PRESS RELEASE

Federal Deposit Insurance Corporation

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Strong Second-Quarter Bank and Thrift Earnings are Just Short of the Record

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation reported net income of $33.1 billion for the second quarter of 2005, the second best performance ever but a $1.1 billion decline (3.3 percent) from the record earnings set in the previous quarter. Insured institutions as a whole benefited from gains on securities sales of $1.4 billion (167.1 percent) and increases in net interest income of $672 million (0.9 percent) due to strong loan demand. Second-quarter profits also represented a 6.3 percent improvement over the results from a year ago. However, weaker results at large banks, primarily from lower noninterest income and higher expenses, produced the decline in overall industry earnings from the first quarter of 2005.

"Yet another quarter of solid earnings reflects the soundness of the banking industry," said FDIC Chairman Don Powell. "The slowdown in revenue growth, however, will be a continuing challenge for the industry."

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

- **Loan demand strengthened, especially for residential mortgages and commercial and industrial loans.** One- to four-family loans increased by $65.8 billion (3.5 percent) and home equity lines of credit grew by $25.9 billion (5.1 percent) in the second quarter. After declining steadily for more than three years, loans to commercial and industrial (C&I) borrowers have increased in each of the last five quarters. The $42.4 billion increase in C&I loans during the second quarter is the largest quarterly increase ever reported by the industry. In the 12 months through June 30, 2005, C&I loans grew by $117 billion (12.6 percent). Loans to small C&I borrowers (loans in original amounts of $1 million or less) increased by $10.1 billion (3.7 percent) during that period.

- **Large institutions' net interest margins were hurt by higher funding costs.** Short-term interest rates rose during the second quarter, causing large institutions' costs of funding their assets to rise more rapidly than the yields they earned on those assets. The industry's net interest margin -- the difference between the yield institutions earn on their loans and other interest-bearing investments and the interest expense they incur to fund those assets -- dropped to 3.49 percent, the lowest level since 1990. In contrast to large institutions, funding costs for the rest of the industry did not rise as rapidly. As a result, net interest margins improved at almost two out of every three FDIC-insured institutions (63 percent).

- **Revenue growth continued to slow.** Despite the continued strong expansion of interest-earning assets, the growth in operating revenues slowed during the second quarter. Net operating revenue -- total noninterest income plus net interest income -- totaled $133.5 billion in the second quarter, an increase of 3.4 percent compared to the second quarter of 2004. A year ago, though, net operating revenue was growing at a 7.3 percent rate, more than twice as rapidly. Institutions have experienced difficulty in growing their fee income, and trading profits at large institutions have not shown significant growth.

- **Growth in insured deposits surpassed growth in the deposit insurance funds.** The FDIC's Bank Insurance Fund (BIF) reserve ratio as of June 30 was 1.26 percent, down from a revised March 31 ratio of 1.28 percent. The decline was due primarily to an increase in the amount of insured deposits in the system as estimated BIF-insured deposits rose by 1.9 percent in the second quarter. This is the third consecutive quarter that the BIF's reserve ratio has dropped. The Savings Association Insurance Fund (SAIF) ratio dropped as well, dipping one basis point to 1.32 percent for the quarter. Unless insured deposit growth slows significantly in the near term, there is a high probability that the BIF will fall below its statutorily mandated target of 1.25 percent by the end of this year or early next year. If the BIF falls below that level, it may cause the FDIC to impose premiums on insured institutions. The increased likelihood of premiums that will be assessed without regard to past assessments or risk underscores the need for Congress to consider deposit insurance reform legislation to ensure a fairer and more effective risk-related system than under current law.

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