FEDERAL DEPOSIT
INSURANCE CORPORATION

2012 Annual
Performance Plan
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Our nation is continuing to make gradual but steady progress in recovering from the financial market turmoil and severe recession that unfolded from 2007 through 2009. Over the past two years, the banking industry has undergone a difficult process of balance sheet strengthening. Capital has been increased, asset quality has improved, and banks have bolstered their liquidity. The industry is now in a much better position to support the economy through expanded lending. However, levels of troubled assets and problem banks are still high. And while the economy is showing signs of improvement, downside risks remain a concern.

The FDIC’s 2012 Annual Performance Plan reflects the agency’s priorities as we continue to address the residual workload from the financial crisis while ensuring that we are prepared to carry out our new responsibilities under the Dodd-Frank Wall Street Reform and Consumer Protection Act.

One of the FDIC’s top priorities during 2012 is to continue to build the agency’s capacity to implement the systemic resolution authority granted to the FDIC by the Dodd-Frank Act. Our goals in this area outline the many steps we will take to ensure that we are prepared to exercise this new authority if it becomes necessary. These include monitoring risk within and across large, complex firms; reviewing the resolution plans (or “living wills”) that will be submitted by the largest and most complex of these companies; establishing our own resolution plans and strategies to respond to potential crisis situations, and coordinating with overseas regulators regarding the significant challenges associated with cross-border resolution. We also plan to complete the remainder of our major rulemaking and legislative mandates under Dodd-Frank in coordination with other financial regulatory agencies.

Another top priority for the agency during 2012 is the FDIC’s Community Banking Initiative, a series of coordinated efforts designed to further our understanding of the future of community banking in this country, enhance our ongoing research activities in this area, and improve our communications with the industry on regulatory and supervisory matters. We will also continue to promote economic inclusion and access to mainstream financial institutions for those who are currently underserved. Key steps include completing and publishing the results of the second biennial National Survey of Unbanked and Underbanked Households and developing a strategy to support the responsible use of technology, including mobile banking, to expand banking services to the unbanked and underbanked.

In addition to these top priorities, this year’s goals continue to emphasize our longstanding core mission responsibilities: protecting and insuring depositors, identifying and addressing risks in supervised institutions, ensuring compliance with consumer protection laws and regulations, resolving failed institutions; and managing the ensuing receiverships.
We are still supervising a historically high number of problem institutions and managing a very large number of receiverships. Although the number and size of insured institution failures has dropped, we expect that our receivership management workload from past failures will remain high for several years to come.

Finally, we are committed in 2012 to building on the successes of the FDIC’s Culture Change Initiative through the pursuit of a continuing series of activities to promote workplace excellence. The FDIC has always been characterized by a dedicated workforce and exceptional teamwork. The great strength of this agency is that we have a very clear and understandable mission. Our employees understand that mission and how their own work relates to and supports the accomplishment of that mission on a daily basis. That has consistently been one of our major strengths identified in the periodic employee surveys we have conducted.

Throughout the FDIC’s 79-year history, insured depositors have counted on quick and complete access to their money, and none have ever lost so much as a penny. The FDIC will continue this unbroken promise in 2012.

Martin J. Gruenberg
Acting Chairman
MISSION, VISION, and VALUES

MISSION

The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress to maintain stability and public confidence in the nation’s financial system by:

- insuring deposits,
- examining and supervising financial institutions for safety and soundness and consumer protection, and
- managing receiverships.

VISION

The FDIC is a recognized leader in promoting sound public policies, addressing risks in the nation’s financial system, and carrying out its insurance, supervisory, consumer protection, and receivership management responsibilities.

VALUES

The FDIC and its employees have a tradition of distinguished public service. Six core values guide us in accomplishing our mission:

- **Integrity**: We adhere to the highest ethical and professional standards.
- **Competence**: We are a highly skilled, dedicated, and diverse workforce that is empowered to achieve outstanding results.
- **Teamwork**: We communicate and collaborate effectively with one another and with other regulatory agencies.
- **Effectiveness**: We respond quickly and successfully to risks in insured depository institutions and the financial system.
- **Accountability**: We are accountable to each other and to our stakeholders to operate in a financially responsible and operationally effective manner.
- **Fairness**: We respect individual viewpoints and treat one another and our stakeholders with impartiality, dignity, and trust.
PROGRAM DESCRIPTIONS AND ANNUAL PERFORMANCE GOALS

INSURANCE

SUPERVISION

RECEIVERSHIP MANAGEMENT
INSURANCE PROGRAM

The FDIC maintains stability and public confidence in the U.S. financial system by providing deposit insurance. Through its industry and consumer awareness programs, the FDIC seeks to increase public awareness and understanding of deposit insurance rules and coverage. The FDIC and other federal regulatory agencies make sure that insured depository institutions accurately disclose uninsured products. The FDIC also informs depositors and financial institution staff about how the insurance rules and limits apply to specific deposit accounts.

Before a prospective insured depository institution can open for business, it must apply to the FDIC for federal deposit insurance. The FDIC then evaluates an applicant’s potential risk to the Deposit Insurance Fund (DIF) by assessing the adequacy of its capital, future earnings potential, and the general character of its management. Before granting access to the federal deposit insurance system, the FDIC also considers the needs of the community that the applicant plans to serve and obtains input from other regulatory authorities.

Communication and coordination with the other bank regulatory agencies are top priorities for the FDIC. As the insurer, the FDIC, by statute, has special (back-up) examination authority for all insured depository institutions. If significant emerging risks or other serious concerns are identified for an insured depository institution for which the FDIC is not the primary federal supervisor, the FDIC and the institution’s primary supervisor work together to address those risks or concerns.1

When an insured depository institution fails, the FDIC makes sure that the institution’s customers have prompt access to their insured deposits and other services. To keep pace with the evolving banking industry and maintain its readiness to protect insured depositors, the FDIC prepares and maintains contingency plans to respond promptly to a variety of failure scenarios for insured depository institutions.

Because of the large number of depository institution failures since 2009, losses to the DIF were high, and both the fund and reserve ratio were negative throughout 2010 after reserving for estimated losses for anticipated bank failures. The fund balance returned to positive territory on June 30, 2011, following seven quarters of negative balances, and rose to $11.8 billion at the end of 2011. The reserve ratio stood at 0.17 percent on December 31, 2011, up from negative 0.02 percent at the end of 2010.

1An institution’s charter and its Federal Reserve System membership status determine which federal banking agency is the institution’s primary federal supervisor.
Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA) in July 2010, which revised the statutory authorities governing the FDIC’s management of the DIF. Among other things, DFA (1) raised the minimum designated reserve ratio (DRR) to 1.35 percent (from the former minimum of 1.15 percent) and removed the upper limit on the DRR (which was formerly capped at 1.5 percent) and, therefore, on the size of the fund; (2) required that the DIF reserve ratio reach 1.35 percent by September 30, 2020 (rather than 1.15 percent by the end of 2016, as formerly required); (3) required that, in setting assessments, the FDIC “offset the effect of [requiring that the reserve ratio reach 1.35 percent by September 30, 2020, rather than 1.15 percent by the end of 2016] on insured depository institutions with total consolidated assets of less than $10,000,000,000”; (4) eliminated the requirement that the FDIC pay dividends from the DIF when the reserve ratio exceeds 1.35 percent; and (5) continued the FDIC’s authority to declare dividends when the reserve ratio at the end of a calendar year is at least 1.5 percent, but granted the FDIC sole discretion in determining whether to suspend or limit the declaration or payment of dividends. Each year the FDIC is required to set the DRR to a level consistent with these restrictions.

As a result of the changes mandated by DFA, the FDIC developed a comprehensive, long-term management plan for the DIF that sets an appropriate target fund size and a strategy for assessment rates and dividends. The plan is designed to reduce the pro-cyclicality in the existing system and achieve moderate, steady assessment rates throughout economic and credit cycles while maintaining a positive fund balance, even during a banking crisis. The FDIC finalized the comprehensive plan in rulemakings adopted in December 2010 and February 2011 that set the DRR at two percent for 2011 and 2012. A new Restoration Plan was also adopted to make sure that the reserve ratio reaches 1.35 percent by September 30, 2020.

The FDIC continued its efforts to reduce the pro-cyclicality of the deposit insurance assessment system by issuing a rule that revised the assessment system for large insured depository institutions. The new system better reflects risk by differentiating large institutions during periods of good economic conditions and taking into account the potential losses that the FDIC could incur if such an institution failed. The rule, which became effective on April 1, 2011, eliminates the risk categories for large institutions. The rule also authorizes the FDIC to adjust an institution’s total risk-based rate within certain limits if necessary to appropriately reflect the relative risk posed by a large institution. As required by DFA, the rule also defines the assessment base as average total consolidated assets minus average tangible equity, rather than total domestic deposits (which, with minor adjustments, it had been since 1935.)

In October 2008, the FDIC implemented the Temporary Liquidity Guarantee Program (TLGP), which consisted of two components: (1) the Debt Guarantee Program (DGP), an FDIC guarantee of certain newly issued senior unsecured debt; and (2) the Transaction Account Guarantee Program (TAGP), an FDIC guarantee in full of noninterest-bearing transaction accounts. Institutions were initially required to elect whether to participate in one or both of the programs. During the DGP’s existence, 122 entities issued TLGP debt. At its peak, the DGP guaranteed almost $350 billion of outstanding debt. As of December 31, 2011, the total amount of FDIC-guaranteed outstanding debt was $167 billion. The DGP guarantee ends no later than December 31, 2012.

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The FDIC collected $10.4 billion in fees and surcharges under the DGP and has paid or accrued $152 million on claims resulting from six participating entities defaulting on debt issued under the program. The FDIC collected $1.2 billion in fees under the TAGP. Cumulative estimated TAGP losses on failures totaled $2.2 billion as of year-end 2011. Overall, TLGP fees are expected to exceed the losses from the program.

Passage of DFA eliminated the need to extend the TAGP. DFA provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts from December 31, 2010, through December 31, 2012, regardless of the balance in the account or ownership capacity of the funds. As of December 31, 2011, insured institutions had $1.4 trillion in domestic noninterest-bearing transaction accounts above the basic coverage limit of $250,000 per account. This amount is fully insured until the end of 2012 under DFA. The table below depicts the strategic goal, strategic objectives, and annual performance goals for the Insurance Program.

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<td>Insured depositors are protected from loss without recourse to taxpayer funding.</td>
<td>Customers of failed insured depository institutions have timely access to insured funds and financial services.</td>
<td>Respond promptly to all insured financial institution closings and related emerging issues. (1.1-1)</td>
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<td>The FDIC promptly identifies and responds to potential risks to the DIF.</td>
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<td>Deepen the FDIC’s understanding of the future of community banking. (1.2-1)</td>
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<td>The DIF and the deposit insurance system remain strong and adequately financed.</td>
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<td>Disseminate data and analyses on issues and risks affecting the financial services industry to bankers, supervisors, the public, and other stakeholders on an ongoing basis. (1.2-2)</td>
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<td>Adjust assessment rates, as necessary, to achieve a DIF reserve ratio of at least 1.35 percent of estimated insured deposits by September 30, 2020. (1.3-1)</td>
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<td>Expand and strengthen the FDIC’s participation and leadership role in supporting robust international deposit insurance systems. (1.3-2)</td>
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<td>The FDIC resolves the failure of insured depository institutions in the manner least costly to the DIF.</td>
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<td>Market failing institutions to all known qualified and interested potential bidders. (1.4-1)</td>
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<td>The public and FDIC-insured depository institutions have access to accurate and easily understood information about federal deposit insurance coverage.</td>
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<td>Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts. (1.5-1)</td>
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STRATEGIC GOAL 1:
Insured depositors are protected from loss without recourse to taxpayer funding.

STRATEGIC OBJECTIVE 1.1
Customers of failed insured depository institutions have timely access to insured funds and financial services.

Annual Performance Goal 1.1-1
Respond promptly to all insured financial institution closings and related emerging issues.

Indicators and Targets
1. Number of business days after an institution failure that depositors have access to insured funds either through transfer of deposits to the successor insured depository institution or depositor payout
   - Depositors have access to insured funds within one business day if the failure occurs on a Friday.
   - Depositors have access to insured funds within two business days if the failure occurs on any other day of the week.

2. Insured depositor losses resulting from a financial institution failure
   - Depositors do not incur any losses on insured deposits.
   - No appropriated funds are required to pay insured depositors.

Means and Strategies

Operational Processes (initiatives and strategies): When an insured institution is identified as a potential failure, the FDIC prepares a plan to handle the possible resolution of the institution. The FDIC begins the resolution process by assessing the institution’s assets and liabilities. The FDIC then develops an information package that is used as a marketing tool and is provided to all interested potential assuming institutions. The FDIC solicits proposals from approved bidders to find a buyer for the deposit franchise.

If the federal or state supervisor chooses to close the institution, the FDIC is named receiver, takes control of the failed institution, and determines which deposits are insured. Once the FDIC is appointed receiver, it initiates the resolution process for the failed institution.
If the failed institution is sold to another insured institution, the FDIC works with the assuming institution so that the insured deposit accounts are transferred to it as soon as possible. If no assuming institution is found during the resolution process, the FDIC disburses insured deposit balances directly to customers of the failed institution. In either case, the FDIC provides the insured depositors with access to their accounts within one or two business days.

As banking industry practices and technologies evolve, the FDIC continues to review and enhance existing plans, processes, and systems in response to potential risks that might affect the resolution process.

_Human Resources (staffing and training):_ The FDIC has authorized staffing of 1,856 employees dedicated to handling the failure of insured financial institutions and related workload. This represents a decrease of 471 authorized positions from 2011, reflecting a projected decline in failure-related workload.

_Information Technology:_ Technology is critical to the efficiency of deposit insurance determinations and payments. The FDIC uses the Claims Administration System (CAS) to estimate the number of uninsured depositors before a bank closing, close failed institutions, and perform subsequent claims processing and tracking. During 2012, the FDIC will enhance CAS to incorporate additional broker deposit processing functionality. In addition, the FDIC has begun an 18-month effort to improve data management, enhance user interfaces, and implement process efficiencies.

**Verification and Validation**

If insured deposits are transferred to a successor institution, the number of business days before depositors have access to their insured funds is verified by comparing the date of failure to the date that the successor insured depository institution opens for business and makes insured funds available to the failed institution’s depositors. For a depositor payout, the availability of funds is verified by comparing the date of failure with the date that deposit insurance checks are mailed to depositors or made available for pickup at the premises of the failed institution.

**2011 Performance Results**

This annual performance goal and its associated performance indicators and targets are unchanged from 2011. Ninety-two insured financial institution failed during 2011. The FDIC successfully met the performance targets for each failure.
STRATEGIC OBJECTIVE 1.2

The FDIC promptly identifies and responds to potential risks to the DIF.

Annual Performance Goal 1.2-1

Deepen the FDIC’s understanding of the future of community banking.

Indicator and Targets

1. Completion and publication of research
   - Conduct a nationwide conference on the future of community banking during the first quarter of 2012.
   - Publish by December 31, 2012, a research study on the future of community banks, focusing on their evolution, characteristics, performance, challenges, and role in supporting local communities.

Means and Strategies

Operational Processes (initiatives and strategies): During 2012, the FDIC will focus on the future of community banking. Community banks play a crucial role in the U.S. financial system. Community banks with assets of less than $1.0 billion account for a little more than 10 percent of the nation’s banking assets, but provide nearly 40 percent of all the small loans that insured financial institutions make to business and farms. Community bankers have identified serious challenges facing their institutions, such as technological changes, capital adequacy, and the general consolidation of the banking industry. As the primary federal regulator for the majority of community banks and the insurer of all, the FDIC needs to better understand the challenges facing the industry. To that end, it held a nationwide conference on community banking in early 2012 and will hold later in the year a series of six roundtable discussions in different regions of the country to better understand the issues facing community banks. These initiatives are part of a comprehensive research study on the future of community banking that will be published by year-end 2012.

Human Resources (staffing and training): Existing professional staff from throughout the FDIC will actively participate in the dialogue at the nationwide conference, regional roundtables, and other forums to better understand the future of community banking. Any staff training needs will be identified during the course of his study.

Information Technology: The FDIC will use existing technology to accomplish this annual performance goal.
Verification and Validation

Progress in meeting this goal and its associated indicator and targets will be tracked through periodic meetings and established reporting processes.

2011 Performance Results

This annual performance goal and its associated indicator and targets are new for 2012.

Annual Performance Goal 1.2-2

Disseminate data and analyses on issues and risks affecting the financial services industry to bankers, supervisors, the public, and other stakeholders on an ongoing basis.

Indicator and Targets

1. Scope and timeliness of information dissemination on identified or potential issues and risks
   
   - Disseminate results of research and analyses in a timely manner through regular publications, ad hoc reports, and other means.
   
   - Undertake industry outreach activities to inform bankers and other stakeholders about current trends, concerns, and other available FDIC resources.

Means and Strategies

Operational Processes (initiatives and strategies): The FDIC maintains a vigorous research and publications program on issues and topics of importance to the banking industry. Much of this research is conducted with the academic community through the Center for Financial Research (CFR). Research findings are disseminated through CFR Working Papers, articles in professional journals, and presentations at conferences and other events. The FDIC also disseminates information and analyses on industry risks through periodic reports, publications (e.g., the FDIC Quarterly Banking Profile and the FDIC Quarterly), Financial Institution Letters (FILs), and participation in industry events and other outreach activities.

The FDIC conducts outreach sessions several times each year throughout the country. In addition, FDIC employees regularly attend conferences and meet with industry analysts and trade groups to exchange views and analyses. They also present Directors’ College outreach sessions to local bank board members. During these sessions, FDIC employees share information with bank directors on current risks, new regulations, and emerging issues. In addition, local FDIC offices nationwide conduct banker roundtable events that provide a forum for bankers to receive information and raise questions about new regulatory guidance or emerging risks.
Human Resources (staffing and training): The FDIC employs economists, financial analysts, and other staff members who monitor risks within the banking industry and communicate those risks to FDIC management, other regulators, the industry, the public, and other stakeholders through a variety of media and forums.

In addition, outside scholars participate in the Corporation’s risk analysis program, and risk-focused examination training has been incorporated into the FDIC’s examination schools. The FDIC also uses examiners and other staff located throughout the country to conduct banker outreach sessions.

Information Technology: The FDIC’s website (www.fdic.gov) is a centralized source of information on FDIC research and analysis on potential areas of risk for the industry, the public, and other regulators. Databases and reports provide comprehensive financial and structural information about every FDIC-insured institution. The data are provided in multiple formats, including eXtensible Business Reporting Language (XBRL), to provide faster access to financial institution information for all users of the data, including financial institutions, bank regulators, and the public.

Verification and Validation

Timely analyses of banking industry risks are included in regular publications or issued as ad hoc reports. Industry outreach activities aimed at the banking community and industry trade groups promote discussion of current trends and concerns and inform bankers about available FDIC resources. Publications and outreach events are documented through established reporting processes.

2011 Performance Results

This annual performance goal and its associated indicator and targets are unchanged from 2011. In 2011, the FDIC successfully met these performance targets.

STRATEGIC OBJECTIVE 1.3

The DIF and the deposit insurance system remain strong and adequately financed.

Annual Performance Goal 1.3-1

Adjust assessment rates, as necessary, to achieve a DIF reserve ratio of at least 1.35 percent of estimated insured deposits by September 30, 2020.
Indicators and Targets

1. Updated fund balance projections and recommended changes to assessment rates
   - Recommend changes to deposit insurance assessment rates to the FDIC Board of Directors as necessary.

2. Demonstrated progress in achieving the goals of the Restoration Plan
   - Provide progress reports to the FDIC Board of Directors by June 30, 2012, and December 31, 2012.

3. Analysis of possible refinements to the deposit insurance pricing methodology
   - Provide to the Chairman by September 1, 2012, an analysis, with recommendations where appropriate, of refinements to the deposit insurance pricing methodology for banks with assets under $10 billion.

Means and Strategies

Operational Processes (initiatives and strategies): This goal reflects a requirement of DFA. The DIF became positive in June 2011 and rose to $11.8 billion at the end of the year. The reserve ratio stood at 0.17 percent on December 31, 2011. The fund is projected to reach 1.15 percent of estimated insured deposits in 2018 and would achieve the required 1.35 percent of estimated insured deposits by 2020 under the Restoration Plan adopted by the FDIC Board of Directors.

The FDIC’s Financial Risk Committee (FRC) develops quarterly failure projections and loss estimates to establish contingent loss reserves for the DIF. The FRC consults with the other federal banking agencies in its deliberations. Models that forecast failures and failure resolution costs are maintained and enhanced, as necessary. The FRC regularly reviews adverse events to identify lessons or implications for monitoring and addressing risks. Based on an analysis of projected failed bank assets and other pertinent information, the FRC recommends to the Chief Financial Officer (CFO) the level of the contingent loss reserve for the DIF.

FDIC staff use the FRC’s projections on insurance losses to help determine the level of assessment revenue necessary to maintain adequate funding in the DIF. Projected insurance losses, as well as projections of investment revenue, operating expenses, and insured deposit growth, are key elements in estimating assessment revenue needs. In addition, the FDIC continues to enhance the techniques and methodologies used to analyze the nature of risk exposure, including scenario analysis and stress testing. In 2012, the FDIC will evaluate possible changes to the deposit insurance pricing methodology for insured institutions with less than $10 billion in assets.
Human Resources (staffing and training): FDIC staff perform the analytical work associated with deposit insurance pricing. The FDIC will continue to expand its ties to the academic community to broaden the information and analytical perspectives available to it as steward of the DIF.

Information Technology: The Risk-Rated Premium System (RRPS), the information system supporting the assessment process, calculates the premiums that financial institutions are assessed for deposit insurance. RRPS is updated and tested with any changes to the insurance assessment pricing structure.

Verification and Validation

To ensure that the RRPS identifies higher risk institutions and appropriately assesses higher insurance premiums, a Federal Information Security Management Act (FISMA) self-assessment of RRPS is conducted annually. In addition, the Government Accountability Office (GAO) reviews annually the methodology used to determine the contingent loss reserve. In 2012, the FRC will again conduct semiannual reviews of the contingent loss reserve methodology by analyzing the variance between projected and actual losses. In addition, FDIC staff will report semi-annually to the FDIC Board of Directors on progress made in meeting the goals of the Restoration Plan.

2011 Performance Results

This annual performance goal and its associated performance indicators and targets have been updated for 2012. The FDIC successfully met the performance targets established for the related 2011 annual performance goal.

Annual Performance Goal 1.3-2

Expand and strengthen the FDIC’s participation and leadership role in supporting robust international deposit insurance and banking systems.

Indicator and Targets

1. Scope of information sharing and assistance available to international governmental bank regulatory and deposit insurance entities

- Maintain open dialogue with counterparts in strategically important countries as well as international financial institutions and partner U.S. agencies.
- Foster strong relationships with international banking regulators and associations that promote sound banking supervision and regulation, failure resolution, and deposit insurance practices.
- Target capacity building based on the assessment methodology of the BCBS and IADI Core Principles for an Effective Deposit Insurance System.
• Lead and support the Association of Supervisors of Banks of the America’s efforts to promote sound banking principles throughout the Western Hemisphere.

Means and Strategies

Operational Processes (initiatives and strategies): The FDIC exercises a leadership role in promoting sound deposit insurance, bank supervision, and bank resolution practices by providing technical guidance, training, consulting services, and information to international governmental banking and deposit insurance organizations in many countries around the world. The global financial crisis that began in the summer of 2007 and intensified in 2008 led many international authorities, including deposit insurers, to take a series of unprecedented actions to restore public confidence and financial stability.

Throughout 2011, the FDIC played a leading role among international standard-setting, regulatory, supervisory, and multi-lateral organizations by contributing to the development of policies related to reducing the moral hazard and other risks posed by systemically important financial institutions (SIFIs). Among the with which organizations the FDIC collaborated were the Basel Committee on Banking Supervision (BCBS), the Financial Stability Board (FSB), and the International Association of Deposit Insurers (IADI).

Key to the international collaboration was the ongoing dialogue among the FDIC’s senior leaders and senior financial regulators in the United Kingdom (UK) about the implementation of DFA, Basel III, compensation policies, and how changes in U.S. financial regulations compare to regulatory developments in the UK and Europe. The primary areas of discussion were the development of recovery and resolution plans for SIFIs, the FDIC’s plans for executing a SIFI resolution, and the importance of cross-border coordination in the event a SIFI becomes distressed.

Under the FDIC’s leadership, IADI made significant progress in advancing the 2009 IADI and BCBS Core Principles for Effective Deposit Insurance Systems (Core Principles). IADI and the BCBS released a methodology for assessing compliance with the Core Principles in December 2010. The development of the assessment methodology was a collaborative effort led by IADI in partnership with the BCBS, International Monetary Fund (IMF), World Bank, European Forum of Deposit Insurers (EFDI), and European Commission (EC). In 2011, the IMF and the World Bank officially recognized the Core Principles and the assessment methodology as the basis for evaluating the effectiveness of deposit insurance systems as part of the Financial Sector Assessment Program (FSAP) under which they comprehensively analyze the financial sectors of individual member countries. Subsequently, the FSB approved the Core Principles and the assessment methodology for inclusion in its Compendium of Key Standards for Sound Financial Systems. The official recognition of the Core Principles and the assessment methodology by the IMF, the World Bank, and the FSB represents an important milestone in the acceptance of the role of effective systems of deposit insurance in maintaining financial stability. The FDIC will continue to lead the IADI effort to provide training to deposit insurers and other safety-net organizations on the methodology during 2012.
The Association of Supervisors of Banks of the Americas (ASBA), which is composed of bank supervisors from 35 countries in Latin America, the Caribbean, and Spain, promotes sound banking and supervision through a variety of initiatives including providing consulting and training, sponsoring international secondments, and representing the interests of its members in international forums. In addition, ASBA promotes economic inclusion and access to responsible financial services, and provides guidance to its members on adapting international best practices to local supervisory frameworks. As Vice Chairman of the Association for 2012-2013, the FDIC will lead ASBA’s efforts to strengthen its institutional governance framework, define its mid- to long-term strategic direction, strengthen its training and capacity building programs, and promote international best practices.

**Human Resources (staffing and training):** The FDIC will consider each international request for assistance from a strategic perspective and will appropriately leverage its resources to address these requests. Available resources include a small permanent staff and employees on temporary detail assignments. In 2012, the FDIC will continue to use both permanent and temporary staff to support the international program and enhance the FDIC’s leadership role in international bank supervision and failure resolution, and among international deposit insurance organizations.

**Information Technology:** Information about international governmental bank regulatory or deposit insurance activities and the FDIC’s international program is communicated through the FDIC’s website.

**Verification and Validation**
Achievement of this annual performance goal will be demonstrated through implementation of an international training program, confirmation of the effectiveness of the methodology for assessing compliance with the **Core Principles**, and FDIC participation and leadership in key international organizations. Progress in meeting this annual goal will be tracked by the FDIC’s International Affairs Working Group through established reporting processes.

Achievement of the ASBA performance target will be demonstrated by FDIC leadership of ASBA-sponsored training programs, implementation of an FDIC-ASBA secondment program, participation in working groups that promote sound banking and supervision, and enhancement of FDIC participation and leadership within the Association.

**2011 Performance Results**
This annual performance goal is unchanged from 2011, but the performance targets have been updated for 2012. In 2011, the FDIC successfully met all three performance targets for this goal.

**STRATEGIC OBJECTIVE 1.4**
The FDIC resolves the failure of insured depository institutions in the manner least costly to the DIF.
Annual Performance Goal 1.4-1

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

Indicator and Target

1. Scope of qualified and interested bidders solicited
   • Contact all known qualified and interested bidders.

Means and Strategies

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

*Human Resources (staffing and training):* Franchise marketing is carried out primarily by specialized FDIC personnel with support, as needed, from staff in other disciplines. The FDIC’s Resolutions and Receiverships Commissioning Program ensures the future availability of trained and qualified personnel to handle this and other aspects of the resolutions and receivership management functions. Staffing requirements are continually assessed within the context of current and projected workload to ensure that the FDIC is appropriately staffed. The FDIC also uses contractor support, nonpermanent employees, and employees temporarily assigned from divisions and offices throughout the organization to meet workload demands and mission responsibilities in this area.

*Information Technology:* The FDIC documents franchise marketing activities through its automated 4C asset management and servicing system.

Verification and Validation

Data from 4C are used to report on marketing and sales progress.

2011 Performance Results

This annual performance goal and its associated performance indicator and target are unchanged from 2011. The performance target was successfully met for the 92 insured institution failures that occurred in 2011.
STRATEGIC OBJECTIVE 1.5

The public and FDIC-insured depository institutions have access to accurate and easily understood information about federal deposit insurance coverage.

Annual Performance Goal 1.5-1

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

Indicators and Targets

1. Timeliness of responses to deposit insurance coverage inquiries
   - Respond within two weeks to 95 percent of written inquiries from consumers and bankers about FDIC deposit insurance coverage.

2. Initiatives to increase public awareness of deposit insurance coverage changes
   - Conduct at least 12 telephone or in-person seminars for bankers on deposit insurance coverage.

Means and Strategies

Operational Processes (initiatives and strategies): The FDIC uses various means to educate insured financial institution employees and depositors about FDIC deposit insurance coverage. In addition to conducting seminars for bank employees, the FDIC encourages the dissemination of educational information through the banking industry and the media.

The FDIC works with insured financial institutions to encourage them to use these resources and to make them available to bank employees and customers. The FDIC also (1) operates a toll-free call center (877-ASK-FDIC) to answer questions about FDIC deposit insurance coverage, (2) maintains educational and informational resources on the FDIC’s website, (3) publishes articles on deposit insurance coverage in the FDIC Consumer News (a quarterly newsletter for consumers published by the FDIC), and (4) works to raise awareness of deposit insurance coverage through the national and regional news media.

Human Resources (staffing and training): The FDIC has a dedicated staff of deposit insurance specialists and contract employees who respond to tens of thousands of telephone and written inquiries from consumers and bankers about deposit insurance coverage. In addition, the FDIC administers a public education program that includes developing and maintaining a wide range of written materials, videos, electronic calculators, and other tools to help consumers and bank employees understand how FDIC deposit insurance works. The FDIC also provides training opportunities for employees of insured financial institutions.
The FDIC regularly reviews staffing and training needs to ensure that the resources supporting deposit insurance educational initiatives are adequate and that employees possess the skills and knowledge to implement this program effectively and successfully.

**Information Technology:** The FDIC tracks the receipt of and response to written banker and consumer inquiries about the FDIC’s deposit insurance program through the Specialized Tracking and Reporting System (STARS). During 2011, the FDIC updated the Electronic Deposit Insurance Estimator (EDIE) to ensure that it reflects all statutory and regulatory changes. The FDIC continues to use the Internet and the latest multi-media technology delivery mechanisms to reach large audiences of financial institution employees and to deliver deposit insurance educational tools and materials to the banking community and the public.

**Verification and Validation**

Progress in meeting the performance targets for this goal will be tracked through STARS and established reporting processes.

**2011 Performance Results**

This annual performance goal and the associated performance indicators are unchanged for 2012. The FDIC successfully met the performance targets for this annual performance goal in 2011.
The FDIC’s Supervision Program promotes the safety and soundness of FDIC-supervised
ingured depository institutions, protects consumer rights, and promotes community investment
initiatives by FDIC-supervised institutions. In 2012, the FDIC will continue its efforts to
increase the effectiveness and efficiency of all of its supervisory programs in light of ongoing
industry consolidation, new technologies, and product innovation, which have resulted in larger,
more complex banking organizations. The FDIC will continue to increase the resources
dedicated to analyzing the risks posed by these larger, more complex financial institutions,
particularly those that are systemically important. The FDIC also will continue to assess and
modify, as appropriate, its examination procedures for all institutions given the changing risk
profiles of the industry and individual institutions.

The FDIC is the primary federal regulator for state-chartered banks and savings institutions that
are not members of the Federal Reserve System, generally known as state nonmember banks and
state-chartered thrifts. This includes state-licensed insured branches of foreign banks and state-
chartered savings institutions. As insurer, the FDIC also has special (back-up) examination
authority for state member banks that are supervised by the Federal Reserve Board (FRB) and
national banks and thrift institutions that are supervised by the Office of the Comptroller of the
Currency (OCC). The FDIC’s roles as an insurer and primary supervisor are complementary, and
many activities undertaken by the FDIC support both the insurance and supervision programs.
Through the review of examination reports, off-site monitoring tools, participation in
examinations conducted by other federal regulators, and, where appropriate, special (back-up)
examination activities, the FDIC regularly monitors the potential risks at all insured institutions,
including those for which it is not the primary federal regulator.

DFA expanded the FDIC’s statutory responsibilities beyond insured depository institutions to
bank holding companies with more than $50 billion in assets and nonbank financial companies
that are designated as systemically important financial institutions (SIFIs) by the Financial
Stability Oversight Council (FSOC). DFA designates the FRB as the primary supervisor of these
companies, but the FDIC has established on- and off-site monitoring programs and has statutory
back-up examination authority for these companies in much the same way that it does for insured
financial institutions supervised by other federal regulators. The purpose of FDIC monitoring
and risk assessment activities for these institutions is, where possible, to mitigate identified risks
and to be prepared, if necessary, to conduct an orderly liquidation of the company.
As the primary federal regulator of all insured state nonmember banks and state-chartered thrifts, the FDIC performs periodic risk management examinations of these institutions to assess their overall financial condition, management policies and practices, and compliance with applicable laws and regulations. Through the examination process, the FDIC also assesses the adequacy of management and internal control systems to identify and control risks and to detect the risks of fraud or insider abuse. In addition, the FDIC uses off-site monitoring programs to enhance its ability to promptly identify emerging safety-and-soundness issues.

The FDIC conducts separate examinations to assess an institution’s compliance with consumer protection statutes and regulations for all state nonmember banks that are not subject to the primary jurisdiction of the Consumer Financial Protection Bureau (CFPB). The FDIC also conducts separate Community Reinvestment Act (CRA) examinations for all state nonmember banks. As part of the compliance examination process, the FDIC reviews substantive compliance issues as well as the accuracy and completeness of information and disclosures that institutions provide to consumers.

If weaknesses are identified through the examination process, the FDIC promptly takes appropriate supervisory action. Formal and informal enforcement actions may be issued for institutions identified as having significant weaknesses or found to be operating in a deteriorated financial condition. The institution must operate under the action until these weaknesses are remedied. Noncompliance with consumer protection or fair lending laws can result in civil liability and negative publicity as well as the imposition of formal or informal enforcement actions by the FDIC to correct the identified violations.

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

In addition, the FDIC acts on applications from FDIC-supervised insured depository institutions to undertake new or expanded business activities, and evaluates proposals associated with private investors seeking to acquire failed depository institutions. In either scenario, the FDIC evaluates various factors, including capital adequacy, quality of management, financial condition, and compliance with applicable laws and regulations. When an institution applies to expand its business activities within the insured depository institution system, the FDIC also considers an institution’s compliance with consumer protection, fair lending, and privacy laws and its performance under the CRA. It evaluates similar factors when private investors in new banks and/or in partnership with existing banks and holding companies seek to acquire failed institutions. In addition, it also ensures compliance with the Statement of Policy on Qualifications for Failed Bank Acquisitions.
Information about the FDIC’s supervisory program, including laws, regulations, and regulatory guidance, is available at [www.fdic.gov](http://www.fdic.gov). The FDIC’s semiannual *Supervisory Insights* journal provides information about bank supervision for bankers, bank examiners, and other practitioners.

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

<table>
<thead>
<tr>
<th>Strategic Goal</th>
<th>Strategic Objective</th>
<th>Annual Performance Goals</th>
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<tbody>
<tr>
<td>FDIC-insured institutions are safe and sound.</td>
<td>The FDIC exercises its statutory authority, in cooperation with primary federal regulators and state agencies, to ensure that all FDIC-insured institutions appropriately manage risk.</td>
<td>Conduct on-site risk management examinations to assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions. (2.1-1)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>For all institutions that are assigned a composite Uniform Financial Institutions Rating of 3, 4, or 5, conduct on-site visits within six months after implementation of a corrective program. Ensure during these visits and subsequent examinations that the institution is fulfilling the requirements of the corrective program that has been implemented and that the actions taken are effectively addressing the underlying concerns identified during the examination. (2.1-2)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Assist in protecting the infrastructure of the U.S. banking system against terrorist financing, money laundering, and other financial crimes. (2.1-3)</td>
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<td></td>
<td>More closely align regulatory capital standards with risk and ensure that capital is maintained at prudential levels. (2.1-4)</td>
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<td></td>
<td></td>
<td>Identify and address risks in financial institutions designated as systemically important. (2.1-5)</td>
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The following table depicts the strategic goal, strategic objectives, and annual performance goals for the Compliance and Consumer Affairs components of the Supervision Program.

<table>
<thead>
<tr>
<th>Strategic Goal</th>
<th>Strategic Objectives</th>
<th>Annual Performance Goals</th>
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<tbody>
<tr>
<td></td>
<td>Consumers’ rights are protected, and FDIC-supervised institutions invest in their communities.</td>
<td>Conduct on-site CRA and compliance examinations to assess compliance with applicable laws and regulations by FDIC-supervised depository institutions. (3.1-1)</td>
</tr>
<tr>
<td></td>
<td>FDIC-supervised institutions comply with consumer protection, CRA, and fair lending laws and do not engage in unfair or deceptive practices.</td>
<td>Take prompt and effective supervisory action to address problems identified during compliance examinations of FDIC-supervised institutions that receive a composite 3, 4, or 5 rating for compliance with consumer protection and fair lending laws. Ensure that each institution is fulfilling the requirements of any corrective program that has been implemented and that the actions taken are effectively addressing the underlying concerns identified during the examination. (3.1-2)</td>
</tr>
<tr>
<td></td>
<td>Consumers have access to accurate and easily understood information about their rights and the disclosures due them under consumer protection and fair lending laws.</td>
<td>Establish an effective working relationship with the new Consumer Financial Protection Bureau (CFPB). (3.1-3)</td>
</tr>
<tr>
<td></td>
<td>The public has fair access to banking services and is treated equitably by FDIC-supervised institutions.</td>
<td>Effectively investigate and respond to written consumer complaints and inquiries about FDIC-supervised financial institutions. (3.2-1)</td>
</tr>
<tr>
<td></td>
<td>Promote economic inclusion and access to responsible financial services through supervisory, research, policy, and consumer/community affairs initiatives.</td>
<td>(3.3-1)</td>
</tr>
</tbody>
</table>
STRATEGIC GOAL 2: 
FDIC-insured institutions are safe and sound.

STRATEGIC OBJECTIVE 2.1

The FDIC exercises its statutory authority, in cooperation with primary federal regulators and state agencies, to ensure that all FDIC-insured institutions appropriately manage risk.

Annual Performance Goal 2.1-1

Conduct on-site risk management examinations to assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions.

Indicator and Target

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

   • Conduct all required risk management examinations within the timeframes prescribed by statute and FDIC policy.

Means and Strategies

Operational Processes (initiatives and strategies): Risk management examinations assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions. The FDIC performs safety and soundness, Bank Secrecy Act, and information technology (IT) reviews at each risk management examination of an FDIC-supervised insured depository institution. As applicable, the FDIC also conducts reviews of trust, registered transfer agent, municipal securities dealer, and government security dealer activities at these examinations.

In 2012, the FDIC projects that it will conduct more than 2,700 risk management examinations required under statute, FDIC policy, or agreements with state supervisors. The FDIC follows a risk-focused approach to examinations, which allows examiners to focus resources on those areas with the greatest potential risk. The FDIC has several analytical models to identify higher-risk financial institutions by considering factors such as rapid growth, fluctuating earnings, economic downturns, and concentrations in vulnerable industry sectors. Examiners use these off-site tools to help them risk-focus during on-site examinations. These models are also used to identify the need for inquiries or on-site visits to FDIC-supervised institutions outside of the regular examination cycle.
The FDIC also continues to focus on the risks posed by technology. On-site examinations review technology-related activities to determine how each FDIC-supervised depository institution manages its IT risks.

The FDIC proactively monitors indicators of technology risk that may affect FDIC-supervised institutions and provides information to the industry about risks associated with technology outsourcing practices (e.g., contracting for computer services). The FDIC regularly talks with technology vendors, bank trade associations, and standards and rule-setting entities to identify and promote effective risk management practices for emerging technologies.

During 2012, the FDIC will continue to work closely with state and other federal agencies to monitor institutions most affected by the downward trend in the real estate market through on-site and off-site programs. Declines in the availability of subprime and nontraditional mortgages have adversely affected construction and development loan portfolios, which are concentrated in one-to-four family residential development loans at numerous institutions. Commercial property markets are also showing signs of overbuilding and weakness, with high concentration levels at many institutions.

The number of risk management examinations conducted during 2012 may fluctuate as the number of FDIC-supervised insured depository institutions changes due to mergers, closings, newly approved charters, and other actions. In addition, increases in asset size or changes to an institution’s condition or capital levels may accelerate examination cycles and increase the number of required examinations.

**Human Resources (staffing and training):** The FDIC has 2,131 authorized positions (1,469 permanent, 102 nonpermanent) in its field examination workforce for risk management in 2012. Staffing and training needs are reviewed regularly to ensure that the staff resources supporting the risk management examination program are adequate to conduct a high quality examination program and that employees possess the skills and knowledge to effectively identify existing and emerging risks.

The FDIC has cooperative agreements with most states to conduct joint or alternating risk management examinations. However, resource constraints at the state level may affect the completion of scheduled examinations by state agencies in 2012. If a state supervisor handling an examination has scheduling, staffing, or other resource constraints, the statutory examination requirement may not be met. In such cases, the FDIC will work with the state supervisor to make sure that any delinquent examination is quickly scheduled and completed. When appropriate, the FDIC may conduct the examination instead of the state supervisor.

**Information Technology:** The FDIC’s Virtual Supervisory Information on the Net (ViSION) system is used to schedule and track the completion of risk management examinations. In addition, the FDIC uses various automated tools, such as the General Examination System, Examination Documentation modules, Interest Rate Risk Standard Analysis software, and the Automated Loan Examination and Review Tool (ALERT), to support the risk management examination process.
The FDIC is in the midst of a multi-year project to develop a new Examination Tools Suite (ETS) that will increase the efficiency of some of these existing applications and address the risk of technological obsolescence. In 2012, the first phase of ETS will be implemented and will replace ALERT.

Verification and Validation

The number and timing of examinations are tracked through the ViSION system and reported through established management processes.

2011 Performance Results

This annual performance goal and the associated performance indicator and target are unchanged from 2011. In 2011, the FDIC successfully met this performance target.

Annual Performance Goal 2.1-2

For all institutions that are assigned a composite Uniform Financial Institutions Rating of 3, 4, or 5, conduct on-site visits within six months after implementation of a corrective program. Ensure during these visits and subsequent examinations that the institution is fulfilling the requirements of the corrective programs that have been implemented and that the actions taken are effectively addressing the underlying concerns identified during the examination.

Indicator and Target

1. Percentage of follow-up examinations and on-site visits of 3-, 4-, or 5-rated institutions conducted within required timeframes
   
   - Conduct 100 percent of required on-site visits within six months after implementation of a corrective program.

Means and Strategies

*Operational Processes (initiatives and strategies):* Troubled and problem institutions (those with a composite rating of 3, 4, or 5) are identified primarily through the examination process. While reason and moral suasion are the primary corrective tools, the FDIC has broad enforcement powers to correct practices, conditions, or violations of law that threaten an institution’s financial condition. The FDIC may use informal and formal enforcement actions against an institution or responsible individuals to address identified problems.

The examination report identifies the corrective actions to be taken by the institution. If deemed necessary, a formal or informal enforcement action is sent to the financial institution with the report of examination. To ensure that supervisory actions are taken promptly, the FDIC monitors the time it takes to provide examination reports to FDIC-supervised institutions after the completion of an examination.
Except in rare instances where it is determined by FDIC management to be unnecessary, a follow-up examination or on-site visit is conducted to review compliance with supervisory actions for each institution that receives a composite Uniform Financial Institutions Rating of 3, 4, or 5. Additional follow-up action is taken when the corrective program is determined to have been insufficient in addressing the identified problem.

The responsible regional office case manager and senior regional officials closely monitor each troubled and problem depository institution. In addition to an on-site visit and a subsequent examination, progress in complying with an enforcement action is assessed through progress reports from the institution, use of off-site monitoring tools, and direct communication with management of the financial institution.

**Human Resources (staffing and training):** Case managers and other regional office officials finalize and monitor compliance with enforcement programs. Field examination staff conduct on-site visits. Staffing and training needs are reviewed regularly to ensure that resources available for this function are adequate and that employees possess the required skills and knowledge.

**Information Technology:** The ViSION system is used to monitor all enforcement activity and other significant events at troubled institutions and to schedule on-site visits and follow-up examinations of 3-, 4-, and 5-rated institutions.

**Verification and Validation**

Enforcement actions and the timing of required on-site visits are tracked through the ViSION system. The FDIC also uses its Regional Office Internal Control Review program to make sure that regions effectively monitor the compliance of FDIC-supervised institutions with formal and informal enforcement actions. This review incorporates various components of the supervisory process, including assessment of the appropriateness of, and implementation monitoring and follow-up on, formal and informal corrective actions. Any material exceptions noted during the reviews are brought to management’s attention for appropriate action.

**2011 Performance Results**

This annual performance goal and the associated performance indicator and target are unchanged from 2011. In 2011, the FDIC successfully met this performance target.

**Annual Performance Goal 2.1-3**

Assist in protecting the infrastructure of the U.S. banking system against terrorist financing, money laundering, and other financial crimes.
Indicators and Target

1. Percentage of required examinations conducted in accordance with statutory requirements and FDIC policy
   - Conduct all Bank Secrecy Act examinations within the timeframes prescribed by statute and FDIC policy.

Means and Strategies

Operational Processes (initiatives and strategies): The FDIC conducts Bank Secrecy Act/Anti-Money Laundering (BSA/AML) examinations and Office of Foreign Assets Control (OFAC) reviews to assess the BSA/AML and OFAC compliance programs of supervised financial institutions. These examinations and reviews cover sound risk management, compliance with recordkeeping requirements, and the ability of the institution to identify and report suspicious activity. BSA/AML examinations and OFAC reviews are performed as a part of all risk management examinations of FDIC-supervised insured depository institutions. The FDIC also completes BSA exams for states that do not conduct these exams. The FDIC follows a risk-focused approach to BSA/AML examinations and OFAC reviews, which allows examiners to focus resources on those areas with the greatest potential risk.

Guidance is provided to risk management staff through written memoranda, participation in the FFIEC BSA/AML Examination Workshop, and attendance at the Advanced BSA/AML Specialists Conference.

Human Resources (staffing and training): The FDIC has 339 examiners who are designated as BSA/AML subject matter experts, including 80 with advanced certifications for this discipline. Staffing and training needs are reviewed regularly to ensure that the staff resources supporting the BSA/AML examination program are adequate and that employees possess the skills and knowledge to effectively and successfully assess compliance with BSA/AML requirements and detect any emerging risks.

Information Technology: The ViSION system is used to track the number and timing of required BSA/AML examinations. Other risk management and compliance supervisory systems are also used to obtain dates for these examinations. In addition, BSA/AML reference materials are available on the FDIC’s website at http://www.fdic.gov/regulations/examinations/index.html for use by the banking industry and the regulatory community.3

Verification and Validation
The number and timing of BSA/AML examinations are tracked in the ViSION system and reported through established management processes.

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3This link provides the banking industry and the regulatory community with centralized access to BSA/AML resources. The link also provides updated information and instructions about BSA/AML examination procedures, interpretive guidance, websites of related agencies, instructions for reporting suspicious activity and terrorist-financing activity, and an overview of governing rules and regulations. Along with the interagency FFIEC BSA/AML Examination Manual, the federal banking agencies have also made available through the FFIEC website (www.ffiec.gov) a BSA/AML Examination Manual InfoBase. It includes the interagency BSA/AML Examination Manual, BSA regulations, and guidance provided by each federal banking agency.
2011 Performance Results

This annual performance goal and its associated performance indicator and target are unchanged from 2011. The FDIC successfully met this performance target in 2011.

Annual Performance Goal 2.1-4

More closely align regulatory capital standards with risk and ensure that capital is maintained at prudential levels.

Indicators and Targets

1. Issuance by the federal banking agencies of rules implementing alternative standards of creditworthiness for credit ratings in risk-based capital rules

   - Complete by December 31, 2012, final rules addressing alternative standards of creditworthiness for credit ratings in the risk-based capital rules.

2. Issuance by the federal banking agencies of rules to implement internationally agreed upon enhancements to regulatory capital standards

   - Complete by December 31, 2012, a final rule for the Basel III capital standards.

   - Complete by July 31, 2012, a final rule on the Market Risk Amendment, including finalizing alternatives to the use of credit ratings in accordance with DFA requirements.

Means and Strategies

Operational Processes (initiatives and strategies): The FDIC seeks to make sure that banks build and maintain capital adequate to withstand a difficult financial environment by revising the capital framework, enhancing off-site monitoring capabilities, and bolstering examination support.

The objective of Basel III is to strengthen the capital and liquidity rules for banking organizations with the goal of promoting a more resilient banking industry. The Basel III enhancements to the capital adequacy framework are designed to improve the banking industry’s ability to absorb the effects of financial or economic stress. In 2012, the FDIC will work with the other federal bank regulatory agencies to implement the enhanced Basel III standards.

Also in 2012, in accordance with the requirements of DFA, the FDIC and the other federal bank regulatory agencies will finalize alternative standards of creditworthiness to replace the use of credit ratings in the risk-based capital rules. Currently, the agencies use credit ratings to assign risk-based capital for certain exposure types.
The FDIC will work closely with the other agencies to finalize alternative standards of creditworthiness while ensuring that minimum risk-based capital requirements remain at prudently sound levels.

In addition, the FDIC will continue to promote strong international bank capital standards by participating in meetings and activities of the Financial Stability Board; the Basel Committee and its various groups and subgroups, including the Policy Development Group, the Trading Book Group, the Standards Implementation Group, the Working Group on Margin Requirements; and other international groups and forums.

Although pursuit of this annual performance goal will extend over several years, 2012 will be another year of intensive work. Key efforts include participating in Basel’s numerous quantitative impact studies, including those that are designed to monitor the new international liquidity requirements; participating in the Basel Committee’s fundamental review of the trading book and further work on counterparty credit risk; implementing international standards for over-the-counter (OTC) derivative margin requirements; participating in the Basel Committee’s review of the capital requirements for securitization exposures; and developing a regulatory capital charge for systemically important financial institutions.

**Human Resources (staffing and training):** The breadth and depth of knowledge among FDIC staff on bank capital and capital markets matters has expanded in recent years, partly through their continued participation and active involvement in Basel policy development groups. In 2012, the FDIC will continue to increase the number of staff with expertise on bank capital by providing internal and external training.

**Information Technology:** The FDIC will use existing technology to accomplish this annual performance goal.

**Verification and Validation**

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

**2011 Performance Results**

This annual performance goal is unchanged from 2011. The performance targets and one of the associated performance indicators have been updated for 2012. In 2011, one performance target for this goal was successfully met, one was not fully achieved, and three were deferred.

**Annual Performance Goal 2.1-5**

Identify and address risks in financial institutions designated as systemically important.
Indicators and Targets

1. Issuance of rules and policy guidance (with other financial regulatory agencies) to implement provisions of DFA applicable to systemically important institutions and markets

   - Take all steps necessary to facilitate timely issuance of implementing regulations and related policy guidance on proprietary trading and other investment restrictions (also known as the Volcker Rule).

   - Take all steps necessary to facilitate timely issuance of implementing regulations and related policy guidance on restrictions on federal assistance to swap entities.

   - Take all steps necessary to facilitate timely issuance of implementing regulations and related policy guidance on capital and margin and other requirements for OTC derivatives.

   - Take all steps necessary to facilitate timely issuance of implementing regulations and related policy guidance on credit risk retention requirements for securitizations.

   - Take all steps necessary to facilitate timely issuance of implementing regulations and related policy guidance on enhanced compensation structure and incentive compensation requirements.

2. Establishment of institution monitoring and resolution planning programs for systemically important institutions

   - Monitor risk within and across large, complex firms to assess the potential need for, and obtain the information that would be required to carry out, if necessary, an FDIC resolution of the institution.

   - Establish by June 30, 2012, with the FRB, policies and procedures for collecting, processing, and reviewing for completeness and sufficiency holding company and insured depository institution (IDI) resolution plans submitted under Section 165(d) of DFA.

3. Completed reviews of resolution plans

   - Complete, with the FRB and in accordance with prescribed timeframes, the review of holding company and IDI resolution plans submitted under Section 165(d) of DFA.

Means and Strategies

Operational Processes (initiatives and strategies): DFA expanded the FDIC’s statutory responsibilities for the resolution of failed financial institutions beyond IDIs to the orderly liquidation, if necessary, of bank holding companies with more than $50 billion in assets.
With this new responsibility, the FDIC (with the FRB) is responsible for ensuring that sound resolution plans are in place for these companies and for managing their orderly liquidation, if that becomes necessary.

DFA requires joint or coordinated rulemakings in several areas. Although substantial progress was made in implementing required regulations in 2011, much important rulemaking remains to be completed in 2012. FDIC staff will prepare, or help prepare, summaries of comments received on proposed rules and will work (with other regulatory agencies, where required) to finalize those rules after careful consideration of the comments received. FDIC staff also will identify issues for interagency discussion and will lead or facilitate those discussions, as necessary. In particular, the FDIC will consult with the FRB to finalize the rulemaking on Enhanced Prudential Standards and Early Remediation, which includes stress testing. In addition, it will continue discussions to establish the credit exposure requirements for SIFIs. As a member of the FSOC, the FDIC also will actively participate in the completion of rulemaking and guidance to establish the process and criteria the FSOC will use to designate selected nonbank financial companies as systemically important.

In 2011, the FDIC initiated both institution-specific and cross-institution risk monitoring programs for companies subject to DFA. During 2012, the FDIC will enhance these programs to monitor risks posed by the largest and most complex financial companies and will work with them and their primary federal regulators to mitigate identified risks. This will include a specific focus on institutions that have international operations and pose potential global systemic risk. The FDIC will actively participate in international regulatory initiatives to reduce systemic risk and the impact of cross-border institution failures.

In addition to its risk monitoring activities, the FDIC will review (with the FRB) the resolutions plans submitted by covered companies under Section 165(d) of DFA. These reviews will give the FDIC and the FRB the opportunity to mitigate identified risks. The reviews also will provide the FDIC with the information needed to prepare for and, if necessary, carry out the orderly liquidation of specific companies to avoid future disruptions to the U.S. economy or world financial markets. Covered companies with more than $250 billion in assets are expected to submit initial draft resolution plans for review in mid-2012.

Human Resources (staffing and training): Over the past two years, the FDIC has worked to make sure that it is prepared to carry out its new responsibilities under DFA for the orderly liquidation of SIFIs. To that end, it established a new Office of Complex Financial Institutions (CFI) in early 2011 to provide a focal point for its efforts to monitor the risks posed by the largest and most complex financial institutions and to plan for their resolution, if that became necessary. New organizational units were also established in the Division of Risk Management Supervision (RMS), the Division of Resolutions and Receiverships (DRR), and the Legal Division to help carry out the FDIC’s new responsibilities.

In 2012, the staffing and other resources devoted to risk analysis and resolution planning for large and potentially systemically important financial companies have been increased in each of these organizations.
CFI’s authorized 2012 staffing level was increased to 181 to ensure that it had sufficient resources to perform both institution-specific and cross-institutional risk analysis; coordinate broad-based reviews of resolution plans submitted under Section 165(d) of DFA; and plan for the orderly liquidation of covered companies, including those with substantial international operations. Authorized 2012 staffing in RMS, DRR, and the Legal Division was also increased to support these new functions. Total authorized FDIC staffing now exceeds 200 for these new functions.

The FDIC expects to fill some of these new positions with current FDIC employees but will fill most of them with expertise from outside the Corporation. The FDIC expects to be fully staffed to carry out these new responsibilities by the end of 2012. A comprehensive training needs assessment also will be completed in 2012, and training will be designed and delivered to employees performing these functions on an as-needed basis.

**Information Technology**: Existing technology will initially be used to accomplish this goal. In addition, current FDIC systems are being examined to identify databases and systems that can be used to support the FDIC’s new risk monitoring functions. The FDIC plans to undertake several new technology projects (e.g., data marts and integration/interfaces with existing systems) to support the risk monitoring function in 2012.

**Verification and Validation**

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

**2011 Performance Results**

This annual performance goal is unchanged from 2011, but its associated performance indicators and targets have been updated for 2012. In 2011, the FDIC successfully met the performance targets for this goal.
STRATEGIC GOAL 3:
Consumers’ rights are protected, and FDIC-supervised institutions invest in their communities.

STRATEGIC OBJECTIVE 3.1
FDIC-supervised institutions comply with consumer protection, Community Reinvestment Act (CRA), and fair lending laws and do not engage in unfair or deceptive practices.

Annual Performance Goal 3.1-1
Conduct on-site CRA and compliance examinations to assess compliance with applicable laws and regulations by FDIC-supervised depository institutions.

Indicator and Target
1. Percentage of examinations conducted in accordance with the timeframes prescribed by FDIC policy
   - Conduct 100 percent of required examinations within the timeframes established by FDIC policy.

Means and Strategies

Operational Processes (initiatives and strategies): The FDIC conducts CRA and compliance examinations of FDIC-supervised depository institutions to determine compliance with consumer protection and fair lending laws and performance under CRA. The frequency of compliance examinations is specified by FDIC policy. For CRA examinations, the FDIC’s examination frequency policy conforms to applicable provisions of the Gramm-Leach-Bliley Act (GLBA), which establishes the CRA examination cycle for most small banks. In 2012, the FDIC estimates that it will conduct 1,750-1,800 compliance and/or CRA examinations.

The FDIC’s compliance examination approach emphasizes an institution’s compliance risk-management practices as opposed to exhaustive transactional testing. This approach involves an expanded review of an institution’s systems and compliance policies so that transaction testing can be better targeted and focused on the areas of greatest risk exposure. This approach creates a more efficient and effective use of examination resources, especially in financial institutions with high compliance risk profiles.

Human Resources (staffing and training): The FDIC has 572 authorized positions (470 permanent, 102 nonpermanent) in its field examination workforce for compliance and consumer protection in 2012. Staffing and training needs are reviewed regularly to ensure that staff resources supporting the compliance examination program are adequate to conduct a high quality examination program and that employees possess the skills and knowledge to effectively implement this program.
Information Technology: The System of Uniform Reporting of Compliance and CRA Examinations (SOURCE) is used to schedule and track financial institution compliance examinations, support pre-examination planning, and provide management information.

Verification and Validation

The FDIC will analyze examination-related data collected in SOURCE to determine whether the performance target for this goal is achieved during the reporting period. Results will be reported through established management processes.

2011 Performance Results

This annual performance goal and the associated performance indicator and target are unchanged from 2011. In 2011, the FDIC successfully met this performance target.

Annual Performance Goal 3.1-2

Take prompt and effective supervisory action to address problems identified during compliance examinations of FDIC-supervised institutions that receive a composite 3, 4, or 5 rating for compliance with consumer protection and fair lending laws. Ensure that each institution is fulfilling the requirements of any corrective program that has been implemented and that the actions taken are effectively addressing the underlying concerns identified during the examination.

Indicator and Target

1. Percentage of follow-up examinations or on-site visits of 3-, 4- and 5-rated institutions conducted within required timeframes
   - Conduct follow-up examinations or on-site visits for any unfavorably rated (3, 4, or 5) institution within 12 months of completion of the prior examination.

Means and Strategies

Operational Processes (initiatives and strategies): Institutions with compliance deficiencies are identified primarily through the examination process. While discussions with bank management are usually sufficient to correct these deficiencies, the FDIC has broad enforcement powers to correct practices, conditions, or violations of law that threaten an institution’s compliance with consumer protection and fair lending laws or a consumer’s rights under those laws. The FDIC may address identified problems through the use of formal or informal enforcement actions against the institution or responsible individuals.

The responsible review examiner and senior regional officials closely monitor each 3-, 4-, and 5-rated institution for compliance with consumer protection and fair lending laws.
Except in rare instances where FDIC management determines it is unnecessary, a follow-up examination or on-site visit is conducted to review compliance with supervisory actions for each institution that receives a composite rating of 3, 4, or 5. Additional follow-up action is taken when the initial corrective program is determined to have been insufficient in addressing the identified problem. In addition, progress in complying with an enforcement action is assessed through quarterly progress reports from, and direct communication with, management of the financial institution.

**Human Resources (staffing and training):** Regional office review examiners make sure that institutions comply with established corrective programs. Field Supervisors, Supervisory Examiners, and examination staff conduct follow-up examinations and on-site reviews. During 2012, a Knowledge Management Plan will be implemented to ensure that training needs are reviewed regularly, the resources supporting these functions are adequate, and employees possess the required skills and knowledge to successfully carry out these functions.

**Information Technology:** The SOURCE system is used for examination scheduling and processing. The ViSION system is used to monitor all enforcement activity.

**Verification and Validation**

Enforcement actions and the timing of required on-site visits are tracked through the ViSION system. The FDIC also uses its Regional Office Internal Control Review program to make sure that regions effectively monitor the compliance of FDIC-supervised institutions with formal and informal enforcement actions. This review incorporates various components of the supervisory process, including assessment of the appropriateness of, and implementation monitoring and follow-up on, formal and informal corrective actions. Any material exceptions noted during the reviews are brought to management’s attention for appropriate action.

**2011 Performance Results**

The wording of this annual performance goal and its associated performance target is revised somewhat from 2001, but the associated performance indicator is unchanged. In 2011, the FDIC successfully met the performance target for this annual performance goal.

**Annual Performance Goal 3.1-3**

Establish an effective working relationship with the new Consumer Financial Protection Bureau (CFPB).

**Indicator and Targets**

1. Transfer of complaint processing responsibilities
   
   - Complete the transfer of consumer complaint processing responsibilities within the purview of the CFPB within approved timeframes.
Means and Strategies

Operational Processes (initiatives and strategies): The CFPB was established by DFA and began operations on July 21, 2011. The CFPB has primary supervisory responsibility for certain enumerated consumer protection laws and regulations for institutions with assets over $10 billion and their affiliates. The FDIC worked with the CFPB throughout 2011 to ensure an orderly transfer of supervisory responsibility for 41 institutions to the CFPB. However, the CFPB chose to defer until 2012 the full transfer of related complaint processing functions for those institutions. Instead, the FDIC has transferred complaint processing responsibilities to the CFPB in phases by complaint type, based on timeframes established by the CFPB. This transfer will be completed in 2012.

Human Resources (staffing and training): Existing staff in the FDIC’s Consumer Response Center will work collaboratively with the CFPB on this goal.

Information Technology: The FDIC uses the Specialized Tracking and Reporting System (STARS) to track the processing of consumer complaints. Transfer of complaints for CFPB-supervised institutions will be tracked in STARS.

Verification and Validation

Progress in meeting this annual performance goal will be tracked through established management reporting processes.

2011 Performance Results

This annual performance goal and the associated performance indicator and target are new for 2012.

STRATEGIC OBJECTIVE 3.2

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

Annual Performance Goal 3.2-1

Effectively investigate and respond to written consumer complaints and inquiries about FDIC-supervised financial institutions.

Indicator and Target

1. Timely responses to written consumer complaints and inquiries

   - Respond to 95 percent of written consumer complaints and inquiries within timeframes established by policy, with all complaints and inquiries receiving at least an initial acknowledgement within two weeks.
Means and Strategies

Operational Processes (initiatives and strategies): The FDIC investigates and responds to written complaints regarding consumer protection and fair lending issues, including those received electronically through the Customer Assistance Form on the FDIC’s website. FDIC staff investigates complaints regarding FDIC-supervised institutions and refers complaints regarding institutions with other primary federal regulators to those agencies. Target response times vary by the type of complaint. The FDIC also provides consumer protection information to financial institutions and the public. When performed effectively, these activities help consumers better understand their rights under consumer protection and federal fair lending laws.

Human Resources (staffing and training): The FDIC’s Consumer Response Center responds to consumer complaints and inquiries about consumer protection matters. Consumer Affairs staff located in the Washington, D.C., office support the Consumer Response Center by providing guidance and assistance with consumer complaints and inquiries that involve new or unusual issues or sensitive matters.

Information Technology: The FDIC uses STARS to capture and report information, including response time, on complaints. In 2012, work will continue on development and testing of a replacement system that uses more up-to-date technology.

Verification and Validation

Progress in meeting this annual performance goal will be monitored through established management reporting processes. The FDIC closely monitors the timeliness of its acknowledgment letters and responses through STARS. In addition, surveys are sent to a sample of consumers who have filed written consumer protection and fair lending complaints to assess their satisfaction with the FDIC’s investigations and responses. Accepted survey research methods are used to ensure the validity and reliability of the survey instrument and results.

2011 Performance Results

This annual performance goal and its associated performance indicator and target are unchanged from 2011. In 2011, the FDIC successfully met this performance target.

STRATEGIC OBJECTIVE 3.3

The public has fair access to banking services and is treated equitably by FDIC-supervised institutions.

Annual Performance Goal 3.3-1

Promote economic inclusion and access to responsible financial services through supervisory, research, policy, and consumer/community affairs initiatives.
Indicator and Targets

1. Completion of planned initiatives
   - Complete and publish results of the second biennial National Survey of Unbanked and Underbanked Households and Banks’ Efforts to Serve the Unbanked and Underbanked.
   - Plan and hold meetings of the Advisory Committee on Economic Inclusion to gain feedback and advice on FDIC efforts to promote inclusion.
   - Coordinate 25 CRA community forums nationwide to facilitate community development opportunities for financial institutions.

Means and Strategies

Operational Processes (initiatives and strategies): More than 25 percent of U.S. households, with 60 million adults residing in them, are underserved by the banking industry. This includes both “unbanked” households—those with no checking or savings accounts—and “underbanked” households—those with checking or savings accounts who still rely on nonbank alternative financial services and providers, such as money orders, check cashing services, payday loans, rent-to-own agreements, pawn shops, or refund anticipation loans. Certain racial and ethnic groups are more likely to be underserved than the population as a whole. Almost 54 percent of African American households, 45 percent of American Indian/Alaskan Native households, and 43 percent of Hispanic households are underserved.

The FDIC’s Advisory Committee on Economic Inclusion supports research, demonstrations, and pilot projects and promotes sound supervisory and public policies to improve the “appropriate engagement” of underserved households with mainstream financial institutions. Appropriate engagement means that households are using financial products and services that are affordable, easy to understand, and not subject to unfair or unforeseen fees.

Banks would appear to have a strong financial incentive for pursuing underserved consumers, given the sheer size of the alternative financial services industry. However, according to the FDIC Survey of Banks’ Efforts to Serve the Unbanked and Underbanked (February 2010), fewer than 18 percent of banks identify expansion of their services to these consumers as a priority in their business strategies.

By issuing reports in 2012 on the 2011 FDIC Survey of Unbanked and Underbanked Households and the 2011 FDIC Survey of Banks’ Efforts to Serve the Unbanked and Underbanked, the FDIC will provide an important set of references that help assess progress and remaining challenges for economic inclusion. In addition, by studying opportunities to expand access to mainstream financial services, identifying the role that community banks play in meeting community needs, and increasing awareness of communities that are currently underserved or at risk of becoming underserved, the FDIC will be better positioned to identify strategies that promote economic inclusion.
The Advisory Committee’s work is divided into six program areas: transactional accounts, savings, affordable credit, financial education, incentives, and mortgages. The Advisory Committee may recommend to the FDIC specific measures of improvement in each of the six program areas. It recognizes, however, that certain of these measures are national objectives that require the participation and cooperation of multiple stakeholders, including other federal agencies; federal, state, and local policy makers; the financial services industry; nonprofit and philanthropic groups; and consumer groups, in addition to the FDIC.

During 2012, FDIC working groups will conduct research and develop policy proposals related to expanding access to mainstream banking services for underserved consumers. The FDIC may present these proposals to the Advisory Committee for advice and recommendations.

**Human Resources (staffing and training):** This annual performance goal will be carried out largely by existing staff in the FDIC’s consumer research and consumer affairs functions. The activities of the Advisory Committee are supported by staff in several FDIC divisions. Employees in those divisions provide staff support for the Advisory Committee, as needed, including support for its research and demonstration activities.

**Information Technology:** Existing technology will be used to accomplish this goal. The FDIC broadcasts the Advisory Committee’s public meetings on the Internet.

**Verification and Validation**

Progress in completing the initiatives planned for this annual performance goal will be monitored through periodic reporting through established management reporting processes from the assigned work groups.

**2011 Performance Results**

This annual performance goal and its associated performance indicator and targets are new for 2012.
When an insured institution fails, the FDIC is ordinarily appointed receiver. In its receivership capacity, the FDIC assumes responsibility for efficiently recovering the maximum amount possible from the disposition of the receivership’s assets and the pursuit of the receivership’s claims. Funds collected from the sale of assets and the dispositions of valid claims are distributed to the receivership’s creditors under the priorities set by law.

The FDIC focuses its receivership management efforts on four goals:

- Resolving institutions in the least costly manner;
- Managing and marketing failed institution assets to maximize return;
- Pursuing monies due to the failed institution; and
- Resolving the debts of the institution fairly.

The FDIC assesses the assets and liabilities of the failing institution to determine their current market value. Using this information, the FDIC markets and sells various parts of the institution to acquiring institutions and investors. The FDIC markets failed institutions broadly, ensuring that all qualified parties are given an opportunity to present bids. When an institution fails, it is closed by the appropriate chartering agency, and the FDIC is appointed receiver. After paying the insured depositors their funds (if another institution has not assumed the deposits), the FDIC inventories and values any remaining assets and uses various strategies to quickly sell the assets. Disposing of certain assets can take a considerable amount of time. In the interim, the FDIC performs required asset servicing (such as building maintenance and the processing of loan payments) to maintain the value of these assets until they are sold.

Throughout the asset valuation and sales processes, the FDIC also seeks payment from the debtors of the failed institution. FDIC staff identify and investigate claims owed to the receivership and pursue those claims on behalf of the receivership when it is cost effective to do so and/or when public policy dictates that the FDIC pursue legal action against a debtor (e.g., in certain negligence or fraud cases).

The FDIC also makes sure that legitimate claims against the receivership are satisfied fairly. The FDIC notifies likely claimants of the failed institution and instructs them how to properly file their claims. Once the FDIC receives and validates the information, the claimants are paid, as appropriate.

Following the resolution of receivership claims, disposition of most assets, payment of eligible creditor claims, and allocation of any other funds on behalf of the receivership, the FDIC terminates the receivership. This involves preparation of final accounting statements and can require judicial confirmation that the obligations of the FDIC as receiver have been met.
To address the goals articulated in Section 342 of DFA, the FDIC in 2011 initiated as part of its receivership management program a pilot Small Investor Program (SIP) to increase the participation of small, minority-and women-owned investors in the FDIC’s structured loan sales program. SIP offers smaller-sized asset pools and unique structural features to improve accessibility for these investors. The FDIC also developed an Investor Match Program to provide these investors the opportunity to voluntarily share information with other firms to bring together sources of capital and expertise needed to participate in the structured loan sales program. The FDIC will continue these programs in 2012.

Under Title II of DFA, the FDIC may be called upon to carry out the orderly liquidation of certain large, systemically important financial companies. In 2012, the FDIC will continue to pursue planning and operational readiness initiatives to make sure that it is prepared, if it becomes necessary, to exercise this new authority. Annual Performance Goal 2.1-5 addresses the activities that will be undertaken to complete the establishment of the regulatory and organizational infrastructure that are required for this purpose. DFA requires that bank holding companies with more than $50 billion in assets and nonbank financial companies deemed to be systemically important by the Financial Services Oversight Committee prepare and submit resolution plans to the Federal Reserve Board and the FDIC for review. Implementing rules have been issued, and procedures for the FDIC’s review and processing of those plans are nearing completion. The FDIC issued parallel rules, under its Federal Deposit Insurance Act authority, requiring insured depository institutions with $50 billion or more in total assets to prepare resolution plans as well. The FDIC will also continue to enhance its risk monitoring and resolution planning capabilities for these systemically important companies.
The following table depicts the strategic goal, strategic objectives, and annual performance goals for the Receivership Management Program.

<table>
<thead>
<tr>
<th>Strategic Goal</th>
<th>Strategic Objective</th>
<th>Annual Performance Goals</th>
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<td>Resolutions are orderly and receiverships are managed effectively.</td>
<td>Receiverships are managed to maximize net return and terminated in an orderly and timely manner.</td>
<td>Value, manage, and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return. (4.1-1)</td>
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<td>Manage the receivership estate and its subsidiaries toward an orderly termination. (4.1-2)</td>
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<td>Complete reviews of all loss-share and Limited Liability Corporation (LLC) agreements to ensure full compliance with the terms and conditions of the agreements. (4.1-3)</td>
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<td></td>
<td>Potential recoveries, including claims against professionals, are investigated and resolved in a fair and cost-effective manner.</td>
<td>Conduct investigations into all potential professional liability claim areas for all failed insured depository institutions, and decide as promptly as possible to close or pursue each claim, considering the size and complexity of the institution. (4.2-1)</td>
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Federal Deposit Insurance Corporation                                2012 Annual Performance Plan

STRATEGIC GOAL 4:  
Resolutions are orderly and receiverships are managed effectively.

STRATEGIC OBJECTIVE 4.1

 Receiverships are managed to maximize net return and terminated in an orderly and timely manner.

Annual Performance Goal 4.1-1

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

Indicators and Targets

1. Percentage of the assets marketed for each failed institution

   - For at least 95 percent of insured institution failures, market at least 90 percent of the book value of the institution’s marketable assets within 90 days of the failure date (for cash sales) or 120 days of the failure date (for structured sales).

Means and Strategies

Operational Processes (initiatives and strategies):  By quickly returning the assets of a failed institution to the private sector, the FDIC maximizes net recoveries and minimizes disruption to the local community. During the past three years, whole bank loss-share transactions have been used extensively to sell most of the assets of a failed bank to an acquiring bank. Given adequate time, the FDIC prepares an information package and an asset valuation review for each failing insured depository institution to help solicit bidders, analyze bids received for the assumption of deposits, and sell as many of the institution’s assets as possible at resolution or shortly thereafter. The FDIC markets most of the remaining assets within 120 days after an insured institution fails.

After the resolution of the failed institution, the FDIC collects and manages the remaining assets in a cost-effective manner to maximize recoveries and preserve value until the assets can be marketed. The failed institution’s assets are grouped into pools that will be most appealing to acquirers and are marketed through the Internet. Potential asset purchasers are given the opportunity to view all sales information electronically before electronic bid submission. The FDIC also allows potential bidders to view all hard-copy sale information at the sales site.

Where appropriate, the FDIC manages and disposes of the remaining assets from the failed bank location. The FDIC uses the Standard Asset Valuation Estimation (SAVE) methodology, valuation contractors, and financial advisors to value most of the assets of the failed institution and to decide how to market and dispose of them. The SAVE methodology uses standard assumptions and market information to ensure consistency in the valuation of assets.

Comment [klz1]: “loss-share” is not hyphenated throughout. Should it be? We need to be consistent. You can do a find and replace after deciding whether to hyphenate.
The valuation process, methodology, and assumptions used to value assets are continually reviewed and, when necessary, updated. The FDIC will continue to update and refine its marketing strategies to market assets as quickly and efficiently as possible.

**Human Resources (staffing and training):** The FDIC has permanent staff who manage the Corporation’s resolutions and receiver management functions. When workload increases, as it has during the past three years, the FDIC may add nonpermanent staff and contractor resources to help with these responsibilities. The FDIC may also deploy cross-trained employees from elsewhere within the Corporation. Current and projected workload is continually assessed to make sure that adequate staff and contractor resources are available to fulfill the FDIC’s receivership management responsibilities.

Contractors are used extensively to manage and sell the assets of failed institutions. The FDIC has broad policies and procedures that cover every phase of the contracting process. Individual FDIC divisions and offices must establish internal controls and processes to make sure that these policies and procedures are strictly followed.

The number of contracts awarded for receivership management support in 2012 is expected to continue a decline that began in 2011, following dramatic increases in 2009 and 2010 as bank closing activity drove the need for high levels of contractor support. The number of new awards declined to 1,936 (with a total contract ceiling of $1.44 billion) in 2011 from 2,573 new awards (with a total contract ceiling of $2.64 billion) in 2010. With the decline in bank failures likely to continue in 2012, the focus in contracting has shifted from bank closing support through Receivership Assistance Contractors to loan servicing and data maintenance support provided in part by National Loan Servicing and Business Process Operations contractors. The FDIC will continue in 2012 to refine its contract support requirements and to shift work from contractors to FDIC employees, where appropriate.

In addition, consistent with the requirements of DFA, the FDIC is committed to increasing the participation of underrepresented groups, including minority-and women-owned businesses and law firms, in FDIC contracting and asset purchase opportunities by identifying and addressing barriers to such participation and other strategies.

**Information Technology:** The FDIC makes extensive use of technology to make its asset management/servicing, sale strategies, and other business processes more efficient and to keep pace with changing market and business practices. It will continue to use the Internet to deliver asset marketing information to potential investors and to auction/sell assets received from failed institutions. In addition, the FDIC’s 4C asset management and servicing system is used to track franchise marketing activities and provide a comprehensive source of information on the resolution of failed financial institutions and the management, valuation, marketing, and sale of their assets. It extracts from ViSION up-to-date examination and supervisory information on each failed institution. The FDIC also establishes bid list criteria for each prospective transaction and identifies qualified bidders in 4C.
Verification and Validation

Progress in meeting this annual performance goal is tracked in 4C and reported through established management reporting processes. Each primary federal regulatory agency reviews bid lists before bids are solicited to make sure that they include only those institutions that meet the established criteria for the transaction.

2011 Performance Results

This annual performance goal and its associated performance indicator and target are unchanged for 2012. In 2011, the FDIC successfully met the performance target for this annual performance goal.

Annual Performance Goal 4.1-2

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

Indicator and Target

1. Timely termination of new receiverships

   - Terminate at least 75 percent of new receiverships that are not subject to loss-share agreements, structured sales, or other legal impediments within three years of the date of failure.

Means and Strategies

Operational Processes (initiatives and strategies): The oversight and prompt termination of a receivership preserves value for the uninsured depositors and other receivership claimants by reducing overhead and other holding costs. An individual action plan is established for each receivership, and staff are assigned from the appropriate functional areas (e.g., asset, liability, finance, legal) to execute that plan. Receivership oversight staff monitor the execution of each action plan, including goals and milestones. In addition, an oversight committee, consisting of senior FDIC managers, meets quarterly to review and evaluate the progress that has been made in carrying out each receivership action plan.

To be eligible for termination, a receivership must be free of impediments that represent material financial or legal risks to the FDIC. These impediments may include outstanding contractual liabilities, outstanding offensive or defensive litigation, potential representation and warranty asset sale claims, open employee benefit plans, open subsidiary corporations where articles of dissolution have not yet been approved, and known or potential environmental contamination liabilities. Once the FDIC has disposed of all of the assets of the receivership, resolved all liabilities, and made sure that no material financial or legal risks remain, a final distribution is made to the creditors of the receivership and the receivership entity is terminated. To the extent that significant, unresolved impediments remain for a substantial number of receiverships, the FDIC may be unable to achieve this goal.
The FDIC continues to try to remove impediments to the termination of its remaining open receiverships. During 2011, 92 new receiverships were added to the FDIC’s inventory of receiverships and 5 were inactivated, leaving 431 active receiverships at the end of 2011.

**Human Resources (staffing and training):** Current and projected workload are continually assessed to ensure that adequate staff and contractor resources are available to fulfill the FDIC’s receivership management responsibilities. As noted earlier, the FDIC uses contractor resources and temporary hiring initiatives to supplement permanent resolutions and receivership management staff as workload increases.

**Information Technology:** Existing technology will be used to accomplish this goal.

**Verification and Validation**

The process of inactivating a receivership is tracked in FDIC systems. Monthly reports of deactivations are reviewed for accuracy. System users validate the data, and any discrepancies are reconciled. Results are reported through established management processes.

**2011 Performance Results**

This annual performance goal and its associated performance indicator and target are unchanged from 2011. The FDIC successfully met this performance target in 2011.

**Annual Performance Goal 4.1-3**

Complete reviews of all loss-share and limited liability corporation (LLC) agreements to ensure full compliance with the terms and conditions of the agreements.

**Indicator and Target**

1. Percentage of reviews of loss-share and LLC agreements completed and action plans implemented

   - Complete reviews of 100 percent of the loss-share and LLC agreements active as of December 31, 2011, to ensure full compliance with the terms and conditions of the agreements.
   
   - Review the final report and implement an action plan to address the report’s findings and recommendations for 80 percent of the loss-share reviews and 70 percent of the LLC reviews.

**Means and Strategies**

**Operational Processes (initiatives and strategies):** The FDIC uses both FDIC- and contractor-staffed teams to review entity compliance with loss-share and LLC agreements. Guidance for these reviews is provided both formally in contract documents and less formally in internal procedure documents.
Review findings are summarized in a report, and a quality assurance review of each report is conducted by an FDIC employee independent of the team performing the compliance review. When finalized, accepted reports are presented to a Compliance Review Committee (CRC), and the findings are recorded in a database that tracks needed corrective actions. The CRC determines the adequacy of proposed corrective steps; identifies any program-wide issues requiring action; and reports on the status of corrective actions to senior management, the Audit Committee, and the FDIC Board of Directors. FDIC asset specialists are assigned a caseload of loss-share or LLC agreements to monitor, and they implement any needed corrections related to entities in their caseload.

*Human Resources (staffing and training):* A combination of FDIC and contractor resources is responsible for this review program. Eight compliance monitoring contractors monitor loss-share and LLC agreements. In addition, FDIC-staffed review teams have been established to review loss-share portfolios under $200 million. In 2011, two types of training were provided to employees: foundational training on contract oversight management and loss-share oversight, and advanced training on the compliance review process and their responsibilities for documenting the completion of corrective actions. In 2012, additional training is planned to address emerging issues related to loss mitigation, expand on concepts covered in the foundational training, and convey changes to policy, procedure, and monitoring tools.

*Information Technology:* The FDIC will continue to monitor overall financial risk by reviewing aggregated data collected from its risk share partners. In addition, aggregated data will be extracted periodically from FDIC databases for broad program analytics and dashboard reporting. Existing risk management systems will be used to track the results of each compliance review.

**Verification and Validation**

Scheduled reviews of loss-share and LLC agreements, completion of review reports, and implementation of corrective actions are tracked in a database developed for that purpose. FDIC management and staff regularly confirm the accuracy of the information. The minutes from CRC meetings confirm that the committee received final reports and reviewed proposed corrective actions. Review results are reported through established management processes.

**2011 Performance Results**

This annual performance goal and its associated performance indicator are unchanged from 2011. One performance target is unchanged from 2011, and the other has been revised for 2012. In 2011, the FDIC successfully met the performance targets for this annual performance goal.

**STRATEGIC OBJECTIVE 4.2**

Potential recoveries, including claims against professionals, are investigated and resolved in a fair and cost-effective manner.
Annual Performance Goal 4.2-1

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

Indicator and Target

1. Percentage of investigated claim areas for which a decision has been made to close or pursue the claim
   - *For 80 percent of all claim areas, make a decision to close or pursue professional liability claims within 18 months of the failure of an insured depository institution.*

Means and Strategies

Operational Processes (initiatives and strategies): The FDIC investigates potential claims against professionals (e.g., directors, officers, attorneys, and others) whose actions may have contributed to losses at a failed institution and assesses the viability of insurance policies and the carriers that provide fidelity insurance to the failed institution. Once the investigation is complete, the FDIC determines whether it has viable, cost-effective claims and whether it should pursue them. Most professional liability investigations must be completed and viable claims filed within three years following an institution’s failure to meet statute of limitations requirements.

The FDIC’s attorneys and investigators make sure that valid claims arising from the failure of an insured institution are fully evaluated within the prescribed time. They investigate the events that contributed to losses at the institution and research and analyze potential claims. They also determine if a recovery will exceed the estimated cost of pursuing each claim. The team then recommends to senior FDIC management whether a claim should be pursued or the investigation closed.

Human Resources (staffing and training): Workload requirements are regularly reassessed to make sure that staffing is sufficient to fulfill these responsibilities. The FDIC uses contractor resources (including outside legal counsel) and hires temporary staff, as needed. In 2012, the FDIC will identify training needs and provide training to investigators on topics such as insurance claims, interviews, and loan review analysis.

Information Technology: Data necessary to track failure dates of insured institutions, potential statute of limitation expiration dates, and other pertinent dates are routinely collected and stored in FDIC systems. Status information and decision events are also tracked.
Verification and Validation

Periodic data scrubs and audits are conducted to ensure that the information in FDIC systems is current and accurate. Consistent maintenance of these systems ensures that accurate data are readily available to measure compliance with the annual goal. Progress in meeting this goal is reported through established management processes.

2011 Performance Results

This annual performance goal and its associated performance indicator and target are unchanged from 2011. The FDIC successfully met the performance target for this goal by completing investigations of and making recommendations on 83 percent of the 181 receiverships that reached the 18-month mark during 2011.
Introduction

The FDIC recognizes that it must effectively manage many critical strategic resources to successfully carry out the annual performance goals outlined in this plan and accomplish its mission. These resources must be aligned and deployed to the areas where they are most needed. An overview of planned 2012 initiatives to enhance the FDIC’s management of its key strategic resources is provided below.

Financial Resources Management

The FDIC does not use taxpayer funds. Its operational expenses are paid from the DIF, which is funded by deposit insurance assessments paid by insured financial institutions. The FDIC takes very seriously its fiduciary responsibilities to use these funds efficiently and cost-effectively to meet its mission responsibilities. To that end, the FDIC engages annually in a rigorous planning and budget formulation process to make sure that budgeted resources are properly aligned with workload projections and designated corporate priorities (see Exhibit B).

The FDIC’s self-discipline in managing its financial resources has been apparent over the past several years. From 2008 through 2010, the FDIC’s annual operating budget more than tripled and its authorized staffing level almost doubled in response to a rapid increase in the number of problem institutions and insured institution failures. However, the FDIC relied primarily on nonpermanent staff and contractor resources to address the dramatic uptick in its supervisory and resolutions workload, in order to facilitate future budget and staffing reductions when workload returned to more normal levels. In 2011, both the annual operating budget and staffing authorization were relatively stable as key workload indicators peaked and began to decline. But, in 2012, both the annual operating budget and authorized staffing level declined substantially. The annual operating budget fell by about 15 percent, and authorized staffing declined by about 6 percent.

In 2012, the FDIC will continue to carefully monitor both its supervision and receivership management workload and will take steps to promptly reduce expenses as underlying workload declines. A steady reduction in both contractor spending and nonpermanent staffing is projected in 2013 and future years as the health of the banking industry continues to improve and the residual workload from the recent financial crisis is completed.
Human Capital Management

The FDIC’s most important resource is the “intellectual capital” that its employees bring to bear on the accomplishment of its mission. For that reason, the FDIC strives to attract, develop, and retain a highly skilled, diverse, and results-oriented workforce and to be regarded as a “best place to work,” especially among employers whose workforces consist primarily of financial professionals. More than one-quarter of the FDIC’s current permanent workforce is projected to retire over the next ten years. This will provide the FDIC a unique opportunity to reshape its permanent workforce to provide effective regulatory oversight to meet the emerging challenges of an increasingly complex U.S. financial system in the 21st century. In 2012, the FDIC will pursue several initiatives to manage its future permanent workforce while addressing immediate staffing needs.

Strategic Workforce Planning and Readiness

The Corporate Employee Program (CEP) is the primary vehicle used to fill new, entry-level positions in the FDIC’s core bank supervision and resolutions and receivership management functions. The CEP emphasizes the development of a more flexible workforce that is cross-trained in the Corporation’s core mission functions and can be redeployed rapidly to address new workload priorities in response to unexpected external events or changing conditions in the banking industry and the broader economy.

During the first phase of the CEP, newly hired Financial Institution Specialists (FISs) are exposed to each of the FDIC’s key business processes: deposit insurance, risk-management examinations, compliance examinations, and resolutions and receivership management. After the completion of the rotational phase of the program, they are assigned to a specific commissioning track. Upon successful completion of the rigorous three-year training program, they are commissioned as Financial Institution Examiners (FIEs) or Resolutions and Receiverships Specialists. The FDIC’s field examination and resolutions and receivership management workforces included 563 FISs and 237 FIEs at the end of 2011. The FDIC expects to hire an additional 120 FISs in 2012.

As part of its long-term workforce planning and development, the FDIC also has focused on hiring more mid-career and senior-level staff with advanced technical skills and developing advanced internal training curricula (discussed below). The primary focus of permanent, mid-, and senior-level hiring has been on risk management and compliance examination staff; analysts and other specialists with the skills needed to monitor and address the risks in the largest and most complex banks and bank holding companies; Ph.D. economists and others with advanced quantitative and risk-modeling skills; consumer protection researchers and specialists; and attorneys with regulatory enforcement, consumer protection, and litigation backgrounds. New entry-level attorneys are hired through the Corporation’s Honors Attorney Program, which provides rotational experiences within the FDIC’s Legal Division similar to those in the CEP. In 2012, the FDIC will evaluate its recruiting and staffing activities for both entry-level and higher-graded positions to identify possible enhancements to promote increased diversity within the FDIC workforce, as required by Section 342 of DFA.
The highest employment priority for 2012 will be the completion of hiring to support the FDIC’s new responsibilities under DFA to plan for the possible orderly liquidation of large, systemically important bank holding companies and other financial companies. In 2011, CFI was established to monitor risks and plan for the resolution of the largest and most complex of these companies. Recruiting efforts were initiated to staff this new organization with the advanced and specialized skills and experience needed to carry out this critical, new mission function. In 2012, initial hiring will be completed to bring CFI up to its full authorized 2012 staffing level of 181 employees. The FDIC also will add staff in the existing Mid-Tier Bank Branch in the Division of Risk Management Supervision to monitor risks and review resolution plans for the remaining bank holding companies with more than $50 billion in assets that are subject to the requirements of DFA. In addition, new organizational entities will be established and staffed in the Legal Division and the Division of Resolutions and Receiverships to support CFI.

Succession Management

The FDIC faces potential future succession management challenges as many of its long-term, highly skilled employees retire. Over the last several years, retirement projections have been developed for each division and office, and over-hiring programs have been implemented for those organizations and functional areas with the highest projected vulnerability to retirements. In addition, the FDIC has undertaken an initiative to document best practices and lessons learned from bank closing activity. This information is important to ensure corporate readiness as experienced employees retire and the temporary positions created to support bank closing activity expire. It was collected in 2011 through seminars, one-on-one interviews, and recordings of closing activity, and will be analyzed in 2012. The FDIC will use that information along with ongoing job task analyses of multiple resolutions and receiverships functions to identify the future skills necessary to conduct bank resolutions. It also will be used to help identify and develop future training and learning opportunities to maintain employee skills when there is less bank failure activity to provide on-the-job training opportunities to new employees.

A Culture of Workplace Excellence

Over the past several years, the FDIC and the U.S. Office of Personnel Management have conducted annual employee surveys. Based on the results of the 2011 survey, the FDIC was recognized in late 2011 as the “Best Place to Work” among large departments and agencies in the federal government by the Partnership for Public Service (the FDIC was previously ranked 3rd in the 2010 survey and 24th in the 2007 survey). These surveys identified major areas of strength as well as opportunities for improvement in employee satisfaction and engagement. They have consistently demonstrated that FDIC employees have an excellent understanding of the FDIC’s mission and strategic direction and know how their work fits into the organization’s goals and priorities. They enjoy their work, believe it is important, and get a sense of personal accomplishment from it. Employees are also highly satisfied with their pay and benefits, as well as the FDIC’s family-friendly work-life balance programs, physical work environments, and training, technological, and other resources.
Much of the improvement in the survey results can be attributed to the Culture Change initiative that was pursued by the FDIC from 2008 through 2011. In 2012, the FDIC will focus on maintaining and enhancing the positive organizational and workplace changes that were achieved under that initiative and will strive to promote an ongoing commitment to workplace excellence at all levels within the organization. National and division/office councils will continue to assess the data from annual employee surveys and other sources and to identify additional opportunities to strengthen the existing commitment to workplace excellence.

**Employee Learning and Development**

The FDIC provides employees with skills-based training and learning and development opportunities to help achieve its mission through its Corporate University, Professional Learning Accounts program, and external training resources. In 2012, the FDIC’s Corporate University will continue to offer innovative solutions to prepare both current and new employees for the challenges ahead by developing new courses, adopting blended learning strategies, and creating more online resources.

The FDIC provides its examination workforce with the technical knowledge and skills necessary to examine and supervise financial institutions for safety and soundness and consumer protection. Course reviews and revisions are completed annually, and a review of the entire pre-commission curriculum for compliance examinations will be conducted in 2012. This curriculum mapping exercise will identify areas where revisions to the curriculum could be made to better align with on-the-job benchmarks.

The FDIC also will continue to develop online and in-person simulations to enhance employee skills related to the resolution of failed institutions. Online simulations provide employees with on-demand access to training that allows them to maintain and enhance their skills without having to wait for, or travel to attend, instructor-led courses. In 2012, the FDIC will conduct one tabletop exercise and one simulation to help identify those issues that may be most problematic during a bank failure.

In addition to technical training, the FDIC is focused on developing employees as leaders at all levels of the organization with a comprehensive leadership development curriculum that consists of core courses, electives, and several additional enrichment activities. Development of the core leadership curriculum was completed in 2011, and new electives and enrichments activities will be added in future years to promote leadership at all levels of the organization. The FDIC will continue to use all of its learning programs as opportunities to strengthen its organizational culture, build key competencies, and reinforce its corporate values.

**Management of Information Technology Resources**

Information Technology (IT) is a critical resource in fulfilling the FDIC’s mission. IT resources include a broad range of hardware and software assets, such as desktop computers, laptops, network infrastructure, the business application portfolio, and the FDIC’s public website (www.fdic.gov).
For the past four years, the FDIC has substantially expanded its IT infrastructure and operational resources to support workforce expansion and increased bank resolution activity. As bank resolution activity and the size of the temporary FDIC workforce begin to decrease, efforts will continue to address the FDIC’s aging business application portfolio and potential technology obsolescence while supporting the implementation of various provisions of DFA. The FDIC also will continue to improve its IT processes and procedures to enhance responsiveness and streamline application delivery. In addition, the IT program will continue to respond to challenges associated with data storage capacity, network bandwidth requirements, and an increasing volume of service requests. Data storage requirements have continued to increase because of the large increase in data volume attributable to bank closings and resolution processing. Data storage capacity, as well as performance and operational capacity of business applications, will continue to be monitored and adjusted as necessary during the year. The disaster recover data center relocation will be completed, and infrastructure services will be provided for upcoming office closings and moves. A continuing focus of the 2012 IT program will be the provision of tools and services to improve data analysis and reporting.

Implementation of DFA

The IT program will provide continuing support for the implementation of DFA in 2012. This support may include changing existing application systems, deploying new application systems, and supplying new FDIC organizational entities and their employees with technology assets. Regulatory changes mandated by DFA will require changes to existing applications that calculate assessments and perform other business functions. DFA also increases the FDIC’s data management requirements, since substantial amount of financial data must now be collected from other agencies and private entities. Finally, IT program staff will continue to work with CFI in 2012 to define requirements for new applications or databases to support its resolution planning for large, systemically important companies.

Advancing the IT Strategy

Work in 2012 will continue on the multi-year effort to implement the FDIC’s target enterprise architecture and address potential technology obsolescence in the business application portfolio. The FDIC’s application modernization strategy relies on roadmaps that have been developed with client organizations to guide business application replacement and consolidation. In 2012, the first phase of ETS will be implemented, replacing with a more efficient and enhanced loan review and analysis capability the existing ALERT system now used by field examination staff. Development will continue on the second phase of that project, to replace the GENESYS examination report system, and work on the modernization of assessment-related applications will begin. In addition, planning will begin on the modernization of other major systems that support the risk management and compliance examination processes. The FDIC also will continue to upgrade business applications to modernize database management systems and reporting software.
Information Security and Corporate Privacy Programs

The FDIC’s Information Security and Privacy Programs protect the FDIC’s data and information systems and strive to create an environment that protects these assets. External stakeholders, including financial institutions, the general public, and the FDIC community (employees and contractors), must have confidence that FDIC data and information systems are protected. In 2012, the operational focus of these programs will be on ensuring the reliability, availability, confidentiality, and integrity of the FDIC’s information and data assets. Work will continue on establishing a Security Operations Center that provides 24-7 security monitoring and planning for and implementing various tools to improve threat detection and reduce threat exposure. The FDIC will continue to establish policies and implement procedures that provide the highest possible level of protection of sensitive information while allowing the organization to effectively carry out its mission.

Management Controls and Contract Management

As an integral part of its stewardship of the DIF, the FDIC maintains a comprehensive risk management and internal controls program that is designed to improve the efficiency, effectiveness, control, and risk-focus of internal operations. Staff with the FDIC’s internal controls program advise and assist with issues such as risk management, internal controls, system security, privacy, operational effectiveness and efficiency, post-project reviews, and audit follow-up. During 2012, the focus will be on continuous improvements to the FDIC’s core business functions, with particular emphasis on loss-share operations, contract management oversight, new responsibilities associated with DFA, closing of temporary satellite offices, and system development issues.

The FDIC’s contract expenditures rose dramatically from 2009 through 2011, primarily to support the resolutions and receivership management function. This growth required the FDIC to expand its contract oversight management capabilities and implement enhanced management controls and reporting to make sure that appropriate services were received for the funds spent on contracting. Over the past year, the FDIC implemented additional monitoring tools, including an executive dashboard with metrics that provide visibility into key risks; oversight resources segmented by category and activity, complexity, and resource requirement; and more contract oversight resources. Also, the service support level of key IT systems supporting contracting was upgraded.

In 2012, the FDIC will continue to conduct transaction sampling and invoice reviews and to enhance the management information that is available on contracting. In addition, the FDIC will evaluate its business and legal services contracting programs to identify possible enhancements to promote increased participation by minority-and women-owned businesses and law firms, as required by Section 342 of DFA. The FDIC also will develop procedures to determine whether FDIC contractors and subcontractors have made good faith efforts to include women and minorities in their workforces, as required by Section 342.
APPENDICES

Appendix A Program Resource Requirements
Appendix B The FDIC’s Planning Process
Appendix C Program Evaluation
Appendix D Interagency Relationships
Appendix E External Factors
APPENDIX A

Program Resource Requirements

The chart below breaks out the 2012 Corporate Operating Budget by the FDIC’s three major program areas: insurance, supervision, and receivership management. It shows the budgetary resources that the FDIC estimates it will spend on these programs during 2012 to pursue the strategic goals and objectives and the annual performance goals in this plan and to carry out other program-related activities. The estimates include each program’s share of common support services that are provided on a consolidated basis.

<table>
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<th>Program</th>
<th>Budget</th>
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<td>Supervision</td>
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<td>Insurance</td>
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<td>Receivership Management</td>
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<td><strong>$3,280,778,645</strong></td>
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APPENDIX B

The FDIC’s Planning Process

The FDIC has a long-range Strategic Plan that identifies goals and objectives for its three major programs: insurance, supervision, and receivership management. It also develops an Annual Performance Plan that identifies annual goals, indicators, and targets for each strategic objective.

In developing its Strategic and Annual Performance Plans, the FDIC uses an integrated planning process in which guidance and direction are provided by senior management, and plans and budgets are developed with input from program personnel. Business requirements, industry information, human capital, technology, and financial data are considered in preparing annual performance plans and budgets. Factors influencing the FDIC’s plans include changes in the financial services industry, program evaluations and other management studies, and past performance.

The FDIC communicates its strategic goals and objectives and its annual performance goals, indicators, and targets to employees through the internal website and internal communications, such as newsletters and staff meetings. The FDIC also establishes annual “stretch” goals that further challenge employees to pursue strategic results. Pay and recognition programs are structured to reward employee contributions to the achievement of the FDIC’s annual goals.

Throughout the year, FDIC senior management reviews progress reports. At the end of the year, the FDIC submits its Annual Report to Congress. That report, which is posted on the FDIC’s website (www.fdic.gov), compares actual performance results to the performance targets for each annual performance goal.
APPENDIX C

Program Evaluation

The Corporate Management Control Group in the Division of Finance (DOF) evaluates the FDIC’s programs and issues follow-up reports. However, program evaluations are interdivisional, collaborative efforts, and they involve management and staff from all affected divisions and offices. Division and office directors use the results of the program evaluations to assure the Chairman that operations are effective and efficient, financial data and reporting are reliable, laws and regulations are followed, and internal controls are adequate. These results are also considered in strategic planning for the FDIC.

Since the beginning of the financial crisis, the FDIC has expanded the range of issues receiving close management scrutiny to encompass crisis-related challenges. Management continues to pay particular attention to the areas of contracting, loss-share operations, expanded staffing and (new) operations, and development of performance metrics in several areas. In 2012, risk-based reviews will continue to be performed in each of the FDIC’s strategic program areas. Results of these reviews will assist management by confirming that these programs are strategically aligned or by identifying changes that need to be made.
APPENDIX D

Interagency Relationships

The FDIC has productive working relationships with agencies at the state, federal, and international levels. It leverages those relationships to achieve the goals outlined in this plan and to promote confidence in the U.S. banking system. Listed below are examples of the many important relationships that the FDIC has built with other agencies, seeking to promote strength, stability, and confidence in the financial services industry.

Other Federal Financial Institution Regulatory Agencies

The FDIC works closely with other federal financial institution regulators—principally the Board of Governors of the Federal Reserve Board (FRB) and the Office of the Comptroller of the Currency (OCC)—to address issues and programs that transcend the jurisdiction of each agency. Regulations are, in many cases, interagency efforts. For example, rules were written on an interagency basis to address accounting changes for securitizations and most other supervisory policies, including policies addressing capital adequacy, structured products, liquidity risk management, fraud information-sharing, and off-site monitoring systems. In addition, the Comptroller of the Currency is a member of the FDIC Board of Directors, which facilitates crosscutting policy development and regulatory practices between the FDIC and the OCC.

The FDIC works closely with the Consumer Financial Protection Bureau (CFPB) to address consumer protection issues. The CFPB is responsible for issuing consumer protection rules and regulations; however, the CFPB is required to consult with the FDIC, the FRB, and the OCC on these matters. Enforcement jurisdiction for insured, state nonmember banks with less than $10 billion in assets remains with the FDIC, unless the institution is an affiliate of another insured institution with $10 billion or more in assets that is supervised by the CFPB. The CFPB Director is also a member of the FDIC Board of Directors. As with the OCC, participation on the FDIC Board facilitates crosscutting policy development and regulatory practices among the FDIC, the CFPB, and the OCC.

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

The Federal Financial Institutions Examination Council

The Federal Financial Institutions Examination Council (FFIEC) is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of financial institutions. The member agencies of the FFIEC are the FDIC, the FRB, the OCC, and the NCUA.
As the result of legislation in 2006, the Chair of the FFIEC State Liaison Committee now serves as a sixth member of the FFIEC. The State Liaison Committee is composed of five representatives of state supervisory agencies. To foster interagency cooperation, the FFIEC has established interagency task forces on consumer compliance, examiner education, information sharing, regulatory reports, surveillance systems, and supervision. The FFIEC has statutory responsibilities to facilitate public access to data that depository institutions must disclose under the Home Mortgage Disclosure Act of 1975 (HMDA) and the aggregation of annual HMDA data for each metropolitan statistical area. It also publishes handbooks, catalogs, and databases that provide uniform guidance and information to promote a consistent examination process among the agencies and make information available to the public. This includes maintenance of a central data repository for Community Reinvestment Act ratings and public evaluations. The FFIEC also provides an online Consumer Help Center that connects consumers with the appropriate federal regulator for a particular financial institution.

■ State Banking Departments

The FDIC, the FRB, and the OCC work cooperatively with the CSBS and with individual state regulatory agencies to make the bank examination process more efficient and uniform. In most states, alternating examination programs reduce the number of examinations that are conducted at insured financial institutions, thereby reducing regulatory burden. Joint examinations of larger financial institutions also optimize the use of state and FDIC resources in the examination of large, complex, and problem state nonmember banks and state-chartered thrift institutions.

■ Basel Committee on Banking Supervision

The FDIC participates on the Basel Committee on Banking Supervision (BCBS), a forum for international cooperation on matters relating to financial institution supervision, and on numerous subcommittees of the BCBS. The BCBS aims to improve the consistency of capital regulations internationally, make regulatory capital more risk-sensitive and promote enhanced risk management practices among large, internationally active banking organizations. In 2011, the FDIC and the other federal banking agencies worked closely with the BCBS to improve the Basel II Capital Accord to strengthen the resiliency of the banking sector and improve liquidity risk management. As a result, the BCBS published Basel III, a global regulatory framework for more resilient banks and banking systems. Basel III aims to improve the banking sector’s ability to absorb shocks arising from financial and economic stress while improving risk management and governance and increasing transparency. The FDIC also has established working relationships with various international regulatory authorities to ensure effective supervision of domestic insured institutions that are wholly owned by foreign entities.
■ BCBS – Anti-Money Laundering/Counter-Financing of Terrorism Experts Group

The FDIC is also a member of a BCBS subcommittee called the Anti-Money Laundering/Counter-Financing of Terrorism Experts Group (AMLEG). AMLEG provides a forum for supervisors to discuss the types of guidance that should be provided to banks on anti-money laundering and terrorist financing initiatives. In addition to the United States, 18 other countries and monetary authorities participate in this group.

■ Interagency Country Exposure Review Committee

The Interagency Country Exposure Review Committee (ICERC) was established by the FDIC, the FRB, and the OCC to ensure consistent treatment of the transfer risk associated with the exposure of banks to both public and private sector entities outside the United States. The ICERC assesses the degree of transfer risk inherent in cross-border and cross-currency exposures of U.S. banks, assigns ratings based on its risk assessment, and publishes annual reports of these risks by country.

■ International Association of Deposit Insurers

The FDIC plays a leadership role in the International Association of Deposit Insurers (IADI) and participates in associated activities. IADI contributes to the stability of the financial system by promoting international cooperation in the field of deposit insurance. Through IADI, the FDIC focuses its efforts to build strong bilateral and multilateral relationships with foreign regulators and insurers, U.S. government entities, and international organizations. The FDIC also provides technical assistance and conducts outreach activities with foreign entities to help develop and maintain sound banking and deposit insurance systems. The FDIC’s Acting Chairman currently serves as President of IADI.

■ Association of Supervisors of Banks of the Americas

The FDIC, as Director of the North American Group, exercises a leadership role in the Association of Supervisors of Banks of the Americas (ASBA) and actively participates in the organization’s activities. ASBA develops, disseminates, and promotes sound bank supervisory practices throughout the Americas in line with international standards. The FDIC supports the organization’s mission and activities by actively contributing to ASBA’s research and guidance initiatives and its education and training services. In addition, the Director of the FDIC’s Division of Risk Management Supervision began serving a two-year term as Vice Chairman of the ASBA Board of Directors in 2011.
■ Shared National Credit Program

The FDIC participates with the other federal financial institution regulatory agencies in the
Shared National Credit Program, an interagency program that performs a uniform credit review
annually of financial institution loans that exceed $20 million and are shared by three or more
financial institutions. The results of these reviews are used to identify trends in industry
sectors and the credit risk management practices of banks. The reviews, which are typically
published in September of each year, help the industry better understand economic and credit
risk management trends.

■ Joint Agency Task Force on Discrimination in Lending

The FDIC participates on the Joint Agency Task Force on Discrimination in Lending with
several other federal financial institution regulators (FDIC, FRB, OCC, and NCUA) along with
the Department of Housing and Urban Development, the Federal Housing Finance Agency, the
Department of Justice (DOJ), and the Federal Trade Commission. The agencies exchange
information about fair lending issues, examination and investigation techniques, and
interpretations of statutes, regulations, and case precedents.

■ European Forum of Deposit Insurers

The FDIC and the European Forum of Deposit Insurers share similar interests, and the FDIC
supports the organization’s mission to contribute to the stability of financial systems by
promoting European cooperation in the field of deposit insurance. The FDIC openly shares its
expertise and experience in supervision and deposit insurance through discussions and
exchanges on issues that are of mutual interest and concern (e.g., cross-border issues, bilateral
and multilateral relations, and customer protection).

■ Finance and Banking Information Infrastructure Committee

The FDIC works with the Department of Homeland Security and the Office of Cyberspace
Security through the Finance and Banking Information Infrastructure Committee (FBIIIC) to
improve the reliability and security of the financial industry’s infrastructure. Other members of
FBIIIC include the Commodity Futures Trading Commission (CFTC), the FRB, the NCUA, the
OCC, the Securities and Exchange Commission (SEC), the Department of the Treasury, and
the National Association of Insurance Commissioners (NAIC).
Bank Secrecy Act (BSA), Anti-Money Laundering (AML), Counter-Financing of Terrorism, and Anti-Fraud Working Groups

The FDIC participates in several interagency groups, described below, to help combat fraud and money laundering and to implement the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act):

- The Bank Secrecy Act Advisory Group is a public/private partnership of agencies and organizations that meets to discuss strategies and industry efforts to address money laundering controls.

- The FFIEC Bank Secrecy Act/Anti-Money Laundering Working Group is composed of representatives from the federal bank regulatory agencies, FinCEN, and the CSBS to coordinate BSA/AML training and awareness efforts and to improve communications among the agencies. The BSA/AML working group builds on existing activities and works to strengthen the ongoing initiatives of other formal and informal interagency groups that oversee various BSA/AML-related matters. This working group meets quarterly and includes representatives from the CFTC, the SEC, Department of the Treasury, and the Office of Foreign Assets Control to ensure coordination of BSA/AML matters.

- The National Bank Fraud Working Group is sponsored by the DOJ to share information on fraud detection. It has two subgroups in which the FDIC actively participates:
  - The Check Fraud Working Group is co-chaired by the FDIC and the Federal Bureau of Investigation (FBI) and is composed of the federal bank regulatory agencies, DOJ, the FBI, FinCEN, the Internal Revenue Service (IRS), the Bureau of Public Debt (BPD), and the U.S. Postal Service.
  - The Cyber Fraud Working Group is composed of the federal bank regulatory agencies, DOJ, the FBI, FinCEN, the IRS, and the BPD.

- The Terrorist Finance Working Group is sponsored by the State Department to assist in the AML training effort internationally and to assess the financial structures of foreign countries for potential money laundering and terrorist financing vulnerabilities.

- Other working groups are sponsored by the Department of the Treasury to develop USA PATRIOT Act rules, interpretive guidance, and other relevant BSA materials applicable to insured financial institutions.
Financial Literacy and Education Commission

The FDIC is a member of the Financial Literacy and Education Commission (FLEC), which was established by the Fair and Accurate Credit Transactions Act of 2003. The FDIC actively supports the FLEC’s efforts to improve financial literacy in America by assigning experienced staff to provide leadership and support for FLEC initiatives, including leadership of two FLEC workgroups.

Financial Education Partnerships

The FDIC launched the Money Smart initiative in 2001 to help individuals outside the financial mainstream enhance their money skills and create positive banking relationships. The FDIC has partnered with several federal agencies on this initiative. In 2008, the FDIC signed a partnership agreement with the U.S. Office of Personnel Management (OPM) to collaborate in providing financial literacy and education resources and training to more than 300 federal government benefits officers and 1,500 benefits specialists nationwide.

Alliance for Economic Inclusion

The FDIC established and leads the Alliance for Economic Inclusion (AEI), a national initiative to bring all unbanked and underserved populations into the financial mainstream. The AEI is composed of broad-based coalitions of financial institutions, community-based organizations, and other partners in numerous markets across the country. These coalitions work to increase banking services for underserved consumers in low- and moderate-income neighborhoods, minority and immigrant communities, and rural areas. These expanded services include savings accounts, affordable remittance products, targeted financial education programs, short-term loans, alternative delivery channels, and other asset-building programs.

Government Performance and Results Act (GPRA)/GPRA Modernization Act Financial Institutions Regulatory Working Group

In support of the GPRA and GPRA Modernization Act, the interagency Financial Institutions Regulatory Working Group, composed of representatives from all of the federal financial institution regulators (the FDIC, FRB, OCC, and NCUA), was formed in October 1997. This group works to identify and share information and best practices on the strategic and annual performance goals and objectives that are common to the programs and activities of these organizations and compliance with GPRA and GPRA Modernization Act requirements.
Federal Trade Commission, National Association of Insurance Commissioners, and the Securities and Exchange Commission

The Gramm-Leach-Bliley Act (GLBA), which was enacted in 1999, permits insured financial institutions to expand the products they offer to include insurance and securities. GLBA also includes increased security requirements and disclosures to protect consumer privacy. The FDIC and other FFIEC agencies coordinate with the FTC, the SEC, and the NAIC to develop industry research and guidelines relating to these products.

GLBA also requires the SEC to consult and coordinate with the appropriate federal banking agency on certain loan-loss allowance matters involving public bank and thrift holding companies. The SEC and the agencies have an established consultation process designed to fully comply with this requirement while avoiding unnecessary delays in processing holding company filings with the SEC and providing these institutions access to the securities markets.

In addition, the accounting policy staffs of the FDIC and the other FFIEC agencies and the SEC’s Office of the Chief Accountant (OCA) meet quarterly to discuss accounting matters of mutual interest and maintain ongoing communications on accounting issues relevant to financial institutions. Other meetings are held with the OCA, as necessary, either on an individual agency or interagency basis.
APPENDIX E

External Factors: The Economy and its Impact on the Banking Industry and the FDIC

Economic conditions at the national, regional, and local levels affect banking strategies and the industry’s overall performance. Business activity tends to be cyclical, and as business and household spending fluctuate over time, these trends influence loan growth and credit performance for the banking industry. Business conditions and macroeconomic policies combine to determine the rate of inflation, domestic interest rates, the exchange value of the dollar, and equity market valuations, which also in turn influence the lending, funding, and off-balance sheet activities of FDIC-insured depository institutions.

The recent financial crisis and the associated deep recession of 2007-2009 highlighted the critical links between the health of the banking sector and the performance of the real economy. Not only do economic trends affect the performance of the banking industry, but, as the events of late 2008 prove, a systemic breakdown in the functioning of financial markets and institutions can have serious adverse consequences for real economic activity. Inevitably, when conditions deteriorate in the economy and the banking industry, banks are examined more frequently, failures increase, and resolution costs rise. These trends have important operational implications for the FDIC, often requiring an increase in staff or a diversion of staff from other activities to meet the increased demand for resources in bank supervision and resolutions.

The U.S. economic recovery is approaching three years in duration. Real Gross Domestic Product (GDP) grew at a lower-than-expected annual pace of 1.7 percent in 2011 following 3.0 percent growth in 2010. Consensus forecasts for real GDP growth in 2012 range from 2.0 to 2.5 percent. While some of the shocks that slowed growth in 2011 (e.g., supply chain disruptions following the Japanese earthquake, rising commodities prices, and concerns over the European debt crisis) have diminished in importance, the recovery will remain vulnerable to similar shocks in 2012. Already, the strength of the expansion has fallen short of past recoveries because of the serious disruptions in labor and real estate markets that resulted from the financial crisis. The balance sheets of governments at all levels also have been weakened by the downturn. At the federal level, fiscal tightening has begun and could significantly intensify if past tax cuts expire as scheduled later this year and if large, automatic spending cuts in defense and domestic spending occur in 2013.

The U.S. economy also continues to face significant uncertainties related to potential instability in oil-producing regions and from the effects of the European sovereign debt crisis. If continued, recent increases in the price of crude oil and gasoline could place upward pressure on U.S. inflation and dampen growth in real incomes and consumer spending. In Europe, financial market conditions have improved following the European Central Bank’s large-scale provision of liquidity support to the banking sector. However, euro zone countries will likely face slow or negative growth as they attempt to reduce their fiscal burdens. The ongoing situation will continue to create the potential for adverse shocks to international trade and financial market stability.
In summary, the expected path of the U.S. economy is a steady, if slow, expansion that should continue to support the gradual repair of balance sheets by FDIC-insured depository institutions and other sectors hard hit by the financial crisis. However, the post-crisis environment continues to pose some unique challenges and risks that merit the continued attention of regulators.

The banking industry continued to recover in 2011. The 7,357 FDIC-insured commercial banks and savings institutions that filed financial results at year-end 2011 reported net income of $119.5 billion for the year, an increase of $34.0 billion compared with full-year 2010. This is the highest annual earnings total since 2006, when insured institutions reported $145.2 billion in net income. The year-over-year improvement was made possible by large reductions in provisions for loan and lease losses, reflecting an improving trend in credit quality. The improvement in earnings was fairly widespread; more than two out of every three insured institutions (66.9 percent) reported higher net income than in 2010. Less than one in seven institutions (15.5 percent) reported a net loss for the year, the lowest proportion since 2007. Reduced loss provisioning expenses made up for a year-over-year decline in the industry’s revenues. Net operating revenue (the sum of net interest income and total noninterest income) was $12.8 billion lower than in 2010.

The average return on assets (ROA) rose to 0.88 percent from 0.65 percent a year earlier. This is the highest full year ROA for the industry since 2006. More than 59 percent of insured institutions had higher ROAs in 2011 than in 2010. Insured institutions set aside $76.9 billion in provisions for loan and lease losses during 2011, a reduction of $81.1 billion (51.3 percent) compared to 2010. The industry’s total noninterest income declined by $5.3 billion (2.3 percent), as income from asset servicing fell by $8.0 billion (48.6 percent), gains on loan sales dropped by $4.8 billion (43.0 percent), and income from service charges on deposit accounts declined by $2.2 billion (5.9 percent). These declines were partially offset by a $2.2 billion (9.5 percent) increase in trading income. Net interest income was $7.5 billion (1.7 percent) lower than in 2010. Total noninterest expenses were $19.8 billion (5.1 percent) higher.

An interest-rate environment characterized by historically low short-term interest rates contributed to a decline in the industry’s net interest margin. The average margin fell from 3.76 percent in 2010 to 3.60 percent in 2011. Narrower spreads between the yields on interest-earning assets and the costs of funding those assets combined with weak growth in earning assets to produce the year-over-year decline in net interest income. The greatest margin declines occurred at the largest banks, where much of the growth in interest-earning assets consisted of low-yield investments, such as balances with Federal Reserve banks.

An improving trend in asset quality indicators that began in the second half of 2010 continued through the end of 2011. For the 12 months ended December 31, total noncurrent loans and leases—those that were 90 days or more past due or in nonaccrual status—fell by $53.5 billion (14.9 percent). All major loan categories registered improvements, with loans secured by real estate properties accounting for more than two-thirds (68 percent) of the total decline in noncurrent loan balances. Noncurrent real estate construction and development loans declined by $19.3 billion, while balances of loans to commercial and industrial (C&I) borrowers that were noncurrent fell by $11.7 billion.
Noncurrent real estate loans secured by nonfarm nonresidential properties declined by $6.1 billion, and noncurrent residential mortgage balances dropped by $5.6 billion. Net charge-offs of loans and leases (NCOs) totaled $113.0 billion in 2011, a $74.7 billion decline from 2010. This is the fourth consecutive year that industry charge-offs exceeded $100 billion. Credit card loan NCOs had the largest year-over-year decline, falling by $27.9 billion. NCOs of real estate construction loans were $11.8 billion lower, C&I NCOs were down by $9.8 billion, and residential mortgage NCOs fell by $8.3 billion.

Asset growth picked up in 2011, funded by strong deposit inflows. During the 12 months ended December 31, total assets of insured institutions increased by $564.4 billion (4.2 percent). Cash and balances due from depository institutions (including balances with Federal Reserve banks) accounted for $298.4 billion (52.9 percent) of the growth in assets. Securities portfolios rose by $182.6 billion (6.8 percent). Net loans and leases increased by $130.8 billion, as C&I loan balances rose by $160.9 billion (13.6 percent). Balances fell in most other major loan categories in 2011. The largest declines occurred in real estate construction and development loans, where balances fell by $81.4 billion (25.3 percent), and in home equity lines of credit, which declined by $33.5 billion (5.3 percent). Banks reduced their reserves for loan losses by $40.5 billion (17.5 percent) during 2011, while increasing their equity capital by $68.0 billion (4.6 percent).

Growth in deposits outpaced the increase in total assets in 2011. Deposits in domestic offices of insured institutions increased by $883.9 billion (11.2 percent), while deposits in foreign offices fell by $121.4 billion (7.8 percent). A large portion of the increase in domestic deposits occurred in noninterest-bearing transaction accounts with balances greater than $250,000 that are fully insured until the end of 2012. Balances in these accounts increased by $569.1 billion (56 percent) during the year. Nondeposit liabilities fell by $255.6 billion (10.7 percent), as banks reduced their Federal Home Loan Bank advances by $59.1 billion (15.3 percent), Fed funds purchased declined by $72.5 billion (60.9 percent), securities sold under repurchase agreements dropped by $30.3 billion (6.6 percent), and other secured borrowings fell by $76.4 billion (19.6 percent).

At the end of 2011, there were 813 institutions on the FDIC’s “Problem Bank List,” down from 884 problem institutions at the beginning of the year. Total assets of problem institutions declined to $319 billion from $390 billion a year earlier. Although these institutions are identified as having financial, operational, or managerial weaknesses that threaten their viability, historical analysis shows that most problem institutions do not fail.

In 2011, 92 banks failed, representing a combined $34.9 billion in assets. The DIF balance, which fell below zero in 2009, returned to a positive balance in 2011. As of December 31, 2011, the DIF balance stood at $11.8 billion, up from negative $7.4 billion at year-end 2010. The reserve ratio was positive 0.17 percent at the end of 2011, up from negative 0.12 percent at the end of 2010.

The FDIC adopted an amended Restoration Plan on October 14, 2010, that will restore the DIF reserve ratio to 1.35 percent by September 2020, as required by DFA. In October 2011, the FDIC projected total DIF losses for the period 2011 to 2015 of $19 billion, $2 billion less than the FDIC’s April 2011 projection.
The modest reduction in projected losses over the 2011-2015 period reflects improved prospects for individual troubled banks, an expected continued decline in the pace of CAMELS rating downgrades, and a reduction in the rate at which troubled banks fail. Based on the most recent projections, the FDIC estimates that the DIF reserve ratio will reach 1.15 percent in 2018 under current assessment rates.

The banking industry has the capacity to provide the necessary backing to the insurance fund, given its historically strong capital levels. As of September 2011, over 96 percent of all FDIC-insured institutions, representing more than 99 percent of all insured institution assets, met or exceeded the quantitative requirements to be well-capitalized according to the regulatory capital definition for Prompt Corrective Action. This capacity, together with the backing of the full faith and credit of the U.S. government, provide confidence that the FDIC will continue to have the resources to protect insured depositors.