PRESS RELEASE
Federal Deposit Insurance Corporation

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FDIC REPORT ANALYZES EFFECTS OF SLOWING ECONOMY ON DEMAND FOR U.S. OFFICE SPACE

A slowing economy contributed to softening in some U.S. office markets during the first half of 2001. According to a report released today by the Federal Deposit Insurance Corporation (FDIC), a combination of trends - a drop in demand for office space and an uptick in construction activity in some markets - has led to a slackening of office market conditions.

According to Torto Wheaton Research, which supplied the data used in the analysis, the U.S. office vacancy rate, which stood at a 20-year low of 8.3 percent at year-end 2000, jumped to 10.8 percent at mid-year, the largest increase in any 6-month period since the data became available in 1980. Current office vacancy rates remain well below the 13.9 percent average of the past 20 years, but the rapidity with which conditions have softened merits the attention of insured institutions specializing in commercial real estate or construction lending.

However, it is important to note that edition of *Regional Outlook* was prepared using data extant before the terrorist attack on September 11, 2001.

Other regional developments discussed in the third quarter 2001 edition of the *Regional Outlook* include:

Atlanta Region. Analysis of highly competitive banking markets in the Region's non-metropolitan counties suggests that community banks in these areas generally exhibit a heightened risk profile similar to banks in urban areas and under-perform other non-metropolitan community banks.

Boston Region. Effective fraud risk management practices and appropriate levels of fidelity insurance may help reduce the possibility of fraud and minimize losses at insured institutions as the economy slows.

Chicago Region. The sluggish economy is pressuring banks' asset quality, while mid-year imbalances in the Region's manufacturing and commercial real estate sectors temper the economy's near-term growth prospects.

Dallas Region. The potential for declining levels of off-farm income during a slowing economy and reduced government payments could weaken many agricultural producers' ability to repay existing debt or acquire new loans.

Kansas City Region. In recent years, farmland values appear to be increasingly supported by government payments. The timing and amount of these payments have been and could continue to be uncertain, making assessment of borrower creditworthiness and collateral protection difficult.

Memphis Region. A slowing economy is contributing to earnings erosion and adversely affecting consumer and construction credit quality among the Region's insured institutions.

New York Region. Counties have not benefited equally from the economic expansion, and this has contributed to differences in performance among the Region's insured institutions.

San Francisco Region. Softness in the Region's high-tech manufacturing and lumber sectors; emerging weakness in the tourism industry; and previously lax underwriting, increasing commercial and industrial loan concentrations, and tighter staffing ratios could further weaken insured institution commercial loan quality.

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Attachment: The National Edition Regional Outlook, Third Quarter 2001