



PRESS RELEASE

Federal Deposit Insurance Corporation

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Net Income Falls to \$28.7 Billion in the Third Quarter at FDIC-Insured Institutions

Federal Deposit Insurance Corporation-insured commercial banks and savings institutions reported net income of \$28.7 billion for the third quarter of 2007, a decline of \$9.4 billion (24.7 percent) from the third quarter of 2006. A steep increase in provisions for loan losses, as well as a decline in noninterest income, were chiefly responsible for the year-over-year earnings decline. The last time that banks earned less than \$30 billion in a quarter was in the first quarter of 2003.

"Industry performance was hurt by asset-quality problems and volatility in financial markets during the third quarter. Almost half of all insured institutions reported year-over-year declines in earnings. Residential mortgage loans were the focal point of asset-quality problems. But delinquency and loss rates were up across all major loan categories," said FDIC Chairman Sheila Bair. "Because insured financial institutions entered this period of uncertainty with strong earnings and capital, they are in a better position both to absorb the current stresses and to provide much needed credit as other sources withdraw. Going forward, the outlook for the industry depends on the severity of the housing downturn and the extent to which it spills over into the broader economy."

Chairman Bair also noted that even as banks attempt to address weaknesses in their residential mortgage portfolios, the non-current rate of real estate construction loans increased sharply from its historic lows. "A year ago, the federal banking regulators issued guidance on sound risk management practices for institutions that had significant concentrations of commercial real estate lending. The rising level of troubled construction loans should serve to reinforce the message contained in that guidance."

Chairman Bair said that the current conditions in the residential mortgage market underline the urgency of finding solutions to the looming threat posed by the scheduled upward re-pricing of many adjustable-rate mortgage loans to subprime borrowers. "I am hopeful that lenders and servicers will see that it is in their own best interest, as well as the interests of their investors and, of course, the many homeowners who have



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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remained current on their mortgage payments, that they provide some relief from interest-rate resets," she said.

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

Provisions for loan losses rose sharply. Insured banks and thrifts set aside \$16.6 billion in loan-loss provisions during the quarter, the most since the second quarter of 1987, and the second-largest quarterly loss provision ever reported by the industry. Third-quarter loss provisions were \$9.2 billion (122.4 percent) more than the industry set aside in the third quarter of 2006.

Asset-quality indicators continued to deteriorate. The amount of loans and leases that were noncurrent (90 days or more past due or in nonaccrual status) grew for a sixth consecutive quarter, rising by \$16.0 billion (23.8 percent). Loans secured by residential real estate accounted for more than half of the growth. Noncurrent residential mortgage loans increased by \$7.5 billion (27.2 percent), and noncurrent home equity lines of credit rose by \$783 million (27.4 percent). Noncurrent real estate construction and development loans rose by \$3.6 billion (45.5 percent). At the end of September, the amount of loans and leases that were noncurrent totaled \$83 billion, the highest level since the third quarter of 1992.

Commercial and industrial loan growth remained very strong. Loans to commercial and industrial (C&I) borrowers had record growth for the second consecutive quarter. C&I loans increased by \$89.5 billion (6.9 percent), surpassing the previous record increase of \$51.2 billion registered in the second quarter. Total assets also had a record quarterly increase during the third quarter, rising by \$446.3 billion (3.6 percent), and eclipsing the previous quarterly record of \$331.6 billion, set in the first quarter of 2006.

Noninterest income declined year-over-year. Total noninterest income was \$3.2 billion (5.1 percent) lower than a year earlier, as trading revenue declined sharply at large banks. Income from trading activities was \$2.8 billion (60.3 percent) below the level of a year ago. Sales of loans produced a net loss of \$139 million in the third quarter, compared to a \$2.3-billion net gain in the third quarter of 2006.

Retail deposit growth lagged behind growth in assets. Total deposits at institutions insured by the FDIC increased by \$146 billion (1.8 percent) during the quarter. While this growth surpassed the levels of the second quarter and the third quarter of 2006, it nevertheless represented only one-third of the increase in industry assets in the quarter. Deposits in domestic offices increased by \$49.2 billion (0.7 percent), while deposits in foreign offices rose by \$96.8 billion (7.2 percent). All of the growth in domestic deposits came from time deposits (up \$82.2 billion, or 3.3 percent).

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