PRESS RELEASE
Federal Deposit Insurance Corporation

FOR IMMEDIATE RELEASE
May 16, 2000

Media Contact:
David Barr (202) 898-6992

FDIC REPORT OUTLINES RISKS TO COMMUNITY BANKS AND THRIFTS FROM RISING INTEREST RATES

Community bank and thrift earnings may be more vulnerable to rising interest rates than at any time in the past five years, according to a new report released today by the Federal Deposit Insurance Corporation.

This trend suggests that a continued rise in interest rates may erode the value of community bank assets at the same time that these institutions face increased funding costs. The report notes that both long-term assets and volatile liabilities have been growing as a percentage of total assets at community banks and thrifts.

"Banks and thrifts have enjoyed strong profitability in part due to the benign interest rate environment of the last few years," said FDIC Chairman Donna Tanoue in a statement released with the report. "The trends noted in our report underscore the importance of bank preparations for the possibility of continued interest rate increases and a less favorable economic climate."

The report, "Increasing Interest Rate Risk at Community Banks and Thrifts," cites a variety of evidence that interest rate risk sensitivity is a growing concern for some community banks and thrifts. Despite this rising sensitivity, the past year has shown a decline in the percent of industry assets at institutions hedging interest rate risk. This may be due to the higher costs of some risk-management tools, such as interest rate swaps, and the pending implementation of new derivatives accounting rules. Community bank and thrift net interest margins also will likely come under pressure if interest rates continue to rise.

The FDIC's report appears in the agency's Banking Trends publication and is available on the Internet at www.fdic.gov/bank/analytical/bank/index.html.