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BANKING INDUSTRY PERFORMS STRONGLY AS U.S. ECONOMY SLOWLY RECOVERS

Banks posted record earnings in the first nine months of 2002 as the U.S. economy slowly recovered from the recession that began in March 2001. However, according to a report released today in the FDIC's ***Regional Outlook***, credit losses have continued to increase, particularly on commercial loans to corporate borrowers. The FDIC's semiannual review of economic conditions and emerging risks in banking also indicates that a steep yield curve has helped boost net interest income.

"Going forward," FDIC Chairman Don Powell stated, "the most likely scenario appears to be a continued slow economic recovery that should help support strong bank earnings." However, even if the recovery continues to take hold, FDIC analysts caution that the industry will continue to be challenged by additional commercial loan losses, relatively high credit concentrations among insured institutions in previously fast-growing metro areas, and the ongoing problems of subprime consumer lenders.

Today's ***Regional Outlook*** addresses a variety of other regional developments including:

Atlanta Region. Certain metro areas were ranked according to their vulnerability to weakening in the housing market. Insured institution construction and development credit quality could deteriorate in these areas should uncertainty about the housing sector continue.

Chicago Region. Concerns about loan quality linger as credit quality improvement is expected to lag the economic recovery. In addition, a return to a flatter yield curve could challenge interest rate risk management.

Dallas Region.

- *Southwest* -- Weak employment growth is contributing to rising office vacancy rates in some metro areas. At the same time, insured institutions have significantly increased concentrations of commercial real estate loans.
- *Midsouth* -- Lower interest rates benefited net interest margins in the second quarter of 2002. However, recent narrowing of interest spreads suggests that margins could decline in the near term.

Kansas City Region. The drought could cause the greatest stress for the largest number of the Region's insured institutions. However, the effects of weakening in commercial real estate markets and earnings pressures also are of concern.

New York Region.

- *Mid-Atlantic* -- Large bank profitability was mixed, with continued commercial credit quality weakness. Interest rate risk management may be tested following record mortgage originations and yield curve changes.
- *New England --* Declining employment and earnings in the technology and financial services sectors are dampening regional economic growth. Overall, insured institution credit quality remains strong despite weak commercial real estate conditions.

San Francisco Region. Job growth remains sluggish. Earnings and asset quality have deteriorated somewhat among community banks, and improvement in credit quality may lag the economic recovery.