PRESS RELEASE

Federal Deposit Insurance Corporation

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Banks and Thrifts Report Record Earnings in First Quarter of 2005

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reported net income of $34.3 billion for the first quarter of 2005, eclipsing the previous quarterly record of $32.4 billion set in the third quarter of 2004. First-quarter profits represented a 7.7-percent improvement over the industry's year-earlier results. The positive effects of reduced expenses for bad loans and the absence of significant merger-related costs were major factors in the industry's earnings surge -- enough to overcome the negative impact of a decline in net operating revenue (the sum of net interest income and total noninterest income).

"These record earnings once again underscore the fact that the industry's health is excellent," said FDIC Chairman Don Powell. "However, the lack of revenue growth shows that the industry faces challenges in sustaining a high level of performance."

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

- **Lower expenses for bad loans continue to boost the industry's bottom line.** Provisions for loan and lease losses of $6.2 billion were the lowest quarterly total since the third quarter of 1999. Provisions were $1.4 billion (18.3 percent) lower than in the first quarter of 2004. Most of the decrease in loss provisions occurred at large commercial banks.

- **A flattening yield curve means declining net interest margins and lower net interest income.** Rising short-term interest rates helped produce a decline in the difference between the interest banks and thrifts earn on their loans and other investments and the interest they pay for deposits and other funds. The industry's net interest margin dropped to a 15-year low of 3.54 percent in the first quarter, down from 3.63 percent in the fourth quarter. Total net interest income was $435 million (0.3 percent) lower than in the fourth quarter. The decline in net interest income, combined with an increase of only $36 million in noninterest income, meant that net operating revenue declined by $399 million.

- **Mortgage demand remained strong.** Mortgage-related assets -- residential mortgage loans, mortgage-backed securities and home equity loans -- increased by $99 billion (2.9 percent) during the first quarter. This growth accounted for 56 percent of the increase in total industry assets during the quarter. Growth in commercial real estate loans was also robust, while the rates of growth in real estate construction and development lending and lending to commercial and industrial borrowers accelerated during the quarter.

- **Deposit growth outstripped loan growth for a second consecutive quarter.** Total deposits increased by $124.5 billion in the first quarter of 2005, after growing by $200.5 billion in the fourth quarter of last year. In contrast, total loans at insured institutions increased by $81.8 billion in the first quarter of this year and by $137.7 billion in the previous quarter. In the 12 months ending March 31, deposits at insured banks and thrifts grew by $581.2 billion (9.5 percent).

"The growth in deposits is an especially good sign for the banking industry," Chairman Powell added. "It shows that Americans appreciate the safety, the simplicity and the convenience of FDIC-insured deposits, because there are many other options available to them."

Due primarily to the increase in FDIC-insured deposits, the agency's Bank Insurance Fund (BIF) ended the quarter with a reserve ratio of 1.27 percent, compared to 1.30 percent at the end of 2004 and 1.32 percent a year ago. The reserve ratio of the Savings Association Insurance Fund (SAIF) declined from 1.34 percent to 1.32 percent during the quarter. A year ago, it was 1.36 percent.

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