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Media Contact:
Phil Battey (202) 898-6993

FDIC REPORT DETAILS STRENGTHS AND RISKS IN HOUSING MARKETS

A report released today in the FDIC's ***Regional Outlook*** evaluates changes in mortgage lending during the economic expansion of the 1990s, and the possibility that weaker home price growth could bring difficulties to home borrowers and their lenders. The report concludes that the risk of significant downward correction in house prices is not geographically widespread, but that some previously booming locations, such as the San Francisco Bay Area[1], are exhibiting heightened home price risk.

Non-construction residential mortgages traditionally have represented one of the better-performing loan classes during prior downturns, the report points out. FDIC Chairman Don Powell, however, noted: "The level of credit risk may be higher this time around because the mortgage lending business has changed since the last downturn."

The first quarter 2001 ***Regional Outlook*** examines these changes, including increased involvement by insured institutions in the higher-risk subprime credit market, the acceptance of higher initial leverage on home purchases, and greater use of automated underwriting and collateral valuation processes, which have not been recession-tested.

Home-price softening could have an adverse effect on residential construction and development (C&D) and mortgage portfolios. In the aggregate, the level of risk appears modest. FDIC analysts, however, caution that insured institutions with significant C&D loan exposures in markets that experienced ongoing residential construction during 2001, despite slowing local economies, are at higher risk.

Today's ***Regional Outlook*** covers a variety of other issues including:

Atlanta Region. The current downturn may adversely affect some of the Region's insured institutions that have relied on rapid economic growth, such as those experiencing their first recession or institutions with concentrations in traditionally higher-risk loan categories.

Boston Region. Interest-rate risk appears to be increasing, particularly for the Region's smaller savings institutions. Managing this risk will be a trade-off between short-term profits and long-term earnings stability.

Chicago Region. Although manufacturing is less important to the Region than in past downturns, the difficulties of that sector and effects of the recession continue to affect the regional economy. Rapidly falling interest rates have improved insured institution net interest margins, but may challenge asset/liability management.

Dallas Region. Slowing employment growth and ongoing residential construction may increase the vulnerability of housing markets in the Denver and Austin MSAs. Leaner collateral positions could heighten the level of risk for insured mortgage lenders in these metropolitan areas.

Kansas City Region. The Wichita economy may be the Region's MSA most affected by the September 11, 2001 attacks because of layoffs in the aircraft manufacturing industry. Insured institutions in the Region have increased exposures to commercial real estate at the same time weakening has occurred in all CRE property types.

Memphis Region. Credit-quality deterioration remains a major concern for many of the Region's insured institutions. In addition, continued interest rate-volatility could challenge interest-rate risk management and pressure earnings performance.

New York Region. The aftermath of September 11, 2001 further weakened the Region's economic outlook. The Region's insured institutions appear better positioned to weather this economic downturn than the last recession; however, credit quality and interest-rate risk challenges lie ahead.

San Francisco Region. Softening in the high-tech and tourism sectors has weakened demand for real estate and challenged construction-project assumptions. These developments could adversely affect credit quality among the Region's construction lenders.

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[1]As considered here, this includes the following MSAs: San Jose, Santa Cruz-Watsonville, San Francisco, Santa Rosa, Oakland, Salinas, and Vallejo-Fairfield-Napa.