November 4, 2005

MEMORANDUM TO: The Board of Directors

FROM: Arthur J. Murton, Director
Division of Insurance and Research

SUBJECT: SAIF Assessment Rates for the First
Semiannual Assessment Period of 2006

Recommendation

The staff recommends that the Board maintain the existing Savings Association

Insurance Fund (SAIF) assessment rate schedule of 0 to 27 basis points (bp) [1] per year. This rate

schedule complies with the statutory requirements of the Federal Deposit Insurance Act for the

Board to establish a risk-based assessment system and set assessments only to the extent

necessary to maintain the SAIF at the Designated Reserve Ratio (DRR) of 1.25 percent.

Concur:

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William F. Kroener, III
General Counsel

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[1] Although the current effective rate schedule is 0 to 27 basis points, the base rate schedule, established in 1995, is
still 4 to 31 basis points.

Summary

Staff believes that the SAIF reserve ratio is likely to remain above the DRR throughout the assessment period. Therefore, staff recommends maintaining the existing assessment rate schedule. Based on June 30, 2005 data and projected ranges for the relevant variables at June 30, 2006, this rate schedule would result in an average annual assessment rate of approximately 0.1 basis points (bp).

Staff has considered a range of plausible events that could produce significant movements in the SAIF reserve ratio. The staff's methodology provides ranges for: (1) estimated insurance losses primarily based on changes to the contingent liability for anticipated failures (contingent loss reserve), (2) interest income and changes in the market value of available-for-sale (AFS) securities due to changes in interest rates, and (3) growth of insured deposits.

ANALYSIS

In setting assessment rates since the capitalization of the SAIF, the Board must consider: (1) the probability of failure and likely amount of loss to the fund posed by individual insured institutions; (2) the statutory requirement to maintain the fund at the DRR, currently 1.25 percent, and (3) all other relevant statutory provisions.[2]

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[2] By statute, the Board must review and weigh the following factors when establishing an assessment schedule: a) the probability and likely amount of loss to the fund posed by individual institutions; b) case resolution expenditures and income; c) expected operating expenses; d) the revenue needs of the fund; e) the effect of assessments on the earnings and capital of fund members; and f) any other factors that the Board may deem appropriate.

Projections for the SAIF Reserve Ratio over the Next Assessment Period

Staff's point estimate for the SAIF reserve ratio as of June 30, 2006 is 1.29 percent. The lower and upper bounds of the likely range for the SAIF reserve ratio as of June 30, 2006 are 1.24 percent and 1.33 percent, respectively. The lower bound of the estimated range is just slightly below the statutory requirement of 1.25 percent.

The following is an analysis of the anticipated effect of changes in the fund balance and the rate of insured deposit growth on the projected reserve ratio as of June 30, 2006.

1. Fund Balance

Staff evaluates three significant inputs to project the fund balance. First, staff estimates the effect of probable insurance losses, which are primarily losses from failed institutions. Second, staff estimates the amount of interest income that the fund will receive through June 30, 2006. Third, staff projects the level of unrealized gains and losses on available-for-sale (AFS) securities through June 30, 2006.

A. Insurance Losses

Insurance losses primarily consist of two components: a contingent liability for anticipated failures (contingent loss reserve) and an allowance for losses on institutions that have already failed. The Financial Risk Committee (FRC) recommends the amount of the contingent loss reserve each quarter. This recommendation represents the FRC's best estimate of "probable and estimable" SAIF losses from potential institution failures, as required by generally accepted accounting principles. Actual results could differ from these estimates. As of June 30, 2005, the

SAIF loss reserve stood at $0.6 million. The SAIF loss reserve increased to $1 million as of September 30, 2005.

Staff has estimated a likely range of insurance losses based on projected changes in the contingent loss reserve for the period ending June 30, 2006. These projections are influenced by several factors, including: (1) the shifting of problem institutions among different risk categories within the reserve, (2) the reduction in problem institutions due to improved financial conditions, mergers, or failures, and (3) the addition of new problem institutions. To capture the effects of these changes, staff uses a migration approach, which estimates the probabilities of institutions entering into or leaving the group of institutions included in the contingent loss reserve as well as the probability of institutions moving between loss reserve risk categories. These probabilities are based on the recent history of changes to the reserve. Other factors driving changes in the contingent loss reserve are changes in expected failure rates and changes in rates of loss in the event of failure. For purposes of estimating the contingent loss reserve, staff assumes that failure and loss rates remain constant through the period.

Based on consideration of the above factors, staff estimates that potential loss provisions for failures for the twelve months ending June 30, 2006 will range from $0 to $55 million, with a best estimate of $21 million.[3] Table 1 shows the range of potential loss provisions for failures as well as provisions for net losses/recoveries on resolution receivables, and litigation losses.

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[3] Staff estimates that the balance of the contingent loss reserve as of June 30, 2006 will range from $0.2 million to $52 million, with a best estimate of $20 million.

Table 1
Potential Provisions and Adjustments for Loss Allowances
For the Twelve Months Ending June 30, 2006

	Low (High Provision) Estimate	Best Estimate	High (Low Provision) Estimate
Provision Related to Future Failures (1)	$55 million	$21 million	$0
Provision for Closed Institutions' Net Recoveries (2)	$13 million	$0	-$13 million
Other Provisions (3)	$3 million	$0	-$3 million
Potential Provision for Losses*	**$71 million**	**$21 million**	**-$16 million**

* Figures may not add to totals due to rounding.

Notes:

(1) Includes provisions required to bring the contingent loss reserve to estimated June 30, 2006 levels after accounting for a) actual losses sustained in the third quarter of 2005 ($0) and b) estimated losses sustained through June 30, 2006 ($1 million under the Best Estimate). Changes in the contingent loss reserve occur because of failures, mergers, improvement in existing problem institutions' conditions, deterioration of existing problem institutions, and the addition of new problem institutions to the problem institutions list.

(2) The best estimate includes a third quarter 2005 provision of -$75,000 due primarily to lower estimated losses on receivables from prior failures. Low and high estimates assume a range around the best estimate of -5% to +5% of the estimated net recovery value of institution resolution receivables totaling $257 million as of June 30, 2005.

(3) Range is based on the standard deviation of changes in the year-end contingent liability for litigation losses and other contingent liabilities (e.g., representations, warranties, and asset securitization guaranties) for the period 1998 to 2004.

Staff believes that the range provided by the statistical migration analysis adequately represents the most likely range of additional provisions needed to cover insurance losses from future failures. However, the bounds of this range do not represent "best case" and "worst case" scenarios, and larger or smaller provisions could occur. [4]

SAIF-insured institutions in general appear to be well positioned to withstand considerable financial stress from unlikely economic shocks. Staff has considered economic stress events as they relate to specific risk concerns enumerated in the industry outlook contained

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[4] FDIC staff economists, working with academic researchers, have developed an alternative approach to measure risks posed to the insurance funds. This approach, referred to as the Loss Distribution Model or LDM, employs many of the same techniques and methods used in credit risk and economic capital models employed by large financial companies to measure and manage risk. The LDM provides estimates of failure-related losses that are most likely given current industry conditions, as well as failure-related losses that might result from changes in the condition of the economy and the industry. Using the LDM, staff developed alternative SAIF loss provisions related to future failures. The results are close to those of the statistical migration analysis shown in Table 1 and lead to a similar projected range (and best estimate) for the reserve ratio as of June 30, 2006.

in Tab 1. To determine the potential insurance fund implications of these concerns, staff has run several two-year stress event simulations based on data through June 2005 affecting institutions specializing in residential mortgages, subprime loans, commercial real estate mortgages, commercial and industrial loans, and consumer loans. The results of each simulation, which were derived from historical stress events, demonstrate that SAIF-insured institutions are well positioned to withstand a significant degree of financial adversity. In no case did the stress simulation results raise any significant concerns.

Therefore, staff believes that widespread deterioration in thrift industry performance is unlikely in the next one-to-two years. However, if the stress conditions analyzed were to persist beyond a two-year horizon, it is possible that the effects on bank performance could be more severe. Furthermore, the historical experiences underlying the stress scenarios may be less applicable in the future. For example, greater "democratization" of credit, an introduction of new and higher risk mortgage products, larger securitization volumes, and higher household debt levels in recent years could increase the magnitude of stress on institution conditions from potential future problems in the consumer, residential mortgage, and commercial real estate sectors. Thus, conclusions drawn from stress scenario analyses should be treated with some degree of caution.

The Effects of Hurricane Katrina on the Deposit Insurance Funds

Staff believes it is too early to make a reasonable estimate of the effects of Hurricane Katrina on the deposit insurance fund balances. There remains substantial uncertainty about the ultimate effects of Katrina on the credit quality of Gulf Coast financial institution loan portfolios.

The economic dislocations as well as the adverse effects on collateral values and the repayment capacity of borrowers resulting from the hurricane may stress the balance sheets of several financial institutions in the region. It will take some time to determine to what degree the expected influx of insurance payments and financial assistance from Government and private sources will reduce the stress on the affected banks and mitigate risks to the deposit insurance funds. Staff continues to evaluate a range of possible outcomes for economic damage, insurance proceeds, and Government assistance. At this point, staff deems that an adjustment either to the point estimate or the range of projected insurance loss provisions shown in Table 1 would be premature.

B. Interest Income and Unrealized Gains and Losses on AFS Securities

Staff relied upon expert forecasts as detailed in the *Blue Chip Financial Forecasts* to develop interest rate projections and analyze the potential effect of changes in interest rates on interest income and unrealized gains and losses on AFS securities. The forecasts defined as our "best estimate" were the consensus forecasts through the second quarter of 2006 as detailed in the September issue of the *Blue Chip Financial Forecasts*. Adopting the experts' consensus forecasts also allows for forecasted yield curves that change in shape over time.[5]

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[5] Staff also developed alternative interest rate projections using actual forward rates available as of approximately the same time that the projections in the September *Blue Chip Financial Forecasts* were generated. Forward rates are expected yields on securities of varying maturities for specific future points in time that are derived from the term structure of interest rates. (The term structure of interest rates refers to the relationship between current yields on comparable securities with different maturities.) Staff developed upper and lower bounds using historical differences between actual interest rates and corresponding forward rates. The projections using forward rates incorporate only a small increase in short-term interest rates with virtually no change in long-term interest rates over the assessment period. However, projections using more current forward rates (early October 2005) indicate an increase in short-term rates that is largely comparable to the consensus forecast. In addition, Federal funds futures prices as of early October imply an increase in the short-term interest rates similar to that of the consensus forecast. Much uncertainty remains about how long-term interest rates will respond to an increase in the federal funds rate over the assessment period, with experts sharply divided over the probability of a steeper vs. a flatter yield curve. Given recent market information and uncertainty regarding the outlook for long-term interest rates, staff believes the

Along with forecasting yield curves based upon the experts' forecasts, staff also calculated upper and lower bounds for interest rates using the historical differences between the experts' forecasts and the actual interest rates. These bounds vary over the assessment period and change in shape over time, as opposed to being parallel shifts in rates. The bounds are consistent with the notion that the projections represent the most likely scenarios and that the actual rates may be above or below the projections. In general, the projections indicate rising rates for the period under consideration. Charts showing the projected rates, upper bound, and lower bound are included as Appendix A to this case. Table 2 shows projections for low, best, and high estimates for interest income and unrealized gains and losses on AFS securities using the forecast rates and upper and lower bounds. Because of the significant percentage of AFS securities held in the insurance fund portfolio at this time, when interest rates change, the magnitude of the resulting change in market value of these securities outweighs the effect of changes in interest income.

Blue Chip consensus forecasts are reasonable. However, use of the forward rates would produce similar projections for the reserve ratio to those based on the *Blue Chip* forecasts.

Table 2
Potential Interest Income and
Unrealized Gains (Losses) on AFS Securities
July 1, 2005 to June 30, 2006 ($ in millions)

	Low Estimate (1)	Best Estimate (1)	High Estimate (1)
Interest Income	605	600	595
Unrealized Gain (Loss) on AFS Securities (2)	-112	-70	-29
Net Fund Contribution from Investment Activities	**493**	**530**	**566**

Notes:
(1) The Low Estimate is calculated using upper bound interest rates, the Best Estimate is calculated using the projected rates, and the High Estimate is calculated using the lower bound rates. Higher interest rates generally correspond to lower unrealized gains (higher unrealized losses) on AFS securities. On the other hand, because interest rates are generally higher in the Low Estimate than in the other two, overall interest revenue is also higher in that scenario.
(2) Figures include actual investment income and unrealized gains/losses on AFS securities for the third quarter of 2005 and projected investment income and gains/losses for the remaining period through June 30, 2006.

Staff's best estimate reflects recent trends in market interest rates as well as expert forecasts. Since the Board last considered semiannual assessment rates, short-term Treasury yields have increased as the Federal Reserve raised the target for the federal funds rate by 125 basis points. Long-term Treasury yields were virtually unchanged over the same period, largely due to continued foreign capital inflows to the U.S. and historically low and stable long-term inflationary expectations. These diverging trends in short-term and long-term interest rates led to a further flattening of the yield curve. Experts forecast a gradual and largely parallel increase in short-term and long-term Treasury yields over the nine-month period ending in June 2006 as the economy continues to grow at a robust pace and short-term inflationary concerns loom larger. Some reduction in the value of AFS securities should be expected if interest rates rise at a pace similar to staff's best estimate. As the remaining maturity of the existing AFS portfolio shortens, previously identified unrealized gains will also dissipate. Over the longer term, higher yields on

Treasury securities will boost overall interest earnings as securities reprice upward and as the proceeds from maturing securities are reinvested at higher rates.

C. Projected Fund Balance

Table 3 summarizes the effects on the fund balance of the low, best, and high estimates assumed for insurance losses, interest income, and unrealized gains and losses on AFS securities. The projection also assumes that the current assessment rate schedule will remain in effect through June 30, 2006.

Table 3
Projected Fund Balance (1)
($ in millions)

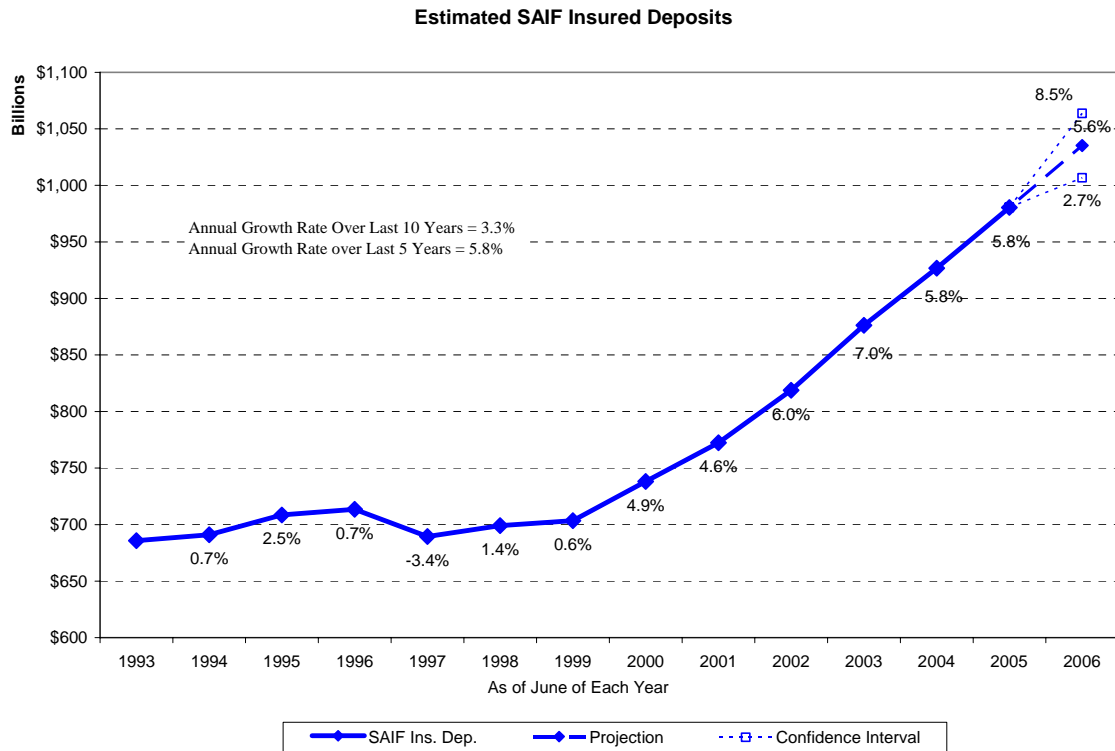|	Lower Bound	Best Estimate	Upper Bound
Assessments (2)	10	10	10
Interest Income (3)	605	600	595
Total Revenue	615	610	605
Operating Expenses (4)	120	120	120
Provision for Losses	71	21	-16
Total Expenses & Losses	191	141	104
Net Income	424	470	502
Unrealized Gain (Loss) on AFS Securities (3)	-112	-70	-29
Comprehensive Income (Loss) (5)	312	400	473
Fund Balance – 6/30/05	12,929	12,929	12,929
Projected Fund Balance – 6/30/06	13,241	13,329	13,402

Notes:
(1) Projected income and expense figures are for the twelve months ending June 30, 2006. Figures may not sum exactly to totals due to rounding.
(2) Assumes that the current assessment rate schedule remains in effect through June 30, 2006.
(3) See notes to Table 2 for an explanation of changes in interest revenue and unrealized gains (losses) on AFS securities.
(4) Projected operating expenses are based on the Board approved 2005 annual budget for July through December, and the most current projected budget for January through June 2006.
(5) Comprehensive Income is used instead of Net Income due to the magnitude of the change in market value of AFS securities that occurs with fluctuations in interest rates. See note (3) above.

2. Insured Deposits

Figure 1 shows that SAIF-insured deposit growth rates since 1994, measured as of June of each year from the previous June, have been as high as 7.0 percent and as low as -3.4 percent. After positive growth rates of 0.7 percent, 2.5 percent and 0.7 percent in 1994, 1995 and 1996, respectively, SAIF-insured deposits declined 3.4 percent in 1997. Following modest growth in 1998 and 1999, SAIF-insured deposits increased at a significantly faster pace, with annual growth rates ranging between 4.6 percent and 7.0 percent through June of this year.

Figure 1

Estimated SAIF Insured Deposits

Staff's best estimate for insured deposit growth over the four quarters ending June 2006 is 5.6 percent. Based upon the June 30, 2005 fund balance, it takes approximately $7.5 billion in insured deposit growth (0.8 percent) to reduce the SAIF reserve ratio by 1 basis point.

Based on projections using a statistical model, the best judgment of the staff is that SAIF-insured deposits are likely to experience a growth rate in the range of 2.7 percent to 8.5 percent between June 2005 and June 2006.[6] Staff's point estimate is based on the midpoint of this range (5.6 percent), which will bring total SAIF-insured deposits to $1.04 trillion. Insured deposits grew more rapidly over the most recent reported 12-month period (June 2004 to June 2005) than the long-term historical experience, upon which staff bases the model. If this recent rapid growth continues, insured deposits may grow at a rate closer to the upper end of our forecast range. Additionally, staff notes that in previous periods of Federal Reserve tightening, insured deposit growth has strengthened as short-term rates rise.   Another factor that could result in higher insured deposit growth would be a lackluster stock market performance coupled with stock price volatility. In contrast, a rising stock market and strong U.S. economic growth could result in a lower growth rate for insured deposits.

3. SAIF Reserve Ratio

Based on the projected SAIF balance and the growth of the insured deposit base, the best estimate of the SAIF reserve ratio as of June 30, 2006 is 1.29 percent (Table 4). The best estimate assumes modest loss provisions for future failures, moderately rising Treasury yields, and insured deposit growth of 5.6 percent over the four quarters ending June 30, 2006.

Staff projects the lower bound and upper bound of the likely range to be 1.24 percent and 1.33 percent, respectively (Table 4). The lower bound, which reflects an 8 bp decrease from the

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[6] Specifically, the statistical model explains growth in insured deposits as dependent on current and last quarter growth in domestic deposits (both insured and uninsured) as well as on last quarter's growth in insured deposits. The range corresponds to a 95 percent confidence interval. That is, to the extent that insured deposits can be described by their past growth and by growth in domestic deposits, staff is 95 percent certain that actual growth of insured deposits for the year ending June 30, 2006 will lie in this range. The growth rate predicted by the model, i.e., the point estimate, is the midpoint of this range. Thus, it is considered the most likely growth rate for insured deposits.

June 30, 2005 ratio, assumes a strong increase in the insured deposit base (8.5 percent growth) and higher interest rates that reduce the fund balance by raising unrealized losses on AFS securities (Table 3). The lower bound also incorporates the high insurance loss estimate as projected by staff. Although the estimate reflects staff's view of a reasonably possible adverse scenario, it is not intended to represent a "worst case" scenario.

The upper bound produces a 1 bp increase in the reserve ratio relative to June 30, 2005 levels. This estimate assumes an increase of 2.7 percent in the SAIF-insured deposit base, a zero loss provision for future failures, and a more modest increase in interest rates, which results in smaller unrealized losses on AFS securities.

Table 4
Projected SAIF Reserve Ratios
($ in millions)

	June 30, 2005		
Fund Balance	$12,929		
Estimated Insured Deposits	$980,417		
SAIF Ratio	1.32%		
	Lower Bound (1) **June 30, 2006**	**Best Estimate (2)** **June 30, 2006**	**Upper Bound (3)** **June 30, 2006**
Projected Fund Balance	$13,241	$13,329	$13,402
Estimated Insured Deposits	$1,063,648	$1,035,195	$1,006,741
Estimated SAIF Ratio	1.24%	1.29%	1.33%

Notes:
(1) The Lower Bound refers to the scenario of higher loss provisions (Low Estimate in Table 1), the higher end of the range for interest rates (Low Estimate in Table 2), and insured deposit growth of 8.5 percent.
(2) The Best Estimate refers to a baseline scenario of moderate loss provisions (Best Estimate in Table 1), moderately rising interest rates (Best Estimate in Table 2), and insured deposit growth of 5.6 percent.
(3) The Upper Bound refers to the scenario of lower loss provisions (High Estimate in Table 1), the lower end of the range for interest rates (High Estimate in Table 2), and insured deposit growth of 2.7 percent.

Staff's point estimate of the reserve ratio for June 30, 2006 is 4 bp higher than the DRR but represents a decline of 3 bp from the ratio at June 30, 2005. Staff believes several factors will contribute to a decline in the reserve ratio between now and June 30, 2006:

- The most significant factor influencing the reserve ratio's projected decline is the projected strong growth in insured deposits. Staff believes that insured deposits are likely to experience a growth rate of 5.6 percent.

- Interest rates continue to move higher. Unrealized gains on AFS securities will decline even in a stable interest rate environment because these gains disappear as securities move closer to their maturity dates. With rates moving higher, reductions in unrealized gains (or increases in unrealized losses) can be expected to continue.

- Although staff remains optimistic about industry prospects, reserves for anticipated losses are already at low levels and preclude any material reversals to loss provisions going forward.

As a result of these considerations, staff believes that the SAIF reserve ratio is likely to decrease over the four quarters ending in June 2006. Because the point estimate and upper bound for the SAIF reserve ratio are greater than the DRR of 1.25 percent, and the lower bound is only slightly below the DRR, staff believes that it is reasonable to maintain the existing SAIF rate schedule.

Risk-Based Assessment System.

The staff recommends retaining the current spread of 27 bp between the assessments paid by the best- and worst-rated institutions as well as the rate spreads between adjacent cells in the assessment rate matrix. The proposed assessment rate schedule appears in Table 5. The Board previously determined that the current rate spreads provide appropriate incentives for weaker institutions to improve their condition and for all institutions to avoid excessive risk-taking, consistent with the goals of risk-based assessments and existing statutory provisions.

Table 5
Proposed Assessment Rate Schedule
First Semiannual Assessment Period of 2006
SAIF-Insured Institutions

Capital Group	A	B	C
1. Well	0 bp	3 bp	17 bp
2. Adequate	3 bp	10 bp	24 bp
3. Under	10 bp	24 bp	27 bp

In setting assessment rates to achieve and maintain the reserve ratio at the target DRR, the Board is required to consider the effects of assessments on members' earnings and capital. The estimated revenue for the second half of 2005 and the first half of 2006 from the existing rate schedule is approximately $10 million. In recommending that the Board maintain this schedule, the staff has considered the effect on thrift earnings and capital of the current rate schedule and found no unwarranted adverse effects.

The Assessment Base Distribution and Matrix Migration

Table 6 summarizes the current distribution of institutions across the assessment matrix.

Table 6
SAIF Assessment Base Distribution (1)
Assessable Deposits as of June 30, 2005
Supervisory Subgroup and Capital Groups in Effect July 1, 2005

Capital Group		A		B		C	
1. Well	Number	1,039	93.1%	60	5.4%	11	1.0%
	Base ($billion)	$1,190	98.1%	$21	1.7%	$2	0.2%
2. Adequate	Number	4	0.4%	1	0.1%	0	0.0%
	Base ($billion)	$0	0.0%	$0	0.0%	$0	0.0%
3. Under	Number	0	0.0%	0	0.0%	1	0.1%
	Base ($billion)	$0	0.0%	$0	0.0%	$0	0.0%

Estimated assessment revenue 7/1/05 to 6/30/06 $10 million
Assessment Base $1,214 billion
Average assessment rate (bp) 7/1/05 to 6/30/06   0.09 basis points

Notes:
(1) "Number" reflects the number of SAIF members (excludes BIF-Oakar institutions). "Base" reflects all SAIF-assessable deposits.

With 98.8 percent of the number of institutions and 99.8 percent of the assessment base in the three lowest assessment risk classifications of "1A," "1B," and "2A," as of July 1, 2005, the current distribution in the rate matrix reflects little fundamental difference from the previous semiannual assessment period. The current distribution reflects a slight decrease in the percentage of institutions and of the assessment base in the best-rated premium category. Since the previous assessment period, 12 institutions migrated into the "1A" risk classification (Table 7), and 15 institutions migrated out of the "1A" risk classification. Only 77 institutions are currently classified outside of the best risk classification.

Table 7
SAIF Migration To and From Assessment Risk Classification "1A"

Institutions entering "1A"	Number	Base ($billion)
Due to capital group reclassification only	2	3.2
Due to supervisory subgroup reclassification only	10	1.3
Due to both	0	0.0
Total	12	4.5
Institutions leaving "1A"	**Number**	**Base ($billion)**
Due to capital group reclassification only	4	0.9
Due to supervisory subgroup reclassification only	11	5.2
Due to both	0	0.0
Total	15	6.1

Notes: The table reflects SAIF-insured institutions that moved in and out of assessment risk classification "1A" from the first semiannual assessment period of 2005 to the second semiannual assessment period of 2005. The numbers only include institutions that were rated in both periods. The table does not reflect other assessment risk classification migrations that are not either to or from "1A."

More broadly, considering all institutions, the supervisory subgroup component of the risk classification was upgraded since the previous period for 10 institutions with an assessment base of $1.3 billion and was downgraded for 12 institutions with an assessment base of $5.3 billion.

Other Issues

FICO Assessment. The Deposit Insurance Funds Act of 1996 (Funds Act) separates the Financing Corporation (FICO) assessment from the FDIC assessment, so that the amount assessed on individual institutions by the FICO is in addition to the amount paid according to the SAIF rate schedule. All institutions are assessed the same rate by FICO, as provided for in the Funds Act, and the FICO rate is updated quarterly. The FICO rate for the first quarterly payment

in the first semiannual assessment period of 2006 will be determined using September 30, 2005

Call Report and Thrift Financial Report data.

STAFF CONTACTS

For information about deposit insurance and FICO assessments, please contact Matthew

Green, Chief, Fund Analysis and Pricing Section, Division of Insurance and Research, at (202)

898-3670, or Joe DiNuzzo, Counsel, Legal Division, at (202) 898-7349.

Appendix A – Interest Rate Assumptions

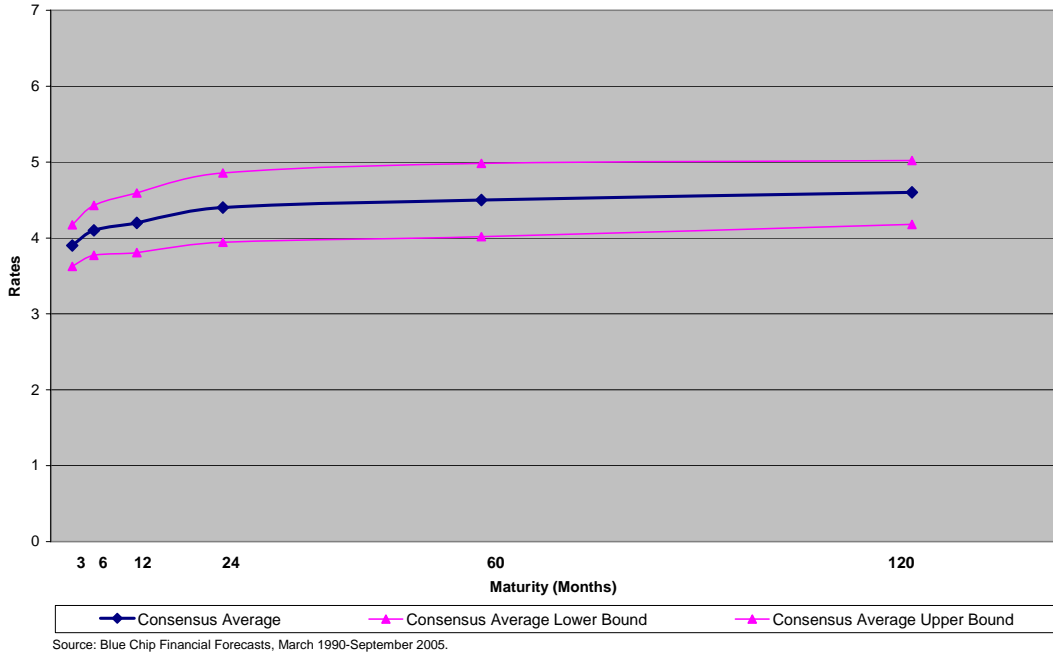**Figure 1: Estimated Yield Curve and Interval for Fourth Quarter 2005**

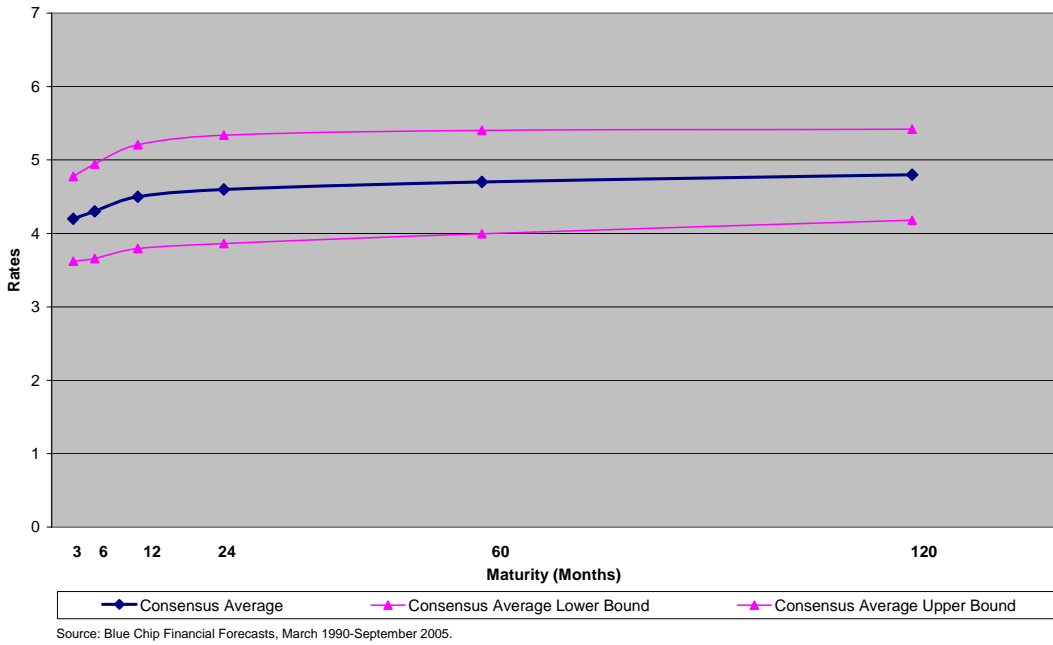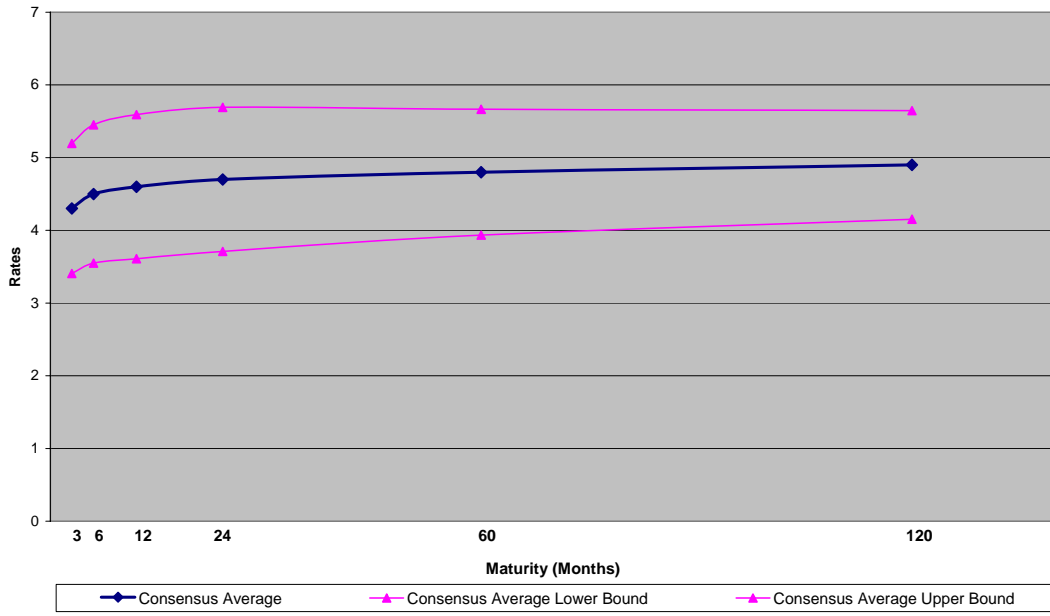**Figure 2: Estimated Yield Curve and Interval for First Quarter 2006**

Figure 3: Estimated Yield Curve and Interval for Second Quarter 2006

Source: Blue Chip Financial Forecasts, March 1990-September 2005.

Concur:

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Jodey C. Arrington
Chief of Staff