The Year in Review

In 2005, the FDIC continued to pursue an ambitious agenda in meeting its responsibilities. Responding to the multiple hurricanes that occurred this past year tested our readiness, but it also underscored the critical importance of our core mission – maintaining stability of the nation's financial system and public confidence in insured depository institutions.

Highlights of the Corporation's 2005 accomplishments in each of its three major business lines – Insurance, Supervision and Consumer Protection, and Receivership Management – as well as in its program support areas are presented in this section.

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 funds.

Deposit Insurance Reform
The FDIC again gave priority attention to enactment of comprehensive deposit insurance reform legislation in 2005.

Both the House and the Senate passed separate deposit insurance reform bills in 2005. These bills were included as part of S.1932, budget reconciliation legislation that contained many provisions unrelated to reform.

The Senate took final action on S. 1932 on December 21, 2005, passing the measure by voice vote. On February 1, 2006, the House cleared the bill for action by the President by a vote of 216 to 214. The President signed the bill into law on February 8, 2006. The Federal Deposit Insurance Reform Act of 2005, contained in S. 1932, includes the major provisions of the FDIC's deposit insurance reform proposals. H.R. 4636, the Deposit Insurance Reform Conforming Amendments Act of 2005, contains the necessary technical and conforming changes to implement deposit insurance reform. H.R. 4636 was passed by the House and Senate in December 2005, separately from S.1932. Specifically, together S. 1932 and H.R. 4636 would:

- Merge the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) into a new fund, the Deposit Insurance Fund (DIF), effective no later than July 1, 2006.
- Establish a range for the designated reserve ratio of 1.15 percent to 1.50 percent.

- Allow the FDIC to manage the pace at which the reserve ratio varies within this range. (However, if the reserve ratio falls below 1.15 percent – or is expected to within 6 months – the FDIC must adopt a restoration plan that provides that the DIF will return to 1.15 percent within 5 years.)
- Eliminate the connection between designated reserve ratio (DRR) and premium rates and grant the FDIC's Board of Directors the discretion to price deposit insurance according to risk for all insured institutions at all times.
- Mandate rebates to the industry of half of any amount above the 1.35 percent level, unless the FDIC's Board of Directors, considering statutory factors, suspends the rebates.
- Mandate rebates to the industry of all amounts in the fund above the 1.50 percent level.
- Grant a one-time initial assessment credit (of approximately $4.7 billion) to recognize institutions' past contributions to the fund.
- Increase the coverage limit for retirement accounts to $250,000.
- Index this limit and the general deposit insurance coverage limit to inflation and allow the FDIC (in conjunction with the National Credit Union Administration) to increase the limits every five years beginning January 1, 2011, if warranted.

Implementation of deposit insurance reform will be one of the FDIC's main priorities for 2006.

International Capital Standards

The FDIC, as insurer, has a substantial interest in ensuring that bank capital regulation effectively serves its function of safeguarding the federal bank safety net against excessive loss. During 2005, the FDIC participated on the Basel Committee on Banking Supervision (BCBS) and many of its subgroups. The FDIC also participated in various U.S. regulatory efforts aimed at interpreting international standards and establishing sound policy and procedures for implementing these standards.

The BCBS, jointly with the International Organization of Securities Commissions (IOSCO), published *The Application of Basel II to Trading Activities and the Treatment of Double Default Effects* in July 2005. The document sets forth new capital treatments for over-the-counter derivatives and short term, repo-style transactions, hedged exposures, trading book exposures, and failed securities trades.

Ensuring the adequacy of insured institutions' capital under Basel II remains a key objective for the FDIC. In 2005, the FDIC devoted substantial resources to domestic and international efforts to ensure these new rules are designed appropriately. These efforts included the continued development of a notice of proposed rulemaking (NPR) and examination guidance, which is intended to provide the industry with regulatory perspectives for implementation. Additionally, the fourth quantitative impact study (QIS-4), which was begun in 2004 to assess the potential impact of the Revised Framework on financial institution and industry-wide capital levels, was completed. The QIS-4 findings suggested that, without modification, the Basel II framework could result in an unacceptable decline in minimum risk-based capital requirements. As a result, on September 30, 2005, the domestic bank and thrift regulatory authorities issued a joint press release stating that while they intend to move forward with the Basel II NPR, prudential safeguards must be incorporated into the Basel II framework to address the concerns created by the QIS-4 findings. FDIC-supervised institutions that plan to operate under the new Basel Capital Accord are making satisfactory progress towards meeting the expected requirements.

Domestic Capital Standards

The FDIC led the development of efforts to revise the existing risk-based capital standards for those banks that will not be subject to Basel II. These efforts are intended to: (a) modernize the risk-based capital rules for non-Basel II banks to ensure that the framework remains a relevant and reliable measure of the risks present in the banking system, and (b) minimize potential competitive inequities that may arise between banks that adopt Basel II and those banks that remain under the existing rules. An Advance Notice of Proposed Rulemaking reflecting these efforts was published in October 2005, with a comment period extended to January 2006. These revisions are currently anticipated to be finalized by domestic bank and thrift regulatory authorities in 2007 for implementation in January 2008.

Regulatory Burden Reduction Initiatives

The Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA) requires the banking agencies to solicit public comments to identify outdated or burdensome regulations, review the comments, and publish a summary in the *Federal Register*. The agencies must also eliminate unnecessary regulations to the extent appropriate. Finally, the Federal Financial Institutions Examination Council must report to Congress the significant issues and the merit of the issues raised during the public comment period and provide an analysis of whether the agencies are able to address the issues by regulation or whether the burdens must be addressed by legislative action.

During 2005, the agencies published two notices in the *Federal Register* seeking comments on 56 regulations covering Money Laundering; Safety and Soundness; Securities; Banking Operations; Directors, Officers and Employees; and Rules of Procedure; a total of 155 letters were received. Since June 2003, the agencies have issued five separate Requests for Burden Reduction Recommendations on a total of 127 regulations. More than 900 comments were received in response to those requests for comment. They are being analyzed by staff to determine the feasibility of implementing the recommendations. All of the comment letters received to date are available on the EGRPRA Web site at www.EGRPRA.gov.

The agencies, as part of the EGRPRA initiative to gather recommendations on regulatory burden reduction, held three outreach meetings with bankers in Phoenix, New Orleans and Boston; two meetings with community groups in Boston and Washington, DC; and three joint banker-community group meetings in Los Angeles, Kansas City and Washington, DC. Significant issues have been raised and the agencies are in the process of weighing the issues.

The major success of the EGRPRA project to date is that the agencies, the industry and consumer groups were able to have an open dialogue about regulatory burden. Over 180 legislative proposals for regulatory relief were presented to Congress through testimony by the agencies, the industry and consumer advocates.

Moreover, effective September 1, 2005, the FDIC, the Office of the Comptroller of the Currency (OCC), and the Federal Reserve Board (FRB) made changes to their uniform joint Community Reinvestment Act (CRA) regulations that will provide regulatory relief for smaller community banks and – at the same time – preserve the importance of community development in the CRA evaluations of these banks.

Additionally, the FDIC conducted a comprehensive review of its International Banking Rules. The revised rules, which became effective July 1, 2005, amend Parts 303, 325 and 327 relating to international banking and revise Part 347, Subparts A and B. As a result:

- The rules were reorganized and clarified to reduce regulatory burden.
- The availability of general consent for foreign branching and investments by insured state nonmember banks abroad was expanded.
- The “fixed” percentage asset pledge requirement for existing insured U.S. branches of foreign banks (“grandfathered branches”) was replaced by a risk-focused asset pledge requirement.
- The relocation rule for “grandfathered branches” was amended to address intrastate and interstate relocations.

Center for Financial Research
The FDIC's Center for Financial Research (CFR) was established in 2003 to promote and support innovative research on topics relating to deposit insurance, the financial sector, prudential supervision, risk measurement and management, and regulatory policy that are important to the FDIC's roles as deposit insurer and bank supervisor. The CFR is a partnership between the FDIC and the academic community with prominent scholars actively engaged in administering its research program. The CFR carries out its mission through an agenda of research, analysis, forums and conferences that encourage and facilitate an ongoing dialogue that incorporates industry, academic and public-sector perspectives.

The CFR supports high-quality original research by sponsoring relevant research program lines and soliciting rigorous analysis of the issues within six program areas (Deposit Insurance, Credit and Market Risk, Bank Performance and the Economy, Corporate Finance and Risk Management, Consumer Finance and Credit Issues and Policy and Regulation). These programs benefit from the leadership of program coordinators who are drawn largely from the outside academic community. Input is also obtained from six prominent economists who serve as Senior Fellows. The CFR sponsors a Visiting Research Fellows Program to provide support for in-residence scholars for defined time periods. The CFR also organizes visits and encourages interaction and collaboration between outside scholars and FDIC staff on subjects of mutual interest.

The CFR co-sponsored two premier research conferences during 2005. The fifteenth annual *Derivatives Securities and Risk Management Conference*, co-sponsored by the FDIC, Cornell University's Johnson Graduate School of Management, and the University of Houston's Bauer College of Business, was held in April 2005. The CFR and *The Journal for Financial Services Research (JFSR)* sponsored their fifth annual research conference, *Financial Sector Integrity, and Emerging Risks in Banking*, in September 2005. Both conferences included high-quality presentations and attracted more than 100 researchers, including both domestic and international participants. Fourteen CFR Working Papers have been completed on topics dealing with risk measurement, capital allocation, or regulations related to these topics. The CFR Senior Fellows met in June to discuss ongoing CFR research on Basel II and payday lending, and to discuss CFR activities for the coming year.

FFIEC Central Data Repository
The FFIEC Central Data Repository (CDR) was successfully implemented on October 1, 2005. The CDR is designed to consolidate the collection, validation and publication of quarterly bank financial reports. This multi-year development effort was undertaken by the FDIC, the FRB and the OCC, and in cooperation with the Call Report software vendors and the banking industry. The CDR employs new technology that uses the XBRL (eXtensible Business Reporting Language) data standard to streamline the collection, validation and publication of Call Report data. Over 8,000 financial institutions were enrolled in the CDR and used it to file their financial reports for the third quarter of 2005. The initial quality of the data was much higher than in previous quarters, speeding the availability of the data to our analysts and ultimately the public, thus fulfilling one of the overarching goals of the CDR project. Higher data integrity, accuracy and consistency will help to increase the efficiency with which the data can be collected, analyzed and released to the public.

In September 2005, the OCC, FRB and the FDIC requested comments on proposed revisions to the Call Report, representing the first set of revisions to the report content since 2002. The proposed changes would affect banks of all sizes and would take effect as of the March 31, 2006, report date. The proposed revisions would enhance the agencies' on- and off-site supervision activities, which should alleviate overall regulatory burden on banks.

DRR Director Mitchell Glassman, second from left, chairs a meeting of the Hurricane Task Force at Washington Headquarters.

Risk Analysis Center

The Risk Analysis Center (RAC), established in 2003 to provide information about current and emerging risk issues, is guided by its Management and Operating Committees – represented by the Division of Supervision and Consumer Protection, the Division of Insurance and Research and the Division of Resolutions and Receiverships. These Committees oversee and coordinate risk-monitoring activities that include presentations and reports regarding risk issues, and special projects. The activities in the RAC are guided by the National Risk Committee, which is chaired by the Chief Operating Officer. Major projects in-process or completed for 2005 include the following: Evaluation of Operational and Reputation Risk, Mortgage Credit Trends Analysis, Enhancing the Effectiveness of the Regional Risk Committee Process, Quantification of Bank Vulnerability to Rising Interest Rates, Hedge Funds, Market Data Repository, Offsite Monitoring, and Collateralized Debt Obligations.

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 by FDIC-supervised insured depository institutions.

At year-end 2005, the Corporation was the primary federal regulator for 5,265 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) examinations of these FDIC-supervised institutions, the FDIC assesses their operating condition, management practices and policies, and their compliance with applicable laws and regulations. The FDIC also educates bankers and consumers on matters of interest and addresses consumers' questions and concerns.

Hurricane Recovery Assistance

The federal banking regulatory agencies (agencies) worked cooperatively with state banking regulatory agencies and other organizations to determine the operating status of financial institutions located in the areas affected by the Gulf Coast hurricanes during 2005. The agencies quickly released regulatory relief guidance to help facilitate rebuilding in the areas affected by these hurricanes and encouraged bankers to work with consumers and business owners experiencing difficulties due to the storms. Exercising their authority under Section 2 of the Depository Institutions Disaster Relief Act of 1992 (DIDRA), the agencies made exceptions to statutory and regulatory requirements relating to appraisals for transactions involving real property in major disaster areas when the exceptions would facilitate recovery from the disaster and would be consistent with principles of safety and soundness.

In the wake of the 2005 hurricane season, the agencies confirmed that the banking industry is resilient in the face of tremendous devastation. There were 280 financial institutions, with approximately $270 billion in total assets, operating in the area impacted by Hurricane Katrina. Only a handful of smaller institutions remain as supervisory concerns. The majority of institutions operating in the path of Hurricane Katrina were well-run, had strong management teams, implemented sound back-up contingency plans, and were well capitalized.

The Federal Financial Institutions Examination Council (FFIEC) announced the formation of an interagency working group to enhance the agencies' coordination and communication on, and supervisory responses to, issues facing the industry in the aftermath of Hurricane Katrina. This working group established a user-friendly, web-based, frequently asked questions forum on the FFIEC's Web site at www.ffiec.gov. The task force will also publish examiner guidance to clarify expectations with respect to the assessment of credit risk and other supervisory issues.

Members of the Dallas Region Hurricane Katrina Task Force (l-r): Randy Taylor, Nann Wright, Stan Ivie, Cheryl Couch and Cynthia Scott.

In addition to interagency efforts, the FDIC established a 24-hour hotline and a Web page devoted to assisting hurricane victims to obtain information about their financial institution's operating status, as well as tips on other financial matters, such as replacing identification documents, checks and credit cards.

Safety and Soundness Examinations

As of December 31, 2005, the Corporation had conducted 2,399, or 100 percent of the statutorily required safety and soundness examinations. The number and total assets of FDIC-supervised institutions identified as "problem" institutions (defined as having a composite CAMELS[1] rating of "4" or "5") declined during 2005. As of December 31, 2005, 29 institutions with total assets of $2.9 billion were identified as problem institutions, compared to 44 institutions with total assets of $5.4 billion on December 31, 2004. These changes represent a decrease of 34.1 percent and 46.3 percent, respectively, in the number and assets of problem institutions. During 2005, 36 institutions were removed from problem institution status due to composite rating upgrades, mergers, consolidations or sales, and 19 were newly identified as problem institutions. Additionally, two problem institutions converted to State non-member charters and are now under FDIC supervision. The FDIC is required to conduct follow-up examinations of all designated problem institutions within 12 months of the last examination. As of December 31, 2005, 100 percent of all follow-up examinations for problem institutions had been performed on schedule.

Compliance and Community Reinvestment Act (CRA) Examinations

The FDIC conducted 815 comprehensive compliance-CRA examinations, 1,198 compliance-only examinations,[2] and seven CRA-only examinations in 2005, compared to 1,459 joint compliance-CRA examinations, 673 compliance-only examinations, and four CRA-only examinations in 2004. The FDIC conducted 100 percent of all joint and comprehensive examinations within established time frames. As of December 31, 2005, three institutions were assigned a "4" rating for compliance, and no institutions were rated "5." The first "4"-rated institution is currently under an outstanding Cease and Desist Order and an on-site examination was underway at year-end. Management of the second institution executed a Memorandum of Understanding on October 5, 2005. The third institution was examined in 2005 and the Regional Office is currently finalizing a Cease and Desist Order to address the FDIC's examination findings.

Relationship Manager Program

On October 1, 2005, the Corporation implemented the Relationship Manager Program for all FDIC-supervised institutions. The program, which was piloted in 390 institutions during 2004, is designed to strengthen communication between bankers and the FDIC, as well as improve the coordination, continuity and effectiveness of regulatory supervision. Each FDIC-supervised institution was assigned a relationship manager, who serves as a local point of contact over an extended period and will often participate in or lead examinations for his or her assigned institution. The program will allow for flexibility in conducting examination activities at various times during the 12- or 18-month examination cycle based on risk or staffing considerations.

1 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).

2 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."

FDIC Examinations 2003-2005

	2005	2004	2003
Safety and Soundness:			
State Nonmember Banks	**2,198**	2,276	2,182
Savings Banks	**199**	236	231
Savings Associations	**1**	0	0
National Banks	**0**	0	5
State Member Banks	**1**	3	3
Subtotal - Safety and Soundness Examinations	**2,399**	2,515	2,421
CRA/Compliance Examinations:			
Compliance-Community Reinvestment Act	**815**	1,459	1,610
Compliance-only	**1,198**	673	307
CRA-only	**7**	4	2
Subtotal CRA/Compliance Examinations	**2,020**	2,136	1,919
Specialty Examinations:			
Trust Departments	**450**	534	501
Data Processing Facilities	**2,708**	2,570	2,304
Subtotal-Specialty Examinations	**3,158**	3,104	2,805
Total	**7,577**	7,755	7,145

IT Examinations

The FDIC has updated its risk-focused information technology (IT) examination procedures for FDIC-supervised financial institutions under its new Information Technology Risk Management Program (IT-RMP). IT-RMP procedures were issued to examiners on August 15, 2005. The new procedures focus on the financial institution's information security program and risk-management practices for securing information assets. The program integrates with the Relationship Manager Program by embedding the IT examination within the Risk Management Report of Examination for all FDIC-supervised financial institutions, regardless of size, technical complexity or prior examination rating. IT-RMP eliminates separate reporting of IT component ratings and reports only a single technology rating.

Homeland Security

The financial sector is a critical part of the infrastructure in the United States, and the FDIC has taken a leadership role in assisting the financial sector to prepare for emergencies. As a member of the Financial and Banking Information Infrastructure Committee (FBIIC), the FDIC sponsored a series of outreach meetings titled *Protecting the Financial Sector: A Public and Private Partnership.* From 2003 to early 2005, the homeland security meetings were held in 29 cities across the United States with the last meeting held in New York City, NY. These meetings provided members of the financial sector with the opportunity to communicate with senior government officials, law enforcement, emergency management personnel and private sector leaders about emergency preparedness. A second round of homeland security meetings started in late 2005 with four meetings held during this timeframe. Homeland Security meetings are planned for 21 cities in 2006.

The FDIC served as FBIIC's liaison with the Department of Homeland Security (DHS) during 2005 and assisted DHS with items relating to the financial sector.

Bank Secrecy Act

The FDIC is committed to assisting in efforts designed to thwart the inappropriate use of the banking system through activities conducted by terrorists and other criminals. In 2005, the Division of Supervision and Consumer Protection established a new Anti-Money Laundering (AML) and Financial Crimes Branch to focus important resources and attention on our increasing responsibilities in these areas. The new branch brings together specialists to address issues related to Bank Secrecy Act (BSA) compliance, money laundering, financial crimes, terrorist financing, and cyber-fraud.

The FDIC continued in 2005 to play a critical role in the fight against money laundering and terrorist financing. Our efforts included:

- Contributing to the development and implementation of rules and interpretive guidance related to BSA and the USA PATRIOT Act.
- Adopting through the FFIEC, comprehensive interagency examination procedures. The new procedures emphasize a banking organization's responsibility to establish and implement risk-based policies and procedures to comply with the BSA and safeguard its operations from money laundering and terrorist financing.

At the BSA/AML teleconference in the FDIC RAC (l-r): William Spaniel, FFIEC; Bridget Neil, Federal Reserve; Lisa Arquette, FDIC-DSC; John Wagner, OCC; and Timothy Leary, OTS

- Dedicating more staff to BSA/AML oversight. The number of trained BSA/AML subject-matter experts has more than doubled to 347 since 2004. These specialists perform BSA/AML examinations at institutions that have a higher-risk profile due to geographic location, customer base, BSA/AML compliance record, or types of products or services offered.
- Providing various forms of examiner and industry training including one outreach session per region, over 70 events hosted by Washington and Regional offices and representation in 212 BSA/AML events sponsored by states and other entities. In total, the banker calls and outreach events reached more than 23,000 bankers and examiners.

Minority-Depository Institutions

The FDIC has long recognized the importance of minority depository institutions and their importance in promoting the economic viability of minority and under-served communities. As a reflection of the FDIC's commitment to minority depository institutions, on April 9, 2002, the FDIC issued a *Policy Statement Regarding Minority Depository Institutions*. The policy, which can be found at www.fdic.gov/regulations/resources/index.html, implements an outreach program designed to preserve and encourage minority ownership of financial institutions.

Since the adoption of the policy by the FDIC Board of Directors, the program's National Coordinator has maintained contact with various minority depository institution trade associations, and has met periodically with the other Federal banking regulators to discuss the initiatives underway at the FDIC, and to identify opportunities where the agencies might work together to assist minority institutions. All of the FDIC's six DSC Regions have held annual Minority Depository Institution Outreach Programs, made annual contact with each FDIC-supervised minority depository institution, and offered to make return visits to these institutions following the examination process.

During 2004, the FDIC created the Minority Bankers' Roundtable series, a forum designed primarily to explore partnerships between the minority depository institutions community and the FDIC. During 2005, there were six sessions held in: Nashville, Tennessee; New York, New York; Houston, Texas; Santa Monica, California; Atlanta, Georgia; and San Juan, Puerto Rico. The Minority Banker Roundtable and annual regional outreach events will continue in 2006.

In 2005, the FDIC also provided technical assistance, training and educational programs and held interagency forums to address the unique challenges faced by minority depository institutions. Training and educational programs for minority depository institutions included the FDIC's Director's College Program and the FDIC's *Money Smart* Program. The FDIC co-hosted Regional Forums with the America's Community Bankers Association and the National Bankers Association in 2005. FDIC also participated in and/or co-sponsored conferences with America's Community Bankers, National Bankers Association, National Association of Chinese American Bankers, Western Independent Bankers, and Puerto Rico Bankers Association.

FDIC also supported the preservation of minority depository institutions in its response to Hurricane Katrina. The FDIC Task Force on Minority Community Banking and Non-Branch Banking met with representatives from the Utah industrial loan company industry to facilitate their assistance to minority depository institutions in the Gulf Coast region affected by Hurricane Katrina. The result has been that as of year-end 2005, the Utah industrial loans companies have pledged more than $18 million in deposits and over $120,000 in direct grants to this effort. Efforts similar to these made by this FDIC task force will continue in 2006.

FDIC will continue its minority depository institution programs in 2006.

Chairman Powell praises Michael Jackson, Sandra Thompson and Donna Gambrel for their work on a recent conference on preventing identity theft.

Large-Bank Program
In recognition of the increasing concentration of risk exposure in large insured institutions, as well as new challenges posed by the implementation of the Basel II Capital Accord, the FDIC enhanced its large-bank supervision and risk assessment efforts in 2005 by creating two branches – the Large Bank Supervision Branch and the International and Large Bank Policy Branch.

The Large Bank Supervision Branch is responsible for supporting supervisory activities in large banks and establishing minimum standards and supervisory strategies necessary to ensure a consistent approach to large-bank supervision on a national basis. In 2005, Branch staff was actively involved in domestic and international discussions intended to ensure effective implementation of the Basel II Capital Accord, which included participation in numerous "supervisory working group" meetings with foreign regulatory authorities to address Basel II home-host issues.

The International and Large Bank Policy Branch is responsible for supporting supervisory activities in the areas of risk model assessment, economic capital processes, examination work related to market risk under Part 325 Appendix C of the FDIC rules and regulations and other processes that are dependent on quantitative methods. The purpose of Part 325 Appendix C is to ensure that banks with significant exposure to market risk maintain adequate capital to support that exposure. In addition, the International and Large Bank Policy Branch is responsible for policy development regarding large-bank supervision and international matters.

International Stability
The FDIC, as a member of the Consultative Group (CG) with respect to the Middle East-North Africa (MENA) Partnership for Financial Excellence (PFE) initiative, continues to work with the other federal banking agencies, the State Department and the Department of Treasury, to develop technical assistance programs to meet needs in the MENA region. In 2005, the FDIC delivered two courses under the MENA training initiative in 2005: Principles of Bank Resolutions and Receiverships hosted by the Arab Academy for Training and Financial Sciences in Amman, Jordan; and Examination Management hosted by the Central Bank of Tunisia in Tunis. Preparations are underway to establish training venues and course curriculum for this initiative in 2006. The objective of this initiative is to help foster economic growth in the region through the implementation of sound supervisory systems.

The FDIC chairs the Association of Supervisors of Banks of the Americas, (ASBA) Working Group on Deposit Insurance and Bank Resolutions. The Working Group, an outgrowth of action plans for ASBA's 2004-2008 strategic plan, is charged with promoting best practices and identifying opportunities for improvement in deposit insurance and bank resolutions. Similarly, in 2005, the FDIC also actively participated in ASBA's Working Group on Credit and Operational Risk, which was formed to identify best practices and opportunities for improvement in credit risk and operational risk management policies and procedures among ASBA's membership.

The FDIC fulfilled 20 technical assistance missions in 2005. The missions provided technical support in supervision, deposit insurance, resolutions/receiverships, and legal underpinnings of supervision and insurance. Beneficiaries of these missions included Macedonia, Russia, Tanzania, Thailand, Ukraine, several Latin American countries, and several countries involved in the Partnership for Financial Excellence Program in the Middle East and North Africa. The FDIC also held 60 meetings with representatives from foreign countries, typically representing a country's central bank, bank supervisory authority or deposit insurance agency. Frequent visitors included: Albania (2), Canada (2), China (11), France (2), Japan (6), Korea (8), Malaysia (2), Russia (2), and Taiwan (2).

Identity Theft and Consumer Privacy
In 2005, the FDIC continued to take a leading role in helping banks combat identity theft. The FDIC solicited public comment on its study, *Putting an End to Account-Hijacking and Identity Theft,* published in December 2004; and in June 2005, published a study supplement. The study and the supplement took an in-depth look at identity theft, focusing on account hijacking (the unauthorized use of deposit accounts).

Chicago Region team makes sure bankers get the answers they need (l-r): Art Khan, Sharon Vejvoda, Dan Peters, Angelina Pollard, Ronald Regal, Teresa Sabanty, and Ray Jackson

One of the study's conclusions was that increased consumer education and information sharing could reduce the incidence of identity theft. As a result of these recommendations, the FDIC sponsored four symposia in 2005 in Washington, DC, Atlanta, Los Angeles and Chicago that brought together experts representing federal and state government, the banking industry, consumer groups, and law enforcement who discussed current efforts to combat scams such as phishing, which can lead to account hijacking. The symposium speakers also addressed efforts to educate consumers on avoiding other scams that can lead to identity theft and on the steps to take in the unfortunate event that identity theft should happen to them.

The FDIC is one of several federal agencies charged with implementing the provisions of the Fair and Accurate Credit Transactions Act of 2003 (FACT Act), which substantially amended the Fair Credit Reporting Act, particularly in the areas of consumer access to and quality of credit information, privacy, and identity theft. The FACT Act:

- preserves uniform national standards for the content of consumer report information and creditor access to such information,
- improves consumer access to credit information,
- improves the quality of reported credit information,
- protects privacy,
- combats identity theft, and
- promotes financial literacy.

Consistent with the privacy requirements of the FACT Act, the FDIC worked with other federal agencies to finalize rules in 2005 that permit creditors to obtain, use and share medical information only to the degree necessary to facilitate legitimate operational needs. The FDIC is training its examiners on the concepts underlying the entire FACT Act, and is developing examination procedures to evaluate industry compliance.

Consistent with the identity theft provision of the FACT Act, the FDIC worked with other federal agencies in 2005 to propose rules that would require banks to implement a written identity theft protection program which includes procedures to evaluate red flags that might indicate identity theft. The FDIC, with the other agencies, also finalized rules requiring institutions to properly dispose of consumer information derived from credit reports in order to prevent identity theft and other fraud. The rules on disposal of consumer information became effective on July 1, 2005.

Consumer Complaints and Inquiries
The FDIC's centralized Consumer Response Center (CRC) is responsible for investigating all types of consumer complaints about FDIC-supervised institutions and for answering inquiries about consumer protection laws and banking practices. During 2005, the FDIC received 8,851 complaints, of which 3,307 were against state non-member institutions. Approximately 36 percent of the state non-member bank consumer complaints concerned credit card accounts, with the most frequent complaints involving billing disputes and account errors, loan denials, terms and conditions, collection practices, reporting of erroneous information, credit card fees and service charges, interest rates, and disclosures. The FDIC responded to over 97 percent of written complaints on a timely basis.

The FDIC also responded to 4,042 written and 9,395 telephone inquiries from consumers and members of the banking community about consumer protection issues. In addition, the FDIC responded to over 64,000 written and telephone inquiries from bankers and consumers about the FDIC’s deposit insurance program and insurance coverage issues.

Deposit Insurance Education
An important part of the FDIC’s role in insuring deposits and protecting the rights of depositors is its responsibility to ensure that bankers and consumers have access to accurate information about FDIC’s deposit insurance rules. To that end, 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 targeting both bankers and consumers.

During 2005, the FDIC completed development of a major update of its popular Electronic Deposit Insurance Estimator (EDIE) for consumers, an Internet application located on FDIC's Web site that estimates insurance coverage for users' deposit accounts at insured institutions. The new Consumer EDIE offers two different approaches for estimating coverage, one for novice users and one for frequent users. The new Consumer EDIE application is available for public use starting January 2006.

During 2005, the FDIC conducted a nationwide series of telephone/Internet seminars for bankers and a nationwide survey of insured institutions to gather information about current awareness of, and opinions about, the FDIC's existing educational resources on the deposit insurance rules. The FDIC also initiated an effort to encourage more bank trade organizations to sponsor FDIC deposit insurance seminars for their members.

In 2005, the FDIC released several new job aids for bankers, including:

- A new 100-minute video for bankers that provides an in-depth review of FDIC deposit insurance coverage, available on CD-ROM and for viewing on the FDIC's Web site.
- An *Inventory of Deposit Insurance Guidance (IDIG)*, which is an electronic support system on CD-ROM that includes a searchable database of deposit insurance information and has links to all FDIC deposit insurance publications, application tools and services.
- A major update of *The Financial Institution Employee's Guide to Deposit Insurance*, the FDIC's most authoritative resource on deposit insurance coverage for bankers.

The FDIC also released its two most popular brochures for bank customers—*Insuring Your Deposits* (a basic primer on deposit insurance coverage) and *Your Insured Deposits* (a comprehensive guide to deposit insurance coverage) in Chinese and Korean.

The FDIC conducted 27 seminars for financial institution employees and consumer organizations on the rules for deposit insurance coverage. These seminars, which were conducted in a variety of formats, including Internet, teleconference and classroom, provided a comprehensive review of how FDIC insurance works, including the FDIC's rules for coverage of different types of deposit accounts.

Financial Education and Community Development

The FDIC's financial education activities continue to serve as a vital part of the Corporation's efforts to help maintain the stability of the nation's financial system, support community development and strengthen the economy. Since launching its award-winning *Money Smart* financial education program in 2001, the FDIC has helped thousands of consumers get started on the road to greater financial independence and gain access to mainstream products and services. The FDIC continues to distribute and promote the *Money Smart* curriculum, which is available in five languages–English, Spanish, Chinese, Korean and Vietnamese.

The FDIC exceeded two of the three program goals for *Money Smart*. With over 252,000 copies of the curriculum having been distributed, the FDIC has exceeded by more than two times the original distribution goal of 100,000 copies. This year, the FDIC also exceeded its goal to recruit 1,000 partners for *Money Smart* Alliance. Over 1,200 organizations throughout the country have joined with the FDIC to help deliver and promote financial education. The FDIC has also made significant strides towards achieving the third goal–to provide one million consumers with financial education–more than 589,000 consumers have now been reached. Of the consumers that have taken *Money Smart* classes, the FDIC is aware of over 82,100 who have subsequently opened bank accounts. Some class participants have become first-time home-buyers and others have engaged in other asset-building activities.

To raise awareness of the FDIC's *Money Smart* program among Hispanic adults and encourage them to ask about *Money Smart* classes and products, a summer-long Spanish language advertising campaign included print and radio ads that ran in 14 key markets. A total of 1,080 people attended *Money Smart* classes as a result of the advertising campaign. The FDIC introduced a Spanish-language Web page at www.fdic.gov/quicklinks/spanish.html that contains many consumer-related materials, including *Money Smart*. In recognition of the FDIC's leadership in financial education and outreach to the Hispanic community, President Bush asked the FDIC to be a part of his national public-private sector partnership to ensure financial education is available consistently and comprehensively to Hispanic communities. The partnership, which includes representatives from the FDIC, U.S. Department of Treasury, Small Business Administration, Latino Coalition, U.S. Hispanic Chamber of Commerce and others, is charged with directing federal, non-profit and private resources to areas in need of financial education and coordinating private sector resources to reach Hispanics nationwide.

In 2005, the FDIC provided assistance to the Inter-American Development Bank (IADB) Multilateral Investment Fund to offer financial education services and help develop products with special remittance features. These products were created in collaboration with Latin American Consulates, foreign banks, U.S. financial institutions and bank trade groups. The FDIC also spoke on panels at the 2005 International Forum on Remittances sponsored by the IADB Multilateral Investment Fund. The panels focused on financial education curricula and outreach and the importance of balancing competition and regulation in the remittance market. In addition, FDIC participated in the *Forum's Remittances, Business Models and Technology Trade Fair*. This fair provided attendees the opportunity to network and view innovative electronic transfer products, which can enable community banks, credit unions, credit cooperatives, and micro-finance institutions to become more competitive in pricing and product features.

In 2005, the FDIC expanded its efforts with the New Alliance Task Force (NATF), originally launched and continuing in Chicago, to two additional markets – Los Angeles, California and Austin, Texas – with 60 financial institutions participating in those markets. NATF is a broad-based coalition comprised of banks, community-based organizations, bank regulatory agencies, government agencies, representatives from the secondary market and private mortgage insurance companies and the Mexican Consulate. The foundation has also been laid for the launch of NATF in four other markets – Boston, New York City, Raleigh-Durham and Kansas City.

Virtual Supervisory Information On The Net (ViSION)

In February 2005, the FDIC released the fourth and final phase of ViSION, a comprehensive processing and tracking system supporting the Corporation's supervision function. This phase represents the culmination of a five-year and approximately $32 million capital-investment project and brings together – in a single, customized product – detailed information on examination, application, enforcement and numerous other bank activities. The system, which includes such features as automated event notification, deadline tracking, and job-specific role-based security, is used by more than 3,200 federal and state regulators.

Annual Independent Audits and Reporting Requirements

The Corporation amended Part 363 of its regulations by raising the asset-size threshold from $500 million to $1 billion for requirements relating to internal control assessments and reports by management and external auditors. The amendment also relieved covered institutions with total assets of less than $1 billion of the requirement that all outside directors on the audit committee be independent of management; under the amended rule, a majority of independent directors on the audit committee is sufficient. The amendment does not relieve public covered institutions from their obligation to comply with applicable provisions of the Sarbanes-Oxley Act and the Securities and Exchange Commission's implementing rules. The amendments took effect in December 2005.

Receivership Management

The FDIC has the unique mission of protecting depositors of insured banks and savings associations. No insured depositor has ever experienced a loss in a 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 – the FDIC is responsible for resolving that failed bank or savings association. The FDIC staff gathers data about the troubled institution, estimates the potential loss to the insurance fund(s) from various resolution alternatives, solicits and evaluates

Liquidation Highlights 2003-2005

Dollars in billions (except where noted)

	2005•	2004	2003
Total Resolved Banks	**0**	3	3
Assets of Resolved Banks	**$ 0.00**	$ 0.15	$ 1.10
Total Resolved Savings Associations	**0**	1	0
Assets of Resolved Savings Associations	**$ 0.00**	$ 0.01	$ 0.00
Net Collections from Assets in Liquidation▪	**$ 0.37**	$ 0.38	$ 1.70
Total Assets in Liquidation▪	**$ 0.44**	$ 0.61	$ 0.81
Total Dividends Paid▪	**$ 0.44**	$ 0.38	$ 1.06
Savings Over Cost of Liquidation▾	**$ 0**	$11.6 million	$28.2 million

•No failures in 2005.
▪Includes activity from thrifts resolved by the former Federal Savings and Loan Insurance Corporation and the Resolution Trust Corporation.
▾Least Cost Test Savings.

bids from potential acquirers, and recommends the least-costly resolution method to the FDIC's Board of Directors.

Resolving Financial Institutions Failures

During 2005, there were no institution failures. This is the first calendar year in the history of the FDIC during which no federally-insured institutions failed.

Protecting Insured Depositors

Although the focus of the FDIC in recent years has shifted from resolving large numbers of failed institutions to addressing existing and emerging risks in insured depository institutions, the FDIC continues to protect deposits in those institutions that fail. The FDIC's ability to attract healthy institutions to assume deposits and purchase assets of failed banks and savings associations 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 insured $100,000 limit. During 2005, the FDIC paid dividends of 77.9 percent of the deposit amount exceeding the insured limit. These dividends paid in 2005 are up 4.9 percent from 2004.

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 the failed institutions have been sold and the final distribution of any proceeds are made, the FDIC terminates the receivership estates. In 2005, the number of receiverships under management was reduced by 31 percent (from 94 to 65), while the book value of assets under management was reduced by 28 percent (from $615 million to $441 million).

Professional Liability Recoveries

The FDIC staff works to identify potential claims against directors and officers, accountants, appraisers, attorneys and other professionals who may have contributed to the failure of an insured financial institution. Once a claim is deemed viable and cost effective to pursue, FDIC initiates legal action against the appropriate parties. During the year, the FDIC recovered approximately $65 million from these professional liability suits. In addition, as part of the sentencing process for those convicted of criminal wrongdoing against failed institutions, the court may order a defendant to pay restitution to the receivership. The FDIC, working in conjunction with the U.S. Department of Justice, collected more than $6 million in criminal restitution during the year. The FDIC's caseload at the end of 2005 included investigations, lawsuits and ongoing settlement collections involving 21 claims and 106 other active collections, down from 233 at the beginning of 2005. At the end of 2005, there were 995 pending restitution orders, down from 1,181. This includes RTC orders that the FDIC inherited on January 1, 1996.

Effective Management of Strategic Resources

To carry out its mission successfully, the FDIC must effectively manage and utilize a number of critical strategic resources particularly its human, financial, and information technology (IT) resources. Major accomplishments in improving the Corporation's operational efficiency and effectiveness are described below. Although the FDIC is not subject to the President's Management Agenda, many of these efforts are consistent with the spirit of that agenda.

Expansion of Virginia Square Facility

Management of Financial Resources

Beginning in 2003, the Corporation separated its investment expenses from its annual operating budget in order to ensure a more rigorous approach to the approval and management of major investment initiatives. The single most significant current initiative is the construction of additional FDIC office and multi-purpose buildings adjacent to the existing facilities at Virginia Square. This project will eliminate the need for the Corporation to lease commercial space in downtown Washington, DC, and will substantially reduce future facility costs. Management processes have been implemented to ensure adherence to the project budget and schedule. Once completed and occupied, the new building will provide estimated cost savings of approximately $78 million (net present value) over 20 years, when compared to the projected costs associated with the current headquarters leasing arrangements. Construction has progressed on schedule and under budget. Occupancy began in mid-January 2006 and should be completed prior to the end of the first quarter 2006, as targeted.

Human Capital Management

The FDIC's employees are its most important resource for accomplishing its mission. For that reason, it seeks to continue to be the employer of choice within the financial regulatory community and to operate a human resources program that attracts, develops, evaluates, rewards and retains a high-quality results-oriented workforce. This has been a difficult challenge over the past 13 years because the Corporation has been in a continuous downsizing mode as it completed the residual workload from the banking and thrift crises of the late 1980s and early 1990s.

Although the pace of downsizing has slowed in the past few years, the Corporation continues to adjust both the size and composition of its workforce to meet the changing course of the financial services industry. In 2005, the FDIC implemented a number of strategies identified in the human capital plan developed in 2004 to procure the skill sets needed in this new environment.

In 2005, the FDIC completed its workforce restructuring activities in the Division of Resolutions and Receiverships and the Division of Information Technology, and identified the skills sets needed to better position these organizations for future challenges. Through judicious use of Voluntary Early Retirement Authority, Voluntary Separation Incentive Payments, and outplacement assistance, our Information Technology organization met its workforce restructuring goals without the need for involuntary separations. The Division of Resolutions and Receiverships involuntarily separated 66 employees, while reducing its workforce by over 50 percent (a reduction of more than 250 positions from the 2004 authorized level). In both organizations, any remaining vacancies were filled by matching existing employees with the requisite skill sets. The Corporation also plans workforce restructurings in several support divisions in 2006.

In 2005, the FDIC established the Corporate Employee Program (CEP) to begin the cross-training that will produce the flexible workforce envisioned in the FDIC's Human Capital Plan. During the year, four CEP training classes were held for approximately 100 new hires and existing employees. In addition, employees in the Supervision business line who had prior experience in the Resolutions and Receiverships business line received refresher training.

The FDIC requested increased flexibilities from the U.S. Office of Personnel Management (OPM) to facilitate implementation of its Human Capital Plan. In 2005, the FDIC received OPM approval to establish a three-year career internship for the Corporate Employee Program. This delegation provided additional hiring flexibility with the ability to permanently retain or release these employees at the end of three years. The FDIC also established a Corporate Expert pay plan to hire and retain nationally recognized experts in a limited number of senior, non-managerial positions. In addition, the Corporation received authority to waive the dual compensation restrictions allowing the rehiring of annuitants in critical positions in the event of a severe banking emergency. In 2006, the Corporation will continue to seek increased human resources flexibilities through OPM authorities and legislation as needed.

The FDIC conducted negotiations with the National Treasury Employees Union (NTEU) over compensation and benefits, and met its goals of providing competitive pay and benefits that allow the Corporation to continue its status as an "employer of choice" in the financial regulatory community. A significant portion of the compensation in all pay plans remains linked to each employee's contributions to the FDIC's goals and objectives and overall success.

Emergency Preparedness

During 2005, the FDIC has strengthened and refined the FDIC Emergency Preparedness Program, which includes the Emergency Response Plan and the Business Continuity Plan. Some of the major accomplishments include expanding the capabilities at the headquarters alternate site to include IT back-up operations; developing a new emergency notification system to allow for immediate electronic and voice notification of staff; and conducting an annual business impact analysis (BIA) with major emphasis on IT systems and cost analysis. The annual BIA examined the Corporate Business Continuity Plan to determine whether it was current with regard to the Corporation's critical business functions and resources needed to manage those functions during an emergency. The Corporation also enhanced its emergency preparedness training with the development of computer-based instruction for all employees. In addition, the FDIC continued to conduct emergency preparedness exercises that included evacuation and shelter-in-place drills, as well as tabletop and functional exercises.

Other Significant Information Technology Initiatives

On May 2, 2005, the FDIC implemented the New Financial Environment (NFE) and its supporting systems. The implementation was the culmination of years of effort by the FDIC to modernize its aging, highly-customized and complex financial systems environment. The NFE project was a corporate-wide effort focused on implementing an enterprise-wide, integrated software solution to support the current and future financial needs of the FDIC. NFE also enhanced the capability of other significant development efforts such as the Corporate Human Resources Information System Time and Attendance System, and the Legal Integrated Management System, and also provided more robust cost information for improved decision making.

The FDIC continues to collect quality and timely information in 2005 with the use of FDIC*connect*. FDIC*connect* is a secure Web site that facilitates electronic communication with FDIC-insured institutions, and became the primary method of delivery for the quarterly deposit insurance assessment invoices through a rule change effective with the March 2005 assessment cycle. In 2005, over 150,000 transactions were completed by financial institutions using FDIC*connect*.

Transformation of the Information Technology Program

In 2005, the FDIC completed critical steps toward transforming its information technology program– an initiative began in 2004. Using a roadmap developed with Deloitte Touche over 18 months ago, the FDIC implemented an outsourcing strategy, employee buyout and divisional reorganization that significantly improved the program's overall efficiency and effectiveness. The immediate benefits of steps taken so far include:

- Establishment of the Chief Information Officer (CIO) Council, advising the CIO on all aspects of adoption and use of IT at the FDIC.
- Additional IT expertise and best practices from global contracting partners.
- A leaner organization with fewer staff and an increased span of control.
- A streamlined technical infrastructure.

- A realigned IT product and services delivery-management structure that is organized along the lines of the new systems development life cycle (Rational Unified Process-RUP).
- A new delivery management structure that in conjunction with the new Project Management Office (PMO) provides a consistent approach for all IT projects.
- Enhanced integration of information security requirements and perspectives in all IT projects.
- The consolidation of nearly 100 support contracts into six. The structure of the new contracts emphasized contractor performance and linked contractor compensation to results achieved rather than costs incurred.

Once completed, the FDIC anticipates that the benefits of the transformation will include:

- The greater use of contracting partners for operation and implementation allowing in-house staff to focus on strategic business planning, design and consultation.
- Reduced costs through improving the efficiency and effectiveness of IT products and services.
- A targeted long-term plan for personal and technical development of all IT employees resulting from a new skills assessment to be conducted during 2006.

Privacy Program

In 2005, the charter of the Chief Information Officer's Council was expanded to include oversight of Privacy Act responsibilities, and the corporate Privacy Program was enhanced under the guidance of the newly appointed Chief Privacy Officer (CPO). The program's objective is to ensure that the FDIC is taking appropriate steps to protect personally identifiable information from unauthorized use, access, disclosure or sharing, and to protect associated information systems from unauthorized access, modification, disruption or destruction.

One of the first priorities is increasing employee awareness. The program requires mandatory privacy training so that all FDIC employees and contractors are aware of the requirements for safeguarding sensitive information and know where to obtain privacy-related reference material. Many initiatives were completed in 2005 in support of the newly enhanced Corporate Privacy Program, including mandatory computer-based privacy training and distribution of a Privacy Awareness Package.