PRESS RELEASE

Federal Deposit Insurance Corporation ● Each Depositor insured to at least $250,000

FOR IMMEDIATE RELEASE
May 25, 2006

Media Contact:
David Barr (202) 898-6992
dbarr@fdic.gov

Banks and Thrifts Report Record Earnings in First Quarter
Commercial loan growth picks up momentum, asset quality indicators remain strong

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reported a record quarterly net income of $37.3 billion for the first three months of 2006, eclipsing the previous quarterly high of $34.6 billion set in the third quarter of 2005. First-quarter profits represented a 9.5 percent improvement over the industry's results a year earlier. Loan growth remained robust, with particular strength in commercial lending. Asset quality continued to be very good, with net charge-offs and noncurrent levels improving in consumer loan portfolios.

"The banking industry continues to meet strong credit demand in a growing U.S. economy," said FDIC Acting Chairman Martin Gruenberg. "Regulators are working with the industry to ensure that effective risk-management practices will help keep the industry financially strong."

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

- **Improved performance by larger institutions boosted the industry's bottom line.** Increased trading revenue and income from securitization activities accounted for almost one-quarter of the industry's improvement in net operating revenue. Trading income was $1.4 billion (32.4 percent) higher than in the first quarter of 2005, while securitization income was up by $1.1 billion (19.4 percent).

- **Loans for real estate construction and commercial borrowers showed growing momentum.** Real estate construction and land development loans increased by 7.7 percent ($34.5 billion) during the first quarter and were up by 34.6 percent ($124.2 billion) in the 12 months ended March 31. These are the highest growth rates of any major loan category. Loans to commercial and industrial (C&I) borrowers had a record quarterly increase of $47.5 billion (4.4 percent).

- **Asset-quality indicators registered improvement.** Charge-off rates on consumer loans declined in the first quarter, ending a two-quarter increase in consumer loan losses associated with new federal bankruptcy rules that took effect in October 2005. Net charge-offs of credit card loans declined to $2.9 billion, while net charge-offs of other loans to individuals fell to $1.3 billion -- both five-year lows. Overall, asset-quality indicators remained quite favorable, and no other loan categories exhibited significant activity in noncurrent loans or net charge-offs.

- **Rising short-term interest rates have put downward pressure on net interest margins.**A growing reliance on short-term funding sources has meant that bank and thrift funding costs have risen more rapidly than the yields on their investments when short-term interest rates increased. This development was evident in their net interest margins during the first quarter. Almost two-thirds of all insured institutions saw their net interest margins decline during the quarter. The industry's net interest margin fell to a 15-year low of 3.46 percent in the first quarter, down from 3.49 percent in the fourth quarter of 2005.

On March 31, the FDIC's Bank Insurance Fund (BIF) and Savings Association Insurance Fund (SAIF) were merged to form the Deposit Insurance Fund (DIF). As of that date, the reserve ratio of the new fund was 1.23 percent, compared to 1.25 percent at the end of 2005 and 1.29 percent on March 31, 2005. The declining trend in the reserve ratio has been caused by strong growth in insured deposits in response to higher interest rates on deposit accounts.

There has not been a failure of an FDIC-insured institution in more than seven quarters -- since June 25, 2004. This is the longest interval without an insured institution failure in the FDIC's 73-year history.

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