The Year in Review

In 2007, the FDIC continued its work on high-profile policy issues, ranging from implementation of deposit insurance reform to finalizing capital reform. In addressing these and other issues, the Corporation 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 and reorganized examination teams that inspected financial institutions that originate significant volumes of subprime loans and non-traditional loan products. The FDIC continued expansion of financial education programs, providing *Money Smart* training to hundreds of public school teachers. It also sponsored and co-sponsored major conferences and participated in local and global outreach initiatives.

Highlighted in this section are the Corporation's 2007 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.

Implementation of Deposit Insurance Reform

On November 2, 2006, the FDIC Board of Directors adopted a final rule on assessments as part of the implementation of the Federal Deposit Insurance Reform Act of 2005 (Reform Act). The new rule enables the FDIC to more closely tie each bank's assessments to the risk that it poses to the Deposit Insurance Fund.

Effective January 1, 2007, assessment rates ranged from 5 to 7 basis points for Risk Category I institutions, 10 basis points for Risk Category II institutions, 28 basis points for Risk Category III institutions and 43 basis points for Risk Category IV institutions. These rates are uniformly 3 basis points greater than the base assessment rates also adopted by the Board in November 2006. The Board retains the flexibility to adjust rates without further notice-and-comment rulemaking, provided that no such adjustment can be greater than 3 basis points in any quarter; that these adjustments cannot result in rates more than 3 basis points above or below the base rates; and that rates cannot be negative. The table on the following page shows the distribution of institutions among the risk categories as well as within Risk Category I.

Within Risk Category I, the FDIC determines an assessment rate from three primary sources of information – the supervisory component ratings for all insured institutions, the financial ratios for most institutions, and the long-term debt issuer ratings for large institutions that have them. Generally, for those institutions in Risk Category I with less than $10 billion in assets and those with $10 billion or more in assets that do not have long-term debt issuer

Some members of the Deposit Insurance Reform Implementation Team, with Chairman Sheila Bair, Vice Chairman Martin Gruenberg and Director Thomas Curry.

Distribution of Institutions and Assessment Base Among Risk Categories Quarter Ending September 30, 2007

Dollars in billions

Risk Category	Annual Rate in Basis Points	Number of Institutions	Percent of Total Institutions	Assessment Base	Percent of Total Assessment Base
I - Minimum	5	2,709	32%	$ 3,872	56%
I - Middle	5.01–6.00	3,088	36%	2,078	30%
I - Middle	6.01–6.99	1,422	17%	456	7%
I - Maximum	7	859	10%	296	4%
II	10	422	5%	163	2%
III	28	64	1%	14	0%
IV	43	7	0%	1	0%
Total		**8,571**	**100%**	**$ 6,880**	**100%**

Note: Institutions are categorized based on supervisory ratings, debt ratings and financial data as of September 30, 2007. Rates do not reflect the application of assessment credits. Percentages may not add to 100 percent due to rounding.

ratings, assessment rates are based on a combination of financial ratios and CAMELS[1] component ratings. Generally, for those institutions in Risk Category I with $10 billion or more in assets that have long-term debt issuer ratings, assessment rates are determined from weighted average CAMELS component ratings and long-term debt issuer ratings.

For all large Risk Category I institutions, additional risk factors are considered to determine whether the assessment rates should be adjusted. This additional information includes market data, financial performance measures, considerations of the ability of an institution to withstand financial stress, and loss severity indicators. Any adjustment is limited to no more than 1/2 basis point up or down. In February 2007, the FDIC released for public comment proposed guidelines on how it would determine such adjustments. The FDIC Board approved final guidelines in May 2007.

Institutions that contributed to the build-up of the insurance funds through 1996 received an aggregate $4.7 billion in one-time credits under the Reform Act to offset future deposit insurance assessments. These credits were allocated to institutions based on their 1996 assessment base shares.

The average annualized assessment rate (weighted by each institution's assessment base), before accounting for the use of credits, was approximately 5.4 basis points for the first three quarters of 2007. Approximately 68 percent of all institutions (71 percent of institutions in Risk Category I) were able to offset their first, second, and third quarter 2007 assessments entirely using credits.

During the first half of 2007, the FDIC completed substantial modifications to its information systems in order to implement the changes to risk-based assessment rates, track credit use and availability for each institution, incorporate changes to the calculation and reporting of the assessment base, and deliver the invoices for the first quarter assessments by the June 2007 deadline.

In September 2007, the FDIC issued an Advance Notice of Proposed Rulemaking (ANPR), seeking comments on alternative methods for allocating dividends as part of a permanent final rule to implement the dividend requirements of the Reform Act. In October 2006, the Board adopted a temporary rule governing dividends, which expires at the end of 2008. The comment period for the Dividend ANPR closed on November 19, 2007.

International Capital Standards

The FDIC, as insurer, has a substantial interest in ensuring that bank capital regulation effectively safeguards the federal bank safety net against excessive loss. During 2007, the FDIC participated in 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 capital standards and establishing sound policy and procedures for implementing these standards.

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

Ensuring the adequacy of insured institutions' capital under Basel II remained a key objective for the FDIC. In 2007, the FDIC devoted substantial resources to domestic and international efforts to ensure these new rules are designed and implemented appropriately. These efforts, in conjunction with other federal financial regulators, included publishing a final rule for the implementation of the advanced approaches of Basel II as well as proposed examination guidance. This guidance is intended to provide the industry with regulatory perspectives for implementation. In concert with regulators from other U.S. banking agencies and other Basel Committee member countries, the FDIC also participated in a review of supervisory and regulatory supplemental capital measures currently being used to ensure bank capital adequacy.

The Basel II Final Rule was published in the *Federal Register* on December 7, 2007, with an effective date of April 1, 2008. The findings of the fourth quantitative impact study (QIS-4), which were completed in 2005, suggested that, without modification, the Basel II framework could result in an unacceptable decline in minimum risk-based capital requirements. As a result, the agencies have included safeguards against the possibility that the new rules do not work as intended. For instance, the agencies have agreed, by regulation, not to allow any bank to exit its transitional risk-based capital floors unless and until the agencies publish a study giving the new rules a clean bill of health or unless identified defects are remedied. If any agency allows its banks to exit the floors in a way that departs from this consensus approach, the rule requires that agency to publish a report explaining its reasoning. In addition, the agencies have retained the U.S. leverage ratio and Prompt Corrective Action requirements.

Through its supervisory program, the FDIC continues to work with certain insured state non-member bank subsidiaries of banking organizations that plan to operate under the new capital accord, to review and assess implementation plans and progress towards meeting qualification requirements.

Domestic Capital Standards

The FDIC is involved in efforts to revise the existing risk-based capital standards for banks that will not be subject to the advanced approaches of Basel II. As such, the FDIC has taken a lead role in developing a proposed rule that would implement the standardized approach of Basel II (Basel II Standardized NPR). The proposed rule is intended to modernize the risk-based capital rules for banks that do not use the advanced approaches of Basel II, and minimize potential competitive inequities that may arise between banks that adopt Basel II and banks that remain under the existing rules. The agencies have indicated that they expect to issue the Basel II Standardized NPR during the first quarter of 2008.

Identifying and Addressing Risks to the Deposit Insurance Fund

During 2007, the FDIC continued to research and analyze trends in the banking sector, financial markets and the overall economy to identify emerging risks to the banking industry and the Deposit Insurance Fund. The identified risks were highlighted throughout the year in presentations and written reports. The FDIC redesigned its Large Insured Depository Institution (LIDI) program to ensure uniform reporting of critical risks posed by institutions with assets over $10 billion. The information captured through this program is used to support business line activities related to supervision, insurance and resolutions. Institution-specific concerns were directed to FDIC regional offices for appropriate action. The FDIC continued to analyze the regional economies affected by hurricanes Katrina and Rita throughout the year.

Center for Financial Research

During 2007, the FDIC's Center for Financial Research (CFR) co-sponsored two major research conferences: the 17th Annual Derivatives Securities and Risk Management Conference and the seventh Annual Bank Research Conference.

The 17th 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 2007 at FDIC's Virginia Square facility and 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 of Financial Services Research* (JFSR) hosted the seventh Annual Bank Research Conference in September with over 100 attendees. The conference included the presentation of 12 papers, a nationally recognized guest speaker, Francis A. Longstaff – Allstate Professor of Insurance and Finance, Anderson School of Management, UCLA, an expert panel, and discussions on timely issues affecting the financial system. The conference theme focused on liquidity in the financial system. Experts discussed analyses on such topics as asset prices and liquidity, liquidity in the equity and options markets, and issues involving commercial bank liquidity and bank lending.

The CFR also hosted the Basel Research Task Force Annual Workshop in May. The workshop included a two-day session with research paper presentations and discussions by staff members of Basel Committee institutions. Approximately 85 researchers and policy makers attended the workshop. Many represented foreign central banks and financial supervisory agencies. Additionally, the FDIC along with the Federal Reserve Bank of Chicago, the University of Kansas School of Business, and *The Journal of Financial Services Research*, co-sponsored the Mergers and Acquisitions of Financial Institutions Conference in November.

Ten CFR working papers were published in 2007 on topics including risk measurement, exchange rate exposure, and financial institution credit and retail banking relationships.

Other Risk Identification Activities

The FDIC researched and analyzed emerging risks and trends in the banking sector, financial markets and the overall economy to identify issues affecting the banking industry and the DIF. During 2007, the FDIC focused significant attention on the condition of housing markets and the problems facing subprime mortgage borrowers and their lenders. The FDIC also continued to analyze the regional economies adversely affected by hurricanes Katrina and Rita throughout the year. A consumer finance research section was formed in late 2007 to examine a variety of consumer-related issues, including fair lending, consumer credit access, small business credit access, new consumer financial services, and home mortgage finance.

In 2007, the FDIC began publishing *FDIC Quarterly*, which incorporates information previously available in the *Quarterly Banking Profile* and other FDIC publications. *FDIC Quarterly* discusses current conditions, trends and changes in the performance of insured institutions, and issues affecting the economy and the banking system. In 2007, *FDIC Quarterly* analyzed such topics as the case for subprime loan modifications, the privatization of deposit insurance, the effectiveness of financial education programs, and the popularity of individual development accounts (matched savings accounts that enable low-income families to save money for a particular financial goal, such as buying a home, paying for post-secondary education, or starting or expanding a small business). In addition, quarterly *FDIC State Profiles* were released for each state during 2007.

Throughout the year, the FDIC conducted numerous outreach activities addressing economic and banking risk analyses. Presentations were made to financial institutions and related trade groups, bank directors' colleges, community groups, foreign visitors and other regulators.

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.

FDIC Examinations 2005-2007

	2007	2006	2005
Safety and Soundness:			
State Nonmember Banks	**2,039**	2,184	2,198
Savings Banks	**213**	201	199
Savings Associations	**3**	2	1
National Banks	**0**	0	0
State Member Banks	**3**	1	1
Subtotal - Safety and Soundness Examinations	**2,258**	2,388	2,399
CRA/Compliance Examinations:			
Community Reinvestment Act - Compliance	**1,241**	777	815
Compliance-only	**528**	1,177	1,198
CRA-only	**4**	5	7
Subtotal CRA/Compliance Examinations	**1,773**	1,959	2,020
Specialty Examinations:			
Trust Departments	**418**	468	450
Data Processing Facilities	**2,523**	2,584	2,708
Subtotal-Specialty Examinations	**2,941**	3,052	3,158
Total	**6,972**	7,399	7,577

Examination Program

The FDIC's strong bank examination program is the core of its supervisory program. At year-end 2007, the Corporation was the primary federal regulator for 5,257 FDIC-insured state-chartered institutions that are not members of the Federal Reserve System (generally referred to as "state nonmember" institutions). Through safety and soundness, consumer compliance and Community Reinvestment Act (CRA), and other specialty examinations, 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.

In 2007, the Corporation conducted 2,258 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 1,773 CRA/Compliance examinations (1,241 joint CRA/compliance examinations, 528 compliance-only examinations,[2] and four CRA-only examinations) and 2,941 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 2005, 2006 and 2007.

As of December 31, 2007, there were 77 insured institutions with total assets of $22.2 billion designated as problem institutions for safety and soundness purposes (defined as those institutions having a composite CAMELS[3] rating of "4" or "5"), compared to the 51 problem institutions with total assets of $8.5 billion on December 31, 2006. This constituted a 51 percent year-over-year increase in the number of problem institutions and a 161 percent increase in problem institution assets. During 2007, 38 institutions with aggregate assets of $6.4 billion were removed from the list of problem financial institutions, while 64 institutions with aggregate assets of $26.5 billion were added to the list of problem financial institutions. The FDIC is the primary federal regulator for 47 of the 77 problem institutions.

During 2007, the Corporation issued the following formal and informal corrective actions to address safety and soundness concerns: 48 Cease and Desist Orders, three Temporary Cease and Desist Orders, one modified Cease and Desist Order, and 158 Memoranda of Understanding. Of these actions issued, 25 Cease and Desist Orders and 31 Memoranda of Understanding were issued based, in part, on apparent violations of the Bank Secrecy Act.

As of December 31, 2007, 43 FDIC-supervised institutions were assigned a "4" rating for safety and soundness and four institutions were assigned a "5" rating. Forty-two of the "4"- rated institutions were examined in 2007, and formal or informal enforcement actions have been finalized to address the FDIC's examination findings. All "5"-rated institutions were examined in 2007.

[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" on their most recent examination.

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

As of December 31, 2007, eight FDIC-supervised institutions were assigned a "4" rating for compliance; no institutions were assigned a "5" rating. In total, three of the "4"-rated institutions were examined in 2007; three were examined prior to 2007 but are currently in various stages of appealing the ratings, and the remaining two were examined in 2006. With regard to the two for which examinations were last conducted in 2006, an informal enforcement action for one was issued in September 2007; therefore, an examination is not due until 2008. The other institution is operating under a Cease and Desist Order and the examination remains open.

The Corporation has issued enforcement actions to address the examination findings for all five of the institutions that were not in the process of an appeal. These actions include one Cease and Desist Order as noted above and four Memoranda of Understanding.

Revisions to Compliance Examination Guidance

The FDIC conducted an internal analysis of compliance examination reports to determine if appropriate follow-up action is initiated on significant violations cited during compliance examinations. The review revealed that a change was needed to clarify guidance to ensure that the most problematic weaknesses and significant violations cited in examination reports are promptly addressed by bank management. In response, a Regional Director Memorandum entitled, *Compliance Examination Process: Clarification of "Significant" Violations and Amendments to Enforcement Action and Post-Examination Processes* was issued in 2007. The post-examination follow-up process was formalized, through which state nonmember banks will be required to respond to examination staff in writing, outlining actions planned and taken to address identified deficiencies including significant violations. This process will enable the FDIC to more consistently assess an institution's success or failure in addressing the issues during the interim period between examinations.

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.

The JET concept evolved from the FDIC's examination of state non-member banks that were conducting payday lending activities through third-party vendors. Payday lending involved unique and complex products with significant safety and soundness and consumer protection risks for the institutions involved in this activity. Joint examination teams were subsequently used in the examination of credit card lenders that were targeting subprime customers. As with the payday lenders, such products present a myriad of safety and soundness and consumer protection risks for these lenders.

In 2007, the FDIC has used JETs in institutions involved in significant subprime or nontraditional mortgage activities; institutions affiliated with or utilizing third parties to conduct significant lending activities, especially in the credit card area; and institutions for which the FDIC has received a high volume of consumer complaints or complaints with serious allegations of improper conduct by banks.

Subprime Hybrid Adjustable Rate Mortgages

In 2007, the FDIC continued to closely monitor the expansion of subprime hybrid adjustable rate mortgages (ARMs), typically offered to subprime borrowers. Hybrid ARMs start with a low fixed interest rate for an initial period, which often lasts for two to three years, and then resets to a variable rate. Mortgage lenders typically qualified borrowers based on the low introductory payment amount rather than at the fully indexed interest rate, assuming a fully amortizing repayment schedule. Such underwriting standards and loan terms can cause payment shock, the consequences of which may not have been fully explained to borrowers. In addition, many lenders combined these loans with other potentially risky features, such as requiring little or no documentation of income, high loan-to-value ratios, and simultaneous second-lien mortgages, which could compound the risk to both borrowers and lenders.

To address these concerns, the FDIC joined the other federal financial institution regulatory agencies in issuing the *Statement on Subprime Mortgage Lending* (Subprime Guidance) on July 10, 2007. The guidance covers three primary areas: risk management practices, consumer protection principles, and control systems. The risk management section focuses on avoiding predatory lending, following prudent underwriting standards for qualifying borrowers, and encouraging institutions to work constructively with residential borrowers who are in default or whose default is reasonably foreseeable.

The consumer protection principles section recommends that communications with consumers, including advertisements, oral statements and promotional materials, provide borrowers with full and balanced information about the costs, terms, features and risks of subprime hybrid ARMs in a timely manner. The FDIC joined the other regulatory agencies in providing illustrations for disclosures for public comment. The control systems section specifies that institutions should develop and implement strong control systems to monitor whether their subprime lending activities are performing as expected, and whether actual practices are consistent with their policies and procedures. These systems should monitor both the institution's personnel and third party originators, such as mortgage brokers or correspondents.

Working through Mortgage Resets

The FDIC became increasingly concerned about borrowers' ability to service the higher debt load resulting from payment shock when their hybrid ARMs payments reset. Many borrowers, especially those who were qualified at a low introductory payment amount rather than the fully indexed interest rate and on a fully amortizing repayment schedule, may not have sufficient financial capacity to make the higher contractual payments owed on their home loans.

To address this concern, the FDIC led the agencies in issuing the *Statement on Working with Mortgage Borrowers* in April 2007. This guidance primarily addresses those instances when a financial institution has retained a residential mortgage loan on its books. The agencies issued the *Statement on Loss Mitigation Strategies for Servicers of Residential Mortgages* in September 2007 to provide guidance to entities that service residential mortgage loans for others. In addition, the FDIC joined the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators in issuing the *Supplemental Information for Loss Mitigation Strategies*. This guidance encourages servicers to consider the borrower's ability to repay modified obligations, taking into account the borrower's total monthly housing-related payments as a percentage of the borrower's gross monthly income.

The FDIC is encouraging servicers to adopt a streamlined approach to making the decision to grant loan modifications where necessary. Where the homeowner generally has been current at the starter rate, but cannot refinance in today's market or make the higher payments after the interest rate resets, then the loan should be modified to keep it at the starter rate for a long-term sustainable period. Such modification arrangements would also benefit lenders and investors who would not only have a higher level of performing loans, but would also avoid administrative expenses associated with servicing delinquent debts or foreclosing on the property. In addition, financial institutions may receive favorable CRA consideration for programs that transition low-to moderate-income borrowers from higher cost credit to lower cost credit, provided that the loan modifications are made in a prudent manner.

Regulatory Relief

On October 13, 2006, the President signed Public Law No.109-351, the Financial Services Regulatory Relief Act of 2006 (FSRRA). The law required the FDIC and other federal regulatory agencies to revise certain rules and regulations and supervisory processes. All required regulatory changes, except revisions to part 359 and FDIC policy on applications for deposit insurance, were completed during 2007. In 2007, the GAO began a review of Currency Transaction Reports as required under FSRRA. The FDIC has provided the GAO with requisite information to support this review.

Regulation R

The FDIC joined the Office of the Comptroller of the Currency (OCC), the Federal Reserve Board (FRB), the Office of Thrift Supervision (OTS), and the Securities and Exchange Commission (SEC) in drafting and finalizing the joint FRB/SEC *Regulation R - Definitions of Terms and Exemptions Relating to the "Broker" Exceptions for Banks*. The FSRRA required the Federal Reserve, in consultation with the other federal banking regulatory agencies, and the SEC to develop a regulation implementing the exceptions for banks from the definition of broker contained in the Gramm-Leach-Bliley Act of 1999. The final Regulation R was published in the *Federal Register* on October 3, 2007, and became effective on December 3, 2007. Regulation R sets forth the circum-stances and conditions under which banks can continue to effect securities transactions for customers without being subject to registration as a broker under the Securities Exchange Act of 1934.

Model Privacy Notices

The FDIC also worked with the other federal banking agencies, the National Credit Union Administration, the SEC and the Federal Trade Commission to develop model privacy notices that financial institutions have the option of using.

Review of the Reports of Condition

Section 604 of the Financial Services Regulatory Relief Act of 2006 requires the federal banking agencies to review the content of bank Call Reports and Thrift Financial Reports (TFR). The objective of Section 604 is for the agencies to use the results of the review as a basis for eliminating or reducing any information collected in Call Reports and TFRs found to be unnecessary or inappropriate. The Federal Financial Institution Examination Council's (FFIEC) Task Force on Reports surveyed various Call Report user groups to identify the purposes for which each group uses each Call Report item, the extent of usage for each item, and the frequency with which each data item is needed. There were 165 survey participants from the four banking agencies and the Conference of State Bank Supervisors (CSBS). The survey was completed in August and the results were evaluated and reported to the FFIEC principals in October 2007.

FDIC Rules and Regulations

The FDIC also revised the following rules and regulations:

- Part 348
  To raise the threshold allowing depository organizations with total assets of $50 million (previously $20 million) to be exempt from the prohibition against having interlocking management officials, if the depositories are located, or have an affiliate located, in the same metropolitan statistical area, primary metropolitan statistical area, or consolidated metropolitan statistical area.
- Part 337.12
  To expand the examination cycle for "1" and "2"-rated community banks to 18 months by raising the asset threshold eligibility from $250 million to $500 million.
- *Statement of Policy on Bank Mergers Transactions* and Applicable Sections of Part 303
  To eliminate the competitive factors report from other banking agencies, and the post-approval waiting period for mergers with affiliates.
- Applicable Sections of Part 308 and the Application Process
  To extend the time for review of a change-in-control notice to address issues arising from so-called "stripped charters." In addition, Part 308 was amended to clarify that the appropriate federal banking agency may suspend or prohibit individuals charged with certain crimes from participating in the affairs of any relevant depository institution.
- Part 309
  To reflect broad authority for the FDIC to provide confidential supervisory information to any other federal or state agency or authority with supervisory or regulatory authority over the depository institution that is determined to be appropriate.
- *Statement of Policy on Section 19 of the FDI Act*
  To reflect amendments made by the Financial Services Regulatory Reform Act of 2006.

Disaster Relief

Recognizing that many communities and families may need an extended period of time to recover from the devastation caused by Hurricane Katrina, the FDIC and the other federal banking agencies issued a reminder to examiners and financial institutions to consider the principles outlined in the *Hurricane Katrina Examiner Guidance*. In addition, during the year the FDIC issued 12 financial institution letters that provided regulatory relief to financial institutions and facilitated recovery in areas damaged by fire, flood and other natural disasters.

Protection of Federal Benefit Payments

The FDIC, along with the other federal financial institution regulators, proposed guidance that encourages federally regulated financial institutions to follow best practices to protect federal benefit payments from garnishment orders. Federal law protects federal benefit payments – such as Social Security benefits and Veterans' benefits – from garnishment orders and the claims of judgment creditors, subject to certain exceptions. Creditors and debt collectors are often able to obtain orders from state courts garnishing funds in a consumer's account that do not meet the requirements of exempt funds. To comply with state court garnishment orders, financial institutions often place a temporary freeze or hold on an account upon receipt of a garnishment order, which can cause significant hardship for the account holder. The agencies developed proposed guidance, which includes best practices, to encourage financial institutions to minimize the hardships encountered by federal benefit funds recipients and to do so while remaining in compliance with applicable laws. The comment period closed in November 2007 and the agencies have reviewed the comments and will determine the best course of action during 2008.

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. A significant share of the banking industry's assets and insured deposits are held in a small number of large institutions. This program ensures a consistent approach to large-bank supervision and risk analysis on a national basis. This is achieved by compiling key data and performing analyses of large-bank operations for use by various FDIC divisions and offices, and by providing specialists with information to support supervisory activities for large banks.

In 2007, the FDIC led a comprehensive initiative to standardize data capture and reporting through the Large Insured Depository Institution (LIDI) Program. Under this Program, supervisory staff throughout the nation performs comprehensive quantitative and qualitative risk analysis on institutions with assets over $10 billion, or under this threshold at regional discretion. This information is used by various business lines to perform critical functions related to insurance, resolutions and supervision.

In 2007, the LIDI Program supported the insurance function in analyzing and setting appropriate insurance premiums for large insured financial institutions. The Corporation also led and supported various initiatives designed to better understand potential resolution challenges posed by complex insured financial institutions.

The FDIC 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 2007.

International AML/CFT Initiatives

The FDIC conducted three training sessions in 2007 for 57 central bank representatives from Algeria, Bosnia, Egypt, Indonesia, Jordan, Kuwait, Morocco, Pakistan, Paraguay, Philippines, Tanzania, and Turkey. 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 onsite AML/CFT instruction, the FDIC provided guidance and resources for international AML/CFT financial system assessments and training. In 2007, the FDIC provided technical assistance in Yemen and Senegal to evaluate AML controls and each country's AML statutory and legislative framework. Also, the FDIC delivered an AML presentation at the U.S.-Middle East/North Africa Private Sector Dialogue conference in Dubai, United Arab Emirates. Finally, the FDIC met with representatives from the Deposit Insurance Corporation of Japan, the Korean Financial Intelligence Unit, the Banco Central del Uruguay and the Bank of Al-Maghrib, Morocco, to discuss the AML examination process, enforcement authority and the FDIC's supervisory role in combating money laundering and other illicit financial activities.

Certification of Specialists

The FDIC continued to increase regulatory knowledge to keep abreast of current issues related to money laundering and terrorist financing as an additional 10 percent of BSA/AML subject matter experts nationwide earned the designation of Certified Anti-Money Laundering Specialists.

As of December 31, 2007, 38 BSA subject matter experts had completed the AML certification process by passing the certification examination given by the Association of Certified Anti-Money Laundering Specialists.

Money Services Businesses Project

The FDIC developed an action plan to gain a better understanding of state regulators' AML supervision and enforcement of money services businesses (MSBs). As part of the project, the FDIC partnered with the Money Transmitter Regulators Association (MTRA), the Conference of State Bank Supervisors and FinCEN. MTRA surveyed state MSB agencies to gather BSA/AML compliance, licensing, supervision and enforcement information. The FDIC then conducted several interviews with state MSB regulators to better understand the MSB supervision process. The FDIC also conducted a pilot review to assess the feasibility of incorporating state MSB AML examination findings into FDIC risk management examinations.

2007 FFIEC BSA/AML Examination Manual

The FDIC coordinated the revision and issuance of the *2007 FFIEC BSA/AML Examination Manual*. The manual was released by the FFIEC for publication and distribution on August 24, 2007. It reflects the ongoing commitment of the federal banking agencies to provide current and consistent guidance on risk-based policies, procedures and processes for banking organizations to comply with the BSA and safeguard operations from money laundering and terrorist financing.

The manual has been updated to further clarify supervisory expectations and incorporate regulatory changes since its 2006 release. The revisions also reflect feedback from the banking industry and examination staff. Additionally, the FDIC had the manual translated into Spanish and responses to the Spanish language version of the manual have been positive.

Enforcement Actions

The FDIC, along with the other federal banking agencies, released the *Interagency Statement on Enforcement of BSA/AML Requirements* on July 19, 2007. The statement provides for greater consistency in BSA enforcement decisions and offers insight into how those decisions were made. The statement describes the circumstances and provides examples under which the federal banking agencies will issue a cease and desist order. Applicable statutes mandate that the appropriate agency shall issue a cease and desist order if a regulated institution fails to establish and maintain a BSA compliance program or correct a previously identified problem with its BSA compliance program.

Promoting Economic Inclusion

The FDIC pursued a number of initiatives in 2007 to promote inclusion of traditionally underserved populations in banking services and to ensure protection of consumers in the provision of these services.

The Advisory Committee for Economic Inclusion

The FDIC Advisory Committee on Economic Inclusion (ComE-IN) was established by Chairman Sheila C. Bair and the FDIC Board of Directors pursuant to the Federal Advisory Committee Act. The ComE-IN was chartered in November 2006, and provides the FDIC with advice and recommendations on important initiatives focused on expanding access to banking services by underserved populations.

Three ComE-IN meetings were held during 2007. The inaugural meeting addressed access to affordable small dollar loans. One recommendation that resulted was to launch a small dollar loan pilot program. The Board of Directors of the FDIC subsequently approved a two-year pilot project to review affordable and responsible small-dollar loan programs in financial institutions. The purpose of the study is to identify effective and replicable business practices to help banks incorporate affordable small-dollar loans into their other mainstream banking service offerings. Best practices resulting from the pilot will be identified and become a resource for other institutions.

The second meeting addressed the subprime mortgage situation, how it developed and possible solutions. The third meeting covered ways to ensure safe, available services for the money services businesses and examined their access to the banking system.

Alliance for Economic Inclusion

In 2007, the FDIC formally launched the Alliance for Economic Inclusion (AEI), a broad-based coalition of banks, community organizations, foundations, educators, and local, state and federal agencies in nine underserved markets across the nation – the Greater Boston area; Wilmington, DE; Baltimore, MD; South Texas (Houston/Austin); Chicago; the Louisiana and Mississippi Gulf Coast; Alabama's Black Belt; Kansas City; and Los Angeles. These diverse markets include low- and moderate-income neighborhoods, urban neighborhoods, minority communities and rural areas. The goal of the AEI initiative is to work with financial institutions and other partners in select markets to bring those who are unbanked and underserved into the financial mainstream. More than 700 banks and other organizations have joined the AEI. Under the auspices of the AEI, approximately 28,000 bank accounts have been opened; 29,000 consumers have received financial education; 41 banks are developing small dollar loan programs; and 21 banks now offer remittance products allowing customers to send money to friends or family members outside the U.S.

The FDIC has also included a component of its foreclosure prevention efforts within the AEI. An AEI partnership with NeighborWorks® America to promote foreclosure prevention and education was announced on July 13, 2007. Since July, both NeighborWorks® America and FDIC have conducted more than 28 local outreach and training events. These events were designed to provide assistance to NeighborWorks® Centers for Foreclosure Solutions and other local organizations in developing and implementing strategies to educate at-risk homeowners about the availability of foreclosure prevention counseling services and other

Members of the FDIC Advisory Committee on Economic Inclusion and speakers discuss money services businesses and the problem of access to banks.

resources. Each of the nine AEI coalitions is also coordinating foreclosure prevention efforts to provide support and expand local foreclosure prevention programs already underway within their communities.

Additionally, FDIC reviewed its supervisory guidance and determined that the *Case Managers Manual* and the *Risk Management Manual of Examination Policies* should be revised to ensure that they encourage economic inclusion consistent with safe and sound banking practices.

Michael Krimminger, FDIC Special Advisor for Policy, offers details of a proposed pilot project to expand availability of reasonably priced small-dollar loans as CFO Steve App looks on.

Affordable Small-Dollar Loan Guidelines and Pilot Program

Many consumers with bank accounts turn to high-cost payday or other non-bank lenders because they are accessible and can quickly provide small loans to cover unforeseen circumstances. To help enable insured institutions to better serve an underserved and potentially profitable market while helping consumers avoid, or transition away from, reliance on high-cost debt, the FDIC issued its *Affordable Small-Dollar Loan Guidelines* on June 19, 2007. The guidelines explore several aspects of product development, including affordability and streamlined underwriting. They also discuss tools, such as financial education and linked savings accounts that may address long-term financial issues that concern borrowers. The guidelines also note that FDIC-supervised institutions offering products that comply with consumer protection laws, and are structured in a responsible, safe and sound manner, may receive favorable consideration under the Community Reinvestment Act (CRA).

Additionally, on June 19, 2007, the FDIC Board approved a two-year pilot project to review affordable and responsible small-dollar loan programs in financial institutions and assist bankers by identifying and disseminating information on replicable business models for small-dollar loans. The pilot project with banks near military installations that was planned for 2007 will be included in this effort. A web site was developed to provide information on the pilot and participant banks were recruited for the study. Participants applied and twenty-nine were selected in 2007. During 2008, participating institutions will be asked to provide summary data to the FDIC about the loans in the program, the overall value and profitability of the program, and the benefit to consumers. Information collected will be highlighted in FDIC publications and speeches. A final report is planned for 2010.

Home Mortgage Disclosure Act

The winter 2007 edition of *Supervisory Insights* contained the article "Using the HMDA Pricing Data to Identify and Analyze Outliers." The article describes the process used by the FDIC for loan review and analysis at institutions that, based on an initial screening of Home Mortgage Disclosure Act (HMDA) data, have pricing practices that are potentially discriminatory. The article offers suggestions to bankers and examiners gleaned from analyses of two years of HMDA pricing data.

Economic Inclusion Surveys

During 2007, the FDIC also commenced work on two surveys intended to provide extensive new data regarding economic inclusion. Both of these survey efforts are related to a mandate in section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 requiring the FDIC to conduct a survey of FDIC-insured institutions every two years regarding their efforts to serve the unbanked. The first of these surveys, the

Survey of Banks' Efforts to Serve the Unbanked and Underbanked, will be conducted during 2008 and is expected to yield significant insight about bank efforts to serve unbanked and underbanked populations. The FDIC is also exploring the feasibility of conducting a survey of U.S. households to estimate the percentage of the U.S. population that is unbanked and underbanked. The survey is scheduled to be conducted in January 2009 as a supplement to the Bureau of the Census's Current Population Survey. It is expected to yield significant new data on the extent of the population that is unbanked and/or underbanked and the reasons why some households do not make greater use of traditional banking services.

Overdraft Protection Programs Study

Over the last few years, the use of automated overdraft protection programs has significantly risen. The banking regulators published guidance on these programs in 2005. The Federal Reserve amended Regulation DD in 2006 to encompass additional disclosure and advertising requirements for certain types of automated overdraft protection programs.

With little empirical data on these programs, the FDIC has initiated a two-part Study of Overdraft Protection Programs to systematically gather information about the types, characteristics and usage of overdraft programs offered by FDIC-supervised banks. This effort will help the FDIC more fully understand this rapidly growing and changing product. The study results should help the industry develop more effective overdraft programs that better serve customers.

Information is being gathered through a survey instrument and a download of account and transaction level data requested from banks. Using the survey instrument, field staff is gathering information at 500 randomly selected institutions. The survey will gather information on how overdraft protection is offered to the public as well as how banks manage nonsufficient funds (NSF) items and programs. A data download is being requested from up to 100 institutions to gather 12 months of customer-level micro data on NSF and overdraft activity.

This study will continue through 2008 and once it has been completed, the FDIC plans to make the findings and aggregate information public. (No personally identifiable information will be gathered and no individual bank information will be published.) The FDIC will use this information to better formulate future policy decisions.

Minority Depository Institutions

The FDIC has long recognized the importance of minority depository institutions (MDIs), particularly in promoting the economic viability of minority and under-served communities. As a reflection of the FDIC's commitment to MDIs, on April 9, 2002, the FDIC issued the *Policy Statement Regarding Minority Depository Institutions*. The policy statement implements an outreach program designed to preserve and encourage minority ownership of financial institutions.

Since the adoption of the policy by the Board, the FDIC's National Coordinator for MDIs has maintained contact with various MDI trade associations and has met periodically with the other federal banking regulators to discuss the initiatives underway at the FDIC. The coordinator has worked to identify opportunities where the federal banking agencies might work together to assist minority institutions. Since the adoption of the policy statement, all of the FDIC regional offices have held annual MDI outreach programs, have annually contacted each FDIC-supervised MDI to offer to meet with bank boards to discuss issues of interest, and have offered to make return visits to these institutions following the examination process.

The FDIC's Minority Bankers' Roundtable series is a forum designed to, among other things, explore possible partnerships between the MDI community and the FDIC, as well as to seek input on how the FDIC can better promote the availability of technical assistance to the MDI segment of the industry. From the 2006 Roundtable sessions evolved ideas for two partnerships that were piloted during 2007. The first initiative, a "University Partnerships" pilot, is designed to do the following:

- Promote financial literacy at Historically Black Colleges and Universities (HBCUs) or other schools with a significant minority population;

- Provide the partnering MDI and the FDIC an opportunity to keep the business school deans aware of current industry issues and to build goodwill on campus; and
- Offer both the MDI and the FDIC an opportunity to showcase their respective career opportunities.

The second 2007 Roundtable initiative involved partnering with the Puerto Rico Bankers Association to deliver a high-level specialized Compliance School. This event took place from November 6-9, 2007, in San Juan, Puerto Rico, and was attended by 150 bankers. This type of partnership was the first for the FDIC and was consistent with the goal of increasing usage of FDIC technical assistance.

In July 2007, the FDIC hosted the second annual National Minority Depository Institution Conference in Miami, Florida. This event was coordinated on an interagency basis and drew approximately 170 attendees. In addition to presentations by senior officials from all of the federal banking regulatory authorities, the program covered these topics: Broadening Access to the Financial Mainstream, Opportunities for NeighborWorks® America and Minority Community Bankers, and Capital Enhancement and Investment Opportunities, including a presentation on the Community Development Financial Institution Fund. The program also included workshops on Information Technology, BSA Emerging Issues, Compliance and CRA Hot Topics, and the Revised Interagency Policy Statement on the Allowance for Loan and Lease Losses. Feedback from the attendees was overwhelmingly positive. A third annual interagency conference is planned for 2008.

Other FDIC MDI accomplishments for 2007 include the following:

- Updating the examiner guidance memorandum "Minority Depository Institution Program";
- Inviting minority bankers to speak at regional examiner training conferences to foster a better understanding by the examiners of the unique challenges MDIs face;
- Making improvements to the FDIC's external website to better organize and provide easier access to MDI information; and
- Developing a survey that was sent to all MDIs on December 21, 2007, to provide all MDIs, including those not supervised by the FDIC, an opportunity to rate the effectiveness of the FDIC's MDI program, FDIC-sponsored conferences and roundtables, outreach efforts, and technical and general assistance. The survey results and comments will be used to improve our current efforts and to develop MDI initiatives going forward.

Homeland Security

The FDIC has taken a leadership role in ensuring that the financial sector – a critical part of the infrastructure of the United States – is prepared for a financial emergency. As a member of the Financial and Banking Information Infrastructure Committee (FBIIC), the FDIC has sponsored a series of outreach meetings titled "Protecting the Financial Sector: A Public and Private Partnership."

Information Technology, Cyber Fraud and Financial Crimes

The FDIC and other FFIEC regulatory agencies jointly issued guidance requiring financial institutions to strengthen account access credentials in an effort to curb online fraud and protect both consumer and commercial Internet banking customers. The guidance required the implementation of stronger authentication for most institutions on or before January 1, 2007. FDIC examiners tracked and reported on compliance with the guidance during various examination activities in 2007. Details collected suggest that an overwhelming majority (94 percent) of the institutions have complied with the provisions of the guidance. Most of the remaining institutions have plans to comply. Industry feedback suggests that stronger authentication has reduced online Internet banking-related fraud through more secure access credential management practices.

Other major accomplishments during 2007 in combating identity theft included the following:

- Assisted financial institutions in identifying and shutting down approximately 1,400 "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.
- Issued 323 Special Alerts to FDIC-supervised institutions of reported cases of counterfeit or fraudulent bank checks.

- Participated on the President's Identity Theft Task Force and five of its primary subgroups. The FDIC was one of seventeen federal agencies that participated. The Task Force submitted its report to the President on April 11, 2007. The report contains a comprehensive description of the problem as well as numerous recommendations concerning what the federal government and private industry can do to mitigate this serious problem. Since the report was submitted to the President, the FDIC continues to participate in several Task Force subgroups that are performing additional research on specific aspects of identity theft and plan to submit additional recommendations to the President in the spring of 2008.
- The FDIC, in addition to the other federal banking agencies and the Federal Trade Commission, published a final identity theft red flag regulation and guidelines on November 9, 2007. The regulation and guidelines implement sections 114 and 315 of the Fair and Accurate Credit Transactions Act of 2003. Compliance is expected by November 1, 2008.

Consumer Complaints and Inquiries

The FDIC investigates consumer complaints about FDIC-supervised institutions and answers inquiries from the public about consumer protection laws and banking practices. In 2007, the FDIC received 11,624 written complaints, of which 4,457 were against state nonmember institutions. The Corporation responded to over 93 percent of these complaints within timeliness standards established by corporate policy. The FDIC also responded to 3,656 written and 3,321 telephone inquiries from consumers regarding state nonmember institutions. Overall in 2007, the FDIC handled 5,856 consumer telephone calls from the public and members of the banking community about consumer protection issues not including deposit insurance inquiries which are discussed on the following page.

Deposit Insurance Education

An important part of the FDIC's role in insuring deposits and protecting the rights of depositors is ensuring that bankers and consumers have access to accurate information about the FDIC's deposit insurance rules. 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.

Effective October 12, 2006, the FDIC Board of Directors adopted final rules that implemented provisions of the Federal Deposit Insurance Reform Act of 2005 pertaining to deposit insurance coverage. Following the adoption of the final rule changes, the FDIC completed a multi-pronged effort in 2007 to update numerous publications and educational tools for consumers and bankers on FDIC insurance coverage, including consumer brochures, banker resource guides, videos and the Electronic Deposit Insurance Estimator.

To address current questions and issues relating to changes in the FDIC insurance coverage of deposit accounts, the FDIC hosted two identical series of telephone seminars for bankers on the FDIC's rules for deposit insurance coverage – one series in October and one in November. Each series consisted of topics on Basic Concepts of Deposit Insurance Coverage, Coverage for Retirement and Employee Benefit Plan Accounts, Trust Account Coverage, and Coverage for Business and Government Accounts. The seminars were designed to provide bankers with a comprehensive review of the FDIC's rules for deposit insurance coverage. These free seminars were open to employees of all FDIC-insured banks and savings associations. The telephone conferences were attended by bankers in approximately 11,000 locations. Many of these locations represent bank branch offices where multiple employees took part in the training.

The FDIC coordinated with bank trade associations to conduct seven comprehensive seminars for financial institution employees on the rules for deposit insurance coverage. These seminars, which were conducted in classroom settings throughout the United States, provided a comprehensive review of how FDIC insurance works, including the 2006 changes to the FDIC's final rules for insurance coverage.

The FDIC also completed a comprehensive and authoritative resource guide for bankers, attorneys, financial advisors and similar professionals on the FDIC's rules and requirements for deposit insurance coverage of revocable and irrevocable trust accounts. The new trust guidebook will be published on the FDIC's Web site in the first quarter of 2008.

In 2007, the FDIC received over 119,000 telephone and written inquiries from consumers and bankers regarding federal insurance coverage of bank deposits. Of these inquiries, 4,125 required formal written responses, 98 percent of which were completed within timeliness standards established by corporate policy.

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 1.4 million individuals (including approximately 200,000 in 2007) have participated in *Money Smart* classes and self-paced computer-based instruction. Approximately 163,000 of these participants have subsequently established new banking relationships. During 2007, the FDIC updated and enhanced the *Money Smart* curriculum and training tools. These changes included guidance on consumer-related concerns such as identity theft, remittances and how to assess mortgage product options.

In recognition that public schools are one of the best venues for reaching the next generation of consumers of all income levels, the FDIC embarked on a pilot project to expand its outreach and enhance the availability of the *Money Smart* financial curriculum in high schools. Over 339 schools, school systems and related entities have been contacted regarding the availability of *Money Smart*. Several hundred secondary school teachers and volunteers have been trained to deliver *Money Smart*. The FDIC also began work on developing a *Money Smart* curriculum for young adults.

The FDIC completed a major multi-year study in 2007 to evaluate the effectiveness of the *Money Smart* curriculum. The study, *A Longitudinal Evaluation of the Intermediate-term Impact of the Money Smart Financial Education Curriculum upon Consumers' Behavior and Confidence*, shows that the training can positively influence how people manage their finances. The survey examines the impact of financial education on the behavior of a broad audience up to one year after completing the training. The goal was to measure, over time, not only whether trainees' knowledge of financial matters improved, and whether they intended to change their financial behaviors, but also whether, months after the training, they had actually acted on their intentions. Survey results indicate that those who took the *Money Smart* course were more likely to open deposit accounts, save money, use and adhere to a budget, and have increased confidence in their financial abilities when contacted 6 to 12 months after completing the course. A majority of those surveyed reported an increase in personal savings, a decrease in debt, a better understanding of financial principles, and an increased willingness to comparison shop for financial services.

During 2007, the FDIC also undertook over 195 community development, technical assistance and outreach activities. 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.

Deposit insurers from an array of countries gathered at Virginia Square for the Strategic Planning and 18th Meeting of the Executive Council of the International Association of Deposit Insurers. Chairman Sheila C. Bair and Jean Pierre Sabourin, past Chairman of IADI, are in the front row, near the center.

International Outreach

During 2007, the FDIC focused its international programs and activities toward the goal of helping to build strong and effective systems for protecting depositors, supervising financial institutions and resolving failures. Efforts included arranging and conducting training sessions, technical assistance missions and foreign visits, leadership roles in international organizations, bilateral consultations with foreign regulators, and many other activities and consulting services.

The FDIC's strengthened international leadership role paved the way for the election of the FDIC's Vice Chairman to the position of President of the International Association of Deposit Insurers (IADI) and Chair of the IADI Executive Council. In addition, the Vice Chairman, as Chair of the IADI Training and Conference Standing Committee, developed and led the first-ever Executive Training Program, providing training to 35 IADI members from 27 countries. The FDIC was elected for the first time to serve on the Board of Directors for the Association of Supervisors of Banks in the Americas (ASBA) and to represent the North American Region. The FDIC's leadership within ASBA included providing technical training to ASBA members on operational risk management and leading two working groups in developing ASBA guidance on key supervisory issues. The FDIC also established strong working relationships and presented at several European Forum of Deposit Insurers (EFDI) meetings, including the EFDI/IADI Joint Symposium on Cross Border Issues.

The FDIC continued to enhance the effectiveness and broaden the scope and impact of its three primary international programs – technical assistance, foreign visitors and training. The FDIC provided technical assistance to 12 central banks, bank supervisors and deposit insurers from 11 countries. A highlight of this assistance was an expanded partnership with the Financial Services Volunteer Corp (FSVC) in supporting the Central Bank of Egypt in developing an examiner commissioning program. The FDIC also provided critical technical assistance to Albania on resolution practices and the legal framework for establishing the backup financial support from the government to strengthen the deposit insurance safety net. In addition, the FDIC hosted 66 foreign country visits, including 417 foreign visitors from 28 countries. Noteworthy among these visits was the second U.S.-China Seminar on Bank Supervision, delegations representing parliament officials from South Africa, United Kingdom, Sweden and Italy, and an extended visit by board members and staff of the Nigerian Deposit Insurance Corporation. Lastly, 168 foreign students from 17 countries received training in examinations, financial institution analysis, loan analysis, examination management, information technology examination, and anti-money laundering and counter-terrorism financing.

The FDIC expanded relationships with key international banking and deposit insurance organizations by expanding the secondment program

At an August 2, 2007 press conference in Beijing, FDIC Chairman Sheila C. Bair and Governor Zhou of the People's Bank of China (PBC) formalized the international working relationship between the FDIC and the PBC by signing a Memorandum of Understanding.

(detailing staff from one country to another), technical assistance agreements and initiating new supervisory information sharing agreements. Secondment Memoranda of Understanding (MOU) were entered into with Japan, Albania, Poland, Nicaragua, and Korea to allow for selected employees from these countries to come to the FDIC to receive training and gain expertise in areas of supervision, resolution management and deposit insurance. Technical assistance agreements were executed with the People's Bank of China and the U.K. Financial Services Authority, providing FDIC subject matter expertise in promoting deposit insurance best practices. Notable examples of forging strong relationships with key countries included the FDIC Chairman's visits to China, Japan and South Korea, the Vice Chairman's visits to Malaysia, Turkey and other IADI- and EFDI-member countries and the Chief Operating Officer's visits to Russia, China and the United Kingdom. The FDIC also entered into supervisory information sharing MOUs with Brazil, Argentina, the Netherlands, and Australia.

Receivership Management

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 gathers data about the troubled institution, estimates the potential loss to the insurance fund from various resolution alternatives, solicits and evaluates bids from potential acquirers (if any), and recommends the least-costly resolution method to the FDIC's Board of Directors for approval.

Resolving Financial Institutions Failures

During 2007, three FDIC-insured institutions failed. The accompanying chart provides liquidation highlights and trends for the past three years. No federally-insured financial institution failures occurred in either 2005 or 2006.

Metropolitan Savings Bank in Pittsburgh, Pennsylvania, was the first FDIC-insured institution closed since June 2004. This institution was closed by the Pennsylvania Department of Banking on February 2, 2007. At the time of closure, Metropolitan had total assets of \$15.3 million and total deposits of \$17.5 million with \$925 thousand in deposits that exceeded the federal deposit insurance limit. Allegheny Valley Bank of Pittsburgh, Pennsylvania, paid the FDIC a premium of six percent on assumed deposits of approximately \$12.3 million and purchased certain assets in the form of cash equivalents, securities, and loans secured by deposits for \$1.9 million. The estimated cost to the DIF is \$2.5 million.

Liquidation Highlights 2005-2007

Dollars in billions

	2007	2006	2005
Total Institutions Resolved	**3**	0	0
Assets of Resolved Institutions	**$ 2.34**	$ 0.00	$ 0.00
Net Collections from Assets in Liquidation•	**$ 1.25**	$ 0.17	$ 0.37
Total Assets in Liquidation•	**$ 0.91**	$ 0.35	$ 0.44
Total Dividends Paid•	**$ 1.65**	$ 0.17	$ 0.44
Savings Over Cost of Liquidation▪	**$ .36**	$ 0	$ 0

• Includes activity from thrifts resolved by the former Federal Savings and Loan Insurance Corporation and the Resolution Trust Corporation.

▪ Least Cost Test Savings. The least cost test is performed prior to resolution to rank order the various resolution alternatives by estimated cost to the Deposit Insurance Fund.

NetBank of Alpharetta, Georgia, was closed by the Office of Thrift Supervision on September 28, 2007. NetBank was an Internet bank and had no physical branches. At the time of closure, NetBank had total assets of $2.2 billion and total deposits of $1.94 billion with $94.5 million in deposits that exceeded the federal deposit insurance limit. Uninsured depositors received an immediate dividend of 50 percent of their uninsured balance. ING Bank, FSB, Wilmington, Delaware, assumed $1.38 billion of the failed bank's insured non-brokered deposits for a one percent premium and purchased $464 million of NetBank's assets. The estimated cost to the DIF is $107.7 million.

Miami Valley Bank of Lakeview, Ohio, was closed by the Ohio Superintendent of Financial Institutions on October 4, 2007. At the time of closure, Miami Valley had total assets of $92.6 million and total deposits of $65 million with $3.9 million in deposits that exceeded the federal deposit insurance limit. The Citizens Banking Company, Sandusky, Ohio, assumed $56.4 million of the failed bank's insured deposits for a two percent premium and purchased $9 million of Miami Valley's assets. The estimated cost to the DIF is $3 million.

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. In 2007, the number of receiverships under management was reduced by 22 percent (from 55 to 43), while the book value of assets under management increased by 158 percent (from $352 million to $907 million).

For the institutions that failed in 2007, the FDIC successfully contacted all known qualified and interested bidders to market these institutions. Additionally, the FDIC marketed 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.

Receivership-Related Securities Disposition and Cash Collections

A total of 56 securities, including mortgage-backed securities, swap agreements, corporate bonds and common stock, were managed throughout the year or were sold, with cash collections from sales and management totaling approximately $29 million.

Claims Administration System and Related Notice of Proposed Rulemaking

During 2007, the FDIC identified requirements and completed the high-level design of a new insurance determination system called the Claims Administration System, targeted to be implemented in 2009. The FDIC also issued a Notice of Proposed Rulemaking that, in the event of a financial institution failure, would require all insured institutions, regardless of size to assist in the insurance determination process and to provide the FDIC with depositor data in a standard format. In both 2005 and 2006, the FDIC had issued Advance Notices of Proposed Rulemaking on this topic.

Asset Servicing Technology Enhancement Project

In 2007, the Asset Servicing Technology Enhancement Project (ASTEP) implemented a new asset management system called 4C. This effort takes advantage of new technology and replaces several outdated systems. The 4C system currently supports the management of receivership loans, real estate, securities, and other assets. It also provides a data warehouse. On May 8, 2007, the FDIC Board of Directors approved funding for the inclusion of the institution franchise and the asset marketing functions in the 4C system. 4C will be completed in late 2008 allowing the FDIC to more efficiently market financial institution franchises, manage and sell the assets of failed banks, and to easily report on these activities.

Protecting Insured Depositors

Although the FDIC's focus 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 institutions that fail. 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 $100,000 (or $250,000) insurance limit. During 2007, the FDIC paid dividends of $64.3 million to depositors whose accounts exceeded the insured limit(s).

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 meritorious and cost effective to pursue, the FDIC initiates legal action against the appropriate parties. During the year, the FDIC recovered approximately $47.1 million from these professional liability claims. 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 $5.3 million in criminal restitution during the year. At the end of 2007, the FDIC's caseload was comprised of nine professional liability lawsuits (up from 8 at year-end 2006), 34 open investigations (up from 2), and 93 active settlement collections (down from 97). At year end, there were 687 active restitution and forfeiture orders (down from 814). This includes 357 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 2007 follow.

Senator Bob Dole was guest speaker at the FDIC's Veteran's Day Program.

Human Capital Management

The FDIC's human capital management program is designed to attract, develop, reward and retain a highly skilled, cross-trained, diverse and results-oriented workforce. In 2007, the FDIC continued to implement workforce planning and development initiatives, as well as strategies to more fully engage employees in advancing the Corporation's mission.

Succession Management Strategies

Over the next decade, the FDIC expects to reshape its workforce in light of the projected retirements of a large proportion of its current employee base. In 2006, Corporation leadership developed several programs to plan for and address those retirements. These programs were designed to assess executive leadership bench strength, identify potential skill-set shortages or gaps, and institute strategies for closing these gaps.

During 2007, the FDIC began implementing a number of initiatives aimed at strengthening our human capital capabilities. First, senior leadership distributed a summary report of the findings of the 2006 Executive Manager (EM) talent review to all EMs. As a result of the review, several recommended succession planning initiatives are being pursued, and the talent review process will be cascaded down to capture Corporate Manager (CM) II leaders in the first quarter of 2008. Second, the Office of Personnel Management's management competency assessment tool was administered to all EMs and CMs to establish a baseline for identifying and closing leadership competency gaps. Finally, the Corporate Executive Development Program was launched with the selected high potential employees beginning an 18-month program of rotational assignments, mentoring and training that will prepare them to assume leadership roles in the Corporation as part of the succession plan. The FDIC will continue to pursue these and other succession management initiatives in 2008 and the years to come.

Employee Engagement

The FDIC continually evaluates its human capital programs and strategies to ensure that the Corporation remains an employer of choice and all employees are engaged and aligned with its mission. The 2006 Federal Human Capital Survey provided the FDIC with a baseline for employee satisfaction and engagement in a number of areas associated with working for the federal government and the FDIC, in particular. In reviewing the results released in early 2007, the Chairman established broad objectives for addressing areas of concern. She also launched an employee engagement initiative to include an employee survey that was more narrowly targeted to issues of importance to the FDIC and its employees. The 2007 employee engagement survey had an exceptional overall response rate of 77 percent, and focus groups were conducted to glean insights on causal factors underlying the 2007 survey results that highlighted areas needing improvement. Dialogues regarding the 2007 survey results will continue into 2008 and an action plan to implement recommendations will be developed. A principal benefit derived from this initiative and others is enhanced communication among employees and leadership in the Corporation.

Corporate Employee Program
During 2007, the FDIC continued its focus on new employee development through the Corporate Employee Program, which is the pipeline for new employees into the Corporation's business line divisions. The program 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. At the end of 2007, 364 employees had entered the multi-year, multi-disciplined program.

Employee Learning and Growth
The FDIC implemented its Professional Learning Account Program, which emphasizes continuous employee learning and growth. It provides employees a greater role in planning their career development. Also, to further enhance the FDIC's readiness and flexibility, the internal certificate program was expanded during 2007 to include the areas of Bank Secrecy Act, Receivership Claims, Franchise and Asset Marketing, and Basic Compliance Examination functions. In addition, the FDIC continued its sponsorship of industry-recognized professional certifications such as Certified Anti-Money Laundering Specialist (CAMS); Certified Fraud Examiner (CFE); Certified Information Systems Auditor® (CISA®); Certified Regulatory Compliance Manager (CRCM); Chartered Financial Analyst® (CFA®); and Financial Risk Manager® (FRM®).

With the Corporation's increased focus on consumer protection, the Advanced Compliance Examination School (ACES) for commissioned compliance examiners was launched to address current and complex consumer compliance issues. The content of the online Examiner Continuing Education Program, which provides examiners access to a variety of risk management and compliance technical training offerings, was also expanded.

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 2007.

Enterprise Architecture
The Corporation is committed to using IT to improve the operational efficiency of its business processes. In 2007, the IT program focused on establishing an economical enterprise architecture that supports effective IT systems portfolio management as well as security and privacy programs. This architecture, which is being implemented over a three- to five-year time frame, will provide for better accountability and transparency while offering service delivery efficiencies.

Internet Program
The FDIC's public Web site, www.fdic.gov, is a key communication delivery method for the FDIC. Each of the three major business lines – Insurance, Supervision, and Receivership Management – utilizes the Web site extensively. A Brown University research study released in July 2007 ranked the FDIC's Web site eighth in federal government Web sites, up from 27th last year. The FDIC's Web site was the highest ranked among all federal bank regulators. During a typical weekday, www.fdic.gov hosts approximately 30,000 user sessions. On October 5, 2007, a day after the Miami Valley Bank closing, the FDIC logged 157,986 user sessions. This was the largest single day usage for the Web site, representing a 500 percent increase in traffic and resulting in over 2.6 million hits to www.fdic.gov in a 24-hour period. To ensure the continued availability of this facility, the robustness and security of the Web site were improved during 2007.

Securing the FDIC
During 2007, many IT initiatives were undertaken to provide a more secure environment within the FDIC, including implementation of tools to combat the increasing levels of Internet and e-mail scams, conducting disaster recovery tests and updating the Corporation's disaster recovery plan, and conducting privacy and sensitive data walk-about inspections.