FDIC

2007

Corporate Annual Performance Plan

FEDERAL DEPOSIT INSURANCE CORPORATION

2007 Annual Performance Plan

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CHAIRMAN'S MESSAGE

I am pleased to present the Federal Deposit Insurance Corporation's (FDIC's) 2007 Annual Performance Plan. The FDIC plays a key role in ensuring the stability of and public confidence in the nation's financial system by insuring deposits, identifying and addressing risks, supervising insured depository institutions, resolving failed institutions and managing receiverships.

In carrying out its mission, the Corporation will emphasize the following priorities in 2007:

- Completing the implementation of the Deposit Insurance Reform Act signed into law in early 2006.
- Developing further the Basel II and Basel IA capital frameworks to ensure that they do not result in substantial reductions of capital or competitive inequities within the banking industry.
- Maintaining the safety and soundness of the banking system through effective oversight in its roles as primary and backup federal supervisor, deposit insurer, and receiver for insured depository institutions, while continuously improving its capabilities to respond to changing economic conditions and growing concentration in the industry.
- Continuing to protect our national security by ensuring institutional compliance with the Bank Secrecy Act and anti-money laundering regulations as well as counter-financing of terrorism requirements.
- Continuing to expand the FDIC's leadership role on consumer protection issues, including new efforts to promote economic inclusion.

Internally, the Corporation will focus on the following initiatives:

- Continuing the implementation of the Corporate Employee Program to create a more flexible permanent workforce capable of responding to changing workload requirements.
- Expanding learning and development initiatives for current employees.
- Expanding workforce planning and succession management strategies.
- Enhancing our Corporate Privacy Program.

This document outlines specific 2007 performance targets and indicators for each of our three major business lines. I invite you to read further about the FDIC's planned initiatives for 2007.

Sheila C. Bair
Chairman

MISSION, VISION and VALUES

MISSION

The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by Congress that maintains stability and public confidence in the nation's financial system by insuring deposits, examining and supervising financial institutions and managing receiverships.

VISION

The FDIC is a leader in developing and implementing sound public policies, identifying and addressing new and existing risks in the nation's financial system, and effectively and efficiently carrying out its insurance, supervisory and receivership management responsibilities.

VALUES

The FDIC and its employees have a long and continuing tradition of distinguished public service. Six core values guide FDIC employees as they strive to fulfill the Corporation's mission and vision:

Integrity. FDIC employees adhere to the highest ethical standards in the performance of their duties and responsibilities.

Competence. The FDIC maintains a highly skilled, dedicated and diverse workforce.

Teamwork. FDIC employees work cooperatively with one another and with employees in other regulatory agencies to accomplish the Corporation's mission.

Effectiveness. The FDIC responds quickly and successfully to identified risks in insured financial institutions and in the broader financial system.

Financial Stewardship. The FDIC acts as a responsible fiduciary, consistently operating in an efficient and cost-effective manner on behalf of insured financial institutions and other stakeholders.

Fairness. The FDIC treats all employees, insured financial institutions and other stakeholders with impartiality and mutual respect.

PROGRAM DESCRIPTIONS AND ANNUAL PERFORMANCE GOALS

INSURANCE

SUPERVISION

RECEIVERSHIP MANAGEMENT

INSURANCE PROGRAM

The FDIC insures bank and savings association deposits to help ensure stability and public confidence in the U.S. financial system. The Deposit Insurance Fund (DIF) must remain viable to protect insured depositors if an institution fails. When an insured institution does fail, the FDIC is responsible for ensuring that the institution's customers have timely access to their insured deposits. The FDIC maintains sufficient DIF balances by collecting risk-based insurance premiums from insured depository institutions and by pursuing prudent fund investment strategies.

Congress enacted deposit insurance reform legislation in early 2006 that gives the FDIC greater discretion to manage the DIF and allows the FDIC to better price deposit insurance for risk. In the fourth quarter of 2006, the Corporation completed rulemaking to implement the provisions of the deposit insurance reform legislation. These changes will go into effect in 2007. The new deposit insurance assessment system grants credits to institutions that helped capitalize the funds in the early and mid-1990s, allows the FDIC to assess all institutions regardless of the level of the reserve ratio, and mandates dividends from the fund when it reaches certain levels.

In 2007, the FDIC will continue to devote significant attention and resources to the identification and analysis of new and emerging risks. As insurer, the FDIC continually evaluates how changes in the economy, financial markets, banking system and individual financial institutions affect the adequacy and the viability of the DIF. The FDIC communicates its findings to the industry and the other federal banking agencies[1] and state authorities through formal and informal channels, including the publication of written analysis of banking industry developments. In recent years, the FDIC has placed increased emphasis on the dissemination of high quality research and analysis through its Center for Financial Research (CFR) and other initiatives. The FDIC's Risk Analysis Center (RAC) plays a key role in assembling information and ensuring enterprise-wide focus on emerging risks to the fund.

Communication and coordination with the other bank regulatory agencies are top priorities. As the insurer, the FDIC by statute has special examination authority for all insured depository institutions. If significant emerging risks or other serious concerns are identified for an insured depository institution not primarily supervised by the FDIC, the FDIC and the institution's primary federal supervisor[2] work together to address them.

[1] The other federal banking agencies, along with the FDIC, include the Board of Governors of the Federal Reserve System (FRB), the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS).
[2] An institution's charter and its Federal Reserve System membership status determine which federal banking agency is the institution's primary federal supervisor.

The FDIC exercises its insurance responsibilities by approving or denying applications for federal deposit insurance from any prospective depository institution. Before granting access to the federal deposit insurance system, the FDIC evaluates an applicant's potential risk to the DIF. It assesses the adequacy of an applicant's capital, future earnings potential and the general character of its management. The FDIC also considers the convenience and needs of the community to be served and gathers input from other regulatory authorities.

The FDIC seeks to increase public awareness and understanding of deposit insurance rules and coverage. The FDIC reviews whether insured depository institutions make accurate disclosures about uninsured products, provides information to depositors and financial institution staff about the application of deposit insurance rules, and provides tools to assist financial institution employees in interpreting the rules for deposit insurance coverage. The FDIC also responds to deposit insurance questions received from the public and the banking industry through the FDIC Call Center, the Internet and regular mail.

Increasing globalization and interdependence heighten the potential for financial and economic instability to transcend national geographic boundaries. In coordination with other federal agencies, foreign regulators, deposit insurers and international organizations, the FDIC supports the development and maintenance of effective deposit insurance systems and sound, stable banking systems worldwide through technical assistance, training, consulting services and outreach programs.

The table below depicts the strategic goal, strategic objectives and annual performance goals for the Insurance Program.

Strategic Goal	Strategic Objectives	Annual Performance Goals
Insured depositors are protected from loss without recourse to taxpayer funding.	Customers of failed insured depository institutions have timely access to insured funds and financial services.	Respond promptly to all financial institution closings and related emerging issues.
	The FDIC promptly identifies and responds to potential risks to the insurance funds.	Identify and address risks to the Deposit Insurance Fund.
		Disseminate data and analyses on issues and risks affecting the financial services industry to bankers, supervisors, the public and other stakeholders.
	The deposit insurance funds and system remain viable.	Maintain and improve the deposit insurance system.
		Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts.
		Expand and strengthen the FDIC's leadership role in providing technical guidance, training, consulting services and information to international governmental banking and deposit insurance organizations.

STRATEGIC GOAL 1:
Insured depositors are protected from loss without recourse to taxpayer funding.

STRATEGIC OBJECTIVE 1.1

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

Annual Performance Goal 1.1-1

Respond promptly to all insured financial institution closings and related emerging issues.

Indicators and Targets

1. Number of business days after an institution failure that depositors have access to insured funds either through transfer of deposits to the successor insured depository institution or depositor payout
   - Provide access to insured funds in one business day if the failure occurs on a Friday.
   - Provide access to insured funds in two business days if the failure occurs on any other day of the week.
2. Enhancement of FDIC capabilities to make a deposit insurance determination for a large bank failure
   - Review comments received in response to the 2006 Advanced Notice of Proposed Rulemaking (ANPR) and publish a Notice of Proposed Rulemaking (NPR) on Large Bank Deposit Insurance Determination Modernization in 2007.

Means and Strategies

Operational Processes (initiatives and strategies): When an insured institution is identified as a potential failure, the FDIC prepares a plan to handle the possible resolution and closing of the institution. The FDIC begins the resolution process with an assessment of the assets and liabilities of the institution. The FDIC then develops an information package that is used as a marketing tool and is provided to all interested potential assuming institutions. The FDIC solicits proposals from approved bidders to find a buyer for the deposit franchise.

If the federal or state supervisor chooses to close the institution, the FDIC takes control of the failed institution and determines which deposits are insured. Once the FDIC is appointed receiver, it initiates the closing process for the failed institution and provides the insured depositors with access to their accounts in one or two business days. The FDIC works with the assuming institution so that the insured deposit accounts are transferred to it as soon as possible.

If no assuming institution is found during the resolution process, the FDIC disburses insured deposit balances directly to customers of the failed institution.

The FDIC continues to review and enhance existing plans, processes and systems in response to potential risks that might impact the closing process related to evolving banking industry practices and technologies. Comments from the December 2005 ANPR on Large Bank Deposit Insurance Determination Modernization were received and analyzed in early 2006. From the three options proposed in the 2005 ANPR, a single proposed set of requirements was developed for insured institutions covered by the rulemaking process. These new proposed requirements were refined through discussions with staff of the Board of Governors of the Federal Reserve System and with four deposit software vendors/servicers that deal primarily with large institutions. The modifications were then incorporated into a second ANPR approved for issuance by the FDIC Board of Directors in December 2006.

Human Resources (staffing and training): Based on workload fluctuations, staffing requirements will continually be assessed to meet the needs of the FDIC in carrying out its receivership management responsibilities. The FDIC has established policies and procedures to allow for the temporary assignment of resources to meet workload demands and mission responsibilities. Also, the Corporation has implemented the new Corporate Employee Program (CEP), which will be the foundation of a flexible workforce that is capable of responding quickly to unexpected events or changing workload priorities. This program will ensure a continual level of readiness within the workforce by promoting cross-divisional mobility through continuous training and rotational work assignments. The FDIC has also developed strategies to fully leverage staff resources throughout the Corporation as needed to resolve failed financial institutions. These strategies will be tested through simulations and then employed in future resolutions.

Information Technology: Technology is critical to improving the efficiency of deposit insurance determinations and payments. The FDIC is in the midst of a multi-year effort to redesign and automate its deposit insurance claims and payment processes. This project will provide an integrated solution that meets the Corporation's current and future deposit insurance determination needs and will be based on adaptable technology that is compatible with industry standards. In 2007, the Corporation will continue to develop a new Claims Administration System, which will automate and expedite this process.

Verification and Validation

The timeliness of payments to depositors can be verified by comparing the press release announcing the resolution to the U.S. Department of the Treasury's Financial Management System, which manages the FDIC's account that wires funds to the assuming institution. In the case of a payout, the timeliness of payments to insured depositors can be verified by the Federal Home Loan Bank of Chicago, where the FDIC maintains its deposit payout account.

2006 Performance Results

This annual performance goal is a carryover from 2006. The FDIC had similar performance indicators and targets in its 2006 Annual Performance Plan. Performance indicator and target #1 and the associated performance targets did not apply in 2006 because there were no failures of insured financial institutions during the year. Regarding performance indicator #2, the FDIC completed its review of all comments received in response to the ANPR published in December 2005 seeking input on three options that would facilitate a deposit insurance determination in the event of the failure of a very large insured financial institution. Based on that review, the FDIC published a new ANPR in December 2006, seeking comment on a new option and strategy to facilitate a deposit insurance determination at a very large failed institution. Performance indicator #2 and the associated performance target have been updated accordingly. In 2007, the FDIC will review comments received in response to the new ANPR.

STRATEGIC OBJECTIVE 1.2

The FDIC promptly identifies and responds to potential risks to the insurance funds.

Annual Performance Goal 1.2-1

Identify and address risks to the Deposit Insurance Fund.

Indicators and Targets

1. Insurance risks posed by insured depository institutions
   - Assess the insurance risks in 100 percent of insured depository institutions and adopt appropriate strategies.
2. Concerns referred for examination or other action
   - Identify and follow up on 100 percent of material issues raised through offsite review and analysis.
3. Emerging risks to the DIF
   - Identify and review the emerging areas of risk, including mortgage lending, hedge funds, commercial real estate lending, derivatives, money laundering, illicit financial transactions and the international operations of insured depository institutions.
   - Address potential risks from cross-border banking instability through coordinated review of critical issues and, where appropriate, agreements with key authorities.

Means and Strategies

Operational Processes (initiatives and strategies): The FDIC helps maintain the stability of the banking system by proactively identifying financial, operational or systemic risks that may impact the DIF. To perform this critical function, the FDIC continually tracks economic trends and market changes in order to assess their potential impact on insured financial institutions. Risk analysis information enables the FDIC to more effectively maintain and improve models that monitor industry conditions and individual institution risks.

FDIC staff members perform in-depth analyses to identify high-risk activities or trends that may pose a risk to the DIF. Staff will use examination information and offsite monitoring tools to analyze potentially high-risk areas including mortgage lending, hedge fund operations and commercial real estate lending activity. The FDIC monitors derivatives activity and performs analyses to identify emerging risks to financial institutions and the securities industry.

The FDIC's Risk Analysis Center (RAC), which is under the direction and oversight of the FDIC's National Risk Committee (NRC), utilizes an interdivisional approach to monitoring and analyzing risks to the DIF and to the banking system. The RAC administers an integrated corporate risk analysis process that utilizes information obtained from a wide variety of sources, including examinations and other institutional reviews, as well as internal and external research and analysis. As part of this process, the RAC coordinates the work of the six Regional Risk Committees, resulting in an enhanced understanding of industry conditions and emerging risks and allowing for the dissemination of this information to FDIC managers and staff, other regulators, bankers and the public. The RAC also provides a platform for interdivisional projects that address identified risks that impact the Corporation. Ongoing interdivisional RAC projects on mortgage lending trends and hedge funds are currently underway. Staff envisions conducting similar research on other high-priority risk topics.

The FDIC has increased its focus on the largest financial institutions that pose the greatest risk to the DIF by assigning dedicated examiners to six of the largest financial organizations. These organizations have a combined $5.2 trillion in total assets, accounting for approximately 45 percent of the industry's total assets. Dedicated examiners use supervisory information, internal institution information and external sources of information to evaluate risks and assign an FDIC risk rating for each of the six organizations. The dedicated examiners collaborate with each institution's primary federal regulator and other FDIC offices to evaluate the condition of large banks and to identify systemic risks.

In addition to the Dedicated Examiner Program, the FDIC has an operational unit that establishes protocols for monitoring the largest insured financial institutions and provides technical support related to complex examination activities. Regional case managers also perform continuous analyses of all large banking organizations through the Large Insured Depository Institution (LIDI) program. This program provides in-depth supervisory analyses for all financial institutions with over $25 billion in total assets (and selected institutions with total assets between $3 billion and $25 billion). Case managers maintain contact with the primary federal regulator, review bank risk management information from a variety of sources and attend meetings with bank management at the invitation of the primary federal regulator.

Information from the Shared National Credit (SNC) program is also integrated into the analysis of emerging risks at large banks. This interagency program provides for annual reviews of certain syndicated loans that total over $20 million and are shared by three or more regulated entities. Loan commitments covered by the program totaled nearly $1.9 trillion in 2006. Using SNC information, the FDIC staff identifies industry sector exposures posing a high degree of risk for large banks and analyzes underwriting trends and industry performance trends. This information is used to develop risk cases and quarterly risk assessments.

The FDIC will continue to monitor the expansion and exposure of insured depository institutions overseas, particularly with respect to emerging markets, and will enhance its collaboration with other primary federal regulators in assessing risks emanating from these markets. The Interagency Country Exposure Review Committee (ICERC), established by the FDIC, the Federal Reserve Board and the Office of the Comptroller of the Currency, provides one forum for ensuring consistent treatment of the transfer risk associated with banks' foreign exposure to both public and private sector entities. The ICERC publishes reports to aid the industry in understanding these risks.

The FDIC is promoting cross border and global financial stability by developing agency policy on evolving transnational risks in the financial services industry, and by establishing bilateral and multilateral relationships with foreign bank supervisors, international deposit insurers and bank resolution authorities. These activities will involve technical assistance, training, consulting and active participation in international associations that attempt to resolve cross-border issues. Sound working relationships with the global financial sector will be strengthened by establishing mutually agreed upon procedures for promoting financial stability and contingency plans for the failure of U.S. or foreign financial institutions with considerable overseas holdings.

Human Resources (staffing and training): The FDIC employs economists, financial analysts, industry specialists and others who focus on trends and conditions that pose potential financial and operational risks within the banking industry, and has incorporated risk-focused examination training into its examination schools. In recognition of the increasing complexity and concentration of risk exposure in large insured institutions and to prepare for the implementation of Basel II, the FDIC has also initiated a large-bank training program and hired personnel with the requisite knowledge and skill sets to ensure that the workforce has the necessary skills to analyze large-bank operations.

The FDIC established the Office of International Affairs (OIA) in 2006 to provide specialized skills in the area of international banking and finance. This office coordinates the FDIC's subject matter expertise to address growing global financial issues impacting domestic banking and deposit insurance. It also provides high quality technical assistance, training and consulting services to foreign deposit insurers, bank supervisors and resolution authorities.

Information Technology: The Virtual Supervisory Information on the Net (ViSION) facilitates offsite analysis and provides a top-down view of individual banking organizations. In addition, ViSION provides for secure electronic communication with state banking departments. The FDIC will continue to explore options with other federal banking agencies for facilitating the secure exchange of confidential supervisory information. The FDIC also uses specialized databases on mortgage lending information and obtains market data on commercial real estate. The Corporation recently acquired the prime mortgage Loan Performance (LP) database in order to extend the research already being done with the LP subprime database.

Verification and Validation

Potentially heightened insurance risks identified through the Dedicated Examiner, LIDI and SNC programs are reported to FDIC senior executives, who determine an appropriate course of action. Follow-up activities are tracked through established reporting processes. Analysis on emerging risks and trends in the financial industry or economy is reviewed by the RAC, submitted to the NRC, reviewed by the FDIC Board of Directors as part of the semiannual Risk Case presentation, and incorporated into numerous FDIC publications and written reports.

2006 Performance Results

This annual performance goal is a carryover from 2006 as are performance indicators #1 and #2 and their associated performance targets. In 2006, the FDIC completed risk assessments for all large insured depository institutions and followed up on all identified concerns through offsite review and analysis. Performance indicator #3 and its associated performance targets are new in 2007.

Annual Performance Goal 1.2-2

Disseminate data and analyses on issues and risks affecting the financial services industry to bankers, supervisors, the public and other stakeholders.

Indicator and Targets

Scope and timeliness of information dissemination on identified or potential issues and risks.

- Disseminate results of research and analyses in a timely manner through regular publications, ad hoc reports and other means.
- Undertake industry outreach activities to inform bankers and other stakeholders about current trends, concerns and other available FDIC resources.

Means and Strategies

Operational Processes (initiatives and strategies): The FDIC maintains a vigorous research and publications program on issues and topics of importance to the banking industry. Much of this research is conducted in collaboration with the academic community through the Center for Financial Research (CFR). Research findings are disseminated through CFR working papers, articles in professional journals and presentations at conferences and other events. The FDIC also disseminates information and analyses on industry risks through periodic reports, publications (e.g., the *FDIC Quarterly Banking Profile* and *FDIC Outlook*), Financial Institution Letters and participation in industry events and other outreach activities. In 2007, the FDIC will continue to implement improvements to its publications program based on previously conducted reviews of that program.

The FDIC conducts numerous outreach sessions several times each year throughout the country. The FDIC works with local banking groups to present Directors College outreach sessions to local bank board members. During these sessions, information on current risks, new regulations and other timely information are communicated to bank directors, who also have the opportunity to ask questions. Banker roundtable events are conducted by local FDIC offices nationwide to provide a forum for bankers to receive guidance and raise questions about new regulatory guidance or emerging risks.

Human Resources (staffing and training): The FDIC employs economists, financial analysts and other staff members who monitor risks within the banking industry and communicate those risks to other regulators, the industry, the public and other stakeholders through a variety of media and forums. In 2007, the FDIC will continue to increase the number of staff with quantitative risk-analysis and financial risk-modeling capabilities. In addition, outside scholars participate in the Corporation's risk analysis program, and risk-focused examination training has been incorporated into the FDIC's examination schools. The FDIC also maintains a cadre of staff members located throughout the country to conduct banker outreach sessions.

Information Technology: The FDIC's website (www.FDIC.gov) is a centralized source of information on FDIC research and analysis of potential areas of risk for the industry, the public and other regulators. In addition, the use of new, open data exchange standards (known as "eXtensible Business Reporting Language," or XBRL) provides faster access to financial institution information for all users of the data: financial institutions, bank regulators and the public.

Verification and Validation

Timely analyses of banking industry risks are included in regular publications or as ad hoc reports. Industry outreach activities aimed at the banking community and industry trade groups promote discussion of current trends and concerns, and inform bankers about available FDIC resources. Publications and outreach events are documented through established reporting processes.

2006 Performance Results

This annual performance goal and its associated performance indicator and targets are carryovers from 2006. In 2006, the FDIC met the performance targets through the CFR's program of research, publications, and conferences and through the FDIC's regular publications program focusing on bank information and current industry conditions, risks and trends. These publications include the *FDIC Quarterly Banking Profile,* quarterly *FDIC State Profiles,* quarterly *FDIC Outlook* and periodic *FYI* reports.

STRATEGIC OBJECTIVE 1.3

The deposit insurance funds and system remain viable.

Annual Performance Goal 1.3-1

Maintain and improve the deposit insurance system.

Indicators and Targets

1. Implementation of deposit insurance reform

    - Implement the new deposit insurance pricing system.

    - Complete and issue guidance on the pricing of deposit insurance for large banks.

    - Publish an ANPR seeking comment on a permanent dividend system.

2. Loss reserves

    - Enhance the effectiveness of the reserving methodology by applying sophisticated analytical techniques to review variances between projected losses and actual losses, and by adjusting the methodology accordingly.

3. Fund adequacy

    - Set assessment rates to maintain the insurance fund reserve ratio between 1.15 and 1.50 percent of estimated insured deposits.

Means and Strategies

Operational Processes (initiatives and strategies): In 2007, FDIC systems and business procedures will be developed or modified to implement the new risk-based assessment system. The FDIC will issue Financial Institution Letters explaining the new methodology and procedures. FDIC staff will also conduct outreach activities through industry trade groups and other appropriate venues. Staff will draft an ANPR on dividends for review and approval by the FDIC Board of Directors in 2007. Comments on the ANPR will be considered when drafting an NPR on dividends in 2008.

The FDIC's Financial Risk Committee (FRC) develops quarterly failure projections and loss estimates to establish contingent loss reserves for the insurance fund. The FRC keeps pace with changing techniques and methodologies used to analyze the nature of risk exposure, including scenario analysis and stress testing. Models that forecast failures and failure resolution costs are maintained and enhanced, as necessary. The FRC regularly reviews adverse events to identify lessons or implications for monitoring and addressing risks. Supervisory and other information about large institutions is incorporated into the FRC's recommendations regarding insurance-related business decisions. The FRC consults with the other federal banking agencies in its deliberations.

Based on an analysis of projected failed bank assets and other pertinent information, the FRC recommends to the Chief Financial Officer the level of the contingent loss reserve for the DIF, as determined by the FDIC's reserving methodology. FDIC staff also uses the information provided by the FRC on projected insurance losses to determine the level of assessment revenue necessary to maintain adequate funding in the DIF. Projected insurance losses, as well as projections of investment revenue, operating expenses and insured deposit growth, are key elements in estimating assessment revenue needs.

Human Resources (staffing and training): Additional staff will be recruited in 2007 to administer and perform the analytical work associated with deposit insurance pricing. In addition, the FDIC will continue to add staff to its banking and economic research program, and to expand its ties to the academic community to broaden the information and analytical perspectives available to the Corporation as steward of the DIF. Outside scholars will be actively engaged in producing relevant research through CFR sponsored relationships and activities.

Information Technology: All applications affected by the funds merger and deposit insurance coverage changes were successfully modified and tested in 2006. A total of 48 applications were impacted by the merger of the BIF and SAIF and changes in deposit insurance coverage. Two additional systems, including the Risk-Related Premium System (RRPS), will be modified to support the implementation of deposit insurance reform, and the development of a dividends processing system will begin in 2007.

Verification and Validation

In 2007, FDIC staff will review systems to ensure that they are functioning properly prior to issuing the first quarterly assessment invoices. In addition, related business processes will be reviewed by the FDIC's Office of Enterprise Risk Management.

To ensure that the RRPS identifies higher risk institutions and appropriately assesses higher insurance premiums, the FDIC reviews, on an on-going basis, the assessment history of all failed insured depository institutions and determines whether the system is working adequately.

The Government Accountability Office reviews the methodology used to determine the contingent loss reserve annually. In 2007, the FRC will again conduct a semiannual review of the effectiveness of the contingent loss reserve methodology through an analysis of the variance between projected and any actual losses.

2006 Performance Results

This annual performance goal as well as performance indicators #2 and #3 and their associated performance targets are carryovers from 2006. Regarding to performance indicator #2 and its associated performance target, the FDIC performed reviews in 2006, as it had in prior years, to confirm the effectiveness of its reserving methodology, and it will continue to undertake such reviews in 2007. Regarding performance indicator #3 and its associated performance target, the FDIC set the Designated Reserve Ratio (DRR) for the DIF at 1.25 basis points and established new assessment rates for insured institutions, effective in 2007, that are designed to achieve the DRR. The Corporation will regularly review the DRR and the established assessment rates in 2007 and future years to determine whether changes are needed.

Performance indicator #1 and its associated targets have been revised to reflect the substantial progress made during 2006 in implementing deposit insurance reform. In 2006, the FDIC increased the deposit insurance coverage limit for retirement accounts to $250,000; merged the Bank Insurance and Savings Association Insurance Funds into the new DIF; developed a new risk-based deposit insurance pricing system and established new assessment rates to be effective in 2007; established a new assessment credits system; and adopted a temporary system for any required payment of dividends from the DIF. The updated performance indicator and targets for 2007 focus on implementation of the new deposit insurance pricing system and initiation of rulemaking activities leading to the establishment of a permanent dividend system.

Annual Performance Goal 1.3-2

Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts.

Indicators and Targets

1. Timeliness of responses to insurance coverage inquiries

- Respond to 90 percent of inquiries from consumers and bankers about FDIC deposit insurance coverage within time frames established by policy.

2. Utility of educational tools available to bankers and consumers

- Publish a comprehensive and authoritative resource guide for bankers, attorneys, financial advisors and similar professionals on the FDIC's rules and requirements for deposit insurance coverage of revocable and irrevocable trust accounts.

- Conduct a series of national teleconferences for insured financial institutions to address current questions and issues relating to FDIC insurance coverage of deposit accounts.

Means and Strategies

Operational Processes (initiatives and strategies): The FDIC uses a variety of means to educate insured financial institutions and depositors about FDIC deposit insurance coverage. In addition to conducting seminars for bank employees, the FDIC encourages the dissemination of educational information through the banking industry and the media. The FDIC updated deposit insurance educational tools and publications in 2006 to reflect the changes made as a result of deposit insurance reform, and will further update its deposit insurance brochures in 2007. The FDIC works with insured financial institutions to encourage them to use these tools and to make the FDIC's publications available to bank employees and customers. The FDIC also publishes articles on insurance coverage rules in the *FDIC Consumer News*, a quarterly newsletter for consumers published by the FDIC, and works to publicize any changes to deposit insurance rules through the national and regional news media.

Human Resources (staffing and training): Staffing and training needs are reviewed on an ongoing basis. This is done to ensure that the resources supporting the deposit insurance educational initiative are adequate and that employees possess the skills and knowledge to implement this program effectively and successfully.

Information Technology: The FDIC manages the receipt of and response to banker and public inquiries about the FDIC's deposit insurance program using the Specialized Tracking and Reporting System (STARS). During 2007, the Corporation plans to implement an updated version of STARS incorporating changes required by passage of the Deposit Insurance Reform Act. In 2007, the FDIC will also continue to use teleconferencing technology to more efficiently reach a large audience of financial institution employees and the Internet to deliver deposit insurance educational tools and materials to the banking community and the public.

Verification and Validation

Progress in meeting this goal will be tracked through established reporting processes.

2006 Performance Results

This annual performance goal as well as performance indicator #2 are carryovers from 2006. The FDIC achieved all of the 2006 performance targets related to updating brochures and the online Electronic Deposit Insurance Estimator (EDIE) tool to publicize the deposit insurance coverage changes implemented in conjunction with the enactment of deposit insurance reform. Accordingly, new 2007 performance targets have been established for performance indicator #2.

Performance indicator #1 is new for 2007, but the associated performance target is a carryover from 2006 and earlier years. In 2006, the FDIC exceeded the performance target by responding to 99 percent of all inquiries from bankers and consumers related to deposit insurance coverage within target time frames, despite a 34 percent increase in the number of such inquiries.

Annual Performance Goal 1.3-3

Expand and strengthen the FDIC's leadership role in providing technical guidance, training, consulting services and information to international governmental banking and deposit insurance organizations.

Indicator and Targets

Scope of information sharing and assistance available to international banking and deposit insurance entities.

- Undertake global outreach activities to inform and train foreign bank regulators and deposit insurers.

- Foster strong relationships with international banking regulators and associations that promote sound banking policies in order to provide leadership and guidance in global banking supervision and regulation, failure resolution and deposit insurance.

Means and Strategies

Operational Processes (initiatives and strategies): Increasing globalization and interdependence heighten the potential for financial and economic instability to transcend geographic boundaries. The FDIC recognizes that its promotion of sound, stable banking systems abroad is a key ingredient for greater global prosperity and stability that will benefit the U.S. financial system and the banking public.

The FDIC established the Office of International Affairs (OIA) in 2006 to better coordinate the FDIC's wide range of international activities, with a focus on building strong relationships with foreign regulators and deposit insurers, other U.S. government entities and international organizations. OIA directs foreign technical assistance, training, consulting and outreach programs to support the development and maintenance of effective deposit insurance systems and stable, sound banking systems worldwide.

Human Resources (staffing and training): The FDIC will evaluate the appropriate staffing level to support the international program and institute several detail opportunities to provide technical assistance to foreign banking-related government entities. Domestic details to support the international program and enhance the FDIC's leadership role in regional and international bank supervision, failure resolution and deposit insurance groups will also be evaluated.

Information Technology: The increased knowledge base of international banking activities and the role of the FDIC's international program will be communicated through OIA's website.

Verification and Validation

An enhanced leadership role in key international organizations will demonstrate the FDIC's impact. Progress in meeting this annual goal will be tracked through established reporting to the FDIC's International Affairs Working Group.

2006 Performance Results

This annual performance goal and the associated performance indicator and targets are new for 2007, so there were no related 2006 performance results.

SUPERVISION PROGRAM

The FDIC's Supervision Program promotes the safety and soundness of FDIC-supervised insured depository institutions, protects consumers' rights and promotes community investment initiatives by FDIC-supervised insured depository institutions. In 2007, the FDIC will continue its efforts to increase the operational efficiency of all of its supervisory programs. Ongoing industry consolidation, new technologies and product innovation have resulted in larger, more complex organizations. The FDIC will focus increased resources on the larger, more complex financial institutions that constitute the most risk to the DIF. The FDIC will also continue to assess and modify, as appropriate, its examination procedures for all institutions in light of changing risk profiles for the industry and for individual institutions.

The FDIC is the primary federal regulator for 5,237[3] state-chartered banks that are not members of the Federal Reserve System, generally known as state non-member banks, and includes state-licensed insured branches of foreign banks and state-chartered savings institutions. As insurer, the FDIC also has special examination authority for state member banks that are supervised by the Federal Reserve Board (FRB), national banks that are supervised by the Office of the Comptroller of the Currency (OCC) and savings associations that are supervised by the Office of Thrift Supervision (OTS).

As the primary federal regulator of all insured state non-member banks, the FDIC performs periodic examinations of these institutions to assess their overall financial condition, management policies and practices, and compliance with applicable laws and regulations. Through the examination process, the FDIC also assesses the adequacy of management and internal control systems to identify and control risks and to detect the risks of fraud or insider abuse. In separate examinations, the FDIC assesses institutions' programs for compliance with consumer protection, fair lending, privacy and Community Reinvestment Act (CRA) statutes. As part of the compliance examination process, the FDIC reviews the information and disclosures that are provided to consumers by the institutions.

If weaknesses are identified through the examination process, the FDIC promptly takes appropriate supervisory action. Formal and informal enforcement actions may be issued for institutions identified as having significant weaknesses or operating in a deteriorated financial condition. The institution must operate under the action until the weakness is remedied. Non-compliance with consumer protection or fair lending laws can result in civil liability and negative publicity as well as the imposition of formal or informal actions by the FDIC to correct the identified violations.

[3] As published in the September 2006 *FDIC Quarterly Banking Profile*.

The FDIC also investigates consumer complaints about FDIC-supervised insured depository institutions. Consumers write or electronically submit to the FDIC complaints and inquiries regarding consumer protection and fair lending issues. The FDIC attempts, through its investigation and response to consumer complaints and inquiries, to help consumers better understand their rights under federal consumer protection and fair lending laws. The FDIC monitors the level of public satisfaction with its responses to consumer complaints and inquiries.

The FDIC also acts on applications for new or expanded activities from FDIC-supervised insured depository institutions. When institutions apply for expansion of existing activities or locations, various factors are evaluated, including capital adequacy, quality of management, financial condition and compliance with applicable laws and regulations. An institution's compliance with consumer protection, fair lending and privacy laws and its performance under the CRA are also considered when an institution applies to expand its business organization within the insured depository institution system.

The following table depicts the strategic goal, strategic objective and annual performance goals for the Risk Management component of the Supervision Program.

Strategic Goal	Strategic Objective	Annual Performance Goals
FDIC-supervised institutions are safe and sound.	FDIC-supervised institutions appropriately manage risk.	Conduct onsite risk management examinations to assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions.
		Take prompt and effective supervisory action to address problems identified during the FDIC examination of FDIC-supervised institutions that receive a composite Uniform Financial Institutions Rating of "4" or "5" (problem institution). Monitor FDIC-supervised insured depository institutions' compliance with formal and informal enforcement actions.
		Increase regulatory knowledge to keep abreast of current issues related to money laundering and terrorist financing.
		More closely align regulatory capital with risk in large or multinational banks while maintaining capital at prudential levels.
		More closely align regulatory capital with risk in banks not subject to Basel II capital rules while maintaining capital at prudential levels.
		Ensure that FDIC-supervised institutions that plan to operate under the new Basel II Capital Accord are well positioned to respond to new capital requirements.
		Reduce regulatory burden on the banking industry while maintaining appropriate consumer protection and safety and soundness safeguards.

The following table depicts the strategic goal, strategic objectives and annual performance goals for the Consumer Protection component of the Supervision Program.

Strategic Goal	Strategic Objectives	Annual Performance Goals
Consumers' rights are protected and FDIC-supervised institutions invest in their communities.	FDIC-supervised institutions comply with consumer protection, CRA and fair lending laws.	Conduct CRA and compliance examinations in accordance with the FDIC's examination frequency policy.
		Take prompt and effective supervisory action to monitor and address problems identified during compliance examinations of FDIC-supervised institutions that receive an overall "4" or "5" rating for compliance with consumer protection and fair lending laws.
		Determine the need for changes in current FDIC practices for following up on significant violations of consumer compliance laws and regulations identified during examinations of banks for compliance with consumer protection and fair lending laws.
	Consumers have access to easily understood information about their rights and the disclosures due them under consumer protection and fair lending laws.	Effectively meet the statutory mandate to investigate and respond to consumer complaints about FDIC-supervised financial institutions.
		Provide effective outreach and technical assistance on topics related to the CRA, fair lending and community development.

STRATEGIC GOAL 2:
FDIC-supervised institutions are safe and sound.

STRATEGIC OBJECTIVE 2.1

FDIC-supervised institutions appropriately manage risk.

Annual Performance Goal 2.1-1

Conduct onsite risk management examinations to assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions.

Indicator and Target

Percentage of required examinations conducted in accordance with statutory requirements and FDIC policy

- 100 percent of required risk management examinations, including reviews of information technology (IT) and Bank Secrecy Act (BSA) compliance, are conducted on schedule.

Means and Strategies

Operational Processes (initiatives and strategies): Risk management examinations assess the overall financial condition, management practices and policies, and compliance with applicable regulations of FDIC-supervised depository institutions. The FDIC performs safety and soundness, BSA and IT reviews at each examination of an FDIC-supervised insured depository institution. As applicable, the FDIC also conducts reviews of trust, registered transfer agent, municipal securities dealer and government security dealer activities at these examinations. In 2007, the FDIC projects that it will conduct approximately 2,435 risk management examinations required under statute, FDIC policy, or agreement with state supervisors. The FDIC will also conduct BSA/Anti-money laundering (AML) examinations in conjunction with risk management examinations conducted by state regulators for the small number of state bank regulatory agencies (currently fewer than 10) that do not incorporate BSA/AML examination procedures into their examinations.

The FDIC follows a risk-focused approach to examinations, which allows examiners to focus resources on those areas with the greatest potential risk. The FDIC has several analytical models to identify higher risk financial institutions by considering factors such as rapid growth, fluctuating earnings, economic downturns and concentrations in vulnerable industry sectors. Examiners use these offsite tools to better focus on higher risk areas during onsite examinations. These models are also used to identify the need for inquiries or onsite visits to FDIC-supervised institutions outside of the regular examination cycle.

The FDIC also continues to focus on risks posed by technology. Onsite examinations review technology-related activities to determine how each FDIC-supervised depository institution manages IT risks. The FDIC proactively monitors indicators of technology risks that may impact FDIC-supervised institutions and provides information to the industry about risks associated with technology outsourcing practices (e.g., contracting for computer services). The FDIC is engaged in an ongoing dialogue with technology vendors, bank trade associations, and standards and rule-setting entities to identify effective risk management practices for emerging technologies.

During 2006, the FDIC worked closely with state and other federal agencies to monitor those financial institutions most impacted by the 2005 hurricane season through onsite and offsite programs. The FDIC has found that institutions in the affected area have generally benefited from the influx of insurance proceeds and grant proceeds from federal assistance programs and have sought methods to deploy these funds into earning assets. Financial institutions in the hurricane zone continue to face significant challenges, including displaced customers and employees and uncertainties regarding infrastructure reconstruction. Going forward, the FDIC, in concert with the other banking agencies, will continue to monitor the affected financial institutions for any residual impact of the 2005 hurricane season. The FDIC will also continue to monitor available public information on population, economic and other pertinent trends that could impact the business environments in which the affected institutions operate.

Resource constraints at the state level may impact the completion of examinations in accordance with this annual goal. Under the alternating examination program, certain examinations are conducted by the FDIC or the appropriate state supervisor on alternating 12- or 18-month cycles. Should a state supervisor responsible for completing an examination experience scheduling, staffing or other resource constraints, the statutory examination requirement may not be met. In such cases, the FDIC will work with the state supervisor to ensure that any delinquent examination is scheduled and completed. When appropriate, the FDIC may conduct the examination in lieu of the state supervisor.

The number of risk management examinations conducted during 2007 may fluctuate as the number of FDIC-supervised insured depository institutions changes due to mergers, closings, newly approved charters and other actions. Increases in asset size or changes to condition or capital levels may accelerate examination cycles and increase the number of required examinations. In addition, the number of institutions examined will be reduced as a result of legislation passed in 2006 that lengthens the examination cycle for most "1" and "2" rated institutions with total assets between $250 million and $500 million.

Human Resources (staffing and training): Staffing and training needs are reviewed on an ongoing basis to ensure that the staff resources supporting the examination program are adequate and that those employees possess the skill and knowledge to effectively and successfully examine emerging risks.

In 2007, the FDIC will take the lead in working with the other federal banking agencies, the Financial Crimes Enforcement Network (FinCEN) and the Conference of State Bank Supervisors

(CSBS) to update the Federal Financial Institutions Examination Council (FFIEC) BSA/AML Examination Manual to ensure that the guidance remains current for existing laws, regulations and policy interpretations. DSC personnel will supervise the translation of the 2007 FFIEC BSA/AML Examination Manual into Spanish. Also, further guidance will be provided to risk management staff through written memoranda and participation in the FFIEC BSA/AML Examination Workshop.

The FDIC will continue to augment its general examiner training curriculum with courses on the integration of technology issues with safety and soundness. The Information Technology Examination Course, which teaches examiners how to better factor technology risk into overall risk management assessments, was updated in 2006 to reflect revised examination procedures for the newly implemented Information Technology Risk Management Program. As in previous years, the FDIC will continue to build upon risk management examiners' solid base of general technology knowledge by providing refresher training on pertinent technology topics. The intent is to ensure that all risk management examiners and IT Examination Specialists have the knowledge needed to perform their duties in light of the increased complexity of technology in the banking industry.

Information Technology: The FDIC will continue to employ automated tools, such as the General Examination System (GENESYS), Examination Documentation modules, Interest Rate Risk Sensitivity Analysis (IRRSA) software and the Automated Loan Examination and Review Tool (ALERT), to improve the efficiency of its examinations.

<u>Verification and Validation</u>

The actual number of examinations conducted and adherence to required examination time frames will be tracked through internal management systems and reported in the FDIC's 2007 Annual Report.

<u>2006 Performance Results</u>

This annual performance goal and the associated performance indicator and target are carryovers from 2006. In 2006, the FDIC completed all 2,388 required safety and soundness examinations, including reviews of IT and BSA compliance, within prescribed time frames.

Annual Performance Goal 2.1-2

Take prompt and effective supervisory action to address problems identified during the FDIC examination of FDIC-supervised institutions that receive a composite Uniform Financial Institutions Rating of "4" or "5" (problem institution). Monitor FDIC-supervised insured depository institutions' compliance with formal and informal enforcement actions.

Indicator and Target

Percentage of follow-up examinations of problem institutions conducted within required time frames

- 100 percent of follow-up examinations are conducted within 12 months of completion of the prior examination.

Means and Strategies

Operational Processes (initiatives and strategies): Problem institutions are identified primarily through the examination process. While reason and moral suasion are the primary corrective tools, the FDIC has broad enforcement powers to correct practices, conditions or violations of law that threaten an insured depository institution's safe and sound condition. The FDIC may use informal and formal enforcement actions against the institution or responsible individuals to address identified problems. In all cases, follow-up examinations of these institutions will include a review of compliance with supervisory actions, and additional follow-up action will be taken where corrective action is insufficient.

The responsible case manager and senior regional officials will closely monitor problem depository institutions. Progress in complying with enforcement actions will be assessed through progress reports from institutions, offsite monitoring tools, and direct communication with financial institution management and/or onsite visits.

Human Resources (staffing and training): Staffing and training needs will be reviewed on an ongoing basis to ensure resources supporting the examination program are adequate and those employees possess the skill and knowledge to effectively examine problem institutions.

Information Technology: The ViSION system is used to monitor all enforcement action activity and other significant events at problem institutions.

Verification and Validation

The examination report identifies corrective actions to be taken. If deemed necessary, a formal or informal enforcement action is transmitted to the financial institution along with the report of examination. To ensure that supervisory actions are taken promptly, the FDIC monitors the time it takes to provide examination reports to FDIC-supervised problem institutions after the completion of an examination.

The FDIC will continue to use the Regional Office Internal Control Review program to ensure regions are monitoring FDIC-supervised insured depository institutions' 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. Any material exceptions noted during the reviews will be raised to management's attention for appropriate action.

2006 Performance Results

This annual performance goal and the associated performance indicator and target are carryovers from 2006. In 2006, the FDIC conducted all follow-up examinations of problem institutions within the prescribed time frame.

Annual Performance Goal 2.1-3

Increase regulatory knowledge to keep abreast of current issues related to money laundering and terrorist financing.

Indicator and Target

Certification of BSA/AML subject matter experts

- An additional 10 percent of BSA/AML subject matter experts nationwide are certified under the Association of Certified Anti-Money Laundering Specialists (ACAMS) certification program.

Means and Strategies

Operational Processes (initiatives and strategies): Examining for compliance with BSA/AML rules and regulations within the financial services sector and managing the risks associated with noncompliance remain a priority. The FDIC will continue its efforts to increase industry and regulatory awareness of the risks associated with lax controls and procedures, which could allow money laundering and/or terrorist financing activities. The FDIC has expanded outreach efforts to promote greater industry awareness and understanding of the BSA regulations and other supervisory matters related to BSA/AML compliance. Well-attended industry outreach events specifically targeting BSA/AML issues were conducted in every region during 2006. Based on the success of this program, the FDIC will continue targeted outreach sessions in 2007. To maximize the effectiveness of BSA/AML outreach activities, the FDIC will focus on enhancing examiner training in 2007 (see "Human Resources" below), including an increase in the number of Certified Anti-Money Laundering Specialists.

The FDIC is a member of an interagency working group formed to assess financial systems' vulnerability in countries categorized as being the most vulnerable to terrorist financing and money laundering activities. The working group also assists the governments of those countries in developing and implementing training plans to address those vulnerabilities. As part of the assessment process, teams meet with central bank authorities, law enforcement officials, financial intelligence units, bankers, members of the private sector and other key contacts. The FDIC will continue to provide expertise to this effort. In addition, a second governmental agreement between the FDIC and the U.S. Department of State has been established to provide AML/Counter-Financial Terrorism (AML/CFT) training for central bank and other government officials in these countries.

Human Resources (staffing and training): Currently, more than 340 FDIC risk management examiners are trained as BSA/AML subject matter experts. They perform BSA/AML examinations at institutions that have a higher risk profile due to their geographic location, customer base, products and services offered, or BSA/AML compliance record. Training continues to address more complex BSA/AML examination procedures, such as those pertaining to correspondent and private banking relationships with foreign entities (including funds transfer activity), money service businesses and other nonbank financial institutions, enhanced due diligence of high-risk accounts and compliance with regulations enforced by the Office of Foreign Assets Control. The National BSA/AML Task Force was established in 2006 to allow for the sharing of qualified examination staff nationwide and to provide training opportunities for other subject matter experts at BSA/AML examinations of large and/or high-risk institutions where the potential for money laundering or other illicit financial activity is a concern.

In 2006, the FDIC achieved its goal of providing ACAMS training and certification to 10 percent of its BSA/AML subject matter experts. The certification process involves a self-study course with testing in several areas related to AML and international AML standards. The FDIC will continue its participation in the ACAMS certification process in 2007. This advanced knowledge and industry recognized certification will enable FDIC employees to identify a broader range of sophisticated money laundering and other illicit financial activity and will enhance the effectiveness of the BSA/AML examination program.

Information Technology: BSA/AML reference materials are available on the FDIC's website at www.fdic.gov/regulations/examinations/bsa/index.html. This link allows the banking industry and the regulatory community centralized and expanded access to BSA/AML resources. The link also provides updated information and instruction related to examination procedures, interpretive guidance, websites of related agencies, instructions for reporting suspicious activity and terrorist-financing activity, and an overview of governing rules and regulations.

In concert with the release of the interagency BSA/AML Examination Manual, the federal banking agencies have also made available through the FFIEC website (www.ffiec.gov) a BSA/AML Examination Manual InfoBase. It includes the interagency BSA/AML Examination Manual, BSA regulations, a presentation on changes in the BSA/AML Examination Manual from 2005 to 2006 and guidance provided by each federal banking agency.

Verification and Validation

The FDIC's Washington Office is responsible for tracking the completion of advanced BSA/AML training by BSA/AML subject matter experts. The Regional Offices report to the Washington Office on the planning and completion of these training sessions.

2006 Performance Results

This annual performance goal and the associated performance indicator are carryovers from 2006. In 2006, more than 10 percent of the FDIC's BSA/AML subject matter experts completed the requirements for advanced certification by ACAMS. For 2007, a new performance target has been established for an additional 10 percent of the FDIC's BSA/AML subject matter experts to complete the advanced certification requirements.

Annual Performance Goal 2.1-4

More closely align regulatory capital with risk in large or multinational banks while maintaining capital at prudential levels.

Indicator and Targets

Continuation of preparatory activities related to the implementation of the new Basel Capital Accord (Basel II)

- Further develop the Basel II framework to ensure that it does not result in a substantial reduction in risk-based capital requirements or significant competitive inequities among different classes of banks. Consider alternative approaches for implementing the Basel Capital Accord.

- Participate in the continuing analysis of the projected results of the new capital regime.

- Promote international cooperation on the adoption of supplemental capital measures in countries that will be operating under Basel II.

Means and Strategies

Operational Processes (initiatives and strategies): The objective of Basel II is to more closely align regulatory capital with risk in large or multinational banks. The FDIC is working with the Basel Committee on Banking Supervision and the other federal bank regulatory agencies to plan for the implementation of Basel II. The agencies expect that only a small number of large, internationally active U.S. banking organizations will be required to use the Basel II framework. Under the proposed Basel II NPR, those institutions would be required to use the most advanced approaches of Basel II for determining their risk-based capital requirements. As such, implementation of Basel II would require that these institutions adopt very complex internal models to estimate capital requirements and assess capital adequacy. The agencies have sought comment on whether alternatives to the advanced approaches, such as the Basel IA proposal or the standardized approach, should be available for Basel II banking organizations. The adoption of the domestic Basel II framework by other U.S. banking organizations would be at the option of the individual banking organization and subject to the institution meeting certain predefined qualification standards. The existing capital rules, as amended, would continue to apply to those institutions that did not elect to use the framework.

The Basel II NPR Interagency Working Group (Working Group) is responsible for developing the framework that will formalize the FDIC's current plans and proposals for implementing Basel II in the United States. The Working Group will use the Basel Committee's text on the "International Convergence of Capital Measurement and Capital Standards," comments received in response to the NPR, as well as other resources to develop a regulation that more closely aligns regulatory capital with risk in large or multinational banks. In 2007, the Working Group will continue to meet periodically to develop regulatory text and will coordinate efforts with the Basel II Steering Group and the Guidance Development Committee.

In September 2006, the federal banking agencies jointly issued an NPR that incorporated additional prudential safeguards to address concerns raised in the fourth Quantitative Impact Study (QIS-4) submissions. These safeguards included a one-year delay in the targeted effective date of the regulation, a longer transition to the unconstrained use of the Basel II risk-based requirements, limitations on the amount that risk-based capital requirements at individual banks could decline during the transition period, the retention of U.S. leverage capital ratio and Prompt Corrective Action requirements and a ten percent downward limit on the aggregate reduction in minimum risk-based capital that could result from the implementation of Basel II. In 2007, the agencies will review the comments received in response to the Basel II NPR and will move toward final rulemaking for Basel II.

The first opportunity for U.S. banking institutions to conduct a parallel run under Basel II will be in January 2008. U.S. institutions adopting the Basel II-based capital rules will be subject to a minimum three-year transition period during which the agencies will apply floors that limit the amount by which each institution's risk-based capital could decline under Basel II. The floors will be applied in the following manner: 2009 – 95%, 2010 – 90% and 2011 – 85%. Information received during the U.S. Basel II implementation process, including the transition period, will be used to evaluate the effectiveness of the new framework. The agencies anticipate further revisions to the U.S. Basel II-based capital rules prior to the termination of the floors.

Through the FDIC's participation on the Basel Committee on Banking Supervision and its various subgroups, the FDIC will work to promote the adoption of supplementary capital measures to avoid substantial reductions in capital requirements resulting from the implementation of the new capital framework. A Basel Committee subgroup on the monitoring of capital requirements will help identify the extent of those reductions in capital requirements. It is anticipated that this will be a multi-year goal because of the extended timeline for Basel II implementation and the lack of currently available data to assess compliance with the Committee's and the FDIC's overall capital objectives.

Human Resources (staffing and training): The Working Group draws from various disciplines and skill sets. The breadth and depth of knowledge among FDIC staff on Basel II matters has expanded greatly due, in part, to the continued participation and active involvement in guidance development groups. Much of the staff currently participating in these projects will assist in the development, review and editing of sections of the final regulation within their areas of expertise. The FDIC has also augmented its skill sets by hiring several analysts who are highly skilled in mathematics and advanced quantitative methods to assist with Basel II implementation.

The FDIC will continue to use internal and external training to augment the skill sets of its staff. In 2006, staff members participated in specialized training in collateralized debt obligations, market risk management and large wholesale lending. Staff members have also participated in interagency training sessions on large bank and market risk topics. In 2007, additional large-bank training programs will be developed for FDIC employees.

Information Technology: The Working Group will utilize existing technology to accomplish the annual performance goal. The Working Group does not envision expanding or enhancing existing technology during the policy development stage of this project.

Verification and Validation

Progress in meeting this annual performance goal will be tracked through periodic meetings and established reporting processes.

2006 Performance Results

This annual performance goal and the associated performance indicator are carryovers from 2006. Both 2006 performance targets were met, and new performance targets have been established for 2007.

Annual Performance Goal 2.1-5

More closely align regulatory capital with risk in banks not subject to Basel II capital rules while maintaining capital at prudential levels.

Indicator and Target

Development of a revised capital framework proposal for institutions not subject to Basel II

- Complete rulemaking on Basel IA.

Means and Strategies

Operational Processes (initiatives and strategies): In conjunction with the transition to Basel II for the largest insured institutions, the FDIC and the other federal bank regulatory agencies are pursuing a more risk-sensitive capital framework for institutions that are not subject to (or opt out of) Basel II. This new Basel IA capital framework would seek to minimize potential competitive inequities between large and small banks resulting from the implementation of Basel II, while maintaining adequate capital levels and avoiding undue burden on the affected institutions. In December 2006, the FDIC Board approved a joint publication with the other federal regulatory agencies of a Basel IA NPR. In 2007, the agencies will complete rulemaking for Basel IA.

Human Resources (staffing and training): The Working Group will draw from various disciplines and skill sets within the federal bank regulatory agencies to ensure that a final rule is completed within the established time frames and that the proposed capital framework effectively addresses the objectives identified above.

Information Technology: The Working Group will utilize existing technology to accomplish the annual performance goal. The Working Group does not envision expanding or enhancing existing technology during the policy development stage of this project.

Verification and Validation

Progress in meeting this annual performance goal will be tracked through periodic meetings and established reporting processes.

2006 Performance Results

This annual performance goal and the associated performance indicator are carryovers from 2006. In 2006, the performance targets were met with the publication of the Basel IA NPR. For 2007, the performance target has been revised to seek completion of the Basel IA rulemaking following the review of comments received in response to the NPR.

Annual Performance Goal 2.1-6

Ensure that FDIC-supervised institutions that plan to operate under the new Basel II Capital Accord are well positioned to respond to new capital requirements.

Indicator and Target

Percentage of onsite examinations or offsite analyses performed

- Perform onsite examinations or offsite analyses of all FDIC-supervised banks that have indicated a possible intention to operate under Basel II to ensure that they are effectively working toward meeting required qualification standards.

Means and Strategies

Operational Processes (initiatives and strategies): Basel II is scheduled to be implemented in the U.S. on January 1, 2009. The FDIC actively participates on various international and domestic working groups relating to Basel II. For example, staff is involved in interagency efforts related to rulemaking, reporting and developing examination guidance to ensure uniform application of supervisory standards. Additionally, staff routinely participates in meetings of various international Basel II committees and working groups that focus on policy and implementation issues.

None of the insured institutions for which the FDIC is the primary federal regulator has formally indicated that it intends to opt-in for treatment under Basel II. However, staff continues to identify and routinely conduct outreach at institutions that may be considering operating under the new rules. Outreach efforts include responding to requests to review and discuss progress in developing project plans or designing systems in accordance with draft examination guidance.

Staff also continues to work closely with other primary federal regulators to ensure uniform application of Basel II among all insured institutions.

On September 25, 2006, the federal banking agencies published the Basel II NPR in the Federal Register for a public comment period that ends in April 2007. As the final rule is developed, the FDIC will continue to work with institutions that may intend to opt-in under the new rules. In 2006, onsite and offsite supervisory activities continued to be intensified to ensure that FDIC-supervised institutions are making progress toward meeting qualification standards, in accordance with institution-proposed timelines for opting-in.

Human Resources (staffing and training): The FDIC increased large-bank staff in 2006, which included better aligning staff with the expected workload for Basel II preparations. The FDIC also augmented its skill set by adding analysts who are highly skilled in mathematics and advanced quantitative methods. Quantitative analysts will be instrumental in ensuring that quantitative methods used in the advanced internal ratings-based approaches are adequate in qualifying for Basel II capital treatment and that such systems are satisfactory as the industry, markets and risk management techniques evolve. Designated staff members will continue to receive training to ensure that they have the requisite knowledge, expertise and experience to meet the supervisory challenges posed by Basel II. Additional large-bank specialist positions will be added in 2007 to handle the increased workload as Basel II moves toward implementation.

Information Technology: Existing technology will be used to accomplish this goal. No new information systems or automated tools will be developed in support of this annual performance goal in 2007.

Verification and Validation

Progress in meeting this annual performance goal will be tracked through periodic meetings and established reporting processes.

2006 Performance Results

This annual performance goal and the associated performance indicator and target are new for 2007, so there were no related 2006 performance results.

Annual Performance Goal 2.1-7

Reduce regulatory burden on the banking industry while maintaining appropriate consumer protection and safety and soundness safeguards.

Indicators and Targets

1. Implementation of regulatory burden reduction legislation

   - Applicable provisions of the Financial Services Regulatory Relief Act of 2006 (FSRRA) are implemented in accordance with statutory requirements.

   - Support is provided to the Government Accountability Office (GAO), as requested, for studies required under FSRRA.

2. Utilization of state anti-money laundering (AML) regulatory assessments of Money Service Businesses (MSBs) in FDIC risk management examinations

   - State AML assessments of MSBs are incorporated into FDIC risk management examinations in states where MSB AML regulatory programs are consistent with FDIC risk management standards.

Means and Strategies

Operational Processes (initiatives and strategies): The Financial Services Regulatory Reform Act of 2006 was signed into law on October 13, 2006. It incorporated many of the regulatory burden reduction recommendations proposed by the bank regulatory agencies, including the FDIC, in conjunction with the joint review that was undertaken over the past four years under the Economic Growth and Paperwork Reduction Act (EGRPRA). In 2007, the FDIC will implement all provisions of FSRRA for which it is responsible. This effort will include technical amendments to eight FDIC rules and regulations; amendments to two statements of policy; and issuance of pertinent guidance to bankers and FDIC staff. The FDIC may also be asked to provide input to two studies that FSRRA requires the GAO to conduct, with reports to be submitted to the Congress by October 2007. One study will address the volume and burden entailed in the current currency transaction report filing system, which was identified as a major concern to the banking industry during the EGRPRA review.

In 2007, the FDIC also plans to conduct a pilot project to determine how reliance on state MSB AML examination assessments might be factored into the FDIC's risk-focused examination approach or used in other ways to encourage banks to continue to serve MSBs. Although many FDIC-supervised institutions provide banking services to MSBs, the FDIC is concerned with the discontinuance of those services to the MSB industry by banks, which may be, in part, related to customer monitoring and documentation requirements for MSB account relationships. The FDIC will work with the FinCEN, the Internal Revenue Service, the CSBS, and the Money Transmitter Regulators Association and will interview several state supervisors to gain a better understanding of state AML regulation and oversight of the MSB industry. The FDIC will also evaluate the legal framework and authority of those states with respect to AML and information-sharing rules and will identify and evaluate options for incorporating state MSB AML examination programs and/or findings into the FDIC's BSA/AML examination process. A report will be prepared summarizing the findings of this pilot project.

Human Resources (staffing and training): FDIC attorneys, review examiners, policy analysts and examination specialists will develop for consideration by senior management and the Board of Directors, as appropriate, the revised regulations, statements of policy, and examination guidance necessary to implement the applicable provisions of FSRRA. For the MSB project, the FDIC will utilize staff specialists familiar with the FDIC's BSA/AML examination requirements to gather the necessary information, develop options for review, and evaluate the results of the pilot project.

Information Technology: Existing technology will be used in conjunction with this goal. As required by FSRRA, changes to regulation, statements of policy, and examination guidance will be distributed to examiners, other agencies, and the banking industry through several methods, including the internet and e-mail. The FDIC will also post these changes to its website (www.fdic.gov). Email will also be used to send updated policies and procedures to subscribers of the FDIC Subscription Service.

ViSION may be used to track any comments from BSA/AML examinations conducted under the pilot project regarding the state regulatory authority's AML review of MSBs. This information may also be documented in the BSA/AML examination work papers.

Verification and Validation

Progress in completing this goal will be tracked through periodic meetings and established reporting processes. A special tracking system may be established to monitor completion of required FSRRA implementation activities.

2006 Program Results

This annual performance goal and the associated performance indicator and targets are new for 2007, so there were no related 2006 performance results.

STRATEGIC GOAL 3:

Consumers' rights are protected and FDIC-supervised institutions invest in their communities.

STRATEGIC OBJECTIVE 3.1

FDIC-supervised institutions comply with consumer protection, CRA and fair lending laws.

Annual Performance Goal 3.1-1

Conduct CRA and compliance examinations in accordance with the FDIC's examination frequency policy.

Indicator and Target

Percentage of examinations conducted in accordance with required time frames

- 100 percent of required examinations are conducted within time frames established by FDIC policy.

Means and Strategies

Operational Processes (initiatives and strategies): The FDIC conducts CRA and compliance examinations of FDIC-supervised depository institutions in order to determine the institution's compliance with consumer protection and fair lending laws and its performance under CRA. The frequency of these examinations is specified by FDIC policy. For CRA examinations, the FDIC's examination frequency policy conforms to applicable provisions of the Gramm-Leach-Bliley Act (GLBA), which establishes the CRA examination cycle for most small banks. In 2007, the FDIC estimates that it will conduct 2,373 compliance and/or CRA examinations.

The FDIC's compliance examination approach places great emphasis on an institution's compliance risk-management practices as opposed to exhaustive transactional testing. This approach involves an expanded review of an institution's systems and compliance policies so that transaction testing can be better targeted and focused on areas of greatest risk exposure. This approach creates a more efficient and effective use of examination resources, especially in financial institutions with high compliance risk profiles.

Human Resources (staffing and training): Staffing and training needs are reviewed on an ongoing basis to ensure that staff resources supporting the examination program are adequate and that employees possess the skills and knowledge to effectively and successfully implement this program.

Information Technology: The System of Uniform Reporting of Compliance and CRA Examinations (SOURCE) is used to schedule and track financial institution compliance examinations, support pre-examination planning and provide management information.

Verification and Validation

The FDIC will analyze examination-related data collected in SOURCE to determine whether targeted performance levels were achieved during the reporting period.

2006 Performance Results

This annual performance goal and the associated performance indicator and target are carryovers from 2006. In 2006, the FDIC conducted 1,959 compliance and CRA examinations within prescribed time frames.

Annual Performance Goal 3.1-2

Take prompt and effective supervisory action to monitor and address problems identified during compliance examinations of FDIC-supervised institutions that receive an overall "4" or "5" rating for compliance with consumer protection and fair lending laws.

Indicator and Target

Percentage of follow-up examinations or related activities conducted within required time frames

- 100 percent of follow-up examinations or related activities are conducted within 12 months from the date of a formal enforcement action to confirm that the institution is in compliance with the enforcement action.

Means and Strategies

Operational Processes (initiatives and strategies): Problem institutions are identified primarily through the examination process. While discussions with bank management are usually sufficient to correct deficiencies, the FDIC has broad enforcement powers to correct practices, conditions or violations of law that threaten an institution's compliance with consumer protection and fair lending laws, or a consumer's rights under those laws. The FDIC may use informal and formal enforcement actions against the institution or responsible individuals to address identified problems. In all cases, follow-up examinations of these institutions will include a review of compliance with supervisory actions, and additional follow-up action will be taken where corrective action is insufficient.

Human Resources (staffing and training): Staffing and training needs are reviewed on an ongoing basis to ensure resources supporting the examination program are adequate and those employees possess the skills and knowledge to effectively examine problem institutions. In 2007, the FDIC will develop post-commissioning training programs for compliance examiners to ensure they have sufficient knowledge to assess compliance with increasingly complex consumer regulations and consumer products.

Information Technology: The ViSION system is used to monitor all enforcement action activity.

Verification and Validation

The examination report identifies required corrective actions. If deemed necessary, a formal or informal enforcement action is transmitted to the financial institution along with the report of examination. To ensure that supervisory actions are taken promptly, the FDIC monitors the time it takes to provide examination reports to FDIC-supervised problem institutions after the completion of an examination.

The FDIC will continue to use the Regional Office Internal Control Review program to ensure regions are monitoring FDIC-supervised insured depository institutions' compliance with formal and informal enforcement actions. This review incorporates various components of the supervisory process, including an assessment of the appropriateness, implementation and follow-up of formal and informal corrective actions. Any material exceptions noted during the reviews will be raised to management's attention for appropriate action.

2006 Performance Results

This annual performance goal and the associated performance indicator and target are carryovers from 2006. In 2006, the FDIC conducted all follow-up examinations of problem institutions within the prescribed time frame.

Annual Performance Goal 3.1-3

Determine the need for changes in current FDIC practices for following up on actions on significant violations of consumer compliance laws and regulations identified during examinations of banks for compliance with consumer protection and fair lending laws.

Indicator and Targets

Completion of analysis and evaluation of current practices

- An analysis is completed for all institutions on the prevalence and scope of repeat instances of significant violations from the previous compliance examination.

- A determination is made regarding the need for changes to current FDIC and FFIEC guidance on follow-up supervisory action on significant violations identified during compliance examinations, based on the substance and level of risk posed to consumers by these repeat violations.

Means and Strategies

Operational Processes (initiatives and strategies): The FDIC takes enforcement action of consumer protection laws very seriously and has issued hundreds of formal and informal enforcement actions in recent years to ensure that FDIC-supervised institutions comply with consumer protection laws. The FDIC also requires financial reimbursement for those harmed by violations of consumer protection laws.

Violations occur even at institutions that have otherwise implemented a strong compliance program. Examiners use judgment and experience to place violations in the proper context when they draw conclusions from examination findings. As part of the FDIC's ongoing assessment of its examination procedures, the need for adjustments to current policies regarding formal and informal enforcement actions will be considered in 2007. Further, the need for additional follow-up at institutions with significant violations of compliance and consumer protection laws will be considered. This analysis will take a risk-focused approach to assessing the level and significance of examination findings.

Human Resources (staffing and training): In the upcoming months, an independent group of review examiners will review compliance examination reports containing significant violations. This group will make recommendations to FDIC senior management about the need for changes to current procedures and policies. Should changes occur, the means for communicating these changes and the need for examiner training for these new procedures will be evaluated.

Information Technology: Current technology systems are capable of providing the information necessary to complete this analysis.

Verification and Validation

Progress in meeting this annual performance goal will be tracked through periodic meetings and established reporting processes.

2006 Performance Results

This annual performance goal and the associated performance indicator and targets are new for 2007, so there were no related 2006 performance results.

STRATEGIC OBJECTIVE 3.2

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 3.2-1

Effectively meet the statutory mandate to investigate and respond to consumer complaints about FDIC-supervised financial institutions.

Indicator and Target

Timely responses to written complaints

- Responses are provided to 90 percent of written complaints within time frames established by policy.

Means and Strategies

Operational Processes (initiatives and strategies): The FDIC investigates and responds to written complaints regarding consumer protection and fair lending issues, including those received electronically through the Customer Assistance Form on the FDIC's website. The Corporation also provides consumer protection information to financial institutions and the public. When performed effectively, these activities help consumers better understand their rights under consumer protection and federal fair lending laws.

In 2007, the FDIC expects to receive approximately 9,000 written complaints and will closely monitor the timeliness of its responses. Additionally, the FDIC has begun surveying a sample of consumers who have filed written consumer protection and fair lending complaints in order to assess their satisfaction with the FDIC's investigations and responses.

Human Resources (staffing and training): The FDIC has centralized its responsibility for responding to consumer complaints in its Consumer Response Center in Kansas City. This centralized location helps maintain staff knowledge and expertise, and it provides greater flexibility in balancing staff resources and workload.

Information Technology: The FDIC uses the Specialized Tracking and Reporting System (STARS) to capture and report information, including response time, about complaints.

Verification and Validation

To maintain the integrity of STARS data, system edit checks and data field requirements are designed to eliminate inaccurate and illogical data. During periodic system testing and internal control reviews, existing data verification and validation procedures and controls are evaluated for adequacy. Accepted survey research methods have been employed to ensure the validity of the customer satisfaction survey instrument and to verify the accuracy of the survey results.

2006 Performance Results

This annual performance goal and the associated performance indicator and target are carryovers from 2006. In 2006, the Corporation exceeded the performance target, responding to over 97 percent of the 9,652 written consumer complaints within the time lines established under FDIC policy.

Annual Performance Goal 3.2-2

Provide effective outreach and technical assistance on topics related to CRA, fair lending and community development.

Indicators and Targets

1. Number of individuals taking a *Money Smart* class or using the self-paced curriculum

   - 200,000 additional individuals are taught using the *Money Smart* curriculum.
   - 120 school systems and government entities are contacted to make them aware of the availability of *Money Smart* as a tool to teach financial education to high school students.

2. Dissemination of information that promotes expanded use of insured financial institutions by segments of the U.S. population that are currently underserved by those institutions

   - A review of existing risk management and compliance/CRA examination guidelines and practices is completed to ensure that they encourage and support the efforts of insured financial institutions to foster economic inclusion, consistent with safe and sound banking practices.
   - A pilot project is conducted with banks near military installations to provide small-dollar loan alternatives to high-cost payday lending.
   - Strategies are developed and implemented to encourage FDIC-supervised institutions to offer small-denomination loan programs.
   - Research is conducted and findings disseminated on programs and strategies to encourage and promote broader economic inclusion within the nation's banking system.

3. Number of outreach activities conducted, including technical assistance activities

   - 125 technical assistance (examination support) efforts or banker/community outreach activities are conducted related to CRA, fair lending or community development.

Means and Strategies

Operational Processes (initiatives and strategies): The FDIC participates in a variety of community outreach activities designed to increase awareness of 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. To facilitate compliance, the FDIC provides supervised insured depository institutions with updated information on laws, regulations and guidance. This information is provided in brochures and through other media, including the FDIC's website (www.fdic.gov). Through community outreach efforts and technical assistance, the FDIC encourages lenders to work with members of their local communities in meeting the communities' credit needs. The FDIC also develops publications, such as *FDIC Consumer News*, specifically for consumers to increase awareness and improve their understanding of consumer rights and responsibilities.

In 2007, the FDIC will continue eight community development initiatives designed to increase access to capital. In addition, the FDIC will implement initiatives to promote economic inclusion of traditionally underserved communities to financial institutions' services and programs that address affordable housing, remittances, small business and micro-lending and asset-building. *Money Smart* is a highly praised, well-received mechanism for promoting economic inclusion and financial literacy. The FDIC will continue to develop and promote the *Money Smart* financial education products to be responsive to market demand.

Human Resources (staffing and training): Workload and staffing resources trained in technical assistance and outreach are located in Washington, D.C. and the FDIC's six regional offices. Staffing for these activities was increased in 2006. The increased availability of resources ensures that the FDIC can respond to outreach needs in communities nationwide.

Information Technology: The FDIC uses the Community Affairs Database System (CARDS) to capture and report information about activities related to *Money Smart*, technical assistance, community development, outreach, CRA and fair lending.

Verification and Validation

Progress in meeting this annual performance goal will be tracked through periodic meetings and established reporting processes.

2006 Performance Results

This annual performance goal and performance indicators #1 and #3 are carryovers from 2006. For performance indicator #1, the first performance target is a carryover from 2006, when the FDIC provided *Money Smart* training to approximately 207,000 individuals who had not previously received the training. The second performance target is new for 2007; thus, there were no related performance results in 2006. Performance indicator #2 and its associated performance targets are new for 2007, so there were no related performance results in 2006.

For performance indicator #3, the associated performance target is unchanged from 2006, when the FDIC undertook 370 community development, technical assistance and outreach activities.

RECEIVERSHIP MANAGEMENT PROGRAM

The Receivership Management Program ensures that recovery to creditors of receiverships is achieved in the least-costly manner for all failed insured depository institutions. The FDIC is proactive in identifying troubled insured depository institutions and generally begins its resolution efforts, such as valuing assets and identifying potential purchasers of these institutions, before institutions fail. At failure, the FDIC is appointed receiver and succeeds to the rights, powers and privileges of the insured depository institution and its stockholders, officers and directors.

Once the FDIC is appointed as receiver for an insured depository institution, the FDIC marshals the institution's assets for the benefit of the creditors. The FDIC is often the largest creditor after fulfilling its obligations as deposit insurer. The Corporation immediately works to identify and notify potential creditors of the failed insured depository institution of its failure and the process for submitting claims against the receivership. The FDIC reviews all claims and provides certificates to creditors with valid claims, entitling them to a share in the net assets of the receivership (to the extent funds are available) in accordance with priorities mandated by statute and applicable regulations.

To fulfill its responsibilities to creditors of the failed institution, the FDIC, as receiver, manages and sells the failed institution's assets through a variety of strategies and identifies and collects monies due to the receivership. In addition, the receiver may have valid claims against former directors, officers, attorneys, accountants or other professionals who may have caused harm to the institution. Funds collected through the management and sale of assets and the pursuit of valid claims are distributed according to priorities set by law.

To ensure that receiverships are managed effectively toward an orderly and timely termination, the FDIC has an active receivership oversight program. The program fosters an efficient and responsible business approach to receivership management. This approach focuses on the economics of each receivership by establishing a unique business plan, monitoring performance and terminating the receivership in a timely manner. Once the FDIC sells the assets of the receivership and resolves the receivership obligations, claims and any legal impediments, the receivership is terminated and a final distribution is made to its creditors.

The following table depicts the strategic goal, strategic objectives and annual performance goals for the Receivership Management Program.

Strategic Goal	Strategic Objectives	Annual Performance Goals
Recovery to creditors of receiverships is achieved	The FDIC resolves failed insured depository institutions in the least-costly manner.	Market failing institutions to all known qualified and interested potential bidders.
	Receiverships are managed to maximize net return toward an orderly and timely termination.	Value, manage and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return.
		Manage the receivership estate and its subsidiaries toward an orderly termination.
	Potential recoveries, including claims against professionals, are investigated and are pursued and resolved in a fair and cost-effective manner.	Conduct investigations into all potential professional liability claim areas for all failed insured depository institutions, and decide as promptly as possible to close or pursue each claim, considering the size and complexity of the institution.

STRATEGIC GOAL 4:
Recovery to creditors of receiverships is achieved.

STRATEGIC OBJECTIVE 4.1

The FDIC resolves failed insured depository institutions in the least-costly manner.

Annual Performance Goal 4.1-1

Market failing institutions to all known qualified and interested potential bidders.

Indicator and Target

List of qualified and interested bidders

- Contact all known qualified and interested bidders.

Means and Strategies

Operational Processes (initiatives and strategies): The FDIC markets the deposits and assets of the failing institution to all known qualified and interested potential bidders to stimulate as much competition as possible. The FDIC maintains an inventory of qualified and interested potential bidders consisting of both financial institutions and private investors. In preparing a list of potential bidders for the failing institution, the FDIC takes into account the failed institution's geographic location, competitive environment, minority-owned status, financial condition, asset size, capital level and regulatory ratings. The FDIC contacts these potential bidders and holds an informational meeting and/or uses the Internet to provide information on the failing institution. Potential bidders are then given the opportunity to perform due diligence on the failing institution's assets and liabilities before determining whether to submit bids.

Human Resources (staffing and training): Based on workload fluctuations, staffing requirements will continually be assessed to meet the FDIC's needs in carrying out its receivership management responsibilities. The FDIC has established policies and procedures to allow for the temporary assignment of resources to meet workload demands and mission responsibilities. The Corporate Employee Program will expand the FDIC's knowledge base in the areas of resolutions and receiverships and will ensure a continual level of readiness among the workforce.

Information Technology: In early 2007, the FDIC will continue to use a web-based automated notification system that uses customer preference profiles for potential purchasers of loans as well as for deposit franchise buyers. By using e-mail and a secure website, the FDIC can market to a potential bidder both the failed institution and its assets more effectively and efficiently. During 2007 and 2008, the DRR Marketing System (DMS) initiative will be constructed as part of the Asset Servicing Technology Enhancement Project (ASTEP). This new technology will integrate the franchise and asset marketing functions.

Verification and Validation

The franchise marketing process is currently tracked through the FDIC's Overarching Automation System (OASIS). The tracking process will migrate to DMS as it is developed and implemented.

2006 Performance Results

This annual performance goal and its associated performance indicator and target are carryovers from 2006. In 2006, there was no reportable performance for this goal, indicator or target because there were no failures of insured financial institutions during the year.

STRATEGIC OBJECTIVE 4.2

Receiverships are managed to maximize net return toward an orderly and timely termination.

Annual Performance Goal 4.2-1

Value, manage and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return.

Indicator and Target

Percentage of failed institution's assets marketed

- 90 percent of the book value of a failed institution's marketable assets is marketed within 90 days of failure.

Means and Strategies

Operational Processes (initiatives and strategies): By quickly returning private assets to the private sector, the FDIC maximizes net recoveries and minimizes disruption to the local community. The FDIC expedites the return of the assets of the failed institution to the private sector by marketing most assets soon after an insured institution fails. Given adequate time, the FDIC prepares an information package and an asset valuation review for each failing insured depository institution to assist in the solicitation of bidders, analysis of bids received for the assumption of deposits and sale of assets at resolution or shortly thereafter. For asset sales, the failed institution's assets are grouped into pools that will be most appealing to acquirers and are then marketed via the Internet (www.FDICSales.com). The website allows asset buyers the opportunity to view all sale information electronically prior to electronic bid submission. The FDIC also complements electronic due diligence with hard-copy due diligence by allowing potential bidders to view all hard-copy sale information at the actual sales site.

After the resolution of the failed institution, the FDIC collects and manages the remaining assets in a cost-effective manner to maximize recoveries and preserve value until the assets can be marketed. The FDIC will continue to update and refine its marketing strategies in order to market assets as quickly and efficiently as possible. Where appropriate, the FDIC will manage and dispose of most of the remaining assets from the failed bank location. The FDIC uses the Standard Asset Valuation Estimation (SAVE) methodology to value and make marketing and disposition decisions regarding most of the assets of the failed institutions. SAVE methodology uses standard assumptions and market information to ensure consistency in valuing assets. The valuation process, methodology and assumptions used to value assets are continually reviewed and, where necessary, updated.

Human Resources (staffing and training): Workload and staffing requirements are reassessed on a regular basis to ensure that staffing is sufficient to meet the FDIC's receivership management responsibilities. The FDIC has established policies and procedures to allow for the temporary assignment of resources to meet mission responsibilities during unexpected workload increases. The Corporation implemented the Corporate Employee Program in 2005, which has expanded the FDIC's knowledge base in the areas of resolutions and receiverships and will ensure a continual level of readiness.

Information Technology: The FDIC will continue to use new and refined technology to make its asset management/servicing, sale strategies and processes more efficient and to keep pace with changing market and business practices. The Corporation will continue to use the Internet to deliver asset marketing information to potential investors and to auction/sell assets received from failed institutions. In late 2006, the FDIC implemented the first phase of its Asset Servicing Technology Enhancement Project (ASTEP). When fully implemented in 2007, ASTEP will use adaptable technology that is compatible with industry standards to provide the FDIC, for the first time, with a single data source for asset reporting, thereby eliminating data redundancies and related data reconciliation efforts.

Verification and Validation

Asset-marketing information is compiled from the actual sale initiatives that are offered by the FDIC to bidders prior to and/or within 90 days of failure. The offerings are compared to the beginning inventory of marketable assets prepared by the FDIC at the time of the institution's failure.

2006 Performance Results

This annual performance goal and its associated performance indicator and target are carryovers from 2006. In 2006, there was no reportable performance for this goal, indicator or target because there were no failures of insured financial institutions during the year.

Annual Performance Goal 4.2-2

Manage the receivership estate and its subsidiaries toward an orderly termination.

Indicator and Target

Timely termination of new receiverships

- Terminate all receiverships within 90 days of the resolution of all impediments.

Means and Strategies

Operational Processes (initiatives and strategies): The oversight and prompt termination of a receivership preserves value for the uninsured depositors and other receivership claimants by reducing overhead and other holding costs. When the FDIC is appointed receiver, a unique action plan is established for each receivership that is executed by various asset, liability, finance and legal staff assigned to that receivership. Receivership staff provides oversight and monitors the execution of each action plan, including the goals and milestones established in each plan. In addition, an oversight committee, consisting of senior FDIC managers, meets periodically to review and evaluate the quarterly progress of each receivership action plan.

To be eligible for termination, a receivership must be free of impediments that represent material financial or legal risks to the FDIC. These impediments may include outstanding contractual liabilities, outstanding offensive or defensive litigation, potential representation and warranty asset sale claims, open employee benefit plans, open subsidiary corporations where articles of dissolution have not yet been approved and known or potential environmental contamination liabilities. Once the FDIC has disposed of all of the assets of the receivership, resolved all liabilities and ensured that no material financial or legal risks to the FDIC remain, a final distribution is made to the creditors of the receivership and the receivership entity is terminated.

At the beginning of 2007, there were 55 active receiverships. During 2006, remaining impediments to the termination of 10 receiverships were resolved, and the receiverships were subsequently terminated. The FDIC continues to work on the resolution of impediments to the termination of the remaining open receiverships. These impediments are closely monitored by oversight staff and reviewed by senior management. As the impediments are cleared, the open receiverships will be terminated.

Human Resources (staffing and training): Based on workload fluctuations, staffing requirements will continually be assessed to meet the FDIC's needs in carrying out its receivership management responsibilities.

Information Technology: Existing technology will be used to accomplish this goal. Aside from technology developments noted under Annual Performance Goal 4.1-1, no new technology or automated tools will be developed in support of this annual performance goal in 2007.

Verification and Validation

The process of inactivating a receivership is tracked in FDIC systems. Monthly reports of deactivations are reviewed for accuracy. System users validate the data and any discrepancies are reconciled.

2006 Performance Results

This annual performance goal and its associated performance indicator and target are carryovers from 2006. In 2006, the FDIC terminated 10 receiverships, reducing the number of open receiverships from 65 to 55 and the book value of assets under management from $441 million to $352 million. The 10 receiverships terminated in 2006 were all terminated within 90 days of the resolution of the last impediment(s).

STRATEGIC OBJECTIVE 4.3

Potential recoveries, including claims against professionals, are investigated and are pursued and resolved in a fair and cost-effective manner.

Annual Performance Goal 4.3-1

Conduct investigations into all potential professional liability claim areas for all failed insured depository institutions, and decide as promptly as possible to close or pursue each claim, considering the size and complexity of the institution.

Indicator and Target

Percentage of investigated claim areas for which a decision has been made to close or pursue the claim

- For 80 percent of all claim areas, a decision is made to close or pursue claims within 18 months of the failure date.

Means and Strategies

Operational Processes (initiatives and strategies): The FDIC investigates potential claims against professionals (e.g., directors, officers, attorneys and others) whose actions may have contributed to losses at the failed institution and assesses the viability of insurance policies and the carriers that provide fidelity insurance to the failed institution. Once the investigation is complete, the FDIC determines whether it has viable, cost-effective claims and whether it should pursue such claims. Most professional liability investigations must be completed and viable claims filed within a three-year statute of limitations period.

The FDIC's attorneys and investigators work together to ensure that valid claims arising from the failure of an insured institution are fully evaluated within the prescribed time period. The team conducts a factual investigation of the events that contributed to losses at the institution as well as legal research and analysis of potential claims. The team prepares additional analysis to determine the likelihood of a recovery exceeding the estimated cost of pursuing each claim. The team then prepares a memorandum, reviewed and approved by senior FDIC management, recommending that a claim be pursued or that an investigation be closed.

Human Resources (staffing and training): Workload requirements are regularly reassessed to ensure that staffing is sufficient to meet the FDIC's receivership management responsibilities. The FDIC has established policies and procedures to allow for the temporary assignment of resources to meet mission responsibilities during unexpected workload spikes. The Corporate Employee Program will also help over time to expand the FDIC's knowledge base in the areas of resolutions and receiverships and ensure a continual level of readiness.

Information Technology: Data necessary to track failure dates of insured institutions, potential statutes of limitation expiration dates and other pertinent dates are routinely collected and stored in FDIC systems. Status information and decision events are also tracked.

Verification and Validation

Periodic data scrubs and audits are conducted to ensure accuracy and currency of information from FDIC systems. Consistent maintenance of these systems ensures that accurate data needed to measure compliance with the annual goal are readily available.

2006 Performance Results

This annual performance goal and its associated performance indicator and target are carryovers from 2006. In 2006, there was no reportable performance for this goal, indicator or target because there were no failures during the 6-18 month period prior to January 1, 2007.

EFFECTIVE MANAGEMENT OF STRATEGIC RESOURCES

Introduction

The FDIC recognizes that it must effectively manage a number of critical strategic resources in order to successfully carry out its mission and realize the annual performance goals set forth for its three major programs. Strategic resource management facilitates the Corporation's mission-critical activities and helps minimize risk to the DIF, while simultaneously aligning and deploying the Corporation's resources in areas where they are most needed. An overview of planned 2007 initiatives to enhance the Corporation's management of its key strategic resources is provided below.

Human Capital Management

The FDIC's employees are its most important resource. The intellectual capital of FDIC employees contributes directly to maintaining the public's confidence in our nation's financial system. As such, the FDIC strives to be the employer of choice within the financial regulatory community and operates human capital programs that attract, develop and retain a highly skilled, diverse, results-oriented workforce.

The FDIC has a human capital framework that guides its human capital activities. Using this framework, the Corporation continues to develop and maintain a workforce that is functional and cross-trained in multiple disciplines, and stands ready to redirect its attention and efforts in response to changes in the banking industry or changes in workload priorities. The human capital initiatives planned for 2007 will continue to promote flexibility in managing the FDIC workforce.

Corporate Employee Program

Development and implementation of the new Corporate Employee Program (CEP) continued in 2006. The program emphasizes cross-training of employees at all levels to provide the Corporation with greater flexibility in responding to changes in workload as well as unexpected external events. During the past year, the primary focus was on the implementation of a new recruiting strategy for entry-level employees and refinement of the first-year training program under which new employees are exposed to each of the Corporation's three major business lines. By the end of 2006, almost 200 employees had begun the three-year career internship and training program that is the CEP's core component. The CEP will, in the future, constitute the primary source of new employees for the Corporation's business divisions.

The CEP will continue to be a major priority in 2007. In conjunction with the entry-level internship and training program, a new commissioning program will be implemented for resolutions and receiverships specialists. In addition, building upon pilot programs conducted in 2006, work will continue on a multiyear effort to develop and implement new certificate programs to broaden employee skills in areas outside their main occupational specialties. When fully implemented, these new certificate programs will provide employees with the basic skills needed to ensure corporate readiness as well as more advanced skills needed in selected technical specialty areas.

Employee Learning and Growth

The Corporation emphasizes continuous employee learning and growth. In addition to the design and development of new commissioning and certification programs for the CEP in 2007, the Corporation will also implement the new Professional Learning Account program that will give employees an increased role in planning their career development and provide substantially increased funding for external training. Employees will have expanded access to specialized technical and professional training, and an increased emphasis will be placed on industry-recognized professional certifications. Internal resources will also be invested to further expand internal training for FDIC employees. In 2007, the FDIC will develop a more advanced and broader post-commissioning curriculum for compliance examiners to ensure that they maintain the skills necessary to examine more complex financial institutions and product lines. A career path for Large/Complex Bank Specialists will be explored, and training requirements for this specialty will be evaluated. As these and other programs are implemented, a database of FDIC employee skills will track and monitor the availability of specialized human capital resources.

Succession Management Strategies

The FDIC will have the opportunity over the next decade to substantially reshape its workforce in conjunction with the projected retirements of a large number of employees. To proactively plan for and address these projected retirements, the FDIC developed two succession management programs in 2006: the Executive Talent Review and the Corporate Executive Development Program. These programs were designed to assess executive leadership strength, identify potential skill-set shortages or gaps, and then institute strategies for closing these gaps, including rigorous leadership development programs. In 2007, FDIC will review the results of the 2006 Executive Talent Review pilot and refine and expand the program to include corporate managers and supervisors. The FDIC will also begin a pilot of the 18-month Corporate Executive Development Program. Additionally, knowledge management/transfer strategies will be explored.

Employee Engagement

The FDIC's human capital programs and strategies are evaluated continually to ensure that the FDIC remains an employer of choice, and that all employees feel engaged and aligned with the Corporation's mission-critical functions. To help assess workload alignment and employee engagement, all FDIC employees were encouraged to participate in the 2006 Federal Human Capital Survey administered by the Office of Personnel Management. This survey provides relative measures of employee satisfaction and engagement on a number of aspects associated with working for the FDIC and the federal government. In 2007, the FDIC will analyze the results and implement action plans to address any potential issues that employees identify as inhibitors to strong employee engagement. The FDIC will also explore means to enhance communication with all employees and promote cross-divisional communication and collaboration.

Management of Financial Resources

The FDIC's operational expenses are largely paid from the insurance fund, and the Corporation always seeks to operate in an efficient and cost-effective manner when fulfilling its fiduciary responsibilities to the DIF. To that end, the Corporation engages in a rigorous planning and budgeting process that is designed to ensure that budgeted resources are properly aligned with projected workload and business priorities. In 2005 and 2006, the FDIC substantially enhanced the cost-management information available to managers in conjunction with the implementation of the New Financial Environment, the FDIC's new financial system. In 2007, the FDIC will continue to explore how best to utilize this enhanced cost-management data to achieve efficiencies.

Information Technology Management

Information technology (IT) resources are one of the most valuable assets available to the FDIC in fulfilling its corporate mission. The FDIC operates a nationwide computing network and maintains approximately 270 application systems through which employees perform their duties. For the past several years, the Corporation has been engaged in a major effort to transform and improve its IT program, and this effort will continue in 2007. Some major components of that effort are outlined below.

Managing IT Costs

The FDIC is committed to using IT to improve the operational efficiency of its business processes. The Corporation has significantly improved the capital planning and investment management (CPIM) process for IT in recent years. The CPIM is overseen by the Capital Investment Review Committee (CIRC), chaired jointly by the Chief Information Officer (CIO) and the Chief Financial Officer (CFO). Under the CPIM, IT investments are evaluated based on their impact on the effectiveness and/or efficiency of the FDIC's mission-critical functions. Proposals for new IT investments are considered against gaps in current capabilities.

Although most major IT investment projects constructed over the past several years have been substantially completed, there are three such projects still underway. These include two continuing projects, the Asset Servicing and Technology Enhancement Project (ASTEP) and the Central Data Repository (CDR). In addition, a new investment project, the Claims Administration System, was approved by the Board of Directors in late 2006. A significant expansion of planned ASTEP functionality is also expected to be approved during 2007.

As part of the IT transformation effort, the Corporation has established new IT governance processes to improve the management of IT resources. The CIO Council serves as an advisory group to the CIO and played a major role in recommending projects to be funded by the 2007 operating budget as well as major new investment projects. The Project Management Office (PMO) was established in late 2005 to provide services to improve management of IT projects and their results. A primary responsibility of the PMO is to provide information and support to the CIO Council's oversight of the IT projects portfolio.

The Council and the PMO will play a continuing role in reviewing the portfolio of approved IT development projects and other initiatives. A process for portfolio review of all projects has been established, which includes quarterly reporting to the CIO Council on the current status (financial, schedule and risk) of individual projects as well as systemic issues that may impact the portfolio as a whole. Among the improved processes established in 2006 was a monthly review of all newly proposed projects (the Project Initiation Review) by all Deputy CIOs to ensure that the project approach is viable and that the project can be properly supported by the corporate resources available.

Implementation of Systems Development Life Cycle Structures and Processes

FDIC's customization and adoption of a new systems development life cycle program has greatly enhanced its ability to effectively and efficiently manage IT project resources. This program employs industry best practices, standardized processes and artifacts and a provision for management reviews at the beginning of each project and at the conclusion of each phase of the project's life cycle to maximize efficiency and effectiveness. Key best practices that help to provide these benefits, including the ability to better estimate and evaluate project expenditures, are iterative development, requirements management and change management. Iterative development incorporates ongoing planning and risk management that is geared to understanding and mitigating technological and other risks early in the project life cycle, while requirements management and change management help to minimize inappropriate scope changes during the project. Additionally, the FDIC program is intended to be used as a comprehensive repository for efficient interaction with corporate organizations involved in the implementation of IT projects.

Enhanced Enterprise Architecture (EA) Program

The FDIC seeks to maintain an IT infrastructure and architecture that is reliable, adaptable, scalable and responsive to changing business and technological requirements. In 2007, the EA Program will continue an effort begun in 2004 to reduce overlapping and duplicative processes, applications and technologies while providing IT solutions that seamlessly meet business needs. Based on an evaluation of the best methods for delivering business functionality, the Corporation has chosen a service-oriented architecture approach for developing applications. ASTEP is one of the first applications developed with this approach. A multiyear effort will continue in 2007 to reduce the number of computing platforms that the FDIC maintains in order to reduce complexity and cost while increasing agility and scalability. In addition, the FDIC will update its EA blueprint, which defines the various business operations, the information necessary to operate and the technologies necessary to support these business operations.

Enhanced Corporate Privacy Program

The FDIC's commitment to protecting the security of sensitive information that it receives from financial institutions was demonstrated in 2006 with the development of a comprehensive Corporate Privacy Program. One of the first priorities of this program was to increase employee awareness. The Program requires mandatory privacy training so that all FDIC employees and contractors are aware of the requirements for safeguarding sensitive information and know where to obtain privacy-related reference material. Other major initiatives completed in 2006 included identifying systems that required modification to protect personally identifiable information (PII); preparing an overarching privacy directive; preparing a strategy for protection of PII processed, stored, transmitted and/or accessed by FDIC contractors; and completing PII remediation of FDIC application systems. Enhancements to the Corporate Privacy Program will continue in 2007 with initiatives such as automating the controls for copying sensitive data, implementing standardized encryption for USB devices and other removable media, and initiating targeted, job-specific training.

Enhanced Information Security Program

The FDIC's information security program seeks to proactively assure the integrity, confidentiality and availability of corporate information requiring an ongoing commitment by employees throughout the organization. In 2006, the information security program continued its ongoing cycle for assessing risks, developing and implementing effective security procedures and monitoring the effectiveness of those procedures. In 2007, the FDIC will focus on ensuring that the FDIC is in compliance with all laws and directives regarding security, such as the Office of Management and Budget (OMB) Circular A-130, the Federal Information Security Management Act (FISMA), the E-Government Act and the National Institute of Standards and Technology (NIST) guidance. In addition, 2007 initiatives will include the completion of the three-year certification and accreditation reviews and the continued expansion of penetration testing to identify and eliminate external vulnerabilities.

Implementation of New E-Government Strategy and Corporate e-Commerce Strategy

The FDIC strives to be a leader in the use of e-Government within the federal government and has made the expanded use of e-Government services a major corporate priority. Through its e-Government strategy, the Corporation is seeking to decrease paperwork, reduce the time required to process business transactions, increase productivity, retire obsolete systems and reduce costs. The FDIC previously implemented an e-Government portal (FDICconnect) for conducting transactions with insured financial institutions and a new online subscription service for e-mail notification and announcements concerning the FDIC, the financial services industry and new products and publications offered by the FDIC.

During 2007, the Corporation plans to implement an updated version of the STARS, an enhanced system to manage the receipt and response to banker and public queries about the FDIC's deposit insurance and consumer protection programs, which will also include changes required by the passage of the Deposit Insurance Reform Act. The FDIC will also continue to pursue its e-commerce strategy by updating and enhancing its secure, automated payment systems for collecting deposit insurance premiums to reflect payment, credit and processing changes arising from deposit insurance reform implementation. In addition, the FDIC will complete the conversion of the Summary of Deposits (SOD) Data Validation System into the CDR. The FDIC also plans to expand the distribution of Call Report data to include additional time frames using the XBRL open standards and to develop web-based systems to market assets of failed financial institutions.

Enterprise Risk Management

As an integral part of its stewardship of the DIF, the FDIC maintains a comprehensive risk management and internal control program, which is designed to promote the efficiency, effectiveness, control and risk-focusing of internal operations throughout the Corporation. The Office of Enterprise Risk Management (OERM) oversees this program by providing guidance to all divisions and offices on issues such as internal controls, system security, privacy, operating effectiveness and efficiency, post-project reviews, balanced scorecards and audit follow-up. During 2007, OERM will continue its efforts on those initiatives and will also help ensure that all operating and system changes brought about by deposit insurance reform are working as intended.

APPENDICES

APPENDIX A

Program Resource Requirements

The FDIC's budget is developed in a manner that recognizes its three programs of Insurance, Supervision and Receivership Management. The following chart presents the budgetary resources that the FDIC plans to expend for its programs during 2007 to pursue the strategic goals and objectives and the annual performance goals set forth in this Plan, and to carry out other program-related activities. The costs reflect each program's share of common support services provided by the Corporation.

Supervision	$631,269,106
Insurance	$155,048,552
Receivership Management	$177,198,345
Subtotal	$963,516,003
Corporate Expenses	$143,973,656
TOTAL	$1,107,489,659

APPENDIX B

The FDIC's Planning Process

The FDIC has a long-range strategic plan that identifies strategic goals and objectives for its three major programs: Insurance, Supervision and Receivership Management. The plan is reviewed and updated every three years. The Corporation also develops Annual Performance Plans that identify annual goals, indicators and targets for each strategic objective.

In developing its Strategic and Annual Performance Plans, the FDIC uses an integrated planning process under which guidance and direction are provided by senior management and plans and budgets are developed with input from program personnel. Business requirements, industry information, human capital, technology and financial data are considered in preparing annual performance plans and budgets. Factors influencing the FDIC's plans include changes in the financial services industry, program evaluations and other management studies and prior period performance.

The FDIC's strategic goals and objectives and its annual performance goals, indicators and targets are communicated to its employees via the FDIC's internal website and through internal communication mechanisms, such as newsletters and staff meetings. The Corporation also establishes on an annual basis additional "stretch" objectives that further challenge FDIC employees to pursue strategic initiatives and results. FDIC pay and award/recognition programs are structured to reward employee contributions to the achievement of the Corporation's annual objectives.

Throughout the year, progress reports are reviewed by FDIC senior management. After the year ends, the FDIC submits its Annual Report to the Congress that compares actual performance to the annual performance goals. This report is also posted on the FDIC's website, www.fdic.gov.

APPENDIX C

Program Evaluation

Program evaluations are important tools and potentially critical sources of information for ensuring that goals are reasonable, strategies for achieving goals are effective, and corrective actions are taken, as necessary, in program operations. Evaluations are also a mechanism to determine whether a program has clearly defined goals and well-developed measures of program outcomes. Results of program evaluations are included in the FDIC Annual Report and are used to revise future annual performance plans and division- and office-level operating plans. Program evaluation results are also used as input to the strategic and annual performance plans submitted to the Congress.

The FDIC's Office of Enterprise Risk Management (OERM) has primary responsibility for the program evaluation function within the Corporation's program. It carries out this role in several ways:

- It performs studies and evaluations of selected programs, making appropriate recommendations to improve their operational effectiveness and monitoring the implementation of accepted recommendations.
- It reviews the results of program studies and evaluations undertaken by other independent organizations, such as the GAO and the Office of the Inspector General (OIG), to identify key recommendations to improve the operational effectiveness of these programs and monitor the implementation of accepted recommendations.
- It reviews the results of program studies and evaluation studies undertaken by independent internal review units within selected FDIC divisions to identify key recommendations to improve the operational effectiveness of these programs and monitor the implementation of accepted recommendations. In some cases, it may also partner with such units to conduct joint program evaluations.

Program evaluations conducted by OERM are often interdivisional, collaborative efforts, involving management and staff from the affected program(s), in order to ensure that the study and resulting recommendations reflect a full understanding of the program being evaluated.

During 2006, the implementation of deposit insurance reform was the central focus of the program evaluation activities within the FDIC. In order to comply with the requirements of the Federal Deposit Insurance Reform Act of 2005 and the related Federal Deposit Insurance Reform Conforming Amendments Act of 2005, the FDIC had to analyze current business processes and operations in several program areas and to implement major changes in these programs by the end of the year. This initiative was an interdivisional effort, with OERM program evaluation staff providing significant support in the documentation and analysis of current business processes. OERM also provided risk management oversight on the corporate-wide project to identify all applications needing change as a result of the legislation and to ensure that all such changes were made and tested within required time frames.

In addition, the FDIC and the GAO were each required to conduct a set of specific studies and targeted reviews/audits in conjunction with the implementation of deposit insurance reform. Most significantly, the GAO was required to conduct an evaluation of the FDIC's overall structure and mission, with particular emphasis on the Corporation's frameworks for corporate governance, human capital management and risk management. The FDIC was required to complete studies on its reserve methodology and accounting for loss; the need for possible further changes to the deposit insurance system; and the appropriate deposit base to be used in designating the DRR. Both the FDIC and the GAO will complete their required studies and deliver them to the Congress in early 2007, as required by the deposit insurance reform legislation.

During 2007, OERM will ensure that any remaining issues associated with deposit insurance reform are addressed and will continue its involvement in systems security, privacy, performance management and project management in support of other divisions and offices.

OERM also worked extensively throughout 2006 with the Office of Diversity and Equal Opportunity (ODEO) to revamp its processes, systems support and data quality standards and to identify ways to improve the accuracy and timeliness of reporting. In 2007, OERM will monitor implementation of its recommendations by ODEO.

Independent internal review staff in key divisions continued to carry out traditional program and operational evaluations in 2006. These evaluations included continuing reviews of the Division of Supervision and Consumer Protection's regional and field office operations to ensure consistency and integrity of the FDIC's examination programs. Also, payment and other controls in the Division of Resolutions and Receiverships were reviewed to ensure the continued effectiveness and control of operations in the wake of the significant staff reductions made in 2005. Similar initiatives and activities will continue to be pursued by these groups in 2007.

APPENDIX D

Interagency Relationships

The FDIC has very productive working relationships with agencies at the state, federal and international levels. It leverages those relationships to achieve the goals outlined in this plan and to promote confidence in the U.S. banking system. Listed below are examples of the many important relationships that the FDIC has built with other agencies, seeking to promote strength, stability and confidence in the financial services industry.

The Federal Financial Institutions Examination Council

The Federal Financial Institutions Examination Council (FFIEC) is a formal interagency body empowered to prescribe uniform principles, standards and report forms for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of financial institutions. The FDIC, FRB, OTS, OCC and National Credit Union Administration (NCUA) comprise the membership of the FFIEC. The FFIEC has statutory responsibilities to facilitate public access to data that depository institutions must disclose under the Home Mortgage Disclosure Act of 1975 (HMDA) and the aggregation of annual HMDA data for each metropolitan statistical area. The FFIEC has also established an advisory State Liaison Committee, composed of five representatives of state supervisory agencies. The FFIEC publishes handbooks, catalogues and databases that provide uniform guidance and information to promote a consistent examination process among the agencies.

State Banking Departments

The FDIC works closely with state banking departments as well as the CSBS to provide greater efficiencies in examining financial institutions and promote a uniform approach to the examination process. In most states, alternating examination programs reduce the number of examinations at financial institutions, thereby reducing regulatory burden. Joint examinations at larger financial institutions also maximize state and FDIC resources when examining large, complex and problem FDIC-supervised financial institutions.

Basel Committee on Banking Supervision

The FDIC participates on the Basel Committee on Banking Supervision, a forum for international cooperation on matters relating to financial institution supervision, and on numerous subcommittees of the Committee. The Basel Committee on Banking Supervision aims to improve the consistency of capital regulations internationally, make regulatory capital more risk sensitive and promote enhanced risk management practices among large, internationally active banking organizations. The Basel II Capital Accord is an effort by international banking supervisors to update the original international bank capital accord (Basel I), which has been in effect since 1988.

The FDIC has also established working relationships with international regulatory authorities to ensure effective supervision of domestic insured institutions that are wholly owned by foreign entities, which includes coordination of efforts to implement the Basel II Capital Accord.

Interagency Country Exposure Review Committee

The Interagency Country Exposure Review Committee (ICERC) was established by the FDIC, the FRB and the OCC to ensure consistent treatment of the transfer risk associated with banks' foreign exposures to both public and private sector entities. The ICERC assesses the degree of transfer risk inherent in cross-border and cross-currency exposures of U.S. banks, assigns ratings based on its risk assessment and publishes annual reports of these risks by country.

Shared National Credit Program

The FDIC participates with the other federal financial institution regulatory agencies in the Shared National Credit Program, an interagency effort to perform a uniform credit review of financial institution loans that exceed $20 million and are shared by three or more financial institutions. The results of these reviews are used to identify trends in industry sectors and banks' credit risk management practices. These trends are typically published in September of each year to aid the industry in understanding economic and credit risk management trends.

Dedicated Examiner Program

The FDIC has six "dedicated examiners" assigned to the six largest insured financial organizations. These organizations have a combined $5.2 trillion in total assets, accounting for approximately 45 percent of the industry's total assets. Dedicated examiners work closely with the organizations' primary federal regulator and use supervisory information, internal organization information and external sources of information to evaluate risks and assign an FDIC risk rating for each of these six organizations for assessment and other purposes.

Joint Agency Task Force on Discrimination in Lending

The FDIC participates on the Joint Agency Task Force on Discrimination in Lending with all five of the federal financial institution regulators (FDIC, FRB, OCC, OTS , NCUA) along with the U.S. Department of Housing and Urban Development, the Office of Federal Housing Enterprise Oversight, the U.S. Department of Justice, the Federal Housing Finance Board and the Federal Trade Commission. The agencies exchange information about fair lending issues, examination and investigation techniques, and interpretations of the statute and regulations and case precedents.

Bank Secrecy Act, Anti-Money Laundering, Anti-Terrorism and Anti-Fraud Working Groups

The FDIC works with the Department of Homeland Security and the Office of Cyberspace Security through the Finance and Banking Information Infrastructure Committee (FBIIC) to improve the reliability and security of the financial industry's infrastructure. Other members of

FBIIC include the Commodity Futures Trading Commission, FRB, NCUA, OCC, OTS, the Securities and Exchange Commission (SEC), the U.S. Department of the Treasury and the National Association of Insurance Commissioners.

The FDIC participates in several other interagency groups, described below, to assist in efforts to combat fraud and money laundering and to implement the USA PATRIOT Act:

- The Bank Secrecy Act Advisory Group: a public/private partnership of agencies and organizations that meet to discuss strategies and industry efforts to address money laundering controls.

- The National Secrecy Act Advisory Group: a public/private partnership of agencies and organizations that meet to discuss strategies and industry efforts to curb money laundering.

- FFIEC BSA Working Group: federal banking agencies, FinCEN and the CSBS that meet regularly to ensure a consistent approach to the BSA/AML examination process.

- The National Bank Fraud Working Group: sponsored by the Department of Justice (DOJ).

- The Check Fraud Working Group (a subcommittee of the National Bank Fraud Working Group): federal banking agencies, DOJ, Federal Bureau of Investigation (FBI), FinCEN, Internal Revenue Service, Bureau of Public Debt and U.S. Postal Service; co chaired by the FDIC and the FBI.

- The Cyber Fraud Working Group (a subcommittee of the National Bank Fraud Working Group: federal banking agencies, DOJ, FBI, FinCEN, Internal Revenue Service, and Bureau of Public Debt.

- The National Money Laundering Strategy Steering Committee: chaired by DOJ and the Treasury Department.

- Terrorist Finance Working Group: sponsored by the State Department to assist in the AML training effort internationally and assist in the assessment of foreign countries' financial structures for potential money laundering and terrorist financing vulnerabilities.

- Other working groups: sponsored by Treasury to develop USA PATRIOT Act rules, interpretive guidance and other relevant BSA materials that are applicable to insured financial institutions.

Government Performance and Results Act Financial Institutions Regulatory Working Group

In support of the Government Performance and Results Act (GPRA), the interagency Financial Institutions Regulatory Working Group, comprising all five federal financial institution regulators (OTS, FRB, OCC, NCUA and FDIC), was formed in October 1997. The Office of Federal Housing Enterprise Oversight, which supervises Freddie Mac and Fannie Mae, and the Treasury Department also participate. This group works to identify the general goals and objectives that cross these organizations and their programs and activities, as well as other general GPRA requirements.

Federal Trade Commission, National Association of Insurance Commissioners and the Securities and Exchange Commission

In 1999, the Gramm-Leach-Bliley Act permitted insured financial institutions to expand the products they offer to include insurance and securities. Included in this Act are increased security requirements and disclosures to protect consumer privacy. The FDIC and other FFIEC agencies coordinate with the Federal Trade Commission, National Association Insurance Commissioners and SEC to develop industry research and guidelines relating to these products.

Association of Supervisors of Banks of the Americas

The FDIC, as Director of the North American Group, exercises a leadership role in the Association of Supervisors of Banks of the Americas (ASBA) and actively participates in the organization's activities. ASBA develops, disseminates and promotes sound banking supervisory practices throughout the Americas in line with international standards. The FDIC supports the organization's mission and activities by actively contributing to ASBA's research and guidance initiatives and its education and training services.

International Association of Deposit Insurers

The FDIC plays a leadership role in the International Association of Deposit Insurers (IADI) and participates in associated activities. The IADI contributes to the stability of the financial system by promoting international cooperation in the field of deposit insurance. The FDIC focuses its efforts to build strong bilateral and multilateral relationships with foreign regulators and insurers, U.S. government entities and international organizations. The FDIC also provides technical assistance and conducts outreach activities with foreign entities to help in the development and maintenance of sound banking and deposit insurance systems.

APPENDIX E

External Factors: The Economy and Its Impact on the Banking Industry and the FDIC

The economy's performance at the national, regional and local levels affects business strategies in the banking industry and the industry's overall performance. Economic conditions affect the performance of individual business sectors, including agriculture, energy, commercial and residential real estate, manufacturing and services, which has a significant impact on loan growth and credit exposure for the banking industry. Overall business conditions and macroeconomic policies are key determinants of inflation, domestic interest rates, and the exchange value of the dollar and equity market valuations, all of which influence the lending, funding and off-balance sheet activities of insured depository institutions.

Economic factors directly influence the financial performance of FDIC-insured institutions. Adverse economic conditions, such as a national or regional economic downturn, may raise the risk profile of the banking industry or select groups of insured institutions. This shift may accelerate statutory examination frequencies and may even increase incidence of failures, resolution costs and the pace at which the FDIC markets assets and terminates receiverships. Adverse economic scenarios may divert FDIC staff from other activities to address these or other operational concerns.

The U.S. economic outlook is mixed for 2007. Job growth fell to an average of 118,000 jobs per month in the second and third quarters of 2006, compared to an average of 165,000 jobs per month in 2005. Inflation drifted upward in 2006, with year-over-year Consumer Price Index (CPI) inflation at just under 4 percent in September 2006. The Federal Open Market Committee ended 17 straight quarter-point increases in the federal funds rate in August 2006, and the Treasury yield curve went from flat to inverted in the second half of 2006.

Corporate profits and balance sheets were strong in 2006. Corporate profits, which account for over 12 percent of Gross Domestic Product (GDP), grew more than 20 percent in the 12 months ending June 2006. The household sector showed signs of weakening, however. Household liabilities reached an all-time high of more than 19 percent of assets in the second quarter 2006, the personal savings percentage rate was negative for five consecutive quarters, and housing-related debt-service costs were at all-time highs.

The U.S. economy is expected to grow in 2007, but at a rate below its long-run average of 3.5 percent. There are a number of potential risks that may impact the economy, including softness in the housing market, a weaker auto industry, high energy prices, the effects of previous interest rate increases and the inverted yield curve.

Activity in the housing sector declined significantly in 2006. Existing single-family home sales fell by 12.3 percent in the 12 months though August 2006, the inventory of existing homes for sale rose to a record high and new home sales were down 23 percent from their 2005 record high. Home price growth tapered off to single-digit rates in most markets. Condominium prices were under the most pressure, particularly in the South and West where the supply of new condominiums was robust as listings increased and sales slumped. The increased use of low teaser-rate and subprime adjustable-rate mortgages (ARMs) in recent years may magnify the impact of the housing slowdown on the economy.

Although oil prices fell through most of 2006, they remained well above their level of a few years ago. Oil producers had little spare capacity and worldwide demand continued to rise, primarily due to growth in emerging markets in Asia and China.

The banking industry remains healthy. Earnings continued to set records in the first half of 2006, primarily due to noninterest income. Net income of $36.9 billion and $38.1 billion in the first two quarters of 2006 exceeded the previous record high of $34.7 billion in third quarter 2005. Equity capital was the strongest it has been since the late 1930s. Over 99 percent of insured institutions were in the highest regulatory capital category as of June 2006. Asset quality in the banking industry was also strong. The noncurrent loan rate on total loans and leases and the annualized net charge-off rate were lower in the first half of 2006 than at any time in the 23 years that insured institutions have reported these data. The mortgage delinquency rate of 4.4 percent and foreclosure rate of 0.4 percent of all mortgages outstanding in the second quarter of 2006 were near cyclical lows, and well below the peaks seen around the 2001 recession.

There are a number of potential risks in the banking industry including potential delinquencies and foreclosures of ARMs, narrowing net interest margins (NIMs), loosening loan underwriting standards and pricing spreads, and increasing concentration in commercial real estate (CRE) loans.

The inverted yield curve in 2006 caused average funding costs at financial institutions to rise more rapidly than asset yields. This exerted downward pressure on NIMs, which fell to a 15-year low of 3.46 percent in 2006. NIMs fell more at larger institutions than smaller institutions, but falling NIMs are of more concern for smaller institutions since they depend on net interest income for a larger share of revenue. Institutions grew their asset portfolios to offset the effects of lower NIMs. During the 12 months through June 2006, total assets at insured institutions increased more than $1 trillion, or 10 percent, which is relatively high by historical standards. Industry loan-loss reserves grew modestly in the first half of 2006 and did not keep pace with the growth in total loans and noncurrent loans. As of June 2006, FDIC-insured institutions held only $1.10 in reserves for every $100 of loans and leases on their books, which is the lowest level since 1985.

Small and mid-size institutions may have offset falling NIMs by increasing their concentrations in riskier assets, particularly construction and development (C&D) loans. C&D loans continued their most rapid growth since the mid-1980s, growing 32 percent in the 12 months ending June 2006. C&D lending continues to drive overall CRE loan growth among FDIC-insured institutions. While CRE loan performance in 2006 was strong, with noncurrent CRE loans totaling just 0.49 percent of loan balances as of June 2006 and net charge-offs at low levels, increased concentrations and some reports of loosened loan standards signal the potential for future credit quality deterioration.

Growth in commercial and industrial (C&I) loans was 2.8 percent in the second quarter of 2006, down from 4.3 percent in the first quarter. C&I loan growth was driven by credits above $1 million, which grew by 13 percent, while credits at or below $1 million rose by 4.5 percent. Although C&I loan quality was strong in 2006, there were indications of loosening underwriting standards and pricing spreads primarily due to increased competitive pressures, particularly for larger corporate loans. The net charge-off rate for C&I loans went up a modest 2 percent in the second quarter of 2006, but the loss rate remained below 1 percent.

The industry's solid earnings, capital position and asset quality should help to limit the impact of any adverse economic events on potential bank failures and resolution costs should any failures arise. The number of troubled institutions declined dramatically during the early 1990s and is currently very low. At the end of 2006, there had been no failures at any insured financial institutions in over two years and the number of institutions on the Problem Financial Institution List was near historical lows. The FDIC's DIF stood at a record-high level of $50.2 billion in December 2006. This, together with the overall financial strength of FDIC-insured institutions, promises another year of stability ahead for the banking industry and its insured depositors.