

# 1

## CHAPTER ONE

# MANAGEMENT'S DISCUSSION AND ANALYSIS

### The Year in Review

The year 2008 proved to be an extremely busy time for the FDIC. In addition to the normal course of business, the Corporation had a major role in creating and implementing government initiatives associated with the Temporary Liquidity Guarantee Program (TLGP) and the Troubled Asset Relief Program. Also, additional resources were needed in response to the increased workload resulting from resolving numerous bank failures. The FDIC continued its work on high-profile policy issues and published numerous Notices of Proposed Rulemaking (NPRs) throughout the year, seeking comment from the public. The Corporation also continued to focus on a strong supervisory program. The FDIC continued expansion of financial education programs with the creation of *Money Smart* for young adults. The FDIC also sponsored and co-sponsored major conferences and participated in local and global outreach initiatives.

Highlighted in this section are the Corporation's 2008 accomplishments in each of its three major business lines – Insurance, Supervision and 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.

### Temporary Liquidity Guarantee Program

On October 13, 2008, the Secretary of the Treasury, in consultation with the President and acting upon the recommendations of the FDIC Board of Directors and the Board of Governors of the Federal Reserve System, made a systemic risk determination under section 13(c)(4)(G) of the Federal Deposit Insurance Act (FDIA). The next day, the FDIC announced and implemented the Temporary Liquidity Guarantee Program. The TLGP consists of two components: an FDIC guarantee of certain newly issued senior unsecured debt (the debt guarantee program) and an FDIC guarantee in full of non-interest bearing transaction accounts (the transaction account program). Coverage under both components of the TLGP was provided without charge to all eligible entities for the first 30 days.

After issuing an interim final rule on October 23, 2008, the FDIC received more than 700 comments. Based on those comments, the FDIC made several significant changes to the final rule, which the FDIC adopted on November 21, 2008.

The final rule provided that, under the debt guarantee program, the FDIC will guarantee in full, through maturity or June 30, 2012, whichever comes earlier, senior unsecured debt issued by a participating entity between October 14, 2008, and June 30, 2009, up to a maximum of 125 percent of the par value of the entity's senior unsecured debt that was outstanding as of the close of business September 30, 2008, and that was scheduled to mature on or before June 30, 2009. Banks, thrifts, bank holding companies, and certain thrift holding companies were eligible to participate. In a change from the original terms of the debt guarantee program, the final rule excluded, effective December 5, 2008, all debt with a term of 30 days or less from the definition of senior unsecured debt. The FDIC began charging institutions participating in the debt guarantee program for debt issued on or after November 13, 2008, a fee based on the amount and term of the debt issued. Fees range from 50 to 100 basis points on an annualized basis, depending on the term of the debt.

The final rule also provided that, under the transaction account program, the FDIC will guarantee in full all domestic noninterest-bearing transaction deposit accounts held at participating banks and thrifts through December 31, 2009, regardless of dollar amount. The guarantee also covers negotiable order of withdrawal accounts (NOW accounts) at participating institutions – provided the institution commits to maintaining interest rates on the account at no more than 0.50 percent – and Interest on Lawyers Trust Accounts (IOLTAs) and functional equivalents. The FDIC will assess participating institutions a 10 basis point annual rate surcharge on covered accounts that are not otherwise insured.

The final rule required all institutions to elect whether or not to participate in one or both of the two components of the TLGP by December 5, 2008. As of December 31, 2008, approximately 56 percent of all eligible entities had opted in to the Debt Guarantee Program and 64 financial entities – 39 insured depository institutions and 25 bank and thrift holding companies and non-

bank affiliates – had \$224 billion in guaranteed debt outstanding. Approximately 87 percent of FDIC-insured institutions opted in to the Transaction Account Guarantee Program, with insured institutions reporting 522,862 non-interest-bearing transaction accounts over \$250,000. These accounts totaled \$814 billion, of which \$684 billion in deposit accounts was guaranteed under the program.

The TLGP does not rely on the taxpayer or the Deposit Insurance Fund to achieve its goals. Participants in the program must pay assessments for coverage. If fees do not cover costs in the TLGP, the FDIC will impose a special assessment under the systemic risk provisions of the Federal Deposit Insurance Act.

### Restoration Plan and Rulemaking on Assessments

Recent and anticipated bank failures significantly increased Deposit Insurance Fund losses, resulting in a decline in the reserve ratio. As of December 31, 2008, the reserve ratio stood at 0.36 percent, down from 0.76 percent at September 30, 1.01 percent at June 30, and 1.19 percent as of March 31. The Federal Deposit Insurance Reform Act of 2005 (the Reform Act) requires that the FDIC's Board of Directors adopt a restoration plan when the Deposit Insurance Fund's reserve ratio falls below 1.15 percent or is expected to within six months.

On October 7, 2008, the FDIC Board adopted a restoration plan to raise the reserve ratio to at least 1.15 percent within five years and a proposed rule that would raise assessment rates beginning January 1, 2009, and make other changes to the assessment system effective April 1, 2009. The other changes were primarily to ensure that riskier institutions will bear a greater share of the proposed increase in assessments. On December 16, 2008, the Board adopted a final rule raising assessment rates for the first quarter of 2009. On February 27, 2009, the Board amended the restoration plan to extend its horizon from five years to seven years due to extraordinary circumstances. It also adopted a final rule setting rates beginning the second quarter of 2009 and making other changes to the risk-based pricing system.

### Rates for the First Quarter of 2009

On December 16, 2008, the FDIC adopted a final rule raising risk-based assessment rates uniformly by seven basis points for the first quarter 2009 assessment period. The higher revenue will be reflected in the fund balance as of March 31, 2009. Assessment rates for the first quarter of 2009 will range from 12 to 50 basis points. Institutions in the lowest risk category – Risk Category I – will pay between 12 and 14 basis points.

### Changes to Risk-Based Assessments Effective the Second Quarter of 2009

Effective April 1, 2009, the final rule adopted on February 27, 2009, widens the range of rates overall and within Risk Category I. Initial base assessment rates will range between 12 and 45 basis points – 12 to 16 basis points for Risk Category I. The initial base rates for Risk Categories II, III, and IV will be 22, 32 and 45 basis points, respectively. An institution's total base assessment rate may be less than or greater than its initial base rate as a result of additional adjustments (discussed below). For Risk Category I, total base assessment rates may be as low as seven basis points or as high as 24 basis

points. A Risk Category IV institution could have a total base assessment rate as high as 77.5 basis points (see chart on page 29).

### Large Risk Category I Institutions

Beginning in the second quarter of 2009, the assessment rate for a large institution with a debt rating will depend on (1) long-term debt ratings, (2) the weighted average CAMELS<sup>1</sup> component rating, and (3) the rate determined from the financial ratios method, the method used for smaller banks. Each of the three components will receive a one-third weight. The maximum amount of the rate adjustment for large banks based on additional information about risks will be increased from ½ basis point to one basis point.

The FDIC anticipates that incorporating the financial ratios method into the large bank method assessment rate will result in a more accurate distribution of initial assessment rates and in timelier assessment rate responses to changing risk profiles, while retaining the market and supervisory perspectives that debt and CAMELS ratings provide.

## DISTRIBUTION OF INSTITUTIONS AND DOMESTIC DEPOSITS AMONG RISK CATEGORIES

QUARTER ENDING DECEMBER 31, 2008

Dollars in billions

Risk Category	Annual Rate in Basis Points	Number of Institutions	Percent of Total Institutions	Domestic Deposits	Percent of Total Domestic Deposits
I – Minimum	5	1,515	18.2%	\$2,826	37.7%
I – Middle	5.01 – 6.00	2,069	24.9%	1,562	20.8%
I – Middle	6.01 – 6.99	1,521	18.3%	783	10.4%
I – Maximum	7	2,131	25.6%	860	11.5%
II	10	807	9.7%	1,338	17.8%
III	28	223	2.7%	101	1.3%
IV	43	48	0.6%	35	0.5%

Note: Institutions are categorized based on supervisory ratings, debt ratings and financial data as of December 31, 2008. Rates do not reflect the application of assessment credits. Percentages may not add to 100 percent due to rounding.

<sup>1</sup> The CAMELS component ratings represent either the adequacy of Capital, the quality of Assets, the capability of Management, the quality and level of Earnings, the adequacy of Liquidity, and the Sensitivity to market risk, and ranges from "1" (strongest) to "5" (weakest).

### *Brokered Deposits*

For institutions in Risk Category I, the financial ratios method will include a new financial ratio that may increase the rate of an institution relying significantly on brokered deposits to fund rapid asset growth. This will only apply to institutions with brokered deposits (less reciprocal deposits)<sup>2</sup> of more than 10 percent of domestic deposits and cumulative asset growth of more than 40 percent over the last four years, adjusted for mergers and acquisitions. Like the other financial ratios used to determine rates in Risk Category I, a small change in the value of the new ratio may lead to only a small rate change, and it would not cause an institution's rate to fall outside of the 12-16 basis point initial range. A number of costly institution failures, including some recent failures, had experienced rapid asset growth before failure and had funded this growth through brokered deposits.

For institutions in risk categories II, III, or IV, the FDIC proposes to increase an institution's assessment rate above its initial rate if its ratio of brokered deposits to domestic deposits is greater than 10 percent, regardless of the rate of asset growth. Such an increase would be capped at 10 basis points. As an institution's financial condition weakens, significant reliance on brokered deposits tends to increase its risk profile. Insured institutions – particularly weaker ones – typically pay higher rates of interest on brokered deposits. When an institution becomes noticeably weaker or its capital declines, the market or statutory restrictions may limit its ability to attract, renew or roll over these deposits, which can create significant liquidity challenges. Also, significant reliance on brokered deposits tends to greatly decrease the franchise value of a failed institution.

### *Secured Liabilities*

For institutions in any risk category, assessment rates will rise above initial rates for institutions relying significantly on secured liabilities. Assessment rates will increase for institutions with a ratio of secured liabilities to domestic deposits of greater than 25 percent, with a maximum increase of 50 percent above the rate before such adjustment. Secured liabilities generally include Federal Home

Loan Bank advances, repurchase agreements, secured Federal Funds purchased, and other secured borrowings.

The exclusion of secured liabilities can lead to inequity. An institution with secured liabilities in place of another's deposits pays a smaller deposit insurance assessment, even if both pose the same risk of failure and would cause the same losses to the FDIC in the event of failure. Substituting secured liabilities for deposits can also lower an institution's franchise value in the event of a failure, which increases the FDIC's losses, all else equal. Furthermore, substituting secured liabilities for unsecured liabilities (including subordinated debt) raises the FDIC's loss in the event of failure without providing increased assessment revenue.

### *Unsecured Debt and Tier I Capital*

Institutions will receive a lower rate if they have long-term unsecured debt, including senior unsecured and subordinated debt with a remaining maturity of one year or more. For a large institution, the rate reduction would be determined by multiplying the institution's long-term unsecured debt as a percentage of domestic deposits by 40 basis points. The maximum allowable rate reduction would be five basis points. For a small institution (those with less than \$10 billion in assets), the unsecured debt adjustment would also include a certain amount of Tier I capital. The percentage of Tier I capital qualifying for inclusion in the unsecured debt adjustment gradually increases for greater amounts of Tier I capital exceeding five percent Tier I leverage ratio threshold.<sup>3</sup>

When an institution fails, holders of unsecured claims, including subordinated debt, receive distributions from the receivership estate only if all secured claims, administrative claims and deposit claims have been paid in full. Consequently, greater amounts of long-term unsecured claims provide a cushion that can reduce the FDIC's loss in the event of a failure.

<sup>2</sup> Certain deposits that an insured depository institution receives through a deposit placement network on a reciprocal basis would be excluded from the adjusted brokered deposit ratio in Risk category I. They would not be excluded, however, from the brokered deposit adjustment applicable to risk categories II, III, and IV.

<sup>3</sup> For a Tier I leverage ratio between 5 percent and 6 percent, 10 percent of Tier I capital within this range would qualify for the unsecured debt adjustment; for a Tier I leverage ratio between 6 percent and 7 percent, 20 percent of Tier I capital within this range would qualify; for a Tier I leverage ratio between 7 percent and 8 percent, 30 percent of Tier I capital within this range would qualify; and so forth. Thus, all Tier I capital above a 14 percent leverage ratio would qualify for inclusion in the unsecured debt adjustment.

### Summary of Base Rate Determination

For second quarter 2009, the minimum and maximum initial base assessment rates, range of possible rate adjustments, and minimum and maximum total base rates are as follows:

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV
Initial Base Assessment Rate	12 – 16	22	32	45
Unsecured Debt Adjustment	-5 – 0	-5 – 0	-5 – 0	-5 – 0
Secured Liability Adjustment	0 – 8	0 – 11	0 – 16	0 – 22.5
Brokered Deposit Adjustment		0 – 10	0 – 10	0 – 10
Total Base Assessment Rate	7 – 24	17 – 43	27 – 58	40 – 77.5

### Base Rates and Actual Rates

The rates adopted by the Board are both base rates and actual rates. The FDIC would continue to have the authority to adopt actual rates that were higher or lower than total base assessment rates without the necessity of further notice and comment rulemaking, provided that: (1) the Board could not increase or decrease rates from one quarter to the next by more than three basis points without further notice-and-comment rulemaking; and (2) cumulative increases and decreases could not be more than three basis points higher or lower than the total base rates without further notice-and-comment rulemaking.

### Center for Financial Research

The Center for Financial Research (CFR) was founded by the Corporation in 2004 to encourage and support innovative research on topics that are important to the FDIC's role as deposit insurer and

bank supervisor. During 2008, the CFR co-sponsored three major research conferences.

The 18th Annual Derivatives Securities and Risk Management Conference, which the FDIC co-sponsored with Cornell University's Johnson Graduate School of Management and the University of Houston's Bauer College of Business, was held in April 2008 at the FDIC's Virginia Square facility. The conference attracted over 100 researchers from around the world. Conference presentations focused on technical and mathematical aspects of risk measurement and securities pricing, and included several presentations on Basel II related topics.

The CFR and *The Journal for Financial Services Research* (JFSR) hosted the eighth Annual Bank Research Conference in September with over 100 attendees. The conference included the presentation of six papers and focused on issues in securitization and credit risk transfer. Experts discussed analyses on a range of topics, including liquidity issues, lessons learned from the collapse of the auction rate municipal bond market, the laying off of credit risk, and the subprime credit crisis of 2007.

The CFR and the Federal Reserve Bank of Cleveland co-sponsored the “Identifying and Resolving Financial Crises” conference in April 2008. Papers were presented and discussed on topics including the theory and evidence on the resolution of financial firms, identifying policies that lead to contagion or correlated risk, and contingency planning for crises.

The CFR hosted its annual Fall Workshop in October, which included two all-day sessions with research paper presentations and discussions. The Workshop was attended by about 85 researchers and policy makers. Twelve CFR working papers were completed and published through November 2008 on topics dealing with deposit insurance, risk measurement, credit contagion, and the global syndicated loan market.

### Consumer Research

The FDIC has pursued a research agenda that explores consumer financing products and trends, supports FDIC consumer policy initiatives and supervisory objectives, and proactively uses FDIC research results to identify and address major risks in the consumer protection area. As part of this agenda, the FDIC has prepared a series of articles for the *FDIC Quarterly* on the unbanked, the underserved, and alternative financial services.

During the year, two articles were completed within this series. One article, “Building Assets, Building Relationships: Bank Strategies for Encouraging Lower-Income Households to Save”

was published in the fourth quarter 2007 *FDIC Quarterly* (2008 Volume 2, Number 1). This article describes some savings strategies and products that banks have used to build profitable relationships that also benefit lower-income consumers. Another article, “An Introduction to the FDIC’s Small-Dollar Loan Pilot Program,” was issued electronically on August 10, 2008, and published in the second quarter 2008 *FDIC Quarterly* (2008, Volume 2, Number 3). The article summarizes the key parameters of the pilot, the small-dollar loan program proposals that participating banks described in their applications, and the first quarter 2008 results.

### International Outreach

Growing concerns surrounding the weakening global economy made 2008 a significant and active year for the FDIC’s international activities. The failure of Northern Rock in the United Kingdom in February 2008 began an upward trend in FDIC consultations with foreign governments considering developing, modernizing, or otherwise strengthening their deposit insurance systems. Efforts included arranging and conducting training sessions, technical assistance missions and foreign visits, leadership roles in international organizations and participating in bilateral consultations with foreign regulators.

With FDIC’s Vice Chairman as President of the International Association of Deposit Insurers (IADI) and Chair of the IADI Executive Council, the FDIC had a critical role in fulfilling IADI’s mission throughout the year. In October 2008, the FDIC hosted the seventh annual IADI Conference



Participants in the International Association of Deposit Insurers conference.

and Annual General Meeting. The conference themes, *Financial Stability and Economic Inclusion*, provided an excellent platform for over 250 distinguished presenters and guests from 60 countries to discuss the issues facing global banking and the economy and what steps can be taken by deposit insurers to promote financial stability and inclusion around the world. As Chair of the IADI Training and Conference Standing Committee, the FDIC developed and hosted an executive training program designed to promote core principles and best practices of resolutions management for 39 individuals from 25 countries. The Cross Border Resolution Group (CBRG) of the Basel Committee on Bank Supervision (BCBS), co-chaired by the FDIC, continued its work analyzing national legal and policy regimes for crisis management and resolution of cross-border banks, presenting an interim report to the Basel Committee in December. A subgroup of the CBRG, also co-chaired by the FDIC, in collaboration with IADI and European Forum of Deposit Insurers (EFDI) began work this year to develop an internally agreed-upon set of Recommended Core Principles for Effective Deposit Insurance Systems.

As a member of the Association of Supervisors of Banks in the Americas (ASBA) Board of Directors, the FDIC championed the importance of financial education and highlighted the success of its *Money Smart* program as a means of promoting healthy economic and banking growth in the Americas. The FDIC's leadership within ASBA also included providing technical training to ASBA members on supervision of operational risk, bank supervision and resolution. In 2008, the FDIC continued to build its relationship with the EFDI and participated in a joint EFDI/FDIC conference in Dublin on Financial Integration and the Safety Net.

The FDIC entered into a number of Memoranda of Understanding (MOU) this year, three regarding information sharing between bank supervisors of Hong Kong, Mexico and Spain, as well as technical assistance agreements with Colombia's deposit insurer, Fondo De Garantias De Instituciones Financieras (FOGAFIN), and the United Kingdom's (UK) Financial Services Authority (FSA). The MOU with the UK provides for formal information-sharing and contingency planning arrangements in connection with cross-border banking activities in the U.S. and the UK. The FDIC's consultation with

the UK has included numerous discussions to share detailed information on the FDIC's experience in resolution management and asset disposition and consultation on key components of proposed legal changes to the resolution regime for banks in the UK. In addition, the FDIC Chairman met with the FSA Chairman, the Deputy to the Exchequer of Her Majesty's Treasury, the Governor of the Bank of England and the CEO of the Financial Services Compensation Scheme (FSCS) to continue the dialogue and exchange of information.

In its continuing commitment to fostering sound banking in China, the FDIC and the People's Bank of China co-sponsored a seminar on rural finance held at the FDIC's Dallas Regional Office. The seminar provided 55 participants from both countries, including rural finance experts in banking, financial regulation, and academia, with an opportunity to share experiences and engage each other in a dialogue on the challenges, best practices, and innovations in rural finance in their countries today. The FDIC also traveled to China to participate in the U.S.-China Bilateral Bank Supervisors meetings, hosted by the China Banking Regulatory Commission (CBRC).

## 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 insured depository institutions, 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, 2008, the Corporation was the primary federal regulator for 5,116 FDIC-insured state-chartered institutions that are not members of the Federal Reserve System (generally referred to as "state non-member" institutions). Through 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.

During 2008, the Corporation conducted 2,416 statutorily required safety and soundness examinations, including a review of Bank Secrecy Act compliance, and all required follow-up examinations for FDIC-supervised problem institutions within prescribed time frames. The FDIC also conducted 1,826 CRA/compliance examinations (1,509 joint CRA/compliance examinations, 313 compliance-only examinations,<sup>4</sup> and 4 CRA-only examinations) and 3,028 specialty examinations. All CRA/compliance examinations were also conducted within the time frames established by FDIC policy, including required follow-up examinations of problem institutions. The accompanying table compares the number of examinations, by type, conducted in 2006 – 2008.

As of December 31, 2008, there were 252 insured institutions with total assets of \$159.4 billion designated as problem institutions for safety and soundness purposes (defined as those institutions having a composite CAMELS<sup>5</sup> rating of "4" or "5"), compared to the 77 problem institutions with total assets of \$22.2 billion on December 31, 2007. This constituted a 227 percent year-over-year increase in the number of problem institutions and a 618 percent increase in problem institution assets. In 2008, 67 institutions with aggregate assets of \$383.3 billion were removed from the list of problem financial institutions, while 243 institutions with aggregate assets of \$532.6 billion were added to the list of problem financial institutions. Washington Mutual, the single largest failure in history, with \$307.0 billion in assets, was added to the list and resolved in 2008. The FDIC is the primary federal regulator for 170 of the 252 problem institutions.

<b>FDIC EXAMINATIONS 2006 – 2008</b>			
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Safety and Soundness:</b>			
State Non-member Banks	2,225	2,039	2,184
Savings Banks	186	213	201
Savings Associations	1	3	2
National Banks	2	0	0
State Member Banks	2	3	1
<b>Subtotal – Safety and Soundness Examinations</b>	<b>2,416</b>	<b>2,258</b>	<b>2,388</b>
<b>CRA/Compliance Examinations:</b>			
Compliance - Community Reinvestment Act	1,509	1,241	777
Compliance-only	313	528	1,177
CRA-only	4	4	5
<b>Subtotal CRA/Compliance Examinations</b>	<b>1,826</b>	<b>1,773</b>	<b>1,959</b>
<b>Specialty Examinations:</b>			
Trust Departments	451	418	468
Data Processing Facilities	2,577	2,523	2,584
<b>Subtotal-Specialty Examinations</b>	<b>3,028</b>	<b>2,941</b>	<b>3,052</b>
<b>Total</b>	<b>7,270</b>	<b>6,972</b>	<b>7,399</b>

4 Compliance-only examinations are conducted for most institutions at or near the mid-point between joint compliance-CRA examinations under the Community Reinvestment Act of 1977, as amended by the Gramm-Leach-Bliley Act of 1999. CRA examinations of financial institutions with aggregate assets of \$250 million or less are subject to a CRA examination no more than once every five years if they receive a CRA rating of "Outstanding" and no more than once every four years if they receive a CRA rating of "Satisfactory" on their most recent examination.

5 The CAMELS composite rating represents the adequacy of Capital, the quality of Assets, the capability of Management, the quality and level of Earnings, the adequacy of Liquidity, and the Sensitivity to market risk, and ranges from "1" (strongest) to "5" (weakest).



During 2008, the Corporation issued the following formal and informal corrective actions to address safety and soundness concerns: 83 Cease and Desist Orders, one Temporary Cease and Desist Order, and 210 Memoranda of Understanding. Of these actions issued, 10 Cease and Desist Orders and 29 Memoranda of Understanding were issued based, in part, on apparent violations of the Bank Secrecy Act.

As of December 31, 2008, 140 FDIC-supervised institutions were assigned a "4" rating for safety and soundness and 30 institutions were assigned a "5" rating.

Of the "4"-rated institutions, 126 were examined in 2008, and formal or informal enforcement actions are in process or have been finalized to address the FDIC's examination findings. Twenty eight "5"-rated institutions were examined and the remaining two were in the process of being examined in 2008 and completed in February 2009.

As of December 31, 2008, 16 FDIC-supervised institutions were assigned a "4" rating for compliance and no institutions were assigned a "5" rating. In total, nine of the "4"-rated institutions were examined in 2008; the remaining seven were examined prior to 2008 and involved either appeals or referrals to other agencies. These 16 institutions are under informal enforcement actions (3) or Cease and Desist Orders (six are final and six are in process), with one in process of appealing the examination. The Corporation has issued or is pursuing enforcement actions to address the examination findings for all 170 of the problem institutions for which it is the primary federal regulator. These actions include 159 Cease and Desist Orders and 11 Memoranda of Understanding.

### Troubled Asset Relief Program's Capital Purchase Program

The FDIC has worked with the Treasury Department to process applications for the Troubled Asset Relief Program's (TARP) Capital Purchase Program (CPP). The TARP CPP, funded at \$250 billion in 2008, is designed to strengthen the capital of financial institutions and enhance their ability to make credit available to consumers and businesses. (An additional \$100 billion was forwarded to the AIG and auto industries.) All U.S. bank holding companies, banks, and thrifts

are eligible to participate in the CPP by making an application to their primary federal regulator. The FDIC has processed 1,600 CPP applications from state non-member institutions. It is expected that all TARP CPP capital infusions will be completed by mid 2009.

### Joint Examination Teams

The FDIC used joint compliance/risk management examination teams (JETs) to assess risks associated with new, nontraditional and/or high-risk products being offered by FDIC-supervised institutions. The JET approach recognizes that to fully understand the potential risks inherent in certain products and services, the expertise of both compliance and risk management examiners is required. The JET approach has three primary objectives:

- ★ To enhance the effectiveness of the FDIC's supervisory examinations in unique situations;
- ★ To leverage the skills of examiners who have experience with emerging and alternative loan and deposit products; and
- ★ To ensure that similar supervisory issues identified in different areas of the country are addressed consistently.

In 2008, the FDIC used JETs within institutions involved in significant subprime or nontraditional mortgage activities; institutions affiliated with or utilizing third parties to conduct significant consumer lending activities, especially in the credit card area; institutions offering refund anticipation loans (RAL) products; and institutions for which the FDIC has received a high volume of consumer complaints or complaints with serious allegations of improper conduct by banks.

### Large Complex Financial Institution Program

The FDIC's Large Complex Financial Institution Program addresses the unique challenges associated with the supervision, insurance and potential resolution of large and complex financial institutions. With the challenges posed by economic and market developments in 2008, large institutions have been significantly affected. 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 focus of the program is to ensure a consistent

approach to large-bank supervision and risk analysis on a national basis and to provide a quick response to risks that are identified in large institutions. This is achieved through extensive cooperation with the FDIC regional offices, other FDIC divisions and offices, and the other banking and thrift regulators.

In 2008, the Large Insured Depository Institution (LIDI) Program implemented a comprehensive process to standardize data capture and reporting. Under this program, supervisory staff throughout the nation performs comprehensive quantitative and qualitative risk analysis of institutions with assets over \$10 billion, or under this threshold at regional discretion. This information has been instrumental in providing the basis for supervisory actions, supporting insurance assessments and resolution planning.

The LIDI Program continued to assess internal and industry preparedness relative to Basel II capital rules and was actively involved in domestic and international discussions intended to ensure effective implementation of the New Capital Accord. This included participation in numerous supervisory working group meetings with foreign regulatory authorities to address Basel II home-host issues.

### **Bank Secrecy Act/ Anti-Money Laundering**

The FDIC pursued a number of Bank Secrecy Act (BSA), Counter-Financing of Terrorism (CFT) and Anti-Money Laundering (AML) initiatives in 2008.

#### ***International AML/CFT Initiatives***

The FDIC conducted three training sessions in 2008 for 49 central bank representatives from Jordan, Kuwait, Paraguay, Qatar, Saudi Arabia, Senegal, Thailand, and the West Africa Central Bank. The training focused on AML/CFT controls, the AML examination process, customer due diligence, suspicious activity monitoring and foreign correspondent banking. The sessions also included presentations from the Federal Bureau of Investigation on combating terrorist financing, and the Financial Crimes Enforcement Network (FinCEN) on the role of financial intelligence units in detecting and investigating illegal activities.

In addition to hosting on-site AML/CFT instruction, the FDIC participated in the second annual U.S.-Latin America Private Sector Dialogue in Miami, Florida. The focus of this Treasury Department initiative is to provide a forum for discussing common issues related to money laundering and terrorist financing. The FDIC also participated in a seminar focusing on Islamic Banking hosted by Perbadanan Insurans Deposit Malaysia (PIDM) in Kuala Lumpur, Malaysia. Additionally, the FDIC traveled to Uruguay to provide instruction focused on AML/CFT practices to approximately 40 regulators from the Banco Central del Uruguay. Also presented was an overview of the FDIC's role as a supervisor to approximately 100 bankers and government officials.

#### ***Basel AML/CFT***

The FDIC also participates on the Basel AML/CFT committee. In 2008, the committee published views on supervisory expectations relating to transparency in payment messages, particularly in anticipation of changes to technical standards for cross-border wire transfers.

### **Money Services Business Project**

As part of the FDIC's Money Services Business (MSB) Project, the FDIC continued to work on establishing information-sharing agreements with state authorities responsible for examining MSBs. The agreements allow for the exchange of information relating to MSB supervision and provide for a formal information-sharing process. The agreements were developed to limit regulatory redundancies by providing relevant supervisory information for MSB customers with banking relationships at FDIC-supervised financial institutions. Additionally, the agreements provide assistance to each agency in promoting opportunities to learn from the other's industry expertise.

Based on challenges faced by the MSB industry in obtaining and maintaining banking services, the FDIC partnered with several state MSB supervisors. Information gained is intended to streamline the BSA/AML examination process for financial institutions serving the MSB industry. To date, agreements have been signed with state representatives from New York, Pennsylvania and Texas.

## Minority Depository Institution (MDI) Activities

The FDIC continues to seek avenues for improving communication and interaction with MDIs, and responding to concerns.

In July of 2008, the FDIC issued a Financial Institution Letter (FIL) aimed at enhancing procedures for providing technical assistance to MDIs. Although the FDIC routinely contacts MDIs to offer return visits and technical assistance following the conclusion of each examination, the FIL expanded the guidelines to encourage banks to *initiate* contact to request technical assistance at any time. The guidance specifically delineates that the FDIC can assist in reviewing and offering feedback and recommendations on a variety of matters, including:

- ★ Proposed written policies for major operational areas, such as the lending, investment, and funds management functions;
- ★ Proposed strategic plans;
- ★ Proposed budgets;
- ★ Proposed applications or notices for new branches and/or new activities; and
- ★ Any other operational matters where MDI bank management would like FDIC input.

Also, as suggested by MDIs, the guidance provides that the institutions can contact any region, regardless of its geographic location, to initiate discussions for technical assistance.

During 2008, the FDIC provided technical assistance to 54 MDIs on a broad range of topics, including strategies for addressing BSA deficiencies, strengthening budget processes, and revising and developing policies. The FDIC also held discussions on the *de novo* application process with prospective organizers of new minority banks.

In partnership with the Puerto Rico Bankers Association, the FDIC hosted a Compliance seminar in San Juan in December 2008. The seminar focused on pertinent compliance-related matters, including the Fair and Accurate Credit Transaction Act implementation, unfair and deceptive practices, and recent changes to the FDIC's examination procedures.

In response to comments provided by MDIs, the FDIC launched a program for enhanced peer group reviews and comparisons, specifically targeted for MDIs. This custom peer report is designed to facilitate comparison of an institution's performance with that of all MDIs that meet the FDIC's definition, as well as all FDIC-insured institutions. The custom peer report contains earnings, capital, asset quality, and liquidity performance measures, which should assist MDIs in comparing performance against similar institutions.

In July of 2008, the FDIC hosted the third annual Interagency Minority Depository Institution National Conference in Chicago, Illinois. The theme of the conference was "Know Your Business, Grow Your Business." The event drew over 250 attendees, representing an increase in participation of 47 percent from the previous year. In addition to presentations by senior officials from all federal banking regulatory authorities, industry experts and regulators, the program covered the state of the economy as it relates to mortgage markets, the current credit environment, and the process of bidding on distressed banks. An MDI bankers' panel discussed strategies for identifying opportunities for success in the current environment. The program also included workshops on commercial real estate trends and best practices, troubled debt restructuring, the development of profitable lines of business, SBA-guaranteed lending programs, and the Community Development Financial Institution Fund certification process. Feedback from the attendees was overwhelmingly positive.

In the third quarter of 2008, the FDIC launched a series of quarterly conference calls with FDIC-supervised MDIs, covering relevant regulatory topics. The initial call was held in September 2008, and covered funding risks associated with banks' dependence on brokered and above-market rate deposits. The second call was held in November 2008, and covered the Temporary Liquidity Guarantee Program and the Treasury Department's Capital Purchase Program. The third was held in December 2008, and covered accounting issues. The new conference call series has been well received by the MDIs, with participation averaging approximately 75 bankers for each event.

## Capital Standards

The FDIC continued to be actively involved in domestic and international discussions intended to ensure capital standards adequately support the safe and sound operation of banks. This included participation in a number of supervisory working group meetings with foreign regulatory authorities. On June 26, 2008, the FDIC Board and the Federal Reserve Board of Governors approved the publication of the Basel II Standardized Approach Notice of Proposed Rulemaking (NPR). The NPR was published in the *Federal Register* on July 29, 2008, with comments due October 27, 2008. Because of the priority of dealing with the current market turmoil and an unexpected delay in many banks' plans for implementing the advanced approaches, the agencies deferred finalizing the Standardized Framework NPR. Only one institution began Basel II Parallel Run in 2008. The FDIC will compile and analyze the information as it becomes available through public and supervisory sources.

The FDIC is involved in Basel Committee work teams to develop proposals that would strengthen each of the three pillars of the Basel II framework. The FDIC also is working with another subgroup of the Basel Committee to develop a proposal to strengthen the market risk capital requirements. The FDIC worked with other U.S. financial regulators to complete final guidance on the supervisory review process (Pillar 2) for banks using the advanced approaches of Basel II. The final guidance includes several refinements to the draft guidance that are intended to address weaknesses revealed by the market turmoil. This guidance was published in the *Federal Register* on July 31, 2008.

The FDIC finalized the Goodwill Net of Associated Deferred Tax Liability rule for regulatory capital on December 16, 2008, and jointly issued the Final Rule with the other federal banking agencies. This Final Rule allows goodwill, which must be deducted from Tier I capital, to be reduced by the amount of any associated deferred tax liability. The new rule continues to adhere to the statutory requirement that all of a bank's exposure to goodwill will be deducted from capital. The final rule took effect January 29, 2009. However, a bank may elect to apply this final rule for regulatory capital reporting purposes as of December 31, 2008. The federal banking agencies decided not to extend similar treatment to other intangible assets currently required to be deducted fully from Tier I capital.

## Guidance Issued

During 2008, the FDIC issued and participated in the issuance of guidance in several areas as described below:

### **Commercial Real Estate Guidance**

In response to deteriorating trends in construction and development (C&D) lending and other commercial real estate (CRE) sectors, the FDIC issued "Managing Commercial Real Estate Concentrations in a Challenging Environment" on March 17, 2008. The guidance re-emphasizes the importance of strong capital and allowance for loan and lease loss levels and robust credit risk management practices for institutions with concentrated CRE exposures. The guidance further encourages institutions to continue making C&D and CRE credit available in their communities using prudent lending standards.

### **Liquidity Risk Management**

In 2008, disruptions in the credit and capital markets exposed weaknesses in many banks' liquidity risk measurement and management systems. To address these concerns, the FDIC issued guidance highlighting the importance of liquidity risk management at FDIC-supervised institutions. This guidance noted that institutions using wholesale funding, securitizations, brokered deposits and other high-rate funding strategies should measure liquidity risk using pro forma cash flows/scenario analysis and should have contingency funding plans in place that address relevant bank-specific and systemic stress events. The guidance further states that institutions using volatile, credit sensitive, or concentrated funding sources are generally expected to hold capital above regulatory minimum levels to compensate for the elevated levels of liquidity risk present in their operations.

### **Third-Party Risk**

On June 6, 2008, the FDIC issued "Guidance for Managing Third-Party Risk" which identifies sound practices that can help banks avoid significant safety-and-soundness and compliance problems that may be associated with some third-party relationships. This guidance describes potential risks arising from third-party relationships and outlines risk management principles that financial institutions may tailor to suit the

complexity and risk potential of their significant third-party relationships. On November 7, 2008, the FDIC issued "Guidance on Payment Processor Relationships" which identifies potential risks and recommended controls associated with relationships with entities that process payments for telemarketers and other merchant clients.

### **Trust**

In 2008, the FDIC completed significant revisions and additions to the FDIC Trust Examination Manual. Most notably, substantial material was added to the sections covering employee benefit plans, the Employee Retirement Income Security Act of 1974, the Gramm-Leach-Bliley Act, and Regulation R exceptions and exemptions for banks from the definition of "broker" in the Securities Exchange Act of 1934.

### **Government-Sponsored Enterprises**

The Federal Housing Finance Agency placed Fannie Mae and Freddie Mac into conservatorship on September 7, 2008. The FDIC believes these government-sponsored enterprises are important to the home mortgage market and, along with the other federal banking agencies, issued a statement on September 7, 2008, indicating that it will work with institutions with significant holdings of Fannie Mae or Freddie Mac common and preferred shares in relation to their capital.

### **Home Equity Lines of Credit**

The FDIC completed an Issues Review of the emerging practice of lenders suspending or terminating home equity lines of credit due to substantially decreased collateral values. Several consumer protection regulations, including Truth in Lending, and fair lending laws bear on this practice. As a result, on June 26, 2008, the FDIC issued "Home Equity Lines of Credit: Consumer Protection and Risk Management Considerations When Changing Credit Limits and Suggested Best Practices" to remind FDIC-supervised financial institutions that if, for risk management purposes, they decide to reduce or suspend home equity lines of credit, certain legal requirements designed to protect consumers must be followed.

### **Other Real Estate**

Continued weakness in the housing market and the rapid rise in foreclosures increased the potential for higher levels of other real estate held by FDIC-supervised institutions. Accordingly, on July 1, 2008, the FDIC issued "Other Real Estate: Guidance on Other Real Estate" to remind bank management of the importance of developing and implementing policies and procedures for acquiring, holding, and disposing of other real estate.

### **Hope for Homeowners**

As a member of the Board of Directors of the HOPE for Homeowners Program, the FDIC joined the Departments of Housing and Urban Development, Treasury and the Federal Reserve in establishing requirements and standards for the Program that are not otherwise specified in the legislation, and prescribing necessary regulations and guidance to implement those requirements and standards.

### **Regulatory Relief**

In 2008, the FDIC issued 12 Financial Institution Letters that provided guidance to help financial institutions and facilitate recovery in areas damaged by severe storms, tornadoes, flooding, and other natural disasters. Areas within Alabama, Arkansas, Florida, Indiana, Iowa, Louisiana, Mississippi, Missouri, Nebraska, Tennessee, Texas, and Wisconsin were affected.

### **Other Guidance Issued**

The FDIC also contributed to the release of guidance on Subprime Mortgage Product Illustrations and on Identity Theft Red Flags regulations and examination procedures, and changes to the Truth in Lending Act and the Home Mortgage Disclosure Act regulations relating to higher-priced mortgages.

## Monitoring Potential Risks from New Consumer Products and Developing a Supervisory Response Program

The FDIC is revising the former Underwriting Survey, completed by examiners at the conclusion of each examination to aid in identifying new products and emerging risks. This will provide examiners the opportunity to submit information to a central database at the conclusion of each examination. Policy staff will monitor and analyze this real-time examiner input and use the information to formulate policy guidance to allow supervisory strategies as appropriate.

The FDIC completed an Issues Review of reverse mortgages that outlined the types of products and features, as well as risks, from both a consumer and safety-and-soundness perspective. The results of this review will be used in the ongoing FFIEC Consumer Compliance Task Force project on reverse mortgages. As part of the Issues Review, the FDIC also participated in an examination of a specialized reverse mortgage lender.

## Regulatory Reporting Revisions

The FDIC, jointly with the Office of the Comptroller of the Currency and the Federal Reserve Board, implemented revisions to the Consolidated Reports of Condition and Income (Call Report) in first quarter 2008. These revisions included new data related to residential mortgages (such as restructured troubled mortgages, mortgages in foreclosure, and mortgage repurchases and indemnifications) and expanded data on trading assets and liabilities and fair value measurements. In September 2008, the three agencies requested comment on proposed Call Report revisions that would take effect on a phased-in basis in March, June, and December 2009. Certain revisions address areas in which the banking industry has experienced heightened risk as a result of market turmoil and illiquidity and weakening economic and credit conditions. The reporting changes include new data on real estate construction loans with interest reserves, structured financial products such as collateralized debt obligations, commercial mortgage-backed securities, pledged loans, and

fiduciary assets and income. Selected institutions would report additional data on recurring fair value measurements, credit derivatives, and over-the-counter derivative exposures. The agencies made limited modifications to the proposed changes in response to comments received. In November 2008, the FDIC and the other banking agencies obtained emergency approval from the U.S. Office of Management and Budget to collect data in the regulatory reports for all insured institutions beginning in December 2008 to support the quarterly assessment process for the FDIC's Transaction Account Guarantee Program.

## Promoting Economic Inclusion

The FDIC pursued a number of initiatives in 2008 to facilitate underserved populations using mainstream banking services rather than higher cost, non-bank alternatives and to ensure protection of consumers in the provision of these services.

### *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 2008 to increase measurable results in the areas of new bank accounts, small-dollar loan products, remittance products, and delivery of financial education to more underserved consumers. During 2008, over 200 banks and organizations joined AEI nationwide, bringing the total number of AEI members to 924. More than 56,000 new bank accounts were opened during 2008, bringing the total number of bank accounts opened through the AEI to 90,000. During 2008 approximately 43,000 consumers received financial education through the AEI, bringing the total number of consumers educated to 73,000. Also, 53 banks were in the process of offering or developing small-dollar loans as part of the AEI and 34 banks were offering remittance products at the end of 2008.

The FDIC launched the tenth AEI initiative in Rochester, New York, on May 15. The launch was held in partnership with the New York State Banking Superintendent, Mayor of Rochester, and other partners. As a result of the FDIC's leadership and initial success with AEI in its ten primary markets, the FDIC was asked to provide technical assistance to several other cities that are launching city-wide campaigns to increase access by the underserved to mainstream financial services.

Two major national AEI partnerships were also signed during 2008. The first, with the National Association of Affordable Housing Lenders (NAAHL), expanded the two organizations' collaboration in furtherance of economic inclusion. The second, with the United Way of America, strengthened mutual efforts to serve the underserved through the United Way of America's Financial Stability Partnership.

During 2008, the FDIC included a component of its foreclosure prevention efforts within the AEI. The FDIC sponsored or co-sponsored more than 164 local outreach and training events, many in partnership with NeighborWorks® America and its affiliates. These sessions were designed to educate at-risk homeowners about the availability of foreclosure prevention counseling services and other resources. A new Web page was also launched to provide resources, tools and technical assistance to consumers and others at risk of foreclosure or involved in foreclosure prevention efforts.

#### **Forum on Mortgage Lending for Low- and Moderate-Income (LMI) Households**

On July 8, 2008, the FDIC held a "Forum on Mortgage LMI Households." The purpose of the forum was to explore a framework for LMI mortgage lending in the future, in light of current problems in the mortgage market. The forum examined ways to encourage profitable, responsible, and sustainable mortgage lending to lower-income households and strategies to rejuvenate the secondary market for these loans. Speakers at the forum included Treasury Secretary Henry M. Paulson, Federal Reserve Chairman Ben S. Bernanke, and JPMorgan Chase Chairman and CEO James Dimon.

On September 4, 2008, the FDIC issued a Financial Institution Letter (FIL) for bankers and other mortgage professionals to highlight best practices discussed at the forum. These best practices focused on the following:

- ★ Back-to-basics underwriting
- ★ Ensuring that incentives and compensation for all parties to mortgage transactions are aligned with the long-term outcome of the transactions
- ★ Improving mortgage transaction transparency and due diligence
- ★ Expanding existing reasonable LMI mortgage products and encouraging innovations
- ★ Fostering public/private partnerships

#### **FDIC Advisory Committee on Economic Inclusion**

The FDIC's Advisory Committee on Economic Inclusion was established in 2006 and provides the FDIC with advice and recommendations on initiatives focused on expanding access to banking services by underserved populations. This may include reviewing basic retail financial services such as check cashing, money orders, remittances, stored value cards, short-term loans, savings accounts, and other services that promote asset accumulation and financial stability. Committee members represent a cross-section of interests from the banking industry, state regulatory authorities, government, academia, consumer or public advocacy organizations and community-based groups.

The Advisory Committee met twice during 2008. In March 2008, the meeting topic was "Asset-Building Opportunities for Individuals and Banks." The meeting focused on policy approaches, supervisory and regulatory strategies, and product innovations to enhance household saving, particularly for LMI households. The Advisory Committee also met after the LMI forum in July 2008, to discuss the forum in general, and best practices raised at the forum in particular that were later issued in a FIL as discussed above. At that meeting, the Chairman also announced the formation of an FDIC working group to explore the feasibility of prize-linked savings programs. Among other things, this group is exploring whether the operational, marketing, and distribution networks of state lottery systems can be leveraged to encourage saving.

### **Affordable Small-Dollar Loan Guidelines and Pilot Program**

Many consumers, even those who have bank accounts, turn to high-cost payday or other non-bank lenders to quickly obtain small loans to cover unforeseen circumstances. To help insured institutions better serve an underserved and potentially profitable market while enabling consumers to transition away from reliance on high-cost debt, the FDIC launched a two-year small-dollar loan pilot project in February 2008. The pilot is designed to review affordable and responsible small-dollar loan programs offered by insured financial institutions and assist the banking industry by identifying and disseminating information on replicable business models and best practices for small-dollar loans, including ways to offer small-dollar loan customers other mainstream banking services.

The FDIC selected an initial group of 31 banks of varied sizes and diverse locations and settings for participation in the study. Banks in the pilot meet the FDIC's Small-Dollar Loan guidelines, and several have already reported using the small-dollar product as a cornerstone for profitable relationships. After three quarters of data collection, participating banks have also demonstrated innovative strategies in areas such as underwriting, advertising and linking automatic savings features that could prove to be replicable for other banks. These early results provide some indication that banks can profitably provide affordable alternatives to high-cost, short-term credit. The FDIC will continue to explore profitability and other noteworthy features of participating bank programs as the pilot progresses.

### **FDIC Study of Bank Overdraft Programs**

In 2008, the FDIC completed a Study of Bank Overdraft Programs, a two-part study that gathered empirical data on the types, characteristics, and use of overdraft programs operated by FDIC-supervised banks. The study was undertaken in response to the growth in automated overdraft programs, defined as programs in which the bank honors a customer's overdraft obligations using standardized procedures to determine whether the non-sufficient

fund (NSF) transaction qualifies for overdraft coverage. Data and information for the FDIC's study were gathered through a survey collection representative of 1,171 FDIC-supervised institutions, and a separate data request of customer account and transaction-level data from a smaller set of 39 institutions.

The survey instrument was designed to obtain the following types of information related to overdraft programs: characteristics, features, and fees of overdraft programs; transaction processing policies; marketing and disclosure practices; internal controls and monitoring practices; the role of vendors and third parties in overdraft program implementation; and NSF-related fee income and growth. The customer account and transaction-level data collection was designed to gather information on the provision of overdraft services on customer accounts, the occurrence of NSF activity covered under automated overdraft programs, and the characteristics of customer accounts that tend to incur the highest volume of overdraft fees. A final report was released in February 2009. The FDIC believes that objective information on these programs will help policy-makers make better-informed policy decisions and will help the public better understand the features and costs related to automated overdraft programs.

### **National Survey of Banks' Efforts to Serve the Unbanked and Underbanked**

In 2008, the FDIC conducted the first of a series of national surveys on banks' efforts to serve the unbanked and underbanked. For the purposes of this survey effort, unbanked individuals and families are those who rarely, if ever, held a checking account, savings account, or other type of transaction or check cashing account at an insured depository institution in the conventional finance system. Underbanked individuals and families are those who have an account with an insured depository institution but also rely on non-bank alternative financial service providers for transaction services or high-cost credit products. The survey was conducted in response to a mandate under section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (Reform Act) which calls for the FDIC to conduct



ongoing surveys on efforts by insured depository institutions to bring unbanked individuals and families into the conventional finance system. This initial survey effort had three objectives:

- ★ Identify and quantify the extent to which insured depositories undertake outreach efforts, serve, and meet the banking needs of the unbanked and underbanked;
- ★ Identify challenges affecting the ability of insured depository institutions to serve the unbanked and underbanked, including but not limited to cultural, language, identification issues, and spatial/location issues; and
- ★ Identify innovative efforts depositories use to serve the unbanked and underbanked, including community storefronts, small-dollar loans, basic banking accounts, remittances, and other low-cost products and services used by the unbanked and underbanked.

The study involved a survey of insured depository institutions and development of a limited number of case studies. The survey was administered to a sample that was representative of all FDIC-insured commercial banks and savings institutions having standard retail banking operations. In-depth case studies were conducted of 16 surveyed institutions that were identified as offering innovative approaches to serving unbanked and underbanked individuals. The report was transmitted to Congress in early 2009.

### Household Survey of the Unbanked and Underbanked

In January 2009, the U.S. Bureau of the Census conducted, on behalf of the FDIC, the first National Household Survey of the Unbanked and Underbanked. The survey was conducted as a supplement to Census' Current Population Survey. In addition to collecting accurate estimates of the number of unbanked and underbanked households in the U.S., the survey was designed to provide insights into their demographic characteristics and reasons why the households are unbanked and/or underbanked. This effort is being undertaken in response to the Reform Act, which calls for the FDIC to provide an estimate of the size of the U.S. unbanked market and to identify issues that cause individuals and families to be unbanked. The FDIC plans to release survey results during 2009.

### Information Technology, Cyber Fraud and Financial Crimes

The President's Identity Theft Task Force, of which the FDIC is a member, submitted its follow-up report to the President in September 2008. The report documents the efforts of the Task Force to implement the 2007 Strategic Plan's 31 recommendations concerning strengthening data protection, improving consumer authentication, assisting identity theft victims, and investigating, prosecuting, and punishing identity thieves.

Other major accomplishments during 2008 in combating identity theft included the following:

- ★ Assisted financial institutions in identifying and shutting down approximately 1,223 "phishing" Web sites. 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.
- ★ Utilized a brand protection service provider in taking down instances of abuse of the FDIC name or logo. In 2008, 14 active sites were closed (sites claiming to be FDIC or FDIC authorized).
- ★ Issued 219 Special Alerts to FDIC-supervised institutions of reported cases of counterfeit or fraudulent bank checks.
- ★ Issued, in conjunction with the other Federal Financial Institution Examination Council (FFIEC) agencies, examination procedures for "Identity Theft Red Flags, Address Discrepancies, and Change of Address Regulations." These procedures are designed to assist financial institutions in complying with these new regulations and to provide examiners with a consistent methodology for assessing compliance. Examiners began reviewing bank compliance with the new regulations on the mandatory compliance date of November 1, 2008.

The FDIC conducts information technology examinations at each safety and soundness examination to ensure that institutions have implemented adequate risk management practices for the confidentiality, integrity, and availability of the institution's sensitive, material, and critical information assets using the FFIEC Uniform Rating System for Information Technology (URSIT). The FDIC also participates in inter-agency examinations of significant technology

service providers. In 2008, the FDIC conducted 2,577 information technology (IT) examinations at financial institutions and technology service providers. The FDIC also monitors significant events such as data breaches and natural disasters that may impact financial institution operations or customers.

The FDIC updated its risk-focused IT examination procedures for FDIC-supervised financial institutions. The procedures include an updated IT Officer's Questionnaire which newly highlights risk issues related to vendor management.

The FDIC and other FFIEC regulatory agencies completed guidance concerning the risks associated with financial institutions' use of remote deposit capture technology. The guidance, which discusses various risk mitigation techniques that institutions should use, was issued in January 2009.

The FDIC, in conjunction with the other FFIEC agencies issued guidance to financial institutions to enhance business continuity planning. On February 6, 2008, the FDIC, with the other FFIEC agencies, issued "Interagency Statement on Pandemic Planning" identifying actions that financial institutions should consider to minimize the adverse effects of a pandemic event. The Business Continuity Planning booklet, part of the FFIEC IT Examination Handbook series, was updated in March 2008 to address emerging threats such as pandemic planning and lessons learned from Hurricanes Katrina and Rita as well as additional testing guidelines. The guidance provides an enterprise-wide approach to a financial institution's business continuity planning. The FDIC also participated in and hosted the Roundtable on Pandemic Planning sponsored by the FFIEC and the American Bankers Association with approximately 170 participants.

### 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, 2008, the FDIC had received 14,169 written complaints, of which 6,267 involved

complaints against state non-member institutions. The FDIC responded to over 96 percent of these complaints within timeliness standards established by corporate policy. The FDIC also responded to 3,588 written inquiries, of which 502 involved state non-member institutions. In addition, the FDIC responded to 4,789 written inquiries, of which 595 involved state non-member institutions. The FDIC also responded to 7,536 telephone calls from the public and members of the banking community in which 4,211 were regarding state non-member institutions.

### Deposit Insurance Education

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. The FDIC also responds to thousands of telephone and written inquiries each year from consumers and bankers regarding FDIC deposit insurance coverage.



Directing the Electronic Deposit Insurance Estimator and Public Service Announcements (PSA) campaign (l to r): Kathy Nagle, Tibby Ford and Andrew Gray showcase material, including television PSAs.

Economic conditions in 2008 helped to spur a significant interest by bank customers in learning more about FDIC deposit insurance coverage. To meet the increased public demand for deposit insurance information, the FDIC implemented two major initiatives to help raise public awareness of the benefits and limitations of FDIC deposit insurance coverage:

- ★ On June 16, 2008, in connection with the observation of the FDIC's 75th anniversary, the FDIC embarked on a campaign to raise public awareness regarding FDIC deposit insurance coverage. As part of this effort, the FDIC facilitated a series of ads in selected national newspapers and magazines encouraging consumers to learn more about their FDIC insurance coverage. In addition, the FDIC sent all insured institutions a *Portfolio of Deposit Insurance Coverage Resources for Bankers*, containing copies of several education tools and publications on deposit insurance coverage; these products are designed to help bank employees who answer depositor questions about FDIC coverage.
- ★ In September 2008, the FDIC launched a second major initiative to raise public awareness of the benefits and limitations of federal deposit insurance. The goal of this campaign, which involves a series of public service announcements for television, radio and print media, is to encourage bank customers to visit [myFDICinsurance.gov](http://myFDICinsurance.gov), where they can use "EDIE the Estimator." "EDIE the Estimator" is an online deposit insurance calculator that has been available to the public for a number of years but was simplified and made more accessible as part of this campaign. The public service announcements feature personal finance expert Suze Orman, who donated her time to this initiative. This campaign has been highly successful and prompted the FDIC to launch a Spanish language campaign, which also includes an updated deposit insurance calculator, in late 2008.

In addition to these significant public outreach initiatives, the FDIC continued its efforts to educate bankers who work with depositors about the rules and requirements for FDIC insurance coverage. In the summer of 2008, the FDIC conducted a series of 12 nationwide telephone seminars for bankers on deposit insurance coverage; these seminars were very well received, with an estimated 66,000

bankers participating at approximately 22,000 bank locations throughout the country. The FDIC also continued to work with industry trade groups to provide training for bank employees.

### Deposit Insurance Coverage Inquiries

During 2008, the FDIC received 18,953 written deposit insurance inquiries from consumers and bankers. Of these inquiries, 99 percent received responses from the FDIC within the timeframes required by policy. This activity represents a 360 percent increase over 2007, where the FDIC received 4,125 written deposit insurance inquiries.

In addition to written deposit insurance inquiries, the FDIC received and responded to 81,979 telephone inquiries from consumer and bankers during 2008. In contrast, the FDIC replied to 15,899 deposit insurance telephone inquiries for the entire year in 2007. The 2008 activity represents a 416 percent increase over 2007.

### Financial Education and Community Development

In 2001, the FDIC – recognizing the need for enhanced financial education across the country – inaugurated its award-winning *Money Smart* curriculum, which is now available in six languages, large print and Braille versions for individuals with visual impairments and a computer-based instruction version. Since its inception, over 1.8 million individuals (including approximately 235,000 in 2008) had participated in *Money Smart* classes and self-paced computer-based instruction. Approximately 300,000 of these participants subsequently established new banking relationships.

The FDIC extended the *Money Smart* program to the age 12-21 audience with the creation of a complementary program, "*Money Smart* for Young Adults." All eight modules of the new curriculum are aligned with state educational standards, as well as Jump\$tart national financial literacy standards and the National Council on Economics Education national economics standards. Through year-end 2008, the FDIC had received orders for more than 20,000 copies of the new curriculum since its launch on April 14, 2008. Over 40 outreach activities have taken place to specifically promote the curriculum, ranging from presentations and resource tables at events targeted at teachers,

outreach activities to school district curriculum directors, and train-the-trainer sessions. Two new nationwide partnerships were also signed to facilitate the delivery of the new curriculum, one with Operation Hope and the other with Campfire USA, in addition to 33 local/regional partnerships. Additionally, the FDIC developed a portable audio format version of *Money Smart* that will be ready for launch near mid 2009.

During 2008, the FDIC also undertook over 400 community development, technical assistance 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. Representatives throughout the financial industry and their stakeholders collaborated with the FDIC on a broad range of initiatives structured to meet local and regional needs for financial products and services, credit, asset-building, affordable housing, small business and micro-enterprise development and financial education.

In particular, the FDIC engaged in a number of activities as part of an effort to raise consumer awareness of the importance of personal savings and responsible financial management. A new Web page was launched to provide technical assistance and other resources to financial institutions, community-based organizations, and others to encourage the promotion of savings. The FDIC also undertook several speaking opportunities specifically on asset-building and the importance of personal savings. Additionally, the FDIC participated in 19 local savings campaigns during the 2008 *America Saves* week to encourage consumers to build wealth. FDIC's involvement included providing technical assistance and training, participating in the launch of a new *Saves* initiative, and facilitating participants in the *Saves* initiatives in several markets receiving copies of *Money Smart*.

## 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. Once an institution is closed by its chartering authority – the state for state-chartered institutions, the Office of the Comptroller of the Currency (OCC) for national banks and the Office of Thrift Supervision (OTS) for federal savings associations – and the FDIC is appointed receiver, it is responsible for resolving the failed bank or savings association.

The FDIC has at its disposal and employs a variety of business practices to resolve a failed institution. These business practices typically fall under work associated with the resolution process or the receivership process. Depending on the characteristics of the institution, the FDIC may recommend several of these practices to ensure prompt and smooth payment of deposit insurance to insured depositors, to minimize impact on the Deposit Insurance Fund, 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.

In order to minimize disruption to the local community, the resolution process must be performed quickly and as smoothly as possible. There are two basic resolution methods: purchase and assumption transactions and deposit payoffs. A third resolution option, open bank assistance transactions, generally can only be used in the event the bank's failure would result in systemic risk.

The purchase and assumption transaction (P&A) is the most common resolution method used for failing institutions. In a P&A, a healthy institution assumes certain liabilities of the failed institution and purchases certain assets of the failed institution. Since each failing bank situation is different, P&A transactions are structured to create the highest value for the failed institution. Depending on the P&A transaction, the acquirer may either acquire all or only the insured portion of the deposits.

Deposit payoffs are only executed if a bid for a P&A transaction is not the least costly to the fund 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.

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, partnership agreements, and securitizations.

### Financial Institution Failures

Due to the economic environment, the FDIC experienced a significant increase in the number and size of institution failures as compared to previous years. For the institutions that failed in 2008, the FDIC successfully contacted all known qualified and interested bidders to market these institutions. Additionally, the FDIC marketed approximately 90 percent of the marketable assets of these institutions at the time of failure and made insured funds available to all depositors within one business day of the failure. There were no losses on insured deposits and no appropriated funds were required to pay insured deposits.

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

	2008	2007	2006
Total Institutions	25	3	0
Total Assets of failed Institutions*	\$371.9	\$2.6	\$0
Total Deposits of failed Institutions*	\$234.3	\$2.4	\$0
Estimated loss to the DIF	\$17.9	\$0.2	\$0

\* Total Assets and Total Deposits data are based upon the last Call Report filed by the institution prior to failure.

During 2008, 25 financial institutions failed. They are discussed below.

**Douglass National Bank**, Kansas City, Missouri, was closed by the Office of the Comptroller of the Currency (OCC) on January 25, 2008. At the time of closure, Douglass National had \$52.8 million in total assets and \$50.2 million in total deposits. Liberty Bank and Trust Company, New Orleans, Louisiana, assumed all deposits of Douglass National and purchased \$50.0 million in assets. The estimated loss to the DIF is approximately \$6.5 million.

**Hume Bank**, Hume, Missouri, was closed by the Commissioner of Missouri's Division of Finance on March 7, 2008. At the time of closure, Hume Bank had \$18.7 million in total assets and \$13.6 million in total deposits. Security Bank, Rich Hill, Missouri, assumed the insured deposits of Hume Bank and purchased \$3.4 million in assets. The estimated loss to the DIF is approximately \$4.0 million.

**ANB Financial, National Association**, Bentonville, Arkansas, was closed by the OCC on May 9, 2008. At the time of closure, ANB Financial had approximately \$1.9 billion in total assets and \$1.8 billion in total deposits. Pulaski Bank and Trust Company, Little Rock, Arkansas, assumed the insured deposits of ANB Financial and purchased

\$228.5 million in assets. The estimated loss to the DIF is approximately \$819.4 million.

**First Integrity, National Association**, Staples, Minnesota, was closed by the OCC on May 30, 2008. At the time of closure, First Integrity had \$52.9 million in total assets and \$50.2 million in total deposits. First International Bank and Trust, Watford City, North Dakota, assumed all deposits of First Integrity and purchased \$34.9 million in assets. The estimated loss to the DIF is approximately \$10.1 million.

**IndyMac Bank, F.S.B.**, Pasadena, California, was closed by the Office of Thrift Supervision (OTS) on July 11, 2008, and the FDIC was named conservator. As conservator, the FDIC operated IndyMac Bank as IndyMac Federal Bank, F.S.B. All the insured deposits and substantially all the assets of IndyMac Bank were transferred to IndyMac Federal. At the time of closure, IndyMac Bank had



IndyMac Federal CEO John Bovenzi at a press conference promoting "Home Preservation Day."

total assets of \$30.7 billion and total deposits of \$18.9 billion. The estimated loss to the DIF is approximately \$10.7 billion.

**First National Bank of Nevada**, Reno, Nevada, and **First Heritage Bank, N.A.**, Newport Beach, California, were closed by the OCC on July 25, 2008. At the time of closure, First National of Nevada had \$3.4 billion in total assets and \$3.0 billion in total deposits. First Heritage Bank had \$255.4 million in total assets and \$256.7 million in total deposits. Mutual of Omaha Bank, Omaha,

Nebraska, assumed all the deposits of both institutions and purchased \$246.0 million in assets. The estimated loss to the DIF for these two institutions is approximately \$739.2 million.

**First Priority Bank**, Bradenton, Florida, was closed by the Commissioner of the Florida Office of Financial Regulation on August 1, 2008. At the time of closure, First Priority had \$258.6 million in total assets and \$226.7 million in total deposits. SunTrust Bank, Atlanta, Georgia, assumed the insured deposits of First Priority and purchased \$47.2 million in assets. The estimated loss to the DIF is approximately \$81.1 million.

**The Columbian Bank and Trust Company**, Topeka, Kansas, was closed by the Kansas Bank Commissioner on August 22, 2008. At the time of closure, The Columbian Bank and Trust Company had \$735.1 million in total assets and \$620.3 million in total deposits. Citizens Bank and Trust, Chillicothe, Missouri, assumed the insured deposits of The Columbian Bank and Trust Company and purchased \$53.4 million in assets. The estimated loss to the DIF is approximately \$232.1 million.

**Integrity Bank**, Alpharetta, Georgia, was closed by the Georgia Department of Banking and Finance on August 29, 2008. At the time of closure, Integrity Bank had \$1.1 billion in total assets and \$962.4 million in total deposits. Regions Bank, Birmingham, Alabama, assumed all the deposits of Integrity Bank and purchased \$58 million in assets. The estimated loss to the DIF is approximately \$210.8 million.

**Silver State Bank**, Henderson, Nevada, was closed by the Nevada Financial Institutions Division on September 5, 2008. At the time of closure, Silver State Bank had \$1.9 billion in total assets and \$1.7 billion in total deposits. Nevada State Bank, Las Vegas, Nevada, assumed the insured deposits of Silver State Bank and purchased \$66.7 million in assets. The estimated loss to the DIF is approximately \$553.1 million.

**Ameribank, Inc.**, Northfork, West Virginia, was closed by the OTS on September 19, 2008. At the time of closure, Ameribank, Inc. had \$103.9 million in total assets and \$100.9 million in total deposits. Pioneer Community Bank, Inc., Iaeger, West

Virginia, assumed all the deposits for five branches located in West Virginia. The Citizens Savings Bank, Martins Ferry, Ohio, assumed all deposits of the three branches in Ohio. The acquiring institutions purchased \$18.7 million in assets. The estimated loss to the DIF is approximately \$33.4 million.

**Washington Mutual Bank**, the largest failure in history, was closed by the OTS on September 25, 2008. At the time of closure, Washington Mutual Bank had \$307.0 billion in total assets and \$188.3 billion in total deposits. JPMorgan Chase acquired the banking operations of Washington Mutual Bank in a facilitated transaction that fully protected all depositors and caused no loss to the DIF.

**Main Street Bank**, Northville, Michigan, was closed by the Michigan Office of Financial and Insurance Regulation on October 10, 2008. At the time of closure, Main Street Bank had \$112.4 million in total assets and \$98.9 million in total deposits. Monroe Bank & Trust, Monroe, Michigan, assumed all the deposits of Main Street Bank and purchased \$15.0 million in assets. The estimated loss to the DIF is approximately \$32.0 million.

**Meridian Bank**, Eldred, Illinois, was closed by the Illinois Department of Financial Professional Regulation-Division of Banking on October 10, 2008. At the time of closure, Meridian Bank had \$38.2 million in total assets and \$36.1 million in total deposits. National Bank, Hillsboro, Illinois, assumed all the deposits of Meridian Bank and purchased \$7.2 million in assets. The estimated loss to the DIF is approximately \$14.5 million.

**Alpha Bank and Trust**, Alpharetta, Georgia, was closed by the Georgia Department of Banking and Finance on October 24, 2008. At the time of closure, Alpha Bank had \$351.4 million in total assets and \$344.2 million in total deposits. Stearns Bank, National Association, St. Cloud, Minnesota, assumed the insured deposits of Alpha Bank and purchased \$16.8 million in assets. The estimated loss to the DIF is approximately \$159.9 million.

**Freedom Bank**, Bradenton, Florida, was closed by the Commissioner of the Florida Office of Financial Regulation on October 31, 2008. As of October 31, 2008, Freedom Bank had \$270.8 million in total assets and \$256.8 million in total deposits. Fifth Third Bank, Grand Rapids, Michigan, assumed all the deposits of Freedom Bank and purchased \$36

million in assets. The estimated loss to the DIF is approximately \$92.9 million.

**Security Pacific Bank**, Los Angeles, California, was closed by the Commissioner of the California Department of Financial Institutions on November 7, 2008. At the time of closure, Security Pacific had \$528.0 million in total assets and \$456.5 million in total deposits. Pacific Western Bank, Los Angeles, California, assumed all the deposits of Security Pacific and purchased \$36 million in assets. The estimated loss to the DIF is approximately \$175.5 million.

**Franklin Bank, S.S.B.**, Houston, Texas, was closed by the Texas Department of Savings and Mortgage Lending on November 7, 2008. At the time of closure, Franklin Bank had \$5.1 billion in total assets and \$3.7 billion in total deposits. Prosperity Bank, El Campo, Texas, assumed all the deposits of Franklin Bank and purchased \$724.3 million in assets. The estimated loss to the DIF is approximately \$1.4 billion.

**The Community Bank**, Loganville, Georgia, was closed by the Georgia Department of Banking and Finance on November 21, 2008. At the time of closure, The Community Bank had \$634.9 million in total assets and \$603.7 million in total deposits. Bank of Essex, Tappahannock, Virginia, assumed all the deposits of The Community Bank and purchased \$87.5 million in assets. The estimated loss to the DIF is approximately \$247.3 million.

**Downey Savings and Loan Association, F.A.**, Newport Beach, California, was closed by the OTS on November 21, 2008. At the time of closure, Downey Savings and Loan had \$12.8 billion in total assets and \$9.6 billion in total deposits. U.S. Bank, National Association, Minneapolis, MN, assumed all the deposits and purchased \$12.3 billion in assets. The estimated loss to the DIF is approximately \$1.4 billion.

**PFF Bank & Trust**, Pomona, California, was closed by the OTS on November 21, 2008. At the time of closure, PFF Bank had \$3.7 billion in total assets and \$2.4 billion in total deposits. U.S. Bank, National Association, Minneapolis, MN, assumed

all the deposits and purchased \$3.5 billion in assets. The estimated loss to the DIF is approximately \$729.6 million.

**First Georgia Community Bank**, Jackson, Georgia, was closed by the Georgia Department of Banking and Finance on December 5, 2008. At the time of closure, First Georgia Community Bank had \$256.3 million in total assets and \$215.3 million in total deposits. United Bank, Zebulon, Georgia, assumed all the deposits of First Georgia Community Bank and purchased \$37.3 million in assets. The estimated loss to the DIF is approximately \$52.0 million.

**Sanderson State Bank**, Sanderson, Texas, was closed by the Texas Department of Banking on December 12, 2008. At the time of closure, Sanderson State Bank had \$38.2 million in total assets and \$32.0 million in total deposits. Pecos County State Bank, Fort Stockton, Texas assumed all deposits and purchased \$13.0 million in assets. The estimated loss to the DIF is approximately \$9.6 million.

**Haven Trust Bank**, Duluth, Georgia, was closed by the Georgia Department of Banking and Finance on December 12, 2008. At the time of closure, Haven Trust had \$559.6 million in total assets and \$498.7 million in total deposits. Branch Banking & Trust (BB&T), Winston-Salem, NC, assumed all deposits and purchased \$69.0 million in assets. The estimated loss to the DIF is approximately \$208.0 million.

### 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 and is generally successful. Assets that do remain in the receivership are evaluated and those that are determined to be marketable are marketed to be sold within 90 days of an institution's failure.

In 2008, the book value of assets under management increased from \$907.0 million to \$15.1 billion.

The following chart shows beginning and ending balances of assets by asset type.

<b>ASSETS IN INVENTORY BY ASSET TYPE</b> <i>(Dollars in millions)</i>		
<b>Asset Type</b>	<b>Assets in Inventory 1/1/08</b>	<b>Assets in Inventory 12/31/08</b>
Securities	\$54	\$467
Consumer Loans	29	204
Commercial Loans	18	2,985
Real Estate Mortgages	226	9,808
Other Assets/Judgments	530	703
Owned Assets	20	832
Net Investments in Subsidiaries	30	108
<b>Total</b>	<b>\$907</b>	<b>\$15,107</b>

### Receivership Management Activities

The FDIC, as receiver, manages the 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 estate. The FDIC terminated all 11 institutions for which all impediments were resolved within prescribed timeframes. In 2008, the number of receiverships



under management increased by 40 percent due to the increase in failure activity.

The following chart shows overall receivership activity for the FDIC in 2008.

RECEIVERSHIP ACTIVITY	
Active Receiverships as of 1/1/08	35
New Receiverships	25
Receiverships Inactivated	11
Active Receiverships as of 12/31/08	49

### Protecting Insured Depositors

With the increase in failure activity in 2008, the FDIC's focus on protecting deposits in institutions that fail was of critical importance. Confidence in the banking system hinges on deposit insurance and no depositor experienced a loss on their insured deposit in 2008.

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 some 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 2008, the FDIC paid dividends of \$302 million to depositors whose accounts exceeded the insured limit(s). Effective October 3, 2008, through December 31, 2009, the standard maximum deposit insurance amount increased from \$100,000 to \$250,000.

### Professional Liability Recoveries

The FDIC staff works to identify potential claims against directors, officers, accountants, appraisers, attorneys and other professionals who may have contributed to the failure of an insured financial institution. Once a claim is deemed meritorious and cost effective to pursue, the FDIC initiates legal action against the appropriate parties. During the year, the FDIC recovered approximately \$31 million from these professional liability claims/settlements. 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 more than \$1.3 million in criminal restitutions during the year. At the end of 2008, the FDIC's caseload was comprised of 77 professional liability lawsuits (down from 84 at year-end 2007) and 248 open investigations (up from 34). At year-end, there were 638 active restitutions and forfeiture orders (down from 687). This includes 261 Resolution Trust Corporation orders that the FDIC inherited on January 1, 1996.

## Effective Management of Strategic Resources

The FDIC recognizes that it must effectively manage its human, financial, and technological resources in order to successfully carry out its mission and meet the performance goals and targets set forth in its annual performance plan. The Corporation must align these strategic resources with its mission and goals and deploy them where they are most needed in order to enhance its operational effectiveness and minimize potential financial risks to the Deposit Insurance Fund. Major accomplishments in improving the Corporation's operational efficiency and effectiveness during 2008 follow.

### Human Capital Management

The FDIC's human capital management programs are designed to attract, develop, reward and retain a highly skilled, cross-trained, diverse and results-oriented workforce. In 2008, the FDIC continued to implement workforce planning and development initiatives that emphasized hiring the additional skill sets needed to address the increased number of financial institution failures and institutions in at-risk categories. The Corporation also deployed a number of strategies to more fully engage all employees in advancing the FDIC's mission.

### Succession Management

Baseline leadership competencies and gaps were identified in 2006 and 2007 through review of an Office of Personnel Management (OPM) competency assessment tool. To address the identified gaps

and ensure that there are corporate managers who are prepared to advance to executive level positions as they become vacant, the Corporation implemented a pilot Corporate Executive Development Program at the beginning of 2008. The program provides for 18 months of intensive classroom and on-the-job training to high-potential supervisors and senior technical specialists.

Additionally, in 2008, the FDIC began drafting a knowledge management strategic plan focused on the full spectrum of knowledge management techniques for leadership's review and consideration.

### **Strategic Workforce Planning and Readiness**

Over the past few years, the FDIC has been preparing for an increase in retirements among its aging workforce through increasing its entry-level hiring into the Corporate Employee Program (CEP). The CEP is a multi-year program designed to cross-train new employees in several of the FDIC's major business lines. As of the end of 2008, 166 employees (530 since program inception) entered the multi-year, multi-disciplined program. The CEP provides a foundation across the full spectrum of the Corporation's business lines, allowing for greater flexibility to respond to changes in the financial services industry and in meeting the Corporation's staffing needs. In 2008, the program successfully provided the FDIC those flexibilities, as program participants were called upon to assist with increased bank examination activities, bank closing activities and deposit insurance claims efforts. In support of the Corporation's focus on consumer protection, the FDIC continued delivery of the Advanced Compliance Examination School (ACES) for commissioned compliance examiners, to address current and complex consumer compliance issues.

Also during 2008, the Corporation instituted an "over-hire" initiative to double encumber a number of critical positions. This program allows the FDIC to train replacements for a smooth transition before the incumbent retires. To address its more immediate staffing needs, the FDIC reemployed retired FDIC examiners, attorneys, and resolutions and receiverships specialists; hired employees of failed institutions in temporary positions; recruited mid-career examiners who had developed their skills in other agencies; recruited temporary loan

review specialists from the private sector; and redeployed current FDIC employees with the requisite skills from other parts of the Corporation.

### **Employee Engagement**

The FDIC continually evaluates its human capital programs and strategies to ensure that the Corporation remains an employer of choice and all of its employees are fully engaged and aligned with the mission. The FDIC's annual employee survey incorporates and expands on the Federal Human Capital Survey mandated by Congress. The 2007 survey found that while FDIC employees enjoy their work, believe in the mission of the Corporation and its importance, and are satisfied with their pay, benefits, training and work environment, they perceived problems with internal communications, leadership, trust and employee empowerment.

To address these concerns, Chairman Bair announced a corporate culture change initiative to be driven by committees of employees, managers, and employee representatives. The initiative includes an overall steering committee that provides direction and three teams that are focusing on leadership, communications and employee empowerment. The council and teams are using input from employees and managers to determine where the problems lie and how to resolve them. In addition, the Chairman has held quarterly call-in question and answer sessions for



Chairman Bair discusses the Culture Change Initiative at an October 7th meeting (next to her are Acting COO Art Murton and Chief of Staff Jesse Villarreal).

all employees and maintains an anonymous e-mail box for questions of concern to employees. The 2008 employee survey results will be used to mark progress and further refine the goals of the culture change initiative.

The Corporation has also negotiated interim changes in its pay-for-performance (PFP) program with the National Treasury Employees Union for the 2008 performance period and is continuing to negotiate and develop PFP and performance management programs for 2009 and beyond.

### **Employee Learning and Growth**

To further enhance readiness and flexibility, the FDIC led the development of strategic readiness simulation events that allowed the FDIC's senior leadership the opportunity to test and refine policy and decision tools related to large and complex institution failures. These exercises proved valuable and timely as the FDIC faced and addressed real financial industry stresses during the year. Significant technical and just-in-time training was provided in areas such as financial loan review, legal functions, and contract oversight.

### **Information Technology Management**

Information technology (IT) resources are one of the most valuable assets available to the FDIC in fulfilling its corporate mission. The FDIC continued to improve its IT administration and management practices in 2008.

The FDIC greatly enhanced its ability to effectively manage IT projects, programs, and portfolios by implementing the Enterprise Project Management Project Server (EPMPS) system. EPMPS stores and maintains IT project plans and associated project data in a central repository and has established a foundation for improving project and resource management practice. EPMPS provides a division-wide view of all portfolio project plans down to the task level, providing transparency and accountability to assist in identifying and isolating problem areas and resource bottlenecks.

### **Enterprise Architecture**

During 2008, the IT program continued to build on the foundation that had been laid for a target enterprise architecture, which is both economical and supports effective portfolio management as well as security and privacy programs. The overall vision of the FDIC's enterprise architecture is to "provide an efficient, agile, flexible and cost-effective environment that optimally supports the corporate strategic goals and objectives for all of FDIC and its customers." In 2008, the logical design of the modernized infrastructure was completed and guidelines were developed to provide for a consistent look and feel for new applications.

### **Am I Insured? Web Site**

In July 2008, the FDIC created an "Am I Insured?" Web application in response to the IndyMac bank closing. The "Am I Insured?" external Web site allowed customers of IndyMac, the first of several closed banks, to quickly check on whether or not their account with IndyMac was fully insured. This application simply informs the customers whether or not they are fully insured and provides a contact number to call for further information. No personal or sensitive data are stored or retrieved as a function of this new application and subsequent banks that closed after IndyMac have also had information added to allow customers to check on their accounts.

### **Internet Program**

The FDIC's public Web site, [www.fdic.gov](http://www.fdic.gov), is a key communication delivery method for the FDIC. Each of the three major business lines - insurance, supervision, and receivership management are supported by the Internet program. In 2008, the Brookings Institution ranked FDIC.gov 16th among government web sites. This was by far the most active year for FDIC.gov - 57 percent more user sessions than 2007 and 86 percent more than 2006. Internet traffic to FDIC.gov increased significantly since the IndyMac closing. The third quarter was the busiest in the web site's history with over 377 million total hits.

FDIC's Web presence has evolved during 2008. The "FDICchannel" was created on "Youtube" and hosts 16 videos. Youtube is the leading video sharing web site. Video topics range from deposit insurance to 75th anniversary events. The FDICchannel has received more than 58,000 views and potentially provides outreach to younger consumers. The 75th anniversary site and MyFDICinsurance.gov were launched in 2008. In addition, the FDIC implemented FDICSeguro.gov to provide a Spanish language alternative to the deposit insurance information provided on MyFDICinsurance.gov. E-mail subscriptions to various FDIC.gov products have increased 81 percent during 2008. At year-end, the FDIC had over 440,000 subscriptions to its products, including Financial Institution Letters, Special Alerts and Supervisory Insights.

### ***Securing the FDIC***

The FDIC continued to enhance and expand its Privacy Program in 2008 with an emphasis on protecting personally identifiable information (PII) from unauthorized collection, use, access, and disclosure. Additionally, efforts to strengthen controls over FDIC's information systems and web sites were continued to ensure that PII was adequately safeguarded and that users of FDIC applications were provided with adequate notice, choice, and access. The FDIC Privacy Program also executed a successful *Privacy Awareness Week* that increased employee awareness of privacy responsibilities and issues, such as preventing identity theft and limiting the use and disclosure of PII whenever possible. Also, the FDIC Privacy Program coordinated and implemented FDIC's first Corporate-wide Privacy Clean-Up Day, which resulted in FDIC Field Offices and Headquarters discarding a combined total of approximately 6½ tons of paper. The FDIC Privacy Program also conducted several physical Privacy Assessments/ Inspections of FDIC Regional and Area Offices which resulted in the issuance of detailed reports to management, identifying issues related to the security and protection of privacy information in public office spaces. Of special note this year, the OIG rated the agency's privacy impact assessment process "excellent" in its 2008 FISMA Report on FDIC's Information Security.

The FDIC's Chief Information Security Officer received the 2008 Association for Federal Information Resources Management (AFFIRM) Outstanding Federal Executive Award for Leadership in Security and Privacy. AFFIRM recognizes outstanding leadership and management in Government. The FDIC is the first recipient of this new award, which recognizes the increasing importance of information security and privacy.