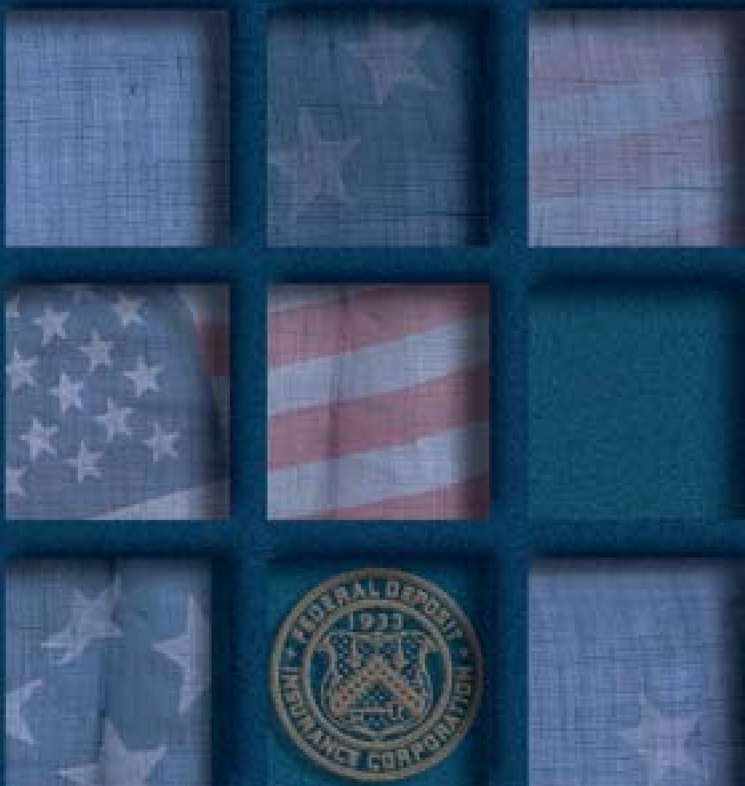
Annual Report 2004
Highlights



FDIC Federal Deposit Insurance Corporation

Stability *Sound Policy* *Stewardship*

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

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

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

Mission

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

To view the complete *2004 Annual Report*, visit our Web site at: www.fdic.gov

Vision

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

Values

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

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

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

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

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

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

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

Message from the Chairman

Donald E. Powell

I am pleased to present the Federal Deposit Insurance Corporation's (FDIC) 2004 Annual Report. During the past year, we continued to aggressively pursue our three major priorities: promoting the **stability** of the nation's financial system, developing and articulating **sound policy** positions, and meeting our **stewardship** obligations to the deposit insurance funds.

Meeting the FDIC's mission is an increasingly complex responsibility, but the FDIC made exceptional progress during 2004. I am proud of the dedication and hard work of the FDIC's employees over the past year.

I am pleased to highlight in this report some of our major accomplishments in 2004:

- We worked to ensure that adequate capital standards would be maintained in the new Basel Capital Accord.
- We continued our efforts to reduce regulatory burden on financial institutions as mandated by the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA). With other federal bank and thrift regulatory agencies, we solicited and received over 700 comments on consumer protection and deposit-related regulations, and we requested comment on proposed changes to the FDIC's Community Reinvestment Act regulations.
- We aggressively refined our supervisory strategies consistent with changes to the Bank Secrecy Act included in the USA PATRIOT Act. The FDIC, the Department of Treasury's Financial Crimes Enforcement Network (FinCEN), and the other federal banking agencies also entered into an information sharing Memorandum of Understanding to enhance communication and coordination to help financial institutions identify, detect and interdict terrorist financing and money laundering.
- We funded 17 research proposals to produce the first working papers to be published by our new Center for Financial Research.
- We reached approximately 300,000 consumers with our *Money Smart* financial education program, resulting in the formation of over 40,000 new banking relationships, and expanded our *Money Smart* program alliance to include five Hispanic organizations. In addition, we released the *Money Smart* curriculum in an interactive computer-based instruction format. The *Money Smart* curriculum is a training program to help adults outside the financial mainstream enhance their money-management skills and establish positive banking relationships.

- We established a Resolutions Policy Committee to develop a comprehensive strategy and action plan for handling a large bank failure in the least costly manner, maximizing net recoveries and minimizing any disruption.
- We made significant progress toward the completion of a new Web-based Central Data Repository (CDR) for Call Reporting and other regulatory reporting, in cooperation with our Federal Financial Institutions Examination Council (FFIEC) partners. Targeted for implementation in 2005, the CDR will employ state-of-the-art technology and the XBRL (Extensible Business Reporting Language) data standard. This system will further enhance the FDIC's ability to provide high-quality, timely data about the banking industry to regulators, financial institutions and the public.
- We continued to realign our workforce to meet future workload requirements. The 2005 budget approved by the Board reflects a reduction of 674 authorized positions over the next year.
- A new Corporate Employee Program was announced that will allow us to create a more flexible workforce in the future.
- We initiated a two-year effort to improve our information technology (IT) program by modernizing our IT infrastructure and applying an enterprise architecture approach to guide future IT decision-making.

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

I am very proud of our achievements over the past year and look forward to continued successes next year. The FDIC stands firm in its commitment to promoting stability, pursuing sound policy and meeting our stewardship responsibilities for the deposit insurance funds.

It is a privilege and an honor to serve as Chairman of the FDIC, and I look forward to the many opportunities that lie ahead.

Sincerely,

Donald E. Powell

Message from the Chief Financial Officer

Steven O. App

I am pleased to report that the funds managed by the FDIC maintained their strong financial condition in 2004 and to highlight some of our accomplishments in this area.

The U.S. Government Accountability Office (GAO) again issued unqualified audit opinions for all three funds administered by the Corporation (Bank Insurance Fund, Savings Association Insurance Fund, and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund). This marks the 13th consecutive year that we received unqualified opinions, and demonstrates our continued dedication to sound financial management and the reliability of the financial data upon which we make critical decisions. I would like to extend my sincere appreciation to the many individuals whose hard work allowed the FDIC to achieve this milestone.

Financial highlights during 2004 include:

- The Bank Insurance Fund (BIF) increased by $1.0 billion to $34.8 billion, and the Savings Association Insurance Fund (SAIF) increased by $480 million to $12.7 billion, compared to increases of $1.7 billion and $493 million respectively, in 2003.
- Comprehensive income for BIF was $1 billion. This was substantially lower than the $1.7 billion reported last year. This reduction was primarily due to a significant deceleration in the rate at which the provision for insurance losses declined during 2004 when compared to 2003. For 2003, the reduction in the provision for insurance losses added $931 million to comprehensive income, while for 2004 it added only $269 million–a $662 million difference. Earnings on U.S. Treasury obligations were also $80 million lower than in 2003.
- Comprehensive income for SAIF was $480 million. This was slightly lower than the $493 million reported last year. This reduction was primarily due to lower earnings on U.S. Treasury obligations of $6 million in 2004 compared to 2003.
- Both the BIF and the SAIF reported unrealized losses on available-for-sale securities in 2004 of $112 million and $36 million, respectively. The deposit insurance funds experienced such unrealized losses two years in a row. These unrealized losses were largely due to the fact that U.S. Treasury yields generally increased throughout much of the latter half of 2003 and 2004, after dropping sharply in 2002 and early 2003. Despite the modest unrealized losses in 2004, cumulative unrealized gains in the funds remained high at $690 million in the BIF and $238 million in the SAIF.

We continued our efforts to reduce operating costs in 2004. The Board of Directors approved a 2005 Corporate Operating Budget that was virtually unchanged from the 2004 Corporate Operating

Budget, despite absorbing higher salary and benefits cost and inflation in non-personnel costs. Total estimated 2005 spending (including 2005 spending for previously approved multi-year investment projects) is estimated to be about $36 million or 2.9 percent lower than in 2004. The FDIC's Capital Investment Review Committee (CIRC) also continued to focus on sound development of large-scale IT-related projects as well as improvements in the management of investment spending. Several major IT projects were re-baselined in 2004, and the Corporation is committed to completing these projects within their revised schedules and budgets.

The FDIC also made considerable progress in 2004 in enhancing its information security programs, taking positive actions in a number of key security program areas. The FDIC provided security awareness training to its employees and contractors, and is working diligently to address recent and emerging IT security standards and guidelines developed by the National Institute of Standards and Technology (NIST). Information technology and systems security remain high priorities at the FDIC, and we are continuously working to strengthen controls in these areas. The Office of Inspector General (OIG) recently completed its annual evaluation of information systems security at the FDIC, as mandated by the Federal Information Security Management Act of 2002, and identified no significant deficiencies that warrant consideration as potential material weaknesses.

The FDIC evaluated its risk management and internal control systems in accordance with the reporting requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and GAO internal control standards. We have identified no material weaknesses that would affect the accuracy of the financial statements. This report describes our continuing efforts to provide timely and useful performance information to FDIC managers, OMB, and the Congress. Based on these internal management evaluations, and in conjunction with the results of GAO's independent financial statements audits, I can certify with reasonable assurance that the FDIC's risk management and internal control systems, taken as a whole, are in conformance with the standards prescribed by GAO and that we are in compliance with the requirements of FMFIA.

In 2005, the FDIC will continue to focus on effective cost management, produce timely and reliable financial information, and maintain a strong enterprise-wide risk management and internal control program.

Sincerely,

Steven O. App

The Year in Review

The year 2004 marked continued changes within the FDIC, but maintaining stability of the nation's financial services industry remained a primary focus. The FDIC continued to lead and participate in many interagency initiatives in an effort to meet the demands of an ever evolving financial services industry.

During 2004, the FDIC continued its emphasis on reducing regulatory burden, and also enhanced its examination program while promoting measures to improve its efficiency. Studies were conducted in various areas, identifying risks and promoting best practices among the regulatory and banking industries. In 2004, the FDIC actively contributed to efforts to address money laundering and terrorist financing risks as well as other financial crimes such as identity theft.

Highlights of the Corporation's 2004 accomplishments are presented in this section for each of the FDIC's three major business lines – Insurance, Supervision and Consumer Protection, and Receivership Management – as well as its program support functions.

Insurance

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

Deposit Insurance Reform

The FDIC again gave priority attention to enactment of comprehensive deposit insurance reform legislation in 2004.

The FDIC's reform recommendations include:

- Merging the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF).
- Granting the FDIC's Board of Directors the flexibility to manage a combined deposit insurance fund. Under the present system, statutorily mandated methods of managing the size of the BIF and SAIF may cause large premium swings and could force the FDIC to charge the highest premiums during difficult economic times when the industry can least afford it. Currently, safer institutions subsidize riskier institutions unnecessarily, while new entrants and growing institutions avoid paying premiums.
- Indexing the level of deposit insurance coverage to ensure that basic account coverage is neither eroded over time by inflation nor made subject to irregular adjustments.

The House passed H.R. 522, the Federal Deposit Insurance Reform Act of 2003, on April 22, 2003, by a vote of 411 to 11. Although the Senate Banking Committee held a hearing on deposit insurance reform in February 2003, it did not act on a deposit insurance bill before the 108th Congress adjourned. The FDIC provided information and analysis to Congress in support of deposit insurance reform legislation. Support was obtained for a proposed assessment credit and rebate system as well as a new deposit insurance pricing system. Enactment of deposit insurance reform will remain a priority of the FDIC during 2005.

Improvements to the FDIC's Loss Reserve Methodology

During 2004, enhancements to the FDIC's reserving process and methodology were also implemented, in accordance with recommendations from a comprehensive 2003 study. The Financial Risk Committee adopted new guidelines for deviating from actual historical failure rates and enhanced coefficients contained in the research model which is used to develop loss given failure estimates. In addition, a working prototype of an integrated fund model was developed to better measure and manage risk to the deposit insurance funds.

New International Capital Standards

The FDIC continues to actively participate in efforts to align capital standards with advances in financial institutions' risk measurement and management practices, while ensuring that such institutions and the industry as a whole maintain adequate capital and reserves. During 2004, the FDIC was active on a number of global and domestic supervisory and policy groups and subgroups including the Basel Committee on Banking Supervision (BCBS), the Capital Task Force, and the Accord Implementation Group. The FDIC also participated in various U.S. regulatory efforts aimed at interpreting international standards and establishing sound policy and procedures for implementing these standards.

The BCBS published the "International Convergence of Capital Measurement and Capital Standards" in June 2004, which is more commonly referred to as "Basel II" or the "Revised Framework." These broad international standards will provide the underpinnings for a U.S. revised capital rule, which is currently anticipated to be finalized by domestic bank and thrift regulatory authorities in mid-2006 for implementation in January 2008.

Ensuring the adequacy of insured institutions' capital under Basel II remains a key objective for the FDIC. In 2004, the FDIC actively participated in domestic and international policy and implementation efforts to ensure these new rules are designed appropriately. These efforts included the development of examination guidance, which is intended to provide the industry with regulatory perspectives for implementation, and the performance of a fourth quantitative impact study (QIS) begun in 2004 to assess the potential impact of the Revised Framework on financial institution and industry-wide capital levels.

Regulatory Burden Reduction Initiatives

During 2004, under the leadership of Vice Chairman John Reich, the federal bank and thrift regulatory agencies continued a cooperative three-year effort to review all of their regulations (129 in all) that impose some burden on the industry. The purpose of the review, which is mandated by the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA), is to identify and eliminate any outdated, unnecessary or unduly burdensome regulatory requirements, while ensuring safety and soundness and consumer protections remain strong.

For the purposes of this review, the agencies categorized their regulations into 12 separate groups. Every six months, new groups of regulations are published for comment, giving bankers, community groups and others an opportunity to identify regulatory requirements they believe are no longer needed, as well as consumer protections that must be preserved. Comments on the first group of regulations, which included Applications and Reporting, Powers and Activities and International Banking, were solicited in 2003, and were analyzed during 2004.

The agencies issued notices for comment on two more groups of regulations in 2004:

- Lending-related consumer protection regulations, which include Truth-In-Lending (Regulation Z), Equal Credit Opportunity (Regulation B), Home Mortgage Disclosure Act (HMDA); and
- Deposit-related and other consumer protection regulations, which include Privacy of Consumer Financial Information, Truth-In-Savings, and Deposit Insurance Coverage.

The agencies received over 700 responses to the request for comments on these two groups of regulations.

The agencies also held six outreach meetings in 2004, three for bankers and three for consumer and community groups. These outreach sessions were intended to increase industry awareness of the EGRPRA project and obtain feedback.

The FDIC and the other financial regulatory agencies undertook several initiatives in 2004 that are expected to relieve regulatory burden, improve operational efficiencies of banks, or assist financial institutions in assessing potential risk. They published additional interagency guidance and examination procedures on the USA PATRIOT Act. The FDIC also sought comments on proposed changes to its Community Reinvestment Act regulations and its regulations governing certain international activities. (Final regulations in both areas are expected in early 2005.)

Center for Financial Research

The Corporation established the FDIC Center for Financial Research (CFR) in late 2003 to promote research that provides meaningful insights regarding developments in deposit insurance, the financial sector, prudential supervision, risk measurement and management, regulatory policy and related topics that are of interest to the FDIC, the financial services industry, academia and policymakers. The CFR is a partnership between the FDIC and the academic community with prominent scholars actively engaged in administering and carrying out its research program. The CFR carries out its mission through an agenda of research, analysis, forums and conferences that encourage and facilitate an ongoing dialogue incorporating industry, academic and public-sector perspectives.

The CFR supports high-quality original research by sponsoring relevant research program lines and soliciting rigorous analysis of the issues within five program areas. These programs benefit from the leadership of program coordinators who are drawn largely from the outside academic community. Input is also obtained from six prominent economists who serve as Senior Fellows. The CFR sponsors a Visiting Research Fellows Program to provide support for in-residence scholars for defined time periods. In 2004, the CFR funded 17 research proposals, the results of which will be published in the new CFR Working Papers Series. The CFR also engaged leading scholars in banking and finance to collaborate with FDIC staff on subjects of mutual interest.

Identifying and Addressing Risks to the Insurance Funds

The FDIC prepares summary analyses each quarter on the condition of large insured financial entities, based primarily on information provided by their primary Federal regulators. These analyses assist the FDIC in identifying risk trends and potential exposure to the insurance funds. Identified risks are highlighted in various reports and communicated throughout the Corporation in both written format and by oral presentations. All institution-specific concerns identified through this ongoing analytical process in 2004 were referred to FDIC regional offices for appropriate follow-up action. In most cases, these concerns were resolved in connection with the institution’s primary Federal regulator.

The FDIC also conducted numerous outreach activities during 2004 on matters of economic and banking risk analysis with community groups, other regulators, and the banking industry. Among them were a series of internal and public roundtables that included a 2004 banking outlook roundtable in New York City, our third annual Washington, DC economic outlook roundtable, and an economics luncheon featuring Dr. Catherine Mann of the Institute for International Economics.

FFIEC Central Data Repository

The FDIC continued to provide leadership for an interagency initiative to implement the Central Data Repository (CDR). This effort includes the Federal Reserve Board and the Office of the Comptroller of the Currency. The CDR is designed to consolidate the collection, validation and publication of quarterly bank financial reports. The CDR will be accessible to regulators, financial institutions and the public. This initiative is being undertaken in cooperation with the Call Report software vendors and the banking industry, and will employ new technology that uses XBRL (Extensible Business Reporting Language) data standard to streamline the collection, validation and publication of Call Report data. Originally scheduled for implementation in October 2004, rollout of the CDR was postponed to address industry feedback and allow more time for system testing and enrollment of financial institutions. As a result, a two-phased implementation of the CDR during the second and third quarters of 2005 is now planned.

Risk Analysis Center

The Risk Analysis Center (RAC) was established in 2003 to provide information about current and emerging supervisory issues. The RAC brings together economists, bank examiners, financial analysts and others to monitor and analyze economic, financial, regulatory and supervisory trends, and their potential implications for the continued financial health of the banking industry and the deposit insurance funds. Comprehensive solutions are developed to address risks identified during the process. Guided by the FDIC's National Risk Committee and the RAC Management Committee, the RAC serves as a clearinghouse for information generated by the FDIC's six regional offices and sponsors a number of projects involving risk-related issues.

Two initiatives were implemented in 2004 to improve the dissemination of risk-related information. First, the Supervisory Discussion Room was initiated to provide interactive nationwide audio and video-conferences on various topics. Each session includes a presentation on a bank supervision matter. Second, the Examiner Forum was developed in conjunction with the Field Supervisor (FS) Council to increase examiner awareness of the RAC and to share information about emerging issues among the field examination staff. Both initiatives provide examiners an opportunity to exchange information across regions and with technical specialists in the Washington office.

Supervision and Consumer Protection

Supervision and consumer protection are cornerstones of the FDIC's efforts to ensure the stability of and public confidence in the nation's financial system. At year-end 2004, the Corporation was the primary federal regulator for 5,272 FDIC-insured, state-chartered institutions that are not members of the Federal Reserve System (generally referred to as "state non-member" institutions). Through safety and soundness, consumer compliance and Community Reinvestment Act (CRA) examinations of these FDIC-supervised institutions, the FDIC assesses their operating condition, management practices and policies, and their compliance with applicable laws and regulations. The FDIC also educates bankers and consumers on matters of interest and addresses consumers' questions and concerns.

Safety and Soundness Examinations

During 2004, the Corporation conducted all 2,515 statutorily required safety and soundness examinations. The number and total assets of FDIC-supervised institutions identified as "problem" institutions (defined as having a composite CAMELS[1] rating of "4" or "5") decreased during 2004. As of December 31, 44 institutions with total assets of $5.3 billion were identified as problem institutions compared to 73 institutions with total assets of $8.2 billion on December 31, 2003. These changes represent a decrease of 39.7 percent and 35.4 percent, respectively, in the number and assets of problem institutions. During 2004, 57 institutions were removed from problem institution status due to composite rating upgrades, mergers, consolidations or sales, and 28 were newly identified as problem institutions. The FDIC is required to conduct follow-up examinations of all designated problem institutions within 12 months of the last examination. As of December 31, 2004, all follow-up examinations for problem institutions had been performed on schedule.

Compliance and Community Reinvestment Act (CRA) Examinations

The FDIC conducted 1,459 comprehensive compliance-CRA examinations, 673 compliance-only examinations,[2] and four CRA-only examinations in 2004, compared to 1,610 joint compliance-CRA examinations, 307 compliance-only examinations, and two CRA-only examinations in 2003. The FDIC conducted all joint and comprehensive examinations within established timeframes.

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

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

As of December 31, 2004, five institutions were assigned a "4" rating for compliance, and no institutions were rated "5." Of the five institutions rated "4" as of December 31, 2004, four are within the 12 month window following issuance of an enforcement action. Of these four, two entered into Memoranda of Understanding with the FDIC and two are subject to outstanding Cease and Desist Orders. A Cease and Desist Order for the fifth institution will likely be issued during the first quarter of 2005.

FDIC Examinations 2002-2004

	2004	2003	2002
Safety and Soundness:			
State Nonmember Banks	2,276	2,182	2,290
Savings Banks	236	231	229
Savings Associations	0	0	0
National Banks	0	5	10
State Member Banks	3	3	5
Subtotal - Safety and Soundness Examinations	2,515	2,421	2,534
CRA/Compliance Examinations:			
Compliance-Community Reinvestment Act	1,459	1,610	1,334
Compliance-only	673	307	493
CRA-only	4	2	13
Subtotal CRA/Compliance Examinations	2,136	1,919	1,840
Specialty Examinations:			
Trust Departments	534	501	524
Data Processing Facilities	2,570	2,304	1,681
Subtotal-Specialty Examinations	3,104	2,805	2,205
Total	7,755	7,145	6,579

Examination Program Efficiencies

The FDIC continued in 2004 to implement measures to improve examination efficiency by maximizing the use of risk-focused examination procedures at well-managed banks. Based on experience with the Maximum Efficiency Risk-Focused Institution Target (MERIT) Program implemented in 2002, the FDIC raised the threshold for well-rated, well-capitalized banks qualifying for streamlined examinations under the MERIT Program to $1 billion, up from $250 million. Use of the MERIT Program allows the FDIC to direct more examination resources to institutions posing the greatest risks to the insurance funds. The FDIC also implemented more risk-focused examinations for the trust and information technology specialty areas. The FDIC continued to emphasize the revised compliance examination approach implemented during the second half of 2003. During 2004, the FDIC convened six focus groups with bankers across the country to discuss their experience with the revised compliance examination process. The bankers strongly supported the new process, reporting that it had resulted in a more efficient examination and that compliance examiners provided more constructive feedback than in the past.

In keeping with other recent strategic initiatives to enhance supervisory processes, the FDIC conducted a pilot program to test a new approach to bank supervision. The primary purpose of the "relationship manager program" pilot was to determine the extent to which designation of a relationship manager for each bank would enhance risk-focused assessments and improve communications with financial institutions.

The pilot explored alternatives to the traditional point-in-time examination by allowing supervisory activities to be conducted over the appropriate 12- or 18-month supervisory cycle at selected institutions, based on their risk profiles. Relationship managers developed supervisory plans for their designated banks and served as the institution's local primary point-of-contact. Benefits of the pilot included ongoing "real time" assessments, as well as improved communications with financial institutions. Preliminary results of the pilot were favorable. Results will be further evaluated in 2005 to determine the feasibility of implementing some or all aspects of the program nationwide.

Shared National Credit Modernization

The Shared National Credit (SNC) program is an interagency effort designed to provide a review and credit quality assessment of many of the largest and most complex (syndicated) bank credits. The purpose of the program is to gain efficiencies and consistencies in the review of credits shared by multiple institutions under a formal lending agreement. The program is governed by an interagency agreement between the Federal Reserve Board, the FDIC, and the Office of the Comptroller of the Currency (OCC).

During 2004, the agencies initiated a SNC Data Collection Modernization project (SNC Modernization). The project seeks to enhance and streamline this effective supervision program by standardizing the SNC data collection system, applying more advanced credit risk analytics and benchmarking techniques across bank portfolios, and providing participating banks with feedback on their SNC portfolios across those metrics. In December, the agencies published a *Notice for Public Comment* in the *Federal Register* requesting the industry's feedback on the SNC Modernization project. The notice describes the changes to the reporting system the agencies contemplate and identifies new data elements the agencies propose to collect. In the notice, the agencies present a series of questions to elicit comment on the expanded program and to help the agencies refine the design of the expanded data collection system.

Homeland Security

The financial sector is a critical component of the infrastructure in the United States, and the FDIC has taken a leadership role in assisting part of the financial sector in preparing for emergencies.

As a member of the Financial and Banking Information Infrastructure Committee (FBIIC), the FDIC sponsored a series of outreach meetings in 21 cities across the United States in 2004 on *Protecting the Financial Sector: A Public and Private Partnership*. These meetings provided financial sector leaders with the opportunity to communicate with senior government officials, law enforcement members, and emergency management and private sector leaders about protecting the financial sector.

Bank Secrecy Act

The FDIC is also fully committed to assisting in efforts designed to thwart the inappropriate use of the banking system through activities conducted by criminals and terrorists. Our supervisory program, in conjunction with strong law enforcement efforts, creates an environment where criminals and terrorists who use the U.S. financial system to fund their operations will risk being discovered.

In September 2004, the FDIC, the other Federal banking agencies, and FinCEN entered into an information-sharing Memorandum of Understanding to enhance communication and coordination to help financial institutions identify, detect, and interdict terrorist financing and money laundering. The FDIC also issued 20 formal actions and entered into 83 informal agreements that contained provisions regarding BSA compliance.

International Stability

As a member of the Association of Supervisors of Banks of the Americas (ASBA) Strategic Planning Implementation Committee, the FDIC helped develop specific action plans for ASBA's 2004–2008 strategic plan. This plan will help ASBA deliver more relevant and timely support to its member countries. The strategic plan is focused on ensuring ASBA member countries effectively implement legal and regulatory frameworks, as well as bank supervisory policies, procedures and programs that are in line with the Basel core principles.

The FDIC fulfilled 16 technical assistance missions in 2004. Beneficiaries of these missions included Morocco, Kyrgyz Republic, Iraq, Georgia, Russia, Jordan, Argentina, Serbia, Romania, several countries in Latin America, and countries involved in the Partnership for Financial Excellence Program in the Middle East and North Africa.

In 2004, the FDIC also held 51 meetings with representatives from foreign countries. The visitors usually represented a country's central bank or deposit insurance agency. The most frequent visitors were: China (7), Korea (6), Russia (4), Indonesia (3), Jamaica (3), Taiwan (3), and Japan (3).

Financial Education and Community Development

The Corporation has worked diligently to form partnerships with financial institutions, bank trade associations, non-profit organizations, community and consumer-based groups and federal, state and local agencies to promote financial education. In 2004, the FDIC added over 200 partners to its *Money Smart* alliance, increasing its total to over 900 partnerships nationally. Through its *Money Smart* financial education program, the FDIC has provided training to an estimated 8,300 volunteer instructors, reached more than 294,000 consumers, disseminated an additional 20,000 copies of the *Money Smart* curricula, and seen the establishment of more than 40,000 bank accounts. The *Money Smart* curriculum is available in five languages: English, Spanish, Chinese, Korean, and Vietnamese. The FDIC launched a new interactive computer-based version of *Money Smart* in English and Spanish in September 2004.

During 2004, the FDIC also continued to lead a Chicago-based pilot project called the New Alliance Task Force (NATF), which is focused on increasing access to bank products and services for Latino immigrants. NATF is a broad-based coalition of 63 member organizations, comprised of the Mexican Consulate, banks, community-based organizations, federal bank regulatory agencies, government agencies, and representatives from the secondary market and private mortgage insurance companies. In 2004, NATF-member banks opened 50,000 new accounts throughout the Midwest, totaling about $100 million in new deposits with an average account balance of $2,000.

Consumer Privacy and Identity Theft

The FDIC has taken a leading role in helping banks combat identity theft. In November 2004, the FDIC published a study entitled *Stop, Thief! Putting an End to Account-Hijacking Identity Theft*. The study took an in-depth look at identity theft, focusing on account hijacking (the unauthorized use of deposit accounts). The study found account hijacking fraud could be significantly reduced if banks upgraded the security measures they use to authenticate customers who access their accounts remotely via computers and used specialized software to proactively detect and defend against account hijacking. The study also concluded that increased consumer education and information-sharing could reduce identity theft. The FDIC is currently investigating the most appropriate ways to follow up on the study's findings.

The FDIC conducted a study on offshore outsourcing following Chairman Powell's March 4, 2004, testimony before the House Subcommittee on Oversight and Investigations on Financial Services and the Senate Banking Committee. The purpose of the study was to identify risks to consumer privacy and identity theft from foreign outsourcing. The study also identified best practices that financial institutions can use to mitigate the risk inherent in foreign outsourcing relationships.

The FDIC is one of several federal agencies charged with implementing the provisions of the Fair and Accurate Credit Transactions Act of 2003 (FACT Act), which substantially amended the Fair Credit Reporting Act, particularly in the areas of consumer access to and quality of credit information, privacy, and identity theft. Consistent with the identity theft provision of the FACT Act, the FDIC worked with other federal agencies in 2004 to propose rules that would require banks to implement a written identity theft protection program which includes procedures to evaluate red flags that might indicate identity theft. The FDIC, with the other agencies, also finalized rules requiring institutions to properly dispose of consumer information derived from credit reports in order to prevent identity theft and other fraud. The rules on disposal of consumer information become effective on July 1, 2005.

Consumer Complaints and Inquiries

The FDIC investigates and responds to complaints and inquiries from consumers, financial institutions and other parties about potential violations of consumer protection and fair lending laws, as well as deposit insurance matters. The FDIC's centralized Consumer Response Center (CRC) is responsible for investigating all types of consumer complaints about FDIC-supervised institutions and for answering inquiries about consumer protection laws and banking practices. During 2004, the FDIC received 8,804 complaints, of which 3,791 were against state-chartered nonmember banks. Approximately 41 percent of the state nonmember bank consumer complaints concerned credit card accounts with the most frequent complaints involving loan denials, billing disputes and account errors, terms and conditions, collection practices, reporting of erroneous information, identity theft, and credit card fees and service charges. The FDIC also responded to 2,947 deposit insurance and 5,087 consumer protection inquiries from consumers and members of the banking community. The FDIC responded to over 90 percent of written complaints on a timely basis.

Deposit Insurance Education

An important part of the FDIC's role in insuring deposits and protecting the rights of depositors is its responsibility to ensure that bankers and consumers have access to accurate information about FDIC deposit insurance rules. To that end, the FDIC has an expansive deposit insurance education program consisting of seminars for bankers, electronic tools for calculating deposit insurance coverage, and written and electronic information targeting both bankers and consumers. During 2004, the FDIC completed a digital video for bank employees and customers explaining how FDIC deposit insurance works and issued a new edition of our Electronic Deposit Insurance Estimator (EDIE) for Bankers. The video, which is available on DVD and can also be viewed through the FDIC's Web site, provides an overview of deposit insurance coverage rules and requirements, with specific emphasis on the most common account ownership categories used by individuals and families.

Receivership Management

The FDIC has the unique mission of protecting the depositors of insured banks and savings associations. Since the FDIC's inception over 70 years ago, no depositor has ever experienced a loss of insured deposits at an FDIC-insured institution due to a failure. The FDIC protects insured depositors by prudently managing the BIF and the SAIF and using the assets of the funds to pay insured deposits at the time of the institution failure. Once an institution is closed by its chartering authority – the state for state-chartered institutions, the OCC for national banks, or the Office of Thrift Supervision (OTS) for federal savings associations – the FDIC is responsible for the resolution of the failed bank or savings association. FDIC staff gathers data about the troubled institution, estimates the potential loss due to its failure, solicits and evaluates bids from all known qualified and interested bidders, and then recommends the least costly resolution transaction to the FDIC's Board of Directors.

Resolving Financial Institution Failures

During 2004, the FDIC resolved three BIF-insured institution failures with total assets of $150 million, and one SAIF-insured institution failure with total assets of $15 million. In all cases, the target time frame was met for giving depositors access to their funds. (See the accompanying table below for details about liquidation activities.)

Liquidation Highlights 2002-2004

Dollars in billions

	2004	2003	2002
Total Resolved Banks	3	3	10
Assets of Resolved Banks	$ 0.15	$ 1.10	$ 2.50
Total Resolved Savings Associations	1	0	1
Assets of Resolved Savings Associations	$ 0.01	$ 0.00	$ 0.05
Net Collections from Assets in Liquidation•	$ 0.38	$ 1.70	$ 1.84
Total Assets in Liquidation•	$ 0.61	$ 0.81	$ 1.24
Total Dividends Paid•	$ 0.38	$ 1.06	$ 2.12

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

Protecting Insured Depositors Through Asset Marketing

The FDIC's ability to attract healthy FDIC-insured institutions to assume deposits and purchase the assets of failed banks and savings associations ensures that depositors have prompt access to their insured deposits, minimizes the disruption to the customers and the community, and allows a fair portion of the failed institution's assets to be returned to the private sector almost immediately. Assets remaining after the resolution transaction are liquidated by the FDIC in an orderly manner, and the proceeds are used to pay creditors and uninsured depositors (depositors whose accounts exceed the $100,000 deposit insurance limits), and to reimburse the insurance fund that funded the resolution transaction.

Customer Service Center

In order to help consumers needing assistance with matters arising from failed financial institutions, the FDIC operates a Customer Service Call Center with staff dedicated to handling records research and collateral releases. During 2004, the FDIC staff responded to 36,791 inquiries. The records research staff reviews the historical records of failed financial institutions in order to answer customer questions on deposit accounts, loan transaction histories, tax suits for delinquent real estate and other issues. The collateral release staff researches and determines ownership of collateral securing loans of failed financial institutions in order to provide a release of lien, assignment or reconveyance to the borrower. This staff successfully handled 13,494 collateral release inquiries in 2004.

The Customer Service Call Center handled 76,217 calls asking for information or assistance. The FDIC Customer Service Center also supported the Federal Emergency Management Agency (FEMA) in its effort to help the people affected by hurricanes in Florida and other parts of the country. More than 100 FDIC employees assisted FEMA in fielding calls and processing FEMA applications associated with these emergencies.

Receivership Terminations

The FDIC, as receiver, manages the receivership estate and the subsidiaries of failed financial institutions with the goal of achieving an expeditious and orderly termination. The oversight and prompt termination of receiverships help to preserve value for the uninsured depositors and creditors by reducing overhead and other holding costs. For that reason, the FDIC has established a target of terminating 75 percent of receiverships within three years of the failure date. This goal was met at year-end 2004, with only one of four 2001 receiverships still active. The single remaining receivership could not be terminated due to the existence of ongoing professional liability litigation and other impediments.

Effective Management of Strategic Resources

The FDIC must effectively manage and utilize a number of critical strategic resources in order to carry out its mission successfully, particularly its human, financial, and information technology (IT) resources. Major accomplishments in improving the Corporation's operational efficiency and effectiveness are outlined below. Although the FDIC is not subject to the President's Management Agenda, many of these efforts are consistent with that agenda.

Human Capital Management

The FDIC's employees are its most important strategic resource. For that reason, it seeks to continue to be the employer of choice within the financial regulatory community and to operate a human resources program that attracts, develops, evaluates, rewards and retains a high quality, results-oriented workforce. During 2004, the Corporation undertook a comprehensive analysis of its future staffing needs and formulated a human capital strategy to guide the FDIC through the rest of this decade. This strategy is based upon the implementation of a new Corporate Employee Program that will become the foundation for the establishment of a more adaptable permanent workforce that reflects a more collaborative and corporate approach to meeting critical mission functions.

Reducing Costs and Improving Financial Management

The FDIC's operating expenses are largely paid from the insurance funds, and the Corporation continuously seeks to improve its operational efficiency in fulfillment of its fiduciary responsibilities to the funds. To that end, the Corporation engages annually in a rigorous planning and budgeting process to ensure that budgeted resources are properly aligned with workload. That is particularly true with respect to staffing, since personnel costs constitute well over 60 percent of the Corporation's annual administrative expenses. In late 2004, the FDIC Board of Directors approved management recommendations to reduce authorized staffing by 674 positions to 4,750 by year-end 2005.

Improving the FDIC's Use of Information Technology

The Corporation established a new Chief Information Office (CIO) Council in February 2004. The overall mission of the Council is to serve as an executive-level advisory group to the CIO, and to help shape Corporate IT strategy and activities. Establishing the CIO Council is part of a multi-pronged approach to re-engineering the Corporation's IT program.

The FDIC also greatly expanded its use of its e-government portal, FDIC*connect* (a secure Web site that allows FDIC-insured institutions to conduct business and exchange information with the FDIC, other federal regulatory agencies and various state banking departments) in 2004. FDIC*connect* will enable the FDIC to comply with the Government Paperwork Elimination Act of 1998 (GPEA) and address Presidential guidelines that direct government agencies to establish electronic alternatives to current paper processes where feasible. Nearly 44 percent of FDIC-insured institutions have registered to use FDIC*connect*.

Deposit Insurance Fund Performance

The FDIC administers two deposit insurance funds – the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) – and manages the FSLIC Resolution Fund (FRF), which fulfills the obligations of the former Federal Savings and Loan Insurance Corporation (FSLIC) and the former Resolution Trust Corporation (RTC). The following summarizes the condition of the FDIC's insurance funds.

The BIF reported comprehensive income (net income plus current period unrealized gains/losses on available-for-sale securities) of $1 billion for the twelve months ending December 31, 2004, compared to $1.7 billion for the same period in the prior year. This reduction was primarily due to an increase in unrealized losses on available-for-sale securities of $102 million and a reduction in net income of $625 million. The decline in net income primarily resulted from a smaller negative adjustment of $269 million to the provision for losses at December 31, 2004, compared to a negative $931 million adjustment for the same period last year. BIF's provision for losses negative adjustments were mostly attributable to the reduction of estimated losses for future and actual failures. As of December 31, 2004, the fund balance was $34.8 billion, up from $33.8 billion at year-end 2003.

The SAIF reported comprehensive income of $480 million for the twelve months ending December 31, 2004, compared to $493 million for the same period in the prior year. This reduction of $13 million was primarily due to slightly lower earnings on U.S. Treasury obligations whereby a $30 million increase in unrealized losses was partially offset by a $23 million increase in interest revenue.

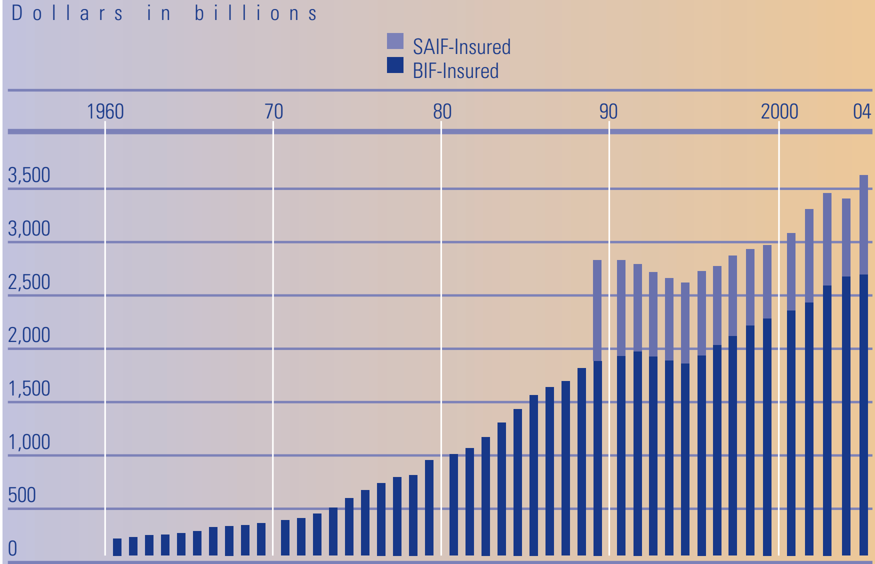
As of December 31, 2004, the SAIF fund balance was $12.7 billion, up from $12.2 billion at year-end 2003.

Operating Expenses

Corporate Operating Budget expenses totaled $1.004 billion in 2004, including $986 million in ongoing operations and $18 million for receivership funding. This represented approximately 97 percent of the approved budget on ongoing operations and 24 percent of the approved budget for receivership funding. Receivership funding expenses were down significantly from 2003 because the four financial institution failures in 2004 were relatively small banks.

In December 2004, the Board of Directors approved a 2005 Corporate Operating Budget of approximately $1.1 billion, including just over $1.0 billion for ongoing operations. The level of approved spending in the 2005 budget remains virtually the same as that in 2004 due to continuing efforts to identify operational efficiencies and control costs. The Corporate Operating Budget includes funding

FDIC-Insured Deposits (estimated 1960-2004)



Source: Commercial Bank Call Reports and Thrift Financial Reports

for a number of major new initiatives, including funding for a Hispanic financial literacy program, and hiring additional financial analysts and risk modeling specialists to prepare for implementation of the Basel Capital Accord.

Investment Spending

The FDIC has a disciplined process for reviewing proposed new capital investment projects and managing the implementation of approved projects. Most of the projects in the current investment portfolio are major IT system initiatives.

Proposed projects are carefully reviewed to ensure that they are consistent with the Corporation's enterprise architecture and include an appropriate return on investment for the insurance funds. The process also enables the FDIC to be aware of risks to the major capital investment projects and facilitates appropriate, timely intervention to address these risks throughout the development process. An investment portfolio performance review of the major capital investments is provided to the FDIC's Board of Directors quarterly. During 2004, the Board of Directors approved only one new investment project, a new Web-based time and attendance reporting system. Additional spending was also approved for three existing investment projects: (1) Legal Integrated Management System increased by $1.4 million to $5.06 million, (2) New Financial Environment increased $17 million to $51.8 million, and (3) ViSION Phase-IV increased $6.2 million to $12.7 million.

Federal Deposit Insurance Corporation

Bank Insurance Fund

Balance Sheet at December 31, condensed

Dollars in Thousands

	2004	2003
Assets		
Cash and cash equivalents	$ 1,822,005	$ 2,544,281
Investment in U.S. Treasury obligations, net:		
Held-to-maturity securities	22,637,330	16,293,073
Available-for-sale securities	9,470,605	14,209,773
Interest receivable on investments and other assets, net	601,498	550,999
Receivables from bank resolutions, net	375,303	511,089
Property and equipment, net	357,106	287,380
Total Assets	**$ 35,263,847**	**$ 34,396,595**
Liabilities		
Accounts payable and other liabilities	$ 268,680	$ 231,441
Contingent liabilities for:		
Anticipated failure of insured institutions	8,261	178,266
Litigation losses and other	200,301	204,693
Total Liabilities	**477,242**	**614,400**
Commitments and off-balance-sheet exposure		
Fund Balance		
Accumulated net income	34,096,676	32,979,898
Unrealized gain on available-for-sale securities, net	689,929	802,297
Total Fund Balance	**34,786,605**	**33,782,195**
Total Liabilities and Fund Balance	**$ 35,263,847**	**$ 34,396,595**

Bank Insurance Fund

Statement of Income and Fund Balance for the Years Ended December 31, condensed

Dollars in Thousands

	2004	2003
Revenue		
Interest on U.S. Treasury obligations	$ 1,552,576	$ 1,530,014
Assessments	95,268	80,159
Other revenue	27,553	15,831
Total Revenue	**1,675,397**	**1,626,004**
Expenses and Losses		
Operating expenses	822,381	805,496
Provision for insurance losses	(269,368)	(931,164)
Insurance and other expenses	5,606	9,945
Total Expenses and Losses	**558,619**	**(115,723)**
Net Income	**1,116,778**	**1,741,727**
Unrealized loss on available-for-sale securities, net	(112,368)	(9,872)
Comprehensive Income	**1,004,410**	**1,731,855**
Fund Balance - Beginning	**33,782,195**	**32,050,340**
Fund Balance - Ending	**$ 34,786,605**	**$ 33,782,195**

Bank Insurance Fund

Statement of Cash Flows for the Years Ended December 31, condensed

Dollars in Thousands

	2004	2003
Operating Activities		
Net Income:	$ 1,116,778	$ 1,741,727
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of U. S. Treasury obligations	737,439	455,628
Treasury inflation-indexed securities (TIIS) inflation adjustment	(181,650)	(115,150)
Depreciation on property and equipment	54,424	54,947
Provision for losses	(269,368)	(931,164)
Terminations/adjustments of work-in-process accounts	817	92
Change In Operating Assets and Liabilities:		
(Increase) in interest receivable and other assets	(36,433)	(69,826)
Decrease in receivables from bank resolutions	218,693	102,663
Increase in accounts payable and other liabilities	15,819	85,577
(Decrease) in contingent liabilities for litigation losses and other	(1,047)	(25,367)
Net Cash Provided by Operating Activities	**1,655,472**	**1,299,127**
Investing Activities		
Provided by:		
Maturity of U.S. Treasury obligations, held-to-maturity	3,365,000	3,890,000
Maturity of U.S. Treasury obligations, available-for-sale	5,810,000	1,690,000
Used by:		
Purchase of property and equipment	(104,502)	(41,804)
Purchase of U.S. Treasury obligations, held-to-maturity	(10,026,597)	(3,659,868)
Purchase of U.S. Treasury obligations, available-for-sale	(1,421,649)	(5,240,070)
Net Cash Used by Investing Activities	**(2,377,748)**	**(3,361,742)**
Net Decrease in Cash and Cash Equivalents	**(722,276)**	**(2,062,615)**
Cash and Cash Equivalents - Beginning	**2,544,281**	**4,606,896**
Cash and Cash Equivalents - Ending	**$ 1,822,005**	**$ 2,544,281**

Savings Association Insurance Fund

Balance Sheet at December 31, condensed

Dollars in Thousands

	2004	2003
Assets		
Cash and cash equivalents	$ 644,346	$ 827,141
Cash and other assets: Restricted for SAIF-member exit fees *(Includes cash and cash equivalents of $56.5 million and $231.9 million at December 31, 2004 and 2003, respectively)*	328,394	319,286
Investment in U.S. Treasury obligations, net:		
Held-to-maturity securities	8,835,964	6,823,709
Available-for-sale securities	2,720,315	4,152,048
Interest receivable on investments and other assets, net	200,204	188,189
Receivables from thrift resolutions, net	346,923	273,242
Total Assets	**$ 13,076,146**	**$ 12,583,615**
Liabilities		
Accounts payable and other liabilities	$ 25,568	$ 20,540
Contingent liabilities for:		
Anticipated failure of insured institutions	1,957	3,192
Litigation losses	39	532
SAIF-member exit fees and investment proceeds held in escrow	328,394	319,286
Total Liabilities	**355,958**	**343,550**
Commitments and off-balance-sheet exposure		
Fund Balance		
Accumulated net income	12,482,227	11,965,776
Unrealized gain on available-for-sale securities, net	237,961	274,289
Total Fund Balance	**12,720,188**	**12,240,065**
Total Liabilities and Fund Balance	**$ 13,076,146**	**$ 12,583,615**

Savings Association Insurance Fund

Statement of Income and Fund Balance for the Years Ended December 31, condensed

Dollars in Thousands

	2004	2003
Revenue		
Interest on U.S. Treasury obligations	$ 555,592	$ 532,474
Assessments	8,891	14,594
Other revenue	292	192
Total Revenue	**564,775**	**547,260**
Expenses and Losses		
Operating expenses	120,282	129,584
Provision for insurance losses	(72,162)	(82,489)
Insurance and other expenses	204	105
Total Expenses and Losses	**48,324**	**47,200**
Net Income	**516,451**	**500,060**
Unrealized loss on available-for-sale securities, net	(36,328)	(6,733)
Comprehensive Income	**480,123**	**493,327**
Fund Balance - Beginning	**12,240,065**	**11,746,738**
Fund Balance - Ending	**$ 12,720,188**	**$ 12,240,065**

Savings Association Insurance Fund

Statement of Cash Flows for the Years Ended December 31, condensed

Dollars in Thousands

	2004	2003
Operating Activities		
Net Income:	$ 516,451	$ 500,060
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of U. S. Treasury obligations	262,317	155,992
Treasury inflation-indexed securities (TIIS) inflation adjustment	(61,431)	(38,943)
Provision for losses	(72,162)	(82,489)
Change In Operating Assets and Liabilities:		
Decrease in unamortized premium and discount of U. S. Treasury Obligations (restricted)	2,443	931
(Increase) in entrance and exit fees receivable, including interest receivable on investments and other assets	(16,288)	(32,810)
(Increase)/Decrease in receivables from thrift resolutions	(2,635)	8,699
Increase in accounts payable and other liabilities	5,028	13,440
(Decrease) in contingent liabilities for litigation losses	0	(209)
Increase in exit fees and investment proceeds held in escrow	9,107	7,422
Net Cash Provided by Operating Activities	**642,830**	**532,093**
Investing Activities		
Provided by:		
Maturity of U.S. Treasury obligations, held-to-maturity	1,690,000	1,170,000
Maturity of U.S. Treasury obligations, available-for-sale	1,360,000	575,000
Used by:		
Purchase of U.S. Treasury obligations, held-to-maturity	(4,051,084)	(2,305,056)
Purchase of U.S. Treasury obligations, available-for-sale	0	(1,008,066)
Net Cash Used by Investing Activities	**(1,001,084)**	**(1,568,122)**
Net Decrease in Cash and Cash Equivalents	**(358,254)**	**(1,036,029)**
Cash and Cash Equivalents - Beginning	**1,059,052**	**2,095,081**
Unrestricted Cash and Cash Equivalents - Ending	**644,346**	**827,141**
Restricted Cash and Cash Equivalents - Ending	**56,452**	**231,911**
Cash and Cash Equivalents - Ending	**$ 700,798**	**$ 1,059,052**

FSLIC Resolution Fund

Balance Sheet at December 31, condensed

Dollars in Thousands

	2004	2003
Assets		
Cash and cash equivalents	$ 3,501,387	$ 3,278,532
Receivables from thrift resolutions and other assets, net	82,275	198,432
Total Assets	**$ 3,583,662**	**$ 3,476,964**
Liabilities		
Accounts payable and other liabilities	$ 5,606	$ 19,381
Contingent liabilities for litigation losses and other	410	1,169
Total Liabilities	**6,016**	**20,550**
Resolution Equity		
Contributed capital	126,382,877	126,377,851
Accumulated deficit	(122,805,158)	(122,962,936)
Unrealized (loss)/gain on available-for-sale securities, net	(73)	41,499
Accumulated deficit, net	(122,805,231)	(122,921,437)
Total Resolution Equity	**3,577,646**	**3,456,414**
Total Liabilities and Resolution Equity	**$ 3,583,662**	**$ 3,476,964**

FSLIC Resolution Fund

Statement of Income and Accumulated Deficit for the Years Ended December 31, condensed

Dollars in Thousands

	2004	2003
Revenue		
Interest on U.S. Treasury obligations	$ 40,076	$ 32,902
Realized gain on investment in securitization-related assets acquired from receiverships	66,708	756
Other revenue	21,114	16,849
Total Revenue	**127,898**	**50,507**
Expenses and Losses		
Operating expenses	22,932	27,828
Provision for losses	(6,911)	(33,306)
Expenses for goodwill settlements and litigation	31,632	15,324
Recovery of tax benefits	(82,937)	(19,609)
Other expenses	5,404	7,933
Total Expenses and Losses	**(29,880)**	**(1,830)**
Net Income	**157,778**	**52,337**
Unrealized loss on available-for-sale securities, net	(41,572)	(1,258)
Comprehensive Income	**116,206**	**51,079**
Accumulated Deficit - Beginning	**(122,921,437)**	**(122,972,516)**
Accumulated Deficit - Ending	**$ (122,805,231)**	**$ (122,921,437)**

FSLIC Resolution Fund

Statement of Cash Flows for the Years Ended December 31, condensed

Dollars in Thousands

	2004	2003
Operating Activities		
Net Income:	$ 157,778	$ 52,337
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for losses	(6,911)	(33,306)
Change in Assets and Liabilities:		
(Increase)/Decrease in receivables from thrift resolutions and other assets	(35,238)	80,339
(Decrease)/Increase in accounts payable and other liabilities	(13,775)	4,973
Net Cash Provided by Operating Activities	**101,854**	**104,343**
Investing Activities		
Investment in securitization-related assets acquired from receiverships	115,975	5,829
Net Cash Provided by Investing Activities	**115,975**	**5,829**
Financing Activities		
Provided by:		
U.S. Treasury payments for goodwill settlements	5,026	30
Used by:		
Payments to Resolution Funding Corporation	0	(450,000)
Net Cash Provided/(Used) by Financing Activities	**5,026**	**(449,970)**
Net Increase/(Decrease) in Cash and Cash Equivalents	**222,855**	**(339,798)**
Cash and Cash Equivalents - Beginning	**3,278,532**	**3,618,330**
Cash and Cash Equivalents - Ending	**$ 3,501,387**	**$ 3,278,532**

GAO
Accountability • Integrity • Reliability

Comptroller General
of the United States

United States Government Accountability Office
Washington, D.C. 20548

To the Board of Directors
The Federal Deposit Insurance Corporation

We audited the Federal Deposit Insurance Corporation's (FDIC) balance sheets as of December 31, 2004 and 2003, for the three funds administered by FDIC (the Bank Insurance Fund, the Savings Association Insurance Fund, and the FSLIC Resolution Fund), the related statements of income and fund balance (accumulated deficit), and the statements of cash flows for the years then ended, and in our report dated January 31, 2005, we expressed an unqualified opinion on those statements.

In that report, we stated that we found the following:

- the financial statements of each fund are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- FDIC had effective internal control over financial reporting and compliance with laws and regulations for each fund; and
- no reportable noncompliance with the laws and regulations we tested.

In our opinion, the information set forth in the accompanying condensed financial statements is presented fairly, in all material respects, in relation to the financial statements from which it has been derived.

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

David M. Walker
Comptroller General
of the United States

January 31, 2005

FDIC
Federal Deposit Insurance Corporation
550 17th St. NW Washington, DC, 20429 Deputy to the Chairman & Chief Financial Officer

February 7, 2005

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

Re: FDIC Management Response on the GAO 2004 Financial Statements Audit Report

Dear Mr. Walker:

Thank you for the opportunity to comment on the U.S. Government Accountability Office's (GAO) draft audit report titled, Financial Audit: Federal Deposit Insurance Corporation Funds' 2004 and 2003 Financial Statements, GAO-05-281. The report presents GAO's opinions on the calendar year 2004 financial statements of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the Federal Savings and Loan Insurance Corporation Resolution Fund (FRF). The report also presents GAO's opinion on the effectiveness of FDIC's internal controls as of December 31, 2004, and GAO's evaluation of FDIC's compliance with applicable laws and regulations.

We are pleased to accept GAO's unqualified opinions on the BIF, SAIF, and FRF financial statements and to note that there were no material weaknesses identified during the 2004 audits. The GAO reported that the funds' financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; FDIC had effective internal control over financial reporting and compliance with laws and regulations; and there were no instances of noncompliance with laws and regulations that were tested.

Also, we are pleased that GAO recognized the significant improvements that have been made during the past year and acknowledged our progress in fully implementing a comprehensive information security (IS) program. As always, management is committed to ensuring the continued success of an effective and strong IS program. We will remain focused on accomplishing the work needed to face the new security challenges in the coming year.

If you have any questions or concerns, please let me know.

Sincerely,

Steven O. App

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

Sources of Information

Home Page on the Internet	www.fdic.gov

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

FDIC Call Center		
	Phone:	877-275-3342 (877-ASK FDIC)
		202-736-0000
	Hearing Impaired:	800-925-4618

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

Public Information Center	Phone:	877-275-3342 (877-ASK FDIC)
801 17th Street, NW		202-416-6940
Room 100	Fax:	202-416-2076
Washington, DC 20434	E-mail:	publicinfo@fdic.gov

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

Office of the Ombudsman	Phone:	877-275-3342 (877-ASK FDIC)
550 17th Street, NW	Fax:	202-942-3040, 202-942-3041
Washington, DC 20429	E-mail:	ombudsman@fdic.gov

The Office of the Ombudsman responds to inquiries about the FDIC in a fair, impartial and timely manner. It researches questions and complaints from bankers and the public. The office also recommends ways to improve FDIC operations, regulations and customer service.

FDIC Organization Chart/Officials
as of December 31, 2004

Deputy to the Chairman
John M. Brennan

Office of Public Affairs
Stan Ivie
Interim Director

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

Division of Finance
Frederick S. Selby
Director

Office of Enterprise Risk Management
James H. Angel, Jr.
Director

Board of Directors

Donald E. Powell
John M. Reich
Thomas J. Curry
James E. Gilleran
Julie L. Williams (acting)

Office of the Chairman

Donald E. Powell
Chairman

Vice Chairman

John M. Reich

Chief of Staff

Jodey C. Arrington

Office of Inspector General

Gaston L. Gianni, Jr.
Inspector General

Chief Information Officer

Michael E. Bartell

Office of Legislative Affairs

Alice C. Goodman
Director

Deputy to the Chairman and Chief Operating Officer

John F. Bovenzi

General Counsel

William F. Kroener, III

Legal Division

William F. Kroener, III
General Counsel

Division of Supervision and Consumer Protection

Michael J. Zamorski
Director

Division of Insurance and Research

Arthur J. Murton
Director

Division of Information Resources Management

Michael E. Bartell
Director

Division of Resolutions and Receiverships

Mitchell L. Glassman
Director

Office of Diversity and Economic Opportunity

D. Michael Collins
Director

Division of Administration

Arleas Upton Kea
Director

Office of the Ombudsman

Cottrell L. Webster
Ombudsman

Corporate University

David C. Cooke
Chief, Leaning Officer

Regional and Area Offices

Atlanta Regional Office		
10 Tenth Street, NE Suite 800 Atlanta, Georgia 30309 (678) 916-2200	Alabama Florida Georgia North Carolina	South Carolina Virginia West Virginia

Chicago Regional Office		
500 West Monroe Street Suite 3500 Chicago, Illinois 60661 (312) 382-7500	Illinois Indiana Kentucky	Michigan Ohio Wisconsin

Dallas Regional Office		
1910 Pacific Avenue Suite 1900 Dallas, Texas 75201 (214) 754-0098	Colorado New Mexico	Oklahoma Texas
Memphis Area Office 5100 Poplar Avenue Suite 1900 Memphis, Tennessee 38137 (901) 685-1603	Arkansas Louisiana	Mississippi Tennessee

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

New York Regional Office		
20 Exchange Place 4th Floor New York, New York 10005 (917) 320-2500	Delaware District of Columbia Maryland New Jersey	New York Pennsylvania Puerto Rico Virgin Islands
Boston Area Office 15 Braintree Hill Office Park Suite 100 Braintree, Massachusetts 02184 (781) 794-5500	Connecticut Maine Massachusetts	New Hampshire Rhode Island Vermont

San Francisco Regional Office		
25 Ecker Street Suite 2300 San Francisco, California 94105 (415) 546-0160	Alaska Arizona California Guam Hawaii Idaho	Montana Nevada Oregon Utah Washington Wyoming

Design: FDIC/DOA/CSB/Design and Printing Unit

Visit us on the web
for more details about:

Deposit insurance

Bank statistical data

Current economic and bank analysis

Past studies on the banking industry

Bank examinations

Consumer affairs

www.fdic.gov

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

FDIC-004-2005