	.55	.40
Non-interest income	1.86	1.84	1.88	2.08	2.25	2.31	2.35	2.37	2.37	2.31
Service charges on deposits	.42	.42	.41	.40	.39	.38	.36	.39	.41	.41
Fiduciary activities	.28	.27	.29	.32	.37	.38	.44	.40	.35	.31
Trading income	.02	.03	.02	.01	.02	.02	.01	*	*	.01
Interest rate exposures	n.a.	n.a.	.01	.01	.01	.01	.01	-.01	*	.01
Foreign exchange rate exposures	n.a.	n.a.	.01	*	*	*	*	*	*	*
Other commodity and equity exposures	n.a.	n.a.	*	*	*	*	*	*	*	*
Other	1.14	1.12	1.16	1.34	1.47	1.53	1.55	1.58	1.61	1.59
Non-interest expense	3.77	3.68	3.69	3.73	3.86	3.70	3.84	3.88	3.73	3.59
Salaries, wages, and employee benefits	1.49	1.44	1.44	1.50	1.57	1.56	1.59	1.61	1.64	1.64
Occupancy	.46	.45	.45	.46	.47	.47	.47	.46	.45	.43
Other	1.83	1.79	1.80	1.76	1.83	1.68	1.78	1.81	1.64	1.53
Net non-interest expense	1.92	1.84	1.81	1.65	1.61	1.39	1.48	1.52	1.36	1.28
Gains on investment account securities	-.05	-.01	.02	.02	.04	-.01	-.04	.05	.04	.05
Income before taxes and extraordinary items	1.96	1.96	1.98	2.10	2.14	2.19	1.96	1.90	2.06	2.04
Taxes	.67	.67	.69	.73	.73	.74	.67	.66	.67	.66
Extraordinary items, net of income taxes	*	*	*	*	.06	.01	*	.01	*	.03
Net income	1.29	1.28	1.29	1.37	1.46	1.46	1.29	1.25	1.38	1.40
Cash dividends declared	.81	.87	1.04	1.09	1.01	1.06	.92	1.33	1.19	1.64
Retained income	.48	.41	.25	.28	.45	.40	.37	-.08	.19	-.24
MEMO: Return on equity	15.42	14.82	14.45	14.90	15.49	16.11	14.22	12.95	13.74	13.62

* In absolute value, less than 0.005 percent.

n.a. Not available. MMDA Money market deposit account. RP Repurchase agreement. CD Certificate of deposit.

1. Includes allocated transfer risk reserves.

2. As in the Call Report, equity securities were combined with "other debt securities" before 1989.

3. Before 1994, the netted value of revaluation gains and losses appeared in "trading account securities" if it was a gain and in "other non-interest-bearing liabilities" if it was a loss.

4. When possible, based on the average of quarterly balance sheet data reported on schedule RC-K of the quarterly Call Reports.

5. Before 1997, large time open accounts included in other time deposits.

6. Includes provisions for allocated transfer risk.

A.2.—Continued

E. Banks not ranked among the 1,000 largest by assets

Item	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
	Effective interest rate (percent) ⁴									
<i>Rates earned</i>										
Interest-earning assets	7.58	8.38	8.36	8.49	8.33	8.05	8.46	7.91	6.80	5.92
Taxable equivalent	7.72	8.53	8.50	8.63	8.48	8.18	8.56	8.05	6.93	6.06
Loans and leases, gross	9.01	9.80	9.75	9.80	9.69	9.28	9.51	9.03	7.87	7.10
Net of loss provisions	8.81	9.54	9.47	9.49	9.34	8.89	9.14	8.59	7.42	6.75
Securities	5.61	6.10	6.14	6.26	6.04	5.88	6.15	5.86	5.02	3.86
Taxable equivalent	5.99	6.49	6.52	6.65	6.46	6.29	6.54	6.28	5.43	4.26
Investment account	5.61	6.10	6.14	6.26	6.04	5.89	6.15	5.86	5.02	3.87
U.S. Treasury securities and U.S. government agency obligations (excluding MBS)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.97	4.80	3.74
Mortgage-backed securities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.20	5.47	3.58
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.29	4.87	4.43
Trading account	6.03	6.12	6.47	6.33	5.26	3.60	4.01	6.43	4.80	.66
Gross federal funds sold and reverse RPs	4.09	5.95	5.34	5.51	5.35	4.96	6.25	3.83	1.63	1.08
Interest-bearing balances at depositories	4.64	5.88	5.63	5.62	5.67	5.69	6.38	4.56	2.68	1.96
<i>Rates paid</i>										
Interest-bearing liabilities	3.49	4.46	4.49	4.60	4.60	4.28	4.80	4.40	2.92	2.13
Interest-bearing deposits	3.44	4.39	4.44	4.53	4.53	4.22	4.67	4.32	2.78	2.02
In foreign offices	3.92	5.73	5.34	4.77	5.08	4.34	5.13	4.04	1.67	.85
In domestic offices	3.44	4.39	4.44	4.53	4.53	4.22	4.67	4.32	2.79	2.02
Other checkable deposits	2.30	2.50	2.41	2.46	2.45	2.28	2.47	1.97	1.16	.78
Savings (including MMDAs)	2.83	3.32	3.26	3.36	3.39	3.21	3.56	2.81	1.72	1.13
Large time deposits ⁵	4.12	5.55	5.48	5.53	5.53	5.22	5.89	5.53	3.61	2.78
Other time deposits ⁵	4.28	5.51	5.61	5.66	5.63	5.25	5.70	5.60	3.88	2.96
Gross federal funds purchased and RPs	4.11	5.60	5.12	5.23	4.99	4.73	5.69	3.92	1.84	1.31
Other interest-bearing liabilities	5.02	6.45	5.77	6.31	6.45	5.63	6.22	5.74	5.31	4.06
	Income and expense as a percentage of average net consolidated assets									
Gross interest income	7.02	7.78	7.77	7.90	7.75	7.48	7.83	7.35	6.33	5.48
Taxable equivalent	7.16	7.91	7.89	8.02	7.87	7.60	7.95	7.45	6.43	5.58
Loans	4.99	5.63	5.68	5.86	5.80	5.62	5.99	5.75	5.03	4.49
Securities	1.84	1.86	1.80	1.76	1.59	1.58	1.57	1.32	1.16	.89
Gross federal funds sold and reverse RPs	.15	.25	.24	.24	.29	.22	.21	.20	.07	.05
Other	.04	.04	.04	.04	.06	.06	.05	.05	.03	.03
Gross interest expense	2.65	3.37	3.39	3.48	3.46	3.26	3.64	3.34	2.23	1.60
Deposits	2.52	3.19	3.22	3.28	3.25	3.03	3.30	3.08	1.98	1.41
Gross federal funds purchased and RPs	.07	.10	.08	.08	.07	.08	.12	.06	.03	.02
Other	.06	.08	.08	.11	.13	.15	.21	.20	.21	.17
Net interest income	4.36	4.41	4.38	4.42	4.28	4.22	4.20	4.01	4.10	3.88
Taxable equivalent	4.50	4.54	4.50	4.54	4.41	4.35	4.31	4.12	4.21	3.98
Loss provisioning ⁶	.19	.24	.25	.27	.29	.31	.31	.36	.35	.29
Non-interest income	1.30	1.38	1.42	1.42	1.52	1.44	1.32	1.31	1.39	1.46
Service charges on deposits	.44	.44	.44	.44	.42	.42	.43	.44	.45	.43
Fiduciary activities	.17	.22	.19	.20	.23	.26	.21	.25	.27	.28
Trading income	*	.01	*	*	*	*	.01	*	*	*
Interest rate exposures	n.a.	n.a.	*	*	*	*	*	*	*	*
Foreign exchange rate exposures	n.a.	n.a.	*	*	*	*	*	*	*	*
Other commodity and equity exposures	n.a.	n.a.	*	*	*	*	*	*	*	*
Other	.69	.71	.79	.77	.86	.75	.67	.62	.67	.75
Non-interest expense	3.79	3.80	3.70	3.69	3.74	3.73	3.58	3.55	3.57	3.55
Salaries, wages, and employee benefits	1.75	1.79	1.77	1.80	1.82	1.82	1.78	1.79	1.82	1.82
Occupancy	.49	.50	.49	.49	.49	.49	.47	.47	.46	.45
Other	1.55	1.51	1.44	1.40	1.43	1.42	1.32	1.29	1.28	1.28
Net non-interest expense	2.48	2.42	2.28	2.28	2.23	2.29	2.26	2.24	2.18	2.09
Gains on investment account securities	-.03	*	.01	.01	.02	*	-.01	.04	.05	.04
Income before taxes and extraordinary items	1.66	1.75	1.85	1.89	1.79	1.62	1.61	1.45	1.60	1.53
Taxes	.51	.55	.59	.59	.53	.46	.45	.39	.41	.38
Extraordinary items, net of income taxes	*	*	*	*	*	*	*	*	-.01	*
Net income	1.15	1.20	1.26	1.30	1.26	1.15	1.17	1.06	1.18	1.14
Cash dividends declared	.57	.62	.64	.74	.82	.68	.79	.64	.68	.67
Retained income	.58	.58	.62	.56	.44	.48	.38	.42	.50	.47
MEMO: Return on equity	12.03	12.05	12.37	12.53	12.02	11.25	11.53	10.17	11.47	10.98

* In absolute value, less than 0.005 percent.

n.a. Not available. MMDA Money market deposit account. RP Repurchase agreement. CD Certificate of deposit.

1. Includes allocated transfer risk reserves.

2. As in the Call Report, equity securities were combined with "other debt securities" before 1989.

3. Before 1994, the netted value of revaluation gains and losses appeared in "trading account securities" if it was a gain and in "other non-interest-bearing liabilities" if it was a loss.

4. When possible, based on the average of quarterly balance sheet data reported on schedule RC-K of the quarterly Call Reports.

5. Before 1997, large time open accounts included in other time deposits.

6. Includes provisions for allocated transfer risk.