PRESS RELEASE

Federal Deposit Insurance Corporation

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Insured Banks and Thrifts Earned $36 Billion in the First Quarter

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reported net income of $36.0 billion in the first quarter of 2007, slightly below the $36.9 billion they earned in the first quarter of 2006 but still the fourth-highest ever reported by the industry. In releasing the latest results, the FDIC cited the housing slump, unfavorable interest rate conditions, slower growth in the U.S. economy, and higher levels of problem loans as the main reasons why industry earnings were flat during the first quarter.

"It is clear that the operating environment is more challenging now than it has been in recent years," said FDIC Chairman Sheila C. Bair. "Key indicators of industry health -- capital, earnings and asset quality -- remain very strong by historical standards. However, current conditions underscore the importance of banks remaining vigilant and following sound risk-management practices, especially for lending."

Bair also said, "Given the inevitable turn in the credit cycle and with problem loans on the rise, we need to ensure that new global capital standards do not threaten the safety net." The FDIC and other U.S. regulators are working to finalize new guidelines for banks under the Basel II capital agreement.

Higher expenses for credit losses at large banks and narrower net interest margins at smaller institutions posed the biggest challenges to earnings in the first quarter. Fewer than half of all insured institutions (48 percent) reported increased profits in the first quarter compared to the first quarter of 2006, while only 38 percent reported higher returns on assets (ROAs), a basic yardstick of earnings performance. The average ROA for the industry was 1.21 percent, compared to 1.34 percent a year earlier.

The industry's average net interest margin -- the difference between the average interest income on loans and other investments and the average interest expense that they incur to fund those assets -- was 3.32 percent in the first quarter, down from 3.46

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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percent in the first quarter of 2006. Asset quality indicators were less favorable than a year earlier, and loan growth was slower, but the overall condition of the industry is good.

Smaller institutions (those with total assets less than $1 billion) generated profits that were solid but still lower than those of larger institutions. Smaller institutions' net interest margins fell to 3.91 percent, a 16-year low. This represents a significant challenge to their ability to increase profits because they rely on net interest income more than larger banks. Smaller institutions have not been as successful as their larger counterparts in generating non-interest income. Noninterest income was 25 percent of net operating revenues (net interest income plus total non-interest income) for smaller institutions, compared to 44 percent for their larger competitors. In addition, larger institutions benefit from economies of scale that let them more efficiently support overhead costs.

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

Troubled Loans Continued to Increase. The amount of loans that were noncurrent (90 days or more past due or in nonaccrual status) increased by $4.0 billion (7 percent) during the first quarter. This is the fourth quarter in a row that noncurrent loans have increased. At the end of March, the percentage of loans that were noncurrent was 0.83 percent, the highest level in two and a half years. As recently as mid-2006, the industry's noncurrent rate was 0.70 percent, the lowest level ever reported. Most of the growth in noncurrent loans has occurred in real estate loan portfolios. Net charge-offs of loans and leases totaled $8.1 billion in the first quarter, a $2.7 billion (48.4 percent) increase over the first quarter of 2006. Much of the increase in charge-offs occurred in consumer loan portfolios. A year ago, losses on credit cards and other loans to individuals were unusually low in the aftermath of a surge that preceded the implementation of new bankruptcy rules. Charge-offs of real estate loans were $569 million (103.6 percent) higher than a year ago.

Fewer Institutions Reported Earnings Growth. The 48 percent of insured banks and thrifts that reported higher earnings in the first quarter compared to a year earlier is the lowest percentage of institutions with earnings gains since 1994. At large institutions, increased expenses for loan losses was the primary factor. Two out of every three institutions with more than $1 billion in assets that reported lower earnings also reported higher loan-loss provisions. Among smaller institutions, narrower net interest margins were most closely associated with earnings declines. More than half (59 percent) of all institutions with assets less than $1 billion that had lower earnings also reported declines in net interest income.

Loan Growth Is Still Slowing. The rate of growth in loans and leases fell for the fourth quarter in a row, as the industry's residential mortgage portfolio shrank for a second consecutive quarter. Total loans and leases grew by $43.8 billion (0.6 percent) in the first quarter, the smallest quarterly increase in five years. Residential mortgage loans declined by $6.5 billion (0.3 percent) and home equity lines fell by $2.6 billion (0.5

percent). Loans to commercial and industrial (C&I) borrowers had relatively strong growth, increasing by $35.1 billion (2.9 percent). Consumer loans other than credit cards also grew substantially, rising by $20.9 billion (3.7 percent) during the quarter.

The Deposit Insurance Fund Reserve Ratio Dropped by One Basis Point. Estimated insured deposits increased by $84.4 billion in the first quarter, the second-largest quarterly increase in the past five years. The Deposit Insurance Fund (DIF) balance increased by $580 million (1.2 percent) during the quarter. For the third quarter in a row, the ratio of the DIF to insured deposits declined by one basis point, ending the quarter at 1.20 percent.

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