FEDERAL DEPOSIT INSURANCE CORPORATION

2003 Annual Performance Plan

TABLE OF CONTENTS

CHAIRMAN'S MESSAGE

I am pleased to present the Federal Deposit Insurance Corporation's (FDIC) 2003 Annual Performance Plan. The FDIC's mission is to contribute to the stability of and public confidence in the nation's financial system by insuring deposits, identifying and assessing risks to the system, supervising financial institutions, resolving failing institutions, and managing receiverships.

To fulfill its mission, the Corporation has identified three major priorities for 2003:

- We will play a leadership role in federal banking and regulatory policy by regularly disseminating high quality information and analysis on major issues and recommending, where appropriate, statutory and regulatory policy changes. In particular, we will continue to work closely with the Congress to enact legislation to reform the deposit insurance system.

- We will fulfill our stewardship responsibilities for the Bank and Savings Association insurance funds through an effective supervisory program that promptly identifies and addresses new and emerging risks to the funds, and through a receivership management program that minimizes the cost to the funds of insured institution failures.

- We will pursue increased operational efficiency and effectiveness by looking for news ways to improve our internal management and work processes and to reduce our ongoing operational costs. In particular, we will continue to focus on improving our information security program and on addressing critical human capital issues in order to maintain a high-performing workforce as many of our current employees move into retirement over the next several years.

This document outlines specific 2003 performance targets and indicators for each of our three major business lines. I invite you to read further about the FDIC's planned initiatives for 2003.

Donald E. Powell
Chairman

MISSION, VISION, AND VALUES

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

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

Values The FDIC has identified six core values that guide corporate operations. The values reflect the ideals that the FDIC expects all of its employees to strive for as they accomplish the tasks needed to fulfill the mission.

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

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

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

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

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

Integrity. The FDIC performs its work with the highest sense of integrity, requiring the agency to be, among other things, honest and fair.

PROGRAM DESCRIPTIONS AND ANNUAL PERFORMANCE GOALS

INSURANCE

SUPERVISION

RECEIVERSHIP MANAGEMENT

INSURANCE PROGRAM

The FDIC insures bank and savings association deposits to help ensure stability and public confidence in the U.S. financial system. The deposit insurance funds must remain viable so that adequate funds are available to protect insured depositors if an institution fails. When insured institutions fail, the FDIC is responsible for ensuring that institution customers have timely access to their insured deposits and services. As insurer, the FDIC continually evaluates how changes in the economy, the financial markets, the banking system, and in individual financial institutions affect the adequacy and the viability of the deposit insurance funds. To protect the funds, the FDIC identifies risks to the insurance funds by analyzing economic, financial, and banking trends, and communicates these findings to the industry and the other federal banking agencies[1] and state authorities. As the insurer, the FDIC, by statute, has special back-up examination authority for all insured depository institutions. If significant emerging risks or other serious concerns are identified for an insured depository institution not primarily supervised by the FDIC, the FDIC and the institution's primary federal supervisor[2] work together to address them.

The FDIC exercises its insurance responsibilities by approving or denying applications by any depository institution for federal deposit insurance. Before granting access to the federal deposit insurance system, the FDIC evaluates the potential risk to the funds. It assesses the adequacy of an applicant's capital, financial history and condition, and its future earnings potential, as well as the general character of its management. The FDIC also considers the convenience and needs of the community to be served and gathers input from other regulatory authorities. The FDIC maintains sufficient deposit insurance fund balances by collecting risk-based insurance premiums from insured depository institutions and by prudent fund investment strategies. In 2003, the FDIC is moving to place greater attention and resources on the identification and analysis of new and emerging risks.

The FDIC strives to increase global awareness and knowledge of deposit insurance by issuing guidance and conducting and disseminating research on international deposit insurance issues. 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 receives a large number of inquiries on deposit insurance from a wide audience, which includes representatives from foreign governments, deposit insurance systems, and regulatory authorities. The FDIC provides technical assistance, meets with foreign visitors, and provides failed institution resolution and asset liquidation expertise to other countries.

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

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

The FDIC also provides tools to assist financial institution employees in interpreting the rules for deposit insurance coverage.

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

Strategic Goal	Strategic Objectives	Annual Performance Goals
Insured depositors are protected from loss without recourse to taxpayer funding.	Customers of failed insured depository institutions have timely access to insured funds and financial services.	Respond promptly to all financial institution closings and emerging issues.
	The FDIC promptly identifies and responds to potential risks to the insurance funds.	Identify and address risks to the insurance funds.
		Maintain sufficient and reliable information on insured depository institutions.
	Deposit insurance funds and system remain viable.	Maintain and improve the deposit insurance system.
		Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts.

Strategic Goal Insured depositors are protected from loss without recourse to taxpayer funding.

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

Annual Performance Goal The FDIC responds promptly to financial institution closings and emerging issues.

Indicator and Targets Number of business days after institution failure by which 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 a Friday, the target is one business day.*
- *If the failure occurs on any other day of the week, the target is two business days .*

Means and Strategies
Deposit Claims Strategic initiatives

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

If the federal or state supervisor chooses to close the institution, the FDIC takes control of the failed institution and determines which deposits are insured. Once the FDIC is appointed receiver, it initiates the closing process for the failed institution and provides the insured depositors access to their accounts in one or two business days. The FDIC also works with the assuming institution so that the insured deposit accounts are transferred to the assuming institution as soon as possible. If no assuming institution is found during the resolution process, the FDIC disburses to customers of the failed institution the insured amount in each account category.

The FDIC will continue to review and enhance, where necessary, existing plans, processes, and systems and to develop new ones in response to emerging risks related to evolving banking industry practices and technologies. Further, a plan to monitor 3, 4, and 5 rated institutions more closely will be implemented in 2003.

Human Resources (staffing and training): Staffing requirements will continually be assessed to meet the needs of the FDIC in carrying out its resolution/closing activities. The FDIC has established policies and procedures to allow for the temporary assignment and/or reallocation of resources should the need arise. Additionally, plans to begin hiring entry-level resolution and receivership specialists as a transition strategy will be implemented to address anticipated high retirement attrition by 2006.

Information Technology: The FDIC will continue to use and update its computer technology, such as the Receivership Liability System (RLS), to improve the efficiency of deposit insurance determinations and payments. Additionally, the claims business process will be reviewed to determine if automated solutions can be implemented to speed the claims review process, by streamlining it and adding more capacity for efficiently handling the claims process for much larger institution failures.

Verification and Validation

The timeliness of payments to depositors can be verified through the press release announcing the resolution, and/or the U.S. Department of the Treasury's Financial Management System, the entity that manages the FDIC's account established for wiring funds to the assuming institution. In the case of a payout, the timeliness of payments to depositors can be verified by the Federal Home Loan Bank of Chicago, the financial institution where the FDIC maintains its deposit payout account.

Strategic Goal Insured depositors are protected from loss without recourse to taxpayer funding.

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

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

Indicators and Targets

1. Assess risks posed by large insured depository institutions.
   - *Assess risks in 100 percent of large insured depository institutions and adopt appropriate strategies.*

2. Identify and follow up on concerns referred for examination or other action (i.e., contact the insured institution or primary supervisor).
   - *Identify and follow up on 100 percent of referrals.*

3. Disseminate data and analyses on current issues and risks affecting the banking industry to bankers, supervisors, stakeholders, and the public.
   - *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 discuss current trends and concerns and to inform bankers about available FDIC resources.*

Means and Strategies
Risk Analysis, Insurance (21)

Operational Processes (initiatives and strategies): The proactive identification of risks to the deposit insurance funds is an ongoing and critical function. The FDIC monitors the condition of the financial industry and projects bank and savings association failures as well as associated failure resolution costs. It also analyzes relevant legislation and court decisions that might affect risks to the insurance funds. As appropriate, draft legislation may be proposed to reduce such risks. The FDIC tracks economic events and market changes that might influence failure rates and failure resolution costs. The FDIC will maintain and improve models that forecast supervisory rating downgrades and risks affecting institutions.

In October 2002, the FDIC implemented a dedicated examiner program for the eight largest insured financial institutions, which had a combined $3.8 trillion in assets (approximately 40 percent of the total assets in the industry). Dedicated examiners use supervisory information, internal institution information, and external sources of information to evaluate risks and assign an FDIC risk rating for each of the eight financial institutions. The Dedicated Examiners will work with the Risk Analysis Center (RAC) to achieve real-time assessments of large bank risks and help identify systemic risks. Their findings will support various high-level projects, such as the development of risk cases and reports to the Financial Risk Committee.

In addition to the dedicated examiner program, the FDIC performs regular off-site analyses of all large banking organizations under the Large Insured Depository Institution (LIDI) program. Financial institutions with total assets of $25 billion or more are monitored using a "living analysis" methodology in which risk is evaluated on a real-time basis. Financial institutions with assets of $10 billion to $25 billion are analyzed at least quarterly. Financial institutions with assets of $3 billion to $10 billion may be added to the LIDI program at the discretion of FDIC Regional Directors. The FDIC will enhance its monitoring of large financial institutions by continuing to (1) expand oversight and analysis of aggregate emerging risks and trends; (2) coordinate and expand shared national credit analysis; (3) conduct quarterly regional video-teleconferences and an annual case managers training conference; and (4) conduct Regional Office visitations to discuss large institution issues.

Information from the Shared National Credit (SNC) program is also increasingly being integrated into the analysis of large banks and emerging risk considerations. This interagency program provides for annual reviews of all syndicated loans with over $20 million in exposures shared between three or more regulated entities. Loan commitments covered by the program in 2002 totaled nearly $2 trillion. Using SNC information, the FDIC produces a semiannual report that identifies industry sector exposures posing a high degree of risk for large banks. In 2002, the FDIC also expanded its Credit Specialist program from 19 to 30 persons. These individuals work with Washington analysts, economists, dedicated examiners, and members of interagency targeted review teams to provide further insights and more in-depth knowledge of high-risk industry-sector loan exposures, underwriting trends, and industry performance trends.

In 2003, a Risk Analysis Center (RAC) will be established to formalize an interdivisional approach to monitor and analyze risks to the deposit insurance funds and to the banking system. The RAC will be responsible for implementing an integrated corporate risk analysis process that utilizes information obtained from a wide variety of sources, including examinations and other institutional reviews as well as internal and external research and analysis. It will enhance our views on industry conditions and emerging risks; and will disseminate information on identified risks to the FDIC decision makers, and staff, other regulators, bankers and to the public.

The FDIC produces and disseminates information and analyses on risks to the deposit insurance funds through various mechanisms such as periodic reports, presentations, regular publications, and continued participation in outreach efforts, surveys (e.g., the Underwriting Survey), Financial Institution Letters (FILs), and participation in industry events.

In 2003, a revised Publications Strategy will be implemented to streamline publications, refocus priorities of various publications, and to ensure that the mission of all publications clearly align with the corporate mission and the Chairman's goals.

The Basel Committee on Banking Supervision is likely to complete work on the Basel II Capital Accord in 2003. The objective of the Accord is to more closely align regulatory capital with risk in large or multinational banks. Changes to the Call Report and extensive regulatory guidance for financial institutions will ensue. Estimated implementation of the Basel II Accord is currently scheduled for December 31, 2006.

Human Resources (staffing and training): The FDIC has incorporated risk-focused examination training in its examination schools.

Information Technology: To facilitate off-site analyses, the FDIC is completing its development of an internal system called the Virtual Supervisory Information on the Net (ViSION) to facilitate a top-down view of banking organizations. In addition, the FDIC external Web site will be redesigned to improve access to FDIC data and information.

Verification and Validation

If a supervisory concern is identified through the LIDI program, a series of actions will follow according to written guidelines. Follow-up actions on supervisory concerns are then reported through various means, such as the quarterly Regional Director reports and the Summary Examination Report (SAER) System.

Strategic Goal Insured depositors are protected from loss without recourse to taxpayer funding.

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

Annual Performance Goal Maintain sufficient and reliable information on insured depository institutions.

Indicators and Targets 1. Maintain and improve the Research Information System (RIS), which serves as the foundation of most analysis and statistical reporting for the FDIC.

- *Update and expand data availability in RIS.*

2. Develop a more efficient approach to bank data collection and management.

    - *Determine Call Report Modernization system development approach; prepare migration plan for the implementation of data editing, storage and distribution facility for Call Report data; complete reconciliation of bank structure databases; and implement standard business rules and data definitions for Call Report information.*

Means and Strategies *Risk Analysis, Insurance* *Operational Processes (initiatives and strategies)*: Data from the RIS are used to assess risks to the deposit insurance funds. RIS data are both current (spot data) and historical for banks, savings associations, and insured U.S. branches operated by foreign banking organizations. Call Modernization is a joint undertaking with the other federal regulators.

New data elements and variables are added to RIS as the Federal Financial Institutions Examination Council revises quarterly reports. Analytical variables are created in response to user requests. The FDIC will explore the capabilities of newly acquired reporting and analytical tools and will assess alternatives for expanding information on insured institutions and the banking industry. Efforts will also be made to identify ways to increase the usefulness and timeliness of RIS data provided via the Internet.

The Central Data Repository (CDR) project is designed to modify and improve data management processes to more effectively collect, manage, and share information about insured institutions. CDR's development and implementation will be phased in over a ten-year period. The initial phase of the project, to be implemented in 2004, will focus on modernizing the existing Call Report collections and processing system. The second phase will involve developing a strategy to make open bank data (Call and Structure) accessible through a centrally managed depository. In this phase, the architecture required to consolidate existing databases that store these data will be identified and the affected applications will be prioritized for redesign. Subsequent phases will include integrating high-level examination-related data, closed bank data, and other appropriate institutional data within a central data repository. The final CDR product will provide the FDIC with an integrated method for all system applications and automated systems to analyze, report, and deliver information to support the FDIC's goals and initiatives.

Human Resources (staffing and training): The FDIC will staff the initial phases of work to be conducted on CDR with full-time employees from divisions and offices within the Corporation supplemented by contract consulting resources where appropriate.

Information Technology: The information technology architecture will support extensible markup language (XML) technical specifications and Internet-based applications.

Verification and Validation

RIS calculations for new or changed items will be tested via independent calculation by comparing actual RIS results to expected results. For pre-existing, unchanged items, a programmatic comparison of updated quarterly RIS calculations will be made against prior calculations. An intensive comparison of independently calculated industry summations against RIS summations will be completed upon a new cycle of processing. A comparison of RIS results to results of analysis independently calculated will be conducted for ad hoc purposes. In addition, feedback from RIS users will be considered. The progress of the CDR project will be assessed through quarterly status reports submitted to the new Capital Investment Review Committee (CIRC), chaired by the Chief Financial Officer and the Chief Information Officer.

Strategic Goal Insured depositors are protected from loss without recourse to taxpayer funding.

Strategic Objective Deposit insurance funds and system remain viable.

Annual Performance Goal Maintain and improve the deposit insurance system.

Indicators and Targets 1. Continue to pursue changes in the deposit insurance system in accordance with proposals submitted to Congress in 2002.

- *Work with the Congress to develop and pass a reform package.*
- *Develop final pricing recommendations and implementation plans for inclusion in a notice-and-comment rulemaking during 2003.*
- *If deposit insurance reform is passed, implement legislation in a timely manner.*

2. Continue to identify and review possible modifications to the Risk-Related Premium System (RRPS).

- *Develop and analyze baseline data of implemented modification results.*
- *Assess improvements to the objective screens for the RRPS that identify financial institutions demonstrating excessive risk, such as certain types of credit, market, and operational risks.*

3. Make appropriate changes to the current methodology for projecting losses in failing financial institutions and establishing related loss reserves for the deposit insurance funds.

- *Review discrepancies between projected failed assets and actual failed assets by applying sophisticated analytical techniques to examine the effectiveness of the loss projection model and adjust the methodology for projecting losses accordingly.*
- *Perform comprehensive review analyses of all aspects of the reserving process and methodology and implement enhancements as necessary.*

4. Maintain fund adequacy.

- *Set assessment rates to maintain the insurance funds at the designated reserve ratio (DRR), or return them to the DRR if they fall below, as required by statute. If deposit insurance reform legislation becomes law in 2003, promulgate rules and regulations establishing criteria for replenishing the Deposit Insurance Fund when it falls below the low end of the range.*

5. Conduct a study on the "Future of Banking".

- *Determine the implications of major trends for the evolution of the industry, development of regulatory policy and management of the deposit insurance funds.*

6. Enhance FDIC ties to the academic community and upgrade and provide greater visibility to the Corporation's research activities.

- *Establish an FDIC Banking Research Center.*

Means and Strategies
Fiduciary Responsibilities/ Insurance Premium Assessments

Operational Processes (initiatives and strategies): The FDIC continues to work with the Congress to develop a comprehensive deposit insurance reform package. The viability of the deposit insurance funds depends on the FDIC's adjustment of the risk-related deposit insurance premium system to accurately reflect and respond to risks in the banking industry. Premiums charged should correspond to the relative risk posed by institutions while maintaining or exceeding the statutorily mandated designated reserve ratio.

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

With input from the FRC, the Division of Insurance and Research projects the level of assessment revenue necessary to maintain the designated reserve ratio. Based on an analysis of the projected failed bank assets and other pertinent information, the FRC recommends to the Chief Financial Officer quarterly the level of the contingent loss reserve for both deposit insurance funds as determined by the FDIC's reserving methodology.

Human Resources (staffing and training): The FDIC has commissioned work from scholars and industry experts as part of the comprehensive deposit insurance review. These outside experts will develop recommendations that the FDIC can use to improve its current loss reserving methodology.

Information Technology: The RRPS will be enhanced consistent with improvements made to the FDIC's internal ViSION system, which houses the RRPS.

Verification and Validation

To ensure that RRPS identifies higher-risk institutions and appropriately assesses higher insurance premiums, the FDIC reviews the assessment history of all failed insured depository institutions and determines if the system is working adequately. The General Accounting Office audits the methodology used to determine the contingent loss reserve annually. The FRC also evaluates the loss reserve process quarterly.

Strategic Goal Insured depositors are protected from loss without recourse to taxpayer funding.

Strategic Objective Deposit insurance funds and system remain viable.

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

Indicator and Target Enhance the Electronic Deposit Insurance Estimator (EDIE) Banker version.

- *Issue a new version of the EDIE (Banker version) that accommodates corporation and organization accounts as well as any changes to the deposit insurance rules that may be adopted.*

Means and Strategies *Deposit Insurance (30)* *Operational Processes (initiatives and strategies):* The FDIC uses a variety of means to educate insured financial institutions and depositors about FDIC deposit insurance coverage. In addition to conducting seminars for bank employees, the FDIC will pursue strategies that will encourage the dissemination of educational information through the banking industry and the media. The FDIC will enhance its deposit insurance educational tools and update, as appropriate, its deposit insurance publications. The FDIC will work with insured financial institutions to encourage them to use these tools and to make the FDIC's publications available to bank employees and customers. The FDIC will also develop and publish articles on the insurance coverage rules in the FDIC Consumer News and work with the national and regional media to publish articles on the deposit rule changes, if any.

Human Resources (staffing and training): Staffing and training needs will be reviewed on an ongoing basis to ensure that the number of staff supporting the deposit insurance educational initiative is adequate and that they possess the skills and knowledge to effectively and successfully carry out this program.

Information Technology: The FDIC will continue to explore use of teleconferencing technology to reach a large audience of financial institution employees most efficiently. The FDIC also will continue to explore ways to use the Internet to deliver deposit insurance educational tools and materials to the banking community and the public. The FDIC will continue to use the Specialized Tracking and Reporting System (STARS) to manage the receipt of and response to banker and public inquiries about the FDIC's deposit insurance program.

Verification and Validation An enhanced version of EDIE (banker version) is completed and ready for distribution to the industry by December 31, 2003.

SUPERVISION PROGRAM

The FDIC's Supervision Program promotes the safety and soundness of FDIC-supervised insured depository institutions, protects consumers' rights, and promotes community investment initiatives by FDIC-supervised insured depository institutions.

The FDIC supervises 5,393[3] FDIC-insured state-chartered banks that are not members of the Federal Reserve System, described as state non-member 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). This authority is exercised in the FDIC's role as insurer of those institutions.

As primary supervisor of all federally insured state non-member banks, the FDIC performs safety and soundness examinations of FDIC-supervised insured depository institutions to assess their 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 are designed to detect the presence of fraud or insider abuse.

If weaknesses are detected through the examination process, the FDIC takes appropriate action. Formal and informal enforcement actions may be issued for institutions identified as having significant weaknesses or those operating in a deteriorated financial condition. The institution must operate under the action until the weakness is remedied. Also, the FDIC may oversee the re-capitalization, merger, closure, or other resolution of the institution.

The FDIC also acts on 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 be compliant with applicable laws and regulations.

In 2002, the FDIC streamlined its Regional and Field Office structure to increase operational efficiency and delegate more authority to the field supervisory level, resulting in better and more effective services to banks.

The following table depicts the strategic goal, strategic objective, and annual performance goals for the Supervision Program, Safety and Soundness area.

[3] 3rd Quarter 2002 FDIC Quarterly Banking Profile.

Strategic Goal	Strategic Objective	Annual Performance Goals
FDIC-supervised institutions are safe and sound.	FDIC-supervised institutions appropriately manage risk.	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. Take prompt supervisory actions to address problems identified during the FDIC examination of FDIC-supervised institutions identified as problem insured depository institutions. Monitor FDIC-supervised insured depository institutions' compliance with formal and informal enforcement actions.

The FDIC facilitates and evaluates institution compliance with consumer protection, fair lending laws, and the Community Reinvestment Act (CRA). To facilitate compliance, the FDIC makes available information to help consumers understand their rights. This information is provided in brochures and through other media, including the FDIC's Web site. The FDIC also provides FDIC-supervised insured depository institutions with updated information on 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.

To evaluate compliance, the FDIC conducts examinations of institution practices regarding consumer protection laws, fair lending laws, and the CRA. Non-compliance with consumer protection or fair lending 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 and fair lending laws and its performance under the CRA are considered in an institution's application for entry or expansion within the insured depository institution system.

In addition to the examination process, the FDIC investigates consumer complaints about FDIC-supervised insured depository institutions. Consumers write or electronically submit to the FDIC complaints and inquiries regarding consumer protection and fair lending issues. The FDIC monitors the level of public satisfaction with its responses to consumer complaints and inquiries. When the FDIC effectively investigates and responds to consumer complaints and inquiries, consumers better understand their rights under federal consumer protection and fair lending laws.

Some consumer protection and fair lending laws require financial institutions to provide consumers with information intended to help them make informed decisions. As part of the compliance examination process, the FDIC reviews information that is provided to consumers by FDIC-supervised insured depository institutions regarding consumers' rights and disclosures as required under consumer protection laws and regulations.

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

Strategic Goal	Strategic Objectives	Annual Performance Goals
Consumers' rights are protected and FDIC-supervised institutions invest in their communities.	Consumers have access to easily understood information about their rights and the disclosures due them under consumer protection and fair lending laws.	Provide effective outreach and technical assistance on topics related to the CRA, fair lending, and community development. Meet the statutory mandate to investigate and respond to consumer complaints about FDIC-supervised financial institutions.
	FDIC-supervised institutions comply with consumer protection, CRA, and fair lending laws.	Conduct comprehensive and compliance-only examinations in accordance with FDIC examination frequency policy. Take prompt supervisory actions and monitor institutions rated 4 or 5 for compliance to address problems identified during compliance examinations.

Strategic Goal FDIC-supervised institutions are safe and sound.

Strategic Objective FDIC-supervised 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.

Indicator and Target Conduct required examinations in accordance with statute and FDIC policy.

- *One hundred percent of required examinations are conducted on time.*

Means and Strategies *Risk Management, Safety and Soundness*

Operational Processes (initiatives and strategies): Examinations assess an FDIC-supervised insured depository institution's overall financial condition, management practices and policies, and compliance with applicable regulations. The FDIC performs safety and soundness, trust/transfer agent, Bank Secrecy Act, and information technology examinations of FDIC-supervised insured depository institutions. In 2003, the FDIC projects that it will conduct 2,613 examinations required under statute, FDIC policy, or agreement with state supervisors.

The FDIC generally follows a risk-focused approach to examinations. This allows the FDIC to focus its examination resources on those areas that carry the greatest potential for risk. In 2002, the FDIC implemented the Maximum Efficiency, Risk-focused, Institution Targeted (MERIT) Program that establishes examination guidelines for well-rated financial institutions with total assets of $250 million or less. The MERIT guidelines apply to all examinations of well-capitalized financial institutions with total assets of $250 million or less, and a composite 1 or 2 rating meeting certain criteria. They are expected to result in a reduction in overall examination hours for most banks that meet the criteria for the MERIT Program. Continuing industry consolidation, new technologies, and product innovation have resulted in larger, more complex organizations. The FDIC will continue to assess and modify, as appropriate, its examination procedures in light of changing risk profiles for the industry and for individual institutions.

The impact of the Sarbanes-Oxley Act and the proposed changes to the Security and Exchange Commission's (SEC's) regulations on insured depository institutions will vary significantly. Directed at strengthening public company financial disclosures and in restoring investor confidence in the public markets, many of the rules will affect only publicly traded organizations. Others will affect both publicly traded organizations and insured institutions subject to Section 36 of the Federal Deposit Insurance Act (FDI Act) and the interagency policy statements on internal and external auditing. The FDIC will work with the other banking agencies to provide further guidance as the changes occur. The FDIC will also offer seminars to bank directors to ensure they fully understand their responsibilities under the new regulatory framework.

The FDIC makes available to examiners a variety of resources to monitor potential risks in supervised institutions such as rapid growth, fluctuating earnings, or concentration in vulnerable sectors. The FDIC has several off-site analysis models to identify financial institutions that may be susceptible to downturns in certain economic sectors, such as real estate. For example, the Real Estate Stress Test (REST) is a model that simulates a real estate crisis similar to that of New England in the early 1990's. Examiners may use these analyses during the examination planning stage. Exposures identified by the models allow examiners to better focus on high-risk areas during the on-site examination.

During 2003, the FDIC will continue to focus on the risks posed by technology. Both on-site safety and soundness and information technology examinations cover technology related activities to determine how each FDIC-supervised insured depository institution manages risk in that area. The FDIC has also developed a monitoring system to proactively identify and assess indicators of technology risks that may impact FDIC-supervised institutions. In addition, the FDIC will develop an early warning system to detect emerging technology risks at financial institutions by using risk profiles, previous examination findings, and industry technology alerts.

The FDIC will also continue to provide information to the industry about risks associated with technology outsourcing (i.e., contracting for computer services) practices. The FDIC is engaged in dialogue with technology vendors, bank trade associations, and standards and rule-setting entities to identify effective practices with respect to the use of emerging technologies.

Human Resources (staffing and training): The FDIC is augmenting its general training curriculum for examiners to include more training on technology and electronic banking issues. For example, training modules on technology and e-banking issues are being incorporated into examiner core schools. The FDIC is revamping its Fundamentals of Information Systems Examination training course to better integrate technology risk into overall safety and soundness risk. In addition, the FDIC will consider offering "refresher" training on pertinent technology topics to safety and soundness examiners in 2003, as it did in 2002. The intent is to establish a solid fundamental base of general technology and electronic banking knowledge for all safety and soundness examiners.

Information Technology: The FDIC will continue to use supervision-related computer technology, such as the General Examination System (GENESYS), Examination Documentation (ED), and the Automated Loan Examination and Review Tool (ALERT), to improve the efficiency of its examinations. In addition, Examinations on the Net (Xnet) is being developed to replace these products. Xnet will provide similar capabilities currently available; however, the single application will be more efficient to use than the three currently in use.

Verification and Validation

The number of safety and soundness examinations required during 2003 may fluctuate due to the change in the number of FDIC-supervised insured depository institutions resulting from mergers, closings, and newly approved charters; changes in asset size, condition, or capital levels that may accelerate the examination cycle; or other reasons. The number of examinations conducted and the number of delinquent, statutorily required examinations will be reported. In addition, adherence to internal FDIC guidelines regarding time frames from the examination start date to the date the report of examination is mailed to the institution will be tracked.

External Factors

Scheduling, staffing, or other resource constraints outside of the FDIC's control may impact the completion of examinations and the FDIC's performance under this annual goal. Under the alternating examination program, examinations may be conducted in alternate 12- (or 18-) month periods by the appropriate state supervisor. Should the state supervisor experience scheduling, staffing, or other resource constraints when it is the state supervisor's responsibility to complete the examination, the statutory examination requirement may not be met. The state supervisor and the FDIC will work together to ensure that the delinquent examination is scheduled, and, when appropriate, the FDIC may conduct the examination.

Strategic Goal FDIC-supervised institutions are safe and sound.

Strategic Objective FDIC-supervised institutions appropriately manage risk.

Annual Performance Goal Take prompt supervisory actions to address problems identified during the FDIC examination of FDIC-supervised institutions identified as problem insured depository institutions. Monitor FDIC-supervised insured depository institution compliance with formal and informal enforcement actions.

Indicator and Target The 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.*

Means and Strategies
Risk Management, Safety and Soundness

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

The responsible case manager and senior regional officials will closely monitor problem depository institutions. Progress on compliance with such actions will be assessed by reviewing progress reports from institutions and other off-site monitoring, direct communication with financial institution management, or visitations.

Human Resources (staffing and training): Staffing and training needs are continually reviewed to ensure the FDIC has the ability and knowledge to identify and address relevant risk areas.

Information Technology: The FDIC uses the Formal and Informal Action Tracking (FIAT) System as the system of record for monitoring all enforcement action activity.

A new module of the FDIC's Virtual Supervisory Information on the Net (ViSION) system was recently released to facilitate off-site monitoring and problem identification. This module combines several off-site models into a single source and its Risk Profile

Screens promote more in-depth analysis by offering a clear, concise picture of different types of risks engaged in by the institution.

Verification and Validation

Monthly reports of problem institutions generated from the SAER System are reviewed for accuracy. Reports provided by the Regional Offices on follow-up examinations will be compared to data on SAER. The examination report identifies supervisory actions to be taken. In order to ensure those supervisory actions are promptly taken, the FDIC will monitor the time it takes to provide insured depository institutions with the examination report. Additional reports will be generated from the SAER System to monitor the time it takes the Regional and Field Offices to process examination reports for FDIC-supervised problem institutions.

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

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

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

Indicators and Targets 1. Additions to the Money Smart Alliance and the number of Money Smart curricula provided.

- *By December 31, 2003, cumulative totals of 400 Money Smart Alliance Members and 40,000 Money Smart curricula provided.*

2. Outreach activities and technical assistance.

- *Conduct or participate in 125 Money Smart events, technical assistance efforts (examination support), or banker/community outreach activities related to CRA, fair lending, or community development.*

Means and Strategies *Community Affairs and Outreach (32)*

Operational Processes (initiatives and strategies): The FDIC participates in a variety of community outreach activities designed to increase awareness of community and economic development; increase knowledge of CRA regulations and fair lending laws; enhance lending, investment, and service performance; and assist FDIC-supervised insured depository institutions in developing strategies to respond to credit, investment, and service opportunities.

The FDIC will continue to develop top quality financial education products responsive to market demand. In addition to English and Spanish hard copies in CD-ROM, Money Smart will be available in early 2003 in Chinese and Korean, and by December 2003 in Vietnamese. Money Smart is an instructor-based training curriculum. In 2003, the FDIC will produce a participant-based curriculum that will be available on the Web (and on CD-ROM). By having both instructor and participant-based products, the FDIC will significantly increase delivery options. Beginning in 2003, the FDIC also will offer FDIC sponsored Train-the-Trainer sessions across the country. Training will be conducted by the FDIC and offered to community organizations, financial institutions, and others interested in financial education services. The FDIC will continue to secure opportunities to increase the public's awareness of Money Smart. Alliances with government, charitable and community development organizations, as well as through press releases, press conferences, articles, and interviews. The FDIC will develop an external Webpage that reflects the scope and accomplishments of the Money Smart initiative.

In addition to the efforts devoted to Money Smart, the FDIC also conducts a variety of other outreach and technical assistance activities. In 2003, these activities will include educational outreach and technical assistance to financial institutions, bank examiners, and the public on CRA, community and economic development, and various consumer protection laws and regulations.

Verification and Validation

The new products offered in 2003 will provide periodic reports and tracking mechanisms regarding the number of organizations and individuals exposed, as well as level of use of using the FDIC Money Smart curriculum, including the CD-ROM and Web site.

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

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

Indicator and Target Timely responses to written complaints.

- *Ninety percent of written complaints are responded to within timeframes established by policy.*

Means and Strategies
Consumer Affairs

Operational Processes (initiatives and strategies): The FDIC responds to written complaints and inquiries regarding consumer protection and fair lending issues, including those received electronically through the Customer Assistance Form on the FDIC's Internet Web site. It also provides consumer protection and deposit insurance information to financial institutions and the public. When consumer protection and fair lending complaints and inquiries are investigated and answered in an effective manner, consumers better understand their rights under these federal laws. In 2003, the FDIC expects to receive approximately 12,700 written and Internet complaints and inquiries. The FDIC will closely monitor the timeliness of its responses.

The FDIC includes survey cards with its replies to mail inquires on deposit insurance and consumer protection issues in order to measure the level of customer satisfaction with its responses. Additionally, the FDIC will survey consumers who have filed written consumer protection and fair lending complaints in order to assess their satisfaction with the investigations and responses.

Human Resources (staffing and training): The Credit Card Center in Kansas City has been expanded to include responsibility for investigating and responding to written complaints and consumer protection inquiries received by the FDIC. The new central facility will be referred to as the Consumer Response Center. Centralization of work in the Kansas City Center will provide flexibility in resource allocation to address workload in call center activity, consumer correspondence, credit card complaints, inquiries and consumer education efforts.

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

Verification and Validation

In order to maintain the integrity of STARS data, system edit checks and data field requirements are designed to weed out inaccurate and illogical data. Periodically, during system testing and internal control reviews, additional efforts will be made to determine if existing data verification and validation procedures and controls remain adequate.

Accepted survey research methods have been employed to ensure the validity of the survey instrument and to verify the accuracy of the survey results.

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

Strategic Objective FDIC-supervised 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.

Indicator and Target Conduct required examinations in accordance with FDIC policy .

- *One hundred percent of required examinations are conducted within timeframes established by FDIC policy.*

Means and Strategies
Consumer Protection, Supervision and Regulation

Operational Processes (initiatives and strategies): Comprehensive (concurrent compliance and CRA) examinations and compliance-only examinations of FDIC-supervised insured depository institutions are the principal mechanisms by which the FDIC determines a financial institution's compliance with consumer protection and fair lending laws, and its performance under the CRA.

The FDIC's examination frequency policy conforms to Gramm-Leach-Bliley Act (GLBA) provisions pertaining to CRA examinations. GLBA sets the CRA examination cycle for most institutions with less than $250 million in assets. Institutions with aggregate assets of $250 million or less and a CRA rating of "Outstanding" are subject to a CRA examination no more than once every 60 months; those with aggregate assets of $250 million or less and a "Satisfactory" CRA rating are subject to a CRA examination no more than once every 48 months. A compliance examination generally will be conducted in conjunction with the CRA examination. Compliance-only examinations generally will be conducted at the mid-point between CRA examination frequencies.

In early 2003, the FDIC expects to implement a restructured compliance examination approach that will place greater emphasis on an institution's compliance risk-management practices. The approach will involve an expanded review of an institution's systems and compliance policies to the end that transaction testing can be better targeted and focused on areas of greatest risk exposure. The FDIC expects this approach will improve the effective use of examination resources, especially in financial institutions with high compliance risk profiles.

Human Resources (staffing and training): The restructured compliance examination approach will require a significant commitment of resources to examiner training at the field level. Training is expected to occur in early 2003, followed by full implementation of the new approach.

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

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

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

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

Annual Performance Goal Take prompt supervisory actions and monitor all institutions rated 4 or 5 for compliance to address problems identified during compliance examinations.

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

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

Means and Strategies *Consumer Protection, Supervision and Regulation*

Operational Processes (initiatives and strategies): Problem institutions are identified primarily through the examination process. While reason and moral suasion are the primary corrective tools, the FDIC has broad enforcement powers to correct practices, conditions, or violations of law that threaten an institution's compliance with consumer protection and fair lending laws or a consumer's rights under those laws. The FDIC's actions may include informal and formal enforcement actions against the institution or responsible individuals to address identified problems. Follow-up examinations in all cases will encompass a review of compliance with supervisory actions. Additional follow-up action will be taken where compliance is insufficient. Compliance enforcement strategies will be updated to reflect the increased emphasis placed during exams on reviewing an institution's risk-management practices.

Human Resources (staffing and training): As noted in the preceding annual performance goal, examiner training will be required in conjunction with any changes resulting from the increased emphasis on the institution's risk-management practices during exams.

Information Technology: The FDIC uses the FIAT System as the system of record for monitoring all enforcement action activity.

Verification and Validation The FDIC analyzes examination-related data collected in the FIAT System to verify and validate supervisory action data.

RECEIVERSHIP MANAGEMENT PROGRAM

The Receivership Management Program's goal is to ensure that recovery to creditors of receiverships is achieved. 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 marshal the institution's assets for the benefit of the creditors. The FDIC is often the largest creditor after fulfilling its obligations as deposit insurer. The Corporation immediately works to identify and notify potential creditors of the failed insured depository institution of the failure and the process for submitting claims against the receivership. The FDIC reviews all claims and provides those creditors with valid claims 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.

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 priorities set by 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 program's purpose 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. Once the FDIC sells the assets of the receivership and resolves the receivership obligations, claims, and any legal impediments, the receivership is terminated and a final distribution is made to its creditors.

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

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

Strategic Goal Recovery to creditors of receiverships is achieved.

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

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

Indicator and Target List of qualified and interested bidders.

- *Contact all known qualified and interested bidders.*

Means and Strategies
Franchise Marketing

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

Information Technology: The FDIC will continue to use a Web-based automated notification system that includes establishing customer preference profiles for potential purchasers of loans as well as for franchise buyers. By using e-mail and a secure Web site, the FDIC can market to a potential bidder both the failed institution and its assets more effectively and efficiently. The FDIC began this initiative in 2002 by surveying financial institutions about possible interest, size and geographical preferences, and identification of contact names and e-mail addresses.

Verification and Validation The franchise marketing process is currently tracked through the FDIC's Overarching Automation System (OASIS).

Strategic Goal Recovery to creditors of receiverships is achieved.

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

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

Indicator and Target Failed institution's assets marketed.

- *Eighty-five percent of book value of a failed institution's marketable assets are marketed within 90 days of failure.*

Means and Strategies *Asset Sales, Management of Subsidiaries), and Asset Management*

Operational Processes (initiatives and strategies): Returning private assets to the private sector quickly allows the FDIC to maximize net recoveries and to minimize any disruption to the local community. The FDIC's goal is to expedite the return of the assets of the failed institution to the private sector by marketing most assets soon after an insured institution fails. Given adequate time, the FDIC prepares an information package and an asset valuation review for each failing insured depository institution to assist in the solicitation of bidders, analysis of bids received for the assumption of deposits, and sale of assets at resolution or shortly thereafter. For asset sales, the failed institution's assets are grouped into pools that will be most appealing to acquirers. The FDIC also works with potential acquirers to schedule a due diligence review of assets before bid submission.

After the resolution of the failed institution, the FDIC collects and manages the remaining assets in a cost-effective manner to maximize recoveries and preserve value until the assets can be marketed widely using current marketing strategies. The FDIC will continue to develop and refine strategies to market assets quickly and efficiently. The FDIC plans to continue its focus on managing and disposing of the assets from the failed bank location. In addition, the information package and other sales documents will be reviewed and updated to streamline the marketing process.

For specific asset marketing and disposition decisions, the FDIC uses the Standard Asset Valuation Estimation (SAVE) methodology to value most assets. SAVE methodology uses standard assumptions and market information to ensure consistency in valuing assets. The valuation process, methodology, and assumptions used to value assets will continue to be reviewed and updated where necessary.

Human Resources (staffing and training): Staffing requirements will continually be assessed to meet the FDIC's needs in carrying out its activities. The FDIC has established policies and procedures to allow for the temporary assignment and/or reallocation of resources should the need arise. Additionally, plans to begin hiring entry level personnel as a transition strategy will be implemented to address anticipated high retirement attrition by 2006.

Information Technology: The FDIC will continue to use new and refined technology to make its asset management/servicing, sale strategies and processes more efficient and to keep pace with changing market and business practices. The FDIC will continue to emphasize the use of the Internet as a tool to deliver asset-marketing information to potential investors and to auction/sell assets received from failed institutions.

Verification and Validation

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

Strategic Goal Recovery to creditors of receiverships is achieved.

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

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

Indicator and Target Timely termination of new receiverships.

- *Inactivate 75 percent of receiverships managed through the Receivership Oversight Program within three years of the failure date.*

Means and Strategies
Oversight Operations

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

Once all of the assets of the receivership have been disposed of, all liabilities have been resolved, and no material financial or legal risks to the FDIC remain, a final distribution to the creditors of the receivership is made and the receivership is terminated.

The FDIC will continue to pursue termination of the pre-2000 receiverships. The termination process requires internal inter-divisional coordination and agreement. To be eligible for termination, a receivership must be free of impediments that represent material financial or legal risks to the FDIC. These impediments may include: outstanding contractual liabilities; outstanding offensive or defensive litigation; potential representation and warranty asset sale claims; open employee benefit plans; open subsidiary corporations where articles of dissolution have been approved; and known or potential environmental contamination liabilities.

Human Resources (staffing and training): Staffing requirements will continually be assessed to meet the FDIC's needs in carrying out its activities. The FDIC has established policies and procedures to allow for the temporary assignment and/or reallocation of resources should the need arise. Additionally, plans to begin hiring entry-level personnel as a transition strategy will be implemented

Verification and Validation The process of inactivating a receivership is tracked in the Receivership Tracking System and the Financial Information Management System. Monthly activity reports of deactivations are generated from both systems and are reviewed for accuracy. System users validate the activity data, and any discrepancies are reconciled.

Strategic Goal Recovery to creditors of receiverships is achieved.

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

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

Indicator and Target Percentage of investigated claim areas for which a decision has been made to close or pursue the claim within 18 months after the failure date.

- *For 80 percent of all claim areas, a decision is made to close or pursue the claim.*

Means and Strategies
Investigations and Professional Litigation

Operational Processes (initiatives and strategies): The FDIC investigates potential claims against professionals (e.g., directors, officers, attorneys, and others) who may have caused losses to the institution. Once the investigation is complete, the FDIC must evaluate whether it has, and should pursue, viable, cost-effective claims against those who may have caused losses to the failed institution. Most professional liability investigations must be completed, and viable claims filed, within a three-year statute of limitations period.

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

Human Resources (staffing and training): Staffing requirements will continually be assessed to meet the FDIC’s needs in carrying out its activities. The FDIC has established policies and procedures to allow for the temporary assignment and/or reallocation of resources should the need arise. Additionally, plans to begin hiring entry-level personnel as a transition strategy will be implemented.

Verification and Validation Data necessary to track failure dates of insured institutions, potential statute of limitations expiration dates, and other pertinent dates are routinely collected and stored in FDIC systems. Status information and decision events are also input for each matter on a current basis. Periodic data scrubs and audits are conducted to ensure accuracy and currency of information. Consistent maintenance of these systems ensures that accurate data needed to measure compliance with the annual goal is readily available.

OPERATIONAL EFFICIENCY AND EFFECTIVENESS

The FDIC relies upon its human, financial, and information resources to accomplish its mission, and it continually seeks to manage these resources more efficiently and effectively. This is essential to the successful accomplishment of the Corporation's mission and is integral to its stewardship responsibilities for the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund (FRF). Major 2003 initiatives in each of these resource areas are discussed below.

Human Capital Management

The FDIC's employees are its most important and valuable resource, and the Corporation has always invested considerable resources in recruiting, developing, and maintaining a dedicated, high-performing and diverse workforce. To develop an integrated, comprehensive approach to human capital issues, the FDIC established a Human Resources Committee, composed of eight key executives from throughout the FDIC. That committee develops policy recommendations and monitors their implementation when adopted. This committee will continue in 2003 to serve as a corporate clearinghouse for human capital issues supporting our three business lines.

Streamlining and Restructuring the Organization. The FDIC has been in a continual downsizing mode for ten years, as the workload from the banking and thrift crises from the late 1980's and early 1990's has gradually been completed. Total FDIC employment (including the Resolution Trust Corporation) has fallen by over 75 percent, from approximately 23,000 in 1992 to fewer than 5,500 at year-end 2002. Though the FDIC projects streamlining to 5,330 employees by 2006, based on current corporate workload and staffing analysis. Remaining efforts are aimed at realigning its workforce with the Corporation's mission, reducing overhead and support costs, and shifting resources to its major lines of business. By mid 2003, the FDIC hopes to eliminate existing staff surpluses and correct many of its skills imbalances.

Attracting and Retaining an Outstanding Workforce. In 2002, the FDIC negotiated a new 2003 to 2005 Compensation and Benefits Agreement with its employee union and restructured its executive compensation program. These changes will help the FDIC attract and retain well-qualified employees in the future by offering highly competitive salaries and benefits packages with performance-based financial incentives that link pay to the accomplishment of a challenging list of performance objectives. In addition, the Corporation has taken steps to ensure that both current and future employees will continue to view employee working conditions at the FDIC as attractive. Beginning in 2003, the existing telework program will be expanded to permit many employees to work either at home or at an alternative work site for at least a portion of their scheduled tours of duty each week.

Refocusing Corporate Training. In early 2003, the FDIC will implement a Corporate University that refocuses all FDIC training and career development activities. The Corporate University will formalize knowledge management, address the Corporation's training needs, and foster a continuous learning culture. The Corporate University will be governed by a Chief Learning Officer (CLO) and Deans who are executives from FDIC's operating divisions. The Corporate University will provide an integrated framework for assessing future skill needs and will help prepare for expected retirement losses through leadership development programs.

The new Corporate University will be modeled on the best practices of high-performing organizations in both the public and private sectors. It will provide core training in each of the FDIC's three major lines of business. It will also provide opportunities for cross training and job rotation that will facilitate the establishment of a flexible permanent workforce capable of responding expeditiously to changing workload needs and priorities. The Corporate University will also help the FDIC attract and retain high performing employees by providing them with a broad range of professional work experiences and equipping them for future advancement opportunities.

Succession Management. A substantial portion of the Corporation's current workforce, including much of its senior leadership and technical expertise, will be eligible to retire over the next five to seven years. In anticipation of that transition, the FDIC has for the past several years been taking steps to ensure that its future workforce will have the necessary skills to successfully meet its mission requirements. A Diversity Strategic Plan was implemented to establish the Corporation as an employer of choice within the increasingly diverse American society. The highly successful 2002 buyout program was also targeted in part to address identified skill issues within the current workforce. In 2003, the Corporation will continue to pursue selective recruiting and other strategies to ensure that it is prepared for the retirement of many senior managerial and technical personnel over the next several years. Many of the planned 2003 initiatives in the human resources area are at least partially directed toward this concern, such as the new Corporate University.

Financial Stewardship

In fulfilling its stewardship responsibilities for the Bank Insurance Fund, the Savings Association Insurance Fund, and the FSLIC Resolution Fund (FRF), the FDIC continually looks for ways to implement more efficient business processes in order to reduce its ongoing operational costs.

Integrated Planning and Resource Management. Resource requirements are identified through a single, fully integrated planning and budgeting process that engages the Corporation's staff and senior managers each year in a comprehensive review of projected workload, planned information technology, proposed annual performance objectives, and other initiatives . The costs associated with each of the Corporation's major business lines are reviewed as a part of this process, with a focus on identifying potential efficiencies that will reduce future operational costs. Performance objectives are clearly identified, and senior management monitors achievement of those objectives through quarterly performance management reports.

Capital Investment Review Committee. The Corporation established a new Capital Investment Review Committee (CIRC) in conjunction with the 2003 planning and budget process. This new committee, co-chaired by the Chief Financial Officer and the Chief Information Officer, established requirements for rigorous analysis and review of all proposed major investments in order to ensure that they are cost effective and they are consistent with other Corporate initiatives. The CIRC will review all proposed investment projects with a total cost of $3 million or more. Beginning in 2003, the budgets for these projects will be separately authorized and tracked by the Board of Directors. The CIRC will monitor the implementation of all approved investment projects on an ongoing basis and will provide quarterly status reports to the Board.

New Financial Environment. The Corporation awarded a contract in late 2002 to purchase and install new enterprise resource planning software to replace many of the Corporation's existing financial and other systems. This New Financial Environment (NFE) will be implemented in mid-2004. It will substantially reduce current costs while providing greater functionality, including improved financial reporting and analysis and cost-management capabilities. In order to maximize the efficiencies from the NFE, the Corporation will revise its existing business processes wherever possible to conform to the "best practices" built into the new software. When implemented, the NFE will (1) simplify and consolidate the financial application and data environment; (2) automate most current manual work processes; (3) maximize electronic business opportunities; (4) provide more timely and robust decision support; and (5) ensure continuity of financial operations. During 2003, systems design and configuration testing will be completed, and new procedures will be developed to reflect planned changes to existing business processes.

Improved Cost Management. In 2002, the Corporation implemented a new service billing methodology to charge receiverships for the services provided by the FDIC. Benchmark data were also collected to permit the Corporation to evaluate the rates charged for these services. During 2003, receivership management personnel will examine those areas in which FDIC costs significantly exceed those benchmarks and, where necessary, implement appropriate cost reduction measures to address those cost differentials. In 2003, the Corporation will also undertake a comprehensive review of its entire cost management program in conjunction with the design phase of the NFE project.

Reduced Facilities Costs. The Corporation laid the groundwork in 2002 to substantially reduce future facilities costs through two major initiatives:

- The Board of Directors approved in March 2002 an expansion of the Corporation's SeCDRan Center facility at Virginia Square. The expanded facility will be completed by 2006 and will house approximately 1,100 employees currently housed in leased facilities near the FDIC headquarters building in Washington, DC. This project will provide estimated net savings of approximately $78 million (net present value) over 20 years when compared to the projected costs associated with the current leasing arrangements. Construction will begin in 2003.

- The FDIC negotiated a new space agreement with its employee union in late 2002 that will reduce future leased space requirements in more than 80 field office sites. This agreement will apply to leases that are negotiated in 2003 and future years, and is expected to result in considerable cost savings to the Corporation.

Competitive Sourcing. Although the FDIC is not subject to the Federal Activities Inventory Reform (FAIR) Act, the Corporation is committed to evaluate on an ongoing basis opportunities to competitively outsource activities that are currently performed in-house in order to reduce costs. In 2002, selected information technology activities were competitively outsourced. Opportunities for further outsourcing will be examined in 2003. As part of its human capital management, the FDIC will continue to determine core competencies and competitively source other needs where economically advantageous.

Internal Controls and Risk Management. As an integral part of its stewardship of the insurance funds, the FDIC has implemented a comprehensive internal control and risk-management program. Risks and weaknesses, or "audit conditions," are identified by the FDIC's Office of Inspector General (OIG), the U.S. General Accounting Office and the Office of Internal Control Management. The Corporation works cooperatively with these organizations to implement appropriate corrective actions. The FDIC also conducts regular internal control reviews and testing to mitigate identified risks and to verify that corrective actions have been effective.

Information Resources Management

Effective management of the Corporation's information resources depends heavily on a strong information technology program. The Corporation expects to appoint a new Chief Information Officer (CIO) in 2003 who will undertake a comprehensive review of its information technology program in order to identify opportunities for improvement. In addition, a number of ongoing initiatives in this area will continue.

Information security program improvements. For the past three years, the FDIC's annual financial statements audits have identified a single reportable condition related to information security. The FDIC has made considerable progress during this period in establishing a strong, effective information security program. However, FDIC management recognizes that improved information security requires an ongoing commitment by the organization. The information security program provides a continuous cycle for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of those procedures. In 2003, the Corporation will focus upon the deficiencies identified in the OIG's 2002 Government Information Security Reform Act (GISRA) audit as well as results of annual GAO audits.

Enterprise Architecture. The FDIC developed an Enterprise Architecture (EA) blueprint in 2002 that describes how the FDIC's current IT environment will evolve to meet the Corporation's mission. This target EA will be used to guide IT investments toward the elimination of incompatible stovepipe systems that result in unnecessary duplication and higher costs. During 2003, the FDIC will develop and obtain corporate approval of a strategy and timetable for migrating to the target EA and will issue written policies for that transition. The CIRC will also review all major new information technology investment proposals to ensure that they are consistent with the target EA.

Expanded Electronic Government. The establishment of an integrated and streamlined e-government infrastructure is a key component of the Corporation's target EA. Over the past two years, the FDIC has largely completed the development of FDIConnect, a secure, Web-based e-government portal for the exchange of information with FDIC-insured institutions. In 2003, the Corporation will complete the national rollout of that capability and will begin development of specific business applications that will utilize that platform.

Major Systems Development Initiatives. A number of major new systems are under development that will substantially improve the management of the Corporation's information resources. Among the most significant are the planned multi-year CDR and the NFE. The CDR project is being undertaken in cooperation with the Federal Reserve Board and the Office of the Comptroller of the Currency and will substantially improve the collection and use of banking information. The NFE, as noted above, will substantially enhance the Corporation's financial analysis and reporting.

APPENDIX

Program Resource Requirements

Planning Process

Program Evaluation

Crosscutting Efforts

External Factors

Performance Results

Program Resource Requirements

The FDIC budget is developed in a manner that recognizes its three programs of Insurance, Supervision, and Receivership Management. The following chart presents the budgetary resources the FDIC plans to expend in its programs during 2003 to pursue the strategic goals and objectives and the annual performance goals set forth in this Plan, and to carry out other program-related activities. The costs are fully loaded to reflect each program's share of common support services provided by the Corporation.

Insurance Program	**$167,458,922**
Supervision Program	**577,892,844**
Receivership Management Program	**229,489,916**
TOTAL Budget for Program Areas	**$974,841,682**

Planning Process The FDIC uses an integrated planning process whereby guidance and direction are provided by senior management and developed with input from program personnel. The FDIC prepares two corporate-level plans, the Strategic Plan and the Annual Performance Plan. The Plans are built around the Corporation's three program areas: Insurance, Supervision, and Receivership Management.

The planning process involves Corporation management and staff at all levels. In addition, the National Treasury Employees Union is provided pre-decisional opportunities to review and comment on workload assumptions, the Plans, and staffing and budget requirements.

The Strategic Plan covers a six-year period. It provides a framework for implementing the Corporation's mission by establishing a course for the organization, and setting forth the strategic goals and objectives, and guiding decisions about the effective use of the FDIC's strategic resources.

The Strategic Plan is implemented by the Annual Performance Plan. The Annual Plan defines, through annual performance goals, what will be accomplished during the year to achieve the strategic goals and objectives. Each annual performance goal has at least one indicator and target level of performance and is accompanied by a discussion of the means and strategies to be employed in pursuit of the annual goal. Each year, the FDIC submits its Annual Program Performance Report to the Congress, reporting on the achievement of the goals set forth in the Annual Performance Plan.

The FDIC has developed two other plans that are strategic in nature and guide the Corporation in the areas of corporate diversity and information technology. In addition, the Office of Inspector General prepares an internal performance plan.

- The Corporation's Diversity Strategic Plan contains multi-year goals, strategies, and initiatives that are results-oriented. During the past few years, the FDIC successfully achieved these diversity goals. In 2003, the Corporation will continue to implement many of the initiatives, such as those in hiring and cross-training areas that are an integral part of the FDIC's diversity program.

- The Information Technology Strategic Plan contains specific goals and objectives focused on providing effective technology support for the Corporation. In 2003, the plan will be more closely aligned with the Enterprise Architecture (EA) to support the achievement of the 2003 corporate performance goals and, in the longer term, enable transition to the desired target environment that is being developed as part of the EA initiative.

- The Office of Inspector General (OIG) independently prepares and publishes its own performance plan. For 2003, the OIG's Plan is prepared on a fiscal-year basis and contains specific performance goals to address OIG strategic initiatives to conduct audits, evaluations, and investigations that add value to corporate programs and activities; communicate effectively with the Chairman, the Congress, and other stakeholders; and align its human resources to support the OIG mission and effectively manage its resources.

Program Evaluation

Program evaluations "are important because they potentially can be critical sources of information for ensuring that goals are reasonable, strategies for achieving goals are effective, and that corrective actions are taken in program implementation."[4] Evaluations also are a mechanism to determine whether a program has clearly defined goals and well-developed measures of program outcomes. Results of program evaluations are included in the Annual Program Performance Report and will be used to revise the FDIC's Annual Performance Plan and division- or office-level annual performance plans. They also will be used as input to future strategic plans submitted to Congress.

The FDIC's Division of Insurance and Research (DIR) has primary responsibility for coordinating and reporting on the evaluations of the Corporation's strategic programs, excluding the Insurance program which is reviewed by the Office of Internal Control Management (OICM). DIR has access to corporate program resources as well as Office of Inspector General and U.S. General Accounting Office reports. Program evaluations are interdivisional, collaborative efforts and involve management and staff from the division(s) and office(s) responsible for a program as well as personnel from the FDIC's Division of Finance and the OICM. Such participation is critical not only to fully understand the program being evaluated, but also to give the division(s) and office(s) a stake in the process.

During 2002, the FDIC completed an evaluation of its Supervision: Safety and Soundness program. A program evaluation for the Supervision: Consumer Protection program is expected to be completed during the first quarter of 2003.

[4] General Accounting Office, *Managing for Results: Critical Issues for Improving Federal Agencies Strategic Plans,* September 1997, GAO/GGD-97-180, page 5.

Crosscutting Efforts

The FDIC works closely with the other federal banking agencies, including: 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) to address issues and programs that transcend the jurisdiction of each agency.

The FDIC and the other federal banking agencies also work closely with the National Credit Union Administration (NCUA), which supervises and insures credit unions, and with the Conference of State Bank Supervisors (CSBS), which represents the state regulatory agencies. In addition, the directors of the OCC and the OTS are members of the FDIC Board of Directors, which facilitates crosscutting policy development and regulatory practices among the FDIC, the OCC, and the OTS.

Federal Financial Institutions Examination Council

The Federal Financial Institutions Examination Council (FFIEC), comprised of members of each of the five federal agencies listed above, is empowered to prescribe uniform principles, standards, and examination report formats for the federal examination of insured depository institutions and federally insured credit unions. As a member of the FFIEC, the FDIC participates on task forces including Consumer Compliance, Examiner Education, Information Sharing, Reports, Supervision, Surveillance Systems, Legal Advisory Group, and Appraisal Subcommittee. The FFIEC chair rotates among the four federal banking agencies and the NCUA.

Basel Committee on Banking Supervision

The FDIC participates on the Basel Committee on Banking Supervision, a forum for international cooperation on matters relating to financial institution supervision. The committee promotes harmony by issuing “sound practices” papers and developing supervisory standards to which its members voluntarily adhere.

Interagency Country Exposure Risk Committee

The Interagency Country Exposure Risk Committee members - FDIC, FRB, and OCC - are responsible for providing an objective opinion concerning the degree of transfer risk that is inherent in the cross-border and cross-currency lending by U.S. financial institutions.

International Association of Deposit Insurers

The FDIC participates in the International Association of Deposit Insurers (IADI), an organization of deposit insurance authorities from around the world. The objectives of IADI are to facilitate the exchange of information and to develop guidance for enhancing deposit insurance systems, thereby contributing to financial market stability.

Shared National Credit Program

The FDIC participates with the other federal banking agencies in the Shared National Credit Program, an interagency effort to perform a uniform credit review of financial institution loans that exceed $20 million and are shared by three or more financial institutions.

Joint Agency Task Force on Discrimination in Lending

The FDIC participates on the Joint Agency Task Force on Discrimination in Lending along with the other federal banking agencies, the NCUA, the U.S. Department of Housing and Urban Development, the Office of Federal Housing Enterprise Oversight (OFHEO), the U.S. Department of Justice (DOJ), the Federal Housing Finance Board, and the Federal Trade Commission (FTC).

Antiterrorism, Fraud and Money Laundering

The FDIC works with the Department of Homeland Security (DHS) and the Office of Cyberspace Security (OCS) through the Finance and Banking Information Infrastructure Committee (FBIIC) on efforts to improve the reliability and security of the financial industry's infrastructure. Other members of FBIIC include Commodity Futures Trading Commission, FRB, NCUA, OCC, OTS, the SEC, Treasury, the National Association of Insurance Commissioners.

The FBIIC is undertaking several initiatives aimed at protecting the critical infrastructure of the banking and finance sectors, all of which have FDIC participation.

The FDIC also participates on the Emergency Supervision Communications Group of the FFIEC. This interagency group is a subcommittee of the FFIEC's Supervision Task Force, which is charged with developing FFIEC Supervisory Emergency Communication Protocols that focus on maintaining our supervisory responsibilities in times of emergency.

The FDIC participates in several groups involved with combating fraud and money laundering and the implementation of the USA PATRIOT Act. These groups include:

- The National Bank Fraud Working Group sponsored by the DOJ;
- The National Money Laundering Strategy Steering Committee, headed by the DOJ and Treasury;
- The National Bank Secrecy Act Advisory Group, a public/private partnership of agencies and organizations that meet to discuss strategies and industry efforts to curb money laundering; and
- Working groups sponsored by Treasury to develop regulations to implement sections of the USA PATRIOT Act that are applicable to insured financial institutions.

GPRA Financial Institutions Regulatory Working Group

The interagency Financial Institutions Regulatory Working Group, comprised of the four federal banking agencies and the NCUA, was formed in October 1997. The OFHEO and Treasury also participate.

FTC, National Association of Insurance Commissioners, and the Securities and Exchange Commission

The passage of the Gramm-Leach-Bliley Act in 1999 allows insured institutions to expand the products they offer to include insurance and securities. As a result, the FDIC coordinates its activities related to these new products, including privacy issues, with the FTC, NAIC, and the SEC.

Below are the annual performance goals for 2003 that will require coordinated efforts with one or more of the federal banking agencies. The goals are listed by FDIC program.

Insurance

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

Identify and address risks to the insurance funds.

Maintain sufficient and reliable information on insured depository institutions.

Maintain and improve the deposit insurance system.

Supervision, Safety and Soundness

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.

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 institutions' compliance with formal and informal enforcement actions is monitored.

Supervision, Consumer Protection

Effective outreach and technical assistance are provided on topics related to the CRA, fair lending, and community development.

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

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

Prompt supervisory actions are taken and monitored on all institutions rated a 4 or 5 for compliance to address problems identified during compliance examinations.

External Factors The following external factors are beyond the FDIC's control and could significantly affect the achievement of the annual performance goals for 2003.

Economy The economy's performance at the national and regional levels affects the way the banking industry carries out its business strategies and may affect its overall performance. The U.S. business cycle tends to drive the performance of several sectors of the economy, including agriculture, energy, commercial real estate, manufacturing and services—all of which represent significant sources of loan growth and credit exposure for the banking industry. Overall business conditions and macroeconomic policies are key determinants of the inflation rate, domestic interest rates, the exchange value of the dollar and equity market valuations, which in turn influence the lending, funding, and off-balance sheet activities of insured depository institutions.

During the 1991-2001 economic expansion, the industry developed several signs of heightened risk exposure that made some institutions particularly vulnerable to reduced earnings during a recession. Many institutions exhibited significant concentrations of credit risk in certain loan products, including credit card loans, subprime consumer and mortgage loans, high loan-to-value mortgage loans, commercial real estate and construction loans and commercial loans to highly leveraged companies. Some institutions also increased their reliance on volatile, non-deposit sources of funds. Competitive pressures, particularly in some formerly fast-growing metropolitan areas, may also have induced institutions to incur higher risks involving a combination of these factors. Fortunately, the effects of the 2001-2002 recession on the industry were relatively mild. Loan losses did rise, but a steep yield curve helped the industry to produce record profits.

Currently, the economy is expanding at a very modest rate. The economy will most likely continue growing slowly over the next year, with moderate loan losses, a somewhat higher number of problem banks and solid profits for the industry as a whole.

There is, however, a reasonable chance that the economy could contract again in the near future. A second recession would result in even slower loan growth, higher credit losses and diminished profits for the industry.

Even if the economy does not necessarily contract, the industry may experience a decline in credit quality. The recent recession has already taken its toll on businesses with too much leverage and questionable balance sheets. However, if economic growth continues to be anemic for an extended period of time, businesses that are in relatively better financial shape could begin to weaken. Many corporations are currently experiencing cyclical losses as a result of the downturn, and over time repeated losses will erode corporations' equity. Diminished equity could lead to lower credit ratings, lower liquidity and higher borrowing costs, and ultimately increase the risks of bankruptcy and default.

Alternatively, growth could accelerate. This represents the least likely scenario, however, as a faster recovery would have to overcome several outstanding problems facing the U.S. economy, such as excess capacity and investor diffidence. A faster recovery, although good for the US in general, could pose certain risks to the banking industry. Rising short-term rates may cause the yield curve to flatten, lowering net interest margins. Even though loan losses may decline with improving economic conditions, profits for the industry as a whole could fall from recent levels.

Entry into and expansion of the banking industry are closely related to the economy. When economic conditions are positive, there typically is an increase in applications for deposit insurance for de novo entry. As of the end of 2001, approximately 13.7 percent of insured institutions were newly chartered since the end of the 1990-91recession. Several of these institutions are currently showing significant exposures to high-risk loans and may be particularly vulnerable to adverse economic trends. In the last two years, problem bank levels have risen modestly but remain low compared to the early 1990s.

Since institution failures tend to lag behind the national economic cycle, any economic recovery will not immediately reduce the risk or rate of insolvencies. Although the FDIC has been able to focus more on disposing of its existing inventory of assets and eliminating impediments to the closeout of receiverships, future resolution costs are still largely subject to general economic conditions.

A rise in institution failures would require experienced staff to handle closings on a priority basis. Also, changes in the risk profiles of institutions may result in an acceleration of institutions' statutory examination frequency. In either event, staff may need to be diverted from other FDIC activities to address these problems. This, in turn, would affect the pace at which the FDIC markets assets and terminates receiverships.

Structure of the Financial Services Industry

Changes in the financial services industry have presented new challenges for financial institutions and their regulators. These changes have been driven by financial modernization, privacy concerns, industry consolidation, applications for new institutions, trends in borrowing and lending, globalization, and emerging technology.

The passage of the Gramm-Leach-Bliley Act in 1999 removed barriers, thereby allowing providers of financial services to expand product offerings to include insurance and securities. Such expansion poses new management challenges to financial institutions and supervisory challenges to the federal banking agencies.

Mergers and consolidations, as well as applications for new financial institutions, increased rapidly over the past five years. Larger, more complex institutions present greater risk-management issues. New institutions are more vulnerable to economic volatility during the first several years of existence.

The federal banking agencies also face increased challenges to coordinate the regulation of an industry that is becoming even more globalized. Such efforts as those undertaken to adopt new international capital standards by the Basel Committee on Banking Supervision will take on increasing significance and further emphasize the need for coordination and communication among members of the international financial services regulatory community. Emerging technology provides new ways for insured depository institutions to deliver and manage traditional products and services. As financial institutions leverage new technology, risk management and oversight issues will become more complex for both institutions and regulators.

The expansion of financial institution activities, as a result of financial modernization and technological developments, has highlighted the need to protect the privacy of customer information. The ease and speed with which information about individuals can be compiled and shared will continue to create a need to find a balance between information-sharing for normal business purposes and the desire to protect individual privacy. Financial institutions will be required to weigh and delicately balance these somewhat competing objectives.

Performance Results The following information discusses performance results of "like" annual performance goals that the FDIC has implemented over the past several years. Targeted performance for the 2002 annual performance goals is not presented, as year-end performance information for 2002 was not available at the time the 2003 Annual Performance Plan was published. The performance results achieved by implementing the 1998 -2001 annual goals are noted below.

Depositor Payouts in Instances of Failure

2003 and 2002 Goal - The FDIC is prepared to deal with all financial institutions closings and emerging issues.

2001 Performance – Depositors had uninterrupted and continuous access to their funds for the four financial institution failures in 2001.

2000 Performance - Depositors had access to their funds within three calendar days of the failure in 7 of 7 insured depository institution failures that occurred in 2000.

1999 Performance - Depositors had access to their funds within 3 calendar days of the failure in 7 of 8 insured depository institutions that failed in 1999. The exception was The First National Bank of Keystone, Keystone, W.V.

1998 Performance - Three insured depository institutions failed in 1998. Depositors of each failed insured institution had access to their funds within 3 calendar days of failure.

Risk Classifications

2002 and 2003Goal - Maintain and improve the deposit insurance system.

2001 Performance - The reserve ratio was maintained at or above the statutorily mandated ratio of 1.25 percent. In 2001, FDIC published the finalized recommendations for deposit reform and planned to continue working with Congress to achieve deposit insurance reform. Modifications to the Risk-Related Premium system were successfully implemented.

2000 Performance - The reserve ratio was maintained at or above the statutorily mandated ratio of 1.25 percent. 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).

1999 Performance - The Financial Risk Committee was established to include a broader consideration of changes in fund exposure. "Objective screens" for use in the review process for premium assignments were developed and tested. Procedures to re-classify screened banks with inadequate risk management practices were developed.

1998 Performance - Insurance premium rate cases were produced and presented 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.

Risk Identification and Reporting

2003 and 2002 Goal - Identify and address risks to the insurance funds.

2001 Performance – The FDIC made significant progress in improving the accuracy and efficiency of off-site risk identification models. In addition, risk assessments of all 88 large insured depository institutions were completed in compliance with program requirements. The FDIC, in communicating and addressing emerging risks in banking and economic trends, issued 111 Financial Institution Letters, semiannual reports on *Economic Conditions and Emerging Risks in Banking*, four *Regional Outlook* publications, 28 Update publications, 33 Briefing Notes, 11 Regional Commentary publications, semiannual issues of the *FDIC Reporting Underwriting Practices*, and FYI – an electronic bulletin summarizing FDIC analysis of emerging issues in banking and the economy. The FDIC also conducted over 140 risk-targeted outreach efforts and held 16 outreach meetings with bankers.

2000 Performance - Economic trends and emerging risks were identified, monitored, and addressed through the publication of surveys, guidance, and reports and outreach including the following: Survey on Real Estate Trends, Report on Underwriting Practices, and Semi-Annual Report on Economic Conditions and Emerging Risks in Banking. Six hundred and fourteen risk-targeted outreach efforts were conducted on key issues including emerging technology risks, credit risks, agricultural lending, and subprime lending.

1999 Performance - Risk identification processes highlighted the following risks areas and concerns: subprime lending, high loan-to-value lending, acquisition, development, and construction lending practices, loan underwriting standards, agricultural risks, electronic banking, and privacy.

1998 Performance - 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: Deposit insurance issue papers, Regional Outlook articles, Regional Commentaries on the Web, Published Condition of the Funds and Assessment Analysis Report, The Regional Economic Conditions: Report for Examiners, and Bank Trends.

Safety and Soundness Examinations

2003 and 2002 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.

2001 Performance – The FDIC initiated 2,575 safety and soundness examinations, or 97 percent of the required safety and soundness examinations.

2000 Performance - The FDIC initiated 2,568 safety and soundness examinations, or 97 percent of required safety and soundness examinations.

1999 Performance - The FDIC initiated 2,555 safety and soundness examinations, or 95 percent of required safety and soundness examinations.

1998 Performance - The FDIC initiated 2,399 safety and soundness examinations, or 86 percent of required safety and soundness examinations.

Safety and Soundness Enforcement Actions

2003 and 2002 Goal – Take prompt supervisory actions to address problems identified during the FDIC examination of institutions identified as problem insured depository institutions. Monitor FDIC-supervised insured depository institutions' compliance with formal and informal enforcement actions.

2001 Performance – The number of problem institutions increased during the year from 51 to 67. All statutory requirements for examinations were met. On average, FDIC examination reports were processed and mailed to the institutions within 44 days of receipt in the Regional Office (target of 45 days).

2000 Performance - On average, the FDIC examination reports were processed and mailed to the institution within 44 days of receipt in the Regional Office (target of 45 days).

1999 Performance - The number of problem institutions increased during the year from 41 at 12/31/98 to 43 as of 12/31/99. Thirty-one institutions were removed from problem status in 1999 and 33 problem institutions were added.

.*1998 Performance* - This was not an annual performance goal in 1998.

Compliance Examinations

2003 and 2002 Goal - Conduct comprehensive and compliance-only examinations in accordance with FDIC examination frequency policy.

2001 Performance – The FDIC started 2,180 examinations. At year-end there were 21 delinquent examinations due to certain circumstances about the institutions that indicated an exception to the policy should be made.

2000 Performance - The FDIC started 2,257 examinations or 102 percent of annual target. At the end of the year, there were 3 delinquent examinations.

1999 Performance - The FDIC started 2,368 examinations or 102 percent of annual target. At the end of the year, there were zero delinquent examinations.[5]

1998 Performance - The FDIC started 1,989 examinations or 124 percent of annual target[6]. At the end of the year, there were 488 delinquent examinations.

Compliance Enforcement Actions

2003 and 2002 Goal – Take prompt supervisory actions and monitor all institutions rated a 4 or 5 for compliance to address problems identified during compliance examinations.

2001 Performance – As of year-end, seven institutions were designated as compliance problems and rated "4." FDIC conducted or scheduled all follow-up examinations within the targeted timeframe of 12 months for six of the institutions. One institution was scheduled to close during the first quarter of 2002; therefore the FDIC decided not to conduct the scheduled follow-up compliance examination.

2000 Performance - On average, FDIC examination reports were processed and mailed to the institution within 29 days of receipt in the Regional Office (target of 45 days). For institutions, on average rated "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.

1999 Performance - As of year-end, 9 institutions were designated as compliance problems and rated "4." Enforcement actions were in place against all 9 institutions.

1998 Performance - As of year-end, 10 institutions were designated as compliance problems and rated "4."

[5] Beginning in 1999, the number of delinquencies at year-end were adjusted downward to exclude those considered as "managed delinquencies."
[6] Beginning in 1998, the FDIC adopted a risk-based approach to conducting examinations, thereby reducing the amount of time needed to complete examinations.

CRA Outreach

2003 and 2002 Goal – Provide effective outreach and technical assistance on topics related to the CRA (CRA), fair lending, and community development.

2001 Performance - The FDIC conducted 25 Smart Money workshops covering 21 cities and 8 regions. Over 600 participants attended the orientation sessions. The evaluation results affirmed that the curriculum is being well received and that the materials are easily understood and useful.

2000 Performance - One pilot forum on financial literacy and predatory lending was held in each region. The forums, assessed via formal and informal surveys, indicated that forum participants' knowledge of predatory lending practices increased as a result of forum attendance.

1999 and 1998 Performance - This was not an annual performance goal in 1999 or 1998.

Least-Cost Resolution

2003 and 2002 Goal - Market failing institutions to all known qualified and interested potential bidders.

2001 Performance – The FDIC maintains an inventory of qualified and interested potential bidders consisting of both financial institutions and private investors. Four financial institutions failed in 2001 and for each failure 100% of qualified potential bidders were contacted.

2000 Performance - Seven banks failed in 2000 and 2,601 qualified and interested bidders were identified and contacted.

1999 and 1998 Performance - This was not an annual performance goal in 1999 or 1998.

Asset Management

2003 and 2002 Goal – The FDIC values, manages, and markets assets of failed institutions and their subsidiaries in a timely manner to maximize net return.

2001 Performance – 100 percent of three institutions' assets were marketed within 90 days. For the one remaining institution at least 80 percent of all marketable assets were marketed within 90 days. The 80 percent target was met or exceeded in all instances.

2000 Performance – 95 percent of failed institutions' assets were marketed within 90 days, exceeding the target of 80 percent.

1999 and 1998 Performance - This was not an annual performance goal in 1999 or 1998.

Receiverships Terminated

2003 and 2002 Goal - The FDIC, as receiver, manages the receivership estate and its subsidiaries toward an orderly termination.

2001 Performance - The FDIC inactivated 52 receiverships and transferred one to the state of New York. The original 2001 target of 76 inactivations was determined to be extremely aggressive. This resulted in revised expectations of inactivating only 36 receiverships in 2001 and reducing the number of receiverships impacted by goodwill claims by 17 receiverships.

2000 Performance - The FDIC terminated 156 receiverships, thus achieving the goal of 156.

1999 and 1998 Performance - This was not an annual performance goal in 1999 or 1998.

Professional Liability Claims

2003 and 2002 Goal - Investigations are conducted into all potential professional liability claim areas in all failed insured depository institutions, and a decision to close or pursue each claim will be made as promptly as possible, considering the size and complexity of the institution.

2001 Performance - 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.

2000 Performance - 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.

1999 Performance - 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.[7]

1998 Performance - This was not an annual performance goal in 1998.

[7] 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*."