

Testimony Presented to
The Texas Senate
Business and Commerce Subcommittee

INTERIM CHARGE #4

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TEXAS DEPARTMENT OF BANKING



May 21, 2002



**NONINTEREST INCOME
SELECT FINANCIAL INFORMATION REGARDING BANKS IN TEXAS AND THE U.S.**

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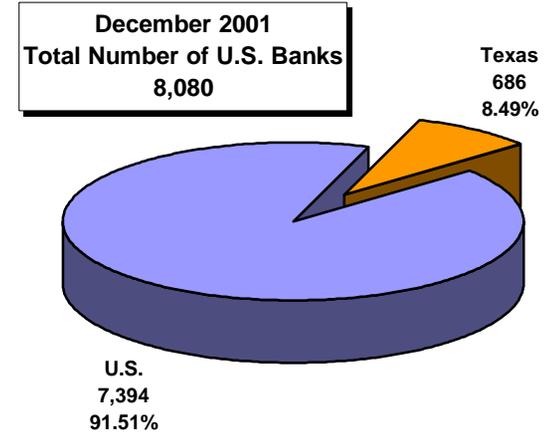
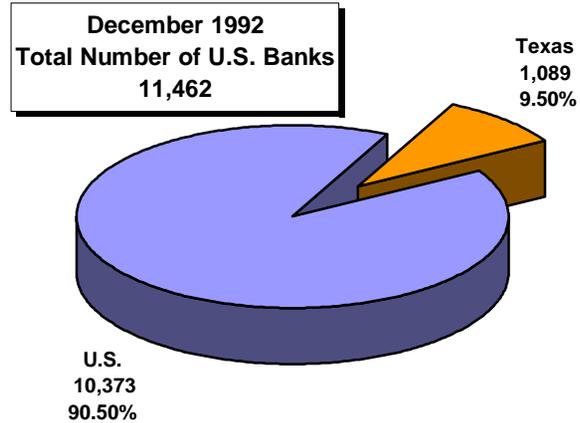
NOTE 1: All financial information reflected within this report was obtained from bank call reports as reported by the FDIC.

NOTE 2: References to “All Commercial Banks in Texas” includes both state and national chartered institutions. This category does not include data for out-of-state institutions operating branches in Texas.

COMPARISON OF NUMBER OF INSTITUTIONS AND ASSET SIZE - 1992 AND 2001
ALL COMMERCIAL BANKS IN TEXAS COMPARED TO ALL COMMERCIAL BANKS IN THE U.S.

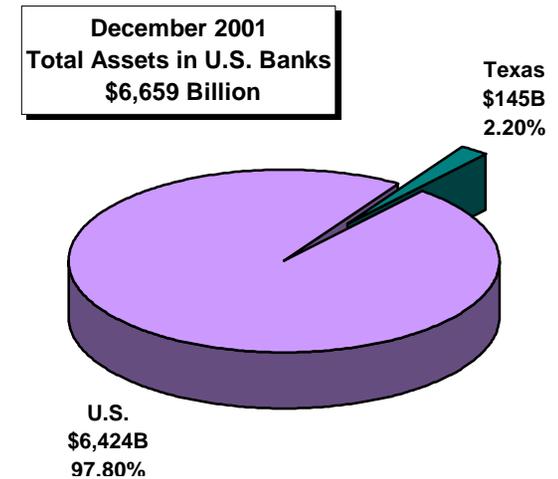
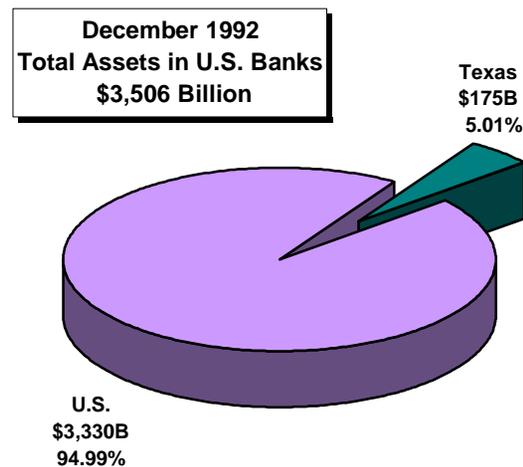
Number of Institutions			
	U.S.	Texas	% Texas
1992	11,462	1,089	9.50%
1993	10,958	1,011	9.23%
1994	10,451	980	9.38%
1995	9,940	935	9.41%
1996	9,527	877	9.21%
1997	9,142	838	9.17%
1998	8,773	798	9.10%
1999	8,579	753	8.78%
2000	8,315	709	8.53%
2001	8,080	686	8.49%

Information obtained from FDIC
end of year Call Reports.



Total Assets			
	U.S.	Texas	% Texas
1992	\$3,505,663,368	\$175,486,441	5.01%
1993	\$3,706,165,083	\$183,952,989	4.96%
1994	\$4,010,517,229	\$188,087,947	4.69%
1995	\$4,312,676,493	\$202,718,074	4.70%
1996	\$4,578,314,217	\$205,183,925	4.48%
1997	\$5,014,942,187	\$235,098,405	4.69%
1998	\$5,442,530,668	\$179,694,197	3.30%
1999	\$5,735,163,312	\$181,144,214	3.16%
2000	\$6,244,621,793	\$166,351,628	2.66%
2001	\$6,569,239,779	\$144,678,638	2.20%

(thousands)



ALL COMMERCIAL BANKS IN TEXAS COMPARED TO ALL COMMERCIAL BANKS IN THE U.S. - 1992 TO 2001

Noninterest Income to Average Assets

Size	Loc.	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
All	Texas	1.58%	1.69%	1.65%	1.78%	1.95%	2.12%	1.51%	1.63%	1.37%	1.51%
<\$100M	Texas	1.11%	1.09%	1.08%	1.11%	1.10%	1.14%	1.10%	1.15%	1.05%	0.98%
\$100m-\$1B	Texas	1.13%	1.19%	1.22%	1.21%	1.18%	1.16%	1.22%	1.31%	1.37%	1.34%
\$1B+	Texas	2.02%	2.09%	2.00%	2.18%	2.42%	2.62%	1.76%	1.89%	1.44%	1.89%
All	U.S.	1.91%	2.09%	1.97%	1.98%	2.13%	2.18%	2.37%	2.64%	2.57%	2.44%
<\$100M	U.S.	0.96%	1.03%	1.09%	1.14%	1.07%	1.29%	1.50%	1.33%	1.11%	1.02%
\$100m-\$1B	U.S.	1.21%	1.32%	1.32%	1.29%	1.44%	1.52%	1.58%	1.68%	1.60%	1.57%
\$1B-\$10B	U.S.	2.19%	2.32%	2.22%	2.03%	2.05%	2.33%	2.82%	2.62%	2.30%	2.35%

Information obtained from FDIC Call Reports.

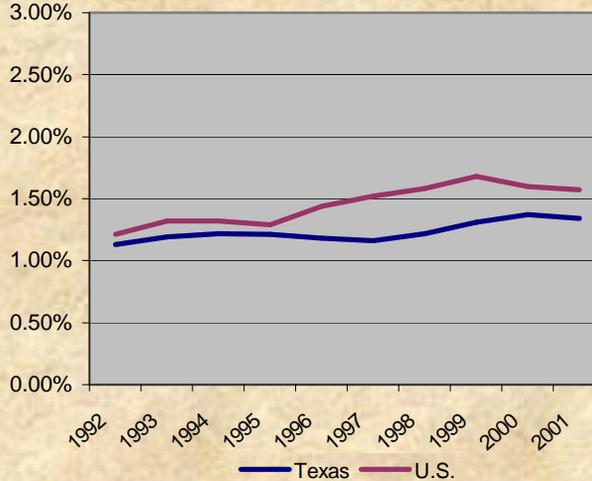
ALL BANKS



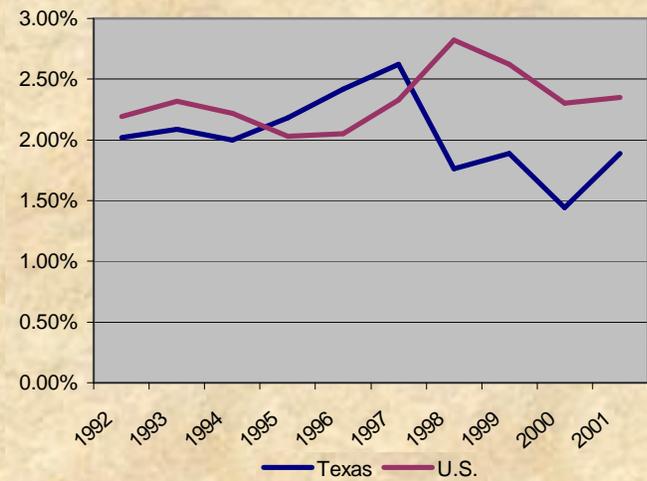
BANKS LESS THAN \$100M IN TOTAL ASSETS



BANKS FROM \$100M TO \$1B IN TOTAL ASSETS



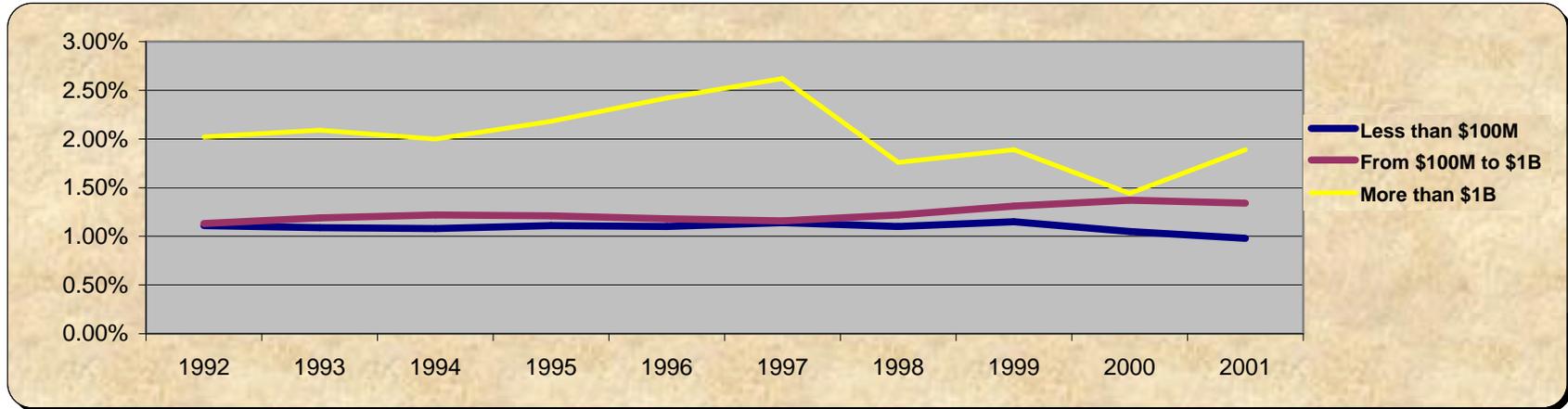
BANKS MORE THAN \$1B IN TOTAL ASSETS



ALL COMMERCIAL BANKS IN TEXAS - 1992 TO 2001

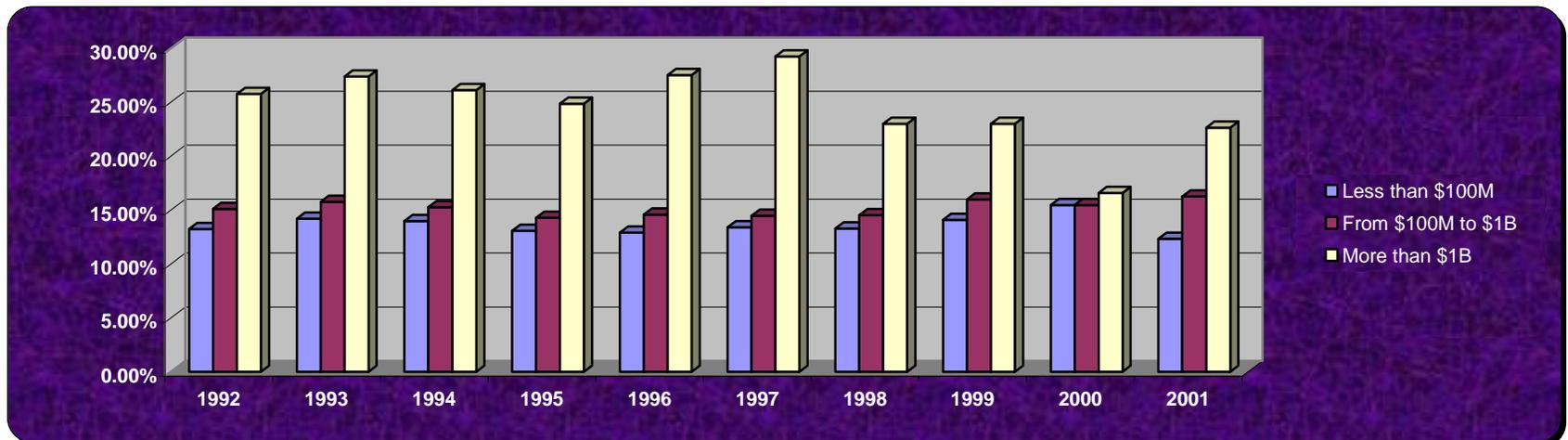
Noninterest Income as Percentage of Average Assets

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Less than \$100M	1.11%	1.09%	1.08%	1.11%	1.10%	1.14%	1.10%	1.15%	1.05%	0.98%
From \$100M to \$1B	1.13%	1.19%	1.22%	1.21%	1.18%	1.16%	1.22%	1.31%	1.37%	1.34%
More than \$1B	2.02%	2.09%	2.00%	2.18%	2.42%	2.62%	1.76%	1.89%	1.44%	1.89%

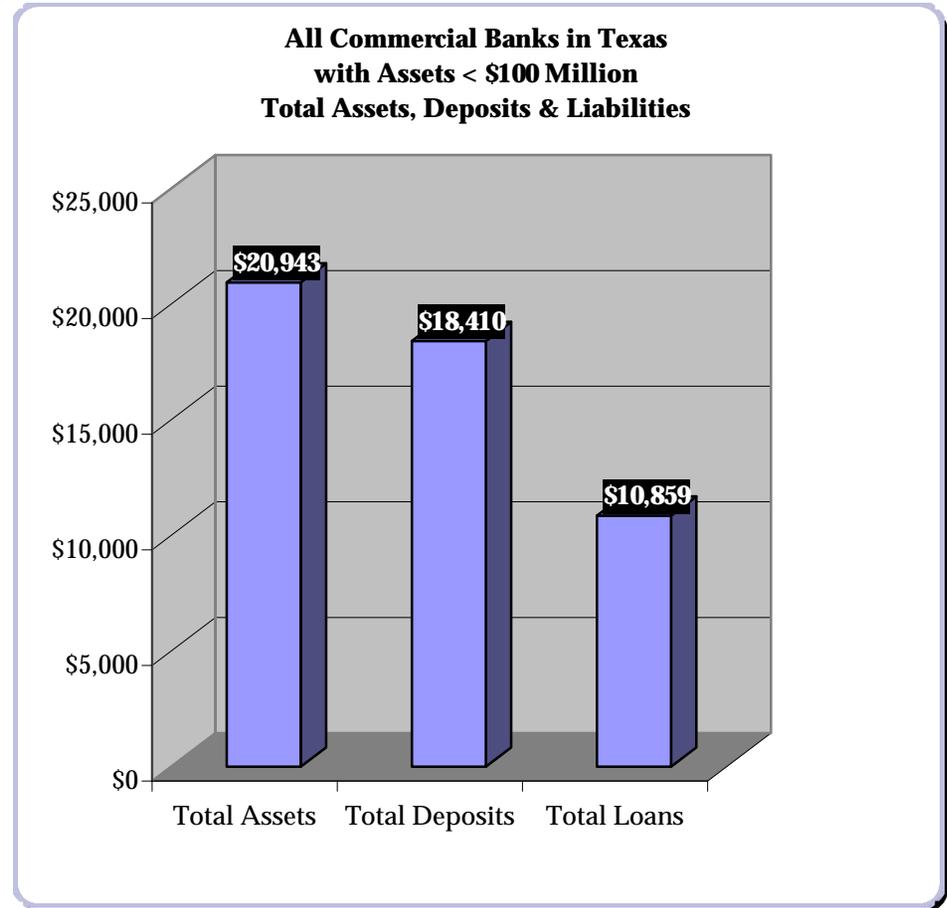
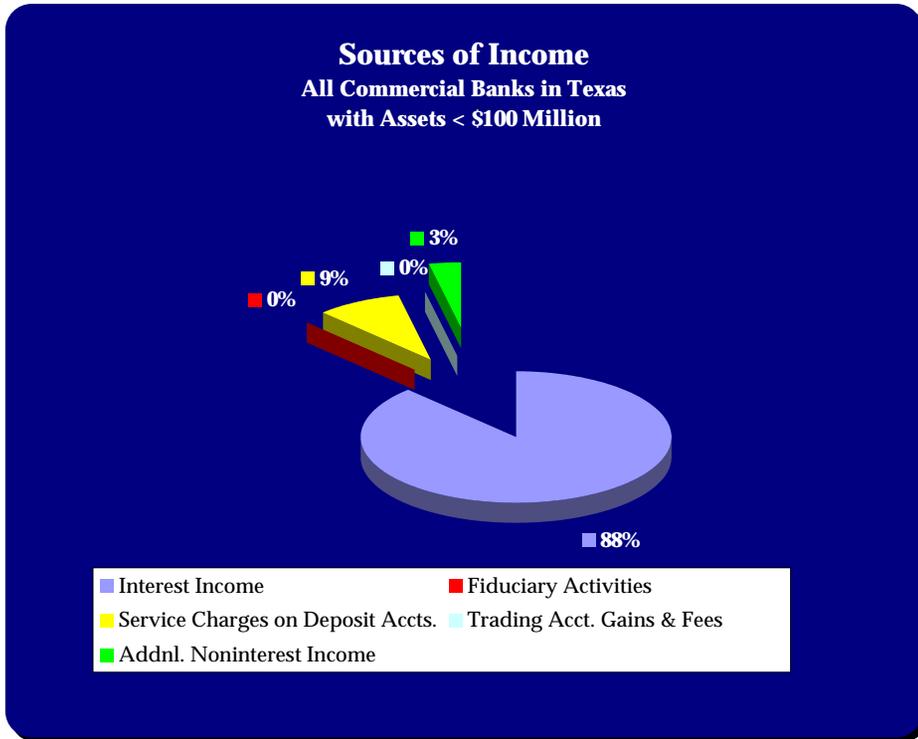


Noninterest Income as Percentage of Total Income

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Less than \$100M	13.24%	14.18%	13.98%	13.07%	12.92%	13.39%	13.28%	14.07%	15.46%	12.33%
From \$100M to \$1B	15.09%	15.75%	15.27%	14.27%	14.57%	14.45%	14.51%	15.98%	15.46%	16.23%
More than \$1B	25.76%	27.38%	26.12%	24.84%	27.50%	29.25%	22.99%	22.99%	16.58%	22.63%



ALL COMMERCIAL BANKS IN TEXAS WITH ASSETS < THAN \$100 MILLION



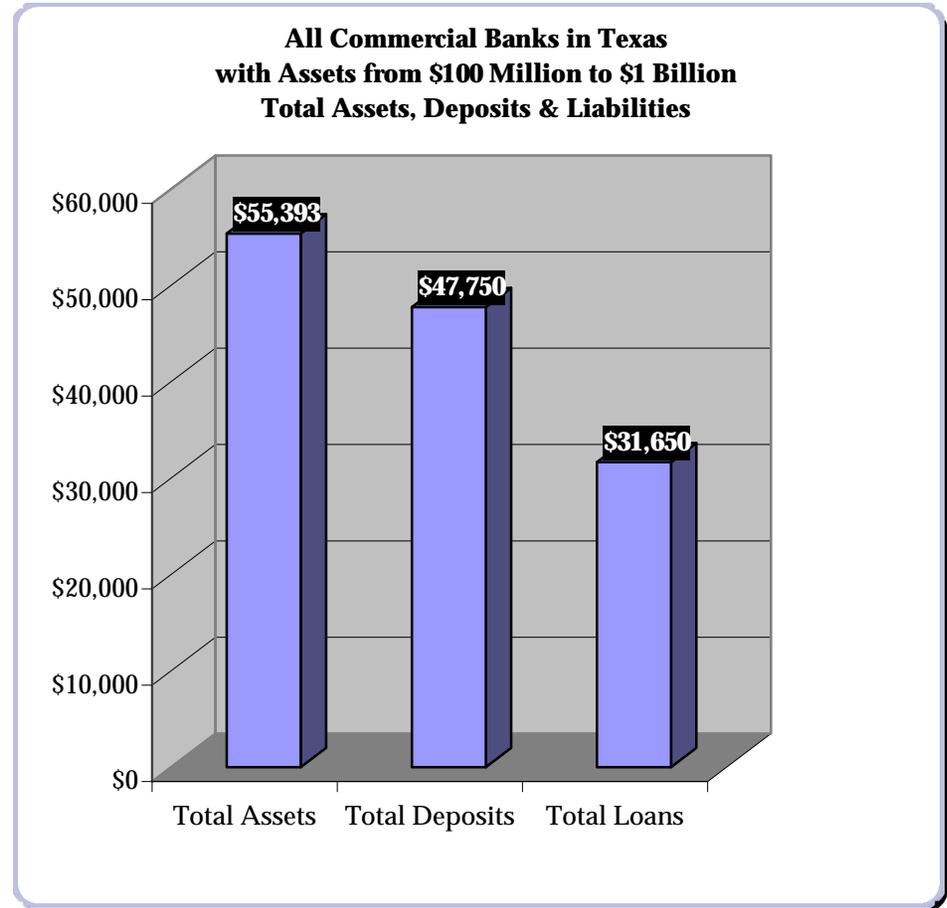
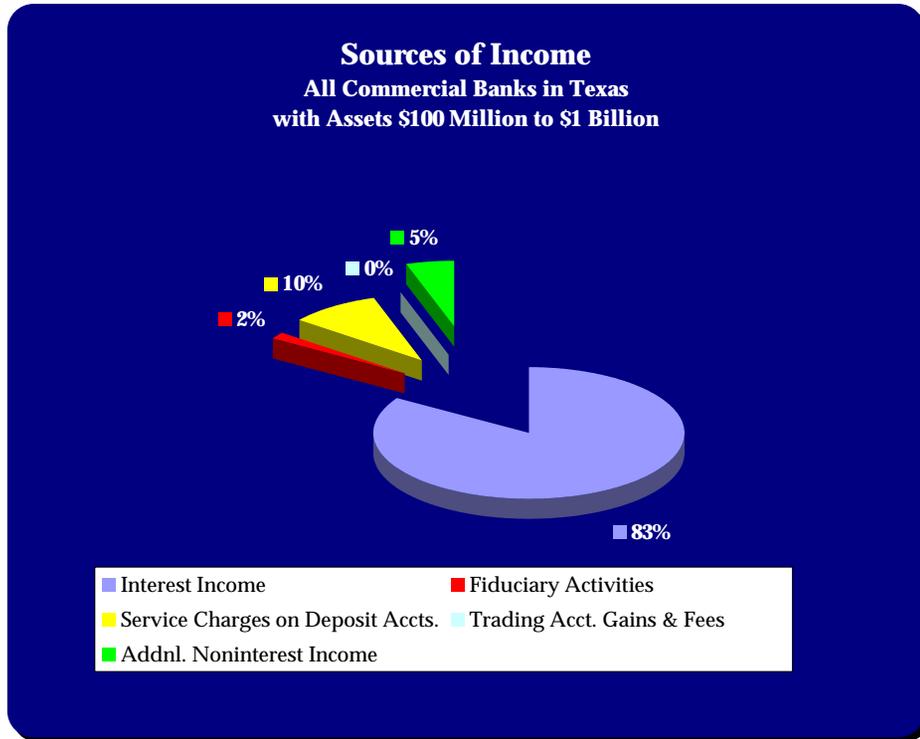
Above charts represent 427 banks in Texas.

Income	Dollar Amt. in Thousands	% of Avg. Assets
Interest Income	\$1,398,966	6.94%
Fiduciary Activities	\$3,356	0.02%
Service Charges on Deposit Accts.	\$139,033	0.69%
Trading Acct. Gains & Fees	\$2	0.00%
Addnl. Noninterest Income	\$54,376	0.27%

Total Loans to Total Assets	51.9%
Total Loans to Total Deposits	59.0%

Total Assets, Deposits and Liabilities are in millions.
Information is as of 12-31-01 and was obtained from FDIC Call Reports.

ALL COMMERCIAL BANKS IN TEXAS WITH ASSETS FROM \$100 MILLION TO \$1 BILLION



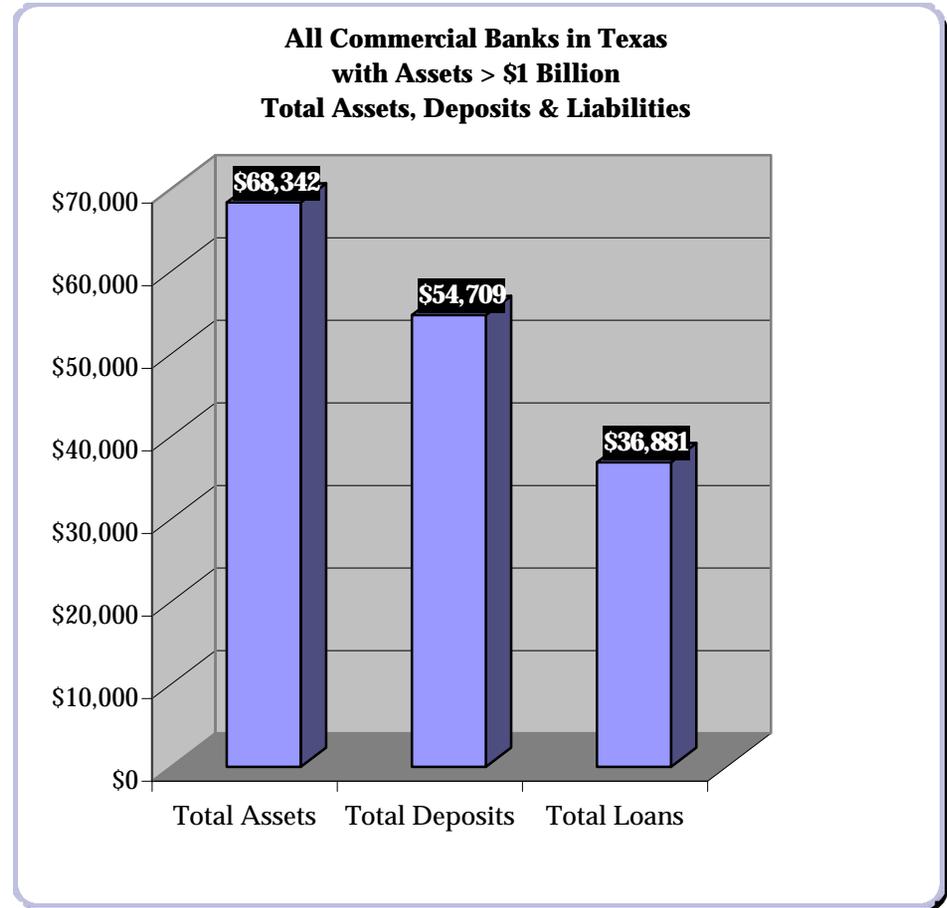
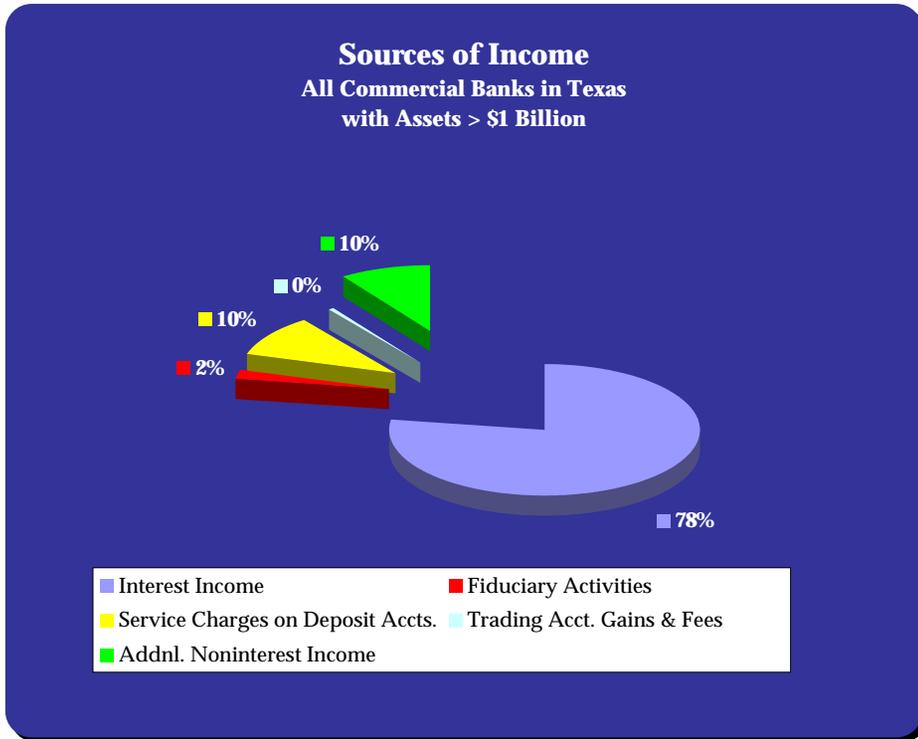
Above charts represent 238 banks in Texas.

Income	Dollar Amt. in Thousands	% of Avg. Assets
Interest Income	\$3,624,406	6.90%
Fiduciary Activities	\$72,403	0.14%
Service Charges on Deposit Accts.	\$418,125	0.80%
Trading Acct. Gains & Fees	\$129	0.00%
Addnl. Noninterest Income	\$211,791	0.40%

Total Loans to Total Assets	57.1%
Total Loans to Total Deposits	66.3%

Total Assets, Deposits and Liabilities are in millions.
Information is as of 12-31-01 and was obtained from the FDIC Call Reports.

ALL COMMERCIAL BANKS IN TEXAS WITH ASSETS > THAN \$1 BILLION



Above charts represent 21 banks in Texas.

Income	Dollar Amt. in Thousands	% of Avg. Assets
Interest Income	\$4,215,220	6.45%
Fiduciary Activities	\$128,868	0.20%
Service Charges on Deposit Accts.	\$557,266	0.85%
Trading Acct. Gains & Fees	\$25,540	0.04%
Addnl. Noninterest Income	\$521,570	0.80%

Total Loans to Total Assets	54.0%
Total Loans to Total Deposits	67.4%

Total Assets, Deposits and Liabilities are in millions.
Information is as of 12-31-01 and was obtained from the FDIC Call Reports.

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New Reporting Offers Insight Into Bank Activities

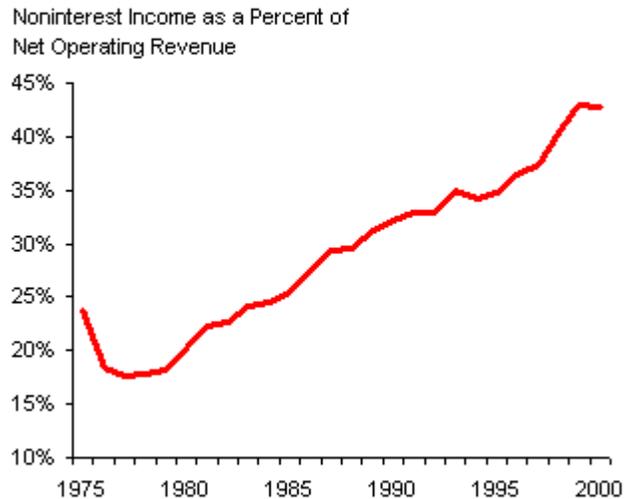
April 18, 2002

Noninterest income has grown in importance at commercial banks for almost 25 years. Until last year, however, the quarterly Reports of Income that banks filed with federal regulators provided only limited detail on noninterest revenues. Last year, these reports began to include more detail on the relative importance of different activities and products to bank earnings. The new data show that some significant revenue sources are overwhelmingly concentrated in a few institutions, while other activities—notably insurance—are conducted by thousands of small banks across the U.S.

Noninterest income has become more important for banks (Chart 1) as nonbank competition for loan customers, especially in sectors such as home mortgage lending and lending to large commercial borrowers, has limited growth in net interest income. At the same time, banks' enhanced ability to market and deliver fee-earning transactional services, made possible by advances in telecommunications and data processing, and the development of new financial products, aided by deregulation and innovation, have produced a growing number of sources of noninterest income. This trend has been evident at both large and small banks, although larger banks have consistently obtained a significantly greater share of their revenues from noninterest sources. Greater diversification in revenues should promote greater stability and consistency in bank earnings. While some noninterest revenue sources are sensitive to conditions in financial markets, and may be more volatile over time than net interest income, other noninterest revenues, notably those obtained from transaction-based services, should be less susceptible to cyclical influences.

Chart 1

Noninterest Income Provides a Growing Share of Bank Revenues



Net Operating Revenue is the sum of Net Interest Income and Noninterest Income.
Source: FDIC *Historical Statistics on Banking*

Before 2001, banks reported the amounts of their noninterest income that consisted of service charges on deposit accounts, fiduciary (trust) income, and revenues from trading operations. Any other sources of noninterest income were reported in the residual categories of "Other Fee Income" and "All Other Noninterest Income." The new report format introduced in the first quarter of 2001 still includes fiduciary income, deposit service charges, and trading revenues, but it now also breaks out income from investment banking services, revenues from venture capital investments, servicing fees, income from asset securitization activities, insurance commissions and fees, and proceeds from sales of loans, other real estate, and other assets. With this information, it is possible to examine the relative importance of each of these income sources to bank revenues, and see how widespread these business lines are among insured commercial banks.

During 2000, the residual categories of "other fee income" and "all other noninterest income" together comprised almost two-thirds (62.5 percent) of all noninterest income reported by insured commercial banks. The new categories reported in 2001 provide a more detailed look at roughly half of these "other" revenues. The data show that securitization income (net gains on sales of securitized assets plus non-servicing fees), at \$16.4 billion for the year, represented the largest amount of any of the new categories. The next-highest category was servicing fees, at \$11.6 billion. Fees and commissions from investment banking, advisory, brokerage, and underwriting services totaled \$9.1 billion in 2001. Sales of loans, other real estate, and other assets yielded net gains of \$7.0 billion. Insurance commissions and fees totaled \$2.9 billion, while venture capital activities produced a net loss of \$740 million for the year. The remaining category of

"all other" noninterest income, which includes income from unconsolidated subsidiaries, data processing services, ATM usage fees charged to depositors from other institutions, as well as service charges and fees for a variety of other services, was still the largest component of total noninterest income. At \$51.3 billion, it represented 32.7 percent of commercial banks' noninterest income in 2001.

Table 1

Noninterest Income Of Insured Commercial Banks, 2001 (Amounts in \$ Thousands)				
Noninterest Income Category	Full Year Amount	% of Total	# of Banks Reporting	Combined Share of 5 Largest Reported Amounts
Income from fiduciary activities	20,751,226	13.2%	1,668	39.4%
Service charges on deposit accounts	26,472,609	16.8%	7,909	33.9%
Trading revenues	12,524,834	8.0%	175	82.6%
On interest-rate contracts	6,075,878	3.9%	106	85.1%
On foreign exchange contracts	4,338,966	2.8%	47	82.5%
On equity contracts	1,878,327	1.2%	20	95.4%
On commodity & other contracts	231,663	0.1%	10	N/M
Investment banking & other fees	9,096,981	5.8%	2,178	55.8%
Venture capital revenue	-740,222	-0.5%	61	N/M
Servicing fees	11,568,730	7.4%	1,626	41.5%
Securitization income	16,349,975	10.4%	100	64.0%
Insurance commissions & fees	2,874,938	1.8%	4,063	38.4%
Net gains/losses on loan sales	4,642,565	3.0%	1,739	47.5%
Net gains/losses on sales of OREO	65,348	0.0%	2,129	N/M
Net gains/losses on sales of other assets	2,249,208	1.4%	2,321	84.6%
Other noninterest income	51,335,770	32.7%	7,983	21.2%
Total noninterest income	157,171,912		8,050	

Source: Bank Call Reports (Research Information System)

Table 1 shows the amounts of noninterest income in its component categories, as well as the number of banks reporting non-zero amounts in each category. It also shows the share of income in each category represented by the combined totals of the five largest amounts reported, to provide an indication of how highly concentrated each underlying activity was within the banking industry during 2001. Based on the frequency of nonzero amounts reported, service charges on deposit accounts were the most widespread and were the largest identifiable dollar category. Although far less important in terms of dollars, insurance-related activities were the next most widespread; more than half of the 8,080 commercial banks at year-end reported some income from these activities. At the other end of the scale, only 61 banks reported any results from venture capital investments, and only 100 banks reported any income from securitization activities.

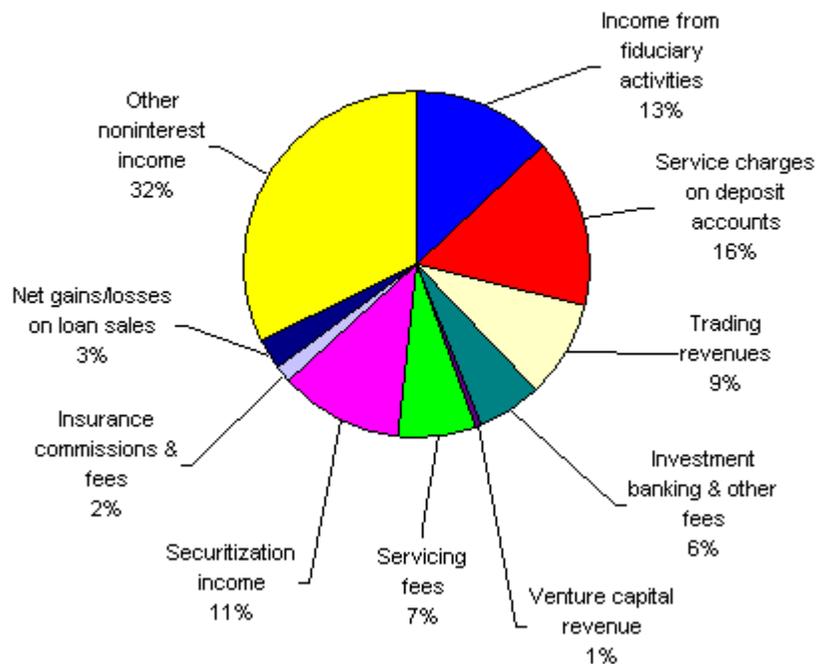
As an indicator of concentration within different activities, the combined shares of the five largest reporters in each category varied widely. The five largest reporters accounted for 84.6 percent of the \$2.2 billion in gains from sales of other assets, and almost two-thirds of the \$16.4 billion in securitization income reported by commercial banks in 2001, while the five largest amounts reported for insurance commissions and fees represented only 38.4 percent of the industry's total income in this category. Most of the industry's income from securitization activities was earned by 24 specialized credit-card banks; they accounted for 86.4 percent of all securitization income reported in 2001.

Just as large and small banks show different relative levels of noninterest income, they also show significant differences in the composition of their noninterest revenues. Larger banks as a group exhibit greater diversification in their noninterest revenues. For commercial banks with assets greater than \$1 billion, three of the new categories—securitization income (11 percent), servicing fees (7 percent), and investment banking income (6 percent)—provide more than 5 percent of the group's aggregate noninterest income. The largest identifiable category for large banks, service charges, comprised only 16 percent of their noninterest income (Chart 2). Banks with less than \$1 billion in assets, in contrast, have more of their noninterest revenues (29%) concentrated in service charges. Of the newly reported activities, only servicing fees (7 percent) provided more than 5 percent of aggregate noninterest income for small banks in 2001 (Chart 3).

Chart 2

Large Bank Revenues Indicate a Variety of Products and Services

Composition of Noninterest Income, Commercial Banks with Assets Greater Than \$1 Billion, Full Year 2001.

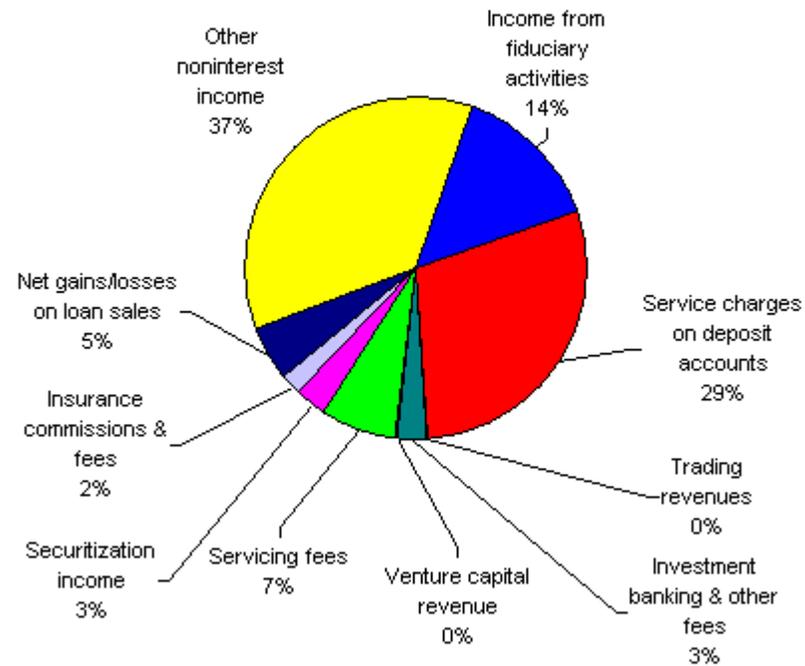


Source: Bank Call Reports (Research Information System)

Chart 3

Smaller Banks' Revenues Show Less Diversity Than Large Banks'

Composition of Noninterest Income, Commercial Banks with Assets Less Than \$1 Billion, Full Year 2001.



Source: Bank Call Reports (Research Information System)

Send comments on this FYI to:
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Send feedback and technical questions about the FYI series to:
fyi@fdic.gov

DEFINITIONS – NONINTEREST INCOME ITEMS IN BANK CALL REPORTS

NONINTEREST INCOME

Fiduciary activities – Income from services rendered by the institution’s trust department or by any of its consolidated subsidiaries acting in any fiduciary capacity.

Service charges on deposit accounts – Service charges on deposit accounts held in domestic offices.

Trading account gains & fees –

Interest rate exposure – Trading revenues on interest rate exposures such as cash instruments and off-balance sheet derivative instruments. Only required to be filed by banks that reported average trading assets of \$2 million or more for any quarter of the preceding calendar year.

Foreign exchange exposures – Trading revenues on foreign exposures such as cash instruments and off-balance sheet derivative instruments. Only required to be filed by banks that reported average trading assets of \$2 million or more for any quarter of the preceding calendar year.

Equity security and index exposures – Trading revenues on equity security and index exposures such as cash instruments and off-balance sheet derivative instruments. Only required to be filed by banks that reported average trading assets of \$2 million or more for any quarter of the preceding calendar year.

Commodity and other exposures – Trading revenues and commodity and other exposures such as cash instruments and off-balance sheet derivative instruments. Only required to be filed by banks that reported average trading assets of \$2 million or more for any quarter of the preceding calendar year.

Additional noninterest income –

Investment banking, advisory, brokerage, and underwriting fees and commissions – Includes report fees and commissions from underwriting securities, private placements of securities, investment advisory and management services, or merger and acquisition services.

Venture capital revenue – Reports net gains or (losses) on venture capital activities and any fee income from those activities that is not reported in one of the preceding items on the income statement.

Net servicing fees – Income from servicing real estate mortgages, credit cards, and other financial assets held by others. Includes any premiums received in lieu of regular servicing.

Net securitization income – Reports net gains or (losses) on assets sold in securitization transactions. Includes fees, other than servicing fees, earned from the bank's securitization transactions and unrealized losses (and recoveries of unrealized losses) on loans and leases held for sale in securitization transactions.

Insurance commission fees and income – Reports income from underwriting insurance, from the sale of insurance or from reinsurance. Includes fees, commissions, service charges, etc.

Net gains (losses) on sales of loans – Reports net gains or (losses) on sales or other disposal of loans and leases. This includes unrealized losses on loans and leases held for sale.

Net gains (losses) on sales of other real estate owned – Reports net gains or (losses) on the sales of other disposals of other real estate owned, increases and decreases in the valuation allowance for already foreclosed real estate, and write-downs charged to expense.

Net gains (losses) on sales of other assets (excluding securities) – Reports net gains or (losses) on sales or other disposal of other assets (e.g. premises and fixed assets, personal property acquired for debts previously contracted - such as automobiles, boats, equipment, and appliances); and coins, art, and other similar assets.

Other noninterest income – All operating income of the bank that is not required to be reported elsewhere on the Income Statement. Includes the following:

- (1) Service charges, commissions, and fees for such services as:
 - (a) Rental of safe deposit boxes;
 - (b) Safekeeping of securities for other depository institutions;
 - (c) Sale of bank drafts, money orders, cashiers' checks, and travelers' checks;
 - (d) Collection of utility bills, checks, notes, bond coupons, and bills of exchange;
 - (e) Redemption of U.S. savings bonds;

- (f) Handling of food stamps and U.S. Treasury Tax and Loan Account, including fees received in connections with the bank's issuance of interest-bearing demand notes;
 - (g) The execution of acceptances and the issuance of commercial letters of credit, standby letters of credit, deferred payment letters of credit, and letters of credit issued for cash or its equivalent. Does not include income on bankers acceptances and trade acceptances (which is reported in the appropriate sub item "Interest and fee income on loans," or in "Interest income from trading assets," as appropriate);
 - (h) The notarizing of forms and documents;
 - (i) The negotiation or management of loans from other lenders for customers or correspondents;
 - (j) The providing of consulting and advisory services to others; and
 - (k) The use of the bank's automated teller machines or remote service units by depositors of other depository institutions;
- (2) Income and fees from the sale of printing checks;
 - (3) Gross rentals and other income from all real estate reported in "Other real estate owned";
 - (4) Earnings on or other increases in the value of the cash surrender value of bank-owned life insurance policies;
 - (5) Annual or other periodic fees paid by holders of credit cards issued by the bank. Fees that are periodically charged to cardholders shall be deferred and recognized on a straight-line basis over the period the fee entitles the cardholder to use the card;
 - (6) Charges to merchants for the bank's handling of credit card or charge sales when the bank does not carry the related loan accounts on its books. Banks may report this income net of the expenses (except salaries) related to the handling of these credit card or charge sales;
 - (7) Interchange fees earned from credit card transactions;
 - (8) Gross income received for performing data processing services for others. Do not deduct the expense of performing such services for others (reported in the appropriate items of noninterest expense);
 - (9) Loan commitment fees that are recognized during the commitment period (i.e., fees retrospectively determined and fees for commitments where exercise is remote) or included in income when the commitment expires and loan syndication fees that are not required to be deferred;
 - (10) For FFIEC 031 Call Filers only, service charges on deposit accounts in foreign offices;
 - (11) Net tellers' overages (shortages), net recoveries (losses) on forged checks, net recoveries (losses) on payment of checks over stop payment orders, and similar recurring operating gains (losses) of this type. Banks should consistently report these gains (losses) either in this item or in "Other Noninterest Expense";
 - (12) Net gains (losses) from the sale or other disposal of branches (i.e., where the reporting bank sells a branch's assets to another depository institution, which assumes the deposit liabilities of the branch). Banks should consistently report these gains (losses) either in this item or in "Other Noninterest Expense";

- (13) Net gains (losses) from all transactions involving foreign currency or foreign exchange other than trading transactions. Banks should consistently report these gains (losses) either in this item or in "Other Noninterest Expense";
- (14) Rental fees applicable to operating leases for furniture and equipment rented to others;
- (15) Interest received on tax refunds;
- (16) Life insurance proceeds on policies for which the bank is the beneficiary;
- (17) Credits resulting from litigation or other claims;
- (18) Portions of penalties for early withdrawals of time deposits that exceed the interest accrued or paid on the deposit to the date of withdrawal, if material. Penalties for early withdrawals, or portions of such penalties, that represent the forfeiture of interest accrued or paid to the date of withdrawal are a reduction of interest expense and should be deducted from the gross interest expense of the appropriate category of time deposits in "Interest on deposits";
- (19) Interest income from advances to, or obligations of, and the bank's proportionate share of the income or loss before extraordinary items and other adjustments from its investments in:
 - unconsolidated subsidiaries;
 - associated companies; and
 - corporate joint ventures, unincorporated joint ventures, general partnerships, and limited partnerships over which the bank exercises significant influence, other than those that are principally engaged in investment banking, advisory, brokerage, or securities underwriting activities; venture capital activities; or insurance underwriting, reinsurance, or insurance sales activities;
- (20) Net gains (losses) on no hedging derivative instruments held for purposes other than trading. Banks should consistently report these gains (losses) either in this item or in "Other Noninterest Expense";
- (21) Gross income generated by securities contributed to charitable contribution Clifford Trusts; and
- (22) Income from ground rents and air rights.