FDIC

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

April 30, 2007

MEMORANDUM TO: The Board of Directors

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

Frederick S. Selby
Director, Division of Finance

SUBJECT: First Quarter 2007 CFO Report to the Board

The attached report highlights the Corporation's financial activities and results for the three-month period ending March 31, 2007.

Executive Summary

- The Deposit Insurance Fund (DIF) fund balance grew by 1.2 percent to $50.7 million during the first quarter of 2007, equaling the same percentage increase for the comparable period in 2006. DIF's comprehensive income for the first quarter of 2007 was slightly lower compared to a year ago ($580 million vs. $596 million). However, if the one-time adjustment for exit fees earned of $346 million is excluded from the 2006 results, DIF's first quarter 2007 comprehensive income rose by $330 million, or 132 percent. This increase resulted primarily from higher assessment revenue ($89 million), an increase in interest revenue ($89 million), and a higher contribution to the year-to-date comprehensive income from unrealized gain/(loss) on available-for-sale (AFS) securities ($138 million).

- In February 2007, the FDIC was appointed receiver of Metropolitan Savings Bank, Pittsburgh, PA (total assets of $15.8 million), which was the first FDIC-insured bank failure in over two and one-half years. The DIF disbursed $17.3 million to cover obligations to insured depositors of the failed bank and recorded an allowance for loss of $2.5 million against this receivable. This estimated loss is likely to substantially increase based on a further review of the institution's unrecorded assets and liabilities.

- For the three months ending March 31, 2007, Corporate Operating and Investment Budget related expenditures ran below budget by 12 percent and 31 percent, respectively. The variance with respect to the Corporate Operating Budget expenditures was primarily the result of limited resolutions and receivership activities in the Receivership Funding component of the budget through the first quarter. Detailed quarterly reports are provided separately to the Board by the Capital Investment Review Committee for those information technology projects that are included in the Investment Budget.

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

Trends and Outlook	
Financial Results	Comments
I. Financial Statements	• During the first quarter of 2007, DIF's net receivables from resolutions declined by $108 million, or 20 percent, to $431 million. This reduction is primarily due to collections from receiverships totaling $112 million to repay payments made by the DIF to cover the obligations to insured depositors ($56 million from Superior Bank, $33 million from Hamilton Bank, and $23 million from Southern Pacific Bank) that was partially offset by the recordation of a $15 million net receivable from the failure of Metropolitan Savings Bank. By year-end 2007, absent any new, substantial failure activity, DIF's net receivables from resolutions is expected to further decline by approximately $142 million, or 33 percent, to $289 million, assuming favorable resolution of various receivership asset dispositions, litigation efforts, and payment of dividends.
II. Investments	• The DIF portfolio's par value increased by 1.22 percent during the first quarter of 2007, and totaled $47.051 billion on March 31, 2007. Moreover, while the securities that were purchased during this period had slightly lower yields than maturing securities, this factor was more than offset by higher yielding overnight investments. Consequently, the DIF portfolio's yield increased by three basis points during the first quarter of 2007, rising to 4.92 percent as of March 31, 2007, from 4.89 percent as of December 31, 2006. • Expectations are for Treasury market yields to continue to trade generally within the range exhibited during the first quarter of 2007, but with the potential for a modest rise from quarter-end levels. This, coupled with a growing DIF portfolio balance, should lead to increased interest revenue over the long run. Over the short run, any increase in yields will accelerate the erosion of existing net unrealized gains on available-for-sale (AFS) securities. Moreover, regardless of changes in yields, existing net unrealized gains will be reduced due to the passage of time (that is, any unrealized gains or losses vanish as AFS securities approach their maturity dates).

Trends and Outlook	
Financial Results	Comments
III. Budget	• Approximately $227 million was spent in the Ongoing Operations component of the 2007 Corporate Operating Budget, which was $16 million (7 percent) below the budget for the three months ending March 31, 2007. The Outside Services - Personnel expense category was $7 million below its year-to-date budget, and represents 42 percent of the total Ongoing Operations variance. • Approximately $2 million was spent in the Receivership Funding component of the 2007 Corporate Operating Budget, which was $17 million (89 percent) below the budget for the three months ending March 31, 2007. The Outside Services - Personnel expense category was $14 million below its year-to-date budget, and represents 85 percent of the total Receivership Funding variance.

I. **<u>Corporate Fund Financial Statement Results</u>** (See pages 9 - 10 for detailed data and charts.)

Deposit Insurance Fund (DIF)

- For the three months ending March 31, 2007, DIF's comprehensive income totaled $580 million compared to $596 million last year, a decrease of 2.7 percent. Excluding the recognition of exit fees earned of $346 million (a one-time adjustment), comprehensive income actually rose by $330 million from a year ago. This year-over-year increase is primarily due to increases in the following line items: $89 million increase in assessments earned, $89 million increase in interest earned on investment securities, and a $138 million higher contribution to year-to-date comprehensive income from unrealized gain/(loss) on AFS securities, net.

- DIF reported an 18.6 percent ($89 million) increase in interest income during the first quarter of 2007 compared to a year ago, primarily stemming from higher inflation compensation related to the DIF's holdings of Treasury Inflation-Protected Securities (TIPS). In addition, the DIF reported an unrealized gain on AFS securities of $81 million during the first quarter of 2007, compared to an unrealized loss of $57 million during the first quarter of 2006. The first quarter 2007 unrealized gain stemmed from a decline in market yields, despite the lower duration for the AFS securities held in the DIF's investment portfolio.

- DIF recorded a $94 million receivable for estimated net deposit insurance assessments due from insured institutions for first quarter 2007 insurance coverage. Starting this quarter, the FDIC must estimate assessment revenue, and establish a corresponding receivable, because assessment premiums are now collected a quarter **after** the insurance coverage period (a change from the previous 'payment in advance' requirement). The FDIC has developed an estimation methodology based on institution assessment base and rate results, and available assessment credits, for the prior quarter, adjusted for significant changes in the current quarter and a modest deposit growth factor. The first quarter 2007 receivable of $94 million was the result of netting $820 million in assessment credits estimated to be used by financial institutions against estimated gross assessment revenue of $914 million. However, this estimate may differ from the amount collected in June 2007 since the invoice amount will be based on actual first quarter 2007 assessment base, rate, and credit results.

FSLIC Resolution Fund (FRF)

- FRF reported a net loss of $19 million for the first quarter of 2007 as a result of several offsetting factors. The FRF incurred $107.3 million in Goodwill litigation expenses due to the payment of a $32.8 million Goodwill judgment and the accrual of a $74.5 million estimated loss for a second Goodwill case. These Goodwill litigation expenses were partially offset by 1) $41 million in interest earned on U.S. Treasury overnight securities, 2) $20 million in criminal restitution income, 3) $13 million in FSLIC assistance agreement tax benefits, and 4) the net effect of a $22.5 million payment for a Guarini litigation settlement and the reversal of a $27.1 million loss reserve for this same case. This Guarini settlement concludes the last of the eight Guarini cases originally filed against the government seeking damages.

<u>II. DIF Investment Results</u> (See pages 11 – 12 for detailed data and charts.)

DIF

- During the first quarter of 2007, the par value of the DIF investment portfolio increased by $568 million or by 1.22 percent—from $46.483 billion on December 31, 2006, to $47.051 billion on March 31, 2007. Moreover, during the quarter, the DIF portfolio's market value increased by $730 million or by 1.49 percent, from $49.038 billion on December 31, 2006, to $49.768 billion on March 31, 2007.

- The DIF investment portfolio's total return for the first quarter of 2007 was 1.655 percent, approximately 10.3 basis points higher than the return of the benchmark, the Merrill Lynch 1 - 10 Year U.S. Treasury Index (Index), which earned 1.552 percent during the same period. The outperformance relative to the benchmark can be attributed to the strong performance of the DIF investment portfolio's TIPS holdings, which outperformed the benchmark's conventional securities during the quarter.

- During the first quarter of 2007, staff purchased Treasury securities on two occasions, both purchases occurring in January. Staff purchased four securities with a total par value of $1.300 billion, a weighted average maturity of 6.34 years, a weighted average duration of 5.10 years, and a weighted average yield-to-maturity of 4.835 percent. During February and March, staff continued its recent practice of deferring purchases of longer-maturity securities and holding excess funds in higher-yielding overnight investments. On March 31, 2007, the DIF portfolio's overnight investment balance was $3.709 billion, well above its $150 million target floor, and higher than the $2.949 billion balance on December 31, 2006, meaning that staff purchased a smaller amount of Treasury securities compared to the amount of net cash received during the quarter.

- In line with consensus expectations, yields should continue to trade generally within their current range, but with the potential for a modest rise from quarter-end levels. Similar to the strategy employed during the first quarter, during the second quarter, staff will take advantage of instances when yields rise toward the upper end of this trading range and accordingly will deploy funds into longer-maturity higher-yielding securities.

The Treasury Market

- During the first quarter of 2007, conventional Treasury yields were little changed over the short-end of the curve and decreased modestly across the remaining maturity sectors. This non-parallel yield curve shift may be attributed to market expectations that the Federal Reserve was unlikely to cut the federal funds target rate over the near term, although expectations for rate cuts later this year have grown stronger. The yield on the three-month Treasury bill increased by two basis points, while the yield on the six-month Treasury bill decreased by two basis points. The two-year note yield, which is also sensitive to actual as well as anticipated changes in the federal funds rate, decreased by 24 basis points, again, reflecting stronger consensus expectations that the federal funds target rate will be cut later this year. Intermediate-term Treasury yields also decreased, with the five-year Treasury note yield declining 16 basis points and the ten-year note yield declining a more modest six basis points. The Treasury yield curve ended the first quarter very flat and slightly positive; on March 31, 2007, the ten-year to two-year yield curve spread was a positive seven basis points (compared to a negative 11-basis point spread at end of the fourth quarter of 2006). From a recent historical perspective, the curve remains significantly flatter; over the past five years, this spread has averaged 123 basis points.

- During the first quarter of 2007, TIPS real yields decreased, reflecting concerns over weak economic growth as well as lingering inflationary pressures. For example, the real yield on the DIF portfolio's longest-maturity TIPS (with a maturity of a little under five years) decreased by 41 basis points. The real yield on the ten-year TIPS maturing on January 15, 2016, decreased by 23 basis points.

Prospective Strategies

- The current DIF investment strategy provides the flexibility to purchase a wide range of different Treasury securities with varying maturities, depending on Treasury market conditions and developments during the second quarter of 2007. Similar to the first quarter 2007 investment strategy, if higher yields become available—either as a result of an upward shift in the yield curve or because of potential yield volatility—the second quarter 2007 strategy provides the flexibility to purchase comparatively higher-yielding, longer-maturity Treasury securities. Given the flat Treasury yield curve, purchasing short- and intermediate-maturity Treasuries may also make sense.

- The DIF portfolio's primary reserve target floor balance will remain at $10 billion for the second quarter of 2007. The target limit for TIPS will also remain at its current $10 billion target, while the AFS security target limit is being increased from $8.7 billion to $9.0 billion to help ensure that the primary target floor balance can be maintained during 2007 (see attached Approved Investment Strategy).

III. <u>Budget Results</u> (See pages 13 - 14 for detailed data.)

Approved Budget Modifications

During the first quarter of 2007, three modifications were made to the 2007 Corporate Operating Budget and/or authorized staffing, in accordance with the authority delegated by the Board of Directors in the 2007 Budget Resolution:

- The Chief Financial Officer approved the reallocation of $2,208,024 within the Ongoing Operations component of the approved 2007 Corporate Operating Budget from the Division of Resolutions and Receiverships (DRR) to the Division of Finance (DOF). The reallocation was made in conjunction with a reorganization that transferred the deposit insurance compliance function, along with the 13 authorized positions, from DRR to DOF.

- Two divisions, the Division of Information Technology (DIT) and the Division of Supervision and Consumer Protection (DSC), made minor reallocations among the major expense categories of their respective operating budgets. The total of these adjustments increased Outside Services – Other by $642,868, Outside Services – Personnel by $398,881, and Other Expenses by $196,846. This was offset by decreasing Equipment by $709,997 and Travel by $528,598.

Status of Spending for the Implementation of Deposit Insurance Reform

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

- Approximately $1.4 million was spent for system development and enhancement activities. In addition, about $0.6 million was approved by the Change Control Board for additional work that will be undertaken later in the year. A total of $4.7 million is budgeted in 2007 for systems work related to deposit insurance reform implementation.

- Approximately $0.4 million was spent for printing and distribution of updated deposit insurance brochures during the first quarter of 2007. Up to $0.8 million more will be spent revising the Spanish, Korean, and Chinese versions of *Insuring Your Deposit* and *Your Insured Deposit* later this year.

No funds have been spent in 2006 or 2007 for the additional staff in the Division of Insurance and Research (DIR) that the Board authorized to support deposit insurance pricing. DIR continues to defer hiring for those positions until final determinations are made about the new deposit insurance assessment system.

Spending Variances

Significant spending variances by major expense category and division/office are discussed below. Significant spending variances for the three months ending March 31, 2007, are defined as those that either (1) exceed the YTD budget by $3 million and represent more than five percent for a major expense category or total division/office budget; or (2) are under the YTD budget for a major expense category or division/office by an amount that exceeds $5 million and represents more than ten percent of the major expense category or total division/office budget.

Significant Spending Variances by Major Expense Category

Ongoing Operations

There was only one major expense category in which a significant spending variance occurred during the first quarter in the Ongoing Operations component of the Corporate Operating Budget:

- Outside Services-Personnel expenditures were $7 million, or 18 percent, less than budgeted. Approximately half of this variance was due to information technology (IT) project schedule changes and a decision by DIT management during its ongoing review of corporate IT priorities to scale back selected DIT internal activities. This made approximately $1.6 million available for reallocation to support continued expansion of the new Unix operating environment for projects under development, bringing to $5.0 million the total funds now planned to be spent for this purpose in 2007. The Chief Information Officer determined in February 2006 that Unix would provide a more modern and cost effective technological environment and designated it as the target architecture for the Corporation's IT infrastructure; initial purchases of equipment and software for the new environment were made during the fourth quarter of 2006, as previously reported to the Board. As additional funds are available, DIT plans to continue to expand the Unix environment to support new applications that can efficiently and effectively use this technology.

- In addition to the variance in IT contract spending, lower-than-budgeted first quarter spending for government litigation being handled by the Department of Justice contributed $1 million to the first quarter variance in the Outside Services-Personnel category. Another $0.8 million of the variance was the result of a delay in the award of a contract for the Identity Theft Media Campaign and the fact that DSC inadvertently neglected to accrue for IT support received from the FFIEC to meet Home Mortgage Disclosure Act/Community Reinvestment Act reporting requirements.

Receivership Funding

The Receivership Funding component of the Corporate Operating Budget includes funds budgeted for non-personnel expenses that are incurred in conjunction with an institution failure and the management and disposition of the assets and liabilities of the ensuing receivership. There was one major expense category in the Receivership Funding component in which a significant spending variance occurred during the first quarter:

- Outside Services-Personnel expenditures were $14 million, or 93 percent, less than budgeted, primarily due to the limited receivership and resolution activity that occurred during the quarter.

Significant Spending Variances by Division/Office[1]

There were two organizations that had a significant spending variance during the first quarter:

- DRR spent $13 million, or 53 percent, less than budgeted. This variance was fully attributable to under spending in the Receivership Funding component of DRR's operating budget primarily due to the limited receivership and resolution activity that occurred during the quarter.

- DIT spent $6 million, or 12 percent, less than budgeted. This was due largely to IT project schedule changes and a decision by DIT management to scale back selected DIT internal activities in order to reallocate funds to continue expansion of the new Unix operating environment, as described above. In addition, within the Corporation's Investment Budget, a major software purchase planned for the Claims Administration System investment project in March was delayed.

Other Matters

In accordance with the requirements of the 2007 Budget Resolution, an analysis of 2007 funding requirements for employee salaries and fringe benefits was completed after the close of the first quarter. The analysis determined that those costs had been over-estimated by approximately $2.6 million during the preparation of the 2007 Corporate Operating Budget. This represents only about four-tenths of one percent of the 2007 budget for Salaries and Compensation and could be affected by other factors during the remainder of the year, such as timing of actions to fill authorized vacancies. Accordingly, no action is being taken by the CFO to modify the 2007 budget for Salaries and Compensation that was approved by the Board in December 2006.

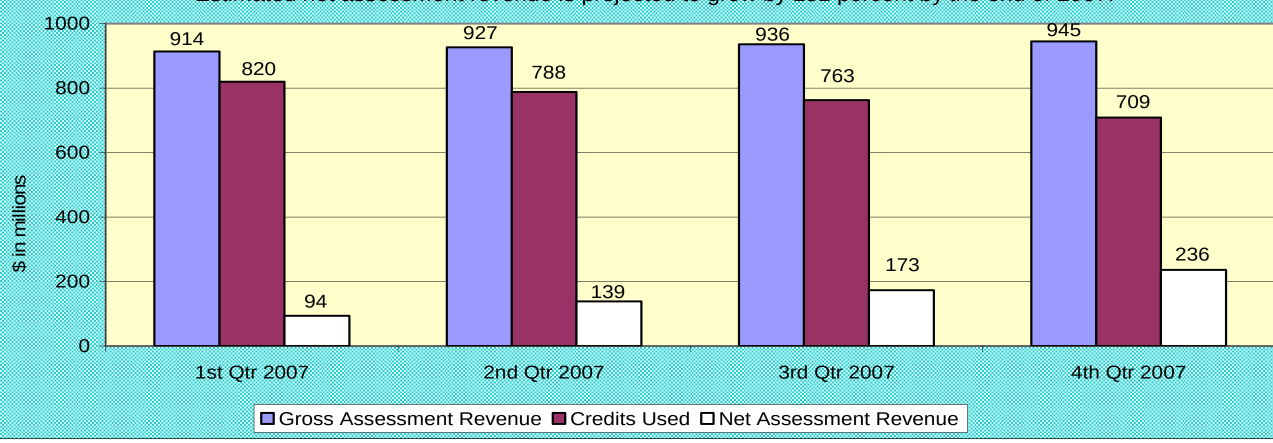
[1]Information on division/office variances reflects variances in both the Corporate Operating and Investment Budgets.

Fund Financial Results

($ in millions)

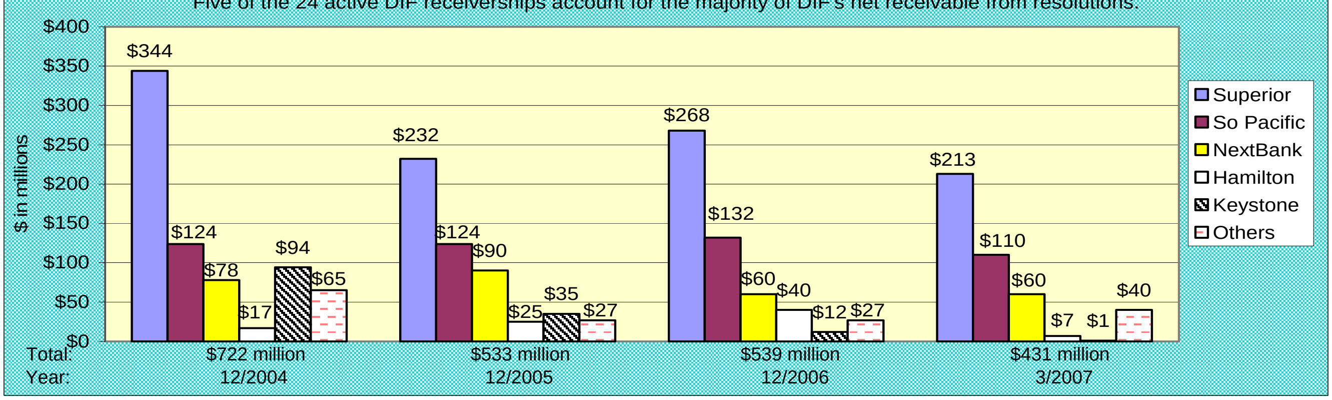
Balance Sheet	Deposit Insurance Fund				
	(unaudited) Mar-07	(audited) Dec-06	Change	% Change	(unaudited) Mar-06
Cash & cash equivalents	$ 3,712	$ 2,954	$ 758	26%	$ 1,426
Investment in U.S. Treasury obligations, net	45,942	46,142	(200)	(0.4%)	46,647
Assessments receivable, net	94	0	94	100%	0
Interest receivable on investments and other assets, net	682	748	(66)	(9%)	722
Receivables from resolutions, net	431	539	(108)	(20%)	497
Property, buildings and other capitalized assets, net	368	377	(9)	(2%)	377
Total Assets	$ 51,229	$ 50,760	$ 469	1%	$ 49,669
Accounts payable and other liabilities	119	154	(35)	(23%)	266
Postretirement benefit liability	130	130	0	0%	0
Contingent Liabilities: future failures	35	111	(76)	(68%)	9
Contingent Liabilities: litigation losses & other	200	200	0	0%	201
Total Liabilities	$ 484	$ 595	$ (111)	(19%)	$ 476
FYI: Unrealized gain on available-for-sale securities	315	234	81	35%	350
FYI: Unrealized postretirement benefit gain/(loss)	2	2	0	0%	0
FUND BALANCE	$ 50,745	$ 50,165	$ 580	1%	$ 49,193

Estimated net assessment revenue is projected to grow by 151 percent by the end of 2007.



Income Statement	Deposit Insurance Fund			
	(unaudited) Mar-07	(audited) Dec-06	(unaudited) Mar-06	Year-Over-Year Change
Assessments earned	$ 94	$ 32	$ 5	$ 89
Interest earned on investment securities	567	2,241	478	89
Exit fees earned	0	345	346	(346)
Other revenue	4	26	5	(1)
Total Revenue	$ 665	$ 2,644	$ 834	$ (169)
Operating expenses (includes depreciation expense)	239	951	224	15
Provision for insurance losses	(73)	(52)	(45)	(28)
Other expenses	0	6	2	(2)
Total Expenses & Losses	$ 166	$ 905	$ 181	$ (15)
Net Income	$ 499	$ 1,739	$ 653	$ (154)
Unrealized gain/(loss) on available-for-sale securities, net	81	(173)	(57)	138
Unrealized postretirement benefit gain/(loss)	0	2	0	0
YTD Comprehensive Income	$ 580	$ 1,568	$ 596	$ (16)

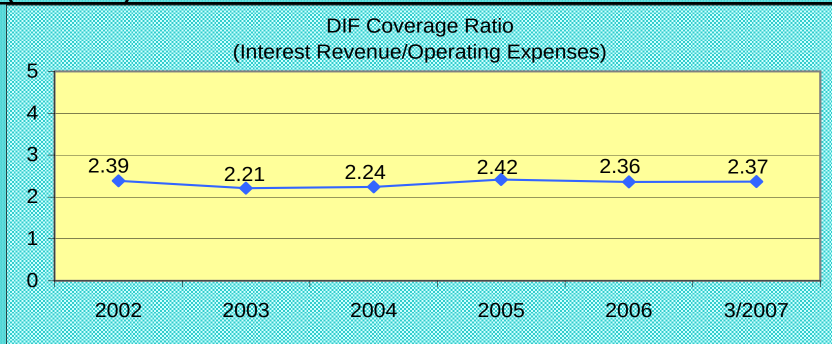
Five of the 24 active DIF receiverships account for the majority of DIF's net receivable from resolutions.



Fund Financial Results - continued

($ in millions)

Income Statement - (continued)

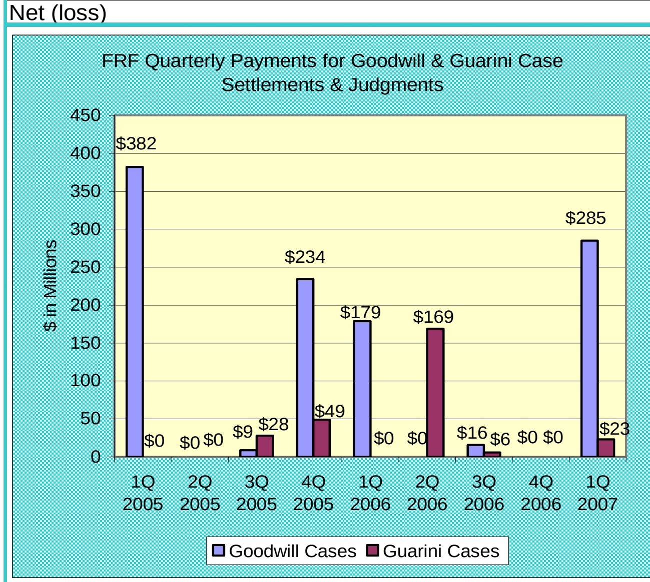


Statements of Cash Flows

	Deposit Insurance Fund			
	(unaudited) Mar-07	(audited) Dec-06	(unaudited) Mar-06	Year-Over-Year Change
Net Income	$ 499	$ 1,739	$ 653	$ (154)
Amortization of U.S. Treasury obligations (unrestricted)	136	599	148	(12)
TIPS Inflation Adjustment	(25)	(109)	39	(64)
Depreciation on property and equipment	13	53	13	0
Provision for insurance losses	(73)	(52)	(45)	(28)
Exit fees earned	0	(345)	(346)	346
Net change in operating assets and liabilities	37	100	74	(37)
Net Cash Provided by Operating Activities	$ 587	$ 1,985	$ 536	$ 51
Investments matured and sold	1,515	6,800	1,025	490
Investments purchased (includes purchase of property and equipment)	(1,344)	(9,062)	(3,366)	2,022
Net Cash (Used) by Investing Activities	$ 171	$ (2,262)	$ (2341)	$ 2512
Net Increase (Decrease) in Cash and Cash Equivalents	758	(277)	(1,805)	2,563
Cash and Cash Equivalents at beginning of year	2,954	3,231	3,231	(277)
Cash and Cash Equivalents - Ending	$ 3,712	$ 2,954	$ 1,426	$ 2286

FSLIC Resolution Fund (FRF)

	(unaudited) Mar-07	(audited) Dec-06	(unaudited) Mar-06	Year-Over-Year Change
Cash and cash equivalents	$ 3,676	$ 3,616	$ 3,636	$ 40
Accumulated deficit, net	(123,853)	(123,834)	(123,777)	(76)
Resolution equity	3,708	3,620	3,409	299
Total revenue	$ 64	$ 169	$ 37	$ 27
Operating expenses	0	12	3	(3)
Expenses for Goodwill/Guarini litigation	103	411	179	(76)
Net (loss)	$ (19)	$ (203)	$ (146)	$ 127



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

	Goodwill		Guarini	
	# of Cases	Amount Paid/ Accrued	# of Cases	Amount Paid
Dismissals/ Time	43	N/A	0	N/A
Settlements	18	$149 million	3	$121 million
Judgments	38	$1,157 million*	5	$153 million
Pending	23	N/A	0	N/A
Totals	122	$1,306 million	8	$274 million

* Four institutions account for 69% of the total Goodwill payments (Glendale Federal Bank - $382 million, Westfed Holdings, Inc. - $211 million, LaSalle Talman Bank - $155 million, and Home Savings of America - $150 million).

Deposit Insurance Fund Portfolio Summary (in millions)			
	3/31/07	12/31/06	Change
Par Value	$47,051	$46,483	$568
Amortized Cost	$49,333	$48,858	$475
Market Value	$49,768	$49,038	$730
Primary Reserve [1]	$16,057	$13,911	$2,146
Primary Reserve Target Floor	$10,000	$10,000	$0
Primary Reserve % of Total Portfolio	31.8%	28.0%	3.8%
Year-to-Date Total Return (Portfolio)	1.66%	4.06%	not applicable
Year-to-Date Total Return (Benchmark) [2]	1.55%	3.57%	not applicable
Total Return Variance (in basis points)	10	49	not applicable
Yield-to-Maturity [3]	4.92%	4.89%	0.03%
Weighted Average Maturity (in years)	3.47	3.57	(0.10)
Effective Duration (in years) [4]			
Total Portfolio	2.76	2.82	(0.06)
Available-for-Sale Securities	1.67	1.80	(0.13)
Held-to-Maturity Securities	3.30	3.29	0.01

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

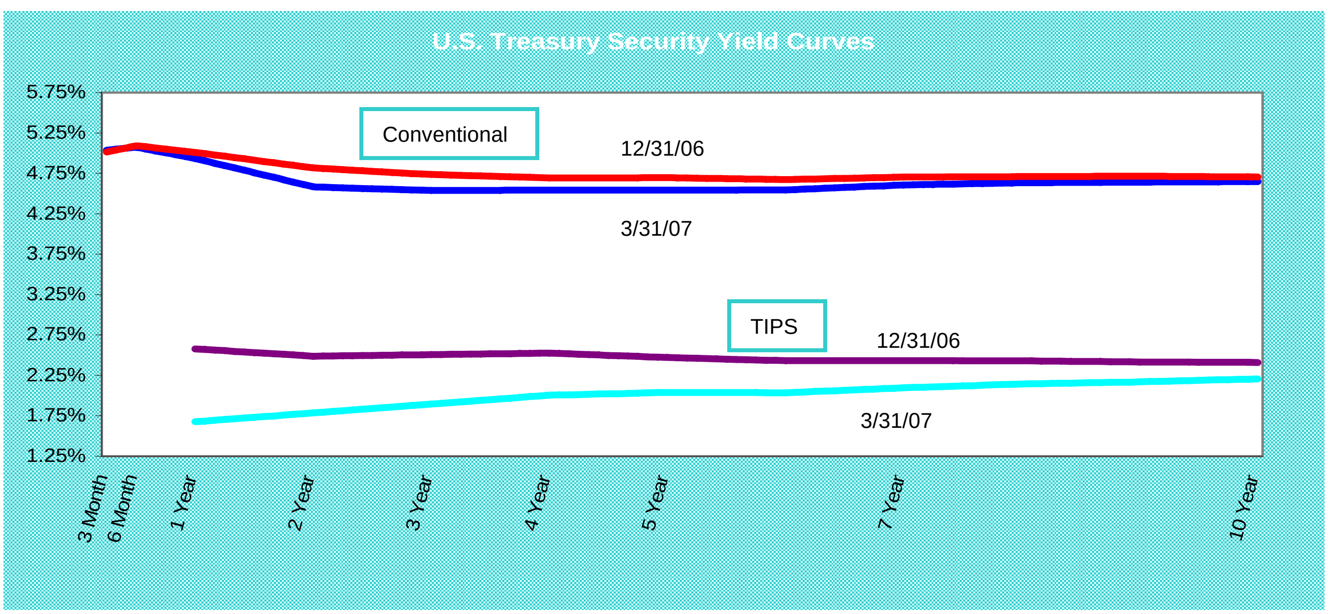
[2] The benchmark is the total return of the Merrill Lynch 1-10 Year U.S. Treasury Index.

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

[4] For each TIPS, a 80% factor is applied to its real yield duration to arrive at an estimated effective duration (note: factor updated in September 2006 to reflect recent past experience).

National Liquidation Fund (NLF) Investment Portfolio Summary (Dollar Values in Millions)			
	3/31/07	12/31/06	Change
Book Value [5]	$296	$381	($85)
Yield-to-Maturity	5.46%	5.37%	0.09%
Weighted Average Maturity (in days)	8	13	(5)

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



Approved Investment Strategy

DEPOSIT INSURANCE FUND

Current Strategy as of 1st Quarter 2007

Maintain a $150 million target floor overnight investment balance.

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

- → TIPS should not total more than $10.0 billion (adjusted par value) by quarter end;
- → Available-for-sale (AFS) securities should not total more than $8.7 billion (par value) by quarter end; and
- → All newly purchased AFS securities should have maturities of six years or less.

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

Strategy Changes for 2nd Quarter 2007

AFS securities target limit increased from $8.7 billion to $9.0 billion.

NATIONAL LIQUIDATION FUND

Current Strategy as of 1st Quarter 2007

Maintain a $30 million target floor overnight investment balance.

Strategically invest the remaining funds in the zero- to 12-month maturity sector.

Strategy Changes for 2nd Quarter 2007

None

Executive Summary of 2007 Budget and Expenditures by Major Expense Category Through March 31, 2007 (Dollars in Thousands)

Major Expense Category	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
Ongoing Operations				
Salaries & Compensation	$162,493	$158,141	97%	($4,352)
Outside Services - Personnel	36,387	29,763	82%	(6,624)
Travel	12,293	10,335	84%	(1,958)
Buildings	16,424	16,665	101%	241
Equipment	7,887	7,887	100%	0
Outside Services - Other	5,320	2,878	54%	(2,442)
Other Expenses	2,601	1,810	70%	(791)
Total Ongoing Operations	**$243,405**	**$227,479**	**93%**	**($15,926)**
Receivership Funding				
Salaries & Compensation	$855	$203	24%	($652)
Outside Services - Personnel	15,337	1,096	7%	(14,241)
Travel	1,411	350	25%	(1,061)
Buildings	575	314	55%	(261)
Equipment	56	2	4%	(54)
Outside Services - Other	136	14	10%	(122)
Other Expenses	380	8	2%	(372)
Total Receivership Funding	**$18,750**	**$1,987**	**11%**	**($16,763)**
Total Corporate Operating Budget	**$262,155**	**$229,466**	**88%**	**($32,689)**
Investment Budget [1]	**$5,602**	**$3,885**	**69%**	**($1,717)**
Grand Total	**$267,757**	**$233,351**	**87%**	**($34,406)**

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

Executive Summary of 2007 Budget and Expenditures by Budget Component and Division/Office Through March 31, 2007 (Dollars in Thousands)

Division/Office	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
Supervision & Consumer Protection	$96,237	$92,772	96%	($3,465)
Information Technology	42,921	38,669	90%	(4,252)
Administration	39,742	36,296	91%	(3,446)
Resolutions & Receiverships	24,743	11,448	46%	(13,295)
Legal	23,101	18,452	80%	(4,649)
Insurance & Research	9,161	8,378	91%	(783)
Finance	7,436	6,971	94%	(465)
Inspector General	6,281	5,788	92%	(493)
Corporate University	6,307	6,047	96%	(260)
Executive Support [1]	4,150	3,501	84%	(649)
Executive Offices [2]	1,076	1,144	106%	68
Government Litigation	1,000	0	0%	(1,000)
Total, Corporate Operating Budget	**$262,155**	**$229,466**	**88%**	**($32,689)**
Investment Budget [3]				
Information Technology	$5,451	$3,751	69%	($1,700)
Resolutions & Receiverships	52	115	221%	63
Insurance & Research	99	19	19%	(80)
Total, Investment Budget [3]	**$5,602**	**$3,885**	**69%**	**($1,717)**
Combined Division/Office Budgets				
Supervision & Consumer Protection	$96,237	$92,772	96%	($3,465)
Information Technology	48,372	42,420	88%	(5,952)
Administration	39,742	36,296	91%	(3,446)
Resolutions & Receiverships	24,795	11,563	47%	(13,232)
Legal	23,101	18,452	80%	(4,649)
Insurance & Research	9,260	8,397	91%	(863)
Finance	7,436	6,971	94%	(465)
Inspector General	6,281	5,788	92%	(493)
Corporate University	6,307	6,047	96%	(260)
Executive Support [1]	4,150	3,501	84%	(649)
Executive Offices [2]	1,076	1,144	106%	68
Government Litigation	1,000	0	0%	(1,000)
Grand Total	**$267,757**	**$233,351**	**87%**	**($34,406)**

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

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

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