FEDERAL DEPOSIT INSURANCE CORPORATION

Strategic Plan

1998 - 2003

Chairman's Message

I am pleased to present the Federal Deposit Insurance Corporation's 1998-2003 Strategic Plan. In developing this plan, the Corporation invited participation from its management and staff, Congress, insured depository institutions, other financial regulatory agencies, and the general public – all the parties that have a stake in our future. The resulting plan reflects the diverse perspectives of those who contributed to it.

The plan also clearly states the Corporation's role in maintaining the stability of the nation's financial system. The Corporation has enjoyed a long and proud history of service to the public. Since the Corporation was established sixty-five years ago, no depositor has lost a cent of an insured deposit. No banking panics have occurred. No banking holidays have been declared.

The 1998-2003 Strategic Plan will help to assure the Corporation's continued success into the next millennium, guiding not only its deposit insurance function, but also its efforts to promote the safety and soundness of insured depository institutions, to protect consumer rights, to assess community investment, and to manage receiverships.

The success of the FDIC in fulfilling its mission will depend on the men and women of the FDIC. This has been true in the past, and it will be true in the future. Given the talent and expertise of employees throughout the Corporation and, above all, their dedication and sense of mission, we can be confident that the FDIC will carry out the 1998-2003 Strategic Plan and continue to fulfill its mission on behalf of the American people.

Signed: Donna A. Tanoue

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FDIC STRATEGIC PLAN OVERVIEW

Mission

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

Corporate Vision

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

Corporate Values

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

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

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

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

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

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

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

THE FDIC AND THE BANKING INDUSTRY

Creation of the FDIC

Congress created the FDIC in the Banking Act of 1933 to maintain stability and public confidence in the nation's banking system. The agency was formed after more than 9,000 banks had ceased operations between October 1929 and March 1933. The intent was to provide a federal government guarantee of deposits in U.S. depository institutions so that customers' funds, within certain limits, would be safe and available to them in the event of a bank failure. The FDIC's insurance coverage limit originally was set at $2,500. This limit subsequently was increased several times, most recently in 1980 when coverage was raised to $100,000. In addition to its role as the federal insurer of deposits, the FDIC is the primary federal regulator of federally insured state-chartered banks (commercial and savings) that are not members of the Federal Reserve System, and has backup supervisory authority over all FDIC-insured depository institutions.

Since the start of FDIC insurance on January 1, 1934, no depositor has lost insured funds as a result of a failure.

Recent History

Since 1980, the FDIC has managed the failures of approximately 1,600 banks. In 1988, the number of bank failures peaked at 221, and the insurance fund suffered a loss of $4.2 billion, the first operating loss in its 55-year history. Although bank failures were at post-Depression record levels, it was the more widespread and more costly failures of savings and loan associations insured by the Federal Savings and Loan Insurance Corporation (FSLIC) that focused attention on the future of the federal deposit insurance system. In August 1989, President Bush signed into law the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA). The FDIC insurance fund was renamed the Bank Insurance Fund (BIF), and the FSLIC was replaced with the Savings Association Insurance Fund (SAIF). The FDIC was given permanent responsibility for managing the new SAIF. It was also given initial responsibility for managing the Resolution Trust Corporation (RTC), which handled savings and loan associations that failed between January 1, 1989, and July 1, 1995.

The 1990s have been a time of rebuilding for the FDIC and the banking industry. With declining insurance losses and higher assessment revenues, the BIF recovered from a negative balance of $7 billion in 1991 to reach full statutory capitalization in 1995, at 1.25 percent of insured deposits. The SAIF became fully capitalized in 1996, bolstered by a special assessment of $4.5 billion. As each fund became fully capitalized, the FDIC was able to lower premiums substantially. In 1997, total premiums paid by banks and thrifts were less than $50 million, compared to $6.7 billion in 1994. At year-end 1997, the BIF balance of $28.3 billion represented 1.38 percent of insured deposits, and the SAIF had a balance of $9.4 billion, with a reserve ratio of 1.36 percent. These reserve ratios exceed the statutory minimum of 1.25 percent. However, at the beginning of 1999, current law requires that the amount by which the SAIF exceeds the minimum reserve ratio is to be moved into a Special Reserve, available for insurance purposes only under specified severe conditions. No such provision applies to the BIF.

FDIC's Current Focus

The FDIC's focus has shifted from handling and resolving failed insured depository institutions to monitoring and assessing existing and emerging risks in insured depository institutions. Community and regional banks are examined on-site in conjunction with quarterly trend analysis and other off-site supervision. However, with the quickening pace of industry consolidation, a growing number of banking companies with nationwide or even worldwide operations require continual monitoring.

The FDIC faces new challenges as the scale and scope of activities and affiliations conducted by insured depository institutions grow and expand into new areas. As a result, the risk exposure of the funds is changing. For instance, the larger insured depository institutions resulting from mergers and consolidations increase the potential impact of a single failure. In order to monitor these developments, the FDIC is undertaking an evaluation of its information needs. This evaluation is expected to focus on the use of existing information, examiner surveys, external sources and alternative collection methodologies, all of which would minimize the reporting burden on insured depository institutions.

In adopting a more proactive approach to issues such as emerging risks, the FDIC, under the direction of the Board of Directors, must take a policy leadership role in helping to shape the future of the financial system. In particular, the FDIC must develop, evaluate, and articulate comprehensive, timely and effective responses to policy issues, including emerging risks to insured depository institutions and the deposit insurance funds.

The Chairman and the Board of Directors are committed to participating directly in communicating information about and soliciting input on these issues from the industry, other federal and state financial regulatory agencies, Congress and the public, including the news media.

Risk-focused supervision, recently implemented by the federal banking agencies, in combination with existing programs, provide a strong foundation for addressing the challenges of industry consolidation. Regulators ensure that proper controls and practices are in place and assess management’s ability to identify, monitor and control risk within an institution. The FDIC also is placing greater emphasis on identifying and assessing the economic factors that affect insured depository institutions and the markets in which they operate.

The FDIC continues to believe that a merged BIF and SAIF would be stronger and better able to diversify risk.

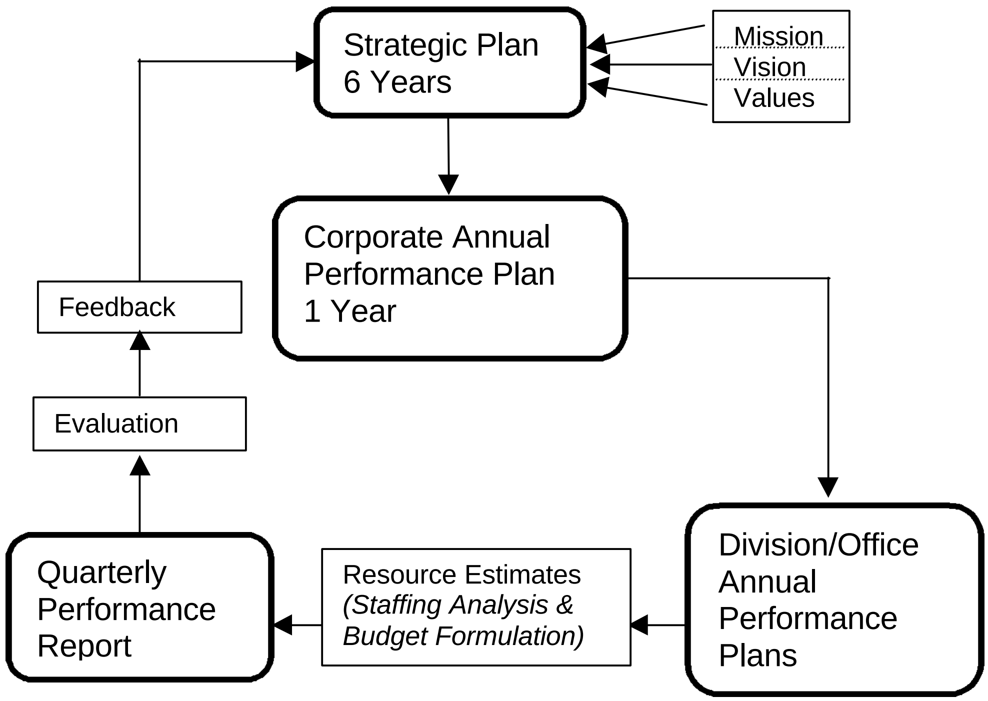
State of the Industry

Over the last six years, insured depository institutions have benefited from favorable economic conditions and stable interest rates. The commercial banking industry has enjoyed unprecedented prosperity, earning record profits in each of those six years. Profits in 1997 were $59.2 billion, representing a return on assets of 1.23 percent. Savings institutions also had a record year in 1997, earning $8.8 billion, representing a return on assets of .93 percent. For all insured depository institutions, capital is at the highest levels in more than 50 years, and noncurrent assets are at the lowest level in the 16 years that banks have reported the information. In the FDIC's 1997 risk-based premium system, in which an institution's classification is based on capital adequacy and supervisory factors, 95 percent of all banks and 90 percent of all thrifts qualified for the best rating. The number and assets of "problem" banks and thrifts are extremely low compared to just four years earlier. However, despite the current health of insured depository institutions, the FDIC and the other regulatory agencies are continuing to monitor trends that pose risks to banks and thrifts and the deposit insurance funds.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 became fully phased-in during 1997, accelerating the pace of industry consolidation. At the end of 1997, the FDIC insured 9,143 commercial banks and 1,779 savings institutions, down from 9,528 and 1,924, respectively, at the beginning of the year. More than 700 insured depository institutions were acquired during 1997, and many of these were the result of holding company reorganizations enabled by Riegle-Neal. Additionally, 200 new bank and thrift charters were granted in 1997 and only one institution failed, the first year since 1946 with only a single failure of a federally insured institution.

FDIC CORPORATE PLANNING PROCESS

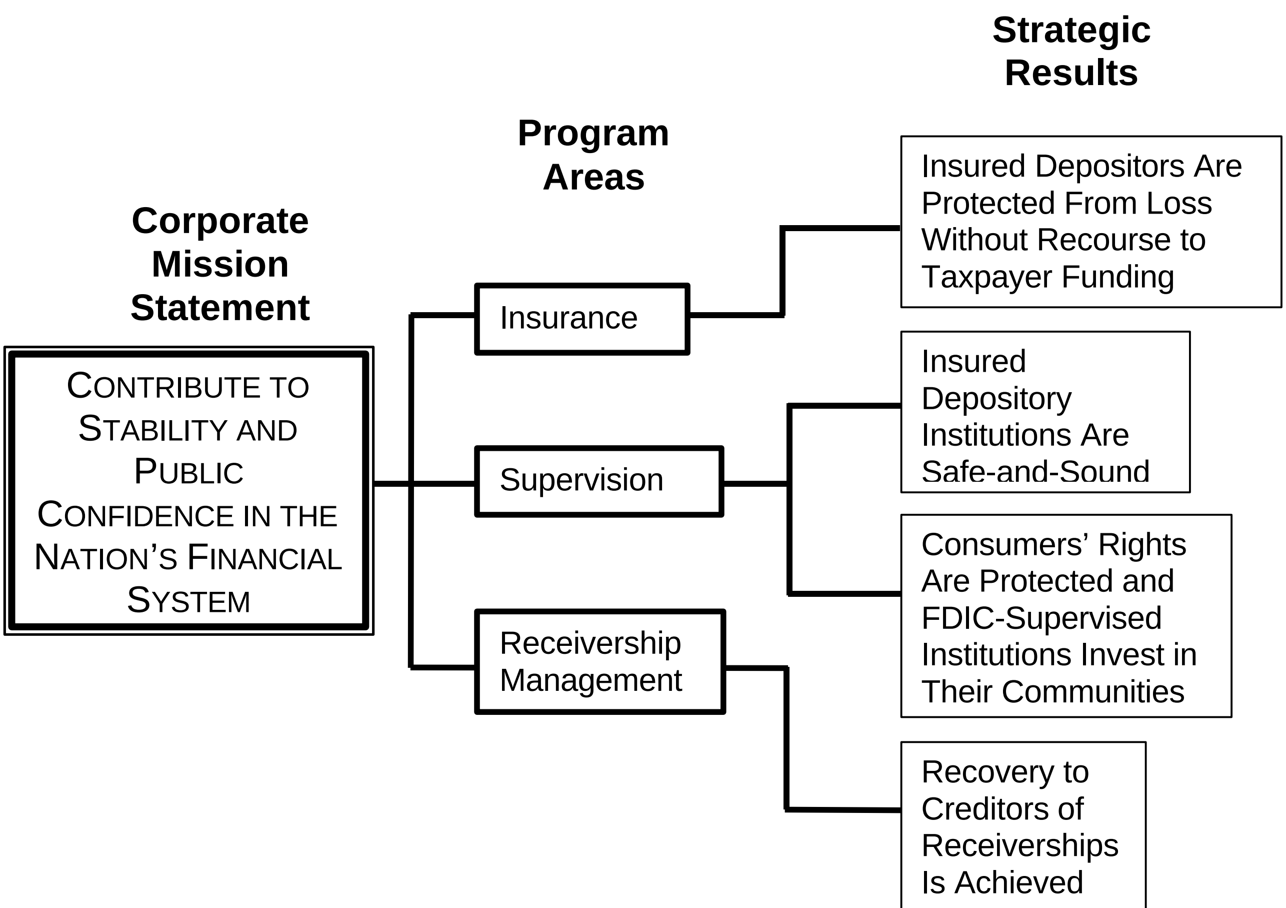
The FDIC's strategic planning efforts pre-date the passage of the Government Performance and Results Act (GPRA). As portrayed in the following diagram, planning at the FDIC is a continuous process.



The FDIC's planning process, including development of the Strategic Plan, involves Corporation management and staff at all levels. In addition, the National Treasury Employees Union participates in the development of the Strategic Plan as it is provided an opportunity to review and comment on the plan before it is finalized. Corporate goals, priorities and planning decisions are communicated to managers and staff throughout the agency through staff meetings, newsletters and the FDIC's Web site. Communicating corporate priorities and soliciting input from employees at all levels promotes accountability on the part of managers and staffs for achieving the goals they have helped to develop. FDIC senior management also is committed to educating FDIC management and staff on the implementation of the GPRA and the positive effect it will continue to have on the FDIC.

The FDIC Strategic Plan provides a framework for implementing the agency's mission by setting a course for the organization and guiding decisions about the effective use of resources. The FDIC Strategic Plan is implemented through the Corporate Annual Performance Plan which is augmented by individual Division and Office plans from which staffing and budget resources are determined. Feedback for modifying the FDIC's plans is provided through Performance Reports and program evaluations. In addition, performance achievement and budget execution is monitored and reported quarterly to the FDIC's Operating Committee.

The FDIC Strategic Plan focuses on the FDIC's three major program areas: Insurance, Supervision and Receivership Management. Strategic Results, which communicate *desired* outcomes, are identified for each program area and provide a link between the mission statement and the strategic goals. These *desired* outcomes may not always be attained due to various circumstances, not all of which are under the control of the FDIC. For example, there will be situations where there are insufficient assets available to pay all creditors of a receivership. To fully understand the relationship of Strategic Results to strategic goals and objectives, and to the activities the FDIC conducts, readers should refer to the detailed discussions under each of the three program areas.



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

The FDIC Strategic Plan presented here represents a realignment of the program areas from our previous plan. The FDIC is currently developing its first budget under the new program alignment and; therefore, is unable to provide resource estimates by program area at this time. Future FDIC Annual Performance Plans, beginning with the 1999 plan, will contain budget and human resources estimates for each program area. For informational purposes, the FDIC's 1998 corporate-wide budget is $1.36 billion, down 16% from 1997, and staffing is expected to decrease from 8,381 at the beginning of 1998 to an estimated 7,661 by year-end. Assuming the continued good health of the banking industry, the FDIC believes its budget will continue to decrease, net of inflation, as the receivership workload declines.

The FDIC maintains a strong internal control program that facilitates the processes, systems and environment necessary to execute the Strategic Plan, track performance as well as produce unqualified audited financial statements. Although not considered critical to the achievement of its mission, the FDIC has identified one material control weakness relating to the monitoring of property taxes on receivership properties. An action plan for correcting this weakness has been developed and its completion will be monitored via the FDIC's 1999 Annual Performance Plan. In the future, the FDIC will continue to develop annual performance goals for correcting material control weaknesses, should any be identified.

OTHER FDIC STRATEGIC PLANS

Strategic plans for Information Technology, Diversity and the Office of Inspector General complement the FDIC Strategic and Annual Performance plans.

INFORMATION TECHNOLOGY

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

Current initiatives focus on identifying, developing and implementing new information technologies that will improve the effectiveness and efficiency of all aspects of the FDIC’s primary program and support activities. A major element of the FDIC’s current IT program is the effort to ensure that the FDIC's systems and equipment are prepared for the Year 2000 (Y2K).

In order to ensure that strategic and tactical planning for IT is done from a corporate perspective, the FDIC established the Information Technology Council. The IT Council is chaired by the Deputy to the Chairman and Chief Operating Officer, and comprises Directors of all FDIC Divisions and the General Counsel. The IT Council advises the Division of Information Resources Management on general IT direction. The Council also considers the IT annual plan and related budget and is responsible for recommending them to the FDIC Board of Directors.

DIVERSITY AND ECONOMIC OPPORTUNITY

Diversity is a foundation of the FDIC's "Fairness" value and is a component of all of our activities. The FDIC is developing a Corporate Diversity Plan to ensure that diversity is leveraged to the advantage of the FDIC, its customers and individual employees. The FDIC is committed to building a work environment that supports and fosters a diverse workforce. The Corporate Diversity Plan will guide the FDIC's diversity efforts to ensure that everyone is treated fairly and equally. Current plans include developmental programs such as mentoring, diversity training for all employees, evaluating supervisor and manager efforts to support diversity, and recruiting initiatives directed towards minorities, women, and the economically disadvantaged.

INSPECTOR GENERAL

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

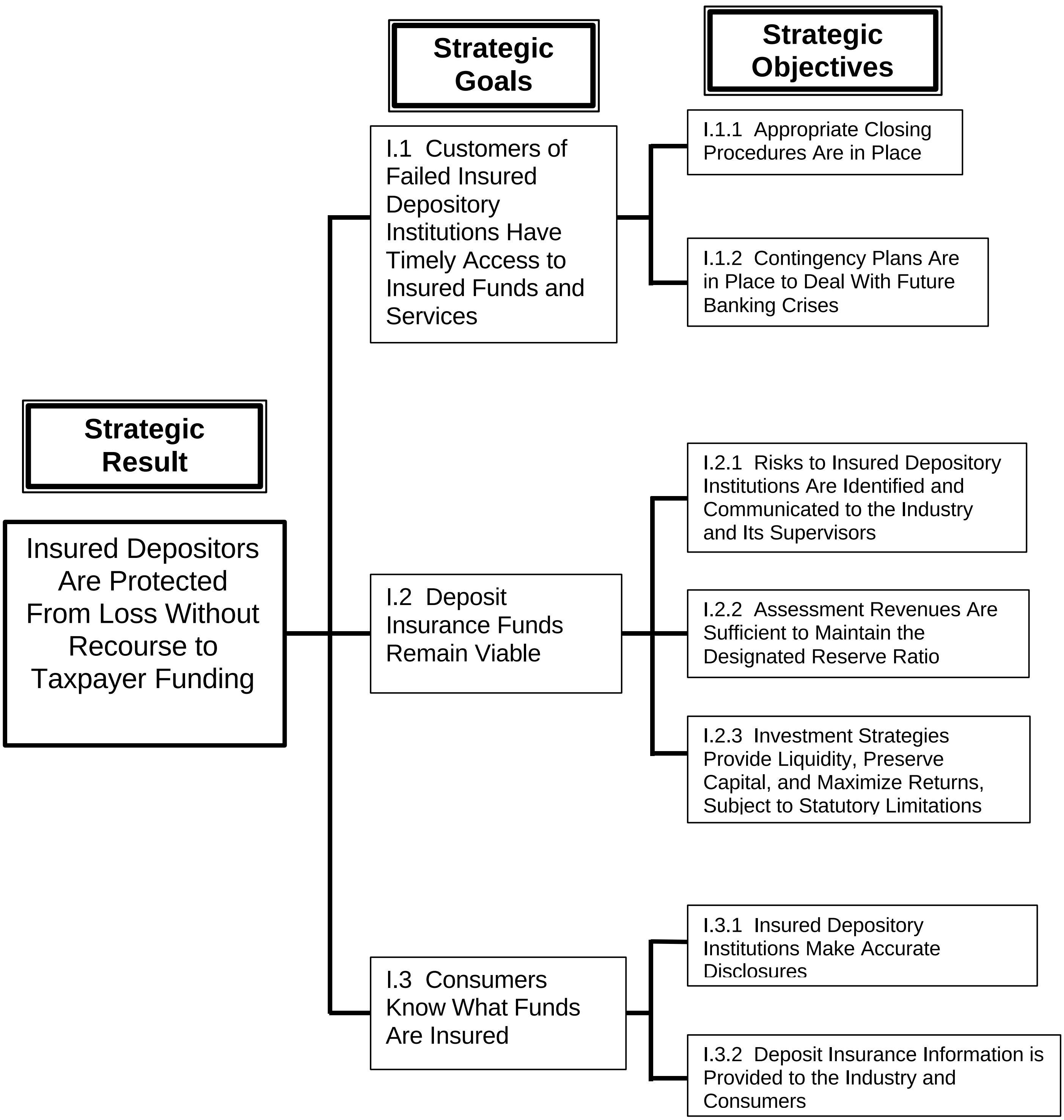
The OIG is fully committed to applying GPRA's principles of strategic planning and performance measurement to OIG operations. Originally developed in 1996, the OIG Strategic Plan provides a basic framework for implementing the OIG’s mission. The Strategic Plan includes the OIG’s vision to promote good government and strive for continuous improvement in FDIC programs and operations. The OIG Strategic Plan focuses on long-term goals related to providing quality products and services that add value to FDIC activities. Each strategic goal is supported by several objectives, which highlight the strategies needed to attain the goals. The OIG Strategic Plan serves as the foundation for the annual planning process in the OIG.

The OIG recognizes that strategic planning supported by performance goal-setting and measurement is an ongoing process that requires continuous monitoring. The OIG further recognizes the importance of results-oriented goals and alignment with the FDIC’s strategic goals and objectives. Accordingly, the OIG plans to continually re-evaluate its strategic and performance plans and goals to ensure consistency with the FDIC’s plans and the objectives of the GPRA.

INSURANCE PROGRAM

The FDIC insures deposits up to $100,000 at FDIC-insured banks and savings associations. The FDIC maintains and manages two insurance funds, the Bank Insurance Fund and the Savings Association Insurance Fund. In addition, the FDIC administers the FSLIC Resolution Fund, representing two pools of assets and obligations arising from the operations of the former Federal Savings and Loan Insurance Corporation and Resolution Trust Corporation. The FDIC minimizes losses to the insurance funds through the orderly and least-costly resolution of failed and failing FDIC-insured banks and savings associations. In executing the Insurance Program, the FDIC continually evaluates how changes in the banking market structure, products, and competition affect the current insurance coverage and funding arrangements.

INSURANCE PROGRAM
Strategic Goals and Objectives



Overview

When insured depository institutions fail, the FDIC ensures that bank customers have timely access to their insured deposits and other bank services. Appropriate policies and procedures allow the FDIC to close an institution quickly and transfer insured depositor accounts to an acquiring bank or savings association or pay insured depositors directly. These policies and procedures are continually reviewed and refined to ensure that alternative solutions and options are available to assist the FDIC with any future banking crises.

The deposit insurance funds must remain viable so adequate funds are available to protect insured depositors in the event of an institution's failure. To protect the funds, the FDIC identifies risks to insured depository institutions by analyzing economic, financial and banking developments, and communicating those findings to the industry and its supervisors. The FDIC maintains sufficient deposit insurance fund balances by collecting risk-based insurance premiums from insured depository institutions and through prudent fund investment strategies.

Promoting industry and consumer awareness also helps the FDIC protect depositors at banks of all sizes. As part of its examination of banks, the FDIC reviews whether insured depository institutions make accurate disclosures regarding insured and uninsured products. The FDIC makes deposit insurance information available to the industry and consumers through various media, including the Internet, pamphlets, educational materials and training. Educational outreach efforts for financial institution staff are conducted so that insured depository institutions are able to make accurate disclosures to consumers and depositors about financial products and services.

Means and Strategies

In protecting insured depositors from loss without recourse to taxpayer funding, the FDIC conducts a wide variety of activities necessary to resolve failed insured depository institutions, maintain the viability of the deposit insurance funds and promote consumer understanding of deposit insurance.

Goal I.1: Customers of Failed Insured Depository Institutions Have Timely Access to Insured Funds and Services

The FDIC continues to develop, refine, and implement strategies and procedures to ensure that customers of failed insured depository institutions have timely access to insured funds and services. As part of the resolution process, the FDIC solicits proposals from approved bidders in an attempt to pass the insured deposits on to an assuming bank. When a winning bid is selected, the failed financial institution is closed and the assuming bank reopens on the bank or thrift premises the next business day. The insured depositors of the failed institution automatically become customers of the acquiring bank and immediately gain access to their insured deposits. If no institution is found during the resolution process to assume the deposits, the FDIC moves quickly at closing to determine which deposits are insured and to begin payment of insured deposits to customers of the failed institution.

The FDIC has significantly reduced its resolution staff over the last several years as a strong economy and a healthy banking industry have resulted in a declining resolution workload. The FDIC will maintain a workforce capable of resolving all projected small institution failures and near failures. In addition the FDIC has developed plans for failures that may result from Year 2000 (Y2K) technology problems as well as for the failure of a large complex financial institution.

The Y2K problem results from the practice of using two digits to represent the year in the design of older computer systems. As a result, the year 2000 will be interpreted as 1900 in older computer systems. Unless corrected, this problem will affect all computations and functions involving dates.

If, as a result of Y2K technology failures, the total number of failures/near failures in 1999 or 2000 exceed the projected number of failures for which the FDIC has planned staffing, the FDIC will temporarily reallocate staff as appropriate to the resolution function from other FDIC Divisions/Offices and/or use temporary employees and contractors to handle the additional workload. Even if significantly more insured depository institutions were to fail or the level of effort required to address Y2K technology failures were to be substantially larger than now anticipated, the current FDIC workforce includes sufficient resources to handle such failures through a limited training effort in 1999; a temporary redirection of the FDIC's workload priorities in 1999 and 2000, including possible delays in scheduled safety-and-soundness and compliance exams, if necessary; and the use of temporary employees and/or contractors to supplement the permanent FDIC workforce, as needed.

Finally, the FDIC is investigating what may be done to assist institutions that experience temporary difficulties (e.g., power or transportation related problems or problems with only one bank product in a multi-platform environment) that will not necessarily result in a failure of the institution. These efforts include exploring potential legislative initiatives, studying other industries that might impact on the banking industry, and discussing potential efforts to calm the market related to problems which might arise.

In addition to its readiness to resolve all projected small institution failures or near failures as well as any Y2K failures, the FDIC has developed a contingency plan for the potential failure of a large, complex financial institution. The contingency plan centers on resolution methods and staffing alternatives. Training of the resolution staff and of staff throughout the FDIC who might be called upon to assist with future bank failures will be a primary focus over the next several years. The goal is to develop a cross-training program that will ensure that a multi-disciplined work force is capable of handling failing insured depository institutions.

The following external factors are beyond the FDIC's control and could significantly affect the achievement of Goal I.1: Year 2000 date change and the Economy. For additional information, see External Factors on page 55.

Goal I.2: Deposit Insurance Funds Remain Viable

To ensure the viability of the deposit insurance funds, the FDIC takes a proactive approach in identifying existing and potential risks to the funds. These risks are both domestic and international. The FDIC provides ongoing coverage and analysis of economic, financial and banking developments, and subsequently prioritizes issues based on the risk exposure to insured depository institutions and the deposit insurance funds. These issues are regularly communicated to the industry and bank supervisors through presentations, written and Internet publications and participation in industry events.

The FDIC meets regularly with industry officials and their supervisors through participation in or the sponsoring of educational or informational seminars, symposia, trade conferences, and trade association gatherings. The FDIC also shares data on risk-related issues with the industry and other regulators through the Financial Institution Letter system and various publications.

The FDIC relies on a highly skilled staff of banking analysts and economists to identify and facilitate the delivery of analysis of emerging risks and trends relevant to insured depository institutions, their supervisors, and the deposit insurance funds.

The viability of the deposit insurance funds also depends on the FDIC’s adjustment of the risk-based deposit insurance premiums to accurately reflect and respond to the risks to those funds. In addition to analyzing emerging risks, the FDIC analyzes the growth of insured deposits, the current assessment base, loss expectations, interest income earned on the funds, and corporate operating expenses to project the level of assessment revenues necessary to maintain the statutorily mandated reserve ratio of 1.25 percent of insured deposits. This analysis is used to prepare semiannual assessment rate cases to aid the FDIC's Board of Directors in setting insurance assessment rates that will produce adequate revenues and maintain risk-based pricing.

The Corporate investment process also promotes the viability of the deposit insurance funds by focusing on three major activities: providing adequate liquidity, preserving capital, and maximizing investment returns. These activities are constrained by the statutory requirement that the deposit insurance funds may only be invested in U.S. Treasury securities. The FDIC continually monitors and projects the liquidity requirements of the deposit insurance funds, ensuring that adequate resources are available to resolve failing insured depository institutions.

No major operational or procedural changes are anticipated over the next three to five years. However, given the speed at which the fixed-income investment field is evolving, ongoing and extensive outside training of existing staff is a certainty. Technological change, especially the use of on-line, real-time information services to perform the Treasury-market analysis process, will allow existing staff to produce better investment decisions in less time and at lower cost to the FDIC.

The following external factors are beyond the FDIC's control and could significantly affect the achievement of Goal I.2: Year 2000 date change, the Economy, Industry Consolidation, Possible Legislative Initiatives, and Emerging Technology. For additional information, see External Factors on page 55.

Goal I.3: Consumers Know What Funds Are Insured

Consumers can play a part in protecting themselves against loss if they have accurate and timely information about deposit insurance and know which products are or are not insured. Insured depository institutions must disclose information regarding the insurance status of products they make available to customers. Insured depository institutions are increasingly issuing non-deposit investment products (NDIP), uninsured financial products or instruments offered for sale by an insured depository institution to its customers. The FDIC's principal process for ensuring that insured depository institutions are correctly disclosing the uninsured status of NDIPs to their customers is through regular bank examinations and the issuance of guidance. Examinations of FDIC-supervised institutions with NDIP programs include a review by field examiners of NDIP disclosure practices.

On a broader scope, the FDIC develops and disseminates educational materials and offers training opportunities for consumers and insured depository institutions on all aspects of deposit insurance. Training opportunities for financial institution staff include deposit insurance seminars and related materials. Consumer pamphlets and a deposit insurance guide are maintained on the FDIC's Web site and are accessible to the public. The FDIC operates a toll-free Consumer Affairs Call Center that consumers and insured depository institutions may call to request printed information and ask questions about deposit insurance rules.

For 1999 through 2003, the FDIC will focus its efforts on maintaining a comprehensive deposit insurance education and outreach and function and continue to study options for improving the deposit insurance regulations. Depending on the scope of changes in insurance regulations, the FDIC will: 1) train financial institution staff and educate consumers about the deposit insurance rules; 2) develop an educational video on deposit insurance coverage for the industry and the public; 3) revise the deposit insurance guide for financial institution employees and *Your Insured Deposit* brochure; and 4) develop other consumer and financial institution educational materials. An interactive Internet deposit insurance estimator that will allow members of the public to make a self-determination of deposit insurance coverage is also being developed.

Approximately ten million Americans do not have relationships with financial institutions. The FDIC has joined a coalition of community-based, financial trade, consumer, and government organizations to develop a basic financial services training kit for local community educators to use in the field. The material will be especially helpful to those unfamiliar with the financial institution system by helping individuals make educated choices about financial products and services and assisting low and moderate-income individuals begin to establish relationships with federally insured financial institutions.

The FDIC plans to improve and develop automated processes that will provide better service to consumers and the industry in all areas of consumer protection, including deposit insurance. Initiatives include improving operations of the FDIC's toll-free Consumer Affairs Call Center in the Washington office and making greater use of the Internet to provide timely information to, and more efficient ways of interacting with, the public.

The following external factors are beyond the FDIC's control and could significantly affect the achievement of Goal I.3: Year 2000 date change and Possible Legislative Initiatives. For additional information, see External Factors on page 55.

Relationship of Strategic Goals to Annual Performance Goals

Annual performance goals will be developed in support of the strategic goals and objectives and are likely to measure the following activities:

Proper closing procedures ensure that customers of failed insured depository institutions have timely access to insured funds and services. Resolution and closing procedures are reviewed periodically to ensure that the appropriate procedures are in place to handle such failures. The FDIC is also developing and testing contingency plans to handle possible increased financial institution resolution activity. Tests or simulation exercises will be conducted to ensure that customers continue to have timely access to insured funds and services.

A key factor in ensuring that the deposit insurance funds remain viable is the identification of risks to the industry and the communication of those risks to industry officials. The FDIC seeks to maximize, to the extent possible, its participation in trade group and financial institution meetings so that issues of common concern can be identified, disclosed, and resolved.

Identifying, addressing, and reporting risks to the deposit insurance funds is accomplished in part by producing regular reports that discuss developments affecting the risk profiles of FDIC-insured depository institutions. These reports describe key economic, market and industry trends and are distributed to FDIC staff as well as to all insured depository institutions and other financial institution regulators. These reports help increase the effectiveness of examinations by sharpening the examiner's focus on the areas of greatest risk. Presentations and briefings discussing emerging and existing risks to insured depository institutions and the deposit insurance funds are conducted with FDIC management, other regulators, and financial institution staff, as necessary. The FDIC will measure the usefulness and effectiveness of these reports and presentations through readership surveys and management evaluations.

Semiannual deposit insurance assessment rate cases are prepared to link the level of assessments charged insured depository institutions to the risk of insuring these institutions. Periodic review of insured depository institutions' assessment risk classifications is performed to ensure that the appropriate insurance assessment rates are charged for insured depository institutions representing greater risk to the deposit insurance funds.

Ensuring that the deposit insurance funds remain viable by prudently managing the investment portfolios of those funds is key to preventing use of taxpayer resources to protect insured depositors. Maintaining adequate liquidity in each deposit insurance fund ensures that resources are readily available to meet the needs of both the FDIC and the insured depositors that it is charged with protecting. Prudent liquidity management allows the FDIC to invest all funds in excess of each fund's primary reserve in longer-term investments and, therefore, earn the highest available rates of return. This helps each fund grow more quickly and ensures sufficient assets are available to protect insured depositors in the future.

Annual performance indicators for deposit insurance fund investments include multiple indicators for both liquidity and investment return objectives. These indicators are designed to ensure staff is effectively managing the often-competing objectives of maintaining liquidity and maximizing return. Benchmarks that measure how closely overnight investment levels are maintained at or near established liquidity targets have been established. Additionally, an appropriate generic Treasury security benchmark return is established against which the actual portfolio return is measured.

The FDIC will continue to review NDIP programs at all examinations of FDIC-supervised institutions that have NDIP programs. The FDIC will also continue to track NDIP reviews through the NDIP Examination Results System and monitor the number of insured depository institutions with NDIP programs, the products and services offered, and develop baseline performance information and reports.

Outreach efforts to the industry and its customers through seminars and written guidance will be provided as necessary. The FDIC will continue to review deposit insurance outreach and education efforts in several ways. The number of times the deposit insurance estimator is accessed can be analyzed to determine if the public is using this tool to determine deposit insurance coverage. Customer satisfaction surveys with regard to the FDIC's consumer/financial institution education and outreach programs, brochures and publications can be analyzed to determine whether the FDIC's customers are provided, and have basic understanding of, deposit insurance information. The response rate to deposit insurance inquiries can be analyzed to determine whether customers are receiving deposit insurance information in a timely manner to make decisions about insuring their funds.

SUPERVISION PROGRAM

The FDIC's Supervision Program helps to fulfill the FDIC's mission of contributing to stability and public confidence in the nation's financial system by promoting the safety and soundness of insured depository institutions, protecting consumers' rights, and promoting community investment initiatives by FDIC-insured depository institutions. The FDIC shares supervisory and regulatory responsibility for approximately 10,806[1] banks and savings institutions with other regulatory agencies including the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and state authorities.

The FDIC directly supervises and regulates 6,072[1] FDIC-insured state-chartered commercial banks that are not members of the Federal Reserve System, that is, state nonmember banks, including state-licensed insured branches of foreign banks, and state-chartered mutual savings banks. The FDIC also has examination authority and back-up enforcement authority for state member banks, national banks, and savings associations.

The FDIC's Supervision Program works to achieve two results:

- The safety and soundness of insured depository institutions, and
- The protection of consumers' rights and the investment by FDIC-supervised institutions in their communities.

1 FDIC First Quarter 1998 FDIC Banking Profile.

SUPERVISION: SAFETY and SOUNDNESS
Strategic Goals and Objectives

Strategic Result

Insured Depository Institutions Are Safe-and-Sound

Strategic Goals

Strategic Objectives

- II.1 Insured Depository Institutions Appropriately Manage Risk, Including Risks Posed by Y2K
  - II.1.1 Risks to Insured Depository Institutions Are Identified and Integrated into the Supervisory Process
  - II.1.2 Insured Depository Institutions Comply With Laws and Regulations Relating to Safety and Soundness
  - II.1.3 Adequacy of Management Systems to Monitor, Identify and Control Risk Are Evaluated and Action Taken as Appropriate
  - II.1.4 Riskier Insured Depository Institutions Are Charged Higher Premiums
  - II.1.5 Adequacy of Management Ability to Address Y2K Is Evaluated and Action Taken as Appropriate
  - II.1.6 FDIC Takes Action as Appropriate to Promote Market Discipline of Insured Depository Institutions
  - II.1.7 Industry Officials Are Aware of FDIC's Approach to Safety-and-Soundness Practices
  - II.1.8 Entry and Expansion in the System Are Consistent with Prudential Standards
- II.2 Problem Insured Depository Institutions Are Recapitalized, Merged, Closed or Otherwise Resolved
  - II.2.1 Problem Insured Depository Institutions Are Identified
  - II.2.2 Problem Insured Depository Institutions Are Appropriately Addressed

Overview

In order for insured depository institutions to remain safe-and-sound, institutions must appropriately address operating risks and the FDIC must work to resolve problem insured depository institutions.

The FDIC promotes market discipline of insured depository institutions by identifying and communicating risks to the industry, informing industry officials about the supervisory process and the FDIC's approach to safety and soundness, conducting on-site examinations and off-site reviews, and charging risk-based deposit insurance premiums.

Risks to insured depository institutions are identified and integrated into the supervisory process through the analysis of economic and industry conditions, on-site safety and soundness examinations and off-site reviews of the financial condition of these institutions. Risks to insured depository institutions could include adverse economic conditions, poor management practices, and deterioration of an institution's financial condition. The FDIC communicates its assessment of industry trends and risks as well as the FDIC's approach to safe-and-sound management practices through written documents and industry seminars.

The FDIC evaluates individual insured depository institutions by conducting on-site examinations and off-site reviews. On-site examinations include reviews of an institution's financial position, which includes its capital adequacy, liquidity position and earning performance; asset quality; and sensitivity to interest-rate and market-risk changes. Also reviewed are management practices; the adequacy of management systems to identify, monitor, and control risks; and the capability of management reporting systems to provide reliable and accurate data. In addition, the financial institution's compliance with applicable laws and regulations is evaluated. Off-site reviews include the proactive identification and subsequent monitoring of insured depository institutions that have experienced a deterioration or adverse change in their financial condition.

Targeted on-site examinations may be conducted to evaluate specific risk areas or new technologies, including information systems. For instance, the FDIC is reviewing the capability of every insured depository institution's information systems to conduct transactions beyond the Year 1999. Insured depository institutions that are not Y2K ready are identified and their efforts to achieve Y2K readiness are monitored on an ongoing basis. The FDIC will take the appropriate corrective action to ensure that insured depository institutions are Y2K ready.

The FDIC also monitors the entry and expansion in the insured financial institution system. Institutions applying for deposit insurance and expansion of existing activities or locations must be well capitalized; possess a qualified management team; be capable of operating in a safe-and-sound manner, including being Y2K ready; and comply with applicable laws and regulations.

When insured depository institutions with problems or weaknesses are identified, the FDIC initiates corrective actions to address these problems. Problem insured depository institutions are required to operate under an informal or formal corrective action to address their weaknesses. For insured depository institutions with significant weaknesses or operating in a deteriorated financial condition, the FDIC may oversee the re-capitalization, merger, closure, or other resolution of the institution.

Means and Strategies

To promote safe-and-sound insured depository institutions, the FDIC utilizes a combination of macro-economic, financial, and banking analyses and on-site examination processes that are complemented by off-site reviews and analyses.

Goal II.1: Insured Depository Institutions Appropriately Manage Risk, Including Risks Posed by Y2K

Assessing risk at the macro level is critical to ensuring the examination program is effective and promoting safe-and-sound banking practices. The FDIC provides ongoing coverage and analysis of economic, financial, and banking developments, and subsequently prioritizes issues based on the risk exposure to insured depository institutions. The FDIC disseminates its analyses to FDIC supervisory staff, other regulators and insured depository institutions. Inter-divisional working groups incorporate macro-level risks, such as international banking relationships, into the risk assessments of individual insured depository institutions.

The FDIC conducts and publishes in various formats financial, statistical and economic analyses of issues pertaining to insured depository institutions and the financial-services industry. As a principal provider of statistics on the banking industry, the FDIC maintains and makes available high-quality information from which in-depth analyses are conducted. Within the FDIC, such information is essential to its efforts to develop policy and inform financial institution staff and the general public about key developments facing the industry and the insurance funds. These analyses foster market discipline that, in turn, affects insured depository institutions.

The examination process is a critical part of the regulatory framework established to promote stability and public confidence in the nation's banking system. Examinations are conducted to assess an institution's overall financial condition, management practices and policies, and compliance with applicable laws and regulations. If weaknesses are detected, the FDIC takes steps to ensure their correction. The FDIC performs examinations of all FDIC-insured state-chartered banks that are not members of the Federal Reserve System, i.e., state nonmember banks, including state-licensed insured branches of foreign banks and mutual savings banks. In most states, these examinations are conducted in conjunction with state regulatory programs, under cooperative agreements designed to improve the effectiveness and efficiency of the examination process and to minimize regulatory burden. In addition, the FDIC periodically participates with other federal banking agencies in the examination of FDIC-insured state member banks, national banks, and thrifts.

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

The FDIC continually evaluates and refines the supervisory process. Working with other agencies, the FDIC develops procedures to address emerging risks, such as the Y2K computer problem. The FDIC also participates in international working groups, such as the Basle Committee, in order to develop and improve the international standards for banking.

Current examination procedures use examination modules that focus on the adequacy of management reporting systems and the overall risk profile of the institution. The FDIC examination planning techniques use both public and proprietary information sources to appraise a bank's overall financial condition, to evaluate economic circumstances, and to assess industry trends. This information is used to define the scope of the examination and to ensure that bank-specific risks are adequately reviewed.

Off-site monitoring is an integral part of the FDIC's risk assessment program. Existing monitoring systems are upgraded regularly and others are developed in response to changes in risks arising from evolving banking practices and technologies. The off-site programs focus on evaluating the financial condition of insured depository institutions through data capture, analysis, and review. Off-site program efforts also require data sharing with other regulatory agencies.

Each insured institution is charged a deposit insurance premium to reflect its risk level, which is known as its risk classification. The FDIC reviews the risk classifications to ensure that higher insurance premiums are assessed for insured depository institutions representing greater supervisory risk to the deposit insurance funds.

The regional Case Manager program was implemented in 1997 to accommodate changes in the banking industry. Case Managers' duties include evaluating financial institution applications, reviewing examination reports from the FDIC and other agencies, and monitoring the financial condition of the insured depository institutions for which they have primary responsibility. Case Managers are stationed in the regions and evaluate each banking company regularly.

The FDIC will project staffing needs in light of industry trends, including projected institution consolidations, asset-growth rates, financial modernization, and economic conditions. Staffing projections will be assessed annually. Hiring will be through combined initiatives such as the crossover program, internal merit-promotion posting and recruiting.

The FDIC will assess training needs in light of the business, regulatory, competitive, and technological changes within the banking industry. Training will include formal class instruction, computer-based instruction, and on-the-job training. The FDIC will use risk specialists to assist other examiners in analyzing complex transactions and activities.

The FDIC will use technological advances to improve the efficiency and effectiveness of examinations and the regulatory oversight of FDIC-insured depository institutions. The FDIC will continue its efforts, both internally and with other federal banking agencies, to leverage and improve existing statistical databases and management reporting systems.

Given the importance and rapidly approaching deadlines associated with potential computer problems relating to the Year 2000, the FDIC has created a project team dedicated solely to this issue. The project team is charged with apprising insured depository institutions, service providers, and software vendors of the need to address the risks associated with the failure to achieve Y2K readiness. The project team: (1) participates in the development of interagency statements, in conjunction with the Federal Financial Institutions Examination Council (FFIEC), to provide industry guidance; (2) issues procedures to examination staff to ensure that FFIEC guidance is adapted to the examination process; and (3) conducts outreach seminars and conferences designed to review and discuss FFIEC guidance papers and other Y2K issues.

The FDIC has established a schedule of on-site and off-site assessments to review the progress of insured depository institutions in attaining Y2K readiness. The Y2K findings of the other federal financial regulators are reviewed to determine the potential effect on the deposit insurance funds. Y2K readiness is factored into composite and component ratings, supervisory risk factor assignments, and into the consideration of applications filed by insured depository institutions. Supervisory corrective programs, both informal and formal, are implemented depending on the level of Y2K readiness deficiencies. Vendors of software products are also assessed to determine their Y2K readiness.

The FDIC conducts outreach efforts aimed at financial institution staff and others in the financial industry to promote their understanding and awareness of the FDIC's approach to safety-and-soundness practices. Meetings with industry officials and their supervisors outside the examination process are held as necessary. The FDIC will participate in, or sponsor, educational or informational training seminars, symposia, trade conferences, and trade association gatherings. The FDIC will distribute, as appropriate, informational and educational material. The FDIC also works with other regulators to create a unified policy directives system.

The regional and field office structure facilitates frequent meetings of FDIC supervisory staff with industry officials. The FDIC regularly provides speakers for industry conferences and meetings. The FDIC's outreach efforts are not limited to senior officials who can address policy issues. Specialists also address specific safety-and-soundness issues. These issues currently include technology initiatives such as the automated examination report, automated downloads from bank records, the Y2K problem, and electronic banking.

Careful consideration of financial institution applications to enter or expand within the banking system is another way the FDIC oversees risk management. The FDIC processes applications from all institutions for which it is the primary supervisor and all applications for federal deposit insurance.

The FDIC has statutory and/or regulatory standards for evaluating applications. The standards relate to safety-and-soundness issues, proper exercise of fiduciary duty and other criteria established to ensure confidence in the banking system. In addition, the FDIC considers the deposit and credit needs of the affected community and the willingness and ability of the applicant to serve those needs. Compliance with consumer-related laws and regulations, as well as Y2K issues, is also considered.

A more sophisticated applications tracking system is being developed that will improve monitoring and promote efficiency in the application processing function.

The following external factors are beyond the FDIC's control and could significantly affect the achievement of Goal II.1: Year 2000 date change, the Economy, Industry Consolidation, Possible Legislative Initiatives, and Emerging Technology. For additional information, see External Factors on page 55.

Goal II.2: Problem Insured Depository Institutions Are Recapitalized, Merged, Closed or Otherwise Resolved

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

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

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

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

When an institution has a high near-term probability of failure, the FDIC will pursue the least costly resolution in accordance with applicable laws and regulations. The FDIC has an inter-divisional working group of analysts and economists tasked with applying statistical modeling to project the failure of insured depository institutions and make recommendations regarding the appropriate loss reserves for the FDIC's funds.

The following external factors are beyond the FDIC's control and could significantly affect the achievement of Goal II.2: Year 2000 date change, the Economy, and Industry Consolidation. For additional information, see External Factors on page 55.

Relationship of Strategic Goals to Annual Performance Goals

Annual performance goals will be developed in support of the strategic goals and objectives and are likely to measure the following activities:

Recognizing the importance of the on-site examination process, the FDIC will monitor pre-examination planning, the quantity and quality of examinations and the timeliness of report processing. Complementing the on-site examination process are off-site review programs that monitor an institution's condition between on-site examinations. The FDIC will measure the results of the monitoring systems and reviews of large insured depository institutions as they relate to risks in specific institutions. The FDIC also will track the follow-up to these off-site reviews to ensure that appropriate action is taken.

Insured depository institutions are expected to adhere to all governing laws and regulations. The FDIC assesses compliance with applicable laws and regulations at each regularly scheduled FDIC examination of FDIC-supervised institutions. The FDIC conducts Internal Control Reviews that include the evaluation of examination efforts to identify and correct violations of law.

The purpose of the Risk-Based Premium System is to charge insured depository institutions premiums commensurate with the risk they pose to the deposit insurance funds. The FDIC reviews all institutions semiannually and assigns a risk rating. These ratings must be accurate so that an institution is charged based on its appropriate risk level. The FDIC has developed a process that allows an institution to appeal its supervisory rating in the event it believes it was overcharged.

Semiannual assessment rate cases are prepared in order to link the premiums charged to insured depository institutions to the risk of insuring these institutions. Periodic reviews of insured depository institutions' assessment risk classifications are performed to ensure that institutions representing greater risk to the deposit insurance funds are charged higher premiums.

In addition to regulatory oversight, market discipline can be an effective mechanism for controlling risk in insured depository institutions. To this end, the FDIC disseminates timely financial information regarding an institution's quarterly Report of Condition and Income and related Uniform Bank Performance Report. The FDIC also publishes Statements of Policy that address the FDIC's approaches to safety-and-soundness issues. The FDIC will develop measurements that track the publication of financial information and written guidance to ensure timely dissemination.

Identifying, addressing and reporting risks to the deposit insurance funds will be accomplished in part by producing regular reports. These reports describe key economic, market and industry trends and are distributed to FDIC staff, as well as to all insured depository institutions and other bank regulators. These reports help increase the effectiveness of examinations by sharpening examiners' focus on the areas of greater risk. Presentations and briefings discussing emerging and existing risks to insured depository institutions and the deposit insurance funds are conducted with FDIC management, other regulators, and financial institution staff as necessary. The FDIC will measure the usefulness and effectiveness of these reports and presentations through the use of readership surveys and management evaluations.

Given the rapidly approaching date for Y2K readiness, timelines will be developed with other federal banking agencies to monitor FDIC-supervised institutions' ability to meet Y2K deadlines. The FDIC also will monitor the trends for all insured depository institutions.

The FDIC conducts outreach activities for industry officials to enhance their education and knowledge of the FDIC's approach to safety and soundness. Targets for FDIC participation in trade group and banker meetings will be set. The FDIC seeks to maximize, to the extent possible, its participation in these meetings so that issues of common concern can be identified, disclosed and resolved.

All applications for entry into and expansion within the banking system are reviewed for compliance with prudential standards. These reviews must be thorough and timely. Processing guidelines have been established for each application. The guidelines include addressing statutory factors, appropriately exercising delegated authority, and processing applications on a timely basis. The FDIC will monitor how well it meets the established processing guidelines.

To ensure that identification of problem insured depository institutions is timely and appropriate, the FDIC plans to perform multi-tier reviews of examination findings and recommend supervisory actions to assess the appropriateness of informal and formal corrective actions in light of identified risks. The implementation of banks' compliance with formal and informal corrective actions will be monitored.

Statistical modeling and advanced technology will be used to project the failure of insured depository institutions. Regular reports that discuss developments affecting the risk profiles of FDIC-insured depository institutions will be produced. The reports describe key economic, market and industry trends and are presented to FDIC management for consideration regarding the appropriate loss reserves for the FDIC's insurance funds. The FDIC will measure the usefulness and effectiveness of these reports through management evaluations.

SUPERVISION: CONSUMER RIGHTS
Strategic Goals and Objectives

Strategic Result → **Strategic Goals** → **Strategic Objectives**

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

Overview

The FDIC engages in a variety of activities related to consumer protection and fair lending. The FDIC provides consumers with access to easily understood information about their rights and the disclosures due them under consumer and fair lending laws. The FDIC examines FDIC-supervised depository institutions to determine their compliance with consumer and fair lending laws, including the Community Reinvestment Act of 1977 (CRA).

The FDIC provides information about consumer protection, fair lending, and deposit insurance to help consumers understand their rights. Insured depository institutions are provided with updated information regarding consumer laws and regulations to help them better understand and comply with the laws. In addition, the FDIC has established a toll-free Consumer Affairs Call Center that handles consumer inquiries and complaints.

The FDIC also conducts outreach activities for community groups and insured depository institutions in order to promote community lending. 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 compliance examination process determines insured depository institution compliance with consumer protection, CRA and fair lending laws and regulations. In addition to the examination process, the FDIC investigates consumer complaints of unfair or deceptive practices by insured depository institutions. Non-compliance with consumer laws can result in civil liability and negative publicity as well as formal or informal actions by the FDIC to correct the identified violations.

An institution's compliance with consumer protection, CRA, and fair lending laws is considered in any institution's application for entry or expansion within the insured depository institution industry.

Means and Strategies

To protect consumer rights and promote community investment by FDIC-supervised institutions, the FDIC conducts the following activities and processes:

Goal III.1: Consumers Have Access to Easily Understood Information About Their Rights and the Disclosures Due Them Under Consumer Protection and Fair Lending Laws

Through the consumer affairs education and outreach process, the FDIC provides informational materials for financial institution staff and consumers that are disseminated through various media, including the Internet. The FDIC operates a toll-free Consumer Affairs Call Center that consumers and financial institution staff may call to request guidance, answers to questions about consumer protection rules, and to express complaints about depository institution matters. The FDIC will seek to identify new methods to effectively disseminate educational information to consumers and financial institution staff, including new ways of reaching target or new audiences such as individuals who do not utilize financial institution services.

The FDIC is developing a comprehensive strategy to inform consumers about the steps being taken by the FDIC, other financial institution regulators, and insured depository institutions to ensure that their systems are ready for the Year 2000 date change. This strategy will include developing printed educational materials for consumers, and publishing articles and other information in consumer news publications. In addition, the FDIC will continue to develop the skills of its staff so they possess the technical requisite knowledge to assist the public and financial institution staff.

The FDIC plans to improve and develop automated processes that will streamline systems and provide better service to consumers and the industry in all areas of consumer protection. Examples include a deposit insurance calculator tool by which consumers can determine how their deposits are insured and to what amounts; streamlined automation systems that promote more efficient capture of data for reporting and management assessment purposes; and continued data sharing with other agencies.

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

Key information technology strategies planned include development and implementation of a new automated system for responding to consumer complaints and inquiries, and enhancing data capture and management reporting capabilities.

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

The FDIC will focus on institutionalizing a national community affairs outreach program that emphasizes: 1) partnership building between insured depository institutions and community-based organizations; 2) consistent application of CRA and fair lending; 3) involvement in the development of broad policies related to CRA, community development, and fair lending; and 4) partnership opportunities available to insured depository institutions in community and economic development. The FDIC will also participate, as part of an interagency initiative, in assessing the impact of the revised CRA regulation in 2002.

The FDIC will continue to evaluate ways in which automation can be used to better address changes in the financial institution environment that affect community groups and outreach efforts. Automation efforts will focus on supporting exchanges of documents and information with both the financial institution and community affairs groups.

The following external factors are beyond the FDIC's control and could significantly affect the achievement of Goal III.1: Year 2000 date change, Possible Legislative Initiatives, and Emerging Technology. For additional information, see External Factors on page 55.

Goal III.2: FDIC-Supervised Financial Institutions Comply With Consumer Protection, CRA, and Fair Lending Laws

The FDIC is responsible for determining that the institutions it supervises understand and comply with consumer, fair lending, and CRA laws and regulations, and for publicizing CRA examination results. The FDIC accomplishes this by conducting compliance and CRA examinations, fair lending and other investigations, periodic bank visitations, and interim monitoring of insured depository institutions. The FDIC also conducts Compliance and CRA examinations in conjunction with state regulatory programs that have similar requirements, under cooperative agreements designed to improve the effectiveness and efficiency of the examination process and to minimize regulatory burden.

Rapid developments in electronic banking are expected to result in significant changes in the industry. The Federal Financial Institutions Examination Council (FFIEC) Task Force on Consumer Compliance is developing uniform interagency compliance examination procedures that will incorporate changes to the consumer protection regulations in response to electronic banking developments. The FDIC also is striving to have remote access and enhanced data transmission capabilities to promote data sharing with banks in ways that may enable self-assessment and improve compliance.

If insured depository institutions are found to be in substantive violation of consumer protection laws and regulations, enforcement actions will be taken, as necessary. While moral suasion is the preferred means of achieving corrective actions, a range of other informal and formal measures is available. After careful analysis of specific violations, action will be taken to correct identified violations of laws and regulations, and deter recurrence.

When an institution requests entry to or expansion in the financial institution system, the FDIC considers the deposit and credit needs of the affected community and the willingness and ability of the applicant to serve those needs. When applicable, compliance with consumer-related laws and regulations is considered in evaluating applications.

The FDIC plans to maintain its authorized compliance examination staffing level and hire to offset attrition so it can handle its compliance examination workload, taking into consideration projected productivity improvements (reduced average hours per exam) and the decline in the number of insured depository institutions subject to examination.

During 1999 – 2003, the FDIC will utilize both external and internal staffing strategies to fill vacancies. External staffing efforts will focus on recruiting at college campuses. Internal staffing efforts will focus on attracting FDIC candidates at the entry level and potential candidates interested in crossover opportunities.

The FDIC is committed to providing adequate training to all examination staff. The years 1999 and 2000 will be devoted to providing internal crossover candidates and new hires formal training, on-the-job training, and coaching necessary to become commissioned examiners. From 1999 – 2003, the examiner force will continue to be provided with the technical and automation training necessary to improve overall examiner productivity.

The FDIC will increasingly rely on distance learning facilities (to be available in all of our regional office locations) as a means for timely sharing of information and solutions. Multi-media products such as CD-ROM and computer-based instruction will also be used to improve the distribution of training to staff.

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

The following external factors are beyond the FDIC's control and could significantly affect the achievement of Goal III.2: Year 2000 date change and the Economy. For additional information, see External Factors on page 55.

Relationship of Strategic Goals to Annual Performance Goals

Annual performance goals will be developed in support of the strategic goals and objectives and are likely to measure the following activities:

The FDIC tracks the number of times consumer information on its Web site is accessed to determine whether the public is using this tool to learn about the consumer protection rules and the financial institution industry. Customer satisfaction surveys about the FDIC's consumer brochures and publications will be developed to determine whether the FDIC's customers are provided with and understand information about their rights and the disclosures due them.

The percentage increase in the number of new financial institution relationships and in community development lending activity can be used to evaluate the effectiveness of the FDIC's community development programs.

The number of examinations initiated is used as a measure to ensure FDIC-supervised institutions have been examined in accordance with Board policy. The compliance rating are monitored to determine any significant changes. Enforcement actions are monitored and reported to determine overall effectiveness in enforcing consumer protection and fair lending laws. Examiners determine whether there are compliance weaknesses and take action to assist insured depository institutions in becoming fully compliant and in understanding consumer, fair lending and CRA requirements. Internal control reviews are used to determine whether examiners are fulfilling their responsibilities in determining that FDIC-supervised institutions are in compliance with consumer protection and fair lending laws.

Overall compliance of FDIC-supervised institutions will be monitored to track any changes. The percentage of FDIC-supervised institutions rated less than satisfactory is an indicator of overall industry compliance. This is supplemented by a ratings migration analysis to better isolate ratings changes. Finally, individual institution ratings changes after an enforcement action are analyzed. A comparison of subsequent ratings determines if the institution successfully improved its compliance posture.

RECEIVERSHIP MANAGEMENT PROGRAM

The FDIC's Receivership Management Program focuses on reducing the negative financial effects of failing and failed insured depository institutions. As such, the FDIC works to ensure that recovery to creditors of receiverships is achieved. The FDIC is proactive in identifying troubled insured depository institutions and begins its resolution efforts, such as valuing assets and identifying potential purchasers of institutions, before institutions fail. The FDIC also is prepared to place failed insured depository institutions into receivership status, i.e., a legal process that creates a new entity to replace the failed institution and allows the FDIC to resolve issues quickly. As receiver, the FDIC succeeds to the rights, powers, and privileges of the institution and its stockholders, officers and directors. Once the institution is placed in receivership status, the FDIC assumes several important custodial roles in order to recover creditor funds. These roles include managing and selling assets through a variety of strategies, identifying and seeking monies due to the receivership, and paying the debts of the receivership through the funds it recovers.

RECEIVERSHIP MANAGEMENT
Strategic Goals and Objectives

Strategic Result

Recovery to Creditors of Receiverships Is Achieved

Strategic Goals / **Strategic Objectives**

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

Overview

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

The FDIC values and assesses the assets and liabilities of the failing insured depository institution to provide an accurate valuation. Using this information, the FDIC markets and sells the institution to acquiring institutions and investors. To maximize the potential for identifying an acquirer, the FDIC markets failed insured depository institutions broadly, ensuring that all qualified parties are provided an opportunity to bid. When an institution fails, the institution is closed and the FDIC is appointed receiver. After paying the insured depositors their funds (if another institution has not assumed the deposits), the FDIC inventories and values any remaining assets, and uses various strategies to sell the assets quickly. Disposition of certain assets can be very lengthy. In the interim, the FDIC performs required asset servicing (building maintenance, processing of loan payments, etc.) in order to maintain the assets' value until they are sold.

Throughout the asset valuation and selling processes, the FDIC also seeks payment from the debtors of the failed insured depository institution. FDIC staff identifies and investigates claims due to the receivership. FDIC legal staff assist in pursuing the claims on behalf of the receivership when it is cost-effective to do so and/or when public-policy dictates that the FDIC pursue legal action against a debtor (e.g., certain negligence or fraud cases).

In addition to its collection efforts on behalf of the receivership, the FDIC works to ensure that legitimate claims and liabilities against the receivership are resolved fairly. The FDIC notifies claimants of the failed institution and provides them instructions on how to file their claims properly. Once the FDIC receives and validates the information, the FDIC pays the claimants cash dividends as appropriate.

Means and Strategies

To achieve recovery for creditors of receiverships, the FDIC conducts the following activities and processes:

Goal IV.1: Failing Insured Depository Institutions Are Resolved in the Least-Costly Manner in Accordance With Law

In resolving a failing institution, the FDIC will pursue the orderly and least-costly resolution of that institution, as required by law. The FDIC continually develops, refines, and implements resolution strategies that minimize losses to the insurance funds. Selling more of the failed institution's assets at resolution or shortly thereafter is a priority. To accomplish this, the FDIC will implement enhanced marketing strategies, such as offering loss-sharing on small as well as large failed insured depository institutions and bringing non-bank asset buyers into the sales process early. During the resolution process, the FDIC prepares information packages and asset valuation reviews to assess and value the assets and liabilities of the failed institution. The FDIC also solicits proposals from approved bidders, analyzes and evaluates the cost of each proposal received, consummates the transaction approved by the Board of Directors, and monitors acquirers' compliance with terms of resolution agreements.

The monitoring of resolution agreements currently in effect include those related to the FSLIC Resolution Fund as well as the Bank Insurance Fund. The FDIC will continue to study performance measurement tools that could help validate the valuation assumptions used in the Asset Valuation Review (AVR) process and the least-cost-test model. These tools may also help improve the template of resolution strategies. Other planned activities in this area include the continued monitoring and updating of the FDIC's contingency plans for resolving large insured depository institutions or several smaller failures simultaneously and the development of standardized guidelines for resolutions. A standardized approach will help to minimize costs and ensure better management of the resolution process.

In order to ensure that failing insured depository institutions are marketed broadly, the FDIC maintains both national and regional lists identifying parties that can acquire a failing institution. The lists are discussed with state officials and other regulatory agencies to ensure that all qualified parties are included and that the maximum number of qualified parties are given an opportunity to bid on a failing institution.

The following external factors are beyond the FDIC's control and could significantly affect the achievement of Goal IV.1: Year 2000 date change and the Economy. For additional information, see External Factors on page 55.

Goal IV.2: Receivership Assets Are Managed and Marketed to Maximize Net Return

The FDIC continually seeks to improve the efficiency and effectiveness of the Receivership Management Program. The FDIC will establish teams of specialists that will be advocates for the receivership from inception until termination. This team approach will improve customer service, reporting, and communication and, most notably, will be responsive to the various stakeholders' needs in a fair and equitable manner.

Once an institution fails and the FDIC is appointed receiver, any remaining assets are inventoried and valued. The Standard Asset Valuation Estimate (SAVE) methodologies currently used to value assets prior to a resolution will be studied for possible expansion into all facets of resolution and receivership valuations. The FDIC manages the existing loan portfolios, including contacting debtors and following up as necessary, in order to collect funds owed to the receivership, and manages the real estate properties and other owned assets until they are sold.

Historically, assets have been disposed of through a variety of methods. The FDIC continues to investigate other cost-effective approaches for asset disposition, with an emphasis on selling more assets at the time of resolution or shortly thereafter. However, because the number of troubled insured depository institutions is low, the FDIC's current focus is on disposing of the existing inventory of assets. As time passes, the assets remaining tend to be harder to sell, which will require the development of innovative asset management and marketing techniques. Timely disposition of assets from failed insured depository institutions is important in keeping the insurance funds liquid.

The following external factors are beyond the FDIC's control and could significantly affect the achievement of Goal IV.2: Year 2000 date change and the Economy. For additional information, see External Factors on page 55.

Goal IV.3: Professional Liability and Other Claims of the Receivership Are Pursued in a Fair and Cost-Effective Manner

When an insured depository institution fails, the FDIC as receiver acquires a group of legal rights, titles and privileges generally known as professional liability claims. FDIC investigators establish the factual basis for professional liability and other claims and identify losses for which the FDIC can pursue recovery in a cost-effective manner. The investigation staff compiles, analyzes and maintains evidence and documentation to support professional liability and other claims. It also reviews all functions of the bank. Audits are analyzed for evidence of audit failure, operational losses are reviewed, and potential claims against professionals are identified and forwarded to FDIC attorneys.

FDIC attorneys work with client representatives and FDIC investigators to assure that valid professional liability and other claims arising from an insured depository institution failure are properly pursued. The attorneys provide legal advice and may assist with inter-agency coordination. After the failure, the attorneys research and analyze potential professional liability and other claims based on factual information developed by investigators and other clients, and provide legal advice and analysis regarding the validity of the claims and the likelihood of a recovery in excess of costs. Attorneys also analyze the public-policy implications of potential professional liability and other claims.

The following external factors are beyond the FDIC's control and could significantly affect the achievement of Goal IV.3: Year 2000 date change and Changes in Legal Rules. For additional information, see External Factors on page 55.

Goal IV.4: Receivership Claims and Other Liabilities Are Resolved in a Fair and Cost-Effective Manner

In addition to acquiring the right to pursue professional liability and other claims on behalf of a receivership, the FDIC processes legitimate claims against the receivership. The primary goal of the claims process is to maintain confidence in the banking system by the expedient payment of insured deposits. General-trade creditor claims are also processed for payment. The FDIC maintains records of uninsured depositors and general-trade creditors and contacts them once the insured depository institution fails. The FDIC determines the validity of claims against the receivership and also determines the funds available for future dividend distributions.

The FDIC also is responsible for escheating unclaimed deposits to the states as applicable under law. During the life of the receivership, the FDIC also responds to inquiries from customers of the failed institution and the public concerning the obligations of the failed institution.

The following external factors are beyond the FDIC's control and could significantly affect the achievement of Goal IV.4: Year 2000 date change, the Economy and Goodwill Litigation. For additional information, see External Factors on page 55.

Staffing, Training, and Technology

Consistent with Corporate projections of minimal failure activity over the next several years, staffing for the resolution of failed insured depository institutions and receivership management is projected to decline over the next five years. The FDIC has significantly reduced resolution and receivership management staff over the last several years in recognition of declining workload that has resulted from a strong economy and a healthy banking industry. The FDIC will maintain a workforce capable of (1) resolving all projected small institution failures and near failures, apart from those that may result from Y2K technology problems, and (2) managing and disposing of its current asset inventory and the projected additions to that inventory resulting from small institution failures. To achieve this objective, the FDIC's field staff will be cross-trained. Large failures and/or higher than expected other failures will be managed through contingency plans that first draw upon internal staff currently assigned to other duties and then from outside contractors.

The number of FDIC attorneys supporting the resolution of claims on behalf of and against the receiverships has decreased and will continue to decline as the workload declines. Over the next three to five years, staff size will be reduced even further, primarily through attrition. The cost-effectiveness of litigation related to professional liability and other claims on behalf of the receiverships will be increased by referring work that might previously have been handled by outside counsel to in-house attorneys and where necessary and appropriate through co-counseling with outside counsel. The FDIC does not expect to eliminate the need for outside counsel, but it does expect to reduce its reliance on their assistance.

Receivership management provides a comprehensive cross-training program with the objective of providing FDIC staff with the general skills necessary to assume broader receivership responsibilities. Focus will be on the continued development of a core-training program covering all aspects of the receivership management process. The goal is to develop a cross-training program that will ensure a multi-disciplined work force capable of fulfilling the FDIC's mission with regards to receivership management.

In addition to cross-training attorneys in litigation and other legal skills and specialties, the FDIC will continue to provide training in the substantive aspects of all claims areas. The FDIC must ensure that as it downsizes it does not lose the valuable knowledge that has been developed over the last decade and more. In addition, the FDIC must ensure that its attorneys are prepared to analyze new sources of potential liability, such as might arise if Y2K problems cause the failure of an insured institution.

The primary technological focus in the receivership management result area through the year 2001 will be the identification and resolution of internal systems issues related to Y2K readiness. This process will identify potential liabilities, concerns, pending issues, and present recommendations on necessary actions. New system development initiatives include a receivership liability tracking system (RLS), and an asset tracking system (CAMP). RLS will replace the existing PC-based systems with a national tracking and processing system, and CAMP will create a central asset inventory and will integrate and re-engineer our current asset management systems. Other technology initiatives will include the continuing focus on the life expectancy of various receivership management systems and the determination of the upgrades necessary to accommodate changing technological tools.

Over the next several years the FDIC will explore whether and how litigation support technology could aid in its effort to have more litigation tasks handled by its attorneys, or to reduce certain costs of litigating its cases. Most litigation cases are very document-intensive, and most litigation support technology is designed to help use and control massive quantities of documents.

Relationship of Strategic Goals to Annual Performance Goals

Annual performance goals will be developed in support of the strategic goals and objectives and are likely to measure the following activities:

Annual performance goals in the receivership management program currently focus on the disposition of existing inventory with goals set for book-value reductions, cash collections, claims, and the closeout of receiverships. These goals are aimed at efficient and responsive receivership management. The FDIC also monitors its progress toward ensuring the least-costly resolution by continually validating the assumptions used in the AVR process and the least-cost-test model and by improving the design of the resolution structure. Ongoing reviews of present practices and techniques afford the FDIC the ability to update policies, procedures, and practices so that it is better prepared for any future downturns in the economy and increased receivership management activity.

Annual performance goals are likely to be associated with the following performance indicators in support of the resolution of professional liability and other claims on behalf of the receiverships:

- The FDIC will determine, within 18 months of the failure's date, whether to pursue a professional liability claim.
- Compliance with litigation deadlines and time limitations.
- Comparison of costs to recoveries.
- Periodic review of investigations and cases by the FDIC legal staff and Client Managers.

EXTERNAL FACTORS

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

YEAR 2000

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

- Unless corrected, Y2K concerns could have a negative effect on the FDIC's ability to process a closed institution's financial records and provide customers with timely access to their insured deposits and to financial services. In addition, the FDIC is currently studying the effect it may have on the FDIC's receivership management function. Furthermore, specialized issues associated with Y2K may necessitate additional training and IT capability. (Goals I.1, IV.1, IV.2, IV.3, IV.4)

- The year 2000 date change issue potentially can increase the complaint and inquiry workload. If there is substantial public interest in the status of insured depository institutions' readiness for the date change, there could be a substantial increase in the volume of consumer inquiries on this issue. In such cases, consumer affairs resources would have to be reallocated from other initiatives to ensure consumers receive timely responses. (Goals I.3, III.1)

- If Y2K-related bank-failure projections rise as we move closer to 2000, the FDIC may need to shorten the maturity structure of the deposit insurance fund investment portfolios beginning in late 1999, until the extent of this problem becomes apparent. Depending on market conditions, this may result in foregone interest income. (Goal I.2)

- The Y2K computer problem represents a considerable risk to the banking industry's safety and soundness and could result in a significant increase in resolution activity. The FDIC and other federal banking agencies will continue to take steps to ensure that banks and their servicers promptly and adequately address the Y2K computer problem. In addition, contingency planning efforts are underway to prepare for any increase in failure activity. (Goals II.1, II.2)

External Factors

- The FDIC is preparing contingency plans and is anticipating that examination staff may be called upon to assist in the resolution of problems the Y2K issue may cause. This may potentially affect the FDIC's ability to carry out its goals and objectives in the short term. (Goals I.1, II.1, II.2, III.2)

ECONOMY

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

- The current economic environment has had a positive effect on the banking industry. Recent bank-failure activity has been low and little intervention has been required on the part of the FDIC. As a result, the FDIC has been able to focus more on its existing inventory of assets and impediments to the closeout of receiverships. However, an economic downturn could result in a higher rate of financial institution failures as well as increased failure costs. In addition, a significant increase in institution closings will affect workload and current staffing projections for legal and investigative personnel. (Goals I.1, IV.1, IV.2, IV.4)

- The lower federal deficit in recent years has led to a shrinking supply of Treasury securities relative to other fixed-income investment securities. All else being equal, this has led to higher prices (and lower yields) of Treasury securities. This implies the deposit insurance funds may grow more slowly due to lower yields. (Goal I.2)

- Entry and expansion in the system are closely related to the economy. When economic conditions are positive there typically is an increase in applications for deposit insurance for *de novo* entry. (Goals II.1, III.2)

- An economic slowdown would have an adverse effect on the banking industry by slowing asset growth, increasing loan losses, and impairing profitability. (Goals II.1, II.2)

INDUSTRY CONSOLIDATION

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

- Industry consolidation presents both benefits and risks. While the risks to the deposit insurance funds are diminished because of the diversification benefits of consolidation (along both geographic and product lines), the concentration of deposits into fewer insured depository institutions increases the risks to the funds in the event one of these larger insured depository institutions fails. (Goals I.2, II.1, II.2)

- Continued industry consolidation will require additional examination mechanisms and different supervisory techniques to assess and monitor the increasingly complex financial conglomerates. Mergers between large insured depository institutions will increase individual company concentrations of risks to the FDIC insurance funds. Mergers across industry lines could further increase risk. Continued modifications in interstate banking practices will require changes in off-site data collection and analysis techniques---more cross-regional FDIC cooperation, and increased cooperation with other federal and state regulatory agencies will be needed. (Goals II.1, II.2)

POSSIBLE LEGISLATIVE INITIATIVES

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

- Proposals such as the merger of the BIF and the SAIF and financial institution modernization legislation, could all have a significant effect on the investment of the deposit insurance funds. While the fate of any legislative proposals is inherently uncertain, a merger of the BIF and the SAIF remains desirable. A merger of the funds might allow for a reduction in the liquidity target and more aggressive investing of the combined funds due to the higher diversification of risk. (Goal I.2)

- If substantive changes are made to the banking or consumer protection laws and regulations, the FDIC may need to alter its supervisory efforts as well as expand its education and outreach efforts for consumers and financial institution staff. (Goals I.2, I.3, II.1, III.1)

EMERGING TECHNOLOGY

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

- Technological advancement in the banking industry continues at an increasingly rapid pace. The safety-and-soundness examination function will continue to evolve and adapt in order to appropriately address new risks. Future advancements that could significantly affect the safety-and-soundness examination function include expansion in the use of electronic banking initiatives, in particular the use of Internet banking, and the development of new and complex non-deposit investment products. (Goal II.1)

- The general environment in which insured depository institutions operate is expected to continue to evolve rapidly requiring continued industry education, outreach and technical support. (Goals I.2, II.1, III.1)

GOODWILL LITIGATION

The FDIC as Manager of FRF-RTC currently has suits pending against the United States in the Court of Federal Claims relating to alleged breaches of agreements with the former Federal Home Loan Bank Board and/or the former Federal Savings and Loan Insurance Corporation involving approximately 40 failed thrifts. The agreements are, in general, asserted to have given the failed institutions the right to utilize goodwill, capital credits and other accounting preferences in connection with the acquisition of failing thrifts in the 1980s. It is alleged that the passage of the capital provisions of FIRREA and their implementation by OTS constituted breaches of these agreements. Litigation of the claims is expected to last for several years. The FDIC is unable to unilaterally control the conduct of the litigation, and it is impossible to predict with precision the date when the litigation will be either settled or finally completed. The affected receiverships and certain others with possible but unfiled claims likely cannot be terminated until the litigation is ended. (Goal IV.4)

CHANGES IN LEGAL RULES

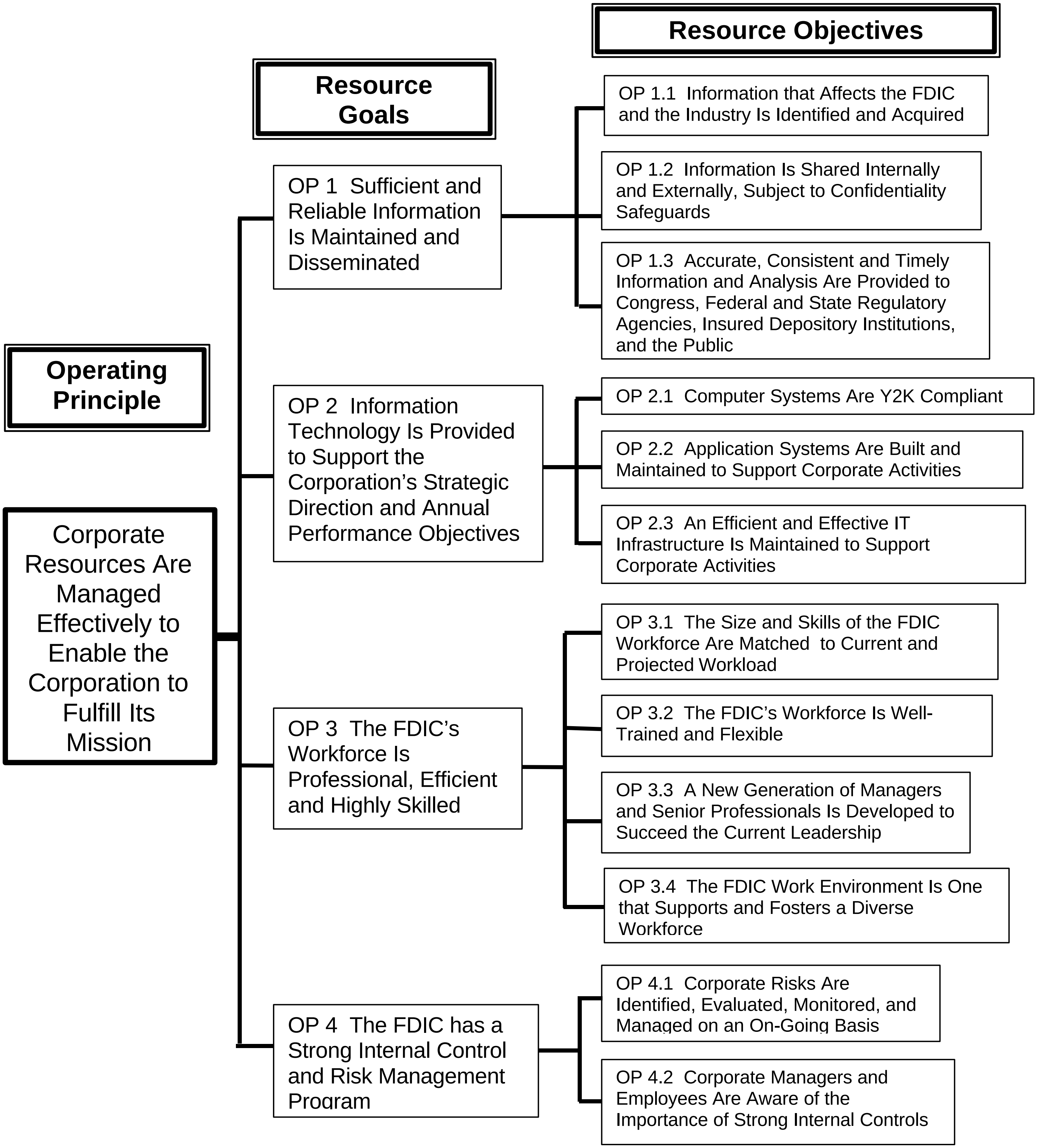
Changes in legal rules, e.g., affording greater insulation from client or third-party claims to attorneys and accountants, could change the viability of potential claims and may necessitate additional staff training. (Goal IV.3)

EFFECTIVE MANAGEMENT OF STRATEGIC RESOURCES

There are a number of key resources that are essential to the achievement of the FDIC's mission. The FDIC has established as its *basic operating principle* that it will effectively manage these critical strategic resources in order to accomplish the goals and objectives set forth in this Plan. To that end, the FDIC will pursue the following over the next five years:

- Maintaining and disseminating reliable information;
- Utilizing information technology effectively and efficiently;
- Maintaining a professional and highly skilled workforce; and
- Maintaining an effective program of internal control management.

EFFECTIVE MANAGEMENT OF STRATEGIC RESOURCES
Resource Goals and Objectives



Information Resources

Information is a corporate asset of the FDIC and is an important public resource.

Identifying and Acquiring Information

The FDIC requires many types of information in order to monitor the financial condition of insured depository institutions, identify and address risks to the deposit insurance funds, minimize the disruptive effects of insured-institution failures, analyze developments related to the financial-services industry, ensure the fair treatment of depository institution customers, and manage FDIC operations. Changes and developments in the banking industry have compromised some of the information used by the FDIC to fulfill its dual role as insurer and supervisor and have highlighted gaps where information either is not being collected or is not readily available. These developments include interstate mergers and consolidations, an increase in activities and affiliations that formerly were not permitted to banks, and technological advances that are changing the ways in which banks, thrifts and their customers do business.

To ensure that the FDIC has adequate information to support the achievement of its mission, the FDIC will focus on identifying needed information, developing strategies for acquiring the information and implementing changes associated with systems and staffing necessary to collect and maintain this information. In addition, the FDIC must work to ensure that appropriate mechanisms are in place to respond to future changes in information needs.

Sharing Information Internally and Externally

Once acquired and analyzed, information must be communicated inside and outside of the FDIC with appropriate safeguards for confidential information. The FDIC provides in-depth coverage and analyses of economic, financial and banking developments and communicates this information through the Internet, the FDIC's internal home page, written publications and responses to inquires. The FDIC continually strives to increase the effectiveness of internal and external communication by exploring new and innovative techniques and technologies.

Providing Accurate, Consistent and Timely Information to Stakeholders

The FDIC provides information to the Congress, to other federal and state regulatory agencies, to insured depository institutions and to the public from its offices in Washington, D. C. and around the country. By providing accurate and consistent information and analysis in a timely and responsive manner, the FDIC contributes to sound public-policy decisions, increases market efficiency, promotes public confidence in the financial system and promotes market discipline.

Technological Resources

Ensuring that FDIC Systems Are Y2K Ready

The approaching change in the century poses a unique and potentially damaging problem to the FDIC and others in the international financial system. Without thoroughly preparing for what is known as the Y2K problem, the FDIC will be incapable of meeting its goal of effectively managing its technology resources. Each piece of the FDIC's application systems and information technology (IT) infrastructure must be Y2K ready and capable of utilizing four-digit year codes. Ensuring Y2K readiness requires extensive testing of software and replacement of personal computers, printers, facsimile machines, and other automated equipment, all under very tight timeframes.

Maintaining an Efficient and Effective IT Infrastructure

Highly effective technologies are critical to ensuring that FDIC program performance results are optimized. As a base supporting all other work, the FDIC must acquire, maintain, and train staff in the use of an efficient and effective information technology infrastructure throughout the FDIC. The infrastructure includes a vast array of technology, such as mainframe computers, desktop computers, telecommunications networks and Internet communication.

Developing and Maintaining Application Systems

The FDIC also requires specialized application systems to support and accomplish its mission. The design, maintenance and support of hundreds of specialized application systems are critical for the initiatives related to each of the FDIC's programs. The FDIC's Information Technology Strategic Plan documents more specific approaches to information technology infrastructure and systems applications.

Human Resources

FDIC employees have a long and distinguished tradition of effective public service. The FDIC has identified several objectives that must be accomplished in order to maintain and build upon this tradition during the next five years:

Realigning the FDIC Workforce to Reflect Current and Projected Workload Levels

Corporate staffing requirements are determined through a comprehensive and rigorous five-year analysis of workload and staffing that is updated annually by all Divisions and Offices within the FDIC. Since 1994, as the work emanating from the banking and thrift crises has declined and as consolidation has continued within the financial-services industry, the FDIC has substantially reduced the size of its workforce. FDIC staffing has fallen from a peak of approximately 15,600 in mid-1992 to approximately 7,600 currently, and further reductions are planned over the next five years. Simultaneously, the FDIC is addressing staffing shortages in certain critical skill areas resulting from the stringent hiring restrictions that were in effect from 1992 through 1997. Where possible, surplus employees are being retrained to address these staffing needs.

Promoting a Trained, Innovative, Flexible, and Highly Motivated Workforce

The rapid evolution of the financial-services industry requires the FDIC to continually update the skills of its employees to be able to recognize and address new and emerging risks within the industry. The FDIC allocates substantial resources to employee training and development and is constantly exploring new techniques and technologies to deliver this training in an efficient and cost-effective manner. Over the next five years, it will implement distance learning technologies in each of its regional offices and will significantly expand the delivery of instructional and performance support products to each employee's desktop nationwide. During this period, the FDIC will also explore new approaches for attracting a strong applicant pool for managerial and professional vacancies.

Developing a New Generation of Managers and Senior Professionals to Provide a Continuum of Corporate Leadership and Technical Expertise

Over the next five years, the FDIC expects to confront the challenge of transitioning to a new generation of leadership. Through employee buyouts and other downsizing strategies, the FDIC has successfully reduced the size of its workforce in recent years, but this has inevitably been accompanied by the loss of an unusually large number of experienced managers and senior technical experts. Moreover, approximately one of every six remaining FDIC employees is or will become eligible to retire within the next five years, including a disproportionate number of the senior managers and professionals in most Divisions and Offices. The FDIC will, therefore, place considerable emphasis on planning for a successful transition to new leadership during this period, in order to ensure that it is capable of performing its mission and responding quickly and effectively to whatever future problems may emerge within the financial-services industry.

Building a Work Environment that Supports and Fosters a Diverse Workforce Throughout the FDIC

The FDIC serves a national community that is growing increasingly diverse in terms of characteristics, views, and perspectives. To provide the best public and customer service to all our stakeholders, the FDIC must have a highly skilled, competent, and diverse workplace that contributes to all of our corporate activities. In order to prepare the FDIC for the next millennium, and fully maximize the contribution that each of our colleagues has to offer, the FDIC is developing a strategic "roadmap" with several diversity initiatives. These initiatives are designed to maintain and enhance the quality and diversity of the FDIC's workforce.

Internal Control Management

Identifying, Evaluating, Monitoring and Managing Corporate Risks

Effective internal controls are found at all levels of the FDIC and they ensure that risks are appropriately managed at the FDIC. These controls consist of processes implemented to provide reasonable assurance that the FDIC's mission is being carried out; FDIC assets are guarded against waste, fraud, loss, unauthorized use or misappropriation; obligations and costs comply with applicable law; revenues and expenditures are recorded and properly accounted for; and systems are established to alert management of potential weaknesses.

The FDIC will include Annual Performance Goals in its Annual Performance Plan for any action plans correcting material weaknesses. Action plans, including implementation schedules, are developed for correcting any internal control weakness identified.

Promoting Awareness

Efforts are ongoing to promote and improve awareness of internal controls and their importance to the mission of the FDIC.

PROGRAM EVALUATION

Using the Results of Program Evaluations

The FDIC Strategic Plan contains its mission statement, major program areas, strategic results, goals and objectives. The FDIC's Annual Performance Plan implements the FDIC's strategic goals and objectives by establishing performance goals. Each year the FDIC is required to produce an Annual Program Performance Report that evaluates the Annual Performance Plan and evaluates performance against the annual performance goals. Program evaluations are to be conducted between Strategic Plan updates to assist in the strategic planning process.

The FDIC views strategic planning as an ongoing process, rather than a discrete event. The Annual Program Performance Report evaluates the Annual Performance Plan and if performance goals have not been met, offers explanations and suggestions for improvement. The results of program evaluations are to be reported in the Annual Program Performance Report.

In addition to providing input to update the FDIC Strategic Plan, the results of program evaluations will be used to revise the Corporate-level and Division/Office-level Annual Performance Plans. The collaborative efforts of the program evaluation process will evaluate and possibly result in improvements in the way that the FDIC implements its programs. These results and suggestions will be incorporated into the planning process as quickly as possible; they will not be held until the next Strategic Plan update. It is also possible that the results of the program evaluation process will result in the FDIC updating its Strategic Plan earlier than the anticipated three-year cycle.

The FDIC's Program Evaluation Process

Program evaluations are used "to validate program accomplishments and identify strategies for program improvement."[2] Evaluations also are a mechanism to determine whether the program has clearly defined goals and well-developed measures of program outcomes.

Although the FDIC's Division of Research and Statistics (DRS) will have primary oversight responsibility, the program evaluation effort also will involve people from the operating Division(s) responsible for the program as well as personnel from the FDIC's Division of Finance and the Office of Internal Control Management. Program evaluations are an inter-divisional, collaborative effort involving significant participation from the Division(s) responsible for the program. Such participation is critical to fully

2 *Managing for Results: Critical Issues for Improving Federal Agencies' Strategic Plans,* page 23.

understanding the program being evaluated, but also to giving the operating Divisions a stake in the process.

A program evaluation will involve the following three stages:

- *Stage 1* – involves fact-finding, data collection and an analysis of items.

- *Stage 2* – focuses on face-to-face meetings/interviews with the people who have a direct stake in the process. Stakeholders include those implementing the program, as well as people for whom the program was intended.

- *Stage 3* – consists of preparing a final report and conducting the necessary presentations for senior management.

The program evaluation process will address the following questions:

- Are the program's goals and objectives clearly defined? Are these goals and objectives sufficiently results-oriented? What changes can be made to the goals and objectives to make the program more effective and responsive to its ultimate beneficiaries?

- Are sufficient mechanisms in place for measuring program outcomes? Are data available to measure outcomes and are these data of sufficient quality? What improvements can be made in the measurement process to assess program outcomes more effectively?

- Did the program achieve its results-oriented goals? What are the measurable results of the program? Is the program operating as it was intended? How can the program be changed to improve its effectiveness?

- Should the FDIC be engaging in additional activities to support the program? What are these activities and why would they be beneficial to the program? Is the FDIC engaging in activities that may be counterproductive?

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

The FDIC's Major Programs

The FDIC conducts three major programs – insurance, supervision and receivership management – to accomplish its overall mission. The following four strategic results have been ascribed to the three major programs:

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

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

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

- *Receivership Management* – Recovery to creditors of receiverships is achieved.

These core areas of operation will be the focus of the FDIC's program evaluations. Initially, program evaluations will be of the FDIC's core programs. It is possible that once the FDIC gains more experience with program evaluations, a different, more detail-oriented program evaluation process may be more appropriate to meet the agency's needs.

The Program Evaluation Schedule

The FDIC expects to update its Strategic Plan on a three-year cycle, although certain events may require an acceleration of this process. This planning timeline allows the FDIC to evaluate its four result areas separately, well in advance of the beginning of its next strategic planning cycle.

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

The pilot program will evaluate the FDIC's Insurance Program. The project will begin in June 1998 and is expected to last approximately three months. Insurance was selected for the initial review because of its importance as well as the breadth of its activities. Since numerous operating divisions are involved directly in the Insurance Program, the pilot program evaluation will touch most major areas of the FDIC.

INTERAGENCY COORDINATION OF CROSS-CUTTING ISSUES

As required by the GPRA, the FDIC has been working closely with the other federal financial regulatory agencies (Board of Governors of the Federal Reserve System, National Credit Union Administration, Office of the Comptroller of the Currency and Office of Thrift Supervision) to address programs that transcend the jurisdiction of each agency. In this connection, the FDIC hosted a meeting of the Chief Financial Officers of the financial regulatory agencies, which resulted in the creation of an interagency working group to address and report on issues of mutual concern.

The interagency working group has been meeting since June 1997 and, in October 1997, established four subgroups to work on issues related to the general goals and objectives that cross agency functions, programs and activities as well as general GPRA requirements. The Examinations Subgroup has identified three potential cross-cutting areas of coordination: (1) safety-and-soundness examinations; (2) examinations or evaluations of insured depository institutions' preparedness to address Y2K problems; and (3) applications. The three areas, as well as each agency’s goals and performance indicators, may be modified to address new risk areas for insured depository institutions, technology changes, and regulatory requirements.

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

The Annual Performance Plan Subgroup addresses GPRA requirements in general (as well as OMB guidelines) and shares information about how agencies interpret and implement these requirements. The Planning/Budget Linkage subgroup addresses common issues such as program-based budgeting as well as sharing "best practices."

The results of the inter-agency coordination have been positive. The working group believes that our plans show substantial evidence of our efforts to coordinate in common areas. The participating agencies agree that the areas mentioned above are viable for developing similar impact/outcome measures; however, no new measures will be recommended for interagency use without a test or trial period where differences among the agencies can be analyzed and corrected.

Interagency Coordination of Cross-Cutting Issues

In addition to our efforts in planning coordination, the Federal Financial Institutions Examination Council (FFIEC) promotes uniformity in the supervision of depository institutions by the five federal regulatory agencies. The FFIEC is a formal interagency body established in 1979 pursuant to Title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978. The FFIEC is empowered to prescribe uniform principles, standards and report forms for the federal examination of depository institutions and to make recommendations to promote uniformity in the supervision of depository institutions. In addition, the FFIEC provides uniform examiner training and has taken the lead in developing standardized software needed for major data collection programs to support the requirements of the Home Mortgage Disclosure Act (HMDA) and the Community Reinvestment Act (CRA). It is also taking steps to enhance public availability of information by including data on HMDA and CRA on its Web site. Future expansion of public information availability will include the bank Call Reports and Uniform Bank Performance Reports.

CONSULTATION WITH STAKEHOLDERS

Our stakeholders include the public, the banking and thrift industries, community organizations, our employees and Congress. The FDIC continually consults with various stakeholders regarding our Strategic Plan. We inform key stakeholders of our strategic planning process and strategic initiatives on an ongoing basis through participation in outreach opportunities, speeches to industry trade groups, and participation by senior FDIC officials in various consumer trade group activities. The Strategic Plan was presented to and discussed with our Board of Directors at public meetings in April 1995, April 1997, September 1997 and August 1998. Such open meetings provide the public with an opportunity to hear strategic issues being discussed before the Board.

The Strategic Plan is made widely available to FDIC insured banks, industry and consumer groups, and the general public. The Strategic Plan is available on the Internet for review by visitors to our website. The Plan is also available to FDIC employees through FDICnet, our Intranet facility.

The opportunity to comment on the draft version of the 1998~2003 Strategic Plan was publicized through a variety of methods: Financial Institution Letters to all FDIC insured institutions; Federal Register notice; global E-mail to our employees, and through our electronic distribution service which notifies subscribers about the availability of FDIC products. In addition, we met with the staff of the House Banking Committee and with officials from the Office of Management and Budget.

Throughout our consultations, no contrary views were expressed regarding how the FDIC views its mission or executes its program activities. All comments received were reviewed by the Board of Directors and considered in the development of the Strategic Plan.