PRESS RELEASE
Federal Deposit Insurance Corporation

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Media Contact:
Rosemary George (202) 898-6530

U.S. BANKS GENERALLY WELL POSITIONED ENTERING RECESSION, ACCORDING TO FDIC REPORT

Despite the continuing contraction in the U.S. economy, FDIC-insured institutions remain in generally strong financial shape and will continue to provide credit to finance economic recovery. According to a report released today by the Federal Deposit Insurance Corporation (FDIC), banks are likely to face significantly more difficult economic conditions in the months ahead. Overall the banking industry appears well-positioned to withstand a period of economic adversity, although credit losses would be likely to rise at the same time that other components of bank earnings remain under pressure.

"The industry is entering this downturn from a position of financial strength," said FDIC Chairman Don Powell. "However, we also see that risks have been building across the balance sheet for many institutions."

Today's report points to certain types of business models that may be particularly vulnerable to the stresses of a recession. For example, banks that rely on rapid growth in loans or new accounts and those that show concentrations of traditionally higher risk loans have less margin for error in a weak economy. This is particularly the case in previously booming metropolitan areas of the nation which tend to have larger numbers of fast growing institutions.

The report also cites the current financial strength of the banking industry as a factor that will support economic recovery by ensuring a steady flow of new loans to creditworthy borrowers.

"Smart bankers will keep lending to strong borrowers-even in an economic slowdown," Chairman Powell added.

Other regional developments related to the effects of a slowing economy include:

Atlanta Region. Declining economic growth in some areas with concentrations in the manufacturing and high-tech sectors has contributed to deterioration in credit quality and could adversely affect banking industry profitability.

Boston Region. The Region's insured institutions report healthy conditions. However, net interest margin compression and the potential for rising interest rate risk during a slowing economy could pressure earnings.

Chicago Region. Modest declines in credit quality have become more widespread among insured institutions. Continued slowing of economic conditions and ramifications from the September 11, 2001, attacks could lead to further weakening.

Dallas Region. Continued stress in the high-tech industry has contributed to softening in certain commercial real estate markets and overall weakening in the Region's economy this year.

Kansas City Region. Farm banks in counties with relatively high reliance on government agriculture payments have exhibited higher levels of credit risk and are more vulnerable to any changes in these support programs.

Memphis Region. Insured institution credit quality, already showing some deterioration because of the Region's prolonged weak economic conditions, could decline further should the national economy continue to slow.

New York Region. Heightened economic uncertainty following the terrorist attacks has placed additional pressure on bank earnings and credit quality. However, the Region's insured institutions appear better positioned now going into an economic downturn than in the early 1990s.

San Francisco Region. Softening in some commercial real estate markets, deteriorating housing affordability, and increasing stress in the agricultural sector could adversely affect the credit quality of some real estate and farm loan portfolios.

Attachment: The National Edition Regional Outlook, Fourth Quarter 2001