PRESS RELEASE

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FDIC Outlook Assesses Factors Behind Banking Industry Earnings Performance

FOR IMMEDIATE RELEASE

The FDIC today released the Summer 2004 ***FDIC Outlook***, which examines the earnings performance of FDIC-insured depository institutions in three different reports: addressing the role of net interest margin in industry earnings, the effect of higher interest rates on securities gains, and how demographic trends are affecting banks in rural areas.

The first report concludes that large insured institutions no longer rely as much on net interest margin, or the difference between the yield on earning assets and the bank's cost of funds, as a measure of earnings performance. Long-term trends, including deregulation and technology, have increased competitive pressures within the industry and have prompted a shift in revenue sources towards non-interest income over time.

In another ***Outlook*** report, analysts explored the prospects for bank investment portfolios as interest rates rise. Given the inverse relationship between bond values and interest rates, gains realized through the sale of securities added billions to banking industry earnings during the 2001 recession and the subsequent recovery. However, the expectation for higher interest rates going forward could adversely affect bond values and constrain the ability of FDIC-insured institutions to realize gains in their investment portfolios.

Today's ***Outlook*** also discusses the implications of rural depopulation for community banks in the Great Plains, particularly for those banks based in counties with declining populations. However, many institutions have continued to thrive despite unfavorable demographic trends. In today's report analysts examine the strategies that have worked for these banks.

To complement these analyst reports, the FDIC also asked for a practitioner's perspective on key economic and financial issues. In a special feature in today's ***Outlook***, FDIC Chief Economist Richard A. Brown interviews Bank One Chief Economist Diane Swonk about the housing market, consumer credit, the role of the U.S. dollar, and the outlook for the U.S. and global economy.

Today's issue of ***FDIC Outlook*** can be accessed at www.fdic.gov/bank/analytical/regional/index.html.