2010 ANNUAL REPORT

I. Management's Discussion and Analysis

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 IDIs, 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, 2010, the Corporation was the primary federal regulator for 4,386 FDIC-insured, state-chartered institutions that were not members of the Federal Reserve System (generally referred to as "state non-member" institutions). Through risk management (safety and soundness), consumer compliance and Community Reinvestment Act (CRA), and other specialty examinations, the FDIC assesses an institution's operating condition, management practices and policies, and compliance with applicable laws and regulations. The FDIC also educates bankers and consumers on matters of interest and addresses consumer questions and concerns.

As of December 31, 2010, the Corporation conducted 2,720 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 1,780 CRA/ compliance examinations (914 joint CRA/ compliance examinations, 854 compliance-only examinations,[3] and 12 CRA-only examinations) and 3,276 specialty examinations. All CRA/ compliance examinations were also conducted within the time frames established by FDIC policy, including required follow-up examinations of problem institutions. The following table compares the number of examinations, by type, conducted from 2008 through 2010.

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[3] 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.

FDIC Examinations 2008 – 2010

	2010	2009	2008
Risk Management (Safety and Soundness):			
State Non-member Banks	2,488	2,398	2,225
Savings Banks	225	203	186
Savings Associations	0	1	1
National Banks	3	0	2
State Member Banks	4	2	2
Subtotal – Risk Management Examinations	2,720	2,604	2,416
CRA/Compliance Examinations:			
Compliance/Community Reinvestment Act	914	1,435	1,509
Compliance-only	854	539	313
CRA-only	12	7	4
Subtotal – CRA/Compliance Examinations	1,780	1,981	1,826
Specialty Examinations:			
Trust Departments	465	493	451

Data Processing Facilities	2,811	2,780	2,577
Subtotal – Specialty Examinations	3,276	3,273	3,028
Total	7,776	7,858	7,270

Risk Management

As of December 31, 2010, there were 884 insured institutions with total assets of $390.0 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 702 problem institutions with total assets of $402.8 billion on December 31, 2009. This constituted a 26 percent increase in the number of problem institutions and a 3 percent decrease in problem institution assets. In 2010, 267 institutions with aggregate assets of $157 billion were removed from the list of problem financial institutions, while 449 institutions with aggregate assets of $198 billion were added to the list. Westernbank Puerto Rico, Mayaguez, Puerto Rico, which was the largest failure in 2010, with $11.9 billion in assets, was added to the problem institution list in 2008 and resolved in 2010. The FDIC is the primary federal regulator for 583 of the 884 problem institutions, with total assets of $202.5 billion and $390.0 billion, respectively.

During 2010, the Corporation issued the following formal and informal corrective actions to address safety and soundness concerns: 300 Consent Orders and 424 Memoranda of Understanding. Of these actions, 9 Consent Orders and 16 Memoranda of Understanding were issued based, in part, on apparent violations of the Bank Secrecy Act.

The FDIC is required to conduct follow-up examinations of all state non-member institutions designated as problem institutions within 12 months of the last examination. As of December 31, 2010, all follow-up examinations for problem institutions were performed on schedule.

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[3] The CAMELS composite rating represents the adequacy of **C**apital, the quality of **A**ssets, the capability of **M**anagement, the quality and level of **E**arnings, the adequacy of **L**iquidity, and the **S**ensitivity to market risk, and ranges from “1” (strongest) to “5” (weakest).
[2] This figure reflects fees assessed through September 30, 2010, and collected as of December 30, 2010.

Compliance

As of December 31, 2010, there were 54 insured state non-member institutions with total assets of $36.4 billion, rated “4” or “5” for consumer compliance purposes. All follow-up examinations for these institutions were performed on schedule.

During 2010, the Corporation issued the following formal and informal corrective actions to address compliance concerns: 23 Consent Orders and 122 Memoranda of Understanding.

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 2010.

The FDIC conducted three training sessions in 2010 for 65 central bank representatives from Afghanistan, Argentina, Ghana, Iraq, Jordan, Kuwait, Mali, Mauritania, Morocco, Nigeria, Pakistan, Paraguay, Qatar, Senegal, and Turkey. The training focused on AML/CFT controls, the AML examination process, customer due diligence, suspicious activity monitoring, and foreign correspondent banking. The sessions also included presentations from the Federal Bureau of Investigation (FBI) on combating terrorist financing, and the Financial Crimes Enforcement Network (FinCEN) on the role of financial intelligence units in detecting and investigating illegal activities.

This year, the inaugural Advanced International AML/CFT School was offered. The goal of this course is to provide seasoned government staff with an appropriate understanding of high-risk areas and transactions, their potential effect on a financial institution, and how to identify potential red flags. Expert instructors were provided by the United States Attorney’s Office, the Drug Enforcement Administration, U.S. Immigration and Customs Enforcement, the FBI, FinCEN, and the FDIC’s Legal Division.

Additionally, the FDIC met with eight Namibian and Zambian foreign officials and 14 European representatives as a part of the U.S. Department of State’s International Visitor Leadership Program to discuss the FDIC’s AML Supervisory Program.

FFIEC BSA/AML Examination Manual

The FDIC participated in the revision and issuance of the 2010 FFIEC *BSA/AML Examination Manual*. The manual was released by the Federal Financial Institutions Examination Council (FFIEC) for publication and distribution on April 29, 2010. It reflects the ongoing commitment of the federal banking agencies to provide current and consistent guidance on risk-based policies, procedures, and processes for banking organizations to comply with the BSA and to safeguard operations from money laundering and terrorist financing. The manual was updated to further clarify supervisory expectations and to incorporate regulatory changes since the 2007 release. The revisions also reflect feedback from the banking industry and examination staff. The FDIC has also translated the manual into Spanish.

Minority Depository Institution Activities

The preservation of Minority Depository Institutions (MDIs) remains a high priority for the FDIC. In 2010, the FDIC continued to seek ways to improve communication and interaction with MDIs and to respond to the concerns of minority bankers. Many of the MDIs took advantage of the technical assistance offered by the FDIC, requesting technical assistance on a number of bank supervision issues, including but not limited to, the following:

- Troubled Asset Relief Program (TARP)
- 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
- Identifying and monitoring reputation risk

- Maintaining adequate liquidity
- Compliance issues
- Community Reinvestment Act (CRA)
- Procedures for filing regulatory appeals
- Criteria for assigning CAMELS ratings

The FDIC continued to offer the benefit of having an examiner or a member of regional office management return to FDIC-supervised MDIs from 90 to 120 days after examinations to assist management in understanding and implementing examination recommendations or to discuss other issues of interest. Ten MDIs took advantage of this initiative in 2010. Also, the FDIC regional offices held outreach training efforts and educational programs for MDIs.

The FDIC hosted a series of Asset Purchaser, Investor, and Minority Depository Institutions Outreach seminars throughout the country, where investors, and minority- and women-owned firms received information on purchasing assets from the FDIC and opportunities for investors to invest in or establish an MDI. Seminars were held in Atlanta, GA; New York, NY; Houston, TX; Miami, FL; Los Angeles, CA; San Francisco, CA; and Washington, DC. The seminars were well received, with over 650 participants in attendance.

The FDIC held quarterly conference calls and banker roundtables with MDIs in the geographic regions. Topics of discussion for the quarterly calls included both compliance and risk management topics, and topics at the roundtables included the economy, overall banking conditions, deposit insurance assessments, accounting, and other bank examination issues.

The FDIC partnered with the Federal Reserve's Partnership for Progress to provide technical assistance and training to MDIs interested in applying for the New Markets Tax Credit (NMTC). The training consisted of a series of webinars to educate MDIs about becoming Community Development Entities, completing NMTC applications, and best practices on NMTC projects.

Capital and Liquidity Rulemaking and Guidance

Credit Ratings ANPR

In August 2010, the FDIC, along with the other federal banking agencies, published an Advance Notice of Proposed Rulemaking (ANPR) regarding alternatives to the use of credit ratings in the risk-based capital rules for banking organizations. The ANPR was issued in response to section 939(A) of the Dodd-Frank Act, which requires the agencies to review regulations that (1) require an assessment of the creditworthiness of a security or money market instrument, and (2) contain references to or requirements regarding credit ratings. In addition, the agencies are required to remove such references and requirements and substitute in their place uniform standards of creditworthiness, where feasible.

Market Risk NPR

In December 2010, the FDIC Board of Directors approved the publication of a joint Notice of Proposed Rulemaking (NPR) designed to enhance the market risk capital framework by addressing default and credit risk migration, innovations in trading book exposures, and other deficiencies revealed during the recent financial crisis. Enhancements to the framework include requirements to compute capital for stressed value-at-risk, and incremental default risk, standardized capital requirements for certain securitization positions, a capital floor for correlation trading exposures, and increased transparency through enhanced disclosures.

Advanced Approaches Floor NPR

In December 2010, the FDIC Board of Directors approved a joint NPR to implement certain requirements of Section 171 of the Dodd- Frank Act. Section 171 requires, among other things, that the agencies' generally applicable capital requirements serve as a floor for other capital requirements the agencies may establish and, specifically, as a permanent floor for the advanced approaches risk-based capital rule. Final rulemaking will be completed in 2011.

FAS 166 and 167 Final Rule

In January 2010, the agencies finalized the amendment to the risk-based capital rules to reflect the issuance of FAS 166 and 167, which required certain off-balance-sheet assets to be moved back onto a bank's balance sheet. The final rule provided an optional transition period that allowed a bank to phase in over one year the impact on risk-weighted assets of the change in the U.S. generally accepted accounting rules. The rule also eliminated the exclusion of certain consolidated asset-backed commercial paper programs from risk-weighted assets.

Interest Rate Risk

Economic conditions in 2010 presented significant risk management challenges to depository institutions. For a number of institutions, increased loan losses and sharp declines in the value of certain securities portfolios placed downward pressure on capital and earnings. In the prevailing interest rate environment, taking advantage of a steeply upward sloping yield curve by funding longer-term assets with shorter-term liabilities may have provided short-term gains to earnings helping offset losses, but could pose risks to an institution's capital and future earnings should short-term interest rates rise. To reinforce the federal banking agencies' existing guidance—The *Joint Agency Policy Statement on Interest Rate Risk*—and to remind institutions to not lose focus on their management of interest rate risk, the agencies issued new guidance on January 6, 2010—*Advisory on Interest Rate Risk Management*. The guidance updated and clarified existing supervisory guidance on the sound practices for managing interest rate risk, noting that institutions should assess the likely effects of meaningful stress scenarios, including interest rate shocks of at least 300 to 400 basis points and that institutions are expected to conduct independent reviews of their interest rate risk models and management processes.

Liquidity Guidance

Recent turmoil in the financial markets emphasized the importance of effective liquidity risk management for the safety and soundness of financial institutions. To emphasize the importance of cash flow projections, diversified funding sources, stress testing, a cushion of liquid assets, and a formal, well-developed contingency funding plan as primary tools for measuring and managing liquidity risk, the federal banking agencies issued new guidance on March 22, 2010—*Funding and Liquidity Risk Management*. This policy statement summarizes the principles of sound liquidity risk management issued in the past and, when appropriate, supplements them with the "Principles for Sound Liquidity Risk Management and Supervision" issued by the BCBS in September 2008.

Other Guidance Issued

During 2010, the FDIC issued and participated in the issuance of other guidance in several areas as described below.

Bargain Purchases and Assisted Acquisitions

Market conditions in the banking industry, including the significant number of FDIC-assisted acquisitions of failed depository institutions, have contributed to an increase in bargain purchase transactions. A bargain purchase occurs when the fair value of the net assets acquired in a business combination exceeds the fair value of any consideration transferred by the acquiring institution. Bargain purchase gains are reported in earnings and included in the computation of regulatory capital under the agencies' capital standards. To address the supervisory issues arising from business combinations that result in bargain purchase gains, the FDIC, along with the other financial regulators, issued *Interagency Supervisory Guidance on Bargain Purchases and FDIC- and NCUA-Assisted Acquisitions* on

June 7, 2010. The guidance addresses the agencies' concerns about the quality and composition of capital when a bargain purchase gain is expected to result from a business combination and describes the capital preservation and other conditions the agencies may impose in their approval of acquisitions. The guidance also discusses the agencies' expectations with respect to the appropriate application of accounting standards to business combinations.

Examinations of Institutions with FDIC Loss-Share Agreements

Beginning in 2009, the FDIC increasingly entered into loss-share agreements with institutions acquiring failed IDIs. Under such an agreement, the FDIC and an acquiring institution share in the losses on a specified pool of a failed institution's assets, which maximizes asset recoveries and minimizes losses to the DIF. In May 2010, the FDIC issued guidance to its examination staff on how examiners should take into account the implications and benefits of loss-share in their supervision of banks that have acquired assets of failed institutions covered by loss-share agreements. Examiners are expected to consider the impact of these agreements when performing asset reviews, assessing accounting entries, assigning adverse classifications, and determining CAMELS ratings and examination conclusions. The FDIC has made this examination guidance available to bankers, the other banking agencies, and other parties to promote their understanding of the FDIC's approach to the examination of banks with loss-share agreements. To provide greater visibility to the effect of loss-share agreements on the examination process, the Summer 2010 issue of the FDIC's *Supervisory Insights*, published in June, included "FDIC Loss-Sharing Agreements: A Primer". This article provides an overview of the loss-share process, addresses the regulatory treatment of assets subject to these agreements, and discusses the accounting rules and capital implications for the acquisition of failed bank assets.

Troubled Asset Relief Program's Community Development Capital Initiative

In 2010, the FDIC actively engaged with the U.S. Department of the Treasury (Treasury) and the other federal bank regulatory agencies in considering applications to the Troubled Asset Relief Program's (TARP) Community Development Capital Initiative (CDCI). The TARP CDCI invested lower-cost capital in Community Development Financial Institutions (CDFIs), which are financial institutions that target at least 60 percent of their lending and other economic development activities in areas underserved by traditional financial services providers. In its role as primary federal supervisor for state nonmember institutions, the FDIC reviewed 64 TARP CDCI applications and forwarded approval recommendations to Treasury for 12 institutions that met Treasury's Program standards. Treasury approved ten institutions for participation in the Program.

The FDIC desired to reach a favorable recommendation for all TARP CDCI applications and worked closely with bank managements that were striving to achieve Treasury's standards for approval. CDFIs can provide critically needed loan and depository services to underserved communities.

Meeting the Credit Needs of Creditworthy Small Business Borrowers

In response to difficulties some small business owners are experiencing in obtaining or renewing credit to support their operations, the FDIC, along with other financial regulators, issued *Interagency Statement on Meeting the Credit Needs of Creditworthy Small Business Borrowers* on February 12, 2010. The statement builds on principles of existing guidance and strives to ensure that supervisory policies do not inadvertently curtail the availability of credit to sound small business borrowers. The statement reiterates regulatory expectations for institutions to effectively monitor and manage credit concentrations but notes that institutions should not automatically refuse credit to sound borrowers because of their particular industry or geographic location.

The statement also explains that examiners will not criticize prudent underwriting practices, that examiners will take a balanced approach when assessing small business lending activities, and that examiners will not adversely classify loans solely due to declining collateral values, provided that a borrower has the willingness and ability to repay loans according to reasonable terms.

Correspondent Concentration Risks

On April 30, 2010, the FDIC, along with the other financial regulators, issued guidance on *Correspondent Concentration Risks* to outline the agencies' expectations for identifying, monitoring, and managing correspondent concentration risks. The guidance addresses the agencies' expectations relative to performing due diligence on credit exposures to, and funding transactions with, other financial institutions. The guidance notes that a financial institution's relationship with a correspondent may result in credit and funding concentrations and acknowledges that, while some correspondent concentrations meet legitimate business needs, the concentrations represent a lack of diversification management should address when formulating strategic plans and risk management policies and procedures.

Appraisal and Evaluation Guidelines

On December 2, 2010, the FDIC, along with the other federal banking agencies, issued final *Interagency Appraisal and Evaluation Guidelines* to provide further clarification of the agencies' appraisal regulations and supervisory guidance to institutions and examiners about prudent appraisal and evaluation programs. The guidelines reflect changes in appraisal standards and advancements in regulated institutions' collateral valuation methods and clarify longstanding supervisory expectations for an institution's appraisal and evaluation program to conduct real estate lending in a safe and sound manner. Further, the guidelines promote consistency in the application and enforcement of the agencies' appraisal regulations and safe and sound banking practices.

Incentive Compensation

On June 21, 2010, the FDIC joined the other federal banking agencies in issuing interagency *Guidance on Sound Incentive Compensation Policies*. This guidance was issued to address incentive compensation practices in the financial services industry that contributed to the recent financial crisis. The guidance uses a "principles-based" approach and describes the agencies' expectations for banking organizations to maintain incentive compensation practices consistent with safety-and-soundness standards. One main goal of the guidance is to align employee rewards with longer-term organizational objectives, including consideration of potential risks and risk outcomes.

Golden Parachute

As part of supervisory efforts to address executive compensation in the financial services industry, the FDIC issued *Guidance on Golden Parachute Applications* on October 14, 2010, to clarify the golden parachute application process for troubled institutions, specify the type of information necessary to satisfy the certification requirements, and highlight factors considered by supervisory staff when determining whether to approve a golden parachute payment. A golden parachute payment refers to amounts paid by troubled entities to an institution-affiliated party (IAP) that are contingent on the IAP's termination. Applications made on behalf of senior management will be subject to heightened scrutiny that will include an evaluation of the individual's performance and involvement in corporate initiatives and policymaking. For lower-level employees, a de minimis golden parachute payment of up to $5,000 per individual is permissible without a supervisory application in most cases. The bank is required to maintain a record of the individuals receiving the payments, together with signed and dated certifications of the amounts received.

Concerns with Energy Lending Programs

The FDIC, along with other financial regulators, issued an alert on July 6, 2010, notifying financial institutions about a *Federal Housing Finance Authority (FHFA) Statement Relative to Concerns with Certain Energy Lending Programs.* The statement relates to FHFA and FDIC concerns with certain energy retrofit lending programs and indicates institutions should be aware of such programs, as deficiencies within the programs, such as weak underwriting and consumer-protection standards, could affect an institution's residential mortgage lending activities and its ability to sell loans to Fannie Mae and Freddie Mac.

Secure and Fair Enforcement for Mortgage Licensing Act of 2008

On July 28, 2010, the FDIC along with the other federal banking agencies, published the final rule implementing the requirements of the Secure and Fair

Enforcement for Mortgage Licensing Act of 2008 (SAFE Act). The SAFE Act requires residential mortgage loan originators who are employees of national and state banks, savings associations, Farm Credit System institutions, credit unions, and certain of their subsidiaries (agency-regulated institutions) to be registered in the Nationwide Mortgage Licensing System and Registry, an online database. The FIL highlights the rule's requirements for appropriate policies, procedures, and management systems to ensure compliance with the SAFE Act. The SAFE Act is intended to improve the accountability and tracking of residential mortgage loan originators (MLOs), enhance consumer protection, reduce fraud, and provide consumers with easily accessible information regarding an MLO's professional background.

Municipal Advisor Rule

On October 1, 2010, the FDIC issued a FIL announcing the Securities and Exchange Commission's (SEC) issuance of an interim final temporary rule requiring all municipal advisors to register with the SEC by October 1, 2010. The FIL highlights definitions of municipal advisors and municipal financial products, and notified financial institutions that they should review their dealings with municipal entities to determine if such dealings will require registration as a municipal advisor.

Regulatory Relief

During 2010, the FDIC issued 23 Financial Institution Letters (FILs) that provided guidance to help financial institutions and facilitate recovery in areas damaged by severe storms, tornadoes, flooding, and other natural disasters.

Consumer Protection and Compliance Rules and Guidance

In March 2010, the FDIC approved and issued, along with the other federal bank regulators, updated *Interagency Questions and Answers Regarding Community Reinvestment*. These Q&As consolidate and supersede all previously published versions of this guidance. A new Q&A provides examples of how to demonstrate that community development services meet the criteria of serving low- and moderate-income areas and people. The revised Q&As enable consideration of a pro rata share of mixed income affordable housing projects as community development projects.

In September 2010, the FDIC, along with the other federal bank regulators, issued a final CRA rule to implement a provision of the Higher Education Opportunity Act. The rule provides for consideration of low-cost higher education loans to low-income borrowers as a positive factor when assessing a financial institution's record of meeting community credit needs under the CRA. The rule also incorporates a CRA statutory provision that allows the agencies to consider a financial institution's capital investment, loan participation, and other ventures with minority-owned financial institutions, women-owned institutions, and low-income credit unions as factors in assessing the institution's CRA record.

In December 2010, the agencies published a final CRA rule that revises the definition of "community development" in the CRA regulations to provide favorable CRA consideration for loans, investments, and services by financial institutions that directly support, enable or facilitate eligible projects and activities in designated target areas of the Neighborhood Stabilization Program (NSP) approved by the Department of Housing and Urban Development. The expanded definition of "community development" in the CRA regulations will help leverage NSP funds in areas experiencing high foreclosure and vacancy rates and neighborhood blight.

In May 2010, the FDIC issued guidance to assist lenders in meeting their compliance obligations under the National Flood Insurance Program (NFIP) during periods when the statutory authority of the Federal Emergency Management Agency (FEMA) to issue flood insurance contracts under the NFIP lapses. In December 2010, the FDIC issued a notice to its supervised financial institutions that FEMA announced that Preferred Risk Policy eligibility will be extended two years beginning January 1, 2011.

In August 2010, the FDIC, in cooperation with the other FFIEC member agencies, issued supervisory guidance on reverse mortgage products. The guidance emphasizes the consumer protection concerns raised by reverse mortgages and the importance of financial institutions mitigating the compliance and reputation risks associated with these products.

In September 2010, the FDIC issued a compliance guide for state non-member banks wishing to use the model privacy form to comply with disclosure requirements under the Gramm- Leach-Bliley Act.

In November 2010, the FDIC issued final supervisory guidance on overdraft payment programs. The final guidance reaffirms existing supervisory expectations described in the February 2005 *Joint Guidance on Overdraft Protection Programs*, and provides specific guidance with respect to automated overdraft payment programs. In particular, the FDIC guidance states that financial institution management should be especially vigilant with respect to product overuse, which may harm consumers.

Monitoring Emerging Risks

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 the Statistical CAMELS Off-site Rating (SCOR) system and the 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 loss trends, and dividend payments. Furthermore, the FDIC replaced its former *Underwriting Survey* with a *Credit and Consumer Products/Services Survey*. 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.

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) that took effect in March and December 2010. The revisions responded to such developments as the temporary increase in the deposit insurance limit, changes in accounting standards, and credit availability concerns. The reporting changes that took effect on March 31, 2010, included new data on other than temporary impairments of debt securities, loans to non-depository financial institutions, and assets acquired from failed institutions covered by FDIC loss-share agreements; 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 began to collect new data pertaining to reverse mortgages annually effective December 31, 2010.

As a result of a change in the basis for calculating assessments for banks participating in the FDIC's TAGP in the third quarter of 2010, the agencies revised the Call Report items used to collect data on TAGP-eligible accounts in September 2010. For the final two quarters of the TAGP, participating banks were required to report the total dollar amount and number of TAGP-eligible accounts as average daily balances rather than quarter-end balances.

With the enactment of temporary unlimited insurance coverage for noninterest-bearing transaction accounts by the Dodd-Frank Act effective December 31, 2010, the agencies added two new items to the Call Report as of that date for the reporting of the quarter-end dollar amount and number of noninterest-bearing transaction accounts as defined in the Act. These new items must be completed by all banks, not only those that participated in the TAGP.

In September 2010, the agencies proposed several revisions to the Call Report, primarily to assist the agencies in gaining a better understanding of banks' credit and liquidity risk exposures. The proposed revisions, which took effect on March 31, 2011, include additional data on troubled debt restructurings, commercial mortgage-backed securities, private sector deposits, loans and other real estate covered by FDIC loss-share agreements, bank-owned life insurance, and trust department collective investment funds; new data on auto loans, deposits obtained through deposit listing services, and assets and liabilities of consolidated variable interest entities and captive insurance subsidiaries; and instructional revisions relating to construction loans and repricing data.

Promoting Economic Inclusion

The FDIC undertook a number of initiatives in 2010 to promote financial access to IDIs for low- and moderate-income communities.

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 2010 to increase measurable results in the areas of new bank accounts, small-dollar loan products, remittance products, and the delivery of financial education to more underserved consumers. During 2010, over 152 banks and organizations joined AEI nationwide, bringing the total number of AEI members to 1,119. There were 45,776 new bank accounts opened during 2010, bringing the total number of bank accounts opened through the AEI to 208,458. During 2010, approximately 56,556 consumers received financial education through the AEI, bringing the total number of consumers educated to 199,392. Also, 48 banks were in the process of offering or developing small-dollar loans, 27 banks were offering remittance products, and 26 banks were providing innovative savings products through the AEI at the end of 2010.

During 2010, the FDIC expanded its efforts to address additional markets with high concentrations of unbanked and underbanked households and aligned its targeted efforts with the results of its 2009 unbanked survey. Presently in 14 markets, the FDIC began the initial organization and planning for AEI initiatives in two additional markets: Milwaukee, WI, and St. Louis, MO. Additionally, the FDIC worked closely during 2010 to provide technical assistance and support to communities in Ohio and northwestern Indiana interested in forming AEI coalitions, and provided a loaned executive to lead the Bank On California campaign.

The FDIC also worked closely during 2010 with the National League of Cities to provide technical assistance to facilitate the implementation of Bank On campaigns in: Seattle, WA; Savannah, GA; Houston and San Antonio, TX; Indianapolis, IN; Aurora, IL; Gaithersburg, MD; and Jacksonville, FL. 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.

Advancing Financial Education

The FDIC's award-winning *Money Smart* curriculum is available in seven languages, large-print and Braille versions, as computer-based instruction, and as podcast audio instruction. 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 2010 through a multi-part strategy that included making available timely, high-quality financial education products, expanding delivery channels, and sharing best practices.

In 2010, the FDIC released an enhanced version of its instructor-led *Money Smart* financial education curriculum for adults. The enhanced curriculum incorporates changes in the law and industry practices that have occurred since *Money Smart* was last revised in 2006. For instance, the curriculum reflects recent amendments to the rules pertaining to credit cards as well as the new overdraft opt-in rule. A new module, Financial Recovery, provides an overview of the steps consumers can take to rebuild their finances after a financial setback. Similar enhancements were also made to *Money Smart for Young Adults.*

The FDIC also released a Spanish language version of the *Money Smart Podcast Network*, a portable audio version of *Money Smart* suitable for use with virtually all MP3 players. Showing the appeal of a portable audio version, the MP3 English version received more than 522,000 hits during more than 23,000 individual sessions (individual visitors) during 2010, and the Spanish version received nearly 1,000 hits between its release on October 14, 2010, and year-end.

The FDIC's delivery channels for financial education were expanded, in particular, through a historic partnership agreement signed on November 15, 2010, with the National Credit Union Administration and the U.S. Department of Education, to promote financial education and access for low- and moderate-income students. The agreement will promote educators and IDIs working together to help students receive financial education and use mainstream banking products.

Financial education best practices were shared through four editions of *Money Smart News*, which reached over 40,000 subscribers. Success stories were shared on topics including reaching households struggling to survive a job loss and providing financial education to college students.

As a member of the Financial Literacy and Education Commission, the FDIC continued to actively support the Commission's efforts to improve financial literacy in America. During 2010, the FDIC was significantly involved in the work of the National Strategy Working Group, which was charged with drafting a new national strategy to promote financial literacy and education. In addition, the FDIC chairs the Commission's Core Competencies Subcommittee, which worked closely with the Department of the Treasury and a group of experts in the financial education field, including researchers and practitioners, to help draft the various core principles that individuals should know and the basic concepts program providers should cover.

The FDIC also took a leadership role among federal agencies to promote the 2010 America Saves Week to encourage consumers to establish a basic savings account or boost existing savings. Chairman Bair authored the nationally distributed *Your Savings – Good for You, Your Family, and Your Peace of Mind* op-ed. In addition, a video featuring Chairman Bair encouraging consumers to save and participate in America Saves Week received over 6,000 views on YouTube and was featured on the homepage of America Saves. The FDIC also provided technical assistance or other involvement to at least 15 America Saves coalitions.

Leading Community Development

FDIC community affairs staff are located in each of the FDIC's regions and lead a range of community development activities. In 2010, 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. Staff also provided technical assistance and training to financial institutions on community development and other CRA-related topics. 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.

During 2010, the FDIC launched a pilot initiative to build awareness of the FDIC's asset purchase opportunities among nonprofit affordable housing developers, NSP grantees, and local municipalities. The pilot was designed to increase their access and ability to successfully bid on and acquire FDIC-owned real estate from failed banks for redevelopment for affordable housing and other community development purposes. As a result, 30 properties were purchased from the FDIC by NSP grantees and redeployed as affordable housing in the southeast region.

Recognizing the importance of small business growth and job creation as an essential component in America's economic recovery, the FDIC continued its emphasis on facilitating small-business development, expansion, and recovery during 2010. The FDIC entered into a strategic alliance with the U.S. Small Business Administration (SBA) on September 8, 2010, to facilitate the development and expansion, of small businesses. As part of the agreement, the FDIC and the SBA collaborated in co-sponsoring small-business information, resource, and capacity-building seminars in New York, NY; Los Angeles, CA; Memphis, TN; Greensboro, AL; Jackson, MS; New Orleans, LA; Tampa, FL; Richmond, VA; and Raleigh, NC. The events provided information and resources to over 1,500 small business owners, entrepreneurs, banking professionals and others.

The FDIC continued its 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 2010:

- **Direct outreach to consumers with information, education, counseling, and referrals.** During 2010, in collaboration with NeighborWorks® America, the FDIC sponsored four counselor-driven homeowner outreach events in high-need markets to provide face-to-face assistance for borrowers at risk of foreclosure. More than 4,000 homeowners attended these events.
- **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.). During 2010, the FDIC hosted or co-hosted five major loan modification scam outreach events in collaboration with NeighborWorks® America. These events were targeted to local agencies and nonprofits that have the capacity to educate stakeholders. These events resulted in more than 40,000 pieces of FDIC-branded outreach materials provided to partners for distribution, and led to more than 200 scams being reported to authorities.

- **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 counselors and intermediaries, the FDIC worked to support industry efforts to build the capacity of housing counseling agencies. For example, the FDIC facilitated two community stabilization place trainings, which led to more than 69 homeownership professionals being trained in best practices and strategies to promote community recovery.

Gulf Coast Oil Spill Response

The FDIC strongly supported efforts to expedite a recovery from the April 22, 2010, Deepwater Horizon oil spill in the Gulf Coast region. At the onset of this spill of national significance, the FDIC recognized that some borrowers' cash flow and repayment capacity would be unexpectedly impaired, and that banks should consider assisting borrowers that would be severely impacted. Accordingly, on May 7, 2010, the FDIC issued FIL 24-2010, *Guidance for Financial Institutions Working with Borrowers in the Gulf Coast Region Affected by a "Spill of National Significance"*. This guidance encourages banks to work constructively with borrowers experiencing difficulties beyond their control because of damage caused by the spill. It also encourages banks to extend repayment terms, restructure existing loans, or ease terms for new loans in a manner consistent with sound banking practices. The guidance recognizes that efforts to work with borrowers in communities under stress can be consistent with safe and sound banking practices as well as in the public interest. The FDIC also joined the other banking agencies in issuing a similar directive on July 14, 2010, titled *Interagency Statement on Financial Institutions Affected by the Deepwater Horizon Oil Spill.*

Through field offices in Florida, Alabama, Mississippi, and Louisiana, and frequent interaction with state regulators and bank trade organizations, the FDIC worked hard to understand the spill's impact on banking, commerce, and tourism. FDIC executives from Washington and the Dallas and Atlanta regional offices conducted outreach and communicated with various constituencies to enhance knowledge of the spill's scope and effects. In addition, the FDIC engaged in a concerted dialogue with trade associations, community and business leaders, and congressional staff from the Gulf Coast region to gain an "on the ground" perspective on the spill's short- and long-term implications. The FDIC will strive to maintain this dialogue with bankers and community leaders to ensure its supervisory approach prudently accommodates recovery efforts.

Affordable Small-Dollar Loan Guidelines and Pilot Program

The FDIC's two-year Small-Dollar Loan Pilot Program concluded in the fourth quarter of 2009, with final data reported to the FDIC in mid-May 2010. The pilot was a case study designed to illustrate how banks can profitably offer affordable small-dollar loans as an alternative to high-cost credit products such as payday loans and fee-based overdraft programs. At the end of the pilot, 28 banks were participating with total assets ranging from $28 million to $10 billion and operations in 28 states. Over the course of the pilot, participating banks originated more than 34,400 small-dollar loans with a principal balance of $40.2 million.

The pilot demonstrated that banks can offer alternatives to costly forms of emergency credit, and resulted in a template of essential product design and delivery elements for safe, affordable, and feasible small-dollar loans that can be replicated by other banks. (See www.fdic.gov/smalldollarloans/ for the template). Going forward, the FDIC is working with the banking industry, consumer and community groups, nonprofit organizations, other government agencies, and others to research and pursue strategies that could prove useful in expanding the supply of small-dollar loans. Among other things, these strategies include:

- Highlighting the facts about the pilot and other successful small-dollar loan models.
- Studying creation of pools of nonprofit or government funds to serve as "guarantees" for small-dollar loans.
- Encouraging broad-based partnerships among banks, nonprofit, and community groups to work together in designing and delivering small-dollar loans.
- Studying the feasibility of safe and innovative emerging small-dollar loan technologies and business models.
- Considering ways that regulators can encourage banks to offer safe and affordable small-dollar products, and that these products can receive favorable CRA consideration.

Information Technology, Cyber Fraud, and Financial Crimes

The FDIC sponsored a Combating Commercial Payments Fraud Symposium in March 2010 that focused on the nature of this increasingly sophisticated form of financial fraud and how the industry and regulators can effectively respond. Other major accomplishments during 2010 in promoting information technology (IT) security and combating cyber fraud and other financial crimes included the following:

- Published, in conjunction with the other FFIEC agencies, a Retail Payment Systems Handbook. The booklet discusses various technologies and products used in payment systems and the risk management techniques that institutions should use.
- Issued, in conjunction with the other FFIEC agencies, an updated and expanded program to review specialized software used by financial institutions.
- Published, in conjunction with the other FFIEC agencies, a white paper entitled "The Detection and Deterrence of Mortgage Fraud Against Financial Institutions".
- Issued *Guidance on Mitigating Risk Posed by Information Stored on Photocopiers, Fax Machines and Printers.*
- Assisted financial institutions in identifying and shutting down approximately 47 "phishing" websites. 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 130 Special Alerts to FDIC-supervised institutions on reported cases of counterfeit or fraudulent bank checks.
- Issued 3 Consumer Alerts pertaining to e-mails and telephone calls fraudulently claiming to be from the FDIC.

The FDIC conducts IT examinations at each risk management 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 2010, the FDIC conducted 2,121 IT examinations at financial institutions and technology service providers. Further, as part of its ongoing supervision process, the FDIC 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 2010, the FDIC provided foreign technical assistance training to the Central Bank of Iraq and the Bank of Albania to train examiners and develop examination policies for managing IT and other operational risks.

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, 2010, the FDIC received 13,756 written complaints, of which 6,862 involved complaints against state non-member institutions. The FDIC responded to over 97 percent of these complaints within time frames established by corporate policy, and acknowledged 100 percent of all consumer complaints and inquiries within 14 days. The FDIC also responded to 1,960 written inquiries, of which 388 involved state non-member institutions. In addition, the FDIC responded to 6,666 telephone calls from the public and members of the banking community, 4,375 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.

In 2010, the FDIC continued its efforts to educate bankers and consumers about the rules and requirements for FDIC insurance coverage. The FDIC conducted a series of eight nationwide telephone seminars for bankers on deposit insurance coverage. These seminars reached an estimated 60,000 bankers participating at over 16,000 bank locations throughout the country. The FDIC also updated its deposit insurance coverage publications and educational tools for consumers and bankers, including brochures, resource guides, videos, and the Electronic Deposit Insurance Estimator (EDIE).

Deposit Insurance Coverage Inquiries

During 2010, the FDIC received and answered approximately 143,000 telephone deposit insurance-related inquiries from consumers and bankers. Of these inquiries, 119,000 were addressed by the FDIC Call Center and 24,000 were handled by deposit insurance coverage subject matter experts. In addition to telephone deposit insurance inquiries, the FDIC received 3,000 written deposit insurance coverage inquiries from consumers and bankers. Of these inquiries, 99 percent received responses within two weeks, as required by corporate policy.

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