Federal Deposit Insurance Corporation

Annual Performance Plan

1999

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FEDERAL DEPOSIT INSURANCE CORPORATION

1999 Annual Performance Plan

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FDIC's MISSION, VISION, AND VALUES

Mission The FDIC, an independent agency created by Congress, contributes to stability and public confidence in the nation's financial system by insuring deposits, examining and supervising financial institutions and managing receiverships.

Vision To assure that the FDIC is an organization dedicated to identifying and addressing existing and emerging risks in order to promote stability and public confidence in the nation's financial system.

Values The FDIC has identified six core values that illustrate the principles that should guide our corporate operations. The values reflect the ideals we expect all of our employees to strive for as they accomplish the tasks needed to fulfill our mission.

Effectiveness. The FDIC's reputation rests on its professionalism, its adherence to the highest ethical standards and its skilled and dedicated workforce.

Responsiveness. The FDIC responds rapidly, innovatively and effectively to risks to the financial system. It works effectively with other federal and state supervisors to achieve consistency in policy and regulation. It seeks and considers information from the Congress, the financial industry, individuals seeking and receiving financial services and others outside the FDIC in the development of policy. In the development and execution of these policies, the FDIC seeks to minimize regulatory burden while fulfilling the FDIC's statutory responsibilities.

Teamwork. The FDIC promotes and reinforces a corporate perspective and challenges its employees to work cooperatively across internal and external organizational boundaries.

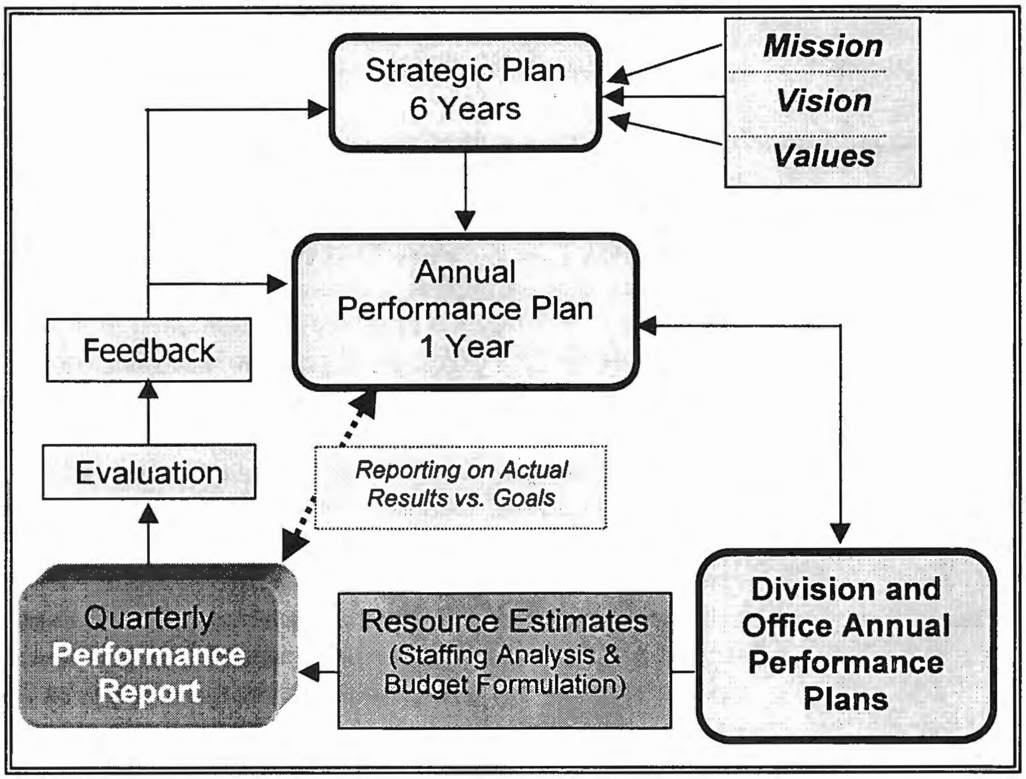
Fairness. The FDIC treats everyone with whom it deals fairly and equally. It exercises its responsibilities with care and impartiality. It promotes a work environment that is free of discrimination and that values diversity. The FDIC adheres to equal opportunity standards.

Service. The FDIC's long and continuing tradition of public service is supported and sustained by a highly skilled and diverse workforce that responds rapidly and successfully to changes in the financial environment.

Integrity. The FDIC performs its work with the highest sense of integrity. Integrity requires the FDIC to be, among other things, honest and fair. It can accommodate the honest difference of opinion; it can not accommodate the compromise of principle. Integrity is measured in terms of what is right and just, standards to which the FDIC is committed.

FDIC'S CORPORATE PLANNING PROCESS

Planning Process As portrayed in the following diagram, planning at the FDIC is a continuous process.



The FDIC's planning process, leading to development of the Annual Performance Plan (the Plan), involves Corporation management and staff at all levels. In addition, the National Treasury Employees Union is provided predecisional opportunity to review and comment on the Plan. Corporate goals, priorities and planning decisions are communicated to managers and staff of the Corporation through staff meetings, newsletters and the FDIC's Web site. Communicating corporate priorities and soliciting input from employees at all levels promotes accountability on the part of managers and staff for achieving the goals they have helped to develop. FDIC senior management also is committed to educating FDIC management and staff on the implementation of the *Government Performance and Results Act* of 1993 (GPRA) and the positive effect it will continue to have on the FDIC.

Strategic Plan

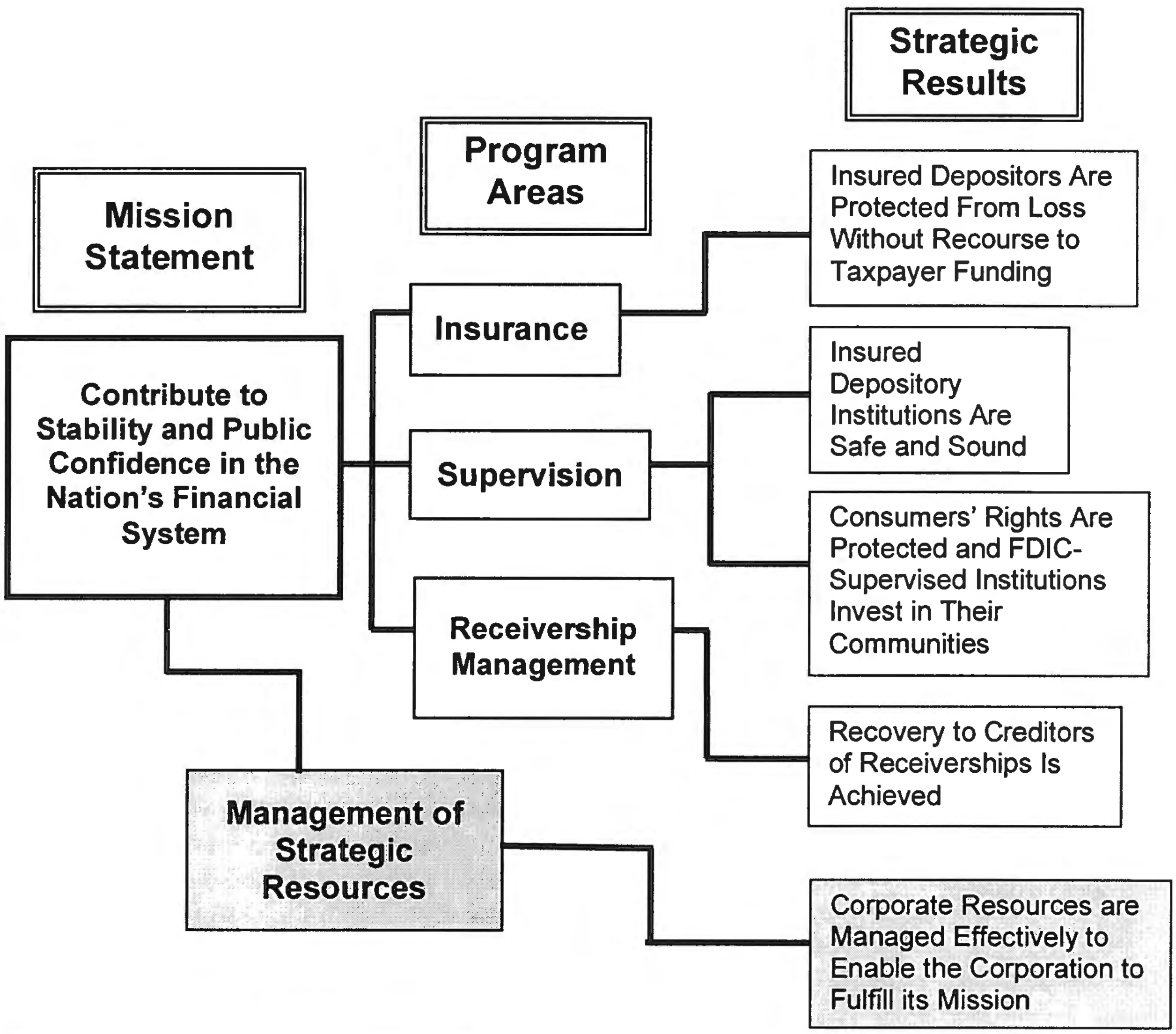
The FDIC Strategic Plan provides a framework for implementing the Corporation's mission by setting a course for the organization and guiding decisions about the effective use of resources. The Strategic Plan contains goals and objectives that have a six-year strategic focus. It is implemented through the Annual Performance Plan that is augmented by individual FDIC division- and office-level performance plans from which staffing levels and budgets are determined.

Annual Performance Plan

Significant changes for 1999 have been implemented with respect to the FDIC's Annual Performance Plan. Primarily, the Plan now reflects a more results orientation. A results-oriented plan communicates the results that we are trying to achieve and the benefits that stakeholders can expect to receive from the FDIC's efforts. We have improved the Plan in several ways by 1) highlighting FDIC and industry priorities by presenting only the "vital few" annual performance goals and targets in the Plan; 2) more clearly linking budget and staffing resources to the strategic goals; and 3) integrating the results of coordinated interagency efforts.

The Plan defines what will be accomplished during the year to achieve the FDIC strategic goals and objectives. The Plan mirrors the Strategic Plan in structure, it is built around the Corporation's three major program areas: Insurance, Supervision and Receivership Management. The FDIC also recognizes that effective management of resources is critical to the achievement of the mission and strategic goals. As such, an additional area that focuses on the management of human, information and technological resources as well as internal controls is highlighted.

The following diagram represents the program areas and associated strategic results the FDIC is striving to achieve.



Note: The Mission Statement shown above is an abbreviated form of the FDIC's official Mission Statement.

Contained in the Plan are strategic goals and related annual performance goals and targets and the means and strategies that will be employed over the coming year to achieve the annual goals. In addition, the Plan also identifies the processes by which performance data is verified and validated for each annual performance goal and the impact that external factors may have on the achievement of the annual goals.

Performance Reporting

The FDIC reports quarterly on the status of implementing the annual performance goals set forth in the Plan. A comprehensive briefing is presented on a semiannual basis to the Corporation's Operating Committee, comprised of the Chairman and FDIC senior executive management. The Operating Committee is the principal mechanism by which corporate program performance and results are evaluated and recommendations are made, where appropriate, for changes to current strategies, goals, objectives or resource allocation. In March 2000, the FDIC is prepared to report on the achievement of the annual performance goals in its first Annual Performance Report presented to Congress.

Other FDIC Plans

The FDIC has developed three other plans that are strategic in nature and guide the Corporation in the areas of Information Technology, Corporate Diversity, and the Office of Inspector General. These plans supplement the FDIC Strategic and Annual Performance plans. They are summarized below:

Information Technology

The FDIC constantly strives to enhance its use of technology to accomplish its mission and strategic goals. The FDIC's Information Technology (IT) Strategic Plan contains specific goals and objectives focused on providing effective technology to support corporate goals associated with the FDIC's major program areas, as well as strategic resources. The IT Strategic Plan also contains detailed discussions of various types of information technology with forecasts of how they can be used to enhance the FDIC's operations.

In 1999, a major element of the FDIC's current IT program is the effort to ensure that the FDIC's systems and equipment are prepared for the Year 2000. Other initiatives focus on identifying, developing and implementing new information technologies that will improve the effectiveness and efficiency of all aspects of the FDIC's primary program and strategic resources.

Corporate Diversity

Diversity is a foundation of the FDIC's "Fairness" value and is a contributor to all of our activities. In 1999, a major focus of the FDIC will be the development of a Corporate Diversity Plan to ensure that diversity is leveraged to the advantage of the FDIC, its customers and individual employees. The FDIC is committed to building a work environment that supports and fosters the contributions of a diverse workforce. The Corporate Diversity Plan will guide the FDIC's diversity efforts to ensure that everyone is treated fairly and equally. Current activities include developmental programs such as mentoring; diversity training for employees; evaluating supervisor and manager efforts to support diversity; and recruiting initiatives directed towards underrepresented groups.

Inspector General

The Office of Inspector General (OIG), an independent office established within the FDIC under *the Inspector General Act* (IG Act) promotes the economy, efficiency, effectiveness and integrity of FDIC programs and activities. The OIG accomplishes its mission, as authorized by the IG Act, by conducting and supervising independent and objective audits, investigations, and evaluations and by keeping the Chairman and Congress informed of its work.

The OIG has independently prepared and published its own Annual Performance Plan for 1999 that reflects strategic initiatives. The initiatives include 1) conducting more performance-type audits that address underlying systemic issues; 2) more actively communicating audit results during the audit process; and 3) transforming to a more proactive investigative organization.

PROGRAM EVALUATION

Evaluation Results

The FDIC's Annual Performance Plan implements the FDIC's strategic goals and objectives by establishing annual performance goals. Each year the FDIC is required, by GPRA, to produce an Annual Program Performance Report that evaluates the Plan and evaluates actual performance against the annual performance goals. Program Evaluations will be conducted between Strategic Plan updates, which occur in a three-year cycle, to assist in the strategic planning process.

The Annual Performance Report evaluates progress made towards the achievement of annual performance goals and offers explanations and suggestions for improvement if these goals are not met. The results of Program Evaluations are to be reported in the Annual Program Performance Report.

In addition to providing input to update the FDIC's strategic plan, Program Evaluations will be used to revise the FDIC's Annual Plan and division- or office-level annual performance plans or both. The collaborative effort of the Program Evaluation process will evaluate and possibly result in improvements in the way the FDIC implements its programs. These results and suggestions will be incorporated into the planning process as quickly as possible; they will not be held until the next Strategic Plan update. It is possible that the outcome of the Program Evaluation process will result in the FDIC updating its Strategic Plan earlier than the required three-year cycle.

Evaluation Process

Program Evaluations are used "to validate program accomplishments and identify strategies for program improvement."[1] Evaluations also are a mechanism to determine whether the program has clearly defined goals and well-developed measures of program outcomes.

The FDIC's Division of Research and Statistics (DRS) will have primary oversight responsibility to carry out and report on the evaluation of the Corporation's program accomplishments.

[1] *Managing for Results: Critical Issues for Improving Federal Agencies Strategic Plans.*

This role is independent of the program areas. DRS will have access to corporate program resources as well as Office of Inspector General and U.S. General Accounting Office reports. The Program Evaluation is an interdivisional, collaborative effort and will involve management and staff from the division(s) responsible for the program as well as personnel from the FDIC's Division of Finance and the Office of Internal Control Management. Such participation is critical to fully understanding the program being evaluated, but also to giving the division(s) a stake in the process.

Stages of the Process

The Program Evaluation process consists of the following three stages:

- *Stage 1* – fact-finding, data collection and analysis of items.
- *Stage 2* – face-to-face meetings and interviews with the people who implement the program, as well as people for whom the program was intended.
- *Stage 3* – preparing a final report and conducting the necessary presentations for senior executive management.

Questions Addressed by the Process

The Program Evaluation process will address the following questions:

- Are the program's goals and objectives clearly defined? Are these goals and objectives sufficiently results-oriented? What changes can be made to the goals and objectives to make them more effective and responsive to their ultimate beneficiaries?
- Are sufficient mechanisms in place for measuring program outcomes? Are data available to measure outcomes and are these data of sufficient quality? What improvements can be made in the measurement process to assess program outcomes more effectively?
- Did the program achieve its results-oriented goals? What are the measurable results of the program? Is the program operating as it was intended? How can the program be changed to improve its effectiveness?
- Should the FDIC be engaging in additional activities to support the program? What are these activities and why would they be beneficial to the program? Is the FDIC

engaging in activities that may be counterproductive?

Ultimately, a Program Evaluation must provide the FDIC's senior managers with a concrete understanding of the program, what it is and is not accomplishing and what should be done to improve its operations.

FDIC's Major Program Areas

The FDIC conducts three major programs: Insurance, Supervision and Receivership Management – to accomplish its overall mission. The following four strategic results have been ascribed to the three major program areas:

Insurance – Insured depositors are protected from loss without recourse to taxpayer funding.

Supervision – Safety and Soundness – Insured depository institutions are safe and sound.

Supervision – Consumer Rights – Consumers' rights are protected and FDIC-supervised institutions invest in their communities.

Receivership Management – Recovery to creditors of receiverships is achieved.

Initially, Program Evaluations will be of the FDIC's three major program areas. It is possible that once the FDIC gains more experience with Program Evaluations, a different and more detail-oriented Program Evaluation process may be more appropriate to meet the Corporation's needs.

Evaluation Schedule

The FDIC expects to update its Strategic Plan on a three-year cycle. This planning timeline allows the FDIC to evaluate its program areas separately, well in advance of the beginning of its next strategic planning cycle.

Because the FDIC's Program Evaluation process is relatively new, the FDIC has decided to conduct its first Program Evaluation as a pilot. Upon completion of the pilot, the FDIC will modify the Program Evaluation process as necessary to more accurately reflect the length and scope of effort needed to carry out this function effectively. The schedule and order of evaluations of the FDIC's other two program areas will be determined after the completion of the pilot.

The pilot Program Evaluation will be conducted on the FDIC's Insurance Program. The Insurance Program was selected for the initial evaluation because of its importance as well as its breadth of activities. Since several divisions are involved directly with this program area, the pilot evaluation will touch most major areas of the FDIC.

FDIC's MAJOR PROGRAM AREAS

Insurance

Supervision

Receivership Management

INSURANCE PROGRAM

Program Description

The FDIC insures deposits up to $100,000 at FDIC-insured depository institutions and savings associations. The FDIC maintains and manages two deposit insurance funds, the Bank Insurance Fund and the Savings Association Insurance Fund. The FDIC minimizes losses to the deposit insurance funds through the orderly and least-costly resolution of failed and failing insured depository institutions and savings associations. In executing the Insurance Program, the FDIC continually evaluates how changes in the banking market structure, products and competition affect the current insurance coverage and funding arrangements.

The Insurance Program, through implementing the strategic goals and annual performance goals, strives to achieve the strategic result that insured depositors are protected from loss without recourse to taxpayer funding.

Resource Requirements

Below are the budgeted dollars aggregated by strategic goal within the Insurance Program. The inclusion of budgeted dollars reflects the level of funding dedicated to the achievement of the strategic goals and includes but is not limited to the amount of resources required to achieve the annual performance goals within the Insurance Program.

Strategic Goal – Customers of failed insured depository institutions have timely access to insured funds and services.	$56.2 million
Strategic Goal – Deposit insurance funds remain viable.	$76.7 million
Strategic Goal – Consumers know what funds are insured.	$6.2 million
TOTAL for Insurance Program	**$139.1 million**

Insurance Program

Strategic Goals and 1999 Annual Performance Goals

Strategic Goals	1999 Annual Performance Goals
Customers of Failed Insured Depository Institutions Have Timely Access to Insured Funds and Services	Insured Deposits are Transferred to Successor Insured Depository Institution or Depositor Payouts are Begun Within Three Days of Institution Failure
	Contingency Plans are Developed That Include Identification of Resources and Training of Staff to Address Possible Year 2000 Technological Failures, Large Insured Depository Institution Failures, and Multiple, Simultaneous Failures
Deposit Insurance Funds Remain Viable	Report is Provided That Discusses the Implications of Industry Consolidation for the Deposit Insurance Funds, and if Problems are Found to Exist, Develop Recommendations for Appropriate Policy or Corrective Actions.
	Risks Emerging in 1999 to Insured Depository Institutions are Identified Through Off-Site and On-Site Risk Identification Processes and are Communicated Through a Variety of Reports to the Industry and its Supervisors
	The Risk Based Premium System More Appropriately Reflects Risks to the Deposit Insurance Funds and Modifications are Explored That may Make the System More Forward-Looking
Consumers Know What Funds are Insured	Deposit Insurance Education and Training are Provided to Insured Depository Institutions and the Public, With Specific Emphasis on Year 2000 Awareness
	The FDIC, in Coordination with Other Federal Banking Agencies and State Authorities, Will Undertake Efforts to Educate Consumers on Year 2000 Issues. The FDIC Will Provide Factual and Usable Information on Year 2000 Issues to Consumers in an Effort to Maintain the Public Confidence in the Banking System. The FDIC Will Also Remind Consumers That Deposit Insurance Will Not be Affected by the Century Date Change

1999 Outlook

The Insurance Program has three strategic goals that support the intended result of protecting insured depositors from loss. These strategic goals are in turn supported by a select group of annual performance goals that represent critical initiatives being carried out during 1999 in support of the Insurance Program.

The following represents an executive summary of the key areas of focus for the FDIC in the Insurance Program for 1999. A detailed description of the strategies to be employed in pursuit of these initiatives is provided in the subsequent pages.

Depositor Payouts And Successor Institution Identification

Although few insured depository institution failures are projected to occur in 1999, the FDIC remains committed to ensuring that depositors have access to their funds within three days of an insured depository institution's closing. Efforts in 1999 will center on further development, refinement and implementation of strategies and procedures that will enhance the FDIC's ability to ensure this timely access. Particular attention is being paid to the development of unique resolution and closing procedures that may be required to handle a Year 2000 related insured depository institution failure.

Contingency Planning

Contingency planning for future banking crises is a critical initiative for the FDIC in 1999, particularly in light of the upcoming change of century. The FDIC is developing and testing contingency plans to address possible Year 2000 technological failures, large insured depository institution failures and multiple, simultaneous failures. Contingency plans include methods to facilitate the resolution of Y2K related insured depository institution failures, revised pre-closing asset marketing techniques, strategies for staffing these failures and training of staff to handle various aspects of a failure.

Particular emphasis in 1999 will be placed on addressing potential problems regarding Y2K related insured depository institution failures. The FDIC is working with the other federal banking agencies to identify those insured depository institutions that could potentially be affected by Year 2000 related problems.

Industry Consolidation Analysis

Consolidation of the banking industry is continuing at a rapid pace, resulting in fewer banking entities and an increasing percentage of assets concentrated in those insured depository institutions. As a result, the risk exposure of the deposit insurance funds is changing. In 1999, the FDIC will conduct research and analysis on the impact that consolidation of the banking industry will have on the deposit insurance funds. A research team will be convened which will include economic, statistical and financial experts. This team will be responsible for developing a research plan that will include a detailed breakdown of the projects' methodology, data resources, roles and responsibilities and deadlines.

Risk Identification and Communication

The proactive identification of risks to the deposit insurance funds is an on-going and critical function of the FDIC. Risks emerging in 1999 to insured depository institutions will be identified through off-site and on-site risk identification processes and communicated through a variety of reports to the banking industry, the other federal banking agencies and state authorities.

The FDIC will also regularly interact with the other federal banking agencies, state authorities and industry officials to discuss and enhance information on potential and existing risks. In order to promote awareness of trends that may need to be addressed by those involved in managing risks, including but not limited to policy makers, bankers and other financial service providers, the FDIC will continue to conduct research and analyses of a statistical, financial or economic nature on risks faced by insured depository institutions

Risk Based Premiums

The Risk Based Premium System is continuously monitored and updated to ensure that the risks to the deposit insurance funds are appropriately reflected. Potential enhancements to the Risk Based Premium System to be explored in 1999 will reflect additional information obtained from the supervisory process, the market or financial reports regarding risky practices being carried out at insured depository institutions that may be prevalent throughout the banking industry.

The FDIC will also provide prompt, thorough analyses in response to changes in the financial marketplace, proposed reforms and other developments that may have implications for the effectiveness of deposit insurance pricing and other existing insurance arrangements.

Deposit Insurance Information

The FDIC is committed to helping improve depositors' understanding of deposit insurance rules and regulations. As such, FDIC develops and disseminates educational materials and offers training opportunities for consumers and insured depository institutions and their staff on all aspects of deposit insurance. During 1999, the FDIC will seek to identify new methods to effectively disseminate educational information to consumers and insured depository institutions, including new ways of reaching target or new audiences. The FDIC is developing a comprehensive strategy to inform consumers about the steps being taken by the FDIC, other federal banking agencies and insured depository institutions to ensure that their systems are ready for the Year 2000 date change. This strategy includes developing printed educational materials for consumers and publishing articles and other information in consumer news publications.

Communication to Consumers

The FDIC is committed to ensuring that consumers have information available to them when questions arise pertaining to the century date change and their respective insured depository institutions. The FDIC will be undertaking significant efforts in 1999 to educate consumers on Year 2000 issues.

Strategic Goal Customers of failed insured depository institutions have timely access to insured funds and services.

Annual Performance Goal Insured deposits are transferred to successor insured depository institution or depositor payouts are begun within three days of institution failure.

Means and Strategies As part of the failed insured depository institution resolution process, the FDIC solicits proposals from approved bidders in an attempt to transfer the insured deposits of the failed insured depository institution on to an assuming institution. If no assuming institution is found during the resolution process, at closing, the FDIC moves quickly to determine which deposits are insured and to begin payment of insured deposits to customers of the failed insured depository institution.

The FDIC continues to develop, refine, and implement strategies and procedures to assure that customers of failed insured depository institutions have timely access to insured funds and financial services. A group responsible for implementing the FDIC Failed Financial Institutions Year 2000 Action Plan is reviewing and developing the unique resolution and closing procedures that may be required. A taskforce has also been convened to review the FDIC's Closing Manual and revise the document as necessary.

To ensure that there is sufficient staff to handle the resolution of failed insured depository institutions, the FDIC plans to focus on the training of FDIC staff who might be called upon to assist with future institution resolutions. The FDIC will develop core-training programs covering all aspects of the failed insured depository institution resolution process.

Finally, the FDIC plans to develop and implement the Receivership Liability System (RLS). RLS will incorporate the functionality of both the existing deposit insurance and the claims systems and will also provide for new functionality in processing receivership liabilities.

Verification and Validation Evidence of the timeliness of insured deposit payments can be confirmed with the closing manager for the failed insured depository institution.

The three-day measurement is based on the FDIC's usual insured depository institution closing scenario. Typically, the FDIC closes a failed insured depository institution on Friday.

The depositors of the failed institution have access to their accounts on the following Monday either through an account in the acquiring institution or through a direct payment from the FDIC in the occasion where the FDIC cannot find an acceptable acquiring insured depository institution.

Impact of External Factors

Potential Year 2000 problems could have a negative effect on the FDIC's ability to process a closed insured depository institution's financial records and provide customers with timely access to their insured deposits and financial services. The potential for Y2K technological failures will require additional closing personnel including FDIC employees and contractors. In addition, new policies and procedures will be needed for processing a failed insured depository institution's assets and liabilities due to incorrect computer information.

Strategic Goal Customers of failed insured depository institutions have timely access to insured funds and services.

Annual Performance Goal Contingency plans are developed that include identification of resources and training of staff to address possible Year 2000 technological failures, large insured depository institution failures, and multiple, simultaneous failures.

Means and Strategies The FDIC continues to develop, refine and implement contingency plans to deal with future insured depository institution failures. The FDIC will develop an imaging contract for use in marketing assets on pre-closing and post-closing. In addition, the FDIC plans to develop an information model, which will include information captured on each loan. This information will be provided in electronic format to potential buyers.

The FDIC is working with the other three federal banking agencies to identify potential insured depository institutions with Year 2000 related problems. The FDIC has surveyed insured depository institution acquirers to determine previous problems with conversions of acquired institutions, timing required for conversion of acquired institutions and how they addressed Year 2000 issues related to acquired institutions. The FDIC is developing methods to facilitate the resolution of a Year 2000 related failure and participating in the Systemic Risk Contingency Group.

The FDIC is identifying information requirements for an acquisition without due diligence and is preparing alternative resolution structures and agreements to handle a small insured depository institution failure, a large insured depository institution failure and multiple insured depository institution failures. The FDIC is establishing a basic ordering agreement with services to handle possible institution conversions on a contingency basis. The FDIC is also evaluating the least cost test model and is making any changes that are necessary to properly estimate the cost of a Year 2000 related failure.

In situations where staffing levels in the FDIC's Division of Resolution and Receiverships (DRR) are not sufficient to handle the number or types of insured depository institution failures or both, the FDIC will temporarily reallocate staff from other FDIC divisions and offices to DRR. The Corporation may use temporary employees and contractors to handle the additional workload. In this regard, the FDIC will focus on training FDIC staff in all aspects of failed insured depository institution resolution and closings.

Verification and Validation Senior FDIC management is actively participating in the development and implementation of these contingency plans. Validation of performance will be the development or updating of these plans and projects or both.

Impact of External Factors Changes in the economy and Year 2000 concerns could have an effect on our ability to develop and refine contingency plans. The health of the economy has had a positive influence on the banking industry. The number of insured depository institution failures has been low and little intervention has been required on the part of the FDIC. This has allowed the FDIC to focus its human resources on contingency planning. However, should the economic situation worsen or insured depository institutions fail to address the Year 2000 concerns or both and insured depository institution failures increase dramatically, then the FDIC may have to reallocate resources away from contingency planning to performing resolution, receivership management and asset disposition functions.

Strategic Goal	Deposit insurance funds remain viable.
Annual Performance Goal	Report is provided that discusses the implications of industry consolidation for the deposit insurance funds, and if problems are found to exist, develop recommendations for appropriate policy or corrective actions.
Means and Strategies	Research will be conducted on the effects of large bank mergers on the viability of the Bank Insurance Fund (BIF). Large bank mergers, also known as "mega-mergers", are just one element of industry consolidation as it has been defined. Specifically, the research will examine the differences between large and small insured depository institutions covered by the BIF and it will attempt to quantify how the introduction of "mega banks" will affect the financial condition of the BIF over time. Early steps in the analysis process will include 1) collecting data on insured depository institutions covered by the BIF, merger activity, and historical loss and failure probabilities; 2) conducting a literature review; and 3) defining and building an initial model for testing. After these steps are completed, the model, assumptions and data will be tested in a variety of ways. The testing process will be iterative, where corrections or improvements in one area may prompt required changes in other areas. The extent of the changes that may be necessary may range from minor adjustments to major modifications to the methodology or assumptions used in the analysis. After preliminary results are available, they will be subject to a review by FDIC staff economists. After the results withstand scrutiny of the FDIC's staff economists, the results will be presented to FDIC management for review and comment.
Verification and Validation	The FDIC will monitor compliance with quarterly deadlines and other targets as appropriate.
Impact of External Factors	None are identified at this time.

Strategic Goal Deposit insurance funds remain viable.

Annual Performance Goal Risks emerging in 1999 to insured depository institutions are identified through off-site and on-site risk identification processes and are communicated through a variety of reports to the industry and its supervisors.

Means and Strategies To ensure the viability of the deposit insurance funds, the FDIC takes an active approach in identifying existing and potential risks to the deposit insurance funds. The FDIC identifies emerging risks to the banking industry through on-site examinations and off-site monitoring. (For additional information, refer to the Supervision Program, Safety and Soundness area of the Plan and the annual performance goals related to off-site monitoring and on-site reviews.) Risks, such as international risks and risks associated with new banking products and investments such as Non Deposit Investment Products (NDIP) are regularly communicated to the banking industry, its federal banking agencies and state authorities. The FDIC uses various mechanisms to communicate risks to the industry such as presentations, surveys (such as the Underwriting Survey), Financial Institution Letters (FILs) and participation in industry events.

The FDIC provides ongoing coverage and analysis of economic, financial and banking developments that affect the risk exposure of insured depository institutions. Analytical techniques are developed to improve identification of banking, financial and economic risks. The FDIC interacts with other federal banking agencies and state authorities and industry officials and experts (such as industry associations, bankers, economists and others) to discuss and exchange information on potential and existing risks.

Reports are published that discuss areas of potential and existing risks and trends that could affect insured depository institutions and the deposit insurance funds. Formal presentations and briefings are developed based upon analyses of issues and trends that may pose risks to the deposit insurance funds or affect the risk outlook of insured depository institutions. These presentations and briefings are given to FDIC senior management, Board Members, and Senior Regional staff. The FDIC conducts annual surveys and tracks informal feedback received through e-mails and phone calls to determine the effectiveness and usefulness of the reports and presentations.

The FDIC conducts research and analysis on risks faced by insured depository institutions through a discrete series of steps. These steps include 1) the identification and clarification of the questions to be answered; 2) a thorough review of the theoretical issues and the findings of existing research; and 3) the development and tracking of a research plan. The research plan includes a set of milestones, a detailed breakdown of the steps required, the methodology to be applied and the data sources to be tapped and the roles and responsibilities of each analyst assigned to the research project. The appropriate mix of research and statistics staff, that includes economic, statistical and financial expertise, is assigned to each project.

As a result of applying this research methodology, draft reports are prepared and circulated for peer review within the FDIC and revisions are made, where appropriate. The revised report is then circulated to interested parties. Using the same research methodology, the FDIC produces and disseminates bank financial data and reports on current and emerging risks to the deposit insurance funds and to insured depository institutions. The data and reports are provided to bankers, the other federal banking agencies, state authorities and to industry officials and experts (such as industry associations, bankers, economists, and others).

Presentations are designed and given to bankers, other financial industry regulators and industry experts that provide an overview of significant developments affecting the FDIC and insured depository institutions.

Verification and Validation

Each quarter, the FDIC will review 100 percent of the FDIC's sponsored Press Releases, FILs, risk-related surveys and other communications. The FDIC will report the risks addressed in FILs, Press Releases and risk-related surveys and report the number of the FDIC's quarterly outreach efforts. Outreach totals will be extracted from the FDIC's Outreach Tracking System if it is operational in 1999 as projected.

Guidelines have been developed to ensure appropriate internal control of the review and verification of the accuracy of analytical reports and presentations. The data in the analysis is presented for accuracy and the document supports the analytical conclusions.

Impact of External Factors

Should legislation become law that expands the lines of business permissible for insured depository institutions, the FDIC might need to alter its on-site and off-site monitoring programs to address these new powers and organizations.

Strategic Goal Deposit insurance funds remain viable.

Annual Performance Goal The Risk Based Premium System more appropriately reflects risks to the deposit insurance funds and modifications are explored that may make the system more forward-looking.

Means and Strategies The FDIC develops models and analytical techniques to assist in risk identification. The FDIC analyzes emerging risks, the growth of insured deposits, the current assessment base, loss expectations, interest income on the funds and corporate operating expenses to project the level of assessment revenue necessary to maintain the statutorily mandated designated reserve ratio of 1.25 percent of insured deposits. Statistical analysis is used to identify projected insured depository institution failures to adequately reserve for losses to the deposit insurance funds over the next year. The FDIC's Failure Projection Working Group uses this analysis.

Enhancements to the Risk Based Premium System will be explored which will include using additional information from the supervisory process, the market or financial reports to identify risky practices. Based upon the results, recommendations for enhancements to the System will be made and the necessary adjustments will be implemented.

The FDIC provides prompt, thorough analyses in response to changes in the financial marketplace, proposed reforms and other developments that may have implications for the effectiveness of deposit insurance pricing and other existing insurance arrangements.

Verification and Validation The FDIC has developed guidelines used to ensure appropriate internal control of the review and verification of the accuracy of analytical reports. The data in the analyses presented is reviewed for accuracy and the documentation supports the analytical conclusions. The FDIC completes insurance premium rate cases, and ensures they are supported and presented to the Board of Directors by the semiannual deadline.

Impact of External Factors Economic conditions have a significant effect on the risk outlook of insured depository institutions. Moreover, the profitability of insured depository institutions located in the U.S. is increasingly influenced by international developments through foreign banking relationships, trade-related economic linkages and instituted changes such as the European Union. An economic slowdown would have an adverse effect on the banking industry by slowing asset growth, increasing loan losses and impairing profitability. These changes to the risk profiles of insured depository institutions could, in turn, result in a higher rate of insured depository institution failures.

The FDIC must be able to proactively analyze and communicate new risks posed by advancements in technology to insured depository institutions and the other federal banking agencies and state authorities. The FDIC will coordinate efforts to quantify any losses that may result from Year 2000 related institution failures.

While the risks to the deposit insurance funds are diminished because of the diversification benefits of industry consolidation (along both geographic and product lines), the concentration of deposits into fewer insured depository institutions increases the risks to the funds in the event one of these larger institutions fails.

Expanded legislative powers or initiatives could result in new risks to the deposit insurance funds.

Strategic Goal Consumers know what funds are insured.

Annual Performance Goal Deposit insurance education and training are provided to insured depository institutions and the public, with specific emphasis on promoting Year 2000 awareness.

Means and Strategies The FDIC develops and disseminates educational materials and offers training opportunities for consumers and insured depository institutions on all aspects of deposit insurance. Training opportunities for insured depository institution staff include deposit insurance seminars and related materials. Consumer pamphlets and a deposit insurance guide are maintained on the FDIC's Web site.

The FDIC will seek to identify new methods to effectively disseminate education information to consumers and insured depository institutions. This will include identification of new ways of reaching target or new audiences such as individuals who do not use the services of an insured depository institution. The FDIC is developing a comprehensive strategy to inform consumers about the steps being taken by the FDIC, the other federal banking agencies and insured depository institutions to ensure that their systems are ready for the Year 2000 date change. This strategy will include developing printed educational materials for consumers and publishing articles and other information in consumer news publications.

A primary tool used by the FDIC to deliver deposit insurance information to consumers and bankers is the toll-free Consumer Affairs Call Center. This tool is used to deliver all aspects of consumer protection information including deposit insurance information.

During 1999, the FDIC will focus its efforts on promoting Year 2000 awareness and educating "cash consumers". Approximately ten million Americans do not have relationships with insured depository institutions, these individuals are often referred to as "cash consumers." The FDIC has joined a coalition of community-based, financial trade, consumer and government organizations to develop a basic financial services training kit for local community educators to use in the field. The material will be especially helpful to those low- and moderate-income individuals and households that are unfamiliar with the insured depository institution system, help individuals make educated choices about financial products and services and assist low- and moderate-income individuals begin to establish relationships with insured depository institutions.

Staff performing duties related to deposit insurance education and outreach is presently located in the FDIC's Washington and Regional offices. A periodic assessment of needs will be made to make certain that staff is providing timely responses to inquiries, educating consumers and insured depository institution staff about deposit insurance and the financial system and developing and disseminating deposit insurance information effectively. The FDIC will pursue obtaining contractor support in this area to address increases in Year 2000 consumer education efforts.

The FDIC will continue to develop the knowledge and skills of its staff, recognizing these individuals are often the first points of contact for insured depository institutions and the public. Technology initiatives include making greater use of the Internet to provide timely information to and more efficiently interact with the public.

Verification and Validation

Education and training activities will be monitored, including Internet-based activities, to determine if initiatives in this area are addressing customer needs.

Impact of External Factors

Changes in the economy could affect the FDIC's deposit insurance education and outreach program by creating the need for increased outreach activities and distribution of informational and educational materials. New legislation and technology developments could also affect the FDIC's outreach program by creating the need for increased deposit insurance outreach activities and distribution of informational and educational materials. Such increases could strain the FDIC's ability to provide timely information and therefore the FDIC could be perceived negatively by our customers.

Strategic Goal Consumers know what funds are insured.

Annual Performance Goal The FDIC, in coordination with other federal banking agencies and state authorities, will undertake efforts to educate consumers on Year 2000 issues. The FDIC will provide factual and usable information on Year 2000 issues to consumers in an effort to maintain the public confidence in the banking system. The FDIC will also remind consumers that deposit insurance will not be affected by the century date change.

Means and Strategies The FDIC, in coordination with other federal banking agencies and state authorities, will work to establish and communicate a consistent message regarding the impact of the century date change on insured depository institutions and address consumer questions and concerns. We will continue to encourage insured depository institutions, trade associations, and other organizations to distribute Year 2000 information and material prepared by the federal banking agencies and state authorities.

The FDIC, in coordination with other federal banking agencies and state authorities, will also encourage consumer and community-based organizations to distribute Year 2000 information and related material prepared by the federal banking agencies and state authorities. The FDIC will continue to maintain a database to track outreach events. The FDIC will encourage these organizations to reprint the Year 2000-related information and material in their newsletters or magazines or on their Web sites.

The FDIC, in coordination with other federal banking agencies and state authorities, has identified several consumer communication vehicles. In addition, the FDIC will continue to:

- Provide print material, such as the FDIC's *Century Date Change* brochure
- Update the Year 2000 Web site with current and timely information and,
- Maintain a consumer toll-free hotline to answer consumer questions.

The FDIC's Year 2000 Public Outreach Program task force will closely monitor and report on its initiatives including distribution of materials to consumers and calls received on the toll-free hotline number. The task force will make changes or modifications to its initiatives based on consumer feedback and direction from senior management.

Verification and Validation On a monthly basis, the FDIC's Year 2000 Public Outreach Program task force will report to the FDIC's Year 2000 Oversight Committee, comprised of senior officials from various FDIC divisions and offices.

Impact of External Factors None are identified at this time.

SUPERVISION PROGRAM

Program Description

The FDIC's Supervision Program helps to fulfill the FDIC's mission of contributing to stability and public confidence in the nation's financial system by promoting the safety and soundness of insured depository institutions, protecting consumers' rights, and promoting community investment initiatives by insured depository institutions. The FDIC shares supervisory responsibility for approximately 10,649 insured depository institutions and savings associations with the other federal banking agencies and state authorities. The three other federal agencies include 1) the Board of Governors of the Federal Reserve System (FRB); 2) the Office of the Comptroller of the Currency (OCC); and 3) the Office of Thrift Supervision (OTS).

The FDIC directly supervises 5,970[2] FDIC-insured state-chartered commercial banks that are not members of the Federal Reserve System, that is, state nonmember banks. This includes state-licensed insured branches of foreign banks and state-chartered mutual savings banks. The FDIC also has examination authority and back-up enforcement authority for state member banks which are supervised by the FRB, national banks which are supervised by the OCC and savings associations which are supervised by OTS.

Resource Requirements

Below are the budgeted dollars aggregated by strategic goal within the Supervision Program. The inclusion of budgeted dollars reflects the level of funding dedicated to the achievement of the strategic goals and includes but is not limited to the amount of resources required to achieve the annual performance goals within the Supervision Program.

Strategic Goal – Insured depository institutions appropriately manage risk, including risks posed by Y2K.	$447.8 million
Strategic Goal – Problem insured depository institutions are recapitalized, merged, closed or otherwise resolved.	$32.7 million
Strategic Goal – Consumers have access to easily understood information about their rights and the	

[2] Third Quarter 1998 FDIC Banking Profile.

disclosures due them under consumer protection and Fair Lending laws.	$15.7 million
Strategic Goal – FDIC-Supervised financial institutions comply with consumer protection, CRA and Fair Lending laws.	$101.1 million
TOTAL for Supervision Program	**$597.3 million**

Supervision Program: Safety and Soundness

Strategic Goals and 1999 Annual Performance Goals

Strategic Goals	1999 Annual Performance Goals
Insured Depository Institutions Appropriately Manage Risk, Including Risks Posed by Y2K	For Insured Depository Institutions, Off-Site Reviews are Performed on all SCOR and GMS Exceptions and LIDI/BIDI Reviews are Conducted; Appropriate Follow-up Course of Action if any, for Identified Supervisory Concerns is Determined
	In Concert with the Other Federal Banking Agencies and Through the *Basle Committee on Banking Supervision*, with the Other *G-10* Countries, Change the Capital Standards to Better Match Them with Risk Exposures Brought About by Changes in the Banking Industry, Advanced Technologies and New Products
	On-Site Safety and Soundness Examinations on FDIC-supervised Insured Depository Institutions are Performed in Accordance With Statutory Requirements, FDIC Policy and State Agreements or as Otherwise Needed
	On-Site Year 2000 Readiness Assessments are Conducted to Address Testing, Implementation and Contingency Planning for FDIC-supervised Insured Depository Institutions and Service Providers and Software Vendors that the FDIC is Responsible for, No Later Than 03/31/99. Appropriate Follow-up Action(s) is Taken as Needed
	The Institution Directory System is Maintained and Enhanced so that Financial Data on Insured Depository Institutions is More Easily Accessible and the Use of the System, as Measured by Unique *Internet Protocol* Addresses and Pages Delivered, Increases
Problem Insured Depository Institutions Are Re-Capitalized, Merged, Closed or Otherwise Resolved	Appropriate Enforcement or Other Supervisory Actions are Taken to Address Problems Identified During Insured Depository Institution Examinations. FDIC-supervised Insured Depository Institution Compliance with Formal and Informal Enforcement Actions is Monitored

1999 Outlook

The Supervision Program, Safety and Soundness area has two strategic goals that support the intended result of having safe and sound insured depository institutions. These strategic goals are in turn supported by a select group of annual performance goals that represent critical initiatives being carried out during 1999 in support of the Supervision Program, Safety and Soundness area. A detailed description of the strategies to be employed in pursuit of these initiatives is provided in the subsequent pages.

Off-site Monitoring

Off-site monitoring is an integral portion of the risk assessment program. It serves as an early warning system for identifying potential deterioration of an insured depository institution and helps to identify emerging risk areas or adverse trends in the banking industry. Off-site monitoring programs include evaluating the financial condition of insured depository institutions through data capture, analysis and review.

During 1999, the FDIC will use four off-site monitoring tools: Statistical CAMELS Off-site Rating (SCOR), the Growth Monitoring System (GMS), the Large Insured Depository Institution (LIDI) analysis, and the Billion Dollar Insured Depository Institution (BIDI) analysis. The SCOR and GMS are exception-based programs. When an insured depository institution shows a high probability of being downgraded to a "3", "4" or "5", an exception report will be generated by the SCOR system for that institution. The GMS system will generate an exception report when an insured depository institution experiences significant growth from quarter to quarter. These exception reports are reviewed, analyzed and appropriate follow-up action is taken as necessary.

The LIDI/BIDI analyses are performed quarterly to evaluate the financial condition of large holding companies and banking institutions that comprise approximately 80% of insured depository institution assets.

In the event that adverse trends are identified, appropriate follow-up action is taken which may include discussions with the other federal banking agencies and state authorities, institution management or on-going analysis of the institution may continue.

Revised Capital Standards

This is one of two interagency annual performance goals reflected in the 1999 Plan. The Federal Financial Institutions Examination Council (FFIEC) will be exploring the various alternatives for revising capital standards to account for increased risk resulting from changes in industry products and technology. During 1999, the FDIC, along with the three other federal banking agencies will continue to participate in the Capital Subcommittee of the Supervision Taskforce. Another member of the FFIEC, and a participant on the Capital Subcommittee, is the National Credit Union Administration that supervises federally insured credit unions. The Subcommittee will meet periodically to discuss and coordinate alternatives for revising the rules on capital regulations.

Safety and Soundness Examinations

The on-site safety and soundness examination of an FDIC-supervised insured depository institution is a critical portion of the supervisory framework that helps to promote stability and public confidence in the nation's banking industry. Examinations are conducted to assess a FDIC-supervised insured depository institution's overall financial condition, management practices and policies and compliance with applicable laws and regulations. Through the on-site safety and soundness examination, risks to FDIC-supervised insured depository institutions are identified and communicated to the institution's management and the board of directors. In the event weaknesses are detected, the FDIC takes appropriate action.

During 1999, the FDIC is scheduled to perform examinations of the insured state nonmember banks it supervises. The frequency of examinations is principally determined by factors including the institutions' rating, coordination with other federal banking agencies, statutory requirements and the FDIC's workload.

Year 2000 Readiness Assessments

The FDIC has created an interdivisional project team to deal exclusively with the potential problems relating to Year 2000 computer readiness, which could affect FDIC-supervised insured depository institutions. The project team communicates to these insured depository institutions, service providers and software vendors the need to address the risks associated with the failure to achieve Year 2000 computer readiness. In conjunction with the FFIEC, the project team participates 1) in development of interagency statements; 2) in providing industry guidance; 3) in issuing procedures to examination staff to ensure that FFIEC guidance is adapted to the examination process; and 4) in conducting outreach seminars and conferences designed to review and discuss FFIEC guidance papers and other Year 2000 issues.

By the end of the first quarter of 1999, the FDIC will perform 100% of the on-site Year 2000 readiness assessments for FDIC-supervised insured depository institutions and service providers and software vendors that FDIC is responsible for. Supervisory corrective programs will be implemented depending on the level of Year 2000 deficiencies.

Providing Institution Financial Data

Basic financial data, including performance and condition ratios, as well as demographic information such as location, charter type, holding company affiliation and deposit insurance fund membership information is available through FDIC's Web site via the Institution Directory System. This system allows users to access and download this information through a menu-driven interface that facilitates the identification and selection of individual insured depository institutions, as well as groups of institutions.

In 1999, the FDIC will focus its efforts on enhancing this data system so that financial data on insured depository institutions is more easily accessible and the use of the system increases. Specifically, an expanded array of information will be made available to include more detailed information on loans, foreign operations and securities holdings. In addition, the system capabilities will be expanded so that an individual user will be able to create a customized peer group.

Corrective Actions for Problem Institutions

Problem insured depository institutions are identified primarily through the examination process. These institutions generally operate in a weakened or an unsafe and unsound condition or with unsafe and unsound practices. The FDIC generally issues corrective actions to address weaknesses in problem FDIC-supervised insured depository institutions.

Once weaknesses are identified, the severity of the weaknesses or problems is assessed; the FDIC issues either an informal or formal corrective action. The FDIC primarily uses informal actions to correct less severe problems that do not present an immediate threat to an FDIC-supervised institution's viability and when it is believed that corrective action will be taken without formal actions. The FDIC uses formal actions to address unsafe and unsound banking practices, to correct violations of law, and to remove individuals that present an immediate threat to an insured depository institution's safety and soundness.

The FDIC will closely monitor a FDIC-supervised insured depository institution or an individual's compliance with outstanding formal or informal actions or both. Compliance with formal and informal enforcement actions is monitored through a review of responses to examinations and other supervisory correspondence, a review of any required progress reports, a review of reports prepared by state authorities, the conducting of subsequent examinations or visitations or both and other procedures as appropriate.

Strategic Goal Insured depository institutions appropriately manage risk, including risks posed by Y2K.

Annual Performance Goal For insured depository institutions, off-site reviews are performed on all SCOR and GMS exceptions and LIDI/BIDI reviews are conducted; appropriate follow-up course of action if any, for identified supervisory concerns is determined.

Means and Strategies Off-site monitoring is an integral part of the FDIC's risk assessment program. It facilitates pre-examination planning, it serves as an early warning (or indication) for potential deterioration of a specific institution and it helps identify macro issues. Existing monitoring systems, the Growth Monitoring System (GMS), Large Insured Depository Institution (LIDI) analysis, and Billion Dollar Insured Depository Institution (BIDI) analysis, are upgraded regularly and others are developed in response to changes in risks arising from evolving banking industry practices and technologies. An example of a new off-site tool is the Statistical CAMELS Off-site Rating or SCOR system that will generate off-site monitoring review lists. The Capital Assets Earnings and Liquidity or CAEL system is another off-site monitoring tool. CAEL will be replaced by the SCOR system in 1999 and will be fully phased out of operation by the end of the year. The off-site programs focus on evaluating the financial condition of insured depository institutions through data capture, analysis and review. Off-site program efforts also require data sharing with the other federal banking agencies and state authorities.

When an insured depository institution shows a high probability of being downgraded to a "3", "4" or "5", an exception report will be generated by the SCOR system for that institution. The GMS system will generate an exception report when an insured depository institution experiences significant growth or decline. These exception reports are reviewed and analyzed and appropriate follow-up action is taken as necessary. Follow-up actions may include discussions with the institutions' management or with the other federal banking agencies and state authorities or off-site analysis of the institution may continue.

The FDIC's regional Case Manager program was implemented in 1997 to accommodate changes in the banking industry. A Case Managers' duties include reviewing, analyzing, and processing insured depository institution applications and examination reports from the FDIC and the other federal banking agencies and state authorities. Case Managers also monitor the financial condition of the insured depository institutions for which they have primary responsibility. They are stationed in the FDIC's regional offices and evaluate each insured depository institution regularly.

The LIDI/BIDI analyses are performed quarterly to evaluate the financial condition and trends of large holding companies and the institutions that comprise approximately 80% of insured depository institution assets. Appropriate follow-up action is taken, if necessary, based upon concerns noted in the off-site analysis performed by the FDIC's Case Managers. Follow-up action may include discussions with FDIC-supervised insured depository institution's management or with the other federal banking agencies and state authorities or off-site analysis of the insured depository institution may continue.

The FDIC maintains high-quality financial condition statistics in order to conduct these in-depth analyses. To facilitate off-site analyses, the FDIC is redesigning or developing the Banking Information Tracking System (BITS) and the Structure Information Management System.

The FDIC staffing needs for off-site review functions are projected in conjunction with all supervision activities, and will consider industry trends, including projected insured depository institution mergers, asset growth rates, financial modernization, and economic conditions. Training needs will be assessed in light of the regulatory, competitive, and technological changes within the banking industry. Training will include formal class instruction, computer-based instruction and on-the-job training.

Verification and Validation

The FDIC reviews the exceptions on SCOR and GMS. Follow-up action on insured depository institutions considered a supervisory concern, as a result of reviewing the SCOR and GMS exceptions, is performed. LIDI/BIDI reviews and trends or other significant highlights noted in the LIDI/BIDI reviews are reported.

GMS exception reports are generated on the Extended Monitoring System in BITS. As part of the BITS redesign, SCOR exception reports will be maintained on the FDIC's Intranet. All reviews must be noted with action codes entered into the system. Also, each FDIC Division of Supervision Regional Director must certify on a quarterly basis that all exceptions were reviewed. The FDIC's Washington office receives and reviews signed copies of the exception reports from the Regional Directors. All LIDI reports are forwarded to the Washington office. Compliance with reporting requirements of BIDI and LIDI reviews will be assessed during Regional office Internal Control Reviews. The quality of the reports are reviewed in conjunction with the Internal Control Reviews.

Impact of External Factors

The performance of the economy at the international, national and regional levels affects the way the banking industry carries out its business strategies and may affect the industry's performance. Changes in the business cycle, interest rates, the rate of inflation and unemployment rates may influence the lending and funding strategies of insured depository institutions. Economic conditions can have a significant effect on the risk profiles of insured depository institutions that could in turn impact the number of SCOR and GMS exceptions.

Continued industry consolidation will require additional examination mechanisms and supervisory techniques to assess and monitor the increasingly complex financial institution conglomerates.

Strategic Goal Insured depository institutions appropriately manage risk, including risks posed by Y2K.

Annual Performance Goal In concert with the other federal banking agencies, and through the *Basle Committee on Banking Supervision*, with the other *G-10* countries, change the capital standards to better match them with risk exposures brought about by changes in the banking industry, advanced technologies and new products[3].

Means and Strategies The FFIEC has formed several taskforces to address uniform principles and standards including the taskforces on Consumer Compliance, Examiner Education, Reports and Supervision. The Supervision Taskforce encompasses all matters relating to the supervision and examination of insured depository institutions, including federally insured credit unions. The Supervision Taskforce has delegated subcommittees to address specific areas relating to examinations in order to promote quality and consistency in examination and supervisory practices.

During 1999, the FDIC, along with the OCC, FRB and OTS, will continue to participate in a Capital Subcommittee of the Supervision Taskforce. The Subcommittee will meet periodically to discuss and coordinate alternatives for revising the rules on capital regulations. Coordination among the federal banking agencies promotes the joint issuance of capital rules, which serve to reduce the regulatory burden on insured depository institutions through uniform capital treatments.

The Capital Subcommittee's strategies include exploring alternative capital treatments and measures for current and emerging financial products to uniformly capture the risk exposure to the insured depository institutions. Industry changes, advances in technology and new products impacting these institutions will be assessed to determine the appropriate capital treatment of these products to accurately reflect their inherent risk.

Verification and Validation The meetings of the Capital Subcommittee are summarized in the Current Projects List of the Supervision Taskforce. Discussions concerning new products, technologies and risks relating to potential capital treatments, regulations and revisions to existing capital standards will be summarized in the Current Projects Lists. The result of recommendations for

[3] This is an interagency crosscutting goal.

changing, identifying and uniformly assessing risk areas and measures affecting capital treatments will also be summarized.

Annual performance results will be verified against the achievements of the Capital Subcommittee's Report, as stated in the FFIEC's 1999 Annual Report.

Impact of External Factors

None are identified at this time.

Strategic Goal Insured depository institutions appropriately manage risk, including risks posed by Y2K.

Annual Performance Goal On-site safety and soundness examinations on FDIC-supervised insured depository institutions are performed in accordance with statutory requirements, FDIC policy and state agreements or as otherwise needed.

Means and Strategies The examination process is a critical part of the regulatory framework established to promote stability and public confidence in the nation's banking industry. Examinations are conducted to assess a FDIC-supervised insured depository institution's overall financial condition, management practices and policies and compliance with applicable regulations. If weaknesses are detected, the FDIC takes steps to ensure their correction.

The FDIC performs examinations of all FDIC-supervised insured depository institutions. In addition, the FDIC periodically participates with the other federal banking agencies in the examination of insured depository institutions that they supervise. In 1999, the FDIC's examination workload includes not only regularly scheduled examinations, but this workload also includes approximately 300 examinations that were projected to start in 1998 but were not commenced due to staffing constraints and the Year 2000 workload.

Examination programs include, but are not limited to, safety and soundness, including compliance with laws and regulations relating to safety and soundness; financial record keeping; trust operations; information systems; and securities dealer and transfer agent activities. The FDIC will continue to use and enhance examination procedures that focus on the adequacy of the institution's management reporting systems.

The FDIC continually evaluates and refines the examination process. Working with the other federal banking agencies and state authorities, the FDIC also develops procedures to address emerging risks, such as the Year 2000 computer problem. Current procedures use examination modules that focus on the adequacy of management reporting systems and the overall risk profile of the insured depository institution. The FDIC's pre-examination planning techniques use both public and proprietary information sources to appraise an institution's overall financial condition, to evaluate economic circumstances and to assess industry trends. This information is used to define the scope of the examination and to ensure that institution-specific risks are adequately reviewed.

The FDIC will use technological advances to improve the efficiency of examinations and the regulatory oversight of insured depository institutions, as exemplified by the development of the General Examination System. Technological advances such as imaging will also be used to improve the FDIC's operating efficiency. The FDIC will continue its efforts, both internally and with the other federal banking agencies, to leverage and improve existing statistical databases and management reporting systems. The FDIC will continue to implement recently developed computer technology such as the Scheduling Hours and Reporting Package, the Automated Loan Examination Review Tool and the Examination Documentation system.

Staffing needs will be projected in light of banking industry trends, including projected institution consolidations, asset growth rates, financial modernization and economic conditions. Staffing projections include an historic average attrition rate of 10% for examiners. Hiring will be through combined initiatives such as the FDIC's internal crossover program and internal merit-promotion posting, recruiting and the standard posting process. In addition, the FDIC will implement the Student Career Experience Program.

The FDIC will assess training needs in light of the regulatory, competitive and technological changes within the banking industry. Training will include formal class instruction, computer-based instruction and on-the-job training. The FDIC will use risk specialist experts to assist other examiners in analyzing complex transactions and activities. The training needs for newly hired employees have been factored in to the staffing projections.

Verification and Validation

The number of examinations started, provided by the FDIC's Regional offices will be compared to information from the Summary Analysis Examination Report (SAER) system.

The FDIC will perform 100% of examinations required by statutes, FDIC policy or state agreements. During 1999, it is projected that 2,928 examinations will be started but this number may change due to the number of FDIC-supervised insured depository institution mergers, closings, newly approved charters or other acceptable reasons. The number of examinations started and the number of examinations delinquent will be reported.

Impact of External Factors

The Year 2000 computer problem represents a considerable risk to the banking industry's safety and soundness. The FDIC and the other federal banking agencies have taken and will continue to take considerable steps to ensure that insured depository institutions promptly and adequately address the Year 2000 computer problem. The ability to meet the annual performance goal might be affected by increases in Year 2000-related work above the projected workload assumptions.

Economic conditions can have a significant effect on the risk profiles of insured depository institutions. An economic slowdown could have an adverse impact on the banking industry by slowing asset growth, increasing loan losses and impairing profitability. Increases in loan losses could result in an increase in the amount of time spent on an examination.

Industry consolidation presents both benefits and risks. While the risks to the deposit insurance funds are diminished because of the diversification benefits of consolidation (along both geographic and product lines), the concentration of deposits into fewer insured depository institutions increases the risks to the funds in the event one of these larger institutions fails. Industry consolidation could impact the number of required examinations, but could also require additional examination mechanisms and different supervisory techniques to assess and monitor the increasingly complex financial conglomerates.

Strategic Goal Insured depository institutions appropriately manage risk, including risks posed by Y2K.

Annual Performance Goal On-site Year 2000 readiness assessments are conducted to address testing, implementation and contingency planning for FDIC-supervised insured depository institutions, service providers and software vendors that the FDIC is responsible for, no later than 03/31/99. Appropriate follow-up action(s) is taken as needed[4].

Means and Strategies Given the importance and rapidly approaching deadlines associated with potential computer problems relating to the Year 2000, the FDIC has created an interdivisional project team dedicated solely to this issue. The project team is charged with apprising FDIC-supervised insured depository institutions, service providers and software vendors of the need to address the risks associated with the failure to achieve Year 2000 readiness. The project team 1) participates in the development of interagency statements, in conjunction with the FFIEC, to provide industry guidance; 2) issues procedures to examination staff to ensure that FFIEC guidance is adapted to the examination process; and 3) conducts outreach seminars and conferences designed to review and discuss FFIEC guidance papers and other Year 2000 issues.

The FDIC uses a schedule for on-site and off-site assessments to review Year 2000 readiness of FDIC-supervised insured depository institutions. The Year 2000 findings of the other federal banking agencies are reviewed to determine the potential impact on the deposit insurance funds. Year 2000 readiness is factored into composite and component ratings, supervisory risk factor assignments and into the consideration of applications filed by insured depository institutions. Supervisory corrective programs, both informal and formal, are implemented depending on the level of Year 2000 readiness deficiencies. Vendors of software products are also assessed to evaluate their Year 2000 readiness.

After March 1999, the FDIC will institute a risk-focused approach to performing follow-up contacts with FDIC-supervised insured depository institutions, service providers and software vendors. The type of contacts will be based on

[4] This annual goal focuses on Year 2000 readiness assessments for FDIC-supervised insured depository institutions. Although this is not an annual goal identified by the FFIEC, it is an initiative that is crosscutting amongst the Federal banking agencies and the NCUA.

the risk profile of the FDIC-supervised insured depository institution, service provider or software vendor. To confirm continuing successful progress towards being ready for the century date change, the FDIC plans to contact FDIC-supervised insured depository institutions, service providers and software vendors assessed as "Satisfactory" at least every 90 days. Also, at least every 90 days, the FDIC will conduct on-site assessments at FDIC-supervised insured depository institutions assessed as "Needs Improvement" or "Unsatisfactory".

During this time period of on-going follow-up contacts, the FDIC will continue to initiate supervisory corrective programs (such as informal or formal corrective actions) when necessary. During 1999, supervisory action is mandated for virtually all institutions assessed as "Needs Improvement" or "Unsatisfactory" as follows:

- For FDIC-supervised insured depository institutions assessed as "Needs Improvement", corrective actions that may include board resolutions or Memoranda of Understandings will be pursued.

- For FDIC-supervised insured depository institutions assessed as "Unsatisfactory", informal or formal corrective actions will be pursued.

The FDIC will supervise closely FDIC-supervised insured depository institutions, service providers and software vendors that are assessed as "Needs Improvement" or "Unsatisfactory" or that have supervisory corrective programs in place.

Verification and Validation

The FDIC's internal Year 2000 tracking system is used to monitor Year 2000 results. The FDIC will conduct 100% of the on-site Year 2000 readiness assessments for FDIC-supervised insured depository institutions, service providers and software vendors that the FDIC is responsible for by March 31, 1999. Reports will be provided which discuss follow-up action taken.

Impact of External Factors

None are identified at this time.

Strategic Goal Insured depository institutions appropriately manage risks, including risks posed by Y2K.

Annual Performance Goal The Institution Directory System is maintained and enhanced so that financial data on insured depository institutions is more easily accessible and the use of the System, as measured by unique *Internet Protocol* addresses and pages delivered, increases.

Means and Strategies The FDIC's Division of Research and Statistics, in coordination with the Division of Information Resources Management, designs and produces presentations of financial and demographic information for insured depository institutions that can be accessed through the FDIC's Web site. The Institution Directory (ID) system is utilized in this process.

The ID system provides basic financial data on all insured depository institutions, including performance and condition ratios, as well as demographic information such as location, charter type, holding company affiliation and insurance fund membership. The ID system allows users to access and download financial data through a menu-driven interface that facilitates the identification and selection of individual institutions, as well as groups of these institutions. The data elements in the ID system are updated on a monthly, quarterly or annual basis, depending on the nature and availability of the data. Because individuals are able to obtain this type of information and act on informed judgment, (for example, market participants may require certain insured depository institutions to pay a higher price to obtain funds) market discipline is enhanced.

The FDIC conducts several types of outreach programs throughout the year aimed at industry- and non industry-related audiences. The purpose of these outreach programs is to educate, inform and provide the audiences with reliable and consistent insured depository institution information and to demonstrate the usefulness of the ID system. Many outreach program participants, including bankers, industry analysts, financial reporters, state authorities and other interested parties benefit from the information contained in the Institution Directory System.

In 1999, the ID system will be enhanced in two ways. The system will be enhanced to include expanded data elements with detailed information on loans, foreign operations and securities holdings. Also, user capabilities will be expanded to allow an individual to create a customized peer group.

Verification and Validation

The FDIC monitors the effectiveness of the System by tracking various types in Internet-related statistics and the ID system's overall "user-friendliness." Several key statistics that are monitored include the number of logical pages delivered, the number of unique Internet Protocol addresses that access the ID system (measures the number of unique users), the number of external users and the number of users with the FDIC. These statistics are monitored regularly and provide a measure of system performance and provide information on how quickly customers receive their desired information.

E-mail access is provided within the ID system to report possible system problems and to facilitate consumer opinions and recommendations regarding the ID system and its enhancements. The FDIC's outreach program discussed above provides a forum for information exchange with the system's external users. The FDIC also consults regularly with other federal banking agencies, banker groups, state authorities and other interested parties concerning the usefulness of the ID system.

Impact of External Factors

None are identified at this time.

Strategic Goal Problem insured depository institutions are recapitalized, merged, closed or otherwise resolved.

Annual Performance Goal Appropriate enforcement or other supervisory actions are taken to address problems identified during insured depository institution examinations. FDIC-supervised insured depository institution compliance with formal and informal enforcement actions is monitored.

Means and Strategies Problem insured depository institutions are identified primarily through the examination process. These institutions generally operate in a weakened or an unsafe and unsound condition or with unsafe and unsound practices. The FDIC generally issues corrective actions to address weaknesses in problem FDIC-supervised insured depository institutions.

Most corrective actions are initiated as a result of facts gathered during the examination process. While reason and moral suasion are the primary corrective tools, the FDIC has been granted broad enforcement powers to correct practices, conditions or violations of law that threaten an insured depository institution's safety and soundness. Depending on the extent and severity of the identified problems, the FDIC may initiate informal or formal actions.

The FDIC generally uses informal actions to correct less severe problems that do not present an immediate threat to an FDIC-supervised insured depository institution's viability and when it is believed that corrective action will be taken without formal actions. Informal actions generally consist of voluntary commitments made by an insured depository institution's board of directors to correct identified problems. These may be unilateral commitments or commitments entered into jointly with the other federal banking agencies or state authorities or both.

The FDIC generally uses formal actions to address unsafe and unsound practices, to correct violations of law and to remove individuals that present an immediate threat to an insured depository institution's safety and soundness. Formal actions also can be pursued in the event an informal action proves to be ineffective in securing necessary corrective action. Formal actions are notices and orders issued against insured depository institutions and individuals. Compliance with these actions can be compelled through various legal remedies.

The FDIC closely monitors a FDIC-supervised insured depository institution or an individual's compliance with formal or informal actions or both. FDIC-supervised insured depository institution compliance with formal and informal enforcement actions is monitored through review of responses to examinations and other supervisory correspondence, review of any required progress reports, review of reports prepared by state authorities, the conducting of subsequent examinations or visitations or both and other procedures as appropriate.

Verification and Validation Monthly reports of problem institutions are system generated from the SAER database and are reviewed each month for accuracy before completion.

Through the Regional Office Internal Control Review program, the FDIC's Division of Supervision ensures that the regions are monitoring FDIC-supervised insured depository institution compliance with formal and informal enforcement actions. This review incorporates various components of the supervisory process, including assessment of the appropriateness, implementation and follow-up of formal and informal corrective actions.

The program is conducted on a sampling basis and uses standardized questions. The results of the review are discussed with management and appropriately documented. To achieve this goal, no material exceptions should be noted during the Regional Office Internal Control Reviews. In the event that material exceptions are noted, the scope of the review is expanded.

Impact of External Factors None are identified at this time.

Supervision Program: Consumer Rights

Strategic Goals and 1999 Annual Performance Goals

Strategic Goals	1999 Annual Performance Goals
Consumers Have Access to Easily Understood Information About Their Rights and the Disclosures Due Them Under Consumer Protection and Fair Lending Laws	Data is Gathered to Determine Whether Those Consumers Who Have Received Responses from the FDIC Regarding Their Complaints and Inquiries Are Satisfied and Understand Their Rights
	Data is Gathered to Determine What Changes in Community Development Activities and New Banking Relationships Result from FDIC Outreach Efforts
FDIC-Supervised Financial Institutions Comply With Consumer Protection, CRA, and Fair Lending Laws	On-Site CRA, Consumer Protection, and Fair Lending Law Compliance Examinations of FDIC-Supervised Insured Depository Institutions are Conducted Per Board Policy; Changes in Compliance Ratings of FDIC-Supervised Insured Depository Institutions are Monitored
	Uniform Guidance is Developed and Disseminated to Insured Depository Institutions Regarding Electronic Banking to Include Emerging Consumer Protection, Fair Lending and CRA Matters
	Corrective Actions are Taken, if Appropriate, to Address Problems Identified During Compliance Examinations; Compliance With Those Actions is Monitored

1999 Outlook

The Supervision Program, Consumer Rights desired strategic result is that consumers' rights are protected and FDIC-supervised institutions invest in their communities.

In order to achieve this strategic result, the FDIC has two strategic goals which consist of 1) consumers have access to easily understood information about their rights and the appropriate disclosures due them under consumer protection and Fair Lending laws and 2) FDIC-supervised depository institutions comply with consumer protection, *Community Reinvestment Act* of 1977 (CRA), and Fair Lending laws. During 1999, the FDIC has adopted six annual performance goals, which help the Corporation to achieve these strategic goals.

The following is an executive summary of the key areas of focus for the FDIC in the Supervision Program, Consumer Rights area for the coming year. A detailed description of the strategies to be employed in pursuit of these initiatives is provided in the subsequent pages.

Consumer Complaints and Inquiries

The FDIC provides informational materials for insured depository institutions and consumers through various media. The FDIC delivers deposit insurance and consumer protection information to insured depository institutions and consumers through the toll-free Consumer Affairs Call Center. Consumers and insured depository institution staff may call to request guidance, answers to questions about consumer protection rules and to express complaints regarding institution-related matters. The FDIC also provides informational materials through the Internet as a tool for the public to learn about consumer protection rules and the banking industry.

The FDIC's complaint and inquiry function plays an important role in providing consumer information to FDIC-supervised insured depository institutions and the public. The FDIC analyzes the response rate to complaints and inquiries to determine if customers are receiving responses within timeframes established by policy. During 1999, the FDIC will gather data to determine whether customers are satisfied with the responses they receive to their complaints and inquiries and understand their rights.

Community Outreach

The FDIC conducts outreach activities for community groups and FDIC-supervised insured depository institutions to promote community and economic development; increase knowledge of CRA regulations and Fair Lending laws, enhance lending, investment, and service performance; and assist these institutions in developing strategies to respond to identified credit, investment and service opportunities.

During 1999, the FDIC will focus on the following initiatives:

- Institutionalizing a national community affairs outreach program, and
- Participating, as part of an interagency initiative, in assessing the impact of the revised CRA regulations

Compliance Examinations

The FDIC determines whether FDIC-supervised insured depository institutions understand and comply with consumer protection, CRA regulations and Fair Lending laws by conducting compliance and CRA examinations, Fair Lending and other investigations, periodic visitations to the institution and interim monitoring of FDIC-supervised insured depository institutions.

During 1999, the FDIC is scheduled to conduct on-site compliance and CRA examinations of FDIC-supervised insured depository institutions according to an agreed upon schedule. The frequency of on-site examinations is determined by the institution's compliance and CRA ratings, coordination with the other federal banking agencies, Board policy and FDIC workload.

In 1999, the FDIC will continue to publish a quarterly list of FDIC-supervised insured depository institutions scheduled for examination to facilitate consumer and community organization input into the CRA examination process. The FDIC publishes an updated listing of FDIC-supervised insured depository institutions examined for CRA with their associated CRA ratings on a monthly basis.

Also during 1999, the FDIC will monitor the number of compliance and CRA exams conducted and any resulting ratings migration. The FDIC will take appropriate follow-up action as necessary.

Electronic Banking

The FFIEC Electronic Banking Subcommittee assists in the development of uniform policies, principles and standards associated with the implementation of the consumer protection and Fair Lending laws as they relate to emerging electronic banking technology.

During 1999, the Subcommittee will work to understand changes in technology, market attitudes about the evolving technology and insured depository institution electronic banking products and services. Based on an analysis of various information and trends in consumer complaint and inquiry data, the Subcommittee establishes common goals relating to consumer protection and compliance. Also, the Subcommittee will publish informational materials on electronic banking for the industry and general public.

The Subcommittee will review the consumer protection and Fair Lending laws to determine their currency as they relate to electronic banking. Reports are prepared and recommendations are made on the need for new or revised legislation or regulations, compliance examination policy or industry guidance.

Compliance Enforcement Actions

If FDIC-supervised insured depository institutions are found to be in substantive violation of consumer protection laws and regulations, enforcement actions will be taken, as necessary. A range of informal and formal enforcement actions is available to correct violations of laws and regulations and to deter recurrence. Trend analysis can be performed to determine if these institutions are improving their compliance posture.

During 1999, on-site compliance and CRA examinations will be conducted to determine that FDIC-supervised insured depository institutions are complying with consumer protection, Fair Lending laws and CRA regulations. In the event that substantive noncompliance with applicable laws and regulations is determined, an appropriate formal or informal action will be taken. The corrective actions taken by the institution and the extent of compliance with outstanding formal and informal actions will be monitored during 1999.

Strategic Goal Consumers have access to easily understood information about their rights and the disclosures due them under consumer protection and Fair Lending laws.

Annual Performance Goal Data is gathered to determine whether those consumers who have received responses from the FDIC regarding their complaints and inquiries are satisfied and understand their rights.

Means and Strategies The FDIC provides informational materials for insured depository institutions and consumers that are disseminated through various media. A primary tool used by the FDIC to deliver consumer protection information to insured depository institutions and consumers is the toll-free Consumer Affairs Call Center. The Call Center provides recorded information 24 hours a day, seven days a week. Consumers and insured depository institution staff may call to request guidance, answers to questions about consumer protection rules and to express complaints about institution matters. Written complaints and inquiries are received and responded to on the same issues. The FDIC also provides informational material through its Web site as a tool for the public to learn about consumer protection rules and the banking industry. Statistical information is reviewed periodically to determine how frequently consumer information located on the FDIC Web site is accessed.

The FDIC's complaint and inquiry function plays an important role in providing consumer information to FDIC-supervised insured depository institutions and the public. The FDIC will analyze the response rate to complaints and inquiries to determine if customers are receiving responses within timeframes established by policy.

Although customer satisfaction is not a measure of response accuracy, it is important to know whether or not customers are satisfied with the responses they receive. During 1999, the FDIC will develop a methodology for evaluating if customers are satisfied with the responses they receive to their complaints and inquiries. The FDIC will develop a customer survey to be distributed along with a percentage of the responses. The FDIC will analyze the results of the survey and the response rate to determine if customers are satisfied with the responses that they receive.

In order to better position the consumer affairs function to respond effectively to the volatility of shifting workloads in the credit card industry due to industry consolidation, the FDIC has proposed transferring responsibility for the day-to-day administration of both written and telephone complaints and inquiries relating to credit card specialty banks to a centralized facility. The proposal will enhance FDIC operations by improving the quality of customer service, providing consistent responses to the public in regard to credit card issues and increasing the effectiveness and efficiency of its operations. Implementation is expected to conclude late in 1999.

During 1999, the FDIC will support the continual development of the consumer affairs staff promoting consistency among the Washington and Regional offices, identifying and addressing emerging issues, and sharing best practices. The FDIC will pursue obtaining contractor support in the consumer affairs area to address increases in consumer correspondence, credit card inquiries and Year 2000 consumer education efforts. The additional support will allow the FDIC to respond to these issues in a timelier manner. Analyzing surveys that are sent with responses will help determine if a quicker turnaround time in the response rate increases the satisfaction level of customers. The FDIC plans to use current vacancies and hire five contract employees to implement the credit card centralization strategy and improve responsiveness to consumers.

The FDIC works with other federal banking agencies and consumer affairs staff to resolve consumer complaints and inquiries, and to develop trend analyses and tracking/coding systems to assist in the analysis and reporting of complaints registered with the FDIC.

Key information technology strategies include development and implementation of a new automated system for responding to consumer complaints and inquiries and enhancing data capture and management reporting capabilities. Initiatives also include improving operations of the FDIC's toll-free Consumer Affairs Call Center in the Washington Office, such as updated pre-recorded information and improved access to deposit insurance specialists.

Development and implementation of new internal systems, such as the Specialized Tracking and Reporting System (STARS) will have an impact on FDIC operations. Incoming calls will automatically start a STARS record while the caller is being helped through 'telephony' technology. Written correspondence will be scanned in to the System. Once implemented, STARS will become the system of record for complaints and inquiries and will allow more accurate reporting of data. Responses to complaints and inquiries received via the FDIC's Web site will be more efficient once STARS is implemented.

Verification and Validation To be determined once the methodology used to measure achievement against the annual performance goal is developed. It is assumed that timeliness in providing responses is essential to customer satisfaction so monitoring of response rates will be part of this methodology.

Impact of External Factors If there is substantial public interest in the status of FDIC-supervised insured depository institutions' readiness for the Year 2000 date change, there could be a substantial increase in the volume of consumer inquiries on this issue. In such cases, consumer affairs resources would have to be reallocated from other initiatives to ensure that consumers receive timely responses or customer satisfaction would be expected to decline.

Strategic Goal Consumers have access to easily understood information about their rights and the disclosures due them under consumer protection and Fair Lending laws.

Annual Performance Goal Data is gathered to determine what changes in community development activities and new banking relationships result from FDIC outreach efforts.

Means and Strategies The FDIC conducts outreach activities to community-based organizations and FDIC-supervised insured depository institutions, either individually or in conjunction with other government agencies or public/private organizations. The activities are designed to promote community and economic development, increase knowledge of CRA regulations and Fair Lending laws, enhance lending, investment and service performance and assist FDIC-supervised insured depository institutions in developing strategies to respond to credit, investment and service opportunities.

The FDIC will focus its outreach activities to emphasize 1) partnership building between FDIC-supervised insured depository institutions and community-based organizations; 2) promotion and consistent application of the principles of CRA and Fair Lending; 3) involvement in the development of broad policies related to CRA, community development, and Fair Lending; and 4) partnership opportunities available to FDIC-supervised insured depository institutions in community and economic development. The FDIC will also participate, as part of an interagency initiative, in assessing the impact of the revised CRA regulation five years after its July 1, 1997, full implementation date.

At present, the FDIC does not have a formal methodology either for evaluating changes in community development activities or for evaluating changes in new FDIC-supervised insured depository relationships on a macro level. During 1999, FDIC will explore analyzing aggregate loan and economic data to determine improvements in community development and institution relationships. It is anticipated that identification of successful individual FDIC-supervised insured depository institution and community partnerships will continue to be an important ingredient for assessing achievement against this annual performance goal.

A guide entitled, *Mortgage Loan Pre-qualifications:*

Applications or Not?, is available through the FDIC's Web site. This guide is designed to help FDIC-supervised insured depository institutions comply with the regulations promulgated under the *Equal Credit Opportunity Act* and the *Home Mortgage Disclosure Act* and to answer questions about mortgage loan pre-qualification programs. In addition, this guide will help these institutions minimize technical and substantive violations commonly encountered in routine compliance examinations. The FDIC's revised guide entitled, *SIDE-BY-SIDE: A Guide to Fair Lending,* is also available through its Web site. *SIDE-BY-SIDE* offers suggestions on how a FDIC-supervised insured depository institution can compare its treatment of loan applicants through a self-assessment, which can help to prevent and detect discrimination.

The FDIC will support the continual development of the community affairs staff to ensure that these individuals have the technical knowledge, interpersonal skills and facilitation skills necessary to perform their role. Training priorities will include 1) clarifying interpretations of CRA regulations and Fair Lending laws; 2) gaining greater expertise in Fair Lending analyses and community and economic development; 3) sharing information on community development activities; and 4) reaching consensus on the most effective ways to support the examination process through training and technical assistance.

The FDIC will continue to evaluate ways in which automation can be used to better address changes in the FDIC-supervised insured depository institution environment, which affect community groups and outreach efforts. Automation efforts currently underway focus on supporting an exchange of documents and information with FDIC-supervised insured depository institutions and community affairs groups. The FDIC also is the lead federal banking agency in an interagency effort to develop a shared Community Contact database. The database will provide the federal banking agencies with more efficient access to information about contacts made with community-based organizations. This system will use secure Extranet technology to put community contacts information in the hands of examiners in a timely fashion.

Verification and Validation To be determined once the methodology used to measure the changes in community development activities and new FDIC-supervised insured depository institution relationships is developed.

Impact of External Factors Changes in the economy that result in a general tightening of credit would adversely affect achievement of this annual performance goal. New legislation or technological developments or both could affect the FDIC's outreach program by creating the need for increased outreach activities and distribution of informational and educational materials.

Strategic Goal FDIC-supervised financial institutions comply with consumer protection, CRA and Fair Lending laws.

Annual Performance Goal On-site CRA, consumer protection, and Fair Lending law compliance examinations of FDIC-supervised insured depository institutions are conducted per Board policy; changes in compliance ratings of FDIC-supervised insured depository institutions are monitored.

Means and Strategies The FDIC determines whether FDIC-supervised insured depository institutions understand and comply with consumer protection, Fair Lending laws, and CRA regulations. The FDIC accomplishes this by conducting compliance and CRA examinations, Fair Lending and other investigations, periodic visitations and interim monitoring of FDIC-supervised insured depository institutions. Rapid developments in electronic banking are expected to result in significant changes in the banking industry. FDIC policy requires that on-site compliance and CRA examinations generally be conducted every 3 years, with more frequent examinations and follow-up for larger FDIC-supervised insured depository institutions or those identified as problems. During 1999, the FDIC will closely monitor the number of compliance and CRA examinations that are conducted and monitor any resulting ratings migration.

The Federal Financial Institutions Examination Council (FFIEC) Taskforce on Consumer Compliance is developing uniform interagency compliance examination procedures that will incorporate changes to the consumer protection regulations in response to electronic banking developments. The FDIC is also striving to have remote access and enhanced data transmission capabilities to promote data sharing between FDIC-supervised insured depository institutions and the FDIC in ways that may enable self-assessment and improve compliance.

Pursuant to the recent amendments to the CRA regulations, the FDIC publishes a quarterly list of FDIC-supervised insured depository institutions scheduled for examination to facilitate consumer and community organization input into the CRA examination process. The FDIC publishes a monthly updated listing of the FDIC-supervised insured depository institutions examined for CRA with their associated CRA ratings.

The FDIC plans to maintain its authorized compliance examination staffing level and will hire staff to offset attrition so it can handle its compliance examination workload. This workload is based on projected productivity improvements (reduced average hours per exam) and the decline in the number of FDIC-supervised insured depository institutions subject to examination. Staffing excesses will be managed through attrition; staffing shortages will be managed through new internal and limited external hiring or by managing the exam delinquency rate if shortages appear temporary. Although the total number of authorized staff will remain constant throughout this period, the FDIC will review its staffing and Field Office placement and may reallocate vacancies among the FDIC's Regional Offices in conjunction with industry consolidation.

During 1999, the number of annual compliance and CRA examinations will increase, as the FDIC's examiner workforce becomes fully trained and more experienced with new examination procedures. The years 1999 and 2000 will be devoted to providing crossover candidates and new hires formal training, on the job training and coaching, as necessary, to become commissioned compliance examiners. The examiner force will continue to be provided with the technical and automation training necessary to improve overall examiner productivity.

The FDIC will increasingly rely on distance-learning centers (to be available in all of the FDIC's Regional Offices) as a means for timely sharing of information and solutions. Multi-media products such as CD-ROM and computer-based instruction will also be used to improve the distribution of training programs to staff.

Automation will continue to impact our examination functions and allow us to complete our work more efficiently. The FDIC plans to continue to develop enhanced automated tools to support the compliance examination responsibilities of its examiners. Enhancements include remote access and data transmission capabilities for the laptop computers used by examiners, automated compliance tools and easier and more efficient ways to access, analyze, and report information and exam data for both internal and external purposes. The FDIC will share technology with banks and their service providers to promote a common goal of compliance with CRA regulations, consumer protection and Fair Lending laws and to enable self-assessments. Enhancements to key examination software applications, such as data mapping software, will continue.

Verification and Validation

To verify and validate performance data, the FDIC will analyze data collected in the Compliance Statistical System (CSS) to determine if targeted performance levels were achieved during the reporting period. CSS is the primary system of record for capturing and reporting data on the FDIC's compliance examination activities. Information is entered into CSS by Regional and Field Office staff. Data is then downloaded and analyzed by staff. During the analysis, the FDIC performs checks of reasonableness on the data being reported. More important, however, in maintaining the integrity of CSS data are the system edit checks and data field requirements. These system features were designed to greatly reduce capturing inaccurate or illogical data.

Periodically, during system testing and internal control reviews, additional efforts will be made to determine if existing data verification and validation procedures and controls remain adequate.

Impact of External Factors

The Corporation is preparing contingency plans and is anticipating that compliance examination staff may be called upon to assist in the resolution of problems the Year 2000 issue may cause. This may potentially impact the FDIC's ability to achieve its compliance and CRA examination activity targets in the short term.

Strategic Goal FDIC-supervised financial institutions comply with consumer protection, CRA, and Fair Lending laws.

Annual Performance Goal Uniform guidance is developed and disseminated to insured depository institutions regarding electronic banking to include emerging consumer protection, Fair Lending, and CRA matters.[5]

Means and Strategies The consumer compliance regulatory environment is studied by the FFIEC's Electronic Banking Subcommittee to determine which consumer regulation provisions may be affected by electronic banking developments, and whether consumer regulations need to be revised or guidance provided to enhance the banking industry's use of emerging technology while maintaining appropriate levels of consumer protection. The results of the Subcommittee's work are reported to the FFIEC's Taskforce on Consumer Compliance.

In order to maintain the currency of agency and insured depository institution compliance programs based on any changes to the consumer regulations, the Electronic Banking Subcommittee coordinates with other subcommittees under the FFIEC Taskforce. The Examination Procedures Subcommittee updates compliance examination procedures for consumer regulation changes already made by the Federal Reserve Board.

The use of automation and consumer compliance information sharing is further enhanced through the FFIEC's Automation Subcommittee. This Subcommittee maintains the CRA Ratings Search Database. CRA examination ratings and other data are collected and the database is updated quarterly. The federal banking agencies' compliance staffs via an Extranet will share the FDIC's Community Contacts Database.

Verification and Validation Interagency working groups will review individual federal banking agency guidance to determine consistency.

Impact of External Factors The continuation of developments in electronic banking could make coordination among federal banking agencies more difficult.

[5] This is an interagency crosscutting goal.

Strategic Goal	FDIC-supervised financial institutions comply with consumer protection, CRA and Fair Lending laws.
Annual Performance Goal	Corrective actions are taken, if appropriate, to address problems identified during compliance examinations; compliance with those actions is monitored.
Means and Strategies	If FDIC-supervised insured depository institutions are found to be in substantive violation of consumer protection laws and regulations, enforcement actions will be taken, as necessary. A range of other informal and formal enforcement actions is available to correct violations of CRA regulations, consumer protection, and Fair Lending laws, and to deter recurrence. Trend analysis will be performed to determine if FDIC-supervised insured depository institutions are improving their compliance posture.
Verification and Validation	The Formal and Informal Action Tracking (FIAT) system is the system of record for monitoring all enforcement action activity. The FDIC's system administrators, prior to the generation of quarter-end reports, will validate the overall integrity of the system each quarter. Many of the system-generated reports are specifically designed to detect data integrity errors.
Impact of External Factors	A deteriorating economy might result in FDIC-supervised insured depository institutions providing less attention to compliance matters.

RECEIVERSHIP MANAGEMENT PROGRAM

Program Description

The strategic result of the Receivership Management Program is to ensure that recovery to creditors of receiverships is achieved. The FDIC is proactive in identifying troubled insured depository institutions and begins its resolution efforts, such as valuing assets and identifying potential purchasers of these institutions, before the institutions fail. The FDIC also is prepared to place failed insured depository institutions into receivership status, i.e., a legal process that creates a new entity to replace the failed institution and allows the FDIC to resolve issues quickly.

As receiver, the FDIC succeeds to the rights, powers, and privileges of the insured depository institution and its stockholders, officers and directors. Once the insured depository institution is placed in receivership status, the FDIC assumes several important custodial roles in order to recover creditor funds. These roles include managing and selling assets through a variety of strategies, identifying and seeking monies due to the receivership, and paying the debts of the receivership through the funds it recovers.

In addition to the other receivership management processes, the FDIC administers the FSLIC Resolution Fund, representing two pools of assets and obligations arising from the operations of the former Federal Savings and Loan Insurance Corporation (FSLIC) and the former Resolution Trust Corporation.

Resource Requirements

Below are the budgeted dollars aggregated by strategic goal within the Receivership Management Program. The inclusion of budgeted dollars reflects the level of funding dedicated to the achievement of the strategic goals and includes but is not limited to the amount of resources required to achieve the annual performance goals within the Receivership Management Program.

Strategic Goal -- Failing insured depository institutions are resolved in the least-costly manner in accordance with law.	$19.5 million
Strategic Goal – Receivership assets are managed and marketed to maximize net return.	$312.1 million

Strategic Goal – Professional liability and other claims of the receivership are pursued in a fair and cost effective manner.	$44.5 million
Strategic Goal – Receivership claims and other liabilities are resolved in a fair and cost effective manner.	$19.3 million
TOTAL for Receivership Management Program	**$395.4 million**

Receivership Management Program

Strategic Goals and 1999 Annual Performance Goals

Strategic Goals	1999 Annual Performance Goals
Failing Insured Depository Institutions Are Resolved in the Least-Costly Manner in Accordance With Law	An Analysis is Completed of Possible Tools Used to Validate Valuation Assumptions Employed in the AVR Process, the Least Cost Test and in the Design of Resolution Structures
Receivership Assets are Managed and Marketed to Maximize Net Return	Achieve $549 Million in Cash Collections
	Achieve $642 Million in Book Value Reductions
	The Real Estate Tax Appeal Process is Monitored and the Recovery of Previous Payments of Real Estate Tax Penalties Related to FDIC-Owned Real Estate is Pursued Where Appropriate
Professional Liability and Other Claims of the Receivership are Pursued in a Fair and Cost Effective Manner	Investigations are Conducted Into all Potential Professional Liability Claim Areas in all Failed Insured Depository Institutions and a Decision to Close or Pursue Each Claim Will be Made Within 18 Months After the Failure Date in 80% of all Institutions
	No Delays in Moving Pending Claims Court Goodwill Cases to Trial are FDIC Necessitated, and None are FDIC Initiated Unless the FDIC Concludes That it is Reasonable to Expect That the Case can be Resolved at a Substantially Lower Cost to the FDIC if its Trial is Delayed
Receivership Claims and other Liabilities are Resolved in a Fair and Cost Effective Manner	Fifty Percent (50%) of the Non-Asset Defensive Litigation Cases in Inventory as of 01/01/99 are Resolved Through Negotiated Settlement or Completed Litigation

1999 Outlook

To ensure that recovery to creditors is achieved, the FDIC focuses its Receivership Management efforts on four areas: resolving failing insured depository institutions in the least-costly manner, managing and marketing failed insured depository institution assets to maximize return, pursuing monies due to the failed institution and resolving the debts of the institution fairly.

The following represents an executive summary of the key areas of focus for the FDIC in the Receivership Management Program for the coming year. A detailed description of the strategies to be employed in pursuit of these initiatives is provided in the subsequent pages.

Asset Valuation

In 1999, the FDIC will analyze and improve the process of valuing assets and liabilities of failed insured depository institutions. This process will involve verifying, and if necessary, updating assumptions associated with calculating overhead expense estimates. The effort to verify and update expense estimates is to be coordinated with a concurrent, but related effort to develop new allocation and recovery procedures.

Furthermore, an automated system is being created to help validate and improve the method of valuing assets and liabilities. In addition, the FDIC will continue to improve its "least cost model" used to ensure that a failed insured depository institution is resolved in the least costly manner.

Asset Disposition and Sales

During 1999, the FDIC will achieve cash collections and book value reductions of $549 million and $649 million, respectively, through the sales and the collection of cash from the efforts to liquidate failed insured depository institution assets.

Recovery of Tax Penalty Payments

Although not considered critical to the achievement of its mission, the FDIC has identified one material control weakness relating to the monitoring of property taxes on receivership assets. An action plan for correcting the Office of Inspector General audit weakness has been developed and its completion will be monitored via the FDIC's Annual Performance Plan. During 1999, the FDIC will pursue efforts to recover tax penalty payments and special assessments paid by the FDIC and the former Resolution Trust Corporation. Since these payments were made erroneously, the FDIC is monitoring the recovery of the funds and will conduct litigation where necessary.

Receivership Claims

FDIC attorneys and investigators will pursue receivership claims within 18 months of the failure date in 80% of failed insured depository institutions. FDIC staff will do much of this work in order to increase the cost-effectiveness of pursing these claims. In addition, the use of document imaging and other litigation support technology will be used to help reduce costs associated with pursuing these claims.

Goodwill and Non-Asset Defensive Litigation

The FDIC will seek to move pending Claims Court Goodwill cases to trial without delay. The non-asset defensive litigation (NADL) caseload will be reduced by half in 1999. Where possible this work will be performed by FDIC staff to increase the cost effectiveness of NADL. In addition, the use of document imaging and other litigation support technology will be explored to help FDIC staff manage this additional work.

Strategic Goal Failing insured depository institutions are resolved in the least-costly manner in accordance with law.

Annual Performance Goal An analysis is completed of possible tools used to validate valuation assumptions employed in the AVR process, the least cost test and in the design of resolution structures.

Means and Strategies The FDIC will continue to improve upon its process for assessing and evaluating assets and liabilities. The FDIC prepares information packages and asset valuation reviews (AVR) for each failing insured depository institution. As part of the valuation process, the FDIC will continue to update and maintain the overhead expense estimates that are used in the valuation process. This will be coordinated along with the new allocation and recovery procedures being developed by the Allocation and Recovery Taskforce. The FDIC also plans to establish the Assumptions Validations/Improvement System (AVIS) to validate or improve asset valuation assumptions. A Standard Asset Valuation Estimation (SAVE) policy users group will be formed to oversee the full implementation and maintenance of the Corporation's standard asset valuation methodology.

With regard to the least cost test models, the FDIC plans to update and maintain an AVR-related replacement research model and plans to improve the least cost test model by incorporating valuation confidence intervals to enhance point estimates, complete a bid matrix model, update the policy and procedures and initiate a review of all the assumptions and cost factors utilized in the model. The FDIC will continue to use the least cost test model prior to resolution using financial information contained in the AVR to insure that the failing insured depository institution is resolved in the least costly manner.

The FDIC will continue to develop and conduct training classes on preparing information packages and asset valuation reviews using the Risk Analysis and Value Estimation System (RAVEN), and will continue to provide technological support through the RAVEN helpdesk and user manuals.

Verification and Validation Verify by completion of Corporate Operating Plan System project #DI-CRP-05-02-97-750.

Impact of External Factors

Changes in the economy and Year 2000 issues could have an effect on FDIC's ability to develop, refine and implement resolution procedures. The current condition of the U.S. economy has had a positive influence on the banking industry. The number of insured depository institution failures has been low and little intervention has been required on behalf of the FDIC. This has allowed the FDIC to focus its human resources on other needs, such as improving the failed insured depository institution resolution process. However, should the current economic situation worsen or insured depository institutions fail to address the Year 2000 concerns or both, and as a result the number of insured depository institution failures increases dramatically, the FDIC would have to reallocate resources away from studies that look at improving the resolution process to actually performing resolution, receivership management and asset disposition functions.

Strategic Goal Receivership assets are managed and marketed to maximize net return.

Annual Performance Goal Achieve $549 million in cash collections.

Means and Strategies For specific asset disposition and asset marketing decisions, the Standard Asset Valuation Estimation (SAVE) methodology will be employed, where practicable. The SAVE methodology uses Corporate-wide, common methodologies with respect to asset valuation. The FDIC will continue to reduce the inventory of receivership assets managed by the FDIC and maximize cash collections from the disposition of these assets.

In this regard, the FDIC will continue to develop and revise policies and procedures related to the sale of assets. This includes the revision of marketing related policies and procedures set forth in the FDIC's Asset Disposition Manual, the development of specific procedures for the joint asset marketing sales and the development and maintenance of the FDIC's Standard Sales Documents.

The FDIC will continue to focus on the disposition of high-risk assets, subsidiaries and related assets and the affordable housing inventory. The FDIC plans to reduce the balance of these asset pools by 50%, 75% and 90%, respectively.

Verification and Validation The asset collections and disposition measures are tracked through the FDIC's Financial Information Management System (FIMS), a general ledger system, and through the National Processing System (NPS).

The target for cash collections for 1999 is significantly less than the targets for 1998 and 1997. This decrease corresponds to the significantly lower level of assets in FDIC's inventory. The target each year is dependent upon the volume of assets remaining to be disposed of, the types of assets remaining in the pool and the complexity of the receivership assets in the pool. In addition, the numeric goal is based on the application of historical recovery rates and factored in the asset composition, market assumptions, and anticipated volume of any further bank closings. Over the past several years, the dollar volume of assets remaining to be liquidated has decreased significantly. In addition, the types of assets remaining in the asset pool typically tend to be the more complex and harder-to-liquidate assets.

Impact of External Factors Changes in the economy and the Year 2000 problem could have an impact on our ability to develop, refine and implement our asset disposition strategies. For example, should the number of insured depository institution failures increase significantly, current staffing may be insufficient to handle the continued disposition of the remaining assets in inventory.

Strategic Goal Receivership assets are managed and marketed to maximize net return.

Annual Performance Goal Achieve $642 million in book value reductions.

Means and Strategies At inception and during the life of a receivership, all assets of the receivership will be inventoried and balanced to the receivership's general ledger. As with pre-closing activity, most receivership assets will be valued using the SAVE methodology in support of various decisions and financial reporting requirements.

For specific asset disposition and asset marketing decisions, the SAVE methodology will be employed, where practicable. The FDIC will continue to reduce the inventory of failed insured depository institution assets managed by the FDIC and maximize cash collections from the disposition of these assets.

In this regard, the FDIC will continue to develop and revise policies and procedures related to the sale of assets. This includes the revision of marketing related policies and procedures set forth in the FDIC's Asset Disposition Manual, the development of specific procedures for the joint asset marketing sales, and the development and maintenance of the FDIC's Standard Sales Documents.

The FDIC will continue to focus on the disposition of high-risk assets, subsidiaries and related assets and the affordable housing inventory. The FDIC plans to reduce the balance of these asset pools by 50%, 75% and 90%, respectively.

Verification and Validation The asset collections and disposition measures are tracked through the FDIC's FIMS and NPS.

The target for book value reductions for 1999 is significantly less than the targets for 1998 or 1997. This decrease corresponds to the significantly lower level of assets in the FDIC's inventory. The target each year is dependent on the volume of assets remaining to be disposed of, the types of assets remaining, and the complexity of the assets. In addition, the numeric goal is based on the application of historical recovery rates, and factoring in the asset composition, market assumptions and anticipated volume of any further bank closings. Over the past several years, the dollar volume of assets remaining to be liquidated has decreased significantly.

In addition, the types of assets remaining in the asset pool tend to be the more complex and harder-to-liquidate assets.

Impact of External Factors

Changes in the economy and the Year 2000 problem could have an impact on our ability to develop, refine and implement our asset disposition strategies. For example, a significant increase in the number of insured depository institution failures could hinder FDIC's ability to reduce the remaining assets in inventory.

Strategic Goal	Receivership assets are managed and marketed to maximize net return.
Annual Performance Goal	The real estate tax appeal process is monitored and the recovery of previous payments of real estate tax penalties related to FDIC-owned real estate is pursued where appropriate.[6]
Means and Strategies	The FDIC will continue to pursue and monitor the recovery of tax penalties and special assessments paid by the FDIC and the former Resolution Trust Corporation on real estate assets. The FDIC will continue to update the Owned Real Estate System, a tax module database used to track property tax refunds and appeals. Asset managers will continue to monitor the appropriateness of tax appeals during the asset review process. The FDIC will also continue to work with outside contractors to monitor the appeals process.
Verification and Validation	The status on meeting this annual performance goal is tracked through the FDIC's Internal Risk Information System.
Impact of External Factors	Ability to recover the penalties is dependent on the legal process. Delays in the process could have an impact on when these recoveries are received.

[6] This is a goal to monitor the resolution of an OIG audit material weakness.

Strategic Goal Professional liability and other claims of the receivership are pursued in a fair and cost effective manner.

Annual Performance Goal Investigations are conducted into all potential professional liability claim areas in all failed insured depository institutions and a decision to close or pursue each claim will be made within 18 months after the failure date in 80% of all institutions.

Means and Strategies Attorneys and investigators from the FDIC work together prior to an insured depository institution's failure to assure that valid claims arising from such a failure are properly pursued. The attorneys provide legal advice and may assist with inter-agency coordination. Prior to failure, steps are taken to preserve insurance coverage for potential claims. After the failure, the attorneys conduct legal research, analyze potential claims based on information developed by the investigators, and provide legal advice and analysis to assess the validity of the potential claims and the likelihood of a recovery in excess of costs.

When the decision points have been reached with respect to pursuit or closeout of individual claims, officials at the appropriate levels of delegated authority prepare recommendation memoranda for approval. All recommendations to close or pursue claims will include an analysis of the legal viability of the potential claim and, if the claim is deemed likely to succeed, the basis for concluding that pursuit of the claim will or will not be cost-effective.

The FDIC currently has the appropriate level of attorney, investigative and support staff for its workload in this area although both workload and staff size have decreased and will likely continue to decline. We expect to increase the cost effectiveness of the efforts in this area by having FDIC attorneys take on as much work as possible that might previously have been handled by outside counsel, and by using the services of in-house litigation groups. These efforts are already underway, and, as FDIC staff attorneys receive more training in the necessary litigation skills and the caseload is reduced, we expect an increasing amount of litigation tasks to be handled in-house.

In addition to training attorneys in litigation skills, we will continue to provide training in the substantive aspects of various receivership claim areas. For example, joint training between the FDIC legal and investigations staff is planned to enhance the cooperative efforts of these groups and to effectively analyze and resolve claims.

Generally, pursuit of valid, cost-effective receivership claims requires basic technology, i.e., word processing and communications. Document imaging technology has been identified by the FDIC attorneys and investigators as a potential means of enhancing document integrity for purposes of pursuing potential claims. Additionally, the FDIC will explore, during 1999 and beyond, whether and how litigation support technology could aid in our effort to have more litigation tasks handled by our attorneys, or to reduce certain costs of litigating our cases.

In addition, the FDIC is a heavy user of data base technology, not to pursue our claims, but to keep track of them and to report on them to the industry, the public and Congress. Information in the FDIC databases is also essential for strategic planning, general program management and resource allocation.

Verification and Validation

Data necessary to track fail dates of insured depository institutions potential statute of limitations expiration dates and other pertinent dates is routinely collected and stored in FDIC systems, specifically the Legal Management Information System (LMIS), the Case Tracking System and Investigations' Division of Liquidation Locator and Reporting System. Likewise, status information and decision events are also input for each matter on a current basis. Periodic data scrubs and audits are also conducted to ensure accuracy and currency of information. Consistent maintenance of these systems will ensure that accurate data needed to measure compliance with the annual performance goal is readily available.

The target completion percentage and time frame was selected in light of historical time lines and investigation completion experience. Through experience, the FDIC has ascertained the time required for an efficient investigation of most cases within the framework of the FDIC policy regarding those cases assuming sufficient resources exist and the failure rate does not require constant attention to emergencies. The FDIC recognizes that not all cases can be completed in 18 months. Certain more complicated cases require a longer period to investigate but these cases should comprise no more than 20% of the total.

The targets reflect the three-year statute of limitations applicable to most professional liability claims. It represents a judgement that this annual performance goal, although somewhat more aggressive than past experience alone would indicate, contains reasonable targets given the nature and size of present workloads and the needs for careful review of all professional liability case and claim recommendations by the FDIC's senior management.

Impact of External Factors

The current economic situation has had a positive influence on the financial industry. Currently, the number of insured depository institution failures is low and little intervention has been required on the part of the FDIC. Thus, with the exception of the receivership goodwill claim area, the workload in the receivership claims area has continued to decline.

Court decisions in FDIC cases have the potential to affect the viability of some potential claims and existing cases, but there are few, if any, remaining core issues that have the potential to dramatically alter FDIC professional liability claims as a consequence of court decisions. Legislative changes are also sources of potential changes in the legal environment that might impact receivership claims. Staff training needs could also be affected as a result of changes in legal rules.

The legal landscape is not so established in the receivership goodwill claim area, however, and legal doctrines in this area could continue to evolve in ways that would affect the pursuit of these claims in a positive or negative way. At least 43 receiverships currently have law suits pending against the United States in the Court of Federal Claims relating to alleged breaches of agreements with the former Federal Home Loan Bank Board and/or the former Federal Savings and Loan Insurance Corporation.

Year 2000 concerns could also have an impact in this area. Insured depository institutions, which do not adequately address Year 2000 problems, could fail as a result, thus increasing the workload in this area. In addition, such failures may present claim investigation issues that have not historically been present in receivership claim scenarios. Again, staff training needs and potentially staff size could be affected by developments in this area.

Strategic Goal Professional liability and other claims of the receivership are pursued in a fair and cost effective manner.

Annual Performance Goal No delays in moving pending Claims Court Goodwill cases to trial are FDIC necessitated, and none are FDIC initiated unless the FDIC concludes that it is reasonable to expect that the case can be resolved at a substantially lower cost to the FDIC if its trial is delayed.[7]

Means and Strategies In the context of seeking recovery on claims acquired when an insured depository institution fails, the FDIC's Legal Division, through its Receivership Goodwill Section, oversees the prosecution of "goodwill" claims on behalf of certain receivership estates. The potential claims are divided into two types; those pending in the Court of Federal Claims and those potential claims being held in abeyance under a "tolling agreement"[8] with the Department of Justice. The pending claims will be resolved through litigation and/or negotiation. It is anticipated that there will be an increase in attempts to resolve the pending claims through negotiation during the next one to three years. We will continue a review project to research and analyze the tolled claims to determine whether they are valid and should be pursued. If claims are found to be valid, the Section will work first to resolve these claims by negotiation and then by litigation, if needed.

The Receivership Goodwill Section is now slightly under staffed, particularly in its Dallas, Texas office, due to attrition. There are no plans to obtain additional staffing, provided that the workload remains at the current levels, unless material levels of attrition make it necessary to recruit and train additional personnel to handle the workload. The Section actively encourages its attorneys and staff to obtain additional training and skills related to litigation. Attorneys are expected to attend trial and other litigation-related courses, including those offered by the National Institute of Trial Advocacy, both inside and outside of the FDIC.

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[7] "Delay" means postponing the start of the trial beyond the start date established by order of the judge assigned to try the case. "FDIC-necessitated" means that the primary reason for the delay is the action or inaction of the FDIC. And finally, "substantially lower costs" means that the FDIC, at the time of its consideration of the decision to request a delay, believes that the delay is likely to result in a cost savings of at least 10 percent (on a going forward basis) of the costs of finishing trial preparation.

[8] This agreement extends the deadline for filing claims to 130 days after entry of a final, unappealable judgment in the Winstar case. The Winstar case is one of the early cases in which the United States Supreme Court determined that there can be valid contract claims against the United States for loss of goodwill. This case has been remanded to the trial court for further findings, including damages, and is still pending.

For these claims, the FDIC's Legal Division has been preparing for the electronic courtroom. The FDIC already uses CD-ROMs to hold digital images of discovery documents and has used "real time" transcripts displayed on computer terminals during the actual trial testimony. During 1999, the FDIC expects to add the ability to provide digital exhibit and document presentations to the court as well as immediate electronic access to prior testimony and depositions.

Verification and Validation

The trials of the Priority Cases have been scheduled, and that schedule is a matter of public record. The procedure for scheduling the next round of cases has been established, again on the public record, and when trial dates are established they will be made public. Any requests to delay trial dates or stay cases are also made on the public record. The Legal Division regularly monitors the status of these schedules and any schedule changes.

Impact of External Factors

While it is impractical to create a comprehensive list of possible external factors that could cause delay, some of the most common reasons for delaying litigation can be usefully noted. Delays in trial dates may be occasioned by the Court or other parties needing additional time, or by extraordinary problems, including, for example, serious illness or death of a major witness, temporary unavailability of a major witness, long-term or repetitive system crashes or serious personal problems involving trial counsel.

If trials run substantially longer than the 2-3 weeks provided under the current trial schedule, it is possible that too many overlapping trials would overtax staff and/or systems to the point that some limited delays would be necessary. If in light of future litigation developments the FDIC determines that delay of certain trials will ultimately lead to a resolution of more cases more quickly or on more favorable terms, it may seek such a delay.

Settlement discussions may also result in short-term delays in the hopes of avoiding the costs and risks of trial.

Strategic Goal Receivership claims and other liabilities are resolved in a fair and cost effective manner.

Annual Performance Goal Fifty percent (50%) of the non-asset defensive litigation cases in inventory as of 01/01/99 are resolved through negotiated settlement or completed litigation.

Means and Strategies FDIC attorneys and resolution and receivership specialists work together to review and take steps necessary to resolve litigation over non-asset defensive claims. The policies and procedures to be used in processing, handling and resolving non-asset defensive litigation are set forth in the FDIC's Directive 4400.03, *National Procedures for Review of Non-Asset Defensive Litigation (NADL)*", dated October 1, 1997.

NADL involves claims that have already been reviewed during the administrative claims process, and which were either rejected or allowed in an amount which was unacceptable to the claimant. When these claims result in litigation, the attorneys conduct legal research and oversee the collection of factual background and documents. The FDIC's resolutions and receivership staff is the "client" on these cases and participates in case reviews of active matters and proposed settlements and litigation strategies.

Pursuant to the NADL Directive, cases are periodically reviewed to provide the FDIC staff the opportunity to review litigation strategy and assess the possibilities of prompt resolution through litigation or settlement. The evaluation of claims leads to the creation of appropriate reserves and realistic predictions about likely liability exposure and anticipated costs.

The FDIC currently has the appropriate level of attorney, oversight and support staff for its workload in this area although both workload and staff size have decreased and will likely continue to decline. We expect that over the next three to five years, further staff reductions are likely to occur, primarily through FDIC office closings and attrition. The NADL Directive provides that FDIC staff attorneys will be used for NADL cases whenever possible. We expect to increase the cost effectiveness of the efforts in this area by having FDIC attorneys take on as much work as possible that might previously have been handled by outside counsel, and by using the services of in-house litigation groups. These efforts are already underway, and, as FDIC attorneys receive more training in the necessary litigation skills and the caseload is reduced, we expect an increasing amount of litigation tasks to be handled in-house. In addition to training attorneys in litigation skills, we will continue to provide training in the substantive aspects of various receivership claim areas.

Document imaging technology has been identified by the FDIC as a potential means of enhancing document integrity for purposes of defending receivership claims. During 1999 and beyond, the FDIC will explore whether and how litigation support technology could aid in the FDIC's effort to have more litigation tasks handled by FDIC attorneys, or to reduce certain costs of litigating our cases. Until now, use of such technology has been through FDIC outside counsel. The use of this technology in-house early in the investigation stage might be a means of reducing problems we have experienced related to document control. Many receivership claims are very document intensive, and most litigation support technology is designed to help control and use massive quantities of documents.

Verification and Validation

Data necessary to track the status of non-asset receivership claims and pertinent dates, such as the dates and facts of settlements or resolution of claims, is routinely collected and stored in FDIC tracking systems, specifically LMIS and the Receivership Tracking System (RTS). The FDIC prepares monthly reports in hard copy and spreadsheet format listing all active NADL cases by Financial Institution Number (FIN) and giving the reserve for potential loss for each case. Periodic data scrubs and audits are also conducted to ensure accuracy and currency of information. Consistent maintenance of these systems will ensure that accurate data needed to measure compliance with the annual performance goal is readily available.

Impact of External Factors

By its nature, defensive litigation cannot be "controlled" by the defendant. Unless the FDIC determines to pay whatever a plaintiff demands, regardless of the fairness or cost-effectiveness, it cannot "control" NADL.

The current economic situation has had a positive influence on the financial industry. Currently, the number of insured depository institution failures is low and little intervention is required on the part of the FDIC. Many of the new NADL cases arise out of the activity of the FDIC, as receiver and the former Resolution Trust Corporation, and not from the activity of new failed insured depository institutions. Further, with the exception of the receivership goodwill claims area, the workload in the receivership claims area has continued to decline.

Court decisions in FDIC cases have the potential to affect the viability of some potential claims and existing cases, but there are few, if any, remaining core issues that have the potential to dramatically alter FDIC receivership claims as a consequence of court decisions.

Legislative changes are also sources of potential changes in the legal environment that might impact receivership claims. Staff training needs could also be affected as a result of changes in legal rules.

Year 2000 concerns could also have an impact in this area. Insured depository institutions that do not adequately address Year 2000 problems could fail as a result, thus increasing the workload in this area. In addition, such failures may present claims issues that have not historically been present in receivership claim scenarios. Again, staff training needs and potentially staff size could be affected by developments in this area.

EFFECTIVE MANAGEMENT OF STRATEGIC RESOURCES

Program Description

A number of key resources are essential to the achievement of the FDIC's mission. The FDIC has established as its *basic operating principle* that it will effectively manage these critical resources in order to accomplish the annual performance goals set forth in the Plan. To that end, the FDIC will pursue the following over the next year:

- Maintain and disseminate reliable information;
- Utilize information technology effectively and efficiently;
- Maintain a professional and highly skilled workforce;
- Maintain an effective program of internal control management.

The strategic result to be realized from effective management of these strategic resources will be corporate resources that are effectively managed.

Management of Strategic Resources

Resource Goals and 1999 Annual Performance Goals

Resource Goals	1999 Annual Performance Goals
Sufficient and Reliable Information is Maintained and Disseminated	Recommendations for Addressing Identified Gaps in Information Are Developed
	Economic Analysis is Conducted of and Reports are Produced on Major Public Policy Issues, (e.g., Financial Modernization), Facing the Corporation and the Industry
Information Technology is Provided to Support the Corporation's Strategic Direction and Annual Performance Objectives	Year 2000 Validation and Implementation of Internal Computer Application Systems is Completed by 03/31/99
The FDIC's Workforce Is Professional, Efficient and Highly Skilled	A Corporate Strategy is Developed to Ensure That a new Generation of Managers and Senior Professionals is Prepared to Assume Future Leadership Positions Within the Corporation
	Corporate Level Diversity Plan is Finalized
The FDIC has a Strong Internal Control and Risk Management Program	Weaknesses are Identified, Resolved on or Before the Estimated Completion Date, and are not Repeated

1999 Outlook

To ensure corporate resources are managed effectively to enable the FDIC to fulfill its mission, the FDIC focuses its strategic resource efforts on the four areas of 1) information dissemination; 2) information technology; 3) workforce development; and 4) internal controls.

The following represents an executive summary of the key areas of focus for the FDIC in the Management of Strategic Resources area for the coming year. A detailed description of the strategies to be employed in pursuit of these initiatives is provided in the subsequent pages.

Addressing Gaps In Information

The FDIC's Future Data Collections Taskforce has developed a project plan to study and address information needs of the Corporation. In 1999, a plan designed to help identify and obtain information needed to fill existing gaps in several areas including industry lending concentrations, geographic lending concentrations and market share measures, will be developed. In late 1999, the Taskforce will begin looking at developing a data system to be used to obtain, update and report the information collected.

Public Policy Issue Analysis

The FDIC conducts analysis and produces reports on major public policy issues facing the banking industry and the FDIC. This analysis is conducted for the Chairman and sometimes for Congress, as requested. In 1999, the FDIC will focus on the analysis of financial modernization issues and the effect that will have on the banking industry.

Year 2000 Readiness

The FDIC will strive to make its internal data systems Year 2000 compliant. The Year 2000 Project Team is responsible for comprehensively defining the systems, data, hardware, software and interfaces affected by this issue. Assisted by contractor support, FDIC staff is conducting compliance testing of completed application systems. The FDIC's Office of Internal Control Management (OICM), the Office of Inspector General (OIG) and the U.S. General Accounting Office (GAO) are regularly reviewing the progress of the project and conducting audits of the five phases of conversion which include awareness, assessment, remediation, validation and implementation.

Succession Planning

The FDIC will begin conducting an analysis of projected turnover of its current managerial and senior professional workforce. In 1999, a proposed strategy for replacing those management and senior professional staff members will be prepared and presented to senior FDIC management.

Diversity Planning The FDIC will complete and distribute the approved Corporate Diversity Plan to all employees. In 1999, a working group comprised of FDIC executive management will prepare written guidance for divisions and offices to follow that will enable them to prepare their internal diversity strategies.

Internal Control and Risk Management The FDIC maintains a strong internal control and risk management process. Throughout the year, the FDIC monitors division and office internal control programs, assists management in identifying weaknesses and ensures corrective actions are completed for material weaknesses.

Strategic Goal	Sufficient and reliable information is maintained and disseminated.
Annual Performance Goal	Recommendations for addressing identified gaps in information are developed.
Means and Strategies	Broad areas of information gaps have been identified. In conjunction with other divisions and offices through the Future Data Collections Taskforce, the FDIC's Division of Research and Statistics is coordinating a project to study and address the information needs of the Corporation. The emphasis in 1999 will be to develop a plan for identifying and obtaining information needed to fill existing gaps. The following areas will be analyzed: industry lending concentrations, geographic lending concentrations, non-bank affiliates, bank and savings association ownership and affiliations, market-share measures and other gaps such as non-deposit liabilities held by banks and savings associations. Participants in the Future Data Collections Taskforce with the most knowledge and insight on each of these areas will be responsible for the initial steps of the plan. The set of skills most useful for this function is one that combines an intimate knowledge of a subject area and the underlying data with the appropriate technical and analytical skills. A draft plan is expected to be completed in the first quarter of 1999 and a final draft completed during the second quarter of 1999.
Verification and Validation	The FDIC will monitor timelines and performance targets established by the Taskforce for this phase of the project.
Impact of External Factors	None are identified at this time.

Strategic Goal Sufficient and reliable information is maintained and disseminated.

Annual Performance Goal Economic analysis is conducted of and reports are produced on major public policy issues, (e.g., Financial Modernization), facing the FDIC and the industry.

Means and Strategies The economic analysis of major public policy issues is completed in part by FDIC's Division of Research and Statistics. Many times, these projects tend to be of an immediate nature assigned by the Chairman or occasionally requested by Congress. The FDIC follows many of the same steps that it would on other analytical projects, from careful framing of the question to consultation with interested parties to solid research and methodological techniques.

Depending upon the specific project, in-depth knowledge of the banking industry, economics, finance, data sources, statistical sampling and methodologies, technical fields and knowledge of the data may be crucial. The appropriate mix of the FDIC's economic, statistical and financial staff expertise is allocated to the assignment. Draft reports are prepared and circulated for peer review within the FDIC. The revised research or analytical product is then circulated to interested parties.

Verification and Validation The FDIC will monitor compliance with quarterly deadlines and other targets as appropriate.

Impact of External Factors None are defined at this time.

Strategic Goal Information technology is provided to support the Corporation's strategic direction and annual performance objectives.

Annual Performance Goal Year 2000 validation and implementation of internal computer application systems is completed by 03/31/99.

Means and Strategies A Year 2000 Project Team has been established and is responsible for 1) comprehensively defining the systems, data, hardware, software, and interfaces affected by this issue; and 2) developing a detailed plan for review and analysis, remediation steps, testing of results and final implementation.

The Project Team is comprised of fifteen staff members, with a potential for additional staff to be added to the Team by January 1999. In addition, a contract was awarded in July, 1998, totaling in excess of $10 million to provide direct contractor support to the Year 2000 project into early 2000. Various FDIC offices have in-house staff and additional contracts in place to support program code changes for Year 2000. Separate hardware facilities have been established to provide testing facilities. Year 2000-specific software has been purchased to support this effort.

Verification and Validation The methods of verifying Year 2000 performance goals include compliance tests of completed application systems and successful testing of other components. Independent validation and verification efforts are underway in the FDIC to validate the processes and procedures used for Year 2000 testing and to verify the test results on specific application systems.

The FDIC's OICM, the OIG and the GAO are regularly monitoring the progress of the project through informal and formal reviews.

Impact of External Factors The external factors that impact the internal FDIC Year 2000 project include the availability of Year 2000-ready facilities from the telecommunications companies, power companies and the providers of products used by the FDIC. There are over 500 providers of over 1,800 products FDIC uses. These products range from software to hardware, mainframe operating systems and related software, PC/LAN software, software for building system controls and telecommunications hardware and software.

Also relevant to the FDIC's success are the business partners with whom the FDIC shares data. The FDIC is working with its business partners to ensure that products and services are ready or, if the risk of failure is high, alternatives are procured in a timely fashion to avoid failure. The FDIC has, along with its business partners, identified each potential external data exchange that might be affected by the Year 2000 issue. The FDIC is planning the corrective actions, testing schedules and implementation of changes, as necessary, with these business partners.

Strategic Goal	The FDIC's workforce is professional, efficient and highly skilled.
Annual Performance Goal	A corporate strategy is developed to ensure that a new generation of managers and senior professionals is prepared to assume future leadership positions within the Corporation.
Means and Strategies	A detailed analysis of projected turnover in the current managerial and senior professional workforce, and a proposed strategy for replacing those managers and senior professionals will be prepared and presented to the FDIC's Operating Committee. The analysis and proposed strategy will consider the FDIC's diversity goals and objectives.
Verification and Validation	Data on projected turnover, and a proposed strategy, will be presented to the Operating Committee by 12/31/99. To the extent that this is accomplished prior to 12/31/99, implementation of the strategy will begin.
Impact of External Factors	In light of the state of the national economy today, the FDIC may face greater competition in the labor market in retaining and hiring new managers and senior professionals.

Strategic Goal The FDIC's workforce is professional, efficient and highly skilled.

Annual Performance Goal Corporate level Diversity Plan is finalized.

Means and Strategies The FDIC will complete the Corporate Diversity Plan and distribute the approved Plan to all FDIC employees using global electronic mail capabilities and other methods as may become necessary.

The FDIC will enlist assistance from the corporate diversity plan contractor and a multi-divisional executive management work group will issue written guidance to divisions and offices. The FDIC will make the corporate diversity plan and supporting guidelines available on its Intranet location.

Verification and Validation The FDIC will use the electronic mail "delivery verification" process. The "verified" responses will be routed to an independent "stand alone" electronic mail box address. This process will report the number of individuals to whom the message is delivered.

Printed copies of the diversity plan will be mailed to field offices. An acceptable distribution percentage target is set at 90%. Supervisors in the field offices will be asked to certify distribution of the printed plan within their respective field offices.

The FDIC will retain an official file for the approved division and office diversity strategies.

Impact of External Factors A court-ordered injunction, constitutional challenge, or court decision based on lack of statutory basis or mandate for diversity plans may suspend all activities under these goals. There is also a risk of a lawsuit from any employee claiming individual harm because of goals or objectives stated in the diversity plan. Also, Corporate reorganization efforts, in whole or in part, may delay development of individual division and office strategies.

Strategic Goal The FDIC has a strong internal control and risk management program.

Annual Performance Goal Weaknesses are identified, resolved on or before the estimated completion date and are not repeated.

Means and Strategies The FDIC receives from each Division and Office an Inventory of Accountability Units (AU). For each AU, a Risk Assessment Worksheet and Management Control Plan is prepared. These documents are reviewed and analyzed to ensure that 1) major business processes are identified; 2) appropriate risk rankings are assigned; and 3) internal controls are in place to effectively manage risk. The analysis also assists in determining areas requiring additional guidance and/or training to support the FDIC's internal control program. On a regular basis, the FDIC Audit Committee and/or senior FDIC management identify an existing or potential weakness in operations.

Throughout the year, the FDIC monitors division and office internal control programs, assists management in identifying weaknesses and ensures corrective actions are completed for material weaknesses. As part of the Early Warning System (EWS), the FDIC analyzes various sources of Corporate and industry information to identify emerging internal control and risk management issues. If significant issues are identified, the FDIC conducts research to determine any impact on FDIC's internal controls and provides recommendations to senior management for further actions, as necessary.

The FDIC works with division and office Internal Control Liaisons throughout the year to resolve issues identified by the OIG. The FDIC prepares a management response to the OIG Semiannual Report, which highlights division and office internal control accomplishments and provides the status of management's corrective actions to address weaknesses identified.

Verification and Validation Audit information is tracked through the FDIC's Internal Risks Information System (IRIS). As Corporate administrator, the FDIC's OICM publishes data entry standards for the form and content of information entered into IRIS.

A FDIC OICM staff member enters OIG and GAO audit data into IRIS, and a second staff member independently edits the input for accuracy. The statistical information is reconciled to the OIG and GAO records on a bi-monthly basis to ensure that IRIS data is accurate.

Internal Control Review (ICR) information is entered into IRIS by FDIC division and office staff in accordance with the data entry standards. The FDIC regularly monitors this input for compliance with the standards and division and office Management Control Plans.

IRIS produces a variety of management reports for the FDIC divisions and offices that enable responsible officials to monitor the timely completion of corrective actions. IRIS also generates management reports that identify repeated weaknesses. FDIC OICM staff analyze report information to verify that weaknesses are effectively monitored and efficiently resolved.

Under the EWS, the FDIC holds monthly meetings in which potential and emerging internal control weaknesses are identified and discussed. The EWS Committee assigns significant issues to FDIC's OICM staff for further research and analysis. Validation is obtained when OICM staff report back to the EWS Committee with conclusions and recommendations for additional actions, if any.

During OIG and GAO audits, the FDIC is in constant communication with the auditors to coordinate activities and to determine the status of potential risks and weaknesses. The FDIC holds periodic meetings between the auditors and senior program area officials to discuss and resolve potential internal control weaknesses. Validation is achieved through timely management responses, which address the weaknesses identified by the auditors.

The FDIC ICRs, either independently or jointly with FDIC divisions and offices, in order to monitor risks and to verify that completed corrective actions have resolved internal control weaknesses. FDIC division and office Directors certify annually to the adequacy of their internal controls and identify any material weaknesses. The FDIC Audit Committee and senior management also assign special projects to the FDIC's OICM to determine whether weaknesses are being adequately managed.

Impact of External Factors

The FDIC workload assumptions and the achievement of the annual performance goal may be adversely affected by the following external factors:

- The number of OIG or GAO audit reports issued may substantially increase the number of identified audit findings and internal control weaknesses.

- The number of special projects assigned by FDIC senior management and/or the Audit Committee may vary.

- New banking legislation passed by Congress may lead to organizational and procedural changes in FDIC program areas that may result in new internal control risks and/or weaken the FDIC's internal control systems.

- Major changes in the allocation of resources resulting from Year 2000 computer problems leading to bank losses and/or failures, and corporate computer system failures, causing new internal control risks.

INTERAGENCY COORDINATION OF CROSSCUTTING ISSUES

Interagency Coordination

The FDIC works closely with the other three federal banking agencies which include 1) the Board of Governors of the Federal Reserve System (FRB); 2) the Office of the Comptroller of the Currency (OCC); and 3) the Office of Thrift Supervision (OTS) to address issues and programs that transcend the jurisdiction of each agency. The FDIC and the other federal banking agencies also work closely with the National Credit Union Administration (NCUA) which supervises and insures credit unions.

In support of GPRA, an "interagency" working group comprised of all four federal banking agencies and the NCUA was formed in October 1997. This group works on issues related to the general goals and objectives that cross these organizations and their programs and activities as well as other general GPRA requirements. In 1999, the interagency working group will continue to work on 1) identifying all processes which involve cooperation amongst the federal banking agencies; 2) using common language and terminology consistently in the respective Annual Performance Plans; and 3) sharing "best practices" in terms of performance measurements, format and performance reporting.

In addition, the Federal Financial Institutions Examination Council (FFIEC), comprised of members of each of the five federal supervisors listed above, was established in 1979. The FFIEC is empowered to prescribe uniform principles, standards, and report forms for the federal examination of insured depository institutions and federally insured credit unions. In addition, the FFIEC makes recommendations to promote uniformity in the supervision of insured depository institutions and federally insured credit unions. The FFIEC provides uniform examiner training and has taken the lead in developing standardized software needed for major data collection programs to support the requirements of the *Home Mortgage Disclosure Act* and CRA.

1999 Interagency Annual Goals

The 1999 Annual Performance Plan reflects two key interagency annual performance goals as identified by the

FFIEC.

Within the Supervision Program, Safety and Soundness area, the interagency annual performance goal focuses on the evaluation of alternatives for revising capital standards given increases in risk exposures brought about by changes in banking industry products and technology. Also included in the Supervision Program, Safety and Soundness area is an annual goal that focuses on Year 2000 readiness assessments for FDIC-supervised insured depository institutions. Although this is not an annual goal identified by the FFIEC, it is an initiative that is crosscutting amongst the federal banking agencies and the NCUA.

In the Supervision Program, Consumer Rights area, the second interagency annual performance goal speaks to developing guidance relative to electronic banking and its impact on consumer protection, CRA regulations and Fair Lending laws.

Interagency Subgroups

Four subgroups have been established within the broader GPRA interagency working group. The subgroups are 1) Examinations; 2) Outreach; 3) Annual Performance Plan; and 4) Planning/Budget Linkage.

The Examinations Subgroup has identified three potential crosscutting areas of coordination comprised of 1) safety and soundness examinations; 2) examinations or evaluations of insured depository institutions' and federally insured credit unions' preparedness to address Year 2000 problems; and 3) applications. The three areas, as well as each agency's annual performance goals, may be modified to address new risk areas for insured depository institutions and federally insured credit unions, technology changes and regulatory requirements.

The Outreach Subgroup identified four potential areas of coordination comprised of 1) public awareness; 2) community affairs; 3) examination outreach; and 4) consumer complaints. It is important to note that not all outreach activities identified above apply to all agencies. However, to the extent that any one activity was essential to the strategic plan of two or more of the agencies, the subgroup considered it appropriate for consideration as an area of coordination.

The Annual Performance Plan Subgroup addresses GPRA requirements in general (as well as Office of Management and Budget guidelines) and shares information about how agencies interpret and implement these requirements.

The Planning/Budget Linkage subgroup addresses common issues such as program-based budgeting as well as sharing "best practices."

APPENDIX

Tree Diagrams

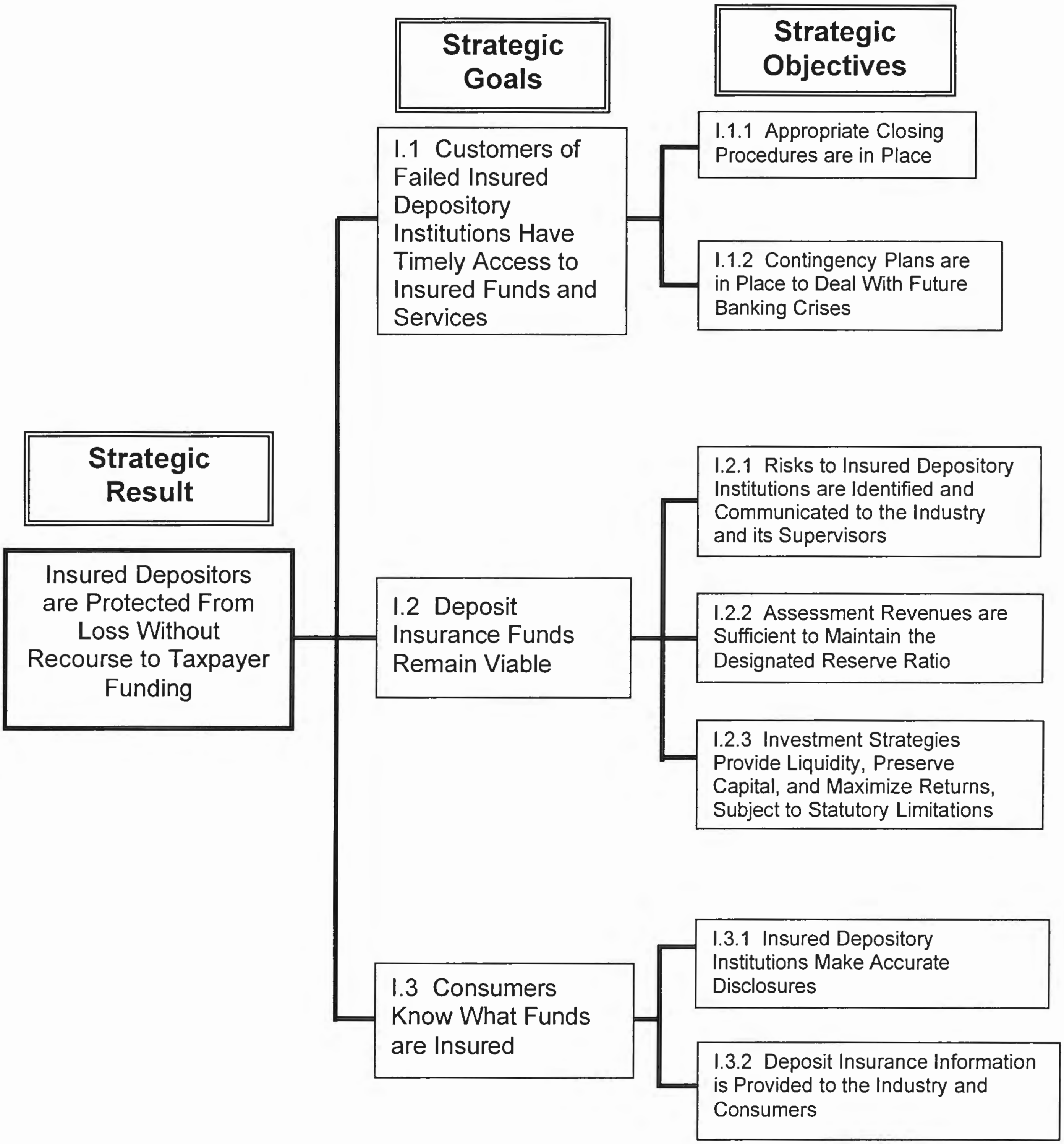
External Factors

Performance Matrices

Tree Diagrams

Insurance Program

Strategic Goals and Objectives



Supervision Program: Safety and Soundness

Strategic Goals and Objectives

Strategic Result

- Insured Depository Institutions are Safe and Sound

Strategic Goals

- II.1 Insured Depository Institutions Appropriately Manage Risk Including Risks Posed by Y2K
- II.2 Problem Insured Depository Institutions are Recapitalized, Merged, Closed or Otherwise Resolved

Strategic Objectives

- II. 1.1 Risks to Insured Depository Institutions are Identified and Integrated into the Supervisory Process
- II. 1.2 Insured Depository Institutions Comply with Laws and Regulations Relating to Safety and Soundness
- II. 1.3 Adequacy of Management Systems to Monitor, Identify and Control Risk are Evaluated and Action Taken as Appropriate
- II. 1.4 Riskier Insured Depository Institutions are Charged Higher Premiums
- II. 1.5 Adequacy of Management Ability to Address Y2K is Evaluated and Action Taken as Appropriate
- II. 1.6 FDIC Takes Action as Appropriate to Promote Market Discipline of Insured Depository Institutions
- II. 1.7 Industry Officials are Aware of FDIC's Approach to Safety and Soundness Practices
- II. 1.8 Entry and Expansion in the System are Consistent With Prudential Standards
- II.2.1 Problem Insured Depository Institutions are Identified
- II.2.2 Problem Insured Depository Institutions are Appropriately Addressed

Supervision Program: Consumer Rights

Strategic Goals and Objectives

Strategic Result

Consumers' Rights are Protected and FDIC Supervised Institutions Invest in Their Communities

Strategic Goals

Strategic Objectives

- III.1 Consumers Have Access to Easily Understood Information About Their Rights and the Disclosures Due Them Under Consumer Protection and Fair Lending Laws
  - III.1.1 Consumer Information is Provided to FDIC-Supervised Financial Institutions and the Public
  - III.1.2 Complaints and Inquiries are Responded to in a Timely Manner
  - III.1.3 Outreach Activities are Conducted for Community Groups and Insured Depository Institutions to Promote Community Development
- III.2 FDIC-Supervised Financial Institutions Comply With Consumer Protection, CRA, and Fair Lending Laws
  - III.2.1 FDIC-Supervised Financial Institutions are Examined to Determine Their Understanding of and Compliance With Laws and Regulations and CRA Examination Results are Made Public
  - III.2.2 Effective Action is Taken to Correct Identified Violations of Laws and Regulations
  - III.2.3 FDIC Application Process Properly Considers Consumer Protection, CRA, and Fair-Lending Laws

Receivership Management Program

Strategic Goals and Objectives

Strategic Result — **Strategic Goals** — **Strategic Objectives**

- Recovery to Creditors of Receiverships is Achieved
  - IV.1 Failing Insured Depository Institutions are Resolved in the Least Costly Manner in Accordance With Law
    - IV.1.1 Assets and Liabilities are Valued and Assessed
    - IV.1.2 Failing Insured Depository Institutions are Marketed Broadly
  - IV.2 Receivership Assets are Managed and Marketed to Maximize Net Return
    - IV.2.1 Receivership Assets are Inventoried and Valued
    - IV.2.2 Effective Disposition Strategies are Executed in a Timely Manner
    - IV.2.3 Assets are Effectively Serviced
  - IV.3 Professional Liability and Other Claims of the Receivership are Pursued in a Fair and Cost Effective Manner
    - IV.3.1 Potential Claims and Recovery Sources are Investigated
    - IV.3.2 Valid Claims With a Reasonable Potential for Recovery in Excess of Costs are Pursued in a Timely Manner
    - IV.3.3 Claims With Public Policy Value are Pursued
  - IV.4 Receivership Claims and Other Liabilities are Resolved in a Fairy and Cost Effective Manner
    - IV.4.1 Potential Claimants are Notified
    - IV.4.2 Asserted Claims are Reviewed and Resolved in Accordance With Applicable Law

Management of Strategic Resources

Resource Goals and Objectives

Operating Principle

Corporate Resources Are Managed Effectively to Enable the Corporation to Fulfill its Mission

Resource Goals / **Resource Objectives**

- OP 1 Sufficient and Reliable Information Is Maintained and Disseminated
  - OP 1.1 Information That Affects the FDIC and the Industry Is Identified and Acquired
  - OP 1.2 Information Is Shared Internally and Externally, Subject to Confidentiality Safeguards
  - OP 1.3 Accurate, Consistent and Timely Information and Analysis Are Provided to Congress, Federal and State Regulatory Agencies, Insured Depository Institutions, and the Public
- OP 2 Information Technology Is Provided to Support the Corporation's Strategic Direction and Annual Performance Objectives
  - OP 2.1 Computer Systems Are Y2K Compliant
  - OP 2.2 Application Systems Are Built and Maintained to Support Corporate Activities
  - OP 2.3 An Efficient and Effective IT Infrastructure Is Maintained to Support Corporate Activities
- OP 3 The FDIC's Workforce Is Professional, Efficient and Highly Skilled
  - OP 3.1 The Size and Skills of the FDIC Workforce Are Matched to Current and Projected Workload
  - OP 3.2 The FDIC's Workforce Is Well-Trained and Flexible
  - OP 3.3 A New Generation of Managers and Senior Professionals Is Developed to Succeed the Current Leadership
  - OP 3.4 The FDIC Work Environment Is One that Supports and Fosters a Diverse Workforce
- OP 4 The FDIC has a Strong Internal Control and Risk Management Program
  - OP 4.1 Corporate Risks Are Identified, Evaluated, Monitored, and Managed on an On-Going Basis
  - OP 4.2 Corporate Managers and Employees Are Aware of the Importance of Strong Internal Controls

External Factors

The following external factors are beyond the FDIC's control and could significantly affect the achievement of the referenced annual performance goals for 1999:

Year 2000

For many years information technology (IT) has internally represented the year in dates as two digits. The first two digits originally were eliminated because of the high cost and limited availability of computer memory storage space, and has remained in place as a *de facto* programming standard in both legacy and more recent systems. Unless these IT systems are modified to change the date format to a four-digit year, January 1, 2000, will be interpreted as January 1, 1900, in many types of computer software and hardware. This problem will affect numeric validations, date comparisons, arithmetic operations and chronological sorts.

- Unless corrected, Year 2000 concerns could have a negative effect on the FDIC's ability to process a failed insured depository institution's financial records and provide customers with timely access to their insured deposits and to financial services. In addition, the FDIC is currently studying the effect Year 2000 problems may have on the FDIC's receivership management function. Furthermore, specialized issues associated with Year 2000 may necessitate additional training and IT capability.

- The Year 2000 date change issue potentially can increase the complaint and inquiry workload. If there is substantial public interest in the status of insured depository institutions' readiness for the date change, there could be a substantial increase in the volume of consumer inquiries on this issue. In such cases, consumer affairs resources would have to be reallocated from other initiatives to ensure consumers receive timely responses.

- If Year 2000-related insured depository institution failure projections rise as we move closer to the Millenium, the FDIC may need to shorten the maturity structure of the deposit insurance fund investment portfolios beginning in late 1999, until the extent of this problem becomes apparent. Depending on market conditions, this may result in foregone interest income.

The Year 2000 computer problem represents a considerable risk to the banking industry's safety and soundness and could result in a significant increase in failed insured depository institution resolution activity. The FDIC and the other federal financial regulatory agencies will continue to take steps to ensure that insured depository institutions and their servicers promptly and adequately address the Year 2000 computer problem. In addition, contingency planning efforts are underway to prepare for any increase in failure activity.

- The FDIC is preparing contingency plans and is anticipating that examination staff may be called upon to assist in the resolution of problems the Year 2000 issue may cause. This may potentially affect the FDIC's ability to carry out its goals and objectives in the short term.

Economy The performance of the economy at the national and regional levels affects the way the banking industry carries out its business strategies and may affect the industry's performance. Changes in the business cycle, that is, changes in interest rates, the rate of inflation, and unemployment rates influence the lending and funding strategies of insured depository institutions. Economic conditions have a significant effect on the risk profiles of insured depository institutions.

- The current economic environment has had a positive effect on the banking industry. Recent insured depository institution failure activity has been low and little intervention has been required on the part of the FDIC. As a result, the FDIC has been able to focus more on its existing inventory of assets and impediments to the closeout of receiverships. However, an economic downturn could result in a higher rate of insured depository institution failures as well as increased failure costs. In addition, a significant increase in institution closings will affect workload and current staffing projections for the FDIC's legal and investigative personnel.

- The lower Federal deficit in recent years has led to a shrinking supply of U.S. Treasury securities relative to other fixed-income investment securities. All else being equal, this has led to higher prices (and lower yields) of U.S. Treasury securities. This implies the deposit insurance funds may grow more slowly due to lower yields.

- Entry and expansion in the system are closely related to the economy. When economic conditions are positive there typically is an increase in applications for deposit insurance for *de novo* entry.

- An economic slowdown would have an adverse effect on the banking industry by slowing asset growth, increasing loan losses and impairing profitability.

Industry Consolidation

The *Riegle-Neal Interstate Banking and Branching Efficiency Act* of 1994 became fully phased-in during 1997, accelerating the pace of industry consolidation.

- Industry consolidation presents both benefits and risks. While the risks to the deposit insurance funds are diminished because of the diversification benefits of consolidation (along both geographic and product lines), the concentration of deposits into fewer insured depository institutions increases the risks to the funds in the event one of these larger insured depository institutions fails.

- Continued industry consolidation will require additional examination mechanisms and different supervisory techniques to assess and monitor the increasingly complex financial conglomerates. Mergers between large insured depository institutions will increase individual company concentrations of risks to the deposit insurance funds. Mergers across industry lines could further increase risk. Continued modifications in interstate banking practices will require changes in off-site data collection and analysis techniques. More cross-regional FDIC cooperation and increased cooperation with the other federal banking agencies and state authorities will be needed.

Possible Legislative Initiatives

A number of laws, some dating to the Depression, restrict the activities and structures of banks and financial organizations. Congress has been debating legislation to expand the lines of business permissible for insured depository institutions. If this legislation becomes law, the federal banking agencies will need to alter significantly their supervisory approaches to address these new powers and organizations. Congress also is considering legislation to eliminate or ease the burden of a number of current regulatory requirements. Passage of these bills or similar legislation will alter the FDIC's supervisory approaches and activities.

- Proposals such as the merger of the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) and financial modernization legislation, could all have a significant effect on the investment of the deposit insurance funds. While the fate of any legislative proposals is inherently uncertain, a merger of the BIF and the SAIF remains desirable. A merger of the deposit insurance funds might allow for a reduction in the liquidity target and more aggressive investing of the combined deposit insurance funds due to the higher diversification of risk.

- If substantive changes are made to the banking industry or consumer protection laws and regulations, the FDIC may need to alter its supervisory efforts as well as expand its education and outreach efforts for consumers and insured depository institution staff.

Emerging Technology

Emerging technology has introduced new ways for insured depository institutions to offer traditional products and services through new delivery channels and, in some instances, to develop innovative products and services. Examples include Internet banking, electronic cash and stored-value card systems. Technological advancements have influenced the operating strategies of many insured depository institutions and other providers of financial services as they seek to compete in the increasingly fast-paced and globally interdependent environment.

- Technological advancement in the banking industry continues at an increasingly rapid pace. The safety and soundness examination function will continue to evolve and adapt in order to appropriately address new risks. Future advancements that could significantly affect the safety and soundness examination function include expansion in the use of electronic banking initiatives, in particular the use of Internet banking, and the development of new and complex non deposit investment products.

- The general environment in which insured depository institutions operate is expected to continue to evolve rapidly requiring continued industry education, outreach and technical support.

Goodwill Litigation

The FDIC, as manager of the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund, currently has law suits pending against the United States in the Court of Federal Claims relating to alleged breaches of agreements with the former Federal Home Loan Bank Board and/or the former

FSLIC involving approximately 40 failed savings associations. The agreements are, in general, asserted to have given the failed insured depository institutions the right to utilize goodwill, capital credits and other accounting preferences in connection with the acquisition of failing savings associations in the 1980s. It is alleged that the passage of the capital provisions in the *Financial Institutions Reform, Recovery and Enforcement Act* of 1989 and their implementation by the Office of Thrift Supervision constituted breaches of these agreements. Litigation of the claims is expected to last for several years. The FDIC is unable to unilaterally control the conduct of the litigation, and it is impossible to predict with precision the date when the litigation will be either settled or finally completed. The affected receiverships and certain others with possible but unfiled claims likely cannot be terminated until the litigation is ended.

Changes in Legal Rules Changes in legal rules, e.g., affording greater insulation from client or third-party claims to attorneys and accountants, could change the viability of potential claims and may necessitate additional staff training.

Performance Matrices The matrices below depict the "like" annual performance goals the FDIC has implemented over the past two calendar years and will be implementing in 1999. For the 1997 annual performance goals, the results achieved by implementing those goals are reflected. Year-end performance information for 1998 was not available at the time the 1999 Annual Performance Plan was published.

Depositor Payouts in Instance of Failure

Annual Goal and Results 1997	Reopen new institution or begin depositor payouts within 3 calendar days of the institution failure.	*One financial institution failure occurred in 1997. Depositors had access to their funds within 3 calendar days.*
Annual Goal 1998	Reopen new institution or begin depositor payouts within 3 calendar days of failure.	
Annual Goal 1999	Insured deposits are transferred to successor insured depository institution or depositor payouts are begun within three days of insured depository institution failure.	

Cash Collections of Failed Bank Assets

Annual Goal and Results 1997	Cash collections from the administration of failed institution assets. Achieve $2.2 billion in cash collections by year-end 1997.	*Achieved year-end total cash collections of $3.572 billion, which is 166% of the $2.2 billion annual target.*
Annual Goal 1998	Collect $1.15 billion from the administration and disposition of failed institution assets by year-end 1998.	
Annual Goal 1999	Achieve $549 million in cash collections.	

Book Value Reduction of Assets

Annual Goal and Results 1997	Book value of failed institution assets managed by FDIC. Achieve $3.9 billion in book value reductions by year-end 1997.	*Achieved year-end book value reductions of $5.174 billion, which is 132% of the annual target of $3.9 billion.*
Annual Goal 1998	Achieve $1.65 billion in book value reductions by year-end 1998 of failed institution assets managed by FDIC.	
Annual Goal 1999	Achieve $642 million in book value reductions.	

Consumer Complaints and Inquiries

Annual Goal and Results 1997	Responses on complaints and inquiries. Respond within time frames established by policy.	*Investigated and closed consumer complaints within an average of 54 days (60 is target) for the year; and investigated and closed consumer inquiries within an average of 15 days (15 is target) for the year; and investigated and closed financial institution inquiries within 13 days (15 is target) for the year.*
Annual Goal 1998	Responses on complaints and inquiries provided within time frames established by policy.	
Annual Goal 1999	Baseline data is established to evaluate the customer satisfaction level of those consumers who have received responses from FDIC regarding their complaints and inquiries.	

Risk Identification and Reporting

Annual Goal and Results 1997	Regular reports discussing developments affecting the risk profiles of FDIC-insured institutions. Produce reports each quarter.	*In each quarter of 1997, copies of the FDIC's Regional Outlook report were distributed to the 8 regions.*
Annual Goal 1998	Produce regular Division of Supervision and Division of Insurance reports discussing the condition of the industry and developments affecting the risk profiles of FDIC-insured institutions.	
Annual Goal 1999	Risks emerging in 1999 to insured depository institutions are identified through off site and on site risk identification processes and are communicated through a variety of reports to the banking industry and its supervisors.	

Risk Assessments

Annual Goal and Results 1997	Quarterly risk assessment analysis of exception report. Review 100% of CAEL and GMS exceptions.	*100% of CAEL and GMS exceptions were reviewed.*
Annual Goal 1998	Provide quarterly risk assessment analysis by reviewing 100% of exceptions identified by CAEL and GMS.	
Annual Goal 1999	For FDIC-insured depository institutions, off site reviews are performed of all SCOR and GMS exceptions and LIDI/BIDI reviews are conducted; appropriate follow-up course of action if any, for identified supervisory concerns is determined.	

Safety and Soundness Examinations

Annual Goal and Results 1997	Examination frequency requirements for all institutions. Perform 3,298 safety and soundness examinations.	*2,719 safety and soundness examinations were started which is 91% of the safety and soundness examinations required for the year.*
Annual Goal 1998	Perform 3,081 safety and soundness examinations.	
Annual Goal 1999	On site safety and soundness examinations are performed in accordance with statutory requirements, FDIC policy and state agreements or as otherwise needed.	

Compliance Examinations

Annual Goal and Results 1997	Conduct compliance examinations in accordance with schedule guidelines. 1,955 compliance examinations.	*1,990 compliance examinations were started which is 102% of the compliance examinations required for the year.*
Annual Goal 1998	Percentage of 1,610 compliance and CRA examinations according to an agreed-upon schedule.	
Annual Goal 1999	On site CRA, consumer protection and Fair Lending law compliance examinations of FDIC-supervised insured depository institutions are conducted per Board policy; changes in compliance ratings of FDIC-supervised insured depository institutions are monitored.	

Enforcement Actions

Annual Goals and Results 1997	Use formal and informal enforcement actions. Establish a benchmark to assess the effectiveness of formal and informal enforcement actions based upon assistance provided to banks with significant patterns of non-compliance.	*Undertook efforts to identify methods to assess effectiveness of formal and informal actions. Formal and Informal Action Tracking (FIAT) system reports were produced to detect data errors and better monitor activity.*
Annual Goal 1998	Measure effectiveness of formal and informal enforcement actions based upon migration of institutions of supervisory concern to satisfactory compliance and measuring changes after enforcement actions.	
Annual Goals 1999	Corrective actions are taken, if appropriate, to address problems identified during compliance examinations; bank compliance with those actions is monitored.	