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FDIC ANALYSTS WARN BANKS ON YEAR 2000 READINESS, REAL ESTATE LENDING, AND OTHER INDUSTRY CONCERNS

FOR IMMEDIATE RELEASE

Time is running out for banks to prevent computer problems that could arise from the change to the Year 2000, Federal Deposit Insurance Corporation analysts warned today in publications sent to every bank and thrift institution in the country.

"A failure to address Y2K (Year 2000) exposures immediately and successfully may amount to a gamble backed by the value of the bank franchise and the officers and directors who run it," the series of publications -- titled Regional Outlook -- said.

The publications also warned that, according to some estimates, the litigation that will follow in the wake of the Year 2000 problem will be equal in costs to the money spent to fix problems, which will likely run into the hundreds of billions of dollars. Much of that litigation may be aimed at the officers and directors of banks, the publications added.

The Year 2000 problems arise from a computer programming practice. If that practice is left unaddressed, at midnight on December 31, 1999, computer systems that process dates using only the last two digits of a year will cease to function correctly, if at all. Because the banking industry is heavily dependent on computer technology, banking regulators are examining all the banks in the industry to focus the attention of bank management on Year 2000 problems, and taking follow-up action where necessary.

The eight quarterly publications titled Regional Outlook are written by analysts stationed in each of the FDIC's regions, which together span the country. All eight publications for the first quarter of 1998 carried the Year 2000 warning as their first article.

"The goals of our analysts are to track the emerging trends and risks in the banking industry and the overall economy, and to convey this information to examiners, bankers, and the public through these publications," said FDIC Chairman Andrew C. Hove, Jr. "We want to give bankers and examiners a heads-up on the risks they may face."

Regional Outlook, a publication of the FDIC's Division of Insurance, concluded: "Unfortunately for banks, even a fully successful, industry-wide Y2K fix will not completely mitigate their risk. The Year 2000 story is simply too dramatic and lends itself too well to sensationalism. Therefore, in addition to managing the cure, bankers will have to manage the perceptions of their customers and of the public at large -- a considerable challenge given that a loss of confidence by a small number of customers could precipitate liquidity problems for institutions even in the absence of a genuine threat."

Among the FDIC's other findings:

-- An abundant supply of capital in the commercial real estate lending market is placing significant downward pressure on loan pricing and is causing some lenders to ease underwriting standards rather than lose business.

-- Economic growth in southern states along the Mississippi continued to decelerate, and the repercussions of East Asian financial problems may dampen demand for the region's exports, which have recently contributed significantly to growth. Slightly more than 11 percent of the exports from the FDIC's Memphis region go to countries affected by the currency crisis. The FDIC's Memphis region covers Arkansas, Kentucky, Louisiana, Mississippi, and Tennessee.

-- The Regional Outlook for the Kansas City Region noted that commercial banks are faced with growing competition from Farm Credit System (FCS) institutions. FCS institutions are poised to gain back market share they have lost since the early 1980s. Fifty-eight percent of the banks in the Region are farm banks. FDIC analysts in the Region noted "maintaining a profitable niche of business and cost-efficient operations, without taking excessive risk, will continue to challenge bank management." The Kansas City Region covers Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota.

The latest Regional Outlooks are available on the Internet (via the World Wide Web at www.fdic.gov), or from the FDIC's Public Information Center at 800-276-6003 or (703) 562-2200. To subscribe to the publication, contact the Center.

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