I. Management's Discussion and Analysis

The Year in Review

OVERVIEW

Much of our work during 2012 focused on a number of key areas, all mission-based. First was moving forward on implementing our new responsibilities under the Dodd-Frank Act. This effort included continuing implementation of FDIC's systemic resolution responsibilities under the Dodd-Frank Act, including resolution planning and promoting cross border cooperation and cooperation with respect to any orderly resolution of a globally active, systemically important financial institution. We commenced a Community Banking Initiative to further the understanding of the future of community banking, which included outreach, research, and efforts to streamline examinations without compromising safe and sound banking practices. As always, our mission to maintain stability and public confidence in the nation's financial system guided our work. The sections below fill in the details and highlight some of our accomplishments during the year.

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).

Long-Term Comprehensive Fund Management Plan

In 2010 and 2011, the FDIC developed a comprehensive, long-term management plan designed to reduce the effects of cyclicality and achieve moderate, steady assessment rates throughout economic and credit cycles, while also maintaining a positive fund balance even during a banking crisis. The plan is designed to ensure that the reserve ratio will reach 1.35 percent by September 30, 2020, as required by the Dodd-Frank Act.[1] The plan includes a reduction in rates that the FDIC Board has adopted to become effective once the reserve ratio reaches 1.15 percent. To increase the probability that the fund reserve ratio will reach a level sufficient to withstand a future crisis, the FDIC Board has—pursuant to the plan—suspended dividends indefinitely. The plan prescribes progressively lower assessment rates that will become effective when the reserve ratio exceeds 2.0 percent and 2.5 percent. These lower assessment rates serve almost the same function as dividends, but provide more stable and predictable effective assessment rates.

Under provisions in the Federal Deposit Insurance Act that require the FDIC Board to set the Designated Reserve Ratio (DRR) for the DIF annually, the FDIC Board voted in December 2012 to maintain the 2.0 percent DRR for 2013. Using historical fund loss and simulated income data from 1950 to 2010, FDIC analysis showed the reserve ratio would have had to exceed 2.0 percent before the onset of the two crises that occurred since the late 1980s, to

[1] The Act also requires that the FDIC offset the effect on institutions with less than $10 billion in assets of increasing the reserve ratio from 1.15 percent to 1.35 percent. The FDIC will promulgate a rulemaking that implements this requirement at a later date to better take into account prevailing industry conditions at the time of the offset.

have maintained both a positive fund balance and stable assessment rates throughout both crises. The analysis assumes a moderate, long-term average industry assessment rate, consistent with the rates set forth in the plan. The 2.0 percent DRR should not be viewed as a cap on the fund. 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.

State of the Deposit Insurance Fund

Estimated losses to the DIF were $2.7 billion from failures occurring in 2012, and were lower than losses from failures in each of the previous four years. The fund balance continued to grow through the fourth quarter of 2012, with 12 consecutive quarters of positive growth. Assessment revenue, fewer anticipated bank failures, and the transfer of fees previously set aside for debt guaranteed under the Temporary Liquidity Guarantee Program (TLGP) have driven the increase in the fund balance. The fund reserve ratio rose to 0.35 percent at September 30, 2012, from 0.17 percent at the beginning of the year.

Assessment System for Large and Highly Complex Institutions

On October 9, 2012, the FDIC Board approved a final rule to amend the assessment system for large and highly complex institutions. The rule amends definitions adopted in the February 2011 large bank pricing rule used to identify concentrations in higher-risk assets. This rule, which went into effect on April 1, 2013, amends the definitions of leveraged loans and subprime loans, which are areas of significant potential risk. The revised definition of leveraged loans, renamed higher-risk C&I (commercial and industrial) loans and securities, focuses on large loans to the riskiest borrowers—those that are highly leveraged as the result of loans to finance a buyout, acquisition, or capital distribution. The revised definition of subprime consumer loans, renamed higher-risk consumer loans, focuses on the most important characteristic—the probability of default. The final rule resulted from concerns raised by the industry about the cost and burden of reporting under the definitions in the February 2011 rule. Nonetheless, the new definitions better reflect the risk that institutions pose to the DIF.

Temporary Liquidity Guarantee Program

On October 14, 2008, as part of a coordinated response by the U.S. government to the disruption in the financial system and the collapse of credit markets, the FDIC implemented the Temporary Liquidity Guarantee Program (TLGP). By calming market fears and encouraging lending, the TLGP helped bring stability to financial markets and the banking industry during the crisis period. The TLGP consisted of two components: (1) the Transaction Account Guarantee Program (TAG), an FDIC guarantee in full of noninterest-bearing transaction accounts; and (2) the Debt Guarantee Program (DGP), an FDIC guarantee of certain newly issued senior unsecured debt.

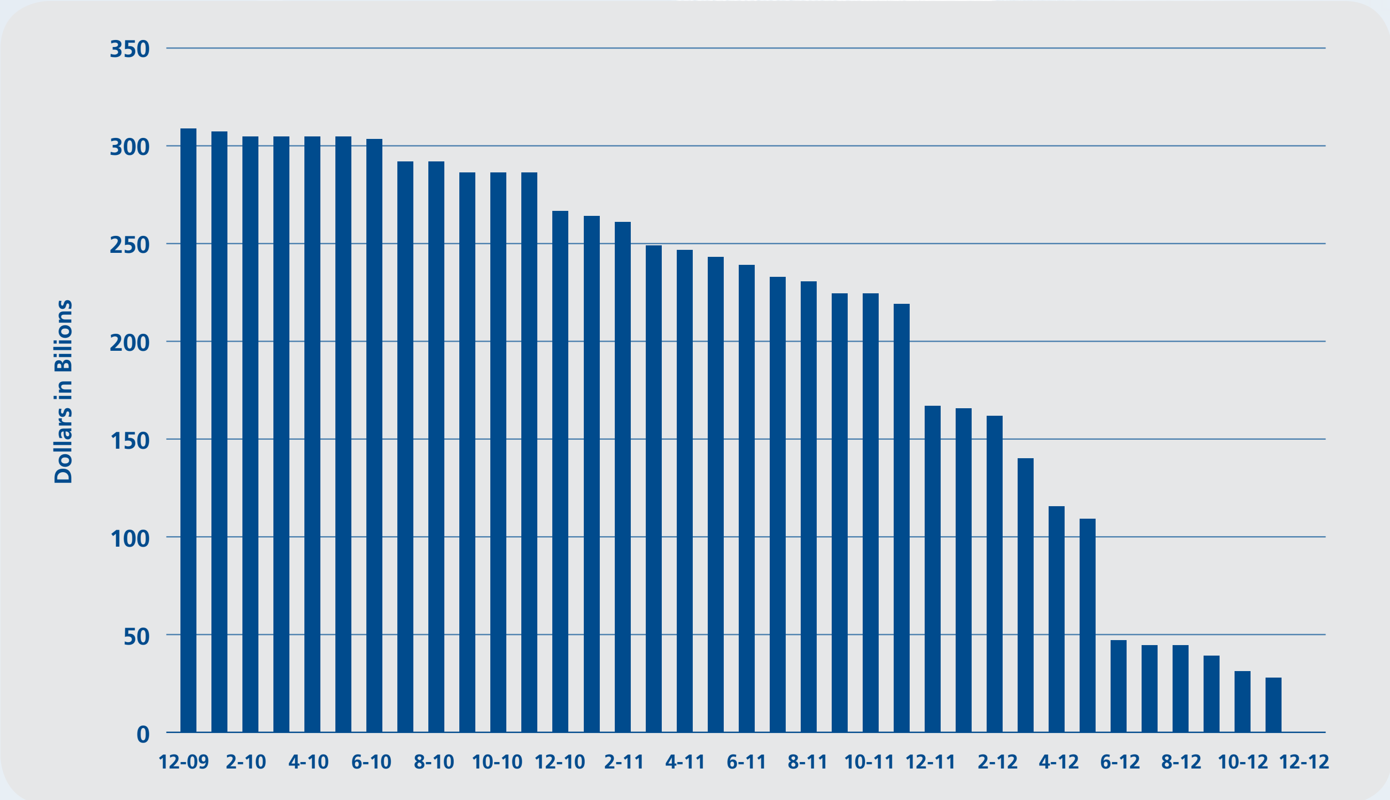
The TAG Program initially guaranteed in full all domestic noninterest-bearing transaction deposits held at participating banks and thrifts through December 31, 2009. The deadline was extended twice and expired on December 31, 2010.

The TAG Program brought stability and confidence to banks and their business customers by removing the risk of loss from deposit accounts that are commonly used to meet payroll and other business transaction purposes. Deposits provide the primary source of funding for most banks, and they are particularly important for smaller institutions. The temporary coverage allowed institutions, particularly smaller ones, to retain these accounts and maintain the ability to make loans within their communities.

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. In 2009, the issuance period was extended through October 31, 2009. The FDIC's guarantee on each debt instrument was also extended in 2009 to the earlier of the stated maturity date of the debt or December 31, 2012.

The DGP enabled financial institutions to meet their financing needs during a period of record high credit spreads and aided the successful return of the credit market to near normalcy, despite the recession and slow economic recovery. This improvement in the credit markets was reflected in the increasing ability of banks and their holding companies to issue longer-term debt over the course of the DGP issuance period. At the inception of the program, firms heavily relied upon the DGP to roll over short-term liabilities because of the fragility of the credit markets and investors' continued aversion to risk. By providing the ability to issue debt guaranteed by the FDIC, the DGP allowed institutions to extend maturities and obtain more stable unsecured funding.

OUTSTANDING TLGP DEBT BY MONTH



Program Statistics

Over the course of the DGP's existence, 122 entities issued TLGP debt. At its peak, the DGP guaranteed $345.8 billion of debt outstanding (see the chart above). The DGP guarantee on all TLGP debt that had not already matured, expired on December 31, 2012. Therefore, at the end of 2012, no debt guaranteed by the DGP remained.

The FDIC collected $10.4 billion in fees and surcharges under the DGP. As of December 31, 2012, the FDIC paid $153 million in losses resulting from six participating entities defaulting on debt issued under the DGP. The majority of these losses ($113 million) arose from banks with outstanding DGP notes that failed in 2011 and were placed into receivership.

The FDIC collected $1.2 billion in fees under the TAG Program. Cumulative estimated TAG Program losses on failures as of December 31, 2012, totaled $2.1 billion.

Overall, TLGP fees exceeded the losses from the program. From inception of the TLGP, it was the FDIC's policy to recognize revenue to the DIF for any deferred revenue not absorbed by losses upon expiration of the TLGP guarantee period (December 31, 2012) or earlier, for any portion of guarantee fees determined in excess of amounts needed to cover potential losses. In total, $9.3 billion in TLGP fees and surcharges were deposited into the DIF.

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

The Dodd-Frank Act provided 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. This coverage essentially replaced the TAG Program, which expired on December 31, 2010, and was available to all depositors, including consumers, businesses, and government entities. The coverage was separate from, and in addition to, the standard insurance coverage provided for a depositor's other accounts held at an FDIC-insured bank.

James Wigand, Director of the Office of Complex Financial Institutions, outlines the FDIC's resolution strategy for systemically important financial institutions during a committee meeting.

A noninterest-bearing transaction account is a deposit account in which 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.

Similar to the TAG Program, the temporary unlimited coverage also included 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 and negotiable order of withdrawal accounts were not eligible for this temporary unlimited insurance coverage, regardless of the interest rate and even if no interest was paid.

As of September 30, 2012, insured institutions had $1.5 trillion above the basic coverage limit of $250,000 per account in domestic noninterest-bearing transaction accounts. This amount was fully insured through the end of 2012 under the Dodd-Frank Act.

The provision of the Dodd-Frank Act extending unlimited FDIC coverage to noninterest-bearing transaction accounts through 2012, like the original TAG Program, served as a source of stability to both banks and their business customers in the wake of the financial crisis and economic downturn.

ACTIVITIES RELATED TO SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS

Risk Monitoring Activities for Systemically Important Financial Institutions

The Dodd-Frank Act expanded the FDIC's responsibilities for overseeing and monitoring the largest, most complex banking organizations and large systemically important financial institutions designated by the FSOC for Federal Reserve Board supervision. In 2012, the FDIC's complex financial institution program activities included ongoing reviews of selected banking organizations with more than $100 billion in assets as well as certain nonbank financial companies. In addition, the FDIC continued to work closely with other federal regulators to gain a better understanding of the risk measurement and management practices of these institutions, and assess the potential risks they pose to financial stability.

Title I Resolution Plans

In 2012, according to the "living will" rules promulgated by the FDIC and Federal Reserve, under Title I of the Dodd-Frank Act, Section 165(d), covered companies with nonbank assets over $250 billion or insured depository institution (IDI) assets over $50 billion, were required to submit plans for a nonsystemic resolution under the bankruptcy code. By July 2012, the FDIC and Board of Governors of the Federal Reserve System received the first set of plans from these companies and began the process of reviewing the plans for completeness and sufficiency. These plans are intended to provide information about each firm's critical operations and core business lines and to identify key obstacles to an orderly resolution in bankruptcy. The first set

Then-Acting Chairman Gruenberg (center) discusses the FDIC's progress on implementing the Dodd-Frank Act during a meeting of the Systemic Resolution Advisory Committee. Also pictured are (from left) William H. Donaldson, Chairman, Donaldson Enterprises; Paul A. Volcker, former Chairman of the Board of Governors, Federal Reserve System; John S. Reed, Chairman of the Massachusetts Institute of Technology's Corporation; and Thomas Curry, FDIC Director.

of companies filing resolution plans will submit revised plans by July 2013. Covered companies with nonbank assets over $100 billion will submit their first resolution plans by July 2013, and all other covered companies must submit their first resolution plans by December 2013.

Title II Resolution Strategy Development

Title II of the Dodd-Frank Act authorizes the FDIC to resolve certain systemically important bank holding companies and other financial companies (other than IDIs which the FDIC resolves under provisions of the Federal Deposit Insurance Act and insurance companies, which are resolved under applicable state law), if their failure would have serious adverse consequences on U.S. financial stability. During 2012, the FDIC reviewed the characteristics of each domestic company and studied the systemic effects and channels of contagion of previous financial downturns and consulted with external practitioners and experts on key resolution components and options. As a result of these activities, the FDIC developed a baseline conceptual approach that could be used across a spectrum of large financial institutions. Throughout 2012, the FDIC discussed this concept at outreach events with other domestic government agencies, the Systemic Resolution Advisory Committee, industry groups, the academic community, and international financial regulators.

Systemic Resolution Advisory Committee

In 2011, the FDIC Board approved the creation of the Systemic Resolution Advisory Committee. During 2012, the Committee continued to provide important advice to the FDIC regarding systemic resolutions. The Committee advises the FDIC on a variety of issues including the effects on financial stability and economic conditions resulting from the failure of a SIFI, the ways in which specific resolution strategies would affect stakeholders and their customers, the tools available to the FDIC to wind down the operations of a failed organization, and the tools needed to assist in cross-border relations with foreign regulators and governments when a systemic company has international operations. Members of the Committee have a wide range of experience including managing complex firms; administering bankruptcies; and working in the legal system, accounting field, and academia.

Coordinating Interagency Resolution Planning

In 2012, the FDIC conducted events to promote interagency information-sharing and cooperative resolution planning. Coordinating with the other federal regulators, these events covered a variety of topics, including the following:

- *QFC Tabletop* – focused on issues arising from derivative instruments, and other financial contracts considered as

"Qualified Financial Contracts," held by a hypothetical company subject to resolution under Title II.

- *Funding Tabletop* – covered the operational implementation of funding a potential global systemically important financial institution (G-SIFI) resolution, subject to Title II of the Dodd-Frank Act.
- *Three Keys Tabletop* – explored the logistical and practical components involved in making the decision to "turn the keys," and place a SIFI into a Title II receivership.
- *Systemic Risk Committee (SRC) Tabletop on Hedge Funds and Systemic Risk* – focused on whether there is sufficient actionable information available to FSOC members to determine the systemic impact associated with the failure of a large derivatives counterparty that is not a G-SIFI, e.g., a large domestic hedge fund.
- *Central Counterparty (CCP) Informational Lecture* – explained the nature of central counterparties, their primary concerns and rule-based requirements, and potential resolution considerations; this lecture was a prelude to a facilitated discussion on CCPs and Title II.

The FDIC also conducted an interagency simulation "Getting to Title II Implementation" in November 2012 that involved evaluating the required steps and possible alternatives when making a decision to implement a Title II resolution for a failing SIFI. The simulation tested the intra- and inter-agency decision-making process leading up to a Title II resolution, identified issues and resolution alternatives, and improved interagency communication and coordination in the context of Title II.

Financial Stability Oversight Council

The Financial Stability Oversight Council (FSOC) was created by the Dodd-Frank Act in July 2010 to monitor and mitigate systemic risk largely through filling gaps in regulatory oversight. The FSOC is composed of ten voting members, including the FDIC, and five non-voting members.

FSOC responsibilities include the following:

- Identifying risks to financial stability, responding to emerging threats in the system, and promoting market discipline.
- Designating whether a nonbank financial company should be supervised by the Board of Governors of the Federal Reserve System and subject to heightened prudential standards.
- Designating financial market utilities (FMUs) and payment, clearing, or settlement activities that are, or are likely to become, systemically important.
- Facilitating regulatory coordination and information-sharing regarding policy development, rulemaking, supervisory information, and reporting requirements.
- Issuing specialized studies and reports.
- Producing annual financial stability reports and requiring each voting member to submit a signed statement indicating whether the member believes that the FSOC is taking all reasonable actions to mitigate systemic risk.

During 2012, the FSOC issued a final rule on designating nonbank financial companies for supervision by the Board of Governors of the Federal Reserve System and subject to enhanced prudential standards. Additionally, several nonbank financial companies were moved to the advanced stage of review for potential designation as systemically important financial companies. The FSOC also designated eight companies as systemically important FMUs, which may subject them to additional risk management standards. Also during 2012, the FSOC released its second annual report, and reports regarding contingent capital and use of prompt corrective action at credit unions. Moreover, in November 2012, the FSOC published options for money market mutual fund reform for a 60-day comment period, which was extended for 30 days. Generally, at each meeting, the FSOC discusses various risk issues, and in 2012, addressed U.S. fiscal issues, the status of Eurozone economies, mortgage servicing and foreclosure issues, energy prices, reforms in the tri-party repurchase agreement market, the status of the investigation regarding potential manipulation of LIBOR, and implications of Superstorm Sandy, among other items.

SUPERVISION AND CONSUMER PROTECTION

Supervision and consumer protection are cornerstones of the FDIC's efforts to maintain the stability 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, 2012, the FDIC was the primary federal regulator for 4,472 FDIC-insured, state-chartered institutions that were not members of the Federal Reserve System (generally referred to as "state nonmember" institutions). Through risk management (safety and soundness), consumer compliance and the 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, 2012, the FDIC conducted 2,563 statutorily required risk management (safety and soundness) examinations, including a review of Bank Secrecy Act (BSA) compliance, and all required follow-up examinations for FDIC-supervised problem institutions, within prescribed time frames. The FDIC also conducted 1,665 statutorily required CRA/compliance examinations (1,044 joint CRA/compliance examinations, 611 compliance-only examinations, and 10 CRA-only examinations) and 5,673 specialty examinations. As of December 31, 2012, all CRA/compliance examinations were conducted within the time frame established by policy. The table on this page compares the number of examinations, by type, conducted from 2010 through 2012.

FDIC EXAMINATIONS 2010 – 2012

	2012	2011	2010
Risk Management (Safety and Soundness):			
State Nonmember Banks	2,310	2,477	2,488
Savings Banks	249	227	225
Savings Associations	1	3	0
National Banks	1	1	3
State Member Banks	2	4	4
Subtotal—Risk Management Examinations	2,563	2,712	2,720
CRA/Compliance Examinations:			
Compliance/Community Reinvestment Act	1,044	825	914
Compliance-only	611	921	854
CRA-only	10	11	12
Subtotal—CRA/Compliance Examinations	1,665	1,757	1,780
Specialty Examinations:			
Trust Departments	446	466	465
Data Processing Facilities	2,642	2,802	2,811
Bank Secrecy Act	2,585	2,734	2,813
Subtotal—Specialty Examinations	5,673	6,002	6,089
Total	**9,901**	**10,471**	**10,589**

Risk Management

As of December 31, 2012, there were 651 insured institutions with total assets of $232.7 billion designated as problem institutions for safety and soundness purposes (defined as those institutions having a composite CAMELS[2] rating of "4" or "5"), compared to the 813 problem institutions with total assets of $319.4 billion on December 31, 2011. This constituted a 20 percent decline in the number of problem institutions and a 27 percent decrease in problem institution assets. In 2012, 256 institutions with aggregate assets of $94.1 billion were removed from the list of problem financial institutions, while 94 institutions with aggregate assets of $34.3 billion were added to the list. Tennessee Commerce Bank, located in Franklin, Tennessee, was the largest failure in 2012, with $1.0 billion in assets. The FDIC is the primary federal regulator for 433 of the 651 problem institutions, with total assets of $138.7 billion.

During 2012, the FDIC issued the following formal and informal corrective actions to address safety and soundness concerns: 104 Consent Orders and 224 Memoranda of Understanding (MOUs). Of these actions, 19 Consent Orders and 15 MOUs were issued, based in whole or in part, on apparent violations of the BSA.

[2] 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).

Compliance

As of December 31, 2012, 29 insured state nonmember institutions, about 1 percent of all supervised institutions, having total assets of $54.0 billion were rated "4" or "5" for consumer compliance purposes. As of December 31, 2012, all follow-up examinations for problem institutions were performed on schedule.

Overall, banks demonstrated strong consumer compliance programs. The most significant consumer protection issue that emerged from the 2012 compliance examinations involved banks' failure to adequately monitor third-party vendors. As a result, we found violations involving unfair or deceptive acts or practices, resulting in consumer restitution and civil money penalties. The violations involved a variety of issues including failure to disclose material information about new products being offered, deceptive marketing and sales practices, and misrepresentations about the costs of products.

During 2012, the FDIC issued the following formal and informal corrective actions to address compliance concerns: 23 Consent Orders, 92 MOUs, and 109 Civil Money Penalties (CMPs). In certain cases, the Consent Orders issued by the FDIC contain requirements for institutions to pay restitution in the form of refunds to consumers for different violations of laws. During 2012, over $294 million was refunded to consumers by institutions subject to Consent Orders. These refunds primarily related to unfair or deceptive practices by institutions, mainly related to different credit card programs, as discussed above.

In the case of CMPs, institutions pay penalties to the U.S. Treasury. Approximately 85 percent of the CMPs involved repeated errors in the submission of required data under the Home Mortgage Disclosure Act (HMDA) or statutorily mandated penalties for violations of the regulations entitled *Loans in Areas Having Special Flood Hazards*. The average CMP for HMDA and Flood Insurance violations was $8,700.

Bank Secrecy Act/ Anti-Money Laundering

The FDIC pursued a number of BSA, Anti-Money Laundering (AML), and Counter-Terrorist Financing (CTF) initiatives in 2012.

The FDIC conducted a Basic International AML and CTF training session in May 2012, for 22 financial sector supervisors and regulatory staff from Bangladesh, Djibouti, Ethiopia, India, and Niger. Also, two Advanced International AML and CTF training sessions were held in October and December 2012 for 47 participants from Bahrain, Indonesia, Kuwait, Malaysia, Oman, Qatar, Philippines, Thailand, and Yemen. The training focused on AML/CTF controls, the AML examination process, customer due diligence, suspicious activity monitoring, and foreign correspondent banking. The session also included presentations from the Federal Bureau of Investigation, the Financial Crimes Enforcement Network (FinCEN), and the Department of Homeland Security. Topics addressed by invited speakers included combating terrorist financing, trade-based money laundering, bulk cash smuggling and related investigations, law enforcement's use of BSA reporting by financial institutions, and the role of financial intelligence units in detecting and investigating illegal activities. The basic training session concentrated on core areas of AML risk (e.g., customer due diligence, suspicious activity reporting, private banking, wire transfers, and foreign correspondent banking), while the advanced class focused more on effective implementation of AML examination processes, such as expectations for enhanced due diligence.

Minority Depository Institution Activities

The preservation of Minority Depository Institutions (MDIs) remains a high priority for the FDIC. In 2012, the FDIC appointed a dedicated permanent executive to lead the National Minority Depository Institution and Community Development Financial Institution programs. The FDIC is developing a more comprehensive approach to preserving the number of minority financial institutions, preserving the minority character in cases of merger or acquisition, and promoting and encouraging the creation of new MDIs.

In 2012, 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 FDIC technical assistance on a number of bank supervision, compliance, and resolution and receivership issues, including but not limited to, the following:

- Overview of the MDI program
- Commercial real estate appraisal guidelines, monitoring and stress testing
- Allowance for loan and lease losses methodology
- Guidance on third party risk
- Interest rate risk monitoring systems

- ♦ Liquidity funds management
- ♦ FDIC overdraft guidance
- ♦ Achieving compliance with outstanding corrective programs
- ♦ Regulatory guidance on implementing pre-paid card programs
- ♦ Financial education for unbanked and underbanked customers, including the *Money Smart* Program
- ♦ Bank Secrecy Act, Anti-Money Laundering, currency transaction reporting, financial recordkeeping, and the USA Patriot Act
- ♦ Application process for a variety of regulatory applications including branch activity and change in control
- ♦ Flood insurance and the Real Estate Settlement Procedures Act
- ♦ Bidding on failed financial institutions
- ♦ Purchasing assets from FDIC receiverships

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 an examination, to help management understand and implement examination recommendations, or to discuss other issues of interest. Several MDIs took advantage of this initiative in 2012. Also, the FDIC regional offices held outreach training efforts and educational programs for MDIs through conference calls and banker roundtables with MDIs in the geographic regions. Topics of discussion for these sessions included both compliance and risk management, and additional discussions included the economy, overall banking conditions, proposed Basel III capital rules, asset disposition, accounting, and other bank examination issues.

Capital Rulemaking and Guidance

Market Risk Final Rule

In June 2012, the FDIC and the federal banking agencies published a final rule that revises the risk-based capital treatment for trading assets and liabilities for certain banking organizations. This final rule applies to a banking organization with aggregate trading assets and liabilities equal to 10 percent of total assets, or $1 billion or more. Additionally, the final rule includes alternative standards of creditworthiness for the use of credit ratings consistent with Section 939A of the Dodd-Frank Act. The final rule became effective on January 1, 2013.

Regulatory Capital Rules Notices of Proposed Rulemaking

Also in June 2012, the FDIC and the federal banking agencies published several Notices of Proposed Rulemaking (NPRs):

- ♦ *Basel III NPR* – published consistent with agreements reached by the Basel Committee on Banking Supervision (BCBS), would apply to all insured banks and savings associations, top-tier bank holding companies domiciled in the United States with more than $500 million in assets, and savings and loan holding companies that are domiciled in the United States. The NPR would implement a new common equity tier 1 minimum capital requirement, a higher minimum tier 1 risk-based capital requirement, and, for banking organizations subject to the advanced approaches capital rules, a supplementary leverage ratio that incorporates a broader set of exposures. Additionally, the Basel III NPR would apply limits on a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a specified "buffer" of common equity tier 1 capital, in addition to the minimum risk-based capital requirements. Lastly, the NPR would revise the federal banking agencies' prompt corrective action framework by incorporating the new regulatory capital minimums.
- ♦ *Advanced Approaches NPR* – would revise the advanced approaches risk-based capital rules consistent with Basel III and other changes to the Basel Committee's capital standards. The NPR also revised the advanced approaches risk-based capital rules to be consistent with Section 939A and Section 171 of the Dodd-Frank Act. Additionally in this NPR, the Office of the Comptroller of the Currency (OCC) and the FDIC propose that the market risk capital rules apply to federal and state savings associations, and the Board of Governors of the Federal Reserve System proposes that the advanced approaches and market risk capital rules apply to top-tier savings and loan holding companies domiciled in the United States, if stated thresholds for trading activity are met. Generally, the advanced approaches rules would apply to such institutions with $250 billion or more in consolidated assets or $10 billion or more in foreign exposure, and the market risk rule would apply to savings and loan holding

companies with significant trading activity.

- *Standardized Approach NPR* – would revise and harmonize rules for calculating risk-weighted assets to enhance risk sensitivity and address weaknesses identified over recent years. The NPR also proposes alternatives to credit ratings consistent with section 939A of the Dodd-Frank Act. The revisions include methods for determining risk-weighted assets for residential mortgages, securitization exposures, and counterparty credit risk. The NPR also would introduce disclosure requirements that would apply to U.S. banking organizations with $50 billion or more in total assets. The Standardized Approach NPR would apply to the same set of institutions as the Basel III NPR.

The agencies extended the comment period from September 7, 2012, to October 22, 2012, to allow interested parties more time to review and evaluate the proposals, and prepare written comments. The agencies received over 2,300 comment letters. The majority of the comment letters addressed the Basel III and Standardized Approach NPRs, and most were submitted by community banks. Final rulemaking on the capital NPRs is expected in 2013.

Stress Testing Guidance and Rulemaking

In June 2011, the FDIC along with the other federal banking agencies, issued proposed guidance on stress testing by banking organizations with more than $10 billion in total consolidated assets. After consideration of comments received, the FDIC issued a final rule in October 2012 that implements requirements of Section 165(i) of the Dodd-Frank Act. The rule reinforces the need to establish an effective stress testing framework as an ongoing risk management practice that supports a banking organization's forward-looking assessment of its risks. The rule delayed the implementation of the annual stress requirements for institutions with total consolidated assets between $10 and $50 billion until September 30, 2013, to ensure these institutions have sufficient time to develop high-quality stress testing programs. The FDIC reserved the authority to allow covered institutions above $50 billion to delay implementation of the rule on a case-by-case basis.

In May 2012, the FDIC, jointly with the other federal banking regulators, issued a public statement to clarify that stress testing expectations applicable to large banking organizations do not apply to institutions with $10 billion or less in total assets. Instead, the agencies noted that community banks are subject to the stress testing expectations contained in existing guidance covering interest rate risk management, commercial real estate concentrations, and funding and liquidity management.

Other Rulemaking Under the Dodd Frank Act

The Dodd Frank Act required and the Corporation's 2012 Annual Performance Plan established goals for the completion of rules and/or policy guidance on five topics that were not successfully completed during 2012: proprietary trading and other investment restrictions (the "Volcker Rule"); restrictions on Federal assistance to swaps entities; capital, margin, and other requirements for OTC derivatives; credit risk retention requirements for securitizations; and enhanced compensation structure and incentive compensation requirements. The bank regulatory agencies and other financial regulatory agencies were tasked to issue these rules and policy guidance on an interagency basis. They worked diligently throughout the year to complete final rules on each of these topics and made considerable progress. In each case, NPRs have been issued (one in 2011), and extensive comments were received. Working groups have been carefully reviewing the comments received. Completion of final rules was delayed, however, by the complex issues raised in the comments and the agencies' desire to give careful and thorough consideration to those comments. The agencies hope to issue final rules on all or most of these topics in 2013. More detail is provided below on the OTC Derivatives and Volcker Rule NPRs.

OTC Derivatives Margin and Capital NPR

In April 2011, the FDIC, along with the other federal banking agencies, the Farm Credit Administration, and the Federal Housing Finance Agency (FHFA), published a proposed rule to enhance the stability of the financial system by preventing certain large financial firms from entering into uncollateralized derivatives exposure with each other. This proposed rule would implement certain requirements contained in Sections 731 and Section 764 of the Dodd-Frank Act, which direct the federal banking agencies to jointly adopt rules requiring dealers and major participants in derivatives covered by Title VII to collect both initial and variation margin. In October 2012, the agencies reopened the comment period for the proposed rule to allow interested parties additional time to analyze and comment on the proposed margin rule, in light of the consultative document on margin requirements for non-centrally-cleared derivatives, recently published for comment by the BCBS, and the International Organization of Securities Commissions. The comment period closed on November 26, 2012. Final rulemaking is expected in 2013.

Volcker Rule NPR

On November 7, 2011, the FDIC, along with the other federal banking agencies, and the Securities and Exchange Commission, published a joint NPR to implement the provisions of Section 619 of the Dodd-Frank Act, which restricts the ability of banking entities to engage in proprietary trading, and limits investments in hedge funds and private equity funds. In January 2012, the agencies extended the comment period until February 13, 2012, due to the complexity of the issues involved and to facilitate coordination of the rulemaking. The agencies received approximately 300 substantive comment letters, with approximately 16,400 form comment letters in response to the NPR. In April 2012, the agencies issued guidance on the statutory conformance period that will extend through July 21, 2014. Final rulemaking is expected in 2013.

Investment Securities Rules and Guidance

Investments in Corporate Debt Securities by Savings Associations

In July 2012, the FDIC issued a final rule that prohibits any insured savings associations from acquiring or retaining a corporate debt security, when the security's issuer does not have adequate capacity to meet all financial commitments under the security for the security's projected life. The final rule was issued to comply with Section 939A of the Dodd-Frank Act. Insured savings associations must comply with the rule by January 1, 2013. The rule was accompanied by guidance that sets forth due diligence standards for determining the credit quality of a corporate debt security.

Guidance on Revised Standards of Creditworthiness for Investment Securities

In November 2012, the FDIC issued a Financial Institution Letter (FIL) to remind FDIC-supervised institutions of recent regulatory changes regarding the permissibility of certain investment activities. Under FDIC regulations, insured state banks generally are prohibited from engaging in an investment activity that is not permissible for a national bank under OCC regulations, including the requirements of the OCC final rule titled, *Alternatives to the Use of External Credit Ratings in the Regulations of the OCC*. The FDIC's rule on corporate debt securities investments by federal and state savings associations is consistent with the OCC's final rule and related guidance on due diligence considerations and creditworthiness standards for investment securities.

Depositor and Consumer Protection Rulemaking and Guidance

Guidance on Military Homeowners with Permanent Change of Station Orders

In June 2012, the FDIC issued interagency guidance jointly with the Consumer Financial Protection Bureau (CFPB), the Board of Governors of the Federal Reserve System, the OCC, and the National Credit Union Administration (NCUA) to address unique circumstances involving some military homeowners who received Permanent Change of Station (PCS) orders. The guidance highlights concerns about practices that have the potential to mislead or otherwise cause harm to homeowners with PCS orders, and reminds mortgage servicers to ensure that appropriate risk management policies, procedures, and training are in place.

Deposit Insurance Assessment Fees

In July 2012, the FDIC issued an FIL addressing complaints received that certain IDIs are charging customers an "FDIC fee" or similarly described fee for deposit insurance. The FIL discourages institutions from specifically designating that a customer's fee is for deposit insurance, or from stating or implying that the FDIC is charging such a fee, due to the potential to reveal information that could be used to determine an IDI's confidential supervisory ratings, mislead customers into believing that the FDIC charges IDI customers or requires IDIs to charges customers, or both.

Examination Procedures

In August 2012, the FDIC published examination procedures for reviewing an institution's compliance with the Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act) and regulations. The SAFE Act was enacted on July 30, 2008, and mandated a nationwide licensing and registration system for mortgage loan originators (MLOs). The procedures focus on the federal residential MLO registration requirements, and an institution's obligation to implement appropriate policies and procedures, and conduct annual independent compliance testing.

Other Rulemaking and Guidance Issued

During 2012, the FDIC issued and participated in the issuance of other rulemaking and guidance in several areas as described below.

Appraisal Requirements for Higher-Risk Mortgages

On August 15, 2012, the FDIC jointly with the Board of Governors of the Federal Reserve System, CFPB, FHFA, NCUA, and the OCC, issued an NPR to implement the appraisal requirements for higher-risk mortgages as stated in Section 1471 of the Dodd-Frank Act. Section 1471 adds a new Section 129H to the Truth in Lending Act. For residential mortgage loans secured by the consumer's principal dwelling, with an annual percentage rate that exceeds the average prime offer rate by a specified percentage, the proposed rule would require creditors to (1) obtain an appraisal or appraisals meeting certain specified standards, (2) provide applicants with a notification regarding the use of the appraisals, and (3) give applicants a copy of the written appraisals used. The comment period closed on October 15, 2012, and the agencies worked to finalize the rule.

Interagency Guidance on Section 612 of the Dodd-Frank Act, Restrictions on Conversions of Troubled Banks

On November 26, 2012, the FDIC and the other federal and state banking agencies issued guidance to clarify supervisory expectations for regulatory conversion subject to Section 612 of the Dodd-Frank Act. This section prohibits charter conversions by certain institutions that are subject to a formal corrective program or an MOU with respect to a significant supervisory matter. Institutions may request an exception to the conversion prohibition as described in the statute. The agencies expect that exceptions will be rare and generally would occur only when an enforcement action's provisions have been substantially addressed.

Regulatory Relief

During 2012, the FDIC issued nine FILs that provide guidance to help financial institutions and facilitate recovery in areas damaged by hurricanes, wildfires, tornadoes, flooding, and other natural disasters. In these FILs, the FDIC encouraged banks to work constructively with borrowers experiencing financial difficulties as a result of natural disasters, and clarified that prudent extensions or modifications of loan terms in such circumstances can contribute to the health of communities and serve the long-term interests of lending institutions. In addition, the FDIC jointly with the other federal banking agencies, issued a *Statement on Supervisory Practices Regarding Financial Institutions and Borrowers Affected by Hurricane Sandy* to provide regulatory assistance to affected financial institutions.

On October 16, 2012, the FDIC, through the auspices of the Federal Financial Institutions Examination Council (FFIEC) issued a statement encouraging financial institutions to work with agricultural customers impacted by the significant drought conditions affecting the Midwest and southern states. The statement encourages banks to continue making credit available to agricultural borrowers and to provide prudent loan modifications when appropriate.

Other Policy Matters

Interagency Guidance on Leveraged Lending

On March 26, 2012, the FDIC and the other federal banking agencies proposed revisions to the 2001 interagency guidance on leveraged financing. The proposal's purpose is to update the existing guidance and clarify regulatory expectations in light of significant growth in the leveraged lending market, and incorporate lessons learned from the recent financial crisis. The proposal describes expectations for the sound risk management of leveraged lending activities, including well-defined underwriting standards, effective management information systems, a prudent credit limit and concentration framework, and strong pipeline management policies. The banking agencies are considering revisions to the proposal based on the 16 public comments that were received by the June 8, 2012, due date.

Banker Teleconferences

In 2012, the FDIC hosted a series of banker teleconferences to maintain open lines of communication and update supervised institutions about compliance and consumer protection related rulemakings, guidance, and emerging issues. Participants included bank directors, officers, staff, and other banking industry professionals. Five teleconferences were held in 2012. The topics discussed included: Regulations Z's Mortgage Loan Originator Compensation

Rule, Third-Party Compliance Risk Management, Significant Mortgage-Related Proposed Regulations (which were the subject of two calls), and Fair Lending.

Promoting Economic Inclusion

The FDIC is strongly committed to promoting consumer access to a broad array of banking products to meet consumer financial needs. To promote financial access to responsible and sustainable products offered by IDIs, the FDIC:

- conducts research on the unbanked and underbanked,
- engages in research and development on models of products meeting the needs of lower-income consumers,
- supports partnerships to promote consumer access and use of banking services,
- advances financial education and literacy, and
- facilitates partnerships to support community and small business development.

Advisory Committee on Economic Inclusion

The Advisory Committee on Economic Inclusion (ComE-IN) was originally established by former Chairman Sheila C. Bair and the FDIC Board of Directors pursuant to the Federal Advisory Committee Act in November 2006. The ComEIN provides the FDIC with advice and recommendations on important initiatives focused on expanding access to banking services by underserved populations. This may include reviewing basic retail financial services such as check cashing, money orders, remittances, stored value cards, short-term loans, savings accounts, and other services that promote asset accumulation by individuals and financial stability. During 2012, the Committee met on three occasions and discussed the FDIC's research initiatives on the Banks' Efforts to Serve the Unbanked and Underbanked, the FDIC's National Survey of Unbanked and Underbanked Households, mobile financial services, model SAFE accounts, and prepaid card products.

Survey of Banks' Efforts to Serve the Unbanked and Underbanked

Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (Reform Act) mandates that the FDIC survey IDIs every two years to assess their efforts to bring individuals and families into the conventional finance system.

In 2011, the FDIC conducted its second nationwide survey of FDIC-IDIs to assess efforts to serve unbanked and underbanked individuals and families. The 2011 survey focused on banks' basic transaction and savings account programs, auxiliary product and service offerings, and financial education and outreach efforts. Analysis of the survey results was completed in 2012, and the final results were released to the public in December 2012. The findings from the report, *2011 FDIC Survey of Banks' Efforts to Serve Unbanked and Underbanked*, informs financial institutions, community organizations, and other stakeholders interested in expanding financial products and services, to unbanked and underbanked consumers.

Partnership to Promote Consumer Access: 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 underbanked consumers into the financial mainstream.

During 2012, the FDIC expanded the geographic reach of the AEI program. Initially in 14 markets, the FDIC launched AEI initiatives in two additional markets: the Appalachian region of West Virginia and Northeastern Oklahoma. The West Virginia effort resulted in 30 organizations joining the AEI as of year-end; and the Northeastern Oklahoma effort resulted in participation from 49 representatives from 33 organizations.

In addition to the new alliances, FDIC continued in 2012 to support existing AEIs. As a result:

- More than 110 banks and organizations joined AEI nationwide, bringing the total number of AEI members to 1,360.
- At least 133,578 consumers opened a bank account as a result of AEI efforts. Combined, more than 536,000 bank accounts have been opened through the AEI program.
- Approximately 116,413 consumers received financial education through the AEI, bringing the total number of consumers educated to 380,000.

The FDIC also provided program guidance and technical assistance in the expansion of 70 *Bank On* programs. *Bank On* initiatives are designed to reduce barriers to banking and increase access to the financial mainstream.

Advancing Financial Education

The FDIC expanded its financial education efforts during 2012 through a strategy that included providing access to timely and high-quality financial education products, sharing best practices, and working through partnerships to reach consumers.

Money Smart for Small Business

The FDIC joined with the Small Business Administration (SBA) on April 24, 2012, to launch the new *Money Smart* for Small Business curriculum. The ten modules in this instructor-led curriculum provide introductory training for new and aspiring entrepreneurs on the basics of organizing and managing a business. *Money Smart* for Small Business is a tool for bank-community partnerships. The curriculum is intended to be delivered by stakeholders experienced with small business lending or development. Since the release of the curriculum, more than 10,000 copies have been distributed, and 11 partnerships were developed with organizations that can use or otherwise promote the curriculum to key stakeholders.

Money Smart for Consumers

The FDIC's award-winning *Money Smart* curriculum has reached more than 3 million consumers since its launch in 2001. During 2012, the FDIC reached approximately 250,000 consumers. The existing suite of *Money Smart* products for consumers was enhanced with two new resources:

- *Money Smart* Computer-Based Instruction (CBI) offers key elements of the eight modules of the instructor-led *Money Smart* for Young Adults curriculum and eleven modules of the instructor-led *Money Smart* for Adults curriculum. The CBI features an interactive game-based design. Approximately 29,000 users accessed the CBI during the eight months from its release date through year-end.
- *Money Smart* for Elementary School Students is designed to introduce key personal finance concepts to children ages 5 to 8. Since its release in May 2012, more than 35,000 copies have been downloaded.

Through training and technical assistance, the FDIC emphasizes the importance of pairing education with access to appropriate banking products and services. During 2012, more than 1,300 practitioners attended the 52 train-the-trainer sessions. Approximately 1,200 organizations are members of the *Money Smart* Alliance, and the FDIC worked with many other organizations to promote financial education, such as the Corporate Adopt a School program, which has reached approximately 2,492 students at underserved schools with financial education training.

Leading Community Development

In 2012, the FDIC undertook over 662 community development, technical assistance, and outreach activities and events designed to facilitate understanding and connection between financial institutions and other community stakeholders. The FDIC collaborated with the OCC, Federal Reserve Banks, and other stakeholders to conduct 57 CRA roundtables to provide market-specific training for bankers on enhancing CRA performance, thereby building the capacity of financial institutions to more effectively meet community and small business development needs. The FDIC also conducted 21 workshops for nonprofit stakeholders on effectively engaging with financial institutions to promote community development.

Community Banking Initiatives

As the lead federal regulator for the majority of community banks, the FDIC continues to make community banking a main priority. Though they tend to be small relative to the largest U.S. banks, community banks specialize in activities that are crucial to the functioning of the economy. Community banks make many of the loans to small businesses that, in turn, create new jobs. They also provide financial services to business and household customers that may not be well served by other financial providers. The FDIC's community banking initiatives completed in 2012 include the following:

- *Future of Community Banking Conference* – On February 16, 2012, the FDIC held a community banking conference that brought together community bankers, regulators, academics, and various community bank stakeholders to examine the unique role community banks perform in our nation's economy and the challenges and opportunities they face. Then-Acting FDIC Chairman Gruenberg opened and closed the conference, which also featured keynote remarks by Shelley Moore Capito, U.S. Congresswoman for West Virginia's 2nd District; Ben S. Bernanke, Chairman, Board of Governors of the Federal Reserve System; and Thomas J. Curry, Director, FDIC. The conference explored the evolution and characteristics of community banks, current challenges and opportunities for community banks, perspectives of community bank customers, and lessons learned and successful strategies for the community bank of the future.

- *Community Bank Roundtable Discussions* – From March to October of 2012, the FDIC conducted roundtable discussions in each of the six FDIC regions with about 70 to 100 attendees, including community bankers, state banking commissioners, state bank trade association representatives, the FDIC's senior executives for supervision, and two members of the FDIC's Board of Directors (including the FDIC's then-Acting Chairman). Each meeting addressed financial and operational challenges and opportunities facing community banks and the regulatory interaction process. The insights provided during the discussions added to other components of the community banking initiatives.

- *Community Banking Study* – On December 17, 2012, the FDIC released a study of community banking in the United States. The goal of this study was to analyze and document what has happened to community banks since 1985. The study set out to explore some basic research questions about community banks, including trends in consolidation, overall financial performance, geographic footprint, business model variations, efficiency and economies of scale, and access to capital. The FDIC assembled a comprehensive database using detailed financial data from bank Call Reports and Thrift Financial Reports, standardizing the data to conduct analysis across the industry beginning in 1984. Financial data have also been linked to the Summary of Deposits data (and Branch Office Survey data for thrifts) that provide a detailed record of banking office location and deposit gathering trends dating back to 1987. The result is an assembly of the most complete record of the history of the financial performance and structural change in the banking industry over the past two and a half decades. This data-driven approach results in a foundational study that provides a platform for future analysis by the FDIC and other researchers with an interest in community banking.

FDIC then-Acting Chairman Martin J. Gruenberg opens the Future of Community Banking Conference on February 16, in Arlington, Virginia.

- *Targeted Community Banking Research* – The FDIC continues to conduct specialized studies and research to more deeply explore certain issues and questions about community banks. On December 18, 2012, the FDIC released two targeted research papers: "Community Bank Efficiency and Economies of Scale" and "What Factors Explain Differences in Return on Assets Among Community Banks?" These papers delve deeper in explaining community bank performance, based on efficiency ratio trends and other bank-specific factors.

- *Review of Examination and Rulemaking Processes* – In 2012, the FDIC reviewed the

Members of the FDIC Advisory Committee on Community Banking.

processes for examining community banks and releasing rulemakings and guidance. The FDIC solicited input from community bankers and incorporated that feedback into various improvements. Also, the FDIC's extensive communication and technical support efforts for community bankers included an educational outreach effort to explain key technical points of the proposed capital rules that included six regional banker meetings, a national teleconference call, educational material posted to the FDIC's website, and an online tool to help bankers measure the potential impact of the proposed capital rules.

In addition, the FDIC's Community Bank Advisory Committee continued to provide timely information and input to the FDIC on a variety of community bank policy and operational issues throughout 2012. The Committee held three meetings in 2012 and provided input on a number of key issues and initiatives, including the FDIC's community bank study and research project, proposed improvements to the FDIC's regulatory and supervisory processes, the status of the Transaction Account Guarantee Program (TAG), the FDIC's preliminary plan to review its regulations under the Economic Growth and Regulatory Paperwork Reduction Act, as well as the potential effects of various regulatory and legislative developments on community banks.

Looking forward, the FDIC will continue to make the Community Banking Initiative a high priority by following up on the Community Banking Study, pursuing additional research relating to the continued viability of community banks, and continuing our review of examination and rulemaking processes with the goal of identifying additional ways to make the supervisory process more efficient, consistent, and transparent, consistent with safe and sound banking practices.

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 that are important to the FDIC's role as deposit insurer and bank supervisor. During 2012, the CFR co-sponsored two major research conferences.

The CFR organized and sponsored the 22nd Annual Derivatives Securities and Risk Management Conference jointly with Cornell University's Johnson Graduate School of Management and the University of Houston's Bauer College of Business. The conference was held in March 2012 at the Seidman Center and attracted over 100 researchers from around the world. Conference presentations included systemic risk, asset price dynamics, asset pricing, and credit spreads.

The CFR also organized and sponsored the 12th Annual Bank Research Conference jointly with the *Journal for Financial Services Research* (JFSR), in September 2012. The conference theme, "Performance of Financial Services in the Current Environment," focused on the financial services industry and included over 20 presentations attended by over 120 participants. Experts discussed a range of topics including systemic risk and bank lending, liquidity, and capital issues.

In addition to conferences, workshops and symposia, three CFR working papers were completed and made public on topics including bank bailouts, executive compensation, and tightening loan contracts.

Information Technology, Cyber Fraud, and Financial Crimes

In 2012, the FDIC, jointly with the U.S. Department of Justice, began planning a Financial Crimes Conference to be held in June 2013 that will focus on all types of financial fraud, and how the law enforcement community and regulators can respond effectively to fraud. Other major accomplishments during 2012 in promoting information technology (IT) security and combating cyber fraud and other financial crimes included the following:

- ♦ Issued an updated FFIEC Technology Service Provider booklet. This booklet replaces the March 2003 version.
- ♦ Published the Federal Regulatory Agencies' Administrative Guidelines: Implementation of the Interagency Programs for the Supervision of Technology Service Providers.
- ♦ Published a *Supervisory Insights Journal* article on mobile payments.
- ♦ Issued revised guidance describing potential risks associated with relationships with third-party entities that process payments for telemarketers, online businesses, and other merchants.
- ♦ Hosted the FFIEC IT Conference that addressed technology and operational issues facing the financial federal regulatory agencies.
- ♦ Assisted financial institutions in identifying and shutting down "phishing" websites. The term "phishing"—as in "fishing" for confidential information—refers to scams to fraudulently obtain and use an individual's personal or financial information.
- ♦ Issued six Consumer Alerts pertaining to emails and telephone calls fraudulently claiming to be from the FDIC.

The FDIC conducts IT and operations examinations of financial institutions and technology service providers (TSP). These examinations ensure that institutions and TSPs have implemented adequate risk management practices for the confidentiality, integrity, and availability of sensitive, material, and critical information assets. The result of an IT examination is a FFIEC Uniform Rating System for Information Technology rating. In 2012, the FDIC conducted 2,642 IT and operations examinations at financial institutions and TSPs. Further, as part of its ongoing supervision process, the FDIC monitors significant events, such as data breaches and natural disasters that may affect financial institution operations or customers.

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, 2012, the FDIC received 10,564 written complaints, of which 5,088 involved complaints against state nonmember institutions. The FDIC responded to over 98 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 1,793 written inquiries, of which 403 involved state nonmember institutions. In addition, the FDIC responded to 5,209 telephone calls from the public and members of the banking community, of which 2,721 concerned state nonmember institutions.

Coordination with the Consumer Financial Protection Bureau

In 2012 the prudential regulators and the Consumer Financial Protection Bureau (CFPB) signed an MOU to coordinate supervisory matters for institutions with assets over $10 billion and their affiliates. The CFPB was charged with developing regulations to implement the mortgage reforms and other aspects of regulatory reform in the Dodd-Frank Act. As required by the statute, the FDIC coordinated with the CFPB on the regulations for which it is solely responsible. The FDIC also worked with the CFPB and other banking agencies to develop and implement joint regulations.

As of December 31, 2012, the FDIC received 1,369 complaints involving FDIC-supervised banks under the jurisdiction of the CFPB. Under the agreement between the FDIC and the CFPB, the FDIC investigated 497 of the 1,369 complaints and referred the remaining 872 to the CFPB.

Public Awareness of Deposit Insurance Coverage

The FDIC provides a significant amount of education for consumers and the banking industry on the rules for deposit insurance coverage. 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 to both bankers and consumers.

The FDIC continued its efforts to educate bankers and consumers about the rules and requirements for FDIC insurance coverage. During 2012, the FDIC conducted 15 telephone seminars for bankers on deposit insurance coverage, reaching an estimated 27,734 bankers participating at approximately 7,924 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).

In 2012, the FDIC received and answered approximately 97,453 telephone deposit insurance-related inquiries from consumers and bankers. The FDIC Call Center addressed 50,845 of these inquiries, and deposit insurance coverage subject-matter experts handled the other 46,608. In addition to telephone inquiries about deposit insurance coverage, the FDIC received 2,619 written 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. Upon closure of an institution, typically by its chartering authority—the state for state-chartered institutions, and the Office of the Comptroller of the Currency (OCC) for national banks and federal savings associations—the FDIC is appointed receiver, and the FDIC is responsible for resolving the failed institutions.

The FDIC uses a variety of business practices to resolve a failed institution. These 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 methods 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 uninsured depositors and other creditors of the failed institution.

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

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

The purchase and assumption (P&A) transaction is the most common resolution method. In a P&A transaction, a healthy institution purchases certain assets and assumes certain liabilities of the failed institution. A variety of P&A transactions 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 assets 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, makes sure that the customers of the failed institution receive the full amount of their insured deposits.

The Banking Act of 1933 authorizes 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 that allows failed-bank customers a brief period of time to move their deposit account(s) to other insured institutions. Though infrequently used, 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 2012, there were 51 institution failures, compared to 92 failures in 2011. 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.

FAILURE ACTIVITY 2010–2012
Dollars In Billions

	2012	2011	2010
Total Institutions	51	92	157
Total Assets of Failed Institutions[1]	$11.6	$34.9	$92.1
Total Deposits of Failed Institutions[1]	$11.0	$31.1	$78.3
Estimated Loss to the DIF	$2.7	$8.8	$20.8

[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. For 95 percent of the failed institutions, at least 90 percent of the book value of marketable assets is marketed for sale within 90 days of an institution's failure for cash sales and within 120 days for structured sales.

Structured sales for 2012 totaled $456 million in unpaid principal balances from commercial real estate and residential loans acquired from various receiverships. Cash sales of assets for the year totaled $1.1 billion in book value. In addition to structured and cash sales, FDIC also uses securitizations to dispose of bank assets. In 2012, securitization sales totaled $449 million.

As a result of our marketing and collection efforts, the book value of assets in inventory decreased by $3.9 billion (19 percent) in 2012.

ASSETS IN INVENTORY BY ASSET TYPE
Dollars in Millions

Asset Type	12/31/12	12/31/11
Securities	$1,179	$1,225
Consumer Loans	99	31
Commercial Loans	604	585
Real Estate Mortgages	1,265	2,208
Other Assets/Judgments	1,134	1,396
Owned Assets	417	1,007
Net Investments in Subsidiaries	179	290
Structured and Securitized Assets	12,120	14,171
Total	**$16,997**	**$20,913**

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. In 2012, the number of receiverships under management increased by 8 percent, as a result of new failures. The chart below shows overall receivership activity for the FDIC in 2012.

Minority and Women Outreach

The FDIC relies on contractors to help meet its mission. In 2012, the FDIC awarded 1,326 contracts. Of these, 388 contracts (29 percent) were awarded to Minority- and Women-Owned Businesses (MWOBs). The total value of contracts awarded was $1.0 billion, of which $308 million (30 percent), were awarded to MWOBs, compared to 29 percent for all of 2011. In addition, engagements of Minority- and Women-Owned Law Firms (MWOLFs) were 18 percent of all engagements; total payments of $15.3 million to MWOLFs were 14 percent of all payments to outside counsel, compared to 17 percent for all of 2011.

In 2012, the FDIC exhibited at 23 procurement-specific trade shows to provide participants with the FDIC's general contracting procedures, prime contractors' contact information, and possible upcoming solicitations.

Prime contractors were reminded of the FDIC's emphasis on MWOB participation and were encouraged to subcontract or partner with MWOBs. The FDIC also exhibited at 12 non-procurement events where contracting information was provided. In addition, the FDIC's Legal Division was represented at trade shows where information was provided to MWOLFs about outside counsel opportunities and how to enter into co-counsel arrangements with majority firms.

FDIC personnel also met with MWOBs and MWOLFs in one-on-one meetings to discuss contracting opportunities at the FDIC. The FDIC continued to encourage MWOBs to register in the FDIC's Contractor Resource List, which is used to develop source lists for solicitations. Any firm interested in doing business with the FDIC can register for the Contractor Resource List through the FDIC's website.

In 2012, the FDIC's Office of Minority and Women Inclusion (OMWI) participated with the other Dodd-Frank Act agency OMWIs in seven roundtable meetings nationwide with financial services industry groups, trade associations, and other consumer advocacy groups, to obtain input, guidance, and recommendations about strategies to implement standards for assessing regulated entities under Section 342 of the Dodd-Frank Act.

In 2012, the FDIC successfully closed three structured transaction sales. These three auctions combined to attract 19 entities that placed bids. Eight bidders had an MWOB firm as a member. The winning bidder for one of the transactions included an MWOB firm in the investor group. The FDIC continued outreach efforts to small investors and minority-owned and women-owned investors, and held five nationwide workshops on FDIC's loan and Owned Real Estate (ORE) sales programs, and the structured loan sales program. The workshops were held in Chicago, Dallas, Los Angeles, Nashville, and New York, with more than 450 participants.

In 2013, the FDIC will continue to encourage and foster diversity and inclusion of MWOBs in procurement activities and outside counsel engagements, as well as promote strong commitment to diversity inclusion within its workforce, and with all financial institutions and law firms that do business with the FDIC.

RECEIVERSHIP ACTIVITY	
Active Receiverships as of 12/31/11[1]	431
New Receiverships	51
Receiverships Terminated	16
Active Receiverships as of 12/31/12[1]	466

[1] Includes five FSLIC Resolution Fund receiverships at year-end 2011 and three at year-end 2012.

Protecting Insured Depositors

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 2012, the FDIC paid dividends of $8 million to depositors whose accounts exceeded the insurance limit.

Professional Liability and Financial Crimes Recoveries

FDIC staff works to identify potential claims against directors, officers, fidelity bond insurance carriers, appraisers, attorneys, accountants, mortgage loan brokers, title insurance companies, securities underwriters, securities issuers, and other professionals who may have contributed to the failure of an IDI. Once a claim is determined to be meritorious and cost-effective to pursue, the FDIC initiates legal action against the appropriate parties. During 2012, the FDIC recovered $337 million from professional liability claims and settlements. The FDIC also authorized lawsuits related to 48 failed institutions against 369 individuals for director and officer liability and authorized 21 other lawsuits for fidelity bond, liability insurance, attorney malpractice, appraiser malpractice, and securities law violations for residential mortgage-backed securities. There were 165 residential mortgage malpractice and fraud lawsuits pending as of year-end 2012. Also, by year-end 2012, the FDIC's caseload included 88 professional liability lawsuits (up from 52 at year-end 2011) and 1,343 open investigations (down from 1,811 at year-end 2011).

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 with the U.S. Department of Justice, collected $4.6 million from criminal restitution and forfeiture orders during 2012. As of year-end 2012, there were 4,860 active restitution and forfeiture orders (down from 5,192 at year-end 2011). This includes 156 orders held by the FSLIC Resolution Fund, i.e., orders arising out of failed financial institutions that were in receivership or conservatorship by the Federal Savings and Loan Insurance Corporation or the Resolution Trust Corporation.

INTERNATIONAL OUTREACH

Throughout 2012, the FDIC played a leading role among international standard-setting, regulatory, supervisory, and multi-lateral organizations by supporting the global development of effective deposit insurance and bank supervision systems, maintaining public confidence and financial stability, and promoting effective resolution regimes as integral components of the financial safety net. Among the key institutions the FDIC collaborated with were the Association of Supervisors of Banks of the Americas (ASBA), the Basel Committee on Banking Supervision (BCBS), the European Forum of Deposit Insurers, the Financial Stability Board (FSB), the Financial Stability Institute (FSI), the International Association of Deposit Insurers (IADI), the International Monetary Fund (IMF), the International Information Technology Supervisors Group, and the World Bank.

Key to the international collaboration was the ongoing dialogue among then-Acting FDIC Chairman Martin J. Gruenberg, other senior FDIC leaders, and a number of senior financial regulators from the United Kingdom (U.K.) about the implementation of the Dodd-Frank Act, Basel III, and how changes in U.S., U.K., and European Union financial regulations affect global information sharing, crisis management, and recovery and resolution activities. In light of the large number of cross-border operations of large, complex financial institutions, the primary areas of discussion and collaboration were the FDIC's Orderly Liquidation Authority under Title II of the Dodd-Frank Act, and the importance of cross-border coordination in the event a SIFI begins to experience financial distress.

During 2012, the FDIC participated in both Governors and Heads of Supervision and BCBS meetings. The FDIC supported work streams, task forces, and policy development group meetings to address BCBS work on the implementation of Basel III. The FDIC also helped monitor new leverage ratio and liquidity standards, and determine surcharges on global systemically important banks. Additionally, the FDIC participated in BCBS initiatives related to standards implementation, operational risk, accounting, review of the trading book, and credit ratings and securitization. The major issues addressed by these work streams included the recalibration of risk weights for securitization exposures, the comprehensive review of capital charges for trading positions, and the review of BCBS members' domestic rule-making processes surrounding Basel II, Basel II.5, and Basel III.

International Association of Deposit Insurers

Under the leadership of then-Acting FDIC Chairman Gruenberg, IADI celebrated its tenth anniversary in October 2012. Chairman Gruenberg served as the President of IADI and the Chair of its Executive Council from November 2007 to October 2012. Worth noting is the remarkable impact IADI has made during its relatively short history, contributing not only to the security of individual depositors but also to global financial stability. Since its founding in 2002, IADI has grown from 26 founding members to 84 participants, including 64 members, 8 associates and 12 partners, and is strongly represented on every continent. IADI is now recognized as the standard-setting body for deposit insurance by all the major public international financial institutions, including the FSB, the Group of 20 (G-20), the BCBS, the IMF, and the World Bank.

Under the FDIC's leadership, IADI has made significant progress in advancing the 2009 IADI and BCBS *Core Principles for Effective Deposit Insurance Systems (Core Principles)*. In February 2011, the FSB approved the *Core Principles* and the *Core Principles Assessment Methodology* for inclusion in its Compendium of Key Standards for Sound Financial Systems. The *Core Principles* are officially recognized by both the IMF and World Bank and are now accepted for use in their Financial Sector Assessment Program (FSAP). This represents an important milestone in the acceptance of the role of effective systems of deposit insurance in maintaining financial stability. The FDIC has also worked with senior officials at the World Bank and IMF, and formalized IADI collaboration and support of the deposit insurance review portion of the FSAP reviews. *Core Principles* working group meetings, regional workshops, and training sessions were held in Washington, DC; Kuala Lumpur, Malaysia; Bogota, Colombia; and Nairobi, Kenya, during 2012.

Financial Stability Board

In February 2012, the FSB issued its *Thematic Review on Deposit Insurance Systems Peer Review Report*. The recommendations included a request for IADI to update its guidance that pre-dated the financial crisis and to develop additional guidance to address areas where the *Core Principles* may need more precision to achieve effective compliance, or to better reflect leading practices. The FDIC, in partnership with the Canadian Deposit Insurance Corporation, has taken a leadership role in responding to these recommendations with a set of six focused papers. Prepared under the auspices of the IADI Research and Guidance Committee Guidance Group, two of these papers were presented during the October 2012 IADI Executive Council meeting in London, England; the remaining four papers will be presented to the Executive Council in 2013. IADI and the BCBS will use the papers to enhance the guidance supporting the *Core Principles* and the accompanying *Core Principles Assessment Methodology*.

In November 2011, the G-20 endorsed the FSB's *Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes)*. The *Key Attributes* set out the core elements that the FSB considers necessary for an effective resolution regime and includes the ability to manage the failure of large, complex, and internationally active financial institutions in a way that minimizes systemic disruption and avoids the exposure of taxpayers to the risk of loss. During 2012, a number of initiatives were launched by the FSB related to operationalizing the *Key Attributes*. In January 2012, a special working group under the auspices of the Resolutions Steering Group was formed to draft an assessment methodology for the *Key Attributes*. The FDIC is actively participating in this effort alongside IADI, a number of FSB member jurisdictions, and international organizations such as the World Bank and the European Commission, and has participated extensively in drafting team meetings in Basel, Switzerland. In the second half of 2012, the FDIC participated in the drafting of a consultative document, entitled "Recovery and Resolution Planning: Making the *Key Attributes* Requirements Operational." The document was released for public comment. The FDIC also hosted meetings for the Legal Entity Identifier Working Group, and co-hosted a series of Crisis Management Group meetings for the five U.S.-based G-SIFIs at the Seidman Center in Arlington, Virginia, and the Federal Reserve Bank of New York. FDIC representatives also participated in Crisis Management Group meetings hosted by foreign regulatory authorities in a number of jurisdictions.

In mid-2012, then-acting Chairman Gruenberg was appointed to chair a Thematic Peer Review on Resolution Regimes under the auspices of the FSB's Standing Committee on Standards Implementation (SCSI). This Peer Review was tasked with conducting a survey of the existing regulatory and legislative landscape; identifying gaps in implementation of the *Key Attributes*; and providing guidance to the *Key Attributes* assessment methodology drafting team. A questionnaire was developed and sent to FSB member jurisdictions over the summer, with jurisdictions providing responses to the Peer Review Team in the fall. The Peer Review Team, comprising 20 members from multiple G-20 jurisdictions and multinational bodies, will develop a report for the SCSI in early 2013 on its findings.

Association of Supervisors of Banks of the Americas

With the goal of contributing to sound banking supervision and resilient financial systems in the Americas, the FDIC has been a member of ASBA since its founding in 1999. In recognition of the FDIC's leadership in ASBA, the General Assembly elected the FDIC's Director of Risk Management Supervision, Sandra Thompson, to serve a two-year term as Vice Chairman. Director Thompson was named Acting Chairman of ASBA until November 2012, upon the resignation of ASBA's Chairman. In these capacities, Director Thompson presided over meetings of the technical committee, the assembly, and the board.

The FDIC led three ASBA technical assistance training missions in 2012, including a Financial Institution Analysis training program in Quito, Ecuador; a Credit Risk Management training program in Asuncion, Paraguay; and a Supervision of Operational Risk training program in Miami, Florida. The FDIC continued to provide subject-matter experts as instructors and speakers to support ASBA-sponsored training programs, seminars, and conferences. In addition, the FDIC participated in the ASBA working group on the Liquidity Coverage Ratio and Net Stable Funding Ratio Overview and established the FDIC-ASBA secondment program. Two ASBA members from the Central Bank of Barbados and the Superintendencia de Bancos de Guatemala were hosted by the FDIC under the inaugural program for eight weeks during the fall of 2012.

Supporting best practices through ASBA, the FDIC chaired the Basel III Liquidity Working Group and participated in several ASBA Working Groups concerning enterprise risk management, effective consumer protection frameworks, and corporate governance. The FDIC also led an internal review of ASBA's Secretary General's office in Mexico City Mexico, led the development of the 2013–2018 ASBA Strategic and Business Plans, developed the first handbook for the Board of Directors, and approved the external audit program.

Foreign Visitors Program

The FDIC continued its global role in supporting the development of effective deposit insurance and banking supervision systems through the provision of training, consultations, and briefings to foreign bank supervisors, deposit insurance authorities, international financial institutions, partner U.S. agencies, and other governmental officials. In 2012, the FDIC hosted 80 visits with over 565 visitors from approximately 42 jurisdictions. Many of these visits were multi-day study tours, enabling delegations to receive in-depth consultations on a wide range of deposit insurance issues. Officials from the Polish Bank Working Group, the Deposit Insurance of Vietnam, the National Bank of Ethiopia, the Deposit Protection Agency of the Kyrgyz Republic, and the Central Bank of Kenya benefited from these extended visits.

During 2012, the FDIC provided subject-matter experts to participate in seven FSI seminars around the world. The topics included risk-focused supervision, financial stability and stress testing, liquidity risk, Basel III, risk management, and regulating and supervising systemic banks. Additionally, 199 students from 13 countries attended FDIC examiner training classes through the FDIC's Corporate University.

The FDIC continued its strong relationship with Chinese public institutions in 2012. The FDIC participated in the Fourth U.S.-China Strategic and Economic Dialogue on May 3, 2012, in Beijing, China, along with counterparts from all of the U.S. financial sector regulatory agencies, in a delegation led by the U.S. Treasury Secretary. The U.S. delegation met with counterparts from the Chinese regulatory agencies to discuss regulatory reforms and progress towards rebalancing their respective economies. The FDIC met separately with the People's Bank of China (PBoC) concerning revisions to the current FDIC-PBoC Technical Assistance Memorandum of Understanding, and also about progress toward implementing a deposit insurance scheme in China. The FDIC held meetings with the China Banking Regulatory Commission (CBRC) to discuss further cooperation on SIFI-related matters. The U.S.-CBRC Bank Supervisors Bilateral Meeting, hosted by the FDIC, was held on October

15, 2012. This meeting involved the three U.S. banking agencies and the CBRC in discussions on a wide range of supervisory issues. In addition, the China delegation met with representatives from the FDIC's Legal Division and Division of Resolutions and Receiverships to obtain guidance on drafting rules for bank resolution in China. The FDIC subsequently hosted a delegation from the CBRC, providing an overview of information technology (IT) examination, supervision and resolution processes, and the roles and responsibilities of the FDIC in the U.S. bank regulatory system.

Financial Services Volunteer Corps

June 1, 2012, marked the five-year anniversary of the secondment program agreed upon by the Financial Services Volunteer Corps (FSVC) and the FDIC to place one or more FDIC employees full-time in the FSVC's Washington, DC, office on an annual basis. The FDIC provided support to several FSVC projects including participation in the U.S. Agency for International Development's Partners for Financial Stability project in the Balkan region. The purpose of this consultation was to develop strategies for resolving problem loans in response to the Eurozone crisis.

FSVC support also included multiple FDIC-led training sessions with the Bank of Albania (the central bank). Follow-up consultations with the Albanian Deposit Insurance Agency, Bank of Albania, and the Ministry of Finance regarding bank liquidation processes, training sessions for examiners, an assessment of the legal framework, operational capabilities to manage a failure, and the implementation of an automated bank reporting and pay-out system were also completed. FDIC subject-matter experts also advised Albanian Financial Supervisory Authority leadership on the effective use of communications to foster relationships with foreign regulators and Albanian institutions, and public outreach and media relations strategies.

FDIC secondees also provided a study tour in New York for members of the Egyptian Banking Institute; traveled to Cairo to support the Egyptian Financial Supervisory Authority's Institute for Financial Services in its assessment and development of a strategic plan for financial inclusion; and conducted a one-week training program on IT risk supervision for the National Bank of Serbia in partnership with the World Bank. In Tunisia, FDIC secondees advised an association of banking and financial experts on techniques used by U.S. regulators for collecting data and best practices of financial institutions for improving the quality and timeliness of data. Finally, the FDIC continued to lead the research and development of a strategy for targeting technical assistance for low-income countries in Sub-Saharan Africa.

EFFECTIVE MANAGEMENT OF STRATEGIC RESOURCES

The FDIC recognizes that it must effectively manage its human, financial, and technological resources to successfully carry out its mission and meet the performance goals and targets set forth in its annual performance plan. The FDIC must align these strategic resources with its mission and goals and deploy them where they are most needed to enhance its operational effectiveness and minimize potential financial risks to the DIF. Major accomplishments in improving the FDIC's operational efficiency and effectiveness during 2012 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 2012, the FDIC stepped up workforce planning and development initiatives that emphasized hiring the additional skill sets needed to address requirements of the Dodd-Frank Act, especially as it related to the oversight of SIFIs. Workforce planning also addressed the need to start winding down bank closure activities in the next few years, based on the decrease in the number of financial institution failures and institutions in at-risk categories. The FDIC also deployed a number of strategies to more fully engage all employees in advancing its mission.

Succession Management

The FDIC provides its employees with comprehensive learning and development opportunities, including technical and general skills training, and leadership development. In addition to extensive internally developed and administered courses, the FDIC also offers its employees with funds and/or time to participate in external offerings in support of their career development. Through training and educational programs, the FDIC provides its employees with the knowledge and skills to successfully accomplish their work and to grow professionally. In 2012, the FDIC kicked-off several initiatives related to advanced or specialized training for mission critical areas. Such training is a critical part of workforce and succession planning as more experienced employees become eligible for retirement.

The FDIC also continues to expand leadership development opportunities to all employees. Its curriculum takes a holistic approach, aligning its core and elective curriculum with key leadership competencies. By developing employees across the span of their careers, the FDIC builds a culture of leadership and further promotes a leadership succession strategy. In 2012, the FDIC delivered 19 sessions of core leadership courses and 22 sessions of electives. It also supported participation in four external leadership development programs.

Strategic Workforce Planning and Readiness

The FDIC used various employment strategies in 2012 to meet the need for additional human resources resulting from the number of failed financial institutions and the volume of additional examinations. Among these strategies, the FDIC recruited complex financial institution specialists who had developed their skills in other public and private sector organizations, recruited loan review specialists and compliance analysts from the private sector, and redeployed current FDIC employees with the requisite skills from other parts of the Agency.

When the Office of Thrift Supervision (OTS) closed on July 21, 2011, the FDIC received 95 of its employees, all of whom were integrated into the FDIC with full FDIC benefits as of the one-year anniversary of the Dodd-Frank Act. Thirty-eight of the 95 employees were under the OTS's Schedule A hiring authority, and therefore not in the competitive service. The FDIC determined that the equitable treatment provisions of the Dodd-Frank Act required that these employees be transferred to the competitive service; these transfers were effective May 9, 2012.

During 2012, the orderly closing of the FDIC's temporary satellite offices began based on projections of a drop in the number of bank failures expected in 2013 and beyond. These offices had been established to bring resources to bear in especially hard-hit areas in 2009 and 2010, as the number of failed financial institutions increased. Almost all of the employees in these new offices were hired on a nonpermanent basis to handle the temporary increase in bank closing and asset management activities expected over several years, beginning in 2009. The use of nonpermanent appointments allows the FDIC staff to return to a normal size once the crisis is over without the disruptions that reductions in permanent staff would cause.

The West Coast Temporary Satellite Office, which opened in Irvine, California, in early spring of 2009, closed on January 13, 2012, with 265 employees. The East Coast Temporary Satellite Office, which opened in Jacksonville, Florida, in the fall of 2009, is slated to close in 2014. As of December 31, 2012, that office had 391 employees. The third satellite office, which opened for the Midwest in 2010 in Schaumburg, Illinois, closed on September 28, 2012, with 130 employees. During the financial crisis, the FDIC also increased resolutions and receiverships staff in the Dallas Regional Office. For all offices that closed, the FDIC provided transition services to the separated nonpermanent FDIC employees. In addition, a number of these employees were hired as permanent staff to complete the FDIC's core staffing requirements.

The FDIC continued to build workforce flexibility and readiness by hiring through 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 2012, 121 new business line employees entered this multi-discipline program (1,133 hired since program inception in 2005). The CEP continued to provide a foundation across the full spectrum of the FDIC's business lines, allowing for greater flexibility to respond to changes in the financial services industry and to meet the FDIC's human capital needs. As in years past, the program continued to provide the FDIC flexibility 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 and resolutions and receiverships credentials, having completed their three to four years of specialized training in field offices across the country. The FDIC had approximately 362 commissioned participants by the end of 2012. These individuals are well-prepared to lead examination and resolutions and receiverships activities on behalf of the FDIC.

In 2011, the FDIC piloted the Financial Management Scholars (FMS) Program, a ten week summer internship program for college students between their junior and senior years of college. The FMS was implemented in 2012 and is another recruiting strategy to bring talent into the FDIC and the CEP. The FMS participants completed a one-week orientation session, worked in the field in one of the three key business lines (Depositor and Consumer Protection, Resolutions and Receiverships, and Risk Management Supervision), completed a capstone program, and participated in mini-recruiting event assessments. In 2012, there were 50 FMS participants participating in 34 locations. The FDIC extended 36 job offers and received acceptances from 35 FMS participants. These successful FMS participants will join CEP classes in 2013 as Financial Institution Specialists.

Corporate Risk Management

In 2011, the FDIC Board authorized the creation of an Office of Corporate Risk Management (OCRM) and recruited a Chief Risk Officer (CRO) for the agency. During 2012, the CRO recruited a Deputy Director and a small staff made up of Senior Risk Officers to work with other Divisions and Offices to assess, manage, and mitigate risks to the FDIC in the following major areas:

- Open bank risks associated with the FDIC's role as principal regulator of certain financial institutions and the provider of deposit insurance to all insured depository institutions;
- Closed bank risks associated with the FDIC management of risks associated with assets in receivership, including loss share arrangements and limited liability corporations;
- Systemically important financial institution risks associated with large complex institutions where the FDIC is not the primary federal regulator but would have responsibility in the event of failure;
- Economic and financial risks created for the FDIC and its insured institutions created by changes in the macroeconomic and financial environment;
- Policy and regulatory risks arising through legislative activities and those created by FDIC's own policy initiatives;
- Internal structure and process risks associated with carrying out ongoing FDIC operations, including human resource management, internal controls, and audit work carried out by both OIG and GAO; and
- Reputational risks associated with all of the activities of the FDIC as they are perceived by a range of external factors.

In addition to completing an initial risk inventory for the FDIC, OCRM worked with the newly created Enterprise Risk Committee and Risk Analysis Committee to discuss external and internal risks facing the FDIC. These efforts supported the preparation of quarterly reports to the Board on the risk profile of the institution.

Employee Engagement

The FDIC continually evaluates its human capital programs and strategies to ensure that it remains an employer of choice and that all of its employees are fully engaged and aligned with the mission. The FDIC uses the Federal Employee Viewpoint Survey mandated by Congress to solicit information from employees and takes an agency-wide approach to address key issues identified in the survey. On December 13, 2012, the FDIC received an award from the Partnership for Public Service for being ranked number one among the mid-sized federal agencies on the *Best Places to Work in the Federal Government®* list. Effective leadership was the primary factor driving employee satisfaction and commitment in the federal workplace, according to a report by the Partnership for Public Service.

The Culture Change Initiative, 2008–2012, played an important role in helping the FDIC achieve this ranking. The new Workplace Excellence (WE) Program builds upon the success of the Culture Change Initiative by institutionalizing a National WE Steering Committee and separate Division/Office WE Councils. In addition to the WE Program, the new FDIC-NTEU Labor-Management Forum serves as a mechanism for the union and employees to have pre-decisional input on workplace matters. The WE Program and Labor Management Forum enhances communication, provides additional opportunities for employee input, and improves employee empowerment.

Employee Learning and Development

The FDIC has a strong commitment to the learning and development of all employees. Through its learning and development programs, the FDIC creates opportunity, enriches career development, and cultivates future leaders. New employees can more quickly and thoroughly assume their job functions and assist with examination and resolution activities through the use of innovative learning solutions. To prepare new and existing employees for the challenges ahead, the FDIC delivered just-in-time training to quickly address new business needs and completed comprehensive needs assessments to inform its long-term strategy.

In support of business requirements, the FDIC delivered various sessions of resolution-related training based on new responsibilities acquired under the Dodd-Frank Act. To prepare for the resolution of the most complex financial institutions, the FDIC also used facilitated discussions, table top exercises, and simulations with other federal agencies to share information, identify challenges, and build interagency relationships.

In addition to conducting just-in-time training and events to meet immediate needs, the FDIC is focused on assessing long-term needs and developing comprehensive curricula accordingly. Based on the results of needs assessments for the Office of Complex Financial Institutions, the Division of Resolutions and Receiverships, and the Division of Risk Management Supervision, the FDIC developed multi-year frameworks to supplement existing learning and development. The FDIC will implement the priority components of the business line curricula next year.

In support of knowledge and succession management, the FDIC is focused on capturing, maintaining, and documenting best practices and lessons learned from bank closing activity over the past two years. Capturing this information now is strategically important to ensure corporate readiness, while at the same time maintaining effectiveness as experienced employees retire and the temporary positions created to support the closing activity expire.

In 2012, the FDIC provided its employees with approximately 160 instructor-led courses and 1,800 web-based courses to support various mission requirements. There were approximately 9,292 completions of instructor-led courses and 36,570 completions of web-based courses.

In 2012, the FDIC was recognized as a LearningElite organization by *Chief Learning Officer* magazine. The LearningElite program is a robust peer-reviewed ranking and benchmarking program that recognizes those organizations that employ exemplary workforce development strategies to deliver significant business results.

Information Technology Management

The FDIC understands that information technology (IT) is a critical, transformative resource for the successful accomplishment of agency business objectives. The FDIC relies on the strategic capabilities that IT provides to ensure and enhance mission achievement. This year, introduction of new technologies coupled with changes to maintenance contracts have allowed the FDIC to identify $15 million in budget reductions in IT equipment and services areas from 2012 to 2013.

Chairman Martin J. Gruenberg and Arleas Upton Kea, Director of the Division of Administration, accepting the award for the number one ranking among mid-sized federal agencies for Best Places to Work in the Federal Government.

IT Governance

The FDIC has strengthened agency governance of IT investments and projects by adopting new guidelines for project scope, cost, schedule, and reporting. The FDIC also implemented the Office of Management and Budget's Federal Chief Information Officer's Tech Stat concept, a face-to-face, evidence-based review by agency executives of IT projects, identify issues affecting progress, and take the necessary corrective actions. The FDIC has also improved the risk management and cost estimation project disciplines, training project management staff across the organization. Also, in 2012, the FDIC worked on an update to the Business Technology Strategic Plan that highlights strategic initiatives for document management, research and analytics, and mobility.

Support for Regulatory Reform

Business application development and enhancement continued in 2012 to support implementation of the requirements of the Dodd-Frank Act. The FDIC implemented new applications to deliver full functionality required to comply with Section 165(d) of the Dodd-Frank Act. While not mandated by the statute, the FDIC has also implemented an enhanced tool to facilitate the electronic review of a bank's loan portfolio and streamline the loan review process. The Examination Tool Suite-Automated Loan Examination Reporting Tool (ETS-ALERT), will be used by the FDIC, all 50 states banking supervision organizations, and the Federal Reserve.

Cyber Security

The FDIC recognizes that cyber threats are one of the most serious security challenges facing the nation, and that collaboration with other federal agencies is vital to strengthening the FDIC's security position. In 2012, the FDIC was actively involved with the Federal Chief Information Officer Council's Privacy Committee, including serving as co-chair of the inter-agency Best Practices Subcommittee and as a member of three other subcommittees: Innovation and Technology, Development and Education, and International. In addition, the FDIC initiated the first Interagency Data Loss Prevention (DLP) Working Group, composed of representatives from 15 agencies, as a forum for discussions of DLP best practices, federal requirements, and lessons learned, as well as a platform for industry presentations on DLP techniques and tools.

The FDIC has undertaken several initiatives to augment external cyber resources. In 2012, the FDIC participated with the Office of the National Director of Intelligence in initiating the new Federal Senior Intelligence Coordinator Advisory Board and associated workgroups to gather additional counter-intelligence on new threats. The FDIC has established informal information-sharing relationships with the Federal Bureau of Investigation's (FBI) cybercrime squads in the FBI's Washington, DC office, where real-time cybercrime information is exchanged. The FDIC also serves as an active participant in industry information-sharing organizations, including the Financial Services - Information Sharing and Analysis Center, a financial services-focused association that gathers reliable and timely information from financial services providers; commercial security firms; federal, state, and local government agencies; law enforcement; and other trusted resources; to quickly disseminate physical and cyber threat alerts and other critical information to participating organizations.

Internally, the FDIC continued to focus on enhancing its security posture to combat the increased number and sophistication of cyber-attacks. The FDIC established a Security Operations Center that provides continuous event-monitoring and risk analysis to prevent and detect intrusion through use of an array of tools.

Privacy Program

The FDIC has a well-established privacy program that works to maintain privacy awareness and promote transparency and public trust. During the last year, the FDIC conducted unannounced privacy assessments of various regional and field offices to ensure that confidential and proprietary documents and media are properly safeguarded, and that individual and agency privacy data are protected. These assessments provide the FDIC with its own internal mechanism to identify weaknesses and potential mitigating circumstances, and to track progress in correcting vulnerabilities.