PRESS RELEASE
Federal Deposit Insurance Corporation

FOR IMMEDIATE RELEASE
February 22, 2007

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Insured Banks and Thrifts Report Record Earnings in 2006

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reported net income of $145.7 billion in 2006, eclipsing the previous record of $133.9 billion set in 2005. The improvement in earnings can be attributed in part to strong growth in noninterest income at large banks, higher net interest income and lower expenses for bad loans. This is the sixth year in a row that industry earnings set a new record.

"The banking industry continues to perform well, even as an inverted yield curve and a weakening mortgage market have made the operating environment more challenging," said FDIC Chairman Sheila C. Bair. "While institutions are generally well positioned from a capital perspective, bankers and regulators should ensure that risk-management practices are also equal to the challenges."

More than half of all insured institutions (55.9 percent) reported increased profits in 2006 compared to 2005, but only 46.3 percent reported higher returns on assets (ROAs), a basic yardstick of earnings performance. The industry's ROA of 1.28 percent in 2006 was slightly lower than the 1.30 percent in 2005. The average net interest margin -- the difference between the average interest income that institutions earn on their loans and other interest-bearing investments and the average interest expense they incur to fund those assets -- declined to an 18-year low of 3.31 percent in 2006 (from 3.52 percent in 2005). Rising short-term interest rates caused the difference between short-term and longer-term interest rates to narrow and even become negative at times in 2006.

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

- **Troubled residential mortgage loans increased during the fourth quarter.** Residential mortgage loans that were noncurrent (90 days or more past due or in nonaccrual status) increased by $3.1 billion (15.6 percent) during the fourth quarter. This increase followed a $974 million (5.2 percent) increase in the third quarter. Net charge-offs of residential mortgage loans totaled $888 million in the fourth quarter, a three-year high.

- **Industry earnings remained strong through the fourth quarter.** Insured institutions reported $35.7 billion in net income for the fourth quarter of 2006, an increase of $3.0 billion (9.3 percent) compared to the fourth quarter of 2005, when high losses in credit card portfolios held down industry earnings. The industry's performance was stronger than the reported income numbers indicate as restructurings at a few large institutions caused some fourth-quarter income and expense items to be understated.

- **Loan growth slowed in the fourth quarter, while deposit growth soared.** Total loans and leases increased by $66.1 billion in the fourth quarter, the smallest quarterly growth since the first quarter of 2002. Declining growth in residential mortgage loans and real estate construction and development loans accounted for a large part of the slowdown in lending growth. In contrast, total deposits grew by $247.2 billion during the quarter, the largest quarterly increase ever reported. The surge in deposit growth was aided by a record $90.2 billion increase in deposits in foreign offices, as well as by a $70.4 billion increase in savings and interest-bearing checking deposits, and a $56.6 billion increase in noninterest-bearing deposits.

- **Insured deposit growth continued to lower the Deposit Insurance Fund reserve ratio.** Estimated insured deposits grew by $53.8 billion in the fourth quarter, following a $60.6 billion increase in the third quarter. The effect of the growth in insured deposits on the ratio of the Deposit Insurance Fund (DIF) to insured deposits was the same in each quarter -- the DIF reserve ratio declined by one basis point in each of the last two quarters of 2006, ending the year at 1.21 percent.

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