PRESS RELEASE

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August 24, 2004

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Signs Point to Impending Recovery in Bank Commercial Lending

FOR IMMEDIATE RELEASE

After 13 consecutive quarters of decline in commercial and industrial (C&I) lending by FDIC-insured institutions, signs point to improved prospects for this important line of business, according to the Fall 2004 issue of the ***FDIC Outlook*** which was released today. Overall, the business sector is again experiencing stronger investment, increased inventory building, and greater merger activity, all of which tend to be associated with greater demand for commercial loans. These factors, combined with indications that banks are becoming more willing to lend, suggest that C&I lending is poised to resume growing in the second half of 2004.

Today's report identifies a number of factors—including corporate governance scandals and the Iraq war—that helped to hold back commercial lending following the 2001 recession, but argues that improving economic fundamentals now outweigh those lingering concerns. In addition, the report identifies specific industry sectors that currently exhibit the greatest need for external funding and that will likely lead the expected rebound in C&I lending. Today's ***FDIC Outlook*** also looks closely at some of the competitive challenges facing community banks as these institutions try to expand C&I portfolios.

"One of the advantages that community banks have in competing for small businesses as customers is that they are located near local firms and are familiar with them," said FDIC Chairman Donald Powell. "However, competition for small business loans from larger banking organizations and nonbank lenders is brisk and is expected to intensify," he adds.

This issue of the ***FDIC Outlook*** also examines the past performance and near-term outlook for the nation's manufacturing industry. Specifically, FDIC analysts analyze the effects of employment losses in the motor vehicle manufacturing industry on community banks and thrifts based in areas in the FDIC's Chicago Region that have relatively high exposures to manufacturing. Despite the effects of the prolonged manufacturing recession, these insured institutions have maintained earnings that are comparable to those of institutions based in other areas. Analysts conclude that management's historical experience is guiding how these banks and thrifts plan for and manage the local effects from cyclical swings and more permanent structural shifts in the motor vehicle sector.

Another report in today's ***FDIC Outlook*** finds that although the U.S. agricultural industry and the insured institutions that support it are currently healthy and profitable, three long-term risks face this sector: changing consumer attitudes toward food safety; evolving water allocation policies; and the ongoing agricultural trade policy debate.