PRESS RELEASE

Federal Deposit Insurance Corporation

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NEW FDIC REPORTS ADDRESS BANK CREDIT RISK, SOURCES OF FUNDING

FOR IMMEDIATE RELEASE

A continuation of recent low prices for agricultural and industrial commodities -- from wheat and corn to oil, chemicals and steel -- could result in higher credit losses for insured depository institutions exposed to these sectors, according to a report issued today by the Federal Deposit Insurance Corporation. In the third quarter edition of the **Regional Outlook**, FDIC analysts examine the effects that falling commodity prices are having on employment levels, corporate profits and some measures of credit risk across a wide range of industries.
"The FDIC is carefully monitoring the effects that low prices are having on local economies that depend heavily on commodity industries, such as agriculture, oil and gas, and chemicals," said FDIC Chairman Donna Tanoue. "We know from experience that local economic adversity has the potential to result in problems for FDIC-insured institutions."

In another report in the **Regional Outlook**, FDIC analysts evaluate several long-term trends that are making it more difficult for community banks to fund asset growth with deposits. As a result, many institutions are relying increasingly on non-deposit funding sources, particularly borrowings. These trends are making asset-liability management increasingly important for community banks that have traditionally relied on deposits for funding and net interest income for profitability. "How community banks respond to these funding challenges will shape their risk profile in the coming years," added Chairman Tanoue.

An FDIC report released in the Kansas City edition of the **Regional Outlook** compares the current agricultural situation to conditions that led to the farm bank problems of the 1980s. While banking problems on the scale of the 1980s are not expected, continuing

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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low commodity prices and uncertainty about future federal farm programs pose significant risks to farm banks in the Region. The article finds that today's farm banks are reporting higher levels of capital and loan loss reserves than in the 1980s. These measures indicate that today's farm banks may be better prepared to absorb both credit and operating losses.

Other regional highlights are as follows:

- The Boston Region's labor market showed slower growth through June 1999, but increased factory output helped mitigate the pace of manufacturing job losses. Institutions with high concentrations in commercial loans and commercial real estate loans have experienced steep declines in net interest margins as a result of elevated refinancing activity.

- Employment growth in the New York Region is strong, although some key industries face increased risk because of competition and reduced export demand. Financial institutions report generally solid performance; however, the range of profitability among institutions continues to widen.

- Analysts in the Atlanta Region report that steel, textiles and apparel, and pulp and paper producers have experienced the effects of increased imports and weak export demand because of the strength of the dollar and continued weakness in many Asian economies.

- The Memphis Region economy continues to underperform that of the nation. Financial institutions report generally favorable conditions, although net interest margins continue to decline, in part because of changes in funding trends.

- The oil and agriculture industries in the Dallas Region are facing continued stress. A prolonged period of depressed prices or another round of drought conditions would place further stress on agricultural producers, adversely affecting farm banks' loan quality and earnings.

- Analysts report that economic and banking conditions in the Chicago Region remain generally healthy. However, the Region is experiencing some weakness in the manufacturing sector. Also, persistent weakness in the agricultural sector is evidenced by falling repayments, rising past-due levels, and increasing carryover debt.

- The San Francisco Region's economy continues to outperform that of the nation despite continued weakness in the manufacturing and agricultural sectors. The Region's strong economy during the past several years has stimulated credit demand, forcing some mortgage lenders to rely increasingly on nontraditional funding sources.

The **Regional Outlook** for each FDIC Region and the National Edition are available on the Internet via the World Wide Web at http://www.fdic.gov/bank/analytical/regional/index.html. Printed copies of the **Regional Outlook** are available from the FDIC's Public Information Center (800-276-6003 or (703) 562-2200). To subscribe to the **Regional Outlook**, contact the Center.

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