



# PRESS RELEASE

Federal Deposit Insurance Corporation

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## BANKING INDUSTRY HAS WEATHERED THE DOWNTURN; COMMERCIAL CREDIT QUALITY REMAINS A CONCERN

The banking industry has performed well in recent years despite increasing loan delinquencies, notably in commercial credits, according to a report released in the FDIC's ***Regional Outlook***. FDIC Chairman Don Powell stated that "the extent of commercial loan deterioration has not reached the levels experienced in the early 1990s, however, this is a situation that we're continuing to watch closely."

The report discusses a variety of economic indicators that are pointing toward recovery, suggesting that the volume of problem commercial loans held by insured institutions could plateau during 2002. Many banks tightened business loan underwriting standards beginning in early 2000, a development that should also contribute to an eventual turnaround in commercial loan quality.

Analysts caution, however, that several factors could delay this turnaround. Corporate profitability has yet to recover fully, and many firms continue to be significantly leveraged. Highly leveraged firms are particularly vulnerable to declining revenues, which reduce the cash flow available to service debts. More significantly, lower investor tolerance for risk has reduced the financing options and raised borrowing costs for some speculative-grade firms, possibly straining liquidity and increasing the likelihood of default.

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

- **Atlanta Region.** Rate/volume analysis suggests that community banks were exposed to heightened interest rate risk during 2001. A decline in the commercial loan prime rate led to large increases in loan prepayments, while the repricing of liabilities remained difficult in spite of lower short-term interest rates.



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.

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- **Boston Region.** The effects of the recession varied widely across the New England states, with the Region's insured institutions remaining healthy overall, but showing elevated credit and earnings risk.
- **Chicago Region.** Most community institutions have weathered the recession fairly well, although moderate credit quality deterioration was widespread and risk management became more of a challenge.
- **Dallas Region.** The 2002 farm bill is a major departure from the market-oriented approach of the 1996 FAIR Act and continues a high level of government payments to the agricultural sector.
- **Kansas City Region.** While many believe that Internet technology may enhance the economic viability of rural areas, others argue that it could increase the ability of larger banks to compete in these areas.
- **Memphis Region.** Weaker loan demand in late 2001 and early 2002 prompted many of the Region's banks and thrifts to seek improved revenues from securities portfolios, often through the acceptance of increased market risk.
- **New York Region.** The characteristics of the recent recession and the economic profiles of the Region's major metropolitan areas help explain differences in employment trends, banking performance, and prospects for economic recovery.
- **San Francisco Region.** The Region's insured institutions have fared better in the recent recession than during the 1990-1991 downturn, despite recurring challenges from weak CRE markets and a large share of newly-chartered banks, as well as new risks from subprime lending.