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

August 10, 2009

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: Second Quarter 2009 CFO Report to the Board

The attached report highlights the Corporation's financial activities and results for the period ending June 30, 2009.

Executive Summary

- The Deposit Insurance Fund (DIF) balance decreased by 20 percent ($2.6 billion) to $10.4 billion during the second quarter of 2009. The second quarter 2009 decrease was primarily due to an $11.6 billion increase in provision for insurance losses which was partially offset by a $9.1 billion increase in assessment revenue.

- During the second quarter of 2009, the FDIC was named receiver for 24 failed institutions. The combined assets at inception for these institutions totaled approximately $26.9 billion with an estimated loss totaling $9.0 billion. The corporate cash outlay during the second quarter for these failures was $9.3 billion. Twelve receiverships entered into loss-share agreements with the acquiring institutions and are expected to pay approximately $3.4 billion over the length of the agreements.

- For the six months ending June 30, 2009, Corporate Operating and Investment Budget related expenditures ran below budget by 13 percent ($128.4 million) and 15 percent ($441.0 thousand), respectively. The variance with respect to the Corporate Operating Budget was primarily in the Receivership Funding budget component, where spending in several expense categories was well below budget through the second quarter. This year-to-date budget surplus is expected to be fully utilized in the second half of 2009 as expenses increase in future quarters in connection with recent and additional resolution activity.

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	• Since the beginning of the Temporary Liquidity Guarantee Program (TLGP) in October 2008 to June 30, 2009, the TLGP has $792.0 million in estimated losses upon the failure of 54 participating institutions in the Transaction Account Guarantee Program (TAGP) and has incurred no losses from payment default under the Debt Guarantee Program (DGP). A graph on page 13 shows the DIF receivership claims under the TAGP and the estimated losses by month. Of the $2.1 billion in total receivership TAGP claims and $792.2 million in total estimated TAGP losses, one institution comprises the majority of that amount with $1.5 billion in TAGP claims and $649.8 million in estimated losses. • As of June 30, 2009, TLGP has $7.4 billion in cash and cash equivalents. Note that the TLGP does not currently expect any new guarantees under the DGP after October 31, 2009 and the TAGP is currently scheduled to expire on December 31, 2009 (Note: There is a notice of proposed rulemaking that presents an alternative to extend the TAGP until June 30, 2010).

Trends and Outlook	
Financial Results	Comments
II. Investments	• The DIF investment portfolio's amortized cost (book value) decreased by $5.8 billion during the first half of 2009, and totaled $20.8 billion on June 30, 2009. The decline was largely the result of funding 45 failed institution resolutions during the first half of 2009. However, it should be noted that 20 of these bank and thrift failures were resolved as loss-share transactions (in which the acquirers purchased substantially all of the failed institutions' assets and the FDIC and the acquirers entered into loss-share agreements) requiring little or no initial resolution funding, thus helping to mitigate this quarter's decline in the portfolio value. At quarter end, the DIF investment portfolio yield was 3.89 percent, down 70 basis points from its December 31, 2008, yield of 4.59 percent. The yield decline stemmed from several factors, notably the sale and maturity of generally higher yielding securities, as well as the DIF portfolio ending the quarter with a comparatively high overnight investment balance of $3.7 billion earning an ultra-low 0.10 percent yield. The high quarter-end overnight investment balance was attributable to the receipt of $2.6 billion in assessments and about $209.3 million in receivership dividends on June 30, 2009 (as well as other net cash inflows during June). • Most conventional Treasury market yields increased substantially during the second quarter of 2009, with longer-maturity Treasury securities posting the largest yield increases. Although Treasury yields remain relatively low in light of the weak U.S. economy, the higher yields appeared to reflect a number of factors, including growing sentiment that the U.S. recession might soon be ending, a reversal of flight-to-quality trades, and concerns over the increasing supply of Treasury securities. During the third quarter of 2009, Treasury yields are expected to continue to trade within a range around current levels, and to gradually rise over the course of the rest of the year.

Trends and Outlook	
Financial Results	Comments
III. Budget	• Approximately $565.0 million was spent in the Ongoing Operations component of the 2009 Corporate Operating Budget, which was $12.4 million (2 percent) below the budget for the six months ending June 30, 2009. The Salaries and Compensation expense category was $10.8 million below the year-to-date budget. Spending in the Outside Services - Personnel expense category was $6.3 million greater than the year-to-date budget, but this amount was more than offset by the net under spending in all the remaining expense categories. • Approximately $308.2 million was spent in the Receivership Funding component of the 2009 Corporate Operating Budget, which was $116.0 million (27 percent) below the budget for the six months ending June 30, 2009. The Outside Services - Personnel expense category was nearly $47.6 million below the year-to-date budget, and represented 41 percent of the total Receivership Funding variance. In addition, the Salaries and Compensation and Travel expense categories ran $26.4 million and $20.0 million under their year-to-date budgets, respectively. Collectively, these three expense categories represented 81 percent of the total year-to-date budget variance in the Receivership Funding component.

I. <u>Corporate Fund Financial Results</u> (See pages 12 – 13 for detailed data and charts.)

Deposit Insurance Fund (DIF)

- For the six months ending June 30, 2009, DIF's comprehensive loss totaled $6.9 billion compared with a comprehensive loss of $7.2 billion for the same period last year. This $288.0 million reduction in the year-over-year loss was primarily due to a $10.6 billion increase in assessment revenue partially offset by a $7.5 billion increase in the provision for insurance losses and a $3.0 billion decrease in the unrealized gain on available-for-sale securities (AFS). The continued sale of U.S. Treasury investments to fund resolution activity also contributed to the change in the comprehensive loss as the realized gain from investment sales rose by $657.5 million while the interest income earned from investments declined by $817.5 million. Other revenue also increased by $374.5 million, largely attributable to the collection of debt issuance surcharges under the TLGP.

- Assessment revenue was $11.7 billion as of June 30, 2009 compared with $1.1 billion for the comparable period in 2008. A major reason for this $10.6 billion increase was the recognition of a $5.6 billion receivable for the special assessment to be collected on September 30, 2009. In regular assessment activity, DIF collected approximately $2.6 billion for first quarter 2009 insurance coverage on June 30, 2009 and recognized a $3.4 billion receivable for second quarter insurance coverage to be collected on September 30, 2009. Year-to-date regular assessment revenue totaled approximately $6.0 billion compared with approximately $1.1 billion for the same period in 2008. Major factors contributing to this increase in regular assessment revenue year-over-year include changes to the risk-based assessment regulations, ratings downgrade of many institutions (which pushed them into higher assessment rate categories), the decline of the one-time credit available for use, and a larger assessment base.

- The provision for insurance losses was $18.3 billion as of June 30, 2009 compared with $10.7 billion for the same period in 2008. The total provision consists mainly of the provision for future failures (approximately $8.0 billion) and the losses estimated at resolution for the 45 failures occurring in 2009 (approximately $10.3 billion).

- The year-to-date unrealized losses on AFS securities were $1.3 billion as of June 30, 2009 compared with unrealized gains of $1.7 billion for the comparable period in 2008. Most of the year-to-date unrealized gain reported in June 2008 resulted from a one-time adjustment of $1.6 billion for the transfer of the held-to-maturity securities to the AFS category. For year-to-date 2009, the unrealized losses reflect a combination of: 1) increasing market yields (which lower the securities' unrealized gains, thus resulting in an income statement unrealized loss for the period); and 2) the sale of a significant number of AFS securities (the latter of which were offset by the year-to-date 2009 realized gains of $657.5 million).

- Liabilities due to resolutions were $11.1 billion at June 30, 2009 – an increase of $5.7 billion during the second quarter. This liability represents the amount due to the receiver for assets transferred to the acquirer or bridge bank for use in funding deposits. Two resolutions during the quarter resulted in most of this increase – Bank United, FSB ($3.1 billion) and Silverton Bank ($1.3 billion).

II. Investments

Investment Results (See pages 14 – 15 for detailed data and charts.)

DIF Investment Portfolio

- The amortized cost (book value) of the DIF investment portfolio decreased by $5.8 billion during the first half of 2009, or 21.8 percent, from $26.6 billion on December 31, 2008, to $20.8 billion on June 30, 2009. Similarly, the DIF portfolio's market value dropped by $7.1 billion or 24.6 percent, from $28.8 billion on December 31, 2008, to $21.8 billion on June 30, 2009. Again, the declines were primarily the result of funding failed institution resolutions during the first half of 2009.

- The DIF investment portfolio's total return for the first half of 2009 was -0.681 percent, approximately 175 basis points higher than its benchmark, the Merrill Lynch 1 - 10 Year U.S. Treasury Index (Index), which had a total return of -2.435 percent during the same period. The DIF portfolio's Treasury Inflation-Protected Securities (TIPS) considerably outperformed the Index's conventional Treasury securities. In addition, because the DIF conventional Treasury securities have a lower average duration than the securities held in the Index, and given the large increase in yields on longer duration securities, the DIF's conventional Treasury securities outperformed those in the Index. Finally, the DIF portfolio's high cash balances helped contribute to the positive relative return.

- During the second quarter of 2008, to help fund resolution-related cash outlays, staff sold a total of twenty AFS conventional Treasury securities on four occasions; the securities had a total book value of $4.2 billion, a total market value of $4.7 billion, a weighted average maturity (WAM) of 6.6 years, a weighted average modified duration of 5.3 years, and a weighted average yield at cost of 4.8 percent. These security sales resulted in a realized gain of $521.2 million. On June 30, 2009, the DIF portfolio's overnight investment balance was $3.7 billion (about 17.0 percent of the portfolio by market value), to a large extent reflecting the receipt of approximately $2.6 billion in million regular deposit insurance assessments on June 30, 2009.

Other Corporate Investment Portfolios

- During the second quarter, the book value of the DGP investment portfolio increased from $6.2 billion on March 31, 2009, to $7.5 billion on June 30, 2009. The funds in this portfolio are from the guarantee fees related to the debt guarantee program under the TLGP. Consistent with the approved quarterly investment strategy, all Debt Guarantee Program portfolio funds were invested in overnight investments during the quarter.

- During the second quarter, the Other Systemic Risk Reserves investment portfolio increased from $20.2 million on March 31, 2009 to $80.7 million on June 30, 2009, reflecting the May 15, 2009 receipt of $60.5 million in dividends on the Fixed Rate Cumulative Perpetual Preferred Stock, Series G issued by Citigroup Inc. (Citigroup Stock). Subsequently, the DIF should receive dividends of $60.5 million per quarter from the Citigroup Stock. These funds are segregated and invested separately from DIF's other cash and investments.

- On June 30, 2009, the FDIC collected about $178.7 million in fees related to the TAGP under the TLGP. However, these funds were then immediately transferred to the DIF and the DGP portfolios for reimbursement of claims and expenses paid on the TAGP's behalf, so the TAGP investment portfolio had no balance at month end.

The Treasury Market

- During the second quarter of 2009, most conventional Treasury yields increased substantially, with longer-maturity Treasuries posting the largest yield increases. The three-month Treasury bill (T-Bill) and the six-month T-Bill yields declined, albeit just slightly by 2 basis points and 8 basis points, respectively. The yield on two-year Treasury note, which also is very sensitive to actual and anticipated changes in the federal funds rate, as well as to flight-to-quality concerns, increased by 31 basis points during the second quarter, reflecting some investors' forecast for a higher federal funds target rate by late this year as well as some unwinding of flight-to-quality trades. Intermediate- to longer-maturity Treasury security yields increased substantially; the yield on the five-year Treasury note increased by 90 basis points, while the yield on the ten-year Treasury note increased by 87 basis points. Accordingly, the conventional Treasury yield curve steepened during the second quarter of 2009; on June 30, 2009, the two-year to ten-year yield curve had a 242-basis point positive spread (compared to a positive 186-basis point spread at the beginning of the quarter). Over the past five years, this spread has averaged 83 basis points.

Prospective Strategies

- The third quarter 2009 DIF investment strategy calls for placing all net proceeds from deposit insurance assessments, maturing securities, Temporary Liquidity Guarantee Program surcharges, coupon and other interest payments, and receivership dividends into overnight investment and/or short-term T-Bills in anticipation of using such funds for resolution activities.

- For the DGP and Other Systemic Risk Reserves investment portfolios—which by contrast to the DIF portfolio are in investment mode—the third quarter 2009 investment strategy calls for strategically investing all available funds in overnight investments, and/or in conventional or callable Treasury securities with effective maturity dates not to exceed December 31, 2012.

III. **Budget Results** (See pages 16 – 17 for detailed data.)

Approved Budget Modifications

The 2009 Budget Resolution delegated to the Chief Financial Officer (CFO) and selected other officials the authority to make certain modifications to the 2009 Corporate Operating Budget. The following budget reallocations were made during the second quarter in accordance with the authority delegated by the Board of Directors (they did not change the total 2009 Corporate Operating Budget approved by the Board):

- In April 2009, the CFO approved the reallocation of budget authority within the Salaries and Compensation expense category of the Ongoing Operations component of the 2009 Corporate Operating Budget to reflect updated salary and benefit expense estimates for all divisions and offices, except for the Office of Inspector General. This reallocation followed a comprehensive analysis of the approved authority for salaries, bonuses, and fringe benefits as of March 31, 2009. Excess funds totaling $1,826,717 were identified and reallocated to the Corporate Unassigned budget and will be available to meet new budget requirements that emerge during the year.[1]

- In April 2009, the CFO approved the reallocation of budget authority within the Ongoing Operations component of the 2009 Corporate Operating Budget to provide funding for laptops and other equipment for new employees and contractor staff. The Equipment expense category of the Division of Information Technology (DIT) budget was increased by $2,576,085, and the Corporate Unassigned budget was decreased by the same amount.

- In April 2009, the CFO approved the reallocation of $152,000 in budget authority within the Salaries and Compensation expense category of the Ongoing Operations component of the 2009 Corporate Operating Budget from the budget of the Chief Operating Officer (COO) to the budget of the CFO in connection with the addition of a position in the CFO's office to assume work responsibilities transferred from the COO's office.

[1] The Corporate Unassigned budget within the Ongoing Operations component initially included only $2.5 million in unallocated funding approved by the Board in December 2008 for unanticipated expenses related to the implementation of TLGP, TARP, and other initiatives designed to address the credit and liquidity problems within the U. S. economy. As reported at the end of the first quarter, $1,749,368 was reallocated to this budget in February 2009, in connection with adjustments to the awards budgets of divisions/offices.

- In April 2009, the CFO approved the reallocation of $1,000,000 in budget authority within the Ongoing Operations component of the 2009 Corporate Operating Budget from the Corporate Unassigned budget to the Outside Services – Other budget of the Office of Public Affairs to continue the FDIC public service announcement campaign and outreach focusing on deposit insurance and encouraging the use of the enhanced Electronic Deposit Insurance Estimator (EDIE).

- In May 2009, the CFO approved the reallocation of $34,595,471 in budget authority within the Receivership Funding component of the 2009 Corporate Operating Budget from the Corporate Unassigned budget to the budgets of the Division of Resolutions and Receiverships (DRR), DIT, Division of Administration (DOA), and Corporate University (CU) for the establishment of the temporary East Coast Satellite Office (ECSO)[2]. DRR received $20,386,767 (Salaries and Compensation $18,333,467 and Travel $2,053,300); DIT received $6,619,277 (Salaries and Compensation $403,632, Outside Services – Personnel $559,999, Equipment $5,417,970, and Outside Services–Other $237,676); DOA received $7,452,973 (Salaries and Compensation $1,049,425, Buildings $4,039,212, and Equipment $2,364,336); and CU received $136,454 (all in Salaries and Compensation) of the reallocated budget authority.

- In May 2009, the CFO approved the reallocation of $8,533,213 in budget authority within the Receivership Funding component of the 2009 Corporate Operating Budget from the Corporate Unassigned budget to the Salaries and Compensation budget of DRR to fund 165 newly-authorized positions.

- In May 2009, the CFO approved the reallocation of $787,782 in budget authority within the Receivership Funding component of the 2009 Corporate Operating Budget from the Corporate Unassigned budget to the Salaries and Compensation budget of the Office of the Ombudsman (OO) to fund 12 newly-authorized positions. The reallocation was implemented in June.

Approved Staffing Modifications

The 2009 Budget Resolution delegated to the CFO the authority to modify approved 2009 staffing authorizations for divisions and offices, as long as those modifications did not increase the total approved 2009 Corporate Operating Budget. The following changes were approved by the CFO in accordance with the authority delegated to him by the Board of Directors:

- In April 2009, the CFO approved an increase of one authorized permanent position in the CFO's office to provide support to the COO's staff with its growing Board case review workload, and for work related to Temporary Liquidity Guarantee Program (TLGP), Legacy Loans Program (LLP), and other high priority initiatives. A budget adjustment was made in the Ongoing Operations budget component in conjunction with this approval.

- In April 2009, the CFO approved an increase of 38 authorized positions (14 permanent, 24 non-permanent) in DOA. Most of these positions were approved to address increased

[2] The Corporate Unassigned budget within the Receivership Funding component initially included $64.2 million in unallocated funding approved by the Board in December 2008 for budget requirements that emerge during the year in conjunction with receivership and resolution activities.

workload demands on DOA in Washington and Dallas that are attributable to factors other than the increase in receivership and resolution activity and will be funded through the Ongoing Operations budget component. The CFO determined that sufficient funding would be available for these positions for the balance of 2009 in that budget component through the reallocation of surplus budget authority during the mid-year budget review process.

- In April 2009, the CFO approved an increase of one authorized non-permanent position in the Office of Legislative Affairs to assist with its rapidly growing workload and will be funded through the Ongoing Operations budget component. The CFO determined that sufficient funding would be available for these positions for the balance of 2009 in that budget component through the reallocation of surplus budget authority during the mid-year budget review process.

- In May 2009, the CFO approved an increase of 12 authorized non-permanent positions in OO. These positions will be distributed equally among the Irvine, Jacksonville, and Dallas offices. A budget adjustment was implemented in June in the Receivership Funding budget component in conjunction with this approval.

- In May 2009, the CFO approved an increase of 363 authorized non-permanent positions for the temporary ECSO. The newly authorized positions were in DRR (+343), DOA (+13), DIT (+5), and CU (+2). A budget adjustment was made in the Receivership Funding budget component in conjunction with this approval.

- In May 2009, the CFO approved an increase of three authorized permanent positions in the Office of Enterprise Risk Management to support its rapidly growing risk assessment workload associated with the increase in the corporation's business activities and workload. These positions will be funded through the Ongoing Operations budget component. The CFO determined that sufficient funding would be available for these positions for the balance of 2009 in that budget component through the reallocation of surplus budget authority during the mid-year budget review process.

- In May 2009, the CFO approved an increase of 165 authorized non-permanent positions in DRR for its Dallas (+139), Washington (+21), and Irvine (+5) offices due to current and projected workload. A budget adjustment was made in the Receivership Funding budget component in conjunction with this approval.

Spending Variances

Significant spending variances by major expense category and division/office are discussed below. Significant spending variances for the six months ending June 30, 2009, are defined as those that either (1) exceed the YTD budget by $2 million and represent more than three 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 that exceeds $3 million and represents more than five percent of the major expense category or total division/office budget.

Significant Spending Variances by Major Expense Category

Ongoing Operations

There were significant spending variances in two major expense categories through the second quarter in the Ongoing Operations component of the 2009 Corporate Operating Budget:

- Outside Services-Personnel expenditures were $6.3 million, or 8 percent, more than budgeted. Approximately $2.6 million of this variance was attributable to expenses related to document management services provided to DRR, which were erroneously charged ton the Ongoing Operations budget component (this error will be corrected during the third quarter). In addition, approximately $1.9 million was spent on unbudgeted financial advisory services obtained in connection with preparatory work for the proposed Legacy Loan Program (LLP). The cost of contract services provided in support of IT systems maintenance and server operations also exceeded budgeted amounts during the quarter.

- Buildings expenditures were $3.2 million, or 10 percent, less than budgeted. The variance was due to delays in the relocation and build-outs of the New York Regional Office, the Chicago Regional Office, and the Boston Area Office.

Receivership Funding

The Receivership Funding component of the 2009 Corporate Operating Budget includes funding for expenses that are incurred in conjunction with institution failures and the management and disposition of the assets and liabilities of the ensuing receiverships, except for salary and benefits expenses for permanent employees assigned to the receivership management function.

There were significant spending variances in five major expense categories through the second quarter in the Receivership Funding component of the 2009 Corporate Operating Budget:

- Salaries & Compensation ($26.4 million or 47 percent, less than budgeted).

- Outside Services-Personnel ($47.6 million or 18 percent, less than budgeted).

- Travel ($20.0 million or 68 percent, less than budgeted).

- Outside Services-Other ($8.7 million or 63 percent, less than budgeted).

- Other Expenses ($11.6 million or 46 percent, less than budgeted).

These variances occurred primarily because bank closings have been less costly to administer than anticipated due to the prevalence of structured and whole bank transactions for the first six months of 2009; and budgeted positions have not been filled as quickly as projected in the original Board approved budget. These factors led to lower-than-budgeted costs for asset management and liquidation, outside counsel, travel, and other expenses. With the expected increase in bank failures and resolution activities during the second half of the year, Receivership Funding expenditures should increase each quarter as the number of bank closings increases and the cumulative inventory of assets under management grows. Based on that assumption, we project that all or most of the surplus budget authority in the Receivership Funding budget component will be utilized by year-end.

Significant Spending Variances by Division/Office[3]

Four organizations had significant spending variances through the end of the second quarter:

- DRR spent $72.4 million, or 19 percent, less than budgeted. This reflected the net impact of under spending of approximately $80.4 million in its Receivership Funding budget for the reasons identified above and over spending of approximately $8.0 million in its Ongoing Operations budget due to the coding error referenced above, unbudgeted expenses for financial advisory services for LLP, and higher-than-budgeted expenses for travel in connection with recruiting and selection activities for the temporary West Coast Satellite Office, travel related to IT systems, and employee relocations.

- The Legal Division spent $27.7 million, or 31 percent, less than budgeted. Approximately $23.6 million of this variance was due to under spending in its Receivership Funding budget because budgeted positions were not filled as projected and bank closings and resolution activities have required substantially less contractual legal services to date than anticipated.

- DOA spent $14.9 million, or 14 percent, less than budgeted. This variance was largely attributable to delays in building out and relocating employees to new office space in the Boston Area Office, the Chicago Regional Office, and the New York Regional Office; temporary delays in purchasing Furniture, Fixtures and Equipment for those build outs; and lower-than-expected cost for leasehold improvements due to landlord concessions at the temporary West Coast Satellite Office.

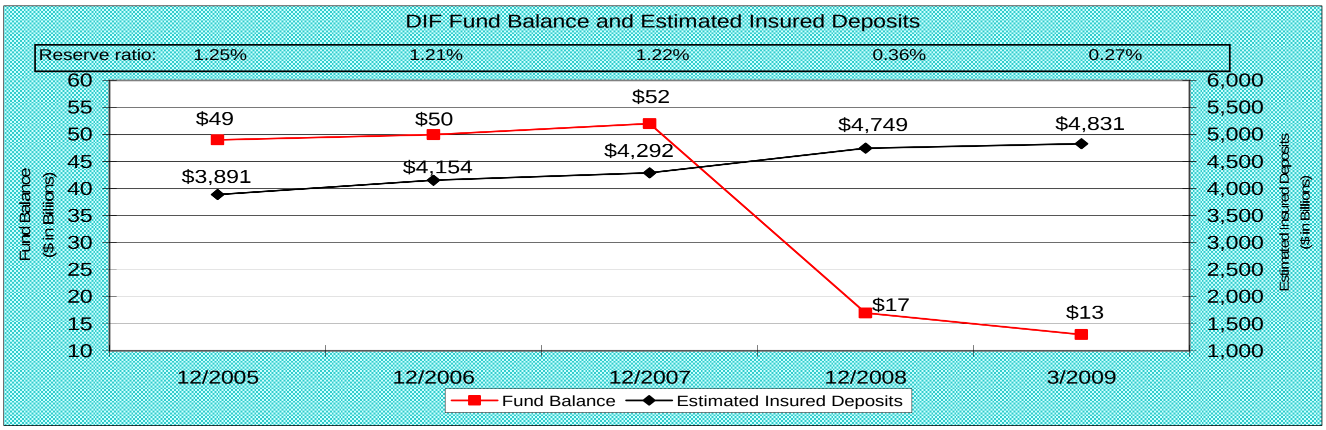
- DIT spent nearly $4.5 million, or 4 percent, more than budgeted. This variance included approximately $1.0 million in unbudgeted systems development and maintenance expenses in support of TLGP. In addition, DIT accelerated its planned purchases of equipment, including $1.0 million for servers and $0.8 million for storage and network monitoring software. Contract expenses for operations and control of the mid-range IT platform also exceeded DIT's year-to-date budget by $1.3 million. Some of these first half expenses may be offset by under spending during the second half of the year.

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

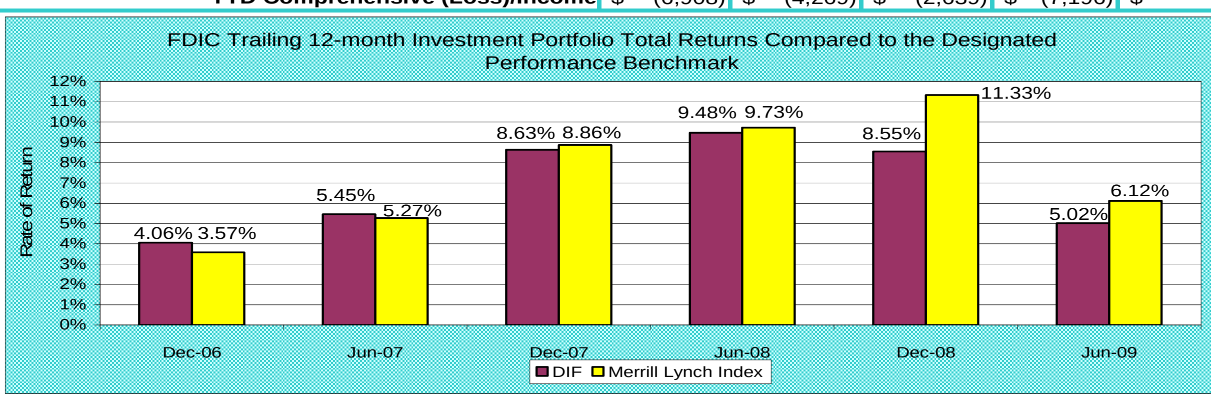
Fund Financial Results

($ in Millions)

Balance Sheet	Deposit Insurance Fund				
	Jun-09	Mar-09	Quarterly Change	Jun-08	Year-Over-Year Change
Cash & cash equivalents - unrestricted	$ 3,633	$ 1,636	$ 1,997	$ 9,257	$ (5,624)
Cash & cash equivalents - restricted - systemic risk	7,360	6,086	1,274	-	7,360
Investment in U.S. Treasury obligations, net	18,019	24,909	(6,890)	43,218	(25,199)
Preferred stock - systemic risk	3,025	3,025	-	-	3,025
Assessments receivable, net	9,048	2,550	6,498	627	8,421
Receivable, net - systemic risk	1,303	683	620	-	1,303
Interest receivable on investments and other assets, net	302	342	(40)	695	(393)
Receivables from resolutions, net	21,729	18,145	3,584	2,179	19,550
Property, buildings and other capitalized assets, net	368	372	(4)	355	13
Total Assets	$ 64,787	$ 57,748	$ 7,039	$ 56,331	$ 8,456
Accounts payable and other liabilities	121	753	(632)	118	3
Liabilities due to resolutions ($763M-TLGP's liability)	11,091	5,420	5,671	90	11,001
Guarantee obligations - systemic risk	10,032	8,396	1,636	-	10,032
Postretirement benefit liability	114	114	0	116	(2)
Contingent Liabilities: future failures	31,968	28,459	3,509	10,590	21,378
Contingent Liabillties: systemic risk	893	1,399	(506)	-	893
Contingent Liabilities: litigation losses & other	200	200	0	200	0
Total Liabilities	$ 54,419	$ 44,741	9,678	11,114	43,305
FYI: Unrealized gain on available-for-sale securities, net	962	1,919	(957)	2,045	(1,083)
FYI: Unrealized postretirement benefit gain	25	25	-	19	6
FUND BALANCE	$ 10,368	$ 13,007	$ (2,639)	$ 45,217	$ (34,849)



Income Statement	Deposit Insurance Fund				
	Jun-09	Mar-09	Quarterly Change	Jun-08	Year-Over-Year Change
Assessments earned	$ 11,710	$ 2,615	$ 9,095	$ 1,088	$ 10,622
Systemic risk revenue	327	34	293	-	327
Interest earned on investment securities	452	212	240	1,269	(817)
Realized gain on sale of securities	657	136	521	-	657
Other revenue	377	2	375	2	375
Total Revenue	$ 13,523	$ 2,999	$ 10,524	$ 2,359	$ 11,164
Operating expenses (includes depreciation expense)	564	266	298	494	70
Systemic risk expenses	327	34	293	-	327
Provision for insurance losses	18,252	6,637	11,615	10,746	7,506
Other expenses	-	-	-	1	(1)
Total Expenses & Losses	$ 19,143	$ 6,937	$ 12,206	$ 11,241	$ 7,902
Net (Loss)/Income	(5,620)	(3,938)	(1,682)	(8,882)	3,262
Unrealized gain/(loss) on available-for-sale securities, net	(1,288)	(331)	(957)	1,686	(2,974)
Unrealized postretirement benefit gain/(loss)	-	-	-	-	-
YTD Comprehensive (Loss)/Income	$ (6,908)	$ (4,269)	$ (2,639)	$ (7,196)	$ 288



Fund Financial Results - continued

($ in Millions)

Statements of Cash Flows — **Deposit Insurance Fund**

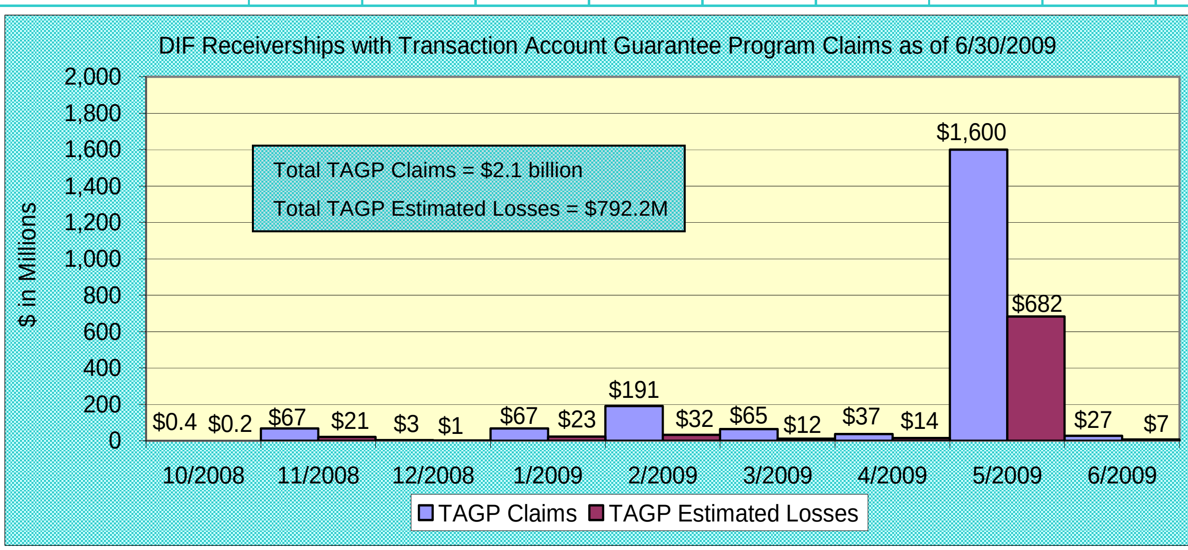
	Jun-09	Mar-09	Quarterly Change	Jun-08	Year-Over-Year Change
Net (Loss)/Income	$ (5,620)	$ (3,938)	$ (1,682)	$ (8,882)	$ 3,262
Amortization of U.S. Treasury obligations (unrestricted)	145	80	65	257	(112)
TIPS Inflation Adjustment	38	57	(19)	(210)	248
Depreciation on property and equipment	33	15	18	27	6
Provision for insurance losses	18,252	6,637	11,615	10,746	7,506
Unrealized gain on postretirement benefits	-	-	-	-	-
(Gain) on sale of UST obligations	(658)	(136)	(522)	-	(658)
Systemic risk expenses	-	-	-	-	-
Net change in operating assets and liabilities	(13,610)	(999)	(12,611)	(1,934)	(11,676)
Net Cash Provided by (Used by) Operating Activities	$ (1,420)	$ 1,716	$ (3,136)	$ 4	$ (1,424)
Investments matured and sold	9,027	2,619	6,408	5,009	4,018
Investments purchased (includes purchase of property and equipment)	(2)	(2)	-	(1)	(1)
Net Cash Provided by (Used by) Investing Activities	$ 9,025	$ 2,617	$ 6,408	$ 5,008	$ 4,017
Net Increase (Decrease) in Cash and Cash Equivalents	7,605	4,334	3,271	5,012	2,593
Cash and Cash Equivalents at beginning of year	3,388	3,388	-	4,245	(857)
Unrestricted Cash and Cash Equivalents - Ending	3,633	1,636	1,997	9,257	(5,624)
Restricted Cash and Cash Equivalents - Ending	7,360	6,086	1,274	-	7,360
Cash and Cash Equivalents - Ending	$ 10,993	$ 7,722	$ 3,271	$ 9,257	$ 1,736

Selected Financial Data — **FSLIC Resolution Fund**

	Jun-09	Mar-09	Quarterly Change	Jun-08	Year-Over-Year Change
Cash and cash equivalents	$ 3,459	$ 3,467	$ (8)	$ 3,444	$ 15
Accumulated deficit, net	(123,955)	(123,944)	(11)	(123,811)	(144)
Resolution equity	3,487	3,498	(11)	3,458	29
Total revenue	7	5	2	43	(36)
Operating expenses	3	1	2	2	1
Goodwill/Guarini litigation expenses	-	-	-	77	(77)
Net Income/(Loss)	$ (7)	$ 4	$ (11)	$ (41)	$ 34

Receivership Selected Statistics June 2009 vs. June 2008

	DIF			FRF			ALL FUNDS		
Year-to-Date ($ in millions)	Jun-09	Jun-08	*Change*	Jun-09	Jun-08	*Change*	Jun-09	Jun-08	*Change*
Total Receiverships	85	22	63	8	9	(1)	93	31	62
Assets in Liquidation	$ 26,467	$ 2,343	$ 24,124	$ 33	$ 34	$ (1)	$ 26,500	$ 2,377	$ 24,123
Collections	$ 4,297	$ 221	$ 4,076	$ 5	$ 4	$ 1	$ 4,302	$ 225	$ 4,077
Dividends Paid - Cash	$ 3,078	$ 232	$ 2,846	$ -	$ 4	$ (4)	$ 3,078	$ 236	$ 2,842



Deposit Insurance Fund Portfolio Summary (Dollar Values in Millions)			
	6/30/09	12/31/08	Change
Par Value	$20,595	$25,496	($4,901)
Amortized Cost	$20,790	$26,580	($5,790)
Market Value	$21,751	$28,830	($7,079)
Primary Reserve [1]	$22,043	$29,227	($7,184)
Primary Reserve % of Total Portfolio	100.0%	100.0%	0.0%
Year-to-Date Total Return (Portfolio)	(0.681%)	8.550%	not applicable
Year-to-Date Total Return (Benchmark) [2]	(2.435%)	11.334%	not applicable
Total Return Variance (in basis points)	175.4	(278.4)	not applicable
Yield-to-Maturity [3]	3.89%	4.59%	(0.70%)
Weighted Average Maturity (in years)	1.84	3.34	(1.50)
Effective Duration (in years) [4]			
Total Portfolio	1.65	2.85	(1.20)
Available-for-Sale Securities	1.99	2.94	(0.95)
Held-to-Maturity Securities [5]	not applicable	not applicable	

[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 1.1% annual increase in the CPI over the remaining life of each TIPS.

[4] For each TIPS, an estimated 80 percent "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 posititive intent and ability to hold its HTM securities until their maturity dates.

Summary of Other Corporate Investment Portfolios (Dollar Values in Millions)			
	6/30/09	12/31/08	Change
Debt Guarantee Program			
Book Value [6]	$7,536	$2,425	$5,111
Yield-to-Maturity	0.10%	0.11%	(0.01%)
Weighted Average Maturity	overnight	overnight	no change
Transaction Account Guarantee Program			
Book Value [6]	$0	$0	$0
Yield-to-Maturity	not applicable	not applicable	not applicable
Weighted Average Maturity	not applicable	not applicable	not applicable
Other Systemic Risk Reserves			
Book Value [6]	$81	$0	$81
Yield-to-Maturity	0.10%	not applicable	not applicable
Weighted Average Maturity	overnight	not applicable	not applicable
FRF-FSLIC			
Book Value [6]	$3,317	$3,325	($8)
Yield-to-Maturity	0.10%	0.11%	(0.01%)
Weighted Average Maturity	overnight	overnight	no change

[6] Due to the current short-term nature of these portfolios, each of their respective Par, Book, and Market Values are identical for reporting purposes.

National Liquidation Fund (NLF) Investment Portfolio Summary (Dollar Values in Millions)			
	6/30/09	12/31/08	Change
Book Value [7]	$6,163	$3,447	$2,716
Yield-to-Maturity	0.40%	1.21%	(0.81%)
Weighted Average Maturity (in days)	30	23	7

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

Investment Strategies

DEPOSIT INSURANCE FUND

Strategy as of 2nd Quarter 2009

Invest all proceeds from deposit insurance assessments, Temporary Liquidity Guarantee Program surcharges, maturing securities, coupon and other interest payments, and receivership dividends in overnight investments and/or in short-term Treasury bills in anticipation of using such funds for resolution activities.

Strategy Changes for 3rd Quarter 2009

No changes in strategy.

DEBT GUARANTEE PROGRAM

Strategy as of 2nd Quarter 2009

Strategically invest all available funds in overnight investments and/or in conventional or callable Treasury securities with effective maturity dates not to exceed December 31, 2012.

Strategy Changes for 3rd Quarter 2009

No changes in strategy.

NATIONAL LIQUIDATION FUND

Strategy as of 2nd Quarter 2009

Maintain an overnight deposit balance within a target range of $15 million to $25 million.

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

Strategy Changes for 3rd Quarter 2009

No changes in strategy.

Executive Summary of 2009 Budget and Expenditures
by Major Expense Category
Through June 30, 2009
(Dollars in Thousands)

Major Expense Category	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
Ongoing Operations				
Salaries & Compensation	$387,371	$376,526	97%	($10,845)
Outside Services - Personnel	78,332	84,674	108%	6,342
Travel	36,982	37,205	101%	223
Buildings	31,216	27,984	90%	(3,232)
Equipment	25,899	25,071	97%	(828)
Outside Services - Other	10,990	8,947	81%	(2,043)
Other Expenses	6,680	4,639	69%	(2,041)
Total Ongoing Operations	**$577,470**	**$565,046**	**98%**	**($12,424)**
Receivership Funding				
Salaries & Compensation	$55,763	$29,395	53%	($26,368)
Outside Services - Personnel	258,290	210,694	82%	(47,596)
Travel	29,500	9,471	32%	(20,029)
Buildings	26,156	26,476	101%	320
Equipment	15,235	13,226	87%	(2,009)
Outside Services - Other	13,940	5,199	37%	(8,741)
Other Expenses	25,321	13,719	54%	(11,602)
Total Receivership Funding	**$424,205**	**$308,180**	**73%**	**($116,025)**
Total Corporate Operating Budget	**$1,001,675**	**$873,226**	**87%**	**($128,449)**
Investment Budget [1]	**$3,029**	**$2,588**	**85%**	**($441)**
Grand Total	**$1,004,704**	**$875,814**	**87%**	**($128,890)**

1) Budgets for investment projects are approved on a multi-year basis; the year-to-date budget amount reflects the 2009 spending estimates for approved projects.

Executive Summary of 2009 Budget and Expenditures by Budget Component and Division/Office Through June 30, 2009 (Dollars in Thousands)

Division/Office	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
Supervision & Consumer Protection	$240,376	$228,213	95%	($12,163)
Information Technology	109,220	114,089	104%	4,869
Administration	106,770	91,855	86%	(14,915)
Resolutions & Receiverships	374,296	301,945	81%	(72,351)
Legal	88,082	60,382	69%	(27,700)
Insurance & Research	17,741	16,840	95%	(901)
Finance	15,581	13,939	89%	(1,642)
Inspector General	13,578	11,882	88%	(1,696)
Corporate University	18,637	19,513	105%	876
Executive Support [1]	12,987	11,056	85%	(1,931)
Executive Offices [2]	4,407	3,512	80%	(895)
Total, Corporate Operating Budget	**$1,001,675**	**$873,226**	**87%**	**($128,449)**
Investment Budget [3]				
Information Technology	$2,617	$2,277	87%	($340)
Resolutions & Receiverships	153	95	62%	(58)
Insurance & Research	259	216	83%	(43)
Total, Investment Budget [3]	**$3,029**	**$2,588**	**85%**	**($441)**
Combined Division/Office Budgets				
Supervision & Consumer Protection	$240,376	$228,213	95%	($12,163)
Information Technology	111,837	116,366	104%	4,529
Administration	106,770	91,855	86%	(14,915)
Resolutions & Receiverships	374,449	302,040	81%	(72,409)
Legal	88,082	60,382	69%	(27,700)
Insurance & Research	18,000	17,056	95%	(944)
Finance	15,581	13,939	89%	(1,642)
Inspector General	13,578	11,882	88%	(1,696)
Corporate University	18,637	19,513	105%	876
Executive Support [1]	12,987	11,056	85%	(1,931)
Executive Offices [2]	4,407	3,512	80%	(895)
Grand Total	**$1,004,704**	**$875,814**	**87%**	**($128,890)**

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, Deputy to the Chairman and Chief Financial Officer, and Deputy to the Chairman for External Affairs.

3) Budgets for investment projects are approved on a multi-year basis; the year-to-date budget amount reflects the 2009 spending estimates for approved projects.