Profits and Balance Sheet Developments at U.S. Commercial Banks in 2004

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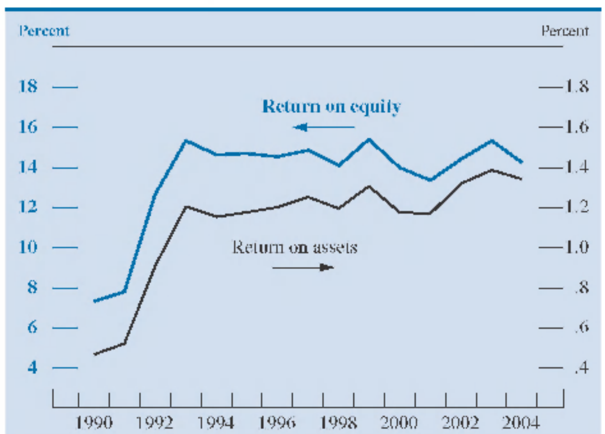
U.S. commercial banks continued to be highly profitable in 2004. Return on assets and return on equity declined moderately from the previous year's levels, but they remained in the elevated range that has prevailed since the mid-1990s (chart 1). Banks' profitability and balance sheets benefited from a brisk expansion of the economy and supportive financial conditions during 2004. Although the Federal Reserve gradually raised its target for the federal funds rate over the second half of the year, the stance of policy remained accommodative (chart 2). Short- and intermediate-term interest rates rose over the course of the year, but yields on longer-term Treasury securities were little changed on net, and the Treasury yield curve flattened noticeably. Interest rates on residential mortgages ended the year a touch lower, on balance, and continued to support robust housing activity. Risk spreads on corporate bonds—particularly high-yield bonds—narrowed substantially.

Favorable financial market conditions, accompanied by a stimulative fiscal policy and continued rapid growth in productivity, supported economic activity. Buoyant consumer spending on durable and nondurable goods reflected solid income growth, improvements in labor market conditions, and greater household wealth; the greater wealth, in turn, arose from gains in the stock market and continued sharp increases in house prices. Healthy profits and cash flows encouraged business investment in equipment and software, which rose smartly throughout the year. Businesses also added considerably to inventories for the first time since 2001. With the financial obligations ratio of households stabilizing below the peak reached at the end of 2002 and the debt burden for nonfinancial corporations continuing to fall, households and businesses had relatively strong financial positions overall during 2004.

These economic and financial conditions were reflected in the changes in bank balance sheets over the year. The robust activity in the housing sector and generally low mortgage interest rates buoyed residential mortgage lending at banks despite the ebbing of the 2003 refinancing wave. Even though consumer spending was strong, consumer loans advanced at only a moderate pace and likely were restrained by the substitution of mortgage debt for higher-rate con-

1. Bank profitability, 1990–2004

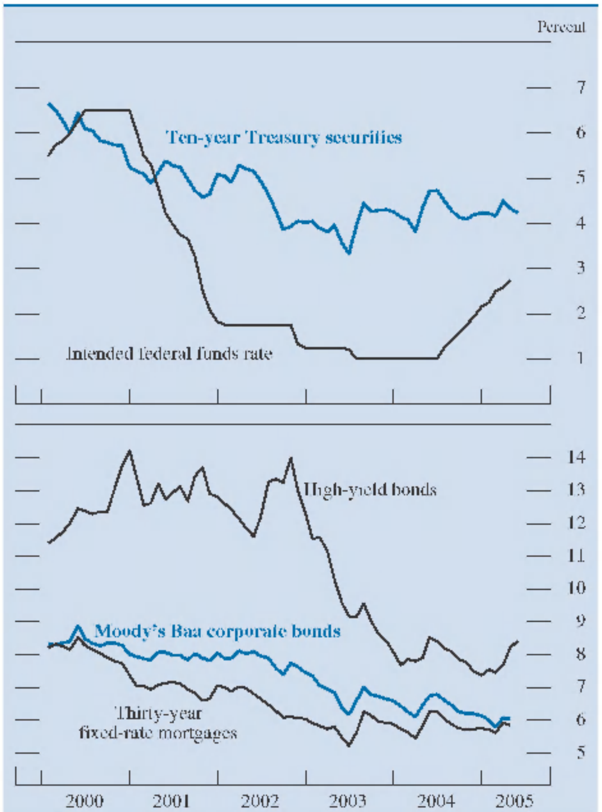


NOTE. The data are annual.

NOTE. Except where otherwise indicated, data in this article are from the quarterly Reports of Condition and Income (Call Report) 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 and the effects of push-down accounting. For additional information on the adjustments to the data, see the appendix in William B. English and William R. Nelson (1998), "Profits and Balance Sheet Developments at U.S. Commercial Banks in 1997," *Federal Reserve Bulletin,* vol. 84 (June), 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 2004, the approximate asset sizes of the banks in those groups were as follows: the ten largest banks, more than $96 billion; large banks, $6.7 billion to $96 billion; medium-sized banks, $422 million to $6.6 billion; and small banks, less than $422 million.

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, A–E, reports portfolio composition, income, and expense items, all as a percentage of overall net consolidated assets. Appendix table A.2 reports income statement data for all banks.

2. Selected interest rates, 2000–05



NOTE. The data are monthly and extend through March 2005.

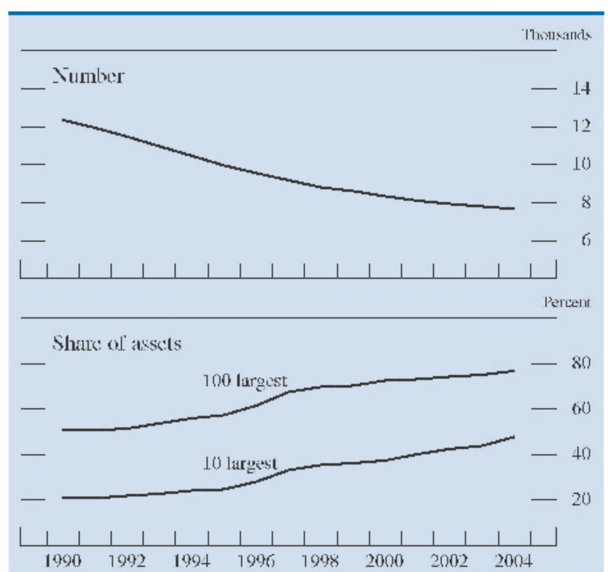
SOURCE. For Treasury securities, mortgages, and Moody's corporate bonds, Federal Reserve Board, Statistical Release H.15, "Selected Interest Rates" (www.federalreserve.gov/releases/h15); for federal funds, Federal Reserve Board (www.federalreserve.gov/fomc/fundsrate.htm); for high-yield bonds, Merrill Lynch Master II index.

sumer credit. Strong cash flows and profits allowed many nonfinancial corporations to finance capital spending with internal funds and thus reduce their borrowing needs. Nonetheless, after three years of retrenchment, short-term business debt—consisting of commercial and industrial (C&I) loans from banks and commercial paper—rose last year to meet firms' greater need to fund accounts receivable, inventories, capital expenditures, and merger and acquisition activity. C&I loans also received a boost from the supply side, as banks reported easing their lending standards and terms throughout the year. Banks also reported easing their standards and terms on commercial real estate loans, and such loans increased despite soft conditions overall in that sector. Still-low interest rates fueled the growth of core deposits, but the rise was insufficient to fund the increase in bank assets.[1] As a result, banks relied more heavily on managed liabilities, which rose strongly last year.

Economic and financial developments also strongly influenced banks' profitability in 2004. As the yield curve flattened markedly, the net interest margin narrowed a bit further. The net interest margin may also have been eroded by increased competition in the C&I loan market, which contributed to a narrowing of loan spreads over reference rates. Gains in non-interest income were less pronounced than in 2003. Despite contributions from fiduciary activities, loan-servicing fees, and securitization activities, the growth of non-interest income was restrained by weakness in investment banking revenue, a marked contraction in trading income, and a decline in gains from loan sales. Meanwhile, non-interest expense, which rose briskly, was boosted by provisions for litigation and expenses related to sizable mergers at a few large banks. However, the continued improvement in overall credit quality throughout the year allowed banks to trim their provisioning for loan and lease losses, and delinquency and charge-off rates for all loan categories trended down. Realized gains on investment-account securities declined last year but still contributed to income.

Although more new commercial banks were chartered in 2004 than in 2003, merger activity increased, and the number of banks fell to 7,678 at year-end (chart 3). Some of the merger activity involved very large banks and thus contributed to an increase in the concentration of industry assets. The share of indus-

3. Number of banks, and share of assets at the largest banks, 1990–2004



NOTE. The data are annual. For the definition of bank size, see the general note on the first page of the main text.

1. Core deposits are transaction deposits, savings deposits (including money market deposit accounts), and small time deposits.

1. Annual rates of growth of balance sheet items, 1995–2004

Percent

Item	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	MEMO: Dec. 2004 (billions of dollars)
Assets	7.59	6.13	9.22	8.18	5.44	8.76	5.12	7.19	7.19	10.77	8,258
Interest-earning assets	7.82	5.82	8.66	8.20	5.83	8.66	3.95	7.54	7.29	11.29	7,157
Loans and leases (net)	10.61	8.17	5.32	8.76	8.03	9.24	1.82	5.90	6.52	11.21	4,736
Commercial and industrial	12.25	7.24	12.02	12.94	7.88	8.54	−6.73	−7.41	−4.56	4.40	899
Real estate	8.28	5.45	9.30	7.99	12.22	10.74	7.94	14.43	9.78	15.38	2,595
Booked in domestic offices	8.43	5.51	9.53	7.97	12.36	11.02	8.02	14.85	9.68	15.05	2,547
One- to four-family residential	10.01	4.66	9.67	6.36	9.70	9.28	5.70	19.85	10.05	15.79	1,468
Other	6.21	6.75	9.32	10.29	16.06	13.31	10.95	8.81	9.20	14.07	1,079
Booked in foreign offices	2.81	3.18	.34	8.79	6.28	−1.62	3.97	−7.41	15.74	35.59	48
Consumer	10.01	5.12	−2.19	.34	−1.49	8.04	4.16	6.58	9.31	10.12	782
Other loans and leases	14.22	22.28	−7.91	13.95	6.71	7.01	−2.02	−.02	8.30	3.64	533
Loan-loss reserves and unearned income	.46	.04	−.45	3.11	2.34	7.99	13.15	5.74	−2.68	−4.19	73
Securities	.56	.86	8.85	8.40	5.11	6.36	7.22	16.20	9.44	10.58	1,838
Investment account	−1.58	−1.10	8.66	12.06	6.68	2.86	8.88	13.54	8.70	6.15	1,510
U.S. Treasury	−19.21	−14.28	−8.85	−25.17	−1.89	−32.72	−40.27	41.92	14.18	−15.86	61
U.S. government agency and corporation obligations	6.42	3.63	14.18	17.00	1.83	3.75	12.84	18.10	9.67	9.47	989
Other	4.19	1.83	11.21	26.99	20.90	13.39	12.18	2.72	5.98	3.01	461
Trading account	18.51	14.44	10.00	−13.32	−6.93	37.16	−3.72	36.02	14.05	36.80	328
Other	8.61	1.06	38.54	3.79	−8.37	10.30	13.00	−2.92	6.83	14.31	584
Non-interest-earning assets	6.06	8.29	13.03	8.10	2.90	9.45	12.81	5.06	6.62	7.54	1,101
Liabilities	7.22	5.99	9.11	8.06	5.58	8.59	4.45	7.12	7.25	9.54	7,428
Core deposits	3.94	4.13	4.52	7.04	.23	7.53	10.55	7.58	7.30	8.24	3,974
Transaction deposits	−3.11	−3.44	−4.55	−1.41	−8.97	−1.31	10.20	−5.12	2.90	3.18	744
Savings and small time deposits	8.35	8.35	9.04	10.73	3.80	10.54	10.66	11.42	8.43	9.48	3,230
Managed liabilities[1]	10.61	9.73	13.79	9.44	15.54	8.79	−2.73	5.34	6.97	12.06	2,911
Deposits booked in foreign offices	5.13	4.27	11.13	8.71	14.60	7.84	−10.96	4.49	12.63	16.84	865
Large time	19.60	21.17	20.15	9.09	14.19	19.37	−3.65	5.05	1.43	21.82	705
Subordinated notes and debentures	6.61	17.74	21.05	17.00	5.07	13.98	9.56	−.59	5.08	10.49	109
Other managed liabilities	11.63	8.38	12.14	9.49	17.76	3.90	2.47	6.55	6.62	4.42	1,232
Federal Home Loan Bank advances	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	17.21	3.74	3.68	244
Other	20.49	2.60	23.80	8.57	−6.37	15.40	3.10	13.55	8.38	6.06	543
Equity capital	12.06	7.77	10.44	9.53	3.89	10.65	12.32	7.83	6.61	23.16	830
MEMO											
Commercial real estate loans[2]	6.32	7.67	10.13	11.37	15.42	12.16	13.10	6.82	8.99	13.81	1,075
Mortgage-backed securities	.66	2.06	14.16	22.12	−3.34	3.29	29.05	15.56	10.10	13.01	861

NOTE. Data are from year-end to year-end.

1. Measured as the sum of deposits in foreign offices, large time deposits in domestic offices, federal funds purchased and securities sold under repurchase agreements, demand notes issued to the U.S. Treasury, subordinated notes and debentures, and other borrowed money.

2. Measured as the sum of construction and land development loans secured by real estate; real estate loans secured by nonfarm nonresidential properties or by multifamily residential properties; and loans to finance commercial real estate, construction, and land development activities not secured by real estate.

try assets held by the 10 largest banks rose 3.9 percentage points, to 48.0 percent; the share held by the 100 largest banks rose 1.6 percentage points, to 76.9 percent. Three banks failed in 2004 with combined assets of just $151 million.

Merger activity also continued at the bank holding company level, and the number of top-tier bank holding companies declined by 4 in 2004, to 5,148. As they did at the bank level, mergers drove up the concentration of assets at bank holding companies. The share of assets of all bank holding companies held by fifty large bank holding companies rose to about 77 percent.[2] The Gramm–Leach–Bliley Act of 1999 created the option for bank holding companies to become financial holding companies; as such, they are allowed to engage in activities related to securities underwriting, insurance sales and underwriting, and merchant banking. During 2004 the

2. The number of bank holding companies and related statistics shown here include all top-tier bank holding companies. The fifty large bank holding companies are defined as the fifty largest bank holding companies as measured by total consolidated assets after the exclusion of a few institutions whose commercial banking operations account for only a small portion of their assets and earnings. The article "Report on the Condition of the U.S. Banking Industry: Fourth Quarter 2004," also in this issue, provides information on the fifty large bank holding companies and on the banking industry from the perspective of bank holding companies (including financial holding companies) that file reports FR Y-9C and FR Y-9LP; currently, only about 2,200 top-tier bank holding companies are required to file those reports (see "Report on the Condition," table 1, last row, and note 1).

number of financial holding companies increased to 636, and by the end of the year, more than 80 percent of assets at bank holding companies were held by financial holding companies.

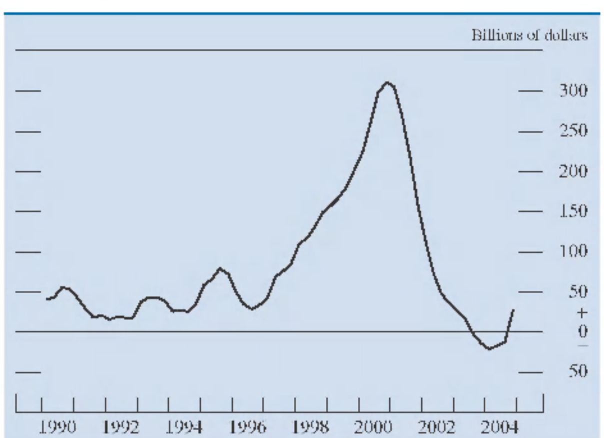
Balance Sheet Developments

Total assets of U.S. commercial banks grew 10.8 percent in 2004, about 3 percentage points faster than the growth in total debt of the domestic nonfinancial sector and the fastest rate in more than a decade (table 1). Securities expanded 10.6 percent, and loans and leases advanced 11.2 percent. Reflecting the growth in both business and household spending last year, all major loan categories advanced for the first time since the late 1990s.

Liabilities grew 9.5 percent last year. Low opportunity costs supported growth in core deposits, but the rate of increase was insufficient to meet the rise in assets. Remaining funding needs were met with a rapid expansion of managed liabilities—most notably large time deposits.

Bank capital rose to 9.4 percent of average net consolidated assets in 2004, and that gain also helped fund asset growth. Capital expanded because of the growth in retained earnings as well as increases in goodwill resulting from significant merger activity. Goodwill and other intangible assets boost reported assets and capital but are not included in regulatory capital ratios. These ratios were little changed and thus remained in the very high ranges seen in recent years.

4. Financing gap at nonfarm nonfinancial corporations, 1990–2004



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).

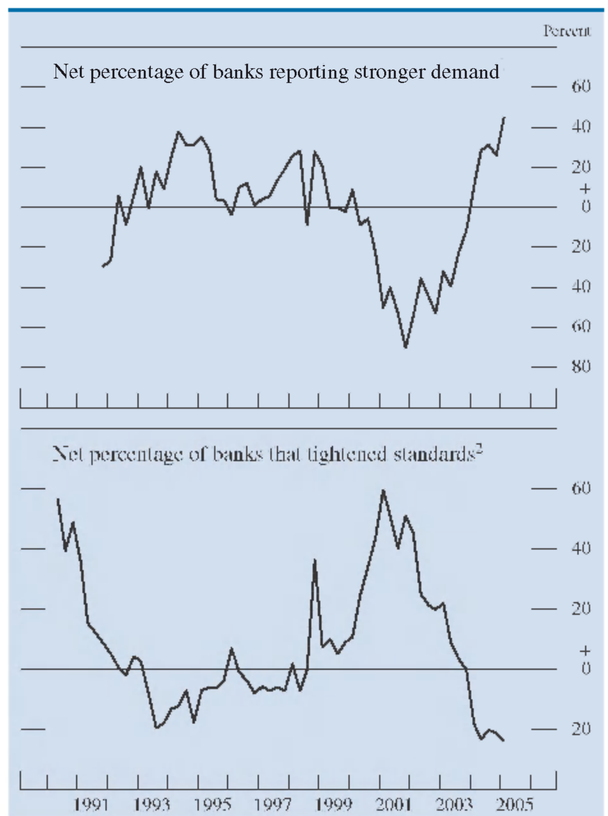
Loans to Businesses

The net financing gap—the difference between capital expenditures and internally generated funds of the U.S. nonfinancial sector—increased last year from the low point it had reached in the third quarter of 2003 (chart 4).[3] In addition, net bond issuance in 2004 was lower than in 2003. Firms relied more on commercial paper and bank loans to meet their funding needs; C&I loans grew 4.4 percent in 2004.

Responses to the Federal Reserve's quarterly Senior Loan Officer Opinion Survey on Bank Lend-

3. The net financing gap rose in the fourth quarter because of a special dividend payment by Microsoft that reduced internal funds by $32 billion. Even after excluding this special payment, however, the financing gap increased over 2004.

5. Demand and supply conditions for C&I loans at selected banks, large and medium-sized borrowers, 1990–2005



NOTE. The data are drawn from a survey generally conducted four times per year; the last observation is for the January (Q1) 2005 survey. Net percentage is the percentage of banks reporting an increase in demand or a tightening of standards less, in each case, the percentage reporting the opposite. The definition for firm size suggested for, and generally used by, survey respondents is that large and medium-sized firms have sales of $50 million or more.

1. Series begins with the November 1991 survey.

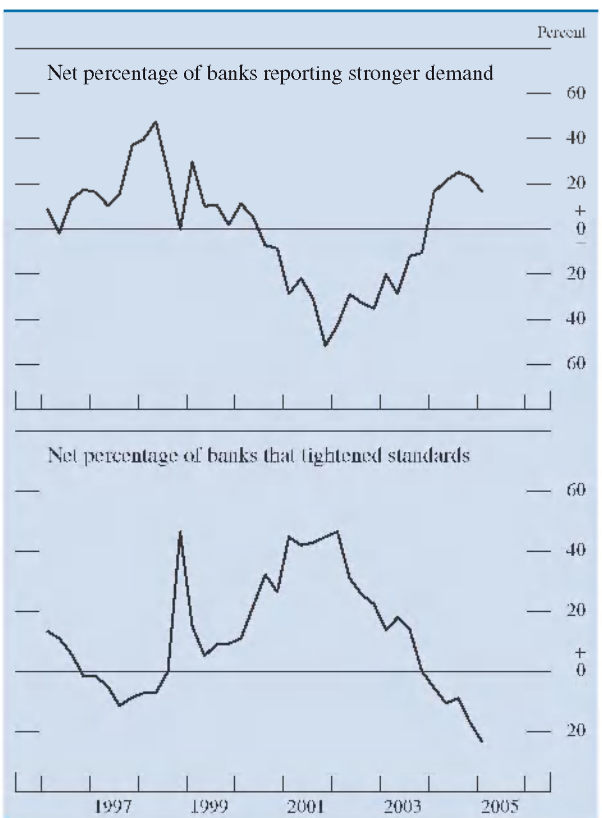
2. Series begins with the May 1990 survey.

SOURCE. Federal Reserve Board, "Senior Loan Officer Opinion Survey on Bank Lending Practices" (www.federalreserve.gov/boarddocs/snloansurvey).

ing Practices (BLPS) suggest that both stronger demand and easier standards and terms contributed to the growth in business loans. The share of respondents reporting stronger demand for C&I loans rose significantly in the 2004 surveys and exceeded 40 percent in the January 2005 survey (chart 5). Reasons cited for increased demand included increases in inventories and accounts receivable, plant and equipment expenditures, and mergers and acquisitions.

Small and medium-sized banks—which typically lend to smaller businesses—saw substantial increases in C&I loans in 2004 (13.6 percent for small banks and 9.9 percent for medium-sized banks). In contrast, C&I loans at the ten largest banks were essentially flat, but they had previously been in a period of sustained decline. This difference across bank sizes is consistent with data from the June 2004 Call Report, which show that small business loans (original amounts of $1 million or less) grew from mid-2003 to mid-2004, while larger C&I loans contracted. Throughout the year, larger net percentages of BLPS respondents reported increased demand for C&I loans

6. Demand and supply conditions for commercial real estate loans at selected banks, 1996–2005



Note. See general note and source note to chart 5.

from small borrowers (those with sales of less than $50 million) than from large- and medium-sized borrowers.

Significant fractions of banks responding to the BLPS in 2004 reported also having eased C&I lending standards, in large part because of a firmer economic outlook (chart 5). Moreover, appreciable fractions of respondents reported throughout 2004 and into 2005 that they had eased C&I loan terms—including loan sizes, costs of credit lines, spreads, covenants, and collateralization requirements (data not shown in chart). This easing of loan terms is confirmed by results from the Federal Reserve's quarterly Survey of Terms of Business Lending, which show that banks extended C&I loans of increasing maturity and larger size throughout the year. Another factor influencing C&I lending terms, according to BLPS respondents, was increased competition from other banks and from nonbanks.[4]

Commercial real estate (CRE) loans rose 13.8 percent in 2004. Growth rates of real-estate-secured loans for construction and land development and of loans secured by multifamily properties were particularly strong in the second half of the year as the economy improved. As in previous years, growth rates at medium-sized and small banks were more than twice those posted at larger banks (see box "Commercial Real Estate Loans").

Responses to the BLPS indicated that demand for CRE loans increased throughout the year, although the net percentage of banks reporting increases in demand dipped a bit in early 2005 (chart 6). Respondents also said that they had eased standards and terms on these loans over 2004. The reasons given for easing were similar to those for C&I loans, including more competition from other lenders and an improved economic outlook.

Loans to Households

Mortgage rates remained low over the course of 2004, and with income and employment advancing, the housing sector expanded strongly again. Against this favorable backdrop, residential mortgage loans grew 15.8 percent in 2004, the fifth consecutive year of gains and an even faster growth rate than in 2003. Residential mortgages, which are loans secured by one- to four-family residential properties and include first-lien mortgages and home equity loans, represent the largest share of bank loans to house-

4. For more details, see the discussion in "Interest Income and Expense" below in the section "Trends in Profitability."

Commercial Real Estate Lending by Smaller Banks

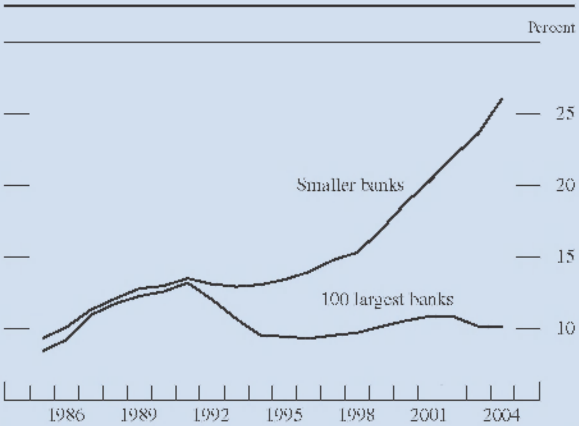
At the 100 largest banks, the share of assets that consists of commercial real estate (CRE) loans has changed little in recent years, while the share at medium-sized and small banks (hereafter, smaller banks) has increased substantially (chart A). This discussion explores some of the possible reasons for, and consequences of, the rapid accumulation of CRE loans at smaller banks. The growth in CRE loans at smaller banks as a group masks considerable variation across banks. We examined the distribution of growth rates of CRE loans at more than 5,000 smaller banks that had at least 1 percent of assets invested in CRE loans at the end of 1996 and remained in existence through the end of 2004. The median quarterly (annualized) growth rate of CRE loans over that period was between 5 percent and 20 percent for more than half of these banks; but about 15 percent of the banks saw runoffs in these loans, while roughly 10 percent of the banks had growth rates exceeding 25 percent (chart B). To facilitate the analysis, we classified each bank as "high growth" or "low growth" depending on whether the median rate of growth of its CRE loans was above or below the distribution's median value of 10.6 percent for all smaller banks in the 1997–2004 period. We then investigated the relative performance of the two groups over that period.

The return on assets at high-growth banks has generally been higher than the return on assets at low-growth banks in recent years (chart C). Similarly, the return on equity (not shown) has been markedly higher at high-growth banks, in part because of their generally greater leverage. This better performance also reflects higher net interest margins at high-growth banks than at low-growth banks over the same period (data not shown). Delinquency rates on CRE loans have been relatively low by historical standards for both groups of banks. The delinquency rate at high-growth banks has been consistently below the rate at low-growth banks (chart D). The better performance of the high-growth banks in this regard may reflect, in part, the very fact of more rapid growth in such loans because new loans are presumably unlikely to default for a time.

A portion of CRE loans consists of C&I loans that are collateralized by real estate—that is, loans the proceeds of

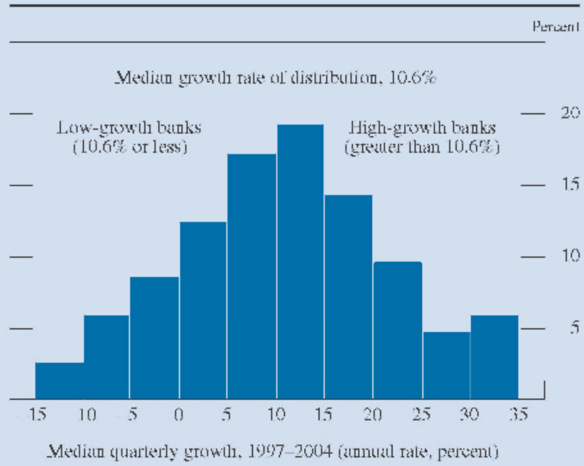
Note. Thomas F. Brady, of the Division of Monetary Affairs, prepared this material.

A. Commercial real estate loans as a proportion of assets, by bank size, 1985–2004



Note. The data are annual. For the definition of CRE loans, see table 1, note 2. Smaller banks are those smaller than the 100 largest; for more detail on size categories, see general note on the first page of the main text.

B. Distribution of median growth rates of CRE loans at smaller banks, 1997–2004



Note. For the definition of CRE loans and smaller banks, see chart A. The growth rates are those of the 5,731 smaller banks that had at least 1 percent of assets invested in CRE loans at the end of 1996 and remained in existence through the end of 2004; these banks corresponded to about 76 percent of the total number of smaller banks and roughly 82 percent of their total assets at the end of 2004. For each bank, we calculated the merger-adjusted growth rate of CRE loans for each quarter and then took the median of its thirty-two quarterly growth rates.

Commercial Real Estate Lending by Smaller Banks—Continued

which were not used to purchase or improve the securing real estate. (Call Report instructions specify that any loan secured by real estate is to be reported as a real estate loan.) In March 2005, Federal Reserve System staff members contacted nine smaller banks that had high concentrations of, and rapid growth in, CRE loans to inquire about their CRE lending. Asked what percentage of their CRE loans were C&I loans secured by real estate, the nine smaller banks gave answers that ranged from about 2 percent to about 30 percent, with most less than 10 percent.[1]

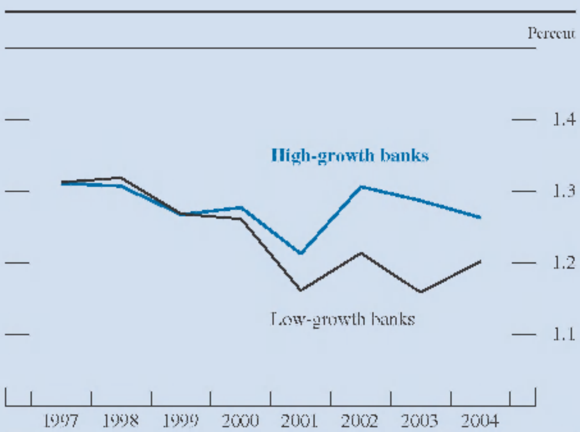
A few of these banks indicated that over the three years ending in the first quarter of 2005, they had tightened CRE lending standards somewhat, on net, but similar fractions noted some tendency to ease loan terms by, for example, raising maximum loan sizes, trimming loan spreads over costs of funds, and boosting loan-to-value ratios. However, these banks had tightened debt-service coverage ratios, on net. They also indicated that their CRE lending over the past three years had been secured by properties located in both urban and suburban areas and to a lesser extent in exurban areas. The types of securing properties most frequently mentioned were warehouses and other industrial structures; also mentioned were office buildings as well as nursing homes and other medical facilities.

1. A similar question was asked in the Federal Reserve Board's August 2002 Senior Loan Officer Opinion Survey on Bank Lending Practices; the institutions responding to the survey are generally much larger than the smaller banks under discussion here. For the fifty-three banks answering the question, the answer ranged from less than 2 percent to more than 30 percent, with most less than 20 percent. The average for all fifty-three respondents was about 15 percent.

The two most frequently mentioned reasons for the rapid growth of CRE lending over the past three years were generally favorable economic conditions and population growth in the banks' lending markets. Banks also mentioned that profitable investment in office buildings sometimes coincided with high vacancy rates because some of the vacant offices were less well suited for the types of businesses expanding in their markets. The banks generally did not attribute much of the growth to an increase in the share of CRE loans that represented real-estate-secured C&I loans. Banks reporting an increase in that share cited two factors: rising values of commercial structures, which increased the capacity of their owners to borrow, and the banks' imposition of stricter collateral requirements on borrowers.

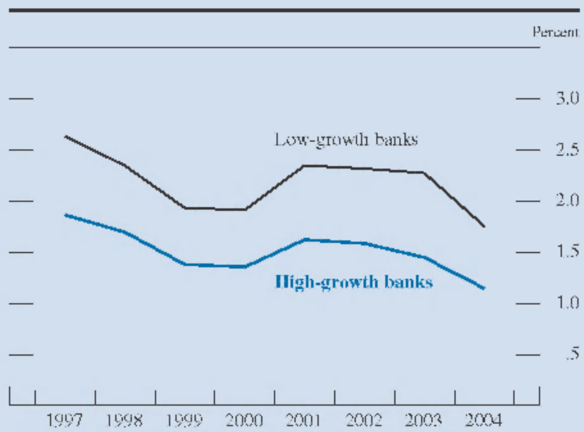
The rapid run-up in CRE loans over the past three years raises questions about its effects on other aspects of banks' balance sheets. The responses of the banks contacted suggest that the growth was accommodated in part by reducing capital-to-asset ratios, although banks also reported raising new capital to meet the rising demand for CRE credit. The banks generally reported that they had not reduced acquisitions of securities or limited the growth of other types of loans to accommodate the additional CRE assets.

C. Return on assets at smaller banks, 1997–2004



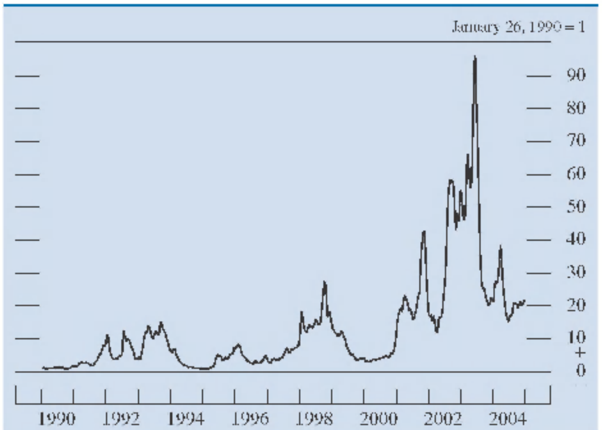
NOTE. For definitions, see charts A and B.

D. Delinquency rates on CRE loans at smaller banks, 1997–2004



NOTE. The data are annual. For the definition of delinquency rates on CRE loans, see the note to chart 22; for other definitions, see charts A and B.

7. Residential mortgage refinancing activity, 1990–2004

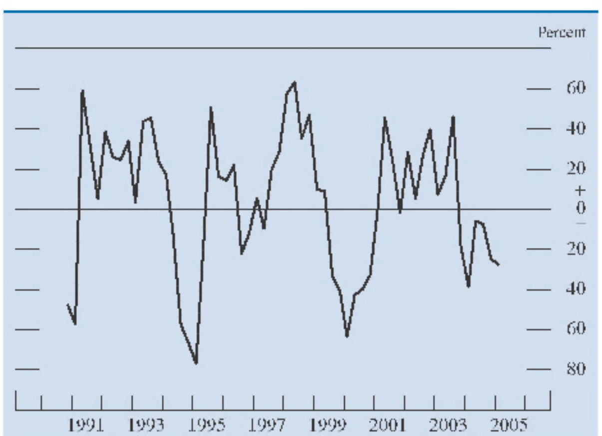


NOTE. The data are four-week moving averages. For definition of residential mortgages, see text.
SOURCE. Mortgage Bankers Association.

holds. Much of the acceleration in residential mortgages resulted from growth in revolving home equity loans, which rose more than 40 percent. Mortgage loans grew especially fast early in the year, when long-term interest rates had declined to a very low level. The low rates generated a renewed flurry of refinancing activity (chart 7) that was accompanied by strong demand for mortgages to finance home purchases. As these rates backed up a bit in anticipation of monetary policy tightening, growth slowed somewhat but remained elevated through the end of the year.

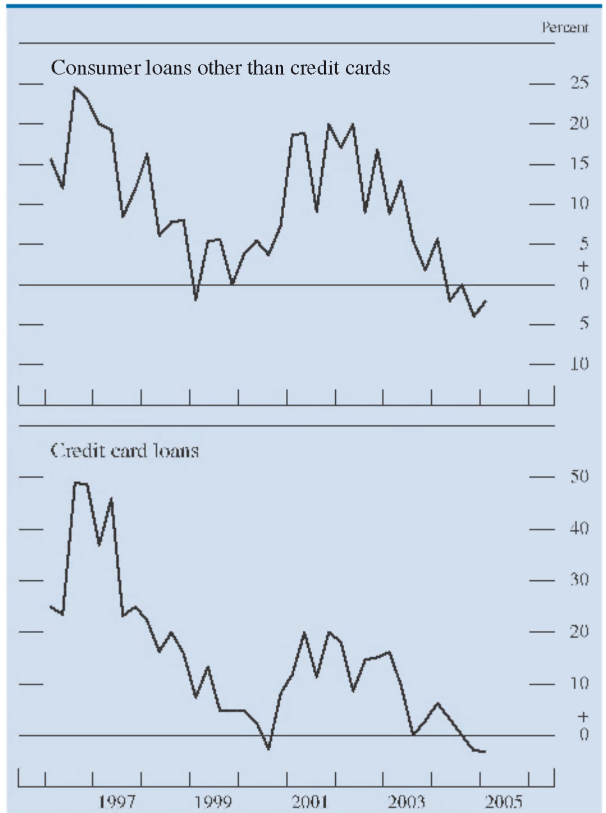
On net, BLPS respondents reported decreased demand for residential mortgages throughout the year (chart 8). Fluctuations over the course of the year in the percentage of banks reporting demand increases seemed to reflect changes in the trend of refinancing

8. Net percentage of selected banks reporting stronger demand for residential mortgages, 1990–2005



NOTE. Series begins with the October 1990 survey. For definition of residential mortgages, see text. See also general note and source note to chart 5.

9. Net percentage of selected banks tightening standards for consumer lending, 1996–2005



NOTE. See general note and source note to chart 5.

activity.[5] In the first half of 2004, the net percentage of banks reporting increased demand rose somewhat, but it dropped back a bit over the latter half of the year.

Residential mortgages have expanded at a double-digit rate since 2002. Responses to special questions on the January 2005 BLPS indicate that several factors contributed to banks' increased holdings of residential mortgages over the previous three years. First, according to 75 percent of the respondents, many mortgages originated over this period had adjustable rates, making them relatively attractive to hold as assets. Second, sustained demand for mortgages had supported their returns. Finally, many banks noted that a widening of spreads between mortgages and mortgage-backed securities made the underlying loans more attractive to hold.

Consumer loans at banks grew 10.1 percent last year. However, after adjustment for the effect of a

5. BLPS respondents are instructed to consider only new loans for home purchase, not refinancings of existing mortgages. In many cases, however, the refinanced mortgage may not be held by the originating bank, making it difficult for the respondents to make this distinction easily.

large merger in the third quarter, the growth rate of consumer loans was a more moderate 5.8 percent.[6]

Banks' standards and terms for consumer loans changed little on net last year according to the BLPS: Approximately the same proportion of banks tightened standards for credit card loans and other consumer loans as eased them (chart 9). Changes in terms reflected a similar trend, with a slight net percentage of domestic respondents having tightened credit card terms and a similarly slight net percentage having done so for other consumer loans (not shown in chart). Overall, demand for consumer loans reportedly moderated.

Other Loans and Leases

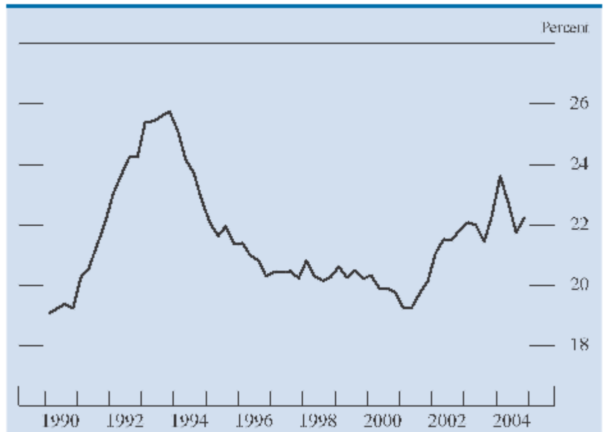
Banks' holdings of other loans and leases grew 3.6 percent in 2004. Although the rate marks a slowdown from 2003, growth in that year was heavily influenced by an accounting change that shifted into this category an estimated $42 billion in assets that were previously off-balance-sheet items.[7] A 5 percent rise in farm loans reversed a downward trend seen since 2001. Improved overall economic conditions strengthened the fiscal situation of many state and local governments and contributed to a slowing in the growth of loans to this sector from 16.8 percent in 2003 to a still-rapid 13.9 percent in 2004.

Securities

Banks expanded their securities holdings considerably again in 2004. Last year's 10.6 percent advance was more than 1 percentage point faster than the 2003 pace and about in line with total asset growth. Much of the growth reflected a substantial rise in securities held in trading accounts, which jumped 36.8 percent on the year; securities held in investment accounts advanced 6.2 percent. As a share of average net consolidated assets, securities holdings in 2004 increased for the third year in a row, to 22.6 percent (chart 10).

Mortgage-backed securities in investment accounts, which grew 13 percent over the year, rose to a 10.4 percent share of bank assets at the end of the fourth quarter. As with mortgage loans, banks' holdings of mortgage-backed securities followed the swings of long-term interest rates. Banks accumulated mortgage-backed securities at a rapid clip in the first quarter; as longer-term interest rates rose in anticipation of the policy tightening, such holdings shrank in the second quarter, and they fell further in the third quarter. Growth returned strongly in the fourth quarter after rates declined.

10. Bank holdings of securities as a proportion of total bank assets, 1990–2004



NOTE. The data are quarterly.

From a longer-term perspective, bank involvement in residential mortgage products has increased dramatically over the past twenty years. In 1985, residential mortgages accounted for 7.3 percent of average net consolidated assets, while agency pass-throughs—one type of mortgage-backed security available to investors at the time—were less than 1 percent. By the end of 1995, the share of residential mortgage products on banks' books had risen to 22.2 percent—14.4 percent in mortgages and 7.8 percent in securities. By the end of 2004, banks' asset share of these products had risen to more than 28 percent.

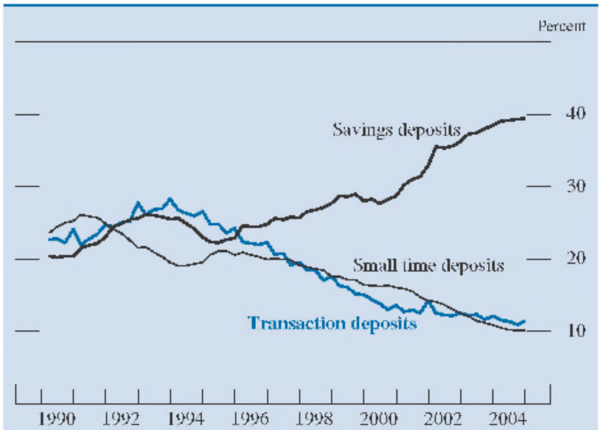
Liabilities

Commercial bank liabilities grew 9.5 percent last year, with all classes of liabilities posting increases. The 8.2 percent growth in core deposits outpaced the previous year's strong advance by about 1 percentage point, but it lagged the expansion in total assets. Some of the run-up in core deposits in the first half of the year was attributable to the decline in mortgage rates in the first quarter (chart 2). The drop in rates led to an increase in refinancing. When securitized mortgages are refinanced, the proceeds are held tem-

6. The merger was of two large bank holding companies and caused a reclassification of certain securitized credit card receivables as credit card loans; credit card outstandings jumped 46.2 percent in the third quarter as a result.

7. For details, see Mark Carlson and Roberto Perli (2004), "Profits and Balance Sheet Developments at U.S. Commercial Banks in 2003," *Federal Reserve Bulletin,* vol. 90 (Spring), p. 168.

11. Selected domestic liabilities at banks as a proportion of their total domestic liabilities, 1990–2004



NOTE. The data are quarterly. Savings deposits include money market deposit accounts.

porarily in a liquid deposit account before disbursement to the securities holders, thereby boosting deposits for a time; the slower pace of refinancing in the second half of the year diminished this effect to some extent. As a share of total liabilities, savings deposits grew during the four quarters of 2004, while the shares of transaction and small-denomination time deposits fell a bit (chart 11).

With the growth of assets outstripping that of core deposits, banks relied more heavily on managed liabilities—defined as the sum of demand notes issued to the U.S. Treasury and other borrowed money, federal funds purchased and securities sold under repurchase agreements, subordinated notes and debentures, large time deposits, and deposits booked in foreign offices. This sum grew 12.1 percent last year, and its share of total liabilities rose to 39.2 percent. For all banks, large time deposits posted the fastest gain, 21.8 percent; at the ten largest banks, such deposits grew even more rapidly, 30.6 percent.

Banks again expanded their use of Federal Home Loan Bank (FHLB) advances in 2004.[8] These loans grew approximately 3.7 percent last year, about the same rate as in 2003, but well below the growth rate of 17.2 percent in 2002. On average last year, FHLB advances equaled 8.6 percent of total managed liabilities at domestic banks—but the proportion was much higher at medium-sized banks (23.9 percent) and at small banks (22.1 percent).

Capital

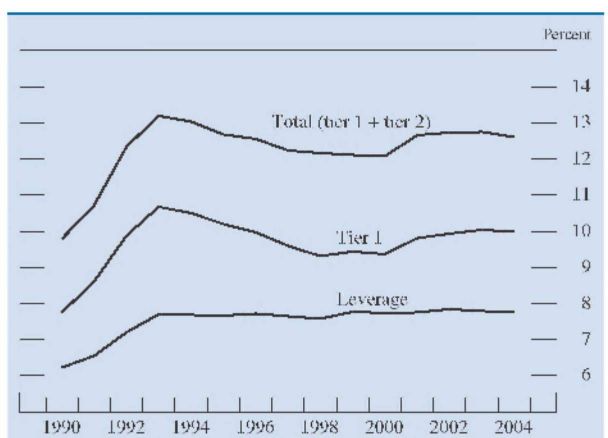
Given the slower growth of liabilities relative to assets, equity capital at banks surged more than 23 percent in 2004. However, much of this increase reflected the effects of accounting for several large mergers, which boosted the value of goodwill.[9] Risk-weighted assets grew 10.5 percent; tier 1 capital (which excludes goodwill) grew 10.0 percent, and tier 2 capital advanced 6.7 percent. As a result, the tier 1 ratio was basically unchanged at about 10 percent, and the total ratio (tier 1 plus tier 2) ticked down slightly; the leverage ratio remained about constant (chart 12).[10] Thus, overall, the share of industry assets

8. The FHLBs were established in 1932 as government-sponsored enterprises chartered to provide a low-cost source of funds, primarily for mortgage lending. They are cooperatively owned by their member financial institutions, a group that originally was limited to savings and loans associations, savings banks, and insurance companies. Commercial banks were first able to join FHLBs in 1989, and since then FHLB advances have become a significant source of funding for them, particularly for medium-sized and small banks.

9. The Financial Accounting Standards Board defines goodwill as an intangible asset equal to the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed—in other words, the premium paid by the acquirer of a firm. For details on how this affected banks' accounting, see Mark Carlson and Roberto Perli (2003), "Profits and Balance Sheet Developments at U.S. Commercial Banks in 2002," *Federal Reserve Bulletin,* vol. 89 (June), p. 255.

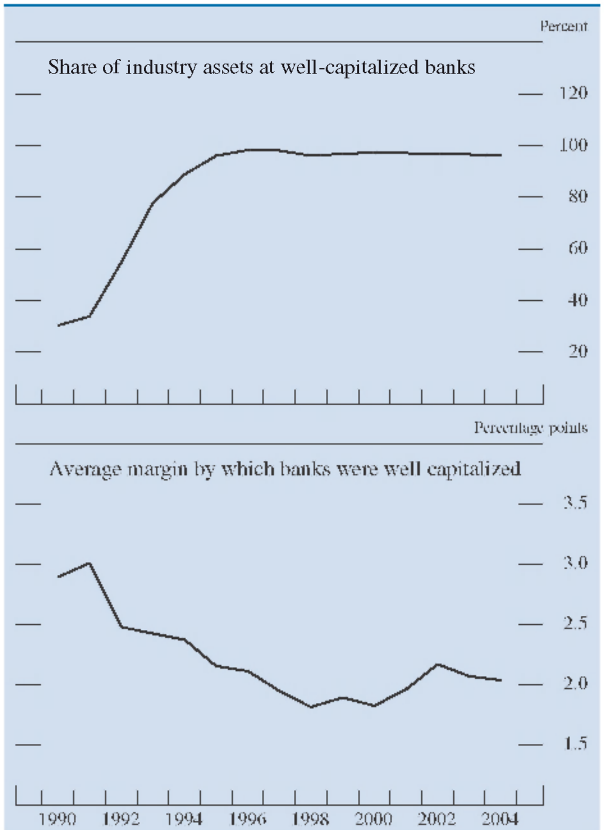
10. Tier 1 and tier 2 capital are regulatory measures. Tier 1 capital consists primarily of common equity (excluding intangible assets such as goodwill and excluding net unrealized gains on investment account securities classified as available for sale) and certain perpetual preferred stock. Tier 2 capital consists primarily of subordinated debt, preferred stock not included in tier 1 capital, and loan-loss reserves. Risk-weighted assets are calculated by multiplying the amount of assets and the credit-equivalent amount of off-balance-sheet items (an estimate of the potential credit exposure posed by the item) by the risk weight for each category. The risk weights rise from 0 to 1 as the credit risk of the assets increases.

12. Regulatory capital ratios, 1990–2004



NOTE. The data are as of year-end. For the components of the ratios, see text note 10.

13. Assets and regulatory capital at well-capitalized banks, 1990–2004



NOTE. The data are annual. For the definitions of "well capitalized" and of the margin by which banks remain well capitalized, see text notes 11 and 12.

held by banks that were considered well capitalized for regulatory purposes remained largely unchanged from the very high level of 2003 at about 96 percent (chart 13).[11] The estimated average margin by which banks exceeded the well-capitalized standard declined slightly in 2004 (chart 13).[12]

The tier 1 ratio is the ratio of tier 1 capital to risk-weighted assets; the total ratio is the ratio of tier 1 plus tier 2 capital to risk-weighted assets. The leverage ratio is the ratio of tier 1 capital to tangible assets. Tangible assets are equal to total assets less assets excluded from common equity in the calculation of tier 1 capital.

11. Well-capitalized banks are those with a total capital ratio greater than 10 percent, a tier 1 ratio greater than 6 percent, a leverage ratio greater than 5 percent, and a composite CAMELS rating of 1 or 2. Each letter in CAMELS stands for a key element of bank financial condition—Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risks.

12. The estimated average margin by which banks exceeded standards for being well capitalized was computed as follows: Among the leverage, tier 1, and total capital ratios of each well-capitalized bank, the institution's "tightest" capital ratio is defined as the one closest to the regulatory standard for being well capitalized. The bank's margin is then defined as the percentage point difference between its tightest capital ratio and the corresponding regulatory standard. The average margin among all well-capitalized banks is the weighted average of all the individual margins, and the weights are each bank's share of the total assets of well-capitalized banks.

Derivatives

The market for innovative financial products has continued to expand. Banks have increased their off-balance-sheet derivatives positions over the past decade, and this trend continued last year. At the end of 2004, the notional value of all derivatives contracts held by banks was more than $88 trillion, up about $19 trillion from the end of 2003. The ten largest banks held the lion's share of these contracts, which increased to 98 percent in 2004. The largest proportion of notional value for these contracts continues to be in interest rate derivatives. Investors use these contracts, in part, to hedge interest rate risk. The continued growth in holdings of mortgages and mortgage-backed securities—instruments whose prices are particularly sensitive to interest rates—likely contributed to an increase in hedging activity by banks' customers in interest rate derivatives markets. As intermediaries in such instruments, banks would therefore see their holdings rise.

Credit derivatives are agreements in which default risks associated with a given borrower are transferred from a beneficiary to a protection provider. The market for credit derivatives continues to develop, and banks' holdings of credit derivatives surged in 2004, increasing at a rate not seen since the beginnings of the market for them, around 1998. Notional holdings still remain small, however, relative to those of some other types of derivatives (see box "Credit Derivatives").

The notional value of banks' holdings of foreign exchange contracts, equity derivatives, and commodity and other contracts—which constitute the remainder of banks' derivatives portfolios—advanced strongly in 2004. Foreign exchange contracts increased 21.0 percent, and equity and commodity contracts combined moved up 33.9 percent.

The notional value of derivatives contracts is one measure of overall market activity; another measure, the fair value of these contracts—which measures the value of all contracts if settled at the reporting date—is substantially smaller. Moreover, banks' derivatives positions tend to be offsetting because of their activity as dealers. At the end of 2004, the gross positive fair value of banks' derivatives contracts totaled about $1.33 trillion and exceeded the negative fair value by $26 billion, up from $23 billion in 2003. Banks have had a positive net fair value in these contracts for the past five years.

Credit Derivatives

Credit derivatives are over-the-counter agreements in which the risk of credit loss of a reference entity is transferred from one party (the beneficiary) to another (the protection provider). The Bank for International Settlements estimates that the total notional amount of credit derivatives outstanding worldwide was about $4.6 trillion in June 2004.[1] According to surveys of market participants conducted last year by the British Bankers' Association and Fitch Ratings, banks held the largest share of credit derivatives at the end of 2003. Securities firms, insurance companies, and hedge funds were also active participants in the market. Banks and securities firms were active on both sides of the market, while insurance companies were mostly sellers of protection. Hedge funds have been active as protection buyers for some time, but recently they became major players as protection sellers, too.[2]

The Fitch survey reveals that about two-thirds of all credit derivatives held at the end of 2003 by U.S. and Canadian banks and broker–dealers were credit default swaps (CDS) referenced to an individual entity. Those contracts generally allow the beneficiary to deliver to the protection provider an obligation of the reference entity upon default of the latter and receive its par value in exchange. Portfolio CDS products, such as traded indexes of CDS, baskets of CDS, and synthetic collateralized debt obligations (CDOs) accounted for a further 25 percent of all credit derivatives.[3] Some portfolio products are popular because they allow investors to trade credit risk on a potentially large number of reference entities in just one transaction; others are popular because their value is sensitive to default correlation risk and thus can be used as a hedge against the tendency of different reference entities to default at the same time.

In recent years the total notional amount of credit derivatives held by U.S. commercial banks has expanded very rapidly. According to regulatory reports, it exceeded $2.3 trillion at the end of 2004—more than double the total at the end of 2003—and more than 99 percent of the 2004 total was held at the ten largest institutions. Banks were beneficiaries on more than $1.2 trillion of the 2004 notional amount, and they were protection providers on about $1.1 trillion (chart A). On net, therefore, banks were recipients of credit protection, as they typically have been in the past, and only a handful of banks were net protection providers. As the credit quality of U.S. firms improved and credit spreads declined in 2004, the market value of credit derivatives contracts for which banks were the protection provider more than doubled, to about $15.5 billion. Conversely, the market value of contracts for which banks were the beneficiary declined a similar amount, and those positions showed a loss of about $15 billion at year-end (chart B). The aggregate net fair value of all credit deriva-

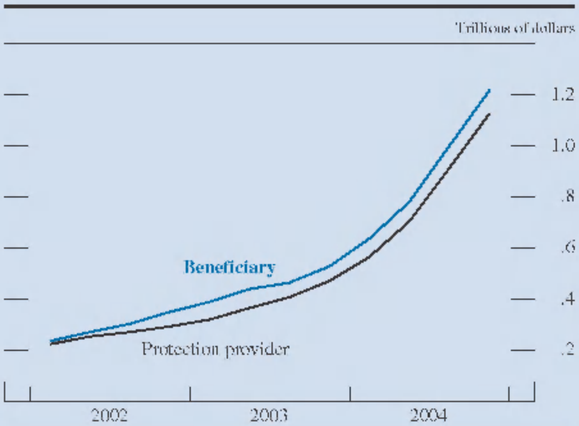
NOTE. Roberto Perli, of the Division of Monetary Affairs, prepared this material.

1. See Bank for International Settlements, "Triennial Central Bank Survey: Foreign Exchange and Derivatives Market Activity in 2004, available at www.bis.org.

2. See the British Bankers' Association, "Credit Derivatives Report 2003/2004," available at www.bba.org.uk; and Fitch Ratings, "Global Credit Derivatives Survey," Special Report, September 7, 2004, available at www.fitchratings.com.

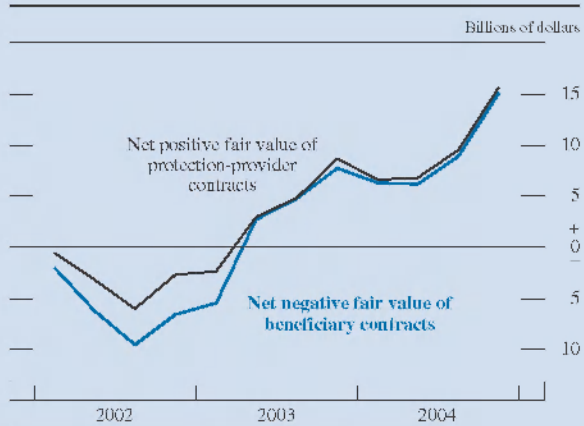
3. A CDS basket is a contract that is referenced to more than one entity. Typically, the buyer of protection has the right to deliver a defaulted bond and receive par in exchange upon the default of any of the entities referenced in the basket. Such contracts are called "first-to-default baskets." Investors can also trade "*n*th-to-default baskets," whereby they can deliver a bond for par upon the *n*th default among the reference entities. Synthetic CDOs are contracts that transfer credit risk on portfolios of CDS on a large number of reference entities.

A. Notional amounts of credit derivatives for which banks were beneficiaries or protection providers, 2002–04



NOTE. The data are quarterly.

B. Net fair value of credit derivatives contracts in which banks were beneficiaries or protection providers, 2002–04



NOTE. The data are quarterly. The net positive fair value on protection-provider contracts is computed as the difference between the gross fair value of such contracts with positive fair values and the gross fair value of such contracts with negative fair values. The net negative fair value of beneficiary contracts is computed similarly.

Credit Derivatives—Continued

tives contracts on banks' books was thus only about \$500 million, down from a little more than \$900 million a year earlier.

As with most other types of derivatives contracts, banks enter into credit derivatives both in their role as dealers and for their own account. The large notional amount of credit derivatives held on banks' books, combined with the small net market value of those contracts, is consistent with banks having a substantial dealer role. Indeed, banks that are engaged in that type of activity would generally aim at keeping a balanced book by entering into at least partially offsetting contracts with a variety of counterparties.

Banks may choose to enter into credit derivative contracts for their own account for a number of reasons. First, banks that wish to reduce their exposure to credit risk may find it less costly to buy protection in the CDS market than to reduce the size of their loan or bond portfolios. Buying such protection, unlike securitizing or selling loans in the secondary market, has the added advantage of enabling banks to retain and service the loans and thus avoid compromising their relationships with clients.[4] About three-fourths of the global banks that responded to the Fitch survey stated that they use credit derivatives to some extent for credit risk management purposes, although less than one-fifth mentioned it as a dominant reason for their involvement in the market.

Second, credit derivatives can be viewed as an alternative asset class, and banks seeking to gain exposure to corporate credit risk or further diversify their existing credit portfolios can sell protection in the single-name or portfolio CDS market as an alternative to buying corporate bonds or extending C&I loans. About 70 percent of global banks do so, according to Fitch, but again only a minority of those said this was their main reason for participating in the market.

A third important reason that banks may want to enter into credit derivatives contracts, mentioned by about half the global banks surveyed by Fitch, is regulatory capital management. Under the 1988 Basel Capital Accord, which determines the amount of regulatory capital that banks are required to hold against their credit exposures, loans to corporations carry a risk-based capital charge of 8 percent, which is largely independent of the credit quality of the borrower. For loans to highly rated corporations, this capital charge likely exceeds the amount of economic capital that a prudent bank would choose to hold against the credit exposure. Although credit derivatives are not covered by the 1988 accord, national bank regulators have treated them in a way that is consistent with the spirit of the accord. If a bank holds a loan on which it has purchased protection in the credit derivatives market from another bank, its only exposure, from a regulatory as well as an economic perspective, is to the counterparty bank. Since, under the 1988 accord, exposures to OECD banks (that is, banks regulated by a member country of the Organization for Economic Co-operation and Development) carry only a 1.6 percent capital charge, credit protection purchased from those banks allows banks to reduce considerably the capital they are required to hold against corporate loans and at the same time retain those loans on their balance sheets. The return earned on such loans, however, net of the cost paid for protection, is far below the loan rate. When implemented, the New Basel Capital Accord, or Basel II, will likely reduce the incentive to use credit derivatives for regulatory capital management of this sort because it provides for risk-based capital charges that are more closely matched with true economic risk.

4. In their responses to a special question in the Federal Reserve Board's January 2003 Senior Loan Officer Opinion Survey on Bank Lending Practices, most banks indicated that purchasing a CDS is superior to selling a loan because it preserves the bank's relationship with the borrower.

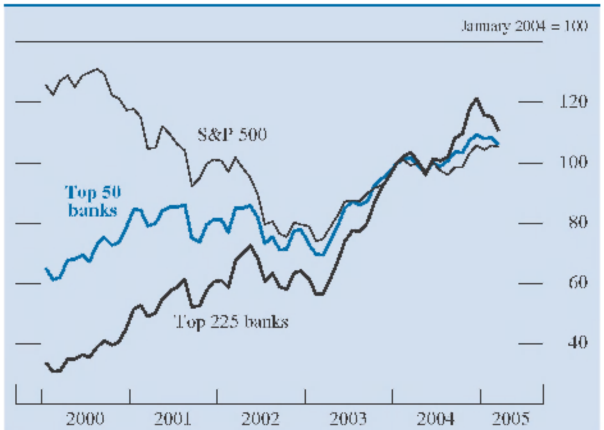
Trends in Profitability

The banking industry continued to be very profitable in 2004.[13] Although return on assets (ROA) and return on equity (ROE) were both slightly below the previous year's levels, they remained well within the high range prevailing since the mid-1990s. ROA, at 1.34 percent, was only 5 basis points below the previous year's record. ROE, which was damped by merger-related increases in reported equity, declined more than 1 percentage point but was still a healthy 14.23 percent. The fraction of banks with negative net income shrank for the third consecutive year, to 5.8 percent, and accounted for less than 1 percent of industry assets.

The slight weakening in profitability occurred mainly at the 100 largest banks. The net interest margin declined a bit further at these banks, likely in part because of additional flattening of the yield curve; a possible further contributor was an intensification of competitive pressure in the C&I loan market. Gains in non-interest income were outpaced by a rise in non-interest expense. Income from fiduciary and securitization activities rose, but income from investment banking was essentially flat, gains from sales of loans fell, and trading revenue contracted sharply. An increase in nonrecurring charges—

13. The adjustments to the data to take account of mergers and the effects of push-down accounting were relatively large for 2004.

14. Bank stock prices, by market value of bank, and the S&P 500, 2000–05

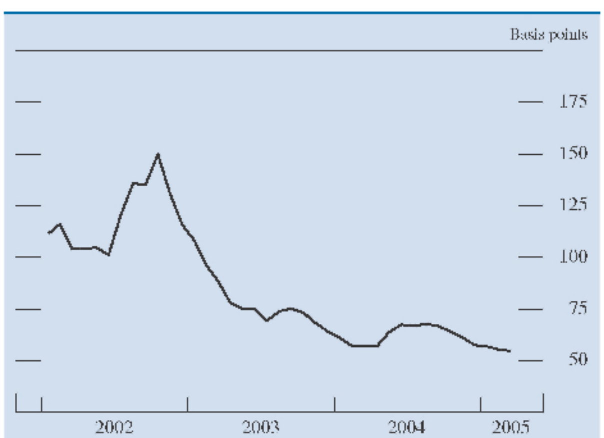


NOTE. The data are monthly and extend through March 2005. Stock prices are weighted by market value.
SOURCE. Standard & Poor's and *American Banker*.

including merger-related expenses and litigation provisions at a few of the largest banks—contributed to the rise in non-interest expense.

Partially compensating for these developments was the continued improvement in overall credit quality. This trend, which has been driven by the strengthening of household and business balance sheets and the ongoing economic expansion, has allowed banks to further reduce their provisions for loan and lease losses. Realized gains on investment account securities, even though not as strong as in 2003, continued to boost income. Unrealized gains on available-for-sale securities declined somewhat; in part, the drop probably reflected adjustments to securities portfolios resulting from the repositioning of interest rate risk, changes in market interest rates, and the realization of past gains through the sale of securities.

15. Average spread of rates on subordinated debt at selected bank holding companies, 2002–05



NOTE. The data are monthly and extend through March 2005. Spreads are over comparable-maturity Treasury securities.
SOURCE. Merrill Lynch bond data.

Despite substantial earnings, banks—particularly the top ten—trimmed the share of profits paid out as dividends. As a result, retained earnings almost doubled as a share of net income and boosted equity capital. Industry equity was also augmented considerably by the revaluation of assets and liabilities that resulted from some large merger transactions, which in turn were accompanied by sizable increases in goodwill. Supported by solid profitability, bank holding company stocks again outperformed the S&P 500 during 2004 (chart 14). The spread of rates on subordinated debt over rates on comparable-maturity Treasury securities remained at very low levels in 2004 (chart 15).

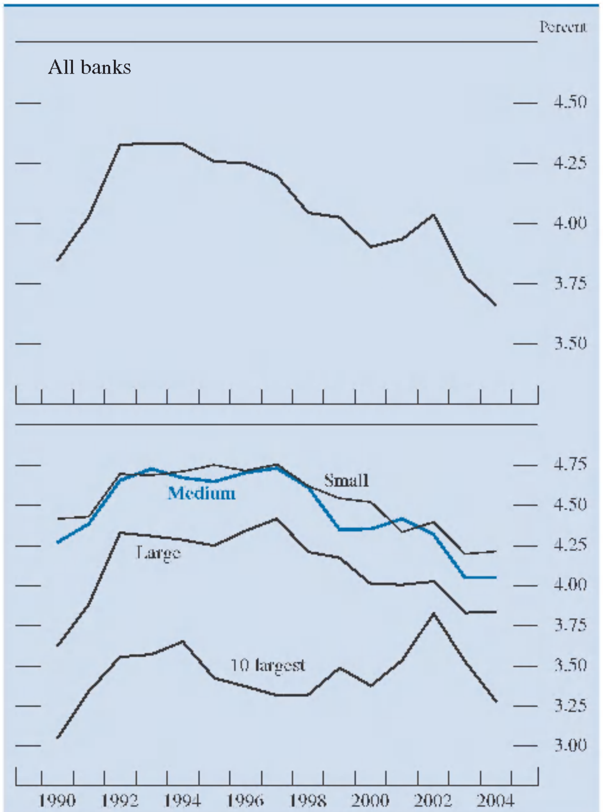
Interest Income and Expense

Despite an increase in short-term market interest rates following the onset of monetary policy tightening in June of last year, the average rate paid on banks' liabilities and earned on banks' assets for 2004 as a whole moved lower. As the average rate earned declined more than the average rate paid, the industry's net interest margin narrowed for the second consecutive year, falling 12 basis points, to 3.66 percent (chart 16). Much of the narrowing came in the first half of 2004, however, and the net interest margin changed little over the second half of the year despite a considerable flattening of the yield curve.[14]

The further narrowing of the net interest margin is also consistent with a reported increase of competitive pressure in the C&I loan market, which appears to have led some banks to trim spreads of loan rates over reference rates despite a pickup in loan demand (chart 17). In the October 2004 BLPS, banks were asked about the increase in competition in the C&I loan market. Respondents that had experienced greater competition during the year reported that the largest increase came from other U.S. commercial banks and that the second-largest increase, especially for the largest commercial banks, came from investment banks. About half of the respondents felt that the persistence of this shift in competition was not well established, but the majority of banks expressing an opinion indicated that the increase reflected a permanent change in the structure of the C&I loan market. In the January 2005 BLPS, banks

14. For a discussion of the effects of market interest rates on the net interest margin, see Carlson and Perli (2004), "Profits and Balance Sheet Developments," p. 173.

16. Net interest margin, by size of bank, 1990–2004



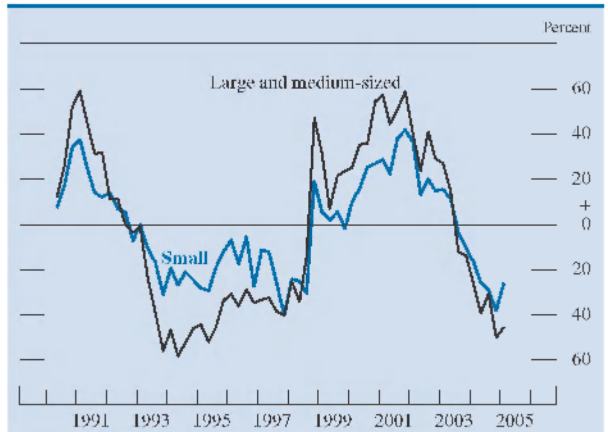
NOTE. The data are annual. Net interest margin is net interest income divided by average interest-earning assets. For definition of bank size, see the general note on the first page of the main text.

were asked why nonbank lenders had become more aggressive competitors. Respondents pointed to the senior status of loans in bankruptcy and restructuring proceedings, increased liquidity in the secondary market, and a trend toward market-based pricing.

The fall in the banking sector's net interest margin was driven by a decline of 25 basis points at the ten largest banks. These institutions rely on managed liabilities for their funding more than other banks do.[15] Because rates paid on these liabilities are more sensitive to changes in market interest rates than are rates paid on core deposits, the net interest margin at the ten largest banks was more adversely affected than that at other banks by the increase in short-term interest rates during 2004. The net interest margin at the ten largest banks was also eroded by continued runoffs of their C&I loans: Despite a pickup in business lending in the second half of the year, the share of interest-earning assets attributable to such loans

15. At the ten largest banks, the share of interest-bearing liabilities that consisted of managed liabilities was about 58 percent in 2004, compared with a share of 53 percent at large banks, 36 percent at medium-sized banks, and 26 percent at small banks.

17. Net percentage of selected domestic banks increasing spread of rates on C&I loans over cost of funds, by size of borrower, 1990–2005



NOTE. See general note and source note to chart 5.

fell from 15.9 percent to 12.6 percent over the year at the ten largest banks. The large drop was only partially offset by a shift toward higher-yielding loans, such as credit card loans. The ten largest banks also increased their share of interest-earning assets that consisted of investment-account securities (including mortgage-backed securities); because rates of return on securities are generally lower than those on loans (in particular, C&I loans), this shift contributed to the narrowing of the net interest margin.

At large banks, the average rate earned on assets was essentially unchanged, and the average rate paid on liabilities ticked down relative to 2003. As a result, the net interest margin for such banks was little changed. Large banks did not experience runoffs of C&I loans, and they benefited from an increase in the share of credit card loans, the yields on which are higher than those on other loans and were higher in 2004 than in 2003. In addition, these institutions boosted the share of interest-earning assets that consisted of relatively high-yielding real estate loans by 1.7 percentage points, to 36.5 percent; the increase was equally distributed between residential and commercial real estate loans.

As with large banks, the net interest margin was little changed at medium-sized and small banks; the decline in the average rate paid on liabilities was about in line with the fall in the average rate earned on assets. Relative to larger banks, medium-sized and small banks benefited from their greater reliance on core deposits, whose rates adjust slowly to changes in market rates. In addition, these banks further increased the share of commercial real estate loans in their portfolios. Investing in these assets, which appear to have relatively higher yields than residential real estate loans, allowed them to limit the decline in the overall rate of return on their assets.[16]

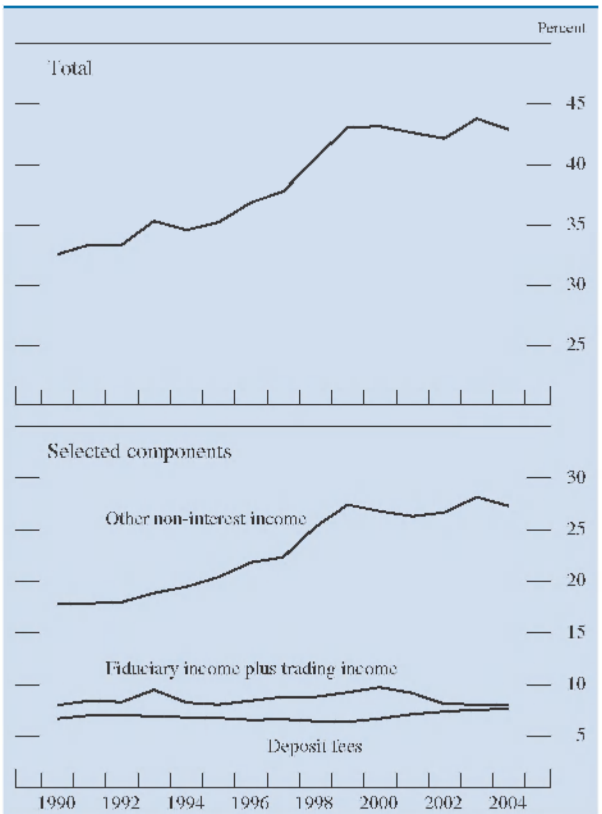
Non-interest Income and Expense

Non-interest income grew 2.6 percent in 2004, a notable slowing from the previous year's 8.9 percent rise. An 11 percent increase at the ten largest banks was partially offset by an almost 4 percent contraction at large banks and by smaller declines at medium-sized and small banks. As a share of total revenue (chart 18, top panel), non-interest income edged down but remained within the range maintained over the past few years following the strong uptrend of the 1980s (not shown) and 1990s. Deposit fees continued to grow about in line with total revenue (chart 18, bottom panel), although the ratio of fees to deposits moved down for the second consecutive year (chart 19). A 12 percent rise in fiduciary income was likely attributable, in part, to gains in equity prices, which pushed up the value of assets held in bank trusts. Trading revenue contracted 13 percent, however, as income from interest rate exposures dropped sharply at the 100 largest banks. Growth in the "other" component of non-interest income declined more than 9 percentage points, to 1.6 percent. Revenue from investment banking activities was almost flat, and gains from sales of loans fell sharply across the industry, probably in part because of reduced mortgage originations. Positive contributions included an 11.5 percent rise in loan servicing fees as well as an increase in securitization income. The remaining component of other non-interest income—which includes, among other things, safe deposit box rent, rent and other income from other real estate owned, and income and fees from automated teller machines—increased about 4 percent.

The rate of growth of non-interest expense increased almost 3 percentage points, to 8.3 percent, in 2004, lifting the ratio of non-interest expense to total revenue roughly 2 percentage points, to 60 percent (chart 20). The cost of premises and fixed assets as a share of revenue was essentially unchanged, and the number of branches continued to grow at a modest pace. Salary and benefit expenses grew 6.3 percent, a slightly slower rate than in 2003, and their ratio to total revenue edged up only a few basis points. The number of bank employees expanded roughly 3 percent, a touch higher than in 2003, but

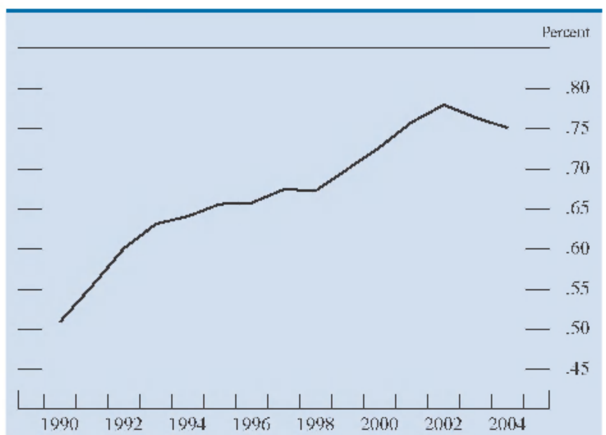
16. Yields on residential and commercial real estate loans are not available separately from the Call Report; only income data for the broader "real estate loan" category are available. To investigate the relationship between the concentration of commercial real estate loans in banks' real estate portfolios and the yield on real estate loans, we ran a cross-sectional regression of the latter on the share of real estate loans that are backed by commercial real estate. We found that the coefficient is both positive and statistically significant for small and medium-sized banks.

18. Non-interest income and selected components as a proportion of revenue, 1990–2004



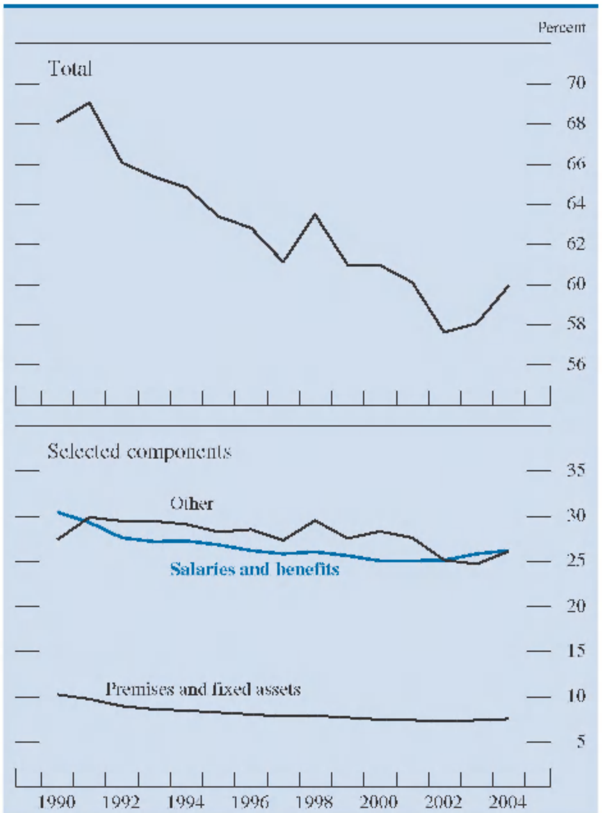
Note. The data are annual. Revenue is calculated as the sum of non-interest income and net interest income.

19. Deposit fee income as a proportion of total domestic deposits, 1990–2004



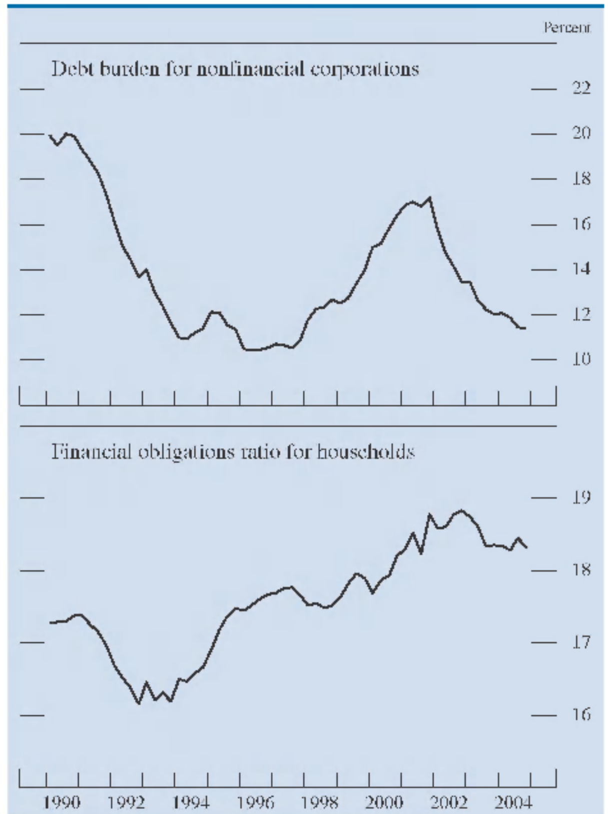
Note. The data are annual.

20. Non-interest expense and selected components as a proportion of revenue, 1990–2004



NOTE. The data are annual.

21. Debt burden for businesses and financial obligations ratio for households, 1990–2004



NOTE. The data are quarterly. The debt burden is calculated as interest payments as a percentage of cash flow. The financial obligations ratio is an estimate of debt payments and recurring obligations as a percentage of disposable personal income; debt payments and recurring obligations consist of required payments on outstanding mortgage and consumer debt, as well as rent, auto leases, and property taxes.

SOURCE. For debt burden, national income and product accounts and the Federal Reserve Board; for financial obligations ratio, Federal Reserve Board (www.federalreserve.gov/releases/housedebt).

the growth of salaries and benefits per employee, which was about 6 percent in 2003, decelerated to 3.3 percent last year, and was about flat at the ten largest banks.

The moderation in the growth of salaries and benefits was more than offset by a brisk rise in other non-interest expense, which increased about 1.5 percentage points as a share of total revenue, to 26.2 percent. An increase in nonrecurring charges—including merger-related expenses and litigation provisions related to settlements of alleged failures of corporate governance and conflicts of interest—contributed to the rise in other non-interest expense. Non-interest expense also was reportedly boosted somewhat by increased costs for regulatory compliance as banks responded to the Bank Secrecy Act, the USA Patriot Act, and the Sarbanes–Oxley Act.

Loan Performance and Loss Provisioning

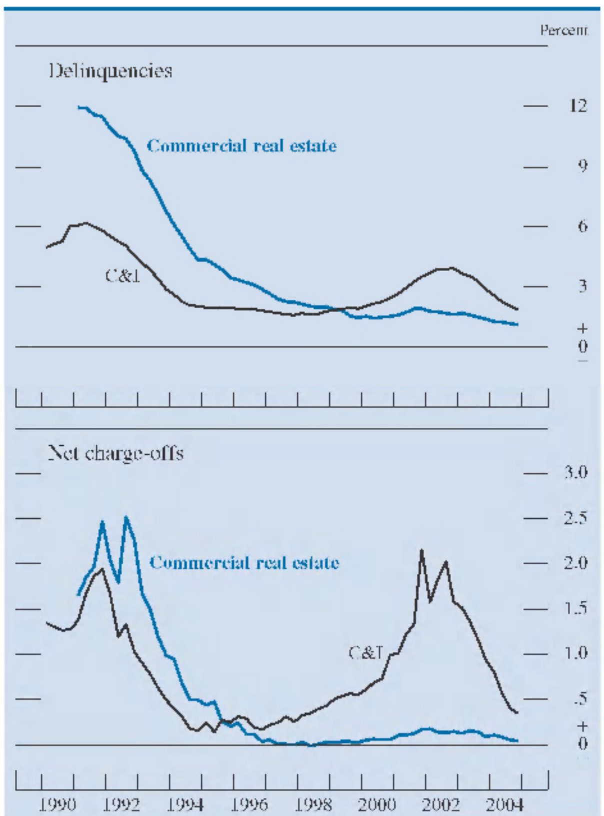
The ongoing economic expansion and a further strengthening of household and business balance sheets contributed to the continued improvement of credit quality in 2004 and allowed banks to reduce their provisions for loan and lease losses. The debt-service burden of businesses continued to decline, while the financial obligations ratio of households, although still high, was below the peak reached at the end of 2002 (chart 21). Presumably reflecting these developments, delinquency rates for all major loan categories moved down, with that for C&I loans posting the largest decline. Delinquency rates on both residential and commercial real estate loans moved down further. Net charge-off rates for nearly all types of loans fell, and those for real estate loans dropped to historically low levels. Nonetheless, total net charge-offs surpassed provisioning, and so total reserves for loan and lease losses fell last year. But with asset quality improving, the ratio of reserves to net charge-offs and to delinquent loans both rose.

C&I Loans

The delinquency rate on C&I loans continued to decline during 2004; by the end of the year, it had fallen 1 percentage point, to 1.9 percent, the lowest level since the first quarter of 1999 (chart 22). The decline was driven primarily by developments at the 100 largest banks, as the substantial increase in such delinquencies at those entities in the aftermath of the 2001 economic slowdown receded. The net charge-off rate on these loans fell sharply, reaching 0.3 percent in the fourth quarter, the lowest level since the first quarter of 1998. As with delinquency rates, the improvement occurred mostly at the 100 largest banks.

Banks were asked in the October 2004 BLPS about their outlook for C&I loan quality over the next year. The majority of respondents indicated that loan quality was likely to stabilize around current levels if economic activity progressed in line with consensus forecasts, while the remaining banks, on net, expected credit quality to continue to improve.

22. Delinquency and charge-off rates for loans to businesses, by type of loan, 1990–2004



NOTE. The data are quarterly and seasonally adjusted; the data for commercial real estate begin in 1991. Delinquent loans are loans that are not accruing interest and those that are accruing interest but are more than thirty days past due. The delinquency rate is the end-of-period level of delinquent loans divided by the end-of-period level of outstanding loans. The net charge-off rate is the annualized amount of charge-offs over the period, net of recoveries, divided by the average level of outstanding loans over the period. For the computation of these rates, commercial real estate loans exclude loans not secured by real estate (see table 1, note 2).

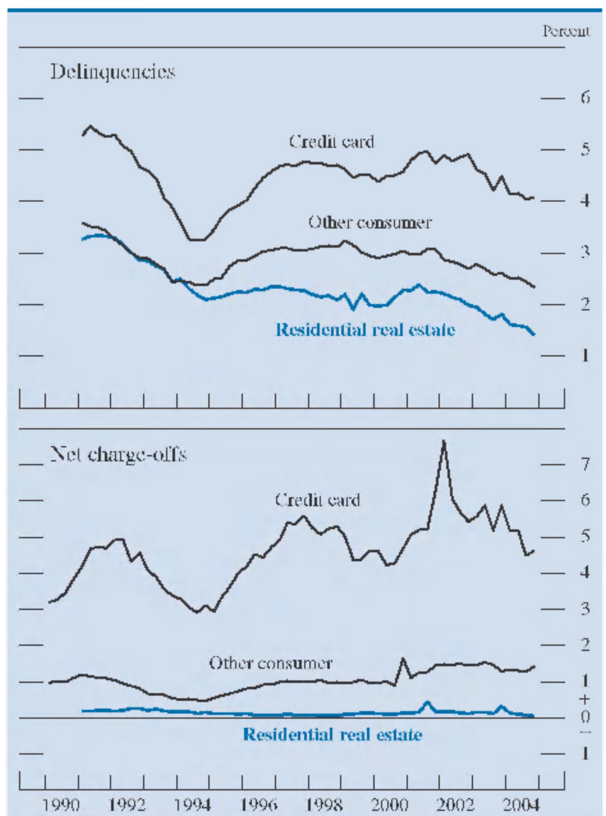
Commercial Real Estate Loans

The credit quality of commercial real estate loans improved further in 2004, even though rents on office buildings continued to contract (albeit at a slower pace). Vacancy rates in the office sector declined in 2004, although they remained elevated, and vacancy rates on retail properties remained relatively low. The delinquency rate on these loans fell 29 basis points, to 1.1 percent last year (chart 22). The net charge-off rate on such loans moved down during 2004 and, by year-end, was near zero across the banking industry.

Loans to Households

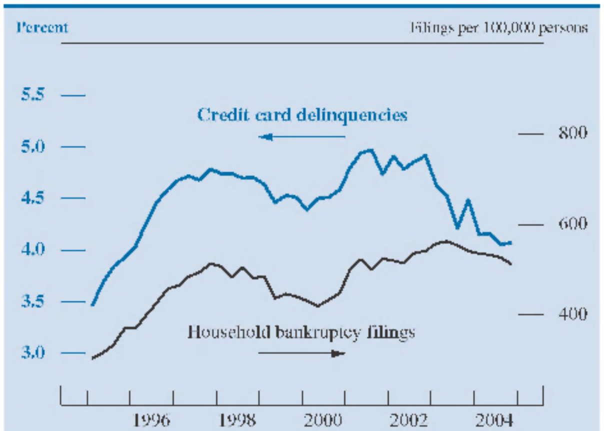
The credit quality of loans to households continued to improve last year. The delinquency rate on residen-

23. Delinquency and charge-off rates for loans to households, by type of loan, 1990–2004



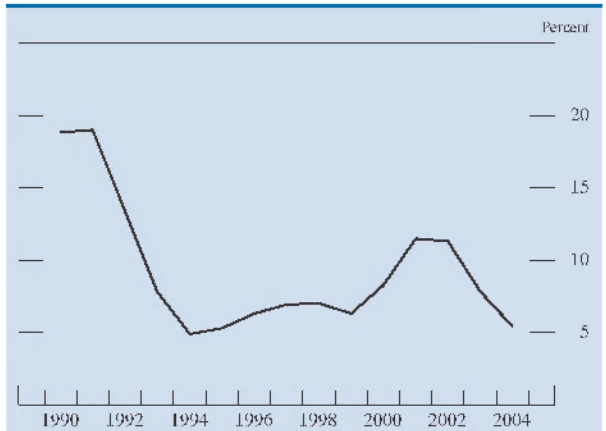
NOTE. Data for delinquencies and for net charge-offs of residential real estate loans begin in 1991. For definitions of delinquencies and net charge-offs, see note to chart 22.

24. Credit card delinquency rate and household bankruptcy filings, 1995–2004



NOTE. The data are quarterly and seasonally adjusted. For definition of delinquencies, see note to chart 22.
SOURCE. Call Report and Visa Bankruptcy Notification Service.

25. Provisions for loan and lease losses as a proportion of total revenue, 1990–2004



NOTE. The data are annual.

tial real estate loans fell 39 basis points, to 1.4 percent, the lowest level since the beginning of the 1990s (chart 23). The improvement was presumably aided in part by the lower loan costs afforded by continued, although slowing, mortgage refinancing. Net charge-off rates on residential real estate loans averaged 10 basis points for the year, and remained in the range that had prevailed over the past several years. Losses were probably restrained in part by rising house prices, which boosted borrowers' equity stakes in their homes and made foreclosures less costly for banks.

Tracking a decline in the household bankruptcy rate, the delinquency rate on credit card loans fell about 40 basis points, to 4.1 percent, in the fourth quarter of last year, the lowest level since the first quarter of 1996 (charts 23 and 24). The delinquency rate on other consumer loans fell as well, to 2.3 percent, in the fourth quarter (chart 23). On average in 2004, charge-off rates on credit card loans were down 75 basis points, to almost 5 percent, while charge-off rates on other consumer loans were essentially unchanged.

Securitized Loans

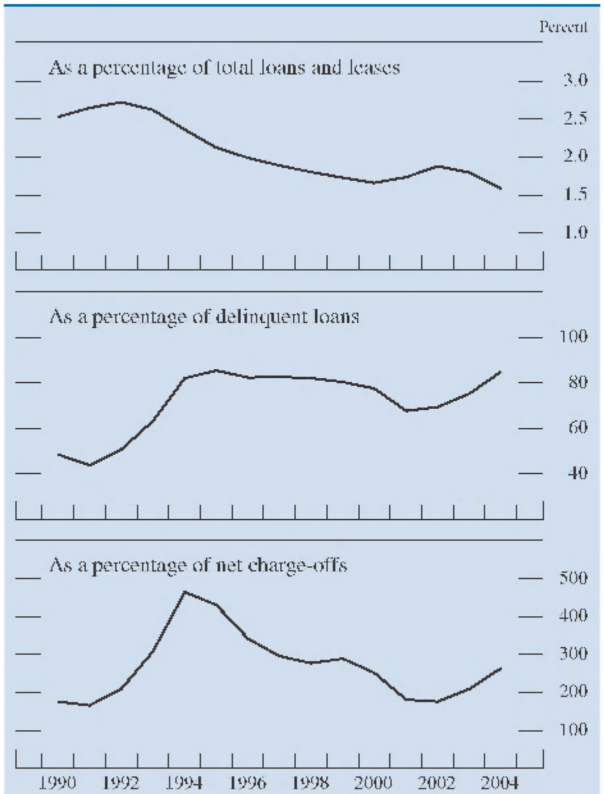
A decline in the delinquency rates on securitized loans on which banks retained servicing rights or provided credit enhancements—a large majority of these loans are to households—also pointed to an improvement in credit quality. The delinquency rate on securitized credit card receivables was 3.9 percent in the fourth quarter of 2004, down more than 70 basis points from the previous year and below the delinquency rate on loans held on banks' books. Despite an uptick in the fourth quarter, the delinquency rate on securitized residential real estate loans averaged 4 percent in 2004, about 50 basis points less than in 2003. The delinquency rate on securitized auto loans averaged 1 percent, about 40 basis points below the average rate in 2003.

Loss Provisioning

With the further improvement in overall credit quality in 2004, banks in all size classes continued to reduce provisions for loan and lease losses. The biggest reduction was at the ten largest banks, and a few of those institutions posted negative provisions for one or more quarters in 2004. The ratio of provisions for loan and lease losses to total revenue fell to the lowest level since the mid-1990s (chart 25), and the ratio of provisions to loans moved down for the third consecutive year.

Net charge-offs exceeded provisioning in 2004, so reserves for loan and lease losses declined roughly 4 percent, and the ratio of such reserves to loans fell to 1.6 percent, the lowest level since the beginning of the 1990s (chart 26). Nonetheless, with the continued improvement in credit quality, the ratio of reserves to delinquent loans moved up about 10 percentage points, to 85 percent, the top end of its recent range. Reserves rose noticeably as a share of net charge-offs as well, surpassing the level that prevailed before the economic slowdown.

26. Reserves for loan and lease losses, 1990–2004



NOTE. The data are annual. For definitions of delinquencies and net charge-offs, see note to chart 22.

INTERNATIONAL OPERATIONS OF U.S. COMMERCIAL BANKS

The share of bank assets booked in foreign offices increased about 40 basis points, to 11.4 percent, in 2004. The dollar volume of exposure to selected East Asian countries about doubled, mostly because of the acquisition of a Korean bank by a large U.S. commercial bank (table 2, memo item). Exposure to eastern Europe expanded briskly, while exposure to India grew a bit less than in the previous year. A rise in exposure to Latin American countries after two years of contraction was mostly attributable to rising exposure to Brazil. As a share of tier 1 capital, exposure to selected East Asian countries surged, while exposure to Latin America fell a bit.

The share of net income due to foreign operations rose almost 1 percentage point, to 7.9 percent (data not shown in table), but it continued to be well below the levels reached in the mid-1990s. As was the case domestically, lower provisioning for loan and lease losses was an important contributor to the gain in earnings from foreign operations.

RECENT DEVELOPMENTS

In the first few months of 2005, output grew at a moderate pace, and labor market conditions continued to improve gradually. Although oil prices and overall inflation pressures picked up during the first quarter, longer-term inflationary expectations remained well contained. Against this backdrop, the Federal Open Market Committee decided to raise its target for the federal funds rate 25 basis points at each of its first two meetings in 2005. Longer-term interest rates rose appreciably—the ten-year Treasury rate rose 24 basis points in the first quarter, and the rate on thirty-year fixed-rate mortgages rose 16 basis points.

Data from the Federal Reserve's H.8 statistical release indicate that the growth of bank credit accelerated to a double-digit pace in the first three months of 2005 and that C&I lending and revolving home equity loans were particularly strong. Securities holdings also expanded rapidly, as domestically chartered banks continued to accumulate mortgage-backed securities in investment accounts.

Core deposits were about flat, on balance, in early 2005. As a consequence, banks continued to ramp up large time deposits and other liabilities at a brisk rate.

Profitability at large bank holding companies generally remained robust in the first quarter of 2005. Profits were boosted by hefty revenues from trading and mortgage servicing, while additional gains in asset quality allowed these institutions to reduce further their loan loss reserves. On the other hand, many institutions reported tighter net interest margins, and increased competition in the credit card market further squeezed profits for some issuers. Nonrecurring expenses also damped profitability in some cases.

Despite banks' strong balance sheets and robust profitability in recent quarters, bank stock prices declined in the first quarter of 2005; the *American Banker* stock index of the 225 banks with the highest market value underperformed the S&P 500 stock index by almost 11 percent. In large part, the weakness in bank stocks likely reflected investor concerns about future profitability because of rising interest rates and a consequent slowing in the pace of the expansion. In contrast to 2004, merger activity was relatively quiet in the first part of 2005.

2. Exposure of banks to selected economies at year-end relative to tier 1 capital, by bank size, 1998–2004

Percent

Bank and year	Selected Asian countries[1]	India	Eastern Europe and Russia		Latin America				Total
			All	Russia	All	Mexico	Argentina	Brazil	
All									
1998	15.49	2.35	3.49	.43	42.93	9.88	9.66	11.27	64.26
1999	14.37	2.39	2.85	.37	39.00	9.50	9.40	10.49	58.61
2000	13.17	2.63	4.35	.49	37.88	9.08	8.41	11.15	58.03
2001	12.09	2.55	4.29	.60	54.06	25.97	6.61	2.99	72.99
2002	11.44	2.74	5.53	1.06	38.90	20.80	2.44	8.36	58.61
2003	11.15	3.86	5.44	1.48	32.85	17.95	1.73	6.77	53.30
2004	20.33	4.16	6.09	1.54	31.78	16.65	1.47	6.51	62.36
Money center and other large banks									
1998	24.02	4.19	5.61	.68	64.20	14.10	15.19	17.04	98.02
1999	20.73	3.56	4.25	.55	53.90	12.62	13.63	14.53	82.44
2000	19.98	4.14	6.83	.77	54.98	12.69	12.68	16.40	85.93
2001	17.88	3.86	6.47	.91	79.08	34.54	9.79	18.74	107.29
2002	16.96	4.18	8.17	1.63	57.32	31.14	3.65	12.38	86.63
2003	16.98	5.93	8.41	2.29	49.19	27.13	2.64	10.02	80.51
2004	30.95	6.31	9.34	2.36	46.96	24.99	2.22	9.59	93.56
Other banks									
1998	2.08	.05	.16	.00	9.51	3.24	.97	.00	11.80
1999	1.75	.07	.08	.01	9.41	3.31	1.01	2.47	11.31
2000	1.41	.03	.08	.00	8.35	2.84	1.04	2.08	9.87
2001	1.07	.06	.14	.00	6.45	2.04	.57	2.05	7.72
2002	1.03	.08	.65	.00	5.00	1.86	.02	.96	6.76
2003	.90	.24	.21	.06	4.20	1.53	.13	1.05	5.55
2004	.90	.21	.14	.04	4.00	1.39	.09	.85	5.25
MEMO									
Total exposure (billions of dollars)									
1998	37.87	5.43	8.53	1.05	104.69	24.15	23.62	27.55	156.52
1999	37.45	6.23	7.43	.95	101.63	24.77	24.51	27.34	152.74
2000	37.30	7.46	12.33	1.39	107.31	25.71	23.82	31.59	164.40
2001	36.32	7.66	12.88	1.80	162.39	78.00	19.87	39.01	219.25
2002	36.32	8.70	17.55	3.37	123.53	66.15	7.75	26.55	186.10
2003	39.12	13.55	19.07	5.20	115.23	62.98	6.07	23.74	186.97
2004	79.57	16.27	23.85	6.02	124.39	65.17	5.75	25.46	244.07

NOTE. For the definition of tier 1 capital, see text note 10. Exposures consist of lending and derivatives exposures for cross-border and local-office operations. Respondents may file information on one bank or on the bank holding company as a whole.

The year-end 2004 data cover seventy banks with a total of $391.4 billion in tier 1 capital; of these institutions, five were money center banks, with $195.9 billion in tier 1 capital, and four were other large banks, with $57.2 billion in tier 1 capital; the remaining sixty-one (“other”) banks had $138.3 billion in tier 1 capital. The average “other” bank at year-end 2004 had $29 billion in assets.

1. Indonesia, Korea, Malaysia, Philippines, and Thailand.

SOURCE. Federal Financial Institutions Examination Council Statistical Release E.16, “Country Exposure Lending Survey,” available at www.ffiec.gov/E16.htm.

Appendix tables start on page 164

A.1. Portfolio composition, interest rates, and income and expense, all U.S. banks, 1995–2004

A. All banks

Item	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	Balance sheet items as a percentage of average net consolidated assets									
Interest-earning assets	86.98	87.38	87.15	86.76	87.03	87.13	86.48	86.42	86.08	86.90
Loans and leases, net	58.39	59.91	58.72	58.33	59.34	60.48	58.95	57.83	56.88	56.98
Commercial and industrial	15.20	15.59	15.77	16.36	17.07	17.16	16.08	14.07	12.18	11.06
U.S. addressees	12.87	13.06	13.17	13.61	14.43	14.67	13.69	12.04	10.48	9.52
Foreign addressees	2.33	2.53	2.60	2.75	2.64	2.49	2.39	2.04	1.70	1.54
Consumer	12.12	12.27	11.50	10.41	9.71	9.38	9.23	9.35	9.06	9.18
Credit card	4.73	4.93	4.62	4.02	3.51	3.52	3.63	3.78	3.55	3.87
Installment and other	7.39	7.34	6.88	6.39	6.20	5.87	5.60	5.57	5.51	5.31
Real estate	25.00	25.04	25.00	24.85	25.44	27.04	27.10	28.39	29.91	30.78
In domestic offices	24.36	24.42	24.39	24.28	24.87	26.49	26.60	27.91	29.46	30.25
Construction and land development	1.59	1.63	1.73	1.86	2.18	2.51	2.85	2.98	2.99	3.25
Farmland	.56	.56	.55	.55	.56	.56	.55	.56	.54	.54
One- to four-family residential	14.41	14.42	14.41	14.25	14.10	14.96	14.67	15.40	16.96	17.42
Home equity	1.88	1.85	1.94	1.89	1.76	1.96	2.18	2.80	3.40	4.34
Other	12.54	12.57	12.47	12.37	12.34	13.00	12.49	12.60	13.57	13.09
Multifamily residential	.81	.85	.83	.82	.88	.99	.97	1.02	1.05	1.06
Nonfarm nonresidential	6.97	6.96	6.88	6.80	7.15	7.48	7.56	7.95	7.91	7.97
In foreign offices	.65	.63	.61	.57	.57	.54	.50	.48	.46	.53
To depository institutions and acceptances of other banks	1.92	2.33	1.93	1.91	1.96	1.87	1.83	1.87	1.98	2.11
Foreign governments	.30	.26	.18	.15	.16	.12	.10	.09	.08	.08
Agricultural production	.96	.92	.90	.89	.83	.78	.75	.70	.63	.59
Other loans	3.11	3.32	2.80	2.78	2.75	2.58	2.34	2.06	2.00	2.35
Lease-financing receivables	1.19	1.51	1.87	2.13	2.52	2.63	2.58	2.44	2.11	1.79
Less: Unearned income on loans	–.14	–.12	–.09	–.07	–.06	–.05	–.04	–.05	–.04	–.04
Less: Loss reserves[1]	–1.27	–1.21	–1.13	–1.07	–1.04	–1.02	–1.04	–1.11	–1.04	–.91
Securities	21.94	21.00	20.40	20.37	20.40	20.01	19.53	21.27	21.89	22.57
Investment account	19.38	18.19	17.23	17.48	18.33	17.59	16.82	18.30	18.97	18.99
Debt	18.97	17.74	16.74	16.93	17.73	16.93	16.48	17.99	18.72	18.79
U.S. Treasury	5.25	4.19	3.38	2.71	2.14	1.66	.85	.78	.90	.89
U.S. government agency and corporation obligations	9.81	9.74	9.73	10.28	10.85	10.31	10.08	11.46	12.26	12.37
Government-backed mortgage pools	4.46	4.80	4.93	5.16	5.24	4.75	5.13	6.09	6.75	7.13
Collateralized mortgage obligations	2.67	2.11	1.93	2.12	2.15	1.92	1.95	2.35	2.34	2.01
Other	2.68	2.83	2.86	2.99	3.46	3.63	2.99	3.02	3.17	3.22
State and local government	1.80	1.68	1.59	1.57	1.62	1.52	1.49	1.49	1.48	1.41
Private mortgage-backed securities	.62	.61	.50	.67	.88	.95	1.09	1.25	1.30	1.41
Other	1.49	1.51	1.54	1.70	2.24	2.48	2.98	3.01	2.78	2.72
Equity	.41	.45	.50	.55	.61	.66	.34	.31	.25	.20
Trading account	2.55	2.81	3.16	2.90	2.06	2.43	2.72	2.97	2.93	3.59
Gross federal funds sold and reverse RPs	3.93	3.81	5.18	5.37	4.61	4.12	5.11	4.81	4.85	4.58
Interest-bearing balances at depositories	2.73	2.66	2.86	2.69	2.68	2.52	2.89	2.51	2.45	2.76
Non-interest-earning assets	13.02	12.62	12.85	13.24	12.97	12.87	13.52	13.58	13.92	13.10
Revaluation gains held in trading accounts	2.90	2.24	2.59	2.95	2.57	2.28	2.37	2.42	2.70	2.19
Other	10.12	10.37	10.26	10.29	10.40	10.58	11.15	11.16	11.22	10.91
Liabilities	91.99	91.73	91.57	91.51	91.52	91.58	91.25	90.85	90.96	90.57
Interest-bearing liabilities	71.87	71.63	71.37	71.33	72.52	73.30	72.47	71.20	70.48	71.58
Deposits	56.28	55.83	54.96	54.62	54.78	54.66	54.59	53.87	53.34	54.14
In foreign offices	10.27	10.01	10.01	10.14	10.46	10.92	10.18	8.92	8.90	9.72
In domestic offices	46.01	45.83	44.95	44.48	44.32	43.74	44.42	44.95	44.44	44.42
Other checkable deposits	6.63	4.75	3.61	3.11	2.81	2.46	2.36	2.39	2.47	2.53
Savings (including MMDAs)	17.47	18.70	19.11	19.89	21.00	20.64	22.28	24.92	26.12	27.14
Small-denomination time deposits	16.14	15.96	15.16	14.14	13.10	12.49	11.59	10.13	8.65	7.63
Large-denomination time deposits	5.77	6.41	7.07	7.33	7.42	8.16	8.18	7.51	7.19	7.13
Gross federal funds purchased and RPs	7.70	7.18	8.13	7.98	7.97	7.83	7.95	7.77	7.75	7.24
Other	7.88	8.62	8.27	8.73	9.76	10.81	9.92	9.56	9.39	10.20
Non-interest-bearing liabilities	20.12	20.10	20.20	20.17	19.00	18.28	18.78	19.66	20.48	18.98
Demand deposits in domestic offices	12.68	12.81	12.15	10.99	9.78	8.61	8.00	7.67	7.27	6.58
Revaluation losses held in trading accounts	2.88	2.14	2.64	2.97	2.52	2.29	2.21	2.09	2.30	1.95
Other	4.57	5.14	5.41	6.21	6.70	7.37	8.57	9.90	10.92	10.45
Capital account	8.01	8.27	8.43	8.49	8.48	8.42	8.75	9.15	9.04	9.43
Memo										
Commercial real estate loans	9.83	9.91	9.98	10.11	10.87	11.58	12.09	12.57	12.47	12.78
Other real estate owned	.19	.14	.11	.08	.06	.05	.05	.06	.06	.06
Managed liabilities	32.10	32.77	34.13	34.97	36.59	38.83	37.42	35.05	34.61	35.69
Federal Home Loan Bank advances	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.89	3.17	3.19	3.07
Average net consolidated assets (billions of dollars)	4,149	4,379	4,737	5,148	5,439	5,906	6,334	6,635	7,249	7,879

A.1.—Continued

A. All banks

Item	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	Effective interest rate (percent)[2]									
Rates earned										
Interest-earning assets	8.33	8.16	8.17	8.02	7.71	8.20	7.38	6.11	5.30	5.11
Taxable equivalent	8.41	8.22	8.23	8.07	7.76	8.26	7.43	6.16	5.34	5.15
Loans and leases, gross	9.25	9.01	9.03	8.85	8.47	9.00	8.16	6.90	6.16	5.92
Net of loss provisions	8.93	8.56	8.50	8.30	7.97	8.33	7.15	5.85	5.48	5.48
Securities	6.51	6.46	6.54	6.45	6.27	6.47	6.05	4.96	3.96	3.89
Taxable equivalent	6.73	6.66	6.73	6.63	6.46	6.65	6.23	5.12	4.10	4.02
Investment account	6.35	6.39	6.50	6.38	6.25	6.45	6.05	5.04	4.00	3.96
U.S. Treasury securities and U.S. government agency obligations (excluding MBS)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.76	4.42	3.29	3.11
Mortgage-backed securities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.45	5.44	4.24	4.38
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.60	4.74	4.08	3.76
Trading account	7.73	6.86	6.75	6.85	6.47	6.63	6.08	4.47	3.70	3.51
Gross federal funds sold and reverse RPs	5.63	5.21	5.45	5.29	4.78	5.56	3.86	1.93	1.43	1.43
Interest-bearing balances at depositories	6.84	6.20	6.23	6.32	5.95	6.48	4.01	2.79	2.09	1.98
Rates paid										
Interest-bearing liabilities	4.99	4.82	4.92	4.88	4.47	5.17	4.15	2.54	1.87	1.77
Interest-bearing deposits	4.47	4.34	4.39	4.31	3.87	4.45	3.61	2.12	1.48	1.37
In foreign offices	6.12	5.54	5.44	5.66	4.91	5.61	3.95	2.38	1.64	1.77
In domestic offices	4.11	4.07	4.16	4.01	3.63	4.17	3.54	2.07	1.45	1.29
Other checkable deposits	2.06	2.04	2.25	2.29	2.08	2.34	1.96	1.06	.75	.77
Savings (including MMDAs)	3.19	3.00	2.93	2.79	2.49	2.86	2.19	1.13	.74	.72
Large time deposits[3]	5.47	5.39	5.45	5.22	4.92	5.78	5.04	3.37	2.59	2.35
Other time deposits[3]	5.44	5.40	5.54	5.48	5.09	5.69	5.43	3.73	2.91	2.56
Gross federal funds purchased and RPs	5.65	5.12	5.17	5.19	4.73	5.77	3.84	1.88	1.30	1.55
Other interest-bearing liabilities	7.45	6.92	6.94	6.89	6.48	6.97	5.92	4.32	3.59	3.26
	Income and expense as a percentage of average net consolidated assets									
Gross interest income	7.29	7.16	7.15	6.99	6.73	7.18	6.39	5.28	4.55	4.44
Taxable equivalent	7.35	7.22	7.21	7.04	6.78	7.22	6.43	5.32	4.59	4.48
Loans	5.48	5.48	5.41	5.27	5.12	5.53	4.92	4.07	3.56	3.42
Securities	1.23	1.16	1.11	1.10	1.14	1.15	1.00	.89	.74	.74
Gross federal funds sold and reverse RPs	.23	.21	.29	.29	.23	.23	.20	.09	.07	.07
Other	.35	.32	.35	.32	.24	.27	.27	.22	.18	.21
Gross interest expense	3.57	3.43	3.48	3.46	3.22	3.76	2.98	1.79	1.30	1.26
Deposits	2.54	2.46	2.48	2.43	2.20	2.56	2.09	1.23	.87	.81
Gross federal funds purchased and RPs	.44	.38	.43	.43	.39	.45	.31	.15	.10	.12
Other	.58	.59	.57	.60	.63	.75	.58	.41	.33	.33
Net interest income	3.72	3.73	3.68	3.53	3.51	3.41	3.41	3.48	3.25	3.18
Taxable equivalent	3.79	3.79	3.73	3.57	3.56	3.46	3.45	3.53	3.28	3.22
Loss provisioning[4]	.31	.37	.41	.42	.39	.50	.68	.68	.45	.30
Non-interest income	2.02	2.18	2.23	2.40	2.66	2.59	2.53	2.54	2.53	2.39
Service charges on deposits	.39	.39	.39	.38	.40	.40	.42	.45	.44	.42
Fiduciary activities	.31	.33	.35	.37	.38	.38	.35	.33	.31	.32
Trading revenue	.15	.17	.17	.15	.19	.21	.20	.16	.16	.13
Interest rate exposures	n.a.	.09	.08	.05	.07	.08	.10	.08	.06	.01
Foreign exchange rate exposures	n.a.	.06	.08	.09	.09	.08	.07	.07	.07	.08
Other commodity and equity exposures	n.a.	.02	*	.01	.03	.04	.03	.01	.02	.04
Other	1.17	1.29	1.32	1.49	1.69	1.61	1.56	1.61	1.63	1.52
Non-interest expense	3.64	3.71	3.61	3.77	3.76	3.66	3.57	3.47	3.36	3.34
Salaries, wages, and employee benefits	1.54	1.55	1.53	1.55	1.58	1.51	1.49	1.51	1.50	1.46
Occupancy	.48	.48	.47	.47	.48	.45	.44	.44	.43	.42
Other	1.62	1.69	1.62	1.75	1.70	1.70	1.64	1.52	1.43	1.46
Net non-interest expense	1.62	1.54	1.38	1.36	1.11	1.07	1.04	.93	.82	.95
Gains on investment account securities	.01	.03	.04	.06	*	–.04	.07	.10	.08	.05
Income before taxes and extraordinary items	1.81	1.85	1.92	1.81	2.02	1.81	1.76	1.97	2.05	1.98
Taxes	.63	.65	.68	.62	.72	.63	.59	.65	.67	.63
Extraordinary items, net of income taxes	*	*	*	.01	*	*	–.01	*	.01	*
Net income	1.18	1.20	1.25	1.20	1.31	1.18	1.17	1.32	1.39	1.34
Cash dividends declared	.75	.90	.90	.80	.96	.89	.87	1.01	1.07	.76
Retained income	.43	.30	.35	.40	.35	.29	.30	.30	.31	.59
MEMO: Return on equity	14.69	14.51	14.83	14.08	15.39	13.97	13.34	14.41	15.33	14.23

* 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. When possible, based on the average of quarterly balance sheet data reported on schedule RC-K of the quarterly Call Report.
3. Before 1997, large time open accounts included in other time deposits.
4. Includes provisions for allocated transfer risk.

A.1. Portfolio composition, interest rates, and income and expense, all U.S. banks, 1995–2004

B. Ten largest banks by assets

Item	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	Balance sheet items as a percentage of average net consolidated assets									
Interest-earning assets	77.12	80.12	81.84	81.25	81.49	82.23	81.74	81.68	81.39	83.54
Loans and leases, net	50.05	53.51	50.91	50.76	53.37	55.22	53.86	53.61	52.20	51.29
Commercial and industrial	16.16	17.17	16.90	18.07	19.20	19.87	18.82	16.16	12.98	10.53
U.S. addressees	8.66	9.59	10.24	11.76	13.14	13.95	13.42	11.69	9.40	7.48
Foreign addressees	7.50	7.59	6.66	6.31	6.06	5.92	5.41	4.47	3.59	3.06
Consumer	6.60	6.22	6.40	6.04	5.94	5.43	6.17	7.82	7.96	8.49
Credit card	1.96	1.23	1.34	1.30	1.36	1.34	1.64	2.90	2.81	3.19
Installment and other	4.65	4.99	5.06	4.74	4.58	4.09	4.53	4.92	5.15	5.30
Real estate	15.82	16.53	17.42	16.51	16.96	19.82	19.23	20.78	22.68	23.21
In domestic offices	13.48	14.44	15.69	15.08	15.55	18.48	18.05	19.70	21.74	22.21
Construction and land development	.58	.51	.68	.77	.90	.98	1.27	1.42	1.36	1.40
Farmland	.06	.06	.09	.09	.10	.11	.11	.12	.10	.10
One- to four-family residential	9.62	10.43	11.02	10.33	10.77	13.37	12.41	13.51	16.03	16.71
Home equity	1.40	1.53	1.70	1.72	1.54	1.61	1.78	2.35	2.96	4.04
Other	8.22	8.90	9.31	8.61	9.22	11.76	10.63	11.17	13.07	12.67
Multifamily residential	.38	.38	.39	.38	.43	.60	.51	.55	.47	.45
Nonfarm nonresidential	2.83	3.05	3.52	3.51	3.35	3.42	3.76	4.09	3.78	3.55
In foreign offices	2.35	2.09	1.73	1.43	1.41	1.34	1.18	1.08	.94	1.00
To depository institutions and acceptances of other banks	5.04	6.14	4.20	4.05	4.34	3.78	3.23	3.20	3.54	4.10
Foreign governments	.90	.69	.45	.35	.38	.28	.20	.20	.17	.16
Agricultural production	.21	.23	.31	.28	.26	.23	.28	.23	.19	.22
Other loans	5.76	6.34	4.15	3.74	3.96	3.75	3.51	2.94	2.87	3.31
Lease-financing receivables	1.14	1.59	2.24	2.81	3.40	3.07	3.43	3.44	2.87	2.10
Less: Unearned income on loans	−.14	−.11	−.07	−.06	−.05	−.04	−.04	−.08	−.06	−.04
Less: Loss reserves[1]	−1.45	−1.30	−1.08	−1.01	−1.03	−.97	−.97	−1.12	−1.02	−.80
Securities	19.53	19.83	20.00	19.72	18.34	18.98	17.81	20.54	21.22	22.95
Investment account	10.65	10.60	10.97	12.12	13.08	13.71	12.14	14.36	15.31	15.99
Debt	10.27	10.22	10.55	11.64	12.57	13.03	11.88	14.13	15.11	15.83
U.S. Treasury	2.03	1.93	1.56	1.70	1.98	1.96	.68	.59	.82	.86
U.S. government agency and corporation obligations	4.46	4.59	5.34	6.31	6.35	6.59	6.84	8.69	9.20	9.92
Government-backed mortgage pools	2.89	3.58	4.26	5.13	5.03	4.88	4.99	6.38	7.59	8.64
Collateralized mortgage obligations	1.50	.95	.93	.93	.79	.93	1.11	1.52	.91	.70
Other	.08	.06	.15	.26	.52	.78	.74	.79	.70	.58
State and local government	.49	.39	.51	.47	.45	.51	.55	.59	.59	.57
Private mortgage-backed securities	.32	.30	.32	.60	.57	.51	.58	.92	1.10	.95
Other	2.97	3.01	2.81	2.57	3.22	3.47	3.22	3.34	3.40	3.53
Equity	.38	.38	.42	.47	.51	.68	.26	.22	.20	.16
Trading account	8.88	9.23	9.03	7.60	5.25	5.26	5.67	6.18	5.91	6.96
Gross federal funds sold and reverse RPs	3.20	3.10	7.56	7.81	6.64	5.02	6.38	5.26	5.79	6.37
Interest-bearing balances at depositories	4.34	3.68	3.37	2.96	3.14	3.01	3.69	2.28	2.18	2.93
Non-interest-earning assets	22.88	19.88	18.16	18.75	18.51	17.77	18.26	18.32	18.61	16.46
Revaluation gains held in trading accounts	10.77	7.63	7.36	7.62	6.66	5.66	5.48	5.40	5.79	4.45
Other	12.11	12.25	10.80	11.13	11.85	12.11	12.78	12.93	12.83	12.01
Liabilities	93.59	93.04	92.61	92.58	92.28	92.36	92.14	91.52	91.94	91.64
Interest-bearing liabilities	63.37	64.45	65.83	65.81	66.87	67.81	66.76	65.42	65.55	68.18
Deposits	47.49	47.87	47.36	47.65	48.79	49.27	49.09	48.96	49.11	51.26
In foreign offices	28.36	26.41	22.18	20.17	21.04	21.62	19.22	16.27	15.68	16.20
In domestic offices	19.12	21.46	25.18	27.48	27.76	27.66	29.88	32.70	33.43	35.05
Other checkable deposits	2.30	1.61	1.21	.99	.72	.74	.90	.95	1.02	1.22
Savings (including MMDAs)	10.56	12.31	14.26	15.83	16.84	16.73	19.23	22.81	24.28	26.42
Small-denomination time deposits	4.04	4.68	5.82	6.03	5.66	5.38	5.11	4.71	3.68	3.24
Large-denomination time deposits	2.23	2.86	3.89	4.62	4.54	4.80	4.63	4.22	4.45	4.18
Gross federal funds purchased and RPs	6.17	5.88	10.26	9.78	8.84	8.89	9.04	8.83	8.62	7.79
Other	9.71	10.69	8.20	8.37	9.24	9.65	8.62	7.63	7.82	9.13
Non-interest-bearing liabilities	30.22	28.59	26.78	26.77	25.41	24.56	25.38	26.10	26.40	23.46
Demand deposits in domestic offices	8.88	9.73	8.98	8.46	7.83	7.28	7.50	7.40	6.72	5.43
Revaluation losses held in trading accounts	10.68	7.27	7.53	7.67	6.51	5.69	5.10	4.63	4.88	3.95
Other	10.66	11.59	10.27	10.65	11.06	11.59	12.79	14.07	14.80	14.08
Capital account	6.41	6.96	7.39	7.42	7.72	7.64	7.86	8.48	8.06	8.36
Memo										
Commercial real estate loans	4.40	4.65	5.45	5.61	5.69	5.87	6.68	6.92	6.31	5.99
Other real estate owned	.27	.18	.13	.09	.06	.04	.04	.03	.03	.03
Managed liabilities	47.94	47.39	46.02	44.42	45.49	46.84	43.41	38.89	38.60	39.33
Federal Home Loan Bank advances	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	.82	.82	.84	.79
Average net consolidated assets (billions of dollars)	1,051	1,189	1,514	1,820	1,935	2,234	2,527	2,785	3,148	3,654

A.1.—Continued

B. Ten largest banks by assets

Item	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	Effective interest rate (percent)[2]									
Rates earned										
Interest-earning assets	8.20	7.72	7.57	7.55	7.37	7.76	6.85	5.85	5.01	4.74
Taxable equivalent	8.22	7.74	7.60	7.57	7.39	7.78	6.87	5.87	5.03	4.77
Loans and leases, gross	8.84	8.32	8.25	8.21	7.99	8.46	7.52	6.54	5.78	5.53
Net of loss provisions	8.88	8.31	8.10	7.77	7.65	7.92	6.56	5.32	5.21	5.30
Securities	7.40	6.80	6.78	6.83	6.58	6.48	6.26	5.09	4.15	4.11
Taxable equivalent	7.47	6.85	6.85	6.89	6.65	6.55	6.34	5.16	4.21	4.17
Investment account	7.04	6.70	6.76	6.78	6.59	6.40	6.23	5.30	4.26	4.37
U.S. Treasury securities and U.S. government agency obligations (excluding MBS)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.01	3.74	2.62	2.92
Mortgage-backed securities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.42	5.55	4.51	4.83
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.34	5.30	4.28	3.76
Trading account	7.83	6.90	6.81	6.92	6.56	6.70	6.33	4.60	3.87	3.52
Gross federal funds sold and reverse RPs	5.20	4.92	5.45	5.20	4.52	4.93	3.86	2.20	1.66	1.47
Interest-bearing balances at depositories	7.15	6.71	6.91	7.16	7.22	7.43	3.73	3.40	2.49	1.80
Rates paid										
Interest-bearing liabilities	5.88	5.44	5.41	5.29	4.79	5.37	4.09	2.55	1.86	1.80
Interest-bearing deposits	4.99	4.57	4.54	4.40	3.82	4.40	3.27	1.95	1.36	1.30
In foreign offices	6.07	5.62	5.52	5.83	4.99	5.67	4.02	2.59	1.76	1.87
In domestic offices	3.42	3.32	3.69	3.39	3.04	3.51	2.85	1.68	1.20	1.08
Other checkable deposits	1.29	1.32	1.97	1.67	1.44	1.61	1.67	.93	.80	.97
Savings (including MMDAs)	3.11	2.76	2.68	2.45	2.11	2.43	1.92	1.02	.73	.71
Large time deposits[3]	3.73	4.62	5.17	4.53	4.36	5.32	4.40	3.26	2.36	2.14
Other time deposits[3]	5.08	4.58	5.45	5.21	4.95	5.53	5.14	3.55	2.86	2.61
Gross federal funds purchased and RPs	5.22	4.93	5.02	5.18	4.53	5.47	3.81	2.02	1.39	1.71
Other interest-bearing liabilities	9.80	8.86	9.13	8.85	8.61	8.15	7.00	5.39	4.26	3.69
	Income and expense as a percentage of average net consolidated assets									
Gross interest income	6.42	6.26	6.31	6.21	6.01	6.39	5.56	4.78	4.06	3.95
Taxable equivalent	6.43	6.27	6.33	6.22	6.03	6.41	5.58	4.80	4.08	3.97
Loans	4.44	4.48	4.31	4.27	4.35	4.74	4.14	3.58	3.05	2.86
Securities	.75	.71	.73	.81	.85	.88	.72	.73	.63	.69
Gross federal funds sold and reverse RPs	.21	.18	.45	.42	.30	.25	.25	.12	.10	.10
Other	1.00	.88	.82	.70	.51	.51	.44	.35	.28	.30
Gross interest expense	3.74	3.52	3.55	3.48	3.16	3.60	2.69	1.65	1.20	1.22
Deposits	2.43	2.26	2.26	2.20	1.97	2.33	1.74	1.06	.75	.74
Gross federal funds purchased and RPs	.35	.31	.54	.54	.40	.49	.35	.18	.13	.14
Other	.95	.95	.75	.74	.79	.78	.59	.41	.33	.33
Net interest income	2.68	2.73	2.76	2.73	2.84	2.78	2.87	3.13	2.86	2.73
Taxable equivalent	2.70	2.75	2.79	2.75	2.86	2.80	2.89	3.15	2.88	2.75
Loss provisioning[4]	.11	.11	.16	.31	.26	.38	.59	.73	.35	.16
Non-interest income	2.16	2.34	2.12	2.15	2.55	2.54	2.23	2.32	2.31	2.21
Service charges on deposits	.25	.28	.32	.33	.37	.40	.44	.48	.46	.45
Fiduciary activities	.30	.31	.34	.32	.31	.27	.29	.26	.26	.24
Trading revenue	.46	.52	.43	.33	.46	.48	.43	.32	.30	.22
Interest rate exposures	n.a.	.30	.23	.10	.17	.20	.21	.15	.12	.03
Foreign exchange rate exposures	n.a.	.17	.20	.20	.19	.18	.14	.14	.14	.14
Other commodity and equity exposures	n.a.	.05	*	.03	.09	.11	.08	.03	.04	.06
Other	1.15	1.23	1.04	1.17	1.41	1.39	1.06	1.25	1.29	1.30
Non-interest expense	3.32	3.57	3.24	3.47	3.45	3.31	3.13	3.16	3.02	3.11
Salaries, wages, and employee benefits	1.58	1.57	1.45	1.45	1.57	1.46	1.38	1.41	1.39	1.34
Occupancy	.50	.50	.47	.47	.50	.47	.45	.46	.45	.43
Other	1.24	1.50	1.33	1.54	1.38	1.39	1.30	1.28	1.18	1.33
Net non-interest expense	1.16	1.23	1.12	1.32	.90	.77	.90	.84	.71	.90
Gains on investment account securities	.03	.04	.08	.11	.03	–.03	.08	.13	.11	.08
Income before taxes and extraordinary items	1.44	1.44	1.56	1.22	1.71	1.60	1.46	1.69	1.91	1.74
Taxes	.55	.52	.58	.44	.66	.60	.48	.57	.62	.55
Extraordinary items, net of income taxes	*	*	*	*	*	*	–.01	*	*	*
Net income	.88	.92	.98	.78	1.05	1.00	.97	1.12	1.29	1.19
Cash dividends declared	.57	.70	.82	.53	.79	.86	.66	1.05	.99	.65
Retained income	.31	.21	.15	.25	.26	.13	.31	.07	.30	.55
MEMO: Return on equity	13.78	13.21	13.22	10.53	13.58	13.04	12.34	13.24	16.01	14.28

* 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. When possible, based on the average of quarterly balance sheet data reported on schedule RC-K of the quarterly Call Report.
3. Before 1997, large time open accounts included in other time deposits.
4. Includes provisions for allocated transfer risk.

A.1. Portfolio composition, interest rates, and income and expense, all U.S. banks, 1995–2004

C. Banks ranked 11 through 100 by assets

Item	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	Balance sheet items as a percentage of average net consolidated assets									
Interest-earning assets	88.71	88.26	87.50	87.87	88.41	88.67	88.08	88.34	88.10	88.19
Loans and leases, net	62.68	64.24	63.89	64.38	64.23	64.88	62.14	60.00	59.48	60.63
Commercial and industrial	19.26	18.95	19.01	18.92	19.40	18.19	15.84	13.27	11.96	11.91
U.S. addressees	18.10	17.71	17.78	17.59	18.18	17.64	15.36	12.94	11.66	11.65
Foreign addressees	1.16	1.24	1.22	1.33	1.22	.55	.48	.33	.30	.26
Consumer	14.23	15.67	15.62	14.52	13.57	13.79	13.20	12.79	12.57	12.73
Credit card	7.34	8.26	8.50	7.67	6.78	6.97	6.97	6.56	6.35	6.90
Installment and other	6.89	7.40	7.12	6.86	6.79	6.82	6.23	6.22	6.21	5.83
Real estate	23.25	23.26	22.99	24.59	24.80	26.21	27.29	28.94	30.67	32.16
In domestic offices	23.10	23.10	22.85	24.42	24.62	26.12	27.21	28.88	30.54	31.96
Construction and land development	1.50	1.55	1.69	2.03	2.43	3.00	3.31	3.36	3.22	3.51
Farmland	.13	.13	.14	.17	.19	.22	.23	.22	.20	.19
One- to four-family residential	14.16	14.15	13.88	14.86	14.15	14.51	15.51	17.05	18.79	19.52
Home equity	2.19	2.08	2.22	2.17	2.08	2.49	2.90	3.92	4.74	5.90
Other	11.97	12.07	11.65	12.69	12.07	12.02	12.60	13.13	14.05	13.62
Multifamily residential	.77	.89	.93	1.00	1.02	1.11	1.16	1.20	1.32	1.34
Nonfarm nonresidential	6.54	6.37	6.21	6.36	6.82	7.28	6.99	7.05	7.00	7.41
In foreign offices	.15	.16	.15	.18	.19	.09	.09	.06	.13	.20
To depository institutions and acceptances of other banks	1.61	1.53	1.30	1.09	.93	1.05	1.40	1.44	1.21	.54
Foreign governments	.20	.20	.09	.06	.06	.03	.03	.02	.02	.01
Agricultural production	.26	.28	.29	.33	.33	.37	.32	.27	.23	.19
Other loans	3.29	3.27	3.18	3.35	2.99	2.57	2.03	1.80	1.59	1.88
Lease-financing receivables	1.96	2.41	2.70	2.72	3.29	3.82	3.18	2.65	2.35	2.28
Less: Unearned income on loans	–.07	–.06	–.05	–.04	–.04	–.03	–.02	–.02	–.02	–.02
Less: Loss reserves[1]	–1.32	–1.27	–1.24	–1.16	–1.11	–1.12	–1.13	–1.17	–1.10	–1.06
Securities	18.64	16.87	15.80	16.66	17.79	17.32	19.00	20.30	21.16	21.28
Investment account	17.88	16.06	15.07	16.13	17.28	16.10	17.71	19.17	20.09	20.12
Debt	17.51	15.62	14.58	15.58	16.64	15.50	17.32	18.82	19.88	19.96
U.S. Treasury	4.82	3.34	2.81	2.25	1.70	1.12	.67	.74	.95	.89
U.S. government agency and corporation obligations	9.40	9.12	8.98	9.93	10.57	9.70	10.09	11.45	12.99	12.80
Government-backed mortgage pools	5.06	5.42	5.17	4.98	5.12	4.31	5.19	6.00	6.08	5.74
Collateralized mortgage obligations	2.82	2.16	2.13	2.83	2.89	2.55	2.42	2.79	3.72	3.42
Other	1.51	1.54	1.68	2.12	2.56	2.84	2.48	2.65	3.19	3.64
State and local government	1.11	.99	.88	.92	.99	.96	.99	.97	.95	.96
Private mortgage-backed securities	1.02	.96	.73	.96	1.35	1.66	2.01	2.13	2.14	2.65
Other	1.16	1.21	1.18	1.53	2.02	2.06	3.56	3.53	2.85	2.66
Equity	.37	.44	.49	.55	.65	.60	.39	.34	.21	.16
Trading account	.76	.80	.73	.54	.51	1.22	1.29	1.13	1.07	1.16
Gross federal funds sold and reverse RPs	4.52	4.26	4.38	3.57	3.34	3.76	4.06	4.71	4.20	2.98
Interest-bearing balances at depositories	2.87	2.89	3.43	3.24	3.06	2.71	2.88	3.33	3.26	3.29
Non-interest-earning assets	11.29	11.74	12.50	12.13	11.59	11.33	11.92	11.66	11.90	11.81
Revaluation gains held in trading accounts	.50	.51	.69	.75	.56	.40	.55	.47	.60	.42
Other	10.78	11.23	11.81	11.38	11.03	10.92	11.37	11.19	11.30	11.39
Liabilities	92.23	92.02	91.85	91.63	91.66	91.57	91.15	90.79	90.65	89.87
Interest-bearing liabilities	74.05	73.14	72.60	73.40	74.97	76.46	75.98	74.69	73.18	74.10
Deposits	52.32	51.81	51.45	51.50	51.50	51.57	51.94	50.48	49.81	50.78
In foreign offices	8.12	7.52	7.85	8.15	7.96	7.34	6.86	6.09	6.33	6.99
In domestic offices	44.20	44.30	43.60	43.35	43.53	44.23	45.08	44.38	43.48	43.79
Other checkable deposits	5.62	3.06	1.95	1.75	1.60	1.32	1.20	1.17	1.33	1.41
Savings (including MMDAs)	18.78	20.76	21.08	21.40	22.46	22.34	24.36	26.45	27.52	27.63
Small-denomination time deposits	14.24	14.09	13.43	12.84	11.85	11.80	10.66	8.78	7.47	6.94
Large-denomination time deposits	5.55	6.39	7.15	7.36	7.62	8.77	8.86	7.98	7.16	7.81
Gross federal funds purchased and RPs	11.37	10.00	9.36	9.48	9.77	9.28	9.71	9.66	9.69	8.96
Other	10.36	11.32	11.79	12.43	13.70	15.61	14.32	14.55	13.68	14.36
Non-interest-bearing liabilities	18.18	18.89	19.24	18.23	16.70	15.12	15.17	16.10	17.47	15.77
Demand deposits in domestic offices	14.26	14.47	14.17	12.39	10.52	8.61	7.17	6.32	5.97	5.63
Revaluation losses held in trading accounts	.49	.49	.68	.76	.58	.41	.52	.44	.56	.40
Other	3.43	3.93	4.39	5.07	5.59	6.09	7.49	9.34	10.95	9.74
Capital account	7.77	7.98	8.15	8.37	8.34	8.43	8.85	9.21	9.35	10.13
Memo										
Commercial real estate loans	9.42	9.38	9.44	10.11	11.00	12.06	12.06	12.24	12.10	12.85
Other real estate owned	.13	.08	.06	.04	.03	.03	.04	.05	.06	.05
Managed liabilities	35.68	35.60	36.60	38.11	39.83	41.98	40.81	39.48	38.12	39.29
Federal Home Loan Bank advances	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4.07	4.85	4.75	4.65
Average net consolidated assets (billions of dollars)	1,338	1,450	1,604	1,745	1,881	2,031	2,130	2,124	2,287	2,376

A.1.—Continued

C. Banks ranked 11 through 100 by assets

Item	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	Effective interest rate (percent)[2]									
Rates earned										
Interest-earning assets	8.31	8.18	8.33	8.13	7.84	8.44	7.54	6.04	5.30	5.26
Taxable equivalent	8.37	8.23	8.36	8.17	7.88	8.48	7.58	6.07	5.33	5.29
Loans and leases, gross	9.10	8.88	9.03	8.82	8.50	9.14	8.26	6.80	6.11	5.98
Net of loss provisions	8.67	8.21	8.27	8.15	7.80	8.25	6.96	5.59	5.11	5.19
Securities	6.38	6.49	6.55	6.31	6.32	6.64	5.96	4.79	3.80	3.63
Taxable equivalent	6.56	6.66	6.70	6.46	6.46	6.77	6.08	4.91	3.91	3.73
Investment account	6.35	6.49	6.57	6.33	6.34	6.66	6.04	4.86	3.87	3.64
U.S. Treasury securities and U.S. government agency obligations (excluding MBS)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.83	4.28	3.17	2.94
Mortgage-backed securities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.60	5.34	4.20	4.02
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.13	4.22	3.61	3.29
Trading account	7.27	6.53	6.05	5.86	5.58	6.25	4.83	3.59	2.62	3.43
Gross federal funds sold and reverse RPs	5.91	5.31	5.45	5.46	5.12	6.06	3.86	1.68	1.14	1.25
Interest-bearing balances at depositories	6.78	5.82	5.76	5.67	4.81	5.49	4.38	2.46	1.93	2.27
Rates paid										
Interest-bearing liabilities	4.94	4.70	4.79	4.77	4.38	5.22	4.16	2.41	1.79	1.71
Interest-bearing deposits	4.35	4.15	4.22	4.15	3.76	4.42	3.60	1.96	1.35	1.29
In foreign offices	6.30	5.29	5.23	5.22	4.70	5.38	3.67	1.70	1.23	1.42
In domestic offices	4.01	3.96	4.04	3.96	3.60	4.26	3.60	1.99	1.36	1.27
Other checkable deposits	1.89	1.78	2.01	2.41	2.03	2.57	2.32	.94	.64	.72
Savings (including MMDAs)	3.10	2.91	2.84	2.76	2.49	2.94	2.30	1.08	.66	.65
Large time deposits[3]	5.70	5.50	5.47	5.32	4.96	5.88	5.11	3.36	2.70	2.48
Other time deposits[3]	5.35	5.26	5.43	5.35	5.03	5.73	5.42	3.68	2.95	2.58
Gross federal funds purchased and RPs	5.86	5.19	5.29	5.22	4.87	6.02	3.86	1.73	1.20	1.37
Other interest-bearing liabilities	6.43	5.95	5.85	5.81	5.41	6.36	5.30	3.54	3.02	2.76
	Income and expense as a percentage of average net consolidated assets									
Gross interest income	7.40	7.24	7.26	7.16	6.98	7.54	6.70	5.31	4.67	4.67
Taxable equivalent	7.45	7.28	7.30	7.19	7.02	7.57	6.73	5.34	4.70	4.70
Loans	5.79	5.80	5.87	5.79	5.56	6.05	5.28	4.15	3.72	3.72
Securities	1.13	1.03	.98	1.00	1.10	1.09	1.06	.90	.75	.73
Gross federal funds sold and reverse RPs	.27	.23	.22	.19	.18	.22	.15	.08	.04	.03
Other	.21	.18	.19	.18	.14	.18	.21	.18	.15	.19
Gross interest expense	3.62	3.39	3.41	3.45	3.26	3.96	3.14	1.77	1.30	1.26
Deposits	2.29	2.18	2.23	2.23	2.02	2.41	2.01	1.09	.77	.74
Gross federal funds purchased and RPs	.67	.55	.51	.51	.51	.56	.38	.17	.12	.13
Other	.66	.66	.68	.71	.74	.99	.75	.51	.41	.40
Net interest income	3.78	3.84	3.85	3.71	3.72	3.58	3.56	3.54	3.37	3.41
Taxable equivalent	3.84	3.89	3.89	3.74	3.75	3.61	3.59	3.57	3.40	3.44
Loss provisioning[4]	.39	.54	.60	.54	.55	.68	.91	.80	.67	.55
Non-interest income	2.38	2.61	2.76	3.07	3.36	3.18	3.36	3.30	3.29	3.05
Service charges on deposits	.44	.44	.44	.42	.41	.42	.42	.42	.42	.40
Fiduciary activities	.40	.43	.44	.49	.48	.52	.42	.42	.37	.42
Trading revenue	.09	.08	.08	.09	.08	.07	.08	.08	.09	.07
Interest rate exposures	n.a.	.03	.02	.03	.02	.02	.04	.04	.04	–.01
Foreign exchange rate exposures	n.a.	.04	.05	.06	.05	.04	.03	.04	.04	.05
Other commodity and equity exposures	n.a.	.01	*	*	*	*	*	*	.01	.03
Other	1.45	1.67	1.79	2.07	2.39	2.18	2.44	2.37	2.41	2.16
Non-interest expense	3.79	3.85	3.85	4.03	4.12	4.00	3.95	3.73	3.64	3.55
Salaries, wages, and employee benefits	1.47	1.51	1.51	1.53	1.53	1.44	1.47	1.49	1.47	1.45
Occupancy	.47	.48	.46	.46	.45	.43	.42	.40	.41	.39
Other	1.85	1.86	1.88	2.04	2.14	2.14	2.07	1.84	1.76	1.70
Net non-interest expense	1.41	1.24	1.10	.96	.76	.82	.59	.43	.35	.50
Gains on investment account securities	.02	.02	.02	.03	–.01	–.05	.09	.10	.06	.03
Income before taxes and extraordinary items	2.01	2.09	2.18	2.24	2.40	2.02	2.15	2.41	2.41	2.39
Taxes	.70	.75	.77	.78	.86	.70	.74	.82	.82	.82
Extraordinary items, net of income taxes	*	*	*	*	*	*	*	*	*	*
Net income	1.31	1.34	1.42	1.45	1.54	1.32	1.40	1.59	1.59	1.58
Cash dividends declared	.85	1.07	.93	.96	1.16	.94	.96	.99	1.05	.95
Retained income	.46	.26	.48	.50	.38	.38	.44	.60	.54	.63
MEMO: Return on equity	16.84	16.78	17.36	17.38	18.46	15.72	15.79	17.26	17.01	15.56

* 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. When possible, based on the average of quarterly balance sheet data reported on schedule RC-K of the quarterly Call Report.
3. Before 1997, large time open accounts included in other time deposits.
4. Includes provisions for allocated transfer risk.

A.1. Portfolio composition, interest rates, and income and expense, all U.S. banks, 1995–2004

D. Banks ranked 101 through 1,000 by assets

Item	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	Balance sheet items as a percentage of average net consolidated assets									
Interest-earning assets	90.98	91.11	91.34	91.38	91.68	91.50	91.16	91.36	91.34	91.58
Loans and leases, net	62.24	62.72	62.34	61.23	61.48	62.15	62.46	61.46	61.32	63.34
Commercial and industrial	12.68	12.76	12.38	12.45	12.64	12.95	13.03	12.38	11.51	11.52
U.S. addressees	12.52	12.58	12.14	12.12	12.32	12.60	12.65	12.06	11.20	11.21
Foreign addressees	.16	.18	.23	.32	.32	.36	.38	.31	.31	.31
Consumer	16.39	16.11	14.36	12.56	10.79	10.19	9.76	8.13	6.80	6.34
Credit card	6.45	6.92	5.87	4.78	3.37	3.27	3.61	2.64	1.82	1.92
Installment and other	9.94	9.19	8.49	7.78	7.41	6.92	6.15	5.50	4.97	4.42
Real estate	30.77	31.28	33.10	33.83	35.90	36.93	37.64	38.92	40.96	43.38
In domestic offices	30.75	31.26	33.08	33.81	35.87	36.91	37.62	38.90	40.91	43.32
Construction and land development	2.21	2.38	2.68	2.87	3.48	4.15	4.90	5.40	5.89	6.98
Farmland	.40	.46	.52	.56	.58	.65	.66	.73	.80	.91
One- to four-family residential	17.47	17.29	18.08	18.14	18.26	17.17	16.18	15.39	15.71	15.37
Home equity	2.36	2.30	2.29	2.14	1.99	2.10	2.21	2.51	2.92	3.46
Other	15.11	14.99	15.78	16.00	16.26	15.06	13.97	12.88	12.79	11.90
Multifamily residential	1.21	1.28	1.28	1.25	1.44	1.58	1.69	1.83	2.00	2.24
Nonfarm nonresidential	9.46	9.85	10.52	10.99	12.12	13.36	14.18	15.55	16.51	17.82
In foreign offices	.02	.02	.02	.02	.02	.02	.02	.03	.05	.06
To depository institutions and acceptances of other banks	.36	.50	.59	.52	.46	.37	.38	.37	.37	.25
Foreign governments	.02	.02	.02	.03	.03	.03	.03	.02	.02	.01
Agricultural production	.69	.70	.73	.80	.78	.82	.85	.86	.83	.82
Other loans	1.78	1.67	1.47	1.30	1.25	1.22	1.22	1.18	1.25	1.32
Lease-financing receivables	.90	1.00	.99	.99	.78	.75	.74	.75	.67	.75
Less: Unearned income on loans	–.12	–.10	–.10	–.09	–.08	–.08	–.07	–.06	–.06	–.06
Less: Loss reserves[1]	–1.23	–1.23	–1.19	–1.15	–1.06	–1.04	–1.12	–1.10	–1.03	–.98
Securities	23.04	22.61	23.37	24.18	25.17	24.34	22.81	23.86	24.36	23.59
Investment account	22.84	22.49	23.26	24.08	25.09	24.25	22.70	23.80	24.23	23.54
Debt	22.38	21.97	22.65	23.39	24.33	23.46	22.28	23.30	23.79	23.18
U.S. Treasury	6.47	5.59	4.94	3.91	2.53	1.81	1.32	1.22	1.00	1.02
U.S. government agency and corporation obligations	12.21	12.62	13.91	15.08	16.29	15.56	14.70	15.85	16.96	16.70
Government-backed mortgage pools	5.42	5.67	6.20	6.45	6.72	6.22	6.27	6.55	7.03	6.80
Collateralized mortgage obligations	3.55	3.11	3.00	3.21	3.52	3.04	3.08	3.69	3.69	3.41
Other	3.25	3.84	4.71	5.42	6.05	6.30	5.35	5.60	6.24	6.49
State and local government	2.13	2.23	2.43	2.69	2.91	2.91	2.90	2.89	2.95	2.92
Private mortgage-backed securities	.68	.76	.59	.65	1.00	.99	.94	.99	.87	1.08
Other	.89	.76	.78	1.06	1.60	2.19	2.42	2.34	2.01	1.46
Equity	.47	.52	.61	.69	.77	.79	.43	.50	.43	.36
Trading account	.20	.12	.10	.11	.08	.09	.11	.06	.14	.05
Gross federal funds sold and reverse RPs	3.91	3.86	3.59	4.16	3.35	3.40	4.20	4.15	3.85	2.95
Interest-bearing balances at depositories	1.78	1.93	2.05	1.80	1.68	1.60	1.68	1.89	1.81	1.69
Non-interest-earning assets	9.02	8.89	8.66	8.62	8.32	8.50	8.84	8.64	8.66	8.42
Revaluation gains held in trading accounts	.05	.02	*	*	.01	.02	.01	.01	*	*
Other	8.98	8.86	8.66	8.62	8.31	8.49	8.84	8.64	8.65	8.42
Liabilities	91.36	91.06	90.78	90.55	90.90	90.95	90.32	89.93	89.69	89.19
Interest-bearing liabilities	75.02	75.09	75.23	75.45	76.76	77.43	77.01	76.35	75.76	75.00
Deposits	59.59	59.82	61.24	62.20	61.93	62.67	63.10	62.83	61.93	60.79
In foreign offices	1.71	1.33	1.22	1.31	1.20	1.28	1.24	.88	.64	.65
In domestic offices	57.88	58.49	60.02	60.89	60.73	61.40	61.86	61.95	61.29	60.14
Other checkable deposits	8.53	6.19	4.94	4.22	3.75	3.32	3.25	3.32	3.55	3.65
Savings (including MMDAs)	20.72	22.43	23.51	25.57	27.35	27.03	27.67	30.17	31.42	31.65
Small-denomination time deposits	21.08	21.55	21.95	21.15	19.60	19.44	18.79	16.83	15.03	13.45
Large-denomination time deposits	7.55	8.32	9.62	9.96	10.03	11.61	12.14	11.63	11.29	11.39
Gross federal funds purchased and RPs	8.29	8.17	7.06	6.15	6.90	6.30	5.77	5.27	5.35	5.53
Other	7.14	7.10	6.92	7.10	7.92	8.45	8.15	8.25	8.48	8.69
Non-interest-bearing liabilities	16.34	15.96	15.55	15.10	14.15	13.52	13.31	13.58	13.93	14.20
Demand deposits in domestic offices	14.05	13.80	13.11	11.87	10.19	8.97	8.23	8.05	7.97	8.13
Revaluation losses held in trading accounts	.05	.02	.01	.01	.01	*	.01	.01	*	*
Other	2.24	2.14	2.44	3.22	3.95	4.55	5.08	5.52	5.95	6.06
Capital account	8.64	8.94	9.22	9.45	9.10	9.05	9.68	10.07	10.31	10.81
Memo										
Commercial real estate loans	13.17	13.80	14.72	15.33	17.28	19.32	21.03	23.05	24.62	27.25
Other real estate owned	.17	.13	.11	.09	.08	.07	.08	.10	.11	.10
Managed liabilities	24.71	24.96	24.89	24.65	26.33	28.01	27.75	26.57	26.40	26.98
Federal Home Loan Bank advances	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.27	5.71	6.29	6.46
Average net consolidated assets (billions of dollars)	1,094	1,078	971	938	972	986	1,002	1,022	1,072	1,080

A.1.—Continued

D. Banks ranked 101 through 1,000 by assets

Item	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	Effective interest rate (percent)[2]									
Rates earned										
Interest-earning assets	8.44	8.44	8.54	8.38	7.83	8.48	7.86	6.43	5.60	5.46
Taxable equivalent	8.53	8.52	8.63	8.47	7.92	8.56	7.94	6.51	5.68	5.53
Loans and leases, gross	9.45	9.41	9.53	9.42	8.74	9.42	8.76	7.33	6.58	6.26
Net of loss provisions	8.94	8.77	8.79	8.79	8.26	8.75	7.88	6.57	6.02	5.86
Securities	6.24	6.34	6.43	6.31	6.03	6.45	5.97	4.93	3.80	3.77
Taxable equivalent	6.50	6.60	6.69	6.57	6.29	6.71	6.25	5.19	4.05	4.02
Investment account	6.24	6.34	6.43	6.30	6.03	6.45	5.96	4.93	3.82	3.77
U.S. Treasury securities and U.S. government agency obligations (excluding MBS)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.85	4.54	3.42	3.15
Mortgage-backed securities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.33	5.38	3.95	4.01
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.40	4.51	4.07	4.21
Trading account	5.50	5.94	6.37	6.84	7.33	9.30	6.60	3.82	1.67	3.63
Gross federal funds sold and reverse RPs	5.45	5.29	5.42	5.31	4.98	6.15	3.91	1.73	1.27	1.57
Interest-bearing balances at depositories	6.07	5.69	5.44	5.77	5.07	5.76	3.94	1.79	1.26	1.47
Rates paid										
Interest-bearing liabilities	4.64	4.58	4.67	4.60	4.19	4.93	4.11	2.54	1.88	1.73
Interest-bearing deposits	4.26	4.27	4.34	4.28	3.84	4.46	3.82	2.28	1.61	1.44
In foreign offices	5.94	5.72	5.42	5.55	5.07	6.13	4.45	2.14	1.43	1.43
In domestic offices	4.21	4.23	4.32	4.25	3.82	4.43	3.81	2.28	1.61	1.44
Other checkable deposits	2.02	1.96	2.17	2.15	1.99	2.27	1.81	1.06	.74	.72
Savings (including MMDAs)	3.24	3.11	3.08	2.96	2.65	3.07	2.22	1.17	.76	.74
Large time deposits[3]	5.62	5.48	5.56	5.51	5.17	6.00	5.27	3.34	2.58	2.33
Other time deposits[3]	5.53	5.57	5.57	5.64	5.11	5.74	5.51	3.77	2.86	2.51
Gross federal funds purchased and RPs	5.61	5.16	5.20	5.14	4.82	5.95	3.83	1.83	1.29	1.45
Other interest-bearing liabilities	6.28	5.90	6.08	5.99	5.36	6.45	5.41	4.17	3.60	3.37
	Income and expense as a percentage of average net consolidated assets									
Gross interest income	7.70	7.70	7.79	7.66	7.19	7.79	7.16	5.85	5.08	4.99
Taxable equivalent	7.78	7.78	7.87	7.74	7.27	7.86	7.24	5.93	5.16	5.06
Loans	6.00	6.01	6.05	5.89	5.47	5.96	5.59	4.58	4.08	4.02
Securities	1.42	1.42	1.49	1.50	1.51	1.58	1.33	1.15	.91	.88
Gross federal funds sold and reverse RPs	.21	.20	.19	.22	.17	.21	.16	.07	.05	.05
Other	.07	.06	.06	.06	.04	.04	.08	.05	.05	.04
Gross interest expense	3.46	3.41	3.47	3.45	3.20	3.79	3.14	1.92	1.41	1.29
Deposits	2.55	2.57	2.69	2.70	2.44	2.87	2.48	1.49	1.04	.92
Gross federal funds purchased and RPs	.46	.43	.37	.32	.34	.38	.22	.09	.07	.08
Other	.45	.42	.42	.42	.42	.54	.44	.34	.30	.29
Net interest income	4.24	4.29	4.32	4.22	3.99	4.00	4.02	3.93	3.68	3.70
Taxable equivalent	4.32	4.37	4.39	4.29	4.07	4.07	4.10	4.00	3.75	3.77
Loss provisioning[4]	.43	.52	.58	.49	.39	.52	.65	.55	.41	.31
Non-interest income	1.84	1.88	2.07	2.26	2.31	2.35	2.37	2.37	2.31	2.27
Service charges on deposits	.42	.41	.40	.39	.38	.36	.39	.41	.41	.39
Fiduciary activities	.27	.29	.32	.37	.38	.44	.40	.35	.34	.37
Trading revenue	.03	.02	.01	.02	.02	.01	*	*	.01	.01
Interest rate exposures	n.a.	.01	.01	.01	.01	.01	–.01	*	.01	.01
Foreign exchange rate exposures	n.a.	.01	*	*	*	*	*	*	*	*
Other commodity and equity exposures	n.a.	*	*	*	*	*	*	*	*	*
Other	1.12	1.16	1.34	1.49	1.53	1.55	1.58	1.61	1.55	1.50
Non-interest expense	3.68	3.69	3.73	3.86	3.70	3.84	3.88	3.73	3.60	3.54
Salaries, wages, and employee benefits	1.44	1.44	1.50	1.56	1.56	1.59	1.61	1.64	1.64	1.64
Occupancy	.45	.45	.46	.47	.47	.47	.46	.45	.43	.43
Other	1.79	1.80	1.77	1.83	1.68	1.78	1.81	1.64	1.53	1.48
Net non-interest expense	1.84	1.81	1.66	1.60	1.39	1.48	1.52	1.36	1.29	1.28
Gains on investment account securities	–.01	.02	.02	.04	–.01	–.04	.05	.04	.05	.02
Income before taxes and extraordinary items	1.96	1.98	2.10	2.16	2.20	1.96	1.90	2.06	2.03	2.13
Taxes	.68	.69	.73	.74	.74	.67	.66	.67	.66	.69
Extraordinary items, net of income taxes	*	*	*	.06	.01	*	.01	*	.03	*
Net income	1.28	1.29	1.37	1.47	1.47	1.29	1.25	1.39	1.40	1.45
Cash dividends declared	.87	1.04	1.10	1.01	1.06	.92	1.33	1.19	1.64	.78
Retained income	.41	.25	.28	.46	.40	.37	–.08	.19	–.25	.67
MEMO: Return on equity	14.82	14.42	14.89	15.60	16.11	14.21	12.93	13.75	13.54	13.39

* 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. When possible, based on the average of quarterly balance sheet data reported on schedule RC-K of the quarterly Call Report.
3. Before 1997, large time open accounts included in other time deposits.
4. Includes provisions for allocated transfer risk.

A.1. Portfolio composition, interest rates, and income and expense, all U.S. banks, 1995–2004

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

Item	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	Balance sheet items as a percentage of average net consolidated assets									
Interest-earning assets	92.48	92.45	92.45	92.64	92.55	92.52	92.26	92.22	92.13	92.34
Loans and leases, net	56.60	57.38	58.76	59.11	59.76	62.31	62.67	62.72	62.33	63.81
Commercial and industrial	9.65	9.98	10.16	10.33	10.64	11.09	11.10	10.71	10.42	10.29
U.S. addressees	9.59	9.91	10.08	10.25	10.55	11.02	11.02	10.64	10.37	10.25
Foreign addressees	.06	.07	.08	.08	.08	.07	.08	.06	.05	.04
Consumer	9.54	9.42	8.98	8.46	8.16	7.98	7.42	6.76	6.16	5.45
Credit card	1.01	1.04	.85	.70	.69	.59	.57	.49	.51	.40
Installment and other	8.53	8.39	8.14	7.76	7.47	7.39	6.85	6.28	5.64	5.05
Real estate	33.54	34.10	35.55	36.04	36.84	39.29	40.30	41.52	42.32	44.76
In domestic offices	33.54	34.10	35.55	36.04	36.83	39.29	40.30	41.52	42.31	44.76
Construction and land development	2.38	2.61	2.82	3.02	3.28	3.70	4.23	4.51	4.99	6.00
Farmland	2.48	2.55	2.69	2.83	2.95	3.06	3.04	3.08	3.12	3.22
One- to four-family residential	17.45	17.47	18.16	18.04	17.66	18.43	18.25	17.91	17.10	17.20
Home equity	1.20	1.20	1.24	1.21	1.17	1.28	1.37	1.62	1.80	2.12
Other	16.25	16.28	16.92	16.83	16.49	17.15	16.87	16.29	15.30	15.08
Multifamily residential	.95	.92	.95	.93	.98	1.04	1.06	1.16	1.28	1.41
Nonfarm nonresidential	10.28	10.54	10.93	11.22	11.96	13.06	13.71	14.86	15.82	16.93
In foreign offices	*	*	*	*	*	*	*	*	*	*
To depository institutions and acceptances of other banks	.19	.21	.20	.14	.14	.12	.12	.10	.09	.07
Foreign governments	*	*	*	*	.01	.01	*	*	*	*
Agricultural production	3.95	3.92	4.05	4.27	4.06	3.85	3.76	3.64	3.39	3.26
Other loans	.72	.69	.67	.67	.67	.69	.67	.65	.66	.68
Lease-financing receivables	.22	.23	.25	.24	.26	.27	.27	.31	.26	.25
LESS: Unearned income on loans	–.30	–.27	–.24	–.20	–.15	–.11	–.09	–.07	–.06	–.06
LESS: Loss reserves[1]	–.93	–.90	–.87	–.86	–.87	–.88	–.88	–.90	–.92	–.89
Securities	30.52	29.53	28.24	26.70	26.91	25.40	22.80	23.34	23.46	23.33
Investment account	30.48	29.50	28.21	26.66	26.88	25.38	22.79	23.33	23.43	23.32
Debt	30.03	29.01	27.69	26.12	26.34	24.82	22.49	23.05	23.11	23.06
U.S. Treasury	9.19	7.85	6.70	5.05	3.34	2.12	1.33	1.04	.90	.81
U.S. government agency and corporation obligations	15.13	15.67	15.58	15.43	16.89	16.95	15.27	16.07	16.22	16.56
Government-backed mortgage pools	4.19	4.21	4.01	3.90	3.95	3.47	3.78	4.54	4.84	4.75
Collateralized mortgage obligations	2.76	2.46	2.19	2.02	2.00	1.70	1.94	2.30	2.20	1.96
Other	8.18	9.00	9.38	9.51	10.93	11.78	9.56	9.23	9.18	9.85
State and local government	4.69	4.62	4.60	4.80	4.96	4.64	4.51	4.56	4.73	4.67
Private mortgage-backed securities	.20	.18	.20	.16	.26	.23	.27	.26	.21	.19
Other	.81	.68	.61	.68	.89	.88	1.11	1.12	1.05	.83
Equity	.45	.49	.52	.54	.53	.56	.30	.27	.31	.26
Trading account	.03	.03	.03	.04	.03	.02	.01	.01	.03	.01
Gross federal funds sold and reverse RPs	3.91	4.04	3.95	5.12	4.17	3.22	5.01	4.26	4.26	3.33
Interest-bearing balances at depositories	1.45	1.51	1.49	1.72	1.71	1.59	1.77	1.89	2.08	1.86
Non-interest-earning assets	7.52	7.55	7.55	7.36	7.45	7.48	7.74	7.78	7.87	7.66
Revaluation gains held in trading accounts	*	*	*	*	*	*	*	*	*	*
Other	7.52	7.55	7.55	7.36	7.45	7.48	7.74	7.78	7.87	7.66
Liabilities	90.04	89.82	89.63	89.54	89.75	89.88	89.59	89.72	89.58	89.55
Interest-bearing liabilities	75.74	75.58	75.47	75.35	75.89	76.04	76.00	76.01	75.47	75.22
Deposits	72.69	72.47	72.06	71.77	71.40	70.53	70.93	70.50	69.82	68.87
In foreign offices	.11	.10	.09	.07	.07	.05	.06	.06	.05	.07
In domestic offices	72.58	72.37	71.97	71.70	71.33	70.48	70.88	70.44	69.77	68.80
Other checkable deposits	12.37	11.75	11.39	11.18	11.07	10.57	10.19	10.42	10.60	10.59
Savings (including MMDAs)	20.41	19.58	18.98	19.01	19.69	19.03	19.13	20.99	22.00	22.71
Small-denomination time deposits	30.91	31.28	31.09	30.42	29.07	28.41	28.07	25.90	24.20	22.46
Large-denomination time deposits	8.89	9.76	10.50	11.10	11.50	12.47	13.48	13.13	12.97	13.04
Gross federal funds purchased and RPs	1.79	1.71	1.67	1.49	1.79	2.06	1.55	1.51	1.52	1.76
Other	1.26	1.41	1.75	2.09	2.71	3.45	3.51	4.00	4.13	4.59
Non-interest-bearing liabilities	14.30	14.23	14.16	14.19	13.86	13.84	13.59	13.71	14.11	14.33
Demand deposits in domestic offices	13.23	13.13	13.09	13.08	12.80	12.64	12.16	12.24	12.58	12.77
Revaluation losses held in trading accounts	*	*	*	*	*	*	*	*	*	*
Other	1.07	1.10	1.06	1.10	1.06	1.20	1.44	1.47	1.53	1.55
Capital account	9.96	10.18	10.37	10.46	10.25	10.12	10.41	10.27	10.42	10.45
MEMO										
Commercial real estate loans	13.72	14.18	14.80	15.27	16.33	17.91	19.15	20.67	22.23	24.50
Other real estate owned	.25	.20	.16	.13	.11	.11	.12	.14	.15	.14
Managed liabilities	12.06	12.99	14.02	14.76	16.09	18.08	18.67	18.79	18.78	19.57
Federal Home Loan Bank advances	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.34	3.71	3.87	4.33
Average net consolidated assets (billions of dollars)	666	661	647	644	651	655	675	704	742	769

A.1.—Continued

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

Item	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	Effective interest rate (percent)[2]									
Rates earned										
Interest-earning assets	8.39	8.37	8.50	8.35	8.05	8.44	7.94	6.79	5.94	5.73
Taxable equivalent	8.53	8.50	8.63	8.48	8.18	8.56	8.05	6.91	6.05	5.84
Loans and leases, gross	9.80	9.75	9.80	9.69	9.28	9.51	9.03	7.84	7.08	6.72
Net of loss provisions	9.54	9.47	9.49	9.34	8.89	9.14	8.59	7.39	6.72	6.45
Securities	6.10	6.14	6.26	6.04	5.88	6.15	5.86	5.02	3.86	3.73
Taxable equivalent	6.49	6.52	6.65	6.46	6.29	6.54	6.28	5.43	4.26	4.11
Investment account	6.10	6.14	6.26	6.04	5.89	6.15	5.86	5.02	3.87	3.73
U.S. Treasury securities and U.S. government agency obligations (excluding MBS)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.97	4.80	3.74	3.39
Mortgage-backed securities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.20	5.47	3.58	3.90
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.29	4.87	4.43	4.18
Trading account	6.07	6.47	6.33	5.26	3.60	4.01	6.43	4.80	.66	7.23
Gross federal funds sold and reverse RPs	5.95	5.34	5.51	5.36	4.96	6.25	3.83	1.63	1.08	1.32
Interest-bearing balances at depositories	5.88	5.63	5.62	5.67	5.69	6.38	4.56	2.68	1.96	2.03
Rates paid										
Interest-bearing liabilities	4.46	4.49	4.61	4.60	4.28	4.80	4.40	2.92	2.13	1.87
Interest-bearing deposits	4.39	4.44	4.54	4.53	4.22	4.67	4.32	2.78	2.02	1.75
In foreign offices	5.73	5.34	4.77	5.08	4.34	5.13	3.97	1.67	.85	1.04
In domestic offices	4.39	4.44	4.53	4.53	4.22	4.67	4.32	2.79	2.02	1.75
Other checkable deposits	2.50	2.41	2.46	2.44	2.28	2.47	1.97	1.16	.78	.70
Savings (including MMDAs)	3.32	3.26	3.36	3.39	3.21	3.56	2.81	1.72	1.13	1.04
Large time deposits[3]	5.55	5.48	5.53	5.53	5.21	5.89	5.53	3.61	2.78	2.47
Other time deposits[3]	5.51	5.61	5.66	5.63	5.25	5.70	5.60	3.88	2.96	2.55
Gross federal funds purchased and RPs	5.61	5.11	5.22	4.99	4.73	5.69	3.92	1.84	1.31	1.44
Other interest-bearing liabilities	6.45	5.77	6.32	6.45	5.64	6.24	5.74	5.32	4.06	3.67
	Income and expense as a percentage of average net consolidated assets									
Gross interest income	7.78	7.77	7.90	7.75	7.48	7.83	7.35	6.31	5.46	5.32
Taxable equivalent	7.91	7.89	8.02	7.87	7.60	7.95	7.45	6.41	5.56	5.42
Loans	5.63	5.68	5.86	5.80	5.62	5.99	5.75	5.02	4.47	4.35
Securities	1.86	1.80	1.76	1.59	1.58	1.57	1.32	1.16	.89	.87
Gross federal funds sold and reverse RPs	.25	.24	.24	.29	.22	.21	.20	.07	.05	.05
Other	.04	.04	.04	.06	.06	.05	.08	.06	.05	.05
Gross interest expense	3.37	3.39	3.48	3.46	3.26	3.64	3.34	2.22	1.60	1.41
Deposits	3.19	3.22	3.28	3.25	3.02	3.30	3.08	1.98	1.42	1.22
Gross federal funds purchased and RPs	.10	.08	.08	.07	.08	.12	.06	.03	.02	.02
Other	.08	.08	.11	.13	.15	.21	.20	.21	.17	.17
Net interest income	4.41	4.38	4.42	4.28	4.22	4.20	4.01	4.08	3.86	3.91
Taxable equivalent	4.54	4.50	4.54	4.41	4.35	4.31	4.12	4.19	3.96	4.01
Loss provisioning[4]	.24	.25	.27	.29	.31	.32	.36	.35	.29	.23
Non-interest income	1.38	1.42	1.41	1.52	1.44	1.32	1.31	1.39	1.47	1.39
Service charges on deposits	.44	.44	.44	.42	.42	.43	.44	.45	.43	.43
Fiduciary activities	.22	.19	.20	.23	.26	.21	.25	.27	.28	.32
Trading revenue	.01	*	*	*	*	.01	*	*	*	*
Interest rate exposures	n.a.	*	*	*	*	*	*	*	*	*
Foreign exchange rate exposures	n.a.	*	*	*	*	*	*	*	*	*
Other commodity and equity exposures	n.a.	*	*	*	*	*	*	*	*	*
Other	.71	.79	.77	.86	.75	.68	.62	.67	.76	.64
Non-interest expense	3.80	3.70	3.69	3.74	3.73	3.58	3.55	3.57	3.56	3.52
Salaries, wages, and employee benefits	1.79	1.77	1.80	1.82	1.82	1.78	1.79	1.82	1.82	1.81
Occupancy	.50	.49	.49	.49	.49	.47	.47	.46	.45	.45
Other	1.51	1.44	1.40	1.43	1.42	1.32	1.29	1.28	1.28	1.27
Net non-interest expense	2.42	2.28	2.28	2.23	2.29	2.26	2.24	2.18	2.09	2.14
Gains on investment account securities	*	.01	.01	.02	*	–.01	.04	.05	.04	.02
Income before taxes and extraordinary items	1.75	1.85	1.89	1.79	1.62	1.61	1.45	1.60	1.53	1.56
Taxes	.55	.59	.59	.53	.47	.45	.39	.41	.38	.38
Extraordinary items, net of income taxes	*	*	*	*	*	*	*	–.01	*	*
Net income	1.20	1.26	1.30	1.26	1.15	1.17	1.06	1.18	1.14	1.18
Cash dividends declared	.62	.64	.74	.82	.70	.79	.64	.68	.67	.64
Retained income	.58	.62	.56	.44	.45	.38	.42	.50	.47	.54
MEMO: Return on equity	12.05	12.37	12.53	12.02	11.26	11.52	10.16	11.47	10.97	11.29

* 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. When possible, based on the average of quarterly balance sheet data reported on schedule RC-K of the quarterly Call Report.
3. Before 1997, large time open accounts included in other time deposits.
4. Includes provisions for allocated transfer risk.

A.2. Report of income, all U.S. banks, 1995–2004

Millions of dollars

Item	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Gross interest income	302,530	313,696	338,865	359,675	366,137	423,839	404,606	350,091	329,770	350,041
Taxable equivalent	305,166	316,156	341,298	362,140	368,764	426,476	407,288	352,838	332,553	353,029
Loans	227,376	239,850	256,141	271,441	278,537	326,800	311,876	269,942	258,158	269,746
Securities	51,029	50,631	52,660	56,598	62,116	67,665	63,086	59,316	53,315	58,583
Gross federal funds sold and reverse repurchase agreements	9,744	9,272	13,658	14,999	12,330	13,546	12,649	6,223	5,122	5,245
Other	14,382	13,944	16,406	16,637	13,155	15,829	16,994	14,610	13,175	16,467
Gross interest expense	148,010	150,249	164,692	178,161	174,946	222,159	188,824	118,915	94,462	99,245
Deposits	105,326	107,512	117,350	125,217	119,665	151,145	132,390	81,894	62,744	63,986
Gross federal funds purchased and repurchase agreements	18,424	16,780	20,439	22,182	21,130	26,860	19,590	9,919	7,590	9,203
Other	24,259	25,956	26,903	30,760	34,149	44,155	36,841	27,101	24,128	26,055
Net interest income	154,520	163,447	174,173	181,514	191,191	201,680	215,782	231,176	235,308	250,796
Taxable equivalent	157,156	165,907	176,606	183,979	193,818	204,317	218,464	233,923	238,091	253,784
Loss provisioning	12,667	16,395	19,402	21,427	21,186	29,386	43,238	45,298	32,790	23,996
Non-interest income	83,850	95,313	105,640	123,668	144,429	153,163	160,298	168,543	183,586	188,391
Service charges on deposits	16,056	17,050	18,558	19,769	21,497	23,719	26,873	29,631	31,693	33,457
Fiduciary activities	12,889	14,296	16,584	19,268	20,502	22,220	21,989	21,637	22,455	25,101
Trading revenue	6,337	7,525	8,018	7,693	10,429	12,235	12,547	10,735	11,446	9,956
Other	48,568	56,444	62,480	76,939	92,001	94,988	98,889	106,541	117,991	119,877
Non-interest expense	151,162	162,581	171,060	193,833	204,632	216,432	226,057	230,315	243,299	263,400
Salaries, wages, and employee benefits	64,017	67,826	72,346	79,538	86,151	89,036	94,239	100,485	108,469	115,305
Occupancy	19,761	20,892	22,080	24,164	25,865	26,765	27,944	29,317	31,319	33,257
Other	67,384	73,865	76,634	90,129	92,616	100,631	103,875	100,514	103,510	114,838
Net non-interest expense	67,312	67,268	65,420	70,165	60,203	63,269	65,759	61,772	59,713	75,009
Gains on investment account securities	481	1,123	1,825	3,090	250	−2,280	4,625	6,415	5,633	3,822
Income before taxes	75,024	80,908	91,177	93,016	110,055	106,744	111,411	130,521	148,438	155,614
Taxes	26,241	28,447	32,001	31,965	39,211	37,250	37,105	42,980	48,450	49,887
Extraordinary items, net of income taxes	28	88	56	506	169	−31	−324	−78	427	63
Net income	48,812	52,550	59,230	61,556	71,012	69,463	73,980	87,464	100,416	105,791
Cash dividends declared	31,106	39,419	42,801	41,205	52,101	52,547	54,844	67,231	77,757	59,585
Retained income	17,706	13,131	16,430	20,351	18,912	16,916	19,137	20,232	22,659	46,206