MESSAGE FROM THE CHAIRMAN
SHEILA C. BAIR

As an agency created during the Great Depression, the FDIC has a unique understanding of the importance of restoring public confidence during periods of stress. Clearly, 2008 was no exception. Problems in the financial markets had shaken the public's confidence in financial institutions. By fall, these problems were affecting most segments of the economy. After resolving just a handful of bank failures for several years, 25 insured institutions failed in 2008, the most since the end of the last banking crisis in 1993. The number of banks on the problem list rose to 252 at the end of last year, a sign that 2009 will be another challenging year for the banking industry as well as the economy.

During 2008, the FDIC took a number of unprecedented steps in concert with other federal agencies to bolster public confidence in our banking system. Difficult choices were necessary during difficult times to restore confidence and stability to the financial markets. The FDIC played a vital role by providing stability to our banking and financial system through our unique responsibilities and perspectives as deposit insurer, regulator, and receiver.

HIGHER DEPOSIT INSURANCE LIMIT

In early October, President Bush signed the Emergency Economic Stabilization Act of 2008 (EESA), temporarily raising the basic limit on deposit insurance from $100,000 to $250,000 per depositor through December 31, 2009. This measure also created the $700 billion Troubled Asset Relief Program (TARP) to help strengthen the financial sector.

The increased deposit insurance coverage provided vital reassurance to depositors and needed liquidity to banks. This helped make sure that otherwise viable institutions did not have to be closed because of runs on uninsured deposits.

We moved quickly to implement the coverage increase. We updated our Web site virtually overnight as well as EDIE — our Electronic Deposit Insurance Estimator — to reflect the changes. Our Call Center handled tens of thousands of phone calls from concerned consumers wanting to know whether their money was safe. I commend our staff for their hard work and quick response.

Sheila C. Bair, Chairman,
Federal Deposit Insurance Corporation

Daniel Rosenbaum/The New York Times/Redux

AFFORDABLE MORTGAGES

The FDIC was also at the forefront of efforts to address the cause of much of our economic distress — unaffordable home mortgages. As the deposit insurer and receiver for failed insured institutions, the FDIC has a special insight into the problems created for homeowners, banks, and our communities by unaffordable mortgages. Throughout the year, the FDIC advocated streamlined and sustainable loan modifications as a critical tool to arrest the growing number of foreclosures that continued to drive down home prices in 2008.

Applying workout procedures for troubled loans is something the FDIC has been doing since the 1980s. Our experience from resolving failing banks has been that performing loans yield greater returns than non-performing loans. We applied this experience at IndyMac Federal Bank. After the FDIC was appointed as conservator in July, we created a successful program to systematically help struggling homeowners modify their mortgages to make them affordable.

Through the end of 2008, more than 33,000 loan modification offers were mailed to IndyMac borrowers. These offers provided affordable payments to borrowers based on a streamlined protocol using a combination of interest rate reductions, term or amortization extensions, and principal forbearance. Through the end of the year, IndyMac had completed the requisite verification of income for more than 8,512 homeowners with thousands more in process. On average, their monthly payments were reduced by more than $480.

Based on our work at IndyMac, we designed a “Loan-Mod-In-A-Box” program guide. It is a prototype for a nationwide affordable loan program that we hope will be used to turn back the tide of foreclosures and keep struggling borrowers in their homes, taking pressure off the housing market where prices are down an average of 25 percent from a mid-2006 peak.

Unfortunately, loan modifications by other servicers failed to keep pace with rising delinquencies. As a result, the FDIC worked to encourage greater efforts to achieve modifications throughout 2008. Loan guarantees can be used as an incentive for servicers to modify loans — a move we have strongly encouraged for some time. Throughout 2008, the FDIC advocated programs to achieve more loan modifications.

TEMPORARY LIQUIDITY GUARANTEE PROGRAM

In mid-October, we launched the Temporary Liquidity Guarantee Program (TLGP). We designed this voluntary program to provide liquidity to the wholesale lending market and to free up funding for banks to make loans to creditworthy businesses and consumers. It has two key features. First, it guarantees certain new, senior unsecured debt issued by banks or thrifts and bank holding companies, as well as most thrift holding companies. Second, it provides a full guarantee of all deposits in noninterest-bearing transaction accounts (primarily payment-processing accounts, such as for business payrolls).

All eligible entities (banks, thrifts, and qualifying holding companies) were automatically enrolled in the program but had an opportunity to opt-out. Eighty-seven percent of insured depository institutions stayed in the transaction account program, while 56 percent of eligible entities remained in the debt guarantee program. At the end of the year, nearly $224 billion in debt had been issued under this program.

Fees for the debt guarantee program range from 50 to 100 basis points on an annualized basis, depending on the term of the debt. Fees for the transaction account program are 10 basis points on covered deposits that are not otherwise insured.

This program required the FDIC to use its statutory authority to take action to mitigate potential systemic risks. The program was implemented after a recommendation from the FDIC Board of Directors and the Board of Governors of the Federal Reserve System and a determination by the Secretary of the Treasury, in consultation with the President. The TLGP is a fee-based program and does not rely upon the taxpayer or the Deposit Insurance Fund (DIF).

In my view, the TLGP was a major factor in the steady progress we saw by the end of the year in reducing risk premiums in the interbank lending market. Given the success of the program, we put in place a limited extension of the TLGP debt guarantee program in early 2009; however, we intend to end new debt issuances under the program by October 31, 2009.

DIF RESTORATION PLAN AND OTHER MILESTONES

In other actions during the year, we adopted a restoration plan for the DIF. The plan increases the rates banks pay for deposit insurance and makes new adjustments to better reflect the risk banks pose to the DIF. The plan was necessary because a sharp increase in loss provisions lowered the reserve ratio below the required statutory level.

We also simplified deposit insurance rules for revocable trust accounts. These reforms to the rules covering so-called "payable-on-death" accounts and more formal revocable trust accounts, as well as for mortgage servicing accounts should result in faster deposit insurance determinations for failed banks, a must for preserving public confidence in the banking system.

On top of these extraordinary measures, the FDIC faced the largest bank failure in American history — Washington Mutual Bank (WaMu) with $300 billion in assets. All of WaMu's deposits and substantially all its liabilities were transferred to an acquirer at no cost to the insurance fund, no loss of depositor funds and with little disruption to customers.

75 YEARS OF THE FDIC

In mid-June, the FDIC celebrated 75 years of service as the world's oldest public deposit insurer. We marked the date with a press conference, national advertisements promoting deposit insurance awareness and launched a series of programs renewing public awareness of bank deposit insurance, which proved very timely as the financial turmoil widened.

We held panel discussions across the country with local experts from industry, community groups and the media to discuss methods for improving financial education for consumers and promote greater awareness of the FDIC. We distributed nationally aired television, radio and print public service announcements reassuring the public about the safety of FDIC insured accounts. We created a public exhibit in our Washington headquarters lobby tracing the FDIC's history and explaining our role in the national economy.

FDIC COMES TOGETHER

Throughout 2008, the staff of the FDIC worked tirelessly to respond to the challenges facing the banking system. It takes every employee, from every corner of the agency, to fulfill our critical mission. I am grateful for their hard work and dedication and I am proud of their efforts to preserve confidence in the banking industry and help stabilize our financial system.

Sincerely,

Sheila C Bair

Sheila C. Bair