In terms of earnings, 1998 was an extraordinary year for banking. Despite declines in net income in the third and fourth quarters, commercial banks earned a record $61.9 billion for the year as a whole. Return on assets—or ROA, a basic yardstick for profitability—was 1.19 percent. Savings institutions' earnings reached a record $10.2 billion in 1998—$1.4 billion above the previous record set in 1997. That $10.2 billion translated into a 1.01 percent ROA—the highest annual ROA for savings institutions since 1946.

The Bank Insurance Fund grew 4.7 percent during the year to $29.6 billion, and the Savings Association Insurance Fund grew 5 percent to $9.8 billion. The funds are strong—in fact, they are at record levels.

Having strong deposit insurance funds is important to everyone. In effect, deposit insurance makes a bank failure a nonevent for an average household customer. Because the government provides an absolute guarantee, people do not have to worry about the safety of their savings, and because they do not have to worry, they do not feel compelled to rush to the bank to get their money out in response to the news—or rumor—that their institution is troubled financially. In the 1980s and early 1990s, nine percent of the banks in the United States—nearly one-out-of-10—either failed altogether or received FDIC financial assistance to stay open, and nearly 1,300 savings and loan associations also failed. Because of federal deposit insurance, there was no widespread panic or bank runs.

Deposit insurance protects depositors. But just as important—perhaps even more important—is the fact that, in preventing banking panics, deposit insurance keeps the payments system operating.

In recent years, we've seen financial crises in Asia and Latin America—crises that, in part, have led 21 countries to institute explicit deposit insurance programs since May of 1995. Today, 68 countries have such systems. Clearly, the benefits of deposit insurance are appreciated worldwide.

Deposit insurance, however, doesn't alone ensure stability in the financial marketplace. It addresses only one potential problem, albeit a problem that can cripple, or even bring down, a financial system: the evaporation of public confidence in banking. Stability also requires both effective economic policy and effective prudential supervision.

When the three contributors—effective economic policy, effective prudential supervision, and deposit insurance—are present, experience has shown that stability in the financial marketplace can be achieved and maintained.

The conditions in the industry—and the strength of our insurance funds—in 1998 gave the FDIC opportunity to focus on three corporate priorities—Year 2000 readiness; emerging risks facing insured institutions, and, therefore, the insurance funds; and diversity in our workforce. Each in its way contributed to our efforts to ensure that the FDIC remains the world's leading deposit insurance authority.

Year 2000

The Year 2000, or Y2K, computer challenge was the FDIC's highest safety-and-soundness priority during the year. Examiners visited all FDIC-supervised institutions at least once by May 31 to assess progress toward Y2K readiness, and thereafter began a second round of on-site assessments. To maintain communication with the banking industry on the issue, the FDIC—along with the Federal Financial Institutions Examination Council and industry trade associations—conducted an extensive nationwide outreach program for bankers. The FDIC participated in more than 130 seminars attended by more than 11,000 bankers.

David Hathcox

Chairman Donna Tanoue

The FDIC also addressed consumer awareness and concerns on the Y2K issue with two publications. The first was a brochure, *The Year 2000 Date Change*, which answers basic consumer questions. All FDIC-insured institutions were provided with camera-ready versions of the brochure, in both English and Spanish, so they could reproduce copies for their customers. More than 10 million copies of the brochure were distributed in 1998. The second was a special issue of the quarterly *FDIC Consumer News*, which was devoted entirely to Y2K, and included features on the efforts of federal banking regulators to protect bank customers and a list of steps that consumers can take to help protect themselves. We arranged to distribute this issue of the *FDIC Consumer News* through the federal Consumer Information Center in Pueblo, CO, as well as through insured financial institutions.

As the year drew to a close, it became more apparent that maintaining public confidence in banking was an important element in the Y2K challenge. If the conventional wisdom during 1999 were for people to take sensible precautions, most would likely take sensible precautions. If the conventional wisdom were for people to take extreme measures, many would take extreme measures. To promote sensible conventional wisdom, the FDIC followed a simple communications strategy: The more people know about Y2K and banking—and about the efforts of both the industry and the regulators—the more comfortable they would be. Public confidence will be strengthened by regular, consistent and clear communications.

During 1998, we told a three-part story on banking and Y2K. One, bankers have been working aggressively to meet the Y2K challenge. Two, regulators are aggressively supervising the banks' preparations to become Y2K-ready. While no one could say there won't be glitches, we have a great deal of confidence that the banking industry will be ready. (In fact, by summer 1999, virtually all banks and savings institutions had satisfactory Y2K ratings.) And three, money in an FDIC-insured account is safe—the Year 2000 will not affect our guarantee.

As the year ended, the Corporation began to refine and expand the information we would communicate on Y2K and banking to meet ever-shifting public concerns.

Lastly, along with the Federal Reserve, the FDIC in December hosted a Year 2000 summit on behalf of the President's Council on Year 2000 Conversion for financial institutions and members of the utilities and telecommunications industries. The forum focused on the participants' progress in addressing the Y2K computer challenge.

Emerging Risks

As a risk to the banking industry, the Y2K challenge is unique, but FDIC-insured institutions face other emerging risks as well.

By most measures of prosperity, this is the best economy in a generation. Inflation and unemployment are at levels not seen since the 1960s. Consumer spending and business investment are propelling growth even at this late stage of the expansion. The recent performance of the U.S. economy is a triumph of technology, as well as of U.S. fiscal and monetary policy. It is also uncharted territory, so this is no time for complacency.

Moreover, our economy has become linked to the health of—and events in—foreign economies. This linkage has increased the potential for sudden adverse economic and financial events.

During the third quarter of 1998, for example, a default in Russian debt and the resultant difficulties with hedge funds, such as those experienced by Long Term Capital Management, LP, showed how interconnected the world had become and how quickly and dramatically events can affect world markets. That makes our job of watching the horizon all the more important.

Strong competition in the financial marketplace has placed pressure on banks to look for ways to maintain market share and increase profitability—and these pressures may also be forcing institutions to compromise their underwriting standards. The market currently rewards high-performing banks to an unprecedented degree, giving some lenders incentive to take increased risk.

For example, we are seeing a proliferation of non-traditional consumer lending that is currently highly profitable—subprime and high loan-to-value home equity lending. These "new frontiers" in consumer lending are pushing institutions into riskier territory where some are having problems, even though times are good.

Responding to risks on the horizon is a challenge, but the FDIC also must respond to the long-term changes in the banking industry that will ultimately shape the way we do our jobs. Among these trends are the growing concentration of the FDIC's exposure in the largest banks we insure; expansion of business activities conducted by banks and their affiliates; globalization of banking and increasing affiliations with non-bank financial companies; electronic banking; and the growing segmentation of the industry into a few large banks, and many small ones. The changes underway make it more challenging—and more important—for the FDIC to understand the risks being underwritten by the deposit insurance funds.

In light of globalization, the Corporation in September hosted an international conference on deposit insurance—the first of its kind. The conference brought together senior government authorities from 62 countries. Discussions focused on the role of deposit insurance in maintaining public confidence in the world's banking systems.

The widespread response to our invitation reflected global interest in deposit insurance issues—and their importance. Deposit insurance is becoming a frequent condition of international funding agreements, and there is substantial international demand for the FDIC's assistance—and leadership—in this area.

During the conference it became clear that the FDIC has expertise and leadership to offer by designing and publishing best practices for deposit insurance systems around the world. It also became clear that the FDIC should take advantage of opportunities, such as gatherings of international bankers, to describe our best practices concepts. The FDIC was also asked to consider investigating the creation of an international consortium for sharing information on deposit insurance.

Diversity

As the year drew to a close, we created an executive-level Diversity Steering Committee to ensure an inclusive workplace at the FDIC. Diversity is a business imperative for the Corporation for three reasons. The first is that trends and events in the financial-services industry and in society at large affect the FDIC—we do not operate in a vacuum. In that regard, the composition of the national employee pool is dramatically changing as a result of the increasing diversity of our society. The second reason is that one out of every six employees in the FDIC is eligible to retire in the next five years. As a result, we will need to conserve and replenish our institutional knowledge and expertise. For the Corporation to continue to be successful, we must retain and recruit the most qualified and most motivated employees that we can. We must maintain and enhance our reputation as a place where people want to work. We must continue to be an employer of choice. The third reason is that the increasing diversity of our society directly effects the depositors we insure and the customers and employees of financial institutions. We need to understand their needs.

I would like to end on a personal note. Since becoming FDIC Chairman, I have been reminded every day that the men and women of the FDIC are extraordinarily dedicated and talented. It is a privilege to work with them. The Corporation has challenges ahead of it—challenges from a changing financial industry and a changing America. But the FDIC will rise to meet those challenges because of the men and women who stand behind it and who, day in and day out, maintain the FDIC seal as a symbol of confidence. Because of the work they have done, the FDIC has a proud history, but because of who they are, the Corporation's best years are yet to come.

Sincerely,

Donna Tanoue

Donna Tanoue
Chairman

March 12

The FDIC reported that insured commercial banks earned record annual profits for 1997, reaching $59.2 billion, up $6.8 billion from 1996 results. Strong growth in loans and other interest-earning assets was responsible for the earnings rise. In 1998, bank earnings set a new record for the seventh consecutive year at $61.9 billion **(see Pages 10–11)**.

April 4

FDIC Board member Eugene A. Ludwig's tenure on the Board ended with the expiration of his five-year term as Comptroller of the Currency. On December 8, John D. Hawke, Jr., was sworn in as the 28th Comptroller of the Currency, filling the FDIC Board seat vacated by Mr. Ludwig. In the interim, Julie L. Williams, as Acting Comptroller, served on the FDIC Board **(see Page 21).**

April 9

Omnibank, River Rouge, Michigan, was the first FDIC-insured bank to fail since November 1997. Two more banks failed during 1998. All three banks were insured by the Bank Insurance Fund **(see Page 31)**.

April 28

The FDIC Board voted to simplify the deposit insurance rules, making them easier to understand and less burdensome without reducing the consumer protections or safety–and–soundness standards for institutions **(see Pages 28, 50)**.

April 29

At a two-day symposium, "Managing the Crisis: The FDIC and RTC Experience," current and former FDIC and Resolution Trust Corporation (RTC) executives discussed the strategies they used to resolve troubled banks and thrifts during the financial crisis of the 1980s and '90s. Between 1980 and 1994, a total of 1,617 banks and 1,295 thrifts failed **(see Page 32)**.

A new Internet service was launched giving the public quick and easy access to Community Reinvestment Act evaluations for banks and thrifts supervised by the FDIC. The FDIC's ratings and evaluations can be accessed from the agency's Web site **(see Page 127)**.

May 26

Donna Tanoue was sworn in as the 17th Chairman of the FDIC. Andrew C. Hove, Jr., who had served as Acting Chairman since June 1997, resumed his position as the agency's Vice Chairman **(see Pages 20–21)**.

May 31

FDIC examiners had completed at least one on-site review at each institution the FDIC regulates to assess efforts to address Year 2000 issues. At year-end 1998, 97 percent of the institutions were making satisfactory progress toward achieving Year 2000 readiness **(see Pages 14–15, 25)**.

June 18

The FDIC announced its "Suspicious Internet Banking" Web site designed to help detect potentially fraudulent Internet banking activity. The site provides the public and the industry with a "user-friendly" vehicle for reporting entities on the Internet that may be misrepresenting themselves as legitimately chartered or federally insured depository institutions **(see Pages 35, 127).**

July 7

The FDIC Board voted to expedite the processing of applications filed by well-managed, well-capitalized institutions. More than 90 percent of all FDIC-supervised banks meet the eligibility standards **(see Pages 27, 51)**.

August 17

With the rapid growth of electronic commerce and the increased collection of consumers' personal information over the Internet, the FDIC alerted bankers to the issue of online privacy. The FDIC encouraged institutions to maintain an awareness of consumers' online privacy concerns, while taking voluntary, specific actions to address them **(see Page 35)**.

September 9

Top government officials from 62 countries, including the leaders of deposit insurance agencies in more than 20 nations, met in Washington, DC, for a three-day FDIC-sponsored conference to discuss the role of deposit insurance in sustaining public confidence in the world's banking systems **(see Pages 3, 17, 29)**.

September 28

The FDIC unveiled a new Internet service allowing the public easy access to a listing of banks' pending applications that are subject to public comment **(see Page 127)**.

Selected Statistics

Dollars in millions	For the year ended December 31		
	1998	**1997**	**1996**
Bank Insurance Fund			
Financial Results			
Revenue	**$ 2,000**	$ 1,616	$ 1,655
Operating Expenses	**$ 698**	$ 605	$ 505
Insurance Losses and Expenses	**$ (6)**	$ (428)	$ (251)
Net Income	**$ 1,309**	$ 1,438	$ 1,401
Insurance Fund Balance	**$ 29,612**	$ 28,293	$ 26,854
Fund as a Percentage of Insured Deposits	**1.38%**	1.38%	1.34%
Selected Statistics			
Total BIF-Member Institutions●	**9,031**	9,403	9,822
Problem Institutions	**68**	73	86
Total Assets of Problem Institutions	**$ 5,000**	$ 5,000	$ 7,000
Institution Failures	**3**	1	5
Total Assets of Failed Institutions	**$ 370**	$ 26	$ 183
Number of Active Failed Institution Receiverships	**219**	302	408
Savings Association Insurance Fund			
Financial Results			
Revenue	**$ 584**	$ 550	$ 5,502
Operating Expenses	**$ 85**	$ 72	$ 63
Insurance Losses and Expenses	**$ 32**	$ (2)	$ (92)
Net Income	**$ 467**	$ 480	$ 5,531
Insurance Fund Balance	**$ 9,840**	$ 9,368	$ 8,888
Fund as a Percentage of Insured Deposits	**1.39%**	1.36%	1.30%
Selected Statistics			
Total SAIF-Member Institutions■	**1,430**	1,519	1,630
Problem Institutions	**16**	19	31
Total Assets of Problem Institutions	**$ 6,000**	$ 2,000	$ 6,000
Institution Failures	**0**	0	1
Total Assets of Failed Institutions	**$ 0**	$ 0	$ 35
Number of Active Failed Institution Receiverships	**2**	2	2

● Commercial banks and savings institutions. Does not include U.S. branches of foreign banks.

■ Savings institutions and commercial banks.

September 30

Joseph H. Neely resigned as a member of the FDIC's Board of Directors. He had served since January 29, 1996.

A "user-friendly" electronic deposit insurance estimator called "EDIE" became available on the FDIC's Web site. The service enables consumers and financial institution employees to quickly check whether a depositor with multiple accounts at the same institution has exceeded the $100,000 statutory limit for deposit insurance coverage **(see Pages 19, 36, 127)**.

December 18

The FDIC Board approved a 1999 budget of $1.218 billion, an 11 percent decrease ($148 million) from the $1.366 billion authorized for 1998. The budget will allow the agency to pursue its supervisory plans to ensure the safety and soundness of insured financial institutions and the industry's Year 2000 compliance **(see Page 42)**.

W.W.Reid

W.W.Reid

▲ ***Donna Tanoue at her April 22nd Senate confirmation hearing. She was accompanied to the hearing by both of Hawaii's senators—Daniel K. Inouye (top) and Daniel K. Akaka (below).***