

**FEDERAL DEPOSIT  
INSURANCE CORPORATION**

**2014 Annual  
Performance Plan**

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## **CHAIRMAN'S MESSAGE**

I am pleased to present the Federal Deposit Insurance Corporation's *2014 Annual Performance Plan* that outlines our goals and priorities for the year.

Our 2013 Annual Report describes the wide variety of accomplishments by the FDIC last year in fulfilling our core mission responsibilities. During 2014, as we continue to move beyond the recent financial crisis, the FDIC remains well prepared to carry out our mission of maintaining 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. At the end of 2013, the FDIC insured \$6 trillion of deposits in over half a billion accounts at nearly 6,900 institutions.

During 2014, our broader policy agenda includes:

- Carrying forward our important responsibilities relating to systemically important financial institutions (SIFIs), including supervision, deposit insurance pricing, and resolution;
- Continuing the FDIC's Community Banking Initiatives, including researching the future of community banks and providing technical assistance through a series of training videos on various topics; and
- Continuing our efforts to expand access to the mainstream banking system for everybody who lives in the United States, including our survey of the unbanked that we conduct jointly with the U.S. Census Bureau.

In addition, important work continues in the aftermath of the financial crisis. The number of problem institutions has declined substantially from a peak of 888 in 2011, but remains high, about 500 at year-end, by historical standards. These institutions still require elevated supervisory attention. Similarly, while the number of insured institution failures has fallen considerably from the a high of 157 failures in 2010, we still have substantial residual work to complete in managing nearly 500 active receiverships that are associated with the failures that occurred from 2008 through 2013. In 2014, we will devote substantial resources to both of these priorities.

The U.S. economy and the banking industry are gradually recovering from the financial crisis. Capital levels, liquidity, asset quality, and earnings for insured institutions have all improved.

Although the underlying trends are positive, the FDIC will remain vigilant and is prepared to address any unexpected problems that may arise.

In our 81-year history, the FDIC has promoted stability and public confidence in the banking system by carrying out its responsibilities for deposit insurance, bank resolution, and bank supervision. The FDIC will continue in 2014 to fulfill this important mission.

Martin J. Gruenberg  
Chairman

**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 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.<sup>1</sup>

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.

The financial crisis and ensuing recession resulted in a large number of depository institution failures and high losses to the DIF. The number of problem banks peaked in 2010 and has been declining since 2011. Similarly, the number of bank failures in 2012 and 2013 was much lower than during the height of the crisis, allowing the FDIC to rebuild the DIF. At the end of 2013, the fund balance had risen to \$47.2 billion from its negative \$20.9 billion low point at the end of 2009. The reserve ratio at the end of 2013 was 0.79 percent.

The Dodd-Frank Act (DFA), which was enacted in July 2010, revised the statutory authorities governing the FDIC's management of the DIF. As a result of the changes mandated by DFA, the

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<sup>1</sup>An institution's charter and its Federal Reserve System membership status determine which federal banking agency is the institution's primary federal supervisor.

FDIC developed a comprehensive, long-term management plan for the DIF that sets a target fund reserve ratio of 2 percent 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. A new Restoration Plan was also adopted to make sure that the reserve ratio reaches 1.35 percent by September 30, 2020 as required by the DFA.

On October 9, 2012, the FDIC Board approved a final rule to amend the definitions used to identify concentrations in higher-risk assets in the assessment system for large and highly complex institutions. This rule, which became effective on April 1, 2013, amends the definitions of leveraged loans (renamed higher-risk C&I (commercial and industrial) loans and securities) and subprime loans (renamed higher-risk consumer loans), which are areas of significant potential risk. The final rule resulted from concerns raised by the industry about the cost and burden of reporting under the definitions in the February 2011 rule. The new definitions better reflect the risk that institutions pose to the DIF.

The table below depicts the strategic goal, strategic objectives, and annual performance goals for the Insurance Program.

Strategic Goal	Strategic Objectives	Annual Performance Goals
Insured depositors are protected from loss without recourse to taxpayer funding.	Customers of failed insured depository institutions have timely access to insured funds and financial services.	Respond promptly to all insured financial institution closings and related emerging issues. (1.1-1)
	The FDIC promptly identifies and responds to potential risks to the DIF.	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. (1.2-1)
	The DIF and the deposit insurance system remain strong and adequately financed.	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)
		Expand and strengthen the FDIC’s participation and leadership role in supporting robust international deposit insurance systems. (1.3-2)

	<p>The FDIC resolves the failure of insured depository institutions in the manner least costly to the DIF.</p>	<p>Market failing institutions to all known qualified and interested potential bidders. (1.4-1)</p>
	<p>The public and FDIC-insured depository institutions have access to accurate and easily understood information about federal deposit insurance coverage.</p>	<p>Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts. (1.5-1)</p>

**STRATEGIC GOAL 1:**

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

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**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
  - *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 2014 staffing of 916 employees dedicated to handling the failure of insured financial institutions and the management of ensuing receiverships. This includes 405 permanent positions and 511 non-permanent positions. The number of authorized non-permanent positions is lower than in 2013, reflecting a continuing decline in the number of insured institution failures and assets under management. However, the completion of residual, non-asset related receivership management responsibilities for the large number of open receiverships established as a result of prior-year failures will continue to be substantial workload drivers for several years to come.

*Information Technology:* Technology is critical to the efficiency of deposit insurance determinations and payments. The FDIC uses the Claims Administration System (CAS) to identify depositors' insured and uninsured funds in failing and failed banks. For every failing bank, CAS is used before the failure to estimate the amount of uninsured deposits for the least cost test. When an insured deposit transaction is the least cost resolution, CAS is used to determine the amount of the depositors' funds that are insured. For all failures, CAS is the system of record for the deposits of the failed bank and subsequent claims processing and tracking. During 2014, FDIC will complete an update to the documents and forms used in CAS and complete a data optimization effort which will enhance the loading and quality of the data.

#### 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.

#### 2013 Performance Results

This annual performance goal and its associated performance indicators and targets are unchanged from 2013. Twenty-four insured financial institutions failed during 2013. 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

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.

Visiting scholars also participate in the Corporation's risk analysis program, and risk-focused examination training has been incorporated into the FDIC's examination schools.

In addition, the FDIC also uses examiners and other staff located throughout the country to conduct banker outreach sessions as a collateral duty.

*Information Technology:* The FDIC's Web site ([www.fdic.gov](http://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.

#### 2013 Performance Results

This annual performance goal and its associated indicator and targets are unchanged from 2013. The FDIC successfully met the performance targets for this annual performance goal in 2013.

### **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
  - *Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2014, and December 31, 2014.*
  - *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, 2014, and December 31, 2014.*

Means and Strategies

*Operational Processes (initiatives and strategies):* This goal reflects a requirement of DFA. At the end of 2013, the fund balance had risen to \$47.2 from its negative \$20.9 billion low point at the end of 2009. The reserve ratio at the end of 2013 was 0.79 percent. The fund is projected to reach 1.15 percent of estimated insured deposits in 2018 and 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.

*Human Resources (staffing and training):* FDIC staff performs 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 when there are 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 2014, 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.

### 2013 Performance Results

This annual performance goal and its associated performance indicators and targets have been updated for 2013. The FDIC successfully met the performance targets established for the related 2013 annual performance goal.

### **Annual Performance Goal 1.3-2**

Expand and strengthen the FDIC's participation and leadership role in supporting robust and effective deposit insurance programs, resolution strategies, and banking systems worldwide.

### Indicator and Targets

#### 1. Initiatives to advance the FDIC's global leadership and participation

- *Maintain open dialogue with counterparts in strategically important jurisdictions, international financial organizations and institutions, and partner U.S. agencies.*
- *Maintain a leadership position in the International Association of Deposit Insurers (IADI) by conducting workshops and performing assessments of deposit insurance systems based on the methodology for assessment of compliance with the IADI Core Principles for Effective Deposit Insurance Systems (Core Principles), developing and conducting training on priority topics identified by IADI members, and actively participating in IADI's Executive Council and Standing Committees.*
- *Engage with authorities responsible for resolutions and resolutions planning in priority foreign jurisdictions.*
- *Contribute to the resolution-related agenda of the Financial Stability Board (FSB) through active participation in the FSB's Resolution Steering Group and its working groups.*
- *Actively participate in bilateral interagency regulatory dialogues.*

#### 2. Provision of technical assistance to foreign counterparts

- *Support visits, study tours, secondments, and longer-term technical assistance and training programs for representatives of foreign jurisdictions to strengthen their deposit insurance organizations, central banks, bank supervisors, and resolution authorities.*

## Means and Strategies

*Operational Processes (initiatives and strategies):* As a recognized global leader in promoting sound deposit insurance, bank supervision, and resolution practices, the FDIC provides technical guidance, training, consulting services, and information to governmental banking and deposit insurance organizations around the world. This is achieved, in part, through the FDIC's relationships with international financial institutions and regulatory agencies, and its leadership roles and participation in IADI, the FSB and the Association of Supervisors of Banks of the Americas (ASBA). In 2014, the FDIC will continue to support IADI in the advancement of the *IADI Core Principles* and lead the IADI effort to develop training seminars for deposit insurers and safety-net participants. The FDIC will also continue to support ASBA governance, guidance, and training initiatives.

In addition, the FDIC will engage bilaterally and multilaterally in 2014 with priority foreign authorities to develop resolution strategies for globally systemically important financial institutions (G-SIFIs) in the U.S. and foreign G-SIFIs with a substantial presence in the U.S. This will include participation in the EC-FDIC working group, tabletops, principal level events, joint papers, hosting of foreign delegations, and support for missions to foreign authorities. The FDIC will continue to support the FSB in its resolution-related efforts, including the development and presentation of proposals to be addressed by the G20 at the Brisbane Summit. The FDIC's efforts will also include the conduct of Crisis Management Group (CMGs) meetings for G-SIFIs (G-SIFIs) based in the U.S.; attendance at CMGs for non-U.S. G-SIFIs with significant U.S. operations; and participation in assessments of the implementation of the Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes)

The FDIC will support study tours, long term secondments, and technical assistance for foreign counterparts that serve to strengthen bank supervision and regulation, and promote the adoption of sound deposit insurance and resolution frameworks. The FDIC will continue to promote the adoption of sound bank supervisory principles and practices in the Americas by providing subject matter experts as instructors for ASBA-sponsored training, ASBA- led research and guidance initiatives, and the ASBA secondment program.

The FDIC will support the IMF and World Bank in their Financial Sector Assessment Program (FSAP) and Reports on the Observance of Standards and Codes as subject matter experts for deposit insurance program reviews and resolution-related matters. The FDIC will work with the FSB in the development of an assessment methodology for the Key Attributes.

*Human Resources (staffing and training):* Available resources include an international affairs team dedicated to promoting the adoption of sound bank supervision and deposit insurance principles and coordinating the FDIC's global outreach and technical assistance programs, as well as a core staff focused upon cross-border resolution matters, each supplemented by other subject matter experts within the FDIC to support technical assistance missions overseas and study tour visits in the United States.

*Information Technology:* Information about international governmental bank regulatory and deposit insurance agencies and activities, as well as the FDIC’s international outreach program, is communicated through the FDIC’s external website.

Verification and Validation

Progress in meeting this annual goal is reported to the FDIC’s International Affairs Working Group through established processes. Quarterly statistical reports document trends in the number of foreign visitors, foreign officials trained, technical assistance missions, and FDIC participation and leadership in key international organizations.

2013 Performance Results

This annual performance goal and its associated performance targets have been updated and broadened for 2014 to cover the FDIC’s international activities related to resolution strategies. The performance targets for this goal were successfully met in 2013.

**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. 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, non-permanent 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 Franchise Marketing System (FMS), which is supported by the 4C system.

#### Verification and Validation

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

#### 2013 Performance Results

This annual performance goal and its associated performance indicator and target are unchanged from 2013. The performance target was successfully met for the 24 insured institution failures that occurred in 2013.

### **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 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 its Web site, (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. The call center is staffed by contractors who are trained to provide answers to many different questions about deposit insurance coverage. Complex or unique issues, or those requiring additional analysis and review, are referred by the call center for research and response to FDIC employees who specialize in deposit insurance issues.

In addition, the FDIC administers a public education program that includes developing and distributing 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 to employees of insured financial institutions.

*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. The call center is staffed by contractors and a dedicated staff of subject matter experts on deposit insurance issues.

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 its deposit insurance program through the Specialized Tracking and Reporting System (STARS). The FDIC also provides the Electronic Deposit Insurance Estimator (EDIE) on its Web site for use by consumers and bankers to estimate deposit insurance coverage. 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.

#### 2013 Performance Results

This annual performance goal and one performance target are unchanged from 2013. The other performance target was revised from 15 to 12 seminars. The FDIC successfully met the performance targets for this annual performance goal in 2013.

## **SUPERVISION PROGRAM**

The FDIC's Supervision Program promotes the safety and soundness of insured depository institutions, protects consumer rights, and promotes community investment initiatives by FDIC-supervised 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 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 certain statutory back-up authorities for these companies. The purpose of the 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 their 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 for all state nonmember banks that are not subject to the primary jurisdiction of the Consumer Financial Protection Bureau (CFPB) to assess their compliance with consumer protection statutes and regulations. 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 to correct identified violations or other problems for institutions that are operating in a deteriorated financial condition; failing to comply with consumer protection, fair lending and other statutes; or displaying other significant weaknesses. These enforcement actions remain in place until the identified weaknesses are remedied.

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. The FDIC evaluates various factors, including capital adequacy, quality of management, financial condition, and compliance with applicable laws and regulations. It also considers an institution's compliance with consumer protection, fair lending, and privacy laws and its performance under CRA. 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 FDIC is focused in 2014 on addressing emerging risks to financial institutions including potential changes in interest rates and cybersecurity risks. In addition, the FDIC will continue to implement its new authorities under the DFA, as well as its ongoing community banking initiative.

The FDIC continues to monitor potential changes in interest rates. In October 2013, the FDIC issued a Financial Institution Letter, reiterating expectations that institutions would manage their interest rate risk exposure, particularly in a challenging interest rate environment. The guidance states that a number of institutions are reporting a significantly liability-sensitive balance sheet position, which means that in a rising interest rate environment, the potential exists for adverse effects on net income and, in turn, earnings performance. In 2014, the FDIC will make significant efforts, through offsite analysis and onsite examinations, to identify and address interest rate risk at FDIC supervised institutions.

Another growing concern for the banking industry is cybersecurity as the financial services sector increases its use of technology, both to provide efficiencies to internal operations as well as provide services to consumers. The increasing use and reliance on technology can increase security risks if IT systems are vulnerable to cyber-attacks or failures to technology or electronic networks. In 2014, the FDIC will add additional staff and resources to ensure that financial institutions are addressing risks related to cybersecurity. This includes routine information technology (IT) examinations at FDIC-supervised institutions as well as the major technology service providers (TSPs) that support financial institutions. In addition, the FDIC will continue its efforts to promote the security and resilience of the financial services sector by collaborating with its fellow banking regulators through the newly-formed FFIEC Cybersecurity and Critical Infrastructure Working Group and the Financial and Banking Information Infrastructure Committee.

In 2014, the FDIC will also continue to develop its capabilities related to its responsibilities under DFA. In the risk management area, this includes ongoing reviews of all banking organizations with more than \$100 billion in assets as well as certain nonbank SIFIs. In addition, reviews will be completed of the resolution plans submitted by insured depository institutions and bank holding companies with assets of \$50 billion or more as well as nonbank financial companies designated by the FSOC. The FDIC has the responsibility to ensure that these resolution plans provide a viable approach for reorganizing or liquidating through bankruptcy without creating an adverse effect on the financial stability of the U.S. Throughout 2014, the FDIC will also continue to work closely with the federal banking agencies to implement the new capital standards, including the development of regulatory reports and instructions for all banking organizations so that they are prepared to comply with the interim final capital rule.

Community bank issues will also continue to be a high priority in 2014. The FDIC will follow up on the recommendations in the Community Banking Study to make the supervisory process more efficient, consistent and transparent to community banks. For 2014, this will include more outreach and guidance to community banks, similar to efforts made in 2013, such as the development of the Directors Resource Center on the FDIC website that provides useful information to bankers. In addition, the FDIC will commence a comprehensive review of all of its regulations, as required by the Economic Growth and Regulatory Paperwork Reduction Act, to identify any regulations that are outdated, unnecessary or unduly burdensome, with a focus on community banking issues.

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

Strategic Goal	Strategic Objective	Annual Performance Goals
<p>FDIC-insured institutions are safe and sound.</p>	<p>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.</p>	<p>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. When problems are identified, promptly implement appropriate corrective programs, and follow up to ensure that identified problems are corrected.(2.1-1)</p>
		<p>Assist in protecting the infrastructure of the U.S. banking system against terrorist financing, money laundering, and other financial crimes. (2.1-2)</p>
		<p>More closely align regulatory capital standards with risk and ensure that capital is maintained at prudential levels. (2.1-3)</p>
		<p>Identify and address risks in financial institutions designated as systemically important. (2.1-4)</p>
		<p>Implement strategies to promote enhanced cybersecurity within the banking industry. (2.1-5)</p>

The following table depicts the strategic goal, strategic objectives, and annual performance goals for the Compliance and Consumer Affairs components of the Supervision Program.

Strategic Goal	Strategic Objectives	Annual Performance Goals
Consumers' rights are protected, and FDIC-supervised institutions invest in their communities.	FDIC-supervised institutions comply with consumer protection, CRA, and fair lending laws and do not engage in unfair or deceptive practices.	Conduct on-site CRA and compliance examinations to assess compliance with applicable laws and regulations by FDIC-supervised depository institutions. When violations are identified, promptly implement appropriate corrective programs, and follow up to ensure that identified problems are corrected. (3.1-1)
	Consumers have access to accurate and easily understood information about their rights and the disclosures due them under consumer protection and fair lending laws.	Effectively investigate and respond to written consumer complaints and inquiries about FDIC-supervised financial institutions. (3.2-1)
	The public has fair access to banking services and is treated equitably by FDIC-supervised institutions.	Promote economic inclusion and access to responsible financial services through supervisory, research, policy, and consumer/community affairs initiatives. (3.3-1)

**STRATEGIC GOAL 2:**

FDIC-insured institutions are safe and sound.

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**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. When problems are identified, promptly implement appropriate corrective programs, and follow up to ensure that identified problems are corrected.

Indicators and Targets

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.*
2. Implement appropriate corrective program where violations are identified
  - *Implement formal or informal enforcement actions within 60 days for at least 90 percent of all institutions that are newly downgraded to a composite Uniform Financial Institutions Rating of 3, 4, or 5.*

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 2014, the FDIC projects that it will conduct more than 2,300 risk management examinations required under statute, FDIC policy, or agreements with state supervisors. The number of risk management examinations conducted during 2014 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.

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.

Troubled and problem institutions (those with a composite rating of 3, 4, or 5) are identified primarily through the examination process. While discussions with banks are the primary means used to address deficiencies, the FDIC has broad enforcement powers to correct practices, conditions, or violations of law that threaten an institution's financial condition. The examination report identifies the corrective actions to be taken by the institution. The FDIC may impose informal and formal enforcement actions on 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.

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 except in rare instances where it is determined by FDIC management to be unnecessary. Additional follow-up action is taken when the corrective program is determined to have been insufficient in addressing the identified problem.

The responsible FDIC regional office closely monitors each troubled and problem depository institution. In addition to an on-site visit and a subsequent examination, compliance 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):* The FDIC has 1,779 authorized positions (1,520 permanent and 259 non-permanent) in its field examination workforce for risk management in 2013. Field examiners conduct on-site examinations and visits. 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. 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.

Case managers and other regional office officials finalize and monitor compliance with enforcement programs. 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 FDIC's Virtual Supervisory Information on the Net system (ViSION) is used to schedule and track the completion of risk management examinations. ViSION is also 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.

The FDIC is in the midst of a multi-year project to develop a new Examination Tools Suite (ETS) that will replace four examination-related software applications and address the risk of technological obsolescence. In 2012, the first phase of ETS was implemented with the replacement of the electronic loan review software that had been in use since 1996. The final phase of ETS development will be completed in mid-2014, with training and field implementation beginning in 2015.

### Verification and Validation

The number and timing of examinations are tracked through ViSION and reported through established management processes. Enforcement actions and the timing of required on-site visits are tracked through ViSION.

The FDIC 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 formal and informal corrective actions and monitoring of enforcement implementation and follow-up activities. Any material exceptions noted during the reviews are brought to management's attention for appropriate action.

### 2013 Performance Results

This annual performance goal and its associated performance indicators and targets are unchanged from 2013. In 2013, the FDIC successfully met this performance target.

### **Annual Performance Goal 2.1-2**

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

#### Indicator 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-based 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 332 examiners who are designated as BSA/AML subject matter experts, including 77 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:* ViSION 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. ETS is also used to provide updated BSA violation codes to examiners automatically, thereby increasing efficiency of those examinations.

Verification and Validation

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

2013 Performance Results

This annual performance goal and its associated performance indicator and target are unchanged from 2013. The FDIC successfully met this performance target in 2013.

**Annual Performance Goal 2.1-3**

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

Indicators and Target

1. Issuance of final Basel III reporting instructions

- *Finalize Basel III reporting instructions in time to ensure that institutions that are using the advanced approaches can implement Basel III in the first quarter of 2014 and that all IDIs can implement the standardized approach in the first quarter of 2015.*

2. Issuance of a final Basel Liquidity Coverage Ratio rule

- *Publish a final Basel Liquidity Coverage Rule, in collaboration with other regulators by December 31, 2014.*

3. Issuance of a final rule implementing the Basel III capital accord

- *Publish a final rule implementing the Basel III capital accord in collaboration with other regulators, by December 31, 2014.*

4. Issuance of an enhanced U.S. supplementary leverage ratio standard

- *Finalize, in collaboration with other regulators, an enhanced U.S. supplementary leverage ratio standard by December 31, 2014.*

Means and Strategies

In 2013, the FDIC adopted an interim final rule implementing the new Basel III capital standards after a comprehensive review of more than 2,500 public comments, the majority of which were from community banking organizations. The new standards will take effect in January 2015 for most institutions; for advanced approaches banking organizations, select aspects of the new rules

take effect in the first quarter of 2014. The FDIC also published a Notice of Proposed Rulemaking to implement the Basel III liquidity standards and to establish for large U.S. banks a supplementary leverage ratio.

In 2014, the FDIC will continue to work closely with the other federal banking agencies to implement the new capital standards, including developing regulatory reports and instructions for all banking organizations so that they are prepared to comply with the interim final capital rule. The FDIC will proceed with finalizing the enhanced supplementary leverage ratio standards and will also carefully consider comments received on the liquidity coverage ratio to develop a final liquidity coverage ratio rule in 2014.

Additionally, the FDIC will continue to promote strong minimum international standards for capital and liquidity by participating in meetings and activities of the Basel Committee on Banking Supervision (BCBS) and its various groups and subgroups, including the Policy Development Group, the Trading Book Group, the Standards Implementation Group, and the Working Group on Liquidity. Key efforts in 2014 will include participating in the BCBS's numerous quantitative impact studies, including those that are designed to monitor the new international liquidity requirements; participating in the BCBS's fundamental review of the trading book and further work on counterparty credit risk; 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 2013, shortly after the interim final capital rule was approved, the FDIC launched a public outreach effort to explain the proposals, emphasizing those areas affecting community banks. The FDIC posted training videos and an interagency estimation calculator on its Web site, visited each Region to discuss the new capital rule with community bankers, and hosted a national conference call to address questions and concerns. While these efforts were targeted to community bankers, the online resources and conference call were also available to FDIC staff. In 2014, the FDIC will continue to increase the number of staff with expertise on bank capital by providing internal and external training on the final rules.

*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.

## 2013 Performance Results

This annual performance goal is unchanged, but its associated performance indicators and targets have been updated for 2013. The FDIC successfully met the performance targets for 2013.

### **Annual Performance Goal 2.1-4**

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

#### Indicators and Targets

1. Risk monitoring of systemically important banks, bank holding companies and designated non-banking firms
  - *Conduct ongoing risk analysis and monitoring of SIFIs to understand their structure, business activities and risk profiles and their resolution and recovery capabilities.*
2. Completion of statutory and regulatory requirements under Title I of DFA
  - *Complete, in collaboration with the Federal Reserve Board and in accordance with statutory and regulatory timeframes, all required actions associated with the review of resolution plans submitted by financial companies subject to the requirements of section 165 (d) of DFA.*
3. Meetings of the Systemic Resolution Advisory Committee
  - *Hold at least one meeting of the Systemic Resolution Advisory Committee to obtain feedback on resolving SIFIs.*

#### Means and Strategies

*Operational Processes (initiatives and strategies):* Ongoing risk monitoring is conducted by the FDIC through resident teams at the largest SIFIs as well as through the work of offsite analysts. The offsite teams analyze industry and market conditions and trends to support individual institution monitoring and the consideration of broader policy issues. Efforts include monitoring financial condition and performance, risk management abilities, and recovery plans to include early warning signals and triggers and the range of response actions to be taken should recovery plan triggering events occur. Such efforts are performed collaboratively with other regulatory agencies.

Under Title I of the Dodd-Frank Act Section 165(d), covered companies are required to submit annually plans for a non-systemic resolution under the bankruptcy code. Among other things, the resolution plans are required to identify each firm's critical operations, core business lines, and the key obstacles to a rapid and orderly resolution. Impediments to resolution include areas such as a firm's internal organizational structure, interconnections of the firm with other SIFIs,

and management information system limitations. The Federal Reserve Board and the FDIC have shared authority for the review of the plans submitted by covered companies to assess informational completeness and the resolvability of individual banks and bank holding companies. The FDIC also works with the Federal Reserve to develop any required additional guidance to covered firms on their future submissions of plans. All covered companies are required to submit resolution plans during 2014.

The Systemic Resolution Advisory Committee advises the FDIC on a variety of issues including the effects on financial stability and economic conditions resulting from the failure of a SIFI, the ways in which specific resolution strategies would affect stakeholders and their customers, the tools available to the FDIC to wind-down the operations of a failed organization, and the tools needed to assist in cross-border relations with foreign regulators and governments when a systemic company has international operations. Members of the Committee bring a wide range of knowledge and experience to these issues, including expertise in managing complex firms, administering bankruptcies, working within different legal jurisdictions, and understanding the application of accounting rules and practices. During 2013, the Committee continued to provide important advice to the FDIC regarding systemic resolutions.

*Human Resources (staffing and training):* Ongoing risk monitoring is conducted by resident teams at the largest systemically important financial institutions and offsite analysts who have expertise with large financial institution operations. The FDIC's review of resolution plans submitted under Section 165 (d) of DFA is carried out by a multidisciplinary team with expertise across all major operational and business line functions of the covered companies, both domestically and internationally. Training needs for each of these groups are reviewed regularly to ensure that these teams have knowledge and expertise necessary to appropriately perform their assigned responsibilities. Training specifically related to non-bank covered companies has been developed and will be administered to appropriate team members in 2014.

*Information Technology:* The FDIC uses existing secure technology systems to track the submission and review of the resolution plans required under Section 165(d) of DFA.

### Verification and Validation

Progress in achieving this annual performance goal will be monitored through established management reporting processes.

### 2013 Performance Results

This annual performance goal is unchanged from 2013, but the performance indicators and targets have been updated for 2014. In 2013, the FDIC successfully met the performance targets for this annual performance goal.

### **Annual Performance Goal 2.1-5**

Implement strategies to promote enhanced cybersecurity within the banking industry.

### Indicator and Target

1. Implementation of an enhanced information technology (IT) supervision program
  - *In coordination with the FFIEC, implement recommendations to enhance the FDIC's supervision of the IT risks at insured depository institutions and their technology service providers.*

### Means and Strategies

*Operational Processes (initiatives and strategies):* The FDIC assesses the ability of FDIC-supervised banks and technology service providers (TSPs) to manage information technology risks through a comprehensive framework of IT risk management standards, risk ratings and on-site examinations. The framework is jointly established by the members of the Federal Financial Institutions Examination Council (FFIEC). It focuses on evaluating information security, business continuity, incident response, audit and assessment, board and management oversight, vendor relationships, and payment systems. When significant weaknesses are identified, the FDIC and the other FFIEC member agencies have the authority to issue enforcement actions to compel them to correct these weaknesses.

Given the changing technology landscape and increasing scope and complexity of IT operations, the members of the FFIEC are assessing existing examination programs and developing strategies to promote enhanced oversight of the IT systems of supervised institutions. Broad areas of focus include examinations of TSPs, communications between TSPs and client institutions, and industry awareness of cyber-related threats. The FDIC is actively participating in these efforts through the Cybersecurity and Critical Infrastructure Working Group and the Information Technology Subcommittee of the FFIEC Task Force on Supervision.

*Human Resources (staffing and training):* The vast majority of the FDIC's 1,100 commissioned risk management examiners have training and experience in basic IT examination skills. Of these, 59 are dedicated IT examiners. The FDIC also has 106 Examination Specialists who are intermediate and advanced IT subject matter experts and assist on examinations, focusing on technical IT risks at financial institutions. In 2014, the FDIC will expand the number of trained IT examination staff and specialists in its workforce to address the management of emerging IT risks in financial institutions and the banking industry.

The IT examination functions of the FDIC are supported by as staff of seven IT policy and examination personnel in Washington, DC. The FDIC will also be expanding its Washington operations to address the growing risk exposure in the payment services area and to enhance its examination of TSPs and cybersecurity risks in the banking industry.

*Information Technology:* ViSION is used to schedule and track the completion of risk management examinations and any related enforcement actions or significant events at institutions due to non-compliance with IT related banking laws and regulations.

Verification and Validation

The number and timing of examinations are tracked through ViSION and reported through established management processes. Enforcement actions and the timing of required on-site visits are also tracked through ViSION.

The FDIC 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 formal and informal corrective actions and monitoring of enforcement implementation and follow-up activities. Any material exceptions noted during the reviews are brought to management's attention for appropriate action.

2013 Performance Results

This annual performance goal is new for 2014.

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**STRATEGIC GOAL 3:**

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

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**STRATEGIC OBJECTIVE 3.1**

FDIC-supervised institutions comply with consumer protection, 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. When violations are identified, promptly implement appropriate corrective programs and follow up to ensure that identified problems are corrected.

Indicators and Targets

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.*
2. Implementation of corrective programs
  - *Conduct visits and/or follow-up examinations in accordance with established FDIC policies to ensure that the requirements of any required corrective program have been implemented and are effectively addressing identified violations.*

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 2014, the FDIC estimates that it will conduct approximately 1,400 compliance and/or CRA examinations.

The FDIC's compliance examination approach emphasizes a risk-focused scoping process to look at an institution's compliance risk management practices as opposed to exhaustive transactional testing. This approach involves an expanded review of an institution's systems and compliance policies so that transaction testing can be better targeted and focused on areas that pose the greatest risk for consumer harm. This approach creates a more efficient and effective

use of examination resources, especially in financial institutions with high compliance risk profiles.

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.

Institutions that are subject to enforcement actions because of unfavorable ratings for compliance with consumer protection and fair lending laws and regulations are closely monitored by regional office officials. A follow-up examination or on-site visit is conducted to review compliance with supervisory actions for each institution that receives an unsatisfactory rating. . Additional follow-up action is taken when the initial corrective program is determined to have been insufficient in addressing the identified problem. Progress in complying with an enforcement action is also assessed through quarterly progress reports from, and direct communication with, management of the financial institution.

*Human Resources (staffing and training):* The FDIC has 511 authorized positions (470 permanent, 41 non-permanent) in its field examination workforce for compliance and consumer protection in 2014. Staffing and training needs are reviewed regularly to ensure that staff resources supporting the compliance supervision 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 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.

### 2013 Performance Results

This annual performance goal and its associated performance indicators and targets are unchanged from 2013 except that Annual Performance Goals 3.1-1 and 3.1-2 have been combined into a single goal for 2014. The performance targets for both of those annual performance goals were substantially met in 2013.

## **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 has a comprehensive program to disseminate information to banks and the public on consumer rights under consumer protection and fair lending law and regulations. It also operates a centralized Consumer Response Center that coordinates the investigation of and response to consumer complaints and inquiries. For correspondence related to an FDIC supervised institutions, FDIC staff contacts the institution and reviews applicable federal consumer protection regulations before providing a response. Correspondence regarding institutions under the jurisdiction of other primary federal regulators is referred to those agencies. Target response times vary by the type of inquiry or complaint.

*Human Resources (staffing and training):* The FDIC's centralized Consumer Response Center is located in Kansas City and is staffed by FDIC employees. In addition, consumer affairs staff in Washington, D.C., 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 utilizes an electronic Customer Assistance Form on the FDIC's Web site to facilitate receipt of consumer correspondence. The Specialized Tracking And Reporting System (STARS) database is used to capture and report information regarding FDIC's consumer assistance program, including response time.

#### 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.

### 2013 Performance Results

This annual performance goal and its associated performance indicator and target are unchanged from 2013. In 2013, the FDIC successfully met the performance target for this annual performance goal.

## **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

- *Publish the results of the 2013 FDIC National Survey of Unbanked and Underbanked Households (conducted jointly with the U.S. Census Bureau).*
- *Implement the strategy outlined in the work plan approved by the Advisory Committee on Economic Inclusion to support the expanded availability of SAFE accounts and the responsible use of technology, to expand banking services to the underbanked.*
- *Facilitate opportunities for banks and community stakeholders to address issues concerning access to financial services, community development, and financial education.*

#### Means and Strategies

*Operational Processes (initiatives and strategies):* Approximately 28 percent of U.S. households are underserved by the banking industry, based on survey data previously published by the FDIC. This includes both "unbanked" households (those with no checking or savings accounts) and "underbanked" households (those with checking or savings accounts who have utilized nonbank alternative financial services and providers, in the past twelve months, such as

money orders, check cashing services, payday loans, rent-to-own agreements, pawn shops, or refund anticipation loans).

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.

During 2014, the FDIC will publish the results of its 2013 FDIC National Survey of Unbanked and Underbanked Households conducted jointly with the U.S. Census Bureau. The FDIC will also continue work on the Survey of Banks' Efforts to Serve the Unbanked and Underbanked. A target publication date for this study has not yet been determined because FDIC is considering merging this study with other research activities. Ultimately, the FDIC will provide an important set of references that help assess progress and remaining challenges for economic inclusion. In addition, the FDIC will be better positioned to identify strategies that promote economic inclusion 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 Advisory Committee's work will support the expanded availability of SAFE accounts and the responsible use of technology, including mobile banking, to expand banking services to the underbanked population. In 2014, the FDIC will publish a white paper evaluating the economic inclusion potential presented by mobile financial services. The Advisory Committee may recommend to the FDIC specific measures of improvement, many of which may represent 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.

During 2014, FDIC working groups will continue to conduct research, develop policy proposals, facilitate partnerships, and conduct outreach 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, policy, and consumer and community 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 its Web site.

Verification and Validation

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

2013 Performance Results

This annual performance goal and its associated performance indicators are unchanged from 2013, but its performance targets have been updated for 2014. In 2013, the FDIC successfully met one of the two performance targets for this goal. Initiation of work on the Survey of Banks' Efforts to Serve the Unbanked and Underbanked was delayed until 2014.

## **RECEIVERSHIP MANAGEMENT PROGRAM**

When an insured institution fails, the FDIC is 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 objectives:

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

The FDIC assesses the assets and liabilities of a 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 sell the assets as quickly as practicable. 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 provides claim filing instructions. Once the FDIC receives and analyzes the information, valid claims are paid in accordance with the priorities provided by law.

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 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. To date, the FDIC closed two SIP structured loan sales with assets of \$267 million. Although decreased resolution activity reduces the availability of suitable loan product for these programs, they will continue to be used as opportunities develop. We plan to continue to offer investor workshops targeted at minority and women owned firms to increase awareness of opportunities to invest in FDIC asset sales.

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 2014, 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 is 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.

<b>Strategic Goal</b>	<b>Strategic Objective</b>	<b>Annual Performance Goals</b>
Resolutions are orderly and receiverships are managed effectively.	Receiverships are managed to maximize net return and terminated in an orderly and timely manner.	Value, manage, and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return. (4.1-1)
		Manage the receivership estate and its subsidiaries toward an orderly termination. (4.1-2)
	Potential recoveries, including claims against professionals, are investigated and resolved in a fair and cost-effective manner.	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)

**STRATEGIC GOAL 4:**

Resolutions are orderly and receiverships are managed effectively.

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**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.

Indicator and Target

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. 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. During the 2008 through 2012 period, whole bank loss-share transactions were used extensively to sell most of the assets of a failed bank to an acquiring bank. Because of continued improvement in the economy, the use of loss share transactions decreased significantly in 2013.

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 an internet-based platform. Potential asset purchasers are given the opportunity to view all sales information electronically before electronic bid submission.

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. 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 a permanent staff that manages the Corporation's resolutions and receiver management functions. When workload increases, as it did from 2007 through 2011, the FDIC may add non-permanent 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 comprehensive 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 2014 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 705 (with a total contract ceiling of \$372.17 million) in 2013 from 953 new awards (with a total contract ceiling of \$530.13 million) in 2012. With the decline in bank failures likely to continue in 2014, the focus in contracting will shift from bank closing support through Receivership Assistance Contractors to owned real estate management and marketing activities, environmental advisory services, and failed bank data management support. The number of contractor resources deployed at year-end 2013 declined 37 percent from year-end 2012 levels.

The FDIC will continue in 2014 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 uses technology extensively to make its asset management/servicing, sale strategies, and other business processes more efficient and to keep pace with changing market and business practices. The FDIC will continue to use the Internet to deliver asset marketing information to potential investors and to sell assets received from failed institutions. In addition, Financial Management Service (FMS) is used to track franchise marketing activities for failed financial institutions, and FMS provides a comprehensive source of information on 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 FMS.

Verification and Validation

Progress in meeting this annual performance goal is tracked in FMS 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

2013 Performance Results

This annual performance goal and its associated performance indicator and target are unchanged for 2014. In 2013, 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 is assigned from the appropriate functional areas (e.g., asset, liability, finance, and legal) to execute that plan. Receivership oversight staff monitors 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.

The FDIC continues to try to remove impediments to the termination of its remaining open receiverships. During 2013, 24 new receiverships were added to the FDIC's inventory of receiverships and 10 were terminated, leaving 480 active receiverships at the end of 2013.

*Human Resources (staffing and training):* Current and projected workloads 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:* The Receivership Termination System (RTS) tracks FDIC receiverships through the termination process and assists in tracking active and inactive receiverships. RTS identifies impediments to termination as well as termination milestone dates.

#### 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

#### 2013 Performance Results

This annual performance goal and its associated performance indicator and target are unchanged from 2013. The FDIC successfully met the performance target for this annual performance goal in 2013.

### **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 2014, 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.

2013 Performance Results

This annual performance goal and its associated performance indicator and target are unchanged from 2013. The FDIC successfully met the performance target for this annual performance goal in 2013.

## **EFFECTIVE MANAGEMENT OF STRATEGIC RESOURCES**

### **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 2014 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 predominantly paid from the Deposit Insurance Fund (DIF), which is funded from 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 Appendix B).

The FDIC's disciplined approach to managing its financial resources has been apparent over the past several years. From 2008 through 2010, the FDIC's annual operating budget almost quadrupled and its authorized staffing level almost doubled in response to a rapid increase in the number of problem institutions and insured institution failures. The FDIC relied primarily on non-permanent staff and contractor resources to address the resulting uptick in its supervisory and resolutions workload in order to facilitate future budget and staffing reductions when workload returned to more normal levels. In subsequent years, both the annual operating budget and authorized staffing level have declined substantially. For 2014, the FDIC's annual operating budget and authorized staffing are approximately 40 percent and 23 percent, respectively, below the peak levels experienced in 2010 and 2011. The FDIC will continue to carefully monitor both its supervision and receivership management workload and will take steps to further reduce expenses for these programs as underlying workload declines.

### **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 preeminent place to work among federal agencies, especially those 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 21<sup>st</sup> century. In 2014, the FDIC will continue to pursue several ongoing initiatives to shape its future permanent workforce while addressing immediate staffing needs.

### *Succession Management*

Like most other federal agencies, the FDIC faces potential succession management challenges in the future as many of its long-term, experienced employees retire. The FDIC reassesses its vulnerabilities to retirements annually and implements appropriate strategies to mitigate that risk. In late 2013, the FDIC began a succession planning initiative with involvement from the highest levels of the agency. In 2014, the FDIC will define and begin implementation of a comprehensive succession management framework to ensure that it has well qualified successors available to fill critical staffing needs at all levels of the organization.

In addition, the FDIC has undertaken a multi-year initiative to develop competency models for all mission critical job families. The proficiency levels of existing employees will be assessed for each applicable competency and the results used for employee development, career planning, training, and workforce/succession planning. The long-term goal is to have a pool of current and projected potential successors available for all competencies associated with the FDIC's mission critical occupations.

One key component of the FDIC's succession management and strategic workforce planning strategy is the Corporate Employee Program (CEP). The 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 FDIC's core mission functions. The objective is to build and maintain a workforce that 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 supervision, compliance supervision, and resolutions and receivership management. After the completion of the rotational phase of the program, they are assigned to a specific commissioning track for more in-depth and specialized training. Upon successful completion of the rigorous three-year training program, they are commissioned as Financial Institution Examiners (FIEs) or Resolutions and Receiverships Specialists. At the end of 2013, the FDIC's field examination and resolutions and receivership management workforces included 401 FISs and 486 FIEs hired through the CEP. The FDIC expects to hire an additional 120 FISs in 2014.

The FDIC initiated in 2011 its flagship Financial Management Scholars (FMS) Program that has been a valuable resource for recruiting new FISs into the CEP. FMS is a structured summer internship program that exposes talented students to the FDIC's supervisory and receivership management business lines between their junior and senior years of college. Successful FMS participants are offered positions in future CEP classes following their

graduation. Almost 50 former FMSs have joined the CEP thus far, with another 45-50 expected to come on board in 2014.

### *Workforce Diversity and Inclusion*

In 2014, the FDIC will continue to pursue a more comprehensive, integrated, and strategic focus on diversity and inclusion within the FDIC workforce. The FDIC Diversity and Inclusion Executive Advisory Council (EAC) composed of key senior executives and managers, oversees the implementation of the FDIC Diversity and Inclusion Strategic Plan, which was issued in early 2013. The EAC reviews and updates the plan annually, as needed, to support the FDIC's overall goal of promoting diversity and inclusion on a continuing basis. The plan lays out a course for achieving workforce diversity by recruiting from a diverse group of qualified potential applicants; cultivating greater workplace inclusion through collaboration, flexibility, and fairness; and equipping leaders with the ability to manage diversity, measure results, and refine approaches on the basis of data. The plan details specific steps to enhance diversity and inclusion at the FDIC in the areas of leadership engagement, analytics and reporting, training, communications, strategic planning, and program enhancement.

### *A Culture of Workplace Excellence*

Over the past several years, the FDIC has participated in annual employee surveys conducted by U.S. Office of Personnel Management. These surveys identified major areas of strength as well as opportunities for improvement in employee satisfaction and engagement within the FDIC workforce.

Survey results 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 environment, and training, technology, and other resources.

The FDIC's Workplace Excellence (WE) Program plays an important role in helping the FDIC maintain a culture of workplace excellence. The WE Program is comprised of a National WE Steering Committee and individual Division/Office WE Councils focused on maintaining, enhancing, and institutionalizing positive workplace and cultural change at the national and division/office levels at the FDIC. The WE Program enhances communications, provides additional opportunities for employee input and engagement, and promotes employee empowerment.

### *Employee Learning and Development*

The FDIC provides employees with skills-based training and leadership development opportunities to help achieve its mission. In 2014, the FDIC's Corporate University will continue to offer innovative solutions to prepare both current and new employees for the challenges ahead. It will continue to implement several comprehensive multi-year curriculum

development initiatives that move mission critical divisions beyond the financial crisis, offer a broad array of leadership development opportunities, and expand the use of simulations to enhance corporate readiness. It will also continue to use its learning programs as opportunities to strengthen its organizational culture, build key competencies, and reinforce corporate values.

The FDIC provides its workforce with the technical knowledge and skills necessary to examine and supervise financial institutions and manage receiverships. In 2014, the FDIC will continue to develop and implement the priority components of the approved Division of Depositor and Consumer Protection (DCP) learning and development framework. Based on a comprehensive needs assessment completed in 2012, the framework is designed as a multi-year initiative to enhance the dissemination of critical information, expand training programs at all levels, and facilitate the cross-organizational sharing of knowledge and expertise

The Division of Resolutions and Receiverships, will undertake a comprehensive curriculum to provide foundational knowledge, specialized skills, and cross-training opportunities across functions, to promote a flexible, cross-trained workforce and ensure readiness for future resolutions and receiverships activity. In support of the FDIC's responsibilities for the possible orderly liquidation of a systemically important financial company, facilitated discussions, tabletops, and focused simulations will continue to be used to enhance strategic and operational readiness, build interagency relationships, and implement and test new policies and procedures.

In addition to technical training, the FDIC is focused on developing employees as leaders at all levels of the organization. The FDIC has a comprehensive leadership development curriculum that consists of core courses, electives, and enrichment activities. Development of the core leadership curriculum was completed in 2011, and new electives and enrichment opportunities will be added in 2014 to promote leadership throughout the organization.

### **Management of Information Technology Resources**

The use of information technology (IT) is ever more important in providing innovative, timely, reliable, and secure information in support of the FDIC's mission. As the inventory of digital information expands the importance of protecting it also continues to grow. In 2014, the FDIC will focus on managing its IT resources to improve information security, support its responsibilities under the DFA, and improve performance and efficiency in all three program areas.

#### *Information Security*

The FDIC has a robust, risk-based, organization-wide information security program. Digital information and information systems are treated as corporate assets to be protected, with controls at a level commensurate with the sensitivity of information processed, stored, or transmitted. Since government agencies face increasing and ever-changing cyber-threats, the FDIC must continue to enhance its continuous threat monitoring capabilities. The FDIC maintains a risk management approach to cybersecurity that provides at all times an accurate picture of the FDIC's security risk posture, gives visibility into assets, and leverages the use of automated data feeds to quantify risk, ensure effectiveness of security controls, and implement

prioritized remedies. In 2014, the FDIC will continue implementing enhanced strategies for ensuring the security of the FDIC's systems and IT infrastructure against external intrusion. For example, incident response policies and procedures will be revised as necessary to address complex incidents, such as Advanced Persistent Threats. Additionally, both employee and contractor training on the security and privacy programs will be enhanced. The privacy program is primarily focused on ensuring that appropriate steps are taken to protect personally identifiable information (PII) from unauthorized use, access, disclosure, or sharing and to protect associated information systems and web sites from unauthorized access, modification, disruption, or destruction.

### *Continuity of Operations*

In 2013, the FDIC developed and implemented a new Continuity of Operations Plan. It addresses the central priorities of reducing the potential for loss of life and safeguarding the FDIC workforce. It also seeks to minimize and mitigate disruptions to FDIC operations, thus enabling continuous performance of essential FDIC functions that promote stability and public confidence in the Nation's financial systems.

In 2014, the FDIC will place into operation its first Sensitive Compartmented Information Facility to achieve continuity in communication capabilities, as established in National Communications Systems Directive 3-10. This will provide the FDIC with the ability to collaborate with the intelligence community, sharing highly classified continuity-related information and increasing the FDIC's preparedness and response posture.

### *Support for FDIC Information Collection, Analysis, and Dissemination*

The FDIC's three program areas – Insurance, Supervision, and Receivership Management – all rely heavily on information collection, analysis, and dissemination processes. In 2014, the IT program will continue to focus on the provision of secure systems and tools to support the collection, analysis, and dissemination of this information, especially as it relates to its new responsibilities for the monitoring and oversight of large and systemically important institutions under DFA.

This will include the exploration of new technologies in collaboration with the Federal regulatory agencies to improve the secure collection and storage of the sensitive information contained in the resolution plans submitted by financial companies subject to the requirements of Section 165 (d) of DFA. It will also include efforts to enhance operational capabilities for the analysis of large data sets with both structured and unstructured data to facilitate the intake, securing, and mining of this data.

The FDIC disseminates information to bankers, other supervisors, the public, and other stakeholders on an ongoing basis. The FDIC's web site ([www.fdic.gov](http://www.fdic.gov)) is a centralized source of information. The FDIC's web site includes multi-media resources and allows stakeholders to easily view, download, and request materials instantly. In 2014, we will continue to publish the public portions of resolution plans and consider ways to improve the usefulness of these publications to all stakeholders.

*Performance and Operational Efficiencies*

IT supports the effort to improve performance and efficiency in the execution of business process across the FDIC's major business lines. In 2014, the FDIC will complete development of a modernized Examination Tools Suite (ETS) to support the risk management supervision program. ETS permits the FDIC to conduct all required risk management, CRA, and compliance examinations within the timeframes prescribed by statute and FDIC policy.

To support the insurance program, improvements will be made to the Claims Administration System (CAS) which is used to identify depositors' insured and uninsured funds in failing and failed banks. The improvements will reduce claims agent exception processing time at bank closings.

To support the receivership management program, improvements will be completed on the user interface of the system used to manage the assets from failed banks to make it more secure and intuitive.

**Management Controls**

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 in 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 2014, the focus will be on continuous improvements to the FDIC's core business functions, with particular emphasis on client-led development, system security management, revised system development processes, and the development of a failed bank database.

As the FDIC transitions back to normal operational status, the focus will return to ensuring that key financial operations and processes maintain sound internal controls. The goal will be to ensure that these operations are managed appropriately and that opportunities to improve the control environment are identified and implemented in an efficient and timely manner. During the next 12 months, the FDIC will work to address operational risks associated with client-led development. In furthering this initiative, the FDIC issued a directive that will require the implementation of more rigorous configuration management and software controls to better manage client-led development.

In 2014, the FDIC will continue to conduct transaction sampling and invoice reviews to validate management attestations regarding financial reporting and internal controls. In addition, the FDIC will evaluate the procurement card program to identify opportunities to reduce credit limits and or the number of cardholders. The FDIC will also monitor progress in implementing its revised system development processes as well as determining whether system security risks have been sufficiently mitigated.



## **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 2014 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 2014 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.

Supervision	\$1,042,673,242
Insurance	\$272,625,573
Receivership Management	\$860,922,861
Corporate Expenses	\$215,230,715
TOTAL	\$2,391,452,391

## **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 Web site and internal communications, such as newsletters and staff meetings. Pay and recognition programs are structured to reward employee contributions to the achievement of the FDIC's annual performance 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 Web site ([www.fdic.gov](http://www.fdic.gov)), compares actual performance results to the performance targets for each annual performance goal.

## **APPENDIX C**

### **Program Evaluation**

The Corporate Management Control Branch in the Division of Finance (DOF) coordinates the evaluation of the FDIC's programs and issues follow-up reports. 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 cybersecurity; failed bank data; the development of IT systems supporting FDIC operations; infrastructure development for new operational areas; as well as process mapping and development of performance metrics in several areas. In 2014, 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 identifying changes that need to be made in them.

## **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 securitization 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 (OCC) is a member of the FDIC Board of Directors, which facilitates crosscutting policy development and consistent regulatory practices between the FDIC and the OCC.

The FDIC also 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 consistent 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. Finally, the FDIC collaborates with the Federal Housing Finance Agency (FHFA), which is the rule-writer and supervisor for the Housing Enterprises and the Federal Home Loan Banks,

#### **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, the NCUA, and the CFPB. In addition, the Chair of the FFIEC State Liaison Committee serves as a 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 CRA 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.

### **International Colleges of Regulators**

The FDIC participates in several groups of international regulators to address international consistency in the implementation of over-the-counter (OTC) derivatives reforms. The OTC Derivatives Regulators' Forum is a college of regulators where initiatives on derivative reforms mandated by the Group of Twenty and Financial Stability Board (FSB) are discussed. The group is heavily

involved in assuring international consistency on the development of trade repositories and central counterparty clearing. The group then makes recommendations to standing committees, including the Committee on Payment and Settlement Systems, International Organization of Securities Commissions, BCBS, and FSB, for rulemakings. The OTC Supervisors' Group is primarily involved in making changes in the infrastructure of the largest dealer banks. The group is composed of supervisors of the global systemically-important banks (GSIFIs). Current efforts are focused on data repositories, dispute resolution, and client clearing. The group obtains commitments from the dealer community to make recommended changes and monitors implementation.

### **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 assigns ratings based on its assessment of the degree of transfer risk inherent in U.S. banks' foreign exposure.

### **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 deposit insurers, resolution authorities, 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.

### **Association of Supervisors of Banks of the Americas**

The FDIC 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 and resilient financial systems throughout the Americas and the Caribbean 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 capacity and leadership building programs. The FDIC chairs the Association's Technical Training and Cooperation Committee, and participates on the Working Groups on Corporate Governance, Risk Management, and Anti-Money Laundering.

### **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 deposit insurance and failed bank resolution 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 (FBIIC) to improve the reliability and security of the financial industry's infrastructure. Other members of FBIIC 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 (CFT), and Anti-Fraud Working Groups**

The FDIC participates in several interagency groups, described below, to help combat money laundering, terrorist financing, and fraud:

- The Anti-Money Laundering Task Force, chaired by the Department of the Treasury (Treasury), includes high-level representatives from the FDIC, OCC, FRB, NCUA, SEC, CFTC, DOJ, the Financial Crimes Enforcement Network (FinCEN), and the Internal Revenue Service (IRS). The purpose of the Task Force is to consider the effectiveness of the AML statutory, regulatory, supervisory, enforcement, and communication framework.
- The Bank Secrecy Act Advisory Group (BSAAG) is a public/private partnership of agencies and organizations that meets to discuss strategies and industry efforts to address money laundering, terrorist financing and other illicit financial activities.

Areas of focus include information technology, prepaid access/cards, cross border activities, suspicious activity reporting, and other emerging risks.

- The FFIEC BSA/AML Working Group is composed of representatives from the federal bank regulatory agencies, FinCEN, and the CSBS to coordinate BSA/AML policy matters, training, and 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 issues. This working group meets monthly and invites other agencies, such as the SEC, CFTC, Treasury, IRS, and Office of Foreign Assets Control (OFAC), on a quarterly basis to ensure broader coordination of BSA/AML and sanctions efforts.
- The Basel Anti-Money Laundering/Counter Financing of Terrorism (“AML/CFT”) Expert Group (“AMLEG”) is responsible for monitoring AML/CFT issues that have a bearing on banking supervision, coordinate with the Financial Action Task Force, and serve as a forum for AML/CFT experts from banking supervisory agencies.
- The ASBA/AML Working Group strives to strengthen the AML/CFT regulatory framework and supervision techniques in the Americas.
- The Terrorist Finance Working Group is sponsored by the State Department to assist in the AML/CFT training effort internationally and to assess the financial structures of foreign countries for potential money laundering and terrorist financing vulnerabilities.
- 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 (1) The Check Fraud Working Group, co-chaired by the FDIC and the Federal Bureau of Investigation (FBI), and composed of the federal bank regulatory agencies, DOJ, the FBI, FinCEN, the IRS, the Bureau of Public Debt (BPD), and the U.S. Postal Service; and (2) The Cyber Fraud Working Group, composed of the federal bank regulatory agencies, DOJ, the FBI, FinCEN, the IRS, and the BPD

### **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 FLEC workgroup.

### **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. For example, in 2008, the FDIC signed a partnership agreement with the U.S. Office of Personnel Management 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. More recently, the FDIC partnered with the U.S. Department of Education and the NCUA to promote youth savings and related financial education efforts.

### **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.

### **The Financial Stability Board (FSB)**

The FDIC actively participates in the work of the Financial Stability Board (FSB), an international body established by the G-20 leaders in 2009. As a member of the FSB's Resolution Steering Group and its Cross-Border Crisis Management Group, the FDIC has helped in the development of international standards and guidance on issues relating to the resolution of G-SIFIs. Much of this work has related to the operationalization of the FSB's Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes). The Key Attributes, endorsed by the G-20 in 2011, set out the core elements necessary for an effective resolution regime, including the ability to manage the failure of a G-SIFI in a way that minimizes systemic disruption and avoids the exposure of taxpayers to the risk of loss.

### **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 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 the diversion of staff from other activities to meet the increased demand for resources in bank supervision and resolutions.

*The U.S. economy has made progress since the recovery began over four years ago but still faces headwinds.* Real gross domestic product (GDP) has grown—albeit at a below-trend pace—in each year since 2010 and has surpassed its pre-recession peak. The unemployment rate has declined from a peak of 10 percent in 2009 to below 7 percent at the end of 2013. The slow pace of recovery is consistent with the aftermath of previous financial crises around the world. Going forward, consensus forecasts expect real GDP growth to accelerate to a near-trend pace in 2014, as fiscal policy exerts less restraint. Monetary policy remains accommodative, as rates are expected to remain near zero for some time even as the Federal Reserve begins to taper asset purchases in January 2014.

The U.S. economy continues to face a number of risks. Fiscal policy continues to pose some headwinds for the recovery. As the economy improves, the Federal Reserve faces challenges implementing its exit strategy in a manner that supports both economic growth and price stability. Globally, the recovery in Europe remains subdued and slowing growth in emerging markets could adversely impact trade and financial markets.

The expected path for the U.S. economy is a slow but steady expansion that should continue to support the gradual repair of balance sheets at FDIC-insured depository institutions as well as other institutions and sectors hard hit by the financial crisis. However, the post-crisis environment continues to pose unique risks and challenges that merit continued attention by regulators.

**Insured institution performance showed further improvement in 2013.** The 6,812 FDIC-insured commercial banks and savings institutions that filed financial results for full year 2013 reported net income of \$154.7 billion, an increase of 9.6 percent compared to 2012. This is the fourth consecutive year that industry earnings have registered a year-over-year increase. The improvement in earnings was primarily attributable to lower expenses for loan-loss provisions, reduced noninterest expenses, and increased noninterest income. More than half of all institutions—54.2 percent—reported year-over-year increases in net income, and the percentage of institutions with negative net income for the year fell to 7.8 percent, down from 11 percent a year earlier.

The average return on assets (ROA) was 1.07 percent, up from 1.00 percent in 2012. This is the highest annual ROA for the industry since 2006. However, fewer than half of insured institutions—45.3 percent—had higher ROAs in 2013 than in 2012. Insured institutions set aside \$32.1 billion in provisions for loan and lease losses during 2013, a decline of \$25.7 billion (44.4 percent) compared to 2012. This is the smallest annual loss provision since 2006. The industry's total noninterest expenses fell by \$4.5 billion (1.1 percent), as itemized litigation expenses declined by \$4.5 billion. Noninterest income rose by \$3.2 billion (1.3 percent), as trading revenue was \$4.3 billion (23.7 percent) higher, servicing fee income was up by \$3.9 billion (27.5 percent), and income from trust activities rose by \$2.2 billion (7.7 percent). Noninterest income from changes in the fair values of financial instruments accounted for under a fair value option was \$6.5 billion lower than in 2012. Realized gains on securities were \$5.2 billion (53.7 percent) lower, as higher interest rates in 2013 reduced the market values of banks' securities portfolios.

A challenging interest-rate environment contributed to a decline in the industry's net interest income in 2013. Net interest income registered a third consecutive annual decline, falling by \$3.7 billion (0.9 percent), as interest income declined more rapidly than interest expense. Total interest income was \$16 billion (3.3 percent) lower than in 2012, even though average interest-earning asset balances were \$487.3 billion (4 percent) higher, as older, higher-yield assets matured and were replaced by lower-yielding current investments. The average net interest margin fell from 3.42 percent in 2012 to 3.28 percent, the lowest annual average since 2008.

Indicators of asset quality continued to improve in 2013. In the 12 months ended December 31, 2013, total noncurrent loans and leases—those that were 90 days or more past due or in nonaccrual status—declined by \$69.7 billion (25.2 percent). Loans secured by real estate properties accounted for the largest share of the reduction in noncurrent loans (\$64.9 billion). Noncurrent 1-4 family residential real estate loans fell by \$44.5 billion (23.2 percent), noncurrent nonfarm nonresidential real estate loans declined by \$9.5 billion (31.1 percent), and noncurrent real estate construction loans fell by \$8.6 billion (50.6 percent). Noncurrent balances in all other major loan categories declined, led by loans to commercial and industrial (C&I) borrowers (down \$3.3 billion, or 24.8 percent).

Net charge-offs (NCOs) of loans and leases totaled \$53.2 billion in 2013, a decline of \$29 billion (35.3 percent) compared to 2012. Real estate loans secured by 1-4 family residential properties registered the largest year-over-year decline, with NCOs falling by \$15.9 billion (51.7 percent). Net charge-offs of credit card loans were \$3.2 billion (12.5 percent) lower, while NCOs of

nonfarm nonresidential real estate loans declined by \$3 billion (51.4 percent), and NCOs of real estate construction and development loans were \$2.8 billion (73 percent) lower than in 2012. NCOs in all other major loan categories also posted significant declines.

Asset growth remained modest in 2013. During the 12 months ended December 31, total assets of insured institutions increased by \$272.1 billion (1.9 percent). Loans and leases accounted for more than half of the increase in total assets, rising by \$197.3 billion (2.6 percent). C&I loans increased by \$101.5 billion (6.8 percent), nonfarm nonresidential real estate loans rose by \$36.1 billion (3.4 percent), and auto loans increased by \$33.2 billion (10.4 percent). In contrast, home equity lines of credit fell by \$44 billion (7.9 percent), and other real estate loans secured by 1-4 family residential properties declined by \$63.5 billion (3.4 percent).

Growth in deposits outpaced the increase in total assets. In the 12 months ended December 31, total deposits of insured institutions increased by \$374.7 billion (3.5 percent). Deposits in domestic offices rose by \$343.9 billion, (3.6 percent), while foreign office deposits increased by \$30.7 billion (2.2 percent). Much of the increase in domestic deposits occurred in balances in large-denomination accounts. Deposits in accounts with denominations greater than \$250,000 increased by \$269.4 billion (5.9 percent). Nondeposit liabilities declined by \$128.2 billion (6.4 percent), while equity capital rose by \$29.8 billion (1.8 percent).

At the end of 2013, there were 467 institutions on the FDIC's "Problem List," down from 651 "problem" institutions a year earlier. Total assets of problem institutions declined to \$153 billion from \$174 billion. 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 2013, there were 24 bank failures with a combined \$6.0 billion in assets. At year-end 2013, the Deposit Insurance Fund (DIF) balance stood at \$47.2 billion, up from \$33.0 billion at year-end 2012 and up from the low point of negative \$20.9 billion at the end of 2009. The reserve ratio was 0.79 percent at year-end 2013, up from 0.44 percent at year-end 2012. On October 14, 2010, the FDIC adopted an amended Restoration Plan that will restore the DIF reserve ratio to 1.35 percent by September 2020, as required by the Dodd-Frank Act. For the period 2013 to 2017, the FDIC projects losses of \$4 billion to the DIF from bank closings.

The banking industry has the capacity to provide the necessary backing to the DIF, given its historically strong capital levels. At the end of 2013, almost 98 percent of all FDIC-insured institutions, representing nearly 100 percent of all insured-institution assets, met or exceeded the 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, ensures that the FDIC will continue to have the resources necessary to protect insured depositors.