



Federal Deposit Insurance Corporation

Annual Report 2007





A n n u a l

Mission

In its unique role as deposit insurer of banks and savings associations, and in cooperation with the other state and federal regulatory agencies, the **Federal Deposit Insurance Corporation (FDIC)** promotes the safety and soundness of the U.S. financial system and the insured depository institutions by identifying, monitoring and addressing risks to the deposit insurance fund.

The FDIC promotes public understanding and the development of sound public policy by providing timely and accurate financial and economic information and analyses. It minimizes disruptive effects from the failure of banks and savings associations. It assures fairness in the sale of financial products and the provision of financial services.

The FDIC's long and continuing tradition of excellence in public service is supported and sustained by a highly skilled and diverse workforce that continuously monitors and responds rapidly and successfully to changes in the financial environment.

The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress that maintains the stability and public confidence in the nation's financial system by insuring deposits, examining and supervising financial institutions, and managing receiverships.

Report 2007

Vision

The FDIC is a leader in developing and implementing sound public policies, identifying and addressing risks in the nation's financial system, and effectively and efficiently carrying out its insurance, supervisory, and receivership management responsibilities.

Values

The FDIC and its employees have a long and continuing tradition of distinguished public service. Six core values guide FDIC employees as they strive to fulfill the Corporation's mission and vision:

Integrity

FDIC employees adhere to the highest ethical standards in the performance of their duties and responsibilities.

Competence

The FDIC maintains a highly skilled, dedicated, and diverse workforce.

Teamwork

FDIC employees work cooperatively with one another and with employees in other regulatory agencies to accomplish the Corporation's mission.

Effectiveness

The FDIC responds quickly and successfully to identified risks in insured financial institutions and in the broader financial system.

Financial Stewardship

The FDIC acts as a responsible fiduciary, consistently operating in an efficient and cost-effective manner on behalf of insured financial institutions and other stakeholders.

Fairness

The FDIC treats all employees, insured financial institutions, and other stakeholders with impartiality and mutual respect.



Federal Deposit Insurance Corporation
550 17th Street, NW Washington, DC 20429

Office of the Chairman

February 15, 2008

Dear Sir/Madam,

In accordance with:

- the provisions of section 17(a) of the Federal Deposit Insurance Act,
- the Chief Financial Officers Act of 1990, Public Law 101-576,
- the Government Performance and Results Act of 1993,
- the provisions of Section 5 (as amended) of the Inspector General Act of 1978, and
- the Reports Consolidation Act of 2000,

the Federal Deposit Insurance Corporation (FDIC) is pleased to submit its *2007 Annual Report* (also referred to as the *Performance and Accountability Report*), which includes the audited financial statements of the Deposit Insurance Fund and the Federal Savings and Loan Insurance Corporation Resolution Fund.

In accordance with the Reports Consolidation Act of 2000, the FDIC completed an assessment of the reliability of the performance data contained in this report. No material inadequacies were found and the data are considered to be complete and reliable.

Based on internal management evaluations, and in conjunction with the results of independent financial statement audits, the FDIC can provide reasonable assurance that the objectives of Section 2 (internal controls) and Section 4 (financial management systems) of the Federal Managers' Financial Integrity Act of 1982 have been achieved, and that the FDIC has no material weaknesses. Additionally, the U.S. Government Accountability Office did not identify any significant deficiencies in the FDIC's internal controls for 2007. We are committed to maintaining our effective internal controls corporate-wide in 2008.

Sincerely,

Sheila C. Bair
Chairman

The President of the United States
The President of the United States Senate
The Speaker of the United States House of Representatives

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Message from the Chairman • Sheila C. Bair



I am pleased to present the Federal Deposit Insurance Corporation's (FDIC) *2007 Annual Report* (also referred to as the *Performance and Accountability Report*). The year posed major challenges to financial institutions and to the economy as a whole. Slumping housing markets and escalating problems, particularly related to subprime mortgage lending, were among the chief contributors to increased uncertainty in the financial markets and widespread reductions in asset values. In spite of these challenges, the FDIC continued to ensure public confidence and stability in the nation's financial system. FDIC-insured institutions entered 2007 with strong earnings and capital, and consequently, were in a good position to absorb the initial stresses associated with last summer's market events.

The problems that have emerged in the subprime mortgage market underscore my longstanding view that consumer protection and safe and sound lending go hand in hand. Most insured institutions have a good performance record in both areas. However, failure by some lenders to uphold adequate standards in the increasingly complex mortgage industry has caused serious problems for consumers, lenders, investors, and the economy. Many of the more troubling lending practices were found in institutions that are not subject to federal supervision, rather than in insured banks and thrifts. Nationally, the home foreclosure rate has nearly doubled in the past two years. An estimated 1.7 million owner-occupied, subprime hybrid adjustable rate mortgages (ARMs) will reset in 2008 and 2009, and the combination of declining home prices and scarce refinancing options could result in hundreds of thousands of additional foreclosures. The FDIC is committed to working with market participants to develop solutions that would help prevent unnecessary foreclosures and keep homeowners in their homes.

Throughout 2007, I urged servicers and lenders to voluntarily restructure some of their performing loans. Specifically, I endorsed a streamlined process to keep homeowners with resetting subprime mortgages at their starter rate for five or more years if they were current on their payments, but could not make the higher payments after the loan reset. Using a streamlined process to keep subprime borrowers paying affordable mortgages frees up resources for lenders and servicers to respond to problems in other categories of loans. On December 6, 2007, Treasury Secretary Paulson called for accelerated and systematic loan modifications – a plan endorsed by President Bush along with the other federal banking regulators, and agreed to by many representatives of the mortgage lending industry. I view this as a very positive initial step towards avoiding hundreds of thousands of foreclosures and the ensuing economic consequences.

Three FDIC-insured banks failed in 2007. All three failures posed unique challenges for the FDIC – one, in particular, because it was an Internet bank with no physical branches. It was also the FDIC's largest bank closing in 14 years. While the industry had experienced no failures for two-and-a-half-years, the FDIC remained ready and able to respond and incorporated innovations to address new and challenging issues. In all three bank failures, the FDIC effectively responded to the needs of the failed banks' depositors – as it has since 1934 – ensuring timely payments of insured deposits.

In spite of its record of success, the FDIC has remained focused on improving its ability to resolve financial institution failures. As financial institutions have grown in both size and complexity, the challenges facing the FDIC, if one or more should fail, have likewise grown. In response, the FDIC has strived to balance the need for readiness with the goal of maximizing operational efficiencies. These objectives are being met through a combination of contingency planning, cross-training of staff, development of enhanced systems for managing both the assets and liabilities of future failures, and proposed improvements in financial institution recordkeeping. Through this combination of strategies, the FDIC will continue its strong record of service, reliability, efficiency, and providing outstanding value to its stakeholders.

The U.S. financial system benefits from a balance between large and complex banks, regionally focused banks, and community banks. Community banks are integral to their local economies and to the customers they serve – individuals and businesses alike. Overall it is impressive that community banks, while facing intensified competition, have been able to achieve both respectable earnings and growth in recent years. Community banks possess certain advantages as lenders to local households, small businesses, and farmers. The willingness of private investors to risk their own money to create new banks is a powerful market indicator of the viability of small banks, especially in areas of high population density. Community banks will continue to occupy an important position in the banking industry for the foreseeable future.

We were busy in other areas as well, among them: implementing significant policies to implement deposit insurance reform, working towards an agreement on Basel II capital standards, modernizing the claims business process, maintaining a strong supervisory program, and promoting economic inclusion. Below are a few highlights of our activities in 2007, as well as some challenges we will face in 2008.

Policy

On January 1, 2007, new risk-based deposit insurance assessment rates became effective as part of implementation of the Federal Deposit Insurance Reform Act of 2005. We distributed credits totaling \$4.7 billion to those institutions that contributed to the buildup of the insurance funds through 1996, and issued an Advance Notice of Proposed Rulemaking (ANPR) seeking comments on alternative methods for allocating future dividends.

Our efforts on capital reform continued in 2007, with our active participation – along with our fellow U.S. banking regulators – in shared implementation of the Basel II Capital Accord. On November 5th, the FDIC Board of Directors jointly approved, along with the other federal banking regulators, the final rule to implement the advanced approaches of the Basel II Capital Accord in the U.S. (Basel II AIRB final rule). The final rule is consistent in most respects with the rules that are being implemented in other jurisdictions. At the request of the FDIC, the agencies also included safeguards in the event that the new rules do not work as intended. For instance, the final regulation implements the agencies' agreement not to allow any bank to exit its transitional risk-based capital floors unless and

until the agencies publish a study finding that there are no material deficiencies in the framework after two years experience in implementation or unless identified defects are remedied. If any agency allows its banks to exit the floors in a way that departs from this consensus approach, the rule requires that agency to publish a report explaining its reasoning. The final rule will become effective on April 1, 2008.

The agencies have agreed to issue a proposed rule that would provide all non-core banks with the option to adopt a standardized approach under the Basel II Capital Accord. This would replace the earlier proposed rule to adopt the “Basel IA” option. Basel IA was a new capital framework to be used by banks that chose not to use the Basel II framework. As we enter the new year, the FDIC will continue to provide leadership for this effort and work toward the goal of publishing a Notice of Proposed Rulemaking (NPR) to implement the standardized approaches of Basel II in the U.S. (Basel II Standardized NPR). Both the Basel II AIRB final rule and the Basel II Standardized NPR are part of our effort to enhance the risk sensitivity of the existing risk-based capital framework, while maintaining safety and soundness within the banking and thrift industries.

We also moved forward with our deposit insurance claims and modernization initiative that has been ongoing for the past several years. We published an NPR broken into two parts. The first part applies to all FDIC-insured institutions and governs the specific time and circumstances under which account balances will be determined, for deposit insurance purposes, in the event of a failure. The second part applies only to the largest FDIC-insured institutions – approximately 160 institutions with at least \$2 billion in domestic deposits and more than 250,000 deposit accounts, or total assets of more than \$20 billion, regardless of the dollar amount of deposits or number of accounts. Under the proposal, these institutions would be required to adopt mechanisms that would, in the event of the institution’s failure: place provisional holds on large deposit accounts in a percentage specified by the FDIC; provide the FDIC with deposit account data in a standard format; and allow automatic removal of provisional holds once the FDIC makes an insurance determination. The FDIC places a high priority on providing access to insured deposits promptly and, in the past, has usually been able to allow most depositors access to their deposits on the next business day. If adopted, the proposed rule would better enable the FDIC to continue this practice, especially for the larger, more complex institutions it insures.

Supervisory Program

Along with successfully managing an unusually large policy agenda in 2007, we continued to administer strong and effective supervisory programs in both the risk-management and compliance areas. We performed 2,258 safety and soundness examinations; 1,773 compliance and Community Reinvestment Act exams; and 2,941 specialty exams. The FDIC is the primary federal regulator for state nonmember banks, the vast majority of which are community banks. The core work of our examination staff continues to be the on-site evaluations and assessment of these banks’ risk management, compliance and consumer programs. Our field examiners are on the frontline and their work in identifying emerging risks and promoting stability in our nation’s economic system has been the hallmark of the FDIC for 75 years.

During the year, as the FDIC and fellow banking regulators became increasingly concerned with the expansion of subprime hybrid ARMs and the potential risk posed by these products, we took a leading role with the other regulators in issuing the *Statement on Subprime Mortgage Lending*. 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. We also took a leading role in developing the interagency *Statement on Working with Mortgage Borrowers*, encouraging financial institutions to pursue strategies to mitigate losses while preserving homeownership for borrowers that are delinquent or in default, or are at imminent risk of default. To provide guidance to entities that service residential mortgage loans for others, the FDIC, along with the other federal financial regulatory agencies, issued the *Statement on Loss Mitigation Strategies for Servicers of Residential Mortgages*.

To improve the quality of our examination programs, we launched our successful Joint Examination Teams (JETs) initiative, in which examiners from both the compliance and the risk-management sides examine FDIC-supervised institutions identified as offering certain consumer credit products, such as subprime loans, nontraditional mortgage loans, and third-party loan origination arrangements. Through this team effort, we can more fully assess institutions' various risks as well as their ability to control those risks. Our compliance examiners have expertise in such areas as unfair and deceptive acts or practices, the Truth-in-Lending Act, the Real Estate Settlement Procedures Act, and the Equal Credit Opportunity Act, while our risk-management examiners' expertise covers such areas as credit card and mortgage banking activities, securitization and asset-liability modeling.

As part of our continued effort to develop and maintain a highly skilled and flexible workforce, we have expanded our internal certificate program to include the Bank Secrecy Act, Receivership Claims, Franchise and Asset Marketing, and Basic Compliance Examination functions. This program allows employees to earn industry-recognized professional certifications.

Also in 2007, we implemented a number of regulatory relief provisions included in the Financial Services Regulatory Relief Act of 2006. These included revising Regulation R, which sets forth circumstances and conditions under which banks can continue to effect securities transactions for customers without being subject to registration as a broker under the Securities Exchange Act of 1934; expanding the examination cycle for "1" and "2"-rated banks to 18 months by raising the program's asset threshold from \$250 million to \$500 million; and developing model privacy notices – along with other federal financial institution regulatory agencies, the Securities and Exchange Commission and the Federal Trade Commission – which financial institutions have the option to use. We are mindful of unnecessary regulatory burden and will continue to eliminate it where possible.

Finally, during a year in which we witnessed a range of natural disasters around the country, we issued 12 financial institution letters announcing steps to provide regulatory relief to institutions and to facilitate recovery in areas damaged by fire, flood and other natural disasters. Recognizing the lasting damage caused by Hurricane Katrina, we also issued guidance to remind examination personnel and the industry that communities and families impacted by Hurricane Katrina may need additional time to recover.

Economic Inclusion

The FDIC is strongly committed to advancing economic inclusion for all segments of society. In 2007, we launched our Alliance for Economic Inclusion initiative in nine markets across the country, promoting the expanded use of insured financial institutions by segments of the U.S. population that are currently underserved by the banking industry. Broad-based coalitions of financial institutions, community-based organizations and other partners were formed to focus on expanding basic retail financial services for underserved populations. Services include savings accounts, affordable remittance products, small-dollar loan programs, targeted financial education programs, alternative delivery channels and other asset-building programs. Also, foreclosure-prevention efforts have been integrated.

As part of our economic inclusion effort this year, we focused on assisting financially stressed residential borrowers. Working through our Alliance for Economic Inclusion and with NeighborWorks® America, we are promoting a broad foreclosure-prevention initiative for consumers at risk of foreclosure from subprime and nontraditional mortgage lending.

In addition, we hosted three meetings of the FDIC Advisory Committee on Economic Inclusion (ComE-IN), which was approved by the FDIC Board of Directors pursuant to the Federal Advisory Committee Act in November 2006. The Committee provides the FDIC with advice and recommendations on important initiatives focused on expanding access to banking services by underserved populations. The topics addressed during the 2007 meetings were access to small dollar loans, the subprime mortgage situation and money services businesses and their access to the banking system.

Based on a recommendation from the Advisory Committee on Economic Inclusion, the FDIC Board approved a two-year pilot project to review affordable and responsible small-dollar loan programs in thirty diverse financial institutions across the country. This program will assist bankers by identifying and disseminating information on replicable business models for small-dollar loans by evaluating data submitted to the FDIC about the bank's small dollar loans, the overall value and profitability of their program, and the benefit to consumers.

During 2007, the FDIC also commenced work on two surveys intended to provide extensive new data regarding economic inclusion. Both of these survey efforts are related to a mandate in section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 requiring the FDIC to conduct a survey of FDIC-insured institutions every two years regarding their efforts to serve the unbanked. The first of these surveys, the Survey of Banks' Efforts to Serve the Unbanked and Underbanked, will be conducted during 2008 and is expected to yield significant insight about bank efforts to serve unbanked and underbanked populations. The FDIC is also exploring the feasibility of conducting a survey of U.S. households to estimate the percentage of the U.S. population that is unbanked and underbanked. The survey is scheduled to be conducted in January 2009 as a supplement to the Bureau of the Census's Current Population Survey. It is expected to yield significant new data on the extent of the population that is unbanked and/or underbanked and the reasons why some households do not make greater use of traditional banking services.

We also continued promoting financial education to the unbanked and underbanked populations around the country, expanding our efforts to integrate our *Money Smart* financial education program into public schools. To reach an even wider audience with *Money Smart*, we distributed a revised version of our instructor-led curriculum and an online computer-based instruction. In 2007, the FDIC surpassed its goal established at the inception of the *Money Smart* program to provide financial education to 1 million consumers. To date, over 1.4 million consumers have taken the *Money Smart* curriculum.

Conclusion

As we begin 2008, the FDIC aspires to be recognized by its employees and stakeholders as an outstanding employer with a highly motivated and engaged workforce that understands and is committed to the Corporation's mission, goals and objectives. To that end, during 2007 we conducted a comprehensive employee survey and have plans underway to further improve the Corporation in the areas of communication, empowerment, employee performance, and compensation systems. Our employees have been and always will be the FDIC's most important resource in completing its mission. I look forward to continued work with our dedicated staff and exceptional Board of Directors in 2008.

The FDIC remains committed to working with bankers, consumers, fellow regulators, Congress and others to keep the banking industry healthy and the economy strong – a commitment that we will continue to keep into 2008 and well beyond.

Sincerely,

A handwritten signature in blue ink that reads "Sheila C. Bair". The signature is written in a cursive style with a large initial 'S' and 'B'.

Sheila C. Bair

Message from the Chief Financial Officer • Steven O. App



I am pleased to join Chairman Bair in presenting our *2007 Annual Report*. The report provides our stakeholders with meaningful financial and program performance information and summarizes our accomplishments. Our priority is to provide timely, reliable and useful information.

The U.S. Government Accountability Office (GAO) issued unqualified audit opinions for the two funds administered by the Corporation: the Deposit Insurance Fund (DIF) and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF). This marks the sixteenth consecutive year that we have received unqualified audit opinions, and demonstrates our continued dedication to sound financial management. It is also indicative of the financial statements being fairly presented. Achieving this major milestone attests to the hard work of the FDIC's employees, and I applaud their efforts.

The FDIC's financial highlights during 2007 include:

For the twelve months ending December, 31, 2007, DIF's comprehensive income totaled \$2.2 billion compared to \$1.6 billion for the previous year, an increase of 38 percent. Excluding the recognition of exit fees earned of \$345 million (a one-time adjustment) from the 2006 results, comprehensive income rose by \$1.02 billion, or 84 percent, from a year ago. This year-over-year increase was primarily due to a \$611 million increase in assessment revenue, a \$299 million increase in interest revenue, a \$298 million decrease in the unrealized loss on available-for-sale (AFS) securities, offset by a \$42 million increase in operating expenses and a \$147 million increase in the provision for insurance losses.

The \$611 million increase in assessment revenue resulted from significant changes to the risk-based assessment system beginning in 2007 (see footnote 7 to DIF's financial statements for a detailed explanation). For 2007, DIF recognized \$643 million in assessment revenue, representing \$3.7 billion in gross premiums due from insured depository institutions, net of \$3.1 billion in assessment credits used. Assessment revenue increased from \$94 million in the first quarter to \$245 million in the fourth quarter. The increased revenue each quarter primarily resulted from a reduction in the assessment credits used by financial institutions to offset gross assessments. This trend towards higher assessment income is expected to continue as institutions deplete their available credits. Of the \$4.7 billion in one-time assessment credits granted, \$1.6 billion (34 percent) remained as of December 31, 2007.

In 2007, we continued our efforts to reduce operating costs and prudently manage the funds that the FDIC administers. Annual budgeted operating expenditures for 2007 totaled approximately \$1.00 billion, which represents an increase of \$29 million (3 percent) from 2006. On December 19, 2007, the FDIC Board of Directors approved a 2008 Corporate Operating Budget totaling \$1.14 billion, a slight increase over the 2007 budget, largely due to the cost of employee pay increases negotiated for 2008.

Capital investment spending decreased significantly in 2007 to approximately \$12 million, roughly 48 percent of 2006 levels. This decrease is largely attributable to the completion of two major investment projects in 2006. The FDIC now has four active investment projects remaining. Investment spending is projected to be \$17 million in 2008.

In accordance with the requirements of the Federal Managers' Financial Integrity Act of 1982, the FDIC's management conducted its annual assessment and concluded that the system of internal controls, taken as a whole, complies with internal control standards prescribed by the Government Accountability Office (GAO) and provides reasonable assurance that the related objectives are being met.

Our performance in 2007 gives us confidence that we can meet the challenges of an ever-changing banking industry. In 2008, we will continue to focus on cost effective management of both the DIF and the FRF, while maintaining a strong enterprise-wide risk management and internal control program.

Sincerely,

A handwritten signature in blue ink that reads "Steven O. App". The signature is written in a cursive style with a large initial 'S' and 'A'.

Steven O. App

I. Management's Discussion and Analysis

The Year in Review

In 2007, the FDIC continued its work on high-profile policy issues, ranging from implementation of deposit insurance reform to finalizing capital reform. In addressing these and other issues, the Corporation published numerous Notices of Proposed Rulemaking (NPRs) throughout the year, seeking comment from the public. The Corporation also continued to focus on a strong supervisory program and reorganized examination teams that inspected financial institutions that originate significant volumes of subprime loans and non-traditional loan products. The FDIC continued expansion of financial education programs, providing *Money Smart* training to hundreds of public school teachers. It also sponsored and co-sponsored major conferences and participated in local and global outreach initiatives.

Highlighted in this section are the Corporation's 2007 accomplishments in each of its three major business lines – Insurance, Supervision and Consumer Protection, and Receivership Management – as well as its program support areas.

Insurance

The FDIC insures bank and savings association deposits. As insurer, the FDIC must continually evaluate and effectively manage how changes in the economy, the financial markets and the banking system affect the adequacy and the viability of the Deposit Insurance Fund.

Implementation of Deposit Insurance Reform

On November 2, 2006, the FDIC Board of Directors adopted a final rule on assessments as part of the implementation of the Federal Deposit Insurance Reform Act of 2005 (Reform Act). The new rule enables the FDIC to more closely tie each bank's assessments to the risk that it poses to the Deposit Insurance Fund.

Effective January 1, 2007, assessment rates ranged from 5 to 7 basis points for Risk Category I institutions, 10 basis points for Risk Category II institutions, 28 basis points for Risk Category III institutions and 43 basis points for Risk Category IV institutions.

These rates are uniformly 3 basis points greater than the base assessment rates also adopted by the Board in November 2006. The Board retains the flexibility to adjust rates without further notice-and-comment rulemaking, provided that no such adjustment can be greater than 3 basis points in any quarter; that these adjustments cannot result in rates more than 3 basis points above or below the base rates; and that rates cannot be negative. The table on the following page shows the distribution of institutions among the risk categories as well as within Risk Category I.

Within Risk Category I, the FDIC determines an assessment rate from three primary sources of information – the supervisory component ratings for all insured institutions, the financial ratios for most institutions, and the long-term debt issuer ratings for large institutions that have them. Generally, for those institutions in Risk Category I with less than \$10 billion in assets and those with \$10 billion or more in assets that do not have long-term debt issuer



Some members of the Deposit Insurance Reform Implementation Team, with Chairman Sheila Bair, Vice Chairman Martin Gruenberg and Director Thomas Curry.

Distribution of Institutions and Assessment Base Among Risk Categories Quarter Ending September 30, 2007

Dollars in billions

Risk Category	Annual Rate in Basis Points	Number of Institutions	Percent of Total Institutions	Assessment Base	Percent of Total Assessment Base
I - Minimum	5	2,709	32%	\$ 3,872	56%
I - Middle	5.01–6.00	3,088	36%	2,078	30%
I - Middle	6.01–6.99	1,422	17%	456	7%
I - Maximum	7	859	10%	296	4%
II	10	422	5%	163	2%
III	28	64	1%	14	0%
IV	43	7	0%	1	0%
Total		8,571	100%	\$ 6,880	100%

Note: Institutions are categorized based on supervisory ratings, debt ratings and financial data as of September 30, 2007. Rates do not reflect the application of assessment credits. Percentages may not add to 100 percent due to rounding.

ratings, assessment rates are based on a combination of financial ratios and CAMELS¹ component ratings. Generally, for those institutions in Risk Category I with \$10 billion or more in assets that have long-term debt issuer ratings, assessment rates are determined from weighted average CAMELS component ratings and long-term debt issuer ratings.

For all large Risk Category I institutions, additional risk factors are considered to determine whether the assessment rates should be adjusted. This additional information includes market data, financial performance measures, considerations of the ability of an institution to withstand financial stress, and loss severity indicators. Any adjustment is limited to no more than 1/2 basis point up or down. In February 2007, the FDIC released for public comment proposed guidelines on how it would determine such adjustments. The FDIC Board approved final guidelines in May 2007.

Institutions that contributed to the build-up of the insurance funds through 1996 received an aggregate \$4.7 billion in one-time credits under the Reform Act to offset future deposit insurance assessments. These credits were allocated to institutions based on their 1996 assessment base shares.

The average annualized assessment rate (weighted by each institution's assessment base), before accounting for the use of credits, was approximately 5.4 basis points for the first three quarters of 2007. Approximately 68 percent of all institutions (71 percent of institutions in Risk Category I) were able to offset their first, second, and third quarter 2007 assessments entirely using credits.

During the first half of 2007, the FDIC completed substantial modifications to its information systems in order to implement the changes to risk-based assessment rates, track credit use and availability for each institution, incorporate changes to the calculation and reporting of the assessment base, and deliver the invoices for the first quarter assessments by the June 2007 deadline.

In September 2007, the FDIC issued an Advance Notice of Proposed Rulemaking (ANPR), seeking comments on alternative methods for allocating dividends as part of a permanent final rule to implement the dividend requirements of the Reform Act. In October 2006, the Board adopted a temporary rule governing dividends, which expires at the end of 2008. The comment period for the Dividend ANPR closed on November 19, 2007.

International Capital Standards

The FDIC, as insurer, has a substantial interest in ensuring that bank capital regulation effectively safeguards the federal bank safety net against excessive loss. During 2007, the FDIC participated in the Basel Committee on Banking Supervision (BCBS) and many of its subgroups. The FDIC also participated in various U.S. regulatory efforts aimed at interpreting international capital standards and establishing sound policy and procedures for implementing these standards.

¹ The CAMELS composite rating represents the adequacy of **C**apital, the quality of **A**ssets, the capability of **M**anagement, the quality and level of **E**arnings, the adequacy of **L**iquidity, and the **S**ensitivity to market risk, and ranges from "1" (strongest) to "5" (weakest).

Ensuring the adequacy of insured institutions' capital under Basel II remained a key objective for the FDIC. In 2007, the FDIC devoted substantial resources to domestic and international efforts to ensure these new rules are designed and implemented appropriately. These efforts, in conjunction with other federal financial regulators, included publishing a final rule for the implementation of the advanced approaches of Basel II as well as proposed examination guidance. This guidance is intended to provide the industry with regulatory perspectives for implementation. In concert with regulators from other U.S. banking agencies and other Basel Committee member countries, the FDIC also participated in a review of supervisory and regulatory supplemental capital measures currently being used to ensure bank capital adequacy.

The Basel II Final Rule was published in the *Federal Register* on December 7, 2007, with an effective date of April 1, 2008. The findings of the fourth quantitative impact study (QIS-4), which were completed in 2005, suggested that, without modification, the Basel II framework could result in an unacceptable decline in minimum risk-based capital requirements. As a result, the agencies have included safeguards against the possibility that the new rules do not work as intended. For instance, the agencies have agreed, by regulation, not to allow any bank to exit its transitional

risk-based capital floors unless and until the agencies publish a study giving the new rules a clean bill of health or unless identified defects are remedied. If any agency allows its banks to exit the floors in a way that departs from this consensus approach, the rule requires that agency to publish a report explaining its reasoning. In addition, the agencies have retained the U.S. leverage ratio and Prompt Corrective Action requirements.

Through its supervisory program, the FDIC continues to work with certain insured state non-member bank subsidiaries of banking organizations that plan to operate under the new capital accord, to review and assess implementation plans and progress towards meeting qualification requirements.

Domestic Capital Standards

The FDIC is involved in efforts to revise the existing risk-based capital standards for banks that will not be subject to the advanced approaches of Basel II. As such, the FDIC has taken a lead role in developing a proposed rule that would implement the standardized approach of Basel II (Basel II Standardized NPR). The proposed rule is intended to modernize the risk-based capital rules for banks that do not use the advanced approaches of Basel II, and minimize potential competitive inequities that may arise between banks that adopt Basel II and banks that remain under the existing rules. The agencies have indicated that they expect to issue the Basel II Standardized NPR during the first quarter of 2008.

Identifying and Addressing Risks to the Deposit Insurance Fund

During 2007, the FDIC continued to research and analyze trends in the banking sector, financial markets and the overall economy to identify emerging risks to the banking industry and the Deposit Insurance Fund. The identified risks were highlighted throughout the year in presentations and written reports. The FDIC redesigned its Large Insured Depository Institution (LIDI) program to ensure uniform reporting of critical risks posed by institutions with assets over \$10 billion. The information captured through this program is used to support business line activities related to supervision, insurance and resolutions. Institution-specific concerns were directed to FDIC regional offices for appropriate action. The FDIC continued to analyze the regional economies affected by hurricanes Katrina and Rita throughout the year.

Center for Financial Research

During 2007, the FDIC's Center for Financial Research (CFR) co-sponsored two major research conferences: the 17th Annual Derivatives Securities and Risk Management Conference and the seventh Annual Bank Research Conference.

The 17th Annual Derivatives Securities and Risk Management Conference, which the FDIC co-sponsored with Cornell University's Johnson Graduate School of Management and the University of Houston's Bauer College of Business, was held in April 2007 at FDIC's Virginia Square facility and attracted over 100 researchers from around

the world. Conference presentations focused on technical and mathematical aspects of risk measurement and securities pricing, and included several presentations on Basel II-related topics.

The CFR and *The Journal of Financial Services Research* (JFSR) hosted the seventh Annual Bank Research Conference in September with over 100 attendees. The conference included the presentation of 12 papers, a nationally recognized guest speaker, Francis A. Longstaff – Allstate Professor of Insurance and Finance, Anderson School of Management, UCLA, an expert panel, and discussions on timely issues affecting the financial system. The conference theme focused on liquidity in the financial system. Experts discussed analyses on such topics as asset prices and liquidity, liquidity in the equity and options markets, and issues involving commercial bank liquidity and bank lending.

The CFR also hosted the Basel Research Task Force Annual Workshop in May. The workshop included a two-day session with research paper presentations and discussions by staff members of Basel Committee institutions. Approximately 85 researchers and policy makers attended the workshop. Many represented foreign central banks and financial supervisory agencies. Additionally, the FDIC along with the Federal Reserve Bank

of Chicago, the University of Kansas School of Business, and *The Journal of Financial Services Research*, co-sponsored the Mergers and Acquisitions of Financial Institutions Conference in November.

Ten CFR working papers were published in 2007 on topics including risk measurement, exchange rate exposure, and financial institution credit and retail banking relationships.

Other Risk Identification Activities

The FDIC researched and analyzed emerging risks and trends in the banking sector, financial markets and the overall economy to identify issues affecting the banking industry and the DIF. During 2007, the FDIC focused significant attention on the condition of housing markets and the problems facing subprime mortgage borrowers and their lenders. The FDIC also continued to analyze the regional economies adversely affected by hurricanes Katrina and Rita throughout the year. A consumer finance research section was formed in late 2007 to examine a variety of consumer-related issues, including fair lending, consumer credit access, small business credit access, new consumer financial services, and home mortgage finance.

In 2007, the FDIC began publishing *FDIC Quarterly*, which incorporates information previously available in the *Quarterly Banking Profile* and other FDIC publications. *FDIC Quarterly* discusses current conditions, trends and changes in the performance of insured institutions, and issues affecting the economy and the banking system. In 2007, *FDIC*

Quarterly analyzed such topics as the case for subprime loan modifications, the privatization of deposit insurance, the effectiveness of financial education programs, and the popularity of individual development accounts (matched savings accounts that enable low-income families to save money for a particular financial goal, such as buying a home, paying for post-secondary education, or starting or expanding a small business). In addition, quarterly *FDIC State Profiles* were released for each state during 2007.

Throughout the year, the FDIC conducted numerous outreach activities addressing economic and banking risk analyses. Presentations were made to financial institutions and related trade groups, bank directors' colleges, community groups, foreign visitors and other regulators.

Supervision and Consumer Protection

Supervision and consumer protection are cornerstones of the FDIC's efforts to ensure the stability of and public confidence in the nation's financial system. The FDIC's supervision program promotes the safety and soundness of FDIC-supervised insured depository institutions, protects consumers' rights, and promotes community investment initiatives.

FDIC Examinations 2005-2007

	2007	2006	2005
Safety and Soundness:			
State Nonmember Banks	2,039	2,184	2,198
Savings Banks	213	201	199
Savings Associations	3	2	1
National Banks	0	0	0
State Member Banks	3	1	1
Subtotal - Safety and Soundness Examinations	2,258	2,388	2,399
CRA/Compliance Examinations:			
Community Reinvestment Act - Compliance	1,241	777	815
Compliance-only	528	1,177	1,198
CRA-only	4	5	7
Subtotal CRA/Compliance Examinations	1,773	1,959	2,020
Specialty Examinations:			
Trust Departments	418	468	450
Data Processing Facilities	2,523	2,584	2,708
Subtotal-Specialty Examinations	2,941	3,052	3,158
Total	6,972	7,399	7,577

Examination Program

The FDIC's strong bank examination program is the core of its supervisory program. At year-end 2007, the Corporation was the primary federal regulator for 5,257 FDIC-insured state-chartered institutions that are not members of the Federal Reserve System (generally referred to as "state nonmember" institutions). Through safety and soundness, consumer compliance and Community Reinvestment Act (CRA), and other specialty examinations, the FDIC assesses their operating condition, management practices and policies, and their compliance with applicable laws and regulations. The FDIC also educates bankers and consumers on matters of interest and addresses consumers' questions and concerns.

In 2007, the Corporation conducted 2,258 statutorily-required safety and soundness examinations, including a review of Bank Secrecy Act compliance, and all required follow-up examinations for FDIC-supervised problem institutions within prescribed time frames. The FDIC also conducted 1,773 CRA/Compliance examinations (1,241 joint CRA/compliance examinations, 528 compliance-only examinations,² and four CRA-only examinations) and 2,941 specialty examinations. All CRA/compliance examinations were also conducted within the time frames established by FDIC policy, including required follow-up examinations of problem institutions. The accompanying table compares the number of examinations, by type, conducted in 2005, 2006 and 2007.

As of December 31, 2007, there were 77 insured institutions with total assets of \$22.2 billion designated as problem institutions for safety and soundness purposes (defined as those institutions having a composite CAMELS³ rating of "4" or "5"), compared to the 51 problem institutions with total assets of \$8.5 billion on December 31, 2006. This constituted a 51 percent year-over-year increase in the number of problem institutions and a 161 percent increase in problem institution assets. During 2007, 38 institutions with aggregate assets of \$6.4 billion were removed from the list of problem financial institutions, while 64 institutions with aggregate assets of \$26.5 billion were added to the list of problem financial institutions. The FDIC is the primary federal regulator for 47 of the 77 problem institutions.

During 2007, the Corporation issued the following formal and informal corrective actions to address safety and soundness concerns: 48 Cease and Desist Orders, three Temporary Cease and Desist Orders, one modified Cease and Desist Order, and 158 Memoranda of Understanding. Of these actions issued, 25 Cease and Desist Orders and 31 Memoranda of Understanding were issued based, in part, on apparent violations of the Bank Secrecy Act.

As of December 31, 2007, 43 FDIC-supervised institutions were assigned a "4" rating for safety and soundness and four institutions were assigned a "5" rating. Forty-two of the "4"-rated institutions were examined in 2007, and formal or informal enforcement actions have been finalized to address the FDIC's examination findings. All "5"-rated institutions were examined in 2007.

² Compliance-only examinations are conducted for most institutions at or near the mid-point between joint compliance-CRA examinations under the Community Reinvestment Act of 1977, as amended by the Gramm-Leach-Bliley Act of 1999. CRA examinations of financial institutions with aggregate assets of \$250 million or less are subject to a CRA examination no more than once every five years if they receive a CRA rating of "Outstanding" and no more than once every four years if they receive a CRA rating of "Satisfactory" on their most recent examination.

³ The CAMELS composite rating represents the adequacy of Capital, the quality of Assets, the capability of Management, the quality and level of Earnings, the adequacy of Liquidity, and the Sensitivity to market risk, and ranges from "1" (strongest) to "5" (weakest).

As of December 31, 2007, eight FDIC-supervised institutions were assigned a "4" rating for compliance; no institutions were assigned a "5" rating. In total, three of the "4"-rated institutions were examined in 2007; three were examined prior to 2007 but are currently in various stages of appealing the ratings, and the remaining two were examined in 2006. With regard to the two for which examinations were last conducted in 2006, an informal enforcement action for one was issued in September 2007; therefore, an examination is not due until 2008. The other institution is operating under a Cease and Desist Order and the examination remains open.

The Corporation has issued enforcement actions to address the examination findings for all five of the institutions that were not in the process of an appeal. These actions include one Cease and Desist Order as noted above and four Memoranda of Understanding.

Revisions to Compliance Examination Guidance

The FDIC conducted an internal analysis of compliance examination reports to determine if appropriate follow-up action is initiated on significant violations cited during compliance examinations. The review revealed that a change was needed to clarify guidance to ensure that the most problematic weaknesses and significant violations cited in examination reports are promptly addressed by bank management. In response, a Regional Director

Memorandum entitled, *Compliance Examination Process: Clarification of "Significant" Violations and Amendments to Enforcement Action and Post-Examination Processes* was issued in 2007. The post-examination follow-up process was formalized, through which state nonmember banks will be required to respond to examination staff in writing, outlining actions planned and taken to address identified deficiencies including significant violations. This process will enable the FDIC to more consistently assess an institution's success or failure in addressing the issues during the interim period between examinations.

Joint Examination Teams

The FDIC used joint compliance/risk management examination teams (JETs) to assess risks associated with new, nontraditional and/or high-risk products being offered by FDIC-supervised institutions. The JET approach recognizes that to fully understand the potential risks inherent in certain products and services, the expertise of both compliance and risk management examiners is required. The JET approach has three primary objectives:

- To enhance the effectiveness of the FDIC's supervisory examinations in unique situations;
- To leverage the skills of examiners who have experience with emerging and alternative loan and deposit products; and
- To ensure that similar supervisory issues identified in different areas of the country are addressed consistently.

The JET concept evolved from the FDIC's examination of state non-member banks that were conducting payday lending activities through third-party vendors. Payday lending involved unique and complex products with significant safety and soundness and consumer protection risks for the institutions involved in this activity. Joint examination teams were subsequently used in the examination of credit card lenders that were targeting subprime customers. As with the payday lenders, such products present a myriad of safety and soundness and consumer protection risks for these lenders.

In 2007, the FDIC has used JETs in institutions involved in significant subprime or nontraditional mortgage activities; institutions affiliated with or utilizing third parties to conduct significant lending activities, especially in the credit card area; and institutions for which the FDIC has received a high volume of consumer complaints or complaints with serious allegations of improper conduct by banks.

Subprime Hybrid Adjustable Rate Mortgages

In 2007, the FDIC continued to closely monitor the expansion of subprime hybrid adjustable rate mortgages (ARMs), typically offered to subprime borrowers. Hybrid ARMs start with a low fixed interest rate for an initial period, which often lasts for two to three years, and then resets to a variable rate. Mortgage lenders typically qualified borrowers based on the low introductory payment

amount rather than at the fully indexed interest rate, assuming a fully amortizing repayment schedule. Such underwriting standards and loan terms can cause payment shock, the consequences of which may not have been fully explained to borrowers. In addition, many lenders combined these loans with other potentially risky features, such as requiring little or no documentation of income, high loan-to-value ratios, and simultaneous second-lien mortgages, which could compound the risk to both borrowers and lenders.

To address these concerns, the FDIC joined the other federal financial institution regulatory agencies in issuing the *Statement on Subprime Mortgage Lending* (Subprime Guidance) on July 10, 2007. The guidance covers three primary areas: risk management practices, consumer protection principles, and control systems. The risk management section focuses on avoiding predatory lending, following prudent underwriting standards for qualifying borrowers, and encouraging institutions to work constructively with residential borrowers who are in default or whose default is reasonably foreseeable.

The consumer protection principles section recommends that communications with consumers, including advertisements, oral statements and promotional materials, provide borrowers with full and balanced information about the costs, terms, features and risks of subprime hybrid ARMs in a timely manner. The FDIC joined the other regulatory agencies in providing illustrations for disclosures

for public comment. The control systems section specifies that institutions should develop and implement strong control systems to monitor whether their subprime lending activities are performing as expected, and whether actual practices are consistent with their policies and procedures. These systems should monitor both the institution's personnel and third party originators, such as mortgage brokers or correspondents.

Working through Mortgage Resets

The FDIC became increasingly concerned about borrowers' ability to service the higher debt load resulting from payment shock when their hybrid ARMs payments reset. Many borrowers, especially those who were qualified at a low introductory payment amount rather than the fully indexed interest rate and on a fully amortizing repayment schedule, may not have sufficient financial capacity to make the higher contractual payments owed on their home loans.

To address this concern, the FDIC led the agencies in issuing the *Statement on Working with Mortgage Borrowers* in April 2007. This guidance primarily addresses those instances when a financial institution has retained a residential mortgage loan on its books. The agencies issued the *Statement on Loss Mitigation Strategies for Servicers of Residential Mortgages* in September 2007 to provide guidance to entities that service residential mortgage loans for others. In addition, the FDIC joined the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators in issuing the *Supplemental*

Information for Loss Mitigation Strategies. This guidance encourages servicers to consider the borrower's ability to repay modified obligations, taking into account the borrower's total monthly housing-related payments as a percentage of the borrower's gross monthly income.

The FDIC is encouraging servicers to adopt a streamlined approach to making the decision to grant loan modifications where necessary. Where the homeowner generally has been current at the starter rate, but cannot refinance in today's market or make the higher payments after the interest rate resets, then the loan should be modified to keep it at the starter rate for a long-term sustainable period. Such modification arrangements would also benefit lenders and investors who would not only have a higher level of performing loans, but would also avoid administrative expenses associated with servicing delinquent debts or foreclosing on the property. In addition, financial institutions may receive favorable CRA consideration for programs that transition low-to moderate-income borrowers from higher cost credit to lower cost credit, provided that the loan modifications are made in a prudent manner.

Regulatory Relief

On October 13, 2006, the President signed Public Law No. 109-351, the Financial Services Regulatory Relief Act of 2006 (FSRRA). The law required the FDIC and other federal regulatory agencies to revise certain rules and regulations and supervisory processes. All required regulatory changes, except revisions to part 359 and FDIC policy on applications for deposit insurance, were completed during 2007. In 2007, the GAO began a review of Currency Transaction Reports as required under FSRRA. The FDIC has provided the GAO with requisite information to support this review.

Regulation R

The FDIC joined the Office of the Comptroller of the Currency (OCC), the Federal Reserve Board (FRB), the Office of Thrift Supervision (OTS), and the Securities and Exchange Commission (SEC) in drafting and finalizing the joint FRB/SEC *Regulation R - Definitions of Terms and Exemptions Relating to the "Broker" Exceptions for Banks*. The FSRRA required the Federal Reserve, in consultation with the other federal banking regulatory agencies, and the SEC to develop a regulation implementing the exceptions for banks from the definition of broker contained in the Gramm-Leach-Bliley Act of 1999. The final Regulation R was published in the *Federal Register* on October 3, 2007, and became effective on December 3, 2007. Regulation R sets forth the circumstances and conditions under which banks can continue to effect securities transactions for customers without being subject to registration as a broker under the Securities Exchange Act of 1934.

Model Privacy Notices

The FDIC also worked with the other federal banking agencies, the National Credit Union Administration, the SEC and the Federal Trade Commission to develop model privacy notices that financial institutions have the option of using.

Review of the Reports of Condition

Section 604 of the Financial Services Regulatory Relief Act of 2006 requires the federal banking agencies to review the content of bank Call Reports and

Thrift Financial Reports (TFR). The objective of Section 604 is for the agencies to use the results of the review as a basis for eliminating or reducing any information collected in Call Reports and TFRs found to be unnecessary or inappropriate. The Federal Financial Institution Examination Council's (FFIEC) Task Force on Reports surveyed various Call Report user groups to identify the purposes for which each group uses each Call Report item, the extent of usage for each item, and the frequency with which each data item is needed. There were 165 survey participants from the four banking agencies and the Conference of State Bank Supervisors (CSBS). The survey was completed in August and the results were evaluated and reported to the FFIEC principals in October 2007.

FDIC Rules and Regulations

The FDIC also revised the following rules and regulations:

- Part 348
To raise the threshold allowing depository organizations with total assets of \$50 million (previously \$20 million) to be exempt from the prohibition against having interlocking management officials, if the depositories are located, or have an affiliate located, in the same metropolitan statistical area, primary metropolitan statistical area, or consolidated metropolitan statistical area.
- Part 337.12
To expand the examination cycle for "1" and "2"-rated community banks to 18 months by raising the asset threshold eligibility from \$250 million to \$500 million.

- *Statement of Policy on Bank Mergers Transactions* and Applicable Sections of Part 303
To eliminate the competitive factors report from other banking agencies, and the post-approval waiting period for mergers with affiliates.
- Applicable Sections of Part 308 and the Application Process
To extend the time for review of a change-in-control notice to address issues arising from so-called "stripped charters." In addition, Part 308 was amended to clarify that the appropriate federal banking agency may suspend or prohibit individuals charged with certain crimes from participating in the affairs of any relevant depository institution.
- Part 309
To reflect broad authority for the FDIC to provide confidential supervisory information to any other federal or state agency or authority with supervisory or regulatory authority over the depository institution that is determined to be appropriate.
- *Statement of Policy on Section 19 of the FDI Act*
To reflect amendments made by the Financial Services Regulatory Reform Act of 2006.

Disaster Relief

Recognizing that many communities and families may need an extended period of time to recover from the devastation caused by Hurricane Katrina, the FDIC and the other federal banking agencies issued a reminder to examiners and financial institutions to consider the principles outlined in the *Hurricane Katrina Examiner Guidance*. In addition, during the year the FDIC issued 12 financial institution letters that provided regulatory relief to financial institutions and facilitated recovery in areas damaged by fire, flood and other natural disasters.

Protection of Federal Benefit Payments

The FDIC, along with the other federal financial institution regulators, proposed guidance that encourages federally regulated financial institutions to follow best practices to protect federal benefit payments from garnishment orders. Federal law protects federal benefit payments – such as Social Security benefits and Veterans’ benefits – from garnishment orders and the claims of judgment creditors, subject to certain exceptions. Creditors and debt collectors are often able to obtain orders from state courts garnishing funds in a consumer’s account that do not meet the requirements of exempt funds. To comply with state court garnishment orders, financial institutions often place a temporary freeze or hold on an account upon receipt of a garnishment order, which can cause significant hardship for the account holder. The agencies developed

proposed guidance, which includes best practices, to encourage financial institutions to minimize the hardships encountered by federal benefit funds recipients and to do so while remaining in compliance with applicable laws. The comment period closed in November 2007 and the agencies have reviewed the comments and will determine the best course of action during 2008.

Large Complex Financial Institution Program

The FDIC’s Large Complex Financial Institution Program addresses the unique challenges associated with the supervision, insurance and potential resolution of large and complex financial institutions. A significant share of the banking industry’s assets and insured deposits are held in a small number of large institutions. This program ensures a consistent approach to large-bank supervision and risk analysis on a national basis. This is achieved by compiling key data and performing analyses of large-bank operations for use by various FDIC divisions and offices, and by providing specialists with information to support supervisory activities for large banks.

In 2007, the FDIC led a comprehensive initiative to standardize data capture and reporting through the Large Insured Depository Institution (LIDI) Program. Under this Program, supervisory staff throughout the nation performs comprehensive quantitative and qualitative risk analysis on institutions with assets over \$10 billion, or under this threshold at regional discretion. This information is used by various business lines to perform critical functions related to insurance, resolutions and supervision.

In 2007, the LIDI Program supported the insurance function in analyzing and setting appropriate insurance premiums for large insured financial institutions. The Corporation also led and supported various initiatives designed to better understand potential resolution challenges posed by complex insured financial institutions.

The FDIC continued to assess internal and industry preparedness relative to Basel II capital rules and was actively involved in domestic and international discussions intended to ensure effective implementation of the New Capital Accord. This included participation in numerous supervisory working group meetings with foreign regulatory authorities to address Basel II home-host issues.

Bank Secrecy Act/Anti-Money Laundering

The FDIC pursued a number of Bank Secrecy Act (BSA), Counter-Financing of Terrorism (CFT) and Anti-Money Laundering (AML) initiatives in 2007.

International AML/CFT Initiatives

The FDIC conducted three training sessions in 2007 for 57 central bank representatives from Algeria, Bosnia, Egypt, Indonesia, Jordan, Kuwait, Morocco, Pakistan, Paraguay, Philippines, Tanzania, and Turkey. The training focused on AML/CFT controls, the AML examination process, customer due diligence, suspicious activity monitoring, and foreign correspondent banking. The sessions also

included presentations from the Federal Bureau of Investigation on combating terrorist financing, and the Financial Crimes Enforcement Network (FinCEN) on the role of financial intelligence units in detecting and investigating illegal activities.

In addition to hosting onsite AML/CFT instruction, the FDIC provided guidance and resources for international AML/CFT financial system assessments and training. In 2007, the FDIC provided technical assistance in Yemen and Senegal to evaluate AML controls and each country's AML statutory and legislative framework. Also, the FDIC delivered an AML presentation at the U.S.-Middle East/North Africa Private Sector Dialogue conference in Dubai, United Arab Emirates. Finally, the FDIC met with representatives from the Deposit Insurance Corporation of Japan, the Korean Financial Intelligence Unit, the Banco Central del Uruguay and the Bank of Al-Maghrib, Morocco, to discuss the AML examination process, enforcement authority and the FDIC's supervisory role in combating money laundering and other illicit financial activities.

Certification of Specialists

The FDIC continued to increase regulatory knowledge to keep abreast of current issues related to money laundering and terrorist financing as an additional 10 percent of BSA/AML subject matter experts nationwide earned the designation of Certified Anti-Money Laundering Specialists.

As of December 31, 2007, 38 BSA subject matter experts had completed the AML certification process by passing the certification examination given by the Association of Certified Anti-Money Laundering Specialists.

Money Services Businesses Project

The FDIC developed an action plan to gain a better understanding of state regulators' AML supervision and enforcement of money services businesses (MSBs). As part of the project, the FDIC partnered with the Money Transmitter Regulators Association (MTRA), the Conference of State Bank Supervisors and FinCEN. MTRA surveyed state MSB agencies to gather BSA/AML compliance, licensing, supervision and enforcement information. The FDIC then conducted several interviews with state MSB regulators to better understand the MSB supervision process. The FDIC also conducted a pilot review to assess the feasibility of incorporating state MSB AML examination findings into FDIC risk management examinations.

2007 FFIEC BSA/AML Examination Manual

The FDIC coordinated the revision and issuance of the *2007 FFIEC BSA/AML Examination Manual*. The manual was released by the FFIEC for publication and distribution on August 24, 2007. It reflects the ongoing commitment of the federal banking agencies to provide current and consistent guidance on risk-based policies, procedures and processes for banking organizations to comply with the BSA and safeguard operations from money laundering and terrorist financing.

The manual has been updated to further clarify supervisory expectations and incorporate regulatory changes since its 2006 release. The revisions also reflect feedback from the banking industry and examination staff. Additionally, the FDIC had the manual translated into Spanish and responses to the Spanish language version of the manual have been positive.

Enforcement Actions

The FDIC, along with the other federal banking agencies, released the *Interagency Statement on Enforcement of BSA/AML Requirements* on July 19, 2007. The statement provides for greater consistency in BSA enforcement decisions and offers insight into how those decisions were made. The statement describes the circumstances and provides examples under which the federal banking agencies will issue a cease and desist order. Applicable statutes mandate that the appropriate agency shall issue a cease and desist order if a regulated institution fails to establish and maintain a BSA compliance program or correct a previously identified problem with its BSA compliance program.

Promoting Economic Inclusion

The FDIC pursued a number of initiatives in 2007 to promote inclusion of traditionally underserved populations in banking services and to ensure protection of consumers in the provision of these services.

The Advisory Committee for Economic Inclusion

The FDIC Advisory Committee on Economic Inclusion (ComE-IN) was established by Chairman Sheila C. Bair and the FDIC Board of Directors pursuant to the Federal Advisory Committee Act. The ComE-IN was chartered in November 2006, and provides the FDIC with advice and recommendations on important initiatives focused on expanding access to banking services by underserved populations.

Three ComE-IN meetings were held during 2007. The inaugural meeting addressed access to affordable small dollar loans. One recommendation that resulted was to launch a small dollar loan pilot program. The Board of Directors of the FDIC subsequently approved a two-year pilot project to review affordable and responsible small-dollar loan programs in financial institutions. The purpose of the study is to identify effective and replicable

business practices to help banks incorporate affordable small-dollar loans into their other mainstream banking service offerings. Best practices resulting from the pilot will be identified and become a resource for other institutions.

The second meeting addressed the subprime mortgage situation, how it developed and possible solutions. The third meeting covered ways to ensure safe, available services for the money services businesses and examined their access to the banking system.

Alliance for Economic Inclusion

In 2007, the FDIC formally launched the Alliance for Economic Inclusion (AEI), a broad-based coalition of banks, community organizations, foundations, educators, and local, state and federal agencies in nine underserved markets across the nation – the Greater Boston area; Wilmington, DE; Baltimore, MD; South Texas (Houston/Austin);

Chicago; the Louisiana and Mississippi Gulf Coast; Alabama's Black Belt; Kansas City; and Los Angeles. These diverse markets include low- and moderate-income neighborhoods, urban neighborhoods, minority communities and rural areas. The goal of the AEI initiative is to work with financial institutions and other partners in select markets to bring those who are unbanked and underserved into the financial mainstream. More than 700 banks and other organizations have joined the AEI. Under the auspices of the AEI, approximately 28,000 bank accounts have been opened; 29,000 consumers have received financial education; 41 banks are developing small dollar loan programs; and 21 banks now offer remittance products allowing customers to send money to friends or family members outside the U.S.

The FDIC has also included a component of its foreclosure prevention efforts within the AEI. An AEI partnership with NeighborWorks® America to promote foreclosure prevention and education was announced on July 13, 2007. Since July, both NeighborWorks® America and FDIC have conducted more than 28 local outreach and training events. These events were designed to provide assistance to NeighborWorks® Centers for Foreclosure Solutions and other local organizations in developing and implementing strategies to educate at-risk homeowners about the availability of foreclosure prevention counseling services and other



Members of the FDIC Advisory Committee on Economic Inclusion and speakers discuss money services businesses and the problem of access to banks.

resources. Each of the nine AEI coalitions is also coordinating foreclosure prevention efforts to provide support and expand local foreclosure prevention programs already underway within their communities.

Additionally, FDIC reviewed its supervisory guidance and determined that the *Case Managers Manual* and the *Risk Management Manual of Examination Policies* should be revised to ensure that they encourage economic inclusion consistent with safe and sound banking practices.

Affordable Small-Dollar Loan Guidelines and Pilot Program

Many consumers with bank accounts turn to high-cost payday or other non-bank lenders because they are accessible and can quickly provide small loans to cover unforeseen circumstances. To help enable insured institutions to better serve an underserved and potentially profitable market while helping consumers avoid, or transition away from, reliance on high-cost debt, the FDIC issued its *Affordable Small-Dollar Loan Guidelines* on June 19, 2007. The guidelines explore several aspects of product development, including affordability and streamlined underwriting. They also discuss tools, such as financial education and linked savings accounts that may address long-term financial issues that concern borrowers. The guidelines also note that FDIC-supervised institutions

offering products that comply with consumer protection laws, and are structured in a responsible, safe and sound manner, may receive favorable consideration under the Community Reinvestment Act (CRA).

Additionally, on June 19, 2007, the FDIC Board approved a two-year pilot project to review affordable and responsible small-dollar loan programs in financial institutions and assist bankers by identifying and disseminating information on replicable business models for small-dollar loans. The pilot project with banks near military installations that was planned for 2007 will be included in this effort. A web site was developed to provide information on the pilot and participant banks were recruited for the study. Participants applied and twenty-nine were selected in 2007. During 2008, participating institutions will be asked to provide summary data to the FDIC about the loans in the program, the overall value and profitability of the program, and the benefit to consumers. Information collected will be highlighted in FDIC publications and speeches. A final report is planned for 2010.



Michael Krimminger, FDIC Special Advisor for Policy, offers details of a proposed pilot project to expand availability of reasonably priced small-dollar loans as CFO Steve App looks on.

Home Mortgage Disclosure Act

The winter 2007 edition of *Supervisory Insights* contained the article "Using the HMDA Pricing Data to Identify and Analyze Outliers." The article describes the process used by the FDIC for loan review and analysis at institutions that, based on an initial screening of Home Mortgage Disclosure Act (HMDA) data, have pricing practices that are potentially discriminatory. The article offers suggestions to bankers and examiners gleaned from analyses of two years of HMDA pricing data.

Economic Inclusion Surveys

During 2007, the FDIC also commenced work on two surveys intended to provide extensive new data regarding economic inclusion. Both of these survey efforts are related to a mandate in section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 requiring the FDIC to conduct a survey of FDIC-insured institutions every two years regarding their efforts to serve the unbanked. The first of these surveys, the

Survey of Banks' Efforts to Serve the Unbanked and Underbanked, will be conducted during 2008 and is expected to yield significant insight about bank efforts to serve unbanked and underbanked populations. The FDIC is also exploring the feasibility of conducting a survey of U.S. households to estimate the percentage of the U.S. population that is unbanked and underbanked. The survey is scheduled to be conducted in January 2009 as a supplement to the Bureau of the Census's Current Population Survey. It is expected to yield significant new data on the extent of the population that is unbanked and/or underbanked and the reasons why some households do not make greater use of traditional banking services.

Overdraft Protection Programs Study

Over the last few years, the use of automated overdraft protection programs has significantly risen. The banking regulators published guidance on these programs in 2005. The Federal Reserve amended Regulation DD in 2006 to encompass additional disclosure and advertising requirements for certain types of automated overdraft protection programs.

With little empirical data on these programs, the FDIC has initiated a two-part Study of Overdraft Protection Programs to systematically gather information about the types, characteristics and usage of overdraft programs offered by FDIC-supervised banks. This effort will help the FDIC more fully understand this rapidly growing and changing product. The study results should help the industry develop more effective overdraft programs that better serve customers.

Information is being gathered through a survey instrument and a download of account and transaction level data requested from banks. Using the survey instrument, field staff is gathering information at 500 randomly selected institutions. The survey will gather information on how overdraft protection is offered to the public as well as how banks manage non-sufficient funds (NSF) items and programs. A data download is being requested from up to 100 institutions to gather 12 months of customer-level micro data on NSF and overdraft activity.

This study will continue through 2008 and once it has been completed, the FDIC plans to make the findings and aggregate information public. (No personally identifiable information will be gathered and no individual bank information will be published.) The FDIC will use this information to better formulate future policy decisions.

Minority Depository Institutions

The FDIC has long recognized the importance of minority depository institutions (MDIs), particularly in promoting the economic viability of minority and under-served communities. As a reflection of the FDIC's commitment to MDIs, on April 9, 2002, the FDIC issued the *Policy Statement Regarding Minority Depository Institutions*. The policy statement implements an outreach program designed to preserve and encourage minority ownership of financial institutions.

Since the adoption of the policy by the Board, the FDIC's National Coordinator for MDIs has maintained contact with various MDI trade associations and has met periodically with the other federal banking regulators to discuss the initiatives underway at the FDIC. The coordinator has worked to identify opportunities where the federal banking agencies might work together to assist minority institutions. Since the adoption of the policy statement, all of the FDIC regional offices have held annual MDI outreach programs, have annually contacted each FDIC-supervised MDI to offer to meet with bank boards to discuss issues of interest, and have offered to make return visits to these institutions following the examination process.

The FDIC's Minority Bankers' Roundtable series is a forum designed to, among other things, explore possible partnerships between the MDI community and the FDIC, as well as to seek input on how the FDIC can better promote the availability of technical assistance to the MDI segment of the industry. From the 2006 Roundtable sessions evolved ideas for two partnerships that were piloted during 2007. The first initiative, a "University Partnerships" pilot, is designed to do the following:

- Promote financial literacy at Historically Black Colleges and Universities (HBCUs) or other schools with a significant minority population;

- Provide the partnering MDI and the FDIC an opportunity to keep the business school deans aware of current industry issues and to build goodwill on campus; and
- Offer both the MDI and the FDIC an opportunity to showcase their respective career opportunities.

The second 2007 Roundtable initiative involved partnering with the Puerto Rico Bankers Association to deliver a high-level specialized Compliance School. This event took place from November 6-9, 2007, in San Juan, Puerto Rico, and was attended by 150 bankers. This type of partnership was the first for the FDIC and was consistent with the goal of increasing usage of FDIC technical assistance.

In July 2007, the FDIC hosted the second annual National Minority Depository Institution Conference in Miami, Florida. This event was coordinated on an interagency basis and drew approximately 170 attendees. In addition to presentations by senior officials from all of the federal banking regulatory authorities, the program covered these topics: Broadening Access to the Financial Mainstream, Opportunities for NeighborWorks[®] America and Minority Community Bankers, and Capital Enhancement and Investment Opportunities, including a presentation on the Community Development Financial Institution Fund. The program also included workshops on Information Technology, BSA Emerging Issues, Compliance and CRA Hot Topics, and the Revised Interagency Policy Statement on the Allowance for Loan and Lease Losses. Feedback from the attendees was overwhelmingly positive. A third annual interagency conference is planned for 2008.

Other FDIC MDI accomplishments for 2007 include the following:

- Updating the examiner guidance memorandum "Minority Depository Institution Program";
- Inviting minority bankers to speak at regional examiner training conferences to foster a better understanding by the examiners of the unique challenges MDIs face;
- Making improvements to the FDIC's external website to better organize and provide easier access to MDI information; and
- Developing a survey that was sent to all MDIs on December 21, 2007, to provide all MDIs, including those not supervised by the FDIC, an opportunity to rate the effectiveness of the FDIC's MDI program, FDIC-sponsored conferences and roundtables, outreach efforts, and technical and general assistance. The survey results and comments will be used to improve our current efforts and to develop MDI initiatives going forward.

Homeland Security

The FDIC has taken a leadership role in ensuring that the financial sector – a critical part of the infrastructure of the United States – is prepared for a financial emergency. As a member of the Financial and Banking Information Infrastructure Committee (FBIIC), the FDIC has sponsored a series of outreach meetings titled "Protecting the Financial Sector: A Public and Private Partnership."

Information Technology, Cyber Fraud and Financial Crimes

The FDIC and other FFIEC regulatory agencies jointly issued guidance requiring financial institutions to strengthen account access credentials in an effort to curb online fraud and protect both consumer and commercial Internet banking customers. The guidance required the implementation of stronger authentication for most institutions on or before January 1, 2007. FDIC examiners tracked and reported on compliance with the guidance during various examination activities in 2007. Details collected suggest that an overwhelming majority (94 percent) of the institutions have complied with the provisions of the guidance. Most of the remaining institutions have plans to comply. Industry feedback suggests that stronger authentication has reduced online Internet banking-related fraud through more secure access credential management practices.

Other major accomplishments during 2007 in combating identity theft included the following:

- Assisted financial institutions in identifying and shutting down approximately 1,400 "phishing" Web sites. The term "phishing" – as in fishing for confidential information – refers to a scam that encompasses fraudulently obtaining and using an individual's personal or financial information.
- Issued 323 Special Alerts to FDIC-supervised institutions of reported cases of counterfeit or fraudulent bank checks.

- Participated on the President's Identity Theft Task Force and five of its primary subgroups. The FDIC was one of seventeen federal agencies that participated. The Task Force submitted its report to the President on April 11, 2007. The report contains a comprehensive description of the problem as well as numerous recommendations concerning what the federal government and private industry can do to mitigate this serious problem. Since the report was submitted to the President, the FDIC continues to participate in several Task Force subgroups that are performing additional research on specific aspects of identity theft and plan to submit additional recommendations to the President in the spring of 2008.
- The FDIC, in addition to the other federal banking agencies and the Federal Trade Commission, published a final identity theft red flag regulation and guidelines on November 9, 2007. The regulation and guidelines implement sections 114 and 315 of the Fair and Accurate Credit Transactions Act of 2003. Compliance is expected by November 1, 2008.

Consumer Complaints and Inquiries

The FDIC investigates consumer complaints about FDIC-supervised institutions and answers inquiries from the public about consumer protection laws and banking practices. In 2007, the FDIC received 11,624 written complaints, of which 4,457 were against state nonmember institutions. The Corporation responded to over 93 percent of these complaints within timeliness standards established by corporate policy. The FDIC also responded to 3,656 written and 3,321 telephone inquiries from consumers regarding state nonmember institutions. Overall in 2007, the FDIC handled 5,856 consumer telephone calls from the public and members of the banking community about consumer protection issues not including deposit insurance inquiries which are discussed on the following page.

Deposit Insurance Education

An important part of the FDIC's role in insuring deposits and protecting the rights of depositors is ensuring that bankers and consumers have access to accurate information about the FDIC's deposit insurance rules. The FDIC has an extensive deposit insurance education program consisting of seminars for bankers, electronic tools for estimating deposit insurance coverage, and written and electronic information targeted for both bankers and consumers. The FDIC also responds to thousands of telephone and written inquiries each year from consumers and bankers regarding FDIC deposit insurance coverage.

Effective October 12, 2006, the FDIC Board of Directors adopted final rules that implemented provisions of the Federal Deposit Insurance Reform Act of 2005 pertaining to deposit insurance coverage. Following the adoption of the final rule changes, the FDIC completed a multi-pronged effort in 2007 to update numerous publications and educational tools for consumers and bankers on FDIC insurance coverage, including consumer brochures, banker resource guides, videos and the Electronic Deposit Insurance Estimator.

To address current questions and issues relating to changes in the FDIC insurance coverage of deposit accounts, the FDIC hosted two identical series of telephone seminars for bankers on the FDIC's rules for deposit insurance coverage – one series in October and one in November. Each series consisted of topics on Basic Concepts of Deposit Insurance Coverage, Coverage for Retirement and Employee Benefit Plan Accounts, Trust Account Coverage, and Coverage for Business and Government Accounts. The seminars were designed to provide bankers with a comprehensive review of the FDIC's rules for deposit insurance coverage. These free seminars were open to employees of all FDIC-insured banks and savings associations. The telephone conferences were attended by bankers in approximately 11,000 locations. Many of these locations represent bank branch offices where multiple employees took part in the training.

The FDIC coordinated with bank trade associations to conduct seven comprehensive seminars for financial institution employees on the rules for deposit insurance coverage. These seminars, which were conducted in classroom settings throughout the United States, provided a comprehensive review of how FDIC insurance works, including the 2006 changes to the FDIC's final rules for insurance coverage.

The FDIC also completed a comprehensive and authoritative resource guide for bankers, attorneys, financial advisors and similar professionals on the FDIC's rules and requirements for deposit insurance coverage of revocable and irrevocable trust accounts. The new trust guidebook will be published on the FDIC's Web site in the first quarter of 2008.

In 2007, the FDIC received over 119,000 telephone and written inquiries from consumers and bankers regarding federal insurance coverage of bank deposits. Of these inquiries, 4,125 required formal written responses, 98 percent of which were completed within timeliness standards established by corporate policy.

Financial Education and Community Development

In 2001, the FDIC – recognizing the need for enhanced financial education across the country – inaugurated its award-winning *Money Smart* curriculum, which is now available

in six languages, large print and Braille versions for individuals with visual impairments and a computer-based instruction version. Since its inception, over 1.4 million individuals (including approximately 200,000 in 2007) have participated in *Money Smart* classes and self-paced computer-based instruction. Approximately 163,000 of these participants have subsequently established new banking relationships. During 2007, the FDIC updated and enhanced the *Money Smart* curriculum and training tools. These changes included guidance on consumer-related concerns such as identity theft, remittances and how to assess mortgage product options.

In recognition that public schools are one of the best venues for reaching the next generation of consumers of all income levels, the FDIC embarked on a pilot project to expand its outreach and enhance the availability of the *Money Smart* financial curriculum in high schools. Over 339 schools, school systems and related entities have been contacted regarding the availability of *Money Smart*. Several hundred secondary school teachers and volunteers have been trained to deliver *Money Smart*. The FDIC also began work on developing a *Money Smart* curriculum for young adults.

The FDIC completed a major multi-year study in 2007 to evaluate the effectiveness of the *Money Smart* curriculum. The study, *A Longitudinal Evaluation of the Intermediate-term Impact of the Money Smart Financial Education Curriculum upon Consumers' Behavior and Confidence*, shows that the training can positively influence how people manage their finances. The survey

examines the impact of financial education on the behavior of a broad audience up to one year after completing the training. The goal was to measure, over time, not only whether trainees' knowledge of financial matters improved, and whether they intended to change their financial behaviors, but also whether, months after the training, they had actually acted on their intentions. Survey results indicate that those who took the *Money Smart* course were more likely to open deposit accounts, save money, use and adhere to a budget, and have increased confidence in their financial abilities when contacted 6 to 12 months after completing the course. A majority of those surveyed reported an increase in personal savings, a decrease in debt, a better understanding of financial principles, and an increased willingness to comparison shop for financial services.

During 2007, the FDIC also undertook over 195 community development, technical assistance and outreach activities. These activities were designed to promote awareness of investment opportunities to financial institutions, access to capital within communities, knowledge-sharing among the public and private sector, and wealth-building opportunities for families. Representatives throughout the financial industry and their stakeholders collaborated with the FDIC on a broad range of initiatives structured to meet local and regional needs for financial products and services, credit, asset-building, affordable housing, small business and micro-enterprise development and financial education.



Deposit insurers from an array of countries gathered at Virginia Square for the Strategic Planning and 18th Meeting of the Executive Council of the International Association of Deposit Insurers. Chairman Sheila C. Bair and Jean Pierre Sabourin, past Chairman of IADI, are in the front row, near the center.

International Outreach

During 2007, the FDIC focused its international programs and activities toward the goal of helping to build strong and effective systems for protecting depositors, supervising financial institutions and resolving failures. Efforts included arranging and conducting training sessions, technical assistance missions and foreign visits, leadership roles in international organizations, bilateral consultations with foreign regulators, and many other activities and consulting services.

The FDIC's strengthened international leadership role paved the way for the election of the FDIC's Vice Chairman to the position of President of the International Association of Deposit Insurers (IADI) and Chair of the IADI Executive Council. In addition, the Vice Chairman, as Chair of the IADI Training and Conference Standing Committee, developed and led the first-ever Executive Training Program, providing training to 35 IADI members from 27 countries. The FDIC was elected for the first time to serve on the Board of Directors for the

Association of Supervisors of Banks in the Americas (ASBA) and to represent the North American Region. The FDIC's leadership within ASBA included providing technical training to ASBA members on operational risk management and leading two working groups in developing ASBA guidance on key supervisory issues. The FDIC also established strong working relationships and presented at several European Forum of Deposit Insurers (EFDI) meetings, including the EFDI/IADI Joint Symposium on Cross Border Issues.

The FDIC continued to enhance the effectiveness and broaden the scope and impact of its three primary international programs – technical assistance, foreign visitors and training. The FDIC provided technical assistance to 12 central banks, bank supervisors and deposit insurers from 11 countries. A highlight of this assistance was an expanded partnership with the Financial Services Volunteer Corp (FSVC) in supporting the Central Bank of Egypt in developing an

examiner commissioning program. The FDIC also provided critical technical assistance to Albania on resolution practices and the legal framework for establishing the backup financial support from the government to strengthen the deposit insurance safety net. In addition, the FDIC hosted 66 foreign country visits, including 417 foreign visitors from 28 countries. Noteworthy among these visits was the second U.S.-China Seminar on Bank Supervision, delegations representing parliament officials from South Africa, United Kingdom, Sweden and Italy, and an extended visit by board members and staff of the Nigerian Deposit Insurance Corporation. Lastly, 168 foreign students from 17 countries received training in examinations, financial institution analysis, loan analysis, examination management, information technology examination, and anti-money laundering and counter-terrorism financing.

The FDIC expanded relationships with key international banking and deposit insurance organizations by expanding the secondment program



At an August 2, 2007 press conference in Beijing, FDIC Chairman Sheila C. Bair and Governor Zhou of the People's Bank of China (PBC) formalized the international working relationship between the FDIC and the PBC by signing a Memorandum of Understanding.

(detailing staff from one country to another), technical assistance agreements and initiating new supervisory information sharing agreements. Secondment Memoranda of Understanding (MOU) were entered into with Japan, Albania, Poland, Nicaragua, and Korea to allow for selected employees from these countries to come to the FDIC to receive training and gain expertise in areas of supervision, resolution management and deposit insurance. Technical assistance agreements were executed with the People's Bank of China and the U.K. Financial Services Authority, providing FDIC subject matter expertise in promoting deposit insurance best practices. Notable examples of forging strong relationships with key countries included the FDIC Chairman's visits to China, Japan and South Korea, the Vice Chairman's visits to Malaysia, Turkey and other IADI- and EFDI-member countries and the Chief Operating Officer's visits to Russia, China and the United Kingdom. The FDIC also entered into supervisory information sharing MOUs with Brazil, Argentina, the Netherlands, and Australia.

Receivership Management

The FDIC has the unique mission of protecting depositors of insured banks and savings associations. No depositor has ever experienced a loss on the insured amount of his or her deposit in an FDIC-insured institution due to a failure. Once an institution is closed by its chartering authority – the state for state-chartered institutions, the Office of the Comptroller of the Currency (OCC) for national banks and the Office of Thrift Supervision (OTS) for federal savings associations – and the FDIC is appointed receiver, it is responsible for resolving the failed bank or savings association. The FDIC gathers data about the troubled institution, estimates the potential loss to the insurance fund from various resolution alternatives, solicits and evaluates bids from potential acquirers (if any), and recommends the least-costly resolution method to the FDIC's Board of Directors for approval.

Resolving Financial Institutions Failures

During 2007, three FDIC-insured institutions failed. The accompanying chart provides liquidation highlights and trends for the past three years. No federally-insured financial institution failures occurred in either 2005 or 2006.

Metropolitan Savings Bank in Pittsburgh, Pennsylvania, was the first FDIC-insured institution closed since June 2004. This institution was closed by the Pennsylvania Department of Banking on February 2, 2007. At the time of closure, Metropolitan had total assets of \$15.3 million and total deposits of \$17.5 million with \$925 thousand in deposits that exceeded the federal deposit insurance limit. Allegheny Valley Bank of Pittsburgh, Pennsylvania, paid the FDIC a premium of six percent on assumed deposits of approximately \$12.3 million and purchased certain assets in the form of cash equivalents, securities, and loans secured by deposits for \$1.9 million. The estimated cost to the DIF is \$2.5 million.

Liquidation Highlights 2005-2007

Dollars in billions

	2007	2006	2005
Total Institutions Resolved	3	0	0
Assets of Resolved Institutions	\$ 2.34	\$ 0.00	\$ 0.00
Net Collections from Assets in Liquidation*	\$ 1.25	\$ 0.17	\$ 0.37
Total Assets in Liquidation*	\$ 0.91	\$ 0.35	\$ 0.44
Total Dividends Paid*	\$ 1.65	\$ 0.17	\$ 0.44
Savings Over Cost of Liquidation*	\$.36	\$ 0	\$ 0

*Includes activity from thrifts resolved by the former Federal Savings and Loan Insurance Corporation and the Resolution Trust Corporation.

*Least Cost Test Savings. The least cost test is performed prior to resolution to rank order the various resolution alternatives by estimated cost to the Deposit Insurance Fund.

NetBank of Alpharetta, Georgia, was closed by the Office of Thrift Supervision on September 28, 2007. NetBank was an Internet bank and had no physical branches. At the time of closure, NetBank had total assets of \$2.2 billion and total deposits of \$1.94 billion with \$94.5 million in deposits that exceeded the federal deposit insurance limit. Uninsured depositors received an immediate dividend of 50 percent of their uninsured balance. ING Bank, FSB, Wilmington, Delaware, assumed \$1.38 billion of the failed bank's insured non-brokered deposits for a one percent premium and purchased \$464 million of NetBank's assets. The estimated cost to the DIF is \$107.7 million.

Miami Valley Bank of Lakeview, Ohio, was closed by the Ohio Superintendent of Financial Institutions on October 4, 2007. At the time of closure, Miami Valley had total assets of \$92.6 million and total deposits of \$65 million with \$3.9 million in deposits that exceeded the federal deposit insurance limit. The Citizens Banking Company, Sandusky, Ohio, assumed \$56.4 million of the failed bank's insured deposits for a two percent premium and purchased \$9 million of Miami Valley's assets. The estimated cost to the DIF is \$3 million.

Receivership Management Activities

The FDIC, as receiver, manages the failed banks and their subsidiaries with the goal of expeditiously winding up their affairs. The oversight and prompt termination of receiverships help to preserve value for the uninsured depositors and other creditors by reducing overhead and other holding costs. Once the assets of a failed institution have been sold and the final distribution of any proceeds is made, the FDIC terminates the receivership estate. In 2007, the number of receiverships under management was reduced by 22 percent (from 55 to 43), while the book value of assets under management increased by 158 percent (from \$352 million to \$907 million).

For the institutions that failed in 2007, the FDIC successfully contacted all known qualified and interested bidders to market these institutions. Additionally, the FDIC marketed 90 percent of the marketable assets of these institutions at the time of failure and made insured funds available to all depositors within one business day of the failure.

Receivership-Related Securities Disposition and Cash Collections

A total of 56 securities, including mortgage-backed securities, swap agreements, corporate bonds and common stock, were managed throughout the year or were sold, with cash collections from sales and management totaling approximately \$29 million.

Claims Administration System and Related Notice of Proposed Rulemaking

During 2007, the FDIC identified requirements and completed the high-level design of a new insurance determination system called the Claims Administration System, targeted to be implemented in 2009. The FDIC also issued a Notice of Proposed Rulemaking that, in the event of a financial institution failure, would require all insured institutions, regardless of size to assist in the insurance determination process and to provide the FDIC with depositor data in a standard format. In both 2005 and 2006, the FDIC had issued Advance Notices of Proposed Rulemaking on this topic.

Asset Servicing Technology Enhancement Project

In 2007, the Asset Servicing Technology Enhancement Project (ASTEP) implemented a new asset management system called 4C. This effort takes advantage of new technology and replaces several outdated systems. The 4C system currently supports the management of receivership loans, real estate, securities, and other assets. It also provides a data warehouse. On May 8, 2007, the FDIC Board of Directors approved funding for the inclusion of the institution franchise and the asset marketing functions in the 4C system. 4C will be completed in late 2008 allowing the FDIC to more efficiently market financial institution franchises, manage and sell the assets of failed banks, and to easily report on these activities.

Protecting Insured Depositors

Although the FDIC's focus in recent years has shifted from resolving large numbers of failed institutions to addressing existing and emerging risks in insured depository institutions, the FDIC continues to protect deposits in institutions that fail. The FDIC's ability to attract healthy institutions to assume deposits and purchase assets of failed banks and savings associations at the time of failure minimizes the disruption to customers and allows some assets to be returned to the private sector immediately. Assets remaining

after resolution are liquidated by the FDIC in an orderly manner and the proceeds are used to pay creditors, including depositors whose accounts exceeded the \$100,000 (or \$250,000) insurance limit. During 2007, the FDIC paid dividends of \$64.3 million to depositors whose accounts exceeded the insured limit(s).

Professional Liability Recoveries

The FDIC staff works to identify potential claims against directors and officers, accountants, appraisers, attorneys and other professionals who may have contributed to the failure of an insured financial institution. Once a claim is deemed meritorious and cost effective to pursue, the FDIC initiates legal action against the appropriate parties. During the year, the FDIC recovered approximately \$47.1 million from these professional liability claims. In addition, as part of the sentencing process for those convicted of criminal wrongdoing against institutions that later failed, a court may order a defendant to pay restitution or to forfeit funds or property to the receivership. The FDIC, working in conjunction with the U.S. Department of Justice, collected more than \$5.3 million in

criminal restitution during the year. At the end of 2007, the FDIC's caseload was comprised of nine professional liability lawsuits (up from 8 at year-end 2006), 34 open investigations (up from 2), and 93 active settlement collections (down from 97). At year end, there were 687 active restitution and forfeiture orders (down from 814). This includes 357 Resolution Trust Corporation orders that the FDIC inherited on January 1, 1996.

Effective Management of Strategic Resources

The FDIC recognizes that it must effectively manage its human, financial, and technological resources in order to successfully carry out its mission and meet the performance goals and targets set forth in its annual performance plan. The Corporation must align these strategic resources with its mission and goals and deploy them where they are most needed in order to enhance its operational effectiveness and minimize potential financial risks to the Deposit Insurance Fund. Major accomplishments in improving the Corporation's operational efficiency and effectiveness during 2007 follow.



Senator Bob Dole was guest speaker at the FDIC's Veteran's Day Program.

Human Capital Management

The FDIC's human capital management program is designed to attract, develop, reward and retain a highly skilled, cross-trained, diverse and results-oriented workforce. In 2007, the FDIC continued to implement workforce planning and development initiatives, as well as strategies to more fully engage employees in advancing the Corporation's mission.

Succession Management Strategies

Over the next decade, the FDIC expects to reshape its workforce in light of the projected retirements of a large proportion of its current employee base. In 2006, Corporation leadership developed several programs to plan for and address those retirements. These programs were designed to assess executive leadership bench strength, identify potential skill-set shortages or gaps, and institute strategies for closing these gaps.

During 2007, the FDIC began implementing a number of initiatives aimed at strengthening our human capital capabilities. First, senior leadership distributed a summary report of the findings of the 2006 Executive Manager (EM) talent review to all EMs. As a result of the review, several recommended succession planning initiatives are being pursued, and the talent review process will be cascaded down to capture Corporate Manager (CM) II leaders in the first quarter of 2008. Second, the Office of Personnel Management's management competency assessment tool was administered to all EMs and CMs to establish a baseline for identifying and closing leadership competency gaps. Finally, the Corporate Executive Development Program was launched with the selected high potential employees beginning an 18-month program of rotational assignments, mentoring and training that will prepare them to assume leadership roles in the Corporation as part of the succession plan. The FDIC will continue to pursue these and other succession management initiatives in 2008 and the years to come.

Employee Engagement

The FDIC continually evaluates its human capital programs and strategies to ensure that the Corporation remains an employer of choice and all employees are engaged and aligned with its mission. The 2006 Federal Human Capital Survey provided the FDIC with a baseline for employee satisfaction and engagement in a number of areas associated with working for the federal government and the FDIC, in particular. In reviewing the results released in early 2007, the Chairman established broad objectives for addressing areas of concern. She also launched an employee engagement initiative to include an employee survey that was more narrowly targeted to issues of importance to the FDIC and its employees. The 2007 employee engagement survey had an exceptional overall response rate of 77 percent, and focus groups were conducted to glean insights on causal factors underlying the 2007 survey results that highlighted areas needing improvement. Dialogues regarding the 2007 survey results will continue into 2008 and an action plan to implement recommendations will be developed. A principal benefit derived from this initiative and others is enhanced communication among employees and leadership in the Corporation.

Corporate Employee Program

During 2007, the FDIC continued its focus on new employee development through the Corporate Employee Program, which is the pipeline for new employees into the Corporation's business line divisions. The program provides a foundation across the full spectrum of the Corporation's business lines, allowing for greater flexibility to respond to changes in the financial services industry and in meeting the Corporation's staffing needs. At the end of 2007, 364 employees had entered the multi-year, multi-disciplined program.

Employee Learning and Growth

The FDIC implemented its Professional Learning Account Program, which emphasizes continuous employee learning and growth. It provides employees a greater role in planning their career development. Also, to further enhance the FDIC's readiness and flexibility, the internal certificate program was expanded during 2007 to include the areas of Bank Secrecy Act, Receivership Claims, Franchise and Asset Marketing, and Basic Compliance Examination functions. In addition, the FDIC continued its sponsorship of industry-recognized professional certifications such as Certified Anti-Money Laundering Specialist (CAMS); Certified Fraud Examiner (CFE); Certified Information Systems Auditor[®] (CISA[®]); Certified Regulatory Compliance Manager (CRCM); Chartered Financial Analyst[®] (CFA[®]); and Financial Risk Manager[®] (FRM[®]).

With the Corporation's increased focus on consumer protection, the Advanced Compliance Examination School (ACES) for commissioned compliance examiners was launched to address current and complex consumer compliance issues. The content of the online Examiner Continuing Education Program, which provides examiners access to a variety of risk management and compliance technical training offerings, was also expanded.

Information Technology Management

Information technology (IT) resources are one of the most valuable assets available to the FDIC in fulfilling its corporate mission. The FDIC continued to improve its IT administration and management practices in 2007.

Enterprise Architecture

The Corporation is committed to using IT to improve the operational efficiency of its business processes. In 2007, the IT program focused on establishing an economical enterprise architecture that supports effective IT systems portfolio management as well as security and privacy programs. This architecture, which is being implemented over a three-to five-year time frame, will provide for better accountability and transparency while offering service delivery efficiencies.

Internet Program

The FDIC's public Web site, www.fdic.gov, is a key communication delivery method for the FDIC. Each of the three major business lines – Insurance, Supervision, and Receivership Management – utilizes the Web site extensively. A Brown University research study released in July 2007 ranked the FDIC's Web site eighth in federal government Web sites, up from 27th last year. The FDIC's Web site was the highest ranked among all federal bank regulators. During a typical weekday, www.fdic.gov hosts approximately 30,000 user sessions. On October 5, 2007, a day after the Miami Valley Bank closing, the FDIC logged 157,986 user sessions. This was the largest single day usage for the Web site, representing a 500 percent increase in traffic and resulting in over 2.6 million hits to www.fdic.gov in a 24-hour period. To ensure the continued availability of this facility, the robustness and security of the Web site were improved during 2007.

Securing the FDIC

During 2007, many IT initiatives were undertaken to provide a more secure environment within the FDIC, including implementation of tools to combat the increasing levels of Internet and e-mail scams, conducting disaster recovery tests and updating the Corporation's disaster recovery plan, and conducting privacy and sensitive data walk-about inspections.

II. Financial Highlights

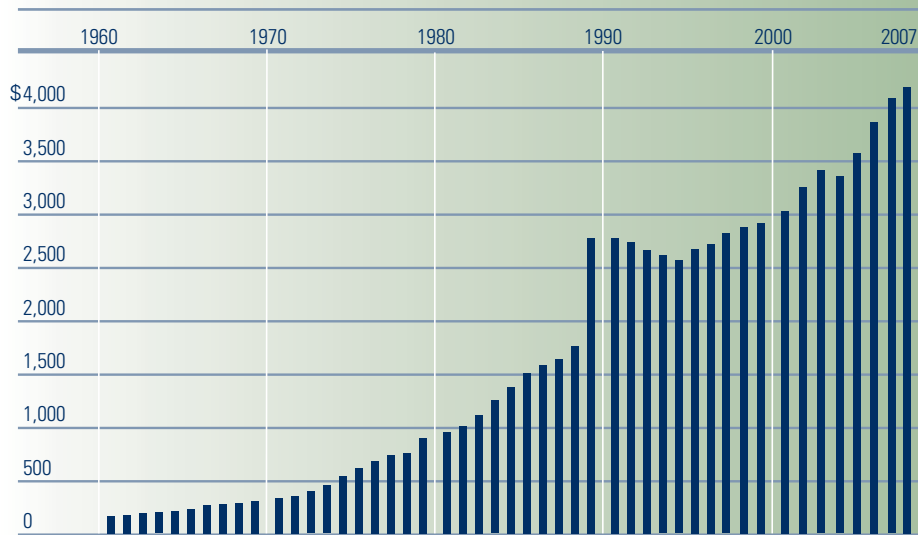
Deposit Insurance Fund Performance

The FDIC administers the Deposit Insurance Fund (DIF) and the FSLIC Resolution Fund (FRF), which fulfills the obligations of the former Federal Savings and Loan Insurance Corporation (FSLIC) and the former Resolution Trust Corporation (RTC). The following summarizes the condition of the DIF. (See the accompanying tables on FDIC-Insured Deposits and Insurance Fund Reserve Ratios on the following page.)

For the twelve months ending December, 31, 2007, DIF's comprehensive income totaled \$2.2 billion compared to \$1.6 billion for the previous year, an increase of 38 percent. Excluding the recognition of exit fees earned of \$345 million (a one-time adjustment) from the 2006 results, comprehensive income rose by \$1.02 billion, or 84 percent, from a year ago. This year-over-year increase was primarily due to a \$611 million increase in assessment revenue, a \$299 million increase in interest revenue, a \$298 million decrease in the unrealized loss on AFS securities, offset by a \$42 million increase in operating expenses and a \$147 million increase in the provision for insurance losses.

FDIC-DIF Insured Deposits (estimated 1960-2007)*

Dollars in billions



* All amounts are year-end except 2007 is at 9/30/07.

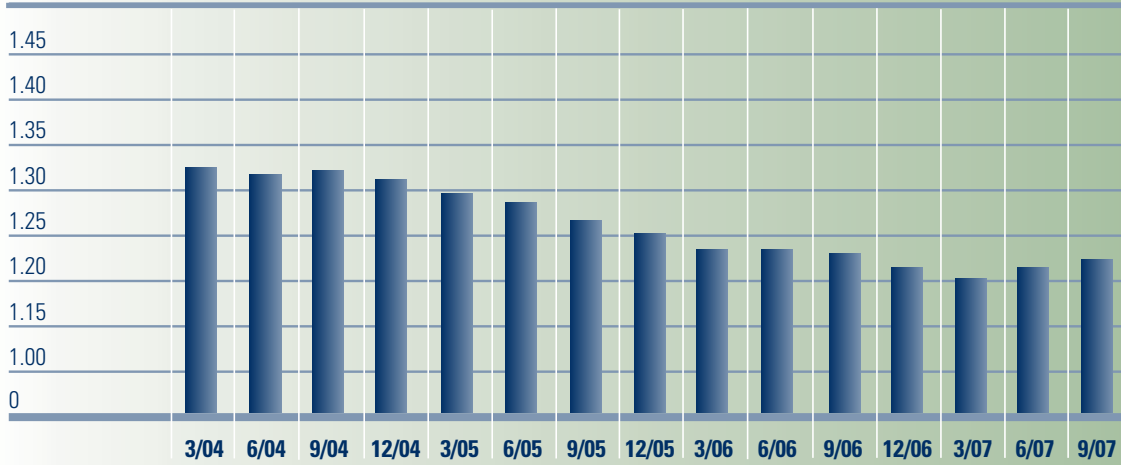
From 1989 through 2005, amounts represent the sum of separate Bank Insurance Fund and Savings Association Insurance Fund amounts.

Source: Commercial Bank Call Reports and Thrift Financial Reports.

The \$611 million increase in assessment revenue resulted from significant changes to the risk-based assessment system beginning in 2007 (see footnote 7 to DIF's financial statements for a detailed explanation). For 2007, DIF recognized \$643 million in assessment revenue representing \$3.7 billion in gross premiums due from insured depository institutions net of \$3.1 billion in assessment credits used. Assessment revenue increased from \$94 million in the first quarter to \$245 million in the fourth quarter.

The increased revenue each quarter primarily resulted from a reduction in the assessment credits used by financial institutions to offset gross assessments. This trend toward higher assessment income is expected to continue as institutions deplete their available credits. Of the \$4.7 billion in one-time assessment credits granted, \$1.6 billion (34 percent) remained as of December 31, 2007.

Deposit Insurance Fund Reserve Ratios (Fund Balances as a Percent of Estimated Insured Deposits)



Prior to 2007, amounts represent the sum of separate Bank Insurance Fund and Savings Association Insurance Fund amounts.

Selected Statistics Deposit Insurance Fund

Dollars in millions

	For the years ended December 31		
	2007	2006	2005
Financial Results			
Revenue	\$ 3,196	\$ 2,644	\$ 2,421
Operating Expenses	993	951	966
Insurance and Other Expenses (includes provision for loss)	98	(46)	(156)
Net Income	2,105	1,739	1,611
Comprehensive Income	2,248	1,569	1,090
Insurance Fund Balance	\$ 52,413	\$ 50,165	\$ 48,597
Fund as a Percentage of Insured Deposits (Reserve Ratio)	1.22% [▼]	1.21%	1.25%
Selected Statistics			
Total DIF-Member Institutions [•]	8,560 [▼]	8,680	8,833
Problem Institutions	65 [▼]	50	52
Total Assets of Problem Institutions	\$ 18,515 [▼]	\$ 8,265	\$ 6,607
Institution Failures	3	0	0
Total Assets of Current Year Failed Institutions	\$ 2,345	\$ 0	\$ 0
Number of Active Failed Institution Receiverships	22	25	27

[▼] As of September 30, 2007.

[•] Commercial banks and savings institutions. Does not include U.S. branches of foreign banks. For 2005, amounts represent sum of separate BIF and SAIF amounts.

Corporate Operating Budget Spending

The FDIC has had an exceptional record of controlling operating costs over the past five years, and 2007 was no exception. Corporate Operating Budget spending totaled \$1,002 million in 2007, including \$981.8 million for ongoing operations and \$19.7 million for receivership funding. During the five-year period from 2003 through 2007, the FDIC's annual Corporate Operating Budget spending declined from \$1,008 million to \$1,002 million, a reduction of \$6 million, or 0.6 percent, despite

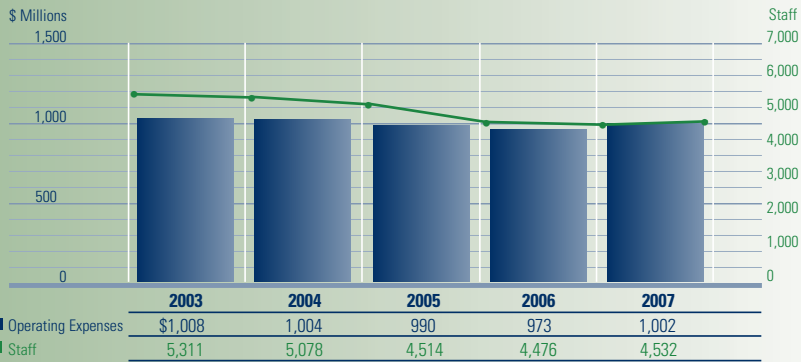
the effects of inflation on the FDIC's costs. That reduction was primarily attributable to significant reductions in staffing as well as a steady reduction in resolutions and receivership activities resulting from the historically low number of bank failures.

Cost Reductions Realized through Staff Reductions

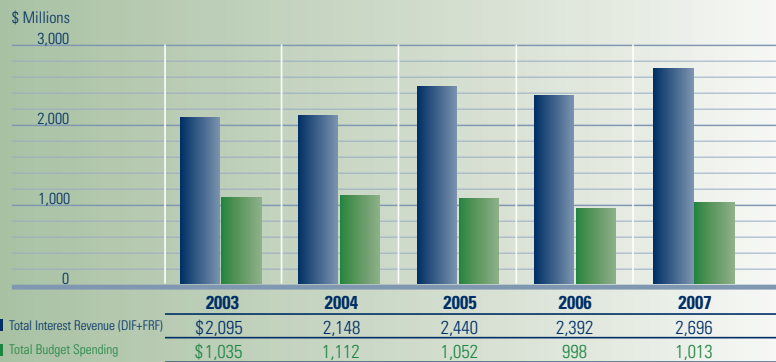
Salary and benefits costs represent more than 60 percent of the FDIC's annual Corporate Operating Budget. Because compensation costs are so significant, the FDIC has engaged in

a continuing effort to realign staffing to reflect reduced workload requirements as it has moved past the banking and thrift crisis. Total FDIC staffing fell from 5,430 at the beginning of 2003 to 4,532 at year-end 2007, a 17 percent reduction over five years. As a result, aggregate spending for salaries and benefits decreased by 4 percent, from \$666 million in 2003 to \$639 million in 2007, despite an increase of 16.9 percent in the salaries of individual employees during this period.

FDIC Staffing and Operating Budget Spending 2003-2007



Total Interest Revenue vs. Operating and Investment Budget Spending



A Continuing Record of Prudent Stewardship

Two comparisons illustrate the FDIC's prudent stewardship of the funds under management (DIF and FRF) over the past five years.

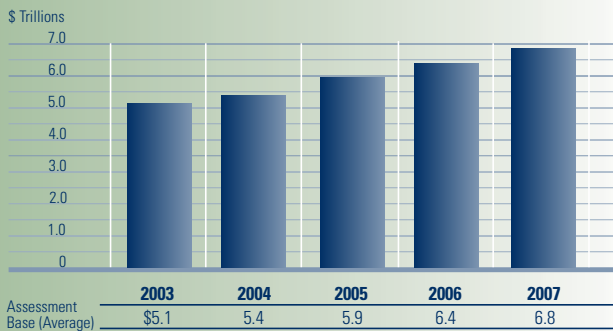
The FDIC relies primarily upon interest earned on the investment of the Deposit Insurance Fund for its operations. It is notable that the Corporation has reduced its operational spending even as the interest earned on the DIF (and its predecessor funds) has increased

significantly. As a result, the FDIC's annual spending has dramatically declined as a percentage of interest revenue on the DIF. The combined interest earned by the DIF and FRF grew to \$2,696 million in 2007 (\$2,540 million for DIF and \$156 million for FRF), while combined operating and investment budget spending fell to 37.6 percent of interest revenue, down from 49.4 percent in 2003.

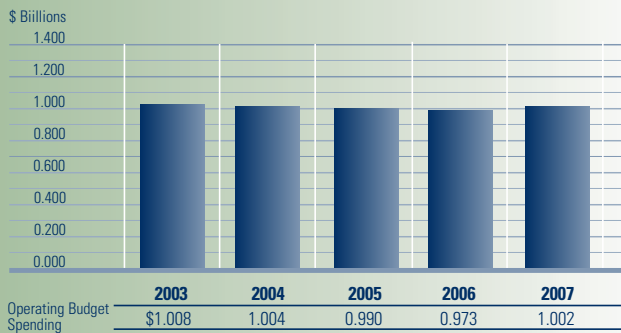
The Corporation's prudent stewardship of the DIF can also be seen when operating budget spending is compared to the growth of the industry over the past five years. The banking industry's deposit

insurance assessment base rose by approximately 33 percent during this period, from \$5.1 trillion in 2003 to approximately \$6.8 trillion in 2007. During that same period, the FDIC's operating budget spending decreased by 0.6 percent. As a result, the FDIC's operating budget spending represented only 0.0147 percent (approximately 1.5 basis points) of the average deposit insurance assessment base in 2007, compared to 0.0198 percent (approximately 2 basis points) of the average deposit insurance assessment base in 2003.

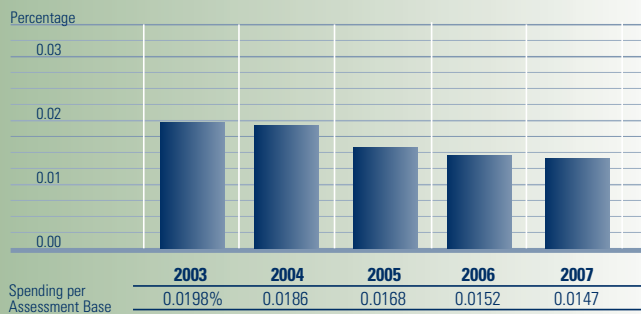
As the Assessment Base Increased . . .



Operating Budget Spending Declined, and as a Result . . .



Spending has Declined Significantly as a Percentage of the Assessment Base.



These comparisons demonstrate the good value provided to the banking industry through the FDIC's continuing commitment to prudent stewardship of the DIF.

2008 Corporate Operating Budget

Although its staffing realignment was essentially completed in 2006, the FDIC will continue to emphasize control of spending in 2008 and future years. In December 2007, the Board of Directors approved a 2008 Corporate Operating Budget of approximately \$1.142 billion, including \$1.067 billion for ongoing operations. The approved 2008 budget is 3.1 percent higher than the 2007 Corporate Operating Budget. This limited budget increase was required for negotiated employee pay increases and included funding for a number of major new initiatives, including additional staff for risk management and compliance examinations, as well as increased funding for resolution preparedness. The Corporation realigned its spending priorities and reduced costs in other areas to address these priority initiatives while limiting the size of the overall 2008 budget increase. In 2008 and future years, the FDIC will continue to rigorously review its workload and staffing and seek operational efficiencies through continuous improvement of its business processes.

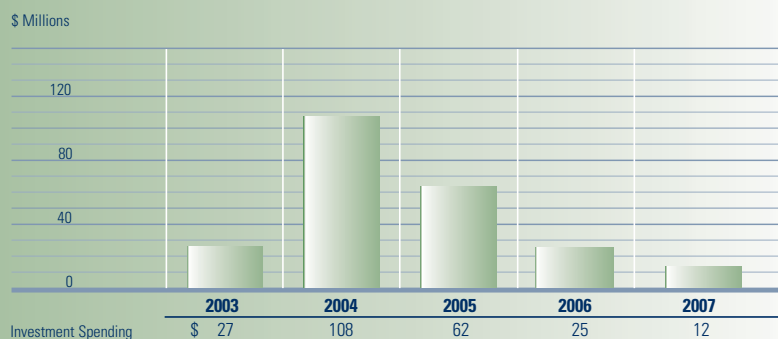
Investment Spending

The FDIC instituted a separate Investment Budget in 2003. It has a disciplined process for reviewing proposed new investment projects and managing the construction and implementation of approved projects. All of the projects in the current investment portfolio are major IT system initiatives. Proposed IT projects are carefully reviewed to ensure that they are consistent with the Corporation's enterprise architecture. The project approval and monitoring processes also enable the FDIC to be aware of risks to the major capital investment projects and facilitate appropriate, timely intervention to address these risks throughout the

development process. An investment portfolio performance review is provided to the FDIC's Board of Directors quarterly.

The Corporation undertook significant capital investments during the 2003-2007 period, including construction of a major expansion of its Virginia Square facility and the implementation of 11 major new IT systems. Investment spending totaled \$234 million during this period, peaking at \$108 million in 2004. Spending for investment projects in 2007 totaled approximately \$12 million. In 2008, investment spending is estimated to total \$17 million.

Investment Spending 2003-2007



III. Performance Results Summary

Summary of 2007 Performance Results by Program

The FDIC successfully achieved 44 of the 46 annual performance targets established in its 2007 Annual Performance Plan. Two performance targets were not applicable. One related to rulemaking for Basel IA and the other related to making a decision on pursuit of potential professional liability claims within 18 months of failure of a financial institution. There were no instances in which 2007 performance had a material adverse effect on successful achievement of the FDIC's mission or its strategic goals and objectives regarding its major program responsibilities.

Key accomplishments by program are highlighted in the table below.

Program Area	Performance Results
Insurance	<ul style="list-style-type: none">• Completed substantial modifications to the agency's information systems in order to implement statutory and regulatory changes to risk-based premiums and to track insurance assessment credit use and availability for each insured institution.• Issued proposed and final guidance on how the FDIC will determine the need for limited adjustments to risk-based assessment rates for large institutions.• Completed three studies required by the Federal Deposit Insurance Reform Conforming Amendments Act of 2005:<ul style="list-style-type: none">• An evaluation of further possible changes to the deposit insurance system;• An evaluation of the feasibility of using alternatives to estimated insured deposits for designating and calculating the insurance fund reserve ratio; and• A review of the Corporation's policies and practices in establishing contingent loss reserves.• Completed reviews of the recent accuracy of the contingent loss reserves.• Established a Designated Reserve Ratio of 1.25 percent for 2008, in accordance with the provisions of the deposit insurance reform legislation.• Issued an Advance Notice of Proposed Rulemaking (ANPR) seeking comments on alternative methods for allocating dividends in order to develop a permanent final rule to implement the dividend requirements of the Reform Act.• Provided seminars for bankers, developed a guide on deposit insurance of revocable and irrevocable trust accounts and disseminated educational information and tools to consumers and bankers on FDIC deposit insurance coverage limits.• Completed risk assessments for all large insured depository institutions and followed up on all identified concerns through off-site review and analysis.• Conducted and published analysis on the effects of Hurricanes Katrina and Rita.• Published economic and banking information and analyses, through the <i>FDIC Quarterly</i> and the Center for Financial Research <i>Working Papers</i>.• Successfully managed the three financial institution failures that occurred during 2007.

Program Area	Performance Results (continued)
Supervision and Consumer Protection	<ul style="list-style-type: none"> • Conducted 2,258 safety and soundness examinations, including required follow-up examinations of problem institutions, within prescribed time frames. • Conducted 1,773 compliance and Community Reinvestment Act examinations, including required follow-up examinations of problem institutions, within prescribed time frames. • Performed off-site reviews of 1,350 institutions. • Published Notices of Proposed Rulemaking for Basel II and IA, and continued other analytical and preparatory activities related to the implementation of these new capital regulations. • Completed advanced certification requirements for more than 10 percent of BSA/AML subject-matter experts. • Conducted over 179 outreach and technical assistance events for bankers and community groups to promote awareness of community investment opportunities, access to capital, knowledge-sharing between the public and private sectors, and wealth building opportunities for families. • Continued to disseminate the award-winning <i>Money Smart</i> financial education curriculum in multiple languages, adding 90 <i>Money Smart</i> Alliance members; contacting over 330 schools, school systems and government entities regarding the availability of curriculum; reaching approximately 72,765 individuals through train-the-trainer sessions and the self-paced computer based instruction.
Receivership Management	<ul style="list-style-type: none"> • Terminated 12 of the 55 (22 percent) failed financial institution receiverships existing at the beginning of the year. • Began work on a new Claims Administration System (to be fully implemented in 2009). • No institution reached the 18-month milestone for professional liability claims investigation in 2007.

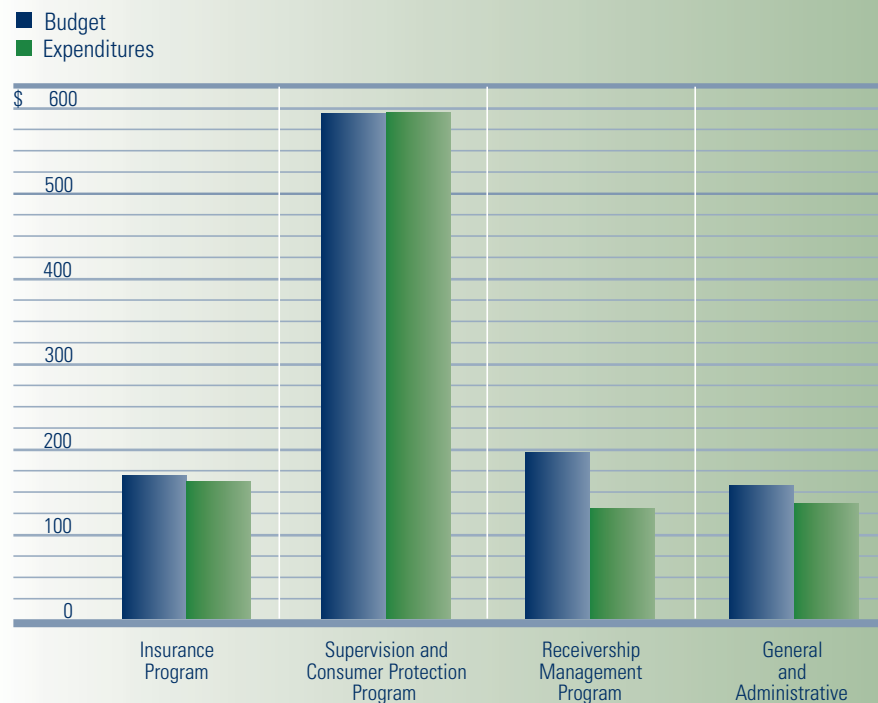
2007 Budget and Expenditures by Program (Excluding Investments)

The FDIC budget for 2007 totaled \$1.107 billion. Excluding \$155 million for Corporate General and Administrative expenditures, budget amounts were allocated to corporate programs and related goals as follows: \$166 million, or 15 percent, to the Insurance program; \$587 million, or 53 percent, to the Supervision and Consumer Protection program; and \$199 million, or 18 percent, to the Receivership Management program.

Actual expenditures for the year totaled \$1.002 billion. Excluding \$128 million for Corporate General and Administrative expenditures, actual expenditures were allocated to programs as follows: \$158 million, or 16 percent, to the Insurance program; \$589 million, or 59 percent, to the Supervision and Consumer Protection program; and \$127 million, or 13 percent, to the Receivership Management program.

2007 Budget and Expenditures (Support Allocated)

Dollars in Millions



Performance Results by Program and Strategic Goal

2007 Insurance Program Results

Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.

Annual Performance Goal	Indicator	Target	Results
1. Respond promptly to all financial institution closings and emerging issues.	Number of business days after institution failure that depositors have access to insured funds either through transfer of deposits to successor insured depository institution or depositor payout.	Provide access to insured funds in one business day if the failure occurs on a Friday. Provide access to insured funds in two business days if the failure occurs on any other day of the week.	Achieved. See pg. 29. Achieved. See pg. 29.
	Enhancement of FDIC capabilities to make a deposit insurance determination for a large-bank failure.	Review comments received in response to the 2006 Advance Notice of Proposed Rulemaking (ANPR) and publish a Notice of Proposed Rulemaking on Large-Bank Deposit Insurance Determination Modernization in 2007.	Achieved. See pg. 30.
	2. Identify and address risks to the Deposit Insurance Fund (DIF).	Insurance risks posed by large insured depository institutions.	Assess the insurance risks in 100 percent of insured depository institutions and adopt appropriate strategies.
Concerns referred for examination or other action.		Identify and follow up on 100 percent of material issues raised through off-site review and analysis.	Achieved. See pg. 40.
Emerging risks to the DIF.		Identify and review the emerging areas of risk, including mortgage lending, hedge funds, commercial real estate lending, derivatives, money laundering, illicit financial transactions and the international operations of insured depository institutions.	Achieved. See pgs. 14, 15, 20-21.
		Address potential risks from cross-border banking instability through coordinated review of critical issues and, where appropriate, agreements with key authorities.	Achieved. See pgs. 20, 21, 28.

2007 Insurance Program Results (continued)

Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.

Annual Performance Goal	Indicator	Target	Results
<p>3. Disseminate data and analyses on issues and risks affecting the financial services industry to bankers, supervisors, the public and other stakeholders.</p>	<p>Scope and timeliness of information dissemination on identified or potential issues and risks.</p>	<p>Results of research and analyses are disseminated in a timely manner through regular publications, ad hoc reports and other means.</p> <p>Industry outreach activities are undertaken to inform bankers and other stakeholders about current trends, concerns and other available FDIC resources.</p>	<p>Achieved. See pgs. 14, 15, 40.</p> <p>Achieved. See pgs. 21, 26.</p>
<p>4. Maintain and improve the deposit insurance system.</p>	<p>Implementation of deposit insurance reform.</p> <p>Loss reserves.</p> <p>Fund adequacy.</p>	<p>Implement the new deposit insurance pricing system.</p> <p>Complete and issue guidance on the pricing of deposit insurance for large banks.</p> <p>Publish an ANPR seeking comment on a permanent dividend system.</p> <p>Enhance the effectiveness of the reserving methodology by applying sophisticated analytical techniques to review variances between projected losses and actual losses, and by adjusting the methodology accordingly.</p> <p>Set assessment rates to maintain the insurance fund reserve ratio between 1.15 and 1.50 percent of estimated insured deposits.</p>	<p>Achieved. See pgs. 12-13.</p> <p>Achieved. See pgs. 12-13.</p> <p>Achieved. See pgs. 13, 40.</p> <p>Achieved. See pgs. 13, 40.</p> <p>Achieved. See pg. 40.</p>

2007 Insurance Program Results (continued)

Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.

Annual Performance Goal	Indicator	Target	Results
<p>5. Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts.</p>	<p>Timeliness of responses to insurance coverage inquiries.</p>	<p>Respond to 90 percent of inquiries from consumers and bankers about FDIC deposit insurance coverage within time frames established by policy.</p>	<p>Achieved. See pg. 27.</p>
	<p>Utility of educational tools available to bankers and consumers.</p>	<p>Publish a comprehensive and authoritative resource guide for bankers, attorneys, financial advisors and similar professionals on the FDIC's rules and requirements for deposit insurance coverage of revocable and irrevocable trust accounts.</p>	<p>Achieved. See pgs. 26-27.</p>
		<p>Conduct a series of national teleconferences for insured financial institutions to address current questions and issues relating to FDIC insurance coverage of deposit accounts.</p>	<p>Achieved. See pg. 26.</p>
<p>6. Expand and strengthen the FDIC's leadership role in providing technical guidance, training, consulting services and information to international governmental banking and deposit insurance organizations.</p>	<p>Scope of information sharing and assistance available to international banking and deposit insurance entities.</p>	<p>Undertake global outreach activities to inform and train foreign bank regulators and deposit insurers.</p>	<p>Achieved. See pgs. 28-29.</p>
		<p>Foster strong relationships with international banking regulators and associations that promote sound banking policies in order to provide leadership and guidance in global banking supervision and regulations, failure resolution and deposit insurance.</p>	<p>Achieved. See pgs. 28-29.</p>

2007 Supervision and Consumer Protection Program Results

Strategic Goal: FDIC-supervised institutions are safe and sound.

Annual Performance Goal	Indicator	Target	Results
1. Conduct on-site risk management examinations to assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions.	Percentage of required examinations conducted in accordance with statutory requirements and FDIC policy.	One hundred percent of required risk management examinations (including reviews of information technology (IT) and Bank Secrecy Act (BSA) compliance) are conducted on schedule.	Achieved. See pg. 16.
2. Take prompt and effective supervisory action to address issues identified during the FDIC examination of FDIC-supervised institutions that receive a composite Uniform Financial Institutions Rating of "4" or "5" (problem institutions). Monitor FDIC-supervised insured depository institutions' compliance with formal and informal enforcement actions.	Percentage of follow-up examinations of problem institutions conducted within required time frames.	One hundred percent of follow-up examinations are conducted within 12 months of completion of the prior examination.	Achieved. See pg. 16.
3. Increase regulatory knowledge to keep abreast of current issues related to money laundering and terrorist financing.	Certification of BSA/AML subject-matter experts.	An additional 10 percent of BSA/AML subject-matter experts nationwide are certified under the Association of Certified Anti-Money Laundering Specialists certification program.	Achieved. See pg. 21.
4. More closely align regulatory capital with risk in large or multinational banks while maintaining capital at prudential levels.	Continuation of preparatory activities related to the implementation of the new Basel Capital Accord (Basel II).	<p>Further develop the Basel II framework to ensure that it does not result in a substantial reduction in risk-based capital requirements or significant competitive inequities among different classes of banks. Consider alternative approaches for implementing the Basel Capital Accord.</p> <p>Participate in the continuing analysis of the projected results of the new capital regime.</p> <p>Promote international cooperation on the adoption of supplemental capital measures in countries that will be operating under Basel II.</p>	<p>Achieved. See pgs. 13-14.</p> <p>Achieved. See pg. 14.</p> <p>Achieved. See pg. 13.</p>

2007 Supervision and Consumer Protection Program Results (continued)

Strategic Goal: FDIC-supervised institutions are safe and sound.

Annual Performance Goal	Indicator	Target	Results
5. More closely align regulatory capital with risk in banks not subject to Basel II capital rules while maintaining capital at prudential levels.	Development of a revised capital framework proposal for institutions not subject to Basel II.	Complete rulemaking on Basel IA.	Not Applicable. See pg. 14.
6. Ensure that FDIC-supervised institutions that plan to operate under the new Basel II Capital Accord are well positioned to respond to new capital requirements.	Percentage of on-site examinations or off-site analyses performed.	On-site examinations or off-site analyses are performed for all FDIC-supervised banks that intend to operate under Basel II to ensure that they are effectively working toward meeting required qualification standards.	Achieved. See pg. 14.
7. Reduce regulatory burden on the banking industry while maintaining appropriate consumer protection and safety and soundness safeguards.	Implementation of regulatory burden reduction legislation.	Applicable provisions of the Financial Services Regulatory Relief Act of 2006 (FSRRA) are implemented in accordance with statutory requirements.	Partially Achieved. See pg. 18.
	Utilization of state anti-money laundering (AML) regulatory assessments of Money Service Businesses (MSBs) in FDIC risk management examinations.	Support is provided to the Government Accountability Office (GAO), as requested, for studies required under FSRRA. State AML assessments of MSBs are incorporated into FDIC risk management examinations in states where MSB AML regulatory programs are consistent with FDIC risk management standards.	Achieved. See pg. 18. Partially Achieved. See pg. 21.

Strategic Goal: Consumers' rights are protected and FDIC-supervised institutions invest in their communities.

Annual Performance Goal	Indicator	Target	Results
8. Conduct CRA and compliance examinations in accordance with the FDIC's examination frequency policy.	Percentage of examinations conducted in accordance with required time frames.	One hundred percent of required examinations are conducted within time frames established by FDIC policy.	Achieved. See pg. 16.

2007 Supervision and Consumer Protection Program Results (continued)

Strategic Goal: Consumers' rights are protected and FDIC-supervised institutions invest in their communities.

Annual Performance Goal	Indicator	Target	Results
9. Take prompt and effective supervisory action to monitor and address problems identified during compliance examinations of FDIC-supervised institutions that receive a "4" or "5" rating for compliance with consumer protection and fair lending laws.	Percentage of follow-up examinations or related activities conducted within required time frames.	One hundred percent of follow-up examinations or related activities are conducted within 12 months from the date of a formal enforcement action to confirm that the institution is in compliance with the enforcement action.	Achieved. See pg. 16.
10. Determine the need for changes in current FDIC practices for following up on actions on significant violations of consumer compliance laws and regulations identified during examinations of banks for compliance with consumer protection and fair lending laws.	Completion of analysis and evaluation of current practices.	An analysis is completed for all institutions on the prevalence and scope of repeat instances of significant violations from the previous compliance examination. A determination is made regarding the need for changes to current FDIC and FFIEC guidance on follow-up supervisory action on significant violations identified during compliance examinations, based on the substance and level of risk posed to consumers by these repeat violations.	Achieved. See pg. 17. Achieved. See pg. 17.
11. Effectively meet the statutory mandate to investigate and respond to consumer complaints about FDIC-supervised financial institutions.	Timely responses to written complaints.	Responses are provided to 90 percent of written complaints within time frames established by policy.	Achieved. See pg. 26.

2007 Supervision and Consumer Protection Program Results (continued)

Strategic Goal: Consumers' rights are protected and FDIC-supervised institutions invest in their communities.

Annual Performance Goal	Indicator	Target	Results
<p>12. Provide effective outreach and technical assistance on topics related to the CRA, fair lending, and community development.</p>	<p>Number of individuals taking a <i>Money Smart</i> class or using the self-paced curriculum.</p>	<p>200,000 additional individuals are taught using the <i>Money Smart</i> curriculum.</p>	<p>Achieved. See pg. 27.</p>
	<p>Dissemination of information that promotes expanded use of insured financial institutions by segments of the U.S. population that are currently underserved by those institutions.</p>	<p>120 school systems and government entities are contacted to make them aware of the availability of <i>Money Smart</i> as a tool to teach financial education to high school students.</p>	<p>Achieved. See pg. 27.</p>
	<p>Dissemination of information that promotes expanded use of insured financial institutions by segments of the U.S. population that are currently underserved by those institutions.</p>	<p>A review of existing risk management and compliance/ CRA examination guidelines and practices is completed to ensure that they encourage and support the efforts of insured financial institutions to foster economic inclusion, consistent with safe and sound banking practices.</p>	<p>Achieved. See pgs. 22-23.</p>
	<p>Dissemination of information that promotes expanded use of insured financial institutions by segments of the U.S. population that are currently underserved by those institutions.</p>	<p>A pilot project is conducted with banks near military installations to provide small-dollar loan alternatives to high-cost payday lending.</p>	<p>Not Achieved. See pg. 23.</p>
	<p>Dissemination of information that promotes expanded use of insured financial institutions by segments of the U.S. population that are currently underserved by those institutions.</p>	<p>Strategies are developed and implemented to encourage FDIC-supervised institutions to offer small-denomination loan programs.</p>	<p>Achieved. See pg. 23.</p>
	<p>Dissemination of information that promotes expanded use of insured financial institutions by segments of the U.S. population that are currently underserved by those institutions.</p>	<p>Research is conducted and findings disseminated on programs and strategies to encourage and promote broader economic inclusion within the nation's banking system.</p>	<p>Achieved. See pgs. 23-24.</p>
	<p>Number of outreach activities conducted, including technical assistance activities.</p>	<p>125 technical assistance (examination support) efforts or banker/community outreach activities are conducted related to CRA, fair lending, or community development.</p>	<p>Achieved. See pg. 27.</p>

2007 Receivership Management Program Results

Strategic Goal: Recovery to creditors of receivership is achieved.

Annual Performance Goal	Indicator	Target	Results
1. Market failing institutions to all known qualified and interested potential bidders.	List of qualified and interested bidders.	Contact all known qualified and interested bidders.	Achieved. See pg. 30.
2. Value, manage, and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return.	Percentage of failed institution's assets marketed.	Ninety percent of the book value of a failed institution's marketable assets are marketed within 90 days of failure.	Achieved. See pg. 30.
3. Manage the receivership estate and its subsidiaries toward an orderly termination.	Timely termination of new receiverships.	Terminate all receiverships within 90 days of the resolution of all impediments.	Achieved. See pgs. 30, 40.
4. Conduct investigations into all potential professional liability claim areas in all failed insured depository institutions and decide as promptly as possible to close or pursue each claim, considering the size and complexity of the institution.	Percentage of investigated claim areas for which a decision has been made to close or pursue the claim.	For 80 percent of all claim areas, a decision is made to close or pursue claims within 18 months of the failure date.	Not Applicable. No claims within the 18-month period. See pg. 41.

Prior Years' Performance Results

Refer to the respective full Annual Report of prior years for more information on performance results for those years. (Shaded area indicates no such target existed for that respective year.)

Insurance Program Results

Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.

Annual Performance Goals and Targets	2006	2005	2004
1. Respond promptly to all financial institution closings and emerging issues.			
If the failure occurs on a Friday, the target is one business day.	Not Applicable. No Failures.	Not Applicable. No Failures.	Achieved.
If a failure occurs on any other day of the week, the target is two business days.	Not Applicable. No Failures.	Not Applicable. No Failures.	Not Applicable. All failures occurred on a Friday.
Review comments received from the advance notice of proposed rulemaking on Large-Bank Deposit Insurance Determination Modernization, consult with stakeholders, and make a determination on how to proceed.	Achieved.		
2. Identify and address risks to the insurance funds.			
Assess the insurance risks in 100 percent of large insured depository institutions and adopt appropriate strategies.	Achieved.	Achieved.	Achieved.
Identify and follow up on 100 percent of issues raised through off-site review and analysis.	Achieved.		
Identify and follow up on 100 percent of referrals.		Achieved.	Achieved.
Analyses are included in regular publications or as ad hoc reports on a timely basis.			Achieved.
Conduct industry outreach activities aimed at the banking community and industry trade groups to discuss current trends and concerns and to inform bankers about available FDIC resources.			Achieved.
3. Maintain sufficient and reliable information on insured depository institutions.			
Implement a modernized Call Reporting process during the second Call Reporting period in 2005.		Not Achieved.	
Implement a modernized Call Reporting process by December 31, 2004.			Not Achieved.
4. Disseminate data and analyses on issues and risks affecting the financial services industry to bankers, supervisors, the public and other stakeholders.			
Results of research and analyses are disseminated in a timely manner through regular publications, ad hoc reports and other means.	Achieved.	Achieved.	
Industry outreach activities are undertaken to inform bankers and other stakeholders about current trends, concerns and other available FDIC resources.	Achieved.	Achieved.	

Insurance Program Results (continued)

Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.

Annual Performance Goals and Targets	2006	2005	2004
5. Maintain and improve the deposit insurance system.			
Develop and implement an assessment credit and dividends system and a new deposit insurance pricing system.	Achieved.		
Implement deposit insurance reform legislation in accordance with statutorily prescribed time frames.	Achieved.	Not Applicable. Legislation enacted Feb. 8, 2006.	Not Applicable. Legislation not enacted in 2004.
Provide information and analysis to Congressional committees in support of deposit insurance reform legislation.		Achieved.	Achieved.
Obtain legislative support for a proposed assessment credit and rebate system and a new deposit insurance pricing system.		Achieved.	Achieved.
Enhance the effectiveness of the reserving methodology by applying sophisticated analytical techniques to review variances between projected losses and actual losses, and by adjusting the methodology accordingly.	Achieved.	Achieved.	Achieved.
Set assessment rates to maintain the insurance fund reserve ratio between 1.15 and 1.50 percent of estimated insured deposits.	Achieved.		
Set assessment rates to maintain the insurance funds at the designated reserve ratio (DRR), or return them to the DRR if they fall below it, as required by statute.		Achieved.	Achieved.
When deposit insurance reform legislation is enacted, promulgate rules and regulations establishing criteria for replenishing the Deposit Insurance Fund when it falls below the low end of the range.		Not Applicable. Legislation enacted Feb. 8, 2006.	Not Applicable. Legislation not enacted in 2004.
Enhance the working prototype of the integrated fund model for financial risk management.		Achieved.	
Develop a working prototype of a new, integrated fund model for financial risk management.			Achieved.
Host conference, present findings from the study and obtain feedback from scholars and industry representatives and other interested parties.			Not Achieved.
Implement an FDIC Center for Financial Research with enhanced ties to the academic community.			Achieved.
Implement enhancements to the reserving process and methodology in accordance with recommendations from a comprehensive 2003 review.			Achieved.

Insurance Program Results (continued)

Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.

Annual Performance Goals and Targets	2006	2005	2004
<p>6. Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts.</p> <p>Update <i>Insuring Your Deposits</i> (basic deposit insurance brochure for consumers), <i>Your Insured Deposit</i> (comprehensive deposit insurance brochure), and EDIE (Electronic Deposit Insurance Estimator) on the FDIC Web site to reflect changes resulting from enactment of deposit insurance legislation.</p>	Achieved.		
Update the consumer version of the EDIE (Electronic Deposit Insurance Estimator) located on the FDIC's Web site.		Achieved.	
Develop and make available to the public an updated Spanish language version of EDIE reflecting deposit insurance reform.	Achieved.		
Develop and make available to the public a Spanish language version of the FDIC's 30-minute video on deposit insurance coverage.	Achieved.		
Respond to 90 percent of inquiries from consumers and bankers about FDIC deposit insurance coverage within time frames established by policy.	Achieved.		
Respond to 90 percent of written inquiries within time frames established by policy.	Achieved.		
Develop a CD-ROM and Internet-based resource for bankers on the deposit insurance rules.			Achieved.

Supervision and Consumer Protection Program Results

Strategic Goal: FDIC-supervised institutions are safe and sound.

Annual Performance Goals and Targets	2006	2005	2004
<p>1. Conduct on-site risk management examinations to assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions.</p> <p>One hundred percent of required risk management examinations (including a review for Bank Secrecy Act (BSA) compliance) are conducted on schedule.</p>	Achieved.	Achieved.	Achieved. (Excludes BSA.)

Supervision and Consumer Protection Program Results (continued)

Strategic Goal: FDIC-supervised institutions are safe and sound.

Annual Performance Goals and Targets	2006	2005	2004
<p>2. Take prompt and effective supervisory action to address issues identified during the FDIC examination of FDIC-supervised institutions that receive a composite Uniform Financial Institutions Rating of "4" or "5" (problem institutions.) Monitor FDIC-supervised insured depository institutions' compliance with formal and informal enforcement actions.</p> <p>One hundred percent of follow-up examinations are conducted within 12 months of completion of the prior examination.</p>	Achieved.	Achieved.	Achieved.
<p>3. Increase regulatory knowledge to keep abreast of current issues related to money laundering and terrorist financing.</p> <p>At least 10 percent of BSA/AML subject-matter experts nationwide are certified under the Association of Certified Anti-Money Laundering Specialists certification program.</p>	Achieved.		
<p>4. Increase industry and regulatory awareness of emerging/high-risk areas.</p> <p>The number of trained BSA/AML subject-matter experts increased to 300.</p> <p>Advanced training is completed for all BSA/AML subject-matter experts.</p> <p>At least one outreach session per region.</p>		Achieved.	
<p>5. More closely align regulatory capital with risk in large or multinational banks.</p> <p>Publish a Notice of Proposed Rulemaking (NPR).</p> <p>Participate in the continuing analysis of the projected results of the new capital regime.</p> <p>Notice of Proposed Rulemaking (NPR) and associated examination guidance for implementing the new Basel Capital Accord are published for comment.</p> <p>Quantitative Impact Study 4 is completed.</p>	Achieved.	Achieved.	
<p>6. More closely align regulatory capital with risk in banks not subject to Basel II capital rules.</p> <p>Develop a Notice of Proposed Rulemaking (NPR) for public issuance.</p>	Achieved.		
<p>7. Ensure that FDIC-supervised institutions that plan to operate under the new Basel Capital Accord are making satisfactory progress toward meeting required qualification standards.</p> <p>On-site examinations or off-site analyses are performed for all FDIC-supervised banks that intend to operate under Basel II to ensure that they are effectively working toward meeting required qualification standards.</p>	Achieved.	Achieved.	

Supervision and Consumer Protection Program Results (continued)

Strategic Goal: Consumers' rights are protected and FDIC-supervised institutions invest in their communities.

Annual Performance Goals and Targets	2006	2005	2004
<p>1. Conduct CRA and compliance examinations in accordance with the FDIC's examination frequency policy. One hundred percent of required examinations are conducted within time frames established by FDIC policy.</p>	Achieved.	Achieved.	Achieved.
<p>2. Take prompt and effective supervisory action to monitor and address problems identified during compliance examinations of FDIC-supervised institutions that received a "4" or "5" rating for compliance with consumer protection and fair lending laws. One hundred percent of follow-up examinations or related activities are conducted within 12 months from the date of a formal enforcement action to confirm that the institution is in compliance with the enforcement action.</p>	Achieved.	Achieved.	Achieved.
<p>3. Provide effective outreach and technical assistance on topics related to the CRA, fair lending, and community development.</p> <p>200,000 additional individuals are taught using the <i>Money Smart</i> curriculum.</p> <p>125 technical assistance (examination support) efforts or banker/ community outreach activities are conducted related to CRA, fair lending, or community development.</p> <p>200 additional members are added to the <i>Money Smart</i> Alliance.</p> <p>20,000 additional copies of the <i>Money Smart</i> curricula are distributed.</p>	Achieved.	Achieved.	Achieved.
<p>4. Effectively meet the statutory mandate to investigate and respond to consumer complaints about FDIC-supervised financial institutions. Responses are provided to 90 percent of written complaints within time frames established by policy.</p>	Achieved.	Achieved.	Achieved.

Receivership Management Program Results

Strategic Goal: Recovery to creditors of receivership is achieved.

Annual Performance Goals and Targets	2006	2005	2004
1. Market failing institutions to all known qualified and interested potential bidders. Contact all known qualified and interested bidders.	Not Applicable. No Failures.	Not Applicable. No Failures.	Achieved.
2. Value, manage, and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return. Ninety percent of the book value of a failed institution's marketable assets are marketed within 90 days of failure. Eighty-five percent of book value of a failed institution's marketable assets are marketed within 90 days of failure.	Not Applicable. No Failures.	Not Applicable. No Failures.	Achieved.
3. Manage the receivership estate and its subsidiaries toward an orderly termination. Terminate all receiverships within 90 days of the resolution of all impediments. Inactivate 75 percent of receiverships managed through the Receivership Oversight Program within three years of the failure date.	Achieved.	Not Achieved.	Achieved.
4. Conduct investigations into all potential professional liability claim areas in all failed insured depository institutions and decide as promptly as possible to close or pursue each claim, considering the size and complexity of the institution. For 80 percent of all claim areas, a decision is made to close or pursue claims within 18 months of the failure date.	Not Applicable. No Failures.	Achieved.	Achieved.

Program evaluations are designed to improve the operational effectiveness of FDIC's programs and ensure that objectives are met. These evaluations are often led by the Office of Enterprise Risk Management and are generally interdivisional, collaborative efforts involving management and staff from the affected program(s).

The Corporation's 2007 Annual Performance Plan contained several objectives aimed at ensuring that the FDIC would continue to address issues associated with implementation of Deposit Insurance Reform and continue its commitment to enhance systems security, privacy, and project management efforts. The following are the results of the Corporation's program evaluation activities for 2007.

The FDIC issued clarifying guidance on its authority to enforce conditions imposed in connection with deposit insurance applications, notices and requests. This guidance ensured consistency in reviewing proposals involving a change in bank control and the appropriateness of recommending conditions that are similar in nature and language to conditions imposed in deposit insurance applications.

The FDIC addressed several remaining Deposit Insurance Reform issues in 2007. Deposit Insurance Reform directly impacted the business process of assessments invoicing and collection, and forced major changes to the Assessment Invoice Management System (AIMS) and the FDIC*connect* interface. Significant upgrades were implemented in AIMS including a new pricing scheme, payment in arrears process, interim dividend process, one-time credit process, and a mechanism for tracking and reporting on the average deposit base.

In the third quarter of 2007, two Post Project Reviews (PPRs) were conducted. Their purpose is to improve the Corporation's future systems development efforts by reviewing recently implemented projects. Among the several significant reviews completed in 2007 were Phase Four of the Virtual Supervisory Information on the Net (ViSION) and the FDIC's New Financial Environment. PPRs currently underway include the Central Data Repository (CDR) and the Corporate Human Resources Information System Time and Attendance (CHRIS T&A). Both the CDR and CHRIS T&A PPRs are scheduled for completion in the first quarter of 2008.

In the area of systems security, the FDIC focused on mission-critical information systems and applications. The Corporation strengthened its procedures for securing and disposing of electronic data collected during examinations and using encryption to protect confidential/sensitive data. Further, the Corporation enacted measures to protect the privacy of personally-identifiable information (PII), including requiring mandatory Web-based privacy awareness training for employees and contractors, conducting Privacy Impact Assessments (PIAs) on systems identified as containing PII, and purging Social Security numbers from paper documents and automated systems files in certain program areas. The Corporation initiated a major security project during 2007 to review access to and to determine the continuing need for existing shared network folders. Those folders deemed necessary for ongoing operations will be reviewed for sensitive information and flagged with appropriate access rights. The remainder will be archived with restricted access. The first step of this project was completed in 2007 and resulted in access restrictions to domain users. The project will continue and be tracked as a Corporate Performance Objective in 2008.

The Corporation developed policies and procedures to ensure consistent implementation of and oversight for using Memoranda of Understanding and Interagency Agreements. This included expanding their use to promote the exchange of technical information with foreign banking authorities, foreign central banks and banking regulators.

Program evaluation activities in 2008 will focus on key corporate issues, including addressing privacy issues, shared folder access and security, and asset management. Of particular importance in 2008 is upgrading the FDIC's New Financial Environment, an integrated state-of-the-art financial management system.

Deposit Insurance Fund

Deposit Insurance Fund

Federal Deposit Insurance Corporation

Deposit Insurance Fund Balance Sheet at December 31

Dollars in Thousands

	2007	2006
Assets		
Cash and cash equivalents	\$ 4,244,547	\$ 2,953,995
<i>Investment in U.S. Treasury obligations, net: (Note 3)</i>		
Held-to-maturity securities	38,015,174	37,184,214
Available-for-sale securities	8,572,800	8,958,566
Assessments receivable, net (Note 7)	244,581	0
Interest receivable on investments and other assets, net	768,292	747,715
Receivables from resolutions, net (Note 4)	808,072	538,991
Property and equipment, net (Note 5)	351,861	376,790
Total Assets	\$ 53,005,327	\$ 50,760,271
Liabilities		
Accounts payable and other liabilities	\$ 151,857	\$ 154,283
Postretirement benefit liability (Note 11)	116,158	129,906
<i>Contingent liabilities for: (Note 6)</i>		
Anticipated failure of insured institutions	124,276	110,775
Litigation losses	200,000	200,000
Total Liabilities	592,291	594,964
<i>Commitments and off-balance-sheet exposure (Note 12)</i>		
Fund Balance		
Accumulated net income	52,034,503	49,929,226
Unrealized gain on available-for-sale securities, net (Note 3)	358,908	233,822
Unrealized postretirement benefit gain (Note 11)	19,625	2,259
Total Fund Balance	52,413,036	50,165,307
Total Liabilities and Fund Balance	\$ 53,005,327	\$ 50,760,271

The accompanying notes are an integral part of these financial statements.

Deposit Insurance Fund

Federal Deposit Insurance Corporation

Deposit Insurance Fund Statement of Income and Fund Balance for the Years Ended December 31

Dollars in Thousands

	2007	2006
Revenue		
Interest on U.S. Treasury obligations	\$ 2,540,061	\$ 2,240,723
Assessments (Note 7)	642,928	31,945
Exit fees earned (Note 8)	0	345,295
Other revenue	13,244	25,565
Total Revenue	3,196,233	2,643,528
Expenses and Losses		
Operating expenses (Note 9)	992,570	950,618
Provision for insurance losses (Note 10)	95,016	(52,097)
Insurance and other expenses	3,370	5,843
Total Expenses and Losses	1,090,956	904,364
Net Income		
	2,105,277	1,739,164
Unrealized gain/(loss) on available-for-sale securities, net (Note 3)	125,086	(172,718)
Unrealized postretirement benefit gain (Note 11)	17,366	2,259
Comprehensive Income	2,247,729	1,568,705
Fund Balance - Beginning	50,165,307	48,596,602
Fund Balance - Ending	\$ 52,413,036	\$ 50,165,307

The accompanying notes are an integral part of these financial statements.

Deposit Insurance Fund

Federal Deposit Insurance Corporation

Deposit Insurance Fund Statement of Cash Flows for the Years Ended December 31

Dollars in Thousands

	2007	2006
Operating Activities		
Net Income:	\$ 2,105,277	\$ 1,739,164
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of U.S. Treasury obligations	571,267	599,274
Treasury inflation-protected securities (TIPS) inflation adjustment	(313,836)	(109,394)
Depreciation on property and equipment	63,115	52,919
Loss on retirement of property and equipment	153	0
Provision for insurance losses	95,016	(52,097)
Terminations/adjustments of work-in-process accounts	0	433
Exit fees earned	0	(345,295)
Unrealized gain on postretirement benefits	17,366	0
Change in Operating Assets and Liabilities:		
Decrease in unamortized premium and discount of U.S. Treasury obligations (restricted)	0	1,359
(Increase) in assessments receivable, net	(244,581)	0
(Increase) in interest receivable and other assets	(20,442)	(14,635)
(Increase)/Decrease in receivables from resolutions	(350,309)	147,258
(Decrease) in accounts payable and other liabilities	(39,580)	(166,822)
(Decrease)/Increase in postretirement benefit liability	(13,748)	129,906
Increase in exit fees and investment proceeds held in escrow	0	3,639
Net Cash Provided by Operating Activities	1,869,698	1,985,709
Investing Activities		
Provided by:		
Maturity of U.S. Treasury obligations, held-to-maturity	6,401,000	5,955,000
Maturity of U.S. Treasury obligations, available-for-sale	1,225,000	845,000
Used by:		
Purchase of property and equipment	(1,607)	(11,721)
Purchase of U.S. Treasury obligations, held-to-maturity	(7,706,117)	(9,050,372)
Purchase of U.S. Treasury obligations, available-for-sale	(497,422)	0
Net Cash Used by Investing Activities	(579,146)	(2,262,093)
Net Increase/(Decrease) in Cash and Cash Equivalents	1,290,552	(276,384)
Cash and Cash Equivalents - Beginning	2,953,995	3,230,379
Cash and Cash Equivalents - Ending	\$ 4,244,547	\$ 2,953,995

The accompanying notes are an integral part of these financial statements.

Deposit Insurance Fund

Notes to the Financial Statements

December 31, 2007
and 2006

1 Legislation and Operations of the Deposit Insurance Fund

Overview

The Federal Deposit Insurance Corporation (FDIC) is the independent deposit insurance agency created by Congress in 1933 to maintain stability and public confidence in the nation's banking system. Provisions that govern the operations of the FDIC are generally found in the Federal Deposit Insurance (FDI) Act, as amended, (12 U.S.C. 1811, *et seq*). In carrying out the purposes of the FDI Act, as amended, the FDIC insures the deposits of banks and savings associations (insured depository institutions), and in cooperation with other federal and state agencies promotes the safety and soundness of insured depository institutions by identifying, monitoring and addressing risks to the deposit insurance fund. An active institution's primary federal supervisor is generally determined by the institution's charter type. Commercial and savings banks are supervised by the FDIC, the Office of the Comptroller of the Currency, or the Federal Reserve Board, while thrifts are supervised by the Office of Thrift Supervision.

The Deposit Insurance Fund (DIF) was established on March 31, 2006, as a result of the merger of the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). The FDIC is the administrator of the DIF and the FSLIC Resolution Fund (FRF). These funds are maintained separately to carry out their respective mandates.

The DIF is an insurance fund responsible for protecting insured bank and thrift depositors from loss due to institution failures. The FRF is a resolution fund responsible for the sale of remaining assets and satisfaction of liabilities associated with the former Federal Savings and Loan Insurance Corporation (FSLIC) and the Resolution Trust Corporation.

Recent Legislation

The Federal Deposit Insurance Reform Act of 2005 (Title II, Subtitle B of Public Law 109-171, 120 Stat. 9) and the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (Public Law 109-173, 119 Stat. 3601) were enacted in February 2006. Pursuant to this legislation (collectively, the Reform Act), the BIF and the SAIF were merged as discussed above. Additionally, as a result of the Reform Act, the FDIC immediately increased coverage for certain retirement accounts to \$250,000 and required the deposit of funds into the DIF for SAIF-member exit fees that had been restricted and held in escrow. Furthermore, the Reform Act: 1) provides the FDIC with greater discretion to charge insurance assessments and to impose more sensitive risk-based pricing; 2) annually permits the designated reserve ratio to vary between 1.15 and 1.50 percent of estimated insured deposits, thereby eliminating the statutorily fixed designated reserve ratio of 1.25 percent; 3) generally requires the declaration and payment of dividends from the DIF if the reserve ratio of the DIF equals or exceeds 1.35 percent of estimated insured deposits at the end of a calendar year; 4) grants a one-time assessment credit for each eligible insured depository institution or its successor based on an institution's proportionate share of the aggregate assessment base

of all eligible institutions at December 31, 1996; and 5) allows the FDIC to increase all deposit insurance coverage, under certain circumstances, to reflect inflation every five years beginning January 1, 2011. See Note 7 for additional discussion on the reforms related to Assessments.

Operations of the DIF

The primary purpose of the DIF is to: 1) insure the deposits and protect the depositors of DIF-insured institutions and 2) resolve DIF-insured failed institutions upon appointment of FDIC as receiver in a manner that will result in the least possible cost to the DIF.

The DIF is primarily funded from: 1) interest earned on investments in U.S. Treasury obligations and 2) deposit insurance assessments. Additional funding sources, if necessary, are borrowings from the U.S. Treasury, Federal Financing Bank, Federal Home Loan Banks, and insured depository institutions. The FDIC has borrowing authority from the U.S. Treasury up to \$30 billion and a Note Purchase Agreement with the Federal Financing Bank not to exceed \$40 billion to enhance DIF's ability to fund deposit insurance obligations.

A statutory formula, known as the Maximum Obligation Limitation (MOL), limits the amount of obligations the DIF can incur to the sum of its cash, 90 percent of the fair market value of other assets, and the amount authorized to be borrowed from the U.S. Treasury. The MOL for the DIF was \$83.6 billion and \$79.7 billion as of December 31, 2007 and 2006, respectively.

Receivership Operations

The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receivership entities, and the claims against them, are accounted for separately from DIF assets and liabilities to ensure that receivership proceeds are distributed in accordance with applicable laws and regulations. Accordingly, income and expenses attributable to receiverships are accounted for as transactions of those receiverships. Receiverships are billed by the FDIC for services provided on their behalf.

2 Summary of Significant Accounting Policies

General

These financial statements pertain to the financial position, results of operations, and cash flows of the DIF and are presented in conformity with U.S. generally accepted accounting principles (GAAP). These statements do not include reporting for assets and liabilities of closed banks and thrifts for which the FDIC acts as receiver. Periodic and final accountability reports of the FDIC's activities as receiver are furnished to courts, supervisory authorities, and others as required.

Use of Estimates

Management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such changes in estimates have been disclosed. The more significant estimates include the assessments receivable and associated revenue, the allowance for loss on receivables from resolutions, the estimated losses for anticipated failures and litigation, and the postretirement benefit obligation.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents consist primarily of Special U.S. Treasury Certificates.

Investment in U.S. Treasury Obligations

DIF funds are required to be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States; the Secretary of the U.S. Treasury must approve all such investments in excess of \$100,000. The Secretary has granted approval to invest DIF funds only in U.S. Treasury obligations that are purchased or sold exclusively through the Bureau of the Public Debt's Government Account Series (GAS) program.

DIF's investments in U.S. Treasury obligations are either classified as held-to-maturity or available-for-sale based on the FDIC's assessment of funding needs. Securities designated as held-to-maturity are shown at amortized cost. Amortized cost is the face value of securities plus the unamortized premium or less the unamortized discount. Amortizations are computed on a daily basis from the date of acquisition to the date of maturity, except for callable U.S. Treasury securities, which are amortized to the first call date. Securities designated as available-for-sale are shown at market value, which approximates fair value. Unrealized gains and losses are included in Comprehensive Income. Realized gains and losses are included in the Statement of Income and Fund Balance as components of Net Income. Income on both types of securities is calculated and recorded on a daily basis using the effective interest method.

Revenue Recognition for Assessments

Prior to 2007, insurance assessments were fully paid in advance on the last day of each quarter for the next quarter and recorded as unearned assessment revenue. One-third of the amount was recognized monthly as assessment income during the quarter in accordance with GAAP.

The Reform Act granted the FDIC discretion in the manner assessments are determined and collected from insured depository institutions. As a result, the FDIC now collects deposit insurance premiums at the end of the quarter following the period of insurance coverage. Consequently, assessment revenue for the insured period is recognized based on an estimate. The estimate is derived from an institution's risk-based assessment rate and assessment base for the prior quarter; adjusted for the current quarter's available assessment credits, any changes in supervisory examination and debt issuer ratings for larger institutions, and a modest deposit insurance growth factor.

The estimated revenue amounts are adjusted when actual premiums are collected at quarter end. Total assessment income recognized for the year includes estimated revenue for the October-December assessment period. See Note 7 for additional information on assessments.

Capital Assets and Depreciation

The FDIC buildings are depreciated on a straight-line basis over a 35 to 50 year estimated life. Leasehold improvements are capitalized and depreciated over the lesser of the remaining life of the lease or the estimated useful life of the improvements, if determined to be material. Capital assets depreciated on a straight-line basis over a five-year estimated life include mainframe equipment; furniture, fixtures, and general equipment; and internal-use software. Personal computer equipment is depreciated on a straight-line basis over a three-year estimated life.

Disclosure about Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, in September 2006. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. The Statement does not require any new fair value measurements. FDIC will adopt SFAS No. 157 effective January 1, 2008, on a prospective basis. Management does not expect the Statement to have a material impact on the financial statements.

Related Parties

The nature of related parties and a description of related party transactions are discussed in Note 1 and disclosed throughout the financial statements and footnotes.

Deposit Insurance Fund

3 Investment in U.S. Treasury Obligations, Net

As of December 31, 2007 and 2006, investments in U.S. Treasury obligations, net, were \$46.6 billion and \$46.1 billion, respectively. As of December 31, 2007, the DIF held \$9.6 billion of Treasury inflation-protected securities (TIPS). These securities are indexed to increases or decreases in the Consumer Price Index for All Urban Consumers (CPI-U). Additionally, the DIF held \$4.3 billion of callable U.S. Treasury bonds at December 31, 2007. Callable U.S. Treasury bonds may be called five years prior to the respective bonds' stated maturity on their semi-annual coupon payment dates upon 120 days notice.

U.S. Treasury Obligations at December 31, 2007

Dollars in Thousands

Maturity [•]	Yield at Purchase [▼]	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses [■]	Market Value
Held-to-Maturity						
U. S. Treasury notes and bonds						
Within 1 year	4.49%	\$ 5,600,000	\$ 5,651,699	\$ 30,313	\$ (469)	\$ 5,681,543
After 1 year thru 5 years	4.50%	12,920,000	13,310,856	416,031	0	13,726,887
After 5 years thru 10 years	4.81%	11,550,000	12,856,888	764,723	0	13,621,611
After 10 years	5.02%	3,500,000	4,626,945	286,889	0	4,913,834
U. S. Treasury inflation-protected securities						
Within 1 year	3.86%	258,638	258,620	349	0	258,969
After 1 year thru 5 years	3.16%	\$ 1,288,950	\$ 1,310,166	\$ 52,927	\$ 0	\$ 1,363,093
Total		\$ 35,117,588	\$ 38,015,174	\$ 1,551,232	\$ (469)	\$ 39,565,937

Available-for-Sale

U. S. Treasury notes and bonds						
After 1 year thru 5 years	4.79%	\$ 500,000	\$ 498,260	\$ 10,100	\$ 0	\$ 508,360
U. S. Treasury inflation-protected securities						
Within 1 year	3.92%	1,700,545	1,700,397	2,325	0	1,702,722
After 1 year thru 5 years	3.75%	6,004,277	6,015,235	346,483	0	6,361,718
Total		\$ 8,204,822	\$ 8,213,892	\$ 358,908	\$ 0	\$ 8,572,800

Total Investment in U.S. Treasury Obligations, Net

Total		\$ 43,322,410	\$ 46,229,066	\$ 1,910,140	\$ (469)	\$ 48,138,737
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[•] For purposes of this table, all callable securities are assumed to mature on their first call dates. Their yields at purchase are reported as their yield to first call date.

[▼] For TIPS, the yields in the above table are stated at their real yields at purchase, not their effective yields. Effective yields on TIPS include a long-term annual inflation assumption as measured by the CPI-U. The long-term CPI-U consensus forecast is 2.2 percent, based on figures issued by the Congressional Budget Office and *Blue Chip Economic Indicators* in early 2007.

[■] All unrealized losses occurred as a result of changes in market interest rates. FDIC has the ability and intent to hold the related securities until maturity. As a result, all unrealized losses are considered temporary. However, all of the \$469 thousand reported as total unrealized losses is recognized as unrealized losses occurring over a period of 12 months or longer with a market value of \$1.1 billion applied to the affected securities.

U.S. Treasury Obligations at December 31, 2006

Dollars in Thousands

Maturity*	Yield at Purchase [†]	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses [‡]	Market Value
Held-to-Maturity						
U. S. Treasury notes and bonds						
Within 1 year	4.58%	\$ 6,401,000	\$ 6,448,905	\$ 3,389	\$ (20,704)	\$ 6,431,590
After 1 year thru 5 years	4.47%	15,500,000	16,276,424	91,703	(196,635)	16,171,492
After 5 years thru 10 years	4.68%	9,025,000	9,690,085	36,025	(42,270)	9,683,840
After 10 years	5.01%	2,445,000	3,247,814	57,589	(3,227)	3,302,176
U. S. Treasury inflation-protected securities						
After 1 year thru 5 years	3.83%	926,751	926,844	21,185	0	948,029
After 5 years thru 10 years	2.41%	568,345	594,142	0	(778)	593,364
Total		\$ 34,866,096	\$ 37,184,214	\$ 209,891	\$ (263,614)	\$ 37,130,491
Available-for-Sale						
U. S. Treasury notes and bonds						
Within 1 year	3.85%	\$ 1,225,000	\$ 1,269,835	\$ 0	\$ (9,208)	\$ 1,260,627
U. S. Treasury inflation-protected securities						
After 1 year thru 5 years	3.80%	7,443,478	7,454,909	243,030	0	7,697,939
Total		\$ 8,668,478	\$ 8,724,744	\$ 243,030	\$ (9,208)	\$ 8,958,566
Total Investment in U.S. Treasury Obligations, Net						
Total		\$ 43,534,574	\$ 45,908,958	\$ 452,921	\$ (272,822)	\$ 46,089,057

* For purposes of this table, all callable securities are assumed to mature on their first call dates. Their yields at purchase are reported as their yield to first call date.

† For TIPS, the yields in the above table are stated at their real yields at purchase, not their effective yields. Effective yields on TIPS include a long-term annual inflation assumption as measured by the CPI-U. The long-term CPI-U consensus forecast is 2.2 percent, based on figures issued by the Congressional Budget Office and *Blue Chip Economic Indicators* in early 2006.

‡ All unrealized losses occurred as a result of changes in market interest rates. FDIC has the ability and intent to hold the related securities until maturity. As a result, all unrealized losses are considered temporary. However, of the \$273 million reported as total unrealized losses, \$237 million is recognized as unrealized losses occurring over a period of 12 months or longer with a market value of \$13.3 billion applied to the affected securities.

As of December 31, 2007 and 2006, the unamortized premium, net of the unamortized discount, was \$2.9 billion and \$2.4 billion, respectively.

4 Receivables From Resolutions, Net

The receivables from resolutions include payments made by the DIF to cover obligations to insured depositors, advances to receiverships for working capital, and administrative expenses paid on behalf of receiverships. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. Assets held by DIF receiverships are the main source of repayment of the DIF's receivables from closed banks and thrifts. As of December 31, 2007, there were 22 active receiverships, including three failures in the current year.

As of December 31, 2007 and 2006, DIF receiverships held assets with a book value of \$1.2 billion and \$655 million, respectively (including cash, investments, and miscellaneous receivables of \$363 million and \$348 million at December 31, 2007 and 2006, respectively). The estimated cash recoveries from the management and disposition of assets that are used to derive the allowance for losses are based on a sampling of receivership assets in liquidation. Sampled assets were generally valued by estimating future cash recoveries, net of applicable liquidation cost estimates, and then discounted using current market-based risk factors applicable to a given asset's type and quality. Resultant recovery estimates were extrapolated to the non-sampled assets in order to derive the allowance for loss on the receivable. Estimated asset recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic and market conditions. Such uncertainties could cause the DIF's actual recoveries to vary from current estimates.

Receivables From Resolutions, Net at December 31

Dollars in Thousands

	2007	2006
Receivables from closed banks	\$ 4,991,003	\$ 4,650,025
Allowance for losses	(4,182,931)	(4,111,034)
Total	\$ 808,072	\$ 538,991

As of December 31, 2007, the DIF allowance for loss was \$4.18 billion, representing 84 percent of the gross receivable. Of the remaining 16 percent of the gross receivable, the amount of credit risk is limited since 60 percent of the \$808 million net receivable will be repaid from receivership cash, investments, and a promissory note fully secured by a letter of credit. The majority of the remaining 40 percent will be repaid from assets classified as or supported by real estate mortgages. Although estimated asset recoveries are regularly evaluated, the impact of any additional credit risk exposure, due to ongoing conditions in the housing market, is uncertain at this time.

5 Property and Equipment, Net

Property and Equipment, Net at December 31

Dollars in Thousands

	2007	2006
Land	\$ 37,352	\$ 37,352
Buildings (including leasehold improvements)	276,626	284,871
Application software (includes work-in-process)	145,693	232,206
Furniture, fixtures, and equipment	71,138	145,635
Accumulated depreciation	(178,948)	(323,274)
Total	\$ 351,861	\$ 376,790

The depreciation expense was \$63 million and \$53 million for December 31, 2007 and 2006, respectively.

6 Contingent Liabilities for:

Anticipated Failure of Insured Institutions

The DIF records a contingent liability and a loss provision for DIF-insured institutions that are likely to fail within one year of the reporting date, absent some favorable event such as obtaining additional capital or merging, when the liability becomes probable and reasonably estimable.

The contingent liability is derived by applying expected failure rates and loss rates to institutions based on supervisory ratings, balance sheet characteristics, and projected capital levels. In addition, institution-specific analysis is performed on those institutions where failure is imminent absent institution management resolution of existing problems, or where additional information is available that may affect the estimate of losses. As of December 31, 2007 and 2006, the contingent liabilities for anticipated failure of insured institutions were \$124.3 million and \$110.8 million, respectively, including an estimated liability for one small institution that failed on January 25, 2008.

In addition to these recorded contingent liabilities, the FDIC has identified additional risk in the financial services industry that could result in an additional loss to the DIF should potentially vulnerable insured institutions ultimately fail. As a result of these risks, the FDIC believes that it is reasonably possible that the DIF could incur additional estimated losses up to approximately \$1.7 billion. The actual losses if any will largely depend on future economic and market conditions and could differ materially from this estimate.

Deposit Insurance Fund

During 2007, an increasingly difficult economic and credit environment challenged the soundness and profitability of some FDIC-insured institutions. The downturn in housing markets led to asset-quality problems and volatility in financial markets, which hurt banking industry performance and threatened the viability of some institutions that had significant exposure to higher risk residential mortgages. It is uncertain how long the effects of this downturn will last. While supervisory and market data suggest that the banking industry will continue to experience elevated levels of stress over the coming year, as of September 30, 2007, 99% of insured institutions met the highest regulatory capital (“well capitalized”) standard. The FDIC continues to evaluate the risks to affected institutions in light of evolving economic conditions; however, the impact of such risks on the insurance fund cannot be reasonably estimated at this time.

Litigation Losses

The DIF records an estimated loss for unresolved legal cases to the extent that those losses are considered probable and reasonably estimable. In addition to the \$200 million recorded as probable, the FDIC has determined that losses from unresolved legal cases totaling \$0.6 million are reasonably possible.

Other Contingencies

Representations and Warranties

As part of the FDIC’s efforts to maximize the return from the sale of assets from bank and thrift resolutions, representations and warranties, and guarantees were offered on certain loan sales. In general, the guarantees, representations, and warranties on loans sold relate to the completeness and accuracy of loan documentation, the quality of the underwriting standards used, the accuracy of the delinquency status when sold, and the conformity of the loans with characteristics of the pool in which they were sold. The total amount of loans sold subject to unexpired representations and warranties, and guarantees was \$8.1 billion as of December 31, 2007. There were no contingent liabilities from any of the outstanding claims asserted in connection with representations and warranties at December 31, 2007 and 2006, respectively.

In addition, future losses could be incurred until the contracts offering the representations and warranties, and guarantees have expired, some as late as 2032. Consequently, the FDIC believes it is possible that additional losses may be incurred by the DIF from the universe of outstanding contracts with unasserted representation and warranty claims. However, because of the uncertainties surrounding the timing of when claims may be asserted, the FDIC is unable to reasonably estimate a range of loss to the DIF from outstanding contracts with unasserted representation and warranty claims.

7 Assessments

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) required the FDIC to establish a risk-based assessment system, charging higher rates to those insured depository institutions that posed greater risks to the DIF. To arrive at a risk-based assessment for a particular institution, the FDIC placed each institution in one of nine risk categories based on capital ratios and supervisory examination data. Based on FDIC's evaluation of the institutions under the risk-based premium system and due to the limitations imposed by the Deposit Insurance Funds Act of 1996 (DIFA) and the health of the banking and thrift industries, most institutions were not charged an assessment for a number of years. In addition, the FDIC was required by statute to maintain the insurance funds at a designated reserve ratio (DRR) of not less than 1.25 percent of estimated insured deposits (or a higher percentage as circumstances warranted).

Effective January 1, 2007, the Reform Act continues to require a risk-based assessment system and allows the FDIC discretion in defining risk. By regulation, the FDIC has consolidated the number of assessment risk categories from nine to four. The four new categories continue to be defined based upon supervisory and capital evaluations. Other significant changes mandated by the Reform Act and the implementing regulations:

- require payment of assessments by all insured depository institutions, eliminating the restriction on assessments for the best-rated institutions;
- grant a one-time assessment credit of approximately \$4.7 billion to certain eligible insured depository institutions (or their successors) based on the assessment base of the institution as of December 31, 1996, as compared to the combined aggregate assessment base of all eligible institutions;
- establish a range for the DRR from 1.15 to 1.50 percent of estimated insured deposits and eliminate the fixed DRR of 1.25 percent. The FDIC is required to annually publish the DRR and has, by regulation, set the DRR at 1.25 percent for 2008. As of September 30, 2007, the DIF reserve ratio was 1.22% of estimated insured deposits;
- require the FDIC to adopt a DIF restoration plan to return the reserve ratio to 1.15 percent generally within five years, if the reserve ratio falls below 1.15 percent or is expected to fall below 1.15 percent within six months;
- require the FDIC to annually determine if a dividend should be paid, based on the statutory requirement generally to declare dividends if the reserve ratio exceeds 1.35 percent at the end of a calendar year. The Reform Act permits dividends for one-half of the amount required to maintain the reserve ratio at 1.35 percent when the reserve ratio is between 1.35 and 1.50 percent and all amounts required to maintain the reserve ratio at 1.50 percent when the reserve ratio exceeds 1.50 percent.

Deposit Insurance Fund

The assessment rate averaged approximately 5.4 cents and .05 cents per \$100 of assessable deposits for 2007 and 2006, respectively. At December 31, 2007, the "Assessments Receivable, net" line item of \$245 million represents the estimated gross premiums due from insured depository institutions for the fourth quarter of the year, net of \$708 million in estimated one-time assessment credits. The actual deposit insurance assessments for the fourth quarter will be billed and collected at the end of the first quarter of 2008. During 2007 and 2006, \$643 million and \$32 million were recognized as assessment income from institutions, respectively.

Assessments Revenue for the Year Ended December 31

Dollars in Thousands

	2007
Gross assessments	\$ 3,730,886
Less: One-time assessment credits applied	(3,087,958)
Assessments Revenue	\$ 642,928

Of the \$4.7 billion in one-time assessment credits granted, \$1.6 billion (34 percent) remained as of December 31, 2007. The use of assessment credits is limited to no more than 90 percent of the gross assessments for assessment periods that provide deposit insurance coverage in years 2008 through 2010. Credits are also restricted when the reserve ratio is less than 1.15 percent and for institutions that are not adequately capitalized or exhibit financial, operational or compliance weaknesses. The credits can only be used to offset future deposit insurance assessments and, therefore, do not represent a liability to the DIF. They are transferable among institutions, do not expire, and cannot be used to offset Financing Corporation (FICO) payments.

Assessments continue to be levied on institutions for payments of the interest on obligations issued by the FICO. The FICO was established as a mixed-ownership government corporation to function solely as a financing vehicle for the FSLIC. The annual FICO interest obligation of approximately \$790 million is paid on a pro rata basis using the same rate for banks and thrifts. The FICO assessment has no financial impact on the DIF and is separate from deposit insurance assessments. The FDIC, as administrator of the DIF, acts solely as a collection agent for the FICO. During 2007 and 2006, \$785 million and \$788 million, respectively, were collected and remitted to the FICO.

8 Exit Fees Earned

From the early to mid-1990s, the SAIF collected entrance and exit fees for conversion transactions when an insured depository institution converted from the BIF to the SAIF (resulting in an entrance fee) or from the SAIF to the BIF (resulting in an exit fee). The exit fees and interest earned were held in escrow pending determination of ownership. As a result, the SAIF did not recognize exit fees or any interest earned as revenue. The Reform Act removed the restriction on SAIF-member exit fees held in escrow and the funds were deposited into the general (unrestricted) fund of the DIF. The exit fees plus earned interest, a total of \$345 million, were recognized as revenue at their carrying value for 2006.

9 Operating Expenses

Operating expenses were \$993 million for 2007, compared to \$951 million for 2006. The chart below lists the major components of operating expenses.

Operating Expenses for the Years Ended December 31

Dollars in Thousands

	2007	2006
Salaries and benefits	\$ 640,294	\$ 619,452
Outside services	137,812	124,045
Travel	55,281	49,408
Buildings and leased space	61,377	65,929
Software/Hardware maintenance	28,542	27,139
Depreciation of property and equipment	63,115	52,919
Other	23,640	22,124
Services billed to receiverships	(17,491)	(10,398)
Total	\$ 992,570	\$ 950,618

10 Provision for Insurance Losses

Provision for insurance losses was a positive \$95 million for 2007 and a negative \$52 million for 2006. The following chart lists the major components of the provision for insurance losses.

Provision for Insurance Losses for the Years Ended December 31

Dollars in Thousands

	2007	2006
Valuation Adjustments		
Closed banks and thrifts	\$ 81,229	\$ (152,776)
Other assets	286	(4,230)
Total Valuation Adjustments	81,515	(157,006)
Contingent Liabilities Adjustments:		
Anticipated failure of insured institutions	13,501	105,409
Litigation losses	0	(500)
Total Contingent Liabilities Adjustments	13,501	104,909
Total	\$ 95,016	\$ (52,097)

11 Employee Benefits

Pension Benefits and Savings Plans

Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by the federal government retirement plans, either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Although the DIF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The DIF also does not have actuarial data for accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported on and accounted for by the U.S. Office of Personnel Management (OPM).

Eligible FDIC employees also may participate in a FDIC-sponsored tax-deferred 401(k) savings plan with matching contributions up to five percent. Under the Federal Thrift Savings Plan (TSP), FDIC provides FERS employees with an automatic contribution of 1 percent of pay and an additional matching contribution up to 4 percent of pay. CSRS employees also can contribute to the TSP. However, CSRS employees do not receive agency matching contributions.

Pension Benefits and Savings Plans Expenses for the Years Ended December 31

Dollars in Thousands

	2007	2006
Civil Service Retirement System	\$ 6,698	\$ 6,808
Federal Employees Retirement System (Basic Benefit)	40,850	38,915
FDIC Savings Plan	21,008	20,681
Federal Thrift Savings Plan	15,938	15,328
Severance Pay	59	39
Total	\$ 84,553	\$ 81,771

Postretirement Benefits Other Than Pensions

The DIF has no postretirement health insurance liability, since all eligible retirees are covered by the Federal Employees Health Benefit (FEHB) program. FEHB is administered and accounted for by the OPM. In addition, OPM pays the employer share of the retiree's health insurance premiums.

The FDIC provides certain life and dental insurance coverage for its eligible retirees, the retirees' beneficiaries, and covered dependents. Retirees eligible for life and dental insurance coverage are those who have qualified due to: 1) immediate enrollment upon appointment or five years of participation in the plan and 2) eligibility for an immediate annuity. The life insurance program provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. For the dental coverage, retirees are responsible for a portion of the dental premium.

The DIF has elected not to fund the postretirement life and dental benefit liabilities. As a result, the DIF recognized the underfunded status (difference between the accumulated postretirement benefit obligation and the plan assets at fair value) as a liability. Since there are no plan assets, the plan's benefit liability is equal to the accumulated postretirement benefit obligation. At December 31, 2007 and 2006, the liability was \$116.2 million and \$129.9 million, respectively, which is recognized in the "Postretirement benefit liability" line item on the Balance Sheet. The cumulative actuarial gains/losses (changes in assumptions and plan experience) and prior service costs/credits (changes to plan provisions that increase or decrease benefits) were \$19.6 million and \$2.3 million at December 31, 2007 and 2006, respectively. These amounts are reported as accumulated other comprehensive income in the "Unrealized postretirement benefit gain" line item on the Balance Sheet.

Deposit Insurance Fund

The DIF's expenses for postretirement benefits for 2007 and 2006 were \$7.2 million and \$9.0 million, respectively, which are included in the current and prior year's operating expenses on the Statement of Income and Fund Balance. The changes in the actuarial gains/losses and prior service costs/credits for 2007 and 2006 of \$17.4 million and \$2.3 million, respectively, are reported as other comprehensive income in the "Unrealized postretirement benefit gain" line item. Key actuarial assumptions used in the accounting for the plan include the discount rate of 6 percent, the rate of compensation increase of 3.45 percent, and the dental coverage trend rate of 6.10 percent. The discount rate of 6 percent is based upon rates of return on high-quality fixed income investments whose cash flows match the timing and amount of expected benefit payments. For the year ended December 31, 2007, the discount rate was increased by 1.25 percent from the rate used in 2006, resulting in a decrease in the benefit liability of \$24.3 million.

12 Commitments and Off-Balance-Sheet Exposure

Commitments:

Leased Space

The FDIC's lease commitments total \$63.7 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The DIF recognized leased space expense of \$22 million and \$30 million for the periods ended December 31, 2007 and 2006, respectively.

Leased Space Commitments

Dollars in Thousands

2008	2009	2010	2011	2012	2013/Thereafter
\$ 18,855	\$ 15,529	\$ 11,165	\$ 8,488	\$ 5,999	\$ 3,637

Off-Balance-Sheet Exposure:

Deposit Insurance

As of September 30, 2007, the estimated insured deposits for DIF were \$4.2 trillion. This estimate is derived primarily from quarterly financial data submitted by insured depository institutions to the FDIC. This estimate represents the accounting loss that would be realized if all insured depository institutions were to fail and the acquired assets provided no recoveries.

13 Disclosures About the Fair Value of Financial Instruments

Cash equivalents are short-term, highly liquid investments and are shown at fair value. The fair market value of the investment in U.S. Treasury obligations is disclosed in Note 3 and is based on current market prices. The carrying amount of interest receivable on investments, short-term receivables, and accounts payable and other liabilities approximates their fair market value, due to their short maturities and/or comparability with current interest rates.

The net receivables from resolutions primarily include the DIF's subrogated claim arising from payments to insured depositors. The receivership assets that will ultimately be used to pay the corporate subrogated claim are valued using discount rates that include consideration of market risk. These discounts ultimately affect the DIF's allowance for loss against the net receivables from resolutions. Therefore, the corporate subrogated claim indirectly includes the effect of discounting and should not be viewed as being stated in terms of nominal cash flows.

Although the value of the corporate subrogated claim is influenced by valuation of receivership assets (see Note 4), such receivership valuation is not equivalent to the valuation of the corporate claim. Since the corporate claim is unique, not intended for sale to the private sector, and has no established market, it is not practicable to estimate a fair market value.

The FDIC believes that a sale to the private sector of the corporate claim would require indeterminate, but substantial, discounts for an interested party to profit from these assets because of credit and other risks. In addition, the timing of receivership payments to the DIF on the subrogated claim does not necessarily correspond with the timing of collections on receivership assets. Therefore, the effect of discounting used by receiverships should not necessarily be viewed as producing an estimate of market value for the net receivables from resolutions.

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Balance Sheet at December 31

Dollars in Thousands

	2007	2006
Assets		
Cash and cash equivalents	\$ 3,617,133	\$ 3,616,466
Receivables from thrift resolutions and other assets, net (Note 3)	34,812	36,730
Receivables from U.S. Treasury for goodwill judgments (Note 4)	35,350	251,827
Total Assets	\$ 3,687,295	\$ 3,905,023
Liabilities		
Accounts payable and other liabilities	\$ 4,276	\$ 5,497
Contingent liabilities for litigation losses and other (Note 4)	35,350	279,327
Total Liabilities	39,626	284,824
Resolution Equity (Note 5)		
Contributed capital	127,417,582	127,453,996
Accumulated deficit	(123,769,913)	(123,833,797)
Total Resolution Equity	3,647,669	3,620,199
Total Liabilities and Resolution Equity	\$ 3,687,295	\$ 3,905,023

The accompanying notes are an integral part of these financial statements.

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statement of Income and Accumulated Deficit for the Years Ended December 31

Dollars in Thousands

	2007	2006
Revenue		
Interest on U.S. Treasury obligations	\$ 156,034	\$ 151,648
Other revenue	31,558	17,650
Total Revenue	187,592	169,298
Expenses and Losses		
Operating expenses	3,364	12,002
Provision for losses	(10,135)	(19,257)
Goodwill/Guarini litigation expenses (Note 4)	195,939	411,056
Recovery of tax benefits	(68,217)	(34,783)
Other expenses	2,757	2,783
Total Expenses and Losses	123,708	371,801
Net Income/(Loss)	63,884	(202,503)
Accumulated Deficit - Beginning	(123,833,797)	(123,631,294)
Accumulated Deficit - Ending	\$ (123,769,913)	\$ (123,833,797)

The accompanying notes are an integral part of these financial statements.

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statement of Cash Flows for the Years Ended December 31

Dollars in Thousands

	2007	2006
Operating Activities		
Net Income/(Loss)	\$ 63,884	\$ (202,503)
Adjustments to reconcile net income/(loss) to net cash (used by) operating activities:		
Provision for losses	(10,135)	(19,257)
Change in Operating Assets and Liabilities:		
Decrease in receivables from thrift resolutions and other assets	12,053	21,273
(Decrease) in accounts payable and other liabilities	(1,221)	(2,302)
(Decrease)/Increase in contingent liabilities for litigation losses and other	(243,977)	21,824
Net Cash Used by Operating Activities	(179,396)	(180,965)
Financing Activities		
Provided by:		
U.S.Treasury payments for goodwill litigation (Note 4)	405,063	194,728
Used by:		
Payments to Resolution Funding Corporation (Note 5)	(225,000)	0
Net Cash Provided by Financing Activities	180,063	194,728
Net Increase in Cash and Cash Equivalents	667	13,763
Cash and Cash Equivalents - Beginning	3,616,466	3,602,703
Cash and Cash Equivalents - Ending	\$ 3,617,133	\$ 3,616,466

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

December 31, 2007
and 2006

1 Legislative History and Operations/Dissolution of the FSLIC Resolution Fund

Legislative History

The Federal Deposit Insurance Corporation (FDIC) is the independent deposit insurance agency created by Congress in 1933 to maintain stability and public confidence in the nation's banking system. Provisions that govern the operations of the FDIC are generally found in the Federal Deposit Insurance (FDI) Act, as amended, (12 U.S.C. 1811, *et seq.*). In carrying out the purposes of the FDI Act, as amended, the FDIC insures the deposits of banks and savings associations, and in cooperation with other federal and state agencies promotes the safety and soundness of insured depository institutions by identifying, monitoring and addressing risks to the deposit insurance funds established in the FDI Act, as amended. In addition, FDIC is charged with responsibility for the sale of remaining assets and satisfaction of liabilities associated with the former Federal Savings and Loan Insurance Corporation (FSLIC) and the Resolution Trust Corporation (RTC).

The U.S. Congress created the FSLIC through the enactment of the National Housing Act of 1934. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) abolished the insolvent FSLIC, created the FSLIC Resolution Fund (FRF), and transferred the assets and liabilities of the FSLIC to the FRF—except those assets and liabilities transferred to the RTC—effective on August 9, 1989. Further, the FIRREA established the Resolution Funding Corporation (REFCORP) to provide part of the initial funds used by the RTC for thrift resolutions.

The RTC Completion Act of 1993 (RTC Completion Act) terminated the RTC as of December 31, 1995. All remaining assets and liabilities of the RTC were transferred to the FRF on January 1, 1996. Today, the FRF consists of two distinct pools of assets and liabilities: one composed of the assets and liabilities of the FSLIC transferred to the FRF upon the dissolution of the FSLIC (FRF-FSLIC), and the other composed of the RTC assets and liabilities (FRF-RTC). The assets of one pool are not available to satisfy obligations of the other.

Pursuant to the Federal Deposit Insurance Reform Act of 2005, the Bank Insurance Fund and the Savings Association Insurance Fund were merged into a new fund, the Deposit Insurance Fund (DIF). The FDIC is the administrator of the FRF and the DIF. These funds are maintained separately to carry out their respective mandates.

Operations/Dissolution of the FRF

The FRF will continue operations until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. Any funds remaining in the FRF-FSLIC will be paid to the U.S. Treasury. Any remaining funds of the FRF-RTC will be distributed to the REFCORP to pay the interest on the REFCORP bonds. In addition, the FRF-FSLIC has available until expended \$602.2 million in appropriations to facilitate, if required, efforts to wind up the resolution activity of the FRF-FSLIC.

The FDIC has conducted an extensive review and cataloging of FRF's remaining assets and liabilities and is continuing to explore approaches for concluding FRF's activities. Some of the issues and items that remain open in FRF are: 1) criminal restitution orders (generally have from 5 to 10 years remaining to enforce); 2) collections of settlements and judgments obtained against officers and directors and other professionals responsible for causing or contributing to thrift losses (generally have from 6 months to 12 years remaining to enforce); 3) numerous assistance agreements entered into by the former FSLIC (FRF could continue to receive tax-sharing benefits through year 2013); and 4) goodwill litigation (no final date for resolution has been established; see Note 4). The FDIC is considering whether enabling legislation or other measures may be needed to accelerate liquidation of the remaining FRF assets and liabilities. The FRF could potentially realize substantial recoveries from the tax-sharing benefits, criminal restitution orders and professional liability claims of up to \$400 million; however, any associated recoveries are not reflected in FRF's financial statements given the significant uncertainties surrounding the ultimate outcome.

Receivership Operations

The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receivership entities, and the claims against them, are accounted for separately from FRF assets and liabilities to ensure that receivership proceeds are distributed in accordance with applicable laws and regulations. Also, the income and expenses attributable to receiverships are accounted for as transactions of those receiverships. Receiverships are billed by the FDIC for services provided on their behalf.

2 Summary of Significant Accounting Policies

General

These financial statements pertain to the financial position, results of operations, and cash flows of the FRF and are presented in conformity with U.S. generally accepted accounting principles (GAAP). These statements do not include reporting for assets and liabilities of closed thrift institutions for which the FDIC acts as receiver. Periodic and final accountability reports of the FDIC's activities as receiver are furnished to courts, supervisory authorities, and others as required.

Use of Estimates

Management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such changes in estimates have been disclosed. The more significant estimates include allowance for losses on receivables from thrift resolutions and the estimated losses for litigation.

Provision for Losses

The provision for losses represents the change in the valuation of the receivables from thrift resolutions and other assets.

Fair Value of Financial Instruments

Cash equivalents, which consist of Special U.S. Treasury Certificates, are short-term, highly liquid investments with original maturities of three months or less and are shown at fair value. The carrying amount of short-term receivables and accounts payable and other liabilities approximates their fair market value, due to their short maturities.

The net receivable from thrift resolutions is influenced by the underlying valuation of receivership assets. This corporate receivable is unique and the estimate presented is not necessarily indicative of the amount that could be realized in a sale to the private sector. Such a sale would require indeterminate, but substantial, discounts for an interested party to profit from these assets because of credit and other risks. Consequently, it is not practicable to estimate its fair market value.

Other assets primarily consist of credit enhancement reserves, which are valued by performing projected cash flow analyses using market-based assumptions (see Note 3).

Disclosure About Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, in September 2006. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. The Statement does not require any new fair value measurements. FDIC will adopt SFAS No. 157 effective January 1, 2008, on a prospective basis. Management does not expect the Statement to have a material impact on the financial statements.

Related Parties

The nature of related parties and a description of related party transactions are discussed in Note 1 and disclosed throughout the financial statements and footnotes.

3 Receivables From Thrift Resolutions and Other Assets, Net

Receivables From Thrift Resolutions

The receivables from thrift resolutions include payments made by the FRF to cover obligations to insured depositors, advances to receiverships for working capital, and administrative expenses paid on behalf of receiverships. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. Assets held by the FDIC in its receivership capacity for the former RTC are a significant source of repayment of the FRF's receivables from thrift resolutions. As of December 31, 2007, 13 of the 850 FRF receiverships remain active primarily due to unresolved litigation, including goodwill matters.

As of December 31, 2007 and 2006, FRF receiverships held assets with a book value of \$22 million and \$33 million, respectively (including cash, investments, and miscellaneous receivables of \$18 million and \$26 million at December 31, 2007 and 2006, respectively). The estimated cash recoveries from the management and disposition of these assets are used to derive the allowance for losses. The FRF receivership assets are valued by discounting projected cash flows, net of liquidation costs using current market-based risk factors applicable to a given asset's type and quality. These estimated asset recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic and market conditions. Such uncertainties could cause the FRF's actual recoveries to vary from current estimates.

Other Assets

Other assets primarily include credit enhancement reserves valued at \$20.2 million as of December 31, 2007 and 2006. The credit enhancement reserves resulted from swap transactions where the former RTC received mortgage-backed securities in exchange for single-family mortgage loans. The RTC supplied credit enhancement reserves for the mortgage loans in the form of cash collateral to cover future credit losses over the remaining life of the loans. These reserves may cover future credit losses through 2020.

Receivables From Thrift Resolutions and Other Assets, Net at December 31

Dollars in Thousands

	2007	2006
Receivables from closed thrifts	\$ 8,367,078	\$ 11,308,460
Allowance for losses	(8,359,347)	(11,299,448)
Receivables from Thrift Resolutions, Net	7,731	9,012
Other assets	27,081	27,718
Total	\$ 34,812	\$ 36,730

4 Contingent Liabilities for:

Litigation Losses

The FRF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. As of December 31, 2007 and 2006, respectively, \$35.4 million and \$279.3 million were recorded as probable losses. Additionally, at December 31, 2007, the FDIC has determined that losses from unresolved legal cases totaling \$3 million are reasonably possible.

Additional Contingency

Goodwill Litigation

In *United States v. Winstar Corp.*, 518 U.S. 839 (1996), the Supreme Court held that when it became impossible following the enactment of FIRREA in 1989 for the federal government to perform certain agreements to count goodwill toward regulatory capital, the plaintiffs were entitled to recover damages from the United States. Approximately 19 remaining cases are pending against the United States based on alleged breaches of these agreements.

On July 22, 1998, the Department of Justice's (DOJ's) Office of Legal Counsel (OLC) concluded that the FRF is legally available to satisfy all judgments and settlements in the goodwill litigation involving supervisory action or assistance agreements. OLC determined that nonperformance of these agreements was a contingent liability that was transferred to the FRF on August 9, 1989, upon the dissolution of the FSLIC. On July 23, 1998, the U.S. Treasury determined, based on OLC's opinion, that the FRF is the appropriate source of funds for payments of any such judgments and settlements. The FDIC General Counsel concluded that, as liabilities transferred on August 9, 1989, these contingent liabilities for future nonperformance of prior agreements with respect to supervisory goodwill were transferred to the FRF-FSLIC, which is that portion of the FRF encompassing the obligations of the former FSLIC. The FRF-RTC, which encompasses the obligations of the former RTC and was created upon the termination of the RTC on December 31, 1995, is not available to pay any settlements or judgments arising out of the goodwill litigation.

The goodwill lawsuits are against the United States and as such are defended by the DOJ. On January 3, 2008, the DOJ again informed the FDIC that it is "unable at this time to provide a reasonable estimate of the likely aggregate contingent liability resulting from the *Winstar*-related cases." This uncertainty arises, in part, from the existence of significant unresolved issues pending at the appellate or trial court level, as well as the unique circumstances of each case.

The FDIC believes that it is probable that additional amounts, possibly substantial, may be paid from the FRF-FSLIC as a result of judgments and settlements in the goodwill litigation. Based on representations from the DOJ, the FDIC is unable to estimate a range of loss to the FRF-FSLIC from the goodwill litigation. However, the FRF can draw from an appropriation provided by Section 110 of the Department of Justice Appropriations Act, 2000 (Public Law 106-113, Appendix A, Title I, 113 Stat. 1501A-3, 1501A-20) such sums as may be necessary for the payment of judgments and compromise settlements in the goodwill litigation. This appropriation is to remain available until expended. Because an appropriation is available to pay such judgments and settlements, any liability for goodwill litigation should have a corresponding receivable from the U.S. Treasury and therefore have no net impact on the financial condition of the FRF-FSLIC.

FSLIC Resolution Fund

The FRF paid \$405.1 million as a result of judgments and settlements in six goodwill cases for the year ended December 31, 2007, compared to \$194.7 million for four goodwill cases for the year ended December 31, 2006. As described above, the FRF received appropriations from the U.S. Treasury to fund these payments. At December 31, 2007, the FRF accrued a \$35.4 million contingent liability and offsetting receivable from the U.S. Treasury for judgments in two additional cases that were fully adjudicated as of year end. These funds were paid in January 2008.

In addition, the FRF-FSLIC pays the goodwill litigation expenses incurred by DOJ based on a Memorandum of Understanding (MOU) dated October 2, 1998, between the FDIC and DOJ. Under the terms of the MOU, the FRF-FSLIC paid \$11.4 million and \$17.5 million to DOJ for fiscal years (FY) 2008 and 2007, respectively. As in prior years, DOJ carried over and applied all unused funds toward current FY charges. At September 30, 2007, DOJ had an additional \$5.6 million in unused FY 2007 funds that were applied against FY 2008 charges of \$17 million.

Guarini Litigation

Paralleling the goodwill cases are similar cases alleging that the government breached agreements regarding tax benefits associated with certain FSLIC-assisted acquisitions. These agreements allegedly contained the promise of tax deductions for losses incurred on the sale of certain thrift assets purchased by plaintiffs from the FSLIC, even though the FSLIC provided the plaintiffs with tax-exempt reimbursement. A provision in the Omnibus Budget Reconciliation Act of 1993 (popularly referred to as the "Guarini legislation") eliminated the tax deductions for these losses.

Eight Guarini cases were originally filed seeking damages relating to the government's elimination of certain tax deductions. The last of these eight cases concluded in 2007 with a settlement of \$23 million being paid. In a case settled in 2006, the settlement agreement further obligates the FRF-FSLIC as a guarantor for all tax liabilities in the event the settlement amount is determined by tax authorities to be taxable. The maximum potential exposure under this guarantee through 2009 is approximately \$81 million. After reviewing relevant case law in relation to the nature of the settlement, the FDIC believes that it is very unlikely the settlement will be subject to taxation. Therefore, the FRF is not expected to fund any payment under this guarantee and no liability has been recorded.

Representations and Warranties

As part of the RTC's efforts to maximize the return from the sale of assets from thrift resolutions, representations and warranties, and guarantees were offered on certain loan sales. The majority of loans subject to these agreements have been paid off, refinanced, or the period for filing claims has expired. The FDIC's estimate of maximum potential exposure to the FRF is \$18.7 million. No claims in connection with representations and warranties have been asserted since 1998 on the remaining open agreements. Because of the age of the remaining portfolio and lack of claim activity, the FDIC does not expect new claims to be asserted in the future. Consequently, the financial statements at December 31, 2007 and 2006 do not include a liability for these agreements.

5 Resolution Equity

As stated in the Legislative History section of Note 1, the FRF is comprised of two distinct pools: the FRF-FSLIC and the FRF-RTC. The FRF-FSLIC consists of the assets and liabilities of the former FSLIC. The FRF-RTC consists of the assets and liabilities of the former RTC. Pursuant to legal restrictions, the two pools are maintained separately and the assets of one pool are not available to satisfy obligations of the other.

The following table shows the contributed capital, accumulated deficit, and resulting resolution equity for each pool.

Resolution Equity at December 31, 2007

Dollars in Thousands

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	\$ 45,254,659	\$ 82,199,337	\$ 127,453,996
Add: U.S. Treasury payments/receivable for goodwill litigation	188,586	0	188,586
Less: REFCORP payments	0	(225,000)	(225,000)
Contributed capital - ending	45,443,245	81,974,337	127,417,582
Accumulated deficit	(42,185,100)	(81,584,813)	(123,769,913)
Total	\$ 3,258,145	\$ 389,524	\$ 3,647,669

Contributed Capital

The FRF-FSLIC and the former RTC received \$43.5 billion and \$60.1 billion from the U.S. Treasury, respectively, to fund losses from thrift resolutions prior to July 1, 1995. Additionally, the FRF-FSLIC issued \$670 million in capital certificates to the Financing Corporation (a mixed-ownership government corporation established to function solely as a financing vehicle for the FSLIC) and the RTC issued \$31.3 billion of these instruments to the REFCORP. FIRREA prohibited the payment of dividends on any of these capital certificates. Through December 31, 2007, the FRF-RTC has returned \$4.556 billion to the U.S. Treasury and made payments of \$4.797 billion to the REFCORP. Subsequent to year-end, FRF-RTC paid an additional \$225 million to the REFCORP on January 10, 2008. These actions serve to reduce contributed capital.

FRF-FSLIC received \$405.1 million in U.S. Treasury payments for goodwill litigation in 2007. Furthermore, \$35.4 million and \$251.8 million were accrued for as receivables at year-end 2007 and 2006, respectively. The effect of this activity was an increase in contributed capital of \$188.6 million in 2007.

Accumulated Deficit

The accumulated deficit represents the cumulative excess of expenses over revenue for activity related to the FRF-FSLIC and the FRF-RTC. Approximately \$29.8 billion and \$87.9 billion were brought forward from the former FSLIC and the former RTC on August 9, 1989, and January 1, 1996, respectively. The FRF-FSLIC accumulated deficit has increased by \$12.4 billion, whereas the FRF-RTC accumulated deficit has decreased by \$6.3 billion, since their dissolution dates.

6 Employee Benefits

Pension Benefits

Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by the federal government retirement plans, either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Although the FRF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The FRF also does not have actuarial data for accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported on and accounted for by the U.S. Office of Personnel Management. The FRF's pension-related expenses were \$252 thousand and \$850 thousand for 2007 and 2006, respectively.

Postretirement Benefits Other Than Pensions

The FRF no longer records a liability for the postretirement benefits of life and dental insurance (a long-term liability), due to the expected dissolution of the FRF. The liability is recorded by the DIF. However, the FRF does continue to pay its proportionate share of the yearly claim expenses associated with these benefits.



To the Board of Directors
The Federal Deposit Insurance Corporation

In accordance with Section 17 of the Federal Deposit Insurance Act, as amended, we are responsible for conducting audits of the financial statements of the two funds administered by the Federal Deposit Insurance Corporation (FDIC). In our audits of the Deposit Insurance Fund's (DIF) and the FSLIC Resolution Fund's (FRF) financial statements for 2007 and 2006, we found

- the financial statements as of and for the years ended December 31, 2007, and 2006, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- FDIC had effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations for each fund; and
- no reportable noncompliance with laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions; (2) our audit objectives, scope, and methodology; and (3) agency comments and our evaluation.

Opinion on DIF's Financial Statements

The financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, DIF's assets, liabilities, and fund balance as of December 31, 2007, and 2006, and its income and fund balance and its cash flows for the years then ended.

As discussed in note 6 to DIF's financial statements, FDIC's insured financial institutions faced increased challenges in 2007. The downturn in housing markets led to asset-quality problems and volatility in financial markets, which hurt banking industry performance and

threatened the viability of some institutions that had significant exposure to higher-risk residential mortgages. It is uncertain how long the effects of this downturn will last. In addition to a recorded estimated liability of \$124 million as of December 31, 2007, for the anticipated failure of some DIF insured institutions, FDIC has identified additional risk that could result in a further estimated loss to the DIF of \$1.7 billion should potentially vulnerable insured institutions ultimately fail. FDIC continues to evaluate the risks to affected institutions in light of evolving economic conditions, but the impact of such risks on the DIF cannot be reasonably estimated at this time. Actual losses, if any, will largely depend on future economic and market conditions and could differ materially from FDIC's estimates.

Opinion on FRF's Financial Statements

The financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, FRF's assets, liabilities, and resolution equity as of December 31, 2007, and 2006, and its income and accumulated deficit and its cash flows for the years then ended.

Opinion on Internal Control

FDIC management maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) and compliance as of December 31, 2007, that provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements for each fund would be prevented or detected on a timely basis. Our opinion is based on criteria established under 31 U.S.C. 3512 (c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

We did identify certain control deficiencies during our 2007 audits. However, we do not consider these control deficiencies to be significant deficiencies.¹ We will be reporting separately to FDIC management on these matters.

¹ A significant deficiency is a control deficiency, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

Compliance with Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our audits was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Objectives, Scope, and Methodology

FDIC management is responsible for (1) preparing the annual financial statements in conformity with U.S. generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of FMFIA are met; and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, and (2) management maintained effective internal control, the objectives of which are the following:

1. financial reporting—transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and
2. compliance with laws and regulations—transactions are executed in accordance with laws and regulations that could have a direct and material effect on the financial statements.

We are also responsible for testing compliance with selected provisions of laws and regulations that could have a direct and material effect on the financial statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;

- obtained an understanding of the entity and its operations, including its internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations;
- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control;
- considered FDIC's process for evaluating and reporting on internal control based on criteria established by FMFIA; and
- tested compliance with certain laws and regulations, including selected provisions of the Federal Deposit Insurance Act, as amended, and the Federal Deposit Insurance Reform Act of 2005.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We did not test compliance with all laws and regulations applicable to FDIC. We limited our tests of compliance to those laws and regulations that could have a direct and material effect on the financial statements for the year ended December 31, 2007. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our work in accordance with U.S. generally accepted government auditing standards.

FDIC Comments and Our Evaluation

In commenting on a draft of this report, FDIC's Chief Financial Officer (CFO) reported the agency was pleased to receive unqualified opinions on the DIF and FRF financial statements and that GAO did not identify any material weaknesses or significant deficiencies during the 2007 audits. FDIC's CFO also expressed appreciation for GAO's recognition of FDIC's accomplishments during the 2007 audit year. The CFO added that FDIC is dedicated to promoting the highest standard of financial management and that FDIC will work diligently to sustain that focus. Furthermore, the CFO added that continued improvements in operations remain a priority for FDIC.

The complete text of FDIC's comments is reprinted in appendix I.

A handwritten signature in blue ink, appearing to read "D. M. Walker", with a long horizontal line extending to the right.

David M. Walker
Comptroller General
of the United States

February 4, 2008



Federal Deposit Insurance Corporation
550 17th Street, NW Washington, DC 20429 9990

Deputy to the Chairman and Chief Financial Officer

February 4, 2008

Mr. David M. Walker
Comptroller General of the United States
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Re: FDIC Management Response on the GAO 2007 Financial Statements Audit Report

Dear Mr. Walker:

Thank you for the opportunity to comment on the U.S. Government Accountability Office's (GAO) draft audit report titled, **Financial Audit: Federal Deposit Insurance Corporation Funds' 2007 and 2006 Financial Statements, GAO-08-416**. The report presents GAO's opinions on the calendar year 2007 and 2006 financial statements of the Deposit Insurance Fund (DIF) and the Federal Savings and Loan Insurance Corporation Resolution Fund (FRF). The report also presents GAO's opinion on the effectiveness of the Federal Deposit Insurance Corporation's (FDIC's) internal control over financial reporting and compliance with laws and regulations for each of the funds as of December 31, 2007, and GAO's evaluation of FDIC's compliance with selected laws and regulations.

We are pleased that FDIC received unqualified opinions on its financial statements for the sixteenth consecutive year and that there were no material weaknesses or significant deficiencies identified during the 2007 audits. The GAO reported that the funds' financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; FDIC had effective internal control over financial reporting and compliance with laws and regulations for each fund; and there was no reportable noncompliance with laws and regulations that were tested.

We appreciate GAO's recognition of our accomplishments during the 2007 audit year. As always, our management team is dedicated to promoting the highest standard of financial management, and we will work diligently to sustain that focus. Continued improvements in operations remain a priority for FDIC.

In addition, I want to recognize the GAO's support throughout the audit and to acknowledge you and the GAO staff for your efforts and dedication in working with FDIC again this year to meet the accelerated reporting deadline for our audited financial statements. We look forward to continuing this productive and successful relationship in the coming year.

If you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

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

Overview of the Industry

The 8,560 FDIC-insured commercial banks and savings institutions that filed financial results for the first nine months of 2007 reported net income of \$100.7 billion, a decline of 10.7 percent compared to the first nine months of 2006. This is the first year-over-year decline in industry earnings in seven years. The decline in earnings was caused by sharply higher expenses for bad loans, weakness in market-sensitive noninterest revenues, and narrower net interest margins. Fewer than half of all institutions – 49.5 percent – reported year-over-year increases in net income, and the percentage of institutions with negative net income for the first nine months of the year rose to 10.2 percent, up from 7.0 percent a year earlier.

The average return on assets (ROA) for the first nine months was 1.11 percent, down from 1.33 percent for the same period of 2006. This is the lowest nine-month industry ROA since 1996. More than 60 percent of insured institutions had lower ROAs in 2007 than in 2006. Insured institutions set aside \$37.1 billion in provisions for loan and lease losses during the first nine months of 2007, an increase of \$17.2 billion (86.8 percent) compared to the same period in 2006. The industry's total

noninterest income increased by only \$1.3 billion (0.7 percent), as income from securitization activities fell by \$3.6 billion (18.4 percent), and gains on sales of loans declined by \$1.8 billion (32.5 percent). Total noninterest expenses were \$11.2 billion (4.4 percent) higher, led by a \$5.7-billion (5.0-percent) increase in salary and benefit expenses.

One of the positive trends in income and expenses was the \$10.3-billion (4.0-percent) year-over-year increase in net interest income. A difficult interest-rate environment characterized by a flat yield curve contributed to a decline in the industry's net interest margin. The average margin fell from 3.43 percent in the first three quarters of 2006 to 3.32 percent for the first three quarters of 2007. However, the industry's interest-earning assets grew by 7.5 percent from the end of September 2006 through the end of September 2007, helping to boost net interest income.

Signs of asset quality deterioration were clearly evident in 2007. For the 12 months ended September 30, total noncurrent loans and leases – those that were 90 days or more past due or in nonaccrual status – increased by \$30.4 billion (57.9 percent). Loans secured by real estate properties accounted for 92 percent (\$28.0 billion) of the increase in noncurrent loans. Residential mortgage loans accounted for more than half (\$15.4 billion) of the increase in noncurrent loans, while noncurrent real estate construction and development loans increased by \$8.4 billion (283 percent). Net charge-offs of loans and leases totaled \$27.9 billion in the first three quarters of 2007, an increase of \$9.3 billion (49.7 percent)

over the same period in 2006. Loans to individuals other than credit cards had the largest year-over-year increase, rising by \$2.2 billion (53.8 percent). Net charge-offs of loans to commercial and industrial (C&I) borrowers were \$1.8 billion (84.6 percent) higher, and net charge-offs of credit card loans increased by \$1.5 billion (15.5 percent). Net charge-offs of residential mortgage loans increased by \$1.4 billion (137.5 percent). At the end of September 2007, 65 institutions were on the FDIC's "Problem List," up from a 36-year low of 47 "problem" institutions a year earlier.

Asset growth slowed in 2007, but remained strong by historic standards. During the 12 months ended September 30, total assets of insured institutions increased by \$954 billion (8.1 percent). Loans and leases accounted for more than half of the increase in total assets, rising by \$527 billion (7.4 percent). Loans to C&I borrowers increased by \$208.8 billion (17.7 percent), real estate construction and development loans rose by \$71.4 billion (13.1 percent), and real estate loans secured by nonfarm nonresidential properties grew by \$53.6 billion (6.1 percent).

Growth in deposits did not keep pace with the increase in total assets. In the 12 months ended September 30, total deposits of insured institutions increased by \$603.6 billion (8.0 percent). During that period, growth in foreign office deposits (up \$336.6 billion, or 30.5 percent) surpassed growth in domestic office deposits (up \$267.0 billion, or 4.1 percent). Nondeposit liabilities increased by \$246.5 billion (8.4 percent), and equity capital rose by \$103.5 billion (8.5 percent). Merger-related goodwill accounted for almost two-thirds (63 percent) of the increase in equity. At the end of September 2007, more than 99 percent of all FDIC-insured institutions met or exceeded the highest regulatory capital standards⁴.

⁴ For purposes of Prompt Corrective Action, FDIC-insured institutions are generally considered "well capitalized," the highest category, if they have a total risk-based capital ratio of 10.0 percent or greater, a Tier 1 risk-based capital ratio of 6.0 percent or greater, and a leverage ratio of 5.0 percent or greater.

V. Management Control

Enterprise Risk Management

The Office of Enterprise Risk Management, under the auspices of the Chief Financial Officer organization, is responsible for corporate oversight of internal control and enterprise risk management (ERM). This includes ensuring that the FDIC's operations and programs are effective and efficient and that internal controls are sufficient to minimize exposure to waste and mismanagement. The FDIC recognizes the importance of a strong risk management and internal control program and has adopted a more proactive and enterprise-wide approach to managing risk. This approach focuses on the identification and mitigation of risk consistently and effectively throughout the Corporation, with emphasis on those areas/issues most directly related to the FDIC's overall mission. As an independent government corporation, the FDIC has different requirements than appropriated federal government agencies; nevertheless, its ERM program seeks to comply with the spirit of the following standards, among others:

- Federal Managers' Financial Integrity Act (FMFIA);
- Chief Financial Officers Act (CFO Act);
- Government Performance and Results Act (GPRA);
- Federal Information Security Management Act (FISMA); and
- OMB Circular A-123.

The CFO Act extends to the FDIC the FMFIA requirements for establishing, evaluating and reporting on internal controls. The FMFIA requires agencies to annually provide a statement of assurance regarding the effectiveness of management, administrative and accounting controls, and financial management systems.

The FDIC has developed and implemented management, administrative and financial system controls that reasonably ensure that:

- Programs are efficiently and effectively carried out in accordance with applicable laws and management policies;
- Programs and resources are safeguarded against waste, fraud and mismanagement;
- Obligations and costs comply with applicable laws; and
- Reliable, complete, and timely data are maintained for decision-making and reporting purposes.

The FDIC's control standards incorporate the *Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government*. Good internal control systems are essential for ensuring the proper conduct of FDIC business and the accomplishment of management objectives by serving as checks and balances against undesirable actions or outcomes.

As part of the Corporation's continued commitment to establish and maintain effective and efficient internal controls, FDIC management routinely conducts reviews of internal control systems. The results of these reviews, as well as consideration of the results of audits, evaluations and reviews conducted by the GAO, the Office of Inspector General (OIG) and other outside entities, are used as a basis for the FDIC's reporting on the condition of the Corporation's internal control activities.

Material Weaknesses

Material weaknesses are control shortcomings in operations or systems that, among other things, severely impair or threaten the organization's ability to accomplish its mission or to prepare timely, accurate financial statements or reports. The shortcomings are of sufficient magnitude that the Corporation is obliged to report them to external stakeholders.

To determine the existence of material weaknesses, the FDIC has assessed the results of management evaluations and external audits of the Corporation's risk management and internal control systems conducted in 2007, as well as management actions taken to address issues identified in these audits and evaluations. Based on this assessment and application of other criteria, the FDIC concludes that no material weaknesses existed within the Corporation's operations for 2007. This is the tenth consecutive year that the FDIC has not had a material weakness; however, FDIC management will continue to focus on high priority areas, including IT systems security, privacy, international and premium travel, and the New Financial Environment, among others. The FDIC will also address all control issues raised by GAO related to its 2007 financial statement audits.

Management Report on Final Actions

As required under amended Section 5 of the Inspector General Act of 1978, the tables on the following pages provide information on final action taken by management on audit reports for the federal fiscal year period, October 1, 2006, through September 30, 2007.

Table 1
**Management Report
on Final Action on Audits
with Disallowed Costs**
For Fiscal Year 2007

Audit Reports	Number of Reports	Disallowed Costs (000's)
A. Management decisions – final action not taken at beginning of period	0	\$ 0
B. Management decisions made during the period	0	\$ 0
C. Total reports pending final action during the period (A and B)	0	\$ 0
D. Final action taken during the period:		
1. Recoveries:		
a. Collections and offsets	0	\$ 0
b. Other	0	\$ 0
2. Write-offs	0	\$ 0
3. Total of 1(a), 1(b), and 2	0	\$ 0
E. Audit reports needing final action at the end of the period	0	\$ 0

Table 2
**Management Report
on Final Action on Audits
with Recommendations
to Put Funds to Better Use**
For Fiscal Year 2007

Audit Reports	Number of Reports	Funds Put to Better Use (000's)
A. Management decisions – final action not taken at beginning of period	0	\$ 0
B. Management decisions made during the period	0	\$ 0
C. Total reports pending final action during the period (A and B)	0	\$ 0
D. Final Action taken during the period:		
1. Value of recommendations implemented (completed)	0	\$ 0
2. Value of recommendations that management concluded should not or could not be implemented or completed	0	\$ 0
3. Total of 1 and 2	0	\$ 0
E. Audit reports needing final action at the end of the period	0	\$ 0

Table 3

Audit Reports Without Final Actions But With Management Decisions Over One Year Old
For Fiscal Year 2007

Management Action in Process

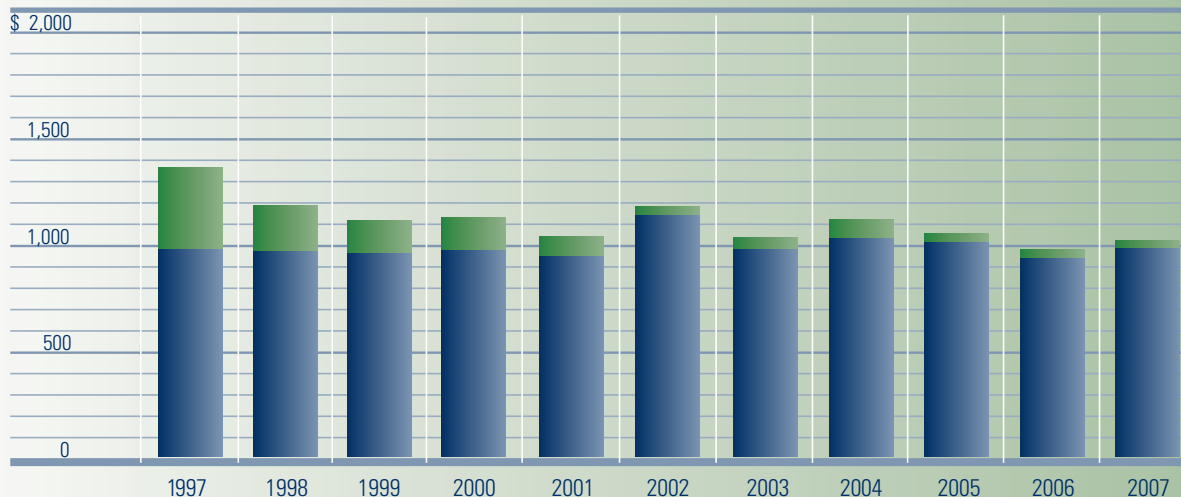
Report Number and Issue Date	OIG Audit Finding	Management Action	Disallowed Costs
1. 06-014 07-20-2006	The OIG recommended that the FDIC should issue guidance to: a) clarify corporate expectations for deposit insurance investigations, and b) emphasize that examiners should document the basis for their conclusions.	The FDIC is in process of clarifying corporate expectations for reviewing the statutory factors and will emphasize that examiners should document the basis for their conclusions in the "Convenience and Needs of the Community to be Served" area of their report. Expected completion date: 1st quarter 2008.	\$ 0
2. 06-026 09-29-2006	The OIG recommended that the FDIC should ensure that requirements for the new automated procurement system are well defined.	The original schedule was re-baselined to provide for additional time to complete the system, due to the exploration and review of a new PeopleSoft acquisition module and consideration of year-end close-out. Expected completion date: 1st quarter 2008.	\$ 0

VI. Appendices

FDIC Expenditures 1997-2007

Dollars in Millions

■ DIF
■ FRF



Notes:

The Deposit Insurance Fund (DIF) includes expenditures of the former Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). The FSLIC Resolution Fund (FRF) includes expenditures relating to the former Federal Savings and Loan Insurance Corporation (FSLIC) and the Resolution Trust Corporation (RTC).

The FDIC's Strategic Plan and Annual Performance Plan provide the basis for annual planning and budgeting for needed resources. The 2007 aggregate budget (for corporate, receivership and investment spending) was \$1.12 billion, while actual expenditures for the year were \$1.01 billion, about \$16 million more than 2006 expenditures.

Over the past ten years, the FDIC's expenditures have varied in response to workload. During the past decade, expenditures generally declined due to decreasing resolution and receivership activity. Total expenditures increased in 2002 due to an increase in receivership-related expenses.

The largest component of FDIC spending is for costs associated with staffing. Staffing increased by one percent in 2007, from 4,476 employees at the beginning of the year to 4,532 at the end of the year.

Estimated Insured Deposits and the Deposit Insurance Fund, December 31, 1934, through September 30, 2007¹

Dollars in millions							
Year ⁴	Insurance Coverage	Deposits in Insured Institutions			Insurance Fund as a Percentage of		
		Total Domestic Deposits	Estimated Insured Deposits ²	Percentage of Insured Deposits	Deposit Insurance Fund	Total Domestic Deposits	Estimated Insured Deposits
2007	\$ 100,000	\$ 6,881,843	\$ 4,241,307	61.6	\$ 51,754.4	0.75	1.22
2006	100,000	6,595,357	4,151,966	63.0	50,165.3	0.76	1.21
2005	100,000	6,168,146	3,890,911	63.1	48,596.6	0.79	1.25
2004	100,000	5,686,680	3,623,713	63.7	47,506.8	0.84	1.31
2003	100,000	5,182,016	3,451,117	66.6	46,022.3	0.89	1.33
2002	100,000	4,857,327	3,387,799	69.7	43,797.0	0.90	1.29
2001	100,000	4,481,888	3,210,727	71.6	41,373.8	0.92	1.29
2000	100,000	4,149,355	3,054,360	73.6	41,733.8	1.01	1.37
1999	100,000	3,802,744	2,868,881	75.4	39,694.9	1.04	1.38
1998	100,000	3,747,809	2,850,227	76.1	39,452.1	1.05	1.38
1997	100,000	3,507,493	2,746,006	78.3	37,660.8	1.07	1.37
1996	100,000	3,350,856	2,690,537	80.3	35,742.8	1.07	1.33
1995	100,000	3,318,513	2,663,560	80.3	28,811.5	0.87	1.08
1994	100,000	3,184,636	2,588,686	81.3	23,784.5	0.75	0.92
1993	100,000	3,220,109	2,602,043	80.8	14,277.3	0.44	0.55
1992	100,000	3,273,180	2,675,081	81.7	178.4	0.01	0.01
1991	100,000	3,330,738	2,734,073	82.1	(6,934.0)	(0.21)	(0.25)
1990	100,000	3,415,668	2,759,640	80.8	4,062.7	0.12	0.15
1989	100,000	3,414,066	2,756,757	80.7	13,209.5	0.39	0.48
1988	100,000	2,330,768	1,750,259	75.1	14,061.1	0.60	0.80
1987	100,000	2,201,549	1,658,802	75.3	18,301.8	0.83	1.10
1986	100,000	2,167,596	1,634,302	75.4	18,253.3	0.84	1.12
1985	100,000	1,974,512	1,503,393	76.1	17,956.9	0.91	1.19
1984	100,000	1,806,520	1,389,874	76.9	16,529.4	0.92	1.19
1983	100,000	1,690,576	1,268,332	75.0	15,429.1	0.91	1.22
1982	100,000	1,544,697	1,134,221	73.4	13,770.9	0.89	1.21
1981	100,000	1,409,322	988,898	70.2	12,246.1	0.87	1.24
1980	100,000	1,324,463	948,717	71.6	11,019.5	0.83	1.16
1979	40,000	1,226,943	808,555	65.9	9,792.7	0.80	1.21
1978	40,000	1,145,835	760,706	66.4	8,796.0	0.77	1.16
1977	40,000	1,050,435	692,533	65.9	7,992.8	0.76	1.15
1976	40,000	941,923	628,263	66.7	7,268.8	0.77	1.16
1975	40,000	875,985	569,101	65.0	6,716.0	0.77	1.18
1974	40,000	833,277	520,309	62.5	6,124.2	0.73	1.18
1973	20,000	766,509	465,600	60.7	5,615.3	0.73	1.21
1972	20,000	697,480	419,756	60.2	5,158.7	0.74	1.23
1971	20,000	610,685	374,568	61.3	4,739.9	0.78	1.27
1970	20,000	545,198	349,581	64.1	4,379.6	0.80	1.25
1969	20,000	495,858	313,085	63.1	4,051.1	0.82	1.29
1968	15,000	491,513	296,701	60.2	3,749.2	0.76	1.26
1967	15,000	448,709	261,149	58.2	3,485.5	0.78	1.33
1966	15,000	401,096	234,150	58.4	3,252.0	0.81	1.39
1965	10,000	377,400	209,690	55.6	3,036.3	0.80	1.45
1964	10,000	348,981	191,787	55.0	2,844.7	0.82	1.48
1963	10,000	313,304	177,381	56.6	2,667.9	0.85	1.50
1962	10,000	297,548	170,210	57.2	2,502.0	0.84	1.47
1961	10,000	281,304	160,309	57.0	2,353.8	0.84	1.47
1960	10,000	260,495	149,684	57.5	2,222.2	0.85	1.48
1959	10,000	247,589	142,131	57.4	2,089.8	0.84	1.47
1958	10,000	242,445	137,698	56.8	1,965.4	0.81	1.43
1957	10,000	225,507	127,055	56.3	1,850.5	0.82	1.46
1956	10,000	219,393	121,008	55.2	1,742.1	0.79	1.44
1955	10,000	212,226	116,380	54.8	1,639.6	0.77	1.41
1954	10,000	203,195	110,973	54.6	1,542.7	0.76	1.39
1953	10,000	193,466	105,610	54.6	1,450.7	0.75	1.37
1952	10,000	188,142	101,841	54.1	1,363.5	0.72	1.34
1951	10,000	178,540	96,713	54.2	1,282.2	0.72	1.33
1950	10,000	167,818	91,359	54.4	1,243.9	0.74	1.36
1949	5,000	156,786	76,589	48.8	1,203.9	0.77	1.57
1948	5,000	153,454	75,320	49.1	1,065.9	0.69	1.42
1947	5,000	154,096	76,254	49.5	1,006.1	0.65	1.32
1946	5,000	148,458	73,759	49.7	1,058.5	0.71	1.44
1945	5,000	157,174	67,021	42.4	929.2	0.59	1.39
1944	5,000	134,662	56,398	41.9	804.3	0.60	1.43
1943	5,000	111,650	48,440	43.4	703.1	0.63	1.45
1942	5,000	89,869	32,837	36.5	616.9	0.69	1.88
1941	5,000	71,209	28,249	39.7	553.5	0.78	1.96
1940	5,000	65,288	26,638	40.8	496.0	0.76	1.86
1939	5,000	57,485	24,650	42.9	452.7	0.79	1.84
1938	5,000	50,791	23,121	45.5	420.5	0.83	1.82
1937	5,000	48,228	22,557	46.8	383.1	0.79	1.70
1936	5,000	50,281	22,330	44.4	343.4	0.68	1.54
1935	5,000	45,125	20,158	44.7	306.0	0.68	1.52
1934 ³	5,000	40,060	18,075	45.1	291.7	0.73	1.61

¹ For 2007, the numbers are as of September 30, and prior years reflect December 31.

² Estimated insured deposits reflect deposit information as reported in the fourth quarter *FDIC Quarterly Banking Profile*. Before 1991, insured deposits were estimated using percentages determined from the June 30 *Call Reports*.

³ Initial coverage was \$2,500 from January 1 to June 30, 1934.

⁴ For 1989 through 2005, amounts represent sum of separate BIF and SAIF amounts.

**Income and Expenses, Deposit Insurance Fund, from Beginning of Operations,
September 11, 1933, through December 31, 2007**

Dollars in Millions

Year ⁷	Income					Expenses and Losses					Net Income/ (Loss)
	Total	Assessment Income	Assessment Credits	Investment and Other Sources	Effective Assessment Rate ¹	Total	Provision for Losses	Administrative and Operating Expenses ²	Interest and Other Insurance Expenses	Funding Transfer from the FSLIC Resolution Fund	
Total	\$ 110,388.7	\$ 62,909.8	\$ 6,709.1	\$ 54,777.0		\$ 59,216.0	\$ 36,191.8	\$ 15,834.3	\$ 7,195.9	\$ 139.5	\$ 51,312.2
2007	3,196.2	642.9	0.0	2,553.3	0.0094%	1,090.9	95.0	992.6	3.3	0	2,105.3
2006	2,643.5	31.9	0.0	2,611.6	0.0005%	904.3	(52.1)	950.6	5.8	0	1,739.2
2005	2,420.5	60.6	0.0	2,359.9	0.0010%	809.5	(160.2)	966.2	3.5	0	1,611.0
2004	2,240.4	104.3	0.0	2,136.1	0.0019%	607.6	(353.4)	941.3	19.7	0	1,632.8
2003	2,174.0	95.2	0.0	2,078.8	0.0019%	(67.7)	(1,010.5)	935.5	7.3	0	2,241.7
2002	1,795.9	108.0	0.0	2,276.9	0.0022%	719.6	(243.0)	945.1	17.5	0	1,076.3
2001	2,729.7	82.8	0.0	2,646.9	0.0019%	3,123.4	2,199.3	887.9	36.2	0	(393.7)
2000	2,569.9	64.1	0.0	2,505.8	0.0016%	945.2	28.0	883.9	33.3	0	1,624.7
1999	2,416.6	48.3	0.0	2,368.3	0.0013%	2,047.0	1,199.7	823.4	23.9	0	369.6
1998	2,584.3	36.7	0.0	2,547.6	0.0010%	817.5	(5.7)	782.6	40.6	0	1,766.8
1997	2,165.6	38.7	0.0	2,126.9	0.0015%	247.3	(505.7)	677.2	75.8	0	1,918.3
1996	7,157.3	5,294.7	0.0	1,862.6	0.1627%	353.6	(417.2)	568.3	202.5	0	6,803.7
1995	5,229.1	3,876.9	0.0	1,352.2	0.1242%	202.2	(354.2)	510.6	45.8	0	5,026.9
1994	7,682.0	6,722.6	0.0	959.4	0.2185%	(1,825.1)	(2,459.4)	443.2	191.1	0	9,507.1
1993	7,356.8	6,684.3	0.0	672.5	0.2146%	(6,744.4)	(7,660.4)	418.5	497.5	0	14,101.2
1992	6,480.5	5,759.8	0.0	720.7	0.1807%	(596.8)	(2,274.7)	614.8 ³	1,063.1	35.4	7,112.7
1991	5,887.0	5,254.5	0.0	632.5	0.1605%	16,925.3	15,496.2	326.1	1,103.0	42.4	(10,995.9)
1990	3,856.3	2,873.3	0.0	983.0	0.0867%	13,059.3	12,133.1	275.6	650.6	56.1	(9,146.9)
1989	3,496.6	1,885.0	0.0	1,611.6	0.0833%	4,352.2	3,811.3	219.9	321.0	5.6	(850.0)
1988	3,347.7	1,773.0	0.0	1,574.7	0.0833%	7,588.4	6,298.3	223.9	1,066.2	0	(4,240.7)
1987	3,319.4	1,696.0	0.0	1,623.4	0.0833%	3,270.9	2,996.9	204.9	69.1	0	48.5
1986	3,260.1	1,516.9	0.0	1,743.2	0.0833%	2,963.7	2,827.7	180.3	(44.3)	0	296.4
1985	3,385.4	1,433.4	0.0	1,952.0	0.0833%	1,957.9	1,569.0	179.2	209.7	0	1,427.5
1984	3,099.5	1,321.5	0.0	1,778.0	0.0800%	1,999.2	1,633.4	151.2	214.6	0	1,100.3
1983	2,628.1	1,214.9	164.0	1,577.2	0.0714%	969.9	675.1	135.7	159.1	0	1,658.2
1982	2,524.6	1,108.9	96.2	1,511.9	0.0769%	999.8	126.4	129.9	743.5	0	1,524.8
1981	2,074.7	1,039.0	117.1	1,152.8	0.0714%	848.1	320.4	127.2	400.5	0	1,226.6
1980	1,310.4	951.9	521.1	879.6	0.0370%	83.6	(38.1)	118.2	3.5	0	1,226.8
1979	1,090.4	881.0	524.6	734.0	0.0333%	93.7	(17.2)	106.8	4.1	0	996.7
1978	952.1	810.1	443.1	585.1	0.0385%	148.9	36.5	103.3	9.1	0	803.2
1977	837.8	731.3	411.9	518.4	0.0370%	113.6	20.8	89.3	3.5	0	724.2
1976	764.9	676.1	379.6	468.4	0.0370%	212.3	28.0	180.4 ⁴	3.9	0	552.6
1975	689.3	641.3	362.4	410.4	0.0357%	97.5	27.6	67.7	2.2	0	591.8
1974	668.1	587.4	285.4	366.1	0.0435%	159.2	97.9	59.2	2.1	0	508.9
1973	561.0	529.4	283.4	315.0	0.0385%	108.2	52.5	54.4	1.3 ⁵	0	452.8
1972	467.0	468.8	280.3	278.5	0.0333%	59.7	10.1	49.6	6.0	0	407.3
1971	415.3	417.2	241.4	239.5	0.0345%	60.3	13.4	46.9	0.0	0	355.0
1970	382.7	369.3	210.0	223.4	0.0357%	46.0	3.8	42.2	0.0	0	336.7
1969	335.8	364.2	220.2	191.8	0.0333%	34.5	1.0	33.5	0.0	0	301.3
1968	295.0	334.5	202.1	162.6	0.0333%	29.1	0.1	29.0	0.0	0	265.9
1967	263.0	303.1	182.4	142.3	0.0333%	27.3	2.9	24.4	0.0	0	235.7
1966	241.0	284.3	172.6	129.3	0.0323%	19.9	0.1	19.8	0.0	0	221.1
1965	214.6	260.5	158.3	112.4	0.0323%	22.9	5.2	17.7	0.0	0	191.7
1964	197.1	238.2	145.2	104.1	0.0323%	18.4	2.9	15.5	0.0	0	178.7
1963	181.9	220.6	136.4	97.7	0.0313%	15.1	0.7	14.4	0.0	0	166.8
1962	161.1	203.4	126.9	84.6	0.0313%	13.8	0.1	13.7	0.0	0	147.3

continued on next page

Income and Expenses, Deposit Insurance Fund, from Beginning of Operations, September 11, 1933, through December 31, 2007 (continued)

Dollars in Millions

Year ⁷	Income					Expenses and Losses						Net Income/ (Loss)
	Total	Assessment Income	Assessment Credits	Investment and Other Sources	Effective Assessment Rate ¹	Total	Provision for Losses	Administrative and Operating Expenses ²	Interest and Other Insurance Expenses	Funding Transfer from the FSLIC Resolution Fund		
1961	147.3	188.9	115.5	73.9	0.0323%	14.8	1.6	13.2	0.0	0	132.5	
1960	144.6	180.4	100.8	65.0	0.0370%	12.5	0.1	12.4	0.0	0	132.1	
1959	136.5	178.2	99.6	57.9	0.0370%	12.1	0.2	11.9	0.0	0	124.4	
1958	126.8	166.8	93.0	53.0	0.0370%	11.6	0.0	11.6	0.0	0	115.2	
1957	117.3	159.3	90.2	48.2	0.0357%	9.7	0.1	9.6	0.0	0	107.6	
1956	111.9	155.5	87.3	43.7	0.0370%	9.4	0.3	9.1	0.0	0	102.5	
1955	105.8	151.5	85.4	39.7	0.0370%	9.0	0.3	8.7	0.0	0	96.8	
1954	99.7	144.2	81.8	37.3	0.0357%	7.8	0.1	7.7	0.0	0	91.9	
1953	94.2	138.7	78.5	34.0	0.0357%	7.3	0.1	7.2	0.0	0	86.9	
1952	88.6	131.0	73.7	31.3	0.0370%	7.8	0.8	7.0	0.0	0	80.8	
1951	83.5	124.3	70.0	29.2	0.0370%	6.6	0.0	6.6	0.0	0	76.9	
1950	84.8	122.9	68.7	30.6	0.0370%	7.8	1.4	6.4	0.0	0	77.0	
1949	151.1	122.7	0.0	28.4	0.0833%	6.4	0.3	6.1	0.0	0	144.7	
1948	145.6	119.3	0.0	26.3	0.0833%	7.0	0.7	6.3 ⁶	0.0	0	138.6	
1947	157.5	114.4	0.0	43.1	0.0833%	9.9	0.1	9.8 ⁶	0.0	0	147.6	
1946	130.7	107.0	0.0	23.7	0.0833%	10.0	0.1	9.9 ⁶	0.0	0	120.7	
1945	121.0	93.7	0.0	27.3	0.0833%	9.4	0.1	9.3 ⁶	0.0	0	111.6	
1944	99.3	80.9	0.0	18.4	0.0833%	9.3	0.1	9.2 ⁶	0.0	0	90.0	
1943	86.6	70.0	0.0	16.6	0.0833%	9.8	0.2	9.6 ⁶	0.0	0	76.8	
1942	69.1	56.5	0.0	12.6	0.0833%	10.1	0.5	9.6 ⁶	0.0	0	59.0	
1941	62.0	51.4	0.0	10.6	0.0833%	10.1	0.6	9.5 ⁶	0.0	0	51.9	
1940	55.9	46.2	0.0	9.7	0.0833%	12.9	3.5	9.4 ⁶	0.0	0	43.0	
1939	51.2	40.7	0.0	10.5	0.0833%	16.4	7.2	9.2 ⁶	0.0	0	34.8	
1938	47.7	38.3	0.0	9.4	0.0833%	11.3	2.5	8.8 ⁶	0.0	0	36.4	
1937	48.2	38.8	0.0	9.4	0.0833%	12.2	3.7	8.5 ⁶	0.0	0	36.0	
1936	43.8	35.6	0.0	8.2	0.0833%	10.9	2.6	8.3 ⁶	0.0	0	32.9	
1935	20.8	11.5	0.0	9.3	0.0833%	11.3	2.8	8.5 ⁶	0.0	0	9.5	
1933/4	7.0	0.0	0.0	7.0	N/A	10.0	0.2	9.8 ⁶	0.0	0	(3.0)	

¹The effective rates from 1950 through 1984 vary from the statutory rate of 0.0833 percent due to assessment credits provided in those years. The statutory rate increased to 0.12 percent in 1990 and to a minimum of 0.15 percent in 1991. The effective rates in 1991 and 1992 vary because the FDIC exercised new authority to increase assessments above the statutory rate when needed. Beginning in 1993, the effective rate is based on a risk-related premium system under which institutions pay assessments in the range of 0.23 percent to 0.31 percent. In May 1995, the BIF reached the mandatory recapitalization level of 1.25 percent. As a result, BIF assessment rates were reduced to a range of 0.04 percent to 0.31 percent of assessable deposits, effective June 1995, and assessments totaling \$1.5 billion were refunded in September 1995. Assessment rates for BIF were lowered again to a range of 0 to 0.27 percent of assessable deposits, effective the start of 1996. In 1996, the SAIF collected a one-time special assessment of \$4.5 billion that fully capitalized the fund. Consequently, assessment rates for SAIF were lowered to the same range as DIF, effective October 1996. This range of rates remained unchanged for both funds through 2006. As part of the implementation of the Federal Deposit Insurance Reform Act of 2005, assessment rates were increased to a range of 0.05 percent to 0.43 percent of assessable deposits effective at the start of 2007, but many institutions received a one-time assessment credit (\$4.7 billion in total) to offset the new assessments.

²These expenses, which are presented as operating expenses in the Statements of Income and Fund Balance, pertain to the FDIC in its corporate capacity only and **do not** include costs that are charged to the failed bank receiverships that are managed by the FDIC. The receivership expenses are presented as part of the "Receivables from Resolutions, net" line on the Balance Sheets. The information presented in the "FDIC Expenditures" table on page 108 of this report shows the aggregate (corporate and receivership) expenditures of the FDIC.

³Includes \$210 million for the cumulative effect of an accounting change for certain postretirement benefits.

⁴Includes \$105.6 million net loss on government securities.

⁵This amount represents interest and other insurance expenses from 1933 to 1972.

⁶Includes interest paid on capital stock.

⁷For 1989 through 2005, amounts represent sum of separate BIF and SAIF amounts.

Recoveries and Losses by the Deposit Insurance Fund on Disbursements for the Protection of Depositors, 1934 through 2007

Dollars in Thousands

All Cases¹							
Year³	Number of Banks/ Thrifts	Total Assets	Total Deposits	Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	2,237	\$ 304,015,397	\$ 248,393,951	\$ 116,900,087	\$ 77,665,701	\$ 797,140	\$ 38,437,246
2007	3	2,614,928	2,026,648	1,909,549	1,315,770	474,240	119,539
2006	0	0	0	0	0	0	0
2005	0	0	0	0	0	0	0
2004	3	165,866	145,885	138,895	134,978	0	3,917
2003	4	1,096,724	903,504	883,772	812,933	4,852	65,987
2002	11	2,557,811	2,175,043	2,068,519	1,628,771	63,928	375,820
2001	4	2,234,253	1,610,474	1,605,147	1,113,270	220,457	271,420
2000	7	407,618	340,533	297,313	265,175	0	32,138
1999	8	1,486,775	1,331,578	1,307,045	685,154	6,324	615,567
1998	3	370,400	335,076	286,678	52,248	8,388	226,042
1997	1	25,921	26,800	25,546	20,520	0	5,026
1996	6	215,078	200,973	201,533	140,904	0	60,629
1995	6	753,024	632,700	609,043	524,571	0	84,472
1994	13	1,392,140	1,236,488	1,224,769	1,045,718	0	179,051
1993	42	4,405,373	3,827,177	3,841,658	3,199,024	9,884	632,750
1992	122	44,231,922	41,184,366	14,175,372	10,506,614	1,772	3,666,986
1991	127	63,203,713	53,832,141	21,196,493	15,197,510	2,636	5,996,347
1990	169	15,676,700	14,488,900	10,817,419	8,041,634	4,659	2,771,126
1989	207	29,168,596	24,090,551	11,445,829	5,248,247	0	6,197,582
1988	280	70,065,789	45,499,102	12,163,006	5,244,866	0	6,918,140
1987	203	9,366,300	8,399,500	5,037,871	3,015,215	0	2,022,656
1986	145	7,710,400	7,056,700	4,790,969	3,015,252	0	1,775,717
1985	120	8,741,268	8,059,441	2,920,687	1,913,452	0	1,007,235
1984	80	3,276,411	2,883,162	7,696,215	6,056,061	0	1,640,154
1983	48	7,026,923	5,441,608	3,807,082	2,400,044	0	1,407,038
1982	42	11,632,415	9,908,379	2,275,150	1,106,579	0	1,168,571
1981	10	4,863,898	3,829,936	888,999	107,221	0	781,778
1980	11	244,117	221,302	152,355	121,675	0	30,680
1934-79	562	11,081,034	8,705,984	5,133,173	4,752,295	0	380,878

Deposit Assumption Cases

Year³	Number of Banks/ Thrifts	Total Assets	Total Deposits	Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	1,487	\$ 225,210,798	\$ 187,228,603	\$ 89,334,347	\$ 60,163,198	\$ 734,127	\$ 28,437,022
2007	3	2,614,928	2,026,648	1,909,549	1,315,770	474,240	119,539
2006	0	0	0	0	0	0	0
2005	0	0	0	0	0	0	0
2004	3	150,520	132,880	132,781	128,864	0	3,917
2003	3	1,096,724	903,504	883,772	812,933	4,852	65,987
2002	6	569,332	511,782	483,461	342,991	5,574	134,896
2001	4	2,234,253	1,610,474	1,605,147	1,113,270	220,457	271,420
2000	7	407,618	340,533	297,313	265,175	0	32,138
1999	8	1,486,775	1,331,578	1,307,045	685,154	6,324	615,567
1998	3	370,400	335,076	286,678	52,248	8,388	226,042
1997	1	25,921	26,800	25,546	20,520	0	5,026
1996	6	215,078	200,973	201,533	140,904	0	60,629
1995	6	753,024	632,700	609,043	524,571	0	84,472
1994	13	1,392,140	1,236,488	1,224,769	1,045,718	0	179,051
1993	37	4,098,618	3,556,005	3,580,297	3,036,275	9,884	534,138
1992	95	42,147,689	39,132,496	12,280,562	9,104,192	1,772	3,174,598
1991	103	61,593,332	52,274,435	19,938,700	14,410,415	2,636	5,525,649
1990	148	13,138,300	12,215,600	8,629,084	6,397,473	0	2,231,611
1989	174	26,811,496	21,931,451	9,326,725	3,985,855	0	5,340,870
1988	164	34,421,089	23,652,902	9,180,495	4,232,545	0	4,947,950
1987	133	4,311,700	4,020,700	2,773,202	1,613,502	0	1,159,700
1986	98	5,657,100	5,217,200	3,476,140	2,209,924	0	1,266,216
1985	87	2,235,182	2,000,044	1,631,166	1,095,601	0	535,565
1984	62	1,905,924	1,603,923	1,373,198	941,674	0	431,524
1983	35	3,194,452	2,275,313	2,893,969	1,850,553	0	1,043,416
1982	25	681,025	552,436	268,372	213,578	0	54,794
1981	5	4,808,042	3,778,486	79,208	71,358	0	7,850
1980	7	218,332	199,846	138,623	110,248	0	28,375
1934-79	251	8,671,804	5,528,330	4,797,969	4,441,887	0	356,082

Recoveries and Losses by the Deposit Insurance Fund on Disbursements for the Protection of Depositors, 1934 through 2007 (continued)

Deposit Payoff Cases²

Dollars in Thousands

Year ³	Number of Banks/ Thrifts	Total Assets	Total Deposit	Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	609	\$ 18,687,250	\$ 17,157,091	\$ 15,935,384	\$ 11,302,628	\$ 63,013	\$ 4,569,743
2007	0	0	0	0	0	0	0
2006	0	0	0	0	0	0	0
2005	0	0	0	0	0	0	0
2004	1	15,346	13,005	6,114	6,114	0	0
2003	0	0	0	0	0	0	0
2002	5	1,988,479	1,663,261	1,585,058	1,285,780	58,354	240,924
2001	0	0	0	0	0	0	0
2000	0	0	0	0	0	0	0
1999	0	0	0	0	0	0	0
1998	0	0	0	0	0	0	0
1997	0	0	0	0	0	0	0
1996	0	0	0	0	0	0	0
1995	0	0	0	0	0	0	0
1994	0	0	0	0	0	0	0
1993	5	306,755	271,172	261,361	162,749	0	98,612
1992	25	2,049,320	2,018,402	1,893,324	1,401,186	0	492,138
1991	21	1,526,538	1,477,328	1,251,676	784,002	0	467,674
1990	20	2,522,500	2,257,700	2,183,400	1,641,564	4,659	537,177
1989	32	2,280,100	2,086,100	2,116,556	1,262,140	0	854,416
1988	36	1,276,700	1,278,400	1,252,160	822,612	0	429,548
1987	51	2,539,000	2,260,800	2,103,792	1,401,000	0	702,792
1986	40	1,334,500	1,253,900	1,155,981	739,659	0	416,322
1985	29	610,156	548,986	523,789	411,175	0	112,614
1984	16	855,568	784,597	791,838	699,483	0	92,355
1983	9	164,037	160,998	148,423	122,484	0	25,939
1982	7	585,418	538,917	277,240	206,247	0	70,993
1981	2	51,018	47,536	35,736	34,598	0	1,138
1980	3	17,832	16,454	13,732	11,427	0	2,305
1934-79	307	563,983	479,535	335,204	310,408	0	24,796

Assistance Transactions

Year ³	Number of Banks/ Thrifts	Total Assets	Total Deposits	Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	141	\$ 60,117,349	\$ 44,008,257	\$ 11,630,356	\$ 6,199,875	\$ 0	\$ 5,430,481
2007	0	0	0	0	0	0	0
2006	0	0	0	0	0	0	0
2005	0	0	0	0	0	0	0
2004	0	0	0	0	0	0	0
2003	0	0	0	0	0	0	0
2002	0	0	0	0	0	0	0
2001	0	0	0	0	0	0	0
2000	0	0	0	0	0	0	0
1999	0	0	0	0	0	0	0
1998	0	0	0	0	0	0	0
1997	0	0	0	0	0	0	0
1996	0	0	0	0	0	0	0
1995	0	0	0	0	0	0	0
1994	0	0	0	0	0	0	0
1993	0	0	0	0	0	0	0
1992	2	34,913	33,468	1,486	1,236	0	250
1991	3	83,843	80,378	6,117	3,093	0	3,024
1990	1	15,900	15,600	4,935	2,597	0	2,338
1989	1	77,000	73,000	2,548	252	0	2,296
1988	80	34,368,000	20,567,800	1,730,351	189,709	0	1,540,642
1987	19	2,515,600	2,118,000	160,877	713	0	160,164
1986	7	718,800	585,600	158,848	65,669	0	93,179
1985	4	5,895,930	5,510,411	765,732	406,676	0	359,056
1984	2	514,919	494,642	5,531,179	4,414,904	0	1,116,275
1983	4	3,668,434	3,005,297	764,690	427,007	0	337,683
1982	10	10,365,972	8,817,026	1,729,538	686,754	0	1,042,784
1981	3	4,838	3,914	774,055	1,265	0	772,790
1980	1	7,953	5,002	0	0	0	0
1934-79	4	1,845,247	2,698,119	0	0	0	0

¹ Totals do not include dollar amounts for the five open bank assistance transactions between 1971 and 1980. Excludes eight transactions prior to 1962 that required no disbursements. Also, disbursements, recoveries, and estimated additional recoveries do not include working capital advances to and repayments by receiverships.

² Includes insured deposit transfer cases.

³ For 1989 through 2005, amounts represent sum of separate BIF and SAIF amounts.

Note:
Total Assets and Total Deposits data is based upon the last Call Report filed by institution prior to failure.
Beginning with the 1997 Annual Report, the number of banks in the Assistance Transactions column for 1988 was changed from 21 to 80 and the number of banks in the All Cases column was changed from 221 to 280 to reflect that one assistance transaction encompassed 60 institutions. Also, certain 1982, 1983, 1989 and 1992 resolutions previously reported in either the Deposit Payoff or Deposit Assumption categories were reclassified.

Number, Assets, Deposits, Losses, and Loss to Funds of Insured Thrifts Taken Over or Closed Because of Financial Difficulties, 1989 through 1995¹

Dollars in Thousands

Year ²	Total	Assets	Deposits	Estimated Receivership Loss ³	Loss to Funds ⁴
Total	748	\$ 395,017,406	\$ 318,328,770	\$ 75,318,451	\$ 81,584,813
1995	2	423,819	414,692	28,192	27,750
1994	2	136,815	127,508	11,472	14,599
1993	10	7,178,794	5,708,253	267,595	65,212
1992	59	44,196,946	34,773,224	3,234,872	3,780,109
1991	144	78,898,904	65,173,122	8,625,587	9,123,993
1990	213	129,662,498	98,963,962	16,063,996	19,258,889
1989 ⁵	318	134,519,630	113,168,009	47,086,737	49,314,261

¹ Prior to July 1, 1995, all thrift closings were the responsibility of the Resolution Trust Corporation (RTC). Since the RTC was terminated on December 31, 1995, and all assets and liabilities transferred to the FSLIC Resolution Fund (FRF), all the results of the thrift closing activity from 1989 through 1995 are now reflected on FRF's books.

² Year is the year of failure, not the year of resolution.

³ The estimated losses represent the projected loss at the fund level from receiverships for unreimbursed subrogated claims of the FRF and unpaid advances to receiverships from the FRF.

⁴ The Loss to Funds represents the total resolution cost of the failed thrifts in the FRF-RTC funds, which includes corporate revenue and expense items such as interest expense on Federal Financing Bank debt, interest expense on escrowed funds, and interest revenue on advances to receiverships, in addition to the estimated losses for receiverships.

⁵ Total for 1989 excludes nine failures of the former FSLIC.

FDIC-Insured Institutions Closed During 2007

Dollars in Thousands

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets ²	Total Deposits ²	FDIC Disbursements	Estimated Loss ¹	Date of Closing or Acquisition	Receiver/Assuming Bank and Location
Purchase and Assumption – Insured Deposits								
Metropolitan Savings Bank Pittsburgh, PA	SB	1,534	\$ 15,760	\$ 17,587	\$ 17,671	\$ 8,906	02-02-07	Allegheny Valley Bank Pittsburgh, PA
NetBank Alpharetta, GA	SB	174,555	\$ 2,473,806	\$ 1,944,096	\$ 1,835,466	\$ 107,664	09-28-07	ING Bank Wilmington, DE
Miami Valley Bank Lakeview, OH	NM	3,938	\$ 125,362	\$ 64,965	\$ 56,412	\$ 2,969	10-04-07	Citizens Banking Company Sandusky, OH

Codes for Bank Class: NM – State-chartered bank that is not a member of the Federal Reserve System; N National bank; SB – Savings Bank; SM – State-chartered bank that is a member of the Federal Reserve System

¹ Estimated losses are as of December 31, 2007. Estimated losses are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect the asset values and projected recoveries.

² Total Assets and Total Deposits data is based upon the last Call Report filed by institution prior to failure.

FDIC Actions on Financial Institutions Applications 2005-2007

	2007	2006	2005
Deposit Insurance	215	142	219
Approved	215	142	219
Denied	0	0	0
New Branches	1,480	1,257	1,575
Approved	1,480	1,257	1,575
Denied	0	0	0
Mergers	306	229	286
Approved	306	229	286
Denied	0	0	0
Requests for Consent to Serve*	177	138	170
Approved	177	138	170
Section 19	24	11	13
Section 32	153	127	157
Denied	0	0	0
Section 19	0	0	0
Section 32	0	0	0
Notices of Change in Control	17	3	9
Letters of Intent Not to Disapprove	15	2	9
Disapproved	2	1	0
Brokered Deposit Waivers	22	26	40
Approved	22	26	40
Denied	0	0	0
Savings Association Activities*	54	33	59
Approved	54	33	59
Denied	0	0	0
State Bank Activities/Investments[†]	21	14	18
Approved	21	14	18
Denied	0	0	0
Conversions of Mutual Institutions	10	9	11
Non-Objection	10	9	11
Objection	0	0	0

* Under Section 19 of the Federal Deposit Insurance (FDI) Act, an insured institution must receive FDIC approval before employing a person convicted of dishonesty or breach of trust. Under Section 32, the FDIC must approve any change of directors or senior executive officers at a state nonmember bank that is not in compliance with capital requirements or is otherwise in troubled condition.

† Amendments to Part 303 of the FDIC Rules and Regulations changed FDIC oversight responsibility in October 1998. In 1998, Part 303 changed the Delegations of Authority to act upon applications.

‡ Section 24 of the FDI Act, in general, precludes a federally insured state bank from engaging in an activity not permissible for a national bank and requires notices to be filed with the FDIC.

Compliance, Enforcement and Other Related Legal Actions 2005-2007

	2007	2006	2005
Total Number of Actions Initiated by the FDIC	208	244	192
Termination of Insurance			
Involuntary Termination			
Sec. 8a For Violations, Unsafe/Unsound Practices or Condition	0	0	0
Voluntary Termination			
Sec. 8a By Order Upon Request	0	1	0
Sec. 8p No Deposits	2	2	2
Sec. 8q Deposits Assumed	4	3	11
Sec. 8b Cease-and-Desist Actions			
Notices of Charges Issued*	3	0	0
Consent Orders	48	29	20
Sec. 8e Removal/Prohibition of Director or Officer			
Notices of Intention to Remove/Prohibit	1	3	2
Consent Orders	40	89	73
Sec. 8g Suspension/Removal When Charged With Crime			
	0	0	0
Civil Money Penalties Issued			
Sec. 7a Call Report Penalties	0	0	0
Sec. 8i Civil Money Penalties	96	93	69
Sec. 10c Orders of Investigation			
	7	17	15
Sec. 19 Denials of Service After Criminal Conviction			
	0	0	0
Sec. 32 Notices Disapproving Officer/Director's Request for Review			
	0	0	0
Truth - in - Lending Act Reimbursement Actions			
Denials of Requests for Relief	0	0	0
Grants of Relief	0	2	0
Banks Making Reimbursement*	91	110	78
Suspicious Activity Reports (Open and closed institutions)*			
	137,548	119,384	102,080
Other Actions Not Listed†			
	7	5	0

* These actions do not constitute the initiation of a formal enforcement action and, therefore, are not included in the total number of actions initiated.

† Other Actions Not Listed includes six Section 19 Waiver grants and one Other Formal Action.

FDIC Board of Directors

Martin J. Gruenberg, Sheila C. Bair, Chairman (seated),
John C. Dugan, Thomas J. Curry, and John M. Reich (standing, left to right)



Sheila C. Bair

Sheila C. Bair was sworn in as the 19th Chairman of the Federal Deposit Insurance Corporation (FDIC) on June 26, 2006. She was appointed Chairman for a five-year term, and as a member of the FDIC Board of Directors through July 2013.

Before her appointment to the FDIC, Ms. Bair was the Dean's Professor of Financial Regulatory Policy for the Isenberg School of Management at the University of Massachusetts-Amherst since 2002. Other career

experience includes serving as Assistant Secretary for Financial Institutions at the U.S. Department of the Treasury (2001 to 2002), Senior Vice President for Government Relations of the New York Stock Exchange (1995 to 2000), a Commissioner and Acting Chairman of the Commodity Futures Trading Commission (1991 to 1995), and Research Director, Deputy Counsel and Counsel to Senate Majority Leader Robert Dole (1981 to 1988).

While an academic, Chairman Bair also served on the FDIC's Advisory Committee on Banking Policy.

Chairman Bair's prior work focused heavily on the banking sector. As the Assistant Treasury Secretary for Financial Institutions, she was charged with helping to develop the Administration's positions on banking policy issues. She worked closely with Treasury's own banking regulatory bureaus, the Office of

the Comptroller of the Currency and the Office of Thrift Supervision, as well as the Federal Reserve Board and the FDIC. Ms. Bair's teaching and research at the University of Massachusetts also dealt extensively with banking and related issues.

Ms. Bair has served as a member of several professional and non-profit organizations, including the Insurance Marketplace Standards Association, Women in Housing and Finance, Center for Responsible Lending, NASD Ahead-of-the-Curve Advisory Committee, Massachusetts Savings Makes Cents, American Bar Association, Exchequer Club, and Society of Children's Book Writers and Illustrators.

Five months after becoming Chairman, Ms. Bair was named to The Wall Street Journal magazine *Smart Money's* (November 2006) "Power 30" list – the magazine's lineup of the 30 most influential people in investing. Chairman Bair has also received several honors for her published work on financial issues, including her educational writings on money and finance for children, and for professional achievement. Among the honors she has received are: Distinguished Achievement Award, Association of Education Publishers (2005); Personal Service Feature of the Year, and Author of the Month Awards, *Highlights Magazine for Children* (2002, 2003 and 2004); and The Treasury Medal (2002). Her first book – *Rock, Brock and the Savings Shock*, a publication for children – was published in 2006.

Chairman Bair received a bachelor's degree from Kansas University and a J.D. from Kansas University School of Law. She is married to Scott P. Cooper and has two children.

Martin J. Gruenberg

Martin J. Gruenberg was sworn in as Vice Chairman of the FDIC Board of Directors on August 22, 2005. Upon the resignation of Chairman Donald Powell, he served as Acting Chairman from November 15, 2005, to June 26, 2006. On November 2, 2007, Mr. Gruenberg was named Chairman of the Executive Council and President of the International Association of Deposit Insurers (IADI).

Mr. Gruenberg joined the FDIC Board after broad congressional experience in the financial services and regulatory areas. He served as Senior Counsel to Senator Paul S. Sarbanes (D-MD) on the staff of the Senate Committee on Banking, Housing, and Urban Affairs from 1993 to 2005. Mr. Gruenberg advised the Senator on issues of domestic and international financial regulation, monetary policy and trade. He also served as Staff Director of the Banking Committee's Subcommittee on International Finance and Monetary Policy from 1987 to 1992. Major legislation in which Mr. Gruenberg played an active role during his service on the Committee includes the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), the Gramm-Leach-Bliley Act, and the Sarbanes-Oxley Act of 2002.

Mr. Gruenberg holds a J.D. from Case Western Reserve Law School and an A.B. from Princeton University, Woodrow Wilson School of Public and International Affairs.

Thomas J. Curry

Thomas J. Curry took office on January 12, 2004, as a member of the Board of Directors of the Federal Deposit Insurance Corporation for a six-year term. Mr. Curry serves as Chairman of the FDIC's Assessment Appeals Committee and Case Review Committee.

Mr. Curry also serves as the Chairman of the NeighborWorks® America Board of Directors. NeighborWorks® America is a national nonprofit organization chartered by Congress to provide financial support, technical assistance, and training for community-based neighborhood revitalization efforts.

Prior to joining the FDIC's Board of Directors, Mr. Curry served five Massachusetts Governors as the Commonwealth's Commissioner of Banks from 1990 to 1991 and from 1995 to 2003. He served as Acting Commissioner from February 1994 to June 1995. He previously served as First Deputy Commissioner and Assistant General Counsel within the Massachusetts Division of Banks. He entered state government in 1982 as an attorney with the Massachusetts Secretary of State's Office.

Director Curry served as the Chairman of the Conference of State Bank Supervisors from 2000 to 2001. He served two terms on the State Liaison Committee of the Federal Financial Institutions Examination Council, including a term as Committee chairman.

He is a graduate of Manhattan College (summa cum laude), where he was elected to Phi Beta Kappa. He received his law degree from the New England School of Law.

John C. Dugan

John C. Dugan was sworn in as the 29th Comptroller of the Currency on August 4, 2005. In addition to serving as a director of the FDIC, Comptroller Dugan also serves as chairman of the Joint Forum, a group of senior financial sector regulators from the United States, Canada, Europe, Japan, and Australia, and as a director of the Federal Financial Institutions Examination Council and NeighborWorks® America.

Prior to his appointment as Comptroller, Mr. Dugan was a partner at the law firm of Covington & Burling, where he chaired the firm's Financial Institutions Group. He specialized in banking and financial institution regulation. He also served as outside counsel to the ABA Securities Association.

He served at the Department of Treasury from 1989 to 1993 and was appointed assistant secretary for domestic finance in 1992. In 1991, he oversaw a comprehensive study of the banking industry that formed the basis for the financial modernization legislation proposed by the administration of the first President Bush. From 1985 to 1989, Mr. Dugan was minority counsel and minority general counsel for the U.S. Senate Committee on Banking, Housing, and Urban Affairs.

Among his professional and volunteer activities before becoming Comptroller, he served as a director of Minbanc, a charitable organization whose mission is to enhance professional and educational opportunities for minorities in the banking industry. He was also a member of the American Bar Association's committee on banking law, the Federal Bar

Association's section of financial institutions and the economy, and the District of Columbia Bar Association's section of corporations, finance, and securities laws.

A graduate of the University of Michigan in 1977 with an A.B. in English literature, Mr. Dugan also earned his J.D. from Harvard Law School in 1981.

John M. Reich

John M. Reich was sworn in August 9, 2005, as Director of the Office of Thrift Supervision (OTS). The President nominated Mr. Reich to be OTS Director on June 7, 2005, and the Senate confirmed his nomination on July 29, 2005. In this capacity, Mr. Reich also serves as a member of the Board of Directors of the FDIC.

Prior to joining OTS, Mr. Reich served as Vice Chairman of the Board of Directors of the Federal Deposit Insurance Corporation (FDIC) since November 2002. He has been a member of the FDIC Board since January 2001. He also served as Acting Chairman of the FDIC from July to August 2001.

Prior to coming to Washington, DC, Mr. Reich spent 23 years as a community banker in Illinois and Florida, including ten years as President and CEO of the National Bank of Sarasota, in Sarasota, Florida.

Mr. Reich also served 12 years on the staff of U.S. Senator Connie Mack (R-FL), before joining the FDIC. From 1998 through 2000,

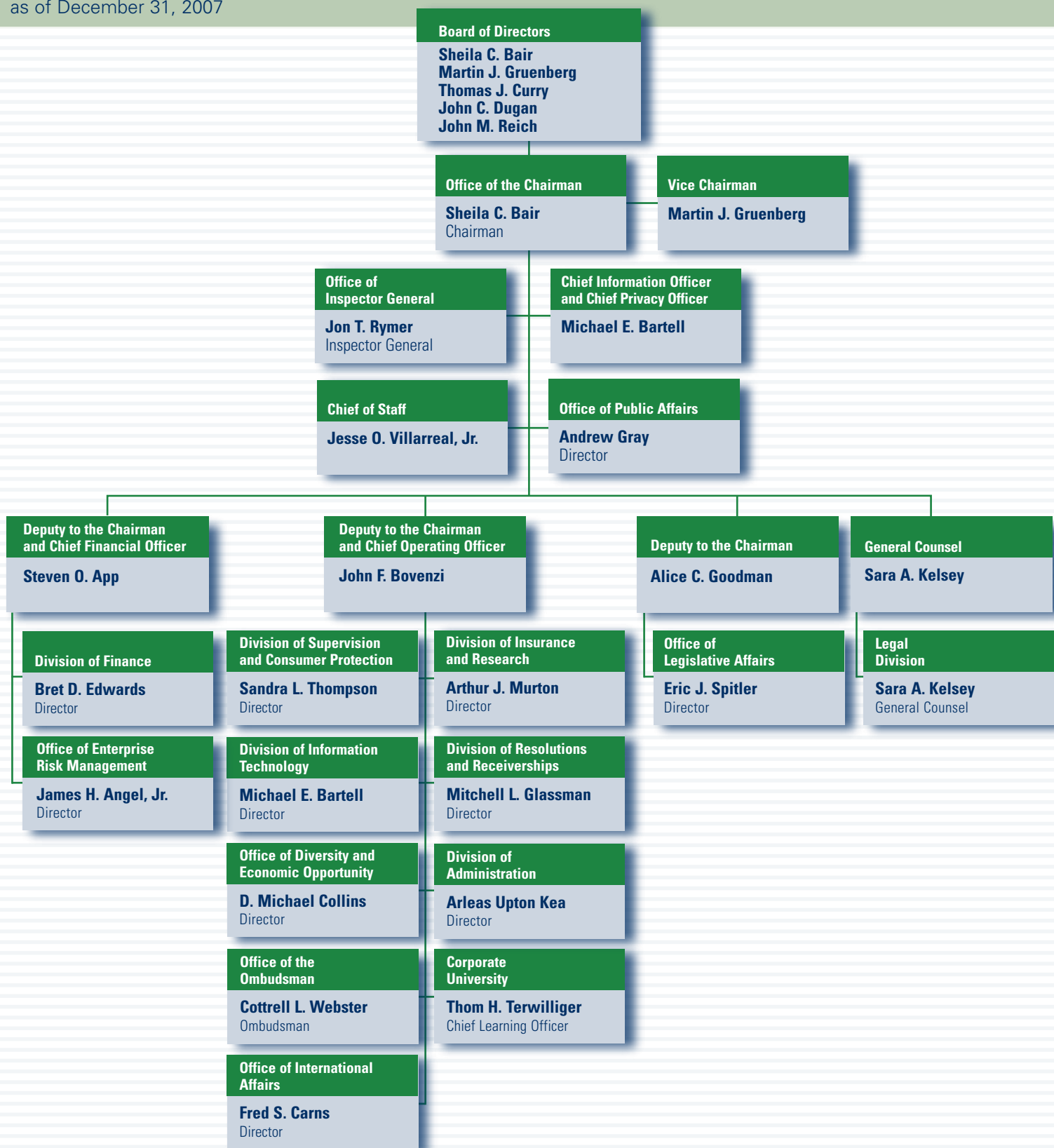
he was Senator Mack's Chief of Staff, directing and overseeing all of the Senator's offices and committee activities, including those at the Senate Banking Committee.

Mr. Reich's community service includes serving as Chairman of the Board of Trustees of a public hospital facility in Ft. Myers, FL, and Chairman of the Board of Directors of the Sarasota Family YMCA. He has also served as a Board member for a number of civic organizations, and was active for many years in youth baseball programs.

Mr. Reich holds a B.S. degree from Southern Illinois University and an M.B.A. from the University of South Florida. He is also a graduate of Louisiana State University's School of Banking of the South.

FDIC Organization Chart/Officials

as of December 31, 2007



Corporate Staffing

Staffing Trends 1998-2007



Note:
All staffing totals reflect year-end balances.

Number of Employees of the FDIC by Division/Office 2006-2007 (year-end)

	Total		Washington		Regional/Field	
	2007	2006	2007	2006	2007	2006
Executive Offices*	46	39	46	39	0	0
Division of Supervision and Consumer Protection	2,557	2,517	183	195	2,374	2,322
Division of Resolutions and Receiverships [▼]	218	231	56	57	162	174
Legal Division	398	413	252	263	146	150
Division of Finance [▼]	167	161	155	161	12	0
Division of Information Technology	276	274	213	214	63	60
Division of Insurance and Research	177	185	145	152	32	33
Division of Administration	310	311	208	207	102	104
Office of Inspector General	114	124	81	91	33	33
Office of Diversity and Economic Opportunity	31	28	31	28	0	0
Office of the Ombudsman	12	12	12	10	0	2
Office of Enterprise Risk Management	12	11	12	11	0	0
Corporate University	214	170	52	38	162	132
Total	4,532	4,476	1,446	1,466	3,086	3,010

* Includes the Offices of the Chairman, Vice Chairman, Director (Appointive), Chief Operating Officer, Chief Financial Officer, Legislative Affairs, Public Affairs and International Affairs.

▼ On January 26, 2007, the Deposit Compliance Audit Section was transferred from the Division of Resolutions and Receiverships to the Division of Finance.

Sources of Information

Home Page on the Internet

www.fdic.gov

A wide range of banking, consumer and financial information is available on the FDIC's Internet home page. This includes the FDIC's Electronic Deposit Insurance Estimator (EDIE), which estimates an individual's deposit insurance coverage; the Institution Directory – financial profiles of FDIC-insured institutions; Community Reinvestment Act evaluations and ratings for institutions supervised by the FDIC; Call Reports – banks' reports of condition and income; and *Money Smart*, a training program to help individuals outside the financial mainstream enhance their money management skills and create positive banking relationships. Readers also can access a variety of consumer pamphlets, FDIC press releases, speeches and other updates on the agency's activities, as well as corporate databases and customized reports of FDIC and banking industry information.

FDIC Call Center

**Phone: 877-275-3342
(877-ASK FDIC)
703-562-2222**

**Hearing
Impaired: 800-925-4618**

The FDIC Call Center in Washington, DC, is the primary telephone point of contact for general questions from the banking community, the public and FDIC employees. The Call Center directly, or in concert with other FDIC subject-matter experts, responds to questions about deposit insurance and other consumer issues and concerns, as well as questions about FDIC programs and activities. The Call Center also makes referrals to other federal and state agencies as needed. Hours of operation are 8:00 a.m. to 8:00 p.m. Eastern Time. Information is also available in Spanish. Recorded information about deposit insurance and other topics is available 24 hours a day at the same telephone number.

**Office of the Ombudsman
3501 Fairfax Drive
Room E-2022
Arlington, VA 22226**

**Phone: 877-275-3342
(877-ASK FDIC)**

Fax: 703-562-6057

E-mail: ombudsman@fdic.gov

The Office of the Ombudsman (OO) is an independent, neutral and confidential resource and liaison for the banking industry and the general public. The OO responds to inquiries about the FDIC in a fair, impartial and timely manner. It researches questions and complaints primarily from bankers. The OO also recommends ways to improve FDIC operations, regulations and customer service.

**Public Information Center
3501 Fairfax Drive
Room E-1002
Arlington, VA 22226**

**Phone: 877-275-3342
(877-ASK FDIC), or
703-562-2200**

Fax: 703-562-2296

E-mail: publicinfo@fdic.gov

FDIC publications, press releases, speeches and congressional testimony, directives to financial institutions, policy manuals and other documents are available on request or by subscription through the Public Information Center. These documents include the *Quarterly Banking Profile*, *FDIC Consumer News* and a variety of deposit insurance and consumer pamphlets.

Regional and Area Offices

Atlanta Regional Office

10 Tenth Street, NE
Suite 800
Atlanta, Georgia 30309
(678) 916-2200

Alabama
Florida
Georgia
North Carolina
South Carolina

Virginia
West Virginia

Chicago Regional Office

500 West Monroe Street
Suite 3500
Chicago, Illinois 60661
(312) 382-7500

Illinois
Indiana
Kentucky
Michigan
Ohio

Wisconsin

Dallas Regional Office

1601 Bryan Street
Dallas, Texas 75201
(214) 754-0098

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New Mexico
Oklahoma
Texas

Memphis Area Office

5100 Poplar Avenue
Suite 1900
Memphis, Tennessee 38137
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Louisiana
Mississippi
Tennessee

Kansas City Regional Office

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Kansas City, Missouri 64108
(816) 234-8000

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Kansas
Minnesota
Missouri
Nebraska

North Dakota
South Dakota

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20 Exchange Place
4th Floor
New York, New York 10005
(917) 320-2500

Delaware
District of Columbia
Maryland
New Jersey
New York
Pennsylvania

Puerto Rico
Virgin Islands

Boston Area Office

15 Braintree Hill Office Park
Suite 100
Braintree, Massachusetts 02184
(781) 794-5500

Connecticut
Maine
Massachusetts
New Hampshire
Rhode Island
Vermont

San Francisco Regional Office

25 Ecker Street
Suite 2300
San Francisco, California 94105
(415) 546-0160

Alaska
Arizona
California
Guam
Hawaii
Idaho

Montana
Nevada
Oregon
Utah
Washington
Wyoming

**Appendix C –
Office of Inspector General’s Assessment of the Management and Performance Challenges
Facing the FDIC**

**2008 Management and
Performance Challenges**

The following discussion reflects the Office of Inspector General’s (OIG) view of the management and performance challenges facing the FDIC as it works to accomplish its mission in the coming year. Overall, and as discussed in more detail below, these challenges primarily exist due to significant changes impacting the Corporation—changes in the economy, including systemic risk caused by subprime mortgage lending; the financial services industry; the characteristics of today’s depository institutions, including the existence of many more large, complex banks; the regulatory arena; lending practices; information technology; and the examination processes, work environment, and priorities of the FDIC. Key elements in addressing these challenges are cooperation, coordination, and communication among federal and state banking regulators; the Congress; others in the financial services industry, both domestically and abroad; and the public. Such activities need to be complemented by a vigilant, well trained and prepared FDIC workforce that is fully engaged in insurance and supervisory programs and other supporting processes that identify and address risky products, practices, and activities that can threaten the viability of the insurance fund, harm consumers, and undermine stability and public confidence in the banking system. Likewise, in light of the existence of more large, complex banks, the FDIC must ensure that it has the necessary skills, processes, and systems to carry out its resolution mission in the event that such a bank would fail.

In our view, the FDIC is fully committed to addressing these challenges and has many actions underway in that regard. The OIG is prepared to continue to work with our corporate colleagues throughout the coming year to assist them in successfully doing so.

**Identifying and Mitigating Risks
to the Deposit Insurance Fund**

As of the end of the third quarter of 2007, the Deposit Insurance Fund balance was \$51.8 billion. The FDIC insured \$4.241 trillion in deposits in 8,571 institutions. Of these FDIC-insured institutions, as of September 30, 2007, the 10 largest ones controlled almost 46 percent of the total assets of all insured financial institutions. The FDIC is the primary federal regulator for none of these institutions but is responsible for insuring their deposits and for resolution in the unlikely event of failure of one or more of these institutions. The Corporation is also working to maintain strong regulatory capital standards under the Basel accord and has been implementing legislated reforms to deposit insurance. The Corporation also continues to address matters related to industrial loan companies and to address potential risks that a volatile economy can pose to the fund. Finally, the Corporation has taken on a leadership role as it works with other governments implementing or strengthening deposit insurance and bank supervision around the world. Given these circumstances, the Corporation faces a number of challenges:

Assessing and Managing Risks in Large Banks

The Corporation must ensure it has ready access to the information it needs to effectively identify and assess risks that large institutions, including those it does not supervise, pose to the Deposit Insurance Fund (DIF). Effective communication and coordination with the other primary federal banking regulators is central to the Corporation’s ability to meet this challenge. Moreover, given the inherent complexity of these large institutions, the FDIC must have or develop the capability to assess and fully understand the risks associated with these institutions, which are different from those found in the smaller banks with which the FDIC has historical experience.

To strengthen its oversight of large institutions, the Corporation has implemented some key programs: the Large Insured Depository Institutions program, Dedicated Examiner program, and Off-site Review program. The FDIC also participates with the other federal regulators in the Shared National Credit program. The FDIC is also emphasizing liquidity management due to uncertainties in the financial markets area from the subprime mortgage turmoil.

Maintaining Strong Regulatory Capital Standards

The FDIC and other federal banking agencies agreed to finalize rules implementing Basel II advanced capital requirements for large, complex banks. The agreement contains important safeguards against unrestrained 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 FDIC must continue its work in this realm to ensure strong regulatory capital standards.

Implementing New Deposit Insurance Regulations

On February 6, 2006, President Bush signed into law the Federal Deposit Insurance (FDI) Reform Act of 2005. The FDI Reform Conforming Amendments Act of 2005, enacted on February 15, 2006, contains necessary technical and conforming changes to implement deposit insurance reform as well as a number of study and survey requirements. In 2006, the Board adopted a number of final rules implementing specific reforms concerning the one-time assessment credit, risk-based assessments, and the designated reserve ratio, and put in place a temporary rule for dividends. In 2007, the Corporation made significant changes to its IT systems and business processes in order to prepare invoices and collect assessments in accordance with the new risk-based assessment and credit rules. In September 2007, the Board adopted an advance notice of proposed rulemaking seeking comment on alternative approaches to allocate dividends. In 2008, the FDIC expects to publish proposed and final dividend rules to replace the temporary rule, which will sunset at the end of this year. Also in 2008, the Corporation will continue to modify, as necessary, the processes and systems implementing the new rules and to begin evaluating the effectiveness of the new assessment methods and processes. Finally, for both 2007 and 2008, the Board adopted a designated (target) reserve ratio of 1.25 percent, which has resulted in the need to set risk-based assessment rates above the base rate schedule in order to gradually raise the reserve ratio to the target.

Granting Insurance to and Supervising Industrial Loan Companies

In January 2007, the FDIC Board of Directors voted to continue for one year a moratorium on applications for deposit insurance and change in control notices for industrial loan companies (ILCs) that will be owned by commercial companies. The moratorium does not apply to ILCs owned by financial companies. The Board also issued a proposed rule to strengthen the framework for consideration of applications or notices for industrial banks owned by financial companies not subject to federal consolidated bank supervision. According to FDIC Chairman Bair, the growth in commercial ownership of ILCs raises public policy concerns. The moratorium would provide Congress an opportunity to address the issue legislatively while the FDIC considers how best to respond to any safety and soundness issues surrounding commercial ownership under existing law. This area will continue to require FDIC attention.

Serving as a Model for Deposit Insurers and Bank Supervisors Around the World

Deposit insurance helps maintain financial stability—on a national or international scale—in times of economic stress. Increasingly, the Corporation is playing a leadership role in the global arena as foreign governments look to the FDIC as a model for establishing or strengthening their systems of deposit insurance and bank supervision. For example, in August 2007, the FDIC and the People's Republic of China signed a Memorandum of Understanding (MOU) forging an international working relationship to develop and expand methods of interaction on economic and financial issues. The MOU is a positive step in establishing a deposit insurance system in China. In November 2007, an MOU was signed with the Korean Deposit Insurance Corporation (KDIC), which provides for a KDIC employee to be temporarily assigned to the FDIC. The FDIC is joining others in the International Association of Deposit Insurers (IADI) to help strengthen the role of deposit insurance around the world. In 2007, FDIC Vice Chairman Gruenberg was elected to serve as Chairman of the Executive Council and President of the IADI. The FDIC was also elected as the North American Region Board member for the Association of Supervisors of Banks in the Americas (ASBA), providing leadership to several ASBA working groups and instruction for ASBA operational risk management courses. The FDIC may face new challenges as it expands its role in these types of international activities.

Ensuring Institution Safety and Soundness Through Effective Examinations, Enforcement, and Follow-Up

Effective supervision is a cornerstone of the FDIC's efforts to ensure stability and public confidence in the nation's financial system. As of the third quarter 2007, the FDIC was the primary federal regulator for more than 5,200 institutions. The FDIC performs risk management, information technology, trust, and other types of examinations of FDIC-supervised insured depository institutions. (See also a discussion of compliance examinations under *Protecting and Educating Consumers and Ensuring Compliance Through Effective Examinations, Enforcement, and Follow-up*.) As part of risk management examinations, the FDIC also ensures that institutions comply with the regulatory requirements of the Bank Secrecy Act. The Corporation's system of supervisory controls must identify and effectively address financial institution activities that are unsafe, unsound, illegal, or improper. Specific challenges related to this core FDIC function include:

Maintaining an Effective Examination and Supervision Program

The FDIC has adopted a risk-focused approach to examinations to minimize regulatory burden and direct its resources to those areas that carry the greatest potential risk. At the end of the year, the FDIC Chairman voiced her support and trust in examiner judgment; announced elimination of the Maximum Efficiency, Risk-Focused, Institution Targeted (MERIT) examination program; and recommended other changes to the examination program to allow examiners more flexibility in planning and conducting examinations. Further details on the changes to this core FDIC function will be forthcoming and will likely have a significant impact on the FDIC's examination workforce, which is expected to total 1,808 by the end of 2008 (1,423 risk management examiners; 385 compliance examiners). Examiners today work in an environment where risk may be increasingly difficult to ascertain and quantify, for example as a result of the lack of financial statement transparency that derives from off-bank balance sheet liabilities at a time when, for instance, the FDIC increasingly employs off-site monitoring. The FDIC must also ensure that financial institutions

have adequate corporate governance structures relative to the bank's size, complexity, and risk profile to prevent financial losses and maintain confidence in those entrusted with operating the institutions. The FDIC's follow-up processes must be effective to ensure institutions are promptly complying with supervisory actions resulting from the FDIC's examination process. The FDIC Board approved an increase in authorized staffing from 4,716 in 2007 to 4,810 for 2008, primarily for additional bank examiners, including the rehiring of retired examiners to return to the FDIC temporarily in the interest of ensuring an examination workforce with the breadth of experience needed to detect risk management concerns during the examination process.

Identifying and Addressing Risks Related to Consumer Debt

The past several years have been marked by increased participation in the mortgage market by providers other than insured banks and thrift institutions. About half of subprime mortgage originations in 2005 and 2006 were carried out by companies that were not subject to examination by a federal supervisor. The use of securitization as a funding method also has changed the financial system by moving large volumes of assets off the balance sheets of federally insured financial institutions. As industry practices changed, a number of risk management fundamentals were seemingly ignored or weakened. Practices such as limited or no income verification, faulty appraisals, risk layering through combinations of loan products, and no money down or interest-only loan products all serve to heighten risk when combined with the ability to securitize and sell the loans. Lax lending standards and inadequate consumer protections resulted in widespread failure to underwrite loans to borrowers based on the borrowers' ability to pay at the fully indexed rate. As the Chairman pointed out in December 2007, there are an estimated 1.7 million owner-occupied subprime hybrid adjustable rate mortgages, with outstanding balances of \$367 billion, that are scheduled to have their interest rates reset in 2008 and 2009. The impact of poor underwriting practices has spread throughout the economy, harming consumers and investors while creating volatility in the financial markets. The FDIC is working with other regulators in urging banks and mortgage servicers to restructure loans, as feasible, to avoid foreclosures and keep consumers in their homes. The full ramifications of the troubled subprime mortgage market have yet to be seen, and the months ahead will be challenging ones. Similar concerns related to other consumer debt such as credit card lending may also require focused FDIC attention in the future.

Contributing to Public Confidence in Insured Depository Institutions

Guarding Against Financial Crimes in Insured Institutions

All financial institutions are at risk of being used to facilitate or being victimized by criminal activities such as money laundering and terrorist financing. Such activities serve to undermine public confidence in the nation's financial system. The Corporation's challenge is to develop and implement programs and activities to minimize the extent to which the institutions it supervises are involved in or victims of financial crimes and other abuse. Increased reliance by both financial institutions and non-financial institution lenders on third-party brokers has also created opportunities for increased real-estate frauds, including certain property flipping schemes and other mortgage frauds. Examiners must be alert to the possibility of multiple types of fraudulent activity in financial institutions, and make good use of reports, information, and other resources available to them to help detect such fraud.

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), enacted on October 26, 2001, was passed by the United States Congress in response to the September 11, 2001, attacks and made a number of amendments to the anti-money laundering provisions of the Bank Secrecy Act (BSA). Congress found that money laundering “provides the financial fuel that permits transnational criminal enterprises to conduct and expand their operations to the detriment of the safety and security of American citizens” and that it is critical to the financing of global terrorism and terrorist attacks. Accordingly, FDIC examiners play an important role in ensuring that the institutions for which they serve as primary federal regulator comply with the Act.

Part of the FDIC’s overall responsibility and authority to examine banks for safety and soundness relates to compliance with the BSA, which requires financial institutions to keep records and file reports on certain financial transactions. FDIC-supervised institutions must establish and maintain procedures to comply with BSA requirements. An institution’s level of risk for potential terrorist financing and money laundering determines the necessary scope of the BSA examination. In a related vein, the U.S. Department of the Treasury’s Office of Foreign Assets Control (OFAC) promulgates, develops, and administers economic and trade sanctions such as trade embargoes, blocked assets controls, and other commercial and financial restrictions under the provisions of various laws. Generally, OFAC regulations prohibit financial institutions from engaging in transactions with the governments of, or individuals or entities associated with, foreign countries against which federal law imposes economic sanctions. A challenge for the FDIC is to provide effective oversight of FDIC-supervised institutions’ compliance with BSA and OFAC regulations.

In its supervisory capacity, the FDIC also analyzes data security threats, occurrences of bank security breaches, and incidents of electronic crime that involve financial institutions. Despite generally strong controls and practices by financial institutions, new methods for stealing personal data and committing fraud with that data continue to emerge. The FDIC needs to continue its work to ensure the security of customer data against such criminal activity to help maintain the public’s trust and confidence in the banking system.

Protecting and Educating Consumers and Ensuring Compliance Through Effective Examinations, Enforcement, and Follow-up

The FDIC protects consumers by overseeing a variety of statutory and regulatory requirements aimed at safeguarding consumer privacy and preventing unfair or deceptive practices involving FDIC-supervised institutions. Through community outreach efforts and technical assistance, the FDIC educates consumers and encourages lenders to work with members of their local communities in meeting the communities’ credit needs and to serve the unbanked and underbanked members of their communities. Specific challenges include:

Safeguarding the Privacy of Consumer Information

The FDIC conducts periodic examinations to verify that institutions comply with laws designed to protect personal information. The FDIC evaluates the adequacy of financial institutions’ programs for securing customer data and may pursue informal or formal supervisory action if it finds a deficiency. As an added challenge, banks are increasingly using third-party

servicers to provide support for core information and transaction processing functions, and these servicers may operate domestically or abroad. The obligations of a financial institution to protect the privacy and security of customer information under U.S. laws and regulations remain in full effect.

Promoting Fairness and Inclusion in the Delivery of Information, Products, and Services to Consumers and Communities

FDIC Chairman Bair has stressed the importance of economic inclusion and has voiced concern that market mechanisms may not work as well as they should for low-to-moderate income families who must often pay relatively higher amounts for basic financial services that others obtain at far less cost. Many people lack the financial skills needed to analyze and compare products and their prices or to understand disclosures that describe a product and its true costs. As the Chairman has pointed out, continuing dialogue among consumer advocates, regulators, and the banking industry is key to the challenge of closing the gap between what the unbanked and underbanked pay for credit and what those in the mainstream pay. An additional challenge is to balance the need for regulation with undue interference in legitimate business activities.

Ensuring Compliance with Laws and Regulations and Follow-up on Violations

The FDIC's compliance program, including examinations, visitations, and follow-up supervisory attention on violations and other program deficiencies, is critical to ensuring that consumers and businesses obtain the benefits and protections afforded them by law. The compliance examination is the primary means by which the FDIC determines the extent to which a financial institution complies with more than 20 consumer protection laws and related regulations. The FDIC also conducts Community Reinvestment Act (CRA) examinations in accordance with the Community Reinvestment Act, a 1977 law intended to encourage insured banks and thrifts to help meet the credit needs of the communities in which they are chartered to do business, including low- and moderate-income neighborhoods, consistent with safe and sound operations.

Additionally, the Real Estate Settlement Procedures Act of 1974 (RESPA) is applicable to all federally-related mortgage loans, except for certain types of loans that are exempted. Although overall authority for RESPA compliance and enforcement remains with the Department of Housing and Urban Development, the FDIC and other federal banking agencies examine financial institutions for compliance. There is significant risk in this area due to downturns in the residential real estate market, which could cause mortgage lenders to be more aggressive in their lending practices; anticipation of large restructuring and refinancing of nontraditional real estate loans in the near future; and the need to determine whether financial institutions are providing adequate disclosure to ensure consumers understand the types of real estate loans they are obtaining.

As with risk management examinations discussed earlier, the changes that the Chairman announced at the end of 2007 will have a definite impact on the FDIC's compliance examination activities as well and will pose new challenges. Among those changes, the Chairman indicated that rules associated with report of examination content would be eliminated and workpaper requirements would be altered, with the report of examination becoming the principal document of record.

Visitations are an important means of reviewing the compliance posture of newly chartered institutions coming under FDIC supervision or for following up on an institution's progress on corrective actions. Investigations are used to follow up on a particular consumer's inquiries or complaints. In instances where repeat violations occur, the FDIC must remain vigilant in ensuring appropriate corrective actions are taken.

Being Ready for Potential Insured Institution Failures

The FDIC is responsible for the resolution of failed banks or savings associations and needs to be ready for the resolution of any institution that fails, regardless of size. The challenge is especially great if a large and complex bank fails. By carefully managing the Deposit Insurance Fund, the FDIC can protect insured depositors by using fund assets to pay insured deposits at the time of institution failure. After a relatively long period during which no banks failed, the FDIC was appointed receiver of Metropolitan Savings Bank, Pittsburgh, Pennsylvania on February 2, 2007. Metropolitan was the first FDIC-insured institution to fail since June 25, 2004. Metropolitan's failure was followed by two additional closings: NetBank, FSB, Alpharetta, Georgia, a \$2.2 billion Internet bank on September 28, 2007, and Miami Valley Bank, a \$92.6 million institution in Lakeview, Ohio, which failed on October 4, 2007.

In total, the FDIC insures more than 8,560 commercial banks and savings institutions, which together hold more than \$12 trillion in assets. While over 90 percent of U.S. banks and thrifts are small community-based institutions, the 25 largest banking organizations hold about 71 percent of the industry's assets. Thus, the FDIC could face the challenge of handling a failing institution with a significantly larger number of insured deposits than it has had to in the past. In recent history, the largest number of deposit accounts in a failed institution for which the FDIC had to make an insurance determination was about 175,000 for NetBank, referenced above. Today, however, some of the larger banks have more than 50 million deposit accounts.

The Corporation's ability to rapidly and accurately determine the insured status of deposit accounts is essential to resolving bank failures in the most cost-effective and least disruptive manner and preserving the public's confidence in the FDIC. To that end, the Corporation needs to continue to explore new strategies and ensure corporate readiness to handle failing and failed institutions, including large or multiple bank failures. It needs to do so in light of past FDIC downsizing activities—which could prove especially burdensome for current receivership and resolutions staff; corresponding loss of institutional knowledge and expertise; and the relative lack of recent experience with failed banks.

The FDIC is focusing on developing a strategy for closing a very large, non-systemic bank. In that connection, the Corporation has conducted a Strategic Readiness Simulation and plans others to simulate and stress the FDIC's decision-making processes, strategies, and planning for a large bank failure. The FDIC also has an ongoing initiative to modernize the way it determines the insurance status of depositors in the event of failure by streamlining its business processes and modernizing the internal systems used to facilitate a deposit insurance determination through improved use of current technology. This includes developing and implementing a new insurance determination system by 2009 called the Claims Administration

System (CAS), which will provide an integrated solution that will meet the current and future deposit insurance determination needs of the FDIC. These are all positive steps, yet the Corporation faces significant challenges in ensuring that it has the requisite resources and expertise to efficiently and effectively resolve failed banks, completing contingency resolution plans, and implementing the CAS system.

**Promoting Sound Governance
and Managing and Protecting Human,
Financial, Information Technology,
Physical, and Procurement Resources**

The FDIC must practice sound governance and risk mitigation practices and effectively manage a number of critical strategic resources in order to carry out its mission successfully, particularly its human, financial, information technology (IT), physical, and procurement resources. A number of key management activities pose challenges to corporate leadership and managers, as discussed below:

Corporate Governance and Enterprise Risk Management

The FDIC is managed by a five-person Board of Directors, all of whom are appointed by the President and confirmed by the Senate, with no more than three being from the same political party. At least one Board member must have State bank supervisory experience. The Board includes the Comptroller of the Currency and the Director of the Office of Thrift Supervision. Given the relatively frequent changes in the Board make-up, it is essential that strong and sustainable governance and communication processes are in place throughout the FDIC and that Board members possess and share the information needed at all times to understand existing and emerging risks and make sound policy and management decisions.

Enterprise risk management (ERM) is a key component of governance. The FDIC's numerous risk management activities need to consistently identify, analyze, and mitigate operational risks on an integrated, corporate-wide basis. Additionally, such risks need to be communicated throughout the Corporation, and the relationship between internal and external risks and related risk mitigation activities should be understood by all involved. To that end, the FDIC plans to develop a more comprehensive blueprint to enhance coordination among the various committees and groups that contribute to ERM.

Human Capital Management

The FDIC has undergone significant restructuring and downsizing in response to changes in the industry, technological advances, and business process improvements and, as with many government agencies, the FDIC anticipates a high level of retirement in the next 5 years. The Corporation needs to continue to focus on ensuring that employees have the necessary skill sets to address the issues confronting the FDIC now and into the future—oftentimes issues that are extremely complex and technically challenging. Further, with a large number of employees eligible to retire, succession planning efforts are key to ensuring that institutional knowledge is maintained and a new group of FDIC employees is well prepared to carry out the corporate mission going forward.

In the interest of making the FDIC an employer of choice, increasing FDIC employee engagement and empowerment, enhancing trust between FDIC managers and employees, and refining the Corporation's pay-for-performance system, the Chairman of the FDIC spearheaded a comprehensive employee survey that was carried out by an independent consulting group. The Chairman is committed to effecting necessary changes based on the results

of the survey, as evidenced by her announcement regarding improvements to the pay-for-performance program for pay determinations that were due in early 2008. In the upcoming months, many in the Corporation will be challenged as they take steps to address the concerns and issues identified in the employee engagement survey.

Finally, in an age of identity theft risks, another human capital management challenge is to maintain effective controls to protect personal employee-related information that the Corporation possesses. The appointment of a chief privacy officer and implementation of a privacy program have been positive steps in addressing that challenge. Further, the FDIC has established a process for conducting privacy impact assessments of its information systems containing personally identifiable information (PII) that is consistent with relevant privacy-related policy, guidance, and standards. The FDIC is making progress towards completing initiatives to safeguard its PII and related systems consistent with privacy-related statutes, policies, and guidelines. The FDIC recognizes that implementing effective measures to protect PII will require a sustained effort.

Financial Management

As referenced above, the Deposit Insurance Fund totals \$51.8 billion. Given such magnitude, FDIC investment policies must require that these funds be invested in accordance with applicable requirements and sound investment strategies. The Board approved a \$1.14 billion 2008 Corporate Operating Budget, approximately 3.1 percent higher than for 2007. The FDIC's operating expenses are largely paid from the insurance fund, and consistent with sound corporate governance principles, the Corporation must continuously seek to be efficient and cost-conscious. The FDIC uses its New Financial Environment to better manage and track costs across the Corporation.

With respect to capital investments, effective planning and management of information technology (IT) and non-IT capital investments are mandated by Congress and by the Office of Management and Budget for most federal agencies. Although many of these laws and executive orders are not legally binding on the FDIC, the Corporation recognizes that they constitute sound business practices and has decided to voluntarily adopt them in whole or in part. The FDIC is taking steps to help ensure that approved investment projects are executed on time and within budget, and that they realize anticipated benefits.

Information Technology Management

To address IT management challenges, the FDIC must focus on the effectiveness of the Chief Information Officer Council and Project Management Office, both of which play an important role in reviewing the portfolio of approved IT projects and other initiatives. FDIC processes in this area are at varying degrees of maturity, and the Corporation has activities underway and planned to further strengthen its processes to optimize IT capital investments. It must continue to enhance its Enterprise Architecture (EA) program by identifying duplicative resources/investments and opportunities for internal and external collaboration to promote operational improvements and cost-effective solutions to business requirements. Further, the FDIC should continue to focus attention on improving cost estimation; building project management skills; implementing project management process improvements related to project planning, coordination, and reporting; and establishing procedures

to ensure that post-project recommendations, best practices, and lessons learned are integrated into the governance process. Making sound IT business decisions while containing IT costs to the fullest extent possible will continue to challenge corporate officials.

The establishment of an integrated and streamlined e-government infrastructure is a key component of the Corporation's target EA. In this regard, the Corporation has initiated a number of major projects designed to improve internal operations, communications, and service to members of the public, business, and other government entities. The challenge is to ensure that such projects are consistent with e-government principles and implementing guidance from the Office of Management and Budget.

IT and Physical Security

The FDIC relies on automated information systems to collect, process, and store vast amounts of banking and other sensitive information. Much of this information is used by financial regulators, academia, and the public to monitor bank performance, develop regulatory policy, and to research and analyze important banking issues. Ensuring the integrity, availability, and appropriate confidentiality of this information in an environment of increasingly sophisticated security threats and global connectivity requires a strong records management program and a correspondingly effective enterprise-wide information security program. The Corporation has made significant progress in improving its information security and privacy program and practices. However, as shown in our annual evaluation under the Federal Information Security Management Act, continued management attention is needed in certain key security control areas. These include: access control; identification and authentication; certification, accreditation, and security assessments; risk assessment; personnel security; and audit and accountability.

The FDIC must be sure that its emergency response plans provide for the safety and physical security of its personnel and ensure that its business continuity planning and disaster recovery capability keep critical business functions operational during any emergency. Threats to public health such as a pandemic influenza could also put the Corporation's internal emergency preparedness to the test. In this regard, it is important that the Corporation follow through on its planned completion of a Pandemic Influenza Preparedness Plan by April 2008.

Procurement Management

According to the Corporation's New Financial Environment data, the FDIC had \$1.52 billion in outstanding contracts as of December 31, 2007, and awarded approximately \$379 million in contracts during 2007. Over the past few years, the FDIC has increased its reliance on outsourcing for services such as IT infrastructure support, IT application system development, and facilities maintenance. Additionally, the Corporation negotiated certain "non-federal" employee benefits with the National Treasury Employees Union as part of the 2006-2009 Compensation Agreement. The FDIC has established agreements with benefits service providers to support its employee benefits program. The Corporation has also downsized and reduced its contracting staff over the same time frame, which has posed challenges to contract administration activities. Given this environment, effective and efficient processes and related controls for identifying needed goods and services, acquiring them, and monitoring contractors after the contract award must be in place and operate well. Such attention will serve the Corporation well

as it plans for its 2009 reprocurement of IT infrastructure support services, one of its largest procurements. Also, a number of new contracting vehicles and approaches have been implemented requiring different oversight mechanisms and strategies and increasing the need for the FDIC to complete revisions to its acquisition policies that reflect the current procurement environment.



**Federal
Deposit
Insurance
Corporation**

This **Annual Report** was produced by talented and dedicated staff. To these individuals, we would like to offer our sincere thanks and appreciation. Special recognition is given to the following individuals for their contributions:

Sam Collicchio

Pearline Crosland

Jannie F. Eaddy

Barbara Glasby

Patricia Hughes

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2007