PRESS RELEASE

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Insured Banks and Thrifts Earned $1.7 Billion in the Third Quarter

Provisions for Loan Losses Continue to Be High, But Capital Levels Remain Strong

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reported net income of $1.7 billion in the third quarter of 2008, a decline of $27.0 billion (94 percent) from the $28.7 billion that the industry earned in the third quarter of 2007. With the exception of the fourth quarter of last year, the latest earnings were the lowest for the industry since the fourth quarter of 1990.

"We've had profound problems in our financial markets that are taking a rising toll on the real economy. Today's report reflects these challenges," said FDIC Chairman Sheila C. Bair.

In releasing the latest results, the FDIC cited higher provisions for loan losses as the primary reason for the drop in industry profits. In addition to the increased provision expenses, the industry reported $7.6 billion in losses on sales of securities and other assets in the third quarter, compared to $77 million in gains a year earlier. Noninterest income was $905 million (1.5 percent) lower than a year earlier, reflecting reduced securitization income at a few large institutions. Expenses for goodwill impairment and other charges to intangible assets were significantly higher than a year earlier. While large losses at a few institutions were chiefly responsible for the size of the earnings decline, more than half of all insured institutions (58.4 percent) reported lower net income in the third quarter, and almost one out of four (24.1 percent) reported a net loss.

Nine FDIC-insured institutions failed in the third quarter, the most since the third quarter of 1993. The failures included Washington Mutual Bank, with assets of $307 billion. The FDIC's "problem list" grew during the quarter from 117 to 171 institutions, the largest number since the end of 1995. Total assets of problem institutions increased from $78.3 billion to $115.6 billion.

Since the end of the third quarter, the FDIC has taken several actions in coordination with Congress, the Treasury Department, the Federal Reserve Board and other federal regulators to restore confidence in insured financial institutions. These steps have included temporarily increasing deposit insurance coverage and providing guarantees for new, senior unsecured debt issued by insured institutions and their holding companies. These measures are intended to help banks fund their operations.

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 continue to rise. Higher levels of troubled loans, in both consumer and commercial portfolios, led to increased provisions for loan losses in the quarter. Loss provisions totaled $50.5 billion, compared to $16.8 billion in the third quarter of 2007. The latest loss provisions absorbed a third of the industry's net operating revenue (net interest income plus total noninterest income).

Charge-offs and noncurrent loans are still increasing. Insured institutions charged off (removed from their balance sheets because of uncollectibility) $27.9 billion in troubled loans in the third quarter. The annualized net charge-off rate of 1.42 percent was the highest quarterly average since 1991. The amount of noncurrent loans and leases (90 days or more past due or in nonaccrual status) increased by $21.4 billion (13.1 percent) during the third quarter. At the end of the quarter, 2.31 percent of all loans and leases were noncurrent, the highest level for the industry since the third quarter of 1993. "At this stage of the credit cycle, loan performance problems are spreading to a much wider range of lenders and categories of loans," said Chairman Bair. "This trend is linked to a weakening economy and uncertainty in financial markets."

Community banks are also facing increased stress. Community banks -- those with total assets of under $1 billion -- are beginning to exhibit stresses similar to those facing the industry as a whole. However, capital levels and reliance on retail deposits remain higher at these banks than the industry average. "Community banks are traditionally a steady source of credit for Main Street America," said Chairman Bair. "So it's essential that these banks have full opportunity to participate in Treasury's capital purchase program. We strongly urge them to take advantage of this program and the FDIC's temporary liquidity guarantee program."

As expected, the FDIC's Deposit Insurance Fund (DIF) reserve ratio fell. Higher loss provisions for bank failures were primarily responsible for a decline in the fund balance to $34.6 billion at September 30th from $45.2 billion at June 30th. The reserve ratio declined to 0.76 percent at September 30th from 1.01 percent the previous quarter. Estimated insured deposits (based on the basic FDIC insurance limit of $100,000) increased by 1.8 percent in the third quarter and 7.1 percent over the past four quarters. Assessment revenue has been gradually rising, but the FDIC's recently published DIF restoration plan and assessments proposal acknowledged that further declines in the fund balance and reserve ratio are likely before higher assessments scheduled for next year begin to replenish the fund.

The FDIC has ample authority to raise assessments to ensure that banking industry resources absorb all losses from bank failures and to protect insured depositors. The capital of the banking industry is available to support the fund. Well-capitalized institutions held $1.25 trillion in total capital at September 30th, including $235 billion above the threshold for well-capitalized status. The FDIC also can borrow from the Treasury to ensure that the agency can meet all of its obligations in a timely manner.

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