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.

Vision

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

Values

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

Integrity

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

Competence

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

Teamwork

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

Effectiveness

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

Financial Stewardship

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

Fairness

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

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Message from the Chairman • Sheila C. Bair

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

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

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

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

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

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

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

Policy

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

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

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

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

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

Supervisory Program

Along with successfully managing an unusually large policy agenda in 2007, we continued to administer strong and effective supervisory programs in both the risk-management and compliance areas. We performed 2,258 safety and soundness examinations; 1,773 compliance and Community Reinvestment Act exams; and 2,941 specialty exams. The FDIC is the primary federal regulator for state nonmember banks, the vast majority of which are community banks. The core work of our examination staff continues to be the on-site evaluations and assessment of these banks' risk management, compliance

and consumer programs. Our field examiners are on the frontline and their work in identifying emerging risks and promoting stability in our nation's economic system has been the hallmark of the FDIC for 75 years.

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

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

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

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

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

Economic Inclusion

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

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

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

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

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

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

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

Conclusion

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

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

Sincerely,

Sheila C. Bair

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

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

The FDIC's financial highlights during 2007 include:

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

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

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

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

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

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

Sincerely,

Steven O. App

The Year in Review

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

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

Insurance

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

Implementation of Deposit Insurance Reform

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

Effective January 1, 2007, assessment rates ranged from 5 to 7 basis points for Risk Category I institutions, 10 basis points for Risk Category II institutions, 28 basis points for Risk Category III institutions and 43 basis points for Risk Category IV institutions. These rates are uniformly 3 basis points greater than the base assessment rates also adopted by the Board in November 2006. The Board retains the flexibility to adjust rates without further notice-and-comment rulemaking, provided that no such adjustment can be greater than 3 basis points in any quarter; that these adjustments cannot result in rates more than 3 basis points above or below the base rates; and that rates cannot be negative. The table on the following page shows the distribution of institutions among the risk categories as well as within Risk Category I.

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

Dollars in billions

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

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

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

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

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

International Capital Standards

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

The Basel II Final Rule was published in the *Federal Register* on December 7, 2007, with an effective date of April 1, 2008. The findings of the fourth quantitative impact study (QIS-4), which were completed in 2005, suggested that, without modification, the Basel II framework could result in an unacceptable decline in minimum risk-based capital requirements. As a result, the agencies have included safeguards against the possibility

that the new rules do not work as intended. Through its supervisory program, the FDIC continues to work with certain insured state non-member bank subsidiaries of banking organizations that plan to operate under the new capital accord, to review and assess implementation plans and progress towards meeting qualification requirements.

Domestic Capital Standards

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

Center for Financial Research

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

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

The CFR and *The Journal of Financial Services Research* (JFSR) hosted the seventh Annual Bank Research Conference in September with over 100 attendees. The conference included the presentation of 12 papers, a nationally recognized guest speaker, Francis A. Longstaff – Allstate Professor of Insurance and Finance, Anderson School of Management, UCLA, an expert panel, and discussions on timely issues affecting the financial system.

The CFR also hosted the Basel Research Task Force Annual Workshop in May. Approximately 85 researchers and policy makers attended the workshop. Additionally, the FDIC along with the Federal Reserve Bank of Chicago, the University of Kansas School of Business, and The *JFSR,* co-sponsored the Mergers and Acquisitions of Financial Institutions Conference in November. Ten CFR working papers were published in 2007 on topics including risk measurement, exchange rate exposure, and financial institution credit and retail banking relationships.

Supervision and Consumer Protection

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

Examination Program

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

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

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

FDIC Examinations 2005-2007

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

As of December 31, 2007, there were 77 insured institutions with total assets of $22.2 billion designated as problem institutions for safety and soundness purposes (defined as those institutions having a composite CAMELS[2] rating of "4" or "5"), compared to the 51 problem institutions with total assets of $8.5 billion on December 31, 2006. This constituted a 51 percent year-over-year increase in the number of problem institutions and a 161 percent increase in problem institution assets. During 2007, 38 institutions with aggregate assets of $6.4 billion were removed from the list of problem financial institutions, while 64 institutions with aggregate assets of $26.5 billion were added to the list of problem financial institutions. The FDIC is the primary federal regulator for 47 of the 77 problem institutions.

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

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

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

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

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

Joint Examination Teams

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

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

The JET concept evolved from the FDIC's examination of state nonmember banks that were conducting payday lending activities through third-party vendors. Payday lending involved unique and complex products with significant safety and soundness and consumer protection risks for the institutions involved in this activity.

Subprime Hybrid Adjustable Rate Mortgages

In 2007, the FDIC continued to closely monitor the expansion of subprime hybrid adjustable rate mortgages (ARMs), typically offered to subprime borrowers. Hybrid ARMs start with a low fixed interest rate for an initial period, which often lasts for two to three years, and then resets to a variable rate. Mortgage lenders typically qualified borrowers based on the low introductory payment amount rather than at the fully indexed interest rate, assuming a fully amortizing repayment schedule. Such underwriting standards and loan terms can cause payment shock, the consequences of which may not have been fully explained to borrowers. In addition, many lenders combined these loans with other potentially risky features, such as requiring little or no documentation of income, high loan-to-value ratios, and simultaneous second-lien mortgages, which could compound the risk to both borrowers and lenders.

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

Working through Mortgage Resets

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

To address this concern, the FDIC led the agencies in issuing the *Statement on Working with Mortgage Borrowers* in April 2007. This guidance primarily addresses those instances when a financial institution has retained a residential mortgage loan on its books. The agencies issued the *Statement on Loss Mitigation Strategies for Servicers of Residential Mortgages* in September 2007 to provide guidance to entities that service residential mortgage loans for others. In addition, the FDIC joined the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators in issuing the *Supplemental Information for Loss Mitigation Strategies*. This guidance encourages servicers to consider the borrower's ability to repay modified obligations, taking into account the borrower's total monthly housing-related payments as a percentage of the borrower's gross monthly income.

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

Protection of Federal Benefit Payments

The FDIC, along with the other federal financial institution regulators, proposed guidance that encourages federally regulated financial institutions to follow best practices to protect federal benefit payments from garnishment orders. Federal law protects federal benefit payments – such as Social Security benefits and Veterans' benefits – from garnishment orders and the claims of judgment creditors, subject to certain exceptions. Creditors and debt collectors are often able to obtain orders from state courts garnishing funds in a consumer's account that do not meet the requirements of exempt funds. To comply with state court garnishment orders, financial institutions often place a temporary freeze or hold on an account upon receipt of a garnishment order, which can cause significant hardship for the account holder. The agencies developed proposed guidance, which includes best practices, to encourage financial institutions to minimize the hardships encountered by federal benefit funds recipients and to do so while remaining in compliance with applicable laws. The comment period closed in November 2007 and the agencies have reviewed the comments and will determine the best course of action during 2008.

Large Complex Financial Institution Program

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

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

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

Bank Secrecy Act/Anti-Money Laundering

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

International AML/CFT Initiatives

The FDIC conducted three training sessions in 2007 for 57 central bank representatives from Algeria, Bosnia, Egypt, Indonesia, Jordan, Kuwait, Morocco, Pakistan, Paraguay, Philippines, Tanzania, and Turkey. The training focused on AML/CFT controls, the AML examination process, customer due diligence, suspicious activity monitoring, and foreign correspondent banking. The sessions also included presentations from the Federal Bureau of Investigation on combating terrorist financing, and the Financial Crimes Enforcement Network (FinCEN) on the role of financial intelligence units in detecting and investigating illegal activities.

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

Enforcement Actions

The FDIC, along with the other federal banking agencies, released the *Interagency Statement on Enforcement of BSA/AML Requirements* on July 19, 2007. The statement provides for greater consistency in BSA enforcement decisions and offers insight into how those decisions were

made. The statement describes the circumstances and provides examples under which the federal banking agencies will issue a cease and desist order. Applicable statutes mandate that the appropriate agency shall issue a cease and desist order if a regulated institution fails to establish and maintain a BSA compliance program or correct a previously identified problem with its BSA compliance program.

Promoting Economic Inclusion

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

The Advisory Committee for Economic Inclusion

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

Three ComE-IN meetings were held during 2007. The inaugural meeting addressed access to affordable small dollar loans. One recommendation that resulted was to launch a small dollar loan pilot program. The Board of Directors of the FDIC subsequently approved a two-year pilot project to review affordable and responsible small-dollar loan programs in financial institutions. The purpose of the study is to identify effective and replicable business practices to help banks incorporate affordable small-dollar loans into their other mainstream banking service offerings. Best practices resulting from the pilot will be identified and become a resource for other institutions.

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

Alliance for Economic Inclusion

In 2007, the FDIC formally launched the Alliance for Economic Inclusion (AEI), a broad-based coalition of banks, community organizations, foundations, educators, and local, state and federal agencies in nine underserved markets across the nation – the Greater Boston area; Wilmington, DE; Baltimore, MD; South Texas (Houston/Austin); Chicago; the Louisiana and Mississippi Gulf Coast; Alabama's Black Belt; Kansas City; and Los Angeles. These diverse markets include low- and moderate-income neighborhoods, urban neighborhoods, minority communities and rural areas. The goal of the AEI initiative is to work with financial institutions and other partners in select markets to bring those who are unbanked and underserved into the financial mainstream.

More than 700 banks and other organizations have joined the AEI. Under the auspices of the AEI, approximately 28,000 bank accounts have been opened; 29,000 consumers have received financial education; 41 banks are developing small-dollar loan programs; and 21 banks now offer remittance products allowing customers to send money to friends or family members outside the U.S. The FDIC has also included a component of its foreclosure prevention efforts within the AEI.

Affordable Small-Dollar Loan Guidelines and Pilot Program

Many consumers with bank accounts turn to high-cost payday or other non-bank lenders because they are accessible and can quickly provide small loans to cover unforeseen circumstances. To help enable insured institutions to better serve an underserved and potentially profitable market while helping consumers avoid, or transition away from, reliance on high-cost debt, the FDIC issued its *Affordable Small-Dollar Loan Guidelines* on June 19, 2007. The guidelines explore several aspects of product development, including affordability and streamlined underwriting. They also discuss tools, such as financial education and linked savings accounts that may address long-term financial issues that concern borrowers. The guidelines also note that FDIC-supervised institutions offering products that comply with consumer protection laws, and are structured in a responsible, safe and sound manner, may receive favorable consideration under the Community Reinvestment Act (CRA). Additionally, on June 19, 2007, the FDIC Board approved a two-year pilot project to review affordable and responsible small-dollar loan programs in financial institutions and assist bankers by identifying and disseminating information on replicable business models for small-dollar loans.

Minority Depository Institutions

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

- Promote financial literacy at Historically Black Colleges and Universities (HBCUs) or other schools with a significant minority population;
- Provide the partnering MDI and the FDIC an opportunity to keep the business school deans aware of current industry issues and to build goodwill on campus; and
- Offer both the MDI and the FDIC an opportunity to showcase their respective career opportunities.

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

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

Information Technology, Cyber Fraud and Financial Crimes

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

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

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

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

Consumer Complaints and Inquiries

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

Deposit Insurance Education

The FDIC has an extensive deposit insurance education program consisting of seminars for bankers, electronic tools for estimating deposit insurance coverage, and written and electronic information targeted for both bankers and consumers. The FDIC also responds to thousands of telephone and written inquiries each year from consumers and bankers regarding FDIC deposit insurance coverage. The FDIC completed a multi-pronged effort in 2007 to update numerous publications and educational tools for consumers and bankers on FDIC insurance coverage, including consumer brochures, banker resource guides, videos and the Electronic Deposit Insurance Estimator.

The FDIC hosted two identical series of telephone seminars for bankers on the FDIC's rules for deposit insurance coverage. Each series consisted of topics on Basic Concepts of Deposit Insurance Coverage, Coverage for Retirement and Employee Benefit Plan Accounts, Trust Account Coverage, and Coverage for Business and Government Accounts. These free seminars

were open to employees of all FDIC-insured banks and savings associations. The telephone conferences were attended by bankers in approximately 11,000 locations. Many of these locations represent bank branch offices where multiple employees took part in the training.

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

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

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

Financial Education and Community Development

In 2001, the FDIC – recognizing the need for enhanced financial education across the country – inaugurated its award-winning *Money Smart* curriculum, which is now available in six languages, large print and Braille versions for individuals with visual impairments and a computer-based instruction version. Since its inception, over 1.4 million individuals (including approximately 200,000 in 2007) have participated in *Money Smart* classes and self-paced computer-based instruction. Approximately 163,000 of these participants have subsequently established new banking relationships. During 2007, the FDIC updated and enhanced the *Money Smart* curriculum and training tools. These changes included guidance on consumer-related concerns such as identity theft, remittances and how to assess mortgage product options.

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

The FDIC completed a major multi-year study in 2007 to evaluate the effectiveness of the *Money Smart* curriculum. The study, *A Longitudinal Evaluation of the Intermediate-term Impact of the Money Smart Financial Education Curriculum upon Consumers' Behavior and Confidence,* shows that the training can positively influence how people manage their finances. The survey examines the impact of financial education on the behavior of a broad audience up to one year after completing the training. The goal was to measure, over time, not only whether trainees' knowledge of financial matters improved, and whether they intended to change their financial behaviors, but also whether, months after the training, they had actually acted on their intentions. Survey results indicate that those who took the *Money Smart* course were more likely to open deposit accounts, save money, use and adhere to a budget, and have increased confidence in their financial abilities when contacted 6 to 12 months after completing the course. A majority of those surveyed reported an increase in personal savings, a decrease in debt, a better understanding of financial principles, and an increased willingness to comparison shop for financial services.

International Outreach

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

The FDIC's strengthened international leadership role paved the way for the election of the FDIC's Vice Chairman to the position of President of the International Association of Deposit Insurers (IADI) and Chair of the IADI Executive Council. In addition, the Vice Chairman, as Chair of the IADI Training and Conference Standing Committee, developed and led the first-ever Executive Training Program, providing training to 35 IADI members from 27 countries. The FDIC was elected for the first time to serve on the Board of Directors for the Association of Supervisors of Banks in the Americas (ASBA) and to represent the North American Region. The FDIC's leadership within ASBA included providing technical training to ASBA members on operational risk management and leading two working groups in developing ASBA guidance on key supervisory issues. The FDIC also established strong working relationships and presented at several European Forum of Deposit Insurers (EFDI) meetings, including the EFDI/IADI Joint Symposium on Cross Border Issues.

The FDIC continued to enhance the effectiveness and broaden the scope and impact of its three primary international programs – technical assistance, foreign visitors and training. The FDIC provided technical assistance to 12 central banks, bank supervisors and deposit insurers from 11 countries. A highlight of this assistance was an expanded partnership with the Financial

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

The FDIC expanded relationships with key international banking and deposit insurance organizations by expanding the secondment program (detailing staff from one country to another), technical assistance agreements and initiating new supervisory information sharing agreements. Secondment Memoranda of Understanding (MOU) were entered into with Japan, Albania, Poland, Nicaragua, and Korea to allow for selected employees from these countries to come to the FDIC to receive training and gain expertise in areas of supervision, resolution management and deposit insurance. Technical assistance agreements were executed with the People's Bank of China and the U.K. Financial Services Authority, providing FDIC subject matter expertise in promoting deposit insurance best practices.

Receivership Management

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

Resolving Financial Institutions Failures

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

Liquidation Highlights 2005-2007

Dollars in billions

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

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

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

- Metropolitan Savings Bank in Pittsburgh, Pennsylvania, was the first FDIC-insured institution closed since June 2004. This institution was closed by the Pennsylvania Department of Banking on February 2, 2007.
- NetBank of Alpharetta, Georgia, was closed by the Office of Thrift Supervision on September 28, 2007. NetBank was an Internet bank and had no physical branches.
- Miami Valley Bank of Lakeview, Ohio, was closed by the Ohio Superintendent of Financial Institutions on October 4, 2007.

Receivership Management Activities

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

Receivership-Related Securities Disposition and Cash Collections

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

Claims Administration System and Related Notice of Proposed Rulemaking

During 2007, the FDIC identified requirements and completed the high-level design of a new insurance determination system called the Claims Administration System, targeted to be implemented in 2009. The FDIC also issued a Notice of Proposed Rulemaking that, in the event of a financial institution failure, would require all insured institutions, regardless of size

to assist in the insurance determination process and to provide the FDIC with depositor data in a standard format. In both 2005 and 2006, the FDIC had issued Advance Notices of Proposed Rulemaking on this topic.

Asset Servicing Technology Enhancement Project

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

Protecting Insured Depositors

Although the FDIC's focus in recent years has shifted from resolving large numbers of failed institutions to addressing existing and emerging risks in insured depository institutions, the FDIC continues to protect deposits in institutions that fail. The FDIC's ability to attract healthy institutions to assume deposits and purchase assets of failed banks and savings associations at the time of failure minimizes the disruption to customers and allows some assets to be returned to the private sector immediately. Assets remaining after resolution are liquidated by the FDIC in an orderly manner and the proceeds are used to pay creditors, including depositors whose accounts exceeded the $100,000 (or $250,000) insurance limit. During 2007, the FDIC paid dividends of $64.3 million to depositors whose accounts exceeded the insured limit(s).

Professional Liability Recoveries

The FDIC staff works to identify potential claims against directors and officers, accountants, appraisers, attorneys and other professionals who may have contributed to the failure of an insured financial institution. Once a claim is deemed meritorious and cost effective to pursue, the FDIC initiates legal action against the appropriate parties. During the year, the FDIC recovered approximately $47.1 million from these professional liability claims. In addition, as part of the sentencing process for those convicted of criminal wrongdoing against institutions that later failed, a court may order a defendant to pay restitution or to forfeit funds or property to the receivership. The FDIC, working in conjunction with the U.S. Department of Justice, collected more than $5.3 million in criminal restitution during the year. At the end of 2007, the FDIC's caseload was comprised of nine professional liability lawsuits (up from 8 at year-end 2006), 34 open investigations (up from 2), and 93 active settlement collections (down from 97). At year end, there were 687 active restitution and forfeiture orders (down from 814). This includes 357 Resolution Trust Corporation orders that the FDIC inherited on January 1, 1996.

Effective Management of Strategic Resources

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

Human Capital Management

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

Succession Management Strategies

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

Corporate Employee Program

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

Employee Learning and Growth

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

Information Technology Management

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

Enterprise Architecture

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

Internet Program

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

Securing the FDIC

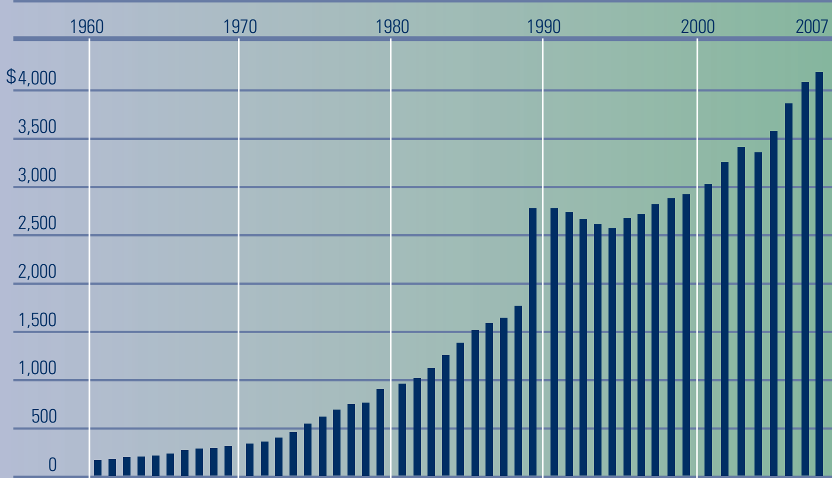
During 2007, many IT initiatives were undertaken to provide a more secure environment within the FDIC, including implementation of tools to combat the increasing levels of Internet and e-mail scams, conducting disaster recovery tests and updating the Corporation's disaster recovery plan, and conducting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

Deposit Insurance Fund Performance

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

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

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



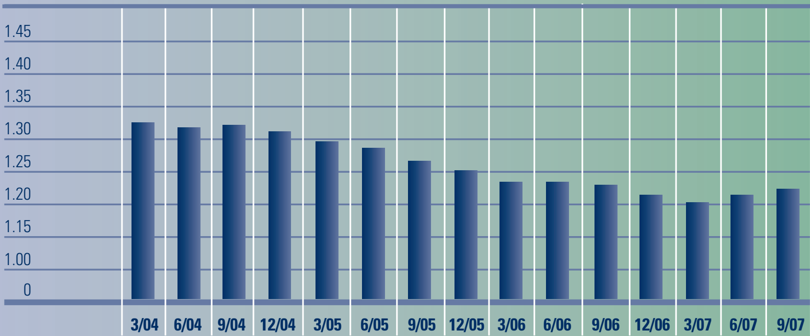
• All amounts are year-end except 2007 is at 9/30/07.

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

Source: Commercial Bank Call Reports and Thrift Financial Reports.

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

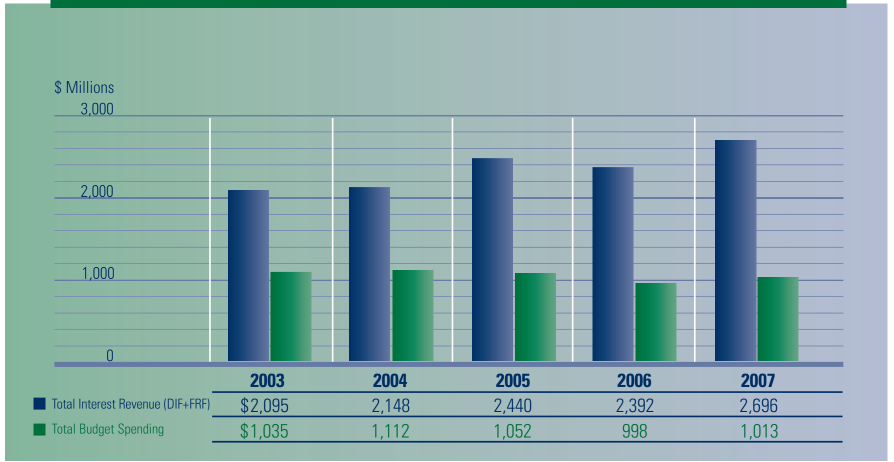
Deposit Insurance Fund Reserve Ratios (Fund Balances as a Percent of Estimated Insured Deposits)



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

A Continuing Record of Prudent Stewardship

The FDIC relies primarily upon interest earned on the investment of the Deposit Insurance Fund for its operations. It is notable that the Corporation has reduced its operational spending even as the interest earned on the DIF (and its predecessor funds) has increased significantly. As a result, the FDIC's annual spending has dramatically declined as a percentage of interest revenue on the DIF. The combined interest earned by the DIF and FRF grew to $2,696 million in 2007 ($2,540 million for DIF and $156 million for FRF), while combined operating and investment budget spending fell to 37.6 percent of interest revenue, down from 49.4 percent in 2003.



	2003	2004	2005	2006	2007
Total Interest Revenue (DIF+FRF)	$2,095	2,148	2,440	2,392	2,696
Total Budget Spending	$1,035	1,112	1,052	998	1,013

2008 Corporate Operating Budget

Although its staffing realignment was essentially completed in 2006, the FDIC will continue to emphasize control of spending in 2008 and future years. In December 2007, the Board of Directors approved a 2008 Corporate Operating Budget of approximately $1.142 billion, including $1.067 billion for ongoing operations. The approved 2008 budget is 3.1 percent higher than the 2007 Corporate Operating Budget. This limited budget increase was required for negotiated employee pay increases and included funding for a number of major new initiatives, including additional staff for risk management and compliance examinations, as well as increased funding for resolution preparedness. The Corporation realigned its spending priorities

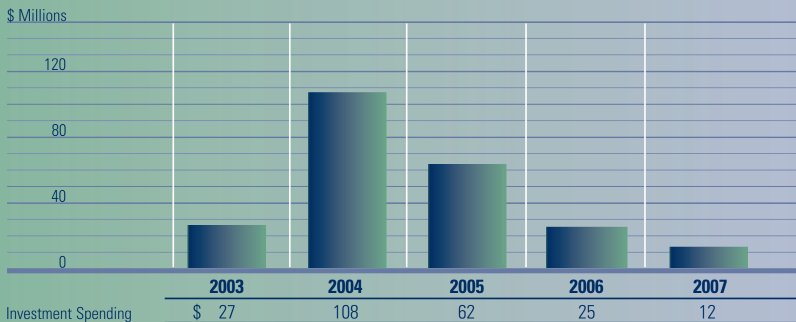
and reduced costs in other areas to address these priority initiatives while limiting the size of the overall 2008 budget increase. In 2008 and future years, the FDIC will continue to rigorously review its workload and staffing and seek operational efficiencies through continuous improvement of its business processes.

Investment Spending

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

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

Investment Spending 2003-2007



	2003	2004	2005	2006	2007
Investment Spending	$ 27	108	62	25	12

Federal Deposit Insurance Corporation

Deposit Insurance Fund Balance Sheet at December 31, condensed

Dollars in Thousands

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

Federal Deposit Insurance Corporation

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

Dollars in Thousands

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

Federal Deposit Insurance Corporation

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

Dollars in Thousands

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

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Balance Sheet at December 31, condensed

Dollars in Thousands

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

Federal Deposit Insurance Corporation

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

Dollars in Thousands

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

Federal Deposit Insurance Corporation

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

Dollars in Thousands

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

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

Comptroller General
of the United States

To the Board of Directors
The Federal Deposit Insurance Corporation

We audited the assets, liabilities, and fund balance as of December 31, 2007, and 2006, for the two funds (the Deposit Insurance Fund (DIF) and the FSLIC Resolution Fund (FRF)) administered by the Federal Deposit Insurance Corporation (FDIC), the related statements of income and fund balance (accumulated deficit), and the statements of cash flows for the years then ended. In our report dated February 4, 2008, we expressed an unqualified opinion on those statements.

In that report, we stated that we found

- 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 addition, we referred the reader to note 6 in DIF's financial statements that discussed increased challenges in 2007 faced by FDIC's insured financial institutions. The downturn in housing markets led to asset-quality problems and volatility in financial markets, which hurt banking industry performance and threatened the viability of some institutions that had significant exposure to higher-risk residential mortgages. It is uncertain how long the effects of this downturn will last. In addition to a recorded estimated liability of $124 million as of December 31, 2007, for the anticipated failure of some DIF-insured institutions, FDIC has identified additional risk that could result in a further estimated loss to the DIF of $1.7 billion should potentially vulnerable insured institutions ultimately fail. FDIC continues to evaluate the risks to affected institutions in light of evolving economic conditions, but the impact of such risks on the DIF cannot be reasonably estimated at this time. Actual losses, if any, will largely depend on future economic and market conditions and could differ materially from FDIC's estimates.

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 government auditing standards.

David M. Walker
Comptroller General of the United States

February 4, 2008

Federal Deposit Insurance Corporation
550 17th Street, NW Washington, DC 20429 9990 Deputy to the Chairman and Chief Financial Officer

February 4, 2008

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

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

Dear Mr. Walker:

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

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

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

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

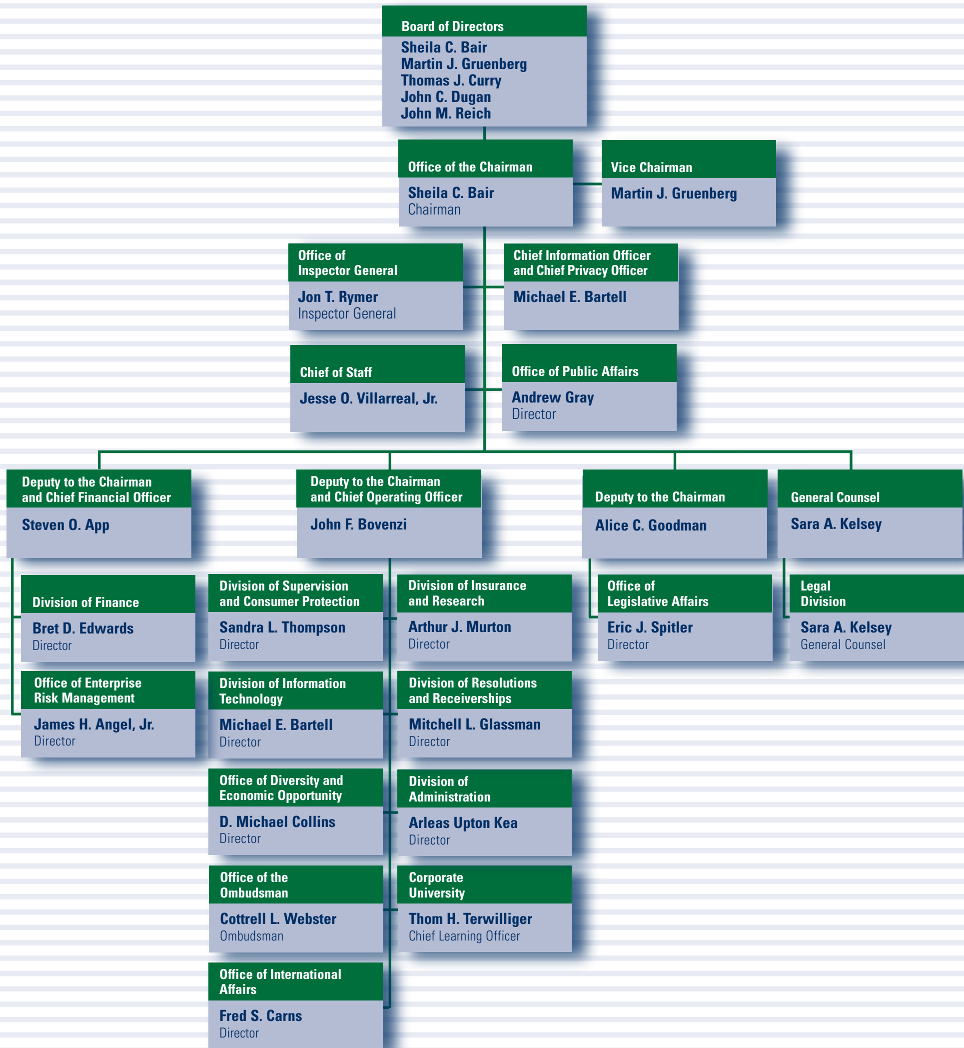
If you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

Steven O. App

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

FDIC Organization Chart/Officials as of December 31, 2007



Sources of Information

Home Page on the Internet

www.fdic.gov

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

FDIC Call Center

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

Hearing Impaired: 800-925-4618

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

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

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

Fax: 703-562-2296

E-mail: publicinfo@fdic.gov

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

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

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

Fax: 703-562-6057

E-mail: ombudsman@fdic.gov

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

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10 Tenth Street, NE
Suite 800
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25 Ecker Street
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