

NTEU

The National Treasury Employees Union

March 12, 2007

VIA FACSIMILE AND FIRST CLASS MAIL

The Honorable Sheila Bair
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20429

Dear Chairman Bair:

I read with interest your recent e-mail to employees with your remarks to FDIC managers at a meeting on February 13, 2007. There are several issues that you raise that I believe can be best addressed by moving forward with a more productive labor-management relationship between the FDIC and NTEU.

The final issue you addressed in your remarks concerned employee engagement and morale, a matter that we have touched upon in our earlier discussions. You express frustration at the low morale among employees, despite the FDIC being a "great place to work" because of the facilities, support services, and benefits. You also said that you wanted to "get to the bottom of the cause" and to make it a management priority to "drill down to why we have this disaffection." I would like to offer you NTEU's assistance in these efforts.

As the exclusive representative for bargaining unit employees, NTEU representatives at the chapter level, who are employees themselves, receive a tremendous amount of feedback from their colleagues, which they convey to me and NTEU's other national representatives. In your remarks, you cite the need for open communication at every level of the agency. This will require some change in the current FDIC management culture, as many employees now feel that their supervisors are unwilling or unable to address their concerns, which is one of the reasons why they turn to the union for help.

The first step in opening the lines of communication between employees and management would be to improve the labor-management relationship. Over the last several years, the FDIC has dealt with NTEU at arms length, generally limiting our communications and our involvement (and by extension, employee involvement) to formal mechanisms such as negotiations and grievances, and only where required by statute. When FDIC senior management made the conscious decision to block much of NTEU's involvement, management at all levels of the Corporation interpreted this as a sign that attention to employee concerns was no longer important. As a result, the FDIC has missed opportunities to engage its employees in

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helping to find solutions to the problems they encounter in the workplace as they go about doing their jobs. Providing a mechanism for open and regular communication between the FDIC and NTEU would send a strong signal in support of the need for a change in the FDIC management culture. Creating a vehicle for employee engagement through their union would provide meaningful opportunities to not only improve working conditions and employee morale, but also the operations of the FDIC. The FDIC and NTEU once had a process in place, through a group known as the Senior Executive Council, for management, NTEU, and employees to work together to resolve issues through collaborative problem-solving. I think it is time to consider resurrecting this or some similar process.

There are, of course, some substantive reasons for the negative employee morale within the FDIC. Although you speculated in your remarks that perhaps it is a "hangover" from downsizing, I believe that this is only a minor contributing factor. The primary impact of the downsizing was on those who left the FDIC, almost all of whom were involved on the resolutions and receiverships side of the operation, and those supporting these functions. There are frankly very few employees left performing these functions, and the downsizing may contribute to their low morale to the extent that they feel that they have been left with inadequate staff to perform their jobs properly. But the vast majority of current employees are in the examination function, which was generally unaffected by the downsizing. On the examination side, we frequently hear employees express concern about being allowed adequate time by their managers to conduct a complete and thorough exam. Part of this appears to result from a management philosophy to limit examination hours, in order to "minimize regulatory burden." Another piece of this reflects a resource issue: although not technically part of the downsizing effort, there are fewer examiners today than 15 years ago. And, while the FDIC has begun to hire new employees, those hired as Financial Institution Specialists under the Corporate Employee Program (CEP) do not provide any real additional examination resources in the short run, and may even detract from these resources because of training and developmental needs (leaving aside, for the moment, the questions that current examiners have raised about the efficiency and effectiveness of the CEP program as the way to prepare new employees). In your remarks to your corporate managers and executives, you recognize that "the FDIC's main priority is for our examiners to conduct thorough and meaningful examinations," yet this too will require a change in management culture, as well as an objective analysis of the adequacy of examination resources, on both the risk management and compliance sides.

Finally, there is yet another program that has a significant negative impact on employee morale throughout the Corporation, among bargaining unit employees as well as managers: the FDIC's Pay-for-Performance (PFP) Program. Although this program is in place through negotiated agreement with NTEU, it is not a program that we support or endorse in its current form. To be fair, the union was essentially forced to accept this flawed program, or face the prospect of having something even worse imposed on employees through the federal labor-management impasse resolution process. PFP programs are never easy to create — there are far more ways to do it wrong than there are to do it right. To be successful, the system needs to be fair, transparent, and credible. The critical foundation for any such program is the existence of a performance evaluation system that is itself fair, transparent, and credible. There was a point in time when the FDIC and NTEU had made substantial progress in creating a fair, transparent, and credible performance management system, and we linked the resulting performance ratings

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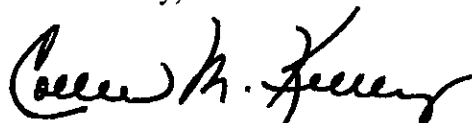
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directly to employee pay determinations. Yet FDIC management unilaterally discarded this rating system, and we began a steady downward spiral with a system under which employees most definitely do not feel that the results are fair, transparent, and credible. We have had significantly more individual employee grievances and unit-wide grievances alleging discrimination based on age and race, as well as grade-based disparities, in the distribution of "performance-based" pay increases. Although the "new" PFP system does utilize an element of the old performance management system, it continues to place significant weight on ambiguous and subjective "corporate contribution" factors which undermine fairness, transparency, and credibility. And, the design of the current system, which relies on a "forced ranking" of employees into three groups (or "buckets," as they are commonly called by employees) for pay purposes, pits each employee against every other employee in his or her work unit and division, thereby undermining the teamwork and esprit de corps that you have recognized as critical to accomplishment of the FDIC's mission. NTEU would welcome the opportunity to work with you to develop a new system that supports, rather than undermines, the FDIC's important goals and objectives.

You have recognized the outstanding nature of the staff at the FDIC and the tremendous talent they possess. On behalf of NTEU, I would like to offer you their assistance, as well as that of our chapters and NTEU staff, to help you "get to the bottom" of all the problems facing the FDIC and its employees, and to put us on the path where we can all work together to solve these problems.

Sincerely,



Colleen M. Kelley
National President