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Derivatives Volume at Banks Rised in 3rd Quarter
To Record $32.6 Trillion Revenues Decline

Washington, D.C.—During the third quarter, U.S. commercial banks increased the notional amount of derivatives in their portfolios by $4.5 trillion, or 16 percent, to a record $32.6 trillion, the Office of Comptroller of the Currency (OCC) reported today.

“Most of the increase in derivatives activity was in interest rates contracts which rose by $3.8 trillion to $23.8 trillion during the quarter,” said Michael L. Brosnan, the OCC’s Deputy Comptroller for Risk Evaluation. “The significant increase in derivative contract volumes was primarily due to banks providing products to corporate customers to help them risk management requirements during the third quarter.”

During the quarter, banks charged off $445 million due to credit losses from off-balance sheet derivatives, up from $94 million the second quarter. Credit losses for the quarter climbed from .03 to .11 percent of total credit exposure. By comparison, net loan charge-offs compared to total loans were .49 percent.

“The loss figures reported during the third quarter, as well as those that have been reported over the five quarters since June 1997, reflect the unsettled economic environments in Asia and Eastern Europe”, said Mr. Brosnan.

Despite this environment, banks were able to limit their losses. Mr. Brosnan attributed this to the generally high credit of derivative transaction counterparties and end-users, the benefits from bilateral netting, and the increasing use of collateral.

Past due derivatives contracts remained at nominal levels. For all banks, the book value of contracts 30 days or more post due totaled only $28.9 million, or .007 percent of total credit exposure from derivatives contracts. However, that figure doesn’t include derivative contracts accounted for on a non-performing basis.

During the third quarter, revenues from trading activity at commercial banks fell to $614 million, a steep drop from the $2.6 billion recorded during the second quarter. While revenue from foreign exchange positions was $1.2 billion, losses were reported for interest rate positions (-
$284 million), commodity and other positions (-$222 million) and equity positions (-$65 million).

For the seven banks that account for nearly 94 percent of the industry’s derivatives activity, revenue from this activity fell to only 0.8 percent of gross revenue. It stood at 6.9 percent the second quarter and generally has been more than 5 percent for each quarter since 1995.

Credit derivatives continued to grow, reaching $162 billion in notional volume during the third quarter. This product has more than quadrupled in size since the third quarter of last year. “Risk managers are increasing their use of this product to control their credit risk by diversifying and/or hedging their portfolios”, said Mr. Brosnan. He said that he envisions continued growth of this product.

A copy of OCC Bank Derivatives Report—Third Quarter 1998 may be obtained by:

- Writing to Comptroller of the Currency, Public Reference Room (Mail stop 1-5), Washington, DC 20219;
- Calling the OCC Information Fax Line at (202) 479-0141 and requesting document number 798125 under news releases;
- Faxing a request to (202) 874-4448;
- Ordering by phone (202) 874-5043;
- Visiting the OCC’s Public Reference Room at 250 E Street, S.W. In Washington, DC (9 a.m. – noon and 1-3 p.m., Monday – Friday);
- Going to the OCC’s web page at http://www.occ.treas.gov

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