Letter to Stakeholders

2nd quarter 2008

FDIC

This edition of our ***Letter to Stakeholders*** highlights the FDIC's activities and accomplishments during the second quarter of 2008. The FDIC celebrated its 75th anniversary on June 16. For three quarters of a century, the FDIC has protected insured depositors and has brought stability to the U.S. banking system. As the nation faces continued uncertainties in today's housing markets and the broader economy, the FDIC maintains the public's confidence through effective bank supervision programs, prudent oversight of the insurance fund and by providing consumers with information about deposit insurance coverage. For more information about the FDIC, please visit our Web site at www.fdic.gov.

Sheila C. Bair

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Chairman

Our Priorities

Depositor Protection

- FDIC-insured commercial banks and savings institutions reported net income of $5.0 billion in the second quarter of 2008, a decline of $31.8 billion (86.5 percent) from the $36.8 billion the industry earned in the second quarter of 2007.
- The Deposit Insurance Fund (DIF) balance decreased by 14 percent ($7.6 billion) to $45.2 billion during the second quarter of 2008. This decrease was primarily due to the $10 billion increase in the contingent liability for anticipated failures for the second quarter, the majority of which pertained to the projected loss for IndyMac Bank.
- The FDIC estimates assessment income earned of $627 million in the second quarter of 2008.

Mission Support

- In May, the federal financial regulatory agencies issued illustrations to help consumers understand certain hybrid adjustable-rate mortgage (ARM) products, which are the subject of the agencies' *Statement on Subprime Mortgage Lending*. In June, the FDIC issued guidance reminding institutions of legal and risk-management considerations if they freeze or reduce home equity lines of credit as a result of falling home prices or borrower financial problems.
- The FDIC and the United Kingdom Financial Services Authority (FSA) signed a Memorandum of Understanding (MOU) that will provide formal information-sharing services and contingent planning arrangements in connection with cross-border banking activities in the United States and the United Kingdom. The MOU will strengthen the FDIC's and FSA's continued cooperation toward the common goal of promoting confidence and stability in our financial markets.
- The FDIC is conducting, along with the U.S. Bureau of the Census, the first national household survey to collect data on the number and demographic characteristics of unbanked and underbanked households, as well as the barriers they perceive when deciding how and where to conduct financial transactions.
- In June the FDIC published *Guidance for Managing Third-Party Risk,* which identifies the sound practices that can help banks avoid the significant safety-and-soundness and compliance problems that have been observed in connection with some third-party relationships.
- In April the FDIC published an interim final policy statement on covered bonds, to provide greater market certainty for the development of this funding vehicle in the United States, consistent with safe-and-sound banking and the protection of the DIF.
- The Summer 2008 issue of ***Supervisory Insights*** highlights the need for greater transparency in the structured finance market, the risks and fallout associated with the growth in nontraditional mortgage products, and the inappropriate use of interest reserves.
- The FDIC and NeighborWorks® America held a series of one-day seminars in five high-foreclosure cities to assist organizations that work with consumers at risk of foreclosure. The FDIC also signed an agreement with the United Way to increase access to mainstream financial products and expand financial education efforts among low-income, unbanked and underserved families.

Resource Management

- Substantially increased staffing has been authorized to support both supervision and resolutions/receivership management workload since the beginning of the year. Further increases are likely in both areas during the rest of this year and/or in 2009.

Our Key Indices *Most Current Data*▼

Insurance

Updated Quarterly ($ billions)	Q2 2003	Q2 2004	Q2 2005	Q2 2006	Q2 2007	Q2 2008
# Insured Inst.	9,283	9,091	8,881	8,790	8,625	8,462
$ Insured Inst.	$ 8,934	$ 9,660	$ 10,485	$ 11,542	$ 12,278	$ 13,318
Insured Deposits	$ 3,438	$ 3,532	$ 3,758	$ 4,040	$ 4,235	$ 4,462
Fund Balances	$ 44.8	$ 46.5	$ 48.0	$ 49.6	$ 51.2	$ 45.2
Reserve Ratios	% 1.30	% 1.32	% 1.28	% 1.23	% 1.21	% 1.01
# Problem Inst.	125	102	74	50	61	117
$ Problem Inst.	$ 31.8	$ 25.9	$ 21.7	$ 5.5	$ 23.8	$ 78.3

Supervision

YTD	6/30/2007	6/30/2008
Total Number of FDIC Supervised Institutions	5,263	5,169
Bank Examinations:		
Safety and Soundness	1,150	1,202
Compliance and CRA	919	866
Insurance and Other Applications Approved	1,576	1,343
Formal and Informal Enforcement Actions	189	209

Receiverships

Deposit Insurance Fund

YTD ($ millions)	Q1 2007	Q1 2008	% Change	Q2 2007	Q2 2008	% Change
Total Receiverships	24	23	-4%	24	22	-8%
Assets in Liquidation	$ 331	$ 821	148%	$ 321	$ 2,343	630%
Collections	$ 27	$ 48	78%	$ 47	$ 221	370%
Dividends Paid	$ 126	$ 58	-54%	$ 252	$ 232	-8%

Income

Deposit Insurance Fund

YTD ($ millions)	Q1 2007	Q1 2008	% Change	Q2 2007	Q2 2008	% Change
Assessment Income	$ 94	$ 448	377%	$ 234	$ 1,088	365%
Interest	$ 567	$ 618	9%	$ 1,315	$ 1,269	-3%
Comprehensive Income	$ 580	$ 430	-26%	$ 1,062	$ -7,196	-778%
Provision for Insurance Losses	$ -73	$ 525	819%	$ -76	$ 10,746	14239%

Resources

	Budget/Expenditures				On Board Staff	
($ millions)	Total	Ongoing Operations	Recvrship Funding	Major Invstment Funding	Q2 2008	Target Y/E 2008
Annual Budget	$ 1,171	$ 1,067	$ 75	$ 29	4,621	4,918
YTD Expended	$ 534	$ 492	$ 28	$ 14		

▼ Financial data is unaudited