



# PRESS RELEASE

Federal Deposit Insurance Corporation

November 14, 2000

Media Contact:  
Rosemary George (202) 898-6530

---

## **FDIC CHAIRMAN WARNS RISK MANAGERS TO WATCH MARKETS, PARTICULARLY COMMERCIAL REAL ESTATE, VULNERABLE IN CASE OF ECONOMIC DOWNTURN**

### **FOR IMMEDIATE RELEASE**

Rising risk levels in booming markets that are vulnerable to an economic downturn, particularly commercial real estate, are of growing concern, FDIC Chairman Donna Tanoue said Tuesday in a speech to the Risk Management Association in Nashville.

Some of the most worrisome trends include an increased level of problem loans identified in the Shared National Credit Review, increased corporate leverage, increases in default rates, and the development of certain portfolio characteristics in some banks that leave them vulnerable to potential softening in the local real estate markets, Chairman Tanoue said.

Using an on-site model called the Real Estate Stress Test or REST, the FDIC has calculated scores for the banking industry as a whole from 1987 to the present and has "seen a significant deterioration in scores since 1995," Chairman Tanoue said.

"Between 1987 and 1995, a period that included the New England and Southern California [real estate] crises, the percentage of very vulnerable institutions per the REST model never exceeded 5 percent of the industry," she said.

"But by December 1999 that percentage had increased to 8 percent of the industry. It now exceeds 9 percent of the industry," Chairman Tanoue said.

She also said that an additional 16 percent of the industry is identified as somewhat vulnerable to a downturn.



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.

FDIC press releases and other information are available on the Internet at [www.fdic.gov](http://www.fdic.gov), by subscription electronically (go to [www.fdic.gov/about/subscriptions/index.html](http://www.fdic.gov/about/subscriptions/index.html)) and may also be obtained through the FDIC's Public Information Center (877-275-3342 or 703-562-2200). PR-80-2000

"Combine the two figures," Chairman Tanoue said, "and one fourth of the industry is potentially affected."

Chairman Tanoue stressed: "Effective risk management is the bank manager's most important bulwark against credit loss and bank failure. This is true not only in bad times, but in the best of times."

Likening the FDIC to a kind of economic weatherman, Chairman Tanoue said that the agency had recently "pointed out that a number of cities nationwide are at risk for overbuilding commercial real estate. This does not necessarily mean that these cities are headed inevitably for the kind of real estate crisis we experienced in the late 1980s and early 1990s."

She noted that a tornado watch does not mean that severe weather is inevitable, but that "conditions exist for the development of a tornado and that one needs to keep up to date on the latest weather information."

"I too hope that the economic expansion will continue unabated and that local real estate markets remain healthy and stable," Chairman Tanoue told the risk managers. "However, as you know, hope is not a risk mitigation technique."

"All of us – regulators, risk managers, and developers – need to remain alert when signs begin to indicate the industry might be vulnerable," she concluded.

Attachment: Remarks By Donna Tanoue Chairman Federal Deposit Insurance Corporation Before RMA's Annual Conference of Lending and Credit Risk Management

---