
Banking Industry Performance and Financial Stabilization Policies



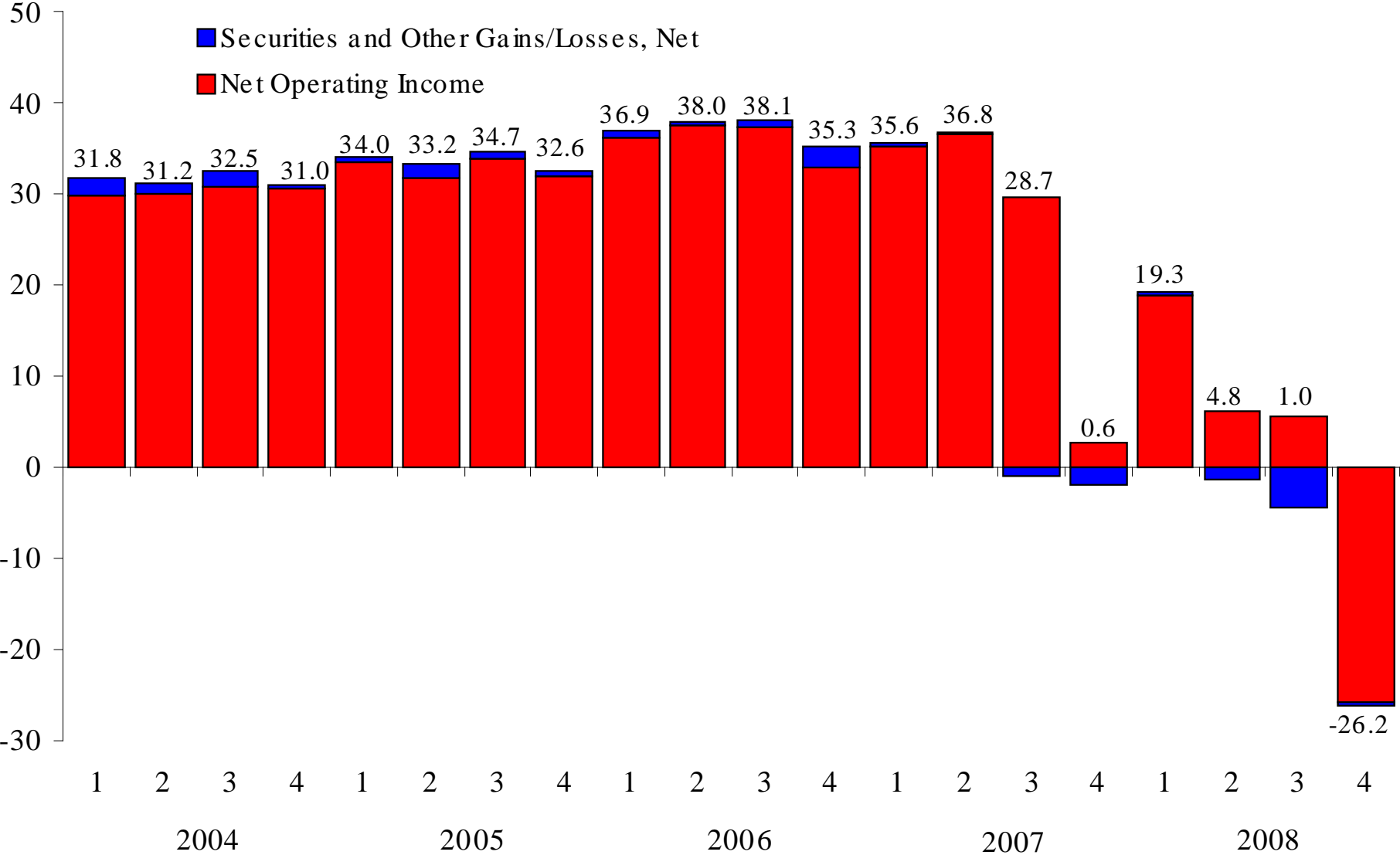
Richard A. Brown
Chief Economist, FDIC

February 27, 2009



The Industry Has Its First Quarterly Loss in 18 Years

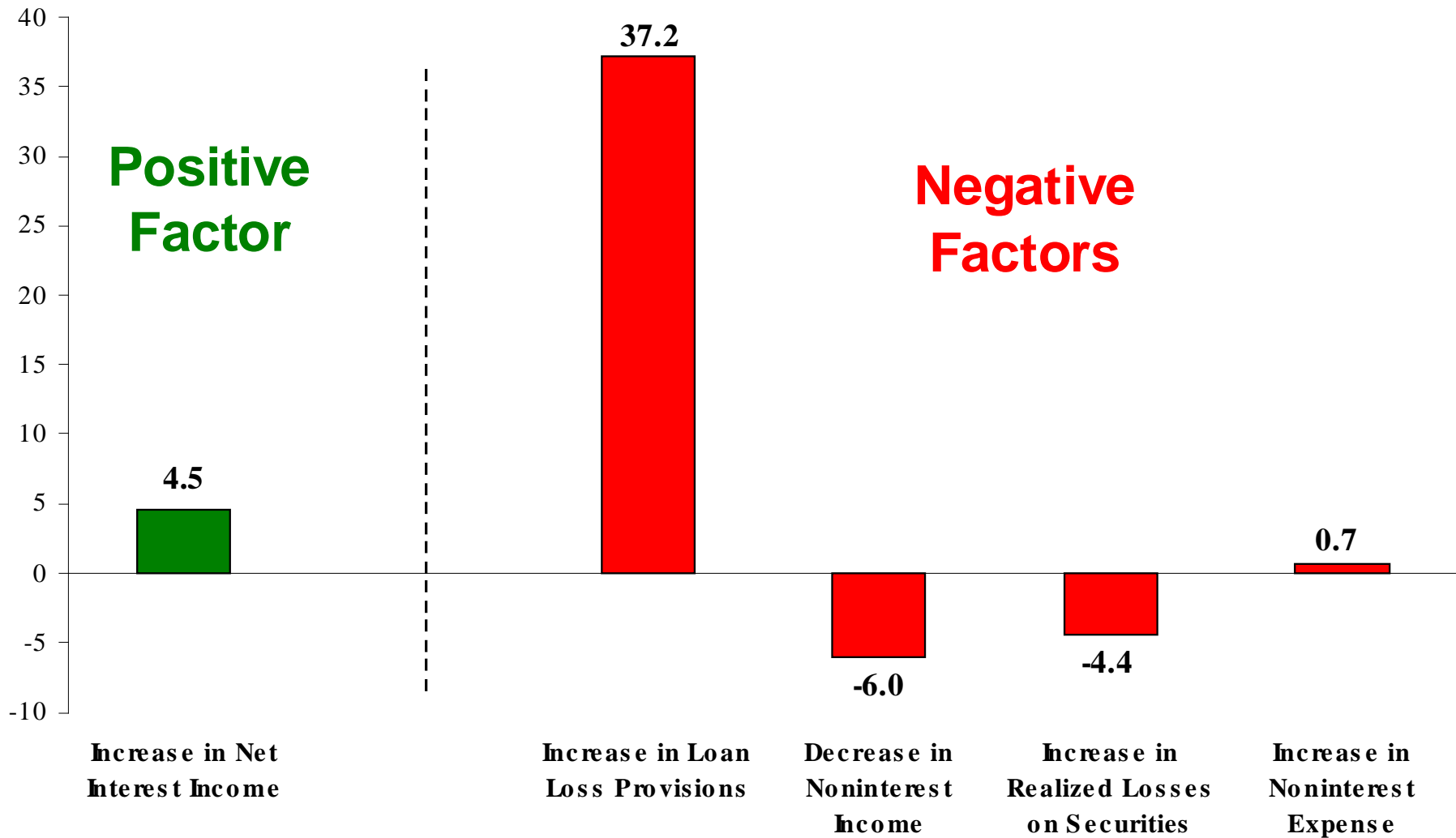
(\$ Billions)



Loss Provisions Were More Than Twice the Level of a Year Ago

4th Quarter 2008 vs. 4th Quarter 2007

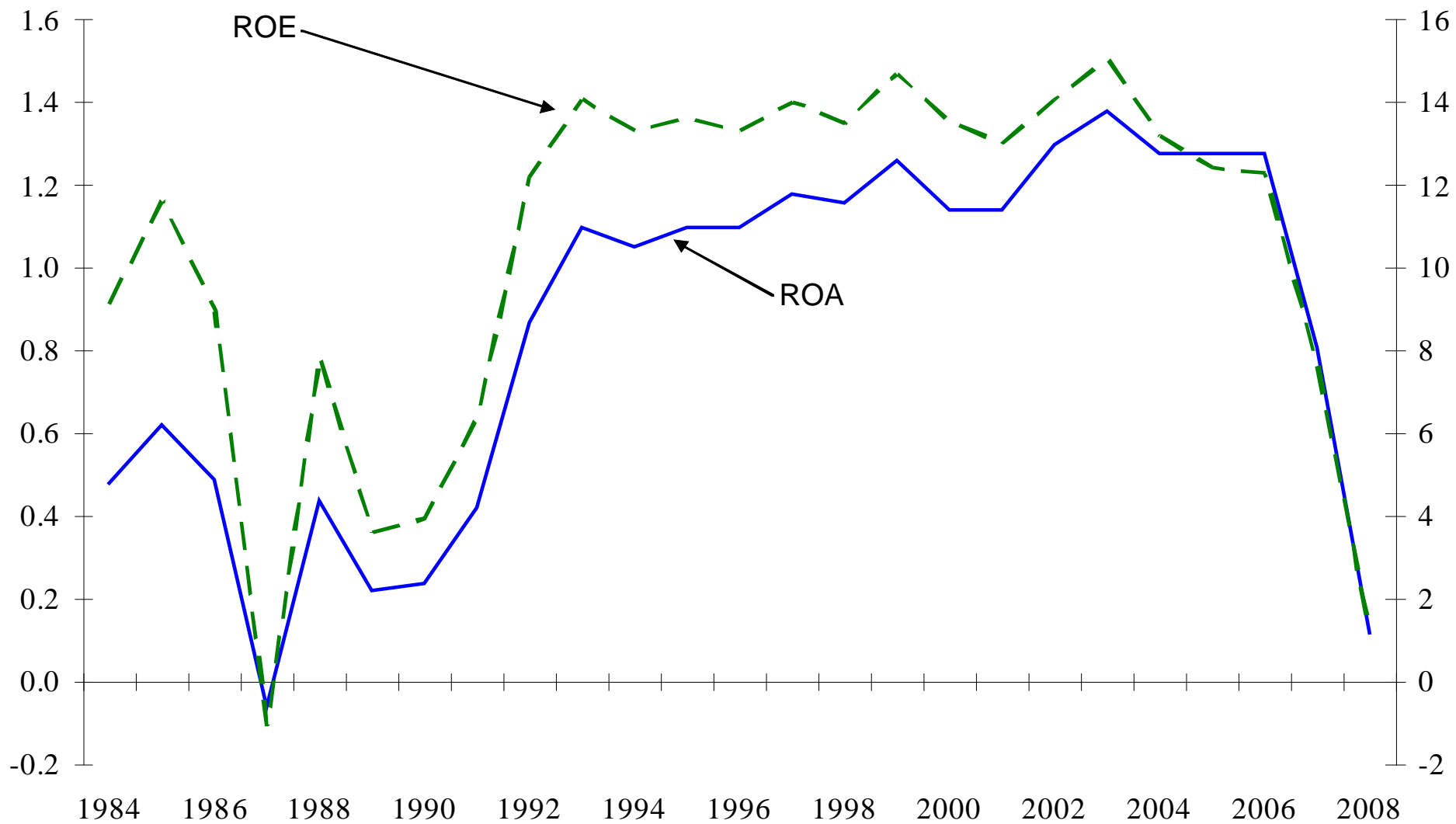
(\$ Billions)



Full-Year Profitability Was the Lowest Since 1987

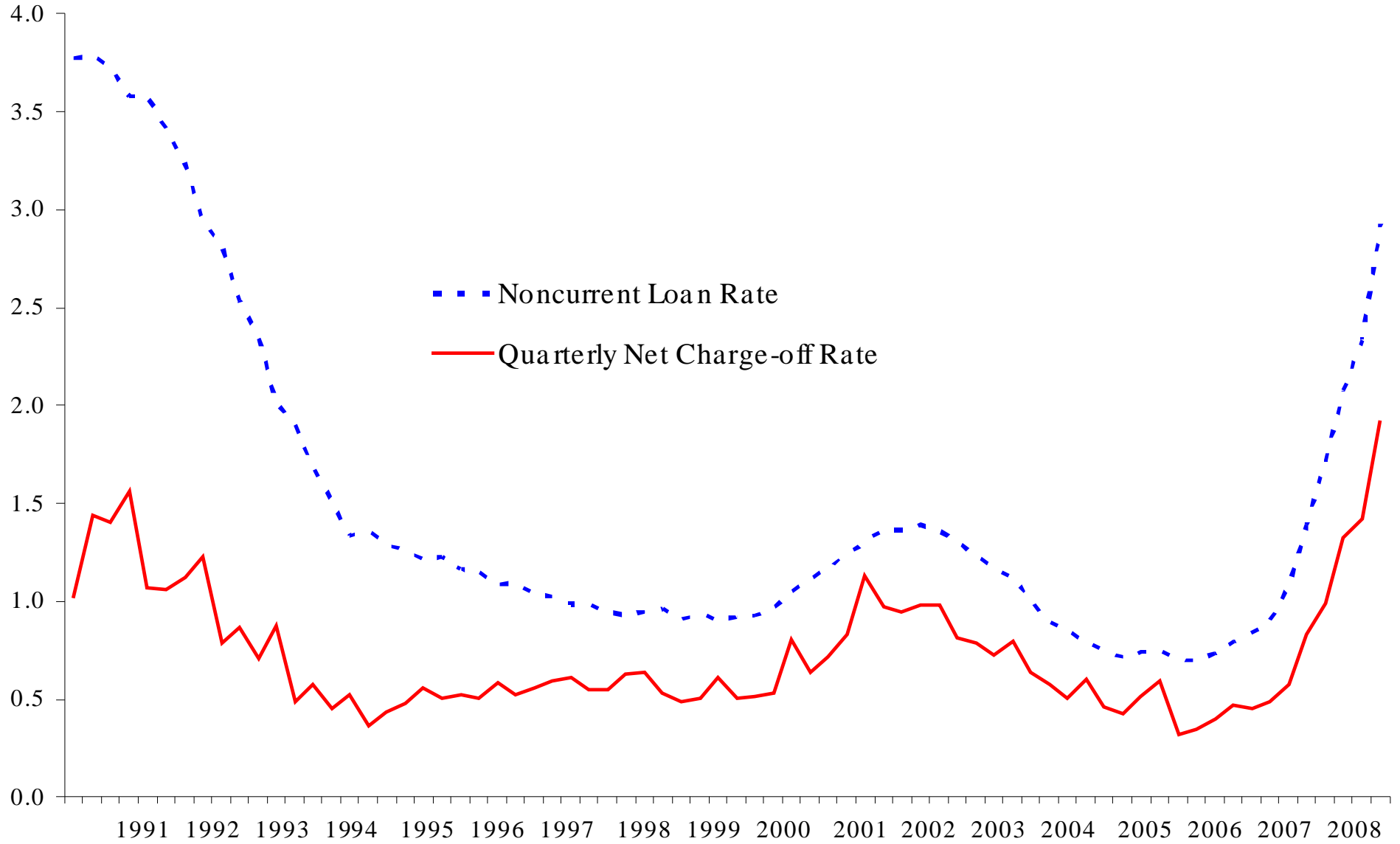
Annual ROA
(Percent)

Annual ROE
(Percent)



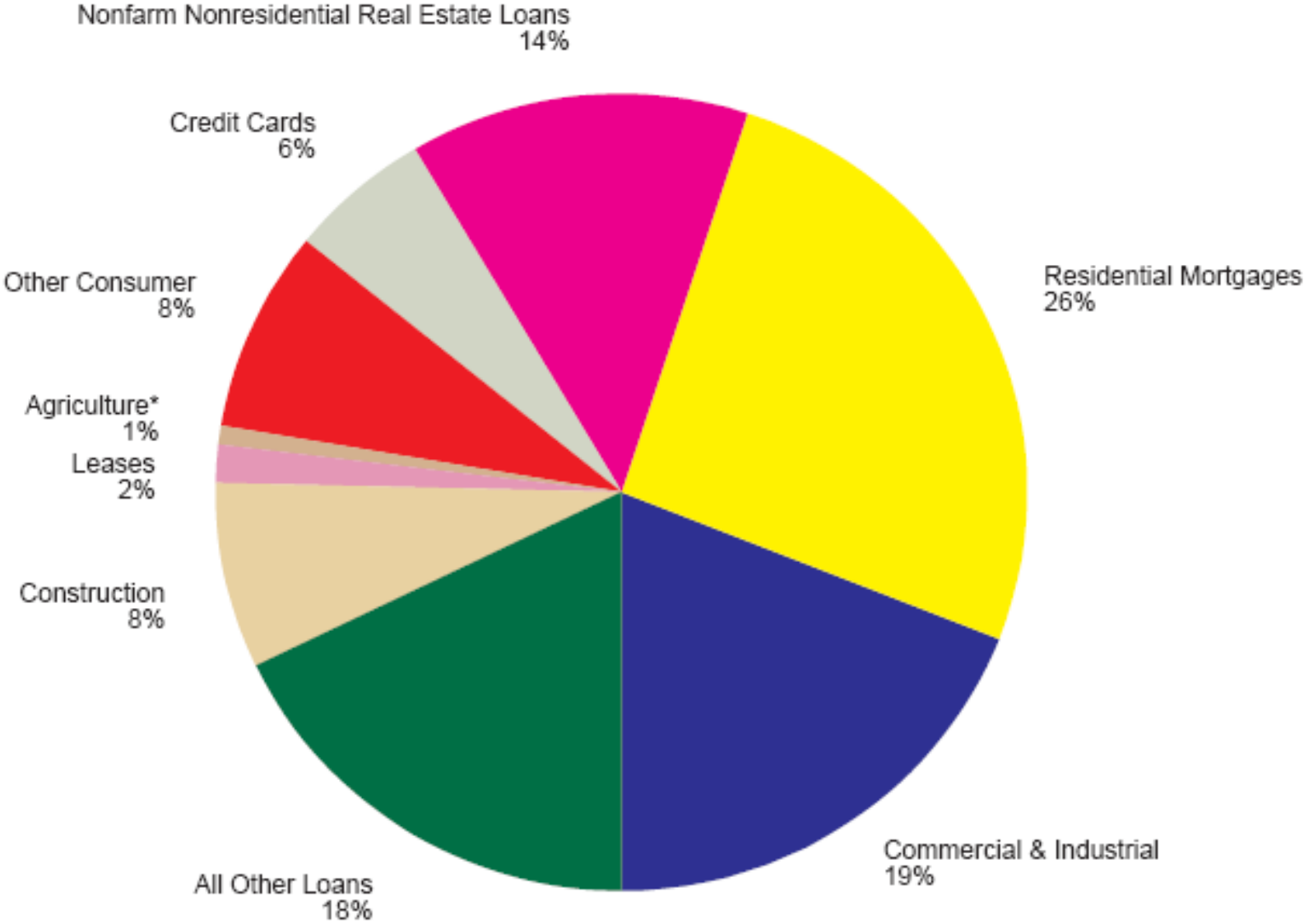
Troubled Loans Continue to Rise

Percent



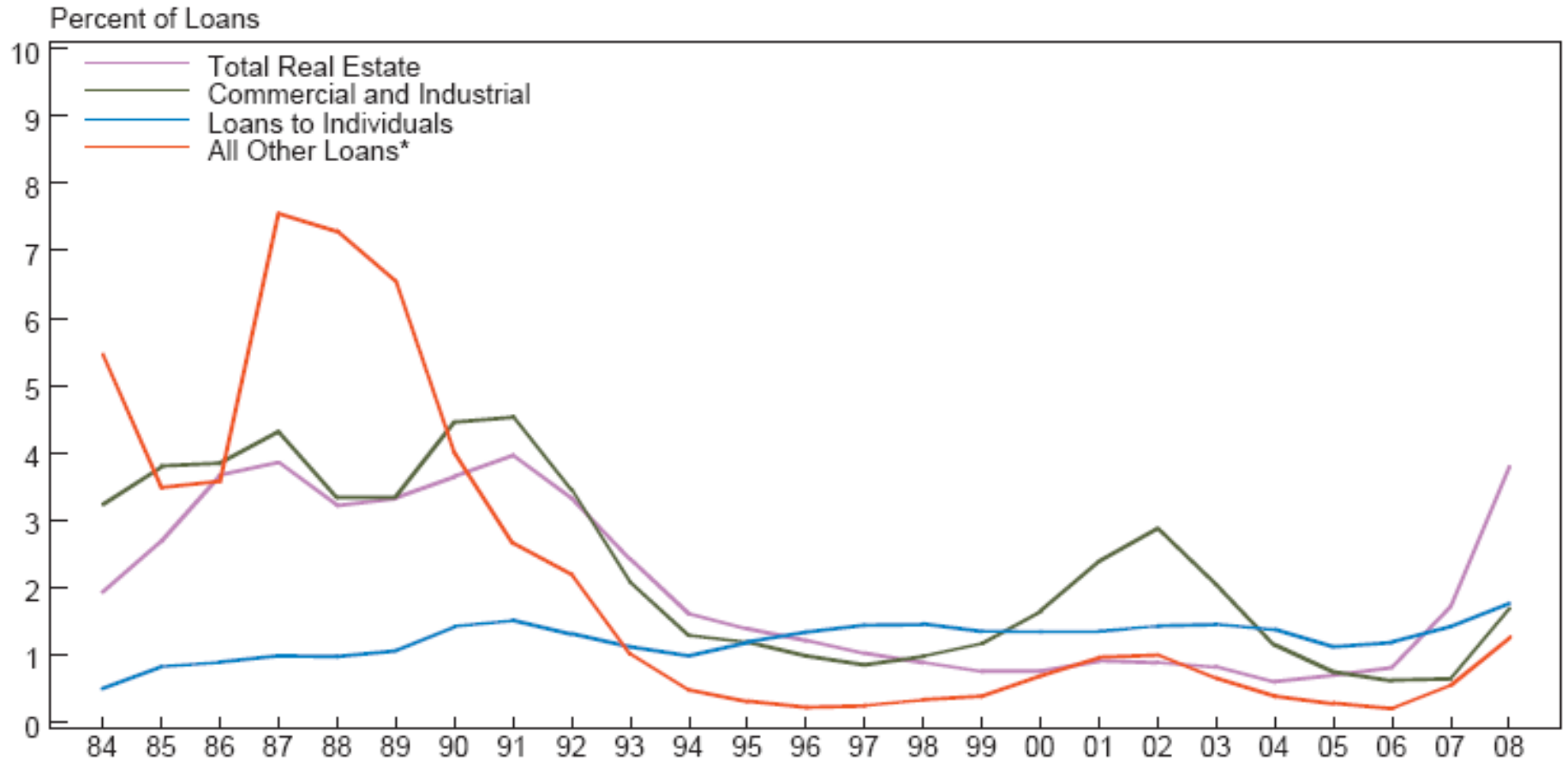
Loan Portfolio Composition

December 31, 2008



Noncurrent Loan Rates at Year-end

1984-2008

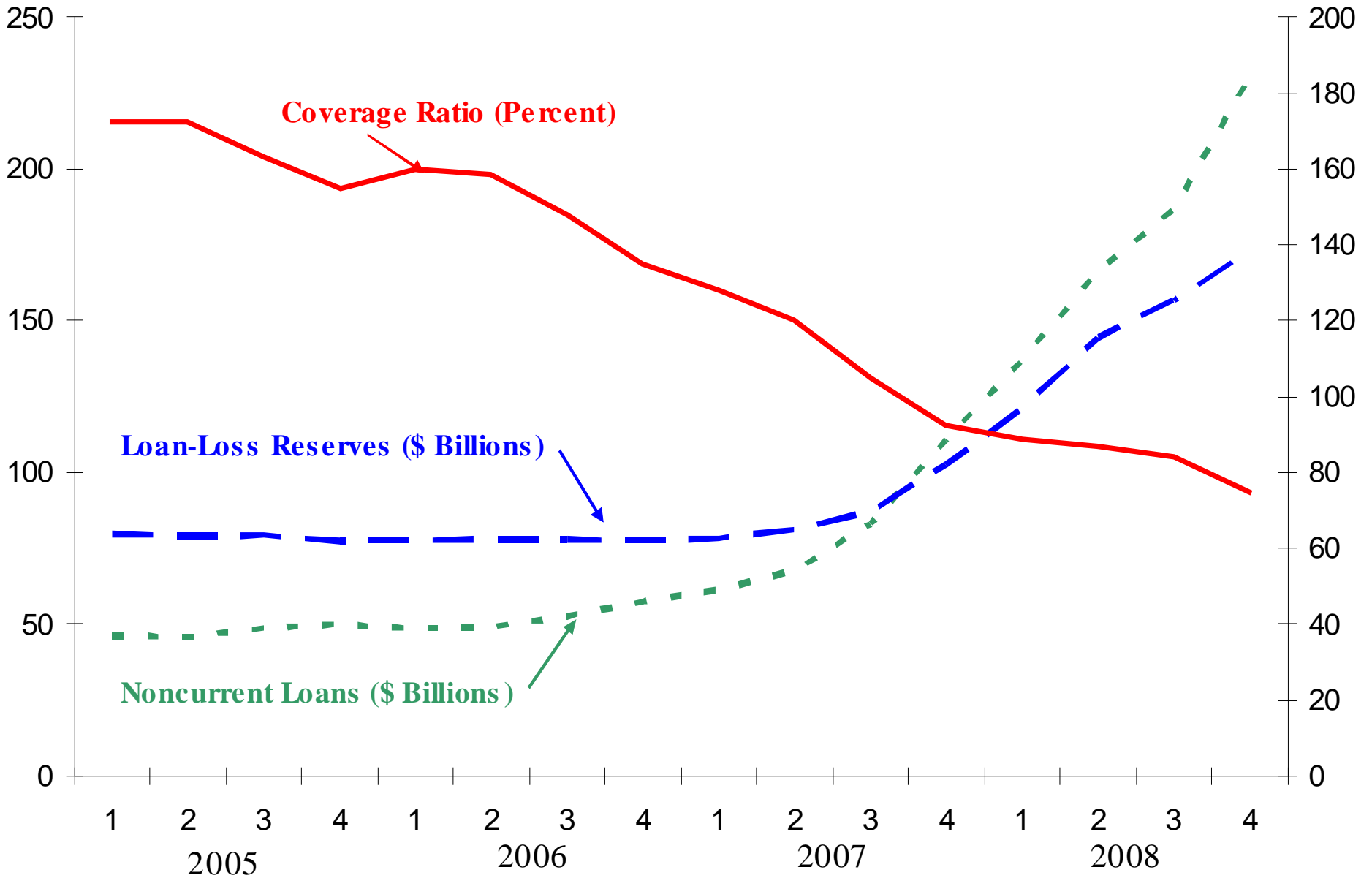


Note: Noncurrent loan rates represent the percentage of loans that are past due 90 days or more or in nonaccrual status.

The Coverage Ratio Is Still Declining

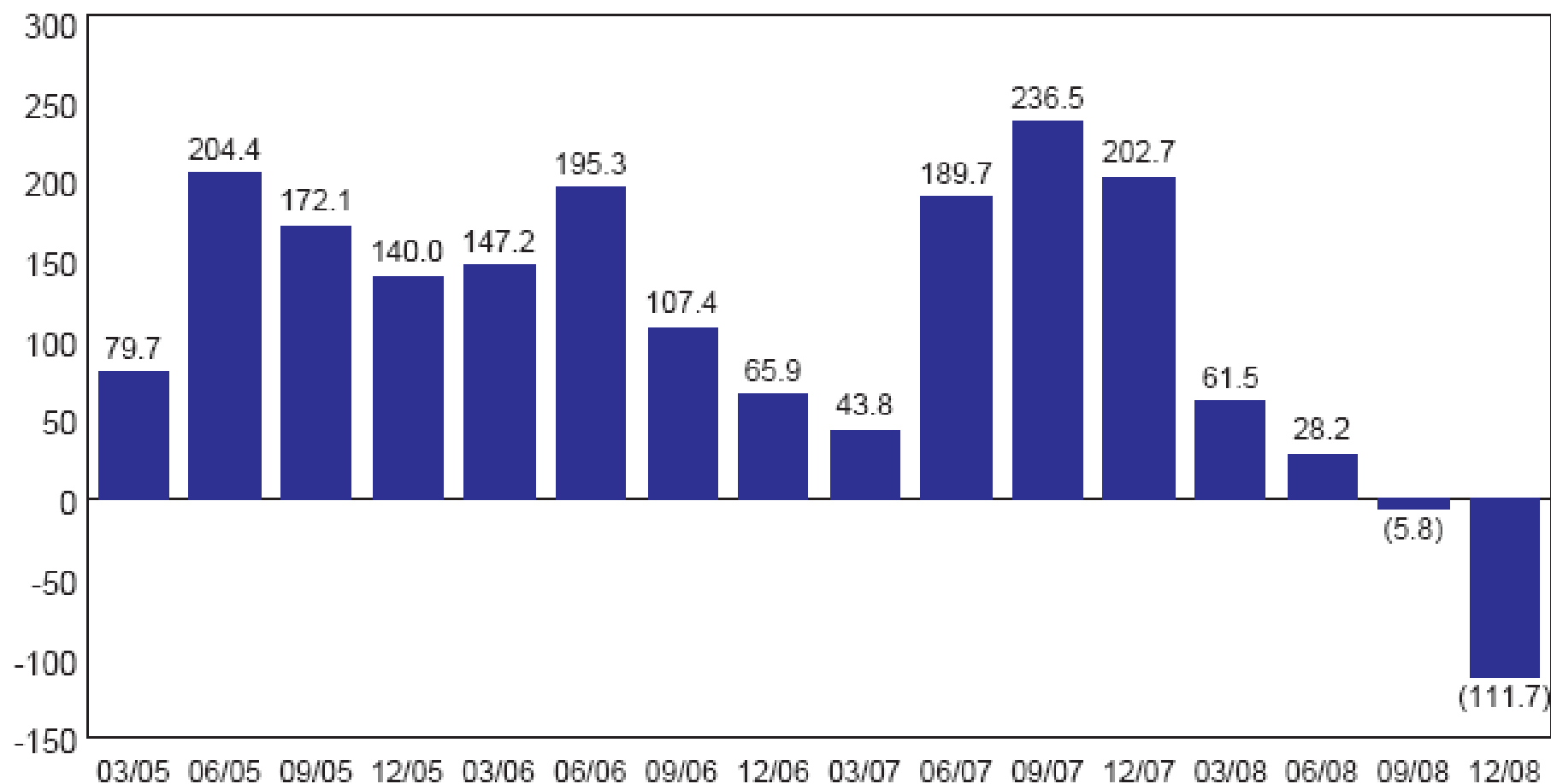
\$ Billions

(Percent)



Quarterly Change in Reported Loans Outstanding

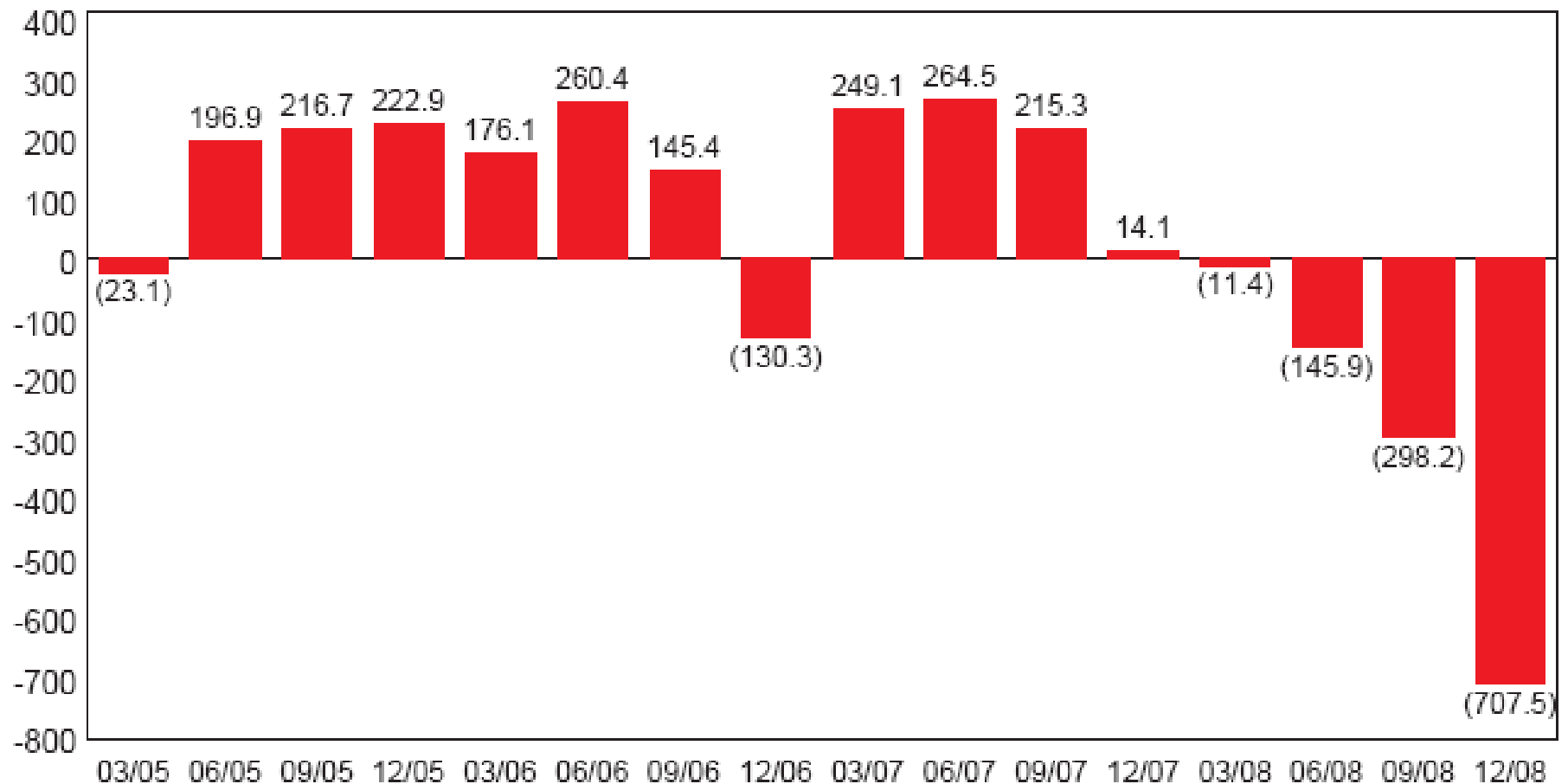
(\$ Billions)



In the fourth quarter of 2008, real estate loans decreased by \$45 billion, commercial and industrial loans decreased by \$7 billion, and consumer loans increased by \$6 billion.

Quarterly Change in Unused Loan Commitments

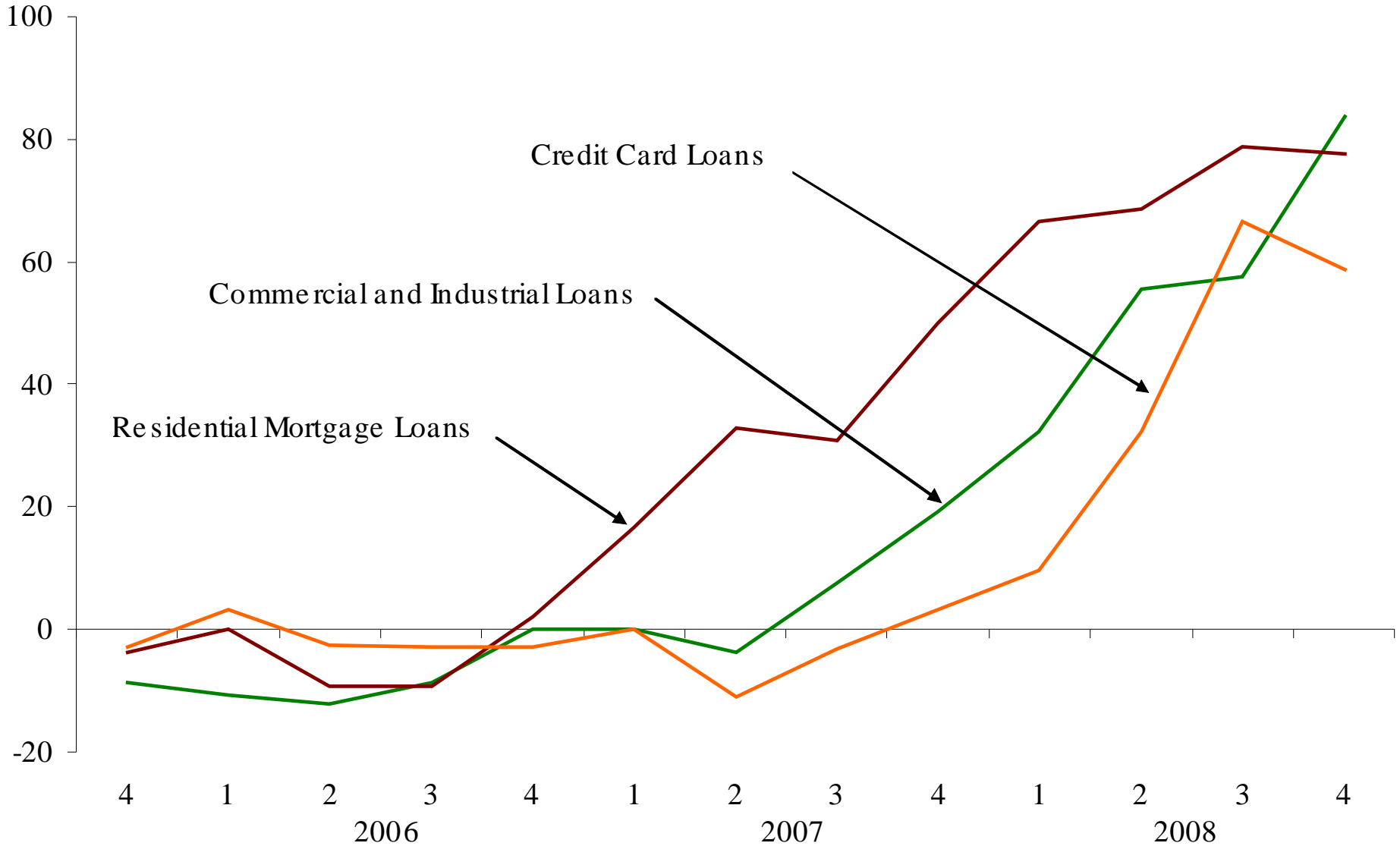
(\$ Billions)



In the fourth quarter of 2008, unused 1-4 residential loan commitments increased by \$12 billion, unused home equity line commitments decreased by \$24 billion, unused credit card commitments decreased by \$484 billion, unused commercial real estate commitments decreased by \$41 billion, and other unused commitments decreased by \$168 billion.

Net Percentage of Banks Reporting Tighter Lending Standards

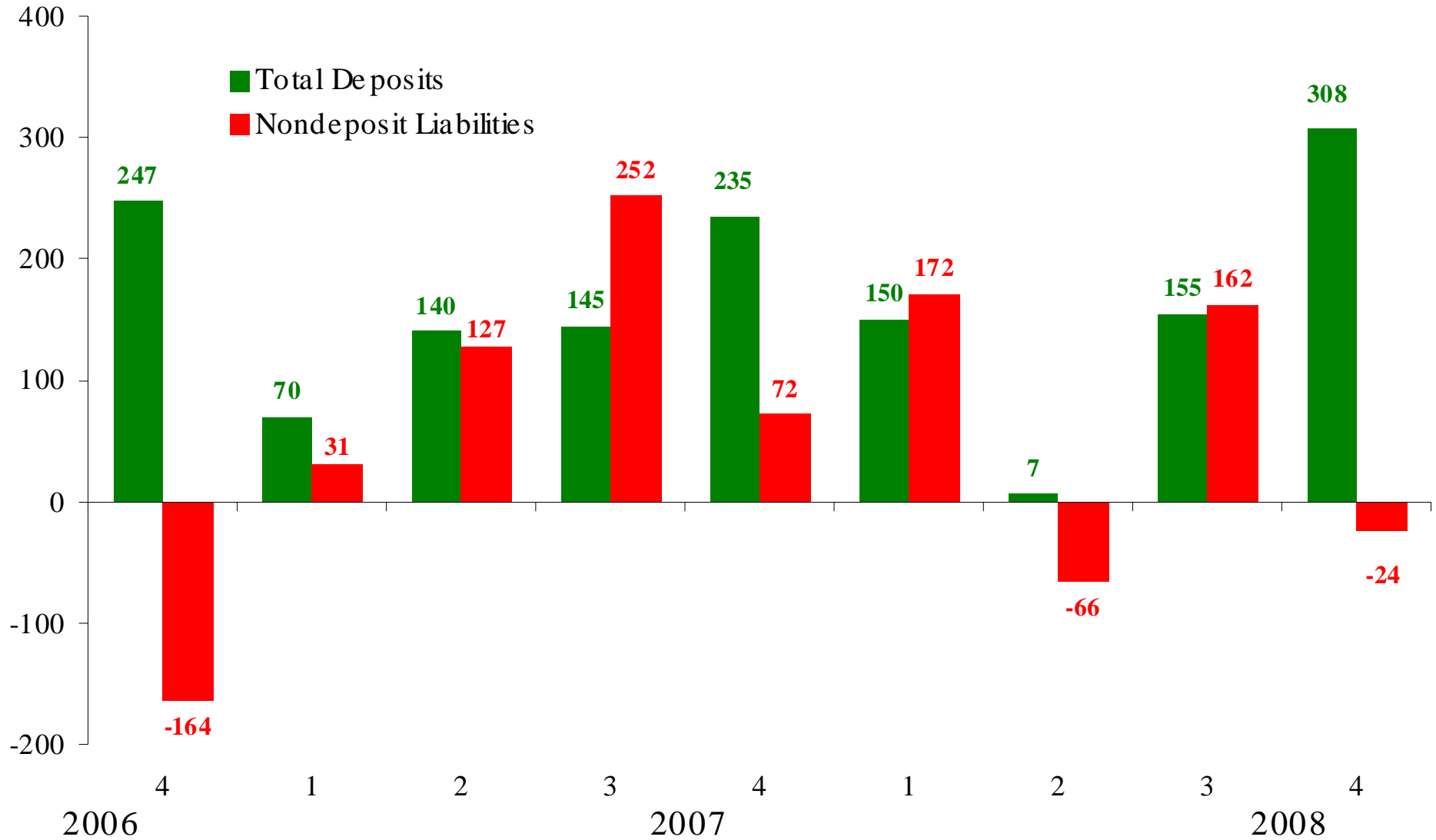
(Percent)



Source: Federal Reserve Senior Loan Officer Opinion Survey/Haver Analytics

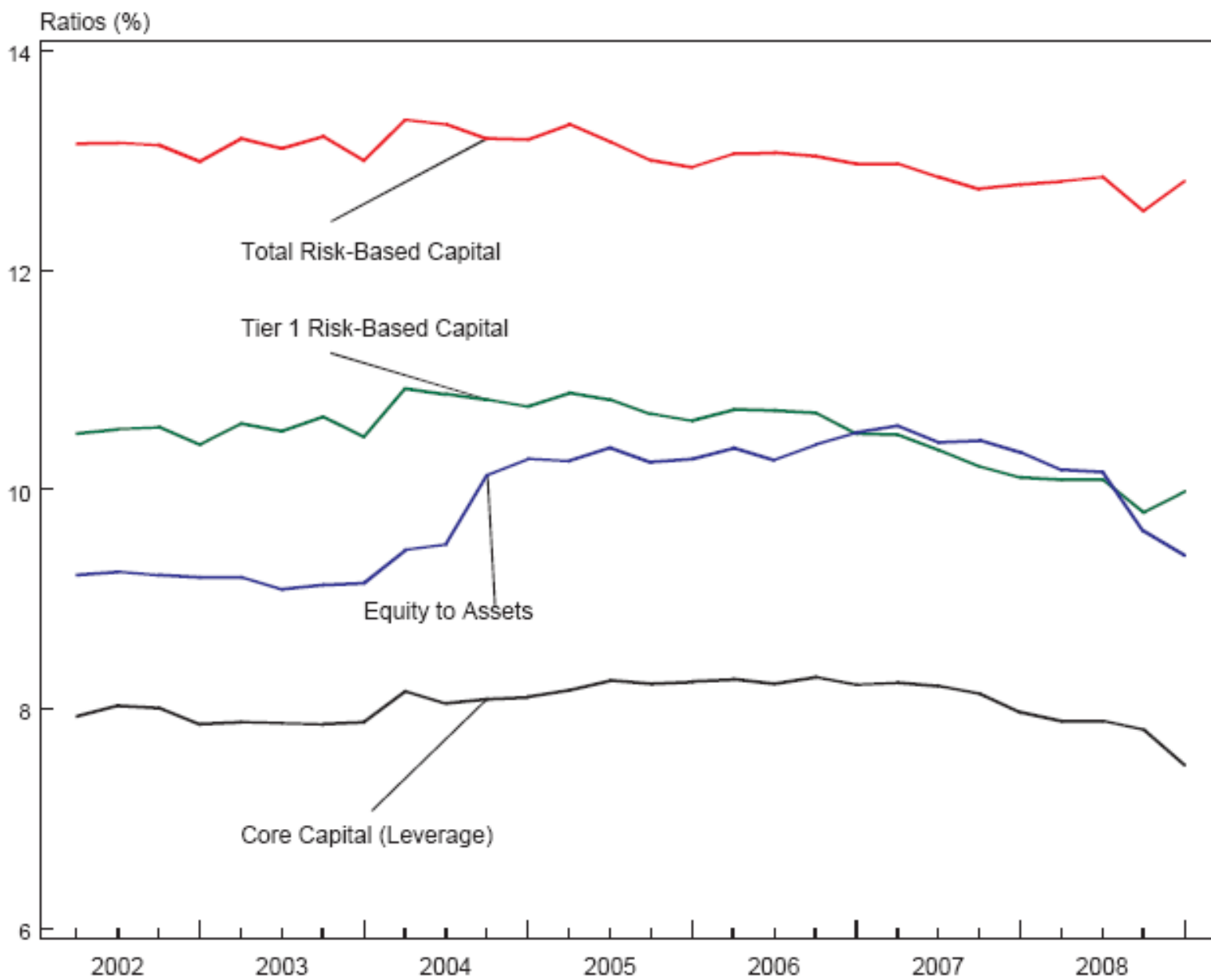
Deposit Growth Was Particularly Strong in the Fourth Quarter

Quarterly Change
(\$ Billions)

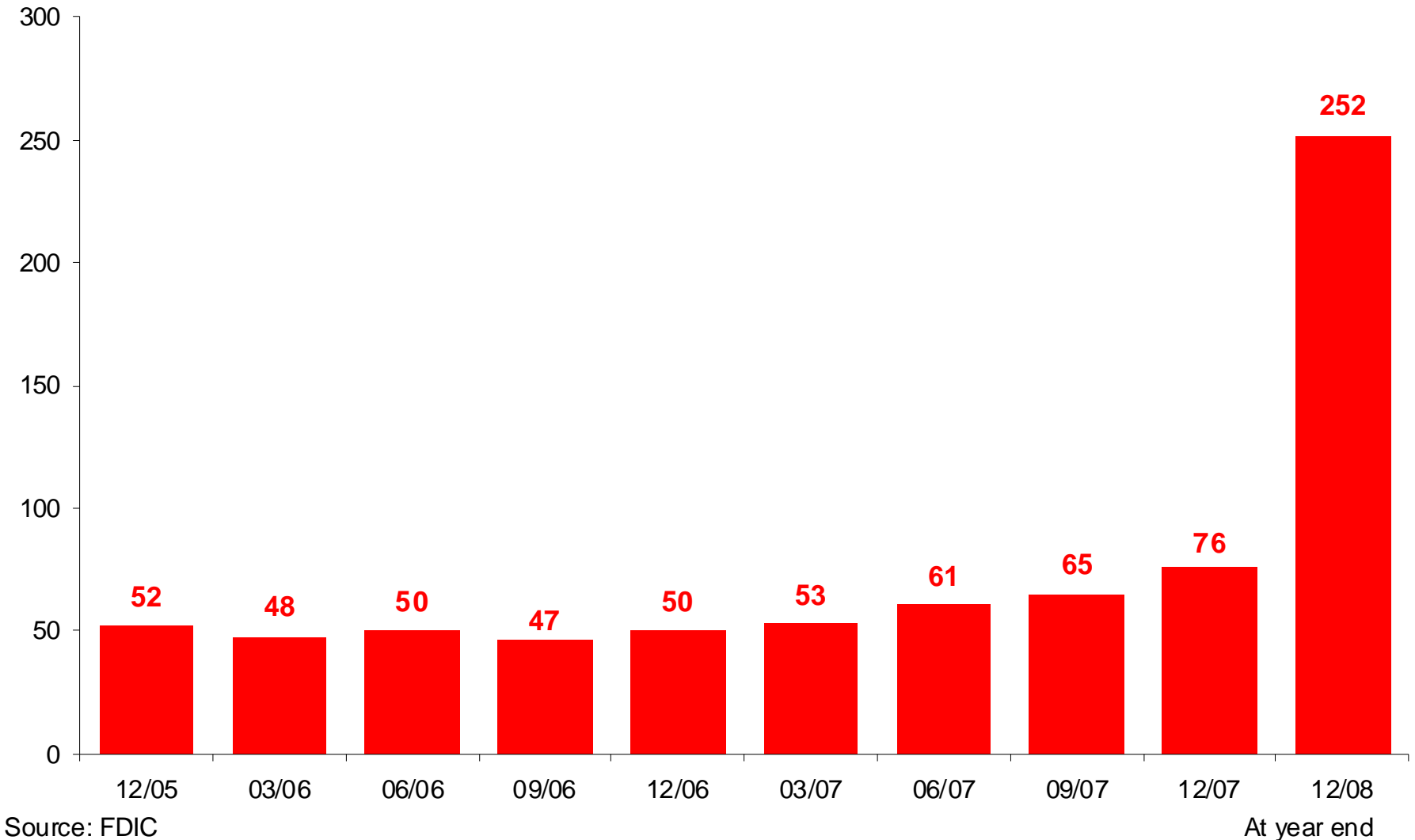


Capital Ratios

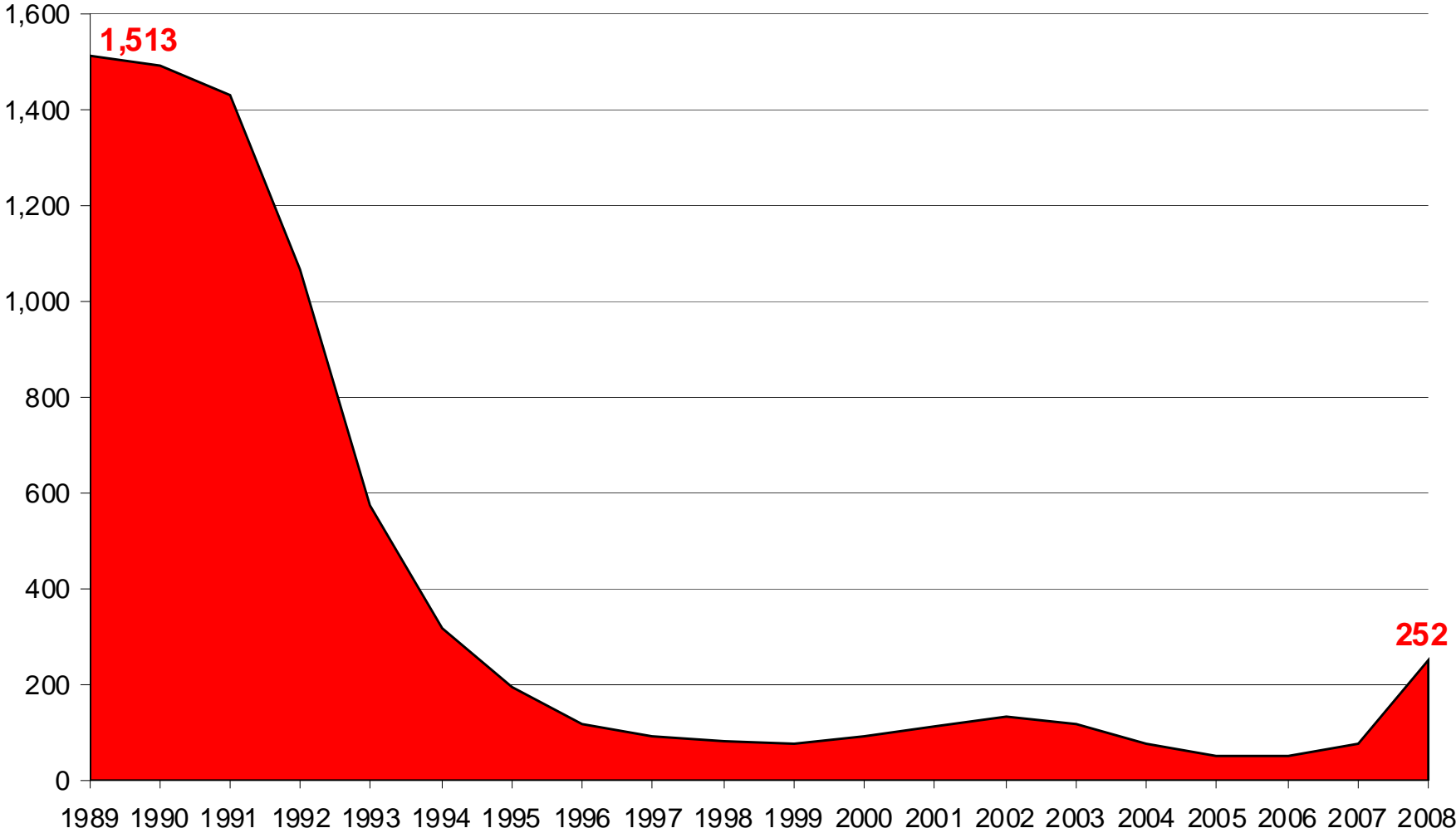
2002 - 2008



Number of Insured Institutions on the FDIC's "Problem List," 2005 - 2008



Number of Insured Institutions on the FDIC "Problem List," 1989 - 2008



Source: FDIC

At year end

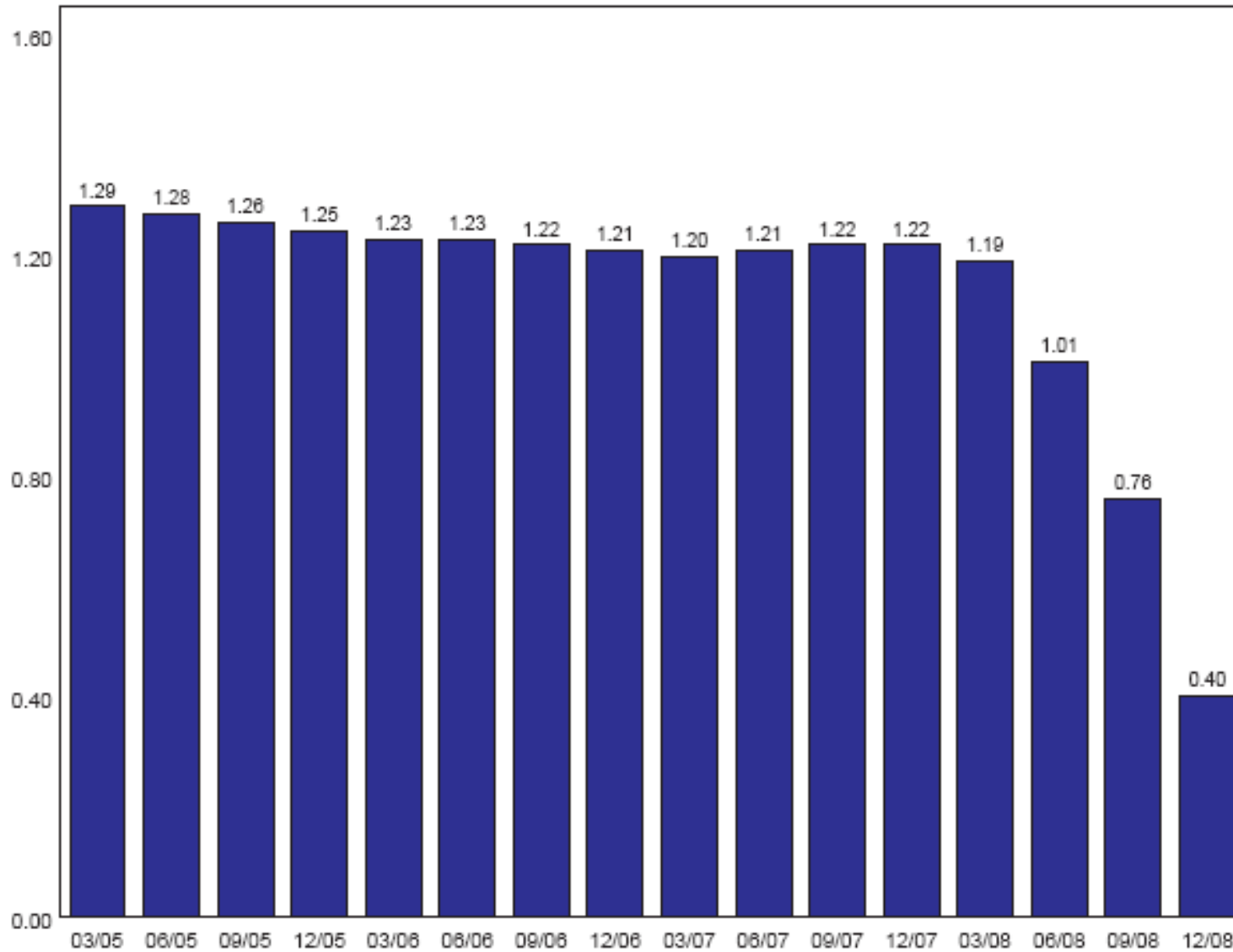
LARGEST INSURED INSTITUTION RESOLUTIONS

<u>Institution</u>	<u>City</u>	<u>State</u>	<u>Date</u>	<u>Assets</u>	Assets in 2008 <u>\$ billions</u>	Share of Industry <u>Assets</u>
Washington Mutual Bank	Henderson	NV	9/25/2008	\$307.0	\$307.0	2.3%
Continental Illinois N.B.&T	Chicago	IL	5/17/1984	\$40.0	\$67.7	1.2%
First RepublicBank Corp. (41 affil.)	Dallas	TX	7/29/1988	\$32.5	\$49.2	0.7%
IndyMac Bank, F.S.B.	Pasadena	CA	7/11/2008	\$30.7	\$30.7	0.2%
American Savings & Loan Assoc.	Stockton	CA	9/7/1988	\$30.2	\$45.7	0.7%
Bank of New England Corp. (3 affil.)	Boston	MA	1/6/1991	\$21.7	\$29.4	0.5%
MCorp (20 affiliates)	Dallas	TX	3/28/1989	\$18.5	\$27.0	0.6%
Gibraltar Savings (2 affiliates)	Simi Valley	CA	3/31/1989	\$15.1	\$22.0	0.3%
First City Bancorporation (60 affil.)	Houston	TX	4/20/1988	\$13.0	\$19.6	0.3%
Downey Savings & Loan Assn	Newport Bch	CA	11/21/2008	\$12.8	\$12.8	0.1%
Homefed Bank FSB	San Diego	CA	7/6/1992	\$12.2	\$16.1	0.3%
Southeast Bank, N.A.	Miami	FL	9/19/1991	\$11.0	\$14.9	0.2%

Deposit Insurance Fund Reserve Ratios

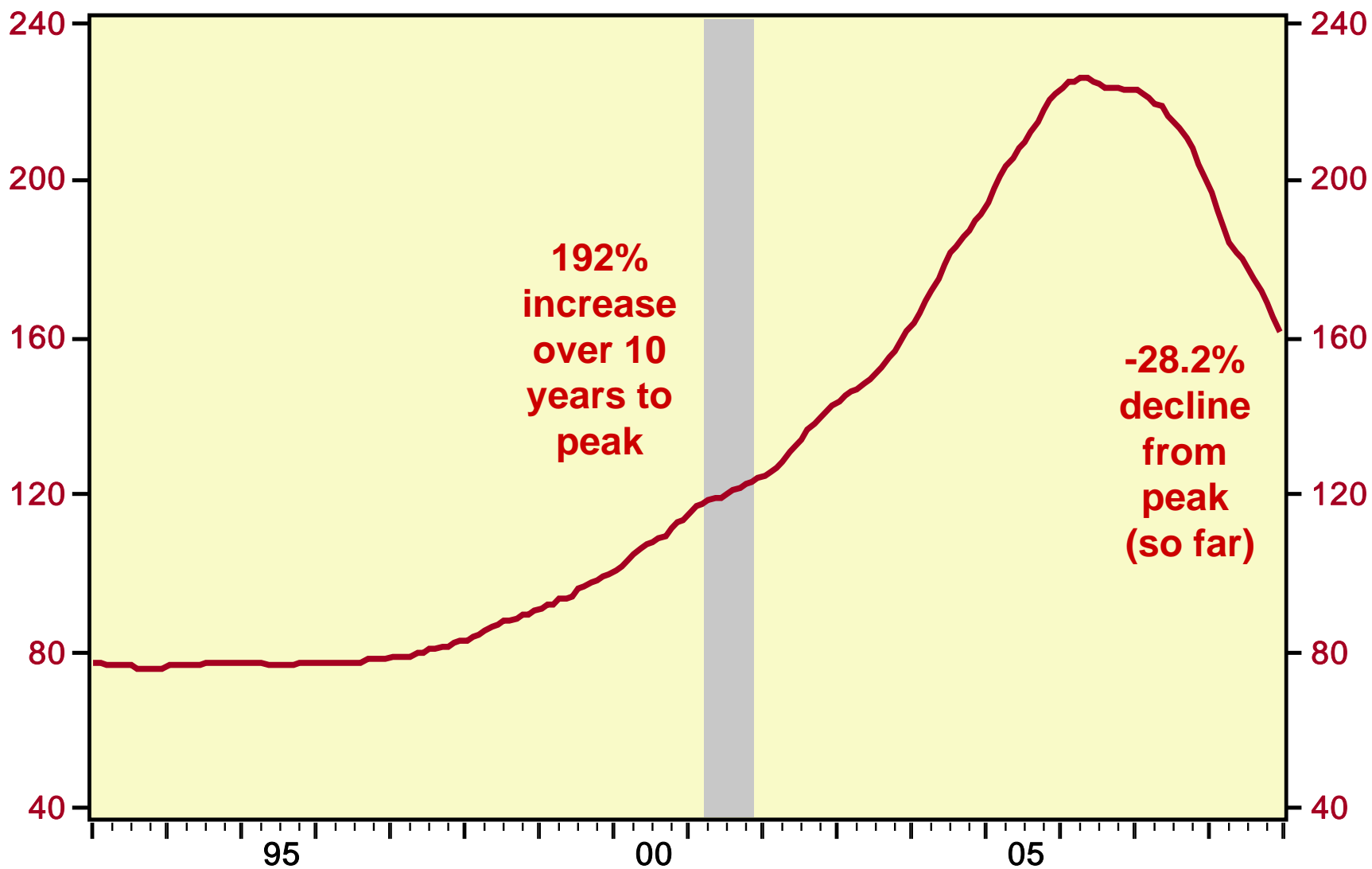
March 31, 2005 - December 31, 2008

Percent of Insured Deposits



S&P/Case-Shiller Home Price Index: Composite 10

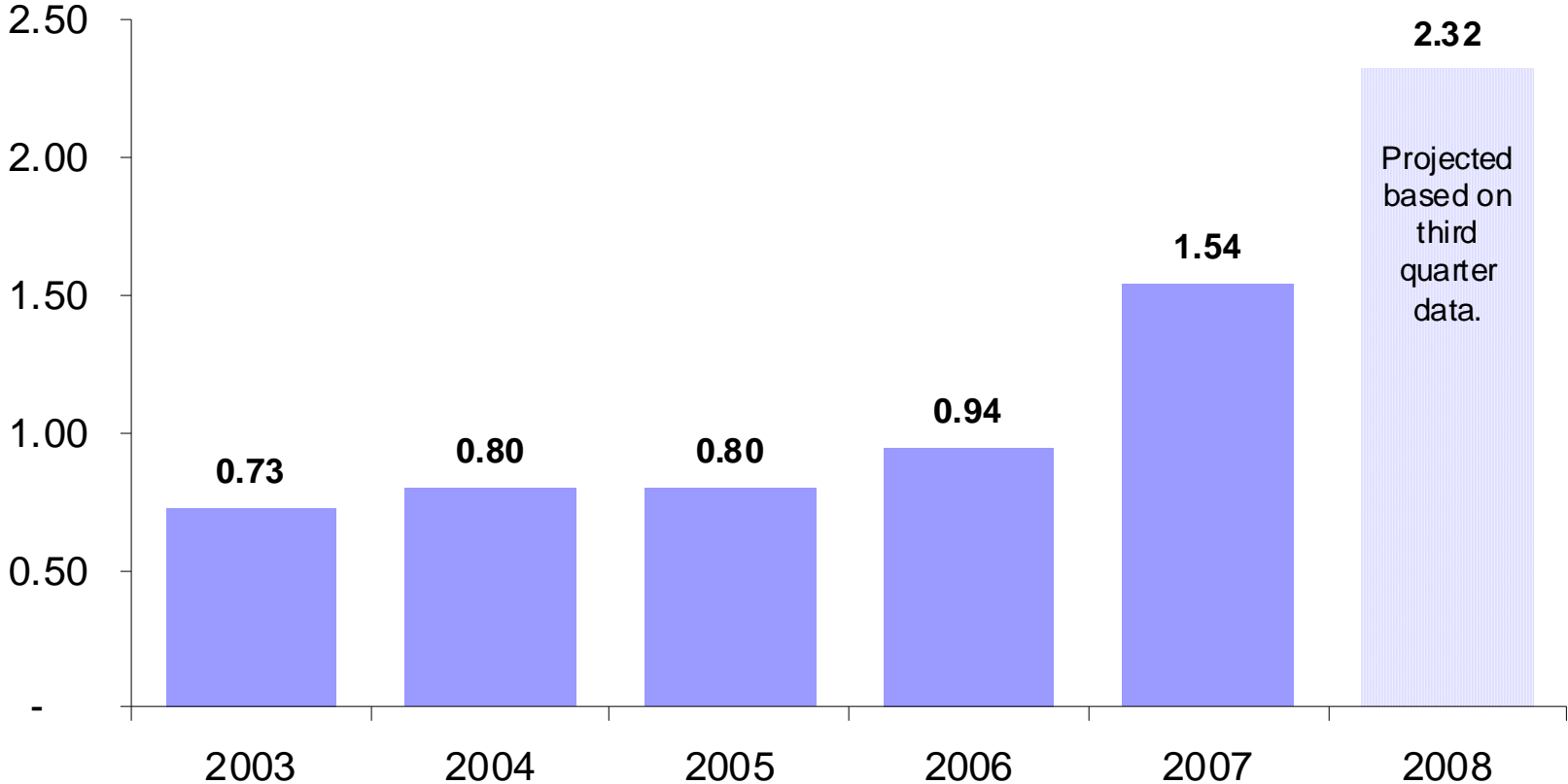
SA, Jan-00=100



Source: S&P, Fiserv, and MacroMarkets LLC /Haver Analytics

With the end of the housing boom has come a steep rise in residential foreclosures.

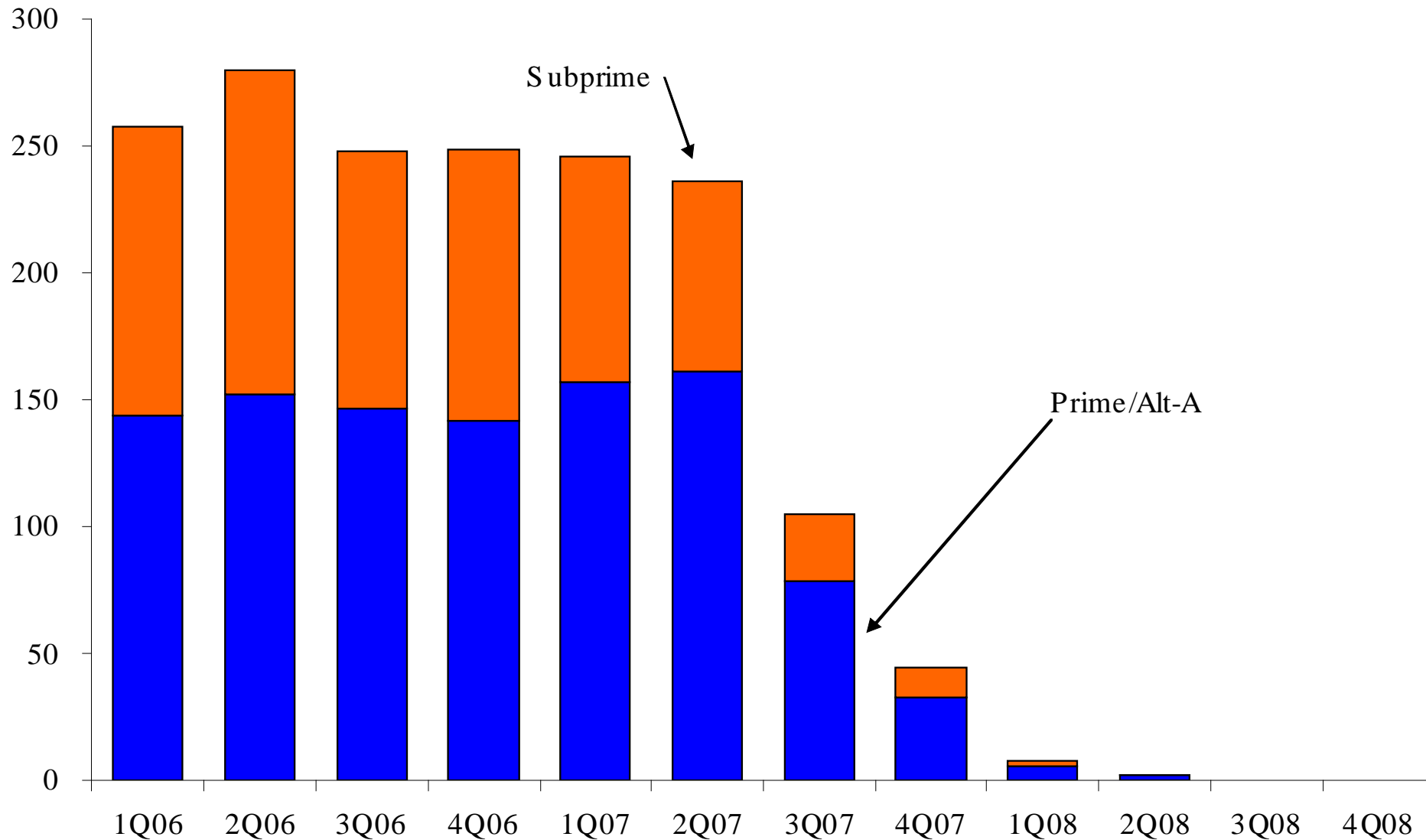
Estimated Annual Number of Foreclosures, in Millions



Source: FDIC estimates based on data from the Mortgage Bankers Association and the American Housing Survey (HUD)

Issuance of Private-Label Residential Mortgage-Backed Securities (RMBS)

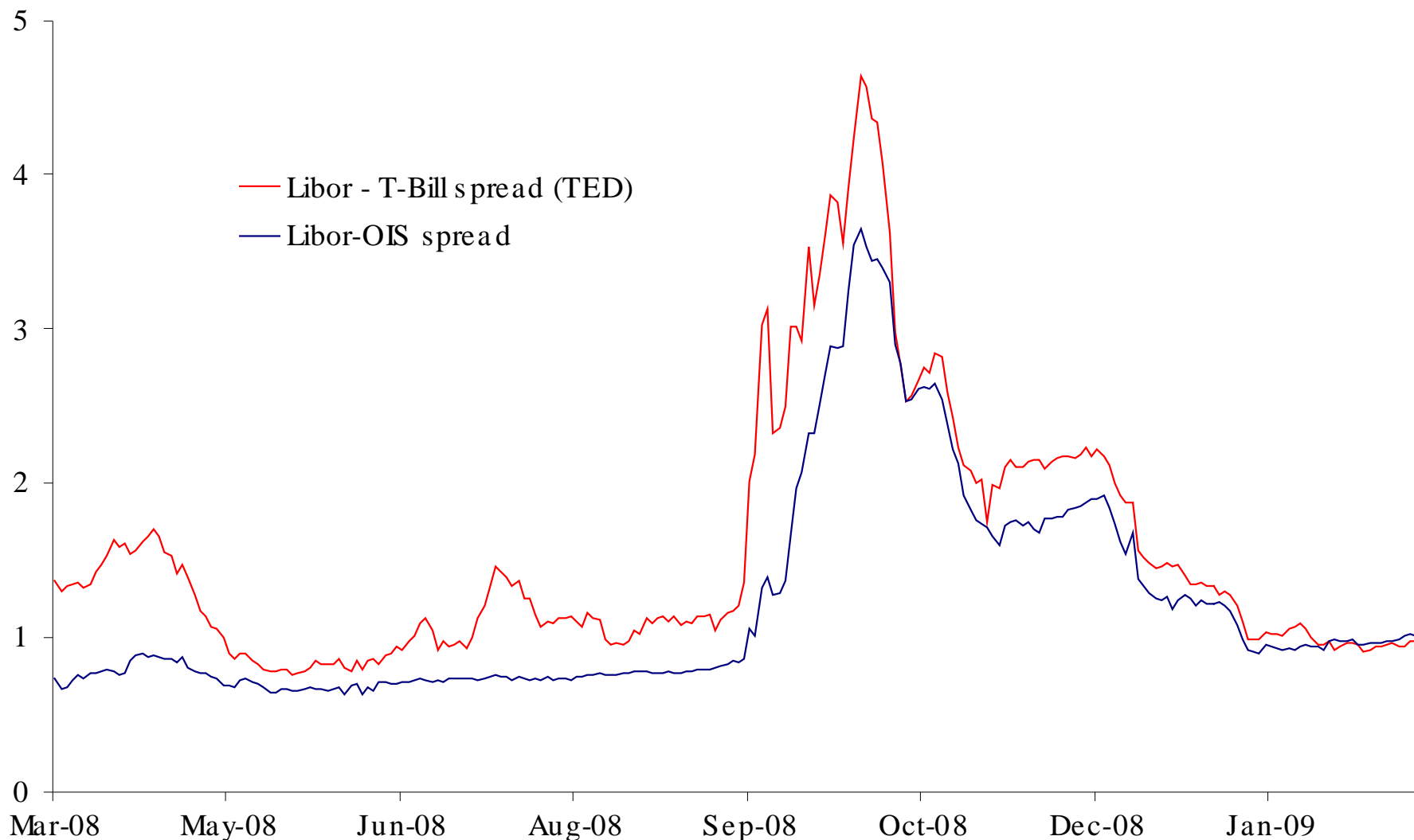
(\$ Billions)



Source: Inside Mortgage Finance

Key Libor Spreads Have Levelled Off Since October

(Percent)

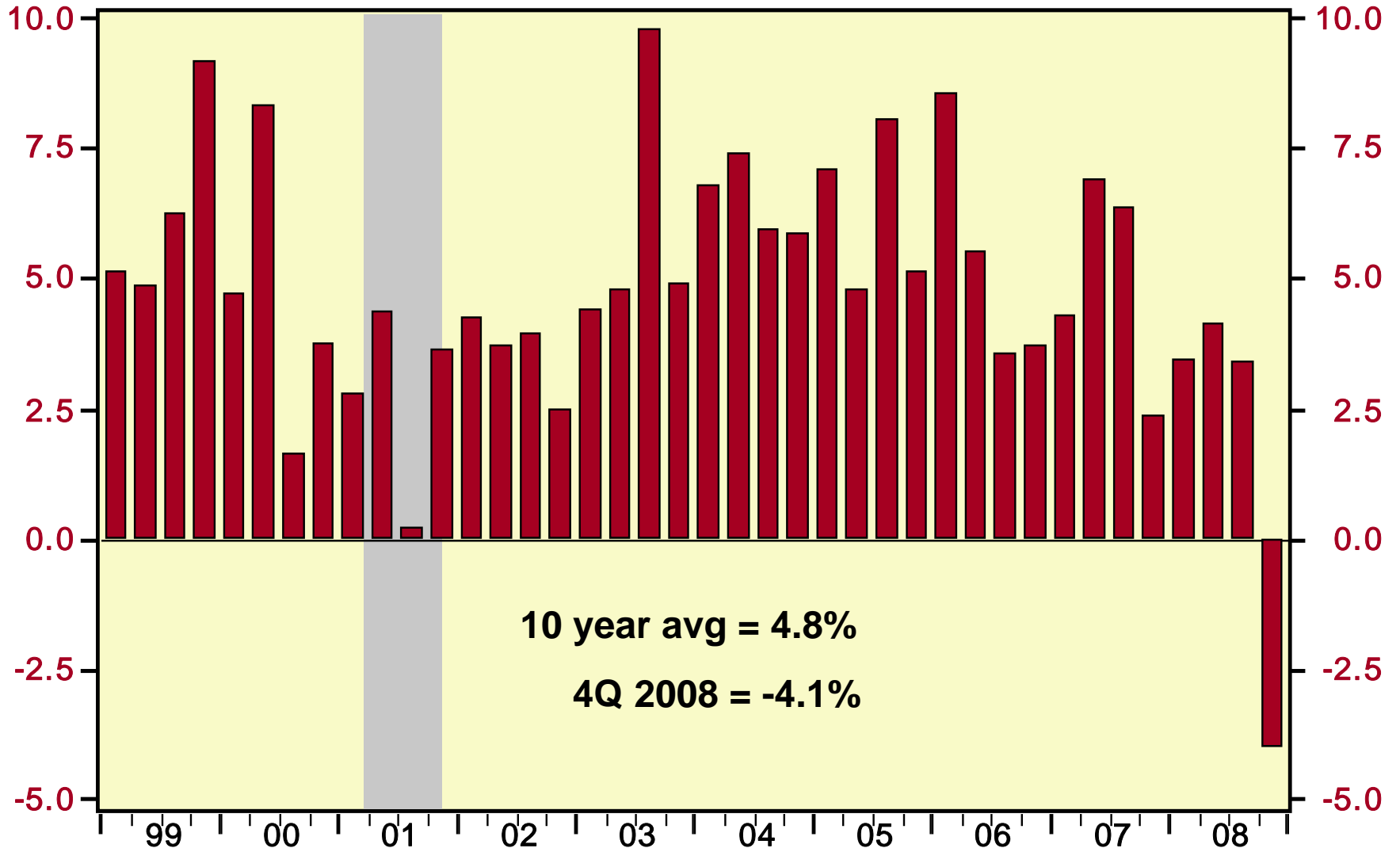


Source: Bloomberg

Gross Domestic Product

% Change - Annual Rate

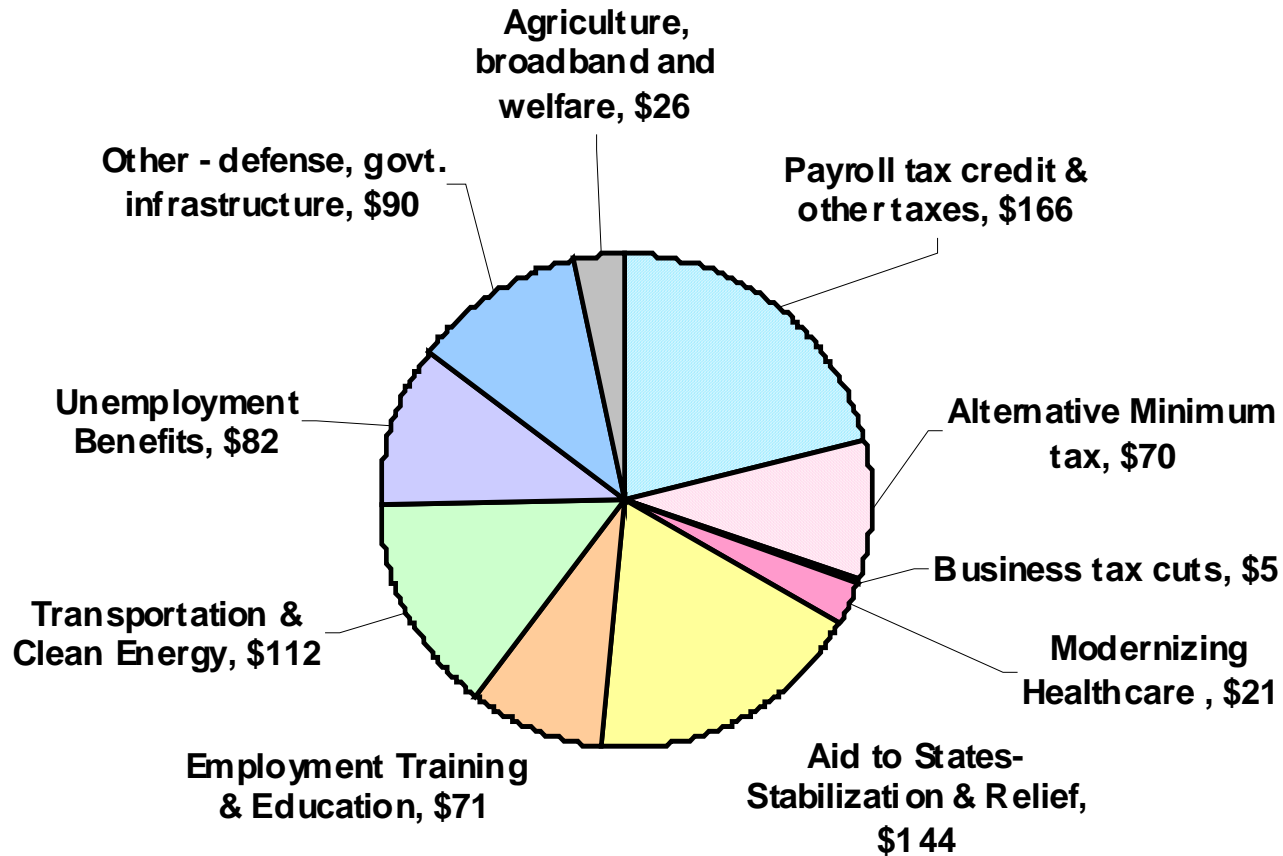
SAAR, Bil.\$



Source: Bureau of Economic Analysis /Haver Analytics

The American Recovery and Reinvestment Act of 2009 totals some \$787 billion in spending and tax cuts.

Expressed in billions of dollars



Source: Financial Times and Wall Street Journal

Goals of Financial Stabilization Policies

- Restore **liquidity** to financial markets in the short term
- Sort out the **difficult valuation issues** that arise from complex assets and an uncertain economic and financial environment
- Solidify the **capital base** and **funding** of the industry
- Provide a sound basis for the **availability of credit** that will be needed to finance an economic recovery

Federal Reserve Liquidity Programs

- Term Auction Facility (TAF) - December 2007
- Reciprocal Currency Agreements – December 2007
- Term Securities Lending Facility (TSLF) - March 2008
- Primary Dealer Credit Facility (PDCF) – March 2008
- Asset Backed CP Money Mkt Fund Liquidity Facility (AMLF) – Sept 2008
- The Commercial Paper Funding Facility (CPFF) – October 2008
- The Money Market Investor Funding Facility (MMIFF) – October 2008
- Term Asset-Backed Securities Loan Facility (TALF) – November 2008
- Mortgage Backed Securities Program (MBS) – November 2008

Troubled Assets Relief Program (TARP)

- \$700 billion total authorized funding, in two tranches
- Authorizes Treasury to “purchase or insure” troubled assets
- MBS and whole loan purchase programs – *shelved for now*
- As of February 2009, about \$296 billion has been distributed through five programs:
 - Capital Purchase Program
 - \$196.3 billion distributed to 440 depository institutions and bank holding companies
 - Systemically Significant Failing Institution Program
 - \$40 billion preferred equity stake in AIG
 - Targeted Investment Program
 - \$20 billion preferred equity stake each in Citigroup and Bank of America
 - Asset Guarantee Program
 - \$12.5 billion in loan guarantees for Citigroup and Bank of America
 - Automotive Industry Financing Program
 - \$21 billion was used to assist the automotive industry

FDIC Temporary Liquidity Guarantee Program

- Authorized by FDIC Board in October 2008 under systemic risk finding
- Two components:
 1. Guarantee of senior unsecured debt issued by insured depository institutions and most depository institution holding companies
 2. Guarantee of noninterest bearing transaction deposit accounts in excess of deposit insurance limits.
- Participation:
 - Debt guarantee program -- 7,100 banks, thrifts and holding companies
 - Transaction account guarantee program -- 7,000 banks and thrifts
- Fees
 - Debt guarantee program – 50 to 100 basis points depending on maturity
 - Transactions accounts – 10 basis points of amount greater than \$250,000
- \$265.8 billion in FDIC-guaranteed debt outstanding as of Feb. 26

Financial Stability Plan

- Capital Assistance Program
 - Determine capital needs – stress test
 - Purchase convertible preferred stock
- Public-Private Investment Fund
 - \$500 billion to \$1 trillion in gov't funding
 - Attract private capital, generate pricing
- Consumer and Business Lending Initiative
 - Expand TALF to \$1 trillion
 - Expand eligible ABS

Homeowner Affordability and Stability Plan

- Allow conforming borrowers to refinance at historically low rates with the GSEs even when loan-to-value exceeds 80%
- Provide up to \$75 billion in financial incentives and subsidies to servicers to modify unaffordable mortgages to lower monthly payment
- Also:
 - Increase funding commitment to GSEs
 - Streamline Hope for Homeowners
 - Support judicial modifications

Questions