PRESS RELEASE

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Earnings at FDIC-Insured Institutions Total $36.7 Billion in the Second Quarter

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reported net income of $36.7 billion for the second quarter of 2007, which is $1.3 billion (3.4 percent) below the level of a year ago but still the fourth-best quarterly earnings ever reported. Higher expenses for bad loans and narrower net interest margins (the difference between institutions' yields on investments and the rates they pay for funding) were the main reasons for the year-to-year decline in quarterly earnings.

"Banks continued to face two key challenges -- a difficult interest rate environment and ongoing weakness in residential mortgage lending," said FDIC Chairman Sheila Bair. "However, under the circumstances, the industry's second quarter earnings performance was very solid. What we see is a banking industry that is generally well capitalized, well diversified and profitable, and is in good position as we go through this period of market adjustment."

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

Provisions for loan losses registered a sizable increase. Insured banks and thrifts set aside $11.4 billion in loan-loss provisions during the quarter, the most since the fourth quarter of 2002. Second-quarter loss provisions were $4.9 billion (75.3 percent) more than the industry set aside in the second quarter of 2006.

Troubled real estate loans continue to accumulate. The amount of loans and leases that were noncurrent (90 days or more past due or in nonaccrual status) grew for the fifth quarter in a row, rising by $6.4 billion (10.6 percent). Loans secured by real estate accounted for most of the growth. Noncurrent residential mortgage loans increased by $3.1 billion (12.6 percent), and noncurrent real estate construction and development loans rose by $2.2 billion (39.5 percent).

Noninterest income had strong growth. Total noninterest income was $5.6 billion (9.0 percent) higher than a year earlier, as both market-based revenue and transaction-based income posted gains. Income from trading activities rose by $1.4 billion (28.5 percent), while asset servicing fees increased by $1.1 billion (25.1 percent), and income from trust activities was up by $1.0 billion (15.8 percent).

Business loan demand exhibits strength. Loans to commercial and industrial (C&I) borrowers had the largest increase of any loan category during the second quarter. C&I loans grew by $51.3 billion (4.1 percent), the largest quarterly increase ever reported by the industry. Also, annual data on loans to small businesses and farms that are reported as of each June 30 show that loans to small C&I borrowers had their largest 12-month increase in the 12 years for which data on loan growth for small businesses are available.

Insured deposit growth slowed. The amount of deposits insured by the FDIC had its smallest increase in 15 quarters as large banks turned to foreign deposits, which are not insured, to fund their asset growth. Total deposits at FDIC-insured institutions increased by $140.1 billion (1.8 percent), as deposits in foreign offices grew by $143.3 billion (11.9 percent), and deposits in domestic offices declined by $3.2 billion (0.05 percent).

Chairman Bair said that the current conditions in the residential mortgage market reinforce the importance of finalizing new interagency rules for large banks' risk-based capital requirements. The final rules, which are expected to be issued by the FDIC and other banking regulators in the near future, would implement the Basel II global capital standards in the United States. "I am pleased that the U.S. regulators have come to an agreement that has real teeth behind it. It is essential that we maintain strong capital levels," she said.

Chairman Bair also noted that banks are working with the key participants in subprime mortgage lending -- from loan servicers to investors on Wall Street -- to restructure loans and otherwise help borrowers stay in their homes. "The subprime market is still a major concern," she added, "but I want to emphasize that the banking industry's fundamentals remain strong. The situation highlights the need for banking regulators to remain vigilant in enforcing sound risk-management practices."

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