FDIC
Federal Deposit Insurance Corporation
550 17th Street, N.W., Washington, D.C. 20429-9990 Deputy to the Chairman and CFO

November 21, 2008

MEMORANDUM TO: The Board of Directors

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

Bret D. Edwards
Director, Division of Finance

SUBJECT: Third Quarter 2008 CFO Report to the Board

The attached report highlights the Corporation's financial activities and results for the period ending September 30, 2008.

Executive Summary

- The Deposit Insurance Fund (DIF) balance decreased by 23.5 percent ($10.629 billion) to $34.588 billion during the third quarter of 2008. The third quarter 2008 decrease was primarily due to the $11.930 billion increase in the provision for insurance losses mainly related to anticipated failures, partially offset by an $881 million increase in assessment revenue.

- During the third quarter of 2008, the FDIC was named receiver for nine failed institutions- IndyMac Bank of Pasadena, California; First National Bank of Reno, Nevada; First Heritage Bank of Newport Beach, California; First Priority Bank of Bradenton, Florida; The Columbian Bank and Trust Company of Topeka, Kansas; Integrity Bank of Alpharetta, Georgia; Silver State Bank of Henderson, Nevada; Ameribank, Inc. of Northfork, West Virginia; and Washington Mutual Bank (WaMu) of Henderson, Nevada. The combined total assets at inception for these institutions were $337 billion with an estimated loss totaling $11 billion. The corporate cash outlay during the third quarter for these failures was $22 billion.

  WaMu, with total assets of $299 billion and total deposits of $188 billion, is the largest failed institution in the history of the FDIC. JPMorgan Chase acquired the assets and assumed all the deposits. All depositors were fully protected and there will be no loss to the DIF. IndyMac Bank had assets totaling $28 billion and total deposits of $19 billion and is the fourth largest institution to fail in FDIC history. All insured, non-brokered deposits and substantially all the assets were transferred to IndyMac Federal Bank, FSB, a newly chartered federal financial institution, for which the FDIC has been named conservator. The FDIC will continue to operate the conservatorship until future sale. The current loss estimate for the IndyMac Bank receivership is $8.9 billion.

- As of June 30, 2008, the DIF reserve ratio stood at 1.01 percent, which is the lowest reserve ratio for a combined bank and thrift fund since March 1995. Because the fund reserve ratio has fallen below 1.15 percent, the FDIC is required, pursuant to the Federal Deposit Insurance Reform Act of 2005, to establish a restoration plan to restore the reserve ratio to at least 1.15

percent no later than five years after the establishment of the plan. As part of the plan, the Board proposes to increase assessment rates by 7 basis points uniformly, from a range of 5 to 43 basis points to a range of 12 to 50 basis points, for the first quarter 2009 insurance coverage only. Beginning with the second quarter 2009 coverage, the initial assessment rates would range from 10 to 45 basis points. In addition, the FDIC is proposing several adjustments, related to unsecured debt, secured liabilities, and brokered deposits that are designed to ensure that riskier institutions will bear a greater share of the proposed increase in assessment rates, thereby reducing the subsidization of riskier institutions by safer ones.

- For the nine months ending September 30, 2008, Corporate Operating and Investment Budget related expenditures ran below budget by 4 percent ($32 million) and 14 percent ($3 million), respectively. The variance with respect to the Corporate Operating Budget expenditures was primarily the result of lower spending for contractual services in the Ongoing Operations component of the budget through the third quarter.

The following is an assessment of each of the three major finance areas: financial statements, investments, and budget.

Trends and Outlook	
Financial Results	Comments
I. Financial Statements	On October 13, 2008, a systemic risk determination was invoked by the Secretary of the Treasury (in consultation with the President) following recommendation of the Boards of the FDIC and the Federal Reserve. A systemic risk finding is invoked when it is determined that the failure of an institution or institutions could threaten the stability of the entire financial system. In response to this finding, the FDIC implemented the Temporary Liquidity Guarantee Program (TLGP) as part of a larger government effort to strengthen confidence and encourage liquidity in the nation's banking system. For participating entities, the program provides guarantees for certain senior unsecured debt of insured depository institutions and certain holding companies; and provides unlimited coverage for noninterest-bearing transaction accounts held by insured depository institutions through December 31, 2009. The TLGP Final Rule was issued on Friday, November 21, 2008.

Trends and Outlook	
Financial Results	Comments
II. Investments	• The DIF investment portfolio's amortized cost (book value) decreased significantly by $18.8 billion during the first nine months of 2008, and totaled $31.7 billion on September 30, 2008. The decline was primarily the result of funding failed institution resolutions during the first nine months of 2008. At quarter end, the DIF investment portfolio yield was 4.71 percent, almost equal to its December 31, 2007, yield of 4.72 percent. While substantial amounts of Treasury Inflation-Protected Securities (TIPS) and longer-duration conventional Treasury securities were sold during the third quarter of 2008, the portfolio's relatively stable yield reflects, in part, the fact that the DIF portfolio's securities have generally similar yields across maturity sectors. At quarter end, the DIF portfolio had only $851.2 million in overnight investments, down dramatically from its second quarter ending balance of $9.3 billion. Resolution-related outlays prompted drawing down the overnight investment balance prior to liquidating securities. In fact, this somewhat high $851.2 million overnight investment was because the DIF received $618.6 million in assessments on September 30, 2008. • Conventional Treasury market yields declined dramatically during the third quarter of 2008 as the deepening economic crisis and financial market turmoil prompted a flight to quality with burgeoning investor demand for Treasury securities. The yield declines also reflected growing consensus expectations for additional federal funds target rate cuts. Not surprisingly, the yield declines on intermediate- to longer-maturity Treasury security yields were less dramatic than those of shorter-maturity securities. During the fourth quarter of 2008, Treasury yields are expected to continue to be volatile as market participants gauge whether financial and economic market turmoil is subsiding, prompting Treasury prices to fall; or whether financial and economic market turmoil is deepening, prompting further flight-to-quality Treasury price rallies.

Trends and Outlook	
Financial Results	Comments
III. Budget	• Approximately $759 million was spent in the Ongoing Operations component of the 2008 Corporate Operating Budget, which was $32 million (4 percent) below the budget for the nine months ending September 30, 2008. The Outside Services - Personnel expense category was approximately $21 million below its year-to-date budget, and the Salaries and Compensation category was $9 million below its year-to-date budget. Together, these two categories represented 91 percent of the total Ongoing Operations variance. • Approximately $74 million was spent in the Receivership Funding component of the 2008 Corporate Operating Budget, which was $0.3 million (0.5 percent) less than the budget for the nine months ending September 30, 2008. Spending during the third quarter was significantly more than in the first two quarters as resolutions and receivership activities occurred at a greater pace than during the first half of the year. In September, the Board approved an increase in the Receivership Funding budget component from $75 million to $150 million. If the growth in the resolutions and receivership management workload continues at its current pace, the budget requirement for 2009 will be much higher. • Authorized staffing has increased 17 percent from 4,810 at the beginning of the year to 5,621 as of September 30, 2008, due to the increase in resolutions and receivership management activity and the elevated examination workload. The majority of the authorized staffing increase is for hiring non-permanent employees. This trend is also likely to continue into the 2009 budget year.

I. <u>Corporate Fund Financial Statement Results</u> (See pages 10 - 11 for detailed data and charts.)

Deposit Insurance Fund (DIF)

- For the nine months ending September 30, 2008, DIF reported a comprehensive loss of $17.825 billion compared with comprehensive income of $1.589 billion for the same period last year. This $19.414 billion year-over-year decrease was primarily due to a $22.620 billion increase in the provision for insurance losses, partially offset by a $1.565 increase in assessment revenue, a $1.353 billion increase in the unrealized gain on available-for-sale (AFS) securities and a $473 million realized gain on the sale of AFS securities.

- The provision for insurance losses was $22.676 billion for the nine months ending September 30, 2008. The total provision consists mainly of the provision for future failures ($11.602 billion) and the losses estimated at failure for the 13 resolutions to date ($10.962 billion), the largest of which was the $8.9 billion loss estimate for the IndyMac resolution. In contrast, the total provision for insurance losses for the nine months ending September 30, 2007 was $56 million.

- DIF's year-to-date assessment revenue was $1.969 billion as of September 30, 2008, compared with $404 million for the nine months ending September 30, 2007. The 2008 revenue consists of: 1) $1.073 billion in collections for the first and second quarters; 2) $890 million estimated to be received at the end of the fourth quarter for third quarter insurance coverage; and 3) $6 million in adjustments recognized in 2008 for fourth quarter 2007 coverage. Of the $4.7 billion in one-time assessment credits granted, only $312 million remained as of September 30, 2008.

- Net receivables from resolutions increased by $12.2 billion to $14.4 billion during the third quarter 2008. This increase was mostly due to $8.4 billion in funding provided to the IndyMac conservatorship during the third quarter and an increase of $1.4 billion in net subrogated accounts (claims against the receivership) and loans to the receiverships for the nine new resolutions over the past three months.

FSLIC Resolution Fund (FRF)

- FRF's net loss was $74 million for the third quarter of 2008 compared to $14 million net income earned during the second quarter. The loss was primarily due to the recognition of an $85.5 million loss related to a Goodwill judgment, partially offset by $15.9 million in interest earned on U.S. Treasury obligations. In addition to the above, FRF paid a previously recognized Goodwill judgment to Fifth Third Bank in the amount of $76.6 million.

II. <u>DIF Investment Results</u> (See pages 12 - 13 for detailed data and charts.)

- The amortized cost (book value) of the DIF investment portfolio decreased dramatically, dropping by $18.757 billion, or by 37.2 percent, from $50.469 billion on December 31, 2007, to $31.712 billion on September 30, 2008. The DIF portfolio's market value dropped by $18.967 billion or by 36.2 percent, from $52.378 billion on December 31, 2007, to $33.411 billion on September 30, 2008.

- The DIF investment portfolio's total return for the first nine months of 2008 was 4.39 percent, approximately 21 basis points less than its benchmark, the Merrill Lynch 1-10 Year U.S. Treasury Index (Index), which had a total return of 4.61 percent during the same period. The DIF portfolio's large cash balances held during the first half of the year acted as a drag on total return performance. In addition, the DIF portfolio's TIPS considerably underperformed the Index's conventional Treasury securities during the third quarter.

- During the third quarter of 2008, to help fund resolution obligations, staff sold a total of 22 securities on seven occasions. These securities had a total book value of $8.872 billion, a total market value of $9.345 billion, a weighted average maturity of 4.88 years, and a weighted average effective yield-at-cost of 5.93 percent. These security sales resulted in realized gains of $473 million. On September 30, 2008, the DIF portfolio's overnight investment balance was $851.2 million, which includes the receipt of $618.6 million in assessments on September 30, 2008.

The Treasury Market

- During the third quarter of 2008, conventional Treasury market yields decreased dramatically as the deepening economic crisis and financial market turmoil prompted a flight to quality with burgeoning investor demand for Treasury securities. The yield declines also reflected growing consensus expectations for additional federal funds target rate cuts. The three-month Treasury bill (T-Bill) and the six-month T-Bill yields decreased by 83 basis points and 54 basis points, respectively. The two-year Treasury note, which is also very sensitive to actual and anticipated changes in the federal funds rate, as well as to flight-to-quality concerns, posted a yield decline of 66 basis points during the third quarter. Intermediate- to longer-maturity Treasury security yields also decreased over the course of the third quarter, although not surprisingly, the yield declines were somewhat less dramatic then those of shorter-maturity securities. The yield on the five-year Treasury note declined by 35 basis points, while the yield on the ten-year note dropped by 15 basis points. The conventional Treasury yield curve steepened during the third quarter of 2008, reflecting the drop in yields on shorter-maturity Treasuries. On September 30, 2008, the two-year to ten-year yield curve had a 186-basis point positive spread (compared to a positive 135-basis point spread at the beginning of the quarter). Over the past five years, this spread has averaged 87 basis points.

- During the third quarter of 2008, in stark contrast to conventional Treasury yields, TIPS real yields increased sharply over the course of the third quarter. For example, the real yield on the five-year TIPS maturing on July 15, 2013, increased by 124 basis points. The real yield on the 10-year TIPS maturing on January 15, 2017, increased by 83 basis points. Some analysts were attributing the rise in real yields to a sharp drop in inflation expectations given the recent collapse in oil and other commodity prices. In fact, current TIPS real yields indicate market expectations are that deflation over the near term is a distinct possibility. As of the end of the third quarter 2008, on a par value basis, 9.2 percent of the DIF portfolio is invested in TIPS.

Prospective Strategies

- The current DIF investment strategy calls for placing all net proceeds from deposit insurance assessments, maturing securities, coupon and other interest payments, and receivership dividends into overnight investments and short-term T-Bills in anticipation of possible funding needs for resolution activities. (See attached Approved Investment Strategy.)

III. **Budget Results** (See pages 14 – 15 for detailed data.)

Approved Budget and Staffing Modifications

Four modifications were made to the 2008 Corporate Operating Budget and authorized staffing during the quarter, in accordance with the authority delegated by the Board of Directors in the 2008 Budget Resolution:

- On July 31, 2008, the Deputy to the Chairman and Chief Financial Officer (CFO) approved mid-year adjustments to the Ongoing Operations component of the 2008 Corporate Operating Budget. Budget authority was realigned among most divisions/offices and major expense categories. The most significant modifications were made to the budgets of the Office of Public Affairs, which was increased by $9.3 million to pay for contractual services for the

FDIC's 75th Anniversary Deposit Insurance Public Education campaign; and the Division of Supervision and Consumer Protection (DSC), which was increased by over $9 million to pay for salaries and benefits and travel costs for additional staff. This increase in DSC was partially offset by a $2.6 million reduction in Outside Services - Personnel. The mid-year adjustments included changes to the authorized staffing for eight divisions or offices. Authorized staffing for DSC was increased by 127 positions, primarily non-permanent loan review specialist positions to assist with elevated examination workload. Authorized staffing for the Division of Resolutions and Receiverships (DRR) and the Legal Division were increased by 125 and 25 positions, respectively, to address the increase in resolutions activity. Board members were briefed on these planned staffing increases prior to their approval.

- In August 2008, the CFO approved a requested increase of seven non-permanent positions to provide the Division of Information Technology (DIT) with additional technical resources to meet DRR needs related to the increase in failure activity.

- In August 2008, the CFO also approved an increase of 30 non-permanent positions in DRR and 3 non-permanent positions in the Corporate University (CU). The DRR increase will provide additional staff in the Dallas office to perform deposit insurance claims determinations in connection with the projected increase in bank failures, and the CU increase will provide resources to train the large number of new employees in the Dallas office of DRR.

- In September 2008, the CFO approved requested increases of 339 non-permanent positions in DRR, 25 non-permanent positions in the Legal Division, and 10 non-permanent positions in the Division of Administration (DOA). These increases followed the Board's approval earlier in the month of an increase in the Receivership Funding component of the 2008 Corporate Operating Budget from $75 million to $150 million. The DRR positions will be used to staff a new temporary West Coast satellite office. The authorized Legal Division staffing increase will permit the re-employment of retired attorneys and other staff to provide on-site legal assistance at failed institutions. The increase in authorized DOA staffing will provide additional resources to handle the increased facilities management, security, and human resources workload that have accompanied staffing increases in DRR and DSC.

Significant Spending Variances

Significant spending variances by major expense category and division/office are discussed below. Significant spending variances for the nine months ending September 30, 2008, are defined as those that either 1) exceed the YTD budget by $1 million and represent more than 2 percent for a major expense category or total division/office budget or 2) are under the YTD budget for a major expense category or division/office by an amount more than $2 million and represent more than 4 percent of the major expense category or total division/office budget.

Significant Spending Variances by Major Expense Category

<u>Ongoing Operations</u>

There were significant spending variances in three major expense categories through the third quarter in the Ongoing Operations component of the 2008 Corporate Operating Budget:

- Outside Services-Personnel expenditures were approximately $21 million, or 16 percent, less than budgeted. The variance was largely due to lower-than-anticipated litigation expenses reimbursed to the U.S. Department of Justice for the Goodwill cases, lower contract spending by DIT for discretionary system development projects due to the unavailability of subject matter experts for system testing; and lower net costs for the Student Residence Center and other administrative contracts in DOA.

- Travel expenditures were approximately $3 million, or 7 percent, less than budgeted. The variance was attributable to budgeted travel costs for conferences that have been deferred until 2009 and lower-than-expected travel expenses in the supervision area as staff have been diverted to assist with resolutions activities (expensed against the Receivership Funding component).

- Equipment expenditures were approximately $3 million, or 10 percent, more than budgeted. The variance was largely due to a change in the timing of planned spending for the IT Technical Refresh program as several components were acquired earlier than budgeted. The maintenance costs for IBM software licenses were budgeted in the fourth quarter at $1.4 million; however, the billing for this software has been occurring on a monthly basis throughout the year. Similarly several PC/LAN hardware maintenance items were budgeted in the fourth quarter but expensed by the end of September.

<u>Receivership Funding</u>

The Receivership Funding component of the 2008 Corporate Operating Budget includes funding for non-personnel expenses that are incurred in conjunction with institution failures and the management and disposition of the assets and liabilities of the ensuing receiverships. Receivership Funding also includes all salary and compensation costs of employees hired on a non-permanent basis for actual or anticipated increases in receivership and resolution activity.

There were four major expense categories in which a significant spending variance occurred through the third quarter in the Receivership Funding component of the 2008 Corporate Operating Budget:

- Salary and Compensation expenditures were approximately $5 million, or 50 percent, less than budgeted, primarily due to a failure to fill newly-authorized non-permanent positions in DRR as quickly as planned. Support for DRR hiring efforts continues to be a major corporate priority.

- Outside Services-Personnel expenditures were approximately $5 million, or 13 percent, greater than budgeted, primarily due to the unanticipated increase in receivership and resolution activity that occurred during the third quarter.

- Buildings expenditures were approximately $2 million, or 39 percent, less than budgeted. The budget for this category was increased during the third quarter to provide space for the additional staffing that was authorized in DRR and other organizations but is now expected to be expensed in the fourth quarter.

- Outside Services-Other expenditures were approximately $1 million, or 213 percent, greater than budgeted, primarily due to the unanticipated increase in receivership and resolution activity that occurred during the third quarter. These expenses include telephone lines for call-in centers, real estate and personal property taxes, filing and other court costs, advertising costs, and bank service fees.

Significant Spending Variances by Division/Office[1]

Seven organizations had significant spending variances through the end of the third quarter:

- The Division of Administration (DOA) spent approximately $7 million, or 5 percent, less than budgeted. The variance of $4.8 million in Ongoing Operations was primarily attributable to lower net costs for the Student Residence Center (because of increased proceeds derived from outside use of the facility) and lower-than-budgeted spending for contractual services. A $1.8 million variance in the Receivership Funding component of DOA's operating budget reflected the addition of supplemental funding for facilities and equipment to support increased staffing in DRR and other organizations that is not expected to be spent until the fourth quarter.

- The Legal Division spent approximately $6 million, or 9 percent, less than budgeted. The variance of $4.5 million in the Receivership Funding component of its operating budget was largely attributable to less-than-anticipated use of outside counsel in connection with resolutions and receivership activities. Also, there was a variance of $1.5 million in the Ongoing Operations budget component that was related to vacancies in budgeted positions.

- The Division of Insurance and Research (DIR) spent approximately $3 million, or 10 percent, less than budgeted. The majority of this variance was due to vacancies in budgeted positions and lower-than-budgeted spending for the Central Data Repository.

- The Executive Support Offices spent approximately $3 million, or 14 percent, less than budgeted. This variance was largely due to delayed execution of contracts for the FDIC's 75th Anniversary Public Education campaign.

- The Division of Resolutions and Receiverships (DRR) spent approximately $3 million, or 4 percent, more than budgeted. This variance was attributable to overspending in the Receivership Funding component of its operating budget due to the unanticipated increase in resolutions and receivership activity during the third quarter.

- The Office of Inspector General spent approximately $2 million, or 12 percent, less than budgeted. This variance was due to vacancies in budgeted positions and later award of audit contract task orders than was planned during budget formulation.

- The Division of Information Technology (DIT) spent approximately $3 million, or 13 percent, less than the 2008 spending estimate for investment projects through the third quarter. This was primarily attributable to $2.8 million in underspending for the multiyear Claims Administration System (CAS) investment project between January 1, 2008, and September 30, 2008, due to delays by the contractor in meeting project milestones. [Note: Unused CAS funding is carried over for use in future periods, but may be used only for the CAS investment project.]

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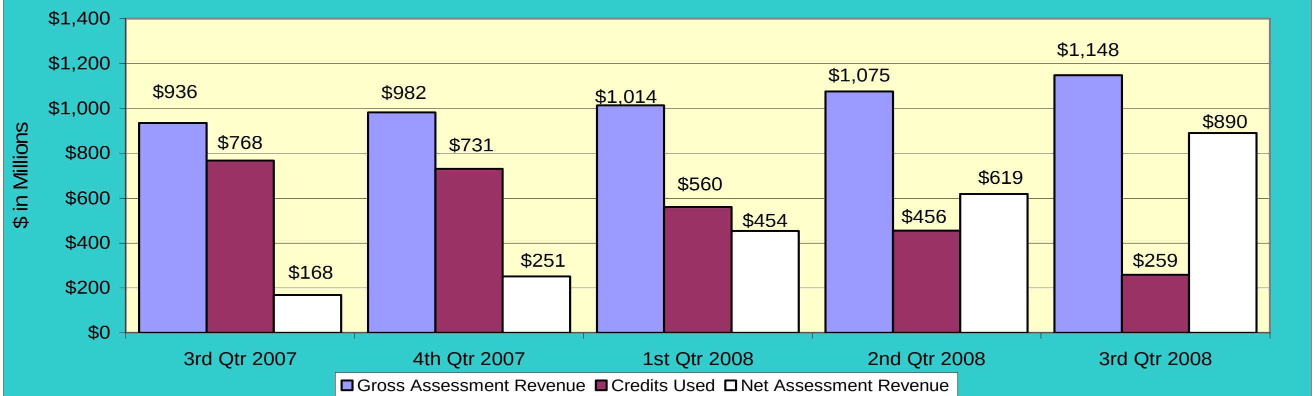
[1] Information on division/office variances reflects variances in both the Corporate Operating Budget and Investment Budget.

Fund Financial Results

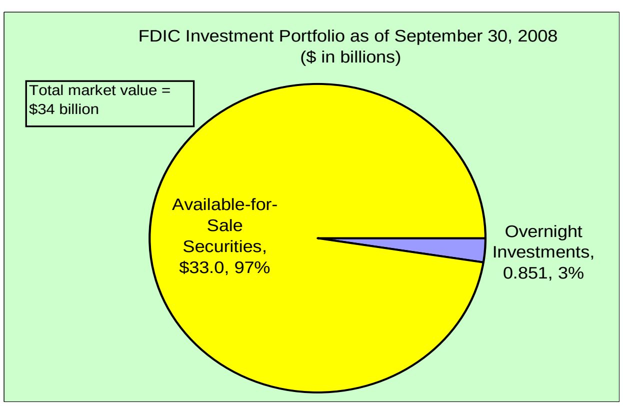
($ in Millions) - Unaudited

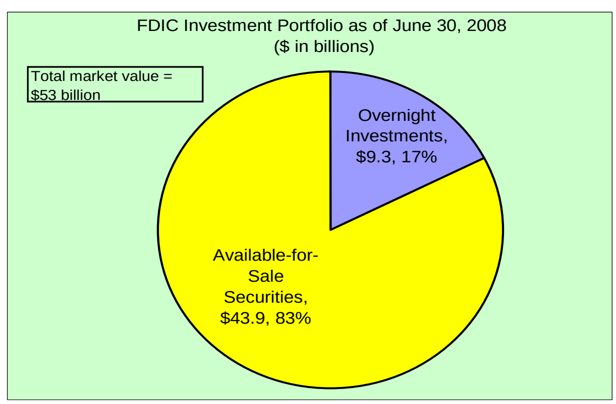
Balance Sheet	Deposit Insurance Fund				
	Sep-08	Jun-08	Quarterly Change	Sep-07	Year-Over-Year Change
Cash & cash equivalents	$ 854	$ 9,257	$ (8,403)	$ 2,854	$ (2,000)
Investment in U.S. Treasury obligations, net	32,559	43,218	(10,659)	47,933	(15,374)
Assessments receivable, net	890	627	263	173	717
Interest receivable on investments and other assets, net	472	695	(223)	706	(234)
Receivables from resolutions, net	14,414	2,179	12,235	2,057	12,357
Property, buildings and other capitalized assets, net	364	355	9	357	7
Total Assets	$ 49,553	$ 56,331	$ (6,778)	$ 54,080	$ (4,527)
Accounts payable and other liabilities	2,923	208	2,715	1,942	981
Postretirement benefit liability	116	116	0	114	2
Contingent Liabilities: future failures	11,726	10,590	1,136	70	11,656
Contingent Liabilities: litigation losses & other	200	200	0	200	0
Total Liabilities	$ 14,965	$ 11,114	$ 3,851	$ 2,326	$ 12,639
FYI: Unrealized gain on available-for-sale securities, net	1,699	2,045	(346)	221	1,478
FYI: Unrealized postretirement benefit gain	19	19	0	22	(3)
FUND BALANCE	$ 34,588	$ 45,217	$ (10,629)	$ 51,754	$ (17,166)

Over the past four quarters, assessment credits used declined by 66 percent. Of the $4.7 billion in one-time assessment credits granted, $312 million (7 percent) is projected to be remaining after the third quarter 2008 assessment collections.



Income Statement	Deposit Insurance Fund				
	Sep-08	Jun-08	Quarterly Change	Sep-07	Year-Over-Year Change
Assessments earned	$ 1,969	$ 1,088	$ 881	$ 404	$ 1,565
Interest earned on investment securities	1,795	1,269	526	1,955	(160)
Other revenue	18	2	16	11	7
Realized gain on sale of investments	473	0	473	0	473
Total Revenue	$ 4,255	$ 2,359	$ 1,896	$ 2,370	$ 1,885
Operating expenses (includes depreciation expense)	743	494	249	730	13
Provision for insurance losses	22,676	10,746	11,930	56	22,620
Other expenses	1	1	0	2	(1)
Total Expenses & Losses	$ 23,420	$ 11,241	$ 12,179	$ 788	$ 22,632
Net (Loss)/Income	$ (19,165)	$ (8,882)	$ (10,283)	$ 1,582	$ (20,747)
Unrealized gain/(loss) on available-for-sale securities, net	1,340	1,686	(346)	(13)	1,353
Unrealized postretirement benefit gain/(loss)	0	0	0	20	(20)
YTD Comprehensive (Loss)/Income	$ (17,825)	$ (7,196)	$ (10,629)	$ 1,589	$ (19,414)





Fund Financial Results - continued

($ in Millions) - Unaudited

Statements of Cash Flows	Deposit Insurance Fund				
	Sep-08	Jun-08	Quarterly Change	Sep-07	Year-Over-Year Change
Net (Loss)/Income	$ (19,165)	$ (8,882)	$ (10,283)	$ 1,582	$ (20,747)
Amortization of U.S. Treasury obligations (unrestricted)	370	257	113	431	(61)
TIPS Inflation Adjustment	(313)	(210)	(103)	(286)	(27)
Depreciation on property and equipment	41	27	14	40	1
Provision for insurance losses	22,676	10,746	11,930	56	22,620
Unrealized gain on postretirement benefits	0	0	0	20	(20)
(Gain) on sale of UST obligations	(473)	0	(473)	0	(473)
Net change in operating assets and liabilities	(22,308)	(1,934)	(20,374)	5	(22,313)
Net Cash Provided by (Used by) Operating Activities	$ (19,172)	$ 4	$ (19,176)	$ 1,848	$ (21,020)
Investments matured and sold	15,784	5,009	10,775	6,256	9,528
Investments purchased (includes purchase of property and equipment)	(3)	(1)	(2)	(8,204)	8,201
Net Cash Provided by/(Used by) Investing Activities	$ 15,781	$ 5,008	$ 10,773	$ (1,948)	$ 17,729
Net Increase (Decrease) in Cash and Cash Equivalents	(3,391)	5,012	(8,403)	(100)	(3,291)
Cash and Cash Equivalents at beginning of year	4,245	4,245	0	2,954	1,291
Cash and Cash Equivalents - Ending	$ 854	$ 9,257	$ (8,403)	$ 2,854	$ (2,000)

Selected Financial Data	FSLIC Resolution Fund				
	Sep-08	Jun-08	Quarterly Change	Sep-07	Year-Over-Year Change
Cash and cash equivalents	$ 3,459	$ 3,444	$ 15	$ 3,764	$ (305)
Accumulated deficit, net	(123,885)	(123,811)	(74)	(123,836)	(49)
Resolution equity	3,470	3,458	12	3,790	(320)
Total revenue	$ 60	$ 43	$ 17	$ 150	$ (90)
Operating expenses	4	2	2	2	2
Goodwill/Guarini litigation expenses	167	77	90	179	(12)
Net (Loss)/Income	$ (115)	$ (41)	$ (74)	$ (2)	$ (113)

Receivership Selected Statistics September 2008 vs. September 2007

	DIF			FRF			ALL FUNDS		
Year-to-Date ($ in millions)	Sep-08	Sep-07	*Change*	Sep-08	Sep-07	*Change*	Sep-08	Sep-07	*Change*
Total Receiverships	30	25	5	9	15	(6)	39	40	(1)
Assets in Liquidation	$ 9,481	$ 2,085	7,396	$ 34	$ 32	2	$ 9,515	$ 2,117	7,398
Collections	$ 432	$ 56	376	$ 7	$ 39	(32)	$ 439	$ 95	344
Dividends Paid-Cash	$ 844	$ 252	592	$ 4	$ 1	3	$ 848	$ 253	595

2008 FDIC Bank Failures through September 30, 2008
($ in Millions)

Institution Name	Location	Date of Failure	Assets at Failure	Cash Outlays	Estimated/ Actual Loss
Washington Mutual Bank	Henderson, NV	9/25/2008	$298,792	$0	$0
Ameribank, Inc.	Northfork, WV	9/19/2008	$100	$91	$42
Silver State Bank	Henderson, NV	9/5/2008	$1,795	$1,358	$505
Integrity Bank	Alpharetta, GA	8/29/2008	$1,045	$934	$295
Columbian Bank & Trust	Topeka, KS	8/22/2008	$726	$576	$62
First Priority Bank	Bradenton, FL.	8/1/2008	$241	$202	$72
First Heritage Bank, N.A.	Newport Beach, CA	7/25/2008	$289	$257	$42
First National Bank of Nevada	Reno, NV.	7/25/2008	$3,585	$2,807	$820
IndyMac Bank	Pasadena, CA	7/11/2008	$27,958	$14,300	$8,900
First Integrity Bank	Staples, MN	5/30/2008	$53	$50	$2
ANB Financial, N.A.	Bentonville, AR	5/9/2008	$2,012	$1,743	$214
Hume Bank	Hume, MO	3/7/2008	$17	$14	$3
Douglass National Bank	Kansas City, MO	1/25/2008	$53	$10	$6

Deposit Insurance Fund Portfolio Summary (in millions)	9/30/08	12/31/07	Change
Par Value	$29,937	$47,562	($17,625)
Amortized Cost	$31,712	$50,469	($18,757)
Market Value	$33,411	$52,378	($18,967)
Primary Reserve [1]	$33,864	$14,317	$19,547
Primary Reserve % of Total Portfolio	100.0%	26.9%	73.1%
Year-to-Date Total Return (Portfolio)	4.392%	8.629%	not applicable
Year-to-Date Total Return (Benchmark) [2]	4.605%	8.861%	not applicable
Total Return Variance (in basis points)	(21.3)	(23.2)	not applicable
Yield-to-Maturity [3]	4.71%	4.72%	(0.01%)
Weighted Average Maturity (in years)	4.09	4.06	0.03
Effective Duration (in years) [4]			
Total Portfolio	3.33	3.19	0.14
Available-for-Sale Securities	3.42	1.29	2.13
Held-to-Maturity Securities [5]	not applicable	3.94	

[1] Primary Reserve is the total market value (including accrued interest) of overnight investments, available-for-sale securities, and held-to-maturity securities maturing within three months.

[2] The benchmark is the total return of the Merrill Lynch 1-10 Year U.S. Treasury Index.

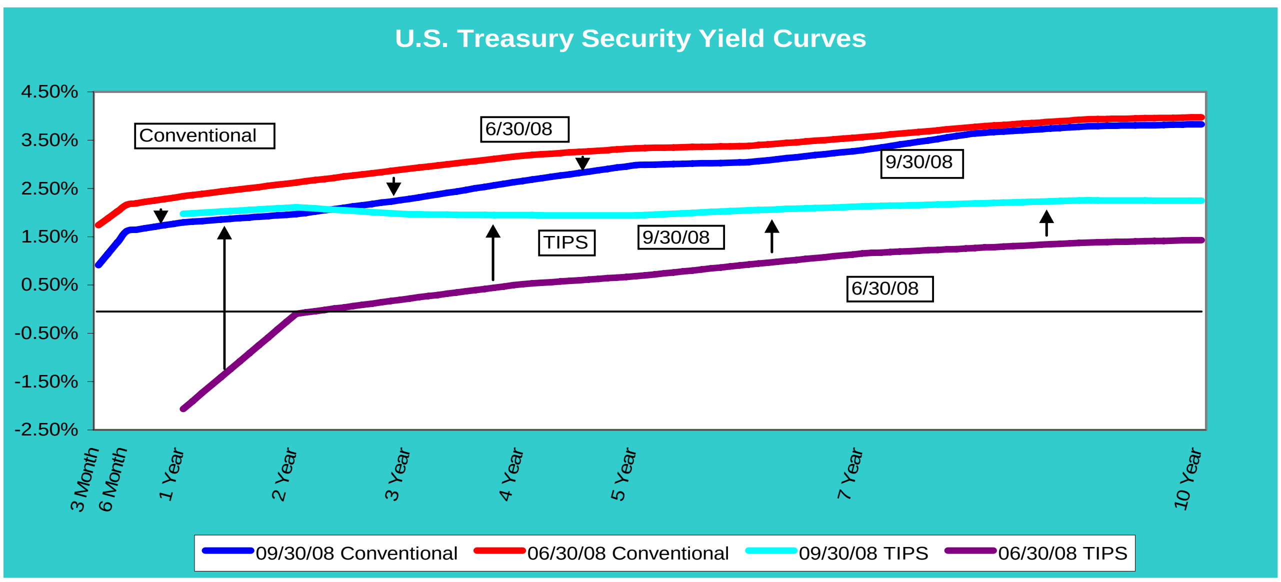
[3] The Yield-to-Maturity includes the potential yield of Treasury Inflation-Protected Securities (TIPS), which assumes an average 2.2% annual increase in the CPI over the remaining life of each TIPS.

[4] For each TIPS, an estimated 80% "yield beta" factor is applied to its real yield duration to arrive at an estimated effective duration.

[5] In early August 2008, management reclassified all of the DIF portfolio's HTM securities as AFS securities effective as of June 30, 2008, because the FDIC could no longer assert it had the positive intent and ability to hold its HTM securities until their maturity dates.

National Liquidation Fund (NLF) Investment Portfolio Summary (Dollar Values in Millions)	9/30/08	12/31/07	Change
Book Value [6]	$2,859	$393	$2,466
Yield-to-Maturity	2.22%	4.22%	(2.00%)
Weighted Average Maturity (in days)	5	19	(14)

[6] Due to the short-term nature of the NLF, the portfolio's Book and Market Values are identical for reporting purposes.



DEPOSIT INSURANCE FUND

Strategy as of 3rd Quarter 2008

Invest all proceeds from assessments, maturing securities, coupon and other interest payments, and receivership dividends in overnight investments for potential resolution funding needs.

Strategy Changes for 4th Quarter 2008

Allow for investing in short-term Treasury bills in addition to overnight investments.

NATIONAL LIQUIDATION FUND

Strategy as of 3rd Quarter 2008

Maintain a target overnight investment balance between $20 million and $25 million.

Strategically invest the remaining funds in the zero- to 12-month maturity sector.

Strategy Changes for 4th Quarter 2008

No changes in strategy.

Executive Summary of 2008 Budget and Expenditures by Major Expense Category Through September 30, 2008 (Dollars in Thousands)

Major Expense Category	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
Ongoing Operations				
Salaries & Compensation	$510,379	$501,788	98%	($8,591)
Outside Services - Personnel	133,585	112,559	84%	(21,026)
Travel	48,996	45,803	93%	(3,193)
Buildings	41,391	42,123	102%	732
Equipment	30,460	33,413	110%	2,953
Outside Services - Other	17,930	16,033	89%	(1,897)
Other Expenses	8,813	7,430	84%	(1,383)
Total Ongoing Operations	**$791,554**	**$759,149**	**96%**	**($32,405)**
Receivership Funding				
Salaries & Compensation	$10,767	$5,357	50%	($5,410)
Outside Services - Personnel	40,492	45,847	113%	5,355
Travel	5,106	5,493	108%	387
Buildings	5,643	3,421	61%	(2,222)
Equipment	8,653	8,703	101%	50
Outside Services - Other	662	2,074	313%	1,412
Other Expenses	2,887	2,979	103%	92
Total Receivership Funding	**$74,210**	**$73,874**	**100%**	**($336)**
Total Corporate Operating Budget	**$865,764**	**$833,023**	**96%**	**($32,741)**
Investment Budget [1]	**$23,791**	**$20,486**	**86%**	**($3,305)**
Grand Total	**$889,555**	**$853,509**	**96%**	**($36,046)**

1) Budgets for investment projects are approved on a multi-year basis; the year-to-date budget amount reflects the 2008 spending estimates for approved projects.

Executive Summary of 2008 Budget and Expenditures by Budget Component and Division/Office Through September 30, 2008 (Dollars in Thousands)

Division/Office	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
Supervision & Consumer Protection	$310,058	$307,033	99%	($3,025)
Information Technology	151,082	148,703	98%	(2,379)
Administration	122,763	116,176	95%	(6,587)
Resolutions & Receiverships	82,116	84,921	103%	2,805
Legal	65,620	59,599	91%	(6,021)
Insurance & Research	26,272	24,251	92%	(2,021)
Finance	22,774	21,027	92%	(1,747)
Inspector General	19,720	17,427	88%	(2,293)
Corporate University	26,290	25,515	97%	(775)
Executive Support [1]	21,608	18,506	86%	(3,102)
Executive Offices [2]	6,442	5,365	83%	(1,077)
Government Litigation	11,019	4,500	41%	(6,519)
Total, Corporate Operating Budget	**$865,764**	**$833,023**	**96%**	**($32,741)**
Investment Budget [3]				
Information Technology	$22,508	$19,531	87%	($2,977)
Resolutions & Receiverships	70	715	1021%	645
Insurance & Research	977	240	25%	(737)
Corporate University	236	0	0%	(236)
Total, Investment Budget [3]	**$23,791**	**$20,486**	**86%**	**($3,305)**
Combined Division/Office Budgets				
Supervision & Consumer Protection	$310,058	$307,033	99%	($3,025)
Information Technology	173,590	168,234	97%	(5,356)
Administration	122,763	116,176	95%	(6,587)
Resolutions & Receiverships	82,186	85,636	104%	3,450
Legal	65,620	59,599	91%	(6,021)
Insurance & Research	27,249	24,491	90%	(2,758)
Finance	22,774	21,027	92%	(1,747)
Inspector General	19,720	17,427	88%	(2,293)
Corporate University	26,526	25,515	96%	(1,011)
Executive Support [1]	21,608	18,506	86%	(3,102)
Executive Offices [2]	6,442	5,365	83%	(1,077)
Government Litigation	11,019	4,500	41%	(6,519)
Grand Total	**$889,555**	**$853,509**	**96%**	**($36,046)**

1) Executive Support includes the Offices of Diversity and Economic Opportunity, Public Affairs, Ombudsman, Legislative Affairs, Enterprise Risk Management, and International Affairs.

2) Executive Offices include the offices of the Chairman, Vice Chairman, Independent Director, Deputy to the Chairman and Chief Operating Officer, and Deputy to the Chairman and Chief Financial Officer.

3) Budgets for investment projects are approved on a multi-year basis; the year-to-date budget amount reflects the 2008 spending estimates for approved projects.