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FDIC ANALYSTS REVIEW BANK MERGER ACTIVITY IN LATEST EDITION OF REGIONAL OUTLOOK

FOR IMMEDIATE RELEASE

The record-breaking pace of bank mergers continued during 1998, with the value of this year's transactions exceeding that of all mergers announced since the end of 1992, according to analysts at the Federal Deposit Insurance Corporation (FDIC).

In a three-part analysis of bank merger activity published today in the FDIC's quarterly publication, Regional Outlook, analysts in the FDIC's Division of Insurance examine a number of factors driving the industry consolidation and also some of the risks merging institutions face. The time and attention that must be devoted to the operational aspects of a merger, and the pressures to meet analysts' earnings expectations, create challenges that if not well-managed can make the merged institution more vulnerable to an economic downturn. Moreover, the strategies some small banks are adopting to cope with a changing industry may complicate their operations and could affect their overall risk profile.

In addition to the in-depth examination of merger activity, each of the eight editions of the Regional Outlook includes a review of banking and economic activity in the states in each FDIC region. Analysts note that total employment growth remains strong across all regions. In addition, institutions in all eight regions continue to post strong performance and, with few exceptions, report strong capital positions. However, analysts in each region continue to report a slowdown in sectors tied to U.S. exports, particularly exports to Asian markets, and increasing risk in some banking lines of business. Among the regional findings this quarter:

Job growth in the Boston Region slowed during the first eight months of 1998 as the economy began to feel the effects of slower global and national economic expansion. Reduced demand from Asia is affecting the manufacturing sector, particularly industrial supplies, and a potential slowdown in the Canadian economy could aggravate the Asian effect on the region's exporters.

Analysts in the New York Region report that the region's community banks are being hurt by narrowing interest margins and intense competition for small business lending. They examine the risks faced by community banks as they cope with a changing competitive landscape.

Although economic growth in the Atlanta Region continues to outperform the nation, the textile and apparel, pulp and paper, and steel manufacturers have been significantly affected by falling demand from global markets. The Greenville, South Carolina, metropolitan area is examined as an example of how the region's economy is changing as the industrial base moves away from textiles and apparel to high-tech and information driven industries.

Analysts in the Memphis Region report that the region's economy continues to experience moderate growth, although Louisiana's oil rig count has dropped 38 percent from its November 1997 peak level as a result of dramatically lower crude oil prices.

Job growth slowed significantly in the Dallas Region during the first half of this year. Regional analysts attribute this to the combined effect of the Asian crisis, the drought the region experienced this past summer, and the on-going weakness in the energy and high-technology industries. Analysts also note that although absorption rates for new office buildings remain high, office construction is at or near the previous cyclic peak in many areas of the region and growth in office employment is expected to moderate in 1999.

Analysts in the Chicago Region examine trends in household spending and debt behavior. As is the case in many other areas of the country, although low interest rates and debt consolidation into home equity lines are helping to moderate consumer debt burdens, analysts note that household debt relative to disposable income is at historically high levels.

The Kansas City Region's economy remains strong, but analysts there indicate that growth will be constrained by lower levels of farm income and a slowing manufacturing sector, both attributed to weaker global demand for farm commodities. A decline in manufacturing exports is slowing the economy in one of the region's major metropolitan areas, Minneapolis-St. Paul. If the slowdown extends to the recently rejuvenated office real estate market, it could affect community banks, which have significantly increased their commercial real estate and construction lending during the past few years.

According to analysts in the San Francisco Region, the effects of the Asian crisis are evident for high-tech manufacturing firms in the Silicon Valley, as some are reporting layoffs and plant closings. In addition, cancellation of aircraft orders and severe problems among Asian air carriers are expected to slow California's and Washington's key aerospace sectors in the year ahead. The Asian crisis has particularly hurt the Pacific Northwest's wheat farmers, California's fruit and vegetable producers and Washington's apple growers. San Francisco analysts also examine subprime lending at the region's insured institutions. They report that the asset growth at the region's subprime lenders has far exceeded that of other insured institutions in the region.

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