PRESS RELEASE

Federal Deposit Insurance Corporation

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Bank and Thrift Earnings Return to Record Level in the Third Quarter

Income rose more than four percent over second quarter; trading revenue up 84 percent

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation reported record net income of $34.6 billion for the third quarter of 2005, a $1.4 billion improvement (4.2 percent) over the second quarter, and $492 million (1.4 percent) more than the previous earnings record set in the first quarter of this year. Strong growth in noninterest income at larger institutions, particularly from trading and servicing activities, provided much of the improvement in earnings. However, provisions for loan losses and net loan chargeoffs both increased for the first time in three years.

"Despite an uptick in loan losses, today's results point to a banking industry that continues to perform very well," said FDIC Acting Chairman Martin Gruenberg.

Preliminary results for the third quarter are contained in the FDIC's latest *Quarterly Banking Profile*, which was released today. Among the major findings:

- **Residential mortgage loan growth remained strong, while growth in real estate construction lending is accelerating.** One- to four-family mortgage loans increased by $66.6 billion (3.4 percent) in the third quarter. Loans for real estate construction and land development grew by $28.2 billion (7.2 percent) during the quarter, and have increased by 30.9 percent over the past 12 months. In contrast, home equity loan growth, which was proceeding at an annual rate of 46 percent a year ago, has slowed considerably in 2005. During the third quarter, home equity loans increased by only $4.3 billion (0.8 percent), the smallest quarterly increase in more than four years. Loans to commercial and industrial (C&I) borrowers registered a slowdown in the third quarter. C&I loans increased by $7.5 billion, (0.7 percent), after growing by a record $42.5 billion in the second quarter.

- **Income from trading rose to a record high.** Trading revenue totaled $4.5 billion in the third quarter, an increase of $2.0 billion (84.1 percent) from the previous quarter, and the largest quarterly amount ever reported by the industry. Revenue from trading interest rate contracts and equity contracts both increased by more than $1 billion from second-quarter levels. Servicing income also registered strong growth in the third quarter, as rising interest rates boosted the value of servicing assets. Servicing income totaled $5.0 billion in the third quarter, which was $2.1 billion (74.2 percent) more than in the second quarter. These improvements in noninterest income were concentrated among large institutions that conduct most of the industry's trading and asset servicing. Three banks accounted for 85.7 percent of the industry's trading revenues in the third quarter, while the 10 largest asset servicers earned more than two-thirds (68.6 percent) of the industry's servicing income.

- **Expenses for credit losses were higher, ending a three-year run of declining credit costs.** Provisions for loan losses rose to $8.9 billion in the third quarter, compared to $6.6 billion in the second quarter and $7.4 billion in the third quarter of 2004. The $1.5-billion (20.4-percent) year-over-year increase in loss provisioning was the first such increase since the third quarter of 2002. Quarterly loss provisions exceeded net loan losses of $8.3 billion, marking the first time since the fourth quarter of 2002 that provisions have exceeded charge-offs.

- **Insured deposit growth caused declines in deposit insurance fund reserve ratios.** The FDIC's Bank Insurance Fund (BIF) reserve ratio declined from 1.26 percent to 1.25 percent during the third quarter, as insured deposit growth remained strong and declining values in the Fund's securities portfolio limited growth in the BIF. The Savings Association Insurance Fund (SAIF) ratio also declined, dropping by two basis points to 1.30 percent. It is expected that the BIF will fall below its statutorily mandated target of 1.25 percent by the end of this year or early next year, which could cause the FDIC to impose premiums on all BIF-insured institutions.

The complete report is available on the FDIC Web site at http://www2.fdic.gov/qbp/index.asp.