

FDIC Quarterly

Quarterly Banking Profile:

Second Quarter 2007

Feature Articles:

Privatizing Deposit Insurance:

Results of the 2006 FDIC Study

Banking on Financial Education



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Quarterly Banking Profile: Second Quarter 2007

FDIC-insured commercial banks and savings institutions set aside \$11.4 billion in loan loss provisions during the second quarter, and noncurrent loans and leases grew for the fifth consecutive quarter. However, earnings performance remained solid; quarterly net income of \$36.7 billion was the fourth-highest ever reported by the industry. *See page 1.*

Insurance Fund Indicators

Insured deposits declined 0.3 percent during second quarter 2007. The Deposit Insurance Fund reserve ratio increased one basis point to 1.21 percent. No insured institutions failed during the quarter. *See page 14.*

Feature Articles:

Privatizing Deposit Insurance: Results of the 2006 FDIC Study

The Federal Deposit Insurance Reform Conforming Amendments Act of 2005 required the FDIC to conduct a study of the feasibility and consequences of privatizing deposit insurance. The results of the study were delivered to Congress in February of this year. This article reviews the arguments that favor privatization, examines specific privatization proposals, and concludes with a discussion of other considerations important to the privatization debate. *See page 23.*

Banking on Financial Education

The rapidly expanding choices of financial products and services have increased the need for financial education. This article highlights the results of an FDIC study of its *Money Smart* financial education program. The study demonstrates the positive effects of this curriculum on consumer money management attitudes and behaviors. Importantly for bankers, the study shows that financial education can strengthen the relationships consumers have with banks and improve their financial condition and outlook. In addition, this article describes the many ways banks are offering financial education and offers suggestions for banks as they try to enhance their programs. *See page 33.*

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INSURED INSTITUTION PERFORMANCE

- **Quarterly Net Income of \$36.7 Billion Is Fourth-Highest Ever**
- **Net Interest Margins Register Modest Gains Over First Quarter**
- **Loss Provisions Continue to Rise at Large Institutions**
- **Increase in Noncurrent Loans Is Largest Since 1990**
- **Foreign Office Deposits Increase Sharply**

Higher Expenses Hold Down Earnings

Industry earnings remained strong in the second quarter of 2007, despite an operating environment that was decidedly less favorable than in earlier quarters. A flat yield curve, rising levels of troubled loans, and a weak housing market all made the task of improving earnings more difficult. Insured commercial banks and savings institutions reported \$36.7 billion in net income for the quarter, a decline of \$1.3 billion (3.4 percent) from the second quarter of 2006, but \$772 million (2.1 percent) more than they earned in the first quarter of 2007. The decline in earnings compared to a year ago was caused by higher provisions for loan losses, particularly at larger institutions, and by increased noninterest expenses. The impact of these higher costs was partly offset by increased noninterest income and net interest income. For the second consecutive quarter, fewer than half of all insured institutions reported higher quarterly earnings than a year earlier. The average return on assets (ROA) for the second quarter was 1.21 percent, down from 1.34 percent in the second quarter of 2006. More than half of all institutions — 59 percent —

reported lower ROAs than a year earlier. There were 824 institutions reporting net losses for the quarter, compared to 600 unprofitable institutions a year earlier. This is the largest year-over-year increase in unprofitable institutions since the third quarter of 1996. The increase in unprofitable institutions was greatest among institutions with less than \$1 billion in assets, and among institutions with high levels of residential real estate and commercial loan exposures. The proportion of unprofitable institutions — 9.6 percent of all insured institutions — was the highest level for a second quarter since 1991. More than half of the unprofitable institutions (52.2 percent) were less than five years old.

Loss Provisions Rise Significantly

Insured institutions added \$11.4 billion in provisions for loan losses to their reserves during the second quarter, the largest quarterly loss provision for the industry since the fourth quarter of 2002. This was \$4.9 billion (75.3 percent) more than they set aside in the second quarter of

Chart 1

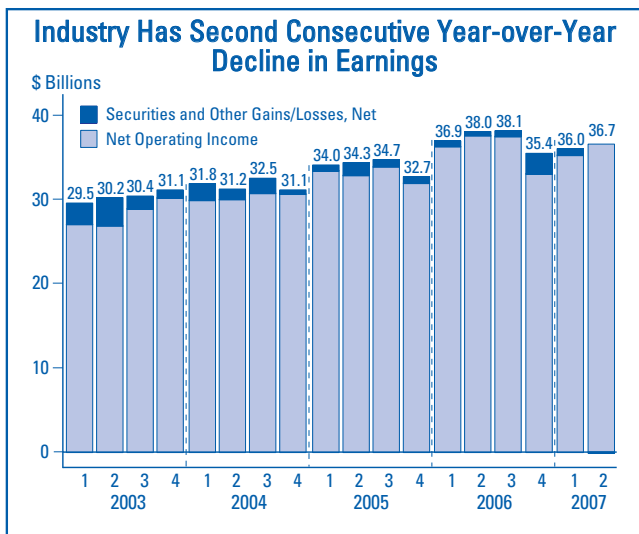
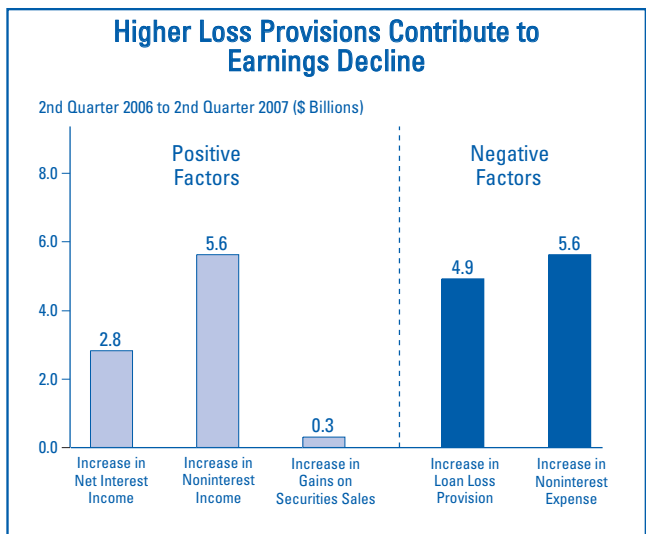


Chart 2



2006. At institutions with assets greater than \$1 billion, loss provisions absorbed 7.7 percent of net operating revenue (net interest income plus total noninterest income); a year earlier, provisions siphoned off only 4.5 percent of revenue. Noninterest expenses were \$5.6 billion (6.6 percent) higher than a year earlier. Spending for salaries and other employee benefits was up by \$3.5 billion (9.1 percent). The greatest positive contribution to earnings came from noninterest income, which grew by \$5.6 billion (9.0 percent). The improvement in noninterest income was led by higher trading revenue (up \$1.4 billion, or 28.5 percent), increased servicing income (up \$1.1 billion, or 25.1 percent), and increased fiduciary income (up \$1.0 billion, or 15.8 percent, at institutions filing Call Reports).

Earning Asset Growth Lifts Net Interest Income

Net interest income also made a positive contribution to earnings; at \$88.6 billion, it was \$2.8 billion (3.3 percent) higher than a year earlier, because interest-earning assets were 6.6 percent greater. The growth in earning assets overcame a 12 basis-point decline in the industry's average net interest margin between the second quarter of 2006 and the second quarter of 2007 to produce the year-over-year improvement in net interest income. More than two out of every three institutions (67.1 percent) reported margins below their year-ago levels. The average net interest margin in the second quarter was 3.34 percent, compared to 3.46 percent a year earlier, but it was above the 3.32 percent average in the first quarter of 2006.

Charge-offs Continue to Rise

Net charge-offs totaled \$9.2 billion in the second quarter, the highest quarterly total since the fourth quarter of 2005, and \$3.1 billion (51.2 percent) more than in the second quarter of 2006. This was the second consecutive quarter that net charge-offs have had a year-over-year increase. The loan categories with the largest increases in net charge-offs included consumer loans other than credit cards (up \$757 million, or 60.9 percent), commercial and industrial (C&I) loans (up \$577 million, or 71.4 percent), residential mortgage loans (up \$422 million, or 144.3 percent), and credit card loans (up \$393 million, or 12.1 percent). All of the major loan categories posted both increased net charge-offs and higher net charge-off rates.

Real Estate Leads the Growth in Noncurrent Loans

The amount of loans and leases that were noncurrent (loans 90 days or more past due or in nonaccrual status) grew by \$6.4 billion (10.6 percent) during the quarter. This is the largest quarterly increase in noncurrent loans since the fourth quarter of 1990, and marks the fifth consecutive quarter that the industry's inventory of noncurrent loans has grown. Almost half of the increase (48.1 percent) consisted of residential mortgage loans. Noncurrent mortgages increased by \$3.1 billion (12.6 percent) during the quarter. Real estate construction and development loans accounted for more than a third (34.2 percent) of the increase in noncurrent loans.

Chart 3

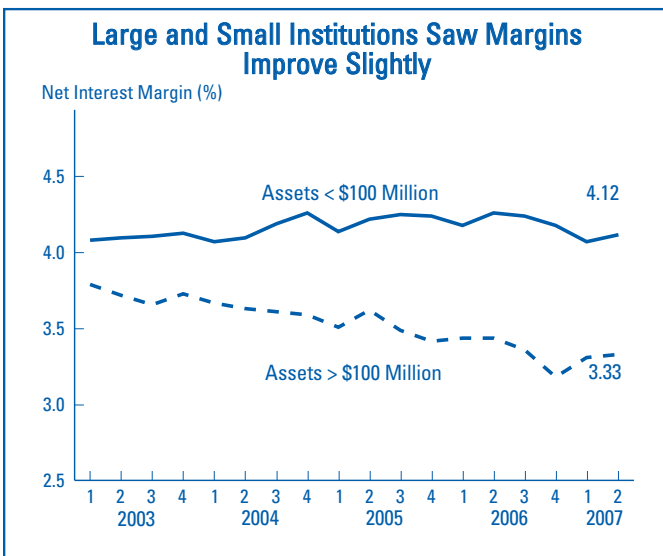
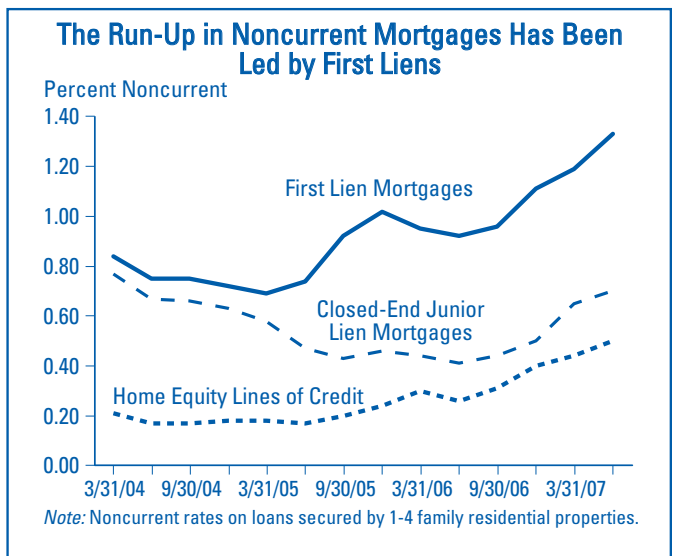


Chart 4



Noncurrent construction loans increased by \$2.2 billion (39.5 percent) during the quarter. The amount of home equity lines of credit that were noncurrent increased by \$407 million (16.6 percent) during the quarter. The industry's noncurrent loan rate, which was at an all-time low of 0.70 percent at the end of the second quarter of 2006, rose from 0.83 percent to 0.90 percent during the second quarter. This is the highest noncurrent rate for the industry in three years.

Pace of Reserve Growth Picks Up

Banks and thrifts grew their loss reserves by \$2.6 billion (3.2 percent) during the quarter, as loss provisions of \$11.4 billion surpassed net charge-offs of \$9.2 billion. The \$2.6-billion rise in loss reserves was the largest quarterly increase since the first quarter of 2002, but it barely kept pace with growth in the industry's loans and leases. The ratio of reserves to total loans increased from 1.08 percent to 1.09 percent during the quarter, but remains near the 32-year low of 1.07 percent reached at the end of 2006. For the fifth quarter in a row, reserves failed to keep pace with the increase in noncurrent loans. As a result, the industry's "coverage ratio" of reserves to noncurrent loans fell from \$1.30 in reserves for every \$1.00 of noncurrent loans to \$1.21 during the quarter. This is the lowest level for the coverage ratio since the third quarter of 2002. Reserves increased at 60 percent of institutions during the quarter.

Securities Depreciation Limits Growth in Equity

Equity capital increased by only \$11.4 billion (0.9 percent), the smallest quarterly increase in seven quarters. Declining market values for securities held for sale limited the growth in equity during the quarter. Net unrealized losses on securities at insured banks that file Call Reports grew from \$6.1 billion to \$20.6 billion during the quarter. Under Generally Accepted Accounting Principles (GAAP), these unrealized losses are subtracted from equity. The industry's ratio of equity to total assets fell from 10.58 percent to 10.43 percent during the quarter.

Commercial Lending Remains Strong

Total assets grew by \$279.9 billion (2.3 percent) in the quarter, led by a \$188.4-billion (2.6-percent) increase in loans and leases. C&I loans increased by a quarterly record \$51.3 billion (4.1 percent), home equity lines of credit grew by \$19.9 billion (3.6 percent), credit card loans increased by \$18.7 billion (5.3 percent), residential mortgage loans rose by \$18.8 billion (0.9 percent), and real estate construction loans increased by \$17.9 billion (3.1 percent). In addition to the growth in loans, assets in trading accounts grew by \$43.9 billion (6.4 percent) in the quarter. Interest-bearing balances due from depository institutions increased by \$36.6 billion (20.1 percent), with most of the growth occurring at a few large banks. Mortgage-backed securities increased by \$21.6 billion (1.8 percent). Total mortgage assets increased by

Chart 5

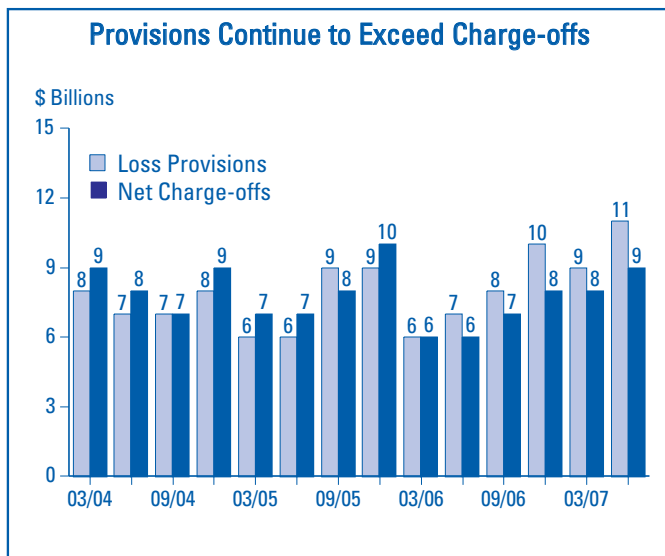
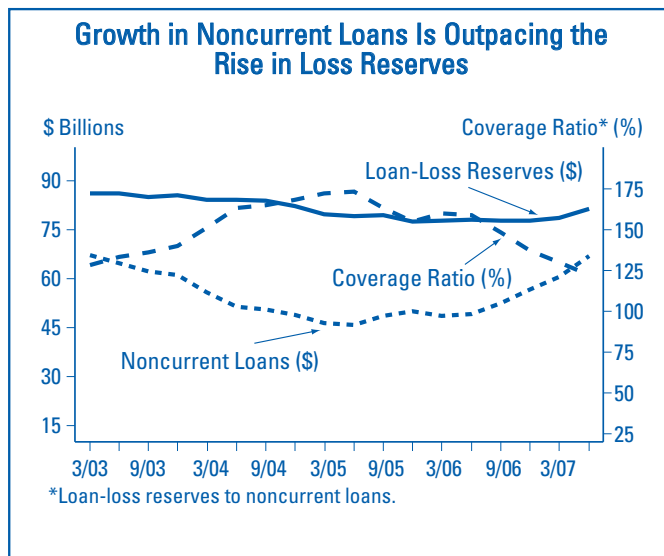


Chart 6



\$60.3 billion (1.5 percent) in the second quarter, accounting for just over one-fifth of all asset growth.

Small Business Lending Grew More Rapidly in the Past Year

Data on lending to small businesses and farms, collected annually as of midyear, show that lending to small business accelerated during the last 12 months. Loans of less than \$1 million to C&I borrowers grew by \$28.5 billion (9.6 percent) between June 30, 2006 and June 30, 2007. This is the largest increase for these loans in the 12 years for which growth data are available. The 9.6-percent growth rate is substantially greater than the 3.5-percent growth registered in the 2005 - 2006 period. The growth rates for loans to small businesses and farms remained below the growth rates of lending to larger borrowers, as has been the case throughout much of the period that small business loan data have been reported.

Record Growth in Foreign Office Deposits

Deposits in foreign offices increased by a record \$143.3 billion (11.9 percent) during the quarter, as a few large banks shifted their funding away from deposits in domestic offices. Nondeposit liabilities increased by \$128.3 billion (4.6 percent) during the quarter. Deposits in domestic offices declined by \$3.2 billion (0.05 percent), the first time since

the third quarter of 2003 that domestic deposits have fallen. Short-term (less than 1 year) nondeposit borrowings grew by \$66.8 billion (14.9 percent) during the quarter at banks filing Call Reports.

"Problem List" Registers Modest Increase

The number of insured institutions reporting financial results fell from 8,649 in the first quarter to 8,615 in the second quarter, a net decline of 34 institutions. There were 48 new charters added during the second quarter, and 81 insured institutions were absorbed by mergers. No insured institution failed in the second quarter. During the quarter, two mutually-owned savings institutions, with \$2.9 billion in combined assets, converted to stock ownership. The number of institutions on the FDIC's "Problem List" increased from 53 to 61 during the quarter, and total assets of "problem" institutions grew from \$21.5 billion to \$23.1 billion. At the end of the third quarter of 2006, there were 47 "problem" institutions, the fewest in at least 36 years. Since then, the number and assets of "problem" institutions have risen in each successive quarter, although they remain low by historical standards.

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Chart 7

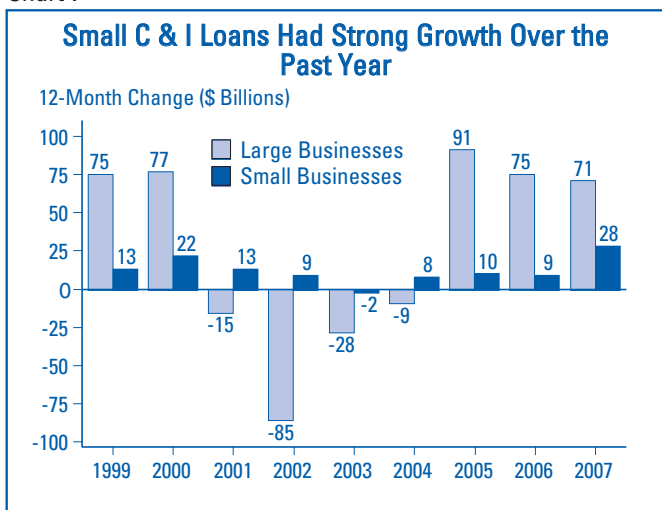


Chart 8

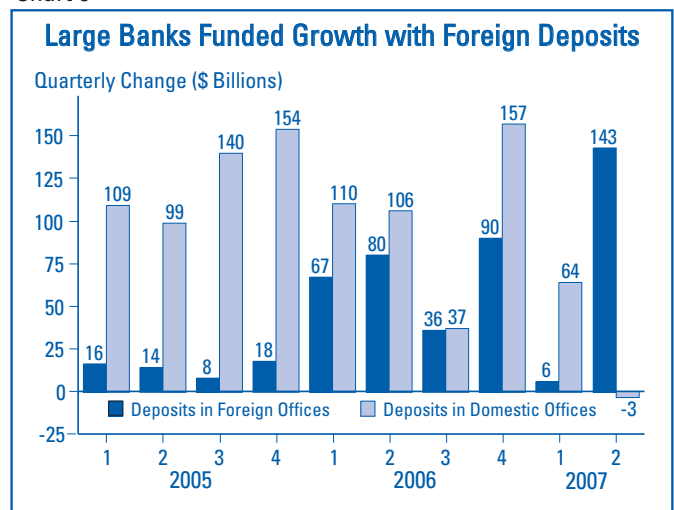


TABLE I-A. Selected Indicators, All FDIC-Insured Institutions*

	2007**	2006**	2006	2005	2004	2003	2002
Return on assets (%)	1.21	1.34	1.28	1.30	1.28	1.38	1.30
Return on equity (%)	11.49	12.97	12.31	12.73	13.20	15.05	14.08
Core capital (leverage) ratio (%)	8.18	8.23	8.23	8.25	8.11	7.88	7.86
Noncurrent assets plus							
other real estate owned to assets (%)	0.61	0.47	0.53	0.50	0.53	0.75	0.90
Net charge-offs to loans (%)	0.47	0.34	0.39	0.50	0.56	0.78	0.97
Asset growth rate (%)	6.38	10.04	9.03	7.64	11.36	7.58	7.20
Net interest margin (%)	3.33	3.45	3.31	3.50	3.52	3.73	3.96
Net operating income growth (%)	-2.36	13.18	8.54	11.43	4.02	16.39	17.58
Number of institutions reporting	8,615	8,777	8,680	8,833	8,976	9,181	9,354
Commercial banks	7,350	7,478	7,401	7,526	7,631	7,770	7,888
Savings institutions	1,265	1,299	1,279	1,307	1,345	1,411	1,466
Percentage of unprofitable institutions (%)	9.39	6.81	7.88	6.22	5.97	5.99	6.67
Number of problem institutions	61	50	50	52	80	116	136
Assets of problem institutions (in billions)	\$23	\$6	\$8	\$7	\$28	\$30	\$39
Number of failed/assisted institutions	1	0	0	0	4	3	11

* Excludes insured branches of foreign banks (IBAs).

** Through June 30, ratios annualized where appropriate. Asset growth rates are for 12 months ending June 30.

TABLE II-A. Aggregate Condition and Income Data, All FDIC-Insured Institutions

(dollar figures in millions)	2nd Quarter 2007	1st Quarter 2007	2nd Quarter 2006	%Change 06:2-07:2		
Number of institutions reporting	8,615	8,649	8,777	-1.8		
Total employees (full-time equivalent)	2,220,904	2,223,357	2,198,688	1.0		
CONDITION DATA						
Total assets	\$12,261,029	\$11,981,172	\$11,526,174	6.4		
Loans secured by real estate	4,618,464	4,536,194	4,392,350	5.1		
1-4 Family residential mortgages	2,188,092	2,169,281	2,155,744	1.5		
Nonfarm nonresidential	942,834	921,435	863,912	9.1		
Construction and development	600,138	582,260	517,514	16.0		
Home equity lines	576,682	556,765	556,196	3.7		
Commercial & industrial loans	1,300,571	1,249,282	1,157,134	12.4		
Loans to individuals	980,817	945,368	933,021	5.1		
Credit cards	372,853	354,159	374,348	-0.4		
Farm loans	55,615	52,888	52,706	5.5		
Other loans & leases	512,946	495,542	527,255	-2.7		
Less: Unearned income	3,068	2,288	2,460	24.7		
Total loans & leases	7,465,345	7,276,986	7,060,007	5.7		
Less: Reserve for losses	81,198	78,643	77,918	4.2		
Net loans and leases	7,384,147	7,198,343	6,982,089	5.8		
Securities	1,976,771	1,970,236	1,970,901	0.3		
Other real estate owned	7,990	6,958	5,218	53.1		
Goodwill and other intangibles	435,932	423,517	390,400	11.7		
All other assets	2,456,189	2,382,118	2,177,565	12.8		
Total liabilities and capital	12,261,029	11,981,172	11,526,174	6.4		
Deposits	8,035,257	7,895,117	7,504,805	7.1		
Domestic office deposits	6,691,674	6,694,841	6,436,734	4.0		
Foreign office deposits	1,343,583	1,200,276	1,068,070	25.8		
Other borrowed funds	2,248,685	2,174,393	2,217,951	1.4		
Subordinated debt	172,377	165,328	142,876	20.6		
All other liabilities	525,377	478,446	476,925	10.2		
Equity capital	1,279,333	1,267,888	1,183,616	8.1		
Loans and leases 30-89 days past due	74,433	70,396	55,167	34.9		
Noncurrent loans and leases	66,944	60,549	49,138	36.2		
Restructured loans and leases	3,277	2,872	3,365	-2.6		
Direct and indirect investments in real estate	1,081	1,033	1,122	-3.7		
Mortgage-backed securities	1,217,859	1,196,292	1,213,804	0.3		
Earning assets	10,720,947	10,513,956	10,056,268	6.6		
FHLB Advances	608,433	607,501	622,592	-2.3		
Unused loan commitments	8,084,733	7,821,992	7,557,799	7.0		
Trust assets	21,047,497	19,928,708	17,549,892	19.9		
Assets securitized and sold***	1,714,556	1,661,359	1,004,034	70.8		
Notional amount of derivatives***	153,825,897	146,085,265	120,205,407	28.0		
INCOME DATA						
	First Half 2007	First Half 2006	%Change	2nd Quarter 2007	2nd Quarter 2006	%Change 06:2-07:2
Total interest income	\$357,622	\$314,081	13.9	\$181,788	\$162,982	11.5
Total interest expense	182,850	145,487	25.7	93,234	77,272	20.7
Net interest income	174,772	168,594	3.7	88,554	85,710	3.3
Provision for loan and lease losses	20,541	12,400	65.7	11,351	6,475	75.3
Total noninterest income	130,241	123,410	5.5	68,013	62,417	9.0
Total noninterest expense	178,099	169,364	5.2	90,635	85,040	6.6
Securities gains (losses)	2,186	948	130.7	597	278	114.2
Applicable income taxes	35,079	36,830	-4.8	17,970	19,157	-6.2
Extraordinary gains, net	-829	468	NM	-474	275	NM
Net income	72,652	74,826	-2.9	36,734	38,007	-3.4
Net charge-offs	17,294	11,517	50.2	9,164	6,060	51.2
Cash dividends	66,973	40,505	65.3	40,837	21,662	88.5
Retained earnings	5,679	34,320	-83.5	-4,104	16,346	NM
Net operating income	72,001	73,745	-2.4	36,823	37,551	-1.9

*** Call Report filers only.

NM - Not Meaningful

TABLE III-A. Second Quarter 2007, All FDIC-Insured Institutions

SECOND QUARTER (The way it is...)	Asset Concentration Groups*										
	All Insured Institutions	Credit Card Banks	International Banks	Agricultural Banks	Commercial Lenders	Mortgage Lenders	Consumer Lenders	Other Specialized <\$1 Billion	All Other <\$1 Billion	All Other >\$1 Billion	
Number of institutions reporting	8,615	26	4	1,645	4,731	804	119	378	851	57	
Commercial banks	7,350	24	4	1,640	4,262	181	87	331	777	44	
Savings institutions	1,265	2	0	5	469	623	32	47	74	13	
Total assets (in billions)	\$12,261.0	\$395.0	\$2,544.3	\$155.6	\$4,789.4	\$1,550.8	\$117.7	\$42.4	\$113.1	\$2,552.7	
Commercial banks	10,411.0	393.3	2,544.3	155.2	4,323.2	327.1	48.7	34.3	97.3	2,487.6	
Savings institutions	1,850.0	1.7	0.0	0.5	466.1	1,223.8	69.0	8.1	15.8	65.1	
Total deposits (in billions)	8,035.3	109.7	1,512.2	126.8	3,457.3	970.0	83.0	30.2	93.3	1,652.8	
Commercial banks	6,865.3	108.8	1,512.2	126.4	3,152.3	192.7	37.3	24.7	80.7	1,630.2	
Savings institutions	1,169.9	0.9	0.0	0.4	305.0	777.3	45.7	5.6	12.6	22.6	
Net income (in millions)	36,734	3,293	6,172	488	13,799	3,517	882	251	317	8,015	
Commercial banks	31,915	3,264	6,172	487	12,607	861	305	166	292	7,759	
Savings institutions	4,819	29	0	1	1,191	2,655	576	85	24	256	
Performance Ratios (annualized,%)											
Yield on earning assets	6.85	12.83	6.24	7.21	7.11	6.59	8.71	5.54	6.53	6.20	
Cost of funding earning assets	3.51	4.54	3.69	3.20	3.40	3.89	2.81	2.51	2.83	3.28	
Net interest margin	3.34	8.30	2.55	4.01	3.71	2.70	5.90	3.04	3.70	2.92	
Noninterest income to assets	2.25	10.37	2.49	0.69	1.63	1.23	2.93	10.05	1.26	2.50	
Noninterest expense to assets	2.99	8.09	2.87	2.70	2.91	2.18	4.24	9.13	3.18	2.81	
Loan and lease loss provision to assets	0.37	3.42	0.32	0.15	0.26	0.24	1.10	0.07	0.11	0.24	
Net operating income to assets	1.22	3.34	1.02	1.28	1.20	0.83	1.98	2.34	1.10	1.29	
Pretax return on assets	1.81	5.31	1.43	1.52	1.70	1.40	4.76	3.58	1.40	1.95	
Return on assets	1.21	3.34	0.99	1.27	1.16	0.91	3.04	2.36	1.12	1.28	
Return on equity	11.54	13.97	12.96	11.54	10.82	8.92	22.06	11.26	10.07	12.05	
Net charge-offs to loans and leases	0.50	3.89	0.60	0.15	0.30	0.25	1.85	0.25	0.18	0.32	
Loan and lease loss provision to net charge-offs ..	123.87	121.05	122.90	151.80	124.87	136.64	75.09	118.13	108.37	141.48	
Efficiency ratio	56.52	44.39	60.63	61.19	57.94	57.84	49.93	71.05	67.83	55.05	
% of unprofitable institutions	9.56	11.54	0.00	3.77	11.01	12.81	7.56	24.60	3.76	1.75	
% of institutions with earnings gains	49.07	57.69	75.00	55.87	49.86	32.21	57.14	41.27	49.12	52.63	
Structural Changes											
New Charters	48	0	0	2	13	2	0	31	0	0	
Institutions absorbed by mergers	81	0	0	6	68	2	0	0	1	4	
Failed Institutions	0	0	0	0	0	0	0	0	0	0	
PRIOR SECOND QUARTERS (The way it was...)											
Return on assets (%)	2006	1.34	4.64	1.01	1.31	1.33	1.07	1.79	2.74	1.02	1.29
.....	2004	1.31	4.08	0.68	1.27	1.36	1.21	1.54	1.28	1.10	1.33
.....	2002	1.37	3.68	1.17	1.30	1.28	1.28	1.60	1.69	1.20	1.35
Net charge-offs to loans & leases (%)	2006	0.35	3.43	0.59	0.17	0.17	0.13	0.92	0.56	0.18	0.19
.....	2004	0.58	5.08	0.99	0.18	0.32	0.11	1.15	0.41	0.29	0.31
.....	2002	0.94	5.78	1.48	0.30	0.73	0.17	1.00	0.67	0.31	0.70

* See Table IV-A (page 8) for explanations.

TABLE III-A. Second Quarter 2007, All FDIC-Insured Institutions

SECOND QUARTER (The way it is...)	All Insured Institutions	Asset Size Distribution				Geographic Regions*					
		Less than \$100 Million	\$100 Million to \$1 Billion	\$1 Billion to \$10 Billion	Greater than \$10 Billion	New York	Atlanta	Chicago	Kansas City	Dallas	San Francisco
Number of institutions reporting	8,615	3,583	4,370	539	123	1,071	1,215	1,807	2,000	1,750	772
Commercial banks	7,350	3,197	3,649	413	91	564	1,070	1,490	1,895	1,628	703
Savings institutions	1,265	386	721	126	32	507	145	317	105	122	69
Total assets (in billions)	\$12,261.0	\$189.8	\$1,294.4	\$1,411.7	\$9,365.1	\$2,261.5	\$3,004.4	\$2,830.9	\$910.0	\$674.4	\$2,579.8
Commercial banks	10,411.0	169.9	1,046.3	1,086.0	8,108.8	1,609.3	2,731.6	2,676.0	872.2	564.9	1,957.0
Savings institutions	1,850.0	19.9	248.2	325.7	1,256.3	652.1	272.8	154.9	37.8	109.5	622.8
Total deposits (in billions)	8,035.3	155.0	1,041.3	1,020.0	5,818.9	1,446.5	2,006.6	1,768.3	642.5	513.1	1,658.3
Commercial banks	6,865.3	139.8	853.0	788.3	5,084.2	1,011.1	1,830.3	1,657.5	616.2	444.3	1,306.0
Savings institutions	1,169.9	15.2	188.3	231.7	734.8	435.4	176.3	110.8	26.3	68.8	352.4
Net income (in millions)	36,734	413	3,701	3,880	28,740	5,811	9,447	7,386	3,416	1,932	8,742
Commercial banks	31,915	394	3,144	3,387	24,990	4,608	9,043	7,122	3,358	1,630	6,154
Savings institutions	4,819	19	557	493	3,751	1,203	404	263	58	302	2,589
Performance Ratios (annualized,%)											
Yield on earning assets	6.85	7.08	7.20	7.15	6.75	6.89	6.64	6.31	7.64	7.24	7.28
Cost of funding earning assets	3.51	2.97	3.29	3.43	3.57	3.52	3.52	3.48	3.27	3.32	3.67
Net interest margin	3.34	4.12	3.90	3.72	3.18	3.37	3.12	2.82	4.37	3.92	3.60
Noninterest income to assets	2.25	1.31	1.26	1.56	2.51	2.41	1.98	2.25	3.51	1.42	2.18
Noninterest expense to assets	2.99	3.82	3.14	2.99	2.96	3.18	2.64	2.88	4.28	3.20	2.87
Loan and lease loss provision to assets	0.37	0.18	0.18	0.30	0.42	0.60	0.21	0.26	0.74	0.23	0.41
Net operating income to assets	1.22	0.86	1.14	1.11	1.25	1.04	1.23	1.07	1.55	1.14	1.41
Pretax return on assets	1.81	1.12	1.55	1.66	1.88	1.57	1.91	1.55	2.27	1.53	2.08
Return on assets	1.21	0.88	1.15	1.11	1.24	1.04	1.27	1.05	1.54	1.16	1.37
Return on equity	11.54	6.47	10.98	9.84	12.03	8.27	12.79	11.59	15.01	10.91	12.49
Net charge-offs to loans and leases	0.50	0.14	0.18	0.33	0.59	0.84	0.26	0.37	0.63	0.23	0.64
Loan and lease loss provision to net charge-offs ..	123.87	204.40	143.59	133.32	121.46	124.39	129.97	131.00	165.65	157.51	97.95
Efficiency ratio	56.52	74.64	64.20	58.61	54.88	57.03	54.83	59.75	57.19	63.76	52.63
% of unprofitable institutions	9.56	15.80	5.38	3.53	3.25	13.17	13.91	8.25	6.00	7.03	15.80
% of institutions with earnings gains	49.07	47.25	50.57	49.35	47.15	40.06	42.88	46.21	53.10	55.89	52.07
Structural Changes											
New Charters	48	47	1	0	0	5	10	3	2	14	14
Institutions absorbed by mergers	81	26	48	7	0	21	12	16	10	12	10
Failed Institutions	0	0	0	0	0	0	0	0	0	0	0
PRIOR SECOND QUARTERS (The way it was...)											
Return on assets (%)	2006	1.34	1.02	1.26	1.34	1.36	1.28	1.32	1.09	1.63	1.29
.....	2004	1.31	0.98	1.17	1.46	1.32	1.08	1.40	1.36	1.53	1.31
.....	2002	1.37	1.06	1.20	1.38	1.42	1.25	1.35	1.35	1.60	1.50
Net charge-offs to loans & leases (%)	2006	0.35	0.15	0.15	0.20	0.42	0.56	0.15	0.23	0.37	0.22
.....	2004	0.58	0.23	0.23	0.45	0.68	0.85	0.32	0.41	0.76	0.39
.....	2002	0.94	0.31	0.35	0.73	1.16	1.40	0.72	0.73	1.21	0.39

* See Table IV-A (page 9) for explanations.

TABLE IV-A. First Half 2007, All FDIC-Insured Institutions

FIRST HALF (The way it is...)	All Insured Institutions	Asset Concentration Groups*								
		Credit Card Banks	International Banks	Agricultural Banks	Commercial Lenders	Mortgage Lenders	Consumer Lenders	Other Specialized <\$1 Billion	All Other <\$1 Billion	All Other >\$1 Billion
Number of institutions reporting	8,615	26	4	1,645	4,731	804	119	378	851	57
Commercial banks	7,350	24	4	1,640	4,262	181	87	331	777	44
Savings institutions	1,265	2	0	5	469	623	32	47	74	13
Total assets (in billions)	\$12,261.0	\$395.0	\$2,544.3	\$155.6	\$4,789.4	\$1,550.8	\$117.7	\$42.4	\$113.1	\$2,552.7
Commercial banks	10,411.0	393.3	2,544.3	155.2	4,323.2	327.1	48.7	34.3	97.3	2,487.6
Savings institutions	1,850.0	1.7	0.0	0.5	466.1	1,223.8	69.0	8.1	15.8	65.1
Total deposits (in billions)	8,035.3	109.7	1,512.2	126.8	3,457.3	970.0	83.0	30.2	93.3	1,652.8
Commercial banks	6,865.3	108.8	1,512.2	126.4	3,152.3	192.7	37.3	24.7	80.7	1,630.2
Savings institutions	1,169.9	0.9	0.0	0.4	305.0	777.3	45.7	5.6	12.6	22.6
Net income (in millions)	72,652	7,002	11,736	935	27,433	7,010	1,448	477	607	16,003
Commercial banks	63,338	6,955	11,736	933	25,224	1,598	586	317	563	15,425
Savings institutions	9,315	47	0	2	2,210	5,412	862	160	44	578
Performance Ratios (annualized,%)										
Yield on earning assets	6.81	12.67	6.15	7.10	7.06	6.59	8.64	5.48	6.47	6.17
Cost of funding earning assets	3.48	4.46	3.64	3.15	3.36	3.87	2.99	2.49	2.80	3.25
Net interest margin	3.33	8.21	2.51	3.96	3.70	2.71	5.65	2.99	3.67	2.92
Noninterest income to assets	2.17	10.00	2.52	0.67	1.55	1.05	2.80	9.45	1.23	2.42
Noninterest expense to assets	2.96	7.90	2.92	2.68	2.86	2.09	4.27	8.70	3.17	2.81
Loan and lease loss provision to assets	0.34	2.94	0.35	0.15	0.23	0.20	1.37	0.07	0.10	0.19
Net operating income to assets	1.20	3.51	0.96	1.23	1.20	0.79	1.53	2.21	1.06	1.28
Pretax return on assets	1.79	5.49	1.40	1.47	1.69	1.40	3.93	3.39	1.35	1.94
Return on assets	1.21	3.51	0.96	1.23	1.16	0.91	2.54	2.25	1.08	1.29
Return on equity	11.49	14.84	12.53	11.23	10.83	8.96	18.18	10.73	9.70	12.02
Net charge-offs to loans and leases	0.47	3.84	0.58	0.15	0.26	0.24	1.85	0.23	0.16	0.31
Loan and lease loss provision to net charge-offs ...	118.77	105.61	137.31	156.26	127.37	123.74	93.08	125.49	108.70	114.33
Efficiency ratio	57.03	44.65	61.73	61.68	57.96	58.30	71.25	68.62	55.97	55.97
% of unprofitable institutions	9.39	11.54	0.00	3.53	10.82	13.18	7.56	23.28	3.76	1.75
% of institutions with earnings gains	49.66	46.15	50.00	54.59	52.25	27.86	47.90	43.12	49.47	50.88
Condition Ratios(%)										
Earning assets to total assets	87.44	77.95	85.23	91.72	88.69	91.24	92.10	88.01	91.95	85.77
Loss Allowance to:										
Loans and leases	1.09	3.96	1.11	1.33	1.13	0.52	1.59	1.30	1.20	0.75
Noncurrent loans and leases	121.29	220.95	131.52	128.24	133.97	51.94	201.32	153.06	135.61	93.16
Noncurrent assets plus other real estate owned to assets	0.61	1.31	0.41	0.80	0.68	0.81	0.63	0.23	0.60	0.46
Equity capital ratio	10.43	23.88	7.64	11.15	10.68	10.22	13.72	21.02	11.10	10.40
Core capital (leverage) ratio	8.18	15.06	5.89	10.49	8.46	8.22	12.73	19.09	10.97	8.31
Tier 1 risk-based capital ratio	10.38	13.77	8.01	13.81	9.75	13.15	15.26	43.86	18.07	10.94
Total risk-based capital ratio	12.87	16.87	11.55	14.89	11.98	14.84	16.27	44.90	19.22	13.42
Net loans and leases to deposits	91.90	252.58	73.71	82.19	96.44	111.05	110.27	32.08	68.07	79.40
Net loans to total assets	60.22	70.14	43.81	66.96	69.61	69.46	77.73	22.89	56.13	51.41
Domestic deposits to total assets	54.58	25.33	26.83	81.47	69.12	62.44	69.28	69.00	82.40	50.91
Structural Changes										
New Charters	89	1	0	3	25	2	0	58	0	0
Institutions absorbed by mergers	153	1	0	14	121	6	1	1	2	7
Failed Institutions	1	0	0	0	0	1	0	0	0	0
PRIOR FIRST HALVES (The way it was...)										
Number of institutions	2006 8,777	29	5	1,681	4,708	861	123	404	910	56
..... 2004	9,078	36	6	1,775	4,350	997	144	488	1,195	87
..... 2002	9,466	47	6	1,892	4,079	1,168	216	440	1,526	92
Total assets (in billions)	2006 \$11,526.2	\$376.8	\$2,097.8	\$146.6	\$4,552.3	\$1,765.2	\$97.5	\$45.3	\$117.1	\$2,327.6
..... 2004	9,648.5	334.4	1,554.5	135.7	3,031.1	1,402.0	160.7	57.1	155.6	2,817.4
..... 2002	8,039.0	299.4	1,294.8	123.3	3,356.5	1,191.8	163.2	48.4	189.7	1,371.8
Return on assets (%)	2006 1.34	4.58	1.08	1.29	1.33	1.06	2.00	0.88	1.02	1.27
..... 2004	1.33	3.97	0.89	1.26	1.35	1.22	1.58	1.36	1.10	1.29
..... 2002	1.34	3.44	0.99	1.28	1.30	1.29	1.52	1.31	1.19	1.33
Net charge-offs to loans & leases (%)	2006 0.34	3.14	0.55	0.14	0.17	0.12	0.94	0.74	0.15	0.19
..... 2004	0.60	5.03	1.13	0.15	0.32	0.12	1.29	0.50	0.27	0.29
..... 2002	0.96	6.42	1.49	0.24	0.67	0.16	1.04	0.51	0.28	0.76
Noncurrent assets plus OREO to assets (%)	2006 0.47	1.28	0.40	0.67	0.46	0.54	0.60	0.21	0.53	0.36
..... 2004	0.60	1.33	0.75	0.80	0.59	0.58	0.79	0.30	0.64	0.43
..... 2002	0.91	1.54	1.16	0.94	0.89	0.66	1.22	0.35	0.68	0.82
Equity capital ratio (%)	2006 10.27	27.09	8.05	10.73	10.20	10.64	9.92	21.35	10.79	9.13
..... 2004	9.50	18.01	7.18	10.52	9.35	8.65	7.99	16.25	10.38	10.23
..... 2002	9.25	15.64	7.20	10.82	9.62	9.10	8.56	17.55	10.53	8.46

***Asset Concentration Group Definitions (Groups are hierarchical and mutually exclusive):**

Credit-card Lenders - Institutions whose credit-card loans plus securitized receivables exceed 50 percent of total assets plus securitized receivables.
International Banks - Banks with assets greater than \$10 billion and more than 25 percent of total assets in foreign offices.
Agricultural Banks - Banks whose agricultural production loans plus real estate loans secured by farmland exceed 25 percent of their total loans and leases.
Commercial Lenders - Institutions whose commercial and industrial loans, plus real estate construction and development loans, plus loans secured by commercial real estate properties exceed 25 percent of total assets.
Mortgage Lenders - Institutions whose residential mortgage loans, plus mortgage-backed securities, exceed 50 percent of total assets.
Consumer Lenders - Institutions whose residential mortgage loans, plus credit-card loans, plus other loans to individuals, exceed 50 percent of total assets.
Other Specialized < \$1 Billion - Institutions with assets less than \$1 billion, whose loans and leases are less than 40 percent of total assets.
All Other < \$1 billion - Institutions with assets less than \$1 billion that do not meet any of the definitions above, they have significant lending activity with no identified asset concentrations.
All Other > \$1 billion - Institutions with assets greater than \$1 billion that do not meet any of the definitions above, they have significant lending activity with no identified asset concentrations.

TABLE IV-A. First Half 2007, All FDIC-Insured Institutions

FIRST HALF (The way it is...)	All Insured Institutions	Asset Size Distribution				Geographic Regions*					
		Less than \$100 Million	\$100 Million to \$1 Billion	\$1 Billion to \$10 Billion	Greater than \$10 Billion	New York	Atlanta	Chicago	Kansas City	Dallas	San Francisco
Number of institutions reporting	8,615	3,583	4,370	539	123	1,071	1,215	1,807	2,000	1,750	772
Commercial banks	7,350	3,197	3,649	413	91	564	1,070	1,490	1,895	1,628	703
Savings institutions	1,265	386	721	126	32	507	145	317	105	122	69
Total assets (in billions)	\$12,261.0	\$189.8	\$1,294.4	\$1,411.7	\$9,365.1	\$2,261.5	\$3,004.4	\$2,830.9	\$910.0	\$674.4	\$2,579.8
Commercial banks	10,411.0	169.9	1,046.3	1,086.0	8,108.8	1,609.3	2,731.6	2,676.0	872.2	564.9	1,957.0
Savings institutions	1,850.0	19.9	248.2	325.7	1,256.3	652.1	272.8	154.9	37.8	109.5	622.8
Total deposits (in billions)	8,035.3	155.0	1,041.3	1,020.0	5,818.9	1,446.5	2,006.6	1,768.3	642.5	513.1	1,658.3
Commercial banks	6,865.3	139.8	853.0	788.3	5,084.2	1,011.1	1,830.3	1,657.5	616.2	444.3	1,306.0
Savings institutions	1,169.9	15.2	188.3	231.7	734.8	435.4	176.3	110.8	26.3	68.8	352.4
Net income (in millions)	72,652	809	7,085	7,853	56,905	11,875	18,519	14,791	7,184	3,748	16,535
Commercial banks	63,338	774	6,143	6,752	49,669	9,664	17,531	14,289	7,055	3,199	11,602
Savings institutions	9,315	35	943	1,101	7,237	2,211	989	502	130	550	4,933
Performance Ratios (annualized,%)											
Yield on earning assets	6.81	6.98	7.13	7.10	6.71	6.85	6.61	6.27	7.58	7.16	7.21
Cost of funding earning assets	3.48	2.91	3.25	3.39	3.54	3.48	3.48	3.45	3.21	3.28	3.66
Net interest margin	3.33	4.07	3.88	3.71	3.17	3.37	3.13	2.82	4.36	3.88	3.56
Noninterest income to assets	2.17	1.29	1.20	1.52	2.42	2.32	1.90	2.20	3.46	1.39	2.07
Noninterest expense to assets	2.96	3.77	3.12	2.93	2.93	3.13	2.63	2.84	4.24	3.17	2.84
Loan and lease loss provision to assets	0.34	0.17	0.17	0.28	0.38	0.52	0.16	0.24	0.63	0.20	0.45
Net operating income to assets	1.20	0.86	1.10	1.13	1.23	1.06	1.23	1.07	1.64	1.13	1.30
Pretax return on assets	1.79	1.11	1.50	1.69	1.86	1.60	1.88	1.57	2.37	1.50	1.98
Return on assets	1.21	0.86	1.11	1.13	1.24	1.07	1.26	1.06	1.64	1.13	1.31
Return on equity	11.49	6.37	10.62	10.09	11.98	8.50	12.58	11.67	15.76	10.74	11.95
Net charge-offs to loans and leases	0.47	0.14	0.15	0.29	0.56	0.82	0.24	0.34	0.63	0.21	0.60
Loan and lease loss provision to net charge-offs	118.77	188.79	157.13	140.20	114.67	110.62	109.60	127.20	140.03	149.47	115.86
Efficiency ratio	57.03	74.71	64.99	58.40	55.46	57.32	55.75	59.81	57.22	64.17	53.55
% of unprofitable institutions	9.39	15.91	4.97	3.53	2.44	14.10	13.33	8.30	5.70	6.34	15.67
% of institutions with earnings gains	49.66	48.06	51.30	47.87	45.53	37.82	47.82	44.88	51.60	58.74	54.53
Condition Ratios (%)											
Earning assets to total assets	87.44	92.01	91.90	90.79	86.22	87.08	86.98	87.09	87.03	89.64	88.24
Loss Allowance to:											
Loans and leases	1.09	1.30	1.15	1.19	1.05	1.43	0.87	1.16	1.21	1.09	0.95
Noncurrent loans and leases	121.29	125.22	130.32	138.77	116.75	146.56	145.77	116.78	87.68	131.86	104.13
Noncurrent assets plus other real estate owned to assets	0.61	0.80	0.75	0.67	0.58	0.58	0.42	0.63	1.11	0.65	0.66
Equity capital ratio	10.43	13.43	10.48	11.28	10.24	12.47	9.84	9.01	9.99	10.57	11.02
Core capital (leverage) ratio	8.18	13.41	10.07	9.57	7.59	9.10	7.39	7.30	8.34	8.80	9.04
Tier 1 risk-based capital ratio	10.38	19.58	13.45	12.22	9.53	12.39	9.22	8.84	9.66	11.80	11.88
Total risk-based capital ratio	12.87	20.63	14.57	13.51	12.40	14.39	11.63	11.67	12.27	13.16	14.68
Net loans and leases to deposits	91.90	76.51	86.18	94.78	92.82	87.65	92.39	87.28	98.46	83.86	99.87
Net loans to total assets	60.22	62.46	69.33	68.49	57.68	56.06	61.70	54.52	69.52	63.80	64.20
Domestic deposits to total assets	54.58	81.63	80.33	71.66	47.89	55.41	58.58	51.31	65.26	75.26	43.59
Structural Changes											
New Charters	89	84	4	1	0	12	22	7	4	21	23
Institutions absorbed by mergers	153	56	83	14	0	32	20	29	23	29	20
Failed Institutions	1	1	0	0	0	1	0	0	0	0	0
PRIOR FIRST HALVES (The way it was...)											
Number of institutions	2006 8,777	3,805	4,332	518	122	1,103	1,234	1,864	2,043	1,777	756
	2004 9,078	4,277	4,217	468	116	1,148	1,228	1,990	2,120	1,846	746
	2002 9,466	4,918	4,002	446	100	1,235	1,245	2,086	2,192	1,923	785
Total assets (in billions)	2006 \$11,526.2	\$198.6	\$1,269.5	\$1,422.7	\$8,635.4	\$2,952.0	\$2,861.6	\$2,679.3	\$825.3	\$631.4	\$1,576.6
	2004 9,648.5	221.4	1,172.2	1,293.6	6,961.4	3,326.1	2,041.3	1,701.8	760.3	578.1	1,240.8
	2002 8,039.0	247.5	1,083.4	1,292.9	5,415.2	2,762.6	1,614.6	1,514.1	420.5	555.5	1,171.6
Return on assets (%)	2006 1.34	0.99	1.18	1.34	1.37	1.29	1.32	1.09	1.62	1.30	1.75
	2004 1.33	0.99	1.17	1.47	1.34	1.15	1.37	1.37	1.52	1.33	1.58
	2002 1.34	1.02	1.16	1.39	1.38	1.20	1.35	1.34	1.57	1.43	1.53
Net charge-offs to loans & leases (%)	2006 0.34	0.13	0.13	0.19	0.40	0.51	0.15	0.23	0.36	0.19	0.53
	2004 0.60	0.20	0.23	0.41	0.72	0.86	0.34	0.42	0.82	0.36	0.63
	2002 0.96	0.26	0.31	0.70	1.20	1.47	0.68	0.75	1.21	0.39	0.81
Noncurrent assets plus OREO to assets (%)	2006 0.47	0.70	0.52	0.45	0.47	0.41	0.29	0.51	0.82	0.64	0.62
	2004 0.60	0.83	0.62	0.55	0.60	0.61	0.42	0.73	0.63	0.67	0.65
	2002 0.91	0.87	0.72	0.71	1.00	1.02	0.79	1.02	0.82	0.83	0.74
Equity capital ratio (%)	2006 10.27	12.51	10.22	10.90	10.12	11.03	9.49	8.92	10.62	10.14	12.41
	2004 9.50	11.49	9.90	10.49	9.19	9.65	8.32	8.56	10.28	9.49	11.91
	2002 9.25	11.28	10.03	9.96	8.82	8.84	9.36	8.82	10.17	9.77	10.01

* Regions:
 New York - Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico
 Rhode Island, Vermont, U.S. Virgin Islands
 Atlanta - Alabama, Florida, Georgia, North Carolina, South Carolina, Virginia, West Virginia
 Chicago - Illinois, Indiana, Kentucky, Michigan, Ohio, Wisconsin
 Kansas City - Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota
 Dallas - Arkansas, Colorado, Louisiana, Mississippi, New Mexico, Oklahoma, Tennessee, Texas
 San Francisco - Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon, Pacific Islands, Utah, Washington, Wyoming

TABLE V-A. Loan Performance, All FDIC-Insured Institutions

June 30, 2007	All Insured Institutions	Asset Concentration Groups*								
		Credit Card Banks	International Banks	Agricultural Banks	Commercial Lenders	Mortgage Lenders	Consumer Lenders	Other Specialized <\$1 Billion	All Other <\$1 Billion	All Other >\$1 Billion
Percent of Loans 30-89 Days Past Due										
All loans secured by real estate	1.02	3.36	1.47	1.22	0.88	1.20	0.64	1.05	1.40	0.88
Construction and development	1.04	0.00	1.24	2.21	1.01	1.61	0.67	0.94	1.14	0.78
Nonfarm nonresidential	0.52	0.00	0.28	1.15	0.55	0.52	0.92	0.59	1.13	0.25
Multifamily residential real estate	0.44	0.00	0.31	0.80	0.53	0.23	0.52	2.41	0.45	0.42
Home equity loans	0.72	2.39	0.68	0.49	0.61	0.85	0.47	0.64	0.82	0.79
Other 1-4 family residential	1.37	7.40	2.00	1.66	1.27	1.34	0.71	1.26	1.65	1.15
Commercial and industrial loans	0.58	2.53	0.49	1.55	0.59	0.62	0.96	1.23	1.44	0.34
Loans to individuals	1.76	2.14	1.99	2.07	1.46	1.11	1.66	2.21	2.02	1.62
Credit card loans	2.11	2.16	2.29	0.95	1.88	1.64	2.09	3.90	0.93	1.96
Other loans to individuals	1.55	2.00	1.86	2.14	1.39	0.86	1.50	2.03	2.07	1.55
All other loans and leases (including farm)	0.45	0.11	0.51	0.83	0.57	0.55	0.10	0.65	0.72	0.20
Total loans and leases	1.00	2.05	1.17	1.23	0.85	1.17	1.29	1.22	1.44	0.79
Percent of Loans Noncurrent**										
All real estate loans	1.01	2.40	1.16	1.12	0.95	1.03	0.33	0.87	0.90	1.08
Construction and development	1.29	0.00	0.99	2.19	1.25	1.82	1.32	2.37	1.71	1.29
Nonfarm nonresidential	0.63	0.00	0.53	1.38	0.64	0.69	0.46	0.97	1.10	0.48
Multifamily residential real estate	0.66	0.00	0.43	0.68	0.86	0.30	0.07	0.24	1.40	0.41
Home equity loans	0.50	1.43	0.42	0.36	0.41	0.71	0.03	0.69	0.41	0.52
Other 1-4 family residential	1.26	6.39	1.46	0.91	1.24	1.11	0.45	0.65	0.76	1.52
Commercial and industrial loans	0.62	2.01	0.36	1.46	0.68	0.66	0.83	1.54	1.19	0.49
Loans to individuals	1.12	1.91	1.43	0.69	0.64	0.56	1.01	0.59	0.63	0.60
Credit card loans	1.85	1.94	1.96	0.83	1.44	1.33	1.92	1.07	0.63	1.68
Other loans to individuals	0.68	1.68	1.19	0.68	0.52	0.20	0.66	0.54	0.63	0.38
All other loans and leases (including farm)	0.24	0.02	0.10	0.70	0.32	2.09	0.03	0.23	0.69	0.16
Total loans and leases	0.90	1.79	0.84	1.04	0.84	1.00	0.79	0.85	0.88	0.81
Percent of Loans Charged-off (net, YTD)										
All real estate loans	0.13	1.77	0.25	0.04	0.14	0.11	0.15	0.05	0.04	0.09
Construction and development	0.13	0.00	-0.02	0.12	0.14	0.14	0.38	0.12	0.08	0.05
Nonfarm nonresidential	0.10	0.00	0.03	0.06	0.12	0.03	0.03	0.04	0.07	0.02
Multifamily residential real estate	0.11	0.00	0.32	-0.01	0.13	0.01	0.00	0.00	0.05	0.06
Home equity loans	0.27	1.89	0.30	0.10	0.24	0.36	0.10	0.01	0.03	0.25
Other 1-4 family residential	0.12	1.38	0.25	0.07	0.13	0.09	0.19	0.05	0.04	0.05
Commercial and industrial loans	0.39	4.45	0.08	0.53	0.35	0.38	3.03	0.33	0.37	0.33
Loans to individuals	2.38	4.12	2.61	0.58	1.15	2.28	2.48	0.81	0.60	1.49
Credit card loans	3.99	4.12	2.98	2.85	3.68	5.77	4.74	4.37	3.18	3.80
Other loans to individuals	1.36	4.09	2.45	0.44	0.79	0.53	1.51	0.40	0.46	0.99
All other loans and leases (including farm)	0.14	0.00	0.00	0.00	0.28	0.52	0.35	0.46	0.22	0.17
Total loans and leases	0.47	3.84	0.58	0.15	0.26	0.24	1.85	0.23	0.16	0.31
Loans Outstanding (in billions)										
All real estate loans	\$4,618.5	\$1.7	\$467.6	\$58.7	\$2,272.4	\$987.5	\$26.2	\$6.3	\$45.3	\$752.7
Construction and development	600.1	0.0	8.2	5.7	501.7	27.0	0.6	0.5	3.0	53.3
Nonfarm nonresidential	942.8	0.0	29.1	16.1	717.8	46.7	2.1	1.7	10.8	118.6
Multifamily residential real estate	190.0	0.0	11.3	1.0	114.2	47.3	0.2	0.1	0.8	14.9
Home equity loans	576.7	1.4	90.8	1.1	200.8	109.5	9.0	0.3	1.6	162.2
Other 1-4 family residential	2,188.1	0.3	279.8	15.4	699.7	756.5	14.1	3.5	26.1	392.6
Commercial and industrial loans	1,300.6	26.9	268.1	14.9	680.9	32.5	9.2	1.2	6.6	260.3
Loans to individuals	980.8	239.7	203.1	6.6	245.7	56.4	56.7	1.5	8.0	163.1
Credit card loans	372.9	216.1	62.4	0.4	31.5	18.0	15.8	0.1	0.3	28.2
Other loans to individuals	608.0	23.7	140.7	6.2	214.2	38.4	40.9	1.4	7.7	134.8
All other loans and leases (including farm)	568.6	20.1	189.7	25.3	174.4	6.5	1.0	0.8	4.4	146.3
Total loans and leases	7,468.4	288.5	1,128.4	105.6	3,373.4	1,082.9	93.1	9.8	64.3	1,322.4
Memo: Other Real Estate Owned (in millions)										
All other real estate owned	7,990.0	0.9	821.9	149.9	4,114.3	1,758.3	9.2	14.2	115.1	1,006.4
Construction and development	960.7	0.0	0.0	22.6	798.0	95.1	0.8	0.7	16.0	27.4
Nonfarm nonresidential	1,308.9	0.1	6.0	56.7	1,062.1	62.7	4.7	8.1	45.6	63.0
Multifamily residential real estate	234.6	0.0	0.0	4.6	197.5	9.9	0.0	0.0	6.8	15.7
1-4 family residential	4,238.4	0.8	295.9	38.5	1,799.3	1,567.9	12.3	5.0	43.4	475.3
Farmland	72.9	0.0	0.0	27.3	34.8	5.4	0.0	0.6	3.2	1.6

* See Table IV-A (page 8) for explanations.

** Noncurrent loan rates represent the percentage of loans in each category that are past due 90 days or more or that are in nonaccrual status.

TABLE V-A. Loan Performance, All FDIC-Insured Institutions

	All Insured Institutions	Asset Size Distribution				Geographic Regions*					
		Less than \$100 Million	\$100 Million to \$1 Billion	\$1 Billion to \$10 Billion	Greater than \$10 Billion	New York	Atlanta	Chicago	Kansas City	Dallas	San Francisco
June 30, 2007											
Percent of Loans 30-89 Days Past Due											
All loans secured by real estate	1.02	1.41	0.99	0.72	1.09	0.75	0.91	1.14	0.94	1.04	1.27
Construction and development	1.04	1.29	1.19	0.92	1.01	0.84	0.83	1.46	1.23	0.76	1.16
Nonfarm nonresidential	0.52	1.13	0.77	0.50	0.37	0.57	0.34	0.72	0.66	0.66	0.32
Multifamily residential real estate	0.44	0.80	0.70	0.62	0.31	0.25	0.40	1.04	0.79	0.75	0.26
Home equity loans	0.72	0.87	0.74	0.59	0.73	0.63	0.80	0.62	0.83	0.55	0.74
Other 1-4 family residential	1.37	1.84	1.18	0.84	1.46	0.87	1.23	1.50	1.11	1.74	1.79
Commercial and industrial loans	0.58	1.58	1.04	0.70	0.49	0.78	0.36	0.72	0.84	0.83	0.35
Loans to individuals	1.76	2.33	1.62	1.73	1.77	1.92	1.36	1.50	2.44	1.52	1.85
Credit card loans	2.11	2.02	2.18	1.88	2.13	2.07	2.02	1.82	2.56	1.09	2.22
Other loans to individuals	1.55	2.33	1.57	1.65	1.52	1.67	1.27	1.39	2.33	1.61	1.61
All other loans and leases (including farm)	0.45	0.70	0.61	0.70	0.42	0.61	0.22	0.72	0.42	0.64	0.24
Total loans and leases	1.00	1.43	1.02	0.79	1.02	0.98	0.81	1.05	1.09	1.03	1.13
Percent of Loans Noncurrent**											
All real estate loans	1.01	1.03	0.90	0.90	1.06	0.83	0.70	1.31	1.78	0.91	1.01
Construction and development	1.29	1.32	1.50	1.29	1.18	1.84	1.07	1.65	1.60	0.82	1.13
Nonfarm nonresidential	0.63	1.10	0.75	0.68	0.53	0.80	0.39	0.94	0.69	0.62	0.40
Multifamily residential real estate	0.66	0.88	0.75	1.14	0.47	0.31	0.78	1.89	0.56	1.29	0.30
Home equity loans	0.50	0.52	0.41	0.45	0.51	0.41	0.53	0.49	0.52	0.23	0.53
Other 1-4 family residential	1.26	1.01	0.77	0.91	1.38	0.80	0.77	1.73	3.41	1.35	1.28
Commercial and industrial loans	0.62	1.37	1.05	0.80	0.52	1.10	0.38	0.61	0.80	0.71	0.46
Loans to individuals	1.12	0.84	0.54	0.73	1.20	1.56	0.61	0.74	1.22	0.49	1.36
Credit card loans	1.85	0.75	1.28	1.39	1.89	2.07	1.57	1.50	1.72	0.94	1.80
Other loans to individuals	0.68	0.84	0.49	0.41	0.73	0.68	0.49	0.49	0.79	0.39	1.09
All other loans and leases (including farm)	0.24	0.75	0.57	0.38	0.19	0.14	0.13	0.24	0.34	0.66	0.29
Total loans and leases	0.90	1.04	0.88	0.86	0.90	0.97	0.60	0.99	1.38	0.82	0.92
Percent of Loans Charged-off (net, YTD)											
All real estate loans	0.13	0.06	0.07	0.10	0.16	0.06	0.10	0.21	0.14	0.07	0.17
Construction and development	0.13	0.13	0.12	0.14	0.12	0.12	0.14	0.19	0.12	0.11	0.02
Nonfarm nonresidential	0.10	0.06	0.04	0.04	0.16	0.04	0.05	0.12	0.01	0.04	0.33
Multifamily residential real estate	0.11	0.09	0.07	0.32	0.05	0.00	0.32	0.25	0.02	0.08	0.06
Home equity loans	0.27	0.07	0.08	0.19	0.30	0.13	0.23	0.29	0.40	0.20	0.32
Other 1-4 family residential	0.12	0.07	0.06	0.06	0.13	0.05	0.06	0.24	0.12	0.06	0.15
Commercial and industrial loans	0.39	0.40	0.35	0.44	0.39	0.72	0.28	0.25	0.81	0.24	0.35
Loans to individuals	2.38	0.45	0.87	1.87	2.53	3.31	1.20	1.34	2.65	1.08	3.06
Credit card loans	3.99	3.15	4.98	3.32	4.03	4.29	4.05	3.28	3.87	3.07	3.89
Other loans to individuals	1.36	0.40	0.53	1.23	1.47	1.58	0.75	0.69	1.53	0.66	2.55
All other loans and leases (including farm)	0.14	0.07	0.18	0.21	0.13	0.13	0.23	0.14	0.08	0.34	0.05
Total loans and leases	0.47	0.14	0.15	0.29	0.56	0.82	0.24	0.34	0.63	0.21	0.60
Loans Outstanding (in billions)											
All real estate loans	\$4,618.5	\$80.1	\$703.2	\$719.4	\$3,115.9	\$759.2	\$1,263.6	\$896.5	\$368.1	\$300.9	\$1,030.2
Construction and development	600.1	11.1	143.1	159.9	286.0	62.4	194.7	123.3	48.6	77.6	93.6
Nonfarm nonresidential	942.8	22.3	237.4	227.6	455.6	175.4	247.0	204.6	84.3	87.9	143.6
Multifamily residential real estate	190.0	1.8	27.3	40.6	120.2	48.6	23.0	30.3	8.6	6.4	73.1
Home equity loans	576.7	2.6	33.5	43.2	497.4	53.1	176.1	154.2	72.8	19.7	100.7
Other 1-4 family residential	2,188.1	32.6	235.7	235.7	1,684.0	415.7	603.0	366.9	136.3	99.6	566.6
Commercial and industrial loans	1,300.6	17.4	120.0	149.8	1,013.3	184.0	302.6	340.3	111.9	75.4	286.4
Loans to individuals	980.8	9.5	49.6	76.9	844.7	260.8	171.2	172.6	92.6	41.1	242.5
Credit card loans	372.9	0.2	3.7	25.1	343.9	165.5	20.0	43.0	42.8	7.4	94.3
Other loans to individuals	608.0	9.4	45.9	51.9	500.9	95.3	151.3	129.6	49.8	33.8	148.2
All other loans and leases (including farm)	568.6	13.2	35.6	32.9	486.8	82.5	133.2	152.3	67.8	17.8	114.9
Total loans and leases	7,468.4	120.2	908.4	979.1	5,460.7	1,286.6	1,870.6	1,561.7	640.4	435.2	1,674.0
Memo: Other Real Estate Owned (in millions)											
All other real estate owned	7,990.0	281.4	1,698.6	1,017.8	4,992.2	605.7	1,517.6	2,212.2	1,288.2	773.3	1,593.0
Construction and development	960.7	31.7	469.9	287.7	171.3	80.7	313.7	157.6	162.6	183.3	62.7
Nonfarm nonresidential	1,308.9	101.5	566.5	238.8	402.2	131.4	285.9	343.4	191.4	241.7	115.1
Multifamily residential real estate	234.6	8.5	59.1	69.6	97.5	6.7	85.4	87.2	17.0	25.0	13.2
1-4 family residential	4,238.4	126.2	556.1	403.6	3,152.5	368.2	786.1	1,085.7	479.6	269.4	1,249.5
Farmland	72.9	13.6	43.0	13.9	2.4	5.6	12.4	5.0	12.9	34.6	2.2

* See Table IV-A (page 9) for explanations.

** Noncurrent loan rates represent the percentage of loans in each category that are past due 90 days or more or that are in nonaccrual status.

TABLE VI-A. Derivatives, All FDIC-Insured Commercial Banks and State-Chartered Savings Banks

(dollar figures in millions; notional amounts unless otherwise indicated)	2nd Quarter 2007	1st Quarter 2007	4th Quarter 2006	3rd Quarter 2006	2nd Quarter 2006	%Change 06:2-07:2	Asset Size Distribution			
							Less than \$100 Million	\$100 Million to \$1 Billion	\$1 Billion to \$10 Billion	Greater than \$10 Billion
ALL DERIVATIVE HOLDERS										
Number of institutions reporting derivatives	1,055	1,052	1,014	1,014	992	6.4	72	631	266	86
Total assets of institutions reporting derivatives	\$9,144,539	\$8,866,417	\$8,834,552	\$8,411,745	\$8,276,560	10.5	\$5,003	\$274,996	\$823,685	\$8,040,855
Total deposits of institutions reporting derivatives	5,898,181	5,746,224	5,751,222	5,431,440	5,403,746	9.1	3,995	218,896	600,061	5,075,230
Total derivatives	153,825,897	146,085,265	132,182,077	127,106,628	120,205,407	28.0	118	18,127	104,342	153,703,309
Derivative Contracts by Underlying Risk Exposure										
Interest rate	123,340,731	118,593,265	107,434,319	103,198,838	98,738,848	24.9	104	17,813	86,201	123,236,613
Foreign exchange*	15,117,714	14,167,853	12,564,207	12,226,835	12,256,709	23.3	0	53	6,142	15,111,519
Equity	2,638,709	2,317,769	2,270,942	2,218,658	1,902,399	38.7	14	223	11,535	2,626,937
Commodity & other (excluding credit derivatives)	951,725	840,613	893,310	1,558,264	738,026	29.0	0	3	180	951,542
Credit	11,777,018	10,165,765	9,019,299	7,904,034	6,569,425	79.3	0	35	284	11,776,699
Total	153,825,897	146,085,265	132,182,077	127,106,628	120,205,407	28.0	118	18,127	104,342	153,703,309
Derivative Contracts by Transaction Type										
Swaps	95,320,189	88,007,079	81,339,522	77,555,665	74,448,925	28.0	21	8,404	64,482	95,247,282
Futures & forwards	16,199,457	15,307,468	14,882,008	14,482,742	13,788,776	17.5	32	2,310	15,940	16,181,174
Purchased options	14,377,520	15,737,380	12,944,893	13,301,484	12,367,870	16.2	17	4,792	17,473	14,355,239
Written options	14,842,737	15,588,256	13,332,487	12,945,812	12,081,029	22.9	48	2,563	5,600	14,834,526
Total	140,739,903	134,640,182	122,498,910	118,285,703	112,686,600	24.9	118	18,069	103,495	140,618,221
Fair Value of Derivative Contracts										
Interest rate contracts	20,077	24,447	23,299	22,720	21,194	-5.3	0	-17	-3	20,097
Foreign exchange contracts	5,661	74,088	5,324	4,144	4,641	22.0	0	0	-26	5,687
Equity contracts	-24,713	-18,845	-17,845	-13,526	-9,364	163.9	1	13	42	-24,769
Commodity & other (excluding credit derivatives)	1,946	22,530	2,658	2,562	2,806	-30.6	0	0	0	1,946
Credit derivatives as guarantor	-22,960	9,032	31,583	14,671	7,311	NM	0	0	-1	-22,959
Credit derivatives as beneficiary	23,820	-9,677	-32,745	-14,819	-8,992	NM	0	0	0	23,820
Derivative Contracts by Maturity**										
Interest rate contracts										
< 1 year	39,403,738	33,255,949	29,551,704	26,615,376	22,679,708	73.7	27	3,220	23,266	39,377,224
1-5 years	33,846,038	33,802,189	31,385,640	30,872,442	31,161,579	8.6	13	8,545	25,804	33,811,677
> 5 years	24,588,177	24,684,533	23,273,618	22,518,236	22,835,007	7.7	18	3,070	29,952	24,555,138
Foreign exchange contracts										
< 1 year	8,948,450	8,372,488	7,690,210	6,687,566	7,473,995	19.7	0	23	4,966	8,943,461
1-5 years	1,667,700	1,571,241	1,415,846	1,573,062	1,240,609	34.4	0	4	18	1,667,678
> 5 years	676,071	624,415	592,897	767,427	518,618	30.4	0	3	10	676,058
Equity contracts										
< 1 year	442,652	397,235	341,346	333,262	334,715	32.2	1	20	162	442,469
1-5 years	283,520	236,557	220,856	296,151	219,638	29.1	6	94	407	283,013
> 5 years	62,916	74,332	44,858	53,988	44,457	41.5	0	0	32	62,883
Commodity & other contracts										
< 1 year	280,133	271,647	235,107	496,634	230,213	21.7	0	0	134	279,999
1-5 years	261,410	200,542	272,314	274,378	177,869	47.0	0	3	35	261,372
> 5 years	27,273	23,955	21,581	14,486	10,426	161.6	0	0	0	27,273
Risk-Based Capital: Credit Equivalent Amount										
Total current exposure to tier 1 capital (%)	30.8	28.3	29.2	28.6	33.6		0.4	0.2	1.2	36.0
Total potential future exposure to tier 1 capital (%)	113.4	106.9	97.7	99.0	90.2		0.2	0.3	1.0	133.2
Total exposure (credit equivalent amount) to tier 1 capital (%)	144.2	135.2	126.9	127.6	123.8		0.5	0.5	2.2	169.2
Credit losses on derivatives***										
	6.3	-2.9	-25.1	-19.3	-3.3	NM	0.0	1.6	0.3	4.3
HELD FOR TRADING										
Number of institutions reporting derivatives	165	152	147	147	149	10.7	6	45	55	59
Total assets of institutions reporting derivatives	7,782,327	7,383,462	7,223,466	6,927,469	6,808,697	14.3	373	20,066	244,465	7,517,422
Total deposits of institutions reporting derivatives	4,922,584	4,766,993	4,712,044	4,435,577	4,399,031	11.9	282	16,246	170,075	4,735,981
Derivative Contracts by Underlying Risk Exposure										
Interest rate	120,829,579	115,845,739	104,691,811	100,299,894	96,221,190	25.6	10	222	40,985	120,788,363
Foreign exchange	13,684,212	12,769,131	11,788,411	11,207,259	11,206,773	22.1	0	10	5,153	13,679,049
Equity	2,622,872	2,313,326	2,266,778	2,214,881	1,898,493	38.2	0	6	410	2,622,457
Commodity & other	951,236	840,345	893,087	1,558,095	737,910	28.9	0	0	124	951,112
Total	138,087,899	131,768,541	119,640,087	115,280,129	110,064,365	25.5	10	238	46,671	138,040,980
Trading Revenues: Cash & Derivative Instruments										
Interest rate	2,980	2,405	1,146	546	1,665	79.0	0	0	19	2,961
Foreign exchange	1,264	1,831	1,613	1,355	2,672	-52.7	0	0	8	1,256
Equity	1,021	1,732	1,214	1,827	100	921.0	0	0	1	1,020
Commodity & other (including credit derivatives)	24	175	-111	789	272	-91.2	0	0	0	24
Total trading revenues	5,289	6,143	3,861	4,517	4,710	12.3	0	0	27	5,262
Share of Revenue										
Trading revenues to gross revenues (%)	3.4	4.3	2.9	3.4	3.6		0.0	0.0	0.5	3.5
Trading revenues to net operating revenues (%)	22.3	28.9	19.6	20.7	21.6		0.0	0.4	3.8	22.9
HELD FOR PURPOSES OTHER THAN TRADING										
Number of institutions reporting derivatives	969	969	935	934	920	5.3	64	586	236	83
Total assets of institutions reporting derivatives	8,962,437	8,636,687	8,604,934	8,227,057	8,123,922	10.3	4,472	253,102	732,932	7,971,932
Total deposits of institutions reporting derivatives	5,772,676	5,582,122	5,589,925	5,305,574	5,299,416	8.9	3,598	201,019	537,402	5,030,657
Derivative Contracts by Underlying Risk Exposure										
Interest rate	2,511,152	2,747,526	2,742,508	2,898,943	2,517,658	-0.3	95	17,591	45,216	2,448,251
Foreign exchange	124,526	119,405	111,928	102,685	100,555	23.8	0	19	426	124,081
Equity	15,837	4,443	4,164	3,777	3,906	305.5	14	218	11,125	4,480
Commodity & other	489	268	223	169	116	321.6	0	3	56	430
Total notional amount	2,652,004	2,871,642	2,858,223	3,005,575	2,622,234	1.1	108	17,831	56,824	2,577,241

All line items are reported on a quarterly basis.

*Include spot foreign exchange contracts. All other references to foreign exchange contracts in which notional values or fair values are reported exclude spot foreign exchange contracts.

** Derivative contracts subject to the risk-based capital requirements for derivatives.

*** The reporting of credit losses on derivatives is applicable to all banks filing the FFIEC 031 report form and to those banks filing the FFIEC 041 report form that have \$300 million or more in total assets.

TABLE VII-A. Servicing, Securitization, and Asset Sales Activities (All FDIC-Insured Commercial Banks and State-Chartered Savings Banks)

(dollar figures in millions)	2nd Quarter 2007	1st Quarter 2007	4th Quarter 2006	3rd Quarter 2006	2nd Quarter 2006	%Change 06:2-07:2	Asset Size Distribution			
							Less than \$100 Million	\$100 Million to \$1 Billion	\$1 Billion to \$10 Billion	Greater than \$10 Billion
Assets Securititized and Sold with Servicing Retained or with Recourse or Other Seller-Provided Credit Enhancements										
Number of institutions reporting securitization activities	126	125	122	119	120	5.0	16	47	20	43
Outstanding Principal Balance by Asset Type										
1-4 family residential loans	\$1,115,865	\$1,079,912	\$739,024	\$453,900	\$417,800	167.1	\$97	\$329	\$682	\$1,114,758
Home equity loans	10,640	9,339	8,905	9,257	9,632	10.5	0	0	431	10,209
Credit card receivables	372,481	367,796	362,467	422,983	403,434	-7.7	0	6,637	6,675	359,170
Auto loans	12,547	14,132	16,263	16,781	16,665	-24.7	0	0	361	12,185
Other consumer loans	27,396	27,737	28,673	25,753	24,414	12.2	0	7	0	27,389
Commercial and industrial loans	13,193	12,039	10,543	8,404	10,582	24.7	0	30	4,859	8,303
All other loans, leases, and other assets*	162,434	150,404	144,939	136,330	121,506	33.7	2	86	1,078	161,268
Total securitized and sold	1,714,556	1,661,359	1,310,814	1,073,407	1,004,034	70.8	99	7,089	14,087	1,693,282
Maximum Credit Exposure by Asset Type										
1-4 family residential loans	6,511	6,047	6,627	4,619	4,336	50.2	13	3	17	6,478
Home equity loans	2,420	2,368	2,332	2,358	2,358	2.6	0	0	20	2,400
Credit card receivables	18,711	17,685	19,182	25,084	24,495	-23.6	0	488	175	18,048
Auto loans	555	628	724	813	806	-31.1	0	0	17	538
Other consumer loans	1,768	1,861	1,882	1,653	1,619	9.2	0	0	0	1,767
Commercial and industrial loans	314	311	348	407	455	-31.0	0	0	82	232
All other loans, leases, and other assets	1,053	1,052	997	761	727	44.8	1	25	49	978
Total credit exposure	31,331	29,952	32,093	35,695	34,796	-10.0	14	517	359	30,442
Total unused liquidity commitments provided to institution's own securitizations	5,667	6,116	6,872	7,323	9,359	-39.4	0	0	0	5,667
Securitized Loans, Leases, and Other Assets 30-89 Days Past Due (%)										
1-4 family residential loans	2.5	2.1	3.0	2.4	2.1		0.0	0.0	2.0	2.5
Home equity loans	0.6	0.7	0.7	0.7	0.6		0.0	0.0	1.8	0.6
Credit card receivables	1.9	1.9	2.0	2.0	1.9		0.0	2.7	0.9	1.9
Auto loans	1.7	1.5	1.7	1.3	1.1		0.0	0.0	0.9	1.7
Other consumer loans	2.8	2.4	3.0	3.0	2.6		0.0	0.0	0.0	2.8
Commercial and industrial loans	0.5	0.7	0.7	1.2	1.2		0.0	0.0	1.4	0.0
All other loans, leases, and other assets	0.1	0.1	0.2	0.2	0.1		0.0	0.0	0.1	0.1
Total loans, leases, and other assets	2.1	1.9	2.4	2.0	1.7		0.0	2.5	1.1	2.1
Securitized Loans, Leases, and Other Assets 90 Days or More Past Due (%)										
1-4 family residential loans	1.2	1.1	1.2	0.9	1.1		0.0	0.0	0.6	1.2
Home equity loans	0.3	0.4	0.5	0.3	0.3		0.0	0.0	1.2	0.3
Credit card receivables	1.6	1.8	1.7	1.6	1.6		0.0	1.6	0.6	1.6
Auto loans	0.2	0.2	0.3	0.2	0.2		0.0	0.0	0.1	0.2
Other consumer loans	2.1	2.0	2.1	2.1	2.1		0.0	0.0	0.0	2.1
Commercial and industrial loans	0.6	0.6	0.7	0.8	0.9		0.0	0.0	1.4	0.1
All other loans, leases, and other assets	0.2	0.1	0.2	0.2	0.1		0.0	0.0	0.1	0.2
Total loans, leases, and other assets	1.2	1.1	1.2	1.1	1.2		0.0	1.5	0.8	1.2
Securitized Loans, Leases, and Other Assets Charged-Off (net, YTD, annualized, %)										
1-4 family residential loans	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0
Home equity loans	0.1	0.1	0.3	0.2	0.1		0.0	0.0	0.7	0.1
Credit card receivables	2.2	1.1	3.8	2.9	1.9		0.0	2.2	1.0	2.3
Auto loans	0.5	0.3	0.7	0.5	0.3		0.0	0.0	0.2	0.5
Other consumer loans	0.7	0.4	1.5	1.2	0.7		0.0	0.0	0.0	0.7
Commercial and industrial loans	0.7	0.4	1.3	1.2	0.8		0.0	0.0	2.0	0.0
All other loans, leases, and other assets	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0
Total loans, leases, and other assets	0.5	0.3	1.1	1.2	0.8		0.0	2.0	1.2	0.5
Seller's Interests in Institution's Own Securitizations - Carried as Loans										
Home equity loans	651	671	869	728	650	0.2	0	0	3	648
Credit card receivables	73,405	61,569	75,225	68,885	82,533	-11.1	0	341	4,820	68,244
Commercial and industrial loans	2,843	2,863	2,596	2,891	3,284	-13.4	0	0	875	1,968
Seller's Interests in Institution's Own Securitizations - Carried as Securities										
Home equity loans	10	10	10	11	12	-16.7	0	0	0	10
Credit card receivables	327	281	322	184	137	138.7	0	27	301	0
Commercial and industrial loans	9	1	5	0	0	0.0	0	0	0	9
Assets Sold with Recourse and Not Securititized										
Number of institutions reporting asset sales	733	729	715	708	698	5.0	168	420	100	45
Outstanding Principal Balance by Asset Type										
1-4 family residential loans	55,761	58,005	55,761	56,002	54,319	2.7	934	6,657	2,684	45,487
Home equity, credit card receivables, auto, and other consumer loans	601	1,905	708	115	124	NM	1	30	10	561
Commercial and industrial loans	7,716	8,198	6,668	6,781	6,184	24.8	8	90	330	7,288
All other loans, leases, and other assets	8,035	8,103	6,981	7,403	12,998	-38.2	2	47	183	7,803
Total sold and not securitized	72,114	76,210	70,118	70,302	73,625	-2.1	945	6,824	3,206	61,139
Maximum Credit Exposure by Asset Type										
1-4 family residential loans	14,884	16,112	13,197	13,698	12,167	22.3	70	1,463	1,894	11,457
Home equity, credit card receivables, auto, and other consumer loans	564	1,869	663	47	64	NM	1	7	1	556
Commercial and industrial loans	4,461	4,543	4,499	4,479	4,272	4.4	8	65	330	4,058
All other loans, leases, and other assets	2,383	2,428	2,530	2,502	2,161	10.3	2	22	90	2,270
Total credit exposure	22,292	24,952	20,888	20,726	18,663	19.4	81	1,557	2,314	18,340
Support for Securitization Facilities Sponsored by Other Institutions										
Number of institutions reporting securitization facilities sponsored by others	50	47	47	48	46	8.7	24	15	3	8
Total credit exposure	1,375	1,348	1,135	958	853	61.2	6	123	95	1,151
Total unused liquidity commitments	14,093	5,827	6,257	5,066	4,251	231.5	0	0	0	14,093
Other										
Assets serviced for others**	3,571,164	3,493,527	3,392,129	3,072,169	2,836,997	25.9	7,553	63,015	89,301	3,411,295
Asset-backed commercial paper conduits										
Credit exposure to conduits sponsored by institutions and others	22,211	21,404	20,714	19,244	19,293	15.1	2	99	0	22,109
Unused liquidity commitments to conduits sponsored by institutions and others	364,656	327,395	306,435	294,329	286,363	27.3	0	0	0	364,656
Net servicing income (for the quarter)	5,333	3,601	2,159	3,381	4,262	25.1	50	182	155	4,946
Net securitization income (for the quarter)	5,437	5,051	2,407	6,832	6,225	-12.7	0	210	141	5,086
Total credit exposure to Tier 1 capital (%)**	5.7	5.9	5.8	6.1	5.9		0.4	1.7	2.1	7.3

*Line item titled "All other loans and all leases" for quarters prior to March 31, 2006

**The amount of financial assets serviced for others, other than closed-end 1-4 family residential mortgages, is reported when these assets are greater than \$10 million

***Total credit exposure includes the sum of the three line items titled "Total credit exposure" reported above

Insurance Fund Indicators

- **Domestic Deposit Growth Is Flat**
- **Foreign Deposits Show Record Growth**
- **DIF Reserve Ratio Rises 1 Basis Point to 1.21 Percent**
- **New Risk-Based Assessments Add \$140 Million to the DIF**

Total assets of the nation's 8,615 FDIC-insured commercial banks and savings institutions increased by \$279.9 billion (2.3 percent) during the second quarter of 2007. About half of the quarter's asset growth was funded by deposits, as interest-bearing deposits increased by \$127.6 billion (1.9 percent), and noninterest-bearing deposits increased by \$12.5 billion (1.0 percent). Deposit growth was concentrated in foreign offices, up \$143.3 billion (11.9 percent). This was the largest quarterly increase of foreign office deposits on record. Domestic deposits were almost unchanged in the second quarter, declining by only \$3.2 billion, (0.05 percent) from the previous quarter.

At the end of June, deposits funded nearly two-thirds of insured institution assets, with insured deposits funding 34 percent, uninsured domestic deposits funding 20 percent, and foreign office deposits funding 11 percent. Estimated insured deposits declined slightly in the second quarter of 2007 (a 0.3 percent decrease), compared to a first quarter rise of 2.1 percent and a 1.0 percent increase in the second quarter of 2006. For institutions existing as of March 31, 2007 and June 30, 2007, insured deposits increased during the second quarter at 4,658 institutions (54 percent), decreased at 3,862 institutions (45 percent), and remained unchanged at 46 institutions.

The Deposit Insurance Fund (DIF) increased by 0.9 percent (\$482 million) during the second quarter to \$51,227 million (unaudited). Accrued assessment income added \$140 million to the DIF during the second quarter. The fund received \$501 million (net of expenses) from interest on securities and other revenue and \$3 million from a decrease in provisions for insurance losses. Unrealized losses on available-for-sale securities reduced the DIF by \$162 million.

The increase in the DIF combined with nearly flat insured deposit growth raised the DIF reserve ratio to 1.21 percent, one basis point higher than the previous quarter, but the reserve ratio is two basis points lower than a year earlier.

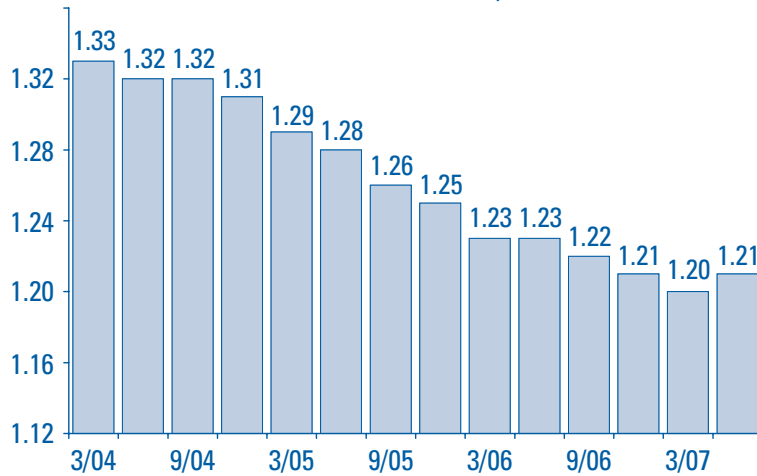
There were no failures of FDIC-insured institutions during the second quarter of 2007. For the first half of 2007, one insured institution failed with assets of \$15.3 million and an estimated loss to the DIF of \$7.2 million.

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TABLE I-B. Insurance Fund Balances and Selected Indicators

	Deposit Insurance Fund								
	2nd Quarter 2007	1st Quarter 2007	4th Quarter 2006	3rd Quarter 2006	2nd Quarter 2006	1st Quarter 2006	4th Quarter 2005	3rd Quarter 2005	2nd Quarter 2005
Beginning Fund Balance*	\$50,745	\$50,165	\$49,992	\$49,564	\$49,193	\$48,597	\$48,373	\$48,023	\$47,617
Changes in Fund Balance:									
Assessments earned.....	140	94	10	10	7	5	13	20	14
Interest earned on investment securities.....	748	567	476	622	665	478	675	536	657
Operating expenses.....	248	239	248	237	242	224	252	227	254
Provision for insurance losses.....	-3	-73	49	-50	-6	-45	-19	-65	-57
All other income, net of expenses**.....	1	4	5	1	12	349	4	3	4
Unrealized gain/(loss) on available-for-sale securities.....	-162	81	-21	-18	-77	-57	-235	-47	-72
Total fund balance change.....	482	580	173	428	371	596	224	350	406
Ending Fund Balance*	51,227	50,745	50,165	49,992	49,564	49,193	48,597	48,373	48,023
Percent change from four quarters earlier.....	3.36	3.15	3.23	3.35	3.21	3.31	2.29	2.94	3.23
Reserve Ratio (%)	1.21	1.20	1.21	1.22	1.23	1.23	1.25	1.26	1.28
Estimated Insured Deposits	4,229,874****	4,241,209	4,152,806	4,099,769	4,040,368	4,001,921	3,890,944	3,830,950	3,757,728
Percent change from four quarters earlier.....	4.69****	5.98	6.73	7.02	7.52	8.50	7.42	7.63	6.40
Assessment Base	6,815,248	6,801,622	6,595,300	6,439,293	6,386,880	6,272,524	6,177,431	6,038,857	5,878,968
Percent change from four quarters earlier.....	6.71	8.44	6.76	6.63	8.64	8.15	8.88	9.47	8.36
Number of institutions reporting	8,626	8,662	8,693	8,755	8,790	8,803	8,845	8,870	8,881

DIF Reserve Ratio*
Percent of Insured Deposits



Deposit Insurance Fund Balance and Insured Deposits*
(\$Millions)

	DIF Balance	DIF-Insured Deposits
12/03	46,022	3,452,503
3/04	46,558	3,499,469
6/04	46,521	3,531,806
9/04	46,990	3,559,489
12/04	47,507	3,622,068
3/05	47,617	3,688,562
6/05	48,023	3,757,728
9/05	48,373	3,830,950
12/05	48,597	3,890,944
3/06	49,193	4,001,921
6/06	49,564	4,040,368
9/06	49,992	4,099,769
12/06	50,165	4,152,806
3/07	50,745	4,241,209
6/07	51,227	4,229,874****

TABLE II-B. Problem Institutions and Failed/Assisted Institutions

	2007***	2006***	2006	2005	2004	2003	2002
Problem Institutions							
Number of institutions.....	61	50	50	52	80	116	136
Total assets.....	\$23,077	\$5,539	\$8,265	\$6,607	\$28,250	\$29,917	\$38,927
Failed/Assisted Institutions							
Number of institutions.....	1	0	0	0	4	3	11
Total assets.....	\$15	\$0	\$0	\$0	\$166	\$1,097	\$2,558

* Prior to 2006, amounts represent sum of separate BIF and SAIF amounts.

** First Quarter 2006 includes previously escrowed revenue from SAIF-member exit fees.

*** Through June 30.

**** Insured deposit total for June 30 has been updated from the originally published amount to reflect an amendment to submitted data.

TABLE III-B. Estimated FDIC-Insured Deposits by Type of Institution*(dollar figures in millions)*

June 30, 2007

	Number of Institutions	Total Assets	Domestic Deposits*	Est. Insured Deposits
Commercial Banks and Savings Institutions				
FDIC-Insured Commercial Banks	7,350	\$10,410,995	\$5,522,309	\$3,317,278
FDIC-Supervised	4,785	1,914,303	1,424,370	955,492
OCC-Supervised	1,677	7,061,682	3,267,489	1,859,439
Federal Reserve-Supervised	888	1,435,010	830,451	502,347
FDIC-Insured Savings Institutions	1,265	1,850,034	1,169,364	906,917**
OTS-Supervised Savings Institutions	836	1,542,479	949,688	736,182**
FDIC-Supervised State Savings Banks	429	307,555	219,676	170,735
Total Commercial Banks and Savings Institutions	8,615	12,261,029	6,691,674	4,224,195**
Other FDIC-Insured Institutions				
U.S. Branches of Foreign Banks	11	16,861	6,875	5,680
Total FDIC-Insured Institutions	8,626	12,277,891	6,698,548	4,229,874**

*Excludes \$1,344 billion in foreign office deposits, which are uninsured.

**Insured deposit total for June 30 has been updated from the originally published amount to reflect an amendment to submitted data.

TABLE IV-B. Distribution of Institutions and Assessment Base Among Risk Categories

Quarter Ending March 31, 2007

<i>(dollar figures in billions)</i>	Annual Rate in Basis Points	Number of Institutions	Percent of Total Institutions	Assessment Base	Percent of Total Assessment Base
Risk Category					
I - Minimum	5	3,079	35.5%	4,019.8	59.1%
I - Middle	5.01- 6.00	3,266	37.7%	2,095.5	30.8%
I - Middle	6.01- 6.99	1,235	14.3%	411.3	6.0%
I - Maximum	7	633	7.3%	168.8	2.5%
II	10	393	4.5%	87.8	1.3%
III	28	50	0.6%	7.5	0.1%
IV	43	6	0.1%	11.0	0.2%

Note: Institutions are categorized based on supervisory ratings, debt ratings and financial data as of March 31, 2007.

Rates do not reflect the application of assessment credits. See notes to users for further information on risk categories and rates.

Notes To Users

This publication contains financial data and other information for depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). These notes are an integral part of this publication and provide information regarding the comparability of source data and reporting differences over time.

Tables I-A through VIII-A.

The information presented in Tables I-A through V-A of the *FDIC Quarterly Banking Profile* is aggregated for all FDIC-insured Institutions, both commercial banks and savings institutions. Tables VI-A (Derivatives) and VII-A (Servicing, Securitization, and Asset Sales Activities) aggregate information only for insured commercial banks and state-chartered savings banks that file quarterly Call Reports. Table VIII-A Trust Services aggregates Trust asset and income information collected annually from all FDIC-insured institutions. Some tables are arrayed by groups of FDIC-insured institutions based on predominant types of asset concentration, while other tables aggregate institutions by asset size and geographic region. Quarterly and full-year data are provided for selected indicators, including aggregate condition and income data, performance ratios, condition ratios and structural changes, as well as past due, noncurrent and charge-off information for loans outstanding and other assets.

Tables I-B through IV-B.

A separate set of tables (Tables I-B through IV-B) provides comparative quarterly data related to the Deposit Insurance Fund (DIF), problem institutions, failed/assisted institutions, estimated FDIC-insured deposits, as well as assessment rate information. Depository institutions that are not insured by the FDIC through the DIF are not included in the *FDIC Quarterly Banking Profile*. U.S. branches of institutions headquartered in foreign countries and non-deposit trust companies are not included unless otherwise indicated. Efforts are made to obtain financial reports for all active institutions. However, in some cases, final financial reports are not available for institutions that have closed or converted their charters.

DATA SOURCES

The financial information appearing in this publication is obtained primarily from the Federal Financial Institutions Examination Council (FFIEC) *Call Reports* and the OTS *Thrift Financial Reports* submitted by all FDIC-insured depository institutions. This information is stored on and retrieved from the FDIC's Research Information System (RIS) data base.

COMPUTATION METHODOLOGY

Certain adjustments are made to the OTS *Thrift Financial Reports* to provide closer conformance with the reporting and accounting requirements of the FFIEC *Call Reports*. Parent institutions are required to file consolidated reports, while their subsidiary financial institutions are still required to file separate reports. Data from subsidiary institution reports are included in the *Quarterly Banking Profile* tables, which can lead to double-counting. No adjustments are made for any double-counting of subsidiary data.

All asset and liability figures used in calculating performance ratios represent average amounts for the period (beginning-of-period amount plus end-of-period amount plus any interim periods, divided by the total number of periods). For "pooling-of-interest" mergers, the assets of the acquired institution(s) are included in average assets since the year-to-date income includes the results of all merged institutions. No adjustments are made for "purchase accounting" mergers.

Growth rates represent the percentage change over a 12-month period in totals for institutions in the base period to totals for institutions in the current period.

All data are collected and presented based on the location of each reporting institution's main office. Reported data may include assets and liabilities located outside of the reporting institution's home state. In addition, institutions may relocate across state lines or change their charters, resulting in an inter-regional or inter-industry migration, e.g., institutions can move their home offices between regions, and savings institutions can convert to commercial banks or commercial banks may convert to savings institutions.

ACCOUNTING CHANGES

FASB Statement No. 157 Fair Value Measurements issued in September 2006 and FASB Statement No. 159 The Fair Value Option for Financial Assets and Financial Liabilities issued in February 2007 – both are effective in 2008 with early adoption permitted in 2007. FAS 157 defines a fair value measurement framework, while FAS 159 allows banks to elect a fair value option when assets are recognized on the balance sheet and to report certain financial assets and liabilities at fair value with subsequent changes in fair value included in earnings. Existing eligible items can be fair-valued as early as January 2007 under FAS 159, if a bank adopts FAS 157.

FASB Statement 158 Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – issued in September 2006 requires a bank to recognize in 2007 the funded status of its postretirement plans on its balance sheet. An overfunded plan is recognized as an asset and an underfunded plan is recognized as a liability. An adjustment is made to equity as accumulated other comprehensive income (AOCI) upon application of FAS 158 and AOCI is adjusted in subsequent periods as net periodic benefit costs are recognized in earnings.

FASB Statement No. 156 Accounting for Servicing of Financial Assets – issued in March 2006 and effective in 2007, requires all separately recognized servicing assets and liabilities to be initially measured at fair value and allows a bank the option to subsequently adjust that value by periodic revaluation and recognition of earnings or by periodic amortization to earnings.

Purchased Impaired Loans and Debt Securities – Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. The SOP applies to loans and debt securities acquired in fiscal years beginning after December 15, 2004. In general, this Statement of Position applies to "purchased impaired loans and debt securities," i.e., loans and debt securities that a bank has purchased, including those acquired in a purchase business combination, when it is probable, at the purchase date, that the bank will be unable to collect all contractually required payments receivable. Banks must follow Statement of Position 03-3 for Call Report purposes. The SOP does not apply to the loans that a bank has originated, prohibits "carrying over" or creation of valuation allowances in the initial accounting and any subsequent valuation allowances reflect only those losses incurred by the investor after acquisition.

GNMA Buy-back Option – If an issuer of GNMA securities has the option to buy back the loans that collateralize the GNMA securities, when certain delinquency criteria are met, FASB Statement No. 140 requires that loans with this buy-back option must be brought back on the issuer's books as assets. The rebooking of GNMA loans is required regardless of whether the issuer intends to exercise the buy-back option. The banking agencies clarified in May 2005 that all GNMA loans that are rebooked because of delinquency should be reported as past due according to their contractual terms.

FASB Interpretation No. 45 – In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This interpretation clarifies that a guarantor is required to recognize, at the inception of a guarantee (financial standby letters of credit, performance standby letters of credit), a liability for the fair value of the obligation undertaken in issuing the guarantee. Banks apply the initial recognition and measurement provisions of Interpretation No. 45 on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the bank's fiscal year end. A bank's previous accounting for guarantees issued prior to January 1, 2003, is not revised.

FASB Interpretation No. 46 – The FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities*, in January 2003 and revised it in December 2003. Generally, banks with variable interests in variable interest entities created after December 31, 2003, must consolidate them. The timing of consolidation varies with certain situations with application as late as 2005. The assets and liabilities of a consolidated variable interest entity are reported on a line-by-line basis according to the asset and liability categories shown on the bank's balance sheet, as well as related income items. Most small banks are unlikely to have any "variable interests" in variable interest entities.

FASB Statement No. 123 (Revised 2004) and Share-Based Payments

– requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments, e.g., stock options and restricted stock, granted to employees. As of January 2006 all banks must adopt FAS 123(R). The compensation cost is typically recognized over the vesting period with a corresponding credit to equity. The recording of the compensation cost also gives rise to a deferred tax asset.

Goodwill and intangible assets – FAS 141 terminates the use of pooling-of-interest accounting for business combinations after 2001 and requires purchase accounting. Under FAS 142 amortization of goodwill is eliminated. Only intangible assets other than goodwill are amortized each quarter. In addition companies are required to test for impairment of both goodwill and other intangibles once each fiscal year. The year 2002, the first fiscal year affected by this accounting change, has been designated a transitional year and the amount of initial impairments are to be recorded as extraordinary losses on a "net of tax" basis (and not as noninterest expense). Subsequent annual review of intangibles and goodwill impairment may require additional noninterest expense recognition. FASB Statement No. 147 clarifies that acquisitions of financial institutions (except transactions between two or more mutual enterprises), including branch acquisitions that meet the definition of a business combination, should be accounted for by the purchase method under FASB Statement No. 141. This accounting standard includes transition provisions that apply to unidentifiable intangible assets previously accounted for in accordance with FASB Statement No. 72. If the transaction (such as a branch acquisition) in which an unidentifiable intangible asset arose does not meet the definition of a business combination, this intangible asset is not to be reported as "Goodwill" on the Call Report balance sheet. Rather, this unidentifiable intangible asset is reported as "Other intangible assets," and must continue to be amortized and the amortization expense should be reported in the Call Report income statement.

FASB Statement No. 133 Accounting for Derivative Instruments and Hedging Activities – All banks must recognize derivatives as either assets or liabilities on the balance sheet, measured at fair value. A derivative may be specifically designated as a "fair value hedge," a "cash flow hedge," or a hedge of a foreign currency exposure. The accounting for changes in the value of a derivative (gains and losses) depends on the intended use of the derivative, its resulting designation, and the effec-

tiveness of the hedge. Derivatives held for purposes other than trading are reported as "other assets" (positive fair values) or "other liabilities" (negative fair values). For a fair value hedge, the gain or loss is recognized in earnings and "effectively" offsets loss or gain on the hedged item attributable to the risk being hedged. Any ineffectiveness of the hedge could result in a net gain or loss on the income statement. Accumulated net gains (losses) on cash flow hedges are recorded on the balance sheet as "accumulated other comprehensive income" and the periodic change in the accumulated net gains (losses) for cash flow hedges is reflected directly in equity as the value of the derivative changes. FASB Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities provides guidance on the circumstances in which a loan commitment must be accounted for as derivative. Under Statement No. 149, loan commitments that relate to the origination of mortgage loans that will be held for sale, commonly referred to as interest rate lock commitments, must be accounted for as derivatives on the balance sheet by the issuer of the commitment.

DEFINITIONS (in alphabetical order)

All other assets – total cash, balances due from depository institutions, premises, fixed assets, direct investments in real estate, investment in unconsolidated subsidiaries, customers' liability on acceptances outstanding, assets held in trading accounts, federal funds sold, securities purchased with agreements to resell, fair market value of derivatives, and other assets.

All other liabilities – bank's liability on acceptances, limited-life preferred stock, allowance for estimated off-balance-sheet credit losses, fair market value of derivatives, and other liabilities.

Assessment base – assessable deposits consist of DIF deposits (deposits insured by the FDIC Deposit Insurance Fund) in banks' domestic offices with certain adjustments.

Assets securitized and sold – total outstanding principal balance of assets securitized and sold with servicing retained or other seller-provided credit enhancements.

Construction and development loans – includes loans for all property types under construction, as well as loans for land acquisition and development.

Core capital – common equity capital plus noncumulative perpetual preferred stock plus minority interest in consolidated subsidiaries, less goodwill and other ineligible intangible assets. The amount of eligible intangibles (including servicing rights) included in core capital is limited in accordance with supervisory capital regulations.

Cost of funding earning assets – total interest expense paid on deposits and other borrowed money as a percentage of average earning assets.

Credit enhancements – techniques whereby a company attempts to reduce the credit risk of its obligations. Credit enhancement may be provided by a third party (external credit enhancement) or by the originator (internal credit enhancement), and more than one type of enhancement may be associated with a given issuance.

Deposit Insurance Fund (DIF) – The Bank (BIF) and Savings Association (SAIF) Insurance Funds were merged in 2006 by the Federal Deposit Insurance Reform Act to form the DIF.

Derivatives notional amount – The notional or contractual amounts of derivatives represent the level of involvement in the types of derivatives transactions and are not a quantification of market risk or credit risk. Notional amounts represent the amounts used to calculate contractual cash flows to be exchanged.

Derivatives credit equivalent amount – the fair value of the derivative plus an additional amount for potential future credit exposure based on the notional amount, the remaining maturity and type of the contract.

Derivatives transaction types:

Futures and forward contracts – contracts in which the buyer agrees to purchase and the seller agrees to sell, at a specified future date, a specific quantity of an underlying variable or index at a specified price or yield. These contracts exist for a variety of variables or indices, (traditional agricultural or physical commodities, as well as currencies and interest rates). Futures contracts are standardized and are traded on organized exchanges which set limits on counterparty credit exposure. Forward contracts do not have standardized terms and are traded over the counter.

Option contracts – contracts in which the buyer acquires the right to buy from or sell to another party some specified amount of an underlying variable or index at a stated price (strike price) during a period or on a specified future date, in return for compensation (such as a fee or premium). The seller is obligated to purchase or sell the variable or index at the discretion of the buyer of the contract.

Swaps – obligations between two parties to exchange a series of cash flows at periodic intervals (settlement dates), for a specified period. The cash flows of a swap are either fixed, or determined for each settlement date by multiplying the quantity (notional principal) of the underlying variable or index by specified reference rates or prices. Except for currency swaps, the notional principal is used to calculate each payment but is not exchanged.

Derivatives underlying risk exposure – the potential exposure characterized by the level of banks' concentration in particular underlying instruments, in general. Exposure can result from market risk, credit risk and operational risk, as well as, interest rate risk.

Domestic deposits to total assets – total domestic office deposits as a percent of total assets on a consolidated basis.

Earning assets – all loans and other investments that earn interest or dividend income.

Efficiency ratio – Noninterest expense less amortization of intangible assets as a percent of net interest income plus noninterest income. This ratio measures the proportion of net operating revenues that are absorbed by overhead expenses, so that a lower value indicates greater efficiency.

Estimated insured deposits – in general, insured deposits are total domestic deposits minus estimated uninsured deposits. Prior to June 30, 2000 the uninsured estimate is calculated as the sum of the excess amounts in accounts over \$100,000. Beginning June 30, 2000 the amount of estimated uninsured deposits is adjusted to consider a financial institution's own estimate of uninsured deposits when such an estimate is reported. Beginning in 2006 the uninsured deposits estimate also considers IRA accounts over \$250,000.

Failed/assisted institutions – an institution fails when regulators take control of the institution, placing the assets and liabilities into a bridge bank, conservatorship, receivership, or another healthy institution. This action may require the FDIC to provide funds to cover losses. An institution is defined as "assisted" when the institution remains open and receives some insurance funds in order to continue operating.

FHLB advances – all borrowings by FDIC insured institutions from the Federal Home Loan Bank System (FHLB), as reported by Call Report filers and by TFR filers.

Goodwill and other intangibles – intangible assets include servicing rights, purchased credit card relationships and other identifiable intangible assets. Goodwill is the excess of the purchase price over the fair market value of the net assets acquired.

Loans secured by real estate – includes home equity loans, junior liens secured by 1-4 family residential properties and all other loans secured by real estate.

Loans to individuals – includes outstanding credit card balances and other secured and unsecured consumer loans.

Long-term assets (5+ years) – loans and debt securities with remaining maturities or repricing intervals of over five years.

Maximum credit exposure – the maximum contractual credit exposure remaining under recourse arrangements and other seller-provided credit enhancements provided by the reporting bank to securitizations.

Mortgage-backed securities – certificates of participation in pools of residential mortgages and collateralized mortgage obligations issued or guaranteed by government-sponsored or private enterprises. Also, see "Securities", below.

Net charge-offs – total loans and leases charged off (removed from balance sheet because of uncollectibility), less amounts recovered on loans and leases previously charged off.

Net interest margin – the difference between interest and dividends earned on interest-bearing assets and interest paid to depositors and other creditors, expressed as a percentage of average earning assets. No adjustments are made for interest income that is tax exempt.

Net loans to total assets – loans and lease financing receivables, net of unearned income, allowance and reserves, as a percent of total assets on a consolidated basis.

Net operating income – income excluding discretionary transactions such as gains (or losses) on the sale of investment securities and extraordinary items. Income taxes subtracted from operating income have been adjusted to exclude the portion applicable to securities gains (or losses).

Noncurrent assets – the sum of loans, leases, debt securities and other assets that are 90 days or more past due, or in nonaccrual status.

Noncurrent loans & leases – the sum of loans and leases 90 days or more past due, and loans and leases in nonaccrual status.

Number of institutions reporting – the number of institutions that actually filed a financial report.

Other borrowed funds – federal funds purchased, securities sold with agreements to repurchase, demand notes issued to the U.S. Treasury, FHLB advances, other borrowed money, mortgage indebtedness, obligations under capitalized leases and trading liabilities, less revaluation losses on assets held in trading accounts.

Other real estate owned – primarily foreclosed property. Direct and indirect investments in real estate ventures are excluded. The amount is reflected net of valuation allowances. For institutions that file a Thrift Financial Report (TFR), the valuation allowance subtracted also includes allowances for other repossessed assets. Also, for TFR filers the components of other real estate owned are reported gross of valuation allowances.

Percent of institutions with earnings gains – the percent of institutions that increased their net income (or decreased their losses) compared to the same period a year earlier.

"Problem" institutions – federal regulators assign a composite rating to each financial institution, based upon an evaluation of financial and operational criteria. The rating is based on a scale of 1 to 5 in ascend-

ing order of supervisory concern. “Problem” institutions are those institutions with financial, operational, or managerial weaknesses that threaten their continued financial viability. Depending upon the degree of risk and supervisory concern, they are rated either a “4” or “5”. For all insured commercial banks and for insured savings banks for which the FDIC is the primary federal regulator, FDIC composite ratings are used. For all institutions whose primary federal regulator is the OTS, the OTS composite rating is used.

Recourse – an arrangement in which a bank retains, in form or in substance, any credit risk directly or indirectly associated with an asset it has sold (in accordance with generally accepted accounting principles) that exceeds a pro rata share of the bank’s claim on the asset. If a bank has no claim on an asset it has sold, then the retention of any credit risk is recourse.

Reserves for losses – the allowance for loan and lease losses on a consolidated basis.

Restructured loans and leases – loan and lease financing receivables with terms restructured from the original contract. Excludes restructured loans and leases that are not in compliance with the modified terms.

Retained earnings – net income less cash dividends on common and preferred stock for the reporting period.

Return on assets – net income (including gains or losses on securities and extraordinary items) as a percentage of average total assets. The basic yardstick of bank profitability.

Return on equity – net income (including gains or losses on securities and extraordinary items) as a percentage of average total equity capital.

Risk-based capital groups – definition:

(Percent)	Total Risk-Based Capital *	Tier 1 Risk-Based Capital *	Tier 1 Leverage	Tangible Equity
Well-capitalized	≥10	and ≥6	and ≥5	–
Adequately capitalized	≥8	and ≥4	and ≥4	–
Undercapitalized	≥6	and ≥3	and ≥3	–
Significantly undercapitalized	<6	or <3	or <3	and >2
Critically undercapitalized	–	–	–	≤2

*As a percentage of risk-weighted assets.

Risk Categories and Assessment Rate Schedule – The current risk categories and assessment rate schedule became effective January 1, 2007. Capital ratios and supervisory ratings distinguish one risk category from another. The following table shows the relationship of risk categories (I, II, III, IV) to capital and supervisory groups as well as the

Capital Group	Supervisory Group		
	A	B	C
1. Well Capitalized	I 5-7 bps	II 10 bps	III 28 bps
2. Adequately Capitalized			
3. Undercapitalized	III 28 bps		IV 43 bps

assessment rates (in basis points) for each risk category. Supervisory Group A generally includes institutions with CAMELS composite ratings of 1 or 2; Supervisory Group B generally includes institutions with a CAMELS composite rating of 3; and Supervisory Group C generally includes institutions with CAMELS composite ratings of 4 or 5. For purposes of risk-based assessment capital groups, undercapitalized includes institutions that are significantly or critically undercapitalized.

Assessment rates are 3 basis points above the base rate schedule. The FDIC may adjust rates up or down by 3 basis points from the base rate schedule without notice and comment, provided that any single adjustment from one quarter to the next cannot move rates more than 3 basis points.

For most institutions in Risk Category I, the assessment rate assigned will be based on a combination of financial ratios and CAMELS component ratings.

For large institutions in Risk Category I (generally those with at least \$10 billion in assets) that have long-term debt issuer ratings, assessment rates will be determined by weighting CAMELS component ratings 50 percent and long-term debt issuer ratings 50 percent. For all large Risk Category I institutions, additional risk factors will be considered to determine whether assessment rates should be adjusted. This additional information includes market data, financial performance measures, considerations of the ability of an institution to withstand financial stress, and loss severity indicators. Any adjustment will be limited to no more than ½ basis point.

Beginning in 2007, each institution is assigned a risk-based rate for a quarterly assessment period near the end of the quarter following the assessment period. Payment will generally be due on the 30th day of the last month of the quarter following the assessment period. Supervisory rating changes will be effective for assessment purposes as of the examination transmittal date. For institutions with long-term debt issuer ratings, changes in ratings will be effective for assessment purposes as of the date the change was announced.

Risk-weighted assets – assets adjusted for risk-based capital definitions which include on-balance-sheet as well as off-balance-sheet items multiplied by risk-weights that range from zero to 100 percent. A conversion factor is used to assign a balance sheet equivalent amount for selected off-balance-sheet accounts.

Securities – excludes securities held in trading accounts. Banks’ securities portfolios consist of securities designated as “held-to-maturity”, which are reported at amortized cost (book value), and securities designated as “available-for-sale”, reported at fair (market) value.

Securities gains (losses) – realized gains (losses) on held-to-maturity and available-for-sale securities, before adjustments for income taxes. Thrift Financial Report (TFR) filers also include gains (losses) on the sales of assets held for sale.

Seller’s interest in institution’s own securitizations – the reporting bank’s ownership interest in loans and other assets that have been securitized, except an interest that is a form of recourse or other seller-provided credit enhancement. Seller’s interests differ from the securities issued to investors by the securitization structure. The principal amount of a seller’s interest is generally equal to the total principal amount of the pool of assets included in the securitization structure less the principal amount of those assets attributable to investors, i.e., in the form of securities issued to investors.

Subchapter S Corporation – A Subchapter S corporation is treated as a pass-through entity, similar to a partnership, for federal income tax purposes. It is generally not subject to any federal income taxes at the

corporate level. This can have the effect of reducing institutions' reported taxes and increasing their after-tax earnings.

Trust assets – market value, or other reasonably available value of fiduciary and related assets, to include marketable securities, and other financial and physical assets. Common physical assets held in fiduciary accounts include real estate, equipment, collectibles, and household goods. Such fiduciary assets are not included in the assets of the financial institution.

Unearned income & contra accounts – unearned income for Call Report filers only.

Unused loan commitments – includes credit card lines, home equity lines, commitments to make loans for construction, loans secured by commercial real estate, and unused commitments to originate or purchase loans. (Excluded are commitments after June 2003 for originated mortgage loans held for sale, which are accounted for as derivatives on the balance sheet.)

Volatile liabilities – the sum of large-denomination time deposits, foreign-office deposits, federal funds purchased, securities sold under agreements to repurchase, and other borrowings.

Yield on earning assets – total interest, dividend and fee income earned on loans and investments as a percentage of average earning assets.

Feature Article:

Privatizing Deposit Insurance: Results of the 2006 FDIC Study

Foreword

*The Federal Deposit Insurance Corporation (FDIC) was required by the Federal Deposit Insurance Reform Confirming Amendments Act of 2005 (FDIRCAA) to study the feasibility and consequences of privatizing deposit insurance, establishing a voluntary deposit insurance system for deposits in excess of the maximum amount of FDIC insurance, and increasing the limit on deposit insurance coverage for municipalities and other units of general local government. In February 2007, the FDIC sent its report to Congress. This article summarizes the FDIC's findings on the first issue: privatizing deposit insurance. Subsequent editions of the **FDIC Quarterly** will report the FDIC findings on the other two issues.*

Introduction

Since its inception in 1933, the federal deposit insurance system has promoted financial market stability, protecting the economy from the disruptive effects of bank failures as well as protecting the deposits of small savers. Notwithstanding the successes of the federal deposit insurance system, some have argued that a private deposit insurance system would be an improvement. The FDIC explored privatization arguments in great depth in 1998 as part of Confidence for the Future: An FDIC Symposium. After almost ten years and the enactment of the Federal Deposit Insurance Reform Act (FDIRA), the FDIC has revisited the privatization debate. This article presents the FDIC's most relevant findings.

The article begins with a review of the general arguments in favor of privatization. These generally are that privatization would diminish moral hazard, reduce unwarranted government supervision and regulation of depository institutions, and eliminate taxpayer responsibility for losses arising from systemic failure. The article next reviews specific privatization proposals and examines the validity of the assumptions underlying

these proposals. The article concludes with a discussion of other considerations important to the debate about private versus public deposit insurance. These considerations include the historical record of private deposit insurance systems, the sufficiency of private capital to underwrite a private deposit insurance system, the cost of deposit insurance in the absence of the federal guarantee, and other public policy concerns.

The FDIC finds that the conclusions reached in 1998 continue to hold today—namely, that privatization is not a remedy for problems arising from deposit insurance.

Arguments for Privatizing Deposit Insurance

Privatization proponents generally maintain that the costs arising from a government-run deposit insurance system are greater than the benefits, that the problems associated with a government-run deposit insurance system are inherent and insurmountable, and that the only solution to the problems is to privatize deposit insurance. The various reasons given for this stance, as outlined in the next section, are different but overlapping and generally involve concerns about moral hazard, government supervision and regulation, and a perception that some institutions are “too big to fail.”

Concerns about Moral Hazard. In the insurance context, the term “moral hazard” refers to the tendency of insured parties to take on more risk than they would if they had not been indemnified against losses. The argument is that deposit insurance reassures depositors that their money is safe and removes the incentive for depositors to critically evaluate the condition of their bank. With deposit insurance, unsound banks typically have little difficulty obtaining funds, and riskier banks can obtain funds at costs that are not commensurate with their levels of risk. Unless deposit insurance is properly priced to reflect risk, banks gain if they take on more risk because they need not pay creditors a fair

The Modern Deposit Insurance System

Although federal deposit insurance was implemented in the United States in 1933, the modern federal deposit insurance system has been shaped by legislative changes during the past two decades. In the 1980s, a crisis in the savings and loan industry culminated in the insolvency of the Federal Savings and Loan Insurance Corporation (FSLIC) and taxpayer funding of the FSLIC's deposit insurance obligations. Almost concurrently, a similar crisis in the banking sector—the worst since the 1930s—nearly exhausted the resources of the FDIC's deposit insurance fund. Congress responded to the two crises by reevaluating the federal deposit insurance system and enacted a series of reforms. One was the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). Many of FDICIA's provisions were designed to remedy the weaknesses in the deposit insurance system that the recent crises had brought to light. Specifically, FDICIA—

- Required the banking industry to recapitalize the deposit insurance funds, reducing the likelihood the public would have to fund deposit insurance obligations in the future.
- Permitted the FDIC to borrow up to \$30 billion from the Treasury so that funds would be available to close and resolve insolvent institutions quickly.
- Introduced Prompt Corrective Action (PCA), which restricted the activities of banks with low capital levels and required timely closure of critically undercapitalized banks.
- Mandated that the FDIC use the least costly solution to resolve bank failures. An exception may be made in the case of systemic risk, which requires a recommendation by at least two-thirds of the FDIC Board of Directors and the Board of Governors of the Federal Reserve, and an emergency determination by the Secretary of the Treasury in consultation with the President.
- Introduced risk-based deposit insurance premiums so that riskier banks pay higher premiums, thereby mitigating moral hazard.

Recently, Congress again addressed deposit insurance, enacting the Federal Deposit Insurance Reform Act of 2005 (FDIRA), which built on the reforms instituted under FDICIA. FDIRA—

- Merged the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) into a single Deposit Insurance Fund (DIF).
- Allowed the FDIC to manage the level of the DIF within a certain range.
- Allowed the FDIC to charge risk-based premiums regardless of the level of the reserve ratio.
- Authorized a one-time credit toward future assessments for institutions that replenished the insurance funds in the early 1990s and provided for dividends when the reserve ratio reaches certain thresholds.
- Authorized future increases in insurance coverage levels to adjust for inflation and immediately increased the insurance coverage limit of retirement accounts to \$250,000.

risk-adjusted return. A truly risk-based assessment discourages such risky behavior.¹ The moral hazard problem is particularly acute for insured depository

institutions that are at or near insolvency but are allowed to operate freely because any losses are passed on to the insurer, whereas profits accrue to the owners. Thus problem institutions have an incentive to take excessive risks with insured deposits in the hope of returning to profitability.

¹ As discussed below, historically the moral hazard problem created by deposit insurance has also been mitigated by banking regulation and the supervision of depository institutions. Among the regulatory actions that have been used to reduce the risks associated with moral hazard are capital standards, examinations, safety-and-soundness regulations, and enforcement actions.

Concerns about Government Supervision and Regulation. A major concern of some privatization proponents is the degree of government oversight they

consider to be a by-product of government-sponsored deposit insurance. They argue that government-sponsored deposit insurance is responsible for intrusive regulations, product restrictions, and social obligations that are placed on insured banks and thrifts. They contend that without government-sponsored insurance there would be no need to subject banks to intense safety-and-soundness regulation and to limit the products they might offer or their business affiliations.² They claim that the regulations made necessary by deposit insurance not only limit choices and opportunities, they also hinder rapid response to changes in the business environment and are expensive. Inasmuch as costly regulations are imposed on only one segment of the financial industry (depository institutions), insured depository institutions are less competitive than financial providers that are not so encumbered. As described in the next section, many proponents of privatization therefore seek to decouple deposit insurance from the “full faith and credit” of the U.S. government, or otherwise reduce a perceived taxpayer risk, to remove the justification for federal supervision and regulation of the banking industry.³

Concerns about “Too-Big-to-Fail” (TBTF). Privatization proponents are especially critical of the systemic-risk exception provided in the Federal Deposit Insurance Corporation Improvement Act (FDICIA) because they argue that it has the potential to shift the costs for megabank failures to the taxpayer.⁴ They argue that when Congress provided a statutory exception from the least-cost resolution in the case of systemic risk, it acknowledged that certain depository institutions were too big to fail. Thus, because of size or perceived importance to the financial system, large institutions’ uninsured depositors and unsecured creditors are treated differently from those of smaller institutions. As long as the full-faith-and-credit backing of the U.S. Treasury supports deposit insurance, they allege that taxpayers inevitably will be responsible for any losses resulting from large bank failures.

Proposals for Privatizing Deposit Insurance: Commonalities and Differences

Consistent with concerns about moral hazard, proponents of privatization generally favor market-oriented alternatives to federal deposit insurance. One proposal would replace publicly provided deposit insurance with a system of cross-guarantees under which small groups of banks would form syndicates with joint and several liability for the deposits of banks that contracted with them.⁵ Another proposal would convert the FDIC into a privately owned and operated insurance company, reducing the current system’s reliance on regulation and guidance.⁶ A third proposal would transfer ownership and management of the FDIC to the banks and would set an explicit limit on the use of deposit insurance in order to encourage market discipline.⁷ A fourth would retain the FDIC as a public entity but would reduce its powers.⁸

A common theme among these proposals is a rollback of bank supervision and regulation. Most seek to reduce the regulatory and supervisory powers of bank regulatory agencies to allow banks to become competitive, full-service providers of financial products and services. One proposal would exempt banks from federal safety-and-soundness regulations and reporting requirements, replacing them with private restrictions by member banks.⁹ This proposal would also abolish the FDIC and the regulatory and supervisory functions of the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS). Another proposal would recognize well-capitalized, well-managed institutions with less extensive regulation, expanded product opportunities, and lower regulatory “taxes.”¹⁰

Many proposals are particularly concerned with the issue of TBTF. Most proposals would provide deposit insurance coverage for small deposits only. All seek to protect the taxpayer from responsibility for a systemic collapse by preventing the insurer from funding a systemic-risk exception. Most proposals would eliminate

² See Bank Administration Institute and McKinsey & Co. (1996) and Kovacevich (1996) for their arguments on deposit insurance and bank regulation.

³ See Bank Administration Institute and McKinsey & Co. (1996).

⁴ See Bankers Roundtable (1997).

⁵ Petri Proposal, introduced by Rep. Thomas E. Petri (R-WI) (U.S. Congress, House [1996]). This proposal was introduced once and was not discussed in the subsequent debate on deposit insurance reform.

⁶ Bank Administration Institute and McKinsey & Company (1996).

⁷ Kovacevich (1996).

⁸ Bankers Roundtable (1997).

⁹ Petri Proposal (U.S. Congress, House [1996]).

¹⁰ Bank Administration Institute and McKinsey & Co. (1996).

the full-faith-and-credit backing of the insurer as well as the insurer's line of credit with the Treasury. However, one proposal sees the need for a bank-funded backup fund to explicitly protect insured deposits against a systemwide collapse.¹¹

Evaluation of Privatization Claims

Can Privatization Alleviate the Moral Hazard Problem?

Proponents of privatization generally assume that the moral hazard fostered by deposit insurance can be eliminated through privatization. In fact, the problem of moral hazard is inherent in insurance itself, regardless of management or ownership. The private provision of deposit insurance does not by itself alleviate the moral hazard problem.

Although moral hazard was clearly problematic in the savings and loan crisis, subsequent improvements in federal banking regulation and supervision have given the FDIC better tools to control moral hazard. The moral hazard problem created by deposit insurance has been mitigated by capital standards, examinations, safety-and-soundness regulations, enforcement actions, and timely bank closure policies. In particular, Prompt Corrective Action (PCA), introduced under FDICIA, has been effective in preventing banks with low capital levels from taking on excessive risk in an effort to return to profitability while the FDIC bears the risk. A properly constructed risk-based premium assessment system can also address moral hazard, and the FDIRA has enhanced the FDIC's ability to manage the insurance fund and set premiums according to the riskiness of the insured entity.

Would Privatization Release the Banking Industry from Unnecessary Regulatory Constraints?

A privately funded and administered system of deposit insurance would not free the banking industry from all regulation and constraints. Many nations have privately administered deposit insurance systems and all still impose systems for bank supervision and regulation. Bank supervision predates the federal deposit insurance

system. Many bank regulations do not flow from the FDIC as deposit insurer but instead are imposed by the chartering and supervisory authorities, including not only the FDIC, but the OCC, the OTS, the FRB, and state banking authorities. Much of the regulatory burden on insured institutions flows from statutes and regulations unrelated to deposit insurance. For instance, one month after the events of September 11, 2001, the USA PATRIOT Act was passed. The USA PATRIOT Act amended the Bank Secrecy Act, with which banks must comply. Several provisions and implementing rules were added to bankers' compliance obligations. Reporting requirements under such laws are unrelated to deposit insurance coverage and are unlikely to be eliminated if deposit insurance is privatized.

Public policymakers are unlikely to abandon concern for prudent banking practices if deposit insurance reverts to the private sector. In 1998, then U.S. Representative James Leach expressed this idea clearly when he noted, "Because a sound economy requires a safe and sound banking system, public liabilities exist even if public funds are not placed in jeopardy by statute."¹² Even without federal deposit insurance, policymakers would remain concerned about implicit public guarantees. These concerns likely would be manifest in government regulation designed to promote the efficient operation of the financial system and ensure the protection of taxpayers and individual savers.

It is more likely that, in addition to continued public regulation, a privately owned and profit-seeking deposit insurer would demand oversight. At a minimum, any prudently operated for-profit deposit insurer would probably require adherence to best practices and would insist on access to management and site visits to monitor the condition and riskiness of the institution it insured. It is unlikely that the private insurer would rely on market-generated information alone. Virtually all insurance policies—health, life, and liability—contain restrictions and limitations on coverage as well as conditions on approval in order to control risk.

For instance, American Share Insurance Company, a private primary and excess deposit insurer to credit unions, requires monthly financial reports from its members, examines them regularly, and supervises them closely. A review of the history of state-spon-

¹¹ Petri Proposal (U.S. Congress, House [1996]).

¹² Leach was speaking at the FDIC conference Confidence for the Future (FDIC [1998]).

sored deposit insurance plans also reveals that the more successful private insurers were extremely vigilant in regulating and supervising member banks. In the pre-Civil War Indiana plan, regarded by some as the best of the nonfederal deposit insurance plans, insured banks were branches of the State Bank of Indiana. Bank examinations were semiannual, and the directors of the State Bank had powers that exceeded those granted to bank regulators today. The State Bank of Indiana also had the authority to dictate whether banks in the state expanded or contracted the availability of credit, and on occasion it exercised this authority. In contrast (as described below), weak supervision of member banks was considered a major factor in the collapse of the Ohio, Maryland, and Rhode Island private deposit insurance plans in 1985 and 1991. It is unclear, therefore, how the change from a public to a private deposit insurance system would affect the regulatory constraints under which the banking industry operates.

Would Privatization Protect the Taxpayer from Responsibility for Losses from a Systemic Failure?

Several of the privatization proposals call for eliminating the government's ability to exercise a systemic risk exception to the least-cost resolution requirement in FDICIA. They maintain that when Congress provided a statutory exception from this requirement in the case of systemic risk, it acknowledged that certain depository institutions were too big to fail. They believe that uninsured depositors and creditors of large institutions may be treated differently than those of smaller institutions.¹³

Economic Policy Issue. The possibility of a systemic risk determination—which allows government intervention to prevent broader problems—is not simply a deposit insurance issue, but rather an economic issue that is best evaluated within the context of a wider public policy debate. Eliminating the possibility of a systemic risk exception would require a government commitment to allow banks—and in the broader context, other very large and important businesses—to fail even when their failure would jeopardize the stability of the U.S. financial system. If the failure of a private firm were to threaten the stability of the U.S. economy—whether that firm were a bank, a financial service

company, or a nonfinancial business—it is unrealistic to assume that the government would not intervene in the national interest. History is replete with examples of such intervention.

In the United States, the federal government has provided financial assistance to avoid large corporate bankruptcies (for example, Chrysler and Lockheed), assisted the banking and financial sectors when they were threatened by the less-developed-country debt crisis in the 1980s, and provided financial aid to the Mexican government—an important trading partner—during that country's financial crisis in 1995.

More recently, ten days after the terrorist attacks of September 11, 2001, Congress passed a \$15 billion package of direct cash infusion and loan guarantees to aid the domestic airline industry. Subsequently, when affordable commercial terrorism insurance became unavailable, Congress passed temporary legislation that established a federal government backstop for 90 percent of insured losses resulting from certain terrorist acts up to an annual \$100 billion industry-aggregate limit.¹⁴ (In December 2005 this legislation was modified to reduce the government's potential liability.)

Foreign governments have also intervened when their financial systems are in distress. In the early 1990s, Norway and Sweden stepped in when their banking systems came under severe stress. Japan has launched several expensive bailouts of its banks in the recent past, and the so-called "East Asian Tiger" countries (South Korea, Thailand, Indonesia, and others), responding to the global currency crisis in the late 1990s, undertook massive interventions to strengthen their financial sectors. In fact, the vast majority of industrialized nations in modern history have intervened to save their largest banks as a means of protecting their financial systems.¹⁵

Reduced Potential for a Systemic Situation. Reforms enacted in 1991 as part of FDICIA make a potential bank failure substantially less likely to pose a systemic risk. Certain provisions in FDICIA were designed specifically to reduce systemic risk. They include PCA (with the establishment of capital requirements), limits on interbank credit exposures, final net settlement

¹³ See, for instance, Kovacevich (1996).

¹⁴ The federal payment is subject to an insurance company deductible. An insurer's deductible is calculated as a percentage of the value of direct earned premiums.

¹⁵ Caprio et al. (2005).

authority, and reinforcement of netting provisions for interbank payments. Additionally, authority provided by FDIRA has enabled the FDIC to make the premium structure more risk-focused and discourages moral hazard. Finally, the use of certain failed-bank resolution techniques, including the use of bridge banks and advance dividend payments to uninsured claimants, has mitigated some of the adverse consequences associated with bank failures. Overall, these powers and policies make it less likely that bank regulators and policymakers will need to invoke a systemic risk determination under FDICIA.

Greater Difficulty Making a Systemic Risk Determination. FDICIA also requires that in order to make a systemic risk determination and waive the least-cost requirement for resolving insolvent institutions, the Secretary of the Treasury, in consultation with the President, must determine that there would be “serious adverse effects on economic conditions or financial stability.” Such a decision can be reached only after favorable written recommendations from both the FDIC Board of Directors and the Board of Governors of the Federal Reserve System, with at least two-thirds of the members of each board voting in favor of the recommendation. FDICIA further requires that the Government Accountability Office review any determination under this extraordinary exception.¹⁶ These requirements ensure that a systemic risk determination can be made only after serious discussions at the highest levels of government.

Funding the Costs of a Systemic Risk Determination. FDICIA also affords taxpayers an additional layer of protection in the event of a systemic risk determination. The law requires that banks pay a special assessment to the FDIC to recoup the amount by which the resolution cost exceeds what it would have been under the least-cost resolution requirement.¹⁷

Systemic Risk and Too Big to Fail Are Not Synonymous. Finally, it is important to emphasize that the

systemic risk exception does not protect large banks from failing: large banks can still fail, with stockholders, uninsured depositors, and creditors incurring losses. FDICIA permits the FDIC to waive the least-cost resolution requirement only where there is systemic risk, which might result in more protection for uninsured depositors and unsecured creditors than under a non-systemic bank failure. However, as mentioned above, FDICIA provisions make this scenario less likely.

Other Considerations: History, Availability, Cost, and Public Policy

Other considerations raise questions about the advisability of replacing public deposit insurance with a private system. One such consideration is the fate of past private deposit insurance systems in the United States.¹⁸ Another is the ability of private capital to underwrite a private deposit insurance system. Cost in the absence of the federal guarantee and the public policy perspective on deposit insurance also are important considerations.

History and Lessons of Private Deposit Insurance in the United States

The state of New York implemented the first deposit insurance plan in the United States in 1829, and between then and the Civil War, five other states created programs. In all these programs, the emphasis was on protecting holders of banknotes rather than depositors. Three of the insurance plans failed, and the other three vanished soon after the establishment of the National Banking System. After the panic of 1907, eight mostly midwestern states created mutual deposit insurance systems. All these plans failed by 1931. After the 1930s, at least 30 additional nonfederal insurance plans were established to protect the deposits of all depository institutions—banks, thrifts, industrial banks and industrial loan companies, and credit unions. Most of these plans failed or ceased operation during the thrift crisis of the 1980s. Others were phased out when

¹⁶ 12 U.S.C. § 1823 (c)(4)(G)(iv) (2001).

¹⁷ 12 U.S.C. § 1823(d)(4)(G)(ii) (2001). The assessment is proportional to each bank's total assets less the sum of tangible equity and subordinated debt. Larger banks rely more than smaller institutions on non-deposit liabilities for funding. Therefore, the assessment would fall more heavily on large institutions (the likely source of systemic problems) than if the assessment were charged only on domestic deposits.

¹⁸ Historically, private deposit insurance systems have acted as primary insurers (playing the FDIC's current role as insurer) or as excess deposit insurers (providing insurance in addition to the FDIC insurance limit). As discussed below, there are no longer any private primary insurers for banks and savings associations in the United States.

their sponsoring states decided, after witnessing the problems elsewhere, to require federal deposit insurance for all state institutions. Today, no private provider of primary deposit insurance to banks and savings associations remains. (American Share Insurance Company continues to provide primary and excess deposit insurance to credit unions.)

With a couple of exceptions, these private deposit insurance plans were sponsored by state governments, though the states did not back the plans financially. Almost all the plans were mutual insurance funds, though three of the early plans were based on a system of mutual guarantees in which banks guaranteed one another's banknotes. One completely privately held company began insuring credit union deposits in 1962, and several private companies provided reinsurance for deposits until they left the business in the mid-1980s.

Historically, private insurance plans have had to contend with two serious issues: concentration of risk and lack of liquidity in the midst of a crisis. Nearly all private insurance plans collapsed because of the failure of one or more large insured institutions. In many of these cases, insured depositors either were not protected (or were protected only with substantial assistance from state taxpayers) or received access to their funds only after a prolonged delay.

One study of the commonalities of failed private deposit insurance systems in the United States found that these systems typically shared five characteristics: (1) free exit from the system; (2) concentration risk (the failure of large institutions often brought down the entire system); (3) fraudulent acts by regulators, banks, and politicians; (4) limited regulatory powers; and (5) inaction on the part of insurers and state regulators.¹⁹

Many of the failed systems actually had relatively high reserve ratios when their crises occurred. However, they were unable to handle the failure of a very large member of their system. The system could not ensure immediate access to depositor funds (i.e., the system was not able to fulfill the liquidity function of an insurer), and this lack of liquidity eroded public confidence, which in turn led to runs on other member banks, overwhelming the entire system. Typically, deposits were frozen, and state governments had to

step into the breach. Lacking funds to cover the insured deposits immediately, the states generally repaid them over a period of time, sometimes years.

In the more recent failures of private insurance systems (Ohio and Maryland in 1985, Rhode Island in 1991), many insured depositors had to wait months—and in the case of Maryland, years—to receive the full return of their principal.²⁰ Ohio was forced to commit \$151 million of nontax revenues to support a bond issue to fund depositor claims; most Ohio depositors received full availability of their funds within six months. Maryland committed state-sponsored bond revenues sufficient to satisfy insured depositor claims over a *five-year period*. Some depositors did not receive their funds in full until 1989, four years after failure. Rhode Island requested and received a *federal* loan guarantee of the state bonds it issued to satisfy insured depositor claims. In the end, Rhode Island covered the losses on its own, and depositors eventually received their funds in full, although many had to wait at least a year after the failure of the state deposit insurance fund.

As the history of private deposit insurance systems suggests, private insurers have been unsuccessful in fulfilling all three of the responsibilities traditionally assumed by federal deposit insurance.²¹ A private, industry-funded deposit insurer not only needs enough resources to protect small depositors but also must be capable of providing stability to the entire banking system, especially in times of great financial and economic turmoil. Insufficient public confidence in the deposit insurance guarantee could render the system unable to prevent or stem banking panics.

There are legitimate questions as to whether any private deposit insurance system could attain or maintain the necessary level of confidence in the deposit guarantee to prevent market instability during times of financial or economic turmoil. As history has shown, the insurance system must have not only the resources to handle isolated failures but the ability to handle catastrophes. Bank failures often come in waves—with one failure building on, and leading to, another. During a crisis, a private insurance fund typically must acquire financing from the banking industry through

¹⁹ English (1993).

²⁰ Todd (1994).

²¹ The responsibilities are to promote financial market stability by maintaining depositor confidence in the banking system, to protect the economy from the disruptive effects of bank failures, and to protect the deposits of small savers.

its line of credit—or from other private sources—at a time when the entire industry and perhaps the economy is in financial trouble. This is expensive in the short run, and related interest costs can hamper attempts to recapitalize the insurance fund for many years after the crisis has passed.

It is doubtful that depositors would continue to have confidence in a depleted or weakened insurance fund unless the U.S. Treasury stood behind the deposit guarantee. As Milton Friedman notes in his 1963 monetary history of the United States, federal deposit insurance—

has succeeded in achieving what had been a major objective of banking reform for at least a century, namely, the prevention of banking panics. . . . [B]anking panics have occurred only during severe contractions and have greatly intensified such contractions, if indeed they have not been the primary factor converting what would otherwise have been mild contractions into severe ones. That is why we regard federal deposit insurance as so important a change in our banking structure and as contributing so greatly to monetary stability—in practice far more than the establishment of the Federal Reserve System.²²

Availability of Private Capital

Another consideration is whether enough capital is available to underwrite private deposit systems. In the 1990s, in keeping with a provision of FDICIA, the FDIC explored the feasibility of establishing a private reinsurance system for deposit insurance.²³ The resulting Marsh & McLennan study (2001) found that reinsurers had only limited interest in engaging in reinsurance agreements with the FDIC on terms acceptable to the FDIC. Doubts about the availability of sufficient private capital to fund a private deposit insurance system were reinforced by events following the terrorist attacks of September 11, 2001. As mentioned, subsequent to September 11, the private insurance/reinsurance industry required a government risk-sharing arrangement to continue providing commercial terrorism insurance. The small number of pri-

vate insurance firms currently providing excess deposit insurance in the United States (as will be described in a forthcoming *FDIC Quarterly* article) also heightens concern about the sufficiency of private capital to support a private deposit insurance system.

Cost in the Absence of the Federal Guarantee

There is also the issue of cost. The Marsh & McLennan study found that a reinsurance company's price for excess deposit insurance coverage could be expected to be higher than if the FDIC were providing the coverage, because reinsurers' pricing would represent a free-market charge without government support.

Federal Reserve Chairman Alan Greenspan testified in 2002 about the likely cost of deposit insurance in the absence of the federal guarantee.²⁴ He stated that realistically, the government subsidy could not be eliminated because, without it, the average premium would need to increase to such a high level to insure against the improbable case of very large losses that most depository institutions would be discouraged from offering broad insurance coverage. He made the case that in deposit insurance, unlike life or casualty insurance, each insured loss is not independent of others. Deposit-run contagion produces a far larger extreme-loss tail on the probability distribution and therefore requires substantially higher premiums to offset this risk. No private deposit insurer would ever be able to match the FDIC premium and cover its risks.

Public Policy Perspective

An issue that has been infrequently addressed in this debate is the difference between the goals of a public deposit insurance system and the goals of a privately run system.²⁵ These differences are considerable. To maintain economic stability, public regulators historically have promoted the entry of newly chartered institutions into banking markets and have encouraged vigorous competition among banking organizations. Federal deposit insurance is available to all qualifying banks, and it is not easily terminated. In contrast, the major objective of a private system would be to maximize the profit of its deposit insurance business, not to achieve any public policy goal. Under a mutual guar-

²² Friedman and Schwartz (1963), 440–42.

²³ FDIC (1993). The study was conducted in three phases beginning in 1993. The final report (Marsh & McLennan Companies [2001]) was completed in December 2001.

²⁴ Greenspan (2002).

²⁵ Hanc (1999).

anty system, one might expect members to be interested in minimizing cost, risk, and competition. To accomplish this, it would not be surprising if a mutual insurance system denied coverage to newly chartered or otherwise risky banks, or agreed to insure them only at very high rates or for very short-term contracts.²⁶

Summary

Privatization may not eliminate moral hazard, as moral hazard is an effect of all types of insurance. Recent regulatory and statutory improvements in federal banking law have given the FDIC better tools to control moral hazard. Significant regulatory burden on banks is unrelated to deposit insurance, and this burden will not necessarily end with privatization. It is unclear how privatization would shield the taxpayer from responsibility for losses arising from a systemic crisis more completely than does current law. Government intervention in a systemic failure—to prevent broader problems—is a macroeconomic policy issue, not a deposit insurance issue. The powers and policies enacted in FDICIA and FDIRA have reduced the risk of a systemic failure as well as made it considerably more difficult to make a systemic risk determination and pass the associated costs to taxpayers. In fact, if privatization eliminates the special assessment provisions that allow the FDIC to recoup losses for a systemic risk determination from the banking industry, privatization could actually increase taxpayer exposure in a systemic crisis.

The failure of earlier private insurance systems, the availability of private capital to replace the federal guarantee, the cost of deposit insurance in the absence of the federal guarantee, as well as the public policy considerations, are other important factors in the privatization debate. A review of the record of private deposit insurance systems in the United States reveals that insufficient confidence in the private deposit insurance guarantee increased the fragility of these systems and rendered them unable to prevent panics. It is questionable whether a private insurer could enjoy a high degree of public confidence unless the government stood behind the guarantee. Additionally, the availability of private capital to underwrite a private deposit insurance system is limited—a finding reinforced by insurers' unwillingness, subsequent to September 2001, to provide terrorism insurance absent a government loss-sharing agreement. Overall, the evidence suggests that the costs of private deposit insurance would likely be prohibitively high, and it is questionable whether the goals of a private system would coincide with public policy goals.

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²⁶ Ibid.

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Banking on Financial Education

The financial services marketplace has changed profoundly in recent decades. Only a generation ago, most individuals used their local banks to open checking and savings accounts, and perhaps turned to those institutions for home mortgages. Deregulation of interest rates combined with technological and marketplace innovations have vastly expanded the types of financial services and improved access to credit for many consumers, a process sometimes referred to as the “democratization” of credit. Transactions increasingly occur outside bank branches; electronic payments are taking the place of cash and checks; and financial products are being developed to meet the needs of many different sectors of the economy.

As the financial landscape continues to become more complex, even the savviest consumers may find it difficult to navigate the rapidly expanding choices of financial services, providers, and delivery channels. Individuals with little or no experience with traditional banking services are likely to find it even more challenging. In today’s environment, financial education takes on added importance, as it provides consumers with the tools to make sound financial decisions. Among other things, financial education gives consumers knowledge about budgeting, saving and investing, choosing credit products, and protecting themselves against fraud. Financial education also benefits the broader economy by making citizens more financially stable. Over the long term, this enhanced financial stability can improve the economic outlook for an entire community and can create new opportunities for businesses, including banks.

This article highlights the results of an FDIC study of the effectiveness of the *Money Smart* financial education program. The study indicates that financial education programs can positively affect consumers’ money management attitudes and behaviors. The article discusses who may benefit the most from such financial education courses and why. Of importance to bankers, the study also shows that financial education strengthens consumers’ relationships with banks and can improve their financial condition and outlook. Finally, the article describes some of the many ways banks are offering financial education to their

customers and offers suggestions for banks as they try to enhance their education programs.

Financial Education Improves Consumer Attitudes, Behaviors, and Financial Outlook

One measure of the success of financial education is the extent to which it produces positive changes in attitudes and behaviors. A new study by the FDIC of its *Money Smart* financial education curriculum shows that financial education does change attitudes and behaviors and can result in enhanced financial literacy and improved creditworthiness.¹ In addition, consumers who complete financial education programs may then establish relationships with the formal banking sector. (See “The FDIC’s *Money Smart* Curriculum” on page 40 for a description of the *Money Smart* program.)

The study, which the FDIC conducted in cooperation with NeighborWorks America®, gathered data from *Money Smart* participants nationwide about their knowledge, confidence, and behaviors regarding money management.² The study looked at the results of three surveys: one, conducted before the course, collected baseline data; a post-training survey gathered data to determine changes in participants’ financial behavior and confidence; and a follow-up survey of 631 graduates six to twelve months after completing the training identified actual changes in financial practices and confidence.³ Table 1 shows the demographics of survey respondents.

¹ Federal Deposit Insurance Corporation, *A Longitudinal Evaluation of the Intermediate-term Impact of the Money Smart Financial Education Curriculum Upon Consumers’ Behavior and Confidence* (Washington, D.C.: FDIC, April 2007). The Gallup Organization was engaged to assist with the development of the survey questions and administer the survey.

² The *Money Smart* curriculum has been offered to high school- and college-age students. However, the current version was developed for adults, and therefore, the study targeted adults.

³ The pre- and post-training surveys were conducted with classes starting in November 2004 and ending by September 30, 2005. Gallup interviews for the follow-up survey began in February 2006 and ended in April 2006.

Table 1

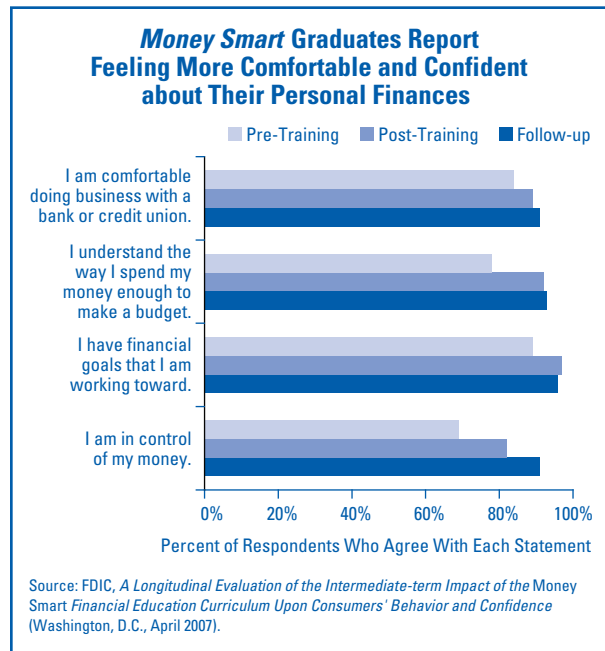
Demographics of Individuals Enrolled in <i>Money Smart</i> Courses Tend to Correlate with Minority and Low- and Moderate-Income Markets		
Characteristic	Number of Respondents	Percent of Respondents*
Age		
Under 25 years	85	13%
25–35 years	188	30%
35–44 years	186	30%
45–54 years	118	19%
55 years or older	53	8%
Unknown	1	0%
Total	631	100%
Race/Ethnicity		
White	163	26%
African American	290	46%
Asian	22	4%
Latino	122	19%
Other	28	4%
Unknown	6	1%
Total	631	100%
Education		
Less than high school	79	13%
High school	162	26%
Some college or trade	266	42%
College	78	12%
Postgraduate work	45	7%
Unknown	1	0%
Total	631	100%
Annual Income		
Under \$10,000	133	21%
\$10,000–\$19,000	170	27%
\$20,000–\$35,000	175	28%
\$35,000 or over	118	19%
Unknown	35	5%
Total	631	100%

Source: FDIC, *A Longitudinal Evaluation of the Intermediate-term Impact of the Money Smart Financial Education Curriculum Upon Consumers' Behavior and Confidence* (Washington, D.C., April 2007).

* Percentages may not add to 100 due to rounding.

The results of this study show that *Money Smart* graduates gained confidence about their basic money management skills (see Chart 1). For example, about 91 percent of respondents in the follow-up survey reported “I am in control of my money,” compared with 69 percent in the pre-training survey.

Chart 1



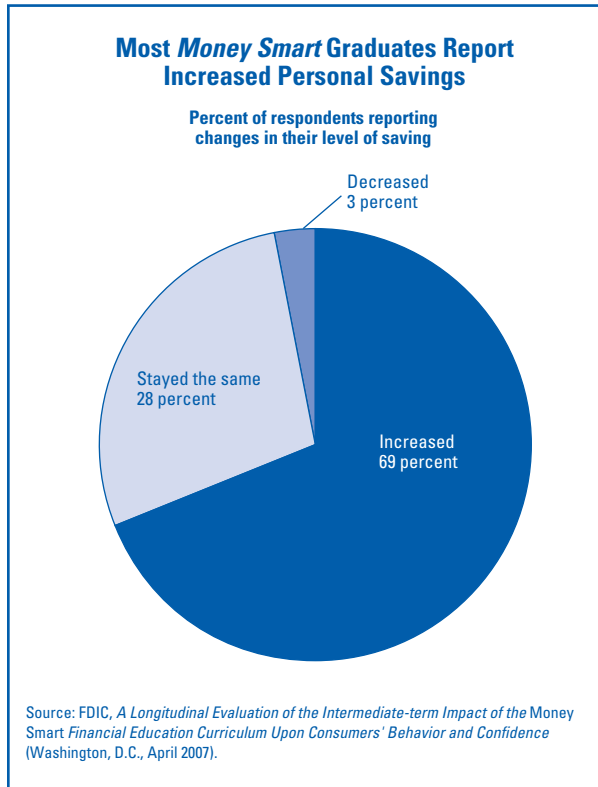
Although these positive perceptions are important, the survey also shows that the knowledge gained through the *Money Smart* program translates into positive consumer actions. For example, 22 percent of graduates who already had a checking account opened a checking account at a different financial institution by the time the follow-up survey was conducted, and 13 percent opened a different type of account at the same institution, which evidences the ability to shop for financial services. Also, immediately after completing the course, 69 percent of graduates reported an increase in their savings (see Chart 2).⁴

The results of the survey also show that financial education can spur some consumers to establish or strengthen relationships with financial institutions. For example, after completing the *Money Smart* program:

- 43 percent of graduates without a checking account opened a checking account.
- 37 percent of graduates without a savings account opened a savings account.

⁴ Although these results are positive, they are subjective and should be interpreted carefully. Respondents' savings balances were not monitored, and it is possible that the responses indicated heightened awareness of the “correct” response because of exposure to the *Money Smart* curriculum.

Chart 2

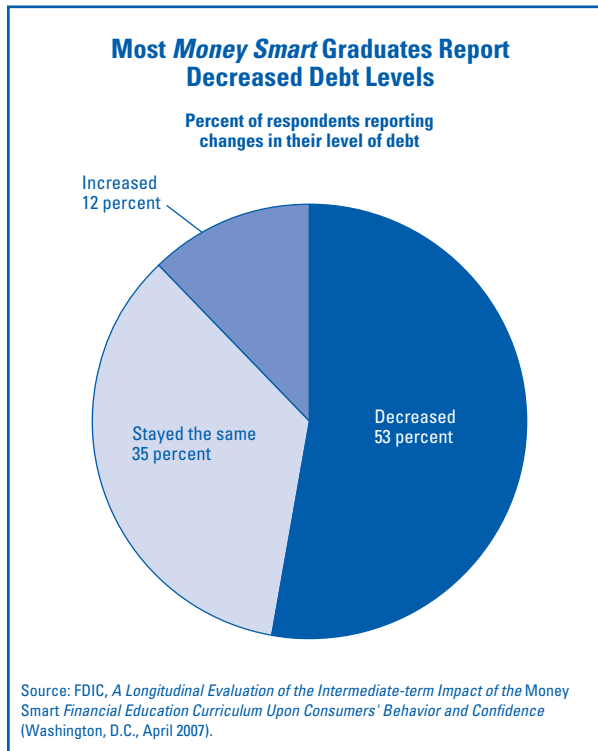


- 28 percent of graduates with checking accounts and 22 percent with savings accounts at the end of the course began using direct deposit for the first time.

Financial education also can improve the financial condition of consumers. More than half (53 percent) of the graduates reported that their overall debt level declined at the conclusion of the course (see Chart 3).

Bill payment patterns of *Money Smart* graduates also exhibited positive changes. As shown in Chart 4, 55 percent of respondents indicated they “always” paid bills, rent, and other expenses on time, up from 43 percent before taking the course. In contrast, the percentage of respondents stating they “sometimes” or “never” pay bills on time fell from 15 percent before the course to 8 percent in the follow-up. Credit card payment practices also improved, as more graduates indicated that they usually pay the full credit card balance, and fewer indicated they pay no more than the minimum (see Chart 5). In fact, the share of respondents indicating that they usually pay no more than the minimum declined by one-half, from 17 percent to 8 percent.

Chart 3



Who Needs Financial Education?

Evolution in the financial marketplace and changes in personal financial circumstances suggest that virtually all consumers could benefit from financial education at some point. For example, a first-time homebuyer may need homeownership advice and mortgage counseling. Older consumers may need information on annuities and other investment options as they transition to retirement, and small-business owners may benefit from educational programs that discuss how to handle credit or budget for their new ventures.

Although virtually all consumers can benefit from some type of financial education, those who have little or no interaction with mainstream financial institutions can perhaps benefit the most. Individuals may fall outside the financial mainstream for a number of reasons. However, they generally fall into one of three categories: students, immigrants, and low- and moderate-income individuals.

Students: This group includes school-age children, or even young adult college students, who have not had the need or opportunity to engage in banking transac-

Chart 4

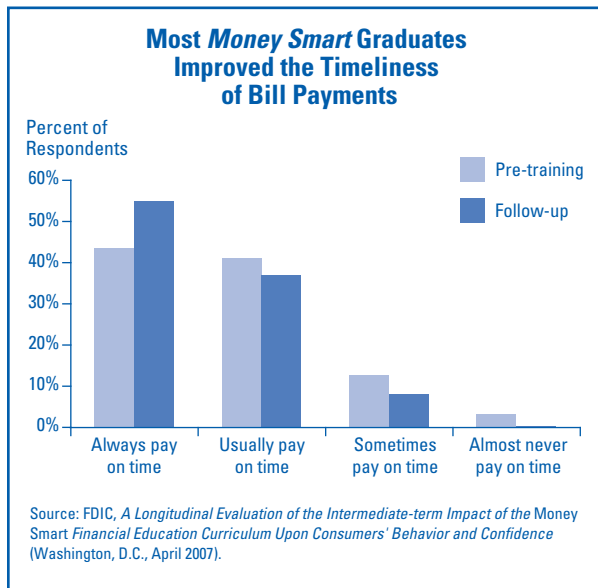
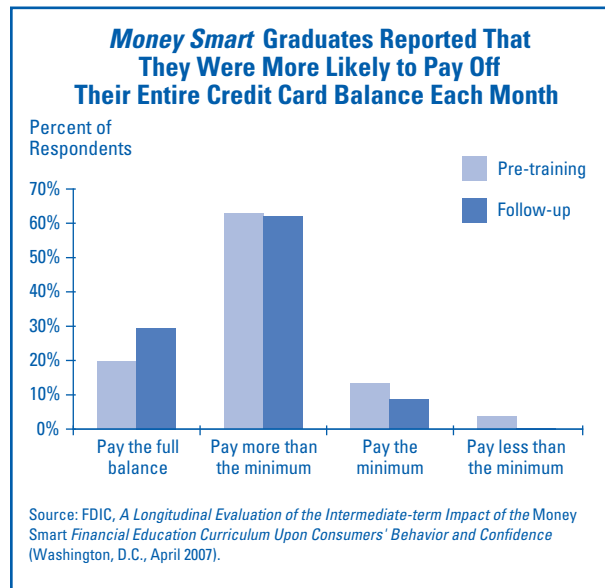


Chart 5



tions, or have had limited experience with banks. According to the U.S. Census Bureau, individuals age 25 and under represented more than one-third (34 percent) of the overall population as of 2005. Offering this group the opportunity to learn the basics of budgeting, saving and investing, and using credit wisely may be the best way to help them develop good financial habits for a lifetime.

However, it appears that more work needs to be done in this area. Only seven states include a personal finance course as a high school graduation requirement.⁵ According to the most recent results of a survey by the Jump\$tart Coalition for Personal Financial Literacy, financial literacy scores among high school seniors are quite low. In 2006, 62 percent of students failed (defined as a score below 60 percent) the Coalition's personal finance examination.⁶ Additionally, data from a recent survey of 13,000 college students show that young adults' initial experiences with consumer credit are already leading to heavy debt burdens.⁷ More than half these students accumulated

more than \$5,000 in credit card debt while in college, and one-third accumulated more than \$10,000.⁸ Fewer than one in five (19 percent) said they did not take on any credit card debt while in college.⁹

Immigrants: Immigrants and their American-born offspring accounted for 55 percent of the increase in the U.S. population during the past 40 years. Latinos and their offspring were by far the largest subset of immigrants, and this trend is expected to continue.¹⁰ Projections indicate that by 2011, nearly one of every six people living in the United States will be of Latino origin, and Latinos will make up 9.5 percent of all buying power in this country, up from 5 percent in 1990.¹¹

Obstacles may constrain the ability of immigrants to participate in the financial marketplace. Some immigrants may be so new to the country that they have not conducted sizable financial transactions. Cultural or language barriers may discourage others from developing a relationship with a financial institution. For example, immigrants from countries with unstable banking systems may be wary of dealing with financial institutions in the United States. Other immigrants, like many

⁵ National Council on Education, "Survey of the States: Economic and Personal Finance Education in Our Nation's Schools, A Report Card" (New York, NY, June 13, 2007). The states are Georgia, Idaho, Illinois, Louisiana, Missouri, South Dakota, and Utah.

⁶ Jump\$tart Coalition, *Financial Literacy: Improving Education. 2006 Jump\$tart Coalition Survey* (Washington, D.C., 2006).

⁷ "Sallie Mae launches new 'Be Debt Smart' campaign to educate students, parents and graduates on managing debt and understanding credit," Sallie Mae news release, February 14, 2007, http://www.salliemae.com/about/news_info/newsreleases/021407_bedebsmart.htm.

⁸ *Ibid.*

⁹ *Ibid.*

¹⁰ Pew Hispanic Center, *From 200 Million to 300 Million: The Numbers Behind Population Growth* (Washington, D.C., October 10, 2006).

¹¹ Selig Center for Economic Growth, "The Multicultural Economy 2006," *Georgia Business and Economic Conditions*, Third Quarter 2006, Volume 66, Number 3.

native-born Americans, are low- and moderate-income wage earners whose expenses generally leave little room to acquire and build financial assets.

Low- and Moderate-Income Households: These households earn less than 80 percent of the median household income for their particular geographic area, according to U.S. Census Bureau data. Many low- and moderate-income households routinely conduct financial transactions with banks and other financial institutions. However, research shows that low- and moderate-income individuals are more likely to have limited interactions with mainstream financial institutions such as banks.

For example, a study by the Center for Financial Services Innovation (CFSI) indicates that about 30 percent of low- and moderate-income households are “unbanked,” meaning they do not have any relationships with banks.¹² This is more than three times the unbanked rate for the general population—about 9 percent.¹³ The CFSI study also shows that, of the 70 percent of low- and moderate-income households with bank accounts, almost two-thirds may be considered “underbanked,” meaning they use only limited banking services.¹⁴

These customers are considered low- and moderate-income, but they do conduct a large volume of financial transactions. For example, during the period of the survey (2003–2004), the CFSI estimates that the 1 million low- and moderate-income households represented by its survey bought 1.2 million money orders and cashed 1.9 million checks *per month*.¹⁵ Also, people earning less than \$25,000 a year held assets totaling \$175 billion in aggregate;¹⁶ 57 percent of households in the lowest income quintile found a way to save some money; and almost one-fifth save regularly.¹⁷

¹² Ellen Seidman, Moez Hababou, and Jennifer Kramer, *Getting to Know Underbanked Consumers, A Financial Services Analysis* (Chicago, Illinois: The Center for Financial Services Innovation, September 2005). This survey represented almost 1 million households in 63 low- and moderate-income tracts in Washington, D.C., Chicago, and Los Angeles.

¹³ Federal Reserve, *2004 Survey of Consumer Finances* (Washington, D.C., 2004).

¹⁴ Seidman et al.

¹⁵ *Ibid.*

¹⁶ Steven Davidson, “Reaching Out With Technology: Connecting the Low-Income Population to the Financial Mainstream,” *Building Blocks*, Fannie Mae Foundation, 2, No. 2 (Fall 2002).

¹⁷ Catherine P. Montalto, *Households with Low Income: Wealth and Financial Behaviors*, Report to the Consumer Federation of America, (Washington, D.C., February 10, 2004).

The Business Case for Offering Financial Education

In addition to strengthening formal banking relationships and improving creditworthiness, bankers have found that a key benefit of offering financial education is the ability to reach out to new groups of customers. Indeed, data gathered by the FDIC indicate that, while many banks use the *Money Smart* financial education curriculum because they perceive it to be a quality product carrying the FDIC seal, an equal number said they use it because financial education is a good business development tool (see Chart 6).¹⁸

The sheer size of the markets represented by students, immigrants, and low- and moderate-income households and their need for money management skills make a clear business case for banks to offer financial education programs.

Banks are actively delivering financial education, and some bankers note that providing financial education and advice to their customers is a core function of the banking business. Indeed, a Consumer Bankers Association survey, which included many of the nation’s largest banks, found that nearly 100 percent of responding institutions are involved in various forms of financial education (see Chart 7).¹⁹

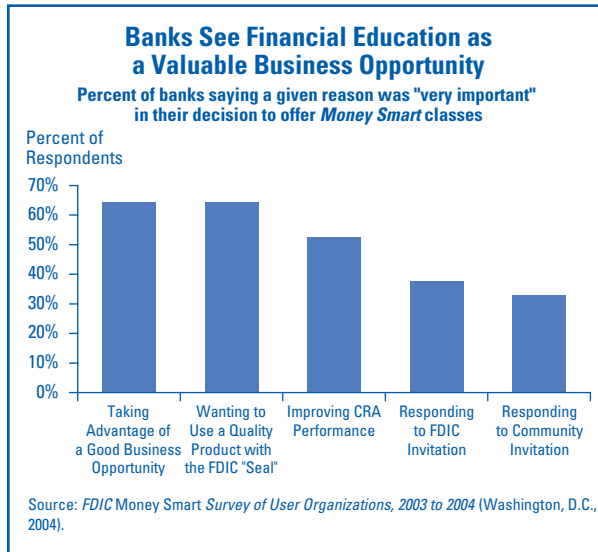
Many new customers gained through financial education efforts initially may need only basic, low-cost payment services and savings accounts, which likely will not result in immediate profitability for banks. However, over the long term, the newly banked likely will need more sophisticated and varied products, which could reasonably result in profitable banking relationships.

More immediately, banks that provide financial education could receive positive consideration from regulators as their investment, lending, and service performance is evaluated under the Community Reinvestment Act (CRA). Although each bank, situation, and program is different and would be evaluated on its own merits, the following is an example of how banks providing financial education could receive positive CRA consideration:

¹⁸ FDIC, *FDIC Money Smart Survey of User Organizations, 2003 to 2004* (Washington, D.C., 2004).

¹⁹ Consumer Bankers Association, *2003 Survey of Bank-Sponsored Financial Literacy Programs* (Arlington, VA, 2003).

Chart 6



- Investment Performance: A bank provides direct funding to a nonprofit organization that offers financial education training to consumers.
- Lending Performance: A bank lends to low- and moderate-income financial education program participants.
- Service Performance: A bank directly conducts financial education training for low- and moderate income individuals or provides low-cost deposit accounts to these participants.²⁰

Bank financial education programs have become increasingly creative and often target consumers on the basis of their level of knowledge or specific financial need, and many incorporate other banking services. Although there is no "best method" for delivering financial education and related support services, the following are a few common practices:

- Informal, one-on-one counseling.
- Partnering with nonprofits or local government entities to teach formal classes.
- Donating funds to schools or nonprofits for formal classes.

²⁰ See Interagency Questions and Answers (Q&As) for CRA, 66 Fed. Reg. 36619, 36631, §.22(a)-1 (July 12, 2001), <http://www.ffiec.gov/cra/pdf/qa01.pdf>.

Chart 7



- Establishing mini-branches in schools.
- Hosting formal classes at bank facilities.
- Providing mobile branches that move to target communities or to employers to provide banking services or financial education.
- Translating important banking documents into the language of consumers and hiring bank employees who speak those languages.
- Providing specialized, no-account services, such as check cashing or money transmission services.

"Banks Reach Out with Financial Education" (see page 41) highlights how three banks have integrated the *Money Smart* curriculum into their financial education programs. These three banks (and 56 percent of all banks using the *Money Smart* curriculum) determined that offering special products or services to *Money Smart* students is an effective strategy.²¹ Some programs offered by *Money Smart* bank partners are listed below. They range from basic "get to know you" strategies to products and services tailored to financial education students:

- 23 percent introduce students to their institutions with a tour of their facilities.

²¹ FDIC, *FDIC Money Smart Survey of User Organizations, 2003 to 2004* (Washington, D.C., 2004).

- 23 percent give unique credit or loan counseling available only within the *Money Smart* process.
- More than one-fifth offer free checking accounts to *Money Smart* students.
- 19 percent offer no-minimum-deposit checking or savings accounts to *Money Smart* students.²²

Although many benefits accrue to banks that offer financial education, the banks must absorb some operating costs, such as paid advertising or providing some sort of incentive for participants to attend. The costs will depend on the bank's approach. Banks can minimize expenses by partnering with community or government organizations and using free curricula and other resources, including the FDIC's *Money Smart* program. The FDIC does not specifically endorse other programs or groups; however, the following are sources of information for bankers who wish to start or expand financial education activities:

- The FDIC's *Money Smart* curriculum and access to the computer-based instruction version are available at the FDIC's Web site, <http://www.fdic.gov/consumers/consumer/moneysmart/index.html>.
- *FDIC Consumer News* (<http://www.fdic.gov/consumers/consumer/news/index.html>) provides practical guidance for consumers on how to use financial services. Each issue offers helpful hints, quick tips, and commonsense strategies to protect and stretch a consumer's paycheck.
- The United States Financial Literacy and Education Commission (<http://www.treas.gov/offices/domestic-finance/financial-institution/fin-education/commission/>) created MyMoney.gov (<http://www.mymoney.gov/>), the U.S. government's Web site dedicated to teaching the basics of financial education. The site contains information from 20 federal agencies involved in financial education efforts, including the FDIC.
- America Saves (<http://www.americasaves.org/>) is a nationwide campaign to help individuals and families save and build wealth. More than 1,000 nonprofit, corporate, and government groups offer

information, advice, and encouragement for individuals who want to pay down debt and save for the future.

- The Federal Reserve System's education Web site links to instructional materials and tools to increase understanding of the Federal Reserve, economics, and financial education (<http://www.federalreserveeducation.org/>). In addition, the Federal Reserve Bank of Chicago hosts the Financial Education Research Center, part of the Consumer and Economic Development Research and Information Center (http://chicagofed.org/cedric/financial_education_research_center.cfm). Other online resources are available for researchers, educators, and program directors interested in supporting these types of programs and initiatives.
- The Office of the Comptroller of the Currency has developed a Financial Literacy Resource Directory that provides descriptions and contact information for a sampling of organizations that have undertaken financial literacy initiatives (<http://www.occ.treas.gov/cdd/finlitresdir.htm>).
- Jump\$tart Coalition for Personal Financial Literacy (www.jumpstartcoalition.org) is a national coalition of organizations dedicated to improving the financial literacy of kindergarten through college-age youth. The coalition provides advocacy, research, standards, and educational resources.

Financial Education Is Good Business

Financial education helps consumers become more confident about the future by offering them the knowledge to make sound money management decisions. Financial education also benefits banks because it helps them target new customers who otherwise might not have chosen a financial relationship with a bank. Although difficult to quantify, bank financial education strategies also can positively influence local communities over the long term. These programs generate goodwill and connect banks with local organizations. As individuals become better able to manage their money, households may benefit from greater financial stability, potentially minimizing the numbers of bankruptcies, foreclosures, and other credit problems. Benefits also could be expected to spill over to local businesses and the community at large.

²² *Ibid.*

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The FDIC's Money Smart Curriculum

The FDIC developed *Money Smart* to help adults outside the financial mainstream build financial knowledge and develop positive relationships with financial institutions. *Money Smart*, piloted in early 2001 in the Washington, D.C., area, was distributed throughout the United States later that year. Today, *Money Smart* is available in six languages in addition to Braille and large print.

Money Smart contains these ten modules:

- *Bank On It*: an introduction to bank services.
- *Borrowing Basics*: an introduction to credit.
- *Check It Out*: how to choose and keep a checking account.
- *Money Matters*: how to keep track of your money.
- *Pay Yourself First*: why you should save, save, save.
- *Keep It Safe*: your rights as a consumer.
- *To Your Credit*: how your credit history will affect your credit future.
- *Charge It Right*: how to make a credit card work for you.
- *Loan To Own*: know what you are borrowing before you buy.
- *Your Own Home*: what homeownership is all about.

Money Smart may be offered to students in a classroom, small group, or one-on-one setting. Financial institutions

often partner with community-based organizations and other local groups, such as housing authorities, to offer *Money Smart* classes. Together, these banks and other organizations form the FDIC's *Money Smart* Alliance. More than 1,250 organizations in the Alliance facilitate the delivery of financial education by promoting, delivering, translating, funding, and evaluating the *Money Smart* program.

Use of *Money Smart* is not limited to Alliance members. The FDIC provides copies of the *Money Smart* curriculum free of charge to anyone requesting a copy. As of July 1, 2007, the FDIC has delivered about 440,000 copies.

Although all ten *Money Smart* modules were developed with a detailed instructor script, the FDIC often provides instructional training and technical support. In addition, a Train-the-Trainer video, produced in English and Spanish, is available to help instructors prepare to teach *Money Smart*. As of July 1, 2007, the FDIC had offered more than 600 instructor workshops to approximately 13,000 instructors and distributed 35,000 copies of the Train-the-Trainer video.

The computer-based instruction (CBI) version of *Money Smart* was released in English and Spanish in 2004. The CBI version, which can be completed online, is available on the FDIC's Web site at www.fdic.gov/consumers/consumer/moneysmart/mscbi/mscbi.html. The FDIC also will provide a compact disc for those without Internet access.

*Banks Reach Out with Financial Education*²³

Words Become Seeds: A Community Bank's Use of Money Smart Helps a Diverse Market

Center Bank in Los Angeles, California, was established in 1986 to serve the credit needs of the diverse community in and around the city's Koreatown. The bank now operates in California, Washington, and Illinois. Center Bank's involvement in the *Money Smart* program began when it helped the FDIC launch the Korean-language version of *Money Smart*. In particular, Center Bank cooperated with community-based organizations and competitor banks to ensure that the Korean translation was accurate and culturally sensitive. Center Bank also was the FDIC's first partner in delivering *Money Smart* to Korean-speaking Americans. Classes began in June 2003, and soon other Korean-American banks began teaching, sponsoring, and using *Money Smart*.

Center Bank has continued using *Money Smart* and now offers after-hours classes in branch offices. Each class is advertised in local newspapers. At the end of the course, students participate in a graduation ceremony and receive a certificate of completion from a bank executive. More than 600 people, many of whom might not otherwise have come to Center Bank, have attended about 40 classes offered at Center Bank branches.

Also, using the *Money Smart* curriculum, Center Bank delivered financial education tips during a program on a Korean radio station. While no formal tracking occurred, bank management believes that these presentations helped attract new customers and highlighted the bank's services to the local community.

Educational Outreach in Action—Building Long-term Relationships and Measuring Results

Wachovia Bank, N.A., was the first major bank to partner with the FDIC to offer the *Money Smart* curriculum to lower-income consumers. Wachovia sees financial outreach as an essential community responsibility, and believes that giving consumers a

stronger financial foundation will help them make more informed financial product choices.

Wachovia uses a variety of delivery channels for *Money Smart*, including community partners, the Wachovia branch network, and employee volunteers. The *Money Smart* curriculum is delivered primarily through about 60 nonprofit community partners in low- and moderate-income neighborhoods. Wachovia supports the financial literacy efforts of its community partners in various ways, including donation of classroom materials. Classroom materials feature dual-language (English and Spanish) *Money Smart* videos and DVDs specifically created by Wachovia for students and instructors.

A distinctive element of Wachovia's financial education program is its ability to track activities and results. Wachovia sets goals and establishes benchmarks to track course delivery, participant demographics and skill level, and banking account trends. Wachovia uses the data to provide its nonprofit community partners an annual report that measures the impact of their financial literacy outreach.

Since the program began in 2003, Wachovia has trained more than 70,000 participants, who are predominantly African-American, Hispanic/Latino, women, low- and moderate-income, and either unbanked or underbanked. Based on participants' self-assessments, the average skill level improved substantially after course completion.

Wachovia's plans for financial education programs include improving measurement of financial behavior among class participants over time. Also, Wachovia is developing a more robust measure of the extent to which financial education can be used to inform or change behaviors about timely personal financial issues, such as payday lending, identity theft, stored-value cards, mortgage lending disclosures, and bankruptcy.

²³ These are only examples of some banks that use the *Money Smart* curriculum. The FDIC does not endorse these or any other specific bank programs.

Tailor Made: A Customized Approach to Financial Education Seminar Delivery

Marshall & Ilsley Bank (M&I) realized that to reach new customers, it needed to make some adjustments to the content and delivery of its financial education program. Beginning in 2005, the bank partnered with local community organizations that helped identify individuals who would benefit most from financial education. M&I customized financial education topics and *Money Smart* modules to meet the needs of these audiences and has been particularly active in financial education for youth.

During the past year and a half, M&I has formed partnerships with more than 40 government, community, nonprofit, educational, and private organizations to deliver customized training. The following are examples of M&I's customized approach to financial education:

Financial Literacy Alliance for Milwaukee Education (FLAME): M&I joined with other Milwaukee-based financial institutions to address the lack of financial literacy in urban Milwaukee schools. This consortium provides training and financial incentives to help teachers incorporate a semester-long financial education program into the existing curriculum, thus reaching a wider audience while expending fewer resources.

City of Milwaukee Summer Youth Internship Program: As part of this summer program, youth are hired for city jobs and receive life-skills training. M&I was invited to participate, and approximately 200 urban youth received education about the importance of saving and the proper management of a checking account.

Make a Difference—Wisconsin, Inc.: M&I partnered with this nonprofit organization to deliver financial education to youth in the Milwaukee Public School (MPS) system. A financial literacy program was

developed for 11th grade students attending an MPS high school. This grade level was targeted because these students represent the next generation of financial consumers.

To gauge the effectiveness of these and all of the bank's financial education programs, M&I surveys all students before and after the training. The 2006 seminar attendees gave more correct answers on the post-survey than on the presurvey, and M&I attributes the improvement to the seminars. M&I intends to conduct more long-term follow-up of program participants' banking behaviors to document the effectiveness of its financial education efforts.

M&I also offers a suite of products to participants in the financial education seminars as entry points for formal banking products:

- Thrift Savings: Allows customers to open an account with \$25, earns interest, and allows direct deposit.
- Foundation Checking: Provides a \$50 cash bonus for customers who have completed the Get Checking program (a six-hour checking education course). The account has no minimum balance requirements and offers an ATM card after six months of good standing.
- Credit Builder: Provides a way to borrow \$1,000 to \$5,000, with flexible repayment timeframes, no prepayment penalties, and the ability to build savings and earn interest. Once approved, the loan dollars are held in an M&I Bank certificate of deposit (CD) for the term of the loan. When the loan is repaid in full, the customer will receive the amount borrowed plus the interest earned on the CD. As a result, customers with no credit history or with a challenged credit history can improve their credit score during the loan period, while also building assets (savings).