

**UPDATE:FDIC: Noncurrent Loans At Banks Up 36% In 2Q Vs Yr Ago**

750 words  
22 August 2007  
12:31  
Dow Jones Capital Markets Report  
English  
(c) 2007 Dow Jones & Company, Inc.

(Update with statement by FDIC chairman, background)

By **Damian Paletta**  
Of DOW JONES NEWSWIRES

WASHINGTON (Dow Jones)--Loans at least 90 days delinquent rose in the second quarter by \$11.4 billion, or 36.2%, compared with the second quarter of 2006, the Federal Deposit Insurance Corp. said Wednesday, marking the largest increase in 16 years.

The new data, released as part of the FDIC's Quarterly Banking Profile, illustrates a banking industry under pressure even before credit and liquidity markets worsened this month.

Banks also charged off \$9.2 billion in bad loans in the second quarter, 51.2% more than they charged off in the second quarter of 2006, the FDIC said.

But at a press conference to discuss the data, FDIC Chairman Sheila Bair was careful to cast a positive light on the state of the banking industry, repeatedly emphasizing the the sector remained strong.

"The main point I'd like to emphasize with you all is that the banking industry is generally very well-capitalized," she said. "It's well diversified. It's profitable, and I think banks are in a very good position as we are going through this period of market readjustment."

The banking industry's health has come under increased scrutiny so far this month, as secondary market investors have cut off liquidity for certain mortgages. Multiple subprime mortgage companies have gone out of business, and financial stocks have endured a bruising summer.

Typically, the FDIC's quarterly data is released in a sparsely attended room. But Wednesday there were people standing against the wall and three television cameras were aimed at Bair.

"We've had a tremendous golden age of banking, and we're not going to see that kind of performance," Bair said. "But again, overall I think banks are very strong historically. The key factors that we look at are in good shape. Yes, there are going to be some banks that have some earnings challenges in this kind of environment, but...again I think overall the industry is very strong."

Narrow net interest margins and higher expenses on bad loans caused the banking industry's net income to fall 3.4% in the second quarter to \$36.7 billion compared with the second quarter of 2006.

The industry set aside \$11.4 billion in the second quarter in loan loss provisions to guard against future losses. This is the most banks have set aside since the fourth quarter of 2002.

The industry did record some positives. Noninterest income rose \$6.4 billion, or 9%, in the second quarter from the second quarter of 2006, boosted by market-based revenue and transaction-based fees.

Though earnings were down 3.4%, the industry still recorded its fourth highest quarterly earnings period ever.

But mostly the FDIC's data showed that banks continued to feel strains caused by the slumping housing

markets and a challenging credit environment, with record numbers of homeowners entering the foreclosure process so far this year.

For the second straight quarter, less than half of all insured banks and thrifts reported higher net income for the quarter compared with a year ago, the FDIC said.

"There were 824 institutions reporting net losses for the quarter, compared to 600 unprofitable institutions a year earlier," the FDIC said. "This is the largest year-over-year increase in unprofitable institutions since the third quarter of 1996."

The FDIC said the increase in unprofitable institutions was concentrated mostly among small banks and thrifts. More than half of these companies were less than five years old.

The ratio of unprofitable institutions - roughly one out of every 10 banks - is the highest level for the second quarter of a year since 1991, the midst of the savings-and-loan crisis.

FDIC officials said this was caused by historically narrow interest margins and high expenses during the quarter.

The FDIC also said that there were 61 "problem" banks at the end of the second quarter, up from 53 at the end of the first quarter. Of those, 10 are federally insured thrifts. The "problem" banks and thrifts range in size from \$5 million of assets to \$10 billion of assets, FDIC officials said.

By historical standards, though, these numbers are relatively low. In 1991, for example, there were 1,496 "problem" banks and thrifts.

-By **Damian Paletta**, Dow Jones Newswires; 202-862-9241; [Damian.Paletta@dowjones.com](mailto:Damian.Paletta@dowjones.com) [ 08-22-07 1231ET ]

Document CM00000020070822e38m00059