



# PRESS RELEASE

Federal Deposit Insurance Corporation

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Media Contact:  
Stephen Katsanos (202) 898-8669

## FDIC HIGHLIGHTS EMERGING BANKING RISKS IN LATEST EDITION OF REGIONAL OUTLOOK

### FOR IMMEDIATE RELEASE

Business lending risks are on the rise, analysts at the Federal Deposit Insurance Corporation (FDIC) reported Thursday.

Although low by historical standards, a doubling of domestic commercial and industrial loan losses at banks during the first half of 1999 compared to the same period in 1998 is just one sign that credit quality in commercial and industrial portfolios is deteriorating, the analysts said. Other signs are slower corporate profit growth and rising corporate bond defaults.

At the same time these signs are occurring, banks are increasing their exposure to risk by expanding their lending to heavily indebted companies in the syndicated loan market, the analysts noted.

They also stressed that rising consumer and business debt levels, riskier business strategies, and the possibility of volatility in the financial markets are of growing concern.

"We see some significant risks on the horizon," said FDIC Chairman Donna Tanoue. "Bankers need to take action now to make sure they can manage these risks if the economy becomes less favorable."

The Regional Outlook this quarter contains agency analysts' semiannual assessment of economic conditions and emerging risks in banking. In addition to their assessment of commercial and industrial lending, analysts examine the growing "private deficit,"



Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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banking organizations' expansion into subprime lending and increasing office vacancy rates in certain metropolitan markets.

The Regional Outlook also includes an assessment of banking developments in each of the FDIC's eight regions. Highlights of this edition are:

- In the Boston Region, commercial lending is increasing, with small-business lending growing faster than in previous years.
- In the New York Region, bank chartering activity is brisk, particularly in New Jersey and Pennsylvania.
- In the Atlanta Region, banks are turning to alternative sources for funding asset growth, a strategy that is shrinking interest margins and forcing some banks to extend maturities to obtain higher yields.
- In the Memphis Region, new charter activity is increasing, but the rate of earnings growth at these new institutions appears to be slowing.
- In the Dallas Region, institutions are holding above average levels of securities, a strategy that may minimize credit risk while exposing these institutions to higher interest rate and market risks.
- In the Chicago Region, asset quality at agricultural lenders is showing signs of deterioration as farm income and farmland values decline.
- In the Kansas City Region, low commodity prices remain a major concern. · In the San Francisco Region, agricultural banks are beginning to show the effects of low commodity prices and declining farm income.

The electronic version of the FDIC's Regional Outlook, including the semiannual report "Economic Conditions and Emerging Risks in Banking," was published today on the agency's Web site ([www.FDIC.gov](http://www.FDIC.gov)). Printed copies will be available December 21, 1999, and may be obtained by contacting the FDIC's Public Information Center (800-276-6003 or (703) 562-2200).

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