FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

# NEWS RELEASE

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## CHAIRMAN SEIDMAN VOICES CONCERN OVER IMPENDING REAL ESTATE LENDING PROBLEMS

FDIC Chairman L. William Seidman today expressed concern over real estate lending problems developing in the Northeast and other areas of the U.S. He said the FDIC is currently conducting a study of real estate markets around the country to assess these "troubling developments," which he characterized as "an emerging area of real concern for financial institutions and their insurer."

The new problems are particularly evident in Arizona, parts of Florida and certain northeastern areas, Chairman Seidman reported, noting that Stamford, Connecticut, and central New Jersey have some of the highest commercial real estate vacancy rates in the country.

"I've been the Cassandra of real estate forecasting for some time now, and unfortunately, events confirmed this view," Mr. Seidman told a management conference sponsored by the National Council of Savings Institutions in New York City.

The FDIC is studying real estate markets, he said, because "We think it's critical that both regulators and the financial industry do a better job at getting ahead of the curve by anticipating problems. That's our goal in this study."

Chairman Seidman cited these statistics as evidence of growing real estate lending problems:

- Over the last 12 months real estate loan growth has accounted for nearly two-thirds of all bank asset growth, and now comprises

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almost one-fourth of all commercial bank assets. From the second quarter to the third quarter, real estate assets have grown at a 13 percent annual rate. In the last quarter, net growth in real estate assets exceeded net growth in total assets by $7 billion.

- o Nonperforming real estate assets constitute almost half of all nonperforming assets in the banking system. In the Northeast, the percentage of real estate loans in nonaccrual status has almost doubled over the past year. The Northeast now exceeds the national average.
- o Net charge-offs of real estate loans across the country, on average, are running 47 percent higher than the same period a year ago, and are expected to accelerate in the fourth quarter.

These numbers would look worse were it not for the FDIC's assistance in removing billions of dollar in bad real estate assets from the commercial banking sector, Mr. Seidman noted.

The direction of the real estate market is important to the FDIC not only because it helps determine the the agency's failure resolution load, but also because the FDIC and the Resolution Trust Corporation (RTC) are the largest holders of real estate for sale in the country, Chairman Seidman pointed out. The FDIC and RTC are charged with disposing of as much as $180 billion of problem assets -- many of them real estate-related, over the next few years. "So believe me, we are as interested as anyone in the conclusions of our real estate study."

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