PRESS RELEASE

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COMMERCIAL REAL ESTATE WEAKNESS LIKELY TO PRESSURE BANK LOAN PORTFOLIOS, SAYS FDIC REPORT

FOR IMMEDIATE RELEASE

Bank commercial real estate (CRE) portfolios are performing well now, but Federal Deposit Insurance Corporation (FDIC) analysts expect some weakening going forward due to rising vacancy rates and falling rents in U.S. commercial real estate markets, according to an *FYI* report issued today. However, even with this anticipated turn in the cycle, banks are not likely to experience the problems of the last downturn of the late 1980s and early 1990s.

According to today's report, the FDIC continues to monitor the trend of declining demand for office space and falling rental rates in many regions of the country. "The good news is, despite declining fundamentals in most commercial property types, bank loans secured by commercial real estate and construction projects continue to perform well on the whole," said FDIC Chief Economist Richard Brown. "Loan losses in this line of business remain near their cyclical lows even as the vacancy rate approaches the peak of the previous real estate cycle."

Factors cited by the report that have helped buffer bank CRE portfolios include historically low interest rates, more conservative underwriting practices, and greater financial market involvement in the industry.

"These factors offer significant reassurance that the present downturn will not lead to credit problems on nearly the same scale as we saw during the last downturn," said Brown. "Even so, it appears likely that bank CRE loan losses will rise in coming quarters from their current low levels as more borrowers experience problems servicing their debt."