



PRESS RELEASE

Federal Deposit Insurance Corporation

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FDIC CHAIRMAN SEES TREND TOWARD IMPROVED CREDIT QUALITY IN COMMERCIAL AND INDUSTRIAL LOAN PORTFOLIOS

FOR IMMEDIATE RELEASE

The Chairman of the Federal Deposit Insurance Corporation (FDIC) today said there are signs that the rapid increases in problem commercial credits at large banks over the past two years are beginning to slow, and predicted a "substantial trend" toward improved credit quality in bank commercial and industrial (C&I) loan portfolios.

Speaking at an FDIC-sponsored Corporate Sector Roundtable in New York City, Chairman Don Powell told attendees that commercial loan chargeoffs in the fourth quarter of 2002 were down 30 percent from the same period in 2001.

"Granted, this is only a one-quarter decline in these measures of problem loans," said Powell. "But we are confident that it marks a more substantial trend toward improved credit quality in bank C&I loan portfolios."

He gave three reasons for his prediction. The first "is that risk selection has improved over time as lending standards have been tightened," Powell said. "In addition, insured banks have generally been proactive in recognizing losses early and addressing problem credits as they have arisen," in part through the rapidly growing secondary market for distressed loans.

"The third factor pointing to continued improvement in bank commercial credit quality is the underlying trend in corporate bond defaults," Powell told the group. "We saw 12-month average default rates on spec-grade bonds peak early last year at 11.5 percent.



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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Since then, the default rate has fallen steadily, all the way to 5.7 percent as of last month."

Historically, such trends bode well for commercial loan performance at FDIC-insured banks, said Powell.

During the one-day meeting, the FDIC Corporate Sector Roundtable examined the financial strength and fundamental outlook of the U.S. corporate sector -- factors that will determine both the direction of the U.S. economy and the outlook for commercial credit quality at large U.S. banks. Participants included Richard A. Brown, Chief Economist, FDIC; John Lonski, Managing Director and Chief Economist, Moody's Investors Service; Nicholas Riccio, Managing Director, Corporate Ratings, Standard & Poor's; Barbara G. Marcin, CFA, Portfolio Manager, Gabelli Blue Chip Value Fund, Gabelli Asset Management, Inc.; and Michael Mandel, Chief Economist, *BusinessWeek*.