Letter to Stakeholders

2nd quarter 2005

FDIC

I am pleased to report that the FDIC continues to make progress in each of the three key priority areas highlighted below – stability, sound policy and stewardship. Of special note is that, after two years of work to reduce regulatory burden under the EGRPRA mandate, Vice Chairman Reich and other members of the interagency regulatory review project team made their first round of recommendations to Congress. I encourage you to find out more about our activities by visiting our Web site at www.fdic.gov.

Don Powell
Chairman

Our Priorities

Stability

- Reported in the FDIC's *Quarterly Banking Profile* that insured commercial banks and savings institutions had net income of $34.3 billion for the first quarter of 2005, eclipsing the previous quarterly record of $32.4 billion set in the third quarter of 2004.
- Maintained the existing BIF and SAIF assessment rate schedule for the second half of 2005, although cautioning that strong insured deposit growth may require an increase in BIF premiums in the first or second half of 2006.
- Announced that the BIF increased modestly during the first quarter of 2005 (by approximately 0.1 %) to $34.82 billion while the SAIF increased by $73 million (0.6%) to $12.8 billion. Insured deposits grew faster than the fund balances, resulting in a decline in the BIF reserve ratio to 1.27% and in the SAIF reserve ratio to 1.32%.

Sound Policy

- Testified before the Senate Banking Committee and the House Financial Institutions Subcommittee, along with representatives of the other federal bank and thrift regulators, on the agencies' efforts to reduce regulatory burden on FDIC-insured institutions. Vice Chairman Reich, testifying as the leader of the interagency regulatory review process, commented on a dozen proposals that all of the regulatory agencies agreed on and many more that were supported by more than one agency.
- Testified before Congress regarding the FDIC's views on the implementation of Basel II in the United States. Director Curry's testimony focused on the potential impact of Basel II on minimum capital requirements and on the competitive playing field for U. S. banks. The four federal banking agencies agreed that additional analysis is needed before publishing a proposed rule with respect to the U. S. implementation of the Basel II Framework. Director Curry reiterated the FDIC's commitment to work with the fellow regulators to arrive at a sensible solution.
- Published a widely-cited study of home price "booms" and "busts" for U. S. metropolitan area housing since 1978, and identified an unprecedented 55 boom markets as of year-end 2004. The study has been widely cited as part of the public debate over the relative merits of so-called "innovative mortgage products," the use of which increased substantially during 2004.
- Hosted the 15th Annual *Derivatives Securities and Risk Management Conference*. The conference, co-sponsored by Cornell University's Johnson Graduate School of Management and the University of Houston's Bauer College of Business, is a major forum for experts in financial analysis to discuss new derivative products, financial models, and analysis methods.

Stewardship

- Closed the corporate buyout program on May 2, with 565 employees taking advantage of the opportunity. The buyout was successful in helping us achieve reductions sufficient to meet our 2005 year-end staffing target of 4,751 – on board staff as of May 31, 2005, was 4,682, which is 69 FTEs below this target.
- Implemented the New Financial Environment, modernizing our aging, highly-customized, and complex financial systems environment. This major system change is part of another corporate-wide initiative to achieve greater operational efficiencies, as well as to avoid the high costs of maintaining the expensive and outdated legacy systems being replaced or eliminated.
- Implemented the Corporate Employee Program to select and train employees for crossing over into different roles needed to accomplish the FDIC's mission-critical functions and respond to rapid changes in workload. The first group of 22 Financial Institution Specialists (Trainee/Assistant) started on June 27, 2005. Fifty-two FDIC employees selected (31 in Risk Management and 21 in Compliance) also started on June 27, 2005 as Associate Financial Institution Specialists.

Our Key Indices Most Current Data▼

Insurance

	BIF		SAIF		Both Funds	
Updated quarterly ($ billions)	Q1 2004	Q1 2005	Q1 2004	Q1 2005	Q1 2004	Q1 2005
# Insured Inst.	7,949	7,817	1,181	1,126	9,130	8,943
$ Insured Inst.	$ 8,148	$ 8,871	$ 1,239	$ 1,421	$ 9,387	$ 10,292
Insured Deposits	$ 2,585	$ 2,746	$ 914	$ 967	$ 3,499	$ 3,713
Fund Balances	$ 34.2	$ 34.8	$ 12.4	$ 12.8	$ 46.6	$ 47.6
Reserve Ratios	% 1.32	% 1.27	% 1.36	% 1.32	% 1.33	% 1.28

Supervision

YTD	6/30/2004	6/30/2005
Total Number of FDIC Supervised Institutions	5,288	5,247
Bank Examinations:		
Safety and Soundness	1,342	1,271
Compliance and CRA	1,087	1,042
Insurance and Other Applications Approved	1,514	1,482
Formal and Informal Enforcement Actions	267	278

Receiverships

	BIF		SAIF		Both Funds	
YTD ($ millions)	Q2 2004	Q2 2005	Q2 2004	Q2 2005	Q2 2004	Q2 2005
Total Receiverships	32	30	3	3	35	33
Assets in Liquidation	$ 313	$ 210	$ 329	$ 301	$ 642	$ 511
Collections	$ 132	$ 130	$ 19	$ 57	$ 151	$ 187
Dividends Paid	$ 274	$ 15	$ 5	$ 116	$ 279	$ 131

Income

	BIF		SAIF		Both Funds	
YTD ($ millions)	Q1 2005	Q2 2005	Q1 2005	Q2 2005	Q1 2005	Q2 2005
Assessment Income	$ 13	$ 25	$ 2	$ 3	$ 15	$ 28
Interest	$ 346	$ 829	$ 127	$ 302	$ 473	$ 1,131
Comprehensive Income	$ 37	$ 307	$ 73	$ 209	$ 110	$ 516

Resources

	Budget/Expenditures				On Board Staff	
($ millions)	Total	Ongoing Operations	Recvrship Funding	Major Investment Funding	Q2 2005	Target Y/E 2005
Annual Budget	$ 1,179	$ 1,026	$ 75	$ 78	4,672	4,751
YTD Expended	$ 528	$ 491	$ 4	$ 33		

▼ Financial data is unaudited.

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