PRESS RELEASE
Federal Deposit Insurance Corporation

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Bank and Thrift Earnings Set Fifth Consecutive Record in 2005:

FDIC also announces longest span without assistance to a failed or failing institution

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reported net income of $134.2 billion in 2005, surpassing the previous record by $11.8 billion (9.6 percent) set in 2004 and representing the fifth consecutive year that industry earnings reached a new high. Increased net interest income (stemming from strong growth in loans) and a boost in noninterest income at larger institutions (particularly from trading and servicing activities) were the main factors contributing to the latest annual record.

The industry's net income of $32.9 billion in the fourth quarter of 2005, while the fourth highest ever and a $1.7 billion (5.4 percent) increase over the same quarter a year ago, marked a decline of $1.7 billion (5.0 percent) from the record earnings of the third quarter of 2005. The average return on assets (ROA) fell to 1.22 percent in the fourth quarter, down from 1.25 percent a year ago.

"What we see is a banking industry that is fundamentally strong but continues to face some important challenges ahead," said FDIC Acting Chairman Martin Gruenberg.

In a related development, the FDIC also noted that this past weekend the agency reached a milestone for the longest number of days during which it did not provide assistance to a failed or failing institution. The previous record of 609 days spanned between January 1945 and September 1946. “This historic milestone speaks to the favorable economic conditions we have recently experienced as well as to the efforts of bankers and regulators to manage risks in the industry," Gruenberg said.

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

- **Growth in residential mortgage assets slowed in the fourth quarter.** Residential mortgage loans, home equity loans and mortgage-backed securities increased by $24.0 billion (0.6 percent) in the fourth quarter. This growth was the smallest quarterly increase in these assets in two years, and was less than half the $66.7 billion increase in the third quarter. Loans to commercial borrowers -- including those for real estate construction and development, commercial and industrial (C&I) borrowers, loans secured by commercial real estate, and loans to depository institutions -- increased by $101.0 billion (3.3 percent) and accounted for 57.3 percent of total asset growth in the fourth quarter.

- **Net interest margins remained at low levels.** The industry's net interest margin, the difference between the average return on interest-earning investments and the average interest expense incurred to fund those investments, fell from 3.50 percent to 3.49 percent in the fourth quarter, equaling a 14-year low that was also matched in the second quarter of 2005. As short-term interest rates rose more rapidly than longer-term rates, the difference between them has narrowed. The narrower spread has made depository institutions' traditional business of taking deposits and making loans less profitable, as banks and thrifts tend to make longer-term loans and fund them with shorter-term deposits.

- **Net charge-offs of credit card loans rose sharply.** In anticipation of more stringent bankruptcy rules, an unprecedented number of individuals filed for Chapter 7 bankruptcy protection during the first two weeks of the fourth quarter. One result of the surge in bankruptcy filings was a sharp increase in charge-offs of credit card loans to a record $5.7 billion in the fourth quarter, surpassing the previous record of $4.9 billion in the second quarter of 2002. Fourth quarter charge-offs also are up from $4.0 billion in the third quarter of 2005 and $4.6 billion a year earlier (the fourth quarter of 2004). Apart from credit cards, no other loan category showed a significant year-over-year increase in net charge-offs.

- **No insured institutions failed during the fourth quarter, extending a record streak without bank failures.** The last failure of an FDIC-insured institution was in June 2004. No insured institutions failed during 2005, marking the first year since the inception of federal deposit insurance in 1933 that no insured institution has failed. The six quarters without a bank failure is the longest such interval ever registered.

- **Insured deposit growth caused declines in deposit insurance fund reserve ratios.** The FDIC's Bank Insurance Fund (BIF) reserve ratio declined from 1.25 percent to 1.23 percent during the fourth quarter, as insured deposit growth remained strong, and declining values in the Fund's securities portfolio limited growth in the BIF. The Savings Association Insurance Fund (SAIF) ratio also declined, dropping by one basis point to 1.29 percent. Under a new law, the two insurance funds will be merged no later than July 1, 2006. The reserve ratio of a combined fund would have been 1.25 percent at year-end 2005. The upcoming merger of the funds also will add certain previously escrowed amounts which, if included in a combined fund balance at year-end 2005, would have put the reserve ratio at 1.26 percent.

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