



2004 Annual Performance Plan

Chairman's Message

I am pleased to present the Federal Deposit Insurance Corporation's (FDIC) 2004 Annual Performance Plan. The FDIC is charged by Congress to contribute to the stability of and public confidence in the nation's financial system by insuring deposits, identifying and assessing risks to the system, supervising financial institutions, resolving failing institutions, and managing receiverships.

The Corporation has identified three major priorities for 2004:

- We will play a leadership role in federal banking and regulatory policy by regularly disseminating high quality information and analysis on major issues and recommending, where appropriate, statutory and regulatory policy changes. In particular, the FDIC leads the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) project, an interagency initiative established to identify and eliminate any regulatory requirements that are outdated, unnecessary or unduly burdensome on the banking industry.
- We will fulfill our stewardship responsibilities for the Bank and Savings Association insurance funds through effective supervisory and insurance programs that promptly identify and address new and emerging risks to the funds, and through a receivership management program that minimizes the cost to the funds of insured institution failures.
- We will pursue increased operational efficiency and effectiveness by looking for new ways to improve our internal management and work processes and to reduce our ongoing operational costs. In particular, we will continue to focus on improving our information security program and on addressing critical human capital issues in order to maintain a high-performing workforce as many of our current employees move into retirement over the next several years.

This document outlines specific 2004 performance targets and indicators for each of our three major business lines. I invite you to read further about the FDIC's planned initiatives for 2004.

Donald E. Powell
Chairman

Mission, Vision and Values

Mission

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

Vision

The FDIC is an organization dedicated to identifying, analyzing 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 seven 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.

Financial Stewardship

The FDIC is committed to being a responsible fiduciary in its efforts to provide insured institutions the best value for their contributions to the insurance funds.

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 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

Program Descriptions and Annual Performance Goals

The FDIC insures bank and savings association deposits to help ensure stability and public confidence in the U.S. financial system. The deposit insurance funds must remain viable so that adequate funds are available to protect insured depositors if an institution fails. When insured institutions fail, the FDIC is responsible for ensuring that institution customers have timely access to their insured deposits and services. As insurer, the FDIC continually evaluates how changes in the economy, the financial markets, the banking system, and in individual financial institutions affect the adequacy and the viability of the deposit insurance funds. To protect the funds, the FDIC identifies risks to the insurance funds by analyzing economic, financial, and banking trends, and communicates these findings to the industry and the other federal banking agencies¹ and state authorities. As the insurer, the FDIC, by statute, has special back-up examination authority for all insured depository institutions. If significant emerging risks or other serious concerns are identified for an insured depository institution not primarily supervised by the FDIC, the FDIC and the institution's primary federal supervisor² work together to address them.

The FDIC exercises its insurance responsibilities by approving or denying applications by any depository institution for federal deposit insurance. Before granting access to the federal deposit insurance system, the FDIC evaluates the potential risk to the funds. It assesses the adequacy of an applicant's capital, financial history and condition, and its future earnings potential, as well as the general character of its management. The FDIC also considers the convenience and needs of the community to be served and gathers input from other regulatory authorities. The FDIC maintains sufficient deposit insurance fund balances by collecting risk-based insurance premiums from insured depository institutions and by prudent fund investment strategies. In 2004, the FDIC is moving to place greater attention and resources on the identification and analysis of new and emerging risks.

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

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

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

¹The 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).

²The institution’s charter and its Federal Reserve System membership status determine 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.	Respond promptly to all financial institution closings and emerging issues.
	The FDIC promptly identifies and responds to potential risks to the insurance funds.	Identify and address risks to the insurance funds.
		Maintain sufficient and reliable information on insured depository institutions.
	Deposit insurance funds and system remain viable.	Maintain and improve the deposit insurance system.

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

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

Strategic Objective

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

Annual Performance Goal

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

Indicator and Targets

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

- If the failure occurs on a Friday, the target is one business day.
- If the failure occurs on any other day of the week, the target is two business days.

Means and Strategies

Deposit Claims Strategic initiatives

Operational Processes (initiatives and strategies):

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

If the federal or state supervisor chooses to close the institution, the FDIC takes control of the failed institution and determines which deposits are insured. Once the FDIC is appointed receiver, it initiates the closing process for the failed institution and

provides the insured depositors access to their accounts in one or two business days. The FDIC also works with the assuming institution so that the insured deposit accounts are transferred to the assuming institution as soon as possible. If no assuming institution is found during the resolution process, the FDIC disburses to customers of the failed institution the insured amount in each account category.

The FDIC will continue to review and enhance, where necessary, existing plans, processes, and systems and to develop new ones in response to emerging risks related to evolving banking industry practices and technologies. In 2004, the FDIC will enhance its risk-identification processes and off-site monitoring of 3, 4, and 5 rated institutions.

Human Resources (staffing and training):

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

Information Technology:

Technology is critical to the success of improving the efficiency of deposit insurance determinations and payments. In 2004, the business review team will complete its review of the claims process and recommend an enhanced technological solution to permit expeditious deposit insurance determinations in the event of a large financial institution failure.

Verification and Validation

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

Strategic Goal

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

Strategic Objective

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

Annual Performance Goal

Identify and address risks to the insurance funds.

Indicator and Targets

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

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

3. Dissemination of 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.
 - Industry outreach activities aimed at the banking community and industry trade groups are undertaken 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 stability of the banking system is maintained through proactively identifying risks to the deposit insurance funds. To perform this critical function, the FDIC continually tracks economic trends and market changes in order to assess the potential impact on insured financial institutions. This information enables the FDIC to more effectively maintain and improve models that monitor industry conditions and individual institution risks. Supervisory guidance, industry communication or draft legislation may be proposed, when appropriate, to address such risks.

In 2003, a Risk Analysis Center (RAC) was established to formalize an interdivisional approach to the monitoring and analysis of risks to the deposit insurance funds and to the banking system. The RAC is responsible for implementing an integrated corporate risk analysis process that utilizes information obtained from a wide variety of sources, including examinations and other institutional reviews as well as internal and external research and analysis. It enhances the FDIC's understanding of industry conditions and emerging risks, and disseminates information on identified risks to FDIC managers and staff, other regulators, bankers and to the public. In 2004, the FDIC plans to further integrate the RAC, the National Risk Committee (NRC), and the Regional Risk Committees (RRCs) more fully into the Corporate decision making process.

The FDIC has also increased its focus on the largest financial institutions that pose the greatest risk to the insurance funds by assigning "dedicated examiners" to the largest financial institutions. These institutions have a combined \$4.2 trillion in assets and account for approximately 35 percent of the total assets in the industry. Dedicated examiners use supervisory information, internal institution information, and external sources of information to evaluate risks and assign an FDIC risk rating for each of these eight financial institutions. The dedicated examiners work with the RAC to achieve real-time assessments of large bank risks and help identify systemic risks.

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

Information from the Shared National Credit (SNC) program is also increasingly integrated into the analysis of large banks and emerging risk considerations. This interagency program provides for annual reviews of all syndicated loans with over \$20 million in exposures shared between three or more regulated entities. Loan commitments covered by the program in 2003 totaled nearly \$1.6 trillion. Using SNC information, the FDIC produces a semiannual report that identifies industry sector exposures posing a high degree of risk for large banks. In 2004, the FDIC's regional Credit Specialists will continue to work with Washington analysts, economists, dedicated examiners, and members of interagency targeted review teams to provide

further insights and more in-depth knowledge of high-risk industry-sector loan exposures, underwriting trends, and industry performance trends. This information is used in the development of risk cases and quarterly risk assessments by the Financial Risk Committee.

In addition to its internal risk assessment process, the FDIC produces and disseminates information and analyses on risks to the deposit insurance funds, the industry, and the public through various mechanisms such as periodic reports, presentations, regular publications (e.g., the FDIC Quarterly Banking Profile and FDIC Outlook), and continued participation in outreach efforts, surveys, Financial Institution Letters (FILs), and participation in industry events. In 2003, the FDIC conducted a review of its publications program to ensure that each publication had a distinct purpose and the focus was clearly aligned with the corporate mission. The first two phases of the review were implemented during 2003 and identified opportunities to streamline and consolidate publications. The third phase of the review will be implemented in 2004, and will focus on improving the timeliness and quality of publications by centralizing and improving the production processes, streamlining editing, and defining measurements of success.

The FDIC will also continue to work with the Basel Committee on Banking Supervision on the Basel II Capital Accord in 2004. The objective of the Accord is to more closely align regulatory capital with risk in large or multinational banks. Changes to the Call Report and extensive regulatory guidance for financial institutions will ensue. The Basel II Accord is currently scheduled to be implemented in 2007.

Human Resources (staffing and training):

The FDIC has increased the number of economists, financial analysts, and others who focus on risks within the banking industry. It has also expanded the participation of outside scholars in its risk analysis program and has incorporated risk-focused examination training in its examination schools.

Information Technology:

To facilitate improved off-site analyses, the FDIC will complete and implement in 2004 the final phase of the Virtual Supervisory Information on the Net (ViSION) system to provide a top-down view of individual banking organizations. In addition, the FDIC external web site (www.fdic.gov) was redesigned in 2003 to improve access to FDIC data and information.

Verification and Validation

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

Strategic Goal

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

Strategic Objective

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

Annual Performance Goal

Maintain sufficient and reliable information on insured depository institutions.

Indicator and Targets

1. Quality and timeliness of bank data
 - Implement a modernized Call Reporting process by December 31, 2004.

Means and Strategies

Risk Analysis, Insurance

Operational Processes (initiatives and strategies):

The Central Data Repository (CDR) project is improving data management processes to more effectively collect, validate, process, and distribute information about insured institutions. Phase I of this project, to be completed and implemented in 2004, will focus on modernizing the existing Call Report collection and processing system. Key milestones in 2004 will include a functional pilot, an end-to-end system test, a pilot test for 100 banks, and CDR production use for the third quarter reporting cycle. Subsequent phases of the project will involve developing a strategy to leverage the improved process and system for other interagency data collections.

Human Resources (staffing and training):

The CDR project is a joint effort of the FDIC, the Federal Reserve, and the Office of the Comptroller of the Currency under the aegis of the Federal Financial Institutions Examination Council. The agencies have engaged an outside contractor to design, build, implement, and maintain the CDR. The agencies are also providing technical experts to manage and guide all CDR work phases.

Information Technology:

The CDR information technology architecture makes significant use of open, Internet-based standards such as XBRL and web services.

Verification and Validation

The progress of the CDR project will be assessed through quarterly status reports submitted

to the Capital Investment Review Committee (CIRC), chaired by the Chief Financial Officer and the Chief Information Officer.

Strategic Goal

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

Strategic Objective

Deposit insurance funds and system remain viable.

Annual Performance Goal

Maintain and improve the deposit insurance system.

Indicator and Targets

1. Pursuit of changes to the deposit insurance system in accordance with proposals submitted to the Congress
 - Provide information and analysis to Congressional committees in support of deposit insurance reform legislation.
 - Develop, and obtain the necessary support for a proposed assessment credit and rebate system and a new deposit insurance pricing system.
 - When deposit insurance reform is enacted, implement legislation in accordance with statutorily-prescribed timeframes.

2. Changes to the current methodology for projecting losses in failing financial institutions and establishing related loss reserves for the deposit insurance funds
 - Review discrepancies between projected failed assets and actual failed assets by applying sophisticated analytical techniques to examine the effectiveness of the loss projection model and adjust the methodology for projecting losses accordingly.
 - Implement enhancements to the reserving process and methodology, in accordance with recommendations from a comprehensive 2003 review.

3. Fund adequacy

- Set assessment rates to maintain the insurance funds at the designated reserve ratio (DRR), or return them to the DRR if they fall below, as required by statute.
 - If deposit insurance reform legislation becomes law in 2004, promulgate rules and regulations establishing criteria for replenishing the Deposit Insurance Fund when it falls below the low end of the range.
 - Develop a working prototype of a new, integrated fund model for financial risk management.
4. Conference on the "Future of Banking"
- Host conference and present findings from the Future of Banking Study and obtain feedback from scholars and industry representatives and other interested parties.
5. Quality and visibility of the Corporation's banking research activities.
- Implement an FDIC Center for Financial Research with enhanced ties to the academic community.

Means and Strategies

Fiduciary Responsibilities/ Insurance Premium Assessments

Operational Processes (initiatives and strategies):

The FDIC continues to work with the Congress to develop a comprehensive deposit insurance reform package that will provide more flexibility to set premiums and manage risks to the fund. The viability of the deposit insurance funds depends on the FDIC's adjustment of the risk-related deposit insurance premium system to accurately reflect and respond to risks in the banking industry. Premiums charged should correspond to the relative risk posed by institutions while maintaining or exceeding the statutorily mandated designated reserve ratio.

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

recommendations regarding insurance-related business decisions. The FRC consults with the other federal banking agencies in its deliberations. Based on an analysis of the projected failed bank assets and other pertinent information, each quarter the FRC recommends to the Chief Financial Officer the level of the contingent loss reserve for both deposit insurance funds as determined by the FDIC's reserving methodology.

With input from the FRC, the Division of Insurance and Research projects the level of assessment revenue necessary to maintain the designated reserve ratio.

Human Resources (staffing and training):

Staff devoted to banking and economic research programs will be increased in 2004. In addition, the FDIC will continue to expand its ties to the academic community in order to broaden the information and analytical perspectives available to the Corporation in its stewardship of the insurance funds. For example, outside scholars will also be actively engaged in developing research for the new Center for Financial Research.

Information Technology:

The Risk-Related Premium System (RRPS) will be enhanced consistent with improvements made to the FDIC's internal Virtual Supervisory Information on the Net (ViSION) system, which houses the RRPS.

Verification and Validation

To ensure that RRPS identifies higher-risk institutions and appropriately assesses higher insurance premiums, the FDIC reviews the assessment history of all failed insured depository institutions and determines if the system is working adequately. The General Accounting Office audits the methodology used to determine the contingent loss reserve annually. In 2004, the FRC will examine the effectiveness of the loss projection model semi-annually.

Strategic Goal

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

Strategic Objective

Deposit insurance funds and system remain viable.

Annual Performance Goal

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

Indicator and Targets

Utility of educational tools developed for bankers and consumers.

- Develop a CD-ROM and Internet-based resource for bankers on the deposit insurance rules.

Means and Strategies

Deposit Insurance (30)

Operational Processes (initiatives and strategies):

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

Human Resources (staffing and training):

Staffing and training needs will be reviewed on an ongoing basis to ensure that the resources supporting the deposit insurance educational initiative are adequate and that those employees possess the skill and knowledge to effectively and successfully carry out this program.

Information Technology:

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

Verification and Validation

The CD-ROM and Internet-based tool for bankers is made available to bankers.

Supervision Program

Program Descriptions and Annual Performance Goals

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

The FDIC supervises 5,321³ FDIC-insured state-chartered banks that are not members of the Federal Reserve System, generally known as state non-member banks. This includes state-licensed insured branches of foreign banks and state-chartered mutual savings banks. The FDIC also has examination authority and special insurance activity authority for state member banks that are supervised by the Board of Governors of the Federal Reserve System (FRB), national banks that are supervised by the Office of the Comptroller of the Currency (OCC), and savings associations that are supervised by the Office of Thrift Supervision (OTS). This authority is exercised in the FDIC's role as insurer of those institutions.

As primary supervisor of all federally insured state non-member banks, the FDIC performs risk management examinations of FDIC-supervised insured depository institutions to assess their overall financial condition, management policies and practices, and compliance with applicable laws and regulations. Through the examination process, the FDIC also assesses the adequacy of management and internal control systems to identify and control risks. Procedures normally performed in completing this assessment are designed to detect the presence of fraud or insider abuse.

If weaknesses are detected through the examination process, the FDIC takes appropriate action. Formal and informal enforcement actions may be issued for institutions identified as having significant weaknesses or those operating in a deteriorated financial condition. The institution must operate under the action until the weakness is remedied. When necessary, 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 in compliance with applicable laws and regulations.

In 2004, the FDIC will continue to pursue increased operational efficiency in the examination process in order to provide more cost effective services to banks.

³3rd Quarter 2003 FDIC Quarterly Banking Profile.

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

Strategic Goal	Strategic Objectives	Annual Performance Goals
<p>FDIC-supervised institutions are safe and sound.</p>	<p>FDIC-supervised institutions appropriately manage risk.</p>	<p>Conduct on-site risk management examinations to assess an FDIC-supervised insured depository institution's overall financial condition, management practices and policies, and compliance with applicable laws and regulations.</p> <p>Take prompt and effective supervisory actions to address problems identified during the FDIC examination of FDIC-supervised institutions identified as problem insured depository institutions.</p> <p>Monitor FDIC-supervised insured depository institutions' compliance with formal and informal enforcement actions.</p>

In its supervisory capacity, the FDIC also promotes institution compliance with consumer protection, fair lending, privacy, and community reinvestment statutes. 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 (www.fdic.gov). The FDIC also provides FDIC-supervised insured depository institutions with updated information on consumer laws and regulations to help them better understand and comply with the laws. Through community outreach efforts and technical assistance, the FDIC encourages lenders to work with members of their local communities in meeting the communities' credit needs.

To evaluate compliance, the FDIC conducts examinations of institution practices regarding the Community Reinvestment Act (CRA) and various consumer protection, fair lending, and privacy laws. Non-compliance with consumer protection or fair lending laws can result in civil liability and negative publicity as well as the imposition of formal or informal actions by the

FDIC to correct the identified violations. Some consumer protection and fair lending laws require financial institutions to provide consumers with information intended to help them make informed decisions. As part of the compliance examination process, the FDIC reviews information that is provided to consumers by FDIC-supervised insured depository institutions regarding consumers' rights and disclosures as required under consumer protection laws and regulations. An institution's compliance with consumer protection, fair lending and privacy laws and its performance under the CRA are considered in an institution's application for entry into or expansion within the insured depository institution system.

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

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

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

Strategic Goal

FDIC-supervised institutions are safe and sound.

Strategic Objective

FDIC-supervised institutions appropriately manage risk.

Annual Performance Goal

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

Indicator and Targets

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

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

Means and Strategies

Risk Management, Safety and Soundness

Operational Processes (initiatives and strategies):

Risk management examinations assess an FDIC-supervised insured depository institution's overall financial condition, management practices and policies, and compliance with applicable regulations. The FDIC performs safety and soundness, trust/transfer agent, Bank Secrecy Act, and information technology examinations of FDIC-supervised insured depository institutions. In 2004, the FDIC projects that it will conduct 2,561 examinations required under statute, FDIC policy, or agreement with state supervisors.

The FDIC generally follows a risk-focused approach to examinations. This allows the FDIC to focus its examination resources on those areas that carry the greatest potential risk. The FDIC implemented the Maximum Efficiency, Risk-focused, Institution Targeted (MERIT) program in 2002. This program establishes examination guidelines for well-managed financial institutions with total assets of \$250 million or less, and a composite 1 or 2 rating that meet certain criteria. In early 2004, the total asset threshold for eligibility increased from \$250 million to \$1 billion.

Continuing industry consolidation, new technologies, and product innovation have resulted in larger, more complex organizations. The MERIT program allows the FDIC to focus increased resources on the larger, more complex financial institutions that

constitute the most risk to the insurance funds. 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 has several analytical models that are run off-site to identify financial institutions that may be susceptible to potential risks such as rapid growth, fluctuating earnings, downturns or excess concentration in vulnerable economic sectors. Examiners use these analyses when they are planning examinations to better focus on high-risk areas during the on-site examination. They are also used to identify the need for inquiries or on-site visits to supervised institutions outside of the regular examination cycle.

During 2004, the FDIC will continue to focus on the risks posed by technology. Both on-site risk management and information technology examinations cover technology related activities to determine how each FDIC-supervised insured depository institution manages risk in that area. The FDIC has also developed a monitoring system to proactively identify and assess indicators of technology risks that may impact FDIC-supervised institutions.

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 on-going dialogue with technology vendors, bank trade associations, and standards and rule-setting entities to identify effective practices with respect to the use of emerging technologies.

Human Resources (staffing and training):

The FDIC is augmenting its general training curriculum for examiners to include more training on technology and electronic banking issues. For example, training modules on technology and e-banking issues are being incorporated into examiner core schools. The FDIC is revamping its Fundamentals of Information Systems Examination training course to better integrate technology risk into overall safety and soundness risk. In addition, the FDIC will consider offering “refresher” training on pertinent technology topics to safety and soundness examiners in 2004, as it did in 2003. The intent is to build upon a solid fundamental base of general technology and electronic banking knowledge for all safety and soundness examiners.

Information Technology:

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

however, the single application will be more efficient to use than the three currently in use.

Verification and Validation

The number of safety and soundness examinations required during 2004 may fluctuate due to the change in the number of FDIC-supervised insured depository institutions resulting from mergers, closings, and newly approved charters; changes in asset size, condition, or capital levels that may accelerate the examination cycle; or other reasons. The actual number of examinations conducted and the number of delinquent statutorily required examinations, if any, will be reported in the FDIC's 2004 Annual Report. In addition, adherence to internal FDIC guidelines regarding examination time frames will be tracked.

External Factors

Scheduling, staffing, or other resource constraints outside of the FDIC's control may impact the completion of examinations and the FDIC's performance under this annual goal. Under the alternating examination program, examinations are conducted on alternate 12- (or 18) month cycles by the FDIC and the appropriate state supervisor. Should the state supervisor experience scheduling, staffing, or other resource constraints when the state is responsible for completing the examination, the statutory examination requirement may not be met. In such cases the FDIC will work with the state supervisor to ensure that any delinquent examination is promptly scheduled and completed. When appropriate, the FDIC may conduct the examination in lieu of the state supervisor.

Strategic Goal

FDIC-supervised institutions are safe and sound.

Strategic Objective

FDIC-supervised institutions appropriately manage risk.

Annual Performance Goal

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

Indicator and Targets

Follow-up examinations of problem banks

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

Means and Strategies

Risk Management, Safety and Soundness

Operational Processes (initiatives and strategies):

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

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

Human Resources (staffing and training):

Staffing and training needs are continually reviewed to ensure the FDIC has the ability and knowledge to identify and address relevant risk areas.

Information Technology:

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

A new module of the FDIC's Virtual Supervisory Information on the Net (ViSION) system was implemented in 2003 to facilitate off-site monitoring and problem identification. This module combines several off-site models into a single source and its Risk Profile Screens promote more in-depth analysis by offering a clear, concise picture of different types of risks engaged in by the institution.

Verification and Validation

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

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

Strategic Goal

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

Strategic Objective

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

Annual Performance Goal

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

Indicator and Targets

1. Additions to the Money Smart Alliance and the number of Money Smart curricula provided
 - Add an additional 200 Money Smart Alliance Members.
 - Provide an additional 20,000 Money Smart curricula.
 - Reach an additional 200,000 individuals.

2. Outreach activities and technical assistance
 - Conduct or participate in 125 technical assistance efforts (examination support) or banker/community outreach activities related to CRA, fair lending, or community development.

Means and Strategies

Community Affairs and Outreach

Operational Processes (initiatives and strategies):

The FDIC participates in a variety of community outreach activities designed to increase awareness of community and economic development; increase knowledge of

CRA regulations and fair lending laws; enhance lending, investment, and service performance; and assist FDIC-supervised insured depository institutions in developing strategies to respond to credit, investment, and service opportunities.

The FDIC will continue to develop and promote top quality financial education products responsive to market demand. The FDIC's Money Smart is now available on CD-ROM in English, Spanish, Chinese, Korean and Vietnamese versions. In addition to Money Smart's instructor-based curriculum, the FDIC is developing a participant-based curriculum, which will be available on the web (and on CD-ROM). This dual approach will significantly increase the FDIC's financial education delivery options. The FDIC will also conduct Train-the-Trainer sessions for community organizations, financial institutions, and others across the country interested in financial education services. In 2004, the FDIC will continue to pursue opportunities to increase the public's awareness of Money Smart by introducing electronic publications of Money Smart newsletters and by developing a media strategy that promotes the FDIC's financial education efforts. This will include articles, press releases, and a page on the FDIC web site (www.fdic.gov). The FDIC will also work to strengthen alliances with government, charitable and community development organizations.

In addition to the efforts devoted to Money Smart, the FDIC also conducts a variety of other outreach and technical assistance activities. In 2004, these activities will include educational outreach and technical assistance to financial institutions, bank examiners, and the public on CRA, community and economic development, and various consumer protection laws and regulations.

Verification and Validation

The FDIC will report periodically through corporate reporting processes on the number of organizations and individuals exposed to, as well as the level of use of the Money Smart curriculum.

External Factors

If a severe economic downturn resulted in an increased number of troubled institutions, the FDIC might have to reallocate its resources to enable it to respond adequately to supervisory issues posed by troubled institutions.

Strategic Goal

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

Strategic Objective

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

Annual Performance Goal

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

Indicator and Targets

Timely responses to written complaints

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

Means and Strategies

Consumer Affairs

Operational Processes (initiatives and strategies):

The FDIC responds to written complaints and inquiries regarding consumer protection and fair lending issues, including those received electronically through the Customer Assistance Form on the FDIC's Internet Web site. It also provides consumer protection and deposit insurance information to financial institutions and the public. When consumer protection and fair lending complaints and inquiries are investigated and answered in an effective manner, consumers better understand their rights under these federal laws. In 2004, the FDIC expects to receive approximately 14,300 written and Internet complaints and inquiries. The FDIC will closely monitor the timeliness of its responses.

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

Human Resources (staffing and training):

The FDIC has centralized its responsibility for responding to consumer complaints and inquiries in its Consumer Response Center in Kansas City. This provides greater flexibility in resource allocation to address workload in call center activity, consumer correspondence, credit card complaints, inquiries and consumer education efforts.

Information Technology:

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

Verification and Validation

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

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

Strategic Goal

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

Strategic Objective

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

Annual Performance Goal

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

Indicator and Targets

Conduct required examinations in accordance with FDIC policy.

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

Means and Strategies

Consumer Protection, Supervision and Regulation

Operational Processes (initiatives and strategies):

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

The FDIC's examination frequency policy conforms to Gramm-Leach-Bliley Act (GLBA) provisions pertaining to CRA examinations. GLBA establishes the CRA examination

cycle for most institutions with less than \$250 million in assets. Institutions with aggregate assets of \$250 million or less and a CRA rating of "Outstanding" are subject to a CRA examination no more than once every 60 months; those with aggregate assets of \$250 million or less and a "Satisfactory" CRA rating are subject to a CRA examination no more than once every 48 months. A compliance examination generally will be conducted in conjunction with the CRA examination. Compliance-only examinations generally will be conducted at the mid-point between CRA examination frequencies. The FDIC will also incorporate into its compliance examinations procedures in 2004 a work program to assess compliance with identity theft guidelines issued to supervised institutions in early 2004.

In 2004, the FDIC will continue to implement a restructured compliance examination approach that places greater emphasis on an institution's compliance risk-management practices as opposed to exhaustive transactional testing. The approach involves an expanded review of an institution's systems and compliance policies so that transaction testing can be better targeted and focused on areas of greatest risk exposure. This approach makes more efficient and effective use of examination resources, especially in financial institutions with high compliance risk profiles.

Human Resources (staffing and training):

Staffing and training needs will be reviewed on an ongoing basis to ensure resources supporting the examination program are adequate and those employees possess the skill and knowledge to effectively and successfully carry out this program.

Information Technology:

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

Verification and Validation

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

External Factors

If a severe economic downturn resulted in an increased number of troubled institutions, the FDIC might have to reallocate its examiner resources to enable it to respond adequately to supervisory issues posed by troubled institutions. This could result in temporary adjustments to the FDIC's various examination programs.

Strategic Goal

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

Strategic Objective

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

Annual Performance Goal

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

Indicator and Targets

Timely follow-up examination and related activity.

- Follow-up examination or related activity is conducted within 12 months from the date of a formal enforcement action to confirm that the institution is in compliance with the enforcement action.

Means and Strategies

Consumer Protection, Supervision and Regulation

Operational Processes (initiatives and strategies):

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

Human Resources (staffing and training):

Staffing and training needs will be reviewed on an ongoing basis to ensure resources supporting the examination program are adequate and those employees possess the skill and knowledge to effectively and successfully carry out this program.

Information Technology:

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

Verification and Validation

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

Receivership Management Program Program Descriptions and Annual Performance Goals

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

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

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

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

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

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

List of qualified and interested bidders

- Contact all known qualified and interested bidders.

Means and Strategies

Franchise Marketing

Operational Processes (initiatives and strategies):

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

Human Resources (staffing and training):

Staffing requirements will be continually assessed to meet the FDIC's needs in carrying out its franchise marketing responsibilities. The FDIC has established policies and procedures to allow for the temporary assignment and/or reallocation of resources should the need arise. Additionally, plans to begin hiring entry level personnel as a transition strategy are being implemented to address an anticipated increase in retirements over the next several years.

Information Technology:

The FDIC will continue to use a Web-based automated notification system that uses customer preference profiles for potential purchasers of loans as well as for franchise buyers. By using e-mail and a secure Web site, the FDIC can market to a potential bidder both the failed institution and its assets more effectively and efficiently.

Verification and Validation

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

Strategic Goal

Recovery to creditors of receiverships is achieved.

Strategic Objective

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

Annual Performance Goal

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

Indicator and Targets

Percentage of failed institution's assets marketed

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

Means and Strategies

Asset Sales, Management of Subsidiaries), and Asset Management

Operational Processes (initiatives and strategies):

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

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

Human Resources (staffing and training):

Staffing requirements will continually be assessed to meet the FDIC's needs in carrying out its receivership management responsibilities. The FDIC has established policies and procedures to allow for the temporary assignment and/or reallocation of resources should the need arise. Additionally, plans to begin hiring entry level

personnel as a transition strategy are being implemented to address an anticipated increase in retirements over the next several years.

Information Technology:

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

During 2004 the FDIC will implement the first phase of the Asset Servicing Technology Enhancement Project (ASTEP) to meet its current and future asset servicing responsibilities. This project will use adaptable technology that is compatible with industry standards to leverage market place product enhancements, provide the FDIC with a single data source for reporting, and eliminate data redundancies and resulting data reconciliation efforts. The second phase of ASTEP is anticipated to coincide with the NFE implementation.

Verification and Validation

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

Strategic Goal

Recovery to creditors of receiverships is achieved.

Strategic Objective

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

Annual Performance Goal

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

Indicator and Targets

Timely termination of new receiverships

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

Means and Strategies

Oversight Operations

Operational Processes (initiatives and strategies):

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

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. 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 entity is terminated. The termination process requires internal inter-divisional coordination and agreement. At the beginning of 2004, there are 121 active receiverships, including 102 pre-2000 receiverships. The FDIC has been unable to terminate most of the pre-2000 receiverships due to remaining legal impediments, which are followed closely and resolved as quickly as possible.

Human Resources (staffing and training):

Staffing requirements will continually be assessed to meet the FDIC's needs in carrying out its receivership management responsibilities. The FDIC has established policies and procedures to allow for the temporary assignment and/or reallocation of resources should the need arise. Additionally, plans to begin hiring entry level personnel as a transition strategy are being implemented to address an anticipated increase in retirements over the next several years.

Verification and Validation

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

Strategic Goal

Recovery to creditors of receiverships is achieved.

Strategic Objective

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

Annual Performance Goal

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

Indicator and Targets

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

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

Means and Strategies

Investigations and Professional Litigation

Operational Processes (initiatives and strategies):

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

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

Human Resources (staffing and training):

Staffing requirements will continually be assessed to meet the FDIC's needs in carrying out its receivership management responsibilities. The FDIC has established

policies and procedures to allow for the temporary assignment and/or reallocation of resources should the need arise. Additionally, plans to begin hiring entry level personnel as a transition strategy are being implemented to address an anticipated increase in retirements over the next several years.

Information Technology:

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.

Verification and Validation

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

Operational Efficiency and Effectiveness

The FDIC relies upon its human, financial, and information resources to accomplish its mission, and it continually seeks to manage these resources more efficiently and effectively. This is essential to the successful accomplishment of the Corporation's mission and is integral to its stewardship responsibilities for the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund (FRF). Major 2004 initiatives in each of these resource areas are discussed below.

Human Capital Management The FDIC's employees are its most important and valuable resource, and the Corporation has always invested considerable resources in recruiting, developing, and maintaining a dedicated, high-performing, and diverse workforce. To develop an integrated, comprehensive approach to human capital issues, the FDIC established a Human Resources Committee, composed of eight key executives from throughout the FDIC. That committee develops policy recommendations and monitors their implementation when adopted. In 2004, that committee will continue to serve as a corporate clearinghouse for human capital issues supporting our three business lines.

Implementing a Strategic Human Resources Framework to Accomplish Organizational Goals.

The FDIC completed ten years of downsizing in 2003. During 2004, the FDIC will develop and begin implementation of an integrated corporate strategy to address staffing and human resources management over the next five to seven years. This strategy will include the implementation of new human resources programs and policies that will provide sufficient managerial flexibility to be able to recruit and

retain a high performing workforce to meet current and projected future workload requirements as cost effectively as possible. It will also address the workforce impact of projected retirements, potential employee surpluses and/or skill imbalances, and employee performance issues.

Attracting and Retaining an Outstanding Workforce.

During 2004, the FDIC will assess alternative models for staffing the FDIC's three major business lines. This will include an evaluation of a combined recruitment program for entry-level hiring in the three business lines and the development of "core competencies" applicable to those business lines. Attention will also be paid to the recruitment, hiring, and retention of business and research economists and the introduction of performance benchmarks for professional publication and participation in conferences and other research and professional activities.

Corporate University.

In 2003, the FDIC implemented a new Corporate University (CU) which will refocus FDIC training and development activities. The CU's intent is to efficiently and effectively address the Corporation's training needs, and foster a continuous learning culture. The CU provides training in each of the FDIC's major lines of business in order to maintain a flexible permanent workforce capable of expeditiously responding to changing workload needs and priorities. These training programs will help the FDIC attract and retain high performing employees by providing them with a broad range of learning and development experiences and equipping them for future advancement opportunities.

In 2004, the CU will implement a number of new initiatives that will support its mission by leveraging existing expert resources and affiliating with academic, government and professional organizations to enhance employee expertise. These initiatives will include a new Visiting Fellows Program and professional development programs.

Leveraging Information Technology to Support and Deliver HR Services.

In 2004, the FDIC will enhance the Corporate Human Resources Information System (CHRIS) to provide streamlined, automated time and attendance reporting and to automate a number of other work processes. In addition, a web-based hiring system will be implemented to automate the application process, rank applicants and applications for vacancies, and track their status.

Integrated Planning and Resource Management.

Resource requirements are identified through a single, fully integrated planning and budgeting process that engages the Corporation's staff and senior managers each year in a comprehensive review of projected workload, planned information technology, proposed annual performance objectives, and other initiatives. The costs associated with each of the Corporation's major business lines are reviewed as a part

of this process, with a focus on identifying potential efficiencies that will reduce future operational costs. Performance objectives are clearly identified, and senior management monitors achievement of those objectives through quarterly performance management reports.

Management of Major Capital Investment Projects.

The FDIC established in late 2002 a new Capital Investment Review Committee (CIRC), co-chaired by the Chief Financial Officer and the Chief Information Officer. The CIRC is responsible for rigorous analysis and review of all proposed major investments in order to ensure that they are cost effective and consistent with other Corporate initiatives and for regular oversight of approved investment projects.

During its first full year of operations, the CIRC established disciplined reporting processes to surface project implementation problems and issues more quickly and consistently than in past years. As with many other organizations, the FDIC has found it challenging to complete approved information technology projects on time and within budget. During 2004, the CIRC will explore “best practices” for managing project performance. In addition, new project management training requirements will be introduced for the managers of major investment projects.

New Financial Environment.

The Corporation awarded a contract in late 2002 to purchase and install enterprise resource planning software to replace many of the Corporation’s existing financial and other systems. This New Financial Environment (NFE) is scheduled to be implemented in 2005. It will substantially reduce current costs while providing greater functionality, including improved financial reporting and analysis and cost-management capabilities. In order to maximize the efficiencies from the NFE, the Corporation will revise its existing business processes wherever possible to conform to the “best practices” built into the new software. When implemented, the NFE will (1) simplify and consolidate the financial application and data environment; (2) automate most current manual work processes; (3) maximize electronic business opportunities; (4) provide more timely and robust decision support; and (5) ensure continuity of financial operations.

Reduced Facilities and Insurance Costs. In 2003, the FDIC began construction of Phase II of the Seidman Center. Construction will continue in 2004. Management processes have been implemented to ensure adherence to project budget and schedule. The project will provide estimated cost savings of approximately \$78 million (net present value) over 20 years when compared to the projected costs associated with the FDIC’s current headquarters leasing arrangements.

The Corporation pays approximately \$1.5 million a year in liability insurance premiums under the corporate insurance program. The cost of premiums has tripled

this year. In addition, historical claims paid out under the insurance policies are typically a fraction of the premiums. Many government agencies are currently self-insured. In 2004, the FDIC will conduct a study on the cost and operational effectiveness of continuing or modifying the corporate insurance program.

Competitive Sourcing. Although the FDIC is not subject to the Federal Activities Reform (FAIR) Act, the Corporation is committed to evaluating, on an ongoing basis, opportunities to competitively outsource activities that are currently performed in-house where cost effective.

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

Information Technology

Information Technology Program Assessment.

Effective management of the Corporation’s information resources depends heavily on a strong information technology program. The Corporation appointed a new Chief Information Officer (CIO) in 2003 after completing a comprehensive review of its information technology program by an independent contractor to identify opportunities for improvement. In 2004, the FDIC will develop and begin implementation of a multi-year action plan to implement approved recommendations from that review.

Information Security Program Improvements. FDIC management recognizes that improved information security requires an ongoing commitment by the organization. The information security program provides a continuous cycle for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of those procedures. In 2003, FDIC made significant progress in addressing the reportable condition noted in the GAO Audit of the FDIC’s 2002 Annual Financial Statements. In addition, the 2003 Federal Information Security Management Act (FISMA) audit by the Office of the Inspector General documented the FDIC’s substantial progress in upgrading its information security program, identifying only one “minimal assurance” (red) rating, down from three such ratings in the 2002 FISMA audit. In 2004, the Corporation will continue implementation of its strategy for enhancing its information security management control which will result in a greater number of “reasonable assurance” (green) conditions in the next FISMA audit.

Enterprise Architecture. The FDIC Enterprise Architecture (EA) blueprint will continue to guide new IT investments toward the elimination of incompatible stovepipe systems that result in unnecessary duplication and higher costs. A new EA policy was issued in November 2003 which provides a management foundation for applying EA as a discipline throughout the FDIC. During 2004, the FDIC will institutionalize EA through the implementation of the approved policy and completion of EA products as defined by the GAO's maturity framework for assessing and improving EA management.

Expanded Electronic Government. The establishment of an integrated and streamlined e-government infrastructure is a key component of the Corporation's target EA. In 2003, the FDIC completed the development of FDICconnect, a secure, Web-based e-government portal for the exchange of information with FDIC-insured institutions. The portal was used by the FDIC, Federal Reserve Board, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision for the electronic filing of Beneficial Ownership Reports as required by the Sarbanes-Oxley Act of 2002. Additionally, use of FDICconnect for financial institutions review of their insurance assessment bills and submitting branch applications was made available. In 2004, FDIC will expand the number of FDICconnect applications and develop a corporate e-commerce strategy that will establish FDICconnect as the FDIC's standard electronic gateway for interactions with all business and governmental partners.

Infrastructure Modernization. A detailed analysis of the FDIC's IT infrastructure was completed in late 2003 to determine the condition, age and adequacy of its various components in relation to the Corporation's needs, the reliability of the equipment, and industry best practices for IT infrastructure replacement. The analysis confirmed that a significant gap exists between the current condition and what will be necessary to support FDIC's operations. During 2004, the FDIC will implement a replacement modernization plan to address this gap.

Appendix

Program Resource Requirements

Crosscutting Efforts

Planning Process

External Factors

Program Evaluation

Performance Results

Program Resource Requirements

The FDIC operating budget is developed in a manner that recognizes its three programs of Insurance, Supervision, and Receivership Management. The following chart presents the budgetary resources the FDIC plans to expend in its programs during 2004 to pursue the strategic goals and objectives and the annual performance goals set forth in this Plan, and to carry out other program-related activities. The costs are fully loaded to reflect each program's share of common support services provided by the Corporation.

Insurance Program	\$147,150,462
Supervision Program	\$594,051,864
Receivership Management Program	\$251,790,790
Subtotal Business Lines	\$992,993,116
General and Administrative Cost	\$97,010,304
TOTAL Budget for Program Areas	\$1,090,003,420

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, 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 Office of the Inspector General (OIG) independently prepares and publishes its own performance plan. For 2004, the OIG's Plan is prepared on a fiscal-year basis and contains specific performance goals to address OIG strategic initiatives to conduct audits, evaluations, and investigations that add value to corporate programs and activities; communicate effectively with the Chairman, the Congress, and other stakeholders; and align its human resources to support the OIG mission and effectively manage its resources.

Program Evaluation

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

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

During 2003, the FDIC completed an evaluation of the Supervision and Consumer Protection program. A program evaluation for the Insurance program is expected to be completed during the first quarter of 2004.

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

Crosscutting Efforts The FDIC works closely with the other federal financial institution regulators principally the Board of Governors of the Federal Reserve System (FRB), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS) to address issues and programs that transcend the jurisdiction of each agency. Regulations are in many cases interagency efforts, and the majority of supervisory policies are written on an interagency basis. Examples include policies addressing subprime lending, capital adequacy, fraud information-sharing and off-site monitoring systems. The FDIC, FRB, OCC and OTS also work closely with the National Credit Union Administration (NCUA), which supervises and insures credit unions and the Conference of State Bank Supervisors (CSBS), which represents the state regulatory authorities.

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 regulators listed above as well as the CSBS, is empowered to prescribe uniform principles, standards and report forms for the federal examination of insured depository institutions and federally insured credit unions. The FFIEC makes recommendations to promote uniformity in the supervision of insured depository institutions and federally insured credit unions, develops standardized software and provides uniform examiner training. The FFIEC chair rotates among the five federal regulators. As a member of the FFIEC, the FDIC participates on task forces to carry out interagency objectives and activities. These task forces focus on Consumer Compliance, Examiner Education, Information-Sharing Reports, Supervision, and Surveillance Systems. In addition, the FDIC participates in the FFIEC's Legal Advisory Group and Appraisal Subcommittee.

Basel Committee on Banking Supervision

The FDIC participates on the Basel Committee on Banking Supervision, a forum for international cooperation on matters relating to financial institution supervision. The

committee promotes harmony by issuing “sound practices” papers and developing supervisory standards to which its members voluntarily adhere. The Basel Committee on Banking Supervision aims to improve the consistency of capital regulations internationally, make regulatory capital more risk sensitive, and promote enhanced risk-management practices among large, internationally active banking organizations. The Basel II Capital Accord is an effort by international banking supervisors to update the original international bank capital accord (Basel I), which has been in effect since 1988.

Interagency Country Exposure Risk Committee

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

International Association of Deposit Insurers

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

Shared National Credit Program

The FDIC participates with the other federal financial institutions 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 financial institutions, the NCUA, the U.S. Department of Housing and Urban Development, the Office of Federal Housing Enterprise Oversight (OFHEO), the U.S. Department of Justice (DOJ), the Federal Housing Finance Board, and the Federal Trade Commission (FTC).

Antiterrorism, Fraud and Money Laundering

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

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

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

The FDIC participates in several other interagency groups to coordinate efforts to combat fraud and money laundering and to implement the USA PATRIOT Act. These groups include:

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

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.

Government Performance and Results Act Financial Institutions Regulatory Working Group

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

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

The passage of the Gramm-Leach-Bliley Act in 1999 allows insured financial 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 Federal Trade Commission, National Association Insurance Commissioners, and the Securities Exchange Commission.

Economic Growth and Regulatory Paperwork Reduction Act

The FDIC leads the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) project, an interagency initiative established by the Federal financial institution regulatory agencies to review all regulations that impose a burden on the banking industry. Through the Federal Financial Institutions Examination Council, the Federal Reserve Board, the National Credit Union Administration, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the FDIC are conducting a review to identify and eliminate any regulatory requirements that are outdated, unnecessary or unduly burdensome, as mandated by EGRPRA.

Below are the annual performance goals for 2004 that will require coordinated efforts with one or more of the federal banking agencies. The goals are listed by FDIC program.

Insurance

Respond promptly to 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 risk management examinations to assess an FDIC-supervised insured depository institution's overall financial condition, management practices and policies, and compliance with applicable regulations.

Take prompt and effective supervisory actions to address problems identified during the FDIC examination of FDIC-supervised institutions identified as problem insured depository institutions.

Monitor FDIC-supervised insured depository institutions' compliance with formal and informal enforcement actions.

Supervision, Consumer Protection

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

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

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

Take prompt supervisory actions and monitor 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 2004.

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

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

Currently, the economy is expanding at roughly a 4 percent pace, following a surge in growth of over 8 percent in third quarter 2003. Economic output will most likely expand by 4 to 4.5 percent over the next year. The expansion has finally extended beyond the consumer and housing sectors to include business investment and inventory building. However, job growth remains anemic and it is a point of uncertainty at this time. A lack of significant job growth is the principal downside risk to the relatively benign economic forecast for 2004. Hiring must increase to a sturdier, sustained level, somewhere in excess of 150,000 net jobs created per month on average, for the unemployment rate to fall appreciably. If stronger job growth does

not emerge as the year progresses, then consumer spending may not provide as much strength as it has in the recent past. Tax cuts and low interest rates have helped to support consumer spending in the absence of significant job growth since recession's end, but these effects will wane as the year progresses. This makes it paramount that job growth resume in order to generate additional income to fuel growth in consumer outlays.

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 the third quarter 2003, more than 15 percent of insured institutions were newly chartered since the end of the 1990-91 recession. Of these new charters, 175 were in 2002 and 2003. A number of these institutions are currently showing significant exposures to high-risk loans and may be particularly vulnerable to adverse economic trends. After rising modestly in 2001 and 2002, problem bank levels tapered down in 2003 and continue to remain low compared to the early 1990s. Although the FDIC has been able to focus more on disposing of its existing inventory of assets and eliminating impediments to the closeout of receiverships, future resolution costs are still largely subject to general economic conditions.

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

Structure of the Financial Services Industry

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

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

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

The federal banking agencies also face increased challenges to coordinate the regulation of an industry that is becoming even more globalized. Such efforts as those undertaken to adopt new international capital standards by the Basel Committee on Banking Supervision will take on increasing significance and further emphasize the need for coordination and

communication among members of the international financial services regulatory community. Emerging technology provides new ways for insured depository institutions to deliver and manage traditional products and services. As financial institutions leverage new technology, risk management and oversight issues will become more complex for both institutions and regulators.

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

Performance Results

The following information discusses performance results of “like” annual performance goals that the FDIC has implemented over the past several years. The performance results achieved by implementing the 1998 -2001 annual goals are noted below.

Depositor Payouts in Instances of Failure

2004 Goal - Respond promptly to financial institution closings and emerging issues.

2003 Performance – Timely payments made to all depositors of the three insured depository institutions that failed in 2003. Legislation on deposit insurance reform was passed in the House and is pending in the Senate.

2002 Performance – Timely payments made to all depositors of the 11 insured depository institutions that failed in 2002. Legislation on deposit insurance reform was introduced in the House and the Senate.

2001 Performance – Timely payments made to all depositors of the four insured depository institutions that failed in 2001.

2000 Performance - Timely payments made to all depositors of the seven insured depository institutions that failed 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.

Risk Classifications

2004 Goal - Maintain and improve the deposit insurance system.

2003 Performance – Reserve ratio maintained at or above the statutory ratio of 1.25 percent. Chairman testified before the Senate Banking Committee in support of deposit insurance reform.

2002 Performance - Reserve ratio maintained at or above the statutory ratio of 1.25 percent. Chairman testified before the Senate Banking Committee in support of deposit insurance reform.

2001 Performance - Reserve ratio maintained. FDIC published its final recommendations for deposit insurance reform.

2000 Performance - Reserve ratio maintained at or above the statutory mandate of 1.25 percent.

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.

Risk Identification and Reporting

2004 Goal - Identify and address risks to the insurance funds.

2003 Performance – Significant progress made in improving the accuracy and efficiency of off-site risk identification models. Risk assessments of all large insured depository institutions (LIDIs) were completed in compliance with program requirements.

2002 Performance – Significant progress made in improving the accuracy and efficiency of offsite risk identification models. Risk assessments of all large insured depository institutions (LIDIs) were completed in compliance with program requirements.

2001 Performance – Developed several approaches to credit risk that will be incorporated into Virtual Supervisory Information On the Net system. Risk assessments of all large insured depository institutions (LIDIs) were completed in compliance with program requirements.

2000 Performance - Economic trends and emerging risks were identified, monitored, and addressed through the publication of surveys, guidance, and reports and outreach programs.

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.

Safety and Soundness Examinations

2004 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.

2003 Performance – Conducted 2,421 required safety and soundness examinations in accordance with FDIC policy.

2002 Performance – Conducted 2,534 or 98% of required safety and soundness examinations.

2001 Performance – Conducted 2,575 safety and soundness examinations, or 97 percent of required safety and soundness examinations.

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

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

Safety and Soundness Enforcement Actions

2004 Goal – Take prompt and effective supervisory actions to address problems identified during the FDIC examination of FDIC-supervised institutions identified as problem insured depository institutions. Monitor FDIC-supervised insured depository institutions' compliance with formal and informal enforcement actions.

2003 Performance – Seventy-three institutions designated as problem (composite “4” or “5” rated). Fifty-eight with total assets of \$6.98 billion were removed from problem status and 47 with total assets of \$4.99 billion were added. Additionally, FDIC issued the following formal and informal enforcement actions: 40 Cease and Desist Orders and 157 Memorandums of Understanding.

2002 Performance – Eighty-four institutions designated as problem (composite “4” or “5” rated). Forty-eight were removed from problem status and 63 were added.

2001 Performance – Sixty-seven institutions designated as problem (composite “4” or “5” rated). Fifty-six were removed from problem status and 76 added. Evaluations changed to monitor migration of troubled banks.

2000 Performance - On average, examination reports were processed and mailed to institutions within 44 days of receipt in regional office Target is 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.

Compliance Examinations

2004 Goal - Conduct comprehensive and compliance-only, and CRA examinations in accordance with FDIC examination frequency policy.

2003 Performance – Conducted 1,919 comprehensive, compliance-only, and CRA examinations in accordance with FDIC policy. There were no delinquencies in 2003.

2002 Performance – Conducted 1,840 comprehensive, compliance-only and CRA examinations in accordance with FDIC policy. There were no delinquencies in 2002.

2001 Performance – Conducted 2,179 comprehensive, compliance-only and CRA examinations in accordance with FDIC policy. There were no delinquencies in 2001.

2000 Performance - Conducted 2,257 examinations. There were three delinquent examinations at the end of 2000.

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

⁵Beginning in 1999, the number of delinquencies at year-end were adjusted downward to exclude those considered as “managed delinquencies.”

Compliance Enforcement Actions

2004 Goal – Prompt and effective supervisory actions are taken and monitored on all institutions rated 4 or 5 for compliance.

2003 Performance – The only “4” rated institution entered into a Memorandum of Understanding (MOU) with the FDIC.

2002 Performance - Eight of nine institutions entered into a Memorandum of Understanding (MOU) with the FDIC and the ninth was in the process of reviewing the recommended MOU at year-end.

2001 Performance – Six of seven institutions had either been examined in the preceding 12 months or were still within the 12 month time frame between examinations. One institution was pending resolution for safety and soundness reasons, and the compliance examination was deferred pending resolution.

2000 Performance - For institutions on average rated a composite “4” or “5,” the FDIC conducted all follow-up examinations within the targeted timeframe of 12 months from the issuance date of a formal enforcement action.

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.

CRA Outreach

2004 Goal – Provide effective outreach and technical assistance on topics related to CRA, fair lending, and community development.

2003 Performance – The FDIC supplied more than 111,000 copies of Money Smart curricula to organizations. The FDIC initiated 65 public outreach initiatives, 111 Community Development activities, and 67 Technical Assistance activities.

2002 Performance – Money Smart classes attended by approximately 2,800 participants.

2001 Performance - Conducted 25 Money Smart workshops with over 600 participants.

2000 Performance - Annual goal was not established in 2000.

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

Consumer Complaints and Inquiries

2004 Goal – Effectively meet the statutory mandate to investigate and respond to consumer complaints about FDIC-supervised financial institutions.

2003 Performance – FDIC received 8,010 consumer complaints, closing 99 percent of them. Of the complaints closed, 94 percent were closed within policy time frames.

2002 Performance – FDIC receive 8,368 consumer complaints, closing 95 percent of them. Of the complaints closed, 94 percent were closed within policy time frames.

2001 Performance – Annual goal was not established in 2001.

2000 Performance – Annual goal was not established in 2000.

1999 Performance – This was not an annual performance goal in 1999.

Least-Cost Resolution

2004 Goal - Market to all known qualified and interested potential assuming institutions.

2003 Performance – There were three failures in 2003. One hundred percent of the qualified bidders were contacted.

2002 Performance – There were eleven failures in 2002. One hundred percent of the qualified potential bidders were contacted.

2001 Performance – There were four failures in 2001. One hundred percent of the qualified potential bidders were contacted.

2000 Performance - There were seven failures in 2000. One hundred percent of the qualified potential bidders were contacted.

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

Asset Management

2004 Goal – Value, manage, and market assets of the failed institutions and their subsidiaries in a timely manner to maximize net return

2003 Performance – For all three institutions that failed, at least 98 percent of all marketable assets were marketed within the 90-day time frame, thus exceeding the target of 85 percent.

2002 Performance – For all eleven institutions that failed, at least 87 percent of all marketable assets were marketed within the 90-day time frame, thus exceeding the target of 85 percent.

2001 Performance – For three institutions that failed, the FDIC marketed 100 percent of the marketable assets. The remaining institution was placed into conservatorship. Loan pools, servicing operations, and residuals that totaled in excess of the 80 percent target were marketed within the 90-day time frame.

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

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

Receiverships Terminated

2004 Goal - Manage the receivership estate and its subsidiaries toward an orderly termination.

2003 Performance - For the seven failures that occurred during 2000 that matured in 2003, the FDIC terminated four receiverships, below the target to terminate 75 percent within three years of failure.

2002 Performance - For the eight failures from 1999 that matured in 2002, FDIC terminated six receiverships, meeting the target to terminate 75 percent within three years of failure.

2001 Performance - Fifty-two out of the 76 targeted receiverships were terminated in 2001. In mid-2001, the target of 76 terminations was revised to 36. The pace of termination was slowed by impediments that represented material financial or legal risks to the FDIC.

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

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

Professional Liability Claims

2004 Goal - Conduct investigations of all potential professional liability claim areas in all failed insured depository institutions. Decide to close or pursue each claim as promptly as possible, considering the size and complexity of the institution.

2003 Performance - Four of ten institutions that reached the 18-month milestone during 2003 had 100 percent of professional liability investigations completed. The other six institutions had at least 80 percent of professional liability investigations completed, meeting the goal of 80 percent.

2002 Performance - Two of six institutions that reached the 18-month milestone during 2002 had 100 percent of professional liability investigations completed. The other four institutions had at least 80 percent of professional liability investigations completed, meeting the goal of 80 percent.

2001 Performance - Five of nine institutions that reached the 18-month milestone had 100 percent of professional liability investigations completed.

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

1999 Performance - A decision to close or pursue each claim was made within 18 months after the failure date for 100 percent of all investigations, thus exceeding the goal of 80 percent.⁶

⁶This 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."