THE TWENTY FIVE LARGEST BANKING COMPANIES: Taking Stock of 2001

This document is based on publicly available information provided by the companies it covers. It is intended for informational purposes only and does not represent official policy or supervisory guidance from the FDIC.

February 13, 2002

Credit quality concerns at large banks took center stage in a year that saw the onset of recession, the September 11 attacks, the Argentine financial crisis and the bankruptcy of Enron, according to FDIC analyses released today. Equally notable was the stability of bank earnings despite the economic adversity plaguing other parts of the U.S. economy. This 'FYI' and the accompanying links assemble information from public sources only -- company news releases, other public disclosures and private sector analysts' comments. None of the analyses contain or consider any information from the supervisory process. Public sources offer a different perspective than that provided by regulatory monitoring, a perspective that is important for large banks in their role as market participants. The results are summarized below and in the associated, linked table, "Fourth Quarter, 2001 Chargeoffs and Continuing Loss Exposure of the Largest 25 Banking Companies." Additional information is presented in the FDIC report, "The Twenty Five Largest Banking Companies."

According to public reports on the twenty-five largest banking organizations that hold 62 percent of commercial banking industry assets:[1]

- For the 25 companies as a group, net chargeoffs in the fourth quarter were up $3.4 billion or 64 percent from a year earlier.
- Despite the higher chargeoffs, net income for the group increased in the fourth quarter from year-ago levels by a modest $262 million (the group's quarterly return on assets declined 4 basis points to 0.98 percent).
- Nonperforming assets for the group were $35 billion at year-end, up 24.9 percent year-over-year.
- Equity capital and reserves for the group exceeded non-performers by a multiple of more than eleven. (On an individual bank basis that multiple ranged between 6 and 60.)
- Eleven companies identified specific earnings impacts from Enron and/or Argentina; chargeoffs attributed to those events were about 30 percent of the 25's total chargeoffs.
- The group's remaining year-end exposure to Enron and Argentina totaled more than $16 billion.

A 12 to 15 month period often separates the end of a recession and peak loan write off activity at banks. This time lag, coupled with an upward trend in corporate bankruptcies and debt defaults (including the recent bankruptcies of Kmart and Global Crossing), suggests that the banking industry will continue to experience deteriorating credit quality. Again, as noted above, the earnings of the top 25 are backed by equity and loan loss reserve levels that currently exceed the group's existing nonperforming assets by more than a multiple of eleven -- a strong stabilizing influence.

Totals and Averages of Net Chargeoffs, Net Income Increases and Nonperforming Assets of the 25 Largest Banking Companies

	Net Chargeoffs in the Fourth Quarter			**Increase in Net Income, 4Q00 to 4Q01**	**Remaining Exposure to Enron and Argentina**		**Total Nonperforming Assets**	
	4Q01 ($millions)	**Increase from 4Q00 ($millions)**	**% From Enron & Argentina Losses**	**($millions)**	**($millions)**	**(% of Equity)**	**($millions)**	**(% of Equity)**
Totals and Averages for all 25 Banking Companies	8,810	3,444	30.42	262	16,614	4.56	35,302	9.69

Source: company news releases, other public disclosures and private sector analysts' comments.

Insofar as adverse events often highlight areas for reform, unfolding problems are already presenting an array of candidates. Better anticipation and monitoring of overseas exposure, as well as more rapid collection of current and forward-looking domestic banking data, have been called for by a number of analysts. On a wider horizon, issues have been raised that range from revisiting the issues related to appropriate investment concentrations in retirement funds to the need for more accounting transparency. In this regard, the ultimate impact of the events of 2001 may go well beyond the issue of what numbers appear in quarterly earnings reports.

[1.] Includes U.S. based bank or financial holding companies whose banking assets comprise a significant fraction of their activity; companies headquartered outside of the U.S., some diversified financial services companies, thrift holding companies and nonbank financial services companies are excluded.