PRESS RELEASE
Federal Deposit Insurance Corporation

September 26, 2000

Media Contact:
Rosemary George (202) 898-6530

FDIC REPORT FLAGS FIVE MORE CITIES AT RISK OF OVERBUILDING COMMERCIAL PROPERTIES; RETAINS EIGHT ON "AT RISK" LIST

FOR IMMEDIATE RELEASE

Analysts at the Federal Deposit Insurance Corporation today added Denver, Fort Worth, Jacksonville, Sacramento, and Seattle to a list of metropolitan areas at risk of overbuilding, expanding their list of cities at risk to 13.

Atlanta, Charlotte, Dallas, Las Vegas, Orlando, Phoenix, Portland (Oregon) and Salt Lake City remain on the list, FDIC analysts reported.

The expansion of the list, which covers five categories of commercial properties, came despite tighter standards for inclusion. Under the tighter standards, Nashville dropped off the "at risk" list.

"Overbuilding is one of the yellow caution lights in the economy and the banking industry that we are watching closely, and it is a caution light that is flashing more brightly," Donna Tanoue, FDIC Chairman, said. "Rapidly growing construction and development loan portfolios at banks and thrift institutions in at-risk markets raise concerns."

The expanded list was reported in the Regional Outlook for the Third Quarter, 2000, a publication of the FDIC's Division of Insurance that flags economic and banking risks affecting insured depository institutions. The report will be formally published on Thursday, September 28th.

"Recent data for some metropolitan areas show that on-balance-sheet exposures of FDIC-insured institutions are by some measures higher now than at the peak of the last commercial real estate cycle during the late 1980s," the report noted . That was a result, the report adds , of insured depository institutions assuming the role of primary sources of capital for the current commercial construction boom, particularly after other lenders withdrew following turmoil in financial markets during 1998. FDIC-insured institutions increased their total construction and development lending by nearly 21 percent in 1998 and slightly under 27 percent in 1999.

While FDIC analysts did not predict an imminent rise in vacancies and losses in the at-risk markets, the report concluded: "The banking industry and the FDIC learned during the late 1980s that once commercial real estate (CRE) markets become overbuilt, losses can mount quickly. During the 1980s and early 1990s, losses on CRE loans were responsible for hundreds of bank and thrift failures and billions of dollars in insurance losses for the FDIC."

FDIC analysts also looked at residential real estate markets. Rising home prices and high levels of activity in the single-family housing market in many large U.S. metropolitan areas have been supported by excellent economic conditions and generally low interest rates. However, as interest rates have begun to rise, housing market activity has slowed.

Historically, residential real estate has been one of the best-performing assets at insured institutions. Concerns have recently arisen, however, that new, higher-risk lending lines, such as subprime and high LTV lending, could adversely affect the future credit quality of residential real estate portfolios.

Other regional developments include:

- **New York Region**. Although there has been limited office construction and strong demand throughout the Region, the percentage of banks that specialize in commercial real estate lending exceeds levels reached in the early 1990s.

- **Memphis Region**. Residential real estate construction activity in the Region remains fairly robust by historical standards; however, development is beginning to slow as interest rates have risen and demand has begun to wane. Although commercial real estate construction activity has begun to moderate, many banks and thrifts in the Memphis Region continue to aggressively grow construction loan portfolios.

- **Atlanta Region**. The expansion of the high-tech industry has represented a key component of the economic momentum in many Atlanta Region metropolitan areas. The rapid economic and demographic growth and the significant M&A activity that occurred in Southwest Florida during the 1990s appears to have contributed to the trend in increased de novo activity.

- **San Francisco Region**. Although some weakness has been noted recently, the Region's high-tech sector has contributed to employment and personal income gains as well as to increases in residential and commercial real estate activity.

Concentrations in traditionally higher risk commercial real estate and construction loans have grown, particularly among insured institutions in MSAs with robust high-tech sectors.

- **Dallas Region**. Small banks and thrifts in the Region's leading high-tech metropolitan areas have reported rapid growth in loans and deposits, but have also experienced increased competition from large insured institutions. This heightened competition may pressure small institutions' earnings.

- **Boston Region**. Capital ratios at the Region's insured institutions, although high by historical standards, are declining in some sectors, while some indicators of risk have been rising and new risks are emerging. An increasingly higher-risk asset mix is contributing to declining risk-based capital levels.

- **Chicago Region**. Broad liquidity measures point to heightened liquidity risk among the Region's insured institutions and emphasize the need for careful funds management.

- **Kansas City Region**. The farm bill of 2002 will mark a crossroads in the development of U.S. farm policy, which could have far reaching implications for farmers and the bankers who lend to them.

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.