Federal Deposit Insurance Corporation
550 17th Street, N.W., Washington, D.C. 20429-9990 Deputy to the Chairman and CFO

November 8, 2007

MEMORANDUM TO: The Board of Directors

FROM: Steven O. App
Deputy to the Chairman and
Chief Financial Officer

Bret D. Edwards
Director, Division of Finance

SUBJECT: Third Quarter 2007 CFO Report to the Board

The attached report highlights the Corporation's financial activities and results for the period ending September 30, 2007.

Executive Summary

- The Deposit Insurance Fund (DIF) remained financially sound and exhibited healthy earnings during the first three quarters of 2007. The fund balance grew by one percent to $51.754 billion during the third quarter of 2007. DIF's comprehensive income grew by $527 million during the third quarter of 2007, increasing the year-to-date (YTD) comprehensive income to $1.589 billion. Comprehensive income for the third quarter 2007 is primarily composed of interest earned on investment securities of $640 million, assessment revenue of $170 million, an increase in the unrealized gain on available-for-sale securities (AFS) of $68 million, which was offset by $243 million incurred in operating expenses and a $132 million change in the provision for insurance losses largely due to the failure of NetBank of Alpharetta, Georgia.

- On September 28, 2007, the Office of Thrift Supervision closed NetBank of Alpharetta, Georgia and named the FDIC as receiver. In September, DIF recorded a liability for the estimated pending depositor claims and an offsetting receivable from the receivership for the estimated subrogated claim (reflecting the estimated insured deposits including brokered deposits) of $1.834 billion. In addition, an allowance for loss of $108 million was recorded against the resolution receivable.

- For the nine months ending September 30, 2007, Corporate Operating and Investment Budget related expenditures ran below budget by 13 percent and 15 percent, respectively. The variance with respect to the Corporate Operating Budget expenditures was primarily the result of limited resolutions and receivership activity in the Receivership Funding component of the budget through the third quarter of 2007. Detailed quarterly reports are provided separately to the Board by the Capital Investment Review Committee for those information technology projects that are included in the Investment Budget.

The following is an assessment of each of the three major finance areas: financial statements, investments, and budget.

<table>
<tr><th colspan="2">Trends and Outlook</th></tr>
<tr><th>Financial Results</th><th>Comments</th></tr>
<tr><td>I. Financial Statements</td><td>On September 28, 2007, NetBank was closed by the Office of Thrift Supervision and the FDIC was named receiver. As of September 30, the DIF estimated that the pending insured deposit claim liability would total $1.834 billion. Coupled with an initial loss estimate of $108 million, the projected net receivable from NetBank is $1.726 billion as of the end of the third quarter 2007. This net receivable estimate should decline as significant liquidation activity occurs during the fourth quarter of 2007.
Of the $2.237 billion in total assets at inception, ING Bank purchased $464 million, while the FDIC retained $1.773 billion of assets, mainly comprising real estate loans, lease receivables, and a mortgage subsidiary. In October 2007, the receivership sold approximately $627 million in real estate loans and $439 million in lease receivables; this brings the remaining NetBank asset book value to $707 million.
Of the $1.834 billion in estimated insured deposits, ING Bank assumed insured deposits of $1.374 billion and FDIC retained $460 million in brokered deposits. The DIF expects to complete the funding of the insured brokered deposits by November 2007. Given the significant proceeds received and anticipated asset sales, FDIC, as receiver for NetBank, declared a 50 percent dividend in September 2007. This will reduce the DIF’s net receivable from $1.726 billion to approximately $800 million during the fourth quarter. Further reductions will be made as liquidation proceeds are recovered and dividends paid to claimants over the next several months. </td></tr>
<tr><td>II. Investments</td><td>DIF investment portfolio’s amortized cost (book value) increased by three percent during the first nine months of 2007, and totaled $50.562 billion on September 30, 2007. During the period, newly purchased securities had slightly higher average yields than those of maturing securities. Consequently, the DIF portfolio’s yield increased by three basis points during the first nine months of 2007, rising to 4.92 percent as of September 30, 2007, from 4.89 percent as of December 31, 2006.
Expectations are for Treasury market yields to initially trend lower, with the potential to rise from current levels over the course of the fourth quarter. Notwithstanding the recent lower trend in such Treasury yields, the growing DIF investment portfolio balance should lead to increased interest revenue over the long run.</td></tr>
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Trends and Outlook	
Financial Results	Comments
III. Budget	• Approximately $717 million was spent in the Ongoing Operations component of the 2007 Corporate Operating Budget, which was $55 million (7 percent) below the budget for the nine months ending September 30, 2007. The Outside Services - Personnel expense category was $28 million below its year-to-date budget, and represented 51 percent of the total Ongoing Operations variance. • Approximately $6 million was spent in the Receivership Funding component of the 2007 Corporate Operating Budget, which was $50 million (89 percent) below the budget for the nine months ending September 30, 2007. The Outside Services - Personnel expense category was $42 million below its year-to-date budget, and represented 84 percent of the total Receivership Funding variance.

I. <u>Corporate Fund Financial Statement Results</u> (See pages 10 - 11 for detailed data and charts.)

DIF

- For the nine months ending September 30, 2007, DIF's comprehensive income totaled $1.589 billion compared to $1.395 billion for the same period last year, an increase of 14 percent. Excluding the recognition of exit fees earned of $345 million (a one-time adjustment), comprehensive income rose by $539 million, or 51 percent, from a year ago. This year-over-year increase was primarily due to a $190 million increase in interest revenue, a $382 million increase in assessment revenue, a $139 million decrease in the unrealized loss on AFS securities, offset by a $27 million increase in operating expenses and a $157 million increase in the provision for insurance losses.

- During the third quarter of 2007, DIF's YTD provision for insurance losses increased by $132 million to $56 million primarily due to an $83 million increase in the estimated loss for the NetBank failure and a $64 million increase in the contingent loss reserve for anticipated failures.

FSLIC Resolution Fund (FRF)

- FRF reported net income of $39 million for the third quarter of 2007, decreasing the YTD net loss to $2 million. Net income for the quarter included: 1) interest on U.S. Treasury obligations of $39 million; 2) tax benefit recoveries of $4 million; and 3) an expense of $11 million to fund the fiscal year 2008 goodwill expenses of the Department of Justice (which was paid on October 1, 2007).

- During the third quarter of 2007, FRF paid $46 million for two Goodwill cases (which were accrued for as of June 30, 2007), bringing the total year-to-date litigation expenses to $179 million.

- Subsequent to quarter-end, FRF paid $225 million to the Resolution Funding Corporation (REFCORP) on October 10, 2007, bringing total payments to REFCORP to $4.8 billion. The most recent prior payment to REFCORP was made on April 10, 2003 for $50 million.

  The FDIC must transfer to the REFCORP the net proceeds from the sale of FRF-RTC assets (once all liabilities of the FRF-RTC have been provided for) to pay the interest on REFCORP bonds, which were issued to fund early Resolution Trust Corporation resolutions. Any such payments benefit the U.S. Treasury, which would otherwise be obligated to pay the interest on the bonds.

II. **<u>DIF Investment Results</u>** (See pages 12 – 13 for detailed data and charts.)

- During the first nine months of 2007, the amortized cost (book value) of the DIF investment portfolio increased by $1.704 billion or by three percent—from $48.858 billion on December 31, 2006, to $50.562 billion on September 30, 2007. Moreover, during the period, the DIF portfolio's market value increased by $2.322 billion or by five percent, from $49.038 billion on December 31, 2006, to $51.360 billion on September 30, 2007.

- The DIF investment portfolio's total return for the first nine months of 2007 was 5.134 percent, approximately the same as its benchmark, the Merrill Lynch 1 - 10 Year U.S. Treasury Index (Index), which earned 5.139 percent during the same period.

- During the third quarter of 2007, staff purchased just one conventional Treasury security. This newly purchased held-to-maturity (HTM) security had a par value of $400 million, a maturity of 12.00 years, a modified duration of 8.22 years, and a yield-to-maturity of 4.87 percent. The total cash outlay for this high coupon security was $517 million. On September 30, 2007, the DIF portfolio's overnight investment balance was $2.850 billion, well above its $150 million target floor balance. Consistent with the approved third quarter Corporate investment strategy, staff deferred purchases of Treasury securities not only in light of comparatively low Treasury yields available during much of the quarter, but more importantly, to build up liquidity for the anticipated NetBank resolution. (This fairly large bank failure occurred on September 28, 2007, with significant resolution funding occurring in October 2007.)

The Treasury Market

- During the third quarter of 2007, conventional Treasury yields decreased substantially, particularly on the short end of the yield curve, reflecting the 50 basis point cut in the federal funds target rate that occurred on September 18, 2007, and reflecting market sentiment for additional cuts in the target rate during the last quarter of 2007 and the first quarter of 2008. During the quarter, yields on three-month and six-month T-Bills decreased by 100 basis points and 86 basis points, respectively. The two-year note yield, which is also sensitive to actual as well as anticipated changes in the federal funds rate, decreased by 88 basis points, again, reflecting the aforementioned 50 basis point cut in the target rate and reflecting expectations for additional target rate cuts. Intermediate-maturity Treasury yields also decreased over the course of the quarter, although not surprisingly, the yield declines were more modest, as is often the case when an expected series of interest rate cuts is initiated. The yield on the five-year Treasury note decreased by 68 basis points. The yield on the ten-year Treasury note decreased by 43 basis points. It should be noted that most of the decrease in yields occurred between mid-July and the early part of September; towards the latter half of September, yields on intermediate- to longer-maturity securities actually started to modestly increase as investors unwound some earlier so-called "flight to quality" trades. The conventional Treasury yield curve steepened during the third quarter of 2007; on September 30, 2007, the two-year to ten-year yield curve had a 61-basis point positive spread (compared to a modestly positive 16-basis point spread at the beginning of the quarter). Nevertheless, the Treasury yield curve still remains flatter from a recent historical perspective; over the past five years, this spread has averaged 106 basis points.

- During the third quarter of 2007, most Treasury Inflation-Protected Securities' (TIPS) real yields decreased, reflecting lower actual and anticipated interest rates and concerns over weak economic growth. However, the real yield on the DIF portfolio's shortest-maturity TIPS (with a maturity of just over three months at the end of the quarter) increased by 50 basis points during the quarter.[1] The real yield on the portfolio's longest-maturity TIPS (with a maturity of a little over four years) decreased by 50 basis points. The real yield on the 10-year TIPS maturing on January 15, 2017, decreased by 36 basis points.

Prospective Strategies

- The current DIF investment strategy provides for purchasing AFS conventional Treasury securities with maturities of six years or less, for purchasing AFS TIPS, and for holding excess overnight investments, depending on Treasury market conditions and developments during the fourth quarter of 2007.

- The DIF portfolio's primary reserve balance is being increased, with a goal of reaching a $15 billion target floor balance over the near term. Any securities purchased during the fourth quarter will be designated AFS. (See attached Approved Investment Strategy.)

Other Matters

- Effective September 30, 2007, the FDIC and the U.S. Treasury's Federal Financing Bank (FFB) entered into an agreement to extend the FDIC's existing $40 billion line of credit with the FFB for an additional one-year period through September 30, 2008.

III. <u>Budget Results</u> (See pages 14 - 15 for detailed data.)

Approved Budget and Staffing Modifications

All divisions and offices completed a mid-year review of their 2007 operating budgets in July, including assessments of YTD spending and projected funding requirements for the remainder of the year. Based on that review, the Chief Financial Officer (CFO) approved reallocations among the operating budgets of several divisions and offices, in accordance with the authority delegated by the Board of Directors in the 2007 Budget Resolution. In addition, funds were realigned internally within the operating budgets of several organizations. None of these realignments

[1] Very short-maturity TIPS can have dramatic changes in real yields stemming from very near-term inflation expectations. Consequently, it is not unusual for very short-maturity TIPS' real yields, which are quoted on an annual basis, to exhibit dramatic swings as they approach maturity.

changed the total 2007 Corporate Operating Budget, but they did result in changes in the amounts budgeted for most major expense categories:

- At the corporate level, the budgets for the Travel and Other Expense categories were increased, the budget for the Buildings category was unchanged, and the budgets for the remaining expense categories were decreased. Funding for the approved budget increases was made available from excess funding in the Salary and Compensation budgets of the Legal Division, the Division of Information Technology (DIT), the Division of Insurance and Research (DIR), and the Division of Resolutions and Receiverships (DRR).

- The Corporate University (CU) budget was increased by over $4.4 million to pay for salaries, travel, and other expenses for Corporate Employee Program (CEP) participants and detailees from other FDIC organizations. Funding for the salaries and benefits of detailees was originally budgeted in their home organizations. Funding had to be increased for the CEP because a decision was made in early 2007 to hire more employees than originally budgeted in order to fill examiner vacancies in the Division of Supervision and Consumer Protection (DSC) more quickly. The funding for this increase was also made available from excess funding in the Salary and Compensation budgets of the other organizations referenced above.

- Most of the funds included in the DSC budget for the interagency Shared National Credit (SNC) Modernization Project were realigned from the Outside Services-Personnel category to the Travel category to cover higher-than-expected travel costs for the examination program. These funds were available for reallocation because the start of the SNC Modernization Project was postponed until 2008.

- The budgets for the Outside Services-Personnel and Equipment categories within the internal operations portion of DIT's budget were increased, while the budget for the Outside Services-Other category was reduced. Within the systems development, operations, and maintenance portion of the DIT budget, the budgets for the Outside Services-Personnel and Outside Services-Other categories were increased, while the budget for the Equipment category was reduced. The latter changes were made in accordance with recommendations from the CIO Council.

The 2007 spending estimates for several multi-year Investment Budget projects were also updated during the third quarter. In addition, the DIT Director in September approved the reallocation of funds among several approved IT projects funded from DIT's 2007 operating budget to reflect changes in estimated project costs and schedules, in accordance with recommendations of the CIO Council. These reallocations provided funding for the early start of three projects originally planned to begin in 2008, but did not change the total amount of the DIT budget.

The CFO approved two changes in authorized staffing during the third quarter, in accordance with authority delegated by the Board:

- DIT's authorized year-end 2007 staffing target was increased by two positions to correct an error made in the Board case requesting approval of the 2007 budget in December 2006. As a result of the change, DIT's year-end 2007 staffing target is now consistent with its authorized staffing throughout 2007. There was no impact on DIT's 2007 operating budget.

- A request from the Office of the Inspector General to transfer one authorized 2007 position to CU was approved. There was no impact on CU's 2007 operating budget.

Status of Spending for the Implementation of Deposit Insurance Reform

The 2007 Corporate Operating Budget approved by the Board of Directors in December 2006 included funding for the continued implementation of Deposit Insurance Reform. Excluding internal Salaries and Compensation expenses, $4.9 million was spent for this purpose in 2006 on system changes, and $1.8 million was spent on printing and distribution costs. Through the third quarter of 2007, an additional $3.9 million (excluding internal salaries and compensation expenses) was spent as follows:

- Approximately $3.4 million was spent for system development and enhancement activities. It is anticipated that an additional $1.2 million will be spent in 2007 to complete modifications to the Assessment Information Management System (AIMS) and the Risk Related Premium System (RRPS). A total of $4.8 million is budgeted in 2007 for systems work related to deposit insurance reform implementation.

- Approximately $525,000 was spent for printing and distribution of updated deposit insurance brochures through the third quarter of 2007. It is anticipated that up to an additional $100,000 will be spent revising the English versions of *Insuring Your Deposit* and *Your Insured Deposit* during 2007.

In addition, two new employees were hired in July by DIR to support deposit insurance pricing, as authorized by the Board. The additional cost for these employees through September 30, 2007, was about $85,000.

Spending Variances

Significant spending variances by major expense category and division/office are discussed below. Significant spending variances for the nine months ending September 30, 2007, are defined as those that either (1) exceed the YTD budget by $1 million and represent more than two percent of the major expense category or total division/office budget; or (2) are under the YTD budget by $2 million and represent more than four percent of the major expense category or total division/office budget.

Significant Spending Variances by Major Expense Category

<u>Ongoing Operations</u>

There were four major expense categories in which a significant spending variance occurred through the third quarter in the Ongoing Operations component of the 2007 Corporate Operating Budget:

- Outside Services-Personnel expenditures were $28 million, or 21 percent, less than budgeted. The variance was largely due to lower-than-budgeted payments to the Department of Justice for litigation services, delays in starting several IT projects, lower net costs for the Student Residence Center (because of increased proceeds derived from outside use of the facility), and lower-than-budgeted spending on human resource contractual services.

- Travel expenditures were $3 million, or 8 percent, less than budgeted. Overall corporate travel costs were lower because staff from DRR participated in fewer compliance examinations than projected and Dallas rotations for some CEP participants were rescheduled to later in the year. In addition, lower-than-projected travel costs were incurred for supervision, field oversight and litigation in the Legal Division.

- Equipment expenditures were almost $3 million, or 9 percent, less than budgeted. A large portion of this variance was because furniture, fixtures, and equipment purchases and security equipment and software acquisitions originally budgeted in the first three quarters of 2007 were rescheduled to the fourth quarter.

- Other Expenses were $3 million, or 35 percent, less than budgeted. This variance was largely due to the lack of spending by employees from their new Professional Learning Accounts and the charging of a portion of the expenses for off-site conferences to the Travel category rather than the Other Expenses category.

Receivership Funding

The Receivership Funding component of the Corporate Operating Budget includes budgeted funding for overtime and non-personnel expenses that are incurred in conjunction with an institution failure and the management and disposition of the assets and liabilities of the ensuing receivership. There were three major expense categories in which a significant spending variance occurred for the first nine months of the year in the Receivership Funding component of the Corporate Operating Budget. All of these variances were attributable to the limited receivership and resolution activity that occurred during the year. The major expense categories were:

- Salary and Compensation[2] ($2 million, or 86 percent, less than budgeted).

- Outside Services-Personnel ($42 million, or 91 percent, less than budgeted).

- Travel ($3 million, or 73 percent, less than budgeted).

Significant Spending Variances by Division/Office[3]

There were six organizations that had a significant spending variance through the third quarter:

- DRR spent $40 million, or 55 percent, less than budgeted. This variance was fully attributable to under spending in the Receivership Funding component of DRR's operating budget due to the limited receivership and resolution activity that occurred through the third quarter.

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[2] Overtime is the only account budgeted in the Salary and Compensation expense category of the Receivership Funding component of the Corporate Operating Budget in 2007. All staff salaries are budgeted and expensed in the Ongoing Operations budget component.

[3] Information on division/office variances reflects variances in both the Corporate Operating and Investment Budgets.

- The Legal Division spent nearly $14 million, or 21 percent, less than budgeted. This variance was largely attributable to under spending in the Receivership Funding component of its operating budget, primarily due to the limited receivership and resolution activity that occurred through the third quarter.

- DIT spent $12 million, or 8 percent, less than budgeted. Approximately one-half of the variance occurred in the Outside Services-Personnel category of the Ongoing Operations component of the Corporate Operating Budget and was caused by delays in systems development, operations, and maintenance efforts. In addition, DIT had a larger-than-anticipated number of personnel vacancies and filled its vacancies more slowly than expected. Security equipment and software purchases were also rescheduled to the fourth quarter.

- The Division of Administration spent nearly $7 million, or 6 percent, less than budgeted. This variance was largely attributable to (a) lower-than-anticipated net costs for the Student Residence Center as a result of higher-than-projected proceeds received in connection with use of the facility by outside parties, and (b) reduced spending for compensation and consulting services on human resource matters.

- DIR spent nearly $3 million, or 10 percent, less than budgeted. This variance was attributable to the large number of budgeted positions that remain vacant and a significant reduction in the FDIC's share of the costs for enhancements to the Central Deposit Repository under the cost sharing agreement with the other bank regulatory agencies.

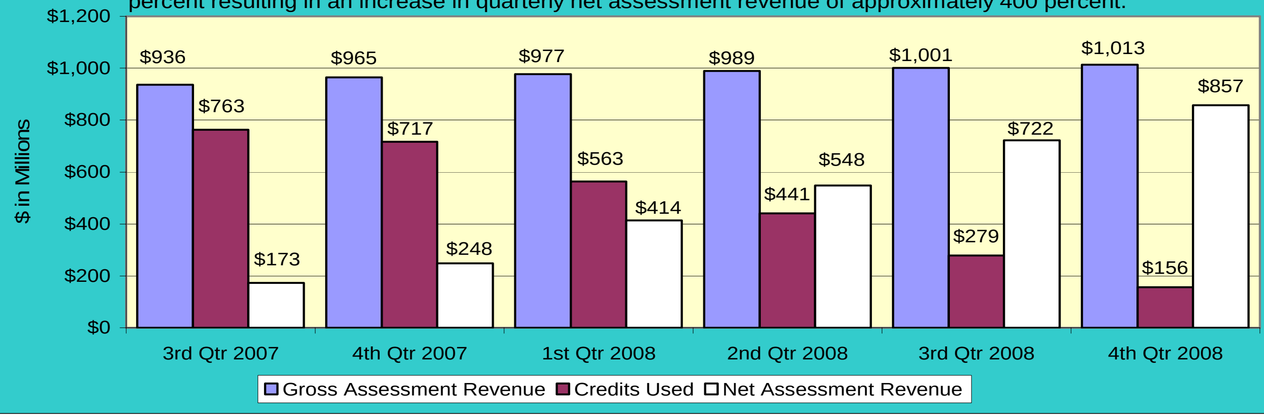
- CU spent $2 million, or 9 percent, less than budgeted. This variance was attributable to delays in both the IT training and DRR commission initiatives and the re-scheduling of Dallas rotations for some CEP participants to later in the year.

Fund Financial Results

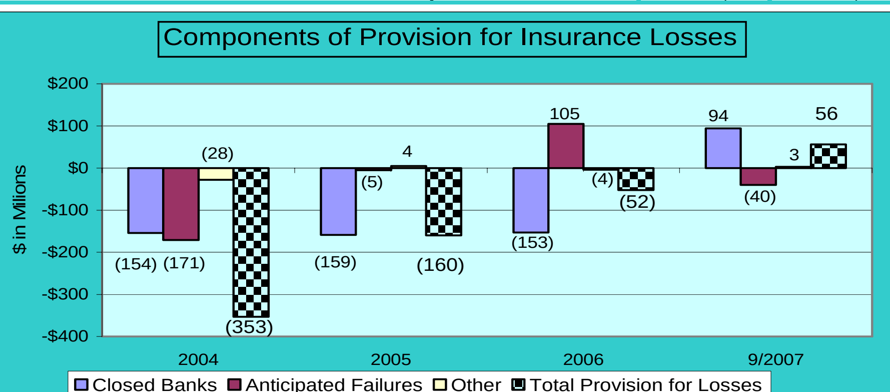
($ in Millions)

Balance Sheet	Deposit Insurance Fund				
	(unaudited) Sep-07	(audited) Dec-06	Change	% Change	(unaudited) Sep-06
Cash & cash equivalents	$ 2,854	$ 2,954	$ (100)	(3%)	$ 2,312
Investment in U.S. Treasury obligations, net	47,933	46,142	1,791	4%	46,554
Assessments receivable, net	173	0	173	0%	0
Interest receivable on investments and other assets, net	706	748	(42)	(6%)	707
Receivables from resolutions, net	2,057	539	1,518	282%	509
Property, buildings and other capitalized assets, net	357	377	(20)	(5%)	367
Total Assets	$ 54,080	$ 50,760	$ 3,320	7%	$ 50,449
Accounts payable and other liabilities	1,942	154	1,788	1161%	253
Postretirement benefit liability	114	130	(16)	(12%)	0
Contingent Liabilities: future failures	70	111	(41)	(37%)	4
Contingent Liabilities: litigation losses & other	200	200	0	0%	200
Total Liabilities	$ 2,326	$ 595	$ 1,731	291%	$ 457
FYI: Unrealized gain on available-for-sale securities, net	221	234	(13)	(6%)	254
FYI: Unrealized postretirement benefit gain/(loss)	22	2	20	1000%	0
FUND BALANCE	$ 51,754	$ 50,165	$ 1,589	3%	$ 49,992

By the 4th quarter 2008 assessment period, assessment credits used are projected to decline by eighty percent resulting in an increase in quarterly net assessment revenue of approximately 400 percent.



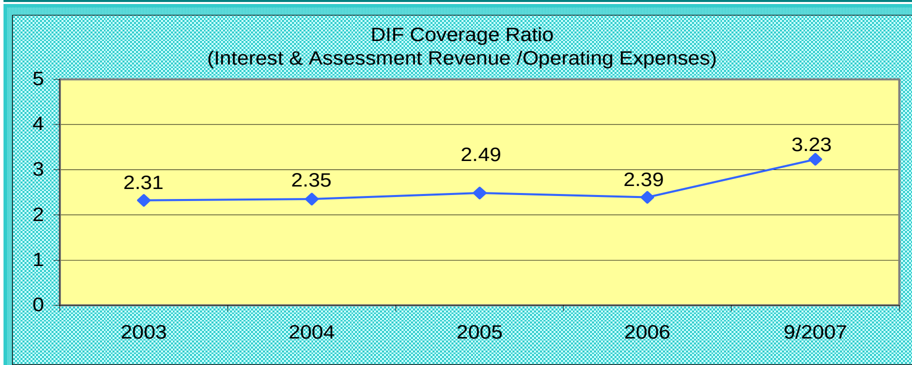
Income Statement	Deposit Insurance Fund			
	(unaudited) Sep-07	(audited) Dec-06	(unaudited) Sep-06	Year-Over-Year Change
Assessments earned	$ 404	$ 32	$ 22	$ 382
Interest earned on investment securities	1,955	2,241	1,765	190
Exit fees earned	0	345	345	(345)
Other revenue	11	27	22	(11)
Total Revenue	$ 2,370	$ 2,645	$ 2,154	$ 216
Operating expenses (includes depreciation expense)	730	951	703	27
Provision for insurance losses	56	(52)	(101)	157
Other expenses	2	6	5	(3)
Total Expenses & Losses	$ 788	$ 905	$ 607	$ 181
Net Income	$ 1,582	$ 1,740	$ 1,547	$ 35
Unrealized gain/(loss) on available-for-sale securities, net	(13)	(173)	(152)	139
Unrealized postretirement benefit gain/(loss)	20	2	0	20
YTD Comprehensive Income	$ 1,589	$ 1,569	$ 1,395	$ 194



Over the last seven years, the provision for insurance losses added to net income as estimated losses that had been previously booked for both existing receiverships and potential failures were reversed. By the end of the third quarter of 2007, this trend had begun to reverse.

Fund Financial Results - continued

($ in Millions)



The coverage ratio has increased substantially (35%) during 2007 as the growth of net assessment revenue accelerated.

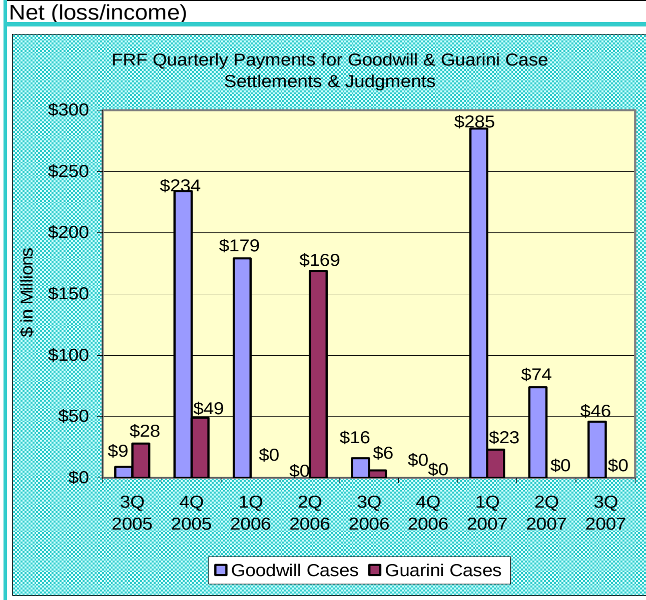
Statements of Cash Flows

Deposit Insurance Fund

	(unaudited) Sep-07	(audited) Dec-06	(unaudited) Sep-06	Year-Over-Year Change
Net Income	$ 1,582	$ 1,740	$ 1,547	$ 35
Amortization of U.S. Treasury obligations (unrestricted)	431	599	454	(23)
TIPS Inflation Adjustment	(286)	(109)	(178)	(108)
Depreciation on property and equipment	40	52	39	1
Provision for insurance losses	56	(52)	(101)	157
Exit fees earned	0	(345)	(345)	345
Unrealized gain on postretirement benefits	20	0	0	20
Net change in operating assets and liabilities	5	100	104	(99)
Net Cash Provided by Operating Activities	$ 1,848	$ 1,985	$ 1,520	$ 328
Investments matured and sold	6,256	6,800	3,480	2,776
Investments purchased (includes purchase of property and equipment)	(8,204)	(9,062)	(5,919)	(2,285)
Net Cash (Used) by Investing Activities	$ (1,948)	$ (2,262)	$ (2,439)	$ 491
Net Increase (Decrease) in Cash and Cash Equivalents	(100)	(277)	(919)	819
Cash and Cash Equivalents at beginning of year	2,954	3,231	3,231	(277)
Cash and Cash Equivalents - Ending	$ 2,854	$ 2,954	$ 2,312	$ 542

FSLIC Resolution Fund

	(unaudited) Sep-07	(audited) Dec-06	(unaudited) Sep-06	Year-Over-Year Change
Cash and cash equivalents	$ 3,764	$ 3,616	$ 3,565	$ 199
Accumulated deficit, net	(123,836)	(123,834)	(123,625)	(211)
Resolution equity	3,790	3,620	3,577	213
Total revenue	$ 150	$ 169	$ 124	$ 26
Operating expenses	2	12	12	(10)
Goodwill/Guarini litigation expenses	179	411	158	21
Net (loss/income)	$ (2)	$ (203)	$ 6	$ (8)



Summary of Goodwill & Guarini Litigation (Inception-to-Date) $ in Millions

	Goodwill		Guarini	
	# of Cases	Amount Paid/ Accrued	# of Cases	Amount Paid
Dismissals/ Time	43	N/A	0	N/A
Settlements	18	$149	3	$121
Judgments	41	$1,221*	5	$153
Pending	20	N/A	0	N/A
Totals	122	$1,370	8	$274

* Four institutions account for 66% of the total Goodwill payments (Glendale Federal Bank - $382 million, Westfed Holdings, Inc. - $211 million, LaSalle Talman Bank - $155 million, and Home Savings of America - $150 million).

Deposit Insurance Fund Portfolio Summary
($ in Millions)

	9/30/07	12/31/06	Change
Par Value	$47,515	$46,483	$1,032
Amortized Cost	$50,562	$48,858	$1,704
Market Value	$51,360	$49,038	$2,322
Primary Reserve [1]	$12,770	$13,911	($1,141)
Primary Reserve Target Floor	$10,000	$10,000	$0
Primary Reserve % of Total Portfolio	24.5%	28.0%	(3.5%)
Year-to-Date Total Return (Portfolio)	5.134%	4.056%	not applicable
Year-to-Date Total Return (Benchmark) [2]	5.139%	3.571%	not applicable
Total Return Variance (in basis points)	(0.5%)	48.5	not applicable
Yield-to-Maturity [3]	4.92%	4.89%	0.03%
Weighted Average Maturity (in years)	4.26	3.57	0.69
Effective Duration (in years) [4]			
Total Portfolio	3.30	2.82	0.48
Available-for-Sale Securities	1.35	1.80	(0.45%)
Held-to-Maturity Securities	4.00	3.29	0.71

[1] Primary Reserve is the total market value (including accrued interest) of overnight investments, available-for-sale securities, and held-to-maturity securities maturing within three months.

[2] The benchmark is the total return of the Merrill Lynch 1-10 Year U.S. Treasury Index.

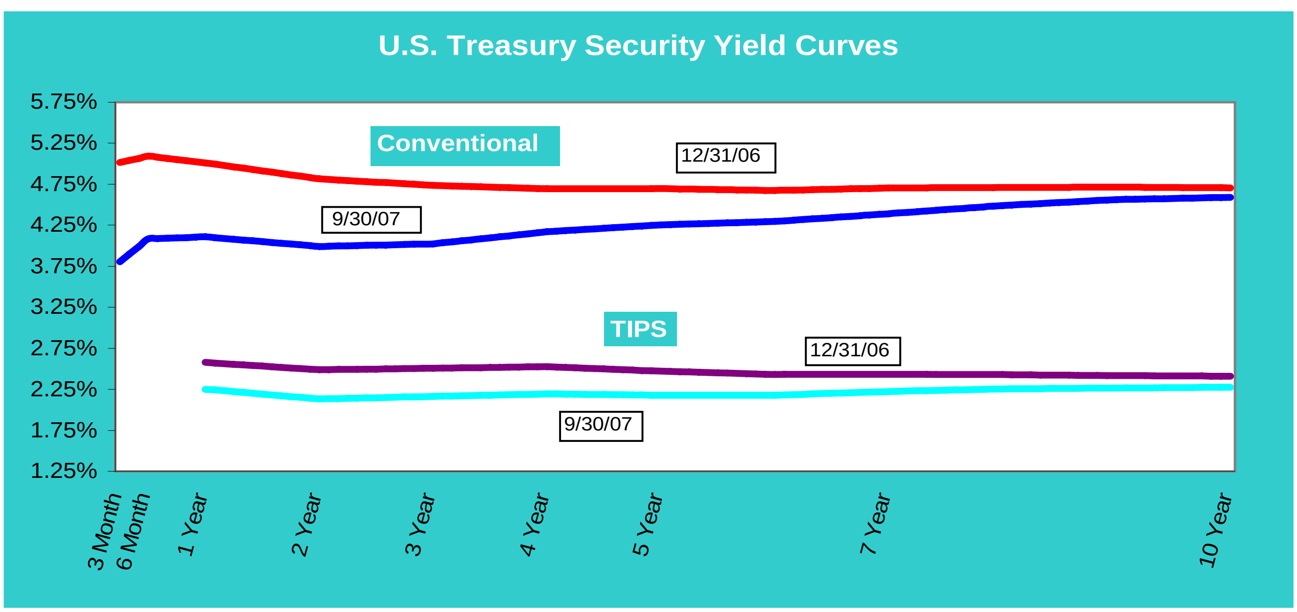
[3] The Yield-to-Maturity includes the potential yield of Treasury Inflation-Protected Securities (TIPS), which assumes an average 2.2% annual increase in the CPI over the remaining life of each TIPS.

[4] For each TIPS, an estimated 80% "yield beta" factor is applied to its real yield duration to arrive at an estimated effective duration.

National Liquidation Fund (NLF) Investment Portfolio Summary
($ in Millions)

	9/30/07	12/31/06	Change
Book Value [5]	$180	$381	($201)
Yield-to-Maturity	5.01%	5.37%	(0.36%)
Weighted Average Maturity (in days)	25	13	12

[5] Due to the short-term nature of the NLF, the portfolio's Book and Market Values are identical for reporting purposes.



Approved Investment Strategy

DEPOSIT INSURANCE FUND

Current Strategy as of 3rd Quarter 2007

Maintain a $150 million target floor overnight investment balance.

Strategically invest all available funds in excess of the target overnight investment balance, which may include purchasing conventional Treasury securities within the zero- to twelve-year maturity sector, purchasing Treasury Inflation-Protected Securities (TIPS) within the two- to ten-year maturity sector, and/or purchasing callable Treasury securities with final maturities not to exceed twelve years, subject to the following limitations:

- → TIPS should not total more than $10.0 billion (adjusted par value) by quarter end;
- → Available-for-sale (AFS) securities should not total more than $9.5 billion (par value) by quarter end; and
- → All newly purchased AFS conventional securities should have maturities of six years or less.

Moreover, staff will strive to maintain an $10 billion target floor primary reserve balance.

Strategy Changes for 4th Quarter 2007

Primary reserve balance is being increased, with a goal of reaching a $15 billion target floor balance over the near term.
AFS securities target limit is eliminated; all securities purchased during the quarter will be designated AFS.
TIPS target limit is eliminated.

NATIONAL LIQUIDATION FUND

Current Strategy as of 3rd Quarter 2007

Maintain a $30 million target floor overnight investment balance.
Strategically invest the remaining funds in the zero- to 12-month maturity sector.

Strategy Changes for 4th Quarter 2007

Maintain target overnight investment balance between $20 million and $25 million.

Executive Summary of 2007 Budget and Expenditures by Major Expense Category Through September 30, 2007 (Dollars in Thousands)

Major Expense Category	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
Ongoing Operations				
Salaries & Compensation	$489,377	$474,363	97%	($15,014)
Outside Services - Personnel	135,907	107,692	79%	(28,215)
Travel	41,429	38,048	92%	(3,381)
Buildings	50,422	49,435	98%	(987)
Equipment	33,098	30,162	91%	(2,936)
Outside Services - Other	12,409	11,347	91%	(1,062)
Other Expenses	8,869	5,777	65%	(3,092)
Total Ongoing Operations	**$771,511**	**$716,824**	**93%**	**($54,687)**
Receivership Funding				
Salaries & Compensation	$2,565	$347	14%	($2,218)
Outside Services - Personnel	46,010	4,073	9%	(41,937)
Travel	4,234	1,160	27%	(3,074)
Buildings	1,725	600	35%	(1,125)
Equipment	170	15	9%	(155)
Outside Services - Other	407	73	18%	(334)
Other Expenses	1,139	38	3%	(1,101)
Total Receivership Funding	**$56,250**	**$6,306**	**11%**	**($49,944)**
Total Corporate Operating Budget	**$827,761**	**$723,130**	**87%**	**($104,631)**
Investment Budget [1]	**$10,437**	**$8,911**	**85%**	**($1,526)**
Grand Total	**$838,198**	**$732,041**	**87%**	**($106,157)**

1) Budgets for investment projects are approved on a multi-year basis; the "Year-to-Date Budget" amount reflects the 2007 spending estimates for approved projects. Detailed quarterly reports on the status of those projects are provided separately to the Board by the Capital Investment Review Committee.

Executive Summary of 2007 Budget and Expenditures by Budget Component and Division/Office Through September 30, 2007 (Dollars in Thousands)				
Division/Office	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
Supervision & Consumer Protection	$294,545	$284,530	97%	($10,015)
Information Technology	138,163	128,120	93%	(10,043)
Administration	117,446	110,295	94%	(7,151)
Resolutions & Receiverships	73,822	33,338	45%	(40,484)
Legal	68,631	54,188	79%	(14,443)
Insurance & Research	27,918	25,180	90%	(2,738)
Finance	22,871	21,613	94%	(1,258)
Inspector General	18,761	17,378	93%	(1,383)
Corporate University	21,621	19,665	91%	(1,956)
Executive Support [1]	13,163	11,821	90%	(1,342)
Executive Offices [2]	5,820	5,208	89%	(612)
Government Litigation	25,000	11,794	47%	(13,206)
Total, Corporate Operating Budget	**$827,761**	**$723,130**	**87%**	**($104,631)**
Investment Budget [3]				
Information Technology	$9,994	$8,427	84%	($1,567)
Resolutions & Receiverships	180	273	152%	93
Insurance & Research	203	211	104%	8
Corporate University	60	0	0%	(60)
Total, Investment Budget [3]	**$10,437**	**$8,911**	**85%**	**($1,526)**
Combined Division/Office Budgets				
Supervision & Consumer Protection	$294,545	$284,530	97%	($10,015)
Information Technology	148,157	136,547	92%	(11,610)
Administration	117,446	110,295	94%	(7,151)
Resolutions & Receiverships	74,002	33,611	45%	(40,391)
Legal	68,631	54,188	79%	(14,443)
Insurance & Research	28,121	25,391	90%	(2,730)
Finance	22,871	21,613	94%	(1,258)
Inspector General	18,761	17,378	93%	(1,383)
Corporate University	21,681	19,665	91%	(2,016)
Executive Support [1]	13,163	11,821	90%	(1,342)
Executive Offices [2]	5,820	5,208	89%	(612)
Government Litigation	25,000	11,794	47%	(13,206)
Grand Total	**$838,198**	**$732,041**	**87%**	**($106,157)**

1) Executive Support includes the Offices of Diversity and Economic Opportunity, Public Affairs, Ombudsman, Legislative Affairs, Enterprise Risk Management, and International Affairs.

2) Executive Offices include the offices of the Chairman, Vice Chairman, Independent Director, Deputy to the Chairman and Chief Operating Officer, and Deputy to the Chairman and Chief Financial Officer.

3) Budgets for investment projects are approved on a multi-year basis; the "Year-to-Date Budget" amount reflects the 2007 spending estimates for approved projects. Detailed quarterly reports on the status of those projects are provided separately to the Board by the Capital Investment Review Committee.