FDIC Quarterly

Quarterly Banking Profile:
Fourth Quarter 2008

The 2009 Economic Landscape:
How the Recession Is Unfolding across Four U.S. Regions

Alternative Financial Services:
A Primer

FDIC 75 YEARS
CONFIDENCE AND STABILITY

2009, Volume 3, Number 1

The ***FDIC Quarterly*** is published by the Division of Insurance and Research of the Federal Deposit Insurance Corporation and contains a comprehensive summary of the most current financial results for the banking industry. Feature articles appearing in the ***FDIC Quarterly*** range from timely analysis of economic and banking trends at the national and regional level that may affect the risk exposure of FDIC-insured institutions to research on issues affecting the banking system and the development of regulatory policy.

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The Federal Deposit Insurance Corporation Celebrates Its 75th Year *See page ii.*

Quarterly Banking Profile: *Fourth Quarter 2008*

FDIC-insured institutions reported a net loss of $32.1 billion in the fourth quarter of 2008, a decline of $32.7 billion from the $575 million that the industry earned in the fourth quarter of 2007 and the first quarterly loss since 1990. Rising loan-loss provisions, large writedowns of goodwill and other assets, and sizable losses in trading accounts all contributed to the industry's net loss. More than two-thirds of all insured institutions were profitable in the fourth quarter, but their earnings were outweighed by large losses at a number of big banks. *See page 1.*

Insurance Fund Indicators

Estimated insured deposits (based on the basic FDIC insurance limit of $100,000) increased by 4.6 percent in the fourth quarter. The Deposit Insurance Fund reserve ratio fell to 0.40 percent, and 12 FDIC-insured institutions failed during the quarter. *See page 15.*

Temporary Liquidity Guarantee Program

The FDIC Board approved the Temporary Liquidity Guarantee Program (TLGP) in response to major disruptions in credit markets. The TLGP improves access to liquidity for participating institutions by fully guaranteeing non-interest-bearing transaction deposit accounts and by guaranteeing eligible senior unsecured debt. More than 85 percent of FDIC-insured institutions have opted in to the Transaction Account Guarantee Program, and more than 8,000 eligible entities have elected the option to participate in the Debt Guarantee Program. Over $680 billion in non-interest-bearing transaction accounts was guaranteed as of December 31, 2008, and $224 billion in guaranteed senior unsecured debt, issued by 64 entities, was outstanding at year-end. *See page 18.*

Feature Articles:

The 2009 Economic Landscape: How the Recession Is Unfolding across Four U.S. Regions

Events in the U.S. and global financial markets are powerful drivers of the recession that began in 2007. However, this economic downturn is unfolding in unique ways across the various regional economies. The following series of articles takes a closer look at the distinct way that this recession is playing out in four major regions of the country.

Alternative Financial Services: A Primer

Alternative financial services (AFS) is a term often used to describe the array of financial services offered by companies that are not federally insured banks and thrifts. It sometimes also refers to financial services that are offered through alternative channels, such as the Internet or mobile phones. This article provides an overview of AFS and a description of the key products and services in this sector. It is intended as a primer for banks and others who are interested in understanding the competitive landscape in the financial services industry and exploring suitable opportunities in the AFS sector. *See page 39.*

The Federal Deposit Insurance Corporation Celebrates Its 75th Year

FDI 75 YEARS

CONFIDENCE AND STABILITY

Chairman Bair and the Federal Deposit Insurance Corporation (FDIC) officially launched the agency's 75th anniversary on June 16, 2008. The Corporation is celebrating this milestone with a campaign to promote awareness of deposit insurance and coverage limits, as well as to reinforce its ongoing commitment to consumers through an initiative to enhance financial literacy and improve consumer savings. Please visit our 75th anniversary web site for more information at www.fdic.gov/anniversary.

The FDIC is an independent government agency that has been protecting Americans' savings for 75 years. Created in 1933, the FDIC promotes public trust and confidence in the U.S. banking system by insuring deposits.

The FDIC insures more than $4.7 trillion of deposits in over 8,300 U.S. banks and thrifts—deposits in virtually every bank and thrift in the country. Throughout our 75-year history, no one has ever lost a penny of insured deposits as a result of a bank failure.

In addition to immediately responding to insured depositors when a bank fails, the FDIC monitors and addresses risks to the Deposit Insurance Fund, and directly supervises and examines approximately 5,100 institutions that are not members of the Federal Reserve System. The FDIC—with a staff of more than 4,900 employees nationwide—is managed by a five-person Board of Directors, all of whom are appointed by the President and confirmed by the Senate, with no more than three being from the same political party. Sheila C. Bair heads this board as the 19th Chairman of the Federal Deposit Insurance Corporation.

INSURED INSTITUTION PERFORMANCE

- ***Industry Posts $32.1 Billion Quarterly Loss***
- ***Loan-Loss Expenses, Goodwill Writedowns, and Trading Losses Outstrip Revenues***
- ***Asset Quality Indicators Show Further Deterioration***
- ***Domestic Deposits Register Strong Growth***
- ***Full-Year Net Income of $10.2 Billion Is Lowest Since 1989***

Note to Readers: *Shortly after the original release of the Fourth Quarter 2008* Quarterly Banking Profile, *amended financial reports were received that significantly changed aggregate fourth quarter and full-year earnings. Accordingly, this issue has been updated from the original release to reflect the changes. Updated results include substantially higher charges for goodwill impairment in the fourth quarter, which affected the industry's aggregate net income and total equity capital. As a result of the amended reports, the industry's fourth quarter net loss widened from $26.2 billion to $32.1 billion, and net income for all of 2008 was revised from $16.1 billion to $10.2 billion.*

Industry Reports First Quarterly Loss Since 1990

Expenses associated with rising loan losses and declining asset values overwhelmed revenues in the fourth quarter of 2008, producing a net loss of $32.1 billion at insured commercial banks and savings institutions. This is the first time since the fourth quarter of 1990 that the industry has posted an aggregate net loss for a quarter. The −0.94 percent quarterly return on assets (ROA) is the worst since the −1.10 percent in the second quarter of 1987. A year ago, the industry reported $575 million in profits and an ROA of 0.02 percent. High expenses for loan-loss provisions, large writedowns of goodwill and other assets, and sizable losses in trading accounts all contributed to the industry's net loss. A few very large losses were reported during the quarter—four institutions accounted for half of the total industry loss—but earnings problems were widespread. One out of every three institutions reported a net loss in the fourth quarter. Only 36 percent of institutions reported year-over-year increases in quarterly earnings, and only 33 percent reported higher quarterly ROAs.

Provisions for Loan Losses Are More than Double Year-Earlier Total

Insured banks and thrifts set aside $69.4 billion in provisions for loan and lease losses during the fourth quarter, more than twice the $32.1 billion that they set aside in the fourth quarter of 2007. Loss provisions represented 50.4 percent of the industry's net operating revenue (net interest income plus total noninterest income), the highest proportion since the second quarter of 1987 when provisions absorbed 53.2 percent of net operating revenue. As in the fourth quarter of 2007, a few institutions reported unusually large trading losses, while others took substantial charges for impairment of goodwill. Goodwill impairment charges and other intangible asset expenses rose to $21.9 billion, from $11.5 billion in the fourth quarter of 2007. Trading activities

Chart 1

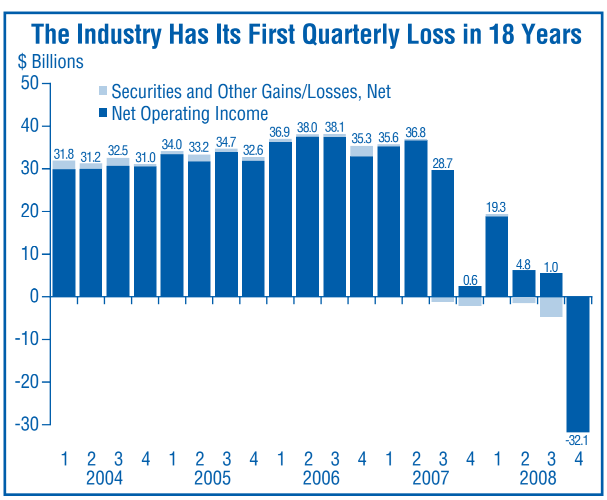
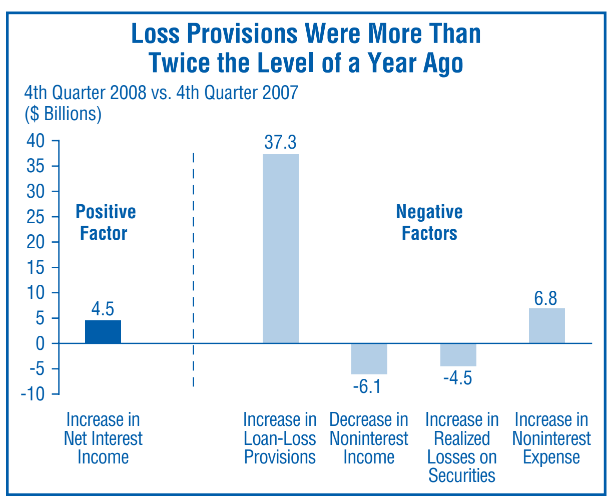


Chart 2



produced a $9.2 billion net loss in the quarter, compared to a loss of $11.2 billion a year earlier. These are the only two quarters in the past 25 years in which trading revenues have been negative. Other negative earnings factors included a $6.1 billion (13 percent) year-over-year decline in noninterest income, and $8.1 billion in realized losses on securities and other assets in the quarter, more than twice the $3.7 billion in losses realized a year earlier. The reduction in noninterest income was driven by declines in servicing income (down $3.1 billion from a year earlier) and securitization income (down $2.6 billion, or 52.3 percent).

Average Net Interest Margin at Community Banks Falls to 20-Year Low

Net interest income totaled $97.0 billion in the fourth quarter, an increase of $4.5 billion (4.9 percent) from the fourth quarter of 2007. The average net interest margin (NIM) was 3.34 percent in the quarter, up slightly from 3.32 percent a year earlier but lower than the 3.37 percent average in the third quarter. The year-over-year margin improvement was confined mostly to larger institutions. More than half of all institutions (56 percent) reported lower NIMs. At institutions with less than $1 billion in assets, the average margin was 3.66 percent, compared to 3.85 percent a year earlier and 3.78 percent in the third quarter. This is the lowest quarterly NIM for this size group of institutions since the second quarter of 1988. At larger institutions, the average NIM improved from 3.24 percent a year earlier to 3.30 percent, slightly below the 3.32 percent average of the third quarter. When short-term interest rates are low and declining, it is more difficult for banks to reduce the rates they pay for deposits without causing deposit outflows. The cost of short-term nondeposit liabilities, in contrast, tends to follow movements in short-term interest rates more closely. Community banks fund more than two-thirds of their assets with domestic interest-bearing deposits, whereas larger institutions fund less than half of their assets with these deposits. As rates fell in the fourth quarter, average funding costs declined at larger institutions but remained unchanged at community banks.

Full-Year Earnings Fall to Lowest Level in 19 Years

Net income for all of 2008 was $10.2 billion, a decline of $89.8 billion (89.8 percent) from the $100 billion the industry earned in 2007. This is the lowest annual earnings total since 1989, when the industry earned $10.0 billion. The ROA for the year was 0.08 percent, the lowest since 1987, when the industry reported a net loss. Almost one in four institutions (23.6 percent) was unprofitable in 2008, and almost two out of every three institutions (62.8 percent) reported lower full-year earnings than in 2007. Loss provisions totaled $174.4 billion in 2008, an increase of $105.2 billion (152 percent) compared to 2007. Total noninterest income was $25.6 billion (11 percent) lower as a result of the industry's first-ever full-year trading loss ($1.8 billion), a $5.8-billion (27.4-percent) decline in securitization income, and a $6.6-billion negative swing in proceeds from sales of loans, foreclosed properties, and other assets. As low as the full-year reported earnings total was, it could easily have been worse. If the effect of failures and purchase accounting for mergers that occurred during the year is excluded from reported results, the industry would have posted a net loss in 2008.[1] The magnitude of many year-over-year income and expense comparisons is muted by the impact of these structural changes and their accounting treatments.

Quarterly Net Charge-Off Rate Matches Previous High

Net loan and lease charge-offs totaled $38.0 billion in the fourth quarter, an increase of $21.7 billion (132.7 percent) from the fourth quarter of 2007. The annual-

[1] Under purchase accounting rules that apply to bank mergers, income and expenses that have been booked by an acquired institution are reset to zero as of the date when a change in ownership occurs. Income and expenses that have been accrued prior to that date are reflected in adjustments to the assets, equity capital, and reserves of the acquired institution and are not reflected in subsequent reporting of year-to-date income and expense.

Chart 3

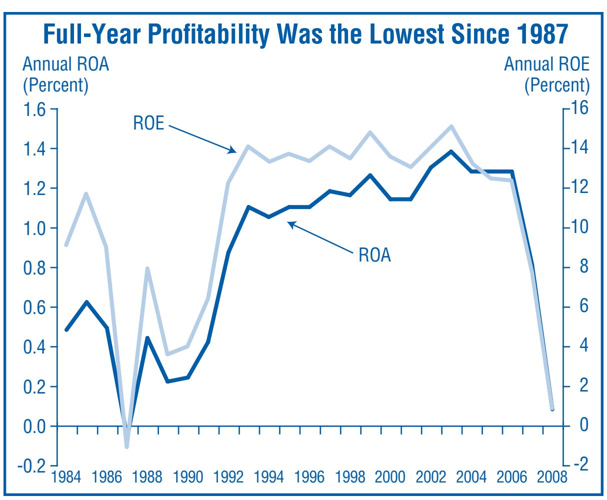
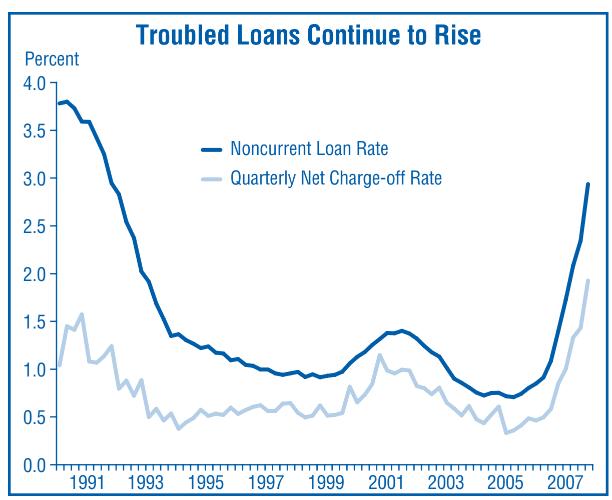


Chart 4



ized quarterly net charge-off rate was 1.92 percent, the highest level in the 25 years that institutions have reported quarterly net charge-offs. The year-over-year increase in quarterly net charge-offs was led by real estate construction and development loans (up $6.1 billion, or 450.9 percent), closed-end 1–4 family residential mortgage loans (up $4.6 billion, or 206.7 percent), commercial and industrial (C&I) loans (up $3.1 billion, or 98.2 percent), and credit cards (up $2.5 billion, or 60.1 percent). Charge-offs in all major loan categories increased from a year ago. Real estate loans accounted for almost two-thirds of the total increase in charge-offs (64.7 percent).

Noncurrent Loans Register Sizable Increase in the Fourth Quarter

The amount of loans and leases that were noncurrent rose sharply in the fourth quarter, increasing by $44.2 billion (23.7 percent). Noncurrent loans totaled $230.8 billion at year-end, up from $186.6 billion at the end of the third quarter. More than two-thirds of the increase during the quarter (69.4 percent) came from loans secured by real estate. Noncurrent closed-end 1–4 family residential mortgages increased by $18.4 billion (24.1 percent) during the quarter, while noncurrent C&I loans rose by $7.6 billion (42.8 percent). Noncurrent home equity loans increased by $3.0 billion (39.0 percent), and noncurrent loans secured by nonfarm nonresidential real estate increased by $3.0 billion (20.9 percent). In the 12 months ended December 31, total noncurrent loans at insured institutions increased by $120.1 billion (108.5 percent). At the end of the year, the percentage of loans and leases that were noncurrent stood at 2.93 percent, the highest level since the end of 1992. Real estate construction loans had the highest noncurrent rate of any major loan category at year-end, at 8.55 percent, up from 7.30 percent at the end of the third quarter.

Reserve Coverage Ratio Slips to 16-Year Low

Total reserves increased by $16.6 billion (10.6 percent) in the fourth quarter. Insured institutions added $31.4 billion more in loss provisions to reserves than they took out in charge-offs, but the impact of purchase accounting from a few large mergers in the quarter limited the overall growth in industry reserves.[2] The growth in reserves, coupled with a decline in industry loan balances, caused the industry's ratio of reserves to total loans to increase during the quarter from 1.96 percent to 2.20 percent, a 14-year high. However, the increase in reserves did not keep pace with the sharp rise in noncurrent loans, and the industry's ratio of reserves to noncurrent loans fell from 83.9 percent to 75.0 percent. This is the lowest level for the "coverage ratio" since the third quarter of 1992.

Goodwill Writedowns Produce Drop in Total Equity Capital

Total equity capital declined for a third consecutive quarter, falling by $10.1 billion (0.8 percent) in the fourth quarter. A $45.5-billion (12.8-percent) decline in goodwill and a $16.5-billion reduction in other comprehensive income were the main reasons for the decline. In contrast, regulatory capital, which does not include goodwill and is not affected by unrealized losses on securities (which are included in other comprehensive income), increased during the quarter. Tier 1 leverage capital increased by $22.8 billion (2.3 percent), to $1 trillion at year-end. Total regulatory capital increased by $28.0 billion (2.2 percent) during the quarter, to $1.28 trillion. For the full year, equity capital fell by $51.2 billion. Other comprehensive income, which includes unrealized gains and losses on securities held for sale, declined by $61.2 billion, and goodwill fell by $41.1 billion. Even though the industry's dividends fell by more than half in 2008 compared to 2007, the $51.0 billion paid out in 2008 exceeded the year's net income

[2] See footnote 1.

Chart 5

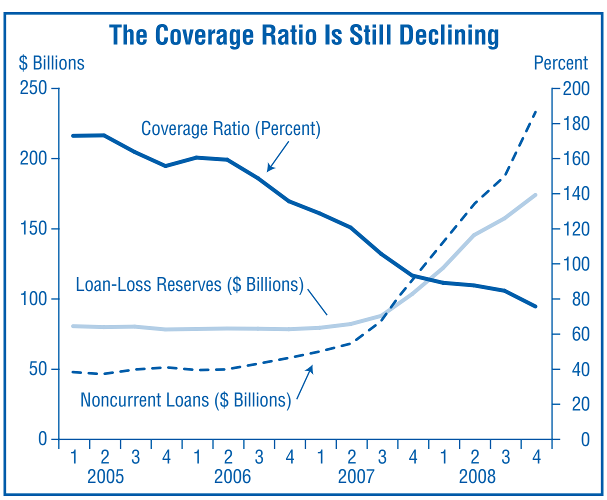
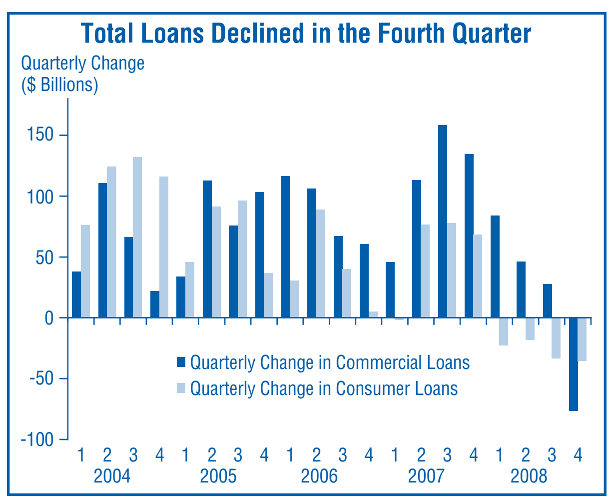


Chart 6



by almost $41 billion. Of the 5,631 insured institutions that paid dividends in 2007, more than half (55 percent) reduced their dividends in 2008, including 502 institutions (9 percent) that eliminated their dividends. At the end of 2008, 97.5 percent of all insured institutions, representing 98.7 percent of industry assets, met or exceeded the highest regulatory capital standards.

Balances at Federal Reserve Banks Increased by $342 Billion in the Quarter

Total assets of insured institutions increased by $274.2 billion (2.0 percent) in the fourth quarter. The growth was driven by a $341.7-billion (194.3-percent) increase in balances with Federal Reserve banks. While 1,069 banks reported increases in reserve balances during the quarter, five banks accounted for more than half of the entire industry increase. Net loans and leases fell by $131.4 billion (1.7 percent), as several large institutions restructured their loan portfolios. Three large banks accounted for all of the decline in the industry's loans during the fourth quarter; most institutions grew their loan balances in the quarter. Almost two-thirds of all institutions (64.7 percent) reported increases in their loans and leases, while only about half as many institutions (2,865 institutions, or 34.5 percent of all reporters) had declines in their loan portfolios.

Deposit Share of Asset Funding Rises

Total deposits increased by $307.9 billion (3.5 percent) in the fourth quarter, the largest percentage increase in a quarter in ten years. Deposits in domestic offices grew by $274.1 billion (3.8 percent), with interest-bearing domestic deposits rising by $242.8 billion (4.2 percent). Brokered deposits increased by $101.8 billion (15.3 percent). Deposits in foreign offices increased by $33.8 billion (2.2 percent) during the quarter. Deposit growth outpaced growth in total assets, and at the end of 2008, deposits funded 65.3 percent of industry assets, the highest proportion since mid-year 2007. Nondeposit liabilities fell by $23.6 billion (0.7 percent), as Federal Home Loan Bank advances declined by $124.0 billion (13.6 percent), and Federal funds purchased and securities sold under repurchase agreements declined by $54.7 billion (5.8 percent).

Trust Activities Receded in 2008

In a difficult year for financial markets, it was not surprising that trust activities at insured institutions diminished. Total managed fiduciary assets declined in 2008 by $1.1 trillion (25.1 percent), while non-managed assets fell by $3.4 trillion (19.6 percent), and assets in custodial and safekeeping accounts fell by $7.7 trillion (13.2 percent). Net fiduciary income was $1.1 billion (8.3 percent) less in 2008 than in 2007.

Failures and Assistance Transactions Rose to 15-Year High in 2008

The number of FDIC-insured commercial banks and savings institutions reporting financial results fell to 8,305 at the end of 2008, down from 8,384 at the end of the third quarter. The net decline of 79 institutions was the largest since the first quarter of 2002. Fifteen new institutions were chartered in the fourth quarter, the smallest number in any quarter since the third quarter of 1994. Seventy-eight insured institutions were absorbed into other institutions through mergers, and 12 institutions failed during the quarter (five other institutions received FDIC assistance in the quarter). For all of 2008, there were 98 new charters, 292 mergers, 25 failures, and 5 assistance transactions. This is the largest number of failed and assisted institutions in a year since 1993, when there were 50. At year-end, 252 insured institutions with combined assets of $159 billion were on the FDIC's "Problem List." These totals are up from 171 institutions with $116 billion in assets at the end of the third quarter, and 76 institutions with $22 billion in assets at the end of 2007.

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Chart 7

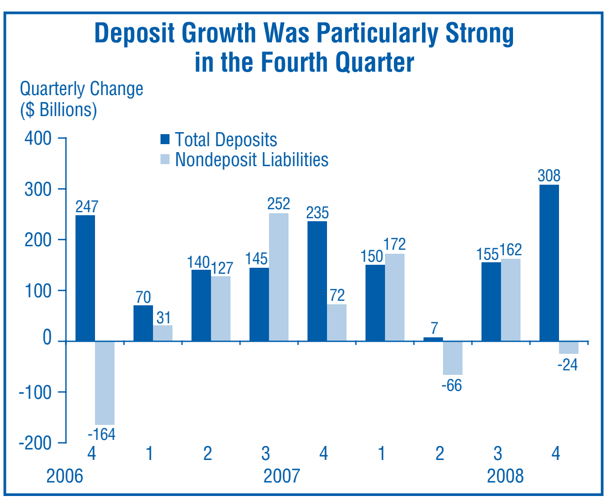

Chart 8

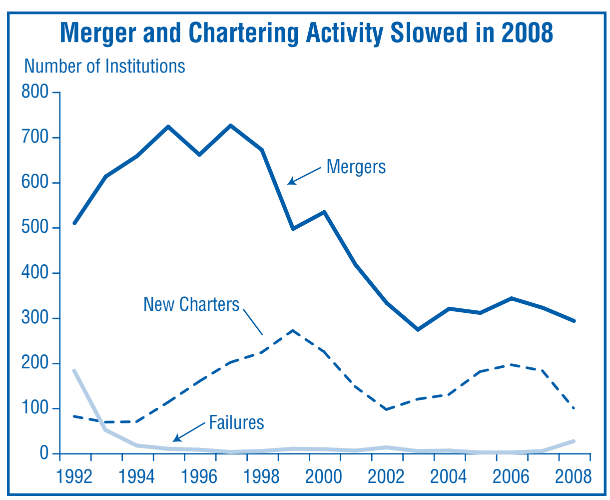

TABLE I-A. Selected Indicators, All FDIC-Insured Institutions*

	2008	2007	2006	2005	2004	2003	2002
Return on assets (%)	0.08	0.81	1.28	1.28	1.28	1.38	1.30
Return on equity (%)	0.79	7.75	12.30	12.43	13.20	15.05	14.08
Core capital (leverage) ratio (%)	7.49	7.97	8.22	8.25	8.11	7.88	7.86
Noncurrent assets plus other real estate owned to assets (%)	1.88	0.94	0.54	0.50	0.53	0.75	0.90
Net charge-offs to loans (%)	1.28	0.59	0.39	0.49	0.56	0.78	0.97
Asset growth rate (%)	6.24	9.89	9.04	7.63	11.37	7.58	7.20
Net interest margin (%)	3.18	3.29	3.31	3.47	3.52	3.73	3.96
Net operating income growth (%)	-85.70	-27.58	8.52	11.43	3.99	16.38	17.58
Number of institutions reporting	8,305	8,534	8,680	8,833	8,976	9,181	9,354
Commercial banks	7,085	7,283	7,401	7,526	7,631	7,770	7,888
Savings institutions	1,220	1,251	1,279	1,307	1,345	1,411	1,466
Percentage of unprofitable institutions (%)	23.59	12.07	7.94	6.22	5.97	5.99	6.67
Number of problem institutions	252	76	50	52	80	116	136
Assets of problem institutions (in billions)	$159	$22	$8	$7	$28	$30	$39
Number of failed institutions	25	3	0	0	4	3	11
Number of assisted institutions	5	0	0	0	0	0	0

* Excludes insured branches of foreign banks (IBAs).

TABLE II-A. Aggregate Condition and Income Data, All FDIC-Insured Institutions

(dollar figures in millions)	4th Quarter 2008	3rd Quarter 2008	4th Quarter 2007	%Change 07Q4-08Q4
Number of institutions reporting	8,305	8,384	8,534	-2.7
Total employees (full-time equivalent)	2,153,247	2,170,931	2,215,029	-2.8
CONDITION DATA				
Total assets	$13,847,284	$13,573,065	$13,034,074	6.2
Loans secured by real estate	4,704,149	4,749,500	4,781,832	-1.6
1-4 Family residential mortgages	2,044,840	2,102,109	2,241,455	-8.8
Nonfarm nonresidential	1,068,203	1,043,174	968,765	10.3
Construction and development	590,177	615,891	629,452	-6.2
Home equity lines	667,505	652,127	611,389	9.2
Commercial & industrial loans	1,496,321	1,503,734	1,439,122	4.0
Loans to individuals	1,088,780	1,082,719	1,058,462	2.9
Credit cards	444,685	411,627	421,818	5.4
Farm loans	59,908	59,504	56,786	5.5
Other loans & leases	531,278	597,344	572,625	-7.2
Less: Unearned income	5,204	2,790	2,309	125.4
Total loans & leases	7,875,231	7,990,011	7,906,518	-0.4
Less: Reserve for losses	173,163	156,530	102,552	68.9
Net loans and leases	7,702,069	7,833,481	7,803,966	-1.3
Securities	2,035,605	2,025,444	1,954,146	4.2
Other real estate owned	26,618	22,960	12,127	119.5
Goodwill and other intangibles	423,198	484,149	461,744	-8.3
All other assets	3,659,794	3,207,031	2,802,091	30.6
Total liabilities and capital	13,847,284	13,573,065	13,034,074	6.2
Deposits	9,035,676	8,727,757	8,415,375	7.4
Domestic office deposits	7,496,369	7,222,236	6,912,800	8.4
Foreign office deposits	1,539,307	1,505,522	1,502,575	2.4
Other borrowed funds	2,575,254	2,732,527	2,516,753	2.3
Subordinated debt	185,467	176,833	185,393	0.0
All other liabilities	754,565	629,552	569,065	32.6
Equity capital	1,296,322	1,306,396	1,347,488	-3.8
Loans and leases 30-89 days past due	158,186	121,380	107,999	46.5
Noncurrent loans and leases	230,809	186,560	110,708	108.5
Restructured loans and leases	23,968	18,942	6,926	246.1
Direct and indirect investments in real estate	948	910	1,097	-13.6
Mortgage-backed securities	1,299,829	1,261,316	1,236,004	5.2
Earning assets	11,768,835	11,492,995	11,304,844	4.1
FHLB advances	787,512	911,469	808,944	-2.6
Unused loan commitments	7,147,590	7,860,482	8,315,951	-14.0
Trust assets	17,328,176	19,948,345	21,862,322	-20.7
Assets securitized and sold**	1,910,884	1,906,803	1,698,002	12.5
Notional amount of derivatives**	201,096,104	177,103,500	166,118,444	21.1

INCOME DATA	Full Year 2008	Full Year 2007	%Change	4th Quarter 2008	4th Quarter 2007	%Change 07Q4-08Q4
Total interest income	$603,357	$724,859	-16.8	$151,227	$189,631	-20.3
Total interest expense	245,612	372,144	-34.0	54,203	97,127	-44.2
Net interest income	357,746	352,714	1.4	97,024	92,504	4.9
Provision for loan and lease losses	174,362	69,193	152.0	69,431	32,144	116.0
Total noninterest income	207,493	233,098	-11.0	40,885	47,000	-13.0
Total noninterest expense	364,860	367,043	-0.6	111,309	104,473	6.5
Securities gains (losses)	-14,994	-1,371	N/M	-8,137	-3,665	N/M
Applicable income taxes	6,219	46,480	-86.6	-14,149	-1,112	N/M
Extraordinary gains, net	5,367	-1,735	N/M	4,710	241	N/M
Net income	10,170	99,991	-89.8	-32,109	575	N/M
Net charge-offs	99,461	44,118	125.4	37,983	16,319	132.8
Cash dividends	51,017	110,348	-53.8	8,463	20,746	-59.2
Retained earnings	-40,846	-10,356	N/M	-40,572	-20,172	N/M
Net operating income	14,641	102,409	-85.7	-31,782	2,553	N/M

** Call Report filers only.

N/M - Not Meaningful.

TABLE III-A. Full Year 2008, All FDIC-Insured Institutions

FULL YEAR (The way it is...)	All Insured Institutions	Asset Concentration Groups* Credit Card Banks	International Banks	Agricultural Banks	Commercial Lenders	Mortgage Lenders	Consumer Lenders	Other Specialized <$1 Billion	All Other <$1 Billion	All Other >$1 Billion
Number of institutions reporting	8,305	26	5	1,558	4,752	838	91	281	710	44
Commercial banks	7,085	22	5	1,554	4,248	230	71	259	662	34
Savings institutions	1,220	4	0	4	504	608	20	22	48	10
Total assets (in billions)	$13,847.3	$513.0	$3,410.1	$168.8	$5,465.6	$997.5	$122.2	$34.7	$94.9	$3,040.5
Commercial banks	12,312.9	487.1	3,410.1	168.3	4,943.6	183.3	66.1	30.5	84.2	2,939.8
Savings institutions	1,534.4	26.0	0.0	0.4	522.0	814.3	56.1	4.2	10.7	100.7
Total deposits (in billions)	9,035.7	200.0	2,139.2	135.6	3,872.2	548.6	87.2	25.8	77.6	1,949.6
Commercial banks	8,082.1	183.0	2,139.2	135.2	3,528.8	68.8	43.1	22.9	68.9	1,892.1
Savings institutions	953.6	17.0	0.0	0.4	343.4	479.8	44.1	2.9	8.6	57.5
Net income (in millions)	10,170	7,915	8,061	1,642	-1,963	-4,153	-7	493	798	-2,617
Commercial banks	18,726	7,592	8,061	1,638	-1,209	2,292	7	290	817	-762
Savings institutions	-8,556	323	0	3	-753	-6,445	-15	204	-19	-1,854
Performance Ratios (%)										
Yield on earning assets	5.36	12.21	5.13	6.38	5.88	4.91	6.64	4.52	6.10	3.61
Cost of funding earning assets	2.18	2.81	2.26	2.48	2.28	2.47	2.90	1.67	2.28	1.66
Net interest margin	3.18	9.41	2.86	3.90	3.60	2.43	3.74	2.85	3.82	1.94
Noninterest income to assets	1.58	8.00	1.75	0.65	1.45	0.44	1.79	11.45	0.86	0.92
Noninterest expense to assets	2.77	6.65	2.87	2.65	3.17	1.56	2.95	11.18	2.98	1.62
Loan and lease loss provision to assets	1.32	6.69	1.19	0.35	1.29	1.42	2.43	0.13	0.27	0.70
Net operating income to assets	0.11	1.41	0.11	1.04	0.02	-0.38	-0.06	1.64	0.94	0.14
Pretax return on assets	0.12	2.60	0.15	1.18	0.06	-0.34	-0.04	2.40	1.01	-0.13
Return on assets	0.08	1.70	0.25	1.01	-0.04	-0.43	-0.01	1.45	0.86	-0.09
Return on equity	0.79	7.87	3.44	9.11	-0.35	-5.59	-0.06	7.43	7.58	-0.93
Net charge-offs to loans and leases	1.28	5.94	1.43	0.41	1.12	0.85	1.74	0.33	0.35	0.74
Loan and lease loss provision to net charge-offs	175.31	151.89	204.34	129.34	163.15	244.16	172.14	152.43	138.83	183.95
Efficiency ratio	59.04	39.56	65.41	62.31	61.02	57.05	55.87	76.38	67.94	59.57
% of unprofitable institutions	23.59	15.38	20.00	6.68	31.57	23.75	18.68	16.37	9.72	43.18
% of institutions with earnings gains	36.82	26.92	40.00	51.93	27.74	48.45	43.96	40.93	49.01	29.55
Condition Ratios (%)										
Earning assets to total assets	84.99	81.27	81.54	91.19	87.45	90.91	92.95	87.80	91.57	82.22
Loss allowance to:										
Loans and leases	2.20	7.09	2.79	1.32	1.86	1.34	2.44	1.38	1.25	1.75
Noncurrent loans and leases	75.02	255.14	72.75	92.09	65.44	39.85	164.59	133.07	87.44	70.66
Noncurrent assets plus other real estate owned to assets	1.88	2.08	1.62	1.18	2.31	2.53	1.31	0.35	1.07	1.27
Equity capital ratio	9.36	20.44	7.01	11.01	10.11	7.49	9.85	18.56	11.31	9.11
Core capital (leverage) ratio	7.49	14.55	5.95	9.99	8.17	7.20	9.86	16.30	10.91	6.60
Tier 1 risk-based capital ratio	9.99	13.72	9.60	13.33	9.70	12.86	12.23	38.03	17.73	8.74
Total risk-based capital ratio	12.81	16.11	13.73	14.39	12.02	13.84	13.93	38.86	18.83	12.06
Net loans and leases to deposits	85.24	179.11	58.53	81.63	96.96	119.66	108.67	30.08	68.39	72.57
Net loans to total assets	55.62	69.82	36.72	65.57	68.69	65.80	77.53	22.35	55.91	46.53
Domestic deposits to total assets	54.14	34.36	31.51	80.33	67.75	54.93	70.21	72.04	81.66	54.95
Structural Changes										
New Charters	98	0	0	2	28	2	0	66	0	0
Institutions absorbed by mergers	292	0	2	32	217	18	1	1	12	9
Failed Institutions	25	0	0	1	21	3	0	0	0	0
PRIOR FULL YEARS (The way it was...)										
Number of institutions 2007	8,534	27	5	1,592	4,773	784	109	373	815	56
2005	8,833	33	4	1,685	4,617	887	125	425	995	62
2003	9,181	36	6	1,767	4,254	1,033	157	529	1,308	91
Total assets (in billions) 2007	$13,034.1	$479.2	$2,784.4	$157.5	$4,619.2	$1,328.1	$94.9	$37.8	$110.4	$3,422.7
2005	10,878.3	359.1	1,851.2	142.3	4,257.3	1,655.1	117.3	47.7	128.7	2,319.6
2003	9,075.7	348.4	1,448.0	129.5	2,923.8	1,657.9	146.6	61.1	171.1	2,189.3
Return on assets (%) 2007	0.81	3.35	0.58	1.20	0.83	0.03	1.26	2.56	1.03	0.88
2005	1.28	2.90	0.86	1.27	1.36	1.07	1.55	2.18	1.09	1.35
2003	1.38	4.08	1.10	1.20	1.28	1.38	1.31	1.85	1.06	1.34
Net charge-offs to loans & leases (%) 2007	0.59	3.95	0.76	0.22	0.35	0.40	0.87	0.29	0.22	0.39
2005	0.49	4.64	0.87	0.18	0.23	0.12	1.44	0.26	0.23	0.24
2003	0.78	5.22	1.40	0.28	0.46	0.18	2.09	1.22	0.38	0.62
Noncurrent assets plus OREO to assets (%) 2007	0.94	1.54	0.68	0.83	1.07	1.52	1.64	0.23	0.65	0.68
2005	0.50	1.32	0.46	0.61	0.48	0.56	0.51	0.24	0.54	0.39
2003	0.75	1.63	0.93	0.81	0.68	0.73	0.99	0.33	0.71	0.59
Equity capital ratio (%) 2007	10.34	21.26	8.01	11.17	11.00	8.38	12.62	19.98	11.46	10.32
2005	10.28	21.51	8.30	10.55	10.83	9.39	10.11	19.47	10.83	9.53
2003	9.15	16.04	7.39	10.64	9.24	9.10	7.30	16.74	10.45	8.87

* See Table IV-A (page 8) for explanations.

TABLE III-A. Full Year 2008, All FDIC-Insured Institutions

Full Year (The way it is...)	All Insured Institutions	Asset Size Distribution				Geographic Regions*					
		Less than $100 Million	$100 Million to $1 Billion	$1 Billion to $10 Billion	Greater than $10 Billion	New York	Atlanta	Chicago	Kansas City	Dallas	San Francisco
Number of institutions reporting	8,305	3,131	4,499	561	114	1,014	1,180	1,705	1,935	1,700	771
Commercial banks	7,085	2,784	3,790	425	86	530	1,041	1,407	1,829	1,575	703
Savings institutions	1,220	347	709	136	28	484	139	298	106	125	68
Total assets (in billions)	$13,847.3	$170.8	$1,355.7	$1,491.6	$10,829.2	$2,433.1	$3,749.2	$3,264.8	$1,057.4	$781.0	$2,561.8
Commercial banks	12,312.9	152.5	1,105.7	1,142.5	9,912.2	1,725.5	3,483.0	3,117.5	1,008.1	653.4	2,325.2
Savings institutions	1,534.4	18.3	250.0	349.1	917.0	707.6	266.2	147.2	49.3	127.6	236.5
Total deposits (in billions)	9,035.7	139.2	1,071.9	1,080.0	6,744.6	1,534.4	2,513.5	2,155.6	718.8	571.1	1,542.2
Commercial banks	8,082.1	125.2	887.4	830.5	6,239.0	1,058.4	2,363.4	2,050.6	683.3	492.0	1,434.3
Savings institutions	953.6	14.0	184.5	249.5	505.6	476.0	150.1	104.9	35.5	79.1	107.9
Net income (in millions)	10,170	493	4,204	-2,638	8,112	8,850	-3,349	9,121	5,854	3,998	-14,303
Commercial banks	18,726	528	3,992	-1,113	15,319	11,079	-2,039	10,137	5,887	3,763	-10,101
Savings institutions	-8,556	-36	212	-1,525	-7,207	-2,229	-1,310	-1,017	-33	234	-4,202
Performance Ratios (%)											
Yield on earning assets	5.36	6.25	6.32	5.99	5.11	6.12	4.39	4.87	6.42	5.88	6.08
Cost of funding earning assets	2.18	2.39	2.61	2.47	2.07	2.42	1.94	2.14	2.07	2.18	2.40
Net interest margin	3.18	3.87	3.71	3.51	3.04	3.70	2.44	2.72	4.35	3.70	3.68
Noninterest income to assets	1.58	1.11	1.05	1.12	1.72	2.17	1.15	1.84	2.64	1.40	0.95
Noninterest expense to assets	2.77	3.78	3.23	3.05	2.66	3.07	2.21	2.58	3.85	3.22	2.99
Loan and lease loss provision to assets	1.32	0.45	0.68	1.16	1.44	1.44	1.02	1.23	1.83	0.79	1.75
Net operating income to assets	0.11	0.32	0.41	-0.05	0.09	0.51	-0.08	0.23	0.52	0.54	-0.44
Pretax return on assets	0.12	0.40	0.42	-0.11	0.12	0.63	-0.04	0.43	0.82	0.71	-0.97
Return on assets	0.08	0.30	0.32	-0.18	0.08	0.38	-0.09	0.31	0.59	0.53	-0.60
Return on equity	0.79	2.24	3.11	-1.64	0.83	3.14	-0.89	3.60	6.02	5.38	-6.76
Net charge-offs to loans and leases	1.28	0.45	0.63	1.05	1.44	1.43	1.00	1.22	1.59	0.68	1.72
Loan and lease loss provision to net charge-offs	175.31	159.07	153.07	160.54	178.84	177.73	169.83	189.25	169.66	174.31	170.01
Efficiency ratio	59.04	80.69	70.24	63.11	56.60	53.35	59.34	58.39	58.46	64.60	65.17
% of unprofitable institutions	23.59	24.43	21.94	28.70	40.35	30.18	41.78	19.65	13.33	14.35	41.89
% of institutions with earnings gains	36.82	40.72	35.85	25.31	24.56	37.77	19.58	40.18	44.08	42.53	23.74
Condition Ratios (%)											
Earning assets to total assets	84.99	91.44	91.55	89.99	83.38	85.56	84.03	85.12	86.45	90.18	83.50
Loss Allowance to:											
Loans and leases	2.20	1.38	1.38	1.76	2.43	2.39	1.90	2.22	2.39	1.54	2.61
Noncurrent loans and leases	75.02	70.27	58.89	61.32	79.46	114.41	64.73	68.41	80.01	68.08	72.34
Noncurrent assets plus other real estate owned to assets	1.88	1.66	2.14	2.37	1.79	1.26	1.95	1.94	2.28	1.80	2.16
Equity capital ratio	9.36	12.89	10.07	10.75	9.03	11.40	9.60	8.08	9.50	9.96	8.46
Core capital (leverage) ratio	7.49	12.57	9.60	9.26	6.90	8.61	6.64	6.84	8.21	9.01	7.81
Tier 1 risk-based capital ratio	9.99	18.24	12.83	11.83	9.23	12.34	8.69	9.11	9.79	11.57	10.61
Total risk-based capital ratio	12.81	19.30	13.97	13.24	12.50	14.21	11.73	12.29	12.59	13.34	13.84
Net loans and leases to deposits	85.24	77.64	88.43	94.46	83.41	87.86	85.48	77.18	96.08	89.21	86.98
Net loans to total assets	55.62	63.27	69.91	68.39	51.95	55.41	57.31	50.96	65.32	65.24	52.36
Domestic deposits to total assets	54.14	81.49	78.97	71.58	48.19	54.60	58.94	52.16	64.35	72.28	39.43
Structural Changes											
New Charters	98	92	4	1	1	20	34	3	5	14	22
Institutions absorbed by mergers	292	111	146	28	7	41	72	60	56	54	9
Failed Institutions	25	6	10	6	3	0	8	2	4	3	8
PRIOR FULL YEARS (The way it was...)											
Number of institutions 2007	8,534	3,440	4,424	551	119	1,043	1,221	1,763	1,986	1,742	779
2005	8,833	3,864	4,339	512	118	1,110	1,227	1,874	2,070	1,791	761
2003	9,181	4,390	4,210	471	110	1,173	1,227	2,011	2,133	1,866	771
Total assets (in billions) 2007	$13,034.1	$181.9	$1,308.8	$1,422.1	$10,121.3	$2,441.1	$3,329.6	$2,842.5	$976.3	$738.3	$2,706.3
2005	10,878.3	200.8	1,247.6	1,393.2	8,036.7	2,768.2	2,683.9	2,505.8	803.7	607.7	1,508.9
2003	9,075.7	225.7	1,160.5	1,313.0	6,376.5	3,085.2	1,882.6	1,693.8	456.3	563.3	1,394.3
Return on assets (%) 2007	0.81	0.74	0.97	0.96	0.77	0.77	0.81	0.86	1.46	1.00	0.52
2005	1.28	0.99	1.24	1.28	1.29	1.21	1.36	0.99	1.62	1.19	1.60
2003	1.38	0.95	1.18	1.41	1.43	1.28	1.38	1.31	1.63	1.37	1.62
Net charge-offs to loans & leases (%) 2007	0.59	0.24	0.25	0.42	0.68	0.90	0.33	0.47	0.78	0.30	0.76
2005	0.49	0.20	0.19	0.24	0.60	0.80	0.23	0.33	0.56	0.24	0.70
2003	0.78	0.31	0.36	0.54	0.94	1.16	0.54	0.72	1.09	0.40	0.58
Noncurrent assets plus OREO to assets (%) 2007	0.94	0.96	1.07	1.09	0.91	0.76	0.81	0.94	1.37	1.00	1.12
2005	0.50	0.69	0.52	0.44	0.50	0.44	0.30	0.54	0.86	0.73	0.59
2003	0.75	0.83	0.69	0.62	0.78	0.78	0.56	0.86	0.84	0.76	0.76
Equity capital ratio (%) 2007	10.34	13.73	10.49	11.34	10.12	12.06	10.30	9.23	9.74	10.22	10.24
2005	10.28	12.16	10.20	10.68	10.18	10.54	9.80	9.23	10.45	10.17	12.40
2003	9.15	11.49	10.05	10.34	8.66	9.05	8.78	8.49	10.59	9.60	10.05

* See Table IV-A (page 9) for explanations.

TABLE IV-A. Fourth Quarter 2008, All FDIC-Insured Institutions

		Asset Concentration Groups*								
FOURTH QUARTER (The way it is...)	**All Insured Institutions**	**Credit Card Banks**	**International Banks**	**Agricultural Banks**	**Commercial Lenders**	**Mortgage Lenders**	**Consumer Lenders**	**Other Specialized <$1 Billion**	**All Other <$1 Billion**	**All Other >$1 Billion**
Number of institutions reporting	8,305	26	5	1,558	4,752	838	91	281	710	44
Commercial banks	7,085	22	5	1,554	4,248	230	71	259	662	34
Savings institutions	1,220	4	0	4	504	608	20	22	48	10
Total assets (in billions)	$13,847.3	$513.0	$3,410.1	$168.8	$5,465.6	$997.5	$122.2	$34.7	$94.9	$3,040.5
Commercial banks	12,312.9	487.1	3,410.1	168.3	4,943.6	183.3	66.1	30.5	84.2	2,939.8
Savings institutions	1,534.4	26.0	0.0	0.4	522.0	814.3	56.1	4.2	10.7	100.7
Total deposits (in billions)	9,035.7	200.0	2,139.2	135.6	3,872.2	548.6	87.2	25.8	77.6	1,949.6
Commercial banks	8,082.1	183.0	2,139.2	135.2	3,528.8	68.8	43.1	22.9	68.9	1,892.1
Savings institutions	953.6	17.0	0.0	0.4	343.4	479.8	44.1	2.9	8.6	57.5
Net income (in millions)	-32,109	-273	-320	290	-19,771	-3,972	-492	60	171	-7,803
Commercial banks	-26,047	-195	-320	289	-19,393	548	-348	6	178	-6,813
Savings institutions	-6,062	-78	0	1	-378	-4,520	-144	54	-7	-990
Performance Ratios (annualized, %)										
Yield on earning assets	5.21	13.35	4.91	6.13	5.61	5.32	6.56	4.23	5.91	3.28
Cost of funding earning assets	1.87	2.24	1.79	2.20	2.02	2.47	2.83	1.41	2.03	1.32
Net interest margin	3.34	11.10	3.12	3.94	3.60	2.84	3.73	2.82	3.88	1.96
Noninterest income to assets	1.19	6.29	1.36	0.62	1.15	0.34	1.35	10.69	0.84	0.44
Noninterest expense to assets	3.25	6.51	3.29	2.80	3.91	1.84	3.15	11.20	3.10	1.87
Loan and lease loss provision to assets	2.03	9.36	1.48	0.62	2.16	2.88	4.24	0.21	0.43	0.99
Net operating income to assets	-0.93	-0.40	-0.47	0.73	-1.45	-1.51	-1.65	0.87	0.79	-0.55
Pretax return on assets	-1.35	-0.39	-0.53	0.77	-1.82	-1.94	-2.58	1.51	0.76	-1.59
Return on assets	-0.94	-0.22	-0.04	0.70	-1.47	-1.61	-1.65	0.70	0.73	-1.06
Return on equity	-9.88	-1.08	-0.53	6.32	-14.18	-20.99	-16.92	3.72	6.46	-11.26
Net charge-offs to loans and leases	1.92	6.96	1.85	0.74	1.83	1.78	2.14	0.48	0.54	1.16
Loan and lease loss provision to net charge-offs	182.79	180.90	204.76	124.42	167.49	239.16	247.80	191.22	138.15	172.01
Efficiency ratio	64.86	39.39	69.98	65.87	66.49	61.74	64.97	77.29	70.19	78.69
% of unprofitable institutions	32.56	46.15	20.00	17.46	41.41	26.37	27.47	27.05	15.35	45.45
% of institutions with earnings gains	35.65	23.08	60.00	43.07	28.77	51.55	41.76	39.15	45.63	22.73
Structural Changes										
New Charters	15	0	0	0	6	0	0	9	0	0
Institutions absorbed by mergers	79	0	0	8	59	5	0	0	4	3
Failed Institutions	12	0	0	0	11	1	0	0	0	0
PRIOR FOURTH QUARTERS (The way it was...)										
Return on assets (%) 2007	0.02	2.01	-0.20	1.07	0.24	-1.97	0.62	2.09	0.92	0.32
2005	1.21	2.16	0.79	1.12	1.32	1.02	1.35	3.75	0.96	1.30
2003	1.38	4.66	1.22	1.05	1.21	1.26	1.07	3.40	0.93	1.34
Net charge-offs to loans & leases (%) 2007	0.84	4.24	1.05	0.32	0.62	0.67	1.03	0.26	0.38	0.55
2005	0.60	6.16	0.86	0.26	0.29	0.19	1.67	0.36	0.32	0.30
2003	0.80	5.30	1.36	0.44	0.49	0.13	2.81	0.56	0.44	0.56

***Asset Concentration Group Definitions (Groups are hierarchical and mutually exclusive):**

Credit-card Lenders - Institutions whose credit-card loans plus securitized receivables exceed 50 percent of total assets plus securitized receivables.
International Banks - Banks with assets greater than $10 billion and more than 25 percent of total assets in foreign offices.
Agricultural Banks - Banks whose agricultural production loans plus real estate loans secured by farmland exceed 25 percent of the total loans and leases.
Commercial Lenders - Institutions whose commercial and industrial loans, plus real estate construction and development loans, plus loans secured by commercial real estate properties exceed 25 percent of total assets.
Mortgage Lenders - Institutions whose residential mortgage loans, plus mortgage-backed securities, exceed 50 percent of total assets.
Consumer Lenders - Institutions whose residential mortgage loans, plus credit-card loans, plus other loans to individuals, exceed 50 percent of total assets.
Other Specialized < $1 Billion - Institutions with assets less than $1 billion, whose loans and leases are less than 40 percent of total assets.
All Other < $1 Billion - Institutions with assets less than $1 billion that do not meet any of the definitions above, they have significant lending activity with no identified asset concentrations.
All Other > $1 Billion - Institutions with assets greater than $1 billion that do not meet any of the definitions above, they have significant lending activity with no identified asset concentrations.

TABLE IV-A. Fourth Quarter 2008, All FDIC-Insured Institutions

FOURTH QUARTER (The way it is...)	All Insured Institutions	Asset Size Distribution: Less than $100 Million	$100 Million to $1 Billion	$1 Billion to $10 Billion	Greater than $10 Billion	Geographic Regions*: New York	Atlanta	Chicago	Kansas City	Dallas	San Francisco
Number of institutions reporting	8,305	3,131	4,499	561	114	1,014	1,180	1,705	1,935	1,700	771
Commercial banks	7,085	2,784	3,790	425	86	530	1,041	1,407	1,829	1,575	703
Savings institutions	1,220	347	709	136	28	484	139	298	106	125	68
Total assets (in billions)	$13,847.3	$170.8	$1,355.7	$1,491.6	$10,829.2	$2,433.1	$3,749.2	$3,264.8	$1,057.4	$781.0	$2,561.8
Commercial banks	12,312.9	152.5	1,105.7	1,142.5	9,912.2	1,725.5	3,483.0	3,117.5	1,008.1	653.4	2,325.2
Savings institutions	1,534.4	18.3	250.0	349.1	917.0	707.6	266.2	147.2	49.3	127.6	236.5
Total deposits (in billions)	9,035.7	139.2	1,071.9	1,080.0	6,744.6	1,534.4	2,513.5	2,155.6	718.8	571.1	1,542.2
Commercial banks	8,082.1	125.2	887.4	830.5	6,239.0	1,058.4	2,363.4	2,050.6	683.3	492.0	1,434.3
Savings institutions	953.6	14.0	184.5	249.5	505.6	476.0	150.1	104.9	35.5	79.1	107.9
Net income (in millions)	-32,109	-120	-346	-4,849	-26,795	-2,810	-13,495	-1,644	-982	133	-13,310
Commercial banks	-26,047	-91	-345	-3,747	-21,864	-848	-12,894	-1,022	-975	206	-10,514
Savings institutions	-6,062	-29	-1	-1,102	-4,930	-1,962	-601	-623	-7	-73	-2,796
Performance Ratios (annualized, %)											
Yield on earning assets	5.21	6.03	6.01	5.81	4.99	6.07	4.20	4.76	6.21	5.54	5.92
Cost of funding earning assets	1.87	2.17	2.37	2.28	1.73	2.09	1.68	1.77	1.67	1.90	2.13
Net interest margin	3.34	3.86	3.64	3.53	3.26	3.99	2.52	2.99	4.53	3.65	3.79
Noninterest income to assets	1.19	1.01	0.96	0.88	1.27	1.93	0.73	1.59	2.08	1.32	0.22
Noninterest expense to assets	3.25	4.05	3.27	3.44	3.21	3.30	3.02	2.82	3.95	3.35	3.80
Loan and lease loss provision to assets	2.03	0.76	1.13	1.93	2.17	2.24	1.59	1.74	3.08	1.15	2.70
Net operating income to assets	-0.93	-0.26	-0.05	-1.16	-1.02	-0.20	-1.45	-0.39	-0.59	0.07	-2.05
Pretax return on assets	-1.35	-0.29	-0.22	-1.57	-1.48	-0.65	-1.80	-0.24	-0.74	0.09	-3.57
Return on assets	-0.94	-0.28	-0.10	-1.32	-1.00	-0.46	-1.45	-0.20	-0.38	0.07	-2.18
Return on equity	-9.88	-2.18	-1.02	-12.21	-10.89	-4.03	-14.58	-2.49	-3.96	0.69	-25.24
Net charge-offs to loans and leases	1.92	0.82	1.07	1.71	2.11	1.85	1.60	1.86	2.26	0.96	2.73
Loan and lease loss provision to net charge-offs	182.79	144.39	147.61	160.58	189.17	218.10	167.32	176.33	201.58	179.86	171.77
Efficiency ratio	64.86	87.36	72.47	69.81	62.74	53.91	71.29	58.79	64.02	65.46	83.99
% of unprofitable institutions	32.56	33.41	30.70	38.86	51.75	33.43	51.19	27.68	26.41	23.12	49.94
% of institutions with earnings gains	35.65	39.96	34.16	25.67	25.44	41.72	23.05	37.42	39.38	39.76	24.64
Structural Changes											
New Charters	15	15	0	0	0	2	6	2	1	0	4
Institutions absorbed by mergers	79	34	37	6	2	13	19	16	13	17	1
Failed Institutions	12	3	6	2	1	0	5	2	0	2	3
PRIOR FOURTH QUARTERS (The way it was...)											
Return on assets (%) 2007	0.02	0.44	0.68	0.60	-0.16	0.13	0.10	0.60	0.98	0.55	-1.26
2005	1.21	0.80	1.25	1.19	1.22	1.10	1.30	0.96	1.49	1.11	1.58
2003	1.38	0.85	1.15	1.41	1.44	1.34	1.36	1.30	1.62	1.26	1.58
Net charge-offs to loans & leases (%) 2007	0.84	0.37	0.46	0.63	0.94	1.00	0.56	0.75	1.11	0.51	1.10
2005	0.60	0.31	0.26	0.28	0.73	0.89	0.26	0.44	0.61	0.33	0.95
2003	0.80	0.43	0.48	0.60	0.92	1.06	0.49	0.90	1.40	0.47	0.54

*** Regions:**
New York - Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont, U.S. Virgin Islands
Atlanta - Alabama, Florida, Georgia, North Carolina, South Carolina, Virginia, West Virginia
Chicago - Illinois, Indiana, Kentucky, Michigan, Ohio, Wisconsin
Kansas City - Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota
Dallas - Arkansas, Colorado, Louisiana, Mississippi, New Mexico, Oklahoma, Tennessee, Texas
San Francisco - Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon, Pacific Islands, Utah, Washington, Wyoming

TABLE V-A. Loan Performance, All FDIC-Insured Institutions

December 31, 2008	All Insured Institutions	Asset Concentration Groups*								
		Credit Card Banks	International Banks	Agricultural Banks	Commercial Lenders	Mortgage Lenders	Consumer Lenders	Other Specialized <$1 Billion	All Other <$1 Billion	All Other >$1 Billion
Percent of Loans 30-89 Days Past Due										
All loans secured by real estate	2.37	3.81	3.41	1.36	1.85	2.67	1.70	1.46	2.08	3.12
Construction and development	2.92	0.00	2.72	2.70	2.94	4.84	1.94	1.67	1.94	2.47
Nonfarm nonresidential	1.08	0.00	0.82	1.08	1.09	1.24	0.70	0.99	1.56	1.01
Multifamily residential real estate	1.18	0.00	1.05	0.92	1.19	1.14	0.06	0.43	1.37	1.43
Home equity loans	1.78	3.87	2.15	0.75	1.23	2.16	1.36	0.21	1.03	2.38
Other 1-4 family residential	3.27	4.11	4.75	1.99	2.45	2.77	2.07	1.80	2.54	4.34
Commercial and industrial loans	0.96	4.61	0.68	1.68	1.01	0.95	1.38	0.93	1.62	0.69
Loans to individuals	2.61	3.11	2.48	2.30	2.53	1.90	1.91	1.63	2.65	2.23
Credit card loans	2.88	2.98	2.80	2.02	2.63	3.24	1.67	1.83	1.81	2.85
Other loans to individuals	2.43	4.07	2.33	2.32	2.51	1.46	1.98	1.60	2.66	2.12
All other loans and leases (including farm)	0.64	0.20	0.47	0.98	0.80	0.16	0.26	0.63	1.14	0.60
Total loans and leases	2.01	3.11	2.25	1.37	1.68	2.61	1.75	1.35	2.03	2.17
Percent of Loans Noncurrent**										
All real estate loans	3.80	2.73	5.09	1.78	3.67	3.49	2.15	1.08	1.57	3.82
Construction and development	8.55	0.00	4.59	7.05	8.77	13.90	3.25	3.59	3.71	6.93
Nonfarm nonresidential	1.61	0.00	0.82	2.07	1.65	1.80	0.45	0.92	1.65	1.44
Multifamily residential real estate	1.74	0.00	1.11	1.65	1.99	1.70	0.21	2.33	2.17	1.33
Home equity loans	1.61	2.92	1.64	0.57	1.08	1.09	0.80	0.65	0.44	2.82
Other 1-4 family residential	4.64	1.25	7.93	1.25	4.14	3.52	3.18	0.85	1.42	4.62
Commercial and industrial loans	1.69	3.74	3.21	1.84	1.35	1.10	0.40	1.49	1.91	1.03
Loans to individuals	1.77	2.82	2.12	0.82	1.13	1.31	1.00	0.52	0.76	0.84
Credit card loans	2.73	2.74	3.01	2.28	2.54	3.75	1.57	1.10	0.82	2.68
Other loans to individuals	1.11	3.45	1.69	0.74	0.88	0.50	0.82	0.46	0.76	0.53
All other loans and leases (including farm)	1.27	0.08	2.34	0.48	0.99	0.41	0.08	1.00	0.64	0.67
Total loans and leases	2.93	2.78	3.83	1.43	2.84	3.37	1.48	1.03	1.43	2.47
Percent of Loans Charged-off (net, YTD)										
All real estate loans	0.99	3.53	1.62	0.31	1.00	0.82	1.10	0.18	0.19	0.79
Construction and development	2.63	0.00	1.01	1.82	2.73	5.58	0.12	0.48	0.54	1.58
Nonfarm nonresidential	0.25	0.00	0.04	0.30	0.27	0.22	0.03	0.09	0.15	0.13
Multifamily residential real estate	0.40	0.00	0.07	0.47	0.51	0.30	0.03	0.03	0.11	0.16
Home equity loans	1.58	3.78	1.74	0.21	1.29	2.14	1.59	0.08	0.31	1.81
Other 1-4 family residential	0.81	1.55	2.09	0.17	0.61	0.56	1.00	0.20	0.17	0.57
Commercial and industrial loans	1.01	8.43	0.60	1.01	1.08	0.49	3.39	0.11	0.60	0.48
Loans to individuals	3.40	6.07	3.23	0.84	2.44	2.23	2.27	0.64	0.90	1.40
Credit card loans	5.44	5.79	4.29	4.95	5.64	6.97	3.89	2.88	2.17	5.22
Other loans to individuals	2.13	7.99	2.74	0.57	1.88	0.87	1.75	0.42	0.88	0.77
All other loans and leases (including farm)	0.46	0.01	0.29	0.00	0.78	0.42	1.03	1.10	0.49	0.35
Total loans and leases	1.28	5.94	1.43	0.41	1.12	0.85	1.74	0.33	0.35	0.74
Loans Outstanding (in billions)										
All real estate loans	$4,704.1	$1.8	$624.1	$64.1	$2,522.0	$631.0	$44.4	$4.6	$37.4	$774.6
Construction and development	590.2	0.0	13.8	5.4	480.8	17.1	0.7	0.3	2.7	69.4
Nonfarm nonresidential	1,068.2	0.0	34.5	17.9	847.3	27.2	3.6	1.4	9.1	127.1
Multifamily residential real estate	205.5	0.0	40.6	1.3	132.7	11.9	0.4	0.1	0.6	17.9
Home equity loans	667.5	1.6	143.8	1.3	293.9	51.4	14.5	0.1	1.3	159.5
Other 1-4 family residential	2,044.8	0.1	343.7	16.8	720.9	522.5	25.1	2.4	20.9	392.4
Commercial and industrial loans	1,496.3	34.0	288.3	15.4	781.0	14.2	4.4	1.2	5.5	352.3
Loans to individuals	1,088.8	332.2	199.3	6.4	307.0	17.2	46.3	1.5	6.6	172.3
Credit card loans	444.7	292.5	65.1	0.4	46.3	4.3	11.0	0.1	0.1	24.9
Other loans to individuals	644.1	39.7	134.2	6.1	260.7	12.9	35.3	1.3	6.5	147.4
All other loans and leases (including farm)	591.2	17.5	180.0	26.2	216.6	3.0	2.2	0.6	4.2	140.9
Total loans and leases	7,880.4	385.5	1,291.6	112.1	3,826.6	665.4	97.4	7.9	53.7	1,440.1
Memo: Other Real Estate Owned (in millions)										
All other real estate owned	26,618.4	-32.7	3,078.2	377.8	17,205.4	2,784.4	156.7	28.8	232.0	2,787.8
Construction and development	8,738.1	0.0	13.0	154.4	7,680.1	559.5	3.1	6.0	45.2	276.7
Nonfarm nonresidential	3,371.5	0.2	92.0	103.0	2,275.3	63.8	3.9	8.5	60.3	764.5
Multifamily residential real estate	1,202.4	0.0	20.0	16.5	928.3	62.5	0.0	0.1	23.3	151.8
1-4 family residential	11,479.8	2.0	2,343.2	77.0	5,150.2	2,050.7	149.7	12.9	99.4	1,594.7
Farmland	103.2	0.0	0.0	26.5	68.9	2.6	0.0	1.3	3.9	0.0
GNMA properties	1,632.1	0.0	464.0	0.4	1,099.2	68.4	0.0	0.0	0.0	0.1

* See Table IV-A (page 8) for explanations.

** Noncurrent loan rates represent the percentage of loans in each category that are past due 90 days or more or that are in nonaccrual status.

TABLE V-A. Loan Performance, All FDIC-Insured Institutions

December 31, 2008	All Insured Institutions	Asset Size Distribution: Less than $100 Million	Asset Size Distribution: $100 Million to $1 Billion	Asset Size Distribution: $1 Billion to $10 Billion	Asset Size Distribution: Greater than $10 Billion	Geographic Regions*: New York	Geographic Regions*: Atlanta	Geographic Regions*: Chicago	Geographic Regions*: Kansas City	Geographic Regions*: Dallas	Geographic Regions*: San Francisco
Percent of Loans 30–89 Days Past Due											
All loans secured by real estate	2.37	1.86	1.66	1.61	2.74	1.49	2.87	2.55	1.53	1.78	2.87
Construction and development	2.92	2.43	2.63	2.78	3.14	2.44	2.77	3.53	2.63	2.16	3.90
Nonfarm nonresidential	1.08	1.40	1.23	0.99	1.03	1.17	1.14	1.25	0.79	0.85	0.96
Multifamily residential real estate	1.18	1.56	1.32	1.16	1.14	0.90	1.51	1.42	1.11	0.65	0.99
Home equity loans	1.78	0.94	0.98	0.93	1.91	0.73	2.34	1.87	1.28	0.88	1.63
Other 1-4 family residential	3.27	2.40	1.87	1.84	3.74	1.66	4.04	3.48	2.10	2.95	4.06
Commercial and industrial loans	0.96	1.76	1.40	0.97	0.90	1.39	0.75	1.09	1.17	0.74	0.79
Loans to individuals	2.61	2.78	2.22	2.35	2.65	3.02	2.73	2.22	3.18	1.76	2.19
Credit card loans	2.88	2.40	2.69	2.89	2.88	3.06	2.87	2.56	3.13	1.46	2.64
Other loans to individuals	2.43	2.78	2.18	2.09	2.48	2.92	2.70	2.10	3.22	1.83	1.87
All other loans and leases (including farm)	0.64	0.80	0.77	0.89	0.61	0.52	0.55	0.87	0.60	0.99	0.48
Total loans and leases	2.01	1.81	1.62	1.54	2.16	1.75	2.28	2.06	1.61	1.53	2.15
Percent of Loans Noncurrent**											
All real estate loans	3.80	2.25	2.67	3.49	4.18	2.19	4.07	4.59	4.37	2.91	4.11
Construction and development	8.55	6.67	7.73	9.60	8.45	8.03	8.01	10.14	7.43	5.54	12.21
Nonfarm nonresidential	1.61	2.15	1.65	1.55	1.59	1.96	1.47	2.12	1.49	1.14	1.15
Multifamily residential real estate	1.74	2.32	2.01	2.77	1.30	0.91	2.52	2.33	1.40	3.06	1.01
Home equity loans	1.61	0.88	0.79	0.94	1.73	0.66	2.40	1.55	1.35	0.48	0.82
Other 1-4 family residential	4.64	1.59	1.63	2.59	5.51	1.78	4.79	6.26	8.74	3.52	4.89
Commercial and industrial loans	1.69	2.09	1.51	1.42	1.74	1.70	1.06	1.28	1.42	1.09	3.49
Loans to individuals	1.77	0.98	0.77	1.14	1.88	2.41	1.18	1.25	2.00	0.68	2.04
Credit card loans	2.73	1.54	1.81	2.33	2.77	2.87	2.62	2.33	2.69	1.36	2.85
Other loans to individuals	1.11	0.97	0.69	0.57	1.20	1.53	0.79	0.88	1.37	0.50	1.48
All other loans and leases (including farm)	1.27	0.56	0.57	0.54	1.39	0.76	0.49	1.25	0.39	0.64	3.57
Total loans and leases	2.93	1.96	2.34	2.88	3.06	2.09	2.94	3.24	2.99	2.26	3.59
Percent of Loans Charged-off (net, YTD)											
All real estate loans	0.99	0.32	0.53	0.91	1.14	0.37	0.99	1.36	0.99	0.58	1.39
Construction and development	2.63	1.15	1.77	2.80	2.97	1.40	2.24	4.25	1.96	1.53	3.93
Nonfarm nonresidential	0.25	0.26	0.20	0.22	0.28	0.27	0.20	0.48	0.18	0.16	0.10
Multifamily residential real estate	0.40	0.39	0.34	0.62	0.33	0.15	0.58	0.76	0.15	0.40	0.23
Home equity loans	1.58	0.41	0.42	0.67	1.74	0.61	1.92	1.08	2.15	0.78	2.34
Other 1-4 family residential	0.81	0.19	0.27	0.52	0.94	0.25	0.66	1.19	0.67	0.27	1.46
Commercial and industrial loans	1.01	1.00	0.94	0.94	1.03	1.80	0.62	0.74	1.67	0.71	1.19
Loans to individuals	3.40	0.87	1.47	2.80	3.56	4.67	2.23	2.14	4.41	1.46	3.84
Credit card loans	5.44	2.79	7.73	5.46	5.42	5.54	5.84	4.52	6.44	3.30	5.25
Other loans to individuals	2.13	0.84	1.00	1.53	2.30	3.29	1.35	1.30	2.72	1.01	2.97
All other loans and leases (including farm)	0.46	0.00	0.44	0.67	0.45	0.25	0.43	0.42	0.63	0.48	0.59
Total loans and leases	1.28	0.45	0.63	1.05	1.44	1.43	1.00	1.22	1.59	0.68	1.71
Loans Outstanding (in billions)											
All real estate loans	$4,704.1	$75.1	$749.5	$758.7	$3,120.8	$817.2	$1,383.9	$1,014.2	$382.3	$347.9	$758.6
Construction and development	590.2	8.8	133.4	150.2	297.8	65.2	202.4	109.0	50.9	84.9	77.8
Nonfarm nonresidential	1,068.2	22.6	264.8	265.9	515.0	202.1	285.8	205.0	104.8	117.4	153.2
Multifamily residential real estate	205.5	1.9	30.6	45.7	127.3	53.2	36.0	60.3	11.0	8.5	36.5
Home equity loans	667.5	2.7	38.6	50.8	575.4	67.9	227.1	200.1	81.0	24.7	66.7
Other 1-4 family residential	2,044.8	30.4	251.3	231.4	1,531.7	424.0	612.8	422.1	113.8	101.2	371.0
Commercial and industrial loans	1,496.3	15.4	126.6	161.6	1,192.8	188.7	423.4	348.9	144.2	107.2	283.8
Loans to individuals	1,088.8	7.9	46.7	80.8	953.4	298.2	224.1	186.8	105.8	40.7	233.2
Credit card loans	444.7	0.1	3.4	26.5	414.8	194.9	47.9	47.6	50.5	8.3	95.4
Other loans to individuals	644.1	7.8	43.3	54.4	538.6	103.3	176.2	139.2	55.3	32.4	137.7
All other loans and leases (including farm)	591.2	11.2	38.8	38.3	502.9	77.4	159.1	151.5	75.2	21.8	106.1
Total loans and leases	7,880.4	109.6	961.6	1,039.4	5,769.9	1,381.5	2,190.6	1,701.5	707.6	517.7	1,381.6
Memo: Other Real Estate Owned (in millions)											
All other real estate owned	26,618.4	663.7	6,512.4	5,247.0	14,195.2	1,749.4	8,634.6	7,076.3	2,943.0	2,366.3	3,848.6
Construction and development	8,738.1	201.5	3,358.2	2,677.4	2,501.0	551.0	2,953.2	1,524.7	1,003.0	1,073.0	1,633.2
Nonfarm nonresidential	3,371.5	177.9	1,162.6	686.8	1,344.3	264.8	1,317.4	652.3	411.2	453.3	272.6
Multifamily residential real estate	1,202.4	17.2	231.5	567.3	386.4	73.7	273.9	601.1	75.8	70.9	107.0
1-4 family residential	11,479.8	249.0	1,692.6	1,293.3	8,244.9	821.8	4,042.3	3,496.4	772.2	689.8	1,657.4
Farmland	103.2	15.6	66.5	12.5	8.5	10.2	9.3	14.9	13.0	53.4	2.3
GNMA properties	1,632.1	2.7	2.2	16.5	1,610.8	17.2	62.0	793.3	668.9	26.2	64.6

* See Table IV-A (page 9) for explanations.

** Noncurrent loan rates represent the percentage of loans in each category that are past due 90 days or more or that are in nonaccrual status.

TABLE VI-A. Derivatives, All FDIC-Insured Commercial Banks and State-Chartered Savings Banks

							Asset Size Distribution			
(dollar figures in millions; notional amounts unless otherwise indicated)	4th Quarter 2008	3rd Quarter 2008	2nd Quarter 2008	1st Quarter 2008	4th Quarter 2007	%Change 07Q4-08Q4	Less Than $100 Million	$100 Million to $1 Billion	$1 Billion to $10 Billion	Greater Than $10 Billion
ALL DERIVATIVE HOLDERS										
Number of institutions reporting derivatives	1,099	1,069	1,067	1,101	1,045	5.2	82	663	273	81
Total assets of institutions reporting derivatives	$10,975,184	$10,723,373	$10,104,739	$10,196,770	$9,827,097	11.7	$5,873	$287,824	$860,593	$9,820,894
Total deposits of institutions reporting derivatives	7,090,315	6,801,605	6,450,947	6,473,029	6,324,979	12.1	4,685	224,219	625,155	6,236,256
Total derivatives	201,096,104	177,103,500	183,304,204	181,600,749	166,118,444	21.1	246	20,583	77,241	200,998,033
Derivative Contracts by Underlying Risk Exposure										
Interest rate	164,419,801	137,205,564	144,933,736	141,879,384	129,490,988	27.0	233	20,175	70,947	164,328,445
Foreign exchange*	17,522,868	19,729,813	19,418,964	19,738,204	17,174,167	2.0	0	13	4,900	17,517,955
Equity	2,206,793	2,786,005	2,345,171	2,411,871	2,523,739	-12.6	13	125	1,025	2,205,630
Commodity & other (excluding credit derivatives)	1,049,941	1,233,751	1,137,524	1,129,869	1,066,704	-1.6	0	96	212	1,049,633
Credit	15,896,702	16,148,367	15,468,809	16,441,421	15,862,846	0.2	0	174	157	15,896,371
Total	201,096,104	177,103,500	183,304,204	181,600,749	166,118,444	21.1	246	20,583	77,241	200,998,033
Derivative Contracts by Transaction Type										
Swaps	131,717,004	108,289,314	114,178,361	112,564,895	103,102,442	27.8	18	10,600	53,189	131,653,197
Futures & forwards	22,513,737	24,483,791	23,582,776	22,361,907	18,866,619	19.3	114	3,406	10,446	22,499,771
Purchased options	14,781,875	13,485,926	14,501,600	14,286,015	13,771,509	7.3	15	1,863	5,088	14,774,909
Written options	15,487,881	13,450,146	14,415,325	14,705,772	13,955,063	11.0	100	4,533	8,194	15,475,055
Total	184,500,497	159,709,178	166,678,062	163,918,589	149,695,634	23.3	246	20,402	76,917	184,402,932
Fair Value of Derivative Contracts										
Interest rate contracts	131,168	27,299	75,946	62,578	20,075	553.4	1	-43	211	130,999
Foreign exchange contracts	-16,942	15,054	32,017	9,670	7,980	N/M	0	0	-2	-16,939
Equity contracts	2,871	3,742	-3,742	-2,306	9,460	-69.7	0	1	23	2,847
Commodity & other (excluding credit derivatives)	3,850	3,175	5,063	3,346	1,785	115.7	0	3	1	3,846
Credit derivatives as guarantor	-959,872	-566,035	-398,893	-474,045	-212,447	N/M	0	0	-37	-959,834
Credit derivatives as beneficiary	1,030,278	603,936	428,844	501,034	222,426	363.2	0	-2	-3	1,030,283
Derivative Contracts by Maturity**										
Interest rate contracts < 1 year	47,150,754	40,399,816	44,995,182	42,621,767	39,085,340	20.6	93	3,706	15,056	47,131,899
1-5 years	47,296,539	37,760,943	39,521,416	39,752,501	37,222,363	27.1	18	8,007	23,936	47,264,578
> 5 years	36,782,401	28,785,014	29,704,389	30,105,752	27,724,625	32.7	6	3,589	20,179	36,758,627
Foreign exchange contracts < 1 year	10,867,614	12,664,219	12,345,486	12,524,601	11,591,807	-6.2	0	2	3,941	10,863,672
1-5 years	2,171,061	1,787,926	1,929,554	1,924,840	1,604,898	35.3	0	4	10	2,171,048
> 5 years	1,086,245	676,656	734,305	714,707	618,960	75.5	0	0	10	1,086,236
Equity contracts < 1 year	408,948	508,748	504,258	509,709	473,413	-13.6	2	34	104	408,808
1-5 years	256,093	332,908	207,513	287,805	297,459	-13.9	4	43	453	255,592
> 5 years	72,337	81,967	76,283	39,960	70,485	2.6	0	0	9	72,328
Commodity & other contracts < 1 year	264,916	294,036	315,202	369,747	284,837	-7.0	0	0	153	264,763
1-5 years	261,768	288,860	267,344	277,956	333,631	-21.5	0	58	4	261,706
> 5 years	45,021	88,822	28,367	33,492	28,282	59.2	0	0	0	45,021
Risk-Based Capital: Credit Equivalent Amount										
Total current exposure to tier 1 capital (%)	107.3	60.3	57.8	67.1	45.4		0.2	0.8	3.0	123.1
Total potential future exposure to tier 1 capital (%)	103.8	122.3	118.5	122.7	110.1		0.1	0.4	0.6	119.4
Total exposure (credit equivalent amount) to tier 1 capital (%)	211.0	182.5	176.3	189.8	155.5		0.3	1.3	3.6	242.5
Credit losses on derivatives***	1,072.0	227.0	135.0	15.0	156.0	587.2	0.0	1.0	0.0	1,071.0
HELD FOR TRADING										
Number of institutions reporting derivatives	178	185	181	170	166	7.2	8	56	60	54
Total assets of institutions reporting derivatives	9,412,420	9,234,600	8,596,577	8,622,316	8,306,873	13.3	550	25,384	278,395	9,108,092
Total deposits of institutions reporting derivatives	6,083,847	5,855,552	5,501,875	5,465,449	5,354,982	13.6	415	19,675	200,263	5,863,494
Derivative Contracts by Underlying Risk Exposure										
Interest rate	161,899,144	134,667,870	142,264,746	139,169,309	127,128,959	27.4	12	1,163	28,115	161,869,854
Foreign exchange	16,747,849	18,396,293	18,166,799	18,413,342	16,483,116	1.6	0	0	4,418	16,743,431
Equity	2,195,068	2,773,712	2,333,980	2,403,326	2,516,501	-12.8	0	0	272	2,194,796
Commodity & other	1,047,507	1,230,649	1,134,781	1,128,387	1,065,818	-1.7	0	0	85	1,047,421
Total	181,889,568	157,068,525	163,900,306	161,114,364	147,194,394	23.6	12	1,164	32,890	181,855,502
Trading Revenues: Cash & Derivative Instruments										
Interest rate	-3,424	950	1,503	1,724	-2,531	N/M	0	0	80	-3,503
Foreign exchange	4,093	3,090	2,096	2,084	1,880	117.7	0	0	20	4,073
Equity	-1,230	-923	185	-18	217	N/M	0	0	0	-1,230
Commodity & other (including credit derivatives)	-8,618	3,305	-1,944	-2,791	-10,145	N/M	0	0	-1	-8,618
Total trading revenues	-9,180	6,422	1,839	998	-10,579	N/M	0	0	98	-9,278
Share of Revenue										
Trading revenues to gross revenues (%)	-8.1	4.6	1.3	0.7	-7.7		0.0	0.0	2.7	-8.5
Trading revenues to net operating revenues (%)	46.6	66.9	24.8	9.7	-278.0		0.0	-0.4	-8.9	50.0
HELD FOR PURPOSES OTHER THAN TRADING										
Number of institutions reporting derivatives	997	970	975	1,013	965	3.3	74	609	240	74
Total assets of institutions reporting derivatives	10,465,728	10,396,653	9,806,939	9,914,653	9,660,649	8.3	5,322	264,086	745,038	9,451,281
Total deposits of institutions reporting derivatives	6,820,086	6,589,374	6,256,368	6,288,937	6,210,106	9.8	4,270	205,866	541,052	6,068,897
Derivative Contracts by Underlying Risk Exposure										
Interest rate	2,520,657	2,537,694	2,668,989	2,710,074	2,362,029	6.7	221	19,012	42,833	2,458,591
Foreign exchange	76,113	87,565	94,832	84,124	131,087	-41.9	0	5	314	75,794
Equity	11,725	12,293	11,191	8,545	7,238	62.0	13	124	753	10,834
Commodity & other	2,434	3,101	2,743	1,482	886	174.7	0	96	126	2,211
Total notional amount	2,610,929	2,640,653	2,777,756	2,804,225	2,501,240	4.4	234	19,238	44,027	2,547,429

All line items are reported on a quarterly basis. N/M - Not Meaningful

*Include spot foreign exchange contracts. All other references to foreign exchange contracts in which notional values or fair values are reported exclude spot foreign exchange contracts.

** Derivative contracts subject to the risk-based capital requirements for derivatives.

*** The reporting of credit losses on derivatives is applicable to all banks filing the FFIEC 031 report form and to those banks filing the FFIEC 041 report form that have $300 million or more in total assets.

TABLE VII-A. Servicing, Securitization, and Asset Sales Activities (All FDIC-Insured Commercial Banks and State-Chartered Savings Banks)

(dollar figures in millions)	4th Quarter 2008	3rd Quarter 2008	2nd Quarter 2008	1st Quarter 2008	4th Quarter 2007	%Change 07Q4-08Q4	Asset Size Distribution: Less Than $100 Million	$100 Million to $1 Billion	$1 Billion to $10 Billion	Greater Than $10 Billion
Assets Securitized and Sold with Servicing Retained or with Recourse or Other Seller-Provided Credit Enhancements										
Number of institutions reporting securitization activities	131	128	130	132	126	4.0	15	55	21	40
Outstanding Principal Balance by Asset Type										
1-4 family residential loans	$1,256,021	$1,217,682	$1,087,215	$1,068,631	$1,056,344	18.9	$89	$308	$1,763	$1,253,861
Home equity loans	6,692	6,880	7,822	8,341	9,353	-28.5	0	0	50	6,642
Credit card receivables	398,261	417,832	409,883	402,171	390,035	2.1	0	3,466	12,133	382,663
Auto loans	12,040	13,842	6,224	7,495	8,285	45.3	0	0	110	11,930
Other consumer loans	27,427	28,090	28,870	27,787	28,542	-3.9	0	0	0	27,427
Commercial and industrial loans	9,705	11,080	12,491	12,555	14,469	-32.9	0	4	4,539	5,162
All other loans, leases, and other assets*	200,737	211,398	194,756	194,061	190,974	5.1	42	45	163	200,487
Total securitized and sold	1,910,884	1,906,803	1,747,262	1,721,042	1,698,002	12.5	131	3,822	18,759	1,888,172
Maximum Credit Exposure by Asset Type										
1-4 family residential loans	6,898	7,514	7,121	7,019	6,912	-0.2	3	65	0	6,830
Home equity loans	1,247	1,347	1,527	1,752	2,000	-37.7	0	0	0	1,247
Credit card receivables	23,228	24,039	23,129	21,412	19,629	18.3	0	430	1,401	21,397
Auto loans	707	447	352	405	380	86.1	0	0	9	698
Other consumer loans	1,537	1,428	1,417	1,406	1,379	11.5	0	0	0	1,537
Commercial and industrial loans	137	170	311	276	603	-77.3	1	27	38	71
All other loans, leases, and other assets	725	954	1,128	2,297	2,847	-74.5	13	253	9	451
Total credit exposure	34,479	35,900	34,984	34,568	33,749	2.2	17	775	1,457	32,230
Total unused liquidity commitments provided to institution's own securitizations	830	1,273	1,902	2,944	4,686	-82.3	0	0	0	830
Securitized Loans, Leases, and Other Assets 30-89 Days Past Due (%)										
1-4 family residential loans	4.4	3.8	2.8	2.5	2.8		1.2	0.0	1.8	4.4
Home equity loans	1.4	1.3	0.6	0.7	0.8		0.0	0.0	8.1	1.4
Credit card receivables	2.9	2.5	2.1	2.2	2.2		0.0	1.7	1.9	3.0
Auto loans	2.5	2.1	2.2	1.9	2.4		0.0	0.0	1.0	2.5
Other consumer loans	3.9	3.2	2.7	2.5	3.1		0.0	0.0	0.0	3.9
Commercial and industrial loans	2.6	1.6	1.3	1.2	1.0		0.0	2.5	5.2	0.2
All other loans, leases, and other assets	0.6	0.2	0.3	0.1	0.1		0.0	0.0	0.0	0.6
Total loans, leases, and other assets	3.7	3.0	2.3	2.2	2.4		0.8	1.6	2.7	3.7
Securitized Loans, Leases, and Other Assets 90 Days or More Past Due (%)										
1-4 family residential loans	4.5	3.2	1.9	1.9	1.6		1.6	0.0	0.8	4.5
Home equity loans	1.2	0.7	0.7	0.7	0.5		0.0	0.0	4.2	1.2
Credit card receivables	2.5	2.1	2.1	2.1	1.9		0.0	1.4	1.6	2.6
Auto loans	0.3	0.2	0.3	0.3	0.4		0.0	0.0	0.3	0.3
Other consumer loans	3.7	2.9	2.4	2.3	2.4		0.0	0.0	0.0	3.7
Commercial and industrial loans	2.1	1.5	1.3	1.1	0.9		0.0	0.0	4.2	0.3
All other loans, leases, and other assets	0.4	0.2	0.2	0.2	0.1		0.0	0.0	0.0	0.4
Total loans, leases, and other assets	3.6	2.6	1.8	1.8	1.5		1.1	1.2	2.2	3.6
Securitized Loans, Leases, and Other Assets Charged-Off (net, YTD, annualized, %)										
1-4 family residential loans	0.3	0.3	0.1	0.0	0.1		0.0	0.0	0.2	0.3
Home equity loans	0.1	0.4	0.2	0.1	0.2		0.0	0.0	6.3	0.1
Credit card receivables	6.4	4.4	2.8	1.4	4.4		0.0	4.0	4.1	6.5
Auto loans	0.8	1.3	0.9	0.4	1.3		0.0	0.0	0.6	0.8
Other consumer loans	0.8	0.6	0.4	0.2	1.3		0.0	0.0	0.0	0.8
Commercial and industrial loans	5.9	3.6	1.9	0.8	2.0		0.0	0.0	12.1	0.4
All other loans, leases, and other assets	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0
Total loans, leases, and other assets	1.6	1.2	0.7	0.4	1.1		0.0	3.6	5.6	1.5
Seller's Interests in Institution's Own Securitizations - Carried as Loans										
Home equity loans	124	166	435	282	347	-64.3	0	0	0	124
Credit card receivables	113,017	98,826	82,604	73,418	86,748	30.3	0	258	4,457	108,302
Commercial and industrial loans	436	636	3,506	3,263	7,671	-94.3	0	0	386	50
Seller's Interests in Institution's Own Securitizations - Carried as Securities										
Home equity loans	5	6	7	9	9	-44.4	0	0	0	5
Credit card receivables	584	623	403	377	436	33.9	0	8	576	0
Commercial and industrial loans	16	15	1	1	2	700.0	0	0	0	16
Assets Sold with Recourse and Not Securitized										
Number of institutions reporting asset sales	790	786	776	760	760	3.9	156	478	109	47
Outstanding Principal Balance by Asset Type										
1-4 family residential loans	66,417	68,709	65,959	60,386	57,612	15.3	1,060	8,374	3,423	53,560
Home equity, credit card receivables, auto, and other consumer loans	1,477	1,611	1,786	1,886	637	131.9	0	30	67	1,379
Commercial and industrial loans	6,698	7,314	4,794	4,579	4,728	41.7	0	69	0	6,629
All other loans, leases, and other assets	42,613	41,501	33,191	29,134	26,983	57.9	1	71	431	42,110
Total sold and not securitized	117,205	119,135	105,730	95,985	89,960	30.3	1,062	8,544	3,921	103,678
Maximum Credit Exposure by Asset Type										
1-4 family residential loans	15,433	15,735	14,678	14,070	14,780	4.4	104	1,391	1,830	12,109
Home equity, credit card receivables, auto, and other consumer loans	189	203	240	165	604	-68.7	0	12	64	113
Commercial and industrial loans	5,617	6,180	3,614	3,335	3,393	65.5	0	50	0	5,567
All other loans, leases, and other assets	9,290	11,517	8,541	8,112	7,854	18.3	1	13	72	9,203
Total credit exposure	30,529	33,634	27,072	25,682	26,631	14.6	105	1,466	1,966	26,992
Support for Securitization Facilities Sponsored by Other Institutions										
Number of institutions reporting securitization facilities sponsored by others	53	50	48	49	49	8.2	21	22	5	5
Total credit exposure	3,328	18,464	12,668	6,825	2,843	17.1	9	68	55	3,197
Total unused liquidity commitments	1,416	3,531	5,492	6,778	10,314	-86.3	0	0	0	1,416
Other										
Assets serviced for others**	5,615,245	5,528,963	3,921,915	3,813,285	3,798,682	47.8	3,916	66,526	81,838	5,462,966
Asset-backed commercial paper conduits										
Credit exposure to conduits sponsored by institutions and others	23,064	20,830	21,083	22,332	22,226	3.8	2	0	399	22,663
Unused liquidity commitments to conduits sponsored by institutions and others	297,908	311,683	339,007	354,525	380,709	-21.7	0	27	0	297,881
Net servicing income (for the quarter)	-339	4,110	7,280	3,532	2,718	-112.5	3	129	41	-512
Net securitization income (for the quarter)	2,391	3,119	4,205	5,541	5,008	-52.3	0	56	214	2,121
Total credit exposure to Tier 1 capital (%)***	6.8	9.0	7.4	6.6	6.4		0.60	1.80	2.60	8.70

*Line item titled "All other loans and all leases" for quarters prior to March 31, 2006.
**The amount of financial assets serviced for others, other than closed-end 1-4 family residential mortgages, is reported when these assets are greater than $10 million.
***Total credit exposure includes the sum of the three line items titled "Total credit exposure" reported above.

TABLE VIII-A. Trust Services (All FDIC-Insured Institutions)

(dollar figures in millions)	All Insured Institutions					Asset Size Distribution			
	Dec 31 2008	Dec 31 2007	Dec 31 2006	Dec 31 2005	% Change 2007-2008	Less Than $100 Million	$100 Million to $1 Billion	$1 Billion to $10 Billion	Greater Than $10 Billion
Number of institutions reporting	8,305	8,534	8,680	8,833	-2.7	3,131	4,499	561	114
Number of institutions with fiduciary powers	2,323	2,410	2,463	2,515	-3.6	487	1,418	339	79
Commercial banks	2,129	2,216	2,268	2,312	-3.9	466	1,316	279	68
Savings institutions	194	194	195	203	0.0	21	102	60	11
Number of institutions exercising fiduciary powers	1,723	1,785	1,826	1,866	-3.5	304	1,064	286	69
Commercial banks	1,571	1,633	1,672	1,708	-3.8	286	989	237	59
Savings institutions	152	152	154	158	0.0	18	75	49	10
Number of institutions reporting fiduciary activity	1,634	1,695	1,739	1,791	-3.6	280	1,012	276	66
Commercial banks	1,488	1,552	1,593	1,642	-4.1	262	941	229	56
Savings institutions	146	143	146	149	2.1	18	71	47	10
Fiduciary and related assets - managed assets									
Personal trust and agency accounts	616,855	800,549	764,623	735,821	-22.9	7,162	62,568	68,077	479,048
Noninterest-bearing deposits	16	-53	-4	364	-130.2	60	76	42	-163
Interest-bearing deposits	11,906	11,547	9,369	8,012	3.1	204	2,963	1,809	6,929
U.S. Treasury and U.S. Government agency obligations	26,764	31,619	32,873	34,664	-15.4	390	3,243	3,947	19,184
State, county and municipal obligations	65,303	67,131	70,909	73,332	-2.7	629	5,629	7,420	51,625
Money market mutual funds	56,918	51,248	38,134	33,640	11.1	734	4,349	6,507	45,328
Other short-term obligations	9,657	21,935	9,566	8,601	-56.0	36	202	290	9,129
Other notes and bonds	23,343	25,489	26,896	27,268	-8.4	579	2,013	2,385	18,365
Common and preferred stocks	348,415	522,846	514,963	491,075	-33.4	3,665	27,808	37,653	279,289
Real estate mortgages	1,565	1,530	1,604	1,476	2.3	24	240	264	1,037
Real estate	36,027	33,930	31,915	29,721	6.2	627	4,237	4,208	26,955
Miscellaneous assets	37,111	33,304	27,941	27,520	11.4	402	11,788	3,551	21,370
Retirement related trust and agency accounts:									
Employee benefit - defined contribution	284,219	328,909	307,194	226,768	-13.6	59,279	50,541	9,032	165,367
Employee benefit - defined benefit	697,874	1,060,288	1,153,825	1,067,293	-34.2	5,786	46,504	15,353	630,232
Other retirement accounts	330,459	414,725	309,451	249,466	-20.3	5,676	11,034	11,623	302,125
Corporate trust and agency accounts	26,504	25,273	31,457	42,634	4.9	22	806	3,740	21,936
Investment management agency accounts	1,228,862	1,592,394	1,505,171	1,311,707	-22.8	25,316	108,313	92,950	1,002,283
Other fiduciary accounts	153,059	235,544	320,331	266,515	-35.0	285	2,131	4,277	146,365
Total managed fiduciary accounts:									
Assets	3,337,833	4,457,682	4,392,051	3,900,205	-25.1	103,526	281,898	205,052	2,747,356
Number of accounts	1,454,562	1,528,303	2,998,641	2,915,478	-4.8	84,655	206,226	244,380	919,301
Fiduciary and related assets - non-managed assets									
Personal trust and agency accounts	307,037	355,388	309,352	286,571	-13.6	2,396	16,672	13,892	274,077
Retirement related trust and agency accounts:									
Employee benefit - defined contribution	1,481,594	1,822,860	1,779,446	1,525,676	-18.7	323,589	23,245	68,534	1,066,226
Employee benefit - defined benefit	3,983,183	5,333,411	4,542,941	3,567,204	-25.3	11,194	26,043	51,808	3,894,138
Other retirement accounts	1,686,296	2,098,451	2,121,766	2,108,630	-19.6	630,225	29,841	12,595	1,013,634
Corporate trust and agency accounts	3,935,533	4,427,672	2,961,810	2,567,357	-11.1	4,756	12,282	583,309	3,335,185
Other fiduciary accounts	2,596,701	3,366,857	3,170,657	2,580,461	-22.9	2,552	14,425	2,001	2,577,723
Total non-managed fiduciary accounts:									
Assets	13,990,344	17,404,640	14,885,973	12,635,898	-19.6	974,712	122,508	732,140	12,160,984
Number of accounts	21,367,984	16,446,110	16,049,836	15,713,903	29.9	11,563,773	2,636,363	264,200	6,903,648
Custody and safekeeping accounts:									
Assets	50,497,846	58,167,533	48,360,083	36,798,211	-13.2	203,353	704,314	559,830	49,030,349
Number of accounts	10,675,799	11,327,738	11,207,747	11,513,998	-5.8	608,939	7,532,693	881,762	1,652,405
Fiduciary and related services income									
Personal trust and agency accounts	4,896	5,766	5,147	5,244	-15.1	59	398	529	3,909
Retirement related trust and agency accounts:									
Employee benefit - defined contribution	1,122	1,183	1,305	1,187	-5.2	163	195	130	634
Employee benefit - defined benefit	1,999	1,803	1,949	1,789	10.9	40	198	52	1,708
Other retirement accounts	1,005	1,037	871	756	-3.1	66	66	101	771
Corporate trust and agency accounts	2,529	2,439	2,054	1,877	3.7	0	31	473	2,025
Investment management agency accounts	4,451	4,160	3,683	3,562	7.0	138	573	483	3,257
Other fiduciary accounts	2,133	2,156	1,440	1,350	-1.1	3	21	29	2,079
Custody and safekeeping accounts	8,337	8,165	8,011	7,167	2.1	163	423	426	7,324
Other fiduciary and related services income	3,272	2,424	1,855	1,577	35.0	7	174	63	3,028
Total gross fiduciary and related services income	30,020	29,292	26,142	24,784	2.5	711	2,196	2,307	24,805
Less: Expenses	20,565	20,545	19,096	17,267	0.1	407	1,578	1,528	17,053
Less: Net losses from fiduciary and related services	956	364	152	190	162.6	0	17	9	930
Plus: Intracompany income credits for fiduciary and related services	3,497	4,553	2,897	1,302	-23.2	0	35	235	3,228
Net fiduciary and related services income	11,717	12,772	9,963	8,426	-8.3	234	519	983	9,980
Collective investment funds and common trust funds (market value)									
Domestic equity funds	274,285	448,230	449,079	478,087	-38.8	8,813	2,953	5,014	257,505
International/global equity funds	101,311	206,551	171,114	129,572	-51.0	693	2,049	439	98,130
Stock/bond blend funds	122,423	215,849	217,734	77,526	-43.3	2,082	247	1,576	118,519
Taxable bond funds	160,206	214,159	185,398	248,050	-25.2	730	2,794	1,854	154,828
Municipal bond funds	6,007	8,328	8,695	60,308	-27.9	26	450	370	5,161
Short term investments/money market funds	307,007	395,025	352,341	365,759	-22.3	3,002	120	637	303,248
Specialty/other funds	94,428	121,628	96,902	102,112	-22.4	29,416	5,736	1,369	57,907
Total collective investment funds	1,065,665	1,609,768	1,481,262	1,461,414	-33.8	44,762	14,349	11,258	995,297

INSURANCE FUND INDICATORS

- ***The DIF Balance Declines by $16 Billion, and Insured Deposits Grow by 4.6 Percent in the Fourth Quarter***
- ***DIF Reserve Ratio Declines to 0.40 Percent***
- ***Twenty-Five Insured Institutions Fail During the Year; Another Five Insured Institutions under the Same Holding Company Receive Assistance***

During the fourth quarter of 2008, total assets of the nation's 8,305 FDIC-insured commercial banks and savings institutions increased by $274.2 billion (2.0 percent). Total deposits increased by $307.9 billion, more than the increase in assets. Total domestic deposits grew by 3.8 percent, higher than any quarterly growth rate observed since the fourth quarter of 2000. Brokered deposits increased by 15.3 percent ($101.4 billion), the largest quarterly percentage increase since the third quarter of 2000 when brokered deposits increased by 15.6 percent. Ten institutions accounted for more than two-thirds of this growth. Domestic time deposits increased by 1.8 percent, while other domestic interest-bearing deposits increased by 6.4 percent and domestic non-interest-bearing deposits increased by 2.2 percent.

For all of 2008, total domestic deposits increased by 8.4 percent, with domestic interest-bearing deposits rising by 6.2 percent and domestic non-interest-bearing deposits increasing by 19.4 percent. Foreign office deposits increased by 2.4 percent ($36.7 billion), and Federal Home Loan Bank (FHLB) advances decreased by 2.6 percent ($21.4 billion). The share of assets funded by domestic deposits increased from 53.0 percent to 54.1 percent. By contrast, foreign deposits as a percent of total assets declined during the year from 11.5 percent to 11.1 percent, and the share of asset funding attributable to FHLB advances decreased from 6.2 percent to 5.7 percent.

Estimated insured deposits (including U.S. branches of foreign banks) increased by 4.6 percent during the fourth quarter of 2008, up from a 1.8 percent increase in the previous quarter. For all of 2008, insured deposits increased by 10.8 percent, up from a 3.3 percent increase in 2007. For institutions reporting as of December 31, 2008, and September 30, 2008, insured deposits increased during the fourth quarter at 5,332 institutions (64 percent), decreased at 2,922 institutions (35 percent), and remained unchanged at 36 institutions.

The Deposit Insurance Fund (DIF) decreased by $15.7 billion during the fourth quarter to $18,889 million (unaudited). Accrued assessment income added $996 million to the DIF during the fourth quarter. Interest earned, combined with realized and unrealized gains (losses) on securities added $1.13 billion to the insurance fund. Operating and other expenses, net of other revenue, reduced the fund by $275 million. The reduction in the DIF during the quarter was primarily due to $17.6 billion in loss provisions for actual and anticipated insured institution failures. For all of 2008, the DIF balance fell by $33.5 billion (64 percent), primarily because of $40.2 billion in loss provisions.

The DIF's reserve ratio equaled 0.40 percent on December 31, 2008, which was 36 basis points lower than the previous quarter. During 2008, the reserve ratio decreased by 82 basis points, from 1.22 percent at year-end 2007. The December figure is the lowest reserve ratio for a combined bank and thrift insurance fund since June 30, 1993, when the reserve ratio was 0.28 percent.

Twelve FDIC-insured institutions with combined assets of $24.4 billion failed during the fourth quarter of 2008, at an estimated cost to the DIF of $4.5 billion. For all of 2008, 25 FDIC-insured institutions with assets of $372 billion failed, the largest number of failures since 1993 when 41 institutions with combined assets of $3.8 billion failed (excluding thrifts resolved by the Resolution Trust Corporation). In 2008, five banks owned by Citigroup with assets of $1.3 trillion received assistance under a systemic risk determination.

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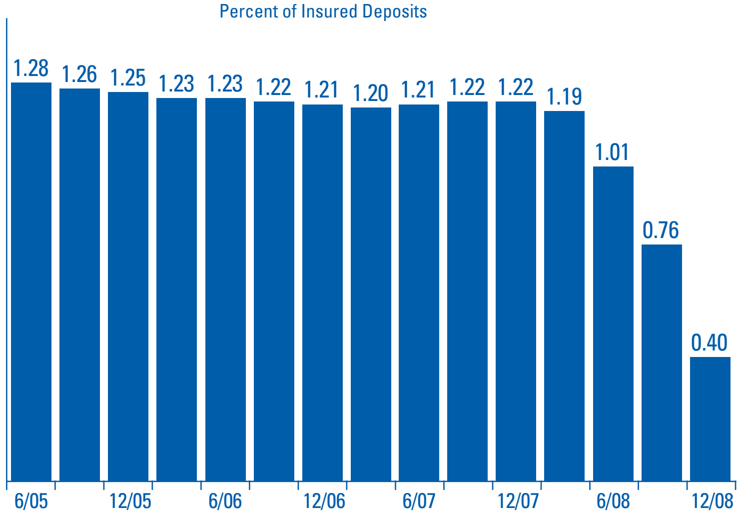
Table I-B. Insurance Fund Balances and Selected Indicators

(dollar figures in millions)	Deposit Insurance Fund										
	4th Quarter 2008*	3rd Quarter 2008*	2nd Quarter 2008*	1st Quarter 2008*	4th Quarter 2007	3rd Quarter 2007	2nd Quarter 2007	1st Quarter 2007	4th Quarter 2006	3rd Quarter 2006	2nd Quarter 2006
Beginning Fund Balance	$34,588	$45,217	$52,843	$52,413	$51,754	$51,227	$50,745	$50,165	$49,992	$49,564	$49,193
Changes in Fund Balance:											
Assessments earned	996	881	640	448	239	170	140	94	10	10	7
Interest earned on investment securities	277	526	651	618	585	640	748	567	476	622	665
Realized gain on sale of investments	302	473	0	0	0	0	0	0	0	0	0
Operating expenses	290	249	256	238	262	243	248	239	248	237	242
Provision for insurance losses	17,550	11,930	10,221	525	39	132	-3	-73	49	-50	-6
All other income, net of expenses	15	16	1	0	-2	24	1	4	5	1	12
Unrealized gain/(loss) on available-for-sale securities	551	-346	1,559	127	138	68	-162	81	-21	-18	-77
Total fund balance change	-15,699	-10,629	-7,626	430	659	527	482	580	173	428	371
Ending Fund Balance	18,889	34,588	45,217	52,843	52,413	51,754	51,227	50,745	50,165	49,992	49,564
Percent change from four quarters earlier	-63.96	-33.17	-11.73	4.13	4.48	3.52	3.36	3.15	3.23	3.35	3.21
Reserve Ratio (%)	0.40	0.76	1.01	1.19	1.22	1.22	1.21	1.20	1.21	1.22	1.23
Estimated Insured Deposits**	4,756,809	4,547,688	4,467,614	4,437,862	4,292,163	4,242,607	4,235,044	4,245,266	4,153,786	4,100,013	4,040,353
Percent change from four quarters earlier	10.83	7.19	5.49	4.54	3.33	3.48	4.82	6.08	6.76	7.02	7.52
Domestic Deposits	7,505,360	7,230,331	7,036,247	7,076,719	6,921,686	6,747,998	6,698,886	6,702,598	6,640,105	6,484,372	6,446,868
Percent change from four quarters earlier	8.43	7.15	5.04	5.58	4.24	4.07	3.91	5.71	6.59	6.76	8.68
Number of institutions reporting	8,315	8,393	8,462	8,505	8,545	8,570	8,625	8,661	8,692	8,755	8,790

DIF Reserve Ratios***

Percent of Insured Deposits



Deposit Insurance Fund Balance and Insured Deposits***

($ Millions)

	DIF Balance	DIF-Insured Deposits
6/05	48,023	3,757,728
9/05	48,373	3,830,950
12/05	48,597	3,890,941
3/06	49,193	4,001,906
6/06	49,564	4,040,353
9/06	49,992	4,100,013
12/06	50,165	4,153,786
3/07	50,745	4,245,266
6/07	51,227	4,235,044
9/07	51,754	4,242,607
12/07	52,413	4,292,163
3/08	52,843	4,437,862
6/08	45,217	4,467,614
9/08	34,588	4,547,688
12/08	18,889	4,756,809

Table II-B. Problem Institutions and Failed/Assisted Institutions

(dollar figures in millions)	2008	2007	2006	2005	2004	2003
Problem Institutions						
Number of institutions	252	76	50	52	80	116
Total assets	$159,405	$22,189	$8,265	$6,607	$28,250	$29,917
Failed Institutions						
Number of institutions	25	3	0	0	4	3
Total assets	$371,945	$2,615	$0	$0	$170	$947
Assisted Institutions****						
Number of institutions	5	0	0	0	0	0
Total assets	$1,306,042	0	0	0	0	0

* For 2008, preliminary unaudited fund data, which are subject to change.
** The Emergency Economic Stabilization Act of 2008 directs the FDIC not to consider the temporary coverage increase to $250,000 in setting assessments. Therefore, we do not include the additional insured deposits in calculating the fund reserve ratio, which guides our assessment planning. If Congress were to decide to leave the $250,000 coverage level in place indefinitely, however, it would be necessary to account for the increase in insured deposits to determine the appropriate level of the fund.
*** Prior to 2006, amounts represent sum of separate BIF and SAIF amounts.
**** Five institutions under the same holding company received assistance under a systemic risk determination.

Table III-B. Estimated FDIC-Insured Deposits by Type of Institution

(dollar figures in millions) December 31, 2008	Number of Institutions	Total Assets	Domestic Deposits*	Est. Insured Deposits
Commercial Banks and Savings Institutions				
FDIC-Insured Commercial Banks	7,085	$12,312,914	$6,543,010	$3,990,084
FDIC-Supervised	4,688	1,980,201	1,450,755	1,041,039
OCC-Supervised	1,537	8,478,798	4,100,230	2,373,247
Federal Reserve-Supervised	860	1,853,915	992,024	575,799
FDIC-Insured Savings Institutions	1,220	1,534,369	953,359	762,050
OTS-Supervised Savings Institutions	810	1,231,858	745,020	596,801
FDIC-Supervised State Savings Banks	410	302,512	208,339	165,250
Total Commercial Banks and Savings Institutions	8,305	13,847,284	7,496,369	4,752,135
Other FDIC-Insured Institutions				
U.S. Branches of Foreign Banks	10	52,727	8,991	4,674
Total FDIC-Insured Institutions	8,315	13,900,011	7,505,360	4,756,809

* Excludes $1.54 trillion in foreign office deposits, which are uninsured.

Table IV-B. Distribution of Institutions and Domestic Deposits Among Risk Categories

Quarter Ending September 30, 2008

(dollar figures in billions) **Risk Category**	Annual Rate in Basis Points	Number of Institutions	Percent of Total Institutions	Domestic Deposits	Percent of Total Domestic Deposits
I - Minimum	5	1,799	21.4	2,959	40.9
I - Middle	5.01- 6.00	2,357	28.1	2,009	27.8
I - Middle	6.01- 6.99	1,589	18.9	699	9.7
I - Maximum	7	1,767	21.1	641	8.9
II	10	674	8.0	820	11.3
III	28	186	2.2	84	1.2
IV	43	21	0.3	19	0.3

Note: Institutions are categorized based on supervisory ratings, debt ratings and financial data as of September 30, 2008.
Rates do not reflect the application of assessment credits. See notes to users for further information on risk categories and rates.

TEMPORARY LIQUIDITY GUARANTEE PROGRAM

- ***Non-Interest-Bearing Transaction Accounts Can Be Fully Guaranteed***
- ***FDIC Debt Guarantees Improve Access to Liquidity***
- ***The TLGP Is an Industry-Funded Program***
- ***More Than 500,000 Additional Transaction Accounts Receive Full Coverage***
- ***$224 Billion in Debt Outstanding in Program***

FDIC Responds to Market Disruptions with TLGP

The FDIC Board approved the Temporary Liquidity Guarantee Program (TLGP)[1] on October 13, 2008, as major disruptions in credit markets blocked access to liquidity for financial institutions. The TLGP improves access to liquidity by fully guaranteeing non-interest-bearing transaction deposit accounts and by guaranteeing eligible senior unsecured debt. The final rule for the TLGP was adopted on November 21, 2008.

Non-Interest-Bearing Transaction Accounts at Participating Institutions Are Fully Guaranteed

The Transaction Account Guarantee Program provides a full guarantee of non-interest-bearing transaction deposit accounts above $250,000, regardless of dollar amount, at depository institutions that elected to participate in the program. The guarantee is in effect until December 31, 2009. Accounts covered by the guarantee also include NOW accounts where interest rates are maintained at 0.5 percent or less and IOLTA[2] accounts.

FDIC Offers Guarantees on Senior Unsecured Debt

The Debt Guarantee Program provides a full guarantee of senior unsecured debt issued by eligible institutions between October 14, 2008, and June 30, 2009, with the guarantee expiring on or before June 30, 2012. Senior unsecured debt must have a stated maturity of more than 30 days and may include term Federal funds purchased, promissory notes, commercial paper, unsubordinated unsecured notes, and U.S. dollar denominated certificates of deposit owed to an insured depository institution. Institutions eligible for participation in the Debt Guarantee Program include insured depository institutions, U.S. bank holding companies, certain U.S. savings and loan holding companies, and other affiliates of an insured depository institution that the FDIC designates as eligible entities.

Program Funded by Industry Fees and Assessments

The TLGP does not rely on taxpayer funding or the Deposit Insurance Fund. Both components of the program will be paid for by direct user fees. Institutions participating in the Transaction Account Guarantee Program provide customers full coverage on non-interest-bearing transaction accounts for an annual fee of 10 basis points. Fees for participation in the Debt Guarantee Program depend on the maturity of debt issued. The cost of the guarantee to insured depository institutions is 50 basis points for maturities of 180 days or less, 75 basis points for maturities of 181 days to 364 days, and 100 basis points for maturities 365 days or greater. Bank holding companies and participating affiliates are required to pay an additional 10 basis points if, as of September 30, 2008, the combined assets of all insured depository institutions affiliated with such entities constitute less than 50 percent of consolidated holding company assets.

A Majority of Eligible Entities Have Chosen to Participate in the TLGP

According to submissions received by the FDIC, more than 85 percent of FDIC-insured institutions have opted in to the Transaction Account Guarantee Program, and more than half of all eligible entities have elected to opt in to the Debt Guarantee Program. Lists of institutions that opted out of the guarantee programs are posted at http://www.fdic.gov/regulations/resources/TLGP/optout.html.

Insured Institutions Report Half a Million Transaction Accounts over $250,000

According to fourth quarter Call Reports, insured institutions reported 522,862 non-interest-bearing transaction accounts over $250,000. These accounts totaled

[1] The FDIC invoked the systemic risk exception pursuant to section 141 of the Federal Deposit Improvement Act of 1991, 12 U.S.C 1823(c)(4) on October 13, 2008. For further information on the TLGP, see http://www.fdic.gov/regulations/resources/TLGP/index.html.

[2] NOW accounts are Negotiable Order of Withdrawal Accounts, and IOLTA, or Interest on Lawyers Trust Accounts, are interest-bearing accounts maintained by an attorney or law firm for its clients.

$814 billion, of which $684 billion in deposit accounts was guaranteed under the Transaction Account Guarantee Program. Almost 6,000 FDIC-insured institutions reported non-interest-bearing transaction accounts over $250,000 in value.

Limits on Debt Issuance Based on Third Quarter 2008 Balances

The amount of FDIC-guaranteed debt that can be issued by each eligible entity, or its "cap," is based on the amount of senior unsecured debt outstanding as of September 30, 2008, that matures on or before June 30, 2009. Eligible entities may issue debt up to 125 percent of that outstanding amount. The cap for FDIC-insured institutions that had no outstanding short-term senior unsecured debt other than Fed funds is set at 2 percent of liabilities as of September 30, 2008. Holding companies with no short-term senior unsecured debt outstanding must apply to the FDIC to raise the limit on their issuance of FDIC-guaranteed debt above $0. Initial caps for all 8,177 entities that could exercise their option to issue guaranteed debt under the TLGP total almost $1.0 trillion.

$224 Billion in FDIC-Guaranteed Debt Was Outstanding at Year-End

Sixty-four financial entities—39 insured depository institutions and 25 bank and thrift holding companies and nonbank affiliates—had $224 billion in guaranteed debt outstanding at year-end. Some banking groups issued FDIC-guaranteed debt at both the subsidiary and holding company level, but most guaranteed debt was issued by holding companies or nonbank affiliates of depository institutions. Bank and thrift holding companies and nonbank affiliates issued 86 percent of FDIC-guaranteed debt outstanding at year-end. Short-term commercial paper and medium-term notes represented 86 percent of outstanding debt instruments, in almost equal shares. Almost one-half of guaranteed debt outstanding as of December 31, 2008, matures in 180 days or less, and one-fourth matures between two and three years of issuance.

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Table I-C. Participation in Temporary Liquidity Guarantee Program

December 31, 2008	Total Eligible Entities	Number Opting In	Percent Opting In
Transaction Account Guarantee Program			
Depository Institutions with Assets <= $10 Billion	8,203	7,101	86.6%
Depository Institutions with Assets > $10 Billion	112	106	94.6%
Total Depository Institutions *	8,315	7,207	86.7%
Debt Guarantee Program			
Depository Institutions with Assets <= $10 Billion	8,203	4,457	54.3%
Depository Institutions with Assets > $10 Billion	112	104	92.9%
Total Depository Institutions *	8,315	4,561	54.9%
Bank and Thrift Holding Companies and Non-Insured Affiliates	6,403	3,630	56.7%
All Entities	14,718	8,191	55.7%

* Depository institutions include insured branches of foreign banks (IBAs)

Table II-C. Cap on FDIC-Guaranteed Debt for Opt-In Entities

December 31, 2008 (dollar figures in millions)	Opt-In Entities with Senior Unsecured Debt Outstanding at 9/30/2008			Opt-In Depository Institutions with no Senior Unsecured Debt at 9/30/2008			
	Number	Debt Amount as of 9/30/2008	Initial Cap	Number	2% Liabilities as of 9/30/2008	Total Entities	Total Initial Cap
Depository Institutions with Assets <= $10 Billion *	124	$2,812	$3,514	4,333	$34,863	4,457	$38,377
Depository Institutions with Assets > $10 Billion *	45	298,587	373,233	59	30,320	104	403,554
Bank and Thrift Holding Companies, Non-Insured Affiliates	90	398,092	497,616	3,540	N/A	3,630	497,616
Total	259	699,490	874,363	7,932	65,183	8,191	939,546

* Depository institutions include insured branches of foreign banks (IBAs)

N/A - Not applicable

Table III-C. Transaction Account Guarantee Program

(dollar figures in millions)	December 31, 2008
Number of Non-Interest-Bearing Transaction Accounts over $250,000	522,862
Amount in Non-Interest-Bearing Transaction Accounts over $250,000	$814,437
Amount Guaranteed	$683,722

Table IV-C. Debt Issuance under Guarantee Program

December 31, 2008 (dollar figures in millions)	Number	Debt Outstanding	Cap	Debt Outstanding Share of Cap
Insured Depository Institutions				
Assets <= $10 Billion	18	$45	$984	4.5%
Assets > $10 Billion	21	31,276	303,031	10.3%
Bank and Thrift Holding Companies, Non-Insured Affiliates	25	192,928	466,398	41.4%
All Issuers	64	224,249	770,413	29.1%

Table V-C. Fees Assessed under TLGP Debt Program

(dollar figures in millions)	4th Quarter 2008
Total Fees Assessed	$3,437

Table VI-C. Term at Issuance of Debt Instruments Outstanding

December 31, 2008 (dollar figures in millions)	Commercial Paper	Interbank Eurodollar Deposits	Medium Term Notes	Other Interbank Deposits	Other Senior Unsecured Debt	Other Term Note	All Debt	Share by Term
Term at Issuance								
90 days or less	$56,678	$281	$0	$448	$1,330	$3,208	$61,944	27.6%
91 - 180 days	36,917	1,209	0	5,441	10	4,912	48,489	21.6%
181 - 364 days	1,725	11	1,100	17	0	2,413	5,266	2.3%
1 - 2 years	0	1	19,800	17	0	770	20,588	9.2%
Over 2 - 3 years	0	0	47,023	0	3,225	5,665	55,912	24.9%
Over 3 years	0	0	29,606	4	2,350	90	32,050	14.3%
Total	95,320	1,502	97,528	5,927	6,915	17,057	224,249	
Share of Total	42.5%	0.7%	43.5%	2.6%	3.1%	7.6%		

Notes To Users

This publication contains financial data and other information for depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). These notes are an integral part of this publication and provide information regarding the comparability of source data and reporting differences over time.

Tables I-A through VIII-A.

The information presented in Tables I-A through V-A of the *FDIC Quarterly Banking Profile* is aggregated for all FDIC-insured institutions, both commercial banks and savings institutions. Tables VI-A (Derivatives) and VII-A (Servicing, Securitization, and Asset Sales Activities) aggregate information only for insured commercial banks and state-chartered savings banks that file quarterly Call Reports. Table VIII-A (Trust Services) aggregates Trust asset and income information collected annually from all FDIC-insured institutions. Some tables are arrayed by groups of FDIC-insured institutions based on predominant types of asset concentration, while other tables aggregate institutions by asset size and geographic region. Quarterly and full-year data are provided for selected indicators, including aggregate condition and income data, performance ratios, condition ratios, and structural changes, as well as past due, noncurrent, and charge-off information for loans outstanding and other assets.

Tables I-B through IV-B.

A separate set of tables (Tables I-B through IV-B) provides comparative quarterly data related to the Deposit Insurance Fund (DIF), problem institutions, failed/assisted institutions, estimated FDIC-insured deposits, as well as assessment rate information. Depository institutions that are not insured by the FDIC through the DIF are not included in the *FDIC Quarterly Banking Profile*. U.S. branches of institutions headquartered in foreign countries and non-deposit trust companies are not included unless otherwise indicated. Efforts are made to obtain financial reports for all active institutions. However, in some cases, final financial reports are not available for institutions that have closed or converted their charters.

DATA SOURCES

The financial information appearing in this publication is obtained primarily from the Federal Financial Institutions Examination Council (FFIEC) *Call Reports* and the OTS *Thrift Financial Reports* submitted by all FDIC-insured depository institutions. This information is stored on and retrieved from the FDIC's Research Information System (RIS) database.

COMPUTATION METHODOLOGY

Parent institutions are required to file consolidated reports, while their subsidiary financial institutions are still required to file separate reports. Data from subsidiary institution reports are included in the *Quarterly Banking Profile* tables, which can lead to double-counting. No adjustments are made for any double-counting of subsidiary data. Additionally, certain adjustments are made to the OTS *Thrift Financial Reports* to provide closer conformance with the reporting and accounting requirements of the FFIEC *Call Reports*.

All asset and liability figures used in calculating performance ratios represent average amounts for the period (beginning-of-period amount plus end-of-period amount plus any interim periods, divided by the total number of periods). For "pooling-of-interest" mergers, the assets of the acquired institution(s) are included in average assets since the year-to-date income includes the results of all merged institutions. No adjustments are made for "purchase accounting" mergers. Growth rates represent the percentage change over a 12-month period in totals for institutions in the base period to totals for institutions in the current period.

All data are collected and presented based on the location of each reporting institution's main office. Reported data may include assets and liabilities located outside of the reporting institution's home state. In addition, institutions may relocate across state lines or change their charters, resulting in an inter-regional or inter-industry migration, e.g., institutions can move their home offices between regions, and savings institutions can convert to commercial banks or commercial banks may convert to savings institutions.

ACCOUNTING CHANGES

FASB Statement No. 157 *Fair Value Measurements* issued in September 2006 and FASB Statement No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities* issued in February 2007—both are effective in 2008 with early adoption permitted in 2007. FAS 157 clarifies fair value and establishes a framework for developing fair value estimates for the fair value measurements that are already required or permitted under other standards. Fair value continues to be used for derivatives, trading securities, and available-for-sale securities. Changes in fair value go through earnings for the derivatives and trading securities. Changes in the fair value of available-for-sale securities are reported in other comprehensive income. Available-for-sale securities and held-to-maturity debt securities are written down to fair value through earnings if impairment is other than temporary and mortgage loans held for sale are reported at the lower of cost or fair value. Loans held for investment are also subject to impairment but are written down based on the present value of discounted cash flows. FAS 159 allows banks to elect a fair value option when assets are recognized on the balance sheet and to report certain financial assets and liabilities at fair value with subsequent changes in fair value included in earnings. Existing eligible items can be fair-valued as early as January 2007 under FAS 159, if a bank adopts FAS 157.

FASB Statement No. 158 *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*—issued in September 2006 requires a bank to recognize in 2007, and subsequently, the funded status of its postretirement plans on its balance sheet. An overfunded plan is recognized as an asset and an underfunded plan is recognized as a liability. An adjustment is made to equity as accumulated other comprehensive income (AOCI) upon application of FAS 158, and AOCI is adjusted in subsequent periods as net periodic benefit costs are recognized in earnings.

FASB Statement No. 156 *Accounting for Servicing of Financial Assets*—issued in March 2006 and effective in 2007, requires all separately recognized servicing assets and liabilities to be initially measured at fair value and allows a bank the option to subsequently adjust that value by periodic revaluation and recognition of earnings or by periodic amortization to earnings.

FASB Statement No. 155 *Accounting for Certain Hybrid Financial Instruments*—issued in February 2006, requires bifurcation of certain derivatives embedded in interests in securitized financial assets and permits fair value measurement (i.e., a fair value option) for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133). In addition, FAS 155 clarifies which interest-only and principal-only strips are not subject to FAS 133.

Purchased Impaired Loans and Debt Securities—Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. The SOP applies to loans and debt securities acquired in fiscal years beginning after December 15, 2004. In general, this Statement of Position applies to "purchased impaired loans and debt securities" (i.e., loans and debt securities that a bank has purchased, including those acquired in a purchase business combination, when it is probable, at the purchase date, that the bank will be unable to collect all contractually required payments receivable). Banks must follow Statement of Position 03-3 for Call Report purposes. The SOP does not apply to the loans that a bank has originated, prohibits "carrying over" or creation of valuation allowances in the initial accounting, and any subsequent valuation allowances reflect only those losses incurred by the investor after acquisition.

GNMA Buy-back Option—If an issuer of GNMA securities has the option to buy back the loans that collateralize the GNMA securities, when certain delinquency criteria are met, FASB Statement No. 140 requires that loans with this buy-back option must be brought back on the issuer's books as assets. The rebooking of GNMA loans is required regardless of whether the issuer intends to exercise the buy-back option. The banking agencies clarified in May 2005 that all GNMA loans that are rebooked because of delinquency should be reported as past due according to their contractual terms.

FASB Interpretation No. 46—The FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities*, in January 2003 and revised it in December 2003. Generally, banks with variable interests in variable interest entities created after December 31, 2003, must consolidate them. The timing of consolidation varies with certain situations with application as late as 2005. The assets and liabilities of a consolidated variable interest entity are reported on a line-by-line basis according to the asset and liability categories shown on the bank's balance sheet, as well as related income items. Most small banks are unlikely to have any "variable interests" in variable interest entities.

FASB Interpretation No. 48 on Uncertain Tax Positions—FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), was issued in June 2006 as an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*. Under FIN 48, the term "tax position" refers to "a position in a previously filed tax return or a position expected to be taken in a future tax return that is reflected in measuring current or deferred income tax assets and liabilities." FIN 48 further states that a "tax position can result in a permanent reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets." FIN 48 was originally issued effective for fiscal years beginning after December 15, 2006. Banks must adopt FIN 48 for Call Report purposes in accordance with the interpretation's effective date except as follows. On December 31, 2008, the FASB decided to defer the effective date of FIN 48 for eligible nonpublic enterprises and to require those enterprises to adopt FIN 48 for annual periods beginning after December 15, 2008. A nonpublic enterprise under certain conditions is eligible for deferral, even if it opted to issue interim or quarterly financial information in 2007 under earlier guidance that reflected the adoption of FIN 48.

FASB Statement No. 123 (Revised 2004) and Share-Based Payments—requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments (e.g., stock options and restricted stock, granted to employees). As of January 2006 all banks must adopt FAS 123(R). The compensation cost is typically recognized over the vesting period with a corresponding credit to equity. The recording of the compensation cost also gives rise to a deferred tax asset.

FASB Statement No. 133 *Accounting for Derivative Instruments and Hedging Activities*—All banks must recognize derivatives as either assets or liabilities on the balance sheet, measured at fair value. A derivative may be specifically designated as a "fair value hedge," a "cash flow hedge," or a hedge of a foreign currency exposure. The accounting for changes in the value of a derivative (gains and losses) depends on the intended use of the derivative, its resulting designation, and the effectiveness of the hedge. Derivatives held for purposes other than trading are reported as "other assets" (positive fair values) or "other liabilities" (negative fair values). For a fair value hedge, the gain or loss is recognized in earnings and "effectively" offsets loss or gain on the hedged item attributable to the risk being hedged. Any ineffectiveness of the hedge could result in a net gain or loss on the income statement. Accumulated net gains (losses) on cash flow hedges are recorded on the balance sheet as "accumulated other comprehensive income" and the periodic change in the accumulated net gains (losses) for cash flow hedges is reflected directly in equity as the value of the derivative changes. FASB Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities provides guidance on the circumstances in which a loan commitment must be accounted for as derivative. Under Statement No. 149, loan commitments that relate to the origination of mortgage loans that will be held for sale, commonly referred to as interest rate lock commitments, must be accounted for as derivatives on the balance sheet by the issuer of the commitment.

DEFINITIONS (in alphabetical order)

All other assets—total cash, balances due from depository institutions, premises, fixed assets, direct investments in real estate, investment in unconsolidated subsidiaries, customers' liability on acceptances outstanding, assets held in trading accounts, federal funds sold, securities purchased with agreements to resell, fair market value of derivatives, and other assets.

All other liabilities—bank's liability on acceptances, limited-life preferred stock, allowance for estimated off-balance-sheet credit losses, fair market value of derivatives, and other liabilities.

Assessment base—assessable deposits consist of DIF deposits (deposits insured by the FDIC Deposit Insurance Fund) in banks' domestic offices with certain adjustments.

Assets securitized and sold—total outstanding principal balance of assets securitized and sold with servicing retained or other seller-provided credit enhancements.

Capital Purchase Program (CPP)—As announced in October 2008 under the TARP, the Treasury Department purchase of noncumulative perpetual preferred stock and related warrants that is treated as Tier 1 capital for regulatory capital purposes is included in "Total equity capital." Such warrants to purchase common stock or noncumulative preferred stock issued by publicly-traded banks are reflected as well in "Surplus." Warrants to purchase common stock or noncumulative preferred stock of not-publicly-traded bank stock are classified in a bank's balance sheet as "Other liabilities."

Construction and development loans—includes loans for all property types under construction, as well as loans for land acquisition and development.

Core capital—common equity capital plus noncumulative perpetual preferred stock plus minority interest in consolidated subsidiaries, less goodwill and other ineligible intangible assets. The amount of eligible intangibles (including servicing rights) included in core capital is limited in accordance with supervisory capital regulations.

Cost of funding earning assets—total interest expense paid on deposits and other borrowed money as a percentage of average earning assets.

Credit enhancements—techniques whereby a company attempts to reduce the credit risk of its obligations. Credit enhancement may be provided by a third party (external credit enhancement) or by the originator (internal credit enhancement), and more than one type of enhancement may be associated with a given issuance.

Deposit Insurance Fund (DIF)—The Bank (BIF) and Savings Association (SAIF) Insurance Funds were merged in 2006 by the Federal Deposit Insurance Reform Act to form the DIF.

Derivatives notional amount—The notional, or contractual, amounts of derivatives represent the level of involvement in the types of derivatives transactions and are not a quantification of market risk or credit risk. Notional amounts represent the amounts used to calculate contractual cash flows to be exchanged.

Derivatives credit equivalent amount—the fair value of the derivative plus an additional amount for potential future credit exposure based on the notional amount, the remaining maturity and type of the contract.

Derivatives transaction types:

Futures and forward contracts—contracts in which the buyer agrees to purchase and the seller agrees to sell, at a specified future date, a specific quantity of an underlying variable or index at a specified price or yield. These contracts exist for a variety of variables or indices, (traditional agricultural or physical commodities, as well as currencies and interest rates). Futures contracts are standardized and are traded on organized exchanges which set limits on counterparty credit exposure. Forward contracts do not have standardized terms and are traded over the counter.

Option contracts—contracts in which the buyer acquires the right to buy from or sell to another party some specified amount of an underlying variable or index at a stated price (strike price) during a period or on a specified future date, in return for compensation (such as a fee or premium). The seller is obligated to purchase or sell the variable or index at the discretion of the buyer of the contract.

Swaps—obligations between two parties to exchange a series of cash flows at periodic intervals (settlement dates), for a specified period. The cash flows of a swap are either fixed, or determined for each settlement date by multiplying the quantity (notional principal) of the underlying variable or index by specified reference rates or prices. Except for currency swaps, the notional principal is used to calculate each payment but is not exchanged.

Derivatives underlying risk exposure—the potential exposure characterized by the level of banks' concentration in particular underlying instruments, in general. Exposure can result from market risk, credit risk, and operational risk, as well as, interest rate risk.

Domestic deposits to total assets—total domestic office deposits as a percent of total assets on a consolidated basis.

Earning assets—all loans and other investments that earn interest or dividend income.

Efficiency ratio—Noninterest expense less amortization of intangible assets as a percent of net interest income plus noninterest income. This ratio measures the proportion of net operating revenues that are absorbed by overhead expenses, so that a lower value indicates greater efficiency.

Estimated insured deposits—in general, insured deposits are total domestic deposits minus estimated uninsured deposits. Beginning March 31, 2008, for institutions that file Call reports, insured deposits are total assessable deposits minus estimated uninsured deposits.

Failed/assisted institutions—an institution fails when regulators take control of the institution, placing the assets and liabilities into a bridge bank, conservatorship, receivership, or another healthy institution. This action may require the FDIC to provide funds to cover losses. An institution is defined as "assisted" when the institution remains open and receives some insurance funds in order to continue operating.

FHLB advances—all borrowings by FDIC insured institutions from the Federal Home Loan Bank System (FHLB), as reported by Call Report filers and by TFR filers.

Goodwill and other intangibles—intangible assets include servicing rights, purchased credit card relationships, and other identifiable intangible assets. Goodwill is the excess of the purchase price over the fair market value of the net assets acquired, less subsequent impairment adjustments. Other intangible assets are recorded at fair value, less subsequent quarterly amortization and impairment adjustments.

Loans secured by real estate—includes home equity loans, junior liens secured by 1-4 family residential properties, and all other loans secured by real estate.

Loans to individuals—includes outstanding credit card balances and other secured and unsecured consumer loans.

Long-term assets (5+ years)—loans and debt securities with remaining maturities or repricing intervals of over five years.

Maximum credit exposure—the maximum contractual credit exposure remaining under recourse arrangements and other seller-provided credit enhancements provided by the reporting bank to securitizations.

Mortgage-backed securities—certificates of participation in pools of residential mortgages and collateralized mortgage obligations issued or guaranteed by government-sponsored or private enterprises. Also, see "Securities," below.

Net charge-offs—total loans and leases charged off (removed from balance sheet because of uncollectibility), less amounts recovered on loans and leases previously charged off.

Net interest margin—the difference between interest and dividends earned on interest-bearing assets and interest paid to depositors and other creditors, expressed as a percentage of average earning assets. No adjustments are made for interest income that is tax exempt.

Net loans to total assets—loans and lease financing receivables, net of unearned income, allowance and reserves, as a percent of total assets on a consolidated basis.

Net operating income—income excluding discretionary transactions such as gains (or losses) on the sale of investment securities and extraordinary items. Income taxes subtracted from operating income have been adjusted to exclude the portion applicable to securities gains (or losses).

Noncurrent assets—the sum of loans, leases, debt securities, and other assets that are 90 days or more past due, or in nonaccrual status.

Noncurrent loans & leases—the sum of loans and leases 90 days or more past due, and loans and leases in nonaccrual status.

Number of institutions reporting—the number of institutions that actually filed a financial report.

Other borrowed funds—federal funds purchased, securities sold with agreements to repurchase, demand notes issued to the U.S. Treasury, FHLB advances, other borrowed money, mortgage indebtedness, obligations under capitalized leases and trading liabilities, less revaluation losses on assets held in trading accounts.

Other real estate owned—primarily foreclosed property. Direct and indirect investments in real estate ventures are excluded. The amount is reflected net of valuation allowances. For institutions that file a Thrift Financial Report (TFR), the valuation allowance subtracted also includes allowances for other repossessed assets. Also, for TFR filers the components of other real estate owned are reported gross of valuation allowances.

Percent of institutions with earnings gains—the percent of institutions that increased their net income (or decreased their losses) compared to the same period a year earlier.

"Problem" institutions—federal regulators assign a composite rating to each financial institution, based upon an evaluation of financial and operational criteria. The rating is based on a scale of 1 to 5 in ascending order of supervisory concern. "Problem" institutions are those institutions with financial, operational, or managerial weaknesses that threaten their continued financial viability. Depending upon the degree of risk and supervisory concern, they are rated either a "4" or "5." The number and assets of "problem" institutions are based on FDIC composite ratings. Prior to March 31, 2008, for institutions whose primary federal regulator was the OTS, the OTS composite rating was used.

Recourse—an arrangement in which a bank retains, in form or in substance, any credit risk directly or indirectly associated with an asset it has sold (in accordance with generally accepted accounting principles) that exceeds a pro rata share of the bank's claim on the asset. If a bank has no claim on an asset it has sold, then the retention of any credit risk is recourse.

Reserves for losses—the allowance for loan and lease losses on a consolidated basis.

Restructured loans and leases—loan and lease financing receivables with terms restructured from the original contract. Excludes restructured loans and leases that are not in compliance with the modified terms.

Retained earnings—net income less cash dividends on common and preferred stock for the reporting period.

Return on assets—net income (including gains or losses on securities and extraordinary items) as a percentage of average total assets. The basic yardstick of bank profitability.

Return on equity—net income (including gains or losses on securities and extraordinary items) as a percentage of average total equity capital.

Risk-based capital groups—definition:

(Percent)	Total Risk-Based Capital *		Tier 1 Risk-Based Capital *		Tier 1 Leverage		Tangible Equity
Well-Capitalized	≥10	*and*	≥6	*and*	≥5		–
Adequately capitalized	≥8	*and*	≥4	*and*	≥4		–
Undercapitalized	≥6	*and*	≥3	*and*	≥3		–
Significantly undercapitalized	<6	*or*	<3	*or*	<3	*and*	>2
Critically undercapitalized	–		–		–		≤2

*As a percentage of risk-weighted assets.

Risk Categories and Assessment Rate Schedule—The current risk categories and assessment rate schedule became effective January 1, 2007. Capital ratios and supervisory ratings distinguish one risk category from another. The following table shows the relationship of risk categories (I, II, III, IV) to capital and supervisory groups as well as the assessment rates (in basis points) for each risk category. Supervisory Group A generally includes institutions with CAMELS composite ratings of 1 or 2; Supervisory Group B generally includes institutions with a CAMELS composite rating of 3; and Supervisory Group C generally includes institutions with CAMELS composite ratings of 4 or 5. For purposes of risk-based assessment capital groups, undercapitalized includes institutions that are significantly or critically undercapitalized.

<table>
<tr><th rowspan="2">Capital Group</th><th colspan="3">Supervisory Group</th></tr>
<tr><th>A</th><th>B</th><th>C</th></tr>
<tr><td>1. Well Capitalized</td><td>I
5–7 bps</td><td rowspan="2">II
10 bps</td><td rowspan="2">III
28 bps</td></tr>
<tr><td>2. Adequately Capitalized</td><td></td></tr>
<tr><td>3. Undercapitalized</td><td colspan="2">III
28 bps</td><td>IV
43 bps</td></tr>
</table>

Assessment rates are 3 basis points above the base rate schedule. The FDIC may adjust rates up or down by 3 basis points from the base rate schedule without notice and comment, provided that any single adjustment from one quarter to the next cannot move rates more than 3 basis points.

For most institutions in Risk Category I, the assessment rate assigned will be based on a combination of financial ratios and CAMELS component ratings.

For large institutions in Risk Category I (generally those with at least $10 billion in assets) that have long-term debt issuer ratings, assessment rates will be determined by weighting CAMELS component ratings 50 percent and long-term debt issuer ratings 50 percent. For all large Risk Category I institutions, additional risk factors will be considered to determine whether assessment rates should be adjusted. This additional information includes market data, financial performance measures, considerations of the ability of an institution to withstand financial stress, and loss severity indicators. Any adjustment will be limited to no more than ½ basis point.

Beginning in 2007, each institution is assigned a risk-based rate for a quarterly assessment period near the end of the quarter following the assessment period. Payment will generally be due on the 30th day of the last month of the quarter following the assessment period. Supervisory rating changes will be effective for assessment purposes as of the examination transmittal date. For institutions with long-term debt issuer ratings, changes in ratings will be effective for assessment purposes as of the date the change was announced.

Risk-weighted assets—assets adjusted for risk-based capital definitions which include on-balance-sheet as well as off-balance-sheet items multiplied by risk-weights that range from zero to 200 percent. A conversion factor is used to assign a balance sheet equivalent amount for selected off-balance-sheet accounts.

Securities—excludes securities held in trading accounts. Banks' securities portfolios consist of securities designated as "held-to-maturity," which are reported at amortized cost (book value), and securities designated as "available-for-sale," reported at fair (market) value.

Securities gains (losses)—realized gains (losses) on held-to-maturity and available-for-sale securities, before adjustments for income taxes. Thrift Financial Report (TFR) filers also include gains (losses) on the sales of assets held for sale.

Seller's interest in institution's own securitizations—the reporting bank's ownership interest in loans and other assets that have been securitized, except an interest that is a form of recourse or other seller-provided credit enhancement. Seller's interests differ from the securities issued to investors by the securitization structure. The principal amount of a seller's interest is generally equal to the total principal amount of the pool of assets included in the securitization structure less the principal amount of those assets attributable to investors, i.e., in the form of securities issued to investors.

Subchapter S Corporation—a Subchapter S corporation is treated as a pass-through entity, similar to a partnership, for federal income tax purposes. It is generally not subject to any federal income taxes at the corporate level. This can have the effect of reducing institutions' reported taxes and increasing their after-tax earnings.

Temporary Liquidity Guarantee Program (TLGP) was approved by the FDIC Board on October 13, 2008. The TLGP was designed to help relieve the crisis in the credit markets by giving banks access to liquidity during a time of global financial distress. Participation in the TLGP is voluntary. The TLGP has two components:

Transaction Account Guarantee Program provides a full guarantee of non-interest-bearing deposit transaction accounts above $250,000, at depository institutions that elected to participate in the program. The guarantee is in effect until December 31, 2009.

Debt Guarantee Program provides a full guarantee of senior unsecured debt[1] issued by eligible institutions between October 14, 2008, and June 30, 2009, and maturing on or before June 30, 2012. Institutions eligible for participation in the debt guarantee program include insured depository institutions, U.S. bank holding companies, certain U.S. savings and loan holding companies, and other affiliates of an insured depository institution that the FDIC designates as eligible entities.

Trust assets—market value, or other reasonably available value of fiduciary and related assets, to include marketable securities, and other financial and physical assets. Common physical assets held in fiduciary accounts include real estate, equipment, collectibles, and household goods. Such fiduciary assets are not included in the assets of the financial institution.

Unearned income & contra accounts—unearned income for Call Report filers only.

Unused loan commitments—includes credit card lines, home equity lines, commitments to make loans for construction, loans secured by commercial real estate, and unused commitments to originate or purchase loans. (Excluded are commitments after June 2003 for originated mortgage loans held for sale, which are accounted for as derivatives on the balance sheet.)

Volatile liabilities—the sum of large-denomination time deposits, foreign-office deposits, federal funds purchased, securities sold under agreements to repurchase, and other borrowings.

Yield on earning assets—total interest, dividend, and fee income earned on loans and investments as a percentage of average earning assets.

[1] Senior unsecured debt generally includes term Federal funds purchased, promissory notes, commercial paper, unsubordinated unsecured notes, certificates of deposit (CDs) standing to the credit of a bank, and U.S. dollar denominated bank deposits owed to an insured depository institution.

Feature Article:

The 2009 Economic Landscape: How the Recession Is Unfolding across Four U.S. Regions

Foreword

With the intensification of financial market turmoil in the fourth quarter of 2008 came a new round of distress to the U.S. economy, making this not only one of the longest but one of the most severe U.S. recessions since World War II. Real gross domestic product (GDP) declined at an annualized rate of 6.3 percent in the fourth quarter, the most in any quarter since 1982. As of March 2009, the downturn marked its 16th month, making it equal to the longest period of uninterrupted contraction in the U.S. economy since the 1930s.

While events in the U.S. and global financial markets are powerful drivers of the recession that began in 2007, this economic downturn is unfolding in unique ways across the various regional economies. For example, most areas of the country are experiencing housing market distress, but some are seeing more severe deterioration in local housing markets than indicated by national averages. One analysis shows that more than half of all residential foreclosure filings in 2008 took place in 35 U.S. counties where 20 percent of the U.S. population lives.[1] Similarly, while some 41 states saw payroll jobs decline in 2008, the remaining 9 states (and the District of Columbia) continued to report employment growth.

The following series of articles takes a closer look at the distinct way that this recession is playing out in four major regions of the country. The first article describes how the latest downturn is exacerbating long-term problems in the manufacturing sector of the Industrial Midwest. In the second article, we explore how formerly booming housing markets in Arizona, California, Florida, and Nevada have given way to a housing bust that has sharply reversed the momentum of the regional economy. The third article focuses on the impact of financial market turmoil on New York City and other financial centers along the East Coast, while the fourth article outlines why a number of states in the nation's midsection have fared better than most thus far because of their high dependence on energy and agricultural production.

Richard A. Brown, Chief Economist

[1] "Most foreclosures pack into a few counties," *USAToday*, March 6, 2009.

The 2009 Economic Landscape

Recession Adds to Long-Term Manufacturing Challenges in the Industrial Midwest

The manufacturing sector has long been a primary economic driver of the Industrial Midwest.[1] This region, which comprises eight states in the north-central United States, is known for its durable goods manufacturing, a sector that includes the production of automobiles and other types of heavy machinery. The emphasis on manufacturing has posed challenges for the region as the sector has contracted. This article discusses manufacturing trends in the Industrial Midwest, particularly with respect to the troubled auto sector, and the economic outlook for the region.

The Industrial Midwest Has Not Recovered from the Last Recession

The U.S. manufacturing sector has struggled throughout this decade. Historically, nationwide manufacturing-related employment has tended to decline a few quarters before the U.S. economy contracts and then recover in tandem with the broader economy. However, job growth in the U.S. manufacturing sector did not rebound after the 2001 recession, even while overall U.S. economic growth was strong (see Chart 1).[2]

These manufacturing weaknesses have had a disproportionate effect on the Industrial Midwest economy. In each state in the region, manufacturing employment as a percentage of total employment is higher than the nation's. Moreover, **Indiana**, **Wisconsin**, **Michigan**, and **Ohio** have the highest concentrations of manufacturing employment in the country.[3] Because of its reliance on manufacturing during a period of weakness in this sector, total employment in the region has yet to return to pre-2001 levels (see Chart 2).

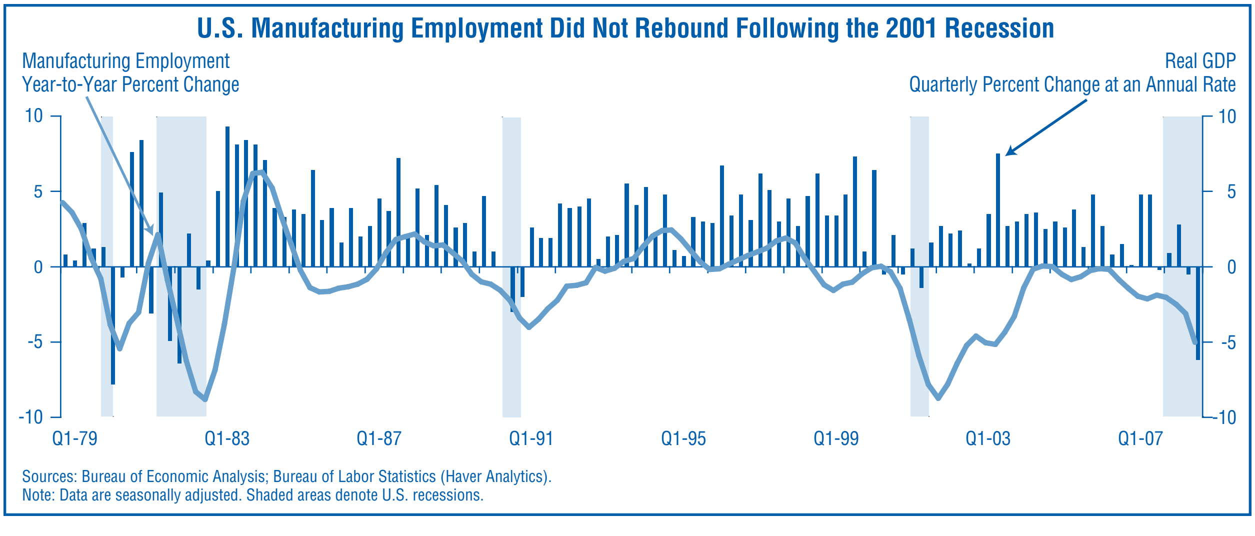
Two long-term issues are adversely affecting manufacturing in the Industrial Midwest. First, over the past two decades, much of the region's manufacturing base has

[1] In this article, the Industrial Midwest is defined as the region encompassing Indiana, Wisconsin, Michigan, Ohio, Iowa, Kentucky, Minnesota, and Illinois.

[2] The trend of outsourcing may contribute to overcounting of manufacturing job losses. As manufacturers "purchase" a growing number of services, the value of which is ultimately embedded in product value, manufacturing employment levels may have simply shifted to service industry sectors. See "Is Manufacturing at a Crossroads?" *Chicago Fed Letter*, Number 204a, July 2004.

[3] Bureau of Labor Statistics, December 31, 2008. Manufacturing concentrations are defined as durable goods manufacturing and wholesale trade jobs as a percentage of total nonfarm payrolls.

Chart 1



Sources: Bureau of Economic Analysis; Bureau of Labor Statistics (Haver Analytics).
Note: Data are seasonally adjusted. Shaded areas denote U.S. recessions.

Chart 2

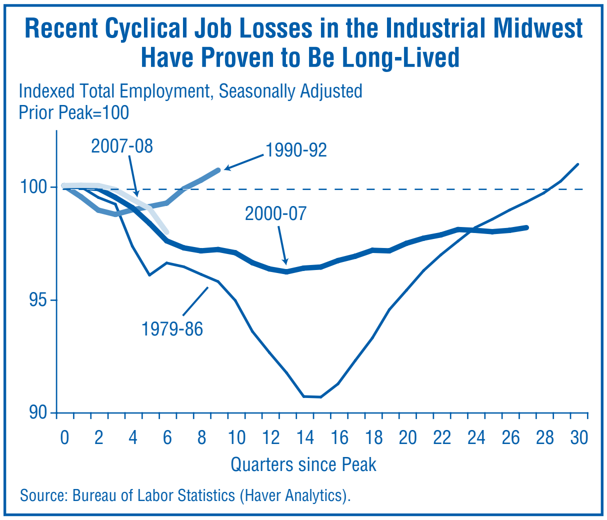
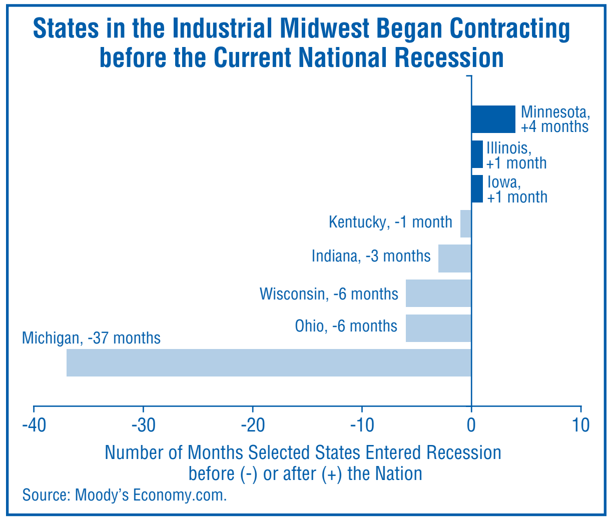


Chart 3



been lost to competition, both foreign and domestic. Second, technological improvements in U.S. factories have led to much higher productivity levels.[4] These productivity advances have been brought about by capital investments that require fewer low-skilled workers.

More recently, the erosion of market share and structural cost problems at General Motors (GM), Chrysler, and Ford have led to large-scale restructurings and job losses. These challenges at U.S. automakers have contributed to the loss of more than 140,000 manufacturing jobs since 2005.[5] Hundreds of thousands of additional workers at auto assembly plants and auto parts suppliers could potentially lose their jobs during the current downturn.[6]

Auto sector layoffs have disproportionately affected Michigan, Ohio, and Indiana, the states most exposed to the troubled auto sector. These states were essentially in recession before the nation as a whole, with Michigan preceding the national downturn by more than three years (see Chart 3). Michigan is the state most heavily concentrated in auto manufacturing, with the most motor vehicle manufacturing jobs and the highest number and proportion of direct and indirect jobs connected to motor vehicle parts production.[7]

Employment Weakness Has Also Spilled into the Region's Housing Markets

Although the Industrial Midwest did not experience the significant home price appreciation of the post-2001 housing boom to the same degree as other regions, its residential real estate markets have still suffered. Existing home sales in the Industrial Midwest declined 33 percent from their second quarter 2005 peak, roughly in line with the nationwide decline.[8] In 2008, home prices fell in all of the region's states, led by Michigan, where prices declined by more than 10 percent.[9] Further, in half of the Industrial Midwest states, foreclosure rates are at or slightly higher than the national rate.[10]

Weak housing markets have, in turn, adversely affected the region's construction industry. Construction employment was virtually unchanged across the Industrial Midwest from 2003 through 2006, while it grew more than 10 percent nationwide. Since 2006, the construction sector in the Industrial Midwest has declined by 7.7 percent, or 96,000 jobs.

[4] Bureau of Labor Statistics. From 2002 to 2006, U.S. manufacturing multifactor productivity growth—the increase in the ratio of goods output to labor, capital, and other inputs—averaged 2.2 percent, well above the 30-year average of 1.4 percent.

[5] The figure cited refers to job losses in the transportation manufacturing sector of the Industrial Midwest through 2008. These job losses have occurred mostly at auto parts suppliers and automakers.

[6] See *CAR Research Memorandum: The Impact on the U.S. Economy of a Major Contraction of the Detroit Three Automakers*, Center for Automotive Research, November 4, 2008.

[7] *Contribution of the Motor Vehicle Supplier Sector to the Economies of the United States and Its 50 States*, Center for Automotive Research, January 2007.

[8] National Association of Realtors, data available as of fourth quarter 2008.

[9] Based on the Federal Housing Finance Agency Purchase-Only House Price Index.

[10] Mortgage Bankers Association, fourth quarter 2008.

The Industrial Midwest Faces a Potentially Long Road to Recovery

Employment in the Industrial Midwest has declined substantially during the current downturn, and the near-term outlook for **Detroit's** auto industry remains unclear. Automakers have been shrinking their businesses to match reduced market share. In addition, financial press reports and analytical studies indicate that hundreds of thousands of jobs are potentially at stake as Chrysler and GM continue to negotiate restructuring plans with the Obama administration's auto task force. Though foreign-based automakers with production facilities in the region might increase output to partially offset this gap, their new hiring likely would not fully absorb jobs shed by Detroit automakers.

Two other economic indicators also point to a prolonged path to recovery. First, the outlook for the metal fabrication and machinery manufacturing industries has diminished. These industries, which include companies involved in the transformation of metal into intermediate or final products and the production of machines used in industrial applications, provided some economic stability to the Industrial Midwest following the last recession. However, the weakening national economy has softened demand for their products. Nationally, investment in machinery and other fixed assets has slowed consistently since mid-2007, and fell 21 percent during fourth quarter 2008.[11] As a result, employment in fabrication and machinery manufacturing in the region declined 1.4 percent, or about 13,000 jobs, in 2008.

Second, contraction or slowing growth in the economies of U.S. trading partners will likely limit future export opportunities that had provided a counterbalance to the weakened auto sector over the past few years. Exports rose 13 percent and 11 percent, respectively, in 2006 and 2007, benefiting from strong foreign demand and a decline in the value of the dollar. However, the economies of foreign trading partners are now slowing or contracting and the decline in the dollar has reversed direction, returning to trade-weighted levels not seen since 2006.[12]

A more positive outlook for the region hinges in no small part on the success of federal government initiatives directed at stimulating the economy in general and the auto sector in particular. Spending on infrastructure projects should generate new jobs, while other provisions of the $787 billion American Recovery and Reinvestment Act are intended to maintain existing jobs. However, most of the affected jobs will be outside of the manufacturing sector. While employment will likely continue to decline in the automotive sector, it is likely that fewer jobs would be lost under a government-assisted restructuring than would occur otherwise. Over the long term, job growth is likely to become more dependent on emerging and expanding industries, such as those found in the energy, education, and health care sectors.

Authors: Patrick M. Dervin, Regional Economist

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[11] Bureau of Economic Analysis; seasonally adjusted, annualized growth in real private nonresidential fixed investment.

[12] The Blue Chip Economic Indicators consensus forecast as of December 2008 calls for a 0.1 percent decline in Canada's GDP in 2009 and only a 0.2 percent increase in Mexico's GDP. Growth in China, one of the fastest growing export markets, is expected to slow from 9.5 percent in 2008 to 7.6 percent in 2009, well below trend.

The 2009 Economic Landscape

The Sand States: Anatomy of a Perfect Housing-Market Storm

The historic boom and subsequent decline in the nation's housing market has been a defining feature of the current recession. The housing downturn has been most acute in four states—**Arizona**, **California**, **Florida**, and **Nevada**—that had experienced some of the highest rates of home price appreciation in the first half of the decade. While these states are not all contiguously located, their similar housing cycles and abundance of either beaches or deserts have led some analysts to label them "Sand States." This article discusses the factors that led to an expanding housing sector in these states and the market imbalances that culminated in a sharp correction in home prices. The article also explores the ripple effects that the housing downturn has had on the local economies.

Rapid Population Growth in the Sand States Propelled Housing Markets

For many years, rapid population growth in the Sand States spurred higher than average rates of home construction. Favorable weather and relatively affordable housing are two factors that attracted retirees as well as younger families to these states. In the 1980s and 1990s, population growth rates in Arizona, Florida, and Nevada were between two and four times the national rate. Certain parts of California, such as the **Riverside–San Bernardino** metropolitan area, experienced similarly high rates of population growth. Rapid population growth continued into the early years of this decade. From 2004 to 2007, Arizona and Nevada ranked as the two fastest growing states in the nation, followed closely by Florida, which ranked ninth.[1]

The influx of new residents into Arizona, Florida, and Nevada also contributed to strong employment growth. Job creation in these states frequently outpaced the rest of the nation during the past few decades. From 2000 to 2006, these states repeatedly ranked among the top ten for job growth, far exceeding the national average. California generally reported job growth similar to the national average during this period, although the state was hit hard by the dot-com recession from mid-2001 to 2003.

[1] U.S. Census Bureau.

Affordability Mortgages Contributed to Housing Imbalances

During this decade, strong demand for housing, supported by a growing population and an expanding economy, contributed to growing housing market imbalances across the Sand States. Perhaps the best measure of the imbalances that accumulated in booming housing markets during this decade was the relationship between home prices and incomes. In the years leading up to the housing downturn, escalating home prices far outpaced income growth. For example, in 2003, housing in Nevada was considered relatively affordable, both in absolute terms and as compared to other states. According to one analysis, a family earning the median income in Nevada in 2003 could afford a home that was priced approximately 20 percent above the median house price in the state using traditional mortgage financing.[2] However, by late 2005, home prices had risen so much that a family earning the median income could only afford a home priced at 24 percent *below* the state's median price.

A combination of factors drove the housing sector imbalances in the Sand States to unprecedented levels. Under normal market conditions, strained affordability tends to limit housing demand because fewer households can purchase a home using traditional mortgage financing. However, in this cycle, new mortgage "affordability" products were commonly used to finance home purchases. Besides traditional adjustable-rate mortgages (ARMs), affordability products included *hybrid ARMs*, which have a low, fixed interest rate for several years followed by a market rate that is frequently much higher. Affordability products also comprised the so-called nontraditional mortgage products, which included *interest-only loans*, where amortization of principal was not required during the first few years of the

[2] Moody's Economy.com Affordability Index. The calculation assumes a 30-year maturity and a down payment of 20 percent. It also assumes that the monthly principal and interest payments do not exceed 25 percent of the median family income. To interpret the indices, a value of 100 means that the family earning the median income can afford only 100 percent of the traditional mortgage payment of the median-priced home, taking into consideration the 20 percent down payment.

loan; *negative-amortization loans* that offered initial payments well below the amount required to cover interest and amortize principal; and *balloon payment loans*, which typically required a large lump-sum payment at the end of the loan. Unlike *subprime* mortgage products that were designed for home buyers with limited or weaker credit histories, these nontraditional mortgages were marketed broadly and often used by first-time home buyers and investors who did not provide a down payment. In addition, originators of these products frequently did not require buyers to verify that their income could support the mortgage payments.

By 2006, nearly half of total U.S. originations of privately securitized affordability mortgages were made in the four Sand States alone. Moreover, the proportion of these mortgages originated in these states, including nontraditional mortgages, rose as home prices escalated. During 2002, these products accounted for roughly half of the privately securitized mortgage originations in each of the Sand States, comparable to the rest of the nation. By 2006, however, the proportion of these products had increased to 80 percent of privately securitized mortgage originations. Nationwide, the percentage was about 70 percent.[3]

The increased presence of speculators or investors in the Sand States also contributed to growing imbalances in the housing sector. Data from mortgage servicers indicate that nonowner, investor, and second-home mortgage originations increased noticeably in Arizona, Florida, and Nevada between 2000 and 2005.[4] Investor and second-home purchases tended to be more heavily concentrated in major metropolitan areas in these states, such as **Las Vegas**, **West Palm Beach**, **Miami**, and **Phoenix**.

Strong housing demand coupled with escalating home prices served as a dual incentive for builders to increase the supply of homes, arguably at a rate that exceeded short-term demand. New home construction started to accelerate in 2002, and, over the next three years, housing starts in these four states increased an average of 11 percent annually, or about twice the rate of increase elsewhere in the nation. Housing construction in the Sand States far outpaced annual growth in the number of households, which peaked at 1.6 percent in 2004 and 2005.

Labor market imbalances also arose as job growth became skewed toward the housing sector. During the height of the boom, construction employment grew 10 percent per year in these states, far outpacing growth in other industry sectors. During this time, construction jobs accounted for a disproportionate 25 percent share of new jobs, while representing less than 10 percent of total employment.

Tipping Point: Imbalances Lead to Housing Collapse

Ultimately, the housing boom in the Sand States proved to be mostly a mirage. The first signs of trouble came in the form of sharply decelerating rates of home price appreciation. Between 2003 and 2006, annual home price appreciation rates in these states had consistently exceeded the national average. Year-over-year house price appreciation in Nevada peaked in 2004 at 37 percent. In Arizona and Florida, appreciation peaked in 2005 at rates more than twice the national average. Since then, average home prices in the four states have declined between 27 and 38 percent from their peak.[5] Price declines have been most severe in metropolitan markets such as Phoenix and Las Vegas, which registered the largest percentage declines in the nation at 34 percent and 33 percent, respectively, during 2008.[6]

As home prices slumped, foreclosure activity rose at a startling pace. While this phenomenon was occurring across the nation, it was most pronounced in the Sand States. According to the ***Mortgage Bankers Association***, the Sand States accounted for more than 40 percent of all mortgage foreclosures started in 2008, which is nearly double the share of mortgages held by borrowers in these four states (see Table 1). This disproportionate share of troubled mortgages in the Sand States was most acute among ARMs. In 2008, these states held 46 percent of the prime ARMs outstanding nationwide and 64 percent of foreclosures started within this mortgage category.

In fourth quarter 2008, foreclosure resales accounted for more than 55 percent of all California resale activity, almost three times the level of a year ago. Foreclosure resales were also prevalent in Las Vegas and Phoenix, where this type of transaction accounted for about 71 and 65 percent, respectively, of house and condominium resales.[7]

[3] Data are from Loan Performance. Affordability mortgage products include ARM loans, interest-only loans, negative amortization mortgages, balloon loans, and hybrid ARMs. Affordability originations are measured as a percentage of privately securitized origination, first liens only.

[4] In contrast, California had less investor activity during the period, likely because the median home price in the state was relatively high, resulting in a less attractive rate of return for potential investors.

[5] Federal Housing Finance Agency, purchase-only index data through fourth quarter 2008.

[6] S&P/Case-Shiller Home Price Index, data as of December 2008.

[7] Data Quick Information Systems through http://www.dqnews.com. Las Vegas and Phoenix data are for February 2009.

Table 1

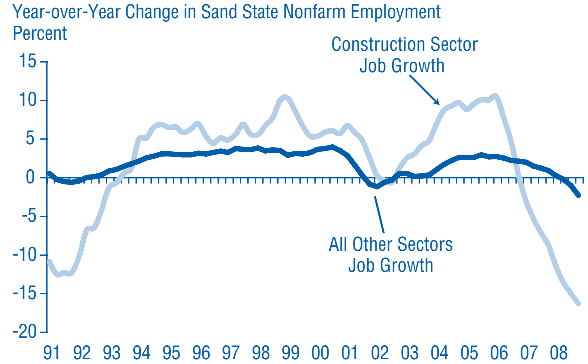
The Sand States Account for a Disproportionately High Share of Foreclosure Activity		
	National Share of Foreclosures Started	National Share of Mortgages Serviced
California	19.2%	12.9%
Florida	16.2%	7.8%
Arizona	4.4%	2.7%
Nevada	2.7%	1.2%
Sand States Total:	**42.5%**	**24.6%**

Source: Mortgage Bankers Association.

Note: Data from first quarter 2008 through fourth quarter 2008. "Sand States" is the aggregate of California, Florida, Arizona, and Nevada.

Chart 1

The Construction Sector in the Sand States Has Been an Important Driver of Job Growth



Source: Bureau of Labor Statistics (Haver Analytics).
Note: "Sand States" is the aggregate of California, Florida, Arizona, and Nevada. "All Other Sectors" is the state aggregate nonfarm employment minus the construction sector.

Economic Conditions Remain Fragile as the Effects of the Housing Collapse Spread

Compounding the housing-sector problems in the Sand States, and elsewhere, has been the virtual shutdown of private mortgage-backed securities (MBS) issuance since 2007. MBS issuance had largely financed the subprime and nontraditional lending that fueled the boom. Total issuance of private MBS, which had topped $1 trillion annually in both 2005 and 2006, fell precipitously thereafter, totaling just over $50 billion in 2008. Meanwhile, the difficulties that market participants have had in valuing complex mortgage securities and the derivatives based on them have contributed to wider risk aversion in financial markets, which has reached historic proportions. For housing markets, particularly in the credit-fueled boom markets of these four states, these financial market disruptions are compounding what would in any case have been a steep and extended housing market downturn.

The housing market downturn in the Sand States is now having serious ripple effects on other parts of the local economy. Each of the Sand States lost jobs in 2008. The losses have been most pronounced in the construction sector, which has shed more than 450,000 jobs, or about 24 percent, between fourth quarter 2006 and fourth quarter 2008 (see Chart 1). In addition, job losses have spread to the financial services and retail trade sectors. Retail sales also have declined, particularly for home improvement, furniture, and electronics store sales, contributing to additional layoffs.

Although the Sand States entered this downturn with relatively low rates of unemployment, joblessness increased during 2008 to levels not seen since the 2001 recession. The unemployment rates for California, Florida, and Nevada ranked among the top ten in the nation as of fourth quarter 2008. While Arizona's unemployment rate remained slightly below the national average as of fourth quarter 2008, it too rose markedly during the year. These rising unemployment rates are due primarily to widespread job losses and, to a lesser degree, to additional people entering the labor force in search of employment, including college graduates and retirees.[8] Also, rising unemployment claims are putting more pressure on already strained state budgets.

Nonetheless, a few positive, albeit very preliminary, signs may be emerging. The volume of home sales in Arizona, California, and Nevada improved during 2008 relative to year-ago levels. The increase in foreclosures sales is likely contributing to some renewal in sales activity. In addition, while a sharp decline in housing starts is eliminating construction jobs in the near term, it should eventually facilitate the return to a more stable housing landscape. Seasonally adjusted housing starts in the Sand States dropped 40 percent in 2007 and again in 2008. Also, despite the weakened housing and labor markets, population growth in Arizona, California, and Nevada was estimated to be above the national rate in 2008.[9] This continued growth will be an important source of long-term housing demand that will eventually help bring a measure of stability to these troubled housing markets.

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[8] California Employment Development Department.

[9] U.S. Census estimates of state-level population growth between July 1, 2007, and July 1, 2008, the latest data available.

The 2009 Economic Landscape

Financial Sector Woes Pressure the Northeast

The downturn in U.S. housing markets that began in 2006 was arguably the catalyst for the nation's ongoing recession. However, turmoil in the financial sector has contributed to further deterioration in the U.S. and global economies. Since 2007, a succession of financial market disturbances has heightened risk aversion and credit spreads, and has severely limited the availability of credit across certain sectors of the economy. These developments have placed enormous pressure on some classes of financial companies, particularly those that exist outside of the regulatory umbrella and those that depend on the ability to sell loans or issue debt on the open market.

The severity and duration of the recent distress has resulted in considerable job losses in the financial sector. Initially, job cuts were centered in residential-related financial employment, such as mortgage brokers, consistent with the nation's housing downturn. However, as financial stress permeated the capital markets, job losses became widespread across the financial industry. By fourth quarter 2008, employment in the U.S. financial sector had declined by 2.4 percent from a year earlier, the sharpest decline since World War II.[1]

Retrenchment in the Nation's Financial Sector Is Centered in New York

Contraction in the nation's financial sector is magnified in **New York State** and particularly **New York City**—the nation's financial center (see text box at right for the effects of financial sector contraction on other Northeast economies). Statewide, the contribution of financial jobs to total wages has increased in recent years. At its peak in 2007, wages from financial jobs accounted for 25 percent of statewide wages, considerably more than their contribution at the national level (see Chart 1).

In New York City, the economy ebbs and flows with fluctuations in the financial sector because the city has a large share of financial jobs. Indeed, the proportion of financial jobs to total employment in New York City is

[1] Bureau of Labor Statistics.

Contraction in the Financial Sector Is Weighing on Other Northeast Economies

Financial employment is a major economic driver in other parts of the Northeast, including some cities in New England and metropolitan areas along the East Coast. Like New York, these markets are vulnerable to contraction in financial employment.

New Jersey, particularly the metropolitan areas around New York City, has a slightly higher concentration of financial employment than the nation. In fourth quarter 2008, New Jersey lost 12,500 financial jobs, about 4.6 percent, from one year ago. This rate of decline was nearly double the national rate and was the largest percentage decline for the state since first quarter 1991.

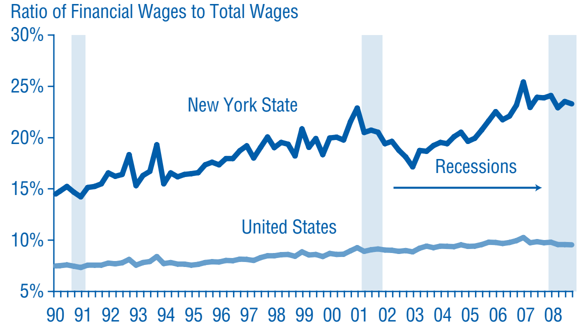
Boston, **Massachusetts**, and **Hartford**, **Connecticut**, also had high concentrations of financial sector employment at 7.2 percent and 11.7 percent, respectively, at year-end 2008. Employment in Boston's financial sector fell by 4.0 percent in fourth quarter 2008, the largest decline since fourth quarter 1991. Much of the decline was centered in commercial banks and securities firms, although real estate employment also reported job losses. Employment in Hartford's financial sector also continues to contract. During the fourth quarter, the area's financial employment declined 0.8 percent from one year ago.

The financial sector in **Charlotte**, **North Carolina**, is also contracting. This sector, which accounted for 8.5 percent of the metro area's total jobs in fourth quarter 2008 and 40.5 percent of the area's economic output in 2006 (the most recent data available), has been losing jobs since mid-2007. The rate of decline rose during 2008, reaching 5.4 percent in the fourth quarter.

Wilmington, **Delaware**, also shed financial sector jobs in the fourth quarter, although the rate of loss was less than that of the nation. Employment associated with credit card banking, which has a substantial presence in Wilmington, has been relatively steady over the past year.

Chart 1

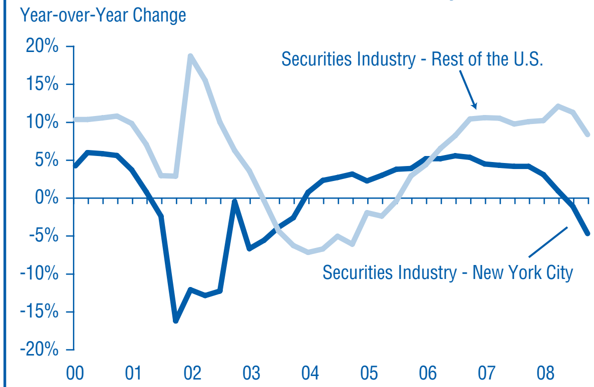
New York's Economy Has Grown More Dependent on Financial Wages



Source: Bureau of Economic Analysis (Haver Analytics).
Note: Financial wages are those earned in the banking, insurance, real estate, and securities industries.
Data are through fourth quarter 2008 (most recent available) and are seasonally adjusted at annual rates.

Chart 2

Employment Losses in the Securities Industry Are Centered in New York City



Source: Bureau of Labor Statistics (Haver Analytics).
Note: Data are through fourth quarter 2008 and are not seasonally adjusted.

12 percent, or double the national share. Perhaps more important, wages in the securities industry, a key component of the city's financial sector, account for a disproportionate share of total wages paid in the city. Wages in the securities industry accounted for more than 25 percent of total wages paid in the city, but the industry itself accounted for only 5 percent of total jobs. Securities industry wages increased almost four times faster than wages in the rest of New York City between 2003 and 2007.[2]

As the disruption in financial markets persisted during 2008, job losses in New York City's financial sector continued to mount. The securities industry was particularly hard hit. During fourth quarter 2008, the city's securities industry lost more than 9,000 jobs, a 4.8 percent decline compared with one year earlier and the worst percentage decline since second quarter 2003 (see Chart 2).

Job losses in the city's securities industry will be amplified across other sectors of the economy. According to the ***New York State Comptroller***, for every new job in the securities industry, three additional jobs are created in New York City and its suburbs. Conversely, losses in the securities industry will have a ripple effect across the area's economy. Estimates suggest that during the 2001 recession, this sector directly and indirectly contributed to more than half of the private sector jobs lost in the city.[3]

In addition, the sharp downturn in New York's financial sector is negatively affecting state and local tax budgets. In fiscal year 2007–2008, tax collections from the securities industry accounted for almost 20 percent of total tax collections in New York State. The New York State Comptroller estimated that state tax collections from the securities industry, including business and personal filings, could drop by 38 percent in fiscal 2010.[4]

Job losses and reduced compensation in New York City's financial sector are also having a detrimental effect across real estate markets. Home prices in the New York City metro area declined by 9.2 percent on average in 2008. This year-over-year decline in home prices was the largest in the 22-year history of these data, slightly exceeding the previous high recorded in March 1991.[5] Still, New York City home prices fell much less during 2008 than in some other major cities, which saw double-digit declines.

New York City's commercial real estate market is also showing signs of weakness, particularly in **Manhattan**.

[2] New York State Comptroller, *The Securities Industry in New York City,* November 2008. Data are as of 2007. The securities industry—a component of the broader financial industry—is composed of jobs classified as securities and commodities brokers, portfolio managers, and investment advisors. This sector accounted for more than one-third of financial jobs in New York City in fourth quarter 2008.

[3] Ibid.

[4] Ibid.

[5] S&P/Case-Shiller Home Price Index. This index defines the New York metro area as the New York City metropolitan statistical area plus other counties in New York State, Connecticut, New Jersey, and Pennsylvania that are within commuting distance of New York City. Declines are calculated based on the year-over-year percentage change in home prices.

The financial sector occupies as much as 30 percent of Manhattan's office space.[6] With intensifying pressure in the financial sector, office rents are dropping. The area's vacancy rates are also on the rise but remained below the national average at year-end 2008.[7] However, a sizeable amount of office space is estimated to return to the market, which may further pressure rental and vacancy rates. Some estimates suggest that the percentage of available office space in Manhattan may soon rise to its highest level since 1996.[8]

New York City's Financial Industry Has Been Resilient in Past Cycles

Forecasts suggest that job losses in New York City's financial industry will get worse before they get better. A March 2009 report by the ***New York City Independent Budget Office*** states that the city could lose 51,000 securities industry jobs through third quarter 2011, which would be a decline of about 27 percent from the 2008 peak.[9] Job losses of this magnitude would exceed the number of securities jobs lost in the city during either the 1990–91 or 2001 recession.[10] In addition, job losses in New York City's overall financial sector are projected to reach 89,800.[11] According to the March report, job growth in the financial sector is forecast to resume in 2012 and 2013, but at a slow pace.

Although the near-term outlook for the financial services industry in New York City remains tenuous, the city's financial sector should recover as it has following every recession since World War II. During its long history, New York's financial sector has proven resilient and resurgent following periods of adversity.

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The authors would like to thank Norman Gertner, Regional Economist, Division of Insurance and Research, for his contributions to this article.

[6] Grubb and Ellis Research, *Office Market Trends: New York City,* second quarter 2008.

[7] Torto Wheaton Research, fourth quarter 2008.

[8] David M. Levitt, "Banks Vacate Towers Pushing Empty NYC Space to Record," Bloomberg.com, February 26, 2009, http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aSYcApYsh.Dw (accessed on March 2, 2009).

[9] New York City Independent Budget Office, *Analysis of the Mayor's Preliminary Budget for 2010: IBO's Reestimate of the Mayor's Preliminary Budget for 2010 and the Financial Plan through 2013*, March 2009.

[10] FDIC analysis, quarterly data from the Bureau of Labor Statistics, and annual data from the Securities Industry and Financial Markets Association.

[11] David Belkin (senior economist, New York City Independent Budget Office), in discussion with FDIC staff, April 2009, regarding the *Analysis of the Mayor's Preliminary Budget for 2010* dated March 2009.

The 2009 Economic Landscape

How Long Can Energy and Agriculture Boost the Nation's Midsection?

The energy and agricultural sectors are important economic drivers for states in the center of the country. Extending from the oil patch of **Texas**, **Louisiana**, **Arkansas**, and **Oklahoma**, northward through the plains states and eastward to the Corn Belt, the states in the nation's midsection are not only rich in land and other natural resources, but also tend to rely heavily on these resources as drivers of economic activity. Booming commodity prices during the middle years of this decade have helped buoy the economies of these states, even while the rest of the country was moving toward recession. However, recent declines in many of these same commodity prices raise concerns about wider economic repercussions for these regions as the U.S. recession continues. This article describes how commodity industries drive the economies of the nation's midsection and evaluates their outlook after the commodity price boom.

Energy and Agriculture Regions Do Not Always Follow the U.S. Business Cycle

Energy prices can have a profound effect on the national economy. In fact, since World War II, nearly all recessions were preceded by oil price shocks. These shocks adversely affect businesses and consumers, causing economic growth to slow. For example, around the time of the Iranian revolution in 1979, oil prices doubled within a year, contributing to the 1980 and 1981–82 national recessions. Similarly, the 1990–91 recession was precipitated, in part, by another doubling of oil prices in the months following the invasion of Kuwait and leading up to the first Gulf War.

Unlike the rest of the nation, oil-patch states tend to benefit from higher oil prices. In the early 1980s and early 1990s, higher oil prices helped these states grow even during national recessions. However, when prices collapsed during the mid-1980s, oil-patch states fell into their own regional recession. The lingering effects of the "oil bust" resulted in falling real incomes in the region. The subsequent loss of jobs, income, and output contributed to house price declines that created turmoil in residential real estate markets and led to hundreds of bank failures.[1]

Like the energy sector, agriculture does not move in perfect tandem with the national economy, though influences from U.S. and global trends can be strong. For example, global economic conditions affect the demand for food, which helps drive agricultural commodity prices. In addition, large interest rate movements can have a profound effect on farmland prices. For example, in the early 1970s, strong demand for farm commodities caused farm incomes to rise rapidly. When combined with negative real interest rates, this favorable environment caused sharp increases in the value of farmland. In the late 1970s, however, soaring interest rates and changing conditions in global supply and demand brought the boom period to an end. The result was a significant decline in real farm incomes, a rapid and long-lasting decline in farmland values, and hundreds of farm bank failures in the 1980s.[2]

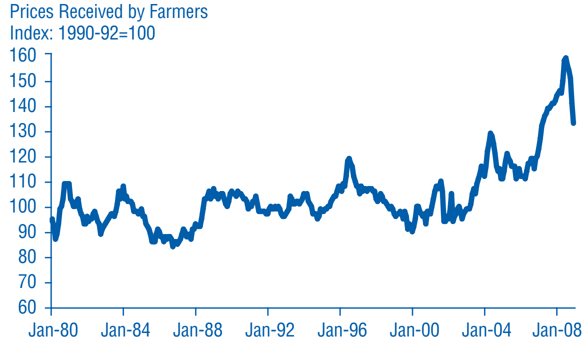
Energy and Agriculture Boomed through Mid-Year 2008

Current energy and agricultural conditions have, for the most part, played out independently of national economic trends. Despite the weakening U.S. economy, the health of the energy and agricultural industries has been very strong over the past several years. Crude oil prices quadrupled in dollar terms between 2003 and mid-2008, setting the trend for overall energy prices. This price inflation was an economic boon to oil-patch states.[3] During the five-year period ending in second quarter 2008, inflation-adjusted economic growth in these four states grew at an annualized rate of 3.6 percent

[1] FDIC, *History of the Eighties—Lessons for the Future* (Washington, DC: FDIC, 1997): 291–336.
[2] Ibid., 259–290.
[3] While the energy discussion and analysis in this article focus on oil-patch states, it should be noted that Wyoming and Montana have characteristics similar to this region. Both states rely considerably on energy extraction and experienced employment growth above the national average during the period of high oil prices. Wyoming, in fact, had one of the most vibrant economies in the nation during that time.

Chart 1

Agricultural Prices Rose Steadily from Late 2002 through Mid-2008 but Have Settled Somewhat since Then



Source: U.S. Department of Agriculture
Note: "Prices received by farmers" is a composite index of leading crop and livestock prices produced in the United States. The prices of these commodities are "farm-gate" or wholesale prices.

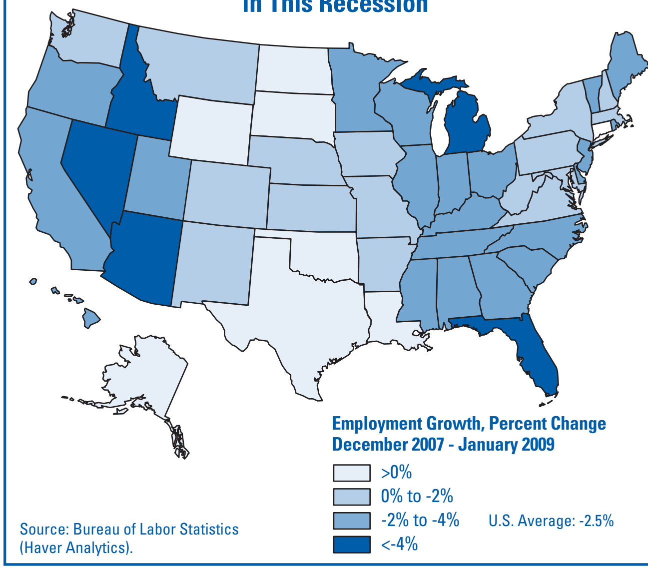
compared with 2.8 percent for the nation.[4] The biggest impact, however, was on real personal income, which grew at an annualized rate of 4.6 percent in the four oil-patch states compared with only 2.9 percent nationally. The region's oil and gas industry not only supports a large number of high-paying jobs in the mining industry itself, but also has strong, indirect multiplier effects on job growth in professional and business services, wholesale and retail trade, and financial activities.

The agricultural sector also has performed quite well over the past few years. A number of factors, including global economic growth and a weaker dollar, contributed to an extended period of rising prices for a broad array of agricultural products. Prices for these commodities generally began to rise in late 2002, and many reached new highs in the past two years before moderating in the second half of 2008 (see Chart 1). High commodity prices have led to record net farm incomes in three of the past four years and also have contributed to significant increases in farmland values.[5]

Ethanol production has also played an important role in both agricultural and energy markets in recent years. As the price of crude oil increased from less than $26 per barrel in 2001 to more than $133 per barrel in July 2008, ethanol became a viable and very profitable alternative. Strong profitability, government mandates on renewable fuels that supported demand, and tariffs and subsidies that supported prices all led to considerable increases in ethanol output.[6] Indeed, annual ethanol output in 2008 had grown by more than five times the levels of 2000.[7] The growth in ethanol production, in turn, increased the demand for corn, the primary input in the production process, to a point where ethanol production is projected to use nearly 30 percent of the 2008 crop.[8] As farmers planted more corn to meet the higher demand from ethanol plants, they reduced plantings of soybeans, which contributed to higher prices for this commodity as well. The result was record incomes for farmers and double-digit average annual increases in farmland values in corn- and soybean-producing states between 2003 and 2007.

Map 1

The Center of the Nation Has Avoided Significant Job Losses in This Recession



Source: Bureau of Labor Statistics (Haver Analytics).

The health of the energy and agricultural sectors, combined with relatively stable and affordable housing markets in the central United States, has caused the national recession to largely bypass the nation's midsection so far (see Map 1). The energy-rich oil patch was

[4] Growth rates used in this paragraph were calculated by the FDIC using data from the U.S. Bureau of Economic Analysis and Moody's Economy.com.

[5] For a detailed farmland analysis, see Richard D. Cofer, Jeffrey W. Walser, and Troy D. Osborne, "Do Record Farmland Prices Portend Another Steep Downturn for Agriculture and Farm Banks?" *FDIC Quarterly* 2, no. 4 (2008): 25.

[6] Don Hofstrand, "Corn-Ethanol Profitability," *AgMRC Renewable Energy Newsletter*, Agricultural Marketing Resource Center, November/December 2008; and Bruce A. Babcock, Center for Agricultural and Rural Development at Iowa State University, statement before the U.S. Senate Committee on Homeland Security and Government Affairs, Hearing on Fuel Subsidies and Impact on Food Prices, 110th Cong., 2nd sess., May 7, 2008.

[7] Renewable Fuels Association, *Ethanol Industry Outlook 2009*.

[8] "World Agricultural Supply and Demand Estimates," U.S. Department of Agriculture, January 12, 2009.

the only region that added jobs after the national recession began in December 2007, and Farm Belt states reported small job losses relative to the rest of the nation.

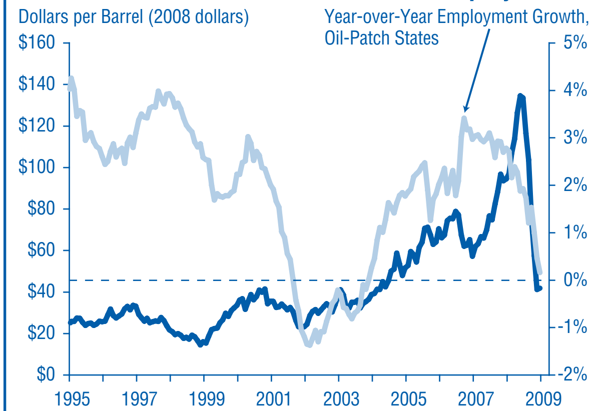
The Outlook for Energy and Agriculture Has Dimmed

Though the energy and agricultural sectors have provided insulation against recession for the central United States, these sectors have weakened considerably in recent months. The ***Energy Information Administration's*** (EIA) short-term energy outlook is projecting a long, severe global economic slowdown that will lead to further reductions in global energy demand and additional declines in crude oil and other energy prices.[9] The EIA projects oil prices in 2009 to average between $40 and $50 per barrel on a quarterly basis, but prices could plunge below $30.[10] Falling energy prices are now putting pressure on oil-patch employment growth (see Chart 2). This trend alone should not cause a repeat of the 1980s oil bust, as the region's economy has become increasingly diverse since that time, somewhat muting the impact of oil price movements.[11] However, when falling energy prices are combined with a severe national recession and a global financial crisis, a significant regional downturn cannot be ruled out.

Declining agricultural commodity prices are also of concern. A severe downward price cycle in agricultural commodities and land values that causes farm incomes and land values to fall could result in prolonged economic weakness among farm states. Aggravating the situation could be a rapid and significant consolidation in the ethanol industry, which was already showing weakness in mid-2008 because of overcapacity and low margins caused by high corn prices. Some of the largest ethanol producers delayed the startup of ethanol plants last year, and some analysts predicted that many small and medium-sized plants would shut down.[12] Deteriorating conditions in the ethanol industry will not only weigh on crop prices, but are also likely to affect farmers and rural communities who have come to rely on the industry for high-paying jobs.

Chart 2

The Recent Downturn in Oil Prices Appears to Spell the End of the Growth Period in Oil-Patch Employment



Sources: *Wall Street Journal*; Bureau of Labor Statistics (Haver Analytics) FDIC.

Though the economies in the nation's midsection continue to perform well relative to the nation, the downward trends in the energy and agricultural sectors may weigh on the region in the near future. Moderating commodity prices are likely to put a damper on the area's economic conditions, and the region may not only cease to be a source of economic strength but also could enter recession at a much later stage than the nation.

Authors: Adrian R. Sanchez, Regional Economist

John M. Anderlik, Assistant Director

[9] Energy Information Administration, *Short-Term Energy Outlook*, December 2008.

[10] Several leading analysts have discussed the possibility of oil prices falling below $30 per barrel in 2009. One notable example is "Oil May Fall Below $25 Next Year, Merrill Lynch Says," Bloomberg.com, December 4, 2008.

[11] Stephen P.A. Brown and Mine K. Yucel, "Energy Prices and State Economic Performance," Federal Reserve Bank of Dallas, *Economic Review*, second quarter 1995.

[12] "Too Much Ethanol?" *Farm Industry News*, November 1, 2008.

Feature Article:

Alternative Financial Services: A Primer

Introduction

Alternative financial services (AFS) is a term often used to describe the array of financial services offered by providers that operate outside of federally insured banks and thrifts (hereafter referred to as "banks"). Check-cashing outlets, money transmitters, car title lenders, payday loan stores, pawnshops, and rent-to-own stores are all considered AFS providers. However, many of the products and services they provide are not "alternative"; rather, they are the same as or similar to those offered by banks. AFS also sometimes refers to financial products delivered outside brick-and-mortar bank branches or storefronts through alternative channels, such as the Internet, financial services kiosks, and mobile phones.

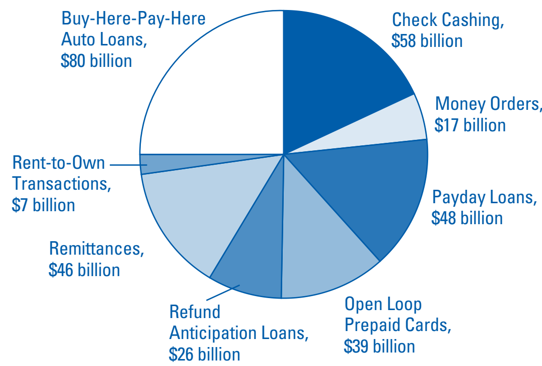
This article provides an overview of AFS and a description of the key products and services in this sector. It is intended as a primer for banks and others who are interested in understanding the competitive landscape in the financial services industry and exploring suitable opportunities in the AFS sector. Because of the large size of the AFS sector, some banks use less traditional products, services, and distribution methods to target new customers, particularly among unbanked and underbanked households.[1]

AFS Transaction Volume

Data on the volume of AFS transactions are incomplete because of the lack of a clear definition of the term AFS and because this sector is highly fractured among many different providers that are often small or privately held. As shown in Chart 1, the transaction volume is estimated at more than $320 billion annually. This figure is likely understated, as estimates are not current or available for various AFS segments.

Chart 1

The Dollar Volume of AFS Transactions Totals More Than $320 Billion Annually



Sources: FiSCA, World Bank, Mercator Advisory Group, U.S. Treasury, Association of Progressive Rental Organizations, and Leedom and Associates LLC.

AFS comprise two general categories of products and services: those that are transactional and those that are related to credit. The key products and services offered in these categories are described below, along with examples of the types of companies, including banks, that provide them.

Transaction Products and Services

Check Cashing, Money Orders, and Bill Payment

Financial Service Centers of America (FiSCA) is the national trade association that represents nonbank financial service centers. According to FiSCA, more than 13,000 nonbank financial services companies operate nationwide, providing a variety of financial services, primarily check cashing. FiSCA estimates that financial service centers process more than 170 million checks per year, with a face value of more than $58 billion. FiSCA also estimates that its members sell money orders with a face value of $17.6 billion per year, at an average cost of 64 cents each, and they process more than 57 million bill payment transactions, at an average cost of 86 cents per transaction.[2]

[1] See "FDIC Survey of Banks' Efforts to Serve the Unbanked and Underbanked, Executive Summary of Findings and Recommendations" (issued February 5, 2009), which describes the extent to which insured institutions reach out to unbanked and underbanked households, the challenges that banks face in serving these households, and innovative products and services that banks have used to overcome these challenges. The Executive Summary defines "unbanked" as people or families who rarely, if ever, held an account at an insured institution. "Underbanked" refers to those with accounts who also rely on nonbank AFS providers for financial products and services, often at a high cost. The Executive Summary can be found at http://www.fdic.gov/news/news/press/2009/pr09015.html.

[2] FiSCA data points were obtained from the trade association's Web site at http://www.fisca.org (accessed on September 12, 2008).

Table 1

Write-Offs Related to Check-Cashing Operations Tend to Be Low			
	2008	2007	2006
Average face value per check	$442.30	$420.96	$408.87
Average fee per check	$13.77	$14.51	$14.13
Average fee as a percentage of face value	3.11%	3.45%	3.46%
Net write-offs as a percentage of checks cashed	0.31%	0.29%	0.26%

Sources: Dollar Financial Corp. and Securities and Exchange Commission (SEC) 10(k) dated August 29, 2008.

Check-cashing firms vary widely in size from very small mom-and-pop outlets to publicly traded companies. Ace Cash Express, with about 1,700 stores, is the largest check-cashing company.[3] Dollar Financial Corporation is the largest publicly traded check-cashing company, with about 470 stores in the United States. In addition to check cashing, these companies and many other check cashers provide other products and services, including money orders, automated teller machine (ATM) access, electronic bill payment, payday loans or pawnbroking services, and electronic tax preparation and filing. Check cashers also sometimes sell public transit passes, postage stamps, and phone cards; issue motor vehicle license plates and titles; process parking tickets; and provide photocopying and faxing services.

Check cashers typically charge 1 to 4 percent of the face value of the check, depending on the check issuer and subject to limitations of state law. About two-thirds of checks cashed at nonbank outlets are payroll checks; another 18 percent are state or federal benefits checks.[4] Table 1 provides data for Dollar Financial Corporation's U.S. check-cashing operation to illustrate the cost of an average transaction. As the table shows, net write-offs, while increasing, remain less than 1 percent of the face value of checks cashed. This example suggests that, given the generally low-risk nature of most checks cashed, losses tend to be low.

Retailers are increasingly recognizing the revenue-generating potential of check cashing and other transaction-based financial services. For instance, the world's largest retailer, Wal-Mart, opened its first MoneyCenter in 2002; in fiscal 2008, it cashed 45 million paychecks with a face value of $17 billion.[5] Wal-Mart currently processes more than 2 million money order, remittance, and check-cashing transactions per week, and the volume of these services grew more than 40 percent in the retailer's 2008 fiscal year.[6] Convenience store chain 7-Eleven Inc. also offers check cashing, money orders, bill pay, and money transfer services in select stores through approximately 2,000 self-service V-Com kiosks.[7]

A number of banks also offer fee-based check-cashing services, frequently with the goal of migrating check-cashing customers to more traditional bank products. For example, KeyBank in Cleveland, Ohio, has been experimenting with fee-based check cashing and other transactional services under a program called *KeyBank Plus*. As of early 2008, KeyBank had cashed checks with a face value of more than $37 million and incurred only $10,000 in write-offs. KeyBank expanded the program from 5 branches in one market to 200 branches in six markets, and opened checking accounts for more than 17,000 check-cashing clients.[8] Also, the First National Bank of Syracuse, Kansas, operates an innovative branch in the world's largest beef-processing plant and, among other things, cashes close to 400 payroll checks a week through an ATM (see text box on page 42).

Remittances

According to estimates from the World Bank, recorded remittances of money from one country to another totaled $355 billion in 2007, up from $307 billion in 2006. Remittances are projected to top $375 billion in 2008.[9] The United States is the leading remittance-sending country. During 2007, U.S. remittances to

[3] Examples of companies and banks used in this article are for illustration only. The FDIC does not endorse specific companies, products, or services.

[4] Jennifer Tescher, Edna Sawady, and Stephen Kutner, *The Power of Experience in Understanding the Underbanked Market*, Center for Financial Services Innovation, July 2007.

[5] Digital Transactions, "Wal-Mart Exec Happy with Money Card, but Stays Mum on Details," March 5, 2008.

[6] Ibid.

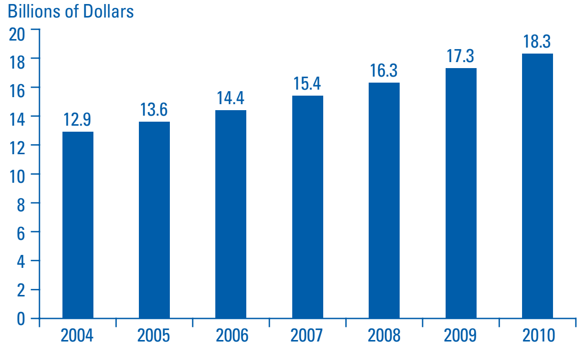
[7] V-Com kiosks are advanced-functionality automated teller machines (ATMs) that are owned and operated by Cardtronics Inc. Cardtronics Inc. has not publicly disclosed the dollar volume of transactions conducted through V-Com kiosks.

[8] Information on *KeyBank Plus* was derived from a March 19, 2008, presentation by Michael Griffin, senior vice president, Key Bank, Cleveland, Ohio, to the FDIC's Advisory Committee on Economic Inclusion. Meeting minutes are available at http://www.fdic.gov/about/comein/minutesMarch1908.pdf.

[9] See data spreadsheet for Dilip Ratha, Sanket Mohapatra, K. M. Vijayalakshmi, and Zhimei Xu, "Outlook for Remittance Flows, *2008–2010," Migration and Development Brief* 8, World Bank, November 11, 2008, http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/RemittancesData_Nov08(Release).xls.

Chart 2

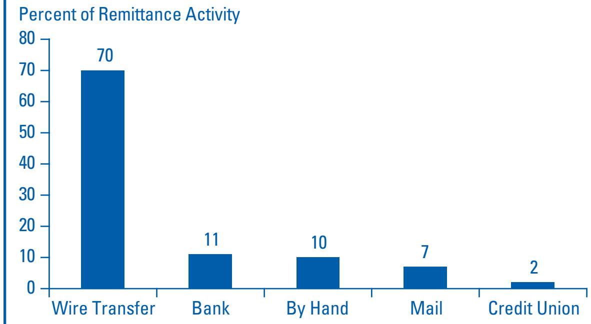
Projections Indicate That Remittance Fees Will Top $18 Billion by 2010



Source: AITE Group, "Competing in Money Transfers: A Market Overview," news release, March 26, 2007.

Chart 3

Estimates Indicate That Only 13 Percent of Remittance Activity Is Conducted through Mainstream Financial Institutions



Source: Roberto Suro, "Remittance Senders and Receivers: Tracking the Transnational Channels," Multilateral Investment Fund and Pew Hispanic Center, November 2003.

other countries totaled $46 billion.[10] However, activity has slowed recently as a result of the weakening economy. In a 2008 poll, the Inter-American Development Bank reported that 50 percent of Latin American adults in the United States regularly sent money home, compared with 73 percent in 2006.[11]

The World Bank projects a slowdown in the growth of global remittances in response to the overall economic malaise but explains that remittances tend to be more resilient than other types of inflows, such as private capital or official aid.[12] A market research firm, AITE Group, projects that global remittance flows will reach $500 billion by the year 2010 and remittance fees will top $18 billion (see Chart 2).

International remittance activity is conducted primarily outside of banks (see Chart 3). The largest provider of international remittance services is Western Union Inc., with 335,000 agent locations in more than 200 countries. In 2007, Western Union processed more than 167 million customer-to-customer transactions with a face value of $64 billion. Of that amount, about $57 billion represented international transfers.[13] Western Union uses its Gold Card product to improve the efficiency of the remittance process. This card stores customer information, eliminating the need for forms and reducing transaction times. The Gold Card is also a loyalty mechanism, enabling consumers to earn points that are redeemable for goods and services.[14]

Most banks offer wire transfer and automated clearing house (ACH) services as part of their normal course of business for account customers. However, others have specifically targeted international remittance business as an opportunity to generate fee revenue and to cross-sell accounts and other products. For example, Wells Fargo's InterCuenta Express facilitates remittances between the United States and Mexico. To participate, customers must open a Wells Fargo account with at least $10 and must send money to a bank account in Mexico. Within the first seven months of offering InterCuenta Express, Wells Fargo opened 20,000 new accounts totaling $50 million.[15] Wells Fargo has also instituted a nonaccount, cash-to-cash remittance product, ExpressSend, targeted to certain parts of the world.[16]

Other options are available for smaller banks that provide remittance services through cooperatives. For example, the Federal Reserve System and Banco de México, the central bank of Mexico, have established Directo a México, an account-to-account service that

[10] See data spreadsheet for Ratha et al., "Outlook for Remittance Flows, 2008–2010," http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/RemittancesData_Nov08(Release).xls.
[11] Inter-American Development Bank, "Survey of Latin American Immigrants in the United States," April 30, 2008, http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1417613.
[12] Ratha et al., "Outlook for Remittance Flows, 2008–2010."
[13] Western Union Inc., 2007 SEC Form 10(k), February 2008.
[14] Information regarding Western Union's Gold Card program was derived from the company Web site at http://www.westernunion.com (accessed on September 26, 2008).
[15] Information regarding Wells Fargo's InterCuenta Express was derived from 2005 program information contained in a report by Appleseed, "Banking Immigrant Communities, A Toolkit for Banks and Credit Unions," http://www.appleseednetwork.org/Publications/ReportsToolkits/BankingImmigrantCommunities/tabid/96/Default.aspx.
[16] Information regarding Wells Fargo's ExpressSend product was derived from the company Web site, http://www.wellsfargo.com (accessed February 4, 2009).

First National Bank of Syracuse's Innovative Branch in the World's Largest Beef-Processing Plant[a]

In first quarter 2008, the First National Bank of Syracuse, Kansas, acquired an innovative branch in the world's largest beef-processing plant, operated by Tyson Foods Inc. The plant processes about 6,000 cattle a day and is located close to Garden City, Kansas. Garden City is an agribusiness community that has a large Latino immigrant population. The Tyson plant is the largest employer in the area, with approximately 3,000 workers, or roughly 10 percent of the population of Garden City.

The bank branch in the plant opened on July 1, 2002, and within six months had opened 200 new accounts and had started making consumer and mortgage loans. Tyson has been an active partner with the branch from the start. All new employees at the plant receive financial education as part of their paid new employee orientation. The orientation covers the basics of banking, including opening a bank account, establishing credit, and purchasing a home. In addition, bank employees conduct weekly financial education presentations in both English and Spanish in the plant's cafeteria. Tyson believes that the branch's presence and the bank's commitment to financial education have been important factors in reducing employee turnover.

A check-cashing ATM in the plant cashes about 400 Tyson payroll checks a week for a fee of about $2.00 each. Close to one-third of Tyson's employees currently have accounts with First National, and 650 have enrolled in direct deposit. Outstanding consumer and mortgage loans at the branch total $6.4 million.

[a] Donna Tanner (vice president, First National Bank of Syracuse, Kansas) and Rosa Rivera (branch manager, First National Bank of Syracuse, Kansas), discussion with the authors, March 26, 2008.

uses the ACH payment channel for Mexican remittances. Since almost every bank routinely uses ACH, Directo a México allows banks to establish an international remittance program with no additional setup costs.[17] Small banks interested in providing remittance services can also purchase a ready-to-use turnkey remittance product such as Citigroup's QuikRemit. Citi launched QuikRemit in early 2008; the product is operational in more than 90 countries.[18]

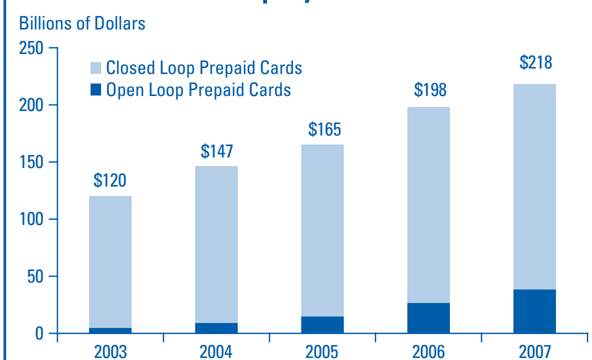
Prepaid Cards

Consumer and issuer acceptance of stored value (prepaid) cards as a replacement for cash and checks has grown tremendously in recent years. The market for prepaid cards, as measured by dollars loaded, has nearly doubled in the past four years (see Chart 4).

Prepaid cards can be "closed loop" or "open loop," which refers to how the cards can be redeemed. In general, closed loop cards can be redeemed only at locations belonging to the issuer or other limited locations and are considered a way to facilitate payments rather than generate fees. As shown in Chart 4, $179.6 billion was loaded onto closed loop cards in 2007.

Chart 4

The Amount of Money Loaded onto Prepaid Cards Has Grown Rapidly in Recent Years



Source: Tim Sloane, "5th Annual Network Branded Market Assessment: Measuring the Phenomenal Growth of the Open Prepaid Industry," Mercator Advisory Group, August 2008.

The most common type of closed loop prepaid card is the retail store gift card. In 2007, about $66.2 billion was loaded onto these cards, which are redeemable only at the issuer's store or Web site.[19] Government agencies are also prominent issuers of closed loop prepaid cards, loading $61.9 billion of benefits such as food stamps and Temporary Assistance for Needy Families onto prepaid cards in 2007. These cards are typically redeemable in multiple locations, such as supermarkets, gas stations, and pharmacies. Given their limited uses and options for fee generation, closed loop prepaid cards are

[17] Information regarding Directo a México was derived from the central bank's Web site at http://www.directoamexico.com/en/infobancos.html (accessed on February 4, 2009).

[18] Citigroup Inc., "Citi Launches New QuikRemit Service, Follows Purchase of PayQuick, Aims to Grow Payment Services," news release, February 8, 2008.

[19] In the case of a bankruptcy of the issuing retailer, holders of retail gift cards may lose all or a portion of the value of their cards.

not considered to be alternative financial services for the purposes of this article.

Conversely, open loop cards can be redeemed at numerous locations and typically create opportunities for issuers to generate fee-based income. While the open loop segment, with $38.7 billion loaded in 2007, is much smaller than the closed loop segment, it grew 44.4 percent in 2007 compared with 4.9 percent for the closed loop segment. Open loop cards are also often referred to as "network branded" because the cards are issued with the Visa or MasterCard logo, allowing users to redeem funds anywhere those cards are accepted. Issuers of open loop cards can be banks or nonbank issuers who can gain access, for a fee, to the Visa or MasterCard payment systems through partnerships with banks.

Payroll cards are the most prominent type of open loop card, with $15.9 billion loaded in 2007. Payroll cards are often used by companies with large numbers of lower wage or unbanked and underbanked employees as a replacement for direct deposit of paychecks. These cards are typically issued by banks that have a business relationship with the employer.

Another common type of open loop card, with $5 billion loaded in 2007, is the general-purpose gift card, sold for a fee at retailers or through issuing banks. These include gift cards sold by American Express bank or by other banks that brand them with the Visa or MasterCard logo. Open loop gift cards are typically marketed to the general public as a more flexible alternative to retail store gift cards. General-purpose gift cards are sold in predetermined amounts but can usually be reloaded for a fee.

Another type of open loop prepaid card is the financial services card, which, unlike the general-purpose gift card, is not sold in predetermined amounts. Rather, financial services cards are initially funded and reloaded in amounts determined by the cardholder. Another distinction between general-purpose gift cards and financial services cards is that financial services cards provide features beyond the ability to pay for goods and services, such as direct deposit, ATM access, and bill payment. Moreover, issuers of these cards are beginning to add more advanced features, such as linked savings accounts and credit lines. Given their multiple functions, financial services cards are often marketed as an alternative to a traditional checking account and are frequently targeted to the unbanked or underbanked, students, and recent immigrants. These cards typically carry monthly maintenance fees and various transaction fees that can be much higher than traditional accounts, but they offer consumers other benefits, such as immediate liquidity and the ability to control spending by limiting the amount of money on the card.

The market for financial services cards doubled in 2007 to $2.2 billion.[20] Generally, these cards are sold at retailers or over the Internet and can be offered by banks or nonbanks. The Green Dot card, offered by nonbank Green Dot Corporation, is sold online or at retailers, such as grocery stores and pharmacies. Fees include a $9.95 activation fee, a $4.95 monthly maintenance fee, and a $2.50 ATM withdrawal fee.[21] The Green Dot Corporation and other nonbank issuers of network-branded cards gain access to the payment networks through agency relationships with banks; some banks also offer fee-based, prepaid financial services cards directly to consumers. For example, H&R Block Bank, an FDIC-insured subsidiary of tax preparer H&R Block Company Inc., offers the Emerald Card, which allows H&R Block's tax preparation customers to load their refunds onto a prepaid debit card. H&R Block also offers a savings product tied to the Emerald Card and provides small-dollar loans for qualifying consumers.[22]

Credit Products and Services

Payday Lending

Payday loans are short-term loans typically extended to consumers who have a checking account and can prove that they are employed. A check or debit authorization, which is postdated to the borrower's next payday, provides security to the lender. Payday loans typically involve low balances, in the $300 to $500 range, and have a two-week term coinciding with the consumer's pay cycle. Most payday loans are made through stand-alone payday stores and multiline financial service centers. In 2006, these outlets generated

[20] Information regarding breakdowns of the types of prepaid cards was obtained from a report by Tim Sloane, "5th Annual Network Branded Market Assessment: Measuring the Phenomenal Growth of the Open Prepaid Industry," Mercator Advisory Group, August 2008.
[21] Information regarding the Green Dot prepaid card was derived from the Green Dot Corporation Web site at http://www.greendotonline.com (accessed on February 4, 2009).
[22] Information regarding the Emerald Card prepaid card was derived from the H&R Block Corporation Inc. Web site at http://www.hrblock.com/bank/emerald_prepaid_mastercard/index.html (accessed on October 1, 2008).

Table 2

Small-Dollar Loan Pilot 3Q08: Summary of Loan Characteristics	Number of Banks Reporting	Average	Minimum	Maximum
Loans Up to $1,000				
Loan Amount	22	$677	$300	$1,000
Term (months)	22	10	2	36
Interest Rate	23	17.11	9.65	31.78
Non-Zero Fees (dollars)	10	$29	$5	$70
Loans Between $1,000 and $2,500				
Loan Amount	15	$1,726	$1,250	$2,200
Term (months)	14	15	5	21
Interest Rate	15	15.18	9.16	30.13

Source: FDIC.

Note: For purposes of determining whether there is a "bright line" for what constitutes a small-dollar loan, banks in the pilot were asked to report on loans above and below a $1,000 threshold.

about $42 billion in payday loans, with Internet lenders adding another $5.65 billion.[23]

QC Holdings Inc. is the largest publicly traded company primarily dealing in payday lending, with 532 stores in 27 states as of year-end 2007. QC Holdings generated $183 million in payday loan fees on approximately $1.3 billion in loan volume in 2007. The company reports that the average loan for the past three years has been about $360, the term has been about 16 days, and the fee has been about $53. The annual percentage rate (APR) on these loans is approximately 400 percent. The average customer of QC Holdings receives six payday loans per year, and the company reports that gross losses approximated 7 percent of total loan volume in 2007.[24]

Payday loan customers are by definition also bank customers, because they must have a checking account to obtain a payday loan. However, many banks have not been involved in extending small-dollar loans on a large scale, primarily because of concerns about the costs and feasibility of such programs.

To explore the feasibility of banks offering small-dollar loan programs, the FDIC selected 31 banks in February 2008 to participate in its Small-Dollar Loan Pilot Program. This program is a two-year case study designed to identify the most effective features of profitable, scalable, small-dollar loan business models for banks.[25] During the first three quarters of the pilot, participating banks originated more than 11,700 loans with a principal balance of $13.5 million. For banks participating in the pilot, loan balances are typically higher, loan terms are longer, and interest rates are lower than loans offered by payday lenders (see Table 2).

Bankers in the pilot program have indicated that they believe their small-dollar loan programs are an important way to serve their communities and create goodwill for their banks. Most of the bankers view small-dollar loan programs as a long-term strategy intended to attract customers and create relationships. Although many of the programs in the pilot are new, banks with established programs indicate that small-dollar loan customers have tended to migrate to other products, which contributes to profitable relationships over the long term.

Refund Anticipation Loans

Refund anticipation loans (RALs) are short-term loans, usually 7 to 14 days, offered by tax preparers as a purported way to speed the taxpayer's receipt of a tax refund. They are secured by the expected refund, and the RAL fee is deducted from the refund. Generally, RALs are funded by banks through partnerships with tax preparers. For tax years 2005 to 2007, approximately

[23] Dennis Telzrow, "Payday Loan Industry," *Industry Report*, Stephens Inc. Investment Bankers, March 27, 2007. A September 6, 2008, article by Bob Driehaus in the *New York Times*, entitled "Some States Set Caps to Control Payday Loans," cites figures from Stephens Inc. indicating that the payday loan industry originated $50 billion in loans in 2007. However, the FDIC has been unable to obtain the source data for the citation.

[24] Data regarding QC Holdings were obtained from the company's 2007 SEC Form 10(k), filed March 14, 2008.

[25] More information is available at http://www.FDIC.gov/SmallDollarLoans. Also, an article that describes the pilot program and summarizes first quarter results can be found at http://www.fdic.gov/bank/analytical/quarterly/2008_vol23.html.

10 million consumers received these loans.[26] The price of a RAL for an average refund of $2,600 can range from $58 to $136.[27] H&R Block Inc., the largest issuer of RALs, issued 3.9 million RALs in fiscal 2007, generating revenues of $189.8 million.[28]

Although banks do not generally offer RALs directly to consumers, some banks participate in the Volunteer Income Tax Assistance (VITA) program operated by the Internal Revenue Service (IRS). This program offers free preparation of income tax returns for low- and moderate-income people. VITA sites are generally located at community centers, libraries, nonprofit organizations, and other convenient locations. VITA sites are staffed by volunteers, and most locations offer free electronic filing to help taxpayers receive their refunds quickly, in lieu of paying a fee to obtain a RAL.

Bank employees can participate at VITA sites, offering to open checking or savings accounts for customers who can then use the accounts to electronically deposit their tax refund. Customers can also elect to split the refunds between accounts so they can more easily save a portion of the refund. The FDIC partners with the IRS in the VITA program and has issued reminders to the banking industry and others that banks involved in VITA programs may be eligible for favorable consideration under the Community Reinvestment Act (CRA) rules and also are likely to benefit from opportunities to open accounts and provide other banking-related services to underserved consumers.[29]

Other Credit Products

AFS providers offer a number of other credit products that banks typically do not provide. The following is a brief description of several products that are used when consumers do not qualify for, or otherwise do not wish to use, credit from mainstream financial institutions:

Rent-to-own (RTO): The RTO business sells big-ticket consumer products—such as furniture, computers, appliances, and electronics—under rental-purchase agreements that allow consumers to own the goods at the end of the agreement. According to the Association of Progressive Rental Organizations, a national trade group for RTO firms, the market had 3 million customers and a total transaction volume of $6.8 billion in 2007. For the past 12 years, revenues have grown at an average rate of about 3.5 percent per year.[30]

Buy-here-pay-here (BHPH): BHPH is a form of auto financing, generally for credit-impaired borrowers, that is similar to the RTO business. With BHPH, the dealer finances the sale of a used car and usually requires the borrower to return to the dealership weekly or biweekly to make payments. BHPH is a fractured industry with few large or publicly traded participants, making it difficult to estimate transaction volume. However, according to a 2002 report by an industry consultant, BHPH transactions top $80 billion per year.[31]

Pawn lending: Pawn lending is a short-term, secured lending transaction in which the lender typically takes physical possession of the item securing the loan (often jewelry or other personal goods). The lending agreement allows the pawn lender to take possession of and sell the collateral if the borrower does not meet the terms of the agreement. Recent estimates of the overall scale of pawn lending are not available. However, the largest publicly traded pawn lender, Cash America International Inc., with 500 stores in 22 states, reported making $514 million in pawn loans in 2007, with APRs ranging from 12 to 300 percent.[32]

Auto title lending: Auto title lending is similar to pawn lending, except that title lenders make short-term loans that are secured by clear car titles. Interest rates on title loans are restricted in many states. The industry is fractured and limited largely to small, privately held compa-

[26] Treasury Inspector General for Tax Administration, "Many Taxpayers Who Obtain Refund Anticipation Loans Could Benefit from Free Tax Preparation Services," Reference Number: 2008-40-170, August 29, 2008, http://www.ustreas.gov/tigta/auditreports/2008reports/200840170fr.pdf.

[27] Chi Chi Wu and Jean Ann Fox, "Coming Down: Fewer Refund Anticipation Loans, Lower Prices from Some Providers, but Quickie Tax Refund Loans Still Burden the Working Poor," National Consumer Law Center Inc. and Consumer Federation of America, March 2008.

[28] H&R Block, SEC Form 10(k), June 30, 2008.

[29] FDIC, "Volunteer Income Tax Assistance: Potential CRA and Business Opportunities May Start Before Tax Season," Financial Institutions Letters, FIL-97-2007, November 7, 2007; "Volunteer Income Tax Assistance: A Reminder and Update About Potential CRA and Business Opportunities," January 16, 2007; Financial Institution Letters, FIL-5-2007, January 16, 2007; and FDIC, "FDIC Encourages Taxpayers to Take Advantage of IRS Programs and Save More of Their Refunds," news release, January 16, 2007.

[30] Information regarding RTO statistics was derived from the Association of Progressive Rental Organizations Web site at http://www.rtohq.org (accessed on October 22, 2008).

[31] Brian Grow and Keith Epstein, "The Poverty Business: Inside U.S. Companies' Audacious Drive to Extract More Profits from the Nation's Working Poor," *Business Week*, May 21, 2007. This article used information from Christopher M. Leedom, "Analysis of the Buy Here-Pay Here Capitalization Market," Leedom and Associates, LLC, December 2002, to derive figures on the BHPH industry.

[32] Cash America, SEC Form 10(k), February 29, 2008.

nies. Publicly available data are limited, but in 2005, the Center for Responsible Lending (CRL) and the Consumer Federation of America (CFA) reported some state data regarding car title lending from various sources (2003–2005 data). The CRL and CFA reported that there are more than 900 pawnshops (most engaging in title lending) in Alabama, more than 272 title lending licensees in Mississippi, more than 230 title loan locations in Missouri, and about 116 title loan offices in one county in Tennessee. They also noted that car title loans are a $20 million industry in California, according to one lender's estimates.[33] In addition, a recent Public Action Foundation and Woodstock Institute report on automobile title lending in Illinois found that 63 title loan companies were operating 260 storefronts throughout that state in 2005.[34]

The Future of AFS

Innovation is constant across AFS, and many products, processes, and technologies are emerging that could significantly transform this sector. A complete discussion of innovations is beyond the scope of this article, but key trends for banks and others to watch include expansion of cellular (mobile) phone financial services and person-to-person (P2P) lending.

Mobile Banking

Banks and others are actively seeking to leverage advances in wireless telecommunications to offer financial services through mobile phones. Cell phones could prove to be an important tool for financial companies to engage consumers, particularly in nations with developing economies and large rural populations. For example, MasterCard, the Inter-American Development Bank, mobile phone providers, banks, and others have partnered with GSM Association, a global trade group for wireless carriers, to test cell phones as a vehicle for international remittances.[35]

Domestically, the proliferation of mobile phones in the United States increases the attractiveness of mobile banking. According to one estimate, the overwhelming majority (88 percent) of Americans will own a cell phone by 2012.[36] Mobile network providers, technology service providers, nearly all of the 20 largest U.S. banks, and many regional and community banks have started planning, piloting, or deploying mobile banking applications.[37] For example, Bank of America introduced mobile banking nationwide in May 2007 as part of its online services and now has more than 1 million active mobile banking customers.[38] Bank of America's mobile services are free and currently allow users to check balances, view 70 days of transactions, transfer funds, pay bills, and locate ATMs.[39] While mobile banking is currently not a fee-generating service, it may provide a new, convenient, and perhaps preferred delivery channel, particularly for younger consumers. Bank of America reports that two-thirds of its mobile banking users are under 35 years old, and four out of five are under 45 years old.[40]

P2P Lending

P2P lending refers to Web site platforms that apply an operational and legal structure to personal loan transactions between individuals. Some P2P platforms, such as VirginMoney.com, facilitate and formalize loan transactions between borrowers and lenders that know each other. Other models, such as Prosper.com and Lending Club Corp., serve as online loan auction sites, where borrowers post the purpose of their loan and the terms that they are willing to accept. After viewing these loan requests, lenders bid for all or a portion of loans, depending on their risk/return appetite and desire for diversification. Some P2P models bypass banks, while others rely on bank partners as intermediaries to fund loans and then sell all or a portion to individual lenders.

P2P lending is a new concept, with an estimated volume of just $600 million in 2007.[41] Moreover, like many innovations, business models are evolving. For

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33 Amanda Quester and Jean Ann Fox, "Car Title Lending: Driving Borrowers to Financial Ruin," Center for Responsible Lending and Consumer Federation of America, April 14, 2005.

34 Woodstock Institute and the Public Action Foundation, "Debt Detour: The Automobile Title Lending Industry in Illinois," September 2007, http://www.responsiblelending.org/research/?issue=Issue_cartitle&pubtype.

35 GSM Association, "Global Money Transfer Pilot Uses Mobile to Benefit Migrant Workers and the Unbanked," news release, February 12, 2007; and "GSMA and IDB to Drive Mobile Financial Services to Latin America," news release, September 25, 2008.

36 Catherine Graeber, "Raining on the Mobile Banking Parade," Forrester Research Inc., September 18, 2007.

37 Bob Egan, *Mobile Banking Evolution: Issues and Considerations for 2008*, TowerGroup, November 2007.

38 Bank of America, "Bank of America Reaches One Million Active Mobile Banking Customers," news release, June 11, 2008, http://newsroom.bankofamerica.com/index.php?s=press_releases&item=8186.

39 Information derived from Bank of America's Web site at http://www.bankofamerica.com (accessed on October 16, 2008).

40 Bank of America, news release, June 11, 2008.

41 Kathy Chu, "Peer-to-Peer Lending Hits Its Stride," *USA Today*, December 25, 2007.

example, early P2P platforms had few restrictions on borrower eligibility, which resulted in adverse selection problems and very high loss rates. In general, borrowers must now meet certain minimum creditworthiness requirements. In addition, some investors viewed the lack of liquidity for these loans, most of which have a minimum three-year term, as undesirable. As a result, Lending Club Corp. recently gained approval from the Securities and Exchange Commission (SEC) to operate a secondary market system to enable its lenders to trade loans among themselves.[42] Prosper.com also recently filed with the SEC to form a secondary market and amended its filing to allow banks to sell previously funded loans on the Prosper platform.[43]

Conclusion

This article provides a current snapshot of key AFS products and services, but emerging products and technologies could transform this sector. Banks are encouraged to monitor AFS trends to gain an understanding of competition in the financial services industry as well as to identify emerging markets, products, and delivery channels that may be appropriate for a given bank's business plan. Banks involved in offering AFS need to be aware of and adhere to applicable laws, regulations, supervisory policies, and sound business practices related to consumer protection and safety and soundness. Banks that have questions about, or are considering engaging in AFS directly or through third-party arrangements, are encouraged to contact their regulator.

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[42] Daniel Wolfe, "New Approach Puts Secondary Market to Work in P-to-P," *American Banker*, October 15, 2008.
[43] Daniel Wolfe, "Prosper, Forming Secondary Market, Halts Applications," *American Banker,* October 16, 2008; and Daniel Wolfe, "Prosper to Open Secondary Market to Bank-Issued Loans," *American Banker,* December 8, 2008.

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