1 Management's Discussion and Analysis

The Year in Review

The year 2010 was relatively challenging for the FDIC. In addition to the normal course of business, the Corporation continued to resolve failed insured depository institutions (IDIs), increasing resources as needed. The FDIC also started initial steps in the implementation of the Dodd-Frank Act, continued its work on high-profile policy issues, and published numerous Notices of Proposed Rulemaking (NPRs) throughout the year, seeking comment from the public. The Corporation also continued to focus on a strong supervisory program. The FDIC made enhancements to several versions of the *Money Smart* education curriculum. The FDIC also sponsored and co-sponsored major conferences and participated in local and global outreach initiatives.

Highlighted in this section are the Corporation's 2010 accomplishments in each of its three major business lines—Insurance, Supervision and Consumer Protection, and Receivership Management—as well as its program support areas.

Insurance

The FDIC insures bank and savings association deposits. As insurer, the FDIC must continually evaluate and effectively manage how changes in the economy, the financial markets, and the banking system affect the adequacy and the viability of the Deposit Insurance Fund (DIF).

State of the Deposit Insurance Fund

During 2009 and 2010, losses to the DIF were high. As of December 31, 2010, both the fund balance and the reserve ratio were negative after reserving for probable losses for anticipated bank failures. For the year, assessment revenue and lower-than-anticipated bank failures resulted in an increase in the reserve ratio to negative 0.12 percent as of December 31, 2010, up from negative 0.39 percent at the beginning of the year.

Long-Term Comprehensive Fund Management Plan

As a result of the Dodd-Frank Act revisions, the FDIC developed a comprehensive, long-term management plan for the DIF designed to reduce the pro-cyclicality in the existing system and achieve moderate, steady assessment rates throughout economic and credit cycles while also maintaining a positive fund balance even during a banking crisis, by setting an appropriate target fund size and a strategy for assessment rates and dividends. The FDIC set out the plan in a proposed rulemaking adopted in October 2010. The plan was finalized in rulemakings adopted in December 2010 and February 2011.

New Restoration Plan

Pursuant to the comprehensive plan, in October 2010, the FDIC adopted a new Restoration Plan to ensure that the reserve ratio reaches 1.35 percent by September 30, 2020. Because of lower expected losses over the next five years than previously anticipated, and the additional time provided by the Dodd-Frank Act to meet the minimum (albeit higher) required reserve ratio, the new Restoration Plan elected to forego the uniform 3 basis point increase in assessment rates scheduled to go into effect on January 1, 2011.

Setting the Designated Reserve Ratio

Using historical fund loss and simulated income data from 1950 to the present, the FDIC undertook an analysis to determine how high the reserve ratio would have had to have been before the onset of the two crises that occurred since the late 1980s to have maintained both a positive fund balance and stable assessment rates throughout the period. The analysis concluded that a moderate, long-term average industry assessment rate, combined with an appropriate dividend or assessment rate reduction policy, would have been sufficient to have prevented the fund from becoming negative during the crises, though the fund reserve ratio would have had to exceed 2.0 percent before the onset of the crises.

Therefore, pursuant to provisions in the Federal Deposit Insurance Act that require the FDIC Board to set the DRR for the DIF annually, the FDIC Board proposed in October 2010 to set the 2011 Designated Reserve Ratio (DRR) at 2.0 percent of estimated insured deposits. The Board approved a final rule adopting this DRR on December 14, 2010. The FDIC views the 2.0 percent DRR as a long-term goal and the minimum level needed to withstand future crises of the magnitude of past crises. However, the FDIC's analysis shows that a reserve ratio higher than 2.0 percent would increase the chance that the fund will remain positive during a future economic and banking downturn similar to or more severe than past crises. Thus, the 2.0 percent DRR should not be viewed as a cap on the fund.

Long-Term Assessment Rate Schedules and Dividend Policies

Once the reserve ratio reaches 1.15 percent, the FDIC believes that assessment rates can be reduced to a moderate level. Therefore, pursuant to its statutory authority to set assessments, in October 2010, the FDIC Board proposed a lower assessment rate schedule to take effect when the fund reserve ratio exceeds 1.15 percent. To increase the probability that the fund reserve ratio will reach a level sufficient to withstand a future crisis, the FDIC also proposed suspending dividends permanently when the fund reserve ratio exceeds 1.5 percent. In lieu of dividends, the FDIC Board proposed to adopt progressively lower assessment rate schedules when the reserve ratio exceeds 2.0 percent and 2.5 percent. These lower assessment rate schedules will serve much the same function as dividends, but will provide more stable and predictable effective assessment rates. The FDIC finalized these long-term assessment rate and dividend changes in February 2011 in concert with the changes to the assessment base and large-bank pricing system described below.

Change in the Deposit Insurance Assessment Base

Change in the Assessment Base

The Dodd-Frank Act requires the FDIC to amend its regulations to define the assessment base as average consolidated total assets minus average tangible equity, rather than total domestic deposits (which, with minor adjustments, it has been since 1935). The Act allows the FDIC to modify the assessment base for banker's banks and custodial banks. In November 2010, the FDIC approved a proposed rulemaking that would implement these changes to the assessment base. The FDIC finalized this rulemaking in February 2011.

The Dodd-Frank Act also requires that, for at least five years, the FDIC must make available to the public the reserve ratio and the DRR using both estimated insured deposits and the new assessment base. As of December 31, 2010, the FDIC estimates that the reserve ratio would have been negative 0.06 percent using the new assessment base (as opposed to negative 0.12 percent using estimated insured deposits) and that the 2.0 percent DRR using estimated insured deposits would have been 1.0 percent using the new assessment base.

Conforming Changes to Risk-Based Premium Rate Adjustments

The changes to the assessment base necessitated changes to existing risk-based assessment rate adjustments. The current assessment rate schedule incorporates adjustments for types of funding that either pose heightened risk to the DIF or that help to offset risk to the DIF. Because the magnitude of these adjustments and the cap on the adjustments have been calibrated to a domestic deposit assessment base, the rule changing the assessment base also recalibrates the unsecured debt and brokered deposit adjustments. Since secured liabilities will be included in the assessment base, the rule eliminates the secured liability adjustment.

The assessment rate of an institution would also increase if it holds unsecured debt issued by other IDIs. The issuance of unsecured debt by an IDI lessens the potential loss to the DIF in the event of the institution's failure; however, when the debt is held by other IDIs, the overall risk in the system is not reduced.

Conforming Changes to Assessment Rates

The new assessment base under the Dodd-Frank Act will be larger than the current assessment base. Applying the current rate schedule to the new assessment base would result in larger total assessments than are currently collected. Accordingly, the rule changing the assessment base also established new rates to take effect in the second quarter of 2011 that will result in collecting approximately the same amount of assessment revenue under the new base as under the current rate schedule using the existing (domestic deposit) base. These schedules also incorporate the changes from the proposed large bank pricing rule that was finalized in February 2011 along with the change in the assessment base. The initial base rates for all institutions will range from 5 to 35 basis points.

The initial base assessment rates, range of possible rate adjustments, and minimum and maximum total base rates are shown in the table below.

Changes to the assessment base, assessment rate adjustments, and assessment rates will take effect April 1, 2011. As explained above, the rate schedules will decrease when the reserve ratio reaches 1.15, 2.0, and 2.5 percent.

Proposed Initial and Total Base Assessment Rates[1]

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV	Large and Highly Complex Institutions
Initial base assessment rate	5–9	14	23	35	5–35
Unsecured debt adjustment[2]	(4.5)–0	(5)–0	(5)–0	(5)–0	(5)–0
Brokered deposit adjustment	......	0–10	0–10	0–10	0–10
Total Base Assessment Rate	**2.5–9**	**9–24**	**18–33**	**30–45**	**2.5–45**

1 Total base assessment rates do not include the proposed depository institution debt adjustment.

2 The unsecured debt adjustment cannot exceed the lesser of 5 basis points or 50 percent of an IDI's initial base assessment rate; thus, for example, an IDI with an initial base assessment rate of 5 basis points would have a maximum unsecured debt adjustment of 2.5 basis points and could not have a total base assessment rate lower than 2.5 basis points.

Changes to the Large Bank Assessment System

The FDIC continued its efforts to reduce the pro-cyclicality of the deposit insurance assessment system by issuing a proposed rule in November 2010, that was finalized in February 2011, and revises the assessment system applicable to large IDIs to better reflect risk at the time a large institution assumes the risk, to better differentiate large institutions during periods of good economic conditions, and to better take into account the losses that the FDIC may incur if such an institution fails.

The rule eliminates risk categories for large institutions. As required by the Dodd-Frank Act, under the rule, the FDIC will no longer use long-term debt issuer ratings to calculate assessment rates for large institutions. The rule combines CAMELS[1] ratings and financial measures into two scorecards—one for most large institutions and another for the remaining very large institutions that are structurally and operationally complex or that pose unique challenges and risks in case of failure (highly complex institutions). In general, a highly complex institution is an institution (other than a credit card bank) with more than $50 billion in total assets that is controlled by a parent or intermediate parent company with more than $500 billion in total assets, or a processing bank or trust company with at least $10 billion in total assets.

Both scorecards use quantitative measures that are readily available and useful in predicting an institution's long-term performance to produce two scores—a performance score and a loss severity score—that will be combined and converted to an initial assessment rate. The performance score measures an institution's financial performance and its ability to withstand stress. The loss severity score quantifies the relative magnitude of potential losses to the FDIC in the event of the institution's failure. The rule will take effect in the second quarter of 2011.

Temporary Liquidity Guarantee Program

On October 14, 2008, the FDIC announced and implemented the Temporary Liquidity Guarantee Program (TLGP). The TLGP consists of two components: (1) the Debt Guarantee Program (DGP)—an FDIC guarantee of certain newly issued senior unsecured debt; and (2) the Transaction Account Guarantee Program (TAGP)—an FDIC guarantee in full of noninterest-bearing transaction accounts.

Under the DGP, the FDIC initially guaranteed in full, through maturity or June 30, 2012, whichever came first, the senior unsecured debt issued by a participating entity between October 14, 2008, and June 30, 2009, although in 2009 the issuance period was extended through October 31, 2009. The FDIC's guarantee on each debt instrument also was extended in 2009 to the earlier of the stated maturity date of the debt or December 31, 2012.

The FDIC charged a fee based on the amount and term of the debt issued. Fees ranged from 50 basis points on an annualized basis for debt with a maturity of 180 days or less, increasing to 75 basis points on an annualized basis for debt with a maturity of 181 to 364 days and 100 basis points on an annualized basis for debt with maturities of 365 days or greater. In conjunction with the program extension in 2009, the FDIC assessed an additional surcharge on debt with a maturity of one year or greater issued after April 1, 2009. Unlike the other TLGP fees, which were reserved for possible TLGP losses and not generally available for DIF purposes, the surcharge was deposited into the DIF and used by the FDIC when calculating the reserve ratio of the Fund. The surcharge varied depending on the type of institution issuing the debt, with IDIs paying the lower fees.

The TAGP initially guaranteed in full all domestic noninterest-bearing transaction deposits held at participating banks and thrifts through December 31, 2009. This deadline was extended twice

[1] The CAMELS composite rating represents the adequacy of **C**apital, the quality of **A**ssets, the capability of **M**anagement, the quality and level of **E**arnings, the adequacy of **L**iquidity, and the **S**ensitivity to market risk, and ranges from "1" (strongest) to "5" (weakest).

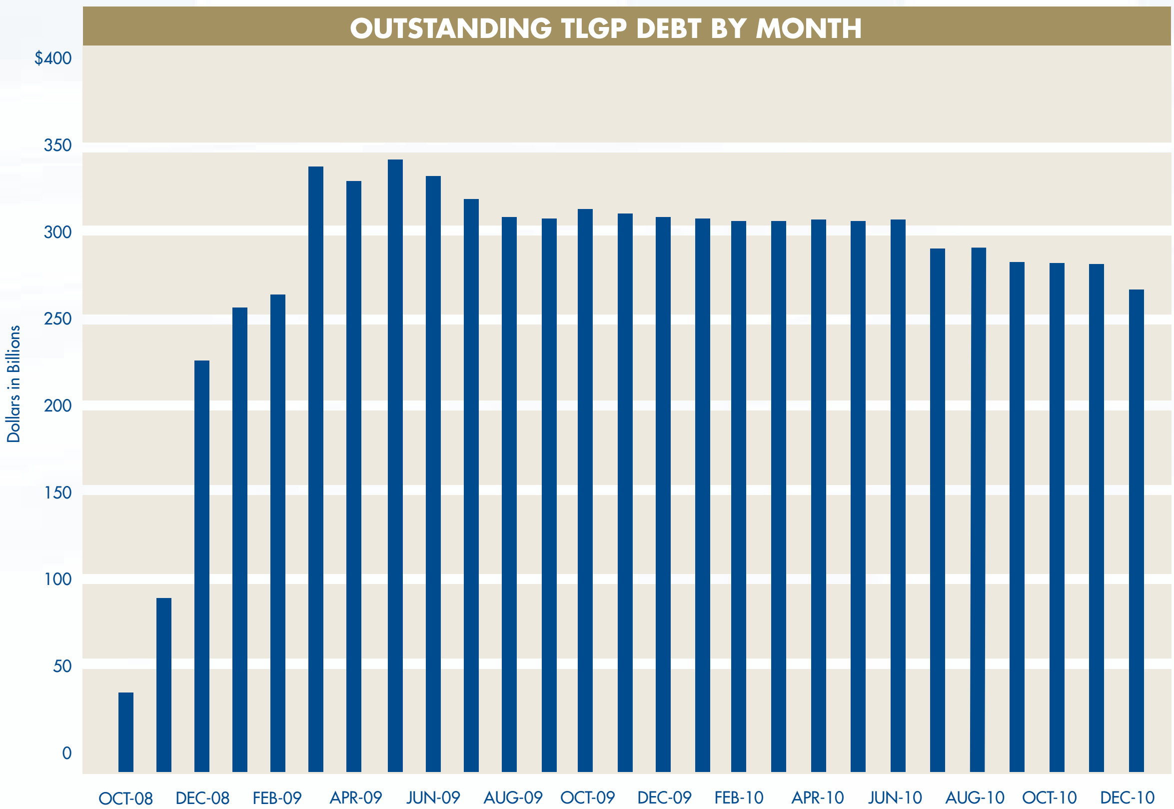
and expired on December 31, 2010. The guarantee also covered negotiable order of withdrawal (NOW) accounts at participating institutions—provided the institution initially committed to maintain interest rates on the accounts of no more than 0.50 percent (later reduced to 0.25 percent) for the duration of the program—and Interest on Lawyers Trust Accounts (IOLTAs) and functional equivalents. Participating institutions were initially assessed a 10 basis point surcharge on the portion of covered accounts that were not otherwise insured. The fees for the TAGP were increased at the first extension to either 15 basis points, 20 basis points, or 25 basis points, depending on the institution's deposit insurance assessment category.

Program Statistics

Institutions were initially required to elect whether to participate in one or both of the programs. More than half of the over 14,000 eligible entities elected to opt in to the DGP, while over 7,100 banks and thrifts, or 86 percent of FDIC-insured institutions, initially opted in to the TAGP. Most of the institutions that opted out of the DGP had less than $1 billion in assets and issued no appreciable amount of senior unsecured debt.

Over the course of the DGP's existence, 121 entities issued TLGP debt. At its peak, the DGP guaranteed almost $350 billion of debt outstanding (see chart below). As of December 31, 2010, the total amount of remaining FDIC-guaranteed debt outstanding was $267 billion.

The FDIC collected $10.4 billion in fees and surcharges under the DGP. As of December 31, 2010, the FDIC paid $8 million on seven claims that were filed when four participating entities (all holding companies) defaulted on debt issued under the DGP. Further claims on notes issued by one entity are expected, since some of the notes issued by this entity have not yet matured. Losses through the end of the DGP guarantee period in 2012 are expected to be limited.



Under the TAGP, the FDIC guaranteed an average of $114 billion of deposits during the fourth quarter of 2010. As of December 31, 2010, the last day of the program, over 5,100 FDIC-insured institutions reported having guaranteed deposits. As of December 31, 2010, the FDIC has collected $1.1 billion in fees under the TAGP.[2] Cumulative estimated TAGP losses on failures as of December 31, 2010, totaled $2.3 billion.

Overall, TLGP fees are expected to exceed the losses from the program. Remaining TLGP fees will be added to the DIF balance at the conclusion of the program. If fees are insufficient to cover the costs of the program, the difference will be made up through a systemic risk special assessment.

Transaction Account Guarantee Program Phase-Out

The TAGP was designed to eliminate potentially disruptive shifts in deposit funding and thus preserve bank lending capacity. The program proved effective. However, because bank failures continued to grow during 2009 and 2010, the FDIC remained concerned that terminating the TAGP too quickly could reverse the progress made in restoring financial markets to more normal conditions. To help transition institutions out of the TAGP, therefore, the FDIC Board, on August 26, 2009, approved a final rule that extended the TAGP for an additional six months, through June 30, 2010, with higher assessment fees for institutions participating in the extension period. The final rule also provided an opportunity for participating entities to opt out of the TAGP extension. Over 6,400 institutions (or 93 percent of institutions participating at year-end) elected to continue in the TAGP.

In June 2010, the FDIC remained concerned that, because of the lingering effects of the financial crisis and recession, terminating the TAGP too quickly could lead to liquidity problems for a number of community banks. The Board therefore approved a final rule authorizing another six-month extension, until December 31, 2010, of the TAGP. The FDIC did not increase assessment fees with the second extension, but the final rule reduced the permissible interest rate for the NOW accounts covered by the guarantee to no higher than 0.25 percent in order to better align the program with prevailing market rates. The FDIC provided institutions still participating in the TAGP in the second quarter of 2010 with a one-time opportunity to opt out of the second TAGP extension, effective July 1, 2010. Almost 6,000 institutions (or 93 percent of those institutions that were participating at the time) remained in the TAGP. The final rule authorizing the second extension also gave the FDIC Board the authority to further extend the TAGP, without further rulemaking, should economic conditions warrant an additional extension, for a period of time not to extend beyond December 31, 2011. However, the passage of the Dodd-Frank Act eliminated the need for such an extension of the TAGP.

Temporary Unlimited Coverage for Noninterest-Bearing Transaction Accounts under the Dodd-Frank Act

The Dodd-Frank Act provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts from December 31, 2010 through December 31, 2012, regardless of the balance in the account and the ownership capacity of the funds. The unlimited coverage is available to all depositors, including consumers, businesses, and government entities. The coverage is separate from, and in addition to, the standard insurance coverage provided for a depositor's other accounts held at an FDIC-insured bank.

A noninterest-bearing transaction account is a deposit account where:

- Interest is neither accrued nor paid;
- Depositors are permitted to make transfers and withdrawals; and
- The bank does not reserve the right to require advance notice of an intended withdrawal.

[2] This figure reflects fees assessed through September 30, 2010, and collected as of December 30, 2010.

The Act's temporary unlimited coverage also includes trust accounts established by an attorney or law firm on behalf of clients, commonly known as IOLTAs, or functionally equivalent accounts.

Money market deposit accounts (MMDAs) and NOW accounts are not eligible for this temporary unlimited insurance coverage, regardless of the interest rate, even if no interest is paid.

Complex Financial Institution Program

The FDIC's Complex Financial Institution (CFI) Program addresses the unique challenges associated with the supervision, insurance, and potential resolution of large and complex insured institutions. The FDIC's ability to analyze and respond to risks in these institutions is of particular importance, as they make up a significant share of the banking industry's assets. The Program provides for a consistent approach to large-bank supervision nationwide, allows for the analysis of financial institution risks on an individual and comparative basis, and enables a quick response to risks identified at large institutions. The Program's objectives are achieved through extensive cooperation with the FDIC's regional offices, other FDIC divisions and offices, and the other bank and thrift regulators. Given the heightened risk levels stemming from continued adverse economic and market conditions, the FDIC has expanded its presence at the nation's largest and most complex institutions through additional and enhanced on-site and off-site monitoring.

The Program expanded coverage at large and complex institutions from eight to ten in 2010 and increased its on-site presence, as designated by the FDIC Board, to assess risk, monitor liquidity, and participate in targeted reviews with the primary federal regulators. In July 2010, the FDIC entered into an interagency memorandum of understanding (MOU) which allows FDIC examiners to conduct special examinations of certain institutions covered by the MOU. The MOU should enhance the FDIC's access to those institutions and encourage ongoing effective communication among the federal regulators.

The Large Insured Depository Institution (LIDI) Program remains the primary instrument for off-site monitoring of IDIs with $10 billion or more in total assets, or under this threshold at regional discretion. The LIDI Program provides a comprehensive process to standardize data capture and reporting through nationwide quantitative and qualitative risk analysis of large and complex institutions. As of June 30, 2010, the LIDI Program encompassed 110 institutions with total assets of $10.3 trillion. The LIDI Program was refined again in 2010 to better quantify risk to the insurance fund in all large banks. This was accomplished, in collaboration with other divisions and offices, through a revision to the LIDI Scorecard, which better aligns with and supports the FDIC's large-bank deposit insurance pricing responsibilities. The LIDI Scorecard is designed to weigh key risk areas and provide a risk ranking and measurement system that compares IDIs on the basis of both the probability of failure and exposure to loss at failure. The comprehensive LIDI Program is essential to effective large bank supervision by capturing information on the risks and utilizing that information to best deploy resources to high-risk areas, determine the need for supervisory action, and support insurance assessments and resolution planning.

Office of Complex Financial Institutions

The Office of Complex Financial Institutions (OCFI) was created in 2010 to focus on the expanded responsibilities of the FDIC by the Dodd-Frank Act for the assessment of risk in the largest, systemically important financial institutions. The OCFI is responsible for oversight and monitoring of large, systemically important financial institutions (SIFIs). Specifically, through both on-site and off-site monitoring, OCFI will develop an in-depth understanding of the operations and risk profiles of all IDIs and bank holding companies with assets over $100 billion and other companies designated as systemically important by the Financial Stability Oversight Council (FSOC).

Additionally, in conjunction with the Federal Reserve, OCFI will develop regulations governing the preparation, approval, and monitoring of resolution and recovery plans developed by SIFIs commonly referred to as "living wills." OCFI will be responsible for developing detailed resolutions plans and strategies for assigned institutions. OCFI will also identify and manage international and cross-border issues that might complicate the resolution process, and, accordingly, will build and maintain relationships with key international stakeholders.

In 2010, OCFI focused on creating and staffing senior management positions. Work also began on developing resolution strategies for specific SIFIs and more broadly scoping a process, strategies, and data needs for ongoing risk assessment at SIFIs.

Center for Financial Research

The Center for Financial Research (CFR) was founded by the Corporation in 2004 to encourage and support innovative research on topics important to the FDIC's role as deposit insurer and bank supervisor. During 2010, the CFR co-sponsored three major conferences.

The 20th Annual Derivatives Securities and Risk Management Conference, which the FDIC co-sponsored with Cornell University's Johnson Graduate School of Management and the University of Houston's Bauer College of Business, was held in April 2010 at the Seidman Center. The two-day conference attracted over 100 researchers from around the world. Conference presentations focused on issues such as credit risk measurement, equity option pricing, commodity market speculation, and risk management.

In October 2010, the FDIC and the Federal Reserve hosted a two-day symposium on mortgages and the future of housing finance. Over 300 experts from the public, private, and academic sectors participated in discussions of mortgage finance, foreclosures, loan modifications, and securitizations. Federal Reserve Chairman Ben Bernanke and FDIC Chairman Sheila Bair spoke at the symposium regarding the need for reform to restore stability to the housing finance system and to aggressively examine the incentives of the U.S. system of mortgage finance to ensure that the problems that contributed to the financial crisis are addressed.

The CFR and the *Journal for Financial Services Research* (JFSR) hosted the 10th Annual Bank Research Conference: Finance and Sustainable Growth in October. The two-day conference included the presentation of 17 papers and was attended by over 100 participants. Experts discussed a range of topics, including the global financial crisis, credit derivatives and the default risk of large complex financial institutions, and bank capital adequacy.

International Outreach

The past year has been defined by broad international efforts to respond effectively to the causes of the global financial crisis. One of the important lessons of the crisis is that effective systems of deposit insurance are important not only for the protection of individual depositors but also for overall financial stability. Inadequate systems of deposit insurance place individual depositors at risk and can have a significant negative impact on public confidence in the financial system as a whole. The FDIC has provided leadership and support to international standard-setting organizations and international financial institutions, and has established bilateral agreements with other bank supervisory and deposit insurance governmental organizations, resulting in significant advancements in promoting sound financial systems.

In 2009, the International Association of Deposit Insurers (IADI) and the Basel Committee on Banking Supervision (BCBS) jointly published *Core Principles for Effective Deposit Insurance Systems (Core Principles)*. The *Core Principles* were later adopted by the Financial Stability Board (FSB), which added them to its Compendium of Standards. Under the FDIC's leadership, IADI, BCBS, the International Monetary Fund (IMF), the European Forum of Deposit Insurers (EFDI), the World Bank, and the European Commission collaborated in developing a methodology for assessing compliance with the *Core Principles*. The methodology was submitted for approval by the executive governing boards of IADI, EFDI, and BCBS and presented to the FSB in December 2010. Together, the *Core Principles* and the methodology will be considered for inclusion among the FSB's 12 Key Standards for Sound Financial Systems. Once adopted, the *Core Principles* methodology is expected to be used to assess deposit insurance systems by the IMF in its Financial Sector Assessment Program, and by the FSB in its peer review of deposit insurance systems, which is scheduled for 2011. The leadership of IADI under Martin J. Gruenberg, the Vice Chairman of the FDIC, has been instrumental in advancing the establishment of the *Core Principles* as the standards for deposit insurance. Vice Chairman Gruenberg was re-elected to serve as President of IADI and Chair of the Executive Council in November 2010. During his tenure as President, the membership of IADI has grown from 48 to 62 deposit insurance members, including new members from Germany, Italy, Poland, Belgium, Switzerland, Australia, and Paraguay.

The FDIC is integrally involved with the FSB's Cross Border Crisis Management Working Group (CBCM). The group has been tasked with evaluating options and making recommendations on how to address issues related with the too-big-to-fail issue. In particular, the CBCM has been focused on recovery and resolution (R&R) for SIFIs. FSB member countries have been working on preparing R&R plans for SIFIs domiciled in their jurisdictions. The FDIC has been involved in R&R planning for the top five U.S. firms and has participated in Crisis Management Group meetings hosted by foreign regulators. The FDIC has also provided input and leadership to the CBCM's development of technical work streams related to obstacles encountered in a SIFI resolution. These work streams are focused on booking practices, intragroup guarantees, payments and settlement systems and legal entities/management information systems.

Since January 2009, international regulators have been meeting periodically to exchange views and share information on developments related to central counterparties (CCPs) for over-the-counter (OTC) credit derivatives. Based on the success of this cooperation, the OTC Derivatives Regulators' Forum was formed to provide regulators with a means to cooperate, exchange views, and share information related to OTC derivatives, CCPs, and trade repositories. FDIC staff has an active role in the OTC Derivatives Regulators' Forum and the OTC Derivative Supervisors' Group. Work streams of particular interest include collateral safekeeping practices, dispute resolution, and the build out of the central clearing platforms. Additionally, staff is completing a data access/user agreement MOU to assure ready access to data in trade repositories.

Throughout 2010, the FDIC participated in Governors and Heads of Supervision and BCBS meetings and contributed to the work streams, task forces, and the Policy Development Group that developed and refined regulatory forms to address a new definition of capital, treatment of counterparty credit risk, an international leverage ratio, capital conservation and countercyclical buffers, liquidity requirements, and surcharges on SIFIs. The BCBS published the final capital and liquidity reforms in December 2010, along with the results of the comprehensive quantitative impact study and an assessment of the macroeconomic impact of the transition to stronger capital and liquidity requirements. In addition to these capital and liquidity reforms, the FDIC also participated in BCBS initiatives related to surveillance standards, remuneration, supervisory colleges, operational risk, accounting issues for consistency, and corporate governance.

The FDIC finalized a resolution and crisis management MOU with the China Banking Regulatory Commission (CBRC) in 2010. The FDIC is currently in the process of negotiating a similar MOU with the Swiss Financial Market Supervisory Authority (FINMA). The MOU with FINMA is expected to be finalized by the end of 2011. The FDIC has reached out to other strategic countries including India, and has been met with enthusiasm by Indian officials. In 2011, the FDIC will review its resolution MOU with the Bank of England to determine what, if any, changes need to be made in light of regulatory developments both in the U.S. and the United Kingdom.

The 2010 Strategic and Economic Dialogue (S&ED) was held in Beijing, China, in May and was the second such event held under President Obama's administration. President Barack Obama and Chinese President Hu Jintao agreed to the S&ED in April 2009 to deepen and promote mutually beneficial cooperation between the U.S. and China in key economic and strategic areas. Chairman Bair and staff participated in this year's S&ED and also met with leaders of the People's Bank of China and the CBRC in side meetings to further strengthen the FDIC's relationship with these bank regulatory agencies. During the meeting with the CBRC, CBRC Chairman Liu and Chairman Bair signed an MOU enhancing cooperation in times of financial instability and in cases of cross-border resolution.

Chairman Bair and staff visited New Delhi and Mumbai, India, in June to meet with senior representatives of public and private sector organizations, including the Ministry of Finance, the Reserve Bank of India (RBI), the Deposit Insurance and Credit Guarantee Corporation, and the National Bank for Agriculture and Rural Development to discuss financial inclusion efforts in the U.S. and India and to explore possible areas of future cooperation between the two countries. Chairman Bair was the keynote speaker at an event hosted by the RBI, which was attended by senior RBI officials, bankers, and financial industry representatives. The Chairman's speech addressed U.S. financial regulatory reform, the importance of promoting financial inclusion and education, and the efforts made by both the U.S. and India to reach their unbanked population. Chairman Bair also announced plans to translate the FDIC's *Money Smart* program into Hindi for use in India.

The FDIC continued to provide technical assistance through training, consultations, and briefings to foreign bank supervisors, deposit insurance authorities, and other governmental officials.

- The FDIC, on behalf of IADI, provided the content and technical subject matter expertise in the development of four tutorials released through the Financial Stability Institute's FSI Connect: Premiums and Fund Management, Deposit Insurance – Reimbursing Depositors – Parts I and II, and Liquidation of Failed Bank Assets. FDIC hosted two IADI executive training seminars: Resolution of Problem Banks (April) and Claims Management: Reimbursement to Insured Depositors (July). Over 125 deposit insurance and bank regulatory officials from more than 35 countries attended the training programs. The FDIC developed the IADI Capacity Building Program website for organizations to use for identifying available technical expertise resources from IADI members. The website was released in the fall of 2010.

- The FDIC hosted 87 visits with 580 visitors from approximately 60 countries in 2010. In July, Chairman Bair met with members of the European Parliament's Committee on Economic and Monetary Affairs to discuss U.S. financial regulatory reform and the FDIC's new authorities, SIFIs, and Basel II reform. FDIC staff met with representatives of Chinese authorities and banks on multiple occasions throughout the year. Topics of these meetings included discussions about the health of the U.S. banking industry, financial reform, FDIC supervision of banks, the bank resolution process, and the FDIC's management of the distressed assets of failed banks. The FDIC hosted a multi-day study tour for the Board of Directors of the Nigeria Deposit Insurance Corporation (NDIC) in October. NDIC guests also traveled to the New York Regional Office to learn about the role of the regional offices and their relationship with headquarters. The FDIC hosted secondees, one from each of the following organizations during 2010: the Korea Deposit Insurance Corporation, the Financial Services Commission in Korea, and the Savings Deposit Insurance Fund of Turkey.

- June marked the three-year anniversary of the secondment program agreed upon between the Financial Services Volunteer Corps (FSVC) and the FDIC to place one or more FDIC employees full-time in FSVC's Washington, DC, office. Between September 2009 and August 2010, FSVC hosted four secondees who participated in 20 projects that took place in Albania, Algeria, Egypt, Jordan, Malawi, and Morocco. Additionally, the secondees provided services for their counterparts in Albania, Egypt, Libya, and Malawi from Washington, DC, and completed a project for the Central Bank of Iraq in Jordan. The secondees worked directly with eight overseas regulatory counterparts and trained almost 440 individuals. In these efforts, they spent over 1,850 hours providing direct technical assistance.

- The FDIC continues to support the work and mission of the Association of Supervisors of Banks of the Americas (ASBA). In furtherance of the FDIC's commitment to ASBA leadership and strategic development, in July 2010, FDIC staff participated in ASBA's board of directors and technical committee meetings. To facilitate ASBA's research and guidance initiatives, a senior bank examiner will participate in ASBA's Stress Testing Working Group, and FDIC staff is responding to ASBA's review of the implementation of International Financial Reporting Standards. These research and guidance efforts are intended to promote sound bank supervisory practices among ASBA members.

Supervision and Consumer Protection

Supervision and consumer protection are cornerstones of the FDIC's efforts to ensure the stability of and public confidence in the nation's financial system. The FDIC's supervision program promotes the safety and soundness of FDIC-supervised IDIs, protects consumers' rights, and promotes community investment initiatives.

Examination Program

The FDIC's strong bank examination program is the core of its supervisory program. As of December 31, 2010, the Corporation was the primary federal regulator for 4,386 FDIC-insured, state-chartered institutions that were not members of the Federal Reserve System (generally referred to as "state non-member" institutions). Through risk management (safety and soundness), consumer compliance and Community Reinvestment Act (CRA), and other specialty examinations, the FDIC assesses an institution's operating condition, management practices and policies, and compliance with applicable laws and regulations. The FDIC also educates bankers and consumers on matters of interest and addresses consumer questions and concerns.

As of December 31, 2010, the Corporation conducted 2,720 statutorily required risk management (safety and soundness) examinations, including a review of Bank Secrecy Act compliance, and all required follow-up examinations for FDIC-supervised problem institutions within prescribed time frames. The FDIC also conducted 1,780 CRA/compliance examinations (914 joint CRA/compliance examinations, 854 compliance-only examinations,[3] and 12 CRA-only examinations) and 3,276 specialty examinations. All CRA/compliance examinations were also conducted within the time frames established by FDIC policy, including required follow-up examinations of problem institutions. The following table compares the number of examinations, by type, conducted from 2008 through 2010.

[3] Compliance-only examinations are conducted for most institutions at or near the mid-point between joint compliance/CRA examinations under the Community Reinvestment Act of 1977, as amended by the Gramm-Leach-Bliley Act of 1999. CRA examinations of financial institutions with aggregate assets of $250 million or less are subject to a CRA examination no more than once every five years if they receive a CRA rating of "Outstanding" and no more than once every four years if they receive a CRA rating of "Satisfactory" on their most recent examination.

FDIC Examinations 2008 – 2010

	2010	2009	2008
Risk Management (Safety and Soundness):			
State Non-member Banks	2,488	2,398	2,225
Savings Banks	225	203	186
Savings Associations	0	1	1
National Banks	3	0	2
State Member Banks	4	2	2
Subtotal – Risk Management Examinations	2,720	2,604	2,416
CRA/Compliance Examinations:			
Compliance/Community Reinvestment Act	914	1,435	1,509
Compliance-only	854	539	313
CRA-only	12	7	4
Subtotal – CRA/Compliance Examinations	1,780	1,981	1,826
Specialty Examinations:			
Trust Departments	465	493	451
Data Processing Facilities	2,811	2,780	2,577
Subtotal – Specialty Examinations	3,276	3,273	3,028
Total	**7,776**	**7,858**	**7,270**

Risk Management

As of December 31, 2010, there were 884 insured institutions with total assets of $390.0 billion designated as problem institutions for safety and soundness purposes (defined as those institutions having a composite CAMELS[4] rating of "4" or "5"), compared to the 702 problem institutions with total assets of $402.8 billion on December 31, 2009. This constituted a 26 percent increase in the number of problem institutions and a 3 percent decrease in problem institution assets. In 2010, 267 institutions with aggregate assets of $157 billion were removed from the list of problem financial institutions, while 449 institutions with aggregate assets of $198 billion were added to the list. Westernbank Puerto Rico, Mayaguez, Puerto Rico, which was the largest failure in 2010, with $11.9 billion in assets, was added to the problem institution list in 2008 and resolved in 2010. The FDIC is the primary federal regulator for 583 of the 884 problem institutions, with total assets of $202.5 billion and $390.0 billion, respectively.

During 2010, the Corporation issued the following formal and informal corrective actions to address safety and soundness concerns: 300 Consent Orders and 424 Memoranda of Understanding. Of these actions, 9 Consent

[4] The CAMELS composite rating represents the adequacy of **C**apital, the quality of **A**ssets, the capability of **M**anagement, the quality and level of **E**arnings, the adequacy of **L**iquidity, and the **S**ensitivity to market risk, and ranges from "1" (strongest) to "5" (weakest).

Chairman Sheila C. Bair meets with Puerto Rico Financial Institutions Commissioner Alfredo Padilla, left, and Puerto Rico Governor Luis Fortuño, center.

Orders and 16 Memoranda of Understanding were issued based, in part, on apparent violations of the Bank Secrecy Act.

The FDIC is required to conduct follow-up examinations of all state non-member institutions designated as problem institutions within 12 months of the last examination. As of December 31, 2010, all follow-up examinations for problem institutions were performed on schedule.

Compliance

As of December 31, 2010, there were 54 insured state non-member institutions with total assets of $36.4 billion, rated "4" or "5" for consumer compliance purposes. All follow-up examinations for these institutions were performed on schedule.

During 2010, the Corporation issued the following formal and informal corrective actions to address compliance concerns: 23 Consent Orders and 122 Memoranda of Understanding.

Bank Secrecy Act/Anti-Money Laundering

The FDIC pursued a number of Bank Secrecy Act (BSA), Counter-Financing of Terrorism (CFT), and Anti-Money Laundering (AML) initiatives in 2010.

The FDIC conducted three training sessions in 2010 for 65 central bank representatives from Afghanistan, Argentina, Ghana, Iraq, Jordan, Kuwait, Mali, Mauritania, Morocco, Nigeria, Pakistan, Paraguay, Qatar, Senegal, and Turkey. The training focused on AML/CFT controls, the AML examination process, customer due diligence, suspicious activity monitoring, and foreign correspondent banking. The sessions also included presentations from the Federal Bureau of Investigation (FBI) on combating terrorist financing, and the Financial Crimes Enforcement Network (FinCEN) on the role of financial intelligence units in detecting and investigating illegal activities.

This year, the inaugural Advanced International AML/CFT School was offered. The goal of this course is to provide seasoned government staff with an appropriate understanding of high-risk areas and transactions, their potential effect on a financial institution, and how to identify potential red flags. Expert instructors were provided by the United States Attorney's Office, the Drug Enforcement Administration, U.S. Immigration and Customs Enforcement, the FBI, FinCEN, and the FDIC's Legal Division.

Additionally, the FDIC met with eight Namibian and Zambian foreign officials and 14 European representatives as a part of the U.S. Department of State's International Visitor Leadership Program to discuss the FDIC's AML Supervisory Program.

FFIEC BSA/AML Examination Manual

The FDIC participated in the revision and issuance of the 2010 FFIEC *BSA/AML Examination Manual*. The manual was released by the Federal Financial Institutions Examination Council (FFIEC) for publication and distribution on April 29, 2010. It reflects the ongoing commitment of the federal banking agencies to provide current and consistent guidance on risk-based policies, procedures, and processes for banking organizations to comply with the BSA and to safeguard operations from money laundering and terrorist financing. The manual was updated to further clarify supervisory expectations and to incorporate regulatory changes since the 2007 release. The revisions also reflect feedback from the banking industry and examination staff. The FDIC has also translated the manual into Spanish.

Minority Depository Institution Activities

The preservation of Minority Depository Institutions (MDIs) remains a high priority for the FDIC. In 2010, the FDIC continued to seek ways to improve communication and interaction with MDIs and to respond to the concerns of minority bankers. Many of the MDIs took advantage of the technical assistance offered by the FDIC, requesting technical assistance on a number of bank supervision issues, including but not limited to, the following:

- Troubled Asset Relief Program (TARP)
- Deposit insurance assessments
- Proper use of interest reserves
- Filing branch and merger applications
- Complying with Part 365 – Real Estate Lending Standards
- Preparing Call Reports
- Performing due diligence for loan participations
- Monitoring CRE concentrations
- Reducing adversely classified assets
- Identifying and monitoring reputation risk
- Maintaining adequate liquidity
- Compliance issues
- Community Reinvestment Act (CRA)
- Procedures for filing regulatory appeals
- Criteria for assigning CAMELS ratings

The FDIC continued to offer the benefit of having an examiner or a member of regional office management return to FDIC-supervised MDIs from 90 to 120 days after examinations to assist management in understanding and implementing examination recommendations or to discuss other issues of interest. Ten MDIs took advantage of this initiative in 2010. Also, the FDIC regional offices held outreach training efforts and educational programs for MDIs.

The FDIC hosted a series of Asset Purchaser, Investor, and Minority Depository Institutions Outreach seminars throughout the country, where investors, and minority- and women-owned firms received information on purchasing assets from the FDIC and opportunities for investors to invest in or establish an MDI. Seminars were held in Atlanta, GA; New York, NY; Houston, TX; Miami, FL; Los Angeles, CA; San Francisco, CA; and Washington, DC. The seminars were well received, with over 650 participants in attendance.

The FDIC held quarterly conference calls and banker roundtables with MDIs in the geographic regions. Topics of discussion for the quarterly calls included both compliance and risk management topics, and topics at the roundtables included the economy, overall banking conditions, deposit insurance assessments, accounting, and other bank examination issues.

The FDIC partnered with the Federal Reserve's Partnership for Progress to provide technical assistance and training to MDIs interested in applying for the New Markets Tax Credit (NMTC). The training consisted of a series of webinars to educate MDIs about becoming Community Development Entities, completing NMTC applications, and best practices on NMTC projects.

Capital and Liquidity Rulemaking and Guidance

Credit Ratings ANPR

In August 2010, the FDIC, along with the other federal banking agencies, published an Advance Notice of Proposed Rulemaking (ANPR) regarding alternatives to the use of credit ratings in the risk-based capital rules for banking organizations. The ANPR was issued in response to section 939(A) of the Dodd-Frank Act, which requires the agencies to review regulations that (1) require an assessment of the creditworthiness of a security or money market instrument, and (2) contain references to or requirements regarding credit ratings. In addition, the agencies are required to remove such references and requirements and substitute in their place uniform standards of creditworthiness, where feasible.

Market Risk NPR

In December 2010, the FDIC Board of Directors approved the publication of a joint Notice of Proposed Rulemaking (NPR) designed to enhance the market risk capital framework by addressing default and credit risk migration, innovations in trading book exposures, and other deficiencies revealed during the recent financial crisis. Enhancements to the framework include requirements to compute capital for stressed value-at-risk, and incremental default risk, standardized capital requirements for certain securitization positions, a capital floor for correlation trading exposures, and increased transparency through enhanced disclosures.

Advanced Approaches Floor NPR

In December 2010, the FDIC Board of Directors approved a joint NPR to implement certain requirements of Section 171 of the Dodd-Frank Act. Section 171 requires, among other things, that the agencies' generally applicable capital requirements serve as a floor for other capital requirements the agencies may establish and, specifically, as a permanent floor for the advanced approaches risk-based capital rule. Final rulemaking will be completed in 2011.

FAS 166 and 167 Final Rule

In January 2010, the agencies finalized the amendment to the risk-based capital rules to reflect the issuance of FAS 166 and 167, which required certain off-balance-sheet assets to be moved back onto a bank's balance sheet. The final rule provided an optional transition period that allowed a bank to phase in over one year the impact on risk-weighted assets of the change in the U.S. generally accepted accounting rules. The rule also eliminated the exclusion of certain consolidated asset-backed commercial paper programs from risk-weighted assets.

Interest Rate Risk

Economic conditions in 2010 presented significant risk management challenges to depository institutions. For a number of institutions, increased loan losses and sharp declines in the value of certain securities portfolios placed downward pressure on capital and earnings. In the prevailing interest rate environment, taking advantage of a steeply upward sloping yield curve by funding longer-term assets with shorter-term liabilities may have provided short-term gains to earnings helping offset losses, but could pose risks to an institution's capital and future earnings should short-term interest rates rise. To reinforce the federal banking agencies' existing guidance —The *Joint Agency Policy Statement on Interest Rate Risk*—and to remind institutions to not lose focus on their management of interest rate risk, the agencies issued new guidance on January 6, 2010—*Advisory on Interest Rate Risk Management*. The guidance updated and clarified existing supervisory guidance on the sound practices for managing interest rate risk, noting that institutions should assess the likely effects of meaningful stress scenarios, including interest rate shocks of at least 300 to 400 basis points and that institutions are expected to conduct independent reviews of their interest rate risk models and management processes.

Liquidity Guidance

Recent turmoil in the financial markets emphasized the importance of effective liquidity risk management for the safety and soundness of financial institutions. To emphasize the importance of cash flow projections, diversified funding sources, stress testing, a cushion of liquid assets, and a formal, well-developed contingency funding plan as primary tools for measuring and managing liquidity risk, the federal banking agencies issued new guidance on March 22, 2010—*Funding and Liquidity Risk Management*. This policy statement summarizes the principles of sound liquidity risk management issued in the past and, when appropriate, supplements them with the "Principles for Sound Liquidity Risk Management and Supervision" issued by the BCBS in September 2008.

Other Guidance Issued

During 2010, the FDIC issued and participated in the issuance of other guidance in several areas as described below.

Bargain Purchases and Assisted Acquisitions

Market conditions in the banking industry, including the significant number of FDIC-assisted acquisitions of failed depository institutions, have contributed to an increase in bargain purchase transactions. A bargain purchase occurs when the fair value of the net assets acquired in a business combination exceeds the fair value of any consideration transferred by the acquiring institution. Bargain purchase gains are reported in earnings and included in the computation of regulatory capital under the agencies' capital standards. To address the supervisory issues arising from business combinations that result in bargain purchase gains, the FDIC, along with the other financial regulators, issued *Interagency Supervisory Guidance on Bargain Purchases and FDIC- and NCUA-Assisted Acquisitions* on June 7, 2010. The guidance addresses the agencies' concerns about the quality and composition of capital when a bargain purchase gain is expected to result from a business combination and describes the capital preservation and other conditions the agencies may impose in their approval of acquisitions. The guidance also discusses the agencies' expectations with respect to the appropriate application of accounting standards to business combinations.

Examinations of Institutions with FDIC Loss-Share Agreements

Beginning in 2009, the FDIC increasingly entered into loss-share agreements with institutions acquiring failed IDIs. Under such an agreement, the FDIC and an acquiring institution share in the losses on a specified pool of a failed institution's assets, which maximizes asset recoveries and minimizes losses to the DIF. In May 2010, the FDIC issued guidance to its examination staff on how examiners should take into account the implications and benefits of loss-share in their supervision of banks that have acquired assets of failed institutions covered by loss-share agreements. Examiners are expected to consider the impact of these agreements when performing asset reviews, assessing accounting entries, assigning adverse classifications, and determining CAMELS ratings and examination conclusions. The FDIC has made this examination guidance available to bankers, the other banking agencies, and other parties to promote their understanding of the FDIC's approach to the examination of banks with loss-share agreements. To provide greater visibility to the effect of loss-share agreements on the examination process, the Summer 2010 issue of the FDIC's *Supervisory Insights*, published in June, included "FDIC Loss-Sharing Agreements: A Primer". This article provides an overview of the loss-share process, addresses the regulatory treatment of assets subject to these agreements, and discusses the accounting rules and capital implications for the acquisition of failed bank assets.

Troubled Asset Relief Program's Community Development Capital Initiative

In 2010, the FDIC actively engaged with the U.S. Department of the Treasury (Treasury) and the other federal bank regulatory agencies in considering applications to the Troubled Asset Relief Program's (TARP) Community Development Capital Initiative (CDCI). The TARP CDCI invested lower-cost capital in Community Development Financial Institutions (CDFIs), which are financial institutions that target at least 60 percent of their lending and other economic development activities in areas underserved by traditional financial services providers. In its role as primary federal supervisor for state non-member institutions, the FDIC reviewed 64 TARP CDCI applications and forwarded approval recommendations to Treasury for 12 institutions that met Treasury's Program standards. Treasury approved ten institutions for participation in the Program.

The FDIC desired to reach a favorable recommendation for all TARP CDCI applications and worked closely with bank managements that were striving to achieve Treasury's standards for approval. CDFIs can provide critically needed loan and depository services to underserved communities.

Meeting the Credit Needs of Creditworthy Small Business Borrowers

In response to difficulties some small business owners are experiencing in obtaining or renewing credit to support their operations, the FDIC, along with other financial regulators, issued *Interagency Statement on Meeting the Credit Needs of Creditworthy Small Business Borrowers* on February 12, 2010. The statement builds on principles of existing guidance and strives to ensure that supervisory policies do not inadvertently curtail the availability of credit to sound small business borrowers. The statement reiterates regulatory expectations for institutions to effectively monitor and manage credit concentrations but notes that institutions should not automatically refuse credit to sound borrowers because of their particular industry or geographic location.

The statement also explains that examiners will not criticize prudent underwriting practices, that examiners will take a balanced approach when assessing small business lending activities, and that examiners will not adversely classify loans solely due to declining collateral values, provided that a borrower has the willingness and ability to repay loans according to reasonable terms.

Correspondent Concentration Risks

On April 30, 2010, the FDIC, along with the other financial regulators, issued guidance on *Correspondent Concentration Risks* to outline the agencies' expectations for identifying, monitoring, and managing correspondent concentration risks. The guidance addresses the agencies' expectations relative to performing due diligence on credit exposures to, and funding transactions with, other financial institutions. The guidance notes that a financial institution's relationship with a correspondent may result in credit and funding concentrations and acknowledges that, while some correspondent concentrations meet legitimate business needs, the concentrations represent a lack of diversification management should address when formulating strategic plans and risk management policies and procedures.

Appraisal and Evaluation Guidelines

On December 2, 2010, the FDIC, along with the other federal banking agencies, issued final *Interagency Appraisal and Evaluation Guidelines* to provide further clarification of the agencies' appraisal regulations and supervisory guidance to institutions and examiners about prudent appraisal and evaluation programs. The guidelines reflect changes in appraisal standards and advancements in regulated institutions' collateral valuation methods and clarify longstanding supervisory expectations for an institution's appraisal and evaluation program to conduct real estate lending in a safe and sound manner. Further, the guidelines promote consistency in the application and enforcement of the agencies' appraisal regulations and safe and sound banking practices.

Incentive Compensation

On June 21, 2010, the FDIC joined the other federal banking agencies in issuing interagency *Guidance on Sound Incentive Compensation Policies*. This guidance was issued to address incentive compensation practices in the financial services industry that contributed to the recent financial crisis. The guidance uses a "principles-based" approach and describes the agencies' expectations for banking organizations to maintain incentive compensation practices consistent with safety-and-soundness standards. One main goal of the guidance is to align employee rewards with longer-term organizational objectives, including consideration of potential risks and risk outcomes.

Golden Parachute

As part of supervisory efforts to address executive compensation in the financial services industry, the FDIC issued *Guidance on Golden Parachute Applications* on October 14, 2010, to clarify the golden parachute application process for troubled institutions, specify the type of information necessary to satisfy the certification requirements, and highlight factors considered by supervisory staff when determining whether to approve a golden parachute payment. A golden parachute payment refers to amounts paid by troubled entities to an institution-affiliated party (IAP) that are contingent on the IAP's termination. Applications made on behalf of senior management will be subject to heightened scrutiny that will include an evaluation of the individual's performance and involvement in corporate initiatives and policymaking. For lower-level employees, a de minimis golden parachute payment of up to $5,000 per individual is permissible without a supervisory application in most cases. The bank is required to maintain a record of the individuals receiving the payments, together with signed and dated certifications of the amounts received.

Concerns with Energy Lending Programs

The FDIC, along with other financial regulators, issued an alert on July 6, 2010, notifying financial institutions about a *Federal Housing Finance Authority (FHFA) Statement Relative to Concerns with Certain Energy Lending Programs*. The statement relates to FHFA and FDIC concerns with certain energy retrofit lending programs and indicates institutions should be aware of such programs, as deficiencies within the programs, such as weak underwriting and consumer-protection standards, could affect an institution's residential mortgage lending activities and its ability to sell loans to Fannie Mae and Freddie Mac.

Secure and Fair Enforcement for Mortgage Licensing Act of 2008

On July 28, 2010, the FDIC along with the other federal banking agencies, published the final rule implementing the requirements of the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE Act). The SAFE Act requires residential mortgage loan originators who are employees of national and state banks, savings associations, Farm Credit System institutions, credit unions, and certain of their subsidiaries (agency-regulated institutions) to be registered in the Nationwide Mortgage Licensing System and Registry, an online database. The FIL highlights the rule's requirements for appropriate policies, procedures, and management systems to ensure compliance with the SAFE Act. The SAFE Act is intended to improve the accountability and tracking of residential mortgage loan originators (MLOs), enhance consumer protection, reduce fraud, and provide consumers with easily accessible information regarding an MLO's professional background.

Municipal Advisor Rule

On October 1, 2010, the FDIC issued a FIL announcing the Securities and Exchange Commission's (SEC) issuance of an interim final temporary rule requiring all municipal advisors to register with the SEC by October 1, 2010. The FIL highlights definitions of municipal advisors and municipal financial products, and notified financial institutions that they should review their dealings with municipal entities to determine if such dealings will require registration as a municipal advisor.

Regulatory Relief

During 2010, the FDIC issued 23 Financial Institution Letters (FILs) that provided guidance to help financial institutions and facilitate recovery in areas damaged by severe storms, tornadoes, flooding, and other natural disasters.

Consumer Protection and Compliance Rules and Guidance

In March 2010, the FDIC approved and issued, along with the other federal bank regulators, updated *Interagency Questions and Answers Regarding Community Reinvestment*. These Q&As consolidate and supersede all previously published versions of this guidance. A new Q&A provides examples of how to demonstrate that community development services meet the criteria of serving low- and moderate-income areas and people. The revised Q&As enable consideration of a pro rata share of mixed income affordable housing projects as community development projects.

In September 2010, the FDIC, along with the other federal bank regulators, issued a final CRA rule to implement a provision of the Higher Education Opportunity Act. The rule provides for consideration of low-cost higher education loans to low-income borrowers as a positive factor when assessing a financial institution's record of meeting community credit needs under the CRA. The rule also incorporates a CRA statutory provision that allows the agencies to consider a financial institution's capital investment, loan participation, and other ventures with minority-owned financial institutions, women-owned institutions, and low-income credit unions as factors in assessing the institution's CRA record.

In December 2010, the agencies published a final CRA rule that revises the definition of "community development" in the CRA regulations to provide favorable CRA consideration for loans, investments, and services by financial institutions that directly support, enable or facilitate eligible projects and activities in designated target areas of the Neighborhood Stabilization Program (NSP) approved by the Department of Housing and Urban Development. The expanded definition of "community development" in the CRA regulations will help leverage NSP funds in areas experiencing high foreclosure and vacancy rates and neighborhood blight.

In May 2010, the FDIC issued guidance to assist lenders in meeting their compliance obligations under the National Flood Insurance Program (NFIP) during periods when the statutory authority of the Federal Emergency Management Agency (FEMA) to issue flood insurance contracts under the NFIP lapses. In December 2010, the FDIC issued a notice to its supervised financial institutions that FEMA announced that Preferred Risk Policy eligibility will be extended two years beginning January 1, 2011.

In August 2010, the FDIC, in cooperation with the other FFIEC member agencies, issued supervisory guidance on reverse mortgage products. The guidance emphasizes the consumer protection concerns raised by reverse mortgages and the importance of financial institutions mitigating the compliance and reputation risks associated with these products.

In September 2010, the FDIC issued a compliance guide for state non-member banks wishing to use the model privacy form to comply with disclosure requirements under the Gramm-Leach-Bliley Act.

In November 2010, the FDIC issued final supervisory guidance on overdraft payment programs. The final guidance reaffirms existing supervisory expectations described in the February 2005 *Joint Guidance on Overdraft Protection Programs*, and provides specific guidance with respect to automated overdraft payment programs. In particular, the FDIC guidance states that financial institution management should be especially vigilant with respect to product overuse, which may harm consumers.

Monitoring Emerging Risks

The FDIC relies heavily on on-site supervisory activities to identify existing and emerging risks. In addition to on-site supervisory activities, the FDIC uses several established off-site processes, including the Statistical CAMELS Off-site Rating (SCOR) system and the Growth Monitoring System (GMS), as well as more recent comprehensive reviews (such as the Quarterly Supervisory Risk Profile), to assess how identified risks are likely to affect insured institutions' risk profiles and ratings. These ongoing analyses have been augmented with numerous ad hoc reviews, such as reviews of commercial real estate lending trends, interest rate risk exposure, allowance for loan and lease loss trends, and dividend payments. Furthermore, the FDIC replaced its former *Underwriting Survey* with a *Credit and Consumer Products/Services Survey*. The new survey extends beyond underwriting practices and addresses new or evolving products, strategies, and consumer compliance issues and is now completed by examiners at the conclusion of each risk management and consumer compliance examination. Supervisory staff monitors and analyzes this real-time examiner input and uses the information to help determine the need for changes in policy guidance or supervisory strategies as appropriate.

Regulatory Reporting Revisions

The FDIC, jointly with the Office of the Comptroller of the Currency and the Federal Reserve Board, implemented revisions to the Consolidated Reports of Condition and Income (Call Reports) that took effect in March and December 2010. The revisions responded to such developments as the temporary increase in the deposit insurance limit, changes in accounting standards, and credit availability concerns. The reporting changes that took effect on March 31, 2010, included new data on other than temporary impairments of debt securities, loans to non-depository financial institutions, and assets acquired from failed institutions covered by FDIC loss-share agreements; additional data on certain time deposits and unused commitments; and a change from annual to quarterly reporting for small-business and small-farm lending data. The agencies began to collect new data pertaining to reverse mortgages annually effective December 31, 2010.

As a result of a change in the basis for calculating assessments for banks participating in the FDIC's TAGP in the third quarter of 2010, the agencies revised the Call Report items used to collect data on TAGP-eligible accounts in September 2010. For the final two quarters of the TAGP, participating banks were required to report the total dollar amount and number of TAGP-eligible accounts as average daily balances rather than quarter-end balances.

With the enactment of temporary unlimited insurance coverage for noninterest-bearing transaction accounts by the Dodd-Frank Act effective December 31, 2010, the agencies added two new items to the Call Report as of that date for the reporting of the quarter-end dollar amount and number of noninterest-bearing transaction accounts as defined in the Act. These new items must be completed by all banks, not only those that participated in the TAGP.

In September 2010, the agencies proposed several revisions to the Call Report, primarily to assist the agencies in gaining a better understanding of banks' credit and liquidity risk exposures. The proposed revisions, which took effect on March 31, 2011, include additional data on troubled debt restructurings, commercial mortgage-backed securities, private sector deposits, loans and other real estate covered by FDIC loss-share agreements, bank-owned life insurance, and trust department collective investment funds; new data on auto loans, deposits obtained through deposit listing services, and assets and liabilities of consolidated variable interest entities and captive insurance subsidiaries; and instructional revisions relating to construction loans and repricing data.

Promoting Economic Inclusion

The FDIC undertook a number of initiatives in 2010 to promote financial access to IDIs for low- and moderate-income communities.

Alliance for Economic Inclusion

The goal of the FDIC's Alliance for Economic Inclusion (AEI) initiative is to collaborate with financial institutions; community organizations; local, state, and federal agencies; and other partners in select markets to launch broad-based coalitions to bring unbanked and underserved consumers into the financial mainstream.

The FDIC expanded its AEI efforts during 2010 to increase measurable results in the areas of new bank accounts, small-dollar loan products, remittance products, and the delivery of financial education to more underserved consumers. During 2010, over 152 banks and organizations joined AEI nationwide, bringing the total number of AEI members to 1,119. There were 45,776 new bank accounts opened during 2010, bringing the total number of bank accounts opened through the AEI to 208,458. During 2010, approximately 56,556 consumers received financial education through the AEI, bringing the total number of consumers educated to 199,392. Also, 48 banks were in the process of offering or developing small-dollar loans, 27 banks were offering remittance products, and 26 banks were providing innovative savings products through the AEI at the end of 2010.

During 2010, the FDIC expanded its efforts to address additional markets with high concentrations of unbanked and underbanked households and aligned its targeted efforts with the results of its 2009 unbanked survey. Presently in 14 markets, the FDIC began the initial organization and planning for AEI initiatives in two additional markets: Milwaukee, WI, and St. Louis, MO. Additionally, the FDIC worked closely during 2010 to provide technical assistance and support to communities in Ohio and northwestern Indiana interested in forming AEI coalitions, and provided a loaned executive to lead the Bank On California campaign.

The FDIC also worked closely during 2010 with the National League of Cities to provide technical assistance to facilitate the implementation of Bank On campaigns in: Seattle, WA; Savannah, GA; Houston and San Antonio, TX; Indianapolis, IN; Aurora, IL; Gaithersburg, MD; and Jacksonville, FL. The FDIC was also invited to serve as a working committee member and advisor to facilitate the launch of a Bank On Washington, DC, campaign launched in April 2010.

Advancing Financial Education

The FDIC's award-winning *Money Smart* curriculum is available in seven languages, large-print and Braille versions, as computer-based instruction, and as podcast audio instruction. Since its inception, over 2.4 million individuals have participated in *Money Smart* classes and self-paced computer-based instruction. Approximately 300,000 of these participants subsequently established new banking relationships.

The FDIC significantly expanded its financial education efforts during 2010 through a multi-part strategy that included making available timely, high-quality financial education products, expanding delivery channels, and sharing best practices.

In 2010, the FDIC released an enhanced version of its instructor-led *Money Smart* financial education curriculum for adults. The enhanced curriculum incorporates changes in the law and industry practices that have occurred since *Money Smart* was last revised in 2006. For instance, the curriculum reflects recent amendments to the rules pertaining to credit cards as well as the new overdraft opt-in rule. A new module, Financial Recovery, provides an overview of the steps consumers can take to rebuild their finances after a financial setback. Similar enhancements were also made to *Money Smart for Young Adults*.

The FDIC also released a Spanish language version of the *Money Smart Podcast Network*, a portable audio version of *Money Smart* suitable for use with virtually all MP3 players. Showing the appeal of a portable audio version, the MP3 English version received more than 522,000 hits during more than 23,000 individual sessions (individual visitors) during 2010, and the Spanish version received nearly 1,000 hits between its release on October 14, 2010, and year-end.

The FDIC's delivery channels for financial education were expanded, in particular, through a historic partnership agreement signed on November 15, 2010, with the National Credit Union Administration and the U.S. Department of Education, to promote financial education and access for low- and moderate-income students. The agreement will promote educators and IDIs working together to help students receive financial education and use mainstream banking products.

Financial education best practices were shared through four editions of *Money Smart News*, which reached over 40,000 subscribers. Success stories were shared on topics including reaching households struggling to survive a job loss and providing financial education to college students.

As a member of the Financial Literacy and Education Commission, the FDIC continued to actively support the Commission's efforts to improve financial literacy in America. During 2010, the FDIC was significantly involved in the work of the National Strategy Working Group, which was charged with drafting a new national strategy to promote financial literacy and education. In addition, the FDIC chairs the Commission's Core Competencies Subcommittee, which worked closely with the Department of the Treasury and a group of experts in the financial education field, including researchers and practitioners, to help draft the various core principles that individuals should know and the basic concepts program providers should cover.

The FDIC also took a leadership role among federal agencies to promote the 2010 America Saves Week to encourage consumers to establish a basic savings account or boost existing savings. Chairman Bair authored the nationally distributed *Your Savings – Good for You, Your Family, and Your Peace of Mind* op-ed. In addition, a video featuring Chairman Bair encouraging consumers to save and participate in America Saves Week received over 6,000 views on YouTube and was featured on the homepage of America Saves. The FDIC also provided technical assistance or other involvement to at least 15 America Saves coalitions.

Leading Community Development

FDIC community affairs staff are located in each of the FDIC's regions and lead a range of community development activities. In 2010, the FDIC undertook over 200 community development, technical assistance, financial education, and outreach activities and events. These activities were designed to promote awareness of investment opportunities to financial institutions, access to capital within communities, knowledge-sharing among the public and private sector, and wealth-building opportunities for families. Staff also provided technical assistance and training to financial institutions on community development and other CRA-related topics. Representatives throughout the financial industry and their stakeholders collaborated with the FDIC on a broad range of initiatives structured to meet local and regional needs for financial products and services, credit, asset-building, affordable housing, small business and micro-enterprise development, and financial education.

During 2010, the FDIC launched a pilot initiative to build awareness of the FDIC's asset purchase opportunities among nonprofit affordable housing developers, NSP grantees, and local municipalities. The pilot was designed to increase their access and ability to successfully bid on and acquire FDIC-owned real estate from failed banks for redevelopment for affordable housing and other community development purposes. As a result, 30 properties were purchased from the FDIC by NSP grantees and redeployed as affordable housing in the southeast region.

Recognizing the importance of small business growth and job creation as an essential component in America's economic recovery, the FDIC continued its emphasis on facilitating small-business development, expansion, and recovery during 2010. The FDIC entered into a strategic alliance with the U.S. Small Business Administration (SBA) on September 8, 2010, to facilitate the development and expansion, of small businesses. As part of the agreement, the FDIC and the SBA collaborated in co-sponsoring small-business information, resource, and capacity-building seminars in New York, NY; Los Angeles, CA; Memphis, TN; Greensboro, AL; Jackson, MS; New Orleans, LA; Tampa, FL; Richmond, VA; and Raleigh, NC. The events provided information and resources to over 1,500 small business owners, entrepreneurs, banking professionals and others.

The FDIC continued its initiative to help consumers and the banking industry avoid unnecessary foreclosures and stop foreclosure "rescue" scams that promise false hope to consumers at risk of losing their homes.

The FDIC focused its foreclosure mitigation efforts in three areas during 2010:

- **Direct outreach to consumers with information, education, counseling, and referrals.** During 2010, in collaboration with NeighborWorks® America, the FDIC sponsored four counselor-driven homeowner outreach events in high-need markets to provide face-to-face assistance for borrowers at risk of foreclosure. More than 4,000 homeowners attended these events.

- **Industry outreach and education targeted to lenders, loan servicers, local governmental agencies, housing counselors, and first responders (faith-based organizations, advocacy organizations, social service organizations, etc.).** During 2010, the FDIC hosted or co-hosted five major loan modification scam outreach events in collaboration with NeighborWorks® America. These events were targeted to local agencies and nonprofits that have the capacity to educate stakeholders. These events resulted in more than 40,000 pieces of FDIC-branded outreach materials provided to partners for distribution, and led to more than 200 scams being reported to authorities.

- **Support for capacity-building initiatives to help expand the quantity and quality of foreclosure counseling assistance that is available within the industry.** Working closely with NeighborWorks® America and other national and local counselors and intermediaries, the FDIC worked to support industry efforts to build the capacity of housing counseling agencies. For example, the FDIC facilitated two community stabilization place trainings, which led to more than 69 homeownership professionals being trained in best practices and strategies to promote community recovery.

Gulf Coast Oil Spill Response

The FDIC strongly supported efforts to expedite a recovery from the April 22, 2010, Deepwater Horizon oil spill in the Gulf Coast region. At the onset of this spill of national significance, the FDIC recognized that some borrowers' cash flow and repayment capacity would be unexpectedly impaired, and that banks should consider assisting borrowers that would be severely impacted. Accordingly, on May 7, 2010, the FDIC issued FIL 24-2010, *Guidance for Financial Institutions Working with Borrowers in the Gulf Coast Region Affected by a "Spill of National Significance"*. This guidance encourages banks to work constructively with borrowers experiencing difficulties beyond their control because of damage caused by the spill. It also encourages banks to extend repayment terms, restructure existing loans, or ease terms for new loans in a manner consistent with sound banking practices. The guidance recognizes that efforts to work with borrowers in communities under stress can be consistent with safe and sound banking practices as well as in the public interest. The FDIC also joined the other banking agencies in issuing a similar directive on July 14, 2010, titled *Interagency Statement on Financial Institutions Affected by the Deepwater Horizon Oil Spill*.

Through field offices in Florida, Alabama, Mississippi, and Louisiana, and frequent interaction with state regulators and bank trade organizations, the FDIC worked hard to understand the spill's impact on banking, commerce, and tourism. FDIC executives from Washington and the Dallas and Atlanta regional offices conducted outreach and communicated with various constituencies to enhance knowledge of the spill's scope and effects. In addition, the FDIC engaged in a concerted dialogue with trade associations, community and business leaders, and congressional staff from the Gulf Coast region to gain an "on the ground" perspective on the spill's short- and long-term implications. The FDIC will strive to maintain this dialogue with bankers and community leaders to ensure its supervisory approach prudently accommodates recovery efforts.

Affordable Small-Dollar Loan Guidelines and Pilot Program

The FDIC's two-year Small-Dollar Loan Pilot Program concluded in the fourth quarter of 2009, with final data reported to the FDIC in mid-May 2010. The pilot was a case study designed to illustrate how banks can profitably offer affordable small-dollar loans as an alternative to high-cost credit products such as payday loans and fee-based overdraft programs. At the end of the pilot, 28 banks were participating with total assets ranging from $28 million to $10 billion and operations in 28 states. Over the course of the pilot, participating banks originated more than 34,400 small-dollar loans with a principal balance of $40.2 million.

The pilot demonstrated that banks can offer alternatives to costly forms of emergency credit, and resulted in a template of essential product design and delivery elements for safe, affordable, and feasible small-dollar loans that can be replicated by other banks. (See www.fdic.gov/smalldollarloans/ for the template). Going forward, the FDIC is working with the banking industry, consumer and community groups, nonprofit organizations, other government agencies, and others to research and pursue strategies that could prove useful in expanding the supply of small-dollar loans. Among other things, these strategies include:

- Highlighting the facts about the pilot and other successful small-dollar loan models.
- Studying creation of pools of nonprofit or government funds to serve as "guarantees" for small-dollar loans.
- Encouraging broad-based partnerships among banks, nonprofit, and community groups to work together in designing and delivering small-dollar loans.
- Studying the feasibility of safe and innovative emerging small-dollar loan technologies and business models.
- Considering ways that regulators can encourage banks to offer safe and affordable small-dollar products, and that these products can receive favorable CRA consideration.

Information Technology, Cyber Fraud, and Financial Crimes

The FDIC sponsored a Combating Commercial Payments Fraud Symposium in March 2010 that focused on the nature of this increasingly sophisticated form of financial fraud and how the industry and regulators can effectively respond. Other major accomplishments during 2010 in promoting information technology (IT) security and combating cyber fraud and other financial crimes included the following:

- Published, in conjunction with the other FFIEC agencies, a Retail Payment Systems Handbook. The booklet discusses various technologies and products used in payment systems and the risk management techniques that institutions should use.
- Issued, in conjunction with the other FFIEC agencies, an updated and expanded program to review specialized software used by financial institutions.

- Published, in conjunction with the other FFIEC agencies, a white paper entitled "The Detection and Deterrence of Mortgage Fraud Against Financial Institutions".

- Issued *Guidance on Mitigating Risk Posed by Information Stored on Photocopiers, Fax Machines and Printers.*

- Assisted financial institutions in identifying and shutting down approximately 47 "phishing" websites. The term "phishing"—as in fishing for confidential information—refers to a scam that encompasses fraudulently obtaining and using an individual's personal or financial information.

- Issued 130 Special Alerts to FDIC-supervised institutions on reported cases of counterfeit or fraudulent bank checks.

- Issued 3 Consumer Alerts pertaining to e-mails and telephone calls fraudulently claiming to be from the FDIC.

The FDIC conducts IT examinations at each risk management examination to ensure that institutions have implemented adequate risk management practices for the confidentiality, integrity, and availability of the institution's sensitive, material, and critical information assets using the FFIEC Uniform Rating System for Information Technology (URSIT). The FDIC also participates in interagency examinations of significant technology service providers. In 2010, the FDIC conducted 2,121 IT examinations at financial institutions and technology service providers. Further, as part of its ongoing supervision process, the FDIC monitors significant events, such as data breaches and natural disasters, that may impact financial institution operations or customers.

As an additional element of its leadership role in promoting effective bank supervision practices, the FDIC provides technical assistance, training, and consultations to international governmental banking regulators in the area of IT examinations. In 2010, the FDIC provided foreign technical assistance training to the Central Bank of Iraq and the Bank of Albania to train examiners and develop examination policies for managing IT and other operational risks.

Consumer Complaints and Inquiries

The FDIC investigates consumer complaints concerning FDIC-supervised institutions and answers inquiries from the public about consumer protection laws and banking practices. As of December 31, 2010, the FDIC received 13,756 written complaints, of which 6,862 involved complaints against state non-member institutions. The FDIC responded to over 97 percent of these complaints within time frames established by corporate policy, and acknowledged 100 percent of all consumer complaints and inquiries within 14 days. The FDIC also responded to 1,960 written inquiries, of which 388 involved state non-member institutions. In addition, the FDIC responded to 6,666 telephone calls from the public and members of the banking community, 4,375 of which concerned state non-member institutions.

Deposit Insurance Education

An important part of the FDIC's deposit insurance mission is ensuring that bankers and consumers have access to accurate information about the FDIC's rules for deposit insurance coverage. The FDIC has an extensive deposit insurance education program consisting of seminars for bankers, electronic tools for estimating deposit insurance coverage, and written and electronic information targeted for both bankers and consumers.

In 2010, the FDIC continued its efforts to educate bankers and consumers about the rules and requirements for FDIC insurance coverage. The FDIC conducted a series of eight nationwide telephone seminars for bankers on deposit insurance coverage. These seminars reached an estimated 60,000 bankers participating at over 16,000 bank locations throughout the country. The FDIC also updated its deposit insurance coverage publications and educational tools for consumers and bankers, including brochures, resource guides, videos, and the Electronic Deposit Insurance Estimator (EDIE).

Deposit Insurance Coverage Inquiries

During 2010, the FDIC received and answered approximately 143,000 telephone deposit insurance-related inquiries from consumers and bankers. Of these inquiries, 119,000 were addressed by the FDIC Call Center and 24,000 were handled by deposit insurance coverage subject matter experts. In addition to telephone deposit insurance inquiries, the FDIC received 3,000 written deposit insurance coverage inquiries from consumers and bankers. Of these inquiries, 99 percent received responses within two weeks, as required by corporate policy.

Resolutions and Receiverships

The FDIC has the unique mission of protecting depositors of insured banks and savings associations. No depositor has ever experienced a loss on the insured amount of his or her deposit in an FDIC-insured institution due to a failure. Once an institution is closed by its chartering authority—the state for state-chartered institutions, the OCC for national banks, and the OTS for federal savings associations—and the FDIC is appointed receiver, the FDIC is responsible for resolving the failed bank or savings association.

The FDIC employs a variety of business practices to resolve a failed institution. These business practices are typically associated with either the resolution process or the receivership process. Depending on the characteristics of the institution, the FDIC may recommend several of these practices to ensure the prompt and smooth payment of deposit insurance to insured depositors, to minimize the impact on the DIF, and to speed dividend payments to creditors of the failed institution.

The resolution process involves valuing a failing institution, marketing it, soliciting and accepting bids for the sale of the institution, determining which bid is least costly to the insurance fund, and working with the acquiring institution through the closing process.

In order to minimize disruption to the local community, the resolution process must be performed quickly and as smoothly as possible. There are three basic resolution methods: purchase and assumption transactions, deposit payoffs, and utilizing a Deposit Insurance National Bank (DINB).

The purchase and assumption (P&A) transaction is the most common resolution method used for failing institutions. In a P&A transaction, a healthy institution purchases certain assets and assumes certain liabilities of the failed institution. There are a variety of P&A transactions that can be used. Since each failing bank situation is different, P&A transactions provide flexibility to structure deals that result in the highest value for the failed institution. For each possible P&A transaction, the acquirer may either acquire all or only the insured portion of the deposits. Loss sharing may be offered by the receiver in connection with a P&A transaction. In a loss-share transaction, the FDIC as receiver agrees to share losses on certain loans with the acquirer. The FDIC usually agrees to absorb a significant portion (for example, 80 percent) of future losses on assets that have been designated as "shared loss assets" for a specific period of time (for example, five to ten years). The economic rationale for these transactions is that keeping shared loss assets in the banking sector can produce a better net recovery than would the FDIC's immediate liquidation of these assets.

Deposit payoffs are only executed if a bid for a P&A transaction does not meet the least-cost test or if no bids are received, in which case the FDIC, in its corporate capacity as deposit insurer, makes sure that the customers of the failed institution receive the full amount of their insured deposits.

The Banking Act of 1933 authorized the FDIC to establish a DINB to assume the insured deposits of a failed bank. A DINB is a new national bank with limited life and powers which allows failed bank customers a brief period of time to move their deposit account(s) to other insured institutions. A DINB allows for a failed bank to be liquidated in an orderly fashion, minimizing disruption to local communities and financial markets.

The receivership process involves performing the closing functions at the failed institution, liquidating any remaining failed institution assets, and distributing any proceeds of the liquidation to the FDIC and other creditors of the receivership. In its role as receiver, the FDIC has used a wide variety of strategies and tools to manage and sell retained assets. These include, but are not limited to: asset sale and/or management agreements, structured transactions, and securitizations.

Financial Institution Failures

During 2010, the FDIC experienced a significant increase in the number of institution failures, 157, as compared to previous years. For the institutions that failed, the FDIC successfully contacted all known qualified and interested bidders to market these institutions. The FDIC also made insured funds available to all depositors within one business day of the failure if it occurred on a Friday and within two business days if the failure occurred on any other day of the week. There were no losses on insured deposits, and no appropriated funds were required to pay insured deposits.

The following chart provides a comparison of failure activity over the last three years.

Failure Activity 2008 – 2010

Dollars in Billions

	2010	2009	2008
Total Institutions	157	140	25
Total Assets of Failed Institutions[1]	$92.1	$169.7	$371.9
Total Deposits of Failed Institutions[1]	$79.5	$137.1	$234.3
Estimated Loss to the DIF	$24.2	$37.1	$19.6

[1] Total Assets and Total Deposits data are based on the last Call Report filed by the institution prior to failure.

Asset Management and Sales

As part of its resolution process, the FDIC makes every effort to sell as many assets as possible to an assuming institution. Assets that are retained by the receivership are evaluated, and for 95 percent of the failed institutions, at least 90 percent of the book value of marketable assets are marketed for sale within 90 days of an institution's failure for cash sales and 120 days for structured sales.

Structured sales for 2010 totaled $8.8 billion in unpaid principal balances from commercial real estate and residential loans acquired from various receiverships. These transactions oftentimes involved FDIC guaranteed purchase money debt and equity in a limited liability company shared between the respective receivership which contributed the assets to the sale and the successful purchaser. Cash sales of assets for the year totaled $773 million in book value.

As a result of our marketing and collection efforts, the book value of assets in inventory decreased by $14.4 billion in 2010. The chart below shows the beginning and ending balances of these assets by asset type.

Assets in Inventory by Asset Type

Dollars in Millions

Asset Type	Assets in Inventory 01/01/10	Assets in Inventory 12/31/10
Securities	$12,425	$12,820
Consumer Loans	475	56
Commercial Loans	4,423	3,369
Real Estate Mortgages	15,613	5,683
Other Assets/Judgments	4,096	2,103
Owned Assets	3,257	2,086
Net Investments in Subsidiaries	1,066	881
Total	**$41,355**	**$26,998**

The FDIC makes extensive use of contractors in managing and selling the assets of failed institutions. In order to ensure that contractor resources are effectively managed, a substantial number of dedicated contract oversight and management positions were added during 2010 and extensive training was conducted for new employees before assigning them to contractor oversight duties. All newly designated oversight managers and technical monitors receive training in advance of performing contract administration responsibilities. Further, new reporting capabilities were implemented to the procurement system. The contracting department was reorganized, and the ratio of task orders to oversight managers was significantly reduced.

Receivership Management Activities

The FDIC, as receiver, manages failed banks and their subsidiaries with the goal of expeditiously winding up their affairs. The oversight and prompt termination of receiverships help to preserve value for the uninsured depositors and other creditors by reducing overhead and other holding costs. Once the assets of a failed institution have been sold and the final distribution of any proceeds is made, the FDIC terminates the receivership estate. In 2010, the number of receiverships under management increased by 84 percent, due to the increase in failure activity. The following chart shows overall receivership activity for the FDIC in 2010.

Receivership Activity

Active Receiverships as of 01/01/10[1]	187
New Receiverships	157
Receiverships Inactivated	0
Active Receiverships as of 12/31/10[1]	344

[1] Includes eight FSLIC Resolution Fund receiverships.

Minority and Women Outreach

The FDIC relies on contractors to help meet its mission to maintain stability and public confidence in the U.S. financial system. In 2010, the FDIC continued to host "Doing Business with the FDIC" and "Representing the FDIC" seminars. The FDIC conducted four seminars nationwide and reached out to Minority and Women Owned Businesses (MWOBs) and Minority and Women Owned Law Firms (MWOLFs) to inform them about the FDIC's procurement and legal opportunities. In addition, FDIC staff served as panel members, exhibitors, and active participants in numerous events sponsored by trade and community organizations, and provided valuable information to attendees regarding the FDIC's procurement process.

As a result of this additional outreach, the FDIC has registered approximately 2,200 MWOBs in an internal database. This database was used in addition to the newly developed ARON Database System (ARON) for generating source lists. ARON was developed exclusively for the FDIC in an effort to retrieve comprehensive lists of competitive MWOBs for potential solicitations. The system retrieves contractors' information directly from the Central Contractor Registration (CCR) System. Firms that want to do business with the government must be registered in the CCR System.

In 2010, the FDIC awarded 2,573 contracts, of which 522 contracts, or 20 percent, were awarded to MWOBs. The total value of contracts awarded was $2.6 billion, of which $641 million, or 24 percent, was awarded to MWOBs, compared to 32 percent for all of 2009. Lower award values in areas where there was strong MWOB participation in conjunction with increases in award dollars in areas where there was no MWOB participation resulted in an overall decrease in dollars awarded to MWOBs in 2010. In addition, the FDIC paid outside counsel $87 million for legal services, of which $8 million, or 10 percent, was paid to MWOLFs, compared to 3 percent for all of 2009.

As a result of the number of bank failures for 2010, the FDIC took a proactive effort to target minority and women investors to create awareness, promote synergy, and provide information regarding purchasing failed bank assets and acquiring and/or creating minority depository institutions. As previously stated, the FDIC developed and jointly sponsored eight Asset Purchaser, Investor, and Minority Depository Institution (AIM) seminars.

In 2011, the FDIC will continue to encourage and foster diversity and the inclusion of minorities and women in its asset sales program as it continues to liquidate assets from failed financial institutions. The FDIC will explore an investor match program to connect large and small investors interested in bidding on the FDIC's structured sales. In addition, the FDIC will conduct workshops to provide technical assistance to small investors and asset managers on how to participate in structured sales.

Protecting Insured Depositors

With the increase in failure activity in 2010, the FDIC's focus on protecting insured depositors of failed institutions was of critical importance. Confidence in the banking system hinges on deposit insurance, and no insured deposits went unpaid in 2010.

The FDIC's ability to attract healthy institutions to assume deposits and purchase assets of failed banks and savings associations at the time of failure minimizes the disruption to customers and allows assets to be returned to the private sector immediately. Assets remaining after resolution are liquidated by the FDIC in an orderly manner, and the proceeds are used to pay creditors, including depositors whose accounts exceeded the insurance limit. During 2010, the FDIC paid dividends of $5 million to depositors whose accounts exceeded the insured limit(s).

Professional Liability and Financial Crimes Recoveries

FDIC staff works to identify potential claims against directors, officers, accountants, fidelity bond carriers, appraisers, attorneys, and other professionals who may have contributed to the failure of an IDI. Once a claim is deemed meritorious and cost effective to pursue, the FDIC initiates legal action against the appropriate parties. During the year, the FDIC recovered approximately $78 million from these professional liability claims/settlements. In addition, as part of the sentencing process for those convicted of criminal wrongdoing against institutions that later failed, a court may order a defendant to pay restitution or to forfeit funds or property to the receivership. The FDIC, working in conjunction with the U.S. Department of Justice, collected $6 million in criminal restitutions and forfeitures during the year. At the end of 2010, the FDIC's caseload was composed of 153 professional liability lawsuits (up from 89 at year-end 2009) and 2,750 open investigations (up from 1,878) at year-end 2009. There also were 4,895 active restitution and forfeiture orders (up from 3,379 at year-end 2009). This includes 247 FSLIC Resolution Fund orders, i.e., orders inherited from the Federal Savings and Loan Insurance Corporation on August 10, 1989, and orders inherited from the Resolution Trust Corporation on January 1, 1996.

Effective Management of Strategic Resources

The FDIC recognizes that it must effectively manage its human, financial, and technological resources in order to successfully carry out its mission and meet the performance goals and targets set forth in its annual performance plan. The Corporation must align these strategic resources with its mission and goals and deploy them where they are most needed in order to enhance its operational effectiveness, and minimize potential financial risks to the DIF. Major accomplishments in improving the Corporation's operational efficiency and effectiveness during 2010 follow.

Human Capital Management

The FDIC's human capital management programs are designed to recruit, develop, reward, and retain a highly skilled, cross-trained, diverse, and results-oriented workforce. In 2010, the FDIC stepped up workforce planning and development initiatives that emphasized hiring individuals with the skill sets needed to address the greatly increased number of bank failures and problem institutions. The Corporation also deployed a number of strategies to more fully engage all employees in advancing the FDIC's mission.

Succession Management

In 2010, the Corporation significantly expanded its education and training curriculum for employees in the business lines, support functions, and for leadership development. Additionally, classroom learning and development opportunities were supplemented and supported with the expansion of e-learning, simulations, electronic performance support systems, job aids, and tool kits that were made available to new and tenured employees to quickly facilitate work processes and overall efficiencies. The FDIC is also engaged in a number of knowledge management approaches as it moves through the current financial crisis.

In 2010, the FDIC built on the transformed leadership development curriculum launched in 2009 and continues to expand opportunities to all employees, including new hires. This curriculum takes a holistic approach, aligning leadership development with critical corporate goals and objectives, and promotes the desired corporate culture. By developing employees across the span of their careers, the Corporation builds a culture of leadership and further promotes a leadership succession strategy.

Additionally, the Corporation formalized its Master of Business Administration (MBA) program for Corporate Managers and Executive Managers, in conjunction with a major university. The evaluation results of the pilot MBA program were overwhelmingly positive, and participants provided explicit examples of direct application to their jobs and improved strategic thinking. Five candidates were selected for the 2010-2013 class.

Strategic Workforce Planning and Readiness

The FDIC utilized a number of employment strategies in 2010 to meet the need for additional human resources resulting from the increased number of failed financial institutions and the volume of additional examinations. Among these strategies, the FDIC reemployed over 240 retired FDIC examiners, attorneys, resolutions and receiverships specialists, and support personnel; hired employees of failed institutions in temporary and term positions; recruited mid-career examiners who had developed their skills in other organizations; recruited term loan review specialists and compliance analysts from the private sector; and redeployed current FDIC employees with the requisite skills from other parts of the Corporation.

As the number of failed financial institutions continued to grow in 2010, the FDIC fully staffed two temporary satellite offices on both the west coast and the east coast to bring resources to bear in areas especially hard hit. The West Coast Temporary Satellite Office opened in Irvine, CA, in spring 2009, and as of year-end 2010 had nearly 500 employees. The East Coast Temporary Satellite Office opened in Jacksonville, FL, in fall 2009, and as of year-end 2010 had over 460 employees, most of whom were hired in 2010. In January 2010, the FDIC Board authorized opening a third satellite office in Schaumburg, IL. During 2010, the Midwest Temporary Satellite Office was established and now has over 300 employees on board. The Corporation also increased resolutions and receiverships staff in the Dallas Regional Office.

Almost all of the new employees in these new offices were hired on a non-permanent basis to handle the temporary increase in bank-closing and asset management activities expected over the next two to four years. To fully staff these offices and meet other needs brought on by the financial crisis, including increased examination activities, the Corporation hired approximately 2,000 additional employees in 2010. The use of term appointments will allow the FDIC staff to return to an adjusted normal size once the crisis is over without the disruptions that reductions in permanent staff would cause.

The FDIC continued its efforts to build workforce flexibility and readiness by increasing its entry-level hiring into the Corporate Employee Program (CEP). The CEP is a multi-year development program designed to cross-train new employees in the FDIC's major business lines. In 2010, 148 new business line employees (883 hired since program inception) entered this multi-discipline program. The CEP continued to provide a foundation across the full spectrum of the

Corporation's business lines, allowing for greater flexibility to respond to changes in the financial services industry and in meeting the Corporation's human capital needs. As in years past, the program continued to provide the FDIC flexibilities as program participants were called upon to assist with both bank examination and bank closing activities based on the skills they obtained through their program requirements and experiences. As anticipated, participants are also successfully earning their commissioned bank examiner credentials, having completed their three to four years of specialized training in field offices across the country. The FDIC had 163 commissioned participants by the end of 2010. These individuals are well-prepared to lead examinations on behalf of the Corporation.

Employee Engagement

The FDIC continually evaluates its human capital programs and strategies to ensure that the Corporation remains an employer of choice and that all of its employees are fully engaged and aligned with the Corporation's mission. The FDIC's annual employee survey incorporates and expands on the Federal Employee Viewpoint Survey mandated by Congress. A corporate Culture Change Initiative was instituted in 2008 to address issues resulting from the survey.

The Culture Change Initiative has continued to gain momentum, and progress is occurring toward completion of goals identified in the Culture Change Strategic Plan. The 2008 and 2009 employee survey results showed marked improvement in the areas of opportunity, while maintaining or improving on areas of strength. In 2010, the Corporation was honored with an award from the Partnership for Public Service as third best large agency in the *Best Places to Work in the Federal Government* rankings, based on the results of the 2009 All-Employee Survey. Much of this improvement is attributable to the Culture Change Program.

A new Culture Change Initiative was launched in September 2010 with an emphasis on individual as well as corporate responsibility for culture improvement. The Culture Change Council was reconstituted with new members, focus groups were conducted to determine where efforts should be made, training was conducted, and a number of other programs were begun as a result. Analysis indicates a positive response to these events and a willingness to continue to engage in the change process. The question-and-answer mailbox and quarterly all-employee teleconferences with the Chairman continued so that employees could provide input, make suggestions, and ask questions.

Employee Learning and Development

The FDIC offers a range of learning and development opportunities to meet the varied needs of its employees. It uses innovative solutions to prepare new and existing employees for the challenges ahead. By streamlining existing courses, promoting blended learning, and creating online, just-in-time toolkits and job aids, new employees can more quickly and thoroughly assume their job functions and assist with examination and resolution activities. In order to meet the 2010 learning needs of employees, the FDIC responded with flexible course scheduling, additional instructor-led and online courses, electronic performance support systems, and greater access to online resources via a newly redesigned intranet website.

In support of business requirements, the Corporation developed two new pre-commissioning courses for compliance examiners, a revised certificate program focused on the receivership and resolution function, and online toolkits for mid-career examiners. In addition to technical training, the Corporation also continued to focus on the development of all employees and future leaders by launching additional leadership development courses and electives. The FDIC's leadership development curriculum supports the regulations issued by the Office of Personnel Management in December 2009 on succession planning and development for managers and supervisors. Additionally in 2010, the capabilities of the learning management system were expanded to allow the Corporation to track its employees' certificates and continuing education requirements.

"All of us share the credit for improving the corporate culture," said Chairman Sheila C. Bair, shown here displaying the FDIC's *Best Places to Work* award with (from left) Arleas Upton Kea, Benita Swann, Jesse Villarreal, Ira Kitmacher, and Brenda Hardnett.

To meet the challenges of a growing workforce and provide additional flexibility in employee learning and development, the Corporation located training facilities within the temporary satellite offices. The Corporation quickly assessed the specific needs of employees in these locations and delivered training on-site, thereby reducing the need for and expense associated with employee travel. The Corporation also undertook several knowledge management initiatives, capturing lessons learned from the current financial crisis so that future generations of FDIC employees and managers can benefit from the experience.

In 2010, the Corporation provided its employees with 172 instructor-led courses and 1,950 online courses to support various mission requirements. There were 16,010 instances of completed instructor-led courses and 32,850 instances of completed online courses.

Information Technology Management

IT resources are among the most valuable assets available to the FDIC in fulfilling its corporate mission. In today's rapidly changing business environment, technology is frequently the foundation for achieving many FDIC business goals, especially those addressing efficiency and effectiveness in an industry where timely and accurate communication and data are paramount for supervising institutions, resolving institution failures, and monitoring associated risks in the marketplace.

IT Support for Resolutions

During 2010, the FDIC provided prompt and effective IT support for all bank closings. This was accomplished by ensuring that application systems, technologies, and staff were available to support the FDIC's closing operations. In particular, the FDIC modernized its automated insured deposit claims process and increased the FDIC's capacity to process very large failed banks and multiple failed banks' information. The application supporting this process was critical to the FDIC's successful closing operations during 2010. Additionally, the non-deposit claims feature of this application increased efficiency of the overall closing process. This new subsystem introduced significant new technical capabilities to the FDIC.

IT Support for Asset Marketing

The FDIC's marketing of failed financial institution assets is a critical resolution and post-closing function to ensure the minimal loss possible from the closed institution. As the number of resolutions increased, so did IT operations and support for asset management. To ensure that the best possible application systems were available to support this critical function, the FDIC made a number of key enhancements to the Corporation's primary asset management system. During 2010, significant improvements were made in the stability, scalability, and performance of this application, which enabled the Corporation to keep pace with the large increase of assets resulting from 157 bank closings. The enhanced application now accommodates, with room for expansion, thousands of online users and tens of billions of dollars of assets for sale.

Strengthening the FDIC's Privacy Program

The FDIC has a well-established privacy program that works to maintain privacy awareness and promote transparency and public trust. Privacy, the protection of sensitive information, including personally identifiable information (PII), is integral to accomplishing the mission of the FDIC in both the banking industry and among U.S. consumers. The privacy program is a critical part of the Corporation's business operations. Education and awareness are key components of the FDIC's privacy program. During 2010, the FDIC held its second Privacy Awareness Week event to raise employee awareness about identity theft and fraud prevention. In addition, the FDIC conducted a corporate wide campaign called "Sensitive Data: Handle with Care" to increase employee and contractor awareness about their responsibilities to safeguard sensitive data and PII. More recently, the FDIC also implemented a new "Think Privacy" awareness campaign that includes privacy tips on each employee's hardcopy earnings and leave statements and the nationwide distribution of lobby posters.

In response to the FDIC's increased reliance on third-party vendors that support bank post-closing activities, the FDIC performed privacy assessments of the five vendors that process significant amounts of sensitive bank-customer data during the loan sale and asset valuation process subsequent to a bank closing. To complete these assessments, the FDIC developed and implemented a privacy risk assessment questionnaire and tool in order to determine the maturity of the vendors' privacy program. In addition, the FDIC performed Privacy Impact Assessments, which collected information regarding the adequacy of their processes for handling and protecting the privacy and security of sensitive bank-customer data.

The FDIC has seen a sharp increase in the volume of needed information from failing institutions. To ensure that this increased data requirement does not increase its PII risk, the FDIC completed the second of three in-depth assessments of the bank closing process to identify and address risks to the privacy and security of bank-customer PII. A key outcome of this effort was the creation of a new Privacy Compliance Officer (PCO) role for each bank closing weekend. In this role, the PCO is the designated official responsible for monitoring privacy protection requirements during the bank closing weekend. In addition, during 2010, the FDIC improved the agency's monitoring of the enterprise network to identify at-risk privacy data and prevent the loss of that information, particularly social security numbers. The FDIC was proactive in conducting unannounced privacy walkthroughs of its headquarters offices in order to check for unsecured sensitive data and PII and to increase employee and management awareness about protecting such data. Further, the FDIC also conducts an annual review of the Corporation's digital library to identify, monitor, reduce, and secure documents containing PII.