PRESS RELEASE

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BANKS FACE NEW CHALLENGES AS U.S. ECONOMY HEADS TOWARD RECOVERY

FOR IMMEDIATE RELEASE

The Federal Deposit Insurance Corporation (FDIC) announced that its insured institutions have continued to post strong financial results during the current 21-month expansion. According to a report released today in the Fall 2003 ***FDIC Outlook***, faster economic growth in the second half of 2003, which has been accompanied by higher long-term interest rates, could pose new challenges for banking and thrift institutions - particularly those that specialize in mortgage lending.

The strong financial performance of the banking and thrift industries continues to be a bright spot in the U.S. economic outlook. Credit quality measures have improved since late 2002, while growth in consumer and mortgage loans has boosted profitability.

However, FDIC Chairman Don Powell cautions the industry against complacency in a changing economic environment. "The recent increase in long-term interest rates will present new challenges to some segments of the industry," said Powell. "Strategies that have worked well in the past may not be as successful in today's operating environment."

Mortgage lenders may face particular challenges as a result of higher interest rates. Mortgage origination volumes can be expected to decline along with refinancing activity, while the extension of asset maturities may tie up capital that otherwise could be deployed at higher interest rates. In addition, gains on the sale of securities and loans may be harder to come by in future quarters if current levels of interest rates persist into the future. However, FDIC analysts emphasize that mortgage debt historically involves

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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lower levels of credit risk than most other asset categories, a fact that should mitigate overall levels of portfolio risk.

FDIC analysts also caution that insured institutions overall may find it more difficult to generate low-cost core deposits, as rising interest rates spur households to seek greater yields than those offered by bank deposits.

The report details several factors that have contributed to sluggish U.S. economic performance and additional job cuts during the current expansion. Weakness in the global economy, excess global capacity in manufacturing, strong growth in productivity, and the need to repair balance sheets and address governance concerns have all contributed to slow growth in business investment and a lack of interest in hiring new workers. However, many of these distractions are expected to fade over the next year, paving the way for a more rapid pace of U.S. economic activity.

Today's ***FDIC Outlook*** also addresses a variety of regional developments including:

Atlanta Region. Weak conditions persist among many segments of the commercial real estate sector in most major Southeastern markets. However, property valuations have not declined and, as a result, insured institution loan quality has weakened only modestly.

Chicago Region. Information technology advancements have improved access to banking services in the Chicago Region and across the nation. Layered security can mitigate vulnerabilities arising from increasingly complex computer systems.

Dallas Region. The Region's rural economy is showing signs of life despite a prolonged slump in the agricultural and manufacturing sectors, but recovery is not assured.

Kansas City Region. Continuing weakness in the aircraft manufacturing sector could begin to adversely affect insured institutions headquartered in Wichita when extensions of unemployment benefits expire.

New York Region. Despite ongoing job losses, the Region's insured institutions are performing well, and asset quality remains favorable. Earnings could suffer from a continued weak economy or from interest rate risk inherent in increasing concentrations of long-term assets.

San Francisco Region. Declining tax revenue could prompt layoffs in the state and local government sector, contribute to municipal bond downgrades, and constrain the volume of municipal deposits, potentially pressuring insured institution asset quality and liquidity.

FDIC Outlook—Fall 2003 Edition