TESTIMONY OF
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FEDERAL DEPOSIT INSURANCE CORPORATION
ON
CONSUMER CREDIT
BEFORE THE
COMMITTEE ON BANKING AND FINANCIAL SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES
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Mr. Chairman and members of the Committee, thank you for the opportunity to present the views of the Federal Deposit Insurance Corporation (FDIC) on recent developments in consumer lending.

Today we are witnessing a period of unprecedented prosperity for commercial banks and savings institutions. In the last four years, commercial bank profits have reached the highest levels in the 63-year history of the FDIC. If the banking industry maintains the pace of the first six months of this year, it will, for the first time ever, earn more than $50 billion in one year. Capital-to-asset ratios are higher than at any time since 1941. Overall asset quality is the best it has been in the fifteen years that we have been able to track it.

Savings associations also are experiencing historically high earnings. Last year, insured savings institutions posted their highest return on assets since 1962, and set a new record for full-year earnings. They have continued to post record earnings during the first two quarters of this year and are on pace to surpass last year's results. Savings associations continue to show steady progress in improving their asset quality, and their capitalization rivals that of the commercial banks.

Despite this good news in the earnings and capital of thrift institutions, the Savings Association Insurance Fund (SAIF) remains structurally unsound. The SAIF is significantly undercapitalized and nearly half of all SAIF assessments each year are diverted to pay interest on FICO bonds and are not available to build the fund. Without legislation to capitalize the SAIF, the continued disparity in insurance rates between the SAIF and the Bank Insurance Fund (BIF) insured institutions threatens to destabilize the SAIF and its membership.

As this Committee is well aware, for almost two years, the bank regulators, the Administration and the Congress have been working on legislation to address the problems of the SAIF. Most

recently, this Committee under the leadership of Chairman Leach has crafted a solution that would capitalize SAIF and reduce the rate disparity. In the brief time remaining this year, I urge Congress to adopt a legislative package that would capitalize the SAIF, establish a framework for addressing charter issues and the merger of the BIF and the SAIF, and provide regulatory burden relief for banks.

Today's hearing is on consumer lending, which historically has been profitable for insured depository institutions. It remains so today for the vast majority of institutions. However, there are a few dark spots on the banking industry's otherwise rosy picture. They include record personal bankruptcy filings, increases in consumer debt burdens, and rising losses in credit card lending. In 1996, for the first time in history, personal bankruptcies are expected to exceed one million. During the twelve months ending in June, almost one million -- over 989,000 -- personal bankruptcies were filed, a record for a twelve month period. The percentage of credit card loans that are delinquent (more than 30 days past due) has been rising since the middle of 1994, while the net charge-off rate on credit card loans has been increasing for the past five quarters. At the same time, data suggest that the profitability of credit card lending has been declining gradually since the second half of 1994. Even with this decline, however, credit card lending remains almost twice as profitable as other types of banking business.

While the FDIC does not believe that there is cause for significant concern, we are closely monitoring industry trends as well as the performance of credit card and other consumer loan portfolios at individual institutions. My testimony will provide an overview of the consumer credit market; analyze trends in delinquencies and charge-offs; examine two of the largest categories of consumer lending (home mortgages and credit card loans); address structural changes in the credit card market, including increases in personal bankruptcies and consumer debt burdens; and discuss the FDIC's supervisory initiatives to monitor consumer lending.

OVERVIEW OF THE CONSUMER CREDIT MARKET

AND TRENDS IN DELINQUENCIES

The consumer credit market in the United States -- composed of one- to four-family mortgages (home mortgages), credit card loans, home equity loans, and other loans to consumers -- amounted to $4.8 trillion in outstanding balances as of March 31, 1996. As shown in Exhibit 1, banks and savings institutions hold $1.7 trillion -- more than one-third -- of consumer loans. Exhibit 2 shows the composition of consumer loans held by insured depository institutions. Mortgage banks, credit unions, consumer finance companies, captive auto finance companies and investors hold the balance of consumer loans.

In recent years, consumer loan demand has been robust, as evidenced by the expansion of the credit card market. Consumer lending has helped propel industry asset growth and has contributed to the current record earnings of commercial banks and savings institutions. The negative side of this trend is that the rapid growth in credit has resulted in an all-time high ratio of consumer debt to income, and a ratio of debt service payments to income that is approaching an historical high.

FDIC studies show that most commercial bank failures can be attributed to bank lending decisions, or "credit risk." However, credit risks from consumer lending, as compared with commercial lending, are highly diversified and have not caused significant losses to the FDIC. The largest consumer lenders have customers spread throughout the United States and thus are less vulnerable to regional recessions or the failure of a major employer or industry. Consumer lenders tend to make relatively small loans to a large number of borrowers. As a result, defaults by a single borrower or small groups of borrowers typically do not impair an institution's capital as may be the case, for instance, when large commercial borrowers default. Also, many of the higher-balance consumer loans tend to be well-secured by residences or automobiles. Therefore, borrowers have strong incentives to make loan payments and banks are collateralized against losses. Consumer loans, other than credit card loans, have historically had lower and less volatile charge-off rates than commercial loans, as shown in Exhibit 3.

Exhibit 4 shows that banks and thrifts with high asset concentrations in consumer debt generally specialize in either home mortgages or credit card loans. For this reason, my testimony focuses primarily on developments in these markets. Home mortgages constitute the majority of outstanding consumer loans, but some of the highest concentration levels of consumer credit at individual institutions are in credit card loans. Credit card lending is highly concentrated in relatively few institutions.

Credit card specialty banks are major participants in the consumer credit market. The FDIC defines credit card specialty banks as insured commercial banks and savings institutions whose total loans exceed 50 percent of total managed assets, and whose credit card loans exceed 50 percent of total loans. Together, 77 specialized credit card institutions now hold almost two-thirds (65.5 percent) of all credit card loans outstanding on commercial banks and savings institutions' balance sheets and account for 78.0 percent of all credit card loans, including securitized, off-balance- sheet loans. The profitability and other performance characteristics of these credit card specialty banks are representative of the profitability and performance of credit card operations in more diversified institutions.

Typically, credit card specialty banks have very high rates of return. Since 1990, the average return on assets at credit card specialty banks has ranged from almost two to four times that of other insured institutions. In general, however, credit card specialty banks also have had high

delinquency and charge-off rates. From the end of 1994 through June 30, 1996, the average past due ratio at credit card specialty banks rose from 3.52 percent to 4.14 percent. The average net charge-off rate at these institutions rose from 2.88 percent in 1994 to 3.31 percent in 1995. In the second quarter of 1996, the average net charge-off rate at credit card specialty banks was 4.34 percent, up from 3.27 percent in the second quarter of 1995. While these rates remain short of the historic quarterly high -- reached in the second quarter of 1992, when the net charge-off rate at specialty credit card banks peaked at 5.48 percent -- the net charge-off rate has been rising sharply for the past five quarters, as Exhibit 5 illustrates.

As Exhibit 5 also illustrates, both credit card losses and personal bankruptcies have shown overall rising trends since at least 1984 and have been increasing during the present economic expansion. The exhibit demonstrates a striking correlation between credit card loan-loss rates and personal bankruptcies.

Rising consumer delinquency and charge-off rates during an economic expansion -- like the present rising rates -- are not unusual. During the last economic expansion from 1985 to 1989, consumer delinquency and charge-off rates also rose. As Exhibit 6 shows, consumer debt rises when employment rises, since households are more willing to incur debt and banks are more willing to lend. As Exhibits 7 and 8 illustrate, cycles of rising growth in consumer credit have been followed by rising delinquency rates even during periods of economic expansion.

Data from the 1990-1991 recession suggest, however, that another recession would exacerbate the increases in credit card losses and personal bankruptcies, particularly since consumer debt levels are at an all-time high. Exhibits 9 and 10 show that commercial bank loan delinquency and charge-off rates all peaked during or after the last recession, reflecting the financial distress the recession caused.

The recent adverse consumer credit trends, particularly the long-term rising trend in personal bankruptcies and credit card charge-off rates, merit our attention. The remainder of my testimony focuses on the concerns that have arisen in home mortgage lending and credit card lending, and the risks these activities entail from an insurance perspective.

HOME MORTGAGES

Historically, loan-loss rates on home mortgages are among the lowest and least volatile of any consumer loan category. As Exhibit 11 shows, each year from 1990 through 1995, between one-half and three-fourths of all FDIC-insured institutions that held home mortgages had no charge-offs on these loans.

The federal banking regulators measure home mortgage delinquency rates based upon the dollar amount of past due loans. Using this measure, mortgage delinquencies at commercial banks and thrifts have remained fairly steady over the past year. The Mortgage Bankers Association (MBA), on the other hand, measures delinquencies on the basis of the number of loans delinquent. Using this measure, the MBA reports an increase in mortgage delinquency rates from a 4.15 percent rate during the second quarter of 1995 to a 4.35 percent rate during the second quarter of 1996. However, the delinquency rate has declined for the past two quarters. The rate calculated by the MBA is about twice the rate calculated by the FDIC, suggesting that a greater proportion of delinquencies are occurring among smaller-balance loans.

According to the MBA, three factors may explain an increase in delinquency rates: (1) lower down payment requirements; (2) increased use of adjustable rate mortgages; and (3) a larger proportion of loans between two and five years old, the age at which delinquencies generally peak. Typical mortgage foreclosure patterns show few foreclosures in the first two years after origination and a rapid increase through years four and five; thereafter, foreclosures drop off.

The Mortgage Research Group, Inc. has suggested an additional explanation. Many top quality borrowers refinanced their mortgages during the low interest-rate period of 1991-1993. In 1993, mortgage originations were a record $1.1 trillion. When interest rates rose in 1994 and 1995, lenders may have tried to preserve origination levels by increasing lending to less creditworthy borrowers and by lowering loan-to-value requirements. These factors may explain the increase, albeit small, in delinquency rates in a generally favorable economy.

Nevertheless, compared to mortgage delinquency rates over the past ten years, today's rate of about 4.35 percent (as measured by the MBA) remains relatively low. From 1985 through 1991, the delinquency rate consistently exceeded today's rate and was close to six percent at one point.

Although it appears unlikely that credit losses on home mortgages will threaten the capital adequacy or solvency of FDIC- insured institutions, two caveats should be noted. First, home mortgage lending is a highly competitive, low margin business. Second, sustained unfavorable interest-rate movements could pose substantial risks for some home mortgage lenders if they are not properly managing interest-rate risk.

CREDIT CARD DEBT

High yields on credit card loans have encouraged institutions to expand the lines of credit for credit cards rapidly. Exhibit 12 shows the large growth in credit card loans, especially in unused

credit commitments -- lines of credit that have been made available but not drawn upon by consumers -- over the past five years. Over the past ten years, credit card loans as a percentage of the consumer loan portfolios of the lending institutions have grown by about two-thirds, from 7.6 percent at the end of 1985 to 12.9 percent at the end of the second quarter of 1996.

As Exhibit 13 shows, credit card specialty banks have higher charge-off rates than other insured institutions. Delinquency rates on credit cards are also higher than on other consumer debt. There are two reasons for these higher rates. First, credit card underwriting is less extensive than underwriting for other consumer loans. Credit card issuers primarily rely on credit bureau reports, which typically provide only payment history and outstanding credit. In contrast, before making other consumer loans, particularly home equity and mortgage loans, lenders obtain credit bureau reports, but also verify borrower income, other financial resources, debt service and collateral value. Second, unlike most consumer debt, credit card debt is typically unsecured. Borrowers tend to pay secured debt first, which may raise credit card delinquency rates. Higher delinquency rates, combined with lenders' inability to draw on collateral when borrowers default, contribute to higher charge-off rates.

Despite high charge-off rates, credit cards carry high average interest rates and have generally been very profitable. Exhibits 14 and 15 show that high average margins traditionally have more than compensated for high loan-loss rates, and thus most specialized credit card lenders have remained highly profitable, even with rising charge-off rates.

STRUCTURAL CHANGES IN THE CREDIT CARD MARKET

A number of recent structural trends in the credit card industry are worth examining for their potential impact on delinquency and charge-off rates. Structural changes in an industry may make past performance less relevant as a guide to future prospects. Recent structural changes in credit card lending include stronger competition in a more saturated market, increases in personal bankruptcies and the consumer debt burden, growth in unused lines of credit and a doubling of securitizations over the past five years.

INCREASED COMPETITION

With the aid of information technology and increasingly sophisticated marketing techniques, companies have been able to mine vast amounts of consumer information -- such as credit histories, credit use, and spending patterns -- to segment and expand the credit card market. Institutions also rely on complex credit scoring models to qualify borrowers and to price credit. By combining automated underwriting methods with direct mail and phone solicitations, institutions have been able to acquire new customers quickly and cost-effectively.

The credit card industry, like any other highly profitable industry, has attracted competition. While the number of specialty credit card banks remains small, they are intensifying their competition. As competition among the major players escalates, profit margins come under pressure. This pressure principally stems from underwriting competition, the proliferation of introductory "teaser" interest rates, greater offerings of low or no annual fee products, and growth in marketing costs.

This intense competition for new business may cause structural changes within the industry over time. Increased marketing costs, lower fee income and razor thin interest spreads during introductory periods on cards with "teaser" rates will tend to raise the financial barriers to entry into the business. Economies of scale may encourage additional industry consolidation.

INCREASES IN PERSONAL BANKRUPTCY

Another structural change posing a challenge for the credit card industry is the steady increase in personal bankruptcies despite favorable economic conditions. Personal bankruptcies have increased rapidly since 1980. As noted earlier, filings for 1996 are expected to exceed one million for the first time in history.

Several reasons are commonly offered for the growing number of personal bankruptcies. Total consumer debt as a percentage of disposable personal income is now at an all-time high (83 percent), as shown in Exhibit 16. This trend warrants continued close monitoring and suggests that American consumers may have less flexibility in terms of liquidity for handling outstanding debt during a recessionary period. Debt service payments in the aggregate nationwide as a percentage of total personal disposable income (now at 16.7 percent) are approaching the historical high of 17.6 percent (see Exhibit 17). In addition, some authorities have suggested that the social stigma surrounding bankruptcy appears to have diminished, perhaps causing consumers to be less averse to filing for bankruptcy.

The increase in personal bankruptcies is particularly troubling for three reasons. First, some analysts estimate that personal bankruptcies now account for 40 to 50 percent of losses in bank card lending. Second, credit scoring models may not predict bankruptcies well because they do not predict a borrower's ability to avoid bankruptcy when catastrophe strikes. In its survey of senior loan officers released in August, the Federal Reserve Board noted anecdotal evidence that banks are charging off consumer loans at a higher than expected rate because of the rise in bankruptcies. Third, as the Federal Reserve Board also noted, the average period of credit card delinquency before bankruptcy is decreasing, suggesting that the burden of debt leads consumers to go straight to bankruptcy when they get into financial trouble, thereby hampering the ability of lenders to respond to debt problems by restructuring problem loans.

GROWTH IN UNUSED LINES OF CREDIT

The significant growth in outstanding credit card debt has been accompanied by an even greater growth in total unused credit card commitments. For all commercial banks, unused lines for credit card loans increased from $476 billion at year-end 1991 to $1.2 trillion by midyear 1996; and unused lines increased $213 billion -- or 21 percent -- between June 1995 and June 1996. Unused lines of credit would seem to pose a risk to institutions from consumers who may draw on their lines of credit without the ability to repay. Credit card lenders typically monitor the use of credit cards by their borrowers and have the authority to freeze or cancel credit at any time. In addition, as shown in Exhibit 18, credit card loans have had the lowest utilization rates -- the proportion of the credit lines that are actually drawn upon -- of any category of commercial or consumer lending. Unless historical patterns change, utilization rates can be expected to remain low. Moreover, many borrowers use their credit cards for "convenience" -- as a substitute for cash or checks -- and do not maintain balances on their cards. The high level of unused lines of credit nevertheless merits continued monitoring.

SECURITIZATION

Another structural change occurring in the credit card industry is the growth in the securitization of credit card receivables. While the use of securitization has been concentrated in relatively few insured institutions, the dollar amount of securitizations has doubled in the past five years. As of June 30, 1996, 35 commercial banks reported $140 billion in securitized credit card receivables. Some specialty credit card banks have relied heavily on securitizations to free funds for additional credit card loans. Most securitizations are non-recourse sales. Therefore, securitized loans that have been sold on a non-recourse basis are not counted when calculating the selling institution's capital requirements.

In general, banks profit from fee and interest income generated by a securitized credit card pool, less the investors' coupon rate and charge-offs. Therefore, the amount of income earned by the bank on a securitized pool of credit cards depends upon the performance of the credit card receivables.

Disruptions in the market or deterioration in the receivable pool could result in early repayment of principal to investors. If this occurs, banks may be forced to retain credit card receivables that they would otherwise have securitized, creating potential liquidity problems and capital constraints.

EVALUATION OF RISKS TO THE INSURANCE FUNDS

In credit card lending, income has traditionally more than compensated for high credit losses. With adequate risk-management practices by lenders, credit card lending should remain profitable for most institutions. Conversely, institutions that neglect these practices may be more vulnerable to adverse developments. Sound risk-management practices include

continuous updating of models for predicting losses, as well as borrower information, including the number and use of outstanding credit cards. In addition, risk management practices should include frequent review and adjustment of credit limits and interest rates to reflect these risks. Because of the continuing rise in personal bankruptcies, banks should also review the accuracy of credit models in predicting bankruptcy. In addition, banks should "backtest" models by comparing past risk assessments with actual results. This is especially important in evaluating how well the institution's risk-management techniques are working. Pursuant to the Equal Credit Opportunity Act, institutions must periodically revalidate credit scoring models to assure that the criteria used in the models remain statistically valid.

For safety and soundness and surveillance purposes, the FDIC broadly defines "high concentrations of credit card loans" as outstanding credit card receivables equal to 25 percent or more of total loans or credit card receivables equal to 100 percent or more of Tier 1 capital. This definition captures 143 commercial banks, including 75 specialty credit card banks. As the profile on the next page indicates, 137 of the 143 insured commercial banks with high concentrations of credit card loans are rated CAMEL 1 or 2. These ratings indicate that, overall, federal and state examiners view current risk-management practices as acceptable at the present time.

CAMEL* RATING PROFILE

BANKS WITH HIGH CONCENTRATIONS

OF CREDIT CARD LOANS

All FDIC-Insured Institutions

Rating	Number of Banks	(Total Assets)	(Insured Deposits)
1 & 2	137	366,992	142,335
3 & 4	6	9,307	6,502
Total	143	376,299	148,837

* Represents the CAMEL rating (Capital, Asset Quality,

Management, Earnings, Liquidity).

($ in millions)

A number of factors suggest that, overall, credit card banks do not currently pose a threat to the deposit insurance funds. Credit card lending risks are normally more diversified than the lending risks that led to past losses to the deposit insurance funds, such as commercial real estate lending risks. Credit card lenders traditionally have been able to manage exposures by repricing to reflect risk, adjusting credit limits and other terms, or otherwise changing marketing practices.

While credit card lending continues to grow, recent anecdotal evidence suggests that credit card lenders are responding to rising credit card delinquency and charge-off rates. As noted previously, the Federal Reserve Board reported in August in its survey of senior loan officers that many banks are tightening credit card terms and reducing credit limits in response to the rising delinquency rate. FDIC data suggest that the credit card lending growth rate has been decelerating since the middle of last year. While competition has intensified, continued high profits have thus far demonstrated the ability of most lenders to charge higher-risk borrowers enough to offset that risk.

Many credit card lenders rely heavily on capital markets for their funding and, as shown in Exhibit 19, have low levels of insured deposits. Of the 77 specialty credit card banks, 32 have total assets greater than $1 billion. As of June 30, 1996, these 32 banks collectively held $170 billion in total assets, but only an estimated $24.1 billion in insured deposits. Their reliance on nondeposit financing lowers the risk to the deposit insurance funds and subjects these institutions to greater market discipline. Moreover, many of these institutions have corporate parents that could cover losses in their credit card subsidiaries.

What is true of the credit card industry on average, however, may not be true for particular institutions. The FDIC's losses at any given time are determined not by the average performance of the industry, but by the performance of individual institutions. While most institutions with higher concentrations of credit card receivables are highly capitalized and profitable today, individual institutions could encounter problems in the future. The FDIC is closely following the condition and performance of individual institutions through special quarterly reporting on credit card institutions. The next section describes our supervisory initiatives in this area.

FDIC SUPERVISORY INITIATIVES

The FDIC insures all federally insured banks and savings associations, and is the primary federal supervisor of 6,486 state- chartered nonmember banks and state-chartered savings banks. For those banks for which the FDIC is the primary supervisor, the FDIC recently developed specialized on-site examination procedures to evaluate credit card lending. The FDIC also has instituted a series of regional round table meetings with representatives of the specialty credit card institutions to discuss current developments in the industry. For all of the more than 11,000 depository institutions that the FDIC insures, the FDIC has developed a series of specific offsite monitoring reports to more closely track consumer lending trends and the responses of financial institutions to these trends.

ONSITE EXAMINATION PROCEDURES

The FDIC is the primary federal supervisor of 46 of the 143 institutions with high concentrations of credit card loans. These 46 institutions hold $81 billion in total assets, which represents over 20 percent of the $376 billion in total assets held by all 143 banks with high concentrations of credit card loans. Either the FDIC or state authorities have examined 36 of these 46 institutions over the past year and all 46 since January 1, 1995. The FDIC's specialized examination procedures for banks with high credit card concentrations address the banks' present financial condition and the adequacy of their risk-management practices for monitoring current and future risks.

Examiners analyze both on-balance-sheet and off-balance-sheet (or managed) assets, such as credit card securitizations. They also compare their findings with peer group data that the FDIC compiles quarterly. The peer group data include selected earnings performance and asset quality ratios, as well as trends in credit card receivables, unfunded loan commitments and returns on managed assets.

The FDIC also is testing a new, comprehensive procedural manual for examining credit card banks. The manual provides examiners with a detailed understanding of the credit card industry and guidance on examination procedures. The manual instructs examiners to focus on credit card underwriting standards and credit scoring models. To further improve examiners' understanding of credit scoring and behavioral models, the FDIC is sending selected examiners to seminars on these models. These examiners will help develop additional training for other examiners. To keep current with the latest developments and to assess the effectiveness of its examination procedures, the FDIC will maintain contact with industry leaders who develop these models.

ROUND TABLE MEETINGS

As part of a continuing program, the FDIC holds periodic round table meetings with selected credit card specialty banks that it supervises. These meetings allow participants to provide their assessments of the current state of credit card lending and to discuss current underwriting policies, procedures and practices, and delinquency and charge-off experiences. The meetings give the banks an opportunity to respond to the FDIC's concerns about increasing delinquencies and charge-offs within the industry and to discuss their approaches to managing risk. Recently, representatives of the FDIC held round table meetings with specialty credit card banks in Utah and Delaware.

OFFSITE REVIEWS AND REPORTS

The FDIC has developed a quarterly consumer loan report for commercial banks with assets greater than $300 million. This internal supervisory report uses data from the quarterly Reports of Condition (Call Reports) to identify those banks with high volumes of consumer-related credit. Performance ratios are calculated to analyze home equity lines, credit card and related programs, and other consumer loans. Examiners review the report to identify possible adverse trends. To date, examiners have identified only a small number of banks that require an increased level of supervisory attention.

The FDIC also prepares comprehensive quarterly offsite reviews of banking organizations with total assets in excess of $3 billion, which includes the major credit card issuers. This review includes an analysis of uninsured subsidiaries that may be involved in consumer credit, such as finance companies and mortgage banking operations. In general, the performance of these subsidiaries has not been detrimental to the performance of the organization as a whole.

The FDIC has developed another series of quarterly reports to assist examiners in their monitoring of commercial banks with high concentrations of credit card loans. The reports are used to track more closely the condition of banks that have significant levels of credit card lending relative to their capital, to set priorities for onsite examinations and to monitor changes in underwriting practices. The FDIC conducts quarterly offsite reviews of these institutions and shares concerns and questions resulting from its findings with the other state and federal regulators.

Recently, for instance, reports on several large institutions led the FDIC to request the primary regulator to join the FDIC in reviewing the modeling systems these institutions use to evaluate credit card portfolios. The review revealed no significant problems with the modeling systems.

As part of every examination since early 1995, the FDIC has surveyed its examiners on the credit underwriting practices of each bank. The survey addresses underwriting characteristics of many

kinds of loans, including consumer loans. The first published results of the survey revealed that for the twelve months ending March 31, 1996, almost 95 percent of banks examined made consumer loans, but no major problems were reported in their underwriting practices. Ninety percent of banks examined evidenced no consumer loans that lacked demonstrable repayment ability. A similar percentage of banks showed no weaknesses in the adequacy of collateral. Since April 1996, the FDIC's credit underwriting survey has been gathering additional specific information on credit card underwriting practices. This information will assist the FDIC in monitoring credit card lending.

CONCLUSION

In conclusion, the FDIC believes, at this time, that consumer lending does not pose a significant risk to the deposit insurance funds. By many measures, the banking industry is the strongest it has ever been. Earnings and capital levels are at some of the highest levels in the history of the FDIC. Overall, consumer lending continues to be profitable, despite record personal bankruptcies and increases in credit card charge-offs. Delinquency rates on home mortgages remain low compared to rates over the past decade. In most years, the great majority of financial institutions sustain no credit losses on home mortgages. In recent years, high levels of income and capital at credit card banks have typically provided a more than adequate cushion against losses. Credit card lenders should be able to manage exposures properly by repricing to reflect risk, adjusting credit limits and other terms, or otherwise tailoring their marketing efforts to manage risks. We have seen recent evidence that many credit card lenders are adjusting credit card terms and limits, as well as underwriting standards, in response to increasing losses.

Notwithstanding the overall profitability of consumer lending, the adequacy of an individual institution's risk-management practices will significantly affect its performance. The FDIC will continue to monitor closely the performance of individual institutions as well as trends in unused credit card commitments, credit card losses, consumer debt burdens and personal bankruptcies.

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