

R&C Bankers Conference

Eric Rosengren

Senior Vice President

Federal Reserve Bank of Boston

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Overview of Opening Remarks

- Credit quality continues to improve
- Biggest near term risk continues to be compliance risk
- Longer-term risk – Will collateral values continue to appreciate?

Steady Improvement in Banks Rated 3,4,or 5

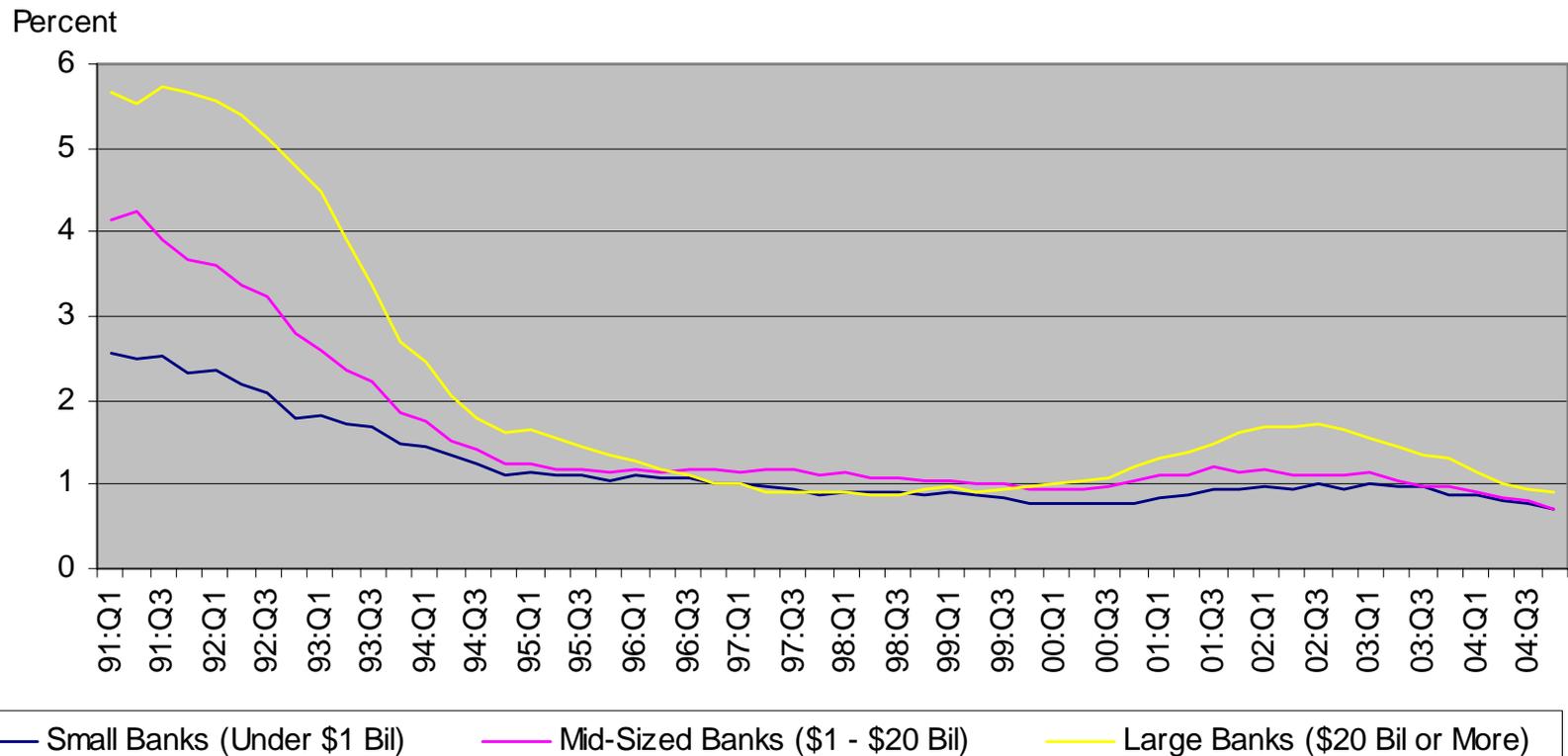
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Despite The Improvement In Credit Quality Less Than 20 Percent Of Banks Are 1-Rated

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Very Low Delinquency Rates Are Consistent With This Improvement

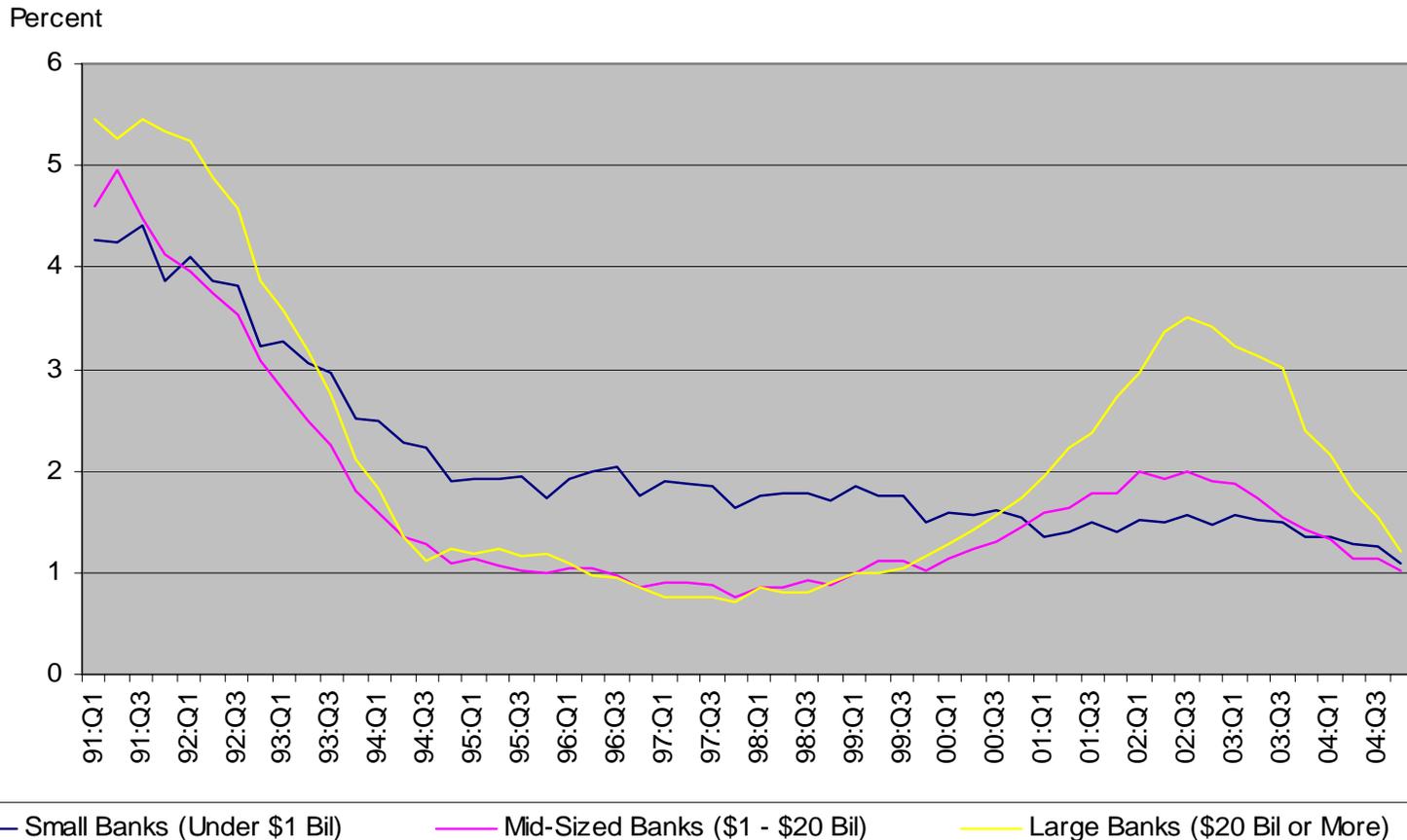
**Delinquency Rates for All Loans
at Commercial and Savings Banks, by Asset Size**
Based on Quarterly Call Report Data, 1991:Q1 - 2004:Q4



The Greatest Improvement Has Been In Large Participation Loans

**Delinquency Rates for Commercial and Industrial Loans
at Commercial and Savings Banks, by Asset Size**

Based on Quarterly Call Report Data, 1991:Q1 - 2004:Q4

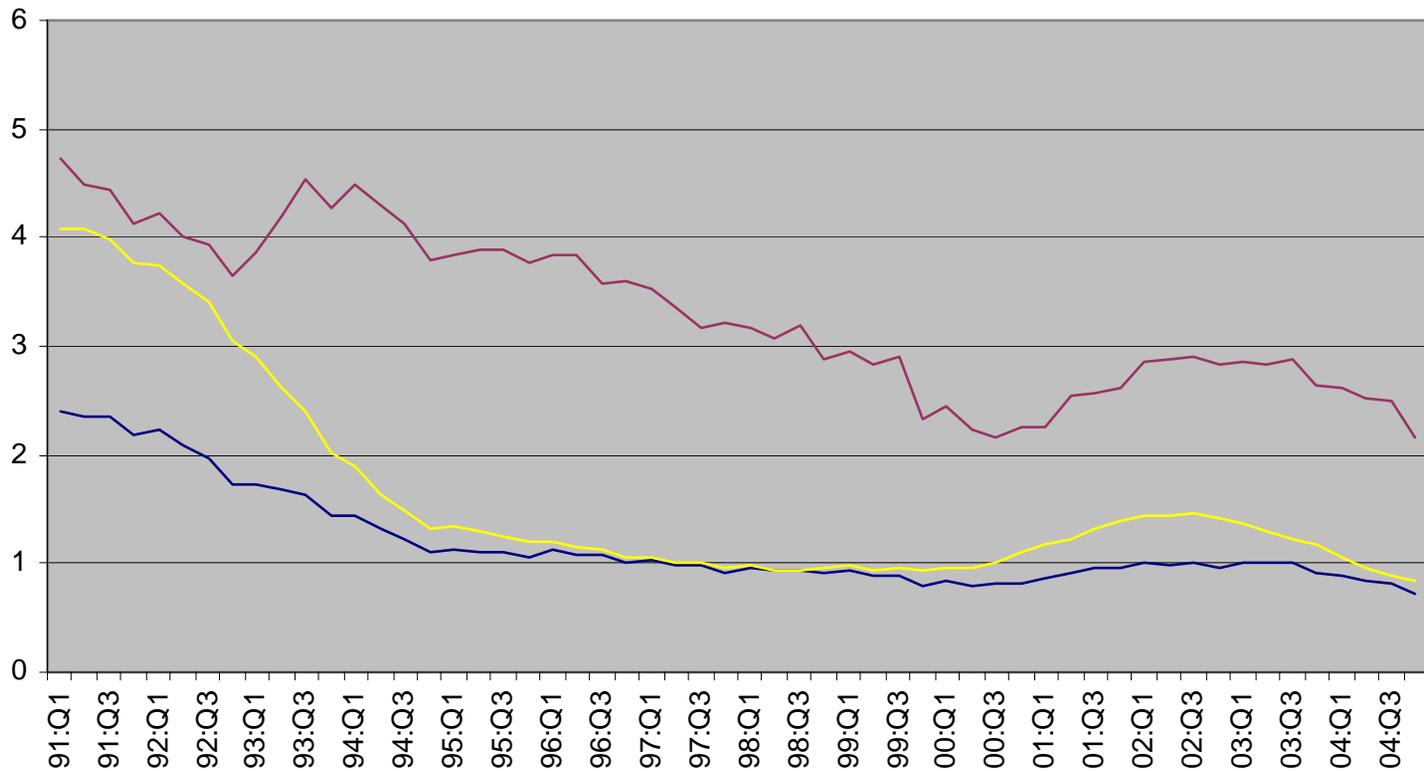


Even With Institutions Experiencing Problems, Credit Quality Has Improved

Delinquency Rates for All Loans at Small Commercial and Savings Banks

Based on Quarterly Call Report Data, 1991:Q1 - 2004:Q4

Percent



— All Small Banks — Small CAMELS 3, 4, 5 Banks — All US Banks

Enforcement Actions in 2005

- 13 formal enforcement actions this year on state member banks or holding companies
- Only one was solely focused on safety and soundness issues
- 3 focused on AML/BSA
- 4 had major compliance issues - regulatory reports, 23A/23B, internal audit
- 4 CMP on flood insurance

Enforcement Actions

- Of the 13, two were large banks
 - B of A – mutual fund issues
 - Riggs – BSA, safety and soundness
- Many of the BSA/AML enforcement actions were on foreign owned banks

Continued Focus on Compliance

- BSA continues to be an area of focus
 - Continued scrutiny by Congress
 - Well publicized lapses highlight potential reputational risk
 - Following financial trail will continue to be a major element of the fight on terrorism

Housing Appreciation— Is It sustainable?

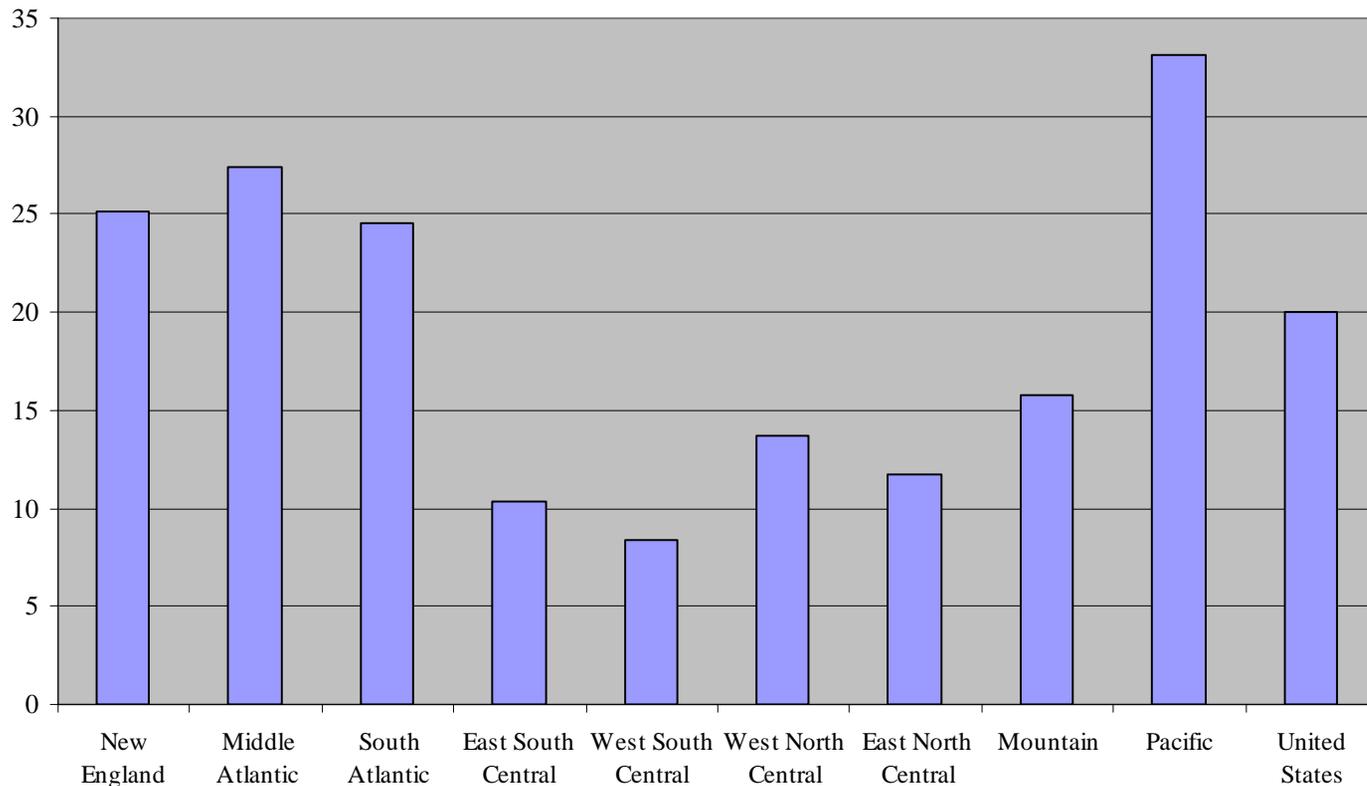
- “I believe, at worst, prices will level off and not decline” he said of his interest-only loan. - *Boston Globe May 31*
- “It has to appreciate (real estate), they’re not making more land.” *Boston Globe May 31*
- Will interest only loans and second homes cause housing prices to behave differently than in the past?

Vice Chairman Ferguson's Comments

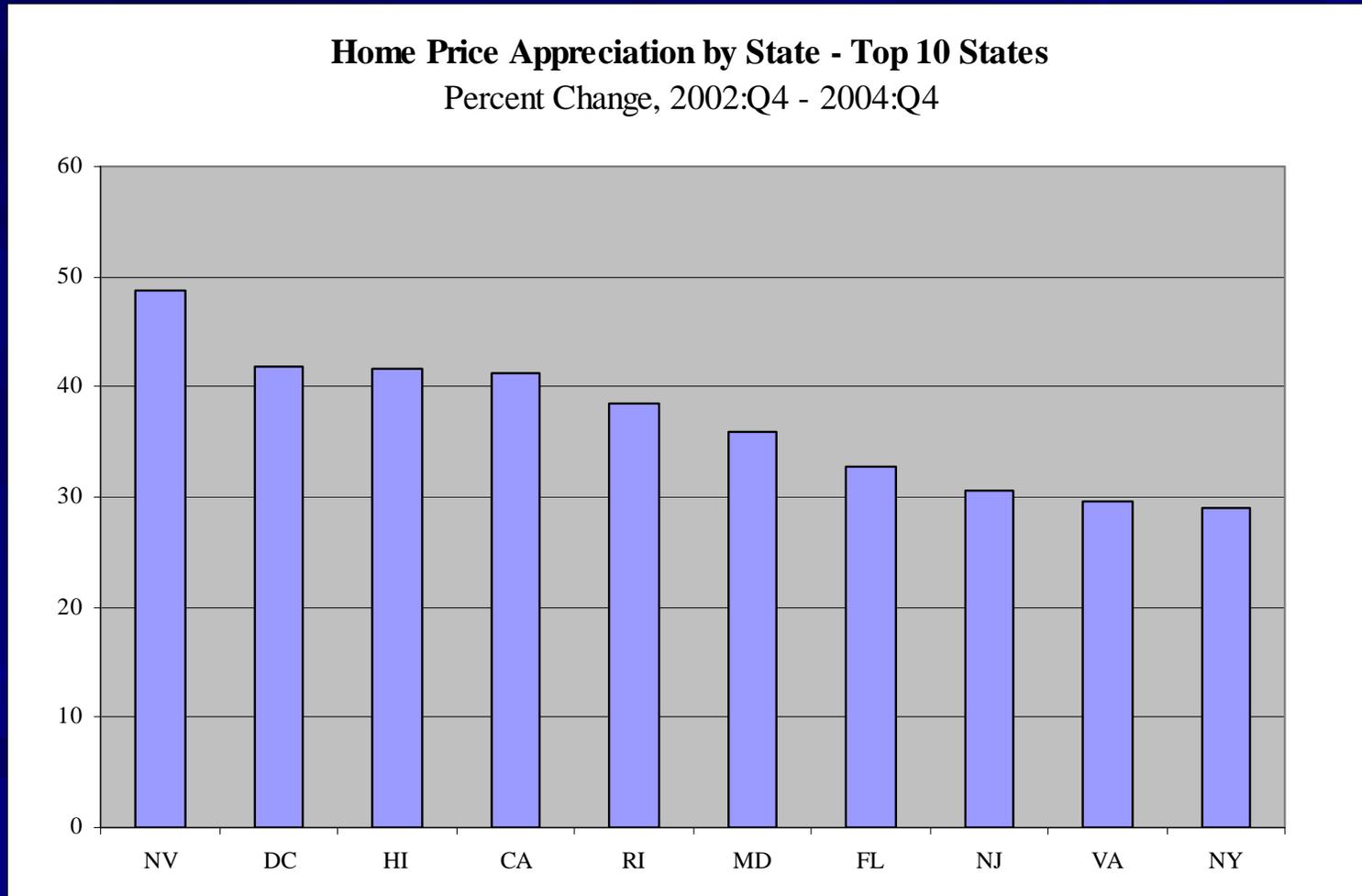
- “For housing, rent-to price ratios and income-to-price ratios....have decreased sharply in many countries, and they are currently outside historical ranges in some countries.”

Home Price Appreciation Has Been Greatest on the Coasts

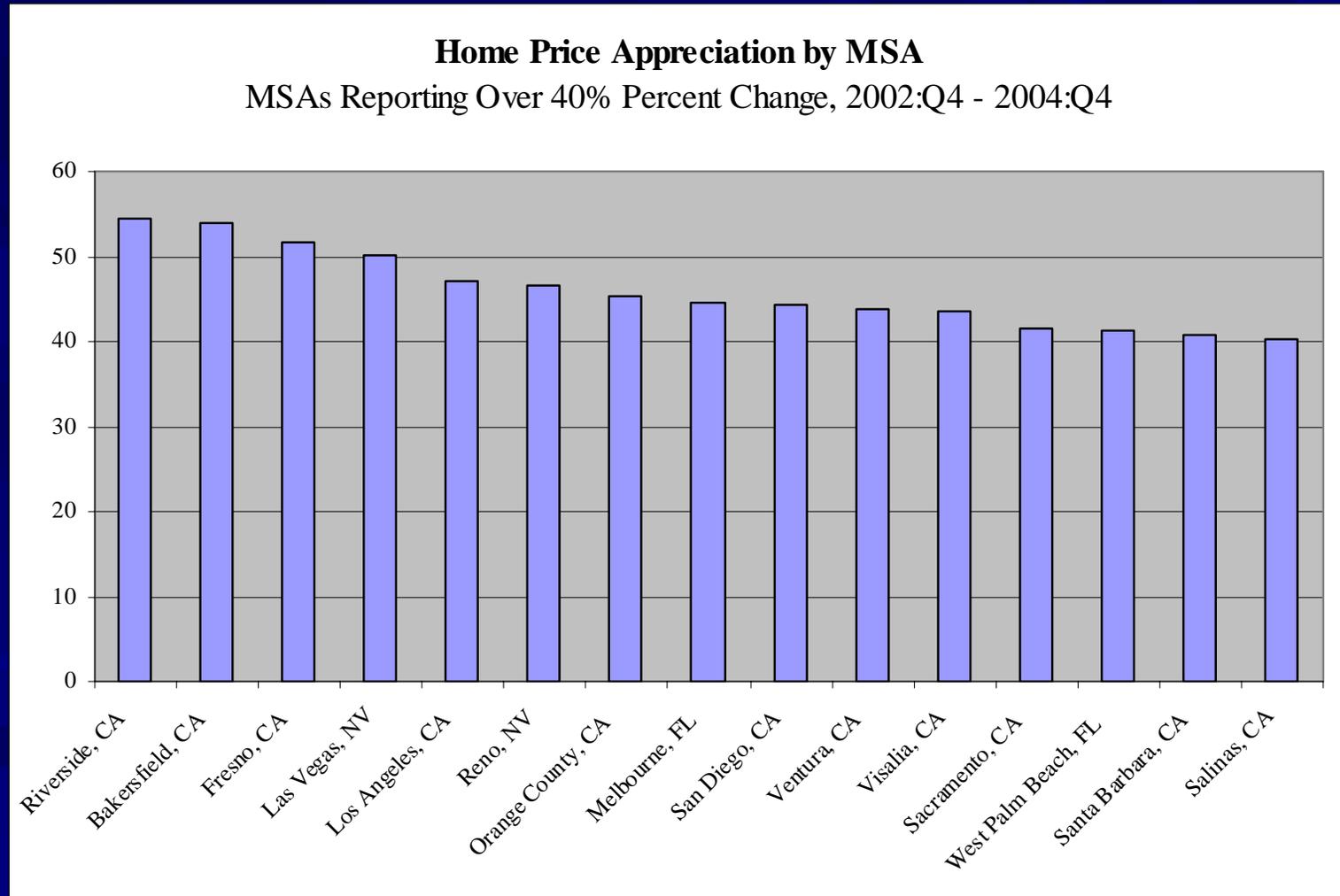
Chart 1: Home Price Appreciation by Census Region
Percent Change, 2002:Q4 - 2004:Q4



Retirement Areas Have Experienced Significant Increases In Home Prices



Prices In Localized Markets Have Exceeded 40 Percent Over The Past Two Years



National Association Of Realtors Study

- In 2004 second homes comprised approximately 35 percent of existing single-family, condo and new home sales
- Vacation homes were 36 percent of second home sales while investment home sales were 64 percent

Conclusion

- Credit quality is quite good and improving
- Low interest rates and collateral appreciation improve credit quality now but could seed problems for the future
- Housing not an immediate concern – but changes in the housing market could become an issue in a less benign environment