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FOR IMMEDIATE RELEASE
October 5, 2006

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FDIC State Profiles Show Continued Strong Banking Performance and a Slowing U.S. Economy

Strong financial performance for FDIC-insured institutions continued through mid-2006 in virtually every region of the nation, according to a series of reports issued today by the Federal Deposit Insurance Corporation (FDIC). Although net interest margins remain tight for many institutions, bank and thrift earnings through the second quarter of 2006 continued to be supported by low credit losses across most loan categories. These and other state-level economic and banking trends are summarized in this issue of ***FDIC State Profiles***.

Today's reports describe a modest slowing in the pace of economic activity and job growth at mid-year across much of the nation. However, only Louisiana and Michigan experienced a year-over-year decline in payroll employment during the second quarter. FDIC analysts discuss regional differences in housing market conditions, noting decelerating price increases, weak home sales and slower residential building activity across much of the country. For now, outright home price declines are mostly confined to a few cities in the upper Midwest, while some states in the Mountain West and Northwest have yet to experience much of a slowdown in housing activity.

"The ***FDIC State Profiles*** clearly point to a downshift in economic growth at mid-year, with residential construction activity lagging far below levels of a year ago," said FDIC Chief Economist Richard A. Brown. "At the same time, the strong financial performance and condition of banks in all regions continue to be among the positives in the economic outlook."

The banking industry reported a fifth consecutive year of record earnings in 2005 and two consecutive quarterly earnings records in the first half of 2006.

While loan performance at FDIC-insured institutions remained strong overall, analysts note that commercial real estate (CRE) concentrations have risen to historic highs,

Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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particularly in the FDIC San Francisco and Atlanta regions. Analysts in the San Francisco and New York regions also noted some deterioration in the performance of subprime adjustable-rate mortgages (ARMs) compared to fixed-rate loans-a trend that may reflect "payment shock" for some adjustable-rate borrowers.

FDIC State Profiles are quarterly state-by-state snapshots of economic and banking trends. The current editions highlight trends through the second quarter of 2006 and feature:

- state data rankings for various economic and banking measures,
- an overview of activity in regional housing markets,
- an assessment of the effects of narrowing net interest margins on insured institution profitability, and
- an overview of loan growth and credit quality for FDIC-insured institutions around the country.

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Attachment: FDIC State Profiles - Fall 2006