2002 Annual Performance Plan

Chairman's Message

I am pleased to present the Federal Deposit Insurance Corporation’s 2002 Annual Performance Plan. The FDIC contributes to the stability of and public confidence in the nation’s financial system by insuring deposits, supervising financial institutions, and managing receiverships.

A key initiative in the Annual Plan is the continuation of the comprehensive review of the U.S. deposit insurance system. Deposit insurance has served this country well for more than 70 years. The system does not need to be radically changed; however, it does have a number of flaws that need to be addressed. In 2002, the FDIC will work closely with the Congress to enact a deposit insurance reform package.

Another initiative is a review of the FDIC’s operations, with an emphasis on streamlining the organization, maintaining a workforce with flexible skills, and providing cost-effective services.

The FDIC is committed to maintaining public confidence in the nation’s financial system. I invite you to read further about the FDIC’s initiatives for 2002.

Donald E. Powell
Chairman

FDIC's Mission, Vision and Values

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

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

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

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

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

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

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

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

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

Insurance Program

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

The FDIC exercises its insurance responsibilities by approving or denying applications by any depository institution for federal deposit insurance. Before granting access to the federal deposit insurance system, the FDIC evaluates the potential risk to the funds and assesses an applicant's adequacy of capital, general character of management, financial history and condition, future earnings prospects, convenience and needs of the community, and attitude of other regulatory authorities. The FDIC maintains sufficient deposit insurance fund balances by collecting risk-based insurance premiums from insured depository institutions and by prudent fund investment strategies.

The FDIC strives to increase global awareness and knowledge of deposit insurance by issuing guidance and conducting and disseminating research on international deposit insurance issues. The Corporation promotes financial stability by exercising leadership in deposit insurance outreach efforts for insured institutions, the other federal and international banking agencies, and other industry experts. The FDIC chairs the Research Committee of the Financial Stability Forum's Working Group on Deposit Insurance. The Corporation receives a large number of inquiries on deposit insurance from a wide audience, which includes representatives from foreign governments, deposit insurance systems, and regulatory authorities. Finally, the FDIC provides technical assistance, meets with foreign visitors, and provides failed institution resolution and asset liquidation expertise to other countries.

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

The FDIC provides deposit insurance education and educational tools to insured financial institutions. It makes deposit insurance information available to the industry and consumers through various media, including the Internet, pamphlets, educational materials, and training. Educational outreach efforts for financial institution staff are conducted so that insured depository institutions are able to make accurate disclosures to consumers and depositors about financial products and services.

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

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

Strategic Goal	Strategic Objectives	Annual Performance Goals
Insured depositors are protected from loss without recourse to taxpayer funding	Customers of failed insured depository institutions have timely access to insured funds and financial services	The FDIC is prepared to deal with all financial institution closings and emerging issues
	The FDIC promptly identifies and responds to potential risks to the insurance funds	Identify and address risks to the insurance funds
		Maintain sufficient and reliable information on insured depository institutions
	Deposit insurance funds and system remain viable	Maintain and improve the deposit insurance system

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

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

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

Indicators and Targets Number of business days after institution failure by which depositors will have access to insured funds either through transfer of deposits to successor insured depository institution or depositor payout

- *If the failure occurs on a Friday, the target is one business day*

- *If the failure occurs on any other day of the week, the target is two business days*

Means and Strategies *Deposit Claims (42)*

Operational Processes (initiatives and strategies): When an insured institution is identified as a potential failure, the FDIC prepares a plan to handle the possible resolution and closing of the institution.

The FDIC begins the resolution process with an assessment of the assets and liabilities of the institution. The FDIC then develops an Information Package, which is used as a marketing tool and is sent to all interested potential assuming institutions. The FDIC solicits proposals from approved bidders to find a buyer for the deposit franchise.

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

The FDIC will continue to enhance existing plans and systems and to develop new ones in response to emerging risks related to evolving banking industry practices and technologies. During 2002, the FDIC will continue to work with the other federal banking agencies on developing plans to handle the resolution of a large, complex insured depository institution.

Human Resources (staffing and training): Staffing requirements will continually be assessed to meet the needs of the FDIC in carrying out its resolution/closing activities. The FDIC has established policies and procedures to allow for the temporary assignment and/or reallocation of resources should the need arise.

Verification and Validation

The timeliness of payments to depositors can be verified through the U.S. Department of the Treasury's Financial Management System via the special account established for wiring funds to the assuming institution or the FDIC for direct payment to depositors.

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

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

Annual Performance Goal Identify and address risks to the insurance funds

Indicators and Targets

1. Maintain and improve off-site risk identification models

- *Review and enhance existing FDIC off-site risk identification models to address risks such as credit, agricultural, real estate, technology, and other risks by December 31, 2002*

2. Assess risks posed by large insured depository institutions

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

3. Identify and follow-up on concerns referred for examination or other action (i.e., contact the insured institution or primary supervisor)

- *Identify and follow-up on 100 percent of referrals*

4. Disseminate data and analyses on current issues and risks affecting the banking industry to bankers, supervisors, stakeholders, and the public

- *Analyses are included in regular publications or as ad hoc reports on a timely basis*
- *Conduct industry outreach aimed at the banking community and industry trade groups to discuss current trends and concerns and to inform bankers about available FDIC resources*

Means and Strategies
Risk Analysis, Insurance (21)

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

The FDIC uses programs such as the Statistical CAMELS Off-site Rating (SCOR) and the Growth Monitoring System (GMS) to monitor risks to the deposit insurance funds. SCOR uses Call Report data to identify institutions likely to receive a CAMELS rating downgrade at the next examination. GMS identifies institutions that have grown rapidly and/or have a funding structure highly dependent on non-core funding sources. SCOR and GMS each generate a quarterly Off-site Review List (ORL) of institutions flagged as potential supervisory concerns.

Off-site monitoring is an integral part of the FDIC's risk assessment program. It facilitates pre-examination planning, serves as an early indicator of potential deterioration of a specific institution, and helps identify industry-wide issues. In addition to off-site models, the FDIC performs regular off-site analyses of large banking organizations under the Large Insured Depository Institution (LIDI) program. Banking organizations with total assets of $25 billion or above are monitored using a "living analysis" methodology where risk is evaluated on a real-time basis. Financial institutions with assets of $10 to $25 billion are analyzed at least quarterly. Finally, financial institutions with assets of $3 to $10 billion may be added to the LIDI program at the discretion of FDIC Regional Directors. The FDIC will enhance its monitoring of large institutions by continuing to (1) expand oversight and analysis of aggregate emerging risks and trends; (2) coordinate and expand shared national credit analysis; (3) conduct quarterly regional video-teleconferences and an annual case managers training conference; and (4) conduct Regional Office visitations to discuss large institution issues.

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

By the fourth quarter of 2002, the Basel Committee on Banking Supervision is likely to complete work on the Basel II Capital Accord. This could result in changes to the Call Report and extensive regulatory guidance for banks. Estimated implementation is set for 2005.

Human Resources (staffing and training): The FDIC will increase its training in risk analysis in both its own examination schools and through its participation in training provided by other government agencies and industry vendors.

Information Technology: To facilitate off-site analyses, the FDIC is developing an internal system called the Virtual Supervisory Information on the Net (ViSION) to obtain data from numerous systems, facilitating a top-down view of banking organizations.

In 2002, monitoring of technology risk within the banking system will increase. Procedures will be developed to monitor risks associated with electronic banking. The FDIC will develop an electronic banking monitoring system to proactively identify and assess indicators of technology risks that may impact insured institutions. In addition, the FDIC

will develop an early warning system to detect emerging technology risks at financial institutions by using risk profiles, previous examination results, and industry technology alerts.

Verification and Validation

Validation for off-site monitoring is accomplished in several ways. The FDIC ensures that the review results and follow-up response data has been entered for each institution on the quarterly SCOR and GMS ORL. Additionally, compliance with the LIDI program review requirements is evaluated under a formal Internal Control Review program.

Follow-up actions on supervisory concerns are certified in quarterly Regional Director reports. Independent verification that action has been taken is performed by accessing institution data on the Summary Analysis Examination Report (SAER) System.

Strategic Goal

Insured depositors are protected from loss without recourse to taxpayer funding

Strategic Objective

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

Annual Performance Goal

Maintain sufficient and reliable information on insured depository institutions

Indicators and Targets

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

- *Update and expand data availability in RIS*

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

- *Develop project scope, evaluate technical alternatives, prepare recommendations, and establish implementation schedule*

Means and Strategies
Risk Analysis, Insurance (21)

Operational Processes (initiatives and strategies): Data from the RIS are used to assess risks to the deposit insurance funds. RIS data is both current (spot data) and historical for banks, savings associations, and insured U.S. branches operated by foreign banking organizations. New data elements and variables are added to RIS as the Federal Financial Institutions Examination Council revises quarterly reports. Analytical variables are created in response to user requests. The FDIC will explore the capabilities of newly acquired reporting and analytical tools and will assess alternatives for expanding information on insured institutions and

the banking industry. Efforts will also be made to identify ways to increase the usefulness and timeliness of RIS data provided via the Internet.

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

Human Resources (staffing and training): The FDIC will staff the initial phases of work to be conducted on IDM with full-time employees from divisions and offices within the Corporation.

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

Verification and Validation

RIS calculations, for new or changed items, will be tested via independent calculation by comparing actual RIS results to expected results. For pre-existing, unchanged items, a programmatic comparison of updated quarterly RIS calculations will be made against prior calculations. An intensive comparison of independently calculated industry summations against RIS summations will be completed upon a new cycle of processing. A comparison will be conducted of RIS results to results of analysis independently calculated for various ad hoc purposes. In addition, feedback from RIS users will be considered. The progress of the IDM project will be assessed through bi-monthly status reports submitted to the FDIC's Chief Operating Officer.

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

Strategic Objective Deposit insurance funds and system remain viable

Annual Performance Goal Maintain and improve the deposit insurance system

Indicators and Targets

1. Continue the comprehensive deposit insurance review initiated in 2000

- *Work with the Congress to develop and pass a reform package*
- *Develop final pricing recommendations and implementation plans for inclusion in a notice-and-comment rulemaking during 2002*

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

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

3. Analyze the accuracy of projected losses to and reserves for the insurance funds

- *Review discrepancies between projected failed assets and actual failed assets by applying sophisticated analytical techniques to examine the effectiveness of the loss projection model and adjust the system accordingly*

- *Perform comprehensive analyses of all aspects of reserving methodology and implement enhancements as necessary*

4. Maintain fund adequacy

- *Maintain the designated reserve ratio (DRR) as required by statute, using the DRR target*

Means and Strategies
Fiduciary Responsibilities/ Insurance Premium Assessments (23)

Operational Processes (initiatives and strategies): The FDIC has undertaken a comprehensive review of the U.S. deposit insurance system. The FDIC is analyzing three major deposit insurance areas: pricing risk, funding arrangements, and coverage levels and is working with the Congress to develop a deposit insurance reform package. As that effort progresses, the FDIC will finalize its pricing recommendations and implementation plans for inclusion in a notice-and-comment rulemaking.

The pace of the legislative process will determine the timing of this rulemaking in 2002.

The FDIC and the Journal of Financial Services Research will co-sponsor a symposium on risk-based pricing of deposit insurance. The symposium will examine the deployment of new risk modeling techniques for the purpose of pricing deposit insurance.

The viability of the deposit insurance funds depends on the FDIC's adjustment of the risk-related deposit insurance premium system to accurately reflect and respond to risks in the banking industry. Premiums charged should correspond to the relative risk posed by institutions while maintaining or exceeding the statutorily mandated designated reserve ratio.

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

The FRC projects the level of assessment revenue necessary to maintain the designated reserve ratio. Based on an analysis of the projected failed bank assets and other pertinent information, the FRC recommends to the Chief Financial Officer quarterly the level of the contingent reserve as determined by the FDIC's reserving methodology.

Human Resources (staffing and training): The FDIC has commissioned work from scholars and industry experts as part of the comprehensive deposit insurance review and recommendation development.

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

Verification and Validation

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

Supervision Program

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

The FDIC supervises 5,512[3] FDIC-insured state-chartered banks that are not members of the Federal Reserve System, described as state non-member banks. This includes state-licensed insured branches of foreign banks and state-chartered mutual savings banks. The FDIC also has examination authority and special insurance activity authority for state member banks that are supervised by the Board of Governors of the Federal Reserve System (FRB), national banks that are supervised by the Office of the Comptroller of the Currency (OCC), and savings associations that are supervised by the Office of Thrift Supervision (OTS). This authority is exercised in the FDIC's role as insurer of those institutions.

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

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

The FDIC also acts on applications for new or expanded activities by FDIC-supervised insured depository institutions. Institutions applying for expansion of existing activities or locations must be well capitalized, possess a qualified management team, be capable of operating in a safe and sound manner, and be compliant with applicable laws and regulations.

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

Strategic Goal	Strategic Objective	Annual Performance Goals
FDIC-supervised institutions are safe and sound	FDIC-supervised institutions appropriately manage risk	Conduct on-site safety and soundness examinations to assess an FDIC-supervised insured depository institution's overall financial condition, management practices and policies, and compliance with applicable regulations

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

[3] 3rd Quarter 2001 FDIC Banking Profile.

The FDIC facilitates and evaluates institution compliance with consumer protection, fair lending laws, and the Community Reinvestment Act (CRA). To facilitate compliance, the FDIC makes available information to help consumers understand their rights. This information is provided in brochures and through other media, including the FDIC's Web site. The FDIC also provides FDIC-supervised institutions with updated information on consumer laws and regulations to help them better understand and comply with the laws. Through community outreach efforts and technical assistance, the FDIC encourages lenders to work with members of their local communities in meeting the communities' credit needs.

To evaluate compliance, the FDIC conducts examinations of institution practices regarding consumer protection laws, fair lending laws, and the CRA. In addition to the examination process, the FDIC investigates consumer complaints of unfair or deceptive practices by FDIC-supervised insured depository institutions. Non-compliance with consumer protection laws can result in civil liability and negative publicity as well as formal or informal actions by the FDIC to correct the identified violations. An institution's compliance with consumer protection laws, fair lending laws, and the CRA are considered in an institution's application for entry or expansion within the insured depository institution system.

Consumers write or electronically submit to the FDIC complaints and inquiries regarding consumer protection and fair lending issues. The FDIC monitors the level of public satisfaction with its responses to consumer complaints and inquiries. When the FDIC effectively investigates and answers consumer complaints and inquiries, consumers better understand their rights under federal consumer protection and fair lending laws.

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

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

<table>
<tr><th>Strategic Goal</th><th>Strategic Objectives</th><th>Annual Performance Goals</th></tr>
<tr><td rowspan="4">Consumers’ rights are protected and FDIC-supervised institutions invest in their communities</td><td rowspan="2">Consumers have access to easily understood information about their rights and the disclosures due them under consumer protection and fair lending laws</td><td>Effective outreach and technical assistance are provided on topics related to the Community Reinvestment Act (CRA), fair lending, and community development</td></tr>
<tr><td>Effectively meet the statutory mandate to investigate and respond to consumer complaints about FDIC-supervised financial institutions</td></tr>
<tr><td rowspan="2">FDIC-supervised institutions comply with consumer protection, CRA, and fair lending laws</td><td>Conduct comprehensive and compliance-only examinations in accordance with FDIC examination frequency policy</td></tr>
<tr><td>Prompt supervisory actions are taken and monitored on all institutions rated a 4 or 5 for compliance to address problems identified during compliance examinations</td></tr>
</table>

Strategic Goal FDIC-supervised institutions are safe and sound

Strategic Objective FDIC-supervised institutions appropriately manage risk

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

Indicators and Targets Conduct required examinations in accordance with statute and FDIC policy

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

Means and Strategies
Risk Management, Safety and Soundness (22)

Operational Processes (initiatives and strategies): Examinations assess an FDIC-supervised institution's overall financial condition, management practices and policies, and compliance with applicable regulations. The FDIC performs safety and soundness, trust/transfer agent, Bank Secrecy Act, and information technology examinations of FDIC-supervised banks. In 2002, the FDIC's examination workload includes 2,674 examinations required under statute, FDIC policy, or agreement with state supervisors.

The FDIC generally follows a risk-focused approach to bank examinations. This allows the FDIC to focus its examination resources on those areas that carry the greatest potential for risk. To ensure timeliness and efficiency, the FDIC has established informal guidelines for maximum timeframes from the examination start date to the date the examination report is mailed to the institution.

The FDIC conducted an internal assessment of its supervisory approach in 2001 with a special focus on whether its approach (1) is comprehensive and efficient; (2) reflects changing industry risk sources; and (3) incorporates industry, internal, and other supervisory best practices. As a result of the internal assessment, the FDIC will implement changes to increase the efficiency of the supervisory and application processes.

Continuing industry consolidation, new technologies, and product innovation have resulted in larger, more complex organizations. The FDIC will continue to assess and modify, as appropriate, its examination procedures in light of changing risk profiles for the industry and for individual institutions.

The FDIC makes available to examiners a variety of resources to monitor potential risks in supervised institutions such as rapid growth, fluctuating earnings, or concentration in vulnerable sectors. The FDIC has several off-site analysis models to identify banks that may be susceptible to downturns in certain economic sectors, such as real estate or agriculture. Examiners may use these analyses during the examination planning stage. Exposures identified by the models allow examiners to better focus on high-risk areas during the on-site examination.

During 2002, the FDIC will continue to focus on the risks posed by technology. Both on-site safety and soundness and information technology examinations cover electronic banking activities to determine how each FDIC-supervised institution appropriately manages risk in that area.

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

setting entities to identify effective practices with respect to utilization of emerging technologies.

Human Resources (staffing and training): The FDIC is augmenting its general training curriculum for examiners to include more training on technology and electronic banking issues. The intent is to establish a solid fundamental base of general technology and electronic banking knowledge for all safety and soundness examiners.

Information Technology: The FDIC will continue to use supervision-related computer technology, such as the General Examination System (GENESYS), Examination Documentation (ED), and the Automated Loan Examination and Review Tool (ALERT), to improve the efficiency of its examinations.

In 2002, monitoring of technology risk within the banking system will increase. Procedures will be developed to monitor risks associated with electronic banking. The FDIC will develop an electronic banking monitoring system to proactively identify and assess indicators of technology risks that may impact FDIC-supervised institutions. In addition, the FDIC will develop an early warning system to detect emerging technology risks at financial institutions by using risk profiles, previous examination results, and industry technology alerts.

Verification and Validation

The projected number of safety and soundness examinations may fluctuate during 2002 due to the change in the number of FDIC-supervised insured depository institutions as a result of mergers, closings, and newly approved charters; changes in asset size, condition, or capital levels that may accelerate the examination cycle; or other reasons. The number of examinations conducted and the number of delinquent, statutorily required examinations will be reported. In addition, adherence to FDIC informal guidelines regarding time frames from the examination start date to the date the report of examination is mailed to the institution will be tracked.

Impact of a *Unique* External Factor

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

Strategic Goal FDIC-supervised institutions are safe and sound

Strategic Objective FDIC-supervised institutions appropriately manage risk

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

Indicators and Targets The number of months from last examination of a problem bank until a follow-up examination is conducted

- *Follow-up examination conducted within 12 months of completion of the prior examination*

Means and Strategies
Risk Management, Safety and Soundness (22)

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

The responsible case manager and senior regional officials will closely monitor problem institutions. Progress on compliance with such actions will be assessed via review of progress reports required for submission by institutions, direct communication with bank management, off-site monitoring, and/or visitations.

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

Information Technology: The FDIC will continue to use imaging and document management technology and will explore the feasibility of expanding its use. Imaging technology, combined with the implementation of a document management system, has vast potential for better managing record-keeping systems.

Verification and Validation Monthly reports of problem institutions are generated from the SAER System and are reviewed monthly for accuracy. Reports provided by the Regional Offices on follow-up examinations will be compared to data on SAER. Since the examination report identifies supervisory actions to

ensure that those supervisory actions are promptly taken, the FDIC will monitor the time it takes to provide FDIC-supervised institutions with the examination report. Additional reports will be generated from the SAER System to monitor the time it takes the Regional Offices to process examination reports for FDIC-supervised problem institutions.

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

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

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

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

Indicators and Targets Assessment of participants' understanding of the financial education topics after attending a One Stop Center financial education workshop

- *Eighty-five percent of model site workshop participants who complete self-evaluation forms rate as 4 or better, on a scale of 1 to 5, the degree to which they increased their understanding of the financial education topic(s)*

Means and Strategies
Community Affairs and Outreach (32)

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

In 2002, the FDIC and the U.S. Department of Labor (DOL) will continue to implement a national financial education initiative through the network

of DOL One Stop Centers. The FDIC's Money Smart initiative will provide information, to be placed in these local centers, that covers basic financial concepts. These DOL facilities offer a variety of employment support services to a significant segment of low- and moderate-income adults who are outside of the financial mainstream. With the addition of the FDIC's Money Smart Program curriculum implemented by DOL staff, the range of One Stop Center services will be expanded to include financial education and will help low- and moderate-income adults cultivate positive banking relationships.

In 2002, the FDIC will establish nine additional model sites across the country for a total of seventeen sites. Model sites are locations where there will be some element of control over the delivery of Money Smart and participants will provide feedback to the FDIC. Each FDIC region may choose to create a model project without including One Stop Centers, provided their 2001 model project did include partnering with One Stop Centers.

The FDIC will gather and analyze post-seminar feedback from the model sites. Based on the results, the FDIC will assess the degree to which seminar participants increase their understanding of financial education topics and adjust the Money Smart curriculum materials accordingly in future editions. Also in 2002, the FDIC will release a Spanish language version of the Money Smart curriculum.

In addition to the efforts devoted to Money Smart, the FDIC also conducts a variety of other outreach and technical assistance activities. In 2002, these activities will include educational outreach and technical assistance provided to financial institutions, bank examiners, and the public on CRA, community and economic development, and various consumer protection laws and regulations.

Human Resources (staffing and training): The FDIC is establishing a certification training program for its community affairs staff nationwide to further enhance community and economic development skills.

Verification and Validation

The self-evaluation forms completed by participants of the model sites will be accurately summarized. The results will be used to modify and enhance the curriculum in future releases as well as establish best practices for program implementation.

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

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

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

Indicators and Targets Timely responses to written complaints

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

Means and Strategies
Consumer Affairs (33)

Operational Processes (initiatives and strategies): The FDIC responds to written complaints and inquiries regarding consumer protection and fair lending issues, including those received electronically through the Customer Assistance Form on FDIC's Internet Web site. It also provides consumer protection and deposit insurance information to financial institutions and the public. When consumer protection and fair lending complaints and inquiries are investigated and answered in an effective manner, consumers better understand their rights under these federal laws. In 2002, the FDIC expects to receive approximately 5,500 written and Internet complaints and inquiries in its Washington Office and 19,500 in its Regional Offices. The FDIC will closely monitor the timeliness of its responses.

The FDIC's Washington Office includes survey cards with its replies to mail inquires on deposit insurance and consumer protection issues in order to measure the level of customer satisfaction with its responses. In 2002, the FDIC plans to expand the use of a survey instrument to inquiries received in the regions and will compile and analyze the results. Also in 2002, the FDIC plans to begin surveying consumers who have filed written consumer protection and fair lending complaints in order to assess their satisfaction with the investigations and responses.

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

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

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

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

Indicators and Targets Conduct required examinations in accordance with statute and FDIC policy

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

Means and Strategies
Consumer Rights, Supervision and Regulation (31)

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

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

Information Technology: The System of Uniform Reporting of Compliance and CRA Examinations (SOURCE), implemented in 2001, will be used to schedule and track bank compliance examinations, support pre-examination planning, and provide management information.

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

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

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

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

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

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

Means and Strategies
Consumer Rights, Supervision and Regulation (31)

Operational Processes (initiatives and strategies): The FDIC ensures that FDIC-supervised institutions understand and comply with consumer protection and fair lending laws. When examinations reveal significant violations or weaknesses in an institution's compliance program, the examination staff develops measures to target the areas in need of corrective action. The measures selected are based on the frequency and severity of the problems identified. The FDIC implements informal and formal corrective actions in the form of Board Resolutions, Memorandums of Understanding, Cease and Desist Orders, and Civil Money Penalties, as appropriate.

Human Resources (staffing and training): The FDIC ensures FDIC-supervised institutions understand and comply with consumer protection and fair lending laws. When examinations reveal significant violations or weaknesses in an institution's compliance program, the examination staff develops measures to target the areas in need of corrective action. The measures selected are based on the frequency and severity of the problems identified. The FDIC is enhancing its compliance examination process to focus on evaluating the effectiveness of financial institution compliance program management. This change will add value to the examination process but will necessitate additional training of examination staff. The FDIC is redesigning its compliance examination curriculum to parallel this change and to incorporate advanced examination issues and techniques appropriate for its experienced examiners.

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

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

Receivership Management Program

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

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

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

To ensure that each new receivership is managed effectively toward an orderly and timely termination, the FDIC has an active receivership oversight program. The program’s purpose is to foster an efficient and responsible business approach to receivership management. This business approach focuses on the economics of each receivership through the establishment of unique business plans, the monitoring of performance, and timely termination. Once the FDIC sells the assets of the receivership and resolves the receivership obligations, claims, and any legal impediments, the receivership is terminated and a final distribution is made to its creditors.

The table below 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	The FDIC values, manages, and markets assets of failed institutions and their subsidiaries in a timely manner to maximize net return

		The FDIC, as receiver, manages 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	Investigations will be conducted into all potential professional liability claim areas in all failed insured depository institutions and a decision to close or pursue each claim is made as promptly as possible, considering the size and complexity of the institution

Strategic Goal Recovery to creditors of receiverships is achieved

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

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

Indicator and Target List of qualified and interested bidders

- *Contact all known qualified and interested bidders*

Means and Strategies
Franchise Marketing (41)

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

Information Technology: The FDIC will explore developing an automated notification system that includes establishing customer preference profiles for potential purchasers of loans as well as for franchise buyers. The system will be housed on a contractor Web site and linked to the FDIC. It

will allow the FDIC to market to a potential bidder both the failed institution and the assets of that institution more effectively and efficiently.

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

Strategic Goal Recovery to creditors of receiverships is achieved

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

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

Indicator and Target Timely termination of new receiverships

- *Inactivate 75 percent of receiverships managed through the Receivership Oversight Program within three years of the failure date (starting with receiverships established in the Year 2000)*

Means and Strategies
Oversight Operations (69)

Operational Processes (initiatives and strategies): The oversight and prompt termination of the 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 a team of asset, finance, and legal staff acting as an advocate for the receivership. Receivership staff provide oversight and monitor the execution of each receivership action plan, including the goals and milestones established in each plan. In addition, a Receivership Review Committee, comprised of senior FDIC managers, meets periodically to review and evaluate the quarterly progress of each receivership action plan.

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

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

plans; open subsidiary corporations where articles of dissolution have been approved; and, known or potential environmental contamination liabilities.

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

Strategic Goal Recovery to creditors of receiverships is achieved

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

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

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

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

Means and Strategies
Investigations and Professional Litigation (66)

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

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

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

Resource Management

The FDIC's human, financial, and technological resources are essential to the successful accomplishment of the Corporation's mission and its annual performance goals. The Corporation manages these resources to ensure both excellence and efficiency.

Human Resources The FDIC's people are its most important and valuable resource, and the Corporation invests considerable time and effort in recruiting, developing, and maintaining a high performing, dedicated, professional, diverse, and highly skilled workforce. The composition of the Corporation's workforce will, over the next decade, change as a result of the increasing diversity of our society. In order to continue to attract highly qualified and motivated employees, the FDIC must maintain our reputation as an employer of choice and a place where people want to work. A competitive compensation and benefits package, an extensive employee training and career development program, and first-rate facilities and equipment will support recruitment and retention.

The FDIC must address the issues of downsizing, cross-training/readiness capacity, compensation and benefits, and future planning in managing its resources.

Downsizing. The FDIC has been in a continual downsizing mode for ten years, as the workload from the banking and thrift crises from the late 1980's and early 1990's has been completed. Total FDIC employment (including the Resolution Trust Corporation) has fallen from approximately 23,000 in 1992 to about 6,300 at year-end 2001. In 2002, the Corporation will continue to streamline its workforce to reduce its operational costs, particularly its management overhead and program support costs. A considerable effort will be made to substantially complete required downsizing and correct existing skills imbalances by early 2003. This will be accomplished through a comprehensive program that will include some combination of early retirement opportunities (early retirement is a type of separation incentive), separation incentives, reassignments and retraining, outplacement assistance, and as a last resort, reductions-in-force.

Cross training/readiness capacity. As the FDIC adjusts to a smaller workforce, its permanent staff must become more flexible and more capable of shifting from one business area to another in response to changing workload priorities. Sufficient technical and managerial expertise must be maintained to provide direction and leadership to a core staff of generalists who have sufficient cross-training to be able to shift from one activity to another to address changing

workload priorities. During 2002, the FDIC will continue to develop and implement readiness strategies for each of its basic mission responsibilities.

Compensation and benefits. The FDIC will renegotiate its Compensation and Benefits Agreement with its employee union during 2002. The Corporation will ensure that the new agreement continues to provide a compensation and benefits package that reflects fiscal responsibility, recognizes and rewards employee performance and accomplishments, and supports a diverse workforce.

Planning for the future. Almost 20 percent of the FDIC's workforce will become eligible to retire within the next five years. In 2002, the Corporation will develop and implement strategies for transitioning to a new generation of leaders and professionals.

Financial Resources

As steward for the Bank Insurance Fund and the Savings Association Insurance Fund, the FDIC is continually looking for cost reductions and efficiency improvements that will minimize the draw on the deposit insurance funds. Resource requirements are identified through a single, fully integrated process during a series of planning and budget meetings with the Corporation's senior managers. During these meetings, workload assumptions, planned information technology and other initiatives, and performance objectives are determined. Analysis is conducted of the various cost components associated with each program and the factors that drive those costs, in order to identify potential efficiencies in operations.

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

Corporate benchmarking. In 2002, the FDIC will begin implementing a program designed to evaluate the cost of corporate operations against appropriate benchmark organizations. Benchmarking policies and procedures will be developed, and benchmarking studies will be completed for selected organizations and functions. The results of these studies will present the Corporation with identified areas in which its costs may be higher than other organizations and potential "best practices" to reduce these costs.

Organizational streamlining. The Corporation is reviewing a variety of organizational proposals that would consolidate and streamline operations. Implementation of approved changes will begin the first half of 2002.

Service costing. The FDIC is implementing in 2002 new procedures to charge receiverships for services provided by the Corporation by applying standard rates. This will result in further allocation of receivership expenses.

Technology Resources Technology resources at the FDIC are designed to improve operational efficiencies. The FDIC continually evaluates new technologies to facilitate its business objectives. The Corporation will be engaged in several major technology initiatives in 2002.

New Financial Environment. In 2002, the FDIC will begin a major replacement of its financial system, resulting in substantially lower costs and greater functionality when fully implemented. The new financial environment will (1) improve business processes by adapting best practices built into software packages; (2) simplify and consolidate the financial application and data environment; (3) minimize non-value-added work by automating manual work; (4) maximize electronic business opportunities; and (5) provide better decision-making to ensure continuity of financial operations.

E-business. The FDIC is actively pursuing e-business relationships both with the institutions it insures and with the vendor community that provides goods and services to the Corporation. During 2002, FDIC*connect* will be available to more than 9,000 insured institutions. FDIC*connect* is an e-business channel between the FDIC and its insured institutions and allows for the direct exchange and sharing of information over the Internet.

Information security program improvements. The FDIC developed and implemented an information security program to address identified weaknesses. During 2002, the FDIC will continue to improve its information security program by enhancing security performance measurement and contractor and external security.

Enterprise architecture. The FDIC will introduce a new Enterprise Architecture (EA) process to manage technology, applications, and technical infrastructure for the Corporation. The new EA process will be integral to corporate and information technology planning and will provide a corporate view of and future direction for business processes, information, applications, and infrastructure. The EA will also provide the standards and procedures to be followed whenever a new information system is being built.

Appendix

Program Resource Requirements The FDIC budget is developed in a manner that recognizes its three programs of Insurance, Supervision, and Receivership Management. The following chart presents the budgetary resources that the FDIC plans to expend in its programs during 2002 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.

Insurance Program	**$147,927,867**
Supervision Program	**615,550,682**
Receivership Management Program	**210,622,785**
TOTAL Budget for Program Areas	**$974,101,334**

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

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

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

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

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

- The Corporation’s Diversity Strategic Plan contains multi-year goals, strategies, and initiatives that are results oriented. In 2002, the FDIC will implement initiatives that center on diversity awareness training for new employees, corporate recruitment strategies, and increased career development and mentoring opportunities.

- The Information Technology Strategic Plan contains specific goals and objectives focused on providing effective technology support to the Corporation. In 2002, some major information technology initiatives include intensifying the Corporate-wide security program and continuing the FDIC’s e-government programs.

- The Office of the Inspector General (OIG) independently prepares and publishes its own performance plan. For 2002, the OIG’s Plan is prepared on a fiscal-year basis and contains specific performance goals to address OIG strategic initiatives to conduct audits, evaluations, and investigations that add value to corporate programs and activities; communicate effectively with the Chairman, the Congress, and other stakeholders; and align its human resources to support the OIG mission.

Crosscutting Efforts

The FDIC works closely with the other federal banking agencies including: (1) the Board of Governors of the Federal Reserve System (FRB); (2) the Office of the Comptroller of the Currency (OCC); and (3) the Office of Thrift Supervision (OTS) to address issues and programs that transcend the jurisdiction of each agency.

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

Federal Financial Institutions Examination Council

The Federal Financial Institutions Examination Council (FFIEC), comprised of members of each of the five federal agencies listed above, is empowered to prescribe uniform principles, standards, and report forms for the federal examination of insured depository institutions and federally insured credit unions. As a member of the FFIEC, the FDIC participates on taskforces including Consumer Compliance, Examiner Education, Information Sharing, Reports, Supervision, Surveillance Systems, Legal Advisory Group, and Appraisal Subcommittee. The FFIEC chair rotates among the four federal banking agencies and the NCUA. The FDIC will chair the FFIEC during 2001-2002.

Basel Committee on Banking Supervision

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

Interagency Country Exposure Risk Committee

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

Shared National Credit Program	The FDIC participates with the other federal banking agencies in the Shared National Credit Program, an interagency effort to perform a uniform credit review of financial institution loans that exceed $20 million and are shared by three or more financial institutions.
Joint Agency Task Force on Discrimination in Lending	The FDIC participates on the Joint Agency Task Force on Discrimination in Lending along with the other federal banking agencies, the NCUA, the U.S. Department of Housing and Urban Development, the Office of Federal Housing Enterprise Oversight (OFHEO), the U.S. Department of Justice (DOJ), the Federal Housing Finance Board, and the Federal Trade Commission (FTC).
Fraud and Money Laundering	The FDIC participates in several groups related to fraud and money laundering, including the: • National Bank Fraud Working Group sponsored by the DOJ • National Money Laundering Strategy Steering Committee headed by the U.S. Departments of Justice and Treasury • National Bank Secrecy Act Advisory Group, a public/private partnership of agencies and organizations that meet to discuss strategies and industry efforts to curb money laundering
Human Resources Development Council	The FDIC participates in this interagency group, headed by the U.S. Office of Personnel Management, which performs research and discusses policy issues related to human resources development.
GPRA Financial Institutions Regulatory Working Group	The interagency Financial Institutions Regulatory Working Group, comprised of the four federal banking agencies and the NCUA, was formed in October 1997. The OFHEO and the U.S. Department of the Treasury also participate.
FTC, National Association of Insurance Commissioners, and the Securities and Exchange Commission	The passage of the Gramm-Leach-Bliley Act in 1999 allows insured institutions to expand the products they offer to include insurance and securities. As a result, the FDIC coordinates its activities related to these new products, including privacy issues, with the FTC, the National Association of Insurance Commissioners, and the Securities and Exchange Commission.

Identified below are the annual performance goals for 2002 that will require coordinated efforts with one or more of the federal banking agencies. The goals are listed by FDIC program.

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

Identify and address risks to the insurance funds

Maintain sufficient and reliable information on insured depository institutions

Maintain and improve the deposit insurance system

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

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

Supervision, Consumer Rights Effective outreach and technical assistance are provided on topics related to the Community Reinvestment Act (CRA), fair lending, and community development

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

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

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

External Factors The following external factors are beyond the FDIC's control and could significantly affect the achievement of the annual performance goals for 2002.

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

During the 1991-2001 economic expansion, the industry developed several signs of heightened risk exposure that made some institutions particularly vulnerable to reduced earnings during a recession. Many institutions exhibited significant concentrations of credit risk in certain loan products, including credit card loans; subprime consumer and mortgage loans; high loan-to-value mortgage loans; commercial real estate and construction loans; and commercial loans to highly leveraged companies. Many institutions also increased their reliance on volatile, non-deposit sources of funds. Some institutions increased their reliance on non-interest sources of income, which may also be diminished by a recession. Competitive pressures, particularly in some formerly fast-growing metropolitan areas, may have induced institutions to incur higher risks involving a combination of these factors.

(A) The U.S. economy entered into a recession in March 2001. This period of recession will result in slower loan growth, higher credit losses, and diminished profitability for the industry compared to the prior period of rapid economic growth. The effects on credit quality may persist for a time after the recession has officially ended. These effects will be particularly pronounced for institutions that have built up significant risk exposures or that rely on business models that require rapid growth in loan volume.

(B) Many of the positive trends of recent years that have been associated with the so-called "New Economy" involve globalization, investment in new technologies, and, especially, more widespread reliance on market-based sources of financing. While these changes have in general boosted economic performance, there is now a higher risk that sudden financial market disruptions could create problems for the economy. An example that illustrates this risk is the episode of financial disruptions that occurred in the Fall of 1998. As such, the FDIC may need to devote additional resources to monitoring the apparently far-reaching changes that have recently come about in the "New Economy" because of the effect that these factors could have on the operating environment for banks.

(C) Entry into and expansion of the banking industry are closely related to the economy. When economic conditions are positive, there typically is an increase in applications for deposit insurance for de novo entry. As of the end of 2001, approximately 13.7 percent of insured institutions have been newly chartered since the end of the 1990-91 recession. These institutions may be particularly vulnerable to adverse economic trends.

(D) The FDIC has been able to focus more on disposing of its existing inventory of assets and eliminating impediments to the closeout of receiverships. It is expected that the economic recession that began in 2001 will result in a modestly higher rate of institution failures as well as increased resolution costs.

(E) A severe economic downturn could lead to an increased number of institution failures, and experienced staff might have to be diverted from other work to handle closings on a priority basis. Such a diversion of staff might affect the pace at which the FDIC markets assets and terminates receiverships.

(F) Changes in the risk profiles of institutions can result in downgrades of CAMELS ratings or decreased capital levels, both of which could result in an acceleration of an institution's statutory examination frequency.

Structure of the Financial Services Industry

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

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

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

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

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

Performance Results The information below discusses performance results of "like" annual performance goals the FDIC has implemented over the past several years. Targeted performance for the 2001 annual performance goals is not presented, as year-end performance information for 2001 was not available at the time the 2002 Annual Performance Plan was published. For the 1998, 1999, and 2000 annual performance goals, the performance results achieved by implementing the annual goals are reflected.

- Depositor Payouts in Instances of Failure
- Risk Classifications
- Risk Identification and Reporting
- Safety and Soundness Examinations
- Safety and Soundness Enforcement Actions
- Compliance Examinations
- Compliance Enforcement Actions
- CRA Outreach
- Least-Cost Resolution
- Asset Management
- Receiverships Terminated
- Professional Liability Claims

Depositor Payouts in Instances of Failure

2002 and 2001 Goal - The FDIC is prepared to deal with all financial institution closings and emerging issues.

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

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

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

Risk Classifications

2002 and 2001 Goal - Maintain and improve the deposit insurance system.

2000 Performance - The reserve ratio was maintained at or above the statutorily mandated ratio of 1.25%. New off-site screens were developed for reviewing and re-classifying atypically high-risk institutions (focus on rapid growth, high loan yields, and other factors).

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

1998 Performance - Insurance premium rate cases were produced and presented to the FDIC's operating committee and to the FDIC's Board of Directors within the semiannual deadline. The staff recommended maintaining the existing assessment rate schedules of 0 to 27 basis points per year.

Risk Identification and Reporting

2002 and 2001 Goal - Identify and address risks to the insurance funds.[4]

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

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

1998 Performance - Several analyses and reports were produced on the condition of the industry and developments affecting the risk profiles of FDIC-insured institutions including the following: Deposit insurance issue papers, Regional Outlook articles, Regional Commentaries on the Web, Published Condition of the Funds and Assessment Analysis Report, The Regional Economic Conditions: Report for Examiners, and Bank Trends.

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4 For 2001, indicators and targets reported under other risk-related annual goals in prior years have been consolidated into this single annual goal on risk identification and reporting..

Safety and Soundness Examinations

2002 and 2001 Goal - Conduct on-site safety and soundness examinations to assess an FDIC-supervised insured depository institution’s overall financial condition, management practices and policies, and compliance with applicable regulations.

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

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

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

Safety and Soundness Enforcement Actions

2002 and 2001 Goal - Prompt supervisory actions are taken to address problems identified during the FDIC examination of institutions identified as problem insured depository institutions. FDIC-supervised insured depository institution compliance with formal and informal enforcement actions is monitored.

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

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

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

Compliance Examinations

2002 and 2001 Goal - Conduct comprehensive and compliance-only examinations in accordance with FDIC examination frequency policy.

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

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

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

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

Compliance Enforcement Actions

2002 Goal - Prompt supervisory actions are taken and monitored on all institutions rated a 4 or 5 for compliance to address problems identified during compliance examinations.

2001 Goal - Prompt supervisory actions are taken and monitored on all institutions rated 4 or 5 for compliance.

2000 Performance - On average, FDIC examination reports were processed and mailed to the institution within 29 days of receipt in the Regional Office (target of 45 days). For institutions, on average rated "4" or "5," the FDIC conducted all follow-up examinations within the targeted timeframe of 12 months from the issuance date of a formal enforcement action.

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

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

CRA Outreach

2002 Goal - Effective outreach and technical assistance are provided on topics related to the Community Reinvestment Act (CRA), fair lending, and community development.

2001 Goal - Effective outreach, technical assistance, and training are provided on topics related to the CRA, fair lending, and community development.

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

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

Least-Cost Resolution

2002 and 2001 Goal - Market failing institutions to all known qualified and interested potential bidders.

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

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

Asset Management

2002 and 2001 Goal - FDIC values, manages, and markets assets of failed institutions and their subsidiaries in a timely manner to maximize net return.

2000 Performance - 95% of failed institutions' assets were marketed within 90 days, thus exceeding the target of 80%.

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

Receiverships Terminated

2002 and 2001 Goal - The FDIC, as receiver, manages the receivership estate and its subsidiaries toward an orderly termination.

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

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

Professional Liability Claims

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

2001 Goal - Investigations are conducted into all potential professional liability claim areas in all failed insured depository institutions.

2000 Performance - A decision to close or pursue each claim was made within 18 months after the failure date for 100% of all investigations, thus exceeding the goal of 80%.

1999 Performance - A decision to close or pursue each claim was made within 18 months after the failure date for 100% of all investigations, thus exceeding the goal of 80%.[7]

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

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[7]This annual performance goal was revised from the goal published in the 1999 Annual Performance Plan. The word "investigations" replaces the last occurrence of "institutions" to more accurately capture the FDIC's workload. The original goal stated "in 80% of all institutions."