FEDERAL
DEPOSIT
INSURANCE
CORPORATION

2009 ANNUAL REPORT

Mission

The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress to maintain stability and public confidence in the nation's financial system by:

- insuring deposits,
- examining and supervising financial institutions for safety and soundness and consumer protection, and
- managing receiverships.

Vision

The FDIC is a recognized leader in promoting sound public policies; addressing risks in the nation's financial system; and carrying out its insurance, supervisory, consumer protection, and receivership management responsibilities.

Values

The FDIC and its employees have a tradition of distinguished public service. Six core values guide us in accomplishing our mission:

1. **Integrity**
   We adhere to the highest ethical and professional standards.
2. **Competence**
   We are a highly skilled, dedicated, and diverse workforce that is empowered to achieve outstanding results.
3. **Teamwork**
   We communicate and collaborate effectively with one another and with other regulatory agencies.
4. **Effectiveness**
   We respond quickly and successfully to risks in insured depository institutions and the financial system.
5. **Accountability**
   We are accountable to each other and to our stakeholders to operate in a financially responsible and operationally effective manner.
6. **Fairness**
   We respect individual viewpoints and treat one another and our stakeholders with impartiality, dignity, and trust.

2009 ANNUAL REPORT

Federal Deposit Insurance Corporation
550 17th Street, NW Washington, DC 20429 **Office of the Chairman**

June 30, 2010

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 *2009 Annual Report* (also referred to as the *Performance and Accountability Report*), which includes the audited financial statements of the Deposit Insurance Fund (DIF) 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, except for a material weakness in internal controls related to estimating losses to the DIF from resolution transactions involving loss-share agreements, which was identified by the U.S. Government Accountability Office (GAO). GAO also identified information technology issues that aggregated to a significant deficiency. During the fourth quarter of 2009 and in early 2010, we increased resources in these areas and instituted improvements in our control environment which, in conjunction with additional control enhancements to be completed in the second quarter of 2010, will significantly reduce the risks outlined in GAO's audit report. We are committed to maintaining effective internal controls corporate-wide in 2010.

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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Insuring Deposits. Examining Institutions.

Managing Receiverships. Educating Consumers.

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 (DIF).

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 financial institutions. 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.

At the FDIC, we are working together to be the best.

FDIC by the Numbers:	
$250,000	Deposit insurance limit
699,277	Electronic deposit insurance estimator user sessions
140	Failed banks resolved
0	Insured deposit dollars lost
8,012	Insured depository institutions
560	International representatives from 56 emerging and developing markets who received consultation, training, or assistance from the FDIC
4,782	Written deposit insurance inquiries
2,400,000	*Money Smart* consumers reached since inception
72,614	New bank accounts opened through the Alliance for Economic Inclusion
30	Banks participating in the small-dollar loan pilot program
6,557	FDIC full-time-equivalent employees

Message from the Chairman • Sheila C. Bair

Daniel Rosenbaum/The New York Times/Redux

As the first decade of the new century came to a turbulent close, the FDIC continued to meet the challenge of protecting deposits in over half a billion insured accounts at over 8,000 FDIC-insured institutions. Our guarantee has protected depositors since 1933 with none ever losing so much as a penny of insured funds. While the recent period of historic financial turmoil has required us to take some extraordinary actions to carry out our mission, it was precisely for times like these that the FDIC was established some 76 years ago.

Following the liquidity crisis that struck the financial system in the fall of 2008, the FDIC continued to focus its efforts in 2009 on stabilizing the liquidity of the industry through our temporary support programs, strengthening bank supervision, ensuring the financial capacity of the Deposit Insurance Fund (DIF), and promptly resolving failed institutions. During 2009, the number of failed banks rose to 140, up from 25 the previous year and the highest annual total since 1992. Meanwhile, the number of problem institutions—those with the two lowest supervisory ratings—rose to 702, which was the highest year-end total since 1992. Historically, the vast majority of problem institutions do not fail. However, elevated numbers of problem and failed institutions are expected to remain a near-term challenge, even as the economy recovers, and there is substantial residual workload from the failures that occurred in prior years.

Accordingly, the FDIC has been adding to the operational resources it needs to deal with its increased workload. The FDIC workforce grew to 6,557 full-time equivalent positions at year-end 2009, up from 4,988 at year-end 2008. In December 2009, the FDIC Board approved a

2010 operating budget of almost $4 billion, a 56 percent increase from 2009, and authorized the hiring of some 1,600 additional temporary workers, which will expand the FDIC's total workforce by nearly 25 percent.

Stabilizing Bank Funding Through the TLGP

In October 2008, at the height of the financial crisis, the FDIC introduced a Temporary Liquidity Guarantee Program (TLGP) to help stabilize the liquidity of the industry through our temporary support programs and promote confidence across the financial system. During 2009, the FDIC worked to fully implement the two elements of the TLGP, extended its time frame, and made plans for an orderly exit as financial market conditions continued to stabilize. Under the Debt Guarantee Program, a total of over $618 billion in guaranteed debt was issued, generating over $10 billion in fees from participating banks. This program had been instrumental in helping to reduce risk premiums in the interbank lending markets until its expiration on October 31, 2009. The Transaction Account Guarantee Program, which provides a full guarantee of all deposits in noninterest-bearing transaction accounts, has been extended through December 2010.

Balanced Supervision Under Adverse Banking Conditions

As supervisor for nearly 5,000 community banks, the FDIC saw its workload rise in 2009 with the increase in the number of FDIC-supervised problem institutions. The FDIC responded to these challenges by prioritizing examination activities, increasing staffing levels, and making greater use of off-site monitoring and on-site visitations between examinations. We actively communicate with bankers through a variety of outreach activities, including a Community Bank Advisory Committee that was launched this year. This Advisory Committee was formed to provide the FDIC with advice and guidance on a broad range of important policy issues impacting small community banks throughout the country, as well as impacting the local communities they serve. We have also worked closely with other bank regulatory agencies to issue a number of Financial Institution Letters on risk management issues, including a statement encouraging banks to meet the borrowing needs of creditworthy businesses and consumers. Striking this balanced approach to bank supervision during a period of adversity for the industry will be essential to ensuring that credit is made available to finance the anticipated economic recovery.

Keeping the DIF Strong While Banks Recover

As part of a plan to replenish the liquidity of the DIF, insured institutions pre-paid almost $46 billion of deposit insurance premiums at the end of 2009. This amount represents approximately what non-exempted institutions were expected to pay for the 39-month period beginning October 1, 2009. As designed, the assessment prepayment did not impact the industry's earnings and capital, allowing the industry to continue rebuilding its capital base and increasing its capacity to lend. The prepayments increased the DIF's total cash and investments to approximately $66 billion as of year-end. According to current projections, this level of resources will be sufficient to resolve insured institutions that are projected

to fail over the next few years; as such, the DIF will not have to borrow from the U.S. Treasury to meet its insurance obligations.

Protecting Depositors and Resolving Failed Institutions

As the number of failed institutions rose to its highest level since 1992, the FDIC instituted strategies to protect the depositors and customers of these institutions at the least possible cost to the DIF. The FDIC moved to an aggressive marketing campaign for failing institutions that successfully led to the sale of the vast majority of these failed entities to healthier acquirers. These strategies helped to preserve banking relationships in many communities and provide depositors and customers with uninterrupted access to essential banking services. To this end, analysis is performed on every failing institution to identify branches located in low- and moderate-income areas so as to minimize the impact that any proposed resolution transaction may have on its customers. Moreover, the FDIC's use of loss-share arrangements, where failed bank assets are passed to the acquirer, thus remaining in the private sector with the FDIC sharing in losses on the assets, is expected to save the FDIC $30 billion over the cost of liquidation. Finally, in selling assets, the FDIC developed an innovative structured transaction program that utilizes private sector asset management expertise while the FDIC retains an equity interest in all of the future cash flows. The overarching rationale behind both the loss-share agreements and the structured transaction asset sales initiative is that the long-term intrinsic value of these assets exceeds their current depressed market value. Both of these strategies should minimize asset losses and maximize recoveries to receivership creditors, including the DIF.

Preventing Unnecessary Foreclosures

Throughout the year, the FDIC remained at the forefront of efforts to stem the sharp rise in home foreclosures caused by unaffordable mortgages and rising unemployment. In addition to advocating wider adoption of streamlined and sustainable loan modifications, we required failed-bank acquirers under loss-sharing agreements to modify qualifying at-risk mortgages by cutting interest rates and, in some cases, deferring principal. As 2009 ended, the FDIC worked to expand the availability of principal write-downs as the erosion of homeowner equity may increase the likelihood of delinquencies and, in the case of loss-sharing agreements, losses to the DIF.

Reviving Mortgage Securitization

Mortgage securitization and the "originate to distribute" model of mortgage lending played leading roles in the buildup to the financial crisis. Since the crisis, private securitization virtually shut down as investors lost confidence in market practices that were insufficiently transparent and ineffective in aligning their interests with those of originators and underwriters. During 2009, the FDIC Board began considering new standards for its existing "safe harbor" protections for securitizations by banks that are later placed into receivership. These rules, still pending input from the public and scheduled to take effect in 2010, will be designed to foster better risk management by strengthening underwriting, providing better disclosure, and requiring

issuers to retain a financial interest in the securities while supporting profitable and sustainable securitizations by insured banks and thrifts. The goal is to improve industry standards in these areas in order to avoid future losses to the DIF and support a revival of mortgage securitization on a sounder footing.

Protecting Consumers and Expanding Access to Banking Services

The FDIC has traditionally played a leading role in shielding consumers from predatory practices and promoting access to mainstream financial services for all segments of the population. We built on that tradition in 2009 by launching www.economicinclusion.gov, a new information portal with links to the FDIC's many sources of consumer information and our initiatives to reach underserved communities. The web site provides easy access to information on the FDIC's Advisory Committee on Economic Inclusion, our Alliance for Economic Inclusion, our *Money Smart* financial literacy program, and the FDIC *National Survey of Unbanked and Underbanked Households*. This groundbreaking survey, conducted for us in 2009 by the U.S. Bureau of the Census, revealed that one in four, or 30 million U.S. households, are either unbanked or underbanked. We are certain that our new Economic Inclusion web site will take us one step closer to our goal of bringing these unbanked and underbanked populations into the financial mainstream.

Reforming the Regulatory Structure

In the wake of the financial crisis, Congress is considering major legislation to overhaul financial regulation. The FDIC testified numerous times during the year on regulatory reform before committees in both the House and the Senate. Our broad policy view is that Congress needs to help restore market discipline by repudiating the doctrine that certain large, complex, and interconnected financial institutions are simply too big to fail. Regulators need to have a clear mandate and the necessary statutory authorities to close even the largest banks and non-bank financial institutions when they get into trouble. We also need to implement regulatory incentives to limit the size and complexity of systemically important firms.

We support creating a new consumer protection authority for financial products and services that sets consistent national standards for banks and non-banks alike. Such an across-the-board authority would eliminate regulatory gaps where risks grew unchecked in the buildup to the current crisis. We also support more stringent regulation of derivatives markets and creation of a systemic risk council to share data among regulators and focus on macro-prudential risks to our financial system. Finally, the regulatory community needs to use the powers it already has to more effectively supervise financial institutions and markets and limit the risky activities that undermined our financial system.

Creating a More Effective International Framework

To meet the challenges of the future and to protect insured depositors, it is vitally important

that the FDIC continue to improve its capabilities to resolve internationally active banks and to strengthen the international framework for responding to financial crisis in cooperation with other regulators both within the U.S. and overseas. During 2009, the FDIC was at the forefront of efforts to learn from the lessons of the financial turmoil by identifying and addressing weaknesses in responses to banks that are active across borders. The FDIC co-chaired the Basel Committee on Banking Supervision's Cross-border Bank Resolution Group, which prepared a report on needed reforms to allow for the orderly liquidation of large, complex international banks. These recommendations have formed an integral part of the international effort by the G20 and the Financial Stability Board to reform the international framework for regulation and resolution of the largest financial firms. The FDIC continues to work closely with the Financial Stability Board on these issues.

The FDIC: An Enduring Symbol of Confidence

During 2009, the FDIC was called upon to once again carry out its unique mission as the nation's symbol of confidence in an economic crisis. We successfully performed this mission by protecting the insured deposits of the American public and stabilizing the funding base of the industry during a period of great economic turmoil.

The effects of the recession are likely to persist for some time, and, as a result, the FDIC will continue to experience a heavy workload and some unique policy challenges. But we are prepared to meet these challenges and committed to seeing that our mission is carried out to a successful conclusion. I am especially grateful for the hard-working, dedicated, can-do men and women of the FDIC for all they have done to respond to the demands of the crisis and help put the nation's economy back on the road to recovery. No matter the pressures, they will never waver in their commitment to excellence in the service of the American people.

Sincerely,

Sheila C. Bair

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Message from the Chief Financial Officer • Steven O. App

I am pleased to present the Federal Deposit Insurance Corporation's (FDIC) *2009 Annual Report* (also referred to as the *Performance and Accountability Report*). The report covers financial and program performance information, and summarizes our successes for the year. The FDIC takes pride in providing timely, reliable, and meaningful information to its many stakeholders.

For the eighteenth consecutive year, 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). These unqualified audit opinions validate our efforts to ensure that the financial statements of the funds for which we are stewards are fairly presented. I applaud the hard work and dedication of the FDIC staff.

At the conclusion of 2009 and moving forward into 2010, the DIF balance remains negative, although there were indications by the end of the first quarter of 2010 that the condition of the banking industry may be stabilizing. The DIF's 2009 financial statements reflect the impact of a difficult banking environment, in which 140 banks failed. This total exceeds all bank failures between 1994 and 2008, and is the highest annual number since 1992, when 179 failures occurred.

Financial Results for 2009

The DIF's comprehensive loss totaled $38.1 billion for 2009 compared to a comprehensive loss of $35.1 billion for the previous year. As a result, the DIF balance declined from $17.3 billion to negative $20.9 billion as of December 31, 2009. The year-over-year increase of $3.0 billion in comprehensive loss was primarily due to a $15.9 billion increase in the provision for insurance losses, a $4.0 billion increase in the unrealized loss on U.S. Treasury (UST) investments, and a $1.4 billion decrease in the interest earned on UST obligations, partially offset by a $14.8 billion increase in assessment revenue and a $3.1 billion increase in other revenue (primarily from guarantee termination fees and debt guarantee surcharges).

The provision for insurance losses was $57.7 billion in 2009. The total provision consists primarily of the provision for future failures ($20.0 billion) and the losses estimated at failure for the 140 resolutions occurring during 2009 ($35.6 billion).

Assessment revenue was $17.7 billion for 2009. This is a $14.8 billion increase from 2008, and is due to the collection of a $5.5 billion special

assessment in September 2009 and significantly higher regular assessment revenue. Major factors contributing to the increase in regular assessment revenue included changes to the risk-based assessment regulations, ratings downgrades of many institutions (which pushed them into higher assessment rate categories), the decline of the one-time assessment credit, and a larger assessment base.

Although the DIF ended the year with a negative $20.9 billion fund balance, the DIF's liquidity was significantly enhanced by prepaid assessment inflows of $45.7 billion. Cash and marketable securities stood at $66.0 billion at year-end, including $6.4 billion in cash and marketable securities related to the Temporary Liquidity Guarantee Program (TLGP). Hence, the DIF is well positioned to fund resolution activity in 2010 and beyond. The prepaid assessments, while increasing DIF cash upon receipt, did not initially affect the fund balance, since the funds collected were initially recorded as an offsetting liability; they are subsequently recognized quarterly as revenue when earned.

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 GAO and provides reasonable assurance that the related objectives are being met, with the exception of a material weakness in internal controls related to estimating losses to the DIF from resolution transactions involving loss-share agreements, which was identified by GAO during the course of the financial statement audit. Separately, GAO determined that a significant deficiency existed over information systems. The FDIC believes that additional resources added throughout 2009, control improvements implemented during the fourth quarter of 2009, and control enhancements to be completed by the end of the second quarter of 2010, will largely address GAO's concerns in these areas. The FDIC is confident about the comprehensiveness of these control enhancements and does not expect GAO to identify repeat findings for 2010. We will continue to enhance our control environment throughout the year.

During 2010, we will keep working toward achieving the Corporation's strategic goals and objectives. These include identifying and addressing risks to the insurance funds, continuing work on U.S. government initiatives to strengthen the financial system, and providing Congress, other regulatory agencies, insured depository institutions, and the public with critical and timely information and analyses on the financial condition of both the banking industry and the FDIC-managed funds.

Sincerely,

Steven O. App

In Memoriam • L. William Seidman

We at the FDIC were saddened by the May 13, 2009, passing of L. William (Bill) Seidman, former FDIC and Resolution Trust Corporation (RTC) Chairman. Mr. Seidman, the 14th Chairman of the FDIC, had all the attributes of an American hero. He was a dynamic, bigger-than-life figure, yet a plain-spoken, courageous leader with a sharp intellect.

In a life filled with achievement, Mr. Seidman distinguished himself the most during his years with the FDIC. From 1985 to 1991, he led the Corporation through its most rigorous challenges since the Great Depression. As FDIC Chairman, he faced a tidal wave of bank failures—more than 1,100 FDIC-insured institutions in total during his tenure. As the crisis grew, Mr. Seidman strengthened the FDIC's hand by working with Congress and the press. Under his leadership, the FDIC met this rising tide with a series of successful innovations.

Mr. Seidman's skillful management of the banking crisis led Congress to deliver an additional challenge: managing the savings and loan crisis. Having played an instrumental role in developing the legislation creating the RTC, Mr. Seidman became the RTC's first Chairman when the agency was launched on August 9, 1989. Faced with two unfolding crises, one in the banking industry and the other in the savings and loan industry, Mr. Seidman confronted both with courage and candor.

Mr. Seidman put his lifelong interest in education into action at the FDIC. As Chairman, he expanded training and educational programs, and the FDIC Board of Directors recognized his efforts by dedicating a new building and campus at Virginia Square in his honor. The skills and leadership he demonstrated during the savings and loan crisis inspire us all as we navigate today's troubled waters. The FDIC mourns the loss of a faithful public servant.

I. Management's Discussion and Analysis

The Year in Review

The year 2009 was another extremely busy one for the FDIC. In addition to the normal course of business, the Corporation continued to manage the Temporary Liquidity Guarantee Program (TLGP). Additional resources were needed in response to the increased workload resulting from resolving 140 bank failures. The FDIC continued its work on high-profile policy issues and 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. The FDIC continued expansion of financial education programs with the release of a portable audio version and a Hmong language version of *Money Smart*. The FDIC also sponsored and co-sponsored major conferences and participated in local and global outreach initiatives.

Highlighted in this section are the Corporation's 2009 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 (DIF).

Temporary Liquidity Guarantee Program

On October 14, 2008, the FDIC announced and implemented the TLGP. The TLGP consists of two components: (1) the Debt Guarantee Program (DGP)—an FDIC guarantee of certain newly issued senior unsecured debt; and (2) the Transaction Account Guarantee Program (TAGP)—an FDIC guarantee in full of noninterest-bearing transaction accounts.

Under the DGP, the FDIC initially guaranteed in full, through maturity or June 30, 2012, whichever came first, the senior unsecured debt issued by a participating entity between October 14, 2008, and June 30, 2009. Banks, thrifts, bank holding companies, and certain thrift holding companies were eligible to participate. In May 2009, the FDIC Board finalized a rule that extended for four months the period during which participating entities could issue FDIC-guaranteed debt. All participating insured depository institutions and those other participating entities that had issued FDIC-guaranteed debt on or before April 1, 2009, were permitted to participate in the extension of the DGP without further application to the FDIC. Other participating entities were permitted to issue debt during the extended DGP upon receiving approval from the FDIC. In conjunction with the extension of the DGP issuance period, the expiration of the guarantee period was pushed back to December 31, 2012. As a result, approved participating entities could issue FDIC-guaranteed debt through October 31, 2009, and the FDIC's guarantee would expire on the stated maturity date of the debt or December 31, 2012, whichever came first.

Participating entities could issue up to a maximum of 125 percent of the par value of the entity's senior unsecured debt that was outstanding as of the close of business September 30, 2008, and that was scheduled to mature on or before June 30, 2009. All debt with a term of 30 days or less

was excluded from the definition of senior unsecured debt. The FDIC charged a fee based on the amount and term of the debt issued. Fees ranged from 50 basis points on an annualized basis for debt with a maturity of 180 days or less, increasing to 75 basis points on an annualized basis for debt with a maturity of 181 to 364 days and 100 basis points on an annualized basis for debt with maturities of 365 days or greater. In conjunction with the program extension in 2009, the FDIC assessed an additional surcharge on debt with a maturity of one year or greater issued after April 1, 2009. Unlike the other TLGP fees, which were reserved for possible TLGP losses and not generally available for DIF purposes, the amount of any surcharge collected in connection with the extended DGP was to be deposited into the DIF and used by the FDIC when calculating the reserve ratio of the Fund. The surcharge varied depending on the type of institution issuing the debt with insured depository institutions paying the lowest fees.

The TAGP initially guaranteed in full all domestic noninterest-bearing transaction deposits held at participating banks and thrifts through December 31, 2009. This deadline was later extended through December 31, 2010. The guarantee also covered negotiable order of withdrawal (NOW) accounts at participating institutions—provided the institution committed to maintain interest rates on the accounts of no more than 0.50 percent for the duration of the program—and Interest on Lawyers Trust Accounts (IOLTAs) and functional equivalents. Participating institutions were initially assessed a 10 basis point surcharge on the portion of covered accounts that were not otherwise insured. The fees for the TAGP were increased for the extension to either 15 basis points, 20 basis points, or 25 basis points depending on the institution's deposit insurance assessment category.

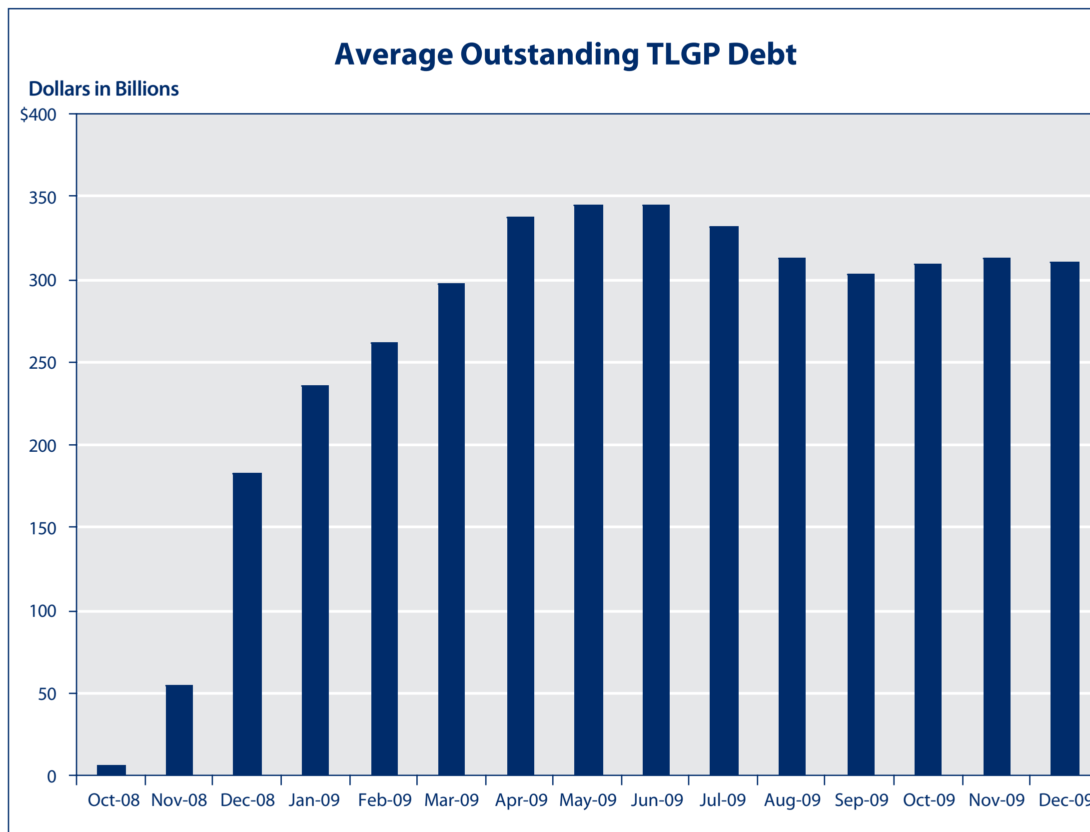
Program Statistics

Institutions were initially required to elect whether to participate in one or both of the programs. More than half of the over 14,000 eligible entities elected to opt-in to the DGP, while over 7,100 banks and thrifts, or 86 percent of FDIC-insured institutions, opted into the TAGP. Most of the institutions that opted out of the DGP had less than $1 billion in assets and issued no appreciable amount of senior unsecured debt.

During its existence, the DGP guaranteed over $618 billion in debt issued by 120 entities. At its peak, the DGP guaranteed almost $350 billion of debt outstanding. The amount of debt issuance declined as markets improved throughout 2009 and, as the chart shows (see next page), the amount of debt outstanding correspondingly decreased as shorter-term debt matured without being rolled over. Near the program's end on October 31, 2009, however, the volume of debt outstanding increased slightly. As of December 31, 2009, the total amount of FDIC-guaranteed debt outstanding was $309 billion.

Under the TAGP, the FDIC guaranteed an estimated $834 billion of deposits in noninterest-bearing transaction accounts as of December 31, 2009, that would not have otherwise been insured. More than 5,800 FDIC-insured institutions reported having noninterest-bearing transaction accounts over $250,000 in value.

The DGP collected approximately $10 billion in fees under the program. As of December 31, 2009, one participating entity (a holding company) that had issued guaranteed debt had declared



bankruptcy and defaulted on its debt. Subsequently, a claim for payment was filed and approved. In early 2010, the FDIC paid off the entire principal balance, including two quarterly interest payments. Very few losses are expected on the remaining outstanding debt through the end of the DGP in 2012. As of December 31, 2009, the FDIC had collected $639 million in fees under the TAGP.[1] Estimated TAGP losses on failures as of December 31, 2009, totaled $1.765 billion. Overall, TLGP fees are expected to exceed the losses from the program. At the conclusion of the program, any remaining TLGP funds will be added to the DIF balance. Under the conditions of the systemic risk determination, if fees are insufficient to cover costs of the program, the difference would be made up through a special assessment.

[1] This figure reflects fees assessed through September 30, 2009, and collected as of December 31, 2009.

Debt Guarantee Phase-Out and Emergency Guarantee Facility

The DGP enabled financial institutions to meet their financing needs during a period of system-wide turmoil. The DGP reopened the short- and medium-term debt markets for banks and other eligible institutions by allowing them to issue an array of debt instruments at a time when banks were unable to roll over this debt at reasonable rates and terms. By mid-2009, it appeared that the financial markets were stabilizing. In September, the FDIC Board authorized an NPR proposing a phase out of the DGP. Specifically, the NPR asked whether the FDIC should close the basic DGP as scheduled but establish a limited six-month emergency guarantee facility to address the possibility that a participating DGP entity may be unable to replace its maturing senior unsecured debt with non-guaranteed debt as a result of market disruptions or other circumstances beyond the entity's control. Few comments were received on the proposal and the FDIC Board voted on October 20, 2009, to approve a final rule ending the DGP as of October 31, 2009, with only the emergency guarantee facility continuing on a case-by-case basis through April 30, 2010. As its name implies, the FDIC always intended the TLGP to be temporary.

Transaction Account Guarantee Program Phase-Out

The TAGP was designed to eliminate potentially disruptive shifts in deposit funding and thus preserve bank lending capacity. The program proved effective. However, because bank failures continued to grow during 2009, the FDIC remained concerned that terminating the TAGP too quickly could unnerve uninsured depositors and ultimately reverse the progress made in restoring credit markets to more normal conditions. To help transition institutions out of the TAGP, therefore, the FDIC Board, on August 26, 2009, approved a final rule that extended the TAGP for an additional six months, through June 30, 2010.

The final rule established higher assessment fees for institutions participating in the extension period. As mentioned earlier, fees were revised from a flat-rate 10 basis points to a risk-based system with an assessment rate of either 15, 20, or 25 basis points depending on the institution's deposit insurance assessment category. The final rule also provided an opportunity for participating entities to opt out of the TAGP extension by November 2, 2009. Over 6,400 institutions (or 93 percent of institutions participating at year-end) elected to continue in the TAGP.

State of the Deposit Insurance Fund and Changes in Assessment Rates

Deposit Insurance Fund (DIF) losses increased significantly during 2009, resulting in a negative fund balance as of September 30, 2009. For the year, continued and anticipated bank failures resulted in a decline in the reserve ratio to negative 0.39 percent as of December 31, 2009, down from 0.36 percent at the beginning of the year.

Changes in the Assessment Rates

The decline in the reserve ratio occurred despite an increase in assessment rates overall and several adjustments made to the risk-based assessment system during the year. In the first quarter, assessment rates increased across-the-board by 7 basis points. Rates for the first quarter

of 2009 ranged from 12 to 50 basis points. Institutions in the lowest risk category—Risk Category I—paid between 12 and 14 basis points.

On February 27, 2009, the FDIC Board issued a rule incorporating adjustments to the risk-based assessment system to improve how the system differentiates for risk. Effective April 1, 2009, the range of rates widened overall and within Risk Category I. Initial base assessment rates within Risk Category I now range from 12 to 16 basis points on an annual basis, while the initial base rates for risk categories II, III, and IV are 22, 32, and 45 basis points, respectively. An institution's total base assessment rate may be less than or greater than its initial base rate as a result of additional adjustments for secured liabilities (increase), brokered deposits (increase), and/or unsecured debt and Tier I capital (decrease). For Risk Category I, total base assessment rates may be as low as 7 basis points or as high as 24 basis points. A Risk Category IV institution could have a total base assessment rate as high as 77.5 basis points. The initial base assessment rates, range of possible rate adjustments, and minimum and maximum total base rates, as of year-end, across all risk categories are as follows:

Setting the Designated Reserve Ratio

At a meeting on December 15, 2009, pursuant to provisions in the Federal Deposit Insurance Act that require the FDIC Board to set the Designated Reserve Ratio (DRR) for the DIF annually, the FDIC Board set the 2010 DRR at 1.25 percent of estimated insured deposits. The 2010 DRR of 1.25 percent is unchanged from the 2009 DRR.

Amendments to the Restoration Plan

The Federal Deposit Insurance Reform Act of 2005 requires the FDIC Board to adopt a restoration plan when the DIF reserve ratio falls below 1.15 percent or is expected to within six months. Given the steady decline in the reserve ratio during 2008 and projections for future bank failures, the FDIC Board adopted a Restoration Plan in October 2008 to restore the reserve ratio to at least 1.15 percent within five years. The continued decline in the DIF balance throughout 2009, however, necessitated several amendments to the Restoration Plan.

On February 27, 2009, the FDIC Board first amended the Restoration Plan by extending the time frame for recapitalization of the DIF from five years to seven years due to extraordinary

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV
Initial Base Assessment Rate	12 – 16	22	32	45
Unsecured Debt Adjustment	-5 – 0	-5 – 0	-5 – 0	-5 – 0
Secured Liability Adjustment	0 – 8	0 – 11	0 – 16	0 – 22.5
Brokered Deposit Adjustment		0 – 10	0 – 10	0 – 10
Total Base Assessment Rate	7 – 24	17 – 43	27 – 58	40 – 77.5

circumstances. To meet this time frame and help maintain public confidence in the banking system, the FDIC Board adopted an interim rule with a request for comment that would have imposed an emergency special assessment on the industry of 20 basis points on the assessment base as of June 30, 2009. The interim rule would also have permitted the FDIC Board to impose an emergency special assessment after June 30, 2009, of up to 10 basis points on the assessment base, if necessary to maintain public confidence in the federal deposit insurance system.

In response to comments, on May 22, 2009, the FDIC Board voted to levy a special assessment of 5 basis points on each FDIC-insured depository institution's assets minus its Tier 1 capital, as of June 30, 2009. The special assessment was collected on September 30, 2009. The assessment was capped at 10 basis points times an institution's assessment base so that no institution paid an amount higher than it would have paid under the interim rule. The FDIC Board also voted to allow additional special assessments in 2009 if conditions affecting the DIF warranted.

In May 2009, Congress amended the statutory provision governing the establishment and implementation of a Restoration Plan giving the FDIC eight years in which to bring the reserve ratio back to 1.15 percent, absent extraordinary circumstances. As a result, on September 29, 2009, the FDIC again adopted amendments to the Amended Restoration Plan that allowed the DIF to return to a reserve ratio of 1.15 percent within eight years. Concurrently, the FDIC adopted a 3 basis point increase in annual risk-based assessment rates effective January 1, 2011. The FDIC Board also voted not to impose any further special assessments on the industry for the remainder of 2009.

Actions to Meet Projected Liquidity Needs

While the Amended Restoration Plan and higher assessment rates addressed the need to return the reserve ratio to 1.15 percent, the FDIC also had to consider its need for cash to pay for projected near-term failures. In June 2008, before the number of bank and thrift failures began to rise significantly and the crisis worsened, total assets held by the DIF were approximately $55 billion, consisting almost entirely of cash and marketable securities. As the crisis continued into 2009, the liquid assets of the DIF were used to protect depositors of failed institutions. As of September 30, 2009, cash and marketable securities had fallen to approximately $23 billion and were projected to decline further as the pace of resolutions continued to put downward pressure on cash balances. The FDIC faced an immediate need for more liquid assets to fund near-term failures.

To meet the projected liquidity needs for near-term failures, the FDIC proposed a rulemaking requiring insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012. The prepaid assessment for these periods would be collected on December 30, 2009, along with each institution's regular quarterly risk-based deposit insurance assessment for the third quarter of 2009.

In order to calculate an institution's assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012, the institution's total base assessment rate in effect on September 30, 2009, would be used. That rate would be increased by an annualized 3 basis points for 2011 and 2012. Again, for purposes of calculating the amount that an institution prepaid on

December 30, 2009, an institution's third quarter 2009 assessment base would be increased quarterly at a 5 percent annual growth rate through the end of 2012. The proposal for the prepaid assessment had certain attributes that made it more attractive than imposing another special assessment on the industry. Chief among these was that the prepayment would not affect bank capital and earnings at a time when these were already under pressure. By implementing a prepaid assessment, banks would be able to book the prepayment as an asset with a zero percent risk weight. This asset would then be drawn down as the bank's regular quarterly risk-based assessment was levied. Additionally, those banks that were likely to be severely adversely affected by the prepayment could be exempted from the prepayment, although not from the actual quarterly risk-based assessment.

The comments received by the FDIC were mostly favorable—generally supporting the notion that the industry should fund its own needs to the extent possible. In November, the Board finalized this rulemaking making one substantive change. Any prepaid assessment not exhausted after collection of the amount due on June 30, 2013—moved up from December 31, 2014—will be returned to the institution at that time. Moreover, if conditions improve before that time, the FDIC Board may vote to return funds to the industry sooner. The FDIC collected $45.7 billion from the prepaid assessments—enough to fund its projected liquidity needs.

Center for Financial Research

The Center for Financial Research (CFR) was founded by the Corporation in 2004 to encourage and support innovative research on topics that are important to the FDIC's role as deposit insurer and bank supervisor. During 2009, the CFR co-sponsored two major research conferences, a workshop, and a symposium.

The CFR organized and sponsored the 19th Annual Derivatives Securities and Risk Management Conference jointly with Cornell University's Johnson Graduate School of Management and the University of Houston's Bauer College of Business. The conference was held in April 2009 at the Seidman Center and attracted over 100 researchers from around the world. Conference presentations included term structure modeling, price dynamics, fixed income, and options pricing and credit risk.

The CFR also organized and sponsored the 9th Annual Bank Research Conference jointly with *The Journal for Financial Services Research* (JFSR) in September 2009. The conference theme, Governance and Compensation in the Financial Services Industry, included 16 paper presentations and was attended by over 120 participants. Experts discussed a range of banking and financial sector issues—including corporate governance, bank lending behavior, incentive structures, household finance, and the subprime credit crisis.

The CFR held a one-day symposium on mortgage default risk which was jointly organized with the Federal Housing Finance Agency. The symposium attracted more than 200 industry experts, academics, and policy makers. Discussion topics included collateral and appraisal issues, underwriting standards, vendor model developments, subprime and other alternative mortgage product default modeling issues, as well as analysis of various aspects of ongoing loan modification programs.

The CFR hosted its annual Fall Workshop in December, which included three days of research paper presentations and discussions by FDIC staff. The workshop was attended by about 30 external academics and 30 FDIC staff.

In addition to conferences, workshops and symposia, 11 CFR working papers were completed and made public on topics including the costs associated with FDIC bank resolutions, the performance of the Basel II Advanced Internal Model Approach for setting regulatory capital requirements, new econometric methods to handle unit roots, executive compensation in bank holding companies, bank failures and the cost of systemic risk, the political economy associated with the recent bailout, and the role of speculation in creating volatility in the oil markets.

International Outreach

The FDIC demonstrated its leadership role in promoting sound deposit insurance, bank supervision, and bank resolution practices by providing technical guidance, training, consulting services, and information to international governmental banking and deposit insurance organizations in many areas around the world. The global crisis that began in the summer of 2007 and intensified in 2008 led many international authorities, including deposit insurers, to take a series of unprecedented actions to restore public confidence and financial stability. In response to this crisis, the International Association of Deposit Insurers (IADI), under the leadership of its President—FDIC's Vice Chairman Martin Gruenberg—and the Basel Committee on Banking Supervision (BCBS) jointly led an effort to establish an agreed set of deposit insurance core principles. The collaborative effort culminated in the issuance of the *Core Principles for Effective Deposit Insurance Systems* in June 2009. This is a significant milestone for improving deposit insurance systems worldwide. The *Core Principles* were subsequently welcomed by the Financial Stability Board (FSB) (formerly the Financial Stability Forum) at its inaugural meeting in June.

The Financial Stability Institute (FSI) and the BCBS partnered with IADI during IADI's 8th Annual Conference on September 23–24, 2009, at the Bank for International Settlements (BIS) in Basel, Switzerland, to present the *Core Principles*. More than 200 individuals representing over 100 organizations from more than 80 jurisdictions attended the conference. Participants included, among others, deposit insurers, financial supervisors, and central bankers. The conference was organized to further promote the *Core Principles* and contribute to their implementation and further development. The event featured presentations by internationally recognized experts Jaime Caruana, General Manager of the BIS; Nout Wellink, Chairman of the BCBS and President, De Nederlandsche Bank; Josef Tosovsky, Chairman of the FSI; William White, Chairman of the Economic and Development Review Committee, Organization for Economic Co-operation and Development; and David Hoelscher, Assistant Director, Monetary and Capital Markets Department, International Monetary Fund.

The FDIC's leadership in developing and implementing training seminars in partnership with IADI, the European Forum of Deposit Insurers (EFDI), and the Association of Supervisors of Banks of the Americas (ASBA) continued in 2009. The FDIC hosted and developed the core curriculum for IADI's executive training

IADI members and FDIC staff at the executive training conference.

seminar on "Claims Management: Reimbursement of Insured Depositors." The FDIC co-sponsored with EFDI a conference on "Deposit Insurance Before and After a Systemic Crisis." The FDIC also delivered training in supervising operational risk under ASBA's training program in Latin America.

The FDIC has also provided leadership through its co-chairing of the BCBS's Cross-border Bank Resolution Group (CBRG), which published its final report and recommendations in March 2010. The CBRG was established in December 2007 under a mandate to analyze existing resolution policies, allocation of responsibilities and legal frameworks of relevant countries as a foundation to a better understanding of the potential impediments and possible improvements to cooperation in the resolution of cross-border banks. During the first half of 2008, the CBRG collected detailed descriptions of national laws and policies on the management and resolution of cross-border banks using an extensive questionnaire completed by countries represented on the Group. The CBRG used the questionnaire responses to identify the most significant potential impediments to the effective management and resolution of cross-border banks and an interim report was prepared in December 2008. Subsequent to the interim report, the Basel Committee asked the CBRG to expand its analysis to review the developments and processes of crisis management and resolutions during the financial crisis with specific reference to case studies of significant actions by relevant authorities, which included the failures of Lehman Brothers, Dexia, Fortis, and the Icelandic banks. In response to this direction and building on this initial stock take, the CBRG provided the Basel Committee with a final report and recommendations to identify concrete and practical steps to improve cross-border crisis management and resolutions. The report and recommendations have been coordinated with and seek to complement the work of the FSB by providing practicable detailed approaches to implement the FSB's *Principles for Cross-border Cooperation on Crisis Management of April 2, 2009.*

Throughout 2009, the FDIC has provided support to the FSB through its work on the Cross-border Crisis Management Working Group chaired by Paul Tucker. This group has sought to implement the high-level *Principles for Cross-border Cooperation on Crisis Management of April 2, 2009.* These principles include a commitment to cooperate by the relevant authorities, including supervisory agencies, central banks and finance ministries, both in making advanced preparations for dealing with financial crises and in managing them. They also commit national authorities from relevant countries to meet regularly alongside core colleges to consider together the specific issues and barriers

to coordinate action that may arise in handling severe stress at specific firms, to share information where necessary and possible, and to ensure that firms develop adequate contingency plans. The FSB principles cover practical and strategic ex ante preparations and set out expectations for how authorities will relate to one another in a crisis. They draw upon recent and earlier experiences of dealing with cross-border firms in crisis, including the 2001 G10 Joint Taskforce Report on the Winding Down of Large and Complex Financial Institutions, and the 2008 European Union Memorandum of Understanding on Financial Stability. Currently this group is preparing detailed analysis of obstacles to recovery and resolution planning, which will be presented to the G20 in November 2010.

June marked the two-year anniversary of the secondment program agreed upon between the Financial Services Volunteer Corps (FSVC) and the FDIC to place one or more FDIC staff members full-time in FSVC's Washington, DC, office. The projects in 2009 included an in-depth review of bank supervisory practices at the Bank of Albania; a series of commentaries and consultations to assist the Central Bank of Egypt in creating an appropriate and effective approach in the new area of retail bank supervision; adapting FDIC courses for the first time to a format streamlined and relevant for examiners at the Reserve Bank of Malawi, the Banque d'Algerie, and the Central Bank of Egypt; and designing and participating in FSVC's first-ever training and consultations with the Central Bank of Libya and the Central Bank of Iraq on essential bank supervision topics.

The FDIC deepened its key relationship with China by participating in the fourth annual U.S.-China Banking Supervisor's Bilateral Conference that was held at the Federal Reserve in December. The conference addressed approaches and policies with respect to macroprudential supervision; cross-border supervisory cooperation; regulatory reform; and consumer protection. The FDIC has also strengthened its relationship with China by signing an Appendix to the Supervisory Memorandum of Understanding between the FDIC and the China Banking Regulatory Commission on May 26, 2010. The Appendix covers issues relating cross-border contingency planning and the resolution of troubled institutions within China and the United States.

Recognizing India's rising economic role, the FDIC participated in the U.S.-India Finance and Economic Forum hosted by the Indian Ministry of Finance in December in New Delhi, India. The meeting brought together all financial sector regulators from the two countries to discuss a variety of topics, including deposit insurance, banking sector developments, capital and commodities markets, insurance, and financial education. The FDIC shared its responses during the current economic crisis and its view on the value of deposit insurance in a crisis, as well as its efforts in financial education and economic inclusion.

During 2009, FDIC staff shared its expertise with a wide range of individuals from developing and emerging economies as well as from developed economies, with the goal of enhancing capacity in deposit insurance, supervision, and resolutions. During the year, the FDIC hosted 67 individual visits with a total of more than 450 foreign visitors from over 30 countries. The FDIC's response to the financial crisis, U.S. regulatory restructuring options, and resolution methods were frequently discussed during these visits. In

addition, two FDIC staff members provided technical assistance through the FSVC on 15 missions covering 12 countries. In November, FDIC staff provided training to 32 Latin American bank supervisors in the supervision of operational risk in Panama as part of ASBA's continental training program. Also, through the FDIC's Corporate University Examiner training program and the State Department's Anti-Money Laundering/Counter-Financing of Terrorism training program, the FDIC provided training to 146 students from 20 countries. Additionally, the FDIC was able to provide deposit insurance claims management training through the IADI Executive Training Program to 128 representatives from over 50 countries. In total, these efforts resulted in the FDIC's engagement with over 560 representatives from 56 emerging or developing markets.

Complex Financial Institution Program

The FDIC's Complex Financial Institution (CFI) Program addresses the unique challenges associated with the supervision, insurance, and potential resolution of large/complex insured institutions. The FDIC's ability to analyze and respond to risks in these institutions is of particular importance, as they make up a significant share of the banking industry's assets. The program provides for a consistent approach to large-bank supervision nationwide, allows for analysis of financial institution risks on an individual and comparative basis, and enables a quick response to risks identified at large institutions. The program's objectives are achieved through extensive cooperation with the FDIC regional offices, other FDIC divisions and offices, and the other bank and thrift regulators. Adverse economic and market conditions throughout 2009 continued to impact large institutions. Given the increased risk levels, the FDIC has expanded its presence at the nation's largest and most complex institutions through additional and enhanced on-site and off-site monitoring.

The program increased its on-site presence at the eight large complex institutions, as designated by the FDIC Board of Directors, to assess risk, monitor liquidity, and participate in targeted reviews with the primary federal regulators. Standardized liquidity, and reporting processes are also in place at select large and problem institutions. Off-site monitoring has intensified with weekly reporting on high-risk banks with total assets of $5 billion or greater.

The Large Insured Depository Institution (LIDI) Program remains the primary instrument for off-site monitoring of insured depository institutions with $10 billion or more in total assets, or under this threshold at regional discretion. The LIDI Program continues to provide a comprehensive process to standardize data capture and reporting through nationwide comprehensive quantitative and qualitative risk analysis of large and complex institutions. As of December 31, 2009, the LIDI Program encompassed 109 institutions with total assets of over $10 trillion. In order to enhance large bank oversight, the LIDI Program was refined to better quantify risk to the insurance fund in all large banks. This was accomplished, in collaboration with other divisions and offices, through the implementation of the LIDI Scorecard. The LIDI Scorecard is designed to weigh key risk areas and provide a risk ranking and measurement system that compares insured institutions on the basis of both the probability of failure and exposure to loss at failure. The comprehensive LIDI Program is

essential to effective large bank supervision by capturing information on the risks and utilizing that information to best deploy resources to high-risk areas, determine the need for supervisory action, and support insurance assessments and resolution planning.

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.

Examination Program

The FDIC's strong bank examination program is the core of its supervisory program. As of December 31, 2009, the Corporation was the primary federal regulator for 4,943 FDIC-insured, state-chartered institutions that were not members of the Federal Reserve System (generally referred to as "state non-member" institutions). Through safety and soundness, consumer compliance and Community Reinvestment Act (CRA), and other specialty examinations, the FDIC assesses an institution's operating condition, management practices and policies, and

FDIC Examinations 2007–2009

	2009	2008	2007
Risk Management (Safety and Soundness):			
State Non-member Banks	2,398	2,225	2,039
Savings Banks	203	186	213
Savings Associations	1	1	3
National Banks	0	2	0
State Member Banks	2	2	3
Subtotal—Safety and Soundness Examinations	2,604	2,416	2,258
CRA/Compliance Examinations:			
Compliance/Community Reinvestment Act	1,435	1,509	1,241
Compliance-only	539	313	528
CRA-only	7	4	4
Subtotal—CRA/Compliance Examinations	1,981	1,826	1,773
Specialty Examinations:			
Trust Departments	493	451	418
Data Processing Facilities	2,780	2,577	2,523
Subtotal—Specialty Examinations	3,273	3,028	2,941
Total	**7,858**	**7,270**	**6,972**

compliance with applicable laws and regulations. The FDIC also educates bankers and consumers on matters of interest and addresses consumer questions and concerns.

As of December 31, 2009, the Corporation conducted 2,604 statutorily required risk management (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 1,981 CRA/compliance examinations (1,435 joint CRA/compliance examinations, 539 compliance-only examinations,[2] and 7 CRA-only examinations) and 3,273 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.[3] The accompanying table on page 25 compares the number of examinations, by type, conducted from 2007 through 2009.

Risk Management

As of December 31, 2009, there were 702 insured institutions with total assets of $402.8 billion designated as problem institutions for safety and soundness purposes (defined as those institutions having a composite CAMELS[4] rating of "4" or "5"), compared to the 252 problem institutions with total assets of $159.4 billion on December 31, 2008. This constituted a 179 percent increase in the number of problem institutions and a 153 percent increase in problem institution assets. In 2009, 179 institutions with aggregate assets of $1.3 trillion were removed from the list of problem financial institutions, while 629 institutions with aggregate assets of $1.6 trillion were added to the list. Eighty-three institutions are in process of being downgraded to problem status, reporting total assets of $32.2 billion. Colonial Bank, Montgomery, Alabama, was the largest failure in 2009, with $25.0 billion in assets (and was added to the list and resolved in 2009). The FDIC is the primary federal regulator for 473 of the 702 problem institutions, with total assets of $242.2 billion and $402.8 billion respectively.

During 2009, the Corporation issued the following formal and informal corrective actions to address safety and soundness concerns: 282 Cease and Desist Orders, 3 Temporary Cease and Desist Orders, and 425 Memoranda of Understanding. Of these actions, 9 Cease and Desist Orders and 22 Memoranda of Understanding were issued based, in part, on apparent violations of the Bank Secrecy Act.

[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 2009 annual performance goal for compliance examinations on "3-, 4-, and 5-rated" institutions was not fully met. This annual performance goal and the indicator have been revised for 2010 to be consistent with the goal established in years prior to 2009. The 2009 performance target was not achieved because of the inadvertent inclusion of "3-rated" institutions. The FDIC does not typically issue formal enforcement actions for "3-rated" institutions. The 2009 performance target was fully met with respect to "4- and 5-rated" institutions.

[4] 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).

As of December 31, 2009, 327 FDIC-supervised institutions were assigned a "4" rating for safety and soundness, and 146 institutions were assigned a "5" rating. Of the "4-rated" institutions, 297 were examined or had examinations in process as of December 31, 2009, and formal or informal enforcement actions are in process or had been finalized to address the FDIC's examination findings. Further, 131 "5-rated" institutions were examined or had examinations in process as of December 31, 2009.

Compliance

As of December 31, 2009, 34 FDIC-supervised institutions were assigned or in process of being assigned a "4" rating and one institution was assigned a "5" rating for compliance. In total, 18 of the "4-rated" and the one "5-rated" institutions were examined in 2009; the remaining 16 were examined prior to 2009 and involved either appeals or referrals to other agencies. Of these 35 institutions, 1 is under informal enforcement action, 21 are under Cease and Desist Orders and 13 are in process of enforcement actions.

During 2009, the Corporation issued the following formal and informal corrective actions to address Compliance concerns: 18 Cease and Desist Orders and 50 Memoranda of Understanding.

Restoring and Maintaining Public Confidence and Stability in the Financial System

The FDIC is participating with other regulators, Congress, banks, and other stakeholders in multiple new and changing initiatives, each with its unique challenges and risks, to address the current crises. The initiatives are very large in scale, and the FDIC's corresponding governance and supervisory controls, in many cases, are still under development at year-end. Among the initiatives are the following:

- Processing applications for those FDIC-supervised institutions applying to the Department of the Treasury's Troubled Asset Relief Program (TARP) Capital Purchase Program (CPP). This program authorizes the Treasury to purchase up to $250 billion of senior preferred shares from qualifying insured depository institutions. As of September 30, 2009, the FDIC had received over 1,700 applications requesting nearly $35 billion in TARP funding.
- As of December 31, 2009, the FDIC's processing of CPP requests was 100 percent completed. The Department of Treasury completed the final disbursements under the CPP program on December 31, 2009.
- Issuing a memorandum on February 10, 2009, to provide examiners with guidance on reviewing compliance with CPP program requirements. Examiners have incorporated these procedures into their on-site reviews of institutions participating in the CPP. Examination procedures for institutions participating in the TLGP were issued on September 24, 2009.

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.

In 2009, the FDIC used JETs within institutions involved in significant subprime or nontraditional mortgage activities; institutions affiliated with or utilizing third parties to conduct significant consumer 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.

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 2009.

The FDIC conducted three training sessions in 2009 for 57 central bank representatives from Bangladesh, Egypt, Ghana, Indonesia, Jordan, Kuwait, Mali, Nigeria, Pakistan, Saudi Arabia, Thailand, United Arab Emirates, and Yemen. 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 on the role of financial intelligence units in detecting and investigating illegal activities.

Additionally, the FDIC hosted 29 representatives from the Central Bank of Russia, sponsored by the Financial Services Volunteer Corps. Sessions included discussion of AML topics, as well as supervisory examination processes and interaction with the financial intelligence unit. Separately, the FDIC met with five Russian and three Kazakhstani foreign officials as a part of the U.S. Department of State's International Visitor Leadership Program to discuss the FDIC's AML Supervisory Program.

Minority Depository Institution Activities

The preservation of Minority Depository Institutions (MDIs) remains a high priority for the FDIC. In 2009, the FDIC continued to seek ways for improving communication and interaction with MDIs, and responding to their concerns. Technical assistance was provided to 51 MDIs in a variety of different areas including, but not limited to, the following:

- Deposit insurance assessments
- Proper use of interest reserves
- Filing branch and merger applications
- Complying with Part 365—Real Estate Lending Standards
- Preparing Call Reports
- Performing due diligence for loan participations
- Monitoring CRE concentrations
- Reducing adversely classified assets
- Stress testing
- Identifying and monitoring reputation risk
- Maintaining adequate liquidity
- Risks related to the use of brokered deposits

- Compliance issues
- Community Reinvestment Act
- Procedures for filing regulatory appeals
- Criteria for assigning CAMELS ratings

The FDIC also continued to offer the benefit of having examiners return to FDIC-supervised MDIs from 90 to 120 days after examinations, to assist management in understanding and implementing examination recommendations and to discuss other issues of interest. Seven MDIs took advantage of this initiative in 2009. Also, the FDIC held six regional outreach training efforts and educational programs to MDIs, three of which are discussed below.

In February 2009, the FDIC held a conference call to discuss various facets of the proposed changes to the insurance assessment criteria, including (a) the removal of statutory constraints on the FDIC's ability to charge institutions for deposit insurance under the Federal Deposit Insurance Reform Act of 2005, (b) the temporary increase in basic deposit insurance coverage from $100,000 to $250,000 per depositor under the Emergency Economic Stabilization Act of 2008, and (c) the insurance assessments for financial institutions based on their risk category. There was also a discussion about the criteria for participating in the Troubled Asset Relief Program (TARP). Seventy-eight bankers participated on the conference call.

The FDIC hosted the fourth annual MDI National Conference in Chicago, Illinois, from July 8-10, 2009. The conference theme was "A Bridge to Community Stabilization," and over 220 bankers from MDIs attended. The breakout sessions focused on topics of interest to bank management, including commercial real estate lending, liquidity and funding, mortgage foreclosure prevention programs, and accounting issues.

The FDIC held banker roundtables and/or conference calls with MDIs in their geographic regions. Topics of discussion at roundtables included the economy, overall banking conditions, agricultural conditions, deposit insurance assessments, accounting, and other bank examination issues. Also, from December 2-3, 2009, the FDIC, in cooperation with the Puerto Rico Bankers Association, hosted a compliance school in Guayabo, PR. The event was attended by approximately 150 bankers from nine banks.

In addition, the National MDI Coordinator held conference calls with representatives from several trade groups, including the Puerto Rico Bankers Association, the National Bankers Association, the Korean-American Bankers Association, the Asian-American Bankers Association, the National Association of Chinese-American Bankers, and the Hispanic Bankers Association, to discuss the MDI program and FDIC outreach activities.

Capital Standards

The FDIC continued to be actively involved in domestic and international discussions intended to address the deficiencies in regulatory capital rules that were brought to light as a result of the recent financial turmoil and to ensure capital standards adequately support the safe and sound operation of banks. This included participation in a number of supervisory working group meetings with foreign regulatory authorities.

Internationally, the FDIC is participating in the Basel Capital Monitoring Group that tracks the impact on risk-based capital with the implementation of Basel II. The FDIC will continue

to compile and analyze the information on the international impact of Basel II on regulatory capital as it becomes available through public and supervisory sources.

The FDIC continues to participate in international efforts to improve the quality of capital, minimize the procyclicality of risk-based capital requirements, and ensure the amount of capital banks hold for risky exposures is commensurate with risk (notably securitization, re-securitization, and trading book exposures). The FDIC actively participates in the work of the Basel Committee on Banking Supervision's Policy Development Group and a number of working groups: AIG Trading Book, Fundamental Review of the Trading Book, Definition of Capital, Non-Risk Based Supplementary Measure (leverage ratio), Liquidity, External Ratings and Securitizations, Counterparty Credit Risk, Asset Encumbrance, Procyclicality, and Macroprudential Supervision. The substantive work of these groups culminated in the publication in June 2009 of *Revisions to the Basel II market risk framework, Guidelines for computing capital for incremental risk in the trading book*, and *Enhancements to the Basel II framework*—and two consultative papers in December of 2009—*Strengthening the resilience of the banking sector* and *International framework for liquidity risk measurement, standards and monitoring.* The FDIC also participated in drafting the request for data for the impact studies that the Basel Committee will undertake in early 2010 to calibrate the proposals in the consultative papers. A number of these groups, including the Fundamental Review of the Trading Book, Asset Incumbrance, External Ratings and Securitization, and Macroprudential Supervision, will continue their work into 2010.

Domestically, the FDIC issued a number of interagency rulemakings to align regulatory capital more closely with risk. On November 12, 2009, the FDIC made final the interim final rule regarding the risk weights for Residential Mortgage Loans Modified Pursuant to the Making Home Affordable Program (MHAP) of the U.S. Department of the Treasury.[5] This rule was jointly issued with the other federal banking agencies' support to prevent residential real estate foreclosures and keep Americans in their homes. The rule allows an institution to continue to risk weight a prudently-underwritten mortgage loan at the preferential risk weight even though it has been restructured under the Treasury's program. The final rule clarified that a banking organization may retain the risk weight assigned to a mortgage loan before the loan was modified under the MHAP.

On August 27, 2009, in response to the financial turmoil and the Financial Accounting Standards Board's revisions to accounting rules for consolidation of variable interest entities—Statement of Financial Accounting Standards No. 166, *Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140* (FAS 166—now codified as ASC 860), and Statement of Financial Accounting Standards No. 167, *Amendments to FASB Interpretation No. 46(R)* (FAS 167—now codified as ASC 810)—the federal banking regulators issued a proposed

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[5] On March 4, 2009, the Treasury announced guidelines under the *Making Home Affordable Program* (MHAP) to promote sustainable loan modifications for homeowners at risk of losing their homes due to foreclosure.

rule for comment titled *Impact of Modifications to Generally Accepted Accounting Principles, Consolidation of Asset-Backed Commercial Paper Programs, and Other Related Issues*. The final rule was approved by the FDIC Board on December 15, 2009. The rule discussed the impact of the accounting changes on the agencies' regulatory capital rules. The rule modified the general risk-based and advanced risk-based capital adequacy frameworks to eliminate the exclusion of certain consolidated asset-backed commercial paper programs from risk-weighted assets. The rule provided a reservation of authority in the general risk-based and advanced risk-based capital adequacy frameworks to permit the agencies to require banking organizations to treat entities that are not consolidated under accounting standards as if they were consolidated for risk-based capital purposes. The rule included an optional four-quarter transition period to ease the impact of the accounting change on a bank's risk-based capital requirements but did not delay the impact of the accounting change on a bank's leverage ratio.

The FDIC, with the other federal bank regulators, commenced a number of rulemakings in late 2009, including a revised Standardized Framework notice of proposed rulemaking (NPR) that proposes to implement the Basel II Accord standardized risk-based capital framework, an NPR to revise the Market Risk Amendment that proposes higher regulatory capital requirements for significant trading book activities, and an NPR that proposes implementation of the Basel changes to risk-based capital requirements that doubles the capital charge for re-securitizations and requires additional disclosures for securitizations and re-securitizations.

Guidance Issued

During 2009, the FDIC issued and participated in the issuance of guidance in several areas as described below:

Structured Credit Products

FDIC-supervised institutions continued to invest in structured credit products, including private label mortgage-backed securities and collateralized debt obligations. By early 2009, a growing number of these institutions experienced deterioration in financial performance as a result of these investments. To reinforce the federal banking agencies' existing guidance—*Supervisory Policy Statement on Investment Securities and End-User Derivatives Activities* and *Uniform Agreement on the Classification of Assets and Appraisal of Securities*—the agencies issued new guidance on April 30, 2009, titled *Risk Management of Investments in Structured Credit Products.* The guidance reiterates and clarifies existing supervisory guidance on the purchase and holding of complex structured credit products. It focuses on the various supervisory concerns related to these securities: pre-purchase analysis, suitability determination, risk limits, credit ratings, valuation, ongoing due diligence, adverse classification, and capital treatment.

Qualifications for Failed Bank Acquisitions

The FDIC developed guidance for private investors interested in acquiring the deposit liabilities, or the deposit liabilities and assets, of failed insured depository institutions. The FDIC published for comment on July 9, 2009, a Proposed Statement of Policy on Qualifications for Failed Bank Acquisitions (Proposed Policy Statement). On August 26, 2009, the FDIC's Board of

Directors voted to adopt the Final Statement of Policy on Qualifications for Failed Bank Acquisitions (Final Policy Statement), which was published in the *Federal Register* on September 2, 2009. The Final Policy Statement takes into account comments received from companies, law firms, legislators, and other interested parties, and changed the minimum capital commitment from 15 percent Tier 1 leverage to 10 percent Tier 1 common equity. Other key elements of the Final Policy Statement include cross support requirements, a prohibition on affiliated lending, a limitation on the sale of acquired shares in the first three years, a prohibition on bidding by excessively opaque and complex business structures, and minimum disclosure requirements. The Final Policy Statement specifies that it does not apply to investors who hold 5 percent or less of the total voting power as long as there is no evidence of concerted action by these investors. In adopting the Final Policy Statement, the FDIC sought to strike a balance between the interests of private investors and the need to provide adequate safeguards for the insured depository institutions involved.

Commercial Real Estate Guidance

In response to deteriorating trends in commercial real estate (CRE) and other commercial loans, the FDIC, along with the other financial regulators, issued the *Policy Statement on Prudent Commercial Real Estate Loan Workouts* (the CRE Guidance) on October 30, 2009. The CRE Guidance updates existing guidance to assist examiners in evaluating institutions' efforts to renew or restructure loans to creditworthy borrowers. It promotes supervisory consistency, enhances the transparency of workout transactions, and ensures that supervisory policies and actions do not inadvertently curtail the availability of credit to sound borrowers.

Liquidity Risk Management

On July 31, 2009, the federal banking agencies and the National Credit Union Administration sought comment on a proposed *Interagency Guidance on Funding and Liquidity Risk Management*. The agencies developed the guidance to provide sound practices for managing funding and liquidity risk and strengthening liquidity risk management practices. The new guidance is intended to supplement existing guidance, including FIL-84-2008, Liquidity Risk Management, issued by the FDIC in 2008, which remains in effect. Where appropriate, the proposed guidance conforms to the Basel Committee's *Principles for Sound Liquidity Risk Management and Supervision*. The final guidance was published on April 15, 2010.

Brokered Deposits

The FDIC issued a final rule on May 29, 2009, effective January 1, 2010, changing the way it administers statutory restrictions on the deposit interest rates paid by banks that are less than well-capitalized. Under Part 337.6 of the FDIC Rules and Regulations, a less than well-capitalized insured depository institution may not pay a rate of interest that significantly exceeds the prevailing rate in the institution's market area or the prevailing rate from which the deposit is accepted. The final rule is intended to simplify and strengthen the administration of this regulation.

De Novo Institutions

On August 28, 2009, the FDIC advised the banking industry of supervisory changes for state non-member institutions insured seven years or less (*de novo* period). Under previous policy, newly insured institutions were subject to higher capital requirements and more frequent examination activities during the first three years of operation. Based on supervisory experience, the FDIC extended the *de novo* period from a three-year period to seven years for examinations, capital, and other requirements. In addition, material changes in business plans for newly insured institutions will require prior FDIC approval during the first seven years of operation.

Regulatory Relief

During 2009, the FDIC issued six Financial Institution Letters that provided guidance to help financial institutions and facilitate recovery in areas damaged by severe storms, tornadoes, flooding, and other natural disasters. Areas within American Samoa, Arkansas, Georgia, Kentucky, Minnesota, and North Dakota were affected.

Other Guidance Issued

On July 8, 2009, in response to the severe payment situation that the state of California was experiencing, the federal banking agencies issued supervisory guidance for institutions regarding the regulatory capital treatment for registered warrants issued by the state of California as payment for certain obligations. The agencies' risk-based capital standards permit a banking organization to risk weight general obligation claims on a state at 20 percent. These warrants, which are general obligations of the state, would, therefore, be eligible for the 20 percent risk weight for risk-based capital purposes. The agencies reminded institutions, however, that they should exercise the same prudent judgment and sound risk management practices with respect to the registered warrants as they would with any other obligation of a state.

The FDIC also initiated an interagency interest rate risk advisory to highlight concerns about banks taking on excessive interest rate risk in current low interest rate environment. This advisory, which was published in January 2010, clarifies existing guidance and reminds banks not to lose focus on their management of interest rate risk. Banks are expected to manage interest rate risk exposures using policies and procedures commensurate with their complexity, business model, risk profile, and scope of operations.

Consumer Protection and Compliance Guidance

In January 2009, the FDIC approved, and issued, along with the other federal bank regulators, updated Final Interagency Questions and Answers on the Community Reinvestment Act (CRA) and requested comment on new proposed guidance. In June, the FDIC joined the other regulators in requesting comment on CRA regulatory changes to implement statutory requirements relating to student loans and activities in cooperation with minority- and women-owned financial institutions and low-income credit unions. The FDIC contributed to the development and June release of guidance and examination procedures on the 2009 Identity Theft Red Flags regulations. In July, the FDIC joined other regulators in issuing Revised Interagency Questions and Answers Regarding Flood Insurance, updating guidance first issued in 1987,

and requested comment on additional proposed guidance. In September, the FDIC alerted banks to new statutory requirements to protect tenants occupying foreclosed properties.

In November, the FDIC joined seven other federal agencies in releasing a model privacy notice form designed to make it easier for consumers to understand how financial institutions collect and share their personal information. The model form resulted from a multi-year consumer testing effort. In December, the FDIC joined the other Federal Financial Institutions Examination Council (FFIEC) member agencies in issuing for public comment, supervisory guidance on reverse mortgages, building on FDIC analysis performed in 2008. In June, August, and December, the FDIC issued guidance to the institutions it supervises alerting them to significant changes in the Truth in Lending Act and the Federal Reserve Board's Regulation Z (which implements that Act). In December, the FDIC reminded institutions of the dramatically revised Real Estate Settlement Procedures Act regulation issued by the Department of Housing and Urban Development.

Monitoring Potential Risks from New Consumer Products

The FDIC relies heavily on on-site supervisory activities to identify existing and emerging risks. In addition to on-site supervisory activities, the FDIC uses several established off-site processes, including Statistical CAMELS Off-site Rating (SCOR) and Growth Monitoring System (GMS), as well as more recent comprehensive reviews (such as the Quarterly Supervisory Risk Profile) to assess how identified risks are likely to affect insured institutions' risk profiles and ratings. These ongoing analyses have been augmented with numerous ad hoc reviews (such as reviews of commercial real estate lending trends, interest rate risk exposure, allowance-for-loan and lease losses trends, and dividend payments). Furthermore, the FDIC replaced its former Underwriting Survey Questionnaire with a Credit and Consumer Products/Services Survey in October 2009. The new survey extends beyond underwriting practices and addresses new or evolving products/strategies and consumer compliance issues and is now completed by examiners at the conclusion of each risk management and consumer compliance examination. Supervisory staff monitors and analyzes this real-time examiner input and uses the information to help determine the need for changes in policy guidance or supervisory strategies as appropriate.

The FDIC continues to work with the FFIEC to issue supervisory guidance on reverse mortgage products. The FDIC began this effort as the result of an internal review that highlighted consumer risks associated with this product. A 2009 GAO report highlighted similar issues. In addition, the FDIC continues to work with other agencies to enhance the Truth in Lending examination procedures to assist examiners when reviewing compliance with reverse mortgage disclosure requirements.

Regulatory Reporting Revisions

The FDIC, jointly with the Office of the Comptroller of the Currency and the Federal Reserve Board, implemented revisions to the Consolidated Reports of Condition and Income (Call Reports) on a phased-in basis in March, June, and December 2009. The revisions

focused on areas in which the banking industry was experiencing heightened risk as a result of market turmoil and illiquidity and weakening economic and credit conditions. The reporting changes included new data on real estate construction loans with interest reserves, structured financial products such as collateralized debt obligations, commercial mortgage-backed securities, pledged loans, and fiduciary assets and income. Selected institutions must report additional data on recurring fair value measurements, credit derivatives, and over-the-counter derivative exposures.

In September 2009, the agencies updated the reporting of data on the amount and number of deposit accounts and estimated uninsured deposits in the Call Report schedule to reflect the extension of the temporary increase in the standard maximum deposit insurance amount from $100,000 to $250,000 per depositor enacted in the Helping Families Save Their Homes Act.

In December 2009, the agencies approved revisions to the Call Report that were implemented in early 2010. The revisions incorporate modifications made in response to comments received on the agencies' August 2009 proposal and are subject to approval by the U.S. Office of Management and Budget. The revisions respond to such recent developments as a temporary increase in the deposit insurance limit, changes in accounting standards, and credit availability concerns. The reporting changes that were effective March 31, 2010, include new data on other-than-temporary impairments of debt securities, loans to non-depository financial institutions, and brokered time deposits; additional data on certain time deposits and unused commitments; and a change from annual to quarterly reporting for small business and small farm lending data. The agencies will collect new data pertaining to reverse mortgages annually beginning December 31, 2010.

Promoting Economic Inclusion

The FDIC pursued a number of initiatives in 2009 to facilitate underserved populations using mainstream banking services rather than higher cost, non-bank alternatives and to ensure protection of consumers in the provision of these services.

Alliance for Economic Inclusion

The goal of the FDIC's Alliance for Economic Inclusion (AEI) initiative is to collaborate with financial institutions; community organizations; local, state, and federal agencies; and other partners in select markets to launch broad-based coalitions to bring unbanked and underserved consumers into the financial mainstream.

The FDIC expanded its AEI efforts during 2009 to increase measurable results in the areas of new bank accounts, small-dollar loan products, remittance products, and delivery of financial education to more underserved consumers. During 2009, over 60 banks and organizations joined AEI nationwide, bringing the total number of AEI members to 967. More than 72,614 new bank accounts were opened during 2009, bringing the total number of bank accounts opened through the AEI to 162,692. During 2009, approximately 68,491 consumers received financial education through the AEI, bringing the total number of consumers educated to 142,796. Also, 35 banks were in the process of offering or developing small-dollar loans as part of the AEI,

and 26 banks were offering remittance products at the end of 2009.

The FDIC expanded the AEI initiative to two additional markets during 2009—Detroit/South, Michigan and Little Rock, Arkansas—bringing the total number of active AEI markets to 14. Additionally, the FDIC worked closely during 2009 to provide technical assistance and support to communities in Milwaukee, Wisconsin and northwestern Indiana interested in forming AEI coalitions. The statewide Wisconsin Saves program agreed to lead an initiative in Milwaukee patterned after the AEI.

The FDIC also worked closely during 2009 with the National League of Cities to provide technical assistance to facilitate the launch of Bank On campaigns in Seattle, WA; Savannah, GA; Houston and San Antonio, TX; and Indianapolis, IN. The FDIC was also invited to serve as a working committee member and advisor to facilitate the launch of a Bank On Washington, DC, campaign launched in April 2010.

FDIC Advisory Committee on Economic Inclusion

The FDIC's Advisory Committee on Economic Inclusion was established in 2006 and provides the FDIC with advice and recommendations on initiatives focused on expanding access to banking services by underserved populations. This may include reviewing basic retail financial services such as check cashing, money orders, remittances, stored value cards, short-term loans, savings accounts, and other services that promote asset accumulation and financial stability. Committee members represent a cross-section of interests from the banking industry, state regulatory authorities, government, academia, consumer or public advocacy organizations, and community-based groups.

The Advisory Committee met three times during 2009. In February 2009, the meeting topic was *Strategies to Increase Access to the Financial Mainstream*. The meeting featured an overview of the FDIC Survey of Banks' Efforts to Serve the Unbanked and Underbanked and focused on effective and innovative products and services, policy approaches, and supervisory and regulatory strategies to improve appropriate engagement with the mainstream financial system, particularly for low- and moderate-income (LMI) and underserved households.

The Advisory Committee also met in July 2009 to continue its discussion about issues and challenges related to improving access to the financial mainstream and to discuss innovative ways that banks and others are encouraging savings through "game-based" strategies that make savings fun or exciting, such as sweepstakes, milestones, or rewards. After this meeting, a report of the Committee's views regarding the issues and challenges of serving LMI and underserved consumers was posted on the FDIC web site to spark discussion of how best to serve consumers who may be struggling, particularly in the current economy.

On December 2, 2009, the Committee met to discuss results of the *FDIC National Unbanked and Underbanked Household Survey*, overdraft issues, and the strategic focus for the Committee. As a next step, the Committee will formulate a strategic plan that will provide a framework for the Committee's agenda over the next two years. Among other things, the Strategic Plan will include recommendations related to:

- Determining a desirable "base" level of household savings, and how much households actually have.
- Addressing desirable features of safe, affordable savings and transaction account products.
- Determining how the FDIC can enhance efforts to promote youth financial education programs.
- Reviewing CRA to ensure that programs targeted to LMI communities are receiving appropriate consideration.
- Considering ways to scale small-dollar loans, including standardizing an affordable small-dollar loan product, providing information about existing programs, seeking philanthropic or government guarantee funds, and potentially using government workforces as a test for employer-based small-dollar loans.

Affordable Small-Dollar Loan Guidelines and Pilot Program

Many consumers, even those who have bank accounts, turn to high-cost payday or other non-bank lenders to quickly obtain small loans to cover unforeseen circumstances. To help insured institutions better serve an underserved and potentially profitable market while enabling consumers to transition away from reliance on high-cost debt, the FDIC launched a two-year small-dollar loan pilot project in February 2008. The pilot is designed to review affordable and responsible small-dollar loan programs offered by insured financial institutions and assist the banking industry by identifying and disseminating information on replicable business models and best practices for small-dollar loans, including ways to offer small-dollar loan customers other mainstream banking services.

There are currently 30 banks of varied sizes and diverse locations and settings participating in the pilot. Banks submitted data on a quarterly basis, which the FDIC analyzed to determine trends and best practices. The FDIC encourages innovation in program design, but most programs generally adhere to the FDIC's Small-Dollar Loan Guidelines, issued in June 2007, and all feature payment periods beyond a single paycheck, annual percentage rates below 36 percent, and streamlined underwriting and prompt loan application processing. During seven quarters of the pilot, banks cumulatively originated about 29,000 loans with a principal balance of more than $34 million. Bankers involved in the pilot cite a number of common factors that contributed to the success of their loan programs, including strong senior management and board support; an engaged and empowered "champion" in charge of the program; proximity to large populations of consumers with demand for small-dollar loans; and, in some rural markets, limited competition. The delinquency ratio for loans in the pilot tends to be almost three times higher than for general unsecured loans to individuals. However, charge-off rates for loans originated under the program are the same as general unsecured loans to individuals. These statistics show that while small-dollar loan borrowers are more likely to have trouble paying on time, they are no more likely to default than those in the general population.

Only a few bankers participating in the pilot have reported that short-term profitability is the primary goal for their program. Rather, most pilot banks are using the small-dollar loan prod-

uct as a cornerstone for profitable relationships, which also creates goodwill in their community. A few banks' business models focus exclusively on the goodwill aspect and generating an opportunity for positive Community Reinvestment Act consideration. Regardless of the business model, all of the bankers involved in the pilot have indicated that small-dollar lending is something they believe they should be doing to serve their communities.

Through the Advisory Committee on Economic Inclusion, the FDIC is considering pursuing several initiatives to broaden the availability of small-dollar loans at mainstream financial institutions, including, but not limited to, the following:

- **Conduct a Close-Out Symposium, Article, and "Branding Effort" for the Small-Dollar Loan Pilot.** The close-out symposium will highlight final pilot findings, summarize technology and other innovations in small-dollar loans, and address progress on incentives to scale small-dollar loans across the financial mainstream. The features identified in the pilot could also be "branded" as the ideal for affordable, feasible small-dollar loan programs.
- **Consider Creating Pools of Non-Profit Funds or Government Operating Funds to Serve as "Guarantees" for Acceptable Small-Dollar Loan Programs.** Several existing small-dollar loan programs feature "guarantees" in the form of loan loss reserves or linked, low-cost deposits provided by government bodies or philanthropic groups. These guarantees provide important assurances to banks interested in providing loan funds and other support to the programs. To encourage more institutions to offer small-dollar loan programs, larger pools could be created.
- **Consider Conducting a Pilot Using Federal Workforces to Test Innovative Small-Dollar Loan Business Models.** The dominant model in the small-dollar loan pilot is the "high-touch" relationship building model. Peer-to-peer technology and employer-based lending are promising technologies to reduce handling costs, and, with employer-based models, potentially credit losses. To the extent legally permissible, the FDIC or other federal workforces could explore serving as pilots for testing innovative small-dollar loan business models.

FDIC Advisory Committee on Community Banking

On May 29, 2009, the FDIC Board of Directors approved establishing the FDIC Advisory Committee on Community Banking. This commit-

Members of the Advisory Committee on Community Banking with Chairman Sheila C. Bair.

tee was formed to provide the FDIC with advice and guidance on a broad range of important policy issues impacting small community banks throughout the country, as well as the local communities they serve, with a focus on rural areas.

The 14-member committee represents a cross-section of community bankers from around the nation, as well as a member from academia. The first meeting, held on October 15, 2009, covered the impact of the financial crisis on community banks. Other issues addressed were regulatory reform proposals under consideration by Congress and their effect on community banks, the impact of FDIC supervisory proposals on these banks, and community banks' perspectives on funding the FDIC's Deposit Insurance Fund.

Survey Results of the Unbanked and Underbanked

In February 2009, the FDIC transmitted to Congress the results of the first national survey of banks' efforts to serve unbanked and underbanked individuals and families in their market areas. The survey, conducted pursuant to a mandate in Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005, found that improvement may be possible in the areas of institution focus, outreach, and commitment to unbanked and underbanked populations. The survey found that a majority of banks—63 percent—offers basic financial education materials, but fewer participate in the types of outreach efforts that are viewed by the industry as most effective to attract and maintain unbanked and underbanked individuals as long-term customers.

On December 2, 2009, the FDIC released the findings of its FDIC National Survey of Unbanked and Underbanked Households, breaking new ground in gaining understanding of which Americans remain outside the banking system. The survey, conducted on behalf of the FDIC by the U.S. Bureau of the Census, was a supplement to the Census Bureau's Current Population Survey during January 2009. The study, which is the most comprehensive survey to date of the unbanked and underbanked, reveals that more than one quarter (25.6 percent) of all households in the United States are unbanked or underbanked and that those households are disproportionately low-income and/or minority. In addition to collecting accurate estimates of the number of unbanked and underbanked households in the U.S., the survey was designed to provide insights into their demographic characteristics and reasons why the households are unbanked or underbanked. The survey represents the first time that this data has been collected to produce estimates at the national, regional, state, and large metropolitan statistical area (MSA) levels. This effort is being undertaken in response to the Reform Act, which calls for the FDIC to provide an estimate of the size of the U.S. unbanked market and to identify issues that cause individuals and families to be unbanked.

Information Technology, Cyber Fraud, and Financial Crimes

The FDIC issued Special Alerts in August and October 2009 notifying financial institutions of an alarming increase in reports of fraudulent electronic funds transfer transactions resulting from compromised login credentials. During 2009, the FDIC detected an increase in both the number of such incidents and the losses resulting

from them. Other major accomplishments during 2009 in combating identity theft included the following:

- Assisted financial institutions in identifying and shutting down approximately 651 "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 219 Special Alerts to FDIC-supervised institutions on reported cases of counterfeit or fraudulent bank checks.
- Issued, in conjunction with the other FFIEC agencies, frequently asked questions (FAQs) concerning "Identity Theft Red Flags, Address Discrepancies, and Change of Address Regulations." These FAQs are designed to assist financial institutions in complying with the new regulations and examiners in assessing institutions' compliance.

The FDIC conducts information technology (IT) examinations at each safety and soundness examination to ensure that institutions have implemented adequate risk management practices for the confidentiality, integrity, and availability of the institution's sensitive, material, and critical information assets using the FFIEC Uniform Rating System for Information Technology (URSIT). The FDIC also participates in interagency examinations of significant technology service providers. In 2009, the FDIC conducted 2,780 IT examinations at financial institutions and technology service providers. The FDIC also monitors significant events, such as data breaches and natural disasters that may impact financial institution operations or customers.

As an additional element of its leadership role in promoting effective bank supervision practices, the FDIC provides technical assistance, training, and consultations to international governmental banking regulators in the area of IT examinations. In 2009, through our secondment program with the Financial Services Volunteer Corps, the FDIC provided assistance in developing IT examination programs to the Central Bank of Iraq, the Central Bank of Libya, Banque d'Algerie, and Bank of Albania. The FDIC also hosted a visit by the China Banking Regulatory Commission to learn about our IT examination programs, and the FDIC hosted an international conference of bank regulators to discuss emerging technology risks and to compare supervisory approaches.

Consumer Complaints and Inquiries

The FDIC investigates consumer complaints concerning FDIC-supervised institutions and answers inquiries from the public about consumer protection laws and banking practices. As of December 31, 2009, the FDIC had received 17,245 written complaints, of which 8,280 involved complaints against state non-member institutions. The FDIC responded to over 96 percent of these complaints within the two-week standard established by Corporate policy. The FDIC also responded to 2,797 written inquiries, of which 503 involved state non-member institutions. In addition, the FDIC responded to 6,491 telephone calls from the public and members of the banking community, 3,878 of which concerned state non-member institutions.

Deposit Insurance Education

An important part of the FDIC's deposit insurance mission is ensuring that bankers and consumers have access to accurate information about the FDIC's rules for deposit insurance coverage. 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.

Economic conditions in 2008 helped to spur a significant interest by bank customers in learning more about FDIC deposit insurance coverage. To meet the increased public demand for deposit insurance information, the FDIC implemented two major initiatives to help raise public awareness of the benefits and limitations of FDIC deposit insurance coverage.

In 2009, the FDIC continued with its 2008 initiatives aimed at raising the public's awareness of the benefits and limitations of federal deposit insurance. The FDIC continued its campaign of public service announcements for television, radio, and print media; these public service announcements encouraged bank customers to visit myFDICinsurance.gov to learn about FDIC insurance coverage. In addition to our efforts to raise public awareness, the FDIC expanded its efforts to educate bankers about the rules and requirements for FDIC insurance coverage. In the fall of 2009, after all legislative and regulatory changes were implemented, the FDIC conducted a series of six nationwide telephone seminars for bankers on deposit insurance coverage. These seminars reached an estimated 35,000 bankers participating at approximately 10,000 bank locations throughout the country. The FDIC also continued to work with industry trade groups to provide training for bank employees.

Deposit Insurance Coverage Inquiries

During 2009, the FDIC received 4,782 written deposit insurance inquiries from consumers and bankers. Of these inquiries, 99 percent received responses from the FDIC within two weeks, as required by Corporate policy. In addition to written deposit insurance inquiries, the FDIC received and answered 41,259 telephone inquiries from consumers and bankers during 2009.

The 46,041 total deposit insurance inquiries received in 2009 is significantly less than the 100,933 total deposit insurance inquiries received in 2008, when there was an unprecedented surge in deposit insurance questions following the failure of IndyMac Bank. However, the 2009 deposit insurance inquiries represent a 130 percent increase compared to 2007, when the FDIC received a total of 20,024 inquiries about deposit insurance coverage.

Foreclosure Prevention

In 2009, the FDIC launched an initiative to help consumers and the banking industry avoid unnecessary foreclosures and stop foreclosure "rescue" scams that promise false hope to consumers at risk of losing their homes.

The FDIC focused its foreclosure mitigation efforts in three areas during 2009:

- *Direct outreach to consumers with information, education, counseling, and referrals.* During 2009, the FDIC hosted or co-hosted over 82 consumer outreach events that

reached over 17,000 consumers. The FDIC also released an informational toolkit and launched a phone referral service to help homeowners avoid scams and reach their servicer.

- *Industry outreach and education targeted to lenders, loan servicers, local governmental agencies, housing counselors, and first responders (faith-based organizations, advocacy organizations, social service organizations, etc.).* The FDIC worked collaboratively throughout 2009 with local foreclosure coalitions, AEI partners, and others to co-host industry-wide events. Approximately 20 such events were conducted during 2009.
- *Support for capacity building initiatives to help expand the quantity and quality of foreclosure counseling assistance that is available within the industry.* Working closely with NeighborWorks® America and other national and local counselor training and intermediaries, the FDIC worked to support industry efforts to build the capacity of housing counseling agencies.

As part of the FDIC's foreclosure prevention efforts, the FDIC released two new educational brochures during 2009 (in both English and Spanish) to help consumers avoid scams and turn to legitimate sources of assistance. The *Is Foreclosure Knocking at Your Door*? brochure encourages consumers to seek a loan modification. The *Beware of Foreclosure Rescue Scams* brochure alerts homeowners to common scams and directs them to legitimate sources of assistance. The demand for both brochures was strong—over 150,000 copies were requested and distributed.

The FDIC also worked collaboratively with other key partners, both inside and outside federal government, on post-foreclosure neighborhood stabilization efforts. These efforts will continue in 2010.

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 was, until 2009, available in six languages, large print and Braille versions for individuals with visual impairments, and a computer-based instruction version. Since its inception, over 2.4 million individuals have participated in *Money Smart* classes and self-paced computer-based instruction. Approximately 300,000 of these participants subsequently established new banking relationships.

The FDIC significantly expanded its financial education efforts during 2009 through a multi-part strategy that included making available timely, high-quality financial education products, expanded delivery channels, and the sharing of best practices.

Two new *Money Smart* products were released in 2009. First, as part of efforts to reach underserved communities, the FDIC released a Hmong (an Asian dialect found in Vietnam, Laos, Thailand, and Myanmar) language version of *Money Smart,* making it the seventh language in which the curriculum is offered. Second, the FDIC released the *Money Smart Podcast Network*, a portable audio version of *Money Smart* suitable for use with virtually all MP3 players. It was created as a tool for consumers to use to learn on their own or for educators seeking an inno-

vative way to supplement traditional classroom instruction. The new MP3 version received more than 328,716 hits from 11,015 individual visitors between its release on May 27, 2009, and year-end 2009. Showing its appeal, visitors to the web site spent an average of 38 minutes on the site. Additionally, to enhance the quality of existing products, information on foreclosure prevention scams and legitimate sources of foreclosure assistance was added to the adult instructor-led and self-paced versions of *Money Smart*.

The FDIC also expanded its delivery channels for financial education. For example, 237 new organizations joined the FDIC's *Money Smart* Alliance. Finally, best practices were shared through four editions published of *Money Smart News,* which reached over 40,000 subscribers.

During 2009, the FDIC undertook over 200 community development, technical assistance, financial education, and outreach activities and events. 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.

For example, the FDIC participated in 15 local savings campaigns during the 2009 *America Saves* week to encourage consumers to build wealth. The FDIC's leadership of one such local campaign helped facilitate nearly $10 million in new savings deposits in financial institutions. Also, recognizing the importance of small business growth and job creation as an essential component in America's economic recovery, the FDIC expanded its emphasis on facilitating small business development, expansion and recovery during 2009. This included hosting well-received events to help small businesses identify supportive programs, including mainstream lending options. The FDIC also helped facilitate the establishment of two new small business loan pools during 2009 to originate loans to eligible entrepreneurs and small businesses unable to obtain traditional loans because of an elevated risk profile (e.g., start-up businesses with insufficient cash flow or collateral). These new loan pools were launched in Alexandria, Virginia, and Baton Rouge, Louisiana.

Resolutions and Receiverships

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, the FDIC is responsible for resolving the failed bank or savings association.

The FDIC employs a variety of business practices to resolve a failed institution. These business practices are typically associated with the resolution process or the receivership process. Depending on the characteristics of the institu-

tion, the FDIC may recommend several of these practices to ensure prompt and smooth payment of deposit insurance to insured depositors, to minimize impact on the Deposit Insurance Fund, and to speed dividend payments to creditors of the failed institution.

The resolution process involves valuing a failing institution, marketing it, soliciting and accepting bids for the sale of the institution, determining which bid is least costly to the insurance fund, and working with the acquiring institution through the closing process.

In order to minimize disruption to the local community, the resolution process must be performed quickly and as smoothly as possible. There are three basic resolution methods: purchase and assumption transactions, deposit payoffs, and utilizing a Deposit Insurance National Bank (DINB).

The purchase and assumption (P&A) transaction is the most common resolution method used for failing institutions. In a P&A transaction, a healthy institution purchases certain assets and assumes certain liabilities of the failed institution. There are a variety of P&A transactions that can be used. Since each failing bank situation is different, P&A transactions provide flexibility to structure deals that result in the highest value for the failed institution. For each possible P&A transaction, the acquirer may either acquire all or only the insured portion of the deposits. Loss sharing may be offered by the receiver in connection with a P&A transaction. In a loss sharing transaction, the FDIC as receiver agrees to share losses on certain loans with the acquirer. The FDIC usually agrees to absorb a significant portion (for example, 80 percent) of future losses on assets that have been designated as "shared loss assets" for a specific period of time (for example, five to ten years). The economic rationale for these transactions is that retention of shared loss assets in the banking sector can produce a better net recovery than would the FDIC's immediate liquidation of these assets.

Deposit payoffs are only executed if a bid for a P&A transaction does not meet the least-cost test or if no bids are received, in which case the FDIC, in its corporate capacity as deposit insurer, makes sure that the customers of the failed institution receive the full amount of their insured deposits.

The Banking Act of 1933 authorized the FDIC to establish a DINB to assume the insured deposits of a failed bank. A DINB is a new national bank with limited life and powers that allows failed bank customers a brief period of time to move their deposit account(s) to other insured institutions. A DINB allows for a failed bank to be liquidated in an orderly fashion, minimizing disruption to local communities and financial markets. Another resolution option, open bank assistance transactions, generally can only be used in the event the bank's failure would result in systemic risk.

The receivership process involves performing the closing functions at the failed institution, liquidating any remaining failed institution assets, and distributing any proceeds of the liquidation to the FDIC and other creditors of the receivership. In its role as receiver, the FDIC has used a wide variety of strategies and tools to manage and sell retained assets. These include, but are not limited to asset sale and/or management agreements, partnership agreements, and securitizations.

Financial Institution Failures

The FDIC experienced a significant increase in the number and size of institution failures as compared to previous years. During 2009, 140 financial institutions failed. For the institutions that failed, the FDIC successfully contacted all known qualified and interested bidders to market these institutions. Additionally, the FDIC marketed over 80 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. There were no losses on insured deposits, and no appropriated funds were required to pay insured deposits.

The following chart provides a comparison of failure activity over the last three years.

Failure Activity 2007–2009
Dollars in Billions

	2009	2008	2007
Total Institutions	140	25	3
Total Assets of Failed Institutions*	$169.7	$371.9	$2.6
Total Deposits of Failed Institutions*	$137.1	$234.3	$2.4
Estimated Loss to the DIF	$35.6	$19.8	$0.2

**Total Assets and Total Deposits data are based on the last Call Report filed by the institution prior to failure.*

Asset Management and Sales

As part of its resolution process, the FDIC makes every effort to sell as many assets as possible to an assuming institution and generally is successful in doing this. Assets that are passed to the receivership are evaluated, and those that are determined to be marketable are marketed to be sold within 90 days of an institution's failure.

Structured asset sales in 2009 included $1.3 billion of residential loans from Franklin National Bank. This transaction involved FDIC-guaranteed purchase money debt, and equity in a Limited Liability Company (LLC) shared between the receiver and the successful bidder.

The Corus Construction Venture LLC structured asset sale consisted of $4.5 billion of condominium and office construction loans from Corus Bank. In this transaction, the FDIC structured the purchase money debt at an initial term leverage of one-to-one to the bidders and structured the notes to be in the form of multiple bullet maturity notes guaranteed by the FDIC.

In 2009, the book value of assets under management increased by $26.2 billion to $41.4 billion. The following chart shows beginning and ending balances of assets by asset type.

Assets in Inventory by Asset Type
Dollars in Millions

Asset Type	Assets in Inventory 01/01/09	Assets in Inventory 12/31/09
Securities	$467	$12,425
Consumer Loans	204	475
Commercial Loans	2,985	4,423
Real Estate Mortgages	9,808	15,613
Other Assets/Judgments	703	4,096
Owned Assets	832	3,257
Net Investments in Subsidiaries	108	1,066
Total	$15,107	$41,355

Receivership Management Activities

The FDIC, as receiver, manages 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 2009, the number of receiverships under management increased by 74 percent due to the increase in failure activity. The following chart shows overall receivership activity for the FDIC in 2009.

Receivership Activity

Active Receiverships as of 01/01/09*	49
New Receiverships	140
Receiverships Inactivated	2
Active Receiverships as of 12/31/09*	187

**Includes eight FSLIC Resolution Fund receiverships.*

Minority and Women Owned Businesses

The significant increase in the number of financial institution failures over the last two years has resulted in the FDIC's increased reliance on contractors to assist in resolving receiverships created from failed financial institutions and liquidating their assets. In 2009, the FDIC made 1,212 contract awards totaling $2.66 billon; 376 (31%) of those awards, valued at $862 million (32%), were to minority and women-owned businesses (MWOBs). The FDIC promotes the inclusion of MWOBs in its procurement program, which relies on competitive bidding by invitation. The FDIC conducts outreach to encourage and inform MWOBs about the procurement process and opportunities for prime and subcontract awards. For 2010, the FDIC seeks to increase the number of awards and dollar value of the awards made to MWOBs in all racial, gender, and ethnic categories in the financial services industry.

Protecting Insured Depositors

With the increase in failure activity in 2009, the FDIC's focus on protecting deposits in institutions that fail was of critical importance. Confidence in the banking system hinges on deposit insurance, and no insured deposits went unpaid in 2009.

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 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 insurance limit. Effective October 3, 2008, through December 31, 2009, the standard maximum deposit insurance amount increased from $100,000 to $250,000, and this increase was later extended to December 31, 2013. During 2009, the FDIC paid dividends of $21.0 million to depositors whose accounts exceeded the insured limit(s).

Professional Liability and Financial Crimes Recoveries

The FDIC staff works to identify potential claims against directors, 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 $53.5 million from these professional liability claims/settlements. 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 $5.5 million in criminal restitutions and forfeitures during the year. At the end of 2009, the FDIC's caseload was composed of 25 professional liability lawsuits (up from 17 at year-end 2008) and 1,878 open investigations (up from 284). There also were 3,379 active restitution and forfeiture orders (up from 638 at year-end 2008). This includes 190 FSLIC Resolution Fund orders—i.e., orders inherited from the Federal Savings and Loan Insurance Corporation on August 10, 1989, and orders inherited from the Resolution Trust Corporation 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 DIF.

Human Capital Management

The FDIC's human capital management programs are designed to recruit, develop, reward, and retain a highly skilled, cross-trained, diverse, and results-oriented workforce. In 2009, the FDIC stepped up workforce planning and development initiatives that emphasized hiring the additional skill sets needed to address the greatly increased number of financial institution failures and institutions in at-risk categories. The Corporation also deployed a number of strategies to more fully engage all employees in advancing the FDIC's mission.

Succession Management

In 2009, the Corporation significantly expanded its education and training curriculum for employees in the business lines, support functions, and leadership development. Additionally, learning and development was supplemented and supported with the expansion of e-learning, job aids, and tool kits that were made available to new and tenured employees to facilitate work processes and overall efficiencies.

A leadership development curriculum was launched to expand opportunities to all employees, including newly-hired employees. This new curriculum takes a comprehensive approach, aligning leadership development with critical corporate goals and objectives, and promotes desired culture. By developing employees across the span of their careers, the Corporation builds a culture of leadership and further promotes a leadership succession strategy.

Senior leaders meet with CEDP participants to discuss their first year (l to r): Rich Brown, Rex Taylor, Maureen Sweeney, Laura Lapin, Kathy Norcross, Mickey Collins, Steve Mosier, Rus Pittman, Erica Bovenzi, Andrew Stirling, Bob Mooney, and Ira Kitmacher. Executive advisors and host supervisors not shown: Glen Bjorklund, Jim LaPierre, and Lisa Roy.

Also in 2009, the Corporation completed a pilot Corporate Executive Development Program. This comprehensive 18-month succession program provided a formalized process to identify and develop high-performing, high-potential supervisors and senior technical specialists. Pilot results are being evaluated and will be leveraged in future succession management strategies and decisions.

Additionally, the Corporation formalized its Master of Business Administration (MBA) program for Corporate Managers and Executive Managers, in conjunction with a major university. The evaluation results of the pilot MBA program were overwhelmingly positive, and participants provided explicit examples of direct application to their jobs and improved strategic thinking.

Strategic Workforce Planning and Readiness

The FDIC utilized a number of employment strategies in 2009 to meet the need for additional human resources resulting from the increased number of failed financial institutions and the volume of additional examinations. Among these strategies, the FDIC reemployed over 200 retired FDIC examiners, attorneys, resolutions and receiverships specialists, and support personnel; hired employees of failed institutions in temporary and term positions; recruited mid-career examiners who had developed their skills in other organizations; recruited term loan review specialists and compliance analysts from the private sector; and redeployed current FDIC employees with the requisite skills from other parts of the Corporation.

As the number of failed financial institutions proliferated in 2009, the FDIC Board authorized the opening of two temporary satellite offices on both the west coast and the east coast to bring resources in areas hit especially hard. The West Coast Temporary Satellite Office opened in Irvine, California, in early spring and as of year-end had over 400 employees with a target of over 500. The East Coast Temporary Satellite Office opened in Jacksonville, Florida, in the fall. Although the Corporation is still recruiting for this office, eventually it too will have over 500 employees. The Corporation also increased resolutions and receiverships staff in the Dallas regional office. Almost all of the new employees in these new offices have been hired on a non-permanent basis to handle the temporary increase

in bank closing and asset management activities expected over the next two to four years. To staff these offices and meet other needs brought on by the financial crisis, the Corporation hired nearly 1,800 additional employees in 2009. The use of term appointments will allow the FDIC staff to return to an adjusted normal size once the crisis is over without the disruptions that reductions in permanent staff would cause.

The FDIC continued its efforts to build workforce flexibility and readiness by increasing its entry-level hiring into the Corporate Employee Program (CEP). The CEP is a multi-year development program designed to cross-train new employees in the FDIC's major business lines. In 2009, 206 new business line employees (736 since program inception) entered the multi-disciplined program. At its largest participant capacity since inception, the CEP continues to provide 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 staff needs. As in years past, the program continues to provide the FDIC those flexibilities as program participants were called upon to assist with both bank examination and bank closing activities based on the skills they obtained through their program requirements and experiences.

Employee Engagement

The FDIC continually evaluates its human capital programs and strategies to ensure that the Corporation remains an employer of choice and that all of its employees are fully engaged and aligned with its mission. The FDIC's annual employee survey incorporates and expands on the Federal Human Capital Survey mandated by Congress. A corporate Culture Change Initiative was instituted in 2008 to address issues resulting from the survey.

The Culture Change Initiative has continued to gain momentum, and progress is occurring toward completion of goals identified in the Culture Change Strategic Plan. The 2008 employee survey results showed marked improvement in the areas of opportunity, while maintaining or improving on areas of strength. The Corporation worked with the National Treasury Employees' Union to develop a new pay-for-performance system that is perceived to be more transparent and fair to employees. The new system was implemented in 2009. Also in 2009, the Corporation delivered training to its Corporate Managers on trust. It offered leadership enrichment activities that provided continual learning. Culture Change dialogue sessions were held across the country, with approximately 5,500 employees participating. Analysis indicates a positive response to these events and a willingness to engage in the change process. The question-and-answer mailbox and quarterly all-employee teleconferences with the Chairman continued so that employees could provide input, make suggestions, and ask questions.

The next phase of the Initiative was started in September 2009 with the selection of a new Program Manager. The Internal Ombudsman Program, initiated as part of the Culture Change Initiative, continued, providing another avenue for following up on employee issues. The Culture Change Council is being reconstituted, with at least six former Council and Team members returning to ensure continuity and up to six new members being selected. Best practices in public and private sector organizations on sustaining

culture and organizational change were studied in 2009 and will be summarized, with recommendations made on sustaining the FDIC's Culture Change Initiative.

Employee Learning and Growth

The FDIC offers a range of learning and growth opportunities to meet the varied needs of its employees. It uses innovative solutions to prepare new and existing employees for the challenges ahead. By streamlining existing courses, promoting blended learning, and creating online just-in-time toolkits and job aids, the FDIC has allowed new employees to more quickly and thoroughly assume their job functions. In order to meet the 2009 learning needs of new employees, the FDIC responded with flexible course scheduling and additional instructor-led and computer-based courses, including the new Continuing Professional Education Centre, which allows employees to more easily maintain their Certified Public Accountant accreditation and other certifications, despite increased workloads.

The Corporation dealt with new challenges in 2009 and supported employees by providing just-in-time training to address specific issues, such as managing and selling an ever increasing number of loans acquired from failed institutions. To better prepare employees to perform this task, the FDIC undertook a multi-pronged approach that consisted of online presentations, online job aids, online simulations, and instructor-led courses. The Corporation focused its efforts on providing multiple points of access to learning delivered quickly and with the least disruption to ongoing work activities.

To provide additional flexibility in employee learning and growth, the FDIC assisted in meeting the challenge of increased activity by locating training facilities within satellite offices in Jacksonville and Irvine. This helped to ensure that necessary training could be provided locally, reducing the need for employee travel.

In 2009, the Corporation provided its employees with over 100 instructor-led courses and 600 web-based courses in support of varied mission requirements. There were over 7,000 instances of completed instructor-led courses and 18,000 instances of completed web-based courses.

Information Technology Management

Information technology (IT) resources are one of the most valuable assets available to the FDIC in fulfilling its corporate mission. In today's rapidly changing business environment, technology is frequently the foundation for achieving many FDIC business goals, especially those addressing efficiency and effectiveness in an industry where timely and accurate communication and data are paramount for supervising institutions, resolving institution failures, and monitoring associated risks in the marketplace.

During 2009, the FDIC was faced with many challenges stemming from the economic downturn and its historic impact on the financial industry. To help meet those challenges, the FDIC continued to leverage innovative, timely, reliable, and secure IT products and services to meet priority business drivers and adapt to a myriad of new financial programs.

Enterprise Architecture

The overall vision of the FDIC's enterprise architecture is to provide an efficient, agile, flex-

ible and cost-effective environment that supports the corporate strategic goals and objectives for the FDIC and its customers. During 2009, modernization of the infrastructure continued. Also a roadmap of the security architecture was developed with functionality based on global industry standards, which will facilitate the sharing of information and resources, while protecting access to sensitive and privacy information.

Improving Application Systems

In 2009, the FDIC enhanced several application systems that support the FDIC's business, including the:

- Assessment Information Management System—used to calculate, collect, and account for the quarterly assessment premiums paid by insured financial institutions;
- Central Data Repository—used in the collection and management of call report data from the U.S. financial institutions;
- New Financial Environment—state-of-the-art financial system; and
- Risk Related Premium System—provides core business functionality related to deposit insurance risk premium calculations for individual financial institutions.

Security Outreach, Education, and Awareness

The FDIC worked collectively with the U.S. Department of Agriculture and the Department of Education's Office of Federal Student Aid on the OpenFISMA (Federal Information Security Management Act) Interagency Initiative. This initiative developed a system to track vulnerabilities that affect the security of systems and applications. The FDIC and these departments were chosen as recipients of the "Excellence Award for Open Source Business Use in Government" in the category of "Safe Computing Environment" at the 2009 Government Open Source Conference. The award recognized government employees or teams for significant accomplishments in Open Source Technology that meet government business or mission requirements.

Securing the FDIC Through Strong Privacy Initiatives

The FDIC continued to strengthen privacy by providing a risk-based, enterprise-wide Privacy Program that maintains and builds public trust, and is based on sound privacy practices in compliance with applicable laws. In 2009, the FDIC experienced a significant increase in bank closing activities. As a result, the FDIC performed a number of Corporate-wide initiatives to increase the identification, protection, and control of personally identifiable information.

II. Financial Highlights

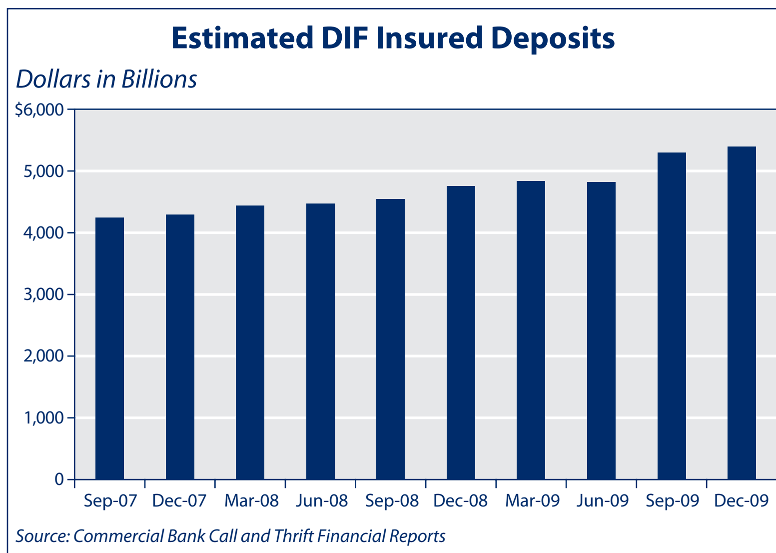
Deposit Insurance Fund Performance

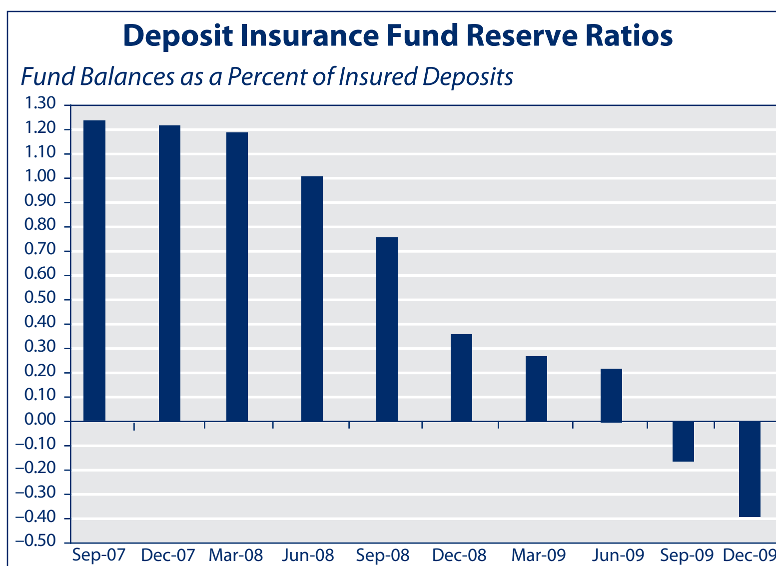
The FDIC administers the Deposit Insurance Fund (DIF) and the FSLIC Resolution Fund (FRF), which fulfills the obligations of the former Federal Savings and Loan Insurance Corporation (FSLIC) and the former Resolution Trust Corporation (RTC). The following summarizes the condition of the DIF. (See the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

The DIF's comprehensive loss totaled $38.1 billion for 2009 compared to a comprehensive loss of $35.1 billion for the previous year. As a result, the DIF balance declined from $17.3 billion to negative $20.9 billion as of December 31, 2009. The year-over-year increase of $3.0 billion in comprehensive loss was primarily due to a $15.9 billion increase in the provision for insurance losses, a $4.0 billion increase in the unrealized loss on U.S. Treasury (UST) investments, and a $1.4 billion decrease in the interest earned on UST obligations, partially offset by a $14.8 billion increase in assessment revenue and a $3.1 billion increase in other revenue (primarily from guarantee termination fees and debt guarantee surcharges).

The provision for insurance losses was $57.7 billion in 2009. The total provision consists primarily of the provision for future failures ($20.0 billion) and the losses estimated at failure for the 140 resolutions occurring during 2009 ($35.6 billion).

Assessment revenue was $17.7 billion for 2009. This is a $14.8 billion increase from 2008, and is due to the collection of a $5.5 billion special assessment in September 2009 and significantly higher regular assessment revenue.





Deposit Insurance Fund Selected Statistics
Dollars in Millions

	For the years ended December 31		
	2009	2008	2007
Financial Results			
Revenue	$24,706	$7,306	$3,196
Operating Expenses	1,271	1,033	993
Insurance and Other Expenses (includes provision for loss)	59,438	43,306	98
Net (Loss) Income	(36,003)	(37,033)	2,105
Comprehensive (Loss) Income	(38,138)	(35,137)	2,248
Insurance Fund Balance	($20,862)	$17,276	$52,413
Fund as a Percentage of Insured Deposits (reserve ratio)	(0.39)%	0.36%	1.22%
Selected Statistics			
Total DIF-Member Institutions*	8,012	8,305	8,534
Problem Institutions	702	252	76
Total Assets of Problem Institutions	$402,782	$159,405	$22,189
Institution Failures	140	25	3
Total Assets of Failed Institutions in Year**	$169,709	$371,945	$2,615
Number of Active Failed Institution Receiverships	179	41	22

**Commercial banks and savings institutions. Does not include U.S. insured branches of foreign banks.*
***Total Assets data are based upon the last Call Report filed by the institution prior to failure.*

Major factors contributing to the increase in regular assessment revenue included changes to the risk-based assessment regulations, ratings downgrades of many institutions (which pushed them into higher assessment rate categories), the decline of the one-time assessment credit, and a larger assessment base.

Although the DIF ended the year with a negative $20.9 billion fund balance, the DIF's liquidity was significantly enhanced by prepaid assessment inflows of $45.7 billion. Cash and marketable securities stood at $66.0 billion at year-end, including $6.4 billion in cash and marketable securities related to the Temporary Liquidity Guarantee Program (TLGP). Hence, the DIF is well positioned to fund resolution activity in 2010 and beyond. The prepaid assessments, while increasing DIF cash upon receipt, did not initially affect the fund balance, since the funds collected were initially recorded as an offsetting liability; they are subsequently recognized quarterly as revenue when earned.

Corporate Operating Budget

The FDIC segregates its corporate operating budget and expenses into two discrete com-

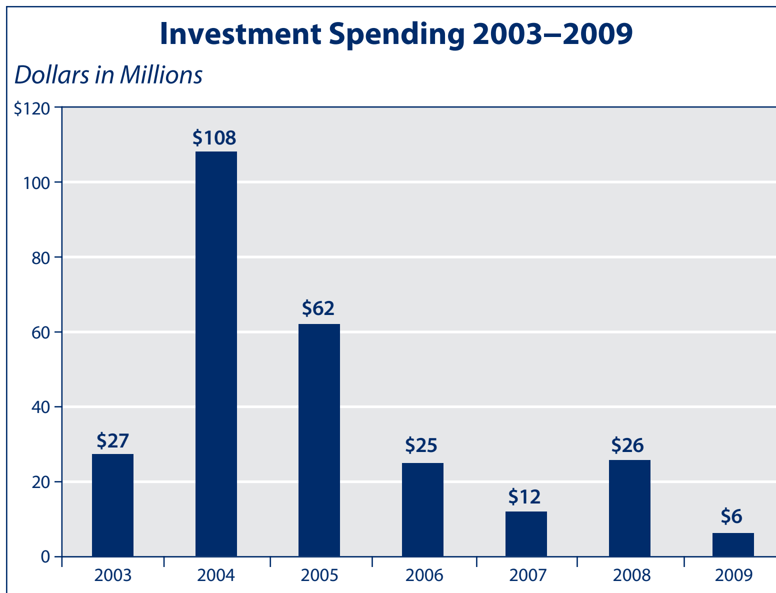
ponents: ongoing operations and receivership funding. The receivership funding component represents expenses resulting from financial institution failures and is, therefore, largely driven by external forces, while the ongoing operations component accounts for all other operating expenses and tends to be more controllable and estimable. Corporate Operating expenses totaled $2.33 billion in 2009, including $1.24 billion in ongoing operations and $1.10 billion for receivership funding (numbers do not sum due to rounding). This represented approximately 98 percent of the approved budget for ongoing operations and 84 percent of the approved budget for receivership funding for the year. (The numbers above will not agree with the DIF and FRF financial statements due to differences in how items are classified.)

Given the recent challenges facing the industry, as evidenced in the overall CAMELS deterioration and an up-tick in financial institution failure activity, the FDIC is determined to ensure that it is adequately prepared to effectively fulfill its mission in 2010. Consequently, in December 2009, the Board of Directors approved a 2010 Corporate Operating Budget of approximately $3.99 billion, consisting of $1.49 billion for ongoing operations and $2.50 billion for receivership funding. The level of approved ongoing operations budget is approximately $254 million (20.5 percent) higher than actual 2009 ongoing operations expenses, while the approved receivership funding budget is $1.40 billion (127.8 percent) higher than the $1.10 billion of actual 2009 receivership funding expenses.

As in prior years, the 2010 budget was formulated primarily on the basis of an analysis of projected workload for each of the Corporation's three major business lines and its major program support functions. The most significant factor contributing to the proposed increase in the ongoing operations component is the projected increase in the Corporation's supervisory workload in 2010 and the planned staffing increases in the Division of Supervision and Consumer Protection (DSC) to address that workload. The 2010 ongoing operations budget also includes increased funds for additional resolutions staff, travel, office space, and equipment for these additional staff. Under this budget, the Corporation will focus largely on its core mission responsibilities in 2010 and will not devote significant resources to new discretionary activities. In addition, the 2010 receivership funding budget allows for substantially increased resources for contractor support as well as non-permanent increases in authorized staffing for the Division of Resolutions and Receiverships, the Legal Division, and other organizations should workload requirements in these areas require an immediate response.

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 2003–2009 period, the largest of which was the expansion of its Virginia Square office facility. Other projects involved the development and implementation of major IT systems. Investment spending totaled $266 million during this period, peaking at $108 million in 2004. Spending for investment projects in 2009 totaled approximately $6.1 million. In 2010, investment spending is estimated to total $1.1 million.

III. Performance Results Summary

Summary of 2009 Performance Results by Program

The FDIC successfully achieved 45 of the 46 annual performance targets established in its 2009 Annual Performance Plan. The one goal that was not achieved involved the inadvertent inclusion of "3-rated" institutions in the requirement for follow-up within 12 months. There were no instances in which 2009 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	• Uniformly raised deposit insurance assessment rates effective January 1, 2009, by 7 basis points. • In February 2009, extended the Restoration Plan to 7 years due to the extraordinary circumstances facing the banking industry. In May, Congress revised the law to require the reserve ratio to be restored to 1.15 percent within 8 years absent extraordinary circumstances. In September, the Board amended the amended Plan to extend the restoration period to 8 years. • Finalized improvements to the risk-based pricing system, including adding various financial ratios to the large bank method used to determine premium rates for large institutions and adjusting all institutions' premium rates for unsecured debt and for significant reliance on brokered deposits or secured liabilities. Also widened the range of rates paid by institutions in each risk category. • Imposed a special assessment of 5 basis points on each institution's assets less Tier I capital effective June 30, 2009. • Extended period to issue guaranteed debt through the TLGP to October 31, 2009, extended term of guarantee from June 30, 2012, to December 31, 2012, and imposed surcharges on any debt issued April 1, 2009, or later. • Issued a final rule extending the Transaction Account Guarantee Program component of the TLGP from December 31, 2009, to December 31, 2010, and gave participating institutions a one-time opportunity to opt out. Raised fees and made them risk-based depending upon an institution's deposit insurance risk category. • Conducted semiannual reviews of the Contingent Loss Reserve (CLR) methodology through an analysis of the variance between projected and actual losses. As a result, substantive changes were made during late 2008 and into 2009 to improve the accuracy of the CLR calculation. • Established a Designated Reserve Ratio of 1.25 percent for 2010, in accordance with the provisions of the deposit insurance reform legislation. • 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 Deposit Insurance Fund. • Provided policy research and analysis in support of legislative efforts to reform financial industry regulation, as well as support for testimony and speeches. • Published economic and banking information and analyses, through the *FDIC Quarterly, FDIC Quarterly Banking Profile (QBP), FDIC State Profiles,* and the Center for Financial Research *Working Papers.* • Conducted numerous outreach activities to bankers, trade groups, community groups, other regulators, and foreign visitors addressing economic and banking risk analysis. • Completed risk assessments and LIDI Scorecards for all large insured depository institutions and followed up on all identified concerns through off-site review and analysis. • Increased on-site presence at large complex institutions to assess risk, monitor liquidity, and participate in targeted reviews with the primary federal regulators. • Continued to develop the Legacy Loans Program to be prepared to offer this program to support the credit needs of the economy. • Answered 99 percent of inquiries from consumers and bankers about FDIC deposit insurance coverage within 14 days.

Program Area	Performance Results
Insurance (continued)	• Continued and expanded the FDIC's public education campaign to increase awareness of FDIC deposit insurance coverage. • Conducted 25 deposit insurance seminars for bankers, including 6 national teleconferences, on FDIC deposit insurance coverage. These seminars reached more than 35,000 bankers. • Worked with several national consumer organizations to secure commitments to feature FDIC deposit insurance information on their websites and in newsletters, and to disseminate such information at their conferences and events. • Electronic Deposit Insurance Estimator user sessions for 2009 totaled 699,277. • Expanded avenues for publicizing deposit insurance rules and resources by: o Enhancing the FDIC's Electronic Deposit Insurance Estimator (EDIE) to incorporate new functionality that allows users to (1) confirm whether their bank is FDIC-insured while within the EDIE application, and (2) calculate insurance coverage for deposits held by revocable trusts with more than five beneficiaries/over $1.25 million at one institution. o Producing updated versions of two videos on deposit insurance coverage: (1) a 30-minute video for consumers and new bank employees and (2) a 95-minute seminar for bankers who answer coverage questions for depositors. o Producing two consumer brochures on deposit insurance coverage. These resources are available in multiple languages. The videos are available on the FDIC's web site and YouTube channel, and are downloadable for multi-media applications.
Supervision and Consumer Protection	• Conducted 2,604 risk management (safety and soundness) examinations, including required follow-up examinations of problem institutions, within prescribed time frames. • Conducted 1,981 compliance and Community Reinvestment Act examinations, including required follow-up examinations of problem institutions, within prescribed time frames. • Conducted 2,698 Bank Secrecy Act examinations, including required follow-up examinations and visitations. • Conducted 2,780 IT examinations of financial institutions and technology service providers. • Worked with other federal banking regulators and the Basel Committee on Banking Supervision to develop proposals to strengthen capital and liquidity requirements. • Published a final rule amending the annual audit, audit committee, and related reporting requirements applicable to insured depository institutions with $500 million or more in total assets. • Published Notice of Proposed Rulemaking for the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 and posted the draft final guidance to the FDIC web site to implement provisions applicable to mortgage loan originators employed by insured depositories. Staff continued rule writing and other preparatory activities related to implementing these new regulations. • Published the *Supervisory Insights* journal to contribute to and promote sound principles and best practices for bank supervision. • Among other releases, issued Financial Institution Letters (FILs) providing guidance on: (1) managing commercial real estate concentrations; (2) liquidity risk management; (3) the use of volatile funding sources by financial institutions in weakened condition; (4) enhanced supervisory procedures for newly insured FDIC-supervised depository institutions; and (5) reminding institutions that if, for risk management purposes, they decide to reduce or suspend home equity lines of credit, they must comply with certain legal requirements. In addition, six disaster-related FILs were issued. • Issued industry notification of two interagency releases regarding conducting Cross-Border Funds Transfers and Examination Procedures for compliance with the Unlawful Internet Gambling Enforcement Act. • Issued updated interagency guidance on the Community Reinvestment Act (CRA), and requested comment on new proposed guidance. Issued an interagency proposal to amend the CRA regulation to implement statutory requirements relating to student loans and activities in cooperation with minority- and women-owned financial institutions and low-income credit unions.

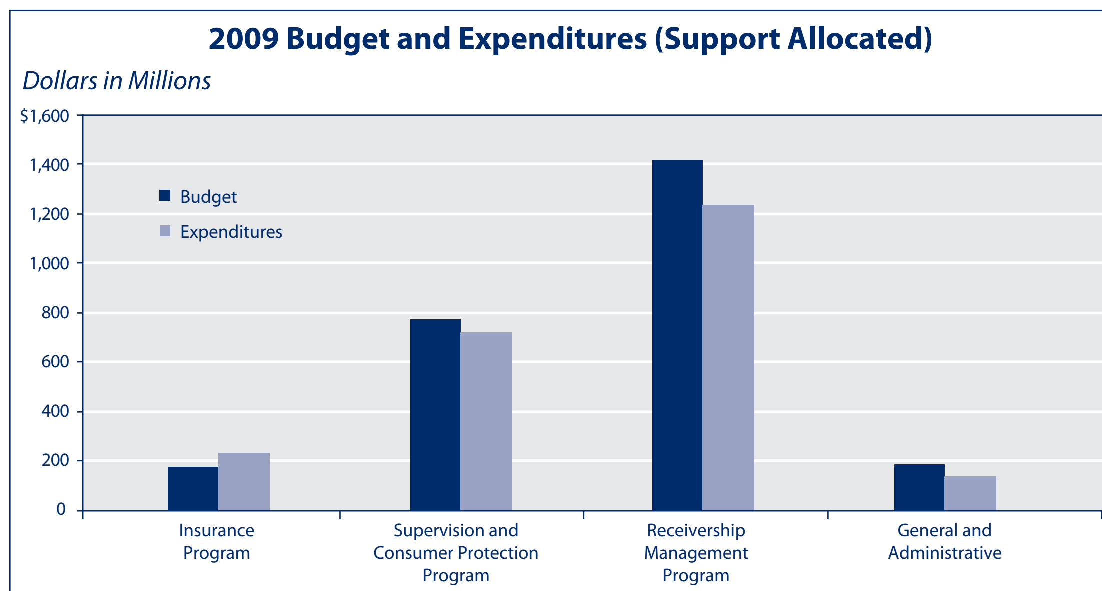
Program Area	Performance Results
Supervision and Consumer Protection (continued)	• Released interagency guidance on the 2009 Identity Theft Red Flags regulations; issued updated guidance on flood insurance mandatory purchase requirements and requested comment on additional proposed guidance; joined seven other federal agencies in releasing a model privacy notice form based on extensive consumer testing; requested comment on supervisory guidance on reverse mortgages. • Consumer research function supported supervision activities on fair lending, enforcement actions, the unbanked and underbanked survey, and supported efforts of the Advisory Committee on Economic Inclusion (ComE-In) policy initiatives of the Corporation. • Alerted banks to new statutory requirements to protect tenants occupying foreclosed properties; issued three FILs notifying institutions of significant changes to the Truth in Lending Act and the Federal Reserve Board's Regulation Z (which implements that Act); and reminded institutions of the dramatically revised Real Estate Settlement Procedures Act regulation issued by the Department of Housing and Urban Development. • Expanded the AEI initiative to two additional markets, bringing the total number of active AEI markets to 14. Additionally, FDIC worked closely during 2009 to provide technical assistance and support to several communities in forming coalitions patterned after the AEI. • Hosted or co-hosted over 104 events to help consumers and the banking industry avoid unnecessary foreclosures and stop foreclosure "rescue" scams that promise false hope to consumers at risk of losing their homes. • Conducted over 200 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 *Money Smart* financial education curriculum in seven languages, including releasing a Hmong language version and the *Money Smart Podcast Network*, a portable audio version of *Money Smart* suitable for use with virtually all MP3 players. Over 200 financial education-related outreach activities were conducted in 2009 and 50 new *Money Smart Alliance* added. Financial education best practices were shared through four published editions of *Money Smart News,* which reached over 40,000 subscribers. • In 2007, the FDIC released findings from a longitudinal evaluation of the *Money Smart* curriculum on adults. The FDIC initiated in the fourth quarter of 2009, a multi-year project that is designed to measure the effectiveness of the *Money Smart for Young Adults* curriculum. This survey project is intended to provide research data that will be useful for educators and others involved in youth financial education, as well as inform the FDIC's curriculum development efforts. Progress during 2009 included background research and outreach to external stakeholders who we hope will participate. • Responded to 96 percent of consumer complaints about FDIC-supervised banks within time frames required by policy, and acknowledged 100 percent of all consumer complaints and inquiries within 14 days. • Implemented an initiative to make the award-winning *FDIC Consumer News* available to the public in an audio format on FDIC.gov and YouTube. Also converted the FDIC's consumer video on identity theft, *Don't Be An On-line Victim*, to a YouTube-compatible format and placed the video on the FDIC's YouTube channel. All video and audio files are available for download to multimedia applications in various formats including MP3, WAV, and MP4.
Receivership Management	• Successfully closed 140 failed institutions and ensured customers had access to insured deposits within one business day. • Adopted a final rule requiring the largest insured depository institutions to adopt mechanisms that would, in the event of the institution's failure: (1) provide the FDIC with standard deposit account and other customer information; and (2) allow the placement and release of holds on liability accounts, including deposits. • Achieved a primary goal of the Investigations Unit to make a decision to either close or to pursue professional liability claims on 80 percent of all investigative claim areas within 18 months of an institution's failure date. • Identified and implemented program improvements to ensure efficient and effective management of the contract resources used to perform receivership management functions. • Marketed at least 90 percent of the book value of a failed institution's marketable assets within 90 days of the institution's failure. • Terminated at least 75 percent of new receiverships within three years of the date of failure.

2009 Budget and Expenditures by Program

(Excluding Investments)

The FDIC budget for 2009 totaled $2.56 billion. Excluding $185 million, or 7 percent, for Corporate General and Administrative expenditures, budget amounts were allocated to corporate programs as follows: $178 million, or 7 percent, to the Insurance program; $776 million, or 30 percent, to the Supervision and Consumer Protection program; and $1.42 billion, or 56 percent, to the Receivership Management program.

Actual expenditures for the year totaled $2.33 billion. Excluding $140 million, or 6 percent, for Corporate General and Administrative expenditures, actual expenditures were allocated to programs as follows: $233 million, or 10 percent, to the Insurance program; $723 million, or 31 percent, to the Supervision and Consumer Protection program; and $1.24 billion, or 53 percent, to the Receivership Management program.



Performance Results by Program and Strategic Goal

2009 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 related emerging issues.	Number of business days after institution failure that depositors have access to insured funds either through transfer of deposits to the successor insured depository institution or depositor payout.	Depositors have access to insured funds within one business day if the failure occurs on a Friday.	Achieved. See pgs. 45, 58.
			Depositors have access to insured funds within two business days if the failure occurs on any other day of the week.	Achieved. See pg. 45.
		Insured depositor losses resulting from a financial institution failure.	There are no depositor losses on insured deposits.	Achieved. See pg. 45.
			No appropriated funds are required to pay insured depositors.	Achieved. See pg. 45.
2	Identify and address risks to the DIF.	Insurance risks posed by insured depository institutions.	Assess the insurance risks in large insured depository institutions and adopt appropriate strategies.	Achieved. See pg. 24.
		Concerns referred for examination or other action.	Identify and follow up on all material issues raised through off-site review and analysis.	Achieved. See pg. 24.
		Emerging risks to the DIF.	Identify and analyze existing and emerging areas of risk.	Achieved. See pgs. 24, 56.
3	Disseminate data and analyses on issues and risks affecting the financial services industry to bankers, supervisors, the public, and other stakeholders.	Scope and timeliness of information dissemination on identified or potential issues and risks.	Results of research and analyses are disseminated in a timely manner through regular publications, ad hoc reports, and other means.	Achieved. See pg. 56.
			Industry outreach activities are undertaken to inform bankers and other stakeholders about current trends, concerns, and other available FDIC resources.	Achieved. See pg. 56.

#	Annual Performance Goal	Indicator	Target	Results
4	Effectively administer temporary financial stability programs.	Administration of the Temporary Liquidity Guarantee Program (TLGP).	Provide liquidity to the banking system by guaranteeing noninterest-bearing transaction deposit accounts and new senior unsecured debt issued by eligible institutions under the TLGP.	Achieved. See pgs. 14-17.
			Implement an orderly phase-out of new guarantees under the program when the period for issuance of new debt expires.	Achieved. See pg. 17.
		Administration of the Capital Purchase Program (CPP).	Substantially complete by September 30, 2009, the review of and recommendations to the Department of the Treasury on CPP applications from FDIC-supervised institutions.	Achieved. See pg. 27.
		Implementation of the Legacy Loans Program (LLP).	Expeditiously implement procedures for the LLP, including the guarantee to be provided for debt issued by Public Private Investment Funds, and provide information to financial institutions and private investors potentially interested in participating.	Achieved. See pg. 56.
		Oversight of the use of financial stability resources by FDIC-supervised institutions.	Expeditiously implement procedures to review the use of CPP funds, TLGP guarantees, and other resources made available under financial stability programs during examinations of participating FDIC-supervised institutions.	Achieved. See pg. 27.
5	Maintain and improve the deposit insurance system.	Enhance the risk-based pricing system.	Adopt and implement revisions to the pricing regulations that provide for greater risk differentiation among insured depository institutions reflecting both the probability of default and loss in the event of default.	Achieved. See pg. 18.
			Revise the guidelines and enhance the additional risk measures used to adjust assessment rates for large institutions.	Achieved. See pg. 56.
		Loss reserves.	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. See pg. 56.
		Fund adequacy.	Set assessment rates to restore the insurance fund reserve ratio to at least 1.15 percent of estimated insured deposits by year-end 2015.	Achieved. See pgs. 18-19.
			Monitor progress in achieving the restoration plan.	Achieved. See pg. 19.

#	Annual Performance Goal	Indicator	Target	Results
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.	Timeliness of responses to insurance coverage inquiries.	Respond to 90 percent of written inquiries from consumers and bankers about FDIC deposit insurance coverage within two weeks.	Achieved. See pg. 40.
		Public education campaign to increase awareness of deposit insurance changes and expected 2010 changes.	Conduct at least three sets of Deposit Insurance Seminars/teleconferences per quarter for bankers.	Achieved. See pg. 57.
			Enter into deposit insurance educational partnerships with consumer organizations to educate consumers.	Achieved. See pg. 57.
			Expand avenues for publicizing deposit insurance rules and resources to consumers through a variety of media.	Achieved. See pg. 57.
7	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.	Scope of information sharing and assistance available to international governmental bank regulatory and deposit insurance entities.	Undertake outreach activities to inform and train foreign bank regulators and deposit insurers.	Achieved. See pg. 21.
			Foster strong relationships with international banking regulators and associations that promote sound banking supervision and regulation, failure resolution, and deposit insurance practices.	Achieved. See pgs. 21-24.

2009 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 are conducted on schedule.	Achieved. See pg. 26.
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 "3", "4", or "5" (problem institution). Monitor FDIC-supervised insured depository institutions' compliance with formal and informal enforcement actions.	Percentage of follow-up examinations of 3-, 4-, and 5-rated institutions conducted within required time frames.	One hundred percent of follow-up examinations are conducted within 12 months of completion of the prior examination to confirm that identified problems have been corrected.	Achieved. See pg. 26.
3	Assist in protecting the infrastructure of the U.S. banking system against terrorist financing, money laundering, and other financial crimes.	Percentage of required examinations conducted in accordance with statutory requirements and FDIC policy.	One hundred percent of required Bank Secrecy Act examinations are conducted on schedule.	Achieved. See pg. 26.

#	Annual Performance Goal	Indicator	Target	Results
4	More closely align regulatory capital with risk and ensure that capital is maintained at prudential levels.	Preliminary results of new capital requirements.	Conduct analyses of early results of the performance of new capital rules in light of recent financial turmoil as information becomes available.	Achieved. See pgs. 29-31.
		Improvements to capital requirements.	Working domestically and internationally, develop improvements to regulatory capital requirements based on the experience of the recent financial market turmoil.	Achieved. See pgs. 29-31.
Strategic Goal: Consumers' rights are protected and FDIC-supervised institutions invest in their communities.				
5	Conduct on-site CRA and compliance examinations to assess compliance with applicable laws and regulations by FDIC-supervised depository institutions.	Percentage of examinations conducted in accordance with statutory requirements and FDIC policy.	One hundred percent of required examinations are conducted on schedule.	Achieved. See pg. 26.
6	Take prompt and effective supervisory action to monitor and address problems identified during compliance examinations of FDIC-supervised institutions that receive an overall "3", "4", or "5" rating for compliance with consumer protection and fair lending laws.	Percentage of follow-up examinations or visitations of 3-, 4-, and 5-rated institutions conducted within required time frames.	One hundred percent of follow-up examinations or visitations are conducted within 12 months from the date of an enforcement action to confirm compliance with the prescribed enforcement action.	Not Achieved. See pg. 26.
7	Scrutinize evolving consumer products, analyze their current or potential impact on consumers and identify potentially harmful or illegal practices. Promptly institute a supervisory response program across FDIC-supervised institutions when such practices are identified.	Establishment of supervisory response programs to address potential risks posed by new consumer products.	Proactively identify and respond to harmful or illegal practices associated with evolving consumer products.	Achieved. See pg. 34.
8	Educate consumers about their rights and responsibilities under consumer protection laws and regulations.	Communications tools used to educate consumers.	Expand use of media, such as the Internet, videos, and MP3 downloads, to disseminate information to the public on their rights and responsibilities as consumers.	Achieved. See pgs. 42-43.
9	Effectively investigate and respond to consumer complaints about FDIC-supervised financial institutions.	Timely responses to written complaints and inquiries.	Responses are provided to 95 percent of written complaints and inquiries within time frames established by policy, with all complaints and inquiries receiving at least an initial acknowledgment within two weeks.	Achieved. See pg. 40.

#	Annual Performance Goal	Indicator	Target	Results
10	Provide effective outreach related to CRA, fair lending, and community development.	Number of outreach activities conducted, including technical assistance activities.	Conduct 50 technical assistance (examination support) efforts or banker/community outreach activities related to CRA, fair lending, and community development.	Achieved. See pg. 43.
		Expanded access to high quality financial education through the *Money Smart* curriculum.	Evaluate the *Money Smart* initiatives and curricula for necessary updates and enhancements, such as games for young people, information on elder financial abuse, and additional language versions, if needed.	Achieved. See pgs. 42-43.
			Initiate a longitudinal survey project to measure the effectiveness of the *Money Smart for Young Adults* curriculum.	Achieved. See pg. 58.
		Support for expanded foreclosure prevention efforts for consumers at risk of foreclosure (in partnership with NeighborWorks® America and other organizations).	Provide technical assistance, support, and consumer outreach activities in all six FDIC regions to at least eight local NeighborWorks® America affiliates or local coalitions that are providing foreclosure mitigation counseling in high need areas.	Achieved. See pgs. 41-42.
11	Continue to expand the FDIC's national leadership role in developing and implementing programs and strategies to encourage and promote broader economic inclusion within the nation's banking system.	Degree of success achieved in bringing the unbanked/underserved into the financial mainstream through the Alliance for Economic Inclusion (AEI).	Expand the number of AEI coalitions by two.	Achieved. See pg. 36.
		Results of pilot small-dollar lending program conducted by participating financial institutions.	Analyze quarterly data submitted by participating institutions to identify trends and best practices.	Achieved. See pgs. 37-38.

2009 Receivership Management Program Results

Strategic Goal: Recovery to creditors of receiverships is achieved.

#	Annual Performance Goal	Indicator	Target	Results
1	Market failing institutions to all known qualified and interested potential bidders.	Scope of qualified and interested bidders solicited.	Contact all known qualified and interested bidders.	Achieved. See pg. 45.
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 is marketed within 90 days of failure.	Achieved. See pgs. 45, 58.
		Enhancements to contract management program.	Identify and implement program improvements to ensure efficient and effective management of the contract resources used to perform receivership management functions.	Achieved. See pg. 58.
3	Manage the receivership estate and its subsidiaries toward an orderly termination.	Timely termination of new receiverships.	Terminate at least 75 percent of new receiverships within three years of the date of failure.	Achieved. See pg. 58.
4	Conduct investigations into all potential professional liability claim areas for 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.	Achieved. See pg. 58.

Prior Years' Performance Results

Refer to the respective full Annual Report of prior years for more information on performance results for those years. Minor wording changes may have been made to reflect current goals and targets. (Shaded areas indicate 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	2008	2007	2006
1. Respond promptly to all financial institution closings and emerging issues.			
• Depositors have access to insured funds within one business day if the failure occurs on a Friday.	Achieved.	Achieved.	Not Applicable. No Failures.
• Depositors have access to insured funds within two business days if the failure occurs on any other day of the week.	Achieved.	Achieved.	Not Applicable. No Failures.
• Complete rulemaking/review comments received in response to the Advance Notice of Proposed Rulemaking on Large-Bank Deposit Insurance Determination Modernization.	Achieved.	Achieved.	Achieved.
• There are no depositor losses on insured deposits.	Achieved.		
• No appropriated funds are required to pay insured depositors.	Achieved.		
2. Identify and address risks to the Deposit Insurance Fund (DIF).			
• Assess the insurance risks in all insured depository institutions and adopt appropriate strategies.	Achieved.	Achieved.	Achieved.
• Identify and follow up on all material issues raised through off-site review and analysis.	Achieved.	Achieved.	Achieved.
• Identify and analyze existing and emerging areas of risk, including non-traditional and subprime mortgage lending, declines in housing market values, mortgage-related derivatives/ collateralized debt obligations (CDOs), hedge fund ownership of insured institutions, commercial real estate lending, international risk, and other financial innovations.	Achieved.	Achieved.	
• Address potential risks from cross-border banking instability through coordinated review of critical issues and, where appropriate, negotiate agreements with key authorities.	Achieved.	Achieved.	
3. Disseminate data and analyses on issues and risks affecting the financial services industry to bankers, supervisors, the public and other stakeholders.			
• Disseminate results of research and analyses in a timely manner through regular publications, ad hoc reports and other means.	Achieved.	Achieved.	Achieved.
• Undertake industry outreach activities to inform bankers and other stakeholders about current trends, concerns and other available FDIC resources.	Achieved.	Achieved.	Achieved.

Annual Performance Goals and Targets	2008	2007	2006
4. Maintain and improve the deposit insurance system.			
• Implement the new deposit insurance pricing system.		Achieved.	
• Review the effectiveness of the new pricing regulations that were adopted to implement the reform legislation.	Achieved.		
• Complete and issue guidance on the pricing of deposit insurance for large banks.		Achieved.	
• Enhance the additional risk measures used to adjust assessment rates for large institutions.	Achieved.		
• Publish an ANPR seeking comment on a permanent dividend system.		Achieved.	
• Develop and implement an assessment credit and dividends system and a new deposit insurance pricing system.			Achieved.
• Develop a final rule on a permanent dividend system.	Achieved.		
• Implement deposit insurance reform legislation in accordance with statutorily prescribed time frames.			Achieved.
• Ensure/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.	Not Achieved.	Achieved.	Achieved.
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.			
• 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.		Achieved.	
• Conduct at least three sets of Deposit Insurance Seminar Series for bankers.	Achieved.		
• Conduct a series of national teleconferences for insured financial institutions to address current questions and issues relating to FDIC insurance coverage of deposit accounts.		Achieved.	
• Conduct outreach events and activities to support a deposit insurance education program that features FDIC 75th anniversary theme.	Achieved.		
• Update *Insuring Your Deposits* (basic deposit insurance brochure for consumers), *Your Insured Deposit* (comprehensive deposit insurance brochure), and EDIE (Electronic Deposit Insurance Estimator) on the FDIC's web site to reflect changes resulting from enactment of deposit insurance legislation.			Achieved.
• Assess the feasibility of (and if feasible, define the requirements for) a consolidated Electronic Deposit Insurance Estimator (EDIE) application for bankers and consumers (to be developed in 2009).	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.	Achieved.	Achieved.
• Respond to 90 percent of written inquiries within time frames established by policy.			Achieved.

Annual Performance Goals and Targets	2008	2007	2006
6. Expand and strengthen the FDIC's participation and leadership role in providing technical guidance, training, consulting services and information to international governmental banking and deposit insurance organizations.			
• Undertake outreach activities to inform and train foreign bank regulators and deposit insurers.	Achieved.	Achieved.	
• Foster strong relationships with international banking regulators and associations that promote sound banking supervision and regulations, failure resolution and deposit insurance practices.	Achieved.	Achieved.	

Supervision and Consumer Protection Program Results

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

Annual Performance Goals and Targets	2008	2007	2006
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.			
• One hundred percent of required risk management examinations are conducted on schedule.	Achieved.	Achieved.	Achieved.
2. Take prompt and effective supervisory action to address problems identified during the FDIC examination of FDIC-supervised institutions that receive a composite Uniform Financial Institutions Rating of "4" or "5" (problem institution). Monitor FDIC-supervised insured depository institutions' compliance with formal and informal enforcement actions.			
• One hundred percent of follow-up examinations are conducted within 12 months of completion of the prior examination.	Achieved.	Achieved.	Achieved.
3. Assist in protecting the infrastructure of the U.S. banking system against terrorist financing, money laundering and other financial crimes.			
• One hundred percent of required Bank Secrecy Act (BSA) examinations are conducted on schedule.	Achieved.		
4. Increase regulatory knowledge to keep abreast of current issues related to money laundering and terrorist financing.			
• An additional 10 percent (at least 10 percent for year 2006) of BSA/AML subject-matter experts nationwide are certified under the Association of Certified Anti-Money Laundering Specialists certification program.		Achieved.	Achieved.

Annual Performance Goals and Targets	2008	2007	2006
5. More closely align regulatory capital with risk in large or multinational banks while maintaining capital at prudential levels.			
• Develop options for refining Basel II that are responsive to lessons learned from the 2007-2008 market turmoil.	Achieved.		
• 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.		Achieved.	
• Conduct analysis of early results of the new capital regime as information becomes available.	Achieved.		
• Promote international cooperation on the adoption of supplemental capital measures in countries that will be operating under Basel II.		Achieved.	
• Publish a Notice of Proposed Rulemaking.			Achieved.
• Participate in the continuing analysis of the projected results of the new capital regime.		Achieved.	Achieved.
6. More closely align regulatory capital with risk in banks not subject to Basel II capital rules while maintaining capital at prudential levels.			
• Finalize a regulatory capital framework based on the Basel II "Standardized Approach" as an option for U.S. banks not required to use the new advanced approaches.	Achieved.		
• Complete rulemaking on Basel IA.		Not Applicable.	
• Develop a Notice of Proposed Rulemaking for public issuance.			Achieved.
7. Ensure that FDIC-supervised institutions that plan to operate under the new Basel II Capital Accord are well-positioned to respond to the new capital requirements.			
• Perform on-site examinations or off-site analyses of all FDIC-supervised banks that have indicated a possible intention to operate under Basel II to ensure that they are effectively working toward meeting required qualification standards.	Not Applicable.	Achieved.	Achieved.
8. Reduce regulatory burden on the banking industry while maintaining appropriate consumer protection and safety and soundness safeguards.			
• Complete and evaluate options for refining the current risk-focused approach used in the conduct of BSA/AML examinations to reduce the burden they impose on FDIC-supervised institutions.	Achieved.		
• Applicable provisions of the Financial Services Regulatory Relief Act of 2006 (FSRRA) are implemented in accordance with statutory requirements.		Partially Achieved.	
• Support is provided to the Government Accountability Office (GAO), as requested, for studies required under FSRRA.		Achieved.	
• State AML assessments of Money Service Businesses (MSB) are incorporated into FDIC risk management examinations in states where MSB AML regulatory programs are consistent with FDIC risk management standards.		Partially Achieved.	

Annual Performance Goals and Targets	2008	2007	2006
Strategic Goal: Consumers' rights are protected and FDIC-supervised institutions invest in their communities.			
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.	Achieved.	Achieved.	Achieved.
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.	Achieved.	Achieved.	Achieved.
3. Determine the need for changes in current FDIC practices for following up on significant violations of consumer compliance laws and regulations identified during examinations of banks for compliance with consumer protection and fair lending laws.			
• Complete a review of the effectiveness of the 2007 instructions issued on the handling of repeat instances of significant violations identified during compliance examinations.	Achieved.		
• An analysis is completed for all institutions on the prevalence and scope of repeat instances of significant violations from the previous compliance examination.		Achieved.	
• 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.	
4. Scrutinize evolving consumer products, analyze their current or potential impact on consumers and identify potentially harmful or illegal practices. Promptly institute a supervisory response program across FDIC-supervised institutions when such practices are identified.			
• Revise the FDIC's system for identifying, reviewing, and addressing potentially harmful or illegal practices associated with evolving consumer products.	Achieved.		
• Develop and implement new supervisory response programs across all FDIC-supervised institutions to address potential risks posed by new consumer products.	Achieved.		

Annual Performance Goals and Targets	2008	2007	2006
5. Provide effective outreach related to the CRA, fair lending, and community development.			
• Conduct 125 technical assistance (examination support) efforts or banker/community outreach activities related to the CRA, fair lending, and community development.	Achieved.	Achieved.	Achieved.
• Release a "Young Adult" version of the *Money Smart* curriculum.	Achieved.		
• Distribute at least 10,000 copies of the "Young Adult" version of *Money Smart*.	Achieved.		
• Analysis of survey results is disseminated within six months of completion of the survey through regular publications, ad hoc reports and other means.	Achieved.		
• Provide technical assistance, support and consumer outreach activities in all six FDIC regions to at least eight local NeighborWorks® America affiliates or local coalitions that are providing foreclosure mitigation counseling in high need areas.	Achieved.		
• 200,000 additional individuals are taught using the *Money Smart* curriculum.		Achieved.	Achieved.
• 120 school systems and government entities are contacted to make them aware of the availability of *Money Smart* as a tool to teach financial education to high school students.		Achieved.	
• 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.		Achieved.	
• A pilot project is conducted with banks near military installations to provide small-dollar loan alternatives to high-cost payday lending.		Not Achieved.	
• Strategies are developed and implemented to encourage FDIC-supervised institutions to offer small-denomination loan programs.		Achieved.	
• Research is conducted and findings disseminated on programs and strategies to encourage and promote broader economic inclusion within the nation's banking system.		Achieved.	
6. Continue to expand the FDIC's national leadership role in development and implementation of programs and strategies to encourage and promote broader economic inclusion within the nation's banking system.			
• Analyze quarterly data submitted by participating institutions to identify early trends and potential best practices.	Achieved.		
• Open 27,000 new bank accounts.	Achieved.		
• Initiate new small-dollar loan products in 32 financial institutions.	Achieved.		
• Initiate remittance products in 32 financial institutions.	Achieved.		
• Reach 18,000 consumers through financial education initiatives.	Achieved.		
7. Effectively investigate and respond to consumer complaints about FDIC-supervised financial institutions.			
• Responses are provided to 90 percent of written complaints and inquiries within time frames established by policy.	Achieved.	Achieved.	Achieved.

Receivership Management Program Results

Strategic Goal: Recovery to creditors of receivership is achieved.

Annual Performance Goals and Targets	2008	2007	2006
1. Market failing institutions to all known qualified and interested potential bidders.			
• Contact all known qualified and interested bidders.	Achieved.	Achieved.	Not Applicable. No Failures.
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 is marketed within 90 days of failure.	Achieved.	Achieved.	Not Applicable. No Failures.
3. Manage the receivership estate and its subsidiaries toward an orderly termination.			
• Terminate all receiverships within 90 days of the resolution of all impediments.	Achieved.	Achieved.	Achieved.
4. Conduct investigations into all potential professional liability claim areas for 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.	Achieved.	Not Applicable. No claims within the 18-month period.	Not Applicable. No Failures.

Program Evaluation

Program evaluations are designed to improve the operational effectiveness of the 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 2009 Annual Performance Plan contained several objectives aimed at ensuring that the FDIC would continue to address key corporate issues, including continuing work on the Temporary Liquidity Guarantee Program, issues relating to contract oversight management, anticipated increases in bank failures and continuous improvements to the FDIC's core business functions.

During 2009, in direct response to challenges associated with the financial crisis, the FDIC created six internal organizations and working groups to address areas of increased risk to ensure that both the FDIC's core businesses and new responsibilities were being managed as effectively as possible. The six initiatives were tied to: 1) Legacy Loans; 2) Systemic Resolution Authority; 3) Temporary Liquidity Guarantee Program; 4) Loss Sharing Agreements; 5) Contract Management Oversight; and 6) Resource Management. Each team identified key issues and risks associated with their area of challenge, developed action plans and performance metrics as necessary, and briefed the Chairman on at least a monthly basis. In many cases, enhancements to operating procedures and automated systems of support were made as a direct result of this heightened management attention. Significantly, all identified program needs have been coordinated with those persons responsible for planning, budgeting, staffing and ensuring the adequacy of infrastructure support.

These and other actions were taken in addition to evaluations that are part of the Corporation's ongoing efforts to seek continuous improvements in its programs and operations. Some of these 2009 initiatives included: reviews of financial management and controls governing receiverships; scrutiny of our increased volume of procurement card and convenience check activity; coordination with the FDIC's OIG on Material Loss Reviews to identify any needed improvements in the Corporation's bank examination programs; improved monitoring of the performance and availability of the FDIC's critical automated systems; and the identification of operations where backlogs could present problems if not properly monitored.

It is anticipated that program evaluation energies in 2010 will again focus on progress in the above six initiatives, as well as on controls associated with financial reporting throughout the Corporation, systems development efforts, and key operations supporting the Corporate response to the financial crisis.

IV. Financial Statements and Notes

Deposit Insurance Fund (DIF)

Deposit Insurance Fund Balance Sheet at December 31

Dollars in Thousands

	2009	2008
Assets		
Cash and cash equivalents	$ 54,092,423	$ 1,011,430
Cash and cash equivalents—restricted—systemic risk (Note 16)	6,430,589	2,377,387
Investment in U.S. Treasury obligations, net (Note 3)	5,486,799	27,859,080
Assessments receivable, net (Note 9)	280,510	1,018,486
Receivables and other assets—systemic risk (Note 16)	3,298,819	1,138,132
Trust preferred securities (Note 5)	1,961,824	0
Interest receivable on investments and other assets, net	220,588	405,453
Receivables from resolutions, net (Note 4)	38,408,622	15,765,465
Property and equipment, net (Note 6)	388,817	368,761
Total Assets	**$ 110,568,991**	**$ 49,944,194**
Liabilities		
Accounts payable and other liabilities	$ 273,338	$ 132,597
Unearned revenue—prepaid assessments (Note 9)	42,727,101	0
Liabilities due to resolutions (Note 7)	34,711,726	4,724,462
Deferred revenue—systemic risk (Note 16)	7,847,447	2,077,880
Postretirement benefit liability (Note 13)	144,952	114,124
Contingent liabilities for:		
Anticipated failure of insured institutions (Note 8)	44,014,258	23,981,204
Systemic risk (Note 16)	1,411,966	1,437,638
Litigation losses (Note 8)	300,000	200,000
Total Liabilities	**131,430,788**	**32,667,905**
Commitments and off-balance-sheet exposure (Note 14)		
Fund Balance		
Accumulated Net (Loss) Income	(21,001,312)	15,001,272
Unrealized Gain on U.S. Treasury investments, net (Note 3)	142,127	2,250,052
Unrealized postretirement benefit (Loss) Gain (Note 13)	(2,612)	24,965
Total Fund Balance	**(20,861,797)**	**17,276,289**
Total Liabilities and Fund Balance	**$ 110,568,991**	**$ 49,944,194**

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

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

Dollars in Thousands

	2009	2008
Revenue		
Interest on U.S. Treasury obligations	$ 704,464	$ 2,072,317
Assessments (Note 9)	17,717,374	2,964,518
Systemic risk revenue (Note 16)	1,721,626	1,463,537
Realized gain on sale of securities (Note 3)	1,389,285	774,935
Other revenue (Note 10)	3,173,611	31,017
Total Revenue	**24,706,360**	**7,306,324**
Expenses and Losses		
Operating expenses (Note 11)	1,271,099	1,033,490
Systemic risk expenses (Note 16)	1,721,626	1,463,537
Provision for insurance losses (Note 12)	57,711,772	41,838,835
Insurance and other expenses	4,447	3,693
Total Expenses and Losses	**60,708,944**	**44,339,555**
Net Loss	**(36,002,584)**	**(37,033,231)**
Unrealized (Loss) Gain on U.S. Treasury investments, net (Note 3)	(2,107,925)	1,891,144
Unrealized postretirement benefit (Loss) Gain (Note 13)	(27,577)	5,340
Comprehensive Loss	**(38,138,086)**	**(35,136,747)**
Fund Balance—Beginning	**17,276,289**	**52,413,036**
Fund Balance—Ending	**$ (20,861,797)**	**$ 17,276,289**

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

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

Dollars in Thousands

	2009	2008
Operating Activities		
Net Loss	**$ (36,002,584)**	**$ (37,033,231)**
Adjustments to reconcile net loss to net cash provided by (used by) operating activities:		
Amortization of U.S. Treasury obligations	210,905	457,289
Treasury inflation-protected securities inflation adjustment	10,837	(271,623)
Gain on sale of U.S. Treasury obligations	(1,389,285)	(774,935)
Depreciation on property and equipment	70,488	55,434
Loss on retirement of property and equipment	924	447
Provision for insurance losses	57,711,772	41,838,835
Unrealized (Loss) Gain on postretirement benefits	(27,577)	5,340
Guarantee termination fee from Citigroup	(1,961,824)	0
Systemic risk expenses	0	(2,352)
Change in Operating Assets and Liabilities:		
Decrease (Increase) in assessments receivable, net	737,976	(773,905)
Decrease in interest receivable and other assets	192,750	402,225
(Increase) in receivables from resolutions	(60,229,760)	(32,955,471)
(Increase) in receivable—systemic risk	(2,160,688)	(21,285)
Increase (Decrease) in accounts payable and other liabilities	140,740	(18,838)
Increase (Decrease) in postretirement benefit liability	30,828	(2,034)
(Decrease) in contingent liabilities—systemic risk	(25,672)	0
Increase in liabilities due to resolutions	29,987,265	4,724,462
Increase in unearned revenue—prepaid assessments	42,727,101	0
Increase in deferred revenue—systemic risk	5,769,567	2,377,387
Net Cash Provided by (Used by) Operating Activities	**35,793,763**	**(21,992,255)**

Deposit Insurance Fund Statement of Cash Flows *(continued)*

Dollars in Thousands

	2009	2008
Investing Activities		
Provided by:		
Maturity of U.S. Treasury obligations, held-to-maturity	0	3,304,350
Maturity of U.S. Treasury obligations, available-for-sale	6,382,027	3,930,226
Sale of U.S. Treasury obligations	15,049,873	13,974,732
Used by:		
Purchase of property and equipment	(91,468)	(72,783)
Net Cash Provided by Investing Activities	**21,340,432**	**21,136,525**
Net Increase (Decrease) in Cash and Cash Equivalents	**57,134,195**	**(855,730)**
Cash and Cash Equivalents—Beginning	**3,388,817**	**4,244,547**
Unrestricted Cash and Cash Equivalents—Ending	**54,092,423**	**1,011,430**
Restricted Cash and Cash Equivalents—Ending	**6,430,589**	**2,377,387**
Cash and Cash Equivalents—Ending	**$ 60,523,012**	**$ 3,388,817**

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

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 (DIF). 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 savings associations (known as "thrifts") are supervised by the Office of Thrift Supervision.

The FDIC is the administrator of the DIF. The DIF is responsible for protecting insured bank and thrift depositors from loss due to institution failures. The FDIC is required by 12 U.S.C. 1823(c) to resolve troubled institutions in a manner that will result in the least possible cost to the deposit insurance fund unless a systemic risk determination is made that compliance with the least-cost test would have serious adverse effects on economic conditions or financial stability and any action or assistance taken under the systemic risk determination would avoid or mitigate such adverse effects. A systemic risk determination can only be invoked by the Secretary of the U.S. Treasury, in consultation with the President, and upon the written recommendation of two-thirds of both the FDIC Board of Directors and the Board of Governors of the Federal Reserve System. The systemic risk provision requires the FDIC to recover any related losses to the DIF through one or more special assessments from all insured depository institutions and, with the concurrence of the U.S. Treasury (Treasury), depository institution holding companies (see Note 16).

The FDIC is also the administrator of the FSLIC Resolution Fund (FRF). 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. The DIF and the FRF are maintained separately to carry out their respective mandates.

Recent Legislation

Helping Families Save Their Homes Act of 2009 (Public Law 111-22) was enacted on May 20, 2009. This legislation provides for: 1) extending the FDIC's deposit insurance coverage from $100,000 to $250,000 until 2013, 2) extending FDIC's authority to borrow from the Treasury in amounts necessary to carry out the increased insurance coverage, notwithstanding the amount limitations contained in Sections 14(a) and 15(c)

of the FDI Act, 3) repealing the prohibition against the FDIC taking the increased insurance coverage into account for purposes of setting assessments, 4) extending the generally applicable time limit from 5 years to 8 years for an FDIC Restoration Plan to rebuild the reserve ratio of the DIF, 5) permanently increasing the FDIC's authority to borrow from the Treasury from $30 billion to $100 billion and, if necessary, up to $500 billion through 2010, and 6) allowing FDIC to charge systemic risk special assessments by rulemaking on both insured depository institutions and, with Treasury concurrence, depository institution holding companies.

The *Emergency Economic Stabilization Act of 2008* (EESA), legislation to help stabilize the financial markets, was enacted on October 3, 2008. The legislation requires that Treasury consult with the FDIC and other federal agencies in the establishment of the troubled asset relief program (known as TARP).

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 (unless a systemic risk determination is made).

The DIF is primarily funded from deposit insurance assessments and interest earned on investments in U.S. Treasury obligations. Additional funding sources, if necessary, are borrowings from the Treasury, Federal Financing Bank (FFB), Federal Home Loan Banks, and insured depository institutions. The FDIC has borrowing authority of $100 billion from the Treasury, and if necessary, up to $500 billion through 2010. Additionally, FDIC has a Note Purchase Agreement with the FFB not to exceed $100 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 Treasury. The MOL for the DIF was $118.2 billion and $69.0 billion as of December 31, 2009 and 2008, respectively. In connection with the temporary increase in the basic deposit insurance coverage limit from $100,000 to $250,000, the FDIC may borrow from the Treasury to carry out the increase in the maximum deposit insurance amount without regard to the MOL or the $100 billion limit.

Operations of Resolution Entities

The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receiverships, pass-through conservatorships and bridge institutions (collectively, resolution entities), and the claims against them, are accounted for separately from DIF assets and liabilities to ensure that proceeds from these entities are distributed in accordance with applicable laws and regulations. Accordingly, income and expenses attributable to resolution entities are accounted for as transactions of those entities. All 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 accordance with U.S. generally accepted accounting principles (GAAP). As permitted by the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, the FDIC prepares financial statements in conformity with standards promulgated by the Financial Accounting Standards Board (FASB). These statements do not include reporting for assets and liabilities of resolution entities because these entities are legally separate and distinct, and the DIF does not have any ownership interests in them. Periodic and final accountability reports of resolution entities are furnished to courts, supervisory authorities, and others upon request.

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 (including loss-share agreements); the estimated losses for: anticipated failures, litigation, and representations and warranties; guarantee obligations for: the Temporary Liquidity Guarantee Program and debt of limited liability companies; valuation of trust preferred securities; and the postretirement benefit obligation.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments consisting primarily of U.S. Treasury Overnight Certificates. The majority of cash equivalents held by the DIF at December 31, 2009, resulted from the collection of $45.7 billion in prepaid assessments on December 30, 2009 for all quarterly assessment periods through December 31, 2012 (see Note 9).

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 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 classified as available-for-sale. Securities designated as available-for-sale are shown at fair value. Unrealized gains and losses are reported as other comprehensive income. Realized gains and losses are included in the Statement of Income and Fund Balance as components of Net Income. Income on securities is calculated

and recorded on a daily basis using the effective interest method.

Revenue Recognition for Assessments

Assessment revenue is recognized for the quarterly period of insurance coverage 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. At the subsequent quarter-end, the estimated revenue amounts are adjusted when actual assessments for the covered period are determined for each institution. (See Note 9 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 useful 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 useful life.

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.

Reclassifications

Certain reclassifications have been made in the 2008 financial statements to conform to the presentation used in 2009.

Disclosure about Recent Accounting Pronouncements

- FASB Accounting Standards Codification (ASC) 105, *Generally Accepted Accounting Principles* (formerly SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*, issued in June 2009), became effective for financial statements covering periods ending after September 15, 2009. On July 1, 2009, the FASB ASC was launched and became the sole source of authoritative accounting principles applicable to the FDIC.

  All existing standards that were used to create the Codification have become superseded. As a result, references to generally accepted accounting principles in these Notes will consist of the numbers used in the Codification and, if appropriate, the former pronouncement number. The Codification's purpose was not to create new accounting or reporting guidance, but to organize and simplify authoritative GAAP literature. Consequently, there will be no change to the DIF's financial statements due to the implementation of this Codification.

- Statement of Financial Accounting Standards (SFAS) No. 167, *Amendments to FASB Interpretation No. 46(R)*, was issued by the FASB in June 2009, and subsequently codified

upon issuance of Accounting Standards Update No. 2009-17, *Consolidations (ASC 810) - Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*. SFAS 167, effective for reporting periods beginning after November 15, 2009, modifies the former quantitative approach for determining the primary beneficiary of a variable interest entity (VIE) to a qualitative assessment. An enterprise must determine qualitatively whether it has (1) the power to direct the activities of the VIE that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. If an enterprise has both of these characteristics, the enterprise is considered the primary beneficiary and must consolidate the VIE. Management is currently reviewing the possible impact, if any, of SFAS 167 (now codified in ASC 810) on DIF's accounting and financial reporting requirements for 2010.

- SFAS No. 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140*, was issued by the FASB in June 2009. Subsequently, the FASB issued Accounting Standards Update No. 2009-16, *Transfers and Servicing (ASC 860) - Accounting for Transfers of Financial Assets*, to formally incorporate the provisions of SFAS No. 166 into the Codification. SFAS 166 removes the concept of a qualifying *special-purpose entity* from GAAP, changes the requirements for derecognizing financial assets, and requires additional disclosures about a transferor's continuing involvement in transferred financial assets. The FASB's objective is to improve the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

  The provisions of SFAS 166 (now codified in ASC 860) become effective for the DIF for all transfers of financial assets occurring on or after January 1, 2010.

- SFAS No. 165, *Subsequent Events*, was issued in May 2009 and subsequently codified in FASB ASC 855, *Subsequent Events*. ASC 855 represents the inclusion of guidance on subsequent events in the accounting literature. Historically, management had relied on auditing literature for guidance on assessing and disclosing subsequent events. ASC 855 now requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date—that is, whether that date represents the date the financial statements were issued or were available to be issued. These new provisions, effective for the DIF as of December 31, 2009, do not have a significant impact on the financial statements.

- FASB Staff Position (FSP) FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, was issued in April 2009 and subsequently codified in FASB ASC 320, *Investments-Debt and Equity Securities*. It modifies the other-

than-temporary impairment (OTTI) guidance for debt securities. An OTTI is considered to have occurred if 1) an entity has the intent to sell an impaired security, 2) it is more likely than not that it will be required to sell the security before its anticipated recovery, or 3) an entity does not expect to recover the entire amortized cost basis when there is no intent or likely requirement to sell the security.

In addition, the FSP requires that an OTTI loss should be recognized in earnings or other comprehensive income. If the entity has the intent to sell the security or it is more likely than not that it will be required to sell the security, the entire impairment (amortized cost basis over fair value) will be recognized in earnings. However, if an entity's management asserts that it does not have the intent to sell a debt security and it is more likely than not that it will not have to sell the security before recovery of its cost basis, then an entity must separate the impairment loss into two components: 1) the amount related to credit loss, which is recorded in earnings, and 2) the remainder of the impairment loss, which is recorded in other comprehensive income. The provisions of the FSP, now codified in ASC 320, became effective for the DIF as of June 30, 2009.

- Other recent accounting pronouncements have been deemed to be not applicable or material to the financial statements as presented.

3. Investment in U.S. Treasury Obligations, Net

As of December 31, 2009 and 2008, investments in U.S. Treasury obligations, net, were $5.5 billion and $27.9 billion, respectively. As of December 31, 2009 and 2008, the DIF held $2.1 billion and $2.7 billion, respectively, 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).

For the year ended December 31, 2009, available-for-sale securities were sold for total proceeds of $15.2 billion. The gross realized gains on these sales totaled $1.4 billion. To determine gross realized gains, the cost of securities sold is based on specific identification. Net unrealized holding losses on available-for-sale securities of $2.1 billion are included in other comprehensive loss.

Total Investment in U.S. Treasury Obligations, Net at December 31, 2009

Dollars in Thousands

Maturity	Yield at Purchase (a)	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
U.S. Treasury notes and bonds						
Within 1 year	5.04%	$ 3,058,000	$ 3,062,038	$ 48,602	$ 0	$ 3,110,640
After 1 year through 5 years	4.15%	300,000	302,755	11,648	0	314,403
U.S. Treasury inflation-protected securities						
After 1 year through 5 years	3.14%	1,968,744	1,979,879	81,877	0	2,061,756
Total		**$ 5,326,744**	**$ 5,344,672**	**$ 142,127**	**$ 0**	**$ 5,486,799**

(a) 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 1.1 percent, based on figures issued by the Congressional Budget Office and *Blue Chip Economic Indicators* in early 2009.

Total Investment in U.S. Treasury Obligations, Net at December 31, 2008

Dollars in Thousands

Maturity (a)	Yield at Purchase (b)	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses (c)	Fair Value
U.S. Treasury notes and bonds						
Within 1 year	4.25%	$ 6,192,000	$ 6,350,921	$ 130,365	$ 0	$ 6,481,286
After 1 year through 5 years	4.72%	9,503,000	9,451,649	1,030,931	0	10,482,580
After 5 years through 10 years	4.79%	6,130,000	7,090,289	1,142,753	0	8,233,042
U.S. Treasury inflation-protected securities						
Within 1 year	3.82%	726,550	726,561	0	(5,627)	720,934
After 1 year through 5 years	3.14%	1,973,057	1,989,608	0	(48,370)	1,941,238
Total		**$ 24,524,607**	**$ 25,609,028**	**$ 2,304,049**	**$ (53,997)**	**$ 27,859,080**

(a) 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. 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.
(b) 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 2008.
(c) The unrealized losses on the U.S. Treasury inflation-protected securities (TIPS) is attributable to the two-month delay in adjusting TIPS' principal for changes in the November and December Consumer Price Index for all Urban Consumers. As the losses occurred over a period less than a year and the December 31, 2008, unrealized losses converted to unrealized gains by February 28, 2009, the FDIC does not consider these securities to be other than temporarily impaired at December 31, 2008.

4. Receivables From Resolutions, Net

Receivables From Resolutions, Net at December 31
Dollars in Thousands

	2009	2008
Receivables from closed banks	$ 98,647,508	$ 27,389,467
Receivables from operating banks	0	9,406,278
Allowance for losses	(60,238,886)	(21,030,280)
Total	**$ 38,408,622**	**$ 15,765,465**

The receivables from resolutions include payments made by the DIF to cover obligations to insured depositors (subrogated claims), advances to resolution entities for working capital, and administrative expenses paid on behalf of resolution entities. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. Estimated future payments on losses incurred on assets sold to an acquiring institution under a loss-sharing agreement are factored into the computation of the expected repayment. Assets held by DIF resolution entities are the main source of repayment of the DIF's receivables from resolutions.

As of December 31, 2009, there were 179 active receiverships which includes 140 established in 2009. As of December 31, 2009 and 2008, DIF resolution entities held assets with a book value of $49.3 billion and $45.8 billion, respectively (including cash, investments, and miscellaneous receivables of $7.7 billion and $5.1 billion, respectively). Ninety-nine percent of the current asset book value of $49.3 billion is held by resolution entities established in 2008 and 2009.

Estimated cash recoveries from the management and disposition of assets that are used to determine the allowance for losses were based on asset recovery rates from several sources including: actual or pending institution-specific asset disposition data; failed institution-specific asset valuation data; aggregate asset valuation data on several recently failed or troubled institutions; and empirical asset recovery data based on failures as far back as 1990. Methodologies for determining the asset recovery rates incorporate estimating future cash recoveries, net of applicable liquidation cost estimates, and discounting based on market-based risk factors applicable to a given asset's type and quality. The resulting estimated cash recoveries are then used to derive the allowance for loss on the receivables from these resolutions.

For failed institutions resolved using a whole bank purchase and assumption transaction with an accompanying loss-share agreement, the projected future loss-share payments and monitoring costs on the covered assets sold to the acquiring institution under the agreement are considered in determining the allowance for loss on the receivables from these resolutions. The loss-share cost projections are based on the intrinsic value of the covered assets. The intrinsic value is determined using economic models that consider the quality and type of covered assets, current and future market conditions, risk factors and estimated asset holding periods.

Estimated asset recoveries are regularly evaluated during the year, but remain subject to uncertainties because of potential changes in economic and market conditions. Continuing economic uncertainties could cause the DIF's

actual recoveries to vary significantly from current estimates.

Whole Bank Purchase and Assumption Transactions with Loss-sharing Agreements

The FDIC resolved 90 of the 140 failures in 2009 using a Whole Bank Purchase and Assumption resolution transaction with an accompanying Loss-Share Agreement on assets purchased by the acquirer. The acquiring institution assumes all of the deposits and purchases essentially all of the assets of a failed institution. The majority of the commercial and residential assets are purchased under a loss-share agreement, where the FDIC agrees to share in future losses experienced by the acquirer on those assets covered under the agreement. Loss-share agreements are used by the FDIC to keep assets in the private sector and minimize disruptions to loan customers.

Losses on the covered assets will be shared between the acquirer and the FDIC in its capacity as receiver of the failed institution when losses occur through the sale, foreclosure, loan modification, or the write-down of loans in accordance with the terms of the loss-share agreement. The agreement typically covers a 5 to 10 year period with the receiver covering 80 percent of the losses incurred by the acquirer up to a stated threshold amount (which varies by agreement) and the acquiring bank covering 20 percent. Any losses above the stated threshold amount will be reimbursed by the receiver at 95 percent of the losses booked by the acquirer. The estimated liability for loss-sharing is accounted for by the receiver and is considered in the determination of the DIF's allowance for loss against the corporate receivable from the resolution. As loss-share claims are asserted and proven, DIF receiverships will satisfy these loss-share payments using available liquidation funds and/or amounts due from the DIF for funding the deposits assumed by the acquirer (see Note 7).

Through December 31, 2009, 93 DIF receiverships are estimated to pay approximately $22.2 billion over the length of these loss-share agreements on approximately $126.4 billion in total covered assets at the inception date of these agreements. To date, 37 receiverships have made loss-share payments totaling $892.2 million.

Financial instruments that potentially subject the DIF to concentrations of credit risk are receivables from resolutions. The repayment of DIF's receivables from resolutions is primarily influenced by recoveries on assets held by DIF receiverships and payments on the covered assets under loss-sharing agreements. The majority of the $165.5 billion in remaining assets in liquidation ($41.4 billion) and current loss-share covered assets ($124.1 billion) are concentrated in commercial loans ($71.7 billion), residential loans ($70.3 billion), and securities ($14.7 billion). Most of the assets in these asset types originated from failed institutions located in California ($55.6 billion), Florida ($15.7 billion), Alabama ($15.6 billion), Texas ($11.3 billion), and Illinois ($7.3 billion).

5. Trust Preferred Securities

On January 15, 2009, subject to a systemic risk determination, the Treasury, the FDIC and the Federal Reserve Bank of New York executed terms of a guarantee agreement with Citigroup to provide protection against the possibility of unusually large losses on an asset pool of approximately $301.0 billion of loans and securities backed by residential and commercial real estate and other such assets that would remain on the balance sheet

of Citigroup. The term of the loss-share guarantee was 10 years for residential assets and 5 years for non-residential assets. The FDIC exposure from this guarantee was capped at $10 billion.

In consideration for its portion of the loss-share guarantee at inception, the FDIC received 3,025 shares of Citigroup's designated cumulative perpetual preferred stock (Series G) with a liquidation preference at the time of $1,000,000 per share for a total of $3.025 billion paying dividends at a rate of 8 percent annually. On July 30, 2009, all shares of preferred stock initially received were exchanged for 3,025,000 of Citigroup Capital XXXIII trust preferred securities (TruPs) with a liquidation amount of $1,000 per security. The principal amount is due in 2039. The equivalent exchange of $3.025 billion pays a quarterly distribution at a rate of 8 percent annually. The Treasury initially received $4.034 billion in preferred stock for its loss-share protection and received an equivalent, aggregate amount of $4.034 billion in trust preferred securities at the time of the exchange for TruPs.

On December 23, 2009, Citigroup terminated the loss-sharing agreement citing improvements in its financial condition and in financial market stability. The FDIC incurred no loss from the guarantee prior to termination of the agreement. In connection with the early termination of the guarantee program, the Treasury and the FDIC agreed that Citigroup would reduce the combined $7.1 billion liquidation amount of the TruPs by $1.8 billion. Pursuant to an agreement between the Treasury and the FDIC, TruPs held by the Treasury were reduced by $1.8 billion and the FDIC initially retained all TruPs holdings of $3.025 billion. The FDIC will transfer an aggregate liquidation amount of $800 million in TruPs to the Treasury, plus any related interest, less any payments made or required to be made by the FDIC for guaranteed debt instruments issued by Citigroup or any of its affiliates under the Temporary Liquidity Guarantee Program (TLGP; see Note 16). This transfer will occur within 5 days of the date on which no Citigroup debt remains outstanding under the TLGP. The fair value of the TruPs and related interest are recorded as systemic risk assets described in Note 16.

The remaining $2.225 billion (par value) of TruPs held by the FDIC are classified as available-for-sale debt securities in accordance with FASB ASC Topic 320, *Investments—Debt and Equity Securities.* Upon termination of the guarantee agreement, the DIF recognized revenue of $1.962 billion for the fair value of the TruPs. (See Note 10, *Other Revenue* and Note 15, *Disclosures About the Fair Value of Financial Instruments*).

6. Property and Equipment, Net

Property and Equipment, Net at December 31
Dollars in Thousands

	2009	2008
Land	$ 37,352	$ 37,352
Buildings (including leasehold improvements)	295,265	281,401
Application software (including work-in-process)	179,479	173,872
Furniture, fixtures, and equipment	117,430	84,574
Accumulated depreciation	(240,709)	(208,438)
Total	**$ 388,817**	**$ 368,761**

The depreciation expense was $70 million and $55 million for 2009 and 2008, respectively.

7. Liabilities Due to Resolutions

As of December 31, 2009, the DIF recorded liabilities totaling $34.7 billion to resolution entities representing the agreed-upon value of assets transferred from the receiverships, at the time of failure, to the acquirers/bridge institutions for use in funding the deposits assumed by the acquirers/bridge institutions. Ninety-seven percent of these liabilities are due to failures resolved under a whole bank purchase and assumption transaction, most with an accompanying loss-share agreement. The DIF satisfies these liabilities either by directly sending cash to the receiverships to fund loss-share and other expenses or by offsetting receivables from resolutions when a receivership declares a dividend. Inherent in these liabilities are $470 million in unreimbursed deposit claims subrogated by the DIF on behalf of the Temporary Liquidity Guarantee Program (see Note 16).

In addition, there were $150 million in unpaid brokered deposit claims related to multiple receiverships. The DIF pays these liabilities when the claims are approved.

8. 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, absent some favorable event such as obtaining additional capital or merging, when the liability is 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.

During the year, the conditions of the banking industry continued to deteriorate. The difficult economic and credit environment continued to challenge the soundness of many DIF-insured institutions. The ongoing weakness in housing and commercial real estate markets led to asset quality problems and volatility in financial markets, which hurt the banking industry performance and weakened many institutions with significant portfolios of residential and commercial mortgages. The impact of the economic deterioration in the banking industry caused a significant increase in the contingent loss reserve. As of December 31, 2009 and 2008, the contingent liabilities for anticipated failure of insured institutions were $44.0 billion and $24.0 billion, respectively.

In addition to these recorded contingent liabilities, the FDIC has identified 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 $24 billion. The actual losses, if any, will largely depend on future economic and market conditions and could differ materially from this estimate.

During 2009, 140 banks with combined assets of $171.2 billion failed. It is uncertain how long and how deep the current downturn will be. Supervisory and market data suggest that the banking industry will continue to experience elevated levels of stress over the coming year. The FDIC continues to evaluate the ongoing risks to affected institutions in light of the existing economic and financial conditions, and the extent to which such risks will continue to put stress on the resources of the insurance fund.

Litigation Losses

The DIF records an estimated loss for unresolved legal cases to the extent that those losses are considered probable and reasonably estimable. The FDIC recorded probable litigation losses of $300 million and $200 million for the DIF as of December 31, 2009 and 2008, respectively, and has determined that there are no reasonably possible losses from unresolved cases.

Other Contingencies

Representations and Warranties

In an effort to maximize the return from the sale of assets from bank and thrift resolutions, FDIC as receiver offered representations and warranties, and guarantees on certain loan and servicing rights sales. Although these representations and warranties were offered by the receiver, DIF guaranteed the obligations under these agreements. In general, the guarantees, representations, and warranties relate to the completeness and accuracy of loan documentation, the quality of the underwriting standards used, the accuracy of the delinquency status, and the conformity of the loans with characteristics of the pool in which they were sold at the time of sale.

As a result of loans and servicing rights sold in connection with the asset disposition of IndyMac Federal Bank, the unpaid principal balance for loans subject to representations and warranties increased by $184 billion to $195 billion as of December 31, 2009. Since the receiverships are the primary guarantors and they have sufficient funds to pay asserted claims, the DIF did not record contingent liabilities from any of the outstanding claims asserted in connection with representations and warranties at December 31, 2009 and 2008.

In addition, until the contracts offering the representations and warranties and guarantees have expired, future losses could be incurred, some as late as 2032. Consequently, the FDIC believes it is possible that 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.

Purchase and Assumption Indemnification

In connection with Purchase and Assumption agreements for resolutions, the FDIC in its receivership capacity generally indemnifies the purchaser of a failed institution's assets and liabilities in the event a third party asserts a claim against the purchaser unrelated to the explicit assets purchased or liabilities assumed at the time of failure. The FDIC in its Corporate capacity is a secondary guarantor if and when a receiver is unable to pay. These indemnifications generally extend for a term of six years after the date of institution failure. The FDIC is unable to estimate the maximum potential liability for these types of guarantees as the agreements do not specify a maximum amount and any payments are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. During 2009 and 2008, the FDIC in its Corporate capacity has not made any indemnification payments under such agreements and no amount

has been accrued in the accompanying financial statements with respect to these indemnification guarantees.

FDIC Guaranteed Debt of Limited Liability Companies

During 2009, the FDIC in its corporate capacity offered guarantees on loans issued by newly-formed limited liability companies (LLCs) that were created to dispose of certain residential mortgage loans, construction loans, and other assets of two receiverships. The receiverships transferred a portfolio of assets with an unpaid principal balance of $5.8 billion to the LLCs. Private investors purchased a 40–50 percent ownership interest in the LLCs for $615 million in cash and the LLCs issued notes of $2.1 billion to the receiverships to partially fund the purchase of the assets. The receiverships hold the remaining 50–60 percent equity interest in the LLCs. In exchange for the guarantees, the DIF expects to receive estimated fees totaling $71.4 million, which equals one percent per annum over the estimated life of the notes.

The term of the guarantees extends until the earliest of 1) payment in full of the notes or 2) two years following the maturity date of the notes (12 years). In the event of note payment default by an LLC, the FDIC in its corporate capacity can take one or more of the following remedies: 1) accelerate the payment of the unpaid principal amount of the notes; 2) sell the assets held as collateral; and 3) foreclose on the equity interests of the debtor.

The DIF has recorded a receivable for the estimated guarantee fees of $71.4 million and an offsetting deferred revenue liability, included in the "Interest receivable on investments and other assets, net" and "Accounts payable and other liabilities" line items, respectively. Guarantee fees are recognized as revenue on a straight-line basis over the term of the notes.

The source of payment for the LLC-issued debt is the collections from the LLC assets. If cash flow collections from the LLC assets are insufficient to cover the payments on the notes in accordance with priority of payments, then the FDIC as guarantor is required to make a guarantee payment for any shortfall. The estimated loss of the guarantees to the DIF is based on the discounted present value of the expected guarantee payments by the FDIC, reimbursements to the FDIC for guarantee payments, and guarantee fee collections. Under both a base case and a more stressful modeling scenario, the cash flows from the LLC assets provide sufficient coverage to fully pay the debts by their maturity dates. Therefore, the estimated loss to the DIF from these guarantees is zero.

As of December 31, 2009, the maximum estimated guarantee exposure equals the total outstanding debt of $2.1 billion.

9. Assessments

The FDI Act, as amended, requires a risk-based assessment system. The Act allows the FDIC discretion in defining risk and, by regulation, the FDIC has established several assessment risk categories based upon supervisory and capital evaluations. On March 4, 2009, the Board issued a final rule on Assessments to: 1) make it fairer and more sensitive to risk, 2) improve the way the risk-based assessment system differentiates risk among insured institutions, and 3) increase deposit insurance assessment

rates to raise assessment revenue to help meet the requirements of the Restoration Plan. The assessment rate averaged approximately 23.32 cents and 4.18 cents per $100 of the assessment base, as defined in part 327.5(b) of FDIC Rules and Regulations, for 2009 and 2008, respectively. (The assessment rate would have been 16.19 cents if the special assessment imposed on June 30, 2009 was excluded from the 2009 assessment income.)

In compliance with provisions of the FDI Act, as amended, and implementing regulations, the FDIC is required to:

- annually establish and publish a designated reserve ratio (DRR) within the statutory range from 1.15 to 1.50 percent of estimated insured deposits. As of December 31, 2009, the DIF reserve ratio was (0.39) percent of estimated insured deposits and the FDIC has set the DRR at 1.25 percent for 2010;
- adopt a DIF restoration plan to return the reserve ratio to 1.15 percent generally within eight years, if the reserve ratio falls below 1.15 percent or is expected to fall below 1.15 percent within six months (see paragraph titled, *Amended Restoration Plan*);
- annually determine if a dividend should be paid, based on the statutory requirement generally to declare dividends for one-half of the amount between 1.35 and 1.50 percent and all amounts exceeding 1.50 percent.

Assessment Revenue

During 2009, the FDIC implemented actions to supplement DIF's revenue through a special assessment and liquidity through prepaid assessments from insured depository institutions:

- On May 22, 2009, the FDIC adopted a final rule imposing a 5 basis point special assessment on each insured depository institution's total assets minus Tier 1 capital as reported in its report of condition as of June 30, 2009. The special assessment of $5.5 billion was collected on September 30, 2009, at the same time the regular quarterly risk-based assessment for the second quarter 2009 was collected.
- On November 17, 2009, the FDIC issued a Final Rule, *Prepaid Assessments,* to address the DIF's liquidity needs to pay for projected near-term failures and to ensure that the deposit insurance system remains industry-funded. Pursuant to the Rule, on December 30, 2009, a majority of insured depository institutions prepaid estimated quarterly risk-based assessments of $45.7 billion for the period October 2009 through December 2012. The prepaid amount was based on maintaining assessment rates at their current levels through the end of 2010 and adopting a uniform 3 basis point increase in assessment rates effective January 1, 2011. An institution's quarterly risk-based deposit insurance assessments thereafter will be offset by the amount prepaid until that amount is exhausted or until June 30, 2013, when any amount remaining would be returned to the institution.

  Prepaid assessments were mandatory for all institutions, but the FDIC exercised its discretion as supervisor and insurer to exempt an institution from the prepayment requirement if the FDIC determined that the prepayment would adversely affect the safety and soundness of the institution. In

addition, institutions were allowed to request exemption from payment under certain circumstances.

For those institutions that prepaid assessments, the DIF recognized revenue of $3.0 billion for the fourth quarter insurance period. The remaining prepaid amount of $42.7 billion is included in the "Unearned revenue—prepaid assessments" line item on the Balance Sheet. For those institutions that did not prepay assessments, the "Assessments Receivable, net" line item of $281 million represents the estimated gross premiums due from insured depository institutions for the fourth quarter of the year. The actual deposit insurance assessment for the fourth quarter was billed and collected at the end of the first quarter of 2010. During 2009 and 2008, $17.7 billion and $3.0 billion, respectively, were recognized as assessment revenue from institutions.

The FDI Act, as amended, granted 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. Of the credits granted, $2.7 million remained as of December 31, 2009.

Amended Restoration Plan

A Federal Register notice for *Amendment of FDIC Restoration Plan* was issued on October 2, 2009, amending DIF's Restoration Plan which was originally adopted on October 7, 2008 and subsequently amended on February 27, 2009. The Amended Restoration Plan addresses the need to return the DIF to its mandated minimum reserve ratio of 1.15 percent of estimated insured deposits. The Restoration Plan provided for the following: 1) the period of the Plan was extended to eight years; 2) current assessment rates will be maintained through December 31, 2010, with a uniform increase in risk-based assessment rates of 3 basis points effective January 1, 2011; and 3) at least semi-annually hereafter, the FDIC will update its loss and income projections for the Fund and, if necessary, will increase assessment rates prior to the end of the eight-year period, to return the reserve ratio to 1.15 percent.

Assessments Related to FICO

Assessments continue to be levied on institutions for payments of the interest on obligations issued by the Financing Corporation (FICO). The FICO was established as a mixed-ownership government corporation to function solely as a financing vehicle for the former 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 2009 and 2008, approximately $784 million and $791 million, respectively, was collected and remitted to the FICO.

10. Other Revenue

Other Revenue for the Years Ended December 31
Dollars in Thousands

	2009	2008
Guarantee termination fees	$ 2,053,825	$ 0
Debt guarantee surcharges	871,746	0
Dividends and interest on Citigroup trust preferred securities	231,227	0
Other	16,813	31,017
Total	**$ 3,173,611**	**$ 31,017**

Guarantee Termination Fees

Bank of America

In January 2009, the FDIC, Treasury, and the Federal Reserve Bank of New York (federal parties) signed a Summary of Terms (Term Sheet) with Bank of America to guarantee or lend against a pool of up to $118.0 billion of financial instruments consisting of securities backed by residential and commercial real estate loans and corporate debt and related derivatives. In May 2009, prior to completing definitive documentation, Bank of America notified the federal parties of its desire to terminate negotiations with respect to the guarantee contemplated in the Term Sheet. All parties agreed that Bank of America received value for entering into the Term Sheet and that the federal parties should be compensated for out-of-pocket expenses and a fee equal to the amount Bank of America would have paid for the guarantee from the date of the signing of the Term Sheet through the termination date. Under the terms of the settlement, the federal parties received a total of $425 million. Of this amount, the FDIC received and recognized revenue of $92 million for the DIF. No losses were borne by the FDIC prior to the settlement.

Citigroup

In connection with the termination of the loss-share agreement with Citigroup, the DIF recognized revenue of $1.962 billion for the fair value of the trust preferred securities received as consideration for the guarantee as agreed to in the termination and recorded $231 million in dividends and interest from Citigroup (see Note 5).

Surcharges on FDIC-Guaranteed Debt

On June 3, 2009, the FDIC published a final rule in the Federal Register amending the Temporary Liquidity Guarantee Program (TLGP) to provide a limited extension of the Debt Guarantee Program (DGP) for insured depository institutions and other participating entities (see Note 16). The amendment also imposed surcharges on FDIC-guaranteed debt issued after March 31, 2009, with a maturity of one year or more. The DGP extensions, coupled with the surcharges, were designed to facilitate an orderly transition period for all participants to return to the non-guaranteed debt market and to reduce the potential for market disruptions at the end of the program. Unlike other TLGP fees, which are reserved for projected TLGP losses, the amount of surcharges collected were deposited into the DIF. During 2009, the DIF collected surcharges in the amount of $872 million.

11. Operating Expenses

Operating expenses were $1.3 billion for 2009, compared to $1 billion for 2008. The chart below lists the major components of operating expenses.

Operating Expenses for the Years Ended December 31
Dollars in Thousands

	2009	2008
Salaries and benefits	$ 901,836	$ 702,040
Outside services	244,479	159,170
Travel	97,744	67,592
Buildings and leased space	65,286	53,630
Software/Hardware maintenance	40,678	29,312
Depreciation of property and equipment	70,488	55,434
Other	37,563	32,198
Services reimbursed by TLGP	(3,613)	(2,352)
Services billed to resolution entities	(183,362)	(63,534)
Total	**$ 1,271,099**	**$ 1,033,490**

12. Provision for Insurance Losses

Provision for insurance losses was $57.7 billion for 2009 and $41.8 billion for 2008. 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

	2009	2008
Valuation Adjustments		
Closed banks and thrifts	$ 37,586,603	$ 17,974,530
Other assets	(7,885)	7,377
Total Valuation Adjustments	**37,578,718**	**17,981,907**
Contingent Liabilities Adjustments:		
Anticipated failure of insured institutions	20,033,054	23,856,928
Litigation	100,000	0
Total Contingent Liabilities Adjustments	**20,133,054**	**23,856,928**
Total	**$ 57,711,772**	**$ 41,838,835**

13. 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), the 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

	2009	2008
Civil Service Retirement System	$ 6,401	$ 6,204
Federal Employees Retirement System (Basic Benefit)	56,451	44,073
FDIC Savings Plan	25,449	21,786
Federal Thrift Savings Plan	20,503	16,659
Total	**$ 108,804**	**$ 88,722**

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 FDIC 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, 2009 and 2008, the liability was $145.0 million and $114.1 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 ($2.6) million and $25.0 million at December 31, 2009 and 2008, respectively. These amounts are reported as accumulated other comprehensive income in the "Unrealized postretirement benefit (loss) gain" line item on the Balance Sheet.

The DIF's expenses for postretirement benefits for 2009 and 2008 were $7.7 million each year, 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 2009 and 2008 of ($27.6) million and

$5.3 million, respectively, are reported as other comprehensive income in the "Unrealized post-retirement benefit (loss) gain" line item. Key actuarial assumptions used in the accounting for the plan include the discount rate of 5.25 percent, the rate of compensation increase of 4.10 percent, and the dental coverage trend rate of 7.0 percent. The discount rate of 5.25 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.

14. Commitments and Off-Balance-Sheet Exposure

Commitments:

Leased Space

The FDIC's lease commitments total $158 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 $29 million and $21 million for the years ended December 31, 2009 and 2008, respectively.

Leased Space Commitments
Dollars in Thousands

2010	2011	2012	2013	2014	2015/ Thereafter
$ 37,630	$ 37,553	$ 30,982	$ 21,182	$ 17,995	$ 13,041

Off-Balance-Sheet Exposure:

Deposit Insurance

As of December 31, 2009, the estimated insured deposits for DIF were $5.4 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.

15. Disclosures About the Fair Value of Financial Instruments

Financial assets recognized and measured at fair value on a recurring basis at each reporting date include cash equivalents (Note 2), the investment in U.S. Treasury obligations (Note 3) and trust preferred securities (Note 5). The following tables present the DIF's financial assets measured at fair value as of December 31, 2009 and 2008.

Assets Measured at Fair Value at December 31, 2009
Dollars in Thousands

	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Assets				
Cash and cash equivalents (Special U.S. Treasuries)[1]	$ 54,092,423			$ 54,092,423
Investment in U.S. Treasury Obligations (Available-for-Sale)[2]	5,486,799			5,486,799
Trust preferred securities (Available-for-Sale)			$ 1,961,824	1,961,824
Trust preferred securities held for UST (Note 16)			705,375	705,375
Total Assets	**$ 59,579,222**	**$ 0**	**$ 2,667,199**	**$ 62,246,421**

[1] Cash equivalents are Special U.S. Treasury Certificates with overnight maturities valued at prevailing interest rates established by the U.S. Bureau of Public Debt.
[2] The investment in U.S. Treasury obligations is measured based on prevailing market yields for federal government entities.

Assets Measured at Fair Value at December 31, 2008
Dollars in Thousands

	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Assets				
Cash and cash equivalents (Special U.S. Treasuries)[1]	$ 1,011,430	$ 0	$ 0	$ 1,011,430
Investment in U.S. Treasury Obligations (Available-for-Sale)[2]	27,859,080	0	0	27,859,080
Total Assets	**$ 28,870,510**	**$ 0**	**$ 0**	**$ 28,870,510**

[1] Cash equivalents are Special U.S. Treasury Certificates with overnight maturities valued at prevailing interest rates established by the U.S. Bureau of Public Debt.
[2] The investment in U.S. Treasury obligations is measured based on prevailing market yields for federal government entities.

In exchange for prior loss-share guarantee coverage provided to Citigroup as described in Note 5, the FDIC and the Treasury received trust preferred securities. The fair value of the trust preferred securities was derived from a proprietary valuation model developed by the Treasury to estimate the value of financial instruments obtained as consideration for actions taken to stabilize the financial system under the Troubled Asset Relief Program pursuant to the Emergency Economic Stabilization Act of 2008. The model establishes the fair value of the TruPs based on the discounted present value of expected cash flows. Key inputs include assumptions about default probabilities, dividend deferral probabilities and call options. The FDIC independently performed benchmark procedures to ensure the reasonableness of the model outputs.

Some of the DIF's financial assets and liabilities are not recognized at fair value but are recorded at amounts that approximate fair value due to their short maturities and/or comparability with current interest rates. Such items include interest receivable on investments, assessment receivables, other short-term receivables, accounts payable and other liabilities.

The net receivables from resolutions primarily include the DIF's subrogated claim arising from obligations to insured depositors. The resolution entity 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 resolution entity assets (see Note 4), such 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 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 resolution entity payments to the DIF on the subrogated claim does not necessarily correspond with the timing of collections on resolution entity assets. Therefore, the effect of discounting used by resolution entities should not necessarily be viewed as producing an estimate of fair value for the net receivables from resolutions.

There is no readily available market for guarantees associated with systemic risk (see Note 16).

16. Systemic Risk Transactions

Pursuant to systemic risk determinations, the FDIC established the Temporary Liquidity Guarantee Program (TLGP) for insured depository institutions, designated affiliates and certain holding companies during 2008, and provided loss-share guarantee assistance to Citigroup on a pool of covered assets in 2009, which was subsequently terminated as described in Note 5. The FDIC received consideration in exchange for guarantees issued under the TLGP and guarantee assistance provided to Citigroup.

At inception of the guarantees, the DIF recognized a liability for the non-contingent fair value of the obligation the FDIC has undertaken to stand ready to perform over the term of the guarantees. As required by FASB ASC 460, *Guarantees,* this non-contingent liability was measured at the amount of consideration received in exchange for issuing the guarantee. As systemic risk expenses are incurred (including contingent liabilities and valuation allowances), the DIF will reduce deferred revenue and recognize an offsetting amount as systemic risk revenue. Revenue recognition will also occur during the term of the guarantee if a supportable and documented analysis has determined that the consideration and any related interest/dividend income received exceeds the projected systemic risk losses. Any deferred revenue not absorbed by losses during the guarantee period will be recognized as revenue to the DIF.

Temporary Liquidity Guarantee Program

The FDIC established the TLGP on October 14, 2008 in an effort to counter the system-wide crisis in the nation's financial sector. The TLGP consists of two components: (1) the Debt Guarantee Program (DGP), and (2) the Transaction Account Guarantee Program (TAG). On November 26, 2008, a final rule for the program was published in the Federal Register and codified in part 370 of title 12 of the Code of Federal Regulations (12 CFR Part 370).

Debt Guarantee Program

The Debt Guarantee Program initially permitted participating entities to issue FDIC-guaranteed senior unsecured debt between October 14, 2008 and June 30, 2009, with the FDIC's guarantee for such debt to expire on the earlier of the maturity of the debt (or the conversion date, for mandatory convertible debt issued on or after February 27, 2009) or June 30, 2012. To reduce market disruption at the conclusion of the DGP and to facilitate the orderly phase-out of the program, the FDIC issued a final rule on June 3, 2009, that extended the period during which participating entities could issue FDIC-guaranteed debt, through October 31, 2009. Concurrently, the FDIC extended the expiration of the guarantee period from June 30, 2012 to December 31, 2012. Upon the expiration of the extended DGP, the final rule grants existing participating entities access to a limited six-month emergency FDIC guarantee facility expiring on April 30, 2010. The FDIC's guarantee for all debt expires on the earliest of the mandatory convertible debt, the stated date of maturity, or December 31, 2012.

Fees for participation in the DGP are reserved for possible TLGP losses. Since inception, the FDIC has recorded $8.3 billion of guarantee fees and fees of $1.2 billion from participating entities that elected to issue senior unsecured non-guaranteed debt. During 2009, the total amount collected under the DGP was $7.1 billion, comprised of $6.1 billion for guaranteed debt and $1.0 billion for non-guaranteed debt. The fees are included in the "Cash and cash equivalents—restricted—systemic risk" line item and recognized as "Deferred revenue-systemic risk" on the Balance Sheet.

Additionally, as described in Note 5, the FDIC holds $800 million (par value) of Citigroup trust preferred securities (and any related interest) as security in the event payments are required to be made by the FDIC for guaranteed debt instru-

ments issued by Citigroup or any of its affiliates under the TLGP. At December 31, 2009, the fair value of these securities totaled $705.4 million, and was determined using the valuation methodology described in Note 15 for other trust preferred securities held by the DIF. Because these TruPs are held on behalf of the Treasury, the decline in value has no impact on the fund balance of the DIF.

The FDIC's payment obligation under the DGP will be triggered by a payment default. In the event of default, the FDIC will continue to make scheduled principal and interest payments under the terms of the debt instrument through its maturity, or in the case of mandatory convertible debt, through the mandatory conversion date. The debtholder or representative must assign to the FDIC the right to receive any and all distributions on the guaranteed debt from any insolvency proceeding, including the proceeds of any receivership or bankruptcy estate, to the extent of payments made under the guarantee.

Since inception of the program, $618 billion in total guaranteed debt has been issued. To date, one debt issuer has defaulted on guaranteed debt of $2.0 million. Eighty-four financial entities (54 insured depository institutions and 30 affiliates and holding companies) had $309 billion in guaranteed debt outstanding at year-end 2009. At December 31, 2009, the contingent liability for this guarantee was $87.9 million and is included in the "Contingent liability for Systemic Risk" line item. The FDIC believes that it is reasonably possible that additional estimated losses of approximately $2.5 billion could occur under the DGP.

Transaction Account Guarantee Program

The Transaction Account Guarantee Program provides unlimited coverage for non-interest bearing transaction accounts held by insured depository institutions on all deposit amounts exceeding the fully insured limit (generally $250,000). In August 2009, the FDIC extended the expiration date of the TAG program from December 31, 2009 to June 30, 2010. During 2009, the FDIC collected TAG fees of $639.2 million which are earmarked for TLGP possible losses and payments.

Upon the failure of a participating insured depository institution, payment of guaranteed claims of depositors with non-interest bearing transaction accounts are funded with TLGP restricted cash. The FDIC will be subrogated to these claims of depositors against the failed entity, and dividend payments by the receivership are deposited back into TLGP restricted accounts.

At December 31, 2009, the "Receivables and other assets—systemic risk" line item includes $187.5 million of estimated TAG fees due from insured depository institutions. This receivable was collected at the end of the first quarter of 2010.

The contingent liability resulting from the anticipated failure of insured institutions participating in the TAG was $1.3 billion at December 31, 2009. For the 2009 failures, estimated losses of $1.7 billion were recorded for the non-interest bearing transaction accounts. The provision for anticipated failures and the loss recorded at resolution are both recorded as "Systemic risk expenses" with a corresponding amount of guarantee fees recognized as "Systemic risk revenue." The FDIC believes that it is reasonably possible that additional estimated losses of approximately $721 million could occur under the TAG.

As of December 31, 2009, the maximum estimated exposure under the TAG is $834 billion. However, 525 institutions elected to exit the TAG program after December 31, 2009. The reported TAG deposits associated with these institutions at December 31, 2009, totaled $568 billion. Consequently, the maximum exposure under the TAG as of January 1, 2010, is estimated to be $266 billion.

Systemic Risk Activity at December 31, 2009
Dollars in Thousands

	Cash and cash equivalents—restricted—systemic risk	Receivables and other assets—systemic risk	Deferred revenue—systemic risk	Contingent liability—systemic risk	Revenue/ Expenses—systemic risk
Balance at 01-01-09	$ 2,377,387	$ 1,138,132	$ (2,077,880)	$ (1,437,638)	
Guaranteed and non-guaranteed debt fees collected	7,066,423	(1,026,870)	(6,039,553)		
TAG fees collected	639,176	(89,977)	(549,199)		
Receivable for TAG fees		187,541	(187,541)		
Receivable for TAG accounts at failed institutions		4,124,849			
TruPs and accrued interest held for UST		801,422	(801,422)		
Market value adjustment on TruPs held for UST		(94,624)	94,624		
Estimated losses for TAG accounts at failed institutions		(1,741,653)	1,741,653		$ 1,741,653
Provision for TLGP losses in future failures			(25,672)	25,672	(25,672)
Default of guaranteed debt issued by a failed bank	(16)		16		2,033
Overnight investment interest collected	6,085		(6,085)		
TLGP operating expenses			3,612		3,612
Reimbursement to DIF for TLGP operating expenses incurred	(3,658,466)				
Totals	**$ 6,430,589**	**$ 3,298,820(a)**	**$ (7,847,447)**	**$ (1,411,966)**	**$ 1,721,626**

(a) Total may not equal the line item due to rounding

17. Subsequent Events

Subsequent events have been evaluated through June 14, 2010, the date the financial statements are available to be issued.

FDIC Guaranteed Debt of Limited Liability Companies

During 2010, the FDIC in its corporate capacity offered guarantees on $997.4 million in purchase money notes issued by newly-formed limited liability companies (LLCs). The terms of the guarantees expire no later than the final note maturing in 2020. The LLCs were created to dispose of $4.6 billion of performing and non-performing commercial and residential real estate loans as well as related assets purchased from multiple receiverships (multibank structured transactions). Private investors purchased 40-50 percent ownership interests in the LLCs, with the receiverships holding the remaining 50-60 percent equity interest. In exchange for the guarantees, the DIF expects to receive estimated fees totaling $29.0 million. Based upon modeling scenarios, the cash flows from the assets of each LLC provide sufficient coverage to defease the debts by their maturity dates. Therefore, the estimated loss to the DIF from these guarantees is zero.

During 2010, FDIC-guaranteed notes issued by three LLCs to receiverships during 2009 and 2010 were sold to private investors. The timely payment of principal due on the notes will continue to be fully guaranteed by the FDIC (see Note 8).

FDIC Guaranteed Debt of Notes

On March 12, 2010, the FDIC issued $1.8 billion of notes backed by approximately $3.6 billion of residential mortgage-backed securities (RMBS) from seven failed bank receiverships. The underlying securities were sold to a statutory trust, which subsequently issued two series of senior notes. The notes mature in 2038 and 2048 and are backed by the RMBS. Investors included banks, investment funds, insurance funds, and pension funds. The $1.8 billion in proceeds will go to the seven failed bank receiverships and eventually be used to pay creditors, including the DIF. This will maximize recoveries for the receiverships and recover substantial funds for the DIF. The FDIC, in its corporate capacity, will fully and unconditionally guarantee the timely payment of principal and interest due and payable on the senior notes. In exchange for the guarantees, the DIF expects to receive monthly payments based on the outstanding principal balance of the senior notes.

Amendment of the TLGP to Extend the Transaction Account Guarantee Program (TAG)

An *Interim Rule with request for comments*, issued on April 19, 2010, amends the TLGP to extend the expiration date for the TAG from June 30, 2010 to December 31, 2010, and grants the FDIC discretion to extend the program to December 31, 2011, without additional rulemaking, if economic conditions warrant such an extension. Assessment rates for institutions participating in the TAG remain unchanged under the interim rule. Additionally, the interim rule would: 1) require TAG assessment reporting based on average daily account balances; 2) reduce the maximum interest rate for qualifying negotiable order of withdrawal (NOW) accounts guaranteed pursuant to the TAG to 0.25 percent from

0.50 percent; 3) provide an irrevocable, one-time opportunity for institutions currently participating in the TAG to opt-out of the program, effective on July 1, 2010; and 4) establish conforming disclosure requirements for institutions that opt-out of and those that continue to participate in the extended program.

Proposed Revision of the Deposit Insurance Assessment System

On April 13, 2010, the FDIC Board of Directors approved for issuance a Notice of Proposed Rulemaking on Assessments (NPR) to revise the assessment system applicable to large banks. The NPR would eliminate risk categories and the use of long-term debt issuer ratings, and replace the financial ratios currently used with a scorecard consisting of well-defined financial measures that are more forward looking and better suited for large institutions. Additionally, the proposal would alter the assessment rates applicable to all insured depository institutions to ensure that the revenue collected under the proposed assessment system would approximately equal that under the existing assessment system.

2010 Failures Through June 14, 2010

Through June 14, 2010, 82 insured institutions failed with total losses to the DIF estimated to be $16.8 billion.

FSLIC Resolution Fund (FRF)

FSLIC Resolution Fund Balance Sheet at December 31
Dollars in Thousands

	2009	2008
Assets		
Cash and cash equivalents (Note 2)	$ 3,470,125	$ 3,467,227
Receivables from thrift resolutions and other assets, net (Note 3)	32,338	34,952
Receivables from U.S. Treasury for goodwill judgments (Note 4)	405,412	142,305
Total Assets	**$ 3,907,875**	**$ 3,644,484**
Liabilities		
Accounts payable and other liabilities	$ 2,972	$ 8,066
Contingent liabilities for litigation losses and other (Note 4)	405,412	142,305
Total Liabilities	**408,384**	**150,371**
Resolution Equity (Note 5)		
Contributed capital	127,847,696	127,442,179
Accumulated deficit	(124,348,205)	(123,948,066)
Total Resolution Equity	**3,499,491**	**3,494,113**
Total Liabilities and Resolution Equity	**$ 3,907,875**	**$ 3,644,484**

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

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

Dollars in Thousands

	2009	2008
Revenue		
Interest on U.S. Treasury obligations	$ 3,167	$ 56,128
Other revenue	5,276	7,040
Total Revenue	**8,443**	**63,168**
Expenses and Losses		
Operating expenses	4,905	3,188
Provision for losses	2,051	(891)
Goodwill/Guarini litigation expenses (Note 4)	408,997	254,247
Recovery of tax benefits	(10,279)	(26,846)
Other expenses	2,908	11,623
Total Expenses and Losses	**408,582**	**241,321**
Net Loss	**(400,139)**	**(178,153)**
Accumulated Deficit—Beginning	**(123,948,066)**	**(123,769,913)**
Accumulated Deficit—Ending	**$ (124,348,205)**	**$ (123,948,066)**

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

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

Dollars in Thousands

	2009	2008
Operating Activities		
Net Loss	**$ (400,139)**	**$ (178,153)**
Adjustments to reconcile net loss to net cash used by operating activities:		
Provision for losses	2,051	(891)
Change In Operating Assets and Liabilities:		
Decrease in receivables from thrift resolutions and other assets	563	751
(Decrease)/Increase in accounts payable and other liabilities	(5,094)	3,791
Increase in contingent liabilities for litigation losses and other	263,107	106,954
Net Cash Used by Operating Activities	**(139,512)**	**(67,548)**
Financing Activities		
Provided by:		
U.S. Treasury payments for goodwill litigation (Note 4)	142,410	142,642
Used by:		
Payments to Resolution Funding Corporation (Note 5)	0	(225,000)
Net Cash Provided/(Used) by Financing Activities	**142,410**	**(82,358)**
Net Increase/(Decrease) in Cash and Cash Equivalents	**2,898**	**(149,906)**
Cash and Cash Equivalents—Beginning	**3,467,227**	**3,617,133**
Cash and Cash Equivalents—Ending	**$ 3,470,125**	**$ 3,467,227**

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

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 fund 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.

The FDIC is the administrator of the FRF and the Deposit Insurance Fund. 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. Some of the issues and items that remain open in FRF are: 1) criminal restitution

orders (generally have from 3 to 8 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 up to 10 years remaining to enforce); 3) numerous assistance agreements entered into by the former FSLIC (FRF could continue to receive tax benefits sharing through year 2013); 4) goodwill litigation (no final date for resolution has been established; see Note 4); and 5) affordable housing program monitoring (requirements can exceed 25 years). The FRF could potentially realize substantial recoveries from the tax benefits sharing of up to approximately $231 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 accordance with U.S. generally accepted accounting principles (GAAP). As permitted by the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, the FDIC prepares financial statements in conformity with standards promulgated by the Financial Accounting Standards Board (FASB). These statements do not include reporting for assets and liabilities of resolution entities because these entities are legally separate and distinct, and the FRF does not have any ownership interests in them. Periodic and final accountability reports of resolution entities are furnished to courts, supervisory authorities, and others upon request.

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.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments consisting primarily of U.S. Treasury Overnight Certificates.

Provision for Losses

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

Disclosure about Recent Accounting Pronouncements

- Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 105, *Generally Accepted Accounting Principles* (formerly SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*, issued in June 2009) became effective for financial statements covering periods ending after September 15, 2009. The FDIC follows accounting standards set by the FASB. On July 1, 2009, the FASB ASC was launched and became the sole source of authoritative accounting principles applicable to the FDIC.

  All existing standards that were used to create the Codification have become superseded. As a result, references to generally accepted accounting principles in these Notes will consist of the numbers used in the Codification and, if applicable, the former pronouncement number. The Codification's purpose was not to create new accounting or reporting guidance, but to organize and simplify authoritative GAAP literature. Consequently, there will be no change to FRF's financial statements due to the implementation of this Statement.

- SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, was issued by the FASB in June 2009, and subsequently codified upon issuance of Accounting Standards Update No. 2009-17, Consolidations (ASC 810)—*Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*. SFAS 167, effective for reporting periods beginning after November 15, 2009, modifies the former quantitative approach for determining the primary beneficiary of a variable interest entity (VIE) to a qualitative assessment. An enterprise must determine qualitatively whether it has (1) the power to direct the activities of the VIE that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. If an enterprise has both of these characteristics, the enterprise is considered the primary beneficiary and must consolidate the VIE. Management is currently reviewing the possible impact, if any, of SFAS 167 (now codified in ASC 810) on FRF's accounting and financial reporting requirements for 2010.

- SFAS No. 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140*, was issued by the FASB in June 2009. Subsequently, the FASB issued Accounting Standards Update No. 2009-16, *Transfers and Servicing (ASC 860)—Accounting for Transfers of Financial Assets*, to

formally incorporate the provisions of SFAS No. 166 into the Codification. SFAS 166 removes the concept of a qualifying special-purpose entity from GAAP, changes the requirements for derecognizing financial assets, and requires additional disclosures about a transferor's continuing involvement in transferred financial assets. The FASB's objective is to improve the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

The provisions of SFAS 166 (now codified in ASC 860) become effective for the FRF for all transfers of financial assets occurring on or after January 1, 2010.

- SFAS No. 165, *Subsequent Events*, was issued in May 2009 and subsequently codified in FASB ASC 855, *Subsequent Events*. ASC 855 represents the inclusion of guidance on subsequent events in the accounting literature. Historically, management had relied on auditing literature for guidance on assessing and disclosing subsequent events. ASC 855 now requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date—that is, whether that date represents the date the financial statements were *issued* or were *available to be issued*. These new provisions, effective for the FRF as of December 31, 2009, do not have a significant impact on the financial statements.

Other recent accounting pronouncements have been deemed to be not applicable to the financial statements as presented.

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, 2009, 8 of the 850 FRF receiverships remain active primarily due to unresolved litigation, including goodwill matters.

The FRF receiverships held assets with a book value of $20 million as of December 31, 2009 and 2008, (which primarily consist of cash, investments, and miscellaneous receivables). 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 $21.3 million and $21.2 million as of December 31, 2009 and 2008, respectively. 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

	2009	2008
Receivables from closed thrifts	$ 5,744,509	$ 5,725,450
Allowance for losses	(5,736,737)	(5,717,740)
Receivables from Thrift Resolutions, Net	**7,772**	**7,710**
Other assets	24,566	27,242
Total	**$ 32,338**	**$ 34,952**

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, 2009 and 2008, respectively, $405.4 million and $142.3 million were recorded as probable losses. Additionally, at December 31, 2009, the FDIC has determined that there are no losses from unresolved legal cases considered to be reasonably possible.

In December 2008, FDIC concluded a 13½ year old legal case (*FDIC v. Hurwitz*) arising from the December 30, 1988 failure of United Savings Association of Texas. In August 2005, the District Court ordered sanctions against the FDIC in the amount of $72 million. However, in August 2008, the Fifth Circuit Court of Appeals reversed $57 million of the sanctions, but remanded the remaining $15 million to the District Court to determine what portion should be paid. Subsequently, in November 2008, an agreement was reached between the parties, whereby the FDIC would pay $10 million to settle the case. On December 17, 2008, the settlement agreement was fully executed and the settlement funds were paid. The $10 million payment is recognized in the "Other expenses" line item.

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 eight 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 26, 2010, 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.

The FRF paid $142.4 million as a result of judgments and settlements in four goodwill cases for the year ended December 31, 2009, compared to $142.6 million for four goodwill cases for the year ended December 31, 2008. As described above, the FRF received appropriations from the U.S. Treasury to fund these payments. Based on recent court decisions, the FRF accrued a $405.4 million contingent liability and offsetting receivable from the U.S. Treasury for judgments in six cases. During 2009, four of the six cases were fully adjudicated but not paid as of year end.

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 $3.5 million and $4.3 million to DOJ for fiscal years (FY) 2010 and 2009, respectively. As in prior years, DOJ carried over and applied all unused funds toward current FY charges. At December 31, 2009, DOJ had an additional $3.3 million in unused FY 2009 funds that were applied against FY 2010 charges of $6.8 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.

All eight of the original Guarini cases have been settled. However, a case settled in 2006 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 is approximately $81 million. However, the FDIC believes that it is very unlikely the settlement will be subject to taxation. More definitive information may be available during 2010, after the IRS completes its Large Case Program audit on the institution's 2006 returns. 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 $13.2 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, 2009 and 2008, 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, 2009
Dollars in Thousands

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital—beginning	$ 45,692,842	$ 81,749,337	$ 127,442,179
Add: U.S. Treasury payments/ receivable for goodwill litigation	405,517	0	405,517
Less: REFCORP payments	0	0	0
Contributed capital—ending	**46,098,359**	**81,749,337**	**127,847,696**
Accumulated deficit	(42,764,230)	(81,583,975)	(124,348,205)
Total	**$ 3,334,129**	**$ 165,362**	**$ 3,499,491**

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, 2009, the FRF-RTC has returned $4.556 billion to the U.S. Treasury and made payments of $5.022 billion to the REFCORP. These actions serve to reduce contributed capital.

FRF-FSLIC received $142.4 million in U.S. Treasury payments for goodwill litigation in 2009. Furthermore, $405.4 million and $142.3 million were accrued for as receivables at year-end 2009 and 2008, respectively. The effect of this activity was an increase in contributed capital of $405.5 million in 2009.

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 $13.0 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 $42 thousand and $169 thousand for 2009 and 2008, 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.

7. Disclosures About the Fair Value of Financial Instruments

The financial asset recognized and measured at fair value on a recurring basis at each reporting date is cash equivalents. The following tables present the FRF's financial asset measured at fair value as of December 31, 2009 and 2008.

Assets Measured at Fair Value at December 31, 2009
Dollars in Thousands

	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Assets				
Cash equivalents (Special U.S. Treasuries)[1]	$ 3,470,125	$ 0	$ 0	$ 3,470,125

[1] *Cash equivalents are Special U.S. Treasury Certificates with overnight maturities valued at prevailing interest rates established by the U.S. Bureau of Public Debt.*

Assets Measured at Fair Value at December 31, 2008
Dollars in Thousands

	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Assets				
Cash equivalents (Special U.S. Treasuries)[1]	$ 3,467,227	$ 0	$ 0	$ 3,467,227

[1] *Cash equivalents are Special U.S. Treasury Certificates with overnight maturities valued at prevailing interest rates established by the U.S. Bureau of Public Debt.*

Some of the FRF's financial assets and liabilities are not recognized at fair value but are recorded at amounts that approximate fair value due to their short maturities and/or comparability with current interest rates. Such items include other short-term receivables and accounts payable and other liabilities.

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 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).

Government Accountability Office's Audit Opinion

United States Government Accountability Office
Washington, DC 20548

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 2009 and 2008, we found

- the financial statements as of and for the years ended December 31, 2009, and 2008, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- FDIC's internal control over financial reporting was not effective as of December 31, 2009 because of a material weakness in its process for estimating losses on loss-sharing agreements; and
- no reportable noncompliance with provisions of 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, 2009, and 2008, and its income and fund balance and its cash flows for the years then ended.

However, misstatements may nevertheless occur in other financial information reported by FDIC and not be detected as a result of the

material weakness in internal control described in this report related to FDIC's process for estimating losses on loss-sharing agreements.[1]

As discussed in note 8 to DIF's financial statements, FDIC-insured financial institutions continued to face significant challenges in 2009. The difficult economic and credit environment continued to challenge the soundness of many FDIC-insured institutions. In 2009, 140 banks, with combined assets of over $170 billion, failed. The DIF recognized losses totaling an estimated $58 billion associated with these bank failures and other insured institutions the banking regulators have determined are likely to fail. Regulatory and market data suggest that the banking industry will continue to experience elevated levels of stress over the coming year. In addition to the losses reflected on the DIF's financial statements as of December 31, 2009, FDIC has identified additional risk as of year-end 2009 that could result in further estimated losses to the DIF of up to approximately $24 billion should other potentially vulnerable insured institutions ultimately fail. FDIC continues to evaluate the ongoing risks to affected institutions in light of current economic and financial conditions, and the effect of such risks on the DIF. Actual losses, if any, will largely depend on future economic and market conditions and could differ materially from FDIC's estimates. As discussed in note 17 to DIF's financial statements, through June 14, 2010, 82 institutions have failed during 2010.

As of December 31, 2009, the DIF had a negative fund balance of $20.9 billion, and its ratio of reserves to estimated insured deposits was a negative 0.39 percent. During 2009, the FDIC took action to maintain the DIF's ability to continue to resolve problem institutions. As discussed in note 9 to the DIF's financial statements, FDIC supplemented the DIF's cash resources by charging and collecting from FDIC-insured institutions a special assessment of $5.5 billion in September 2009. Additionally, on December 30, 2009, FDIC charged and collected from insured institutions approximately 3 years of assessments paid in advance — prepaid assessments — totaling about $46 billion. These funds are included in the "Cash and cash equivalents" and "Unearned revenue — prepaid

[1] A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

assessments" line items on DIF's balance sheet. Further, as discussed in notes 4 and 7 of DIF's financial statements, during 2009, FDIC expanded the use of purchase and assumption resolution transactions containing loss-sharing agreements with acquirers of failed institutions as a means of both conserving the initial cash outlay required by the DIF in resolving a troubled institution and as a longer-term means of attempting to further minimize the ultimate losses to the DIF. Under such agreements, which typically cover a 5- to 10- year period, an acquiring institution assumes all of the deposits and purchases most, if not all, of the assets of a failed institution. FDIC, in turn, agrees to cover a large percentage of any losses on assets covered under the agreements up to a stated threshold amount. During 2009, 90 of the 140 institutions that failed and were resolved by FDIC were handled through the use of loss-sharing agreements with acquirers of these institutions.

The DIF has other resources available to carry out its insurance responsibilities. At December 31, 2009, the DIF had $5.5 billion in investments in U.S. Treasury obligations in addition to $54 billion in cash and cash equivalents, which provide a ready source of funds to carry out its insurance activities. In addition, as discussed in note 1 to DIF's financial statements, FDIC has a note agreement with the Federal Financing Bank enabling it to borrow up to $100 billion, and also has authority to borrow up to $100 billion and, in certain circumstances through 2010, up to $500 billion from the U.S. Treasury. FDIC may also borrow from Treasury, notwithstanding these amount limitations, any amount necessary to fund the temporary increase in deposit insurance coverage from $100,000 to $250,000.

In accordance with the Federal Deposit Insurance Reform Act of 2005, FDIC adopted a restoration plan in October 2008 calling for an increase in the assessment rates charged to insured institutions to replenish the DIF's reserves to the minimum ratio of 1.15 percent of insured deposits within a 5-year period. The FDIC has since amended this plan twice—the latest amendment was adopted in September 2009. The amended restoration plan calls for the DIF's reserves to be replenished to the minimum reserve ratio of 1.15 percent of insured deposits within an 8-year period.[2]

[2]As discussed in Note 1 to the DIF's financial statements, the Helping Families Save Their Homes Act of 2009, Pub. L. No. 111-22, div. A, §204(b), 123 Stat.1632, 1648 (May 20, 2009), extended the time limit for a restoration plan to rebuild the reserve ratio of the DIF from 5 years to 8 years.

The DIF also faces continued exposure from actions taken by the federal government in 2008 to avoid further adverse effects on the nation's economic condition and financial stability. Specifically, during 2008, the Department of the Treasury, in consultation with the President and upon recommendation of the Boards of the FDIC and the Federal Reserve, made "systemic risk" determinations under a provision of the Federal Deposit Insurance Corporation Improvement Act of 1991 to counter identified systemwide crises in the nation's financial sector. As discussed in note 16 to DIF's financial statements, in response to systemic risk determinations in October 2008, FDIC established the Temporary Liquidity Guarantee Program (TLGP). The TLGP consists of a (1) Debt Guarantee Program, under which FDIC guarantees newly issued senior unsecured debt up to prescribed limits issued by insured institutions and certain holding companies, and (2) Transaction Account Guarantee Program, under which FDIC provides unlimited coverage for non-interest-bearing transaction accounts held by insured institutions. FDIC charges fees to participants that are to be used to cover any losses under both guarantee programs. As of December 31, 2009, the amount of debt guaranteed by FDIC under the Debt Guarantee Program was $309 billion, while FDIC's maximum exposure under the Transaction Account Guarantee Program was $834 billion, for total exposure under the TLGP of $1.14 trillion as of December 31, 2009. As further discussed in note 16, a total of 525 institutions elected to exit the Transaction Account Guarantee Program after year-end 2009. Consequently, at January 1, 2010, FDIC's maximum exposure under the Transaction Account Guarantee Program declined to $266 billion, and its maximum exposure under the TLGP declined to $575 billion.

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, 2009, and 2008, and its income and accumulated deficit and its cash flows for the years then ended.

Opinion on Internal Control

Because of the material weakness in internal control discussed below, FDIC did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2009, and thus did not provide reasonable assurance that material misstatements in relation to the financial statements would be prevented or detected and corrected 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 of 1982 (FMFIA).

During our 2009 financial audit, we identified several control deficiencies over FDIC's process for deriving and reporting estimates of losses to the DIF from resolution transactions involving loss-sharing agreements. These deficiencies led to misstatements in the draft DIF financial statements which were ultimately corrected through adjustments to achieve fair presentation in the final financial statements. Although the net adjustments were ultimately not material to the DIF's financial statements, the nature of the control deficiencies we identified were such that a reasonable possibility existed that a material misstatement of the DIF's financial statements would not be prevented, or detected and corrected on a timely basis. Thus, these control deficiencies collectively represent a material weakness in FDIC's internal control over financial reporting. This material weakness is discussed in more detail later in this report.

In FDIC's Management Report on Internal Control over Financial Reporting, which is presented in appendix I to this report, FDIC asserted that it did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2009, due to a material weakness related to its process for estimating losses on loss-sharing agreements.

Despite its material weakness in internal control over financial reporting, FDIC was able to prepare financial statements that were fairly stated in all material respects for 2009 and 2008. However, the material weakness in internal control over financial reporting may adversely affect any decision by FDIC's management that is based, in whole or in part, on information that is inaccurate because of this weakness. In addition, unaudited financial information reported by FDIC may also contain misstatements resulting from this weakness. We considered the material weakness in determining the nature, timing, and extent of our audit procedures on the 2009 financial statements. We caution that misstatements may occur and not be detected by our tests and that such testing may not be sufficient for other purposes.

In addition to the material weakness noted above and discussed later in this report, we identified a significant deficiency[3] that, although not a material weakness, represents a combination of control deficiencies that,

[3]A significant deficiency is a control deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

collectively, we believe should be brought to the attention of those charged with governance. This significant deficiency concerns the effectiveness of FDIC's security over information systems. This significant deficiency is discussed in more detail later in this report.

We will be reporting additional details concerning the material weakness and the significant deficiency separately to FDIC management, along with recommendations for corrective actions. We also identified other deficiencies in FDIC's system of internal control which we do not consider to be material weaknesses or significant deficiencies but which merit FDIC management's attention and correction. We have communicated these matters to FDIC management and, as appropriate, will be reporting them in writing to FDIC separately, along with recommendations for corrective actions.

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 and maintaining effective internal control over financial reporting and evaluating its effectiveness; and (3) complying with applicable laws and regulations. Management evaluated the effectiveness of FDIC's internal control over financial reporting as of December 31, 2009, based on criteria established under FMFIA. FDIC management provided an assertion concerning the effectiveness of its internal control over financial reporting (see appendix I).

We are responsible for planning and performing the audit to obtain reasonable assurance and provide our opinion about whether (1) the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, and (2) FDIC management maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009. We are also responsible for testing compliance with selected provisions of laws and regulations that 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 FDIC management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of FDIC and its operations, including its internal control over financial reporting;
- considered FDIC's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA;
- assessed the risk that a material misstatement exists in the financial statements and the risk that a material weakness exists in internal control over financial reporting;
- tested relevant internal control over financial reporting;
- evaluated the design and operating effectiveness of internal control over financial reporting based on the assessed risk;
- tested compliance with certain laws and regulations, including selected provisions of the Federal Deposit Insurance Act, as amended; and
- performed such other procedures as we considered necessary in the circumstances.

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with laws and regulations that could have a direct and material effect on the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting. Because of inherent limitations in internal control, internal control may not prevent or detect and correct misstatements due to error or fraud, losses, or noncompliance. We also caution that projecting any evaluation of effectiveness 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 policies and procedures 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 have a direct and material effect on the financial statements for the year ended December 31, 2009. 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 audit in accordance with U.S. generally accepted government auditing standards. We believe our audit provides a reasonable basis for our opinions and other conclusions.

Material Weakness in Controls over Loss Share Estimation Process

During our 2009 audit, we identified deficiencies in controls over FDIC's process for deriving and reporting estimates of losses to the DIF from resolution transactions involving loss-sharing agreements. These deficiencies resulted in errors in the draft 2009 DIF financial statements provided to us that went undetected by FDIC and that necessitated adjustments in finalizing the financial statements. Although the net effect of these errors was ultimately not material in relation to the financial statements taken as a whole, the nature of the control deficiencies we identified that resulted in these errors occurring and going undetected is such that there is a reasonable possibility that they could have led to material misstatements to DIF's financial statements that would not have been timely detected and corrected.

In 2009, FDIC began using whole bank purchase and assumption agreements with accompanying loss-sharing agreements as the primary means of resolving failed financial institutions. Under such an agreement, FDIC sells a failed institution to an acquirer with an agreement that the

FDIC, through the DIF, will share in any losses the acquirer experiences in servicing and disposing of assets purchased and covered under the loss-sharing agreement.[4] Typically, during 2009, loss-sharing agreements were structured such that FDIC assumed 80 percent of any such losses.[5] Ninety of the 140 resolutions of failed institutions were structured with such loss-sharing agreements in 2009, compared to 3 such agreements entered into for 25 failed institutions resolved in 2008. For financial reporting purposes, FDIC reflected the cumulative estimate of the losses that will likely be incurred on these loss-sharing agreements in the line item "Receivables from resolutions, net" on the DIF's balance sheet, as a component of the $60 billion allowance for losses established against this line item at December 31, 2009.[6] The FDIC's estimate of future payments (losses) under these loss-sharing agreements represented $22.2 billion (37 percent) of the total DIF allowance for losses as of December 31, 2009.

As part of our audit, we reviewed the process by which FDIC developed and reported on its estimates of losses to the DIF from loss-sharing agreements for the 2009 financial statements. In reviewing and testing this process, we identified control deficiencies that led to computational errors in the calculations and reporting of the year-end loss estimates that went undetected by FDIC. Control deficiencies existed throughout the loss-share estimation process, including the development of the initial estimates, the oversight or review of the calculations, the documentation of significant assumptions used, and the reporting of the estimates as part of the allowance for losses against the Receivable from Resolutions on DIF's financial statements.

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[4]Losses covered under the loss-sharing agreements include losses incurred through the sale, foreclosure, loan modification, or write-down of loans in accordance with the terms of the loss-share agreement.

[5]The agreements varied in 2009, but typically included a provision whereby the acquiring institution would absorb losses up to a certain dollar amount (called a first tranche), at which point FDIC would begin sharing in the losses by paying the acquirer for 80 percent of the losses it experienced. If losses experienced by the acquirer are higher than expected, the agreements generally have a threshold at which the FDIC would begin paying 95 percent of the losses the acquiring institution experiences on the acquired assets.

[6]The allowance for losses represents the difference between the amount owed to the DIF by a receivership for payment of insured deposits and other resolution expenses and the amount expected to be repaid from the servicing and liquidation of the receivership's assets (such as from sale of loans and other assets of the failed institution).

In developing the initial loss estimates, although FDIC issued written guidance in February 2009 related to these calculations, we found that the methodology was inconsistently applied and that FDIC did not have adequate controls to reasonably assure that loss-sharing calculations were accurate. Specifically, we found differences in the formulas used by FDIC personnel in performing the calculations and differences in how certain types of assets were combined into consolidated asset categories.[7] Additionally, FDIC asserted that a review process was in place by which a limited number of staff prepared the calculations and reviewed each other's work for accuracy. However, there was no documentary evidence that supervisory or independent review or monitoring was performed on the calculations developed by FDIC personnel.

As a result of these control deficiencies, we identified significant error rates in FDIC's calculations of loss estimates that were not identified and corrected by FDIC through a review or monitoring process. Of 51 institutions with loss-sharing agreements in 2009 we sampled for testing, we found errors in the calculations of estimated losses for 9. After we apprised FDIC of these errors, management reviewed the computations for the remaining institutions with loss-sharing agreements and found another 16 institutions where the estimated loss calculations contained errors. In total, over 25 percent of the 93 individual loss share estimates for 2009 contained errors. While many of the individual errors were not large, some were significant. For example, one error resulted in an estimate of loss for an institution that was twice the amount it should have been. These computational errors in the loss share amounts FDIC estimated it would have to pay out under loss-sharing agreements totaled $386 million on an absolute value basis. Despite the large percentage of estimates with errors and the relatively high dollar impact of these errors, they were not detected by FDIC in the normal course of preparing the initial estimates, when updating the amounts for year-end reporting, or in its process for preparing and reviewing the DIF's 2009 financial

[7]The process by which FDIC estimates the expected loss to the DIF from loss-sharing agreements is complex and multifaceted. FDIC contracts with asset specialists to review the asset portfolio of the failed institution and to develop an anticipated loss rate, expressed as a percentage of book value, on the various categories of the failed bank's asset portfolio. During 2009, FDIC instructed the contractors to derive both high and low estimated loss rates on the various categories of assets. FDIC personnel took the contractor's estimates and consolidated them into two large asset category pools—single family mortgage loans and commercial loans. FDIC then calculated an estimated loss rate for each of these consolidated categories of assets, attempting to derive a midpoint estimated loss rate from the contractor's work.

statements. Once corrected, the computational errors lowered the loss-share cost estimates and resulted in a net increase to the "Receivables from resolutions" line item on the DIF's financial statements of about $270 million. The *Standards for Internal Control in the Federal Government*[8] provide that control activities are to help ensure that all transactions are completely and accurately recorded. These standards also state that internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations.

In addition to the computational errors, we could find no documentation supporting the assumptions contained in the complex spreadsheets that FDIC used to calculate its 2009 loss estimates, nor did we identify documentation demonstrating management's review and approval of the assumptions contained in the spreadsheets.[9] Because these assumptions can significantly affect the estimated losses under loss-sharing agreements, such evidence is critical to ensuring that management has reviewed and is in agreement with the underlying assumptions used in deriving these estimates. Similarly, we found no evidence that the data used in the program developed to assist in updating the loss estimates on loss-sharing agreements for financial reporting at December 31, 2009, was reviewed for accuracy.[10] This greatly increases the risk that inaccurate or incomplete data is used in the year-end calculations for a significant estimate on the DIF's financial statements. The *Standards for Internal Control in the Federal Government* provide that internal control and all transactions and other significant events need to be clearly documented,

[8]GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1, (Washington, D.C.: November 1999).

[9]The loss-share estimates calculated by FDIC personnel are manually inputted into a spreadsheet—called the Loss Share Worksheet—to calculate an estimate of the loss on the portfolio of a failed institution's assets that FDIC expects to incur. The spreadsheet contains a series of built-in assumptions, such as estimated holding periods for assets and discount rates, which can significantly modify the original estimates developed by contracted asset specialists. A Loss Share Worksheet was prepared for each of the institutions with loss-sharing agreements prior to the time of resolution.

[10]To facilitate year-end reporting so as to avoid the time-consuming process of preparing revised individual Loss Share Worksheets for each institution, FDIC developed a Statistical Analysis System (SAS) program to reproduce the results of the worksheet. The SAS program takes the updated loss amounts—derived by taking the mid-point loss rate calculated by FDIC personnel for each consolidated category of assets and multiplying it by the updated book value of covered assets held by the acquiring institution—and, replicating the formulas and assumptions in the Loss Share Worksheet, calculates updated loss estimates. The output from this SAS program is then used in the calculation of the allowance for losses on DIF's Receivables from Resolutions.

and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals. While we performed audit procedures on the assumptions and data accuracy, this weakness results in a risk of misstatements in FDIC's loss-sharing computations.

Finally, our review of FDIC's financial reporting of the loss-share estimates through its Loan Loss Reserve process identified multiple additional errors that were not identified and corrected by FDIC's review or routine monitoring controls.[11] After we apprised FDIC of these additional errors, management reviewed all of the spreadsheets used in this process—one for each failed institution receivership—to identify and correct errors and inconsistencies. In total, 13 of the 93 spreadsheets for institutions with loss-sharing agreements (14 percent) used in the calculation of DIF's year-end allowance for losses contained errors. These errors totaled $225 million on an absolute value basis. When FDIC corrected these additional errors, it resulted in an increase to the loss-share cost estimates and a net decrease to the "Receivables from resolutions" line item on the DIF's financial statements totaling about $132 million.

The lack of effective controls over the estimation process and the reporting of those estimates resulted in misstatements in the initial draft of the DIF's 2009 financial statements, which FDIC corrected. In total, FDIC's initial 2009 financial reporting related to loss-share estimates contained gross errors of over $611 million. Because the errors included both those that increased and decreased individual loss estimates, the errors resulted in a $138 million net decrease in the allowance for losses and a corresponding net increase to the "Receivables from resolutions" line item that the FDIC made to correct the DIF's 2009 financial statements.

In 2009, FDIC substantially expanded the use of loss-sharing agreements in its resolution strategy to both minimize the initial outlay of funds by the DIF in resolving failed institutions and to attempt to minimize the ultimate loss incurred by the DIF through working to keep the assets of failed institutions in the market. Given the significance of these types of

[11]To calculate the allowance for losses, FDIC uses a separate spreadsheet—called the Loan Loss Reserve (LLR) template—for each failed institution receivership. For failed institutions resolved using a loss-sharing agreement, the estimate of future loss share payments is included as one of the resolution expenses included in the allowance for losses calculation.

transactions and their impact on DIF's financial statements, it is critical that FDIC establish effective controls to ensure that all steps in the estimation process are fully documented and that appropriate review and monitoring of key steps in the process, including all manual computations, assumptions used, and source input, are both performed and documented. In 2009, the controls over this highly manual process were not sufficient to ensure that the loss-share calculations were consistent and accurate, and that independent verification was performed to timely identify and correct errors that could impact the financial statements. While the actual net misstatements ultimately were not material to the year-end financial statements, due to the nature of the control deficiencies we identified, there is a reasonable possibility that a material misstatement of the DIF's financial statements could have occurred and not been detected and corrected absent the audit process. Consequently, we believe that the control deficiencies we identified in the process for deriving estimates under loss-sharing agreements collectively represented a material weakness in internal controls as of December 31, 2009.

FDIC has developed a corrective action plan to address the control deficiencies we identified in its loss-share estimation process. This action plan outlines specific steps FDIC indicates it has or is in the process of implementing, along with targeted dates for completion of the actions. We will review the effectiveness of FDIC's corrective actions as part of our 2010 financial audits. As discussed earlier, we will also be reporting additional details concerning the material weakness over FDIC's process for estimating losses under loss-sharing agreements in a separate report, along with our recommendations for corrective actions.

Significant Deficiency over Information Systems

As an integral part of our audits of the 2009 financial statements of the DIF and FRF, we reviewed FDIC's information system controls. Effective information system controls are essential to safeguarding financial and other critical data, protecting the integrity of computer application programs, securing networks, and ensuring continued computer operations in case of unexpected interruption. These controls include a corporatewide security management program, access controls, configuration management, segregation of duties, and contingency planning. They also include business process application controls.

During our 2009 financial audits, we identified FDIC information system control deficiencies that increased the risk of unauthorized modification and disclosure of financial and other sensitive information, and disruption of critical operations. These control deficiencies, which collectively

constitute a significant deficiency, reduced FDIC's ability to ensure that authorized users had only the access needed to perform their assigned duties, and that its systems were sufficiently protected from unauthorized access. This significant deficiency affects the confidentiality, integrity and availability of financial and other sensitive information processed, stored, and transmitted on FDIC's systems. Additionally, FDIC's controls to monitor the effectiveness of its information system controls were not fully effective. Examples of these deficiencies follow:

- FDIC had not controlled access to computer systems and a business application in a manner that effectively limited individuals' access to only those functions and data necessary to perform their assigned duties. To accommodate system updates and growth, FDIC changed network configurations that resulted in the ability for users to obtain unauthorized access to network controls and control information. In another case, FDIC had granted users inappropriate and excessive access privileges to a business application supporting resolution and receivership activities. As a result, users could obtain inappropriate access to and potentially modify information processed through this application.

- FDIC's policies and procedures governing the assignment, use, and monitoring of mainframe user identifications (IDs) intended to support technical assistance to business processes were not enforced. We found that audit logs showed a long-term, systemic pattern of questionable use of privileges that provided a limited number of system administrators full access to all data and programs on the mainframe. However, FDIC's review of audit logs did not identify and trigger corrective actions or management follow-up to determine if mainframe user IDs were being used to obtain inappropriate access.

- FDIC did not appropriately configure certain key systems, potentially allowing the systems to be manipulated by internal users without detection. For example, powerful mainframe programs that, if misused, could expose all data and programs on the system to unauthorized internal user access were not configured in accordance with FDIC policy. This resulted in FDIC's inability to detect unauthorized changes to the programs. FDIC's security monitoring and configuration management controls had not identified this situation and FDIC was not aware of this configuration.

- FDIC did not have policies and procedures in place to prevent users from having inappropriate or incompatible access to multiple applications. For example, FDIC did not have policies and procedures

to identify and govern the assignment of access privileges to combinations of systems that create logical access to data that is otherwise prevented by applications. As a result, a combination of access privileges were assigned to individuals that allowed for the circumvention of an accounting application's access controls. Additionally, FDIC did not have technical controls in place to identify or prevent the assignment of such combinations of access privileges that expose the data associated with certain applications from access outside of the access controls implemented within the functions of those applications. As a result, individuals could inappropriately obtain access to data in certain applications.

- FDIC made major changes to important accounting and system administration applications during 2009, but did not effectively test and verify that all system interfaces were properly configured for the new systems before placing them into production. We identified deficiencies in the interfaces of two applications that had not been detected by FDIC's pre-implementation testing and were not subsequently identified through FDIC's periodic monitoring activities. These deficiencies increased the risk of errors in data as it is transferred from one system to another.

Several of the vulnerabilities we identified with respect to FDIC's security over its information systems should have been identified through FDIC's routine monitoring of access privileges, audit logs, and adherence to established policies and procedures. Although FDIC has an information security monitoring program, deficiencies existed which had not been identified by this program, some of which resulted in significant reductions in FDIC's capability to maintain effective controls.

The *Standards for Internal Control in the Federal Government*[12] state that internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. Also, the Committee on Sponsoring Organizations of the Treadway Commission, in its *Guidance on Monitoring Internal Control Systems*,[13] notes that ongoing and/or separate evaluations enable management to determine

[12]GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

[13]Committee on Sponsoring Organizations of the Treadway Commission, *Guidance on Monitoring Internal Control Systems*, January 2009.

whether other components of internal control continue to function over time, and notes that organizations can select from a wide variety of monitoring procedures, including but not limited to continuous monitoring programs built into information systems and supervisory reviews of controls. In addition, the National Institute of Standards and Technology in its *Recommended Security Controls for Federal Information Systems*[14] states that as part of a comprehensive continuous monitoring program, organizations should initiate specific actions to determine if there is a need to update the current security controls.

The deficiencies we identified were the result of ineffective monitoring of systems, including a failure to detect noncompliance with published policies and procedures. While the deficiencies we identified represent internal exposures—that is, they could only be exploited internally by individuals with system knowledge—FDIC needs to consider the significant increase in its business activities, its establishment of new physical locations to conduct its work, and its substantial expansion of staffing levels including a large influx of contractors. These realities, in light of FDIC's increased resolution activities, create increased risk from internal threats that need to be fully considered in FDIC's risk management decisions.

Based on the information system control deficiencies we identified, we conclude that, for 2009, FDIC's controls over information systems were not fully effective in preventing unauthorized access to data, systems configurations, or programs and did not provide management with sufficient capabilities to detect and respond to anomalous or unauthorized activity on internal networks and systems.

FDIC Comments and Our Evaluation

In commenting on a draft of this report, FDIC's Chief Financial Officer (CFO) noted that he was pleased to receive unqualified opinions on the DIF's and FRF's 2009 and 2008 financial statements. The CFO pointed out that the past year was unusually challenging and stated that FDIC recognizes the significance that internal control plays in achieving its mission and goals. Further, the CFO stated that financial management remains a high priority. With respect to the internal control weaknesses we identified in FDIC's loss share estimation process and over its

[14]National Institute of Standards and Technology, Special Publication 800-53 (Revision 2), *Recommended Security Controls for Federal Information Systems*, December 2007.

information systems, FDIC's CFO acknowledged that controls needed improvement, that such improvements are underway, and that our concerns should be resolved in 2010. We will evaluate the effectiveness of FDIC's corrective actions as part of our 2010 financial audits.

The complete text of FDIC's comments, and its Management Report containing its assertion on the effectiveness of its internal control over financial reporting, are reprinted in appendix I.

Steven J. Sebastian
Director
Financial Management and Assurance

June 14, 2010

Appendix I

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

June 14, 2010

Mr. Steven J. Sebastian
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Re: FDIC Management Response on the GAO 2009 Financial Statements Audit Report

Dear Mr. Sebastian:

Thank you for the opportunity to comment on the U.S. Government Accountability Office's (GAO's) draft report titled, **Financial Audit: Federal Deposit Insurance Corporation Funds' 2009 and 2008 Financial Statements, GAO-10-705**. We are pleased that the Federal Deposit Insurance Corporation (FDIC) received an unqualified opinion for the eighteenth consecutive year on the financial statements of its funds: the Deposit Insurance Fund (DIF) and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF). The unqualified opinion demonstrates our continued dedication to sound financial management. GAO reported that the funds' financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles (GAAP) and that there was no reportable noncompliance with the laws and regulations that were tested. During the course of the audit, GAO and the FDIC also held detailed discussions regarding the level and sufficiency of internal controls during the surge in bank resolution and related crisis workload, with GAO concluding that a material weakness existed in the loss share estimation process, resulting in an opinion that internal controls over financial reporting were not effective in an overall sense. Separately, GAO identified a significant deficiency over information systems.

The perspective that the FDIC shared with GAO regarding the loss share estimation process was that despite the surge in resolution workload, a general review framework existed for the loss share agreements, with additional review on the larger agreements, albeit without our normal, well-documented audit trail. The weakness related to the loss share estimation process resulted in an absolute value error of $611 million, with the net effect of overstating the estimated loss share liability by $138 million against the overall loss share liability of $22.2 billion, or 2.75 percent absolute value and 0.62 percent net effect. Once corrected, this increased the "Receivables from Resolutions, Net" line item on the DIF's balance sheet by $138 million to $38.4 billion. Moreover, 68 percent of the overall absolute value error is attributable to loss share estimates for three receiverships. Though acknowledging that controls over the loss share estimation processes needed improvement during 2009, the FDIC believes that additional resources added throughout 2009, control improvements implemented during the fourth quarter of 2009, and control enhancements to be completed by the end of the second quarter of 2010 will largely address GAO's concerns in this area. The FDIC's action plans in this regard have

previously been shared with GAO. The FDIC is confident about the comprehensiveness of these control enhancements, which are straightforward in design, and does not expect GAO to identify repeat findings in the loss share estimation process for 2010. Similar control improvements are underway in the IT security area to resolve the identified control deficiencies in 2010.

During 2009, new audit standards went into effect that required management to provide a written assertion about the effectiveness of its internal control over financial reporting. In complying with this requirement, the FDIC prepared Management's Report on Internal Control over Financial Reporting (see attachment). The report acknowledges management's responsibility for establishing and maintaining internal control over financial reporting and provides the FDIC's conclusion regarding the effectiveness of its internal control.

The past year was unusually challenging due to the significant increase in bank resolution activity over prior years, coupled with unprecedented FDIC initiatives such as the Temporary Liquidity Guarantee Program (TLGP) and the successful collection of nearly $46 billion in prepaid assessments. However, as the FDIC continues to fulfill its mission to maintain stability and public confidence in the nation's financial system, we will continue to ensure that effective financial management remains a priority. The FDIC recognizes the significance that internal control plays in achieving its mission and goals and therefore will seek continual improvement in its internal control environment.

As always, we appreciated the professionalism and dedication of the GAO staff during the audit and look forward to continuing our productive and successful relationship during the 2010 audit. 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

Management's Report on Internal Control over Financial Reporting

The Federal Deposit Insurance Corporation's (FDIC's) internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles (GAAP), and compliance with applicable laws and regulations. The objective of the FDIC's internal control over financial reporting is to reasonably assure that (1) transactions are properly recorded, processed and summarized to permit the preparation of financial statements in accordance with GAAP, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with the laws and regulations that could have a direct and material effect on the financial statements.

Management is responsible for establishing and maintaining effective internal control over financial reporting. Management assessed the effectiveness of the FDIC's internal control over financial reporting as of December 31, 2009, through its enterprise risk management program that 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. In addition, other standards that the FDIC considers are the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission's *Internal Control-Integrated Framework* and the U.S. Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government.*

Based on our evaluation, FDIC management concluded that as of December 31, 2009, the Corporation generally maintained effective internal controls, with the exception of a material weakness related to its process for estimating losses on loss-sharing arrangements. Therefore, the Corporation did not maintain, in all material respects, effective internal control over financial reporting.

Federal Deposit Insurance Corporation
June 14, 2010

Overview of the Industry

Total net income for the 8,012 FDIC-insured commercial banks and savings institutions that reported financial results as of December 31, 2009, was $12.5 billion for the year, up from $4.5 billion in 2008, but well below the $100 billion that insured institutions earned in 2007. The average return on assets (ROA), a basic yardstick of earnings performance, was 0.09 percent, compared to 0.03 percent in 2008. These are the two lowest annual ROAs for the industry in the past 22 years. Most of the year-over-year improvement in industry profitability occurred at the largest institutions. Almost two out of every three insured institutions (63.2 percent) reported a lower ROA in 2009 than in 2008, and 29.5 percent of all institutions reported a net loss for the year. This is the highest percentage of unprofitable institutions in the 26 years for which data are available.

Historically high expenses for credit-quality problems were the principal cause of earnings weakness. Insured institutions set aside $247.7 billion in loan-loss provisions during 2009, compared to $177 billion a year earlier. Total loss provisions in 2009 represented 38 percent of the industry's net operating revenue (net interest income plus total noninterest income) for the year, the largest proportion in any year since the creation of the FDIC.

Despite the burden of increased loan loss expenses and the weakness of the U.S. economy, the industry was considerably resilient in generating revenue during the year. Net operating revenue totaled $656.3 billion, an increase of $90.9 billion (16.1 percent) over 2008. Net interest income was $38.1 billion (10.7 percent) higher than a year earlier, while noninterest income increased by $52.8 billion (25.4 percent).

The improvement in net interest income was attributable to higher net interest margins (NIMs), as the industry's total interest-earning assets declined by $477.2 billion (4.1 percent) in 2009. The average NIM rose to 3.47 percent in 2009, up from 3.16 percent a year earlier. This is the highest annual NIM for the industry since 2005 and the first time in seven years that it has increased. Much of the year-over-year improvement in NIMs occurred at larger institutions, which benefitted from a sharp decline in average funding costs. More than half of all institutions (53.8 percent) reported lower NIMs compared to 2008.

Growth in noninterest income was led by increased trading revenue, which totaled $24.8 billion, compared to trading losses of $1.8 billion a year earlier. Servicing fees also posted strong growth, rising to $30.8 billion in 2009 from $13.6 billion in 2008. Income from securitization activities was a notable area of noninterest income weakness in 2009. Securitization income totaled only $4.8 billion, down from $15.3 billion the previous year.

Higher asset values contributed to a $14 billion reduction in realized losses on securities and other assets in 2009. In 2008, insured institutions reported $15.4 billion in realized losses; in 2009, realized losses totaled only $1.4 billion. Improvement in asset values was also evident in a $12.6 billion (38.6 percent) decline in charges for goodwill impairment and other intangible asset expenses. These charges, which reached $32.7 billion in 2008, fell to $20.1 billion in 2009.

Despite lower goodwill impairment costs, total noninterest expenses increased by $16.2 billion (4.4 percent) in 2009. Deposit insurance

premiums paid by insured institutions totaled $17.8 billion, an increase of $14.8 billion over 2008. Expenses for salaries and employee benefits were $11.4 billion (7.5 percent) higher than in 2008.

As was the case in 2008, failures significantly affected earnings reported for the full year because losses incurred by failed institutions were not included in the year-to-date income reported by surviving institutions as of December 31. During 2009, 119 failed institutions filed financial reports for one or more quarters prior to their failure. Together, these institutions reported more than $8.2 billion in net losses that are not included in full-year earnings for the industry. Similarly, for institutions that change ownership or are merged into other institutions, purchase accounting rules stipulate that the income and expenses that have been booked by acquired institutions are to be reset to zero as of the date of acquisition. Previously accrued income and expenses become adjustments to assets, equity capital, and reserves, and are not included in the subsequent reporting of year-to-date income and expense. If the 2009 losses reported by failed institutions had been included, the industry's net income for the year would have been less than $5 billion.

The industry's troubled loans continued to increase in 2009. At the end of December, the amount of loans and leases that were noncurrent (90 days or more past due or in nonaccrual status) was $391.3 billion, compared to $233.6 billion at the end of 2008. Noncurrent loans and leases represented 5.37 percent of all loans and leases, the highest percentage in the 26 years that insured institutions have reported noncurrent loan data. Residential mortgage loans accounted for more than half (51.2 percent) of the total increase in noncurrent loans in 2009, rising by $80.7 billion. Noncurrent real estate construction and development (C&D) loans rose by $20.3 billion, noncurrent loans to commercial and industrial (C&I) borrowers increased by $16.7 billion, and noncurrent real estate loans secured by nonfarm nonresidential properties increased by $24.3 billion.

Net charge-offs of loans and leases totaled $186.8 billion in 2009, compared to $100.4 billion in 2008. The full-year net charge-off rate of 2.49 percent was the highest annual rate since 1934. Net charge-offs of credit card loans totaled $37.5 billion for the year, net charge-offs of residential mortgage loans were $33.9 billion, C&I loan charge-offs totaled $31.8 billion, and net charge-offs of real estate C&D loans were $27.3 billion.

Total assets of insured institutions registered a historic decline in 2009, as weak loan demand, tighter loan underwriting standards, increased loan charge-offs, and deleveraging by institutions seeking to boost their regulatory capital ratios all contributed to a contraction in the industry's balance sheet. Assets fell by $731.7 billion (5.3 percent) during the year, the largest annual percentage decline since the inception of the FDIC. The reduction in assets was led by a $640.9 billion (8.3 percent) decline in net loans and leases. C&I loan balances declined by $273.2 billion (18.3 percent), residential mortgage loans fell by $128.5 billion (6.3 percent), and real estate C&D loans declined by $139.4 billion (23.6 percent). Real estate loans secured by nonfarm nonresidential properties (up $25.2 billion, or 2.4 percent) was the only major loan category that had meaningful growth in 2009.

In contrast to the reduction in industry assets, deposit balances increased by $191.1 billion (2.1 percent) during the year. Nondeposit liabilities fell by $1 trillion (31.3 percent). At year-end, deposits funded 70.4 percent of total industry assets, the highest proportion since March 31, 1996.

The number of insured institutions on the FDIC's "Problem List" rose from 252 institutions with assets of $159 billion to 702 institutions with assets of $402.8 billion in 2009. This is the largest number and asset total of "problem" institutions since the middle of 1993. At year-end, more than 95 percent of all insured institutions, representing more than 98 percent of total industry assets, met or exceeded the regulatory threshold defining "well-capitalized" for purposes of prompt corrective action.

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 systems 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 2009, as well as management actions taken to address issues identified in these audits and evaluations. At the end of the 2009 audit, GAO identified a material weakness in loss-share estimation processes and a significant deficiency in the information technology (IT) security area. The FDIC is addressing the control issues raised by GAO, related to its 2009 financial statement audits.

Description of Material Weakness

GAO identified deficiencies in controls over FDIC's process for deriving and reporting estimates of losses to the DIF from resolution transactions involving loss-sharing arrangements. These deficiencies resulted in errors in the draft 2009 DIF financial statements that went undetected by FDIC and that necessitated adjustments in finalizing the financial statements. Although the net effect of these errors, less than 0.4 percent of net receivables, was ultimately not material in relation to the financial statements taken as a whole, the nature of the control deficiencies identified that resulted in these errors occurring and going undetected is such that there is a reasonable possibility that they could have led to material misstatements to DIF's financial statements that would not have been timely detected and corrected.

Corrective Actions and Target Completion Dates

Several corrective actions were in process or have been completed prior to release of this publication. Remaining actions include:

- Implement revised guidance and procedures over the least cost test analysis, including, improving the review checklists for peer review—June 2010
- Require a monthly review of a sample of completed analyses—July 2010.
- Implement a process to improve the documentation and approval of the changes to the least cost test model and loss-share worksheet—June 2010
- Implement an independent review of the LLR templates—June 2010

Additionally, FDIC management will continue to focus on high priority areas, including the six Program Management Office organizations, IT systems security, resolution of bank failures, and privacy, among others.

Management Report on Final Actions

As required under amended Section 5 of the Inspector General Act of 1978, the FDIC must report information on final action taken by management on certain audit reports. For the federal fiscal year period October 1, 2008, through

September 30, 2009, there were no audit reports in the following categories:

Table 1: Management Report on Final Action on Audits with Disallowed Costs

Table 2: Management Report on Final Action on Audits with Recommendations to Put Funds to Better Use

The following table provides information on audit reports over one year old:

Table 3: Audit Reports Without Final Actions But With Management Decisions Over One Year Old for FY 2009

Report No. and Issue Date	OIG Audit Finding	Management Action	Disallowed Costs
1. AUD-08-006 03-12-2008	The OIG recommended that the FDIC should update Circular 1380.3, Safeguarding FDIC Information Technology (IT) Hardware, to reflect the FDIC's current business environment for managing its laptop computer inventory and to define policy for the disposal of hard drives.	The FDIC is completing the update and approval process for Circular 1380.3, Safeguarding FDIC Information Technology (IT) Hardware. Completed: November 2009	$0
2. EM-08-002 03-05-2008	The OIG recommended that the FDIC should revise Circular 1610.2, Security Policy and Procedures for FDIC Contractors and Subcontractors, to enhance the current process for conducting contractor employee background investigations.	The revisions to Circular 1610.2, Security Policy and Procedures for FDIC Contractors and Subcontractors, have been completed, and DOA has been asked to delay further review due to work being done by the Legal Division to develop security guidelines for contractors. Completed: February 2010	$0
3. EVAL-08-002 12-06-2007	The OIG recommended that the FDIC should revise the FDIC Business Continuity Plans (BCP) and pandemic preparedness plans to more specifically describe the role telework plays in those plans. The OIG also recommended that the FDIC modify FDIC Form 2121.5, Employee/Supervisor Telework Program Agreement, for regular or recurring telework situations to include identifying any sensitive data that may be used during telework to assist management in making the decision to approve or disapprove a telework request.	The FDIC is in the process of finalizing multiple changes to the Business Continuity Plan and coordinating across multiple Divisions and Offices to effect these changes. Additionally, the FDIC is completing the changes to Circular 2121.1, Federal Program Circular and Telework Form 2121.5, Employee/Supervisor Telework Program Agreement. These documents have been circulated for review and comment. Completed: March 2010	$0
4. EVAL-08-005 09-24-2008	The OIG recommended that the FDIC should improve the facilities' infrastructure for monitoring energy management and sustainability efforts by: a) Installing or upgrading building energy management systems, and b) Installing sub-metering capabilities to monitor specific uses of energy.	Several of the electrical sub-meters installed in March 2009 were found to be defective, resulting in erroneous energy consumption data. The defective electrical sub-meters are in the process of being repaired/replaced. Completed: December 2009	$0

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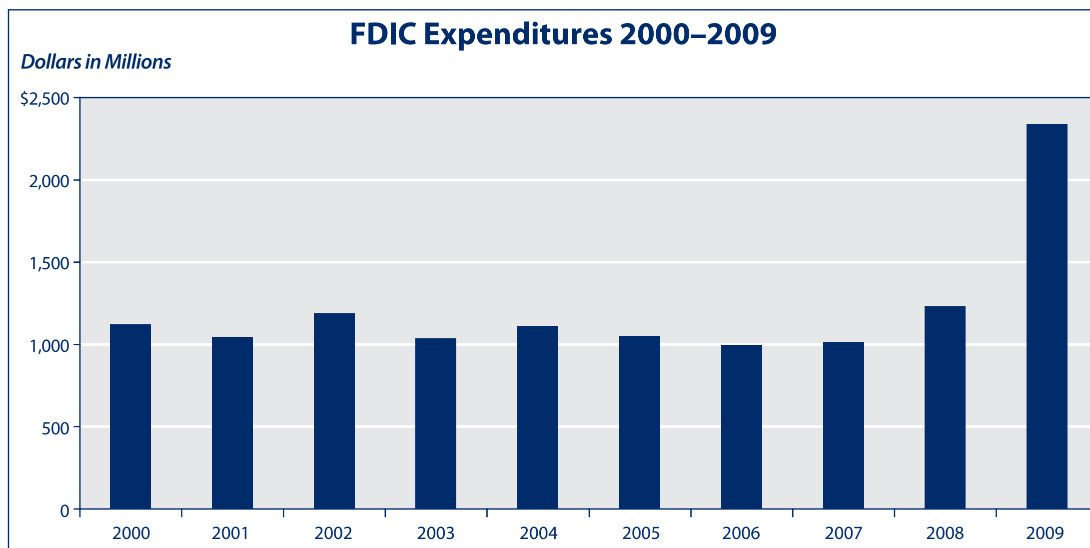
VI. Appendices

A. Key Statistics



The FDIC's Strategic Plan and Annual Performance Plan provide the basis for annual planning and budgeting for needed resources. The 2009 aggregate budget (for corporate, receivership, and investment spending) was $2.57 billion, while actual expenditures for the year were $2.34 billion, about $1.11 billion more than 2008 expenditures.

Over the past decade, the FDIC's expenditures have varied in response to workload. During the last two years, expenditures have risen, largely due to increasing resolution and receivership activity. To a lesser extent, increased expenses have resulted from supervision-related costs associated with the oversight of more troubled institutions.

Estimated Insured Deposits and the Deposit Insurance Fund, December 31, 1934, through December 31, 2009[1]

Dollars in Millions (except Insurance Coverage)

		Deposits in Insured Institutions				Insurance Fund as a Percentage of	
Year	Insurance Coverage[2]	Total Domestic Deposits	Est. Insured Deposits[3]	Percentage of Insured Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
2009	$250,000	7,705,342	5,391,876	70.0	(20,861.8)	(0.27)	(0.39)
2008	100,000	7,505,360	4,756,809	63.4	17,276.3	0.23	0.36
2007	100,000	6,921,686	4,292,163	62.0	52,413.0	0.76	1.22
2006	100,000	6,640,105	4,153,786	62.6	50,165.3	0.76	1.21
2005	100,000	6,229,764	3,890,941	62.5	48,596.6	0.78	1.25
2004	100,000	5,724,621	3,622,059	63.3	47,506.8	0.83	1.31
2003	100,000	5,223,922	3,452,497	66.1	46,022.3	0.88	1.33
2002	100,000	4,916,078	3,383,598	68.8	43,797.0	0.89	1.29
2001	100,000	4,564,064	3,215,581	70.5	41,373.8	0.91	1.29
2000	100,000	4,211,895	3,055,108	72.5	41,733.8	0.99	1.37
1999	100,000	3,885,826	2,869,208	73.8	39,694.9	1.02	1.38
1998	100,000	3,817,150	2,850,452	74.7	39,452.1	1.03	1.38
1997	100,000	3,602,189	2,746,477	76.2	37,660.8	1.05	1.37
1996	100,000	3,454,556	2,690,439	77.9	35,742.8	1.03	1.33
1995	100,000	3,318,595	2,663,873	80.3	28,811.5	0.87	1.08
1994	100,000	3,184,410	2,588,619	81.3	23,784.5	0.75	0.92
1993	100,000	3,220,302	2,602,781	80.8	14,277.3	0.44	0.55
1992	100,000	3,275,530	2,677,709	81.7	178.4	0.01	0.01
1991	100,000	3,331,312	2,733,387	82.1	(6,934.0)	(0.21)	(0.25)
1990	100,000	3,415,464	2,784,838	81.5	4,062.7	0.12	0.15
1989	100,000	3,412,503	2,755,471	80.7	13,209.5	0.39	0.48
1988	100,000	2,337,080	1,756,771	75.2	14,061.1	0.60	0.80
1987	100,000	2,198,648	1,657,291	75.4	18,301.8	0.83	1.10
1986	100,000	2,162,687	1,636,915	75.7	18,253.3	0.84	1.12
1985	100,000	1,975,030	1,510,496	76.5	17,956.9	0.91	1.19
1984	100,000	1,805,334	1,393,421	77.2	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

Estimated Insured Deposits and the Deposit Insurance Fund, December 31, 1934, through December 31, 2009[1] *(continued)*

Dollars in Millions (except Insurance Coverage)

		Deposits in Insured Institutions				Insurance Fund as a Percentage of	
Year	Insurance Coverage[2]	Total Domestic Deposits	Est. Insured Deposits[3]	Percentage of Insured Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
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	62.4	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	60.4	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

Estimated Insured Deposits and the Deposit Insurance Fund, December 31, 1934, through December 31, 2009[1] *(continued)*

Dollars in Millions (except Insurance Coverage)

		Deposits in Insured Institutions				Insurance Fund as a Percentage of	
Year	Insurance Coverage[2]	Total Domestic Deposits	Est. Insured Deposits[3]	Percentage of Insured Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
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	42.6	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	5,000	40,060	18,075	45.1	291.7	0.73	1.61

[1] Prior to 1989, figures are for BIF only and exclude insured branches of foreign banks. For 1989 to 2005, figures represent sum of BIF and SAIF amounts; for 2006 to 2008, figures are for DIF. Amounts from 1989 to 2008 include insured branches of foreign banks.
[2] Coverage for certain retirement accounts increased to $250,000 in 2006. Coverage limits do not reflect temporary increases authorized by the Emergency Economic Stabilization Act of 2008. Initial coverage limit was $2,500 from January 1 to June 30, 1934.
[3] Prior to year-end 1991, insured deposits were estimated using percentages determined from June Call and Thrift Financial reports.

Income and Expenses, Deposit Insurance Fund, from Beginning of Operations, September 11, 1933, through December 31, 2009

Dollars in Millions

	Income					*Expenses and Losses*					
Year	**Total**	**Assessment Income**	**Assessment Credits**	**Investment and Other Sources**	**Effective Assessment Rate[1]**	**Total**	**Provision for Losses**	**Admin. and Oper. Expenses[2]**	**Interest & Other Ins. Expenses**	**Funding Transfer from the FSLIC Resolution Fund**	**Net Income (Loss)**
Total	**$142,396.6**	**$88,268.6**	**$11,391.0**	**$66,107.8**		**$164,264.5**	**$135,742.4**	**$18,138.9**	**$10,389.2**	**$139.5**	**($21,728.4)**
2009	24,706.4	$17,865.4	$148.0	6,989.0	0.2332%	60,709.0	$57,711.8	$1,271.1	$1,726.1	0	(36,002.6)
2008	7,306.3	4,410.4	1,445.9	4,341.8	0.0418%	44,339.5	41,838.8	1,033.5	1,467.2	0	(37,033.2)
2007	3,196.2	3,730.9	3,088.0	2,553.3	0.0093%	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	60.9	0.0	2,359.6	0.0010%	809.3	(160.2)	965.7	3.8	0	1,611.2
2004	2,240.3	104.2	0.0	2,136.1	0.0019%	607.6	(353.4)	941.3	19.7	0	1,632.7
2003	2,173.6	94.8	0.0	2,078.8	0.0019%	(67.7)	(1,010.5)	935.5	7.3	0	2,241.3
2002	1,795.9	107.8	0.0	2,276.9	0.0023%	719.6	(243.0)	945.1	17.5	0	1,076.3
2001	2,730.1	83.2	0.0	2,646.9	0.0019%	3,123.4	2,199.3	887.9	36.2	0	(393.3)
2000	2,570.1	64.3	0.0	2,505.8	0.0016%	945.2	28.0	883.9	33.3	0	1,624.9
1999	2,416.7	48.4	0.0	2,368.3	0.0013%	2,047.0	1,199.7	823.4	23.9	0	369.7
1998	2,584.6	37.0	0.0	2,547.6	0.0010%	817.5	(5.7)	782.6	40.6	0	1,767.1
1997	2,165.5	38.6	0.0	2,126.9	0.0011%	247.3	(505.7)	677.2	75.8	0	1,918.2
1996	7,156.8	5,294.2	0.0	1,862.6	0.1622%	353.6	(417.2)	568.3	202.5	0	6,803.2
1995	5,229.2	3,877.0	0.0	1,352.2	0.1238%	202.2	(354.2)	510.6	45.8	0	5,027.0
1994	7,682.1	6,722.7	0.0	959.4	0.2192%	(1,825.1)	(2,459.4)	443.2	191.1	0	9,507.2
1993	7,354.5	6,682.0	0.0	672.5	0.2157%	(6,744.4)	(7,660.4)	418.5	497.5	0	14,098.9
1992	6,479.3	5,758.6	0.0	720.7	0.1815%	(596.8)	(2,274.7)	614.8[3]	1,063.1	35.4	7,111.5
1991	5,886.5	5,254.0	0.0	632.5	0.1613%	16,925.3	15,496.2	326.1	1,103.0	42.4	(10,996.4)
1990	3,855.3	2,872.3	0.0	983.0	0.0868%	13,059.3	12,133.1	275.6	650.6	56.1	(9,147.9)
1989	3,496.6	1,885.0	0.0	1,611.6	0.0816%	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	0.0825%	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	0.0787%	2,963.7	2,827.7	180.3	(44.3)	0	296.4
1985	3,385.5	1,433.5	0.0	1,952.0	0.0815%	1,957.9	1,569.0	179.2	209.7	0	1,427.6
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

Income and Expenses, Deposit Insurance Fund, from Beginning of Operations, September 11, 1933, through December 31, 2009 *(continued)*

Dollars in Millions

	Income					*Expenses and Losses*					
Year	**Total**	**Assessment Income**	**Assessment Credits**	**Investment and Other Sources**	**Effective Assessment Rate**[1]	**Total**	**Provision for Losses**	**Admin. and Oper. Expenses**[2]	**Interest & Other Ins. Expenses**	**Funding Transfer from the FSLIC Resolution Fund**	**Net Income (Loss)**
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	0	452.8
1972	467.0	468.8	280.3	278.5	0.0333%	59.7	10.1	49.6	6.0 [5]	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
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

Income and Expenses, Deposit Insurance Fund, from Beginning of Operations, September 11, 1933, through December 31, 2009 *(continued)*

Dollars in Millions

	Income					*Expenses and Losses*					
Year	**Total**	**Assessment Income**	**Assessment Credits**	**Investment and Other Sources**	**Effective Assessment Rate[1]**	**Total**	**Provision for Losses**	**Admin. and Oper. Expenses[2]**	**Interest & Other Ins. Expenses**	**Funding Transfer from the FSLIC Resolution Fund**	**Net Income (Loss)**
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	0.0	0	147.6
1946	130.7	107.0	0.0	23.7	0.0833%	10.0	0.1	9.9	0.0	0	120.7
1945	121.0	93.7	0.0	27.3	0.0833%	9.4	0.1	9.3	0.0	0	111.6
1944	99.3	80.9	0.0	18.4	0.0833%	9.3	0.1	9.2	0.0	0	90.0
1943	86.6	70.0	0.0	16.6	0.0833%	9.8	0.2	9.6	0.0	0	76.8
1942	69.1	56.5	0.0	12.6	0.0833%	10.1	0.5	9.6	0.0	0	59.0
1941	62.0	51.4	0.0	10.6	0.0833%	10.1	0.6	9.5	0.0	0	51.9
1940	55.9	46.2	0.0	9.7	0.0833%	12.9	3.5	9.4	0.0	0	43.0
1939	51.2	40.7	0.0	10.5	0.0833%	16.4	7.2	9.2	0.0	0	34.8
1938	47.7	38.3	0.0	9.4	0.0833%	11.3	2.5	8.8	0.0	0	36.4
1937	48.2	38.8	0.0	9.4	0.0833%	12.2	3.7	8.5	0.0	0	36.0
1936	43.8	35.6	0.0	8.2	0.0833%	10.9	2.6	8.3	0.0	0	32.9
1935	20.8	11.5	0.0	9.3	0.0833%	11.3	2.8	8.5	0.0	0	9.5
1933-34	7.0	0.0	0.0	7.0	N/A	10.0	0.2	9.8	0.0	0	(3.0)

[1] Figures represent only BIF insured institutions prior to 1990, BIF and SAIF insured institutions from 1990 through 2005, and DIF insured institutions beginning in 2006. After 1995, all thrift closings became the responsibility of the FDIC and amounts are reflected in the SAIF. The effective assessment rate is calculated from annual assessment income (net of assessment credits) excluding transfers to the Financing Corporation (FICO), Resolution Funding Corporation (REFCORP) and the FSLIC Resolution Fund, divided by the four quarter average assessment base. The effective rates from 1950 through 1984 varied 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 varied because the FDIC exercised new authority to increase assessments above the statutory minimum rate when needed. Beginning in 1993, the effective rate was based on a risk-related premium system under which institutions paid 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. Subsequently, assessment rates for SAIF were lowered to the same range as BIF, 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.

[2] These 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 Bank Resolutions, net" line on the Balance Sheets. The narrative and graph presented in the "Corporate Planning and Budget" section of this report (next page) show the aggregate (corporate and receivership) expenditures of the FDIC.

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

[4] Includes $105.6 million net loss on government securities.

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

[6] Includes the aggregate amount of $80.6 million of interest paid on capital stock between 1933 and 1948

Number, Assets, Deposits, Losses, and Loss To Funds of Insured Thrifts Taken Over or Closed Because of Financial Difficulties, 1989 Through 1995[1]

Dollars in Thousands

Year	Total	Assets	Deposits	Estimated Receivership Loss[2]	Loss to Funds[3]
Total	**748**	**$393,986,574**	**$317,501,978**	**$75,315,686**	**$81,583,975**
1995	2	423,819	414,692	28,192	27,750
1994	2	136,815	127,508	11,472	14,599
1993	10	6,147,962	4,881,461	267,595	65,212
1992	59	44,196,946	34,773,224	3,234,851	3,780,088
1991	144	78,898,904	65,173,122	8,624,734	9,123,030
1990	213	129,662,498	98,963,962	16,063,792	19,258,686
1989[4]	318	134,519,630	113,168,009	47,085,050	49,314,610

[1] Beginning in 1989 through 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. Year is the year of failure, not the year of resolution.

[2] 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.

[3] The Loss to Funds represents the total resolution cost of the failed thrifts in the FRF-RTC fund, 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.

[4] Total for 1989 excludes nine failures of the former FSLIC.

FDIC-Insured Institutions Closed During 2009

Dollars in Thousands

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets[2]	Total Deposits[2]	FDIC Disburse-ments[3]	Estimated Loss[1]	Date of Closing or Acquisition	Receiver/Assuming Bank and Location
Purchase and Assumption—Insured Deposits								
Bank of Clark County Vancouver, WA	NM	5,059	$441,085	$377,506	$389,930	$143,563	01/16/09	Umpqua Bank Roseburg, OR
1st Centennial Bank Redlands, CA	NM	8,453	$797,959	$678,570	$629,958	$156,663	01/23/09	First California Bank Westlake Village, CA
Silverton Bank, NA Atlanta, GA	N	1,368	$4,157,246	$3,314,928	$2,579,148	$484,909	05/01/09	Federal Deposit Insurance Corporation
Independent Bankers Bank Springfield, IL	SM	604	$585,508	$511,473	$143,739	$35,088	12/18/09	Federal Deposit Insurance Corporation
Insured Deposits Transfer								
Omni National Bank Atlanta, GA	N	8,723	$979,585	$813,205	$839,583	$341,281	03/27/09	SunTrust Bank Atlanta, GA
Whole Bank Purchase and Assumption—All Deposits								
BankUnited, FSB Coral Gables, FL	SB	246,732	$13,111,463	$8,775,985	$2,698,688	$5,568,945	05/21/09	BankUnited Coral Gables, FL
National Bank of Commerce Berkeley, IL	N	8,191	$419,741	$395,868	$141,800	$87,638	01/16/09	Republic Bank of Chicago Oak Brook, IL
Suburban Federal Savings Bank Crofton, MD	SB	14,900	$347,408	$301,847	$49,000	$109,329	01/30/09	Bank of Essex Tappahannock, VA
County Bank Merced, CA	SM	84,185	$1,711,552	$1,324,635	$20,000	$131,778	02/06/09	Westamerica Bank San Rafael, CA
Alliance Bank Culver City, CA	NM	9,213	$1,113,361	$951,106	$71,989	$207,769	02/06/09	California Bank & Trust San Diego, CA
Pinnacle Bank Beaverton, OR	NM	1,444	$71,921	$64,168	$10,000	$14,336	02/13/09	Washington Trust Bank Spokane, WA
Heritage Community Bank Glenwood, IL	NM	11,764	$235,154	$225,735	$23,520	$39,235	02/27/09	MB Financial Bank, N.A. Glenwood, IL
Freedom Bank of Georgia Commerce, GA	NM	5,081	$172,454	$159,048	$13,385	$40,057	03/06/09	Northeast Georgia Bank Lavonia, GA
Colorado National Bank Colorado Springs, CO	N	4,799	$123,508	$85,150	$6,700	$16,097	03/20/09	Herring Bank Amarillo, TX
Teambank, N.A. Paola, KS	N	36,698	$669,830	$532,520	$75,713	$105,699	03/20/09	Great Southern Bank Springfield, MO
Cape Fear Bank Wilmington, NC	NM	10,867	$492,418	$402,820	$118,791	$125,365	04/10/09	First FS&LA of Charleston Charleston, SC

FDIC-Insured Institutions Closed During 2009 *(continued)*

Dollars in Thousands

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets[2]	Total Deposits[2]	FDIC Disburse-ments[3]	Estimated Loss[1]	Date of Closing or Acquisition	Receiver/Assuming Bank and Location
Great Basin Bank of Nevada Elko, NV	NM	13,178	$238,940	$220,834	$20,810	$19,592	04/17/09	Nevada State Bank Las Vegas, NV
American Sterling Bank Sugar Creek, MO	SB	10,222	$166,456	$170,946	$21,800	$46,043	04/17/09	Metcalf Bank Lee's Summit, MO
Strategic Capital Bank Champaign, IL	NM	1,713	$546,576	$479,384	$61,000	$145,291	05/22/09	Midland States Bank Effingham, IL
Citizens National Bank Macomb, IL	N	13,607	$438,560	$393,635	$201,244	$25,999	05/22/09	Morton Community Bank Morton, IL
Bank of Lincolnwood Lincolnwood, IL	NM	8,003	$212,718	$209,285	$87,587	$66,854	06/05/09	Republic Bank of Chicago Oak Brook, IL
Cooperative Bank Wilmington, NC	NM	29,001	$966,778	$768,479	$51,699	$270,651	06/19/09	First Bank Troy, NC
The First National Bank of Anthony Anthony, KS	N	9,326	$156,954	$142,551	$12,622	$32,532	06/19/09	Bank of Kansas South Hutchinson, KS
Southern Community Bank Fayetteville, GA	NM	13,372	$371,695	$297,962	$99,190	$103,941	06/19/09	United Community Bank Blairsville, GA
Neighborhood Community Bank Newnan, GA	SM	7,067	$212,616	$190,070	$46,720	$70,663	06/26/09	CharterBank West Point, GA
Horizon Bank Pine City, MN	NM	4,823	$84,763	$69,254	$10,532	$22,825	06/26/09	Stearns Bank, N.A. St. Cloud, MN
MetroPacific Bank Irvine, CA	NM	709	$75,316	$70,078	$38,367	$31,887	06/26/09	Sunwest Bank Tustin, CA
Mirae Bank Los Angeles, CA	NM	6,385	$480,619	$409,951	$10,500	$59,962	06/26/09	Wilshire State Bank Los Angeles, CA
The Elizabeth State Bank Elizabeth, IL	NM	4,761	$55,027	$48,131	$5,495	$12,274	07/02/09	Galena State Bank and Trust Galena, IL
Founders Bank Worth, IL	NM	48,969	$889,172	$832,160	$77,038	$129,972	07/02/09	The PrivateBank and Trust Company Chicago, IL
Rock River Bank Oregon, IL	NM	4,633	$74,808	$74,893	$12,043	$24,880	07/02/09	The Harvard State Bank Harvard, IL
The John Warner Bank Clinton, IL	NM	6,487	$69,609	$65,179	$7,515	$13,180	07/02/09	State Bank of Lincoln Lincoln, IL
First State Bank of Winchester Winchester, IL	NM	3,362	$30,073	$30,806	$2,410	$7,492	07/02/09	The First National Bank of Beardstown Beardstown, IL
First National Bank of Danville Danville, IL	N	12,698	$148,218	$140,185	$19,400	$22,233	07/02/09	First Financial Bank, N.A. Terre Haute, IN

FDIC-Insured Institutions Closed During 2009 *(continued)*

Dollars in Thousands

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets[2]	Total Deposits[2]	FDIC Disburse-ments[3]	Estimated Loss[1]	Date of Closing or Acquisition	Receiver/Assuming Bank and Location
Millennium State Bank of Texas Dallas, TX	NM	1,646	$118,601	$115,478	$54,860	$51,863	07/02/09	State Bank of Texas Irving, TX
Temecula Valley Bank Temecula, CA	NM	22,684	$1,396,622	$1,276,287	$263,324	$382,418	07/17/09	First-Citizens Bank and Trust Company Raleigh, NC
Vineyard Bank, N.A. Corona, CA	N	37,539	$1,638,378	$1,526,186	$165,552	$572,830	07/17/09	California Bank & Trust San Diego, CA
First Piedmont Bank Winder, GA	NM	3,705	$114,113	$108,499	$6,750	$31,994	07/17/09	First American Bank and Trust Company Athens, GA
Security Bank of Bibb County Macon, GA	NM	35,441	$943,744	$831,437	$347,100	$370,351	07/24/09	State Bank and Trust Company Pinehurst, GA
Security Bank of Gwinnett County Suwanee, GA	NM	3,646	$259,182	$256,578	$71,540	$135,047	07/24/09	State Bank and Trust Company Pinehurst, GA
Security Bank of Houston County Perry, GA	NM	16,221	$371,624	$313,155	$12,500	$44,695	07/24/09	State Bank and Trust Company Pinehurst, GA
Security Bank of Jones County Gray, GA	NM	12,294	$432,712	$375,238	$11,800	$62,196	07/24/09	State Bank and Trust Company Pinehurst, GA
Security Bank of North Fulton Alpharetta, GA	NM	3,398	$190,564	$179,523	$16,567	$41,321	07/24/09	State Bank and Trust Company Pinehurst, GA
Security Bank of North Metro Woodstock, GA	NM	2,802	$184,184	$182,413	$33,081	$72,116	07/24/09	State Bank and Trust Company Pinehurst, GA
Waterford Village Bank Clarence, NY	NM	1,873	$55,707	$56,145	$6,600	$12.154	07/24/09	Evans Bank, NA Angola, NY
Community First Bank Prineville, OR	SM	11,345	$199,508	$180,691	$46,969	$60,410	08/07/09	Home Federal Bank Nampa, ID
First State Bank of Altus Altus, OK	NM	7,901	$90,867	$98,161	$36,825	$18,030	07/31/09	Herring Bank Amarillo, TX
Mutual Bank Harvey, IL	NM	34,851	$1,595,657	$1,546,525	$348,400	$656,151	07/31/09	United Central Bank Garland, TX
Peoples Community Bank West Chester, OH	SB	37,951	$606,153	$538,787	$37,300	$135,480	07/31/09	First Financial Bank, N.A. Hamilton, OH
First Bankamericano Elizabeth, NJ	NM	7,085	$163,372	$155,463	$16,340	$16,139	07/31/09	Crown Bank Brick, NJ

FDIC-Insured Institutions Closed During 2009 *(continued)*

Dollars in Thousands

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets[2]	Total Deposits[2]	FDIC Disburse-ments[3]	Estimated Loss[1]	Date of Closing or Acquisition	Receiver/Assuming Bank and Location
Community National Bank of Sarasota County Venice, FL	N	5,807	$92,528	$92,352	$15,375	$26,456	08/07/09	Stearns Bank, N.A. St. Cloud, MN
First State Bank of Sarasota Sarasota, FL	NM	12,193	$447,667	$394,701	$54,896	$124,608	08/07/09	Stearns Bank, N.A. St. Cloud, MN
Community Bank of Arizona Phoenix, AZ	NM	2,022	$158,517	$143,834	$24,566	$27,892	08/14/09	MidFirst Bank Oklahoma City, OK
Colonial Bank Montgomery, AL	NM	756,514	$25,455,112	$20,020,047	$3,983,800	$3,810,331	08/14/09	Branch Banking and Trust (BB&T) Winston-Salem, NC
Guaranty Bank Austin, TX	SB	577,832	$13,464,352	$11,984,112	$2,454,739	$2,737,425	08/21/09	BBVA Compass Birmingham, AL
Capital South Bank Birmingham, AL	SM	18,031	$586,586	$539,422	$80,191	$162,355	08/21/09	Iberiabank Lafeyette, LA
ebank Atlanta, GA	SB	3,914	$144,688	$131,510	$21,298	$68,164	08/21/09	Stearns Bank, N.A. St. Cloud, MN
First Coweta Bank Newnan, GA	NM	6,015	$163,755	$154,903	$152,856	$50,082	08/21/09	United Bank Zebulon, GA
Bradford Bank Baltimore, MD	SB	18,354	$451,888	$382,159	$37,338	$92,252	08/28/09	Manufacturers and Traders Trust Company Buffalo, NY
Affinity Bank Ventura, CA	NM	19,710	$1,211,431	$905,593	$124,371	$266,609	08/28/09	Pacific Western Bank San Diego, CA
Mainstreet Bank Forest Lake, MN	NM	21,832	$458,533	$432,818	$46,414	$97,859	08/28/09	Central Bank Stillwater, MN
First Bank of Kansas City Kansas City, MO	NM	701	$15,723	$14,479	$16,489	$7,244	09/04/09	Great American Bank De Soto, KS
InBank Oak Forest, IL	NM	9,941	$209,848	$209,211	$58,588	$53,690	09/04/09	MB Financial Bank, N.A. Chicago, IL
First State Bank—Flagstaff Flagstaff, AZ	SM	4,516	$107,235	$95,734	$99,504	$47,358	09/04/09	Sunwest Bank Tustin, CA
Vantus Bank Sioux City, IA	SB	43,421	$503,643	$394,369	$133,300	$99,458	09/04/09	Great Southern Bank Springfield, MO
Brickwell Community Bank Woodbury, MN	NM	1,657	$72,576	$64,981	$4,783	$27,074	09/11/09	CorTrust Bank, NA Mitchell, SD
Venture Bank Lacey, WA	NM	37,005	$968,385	$917,729	$188,485	$239,762	09/11/09	First-Citizens Bank & Trust Raleigh, NC
Irwin Union Bank & Trust Co. Columbus, IN	SM	62,735	$2,839,747	$2,254,025	$850,000	$608,072	09/18/09	First Financial Bank, NA Hamilton, OH

FDIC-Insured Institutions Closed During 2009 *(continued)*

Dollars in Thousands

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets[2]	Total Deposits[2]	FDIC Disburse-ments[3]	Estimated Loss[1]	Date of Closing or Acquisition	Receiver/Assuming Bank and Location
Irwin Union, FSB Louisville, KY	SB	9,356	$518,151	$462,611	$113,200	$125,763	09/18/09	First Financial Bank, NA Hamilton, OH
Georgian Bank Atlanta, GA	NM	12,548	$2,230,230	$1,960,123	$543,754	$804,828	09/25/09	First Citizens Bank & Trust, Inc. Columbia, SC
Southern Colorado National Bank Pueblo, CO	N	1,206	$37,142	$29,568	$4,619	$9,889	10/02/09	Legacy Bank Wiley, CO
Jennings State Bank Spring Grove, MN	NM	4,966	$52,347	$50,801	$9,653	$18,159	10/02/09	Central Bank Stillwater, MN
San Joaquin Bank Bakersfield, CA	SM	10,068	$766,359	$626,359	$49,252	$94,572	10/16/09	Citizens Business Bank Ontario, CA
American United Bank Lawrenceville, GA	NM	1,950	$110,094	$102,386	$17,100	$45,210	10/23/09	Ameris Bank Moultrie, GA
First DuPage Bank Westomont, IL	SM	5,851	$262,093	$253,992	$22,423	$63,667	10/23/09	First Midwest Bank Itasca, IL
Flagship National Bank Bradenton, FL	N	6,069	$177,563	$170,118	$34,200	$63,623	10/23/09	First Federal Bank of Florida Lake City, FL
Partners Bank Naples, FL	SB	1,503	$65,498	$64,798	$34,034	$32,770	10/23/09	Stonegate Bank Fort Lauderdale, FL
Bank of Elmwood Racine, WI	SM	15,958	$327,444	$272,782	$112,248	$88,364	10/23/09	Tri City National Bank Oak Creek, WI
Riverview Community Bank Ostego, MN	NM	3,398	$99,057	$75,012	$9,148	$23,899	10/23/09	Central Bank Stillwater, MN
California National Bank Los Angeles, CA	N	216,381	$7,781,100	$6,145,207	$105,700	$956,535	10/30/09	U.S. Bank, NA Minneapolis, MN
San Diego National Bank San Diego, CA	N	74,941	$3,594,544	$2,891,544	$119,813	$353,117	10/30/09	U.S. Bank, NA Minneapolis, MN
Bank USA, N.A. Phoenix, AZ	N	1,810	$213,205	$170,685	$3,700	$19,947	10/30/09	U.S. Bank, NA Minneapolis, MN
Community Bank of Lemont Lemont, IL	NM	2,871	$81,843	$80,688	$6,096	$24,095	10/30/09	U.S. Bank, NA Minneapolis, MN
North Houston Bank Houston, TX	NM	11,645	$325,474	$307,166	$17,500	$42,670	10/30/09	U.S. Bank, NA Minneapolis, MN
Pacific National Bank San Francisco, CA	N	48,770	$2,319,263	$1,757,986	$79,000	$223,360	10/30/09	U.S. Bank, NA Minneapolis, MN
Park National Bank Chicago, IL	N	174,506	$4,680,881	$3,716,626	$0	$628,737	10/30/09	U.S. Bank, NA Minneapolis, MN

FDIC-Insured Institutions Closed During 2009 *(continued)*

Dollars in Thousands

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets[2]	Total Deposits[2]	FDIC Disburse-ments[3]	Estimated Loss[1]	Date of Closing or Acquisition	Receiver/Assuming Bank and Location
Citizens National Bank Teague, TX	N	3,781	$118,236	$97,590	$6,300	$24,717	10/30/09	U.S. Bank, NA Minneapolis, MN
Madisonville State Bank Madisonville, TX	NM	8,410	$256,330	$224,653	$8,215	$27,452	10/30/09	U.S. Bank, NA Minneapolis, MN
Prosperan Bank Oakdale, MN	NM	8,204	$197,442	$182,794	$35,106	$53,196	11/06/09	Alerus Financial, N.A. Grand Forks, ND
Home Federal Savings Bank Detroit, MI	SB	2,477	$12,994	$12,730	$6,270	$7,902	11/06/09	Liberty Bank and Trust Company New Orleans, LA
United Security Bank Sparta, GA	NM	4,807	$153,639	$149,616	$31,757	$64,949	11/06/09	Ameris Bank Moultrie, GA
Gateway Bank of St. Louis Saint Louis, MO	NM	1,818	$26,882	$27,534	$10,054	$11,729	11/06/09	Central Bank of Kansas City Kansas City, MO
United Commercial Bank San Francisco, CA	NM	290,762	$10,895,336	$6,937,677	$849,926	$1,451,767	11/06/09	East West Bank Pasadena, CA
Century Bank, FSB Sarasota, FL	SB	27,349	$755,923	$659,742	$106,444	$282,096	11/13/09	Iberiabank Lafayette, LA
Orion Bank Naples, FL	SM	30,766	$2,612,515	$2,169,446	$496,404	$630,873	11/13/09	Iberiabank Lafayette, LA
Pacific Coast, N.B. San Clemente, CA	N	2,338	$131,418	$128,867	$29,096	$30,637	11/13/09	Sunwest Bank Tustin, CA
Commerce Bank of Southwest Florida Fort Myers, FL	NM	2,005	$70,997	$72,821	$2,575	$28,241	11/20/09	Central Bank Stillwater, MN
The Buckhead Community Bank Atlanta, GA	NM	17,403	$856,236	$813,668	$63,705	$241,187	12/04/09	State Bank and Trust Company Macon, GA
The Tattnall Bank Reidsville, GA	NM	3,434	$49,612	$47,100	$14,703	$17,184	12/04/09	HeritageBank of the South Albany, GA
Benchmark Bank Aurora, IL	NM	5,234	$173,062	$182,760	$42,969	$69,948	12/04/09	MB Financial Bank, N.A. Chicago, IL
Amtrust Bank Cleveland, OH	SB	460,174	$11,438,990	$8,558,609	$3,035,000	$2,340,668	12/04/09	New York Community Bank Westbury, NY
Greater Atlantic Bank Reston, VA	SB	8,008	$203,262	$179,248	$29,800	$37,602	12/04/09	Sonabank McLean, VA
First Security National Bank Norcross, GA	N	3,994	$127,455	$121,645	$17,638	$30,125	12/04/09	State Bank and Trust Company Macon, GA

FDIC-Insured Institutions Closed During 2009 *(continued)*

Dollars in Thousands

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets[2]	Total Deposits[2]	FDIC Disburse-ments[3]	Estimated Loss[1]	Date of Closing or Acquisition	Receiver/Assuming Bank and Location
Republic Federal Bank, N.A. Miami, FL	N	7,318	$433,011	$352,695	$167,564	$109,371	12/11/09	1st United Bank Boca Raton, FL
Valley Capital Bank, N.A. Mesa, AZ	N	758	$40,270	$41,312	$0	$9,844	12/11/09	Enterprise Bank & Trust Clayton, MO
SolutionsBank Overland Park, KS	SM	10,137	$511,103	$421,271	$21,156	$112,521	12/11/09	Arvest Bank Fayetteville, AR
Imperial Capital Bank La Jolla, CA	NM	35,400	$4,046,888	$2,822,300	$726,843	$487,912	12/18/09	City National Bank Los Angeles, CA
New South Federal Savings Bank Irondale, AL	SB	20,968	$1,464,127	$1,163,916	$86,350	$223,592	12/18/09	Beal Bank Plano, TX
Peoples First Community Bank Panama City, FL	SB	81,612	$1,795,420	$1,684,443	$294,000	$484,327	12/18/09	Hancock Bank Gulfport, MS
First Federal Bank of California, FSB Santa Monica, CA	SB	135,555	$6,143,903	$4,538,607	$0	$158,115	12/18/09	OneWest Bank, FSB Pasadena, CA
Purchase and Assumption—All Deposits								
Ocala National Bank Ocala, FL	N	10,663	$219,424	$204,663	$215,695	$93,239	01/30/09	CenterState Bank of Florida Winter Haven, FL
FirstBank Financial Services McDonough, GA	NM	6,245	$317,237	$279,308	$299,078	$126,255	02/06/09	Regions Bank Birmingham, AL
Corn Belt Bank and Trust Company Pittsfield, IL	NM	4,520	$260,201	$233,788	$234,458	$79,498	02/13/09	The Carlinville National Bank Carlinville, IL
Riverside Bank of the Gulf Coast Cape Coral, FL	SM	24,518	$523,673	$422,708	$462,057	$203,865	02/13/09	TIB Bank Naples, FL
Sherman County Bank Loup City, NE	NM	5,009	$135,431	$90,647	$114,150	$43,442	02/13/09	Heritage Bank Wood River, NE
Silver Falls Bank Silverton, OR	NM	4,476	$134,206	$115,976	$118,660	$52,539	02/20/09	Citizens Bank Corvallis, OR
Security Savings Bank Henderson, NV	NM	3,927	$238,307	$174,872	$180,418	$69,679	02/27/09	Bank of Nevada Las Vegas, NV
American Southern Bank Kennesaw, GA	NM	1,024	$105,950	$105,940	$108,784	$36,285	04/24/09	Bank of North Georgia Alpharetta, GA
First Bank of Idaho, FSB Ketchum, ID	SB	15,195	$490,656	$370,580	$438,920	$171,135	04/24/09	U.S. Bank, NA Minneapolis, MN
Michigan Heritage Bank Farmington Hills, MI	SM	3,159	$167,710	$149,065	$144,922	$55,953	04/24/09	Level One Bank Farmington Hills, MI

FDIC-Insured Institutions Closed During 2009 *(continued)*

Dollars in Thousands

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets[2]	Total Deposits[2]	FDIC Disburse-ments[3]	Estimated Loss[1]	Date of Closing or Acquisition	Receiver/Assuming Bank and Location
America West Bank Layton, UT	NM	1,909	$281,564	$286,040	$300,259	$125,477	05/01/09	Cache Valley Bank Logan, UT
Citizens Community Bank Ridgewood, NJ	NM	1,099	$40,657	$40,664	$40,082	$17,931	05/01/09	North Jersey Community Bank Englewood Cliffs, NJ
Westsound Bank Bremerton, WA	NM	11,814	$334,608	$304,464	$283,655	$107,122	05/08/09	Kitsap Bank Port Orchard, WA
Bank of Wyoming Thermopolis, WY	NM	2,866	$70,188	$66,598	$64,882	$30,480	07/10/09	Central Bank & Trust Lander, WY
BankFirst Sioux Falls, SD	SM	4,185	$210,844	$232,203	$218,222	$77,943	07/17/09	Alerus Financial, N.A. Grand Forks, ND
Integrity Bank Jupiter, FL	NM	2,293	$105,298	$98,511	$93,134	$38,351	07/31/09	Stonegate Bank Fort Lauderdale, FL
Union Bank, N.A. Gilbert, AZ	N	2,526	$119,529	$110,362	$110,785	$52,996	08/14/09	MidFirst Bank Oklahoma City, OK
Dwelling House Savings & Loan Pittsburgh, PA	SB	4,285	$12,947	$12,984	$12,690	$9,722	08/14/09	PNC Bank, N.A. Pittsburgh, PA
Corus Bank, NA Chicago, IL	N	154,011	$7,003,321	$7,060,693	$4,047,049	$946,457	09/11/09	MB Financial Bank, NA Chicago, IL
Warren Bank Warren, MI	SM	12,104	$504,816	$467,767	$464,729	$240,075	10/02/09	The Huntington National Bank Columbus, OH
Hillcrest Bank Florida Naples, FL	NM	1,535	$82,774	$83,254	$85,334	$31,448	10/23/09	Stonegate Bank Fort Lauderdale, FL
Insured Deposit Payoffs								
New Frontier Bank Greeley, CO	NM	30,791	$1,774,588	$1,496,347	$1,667,720	$860,709	04/10/09	Federal Deposit Insurance Corporation
Citizens State Bank New Baltimore, MI	NM	16,262	$168,551	$157,149	$111,826	$30,660	12/18/09	Federal Deposit Insurance Corporation
Community Bank of Nevada Las Vegas, NV	SM	$25,906	$1,397,798	$1,372,744	$1,306,797	$742,411	08/14/09	Deposit Insurance Bank of Las Vegas
Magnetbank Salt Lake City, UT	NM	25	$300,674	$282,578	$277,788	$155,393	01/30/09	Federal Deposit Insurance Corporation
FirstCity Bank Stockbridge, GA	NM	3,621	$285,015	$259,056	$290,553	$122,641	03/20/09	Federal Deposit Insurance Corporation
First Bank of Beverly Hills Calabasas, CA	NM	1,203	$1,260,354	$866,492	$1,076,009	$352,190	04/24/09	Federal Deposit Insurance Corporation

FDIC-Insured Institutions Closed During 2009 *(continued)*

Dollars in Thousands

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets[2]	Total Deposits[2]	FDIC Disburse-ments[3]	Estimated Loss[1]	Date of Closing or Acquisition	Receiver/Assuming Bank and Location
Community Bank of West Georgia Villa Rica, GA	SM	4,140	$201,222	$189,398	$196,961	$86,224	06/26/09	Federal Deposit Insurance Corporation
Platinum Community Bank Rolling Meadows, IL	SB	2,946	$147,961	$110,186	$272,361	$95,683	09/04/09	Federal Deposit Insurance Corporation
Rockbridge Commerical Bank Atlanta, GA	NM	2,175	$294,024	$291,707	$259,576	$99,449	12/18/09	Federal Deposit Insurance Corporation

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
SA = Savings Association

[1] Estimated losses are as of 12/31/09. 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 the institution prior to failure.
[3] Represents corporate cash disbursements.

Recoveries and Losses by the Deposit Insurance Fund on Disbursements for the Protection of Depositors, 1934–2009

Bank and Thrift Failures[3]

Dollars in Thousands

Year[1]	Number of Banks/ Thrifts	Total Assets	Total Deposits	Insured Deposit Funding and Other Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses
	2,260	**$786,995,568**	**$574,449,063**	**$434,150,618**	**$309,778,647**	**$34,030,548**	**$90,341,423**
2009[4]	140	169,709,160	137,067,132	134,805,303	64,484,333	32,946,066	37,374,904
2008[4]	25	371,945,480	234,321,715	194,075,587	173,798,116	445,081	19,832,390
2007	3	2,614,928	2,424,187	1,909,546	1,338,239	360,572	210,735
2006	0	0	0	0	0	0	0
2005	0	0	0	0	0	0	0
2004	4	170,099	156,733	138,895	134,978	0	3,917
2003	3	947,317	901,978	883,772	812,933	8,192	62,647
2002	11	2,872,720	2,512,834	2,068,519	1,630,631	66,228	371,660
2001	4	1,821,760	1,661,214	1,605,147	1,113,270	181,417	310,460
2000	7	410,160	342,584	297,313	265,175	0	32,138
1999	8	1,592,189	1,320,573	1,307,045	685,154	7,409	614,482
1998	3	290,238	260,675	286,678	52,248	11,799	222,631
1997	1	27,923	27,511	25,546	20,520	0	5,026
1996	6	232,634	230,390	201,533	140,918	0	60,615
1995	6	802,124	776,387	609,043	524,571	0	84,472
1994	13	1,463,874	1,397,018	1,224,769	1,045,718	0	179,051
1993	41	3,828,939	3,509,341	3,841,658	3,209,012	0	632,646
1992	120	45,357,237	39,921,310	14,173,886	10,499,860	3	3,674,023
1991	124	64,556,512	52,972,034	21,190,376	15,194,017	3,781	5,992,578
1990	168	16,923,462	15,124,454	10,812,484	8,040,995	0	2,771,489
1989	206	28,930,572	24,152,468	11,443,281	5,247,995	0	6,195,286
1988	200	38,402,475	26,524,014	10,432,655	5,055,158	0	5,377,497
1987	184	6,928,889	6,599,180	4,876,994	3,014,502	0	1,862,492
1986	138	7,356,544	6,638,903	4,632,121	2,949,583	0	1,682,538
1985	116	3,090,897	2,889,801	2,154,955	1,506,776	0	648,179

Recoveries and Losses by the Deposit Insurance Fund on Disbursements for the Protection of Depositors, 1934–2009 *(continued)*

Bank and Thrift Failures[3] *(continued)*

Dollars in Thousands

Year[1]	Number of Banks/ Thrifts	Total Assets	Total Deposits	Insured Deposit Funding and Other Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses
1984	78	2,962,179	2,665,797	2,165,036	1,641,157	0	523,879
1983	44	3,580,132	2,832,184	3,042,392	1,973,037	0	1,069,355
1982	32	1,213,316	1,056,483	545,612	419,825	0	125,787
1981	7	108,749	100,154	114,944	105,956	0	8,988
1980	10	239,316	219,890	152,355	121,675	0	30,680
1934 –1979	558	8,615,743	5,842,119	5,133,173	4,752,295	0	380,878

Assistance Transactions

Dollars in Thousands

Year[1]	Number of Banks/ Thrifts	Total Assets	Total Deposits	Insured Deposit Funding and Other Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses
	154	**$3,317,099,253**	**$1,442,173,417**	**$11,630,356**	**$6,199,875**	**$0**	**$5,430,481**
2009[2]	8	1,917,482,183	1,090,318,282	0	0	0	0
2008[2]	5	1,306,041,994	280,806,966	0	0	0	0
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

Recoveries and Losses by the Deposit Insurance Fund on Disbursements for the Protection of Depositors, 1934–2009 *(continued)*

Assistance Transactions *(continued)*

Dollars in Thousands

Year[1]	Number of Banks/ Thrifts	Total Assets	Total Deposits	Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses
1993	0	0	0	0	0	0	0
1992	2	33,831	33,117	1,486	1,236	0	250
1991	3	78,524	75,720	6,117	3,093	0	3,024
1990	1	14,206	14,628	4,935	2,597	0	2,338
1989	1	4,438	6,396	2,548	252	0	2,296
1988	80	15,493,939	11,793,702	1,730,351	189,709	0	1,540,642
1987	19	2,478,124	2,275,642	160,877	713	0	160,164
1986	7	712,558	585,248	158,848	65,669	0	93,179
1985	4	5,886,381	5,580,359	765,732	406,676	0	359,056
1984	2	40,470,332	29,088,247	5,531,179	4,414,904	0	1,116,275
1983	4	3,611,549	3,011,406	764,690	427,007	0	337,683
1982	10	10,509,286	9,118,382	1,729,538	686,754	0	1,042,784
1981	3	4,838,612	3,914,268	774,055	1,265	0	772,790
1980	1	7,953,042	5,001,755	0	0	0	0
1934 –1979	4	1,490,254	549,299	0	0	0	0

[1] For 1990 through 2005, amounts represent the sum of BIF and SAIF failures (excluding those handled by the RTC); prior to 1990, figures are only for BIF. After 1995, all thrift closings became the responsibility of the FDIC and amounts are reflected in the SAIF. For 2006 to 2009, figures are for DIF. Assets and deposit data are based on the last Call or TFR Report filed before failure.

[2] Includes institutions where assistance was provided under a systemic risk determination. Any costs that exceed the amounts estimated under the least cost resolution requirement would be recovered through a special assessment on all FDIC-insured institutions.

[3] Institutions closed by the FDIC, including deposit payoff, insured deposit transfer, and deposit assumption cases.

[4] Includes transaction account coverage under the Transaction Account Guarantee Program.

FDIC Actions on Financial Institutions Applications 2007–2009

	2009	2008	2007
Deposit Insurance	19	123	215
Approved*	19	123	215
Denied	0	0	0
New Branches	521	1,012	1,480
Approved	521	1,012	1,480
Denied	0	0	0
Mergers	190	275	306
Approved	190	275	306
Denied	0	0	0
Requests for Consent to Serve[1]	503	283	177
Approved	503	283	177
Section 19	20	8	24
Section 32	483	275	153
Denied	0	0	0
Section 19	0	0	0
Section 32	0	0	0
Notices of Change in Control	18	28	17
Letters of Intent Not to Disapprove	18	28	15
Disapproved	0	0	2
Broker Deposit Waivers	35	38	22
Approved	34	38	22
Denied	1	0	0
Savings Association Activities[2]	39	45	54
Approved	39	45	54
Denied	0	0	0
State Bank Activities/Investments[3]	2	11	21
Approved	2	11	21
Denied	0	0	0
Conversion of Mutual Institutions	6	10	10
Non-Objection	6	10	10
Objection	0	0	0

** Of the 19 reported in 2009, 11 are* de novo *applications. There were 101 and 191* de novo *applications approved in 2008 and 2007, respectively.*

[1] 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 non-member bank that is not in compliance with capital requirements or is otherwise in troubled condition.

[2] 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.

[3] 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 2007–2009

	2009	2008	2007
Total Number of Actions Initiated by the FDIC	551	273	205
Termination of Insurance			
Involuntary Termination			
Sec. 8a For Violations, Unsafe/Unsound Practices or Conditions	0	0	0
Voluntary Termination			
Sec. 8a By Order Upon Request	0	1	0
Sec. 8p No Deposits	4	2	2
Sec. 8q Deposits Assumed	2	1	4
Sec. 8b Cease-and-Desist Actions			
Notices of Charges Issued[1,3]	3	1	3
Consent Orders	302	97	48
Sec. 8e Removal/Prohibition of Director or Officer			
Notices of Intention to Remove/Prohibit	2	4	1
Consent Orders	64	62	40
Sec. 8g Suspension/Removal When Charged With Crime	**0**	**0**	**0**
Civil Money Penalties Issued			
Sec. 7a Call Report Penalties	1	0	0
Sec. 8i Civil Money Penalties	154	98	96
Sec. 10c Orders of Investigation	**10**	**2**	**7**
Sec. 19 Denials of Service After Criminal Conviction	**0**	**0**	**0**
Sec. 32 Notices Disapproving Office/Director's Request for Review	**0**	**0**	**0**
Truth-in-Lending Act Reimbursement Actions			
Denials of Requests for Relief	0	1	0
Grants of Relief	0	0	0
Banks Making Reimbursement[1]	94	94	91
Suspicious Activity Reports (Open and closed institutions)[1]	**128,973**	**133,153**	**137,548**
Other Actions Not Listed[2]	**12**	**5**	**7**

[1] These actions do not constitute the initiation of a formal enforcement action and, therefore, are not included in the total number of actions initiated.
[2] Other Actions Not Listed includes two Section 19 Waiver grants and three Other Formal Actions.
[3] Correction for 2008

B. More About the FDIC

FDIC Board of Directors

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.

Chairman Bair has an extensive background in banking and finance in a career that has taken her from Capitol Hill, to academia, to the highest levels of government. Before joining the FDIC in 2006, she was the Dean's Professor of Financial Regulatory Policy for the Isenberg School of Management at the University of Massachusetts-Amherst since 2002. While there, she also served on the FDIC's Advisory Committee on Banking Policy.

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).

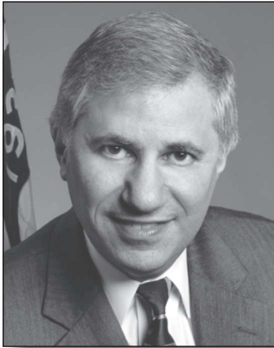
As FDIC Chairman, Ms. Bair has presided over a tumultuous period in the nation's financial sector. Her innovations have transformed the agency with programs that provide temporary liquidity guarantees, increases in deposit insurance limits, and systematic loan modifications to troubled borrowers. Ms. Bair's work at the FDIC has also focused on consumer protection and economic inclusion. She has championed the creation of an Advisory Committee on Economic Inclusion, seminal research on small-dollar loan programs, and the formation of broad-based alliances in nine regional markets to bring underserved populations into the financial mainstream.

Since becoming FDIC Chairman, Ms. Bair has received a number of prestigious honors. Among them, in 2009 she was named one of *Time Magazine*'s "Time 100" most influential people; awarded the John F. Kennedy Profile in Courage Award; and received the Hubert H. Humphrey Civil Rights Award. In 2008, Chairman Bair topped *The Wall Street Journal*'s annual 50 "Women to Watch List." That same year, *Forbes Magazine* named Ms. Bair as the second most powerful woman in the world after Germany's Chancellor Angela Merkel.

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 children's book, *Rock, Brock and the Savings Shock*, was published in 2006 and her second, *Isabel's Car Wash*, in 2008.

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 non-profit 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 E. Bowman

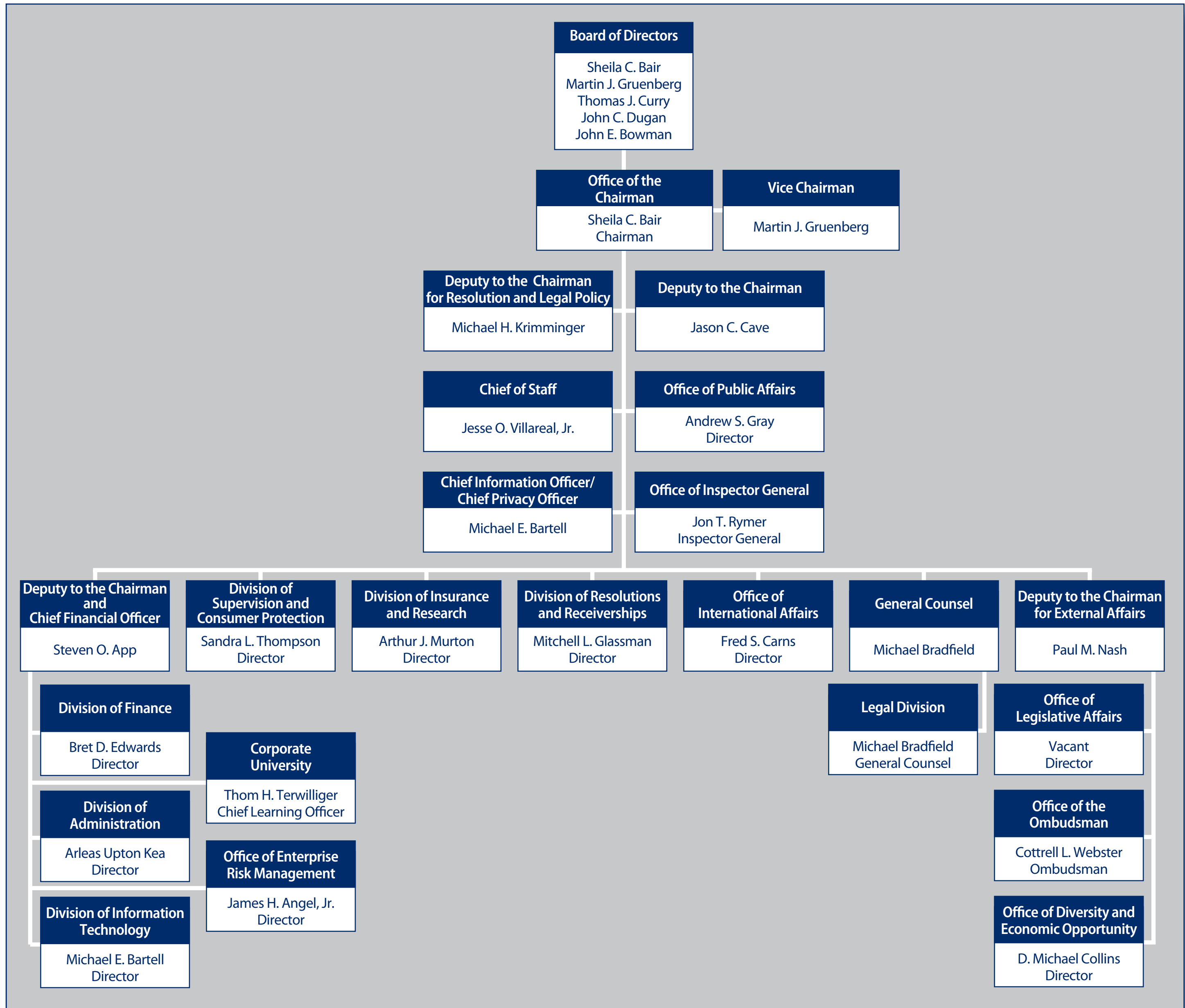
John E. Bowman became Acting Director of the Office of Thrift Supervision (OTS) in March 2009. Mr. Bowman joined the OTS in June of 1999 as Deputy Chief Counsel for Business Transactions. In May 2004, he was appointed Chief Counsel and in April 2007, he was appointed Deputy Director and Chief Counsel. Before joining the OTS, Mr. Bowman was a partner with the law firm of Brown & Wood LLP in its Washington, DC, office, where he specialized in government and corporate finance, securities and financial services regulation.

Before entering private practice, Mr. Bowman served for many years as Assistant General Counsel for Banking and Finance at the U.S. Department of the Treasury. While at Treasury, he provided counsel to the Treasury Under Secretary for Domestic Finance, the Assistant Secretaries for Financial Institutions Policy, Financial Markets and Economic Policy, and the Fiscal Assistant Secretary on a broad range of issues from financial services legislation to the financing of the federal debt.

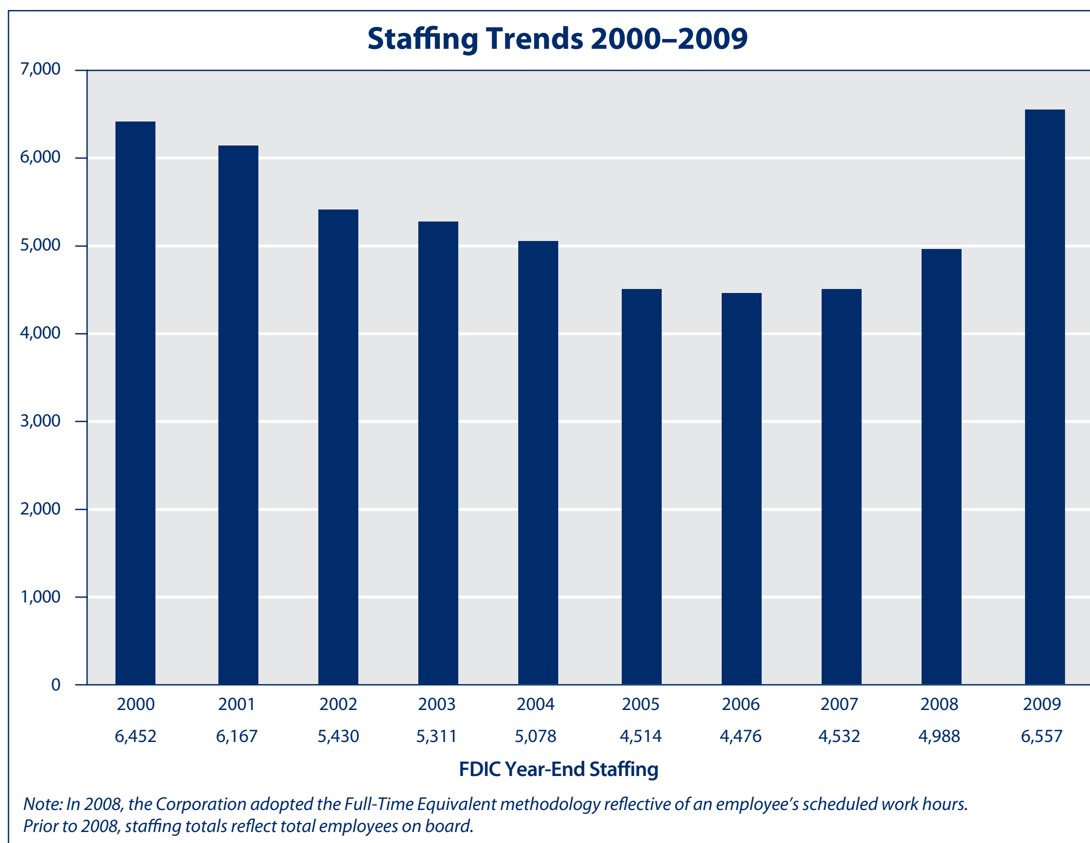
During his government career, Mr. Bowman has been the recipient of numerous awards and honors, including the Presidential Rank Award and the Secretary of the Treasury's Distinguished Service Award.

FDIC Organization Chart/Officials

As of December 31, 2009



Corporate Staffing



Note: In 2008, the Corporation adopted the Full-Time Equivalent methodology reflective of an employee's scheduled work hours. Prior to 2008, staffing totals reflect total employees on board.

Number of Employees by Division/Office 2008–2009 (Year-End)[1]

	Total		Washington		Regional/Field	
	2009	2008	2009	2008	2009	2008
Division of Supervision and Consumer Protection	3,168	2,733	222	207	2,946	2,526
Division of Resolutions and Receiverships	1,158	391	78	60	1,080	331
Legal Division	625	472	302	275	323	197
Division of Administration	373	316	217	209	156	107
Corporate University	350	240	52	47	298	193
Division of Information Technology	298	283	227	221	71	62
Division of Insurance and Research	193	182	150	145	43	36
Division of Finance	155	159	145	148	10	11
Office of Inspector General	120	111	84	81	36	30
Executive Offices[2]	53	48	53	48	0	0
Office of Diversity and Economic Opportunity	29	31	29	31	0	0
Office of the Ombudsman	22	11	11	8	11	3
Office of Enterprise Risk Management	13	12	13	12	0	0
Total	**6,557**	**4,988**	**1,584**	**1,493**	**4,973**	**3,496**

[1] The FDIC reports staffing totals using a Full-Time Equivalent methodology, which is based on an employee's scheduled work hours. Totals may not foot due to rounding.
[2] Includes the Offices of the Chairman, Vice Chairman, Director (Appointive), Chief Operating Officer, Chief Financial Officer, Chief Information Officer, Legislative Affairs, Public Affairs, International Affairs, and External Affairs.

Sources of Information

FDIC Web Site

www.fdic.gov

A wide range of banking, consumer and financial information is available on the FDIC's web site. 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 (Toll Free),
703-562-2289 (Local)

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, Monday–Friday, and 9:00 a.m. to 5:00 p.m. Saturday–Sunday. Recorded information about deposit insurance and other topics is available 24 hours a day at the same telephone number.

As a customer service, the FDIC Call Center has many bilingual Spanish agents on staff and has access to a translation service able to assist with over 40 different languages.

Public Information Center

3501 Fairfax Drive
Room E-1021
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.

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.

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

Kansas City Regional Office
2345 Grand Boulevard Suite 1200 Kansas City, Missouri 64108 (816) 234-8000
Iowa
Kansas
Minnesota
Missouri
Nebraska
North Dakota
South Dakota

Dallas Regional Office
1601 Bryan Street Dallas, Texas 75201 (214) 754-0098
Colorado
New Mexico
Oklahoma
Texas
Memphis Area Office
5100 Poplar Avenue Suite 1900 Memphis, Tennessee 38137 (901) 685-1603
Arkansas
Louisiana
Mississippi
Tennessee

Chicago Regional Office
300 South Riverdale Plaza Chicago, Illinois 60606 (312) 382-6000
Illinois
Indiana
Kentucky
Michigan
Ohio
Wisconsin

New York Regional Office
350 Fifth Avenue Suite 1200 New York, New York 10118 (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
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Idaho
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C. Office of Inspector General's Assessment of the Management and Performance Challenges Facing the FDIC

2009 Management and Performance Challenges

Under the Reports Consolidation Act, the OIG is required to identify the most significant management and performance challenges facing the Corporation and provide its assessment to the Corporation for inclusion in its annual performance and accountability report. The OIG conducts this assessment yearly and identifies a number of specific areas of challenge facing the Corporation at the time. In identifying the challenges, we consider the Corporation's overall program and operational responsibilities; financial industry, economic, and technological conditions and trends; areas of congressional interest and concern; relevant laws and regulations; the Chairman's priorities and corresponding corporate goals; and the ongoing activities to address the issues involved. Taking time annually to reexamine the corporate mission and priorities as the OIG identifies the challenges helps in planning our work and directing OIG resources to key areas of risk.

Unprecedented events and turmoil in the economy and financial services industry over the past year and a half have impacted every facet of the FDIC's mission and operations and continue to pose challenges. In looking at the recent past and the current environment and anticipating to the extent possible what the future holds, the Office of Inspector General (OIG) believes the FDIC faces challenges in the areas listed below. While the Corporation's most pressing priority has been its continuing efforts to restore and maintain public confidence and stability, challenges have persisted in other areas as well. We would note in particular that the Corporation is devoting significant attention to carrying out its massive resolution and receivership workload, brought on by 140 financial institution failures over the past year, in contrast to 25 failures during 2008 and 3 in 2007. Further, the Chairman has indicated that the FDIC anticipates failures during 2010 to exceed the level in 2009. At the same time, as we pointed out last year, the FDIC faces challenges in maintaining the viability of the Deposit Insurance Fund (DIF), enhancing its supervision of financial institutions, protecting consumers, and managing its growing internal and contractor workforce and other corporate resources. The Corporation will continue to face daunting challenges as it carries out its longstanding mission, responds to emerging issues, and plays a key part in shaping the future of bank regulation.

Restoring and Maintaining Public Confidence and Stability in the Financial System

Importantly, and integral to maintaining confidence and stability in the financial system, notwithstanding the 140 failures of 2009, the FDIC stood behind its deposit insurance commitment, and no depositor lost a single penny of insured deposits. Additionally, over the past year, the FDIC played a key role, along with other regulators, the Congress, the Department of the Treasury, financial institutions, and other stakeholders in a number of temporary financial stability programs that were formed to address crisis conditions. These included the Temporary Liquidity Guarantee Program, Troubled Asset Relief Program, and loan modification programs, to name a

few. Some of these have wound down, others are ongoing. The fulfillment of the FDIC's insurance commitment and the successful implementation of programs designed to ensure the flow of credit, strengthen the financial system, and provide aid to homeowners and small businesses have gone a long way in helping to restore confidence and stability in the financial system. Going forward, the Corporation will need to continue to remain poised to address new challenges. For example, emerging problems in the commercial real estate (CRE) sector will likely require attention. While residential real estate markets suffered first during the recent crisis, problems on the commercial side came about later. Sales of commercial real estate slowed dramatically in 2008 and 2009, as vacancy rates and rental rates declined significantly. CRE price declines have also been larger on average than declines in home values, with CRE price indices down by over 40 percent from their fall 2007 high point. The sharp decline is attributable in part to higher required rates of return on the part of investors and deterioration in the availability of credit for commercial real estate financing. Banks will likely increasingly feel the repercussions of stress in the CRE sector in the months ahead, and the FDIC will need to closely monitor the impact of such problems on the institutions it regulates and insures.

Over the past year, the FDIC has also been a proponent of certain changes to the financial regulatory system to further stabilize and shore up confidence in the financial services industry. In that connection, the FDIC Chairman believes we need to move away from the concept of "too big to fail" and create a system of macro-prudential supervision for systemically important financial firms and other large/complex institutions to address the fundamental causes of the recent crisis. These entities make up a significant share of the banking industry's assets. Although the FDIC is not the primary federal regulator for these institutions, it holds significant responsibility as deposit insurer for all. The FDIC has expanded its own presence at such institutions through additional and enhanced on-site and off-site monitoring and oversight. As of the end of December 2009, its Large Insured Depository Institution program covered 109 institutions with total assets of more than $10 trillion. Early identification and remediation of issues that pose risks to the overall financial system will continue to be a challenging task.

In a related vein, the FDIC has also endorsed a resolution mechanism that can effectively address failed financial firms regardless of their size and complexity and assure that shareholders and creditors absorb losses without cost to the taxpayers. Such a mechanism would maintain financial market stability and minimize systemic consequences for the national and international economy. The Corporation may face challenges as it advocates for changes to the supervision and resolution of systemically important financial firms.

As the debate continues over these and other aspects of regulatory reform in the months ahead, the FDIC's continuous coordination and cooperation with the other federal regulators and parties throughout the banking and financial services industries will be critical. The FDIC, along with other regulators, will continue to be subject to increased scrutiny and possible corresponding regulatory reform proposals that may have a substantial impact on the regulatory entities and the programs and activities they currently operate.

Resolving Failed Institutions and Managing Receiverships

A fundamental part of the FDIC mission and perhaps the Corporation's most significant current challenge is efficiently handling the resolutions of failing FDIC-insured institutions and providing prompt, responsive, and effective administration of failing and failed financial institutions in its receivership capacity. The resolution process involves the complex process of valuing a failing federally insured depository institution, marketing it, soliciting and accepting bids for the sale of the institution, considering the least costly resolution method, determining which bid to accept, and working with the acquiring institution through the closing process. The receivership process, also demanding, involves performing the closing function at the failed bank; liquidating any remaining assets; and distributing any proceeds to the FDIC, the bank customers, general creditors, and those with approved claims.

The Corporation is now facing a resolution and receivership workload of huge proportion. One hundred forty institutions failed during 2009, with total assets at failure of $171.2 billion and total estimated losses to the Deposit Insurance Fund of approximately $35.6 billion. During 2009, the number of institutions on the FDIC's "Problem List" also rose to its highest level in 16 years. As of December 31, 2009, there were 702 insured institutions on the "Problem List," indicating a probability of more failures to come and an increased asset disposition workload. Total assets of problem institutions increased to $402.8 billion as of year-end 2009. As of the end of December 2009, the Division of Resolutions and Receiverships was managing 187 active receiverships, with assets totaling about $41 billion.

Of special note, the FDIC is retaining large volumes of assets as part of purchase and assumption agreements with institutions that are assuming the insured deposits of failed institutions. A number of the purchase and assumption agreements include shared-loss arrangements with other parties that involve pools of assets worth billions of dollars and that can extend up to 10 years. From a dollar standpoint, the FDIC's exposure is staggering: as of December 31, 2009, the Corporation was party to 93 shared loss agreements related to closed institutions, with initial covered assets of $126.4 billion. Because the assuming institutions are servicing the assets and the FDIC is reimbursing a substantial portion of the related losses and expenses, there is significant risk to the Corporation. Additionally, the FDIC is increasingly using structured sales transactions to sell assets to third parties that are not required to be regulated financial institutions. Such arrangements need to be closely monitored to ensure compliance with all terms and conditions of the agreements at a time when the FDIC's control environment is continuing to evolve.

It takes a substantial level of human resources to handle the mounting resolution and receivership workload, and effectively administering such a complex workforce will be challenging. DRR staffing grew from approximately 400 employees at the start of 2009 to the year-end staffing level of 1,158 full-time equivalents. The FDIC Board of Directors approved a further increase in the Division's staffing to 2,310 for 2010. Most of these new employees have been hired on non-permanent appointments with terms of up to 5 years. Additionally, over $1.8 billion will be available for

contracting for receivership-related services during 2010, and by the end of 2009, DRR already employed over 1,500 contractor personnel. The significant surge in failed-bank assets and associated contracting activities will require effective and efficient contractor oversight management and technical monitoring functions. Bringing on so many contractors and new employees in a short period of time can strain personnel and administrative resources in such areas as employee background checks, which, if not timely and properly executed can compromise the integrity of FDIC programs and operations.

As the Corporation's workforce responds to institution failures and carries out its resolution and receivership responsibilities, it will face a number of challenges. It needs to ensure that related processes, negotiations, and decisions regarding the future status of the failed or failing institutions are marked by fairness, transparency, and integrity. It will be challenged in timely marketing failing institutions to qualified and interested potential bidders, selling assets, and maximizing potential values of failed bank franchises. Over time, these tasks may be even more difficult, given concentrations of assets in the same geographic area, a decreasing pool of interested buyers, and an inventory of less attractive or hard-to-sell assets. It is also possible that individuals or entities that may have been involved in previous institution failures could try to reenter the FDIC's asset purchase and management arena. Appropriate safeguards must be in place to ensure the Corporation knows the backgrounds of its bidders and acquirers to prevent those parties from profiting at the expense of the Corporation. Finally, in order to minimize costs, it will be important to terminate in a timely manner those receiverships not subject to loss-share agreements, structured sales, or other legal impediments.

Ensuring the Viability of the Deposit Insurance Fund (DIF)

A critical priority for the FDIC is to ensure that the DIF remains viable to protect insured depositors in the event of an institution's failure. The basic maximum insurance amount under current law is $250,000 through year-end 2013. Estimated insured deposits based on the current limit rose to $5.4 trillion as of December 31, 2009.

The DIF has suffered from the failures of the past. Estimated losses from failures in 2008 totaled $19.8 billion and from failures in 2009 totaled $35.6 billion. To maintain sufficient DIF balances, the FDIC collects risk-based insurance premiums from insured institutions and invests deposit insurance funds. In September 2009, the FDIC's DIF balance—or the net worth of the fund—fell below zero for the first time since the third quarter of 1992. The fund balance of negative $20.9 billion as of December 31, 2009, reflects a $44 billion contingent loss reserve that has been set aside to cover estimated losses over the next year. Just as banks reserve for loan losses, the FDIC has to set aside reserves for anticipated closings over the next year. Combining the fund balance with this contingent loss reserve showed total DIF reserves with a positive balance of $23.1 billion.

The FDIC Board of Directors closely monitors the viability of the DIF. In February 2009, the FDIC Board took action to ensure the continued strength of the fund by imposing a one-time emergency special assessment on institutions as of June 30, 2009. On two occasions, the Board also set assessment rates that generally increase

the amount that institutions pay each quarter for insurance and also made adjustments that expand the range of assessment rates. The Corporation had adopted a restoration plan in October 2008 to increase the reserve ratio to the 1.15 percent designated threshold within five years. In February 2009, the Board voted to extend the restoration plan horizon to seven years and in September 2009 extended the time frame to eight years. As of December 31, 2009, the reserve ratio was negative 0.39 percent.

To further bolster the DIF's cash position, the FDIC Board approved a measure on November 12, 2009, to require insured institutions to prepay 13 quarters' worth of deposit insurance premiums—about $45.7 billion—at the end of 2009. The intent of this measure was to provide the FDIC with the funds needed to carry on with the task of resolving failed institutions in 2010, but without accelerating the impact of assessments on the industry's earnings and capital. The Corporation will face challenges going forward in its ongoing efforts to replenish the DIF and implement a deposit insurance premium system that differentiates based on risk to the fund.

The Corporation will also be continuing to play a leadership role in its work with global partners on such matters as Basel II to ensure strong regulatory capital standards to protect the international financial system from problems that might arise when a major bank or series of banks fail.

Ensuring Institution Safety and Soundness Through an Effective Examination and Supervision Program

The Corporation's bank supervision program promotes the safety and soundness of FDIC-supervised insured depository institutions. As of December 31, 2009, the FDIC was the primary federal regulator for about 5,000 FDIC-insured, state-chartered institutions that were not members of the Federal Reserve System (generally referred to as "state non-member" institutions). The examination of the banks that it regulates is a core FDIC supervisory function. The Corporation also has back-up examination authority to protect the interests of the deposit insurance fund for about 3,000 national banks, state-chartered banks that are members of the Federal Reserve System, and savings associations.

In the current environment, efforts to continue to ensure safety and soundness and carry out the examination function will be challenging in a number of ways. Of particular importance for 2010 is that the Corporation needs to continue to assess the implications of the recent financial and economic crisis and integrate lessons learned and any needed changes to the examination program into the supervisory process. At the same time, it needs to continue to carry out scheduled examinations to ensure the safety and soundness of the thousands of institutions that it regulates. The Corporation has developed a comprehensive "forward-looking supervision" training program for its examiners designed to build on lessons learned over the past year or so and will need to put that training into practice going forward.

As in the past, the Corporation needs to ensure it has sufficient resources to keep pace with its rigorous examination schedule and the needed expertise to address complex transactions and new financial instruments that may affect an institution's safety and soundness. In light of the many changes in financial institution operations over the past year or so, the FDIC's examination workforce may need to review and comment

on a number of new issues when they assign examination ratings. With respect to risk management examinations, senior DSC management and examiners will need to continue to adopt the "forward-looking" supervisory approach, carefully assess the institution's overall risks, and base ratings not on current financial condition alone, but rather on consideration of possible future risks. These risks should be identified by rigorous and effective on-site and off-site review mechanisms and accurate metrics that identify risks embedded in the balance sheets and operations of the insured depository institutions so that steps can be taken to mitigate their impact on the institutions.

The Corporation's supervision workload is further compounded by the increased number of problem institutions that exist, as referenced earlier—that is, institutions assigned a composite rating of 4 or 5 under the Uniform Financial Institutions Rating System by its primary federal regulator or by the FDIC if it disagrees with the primary federal regulator's rating. Problem institutions are subject to close supervision with more frequent examinations, visitations, and off-site reviews. They are also subject to enforcement actions requiring corrective actions designed to resolve the bank's deteriorating condition. In light of recent failures, such scrutiny is of paramount importance.

In all cases, examiners need to continue to bring any identified problems to the bank's Board and management's attention, assign appropriate ratings, and make actionable recommendations to address areas of concern. In doing so they will continue to need the full support of senior FDIC management. Subsequently, the FDIC's corrective action and follow-up processes must be effective to ensure institutions are promptly complying with any supervisory enforcement actions—informal or formal—resulting from the FDIC's risk-management examination process. In some cases, to maintain the integrity of the banking system, the Corporation will also need to aggressively pursue prompt actions against bank boards or senior officers who may have contributed to an institution's failure.

The rapid changes in the banking industry, increase in electronic and on-line banking, growing sophistication of fraud schemes, and the mere complexity of financial transactions and financial instruments all create potential risks at FDIC-insured institutions and their service providers. These risks could negatively impact the FDIC and the integrity of the U.S. financial system and contribute to institution failures if existing checks and balances falter or are intentionally bypassed. The FDIC must seek to minimize the extent to which the institutions it supervises are involved in or victims of financial crimes and other abuse. It needs to continue to focus on Bank Secrecy Act examinations to prevent banks and other financial service providers from being used as intermediaries for, or to hide the transfer or deposit of money derived from, criminal activity. FDIC examiners need to be alert to the possibility of other fraudulent activity in financial institutions, and make full use of reports, information, and other resources available to them to help detect such fraud.

Protecting and Educating Consumers and Ensuring an Effective Compliance Program

The FDIC's efforts to ensure that banks serve their communities and treat consumers fairly continue to be a priority. The FDIC carries out its

consumer protection role by educating consumers, providing them with access to information about their rights and disclosures that are required by federal laws and regulations, and examining the banks where the FDIC is the primary federal regulator to determine the institutions' compliance with laws and regulations governing consumer protection, unfair or deceptive acts and practices, fair lending, and community investment. 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. Proactively identifying and assessing potential risks associated with new and existing consumer products will continue to challenge the FDIC.

The FDIC will continue to conduct Community Reinvestment Act (CRA) examinations in accordance with the CRA, 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. The Corporation needs to maximize the benefits of the interactions between its compliance and risk management functions in the interest of maintaining healthy, viable institutions that serve their communities well.

The FDIC will continue to address its mounting workload of responding to public inquiries from consumers regarding deposit insurance coverage and other concerns stemming from the financial distress they have experienced. Also, the Corporation will continue to emphasize financial literacy to promote the importance of personal savings, responsible financial management, and the benefits and limitations of deposit insurance. It will continue educational and outreach endeavors to disseminate updated information to all consumers, including the unbanked and underbanked, going forward so that taxpayers have the needed knowledge for responsible financial management and informed decision-making.

With respect to consumer protections in the context of possible regulatory reform, the FDIC supports the establishment of a single primary federal consumer-products regulator. In the FDIC's view, such an entity should regulate providers of consumer credit, savings, payment, and other financial products and services. It should have sole rulemaking authority for consumer financial protection statutes and should have supervisory and enforcement authority over all non-bank providers of consumer credit and back-up supervisory authority over insured depository institutions. As with other regulatory reform initiatives, the FDIC may face challenges as it seeks to make this concept a reality in the coming months.

Effectively Managing the FDIC Workforce and Other Corporate Resources

The FDIC's human, financial, IT, and physical resources have been stretched over the past year and the Corporation will continue to face challenges during 2010 in promoting sound governance and effective stewardship of its core business processes and resources. Of particular note, FDIC staffing levels are increasing dramatically. The Board approved a 2010 FDIC staffing level of 8,653, reflecting an increase from 7,010 positions in 2009. These staff—mostly temporary,

and including a number of rehired annuitants —will perform bank examinations and other supervisory activities to address bank failures, and, as mentioned previously, an increasing number will be devoted to managing and selling assets retained by the FDIC when a failed bank is sold. The FDIC has opened two new temporary Satellite Offices (East Coast and West Coast) and will open a third in the Midwest for resolving failed financial institutions and managing the resulting receiverships. As referenced earlier, the Corporation's contracting level has also grown significantly, especially with respect to resolution and receivership work.

Opening new offices, rapidly hiring and training many new staff, expanding contracting activity, and training those with contract oversight responsibilities are all placing heavy demands on the Corporation's personnel and administrative staff and operations. When conditions improve throughout the industry and the economy, a number of employees will need to be released and staffing levels will return to a pre-crisis level, which may cause additional disruption to ongoing operations and the working environment. Among other challenges, pre- and post-employment checks for new employees and contractors will need to ensure the highest standards of ethical conduct, and for all employees, the Corporation will seek to sustain its emphasis on fostering employee engagement and morale.

To support these increases in FDIC and contractor resources, the Board approved a nearly $4.0 billion 2010 Corporate Operating Budget, approximately $1.4 billion higher than for 2009. The FDIC's operating expenses are largely paid from the insurance fund, and consistent with sound corporate governance principles, the Corporation's financial management efforts must continuously seek to be efficient and cost-conscious.

Amidst the turmoil in the industry and economy, the FDIC is engaging in massive amounts of information sharing—both internally and with external partners. Its information technology resources need to ensure the integrity, availability, and appropriate confidentiality of bank data, personally identifiable information, and other sensitive information in an environment of increasingly sophisticated security threats and global connectivity. Continued attention to ensuring the physical security of all FDIC resources is also critical.

The FDIC's numerous enterprise risk management activities need to consistently identify, analyze, and mitigate operational risks on an integrated, corporate-wide basis. 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 further enhance risk monitoring efforts, the Corporation has established six new Program Management Offices to address risks associated with such activities as shared loss agreements, contracting oversight for new programs and resolution activities, the systemic resolution authority program, and human resource management concerns. These new offices and the contractors engaged to assist them will require additional oversight mechanisms to help ensure their success.

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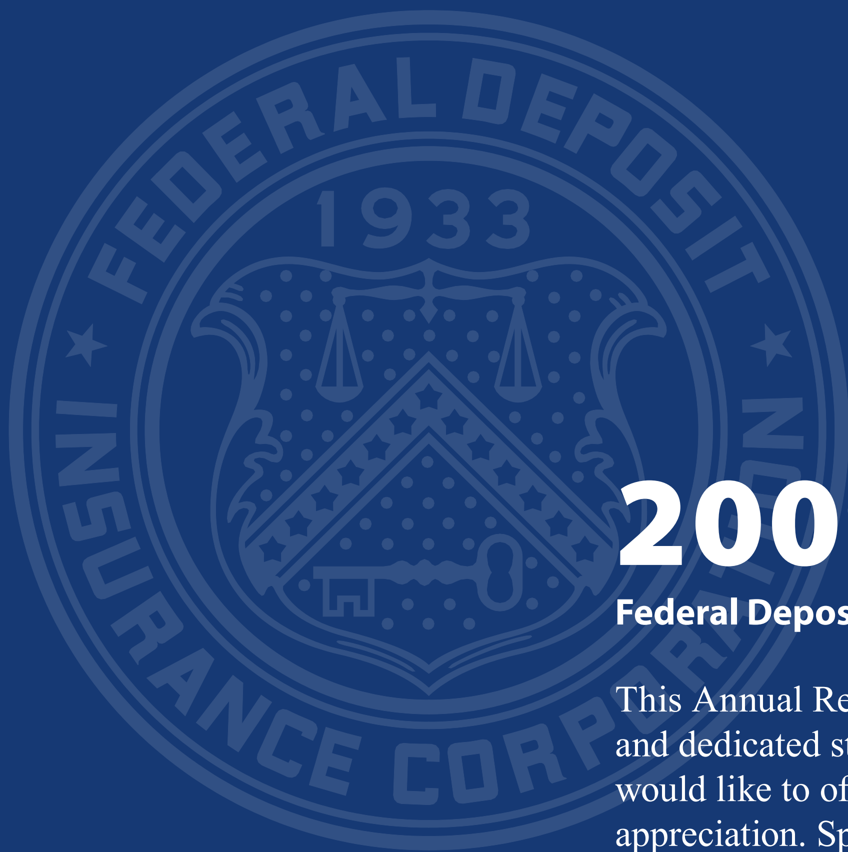
The FDIC OIG is committed to its mission of assisting and augmenting the FDIC's contribution to stability and public confidence in the nation's financial system. Now more than ever, we have a

crucial role to play to help ensure economy, efficiency, effectiveness, integrity, and transparency of programs and associated activities, and to protect against fraud, waste, and abuse that can undermine the FDIC's success. Our management and performance challenges evaluation is based primarily on the FDIC's operating environment and available information as of the end of 2009, unless otherwise noted. We will continue to communicate and coordinate closely with the Corporation, the Congress, and other financial regulatory OIGs as we address these issues and challenges. Results of OIG work will be posted at www.fdicig.gov.



2009

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.

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FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

FEDERAL
DEPOSIT
INSURANCE
CORPORATION

550 17th Street, NW
Washington, DC 20429-9990

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