PRESS RELEASE
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Banks and Thrifts Earned $105.5 Billion in 2007
Fourth-quarter Results Lowest in 16 Years

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reported net income of $105.5 billion in 2007, a decline of $39.8 billion (27.4 percent) from the record $145.2 billion that the industry earned in 2006. Although this ended a string of six consecutive years of record earnings for the industry, income was still above the $100 billion mark for the sixth year in a row. Higher provisions for loan losses -- primarily due to weakness in residential mortgage and construction loans -- and sharply lower trading revenue were primarily responsible for the drop in full-year earnings. The bulk of the earnings decline was attributable to a few large institutions, but fewer than half of all insured institutions (49.2 percent) reported increased net income in 2007. In addition, the FDIC reported that fourth-quarter earnings dropped to $5.8 billion, their lowest level since the fourth quarter of 1991.

"It's no surprise to anyone that the second half of 2007 was a very tough period for the banking industry. Fourth quarter results were heavily influenced by a number of well-publicized write-downs by large banks," said FDIC Chairman Sheila C. Bair.

"Weakness in the housing sector and the credit squeeze in financial markets made it a very challenging time for many institutions. And we can expect these problems to continue in 2008." However, Bair also said that "most institutions are so far successfully coping with the challenges they face."

She explained, for example, "The industry as a whole is coming off a golden period of record profits. Because of this financial strength, the overwhelming majority of banks and thrifts remain well-capitalized and profitable. Insured institutions raised more than $29 billion in capital during the fourth quarter to bolster their ability to absorb losses, 99 percent of insured institutions were well-capitalized at the end of 2007, and nearly 90 percent were profitable for the year."

Preliminary financial results for the fourth quarter and full year are contained in the FDIC's latest *Quarterly Banking Profile*, which was released today. Findings for 2007 include the following:

- Growing asset quality problems prompted many institutions to increase their loan loss provisions. Total provisions were $68.2 billion, more than double the $29.5 billion the industry set aside in 2006.

- Trading revenue of $4.1 billion was $14.9 billion (78.4 percent) less than in 2006.

- The average return on assets (ROA), a standard yardstick of earnings performance, fell to 0.86 percent in 2007, compared to 1.28 percent a year earlier.

- The average net interest margin (NIM) -- the difference between the average interest income that institutions earn on their loans and other investments and the average interest expense that they pay to fund those assets -- declined slightly to 3.29 percent in 2007, from 3.31 percent in 2006. This is the sixth consecutive year that the industry's NIM has declined, and the average for 2007 was the lowest since 1988.

"A key issue that we'll be focusing on in the months ahead is asset quality," Chairman Bair said. "The rising trend in noncurrent loans indicates that write-offs and loss provisions will likely remain high for the near future."

In addition, she said, "We'll also need to keep a close eye as we've been doing for a number of months on loan portfolios other than housing, including commercial real estate, credit cards, and small business. All of these are showing signs of stress as housing market weakness continues."

Regarding fourth-quarter 2007, the following are among the major findings of the report:

Quarterly earnings fell to a 16-year low. Large trading losses, record-high loss provisions, and unprecedented charges for goodwill impairment all contributed to sizable earnings declines at a number of large institutions. More than one out of every four insured institutions with assets greater than $10 billion posted a net loss in the fourth quarter. These losses, as well as lower earnings at a number of other large institutions, caused net income to decline to $5.8 billion in the fourth quarter of 2007 from $35.2 billion in the fourth quarter of 2006.

Much of the decline in net income was concentrated among a few large institutions. Six large institutions accounted for more than half of the year-over-year decline in quarterly net income. Still, signs of reduced earnings were relatively widespread. Slightly more than half of all institutions (51.2 percent) reported lower net income in the fourth quarter than a year earlier, and 57.1 percent reported lower quarterly ROAs.

Noncurrent loans rose sharply in the fourth quarter. The amount of loans that were noncurrent (90 days or more past due or in nonaccrual status) registered the largest quarterly increase in the 24 years that insured institutions have reported these data. At the end of the quarter, 1.39 percent of the industry's loans were noncurrent. This is the highest percentage since the third quarter of 2002.

The Deposit Insurance Fund's reserve ratio remained unchanged. The FDIC's Deposit Insurance Fund (DIF) increased by $659 million (1.3 percent) during the fourth quarter, ending 2007 with a balance of $52.4 billion. The growth in the DIF kept pace with the quarter's $49.3 billion (1.2 percent) increase in insured deposits, and the fund's reserve ratio remained at 1.22 percent at year-end. The complete *Quarterly Banking Profile* is available at http://www2.fdic.gov/qbp/index.asp on the FDIC Web site.