Letter to Stakeholders

2nd quarter 2007

FDIC

This edition of our *Letter to Stakeholders* highlights the FDIC's activities and accomplishments for the second quarter of 2007. As we enter the third quarter, among our priorities will be to continue closely monitoring the mortgage market and any negative impacts on borrowers and insured institutions, bringing unbanked and underbanked populations into the financial mainstream, and working with our sister financial institution regulators to issue final rules for banks under the Basel II capital agreement. For more information about our activities, please visit our Web site at www.fdic.gov.

Sheila C. Bair

Sheila C. Bair
Chairman

Our Priorities

Depositor Protection

- FDIC-insured commercial banks and savings institutions reported net income of $36.0 billion in the first quarter of 2007, the fourth highest ever reported by the industry, but slightly below the $36.9 billion earned in the first quarter of 2006.
- Estimated insured deposits increased by $84.4 billion in the first quarter, the second-largest quarterly increase in the past five years. The Deposit Insurance Fund (DIF) balance increased $580 million (1.2%) to $50.7 billion at the end of the first quarter. For the third quarter in a row, the ratio of the DIF to estimated insured deposits declined by one basis point, ending the first quarter 2007 at 1.20%.
- The DIF earned assessment income of $94 million in the first quarter of 2007. FDIC estimates that assessment income will increase to $140 million in the second quarter of 2007. The FDIC Board will regularly monitor deposit growth and the fund balance to track progress toward meeting the goals for the fund and to help determine the appropriate premium rate levels in the future. The FDIC anticipates the DIF will reach its designated reserve ratio of 1.25% in 2009.
- The federal banking agencies recently agreed to finalize rules implementing Basel II advanced capital regulations for large, complex banks. The agreement contains important safeguards against unconstrained reductions in risk-based capital requirements for these large institutions. It also provides for the development in the U.S. of the Basel II standardized approach as an option for other banks.
- The federal bank, thrift and credit union regulatory agencies issued the *Statement on Subprime Mortgage Lending* to address issues relating to certain adjustable-rate mortgage products that can result in payment shock. The statement describes the prudent safety and soundness and consumer protection standards that institutions should follow to ensure borrowers obtain loans they can afford to repay. Additional information is available in the *Statement on Working with Mortgage Borrowers*.
- The agencies also published illustrations of consumer information intended to help institutions implement the consumer protection portion of the *Interagency Guidance on Nontraditional Mortgage Product Risks*. The illustrations are intended to ensure that consumers have clear and balanced information before choosing nontraditional mortgage products and selecting payment options.
- The FDIC Board approved a two-year pilot project, the Affordable and Responsible Consumer Credit (ARC) initiative, to evaluate effective business models used by banks offering affordable small-dollar loans to consumers. The most effective features of the pilot programs will serve as a resource for other insured institutions.

Mission Support

- The Chairman, Board members and senior FDIC management testified during the quarter before congressional committees and spoke to U.S. and international audiences on financial literacy, consumer credit card issues, industrial loan companies, mortgage foreclosures, international deposit insurance, capital issues, and improving federal consumer protection.
- The FDIC released a new publication, ***FDIC Quarterly***, which provides a single source for industry data, analysis and research previously available in three publications — ***FDIC Outlook***, ***FDIC Banking Review***, and the ***Quarterly Bank Profile***.

Resource Management

- Bret D. Edwards was named Director of the Division of Finance, overseeing the FDIC's day-to-day financial operations. Mr. Edwards previously served as Senior Advisor to the Deputy to the Chairman and CFO.
- Thom H. Terwilliger was appointed Chief Learning Officer of the FDIC's Corporate University to lead the FDIC's employee training and development efforts.

Our Key Indices Most Current Data▼

Insurance

Updated Quarterly YTD ($ billions)	Q1 2002	Q1 2003	Q1 2004	Q1 2005	Q1 2006	Q1 2007
# Insured Inst.	9,538	9,330	9,130	8,943	8,803	8,662
$ Insured Inst.	$ 7,832	$ 8,617	$ 9,387	$ 10,292	$ 11,225	$ 11,998
Insured Deposits	$ 3,306	$ 3,414	$ 3,499	$ 3,689	$ 4,002	$ 4,237
Fund Balances	$ 41.7	$ 44.3	$ 46.6	$ 47.6	$ 49.2	$ 50.7
Reserve Ratios	% 1.26	% 1.30	% 1.33	% 1.29	% 1.23	% 1.20
# Problem Inst.	124	129	114	80	48	53
$ Problem Inst.	$ 52.0	$ 35.0	$ 30.0	$ 28.2	$ 5.4	$ 21.4

Supervision

YTD	6/30/2006	6/30/2007
Total Number of FDIC Supervised Institutions	5,249	5,263
Bank Examinations:		
Safety and Soundness	1,207	1,150
Compliance and CRA	1,020	919
Insurance and Other Applications Approved	1,564	1,576
Formal and Informal Enforcement Actions	233	189

Receiverships

Deposit Insurance Fund

YTD ($ millions)	Q1 2006	Q1 2007	% Change	Q2 2006	Q2 2007	% Change
Total Receiverships	26	24	-8%	26	24	-8%
Assets in Liquidation	$ 378	$ 331	-12%	$ 351	$ 321	-9%
Collections	$ 18	$ 27	50%	$ 57	$ 47	-18%
Dividends Paid	$ 89	$ 126	42%	$ 116	$ 252	117%

Income

Deposit Insurance Fund

YTD ($ millions)	Q1 2006	Q1 2007	% Change	Q2 2006	Q2 2007	% Change
Assessment Income	$ 5	$ 94	1780%	$ 12	$ 234	1850%
Interest	$ 478	$ 567	19%	$ 1,143	$ 1,315	15%
Comprehensive Income	$ 596	$ 580	-3%	$ 967	$ 1,062	10%

Resources

	Budget/Expenditures				On Board Staff	
($ millions)	Total	Ongoing Operations	Recvrship Funding	Major Invstment Funding	Q2 2007	Target Y/E 2007
Annual Budget	$ 1,128	$ 1,032	$ 75	$ 21	4,465	4,723
YTD Expended	$ 477	$ 467	$ 4	$ 6		

▼Financial data is unaudited

Design: FDIC/DOA/CSB/Graphic Design Unit