PRESS RELEASE

Federal Deposit Insurance Corporation

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Insured Banks and Thrifts Report Strong Third-Quarter Earnings

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reported net income of $37.6 billion for the third quarter of 2006, the second-highest total ever. The record for industry earnings is $38.0 billion reported in the second quarter. The third-quarter earnings represented an 8.6 percent improvement over the same period last year, the result of lower expenses for loan losses and increased net interest income made possible by strong loan growth.

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

- **Commercial lending growth remained strong.** Real estate construction and development loans, loans to commercial and industrial (C&I) borrowers, and loans secured by nonfarm nonresidential properties were the categories with the largest quarterly increases. They accounted for two-thirds of all loan growth in the third quarter. Residential mortgage loans had their smallest quarterly increase since the fourth quarter of 2003.

- **Net interest margins continued to narrow, especially at large institutions.** The industry's net interest margin -- the difference between the average rate banks earned on their interest- bearing investments and the average rate they paid to fund those investments -- declined to a 17-year low in the third quarter. Margin erosion was most pronounced at large institutions, while many small institutions were able to maintain or even improve their margins. Margin declines were caused by a flat yield curve, competitive pressures on loan and deposit pricing, and institutions' increased reliance on short-term nondeposit liabilities to fund asset growth.

- **Noncurrent rate rises from record low level.** Noncurrent loans and leases (those that are 90 days or more past due or in nonaccrual status) increased by

FDIC

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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$3.4 billion (6.9 percent) during the quarter. About two-thirds of the increase occurred in residential mortgage loans, real estate construction and development loans, and loans to commercial and industrial (C&I) borrowers. The percentage of loans and leases that were noncurrent rose during the quarter from a 22-year low of 0.70 percent to 0.73 percent. Net charge-offs were $1.2 billion lower than in the third quarter of 2005, with the improvement centered in credit cards and other nonmortgage loans to consumers.

- **Signs of industry strength abound.** Equity capital posted its second-largest increase ever in the third quarter. The industry's core capital (leverage) ratio rose to an all-time high at the end of September. The number and assets of institutions on the FDIC's "Problem List" fell to the lowest level in the 36 years for which data are available. The latest reporting period marked the ninth consecutive quarter without a failure of an FDIC-insured institution, the longest such period in the FDIC's 73-year history. The last failure occurred on June 25, 2004.

- **Insured deposit growth caused the Deposit Insurance Fund reserve ratio to decline.** Estimated insured deposits increased by $56.1 billion (1.4 percent) during the quarter, as retail time deposits (balances of less than $100,000) grew by $46.3 billion. The growth in insured deposits caused the FDIC Deposit Insurance Fund's (DIF) ratio of reserves to insured deposits to decline from 1.23 percent to 1.22 percent. Total deposits increased by $73.7 billion (1.0 percent) during the quarter, as deposits in foreign offices of U.S. banks (which are not FDIC-insured) rose by $35.8 billion (3.4 percent).

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