



# **2005 Annual Performance Plan**

## Chairman's Message

I am pleased to present the Federal Deposit Insurance Corporation's (FDIC) 2005 Annual Performance Plan. The FDIC is charged by Congress with maintaining stability and public confidence in the nation's financial system by insuring deposits, identifying and assessing risks to the system, examining and supervising financial institutions, resolving financial institution failures, and managing receiverships.

In carrying out its missions, the Corporation will emphasize the following in 2005:

- We will play a leadership role in federal banking and regulatory policy. In 2005, this will include our continuing efforts to secure the enactment of deposit insurance reform legislation and our leadership of the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) project, an interagency initiative to identify and eliminate any regulatory requirements that are outdated, unnecessary or unduly burdensome on the banking industry.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 of insured institution failures to the funds. In 2005, this will include increased attention to compliance by FDIC-supervised institutions with Bank Secrecy Act and consumer protection requirements and to the potential insurance risks posed by large insured institutions.
- We will pursue increased Effective Management of Strategic Resources by continuing to improve our internal management and work processes and by reducing our ongoing operational costs in 2005.

This document identifies specific 2005 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 2005.

Donald E. Powell  
Chairman

## **Mission, Vision and Values**

### **Mission**

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

### **Vision**

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

### **Values**

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

#### **Integrity**

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

#### **Competence**

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

#### **Teamwork**

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

#### **Effectiveness**

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

#### **Financial Stewardship**

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

#### **Fairness**

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

## Insurance Program

The FDIC insures bank and savings association deposits to help ensure stability and public confidence in the U.S. financial system. The deposit insurance funds must remain viable so that adequate funds are available to protect insured depositors if an institution fails. When insured institutions fail, the FDIC is responsible for ensuring that institution customers have timely access to their insured deposits. As insurer, the FDIC continually evaluates how changes in the economy, the financial markets, the banking system, and individual financial institutions affect the adequacy and the viability of the deposit insurance funds. The FDIC communicates its findings to the industry and the other federal banking agencies<sup>1</sup> and state authorities through formal and informal channels, including the publication of written analysis of banking industry developments. In recent years, the FDIC has placed increased emphasis on the dissemination of high-quality research and analysis through its Center for Financial Research (CFR) and other initiatives.

The FDIC's risk analysis process has also been enhanced through the establishment of an enterprise-wide Risk Analysis Center (RAC). Communication and coordination with the other bank regulatory agencies are a top priority. As the insurer, the FDIC, by statute, has special examination authority for insurance purposes for all insured depository institutions. If significant emerging risks or other serious concerns are identified for an insured depository institution not primarily supervised by the FDIC, the FDIC and the institution's primary federal supervisor<sup>2</sup> work together to address them.

The FDIC exercises its insurance responsibilities by approving or denying applications by any prospective 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 pursuing prudent fund investment strategies. In 2005, the FDIC will continue to devote significant attention and resources to 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 about the application of 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.

<sup>1</sup>The other federal banking agencies, along with the FDIC, include: the Board of Governors of the Federal Reserve System (FRB), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS).

<sup>2</sup>The 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.   |
|  |   | Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts. |

## **Strategic Goal**

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

## **Strategic Objective**

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

## **Annual Performance Goal**

Respond promptly to financial institution closings and emerging issues.

## **Indicator and Targets**

Number of business days after institution failure that depositors 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**

### **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 with access to their accounts in one or two business days. The FDIC works with the assuming institution so that the insured deposit accounts are transferred to 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.

**Human Resources (staffing and training):**

Based on workload fluctuations, staffing requirements will continually be assessed to meet the FDIC's needs in carrying out its receivership management responsibilities. The FDIC has established policies and procedures to allow for the temporary assignment of resources to meet workload demands and mission responsibilities. The Corporation will begin implementation of its new Corporate Employee Program (CEP) in 2005. This new program will expand the FDIC's knowledge base in the areas of resolutions and receiverships and will ensure a continual level of readiness among the workforce by promoting cross-divisional mobility through continuous training and rotational work assignments. When fully implemented, the CEP will be the foundation of a flexible workforce that is capable of responding quickly to unexpected events or changing workload priorities.

**Information Technology:**

Technology is critical to the success of improving the efficiency of deposit insurance determinations and payments. The FDIC is in the midst of a multi-year effort to redesign and automate its deposit insurance claims and payment process. This Claims Re-engineering Project will provide an integrated solution that meets the Corporation's current and future deposit insurance determination needs and will be based on adaptable technology that is compatible with industry standards. In 2005, the proposed solution will be finalized.

**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 in which the FDIC maintains its deposit payout account.

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**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. Insurance risks posed by large insured depository institutions
  - Assess the insurance risks in 100 percent of large insured depository institutions and adopt appropriate strategies.
2. Concerns referred for examination or other action
  - Identify and follow up on 100 percent of referrals.
3. Dissemination of data and analyses on issues and risks affecting the banking industry to bankers, supervisors, the public, and other stakeholders
  - Results of research and analyses are disseminated in a timely manner through regular publications, ad hoc reports and other means.
  - Industry outreach activities are undertaken to inform bankers and other stakeholders about current trends and concerns and available FDIC resources.

### **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. Risk analysis information enables the FDIC to more effectively maintain and improve models that monitor industry conditions and individual institution risks.

The FDIC established a Risk Analysis Center (RAC) under the direction and oversight of the FDIC's National Risk Committee (NRC) to formalize an interdivisional approach to the monitoring and analyzing of risks to the deposit insurance funds and to the banking system. It administers an integrated corporate risk analysis process that utilizes information obtained from a wide variety of sources, including examinations and other institutional reviews as well as internal and external research and analysis. As part of this process, it coordinates the work of the NRC and six Regional Risk Committees, resulting in an enhanced understanding of industry conditions and emerging risks, and allowing for dissemination of this information to FDIC managers and staff, other regulators, bankers and the public. The RAC provides a platform for interdivisional projects that address identified risks that impact the Corporation.

The FDIC has increased its focus on the largest financial institutions that pose the greatest risk to the insurance funds by assigning "dedicated examiners" to the nine largest financial institutions. These institutions have a combined \$4.8 trillion in total assets, accounting for approximately 48 percent of the industry's total assets. Dedicated examiners use supervisory information, internal institution information, and external sources of information to evaluate risks and assign an FDIC risk rating

for each of the nine institutions. The dedicated examiners work collaboratively with the primary federal regulator and other FDIC offices to evaluate the condition of large banks and help identify systemic risks.

In addition to the Dedicated Examiner Program, FDIC “case managers” perform continuous analyses of all large banking organizations through the Large Insured Depository Institution (LIDI) Program. This program provides in-depth supervisory analyses for all financial institutions with over \$25 billion in total assets (and selected institutions with total assets between \$3 billion and \$25 billion). Case managers maintain contact with the primary federal regulator, review bank risk management information from a variety of sources, and in some instances attend meetings with bank management at the invitation of the primary federal regulator.

Information from the Shared National Credit (SNC) program is also integrated into the analysis of emerging risks at large banks. This interagency program provides for annual reviews of certain syndicated loans with over \$20 million in exposures shared between three or more regulated entities. Loan commitments covered by the program totaled nearly \$1.5 trillion in 2004. Using SNC information, the FDIC identifies industry sector exposures posing a high degree of risk for large banks and analyzes underwriting trends and industry performance trends. This information is used in developing risk cases and quarterly risk assessments.

In addition to its internal risk assessment process, the FDIC also maintains a vigorous research and publications program on issues and topics of importance to the banking industry. Much of this research is conducted in collaboration with the academic community through the CFR, which was established in 2004. Research findings are disseminated through the Center for Financial Research (CFR) working papers, articles in professional journals, and presentations at conferences and other events. The FDIC also disseminates information and analyses on industry risks through periodic reports, publications (e.g., the FDIC Quarterly Banking Profile and FDIC Outlook), Financial Institution Letters (FILs), and participation in industry events and other outreach activities. In 2005, the FDIC will continue to implement improvements to its publications program based on a review of that program conducted previously.

#### **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. In 2005, the FDIC will increase the number of staff with quantitative risk analysis and financial risk modeling capabilities.

### **Information Technology:**

The FDIC will implement a new Central Data Repository (CDR) during the second half of 2005. This new system will improve the collection, validation, management, and distribution of Call Report data. The use of new, open data exchange standards (known as “eXtensible Business Reporting Language,” or XBRL) will provide faster access to financial institution information for all users of the data – financial institutions, banking regulators and the public.

To facilitate improved off-site analysis, the FDIC will also implement in 2005 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, it will continue to explore mechanisms for secure electronic communication with state banking departments and other federal banking agencies to facilitate the exchange of confidential supervisory information.

### **Verification and Validation**

Potentially heightened insurance risks identified through the Dedicated Examiner, LIDI, or SNC programs will be reported to FDIC senior executives who will then determine an appropriate course of action. Follow-up activity will be tracked through established reporting processes.

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### **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 during the second Call Reporting period in 2005.

### **Means and Strategies**

#### **Operational Processes (initiatives and strategies):**

The interagency CDR project now underway will improve data-management

processes to more effectively collect, validate, process, and distribute information about insured institutions. Phase I of this project focuses on modernizing the existing Call Report collection and processing system. New taxonomies will be published for use by Call Report preparation software vendors, and the CDR website will begin enrolling banks in June 2005. Banks will begin submitting their Call Reports to the CDR for the September 2005 Call Report period.

**Human Resources (staffing and training):**

The CDR is a joint initiative of the FDIC, the Federal Reserve Board (FRB), and the Office of the Comptroller of the Currency (OCC). It is being undertaken under the aegis of the Federal Financial Institutions Examination Council (FFIEC). The FDIC is staffing all CDR work phases with full-time employees from divisions and offices within the Corporation, supplemented by contract consulting resources where appropriate.

**Information Technology:**

The CDR information technology architecture makes significant use of open, Internet-based standards such as Extensible Markup Language (XML) and web services to provide appropriate, useable functionality to all stakeholders.

**Verification and Validation**

The progress of the CDR project will be assessed through quarterly status reports submitted through the Corporation’s Capital Investment Review Committee.

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**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. Deposit Insurance Reform
  - Provide information and analysis to Congressional committees in support of deposit insurance reform legislation.

- Obtain legislative 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. Loss Reserves
    - Enhance the effectiveness of the reserving methodology by applying sophisticated analytical techniques to review variances between projected losses and actual losses, and by adjusting the methodology accordingly
  3. Fund adequacy
    - Set assessment rates to maintain the insurance funds at the designated reserve ratio (DRR), or return them to the DRR if they fall below, as required by statute.
    - When deposit insurance reform legislation is enacted, promulgate rules and regulations establishing criteria for replenishing the Deposit Insurance Fund when it falls below the low end of the range.
    - Enhance the working prototype of the integrated fund model for financial risk management.

## **Means and Strategies**

### **Operational Processes (initiatives and strategies):**

The FDIC continues to work with Congress on a comprehensive deposit insurance reform package that will provide the FDIC with 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 institution failures to establish contingent loss reserves for the insurance funds. The FRC will keep pace with changing techniques and methodologies used to analyze the nature of risk exposure, including scenario analysis and stress testing. Models that forecast failures and failure resolution costs 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, 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. FDIC staff also uses the information provided by the FRC to project the level of assessment revenue necessary to maintain the designated reserve ratio.

**Human Resources (staffing and training):**

Additional staff devoted to banking and economic research programs will be recruited in 2005. 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 be actively engaged in producing relevant research through relationships and activities sponsored by the CFR.

**Information Technology:**

The Risk-Related Premium System (RRPS) will be enhanced consistent with the improvements that are implemented to ViSION (which houses the RRPS) in 2005.

**Verification and Validation**

To ensure that the RRPS identifies higher-risk institutions and appropriately assesses higher insurance premiums, the FDIC reviews the assessment history of all failed insured depository institutions and determines if the system is working adequately. The Government Accountability Office reviews the methodology used to determine the contingent loss reserve annually. In 2005, the FRC will conduct a semiannual review of the effectiveness of the contingent loss reserve methodology.

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**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.

- Update the consumer version of EDIE (Electronic Deposit Insurance Estimator) located on the FDIC's website.

## **Means and Strategies**

### **Operational Processes (initiatives and strategies):**

The FDIC uses a variety of means to educate insured financial institutions and depositors about FDIC deposit insurance coverage. In addition to conducting seminars for bank employees, the FDIC encourages the dissemination of educational information through the banking industry and the media. The FDIC enhances its deposit insurance educational tools and updates its deposit insurance publications as appropriate. The FDIC works with insured financial institutions to encourage them to use these tools and to make the FDIC's publications available to bank employees and customers. The FDIC also publishes articles on the insurance coverage rules in the FDIC Consumer News, a newsletter for consumers published by the FDIC four times a year, and works to publicize any changes to deposit insurance rules through the national and regional news media.

### **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 uses 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.

In 2005, the FDIC will continue to explore the use of teleconferencing technology to reach a large audience of financial institution employees more efficiently and expanded use of the Internet to deliver deposit insurance educational tools and materials to the banking community and the public .

## **Verification and Validation**

Attainment of this performance target will be confirmed by verifying the availability of the updated version of EDIE on the FDIC website.

## Supervision Program

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

The FDIC supervises 5,272<sup>3</sup> 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 savings institutions. The FDIC also has special examination authority for insurance purposes for state member banks that are supervised by the Federal Reserve Board (FRB), national banks that are supervised by the Office of the Comptroller of the Currency (OCC), and savings associations that are supervised by the Office of Thrift Supervision (OTS). This authority is exercised in the FDIC's role as insurer of those institutions.

As the primary federal supervisor of all insured state non-member banks, the FDIC performs periodic examinations of those 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 risks of fraud or insider abuse.

If weaknesses are detected through the examination process, the FDIC takes appropriate supervisory 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 recapitalization, 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. When institutions apply for expansion of existing activities or locations, various factors are evaluated. These factors generally include capital adequacy, quality of management, financial condition, and compliance with applicable laws and regulations.

In 2005, the FDIC will continue to pursue increased operational efficiency in the examination process in order to provide more cost effective services to banks.

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<sup>3</sup>Fourth Quarter 2004 Letter to Stakeholders.

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 action to address issues identified during the FDIC examination of FDIC-supervised institutions that receive a composite Uniform Financial Institutions Rating of 4 or 5 (problem institution). Monitor FDIC-supervised insured depository institutions’ compliance with formal and informal enforcement actions.</p> |
|   |  | <p>Increase industry and regulatory awareness of emerging/high-risk areas.</p>   |
|   |  | <p>More closely align regulatory capital with risk in large or multinational banks.</p>  |
|   |  | <p>Ensure that FDIC-supervised institutions that plan to operate under the new Basel Capital Accord are making satisfactory progress toward meeting required qualification standards.</p>  |

In its supervisory capacity, the FDIC promotes institution compliance with consumer protection, fair lending, privacy, and community reinvestment statutes. To facilitate compliance, the FDIC provides supervised insured depository institutions with updated information on consumer laws and regulations to help them better understand and comply with the laws. This information is provided in brochures and through other media, including the FDIC’s website ([www.fdic.gov](http://www.fdic.gov)). Through community outreach efforts and technical assistance, the FDIC encourages lenders to work with members of their local communities in

meeting the communities' credit needs. The FDIC also develops information specifically for consumers, such as *FDIC Consumer News*, to increase awareness and help them better understand their rights and responsibilities.

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 the information and disclosures that are provided to consumers by FDIC-supervised insured depository institutions in accordance with 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.

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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   |
|---|---|--|
| Consumers' rights are protected and FDIC-supervised institutions invest in their communities. | Consumers have access to easily understood information about their rights and the disclosures due them under consumer protection and fair lending laws. | Provide effective outreach and technical assistance on topics related to the CRA, fair lending, and community development. |
|   |   | Meet the statutory mandate to investigate and respond to consumer complaints about FDIC-supervised financial institutions. |

|  |  |   |
|--|--|---|
|  | <p>FDIC-supervised institutions comply with consumer protection, CRA, and fair lending laws.</p> | <p>Conduct CRA and compliance examinations in accordance with the FDIC's examination frequency policy.</p>  |
|  |  | <p>Take prompt and effective supervisory action to monitor and address problems identified during compliance examinations of FDIC-supervised institutions that receive a 4 or 5 rating for compliance with consumer protection and fair lending laws.</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

- 100 percent of required safety and soundness examinations (including a review for BSA compliance) are conducted on schedule.

**Means and Strategies**

**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, BSA, information technology, trust, registered transfer agent, and municipal securities dealer and government security dealer examinations of FDIC-supervised insured

depository institutions. In 2005, the FDIC projects that it will conduct approximately 2,400 safety and soundness examinations required under statute, FDIC policy, or agreement with state supervisors. As part of its strong BSA/anti-money laundering (AML) supervision program, the FDIC will also implement in 2005 revised interagency BSA/AML examination procedures. In addition, it will conduct BSA/AML examinations in conjunction with safety and soundness examinations conducted by state regulators where appropriate.

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 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.

Continuing industry consolidation, new technologies, and product innovation have resulted in larger, more complex organizations. The FDIC intends to focus increased resources in 2005 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 also continues 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 depository institution manages risk in that area. The FDIC uses a monitoring system to proactively identify and assess indicators of technology risks that may impact FDIC-supervised institutions. In addition, the FDIC will continue to provide information to the industry about risks associated with technology outsourcing (e.g., contracting for computer services) practices. The FDIC is engaged in ongoing 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):**

In the last quarter of 2004, all FDIC risk management professionals completed BSA, AML, and USA PATRIOT Act training. In 2005, further guidance will be provided to risk management professionals on the revised BSA/AML examination procedures.

The FDIC will also augment its general training curriculum for examiners to include more training on technology issues. For example, training modules on technology

issues have been incorporated into examiner core schools. The FDIC offers an Information Technology Examination Course that teaches examiners how 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 2005, as it did in 2003 and 2004. The intent is to build upon a solid base of general technology knowledge for all risk management examiners and provide the needed training to match the knowledge of the total examination staff to the complexity of the technology being employed by the banking industry.

#### **Information Technology:**

The FDIC will continue to employ automated tools, 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.

#### **Verification and Validation**

The number of safety and soundness examinations that will be conducted during 2005 may fluctuate due to a 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 adherence to required examination time frames will be tracked through internal management systems and reported in the FDIC’s 2005 Annual Report.

#### **External Factors**

Scheduling, staffing, or other resource constraints outside of the FDIC’s control may impact the completion of examinations in accordance with this annual goal. Under the alternating examination program, certain 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.

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#### **Strategic Goal**

FDIC-supervised institutions are safe and sound.

#### **Strategic Objective**

FDIC-supervised institutions appropriately manage risk.

## **Annual Performance Goal**

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

## **Indicator and Targets**

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

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

## **Means and Strategies**

### **Operational Processes (initiatives and strategies):**

Problem institutions are identified primarily through the examination process. While reason and moral suasion are the primary corrective tools, the FDIC has broad enforcement powers to correct practices, conditions, or violations of law that threaten an insured depository institution's 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 that 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. In 2005, this system will be retired and its functions incorporated into ViSION.

## **Verification and Validation**

Monthly reports of problem institutions generated from the Summary Analysis of 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 that those supervisory actions are taken promptly, the FDIC will monitor the time it takes to provide examination reports to FDIC-supervised problem institutions after the completion of an examination.

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.

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### **Strategic Goal**

FDIC-supervised institutions are safe and sound.

### **Strategic Objective**

FDIC-supervised institutions appropriately manage risk.

### **Annual Performance Goal**

Increase industry and regulatory awareness of emerging/high-risk areas.

### **Indicator and Targets**

1. Number of trained BSA/AML subject matter experts
  - The number of trained BSA/AML subject matter experts is increased to 300.
  - Advanced training is completed for all BSA/AML subject matter experts.
2. Number of industry outreach sessions on BSA/AML/Counter Financing of Terrorism (CFT) issues
  - At least one outreach session is conducted per region.

### **Means and Strategies**

#### **Operational Processes (initiatives and strategies):**

In 2004, there were heightened concerns regarding compliance with BSA/AML rules and regulations within the financial services sector. In response, the FDIC undertook various activities to increase industry and regulatory awareness of the risks associated with lax controls and procedures that could expose institutions to potential money laundering and/or terrorist financing activities. This included expanded outreach efforts to promote greater industry awareness and understanding of newly implemented regulations and other supervisory matters related to BSA/AML

compliance. Well-attended industry outreach events specifically targeting BSA/AML issues were conducted in every region. Based on the success of this program, the FDIC will continue targeted outreach sessions in 2005 in each region. In addition, the FDIC will focus on enhanced examiner training in 2005 (see “Human Resources,” below).

#### **Human Resources (staffing and training):**

A number of FDIC examiners are trained as BSA/AML subject matter experts. They perform BSA/AML examinations at institutions that have a higher risk profile due to geographic location, customer base, or compliance record. To ensure the continuation of a strong BSA/AML supervisory program, the number of trained BSA/AML specialists was increased from 150 to 250 in 2004 and will be increased to 300 in 2005. The FDIC is also developing an expanded training program that will further enhance the expertise of these specialists. Such training will address more complex BSA/AML examination procedures, such as those pertaining to correspondent and private banking relationships with foreign entities (including funds transfer activity), money service businesses and other non-bank financial institutions, and enhanced due diligence of high-risk accounts.

#### **Information Technology:**

The FDIC has incorporated BSA/AML reference materials into the external website, which are located at: <http://www.fdic.gov/regulations/examinations/bsa/index.html>. The link was incorporated into the public website in June 2004 to centralize and expand access to BSA/AML/CFT resources for the banking industry, as well as the regulatory community. The link provides information and instruction related to examination procedures, interpretive guidance, websites of related agencies, instructions for reporting suspicious activity and terrorist-related activity, an overview of governing rules and regulations, and much more.

#### **Verification and Validation**

The Washington Office is responsible for providing advanced BSA/AML training to the FDIC’s subject matter experts. The Regional Offices report to the Washington Office on the planning and completion of the outreach sessions.

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#### **Strategic Goal**

FDIC-supervised institutions are safe and sound.

#### **Strategic Objective**

FDIC-supervised institutions appropriately manage risk.

#### **Annual Performance Goal**

More closely align regulatory capital with risk in large or multinational banks.

## Indicator and Targets

Completion of preparatory activities for implementation of the new Basel Capital Accord

- Notice of Proposed Rulemaking (NPR) and associated examination guidance for implementing the new Basel Capital Accord are published for comment.
- Quantitative Impact Study 4 is completed.

## Means and Strategies

### **Operational Processes (initiatives and strategies):**

The new Basel Capital Accord is currently scheduled to be implemented on January 1, 2008. The objective of the Accord is to more closely align regulatory capital with risk in large or multinational banks. The FDIC is working with the Basel Committee on Banking Supervision and the other federal bank regulatory agencies to plan for implementation of the Accord. In June 2004, the federal bank regulatory agencies outlined plans for adopting the new Accord domestically. The agencies reiterated their expectations that only a small number of large, internationally active U.S. banking organizations would be required to use the framework, and that those institutions would use only the most advanced approaches for determining their risk-based capital requirements. Application of the framework's advanced approaches to other qualifying U.S. banking organizations would be at the option of the individual banking organization. Existing capital rules would continue to apply to those institutions that did not elect to use the framework.

The Basel II NPR Interagency Working Group, under the auspices of the FFIEC Supervision Task Force, is responsible for developing an NPR that will formalize our current plans and proposals for implementing the new accord in the U.S. The Working Group will use the Basel Committee's June 2004 text on the "International Convergence of Capital Measurement and Capital Standards," comments received in response to the Advance Notice of Proposed Rulemaking (ANPR), and other resources to develop an NPR that more closely aligns regulatory capital with risk in large or multinational banks. The Working Group will meet periodically to develop the NPR text, and will coordinate efforts with the Basel II Steering Group and the Guidance Development Committee. The agencies expect that the NPR on possible revisions to risk-based capital adequacy regulations will be developed by year-end 2005. The agencies will publish a final rule after fully considering all comments received on the NPR.

The Quantitative Impact Study 4 (QIS-4) is an interagency effort designed to develop a better understanding of the capital requirements resulting from U.S. implementation of the Basel Capital Accord. QIS-4 is one part of the implementation plan to assist in the transition to the new framework. Large banking organizations will provide data covering all material risks for their consolidated organizations, as well as narrative

information on the methodologies employed in developing risk metrics and data inputs. QIS-4 covers all quantitative aspects of the Advanced Internal Ratings Based (A-IRB) approach for credit risk portfolios and the Advanced Measurement Approach (AMA) for operational risk. It also incorporates current requirements for market risk. This approach is expected to provide a more comprehensive estimate of regulatory capital requirements than did QIS-3 (2002).

Publication of a clearly defined NPR that satisfies the Corporation's Basel II policy objectives is critical. Proposals dealing with the possible recalibration of the advanced approaches will be based in part on the results of the QIS-4 exercise. Results of the quantitative study are due back from participating banks in January 2005. Data will be reviewed by the interagency QIS team in the first quarter. Follow-up visits or calls to banks and exam staff may be required to validate and finalize submissions. In the second quarter, estimates of the impact of the Accord on risk-based capital for U.S. banks will be made. These data will be used to analyze outstanding policy matters in preparation for the completion of the NPR.

#### **Human Resources (staffing and training):**

The Working Group will need to draw from various disciplines and skill sets to ensure a quality product is delivered within the established time frames. The breadth and depth of FDIC knowledge of Basel II-related matters has expanded greatly due in part to our continued participation and active involvement in QIS-4 and guidance development groups. Much of the staff currently participating in these projects will assist in the development, review and editing of the sections of the NPR related to their areas of expertise. Staff will be utilized primarily for their technical expertise in a given subject matter.

Both headquarters and field personnel will be involved in the development and execution of QIS-4. The FDIC's QIS-4 team is coordinated by Large Bank Specialists and is composed of financial analysts, policy analysts, and examiners. Once QIS-4 submissions are finalized, the data will be used by various constituencies inside the FDIC as well as in other agencies.

#### **Information Technology:**

The Working Group will utilize existing information technology to accomplish the annual performance goal and targets for 2005. The Working Group does not envision expanding or enhancing existing technology during the policy development stage of this project.

An interagency website was established to post QIS materials for participating banks ([www.ffiec.gov/qis4](http://www.ffiec.gov/qis4)) as well as other banks that may want to fill out the survey for self-assessment purposes. Frequently asked questions will also be posted on the website to assist banks during the process.

## **Verification and Validation**

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

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## **Strategic Goal**

FDIC-supervised institutions are safe and sound.

## **Strategic Objective**

FDIC-supervised institutions appropriately manage risk.

## **Annual Performance Goal**

Ensure that FDIC-supervised institutions that plan to operate under the Basel Capital Accord are making satisfactory progress toward meeting required qualification standards.

## **Indicator and Targets**

Percentage of on-site examinations or off-site analyses performed

- On-site examinations or offsite analyses are performed for all FDIC-supervised banks that intend to operate under Basel II to ensure that they are effectively working toward meeting required qualification standards.

## **Means and Strategies**

### **Operational Processes (initiatives and strategies):**

The new Basel Capital Accord is scheduled to be implemented in the U.S. on January 1, 2008. The FDIC is represented on various key international and domestic working groups relating to Basel II implementation. For example, staff is participating in domestic efforts to develop interagency examination guidance and training materials to ensure uniform application of supervisory standards among domestic regulatory agencies. Staff has identified and conducted routine outreach with institutions supervised by the FDIC that intend to opt-in for treatment under the new capital framework. Additionally, staff is working closely with other primary federal regulators to ensure uniform application of Basel II among all insured institutions.

An NPR will be published by year-end 2005, with publication of a final domestic rule projected for mid-2006. In the interim, the FDIC and other domestic regulatory agencies will continue to work with institutions that intend to opt-in under the new rules. In 2005, on-site and off-site supervisory activities related to FDIC-supervised institutions will intensify to ensure that these institutions are meeting proposed targets for compliance with Basel II, when implemented.

**Human Resources (staffing and training):**

The Corporation will increase the number of staff assigned to this initiative in 2005 and align staffing with expected workload associated with preparations for Basel II. These and other designated individuals will continue to receive training to ensure that they have the requisite knowledge, expertise, and experience to meet the supervisory challenges posed by Basel II.

**Information Technology:**

Existing technology will be used to accomplish this goal. No new information systems or automated tools will be developed in support of this annual performance goal in 2005.

**Verification and Validation**

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

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**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. Number of *Money Smart* Alliance members
  - 200 additional members are added to the *Money Smart* Alliance.
2. Number of *Money Smart* curricula distributed
  - 20,000 additional copies of the *Money Smart* curricula are distributed.
  - 200,000 additional individuals are taught using the *Money Smart* curriculum.
3. Number of outreach activities conducted with technical assistance

- 125 technical assistance (examination support) efforts or banker/community outreach activities are conducted related to CRA, fair lending, or community development.

## Means and Strategies

### Operational Processes (initiatives and strategies):

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

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, as well as in a computer-based interactive instruction version, which is now available on the CD ROM as well as the FDIC website. The FDIC will develop and distribute a *Money Smart* training DVD in 2005 that is designed to assist the FDIC's *Money Smart* Alliance partners to provide training to their local constituents. The FDIC will also conduct train-the-trainer sessions for community organizations, financial institutions, and others across the country interested in financial education services. The FDIC will continue to pursue opportunities to increase the public's awareness of *Money Smart* by publishing electronic versions of the *Money Smart* newsletter and promoting the FDIC's financial education efforts through its website ([www.fdic.gov](http://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 conducts a variety of other outreach and technical assistance activities. In 2005, 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. The FDIC will also launch a public information campaign targeting Hispanic media outlets in 14 markets around the country to encourage use of the services of FDIC-supervised insured depository institutions.

### Verification and Validation

The FDIC will report periodically through established corporate reporting processes on the number of organizations and individuals exposed to the *Money Smart* curriculum, the level of use of the curriculum, and the number of outreach and technical assistance activities conducted.

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## **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

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

## **Means and Strategies**

### **Operational Processes (initiatives and strategies):**

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

In 2005, the FDIC expects to receive approximately 5,700 written complaints. The FDIC will closely monitor the timeliness of its responses. Additionally, the FDIC has begun surveying 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 in its Consumer Response Center in Kansas City. This facilitates the maintenance of staff knowledge and expertise and provides greater flexibility in balancing staff resources and workload.

### **Information Technology:**

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

### **Verification and Validation**

In order to maintain the integrity of STARS data, system edit checks and data field requirements are designed to eliminate inaccurate and illogical data. During periodic system testing and internal control reviews, additional efforts are 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.

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### **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 CRA and compliance examinations in accordance with FDIC examination frequency policy.

### **Indicator and Targets**

Percentage of examinations conducted in accordance with required timeframes

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

### **Means and Strategies**

#### **Operational Processes (initiatives and strategies):**

The FDIC conducts CRA and compliance examinations of FDIC-supervised depository institutions in order to determine the institution's compliance with consumer protection and fair lending laws and its performance under the CRA. The frequency of these examinations is specified by FDIC policy. For CRA examinations, the FDIC's examination frequency policy conforms to applicable provisions of the Gramm-Leach-Bliley Act (GLBA). GLBA establishes the CRA examination cycle for most small banks (those 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. The FDIC is currently considering whether to raise the small bank threshold from \$250 million to \$1 billion in assets. If adopted, these time frames would apply to approximately 1,000 additional institutions.

Compliance examinations for most institutions with less than \$250 million in assets are generally required at least once every 36 months under FDIC policy. A compliance examination will generally be conducted concurrently with the CRA examination. In addition, a second compliance examination will generally be conducted at the mid-point between CRA examinations.

In 2004, the FDIC continued 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. This approach involves an expanded review of an institution's systems and compliance policies so that transaction testing can be better targeted and focused on areas of greatest risk exposure. This approach makes more efficient and effective use of examination resources, especially in financial institutions with high compliance risk profiles. Based on experience with this approach, the FDIC recalibrated its compliance examination benchmarks in mid-2004 to reflect realized efficiencies. This recalibration resulted in a time savings of more than 11 percent from 2003 examination hours. Benchmarks are periodically reviewed and adjusted.

**Human Resources (staffing and training):**

Staffing and training needs are reviewed on an ongoing basis to ensure that the staff resources supporting the examination program are adequate and that those employees possess the skill and knowledge to effectively and successfully 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.

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## **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 and effective supervisory action to monitor and address problems identified during compliance examinations of FDIC-supervised institutions that receive a 4 or 5 rating for compliance with consumer protection and fair lending laws.

## **Indicator and Targets**

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

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

## **Means and Strategies**

### **Operational Processes (initiatives and strategies):**

Problem institutions are identified primarily through the examination process. While 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 in 2005 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 Formal and Informal Action Tracking System (FIAT) as the system of record for monitoring all enforcement action activity. In 2005, this system will be retired and its functions incorporated into ViSION.

**Verification and Validation**

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

## Receivership Management Program

The Receivership Management Program ensures 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 marshals the institution's assets for the benefit of the creditors. The FDIC is often the largest creditor after fulfilling its obligations as deposit insurer. The Corporation immediately works to identify and notify potential creditors of the failed insured depository institution of 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 the pursuit of valid claims are distributed according to priorities set by law.

To ensure that new receiverships are managed effectively toward an orderly and timely termination, the FDIC has an active receivership oversight program. The program fosters an efficient and responsible business approach to receivership management. This 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.

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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**

**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):**

Based on workload fluctuations, staffing requirements will continually be assessed to meet the FDIC's needs in carrying out its receivership management responsibilities. The FDIC has established policies and procedures to allow for the temporary assignment of resources to meet workload demands and mission responsibilities. As indicated above, the Corporation will begin implementation of the Corporate Employee Program in 2005. This new program will expand the FDIC's knowledge base in the areas of resolutions and receiverships and will ensure a continual level of readiness among the workforce.

**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 deposit franchise buyers. By using e-mail and a secure website, 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).

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**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

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

## **Means and Strategies**

### **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 expedites the return of the assets of the failed institution to the private sector by marketing most assets soon after an insured institution fails. Given adequate time, the FDIC prepares an information package and an asset valuation review for each failing insured depository institution to assist in the solicitation of bidders, analysis of bids received for the assumption of deposits, and sale of assets at resolution or shortly thereafter. For asset sales, the failed institution's assets are grouped into pools that will be most appealing to acquirers. 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. The FDIC will continue to update and refine its marketing strategies in order to market assets as quickly and efficiently as possible. Where appropriate, the FDIC will manage and dispose of most of the remaining assets from the failed bank location. The FDIC uses the Standard Asset Valuation Estimation (SAVE) methodology to value and make marketing and disposition decisions regarding most of the assets of the failed institutions. SAVE methodology uses standard assumptions and market information to ensure consistency in valuing assets. The valuation process, methodology, and assumptions used to value assets are continually reviewed and, where necessary, updated.

### **Human Resources (staffing and training):**

Workload and staffing requirements are reassessed on a regular basis to ensure that staffing is sufficient to meet the FDIC's receivership management responsibilities. The FDIC has established policies and procedures to allow for the temporary assignment of resources to meet mission responsibilities during unexpected workload spikes. The Corporation will begin implementation of the Corporate Employee Program in 2005. This new program will expand the FDIC's knowledge base in the areas of resolutions and receiverships and will ensure a continual level of readiness.

### **Information Technology:**

The FDIC will continue to use new and refined technology to make its asset

management/servicing, sale strategies and processes more efficient and to keep pace with changing market and business practices. It 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.

The Corporation is currently in the midst of a major new systems initiative, the Asset Servicing Technology Enhancement Project (ASTEP), to support the FDIC's current and future asset-servicing responsibilities. This project uses adaptable technology that is compatible with industry standards to leverage best practices and product enhancements, provide the FDIC with a single data source for asset reporting, and eliminate data redundancies and related data reconciliation efforts. During 2004, the Corporation began the conversion of assets previously housed on the National Processing System (NPS) to an industry standard software application hosted by an application service provider. Design will be completed and programming of the new ASTEP environment will begin in 2005.

### **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.

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### **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**

#### **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 provides oversight and monitors 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 the FDIC has disposed of all of the assets of the receivership, all liabilities have been resolved, and no material financial or legal risks to the FDIC remain, a final distribution is made to the creditors of the receivership, and the receivership entity is terminated.

At the beginning of 2005, there were 93 active receiverships, including 76 pre-2002 receiverships. The FDIC has been unable to terminate most of these pre-2002 receiverships due to remaining legal impediments, which are followed closely and resolved as quickly as possible.

### **Verification and Validation**

The process of inactivating a receivership is currently tracked in the Receivership Tracking System (RTS) and the Financial Information Management System (FIMS). Beginning in May 2005, FIMS will be replaced by the New Financial Environment (NFE). Monthly activity reports of deactivations are generated from both RTS and FIMS/NFE and reviewed for accuracy. System users validate the activity data, and any discrepancies are reconciled.

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### **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**

#### **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 determines whether it has viable, cost-effective claims and whether it should pursue such claims. Most professional liability investigations must be completed and viable claims filed within a three-year statute of limitations period.

The FDIC's attorneys and investigators work together to 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):**

Workload and staffing requirements are reassessed on a regular basis to ensure that staffing is sufficient to meet the FDIC's receivership management responsibilities. The FDIC has established policies and procedures to allow for the temporary assignment of resources to meet mission responsibilities during unexpected workload spikes. The Corporation will begin implementation of the CEP in 2005. This new program will expand the FDIC's knowledge base in the areas of resolutions and receiverships and will ensure a continual level of readiness.

#### **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. The Corporation will implement the new Legal Information Management System in 2005. It will replace the current tracking system and report the time spent by Legal Division staff on all legal matters, including those related to receiverships.

### **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.

## **Effective Management of Strategic Resources**

### **Introduction**

The FDIC recognizes that it must effectively manage a number of critical strategic resources in order to successfully carry out its mission and realize the annual performance goals set forth above for its three major programs. This is also an integral part of the Corporation's stewardship responsibility for the insurance funds that it manages. An overview of planned 2005 initiatives that will enhance management of the Corporation's key strategic resources is provided below.

### **Management of Financial Resources**

The FDIC's operational expenses are largely paid from the insurance funds, and the Corporation seeks to operate cost effectively in fulfillment of its fiduciary responsibility to the funds. To that end, the Corporation engages in a rigorous planning and budgeting process that is designed to ensure that budgeted resources are properly aligned with projected workload and business priorities.

The FDIC will implement an enhanced cost-management program in 2005 that will provide managers with additional cost information, including the fully loaded cost of key business processes. It will also continue to benchmark the cost of selected business processes with those of peer organizations and will begin to explore the use of performance scorecards to assess performance against appropriate cost, timeliness, quality and customer service standards.

Approximately 65 percent of the Corporation's annual operating expenses are for salaries and other compensation for FDIC employees. For that reason, a careful review of staffing and workload is a central component of the annual planning and budget process. The Corporation will also continue to actively manage its staffing in 2005 by reviewing on an ongoing basis the need for each vacancy that occurs and making appropriate adjustments to authorized staffing where vacancies are abolished as a result of this review. Due to declining workload in certain areas and the implementation of business process efficiencies throughout the Corporation, authorized staffing at year-end 2005 will drop to 4,751 from 5,329 at year-end 2004. Required staffing reductions will be accomplished through the use of targeted buyouts and, where necessary, reductions-in-force.

Leasing and other facility-related costs are another major expense for the Corporation. By the end of 2005, Phase II construction will be substantially completed at the Corporation's Seidman Center facility in Arlington, Virginia. FDIC employees will be relocated from leased space in downtown Washington, D.C., to the expanded facility by mid-2006. This initiative will save the Corporation an estimated \$78 million (net present value) over 20 years compared to the projected cost of current leasing agreements.

## Human Capital Management

The FDIC's employees are its most important resource for accomplishing its mission. For that reason, it seeks to continue to be the employer of choice within the financial regulatory community and to operate a human resources program that attracts, develops, evaluates, rewards and retains a high-quality, results-oriented workforce. This has been a difficult challenge over the past 12 years because the Corporation has been in a continuous downsizing mode as it completed the residual workload from the banking and thrift crises of the late 1980s and early 1990s.

Over the past three years, the Corporation focused considerable resources on human capital planning and has reached several important conclusions about its future human resource requirements. It has determined that the FDIC will need a flexible and adaptable permanent workforce in the future that is capable of responding rapidly to significant changes in the financial services industry or unexpected changes in workload priorities; that it will require a somewhat different mix of skill sets than are available in the current workforce; and that a more collaborative approach will be required in the future to fulfill mission-critical functions.

The FDIC has already put in place several key structural components of a new human capital strategy:

- Implemented pay-at-risk compensation and bonus programs that are tied to the accomplishment of concrete corporate performance objectives.
- Implemented a restructured executive and managerial classification, pay and bonus program.
- Established a Corporate University to provide an enhanced employee training and development program.

Much more remains to be accomplished. The Corporation must continue to refine its future workforce requirements and identify strategies for attracting and retaining employees from a more diverse and competitive recruiting pool. In 2005, the Corporation will implement the initial phase of the new Corporate Employee Program which emphasizes employee training and experience in multiple business lines. The Corporate University is leading the initiative to develop new commissioning and certificate programs in conjunction with the Corporate Employee Program. By the end of the year, the Corporation will have initiated Corporate Employee Program training for approximately 100 new and existing employees and provided "refresher" training to another 200 employees currently working in the Supervision business line who have prior experience in the Resolutions and Receiverships business line.

In 2005, the Corporation will also complete workforce restructuring activities in the Division of Resolutions and Receiverships and the Division of Information Technology to better position those organizations for the future. In addition, it will substantially increase the number of employees who have advanced quantitative risk analysis and modeling skills. This will enhance the FDIC's capacity to prepare for the transition of the largest U.S. insured

depository institutions to the new Basel Capital Accord and to understand and analyze the complex financial instruments and strategies now being employed by those and other large insured institutions.

The Corporation will continue to pursue increased statutory and administrative flexibility to manage its human resources in 2005. This additional flexibility is necessary to be able to adapt more quickly in the future to changes in the financial services industry that have an impact on the FDIC's unique mission responsibilities. In late 2004, proposed legislation to give the FDIC more flexibility in several specific areas of human resources management was finalized and submitted to the Congress. The Corporation will work actively with the Congress this year to support enactment of that legislation. The FDIC will also work closely with the Office of Personnel Management (OPM) to obtain broader delegated authority in certain areas that are within OPM's purview.

The Corporation will be re-negotiating its compensation agreement with its employee union in 2005. In those negotiations, the FDIC will pursue a reasonable compensation and benefits package for employees that is consistent with the Corporation's stewardship responsibilities for the insurance funds and enhances the emphasis in the current agreement on linking compensation to individual contributions.

## **Information Technology Resources**

### **Transformation of the Information Technology (IT) Program:**

The FDIC seeks to utilize its information technology (IT) resources to improve the efficiency and effectiveness of its operational processes. Following a comprehensive assessment of the IT program in 2003, the Corporation began a two-year IT transformation initiative in 2004 designed to create a cost-efficient and customer-focused IT organization that functions as a strategic business partner for the FDIC's business and support organizations. In 2004, a major upgrade of the IT infrastructure was largely completed; a Chief Information Officer (CIO) Council was established to provide continuing customer input; the number of business applications was reduced by more than five percent; and consolidation and streamlining of support contracts was begun to reduce costs and improve accountability. In 2005, the IT transformation effort will focus on three broad areas:

- Governance and process improvements that focus on making strategic "alignment" a requirement for all IT work.
- Technical improvements to continue to replace/upgrade critical components of the IT infrastructure.
- Organizational changes to better align IT resources with workload, flatten the organizational structure, and improve communication with customers.

A streamlined IT organizational structure will be implemented that will include a customer liaison staff to work closely with the business areas to promote business/IT alignment. Contract consolidation will be completed, and identified cost reductions will begin to be realized. Help desk improvements will also be implemented.

There will be substantial emphasis on the implementation of new structures and processes to improve the quality of application systems. A new Program Management Office will be implemented. In addition, the FDIC will embrace the principles associated with the Capability Maturity Model Integration (CMMI) developed by the Carnegie Mellon Software Engineering Institute. CMMI helps organizations increase the maturity of their people, processes and technology assets to improve long-term business performance. The FDIC's target is to reach Level 3 of the five-step maturity range, which represents a considerable commitment to and achievement of quality processes. Starting in 2005, the Corporation will employ the Rational Unified Process (RUP), a flexible, iterative system-development life cycle (SDLC) methodology. The adoption of this new SDLC methodology will minimize risk, provide more predictable results, and deliver high-quality software on time and within budget.

#### **Information Security Program Improvements:**

The FDIC recognizes that improved information security requires an ongoing commitment by the organization. Government Accountability Office (GAO) audits of the Corporation's annual financial statements have identified information security weaknesses as a reportable condition for the past several years. In response, the Corporation substantially increased the resources devoted to IT security each year and has made significant progress in addressing the identified weaknesses in its information systems controls. Major program accomplishments include the development and implementation of: a certification and accreditation process; a security self-assessment program; a security awareness program; and improved processes for intrusion detection, virus protection, security updates and security monitoring. The success of these efforts was confirmed in the GAO's recently completed audit of the FDIC's 2004 financial statements, which did not identify a material weakness or reportable condition in the information security area. In 2005, the Corporation will continue to expand and improve its information systems controls.

#### **Enterprise Architecture:**

The FDIC utilizes an Enterprise Architecture (EA) blueprint to guide new IT investments toward eliminating incompatible stovepipe systems that result in unnecessary duplication and higher costs. In 2004, a Technical Reference Model (TRM) based on standards from the Federal EA Program Office was published, and a new EA newsletter was initiated to provide information to interested FDIC staff on EA projects and news. The FDIC also received an Enterprise Architecture Award from the Zachman Institute for Framework Advancement in recognition of the achievements of the Corporate Data Sharing Program, an initiative to identify, define and manage data as a corporate

resource. In 2005, the FDIC will continue to enhance the EA program by identifying duplicative resources/investments and opportunities for internal and external collaboration in order to promote operational improvements and cost-effective solutions to business requirements. This new enterprise focus will enable the Corporation to continue to reduce its application systems inventory and consolidate its technology platforms.

#### **Expanded Electronic Government:**

The establishment of an integrated and streamlined e-government infrastructure is a key component of the Corporation's target EA. In 2004, the FDIC completed the Electronic Data Collections portion of FDICconnect, a secure, web-based e-government portal for the exchange of information with FDIC-insured institutions. The secure portal was used by the FDIC, FRB, OCC, and OTS for the electronic filing of Beneficial Ownership Reports as required by the Sarbanes-Oxley Act of 2002. Additionally, FDICconnect is being made available to financial institutions for the review of their insurance assessment bills and the submission of branch applications. Further, the number of electronic applications available through FDICconnect was expanded in 2004. Institutions can file electronic applications for branch-related activities, extension of time, reduction or retirement of capital stock or debt, and golden parachutes. In 2005, the number of FDICconnect applications will be expanded in conjunction with a corporate e-commerce strategy to promote a paperless environment in which transactions are carried out and data and document storage are handled electronically.

#### **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 existed between the current condition and what was necessary to support the FDIC's operations. In 2004, the FDIC implemented a replacement modernization plan to address this gap. The FDIC will continue in 2005 to maintain an agile and reliable infrastructure through an ongoing refreshment program, as well as through the introduction of more efficient automation tools to address FDIC business line objectives.

#### **Business Continuity Planning**

After September 11, 2001, corporate business continuity planning was elevated to an enterprise-wide level and has since undergone continuous improvement. Enterprise-wide business continuity planning is more than the recovery of the technology; it is the recovery of the business, regardless of the nature of the disruption. The FDIC has developed an Emergency Preparedness Program (EPP) that provides for the safety and security of its personnel through the Emergency Response Plan and ensures that its critical business

functions remain operational during any emergency, following the guidelines of the Business Continuity Plan.

During 2004, a number of initiatives were completed to strengthen the EPP, including conducting a business impact analysis (BIA) with all FDIC divisions and offices, which resulted in enhanced planning for recovery of information technology and other critical business functions. In 2005, the FDIC plans similar initiatives to improve the EPP and to develop long-range goals. In addition, the FDIC will continue to participate in federal government exercises and will expand its testing program to include more functional and “live” testing to ensure that every participant understands his/her responsibilities.

### **Enterprise Risk Management**

As an integral part of its stewardship of the insurance funds, the FDIC has established and maintains a comprehensive risk management and internal control program. This program is continuously reevaluated to ensure its efficiency and effectiveness. In 2005, the FDIC will adopt an Enterprise Risk Management approach to identifying and analyzing risks on an integrated, corporate-wide basis. The focus will be on directing resources to the areas of greatest risk. The FDIC also conducts regular internal control reviews and testing to mitigate identified risks and to verify that corrective actions are effective.

### **Office of Inspector General**

The OIG is an independent office within the FDIC that was established under the Inspector General Act of 1978. The OIG develops its own annual performance goals, consistent with a separate OIG strategic plan.

## Appendix

- [Program Resource Requirements](#)
- [The FDIC's Planning Process](#)
- [Program Evaluation](#)
- [Performance Results, 2000-2004](#)
- [Interagency Relationships](#)
- [Coordination with other Federal Bank Regulatory Agencies](#)
- [External Factors](#)

### Program Resource Requirements

The following chart presents estimated 2005 operating and investment expenses for the FDIC's three major business lines (Insurance, Supervision, and Receivership Management) as well as its general and administrative (G&A) expenses. Each of these estimates is "fully loaded" to include the projected cost of shared common support services provided by the Corporation. The FDIC Board of Directors has approved a corporate operating budget of approximately \$1.1 billion and estimated investment spending of approximately \$75 million for 2005.

|  |                        |
|--|------------------------|
| <b>Insurance Program</b>                   | <b>\$186,039,328</b>   |
| <b>Supervision Program</b>                 | <b>\$592,600,728</b>   |
| <b>Receivership Management Program</b>     | <b>\$276,798,302</b>   |
| <b>General and Administrative Expenses</b> | <b>\$120,371,553</b>   |
| <b>Total Estimated 2005 Spending</b>       | <b>\$1,175,809,911</b> |

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### The FDIC's Planning Process

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

In developing the Strategic and Annual Performance Plans, the FDIC uses an integrated planning process under which guidance and direction are provided by senior management and plans and budgets are developed with input from program personnel. Business

requirements, industry information, human capital, technology, and financial data are considered in preparing annual performance plans and budgets. Factors influencing the FDIC's plans include changes in the financial services industry, program evaluations and other management studies, and prior period performance.

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

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

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### **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."<sup>4</sup> 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 FDIC Annual Report and are used to revise future annual performance plans and division- and office-level operating plans. Program evaluation results are also used as input to the strategic and annual performance plans submitted to the Congress.

The FDIC's Office of Enterprise Risk Management (OERM) has primary responsibility for performing evaluations of the Corporation's programs. This role is independent of the program areas; however, program evaluations are interdivisional, collaborative efforts and they involve management and staff from the affected division(s) and office(s). Such participation is critical in order to fully understand the program being evaluated and to give the division(s) and office(s) a stake in the process.

Evaluations have previously been completed in the following program areas: Insurance – during 2004 and early 2005; Receivership Management – during 2003 and early 2004; and Supervision (Consumer Rights) – during 2002 and early 2003. Going forward, OERM plans to incorporate the program evaluation function into a comprehensive new Enterprise Risk Management Program.

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

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## **Interagency Relationships**

### **Other Financial Institution Regulatory Agencies**

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. In addition, the Comptroller of the Currency and the OTS Director are members of the FDIC Board of Directors, which facilitates crosscutting policy development and regulatory practices among the FDIC, the OCC and the OTS.

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

### **Federal Financial Institutions Examination Council**

The 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 harmonization 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.

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

### **Antiterrorism, Fraud and Money Laundering Groups**

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

The FDIC also participates on the Supervisory Emergency Communications Working Group of the FFIEC. This interagency group is a subcommittee of the FFIEC's Supervision Task Force, and it is charged with maintaining FFIEC Supervisory

Emergency Communication Protocols that focus on communication during times of emergency.

The FDIC participates in several other interagency groups to assist in 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.

#### **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 and Fannie Mae, and 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 Gramm-Leach-Bliley Act in 1999 permitted 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 SEC.

#### **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 FFIEC, the FDIC, in conjunction with NCUA, OCC, and OTS, is conducting a review to identify and eliminate any regulatory requirements that are outdated, unnecessary or unduly burdensome, as mandated by EGRPRA.

## **Coordination with other Federal Bank Regulatory Agencies**

Below are the annual performance goals for 2005 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.

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.

### **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 laws and regulations.

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

Increase industry and regulatory awareness of emerging/high-risk areas.

More closely align regulatory capital with risk in large or multinational banks.

Ensure that FDIC-supervised institutions that plan to operate under the Basel Capital Accord are meeting satisfactory progress toward making required qualifications standards.

### **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 examinations in accordance with the FDIC's 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.

### **Receivership Management**

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

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.

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.

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### **External Factors**

The following external factors are outside the FDIC's control and could significantly affect the achievement of the annual performance goals for 2005.

#### **The Economy and Its Impact on the Banking Industry**

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 individual industry sectors, 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.

Economic factors directly influence the financial performance of FDIC-insured institutions. Adverse economic conditions, such as a national recession, a regional economic downturn, or volatility in inflation and interest rates, may under certain conditions raise the risk profile of the industry or select groups of insured institutions and contribute to a higher incidence of failure and higher resolution costs.

Significant changes in the risk profiles of insured institutions may result in an acceleration of institutions' statutory examination frequency. A rise in institution

failures would require experienced staff to handle closings on a priority basis. Adverse trends such as these could also slow the pace at which the FDIC markets assets and terminates receiverships. Under scenarios such as these, staff may need to be diverted from other FDIC activities to address these or other operational priorities.

The U.S. economic outlook remains positive for 2005. Following a recession in 2001 and a somewhat hesitant recovery thereafter, the U.S. economy hit its stride in 2004 with growth averaging 4.4 percent. Temporary factors that had been supporting economic activity—including a series of tax cuts and historically low interest rates—are no longer needed. Growth in business investment has returned to double-digit rates, and non-farm employment is once again above its pre-recession peak. A number of other economic indicators have not only fully recovered from the 2001 recession but are setting new highs. Consensus forecasts for 2005 call for the U.S. economy to grow at about a 3.5 percent rate. Amid these positive economic signals, the Federal Reserve has embarked on a well-publicized series of incremental increases in short-term interest rates that are expected to continue well into 2005.

This positive outlook is tempered by a number of potential risks. Elevated energy prices have already led to lower forecasts for economic growth in 2005, and additional price increases could further trim those estimates. Analysts and policymakers are warning that foreign investors might soon lose their appetite for funding the U.S. current account deficit, which currently exceeds five percent of Gross Domestic Product. If foreign investment were to fall sharply, U.S. interest rates and inflation could move substantially higher—holding back the pace of U.S. economic growth. Finally, after a protracted housing boom, lofty home prices remain a vulnerability in several major cities in California, the Northeast, and southern Florida. While analysts discount the possibility of a nationwide housing bust, rising interest rates are likely to make housing less affordable at the margin and could spell the end of the double-digit annual price increases that have been observed in a number of markets.

The banking industry came through the recent period of economic uncertainty in strong financial shape. Industry profits reached a record \$123 billion in 2004, while over 99 percent of FDIC-insured institutions reported equity capital ratios in excess of 6 percent. Record profits were boosted in recent quarters by residential real estate lending, gains from sales of securities, and declining provisions for loan loss reserves.

In the wake of this strong showing, many FDIC-insured institutions may be hard-pressed to sustain similar levels of earnings growth in 2005. Rising interest rates would be expected to curtail the gains realized on securities sales, and could ultimately compress interest margins for liability-sensitive institutions. In addition, the industry's ability to further reduce expenses related to loan loss provisions in 2005 could be limited, as most of the cyclical improvement in credit quality appears to have already been realized. Real estate lending, which has been the prime source of loan growth in

recent years, is highly sensitive to rising interest rates. While commercial and industrial (C&I) loan volumes have begun to rise again after a three-year decline, it is not yet clear how much of a contribution C&I lending will make to overall industry loan growth in the year ahead.

Credit quality could also be adversely affected by higher interest rates in 2005. Borrowers holding variable-rate consumer and commercial loans—including most commercial real estate (CRE) loans—have enjoyed reductions in debt service costs during the last three years as interest rates fell to historically low levels. Low interest rates have been one reason why credit losses in CRE loan portfolios have remained very low even though commercial real estate market fundamentals weakened dramatically driving the 2001 recession. With the prospect of solid economic growth in 2005 comes the promise of improving market fundamentals, along with the likelihood of rising debt service costs due to higher interest rates. While the interplay between these factors will ultimately determine whether CRE loan losses rise during the coming year, it is already clear that the industry's exposure to CRE loans is at an all-time high—particularly among community banks headquartered in some metropolitan areas in the Southeast and the West.

Home equity lending also could face new challenges in 2005. The recent period of historically low interest rates has helped to boost home prices, homeownership rates, and the propensity of households to take on mortgage debt. Total household mortgage debt rose by \$1.6 trillion, or nearly 28 percent, between 2002 and 2004. During the past year, home equity lines of credit (HELOCs) have become the fastest-growing segment of bank and thrift loans, growing at an annual rate of more than 40 percent. Rising interest rates and slower growth in home values could pose challenges for the ability of home equity borrowers to keep their loans current, potentially raising loan losses from their current low levels.

Overall, 2005 should be another good year for the economy and for the banking industry. The industry's solid capital position, which allowed it to weather well the 2001 recession and subsequent period of weakness, should help to limit both the number of expected failures and the cost of resolving any failures that do arise. The number of troubled institutions declined dramatically during the early 1990s and remains very low. As of December 2004, only 80 institutions, representing 0.28 percent of industry assets, were classified by the FDIC as "problem" institutions. The FDIC's deposit insurance funds stood at a record-high combined level of \$47.5 billion. These funds, together with a positive economic outlook and the overall financial strength of FDIC-insured institutions, promise another year of stability ahead for the banking industry and its insured depositors.

### **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 insurance applications for new financial institutions, increased rapidly over the past five years. Both trends pose risks. Larger, more complex institutions present greater risk-management issues, while new institutions are more vulnerable to economic volatility during their first several years of existence.

Emerging technology provides new ways for insured depository institutions to deliver and manage traditional products and services. However, as financial institutions leverage new technology, risk management and oversight issues have become more complex for both institutions and regulators.

### **New Regulatory Requirements**

Congress has over the past several years enacted new laws that place increasing focus on antiterrorism, compliance, privacy, and corporate governance issues. These new regulatory requirements have expanded the FDIC's supervisory responsibilities. The USA PATRIOT Act of 2001 requires financial institutions to implement an identification program to verify the identity of customers opening new accounts. The Gramm-Leach-Bliley Act of 1999, while lessening supervisory requirements in some areas, added new requirements regarding privacy and other issues. The Sarbanes-Oxley Act of 2003 imposes new reporting, corporate governance, and auditor independence requirements on companies, including insured depository institutions and bank and thrift holding companies, with securities registered under federal securities laws. Large financial penalties may be assessed against financial institutions for the failure to obey consumer compliance laws or for breaches in corporate governance.

The federal banking agencies also face increased challenges to coordinate the regulation of an industry that is becoming even more global. Efforts such as those undertaken by the Basel Committee on Banking Supervision to adopt new international capital standards will take on increasing significance and further emphasize the need for coordination and communication among members of the international financial services regulatory community.

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 competing objectives.

Within the context of these new regulatory requirements, the FDIC is committed to regulatory burden reduction on the institutions it supervises and insures. The FDIC is providing leadership within the federal regulatory community to identify and eliminate outdated, unnecessary, or unduly burdensome statutory or regulatory requirements, in accordance with requirements of EGRPRA.

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### **Performance Results, 2000-2004**

The following information discusses performance results of “like” annual performance goals from 2000 through 2004.

### **Depositor Payouts in Instances of Failure**

#### ***2005 Goal - Respond promptly to financial institution closings and emerging issues.***

*2004 Performance* – Timely payments made to all depositors of the four insured depository institutions that failed in 2004. The Senate did not act on House-passed legislation on deposit insurance reform.

*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 was 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.

## **Risk Classifications**

### **2005 Goal - Maintain and improve the deposit insurance system.**

*2004 Performance* – The FDIC completed implementation of enhancements to the reserving process and methodology in March 2004. Reserve ratio maintained at or above the statutory ratio of 1.25 percent.

*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. The FDIC published its final recommendations for deposit insurance reform.

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

## **Risk Identification and Reporting**

### **2005 Goal - Identify and address risks to the insurance funds.**

*2004 Performance* – Significant progress was 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. FDIC Outlook publications, FYI electronic bulletins, and issues of the Quarterly Banking Profile were published, addressing various banking topics.

*2003 Performance* – Significant progress was made in improving the accuracy and efficiency of off-site risk identification models. Risk assessments of all LIDIs were completed in compliance with program requirements.

*2002 Performance* – Significant progress was made in improving the accuracy and efficiency of offsite risk identification models. Risk assessments of all 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 through outreach programs.

**2005 Goal - Maintain sufficient and reliable information on insured depository institutions (new goal in 2003).**

*2004 Performance* – Substantial progress was made on the development of the Central Data Repository (CDR). Phase I of the CDR is expected to be implemented in the second half of , 2005.

*2003 Performance* - Quarterly financial information was collected, processed, and maintained in a database for FDIC-insured institutions.

**2005 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 (new goal in 2003).**

*2004 Performance* - Utility of educational tools developed for bankers and consumers was completed by year-end 2004.

*2003 Performance* - EDIE (Banker version) was enhanced.

**Risk Management, Safety and Soundness**

**2005 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 law and regulations.**

*2004 Performance* - Conducted 2,515 required safety and soundness examinations in accordance with FDIC policy .

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

*2002 Performance* - Conducted 2,534 required safety and soundness examinations in accordance with FDIC policy.

*2001 Performance* - Conducted 2,575 required safety and soundness examinations in accordance with FDIC policy .

*2000 Performance* - Conducted 2,568 required safety and soundness examinations in accordance with FDIC policy .

**2005 Goal - Increase industry and regulatory awareness of emerging/high-risk areas.**

This goal is new for 2005. There were no applicable performance results for 2000-2004.

**2005 Goal - More closely align regulatory capital with risk in large or multinational banks.**

This goal is new for 2005. There were no applicable performance results for 2000-2004.

**2005 Goal - Ensure that FDIC-supervised institutions that plan to operate under the new Basel Capital Accord are making satisfactory progress toward meeting required qualification standards.**

This goal is new for 2005. There were no applicable performance results for 2000-2004.

**Safety and Soundness Enforcement Actions**

**2005 Goal – Take prompt supervisory actions to address problems 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.**

*2004 Performance* - Forty-four institutions were designated as problem institutions (composite 4 or 5 rated). Fifty-seven institutions with total assets of \$6.3 billion were removed from problem status and 28 institutions with total assets of \$4.8 billion were added. Additionally, the FDIC issued the following formal and informal enforcement actions: 38 Cease and Desist Orders and 145 Memorandums of Understanding.

*2003 Performance* – Seventy-three institutions were designated as problem institutions (composite 4 or 5 rated). Fifty-eight institutions 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 were designated as problem institutions (composite 4 or 5 rated). Forty-eight institutions were removed from problem status and 63 were added.

*2001 Performance* – Sixty-seven institutions were designated as problem institutions (composite 4 or 5 rated). Fifty-six institutions were removed from problem status and 76 were 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.

## **Compliance Examinations**

### **2005 Goal - Conduct CRA and compliance examinations in accordance with FDIC examination frequency policy.**

*2004 Performance* - Conducted 2,136 comprehensive compliance and CRA examinations in accordance with FDIC policy. There were no delinquencies in 2004.

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

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

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

*2000 Performance* - Conducted 2,257 comprehensive compliance and CRA examinations in accordance with FDIC policy. There were three delinquent examinations at the end of 2000.

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## **Compliance Enforcement Actions**

### **2005 Goal - Take prompt and effective supervisory action to monitor and address problems identified during compliance examinations of institutions that receive a 4 or 5 rating for compliance with consumer protection and fair lending laws.**

*2004 Performance* - Of the five institutions rated 4 as of December 31, 2004, four are within the 12-month window following the issuance of an enforcement action. Of these four, two entered into Memorandums of Understanding with the FDIC and two are subject to outstanding Cease and Desist Orders. A consultation with the Washington Office regarding a proposed Cease and Desist Order for the fifth institution began in December 2004 and the Order will likely be issued during the first quarter of 2005.

*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 time frame of 12 months from the issuance date of a formal enforcement action.

## **CRA Outreach**

### **2005 Goal – Provide effective outreach and technical assistance on topics related to CRA, fair lending, and community development.**

*2004 Performance* - Targets of the following are met: 200 new *Money Smart* Alliance members; 20,000 *Money Smart* curricula; additional 294,000 members reached; and 125 outreach and technical assistance activities.

*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.

## **Consumer Complaints and Inquiries**

### **2005 Goal - Meet the statutory mandate to investigate and respond to consumer complaints about FDIC-supervised financial institutions.**

*2004 Performance* – The FDIC received 8,742 consumer complaints, closing 95 percent of them. Of the consumer complaints received, 3,791 were about FDIC-supervised financial institutions of which 95 percent were closed within policy time frames.

*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.

## **Least-Cost Resolution**

### **2005 Goal - Market failing institutions to all known qualified and interested potential bidders.**

*2004 Performance* - There were four failures in 2004. One hundred percent of the qualified bidders were contacted for the sale of three failed institutions. One failed institution was not offered for sale.

*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.

## **Asset Management**

### **2005 Goal – Value, manage, and market assets of the failed institutions and their subsidiaries in a timely manner to maximize net return.**

*2004 Performance* - Five financial institutions reached their 90-day threshold during 2004. One hundred percent of all marketable assets were marketed within the 90-day time frame.

*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 11 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.

## **Receiverships Terminated**

### **2005 Goal - Manage the receivership estate and its subsidiaries toward an orderly termination.**

*2004 Performance* - For the four failures that occurred during 2001 that matured in 2004, the FDIC terminated three receiverships, meeting the target to terminate 75 percent within three years of failure date.

*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 achieved its goal of terminating 156 receiverships.

## **Professional Liability Claims**

**2005 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.**

*2004 Performance* - Four of the five institutions that reached the 18-month milestone during 2004 had 100 percent of professional liability investigations completed, meeting the goal of 80 percent. The decision on the fifth institution will be determined in fourth quarter.

*2003 Performance* - Four of the 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 the 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 the 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.