PRESS RELEASE
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Insured Banks and Thrifts Earned $19.3 Billion in the First Quarter

Troubled Real Estate Loans Trigger Higher Provisions for Losses, Weaker Profits

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reported net income of $19.3 billion in the first quarter of 2008, a decline of $16.3 billion (45.7 percent) from the $35.6 billion that the industry earned in the first quarter of 2007. In releasing the latest results, the FDIC cited higher provisions for loan losses as the primary reason for the drop in industry profits. The size of the earnings decline was mainly attributable to a few large institutions, but more than half of all insured institutions (50.4 percent) reported lower net income in the first quarter.

"To sum up, while we may be past the worst of the turmoil in financial markets, we're still in the early stages of the traditional credit stress you typically see during an economic downturn," said FDIC Chairman Sheila C. Bair.

She went on to say that "given the weaker economy and rising level of problem loans, we're encouraging bank managers to stay on their toes. We're urging all institutions to make sure their reserves are large enough to cover expected losses. We also want them to beef up their capital cushions beyond regulatory minimums given uncertainties about the housing markets and the economy."

In another development, the FDIC said that restatements of fourth-quarter 2007 profits by a few institutions, primarily reflecting additional charges for goodwill impairment, reduced industry earnings for that quarter from the $5.8 billion previously reported to $646 million. That is the lowest quarterly net income for the industry since insured institutions posted an aggregate net loss in the fourth quarter of 1990.

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

Noncurrent loans are still rising sharply. Loans that were noncurrent (90 days or more past due or in nonaccrual status) increased by $26 billion (or 24 percent) to $136 billion during the first quarter. That followed a $27 billion increase in the fourth quarter of

2007. Almost 90 percent of the increase in noncurrent loans in the first quarter consisted of real estate loans, but noncurrent levels increased in all major loan categories. At the end of the first quarter, 1.7 percent of the industry's loans and leases were noncurrent.

Earnings remain burdened by high provisions for loan losses. Rising levels of troubled loans, particularly in real estate portfolios, led many institutions to increase their provisions for loan losses in the quarter. Loss provisions totaled $37.1 billion, more than four times the $9.2 billion the industry set aside in the first quarter of 2007. Almost a quarter of the industry's net operating revenue (net interest income plus total noninterest income) went to building up loan-loss reserves.

The industry's "coverage" ratio -- its loss reserves as a percentage of nonperforming loans -- continued to erode. Loan-loss reserves increased by $18.5 billion (18.1 percent), the largest quarterly increase in more than 20 years, but the larger increase in noncurrent loans meant that the coverage ratio fell from 93 cents in reserves for every $1.00 of noncurrent loans to 89 cents, the lowest level since 1993. "This is a worrisome trend," Chairman Bair said. "It's the kind of thing that gives regulators heartburn."

She added, "The banks and thrifts we're keeping an eye on most are those with high levels of exposure to subprime and nontraditional mortgages, with concentrations of construction loans in overbuilt markets, and institutions that get a large share of their revenues from market-related activities, such as from securities trading."

The FDIC's Deposit Insurance Fund (DIF) reserve ratio fell. The DIF increased by $430 million (0.8 percent) during the first quarter, ending with a balance of $52.8 billion. The growth in the DIF, which was restrained by loss provisions of $525 million, did not keep pace with the quarter's $140.5 billion (3.3 percent) increase in insured deposits. As a result, the fund's reserve ratio declined from 1.22 percent to 1.19 percent during the quarter. Total deposits of FDIC-insured institutions increased by $150.4 billion (1.8 percent). Deposits in domestic offices rose by $156.2 billion (2.3 percent), while deposits in foreign offices declined by $5.8 billion (0.4 percent).

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