

**Remarks by FDIC Director Thomas J. Curry
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Good morning. Thank you, Susan, for the kind introduction. It's an honor to address the members of the New England Economic Partnership.

The events of the past several months are unprecedented. When I joined the FDIC Board almost five years ago, I never would have guessed that I'd be seeing the banner headlines on the global financial crisis. I also never thought that I'd be participating in the historic and far-reaching decisions the FDIC Board has made over the last few months.

I'm going to focus my remarks today on how the financial crisis has affected the banking industry's profitability and stability. I also want to spend some time highlighting how the FDIC Board and others have aggressively responded to the financial crisis through recent bold and innovative policy-related actions.

Industry Condition

In late August, the FDIC issued the second quarter performance results for the industry. The picture painted by these results is in stark contrast to the record or near-record earnings we regularly announced during the last few years. The "Golden Age" of banking we enjoyed over the last dozen years is over. It has been replaced with turbulence.

Let's examine some second quarter performance figures. The results for the industry were fairly negative, down 87% from a year ago. Net income was \$5.0 billion – the second lowest quarterly total reported by the industry since 1991. Average return on assets (ROA) for the quarter was 0.15%, compared to 1.21% a year ago. Almost 18 percent of institutions were unprofitable in the second quarter. The most significant factor impacting earnings was higher loan-loss provisions at \$50.2 billion.

Bank Failures

National and regional financial stresses are having an impact on viability. At the FDIC, we are dealing with rising numbers of problem banks and bank failures. As of June 30, 2008, the FDIC reported 117 problem banks which are defined as CAMELS rated 4 or 5 insured institutions. These 117 institutions had combined total assets of \$78 billion. (This total includes the \$32 billion in assets of the failed IndyMac Bank.) As you would expect, we anticipate the number of problem institutions will continue to rise in 2008 and 2009.

We've had 19 bank failures thus far in 2008 with combined total assets of \$356 billion. These failures include the largest insured institution failure ever – Washington Mutual Bank (with assets of the two failed WAMU banks totaling \$307 billion) – which fortunately was resolved at no cost to the FDIC's Deposit Insurance Fund. To put this failure in perspective, the previous record holder was Continental Illinois which had approximately \$40 billion in assets at the time it was rescued.

Many of the failures this year were precipitated by liquidity crises. The swiftness of liquidity-driven failures places unique timing and other pressures on the FDIC's resolution efforts. Fortunately, our seasoned Division of Resolutions and Receiverships, with the assistance of other FDIC Divisions, has met the challenge.

The number, size and scope of this year's failures have caused the FDIC to re-examine and use its wide array of resolution tools. In late September, the FDIC Board made the first "systemic risk determination" since the passage of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) in 1991. This extraordinary determination authorizes the FDIC to bypass the FDI Act's "least-cost" resolution restrictions. Fortunately, the FDIC-brokered transaction, which would have facilitated Citigroup's acquisition of Wachovia, was at "no cost" to the Deposit Insurance Fund (although the FDIC did agree to absorb any losses beyond \$42 billion). Importantly, this assisted transaction was ultimately replaced with a market-based transaction that requires no involvement or assurances by the FDIC.

Policy Responses

Given the turmoil in the industry, the Congress and the FDIC have taken a number of innovative actions in an attempt to bring stability to the banking industry.

Insurance Coverage

Maintaining depositor confidence during this period of market turbulence has been a major objective of policymakers. Congress has responded through the Emergency Economic Stabilization Act, which was enacted into law on October 3rd, by temporarily raising deposit insurance limits from \$100,000 to \$250,000 through December 31, 2009. This change appears to have greatly allayed depositor concerns, particularly at smaller institutions.

In addition, the FDIC recently issued two interim deposit insurance coverage rules aimed at reducing complexity for both depositors and our resolution operations. The first rule simplified how insurance coverage for revocable trust accounts is calculated. The rule eliminated the concept of qualifying beneficiaries so that coverage is based on the naming of virtually any beneficiary.

The second interim rule which we issued involved insurance coverage for mortgage servicing accounts. Previously, mortgage servicing accounts were insured up to the maximum coverage limit per identified investor or owner of the funds. The recent interim rule expanded coverage of these accounts with coverage up to the maximum coverage limit of \$250,000 per mortgagor or borrower. The policy goal here was to ease undue liquidity pressures on institutions holding sizable mortgage servicing accounts.

TARP Capital Purchase Program

One of the more far-reaching programs developed to address the crisis is the Treasury Department's Capital Purchase Program. This program provides capital in an amount up to 3 percent of total risk-weighted assets of the institution. The perpetual preferred shares purchased by Treasury have a dividend rate of 5 percent for the first five years and a dividend rate of 9 percent thereafter. Treasury will also obtain warrants for common stock of the participating

institution. The warrants must be convertible into an amount of common stock equal to 15 percent of the capital purchased by Treasury.

At the time the program was announced, nine large insured financial institutions had agreed to participate and receive aggregate capital infusions of \$125 billion. The program has since been rolled out to other publicly traded institutions. In addition, we expect that Treasury will soon finalize terms of the program for bank that are not traded publicly, including those organized as Subchapter S corporations and mutual institutions. It is imperative that participation in the program be equally afforded to all healthy institutions, regardless of size or type of ownership.

Temporary Liquidity Guarantee Program

Similar to Treasury, the FDIC has also developed an innovative program to strengthen confidence and encourage liquidity in the banking system. On Columbus Day, the FDIC Board, in coordination with other related actions by the Treasury Secretary and Federal Reserve Board, adopted a new program – called the Temporary Liquidity Guarantee Program. The program was designed to unlock inter-bank credit markets and restore rationality to credit spreads. There are two central elements to the program.

First, it provides full FDIC coverage of non-interest bearing transaction accounts until December 31, 2009. These accounts are most typically corporate accounts whose balances regularly exceed even the temporary higher coverage amount of \$250,000.

The second element of the program involves an FDIC guarantee of newly issued senior unsecured debt of banks, thrifts, bank holding companies, financial holding companies, and certain thrift holding companies. The type of debt that is guaranteed under this program includes promissory notes, commercial paper, and inter-bank funding, including Fed funds. This guarantee is limited to 125 percent of senior unsecured debt outstanding as of September 30, 2008, and scheduled to mature before June 30, 2009. The guarantee would apply to newly issued senior unsecured debt issued on or before June 30, 2009. Coverage under this guarantee is limited to June 30, 2012, even if the maturity of the debt exceeds that date.

All FDIC-insured institutions are covered under the Temporary Liquidity Guarantee Program through December 5, 2008. After this initial period, if an institution does not wish to participate, the institution has to opt-out of the program. If an institution decides to remain in the program, they will be charged fees for their participation. Participants will be charged a 75 basis-point fee for protection of their new debt issuances. A 10 basis-point surcharge will be added to an institution's current deposit insurance assessment rate for protection of the non-interest bearing transaction accounts.

The Temporary Liquidity Guarantee Program was subject to a short public comment period which ended last week. Tomorrow, the Board will consider the final rule implementing the program.

Efforts to Reduce Foreclosures

I'd be remiss in my remarks if I didn't address one of the root causes this economic crisis – unaffordable home loans and unnecessary foreclosures. Although much of the nation's recent attention has been on the historic responses to the broader financial crisis as well as the significant declines in the stock market, it's absolutely critical for us to refocus attention on the continuing turmoil in the housing market. In my opinion, we will not see broader economic recovery until we deal with the housing market problems.

At the FDIC, we have encouraged servicers to develop a systematic approach to modifying loans. The FDIC has recently had the opportunity to deal first-hand with mortgage loan modifications due to the failure of IndyMac Bank, FSB. After the failure of IndyMac, the insured deposits and substantially all of the assets were transferred into a conservatorship – IndyMac Federal Bank, FSB, which is operated by the FDIC.

The FDIC's approach to loan modifications is intended to achieve affordable and sustainable mortgage payments for borrowers. Under the FDIC's program, modifications are designed to achieve payments for the first mortgage at a housing debt-to-income ratio of 38 percent, with the housing debt including principal, interest, taxes, and insurance. If the borrower's existing monthly payments exceed 38 percent DTI, then IndyMac Federal Bank modifications could adopt a combination of interest rate reductions, extended amortization, or principal forbearance to reduce payments to a sustainable level.

Through our actions at IndyMac Federal Bank, the FDIC has demonstrated that it is possible to implement a streamlined approach to modify troubled mortgages into loans that are affordable and sustainable over the long term. Based on our success, we believe that the approach used at IndyMac Federal Bank can serve as a model for the servicing and banking industry.

Further, the FDIC has proposed to the Treasury that this loan modification approach be used as the foundation for a broader program for sustainable loan modifications. More specifically, the FDIC has proposed that the government provide prudent incentives to servicers in the form of a loss-sharing arrangement. Under this arrangement, the government would share up to 50 percent of the losses with lenders or investors if a mortgage is modified under the sustainable guidelines used at IndyMac Federal and then later defaults. Given that the government would be sharing the risk of future redefault, we propose to reduce the risk in the program by decreasing the allowable debt-to-income ratio to an even more affordable 31 percent of gross income.

Conclusion

In closing, I believe that the recent actions taken by the FDIC, the Treasury Department and the Congress are nothing short of extraordinary responses to equally extraordinary threats to our financial system. In the short run, I believe that these actions will contribute to stability in these troubled times. Over the long run, we will have to evaluate the effects on the banking industry, our economy and our system of financial regulation.

Nevertheless, it's fair to say that the immediate future holds challenges. It's difficult to say where we are in the cycle. At this point, the rising trend in troubled loans shows no signs of abating; we continue to see fairly significant increases each month in the number and assets of problem institutions as we try to identify the full scope of the problem; and insured institution failures will continue at a much higher pace than we grew accustomed to in prior years (when we had a handful of failures over a three-year period).

We are certainly dealing with unprecedented times not seen since the Great Depression. However, I'd like to make a couple of important points. Despite the recent industry performance numbers, the vast majority of the insured banks remain well capitalized and well rated with CAMELS ratings of 1 or 2. It's also important to remember that, in the 75 year history of the FDIC, no insured depositor has ever lost a penny of insured deposits and they never will.