

1. MANAGEMENT'S DISCUSSION AND ANALYSIS

THE YEAR IN REVIEW

During 2011, the FDIC continued to pursue an ambitious agenda in meeting its responsibilities. The FDIC continued implementation of Dodd-Frank, issued guidance, and piloted programs designed to help consumers. The FDIC also enhanced risk management procedures and created a branch to manage risks of mid tier insured depository institutions (IDIs), which further strengthened supervisory and consumer protection programs.

Highlighted in this section are the FDIC's 2011 accomplishments in each of its major business lines—Insurance, Supervision, Consumer Protection, and Receivership Management—as well as its program support areas.

INSURANCE

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

State of the Deposit Insurance Fund

Estimated losses to the DIF were \$7.9 billion from failures occurring in 2011 and were lower than losses from failures in each of the previous three years. The fund balance became positive in the second quarter of 2011 following seven quarters of negative balances. Assessment revenue and fewer anticipated bank failures drove the increase in the fund balance. The fund reserve ratio rose to positive 0.17 percent at December 31, 2011 from negative 0.12 percent at the beginning of the year.

Long-Term Comprehensive Fund Management Plan

As a result of the Dodd-Frank Act revisions to its fund management authority, the FDIC developed a comprehensive, long-term management plan for the DIF designed to reduce pro-cyclicality and achieve moderate, steady assessment rates throughout economic and credit cycles while also maintaining a positive fund balance even during a banking crisis. The plan was finalized in rulemakings adopted in December 2010 and February 2011.

Setting the Designated Reserve Ratio

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

Therefore, under provisions in the Federal Deposit Insurance Act that require the FDIC Board to set the Designated Reserve Ratio (DRR) for the DIF annually, the FDIC Board adopted in December 2010 a DRR of 2.0 percent for 2011 and voted in December 2011 to maintain a 2.0 percent DRR for 2012. The FDIC views the 2.0 percent DRR as a long-term goal and as the minimum level needed to withstand future crises of the magnitude of past crises. The 2.0 percent DRR should not be viewed as a cap on the fund. The FDIC's analysis shows that a reserve ratio higher than 2.0 percent would increase the

chance that the fund will remain positive during a future economic and banking downturn similar to or more severe than past crises.

Long-Term Assessment Rate Schedules and Dividend Policies

Once the reserve ratio reaches 1.15 percent, assessment rates can be reduced to a moderate level. Therefore, under its statutory authority to set assessments, in February 2011, the FDIC Board adopted a lower assessment rate schedule to take effect when the fund reserve ratio exceeds 1.15 percent. To increase the probability that the fund reserve ratio will reach a level sufficient to withstand a future crisis, the FDIC also suspended dividends indefinitely when the fund reserve ratio exceeds 1.5 percent. In lieu of dividends, the FDIC Board adopted progressively lower assessment rate schedules when the reserve ratio exceeds 2.0 percent and 2.5 percent. These lower assessment rate schedules serve much the same function as dividends, but provide more stable and predictable effective assessment rates.

Restoration Plan

In October 2010, under the comprehensive plan, the FDIC adopted a Restoration Plan to ensure that the reserve ratio reaches 1.35 percent by September 30, 2020, as required by the Dodd-Frank Act. The Act also requires that the FDIC offset the effect on institutions with less than \$10 billion in assets of increasing the reserve ratio from 1.15 percent to 1.35 percent. The FDIC will promulgate a rulemaking that implements this requirement at a later date to better take into account prevailing industry conditions at the time of the offset.

Change in the Deposit Insurance Assessment Rules

The Dodd-Frank Act also required the FDIC to adopt a rule revising the deposit insurance assessment base. The final rule implementing the requirement, adopted in February 2011, also made conforming changes to the deposit insurance assessment system. In addition, the rule substantially revised the assessment system applicable to large IDIs.

New Assessment Base

Dodd-Frank requires the FDIC to amend its regulations to define the assessment base as average consolidated total assets minus average tangible equity, rather than total domestic deposits (which, with minor adjustments, it has been since 1935). The Act allows the FDIC to modify the assessment base for banker's banks and custodial banks. The FDIC finalized these changes to the assessment base in February 2011, and they became effective April 1, 2011.

Dodd-Frank also requires that, for at least five years, the FDIC must make available to the public the reserve ratio and the DRR using both estimated insured deposits and the new assessment base. As of December 31, 2011, the FDIC estimates that the reserve ratio would have been 0.10 percent using the new assessment base (compared to 0.17 percent using estimated insured deposits) and that the 2.0 percent DRR using estimated insured deposits would have been 1.2 percent using the new assessment base.

Conforming Changes to Risk-Based Premium Rate Adjustments

The changes to the assessment base necessitated changes to existing risk-based assessment rate adjustments. The previous assessment rate schedule incorporated adjustments for types of funding that either pose heightened risk to the DIF or that help to offset risk to the DIF. Because the magnitude of these adjustments and the cap on the adjustments had been calibrated to a domestic deposit assessment base, the rule changing the assessment base also recalibrated the unsecured debt and brokered deposit adjustments. Since secured liabilities are now included in the assessment base, the rule eliminated the secured liability adjustment.

The assessment rate of an institution is also adjusted upwards if it holds unsecured debt issued by other IDIs. The issuance of unsecured debt by an IDI usually lessens the potential loss to the DIF if an institution fails; however, when the debt is held by other IDIs, the overall risk in the system is not reduced.

Conforming Changes to Assessment Rates

The new assessment base under Dodd-Frank, defined as average consolidated total assets minus average tangible equity, is larger than the previous assessment base, defined as total domestic deposits (with minor adjustments).

Applying the current rate schedule to the new assessment base would have resulted in larger total assessments than had been previously collected. Accordingly, the rule changing the assessment base also established new rates that took effect in the second quarter of 2011. These rates resulted in collecting nearly the same amount of assessment revenue under the new base as under the previous rate schedule using the domestic deposit base. The new rate schedule also incorporates the changes from

the proposed large bank pricing rule that was finalized in February 2011 (discussed below) along with the change in the assessment base. The initial base rates for all institutions range from 5 to 35 basis points.

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

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

Current Initial and Total Base Assessment Rates¹

	RISK CATEGORY I	RISK CATEGORY II	RISK CATEGORY III	RISK CATEGORY IV	LARGE AND HIGHLY COMPLEX INSTITUTIONS
Initial base assessment rate	5–9	14	23	35	5–35
Unsecured debt adjustment ²	(4.5)–0	(5)–0	(5)–0	(5)–0	(5)–0
Brokered deposit adjustment	0–10	0–10	0–10	0–10
Total Base Assessment Rate	2.5–9	9–24	18–33	30–45	2.5–45

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

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

Changes to the Large Bank Assessment System

The FDIC continued its efforts to improve risk differentiation and reduce pro-cyclicality in the deposit insurance assessment system by issuing a final rule in February 2011. The rule revises the assessment system applicable to large IDIs to better reflect risk at the time a large institution assumes the risk, to better differentiate large institutions during periods of good economic conditions, and to better take into account the losses that the FDIC may incur if such an institution fails. The rule became effective April 1, 2011.

The rule eliminates risk categories for large institutions. As required by Dodd-Frank, the FDIC no longer uses long-term debt issuer ratings to calculate assessment rates for large institutions. The rule combines CAMELS¹ ratings and financial measures into two scorecards—one for most large institutions and another for the remaining very large institutions that are structurally and operationally complex or that pose unique challenges and risks in case of failure (highly complex institutions). In general, a highly complex institution is an institution (other than a credit card bank) with more than \$50 billion in total assets that is controlled by a parent or intermediate parent company with more than \$500 billion in total assets, or a processing bank or trust company with at least \$10 billion in total assets.

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

The rule also authorizes the FDIC to adjust an institution's total score by as much as 15 points, up or down. The FDIC proposed in April 2011 and adopted in September 2011 guidelines that describe the process the FDIC follows to determine whether to make an adjustment, to determine the size of any adjustment, and to notify an institution of an adjustment and how large it will be.

Effect of Implementing Changes to Assessment Base, Assessment Rates, and Large Bank Assessment System

Consistent with the intent of Congress, the change to the assessment base resulted in an increase in the share of overall assessments paid by large institutions, which rely less on domestic deposits for their funding than do smaller banks. For the second quarter of 2011, when the changes to the assessment base and other assessment system changes described above became effective, banks with more than \$10 billion in assets accounted for approximately 80 percent of assessments, up from 70 percent in the first quarter and commensurate with the increase in their share of the assessment base. Second quarter assessments for banks with less than \$10 billion in assets were 33 percent lower in aggregate than first quarter assessments.

Temporary Liquidity Guarantee Program

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

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

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

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

Program Statistics

Over the course of the DGP's existence, 122 entities issued TLGP debt. At its peak, the DGP guaranteed almost \$345.8 billion of debt outstanding (see chart below). As of December 31, 2011, the total amount of remaining FDIC-guaranteed debt outstanding was \$167.4 billion.

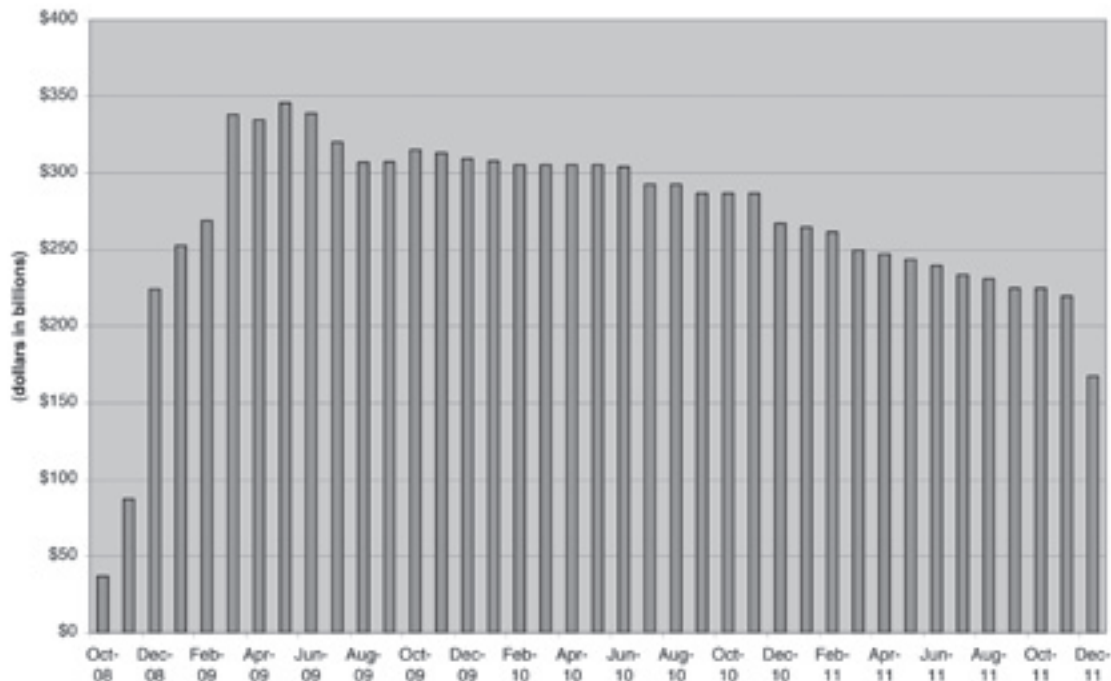
The FDIC collected \$10.4 billion in fees and surcharges under the DGP. As of December 31, 2011, the FDIC paid

or accrued \$152 million in estimated losses resulting from six participating entities defaulting on debt issued under the DGP. The majority of these estimated losses (\$112 million) arose from banks with outstanding DGP notes that failed in 2011 and were placed into receivership. The FDIC expects to pay an additional \$682 thousand in interest payments on defaulting notes in 2012.

The FDIC collected \$1.2 billion in fees under the TAGP. Cumulative estimated TAGP losses on failures as of December 31, 2011, totaled \$2.2 billion.

Overall, TLGP fees are expected to exceed the losses from the program. From inception of the TLGP, it has been FDIC's policy to recognize revenue to the DIF for any deferred revenue not absorbed by losses upon expiration of the TLGP guarantee period (December 31, 2012) or earlier for any portion of guarantee fees determined in excess of amounts needed to cover potential losses. As of December 31, 2011, \$2.6 billion in TLGP assets were transferred to the DIF. If fees are insufficient to cover the costs of the program, the difference will be made up through a systemic risk special assessment.

Outstanding TLGP Debt by Month



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

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

A noninterest-bearing transaction account is a deposit account in which interest is neither accrued nor paid, depositors are permitted to make transfers and withdrawals, and the bank does not reserve the right to require advance notice of an intended withdrawal.

Similar to the TAGP, the temporary unlimited coverage also includes trust accounts established by an attorney or law firm on behalf of clients, commonly known as IOLTAs, or functionally equivalent accounts. Money market deposit accounts (MMDAs) and NOW accounts are not eligible for this temporary unlimited insurance coverage, regardless of the interest rate and even if no interest is paid.

As of December 31, 2011, insured institutions had \$1.4 trillion in domestic noninterest-bearing transaction accounts above the basic coverage limit of \$250,000 per account. This amount is fully insured until the end of 2012 under Dodd-Frank.

Large Bank Programs

The FDIC's responsibilities for IDIs include deposit insurance, primary supervision of state nonmember (FDIC-supervised) IDIs, back-up supervision of non-FDIC-supervised IDIs, and resolution planning. For large IDIs, these responsibilities often present unique and complex challenges. The FDIC's ability to analyze and respond to risks in these institutions is of particular importance, as they make up a significant share of the banking industry's assets. The Large Bank Program's objectives are achieved through two primary centralized groups that work extensively with the FDIC and the other bank and thrift regulators.

Office of Complex Financial Institutions

The Office of Complex Financial Institutions (OCFI) was created in 2010 to focus on the expanded responsibilities of the FDIC by Dodd-Frank. The OCFI is responsible for oversight and monitoring of large, systemically important financial institutions (SIFIs) and for resolution strategy development and planning. During 2011, OCFI began to carry out its new statutory responsibilities to monitor risks in these large SIFIs, conduct resolution planning to respond to potential crisis situations, and coordinate with foreign regulators on significant cross-border resolution issues.

In 2011, OCFI established its complex financial institution monitoring program and engaged in continuous review, analysis, examination and assessment of key risks and control issues at institutions with assets over \$100 billion. This work is being accomplished both off- and on-site at designated complex financial institutions throughout the United States. The FDIC is working with other federal regulators to analyze and gain a solid understanding of the risk measurement and management practices of these institutions and assessing the potential risks these companies pose to financial stability. In addition, off-site financial analysts complete the monitoring function by providing subject matter expertise in analyzing complex financial institution's key business lines and potential

critical areas of risk. These efforts ensure that the FDIC has established advance in-depth institutional knowledge required to identify and evaluate risks in financial institutions that are designated as systemically important.

Substantial progress has been made in developing resolution planning and implementation capabilities within OCFI to meet the expanded responsibilities and authorities under Dodd-Frank, including completing regulations governing these responsibilities. In July 2011, the FDIC approved a final rule implementing the Orderly Liquidation Authority that provides the authority to resolve SIFIs. During 2011 OCFI established its internal frameworks for SIFI resolution under Title II of Dodd-Frank, and began developing the capabilities necessary to implement such resolutions. Additionally, OCFI revised and built out specific resolution plans for the largest domestic SIFIs. In 2011, the FDIC adopted two rules regarding resolution plans (living wills) that covered financial institutions will be required to prepare. The first rule, which implements requirements of the Dodd-Frank Act, became final and was published jointly with the Federal Reserve Board in the *Federal Register* on November 1, 2011, and was effective on November 30, 2011. It requires bank holding companies with total consolidated assets of \$50 billion or more and certain nonbank financial companies designated by the Financial Stability Oversight Council for supervision by the Federal Reserve Board to develop, maintain, and periodically submit plans for their rapid and orderly resolution under the Bankruptcy Code, in the event they experience material financial distress. Under the rule, covered companies with nonbank U.S. assets greater than \$250 billion are required to submit initial plans by July 1, 2012. A second rule, (issued as an Interim Final Rule on September 14, 2011, and adopted in final form on January 17, 2012) requires IDIs with assets greater than \$50 billion to submit plans for resolution under the Federal Deposit Insurance Act. OCFI, working in partnership with the Federal Reserve, has been developing structure and guidance for the initial Dodd-Frank rule submissions, so that these submissions may be more effectively evaluated

for completeness and compliance with rule requirements. The overall focus will be on the covered company's strategy for orderly resolution, including an assessment of its resolvability and its analysis of potential impediments to implementing a resolution in an orderly manner.

Also in 2011, OCFI commenced activities to manage its global outreach, communication and coordination with appropriate domestic and foreign financial supervisory, regulatory and resolution authorities and representatives of financial institutions for the purpose of planning and executing the resolution of globally active SIFIs. The International Coordination Group of OCFI maintains close, collaborative relations with key international stakeholders to facilitate effective domestic and global cooperation on matters relating to cross-border resolution for all covered institutions. OCFI actively participates in the Financial Stability Board's (FSB) Cross-Border Crisis Management Working Groups and supports related policy development initiatives by the FSB's Resolution Steering Group.

Mid Tier Bank Branch

The FDIC established a Mid Tier Bank Branch (MTB) within its Division of Risk Management and Supervision in January 2011. MTB is responsible for monitoring the risk management supervision of IDIs with total assets of \$10 billion to \$100 billion. For large FDIC-supervised institutions, the supervision programs are staffed and administered at the regional office level. MTB provides oversight and examination and analytical support to ensure consistency in FDIC's large bank supervisory programs. MTB examination specialists also provide examination support when the FDIC exercises its backup authority at these large institutions. MTB is also responsible for managing nationwide risk management programs including the Large Insured Depository Institution (LIDI) Program, the interagency Shared National Credit Program, and certain initiatives established under the Dodd-Frank Act such as resolution planning for banking companies with total assets from \$50 billion to \$100 billion.

The LIDI Program remains the primary instrument for off-site monitoring of IDIs with \$10 billion or more in total assets. The LIDI Program provides a comprehensive process to standardize data capture and reporting through nationwide quantitative and qualitative risk analysis of large and complex institutions. The LIDI Program was refined in 2011 to better quantify risk, to provide a more prospective assessment of large institutions' vulnerability to both asset and funding stress, and to more closely align with the large bank deposit insurance pricing program. The comprehensive LIDI Program is essential to effective large bank supervision by capturing information on risks, determining the need for supervisory action, and supporting large bank insurance assessment decisions and resolution planning efforts. As of December 31, 2011, the LIDI Program encompassed 112 institutions with total assets of \$11.0 trillion.

Center for Financial Research

The Center for Financial Research (CFR) is responsible for encouraging and supporting innovative research on topics that are important to the FDIC's role as deposit insurer and bank supervisor. During 2011, the CFR co-sponsored two major research conferences.

The CFR organized and sponsored the 21st Annual Derivatives Securities and Risk Management Conference jointly with Cornell University's Johnson Graduate School of Management and the University of Houston's Bauer College of Business. The conference was held in March 2011 at the Seidman Center and attracted over 100 researchers from around the world. Conference presentations were on topics including options markets, derivatives pricing, fixed income markets, volatility risk premiums, sovereign risk and commodity markets.

The CFR also organized and sponsored the 11th Annual Bank Research Conference jointly with *The Journal for Financial Services Research* (JFSR) in September 2011. The conference theme, Lessons from the Crisis, focused on the recent financial crisis included 13 paper presentations and

was attended by over 120 participants. Experts discussed a range of topics including government support and bank behavior, measuring risk, bank performance and lending, and CEO compensation.

In addition to conferences, workshops and symposia, eight CFR working papers were completed and made public on topics including global retail lending, foreclosure trends, systemic risk, and the use of credit default swaps.

International Outreach

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

Key to the international collaboration was the ongoing dialogue among the FDIC Chairman, Acting Chairman, other senior FDIC leaders and a number of senior financial regulators from the United Kingdom (UK) about the implementation of Dodd-Frank, Basel III, compensation policies, and how changes in the US financial regulations compare to regulatory developments in the UK and Europe. In light of the large cross-border operations, the primary areas of discussion and collaboration were development of recovery and resolution plans for SIFIs, the FDIC's plans for executing a SIFI resolution, and the importance of cross-border coordination in the event a SIFI becomes distressed.

The FDIC participated in Governors and Heads of Supervision and BCBS meetings and the supporting work streams, task forces, and Policy Development Group meetings to address the BCBS's work to calibrate and finalize the implementation of Basel III, monitor the new leverage ratio and liquidity standards, and complete work on the treatment of counterparty credit risk and

determination of surcharges on globally systemically important banks (G-SIBs). In addition to Basel III capital and liquidity reforms, the FDIC also participated in the BCBS initiatives related to surveillance standards, remuneration, supervisory colleges, operational risk, accounting issues, corporate governance, the fundamental review of the trading book, and credit ratings and securitization. Other major issues in these work streams include the recalibration of risk weights for securitization exposures, the comprehensive review of capital charges for trading positions, and the imposition of a capital charge for exposures to central counterparties.

Under the leadership of the FDIC Vice Chairman, who also serves as the President of IADI and the Chairman of its Executive Council, IADI made significant progress in advancing the 2009 IADI and the BCBS *Core Principles for Effective Deposit Insurance Systems* (Core Principles). The IADI and the BCBS released a Methodology for assessing compliance with the Core Principles in December 2010. The development of the Methodology was a collaborative effort led by IADI in partnership with the BCBS, the International Monetary Fund (IMF), the World Bank, the European Forum of Deposit Insurers (EFDI), and the European Commission (EC). Early in 2011, the Core Principles and Methodology were officially recognized by the IMF and the World Bank to assess the effectiveness of deposit insurance systems in the Financial Sector Assessment Program (FSAP), where the IMF and World Bank undertake comprehensive analyses of countries' financial sectors. Subsequently, in February 2011, the FSB approved the Core Principles and Methodology for inclusion in their Compendium of Key Standards for Sound Financial Systems. The official recognition of the Core Principles and Methodology by the IMF, the World Bank, and the FSB represent an important milestone in the acceptance of the role of effective systems of deposit insurance in maintaining financial stability.

The FSB Standing Committee on Standards Implementation (SCSI) agreed in late 2010 to conduct a thematic peer review of G20 deposit insurance systems.

The key objectives of the review are threefold: to take stock of members' deposit insurance systems using, as a benchmark, the Core Principles; to identify any planned changes in national systems in response to the crisis; and to identify lessons on implementing deposit insurance reforms. In May 2011, the SCSI appointed a review team headed by the Deputy Chief Executive of the Hong Kong Monetary Authority, which included the FDIC's Director of Division of Insurance and Research. The FDIC completed the questionnaire addressing key features of the U.S. deposit insurance system, reforms recently undertaken, and the status of implementing the Core Principles. The SCSI discussed the preliminary FSB report on December 13–14, 2011, and presented the report to the FSB in early 2012.

Senior FDIC officials participated in meetings of the FSB Resolution Steering Group (ReSG), and on September 26, 2011, the FDIC hosted a meeting of the ReSG at the Seidman Center. With input from the various working groups, the ReSG prepared a number of documents for consideration by the FSB and G20 Leaders. These documents covered a range of subjects relating to cross-border resolutions including the *Key Attributes of Effective Resolution Regimes for Financial Institutions*, which covered such areas as cross-border cooperation agreements, resolvability assessments, recovery and resolution plans, and temporary stays on early termination rights. The *Key Attributes* document was released as a consultative document for public comment in July, and in November 2011, was presented to the G20 Leaders Summit in Cannes, France, as part of the overall recommendations to address threats to global financial stability.

In continuing support of the Association of Supervisors of Banks of the Americas (ASBA) mission and strategic development, the FDIC participated in ASBA's Board and technical committee meetings throughout 2011, led three technical assistance training missions in 2011, hosted the XIV ASBA Annual Assembly and Conference, and established a secondment program for ASBA members. Under the newly created secondment program, up to four

ASBA members per year will be selected to participate in a ten-week developmental program at the FDIC wherein the selected officials will get an “insider’s view” of key Division of Risk Management Supervision (RMS) policy and operational systems. In recognition of the FDIC’s leadership in the Association, the General Assembly elected FDIC’s Director of RMS to serve a two-year term as Vice Chairman.



A delegation from Ukraine visits the FDIC’s Dallas Regional Office to learn about franchise and asset marketing and other bank resolution topics. Delegation members with FDIC staff, from left: Sergii Naboka, Roman Rym, Andrii Olenchuk, Nataliia Lapaieva, and Liudmyla Lashchuk, all of the Deposit Guarantee Fund, Ukraine; George Fitz, DRR; Oleksii Tkachenko, National Bank of Ukraine; Jim Gallager, DRR; and Bob Carpenter, Legal.

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

- ★ The FDIC, on behalf of IADI, provided the content and technical subject matter expertise in the development of a tutorial on the *Core Principles*, which was released through the Financial Stability Institute’s (FSI) Connect online system. The FDIC led the development of the IADI training seminar on “Deposit Insurance Assessments and Fund Management” and hosted the IADI executive training seminar. Working with the IADI Core Principles Working Group, the FDIC designed and led workshops on conducting assessments of the Core Principles. The design included development of a *Handbook for Conducting an Assessment*, applying the methodology approved by the IADI and BCBS. The training seminars were held in Washington, DC; Tirana, Albania; Basel, Switzerland; and Abuja, Nigeria.

- ★ The FDIC provided speakers to ASBA for several technical seminars including Credit Risk Analysis, Supervision of Operational Risk, and Financial Institution Analysis Training.
- ★ The FDIC hosted 106 visits with over 825 visitors from approximately 48 jurisdictions in 2011. In addition to several meetings with UK officials, the FDIC met with representatives from the Bank of Canada, Canada Department of Finance, the Office of the Superintendent of Financial Institutions, and the Canada Deposit Insurance Corporation. The purpose of the meeting with the Canadians was to discuss living wills and the resolution process for large complex financial institutions. The heads of the Indonesia Deposit Insurance Corporation, the Fondo Interbancario di Tutela dei Depositi (FITD) from Italy, the Instituto para la Protección de Ahorro Bancario (IPAB) from Mexico, and other senior staff from their respective agencies visited the FDIC for multi-day study tours. The delegations met with senior FDIC management and staff to learn about FDIC policies and procedures in a range of areas, including public affairs, bank resolutions, and fund management.
- ★ June 1, 2011, marked the four-year anniversary of the secondment program agreed upon by the Financial Services Volunteer Corps (FSVC) and the FDIC to place one or more FDIC employees full-time in FSVC’s Washington, DC, office. In 2011, the FDIC provided support to several projects supporting the Central Bank of Iraq’s (CBI) bank supervision program. The support included multiple training sessions, as well as a commentary addressing strategic recommendations and an overview of the effectiveness of the current bank supervisory program. Under the FDIC’s guidance, the CBI has begun to build the technical skills needed for effective regulation of Iraq’s banks. In addition, the FDIC welcomed two examiners from the Central Bank of Russia to shadow FDIC examiners during the on-site examination of a commercial bank in Texas. This

shadowing assignment provided the Russians a unique opportunity to observe a U.S. bank examination and to develop new skills in their risk analysis toolkit.

- ★ As an additional element of its leadership role in promoting effective bank supervision practices, the FDIC provides technical assistance, training, and consultations to international governmental banking regulators in the area of Information Technology (IT) examinations. The FDIC sent two IT examiners to Serbia on December 5–9, 2011. The IT examiners participated in an assessment of the National Bank of Serbia's IT Supervision Program. The assessment included banking practices, applicable regulations, and staff skill levels. This assessment will be used to identify and prioritize measures needed to strengthen and improve the IT supervision program in Serbia. The engagement was organized by the World Bank as part of a larger program to strengthen independent banking in Serbia.
- ★ In 2011, the FDIC hosted the China Banking Regulatory Commission (CRBC) to provide an overview of the IT examination process and the roles and responsibilities of the FDIC in the US bank regulatory environment.
- ★ As part of IPAB's visit in September 13, 2011, Acting Chairman Gruenberg and IPAB Executive Secretary Mr. José Luis Ochoa signed a technical assistance memorandum of understanding (MOU) that formally establishes a collaborative and cooperative relationship between the FDIC and IPAB. An MOU for technical assistance was also established with the Deposit Guarantee Fund (DGF) of Ukraine that provides for ongoing communication with the DGF as they await the passage of a new law granting the DGF expanded powers to resolve problem banks and serve as receiver of the failed bank estates.

- ★ During 2011, the FDIC provided subject matter experts to participate in 17 FSI seminars around the world. The topics included implementation of an international leverage ratio, effective macro prudential tools, stress testing, supervising credit risk, SIFI and bank resolutions, governance, accounting, deposit insurance, and risk-based supervision.

SUPERVISION AND CONSUMER PROTECTION

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

Examination Program

The FDIC's strong bank examination program is the core of its supervisory program. As of December 31, 2011, the FDIC was the primary federal regulator for 4,626 FDIC-insured, state-chartered institutions that were not members of the Federal Reserve System (generally referred to as "state nonmember" institutions). Through risk management (safety and soundness), consumer compliance and Community Reinvestment Act (CRA), and other specialty examinations, the FDIC assesses an institution's operating condition, management practices and policies, and compliance with applicable laws and regulations. The FDIC also educates bankers and consumers on matters of interest and addresses consumer questions and concerns.

As of December 31, 2011, the FDIC conducted 2,712 statutorily required risk management (safety and soundness) examinations, including a review of Bank Secrecy Act (BSA) compliance, and all required follow-up examinations for FDIC-supervised problem institutions within prescribed time frames. The FDIC also conducted 1,757 statutorily required CRA/compliance examinations (825 joint CRA/compliance examinations, 921 compliance-only examinations, and 11 CRA-only examinations) and

6,002 specialty examinations. As of December 31, 2011, all CRA/compliance examinations were conducted within the time frame established by policy. The following table compares the number of examinations, by type, conducted from 2009 through 2011.

FDIC Examinations 2009 – 2011			
	2011	2010	2009
Risk Management (Safety and Soundness):			
State Nonmember Banks	2,477	2,488	2,398
Savings Banks	227	225	203
Savings Associations	3	0	1
National Banks	1	3	0
State Member Banks	4	4	2
Subtotal—Risk Management Examinations	2,712	2,720	2,604
CRA/Compliance Examinations:			
Compliance/Community Reinvestment Act	825	914	1,435
Compliance-only	921	854	539
CRA-only	11	12	7
Subtotal—CRA/Compliance Examinations	1,757	1,780	1,981
Specialty Examinations:			
Trust Departments	466	465	493
Data Processing Facilities	2,802	2,811	2,780
Bank Secrecy Act	2,734	2,813	2,698
Subtotal—Specialty Examinations	6,002	6,089	5,971
Total	10,471	10,589	10,556

Risk Management

As of December 31, 2011, there were 813 insured institutions with total assets of \$319.4 billion designated as problem institutions for safety and soundness purposes (defined as those institutions having a composite CAMELS rating of “4” or “5”), compared to the 884 problem institutions with total assets of \$390.0 billion on December 31, 2010. This constituted a 5 percent decline in the number of problem institutions, and a 13 percent decrease in problem institution assets. In 2011, 196 institutions with aggregate assets of \$83.2 billion were removed from the list of problem financial institutions, while 156 institutions with aggregate assets of \$77 billion were added to the list. Superior Bank, Birmingham, Alabama, was the largest failure in 2011, with \$3.0 billion in assets. The FDIC is the primary federal regulator for 533 of the 813 problem institutions, with total assets of \$175.4 billion and \$319.4 billion, respectively.

During 2011, the FDIC issued the following formal and informal corrective actions to address safety and soundness concerns: 146 Consent Orders, and 297 MOUs. Of these actions, 15 Consent Orders and 17 MOUs were issued based, in part, on apparent violations of the Bank Secrecy Act.

The FDIC is required to conduct follow-up examinations of all state nonmember institutions designated as problem institutions within 12 months of the last examination. As of October 31, 2011, all follow-up examinations for problem institutions were performed on schedule.

Compliance

As of December 31, 2011, 51 insured state nonmember institutions, about 1 percent of all supervised institutions, having total assets of \$37.0 billion were rated “4” or “5” for consumer compliance purposes. As of December 31, 2011, all follow-up examinations for problem institutions were performed on schedule.

Overall, banks demonstrated strong consumer compliance programs. The most significant consumer protection issue that emerged from the 2011 compliance examinations involved banks’ failure to adequately monitor third-party vendors. As a result, we found violations involving unfair or deceptive acts or practices, resulting in consumer restitution and civil money penalties. The violations involved a variety of issues including failure to disclose material information about new products being offered, deceptive marketing and sales practices, and misrepresentations about the costs of products. In many instances, the violations were the result of banks entering into new product markets through third-parties without maintaining sufficient oversight of vendors’ activities.

During 2011, the FDIC issued the following formal and informal corrective actions to address compliance concerns: 38 Consent Orders, 111 MOUs, and 163 Civil Money Penalties (CMPs). In certain cases, the Consent Orders issued by the FDIC contain requirements for institutions to pay restitution in the form of refunds to consumers for different violations of laws. During 2011, over \$11 million was refunded to consumers by institutions subject to Consent Orders. These refunds primarily related to unfair or deceptive practices by institutions, mainly related to different credit card programs, as discussed above.

In the case of CMPs, institutions pay penalties to the U.S. Treasury. Approximately 90 percent of the CMPs involved repeated errors in the submission of required data under the Home Mortgage Disclosure Act (HMDA) or statutorily mandated penalties for violations of the regulations entitled *Loans in Areas Having Special Flood Hazards*. The

average CMP for HMDA and Flood Insurance violations was \$8,400.

Bank Secrecy Act/Anti-Money Laundering

The FDIC pursued a number of BSA, Counter-Terrorist Financing (CFT), and Anti-Money Laundering (AML) initiatives in 2011.

The FDIC conducted an Advanced International AML and CFT training session in 2011 for twenty-seven financial sector supervisors and regulatory staff from Ethiopia, Ghana, Kenya, Nigeria, and Tanzania. The training focused on AML/CFT controls, the AML examination process, customer due diligence, suspicious activity monitoring, and foreign correspondent banking. The session also included presentations from the Federal Bureau of Investigation (FBI), the Financial Crimes Enforcement Network (FinCEN), the Drug Enforcement Administration (DEA), and U.S. Immigration and Customs Enforcement (ICE). Topics addressed by invited speakers included combating terrorist financing, trade-based money laundering, bulk cash smuggling and investigations, law enforcement use of BSA information, and the role of financial intelligence units in detecting and investigating illegal activities.

Additionally, the FDIC met with several foreign officials from Pakistan, at the request of the FinCEN, to provide an overview of the FDIC and the AML examination process used in the United States. The FDIC also met with eleven foreign officials from United Arab Emirates as a part of the U.S. Department of State’s International Visitor Leadership Program to discuss the FDIC’s AML Supervisory Program.

Minority Depository Institution Activities

The preservation of Minority Depository Institutions (MDIs) remains a high priority for the FDIC. In 2011, the FDIC continued to seek ways to improve communication and interaction with MDIs and to respond to the concerns of minority bankers. Many of the MDIs took advantage of the technical assistance offered by the FDIC, requesting

technical assistance on a number of bank supervision issues, including but not limited to, the following:

- ★ MDI Policy Statement and Program
- ★ Small Business Lending Fund
- ★ Deposit insurance assessments
- ★ FDIC Overdraft Guidance
- ★ Guidance on prepaid cards
- ★ Application process for change of control and shelf-charter applications
- ★ Filing branch and merger applications
- ★ Monitoring commercial real estate (CRE) concentrations
- ★ Reducing adversely classified assets
- ★ Maintaining adequate liquidity
- ★ Compliance issues
- ★ Community Reinvestment Act (CRA)

The FDIC continued to offer the benefit of having an examiner or a member of regional office management return to FDIC-supervised MDIs from 90 to 120 days after an examination to help management understand and implementing examination recommendations, or to discuss other issues of interest. Several MDIs took advantage of this initiative in 2011. Also, the FDIC regional offices held outreach training efforts and educational programs for MDIs.

A major highlight in 2011 was the biannual Interagency MDI Conference. The 2011 conference was held on June 14–16, 2011 in New York City. The conference theme was *Preserving the Future of Minority Depository Institutions*, and the activities included a session where potential investors in financial institutions had an opportunity to meet with senior managers and directors of MDIs attending the conference.

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

Capital and Liquidity Rulemaking and Guidance

OTC Derivatives Margin and Capital NPR

In April 2011, the FDIC, along with the other federal banking agencies, the Farm Credit Administration, and the Federal Housing Finance Agency (FHFA), published a proposed rule intended to enhance the stability of the financial system by preventing certain large financial firms from entering into uncollateralized derivatives exposures with each other. This proposed rule would implement certain requirements contained in Sections 731 and 764 of the Dodd-Frank Act, which provides that the largest and most active participants in the over-the-counter (OTC) derivatives market, that is, those designated as swaps dealers or major swaps participants by the Commodity Futures Trading Commission (CFTC) or the Securities Exchange Commission (SEC), to collect initial margin and variation margin. Final rulemaking is expected to be completed in 2012.

Retail Foreign Exchange Transactions

In May 2011, the FDIC Board of Directors approved the publication of a Notice of Proposed Rulemaking (NPR) that proposed disclosure, recordkeeping, capital and margin, reporting, business conduct, and documentation requirements on certain retail foreign currency transactions entered into between FDIC-supervised institutions and retail customers. The FDIC proposed these requirements in response to Section 742 of Dodd-Frank. In July 2011, the FDIC issued final regulations.

Advanced Approaches Floor Final Rule

In June 2011, the FDIC, along with the other federal banking agencies, approved a final rule to implement certain requirements of Section 171 of Dodd-Frank. Section 171 requires that the agencies' generally applicable capital requirements serve as a floor for other capital requirements the agencies may establish and, specifically, as a permanent floor for the advanced approaches risk-based capital rule.

Stress Testing Guidance

In June 2011, the FDIC along with the other federal banking agencies, issued proposed guidance on stress testing by banking organizations with more than \$10 billion in total consolidated assets. The proposed guidance highlights the importance of stress testing as an ongoing risk management practice that supports a banking organization's forward-looking assessment of its risks, and provides principles that a banking organization should follow to develop, implement, and maintain an effective stress testing framework.

Counterparty Credit Risk Guidance

In July 2011, the FDIC, along with the other federal banking agencies, issued guidance to clarify supervisory expectations and sound practices for an effective counterparty credit risk management framework. The guidance was issued primarily for banks with significant derivatives portfolios and emphasizes that such banks should use appropriate reporting metrics and limits systems, have well-developed and comprehensive stress testing, and maintain systems that facilitate measurement and aggregation of counterparty credit risk throughout the organization. The agencies believe this guidance will address deficiencies exposed during the financial crisis by reinforcing sound practices related to the management and ongoing monitoring of counterparty exposure limits and concentration risks.

Volcker Rule NPR

In October 2011, the FDIC, along with the other federal banking agencies, and the SEC, published a joint NPR to implement the provisions of Section 619 of Dodd-Frank, which restricts the ability of banking entities to engage in proprietary trading and limits investments in hedge funds and private equity funds. Final rulemaking is expected to be completed in 2012.

Depositor and Consumer Protection Rulemaking and Guidance

SAFE Act

In January 2011, the FDIC along with the other federal banking agencies, issued an update related to the requirements of the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE Act). The update reminded mortgage loan originators of the requirement to register with the Nationwide Mortgage Licensing System and Registry within 180 days of the date the Registry began accepting federal registrations.

Overdraft Guidance

In March 2011, the FDIC hosted a teleconference to discuss the 2010 Overdraft Payment Program Supervisor Guidance (Guidance) that was issued in November 2010. The Guidance encouraged institutions to monitor and oversee usage of overdraft payment programs to address the risks related to excessive and inappropriate use of automated overdraft programs as forms of high-cost, short-term credit. The teleconference was held to address many examination and implementation issues based on discussions with, and questions received from, FDIC-supervised institutions. The FDIC also published written answers to a series of Frequently Asked Questions concurrently with the teleconference. Examiners began monitoring banks' efforts to address the risks identified in the Guidance in July 2011. The FDIC will continue to monitor banks' efforts to manage risks of automated programs and assess the efficacy of the Guidance.

Examination Procedures

In August 2011, the FDIC issued revised examination procedures incorporating the model privacy notice. The Gramm-Leach-Bliley Act requires financial institutions to provide initial and annual notices to consumers with whom they have ongoing customer relationships to explain how nonpublic personal information is collected and shared. Financial institutions may use a model privacy notice issued by the federal banking agencies and the National Credit Union Administration, the Federal Trade Commission, the CFTC, and the SEC to comply with this requirement.

In December 2011, the FDIC, along with the other federal banking agencies, issued revised examination procedures for the regulations that implement the Truth in Lending Act (TILA). TILA requires various disclosures relating to the cost of consumer credit as well as several other requirements relating to credit for individual, consumer, or household purposes including residential real estate loans.

Other Guidance Issued

During 2011, the FDIC issued and participated in the issuance of other guidance in several areas as described below.

Incentive-Based Compensation

On April 14, 2011, the FDIC joined the other federal banking agencies, and the SEC and FHFA in issuing a joint NPR that would implement section 956 of Dodd-Frank (Enhanced Compensation Structure Reporting). Section 956 requires the participating agencies, as defined, to jointly: (a) prescribe regulatory reporting standards for incentive-based compensation and (b) prohibit incentive-based compensation that is “excessive” or “could lead to material financial loss” at a covered institution. Implementing this proposed rule would address a key safety and soundness issue that contributed to the recent financial crisis that poorly designed compensation

structures can misalign incentives and induce excessive risk-taking at financial organizations. Importantly, this interagency proposal will apply across all types of financial institutions, limiting the opportunity for regulatory arbitrage. Per section 956, financial institutions with total assets less than \$1.0 billion are exempt from this provision. Final rulemaking is expected to be completed in 2012.

Regulatory Actions Related to Foreclosure Activities by Large Servicers and Practical Implications for Community Banks

In May 2011, the FDIC published a special foreclosure edition of *Supervisory Insights*. This edition describes lessons learned from an interagency review of foreclosure practices at the 14 largest residential mortgage servicers, and includes examples of effective mortgage servicing practices derived from these lessons.

Regulatory Relief

During 2011, the FDIC issued 31 Financial Institutions Letters (FILs) that provided guidance to help financial institutions and facilitate recovery in areas damaged by hurricanes, wildfires, tornadoes, flooding, and other natural disasters. In addition, FIL-60-2001 dated August 26, 2011, reminded institutions how to prepare for business continuity during significant storms.

Other Policy Matters

Study on Core Deposits and Brokered Deposits

As required by Section 1506 of Dodd-Frank, the FDIC completed a study on the use of core and brokered deposits and provided a written report to Congress on its findings on July 8, 2011. The FDIC solicited comments from the banking industry and the public in preparing this study. The FDIC received approximately 75 written comments and organized a roundtable discussion with representatives from bank trade groups, bank regulators, deposit brokers, banks that use brokered deposits, and the academic community. Discussions on the issues were also

held with the FDIC Advisory Committee on Community Banking and in several separate meetings with banks, trade groups, and other interested parties. In addition, the FDIC undertook a statistical analysis of core and brokered deposits and conducted a literature review of academic studies on core and brokered deposits. The study evaluated the definitions of core and brokered deposits and recommended that Congress not amend or repeal the brokered deposit statute, which defines brokered deposits and prevents failing banks from increasing their brokered deposits and taking on more risk in an effort to grow out of their troubles.

Small Business Lending Forum

On January 13, 2011, the FDIC hosted a forum on “Overcoming Obstacles to Small Business Lending.” The forum fostered communication among policymakers, regulators, small business owners, lenders, and other stakeholders regarding ways in which credit can be made more accessible to the small business sector. In addition to identifying common obstacles small businesses currently face, forum participants also assessed existing efforts and suggested additional policies to ensure that creditworthy small businesses have access to the credit they need to grow, create jobs, and help fuel the economic recovery. The FDIC addressed the key issues raised at the forum, including small businesses’ demand for credit, banks’ supply of credit, and bank regulators’ approaches to evaluating small business loans.

Promoting Economic Inclusion

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

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

FDIC Survey of Banks’ Efforts to Serve the Unbanked and Underbanked

The FDIC is committed to ensuring that consumers have access to basic banking and other financial services, and to developing more and better data about unbanked and underbanked households, including factors that hinder them from fully utilizing the mainstream financial system. In line with this commitment, Congress mandated in Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (Reform Act), that the FDIC conduct periodic surveys of banks’ efforts to bring individuals and families into the conventional finance system.

Consequently, during 2011 and part of 2012, the FDIC will conduct a second set of nationwide surveys of households and FDIC-IDIs (banks survey) to assess efforts to serve unbanked and underbanked individuals and families. The first phase of the bank survey will gather information from a sample of bank headquarters and a second phase will collect data at the branch level. The 2011 survey focused on banks’ basic transaction and savings account programs, auxiliary product and service offerings, and financial education and outreach efforts.

The results will complement the previously collected data and will help banks improve their abilities to meet the diverse financial needs of U.S. households. The survey also helps to inform the public about the FDIC’s continuing economic inclusion efforts.

Model Safe Account Pilot

The FDIC began a one-year pilot program in January 2011 to determine the feasibility of IDIs offering safe, low-cost transactional and savings accounts to help meet the needs of the 25 percent of U.S. households that are unbanked and underbanked. These accounts are FDIC insured and are covered under consumer protection laws and regulations, such as Regulation E (Electronic Funds Transfer), in the same way as traditional deposit accounts. Through the pilot, nine participating institutions are offering electronic deposit accounts with product features identified in the FDIC Model Safe Accounts Template. These accounts do not allow for overdraft or nonsufficient funds fees. At the completion of the pilot, in early 2012, the FDIC will report on the findings and lessons learned.

Affordable Small-Dollar Loan Guidelines and Pilot Program

The FDIC continued to promote the results of the FDIC Small-Dollar Loan Pilot. In May 2011, the FDIC hosted a meeting of the FFIEC CRA subcommittee to examine opportunities to enhance understanding of small-dollar lending among regulated institutions and to promote consistent emphasis in CRA examinations. The meeting, attended by senior staff from the banking regulatory agencies, CSBS, the New York State Banking Department, and the National Credit Union Administration, reviewed the findings from the FDIC research and pilot, and related outreach and education work. On September 22, 2011, FDIC offered testimony on the FDIC's Small-Dollar Loan Pilot at a hearing of the House Financial Services Committee Subcommittee on Financial Institutions and Consumer Credit entitled "An Examination of the Availability of Credit for Consumers." In addition, results from the pilot were discussed at several conferences throughout the year, including the Microfinance USA Conference in New York at the Association of Military Bankers of America, and in media interviews.

Safe Mortgage Lending in Low- and Moderate-Income (LMI) Communities

In early 2011, the FDIC Chairman's Advisory Committee on Economic Inclusion held a public meeting at headquarters and discussed principles for responsible low- and moderate-income (LMI) mortgage lending, the impact of the housing crisis on LMI families, and potential future market structures to safely serve LMI borrowers. In addition, FDIC researchers presented two papers at widely attended conferences, analyzing some of the outcomes of the mortgage crisis on housing mobility, and trends in mortgage refinancing among low-income households.

Partnerships to Promote Consumer Access: Alliance for Economic Inclusion

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

The FDIC expanded its AEI efforts during 2011 to increase measurable results in the areas of new bank accounts, small-dollar loan products, and the delivery of financial education to underserved consumers. Specifically, during 2011:

- ★ More than 494 banks and organizations joined AEI nationwide, bringing the total number of AEI members to 1,613. The 2011 figure represents a 44 percent growth over the AEI membership base at the end of 2010.
- ★ At least 171,591 consumers opened a bank account as a result of AEI efforts, an increase of 138 percent over the number of new accounts opened during 2010. Combined, more than 404,591 bank accounts have been opened through the AEI program.
- ★ Approximately 87,476 consumers received financial education through the AEI, bringing the total number of consumers educated to 270,476. The 2011 figure is a 56 percent improvement over the 2010 figure.

Also, twenty-four banks were in the process of offering or developing small-dollar loans, and seventeen AEI banks were providing deposit accounts consistent with the FDIC Model Safe Account Template through the AEI at the end of 2011. To facilitate broader economic inclusion, FDIC leads AEI members in other work appropriate to the needs of the local market. For example, the 4th Annual AEI Small Business Conference in New Orleans reached more than 200 entrepreneurs, bankers, and small business resource providers, while the Los Angeles AEI promoted small business development through two guides (one to help small businesses save money by “greening” their business and the other to help gain access to the export market).

During 2011, FDIC also expanded the geographic reach of the AEI program. Initially in fourteen markets, the FDIC began the formation of AEI initiatives in three additional markets: Milwaukee, Wisconsin; the Appalachian region of West Virginia; and the Metro Detroit/Southeast Michigan area. These markets were selected because of their sizable concentrations of unbanked and underbanked households. In collaboration with the Wisconsin Women’s Business Initiative Corporation, FDIC launched the Milwaukee AEI initiative on January 19, 2011, consisting of twenty-one financial institutions and community-based partners. And on December 19, 2011, the FDIC and the United Way of Southeast Michigan launched the Southeast Michigan AEI coalition. The launch was attended by forty-eight financial institutions and community-based organizations, including the Consulate of Mexico and Bank On Detroit representatives. The FDIC collaborated with the West Virginia Development Office and Appalachian Regional Commission on the AEI proposal for launch in West Virginia during 2012.

Additionally, the FDIC provided program guidance and technical assistance in the development, launch, and the expansion of 26 *Bank On* programs. In AEI markets where there is a *Bank On* initiative, FDIC and its AEI partners generally collaborate with representatives from the

Bank On initiative towards shared objectives. For example, FDIC provided technical assistance on recruitment from the financial services industry for *Bank On/Save Up* Kansas City, Missouri, which is a local effort to market savings and checking accounts to the unbanked and underbanked that was launched on June 4, 2011, conducted in collaboration with the Kansas City AEI. FDIC staff also provided technical, marketing, and financial education product support for the new *Bank On* Chicago initiative, and the *Bank On* Los Angeles initiative conducted under the FDIC AEI umbrella.

Advancing Financial Education

The FDIC’s award-winning *Money Smart* curriculum has reached more than 2.75 million consumers in the ten years since its launch in 2001. During 2011, the FDIC reached approximately 265,000 consumers with *Money Smart*. The curriculum is currently available in instructor-led versions to teach adults and young adults, as well as in self-paced computer-based and audio versions.

The FDIC expanded its financial education efforts during 2011 through a multi-part strategy that included making available timely, high-quality financial education products, sharing best practices, and working through partnerships to reach consumers.

Recognizing the growing role of entrepreneurs in the economy, the *Money Smart* program started its second decade by expanding the reach of the curriculum to small businesses. During 2011, the FDIC collaborated with the Small Business Administration on the development of a new instructor-led financial education curriculum for small businesses. It consists of ten modules that introduce prospective or current small businesses to basic strategies to manage a small business effectively from a financial standpoint. The pilot curriculum is being refined in advance of an early 2012 launch.

On February 10, 2011, the FDIC released an enhanced version of its instructor-led *Money Smart* for Young Adults financial education curriculum. The updated curriculum reflects changes to the financial landscape such as amendments to the rules pertaining to credit cards, the overdraft opt-in rule, and information on financing higher education and instructional best practices since the curriculum's release in 2008.

On November 7, 2011, the FDIC released the *Money Smart* curriculum for the first time in Haitian-Creole and Hindi, making the instructor-led curriculum available in nine languages, in addition to the large-print and Braille versions. Also, on this date, updated versions of the Chinese, English, Haitian-Creole, Hindi, Hmong, Korean, Russian, Spanish, and Vietnamese language versions of *Money Smart* were released. These updated curriculums reflect the enhancements made to the English language version of *Money Smart* released in November of 2010, which include the addition of a new module on financial recovery.

Improvements were also made to the self-paced versions of *Money Smart*. The *Money Smart* Computer-Based Instructions (CBI) was rewritten and significantly enhanced. For example, the new CBI includes age-appropriate tracks for adults and young adults aligned with the respective updated instructor-led curriculums. Originally launched in 2004, the new CBI also incorporates new technological enhancements and best practices in instructional design, such as a game-based design and new tools for users to retrieve previously earned certificates of completion of modules. The new CBI was piloted during 2011 with key partners in advance of a first quarter 2012 launch.

Partnerships to Support Community and Small Business Development

Through training and technical assistance to diverse organizations that use the *Money Smart* program, the FDIC emphasizes the importance of pairing education with access to appropriate banking products and services. Approximately 1,200 organizations are members of the FDIC's *Money Smart* Alliance, 1,205 practitioners attended the 61 train-the-trainer workshops conducted during 2011, and the FDIC worked with many additional organizations to promote financial education.

During 2011, the FDIC expanded on its new² partnership with the National Credit Union Administration and the U.S. Department of Education to promote financial education and access for low- and moderate-income students. The FDIC focused its work through this partnership by promoting financial education and access resources to the U.S. Department of Education's grantees by participating in both national and four regional/state conferences to conduct workshops to reach managers of Federal TRIO Programs³ and Gear-UP programs that reach low- and moderate-income students and their families.

² This partnership began on November 15, 2010.

³ The Federal TRIO Programs (TRIO) are federal outreach and student services programs designed to identify and provide services for individuals from disadvantaged backgrounds.



Vice Chairman Martin J. Gruenberg makes a point during the sixth Community Bank Advisory Committee meeting.

Leading Community Development

The FDIC hosted its sixth Community Bank Advisory Committee meeting in May 2011. Fourteen members, most of them heads of community banks throughout the nation, discussed trends and issues involving community banking and the future of this sector.

FDIC community affairs staff is located in each of the FDIC's regions nationwide and lead a range of community development activities. In 2011, the FDIC undertook over 676 community development, technical assistance, financial education, and outreach activities and events. These activities were designed to promote awareness of investment opportunities to financial institutions, access to capital within communities, knowledge-sharing among the public and private sector, and wealth-building opportunities for families.

The FDIC collaborated with the Office of Comptroller of the Currency and Federal Reserve Banks to conduct 35 CRA/Community Development roundtables to help financial institutions learn how to more effectively meet community credit needs and promote compliance with CRA regulations.

Recognizing the importance of small business growth and job creation as an essential component in America's economic recovery, the FDIC continued its emphasis on facilitating small-business development, expansion, and recovery. In 2011, the FDIC and the SBA co-sponsored 28 small-business information, resource, and capacity-building seminars. The events provided information and resources to over 2,276 small business owners, entrepreneurs, banking professionals, and others.

The FDIC also continued to help consumers and the banking industry avoid unnecessary foreclosures and stop foreclosure "rescue" scams that promise false hope to consumers at risk of losing their homes. The FDIC focused its foreclosure mitigation efforts in three areas:

- ★ **Direct outreach to consumers with information, education, counseling, and referrals.** During 2011, in collaboration with NeighborWorks® America, the FDIC sponsored eight events at which 7,392 homeowners attended, 68 counseling organizations provided direct services and 18 loan servicers participated.
- ★ **Industry outreach and education targeted to lenders, loan servicers, local governmental agencies, housing counselors, and first responders (faith-based organizations, advocacy organizations, social service organizations, etc.).** During 2011, the FDIC co-hosted one major loan modification scam outreach event in collaboration with NeighborWorks® America and supported several ongoing loan modification scam campaigns. These outreach activities are targeted to local agencies and nonprofits that have the capacity to educate stakeholders. These activities resulted in more than 35,372 scam complaint calls since the campaign began.

★ **Support for capacity-building initiatives to help expand the quantity and quality of foreclosure counseling assistance that is available within the industry.** Working closely with NeighborWorks® America and other national and local counselors and intermediaries, the FDIC supported industry efforts to build the capacity of housing counseling agencies. The FDIC facilitated the development of a new course, *Marketing Your Neighborhood for Stabilization and Revitalization* that was offered at two NeighborWorks training institutes to approximately twenty-one homeownership professionals. Also, more than 1,680 participants from 1,071 organizations completed six community stabilization e-learning courses offered through NeighborWorks® America sponsored by FDIC. These e-learning courses include the new *Introduction to Affordable Housing* launched on October 10, 2011.

Information Technology, Cyber Fraud, and Financial Crimes

The FDIC, jointly with the U.S. Department of Justice, sponsored a Financial Crimes Conference in May 2011 that focused on all types of financial fraud, and how the law enforcement community and regulators can respond effectively to fraud. Other major accomplishments during 2011 in promoting information technology (IT) security and combating cyber fraud and other financial crimes included the following:

- ★ Issued, in conjunction with the FFIEC, the *Supplement to Authentication in an Internet Banking Environment* guidance, which strengthens the controls banks use to protect online banking transactions.
- ★ Issued revised guidance describing potential risks associated with relationships with third-party entities that process payments for telemarketers, online businesses, and other merchants.

- ★ Issued a risk advisory to examiners describing the risks of mobile banking.
- ★ Held an Emerging Technology Risk Analysis Center Event on January 12, 2011, with five industry experts who discussed emerging technologies and associated risks that may affect the banking industry.
- ★ Established an intra-divisional FDIC Payments Risk Working Group to strengthen awareness of current and emerging payments-related supervisory issues. Representatives from all examination disciplines are participating in the Working Group.
- ★ Assisted financial institutions in identifying and shutting down “phishing” websites. The term “phishing”—as in “fishing” for confidential information—refers to a scam that encompasses fraudulently obtaining and using an individual’s personal or financial information.
- ★ Issued 28 Special Alerts to FDIC-supervised institutions on reported cases of counterfeit or fraudulent bank checks.
- ★ Issued 4 Consumer Alerts pertaining to e-mails and telephone calls fraudulently claiming to be from the FDIC.

The FDIC conducts IT examinations of financial institutions and technology service providers (TSP). These examinations ensure that institutions and TSPs have implemented adequate risk management practices for the confidentiality, integrity, and availability of sensitive, material, and critical information assets. The result of the examination is a FFIEC Uniform Rating System for Information Technology (URSIT) rating. In 2011, the FDIC conducted 2,802 IT examinations at financial institutions and TSPs. Further, as part of its ongoing supervision process, the FDIC monitors significant events, such as data breaches and natural disasters that may affect financial institution operations or customers.

Consumer Complaints and Inquiries

The FDIC investigates consumer complaints concerning FDIC-supervised institutions and answers inquiries from the public about consumer protection laws and banking practices. As of December 31, 2011, the FDIC received 12,942 written complaints, of which 5,997 involved complaints against state nonmember institutions. The FDIC responded to over 98 percent of these complaints within time frames established by corporate policy, and acknowledged 100 percent of all consumer complaints and inquiries within fourteen days. The FDIC also responded to 2,608 written inquiries, of which 484 involved state nonmember institutions. In addition, the FDIC responded to 6,134 telephone calls from the public and members of the banking community, of which 4,293 concerned state nonmember institutions.

Coordination with the Consumer Financial Protection Bureau

Under the Dodd-Frank Act, the Consumer Financial Protection Bureau (CFPB) began operations on July 21, 2011. The CFPB was given primary supervisory responsibility for certain enumerated consumer protection laws and regulations for institutions with assets over \$10 billion, and their affiliates. The FDIC coordinated with the CFPB throughout 2011 to ensure an orderly transfer of forty-one institutions to the CFPB's consumer protection jurisdiction. The FDIC continues to work with the CFPB to implement other requirements, including simultaneous examinations for other laws, such as the CRA, for which the FDIC retains primary responsibility for all state chartered, nonmember banks, including those with assets over \$10 billion.

Between July 21 and December 31, 2011, the FDIC received 935 complaints involving FDIC-supervised banks under the jurisdiction of the CFPB. Under the agreement

between the FDIC and the CFPB, the FDIC investigated 576 of the 935 complaints and referred the remaining 359 to the CFPB.

The FDIC provided substantial resources to the CFPB during 2011 on a temporary basis. The FDIC helped the CFPB develop its consumer complaint processing functions, enforcement program, and community affairs program. Under a cooperative agreement between the FDIC and the CFPB, FDIC employees were also offered voluntary transfer opportunities to become permanent CFPB employees. A total of forty-one FDIC employees transferred to the CFPB as of July 2011.

Public Awareness of Deposit Insurance Coverage

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

In 2011, the FDIC continued its efforts to educate bankers and consumers about the rules and requirements for FDIC insurance coverage. The FDIC conducted seventeen telephone seminars for bankers on deposit insurance coverage, reaching an estimated 57,000 bankers participating at over 16,000 bank locations throughout the country. The FDIC also updated its deposit insurance coverage publications and educational tools for consumers and bankers, including brochures, resource guides, videos, and the Electronic Deposit Insurance Estimator (EDIE).

During 2011, the FDIC received and answered approximately 119,300 telephone deposit insurance-related inquiries from consumers and bankers. The FDIC Call Center addressed 86,700 of these inquiries, and deposit insurance coverage subject matter experts handled the other 32,600. In addition to telephone inquiries about deposit insurance coverage, the FDIC received 2,500 written inquiries from consumers and bankers. Of these inquiries, 99 percent received responses within two weeks, as required by corporate policy.

RESOLUTIONS AND RECEIVERSHIPS

The FDIC has the unique mission of protecting depositors of insured banks and savings associations. No depositor has ever experienced a loss on the insured amount of his or her deposit in an FDIC-insured institution due to a failure. Upon closure of an institution typically by its chartering authority—the state for state-chartered institutions, and the Office of the Comptroller of the Currency (OCC) for national banks, and federal savings associations⁴—the FDIC is appointed receiver, and the FDIC is responsible for resolving the failed bank or savings association.

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

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

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

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

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

⁴ OCC assumed this responsibility from the Office of Thrift Supervision (OTS) on July 21, 2011.

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

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

Financial Institution Failures

During 2011, there were 92 institution failures, compared to 157 failures in 2010. For the institutions that failed, the FDIC successfully contacted all known qualified and interested bidders to market these institutions. The FDIC also made insured funds available to all depositors within one business day of the failure if it occurred on a Friday and within two business days if the failure occurred on any other day of the week. There were no losses on insured deposits, and no appropriated funds were required to pay insured deposits.

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

Failure Activity 2009–2011			
DOLLARS IN BILLIONS			
	2011	2010	2009
Total Institutions	92	157	140
Total Assets of Failed Institutions*	\$34.9	\$92.1	\$169.7
Total Deposits of Failed Institutions*	\$31.1	\$79.5	\$137.1
Estimated Loss to the DIF	\$7.9	\$22.3	\$37.1

*Total assets and total deposits data are based on the last Call Report filed by the institution prior to failure.

Asset Management and Sales

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

Structured sales for 2011 totaled \$2.8 billion in unpaid principal balances from commercial real estate and residential loans acquired from various receiverships. These transactions often involved FDIC-guaranteed and nonguaranteed purchase money debt and equity in a limited liability company shared between the respective receivership that contributed the assets to the sale and the successful purchaser. Cash sales of assets for the year totaled \$1.1 billion in book value. In addition to structured and cash sales, FDIC also use securitizations to dispose of bank assets. In 2011, securitization sales totaled \$1.1 billion.

As a result of our marketing and collection efforts, the book value of assets in inventory decreased by \$6.1 billion (23 percent) in 2011. The following chart shows the beginning and ending balances of these assets by asset type.

Assets in Inventory by Asset Type		
DOLLARS IN MILLIONS		
ASSET TYPE	ASSETS IN INVENTORY 01/01/11	ASSETS IN INVENTORY 12/31/11
Securities	\$2,376	\$1,225
Consumer Loans	56	31
Commercial Loans	1,029	585
Real Estate Mortgages	5,683	2,208
Other Assets/Judgments	2,103	1,396
Owned Assets	2,086	1,007
Net Investments in Subsidiaries	881	290
Structured and Securitized Assets	12,784	14,171
Total	\$26,998	\$20,913

The FDIC uses contractors extensively to manage and sell the assets of failed institutions. Multiple improvements were made to controls over contractor costs and the quality of their deliverables, including the development of invoice review checklists, a standard contractor performance evaluation review process, and a series of peer-to-peer reviews.

Receivership Management Activities

The FDIC, as receiver, manages failed banks and their subsidiaries with the goal of expeditiously winding up their affairs. The oversight and prompt termination of receiverships help to preserve value for the uninsured depositors and other creditors by reducing overhead and other holding costs. Once the assets of a failed institution have been sold and the final distribution of any proceeds

is made, the FDIC terminates the receivership. In 2011, the number of receiverships under management increased by 27 percent, due to the increase in failure activity. The following chart shows overall receivership activity for the FDIC in 2011.

Receivership Activity	
Active Receiverships as of 01/01/11*	344
New Receiverships	92
Receiverships Terminated	5
Active Receiverships as of 12/31/11*	431

*Includes five FSLIC Resolution Fund receiverships.

Minority and Women Outreach

In 2011, the FDIC awarded 1,936 contracts. Of these, 558 contracts (29 percent) were awarded to Minority- and Women-Owned Businesses (MWOBs). The total dollar value of contracts awarded was \$1.4 billion, of which \$417 million (29 percent) was awarded to MWOBs, compared to 24 percent for all of 2010. In addition, engagements of Minority- and Women-Owned Law Firms (MWOLFs) were 30 percent of all engagements; total payments of \$23 million to MWOLFs were 17 percent of all payments to outside counsel, compared to 10 percent for all of 2010. Policy modifications and contracting procedures have also resulted in the following changes and/or new initiatives:

- ★ The Office of Minority and Women Inclusion (OMWI) participates on contracting Technical Evaluation Panels as a voting member.
- ★ The FDIC entered into an MOU with the U.S. Small Business Administration to participate in their 8(a) Program in May 2011.
- ★ The FDIC issues some contracts on a regional basis, or allows contractors to bid on a subset of a contract, rather than requiring them to bid on the entire contract, in order to allow MWOBs and small businesses to be more competitive.

In 2011, the FDIC exhibited at 18 procurement-specific trade shows to provide participants with the FDIC's general contracting procedures, prime contractors' contact information, and possible upcoming solicitations. Prime contractors are reminded of the FDIC's emphasis on MWOB participation and are encouraged to subcontract or partner with MWOBs. The FDIC also exhibited at seven non-procurement events where contracting information was provided. In addition, the FDIC's Legal Division was represented at trade shows where information was provided to MWOLFs about outside counsel opportunities and how to enter into co-counsel arrangements with majority firms.

FDIC personnel frequently met with MWOBs and MWOLFs in one-on-one meetings to discuss contracting opportunities at the FDIC. MWOBs are encouraged to register in the FDIC's Contractor Resource List, which is an online self registration system that can be accessed through the FDIC's website by any firm interested in doing business with the FDIC. FDIC personnel use the Contractor Resource List to develop source lists for solicitations.

As a result of the Asset Purchaser, Investor, and Minority Depository Institutions Outreach seminars conducted in 2010, the FDIC developed an Investor Match Program (IMP). The IMP was launched in September 2011 to encourage and facilitate interaction between small investors, asset managers and large investors to bring sources of capital together with the expertise needed to participate in structured sales transactions. Two structured transactions workshops for Minority- and Women-Owned Investors and Asset Managers were held in New York, New York and Irvine, California. Information was presented on how structured transactions are planned and conducted, including an introduction and overview on the structured transactions process and bidder qualification procedures. In addition, speakers highlighted some key features of transaction documents, their experience in dealing with tax-related

issues, as well as post-bid management oversight and the document reporting process.

The FDIC piloted a Small Investor Program (SIP) in 2011 to increase MWOB participation in accordance with Section 342 of Dodd-Frank. The SIP is geared towards marketing distressed loans under the structured sales program to smaller investors, many of whom are MWOBs. The SIP offers smaller-sized asset pools than a typical multi-bank structured loan sale. For this program, a pool of loans would typically be drawn from a single receivership resulting in the loan pool being secured by collateral in a more concentrated geographical area than would be found in a traditional, nationwide or regional multibank structured sale. The FDIC also adjusted the structure of the SIP to make offerings more accessible to smaller investors and to increase participation while maintaining a level playing field for all investors.

In 2012, as the FDIC winds down the operations of failed institutions and liquidates residual assets, the FDIC will continue to encourage and foster diversity and the inclusion of MWOBs in its procurement activities, outside counsel engagements, and asset sales programs.

Protecting Insured Depositors

The FDIC's ability to attract healthy institutions to assume deposits and purchase assets of failed banks and savings associations at the time of failure minimizes the disruption to customers and allows assets to be returned to the private sector immediately. Assets remaining after resolution are liquidated by the FDIC in an orderly manner, and the proceeds are used to pay creditors, including depositors whose accounts exceeded the insurance limit. During 2011, the FDIC paid dividends of \$12 million to depositors whose accounts exceeded the insured limit(s).

Professional Liability and Financial Crimes Recoveries

FDIC staff works to identify potential claims against directors, officers, fidelity bond insurance carriers, appraisers, attorneys, accountants, mortgage loan brokers, title insurance companies, securities underwriters, securities issuers, and other professionals who may have contributed to the failure of an IDI. Once a claim is deemed meritorious and cost-effective to pursue, the FDIC initiates legal action against the appropriate parties. During 2011, the FDIC recovered \$240.4 million from professional liability claims/settlements. The FDIC also authorized lawsuits related to 30 failed institutions against 264 individuals for director and officer liability with damage claims of \$5.1 billion. The FDIC also authorized 19 other lawsuits for fidelity bond, liability insurance, attorney malpractice, appraiser malpractice, and RMBS claims. There also were 189 residential mortgage malpractice and fraud lawsuits pending as of year-end. At the end of 2011, the FDIC's caseload included 52 professional liability lawsuits (up from 27 at year-end 2010) and 1,811 open investigations (down from 2,750) at year-end 2010.

In addition, as part of the sentencing process for those convicted of criminal wrongdoing against institutions that later failed, a court may order a defendant to pay restitution or to forfeit funds or property to the receivership. The FDIC, working in conjunction with the U.S. Department of Justice, collected \$3,633,426 from criminal restitutions and forfeitures during the year. At year-end, there were 5,192 active restitution and forfeiture orders (up from 4,895 at year-end 2010). This includes 294 FSLIC Resolution Fund orders, *i.e.*, orders inherited from the Federal Savings and Loan Insurance Corporation on August 10, 1989, and orders inherited from the Resolution Trust Corporation on January 1, 1996.

EFFECTIVE MANAGEMENT OF STRATEGIC RESOURCES

The FDIC recognizes that it must effectively manage its human, financial, and technological resources to successfully carry out its mission and meet the performance goals and targets set forth in its annual performance plan. The FDIC must align these strategic resources with its mission and goals and deploy them where they are most needed to enhance its operational effectiveness and minimize potential financial risks to the DIF. Major accomplishments in improving the FDIC's operational efficiency and effectiveness during 2011 follow.

Human Capital Management

The FDIC's human capital management programs are designed to recruit, develop, reward, and retain a highly skilled, cross-trained, diverse, and results-oriented workforce. In 2011, the FDIC stepped up workforce planning and development initiatives that emphasized hiring the additional skill sets needed to address requirements of Dodd-Frank, especially as it related to the oversight of systemically important financial institutions. Workforce planning also addressed the need to start winding down bank closure activities in the next few years, based on the decrease in the number of financial institution failures and institutions in at-risk categories. The FDIC also deployed a number of strategies to more fully engage all employees in advancing its mission.

Succession Management

In 2011, the FDIC expanded its education and training curriculum for employees in the business lines and support functions, and for leadership development. Additionally, classroom learning and development opportunities were supplemented and supported with the expansion of e-learning, simulations, electronic performance support systems, job aids, and tool kits to quickly facilitate work processes and overall efficiencies. The FDIC also engaged in a number of knowledge

management initiatives to capture lessons learned and best practices during the financial crisis, in support of future corporate readiness.

The FDIC continues to expand leadership development opportunities to all employees, including newly hired employees. This curriculum takes a holistic approach, aligning leadership development with critical corporate goals and objectives, and promotes the desired corporate culture. By developing employees across the span of their careers, the FDIC builds a culture of leadership and further promotes a leadership succession strategy. The final course of the new leadership curriculum, which consists of five core courses, was launched in November 2011. Four new electives were also delivered in 2011.

Additionally, the FDIC formalized its Master's of Business Administration (MBA) program for Corporate Managers and Executive Managers, in conjunction with the University of Massachusetts. Two candidates were selected for the 2011–2014 class.

Strategic Workforce Planning and Readiness

The FDIC used various employment strategies in 2011 to meet the need for additional human resources resulting from the number of failed financial institutions and the volume of additional examinations. Among these strategies, the FDIC reemployed over 200 retired FDIC examiners, attorneys, resolutions and receiverships specialists, and support personnel, and hired employees of failed institutions in temporary and term positions. The FDIC also recruited mid-career examiners who had developed their skills in other organizations, recruited loan review specialists and compliance analysts from the private sector, and redeployed current FDIC employees with the requisite skills from other parts of the agency.

In response to the requirements of Dodd-Frank, the FDIC worked with the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), and the Consumer Financial Protection Bureau (CFPB) to close the OTS and transfer the OTS employees to the other agencies. In addition, certain employees from the Federal banking agencies were transferred to the CFPB. When the OTS closed on July 21, 2011, the FDIC received ninety-five of its employees. Also, as part of the transfer under Dodd-Frank, the FDIC became the primary regulator for 61 state-chartered thrifts.

As the numbers of failed financial institutions increased during 2009 and 2010, the FDIC fully staffed two temporary satellite offices on both the West Coast and the East Coast to bring resources to bear in especially hard-hit areas. The West Coast Temporary Satellite Office opened in Irvine, California, in early spring of 2009 and as of year-end 2011 had 308 employees. The East Coast Temporary Satellite Office opened in Jacksonville, Florida, in the fall of 2009 and as of the end of 2011, had 383 employees. In January 2010, the FDIC Board authorized opening a third satellite office for the Midwest in Schaumburg, Illinois. During 2010, the office was established and, as of the end of 2011, had 255 employees. The FDIC also increased resolutions and receiverships staff in the Dallas regional office. Almost all of the employees in these new offices were hired on a nonpermanent basis to handle the temporary increase in bank-closing and asset management activities expected over the two to four years, beginning in 2009. The use of term appointments will allow the FDIC staff to return to an adjusted normal size once the crisis is over without the disruptions that reductions in permanent staff would cause.

During 2011, plans were formulated, based on projections of a drop in the numbers of bank failures in 2012 and beyond, to begin the orderly closing of the temporary satellite offices, beginning with the Irvine office in January 2012. The Midwest Office is scheduled to close in September 2012, and the East Coast Office will close no earlier than the fourth quarter of 2013. The FDIC will provide transition services to the departing temporary and term employees. In addition, a number of these employees may be hired as permanent staff to complete the FDIC's adjusted core staffing requirements.

The FDIC continued to build workforce flexibility and readiness by increasing its entry-level hiring into the Corporate Employee Program (CEP). The CEP is a multi-year development program designed to cross-train new employees in FDIC major business lines. In 2011, 130 new business line employees (1,012 hired since program inception in 2005) entered this multi-discipline program. The CEP continued to provide a foundation across the full spectrum of the FDIC's business lines, allowing for greater flexibility to respond to changes in the financial services industry and in meeting the FDIC's human capital needs. As in years past, the program continued to provide FDIC flexibility as program participants were called upon to assist with both bank examination and bank closing activities based on the skills they obtained through their program requirements and experiences. As anticipated, participants are also successfully earning their commissioned bank examiner and resolutions and receiverships credentials, having completed their three to four years of specialized training in field offices across the country. The FDIC had approximately 240 commissioned participants by the end of 2011. These individuals are well-prepared to lead examination and resolutions and receiverships activities on behalf of the FDIC.

Corporate Risk Management

In January of 2011, the FDIC Board authorized the creation of an Office of Corporate Risk Management and the recruitment of a Chief Risk Officer (CRO). That position was filled in August of 2011, and the new CRO

took a proposal to the Board in December related to the organizational structure of the new Office. The Board subsequently approved this proposal for a small (15 staff) organization that would work with other Divisions and Offices to assess, manage and mitigate risks to the FDIC in the following major areas:

- ★ Open bank risks associated with the FDIC's role as principal regulator of certain financial institutions and the provider of deposit insurance to all insured depository institutions.
- ★ Closed bank risks associated with the FDIC management of risks associated with assets in receivership, including loss share arrangements and limited liability corporations.
- ★ Economic and financial risks which are created for the FDIC and its insured institutions by changes in the macroeconomic and financial environment.
- ★ Policy and regulatory risks arising in the legislative arena and those created by FDIC's own policy initiatives.
- ★ Internal structure and process risks associated with carrying out ongoing FDIC operations, including human resource management, internal controls, and audit work carried out by both OIG and GAO.
- ★ Reputational risk associated with all of the activities of the FDIC as they are perceived by a range of external factors.

The Board also approved the creation of an Enterprise Risk Committee, chaired by the CRO, to replace the existing National Risk Committee and to broaden the mandate of this high level management committee to include both external and internal risks facing the FDIC. This Committee will help enhance senior management's focus on risk, and support the preparation of quarterly reports to the Board on the risk profile of the institution.



Acting Chairman Martin J. Gruenberg, shown here accepting the awards for the first-place ranking and most improved agency on the list of *Best Places to Work in the Federal Government*[®], with (from left) Arleas Upton Kea, Ira Kitmacher, Pamela Mergen, and Nancy Hughes.

Employee Engagement

The FDIC continually evaluates its human capital programs and strategies to ensure that it remains an employer of choice and that all of its employees are fully engaged and aligned with the mission. The FDIC uses the Federal Employee Viewpoint Survey mandated by Congress to solicit information from employees. A corporate Culture Change Initiative was instituted in 2008 to address issues resulting from the 2007 survey.

The Culture Change Initiative has continued to gain momentum, and significant progress is being made toward completing the goals identified in the Culture Change Strategic Plan. As evidenced of the progress made under the Culture Change Initiative, the FDIC was recognized in the 2011 “Best Places to Work” rankings as being the most improved federal agency and the overall number one best place to work in the Federal government, based on the results of the 2010 Federal Employee Viewpoint Survey.

Employee Learning and Development

The FDIC has a strong commitment to the learning and development of all employees that is embedded in its core values. Through its learning and development programs, the FDIC creates opportunity, enriches career development, and grows employees and future leaders. New employees can more quickly and thoroughly assume their job functions and assist with examination and resolution activities through the use of innovative learning solutions. To prepare new and existing employees for the challenges ahead, the FDIC has streamlined existing courses, promoted blended learning, and created online, just-in-time toolkits and job aids.

In support of business requirements, the FDIC provided its examiners with several new learning and development opportunities. “High Stakes Communication: Communicating with Resilience in Tough Situations,” was created to provide examiners with strategies and examples to enhance their skills in communicating with bank management during board and exit meetings. The video-based course was delivered to all examiners in 2011. The FDIC also increased the length of two of its core

examiner schools, Loan Analysis School and Compliance Management School, to provide more content, instructor feedback, and practice time for application. In addition to developing new training, the FDIC anticipates a 20 percent increase in organic growth for examiner training in 2012.

In support of knowledge and succession management, the FDIC is focused on capturing, maintaining, and documenting best practices and lessons learned from bank closing activity over the past two years. Capturing this information now is strategically important to ensure corporate readiness, while at the same time maintaining effectiveness as experienced employees retire and the temporary positions created to support the closing activity expire. The FDIC maintains its commitment to establish and maintain an effective solution to capture, maintain, and document best practices to help identify and develop future training and learning opportunities.

In 2011, the FDIC provided its employees with approximately 170 instructor-led courses and 1,100 web-based courses to support various mission requirements. Approximately 12,000 instructor-led courses and 17,200 web-based courses were completed.

In 2011, the FDIC received two prestigious awards for its learning and development programs. The Leadership Development Award from the Training Officers Consortium recognized the FDIC's comprehensive leadership development curriculum, which includes learning opportunities for employees at all levels. The Learning Team received the Gold Award from Human Capital Media, recognizing the FDIC's excellence in the design and delivery of employee development programs, including both technical training and leadership development.

Information Technology Management

In today's rapidly changing business environment, technology is frequently the foundation for achieving many FDIC business goals, especially those addressing efficiency and effectiveness in an industry where timely and accurate communication and data are paramount for supervising institutions, resolving institution failures, and monitoring associated risks in the marketplace.

Strengthening the FDIC's Privacy Program

The FDIC has a well-established Privacy Program that works to maintain privacy awareness and promote transparency and public trust. Privacy and the protection of Sensitive Information (SI), such as personally identifiable information (PII), are integral to accomplishing the mission of the FDIC in both the banking industry and among U.S. consumers. The Privacy Program is a critical part of the FDIC's business operations.

In response to the surge in bank closings associated with the crisis, the FDIC completed the third of three in-depth assessments of the bank closing process to identify and address risks to the privacy and security of bank-customer SI. The recommended action items stemming from the third assessment will be incorporated into FDIC's strategic objectives for 2012. In addition, during 2011, the FDIC improved the agency's monitoring of the enterprise network to identify at-risk privacy data and prevent the loss of that information, particularly Social Security numbers. The FDIC proactively conducted unannounced privacy assessments of headquarter offices to assess any potentially unsecured SI. These walk-throughs were instrumental in improving employee and management awareness regarding proper privacy safeguards in the workplace. Further, the FDIC initiated an annual review of the agency's digital library to identify, monitor, reduce, and secure documents containing sensitive data.

As with information security, the banking crisis has resulted in an increased reliance on third-party vendors that process significant amounts of SI in support of bank closings. To ensure this PII is protected in accord with the FDIC's privacy requirements, the agency performed vendor assessments of their controls over this sensitive information. In addition, the FDIC held its annual Privacy Clean-up Day for employees and contractors to reduce the volume of sensitive information held by the agency and therefore reduce the risk to internal and external individuals, and the FDIC. The FDIC also conducted an in-depth review of the FDIC's thirty-two Privacy Act System of Record Notices (SORNs) and provided the results to the FDIC Board of Directors.

IT Support for Regulatory Reform

The FDIC established a program designed to identify IT-related tasks needed to support the implementation of the requirements of Dodd-Frank. As of October 20, 2011, twenty IT-related initiatives supporting Dodd-Frank requirements had been approved by the related IT Steering Committee. Of the approved projects, thirteen have been completed and two are in progress. Additional projects have been identified for 2012 and are being considered under the normal budgeting process.

Establishing a Business Intelligence Service Center

The recent financial crisis has magnified the FDIC's need to collect, validate, aggregate, and analyze data from internal and external sources, and to securely share this information via reports and dashboards with authorized cross-organizational decision makers. As a result, the FDIC established a Business Intelligence Service Center (BISC) to provide expert technical advice and assistance to line of business users in the acquisition, management, and analysis of data from internal and external sources; deliver Business Intelligence (BI) technical solutions, contribute to the enterprise data architecture, and facilitate corporate information sharing and management strategy. Since the BISC group was established in early 2011, the demand for BI project support has increased. Projects being conducted by the FDIC include Strategic Workforce Planning, Large Complex Financial Institutions Liquidity Monitoring and Reporting, Qualified Financial Contracts Analysis, Limited Liability Corporation Data Management, and Risk Share Assessment Management (the Chairman's Dashboard). The BISC team also provides primary technical support for multiple corporate BI tools that support the Executive Resource Information Portal and the Office of Complex Financial Institution's Liquidity Monitoring and Reporting.