

**FEDERAL DEPOSIT
INSURANCE CORPORATION**

**2001 Program
Performance Report**

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CHAIRMAN'S MESSAGE

Despite the tumultuous events following the terrorist attacks on September 11, the American public maintained its confidence in the Nation's financial system due in large part to the stable performance of the industry and the safety of insured deposits. The FDIC continued to play a key role in maintaining stability and public confidence in that system.

Major FDIC accomplishments in 2001 included the following:

- The Corporation maintained an active examination program for supervised institutions in fulfillment of its goals of ensuring that depository institutions appropriately manage risk and that they comply with applicable laws and regulations. This included 2,575 safety and soundness examinations, 1,661 information systems/electronic-banking examinations, and 2,180 comprehensive, compliance, and Community Reinvestment Act examinations.
- The Corporation resolved four financial institution failures during the year, in each case ensuring that the failures were resolved in the least costly manner and that depositors had uninterrupted access to their insured deposits. For three of the four institutions that failed, the FDIC sold the vast majority of the marketable assets to the assuming institution at the time of failure. Assets for the remaining receivership were placed into conservatorship in an effort to minimize losses to the insurance funds.
- To promote the continued viability of the insurance funds, the Corporation published comprehensive recommendations on deposit insurance reform. I testified on those recommendations before Congress. In addition, the FDIC provided information in support of deposit insurance reform throughout the year to bank trade groups and other bankers' groups, other financial regulatory agencies, the Congress, academics, and other interested parties.
- The Corporation pursued enhanced financial literacy for adults through 25 Money Smart workshops in 21 cities and 17 states. Evaluation results confirmed that participants increased their knowledge about the topics addressed in those workshops.

The FDIC received an unqualified audit opinion on its 2001 financial statements from the General Accounting Office. We continue to work toward resolving previously identified audit conditions relating to electronic data processing/security issues. The three-year audit resolution plan for addressing these issues is targeted for completion in 2002. In 2001, all security plans for major system applications and general support systems were completed, and disaster recovery tests were conducted. The Corporation also continued during 2001 to seek improved efficiency and effectiveness in its work processes and its management of strategic resources.

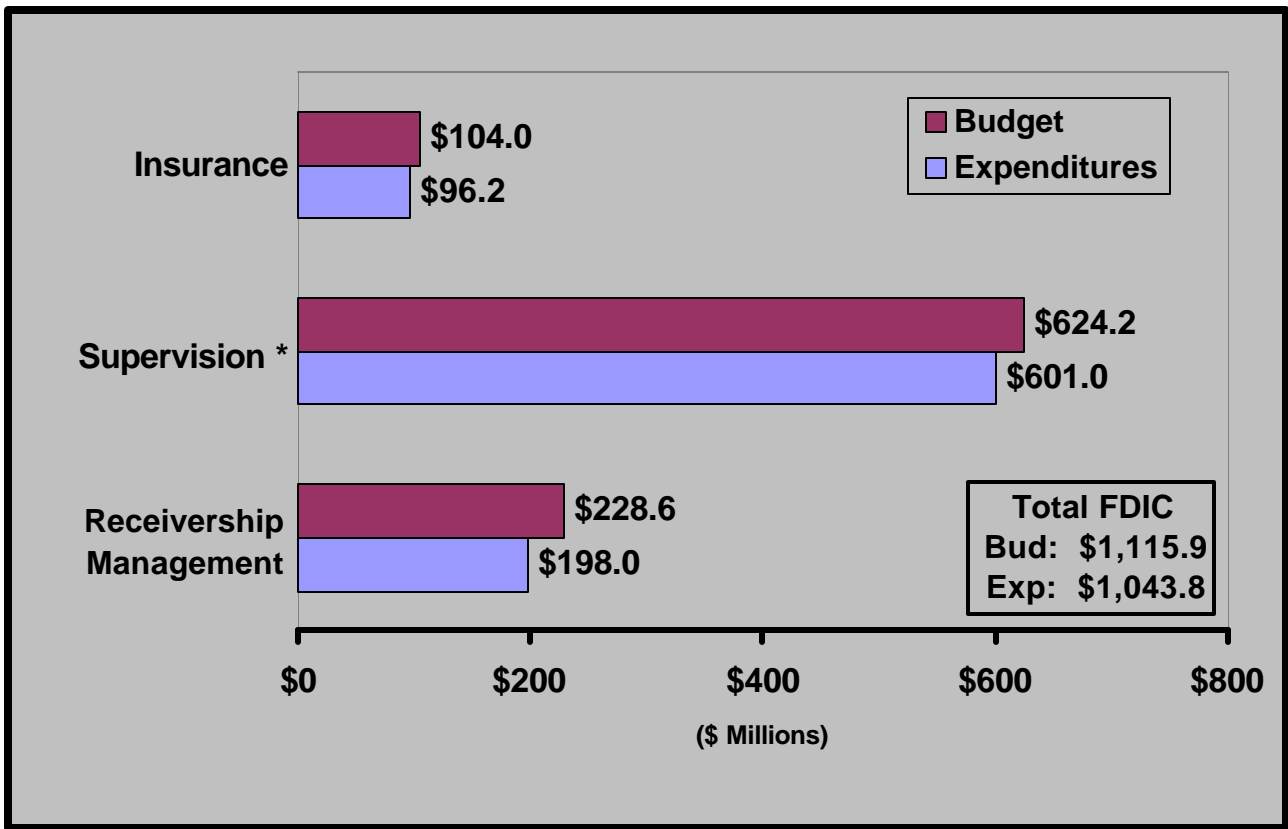
In accordance with requirements of the Report Consolidation Act of 2000, the FDIC completed an assessment of the reliability of performance data contained in this report. No material inadequacies were found, and the data is considered to be complete and reliable. In addition, the Corporation's performance in 2001 was considered in the development of the FDIC's 2002 Annual Performance Goals, which were previously forwarded to the Congress.

Donald E. Powell
Chairman

PERFORMANCE RESULTS

2001 Budget and Expenditures by Program

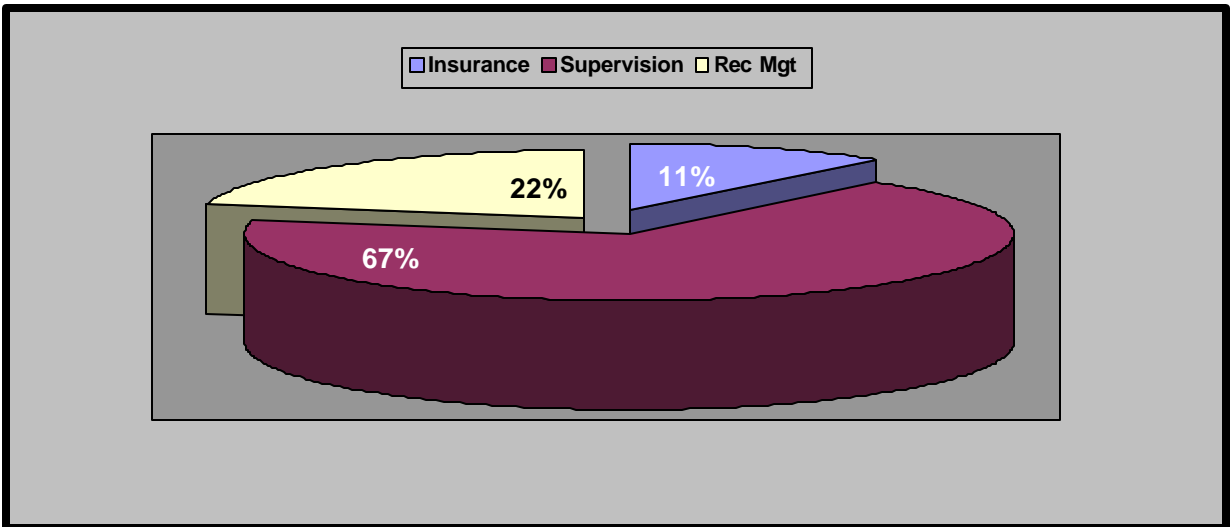
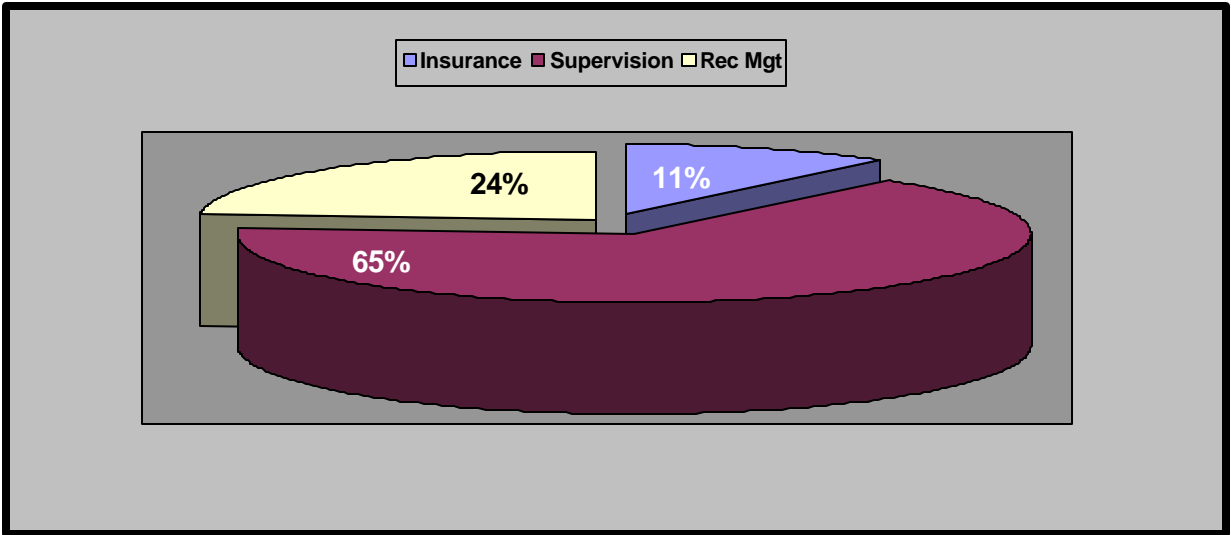
The chart below represents the FDIC’s 2001 budget and expenditures by program.¹



* Includes Supervisory activities for Insurance purposes

¹ The budget figures represented in this Performance Report reflect the Board-approved budget and the final allocation of expenditures to corporate programs and related goals.

The two charts below represent the FDIC's 2001 budget distribution and 2001 expenditure distribution, respectively.



Summary of 2001 Performance Results by Program Area

Program Area	Performance Results
<p style="text-align: center;">Insurance</p>	<ul style="list-style-type: none"> • In each of the four failures in 2001, depositors had uninterrupted and continuous access to insured deposits due to the deposits being assumed by an acquiring entity in each instance. • A contractor was engaged to review FDIC procedures relative to an electronic-banking failure. • A recommendation paper was drafted on deposit insurance determinations. • The final recommendations paper for deposit insurance reform was published in April. • The designated reserve ratio was maintained at or above the statutory ratio of 1.25 percent. • Risk assessments of all large insured depository institutions were completed in compliance with program requirements. • 805 SCOR and 632 GMS institutions were reviewed. <ul style="list-style-type: none"> • 178 SCOR and 63 GMS institutions were identified as supervisory concerns. • The FDIC issued: <ul style="list-style-type: none"> • 111 Financial Institution Letters, • Four <i>Regional Outlook</i> publications, • 28 <i>Update</i> publications, • 23 <i>Briefing Notes</i>, • 11 <i>Regional Commentary</i> publications, • <i>Semiannual Survey of Real Estate Trends</i>. • Over 140 risk-targeted outreach efforts were conducted. • 16 banker outreach meetings were held.
<p style="text-align: center;">Supervision</p>	<ul style="list-style-type: none"> • 2,575 or 97 percent of required safety and soundness examinations were initiated. • 1,661 or 99 percent of information systems/electronic-banking examinations were initiated. • 2,180 comprehensive, compliance-only, and CRA examinations were initiated in accordance with FDIC policy. • 612 survey cards were sent to consumers and bankers who contacted the FDIC concerning inquiries and complaints; 84 cards were returned to the FDIC. <ul style="list-style-type: none"> • 62 percent of the responses rated FDIC as “excellent” in response quality. • 64 percent of the responses rated FDIC as “excellent” in response timeliness. • 25 Money Smart workshops were conducted; over 600 participants attended.

Program Area	Performance Results
<p style="text-align: center;">Receivership Management</p>	<ul style="list-style-type: none"> • In the four failures in 2001, 100 percent of the qualified potential bidders were contacted. • For three of the four institutions that failed in 2001, the FDIC marketed 100 percent of the marketable assets during resolution and sold virtually all of the failed institution assets to assuming institutions. <ul style="list-style-type: none"> • The remaining institution was placed into conservatorship; loan pools, servicing operations, and residuals in excess of the 80 percent of the failed institutions assets were marketed within the 90-day time period. • Five of the nine failed institutions that reached the 18-month investigations milestone during the calendar year 2001 had 100 percent of professional liability investigations completed. • 52 out of the 76 targeted receiverships were inactivated in 2001; the pace of inactivations was slowed by impediments that represented material financial or legal risks to the FDIC.
<p style="text-align: center;">Effective Management of Strategic Resources</p>	<ul style="list-style-type: none"> • A recommendation for a new FDIC financial environment was developed. • An Institution Data Management program manager was designated to develop the scope, staffing, and implementation requirements for the institution data modernization project. • Two applications, Financial Institutions and Institution Directory, were integrated on the Internet. • Major benefits and workplace initiatives to provide greater flexibility for all employees were implemented. • A pilot diversity dialog group program was completed, and the corporate-wide program was approved and implemented. • 113 (100 percent) of GAO/OIG audit conditions were closed on or before the estimated completion date. • Four repeat audit conditions, which relate to the electronic data processing portion of the GAO’s financial statements audit and primarily focus on security issues, were identified. <ul style="list-style-type: none"> • The FDIC has been working on a three-year plan to improve security; the plan’s completion is expected in 2002. • Contract oversight program enhancements were completed. • Four contractor oversight audit conditions were not closed within one year of identification. <ul style="list-style-type: none"> • The FDIC is pursuing recovery of contractor fees and questioned costs related to contract compliance issues. • All security plans for major applications and general support systems were completed. • The volume of viruses inside the firewall was below 1,630 per month. • The FDIC conducted disaster recovery tests at its backup facility.

In accordance with Section 232.8 of OMB Circular No. A-11, Part 2, the FDIC reports that there were no situations in 2001 where actual performance has an adverse effect on FDIC’s activities or programs. In addition, 2001 performance was considered in the development of the FDIC’s

2002 Annual Performance Goals. In accordance with an OMB memorandum dated January 23, 1998, the FDIC reports that the Office of the Inspector General will independently publish its 2001 Program Performance Report in its March Semiannual Report to the Congress.

Insurance Program Results

The FDIC insures bank and savings association deposits in order to help ensure the stability of the financial system and the consequent faith in the U.S. banking system in times of stress. As insurer, the FDIC continually evaluates how changes in the economy, the financial markets and the banking system affect the adequacy and the viability of the deposit insurance funds. In addition, the FDIC contributes to U.S. leadership on global deposit insurance issues to support international financial stability.

The deposit insurance funds must remain viable so that 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 the insurance funds by analyzing economic, financial and banking developments and then communicates those findings to the industry and its supervisors. As the insurer, the FDIC, by statute, has special insurance activity authority for all insured depository institutions. Should the FDIC identify significant emerging risks or have serious concerns relative to any of these non-FDIC-supervised insured depository institutions, the FDIC and the institution's primary federal supervisor² work in conjunction to address them. The FDIC maintains sufficient deposit insurance fund balances by collecting risk-based insurance premiums from insured depository institutions and through prudent fund investment strategies. The FDIC promotes financial stability by exercising leadership in deposit insurance outreach efforts for insured institutions, the other federal and international banking agencies, and other industry experts.

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.

² The institution's charter and/or membership status in the Federal Reserve System determines which federal banking agency is the "primary federal supervisor" of the particular institution. The other federal banking agencies, along with the FDIC, include: the Board of Governors of the Federal Reserve System (FRB), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS).

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

Annual Performance Goal The FDIC is prepared to deal with all financial institution closings and emerging issues.

- Indicators and Targets*
1. Number of business days from institution failure when depositors will have access to insured funds either through transfer of deposits to successor insured depository institution or depositor payout.
 - *If the failure occurs on Friday, the target is one business day.*
 - *If the failure occurs on any other day, the target is two business days.*
 2. Assess reporting and other requirements for potentially failing banks to support pre-resolution activity and address potential resolution and receivership management needs.
 - *Complete by June 30, 2001.*
 3. Revise resolution and receivership management policies, procedures, training programs, and functional support tools to respond to “Internet” banks or banks with significant electronic-commerce lines of business (e.g., trade name bank, bill presentment and bill payment services, Internet service provider, or application service provider functions, etc.).
 - *Complete by September 30, 2001.*
 4. Develop a plan for quickly conducting insurance determinations and providing deposit insurance coverage to depositors of a large FDIC-insured depository institution.
 - *Prepare options paper and distribute it to the FDIC’s Board of Directors for consideration by December 31, 2001.*

Contact Michael Spaid, Division of Resolutions and Receiverships

2001 Results *Institution Failures and Depositor Access.* Achieved. There were four financial institution failures in 2001. Insured depositors had uninterrupted and continuous access to insured deposits due to the deposits being assumed by an acquiring entity in each instance. Check processing continued, and automated teller machines were continuously available.

On-site access to deposits was also available within the target of one or two business days.

Institution Name	Failure Date	Date of Depositor Access	Number of Business Days
First Alliance Bank and Trust	2/2/01	2/5/01	One
Malta National Bank	5/3/01	5/4/01	One
Superior Bank, FSB	7/27/01	7/30/01	One
Sinclair National Bank	9/7/01	9/10/01	One

Pre-Resolution Reporting Requirements. Achieved. Revised information request lists and distribution lists were presented to the FDIC's Division of Resolutions and Receiverships Executive Leadership Committee and were approved for use with resolution transactions. The revised information request lists have been implemented within the FDIC.

Resolution and Receivership Guidelines. Achieved. A contractor was engaged to review FDIC procedures relative to the failure of an electronic bank. A "lessons learned" document was prepared that identifies the challenges to be met when an Internet bank fails. Necessary revisions were made to the FDIC's Division of Resolutions and Receiverships closing manual.

Deposit Insurance Determinations. Missed target. An initial evaluation was performed by an interdivisional Deposit Insurance Working Group to review the impact of improvements to the Receivership Liability System (RLS) on the deposit insurance determination process. RLS is a database used to expedite deposit insurance determinations by sorting depositors into affiliated groups. After the insurance determination is made, RLS tracks uninsured depositors and general creditors and issues receivership certificates.

An initial recommendation paper was drafted in the fourth quarter of 2001 outlining possible options for further revising the process for making deposit insurance determinations. The paper will be presented to the FDIC's Chief Financial Officer and to the Directors of the Divisions of Resolutions and Receiverships and Finance during the first quarter of 2002. A determination was made to expand the project to include private sector review and input. A contractor will be obtained in 2002 to perform a more extensive review of improving the methodology and the processing speed of deposit insurance determinations and payments for a large failure. This review will take into consideration improvements to FDIC processes completed in 2001. The performance target date was set

to be the approximate date that the options paper would be completed. The expected revised target completion date is December 31, 2002. It is expected that this delay in completion will not have a material effect on program performance in 2002. Program performance should benefit in the long term.

Public Benefit Prompt payment of deposit insurance claims strengthens public confidence in the financial system and in the FDIC.

Goal Status in 2002 This annual performance goal will be retained in 2002.

Strategic Goal Deposit insurance funds remain viable.

Annual Performance Goal Identify and address risks to the insurance funds.

- Indicators and Targets*
1. Maintain and improve off-site risk identification model(s).
 - *Review and enhance existing FDIC off-site risk identification models to address credit risks, agricultural risks, real estate risks, electronic banking activity risks and other risks by December 31, 2001.*
 2. Large insured depository institutions assessed off site.
 - *Assess risks in 100 percent of large insured depository institutions and adopt appropriate strategy*
 3. Identify and follow up on concerns referred for examination or other action (e.g., contact the bank or primary supervisor).
 - *Identify and follow up on 100 percent of referrals.*
 4. Disseminate the off-site analyses of current issues and risks affecting the banking industry to bankers, supervisors, and stakeholders.
 - *Analyses are included in regular publications or as ad-hoc reports on a timely basis.*
 - *Conduct industry outreach aimed at the banking community and industry trade groups to convey sound practices and discuss regulator concerns.*

Contact Andrea Bazemore, Division of Insurance; Martha Solt, Division of Research and Statistics; Teresa Koechel, Division of Supervision

2001 Results *Off-site Monitoring Systems.* Achieved. The FDIC made significant progress in improving the accuracy and efficiency of off-site risk identification models. Several new approaches to credit risk were developed. The models will be incorporated into ViSION, the FDIC's system used to distribute bank data internally via the Internet. A review of composite "1" and "2" rated institutions examined and downgraded in 2001 indicates that over 50 percent were identified prior to the downgrade by one of the off-site risk identification models. The calculation of over 50 percent was determined by taking actual downgrades in 2001 and checking to see how many were previously identified by programs such as Statistical CAMELS Off-site Ratings (SCOR), the Growth Monitoring System (GMS), or the Real Estate Stress Test (REST) in advance of the downgrade. The following enhancements and improvements were made to the off-site models

used to identify risk:

- The SCOR-lag is a derivation of the Statistical CAMELS Off-site Ratings system and attempts to identify asset quality issues in high-growth and de novo institutions.
- REST is a risk-exposure model that attempts to measure real estate risk. Bank examiners use the REST data as part of the pre-examination planning process to assist in identifying risk concentrations.
- A Consistent Growers model was developed based on level and trend analysis. This model provides a list of institutions with high scores from the Growth Monitoring System over the last 20 quarters.
- The FDIC worked to develop an agricultural stress test model. A variety of agricultural sector data series were reviewed to explore the possibility of developing a model that linked agricultural crop stress in particular regions to a subsequent deterioration of agricultural bank conditions in these regions. The model was ultimately unsuccessful in predicting deterioration in agricultural bank conditions. This was due to a number of factors, including: the volume of government agricultural support payments; the fact that lenders regularly (and were often encouraged to) relax underwriting and collection standards in the face of an agricultural stress event; and agricultural stress events and the resulting data were largely unique. The FDIC reviews the agricultural sector as part of its on-going economic analysis and safety and soundness examination procedures.
- The FDIC determined that modeling electronic-banking risk was not feasible at this time. The FDIC continuously strives to improve its collection of data and monitoring of electronic-banking risk.

Large Insured Depository Institutions. Achieved. Risk assessments of all 88 large insured depository institutions (LIDI) were completed in compliance with program requirements. The LIDI program requires quarterly risk assessments including appropriate supervisory strategies. The FDIC's case managers develop and update supervisory strategies for each LIDI company based upon the particular LIDI company's quarterly risk assessment. Strategies could include continuing off-site monitoring, performing examinations or visitations, making requests to perform workpaper reviews, or others as appropriate. The FDIC's case managers performed 325 risk assessments, which are done quarterly on companies that have \$10 billion or more in total assets, and 25 additional risk assessments on companies with assets between \$3 billion and \$10 billion. As of year-end 2001, there were 88 LIDIs with total aggregate assets of \$6.6 trillion.

Since the FDIC is not the primary federal supervisor for most of the LIDI companies, these risk assessments require interagency communication and information-sharing with the other federal banking agencies and state authorities. The FDIC's case managers routinely discuss their assigned LIDI company with the institution's applicable federal supervisor or state authority. Case managers, at times, also review workpapers and participate or coordinate on-site FDIC participation in targeted reviews and management meetings. The Office of the Comptroller of the Currency (OCC) periodically briefs FDIC senior management on their risk assessments of LIDI companies included in the OCC's Large Bank Program. The Federal Reserve periodically invites FDIC case managers to the quarterly LIDI company management briefings regarding the company's quarterly results.

In the case of LIDI companies in excess of \$25 billion, the FDIC's case managers are required to open communication channels and establish information-sharing plans with other regulators and to review and adjust the plans quarterly. Each quarter, the FDIC's Washington Office sends copies of its Quarterly LIDI Reviews to the Washington Offices of the OCC, the Federal Reserve, and the Office of Thrift Supervision.

Financial Institution Referrals (SCOR/GMS). Achieved. The Extended Monitoring System Off-site Review Program requires a review of all institutions identified by SCOR and GMS. These models are designed to identify institutions that are currently rated a composite "1" or "2," but have quantifiable signs of deteriorating financial condition or heightened risk profiles. In 2001, all SCOR and GMS exceptions, totaling 805 and 632 institutions respectively, were reviewed. Of these institutions, 241 were identified as supervisory concerns (SCOR, 178 and GMS, 63). The institutions identified are reviewed to determine the level of concern and to recommend a follow-up action, if necessary. The follow-up action can result in the acceleration of an examination date or continued monitoring.

Dissemination of Analysis. Achieved. The FDIC issued 111 Financial Institution Letters (FILs) during 2001 to inform financial institutions of regulatory issues, special alerts, and fraudulent activities. Semiannual reports on *Economic Conditions and Emerging Risks in Banking* were issued. These reports provided the FDIC Board of Directors and senior management with an overview of current economic and banking trends, and identified risks that could adversely affect insured institutions and result in losses to the deposit insurance funds.

Four *Regional Outlook* publications were issued during 2001,

highlighting economic trends and emerging risks in the banking industry. “In Focus” articles addressed the slowing demand for office space in the U.S., credit problems facing U.S. businesses, and the outlook for telecommunications, health care, and textile industries. The semiannual reports on *Economic Conditions and Emerging Risks in Banking* were also synopsisized in the second and fourth quarter “In Focus” articles. The “Regional Perspectives” articles addressed many topics including credit quality issues, agricultural banks, commercial real estate trends, de novo institutions, interest rate risk, and industry analyses.

The FDIC published 28 *Update* publications on the FDIC’s Intranet. These are periodic short papers that provide analysis of timely information on key economic and banking topics. Topics addressed include the U.S. labor market, energy prices, global economic problems, targeted industry analyses, commercial lending, and commercial real estate trends.

The FDIC published 33 *Briefing Notes* on the FDIC’s Intranet. These documents provided a summary of current conditions in the U.S. and global economy, large banks, industry sectors, commercial lending, commercial real estate, the consumer sector, financial markets, interest rate risk, bank financial performance, and funding trends.

The FDIC issued 11 *Regional Commentary* publications on the FDIC’s Intranet. These publications addressed topics including the regional effects of the recession on industries and markets, implications of the September 11 attacks on the New York Region, energy pricing, and the high tech economy. The semiannual issues of *Survey of Real Estate Trends* were published and disseminated to the banking industry and the public.

The semiannual issues of the FDIC *Report on Underwriting Practices* were published and distributed to bankers and the public. In addition, semiannual regional reports on underwriting practices were prepared and distributed internally. Semiannual regional surveys of real estate trends were prepared and distributed within the FDIC and the other federal banking agencies. Finally, *FYI*, an electronic bulletin summarizing FDIC analysis of emerging issues in banking and the economy, was developed to deliver timely analysis to key client groups outside the FDIC. The first publication will be disseminated in January 2002.

During 2001, the FDIC conducted over 140 risk-targeted outreach efforts. Of these efforts, 115 were conducted at the Regional Office level with the other federal banking agencies and state authorities, trade associations, international groups, and other organizations. Topics included economic conditions and emerging risks in banking, the implications of the September 11 attacks on the regional and national economies, industry trends, and bank financial performance.

The FDIC held 16 outreach meetings with bankers to generally discuss economic and banking trends. Meetings were held in Atlanta, Charlotte, Dallas, Denver, Orlando, Phoenix, Portland, Seattle, and Sacramento to discuss implications for banks located in areas particularly vulnerable to overbuilding. Meetings were held with bankers in Memphis to discuss rapid growth in loan portfolios and funding costs and increasing concentrations in commercial real estate. Discussions were held with bankers in Mississippi and Tennessee to discuss economic and banking trends and real estate market conditions affecting financial institutions located in these metropolitan areas.

Public Benefit By proactively identifying, communicating, and addressing emerging risks in banking and economic trends, the FDIC is able to provide pertinent information to the banking industry and the regulatory community to improve the FDIC's risk management operations and to protect insured depositors from loss.

Resolution of supervisory concerns noted during off-site reviews of insured depository institutions helps ensure the continued viability of the deposit insurance funds. By reviewing the performance of the off-site models to identify institutions prior to their downgrade and analyze their characteristics and trends, the models can be improved to better identify and address risks to the insurance funds. A viable and adequate insurance fund precludes recourse to taxpayer funding to protect insured depositors.

Goal Status in 2002 This annual performance goal will be retained in 2002.

Strategic Goal Deposit insurance funds remain viable.

Annual Performance Goal Maintain and improve the deposit insurance system.

- Indicators and Targets*
1. Complete the comprehensive deposit insurance review.
 - *Recommendations are finalized by December 31, 2001.*
 2. Identify and review possible modifications to the Risk-Related Premium System (RRPS).
 - *Develop and analyze baseline data of implemented modification results.*
 - *Assess the feasibility of developing objective screens for the RRPS that identify banks demonstrating excessive risk, such as types of credit risk, market risk, operational risk, and technological risk.*
 3. Analyze the accuracy of projected losses to and reserves for the insurance funds.
 - *Annually, analyze and explain differences between projected failed assets and actual failed assets (at time of failure).*
 - *Conduct a quarterly evaluation of current reserving methodology compared to alternative methods for the purpose of improving accuracy.*
 4. Maintain the reserve balance to insured deposits.
 - *Maintain the designated reserve ratio at or above 1.25 percent.*

Contact Fred Carns, Division of Insurance

2001 Results *Deposit Insurance Review.* Achieved. During 2001, the FDIC continued its comprehensive review of the deposit insurance system. The FDIC published the finalized recommendations for deposit insurance reform in its April 5, 2001, paper *Keeping the Promise: Recommendations for Deposit Insurance Reform.*

Former Chairman Tanoue testified in favor of the recommendations in 2001 before the House Financial Services Committee's Subcommittee on Financial Institutions and Consumer Credit on May 16, 2001, and before the Senate Committee on Banking, Housing, and Urban Affairs on June 20, 2001. On October 17, 2001, in testimony before the same House Subcommittee, Chairman Powell stated his support for the Corporation's deposit insurance reform recommendations. Before Congress ended its 2001 session, members announced their intent to draft proposed deposit insurance reform legislation. In 2002, the FDIC will continue to work with the Congress to achieve deposit

insurance reform.

RRPS Modifications. Achieved. The FDIC identified and implemented modifications to the Risk-Related Premium System and assessed the feasibility of developing objective screens for various types of bank risk.

Modifications to the RRPS to identify atypically high-risk institutions in the best-rated supervisory subgroup were initially implemented for the January 1, 2000, assessment period. Objective screens were developed that focused on rapid growth, high loan yields, high concentrations in potentially risky lines of business, and substantial changes in business mix. A baseline review of the results of the screens was conducted in 2001. Of the 193 institutions that were flagged for review for the January 1, 2000, assessment period, 183 institutions had since been examined, and the composite rating had been downgraded for 30 institutions, or 16.4 percent of those examined. Of the 30 downgrades, 22 occurred prior to the beginning of the next reconciliation period. Of the 201 institutions that were flagged for review for the July 1, 2000, assessment period, 180 institutions had been examined, and the composite rating was downgraded for 37 institutions, or 20.6 percent of those examined. Of the 37 downgrades, 28 occurred prior to the beginning of the next reconciliation period. The results of the baseline review show that the modifications were effective, because a significant number of flagged institutions were downgraded at the next examination. The intent of the objective screens is to identify institutions that are likely to be downgraded due to their risk profile.

Enhancements were made to the objective screens in 2001. Growth scores from the new GMS were incorporated into the screening process for the first semiannual assessment period of 2001. The new GMS was extensively tested and evaluated by the FDIC using historical data and has proven to be very effective in identifying institutions that warrant increased supervisory attention. Information from a new schedule, Schedule RC-S, in the Call Report was incorporated into the screening process for the Fall 2001 reconciliation period, when risk classifications were assigned for the January 1, 2002, assessment period. The new Call Report schedule provides detailed information on credit exposures related to retained interest-only strips and credit enhancements. Also in 2001, the FDIC began evaluating a multi-flag system that uses information from several off-site models to identify institutions for review. Preliminary results from testing indicate that this system accurately identifies institutions that are of concern. Information from the multi-flag system will probably be used to further enhance the RRPS screening

process in 2002.

Deposit Insurance Fund Reserves. Achieved. The FDIC continues to track and analyze market indicators to measure the level of risk among insured institutions. The results of the analysis are provided to the Financial Risk Committee (FRC) each quarter. These indicators may be helpful for identifying risk among large, complex financial institutions, but additional work is needed to determine the feasibility of incorporating market risk indicators into the RRPS screening process.

The differences between actual losses and projected losses in 2001 stemmed from the failure of several banks where fraud was involved. Therefore, it is not unreasonable for the losses associated with those failures to exceed our projected losses. The FRC meets quarterly to determine the contingent loss reserve and project failed bank and thrift assets.

The FRC assesses and continually seeks to improve the methodologies used to derive contingent loss reserve and projected failures. To address these issues, the FDIC began working on the following projects in late 2001:

- Whether to adopt a systematic method for assigning higher expected loss rates to institutions with exposure to subprime lending and/or residual interests;
- Whether to adjust the reserving methodology to include more than problem banks (e.g., composite “3” rated institutions or all institutions);
- The appropriate historical period for loss rates versus failure at different stages of the business cycle;
- Loss rates, failure rates, recapitalization rates versus failures at different stages of the business cycle;
- An evaluation of past projections of assets, reserves, and fund ratios for accuracy; and
- A review of insurance industry practice concerning general reserves.

Designated Reserve Ratio. Achieved. The Stress Analysis Model (SAM) and the proforma financial institution failure prediction model are used each quarter. In 2001, the FRC discussed strategies for investigating and modeling the primary sources of the FDIC’s balance sheet volatility. Financial institution failures and our expectations for future failures have the biggest influence on the volatility of the FDIC’s balance sheet because failures impact income, and the failed asset projections impact the reserve, both of which impact fund

balances. The designated reserve ratio remains at or above the statutorily mandated 1.25 percent.

Public Benefit The FDIC ensures that the deposit insurance system is administered appropriately and reserves remain at or above the statutorily mandated level of 1.25 percent. The public benefits because adequate reserves are available in case of bank or savings association failures to protect insured depositors from loss.

Goal Status in 2002 This annual performance goal will be retained in 2002.

Strategic Goal Consumers know what funds are insured.

Annual Performance Goal Financial institution staff is better prepared to educate consumers.

Indicators and Targets The test results from FDIC-sponsored seminars for financial institution staff.

- *Implement a methodology to assess participants' understanding of deposit insurance rules at the close of the seminars in order to create baseline data by December 31, 2001.*

Contact Gary Bowser, Division of Compliance and Consumer Affairs

2001 Results *Assessing Deposit Insurance Knowledge.* Achieved. The FDIC continued a methodology to assess seminar attendees' understanding of the deposit insurance rules by testing attendees at the beginning and at the close of deposit insurance seminars. The FDIC conducted 21 deposit insurance seminars for trade associations during 2001. Five seminars were conducted via telephone and Internet, and 16 were conducted in a conference setting. Seminar attendees were asked a series of questions and the percent answering correctly was summarized.

Sponsor: State Trade Associations	Number of			Test Results % ³	
	Seminars	Attendees	Banks Represented	Pre- Test	Post- Test
Telephone/ Internet	5	1,861	285	1. N/A	1. 92
				2. 71	2. 95
				3. 73	3. 87
				4. 63	4. 94
				5. N/A	5. N/A
Conference	16	1,010	519	1. 62	1. 86
				2. 52	2. 81
				3. N/A	3. 88
				4. 77	4. 83
				5. 73	5. 88
				6. 64	6. 86
				7. 61	7. 74
				8. 68	8. 81
				9. 46	9. 81
				10. 55	10. 67
				11. 74	11. 89
				12. N/A	12. 91
				13. 78	13. 92
14. 67	14. 86				
15. 61	15. 88				
16. 68	16. 88				
TOTAL	21	2,871	804		

³ "N/A" indicates that test data were not captured at this time due to time constraints or technical limitations.

At this time, the test results from electronically delivered and classroom delivered seminars cannot be directly compared because the methods of capturing data were different.

Public Benefit The FDIC provides deposit insurance education to financial institution employees, enabling these employees to better inform consumers of the deposit insurance rules. Better-prepared financial institution staff will help consumers make informed decisions about deposit insurance coverage.

Goal Status in 2002 This annual performance goal will not be retained in 2002. Activities will be monitored internally.

Strategic Goal Provide U.S. leadership on deposit insurance to ensure international financial stability.

Annual Performance Goal Increase global awareness and knowledge of deposit insurance issues.

- Indicators and Targets*
1. Leadership of the Research Committee of the Financial Stability Forum's (FSF) Working Group. The FSF brings together on a regular basis national authorities responsible for financial stability in significant financial centers, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central-bank experts.
 - *Conduct research activities and prepare draft reports to support the Working Group.*
 - *Prepare the final draft report of the Working Group on Deposit Insurance by September 30, 2001.*
 2. Research on deposit insurance issues.
 - *Disseminate results of original research through the FDIC's Banking Review and other formats, as appropriate.*
 - *Conduct original research as required by the Basle Committee Research Task Force Workshop on Empirical Research on Bank Supervision.*
 - *Incorporate the economic literature from the year 2000 into the FDIC publication **Deposit Insurance: An Annotated Bibliography, 1989-1999.***
 - *Publish updated **International Directory of Deposit Insurers** by December 31, 2001.*

Contact Martha Solt, Division of Research and Statistics

2001 Results *Financial Stability Forum Working Group Research.* Achieved. The final report of the Financial Stability Forum's (FSF) Working Group on Deposit Insurance entitled *Guidance for Developing Effective Deposit Insurance Systems* was completed and presented to the FSF on September 7, 2001. The report addressed the issues confronting countries that seek to establish deposit insurance systems or modify existing systems. The FDIC also participated in preparing 16 discussion papers on a variety of deposit insurance issues. The final report and the discussion papers will be posted on the FDIC's Web site.

Research on Deposit Insurance Issues. Achieved. In addition to the report on developing effective deposit insurance systems, research on deposit insurance issues was also disseminated on topics such as failure resolution and asset liquidation, merchant banking, financial intermediation, and evaluating the adequacy of the deposit insurance fund. In addition, FDIC economists prepared a paper focused on the efficacy of using bank stock price, return, and other data to enhance the predictive power of existing off-site monitoring systems. The paper was presented during the July 2001 Basel Committee Task Force Workshop held in Oslo, Norway. Specifically, the paper finds that stock price, return, and other data of individual banks tend to decline prior to supervisory CAMELS ratings downgrades, suggesting that the market recognized deterioration in their condition on a timely basis. The paper also found that the use of bank stock price data incrementally improves the accuracy of existing off-site monitoring systems in identifying future bank distress.

Economic literature from the year 2000 was incorporated into the FDIC publication *Deposit Insurance: An Annotated Bibliography, 1989-1999*. The FDIC is working to cull internal and external databases, and letters have been sent to foreign deposit insurers asking them to provide the FDIC with the names and authors of studies they would like included in the bibliography. The updated information will be published in 2002. Finally, the *International Directory of Deposit Insurers* was updated and the revisions were published on the FDIC's Web site in 2001.

Public Benefit The efforts around increasing global awareness and knowledge of deposit insurance issues expand the information available to the public and guidance for developing effective deposit insurance systems.

Goal Status on 2002 This annual performance goal will not be retained in 2002. Activities will be monitored internally.

Supervision Program Results

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. The program is composed of two result areas: Safety and Soundness, and Consumer Rights. The desired result of the Safety and Soundness area is that insured depository institutions are safe and sound. The desired result of the Consumer Rights area is that consumers' rights are protected and that FDIC-supervised insured depository institutions invest in their communities.

The FDIC supervises 5,660⁴ FDIC-insured state-chartered commercial banks that are not members of the Federal Reserve System, described as state nonmember banks. This includes state-licensed insured branches of foreign banks and state-chartered mutual savings banks. The FDIC also has examination authority and special insurance activity authority for state member banks that are supervised by the Board of Governors of the Federal Reserve System (FRB), national banks that are supervised by the Office of the Comptroller of the Currency (OCC) and savings associations that are supervised by the Office of Thrift Supervision (OTS).

As supervisor, the FDIC performs safety and soundness examinations of FDIC-supervised institutions to assess overall financial condition, management practices and policies, and compliance with applicable laws and regulations. Through the examination process, the FDIC also assesses the adequacy of management and internal control systems to identify and control risks. Procedures normally performed in completing this assessment may disclose the presence of fraud or insider abuse.

In the event weaknesses are detected through the examination process, the FDIC takes appropriate action. For institutions identified as having significant weaknesses or those that are operating in a deteriorated financial condition, the FDIC may oversee the recapitalization, merger, or other resolution of the institution. Otherwise, the FDIC may issue a formal or informal enforcement action, which the institution must operate under until the weakness is remedied.

The FDIC also reviews the applications for new or expanded activities by FDIC-supervised insured depository institutions. Institutions applying for 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, and comply with applicable laws and regulations.

⁴ Third quarter 2000 FDIC "Banking Profile".

The FDIC engages in a variety of activities related to consumer protection and fair lending. These activities include: 1) providing consumers with access to easily understood information about their rights and the disclosures due them under consumer protection and fair lending laws; and 2) examining FDIC-supervised insured depository institutions to determine their compliance with consumer protection and fair lending laws and evaluating these institutions' performance under the Community Reinvestment Act of 1977 (CRA).

The FDIC makes available information about consumer protection, fair lending, and deposit insurance to help consumers understand their rights. The FDIC also provides FDIC-supervised institutions with updated information regarding consumer laws and regulations to help them better understand and comply with the laws. 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 evaluates FDIC-supervised insured depository institution practices regarding 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 state non-member financial 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 an institution's application for entry or expansion within the insured depository institution system.

Strategic Goal Insured depository institutions appropriately manage risk.

Annual Performance Goal Conduct on-site safety and soundness examinations to assess an FDIC-supervised insured depository institution's overall financial condition, management practices and policies, and compliance with applicable regulations.

- Indicators and Targets*
1. Initiate required examinations in accordance with statute and FDIC policy.
 - *100 percent of required examinations are initiated on time.*
 - *Mail examination reports to FDIC-supervised banks within an average of 90 days of the examination start date.*
 2. Identify, monitor and examine institutions for risks associated with electronic-banking and information systems (IS) activities.
 - *Conduct 100 percent of the information systems/electronic-banking examinations of banks that are identified as priorities by FDIC regional management.*
 3. Maintain and update processes and systems to identify and communicate to FDIC-supervised institutions any issues and sound practices related to emerging bank technologies in a timely manner.
 - *Provide information to bankers about technology outsourcing.*

Contact Teresa Koechel, Division of Supervision

2001 Results *Safety and Soundness Examinations.* Missed target. During 2001, the FDIC initiated 2,575 safety and soundness examinations. Examination reports to FDIC-supervised banks were mailed within an average of 54 days of the examination start date. However, at the end of the fourth quarter of 2001, an on-site safety and soundness examination had not been initiated for 67 institutions in accordance with statutory requirements. Of these 67 examination delinquencies, 11 institutions were due for an examination by the FDIC and 56 were past due by the state authorities under the alternating examination program.

Of the 11 institutions due for an examination by the FDIC, four of the examinations were postponed because the institutions are scheduled to merge, convert, or relinquish their charters. The other seven examination delinquencies are due to the following reasons:

- Two institutions were affected by asset growth or change in capital category, which modified the institutions' examination intervals.
- Two institutions are in the process of satisfying the requirements of outstanding enforcement actions and requested postponement of their regular examinations.
- One institution's examination was postponed as an accommodation to bank management because of a recent information system conversion.
- Two institutions were in the process of finalizing financial data (Call Report information) after the completion of a recent merger.

All seven institutions are scheduled for examination during 2002; six of these institutions are scheduled for the first quarter of 2002 and one is scheduled for April 2002.

As already stated above, 56 delinquencies are state authority examination delinquencies. Four of the 56 state authority examination delinquencies are because the institutions are scheduled to merge, convert, or relinquish their charters. Thirty-seven of these institutions are scheduled for a state examination during the first quarter of 2002 and 11 are scheduled during the second quarter of 2002. Four examinations were due to be conducted originally by the state authorities. The FDIC agreed to conduct the four examinations but the FDIC did not complete the examinations within the statutory timeframes. The FDIC will conduct two of the examinations during the first quarter of 2002 and two during the second quarter of 2002. Delinquencies arose due to the following reasons:

- Changes in the institution's examination interval because of asset growth or capital category.
- Accommodation of bank management's request for concurrent safety and soundness and compliance examinations.
- Impact of the events of September 11 on the examination schedule in the New York Region.
- Staffing constraints on the part of state authorities.

Information systems/electronic-banking Examinations. Missed target. During 2001, the FDIC initiated 1,661 information systems/electronic-banking examinations. Even though there is no statutory requirement, at the end of the fourth quarter of 2001, the FDIC identified 24 FDIC-supervised institutions that had not had on

on-site information systems/electronic-banking examination identified as a priority by regional management. Eleven of these examinations have been scheduled during the first quarter of 2002, ten during the second quarter, and three during the third quarter of 2002. Delinquencies are due to: pending mergers; Information Systems conversions; alignment with pending safety and soundness examinations; and staffing constraints.

Communication of Emerging Bank Technology Issues. Achieved. During 2001, the FDIC's Bank Technology Group issued a Financial Institution Letter (FIL) with an attached Bank Technology Bulletin that announced the availability of three informational brochures: *Effective Practices for Selecting a Service Provider*, *Tools to Manage Technology Provider Performance Risk*, and *Techniques for Managing Multiple Service Providers*. The brochures were prepared with the assistance and input of the industry, in particular, the American Bankers Association, the Independent Community Bankers of America, and America's Community Bankers.

The FDIC participated in a forum hosted by BITS, a technology-focused group sponsored by the Financial Services Roundtable, to discuss its Framework for Managing Information Technology Service Provider Relationships. Approximately 120 leaders from the financial services industry, service providers, trade associations, and regulatory agencies participated. The federal banking agencies at the forum reviewed elements of the FFIEC's information technology outsourcing guidance, vendor management expectations for the guidelines for safeguarding customer information, and the FDIC's outsourcing brochures. The FDIC is currently drafting a FIL on outsourcing to Internet banking vendors to be issued in early 2002.

Public Benefit By initiating 2,575 examinations directly and working through agreements to share examination responsibility with state authorities, the FDIC assesses the overall financial condition, management policies and practices, and compliance with applicable regulations and laws for its supervised institutions. The FDIC's supervision of these institutions helps assess the level of risks to the deposit insurance funds and, therefore, helps ensure the viability of the deposit insurance funds. In turn, this contributes to the stability and public confidence in our nation's banking system.

Goal Status in 2002 This annual performance goal will be retained in 2002.

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

Annual Performance Goal Prompt supervisory actions are taken to address problems identified during the FDIC examination of institutions identified as problem insured depository institutions. FDIC-supervised insured depository institution compliance with formal and informal enforcement actions is monitored.

- Indicators and Targets*
1. Number of months from last examination of a problem bank until a follow-up examination is conducted.
 - *Follow-up examination conducted within 12 months of completion of the prior examination.*
 2. Average number of days after completion of examination that a Report of Examination of a problem institution is transmitted to the financial institution.
 - *Within 45 days.*

Contact Teresa Koechel, Division of Supervision

2001 Results *Follow-up Examinations.* Achieved. As of December 31, 2001, 67 FDIC-supervised institutions were designated as problem institutions (composite “4” or “5” ratings), an increase from the 51 FDIC-supervised institutions designated as problem institutions as of December 31, 2000. Fifty-six institutions were removed from problem status in 2001 mainly due to composite CAMELS rating upgrades, mergers, and consolidations and sales. Four institutions (one FDIC-, one OTS-, and two OCC-supervised) were closed in 2001. Seventy-six problem institutions were added in 2001. As of December 31, 2001, no problem institutions were delinquent for an examination under statutory requirements.

Report Transmittal. Achieved. On average, during 2001, FDIC-supervised problem institution examination reports were processed and mailed to the institution within 44 days of receipt of the report by the Regional Office.

Public Benefit The FDIC’s success in taking prompt supervisory actions to address problems identified during FDIC examinations of problem insured financial institutions has helped ensure that insured depository institutions remain safe and sound.

Goal Status in 2002 This annual performance goal will be retained in 2002.

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

Annual Performance Goal Effective outreach, technical assistance, and training are provided on topics related to the Community Reinvestment Act (CRA), fair lending, and community development.

- Indicators and Targets*
1. The numeric ratings provided by financial education instructors at One Stop Centers who complete self-evaluation forms upon being trained by the FDIC.
 - *85 percent of instructors who complete self-evaluation forms rate as "4" or better on a scale of "1" to "5" that the financial education curriculum is a useful tool to teach One Stop Center clients.*
 2. Assessment of One Stop Center clients' understanding of the financial education topics after attending a financial education workshop.
 - *By December 31, 2001, develop and implement a methodology to assess if workshop participants increased their understanding of the financial education topics.*

Contact Gary Bowser, Division of Compliance and Consumer Affairs

2001 Results *Evaluation Results.* Achieved. The FDIC conducted 25 Money Smart workshops from June to December 2001, covering 21 cities and 17 states in eight regions. Over 600 participants attended the orientation sessions, and 561 completed evaluation forms. On average, 24 participants attended each orientation session.

The evaluation results affirm that the Money Smart curriculum is being well received, and that the materials are easy to understand and useful in teaching basic financial principles. Participants were asked to rate the following three statements using the categories (1) Strongly Disagree, (2) Disagree, (3) Neutral, (4) Agree, and (5) Strongly Agree:

- Statement 1: The information presented today was clear and easy to understand.
- Statement 2: Money Smart curriculum is a useful tool to teach clients basic financial principles.
- Statement 3: I will use the Money Smart curriculum.

The results are as follows:

- Statement 1: 92 percent of the respondents agreed or strongly agreed with this statement, with the range being from 84 percent to 100 percent of the respondents, depending on the region.
- Statement 2: Over 93 percent agreed or strongly agreed with this statement, with the range being from 78 percent to 100 percent across different regions.
- Statement 3: Over 86 percent of the respondents agreed or strongly agreed with this statement, with the range being from 76 percent to 96 percent.

Understanding Financial Education Topics. Achieved. The FDIC has developed and implemented a methodology for collecting and analyzing data related to One Stop Center participants' increased understanding of financial education topics after attending a financial education workshop. The methodology includes two pieces. The first piece is an evaluation form specific to each Money Smart module that will be used to assess how much students knew before and learned during the class. The second piece is a generic evaluation form that will assess general program quality, including instructional design, achievement of educational objectives, instructor effectiveness, etc.

The FDIC will focus its attention on sessions conducted at 17 model One Stop Centers around the country. Participant results will be evaluated to assist Community Affairs staff in assessing curriculum content and making future program modifications and improvements.

Public Benefit Research indicates that the more people know about credit and banking and their rights and the disclosures due them under the consumer protection and fair lending laws, the more likely they are to increase savings, buy homes, and increase their financial health and well being. The Money Smart curriculum was specifically designed to improve the financial literacy of adults.

Goal Status in 2002 This annual performance goal will be retained in 2002 and will read as follows: "Effective outreach and technical assistance are provided on topics related to the Community Reinvestment Act (CRA), fair lending, and community development."

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

Annual Performance Goal Effectively respond to written complaints and inquiries related to deposit insurance and consumer protection laws.

- Indicators and Targets*
1. A method to assess satisfaction with FDIC responses to written inquiries.
 - *By September 30, 2001, identify methodology to evaluate and determine the effectiveness of the survey methodology used by the Washington Office, and, if necessary, develop a method for refining the current survey tool.*
 - *By December 31, 2001, develop a method to expand the use of the survey instrument to assess customer satisfaction with responses to written inquiries answered by the regional offices.*

 2. A method to assess satisfaction with FDIC responses to written complaints.
 - *Develop assessment method and plan for implementation by December 31, 2001.*

Contact Gary Bowser, Division of Compliance and Consumer Affairs

2001 Results *Assessing Responses to Written Inquiries.* Achieved. During 2001, the FDIC sent 612 survey cards to consumers and bankers who contacted its Washington Office with complaints and inquiries. Of these, 84 (14 percent) survey cards were completed and returned to the FDIC. Below is a summary of the survey responses:

Score	Response Quality	Timeliness
Excellent	62%	64%
Good	23%	20%
Fair	10%	8%
Poor	5%	7%
No Response	1%	0%

The FDIC is retaining its existing survey instrument for consumer inquiries. However, the FDIC will expand use of the survey instrument from the Washington Office only to the Washington Office and Regional Offices.

Assessing Satisfaction With FDIC Responses to Written Complaints. Achieved. The FDIC developed a new survey instrument that will be

used by its Washington Office to assess consumer satisfaction with our responses to consumer complaints. The FDIC received input from its Division of Research and Statistics in developing the new survey instrument.

A plan outlining the survey methodology and schedule for implementation has been developed and submitted for final approval. The plan addresses the survey methodology that will be used to assess customer satisfaction with FDIC responses to consumer complaints.

Public Benefit By providing accurate responses to inquiries and complaints, consumers are provided information regarding their rights and disclosures due them under consumer protection and fair lending laws. In this way, FDIC promotes the understanding of consumer rights related to the banking industry.

Goal Status in 2002 This annual performance goal will be retained in 2002 and will read as follows: "Effectively meet the statutory mandate to investigate and respond to consumer complaints about FDIC-supervised financial institutions."

Strategic Goal FDIC-supervised insured depository institutions comply with consumer protection, CRA, and fair lending laws.

Annual Performance Goal Conduct comprehensive and compliance-only examinations in accordance with FDIC examination frequency policy.

- Indicators and Targets*
1. Initiate required examinations in accordance with statute and FDIC policy.
 - *100 percent of required examinations are initiated on time.*
 2. Hours per exam based on asset and risk categories.
 - *Evaluate actual per exam hours against preliminary targets and establish refined benchmarks by December 31, 2001.*
 3. Compliance procedures and guidance to monitor and examine institutions engaged in Internet banking activities.
 - *Guidance is in place by December 31, 2001.*

Contact Gary Bowser, Division of Compliance and Consumer Affairs

2001 Results *Compliance Examinations.* Achieved. The FDIC initiated required examinations in accordance with FDIC policy. During 2001, the FDIC initiated 2,180 comprehensive, compliance-only, and CRA examinations. Twenty-one FDIC-supervised institutions were not examined in accordance with policy because specific circumstances regarding the institutions indicated that an exception to the policy should be made. FDIC management most often makes this determination for the following reasons: (1) an institution is scheduled to merge or change charters; (2) asset growth changed an institution's examination frequency requirement; and (3) there has been a request to coordinate with other examinations.

Review of Examination Hours. Achieved. The target benchmark hours have been evaluated against actual experience and have been adjusted for 2002, in light of this experience and additional supervisory responsibilities assumed. Generally, benchmark hours were increased for smaller banks and decreased for larger institutions.

Compliance Procedures and Guidance. Achieved. The FDIC provided timely dissemination of Internet banking-related advisory guidance and/or bulletins to staff via its Web site and/or traditional delivery channels. The FDIC developed a corporate-wide training

program addressing base-level information relating to emerging bank technology and will deliver the computer-based program to applicable staff. The FDIC incorporated updated information related to emerging bank technologies into the Electronic Banking module of all Advanced Consumer Protection Schools scheduled through 2001. Finally, the FDIC completed its off-site assessment of FDIC-supervised Internet banking Web sites that involved assessing the general compliance posture of institutions, ascertaining third-party vendor relationships, and identifying relevant product and service trends.

Public Benefit An effective examination program is directly related to the FDIC's role in protecting consumers' rights and encouraging FDIC-supervised institutions to invest in their communities.

Goal Status in 2002 This annual performance goal will be retained in 2002.

Strategic Goal FDIC-supervised insured depository institutions comply with consumer protection, CRA, and fair lending laws.

Annual Performance Goal Prompt supervisory actions are taken and monitored on all institutions rated “4” or “5” for compliance.

Indicator and Target Timely follow-up examination and related activity confirms whether the institution is in compliance with the enforcement action.

- *A follow-up exam or related activity is conducted within 12 months from the date of a formal enforcement action confirming compliance with the enforcement action.*

Contact Gary Bowser, Division of Compliance and Consumer Affairs

2001 Results *Enforcement Actions.* Achieved. As of December 31, 2001, seven institutions were assigned a composite “4” rating for compliance and no institutions were assigned a composite “5” rating. Six of the seven institutions had either been examined in the preceding 12 months or are still within the 12-month time frame between examinations, based on the date the report of examination was mailed to the institution. One institution was scheduled to close during the first quarter of 2002 due to safety and soundness concerns and, thus, the FDIC decided not to conduct the scheduled follow-up compliance examination.

Five of the seven institutions have entered into a Memorandum of Understanding with the FDIC, and two have been issued a Cease and Desist Order under Section 8(b) of the FDI Act.

Public Benefit Some financial institutions need to improve their compliance with consumer protection laws. The FDIC examination reports identify weaknesses, violations of laws or policies, and necessary corrective actions. During timely follow-up examinations, examiners determine whether institutions under a formal enforcement action have improved their adherence to these laws or policies. The result is that consumers’ rights are better protected.

Goal Status in 2002 This annual performance goal will be retained in 2002 and will read as follows: “Prompt supervisory actions are taken and monitored on all institutions rated “4” or “5” for compliance to address problems identified during compliance examinations.”

Receivership Management Program Results

The Receivership Management Program is designed to ensure that the claims of creditors are satisfied consistent with applicable law and the resources of individual receivership estates.

The FDIC resolves failing insured institutions in the least costly manner. The FDIC is proactive in identifying troubled insured depository institutions and begins its resolution efforts, such as valuing assets and identifying potential purchasers of these institutions, before the institutions fail. At failure, the FDIC is appointed receiver and succeeds to the rights, powers, and privileges of the insured depository institution and its stockholders, officers and directors.

Once the FDIC is appointed as receiver for any insured depository institution, the FDIC assumes the responsibility to manage and dispose of the institution's assets for the benefit of the creditors. The FDIC, acting as receiver, assumes responsibility to the creditors of the receivership to recover for them, as quickly as it can, the maximum amount possible on their claims. As the FDIC is the largest creditor after fulfilling its obligations as deposit insurer, this also allows the Corporation to maintain the viability of the deposit insurance funds.

The FDIC immediately works to identify and notify potential creditors of the failed insured depository institution of the failure and the process for submitting claims against the receivership. The FDIC reviews all claims and provides those creditors with valid claims receivership certificates entitling them to a share in the receivership (to the extent funds are available), in accordance with priorities mandated by statute and applicable regulations.

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

To ensure that each new receivership is managed effectively toward an orderly and timely termination, the FDIC has an active receivership oversight program. The purpose of this program is to foster an efficient and responsible business approach to receivership management. This business approach focuses on the economics of each receivership, through the establishment of unique business plans, the monitoring of performance, and timely termination.

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

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

Indicator and List of qualified and interested bidders.

Target • Contact all known qualified and interested bidders.

Contact Michael Spaid, Division of Resolutions and Receiverships

2001 Results *Qualified and Interested Bidders.* Achieved. The FDIC maintains an inventory of qualified and interested potential bidders consisting of both financial institutions and private investors. In preparing a list of potential bidders for a failing institution, the FDIC takes into account the failed institution's geographic location, competitive environment, minority-owned status, financial condition, asset size, capital level, and regulatory ratings.

Four financial institutions failed in 2001. For each failure, 100 percent of the qualified potential bidders were contacted. The FDIC provided access to confidential financial information about failing banks via a secure Web site to those institutions that expressed interest in bidding and who signed a confidentiality agreement. These interested bidders could then access all the data on the assets and deposit franchise on-line. This permitted a broader distribution of information on a real-time basis, and was more convenient and cost-effective for the potential bidders considering the acquisition. The institutions that failed and the number of bidders contacted are as follows:

Institution	# of Bidders Contacted
First Alliance Bank and Trust	512
Malta National Bank	457
Superior Bank, FSB	382
Sinclair National Bank	889

Public Benefit Broad competitive marketing of failed institutions assures that the highest possible price is obtained for the deposit franchise and assets of the failed institution, thus minimizing the impact on the deposit insurance funds.

Goal Status in 2002 This annual performance goal will be retained in 2002.

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

Annual Performance Goal The FDIC values, manages, and markets assets of failed institutions and their subsidiaries in a timely manner to maximize net return.

Indicator and Failed institution's assets marketed.

Target • 80 percent of book value of failed institution's marketable assets are marketed within 90 days of failure.

Contact Michael Spaid, Division of Resolutions and Receiverships

2001 Results *Failed Institution Assets Marketed.* Achieved. Four financial institutions failed in 2001. For First Alliance Bank and Trust, Malta National Bank, and Sinclair National Bank, the FDIC marketed 100 percent of the marketable assets during resolution and sold virtually all of the failed bank assets to the assuming banks.

Superior Bank, FSB was placed into conservatorship during the resolution process. Loans committed by the loan production operation of the bank were marketed as the commitments were filled. Hanover Trade, a financial advisor, was engaged to assist in the marketing of remaining assets, including loan production operations. Loan pools, servicing operations, and residuals that totaled in excess of the 80 percent target were marketed within the 90-day time period.

Public Benefit Prompt marketing of failed institution assets minimizes the costs associated with managing the assets and maximizes the net recovery to the receivership estate, benefiting the uninsured depositors and creditors of the failed institution.

Goal Status in 2002 The annual performance goal will be retained in 2002.

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

Annual Performance Goal Investigations are conducted into all potential professional liability claim areas in all failed insured depository institutions.

Indicator and Target Percentage of investigated claim areas closed or pursued within 18 months after the failure date.

- *80 percent of all claim areas closed or pursued.*

Contact Richard J. Osterman, Legal Division

2001 Results *Claim Areas Pursued.* Achieved. The goal has been exceeded for the nine failed institutions reaching the 18-month milestone during 2001. Five of the nine institutions that reached the 18-month milestone during calendar year 2001 had 100 percent of the professional liability investigations completed.

Public Benefit The goal of the professional liability program is to hold accountable those persons and/or entities whose actions cause losses to the failed financial institutions. In addition, the existence of the program enhances overall industry awareness of professional standards. Investigation of potential claims is conducted after every financial institution failure. However, claims are brought only if they are meritorious and likely to be cost effective; if meritorious claims exist but are not likely to be cost effective, referrals are made to the appropriate federal supervisor for possible enforcement action.

Goal Status in 2002 This annual performance goal will be retained in 2002 and will read as follows: "Investigations will be conducted into all potential professional liability claims areas in all failed insured depository institutions, and a decision to close or pursue each claim is made as promptly as possible, considering the size and complexity of the institution."

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

Annual Performance Goal The FDIC, as receiver, manages the receivership estate and its subsidiaries toward an orderly termination.

Indicator and Target Reduction in the number of active receiverships.
• *Inactivate 76 of the 106 active receiverships not impacted by goodwill claims in inventory at January 1, 2001.*

Contact Michael Spaid, Division of Resolutions and Receiverships

2001 Results *Receivership Terminations.* Missed target. The FDIC inactivated 52 receiverships and transferred one, the Golden City Commercial Bank receivership, to the state of New York.

The pace of inactivation was slowed by impediments that represent material financial or legal risks to the FDIC. The original 2001 target number of 76 inactivations was extremely aggressive and, pursuant to an extensive review, based on overly optimistic assumptions regarding the resolution of pending impediments. During the first half of 2001, the FDIC placed a major focus on reducing the level of impediments, including goodwill claim impediments, and reduced the aggregate number of impediments from 685 to 335. During this process, FDIC staff developed a much better understanding of the scope and risk attached to the remaining impediments. After conducting an exhaustive review of all the actual impediments remaining at each active non-goodwill receivership, the FDIC concluded that it could realistically inactivate only 36 receiverships during 2001. In addition, the FDIC was able to reduce the number of receiverships impacted by goodwill claims by 17 receiverships.

The remaining receiverships not impacted by goodwill claims will continue to be managed toward inactivation in 2002. In doing so, impediments will be eliminated in the most cost-effective and expeditious manner available.

Public Benefit The oversight and prompt termination of receiverships preserve value for the uninsured depositors and other receivership claimants by reducing overhead and other holding costs.

Goal Status in 2002 The annual performance goal will be retained in 2002.

Effective Management of Strategic Resources Results

Information, technology, human resources, and internal controls are essential to the achievement of the FDIC's mission. The FDIC has established as its basic operating principle that it will effectively manage these critical resources in order to accomplish the annual performance goals set forth in the Plan. Several of the initiatives in this program focus on reducing the FDIC's operating costs. These initiatives include expanding the FDIC's ability to conduct business electronically through the Internet, reducing cost and inefficiencies associated with managing financial institution data, improving contract oversight practices, and benchmarking corporate performance to reduce overhead and indirect costs.

Information is an important corporate asset and its effective management is crucial to fulfilling the FDIC's mission. Information and analysis on banking, financial services, and the economy form the basis for the development of sound public policies and promote public understanding and confidence in the financial system. Solid information is necessary to meet other FDIC goals and objectives as well.

The effective use of technology supports the accomplishment of annual performance goals. Technological solutions can be used to simplify the FDIC's various business processes and reduce costs.

The FDIC is committed to providing an environment that attracts, develops, manages and retains a workforce that is professional, diverse, efficient, flexible, and dedicated and has the right skills to successfully contribute to the achievement of the FDIC's mission and business goals. As part of that commitment, the FDIC continues to implement its diversity strategic goals. The FDIC will also plan for and implement effective, coordinated human capital strategies in order to leverage the human resources needed to achieve the Corporation's mission and business goals.

In order for the FDIC to continue to operate as an efficient and effective organization, strong internal controls and risk management are essential. The FDIC monitors its internal control programs, identifies risks and weaknesses, and ensures all corrective actions are completed in a timely manner. In addition, the FDIC continues to focus on maintaining the strength of its information security program to ensure that information systems remain operational and secure, and that data are not compromised.

Resource Goal Sufficient and reliable information is maintained and disseminated.

Annual Performance Goal Improve management reporting in order to provide information that is relevant, easy to understand and easily accessible to all users to support management decisions.

Indicator and Target Develop recommendation for a new FDIC financial environment solution that will satisfy the Annual Performance Goal when implemented.

- *Recommendation completed by September 30, 2001.*

Contact Sara Aarthun, Division of Finance

2001 Results *Develop Recommendation.* Achieved. The FDIC developed a recommendation for a new FDIC financial environment by September 30, 2001. The recommendation proposes to leverage current technology to redirect resources from transaction processing to analysis, risk management, and decision support.

Public Benefit Using a flexible, modern financial software package should improve efficiencies and reduce costs through process streamlining, while achieving expected results.

Goal Status in 2002 This annual performance goal will not be retained in 2002. The FDIC will monitor internally the replacement of its financial system and the selection of a software vendor and system development vendor.

Resource Goal Sufficient and reliable information is maintained and disseminated.

Annual Performance Goal Reduce costs and inefficiencies in the processing and usage of banking institution data through the modernization of the collection, processing, storage, and accessibility of institution data to meet current and emerging business requirements.

- Indicators and Targets*
1. Establish Institution Data Management (IDM) requirements through analysis and documentation of the current and projected use of institution data in functional business processes throughout the FDIC.
 - *Develop and prioritize recommendations regarding functional business requirements, data collection, and data management by August 31, 2001.*
 2. Develop functional, data, security, and performance requirements and project scope for phased systems development efforts.
 - *Evaluate technical alternatives, prepare recommendations, and establish phased development schedule by December 31, 2001.*

Contact James E. Crum, Division of Insurance; Teresa Koechel, Division of Supervision

2001 Results *Establishing IDM Requirements.* Missed target. By August 2001, several project briefing documents were provided to FDIC senior management. During the fourth quarter of 2001, staff began to obtain interagency support for the development of a centralized secure repository to manage Call Report data, one of the primary sources of institution data.

Recommendations regarding functional business requirements and data collection and management were not finalized in 2001 because in November 2001, the IDM project scope was formally expanded and elevated in priority within the FDIC. The project scope was substantially expanded to include related activities and requirements of the FRB and the OCC. A new project manager was designated to define the project scope and develop project staffing and implementation requirements. A financial services consultant was retained to assist in documenting the strategic vision for IDM, to provide input on the type of organizational structure needed to support a complex project such as IDM, and to recommend implementation strategies. A committee of senior FDIC executives was designated to oversee the project. Modernization of the Call Report data processes was established as the top priority of the project group.

Recommendations regarding functional business requirements, data collection, and data management will be developed in 2002.

System Development Efforts. Missed target. Project requirements and recommendations for a phased development schedule were not completed due to the significant changes to the project scope and requirements implemented in November 2001. As already noted above, the project scope was expanded beyond the FDIC's business processes and systems and was enlarged to include related activities and requirements of other regulatory agencies. By year-end 2001, several interagency working groups had been established to reach consensus on the data, process change, and functional security requirements.

During the first quarter of 2002, interagency issues will be identified, and a strategic implementation plan will be presented to the FDIC's Chief Operating Officer, the Chief Financial Officer, and the Chief Information Officer.

The deviation from the target levels of performance in 2001 will have no effect on the overall success of this project. Existing business processes are fully supported. The adjustments to project scope and to the milestones in 2001 improve the likelihood of the overall success of this project. The additional time invested in project planning and the inclusion of other regulators as crucial stakeholders will greatly enhance project implementation and will expand the range of users who will benefit from the project.

Public Benefit Implementation of the IDM project is expected to provide validated and timely bank financial and/or organizational information to the federal banking agencies and the general public. This will allow improved policy and operational decision-making by the agencies and speed the delivery of bank financial information to the public. The costs of collecting and disseminating data internally and externally also will decline.

Goal Status in 2002 This annual performance goal will not be retained in 2002. Project activities will be reflected in an indicator and target under the 2002 annual performance goal in the Insurance Program entitled "Maintain sufficient and reliable information on insured depository institutions."

Resource Goal Sufficient and reliable information is maintained and disseminated.

Annual Performance Goal Provide Congress, other regulatory agencies, insured depository institutions, and the public critical and timely information and analyses on the financial condition of the banking industry.

Indicator and Target Timely publication of financial, economic, and statistical analyses and publications affecting the banking industry.

- *Regular publications include: **Quarterly Banking Profile**, *Institution Directory*, *Statistics on Depository Institutions*, *Historical Statistics on Banking*, *Statistics on Banking*, and *Summary of Deposits*.*

Contact Martha Solt, Division of Research and Statistics

2001 Results *Financial, Economic, and Statistical Publications Produced.* Achieved. A new product, the *Preliminary Bank Earnings Report*, was developed to disseminate timely analysis of financial data about commercial banks. This report was presented coinciding with the Chairman’s December 2001 Quarterly Banking Profile press conference. The recurring publication schedules for the *Quarterly Banking Profile* (QBP) and the *QBP Graph Book* were met.

In addition, the FDIC uses several proprietary computer applications to provide financial, economic, and statistical data. All of the 2001 Federal Financial Institutions Examination Council Call Report changes were mapped into the FDIC’s *Institution Directory*, *Statistics on Depository Institutions*, and *Statistics on Banking* applications.

In June 2001, the FDIC integrated two applications, *Financial Institutions* and *Institution Directory*, on the Internet so that users could access banking data from one source; the update cycle was changed from quarterly to weekly and the cycle was automated.

During the fourth quarter of 2001, the *Institution Directory* application delivered approximately 1,175,271 pages to 91,876 unique users, an increase of 26 percent and 16 percent, respectively, over the same time period in 2000. The *Statistics on Depository Institutions* delivered 43,168 pages to 5,437 unique users, an increase of 111 percent and 145 percent, respectively, over the same time period in 2000.

The annual “Summary of Deposit” data was released via the Internet on November 27, 2001.

Public Benefit Feedback from bankers, analysts, and the public drive system

application enhancements. Enhancements to the Summary of Deposits application allowed end-users to create a customized market, which is highly regarded by analysts. Providing end-users the capability of downloading, on a weekly basis, the institution and office files allows greater flexibility in preparing customized reports containing banking information.

Goal Status in 2002 This annual performance goal will not be retained in 2002. Activities will be reflected in an indicator and target in the 2002 annual performance goal in the Insurance Program entitled “Identify and address risks to the insurance funds.”

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

Annual Performance Goal Continue the implementation of the Corporate Diversity Strategic Plan according to schedules as published in the Plan.

Indicator and Targets The published schedules for the six areas described in the Diversity Strategic Plan.

- *By March 31, 2001, publish the **FDIC Diversity Annual Performance Report** to measure goal achievement.*
- *Implementation of the Diversity Strategic Plan by FDIC divisions and offices according to published schedules.*

Contact Doris J. Washington, Office of Diversity and Economic Opportunity; Wilma C. Probst, Division of Administration

2001 Results *Diversity Annual Report.* Achieved. The FDIC published the *2000 Diversity Annual Performance Report* on schedule. This document provided information on goal achievement under the six areas of the corporate Diversity Strategic Plan. Specific accomplishments were reported under the areas of (1) Building Commitment and Developing Awareness; (2) Enhancing the Corporate Recruitment Program; (3) Creating Developmental Opportunities; (4) Enhancing the Internal and External Selection Process; (5) Addressing Benefits and Workplace Issues; and (6) Monitoring Progress and Establishing Accountability.

Implementation of Diversity Plan. Achieved. Highlights of major milestones accomplished during 2001 include the following:

- Completed diversity training for all existing FDIC employees and a purchased training program for new employees.
- Developed a centralized corporate recruitment program that included structured college recruitment and new marketing materials.
- Conducted an evaluation of the Career Management Program, which assists employees in assessing and developing their career plans; evaluation results were positive.
- Improved the internal and external selection processes including (1) the adoption of Confidentiality Statements for all panel members; (2) agreement with the National Treasury Employees Union on how many panel members should be referred to selecting officials; and (3) a training support tool for panel members.
- Renovated public facilities in the FDIC's main building to ensure compliance with the Americans with Disabilities Act.
- Implemented major benefits and workplace initiatives to provide

greater flexibility for all employees. These included a Flexible Benefits Program, new Telework and Hours of Work policies, and a corporate Work-Life program

- Completed the pilot Diversity Dialog Group program and approved and implemented a corporate-wide program.

Public Benefit A well-trained, diverse, and highly flexible workforce permits efficient response to the FDIC's program priorities and changes in the banking and financial services industries.

Goal Status in 2002 This annual performance goal will not be retained in 2002. The FDIC will monitor internally the remaining activities related to implementing the Diversity Strategic Plan and monitor ongoing diversity program activities.

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

Annual Performance Goal Weaknesses identified by the FDIC's Office of Inspector General (OIG) and the General Accounting Office (GAO) are resolved on or before the estimated completion date and are not repeated.

- Indicators and Targets*
1. The number of OIG and GAO audit conditions closed before the estimated completion date or the revised estimated completion date.
 - *FDIC divisions and offices will close 100 percent of their audit conditions on or before the estimated completion date or revised estimated completion date based upon management's approval of division and office written documentation and justification.*
 2. The number of repeat audit conditions identified in final audit reports.
 - *The number of repeat audit conditions identified in 2001 will be zero.*
 - *The FDIC will receive an unqualified opinion from the GAO on FDIC's Financial Statements.*
 3. Implementation of the FDIC's contract oversight program enhancements.
 - *Enhancements will be implemented in accordance with project plan.*
 - *FDIC divisions and offices will close 100 percent of their contractor oversight audit conditions within one year of their identification.*

Contact Vijay G. Deshpande, Office of Internal Control Management

2001 Results *Closed Audit Conditions.* Achieved. The FDIC closed 113 (100 percent) of its GAO/OIG audit conditions on or before the estimated completion date or revised estimated completion date.

Repeat Audit Conditions. Missed target. Of the 68 audit conditions identified in 2001, four were repeat conditions that relate to the electronic data processing portion of the GAO financial statements audit and primarily focus on security issues. To address the four repeat audit conditions, the FDIC has been working since 1999 on a three-year plan to improve security. The plan's completion is expected in 2002. The FDIC believes that full implementation of the plan will address the repeat audit conditions. The Corporation received an unqualified opinion from the GAO on the 2001 financial statements audit.

Contract Oversight. Missed target. The FDIC completed significant contract oversight program enhancements. However, the FDIC did not achieve the target of closing 100 percent of contractor oversight audit conditions within one year of their identification. Four of 36 contractor oversight audit conditions were not closed within one year of identification. Two conditions relate to recovery of fees from a health benefits contractor. The FDIC has collected approximately \$400,000 thus far, and settlement negotiations are continuing. The remaining two audit conditions relate to an information technology contractor and involve General Services Administration (GSA) contract compliance issues. The OIG identified over \$2.3 million in questioned costs. Of the \$2.3 million, \$2.0 million will be handled by GSA's OIG as part of a global settlement of contract compliance issues. The FDIC is pursuing recovery of the remaining \$300,000 in questioned costs through a contract offset.

Public Benefit The resolution of weaknesses identified by the OIG and the GAO on or before the estimated completion date demonstrates the FDIC has a sound control environment. It provides reasonable assurance that the FDIC mission is being carried out efficiently and in accordance with applicable laws.

Goal Status in 2002 This annual performance goal will not be retained in 2002. The FDIC will monitor internally the resolution of audit conditions identified by the GAO and the OIG, and will work cooperatively with these organizations to implement appropriate corrective actions. The Corporation will continue to conduct regular internal control reviews and testing to mitigate identified risks and to verify that corrective actions have been effective.

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

Annual Performance Goal Strengthen the FDIC's agency-wide information resources security program.

- Indicators and Targets*
1. Management accountability for the development, maintenance, and operation of major applications and general support systems is increased.
 - *All security plans for major applications and general support systems are completed by December 31, 2001.*
 - *All independent security reviews for major applications and general support systems are completed by December 31, 2001.*
 - *The Information Security Officer (ISO) Model Program is implemented fully by December 31, 2001.*
 2. Corporate downtime and damage caused by viruses are minimized through the implementation of real-time monitoring tools.
 - *The volume of viruses inside the firewall falls below a monthly average of 1,630, the number of viruses reported in 2000.*
 3. Effective and verifiable disaster recovery capabilities are in place.
 - *Tests in July and December 2001 prove that the capability exists to resume operations of important information-processing in the event of disruptive events.*
 4. Current and emerging digital signature and encryption requirements are met to support high-risk applications and the migration to Windows 2000.
 - *Entrust 3.0 is converted successfully to version 5.0 by December 2001.*

Contact Deborah Sweaney, Division of Information Resources Management

2001 Results *Major Application Management Accountability.* Missed target. All security plans for major applications and general support systems, and all independent security reviews for major applications and general support systems were completed by December 31, 2001. However, the Information Security Officer (ISO) Model Program (renamed the Information Security Manager Program) was implemented only for about half of the Corporation by December 31, 2001.

Full implementation is expected by February 28, 2002. There will be no effect on overall program or activity performance as a result of this delay.

Virus Detection. Achieved. The volume of viruses inside the firewall was below 1,630 per month, with the exception of September 2001. The September volume was higher due to the worldwide Nimda virus outbreak.

Disaster Recovery. Achieved. The FDIC conducted disaster recovery tests at its backup facility. The business recovery plan for information systems, designed to ensure that application systems that support the FDIC's critical business functions are available in the event of a disaster at FDIC Washington Office facilities, was tested successfully. Testing involved mainframe, server, firewall, and telecommunication services. At the conclusion of the tests, critical services were operational at the backup facility. All issues arising as a result of the testing were resolved.

Digital Signature and Encryption. Missed target. The conversion of Entrust 3.0 to version 5.0 was partially implemented as of December 31, 2001, and should be fully implemented by May 2002. The delay will not affect overall program or activity performance.

Public Benefit Protection of data and resources is essential to the public's confidence in the FDIC.

Goal Status in 2002 This annual performance goal will not be retained in 2002. In 2002, the FDIC will (1) monitor the feasibility and development of a risk assessment methodology/tool to identify threats; (2) monitor damage caused by viruses; (3) develop real-time monitoring tools; (4) relocate disaster recovery operations; and (5) conduct quarterly penetration tests to assess the FDIC's network vulnerabilities.

MULTI-YEAR PERFORMANCE TREND

Depositor Payouts in Instance of Failure

Year	Annual Goal	Results
1998	Reopen new institution or begin depositor payouts within three calendar days of the institution's failure.	<i>Three insured depository institutions failed in 1998. Depositors of each failed insured institution had access to their funds within three calendar days of failure.</i>
1999	Insured deposits are transferred to successor insured depository institution or depositor payouts are begun within three days of insured depository institution failure.	<i>Depositors had access to their funds within three calendar days of the failure in seven of eight insured depository institutions that failed in 1999. The exception was the First National Bank of Keystone, Keystone, WV.</i>
2000	Insured deposits are transferred to successor insured depository institution or depositor payouts are begun within three days of institution failure.	<i>Depositors had access to their funds within three calendar days of the failure in seven of seven insured depository institution failures that occurred in 2000.</i>
2001	FDIC is prepared to deal with all financial institution closings and emerging issues.	<i>There were four institution failures in 2001. Depositors had uninterrupted and continuous access to insured deposits due to the deposits being assumed by an acquiring entity in each instance. Revised information requests lists and distribution lists were presented in connection with resolution transactions. A contractor was engaged to review FDIC procedures relative to an e-banking failure. A recommendation paper was drafted on deposit insurance determinations. A contractor will be retained in 2002 to perform a more extensive review of improving the speed of deposit insurance determinations and payments for a large failure.</i>
2002	FDIC is prepared to deal with all financial institution closings and emerging issues.	

Risk Classifications

Year	Annual Goal	Results
1998	Conduct semiannual risk classifications assigned and reviewed for Board approval of BIF and SAIF premium rate cases.	<i>Produced and presented insurance premium rate cases to the FDIC's operating committee and to the FDIC's Board of Directors within the semiannual deadline. The staff recommended maintaining the existing assessment rate schedules of 0 to 27 basis points per year.</i>
1999	The Risk-Based Premium System appropriately reflects risks to the deposit insurance funds and modifications are explored that may make the system more forward-looking.	<ul style="list-style-type: none"> • <i>Financial Risk Committee established to include a broader consideration of changes in fund exposure.</i> • <i>Developed and tested "objective screens" for use in the review process for premium assignments.</i> • <i>Developed procedures to re-classify screened banks with inadequate risk management practices.</i>
2000	Assessment rate schedules and risk classifications correspond with relative risk rankings of insured institutions, subject to statutory constraints.	<ul style="list-style-type: none"> • <i>Reserve ratio was maintained at or above the statutory mandated ratio of 1.25 percent.</i> • <i>New off-site screens were developed for reviewing and re-classifying atypically high-risk institutions (focus on rapid growth, high loan yields, and other factors).</i> • <i>Converted RBPS databases from Datacom to DB2 and completed conversion from mainframe screens to web-based screens.</i>
2001	Maintain and improve the deposit insurance system.	<i>On April 5, 2001, the FDIC published its final recommendations for deposit insurance reform in a paper entitled, "Keeping the Promise: Recommendations for Deposit Insurance Reform." Modifications to the RRPS were identified and implemented and the feasibility of developing objective screens for various types of bank risks were assessed. The FDIC continued to track and analyze market indicators to measure the level of risk among insured institutions and continued to assess methodologies used to derive contingent loss reserves and projected failures. The DRR was maintained at or above the statutory ratio of 1.25 percent.</i>
2002	Maintain and improve the deposit insurance system.	

Risk Identification and Reporting

Year	Annual Goal	Results
1998	Produce regular Division of Supervision and Division of Insurance reports discussing the condition of the industry and developments affecting the risk profiles of FDIC-insured institutions.	<p>During 1998, several analyses and reports were produced on the condition of the industry and developments affecting the risk profiles of FDIC-insured institutions including the following:</p> <ul style="list-style-type: none"> • Three deposit insurance issue papers • Various Regional Outlook articles • Four Regional Commentaries on the Web • Published Condition of the Funds and Assessment Analysis Report • The Regional Economic Conditions: Report for Examiners - - a Web-based tool • Issued Bank Trends
1999	Risks emerging in 1999 to insured depository institutions are identified through off-site and on-site risk identification processes and are communicated through a variety of reports to the banking industry and its supervisors.	<p>Risk identification processes highlighted the following risks areas and concerns:</p> <ul style="list-style-type: none"> • Subprime lending • High loan-to-value lending (HLTV) • Acquisition, development, and construction (ADC) lending practices • Loan underwriting standards • Agricultural risks • Electronic banking • Privacy
2000	Economic trends and emerging risks in banking are identified, monitored and addressed appropriately.	<p>Economic trends and emerging risks were identified, monitored, and addressed through the publication of surveys, guidance, and report and outreach including the following:</p> <ul style="list-style-type: none"> • Survey of Real Estate Trends • Report on Underwriting Practices • Semiannual reports on Economic Conditions and Emerging Risks in Banking • Conducted 614 risk-targeted outreach efforts on key issues including emerging technology risks, credit risks, agricultural lending and sub-prime lending.
2001	Identify and address risks to the insurance funds. ⁵	<p>Several approaches to credit risk were developed and will be incorporated into VISION. Risk assessments of all LIDIs were completed in compliance with program requirements. 805 SCOR and 632 GMS institutions were reviewed. 178 SCOR and 63 GMS institutions were identified as supervisory concerns. The FDIC issued 111</p>

⁵ The indicators reported under prior year risk assessment annual goals have been consolidated into a single 2001 annual goal along with the indicators reported under prior year risk identification and reporting annual goals.

		<i>FILs, four Regional Outlook publications, "In Focus" articles, semiannual Economic Conditions and Emerging Risk reports, 28 Update publications, 23 Briefing Notes, 11 Regional Commentary publications, Report on Underwriting Practices, and semiannual Survey of Real Estate Trends publications. The FYI electronic bulletin was developed. Over 140 risk-targeted outreach efforts were conducted and 16 banker outreach meetings were held.</i>
2002	Identify and address risks to the insurance funds.	

Safety and Soundness Examinations

Year	Annual Goal	Results
1998	Perform 3,081 safety and soundness examinations.	<i>2,399 safety and soundness examinations were started, which is 86 percent of the safety and soundness examinations required for calendar year 1998.</i>
1999	On-site safety and soundness examinations are performed in accordance with statutory requirements, FDIC policy and state agreements or as otherwise needed.	<i>Initiated 2,555 or 95 percent of required safety and soundness examinations.</i>
2000	On-site safety and soundness examinations of FDIC-supervised insured depository institutions are initiated in accordance with statutory requirements, FDIC policy, and state agreements or as otherwise needed.	<i>Initiated 2,568 or 97 percent of required safety and soundness examinations.</i>
2001	Conduct on-site safety and soundness examinations to assess an FDIC-supervised insured depository institution's overall financial condition, management practices and policies, and compliance with applicable regulations.	<i>FDIC initiated 2,575 or 97 percent of required safety and soundness examinations. At the end of 2001, 67 institutions had not had an on-site safety and soundness examination in accordance with statutory requirements. 1,661 information systems/electronic-banking examinations were initiated or 99 percent. At the end of 2001, 24 information systems/electronic-banking examinations had not been initiated.</i>
2002	Conduct on-site safety and soundness examinations to assess an FDIC-supervised insured depository institution's overall financial condition, management practices and policies, and compliance with applicable regulations.	

Safety and Soundness Enforcement Actions

Year	Annual Goal	Results
1999	Appropriate enforcement or other supervisory actions are taken to address problems identified during insured depository institution examinations. FDIC-supervised insured depository institution compliance with formal and informal enforcement actions is monitored.	<i>The number of problem institutions increased during the year from 41 at December 31, 1998, to 43 as of December 31, 1999. Thirty-one institutions were removed from problem status in 1999, and 33 problem institutions were added.</i>
2000	Prompt supervisory actions are taken to address problems identified during the FDIC examination of institutions identified as problem insured depository institutions. FDIC-supervised insured depository institution compliance with formal and informal enforcement actions is monitored.	<i>On average, during 2000, examination reports for FDIC-supervised problem institutions were processed and mailed to the institution within 44 days of receipt in the Regional Office. This is within the target of 45 days.</i>
2001	Prompt supervisory actions are taken to address problems identified during the FDIC examination of institutions identified as problem insured depository institutions. FDIC-supervised insured depository institution compliance with formal and informal enforcement actions is monitored.	<i>As of December 31, 2001, there were 67 FDIC-supervised institutions designated as problem (composite "4" or "5" rated) institutions. Fifty-six institutions were removed from problem status and four institutions were closed in 2001. Seventy-six problem institutions were added in 2001. As of December 31, 2001, there were no FDIC-supervised problem institutions that were delinquent for examination under statutory requirements.</i>
2002	Prompt supervisory actions are taken to address problems identified during the FDIC examination of FDIC-supervised institutions identified as problem insured depository institutions. FDIC-supervised insured depository institution compliance with formal and informal enforcement actions is monitored.	

Compliance Examinations⁶

Year	Annual Goal	Results
1998	Percentage of 1,610 compliance and CRA examinations according to an agreed-upon schedule.	<i>The FDIC started 1,989 examinations during 1998 or 124 percent of the annual target.⁷ At the end of 1998, there were 488 delinquent examinations.</i>
1999	On-site CRA, consumer protection and Fair Lending law compliance examinations of FDIC-supervised insured depository institutions are conducted per Board policy; changes in compliance ratings of FDIC-supervised insured depository institutions are monitored.	<i>The FDIC started 2,368 examinations or 102 percent of the annual target. At the end of 1999, there were zero delinquent examinations.⁸</i>
2000	Compliance and CRA examinations are initiated in accordance with FDIC policy.	<i>The FDIC started 2,257 examinations or 102 percent of the annual target. At the end of 2000, there were three delinquent exams.</i>
2001	Conduct comprehensive and compliance-only examinations in accordance with FDIC examination frequency policy.	<i>FDIC initiated 2,180 comprehensive, compliance-only, and CRA examinations in accordance with FDIC policy.</i>
2002	Conduct comprehensive and compliance-only examinations in accordance with FDIC examination frequency policy.	

CRA Outreach

Year	Annual Goal	Results
2000	Effective outreach, technical assistance and training are provided on topics related to the Community Reinvestment Act (CRA) and community development.	<i>One pilot forum on financial literacy and predatory lending was held in each Region, thus meeting target. The quality of forums was assessed via formal and informal surveys indicating that forum participants' knowledge of predatory lending practices increased as a result of forum attendance.</i>
2001	Effective outreach, technical assistance, and training are provided on topics related to the CRA, fair lending, and community development.	<i>Twenty-five Money Smart workshops were conducted; over 600 participants attended the sessions. Based on survey results, the program is receiving favorable results. The FDIC developed and implemented a methodology for collecting and analyzing information related to One Stop Center participants' increased understanding of financial education topics after attending a financial education workshop. Information will be used to assess curriculum content and</i>

⁶ Results for prior years have been restated to provide more accurate disclosure.

⁷ Beginning in 1998, the FDIC adopted a risk-based approach to conducting exams, thereby reducing the amount of time needed to complete exams.

⁸ Beginning in 1999, the number of delinquencies at year-end were adjusted downward to exclude those considered as "managed delinquencies."

		<i>make program modifications and improvements, as necessary.</i>
2002	Effective outreach and technical assistance are provided on topics related to the Community Reinvestment Act, fair lending, and community development.	

Compliance Enforcement Actions

Year	Annual Goal	Results
1998	Measure the effectiveness of formal and informal enforcement actions based upon migration of institutions of supervisory concern to satisfactory compliance and measure ratings changes after enforcement actions.	<i>As of December 31, 1998, ten institutions were designated as compliance problems and rated "4".</i>
1999	Corrective actions are taken, if appropriate, to address problems identified during compliance examinations; bank compliance with those actions is monitored.	<i>As of December 31, 1999, nine institutions were designated as compliance problems and rated "4". Enforcement actions were in place against all nine institutions.</i>
2000	Prompt supervisory actions are taken on all institutions rated "4" and "5" for compliance to address problems identified during compliance examinations; compliance with those actions is monitored.	<i>On average, during 2000, FDIC examination reports were processed and mailed to the institution within 29 days of receipt in the Regional Office. This is well within the target of 45 days. For institutions, on average rated a composite "4" or "5", the FDIC conducted all follow up examinations within the targeted timeframe of 12 months from the issuance date of a formal enforcement action.</i>
2001	Prompt supervisory actions are taken and monitored on all institutions rated "4" or "5" for compliance.	<i>As of December 31, 2001, a total of seven institutions were assigned a composite "4" rating for compliance, and no institutions were assigned a composite "5" rating. Six of the seven institutions have either been examined in the preceding 12 months or are still within the 12-month time frame between examinations. One institution was pending resolution for safety and soundness reasons, and the compliance examination was deferred pending resolution. That institution is expected to be closed in January 2002.</i>
2002	Prompt supervisory actions are taken and monitored on all institutions rated "4" or "5" for compliance to address problems identified during compliance examinations.	

Consumer Complaints and Inquiries

Year	Annual Goal	Results
1998	Responses on complaints and inquiries provided within time frames established by policy.	<i>The FDIC received nearly 3,900 consumer complaints in 1998 and responded in an average of 57 days; three days better than the response time target. The FDIC received nearly 2,600 consumer and insured depository institution inquiries in 1998 and responded in an average of 11 days, four days better than the response time target.</i>
1999	Conduct a pilot survey in the FDIC DCA Washington Office to determine whether consumers who have received written responses from the FDIC regarding their complaints and inquiries are satisfied ⁹ .	<i>A pilot customer satisfaction survey was conducted, however, baseline data were not established due to a low response rate.</i>
2000	Effectively respond to written and telephone complaints and inquiries related to deposit insurance and consumer protection laws within specified timeframes.	<i>100 percent of the FDIC's responses to the 6,736 written complaints and inquiries received during 2000 were made within targeted average turnaround timeframes. FDIC received over 91,000 telephone calls. The abandonment rate was 0.89 percent, well below the target of 4 percent or less. The average wait time was 21 seconds, well below the target of 120 seconds or less. A review designed to measure the quality of responses provided by the FDIC noted no material exceptions.</i>
2001	Effectively respond to written complaints and inquiries related to deposit insurance and consumer protection laws.	<i>The FDIC sent 612 survey cards to consumers and bankers who contacted the Washington Office concerning inquiries and complaints. Eighty-four (14 percent) of the cards were returned to the FDIC. Sixty-two percent of the responses rated the FDIC as "excellent" in response quality and 64 percent rated the FDIC as "excellent" in timeliness of response. The FDIC will retain its existing survey instrument for customer inquiries. A new survey instrument was developed and will be used by Washington to assess customer satisfaction with responses to consumer complaints.</i>
2002	Effectively meet the statutory mandate to investigate and respond to consumer complaints about FDIC-supervised financial institutions.	

⁹This annual goal was revised in 1999 and is not what was originally published in FDIC's 1999 Annual Performance Plan.

Asset Management

Year	Annual Goal	Results
2000	Market 80 percent of a failed institution's assets to franchise and non-franchise investors within 90 days of resolution.	<i>95 percent of failed institutions' assets were marketed within 90 days, thus exceeding the target of 80 percent.</i>
2001	The FDIC values, manages, and markets assets of failed institutions and their subsidiaries in a timely manner to maximize net return.	<i>For three institutions that failed in 2001, the FDIC marketed 100 percent of the marketable assets during resolution and sold virtually all of the failed institution assets to the assuming institutions. The remaining institution was placed into conservatorship during the resolution process. Loan pools, servicing operations, and residuals that totaled in excess of the 80 percent target were marketed within the 90-day time period.</i>
2002	The FDIC values, manages, and markets assets of failed institutions and their subsidiaries in a timely manner to maximize net return.	

Least-Cost Resolution

Year	Annual Goal	Results
2000	Market to all known qualified and interested potential assuming institutions.	<i>There were seven bank failures in 2000. A total of 2,601 qualified and interested bidders were identified and each was contacted, thus achieving the goal of marketing assets to all known qualified and interested potential assuming institutions.</i>
2001	Market failing institutions to all known qualified and interested potential bidders.	<i>There were four failures in 2001. 100 percent of the qualified potential bidders were contacted.</i>
2002	Market failing institutions to all known qualified and interested potential bidders.	

Professional Liability Claims

Year	Annual Goal	Results
1999	Investigations are conducted into all potential professional liability claim areas in all failed insured depository institutions and a decision to close or pursue each claim will be made within 18 months after the failure date in 80 percent of all investigations ¹⁰ .	<i>As of December 31, 1999, six institutions failed in the first three quarters of 1999, and decisions were made with regard to five of the 66 potential claims. The first 1998 failure occurred in April 1998, and after 17 months, decisions were made in all 11 claim areas. The remaining 1998 failures occurred less than 18 months ago.</i>
2000	Investigations are conducted into all potential professional liability claim areas in all failed insured depository institutions, and a decision to close or pursue each claim will be made within 18 months after the failure date in 80 percent of all investigations.	<i>A decision to close or pursue each claim was made within 18 months after the failure date for 100 percent of all investigations, thus exceeding the goal of 80 percent.</i>
2001	Investigations are conducted into all potential professional liability claim areas in all failed insured depository institutions.	<i>Five of nine institutions that reached the 18-month milestone during the calendar year 2001 had 100 percent of professional liability investigations completed.</i>
2002	Investigations will be conducted into all potential professional liability claim areas in all failed insured depository institutions and a decision to close or pursue each claim is made as promptly as possible, considering the size and complexity of the institution.	

Receivership Terminations

Year	Annual Goal	Results
2000	Achieve a 35% reduction in the number of active receiverships in 2000.	<i>156 receiverships were terminated, thus achieving the goal of 156.</i>
2001	FDIC, as receiver, manages the receivership estate and its subsidiaries toward an orderly termination.	<i>Fifty-two out of the 76 targeted receiverships were inactivated in 2001. In mid-2001, the target of 76 terminations was revised to 36. The pace of inactivations was slowed by impediments that represented material financial or legal risks to the FDIC.</i>
2002	The FDIC, as receiver, manages the receivership estate and its subsidiaries toward an orderly termination.	

¹⁰ This annual performance goal was revised from the goal published in the 1999 Annual Performance Plan. The word “investigations” replaces the last occurrence of “institutions” to more accurately capture the FDIC’s workload. The original goal stated “in 80% of all *Institutions*.”

PROGRAM EVALUATION

During 2001, the FDIC completed evaluations of programs designed to achieve the ten strategic objectives set forth in the Supervision, Safety and Soundness area of the FDIC's 1998-2003 Strategic Plan.

The program evaluation of each objective encompassed a list of issues to be evaluated, background context of the evaluation, analysis of programs and actions to achieve the objective, evaluation methodology, and findings. The following presents the issues evaluated and summarizes the results of the evaluation of efforts supporting the strategic objectives in the Supervision, Safety and Soundness area.

Strategic Objective Risks to insured depository institutions are identified and integrated into the supervision process

- Issues evaluated*
- How are external risks (e.g., economic and industry conditions) identified and how are the risks expected to affect depository institutions?
 - How are risks identified in FDIC-supervised banks?
 - ◆ What is the process for determining the level of risk?
 - ◆ What procedures are followed to inform other federal banking agencies and state authorities of the risk and incorporate the appropriate risk management techniques into the supervisory process?
 - How are risks identified by state authorities in FDIC-supervised banks?
 - ◆ What is the process for determining the level of risk?
 - ◆ What procedures are followed to inform the other federal banking agencies and state authorities of the risk and incorporate the appropriate risk management techniques into the supervisory process?

- How are risks identified in non-FDIC supervised banks?
 - ◆ What is the process for determining the level of risk?
 - ◆ What procedures are followed to inform the other federal banking agencies and state authorities of the risk and incorporate the appropriate risk management techniques into the supervisory process?
- How are early warning (off-site monitoring) systems used to identify risks?
- What is the process for developing new early warning systems?
 - ◆ Do newly identified risks automatically get included in early warning systems?
- If the FDIC identifies a new risk that primarily affects non-FDIC supervised institutions, what is the process for notifying the other agencies and effecting a change in the supervisory process?

Findings The FDIC has appropriate procedures in place to identify risks and integrate them into the supervisory process. The periodic on-site examinations, case management monitoring of non-FDIC supervised banks, economic analyses conducted by the FDIC's Divisions of Insurance and Research and Statistics, and the various off-site monitoring systems provide a comprehensive method of identifying risks to the banking industry and the deposit insurance funds.

Strategic Objective Insured depository institutions comply with laws and regulations relating to safety and soundness

- Issues evaluated*
- How are laws and regulations relating to safety and soundness made explicit to FDIC-supervised depository institutions?
 - How does the FDIC ensure that laws and regulations relating to safety and soundness are made explicit to non-FDIC-supervised depository institutions?
 - What mechanisms are used to ensure that insured FDIC-supervised depository institutions comply with laws and regulations relating to safety and soundness?
 - ◆ What actions are taken against institutions to bring them into compliance?
 - ◆ Does the FDIC monitor these actions at institutions to ensure that they are coming into compliance?
 - ◆ How long are institutions given to comply?
 - How does the FDIC ensure that non-FDIC-supervised depository institutions are in compliance with laws and regulations relating to safety and soundness?
 - How does the FDIC ensure that insured depository institutions comply with laws and regulations relating to safety and soundness?

Findings The FDIC has appropriate procedures in place for ensuring that insured depository institutions comply with laws and regulations relating to safety and soundness. The FDIC's Division of Supervision provides a variety of media that financial institutions may access to gain a full understanding of requirements.

Strategic Objective Adequacy of management systems to monitor, identify, and control risk is evaluated and action taken as appropriate

- Issues evaluated*
- How does the FDIC evaluate the “adequacy” of management systems to monitor, identify, and control risk in FDIC-supervised depository institutions?
 - ◆ Do standards vary by institution size, industry structure, or other characteristics?
 - How does the FDIC evaluate the “adequacy” of management systems to monitor, identify, and control risk in non-FDIC-supervised depository institutions?
 - ◆ Do standards vary by institution size, industry structure, or other characteristics?
 - How are institutions (FDIC-supervised and non-FDIC supervised) made aware that their management systems are inadequate?
 - ◆ Are deficiencies explicitly stated?
 - ◆ Is a plan prepared showing steps necessary to achieve adequacy?
 - ◆ Does the FDIC monitor these management systems at institutions to ensure they are achieving adequacy?
 - ◆ How long are institutions given to achieve adequacy?

Findings The FDIC has appropriate procedures in place to evaluate the adequacy of management systems to monitor, identify and control risks, and take actions, as appropriate. The Division of Supervision provides a variety of media that examiners may use to help assess adequacy and that institutions may access to gain a full understanding of requirements.

Strategic Objective Riskier insured depository institutions are charged higher premiums

- Issues evaluated*
- What is the method for charging deposit insurance premiums?
 - Are institutions charged deposit insurance premiums based on their risk profile?
 - Are institutions allowed to request an appeal of their deposit insurance premium?

Findings The FDIC must be able to price its insurance according to the risk posed by individual institutions, regardless of the level of the insurance fund. Under current law, when the reserve level is at or above the designated reserve ratio, the FDIC is precluded from charging premiums to the best-rated institutions. Currently, about 92 percent of all institutions do not pay any insurance premiums, yet their deposits are insured. Close to 900 de novo institutions (institutions established since 1996) have never paid an insurance premium. In 2000, the FDIC collected \$42.1 million in assessments to insure \$2.1 trillion in insured deposits. During the banking crisis the ratio of assessment income to estimated insured deposits peaked at 0.003, this rate has dropped significantly ever since. The rate for 2000 was 0.00002.

The FDIC cannot effectively price risk when the reserve level exceeds 1.25 percent. Problems with tying premiums to the designated reserve level include:

- Cannot price insurance to reflect risk of loss
- Many risk exposures among institutions not paying premiums, with the safer institutions subsidizing the riskier ones to an excessive degree
- Some institutions take more risk because insurance is free (moral hazard)
- Premiums rise during periods of economic adversity because the FDIC will have to charge institutions for most of its losses all at once
- New deposits impose risk and costs on the deposit insurance system, yet do not share in any of the operating costs of the deposit insurance system

Given current law, the FDIC has appropriate procedures for charging higher premiums for riskier institutions. The assessment procedure is clearly stated in the *Code of Federal Regulations, Part 327–Assessments*. The appeals process is also stated in the *Code of Federal Regulations*. The procedure for charging premiums for institutions must not be tied to a reserve level. The link between premiums and the reserve level must be severed.

Strategic Objective Adequacy of management ability to address Y2K is evaluated and action taken as appropriate

Issues evaluated This objective was not evaluated given that Y2K-related events are no longer relevant to the FDIC.

Findings N/A

Strategic Objective FDIC takes actions as appropriate to promote market discipline of insured depository institutions

- Issues evaluated*
- At what point does the FDIC determine it is necessary to take action?
 - What actions does the FDIC take to promote market discipline?
 - How do the FDIC's actions promote market discipline?
 - How does the FDIC know that its actions are appropriate?
 - What affect does a changing economy have on these actions?

Findings One cannot gauge the efficacy of the FDIC's actions to promote market discipline by a measure of achievement. There is no defined measure of the FDIC's influence in what is essentially information dissemination to market participants, and the behavior of users to analyze, draw conclusions, and act or not act. Instead, one must take into account the intent, purpose, and active support of procedures and activities that advance market discipline. Through its extensive efforts to compile, publish, maintain, and enhance information that can enlighten market participants, the program evaluation team determined that the FDIC takes appropriate action to promote market discipline.

Strategic Objective Industry officials are aware of FDIC's approach to safety and soundness practices

- Issues evaluated*
- How does the FDIC communicate its approach to safety and soundness to the banking industry?
 - How does the FDIC know that industry officials are aware of its approach to safety and soundness practices?
 - Is the information provided by the FDIC to the industry easily accessible, widely distributed, and accurate and understandable?

Findings The FDIC has an extensive and expanding program to provide information on safety and soundness practices to industry officials. Materials relating to the safety and soundness examination process are readily accessible and widely distributed. The availability of information is promoted through the FDIC's Web site, Financial Institution Letters, banker outreach programs, and seminars. In addition, there are various channels available to industry officials to express comments, suggestions, or questions. The FDIC can determine if industry officials are aware of safety and soundness practices through the examination process, through interaction at exams with bank officials, and banker feedback surveys. The Program Evaluation Team found that through the FDIC's extensive information dissemination and education efforts the FDIC has appropriate procedures in place to inform industry officials of its approach to safety and soundness practices.

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

- Issues evaluated*
- The FDIC monitors entry and expansion (in terms of both bank size and scope) in the insured financial institution system
 - ◆ How is this monitoring done (on-site and off-site programs) for both FDIC-supervised and non-FDIC-supervised banks?
 - ◆ What is the frequency and scope of this monitoring?
 - ◆ Does this monitoring consider banks' integration with financial service firms?
 - ◆ Is there inter-agency cooperation and information sharing?
 - ◆ What becomes of the monitoring information and how is it used?
 - Institutions applying for deposit insurance, expansion of activities or locations must be well capitalized; possess a qualified management team; be capable of being run in a safe and sound manner and comply with existing laws and regulations.
 - ◆ What is the application process and criteria for obtaining deposit insurance?
 - ◆ What "activity expansion" must receive regulatory approval and what are the criteria?
 - ◆ What types of geographic expansion (in terms of locations and bank activities) must get regulatory approval(s) and what are the criteria for approval?
 - How are these criteria or standards selected and altered over time?
 - ◆ Who sets the standards by which a bank will be considered for deposit insurance or activities expansion?
 - ◆ What is the definition of "Prudential Standards?"
 - ◆ Are these standards reviewed periodically?
 - ◆ Do these standards change depending on economic conditions?
 - What actions (e.g., types of enforcement actions) are taken when imprudent growth and expansion are detected among existing depository institutions?

Findings The FDIC has a large number of programs that address industry entry and expansion and devotes considerable resources to these programs, as evidenced by the case manager and other supervision programs and off-site monitoring programs. This effort reflects, in large part, the importance entry and expansion have in bank legislation. In addition, the FDIC has undertaken discretionary programs, such as the off-site monitoring programs, to ensure entry and growth are in accordance with prudential standards. While prudential standards are determined through a combination of regulatory policy and legal statutes, FDIC programs are responsive to the condition of banks. In addition, the FDIC has made the sharing of information among bank regulators and relevant non-bank groups a priority through the case manager program. No deficiencies were identified in this program evaluation.

Strategic Objective Problem insured depository institutions are identified

- Issues evaluated*
- What is a problem institution?
 - How are problem institutions identified?

Findings The FDIC has policies and procedures in place to identify problem institutions, which are defined as insured institutions that have been assigned a composite “4” or “5” rating under the Uniform Financial Institutions Rating System.

The FDIC is responsible for conducting examinations of all insured state-chartered banks that are not members of the Federal Reserve System and identifying problem institutions. In such cases, the FDIC works with bank management to implement a corrective program. For institutions not supervised by the FDIC, the FDIC relies on the examination findings and other information produced by the respective agencies, as well as data produced through off-site monitoring systems, to determine a bank’s overall condition and the risks posed to the deposit insurance funds.

The FDIC also closely monitors problem banks between examination cycles using off-site monitoring systems and on-site visitations, as appropriate. The combination helps the FDIC assess risks to the deposit insurance funds, as well as the condition of individual institutions.

Strategic Objective Problem insured depository institutions are appropriately addressed

- Issues evaluated*
- What is the definition of a problem bank?
 - How are problem insured depository institutions appropriately addressed?

Findings The available evidence suggests that the FDIC has procedures in place to examine banks and identify problem institutions. The examination process assigns a composite rating on a scale of 1 to 5 for banks. A “problem financial institution” is an institution, which has been assigned a composite “4” or “5” rating under the Uniform Financial Institutions Rating System by its primary federal supervisor or by the FDIC if it disagrees with the primary federal supervisor’s rating. The FDIC uses off-site monitoring systems to assess risk to the deposit insurance funds, as well as the financial condition of individual institutions.

Problem insured depository institutions are addressed by the FDIC based on a rating scale. When problem institutions are identified, the FDIC addresses them on a case-by-case basis depending on the severity and

nature of the problem or specification in the enforcement action.

Copies of the complete Supervision: Safety and Soundness Program Evaluation Report may be obtained from the FDIC's Public Information Center at 801 17th Street, NW, Room 100, Washington, DC 20434. Copies may be requested in person, by mail, by telephone: 800-276-6003 or 202-416-6940, by fax: 202-416-2076, or by email: publicinfo@fdic.gov.

GLOSSARY OF TERMS

ANNUAL PERFORMANCE GOAL

An Annual Performance Goal is a statement of achievement, which can be used in measuring how well the FDIC is meeting the relevant Corporate Strategic Goal and Objective. The Annual Performance Goal consists of a Performance Indicator and Target.

CAMELS

Uniform Financial Institution Rating System by which institutions are assigned a composite rating from “1” to “5”. A “1” rating is the highest rating and indicates the strongest performance and risk management practices, and thus the least supervisory concern. The “5” rating is the lowest rating and indicates the weakest performance and inadequate risk management practices. The “5” rating warrants the highest degree of supervisory concern. Component factors are rated for:

C - adequacy of capital

A - quality of assets

M - capability of management

E - quality and level of earnings

L - adequacy of liquidity

S - sensitivity to market risk

ENFORCEMENT ACTIONS (FORMAL/INFORMAL)

Agreements entered into between the FDIC and supervised financial institutions that are intended to outline necessary corrective actions.

GMS (Growth Monitoring System)

An off-site monitoring system principally designed to identify institutions that have experienced significant growth. It serves as an early warning system of potential deterioration. GMS uses ratios developed from quarterly reports of condition and income.

INSTITUTION DIRECTORY SYSTEM

The Institution Directory system provides the latest comprehensive financial profile for every FDIC-insured institution. It permits the analysis and comparison of data for individual banks or groups of banks.

LIDI (Large Insured Depository Institution)

A Large Insured Depository Institution, which is defined as any insured depository institution with consolidated company assets exceeding \$10 billion. While these companies are primarily holding companies, the program also includes unit banks and thrifts. The review of LIDIs permits review of the total company, from a top-down perspective.

MANAGED DELINQUENCIES

This type of delinquency occurs when an examination is not conducted because the institution is merging out of existence, is converting to a non-FDIC-supervised charter, or is giving up its charter altogether.

REAL ESTATE STRESS TEST (REST)

This is a risk exposure model that attempts to measure real estate risk. Bank examiners use the REST data as part of the pre-examination planning process to assist in identifying risk concentrations.

RISK-RELATED PREMIUM SYSTEM

The system's primary purpose is to assign semiannual deposit assessment risk classifications to all FDIC-insured depository institutions.

SCOR

Statistical CAMELS Off-site Rating (SCOR) program. SCOR uses call report data to identify institutions likely to receive a CAMELS downgrade at the next examination. It uses statistical techniques to estimate the relationship between Call Report data and examination results.

SUBPRIME LENDING

Subprime lending refers to loan programs geared toward borrowers with blemished or limited credit histories. Subprime borrowers typically have credit histories that include payment delinquencies, and possibly more severe problems such as charge-offs, judgments, or bankruptcy. They may also have low credit scores, high debt-to-income ratios, or meet other criteria such as incomplete credit histories. These loans have a higher risk of default than loans to prime borrowers.

VIRTUAL SUPERVISORY INFORMATION ON THE NET (ViSION)

An Internet-based data system that provides FDIC staff and staff of the other federal banking agencies and state authorities with access to supervisory information about financial institutions. The data system allows for the integration of FDIC internal Web-based data systems with Web sites of the other federal banking agencies, financial institution Web sites, third-party vendor sites, and others. The combined benefit is the ability for a system user to access relevant supervisory information about an institution from a single point of entry.