Overview of the File Vault Program from Apple:
http://www.apple.com/macosx/features/filevault/

In the Dock menu, click the System Preference Icon. It is the Icon that looks like a metal plate with a switch on left side and picture of the Apple Logo on the right.
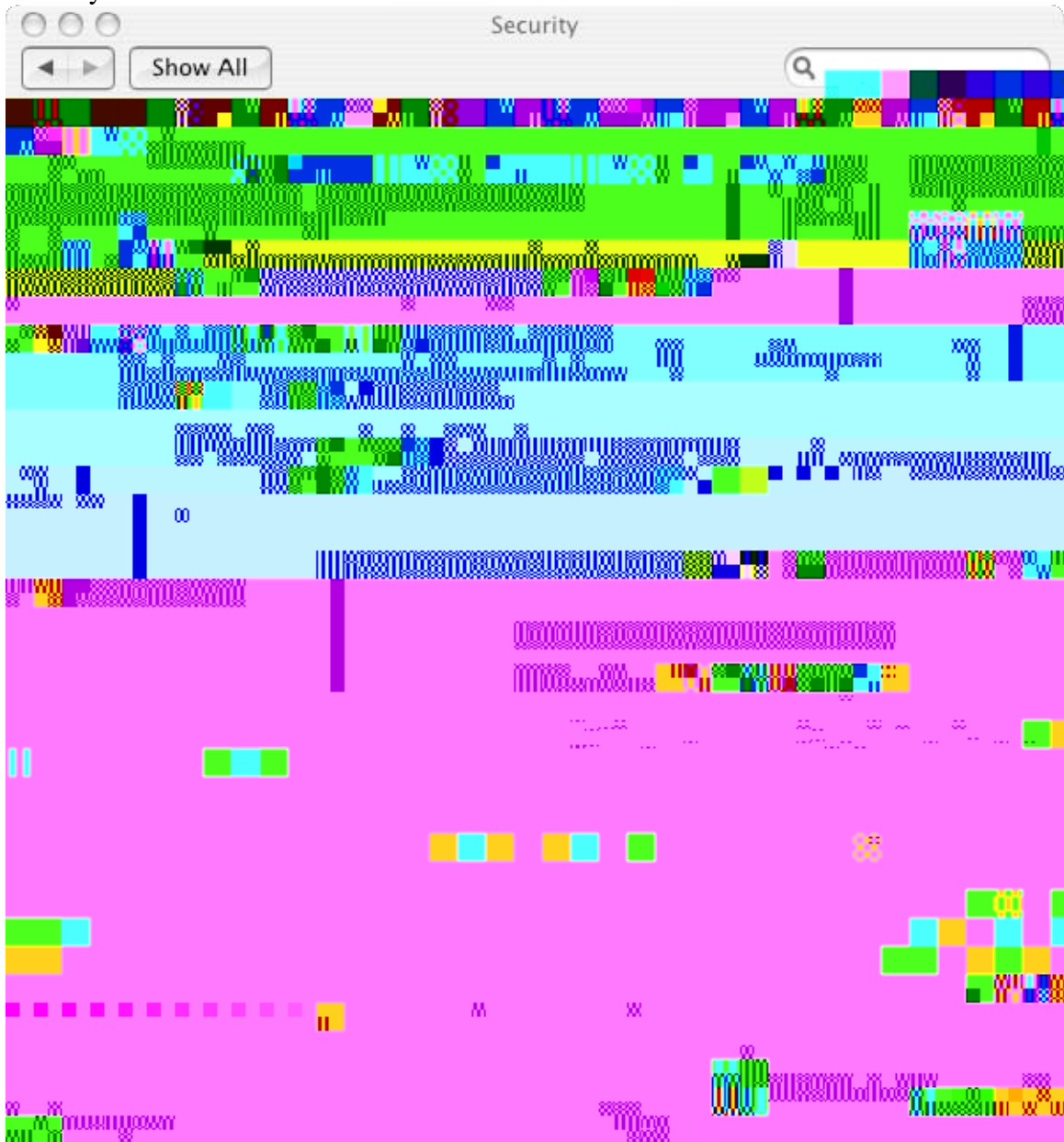
System Dock:

In the System Preferences Window, select the Security Icon under the Personal Options. It is the icon which looks like a house with a combination lock.
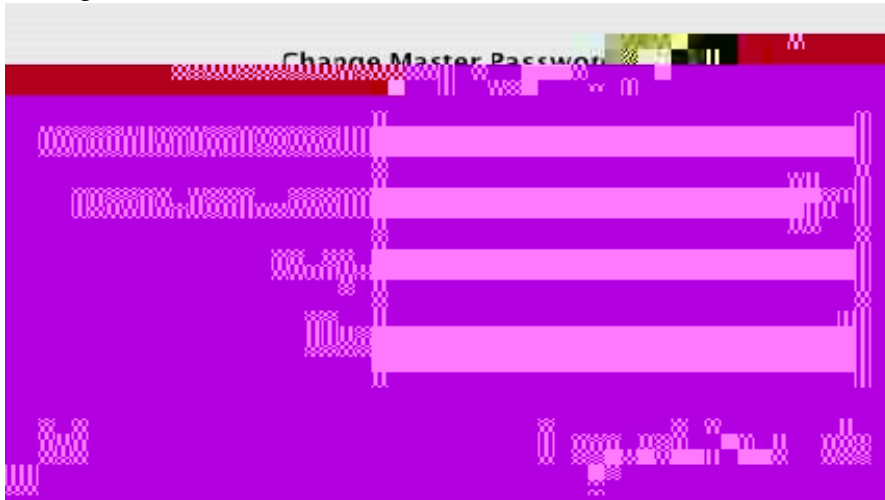
System Preferences:
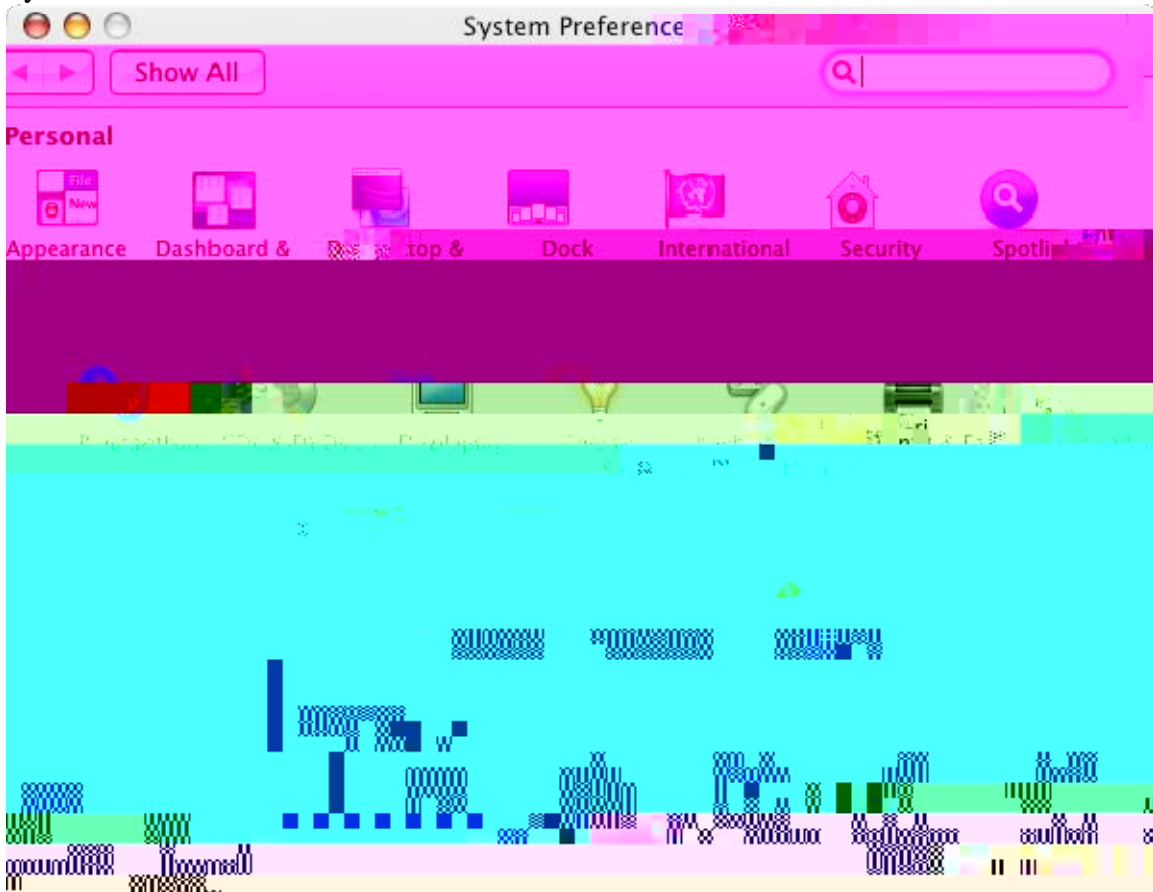
This is the Security Preference Pane. The first thing you should do is set the Master Password.
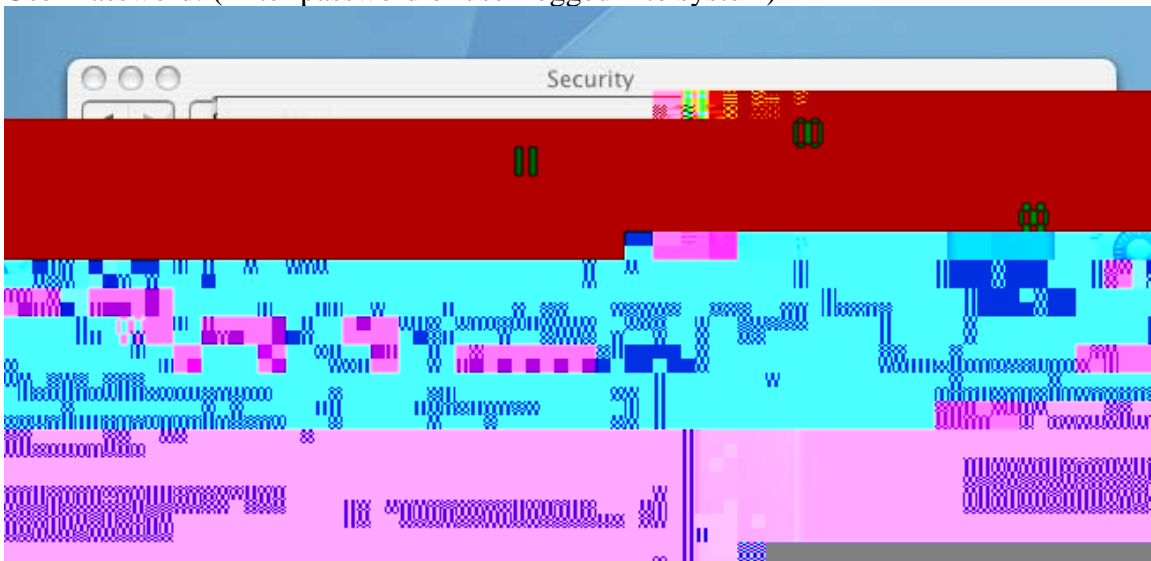
Security Preference Pane:

Setting Master Password:

To utilize File Vault for the User, select the "Turn On FileVault" button located below the "Change" button for the Master Password.
User Password: (Enter password of user logged into system)

File Vault Activation:

Steps that happen after Turn on File Vault:
1. User gets logged out.
2. System proceeds to encrypt user's home folder.
3. User is then allowed to log in.

Recent Articles regarding Apple File Vault:
1. http://www.securityfocus.com/columnists/393