I. Management's Discussion and Analysis

The Year in Review

The year 2009 was another extremely busy one for the FDIC. In addition to the normal course of business, the Corporation continued to manage the Temporary Liquidity Guarantee Program (TLGP). Additional resources were needed in response to the increased workload resulting from resolving 140 bank failures. The FDIC continued its work on high-profile policy issues and published numerous Notices of Proposed Rulemaking (NPRs) throughout the year, seeking comment from the public. The Corporation also continued to focus on a strong supervisory program. The FDIC continued expansion of financial education programs with the release of a portable audio version and a Hmong language version of *Money Smart*. The FDIC also sponsored and co-sponsored major conferences and participated in local and global outreach initiatives.

Highlighted in this section are the Corporation's 2009 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 (DIF).

Temporary Liquidity Guarantee Program

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

Under the DGP, the FDIC initially guaranteed in full, through maturity or June 30, 2012, whichever came first, the senior unsecured debt issued by a participating entity between October 14, 2008, and June 30, 2009. Banks, thrifts, bank holding companies, and certain thrift holding companies were eligible to participate. In May 2009, the FDIC Board finalized a rule that extended for four months the period during which participating entities could issue FDIC-guaranteed debt. All participating insured depository institutions and those other participating entities that had issued FDIC-guaranteed debt on or before April 1, 2009, were permitted to participate in the extension of the DGP without further application to the FDIC. Other participating entities were permitted to issue debt during the extended DGP upon receiving approval from the FDIC. In conjunction with the extension of the DGP issuance period, the expiration of the guarantee period was pushed back to December 31, 2012. As a result, approved participating entities could issue FDIC-guaranteed debt through October 31, 2009, and the FDIC's guarantee would expire on the stated maturity date of the debt or December 31, 2012, whichever came first.

Participating entities could issue up to a maximum of 125 percent of the par value of the entity's senior unsecured debt that was outstanding as of the close of business September 30, 2008, and that was scheduled to mature on or before June 30, 2009. All debt with a term of 30 days or less

was excluded from the definition of senior unsecured debt. The FDIC charged a fee based on the amount and term of the debt issued. Fees ranged from 50 basis points on an annualized basis for debt with a maturity of 180 days or less, increasing to 75 basis points on an annualized basis for debt with a maturity of 181 to 364 days and 100 basis points on an annualized basis for debt with maturities of 365 days or greater. In conjunction with the program extension in 2009, the FDIC assessed an additional surcharge on debt with a maturity of one year or greater issued after April 1, 2009. Unlike the other TLGP fees, which were reserved for possible TLGP losses and not generally available for DIF purposes, the amount of any surcharge collected in connection with the extended DGP was to be deposited into the DIF and used by the FDIC when calculating the reserve ratio of the Fund. The surcharge varied depending on the type of institution issuing the debt with insured depository institutions paying the lowest fees.

The TAGP initially guaranteed in full all domestic noninterest-bearing transaction deposits held at participating banks and thrifts through December 31, 2009. This deadline was later extended through December 31, 2010. The guarantee also covered negotiable order of withdrawal (NOW) accounts at participating institutions—provided the institution committed to maintain interest rates on the accounts of no more than 0.50 percent for the duration of the program—and Interest on Lawyers Trust Accounts (IOLTAs) and functional equivalents. Participating institutions were initially assessed a 10 basis point surcharge on the portion of covered accounts that were not otherwise insured. The fees for the TAGP were increased for the extension to either 15 basis points, 20 basis points, or 25 basis points depending on the institution's deposit insurance assessment category.

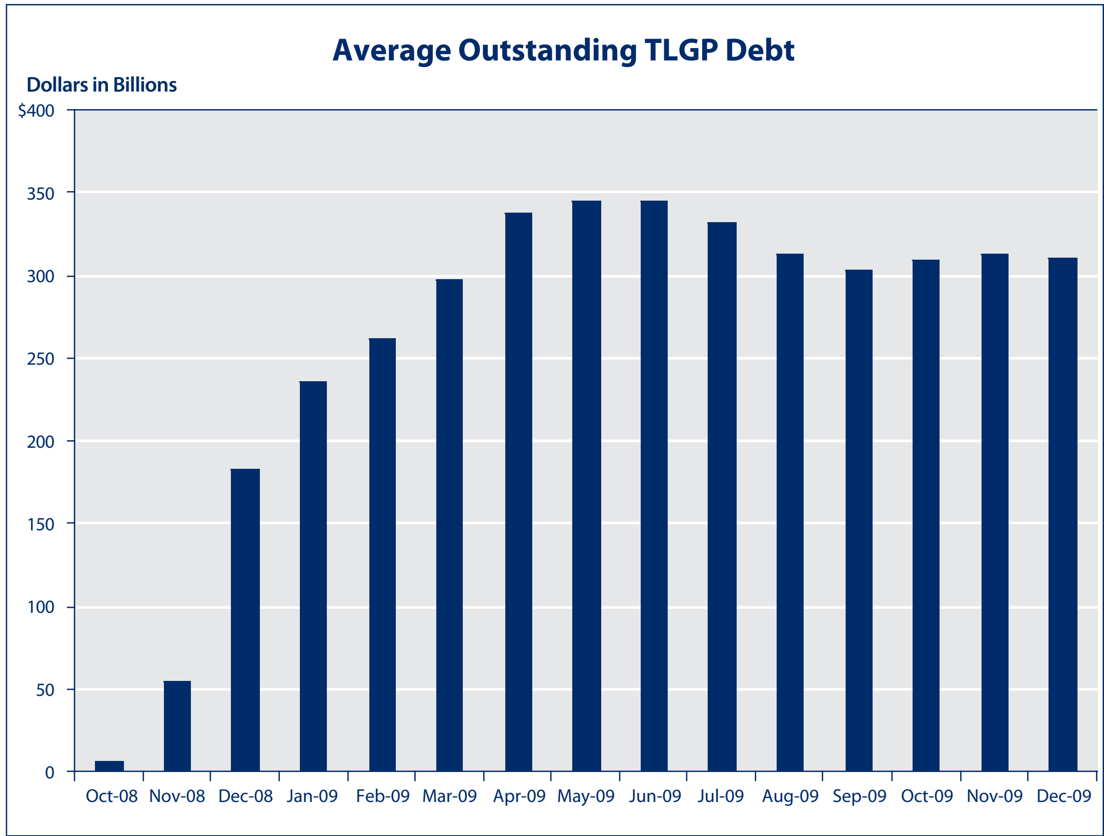
Program Statistics

Institutions were initially required to elect whether to participate in one or both of the programs. More than half of the over 14,000 eligible entities elected to opt-in to the DGP, while over 7,100 banks and thrifts, or 86 percent of FDIC-insured institutions, opted into the TAGP. Most of the institutions that opted out of the DGP had less than $1 billion in assets and issued no appreciable amount of senior unsecured debt.

During its existence, the DGP guaranteed over $618 billion in debt issued by 120 entities. At its peak, the DGP guaranteed almost $350 billion of debt outstanding. The amount of debt issuance declined as markets improved throughout 2009 and, as the chart shows (see next page), the amount of debt outstanding correspondingly decreased as shorter-term debt matured without being rolled over. Near the program's end on October 31, 2009, however, the volume of debt outstanding increased slightly. As of December 31, 2009, the total amount of FDIC-guaranteed debt outstanding was $309 billion.

Under the TAGP, the FDIC guaranteed an estimated $834 billion of deposits in noninterest-bearing transaction accounts as of December 31, 2009, that would not have otherwise been insured. More than 5,800 FDIC-insured institutions reported having noninterest-bearing transaction accounts over $250,000 in value.

The DGP collected approximately $10 billion in fees under the program. As of December 31, 2009, one participating entity (a holding company) that had issued guaranteed debt had declared



bankruptcy and defaulted on its debt. Subsequently, a claim for payment was filed and approved. In early 2010, the FDIC paid off the entire principal balance, including two quarterly interest payments. Very few losses are expected on the remaining outstanding debt through the end of the DGP in 2012. As of December 31, 2009, the FDIC had collected $639 million in fees under the TAGP.[1] Estimated TAGP losses on failures as of December 31, 2009, totaled $1.765 billion. Overall, TLGP fees are expected to exceed the losses from the program. At the conclusion of the program, any remaining TLGP funds will be added to the DIF balance. Under the conditions of the systemic risk determination, if fees are insufficient to cover costs of the program, the difference would be made up through a special assessment.

[1] This figure reflects fees assessed through September 30, 2009, and collected as of December 31, 2009.

Debt Guarantee Phase-Out and Emergency Guarantee Facility

The DGP enabled financial institutions to meet their financing needs during a period of system-wide turmoil. The DGP reopened the short- and medium-term debt markets for banks and other eligible institutions by allowing them to issue an array of debt instruments at a time when banks were unable to roll over this debt at reasonable rates and terms. By mid-2009, it appeared that the financial markets were stabilizing. In September, the FDIC Board authorized an NPR proposing a phase out of the DGP. Specifically, the NPR asked whether the FDIC should close the basic DGP as scheduled but establish a limited six-month emergency guarantee facility to address the possibility that a participating DGP entity may be unable to replace its maturing senior unsecured debt with non-guaranteed debt as a result of market disruptions or other circumstances beyond the entity's control. Few comments were received on the proposal and the FDIC Board voted on October 20, 2009, to approve a final rule ending the DGP as of October 31, 2009, with only the emergency guarantee facility continuing on a case-by-case basis through April 30, 2010. As its name implies, the FDIC always intended the TLGP to be temporary.

Transaction Account Guarantee Program Phase-Out

The TAGP was designed to eliminate potentially disruptive shifts in deposit funding and thus preserve bank lending capacity. The program proved effective. However, because bank failures continued to grow during 2009, the FDIC remained concerned that terminating the TAGP too quickly could unnerve uninsured depositors and ultimately reverse the progress made in restoring credit markets to more normal conditions. To help transition institutions out of the TAGP, therefore, the FDIC Board, on August 26, 2009, approved a final rule that extended the TAGP for an additional six months, through June 30, 2010.

The final rule established higher assessment fees for institutions participating in the extension period. As mentioned earlier, fees were revised from a flat-rate 10 basis points to a risk-based system with an assessment rate of either 15, 20, or 25 basis points depending on the institution's deposit insurance assessment category. The final rule also provided an opportunity for participating entities to opt out of the TAGP extension by November 2, 2009. Over 6,400 institutions (or 93 percent of institutions participating at year-end) elected to continue in the TAGP.

State of the Deposit Insurance Fund and Changes in Assessment Rates

Deposit Insurance Fund (DIF) losses increased significantly during 2009, resulting in a negative fund balance as of September 30, 2009. For the year, continued and anticipated bank failures resulted in a decline in the reserve ratio to negative 0.39 percent as of December 31, 2009, down from 0.36 percent at the beginning of the year.

Changes in the Assessment Rates

The decline in the reserve ratio occurred despite an increase in assessment rates overall and several adjustments made to the risk-based assessment system during the year. In the first quarter, assessment rates increased across-the-board by 7 basis points. Rates for the first quarter

of 2009 ranged from 12 to 50 basis points. Institutions in the lowest risk category—Risk Category I—paid between 12 and 14 basis points.

On February 27, 2009, the FDIC Board issued a rule incorporating adjustments to the risk-based assessment system to improve how the system differentiates for risk. Effective April 1, 2009, the range of rates widened overall and within Risk Category I. Initial base assessment rates within Risk Category I now range from 12 to 16 basis points on an annual basis, while the initial base rates for risk categories II, III, and IV are 22, 32, and 45 basis points, respectively. An institution's total base assessment rate may be less than or greater than its initial base rate as a result of additional adjustments for secured liabilities (increase), brokered deposits (increase), and/or unsecured debt and Tier I capital (decrease). For Risk Category I, total base assessment rates may be as low as 7 basis points or as high as 24 basis points. A Risk Category IV institution could have a total base assessment rate as high as 77.5 basis points. The initial base assessment rates, range of possible rate adjustments, and minimum and maximum total base rates, as of year-end, across all risk categories are as follows:

Setting the Designated Reserve Ratio

At a meeting on December 15, 2009, pursuant to provisions in the Federal Deposit Insurance Act that require the FDIC Board to set the Designated Reserve Ratio (DRR) for the DIF annually, the FDIC Board set the 2010 DRR at 1.25 percent of estimated insured deposits. The 2010 DRR of 1.25 percent is unchanged from the 2009 DRR.

Amendments to the Restoration Plan

The Federal Deposit Insurance Reform Act of 2005 requires the FDIC Board to adopt a restoration plan when the DIF reserve ratio falls below 1.15 percent or is expected to within six months. Given the steady decline in the reserve ratio during 2008 and projections for future bank failures, the FDIC Board adopted a Restoration Plan in October 2008 to restore the reserve ratio to at least 1.15 percent within five years. The continued decline in the DIF balance throughout 2009, however, necessitated several amendments to the Restoration Plan.

On February 27, 2009, the FDIC Board first amended the Restoration Plan by extending the time frame for recapitalization of the DIF from five years to seven years due to extraordinary

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

circumstances. To meet this time frame and help maintain public confidence in the banking system, the FDIC Board adopted an interim rule with a request for comment that would have imposed an emergency special assessment on the industry of 20 basis points on the assessment base as of June 30, 2009. The interim rule would also have permitted the FDIC Board to impose an emergency special assessment after June 30, 2009, of up to 10 basis points on the assessment base, if necessary to maintain public confidence in the federal deposit insurance system.

In response to comments, on May 22, 2009, the FDIC Board voted to levy a special assessment of 5 basis points on each FDIC-insured depository institution's assets minus its Tier 1 capital, as of June 30, 2009. The special assessment was collected on September 30, 2009. The assessment was capped at 10 basis points times an institution's assessment base so that no institution paid an amount higher than it would have paid under the interim rule. The FDIC Board also voted to allow additional special assessments in 2009 if conditions affecting the DIF warranted.

In May 2009, Congress amended the statutory provision governing the establishment and implementation of a Restoration Plan giving the FDIC eight years in which to bring the reserve ratio back to 1.15 percent, absent extraordinary circumstances. As a result, on September 29, 2009, the FDIC again adopted amendments to the Amended Restoration Plan that allowed the DIF to return to a reserve ratio of 1.15 percent within eight years. Concurrently, the FDIC adopted a 3 basis point increase in annual risk-based assessment rates effective January 1, 2011. The FDIC Board also voted not to impose any further special assessments on the industry for the remainder of 2009.

Actions to Meet Projected Liquidity Needs

While the Amended Restoration Plan and higher assessment rates addressed the need to return the reserve ratio to 1.15 percent, the FDIC also had to consider its need for cash to pay for projected near-term failures. In June 2008, before the number of bank and thrift failures began to rise significantly and the crisis worsened, total assets held by the DIF were approximately $55 billion, consisting almost entirely of cash and marketable securities. As the crisis continued into 2009, the liquid assets of the DIF were used to protect depositors of failed institutions. As of September 30, 2009, cash and marketable securities had fallen to approximately $23 billion and were projected to decline further as the pace of resolutions continued to put downward pressure on cash balances. The FDIC faced an immediate need for more liquid assets to fund near-term failures.

To meet the projected liquidity needs for near-term failures, the FDIC proposed a rulemaking requiring insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012. The prepaid assessment for these periods would be collected on December 30, 2009, along with each institution's regular quarterly risk-based deposit insurance assessment for the third quarter of 2009.

In order to calculate an institution's assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012, the institution's total base assessment rate in effect on September 30, 2009, would be used. That rate would be increased by an annualized 3 basis points for 2011 and 2012. Again, for purposes of calculating the amount that an institution prepaid on

December 30, 2009, an institution's third quarter 2009 assessment base would be increased quarterly at a 5 percent annual growth rate through the end of 2012. The proposal for the prepaid assessment had certain attributes that made it more attractive than imposing another special assessment on the industry. Chief among these was that the prepayment would not affect bank capital and earnings at a time when these were already under pressure. By implementing a prepaid assessment, banks would be able to book the prepayment as an asset with a zero percent risk weight. This asset would then be drawn down as the bank's regular quarterly risk-based assessment was levied. Additionally, those banks that were likely to be severely adversely affected by the prepayment could be exempted from the prepayment, although not from the actual quarterly risk-based assessment.

The comments received by the FDIC were mostly favorable—generally supporting the notion that the industry should fund its own needs to the extent possible. In November, the Board finalized this rulemaking making one substantive change. Any prepaid assessment not exhausted after collection of the amount due on June 30, 2013—moved up from December 31, 2014—will be returned to the institution at that time. Moreover, if conditions improve before that time, the FDIC Board may vote to return funds to the industry sooner. The FDIC collected $45.7 billion from the prepaid assessments—enough to fund its projected liquidity needs.

Center for Financial Research

The Center for Financial Research (CFR) was founded by the Corporation in 2004 to encourage and support innovative research on topics that are important to the FDIC's role as deposit insurer and bank supervisor. During 2009, the CFR co-sponsored two major research conferences, a workshop, and a symposium.

The CFR organized and sponsored the 19th Annual Derivatives Securities and Risk Management Conference jointly with Cornell University's Johnson Graduate School of Management and the University of Houston's Bauer College of Business. The conference was held in April 2009 at the Seidman Center and attracted over 100 researchers from around the world. Conference presentations included term structure modeling, price dynamics, fixed income, and options pricing and credit risk.

The CFR also organized and sponsored the 9th Annual Bank Research Conference jointly with *The Journal for Financial Services Research* (JFSR) in September 2009. The conference theme, Governance and Compensation in the Financial Services Industry, included 16 paper presentations and was attended by over 120 participants. Experts discussed a range of banking and financial sector issues—including corporate governance, bank lending behavior, incentive structures, household finance, and the subprime credit crisis.

The CFR held a one-day symposium on mortgage default risk which was jointly organized with the Federal Housing Finance Agency. The symposium attracted more than 200 industry experts, academics, and policy makers. Discussion topics included collateral and appraisal issues, underwriting standards, vendor model developments, subprime and other alternative mortgage product default modeling issues, as well as analysis of various aspects of ongoing loan modification programs.

The CFR hosted its annual Fall Workshop in December, which included three days of research paper presentations and discussions by FDIC staff. The workshop was attended by about 30 external academics and 30 FDIC staff.

In addition to conferences, workshops and symposia, 11 CFR working papers were completed and made public on topics including the costs associated with FDIC bank resolutions, the performance of the Basel II Advanced Internal Model Approach for setting regulatory capital requirements, new econometric methods to handle unit roots, executive compensation in bank holding companies, bank failures and the cost of systemic risk, the political economy associated with the recent bailout, and the role of speculation in creating volatility in the oil markets.

International Outreach

The FDIC demonstrated its leadership role in promoting sound deposit insurance, bank supervision, and bank resolution practices by providing technical guidance, training, consulting services, and information to international governmental banking and deposit insurance organizations in many areas around the world. The global crisis that began in the summer of 2007 and intensified in 2008 led many international authorities, including deposit insurers, to take a series of unprecedented actions to restore public confidence and financial stability. In response to this crisis, the International Association of Deposit Insurers (IADI), under the leadership of its President—FDIC's Vice Chairman Martin Gruenberg—and the Basel Committee on Banking Supervision (BCBS) jointly led an effort to establish an agreed set of deposit insurance core principles. The collaborative effort culminated in the issuance of the *Core Principles for Effective Deposit Insurance Systems* in June 2009. This is a significant milestone for improving deposit insurance systems worldwide. The *Core Principles* were subsequently welcomed by the Financial Stability Board (FSB) (formerly the Financial Stability Forum) at its inaugural meeting in June.

The Financial Stability Institute (FSI) and the BCBS partnered with IADI during IADI's 8th Annual Conference on September 23–24, 2009, at the Bank for International Settlements (BIS) in Basel, Switzerland, to present the *Core Principles*. More than 200 individuals representing over 100 organizations from more than 80 jurisdictions attended the conference. Participants included, among others, deposit insurers, financial supervisors, and central bankers. The conference was organized to further promote the *Core Principles* and contribute to their implementation and further development. The event featured presentations by internationally recognized experts Jaime Caruana, General Manager of the BIS; Nout Wellink, Chairman of the BCBS and President, De Nederlandsche Bank; Josef Tosovsky, Chairman of the FSI; William White, Chairman of the Economic and Development Review Committee, Organization for Economic Co-operation and Development; and David Hoelscher, Assistant Director, Monetary and Capital Markets Department, International Monetary Fund.

The FDIC's leadership in developing and implementing training seminars in partnership with IADI, the European Forum of Deposit Insurers (EFDI), and the Association of Supervisors of Banks of the Americas (ASBA) continued in 2009. The FDIC hosted and developed the core curriculum for IADI's executive training

IADI members and FDIC staff at the executive training conference.

seminar on "Claims Management: Reimbursement of Insured Depositors." The FDIC co-sponsored with EFDI a conference on "Deposit Insurance Before and After a Systemic Crisis." The FDIC also delivered training in supervising operational risk under ASBA's training program in Latin America.

The FDIC has also provided leadership through its co-chairing of the BCBS's Cross-border Bank Resolution Group (CBRG), which published its final report and recommendations in March 2010. The CBRG was established in December 2007 under a mandate to analyze existing resolution policies, allocation of responsibilities and legal frameworks of relevant countries as a foundation to a better understanding of the potential impediments and possible improvements to cooperation in the resolution of cross-border banks. During the first half of 2008, the CBRG collected detailed descriptions of national laws and policies on the management and resolution of cross-border banks using an extensive questionnaire completed by countries represented on the Group. The CBRG used the questionnaire responses to identify the most significant potential impediments to the effective management and resolution of cross-border banks and an interim report was prepared in December 2008. Subsequent to the interim report, the Basel Committee asked the CBRG to expand its analysis to review the developments and processes of crisis management and resolutions during the financial crisis with specific reference to case studies of significant actions by relevant authorities, which included the failures of Lehman Brothers, Dexia, Fortis, and the Icelandic banks. In response to this direction and building on this initial stock take, the CBRG provided the Basel Committee with a final report and recommendations to identify concrete and practical steps to improve cross-border crisis management and resolutions. The report and recommendations have been coordinated with and seek to complement the work of the FSB by providing practicable detailed approaches to implement the FSB's *Principles for Cross-border Cooperation on Crisis Management of April 2, 2009.*

Throughout 2009, the FDIC has provided support to the FSB through its work on the Cross-border Crisis Management Working Group chaired by Paul Tucker. This group has sought to implement the high-level *Principles for Cross-border Cooperation on Crisis Management of April 2, 2009.* These principles include a commitment to cooperate by the relevant authorities, including supervisory agencies, central banks and finance ministries, both in making advanced preparations for dealing with financial crises and in managing them. They also commit national authorities from relevant countries to meet regularly alongside core colleges to consider together the specific issues and barriers

to coordinate action that may arise in handling severe stress at specific firms, to share information where necessary and possible, and to ensure that firms develop adequate contingency plans. The FSB principles cover practical and strategic ex ante preparations and set out expectations for how authorities will relate to one another in a crisis. They draw upon recent and earlier experiences of dealing with cross-border firms in crisis, including the 2001 G10 Joint Taskforce Report on the Winding Down of Large and Complex Financial Institutions, and the 2008 European Union Memorandum of Understanding on Financial Stability. Currently this group is preparing detailed analysis of obstacles to recovery and resolution planning, which will be presented to the G20 in November 2010.

June marked the two-year anniversary of the secondment program agreed upon between the Financial Services Volunteer Corps (FSVC) and the FDIC to place one or more FDIC staff members full-time in FSVC's Washington, DC, office. The projects in 2009 included an in-depth review of bank supervisory practices at the Bank of Albania; a series of commentaries and consultations to assist the Central Bank of Egypt in creating an appropriate and effective approach in the new area of retail bank supervision; adapting FDIC courses for the first time to a format streamlined and relevant for examiners at the Reserve Bank of Malawi, the Banque d'Algerie, and the Central Bank of Egypt; and designing and participating in FSVC's first-ever training and consultations with the Central Bank of Libya and the Central Bank of Iraq on essential bank supervision topics.

The FDIC deepened its key relationship with China by participating in the fourth annual U.S.-China Banking Supervisor's Bilateral Conference that was held at the Federal Reserve in December. The conference addressed approaches and policies with respect to macroprudential supervision; cross-border supervisory cooperation; regulatory reform; and consumer protection. The FDIC has also strengthened its relationship with China by signing an Appendix to the Supervisory Memorandum of Understanding between the FDIC and the China Banking Regulatory Commission on May 26, 2010. The Appendix covers issues relating cross-border contingency planning and the resolution of troubled institutions within China and the United States.

Recognizing India's rising economic role, the FDIC participated in the U.S.-India Finance and Economic Forum hosted by the Indian Ministry of Finance in December in New Delhi, India. The meeting brought together all financial sector regulators from the two countries to discuss a variety of topics, including deposit insurance, banking sector developments, capital and commodities markets, insurance, and financial education. The FDIC shared its responses during the current economic crisis and its view on the value of deposit insurance in a crisis, as well as its efforts in financial education and economic inclusion.

During 2009, FDIC staff shared its expertise with a wide range of individuals from developing and emerging economies as well as from developed economies, with the goal of enhancing capacity in deposit insurance, supervision, and resolutions. During the year, the FDIC hosted 67 individual visits with a total of more than 450 foreign visitors from over 30 countries. The FDIC's response to the financial crisis, U.S. regulatory restructuring options, and resolution methods were frequently discussed during these visits. In

addition, two FDIC staff members provided technical assistance through the FSVC on 15 missions covering 12 countries. In November, FDIC staff provided training to 32 Latin American bank supervisors in the supervision of operational risk in Panama as part of ASBA's continental training program. Also, through the FDIC's Corporate University Examiner training program and the State Department's Anti-Money Laundering/Counter-Financing of Terrorism training program, the FDIC provided training to 146 students from 20 countries. Additionally, the FDIC was able to provide deposit insurance claims management training through the IADI Executive Training Program to 128 representatives from over 50 countries. In total, these efforts resulted in the FDIC's engagement with over 560 representatives from 56 emerging or developing markets.

Complex Financial Institution Program

The FDIC's Complex Financial Institution (CFI) Program addresses the unique challenges associated with the supervision, insurance, and potential resolution of large/complex insured institutions. The FDIC's ability to analyze and respond to risks in these institutions is of particular importance, as they make up a significant share of the banking industry's assets. The program provides for a consistent approach to large-bank supervision nationwide, allows for analysis of financial institution risks on an individual and comparative basis, and enables a quick response to risks identified at large institutions. The program's objectives are achieved through extensive cooperation with the FDIC regional offices, other FDIC divisions and offices, and the other bank and thrift regulators. Adverse economic and market conditions throughout 2009 continued to impact large institutions. Given the increased risk levels, the FDIC has expanded its presence at the nation's largest and most complex institutions through additional and enhanced on-site and off-site monitoring.

The program increased its on-site presence at the eight large complex institutions, as designated by the FDIC Board of Directors, to assess risk, monitor liquidity, and participate in targeted reviews with the primary federal regulators. Standardized liquidity, and reporting processes are also in place at select large and problem institutions. Off-site monitoring has intensified with weekly reporting on high-risk banks with total assets of $5 billion or greater.

The Large Insured Depository Institution (LIDI) Program remains the primary instrument for off-site monitoring of insured depository institutions with $10 billion or more in total assets, or under this threshold at regional discretion. The LIDI Program continues to provide a comprehensive process to standardize data capture and reporting through nationwide comprehensive quantitative and qualitative risk analysis of large and complex institutions. As of December 31, 2009, the LIDI Program encompassed 109 institutions with total assets of over $10 trillion. In order to enhance large bank oversight, the LIDI Program was refined to better quantify risk to the insurance fund in all large banks. This was accomplished, in collaboration with other divisions and offices, through the implementation of the LIDI Scorecard. The LIDI Scorecard is designed to weigh key risk areas and provide a risk ranking and measurement system that compares insured institutions on the basis of both the probability of failure and exposure to loss at failure. The comprehensive LIDI Program is

essential to effective large bank supervision by capturing information on the risks and utilizing that information to best deploy resources to high-risk areas, determine the need for supervisory action, and support insurance assessments and resolution planning.

Supervision and Consumer Protection

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

Examination Program

The FDIC's strong bank examination program is the core of its supervisory program. As of December 31, 2009, the Corporation was the primary federal regulator for 4,943 FDIC-insured, state-chartered institutions that were not members of the Federal Reserve System (generally referred to as "state non-member" institutions). Through safety and soundness, consumer compliance and Community Reinvestment Act (CRA), and other specialty examinations, the FDIC assesses an institution's operating condition, management practices and policies, and

FDIC Examinations 2007–2009

	2009	2008	2007
Risk Management (Safety and Soundness):			
State Non-member Banks	2,398	2,225	2,039
Savings Banks	203	186	213
Savings Associations	1	1	3
National Banks	0	2	0
State Member Banks	2	2	3
Subtotal—Safety and Soundness Examinations	2,604	2,416	2,258
CRA/Compliance Examinations:			
Compliance/Community Reinvestment Act	1,435	1,509	1,241
Compliance-only	539	313	528
CRA-only	7	4	4
Subtotal—CRA/Compliance Examinations	1,981	1,826	1,773
Specialty Examinations:			
Trust Departments	493	451	418
Data Processing Facilities	2,780	2,577	2,523
Subtotal—Specialty Examinations	3,273	3,028	2,941
Total	**7,858**	**7,270**	**6,972**

compliance with applicable laws and regulations. The FDIC also educates bankers and consumers on matters of interest and addresses consumer questions and concerns.

As of December 31, 2009, the Corporation conducted 2,604 statutorily required risk management (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 1,981 CRA/compliance examinations (1,435 joint CRA/compliance examinations, 539 compliance-only examinations,[2] and 7 CRA-only examinations) and 3,273 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.[3] The accompanying table on page 25 compares the number of examinations, by type, conducted from 2007 through 2009.

Risk Management

As of December 31, 2009, there were 702 insured institutions with total assets of $402.8 billion designated as problem institutions for safety and soundness purposes (defined as those institutions having a composite CAMELS[4] rating of "4" or "5"), compared to the 252 problem institutions with total assets of $159.4 billion on December 31, 2008. This constituted a 179 percent increase in the number of problem institutions and a 153 percent increase in problem institution assets. In 2009, 179 institutions with aggregate assets of $1.3 trillion were removed from the list of problem financial institutions, while 629 institutions with aggregate assets of $1.6 trillion were added to the list. Eighty-three institutions are in process of being downgraded to problem status, reporting total assets of $32.2 billion. Colonial Bank, Montgomery, Alabama, was the largest failure in 2009, with $25.0 billion in assets (and was added to the list and resolved in 2009). The FDIC is the primary federal regulator for 473 of the 702 problem institutions, with total assets of $242.2 billion and $402.8 billion respectively.

During 2009, the Corporation issued the following formal and informal corrective actions to address safety and soundness concerns: 282 Cease and Desist Orders, 3 Temporary Cease and Desist Orders, and 425 Memoranda of Understanding. Of these actions, 9 Cease and Desist Orders and 22 Memoranda of Understanding were issued based, in part, on apparent violations of the Bank Secrecy Act.

[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 2009 annual performance goal for compliance examinations on "3-, 4-, and 5-rated" institutions was not fully met. This annual performance goal and the indicator have been revised for 2010 to be consistent with the goal established in years prior to 2009. The 2009 performance target was not achieved because of the inadvertent inclusion of "3-rated" institutions. The FDIC does not typically issue formal enforcement actions for "3-rated" institutions. The 2009 performance target was fully met with respect to "4- and 5-rated" institutions.

[4] 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, 2009, 327 FDIC-supervised institutions were assigned a "4" rating for safety and soundness, and 146 institutions were assigned a "5" rating. Of the "4-rated" institutions, 297 were examined or had examinations in process as of December 31, 2009, and formal or informal enforcement actions are in process or had been finalized to address the FDIC's examination findings. Further, 131 "5-rated" institutions were examined or had examinations in process as of December 31, 2009.

Compliance

As of December 31, 2009, 34 FDIC-supervised institutions were assigned or in process of being assigned a "4" rating and one institution was assigned a "5" rating for compliance. In total, 18 of the "4-rated" and the one "5-rated" institutions were examined in 2009; the remaining 16 were examined prior to 2009 and involved either appeals or referrals to other agencies. Of these 35 institutions, 1 is under informal enforcement action, 21 are under Cease and Desist Orders and 13 are in process of enforcement actions.

During 2009, the Corporation issued the following formal and informal corrective actions to address Compliance concerns: 18 Cease and Desist Orders and 50 Memoranda of Understanding.

Restoring and Maintaining Public Confidence and Stability in the Financial System

The FDIC is participating with other regulators, Congress, banks, and other stakeholders in multiple new and changing initiatives, each with its unique challenges and risks, to address the current crises. The initiatives are very large in scale, and the FDIC's corresponding governance and supervisory controls, in many cases, are still under development at year-end. Among the initiatives are the following:

- Processing applications for those FDIC-supervised institutions applying to the Department of the Treasury's Troubled Asset Relief Program (TARP) Capital Purchase Program (CPP). This program authorizes the Treasury to purchase up to $250 billion of senior preferred shares from qualifying insured depository institutions. As of September 30, 2009, the FDIC had received over 1,700 applications requesting nearly $35 billion in TARP funding.
- As of December 31, 2009, the FDIC's processing of CPP requests was 100 percent completed. The Department of Treasury completed the final disbursements under the CPP program on December 31, 2009.
- Issuing a memorandum on February 10, 2009, to provide examiners with guidance on reviewing compliance with CPP program requirements. Examiners have incorporated these procedures into their on-site reviews of institutions participating in the CPP. Examination procedures for institutions participating in the TLGP were issued on September 24, 2009.

Joint Examination Teams

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

is required. The JET approach has three primary objectives:

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

In 2009, the FDIC used JETs within institutions involved in significant subprime or nontraditional mortgage activities; institutions affiliated with or utilizing third parties to conduct significant consumer lending activities, especially in the credit card area; and institutions for which the FDIC has received a high volume of consumer complaints or complaints with serious allegations of improper conduct by banks.

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 2009.

The FDIC conducted three training sessions in 2009 for 57 central bank representatives from Bangladesh, Egypt, Ghana, Indonesia, Jordan, Kuwait, Mali, Nigeria, Pakistan, Saudi Arabia, Thailand, United Arab Emirates, and Yemen. 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 on the role of financial intelligence units in detecting and investigating illegal activities.

Additionally, the FDIC hosted 29 representatives from the Central Bank of Russia, sponsored by the Financial Services Volunteer Corps. Sessions included discussion of AML topics, as well as supervisory examination processes and interaction with the financial intelligence unit. Separately, the FDIC met with five Russian and three Kazakhstani foreign officials as a part of the U.S. Department of State's International Visitor Leadership Program to discuss the FDIC's AML Supervisory Program.

Minority Depository Institution Activities

The preservation of Minority Depository Institutions (MDIs) remains a high priority for the FDIC. In 2009, the FDIC continued to seek ways for improving communication and interaction with MDIs, and responding to their concerns. Technical assistance was provided to 51 MDIs in a variety of different areas including, but not limited to, the following:

- Deposit insurance assessments
- Proper use of interest reserves
- Filing branch and merger applications
- Complying with Part 365—Real Estate Lending Standards
- Preparing Call Reports
- Performing due diligence for loan participations
- Monitoring CRE concentrations
- Reducing adversely classified assets
- Stress testing
- Identifying and monitoring reputation risk
- Maintaining adequate liquidity
- Risks related to the use of brokered deposits

- Compliance issues
- Community Reinvestment Act
- Procedures for filing regulatory appeals
- Criteria for assigning CAMELS ratings

The FDIC also continued to offer the benefit of having examiners return to FDIC-supervised MDIs from 90 to 120 days after examinations, to assist management in understanding and implementing examination recommendations and to discuss other issues of interest. Seven MDIs took advantage of this initiative in 2009. Also, the FDIC held six regional outreach training efforts and educational programs to MDIs, three of which are discussed below.

In February 2009, the FDIC held a conference call to discuss various facets of the proposed changes to the insurance assessment criteria, including (a) the removal of statutory constraints on the FDIC's ability to charge institutions for deposit insurance under the Federal Deposit Insurance Reform Act of 2005, (b) the temporary increase in basic deposit insurance coverage from $100,000 to $250,000 per depositor under the Emergency Economic Stabilization Act of 2008, and (c) the insurance assessments for financial institutions based on their risk category. There was also a discussion about the criteria for participating in the Troubled Asset Relief Program (TARP). Seventy-eight bankers participated on the conference call.

The FDIC hosted the fourth annual MDI National Conference in Chicago, Illinois, from July 8-10, 2009. The conference theme was "A Bridge to Community Stabilization," and over 220 bankers from MDIs attended. The breakout sessions focused on topics of interest to bank management, including commercial real estate lending, liquidity and funding, mortgage foreclosure prevention programs, and accounting issues.

The FDIC held banker roundtables and/or conference calls with MDIs in their geographic regions. Topics of discussion at roundtables included the economy, overall banking conditions, agricultural conditions, deposit insurance assessments, accounting, and other bank examination issues. Also, from December 2-3, 2009, the FDIC, in cooperation with the Puerto Rico Bankers Association, hosted a compliance school in Guayabo, PR. The event was attended by approximately 150 bankers from nine banks.

In addition, the National MDI Coordinator held conference calls with representatives from several trade groups, including the Puerto Rico Bankers Association, the National Bankers Association, the Korean-American Bankers Association, the Asian-American Bankers Association, the National Association of Chinese-American Bankers, and the Hispanic Bankers Association, to discuss the MDI program and FDIC outreach activities.

Capital Standards

The FDIC continued to be actively involved in domestic and international discussions intended to address the deficiencies in regulatory capital rules that were brought to light as a result of the recent financial turmoil and to ensure capital standards adequately support the safe and sound operation of banks. This included participation in a number of supervisory working group meetings with foreign regulatory authorities.

Internationally, the FDIC is participating in the Basel Capital Monitoring Group that tracks the impact on risk-based capital with the implementation of Basel II. The FDIC will continue

to compile and analyze the information on the international impact of Basel II on regulatory capital as it becomes available through public and supervisory sources.

The FDIC continues to participate in international efforts to improve the quality of capital, minimize the procyclicality of risk-based capital requirements, and ensure the amount of capital banks hold for risky exposures is commensurate with risk (notably securitization, re-securitization, and trading book exposures). The FDIC actively participates in the work of the Basel Committee on Banking Supervision's Policy Development Group and a number of working groups: AIG Trading Book, Fundamental Review of the Trading Book, Definition of Capital, Non-Risk Based Supplementary Measure (leverage ratio), Liquidity, External Ratings and Securitizations, Counterparty Credit Risk, Asset Encumbrance, Procyclicality, and Macroprudential Supervision. The substantive work of these groups culminated in the publication in June 2009 of *Revisions to the Basel II market risk framework, Guidelines for computing capital for incremental risk in the trading book*, and *Enhancements to the Basel II framework*—and two consultative papers in December of 2009—*Strengthening the resilience of the banking sector* and *International framework for liquidity risk measurement, standards and monitoring.* The FDIC also participated in drafting the request for data for the impact studies that the Basel Committee will undertake in early 2010 to calibrate the proposals in the consultative papers. A number of these groups, including the Fundamental Review of the Trading Book, Asset Incumbrance, External Ratings and Securitization, and Macroprudential Supervision, will continue their work into 2010.

Domestically, the FDIC issued a number of interagency rulemakings to align regulatory capital more closely with risk. On November 12, 2009, the FDIC made final the interim final rule regarding the risk weights for Residential Mortgage Loans Modified Pursuant to the Making Home Affordable Program (MHAP) of the U.S. Department of the Treasury.[5] This rule was jointly issued with the other federal banking agencies' support to prevent residential real estate foreclosures and keep Americans in their homes. The rule allows an institution to continue to risk weight a prudently-underwritten mortgage loan at the preferential risk weight even though it has been restructured under the Treasury's program. The final rule clarified that a banking organization may retain the risk weight assigned to a mortgage loan before the loan was modified under the MHAP.

On August 27, 2009, in response to the financial turmoil and the Financial Accounting Standards Board's revisions to accounting rules for consolidation of variable interest entities—Statement of Financial Accounting Standards No. 166, *Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140* (FAS 166—now codified as ASC 860), and Statement of Financial Accounting Standards No. 167, *Amendments to FASB Interpretation No. 46(R)* (FAS 167—now codified as ASC 810)—the federal banking regulators issued a proposed

[5] On March 4, 2009, the Treasury announced guidelines under the *Making Home Affordable Program* (MHAP) to promote sustainable loan modifications for homeowners at risk of losing their homes due to foreclosure.

rule for comment titled *Impact of Modifications to Generally Accepted Accounting Principles, Consolidation of Asset-Backed Commercial Paper Programs, and Other Related Issues*. The final rule was approved by the FDIC Board on December 15, 2009. The rule discussed the impact of the accounting changes on the agencies' regulatory capital rules. The rule modified the general risk-based and advanced risk-based capital adequacy frameworks to eliminate the exclusion of certain consolidated asset-backed commercial paper programs from risk-weighted assets. The rule provided a reservation of authority in the general risk-based and advanced risk-based capital adequacy frameworks to permit the agencies to require banking organizations to treat entities that are not consolidated under accounting standards as if they were consolidated for risk-based capital purposes. The rule included an optional four-quarter transition period to ease the impact of the accounting change on a bank's risk-based capital requirements but did not delay the impact of the accounting change on a bank's leverage ratio.

The FDIC, with the other federal bank regulators, commenced a number of rulemakings in late 2009, including a revised Standardized Framework notice of proposed rulemaking (NPR) that proposes to implement the Basel II Accord standardized risk-based capital framework, an NPR to revise the Market Risk Amendment that proposes higher regulatory capital requirements for significant trading book activities, and an NPR that proposes implementation of the Basel changes to risk-based capital requirements that doubles the capital charge for re-securitizations and requires additional disclosures for securitizations and re-securitizations.

Guidance Issued

During 2009, the FDIC issued and participated in the issuance of guidance in several areas as described below:

Structured Credit Products

FDIC-supervised institutions continued to invest in structured credit products, including private label mortgage-backed securities and collateralized debt obligations. By early 2009, a growing number of these institutions experienced deterioration in financial performance as a result of these investments. To reinforce the federal banking agencies' existing guidance—*Supervisory Policy Statement on Investment Securities and End-User Derivatives Activities* and *Uniform Agreement on the Classification of Assets and Appraisal of Securities*—the agencies issued new guidance on April 30, 2009, titled *Risk Management of Investments in Structured Credit Products.* The guidance reiterates and clarifies existing supervisory guidance on the purchase and holding of complex structured credit products. It focuses on the various supervisory concerns related to these securities: pre-purchase analysis, suitability determination, risk limits, credit ratings, valuation, ongoing due diligence, adverse classification, and capital treatment.

Qualifications for Failed Bank Acquisitions

The FDIC developed guidance for private investors interested in acquiring the deposit liabilities, or the deposit liabilities and assets, of failed insured depository institutions. The FDIC published for comment on July 9, 2009, a Proposed Statement of Policy on Qualifications for Failed Bank Acquisitions (Proposed Policy Statement). On August 26, 2009, the FDIC's Board of

Directors voted to adopt the Final Statement of Policy on Qualifications for Failed Bank Acquisitions (Final Policy Statement), which was published in the *Federal Register* on September 2, 2009. The Final Policy Statement takes into account comments received from companies, law firms, legislators, and other interested parties, and changed the minimum capital commitment from 15 percent Tier 1 leverage to 10 percent Tier 1 common equity. Other key elements of the Final Policy Statement include cross support requirements, a prohibition on affiliated lending, a limitation on the sale of acquired shares in the first three years, a prohibition on bidding by excessively opaque and complex business structures, and minimum disclosure requirements. The Final Policy Statement specifies that it does not apply to investors who hold 5 percent or less of the total voting power as long as there is no evidence of concerted action by these investors. In adopting the Final Policy Statement, the FDIC sought to strike a balance between the interests of private investors and the need to provide adequate safeguards for the insured depository institutions involved.

Commercial Real Estate Guidance

In response to deteriorating trends in commercial real estate (CRE) and other commercial loans, the FDIC, along with the other financial regulators, issued the *Policy Statement on Prudent Commercial Real Estate Loan Workouts* (the CRE Guidance) on October 30, 2009. The CRE Guidance updates existing guidance to assist examiners in evaluating institutions' efforts to renew or restructure loans to creditworthy borrowers. It promotes supervisory consistency, enhances the transparency of workout transactions, and ensures that supervisory policies and actions do not inadvertently curtail the availability of credit to sound borrowers.

Liquidity Risk Management

On July 31, 2009, the federal banking agencies and the National Credit Union Administration sought comment on a proposed *Interagency Guidance on Funding and Liquidity Risk Management*. The agencies developed the guidance to provide sound practices for managing funding and liquidity risk and strengthening liquidity risk management practices. The new guidance is intended to supplement existing guidance, including FIL-84-2008, Liquidity Risk Management, issued by the FDIC in 2008, which remains in effect. Where appropriate, the proposed guidance conforms to the Basel Committee's *Principles for Sound Liquidity Risk Management and Supervision*. The final guidance was published on April 15, 2010.

Brokered Deposits

The FDIC issued a final rule on May 29, 2009, effective January 1, 2010, changing the way it administers statutory restrictions on the deposit interest rates paid by banks that are less than well-capitalized. Under Part 337.6 of the FDIC Rules and Regulations, a less than well-capitalized insured depository institution may not pay a rate of interest that significantly exceeds the prevailing rate in the institution's market area or the prevailing rate from which the deposit is accepted. The final rule is intended to simplify and strengthen the administration of this regulation.

De Novo Institutions

On August 28, 2009, the FDIC advised the banking industry of supervisory changes for state non-member institutions insured seven years or less (*de novo* period). Under previous policy, newly insured institutions were subject to higher capital requirements and more frequent examination activities during the first three years of operation. Based on supervisory experience, the FDIC extended the *de novo* period from a three-year period to seven years for examinations, capital, and other requirements. In addition, material changes in business plans for newly insured institutions will require prior FDIC approval during the first seven years of operation.

Regulatory Relief

During 2009, the FDIC issued six Financial Institution Letters that provided guidance to help financial institutions and facilitate recovery in areas damaged by severe storms, tornadoes, flooding, and other natural disasters. Areas within American Samoa, Arkansas, Georgia, Kentucky, Minnesota, and North Dakota were affected.

Other Guidance Issued

On July 8, 2009, in response to the severe payment situation that the state of California was experiencing, the federal banking agencies issued supervisory guidance for institutions regarding the regulatory capital treatment for registered warrants issued by the state of California as payment for certain obligations. The agencies' risk-based capital standards permit a banking organization to risk weight general obligation claims on a state at 20 percent. These warrants, which are general obligations of the state, would, therefore, be eligible for the 20 percent risk weight for risk-based capital purposes. The agencies reminded institutions, however, that they should exercise the same prudent judgment and sound risk management practices with respect to the registered warrants as they would with any other obligation of a state.

The FDIC also initiated an interagency interest rate risk advisory to highlight concerns about banks taking on excessive interest rate risk in current low interest rate environment. This advisory, which was published in January 2010, clarifies existing guidance and reminds banks not to lose focus on their management of interest rate risk. Banks are expected to manage interest rate risk exposures using policies and procedures commensurate with their complexity, business model, risk profile, and scope of operations.

Consumer Protection and Compliance Guidance

In January 2009, the FDIC approved, and issued, along with the other federal bank regulators, updated Final Interagency Questions and Answers on the Community Reinvestment Act (CRA) and requested comment on new proposed guidance. In June, the FDIC joined the other regulators in requesting comment on CRA regulatory changes to implement statutory requirements relating to student loans and activities in cooperation with minority- and women-owned financial institutions and low-income credit unions. The FDIC contributed to the development and June release of guidance and examination procedures on the 2009 Identity Theft Red Flags regulations. In July, the FDIC joined other regulators in issuing Revised Interagency Questions and Answers Regarding Flood Insurance, updating guidance first issued in 1987,

and requested comment on additional proposed guidance. In September, the FDIC alerted banks to new statutory requirements to protect tenants occupying foreclosed properties.

In November, the FDIC joined seven other federal agencies in releasing a model privacy notice form designed to make it easier for consumers to understand how financial institutions collect and share their personal information. The model form resulted from a multi-year consumer testing effort. In December, the FDIC joined the other Federal Financial Institutions Examination Council (FFIEC) member agencies in issuing for public comment, supervisory guidance on reverse mortgages, building on FDIC analysis performed in 2008. In June, August, and December, the FDIC issued guidance to the institutions it supervises alerting them to significant changes in the Truth in Lending Act and the Federal Reserve Board's Regulation Z (which implements that Act). In December, the FDIC reminded institutions of the dramatically revised Real Estate Settlement Procedures Act regulation issued by the Department of Housing and Urban Development.

Monitoring Potential Risks from New Consumer Products

The FDIC relies heavily on on-site supervisory activities to identify existing and emerging risks. In addition to on-site supervisory activities, the FDIC uses several established off-site processes, including Statistical CAMELS Off-site Rating (SCOR) and Growth Monitoring System (GMS), as well as more recent comprehensive reviews (such as the Quarterly Supervisory Risk Profile) to assess how identified risks are likely to affect insured institutions' risk profiles and ratings. These ongoing analyses have been augmented with numerous ad hoc reviews (such as reviews of commercial real estate lending trends, interest rate risk exposure, allowance-for-loan and lease losses trends, and dividend payments). Furthermore, the FDIC replaced its former Underwriting Survey Questionnaire with a Credit and Consumer Products/Services Survey in October 2009. The new survey extends beyond underwriting practices and addresses new or evolving products/strategies and consumer compliance issues and is now completed by examiners at the conclusion of each risk management and consumer compliance examination. Supervisory staff monitors and analyzes this real-time examiner input and uses the information to help determine the need for changes in policy guidance or supervisory strategies as appropriate.

The FDIC continues to work with the FFIEC to issue supervisory guidance on reverse mortgage products. The FDIC began this effort as the result of an internal review that highlighted consumer risks associated with this product. A 2009 GAO report highlighted similar issues. In addition, the FDIC continues to work with other agencies to enhance the Truth in Lending examination procedures to assist examiners when reviewing compliance with reverse mortgage disclosure requirements.

Regulatory Reporting Revisions

The FDIC, jointly with the Office of the Comptroller of the Currency and the Federal Reserve Board, implemented revisions to the Consolidated Reports of Condition and Income (Call Reports) on a phased-in basis in March, June, and December 2009. The revisions

focused on areas in which the banking industry was experiencing heightened risk as a result of market turmoil and illiquidity and weakening economic and credit conditions. The reporting changes included new data on real estate construction loans with interest reserves, structured financial products such as collateralized debt obligations, commercial mortgage-backed securities, pledged loans, and fiduciary assets and income. Selected institutions must report additional data on recurring fair value measurements, credit derivatives, and over-the-counter derivative exposures.

In September 2009, the agencies updated the reporting of data on the amount and number of deposit accounts and estimated uninsured deposits in the Call Report schedule to reflect the extension of the temporary increase in the standard maximum deposit insurance amount from $100,000 to $250,000 per depositor enacted in the Helping Families Save Their Homes Act.

In December 2009, the agencies approved revisions to the Call Report that were implemented in early 2010. The revisions incorporate modifications made in response to comments received on the agencies' August 2009 proposal and are subject to approval by the U.S. Office of Management and Budget. The revisions respond to such recent developments as a temporary increase in the deposit insurance limit, changes in accounting standards, and credit availability concerns. The reporting changes that were effective March 31, 2010, include new data on other-than-temporary impairments of debt securities, loans to non-depository financial institutions, and brokered time deposits; additional data on certain time deposits and unused commitments; and a change from annual to quarterly reporting for small business and small farm lending data. The agencies will collect new data pertaining to reverse mortgages annually beginning December 31, 2010.

Promoting Economic Inclusion

The FDIC pursued a number of initiatives in 2009 to facilitate underserved populations using mainstream banking services rather than higher cost, non-bank alternatives and to ensure protection of consumers in the provision of these services.

Alliance for Economic Inclusion

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

The FDIC expanded its AEI efforts during 2009 to increase measurable results in the areas of new bank accounts, small-dollar loan products, remittance products, and delivery of financial education to more underserved consumers. During 2009, over 60 banks and organizations joined AEI nationwide, bringing the total number of AEI members to 967. More than 72,614 new bank accounts were opened during 2009, bringing the total number of bank accounts opened through the AEI to 162,692. During 2009, approximately 68,491 consumers received financial education through the AEI, bringing the total number of consumers educated to 142,796. Also, 35 banks were in the process of offering or developing small-dollar loans as part of the AEI,

and 26 banks were offering remittance products at the end of 2009.

The FDIC expanded the AEI initiative to two additional markets during 2009—Detroit/South, Michigan and Little Rock, Arkansas—bringing the total number of active AEI markets to 14. Additionally, the FDIC worked closely during 2009 to provide technical assistance and support to communities in Milwaukee, Wisconsin and northwestern Indiana interested in forming AEI coalitions. The statewide Wisconsin Saves program agreed to lead an initiative in Milwaukee patterned after the AEI.

The FDIC also worked closely during 2009 with the National League of Cities to provide technical assistance to facilitate the launch of Bank On campaigns in Seattle, WA; Savannah, GA; Houston and San Antonio, TX; and Indianapolis, IN. The FDIC was also invited to serve as a working committee member and advisor to facilitate the launch of a Bank On Washington, DC, campaign launched in April 2010.

FDIC Advisory Committee on Economic Inclusion

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

The Advisory Committee met three times during 2009. In February 2009, the meeting topic was *Strategies to Increase Access to the Financial Mainstream*. The meeting featured an overview of the FDIC Survey of Banks' Efforts to Serve the Unbanked and Underbanked and focused on effective and innovative products and services, policy approaches, and supervisory and regulatory strategies to improve appropriate engagement with the mainstream financial system, particularly for low- and moderate-income (LMI) and underserved households.

The Advisory Committee also met in July 2009 to continue its discussion about issues and challenges related to improving access to the financial mainstream and to discuss innovative ways that banks and others are encouraging savings through "game-based" strategies that make savings fun or exciting, such as sweepstakes, milestones, or rewards. After this meeting, a report of the Committee's views regarding the issues and challenges of serving LMI and underserved consumers was posted on the FDIC web site to spark discussion of how best to serve consumers who may be struggling, particularly in the current economy.

On December 2, 2009, the Committee met to discuss results of the *FDIC National Unbanked and Underbanked Household Survey*, overdraft issues, and the strategic focus for the Committee. As a next step, the Committee will formulate a strategic plan that will provide a framework for the Committee's agenda over the next two years. Among other things, the Strategic Plan will include recommendations related to:

- Determining a desirable "base" level of household savings, and how much households actually have.
- Addressing desirable features of safe, affordable savings and transaction account products.
- Determining how the FDIC can enhance efforts to promote youth financial education programs.
- Reviewing CRA to ensure that programs targeted to LMI communities are receiving appropriate consideration.
- Considering ways to scale small-dollar loans, including standardizing an affordable small-dollar loan product, providing information about existing programs, seeking philanthropic or government guarantee funds, and potentially using government workforces as a test for employer-based small-dollar loans.

Affordable Small-Dollar Loan Guidelines and Pilot Program

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

There are currently 30 banks of varied sizes and diverse locations and settings participating in the pilot. Banks submitted data on a quarterly basis, which the FDIC analyzed to determine trends and best practices. The FDIC encourages innovation in program design, but most programs generally adhere to the FDIC's Small-Dollar Loan Guidelines, issued in June 2007, and all feature payment periods beyond a single paycheck, annual percentage rates below 36 percent, and streamlined underwriting and prompt loan application processing. During seven quarters of the pilot, banks cumulatively originated about 29,000 loans with a principal balance of more than $34 million. Bankers involved in the pilot cite a number of common factors that contributed to the success of their loan programs, including strong senior management and board support; an engaged and empowered "champion" in charge of the program; proximity to large populations of consumers with demand for small-dollar loans; and, in some rural markets, limited competition. The delinquency ratio for loans in the pilot tends to be almost three times higher than for general unsecured loans to individuals. However, charge-off rates for loans originated under the program are the same as general unsecured loans to individuals. These statistics show that while small-dollar loan borrowers are more likely to have trouble paying on time, they are no more likely to default than those in the general population.

Only a few bankers participating in the pilot have reported that short-term profitability is the primary goal for their program. Rather, most pilot banks are using the small-dollar loan prod-

uct as a cornerstone for profitable relationships, which also creates goodwill in their community. A few banks' business models focus exclusively on the goodwill aspect and generating an opportunity for positive Community Reinvestment Act consideration. Regardless of the business model, all of the bankers involved in the pilot have indicated that small-dollar lending is something they believe they should be doing to serve their communities.

Through the Advisory Committee on Economic Inclusion, the FDIC is considering pursuing several initiatives to broaden the availability of small-dollar loans at mainstream financial institutions, including, but not limited to, the following:

- **Conduct a Close-Out Symposium, Article, and "Branding Effort" for the Small-Dollar Loan Pilot.** The close-out symposium will highlight final pilot findings, summarize technology and other innovations in small-dollar loans, and address progress on incentives to scale small-dollar loans across the financial mainstream. The features identified in the pilot could also be "branded" as the ideal for affordable, feasible small-dollar loan programs.
- **Consider Creating Pools of Non-Profit Funds or Government Operating Funds to Serve as "Guarantees" for Acceptable Small-Dollar Loan Programs.** Several existing small-dollar loan programs feature "guarantees" in the form of loan loss reserves or linked, low-cost deposits provided by government bodies or philanthropic groups. These guarantees provide important assurances to banks interested in providing loan funds and other support to the programs. To encourage more institutions to offer small-dollar loan programs, larger pools could be created.
- **Consider Conducting a Pilot Using Federal Workforces to Test Innovative Small-Dollar Loan Business Models.** The dominant model in the small-dollar loan pilot is the "high-touch" relationship building model. Peer-to-peer technology and employer-based lending are promising technologies to reduce handling costs, and, with employer-based models, potentially credit losses. To the extent legally permissible, the FDIC or other federal workforces could explore serving as pilots for testing innovative small-dollar loan business models.

FDIC Advisory Committee on Community Banking

On May 29, 2009, the FDIC Board of Directors approved establishing the FDIC Advisory Committee on Community Banking. This commit-

Members of the Advisory Committee on Community Banking with Chairman Sheila C. Bair.

tee was formed to provide the FDIC with advice and guidance on a broad range of important policy issues impacting small community banks throughout the country, as well as the local communities they serve, with a focus on rural areas.

The 14-member committee represents a cross-section of community bankers from around the nation, as well as a member from academia. The first meeting, held on October 15, 2009, covered the impact of the financial crisis on community banks. Other issues addressed were regulatory reform proposals under consideration by Congress and their effect on community banks, the impact of FDIC supervisory proposals on these banks, and community banks' perspectives on funding the FDIC's Deposit Insurance Fund.

Survey Results of the Unbanked and Underbanked

In February 2009, the FDIC transmitted to Congress the results of the first national survey of banks' efforts to serve unbanked and underbanked individuals and families in their market areas. The survey, conducted pursuant to a mandate in Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005, found that improvement may be possible in the areas of institution focus, outreach, and commitment to unbanked and underbanked populations. The survey found that a majority of banks—63 percent—offers basic financial education materials, but fewer participate in the types of outreach efforts that are viewed by the industry as most effective to attract and maintain unbanked and underbanked individuals as long-term customers.

On December 2, 2009, the FDIC released the findings of its FDIC National Survey of Unbanked and Underbanked Households, breaking new ground in gaining understanding of which Americans remain outside the banking system. The survey, conducted on behalf of the FDIC by the U.S. Bureau of the Census, was a supplement to the Census Bureau's Current Population Survey during January 2009. The study, which is the most comprehensive survey to date of the unbanked and underbanked, reveals that more than one quarter (25.6 percent) of all households in the United States are unbanked or underbanked and that those households are disproportionately low-income and/or minority. In addition to collecting accurate estimates of the number of unbanked and underbanked households in the U.S., the survey was designed to provide insights into their demographic characteristics and reasons why the households are unbanked or underbanked. The survey represents the first time that this data has been collected to produce estimates at the national, regional, state, and large metropolitan statistical area (MSA) levels. This effort is being undertaken in response to the Reform Act, which calls for the FDIC to provide an estimate of the size of the U.S. unbanked market and to identify issues that cause individuals and families to be unbanked.

Information Technology, Cyber Fraud, and Financial Crimes

The FDIC issued Special Alerts in August and October 2009 notifying financial institutions of an alarming increase in reports of fraudulent electronic funds transfer transactions resulting from compromised login credentials. During 2009, the FDIC detected an increase in both the number of such incidents and the losses resulting

from them. Other major accomplishments during 2009 in combating identity theft included the following:

- Assisted financial institutions in identifying and shutting down approximately 651 "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 219 Special Alerts to FDIC-supervised institutions on reported cases of counterfeit or fraudulent bank checks.
- Issued, in conjunction with the other FFIEC agencies, frequently asked questions (FAQs) concerning "Identity Theft Red Flags, Address Discrepancies, and Change of Address Regulations." These FAQs are designed to assist financial institutions in complying with the new regulations and examiners in assessing institutions' compliance.

The FDIC conducts information technology (IT) examinations at each safety and soundness examination to ensure that institutions have implemented adequate risk management practices for the confidentiality, integrity, and availability of the institution's sensitive, material, and critical information assets using the FFIEC Uniform Rating System for Information Technology (URSIT). The FDIC also participates in interagency examinations of significant technology service providers. In 2009, the FDIC conducted 2,780 IT examinations at financial institutions and technology service providers. The FDIC also monitors significant events, such as data breaches and natural disasters that may impact financial institution operations or customers.

As an additional element of its leadership role in promoting effective bank supervision practices, the FDIC provides technical assistance, training, and consultations to international governmental banking regulators in the area of IT examinations. In 2009, through our secondment program with the Financial Services Volunteer Corps, the FDIC provided assistance in developing IT examination programs to the Central Bank of Iraq, the Central Bank of Libya, Banque d'Algerie, and Bank of Albania. The FDIC also hosted a visit by the China Banking Regulatory Commission to learn about our IT examination programs, and the FDIC hosted an international conference of bank regulators to discuss emerging technology risks and to compare supervisory approaches.

Consumer Complaints and Inquiries

The FDIC investigates consumer complaints concerning FDIC-supervised institutions and answers inquiries from the public about consumer protection laws and banking practices. As of December 31, 2009, the FDIC had received 17,245 written complaints, of which 8,280 involved complaints against state non-member institutions. The FDIC responded to over 96 percent of these complaints within the two-week standard established by Corporate policy. The FDIC also responded to 2,797 written inquiries, of which 503 involved state non-member institutions. In addition, the FDIC responded to 6,491 telephone calls from the public and members of the banking community, 3,878 of which concerned state non-member institutions.

Deposit Insurance Education

An important part of the FDIC's deposit insurance mission is ensuring that bankers and consumers have access to accurate information about the FDIC's rules for deposit insurance coverage. The FDIC has an extensive deposit insurance education program consisting of seminars for bankers, electronic tools for estimating deposit insurance coverage, and written and electronic information targeted for both bankers and consumers. The FDIC also responds to thousands of telephone and written inquiries each year from consumers and bankers regarding FDIC deposit insurance coverage.

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

In 2009, the FDIC continued with its 2008 initiatives aimed at raising the public's awareness of the benefits and limitations of federal deposit insurance. The FDIC continued its campaign of public service announcements for television, radio, and print media; these public service announcements encouraged bank customers to visit myFDICinsurance.gov to learn about FDIC insurance coverage. In addition to our efforts to raise public awareness, the FDIC expanded its efforts to educate bankers about the rules and requirements for FDIC insurance coverage. In the fall of 2009, after all legislative and regulatory changes were implemented, the FDIC conducted a series of six nationwide telephone seminars for bankers on deposit insurance coverage. These seminars reached an estimated 35,000 bankers participating at approximately 10,000 bank locations throughout the country. The FDIC also continued to work with industry trade groups to provide training for bank employees.

Deposit Insurance Coverage Inquiries

During 2009, the FDIC received 4,782 written deposit insurance inquiries from consumers and bankers. Of these inquiries, 99 percent received responses from the FDIC within two weeks, as required by Corporate policy. In addition to written deposit insurance inquiries, the FDIC received and answered 41,259 telephone inquiries from consumers and bankers during 2009.

The 46,041 total deposit insurance inquiries received in 2009 is significantly less than the 100,933 total deposit insurance inquiries received in 2008, when there was an unprecedented surge in deposit insurance questions following the failure of IndyMac Bank. However, the 2009 deposit insurance inquiries represent a 130 percent increase compared to 2007, when the FDIC received a total of 20,024 inquiries about deposit insurance coverage.

Foreclosure Prevention

In 2009, the FDIC launched an initiative to help consumers and the banking industry avoid unnecessary foreclosures and stop foreclosure "rescue" scams that promise false hope to consumers at risk of losing their homes.

The FDIC focused its foreclosure mitigation efforts in three areas during 2009:

- *Direct outreach to consumers with information, education, counseling, and referrals.* During 2009, the FDIC hosted or co-hosted over 82 consumer outreach events that

reached over 17,000 consumers. The FDIC also released an informational toolkit and launched a phone referral service to help homeowners avoid scams and reach their servicer.

- *Industry outreach and education targeted to lenders, loan servicers, local governmental agencies, housing counselors, and first responders (faith-based organizations, advocacy organizations, social service organizations, etc.).* The FDIC worked collaboratively throughout 2009 with local foreclosure coalitions, AEI partners, and others to co-host industry-wide events. Approximately 20 such events were conducted during 2009.
- *Support for capacity building initiatives to help expand the quantity and quality of foreclosure counseling assistance that is available within the industry.* Working closely with NeighborWorks® America and other national and local counselor training and intermediaries, the FDIC worked to support industry efforts to build the capacity of housing counseling agencies.

As part of the FDIC's foreclosure prevention efforts, the FDIC released two new educational brochures during 2009 (in both English and Spanish) to help consumers avoid scams and turn to legitimate sources of assistance. The *Is Foreclosure Knocking at Your Door*? brochure encourages consumers to seek a loan modification. The *Beware of Foreclosure Rescue Scams* brochure alerts homeowners to common scams and directs them to legitimate sources of assistance. The demand for both brochures was strong—over 150,000 copies were requested and distributed.

The FDIC also worked collaboratively with other key partners, both inside and outside federal government, on post-foreclosure neighborhood stabilization efforts. These efforts will continue in 2010.

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 was, until 2009, available in six languages, large print and Braille versions for individuals with visual impairments, and a computer-based instruction version. Since its inception, over 2.4 million individuals have participated in *Money Smart* classes and self-paced computer-based instruction. Approximately 300,000 of these participants subsequently established new banking relationships.

The FDIC significantly expanded its financial education efforts during 2009 through a multi-part strategy that included making available timely, high-quality financial education products, expanded delivery channels, and the sharing of best practices.

Two new *Money Smart* products were released in 2009. First, as part of efforts to reach underserved communities, the FDIC released a Hmong (an Asian dialect found in Vietnam, Laos, Thailand, and Myanmar) language version of *Money Smart,* making it the seventh language in which the curriculum is offered. Second, the FDIC released the *Money Smart Podcast Network*, a portable audio version of *Money Smart* suitable for use with virtually all MP3 players. It was created as a tool for consumers to use to learn on their own or for educators seeking an inno-

vative way to supplement traditional classroom instruction. The new MP3 version received more than 328,716 hits from 11,015 individual visitors between its release on May 27, 2009, and year-end 2009. Showing its appeal, visitors to the web site spent an average of 38 minutes on the site. Additionally, to enhance the quality of existing products, information on foreclosure prevention scams and legitimate sources of foreclosure assistance was added to the adult instructor-led and self-paced versions of *Money Smart*.

The FDIC also expanded its delivery channels for financial education. For example, 237 new organizations joined the FDIC's *Money Smart* Alliance. Finally, best practices were shared through four editions published of *Money Smart News,* which reached over 40,000 subscribers.

During 2009, the FDIC undertook over 200 community development, technical assistance, financial education, and outreach activities and events. These activities were designed to promote awareness of investment opportunities to financial institutions, access to capital within communities, knowledge-sharing among the public and private sector, and wealth-building opportunities for families. 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.

For example, the FDIC participated in 15 local savings campaigns during the 2009 *America Saves* week to encourage consumers to build wealth. The FDIC's leadership of one such local campaign helped facilitate nearly $10 million in new savings deposits in financial institutions. Also, recognizing the importance of small business growth and job creation as an essential component in America's economic recovery, the FDIC expanded its emphasis on facilitating small business development, expansion and recovery during 2009. This included hosting well-received events to help small businesses identify supportive programs, including mainstream lending options. The FDIC also helped facilitate the establishment of two new small business loan pools during 2009 to originate loans to eligible entrepreneurs and small businesses unable to obtain traditional loans because of an elevated risk profile (e.g., start-up businesses with insufficient cash flow or collateral). These new loan pools were launched in Alexandria, Virginia, and Baton Rouge, Louisiana.

Resolutions and Receiverships

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

The FDIC employs a variety of business practices to resolve a failed institution. These business practices are typically associated with the resolution process or the receivership process. Depending on the characteristics of the institu-

tion, the FDIC may recommend several of these practices to ensure prompt and smooth payment of deposit insurance to insured depositors, to minimize impact on the Deposit Insurance Fund, and to speed dividend payments to creditors of the failed institution.

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

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

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

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

The Banking Act of 1933 authorized the FDIC to establish a DINB to assume the insured deposits of a failed bank. A DINB is a new national bank with limited life and powers that allows failed bank customers a brief period of time to move their deposit account(s) to other insured institutions. A DINB allows for a failed bank to be liquidated in an orderly fashion, minimizing disruption to local communities and financial markets. Another resolution option, open bank assistance transactions, generally can only be used in the event the bank's failure would result in systemic risk.

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

Financial Institution Failures

The FDIC experienced a significant increase in the number and size of institution failures as compared to previous years. During 2009, 140 financial institutions failed. For the institutions that failed, the FDIC successfully contacted all known qualified and interested bidders to market these institutions. Additionally, the FDIC marketed over 80 percent of the marketable assets of these institutions at the time of failure and made insured funds available to all depositors within one business day of the failure. There were no losses on insured deposits, and no appropriated funds were required to pay insured deposits.

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

Failure Activity 2007–2009
Dollars in Billions

	2009	2008	2007
Total Institutions	140	25	3
Total Assets of Failed Institutions*	$169.7	$371.9	$2.6
Total Deposits of Failed Institutions*	$137.1	$234.3	$2.4
Estimated Loss to the DIF	$35.6	$19.8	$0.2

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

Asset Management and Sales

As part of its resolution process, the FDIC makes every effort to sell as many assets as possible to an assuming institution and generally is successful in doing this. Assets that are passed to the receivership are evaluated, and those that are determined to be marketable are marketed to be sold within 90 days of an institution's failure.

Structured asset sales in 2009 included $1.3 billion of residential loans from Franklin National Bank. This transaction involved FDIC-guaranteed purchase money debt, and equity in a Limited Liability Company (LLC) shared between the receiver and the successful bidder.

The Corus Construction Venture LLC structured asset sale consisted of $4.5 billion of condominium and office construction loans from Corus Bank. In this transaction, the FDIC structured the purchase money debt at an initial term leverage of one-to-one to the bidders and structured the notes to be in the form of multiple bullet maturity notes guaranteed by the FDIC.

In 2009, the book value of assets under management increased by $26.2 billion to $41.4 billion. The following chart shows beginning and ending balances of assets by asset type.

Assets in Inventory by Asset Type
Dollars in Millions

Asset Type	Assets in Inventory 01/01/09	Assets in Inventory 12/31/09
Securities	$467	$12,425
Consumer Loans	204	475
Commercial Loans	2,985	4,423
Real Estate Mortgages	9,808	15,613
Other Assets/Judgments	703	4,096
Owned Assets	832	3,257
Net Investments in Subsidiaries	108	1,066
Total	$15,107	$41,355

Receivership Management Activities

The FDIC, as receiver, manages failed banks and their subsidiaries with the goal of expeditiously winding up their affairs. The oversight and prompt termination of receiverships help to preserve value for the uninsured depositors and other creditors by reducing overhead and other holding costs. Once the assets of a failed institution have been sold and the final distribution of any proceeds is made, the FDIC terminates the receivership estate. In 2009, the number of receiverships under management increased by 74 percent due to the increase in failure activity. The following chart shows overall receivership activity for the FDIC in 2009.

Receivership Activity

Active Receiverships as of 01/01/09*	49
New Receiverships	140
Receiverships Inactivated	2
Active Receiverships as of 12/31/09*	187

**Includes eight FSLIC Resolution Fund receiverships.*

Minority and Women Owned Businesses

The significant increase in the number of financial institution failures over the last two years has resulted in the FDIC's increased reliance on contractors to assist in resolving receiverships created from failed financial institutions and liquidating their assets. In 2009, the FDIC made 1,212 contract awards totaling $2.66 billon; 376 (31%) of those awards, valued at $862 million (32%), were to minority and women-owned businesses (MWOBs). The FDIC promotes the inclusion of MWOBs in its procurement program, which relies on competitive bidding by invitation. The FDIC conducts outreach to encourage and inform MWOBs about the procurement process and opportunities for prime and subcontract awards. For 2010, the FDIC seeks to increase the number of awards and dollar value of the awards made to MWOBs in all racial, gender, and ethnic categories in the financial services industry.

Protecting Insured Depositors

With the increase in failure activity in 2009, the FDIC's focus on protecting deposits in institutions that fail was of critical importance. Confidence in the banking system hinges on deposit insurance, and no insured deposits went unpaid in 2009.

The FDIC's ability to attract healthy institutions to assume deposits and purchase assets of failed banks and savings associations at the time of failure minimizes the disruption to customers and allows assets to be returned to the private sector immediately. Assets remaining after resolution are liquidated by the FDIC in an orderly manner, and the proceeds are used to pay creditors, including depositors whose accounts exceeded the insurance limit. Effective October 3, 2008, through December 31, 2009, the standard maximum deposit insurance amount increased from $100,000 to $250,000, and this increase was later extended to December 31, 2013. During 2009, the FDIC paid dividends of $21.0 million to depositors whose accounts exceeded the insured limit(s).

Professional Liability and Financial Crimes Recoveries

The FDIC staff works to identify potential claims against directors, officers, accountants, appraisers, attorneys, and other professionals

who may have contributed to the failure of an insured financial institution. Once a claim is deemed meritorious and cost-effective to pursue, the FDIC initiates legal action against the appropriate parties. During the year, the FDIC recovered approximately $53.5 million from these professional liability claims/settlements. In addition, as part of the sentencing process for those convicted of criminal wrongdoing against institutions that later failed, a court may order a defendant to pay restitution or to forfeit funds or property to the receivership. The FDIC, working in conjunction with the U.S. Department of Justice, collected $5.5 million in criminal restitutions and forfeitures during the year. At the end of 2009, the FDIC's caseload was composed of 25 professional liability lawsuits (up from 17 at year-end 2008) and 1,878 open investigations (up from 284). There also were 3,379 active restitution and forfeiture orders (up from 638 at year-end 2008). This includes 190 FSLIC Resolution Fund orders—i.e., orders inherited from the Federal Savings and Loan Insurance Corporation on August 10, 1989, and orders inherited from the Resolution Trust Corporation on January 1, 1996.

Effective Management of Strategic Resources

The FDIC recognizes that it must effectively manage its human, financial, and technological resources 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 DIF.

Human Capital Management

The FDIC's human capital management programs are designed to recruit, develop, reward, and retain a highly skilled, cross-trained, diverse, and results-oriented workforce. In 2009, the FDIC stepped up workforce planning and development initiatives that emphasized hiring the additional skill sets needed to address the greatly increased number of financial institution failures and institutions in at-risk categories. The Corporation also deployed a number of strategies to more fully engage all employees in advancing the FDIC's mission.

Succession Management

In 2009, the Corporation significantly expanded its education and training curriculum for employees in the business lines, support functions, and leadership development. Additionally, learning and development was supplemented and supported with the expansion of e-learning, job aids, and tool kits that were made available to new and tenured employees to facilitate work processes and overall efficiencies.

A leadership development curriculum was launched to expand opportunities to all employees, including newly-hired employees. This new curriculum takes a comprehensive approach, aligning leadership development with critical corporate goals and objectives, and promotes desired culture. By developing employees across the span of their careers, the Corporation builds a culture of leadership and further promotes a leadership succession strategy.

Senior leaders meet with CEDP participants to discuss their first year (l to r): Rich Brown, Rex Taylor, Maureen Sweeney, Laura Lapin, Kathy Norcross, Mickey Collins, Steve Mosier, Rus Pittman, Erica Bovenzi, Andrew Stirling, Bob Mooney, and Ira Kitmacher. Executive advisors and host supervisors not shown: Glen Bjorklund, Jim LaPierre, and Lisa Roy.

Also in 2009, the Corporation completed a pilot Corporate Executive Development Program. This comprehensive 18-month succession program provided a formalized process to identify and develop high-performing, high-potential supervisors and senior technical specialists. Pilot results are being evaluated and will be leveraged in future succession management strategies and decisions.

Additionally, the Corporation formalized its Master of Business Administration (MBA) program for Corporate Managers and Executive Managers, in conjunction with a major university. The evaluation results of the pilot MBA program were overwhelmingly positive, and participants provided explicit examples of direct application to their jobs and improved strategic thinking.

Strategic Workforce Planning and Readiness

The FDIC utilized a number of employment strategies in 2009 to meet the need for additional human resources resulting from the increased number of failed financial institutions and the volume of additional examinations. Among these strategies, the FDIC reemployed over 200 retired FDIC examiners, attorneys, resolutions and receiverships specialists, and support personnel; hired employees of failed institutions in temporary and term positions; recruited mid-career examiners who had developed their skills in other organizations; recruited term loan review specialists and compliance analysts from the private sector; and redeployed current FDIC employees with the requisite skills from other parts of the Corporation.

As the number of failed financial institutions proliferated in 2009, the FDIC Board authorized the opening of two temporary satellite offices on both the west coast and the east coast to bring resources in areas hit especially hard. The West Coast Temporary Satellite Office opened in Irvine, California, in early spring and as of year-end had over 400 employees with a target of over 500. The East Coast Temporary Satellite Office opened in Jacksonville, Florida, in the fall. Although the Corporation is still recruiting for this office, eventually it too will have over 500 employees. The Corporation also increased resolutions and receiverships staff in the Dallas regional office. Almost all of the new employees in these new offices have been hired on a non-permanent basis to handle the temporary increase

in bank closing and asset management activities expected over the next two to four years. To staff these offices and meet other needs brought on by the financial crisis, the Corporation hired nearly 1,800 additional employees in 2009. The use of term appointments will allow the FDIC staff to return to an adjusted normal size once the crisis is over without the disruptions that reductions in permanent staff would cause.

The FDIC continued its efforts to build workforce flexibility and readiness by increasing its entry-level hiring into the Corporate Employee Program (CEP). The CEP is a multi-year development program designed to cross-train new employees in the FDIC's major business lines. In 2009, 206 new business line employees (736 since program inception) entered the multi-disciplined program. At its largest participant capacity since inception, the CEP continues to provide 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 staff needs. As in years past, the program continues to provide the FDIC those flexibilities as program participants were called upon to assist with both bank examination and bank closing activities based on the skills they obtained through their program requirements and experiences.

Employee Engagement

The FDIC continually evaluates its human capital programs and strategies to ensure that the Corporation remains an employer of choice and that all of its employees are fully engaged and aligned with its mission. The FDIC's annual employee survey incorporates and expands on the Federal Human Capital Survey mandated by Congress. A corporate Culture Change Initiative was instituted in 2008 to address issues resulting from the survey.

The Culture Change Initiative has continued to gain momentum, and progress is occurring toward completion of goals identified in the Culture Change Strategic Plan. The 2008 employee survey results showed marked improvement in the areas of opportunity, while maintaining or improving on areas of strength. The Corporation worked with the National Treasury Employees' Union to develop a new pay-for-performance system that is perceived to be more transparent and fair to employees. The new system was implemented in 2009. Also in 2009, the Corporation delivered training to its Corporate Managers on trust. It offered leadership enrichment activities that provided continual learning. Culture Change dialogue sessions were held across the country, with approximately 5,500 employees participating. Analysis indicates a positive response to these events and a willingness to engage in the change process. The question-and-answer mailbox and quarterly all-employee teleconferences with the Chairman continued so that employees could provide input, make suggestions, and ask questions.

The next phase of the Initiative was started in September 2009 with the selection of a new Program Manager. The Internal Ombudsman Program, initiated as part of the Culture Change Initiative, continued, providing another avenue for following up on employee issues. The Culture Change Council is being reconstituted, with at least six former Council and Team members returning to ensure continuity and up to six new members being selected. Best practices in public and private sector organizations on sustaining

culture and organizational change were studied in 2009 and will be summarized, with recommendations made on sustaining the FDIC's Culture Change Initiative.

Employee Learning and Growth

The FDIC offers a range of learning and growth opportunities to meet the varied needs of its employees. It uses innovative solutions to prepare new and existing employees for the challenges ahead. By streamlining existing courses, promoting blended learning, and creating online just-in-time toolkits and job aids, the FDIC has allowed new employees to more quickly and thoroughly assume their job functions. In order to meet the 2009 learning needs of new employees, the FDIC responded with flexible course scheduling and additional instructor-led and computer-based courses, including the new Continuing Professional Education Centre, which allows employees to more easily maintain their Certified Public Accountant accreditation and other certifications, despite increased workloads.

The Corporation dealt with new challenges in 2009 and supported employees by providing just-in-time training to address specific issues, such as managing and selling an ever increasing number of loans acquired from failed institutions. To better prepare employees to perform this task, the FDIC undertook a multi-pronged approach that consisted of online presentations, online job aids, online simulations, and instructor-led courses. The Corporation focused its efforts on providing multiple points of access to learning delivered quickly and with the least disruption to ongoing work activities.

To provide additional flexibility in employee learning and growth, the FDIC assisted in meeting the challenge of increased activity by locating training facilities within satellite offices in Jacksonville and Irvine. This helped to ensure that necessary training could be provided locally, reducing the need for employee travel.

In 2009, the Corporation provided its employees with over 100 instructor-led courses and 600 web-based courses in support of varied mission requirements. There were over 7,000 instances of completed instructor-led courses and 18,000 instances of completed web-based courses.

Information Technology Management

Information technology (IT) resources are one of the most valuable assets available to the FDIC in fulfilling its corporate mission. In today's rapidly changing business environment, technology is frequently the foundation for achieving many FDIC business goals, especially those addressing efficiency and effectiveness in an industry where timely and accurate communication and data are paramount for supervising institutions, resolving institution failures, and monitoring associated risks in the marketplace.

During 2009, the FDIC was faced with many challenges stemming from the economic downturn and its historic impact on the financial industry. To help meet those challenges, the FDIC continued to leverage innovative, timely, reliable, and secure IT products and services to meet priority business drivers and adapt to a myriad of new financial programs.

Enterprise Architecture

The overall vision of the FDIC's enterprise architecture is to provide an efficient, agile, flex-

ible and cost-effective environment that supports the corporate strategic goals and objectives for the FDIC and its customers. During 2009, modernization of the infrastructure continued. Also a roadmap of the security architecture was developed with functionality based on global industry standards, which will facilitate the sharing of information and resources, while protecting access to sensitive and privacy information.

Improving Application Systems

In 2009, the FDIC enhanced several application systems that support the FDIC's business, including the:

- Assessment Information Management System—used to calculate, collect, and account for the quarterly assessment premiums paid by insured financial institutions;
- Central Data Repository—used in the collection and management of call report data from the U.S. financial institutions;
- New Financial Environment—state-of-the-art financial system; and
- Risk Related Premium System—provides core business functionality related to deposit insurance risk premium calculations for individual financial institutions.

Security Outreach, Education, and Awareness

The FDIC worked collectively with the U.S. Department of Agriculture and the Department of Education's Office of Federal Student Aid on the OpenFISMA (Federal Information Security Management Act) Interagency Initiative. This initiative developed a system to track vulnerabilities that affect the security of systems and applications. The FDIC and these departments were chosen as recipients of the "Excellence Award for Open Source Business Use in Government" in the category of "Safe Computing Environment" at the 2009 Government Open Source Conference. The award recognized government employees or teams for significant accomplishments in Open Source Technology that meet government business or mission requirements.

Securing the FDIC Through Strong Privacy Initiatives

The FDIC continued to strengthen privacy by providing a risk-based, enterprise-wide Privacy Program that maintains and builds public trust, and is based on sound privacy practices in compliance with applicable laws. In 2009, the FDIC experienced a significant increase in bank closing activities. As a result, the FDIC performed a number of Corporate-wide initiatives to increase the identification, protection, and control of personally identifiable information.