

**FEDERAL DEPOSIT
INSURANCE CORPORATION**

**2008 Annual
Performance Plan**

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CHAIRMAN'S MESSAGE

I am pleased to present the Federal Deposit Insurance Corporation's (FDIC's) 2008 Annual Performance Plan. As the FDIC celebrates its 75th Anniversary, the current turmoil in the financial services sector reminds us again that our mission is ongoing and that we play a crucial role in protecting depositors and maintaining public confidence in the nation's financial system.

In carrying out this role, the Corporation will place its primary emphasis in 2008 on its core mission responsibilities. We will maintain a strong examination program to ensure that insured financial institutions are appropriately managing risk, operating in a safe and sound manner, and fulfilling their statutory and other responsibilities to depositors and other consumers, and we will promptly address problems when they are detected. We will identify and analyze both current risks and potential new risk areas within the banking industry and the broader economy and will respond quickly to issues as they arise. And, we will enhance our contingency planning to ensure that we are ready to effectively address all failures of insured institutions that may occur during the year, regardless of their number and size.

In addition to these core mission responsibilities, we will pursue a number of other priority initiatives in 2008 to enhance our longer-term organizational capabilities:

- We will finalize improvements to the claims process for large/complex bank failures (including development of a new automated system to support this process) and ensure that this process is clearly communicated to insured financial institutions and the public.
- We will closely monitor the initial results of parallel runs under the Basel II Advanced Approach by large and multinational insured institutions as we begin the phased, three-year transition to the new Basel II capital framework, and we will continue our other efforts to promote sound, stable banking systems abroad.
- In partnership with numerous community-based organizations, we will continue to expand the FDIC's leadership on consumer protection issues, including active support for foreclosure prevention programs, expanded participation and inclusion within the nation's banking system, and improved financial literacy.

We will review the effectiveness of the new deposit insurance pricing regulations adopted in 2006 and will make changes, if necessary, and we will adopt a permanent dividend system as required by statute.

- We will put in place human resources programs to ensure that the FDIC continues to be regarded as an outstanding employer and that, as we transition to a new generation of employees over the next several years, the FDIC has the advanced technical and analytical skills it needs within its workforce to effectively carry out the Corporation's mission in an increasingly complex and global financial services industry.

I invite you to read further to learn more about the FDIC's specific annual performance goals and targets for its three major business lines in 2008.

Sheila C. Bair
Chairman

MISSION, VISION and VALUES

MISSION

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

VISION

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

VALUES

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

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

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

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

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

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

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

**PROGRAM DESCRIPTIONS AND
ANNUAL PERFORMANCE GOALS**

INSURANCE

SUPERVISION

RECEIVERSHIP MANAGEMENT

INSURANCE PROGRAM

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

Congress enacted deposit insurance reform legislation in early 2006 that gives the FDIC greater discretion to manage the DIF and allows the FDIC to better price deposit insurance for risk. The new deposit insurance assessment system granted credits to institutions that helped capitalize the funds in the early and mid-1990s, allows the FDIC to assess all institutions regardless of the level of the reserve ratio, and mandates dividends from the fund when it reaches certain levels. In September 2007, the FDIC issued an Advance Notice of Proposed Rulemaking (ANPR), as promised in the temporary dividends rule adopted in 2006, seeking comments on alternative methods for allocating dividends as part of a permanent final rule to implement the dividend requirements of the Federal Deposit Insurance Reform Act. A final rule governing dividends will be issued in 2008.

In 2008, the FDIC will continue to devote significant attention and resources to the identification and analysis of new and emerging risks. As insurer, the FDIC continually evaluates how changes in the economy, financial markets, banking system and individual financial institutions affect the DIF's adequacy and viability. The FDIC communicates its findings to the industry and the other federal banking agencies¹ and state authorities through formal and informal channels, including the publication of written analysis of banking industry developments. In recent years, the FDIC has placed increased emphasis on the dissemination of high quality research and analysis through its Center for Financial Research (CFR) and other initiatives. The FDIC's Risk Analysis Center (RAC) plays a key role in assembling information and ensuring enterprise-wide focus on emerging risks to the fund.

Communication and coordination with the other bank regulatory agencies are top priorities. As the insurer, the FDIC by statute has special examination authority for all insured depository institutions. If significant emerging risks or other serious concerns are identified for an insured

¹ In addition to the FDIC, other federal banking agencies are 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).

depository institution not primarily supervised by the FDIC, the FDIC and the institution's primary federal supervisor² work together to address them.

The FDIC exercises its insurance responsibilities by approving or denying applications for federal deposit insurance from any prospective depository institution. Before granting access to the federal deposit insurance system, the FDIC evaluates the potential risks that an applicant's business plan poses to the DIF. The FDIC assesses the adequacy of the applicant's capital, its future earnings potential and the general character of its management. The FDIC also considers the convenience and needs of the community to be served and gathers input from other regulatory authorities. The FDIC seeks to increase public awareness and understanding of deposit insurance rules and coverage. The FDIC reviews whether insured depository institutions make accurate disclosures about uninsured products, provides information to depositors and financial institution staff about the application of deposit insurance rules, and provides tools to assist financial institution employees in interpreting the rules for deposit insurance coverage. The FDIC also responds to deposit insurance questions received from the public and the banking industry.

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

² An institution's charter and its Federal Reserve System membership status determine which federal banking agency is the institution's primary federal supervisor.

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

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

STRATEGIC GOAL 1:

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

STRATEGIC OBJECTIVE 1.1

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

Annual Performance Goal 1.1-1

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

Indicators and Targets

1. Number of business days after an institution failure that depositors have access to insured funds either through transfer of deposits to the successor insured depository institution or depositor payout
 - *Depositors have access to insured funds within one business day if the failure occurs on a Friday.*
 - *Depositors have access to insured funds within two business days if the failure occurs on any other day of the week.*
2. Insured depositor losses resulting from a financial institution failure
 - *There are no depositor losses on insured deposits.*
 - *No appropriated funds are required to pay insured depositors.*
3. Enhancement of FDIC capabilities to make a deposit insurance determination for a large bank failure
 - *Complete rulemaking on Large Bank Deposit Insurance Determination Modernization.*

Means and Strategies

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

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

As banking industry practices and technology evolve, the FDIC continues to review and enhance existing plans, processes and systems in response to potential risks that might impact the resolutions process. Comments from the December 2006 ANPR on Large Bank Deposit Insurance Determination Modernization were received and analyzed in early 2007. Based on that analysis, a proposed NPR was developed that specified how deposit account balances would be determined in the event of failure and requiring that certain large, complex insured depository institutions have the capability to post provisional holds on certain accounts and provide a standard data set, if necessary. The NPR was approved by the FDIC's Board of Directors in December 2007, and the Corporation is currently accepting public comments on it.

Human Resources (staffing and training): Based on workload fluctuations, staffing requirements will continually be assessed to meet the FDIC's needs in carrying out its receivership management responsibilities. The FDIC has established policies and procedures to allow for the temporary assignment of resources to meet workload demands and mission responsibilities. The Corporate Employee Program (CEP), which began in 2005, will provide the FDIC with a flexible workforce that is capable of responding quickly to unexpected events or changing workload priorities. This program ensures a continual level of readiness within the workforce by promoting cross-divisional mobility through continuous training and rotational work assignments. The FDIC has also developed strategies to fully leverage other staff resources throughout the Corporation as needed to resolve failed financial institutions. These strategies will be tested through simulations and then employed in future resolutions.

Information Technology: Technology is critical to improving the efficiency of deposit insurance determinations and payments. The FDIC is in the midst of a multi-year effort to redesign and automate its deposit insurance claims and payment processes. This project, approved in late 2006, will provide an integrated solution that meets the Corporation's current and future deposit insurance determination needs and will be based on adaptable technology that is compatible with industry standards. In 2008, the Corporation will continue to develop the new Claims Administration System for planned implementation by the end of 2009.

Verification and Validation

The number of business days that it takes for depositors to have access to their insured funds after an institution failure can be verified as follows:

- *In the case of a transfer of insured deposits to a successor institution, by comparing the date of failure with the date that the successor insured depository institution opens for business and makes insured funds available to the failed institution's depositors.*

- *In the case of a depositor payout, by comparing the date of failure with the date that deposit insurance checks are mailed to depositors or made available for pickup at the premises of the failed institution.*

2007 Performance Results

This annual performance goal and performance indicator #1 and its associated performance targets are unchanged from 2007. There were three financial institution failures during 2007, and the FDIC successfully met (and in one case exceeded) the performance targets for this indicator for each failure. Performance indicator #2 and its associated performance targets are new for 2008 and have been added to measure the FDIC's success in achieving the ultimate desired outcome for the deposit insurance program. Performance indicator #3 is unchanged from 2007, but the associated performance target has been updated to reflect the successful completion of the 2007 performance target.

STRATEGIC OBJECTIVE 1.2

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

Annual Performance Goal 1.2-1

Identify and address risks to the Deposit Insurance Fund.

Indicators and Targets

1. Insurance risks posed by insured depository institutions
 - *Assess the insurance risks in all insured depository institutions and adopt appropriate strategies.*
2. Concerns referred for examination or other action
 - *Identify and follow up on all material issues raised through offsite review and analysis.*
3. Emerging risks to the DIF
 - *Identify and analyze existing and emerging areas of risk, including nontraditional and subprime mortgage lending, declines in housing market values, mortgage-related derivatives/collateralized debt obligations (CDOs), hedge fund ownership of insured institutions, commercial real estate lending, international risk, and other financial innovations.*
 - *Address potential risks from cross-border banking instability through coordinated review of critical issues and, where appropriate, negotiate agreements with key authorities.*

Means and Strategies

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

FDIC staff members perform in-depth analyses to identify emerging risks to financial institutions that may pose a risk to the DIF. Staff uses examination information and offsite monitoring tools to analyze potentially high-risk areas, including mortgage lending, complex or illiquid securities, hedge fund ownership of insured financial institutions, derivative activities and commercial real

estate lending activities. Significant issues are discussed at the RAC Management Committee and National Risk Committee meetings where any follow-up is determined.

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

In 2008, the FDIC will continue to follow up on issues identified in the NRC's Collateralized Debt Obligation Project, completed in 2007, including enhanced Call Report coverage of CDOs and problems in the over-the-counter derivatives markets. The Corporation will also continue to participate in an interagency OTC derivatives group, chaired by the New York Federal Reserve Bank, which is studying linkages between the cash and synthetic credit risk markets. In addition, the FDIC will continue in 2008 to pay particular attention to the exposure of insured institutions to risks posed by structured finance and problems in the housing market. It will also assess the extent to which proposed hedge fund ownership of insured institutions raises questions about capital stability or management expertise and is consistent with sound banking practice.

Today, the assets within the U.S. banking system are increasingly concentrated in large insured institutions. The FDIC has assigned dedicated examiners to the six largest financial organizations. They maintain close contact with each institution's primary federal regulator and other FDIC offices to evaluate the institution's condition, identify potential emerging risks, and assign an FDIC risk rating for each of the six organizations. The FDIC has also established the Large Insured Depository Institution (LIDI) Program to assess and report on emerging risk at all institutions with over \$10 billion in assets and other selected institutions. Under this program, regional case managers perform ongoing analysis of emerging risks within each insured institution and assign an appropriate risk rating on a quarterly basis. Case managers also maintain contact with the primary federal regulator for each LIDI institution. The FDIC analyzes data obtained through this program and reports key issues to corporate executives on a regular basis for use in policy and operational discussions.

Information from the Shared National Credit (SNC) program is also integrated into the analysis of emerging risks at large banks. This interagency program provides for annual reviews of certain syndicated loans that total over \$20 million and are shared by three or more regulated entities. Using SNC information, FDIC staff identifies industry sector exposures posing a high degree of risk for large banks and analyzes underwriting trends and industry performance trends. This information is used to develop risk briefings and other risk assessment presentations.

Increasing globalization and interdependence heighten the potential for financial and economic instability to transcend geographic boundaries. In response to that risk, the FDIC has stepped up its efforts to promote sound, stable banking systems abroad through the establishment of policies on evolving transnational risks in the financial services industry and bilateral and multilateral relationships with foreign bank supervisors, deposit insurers, and bank resolution authorities. The Corporation established an Office of International Affairs (OIA) in 2006 to focus the FDIC's international programs and activities toward the goal of helping other countries build strong and effective systems for protecting depositors, supervising financial institutions and resolving failures. OIA plans and conducts training sessions; coordinates technical assistance missions, foreign visits, and bilateral consultations with foreign bank supervisors, deposit insurers, and bank resolution authorities; and participates actively and plays a leadership role in international organizations.

In 2008, the FDIC will continue to monitor the expansion and exposure of insured depository institutions overseas, particularly with respect to emerging markets, and will enhance its collaboration with other primary federal regulators in assessing the risks emanating from these markets. The Interagency Country Exposure Review Committee (ICERC), established by the FDIC, the Federal Reserve Board and the Office of the Comptroller of the Currency (OCC), provides one forum for ensuring consistent treatment of the transfer risk associated with banks' foreign exposure to both public and private sector entities. In addition, the FDIC will continue to strengthen its working relationships with the global financial sector by establishing protocols for monitoring financial stability and developing contingency plans for the failure of U.S. financial institutions with considerable overseas holdings or foreign financial institutions that could impact the stability of the U.S. economy or banking system. Initial planning activities will be undertaken to establish a framework for conducting an international "table top exercise" focusing on a potential large bank failure. Open-bank supervision issues will be addressed through the FDIC's ongoing participation in several Basel initiatives, including the Liquidity Working Group, the Definition of Capital subgroup, and studies on complex product valuations and stress testing.

The FDIC also seeks to understand actual and emerging risks through its participation in the Joint Forum's Working Group on Risk Assessment and Capital. The group is currently working on two papers, *Credit Risk Transfer* and *Cross-Sectoral Review of Group-Wide Identification and Management of Risk Concentrations*. The first paper will focus on three issues: (1) whether the instruments/transactions accomplish a clean risk transfer, (2) the degree to which Credit Risk Transfer (CRT) market participants understand the risks involved, and (3) whether CRT activities are leading to undue concentrations of credit risk inside or outside the regulated financial sector. The second paper will explore the extent to which the banking, securities and insurance sectors identify and manage risk concentrations at the conglomerate or group-wide level and how current and emerging risk techniques, including stress testing and scenario analyses, are employed to identify potential concentrations.

Human Resources (staffing and training): The FDIC employs economists, financial analysts, industry specialists and others who focus on trends and conditions that pose potential financial and operational risks to the banking industry and has incorporated risk-focused examination training into its examination schools. In recognition of the increasing complexity and

concentration of risk exposure in large insured institutions and to prepare for the implementation of Basel II, the FDIC is also taking steps to ensure that it has the necessary capabilities within its workforce to identify and address issues within large institutions. The Corporation is developing a large bank training program and continues to recruit personnel with the specialized knowledge and skill sets to analyze large bank operations. The Corporation also continues to enhance its participation in and leadership of international programs promoting global stability.

Information Technology: The Virtual Supervisory Information on the Net (ViSION) system facilitates numerous supervision activities, including examination tracking, application processing, offsite analysis and monitoring, tracking of formal and informal enforcement actions and banking organization structure. Secure e-mail provides for secure electronic communication of confidential supervisory information with state banking departments and other federal banking agencies. The FDIC also has access to specialized databases of mortgage lending information and market data on commercial real estate to carry out activities related to this goal.

Verification and Validation

Potentially heightened insurance risks identified through the Dedicated Examiner, LIDI and SNC programs are reported to FDIC senior executives, who determine an appropriate course of action. Follow-up activities are tracked through established reporting processes. Analysis of emerging risks and trends in the financial industry or economy is reviewed by the RAC, submitted to the NRC, reviewed by the FDIC Board of Directors through periodic risk briefings, and communicated internally and externally through numerous FDIC publications and written reports.

2007 Performance Results

This annual performance goal and its associated performance indicators and targets are unchanged from 2007, except for the inclusion of additional risks in the first performance target for performance indicator #3. In 2007, the FDIC successfully met all of the performance targets. For additional information on how these performance targets were met, please see the FDIC's [2007 Annual Report](#).

Annual Performance Goal 1.2-2

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

Indicator and Targets

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

- *Disseminate results of research and analyses in a timely manner through regular publications, ad hoc reports and other means.*

- *Undertake industry outreach activities to inform bankers and other stakeholders about current trends, concerns and other available FDIC resources.*

Means and Strategies

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

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

Human Resources (staffing and training): The FDIC employs economists, financial analysts and other staff members who monitor risks within the banking industry and communicate those risks to other regulators, the industry, the public and other stakeholders through a variety of media and forums. In 2008, the FDIC will continue to increase the number of staff with quantitative risk-analysis and financial risk-modeling capabilities. In addition, outside scholars participate in the Corporation's risk analysis program, and risk-focused examination training has been incorporated into the FDIC's examination schools. The FDIC also maintains a cadre of staff members throughout the country to conduct banker outreach sessions.

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

Verification and Validation

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

2007 Performance Results

This annual performance goal and its associated performance indicator and targets are unchanged from 2007. In 2007, the FDIC met each of these targets through the CFR's program of research, publications, and conferences and through the FDIC's regular publications program, focusing on bank information and current industry conditions, risks and trends. These publications include *FDIC Quarterly*, and the quarterly *FDIC State Profiles*.

STRATEGIC OBJECTIVE 1.3

The deposit insurance fund and system remain viable.

Annual Performance Goal 1.3-1

Maintain and improve the deposit insurance system.

Indicators and Targets

1. Implementation of deposit insurance reform

- *Review the effectiveness of the new pricing regulations that were adopted to implement the reform legislation.*
- *Enhance the additional risk measures used to adjust assessment rates for large institutions.*
- *Develop a final rule on a permanent dividend system.*

2. Loss reserves

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

3. Fund adequacy

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

Means and Strategies

Operational Processes (initiatives and strategies): In 2008, the FDIC will prepare an analysis of the effectiveness of new pricing regulations. In 2007, staff developed an ANPR on dividends for review and approval by the FDIC Board of Directors. The FDIC published an ANPR on implementation of a permanent dividend system in the *Federal Register* in September 2007. Comments on the ANPR will be considered when drafting an NPR on dividends, to be published in 2008. A final rule will be issued by year end 2008.

During 2008, the FDIC will evaluate qualitative loss severity measures for potential adjustment of large-bank assessment rates. If deemed appropriate, qualitative loss severity information will be incorporated into large-bank pricing discretion determinations.

The FDIC's Financial Risk Committee (FRC) develops quarterly failure projections and loss estimates to establish contingent loss reserves for the insurance fund. The FRC keeps pace with changing techniques and methodologies used to analyze the nature of risk exposure, including

scenario analysis and stress testing. Models that forecast failures and failure resolution costs are maintained and enhanced, as necessary. The FRC regularly reviews adverse events to identify lessons or implications for monitoring and addressing risks. Supervisory and other information about large institutions is incorporated into the FRC's recommendations regarding insurance-related business decisions. The FRC consults with the other federal banking agencies in its deliberations.

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

Human Resources (staffing and training): Additional staff will be recruited in 2008 to administer and perform the analytical work associated with deposit insurance pricing, including a review of the effectiveness of the new regulations. In addition, the FDIC will continue to add staff to its banking and economic research program, and to expand its ties to the academic community to broaden the information and analytical perspectives available to the Corporation as steward of the DIF. Outside scholars will be actively engaged in producing relevant research through CFR-sponsored relationships and activities.

Information Technology: A total of 48 information systems were impacted by the merger of the BIF and SAIF and changes in deposit insurance coverage. Applications affected by the funds merger and deposit insurance coverage changes were successfully modified and tested in 2007. Modifications and enhancements to existing systems to fully implement deposit insurance reform will continue in 2008. In addition, development of a dividends processing system will begin in 2008.

Verification and Validation

FDIC staff review systems to ensure that they are functioning properly prior to issuing the quarterly assessment invoices. In 2008, business processes related to large bank insurance pricing adjustments will be developed and reviewed by the FDIC's Office of Enterprise Risk Management.

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

The Government Accountability Office reviews the methodology used to determine the contingent loss reserve annually. In 2008, the FRC will again conduct a semiannual review of the effectiveness of the contingent loss reserve methodology through an analysis of the variance between projected and any actual losses.

In 2007, FDIC systems and business procedures were developed or modified to implement the new risk-based assessment system. The FDIC issued Financial Institution Letters explaining the new methodology and procedures. FDIC staff conducted outreach activities through industry trade groups and other appropriate venues. FDIC staff reviewed systems to ensure that they were functioning properly prior to issuing the first quarterly assessment invoices. In addition, related business processes were reviewed by the FDIC's Office of Enterprise Risk Management.

2007 Performance Results

This annual performance goal, as well as the three performance indicators and the performance targets for performance indicators #2 and #3, are unchanged from 2007. The performance targets for performance indicator #1 have been revised to reflect the substantial progress that has been made in implementing deposit insurance reform. In 2006, the FDIC increased the deposit insurance coverage limit for retirement accounts to \$250,000; merged the Bank Insurance and Savings Association Insurance Funds into the new DIF; developed a new risk-based deposit insurance pricing system and established new assessment rates that were effective in 2007; established a new assessment credits system; and adopted a temporary system for any required payment of dividends from the DIF. The updated performance targets for 2008 focus on implementation and evaluation of the new deposit insurance pricing system and completion of rulemaking activities to establish a permanent dividend system.

Regarding performance indicator #2 and its associated performance target, the FDIC performed reviews in 2007, as it had in prior years, to confirm the effectiveness of its reserving methodology, and it will continue to undertake such reviews in 2008. Regarding performance indicator #3 and its associated performance target, the FDIC set the target Designated Reserve Ratio (DRR) for the DIF at 1.25 basis points for 2007 and again for 2008 and established new assessment rates for insured institutions, effective in 2007, that are designed to achieve the DRR during 2009. The Board of Directors will establish the target DRR annually, as required by law, and will consider in 2008 and future years whether changes are needed to the assessment rates it has approved.

Annual Performance Goal 1.3-2

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

Indicators and Targets

1. Timeliness of responses to insurance coverage inquiries

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

2. Educational initiatives and outreach events for consumers and bankers

- *Conduct at least three sets of the Deposit Insurance Seminar Series for bankers.*
- *Assess the feasibility of (and, if feasible, define the requirements for) a consolidated Electronic Deposit Insurance Estimator (EDIE) application for bankers and consumers (to be developed in 2009).*
- *Conduct outreach events and activities to support a deposit insurance education program that features an FDIC 75th anniversary theme.*

Means and Strategies

Operational Processes (initiatives and strategies): The FDIC uses a variety of means to educate insured financial institutions and depositors about FDIC deposit insurance coverage. In addition to conducting seminars for bank employees, the FDIC encourages the dissemination of educational information through the banking industry and the media. The FDIC updated its various deposit insurance educational tools and publications in 2006/2007 to reflect changes made as part of deposit insurance reform. The FDIC works with insured financial institutions to encourage them to use these tools and to make the FDIC's publications available to bank employees and customers. The FDIC also operates a toll-free call center (877-ASK-FDIC) staffed by deposit insurance specialists, maintains educational resources on the FDIC's website (www.fdic.gov), publishes articles on insurance coverage rules in *FDIC Consumer News* (a quarterly newsletter for consumers published by the FDIC), and works to raise awareness about deposit insurance coverage through the national and regional news media.

Human Resources (staffing and training): Staffing and training needs are reviewed on an ongoing basis to ensure that the resources supporting the planned 2008 deposit insurance educational initiative are adequate and that employees possess the skills and knowledge to implement this program effectively and successfully.

Information Technology: The FDIC manages the receipt of and response to banker and public inquiries about the FDIC's deposit insurance program using the Specialized Tracking and Reporting System (STARS). In 2008, the FDIC will conduct a feasibility study to evaluate whether to consolidate the two existing versions of the Electronic Deposit Insurance Estimator (EDIE) – that is, Online EDIE for Consumers and EDIE for Bankers – into one enhanced application. The FDIC also will continue to use teleconferencing technology and the internet to more efficiently reach a large audience of financial institution employees and to deliver both deposit insurance and educational tools and materials to the banking community and the public.

Verification and Validation

Progress in meeting the performance targets for this annual performance goal will be tracked through established reporting processes.

2007 Performance Results

This annual performance goal as well as performance indicator #1 and its associated performance target are unchanged from 2007. In 2007, the FDIC exceeded that performance target by responding to 98 percent of all inquiries from bankers and consumers related to deposit insurance coverage within target time frames, despite a more than 40 percent increase in the number of such inquiries compared to the three previous years. The Corporation also met all of its other 2007 performance targets for this goal. Performance indicator #2 and its associated performance targets for 2008 are new.

Annual Performance Goal 1.3-3

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

Indicator and Targets

Scope of information sharing and assistance available to international governmental bank regulatory and deposit insurance entities

- *Undertake outreach activities to inform and train foreign bank regulators and deposit insurers.*
- *Foster strong relationships with international banking regulators and associations that promote sound banking supervision and regulation, failure resolution and deposit insurance practices.*

Means and Strategies

Operational Processes (initiatives and strategies): As noted previously, increasing globalization and interdependence heighten the potential for financial and economic instability to transcend geographic boundaries, and the FDIC has stepped up its efforts to promote sound, stable banking systems abroad. Accordingly, the FDIC pursues a variety of activities that are intended to promote cooperative relationships and information sharing with international deposit insurance and bank regulatory entities and foreign governmental banking regulators. OIA, which was established in 2006, plans and conducts training sessions; coordinates technical assistance missions, foreign visits, and bilateral consultations with foreign bank supervisors, deposit insurers and bank resolution authorities; participates actively and plays a leadership role in international organizations; and performs other related activities in support of this annual performance goal.

Human Resources (staffing and training): The FDIC will ensure the appropriate staffing level to support its international programs and activities, and it will identify detail opportunities for selected FDIC employees to provide technical assistance to foreign banking-related government entities. The FDIC will also evaluate other opportunities for employee details to support the

international program and enhance the FDIC's leadership role in regional and international bank supervision, failure resolution, and deposit insurance groups.

Information Technology: Information about international governmental bank regulatory or deposit insurance activities and the FDIC's international program will be communicated through OIA's website.

Verification and Validation

Achievement of this annual performance goal will be demonstrated through FDIC-enhanced leadership roles in key international organizations. Progress in meeting this annual goal will be tracked by the FDIC's International Affairs Working Group through established reporting processes.

2007 Performance Results

This annual performance goal and its associated performance indicator and targets are essentially unchanged from 2007. The FDIC successfully met both performance targets in 2007. During 2007, FDIC outreach activities continued to foster strong relationships with international governmental banking regulators and associations with the FDIC assuming several leadership roles in the international community. Most notably, the FDIC's Vice Chairman was elected as President of the International Association of Deposit Insurers and Chair of its Executive Council; the Director, OIA, assumed the North American Region Board member position with the Association of Supervisors of Banks in the Americas; and several senior FDIC executives continued to participate on committees and working groups established by the Basel Committee for Bank Supervision. Other accomplishments related to the 2007 performance targets are explained in the FDIC's [2007 Annual Report](#).

SUPERVISION PROGRAM

The FDIC's Supervision Program promotes the safety and soundness of FDIC-supervised insured depository institutions, protects consumers' rights and promotes community investment initiatives by FDIC-supervised insured depository institutions. In 2008, the FDIC will continue its efforts to increase the effectiveness and efficiency of all of its supervisory programs. Ongoing industry consolidation, new technologies and product innovation have resulted in larger, more complex organizations. The FDIC will continue to focus increased resources on the larger, more complex financial institutions that constitute the most risk to the DIF. The FDIC will also continue to assess and modify, as appropriate, its examination procedures for all institutions in light of changing risk profiles for the industry and for individual institutions.

The FDIC is the primary federal regulator for 5,197³ state-chartered banks that are not members of the Federal Reserve System, generally known as state non-member banks, and includes state-licensed insured branches of foreign banks and state-chartered savings institutions. As insurer, the FDIC also has special examination authority for state member banks that are supervised by the Federal Reserve Board (FRB), national banks that are supervised by the Office of the Comptroller of the Currency (OCC) and savings associations that are supervised by the Office of Thrift Supervision (OTS).

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

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

³ As published in the December 2007 *FDIC Quarterly Banking Profile*.

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

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

Information about the FDIC's supervisory program is available at www.fdic.gov, which includes information about current laws and regulations and regulatory guidance. The FDIC's semiannual *Supervisory Insights* journal provides information about bank supervision for bankers, bank examiners and other practitioners.

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

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

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

Strategic Goal	Strategic Objectives	Annual Performance Goals
<p>Consumers’ rights are protected and FDIC-supervised institutions invest in their communities.</p>	<p>FDIC-supervised institutions comply with consumer protection, CRA and fair lending laws.</p>	<p>Conduct CRA and compliance examinations in accordance with the FDIC’s examination frequency policy.</p>
		<p>Take prompt and effective supervisory action to monitor and address problems identified during compliance examinations of FDIC-supervised institutions that receive an overall “4” or “5” rating for compliance with consumer protection and fair lending laws.</p>
		<p>Determine the need for changes in current FDIC practices for following up on significant violations of consumer compliance laws and regulations identified during examinations of banks for compliance with consumer protection and fair lending laws.</p>
		<p>Scrutinize evolving consumer products, analyze their current or potential impact on consumers and identify potentially harmful or illegal practices. Promptly institute a supervisory response program across FDIC-supervised institutions when such practices are identified.</p>
	<p>Consumers have access to easily understood information about their rights and the disclosures due them under consumer protection and fair lending laws.</p>	<p>Effectively investigate and respond to consumer complaints about FDIC-supervised financial institutions.</p>
		<p>Provide effective outreach related to CRA, fair lending and community development.</p>
		<p>Continue to expand the FDIC’s national leadership role in the development and implementation of programs and strategies to encourage and promote broader economic inclusion within the nation’s banking system.</p>

STRATEGIC GOAL 2:

FDIC-supervised institutions are safe and sound.

STRATEGIC OBJECTIVE 2.1

FDIC-supervised institutions appropriately manage risk.

Annual Performance Goal 2.1-1

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

Indicator and Target

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

- *100 percent of required risk management examinations are conducted on schedule.*

Means and Strategies

Operational Processes (initiatives and strategies): Risk management examinations assess the overall financial condition, management practices and policies, and compliance with applicable regulations of FDIC-supervised depository institutions. The FDIC performs safety and soundness, Bank Secrecy Act (BSA) and information technology (IT) reviews at each examination of an FDIC-supervised insured depository institution. As applicable, the FDIC also conducts reviews of trust, registered transfer agent, municipal securities dealer and government security dealer activities at these examinations. In 2008, the FDIC projects that it will conduct approximately 2,300 risk-management examinations required under statute, FDIC policy, or agreement with state supervisors. The FDIC follows a risk-focused approach to examinations, which allows examiners to focus resources on those areas with the greatest potential risk. The FDIC has several analytical models to identify higher risk financial institutions by considering factors such as rapid growth, fluctuating earnings, economic downturns and concentrations in vulnerable industry sectors. Examiners use these offsite tools to better focus on higher risk areas during onsite examinations. These models are also used to identify the need for inquiries or onsite visits to FDIC-supervised institutions outside of the regular examination cycle.

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

standards and rule-setting entities to identify effective risk-management practices for emerging technologies.

During 2007, the FDIC continued to work closely with state and other federal agencies to monitor those financial institutions most impacted by the 2005 hurricane season through onsite and offsite programs. The FDIC has found that institutions in the affected area have generally benefited from the influx of insurance proceeds and grant proceeds from federal assistance programs and have sought methods to deploy these funds into earning assets. Financial institutions in the hurricane zone continue to face significant challenges, including displaced customers and employees and uncertainties regarding infrastructure reconstruction. Going forward, the FDIC, in concert with the other federal bank regulatory agencies, will continue to monitor the affected financial institutions for any residual impact of the 2005 hurricane season. The FDIC will also continue to monitor available public information on population, economic and other pertinent trends that could impact the business environments in which the affected institutions operate.

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

The number of risk management examinations conducted during 2008 may fluctuate as the number of FDIC-supervised insured depository institutions changes due to mergers, closings, newly approved charters and other actions. Increases in asset size or changes to condition or capital levels may accelerate examination cycles and increase the number of required examinations. In addition, the Corporation implemented a number of regulatory relief provisions in 2007 that were included in the Financial Services Regulatory Relief Act of 2006. These included lengthening from 12 to 18 months the examination cycle for additional “1” and “2” rated banks by raising the program’s asset threshold from \$250 million to \$500 million.

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

The FDIC will continue to augment its general examiner training curriculum with courses on the impact of technology issues on safety and soundness. As in previous years, the FDIC will continue to build upon risk-management examiners’ solid base of general technology knowledge by providing refresher training on pertinent technology topics in order to ensure that all risk-management examiners and IT examination specialists have the knowledge needed to perform their duties in light of the increased complexity of technology in the banking industry.

Information Technology: The FDIC will continue to employ automated tools, such as the General Examination System (GENESYS), Examination Documentation modules, Interest Rate

Risk Sensitivity Analysis (IRRSA) software, and the Automated Loan Examination and Review Tool (ALERT) to improve the efficiency of its examinations.

Verification and Validation

The actual number of examinations conducted and adherence to required examination time frames will be tracked through internal management systems and reported in the *2008 FDIC Annual Report*.

2007 Performance Results

This annual performance goal and the associated performance indicator and target are unchanged from 2007. In 2007, the FDIC completed all required safety and soundness examinations (including IT reviews) within prescribed time frames.

Annual Performance Goal 2.1-2

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

Indicator and Target

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

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

Means and Strategies

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

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

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

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

Verification and Validation

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

The FDIC will continue to use the Regional Office Internal Control Review program to ensure that the 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 brought to management's attention for appropriate action.

2007 Performance Results

This annual performance goal and the associated performance indicator and target are unchanged from 2007. In 2007, the FDIC conducted all follow-up examinations of problem institutions within the prescribed time frame.

Annual Performance Goal 2.1-3

Assist in protecting the infrastructure of the U.S. banking system against terrorist financing, money laundering and other financial crimes.

Indicator and Target

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

- *100 percent of required Bank Secrecy Act examinations are conducted on schedule.*

Means and Strategies

Operational Processes (initiatives and strategies): Bank Secrecy Act/Anti-Money Laundering (BSA/AML) examinations and Office of Foreign Assets Control (OFAC) reviews assess an

institution's overall BSA/AML and OFAC compliance programs. These reviews encompass sound risk management, compliance with recordkeeping requirements, and the ability of the institution to identify and report suspicious activity. The FDIC performs BSA/AML and OFAC reviews as a part of all risk-management examinations of FDIC-supervised insured depository institutions. In 2008, the FDIC projects that it will conduct over 2,300 BSA/AML examinations required under statute, FDIC policy, or agreement with state supervisors. The FDIC will also conduct BSA/AML examinations in conjunction with risk management examinations conducted by state regulators for the small number of state bank regulatory agencies (currently fewer than 10) that do not incorporate BSA/AML examination procedures into their own examinations. The FDIC follows a risk-focused approach to BSA/AML examinations and OFAC reviews, which allows examiners to focus resources on those areas with the greatest potential risk.

Human Resources (staffing and training): The FDIC currently has 340 examiners who are designated as BSA/AML subject matter experts, including 87 with advanced certifications for this discipline. Staffing and training needs are reviewed on an ongoing basis to ensure that the staff resources supporting the BSA/AML examination program are adequate and that those employees possess the skill and knowledge to effectively and successfully assess compliance with BSA/AML requirements and detect any emerging risks.

In 2008, the FDIC will work with the other federal banking agencies, the Financial Crimes Enforcement Network (FinCEN) and the Conference of State Bank Supervisors (CSBS) to update, if necessary, the Federal Financial Institutions Examination Council (FFIEC) BSA/AML Examination Manual to ensure that the guidance remains current for existing laws, regulations and policy interpretations. The Corporation also plans to update the Spanish translation of the 2007 FFIEC BSA/AML Examination Manual, as necessary. Further guidance will be provided to risk management staff through written memoranda, participation in the FFIEC BSA/AML Examination Workshop, or attendance at the Advanced BSA/AML Specialists Conference.

Information Technology: BSA examinations are tracked in ViSION. BSA/AML reference materials are available on the FDIC's website (www.fdic.gov). This link allows the banking industry and the regulatory community centralized and expanded access to BSA/AML resources. The link provides updated information and instruction related to examination procedures, interpretive guidance, websites of related agencies, instructions for reporting suspicious activity and terrorist-financing activity, and an overview of governing rules and regulations. In concert with the release of the interagency FFIEC BSA/AML Examination Manual, the federal banking agencies have also made available through the FFIEC website (www.ffiec.gov) a BSA/AML Examination Manual InfoBase. It includes the interagency BSA/AML Examination Manual, BSA regulations, and guidance provided by each federal banking agency.

2007 Performance Results

This annual performance goal and the associated performance indicator are new (previously included in Annual Performance Goal 2.1-1). All BSA/AML examinations were conducted within required time frames in 2007.

Annual Performance Goal 2.1-4

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

Indicators and Targets

1. Preliminary results of Basel II Parallel Run

- *Conduct analyses of early results of the new capital regime as information becomes available.*

2. Changes to Basel II Capital Framework

- *Develop options for refining Basel II that are responsive to lessons learned from the 2007-2008 market turmoil.*

Means and Strategies

Operational Processes (initiatives and strategies): The objective of Basel II is to more closely align regulatory capital with risk in large or multinational banks. The FDIC is working with the Basel Committee on Banking Supervision and the other federal bank regulatory agencies to plan for the implementation of Basel II. The agencies expect that only a small number of large, internationally active U.S. banking organizations will be required to use the Basel II Advanced Approach framework. Under the Basel II Advanced Approach final rule, those institutions would be required to use the most advanced approaches of Basel II for determining their risk-based capital requirements. As such, implementation of the Basel II Advanced Approach would require that they adopt very complex internal models to estimate capital requirements and assess capital adequacy.

The first opportunity for U.S. banking institutions to conduct a parallel run under the Basel II Advanced Approach will be in April 2008. U.S. institutions adopting the Basel II-based capital rules will be subject to a minimum three-year transition period during which the agencies will apply floors that limit the amount by which each institution's risk-based capital could decline under Basel II. The floors will be applied in the following manner: 2009 – 95%, 2010 – 90% and 2011 – 85%. In addition, the leverage ratio requirements contained in the agencies' Prompt Corrective Action regulations are unchanged. The agencies will issue a series of annual reports during the transition period that will provide timely and relevant information on the implementation of the advanced approaches. In addition, after the end of the second transition year, the agencies will publish a study (interagency study) that will evaluate the advanced approaches to determine if there are any material deficiencies. Before any primary Federal supervisor authorizes any bank to exit the third transitional floor period, the study must determine that there are no such material deficiencies that cannot be addressed by then-existing tools, or, if such deficiencies are found, they must be first remedied by changes to the regulation. A primary federal supervisor that disagrees with the finding of material deficiency may not

authorize a bank under its jurisdiction to exit the third transitional floor period unless the supervisor first provides a public report explaining its reasoning.

Through the FDIC's participation on the Basel Committee on Banking Supervision and its various subgroups, the FDIC will continue to work to promote strong international bank capital standards. This annual performance goal will be pursued over a multi-year time frame because of the extended timeline for Basel II implementation and the lack of currently available data to assess compliance with the Committee's and the FDIC's overall capital objectives. The FDIC will participate in the Basel Committee's Capital Monitoring Group, which will identify the extent of reductions in capital requirements. The FDIC will also participate in the Committee's Definition of Capital Subgroup, which will evaluate the loss-absorbing capacity and other features of regulatory capital instruments.

Human Resources (staffing and training): The breadth and depth of knowledge among FDIC staff on Basel II matters have expanded greatly due, in part, to FDIC staff's continued participation and active involvement in guidance development groups. The FDIC has also augmented its skill sets by hiring several analysts to assist with Basel II implementation who are highly skilled in advanced quantitative methods. The FDIC will continue to use internal and external training to augment the skill sets of its staff.

Information Technology: The FDIC will utilize existing technology to accomplish this annual performance goal.

Verification and Validation

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

2007 Performance Results

This annual performance goal and the associated performance indicator are unchanged from 2006. Both 2007 performance targets were met and new performance targets have been established for 2008 that reflect the agreement among the U.S. bank regulatory agencies to establish a three-year period for transition to the Basel II capital standards.

Annual Performance Goal 2.1-5

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

Indicator and Target

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

- *Finalize a regulatory capital framework based on the Basel II "Standardized Approach" as an option for U.S. banks not required to use the new advanced approaches.*

Means and Strategies

Operational Processes (initiatives and strategies): In conjunction with the transition to Basel II for the largest insured institutions, the FDIC and the other federal bank regulatory agencies are pursuing a more risk-sensitive capital framework for institutions that are not subject to (or opt out of) Basel II. The agencies previously sought comment on whether alternatives to the Advanced Approach, such as the Basel IA proposal or the Standardized Approach, should be available for Basel II banking organizations. In response to those comments, the agencies set aside the Basel IA proposal in favor of the Basel II Standardized Approach. The agencies anticipate issuing a Basel II Standardized Approach NPR during 2008. The NPR will be closely aligned with the Basel Capital Accord. The adoption of the domestic Basel II Standardized Approach framework by U.S. banking organizations would be at the option of the individual banking organization and subject to the institution meeting certain predefined qualification standards. The existing capital rules, as amended, would continue to apply to those institutions that did not elect to use the framework.

The Basel II Standardized Approach Interagency Working Group (Working Group) is responsible for developing the framework that will formalize the FDIC's current plans and proposals for implementing the Basel II Standardized Approach in the United States. The Working Group will use the Basel Committee's text on the "International Convergence of Capital Measurement and Capital Standards," comments received in response to the forthcoming NPR, as well as other resources to develop a regulation that more closely aligns regulatory capital with risk.

This new Standardized Approach capital framework will seek to minimize potential competitive inequities between large and small banks resulting from the implementation of Basel II, while maintaining adequate capital levels and avoiding undue burden on the affected institutions.

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

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

Verification and Validation

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

2007 Performance Results

This annual performance goal and the associated performance indicator are unchanged from 2007. As a result of the decision to withdraw the Basel IA NPR proposal in favor of the Basel II Standardized Approach, the 2007 performance target became inapplicable. For 2008, a new performance target has been established seeking completion of rulemaking on the Basel II Standardized Approach.

Annual Performance Goal 2.1-6

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

Indicator and Target

Percentage of onsite examinations or offsite analyses performed

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

Means and Strategies

Operational Processes (initiatives and strategies): The Basel II Advanced Approach will become effective on April 1, 2008. None of the insured institutions for which the FDIC is the primary federal regulator has formally indicated that it intends to opt-in for treatment under Basel II, although three institutions will likely be required to opt-in based on consolidated reporting requirements of foreign parent organizations that will adopt Basel II. FDIC staff continues to work closely with these institutions and to conduct outreach with other institutions that may be considering operating under the new rules. Outreach efforts include responding to requests to review and discuss progress in developing project plans or designing systems in accordance with the rule and draft examination guidance. FDIC staff also continues to work closely with other primary federal regulators to ensure uniform application of Basel II among all insured institutions. In addition, the FDIC actively participates on various international and domestic working groups relating to Basel II, including those focusing on implementation issues.

Human Resources (staffing and training): The FDIC hired additional large-bank staff in 2007, with the goal of better aligning staff to address complex financial institution issues, including the expected workload for Basel II preparations. Designated staff members will continue to receive

training to ensure that they have the requisite knowledge, expertise and experience to meet the supervisory challenges posed by Basel II.

Information Technology: Existing technology will be used to accomplish this goal. No new information systems or automated tools will be developed in support of this annual performance goal in 2008.

Verification and Validation

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

2007 Performance Results

This annual performance goal and its associated performance indicator and target are unchanged from 2007. The 2007 performance target was met through outreach to all institutions that have expressed interest in opting in for treatment under Basel II and assessments of progress for wholly-owned insured subsidiaries of foreign institutions that will adopt Basel II. FDIC staff also coordinated meetings with domestic and international supervisory authorities to ensure consistency in approaches to implementation.

Annual Performance Goal 2.1-7

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

Indicators and Targets

Completion of analysis of regulatory burden associated with the BSA/AML examination process

- *Complete and evaluate options for refining the current risk-focused approach used in the conduct of BSA/AML examinations to reduce the burden they impose on FDIC-supervised institutions.*

Means and Strategies

Operational Processes (initiatives and strategies): In 2007, the FDIC conducted a pilot project to determine how it might factor state AML examination assessments of money services businesses (MSBs) into its risk-focused BSA/AML examination procedures, or how it might use those assessments in other ways to encourage banks to continue to serve MSBs. Although many FDIC-supervised institutions provide banking services to MSBs, the FDIC is concerned with the discontinuance of those services to the MSB industry by banks, which may be, in part, related to customer monitoring and documentation requirements for MSB account relationships. The FDIC consulted with FinCEN, the Internal Revenue Service, the CSBS, and the Money Transmitter Regulators Association and interviewed several state supervisors to gain a better

understanding of state AML regulation and oversight of the MSB industry. The FDIC also evaluated the legal framework and authority of those states with respect to AML and their information-sharing rules in conjunction with its consideration of options for incorporating state MSB AML examination programs and/or findings into the FDIC's BSA/AML examination process. Based upon that analysis, the FDIC will coordinate with selected state supervisors that are willing and able to provide MSB AML information.

The FDIC remains committed to minimizing the regulatory burden on the banking industry and will work with FinCEN in 2008 to develop and implement changes to simplify or streamline AML and counter-financing of terrorism (CFT) reporting requirements for smaller institutions without sacrificing national security safeguards. In this effort, the FDIC will work with FinCEN to issue guidance on suspicious activity report sharing with affiliates as well as guidance on suspicious activity reporting and recordkeeping obligations for functions that are outsourced to both domestic and foreign-based third-party service providers. The Corporation will also discuss with FinCEN draft recommendations from the U.S. Government Accountability Office's 2008 Currency Transaction Report (CTR) audit recommendations, which could reduce CTR filings for smaller banks by clarifying and encouraging the use of the CTR exemption process. The FDIC will also provide comments on FinCEN's restructuring of BSA rules.

The FDIC will work to refine the current risk-focused approach used when conducting BSA/AML examinations of FDIC-supervised institutions and determine when streamlined BSA/AML procedures may be considered for low-risk depository institutions. Additional guidance will be issued, as necessary.

Human Resources (staffing and training): FDIC management and subject matter experts familiar with the FDIC's BSA/AML examination requirements will provide the necessary information, develop options for review, and provide recommendations on possible changes in guidance.

Information Technology: Existing technology will be used in conjunction with this goal. The ViSION system may be used to track comments from BSA/AML examinations conducted under the risk-focused approach.

Verification and Validation

Progress in completing this goal will be tracked through periodic meetings and established reporting processes.

2007 Program Results

This annual performance goal is unchanged from 2007, but the performance target and indicator have been updated for 2008. The 2007 performance targets were largely achieved. Although most of the changes required by the Financial Services Regulatory Relief Act of 2006 were completed, as required, some further regulatory changes remain to be completed in 2008. In addition the FDIC completed a pilot project in 2007 on the possible use of state MSB AML

assessments in FDIC risk management examinations, but has not yet incorporated the results of that project into risk management examinations. Work will continue on that effort in 2008.

STRATEGIC GOAL 3:

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

STRATEGIC OBJECTIVE 3.1

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

Annual Performance Goal 3.1-1

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

Indicator and Target

Percentage of examinations conducted in accordance with required time frames

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

Means and Strategies

Operational Processes (initiatives and strategies): The FDIC conducts CRA and compliance examinations of FDIC-supervised depository institutions in order to determine the institution's compliance with consumer protection and fair lending laws and its performance under CRA. The frequency of these examinations is specified by FDIC policy and applicable law. For CRA examinations, the FDIC's examination frequency policy conforms to applicable provisions of the Gramm-Leach-Bliley Act (GLBA), which establishes the CRA examination cycle for most small banks. In 2008, the FDIC estimates that it will conduct approximately 2,000 compliance and/or CRA examinations.

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

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

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

Verification and Validation

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

2007 Performance Results

This annual performance goal and the associated performance indicator and target are unchanged from 2007. In 2007, the FDIC conducted 1,773 compliance and CRA examinations, all within prescribed time frames.

Annual Performance Goal 3.1-2

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

Indicator and Target

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

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

Means and Strategies

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

Human Resources (staffing and training): Staffing and training needs are reviewed on an ongoing basis to ensure that resources supporting the examination program are adequate and that employees possess the skills and knowledge to effectively examine problem institutions. In 2007, the FDIC developed a post-commissioning training program, the Advanced Compliance

Examination School (ACES). All field compliance examiners will be required to complete the course over a three-year period from 2007 to 2009, to ensure that they have sufficient knowledge to assess compliance with increasingly complex consumer protection regulations and consumer products.

Information Technology: The SOURCE system is used for examination scheduling and processing. The ViSION system is used to monitor all enforcement action activity.

Verification and Validation

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

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

2007 Performance Results

This annual performance goal and the associated performance indicator and target are unchanged from 2007. In 2007, the FDIC conducted all required follow-up examinations of problem institutions within the prescribed time frame.

Annual Performance Goal 3.1-3

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

Indicator and Targets

Implementation review of new practices instituted in 2007

- *Complete a review of the effectiveness of the 2007 instructions issued on the handling of repeat instances of significant violations identified during compliance examinations.*

Means and Strategies

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

Violations occur even at institutions that have otherwise implemented a strong compliance program. Examiners use judgment and experience to place violations into the proper context when they draw conclusions from examination findings. During 2007, the FDIC completed an internal analysis of significant, repeat violations and post-examination follow-up activities. As a result, amendments to the examination process were made to clarify the definitions of “significant” and “repeat” violations. In addition, the FDIC’s regional offices were instructed to implement new post-examination follow-up activities when significant violations are cited in compliance reports of examination. The FDIC will perform a post-implementation analysis of these changes in 2008, after they have been in effect for one year.

Human Resources (staffing and training): The implementation of post-examination follow-up activities has been incorporated into the regional and field territory review programs. Any deficiencies that require corrective action will be discussed with regional and field office management.

Information Technology: The FDIC will use current technology systems to obtain the information necessary to complete this analysis.

Verification and Validation

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

2007 Performance Results

This annual performance goal is unchanged from 2007. However, the associated performance indicator and target are new for 2008. The 2007 performance targets were successfully met. The 2008 performance target is a follow-on activity.

Annual Performance Goal 3.1-4

Scrutinize evolving consumer products, analyze their current or potential impact on consumers and identify potentially harmful or illegal practices. Promptly institute a supervisory response program across FDIC-supervised institutions when such practices are identified.

Indicator and Targets:

Establishment of supervisory response programs to address potential risks posed by new consumer products.

- *Revise the FDIC's system for identifying, reviewing and addressing potentially harmful or illegal practices associated with evolving consumer products.*
- *Develop and implement new supervisory response programs across all FDIC-supervised institutions to address potential risks posed by new consumer products.*

Means and Strategies

Operational Processes (initiatives and strategies): The FDIC conducts consumer compliance examinations at all state non-member banks. As part of this process, examiners review bank products and practices to ensure that they do not harm consumers and/or violate applicable laws. In addition, the FDIC plans to use information derived from external sources, including consumer and industry groups and other sources, to identify product-related trends and practices that may be unlawful and/or harmful to consumers. When issues are identified, the FDIC will assess the effects on consumers and promptly institute a consistent supervisory policy response across FDIC-supervised institutions, where appropriate.

Human Resources (staffing and training): Staffing and training needs will be reviewed on an ongoing basis to ensure that the resources supporting its compliance examination and offsite monitoring programs are adequate to identify and recommend a consistent policy response.

Information Technology: The SOURCE and STARS systems, as well as publicly available information, will be used to help identify and monitor evolving consumer products/practices.

Verification and Validation

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

2007 Performance Results

This annual performance goal and the associated performance indicator and targets are new for 2008. There were no related 2007 performance results.

STRATEGIC OBJECTIVE 3.2

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

Annual Performance Goal 3.2-1

Effectively investigate and respond to consumer complaints about FDIC-supervised financial institutions.

Indicator and Target

Timely responses to written complaints and inquiries

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

Means and Strategies

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

In 2008, the FDIC projects that it will receive approximately 13,000 written complaints and 3,700 inquiries and will closely monitor the timeliness of its responses. Additionally, the FDIC surveys a sample of consumers who have filed written consumer protection and fair lending complaints in order to assess their satisfaction with the FDIC's investigations and responses.

Human Resources (staffing and training): The FDIC's Consumer Response Center responds to consumer complaints and inquiries about consumer protection matters. This centralized program helps maintain staff knowledge and expertise, and it provides greater flexibility in balancing staff resources and workload.

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

Verification and Validation

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

2007 Performance Results

This annual performance goal and the associated performance indicator and target are unchanged from 2007. The Corporation exceeded the 2007 performance target, responding to over 93 percent of the 11,624 written consumer complaints within the time frames established under FDIC policy.

Annual Performance Goal 3.2-2

Provide effective outreach related to CRA, fair lending and community development.

Indicators and Targets

1. Number of outreach activities conducted, including technical assistance activities
 - *Conduct 125 technical assistance (examination support) efforts or banker/community outreach activities related to CRA, fair lending and community development.*
2. Expanded access to high quality financial education through the Money Smart curriculum
 - *Release a “Young Adult” version of the Money Smart curriculum.*
 - *Distribute at least 10,000 copies of the “Young Adult” version of Money Smart.*
3. Scope and timeliness of dissemination of the results of the unbanked survey
 - *Analysis of survey results is disseminated within six months of completion of the survey through regular publications, ad hoc reports and other means.*
4. Support for expanded foreclosure prevention efforts for consumers at risk of foreclosure (in partnership with NeighborWorks® America and other organizations)
 - *Provide technical assistance, support and consumer outreach activities in all six FDIC regions to at least eight local NeighborWorks® America affiliates or local coalitions that are providing foreclosure mitigation counseling in high need areas.*

Means and Strategies

Operational Processes (initiatives and strategies): The FDIC participates in a variety of community outreach activities designed to increase awareness of community and economic development; increase knowledge of CRA regulations and fair lending laws; enhance lending, investment and service performance; and assist FDIC-supervised insured depository institutions in developing strategies to respond to credit, investment and service opportunities. To facilitate compliance, the FDIC provides supervised insured depository institutions with updated information on laws, regulations and guidance. This information is provided in brochures, instructional curriculum and through other media, including the FDIC’s website (www.fdic.gov).

Through community outreach efforts and technical assistance, the FDIC encourages lenders to work with members of their local communities in meeting the communities' credit needs. The FDIC also develops publications, such as *FDIC Consumer News*, specifically for consumers to increase awareness and improve their understanding of consumer rights and responsibilities.

The FDIC will continue to implement initiatives to promote the extension of financial institutions' services and programs that facilitate the opening of bank accounts and asset building by traditionally underserved populations. For example, Money Smart is a highly praised, well-received mechanism for promoting economic inclusion and financial literacy. The FDIC will continue to develop and promote Money Smart financial education products in response to market demand. In 2008, the FDIC will release a version of Money Smart targeted to young adults. As part of the release, a strategy will be developed to distribute at least 10,000 copies of the new curriculum.

The FDIC will also complete surveys on the unbanked and publish the study results in 2008. The Corporation expects to initiate and implement appropriate changes to supervisory and other policies and procedures, as necessary, to address the study's findings. In addition, through a continuing partnership with NeighborWorks® America and other organizations, the FDIC will actively work to further foreclosure prevention activities.

Human Resources (staffing and training): Workload and staffing resources trained in technical assistance and outreach are located in Washington, D.C., and the FDIC's six regional and two area offices. These resources ensure that the FDIC can respond to outreach needs in communities nationwide.

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

Verification and Validation

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

2007 Performance Results

This annual performance goal as well as performance indicator #1 and its associated performance target are unchanged from 2007. The FDIC exceeded the related 2007 performance target, undertaking 179 technical assistance and related outreach activities relating to CRA, fair lending or community development. Performance indicators #2, #3, and #4 and their associated performance targets are new for 2008, although performance indicators #2 and #3 and their associated performance targets are closely related to 2007 performance targets. The FDIC largely met the other 2007 performance targets for this goal, except for completion of a planned pilot project with banks near military installations to provide small-dollar loan alternatives to high-cost payday lending. That planned 2007 initiative was incorporated into a larger, two-year pilot project on small-dollar lending (see Annual Performance Goal 3.2-3).

Annual Performance Goal 3.2-3

Continue to expand the FDIC's national leadership role in developing and implementing programs and strategies to encourage and promote broader economic inclusion within the nation's banking system.

Indicators and Targets

1. Results of pilot small-dollar lending program conducted by participating financial institutions
 - *Analyze quarterly data submitted by participating institutions to identify early trends and potential best practices.*
2. Degree of success achieved in bringing the unbanked/underserved into the financial mainstream through the Alliance for Economic Inclusion.
 - *Open 27,000 new bank accounts.*
 - *Initiate new small-dollar loan products in 32 financial institutions.*
 - *Initiate remittance products in 32 financial institutions.*
 - *Reach 18,000 consumers through financial education initiatives.*

Means and Strategies

Operational Processes (initiatives and strategies): The FDIC is conducting a two-year study, in cooperation with a set of 30 diverse participating institutions, to identify best practices and replicable business models for small-dollar lending. Data is collected from these institutions on a quarterly basis. Designated FDIC points of contact maintain ongoing relationships with the participating institutions to share information and assist with the filing of the quarterly reports. The FDIC's research and supervision staffs are responsible for compiling and analyzing the data from this pilot program. The pilot will be completed and the FDIC expects to publish the results of this study in 2010.

In addition, the FDIC will continue to provide ongoing leadership, encouragement and support to nine broad-based coalitions that bring financial institutions, community-based organizations, researchers, employers, faith-based organizations, state and local governmental agencies, and federal bank regulators together to address the specific financial service needs of their communities. In addition to the nine existing coalitions, the FDIC plans to expand to at least one additional market in 2008. Through community outreach efforts and technical assistance, the FDIC will encourage lenders to work with members of their local communities to meet their credit needs.

Human Resources (staffing and training): Analysis of data from the small-dollar lending pilot program will be conducted by the FDIC's existing research and supervision staffs in Washington, D.C. Staff resources trained in technical assistance and outreach is located in Washington, D.C., and the FDIC's six regional and two area offices. These resources provide the FDIC with the capability of responding to outreach needs in communities nationwide.

Information Technology: The FDIC uses FDICconnect to collect data from participating institutions on the small-dollar lending pilot program. CARDS and CARS are used to capture and report information about activities related to technical assistance, community development, outreach and Money Smart.

Verification and Validation

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

2007 Performance Results

This annual performance goal and the associated performance indicators and targets are new for 2008. There were no related 2007 performance results.

RECEIVERSHIP MANAGEMENT PROGRAM

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

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

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

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

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

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

STRATEGIC GOAL 4:

Recovery to creditors of receiverships is achieved.

STRATEGIC OBJECTIVE 4.1

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

Annual Performance Goal 4.1-1

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

Indicator and Target

Scope of qualified and interested bidders solicited

- *Contact all known qualified and interested bidders.*

Means and Strategies

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

Human Resources (staffing and training): Staffing requirements will continually be assessed within the context of workload fluctuations to ensure that the FDIC has enough staff to successfully carry out its receivership management responsibilities. The FDIC has established policies and procedures to allow for the temporary assignment of resources from throughout the Corporation to meet workload demands and mission responsibilities in this area. In addition, the Corporate Employee Program is expanding the FDIC's knowledge base in the areas of resolutions and receiverships and will ensure a continual level of readiness within the workforce. The Corporation is also in the midst of developing a new Resolutions and Receiverships Commissioning Program and a franchise and asset marketing certificate program to ensure the availability of qualified personnel to handle the Corporation's receivership management workload.

Information Technology: During 2008, the Division of Resolutions and Receiverships (DRR) Marketing System initiative will be implemented as an enhancement to the Asset Servicing

Technology Enhancement Project (4-C). This new technology will integrate the franchise and asset marketing functions and will replace several standalone applications that are now used to support those functions.

Verification and Validation

The franchise marketing process is currently tracked through the FDIC's Overarching Automation System (OASIS). The tracking process will migrate to 4-C as that new system is developed and implemented.

2007 Performance Results

This annual performance goal and its associated performance indicator and target are unchanged from 2007. The 2007 performance target was successfully met. There were three failures of insured financial institutions during 2007, and all known qualified and interested bidders were offered an opportunity to participate in the FDIC's marketing efforts for each failure.

STRATEGIC OBJECTIVE 4.2

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

Annual Performance Goal 4.2-1

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

Indicator and Target

Percentage of failed institution's assets marketed

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

Means and Strategies

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

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

Human Resources (staffing and training): Workload and staffing requirements are regularly reassessed to ensure that staffing is sufficient to meet the FDIC's receivership management responsibilities. The FDIC has established policies and procedures to allow for the temporary

assignment of resources to meet mission responsibilities during unexpected workload increases. As noted previously, the Corporation implemented the Corporate Employee Program in 2005, which has expanded the FDIC's knowledge base in the areas of resolutions and receiverships and will help to ensure a continual level of readiness.

Information Technology: The FDIC will continue to use new and refined technology to make its asset management/servicing, sale strategies and processes more efficient and to keep pace with changing market and business practices. The Corporation will continue to use the Internet to deliver asset marketing information to potential investors and to auction/sell assets received from failed institutions. In late 2007, the FDIC implemented the first phase of its new 4-C system, which uses adaptable technology that is compatible with industry standards to provide the FDIC with a single data source for asset reporting, thereby eliminating data redundancies and related data reconciliation efforts.

Verification and Validation

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

2007 Performance Results

This annual performance goal and its associated performance indicator and target are unchanged from 2007. There were three failures of insured financial institutions during 2007, and all marketable assets were marketed within 90 days for each failed institution.

Annual Performance Goal 4.2-2

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

Indicator and Target

Timely termination of new receiverships

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

Means and Strategies

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

addition, an oversight committee, consisting of senior FDIC managers, meets periodically to review and evaluate the quarterly progress of each receivership action plan.

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

The FDIC continues to work on the resolution of impediments to the termination of the remaining open receiverships. These impediments are closely monitored by oversight staff and reviewed by senior management. As the impediments are cleared, the open receiverships will be terminated. During 2007, three new receiverships were added to the FDIC inventory of receiverships and 15 were inactivated, leaving a total of 43 active receiverships at the end of 2007.

Human Resources (staffing and training): Based on workload fluctuations, staffing requirements will be continually assessed to ensure that the FDIC has enough staff to successfully carry out its receivership management responsibilities.

Information Technology: Existing technology will be used to accomplish this goal. Aside from technology developments noted under Annual Performance Goal 4.1-1, no new technology or automated tools will be developed in support of this 2008 annual performance goal.

Verification and Validation

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

2007 Performance Results

This annual performance goal and its associated performance indicator and target are unchanged from 2007. The 2007 performance target was successfully met. The FDIC terminated 15 receiverships in 2007, all within 90 days of the resolution of the last impediment(s).

STRATEGIC OBJECTIVE 4.3

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

Annual Performance Goal 4.3-1

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

Indicator and Target

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

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

Means and Strategies

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

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

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

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

Verification and Validation

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

2007 Performance Results

This annual performance goal and its associated performance indicator and target are unchanged from 2007. There were no reportable performance results for this goal in 2007. Although three institutions failed during the year, no receivership reached the 18-month point after failure.

EFFECTIVE MANAGEMENT OF STRATEGIC RESOURCES

Introduction

The FDIC recognizes that it must effectively manage a number of critical strategic resources in order to successfully carry out its mission and realize the annual performance goals set forth for its three major programs. Strategic resource management facilitates the Corporation's mission-critical activities and helps minimize risk to the DIF, while simultaneously aligning and deploying the Corporation's resources to the areas where they are most needed. An overview of planned 2008 initiatives to enhance the Corporation's management of its key strategic resources follows.

Human Capital Management

The FDIC's most important resource is the "intellectual capital" that its employees bring to bear on the accomplishment of its mission. For that reason, the FDIC strives to attract, develop and retain a highly skilled, diverse and results-oriented workforce and to be regarded as a "best place to work," especially among employers whose workforces consist primarily of financial professionals. Because as much as 40 percent of the FDIC's current workforce is projected to retire over the next 10 years, the FDIC will have a unique opportunity to re-shape its workforce to meet the challenges that are emerging in the U.S. financial system of the early 21st Century. The impending wave of retirements has also enabled the Corporation to move past the extended period of downsizing that followed the end of the banking and thrift crises in the early 1990's and to gradually resume hiring, with a focus on the skills sets that are needed today to provide regulatory oversight to an increasingly complex financial system. In 2008, the FDIC will pursue a number of human capital initiatives as it begins to build its workforce of the future.

Strategic Workforce Planning and Readiness

When the FDIC resumed hiring of new entry-level employees in 2005, it adopted a fundamentally different strategy for staffing its core mission occupations in the post-downsizing era. This new strategy emphasized the development of a more mobile and flexible workforce that was cross-trained in the Corporation's key mission functions and could be re-deployed rapidly to address new workload priorities in response to unexpected external events or changing conditions in the banking industry and the broader economy. These principles were the foundation for the new Corporate Employee Program (CEP), which has become the primary vehicle for filling new entry-level positions in the FDIC's core bank examiner occupation as well as other key positions in the Corporation's business divisions.

During the first year of the CEP, participants are provided with basic exposure to each of the FDIC's key business processes: deposit insurance, risk-management examinations, consumer protection/compliance examinations, and resolutions/receivership management. After the completion of the first year, participants are assigned to a specific commissioning track. Upon successful completion of the CEP, employees will have earned a commission in their primary area of specialization and competency certifications in at least two other specialties outside of that primary area of specialization. Internal certification programs have been or are being developed for deposit insurance claims, consumer compliance examinations, Bank Secrecy Act compliance examinations, and franchise and asset marketing. Over 300 employees (more than 15 percent of the current examiner workforce) were being trained under the CEP at the end of 2007, and that number is expected to increase to approximately 500 (over 25 percent of the examiner workforce) by the end of 2008. CEP recruiting and selection will continue to be a major corporate priority in 2008.

The Corporation has also emphasized the addition of advanced technical skills to its workforce through both increased mid-career hiring, the development of advanced internal training curricula (discussed below), and support for numerous other professional certification programs. The primary focus of outside, mid-career hiring has been on mid-career risk management and compliance examiners who are able to have a more immediate impact on the FDIC's current examination workload; Ph.D. economists and others with advanced quantitative and risk modeling skills that are needed to assess risk in large insured institutions; consumer protection researchers and specialists; and attorneys with regulatory enforcement, consumer protection, and litigation backgrounds (new, entry-level attorneys are hired through the Corporation's Honors Attorney Program, which provides rotational experiences within the FDIC's Legal Division that are similar to those in the CEP).

In order to ensure readiness in light of the current turmoil in financial markets and parts of the banking industry, the Corporation in 2007 temporarily re-employed a number of retired risk management and compliance examiners to assist with the increasing examination workload as well as the growing workload associated with coaching the large number of trainees in the CEP. In 2008, the Corporation will extend this concept to the receivership management area by temporarily re-employing retired resolutions and receivership specialists to ensure that the FDIC can successfully address the uncertain institution failure workload.

Succession Management

The FDIC faces particular challenges as many of its long-term, highly skilled employees move into retirement. To help address these succession management issues, the FDIC will pursue a number of initiatives that are designed to retain, where possible, the skills and knowledge of its current employees for a longer time period while equipping a new generation of employees to assume the responsibilities of departing employees.

To address these projections, FDIC leadership developed several multi-year programs to assess current and potential leadership strength, identify skills shortages, and shape measures to close whatever gaps are identified:

- Knowledge Management Program. The FDIC will design, develop and begin implementation of a formal knowledge management program in 2008. This will include creation of a multi-year knowledge management strategic plan that will focus on the full spectrum of knowledge management.
- Corporate Executive Development Program. Baseline leadership competencies and gaps were identified in 2006 and 2007 through review of an Office of Personnel Management (OPM) competency assessment tool. To address the identified gaps and ensure that there are corporate managers who are prepared to advance to executive level positions as they become vacant, the Corporation will implement a pilot Corporate Executive Development Program at the beginning of 2008. It will provide 18 months of intensive classroom and on-the-job training to high-potential supervisors and senior technical specialists.
- Talent Review Program. The FDIC plans to extend the talent review process begun in 2006 with its executive-level employees to corporate managers and senior technical professionals in 2008 and 2009. Under this program, the Corporation's senior leadership conducts a comprehensive review of specific individual positions, identifying those which are the most likely to become vacant within a 3-5 year period; assessing strategic options for filling those positions if they become vacant, including the availability of potential successors within the current FDIC workforce; and identifying development gaps for those possible successors.
- Temporary "Overhire" Initiatives. Two divisions, DRR and the Legal Division, are projected to be significantly more vulnerable than other FDIC organizations to the loss of critical skills and experience as a result of retirements over the next five years. Each division is projected to lose up to 35 percent of its current workforce to retirement by year-end 2012. To help address that vulnerability, the FDIC Board of Directors in late 2007 authorized both organizations to temporarily exceed their approved staffing authorizations in 2008 by "double encumbering" critical positions to facilitate the orderly transfer of knowledge to new employees and by augmenting current staffing in critical skill areas to address current and projected future workload requirements.
- Retention of Experienced Employees. In 2008, the Corporation plans to evaluate various options for retaining some of its most experienced employees beyond their anticipated retirement dates, where their skills and experience are deemed critical, to facilitate an orderly transfer of knowledge to new employees.

Employee Engagement

The FDIC conducted its first annual employee survey in 2007 to supplement the Federal Human Capital Survey administered to all FDIC employees by the OPM in 2004 and 2006 (FDIC employee surveys will continue annually in 2008 and future years as required by statute). Both surveys provided similar results. The FDIC's employees enjoy their work, believe it is important, and get a sense of personal accomplishment from it. They also have a good understanding of the Corporation's mission and strategic direction and know how their work fits

into the FDIC's goals and priorities. Employees are also highly satisfied with their pay and benefits (highest rated among federal agencies in the 2006 OPM survey), the FDIC's family-friendly culture (highest rated among federal agencies in the 2006 OPM survey) and programs for work-life balance, their physical work environments, and the training, technological and other resources that are provided to them by the FDIC.

But, the two surveys also revealed significant opportunities for improvement in internal communications, employee empowerment, leadership and trust. Accordingly, the FDIC will begin a multi-year initiative in 2008 to fundamentally remake its organizational culture to address these issues. The Corporation will also work with its employee union to implement a new pay-for-performance system that is more transparent to employees and is perceived by employees to be fairer than the current system.

Employee Learning and Growth

The FDIC promotes the continuous learning and development of its employees and substantially augmented the resources available to employees for training in 2007 through the pilot Professional Learning Accounts (PLA) Program. The PLA Program has been enhanced for 2008, based on employee feedback on the first year of the pilot program. This program provides funding for employees to pursue a comprehensive Career Development Plan, developed in collaboration with their immediate supervisors, to develop and enhance their current job skills as well as skills needed for more advanced positions.

Under the leadership of the FDIC's Corporate University (CU), several training programs to equip employees with advanced technical skills have been or are being developed:

- In 2008, the Corporation will continue developing new resolutions and receivership commissioning programs in support of these mission critical functions. In 2007, certificate programs were completed and implemented covering basic elements of each of these programs.
- In 2007, the Corporation completed the development of its Advanced Compliance Examination School (ACES), a post-commissioning education program, and completed training of approximately one-third of its commissioned compliance examiners in this new curriculum. All remaining commissioned compliance examiners will complete this training in 2008 and 2009.
- In 2008, the Corporation will complete development and begin implementing of an advanced large-bank training and employee development program to expand and ensure the continuing availability within the FDIC workforce of the technical skills required to insure, examine and, if necessary, resolve the failure of large or complex insured financial institutions. These include advanced classroom and on-the-job training and development in the areas of retail credit risk, wholesale credit risk, and capital markets.
- In 2008, CU will continue to define internal and external certificate programs and/or other credentialing programs that will be used to recognize employees with

advanced/specialized skills that needed to fulfill the Corporation's core mission responsibilities.

- CU will continue to provide leadership development program offerings for executives, managers and supervisors to prepare the FDIC's current and future leaders to meet the Corporation's ever-growing challenges. These programs will provide a solid foundation of talent to address succession management needs and promote workforce flexibility.

The FDIC will use all of these learning programs as opportunities to strengthen its organizational culture, build key competencies, and promote the importance of its corporate values.

Financial Resources Management

The FDIC's operational expenses are largely paid from the investment earnings on the Deposit Insurance Fund and the assessment's paid by insured financial institutions. The Corporation takes very seriously its fiduciary responsibilities to use these funds in an efficient and cost-effective manner. To that end, the Corporation engages annually in a rigorous planning and budget formulation process to ensure that budgeted resources reflect and are properly aligned with workload projections and designated corporate priorities, and it has an exceptional record of controlling its operating expenses in recent years. The Corporation's 2007 operating expenses totaled approximately \$1.0 billion, slightly *less* than its operating expenses five years earlier, in 2003. The FDIC's 2008 Corporate Operating Budget totals \$1.14 billion.

In 2006 and 2007, the Corporation's senior managers participated in a series of cost forums designed to help them better understand both the direct and indirect costs of the FDIC's various programs. These discussions utilized the enhanced cost information that is available from the New Financial Environment accounting system. The cost forums will continue in 2008. The Corporation will also begin a multi-year effort in 2008 to examine and identify opportunities for reducing its IT costs.

Information Technology Resources Management

Information technology resources are among the most valuable assets available to the FDIC in fulfilling its corporate mission. The FDIC operates a nationwide computing network and maintains approximately 250 application systems for employees to perform their duties related to supervising financial institutions, protecting consumers, insuring depositors, and managing receiverships. The Corporation has been engaged for several years in a major effort to improve its IT program, and this effort will continue in 2008. Some major components of that effort follow.

Increased IT Efficiency

The FDIC is committed to improving its operational efficiency in the IT area by identifying opportunities to streamline maintenance activities that may lead to future cost savings. Since the majority of the current IT expenses are from ongoing maintenance costs, the FDIC conducted an in-depth study of maintenance activities and supporting staff and contractor expenses in 2007.

The data provided an insight into areas that may be streamlined or eliminated. Further analysis and recommendations will be completed in 2008. This also provides a baseline to gauge future savings.

Improved IT Business Alignment

The FDIC has established a number of organizational and governance structures to ensure that its IT program supports and is fully aligned with the Corporation's business strategies and goals. Business line executives participate in several IT governing bodies – the Capital Investment Review Committee, the CIO Council, and the IT Principals Group – that make recommendations on which IT development projects should be funded. Proposed IT development projects are reviewed and rated based on a standard set of criteria that focuses on business benefit, risk mitigation, cost analysis, and technical feasibility. Once a project is approved, the governing bodies monitor its progress and adjust resources, as necessary. In 2008, the Corporation will continue to refine the current governance structures to enhance their effectiveness.

The management of IT development projects is also supported by an independent Project Management Office (PMO), which provides support for a comprehensive “portfolio view” of all IT development projects. A “portfolio-view” requires a disciplined approach to capacity planning and prioritization of approved and proposed IT development projects. In conjunction with regular portfolio reviews, project priorities are reassessed on a continuing basis in light the progress and availability of funding for each project. Funding may be periodically reallocated among projects, based upon the outcome of these reviews. Effective capacity planning ensures that the appropriate resources are allocated to meet evolving business priorities, which often compete for the same finite pool of staff expertise and budget. In 2008, the PMO will continue to improve its analysis and monitoring capabilities for managing the IT portfolio.

Enhanced Corporate Privacy Program

The FDIC is committed to protecting the security of sensitive information that it receives from financial institutions and individuals. The Corporate Privacy Program requires mandatory privacy training for all FDIC employees and contractors to ensure that they are aware of the requirements for safeguarding sensitive information and know where to obtain privacy-related reference material. Other major initiatives that were previously undertaken include the identification of systems that required modification to protect personally identifiable information (PII); the implementation of a strategy to protect PII that is processed, stored, transmitted and accessed by FDIC contractors; and completion of PII remediation of FDIC application systems. Enhancements to the Corporate Privacy Program will continue in 2008, with initiatives such as the automation of controls on the copying of sensitive data, the implementation of standardized encryption for removable media, and the strengthening of controls over shipped data.

Enhanced Information Security Program

The FDIC's information security program seeks to proactively assure the integrity, confidentiality and availability of corporate information by requiring an ongoing commitment by employees throughout the organization. In 2007, the information security program continued its ongoing cycle for assessing risks, developing and implementing effective security procedures, and monitoring the effectiveness of those procedures. In 2008, the FDIC will focus on ensuring that the Corporation is in compliance with all laws and directives regarding security, such as OMB Circular A-130, the Federal Information Security Management Act, the E-Government Act, and guidance from the National Institute of Standards and Technology. In addition, 2008 initiatives will include the completion of the three-year certification and accreditation reviews and the continued expansion of penetration testing to identify and eliminate external vulnerabilities.

Enterprise Risk Management

As an integral part of its stewardship of the DIF, the FDIC maintains a comprehensive risk-management and internal control program, which is designed to promote the efficiency, effectiveness, control, and risk-focusing of internal operations throughout the Corporation. The Office of Enterprise Risk Management (OERM) oversees this program by providing guidance to all divisions and offices on issues such as internal controls, system security, privacy, operational effectiveness and efficiency, post-project reviews, and audit follow-up. During 2008, OERM will continue its efforts on those initiatives and will work with divisions and offices to ensure the successful implementation of the new Automated Procurement System, upgrade of the New Financial Environment system, and completion of a corporate-wide clean-up of shared network folders.

APPENDICES

Appendix A Program Resource Requirements

Appendix B The FDIC's Planning Process

Appendix C Program Evaluation

Appendix D Interagency Relationships

Appendix E External Factors

APPENDIX A

Program Resource Requirements

The FDIC's budget is developed in a manner that recognizes its three programs of Insurance, Supervision and Receivership Management. The following chart presents the budgetary resources that the FDIC plans to expend for its programs during 2008 to pursue the strategic goals and objectives and the annual performance goals set forth in this Plan, and to carry out other program-related activities. The costs reflect each program's share of common support services provided by the Corporation.

Supervision	\$640,156,923
Insurance	\$162,490,572
Receivership Management	\$179,263,981
Subtotal	\$981,911,476
Corporate Expenses	\$159,892,712
TOTAL	\$1,141,804,189

APPENDIX B

The FDIC's Planning Process

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

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

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

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

APPENDIX C

Program Evaluation

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

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

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

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

Program evaluation activities in 2008 will focus on key corporate issues, including addressing privacy issues, shared folder access and security, and asset management. Of particular importance in 2008 is work on the upgrade of FDIC's New Financial Environment, an integrated, state-of-the-art financial management system.

APPENDIX D

Interagency Relationships

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

Other Financial Institution Regulatory Agencies

The FDIC works closely with other federal financial institution regulators—principally 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. Regulations are in many cases interagency efforts, and the majority of supervisory policies are written on an interagency basis. Examples include policies addressing subprime lending, capital adequacy, fraud information-sharing and off-site monitoring systems. In addition, the Comptroller of the Currency and the OTS Director are members of the FDIC Board of Directors, which facilitates crosscutting policy development and regulatory practices among the FDIC, the OCC and the OTS.

The FDIC, the FRB, the OCC and the OTS also work closely with the National Credit Union Administration (NCUA), which supervises and insures credit unions; the Conference of State Bank Supervisors (CSBS), which represents the state regulatory authorities; and individual state regulatory agencies.

The Federal Financial Institutions Examination Council

The Federal Financial Institutions Examination Council (FFIEC) is a formal interagency body empowered to prescribe uniform principles, standards and report forms for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of financial institutions. The member agencies of the FFIEC are the FDIC, FRB, OTS, OCC and National Credit Union Administration (NCUA). As the result of legislation in 2006, the Chair of the FFIEC State Liaison Committee now serves as a sixth member of the FFIEC. The State Liaison Committee is composed of five representatives of state supervisory agencies. To foster interagency cooperation, the FFIEC has established interagency task forces on consumer compliance, examiner education, information sharing, regulatory reports, surveillance systems and supervision. The FFIEC has statutory responsibilities to facilitate public access to data that depository institutions must disclose under the Home Mortgage Disclosure Act of 1975 (HMDA) and the aggregation of annual HMDA data for each metropolitan statistical area. The FFIEC publishes handbooks, catalogues and databases that provide uniform guidance and information to promote a consistent examination process among the agencies.

State Banking Departments

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

Dedicated Examiner Program

The FDIC has six “dedicated examiners” assigned to the six largest insured financial organizations. Dedicated examiners work closely with the organizations’ primary federal regulator and use supervisory information, internal organization information, and external sources of information to evaluate risks and assign an FDIC risk rating for each of these six organizations.

Basel Committee on Banking Supervision

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

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

BCBS - International Liaison Group

In addition to the FDIC’s membership on the Basel Committee for Banking Supervision (BCBS), the FDIC is a member of a BCBS subcommittee called the International Liaison Group (ILG). The ILG provides a forum for deepening engagement and cooperation with supervisors from around the world on a broad range of issues involving banking and supervision. In addition to the United States, the ILG has senior representatives from seven other member countries including France, Germany, Italy, Japan, the Netherlands, Spain, and the United Kingdom.

Interagency Country Exposure Review Committee

The Interagency Country Exposure Review Committee (ICERC) was established by the FDIC, the FRB and the OCC to ensure consistent treatment of the transfer risk associated with banks’ foreign exposures to both public and private sector entities. The ICERC assesses the degree of

transfer risk inherent in cross-border and cross-currency exposures of U.S. banks, assigns ratings based on its risk assessment and publishes annual reports of these risks by country.

International Association of Deposit Insurers

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

European Forum of Deposit Insurers

The FDIC shares mutual interests with the European Forum of Deposit Insurers (EFDI) and supports the organization's mission to contribute to the stability of financial systems by promoting European cooperation in the field of deposit insurance. As such, the FDIC contributes its expertise and experience in supervision and deposit insurance and openly shares this expertise through discussions and exchanges on issues that are of mutual interest and concern (e.g., cross-boarder issues, bilateral and multilateral relations and financial customers' protections).

Association of Supervisors of Banks of the Americas

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

Shared National Credit Program

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

Joint Agency Task Force on Discrimination in Lending

The FDIC participates on the Joint Agency Task Force on Discrimination in Lending with all five of the federal financial institution regulators (FDIC, FRB, OCC, OTS and NCUA) along with the U.S. Department of Housing and Urban Development, the Office of Federal Housing

Enterprise Oversight, the U.S. Department of Justice (DOJ), the Federal Housing Finance Board and the Federal Trade Commission. The agencies exchange information about fair lending issues, examination and investigation techniques, and interpretations of the statute and regulations and case precedents.

European Forum of Deposit Insurers

The FDIC shares mutual interests with the European Forum of Deposit Insurers (EFDI) and supports the organization's mission to contribute to the stability of financial systems by promoting European cooperation in the field of deposit insurance. As such, the FDIC contributes its expertise and experience in supervision and deposit insurance and openly shares this expertise through discussions and exchanges on issues that are of mutual interest and concern (e.g., cross-boarder issues, bilateral and multilateral relations and financial customers' protections).

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

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

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

- The Bank Secrecy Act Advisory Group: a public/private partnership of agencies and organizations that meet to discuss strategies and industry efforts to address money laundering controls.
- The National Secrecy Act Advisory Group: a public/private partnership of agencies and organizations that meet to discuss strategies and industry efforts to curb money laundering.
- FFIEC BSA/AML Working Group: composed of the federal banking agencies, FinCEN and the CSBS, to enhance coordination of BSA/AML training and awareness and to improve communication between the agencies. The BSA/AML working group builds on existing efforts and works to strengthen the activities that are already being pursued by other formal and information interagency groups providing oversight of various BSA/AML-related matters.
- The National Bank Fraud Working Group: sponsored by the DOJ.
- The Check Fraud Working Group (a subcommittee of the National Bank Fraud Working Group): federal banking agencies, DOJ, Federal Bureau of Investigation

(FBI), FinCEN, Internal Revenue Service, Bureau of Public Debt and U.S. Postal Service, which is co-chaired by the FDIC and the FBI.

- The Cyber Fraud Working Group (a subcommittee of the National Bank Fraud Working Group): composed of the federal banking agencies, DOJ, FBI, FinCEN, Internal Revenue Service, and Bureau of Public Debt.
- The National Money Laundering Strategy Steering Committee: chaired by DOJ and the Treasury Department.
- Terrorist Finance Working Group: sponsored by the State Department to assist in the AML training effort internationally and assist in the assessment of foreign countries' financial structures for potential money laundering and terrorist financing vulnerabilities.
- Other working groups: sponsored by Treasury to develop USA PATRIOT Act rules, interpretive guidance and other relevant BSA materials that are applicable to insured financial institutions.

Money Services Business Working Group

The FDIC is working with FinCEN, the Money Transmitters Regulators Association, the CSBS and the Internal Revenue Service to address the discontinuance of banking services to money services businesses (MSBs). The group submitted a survey to all states and U.S. territories to better understand state licensing and AML requirements.

Financial Literacy and Education Commission

The FDIC is a member of the Financial Literacy and Education Commission (FLEC), as mandated by the Fair and Accurate Credit Transactions (FACT) Act of 2003 established. The FDIC actively supports the FLECs efforts to improve financial literacy in America by assigning experienced staff to work in the Office of Financial Education, providing leadership in the development and maintenance of the My Money hotline and toolkits and participating in on-going meetings that address issues affecting the promotion of financial literacy and education.

Alliance for Economic Inclusion

The FDIC established and leads the Alliance for Economic Inclusion (AEI), a national initiative to bring all unbanked and underserved populations into the financial mainstream. The AEI is comprised of broad-based coalitions of financial institutions, community-based organizations and other partners in nine markets across the country. The coalitions work to increase banking services for underserved consumers in low and moderate income neighborhoods, minority and immigrant communities, and rural areas. These expanded services include savings accounts, affordable remittance products, targeted financial education programs, short-term loans, alternative delivery channels and other asset-building programs.

Government Performance and Results Act Financial Institutions Regulatory Working Group

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

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

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

APPENDIX E

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

Economic conditions at the national, regional and local levels affect banking strategies and the industry's overall performance. Economic conditions also affect the performance of individual businesses, which has a significant effect on loan growth and credit exposure for the banking industry. Overall business conditions and macroeconomic policies are key determinants of inflation, domestic interest rates, and the exchange value of the dollar and equity market valuations, which in turn influences lending, funding and off-balance sheet activities of insured depository institutions.

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

The U.S. economy shows signs of weakness in 2008. The housing market began to show signs of weakness more than a year ago. Declining residential construction activity has reduced annualized economic growth by about one percentage point each quarter since the middle of 2006. Although the economy thus far has been able to weather the weakness in regional housing markets, concerns about the economy have intensified with the onset of financial market uncertainty related to mortgage-loan securitizations.

Since mid-2007, the rating agencies have downgraded many issues of residential mortgage-backed securities (MBS) and collateralized debt obligations backed by subprime mortgages. This has led to increased uncertainty and decreased liquidity in the financial markets, and has seriously disrupted the availability of mortgage and other types of credit. In response, the Federal Reserve's Federal Open Market Committee (FOMC) lowered the federal funds rate by a full percentage point from 5.25 percent to 4.25 percent during 2007 and lowered the discount rate from 6.25 percent to 4.75 percent. The FOMC also provided additional liquidity to financial markets through open-market operations and new lending programs. Although the Treasury yield curve generally has resumed its normal upward-sloping shape, the target federal funds rate remained above yields of almost all longer-term maturities at year-end 2007.

In general, corporate balance sheets were strong in 2007. However, consumer spending appears vulnerable. The 2007 holiday shopping season was widely reported to be the weakest in five years, and inflation-adjusted retail sales actually declined in December from a year earlier. High food and energy prices have reduced disposable income, and both core and headline inflation have been at or above the top of the Federal Reserve's unofficial comfort zone lately. Moreover,

many consumers have had to turn to high-interest revolving debt because their ability to refinance their homes has diminished sharply.

After years of increasing current account deficits, international trade is once again contributing to U.S. economic growth. The weak dollar makes American exports more competitive abroad and foreign imports less competitive here. Expected strong growth in emerging economies, especially in Asia, also should result in increased demand for U.S. goods and services.

Banking industry performance has been hampered by the economic slowdown after years of record profits. Earnings in the third quarter of 2007 fell 24.7 percent from the year earlier, to \$28.7 billion, which was the lowest level for industry earnings since the fourth quarter of 2002 (fourth quarter 2007 industry results have not yet been published). The industry's return on assets (ROA) in the third quarter of 2007 was 0.92 percent, the lowest ROA since the fourth quarter of 1992. The decline in earnings was mostly attributable to an increase in loan-loss provisions related to mortgages and a decline in trading revenues. Almost half of all institutions (49 percent) reported lower quarterly earnings compared to the third quarter 2006, although just ten institutions accounted for more than half of the decline in industry earnings. Several of the ten institutions have announced that they will report additional losses in the fourth quarter of 2007 due to their exposures to mortgages, leveraged loans, and structured finance products.

Non-current loans and leases increased by \$16.0 billion from a year earlier. More than half of the increase consisted of residential real estate loans. Increases in non-current loans also occurred in real estate construction and development loans (up \$3.6 billion, or 45.5 percent), real estate loans secured by non-farm nonresidential properties (up \$918 million, or 15.4 percent), and commercial and industrial (C&I) loans (up \$833 million, or 10.4 percent).

Loan-loss provisions in the third quarter of 2007 totaled \$16.6 billion, more than double the \$7.5 billion insured institutions set aside for credit losses in third quarter 2006 and the industry's largest quarterly loan-loss provision since the second quarter of 1987. Total net charge-offs were up \$3.6 billion (49.9 percent) from a year ago. The largest increases occurred in C&I loans, consumer loans (other than credit cards), and residential mortgage loans.

Although loan-loss reserves increased at a rapid pace, they were outpaced by the increase in non-current loans. This led to a decline in the industry's "coverage ratio" during the quarter from \$1.21 to \$1.05 in reserves for every dollar of non-current loans—the lowest level for the coverage ratio since third quarter 1993.

However, the banking industry faces these challenges after several years of record profits and historically strong capital levels. More than 99 percent of all FDIC-insured institutions are well capitalized according to the regulatory capital definition for Prompt Corrective Action.

One bright spot for the industry in the third quarter of 2007 was an increase in net interest income. A sustained inverted-to-flat yield curve environment had placed downward pressure on net interest margins (NIMs) at FDIC-insured institutions for more than a year. By the end of 2007, short-term interest rates had again fallen below long-term rates. However, many smaller institutions are still struggling to increase their NIMs, which form a greater percentage of their

revenue than for large institutions. Banks and thrifts with assets less than \$100 million reported lower profitability than the overall industry. The third quarter 2007 ROA reported by these institutions, 0.80 percent, decreased from 1.02 percent in the third quarter of 2006 primarily because of narrowing NIMs and higher overhead expenses. These institutions represent 41 percent of FDIC-insured institutions but less than 2 percent of total industry assets.

As of December 31, 2007, there were 76⁴ institutions on the Problem Institution List with a combined \$22.2 billion in assets. Both the number and assets of problem institutions remained low by historical standards, but the number of problem institutions had increased for four consecutive quarters. If non-current loans and net charge-offs on loans continue to increase as earnings performance declines, the number of problem institutions may increase further.

The FDIC Deposit Insurance Fund is well placed to deal with potential difficulties in the industry in 2008. At the end of third quarter 2007, the DIF stood at \$51.8 billion for a reserve ratio of 1.22. This, together with the capital most FDIC-insured institutions accumulated during the middle of the decade, combine to provide confidence to insured depositors.

⁴ As published in the December 2007 *FDIC Quarterly Banking Profile*.⁴