



FEDERAL DEPOSIT INSURANCE CORPORATION
2019 ANNUAL REPORT

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FEDERAL DEPOSIT INSURANCE CORPORATION

550 17th Street NW, Washington, DC 20429

OFFICE OF THE CHAIRMAN

February 13, 2020

Dear Sir/Madam,

The Federal Deposit Insurance Corporation (FDIC) is pleased to submit its *2019 Annual Report* (also referred to as the *Performance and Accountability Report*), which includes the audited financial statements of the Deposit Insurance Fund and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund. This report is produced in accordance with:

- ◆ Section 17(a) of the Federal Deposit Insurance Act,
- ◆ the Chief Financial Officers Act of 1990, Public Law 101-576,
- ◆ the Government Performance and Results Act of 1993 (as amended) and the GPRA Modernization Act of 2010,
- ◆ Section 5 (as amended) of the Inspector General Act of 1978,
- ◆ the Reports Consolidation Act of 2000, and
- ◆ the Fraud Reduction and Data Analytics Act of 2015.

In accordance with the Reports Consolidation Act of 2000, the FDIC assessed the reliability of the performance data contained in this report. We found no material inadequacies and the data are considered to be complete and reliable.

Based on internal management evaluations, and in conjunction with the results of independent financial statement audits, we can provide reasonable assurance that the objectives of Section 2 (internal controls) and Section 4 (financial management systems) of the Federal Managers' Financial Integrity Act of 1982 have been achieved, and that the FDIC has no material weaknesses. We are committed to maintaining effective internal controls corporate-wide in 2020.

Sincerely,

Jelena McWilliams
Chairman

The President of the United States
The President of the United States Senate
The Speaker of the United States House of Representatives

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MISSION, VISION, AND VALUES

MISSION

The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress to maintain stability and public confidence in the nation's financial system by:

- ◆ Insuring deposits,
- ◆ Examining and supervising financial institutions for safety and soundness and consumer protection,
- ◆ Making large and complex financial institutions resolvable, and
- ◆ Managing receiverships.

VISION

The FDIC is a recognized leader in promoting sound public policies; addressing risks in the nation's financial system; and carrying out its insurance, supervisory, consumer protection, resolution planning, and receivership management responsibilities.

VALUES

The FDIC and its employees have a tradition of distinguished public service. Six core values guide us in accomplishing our mission:

- | | |
|-----------------------|--|
| Integrity | We adhere to the highest ethical and professional standards. |
| Competence | We are a highly skilled, dedicated, and diverse workforce that is empowered to achieve outstanding results. |
| Teamwork | We communicate and collaborate effectively with one another and with other regulatory agencies. |
| Effectiveness | We respond quickly and successfully to risks in insured depository institutions and the financial system. |
| Accountability | We are accountable to each other and to our stakeholders to operate in a financially responsible and operationally effective manner. |
| Fairness | We respect individual viewpoints and treat one another and our stakeholders with impartiality, dignity, and trust. |



FEDERAL DEPOSIT INSURANCE CORPORATION

MESSAGE FROM THE CHAIRMAN



2019 was my first full year as Federal Deposit Insurance Corporation (FDIC) Chairman, and I am proud of all that we have accomplished thanks to the hard work and dedication of the FDIC's talented workforce. We continue to fulfill our vital mission to maintain stability and public confidence in the nation's financial system by achieving high standards in all areas of operation: insuring deposits, examining and supervising financial institutions for safety and soundness and consumer protection, making large and complex financial institutions resolvable, and managing receiverships.

The banking industry remains strong and well-positioned to support economic growth. In 2019, net income, net operating revenue, and loan growth were positive, and the number of banks on the FDIC's problem bank list declined to its lowest level since 2007. The Deposit

Insurance Fund grew to over \$110 billion at year end, and the reserve ratio increased to 1.41 percent as of the third quarter, the highest level since 1999.

During 2019, 13 new banks opened their doors while only four banks failed, and the FDIC approved nine applications for deposit insurance.

Over the past year, the FDIC has focused on three overarching goals:

1. Strengthening the banking system as it continues to evolve;
2. Tailoring regulations to ensure that our rules are commensurate with the risk profile of the institutions we supervise; and
3. Encouraging innovation at the FDIC and community banks.

STRENGTHENING THE BANKING SYSTEM

Over the past year, the FDIC has worked to strengthen the banking system by modernizing our approach to supervision and regulation. These efforts seek to enhance efficiency and transparency while maintaining the safety and soundness of the system.

When I joined the agency, I asked staff to identify rules and regulations that have not been updated in 10 or more years. To have a strong financial system – and strong economic growth – banks must be able to meet the needs of consumers and businesses across the nation. This ability, in turn, requires that regulators modernize our rules as the industry evolves.

Last year, we began a comprehensive review of our longstanding regulatory framework for brokered deposits, which was implemented in 1989. Those regulations have not been revised to meaningfully address the significant changes in technology, business models, and products across the financial services industry over those 30 years. Our review resulted in a proposal that would establish a new, transparent framework for determining what qualifies

as a brokered deposit. These changes would have a real impact on how banks deliver products and services to consumers, including the more than 20 million unbanked Americans who could have greater access to banking services.

We also worked with our regulatory partners to issue a proposal to modernize our regulations under the Community Reinvestment Act (CRA), which have not been substantively updated for nearly 25 years. The proposal, which seeks to encourage greater lending and investment in low- and moderate-income communities where there is significant need for credit, would clarify what activities qualify for CRA credit. In addition, the proposal would recognize the evolution of the banking system, including the emergence of digital banks, by adding a test to determine whether banks need to establish additional CRA assessment areas. We look forward to receiving feedback on these proposals as we work to improve and finalize them in 2020.

With respect to supervision, FDIC examination teams are leveraging technology to reduce the amount of time they spend on-site at supervised institutions. This reduces the compliance burden for institutions – especially community banks – without sacrificing the quality of our supervision. We also took several steps to support *de novo* bank formation, including revamping our internal processes to provide more transparency and help organizers navigate the deposit insurance application process. The results we have seen thus far are encouraging with nine new deposit insurance applications approved in 2019 and 14 in 2018 – the largest numbers since 2008.

In addition, we established two new subcommittees to our Community Bank Advisory Committee:

- ◆ Subcommittee on Supervision Modernization, comprised of bankers, technologists, former regulators, and legal experts to consider how the FDIC can improve the efficiency of the examination process; and
- ◆ Subcommittee on Minority Depository Institutions (MDIs), comprised of FDIC-regulated institutions to focus on the unique nature, needs and benefits of MDIs and a supervisory framework that can support them.

TAILORING REGULATIONS

As we continue to think about ways to strengthen the banking system, the appropriate calibration of our regulatory framework remains a top priority. It is critical that regulators continuously evaluate whether our rules are appropriately addressing risks in our financial system as the system itself and the regulated entities within it evolve over time.

In 2019, the FDIC completed all of its statutorily mandated rules pursuant to the Economic Growth, Regulatory Relief, and Consumer Protection Act, including an interagency rule that establishes four risk-based categories for determining capital and liquidity requirements. This framework better aligns our regulatory requirements for large banks with their risk profiles, taking into account their size and complexity. In addition, we issued a rule to improve the efficiency and effectiveness of the resolution planning process. Under both rules, the largest, most systemically important institutions remain subject to the most stringent standards, and requirements for all other institutions are tiered based on each bank's risk profile.

Simultaneously, we are taking steps to reduce regulatory burden at community banks, recognizing that community bankers should focus more time on the business of banking and less time navigating complex regulatory issues. In November, we issued a rule that establishes a simple leverage ratio for qualifying community banks. The rule provides meaningful regulatory compliance burden relief by allowing these banks to avoid complex risk-based capital calculations and reporting. In addition, we issued a rule that simplifies the Call Report for community banks and expands eligibility to file the streamlined Call Report.

FOSTERING INNOVATION

Perhaps no issue is more important – or more central to the future of banking – than technological innovation. Regulators must be proactive in engaging with all stakeholders, including banks, consumer groups, trade associations, and technology companies to understand and help foster the safe adoption of technology across the banking system, especially at community banks.

The cost of innovation and regulatory uncertainty are the two primary hurdles that are keeping community banks from developing and utilizing new technologies.

Partnerships with financial technology companies, or fintechs, can help community banks overcome the first hurdle, but in order for them to overcome the second, the FDIC must ensure that our regulatory framework enables those partnerships.

In 2019, we established a new office – the FDIC Tech Lab, or FDiTech – to address these issues. FDiTech’s goal is to eliminate regulatory uncertainty through engagement and technical assistance, while encouraging the market to develop technology that improves the operations of financial institutions. Through events like tech sprints and pilot programs, FDiTech will collaborate with banks and technology companies to tackle difficult challenges facing the financial services industry and the FDIC.

Importantly, FDiTech will also engage directly with community banks to discuss how technological developments could impact their businesses. As part of this effort and to further expand on the efforts of the Subcommittee on Supervision Modernization, we plan to host a series of community bank-focused roundtables that will bring bankers together with technologists and technology service providers.

It is my goal that the FDIC lays the foundation for the next chapter of banking by encouraging innovation that meets consumer demand, promotes community banking, reduces compliance burdens, and modernizes our supervision.

PROMOTING DIVERSITY AND INCLUSION

My personal and professional experiences have underscored the importance of a workplace that is free from discrimination and that supports diversity and inclusion. In furtherance of the FDIC’s longstanding

commitment to diversity and inclusion, we have created an executive-level taskforce on diversity to help to ensure our recruiting resources, hiring decisions, interviewing processes, retention efforts, and advancement pools reflect a purposeful and intentional effort to leverage diversity to maintain a high-performing workforce.

The racial and gender diversity of the FDIC workforce continues to increase, and we will work to consistently improve diversity at all levels of the agency, fostering an environment without barriers in which all employees feel welcomed, valued, respected, and engaged.

LOOKING AHEAD

When I joined the FDIC, I committed to visiting all 50 states to engage with bankers, state regulators, and consumers on their own turf. Through the end of 2019, I had visited 28 states and received invaluable feedback regarding the challenges banks face in different parts of the country. In 2020, we will continue to advance the goals of strengthening our banking system, fostering innovation, and ensuring that banks can meet the needs of businesses and consumers across the nation.

These are ambitious goals, and I know that the dedicated employees of the FDIC will rise to the challenge. I remain honored to serve alongside the men and women of the FDIC who endeavor every day to fulfill our vital mission.

Sincerely,



Jelena McWilliams

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MESSAGE FROM THE CHIEF FINANCIAL OFFICER



I am pleased to present the FDIC's 2019 *Annual Report*, which covers financial and program performance information and summarizes our successes for the year.

For 28 consecutive years, the U.S. Government Accountability Office has issued unmodified audit opinions for the two funds

administered by the FDIC: the Deposit Insurance Fund (DIF) and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF). We take pride in our accomplishments and continue to consistently demonstrate discipline and accountability as stewards of these funds. We remain proactive in the execution of sound financial management and in providing reliable and timely financial data to enhance decision-making.

2019 FINANCIAL AND PROGRAM RESULTS

The DIF balance rose to a record \$110.3 billion as of December 31, 2019, compared to the year-end 2018 balance of \$102.6 billion. The Fund balance increase was primarily due to assessment revenue, earnings on investments, and reductions in losses from prior year failures. Four insured financial institutions failed in 2019, with total assets of \$209 million.

The DIF U.S. Treasury securities investment portfolio balance was \$100.1 billion as of December 31, 2019, an increase of \$7.4 billion over the year-end 2018 portfolio balance of \$92.7 billion. Interest revenue on DIF investments was \$2.1 billion for 2019, compared to \$1.6 billion for 2018.

In 2019, the FDIC continued to reduce operating costs. The FDIC Operating Budget for 2019 totaled approximately \$2.04 billion—a decrease of \$49 million (2.3 percent) from 2018. Actual 2019 spending totaled approximately \$1.86 billion. The FDIC Board of Directors recently approved a 2020 FDIC Operating Budget totaling \$2.02 billion, down \$26 million (1.3 percent) from the 2019 budget. Including 2020, the annual operating budget has declined for ten consecutive years, consistent with a steadily declining workload.

The FDIC also continues to reduce staffing levels as internal resource needs are realigned to reflect banking industry changes and conditions. The FDIC's authorized full-time equivalent staffing dropped from 6,083 in 2018 to 5,915 in 2019, a 2.8 percent reduction. Authorized staffing for 2020 is 5,755 full-time equivalent positions, a 2.7 percent reduction from 2019.

The FDIC continued to implement its enterprise risk management (ERM) program in 2019 by communicating a risk appetite statement to all employees, developing a corporate risk profile and risk inventory, and initiating an ERM training program. We will continue to enhance the ERM program in 2020 through regional office outreach and by further integrating the program into the FDIC's strategic planning and budgeting processes.

I appreciate the FDIC professionals who plan, execute, and account for the agency's resources. Their commitment to ensuring sound financial management provides the foundation for our strong stewardship and ensures reliable financial information is available to our stakeholders.

Sincerely,

Bret D. Edwards

FDIC SENIOR LEADERS



Seated (left to right): Howard G. Whyte, Bret D. Edwards, Director Martin J. Gruenberg, Chairman Jelena McWilliams, Arleas Upton Kea, Arthur J. Murton, and Doreen R. Eberley.

Standing 1st Row (left to right): Mark E. Pearce, Kymberly K. Copa, Zachary N. Brown, Jay N. Lerner, Chad Davis, Ricardo Delfin, Nicholas Podsiadly, and Brandon Milborn.

2nd Row (left to right): Suzannah L. Susser, Diane Ellis, Russell G. Pittman, Saul Schwartz, M. Anthony Lowe, Robert D. Harris, and Andy Jiminez.

Not pictured: Maureen E. Sweeney and Amy C. Thompson.

IN MEMORIAM

ANDREW C. HOVE



We at the FDIC were saddened by the August 18, 2019, passing of Andrew C. Hove, former FDIC Vice Chairman. Mr. Andrew “Skip” Hove served as the FDIC’s first Vice Chairman and as its longest-serving Acting Chairman during the years of the banking and savings and loan crises and their aftermath.

Mr. Hove demonstrated calm, thoughtful, decisive, and collegial leadership throughout his FDIC tenure. Sworn

in as Vice Chairman in 1990 against the backdrop of the banking and savings and loan crises, he also served as Acting Chairman three times. Throughout, Mr. Hove steered the FDIC into safer waters, prompting stability not only within the financial services industry, but within the FDIC itself.

Mr. Hove brought three decades of experience as a community banker to the FDIC, and guided the Corporation from the perilous depths of the dual crises to a period of recovery for both industries. Under his leadership as Acting Chairman, the FDIC’s Bank Insurance Fund recovered from a \$7 billion deficit in 1991 to reach nearly \$22 billion in 1994.

Mr. Hove also prevented a potential panic during the 1992 election cycle, when fears of a “December surprise”—that a meltdown in the banking industry similar to what had occurred in the savings and loan industry would follow the November election—began to mount. To counter such fears, Mr. Hove pre-emptively led a public information campaign to assure Congress, the media, and depositors that the banking industry had in fact turned a corner. Mr. Hove was proven right; no meltdown occurred. A downward spiral in public confidence had been averted.

Vice Chairman Hove was honored for his years of service and his enthusiastic support of training and education when the FDIC dedicated the Hove Auditorium at Virginia Square. He was admired as a man of integrity, honesty, wisdom, kindness, modesty, and generosity. He was a public servant in the truest sense of the word. The FDIC mourns the loss of a faithful public servant.

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I.



MANAGEMENT'S DISCUSSION AND ANALYSIS

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OVERVIEW

During 2019, the FDIC continued to fulfill its mission-critical responsibilities. In addition, the agency is working to further strengthen the banking system, modernize its approach to supervision, and increase transparency surrounding its programs. The FDIC also continued to engage in several community banking and community development initiatives.

Cybersecurity remained a high priority for the FDIC in 2019; the agency worked to strengthen infrastructure resiliency, enhance data governance, help financial institutions mitigate risk, and respond to cyber threats. This *Annual Report* highlights these and other accomplishments during the year.

DEPOSIT INSURANCE

As insurer of bank and savings association deposits, the FDIC must continually evaluate and effectively manage how changes in the economy, financial markets, and banking system affect the adequacy and the viability of the Deposit Insurance Fund (DIF).

Long-Term Comprehensive Fund Management Plan

In 2010 and 2011, the FDIC developed a comprehensive, long-term DIF management plan designed to reduce the effects of cyclical and achieve moderate, steady assessment rates throughout economic and credit cycles, while also maintaining a positive fund balance, even during a banking crisis.

Under the long-term DIF management plan, to increase the probability that the fund reserve ratio (the ratio of the fund balance to estimated insured deposits) would reach a level sufficient to withstand a future crisis, the FDIC Board set the Designated Reserve Ratio (DRR) of the DIF at 2.0 percent. The FDIC views the 2.0 percent DRR as a long-term goal and the minimum level needed to withstand future crises of the magnitude of past crises. In December 2019, the Board voted to maintain the 2.0 percent ratio for 2020.

Additionally, as part of the long-term DIF management plan, the FDIC has suspended dividends indefinitely when the fund reserve ratio exceeds 1.5 percent. In lieu of dividends, the plan prescribes progressively lower

assessment rates that will become effective when the reserve ratio exceeds 2.0 percent and 2.5 percent.

State of the Deposit Insurance Fund

Four small institutions with total assets of \$209 million failed in 2019. Despite these failures, the fund balance continued to grow through 2019, as it has every quarter after the end of 2009. Assessment revenue was the primary contributor to the increase in the fund balance, while earnings on investments, unrealized gains on investment securities held by the DIF, and a reduction in losses from past failures were also significant contributors to growth in 2019. The fund reserve ratio rose to 1.41 percent at September 30, 2019, from 1.36 percent a year earlier.

Minimum Reserve Ratio

Section 334 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which increased the minimum reserve ratio of the DIF from 1.15 percent to 1.35 percent, mandates that the reserve ratio reach that level by September 30, 2020.

To achieve this ratio, the FDIC imposed surcharges on the quarterly assessments of insured depository institutions (IDIs) with total consolidated assets of \$10 billion or more (i.e., large banks). The surcharge equaled an annual rate of 4.5 basis points applied to an institution's regular quarterly deposit insurance assessment base after subtracting \$10 billion, with additional adjustments for banks with affiliated IDIs.

As of September 30, 2018, the reserve ratio exceeded the required minimum of 1.35 percent, and the surcharges were suspended.

Application of Small Bank Assessment Credits

Because the Dodd-Frank Act mandates that the FDIC offset the effect of the increase in the reserve ratio on small banks (i.e., banks with assets less than \$10 billion), these banks were exempt from the surcharges. Also in accordance with the Dodd-Frank Act, FDIC regulations provide assessment credits to small banks for the portion of their regular assessments that contributed to growth in the reserve ratio between 1.15 percent and 1.35 percent. The FDIC awarded these banks an aggregate amount of approximately \$765 million in credits after the reserve

ratio surpassed 1.35 percent as of September 30, 2018. The FDIC notified all eligible banks of their respective assessment credit amounts in January 2019.

FDIC regulations provide that the FDIC will automatically apply assessment credits to reduce a small bank's regular assessment up to the entire amount beginning in the first assessment period in which the reserve ratio is at least 1.38 percent. The reserve ratio increased to 1.40 percent as of June 30, 2019, thereby exceeding 1.38 percent for the first time since small bank assessment credits were awarded, and was 1.41 percent as of September 30, 2019. As a result, the FDIC automatically applied approximately \$559 million of small bank assessment credits to offset banks' second and third quarter 2019 assessments. After applying these credits, \$206 million in small bank credits remain.

In November 2019, the FDIC approved a final rule amending the deposit insurance assessment regulations that govern the use of small bank assessment credits and one-time assessment credits (OTACs) by certain IDIs.¹ Under the final rule, the FDIC will apply small bank assessment credits to quarterly deposit insurance assessments as long as the DIF reserve ratio is at least 1.35 percent (instead of, as originally provided, 1.38 percent). In addition, after small bank assessment credits have been applied for four quarterly assessment periods, and as long as the reserve ratio is at least 1.35 percent, the FDIC will remit the full nominal value of any remaining small bank assessment credits and OTACs in lump-sum payments to each IDI holding such credits in the next assessment period.

SUPERVISION

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 financial institutions, protects consumers' rights, and promotes community investment initiatives.

Examination Program

The FDIC's strong bank examination efforts are at the core of its supervisory program. As of December 31, 2019, the FDIC was the primary federal regulator for 3,347 FDIC-insured, state-chartered institutions that were not members of the Federal Reserve System (generally referred to as "state nonmember" institutions). Through risk management (safety and soundness), consumer compliance, 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.

As of December 31, 2019, the FDIC conducted 1,458 statutorily required risk management examinations, including reviews of Bank Secrecy Act (BSA) compliance, and all required follow-up examinations for FDIC-supervised problem institutions, within prescribed time frames. The FDIC also conducted 1,147 statutorily required CRA/consumer compliance examinations (933 joint CRA/consumer compliance examinations, 210 consumer compliance-only examinations, and four CRA-only examinations). In addition, the FDIC performed 3,270 specialty examinations (which include reviews for BSA compliance) within prescribed time frames.

The table on the following page illustrates the number of examinations by type, conducted from 2017 through 2019.

Risk Management

All risk management examinations have been conducted in accordance with statutorily-established time frames. As of September 30, 2019, 55 insured institutions with total assets of \$48.8 billion were designated as problem institutions—defined as those institutions having a composite CAMELS² rating of 4 or 5—for safety and soundness purposes. By comparison, on September 30, 2018, there were 71 problem institutions with total assets of \$53.3 billion. This represents a 23 percent decline in the number of problem institutions and an 8 percent decrease in problem institution assets.

¹ The Federal Deposit Insurance Reform Act of 2005 (FDI Reform Act) required the FDIC to provide OTACs to IDIs that existed on December 31, 1996, and paid a deposit insurance assessment prior to that date, or that were successors to such an institution. The purpose of the OTAC, which was described as a "transitional" credit when it was enacted, was to recognize the contributions that certain institutions made to capitalize the Bank Insurance Fund and Savings Association Insurance Fund, which had been recently merged into the DIF.

² The CAMELS composite rating represents an institution's adequacy of Capital, quality of Assets, capability of Management, quality and level of Earnings, adequacy of Liquidity, and Sensitivity to market risk, and ranges from "1" (strongest) to "5" (weakest).

FDIC EXAMINATIONS			
	2019	2018	2017
Risk Management (Safety and Soundness):			
State Nonmember Banks	1,310	1,333	1,440
Savings Banks	148	159	171
State Member Banks	0	0	0
Savings Associations	0	0	0
National Banks	0	0	0
Subtotal–Risk Management Examinations	1,458	1,492	1,611
CRA/Consumer Compliance Examinations:			
Consumer Compliance/Community Reinvestment Act	933	876	770
Consumer Compliance-only	210	337	393
CRA-only	4	2	5
Subtotal–CRA/Compliance Examinations	1,147	1,215	1,168
Specialty Examinations:			
Trust Departments	313	308	347
Information Technology and Operations	1,466	1,503	1,627
Bank Secrecy Act	1,491	1,523	1,640
Subtotal–Specialty Examinations	3,270	3,334	3,614
TOTAL	5,875	6,041	6,393

For the 12 months ended September 30, 2019, 28 institutions with aggregate assets of \$4.5 billion were removed from the list of problem financial institutions, while 12 institutions with aggregate assets of \$1.6 billion were added to the list. The FDIC is the primary federal regulator for 39 of the 55 problem institutions, with total assets of \$4.4 billion.

In 2019, the FDIC's Division of Risk Management Supervision (RMS) initiated 100 formal enforcement actions and 119 informal enforcement actions. Enforcement actions against institutions included, but were not limited to, 17 actions under Section 8(b) of the Federal Deposit Insurance Act (FDI Act), one of which was a notice of charges, three civil money penalties (CMPs), and 83 memoranda of understanding (MOUs). Of these enforcement actions against institutions, five consent orders, three CMPs and 18 MOUs were based, in whole or in part, on apparent violations of BSA and anti-money laundering (AML) laws and regulations. In addition, enforcement actions were also initiated against individuals. These actions included, but were not limited to, 34 removal and prohibition actions under Section 8(e) of the FDI Act (33 consent orders and one notice of intention to remove/prohibit), five actions under Section

8(b) of the FDI Act, and 10 CMPs, (nine orders to pay restitution and one notice of assessment), including two CMPs related to BSA.

The FDIC conducts risk examination through a risk-focused, forward-looking supervision program. The objective of a risk-focused examination is to evaluate the safety and soundness of the financial institution by assessing its risk management systems, financial condition, and compliance with applicable laws and regulations, while focusing on the bank's highest risks. The risk-focused examination process seeks to strike an appropriate balance between evaluating the condition of an institution at a certain point in time and evaluating the soundness of the institution's processes for managing risk in all phases of the economic cycle. By evaluating an institution's risk management practices, examiners look beyond the financial condition of a bank at a point in time, to how well it can respond to changing market conditions given its particular risk profile.

Examiners communicate their views about changes needed in its practices, operations or financial condition through supervisory recommendations, including Matters Requiring Board Attention (MRBA). A

principal purpose of supervisory recommendations is to communicate supervisory concerns to a bank so that it can make appropriate changes in its practices, operations, or financial condition and thereby avoid more formal remedies in the future, such as enforcement actions. RMS tracks bank managements' responsiveness to MRBAs through examination follow up activities.

For example, in 2019, a total of 312 institutions were assigned a composite CAMELS rating of 2 and had MRBAs identified in the examination reports. To ensure that MRBAs are being appropriately addressed at these institutions, the FDIC timely reviews progress reports and follows up with bank management as needed. More specifically, within six months of issuing the examination reports, the FDIC conducted appropriate follow up and review of these MRBAs at 301 (96.5 percent) of these institutions. Follow up and review of the MRBAs at the remaining 11 institutions (3.5 percent) occurred more than six months after issuing the examination reports primarily due to delayed responses from some banks, as well as the need for additional information in order to complete a full review.

Consumer Compliance

As of December 31, 2019, 36 insured state nonmember institutions (collectively, with total assets of \$33 billion), about 1 percent of all supervised institutions, were problem institutions for consumer compliance, CRA, or both. All of the problem institutions for consumer compliance were rated "4" for consumer compliance purposes, with none rated "5." For CRA purposes, the majority were rated "Needs to Improve"; only two were rated "Substantial Noncompliance." As of December 31, 2019, all follow-up examinations for problem institutions were performed on schedule.

As of December 31, 2019, the FDIC conducted and achieved all required consumer compliance and CRA examinations and, when violations were identified, completed follow-up visits and implemented appropriate enforcement actions in accordance with FDIC policy. In completing these activities, the FDIC achieved its internally established time standards for the issuance of final examination reports and enforcement actions.

Overall, FDIC examiners concluded that the vast majority of FDIC-supervised institutions were rated satisfactory or better for consumer compliance and demonstrated the ability to maintain effective programs to manage their

consumer compliance responsibilities. Some noteworthy issues that emerged from 2019 consumer compliance examinations include continuing concerns about banks' monitoring of third-party service providers and their implementation of the Truth in Lending Act (TILA) – Real Estate Settlement Procedures Act (RESPA) Integrated Disclosure Rule (TRID). The TRID implementation issues were the most frequently cited violations of TILA in 2019. In response, the FDIC developed and hosted a banker teleconference on *Understanding the TRID Rule* (see discussion under the Technical Assistance Program section).

As of December 31, 2019, the FDIC's Division of Depositor and Consumer Protection (DCP) initiated 19 formal enforcement actions and 15 informal enforcement actions to address consumer compliance examination findings. This included three consent orders to strengthen consumer compliance management systems, 16 CMPs, and 11 MOUs. The CMPs were issued against institutions to address violations of the Flood Disaster Protection Act, the RESPA, and Section 5 of the Federal Trade Commission Act for unfair or deceptive acts or practices. The CMP orders totaled in excess of \$2.1 million. In addition to the consumer refunds resulting from the assistance provided by the FDIC's Consumer Response Center (see discussion under the Consumer Complaints and Inquiries section), consumer compliance examination findings resulted in banks making voluntary restitution of approximately \$4.7 million to over 19,000 consumers and TILA reimbursements of approximately \$1.3 million to more than 6,000 consumers.

Consumer Compliance Supervision Strategic Plan

DCP has established a *Supervision Strategic Plan* to identify near-term initiatives that are aligned with long-term objectives. The *Supervision Strategic Plan* for consumer compliance is built around four pillars: Technology and Financial Innovation, Supervisory Efficiency, Emerging Risk Identification, and Communication Effectiveness. DCP established 20 key near-term initiatives in alignment with these pillars, and set forth strategies to leverage technology, expand industry engagement, and efficiently conduct risk-focused examination activities to pursue these initiatives. DCP will continue to advance these strategic priorities, and is updating the plan to reflect 2021 – 2024 initiatives and goals. Current development of plans for 2021 – 2024 initiatives will continue to advance strategic priorities.

External stakeholders—in particular, community banks—will benefit from the plan through continued transparency in the supervisory process, which includes changes to examination report formats, access to information and resources, tools that will improve the exchange of data and documents with the FDIC, and increased engagement with the FDIC’s exceptionally knowledgeable and well-equipped examiners.

Large Bank Supervision Program

The Large Bank Supervision Branch (LBSB) within RMS addresses the growing complexity of large banking organizations with assets from \$10 billion to \$100 billion of all charters, plus all FDIC-supervised banks over \$10 billion. This branch is responsible for supervisory oversight and ongoing monitoring, while supporting the insurance business line. For state nonmember banks with assets exceeding \$10 billion, the FDIC generally applies a continuous examination program, whereby dedicated staff conduct ongoing on-site supervisory examinations and institution monitoring.

The Large Insured Depository Institution (LIDI) Program remains the primary instrument for off-site monitoring of IDIs supervised by LBSB, as well as select banks supervised by the Division of Complex Institution Supervision and Resolution (CISR) where the FDIC has on-site examination staff. The LIDI Program provides a comprehensive process to standardize data capture and reporting for large and complex institutions nationwide, allowing for quantitative and qualitative risk analysis. In 2019, the LIDI Program covered 122 institutions with total assets of \$6.8 trillion. The LIDI Program supports effective large bank supervision by using individual institution information to focus resources on higher-risk areas, determine the need for supervisory action, and support insurance assessments and resolution planning.

The Shared National Credit (SNC) Program is an interagency initiative administered jointly by the FDIC, the Office of the Comptroller of the Currency (OCC), and the Federal Reserve Board (FRB) to promote consistency in the regulatory review of large, syndicated credits, as well as to identify risk in this market, which comprises a large volume of domestic commercial lending. In 2019,

outstanding credit commitments identified in the SNC Program totaled \$4.8 trillion. The FDIC, FRB, and OCC report the results of their review in an annual, joint public statement.

In the third and fourth quarter of 2018, the LBSB completed a horizontal commercial loan underwriting review at 32 large FDIC-supervised institutions to further understand and assess recent commercial loan underwriting practices. In July 2019, the overall findings and observations from that review were shared via a letter to each covered bank’s Chief Executive Officer.

Operational Risk Supervision Program

Information Technology and Cybersecurity

The FDIC examines information technology (IT), including cybersecurity, at each bank it supervises as part of the risk management examination. Examiners assign an IT rating using the Federal Financial Institutions Examination Council’s (FFIEC) Uniform Rating System for Information Technology (URSIT), and the IT rating is incorporated into the management component of the CAMELS rating, in accordance with the FFIEC’s Uniform Financial Institutions Rating System.

During 2019, the FDIC collaborated with the FRB and state banking departments to enhance the Information Technology Risk Examination (InTREx) Program used to conduct financial institution IT examinations. For example, the InTREx information technology profile used to risk-focus IT examinations was streamlined, and redundancies in examiner questions were eliminated.

The FDIC also enhanced its examinations of service providers. For example, the interagency Cybersecurity Examination Program became a standard component of the most significant service provider examinations. The FDIC, FRB, and OCC, also horizontally reviewed the contracts between financial institutions and large service providers to evaluate how well the agreements provide for protecting customer nonpublic personal information.

The FDIC collaborated with the other FFIEC member entities³ to update the FFIEC *IT Examination Handbook* booklet titled Business Continuity Management.

³ FFIEC member agencies include the FDIC, FRB, National Credit Union Administration (NCUA), OCC, and Consumer Financial Protection Bureau (CFPB). The FFIEC also includes a State Liaison Committee (SLC) as a voting member; the SLC includes representatives from the Conference of State Bank Supervisors (CSBS), American Council of State Savings Supervisors (ACSSS), and National Association of State Credit Union Supervisors (NASCUS).

Examiners use this booklet as a reference, and it contains detailed procedures for examining more complex entities. Finally, the FDIC, FRB, and OCC conducted IT examinations of services provided to banks by third parties, with a particular focus on the strength of the contracts between banks and their service providers.

The FDIC also continued to build its IT examination workforce. For example, an entry-level IT and Cyber Risk Management Analyst position was created. The new analysts will focus only on IT (including cybersecurity) examinations, and are expected to reach proficiency at those tasks quicker than examiners who have broader responsibilities. The FDIC also updated its advanced IT training for safety and soundness examiners. Examiners take this training to prepare them to examine the most complex institutions and service providers.

The FDIC actively engages with both the public and private sectors to assess emerging cybersecurity threats and other operational risk issues. The information obtained from these engagements is shared with financial institutions and examiners, when appropriate. FDIC staff meet regularly with the Financial and Banking Information Infrastructure Committee (FBIIC), the Financial Services Sector Coordinating Council for Critical Infrastructure Protection, the Department of Homeland Security (DHS), the Financial Services Information Sharing and Analysis Center, other regulatory agencies, and law enforcement to share information regarding emerging issues and to coordinate responses. For example, in June 2019, the FDIC sent a DHS cybersecurity alert to all FDIC-supervised institutions highlighting the need for them to defend against a rise in malicious cyber activity directed at the United States. Additionally, in October 2019, the FDIC and other FFIEC members conducted a webinar to raise awareness about the increased frequency of email compromise fraud. The webinar featured a guest speaker from the Financial Crimes Enforcement Network (FinCEN), which has researched this type of fraud.

Bank Secrecy Act/Anti-Money Laundering

Throughout 2019, the FDIC, FRB, and OCC and the Department of the Treasury (including FinCEN), focused on improving the efficiency and effectiveness of the Bank Secrecy Act/Anti-Money Laundering (BSA/AML) regime. In July 2019, the agencies issued a joint statement to clarify the risk-focused approach to BSA/AML supervision. The FDIC, FRB, OCC, Treasury, and FinCEN also issued

a statement on providing financial services to customers engaged in hemp-related businesses.

The FFIEC made significant progress in updating the FFIEC BSA/AML Examination Manual that is expected to be released in early 2020. Revised sections of the manual reinforce instructions to examiners regarding depository institutions' policies, procedures, and processes designed to reasonably meet the requirements of the BSA and safeguard institutions from money laundering, terrorist financing, and other illicit financial activity. The manual emphasizes that examiners should tailor the BSA/AML examination scope and planned procedures to the money laundering/terrorist financing risk profile of the depository institution.

Cyber Fraud and Financial Crimes

The FDIC has undertaken a number of initiatives in 2019 to protect the banking industry from criminal financial activities. These include developing a financial crimes conference that will be held in 2020 for examiners, lawyers, and others from federal banking and law enforcement agencies. Another initiative helped financial institutions identify and shut down "phishing" websites that attempt to fraudulently obtain an individual's confidential personal or financial information. Finally, in August 2019, the FDIC published a *Consumer News* article that offered tips consumers can use to protect themselves from fake check scams.

Examiner Training and Development

Examiner training continued to be a top priority in 2019. The FDIC strives to deliver effective and efficient on-the-job, classroom, and computer-based instruction. A cadre of highly trained and skilled instructors provides classroom learning to FDIC examination staff, as well as staff of regulatory partners from international and state agencies. Oversight of the training program is provided by senior and mid-level management to ensure that content and delivery are effective, appropriate, and current. The FDIC works in collaboration with partners across the organization and with the FFIEC to ensure that emerging risks and topics are incorporated and conveyed timely. Examination staff at all levels benefit from targeted and tenure-appropriate content. The FDIC also recognizes the critical role peer-to-peer knowledge transfer plays in preserving institutional knowledge and experience, and encourages opportunities for employees to learn from each other.

In 2019, the FDIC held training for all of its commissioned risk management examiners and case managers on a variety of topics, including root cause analysis, emerging technologies, model risk management, and operational risk. In addition, the FDIC launched refresher foundational training for all examination-related staff on the Bank Secrecy Act; this training will be completed in first quarter 2020.

In addition, a Current Expected Credit Losses (CECL) Examiner Training and Development Plan was launched in 2018 to begin a multi-year initiative to ensure examination staff understand the requirements of the new credit losses accounting standard, and are consistent in conveying the FDIC's expectations with respect to banks' CECL implementation efforts.

The FDIC has also undertaken a multi-year project to expand and strengthen its examiner development programs for specialty areas, such as IT, BSA/AML, trust, capital markets, and accounting. As banks become more specialized, enhancing examiner skills in these areas is key to ensuring an effective examination program. The goal of this project is to standardize the skills needed to examine banks of varying levels of risk and complexity in each specialty area, and to develop on-the-job training (OJT) programs to provide opportunities for examiners to acquire higher-level competencies in these specialty areas.

In 2019, the FDIC released the second of its IT OJT programs and continued to develop specialty OJT programs in accounting, capital markets, BSA/AML, and trust.

Minority Depository Institution Activities

The preservation and promotion of minority depository institutions (MDIs) remains a long-standing and high priority for the FDIC. In 2019, the FDIC expanded engagement with MDIs and continued to promote and support MDI and Community Development Financial Institution (CDFI bank) industry-led strategies to better serve their communities. These strategies include increasing collaboration between MDIs and other financial institutions; partnering to share costs, raise capital, or pool loans; and making innovative use of available federal programs. The FDIC supports these efforts through research, outreach, and engagement to better understand MDI issues, as well as by providing technical assistance and education and training for MDI and CDFI banks.

During 2019, the FDIC published a research study, *Minority Depository Institutions: Structure, Performance, and Social Impact* that explores changes in FDIC-insured MDIs, their role in the financial services industry, and their impact on the communities they serve. The study showed that MDI financial performance improved significantly over the past five years; MDIs consolidated significantly, but more gradually than community banks overall; and MDIs are important service providers to low- or moderate-income and minority communities.

The FDIC established a new MDI Subcommittee of the Advisory Committee on Community Banking (CBAC), which held its inaugural meeting in December 2019. The subcommittee provides an opportunity for minority bankers to discuss key issues and share feedback directly with FDIC Board Members and senior management.

In addition, the FDIC added additional MDI bankers to the CBAC membership to further bring MDI perspectives and issues to the table.

Throughout 2019, the FDIC hosted three roundtables with large banks and MDI bankers to foster collaboration in support of the continued vibrancy of MDIs and their communities. During the roundtables, executives from 29 large banks and 24 MDIs discussed potential partnerships including financial support, lending activities, or service activities including technical assistance. Each roundtable outlined how both MDIs and other institutions may realize business and regulatory benefits by developing partnerships, drawing upon the FDIC's *Resource Guide for Collaboration with Minority Depository Institutions* published in December 2017. In addition, the FDIC clarified how relationships with MDIs receive consideration under the Community Reinvestment Act. The FDIC is following up to monitor the outcomes of the roundtables and highlight successful partnerships at future roundtables.

One of the FDIC's statutory goals is to preserve the minority character of MDIs in failed bank acquisitions. In 2019, the FDIC hosted three workshops and two webinars with MDI bankers to discuss the failed bank bidding process and special marketing procedures for MDIs. In addition, the FDIC implemented a new marketing procedure that provides a two-week window exclusively for MDIs. During this window, the FDIC contacts all qualified MDIs on the bid list to ensure they received an invitation to bid, and provides full access to



FDIC Chairman McWilliams is introduced to Alden J. McDonald's son, Todd McDonald at the June 2019 Interagency MDI and CDFI Bank Conference. Alden McDonald founded Liberty Bank and Trust in 1972 in New Orleans, Louisiana.

the data room if an MDI is interested. The FDIC also describes in detail the failing bank transaction and offers to provide technical assistance on the bidding process. Following the two-week period, the FDIC invites all other qualified bidders to the failing bank project.

One MDI failed in 2019, and the acquirer was another MDI. In fact FDIC's research shows that over a 17-year period, most of the assets of merged and failed MDIs have been acquired by other MDIs. Of the nearly \$23 billion in MDI failed-bank assets during this period, 86 percent were acquired by another minority bank.

In June 2019, the FDIC hosted the interagency MDI and CDFI bank conference, *Focus on the Future: Prospering in a Changing Industry*, in collaboration with the OCC and FRB. The conference featured a dialogue with federal leadership, who provided updates on programs and policies that can help MDI and CDFI banks achieve their goals. Minority bank CEOs discussed strategies for their customers, employees, and communities in order to succeed in today's marketplace. Experts discussed innovation, collaboration, supervision, and FDIC research. Interactive workshops addressed topics such as cybersecurity and threat-monitoring tools and resources, understanding MDIs and their markets, succession management, federal programs supporting MDIs, the benefits of participating in the CDFI Fund's programs, and preserving the minority character in failing bank transactions.

The FDIC also continuously pursued efforts to improve communication and interaction with MDIs and to respond to the concerns of minority bankers in 2019.

The FDIC maintains active outreach with MDI trade groups and offers to arrange annual meetings between FDIC regional management and each MDI's board of directors to discuss issues of interest. The FDIC routinely contacts MDIs to offer return visits and technical assistance following the conclusion of FDIC safety and soundness, consumer compliance, CRA, and specialty examinations to help bank management understand and implement examination recommendations. These return visits, normally conducted within 90 to 120 days after the examination, are intended to provide useful recommendations or feedback for improving operations, not to identify new issues.

Through its public website (www.fdic.gov), the FDIC invites inquiries and provides contact information for any MDI to request technical assistance at any time.

In 2019, the FDIC provided 134 individual technical assistance sessions on nearly 50 risk management, consumer compliance, and resolution topics, including:

- ◆ Accounting,
- ◆ Bank Secrecy Act and Anti-Money Laundering,
- ◆ Community Reinvestment Act,
- ◆ Compliance management,
- ◆ Funding and liquidity,
- ◆ Information technology risk management and cybersecurity,
- ◆ Internal audit, and
- ◆ Failed bank acquisition.



Chairman McWilliams (center) in discussion with John Hope Bryant, founder, Chairman and CEO of Operation HOPE, and Evelyn Smalls, President and CEO of United Bank of Philadelphia at the National Bankers Association Annual Convention in October 2019.

The FDIC also held outreach, training, and educational programs for MDIs through conference calls and regional banker roundtables. In 2019, topics of discussion for these sessions included many of those listed above, as well as collaboration and partnerships, the CECL accounting methodology, IT vendor management, cybersecurity, CRA, innovation, BSA, CDFI Fund Programs, and emerging technology.

SUPERVISION POLICY

The goal of supervision policy is to provide clear, consistent, meaningful, and timely information to financial institutions and examiners.

Risk-Focused Supervision Program

During 2019, the FDIC undertook an effort to memorialize its long-standing practices regarding risk-focused, forward-looking supervision. The result of this effort was referenced in RMS's August 2019 update to the *Risk Management Manual of Examination Policies*, which incorporated a new section titled "Risk-Focused, Forward-Looking Safety and Soundness Supervision." The new section describes the FDIC's long-standing philosophy and methods for supervising institutions by focusing on institutions and the areas within institutions presenting the greatest risks. It also describes principles for communication, risk-tailoring of examination procedures, examination planning, and off-site examination activities that are followed during safety and soundness examinations.

As part of this effort, RMS also implemented more robust examination planning procedures, including increasing the amount of notice bankers are provided before examinations begin and allowing examiners more time to understand the institution and tailor procedures to the institution's risk profile accordingly. Additionally, procedures for loan review have been enhanced and electronic document-transfer systems with institutions have been improved.

Current Expected Credit Losses Implementation

In June 2016, the Financial Accounting Standards Board (FASB) introduced the CECL methodology for estimating allowances for credit losses, replacing the current incurred-loss methodology.

Since then, the FDIC has worked collaboratively with the FRB, OCC, FASB, Securities and Exchange Commission (SEC), and CSBS to answer questions regarding the implementation of CECL.

- ◆ The FDIC participated on the FFIEC Task Force on Reports that developed revisions to the Call Report and other FFIEC reports to address the changes in the accounting for credit losses under the new standard. Because the standard could be early adopted by institutions effective January 1, 2019, these revisions were implemented for quarterly reports as of March 31, 2019, and take effect for annual reports as of December 31, 2019. Institutions were notified of the final reporting changes in an interagency FFIEC Financial Institution Letter (FIL) and an FDIC-only FIL.
- ◆ In December 2018, the FDIC, FRB and OCC issued the CECL Regulatory Capital final rule revising the regulatory capital rules for the implementation of, and capital transition to, the CECL methodology. The final rule allows banks to transition the day-one effects of the credit losses accounting standard on regulatory capital over three years. The final rule also revises the agencies' regulatory capital rule and other rules to take into consideration differences between the new accounting standard and existing U.S. generally accepted accounting principles.
- ◆ In April 2019, the FDIC, FRB, OCC, and NCUA issued an updated set of frequently asked questions (FAQs) that focus on the application of the new credit losses accounting standard and related regulatory reporting. This updated set includes the initial set of FAQs issued in December 2016 and the second set of FAQs issued in September 2017. Certain of the previously issued FAQs were updated in response to recent developments. An appendix includes links to relevant resources that are available to institutions to assist with the implementation of CECL.
- ◆ In April 2019, the FDIC, FRB, OCC, NCUA, FASB, SEC, and CSBS conducted a webinar covering one possible simplified method of calculating allowances under CECL, which is known as the Weighted Average Remaining Maturity (WARM) Method. In January 2019, the FASB issued a Staff questions and answers (Q&A) document confirming that the WARM method is one of many acceptable methods that can be used to estimate allowances for less

complex financial asset pools under CECL. The webinar also discussed the use of reasonable and supportable forecasts when estimating allowances.

Management of Credit Risk, Liquidity Risk, and Interest-Rate Risk

The economy is in its eleventh year of expansion. Amid increasing competition for loans, a large majority of insured institutions continue to grow their loan portfolios, albeit more slowly than in prior years. Some institutions have increased existing concentrations, leaving them with greater exposure to market sector changes.

Loan growth, accompanied by a reduction in holdings of liquid assets and increased reliance on funding sources other than traditionally stable deposits, is particularly prevalent among institutions with rising or elevated concentration levels. Competition for deposits is increasing and intensified by long-term trends like declining rural populations and consumers' adoption of innovative financial technology.

A lengthy period of historically low interest rates and tightening net interest margins have created incentives for insured depository institutions to reach for yield in their lending and investment portfolios by extending portfolio durations, potentially increasing their vulnerability to higher interest rates. Long-term rates have been falling in recent years, resulting in a flatter yield curve and, in 2019, the yield curve temporarily inverted. The uncertainty in the direction of rates and shape of the yield curve create a challenging environment for managing exposure to interest-rate risk.

Through regular on-site examinations and interim contacts with state nonmember institutions, FDIC staff regularly engage in dialogue with institution management about the need to ensure that their practices to manage credit risk, liquidity risk, and interest-rate risk are effective. Where appropriate, FDIC staff work with institutions that have significant exposure to these risks and encourage them to take appropriate risk-mitigating steps. The FDIC employs off-site monitoring to help identify institutions that may have heightened exposure to these risks, and follows up with them to better understand their risk profiles.

Throughout 2019, the FDIC conducted outreach and offered technical assistance regarding these risk issues. The FDIC also published *Supervisory Insights* articles on

the risks associated with potential transitions in financial instrument reference rates and the risk management practices of insured banks with commercial real estate loan concentrations and leveraged lending. FDIC examiners continue to assess how well banks are managing the risks associated with credit and funding concentrations. The findings of these assessments are shared with bank management in the Report of Examination.

CAMELS Request for Information

In October 2019, the FDIC and FRB issued a request for information and comments from interested parties regarding the consistency of ratings assigned by the agencies under the Uniform Financial Institutions Rating System (more commonly known as CAMELS ratings). The agencies are also requesting feedback on the use of CAMELS ratings by the agencies in their bank application and enforcement action processes. Comments are due by February 28, 2020.

Applications Procedures Manual

During 2019, the FDIC issued updated, public facing sections of the Applications Procedures Manual. The manual provides comprehensive direction to FDIC staff assigned to review and process applications, notices, and other requests (collectively, applications) submitted to the FDIC. In June, 17 sections of the manual were released, and in December an additional 18 sections were released.

As part of Chairman McWilliams' "Trust Through Transparency" initiative, making the manual publicly available provides greater transparency to the banking industry and other interested parties regarding the FDIC's application processes. As appropriate, the manual will be updated periodically for changes in laws, regulations, and processes. FDIC-insured institutions and other interested parties may access application-related information through the FDIC's Bank Applications webpage located at <https://www.fdic.gov/regulations/applications/>.

Supervisory Guidance

Regulatory Relief - Areas Affected by Severe Storms

During 2019, the FDIC issued eight advisories through FILs to provide guidance to financial institutions in areas affected by hurricanes, tornadoes, flooding, wildfires, and other severe storms, and to facilitate recovery. In

these advisories, the FDIC encouraged banks to work constructively with borrowers experiencing financial difficulties as a result of natural disasters, and clarified that prudent extensions or modifications of loan terms in such circumstances can contribute to the health of communities and serve the long-term interests of lending institutions.

Allowance for Credit Losses

On October 17, 2019, the three banking agencies and the NCUA, with input from CSBS, issued for public comment a proposed Interagency Policy Statement on Allowances for Credit Losses (ACLs) in response to CECL, the new credit losses accounting standard. The proposed policy statement would replace the agencies' December 2006 Interagency Policy Statement on the Allowance for Loan and Lease Losses (ALLL) and the July 2001 Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions (collectively, the 2006 and 2001 ALLL Policy Statements). The comment period closed December 16, 2019.

- ◆ The principles outlined in the policy statement on ACLs would become of interest to an institution upon the institution's adoption of the CECL.
- ◆ Once CECL is effective for all institutions, the agencies will rescind the 2006 and 2001 ALLL Policy Statements.
- ◆ The proposed new policy statement addresses most of the topics covered in the 2006 and 2001 ALLL Policy Statements, but in the context of CECL. Thus, the new policy statement describes:
 - The measurement of expected credit losses under CECL and the accounting for impairment on available-for-sale (AFS) debt securities in accordance with the new credit losses accounting standard;
 - Principles related to designing, documenting, and validating expected credit loss estimation processes, including the internal controls over these processes;
 - Maintaining appropriate ACLs;
 - The responsibilities of boards of directors and management; and
 - Examiner reviews of ACLs.

Credit Risk Review

In October 2019, the FDIC, jointly with the FRB, OCC, and NCUA, issued a request for comment on proposed *Guidance for Credit Risk Review Systems*. The proposed supervisory guidance updates and reaffirms, as a stand-alone document, the elements of an effective credit risk review system currently contained in the *Interagency Policy Statement on the Allowance for Loan and Lease Losses (Attachment 1 - Loan Review Systems)*, issued in 2006. The proposed supervisory guidance also reflects current industry credit review practices and terminology associated with the CECL methodology. The comment period closed on December 16, 2019.

Codification of Section 19 Statement of Policy

On November 18, 2019, the FDIC approved an NPR to codify the Section 19 Statement of Policy (SOP) in the FDIC's regulations and seek public comment on all aspects of the Section 19 SOP. Section 19 of the FDI Act generally prohibits individuals convicted of certain crimes from becoming employed by, or participating in the affairs of, an IDI. Specifically, the proposal seeks comment on whether and how the FDIC should expand the criteria for what constitutes a *de minimis* offense. This proposal also supports the ongoing initiative among the federal financial regulators to address the appropriate role of supervisory guidance compared to notice and comment rulemakings. The comment period closes on March 16, 2020.

Regulatory Tailoring

Tailoring of Capital and Liquidity Standards

In October 2019, the FDIC, FRB and OCC approved a final rule to tailor the regulatory capital and liquidity requirements for large depository institution holding companies, U.S. intermediate holding companies of foreign banking organizations (U.S. IHCs), and certain depository institutions. Under the final rule, the requirements for U.S. Global-Systemically Important Banks (U.S. G-SIBs) are unchanged and these institutions remain subject to the most stringent standards. However, the final rule tailors the capital and liquidity requirements for all other banking organizations with greater than \$100 billion in total consolidated assets, commensurate with their size, complexity, and potential systemic risks. The final rule is consistent with considerations and factors set forth under section 165 of the Dodd-Frank Act, as amended by the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA).

The final rule established risk-based categories for determining the tailored regulatory capital and liquidity requirements applicable to large U.S. banking organizations and the U.S. IHCs. Under the final rule, banking organizations fall into one of four categories based on five risk-based indicators: total assets, cross-jurisdictional activity, short-term wholesale funding, nonbank assets, and off-balance sheet exposure.

In addition to tailoring the agencies' capital requirements, the final rule tailors the application of the liquidity coverage ratio, which was finalized in 2014 and requires large banking organizations to hold a minimum amount of high-quality liquid assets that can be easily and quickly converted into cash to meet net cash outflows over a 30-day stress period. The final rule will also tailor the application of the net stable funding ratio, which the agencies plan to finalize in 2020 and would apply a one-year liquidity standard that examines the stability of a bank's funding profile.

Capital Simplifications

In May 2019, the FDIC, FRB, and OCC approved a final rule to simplify aspects of the capital rule for non-advanced approaches banking organizations, which responds to industry feedback on the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA). The final rule simplifies the treatment of threshold deduction items and increases the individual common equity tier 1 deduction thresholds for mortgage servicing assets, certain deferred tax assets, and investments in the capital of other financial institutions. The final rule also simplifies the calculation of minority interests includable in regulatory capital and makes a number of technical corrections.

Volcker Rule

In July 2019, the FDIC, FRB, OCC, SEC, and Commodity Futures Trading Commission (CFTC) published a final rule pursuant to Section 203 of EGRRCPPA to amend Section 13 of the Bank Holding Company Act, commonly referred to as the Volcker Rule, by exempting community banks from the requirements of the rule. To qualify for the exclusion, neither the bank nor any controlling company may have more than \$10 billion in total consolidated assets, or total trading assets and trading liabilities of more than 5 percent of total consolidated assets, as reported on the most recent

regulatory filing. The final rule also implements Section 204 of EGRRCPPA to amend the restrictions applicable to the naming of a hedge fund or private equity fund to permit certain banking entities that are not banks or bank holding companies to share a name with the fund under certain circumstances.

In November 2019, the FDIC, FRB, OCC, SEC, and CFTC published a final rule to simplify and tailor requirements under the Volcker Rule, which generally prohibits banking entities from engaging in proprietary trading and from owning or controlling hedge funds or private equity funds. The final rule tailors compliance requirements based on the size of a firm's trading assets and liabilities, with the most stringent requirements applied to banking entities with the most trading activity. The rule also provides greater clarity, certainty, and objectivity about what activities are prohibited by the Volcker Rule. The final rule has an effective date of January 1, 2020, and a compliance date of January 1, 2021. However, a banking entity may voluntarily comply, in whole or in part, with the changes to the rule prior to January 1, 2021.

A pending Notice of Proposed Rulemaking (NPR) is planned for early 2020 to address the outstanding issues related to the prohibitions and restrictions on investments in private equity and hedge funds (i.e., "covered funds").

Brokered Deposits

In the thirty years since Congress enacted restrictions on brokered deposits, the banking industry has undergone dramatic changes. Technology, law, business models, and product ranges have evolved. In 2018, the FDIC decided to undertake a comprehensive review of its brokered deposits regulation. The FDIC approved an advance notice of proposed rulemaking (ANPR) on December 18, 2018, to seek comment on both the brokered deposit regulation and restrictions on interest rates. The ANPR was published in the *Federal Register* on February 6, 2019. The FDIC accepted comments on the ANPR until May 7, 2019, and received more than 130 comments. The FDIC then divided the brokered deposit rulemaking process into two sections: the first will address possible changes in the interest rate restrictions; the second will address specific brokered deposit issues. The FDIC approved an NPR on brokered deposits in December 2019 that would establish a new framework for regulating brokered deposits.

The FDIC will be seeking comments for 60 days after publication in the *Federal Register*.

Interest Rate Restrictions

On August 20, 2019, the FDIC approved an NPR on interest rate restrictions applicable to institutions that are less than well capitalized. The NPR was published in the *Federal Register* on September 4, 2019. In the NPR, the FDIC proposed changing the calculation of the national rate cap, as well as greatly simplifying the local rate cap for less than well-capitalized institutions in areas where prevailing rates may exceed the national rate or cap. The FDIC accepted comments through November 8, 2019.

Community Bank Leverage Ratio

In November 2019, the FDIC, FRB, and OCC approved a final rule to implement Section 201 of EGRRCPA to establish a community bank leverage ratio (CBLR) framework designed to reduce burden for qualifying community banks that opt into the framework. The framework provides a simple measure of capital adequacy for qualifying community banks and allows them to alleviate the burden of calculating and reporting risk-based capital ratios. If a qualifying community bank exceeds a CBLR of 9 percent, it is deemed to meet the generally applicable leverage and risk-based capital requirements and the well-capitalized ratio requirements under the prompt corrective action regulatory capital framework. Eligible banks may elect to adopt the framework beginning in 2020 and do so simply through reporting on their quarterly Call Report.

In September 2019, the FDIC approved a final rule amending the deposit insurance assessment system to address the application of the leverage ratio for qualifying community banks.

Appraisal Threshold for Residential Real Estate Loans

In October 2019, the FDIC, FRB, and OCC published a final rule to amend the agencies' regulations requiring appraisals for certain real estate-related transactions. The final rule raises the threshold from \$250,000 to \$400,000 at which appraisals are required for residential real estate-related transactions. The final rule also makes conforming changes to exempt certain transactions secured by residential property in rural areas from the agencies' appraisal requirement pursuant to the EGRRCPA.

Pursuant to the Dodd-Frank Act, the final rule amends the agencies' appraisal regulations to require institutions to subject appraisals performed for federally related transactions to appropriate review for compliance with the Uniform Standards of Professional Appraisal Practice.

Federal Interest Rate Authority

In November 2019, the FDIC approved an NPR to clarify the federal law governing interest rates state banks may charge their customers. The FDIC's proposal would codify longstanding legal interpretations of the FDI Act and provides that a permissible interest rate on a loan, as permitted by the law where the bank is located, would not be affected by subsequent events, such as a change in state law, a change in the relevant commercial paper rate, or the sale/assignment/transfer of the loan. Comments will be accepted on this proposal until February 4, 2020.

Management Interlocks

Part 348 of the FDIC's Rules and Regulations generally restricts the ability of a management official to serve at more than one depository organization to foster competition. Since 1996, the Major Assets Prohibition prevented a management official of a bank with total assets greater than \$2.5 billion from serving at an unaffiliated bank with total assets of \$1.5 billion. On October 10, 2019, the FDIC, FRB, and OCC finalized a rule to increase both lower and upper thresholds to \$10 billion. Thus, only banks above the threshold are required to seek an exemption to permit a prohibited management interlock.

Supplementary Leverage Ratio

In November 2019, the FDIC approved a final rule for custodial banking organizations, pursuant to Section 402 of EGRRCPA, which amends the Supplementary Leverage Ratio of the regulatory capital rule. The final rule allows large banking organizations predominantly engaged in custody, safekeeping, and asset-servicing activities to exclude certain central bank deposits from total leverage exposure when calculating their supplementary leverage ratio.

High Volatility Commercial Real Estate

In November 2019, the FDIC approved a final rule to revise the risk-based capital definition for high volatility commercial real estate (HVCRE) loans, which are a subset

of acquisition, development, and construction loans. The final rule implements the changes outlined in Section 214 of EGRRCPA and provides interpretation on certain aspects of the HVCRE exposure definition. The final rule also addresses the public comments received on a July 2019 interagency proposal that clarifies whether certain lot development loans qualify for the 1-4 family exemption.

Derivatives

In November 2019, the FDIC, FRB, and OCC approved the Standardized Approach for Counterparty Credit Risk (SA-CCR) final rule. The framework provided in the SA-CCR final rule is required for banking organizations subject to the advanced approaches, but other institutions may elect to use it. The SA-CCR final rule amends the regulatory capital rule and implements a new approach for calculating the exposure amount for derivative contracts. Specifically, the final rule implements a new framework for calculating derivatives' exposure at default, in addition to the previously available Current Exposure Method and Internal Models Method (IMM). The final rule also amends capital requirements associated with the IMM, bank exposures to central counterparties, and the leverage ratio to the degree they are impacted, and introduces a number of derivatives-related technical amendments.

In November 2019, the FDIC, FRB, OCC, Federal Housing Finance Agency (FHFA), and Farm Credit Administration (FCA) published a proposed rule that would amend the swap margin rule, which establishes capital and margin requirements for non-cleared swaps. Specifically, the proposal would:

- ◆ Preserve the status quo for legacy swaps transferred to or by a covered swap entity in the event of the U.K. withdrawal from the E.U. without a Withdrawal Agreement (i.e., Brexit);
- ◆ Preserve the status quo for legacy swaps amended as part of the London Inter-bank Offered Rate (LIBOR) transition;
- ◆ Modify inter-affiliate margin treatment to repeal initial margin requirements but retain the variation margin requirements; and
- ◆ Extend the compliance period for certain smaller counterparties and clarifies the existing trading documentation requirements in the swap margin rule.

Office of Thrift Supervision Regulations

The FDIC also streamlined and clarified certain regulations through the Office of Thrift Supervision (OTS) rule integration process. Under Section 316(b) of the Dodd-Frank Act, former OTS rules remain in effect “until modified, terminated, set aside, or superseded in accordance with applicable law” by the relevant successor agency, a court of competent jurisdiction, or operation of law. When the FDIC republished the transferred OTS regulations as new FDIC regulations applicable to state savings associations, the FDIC stated in the *Federal Register* notice that its staff would evaluate the transferred OTS rules and might later recommend incorporating them into other FDIC rules, amending them, or rescinding them. This process began in 2013 and continues, involving publication in the *Federal Register* of a series of NPRs and final rules.

In June 2019, the FDIC removed a transferred rule regarding lending and investment that is duplicative of standards in existing FDIC regulations. The final rulemaking also removed rules related to the registration of residential mortgage loan originators in light of Title X of the Dodd-Frank Act, which transferred this authority to the CFPB. In November 2019, the FDIC removed transferred rules regarding the maintenance of deposit-related records and, in December 2019, removed the transferred rules regarding regulatory reporting standards and accounting requirements and operations of state savings associations. The final rulemaking also made conforming amendments to existing FDIC regulations so that all FDIC-supervised institutions would follow substantially the same regulations and guidance regarding their operation. Staff will continue to review the remaining six transferred regulations.

INNOVATION/FINANCIAL TECHNOLOGY

The FDIC continuously monitors developments in technology to better understand how it may affect the financial industry.

FinTech and the Future of Banking Conference

In April 2019, the FDIC and Duke University's Fuqua School of Business and Innovation and Entrepreneurship Initiative jointly sponsored the *Fintech and the Future of*



Treasury Secretary Steven Mnuchin and FDIC Chairman McWilliams in discussion at the April 2019 Fintech and the Future of Banking Conference.

Banking conference. The event drew broad interest from representatives of banks, nonbanks, technology service providers, federal regulatory and other government agencies, Congress, nonprofit organizations, and research institutions, with approximately 275 people in attendance. Treasury Secretary Steven Mnuchin and FDIC Chairman Jelena McWilliams opened the conference with a conversation about the role of financial technology and innovation in banking, and Comptroller of the Currency Joseph M. Otting followed with a discussion of fintech from a regulatory perspective. Throughout the conference, prominent academic experts presented highlights from research focused on technology’s impact on lending, financial advice, and competition alongside the perspectives of senior leaders in policy and industry. Separate policy discussions also explored the topics of regulatory innovation and fintech funding.

FDiTech and FDIC Emerging Technology Steering Committee

In 2019, Chairman McWilliams established the FDIC Tech Lab, or FDiTech. The FDIC is currently seeking a Chief Innovation Officer to lead this new office, and has worked over the last year to establish a concept of operations to support engagement with stakeholders and innovative approaches to technology development to support the FDIC and the financial services industry. Through these efforts, FDiTech will focus on its mission to:

- ◆ Engage bankers, fintechs, technologists, and other regulators on innovations that will lay the foundation for banking’s future;

- ◆ Conduct “tech sprints” and pilot projects to test emerging technologies in cooperation with states and affected federal regulators;
- ◆ Support and promote the adoption of new technologies by financial institutions, particularly at community banks; and
- ◆ Expand banking services to the unbanked, underbanked, and individuals in underserved communities through new technologies.

In addition to FDiTech, the FDIC’s Emerging Technology Steering Committee has provided focused resources on the importance of technology on the financial services landscape. The committee is comprised of the Directors of RMS, DCP, Division of Insurance and Research (DIR), Division of Resolutions and Receiverships (DRR), and Division of Complex Institution Supervision and Resolution, as well as the General Counsel, the Chief Risk Officer, the Chief Financial Officer and the Chief Information Officer.

In 2019, the Emerging Technology Steering Committee continued work on its established objectives:

- ◆ Comprehend, assess, and monitor the current emerging technology activities, risks, and trends;
- ◆ Evaluate the projected impact to the banking system, the deposit insurance system, effective regulatory oversight, economic inclusion, and consumer protection;
- ◆ Oversee internal working groups monitoring particular aspects of emerging technology;
- ◆ Recommend follow-up actions, as appropriate, and monitor implementation; and
- ◆ Help formulate strategies to respond to opportunities and challenges presented by emerging technology, and to ensure developments align with regulatory goals.

The FDIC also participates on several working groups related to financial technology:

- ◆ The Basel Committee on Banking Supervision’s Task Force on Financial Technology, which focuses on the impact of financial technology on banks’ business models, risk management, and implications for bank supervision;
- ◆ The Financial Stability Oversight Council (FSOC) Digital Assets Working Group, which is examining



The 19th Annual Bank Research Conference featured a poster session with six additional papers. Here, an attendee listens to a researcher as he describes his project.

potential policy areas as they relate to digital assets and the application of distributed ledger technology;

- ◆ An interagency fintech discussion forum, which focuses on issues related to consumer compliance;
- ◆ The Global Financial Innovation Network, which seeks to provide a more efficient way for innovative firms to interact with regulators, helping them navigate between countries as they look to scale new ideas;
- ◆ The US-UK Financial Innovation Partnership, which focuses on regulatory and commercial engagements by encouraging collaboration in the private sector, sharing information and expertise about regulatory practices, and promoting growth and innovation; and
- ◆ The Financial Stability Board Financial Innovation Network, which looks at FinTech innovations from the perspective of financial stability.

Center for Financial Research

The FDIC’s Center for Financial Research (CFR) encourages, supports, and conducts innovative research on topics that inform the FDIC’s key functions of deposit insurance, supervision, and the resolution of failed banks. CFR researchers published papers in leading banking, finance, and economics journals, including the *American Economic Review*, the *Review of Economic Dynamics*, and *The Journal of Law and Economics*. In addition, CFR researchers presented their research at major conferences, regulatory institutions, and universities.

The CFR also developed and maintained many financial models used throughout the FDIC, including off-site models that inform the examination process. CFR economists also provided ongoing support to RMS through on-site examinations.

In September 2019, the CFR and the *Journal of Financial Services Research* jointly sponsored the 19th Annual Bank Research Conference. FDIC Chairman McWilliams kicked-off the conference by highlighting the importance of scholarly research in providing a solid foundation on which to make good public policy. The conference has become a premier forum in its field.

Conference organizers received more than 400 submissions for the 25 available presentation slots, and approximately 200 participants attended. Discussion sessions focused on capital regulation, the effect of regulation on banks, deposit insurance, resolution of failed banks, liquidity regulation, systemic risk, fintech, and leveraged lending, among other topics.

COMMUNITY BANKING INITIATIVES

Community banks provide traditional, relationship-based banking services in their local communities, and as the primary federal supervisor for the majority of community banks, the FDIC has a particular responsibility for the safety and soundness of this segment of the banking system.

As defined for FDIC research purposes, community banks made up 92 percent of all FDIC-insured institutions at mid-year 2019. While these banks hold just 12 percent of banking industry assets, community banks are of critical importance to the U.S. economy and local communities across the nation. They hold 41 percent of the industry’s small loans to farmers and businesses, making them the lifeline to entrepreneurs and small enterprises of all types. They hold the majority of bank deposits in U.S. rural counties and micropolitan counties with populations up to 50,000. In fact, as of June 2019, community banks held more than 75 percent of deposits in more than 1,200 U.S. counties. In more than 600 of these counties, the *only* banking offices available to consumers were those operated by community banks.

Community Banking Research

The FDIC pursues an ambitious, ongoing agenda of research and outreach focused on community banking issues. Since the 2012 publication of the *FDIC Community Banking Study*, FDIC researchers have published more than a dozen additional studies on topics ranging from small business financing to the factors that have driven industry consolidation over the past 30 years.

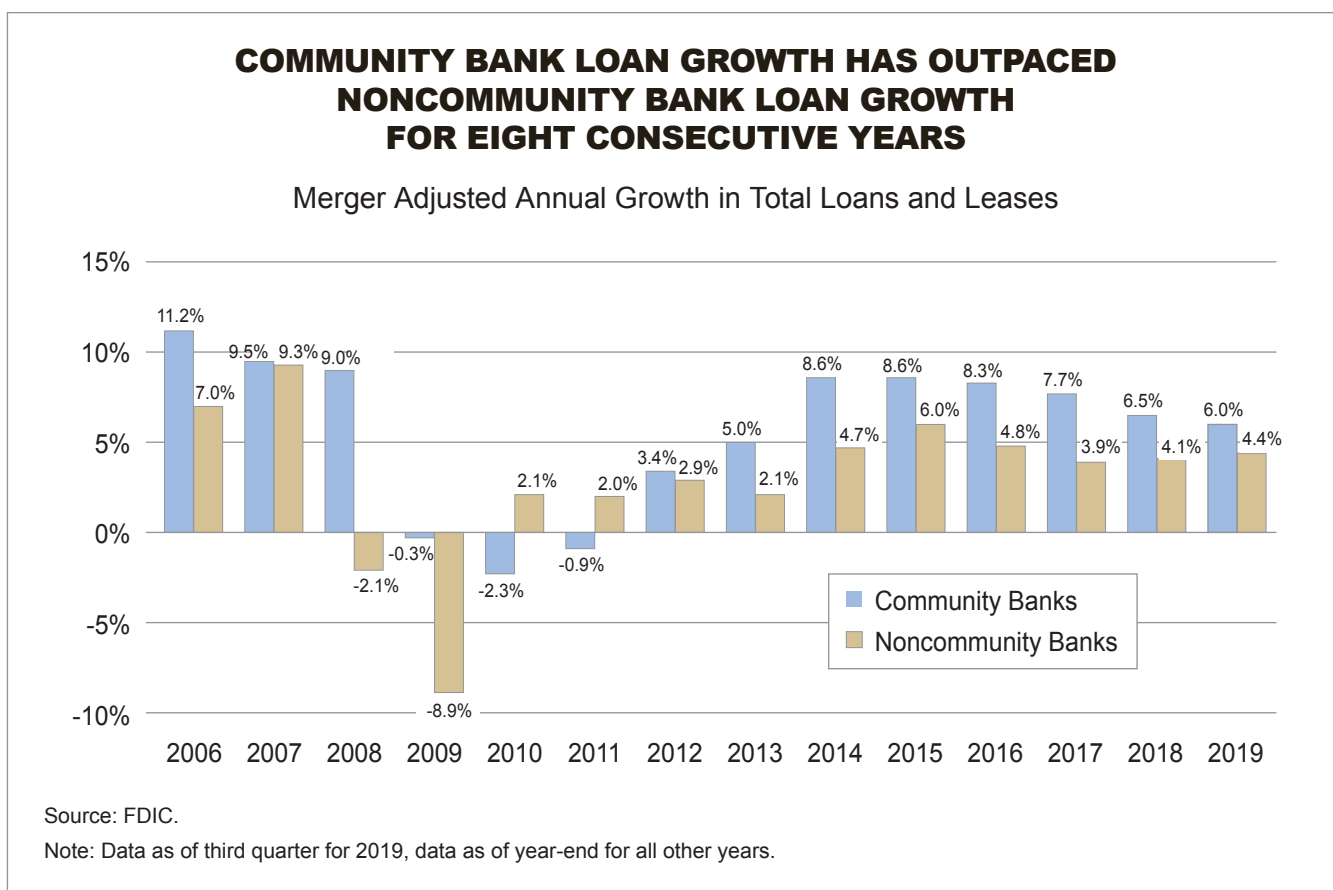
The *FDIC Quarterly Banking Profile (QBP)* includes a section focused specifically on community bank performance, providing a detailed statistical picture of the community banking sector that can be accessed by analysts, other regulators, and bankers themselves. The most recent report shows that net income at community banks continued to grow at a healthy annual rate in the first nine months of 2019.

The long-term trend of consolidation has done little to diminish the role of community banks in the banking industry. Just over 71 percent of the community banks that merged during the period September 2018 through

September 2019 were acquired by other community banks. On a merger-adjusted basis, loan growth at community banks exceeded growth at noncommunity banks in every year between 2012 and 2019. (See the chart below.) From June 2018 to June 2019, currently operating noncommunity banks closed far more offices than they acquired. In contrast, currently operating community banks acquired offices and opened more offices, on net, during the year. (See the table on the following page.)

Community Bank Advisory Committee

The FDIC’s CBAC is an ongoing forum for discussing current issues and receiving valuable feedback from the industry. The committee, which met three times during 2019, is composed of as many as 18 community bank executives from around the country. It is a valuable resource for information on a wide range of topics, including examination policies and procedures, capital and other supervisory issues, credit and lending practices, deposit insurance assessments and coverage, and regulatory compliance issues.



COMMUNITY BANKS ADDED OFFICES WHILE NONCOMMUNITY BANKS CLOSED OFFICES FROM JUNE 2018 TO JUNE 2019

	Offices of Currently-Operating Banks in June 2018	Offices of Acquired Banks	Number of Offices in June 2018 (Merger-adjusted)	New Offices Opened	Offices Closed	Net Offices Purchased or Sold	Number of Offices in June 2019
Community Banks	29,092	518	29,610	628	401	26	29,863
Noncommunity Banks	56,990	1,426	58,416	498	2,387	-26	56,501
TOTAL	86,082	1,944	88,026	1,126	2,788	0	86,364

Source: FDIC Summary of Deposits Data as of June 2019

At each of the 2019 Advisory Committee meetings, there was a discussion of local banking conditions, an update from the FDIC Ombudsman, a supervisory policy update, and an update on the Supervision Modernization Subcommittee. Further, at the March meeting, representatives from FinCEN provided a briefing on the use of bank filings required by the BSA, and FDIC staff discussed the *2017 FDIC National Survey of Unbanked and Underbanked Households*. At the July 2019 meeting, discussion included FDIC and U.S. Small Business Administration (SBA) collaboration efforts; the FDIC’s *Money Smart* financial education materials; and findings of the 2019 research study, *Minority Depository Institutions: Structure, Performance, and Social Impact*. At the October 2019 meeting, FDIC staff also discussed the 2019 Risk Review, current financial performance of community banks, small bank assessment credits, and tools and resources relating to Opportunity Zones.

Supervision Modernization Subcommittee

In 2019, the FDIC established the Subcommittee on Supervision Modernization to support the CBAC. The subcommittee, which met three times during 2019, is composed of individuals from technology firms, academia, and banks. The subcommittee considered how the FDIC can leverage technology and refine processes to make the examination program more efficient, as well as manage and train a geographically dispersed workforce.

As part of the subcommittee, a working group reviewed workflows of the consumer compliance and risk management examination processes from planning an examination through conducting examination completion activities, while identifying concerns and opportunities for improvement in the current processes. At the September 2019 meeting, the working group considered the types of data used and data availability in presenting their recommendations to subcommittee members.

The subcommittee is evaluating recommendations to explore technology solutions that would use advanced data analytics in loan reviews, update and enhance several existing software platforms, expand the learning and development experience to include a virtual learning environment for the current and future examination workforce, and evaluate hiring specialists to examine advanced data analytics and new technology that exists today. The subcommittee will make its recommendations to the CBAC early in 2020.

MDI Subcommittee

As noted in the “Minority Depository Institutions Activities” section, the FDIC established a new MDI Subcommittee of the CBAC to bring forward the perspectives of minority bankers and to focus on the issues, tools, and resources that are unique to MDIs.

De Novo Banks

Throughout 2019, the FDIC continued multiple initiatives aimed at streamlining the deposit insurance application process. Based on feedback received in response to a 2018 Request for Information and a nationwide series of six roundtable events, the FDIC clarified that applicants need not identify a specific location for the proposed institution’s main office or all senior executive officers at the time an application is submitted. These changes can significantly reduce the costs of the application process, while not impeding the FDIC’s review of the application or the public’s ability to comment on the application.

In addition, after revising the process for reviewing deposit insurance proposals to provide initial feedback to organizers on draft applications prior to submission, the FDIC began engaging in more fulsome pre-filing discussions with organizers.

The FDIC also updated its delegations of authority so that the vast majority of deposit insurance applications for traditional community banks can be approved at the Regional Office level without requiring input from the Washington Office. Consistent with the FDIC's updated timeframes and guidelines, Regional Offices should issue most decisions on deposit insurance applications for traditional community banks within 120 days from receipt of a substantially complete application.

To help organizers through the application process, the FDIC issued updated versions of its *Applying for Deposit Insurance – A Handbook for Organizers of De Novo Institutions*, and *Deposit Insurance Applications Procedures Manual*, and released a supplement to FDIC procedures to address non-community and nonbank deposit insurance proposals. The handbook addresses organizers' informational needs, and offers information for navigating the application process. The manual provides comprehensive instructions to staff regarding the deposit insurance application process.

The FDIC also updated and publicly issued its *Applications Procedures Manual*, which includes an overview section that conveys important instructions regarding the review and processing of deposit insurance applications and other types of filings. This information should also prove helpful to organizers as they consider and develop a filing.

Technical Assistance Program

As part of the Community Banking Initiative, the FDIC continued to provide a robust technical assistance program for bank directors, officers, and employees. The technical assistance program includes Directors' College events held across the country, industry teleconferences and webinars, and a video program.

In 2019, to better understand the needs of community banks, the FDIC issued a Request for Information seeking feedback on the FDIC's methods and efforts to provide technical assistance. The FDIC requested information on additional steps the agency could take to support effective management and operation of FDIC-supervised institutions through technical assistance and collaboration on safety and soundness and consumer compliance matters. The agency received 18 responses. Responses affirmed the value of the technical assistance videos, commented favorably on a pilot topic-based resource page for bankers, and provided valuable suggestions

for webinars and teleconferences. Based in part on the feedback received, the FDIC expects to announce several new or revised technical assistance initiatives in 2020.

In 2019, the FDIC hosted Directors' College events in five of its six regions. These events were typically conducted jointly with state trade associations, and addressed issues such as corporate governance, regulatory capital, community banking, concentrations management, consumer protection, BSA, and interest-rate risk, among other topics.

The FDIC also offers a series of banker events, in order to maintain open lines of communication and to keep bank management and staff informed regarding important banking regulatory and emerging issues of interest to community bankers. In 2019, the FDIC offered 14 teleconferences or webinars focused on the following topics:

- ◆ Understanding Reasonably Expected Market Area (REMA) and Community Reinvestment Act (CRA) Assessment area,
- ◆ Liquidity and funding risk management,
- ◆ Current Expected Credit Losses (CECL) accounting methodology,
- ◆ The impact of rising interest rates on asset/liability management,
- ◆ *Money Smart for Small Businesses*,
- ◆ Regulatory and accounting update,
- ◆ Common exam findings,
- ◆ Update on consumer compliance and CRA,
- ◆ Information sharing on standardized export of imaged loan documents,
- ◆ Building collaboration between financial institutions and law enforcement to prevent and address elder financial abuse,
- ◆ Understanding and mitigating RESPA Section 8(a) risks,
- ◆ Understanding the requirements of the Truth In Lending Act (Regulation Z) and Real Estate Settlement Procedures Act (Regulation X) Integrated Disclosure Rule (TRID Rule),
- ◆ Final Private Flood Insurance Rule (along with the OCC, FRB, and FCA), and
- ◆ Fair Lending interagency webinar.

***Economic Growth and Regulatory
Paperwork Reduction Act***

EGRPRA directs the federal banking agencies and the FFIEC to conduct a joint review of regulations every 10 years to determine whether any of those regulations are outdated or unnecessary.

In March 2017, the FFIEC submitted a report to Congress describing actions the member entities had already taken to address comments received during the EGRPRA process as well as actions they planned to take in the future. During 2019, the FDIC along with the other FFIEC member entities, continued to work together to reduce burden in the areas of Capital Simplifications, Management Interlocks, and OTS Regulations, which were raised during the EGRPRA review process.

**ACTIVITIES RELATED TO
LARGE AND COMPLEX
FINANCIAL INSTITUTIONS**

The FDIC is committed to addressing the unique challenges associated with the supervision, insurance, and potential resolution of large and complex financial institutions (LCFIs). The agency's ability to analyze and respond to risks in these institutions is particularly important, as they comprise a significant share of banking industry assets and deposits. In order to centralize and integrate the FDIC's operations related to the supervision and resolution of large and complex financial institutions, including systemically important financial institutions (SIFIs), financial market utilities (e.g., central counterparties), and all FDIC-insured depository institutions with assets above \$100 billion for which the FDIC is not the primary federal regulatory authority, the FDIC's Chairman formed the Division of Complex Institution Supervision and Resolution (CISR) effective July 21, 2019. At CISR's inception, the then-Office of Complex Financial Institutions (OCFI), RMS, and DRR transferred to CISR all branches having responsibility for supervision and monitoring and resolution planning and execution for LCFIs in the CISR portfolio.

The FDIC's Complex Financial Institution (CFI) Group and Large Bank Supervision Branch, now both within CISR, perform ongoing risk monitoring of Global Systemically Important Banks (G-SIBs), large Foreign

Banking Organizations (FBOs), and FSOC-designated nonbank financial companies; provide backup supervision of the firms' related IDIs; and evaluate the firms' required resolution plans. The CFI Group also performs certain analyses that support the FDIC's role as an FSOC member.

Resolution Plans – Title I Living Wills

In 2018, the EGRRCPA revised the application of resolution planning requirements by raising the \$50 billion asset threshold to \$250 billion, and provided the FRB with discretion to apply resolution planning requirements to firms with \$100 billion or more and less than \$250 billion in total consolidated assets.

In November 2019, the FDIC and FRB published a final rule to implement EGRRCPA by establishing three categories of firms for purposes of resolution planning: (1) U.S. and foreign banking organizations with \$250 billion or more in total consolidated assets, (2) U.S. banking organizations identified as U.S. G-SIBs, and (3) any designated nonbank financial companies that the FSOC has determined under section 113 of the Dodd-Frank Act should be supervised by the FRB.

In the resolution plan rule, the FRB determined to exercise its discretion under EGRRCPA to apply resolution planning requirements to the following firms:

- ◆ U.S. bank holding companies with a) average total consolidated assets equal to \$100 billion or more and less than \$250 billion and b) \$75 billion or more in any of the following risk-based indicators: cross-jurisdictional activity, total nonbank assets, weighted short-term wholesale funding, or off-balance sheet exposure; and
- ◆ Foreign banking organizations with a) total global assets equal to \$100 billion or more and less than \$250 billion, b) average combined U.S. assets equal to \$100 billion or more, and c) \$75 billion or more in any of the four risk-based indicators measured based on combined U.S. operations.

The final rule uses categories established by the agencies' tailoring rule to separate firms into three filing groups for the purpose of calibrating the timing of resolution plan submissions, and plan content.

Large Bank Holding Companies with Substantial Nonbank Assets

The eight domestic G-SIBs—Bank of America Corporation, Bank of New York Mellon Corporation, JPMorgan Chase & Co., State Street Corporation, Wells Fargo & Company, Goldman Sachs Group, Inc., Morgan Stanley, and Citigroup, Inc.—submitted resolution plans on or before July 1, 2019. On December 17, 2019, the FDIC and FRB issued letters to the eight firms providing their review findings and information about areas where additional work needs to be done to improve resolvability.

On July 26, 2019, the agencies extended the next full resolution plan submission date for four of the FBOs—Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, and UBS AG—to July 21, 2021. These banks remain required to submit limited plans by July 1, 2020, describing how they have addressed the shortcomings identified in December 2018 and providing updates concerning certain resolution projects.

Other Large Bank Holding Company Filers

In December 2018, 82 foreign-based banking organizations submitted resolution plans. In July 2019, the FDIC, jointly with the FRB, provided feedback and extensions of the next due date for resolution plans to July 2021. At the same time, 15 domestic firms also received extensions to July 2021. These extensions will give the banks additional time to prepare their plans in light of resolution plan rule changes proposed by the agencies in April 2019.

Insured Depository Institution Resolution Plans

Section 360.10 of the FDIC Rules and Regulations requires an IDI with total assets of \$50 billion or more, to periodically submit to the FDIC a plan for its resolution in the event of its failure (the “IDI rule”). The IDI rule requires covered IDIs to submit a resolution plan that would allow the FDIC, as receiver, to resolve the institution under Sections 11 and 13 of the FDI Act in an orderly manner that enables prompt access to insured deposits, maximizes the return from the sale or disposition of the failed IDI’s assets, and minimizes losses realized by creditors. The resolution plan must also describe how a proposed strategy will be least costly to the Deposit Insurance Fund.

Forty-one large insured banks covered by the IDI rule submitted their resolution plans by July 1, 2018. In April 2019, the FDIC issued an ANPR seeking comments on ways to tailor the IDI rule requirements and deferred future IDI Plan submissions until the completion of revisions to the rule.

Monitoring and Measuring Systemic Risks

The FDIC monitors risks related to G-SIBs and large FBOs at the firm level and industry wide to inform supervisory planning and response, policy and guidance considerations, and resolution planning efforts. As part of this monitoring, the FDIC analyzes each company’s risk profile, governance and risk management capabilities, structure and interdependencies, business operations and activities, management information system capabilities, and recovery and resolution capabilities.

The FDIC continues to work closely with the other federal banking agencies to analyze institution-specific and industry-wide conditions and trends, emerging risks and outliers, risk management, and the potential risk posed to financial stability by G-SIBs and large FBOs and large nonbank financial companies. To support risk monitoring that informs supervisory and resolution planning efforts, the FDIC has developed systems and reports that make extensive use of structured and unstructured data. Monitoring reports are prepared on a routine and ad-hoc basis and cover a variety of aspects that include risk components, business lines and activity, market trends, and product analysis.

Additionally, the FDIC has implemented and continues to expand upon various monitoring systems, including the Systemic Monitoring System (SMS) and the SIFI Risk Report (SRR). The SMS provides an individual risk profile and assessment for each G-SIB and large FBO by evaluating the level and change in metrics that serve as important indicators of overall risk. The SMS supports the identification of emerging and outsized risks within individual firms and the prioritization of supervisory and monitoring activities. The SMS also serves as an early warning system of financial vulnerability. Information from SMS and other FDIC-prepared reports is used to prioritize activities relating to SIFIs and to coordinate supervisory and resolution-related activities with the other banking agencies. The SRR identifies key vulnerabilities of systemically important firms, gauges the proximity

of these firms to a resolution event, and independently assesses the appropriateness of supervisory CAMELS ratings for the insured deposit institutions held by these firms.

The FDIC also conducts semi-annual “Day of Risk” meetings to present, discuss, and prioritize the review of emerging risks. In some cases, these discussions can lead to shifts in supervisory focus or priorities.

Back-up Supervision Activities for IDIs of Systemically Important Financial Institutions

Risk monitoring is enhanced by the FDIC’s back-up supervision activities. In its back-up supervisory role, as outlined in Sections 8 and 10 of the FDI Act, the FDIC has expanded resources and has developed and implemented policies and procedures to guide back-up supervisory activities. These activities include performing analyses of industry conditions and trends, supporting insurance pricing, participating in supervisory activities with other regulatory agencies, and exercising examination and enforcement authorities when necessary.

At institutions where the FDIC is not the primary federal regulator, FDIC staff work closely with other regulatory authorities to identify emerging risks and assess the overall risk profile of large and complex institutions. The FDIC has assigned dedicated staff to IDIs of G-SIBs and large FBOs and certain other large IDIs to enhance risk-identification capabilities and facilitate the communication of supervisory information. These individuals work with the staff of the FRB and OCC in monitoring risk at their assigned institutions.

Through December 2019, FDIC staff participated in 117 targeted examination activities with the FRB or OCC in G-SIBS, large FBOs, and large regional banks. The reviews included, but were not limited to, engagement in the evaluation of corporate governance, BSA/AML compliance, credit risk, model risk management, market risk, interest rate risk, capital adequacy, asset management, and third party risk management. FDIC staff also participated in various interagency horizontal review activities, including the FRB’s Comprehensive Capital Analysis and Review, Comprehensive Liquidity Analysis and Review, as well as reviews of model risk management, risk appetite and risk limits, and cyber and operational resiliency.

Title II Orderly Liquidation Authority

Under the Dodd-Frank Act, failed or failing financial companies are expected to file for reorganization or liquidation under the U.S. Bankruptcy Code, similar to what any failed or failing nonfinancial company would file. If resolution under the Bankruptcy Code would result in serious adverse effects to U.S. financial stability, Title II of the Dodd-Frank Act provides a back-up authority for resolving a company for which the bankruptcy process is not viable. There are strict parameters on the use of the Title II Orderly Liquidation Authority, however, and it can only be invoked under a statutorily prescribed recommendation and determination process, coupled with an expedited judicial review process.

Resolution Strategy Development

The FDIC has undertaken institution-specific strategic planning to carry out its orderly liquidation authorities with respect to the largest G-SIBs operating in the United States. The strategic plans and optionality being developed for these firms are informed by the Title I plan submissions. Further, the FDIC is updating its systemic resolution framework to incorporate enhanced firm capabilities established through the Title I planning process and other domestic and foreign resolution planning and policy developments. The FDIC continues to build out process documents to facilitate the implementation of a Title II resolution. In addition, work continues in the development of resolution strategies for financial market utilities, particularly central counterparties (CCPs).

Cross-Border Efforts

Cross-border cooperation and advance planning are critical components of resolution planning for G-SIBs due to the international nature of their services and their extensive operations overseas. In 2019, the FDIC continued its robust engagement with foreign authorities to deepen mutual understanding of the complex legal and operational issues related to cross-border resolution. This work is underpinned by an understanding that transparency and confidence in resolution planning will serve as a stabilizing force during times of stress.

The FDIC continued to enhance cooperation on cross-border resolution through institution specific engagement as well as through bilateral and multilateral outreach, including through international forums such as the

Financial Stability Board's Resolution Steering Group and its subgroups on banks, insurance, and financial market infrastructures.

With regard to the FDIC's institution specific engagement, the FDIC co-chaired cross-border crisis management groups (CMGs) of supervisors and resolution authorities for U.S. G-SIBs and participated as a host authority in CMGs for foreign G-SIBs. This year, as part of the CMG work for U.S. G-SIBs, FDIC and FRB staff launched a pilot workshop to provide additional background to host CMG members regarding the U.S. bankruptcy framework and resolution under Title II of the Dodd-Frank Act. These CMG efforts improve resolution preparedness by strengthening our working relationships with key authorities, providing a forum to share institution-specific concerns and plans for the resolution, and supporting information-sharing arrangements.

The FDIC continued its bilateral and multilateral outreach through ongoing resolution-related dialogues with key foreign counterparts. In April 2019, the FDIC hosted senior officials representing resolution, regulatory, and supervisory authorities; central banks; and finance ministries from the U.S., U.K., and the European Banking Union for a planned exercise to enhance understanding of one another's resolution regimes and strengthen coordination on cross-border resolution. This meeting built upon two prior trilateral exercises in 2014 and 2016 and continued staff work across the jurisdictions is on-going.

The FDIC also participated in the joint U.S.-E.U. Financial Regulatory Forum meetings and the U.S.-U.K. Financial Regulatory Working Group meetings, discussing cross-border issues relevant to bank and CCP resolution and financial stability. The FDIC also progressed resolution planning for CCPs by working with domestic and international supervisors and resolution authorities to understand risks and to try to identify resolution options for U.S. CCPs, in addition to working within international groups on related issues.

Systemic Resolution Advisory Committee

The FDIC created the Systemic Resolution Advisory Committee (SRAC) in 2011 to receive advice and recommendations on a broad range of issues regarding the

resolution of systemically important financial companies pursuant to the Dodd-Frank Act.

Members of the SRAC have a wide range of experience, including managing complex firms, serving as bankruptcy judges, and working in the legal system, accounting field, and academia. The SRAC Charter was renewed in 2019. Planning continues for the next SRAC meeting, which is tentatively scheduled for the first quarter of 2020.

DEPOSITOR AND CONSUMER PROTECTION

A major component of the FDIC's mission is to ensure that financial institutions treat consumers and depositors fairly, and operate in compliance with federal consumer protection, anti-discrimination, and community reinvestment laws. The FDIC also promotes economic inclusion to build and strengthen positive connections between insured financial institutions and consumers, depositors, small businesses, and communities.

Promoting Economic Inclusion

The FDIC is strongly committed to promoting access to a broad array of responsible and sustainable banking products to meet consumers' financial needs. In support of this goal, the FDIC:

- ◆ Conducts research on unbanked and underbanked populations;
- ◆ Researches strategies, products, and services that banks can use to meet the needs of lower-income consumers;
- ◆ Supports partnerships to promote consumer access to and use of banking services;
- ◆ Advances financial education and literacy; and
- ◆ Facilitates partnerships to support community and small business development.

Advisory Committee on Economic Inclusion

The Advisory Committee on Economic Inclusion (ComE-IN) provides the FDIC with advice and recommendations on important initiatives to expand access to mainstream banking services to underserved populations. This includes reviewing basic retail financial services (e.g., low-cost, SAFE transaction accounts;



Appalachia Working Group members.

affordable small-dollar loans; and savings accounts), as well as demand-side factors such as consumers’ perceptions of mainstream financial institutions. In October 2019, the ComE-IN held a meeting that included discussions of opportunities to engage underserved populations, an update on mortgage markets, and developments with the potential to expand access to consumer credit.

FDIC National Survey of Unbanked and Underbanked Households and Related Research

As part of its ongoing commitment to expanding economic inclusion in the United States, the FDIC works to fill the research and data gap regarding household participation in mainstream banking and the use of nonbank financial services. In addition, Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 mandates that the FDIC regularly report on underserved populations and bank efforts to bring individuals and families into the mainstream banking system. In response, the FDIC regularly conducts and reports on surveys of households and banks to inform the public and enhance the understanding of financial institutions, policymakers, regulators, researchers, academics, and others.

In 2019, the FDIC finalized and administered the 2019 *FDIC National Survey of Unbanked and Underbanked Households*. This version of the survey includes revisions intended to improve data quality by streamlining the survey instrument and provide additional insights into the experiences of unbanked and underbanked consumers. The FDIC continued to maintain a dedicated website at

<https://economicinclusion.gov>, that features survey results and data, and provides users with the ability to generate custom tabulations and access a wide range of pre-formatted information, including new five-year estimates that provide additional granularity for state and local results.

Public Awareness of Deposit Insurance Coverage

An important part of the FDIC’s deposit insurance mission is to ensure 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 outreach program consisting of seminars for bankers, a web-based calculator for estimating deposit insurance coverage as well as written and other web-based resources targeted to both bankers and consumers. For example, bankers and consumers can use the FDIC’s *BankFind* tool to verify whether a website is operated by a legitimate FDIC-member bank. Through December 31, 2019, the FDIC identified and took appropriate action on more than 65 websites, some of which included the Member FDIC logo but were not operated by FDIC-member banks.

During 2019, the FDIC continued its efforts to educate bankers and consumers about the rules and requirements for FDIC insurance coverage. For example, as of December 31, 2019, the FDIC conducted four telephone seminars for bankers on deposit insurance coverage, reaching an estimated 4,725 bankers participating at

approximately 1,350 bank sites throughout the country. The FDIC also features deposit insurance training videos that are available on the FDIC's website and YouTube channel. Additionally, the FDIC operated the Electronic Deposit Insurance Estimator (EDIE), which had 751,418 user sessions in 2019.

As of December 31, 2019, the FDIC Call Center received 99,835 telephone calls, of which 25,365 were identified as deposit insurance-related inquiries. In addition to telephone inquiries about deposit insurance coverage, the FDIC received 1,524 written inquiries from consumers and bankers. Of these inquiries, 99 percent received responses within two weeks, as required by corporate policy.

Rulemaking and Guidance

Loans in Areas Having Special Flood Hazards

In February 2019, the FDIC, OCC, FRB, NCUA, and FCA issued a final private flood insurance rule to amend regulations regarding Loans in Areas Having Special Flood Hazards pursuant to the Biggert-Waters Flood Insurance Reform Act (the B-W Act).⁴

The final rule requires regulated lending institutions to accept a private flood insurance policy that meets both 1) the statutory definition of "private flood insurance," and 2) the mandatory purchase requirement. The final rule includes a streamlined compliance aid provision to assist regulated lending institutions with evaluating policies.

In addition, the final rule provides that institutions may accept private flood insurance policies that do not meet the B-W Act's criteria for mandatory acceptance, provided certain conditions are met, including that the policy (1) provides coverage in the amount required by the flood insurance purchase requirement, (2) is issued by an insurer that is licensed, admitted, or not disapproved by a state insurance regulator, (3) covers both lenders and borrowers as loss payees, and (4) provides sufficient protection of the loan consistent with general safety and soundness principles, which is documented in writing.

Furthermore, the final rule allows lending institutions to accept certain flood coverages provided by mutual aid societies as long as certain conditions are met, including a determination by an institution's primary supervisory

agency that such policies meet the requirement for flood insurance for purposes of federal flood insurance legislation.

Home Mortgage Disclosure Act

In April 2019, the FDIC and other FFIEC members issued a revised version of *A Guide to HMDA Reporting: Getting It Right*. The 2019 edition applies to 2019 HMDA data reported in 2020 and includes a summary of the EGRRCPA amendments to HMDA and the 2018 HMDA rule. The guide was designed to help financial institutions better understand the HMDA requirements, including data collection and reporting provisions.

Consumer Compliance Supervisory Highlights

The inaugural issue of the *FDIC Consumer Compliance Supervisory Highlights* was released in June 2019. The purpose of this publication is to enhance transparency regarding the FDIC's consumer compliance supervisory activities. The publication includes a high-level overview of consumer compliance issues identified during 2018 through the FDIC's supervision of state non-member banks and thrifts. Additionally, this issue features articles of interest to examiners, bankers, and supervisors. It provides examples that may be useful in mitigating risks and serves as a resource for supervised institutions to help stay up-to-date on issues identified during examinations.

Transparency and Accountability Report

The first annual *Transparency and Accountability Report* was published in spring 2019. This report highlights the public outreach activities of the Consumer Response Center and Deposit Insurance section. It details consumer contacts about deposit insurance coverage and account-titling specifics. It also references summary data on the various consumer contacts about operating financial institutions under FDIC jurisdiction. The report focuses on the public interactions along with providing educational insight to the public.

Additionally, metrics on requests from the public for FDIC assistance are updated and published monthly on the FDIC's Transparency and Accountability webpage (<https://www.fdic.gov/transparency/consumers.html>). Included on the webpage is the volume of public inquiries and the timeliness in responding to those requests.

⁴ 84 FR 4953 (Feb. 20, 2019).

Updated Examination Procedures

Updated examination procedures were communicated through revisions to the *FDIC Consumer Compliance Examination Manual* that is publicly available on the FDIC’s website, including procedures on:

- ◆ **Interagency Home Mortgage Disclosure Act Examination Procedures:** These procedures incorporate amendments to HMDA made by the EGRRCPA, the 2018 HMDA rule, and amendments to Regulation C made by CFPB’s final rules issued in 2015 and 2017. The procedures also incorporate the FFIEC HMDA Examiner Transaction Testing Guidelines.
- ◆ **Loans in Areas Having Special Flood Hazards:** These procedures reflect statutory and regulatory amendments made by the B-W Act and the agency’s final rule on private flood insurance, including provisions pertaining to the mandatory and discretionary acceptance of private flood insurance by financial institutions, and the qualification and acceptance of mutual aid society plans in satisfaction of the flood insurance purchase requirement.
- ◆ **Protecting Tenants at Foreclosure Act:** These procedures address the permanent reinstatement of the Protecting Tenants at Foreclosure Act (PTFA) due to the enactment of the EGRRCPA. Examiners will use the procedures in assessing the quality of an institution’s compliance management system regarding the PTFA, including notice requirements and the timing of eviction.
- ◆ **Fair Lending Scope and Conclusions Memorandum:** Sections and questions of the memorandum were revised to reflect changes to pre-examination interview questions and information requests made during the examination planning process.
- ◆ **Consumer Compliance Examinations and Third-Party Risk:** These sections were updated to add information on the Interagency Statement Clarifying the Role of Guidance and make minor conforming technical changes.
- ◆ **Truth in Lending Act and Electronic Fund Transfer Act:** These chapters were updated to incorporate the CFPB’s amendments to Regulation E and Regulation Z related to Prepaid Accounts, effective April 1, 2019. Subsequently, the FDIC adopted the revised interagency examination procedures to incorporate these amendments.

Community and Small Business Development and Affordable Mortgage Lending

As of December 31, 2019, the FDIC engaged with banks and community organizations through more than 230 outreach events. These events increased shared knowledge and supported collaboration between financial institutions and other community, housing, and small business development resources.

The FDIC’s work emphasized sharing information to support bank efforts to prudently provide affordable mortgages, small business credit, and access to SAFE accounts and financial education. As part of this effort, the FDIC launched the Affordable Mortgage Lending Center in 2016, a website (<https://www.fdic.gov/consumers/community/mortgagelending>) that houses various resources, including the *Affordable Mortgage Lending Guide*, a three-part guide designed to help community banks identify affordable mortgage products. The Affordable Mortgage Lending Center had more than 19,497 subscribers as of December 31, 2019. Materials from the center have been downloaded more than 15,600 times, and the site has had more than 82,000 page views since its inception.

In addition, the FDIC sponsored sessions with the FRB and OCC covering basic and advanced CRA training for banks. The agencies also offered basic CRA training for community-based organizations as well as seminars on establishing effective bank and community collaborations. The FDIC also focused on encouraging community development initiatives in rural communities. This work included workshops to highlight housing needs and programs, economic development programs, and community development financial institution collaborations, such as those serving Native American communities. The FDIC Community Affairs Branch and SBA Office of Entrepreneurial Development signed a MOU in April 2019 to continue efforts focused on small business. As of December 31, 2019, the FDIC sponsored 69 small business events and activities with more than 1,500 attendees.

Advancing Financial Education

Effective financial education helps people gain the skills and confidence necessary to establish and sustain a banking relationship, achieve financial goals, and improve

financial well-being. Through *Money Smart*, the FDIC offers non-copyrighted, high-quality, free financial education resources for banks, community organizations, and other stakeholders to train people of all ages and small businesses. First launched in 2001 as an instructor-led curriculum for adults, it now features materials to train people of all ages. Regular updates ensure that *Money Smart* benefits from user feedback and current instructional best practices. The FDIC helps organizations effectively use the curriculum, including through the Money Smart Alliance, which facilitates quarterly webinars for the more than 1,400 member organizations.

Youth Financial Education

The FDIC released an enhanced *Money Smart for Young People* curriculum in December 2019, providing updated tools to engage educators, parents, and young people in the financial education process. The curriculum now benefits from insights that we received from 26 educators who taught 83 sessions using *Money Smart for Young People* as part of a special project in 2018. In addition, as part of our ongoing collaboration with the CFPB, the curriculum helps educators identify opportunities to use some of the CFPB's Building Blocks Activities, which the CFPB developed through research to help promote lifelong learning and financial skills development.

Money Smart for Older Adults

The CFPB and the FDIC also released an updated Spanish-language version of the *Money Smart for Older Adults* curriculum. Its goal is to help prevent elder financial exploitation by raising awareness of fraud and scams among older adults and their caregivers. *Money Smart for Older Adults* also encourages advance planning and informed financial decision-making. The updates provide new information and resources to help older adults and their caregivers recognize and prevent fraud, scams, and other types of financial exploitation. More than one million copies of the curriculum have been ordered in English or Spanish since its original release in 2013.

Recognizing the impact of *Money Smart for Older Adults*, the American Society on Aging honored the curriculum with the 2019 Gloria Cavanaugh Award for Excellence in Training and Education. The award is presented to an individual or program that has demonstrated continued excellence in training and education in the field of aging. One non-profit in Texas that regularly uses

Money Smart for Older Adults provided feedback from dozens of participants who offered comments such as, “[t]his course was a lifesaver for me,” “[n]o other place that I know of to get all this information,” “the information helped to initiate conversations with friends who may be unaware of steps to take care for themselves,” and “the information opened my eyes to things I was not aware of.”

Money Smart for Adults

The FDIC expanded the reach of the updated *Money Smart for Adults*, which was released in late 2018, through several enhancements in response to requests by users. Updated curricula were released in Chinese, Korean, Spanish, and Vietnamese. The Financial Industry Regulatory Authority (FINRA) also reviewed the curriculum and confirmed its consistency with FINRA standards, a step pursued in response to feedback to make it easier for FINRA-regulated entities to conduct educational workshops with the curriculum.

A self-paced online learning game, “*How Money Smart Are You?*” is set for release in 2020. Using a gameshow format, the new product will allow people to build their financial skills and knowledge at their own pace, with an option to receive certificates of completion. The website for the new game will also include a financial glossary, frequently asked questions, and fillable tools to augment financial knowledge. Insights from users in targeted audiences of adults with low- to moderate-incomes have helped improve the product, as field testing of draft games was conducted in Phoenix, Arizona; Atlanta, Georgia; Bethesda, Maryland; Columbus, Ohio; and at the World Institute on Disability in Berkeley, California.

Money Smart for Small Business

Money Smart for Small Business is a product developed jointly by the FDIC and the SBA. For several months, the SBA and FDIC worked with other federal agencies; entrepreneurs; and small business training, counseling, and lending organizations, including financial institutions, to update the Banking Services and Credit Building modules. The purpose of the revision was to address important information gaps identified by entrepreneurs and organizations serving small businesses and to provide practical tools to enhance the learning experience, such as the addition of a case study, checklists, a more attractive graphic design, and other useful features.

Money Smart Outreach

During 2019, more than 4,000 prospective trainers were trained on how to use *Money Smart*, including representatives of banks, Volunteer Income Tax Assistance program sites, nonprofit program managers, and others. For example, the FDIC collaborated with a national bank to deliver two *Money Smart* webinar training sessions for more than 300 bank employees on *Money Smart for Adults* so that they can effectively use it throughout the communities they serve.

The FDIC leads the Money Smart Alliance to scale promising practices through periodic webinars and facilitate collaboration between members. More than 327 organizations joined the Alliance during 2019, bringing the total number of members to 1,409. One example of how Alliance members use Money Smart includes the University of Wyoming Extension's use of *Money Smart for Adults* with its Master Money Manager Coach initiative to help financially at-risk individuals improve their financial situation across Wyoming. Another example involves a community bank in Pennsylvania collaborating with a non-profit organization to provide *Money Smart for Adults* training to non-violent offenders finishing jail sentences. This program offers to connect the participants with appropriate basic banking services, which assists with their reintegration into society.

The FDIC also builds the capacity of organizations to use *Money Smart* through *Money Smart News*, a publication for financial educators to provide updates and ideas for implementation. For example, the publication highlighted Bank On South Alabama, a group of financial institutions, community groups, and government entities that promotes greater bank account access. Partnering financial institutions and their employees volunteer to help nonprofits bring the *Money Smart* program to their clients in shelters, substance abuse centers, and other locations. As an example, once a week for five weeks, bankers taught *Money Smart* to students participating in a summer youth program. These sessions helped people who might not otherwise have had an opportunity to engage with a bank to learn about finances and how to open a bank account. Another *Money Smart News* article highlighted one bank's advice for other trainers based on its experience having conducted 1,000 *Money Smart* workshops during the previous year.

Money Smart News also highlighted the 75 banks in the Youth Banking Network that continued to share ideas and approaches on how to better connect financial education to savings accounts for school-aged children. This diverse set of banks includes those with assets just over \$50 million to those with assets over \$350 billion, with a mix of banks operating in rural, suburban, and urban areas. The banks are at various stages, ranging from those building an internal business case for pursuing youth savings collaboration to banks with well-established programs that are seeking to expand them in scope or quality. One bank in the Network shared that its financial education efforts have resulted in about \$130 million of new deposits for the bank from adults and youth.

FDIC staff encourage financial education to be used as a tool for other work. For example, the FDIC and the CFPB cohosted the "Building Collaboration between Financial Institutions and Law Enforcement to Prevent and Address Elder Financial Abuse" webinar on July 25, 2019, drawing more than 4,300 registrations. During the presentation, *Money Smart for Older Adults* was promoted as a tool to foster local collaboration and education, and feedback after the session from banks confirmed examples of its use. Moreover, the FDIC participated in a Twitter event hosted by the Federal Emergency Management Agency (FEMA) during Financial Capability Month. The chat had more than 36 million potential impressions. Furthermore, the *Money Smart* website was also redesigned to improve the user experience, including new videos. The *Money Smart* related webpages had more than 250,000 views during the year.

In addition to *Money Smart*, the FDIC's *Consumer News* is a monthly, digital educational publication that provides practical guidance on how to become a smarter and safer user of financial services. There were 13 issues published online in 2019, including an extra, special edition issue in February for America Saves Week. The FDIC is also adding Consumer Resource Guides, which are plain language educational materials to explain how banking regulations impact consumers. Consumers can also take advantage of the FDIC Information and Support Center's searchable Knowledge Center at <https://ask.fdic.gov/fdicinformationandsupportcenter/s/public-information>, where they can search for topics of interest and recent news stories.

Partnerships for Access to Mainstream Banking

The FDIC supported community development and economic inclusion partnerships at the local level by providing technical assistance and information resources throughout the country, with a focus on unbanked and underbanked households and low- and moderate-income communities. Community Affairs staff support economic inclusion through work with the Alliances for Economic Inclusion (AEI), Bank On initiatives, and other coalitions originated by local and state governments, and in collaboration with federal partners and many local and national non-profit organizations. The FDIC also partners with other financial regulatory agencies to provide information and technical assistance on community development to banks and community leaders across the country.

In the 12 AEI communities and in other areas, the FDIC helped working groups of bankers and community leaders develop responses to the financial capability and services needs in their communities. To integrate financial capability into community services more effectively, the FDIC supported seminars and training sessions for community service providers and asset-building organizations, workshops for financial coaches and counselors, promotion of savings opportunities for low- and moderate-income people and communities, initiatives to expand access to savings accounts for all ages, outreach to bring larger numbers of people to expanded tax preparation assistance sites, and education for business owners to help them become bankable.

The FDIC conducted three forums in Spanish in Los Angeles and San Jose, California and Reno, Nevada to inform and educate banks, and identify local stakeholders to support community efforts to improve financial resiliency of the Spanish-speaking community. Additionally, the FDIC provided how-to guidance in establishing an in-school bank branch at a Native American Asset Building Conference in Niagara Falls, New York.

The FDIC supports coalitions working on access and use of SAFE and affordable accounts nationwide. In 2019, Community Affairs staff provided technical assistance to 35 Bank On coalitions to promote banking access. Specifically, the FDIC convened 20 outreach

events engaging 515 representatives from banks, local governments, and community organizations to help them understand opportunities and to advance strategies to expand access to SAFE and affordable deposit accounts and engage unbanked and underbanked consumers.

As of December 31, 2019, the FDIC hosted more than 54 events that provided opportunities for partners to collaborate on increasing access to bank accounts and credit services, opportunities to build savings and improve credit histories, and initiatives to significantly strengthen the financial capability of community service providers that directly serve consumers with low or moderate incomes and small businesses.

Consumer Complaints and Inquiries

The FDIC helps consumers by receiving, investigating, and responding to consumer complaints about FDIC-supervised institutions and answering inquiries about banking laws and regulations, FDIC operations, and other related topics. In addition, the FDIC provides analytical reports and information on complaint data for internal and external use, and conducts outreach activities to educate consumers.

The FDIC recognizes that consumer complaints and inquiries play an important role in the development of strong public and supervisory policy. Assessing and resolving these matters helps the agency identify trends or problems affecting consumer rights, understand the public perception of consumer protection issues, formulate policy that aids consumers, and foster confidence in the banking system by educating consumers about the protection they receive under certain consumer protection laws and regulations.

Consumer Complaints by Topic and Issue

The FDIC receives complaints and inquiries by telephone, fax, U.S. mail, e-mail, and online through the FDIC's website. In 2019, the FDIC handled 18,401 written and telephonic complaints and inquiries. Of the 12,943 involving written correspondence, 5,253 were referred to other agencies and 7,690 were handled by the FDIC. The FDIC responded to 99 percent of written complaints within time frames established by corporate policy, and acknowledged 100 percent of all consumer complaints and inquiries within 14 days. As part of the complaint

and inquiry handling process, the FDIC works with the other federal financial regulatory agencies to ensure that complaints and inquiries are forwarded to the appropriate agencies for response. The FDIC carefully analyzes the topics and issues involved in complaints about FDIC-supervised institutions. The number of complaints received about a specific bank topic and issue can serve as a red flag to prompt further review of practices that may raise consumer protection or supervisory concerns.

In 2019, the four most frequently identified topics in consumer complaints and inquiries about FDIC-supervised institutions concerned checking accounts (24 percent), consumer/business credit cards (17 percent), consumer lines of credit/installment loans (14 percent), and residential real estate (9 percent). Issues most commonly cited in correspondence about checking accounts were concerns for refusing to provide service, the error resolution process for disputes, and account discrepancies or transaction errors. Consumer correspondence about credit cards most often raised issues regarding reporting of account information, billing disputes, and fees. Consumer loan complaints and inquiries most frequently described issues with reporting of account information, collection practices, and billing disputes. Correspondence regarding residential real estate related to disclosures, inaccurate appraisal reports, and foreclosure and modification issues.

The FDIC also investigated 51 Fair Lending complaints alleging discrimination during 2019. The number of discrimination complaints investigated has fluctuated over the past several years but averaged approximately 69 complaints per year between 2014 and 2019. Over this period, 48 percent of the issues identified in complaints investigated alleged discrimination based on the race, color, national origin, or ethnicity of the applicant or borrower; 14 percent involved the sex of the applicant or borrower; 13 percent related to discrimination allegations based on age; and 7 percent concerned handicap.

Consumer refunds generally involve the financial institution offering a voluntary credit to the consumer's account, often as a direct result of complaint investigations and identification of a banking error or violation of law. Through December 2019, consumers received more than \$412,426 in refunds from financial institutions as a result of the assistance provided by the FDIC's Consumer Response Center.

FAILURE RESOLUTION AND RECEIVERSHIP MANAGEMENT

The FDIC has the unique mission of protecting depositors of insured banks and savings associations. No depositor has ever experienced a loss on the insured amount of his or her deposits in an FDIC-insured institution due to a failure. When an institution closes, its chartering authority—the state for state-chartered institutions and the OCC for national banks and federal savings associations—typically appoints the FDIC as receiver, responsible for resolving the failed institution.

The FDIC employs a variety of strategies and business practices to resolve a failed institution. These strategies and practices are typically associated with either the resolution process or the receivership process. Depending on the characteristics of the institution, the FDIC may utilize several of these methods to ensure the prompt and smooth payment of deposit insurance to insured depositors, to minimize the impact on the DIF, and to speed dividend payments to uninsured depositors and other creditors of the failed institution.

The resolution process involves evaluating and marketing a failing institution, soliciting and accepting bids for the sale of the institution, determining which bid (if any) is least costly to the DIF, and working with the acquiring institution through the closing process.

To minimize disruption to the local community, the resolution process must be performed as quickly and efficiently as possible. The FDIC uses two basic resolution methods: purchase and assumption transactions and deposit payoffs.

The purchase and assumption (P&A) transaction is the most commonly used resolution method. Typically, in a P&A transaction, a healthy institution purchases certain assets and assumes certain liabilities of the failed institution, including the option of acquiring either all deposits or only the insured portion. Because each failing bank situation is different, P&A transactions provide flexibility to structure resolution transactions that result in obtaining the highest value for the failed institution. For example, a P&A transaction could include a shared-loss feature, in which the FDIC as receiver agrees to share losses on certain assets with the acquirer for a specified period of time (e.g., five to 10 years). The FDIC used shared-loss P&A transactions extensively during periods

of economic distress, when asset values became highly uncertain. Shared-loss P&A transactions have not been offered since 2013; however, the FDIC continues to monitor agreements that remain in place. At year-end 2019, there were 59 receiverships with active shared-loss agreements. Total assets covered by shared-loss agreements were reduced by \$5.4 billion to \$4.2 billion.

Financial Institution Failures

During 2019, there were four institution failures, compared to no failures in 2018. In all four transactions, the FDIC successfully contacted all known, qualified, and interested bidders to market these institutions, and all depositors had access to insured funds within one business day.

Further, 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 past three years.

FAILURE ACTIVITY			
Dollars in Billions			
	2019	2018	2017
Total Institutions	4	0	8
Total Assets of Failed Institutions*	\$0.2	\$0.0	\$5.1
Total Deposits of Failed Institutions*	\$0.2	\$0.0	\$4.7
Estimated Loss to the DIF	\$0.03	\$0.0	\$1.2

*Total assets and total deposits data are based on the last quarterly report filed by the institution prior to failure.

Asset Management and Sales

As part of its resolution process, the FDIC tries to sell as many assets as possible to an assuming institution. Assets that are retained by the receivership are promptly valued and liquidated in order to maximize the return to the receivership estate. During 2019, for 95 percent of failed institutions, at least 90 percent of the book value of marketable assets was marketed for sale within 90 days of an institution's failure for cash sales, and within 120 days for structured sales.

Cash sales of all assets for 2019 totaled \$482 million in book value.

As a result of the FDIC's marketing and collection efforts, the book value of assets in inventory decreased by \$654 million (56 percent) in 2019. Total assets in liquidation have not been lower than \$1 billion since April 2008.

The following chart shows the beginning and ending balances of these assets by asset type.

ASSETS-IN-LIQUIDATION INVENTORY			
BY ASSET TYPE			
Dollars in Millions			
Asset Type	12/31/19	12/31/18	12/31/17
Securities	\$10	\$50	\$160
Consumer Loans	0	0	8
Commercial Loans	1	34	50
Real Estate Mortgages	19	67	139
Other Assets/Judgments	44	151	260
Owned Assets	3	3	47
Net Investments in Subsidiaries	31	19	157
Structured and Securitized Assets	416	854	1,449
TOTAL	\$524	\$1,178	\$2,271

Receivership Management Activities

The FDIC, as receiver, manages failed insured depository institutions and oversees 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. Assets remaining after resolution are liquidated by the FDIC in an orderly manner, and the proceeds are used to pay receivership claimants, including depositors whose accounts exceeded the insurance limit. During 2019, receiverships paid dividends of \$1.2 million to depositors whose accounts exceeded the insurance limit.

Once the assets of a failed institution have been sold and its liabilities extinguished, the final distribution of any proceeds is made, and the FDIC terminates the receivership. In 2019, the total number of active receiverships under management decreased by 28 (10 percent) to 248. Further, the FDIC terminated more than 75 percent of new receiverships within three years of the date of failure.

The following chart shows overall receivership activity for the FDIC in 2019.

RECEIVERSHIP ACTIVITY	
Active Receiverships as of 12/31/18	272
New Receiverships	4
Receiverships Terminated	28
Active Receiverships as of 12/31/19	248

Professional Liability and Financial Crimes Recoveries

The FDIC investigates bank failures to identify potential claims against directors, officers, securities underwriters and issuers, fidelity bond insurance carriers, appraisers, attorneys, accountants, mortgage loan brokers, title insurance companies, and other professionals who may have caused losses to insured depository institutions and FDIC receiverships. The FDIC will pursue meritorious claims that are expected to be cost-effective.

During 2019, the FDIC recovered \$626.4 million from professional liability claims and settlements. The FDIC authorized one professional liability lawsuit during 2019. As of December 31, 2019, the FDIC’s caseload included 11 professional liability lawsuits (down from 21 at year-end 2018), eight residential mortgage malpractice and fraud lawsuits (down from nine), and open investigations in 51 claim areas out of nine institutions. The FDIC completed investigations and made decisions on 91 percent of the investigations related to failures that reached the 18-month point after the institution’s failure date in 2019, thereby exceeding its annual performance target.

As part of the sentencing process, for those convicted of criminal wrongdoing against an insured institution that later failed, a court may order a defendant to pay restitution or to forfeit funds or property to the receivership. The FDIC, working with the U.S. Department of Justice in connection with criminal restitution and forfeiture orders issued by federal courts and independently in connection with restitution orders issued by the state courts, collected \$9.96 million in 2019. As of December 31, 2019, there were 2,187 active restitution and forfeiture orders (decreased from 2,346 at year-end 2018). This includes 56 orders held by the Federal Savings and Loan Insurance Corporation (FSLIC)

Resolution Fund (i.e., orders arising out of failed financial institutions that were in receivership or conservatorship by the FSLIC or the Resolution Trust Corporation).

INFORMATION TECHNOLOGY

Information technology (IT) is an essential component in virtually all FDIC business processes. This integration with the business provides opportunities for efficiencies but also requires an awareness of potential risks. In 2019, the Chief Information Officer Organization (CIOO) focused its efforts on managing information security risk, strengthening infrastructure resiliency, and modernizing FDIC applications and systems to support the FDIC’s business processes and key stakeholders.

Managing Information Security Risk

The FDIC’s information security program is integral to the agency’s ability to carry out its mission of maintaining stability and public confidence in the nation’s financial system.

The FDIC continues to strengthen its information security functions in accordance with the Federal Information Security Modernization Act of 2014 (FISMA) and in alignment with the standards and guidance provided by the National Institute of Standards and Technology (NIST). For example, in 2019 the FDIC:

- ◆ Continued progress towards optimizing the Security Operations Center (SOC) including implementation of new capabilities to monitor and analyze network traffic and cloud usage for indications of information security risk;
- ◆ Implemented a Privacy Continuous Monitoring (PCM) strategy, which strengthens privacy controls and facilitates ongoing privacy reviews to ensure personally identifiable information (PII) is effectively managed and protected;
- ◆ Enhanced monitoring capabilities over platforms supporting core business functions consistent with leading risk management practices for information security;
- ◆ Updated and published 34 System of Record Notices (SORNs) in the *Federal Register* and implemented delegation of SORN publication authority to align with federal guidance; and

- ◆ Introduced new policies and procedures for patching, risk assessments, remediation plans, and firewall and network security to further strengthen information security and privacy risk management.

Information Security continues to be a top management priority at the FDIC.

Strengthening Infrastructure Resiliency

The FDIC must be able to provide and maintain an acceptable level of service in the face of threats and challenges to normal computer and network operations. Threats and challenges for services can range from simple misconfigurations to unforeseen large-scale natural disasters or targeted attacks. The FDIC works to ensure that its infrastructure can anticipate, absorb, adapt to, and/or rapidly recover from a potentially disruptive event.

To continue to support a resilient and effective infrastructure, in 2019, the FDIC executed a comprehensive initiative to expand and enhance its existing disaster recovery and business continuity capabilities. The FDIC's efforts were particularly focused on ensuring that designated IT systems and applications that support mission-essential functions could be recovered within targeted timeframes. As part of this multi-year project, the FDIC completed the migration of key IT systems and applications to a new and larger backup data center (BDC). This effort strengthens resiliency by extending geographic proximity of the FDIC's BDC from its primary data center. The new facility introduced new security capabilities including enterprise logging and expanded data loss prevention.

Additional enhancements include rapid restoration (failover) of mission-critical business applications. Automated foundational restoration processes minimize manual intervention, and equipment is maintained in a higher availability mode to enable faster restoration. As a result, the FDIC is better positioned to preempt and rapidly recover from an outage or threat. The CIOO completed a test of failover functionality in October 2019 that identified lessons that will continue to strengthen the BDC.

The FDIC also implemented a Resiliency and Performance Improvement Project to improve resiliency and performance of its IT infrastructure. The project allows faster restoration of network services and is part of the series of controls in place to support effective disaster recovery.

Modernizing IT and Enhancing Data Governance

The FDIC is committed to promoting efficient operations, treating data as a strategic asset, and providing IT resources that support its workforce and improve the FDIC's engagement with regulated institutions. To meet these key needs, in 2019 the FDIC:

- ◆ Developed and began implementing a comprehensive integrated five-year *IT Modernization Plan* to support several business drivers including Bank Supervision Modernization, Financial Crisis Preparedness, and the treatment of data as a corporate resource. The *IT Modernization Plan* supports a cost-effective, agile technology environment that fosters business innovation and efficiencies.
- ◆ Completed an Enterprise Architecture Target statement that outlines the basis for developing the FDIC's future IT environment in order to guide IT decision-making and support the FDIC in executing its mission.
- ◆ Launched a Cloud Technology Migration Modernization project and migrated applications for two of the Corporation's Divisions (Division of Resolutions and Receiverships and the Division of Insurance and Research).
- ◆ Launched an Enterprise Data Governance Initiative to provide strategic direction on the FDIC's data strategy, where trusted data are easily used and securely shared to support the FDIC's mission.
- ◆ Created a new Chief Data Officer position to provide strategic leadership to the FDIC's data strategy.

DIVERSITY AND INCLUSION

Consistent with the provisions of the Dodd-Frank Act, the FDIC maintains its commitment to provide diversity and inclusion in employment opportunities and all business areas of the FDIC. The Office of Minority and Women Inclusion (OMWI) supports the FDIC's mission through outreach efforts to ensure the fair inclusion and utilization of minority- and women-owned businesses (MWOBs), law firms (MWOLFs), and investors in contracting and investment opportunities. OMWI is also responsible for assessing the diversity policies and practices of FDIC-regulated financial institutions.

The *FDIC Diversity and Inclusion (D&I) Strategic Plan* is evaluated and updated regularly and delineates strategies to promote workforce and workplace inclusion and sustainability of diversity and inclusion efforts. The D&I Executive Advisory Council (EAC) oversees the plan's implementation and promotes the coordination and awareness of diversity and inclusion initiatives as an FDIC priority. Additionally, employees provide input on these efforts by serving on the regional and headquarters Chairman's Diversity Advisory Councils or joining one of the nine Employee Resource Groups.

Minority- and Women-Owned Business Outreach

OMWI's outreach efforts also ensure the fair inclusion and utilization of MWOBs, MWOLFs, and investors in contracting and investment opportunities. In 2019, the FDIC awarded 152 (29.3 percent) contracts to MWOBs out of a total of 518 issued. The FDIC awarded contracts with a combined value of \$554.0 million in 2019, of which 31.3 percent (\$173.5 million) were awarded to MWOBs, compared to 24.5 percent for all of 2018. The FDIC paid \$98.3 million of its total contract payments (21.1 percent) to MWOBs, under 287 MWOB contracts.

In 2019, the FDIC participated in a total of 18 business expos, one-on-one matchmaking sessions, and panel presentations. At these events, FDIC staff provided information and responded to inquiries regarding FDIC business opportunities for minorities and women. In addition to targeting MWOBs, these efforts also targeted veteran-owned and small disadvantaged businesses. Vendors were provided with the FDIC's general contracting procedures, prime contractors' contact information, and forecasts of possible upcoming solicitations. Also, vendors were encouraged to register through the FDIC's Contractor Resource List (the principal database for vendors interested in doing business with the FDIC).

On December 5, 2019, the FDIC and the other OMWI agencies partnered with the Minority Business Development Agency and the Northern Virginia Procurement Technical Assistance Center to host the "Connections That Count" technical assistance event in Arlington, Virginia. Technical assistance events are designed to provide information, resources, and tools to MWOBs in order to build and expand their federal

contracting opportunities. It is also a forum for MWOBs to network with representatives from various sources of business assistance, as well as OMWI representatives. In addition, the sponsoring agencies and various procurement trade organizations exhibited at the event.

Minority- and Women-Owned Law Firm Outreach

The Legal Division's legal contracting program endeavors to maximize the participation of both minority- and women-owned law firms (MWOLFs), minority and women partners, and associates employed at majority owned firms (Diverse Attorneys). This approach is consistent with Section 342 of the Dodd-Frank Act that encourages diversity and inclusion at all levels. For both MWOLFs and Diverse Attorneys, FDIC legal matters provide important learning and professional client development opportunities that can be quite meaningful to career advancement. For 2019, the Legal Division had an aggregate 34.0 percent diversity and inclusion participation rate in legal contracting as set forth below.

The FDIC made 20 referrals to MWOLFs, which accounted for 32.2 percent of all legal referrals. Total payments to MWOLFs were \$3.4 million in 2019, which is 10.7 percent of all payments to outside counsel, compared to 7.7 percent for all of 2018. In 2019, Diverse Attorneys earned \$7.4 million in legal fees, which is 23.3 percent of all payments to outside counsel. Taken together, FDIC paid \$10.8 million to MWOLF firms and Diverse Attorneys out of a total of \$31.7 million dollars spent on outside counsel services in 2019. This number represents 34.0 percent of total outside counsel fees, which is a significant increase from 2018, in which there was a 27.5 percent aggregate participation rate, despite the steep decline in overall outside counsel spending.

The keystone of the Legal Division diversity and inclusion outreach is the FDIC's partnerships with minority bar associations and specialized stakeholder organizations. In 2019, the FDIC Legal Division participated in seven minority bar association conferences and three stakeholder events in support of maximizing the participation of MWOLFs and Diverse Attorneys in FDIC legal contracting. The Legal Division divided its stakeholder event participation into events concentrating on outreach to MWOLF firms and focusing on outreach to Diverse Attorneys who work at majority owned law firms.

In 2019, National Association of Minority and Women Owned Law Firms again formally recognized the FDIC in a press release as a principal member of, and major contributor to, its Inclusion Initiative, a collaborative program among law departments of major corporations designed to increase the participation of MWOLF firms in legal contracting. The FDIC participates in the Inclusion Initiative along with major corporations.

The Legal Division understands the value of integrating FDIC in-house counsel in its legal contracting diversity and inclusion. Also in 2019, the Legal Division presented a Legal Contracting Diversity and Inclusion Workshop for the closed bank oversight attorneys at the Dallas Regional Office. These attorneys are responsible for assigning work to outside counsel. The program included a review of the prior year's legal contracting statistics, planned projects, question and answers, and the solicitation of ideas from the attorneys for improving the selection and retention of outside counsel.

Pursuant to Section 342 of the Dodd-Frank Act, which requires an assessment of legal contractors' internal workforce diversity practices, the Legal Division conducted 12 compliance reviews of the top-billing law firms (both non-minority-owned and MWOLFs). The reviews included questions that focused on associate and partner recruitment, retention rates of minority and women associates and partners, and partnership offers to minority and women attorneys working on FDIC legal matters. The reviews are instrumental in gathering diversity data for ongoing monitoring efforts as well as the exchange of ideas to enhance diversity initiatives.

In addition to the outreach efforts noted above, the Legal Division continues to provide technical assistance to other related government agencies on developing MWOLF outreach programs that mirror the FDIC's program. The Legal Division evaluated and approved three new MWOLF applications in 2019. Firms from various geographic areas were added to the FDIC List of Counsel Available in order to be eligible to receive legal contracting work.

Financial Institution Diversity

The FDIC's Financial Institution Diversity program is responsible for assessing the diversity policies and practices of FDIC-regulated financial institutions. The FDIC OMWI worked closely with the OMWIs from the OCC,

FRB, CFPB, NCUA, SEC, and the Department of the Treasury to further implement Section 342(b)(2)(C) of the Dodd-Frank Act, which required the agencies to develop standards to assess the diversity policies and practices of the entities they regulate. After publishing Joint Standards in 2015, the FDIC developed a diversity self-assessment instrument to assist FDIC-regulated financial institutions in systematically assessing their diversity programs.

The FDIC began collecting voluntary self-assessments from its regulated financial institutions in 2017. The FDIC received 95 of 805 (11.8 percent) self-assessments in 2017 for the 2016 reporting period. In 2018, the FDIC received 137 of 820 (16.7 percent) self-assessments from its regulated institutions for the 2017 reporting period. In 2019, the FDIC received 133 of 784 (17 percent) self-assessments from its regulated institutions for the 2018 reporting period. OMWI analyzed the self-assessment responses for the 2016 – 2018 reporting periods and posted this analysis on its internal and external websites.

OMWI hosted an outreach event on October 24, 2019, jointly with the other OMWI agencies for their respective regulated entities. The event was entitled "Financial Regulatory Agencies Diversity Summit" and was held in Chicago, Illinois. Additionally, on November 20, 2019, the FDIC participated in a webinar hosted by the American Bankers Association titled, "What Bankers Need to Know about the Diversity Self-Assessment." Both events focused on the value of conducting voluntary self-assessments, annually submitting assessment results to OMWI Directors, and making diversity information transparent to the public. The OMWI agencies also outlined how the self-assessments will be used to identify leading trends and establish benchmarks that will assist financial institutions in assessing and enhancing their diversity programs.

Information related to diversity and inclusion at the FDIC can be found at www.fdic.gov/about/diversity.

INTERNATIONAL OUTREACH

The FDIC continues to play a leading role in supporting the global development of deposit insurance, bank supervision, and bank resolution systems. This included working closely with regulatory and supervisory authorities from around the world, as well as international standard-setting bodies and multilateral organizations, such as the International Association of Deposit Insurers (IADI),

the Association of Supervisors of Banks of the Americas (ASBA), the Basel Committee on Banking Supervision (BCBS), the Financial Stability Board (FSB), the International Monetary Fund (IMF), and the World Bank. The FDIC engaged with foreign regulatory counterparts by hosting visiting officials, conducting training seminars, delivering technical assistance abroad, and fulfilling the commitments of FDIC membership in international organizations. The FDIC also advanced policy objectives with key jurisdictions by participating in high-level interagency dialogues.

International Association of Deposit Insurers

FDIC officials and subject matter experts provided continuing support for IADI programs in 2019. This included chairing IADI's Training and Conference Technical Committee, which provided support for developing and facilitating technical assistance workshops for the African, European, Eurasian, Asia-Pacific, Caribbean, North American, and Latin American regions of IADI. The FDIC also chaired IADI's Differential Premium Systems Technical Committee, which is drafting a paper evaluating the effectiveness of differential deposit insurance premium systems. The FDIC also participated in reviews of IADI members' self-assessments of compliance with the *Core Principles*. The FDIC assisted in the development of IADI's Biennial Research Conference, which provides a forum for researchers and deposit insurance and bank resolution practitioners to meet to discuss issues facing deposit insurers. It also assisted in development of the annual conference for officials and senior management of deposit insurance authorities in conjunction with the IADI Annual General Meeting. Led and supported by FDIC executives and senior staff, IADI technical assistance and training activities reached approximately 500 participants during 2019.

Association of Supervisors of Banks of the Americas

Senior FDIC staff chaired the ASBA Training and Technical Committee in 2019, which designs and implements ASBA's training strategy, promoting the adoption of sound banking supervision policies and practices among its members. The training program reached more than 500 member participants in 2019.

Basel Committee on Banking Supervision

The FDIC supports and contributes to the development of international standards, guidelines, and sound

practices for prudential regulation and supervision of banks through its longstanding membership in BCBS. The contribution includes actively participating in many of the committee groups, working groups, and task forces established by BCBS to carry out its work, which focused on policy development, supervision and implementation, macroprudential supervision, accounting, and consultation.

International Capacity Building

During the year, the FDIC provided direct assistance to many foreign organizations through the provision of technical expertise. These engagements included providing staff experts to provide training in bank resolution and planning for the European Union's Single Resolution Board, assisting the Serbia Deposit Insurance Agency in developing its target fund model, and assisting the IMF in Manila, Philippines. The FDIC also hosted more than 147 visiting regulators and other government officials from 34 countries during the year. Two sessions of "FDIC 101: An Introduction to Deposit Insurance, Bank Supervision, and Resolutions," a structured learning program for senior foreign officials, were offered in 2019 and attended by 56 participants from more than 38 organizations. The FDIC piloted a new two-week training program called "The Bank Resolution Experience," which is an in-depth training on the FDIC's resolution functions designed to educate staff-level practitioners from foreign counterparts with resolution authority. The pilot was attended by 22 participants from 15 organizations. The FDIC's Corporate University also makes supervisory courses available to foreign participants and trained 89 students this year.

EFFECTIVE MANAGEMENT OF STRATEGIC RESOURCES

The FDIC recognizes that it must effectively manage its human, financial, and technological resources to successfully carry out its mission and meet the performance goals and targets set forth in its annual performance plan. The FDIC must align these strategic resources with its mission and goals and deploy them where they are most needed to enhance its operational effectiveness and minimize potential financial risks to the DIF. Following are the FDIC's major accomplishments in improving operational efficiency and effectiveness during 2019.

Human Capital Management

The FDIC's human capital management programs are designed to attract, train, develop, reward, and retain a highly skilled, diverse, and results-oriented workforce. In 2019, the FDIC workforce planning initiatives emphasized the need to plan for employees to fulfill current and future capability and leadership needs. This focus ensures that the FDIC has a workforce positioned to meet today's core responsibilities and prepared to fulfill its mission in the years ahead.

Strategic Workforce Planning and Readiness

The FDIC understands that succession planning is critical to ensure that gaps in employee aspiration, engagement, and readiness for senior leadership positions are addressed. The FDIC dedicates resources to strengthen and expand its internal pipeline of employees who aspire to higher-level positions, have the necessary leadership and technical skills, and are prepared to assume future leadership roles.

The FDIC conducted succession planning survey research that established a baseline of career aspirations, engagement, and readiness of corporate graded (CG) 12-15 employees for mission-critical leadership positions. In 2019, this baseline was used to inform FDIC's career development planning strategies and broader workforce planning strategies and investments. In addition, the baseline is being used to inform individual Divisions as they plan and implement succession planning activities tailored to meet their Divisions' unique workforce needs.

During the past few years, the FDIC has witnessed an uptick of retirements in management and leadership positions, requiring a greater emphasis on knowledge transfer and long-term succession planning. To ensure that these critical skills are sustained, the FDIC is developing new career paths that encompass emerging skills, while offering leadership training and career development opportunities designed to increase the internal candidate pool of potential leaders at all levels. The FDIC is also undertaking innovative approaches to attract and retain entry-level examiners with specialty and emerging skillsets.

Through these efforts, the FDIC workforce will be even better positioned to respond to dynamic financial and technological challenges, now and in the future.

Examiner Recruiting, Hiring, and Training

From 2005 through 2019, the FDIC's Corporate Employee Program (CEP) sponsored the development of newly-hired Financial Institution Specialists (FIS) in entry-level positions. During the first-year rotation within the program, FISs gained experience and knowledge in the core business of the FDIC and then were placed within RMS or DCP, where they continued their career path to become commissioned examiners. More than 1,050 employees have become commissioned examiners after successfully completing the program's requirements.

In an effort to make the examination processes and procedures more efficient and effective, evaluate the training and commissioning processes, promote diversity and engagement, and ensure that the vast institutional knowledge held by examiners today is passed on to future examiners, newly hired FISs now will be assigned directly into a discipline: risk management or consumer protection. After a centralized orientation, newly-hired FISs will experience task-based, on-the-job training while working toward commission.

Employee Learning and Development

The FDIC is committed to training and developing its employees throughout their careers to enhance technical proficiency and leadership capacity, supporting career progression and succession management. The FDIC is in the midst of modernizing learning and development, including expanding virtual and online offerings, integrating modern learning technology, and modernizing the training center. The FDIC develops and implements comprehensive curricula for its business lines to prepare employees to meet new challenges. Such training, offered



Corporate University Associate Professor Dr. Alphonzo Moseley, right, leads a roundtable discussion on the FDIC's leadership development program for first-line supervisors.

via a range of delivery modes, positions the FDIC's Corporate University to be a virtual university with a physical presence.

Employees working to become commissioned examiners or resolutions and receiverships specialists attend a prescribed set of specialized, internally developed and instructed courses. Post-commission, employees continue to further their knowledge in specialty areas with more advanced courses. The FDIC is revising examiner classroom training to better support on-the-job application and is developing resolution and receivership training to support readiness and compliance training and converting instructor led courses to web-based training.

The FDIC also offers a comprehensive leadership development program that combines core courses, electives, and other enrichment opportunities to develop employees at all levels. From new employees to new executives, the FDIC provides employees with targeted opportunities that align with key leadership competencies. In addition to a broad array of internally developed and administered courses, the FDIC provides its employees with funds to participate in external training to support their career development.

Employee Engagement

The FDIC continually evaluates its human capital programs and strategies to ensure that it remains an employer of choice, and that all of its employees are fully engaged and aligned with the mission. The FDIC uses the Federal Employee Viewpoint Survey mandated by Congress to solicit information from employees, and takes an agency-wide approach to address key issues identified in the survey. The FDIC consistently scores highly in all categories of the Partnership for Public Service *Best Places to Work in the Federal Government*[®] list for mid-size federal



Photo credit: Partnership for Public Service

Internal Ombudsman Robert Harris and Deputy to the Chairman and Chief Financial Officer Bret Edwards receive the award for one of the Best Places to Work in the Federal Government for mid-sized federal agencies from Max Stier, President and CEO of Partnership for Public Service.

agencies. In 2019, the FDIC was recognized for the tenth consecutive year as one of the top federal agencies. Effective leadership is the primary factor driving employee satisfaction and commitment in the federal workplace, according to a report by the Partnership for Public Service.

The FDIC engages employees through formal mechanisms such as the TEAM (Transparency, Empowerment, Accountability, Mission) FDIC initiative that empowers employees to identify and implement short-term projects that positively impact the FDIC workplace and support the FDIC's mission; Chairman's Diversity Advisory Councils; and Employee Resource Groups; and informally through working groups, team discussions, and daily employee-supervisor interactions. Employee engagement plays an important role in empowering employees and helps maintain, enhance, and institutionalize a positive workplace environment.

II.



PERFORMANCE RESULTS SUMMARY

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SUMMARY OF 2019 PERFORMANCE RESULTS BY PROGRAM

The FDIC successfully achieved 48 of the 49 annual performance targets established in its *2019 Annual Performance Plan*. One target was not achieved, which involved a final rulemaking regarding a liquidity standard. There were no instances in which 2019 performance had a material adverse effect on the successful achievement of the FDIC's mission or its strategic goals and objectives regarding its major program responsibilities.

PERFORMANCE RESULTS BY PROGRAM AND STRATEGIC GOAL

2019 INSURANCE PROGRAM RESULTS

Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
1	Respond promptly to all IDI closings and related emerging issues.	Number of business days after an institution failure that depositors have access to insured funds.	Depositors have access to insured funds within one business day if the failure occurs on a Friday.	ACHIEVED. SEE PG. 45.
		Insured depositor losses resulting from a financial institution failure.	Depositors have access to insured funds within two business days if the failure occurs on any other day of the week.	ACHIEVED. SEE PG. 45.
			Depositors do not incur any losses on insured deposits.	ACHIEVED. SEE PG. 45.
			No appropriated funds are required to pay insured depositors.	ACHIEVED. SEE PG. 45.
2	Disseminate data and analyses on issues and risks affecting the financial services industry to bankers, supervisors, the public, and other stakeholders on an ongoing basis.	Scope and timeliness of information dissemination on identified or potential issues and risks.	Disseminate results of research and analyses in a timely manner through regular publications, ad hoc reports, and other means.	ACHIEVED. SEE PGS. 28-31.
			Undertake industry outreach activities to inform bankers and other stakeholders about current trends, concerns, available resources, and FDIC performance metrics.	ACHIEVED. SEE PGS. 28-31.

2019 INSURANCE PROGRAM RESULTS (continued)

Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
3	Monitor the status of the DIF reserve ratio and analyze the factors that affect fund growth. Adjust assessment rates, as necessary.	Updated fund balance projections and recommended changes to assessment rates, as necessary.	Provide updated fund balance projections to the FDIC Board of Directors semiannually.	ACHIEVED. SEE PGS. 15-16.
			Recommend changes to deposit insurance assessment rates to the FDIC Board of Directors as necessary.	ACHIEVED. SEE PGS. 15-16.
4	Expand and strengthen the FDIC's participation and leadership role in supporting robust and effective deposit insurance programs, resolution strategies, and banking systems worldwide.	Activities to expand and strengthen engagement with strategically important foreign jurisdictions and key international organizations and associations, and to advance the FDIC's global leadership and participation on deposit insurance, institution supervision, resolution practices and international financial safety net issues.	Foster strong relationships with international banking regulators, deposit insurers, and other relevant authorities by engaging with strategically important jurisdictions and organizations on international financial safety net issues.	ACHIEVED. SEE PGS. 49-50.
			Provide leadership and expertise to key international organizations and associations that promote sound deposit insurance and effective bank supervision and resolution practices.	ACHIEVED. SEE PGS. 49-50.
		Provision of technical assistance and training to foreign counterparts.	Promote international standards and expertise in financial regulatory practices and stability through the provision of technical assistance and training to global financial system authorities.	ACHIEVED. SEE PGS. 49-50.
5	Ensure timely consideration and efficient processing of <i>de novo</i> deposit insurance applications.	Updated policies, procedures, and guidance.	Conduct six regional roundtable discussions to explain and solicit feedback on the <i>de novo</i> application process, and implement additional changes, as appropriate, based on that feedback.	ACHIEVED. SEE PGS. 32-33.
			Ensure the <i>de novo</i> deposit insurance application process is streamlined and transparent.	ACHIEVED. SEE PGS. 32-33.

2019 INSURANCE PROGRAM RESULTS (continued)

Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
6	Market failing institutions to all known qualified and interested potential bidders.	Scope of qualified and interested bidders solicited.	Contact all known qualified and interested bidders.	ACHIEVED. SEE PG. 45.
7	Provide educational information to IDIs and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts.	Timeliness of responses to deposit insurance coverage inquiries. Initiatives to increase public awareness of deposit insurance coverage changes.	Respond within two weeks to 95 percent of written inquiries from consumers and bankers about FDIC deposit insurance coverage. Conduct at least four telephone or in-person seminars for bankers on deposit insurance coverage.	ACHIEVED. SEE PG. 39. ACHIEVED SEE PGS. 38-39.

2019 SUPERVISION PROGRAM RESULTS

Strategic Goal: FDIC-insured institutions are safe and sound.

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
1	Conduct on-site risk management examinations to assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions. When problems are identified, promptly implement appropriate corrective programs and follow up to ensure that identified problems are corrected.	Percentage of required examinations conducted in accordance with statutory requirements and FDIC policy.	Conduct all required risk management examinations within the timeframes prescribed by statute and FDIC policy.	ACHIEVED. SEE PG.16.
		Follow-up actions on identified problems.	For at least 90 percent of IDIs that are assigned a composite CAMELS rating of 2 and for which the examination report identifies “Matters Requiring Board Attention” (MRBAs), review progress reports and follow up with the institution within six months of the issuance of the examination report to ensure that all MRBAs are being addressed.	ACHIEVED. SEE PGS. 17-18.
2	Assist in protecting the infrastructure of the U.S. banking system against terrorist financing, money laundering, and other financial crimes.	Percentage of required examinations conducted in accordance with statutory requirements and FDIC policy.	Conduct all BSA examinations within the timeframes prescribed by statute and FDIC policy.	ACHIEVED. SEE PG. 16.

2019 SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: FDIC-insured institutions are safe and sound.

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
3	Establish regulatory capital standards that ensure institutions have sufficient loss-absorbing capacity to remain resilient under stress while reducing complexity and maximizing efficiency.	Simplification of capital standards for community banks.	Complete, by September 30, 2019, rulemaking for a community bank leverage ratio and conforming changes to the deposit insurance assessment process.	ACHIEVED. SEE PG. 27.
			Finalize aspects of the interagency capital simplification proposal issued in September 2017, including changes to the regulatory capital treatment of mortgage servicing assets, deferred tax assets, investment in the capital instruments of other financial institutions, and minority interest.	ACHIEVED. SEE PG. 26.
			Issue interagency final rules to adopt the statutory definition of high volatility commercial real estate for risk based capital.	ACHIEVED. SEE PGS. 27-28.
		U.S. implementation of internationally agreed regulatory standards.	Reevaluate and take appropriate actions on Basel III requirements for small banks that do not meet or are not eligible for the community bank leverage ratio.	ACHIEVED. SEE PG. 26.
			Issue a final rule, by December 31, 2019, to implement the Net Stable Funding Ratio (NSFR).	NOT ACHIEVED. SEE PG. 26.
		Implementation of other changes to capital requirements directed by the Congress.	Issue interagency final rules to tailor capital requirements for large financial institutions.	ACHIEVED. SEE PGS. 25-26.
			Issue interagency rulemaking to remove certain central bank deposits from the denominator of the supplementary leverage ratio for custodial banks.	ACHIEVED. SEE PG. 27.

2019 SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: FDIC-insured institutions are safe and sound.

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
4	Implement strategies to promote enhanced cybersecurity and business continuity within the banking industry.	Enhance the cybersecurity awareness and preparedness of the banking industry.	Continue to conduct horizontal reviews that focus on the IT risks in large and complex supervised institutions and in technology service providers.	ACHIEVED. SEE PGS. 19-20.
			Continue to use the Cybersecurity Examination Program for the most significant service provider examinations.	ACHIEVED. SEE PGS. 19-20.
			Improve the analysis and sharing of cybersecurity-related threat information with financial institutions.	ACHIEVED. SEE PGS. 19-20.

2019 SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: Consumers' rights are protected, and FDIC-supervised institutions invest in their communities.

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
1	Conduct on-site CRA and consumer compliance examinations to assess compliance with applicable laws and regulations by FDIC-supervised institutions. When violations are identified, promptly implement appropriate corrective programs and follow up to ensure that identified problems are corrected.	Percentage of examinations conducted in accordance with the timeframes prescribed by FDIC policy.	Conduct all required examinations within the timeframes established.	ACHIEVED. SEE PG. 18.
		Implementation of corrective programs.	Conduct visits and/or follow-up examinations in accordance with established FDIC processes to ensure that the requirements of any corrective program have been implemented and are effectively addressing identified violations.	ACHIEVED. SEE PG. 18.
2	Effectively investigate and respond to written consumer complaints and inquiries about FDIC-supervised financial institutions.	Timely responses to written consumer complaints and inquiries.	Respond to 95 percent of written consumer complaints and inquiries within timeframes established by policy, with all complaints and inquiries receiving at least an initial acknowledgement within two weeks.	ACHIEVED. SEE PGS. 43-44.
		Public availability of information on consumer complaints.	Publish, through the Consumer Response Center (CRC), an annual report regarding the nature of the FDIC's interactions with consumers and depositors.	ACHIEVED. SEE PG. 39.
			Publish, on the FDIC's website, and regularly update metrics on requests from the public for FDIC assistance.	ACHIEVED. SEE PG. 39.

2019 SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: Consumers' rights are protected, and FDIC-supervised institutions invest in their communities.

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
3	Promote economic inclusion and access to responsible financial services through supervisory, research, policy, and consumer/community affairs initiatives.	Completion of planned initiatives.	Administer <i>the 2019 Survey of the Unbanked and Underbanked Households</i> .	ACHIEVED. SEE PG. 38.
			Conduct outreach to institutions and the public to expand the availability and usage of low-cost transaction accounts tailored to the needs of unbanked and underbanked households.	ACHIEVED. SEE PGS. 37-38.
			Expand the reach of the new <i>Money Smart</i> for Adults through online resources, translating the curriculum into other languages, and outreach.	ACHIEVED. SEE PG. 41.
			Strengthen connections between small businesses and FDIC-insured institutions.	ACHIEVED. SEE PG. 40.
			Increase engagement and collaboration with, and provide support for, Minority Depository Institutions (MDIs).	ACHIEVED. SEE PGS. 21-23.

2019 SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: Large and complex financial institutions are resolvable under the Bankruptcy Code.

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
1	Identify and address risks in large, complex financial institutions, including those designated as systemically important.	Rulemaking for resolution planning requirements.	Complete interagency rulemaking with the FRB to tailor application of resolution planning requirements under Section 165(d) of the Dodd-Frank Act.	ACHIEVED. SEE PG. 34.
Issue an ANPR to tailor and make adjustments to the FDIC's resolution planning requirements for IDIs.			ACHIEVED. SEE PG. 35.	
Compliance with the statutory and regulatory requirements under Title I of the Dodd-Frank Act and Section 360.10 of the FDIC Rules and Regulations.		In collaboration with the FRB, review all resolution plans subject to the requirements of Section 165(d) of Dodd-Frank Act to ensure their conformance to statutory and other regulatory requirements. Identify and provide feedback to firms on potential impediments in those plans to resolution under the Bankruptcy Code.	ACHIEVED. SEE PG. 35.	
Review resolution plans subject to the requirements of Section 360.10 of the Insured Depository Institutions (IDI) Rule to ensure their conformance to other regulatory requirements.		ACHIEVED. SEE PG. 35.		
Risk monitoring of large, complex financial institutions, bank holding companies, and designated nonbanking firms.		Conduct ongoing risk analysis and monitoring of large, complex financial institutions to understand and assess their structure, business activities, risk profiles, and resolution and recovery plans.	ACHIEVED. SEE PGS. 35-36.	

2019 RECEIVERSHIP MANAGEMENT PROGRAM RESULTS

Strategic Goal: Resolutions are orderly and receiverships are managed effectively.

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
1	Value, manage, and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return.	Percentage of the assets marketed for each failed institution.	For at least 95 percent of insured institution failures, market at least 90 percent of the book value of the institution's marketable assets within 90 days of the failure date (for cash sales) and within 120 days of the date that the pool of similar assets is of sufficient size to bring to market (for structured sales).	ACHIEVED. SEE PG. 45.
2	Manage the receivership estate and its subsidiaries toward an orderly termination.	Timely termination of new receiverships.	Terminate at least 75 percent of new receiverships that are not subject to loss-share agreements, structured sales, or other legal impediments within three years of the date of failure.	ACHIEVED. SEE PG. 45.
3	Conduct investigations into all potential professional liability claim areas for all failed IDIs and decide as promptly as possible to close or pursue each claim, considering the size and complexity of the institution.	Percentage of investigated claim areas for which a decision has been made to close or pursue the claim.	For 80 percent of all claim areas, make a decision to close or pursue professional liability claims within 18 months of the failure of an insured depository institution.	ACHIEVED. SEE PG. 46.
4	Ensure the FDIC's operational readiness to administer the resolution of large financial institutions, including those designated as systemically important.	Refinement of resolution plans and strategies.	Continue to refine plans to ensure the FDIC's operational readiness to administer the resolution of large, complex financial institutions.	ACHIEVED. SEE PG. 36.
		Continued cross-border coordination and cooperation in resolution planning.	Continue to deepen and strengthen bilateral working relationships with key foreign jurisdictions, both on a bilateral basis and through multilateral fora.	ACHIEVED. SEE PGS. 36-37.

PRIOR YEARS' PERFORMANCE RESULTS

Refer to the respective full Annual Report of prior years, located on the FDIC's website for more information on performance results for those years. Shaded areas indicate no such target existed for that respective year.

INSURANCE PROGRAM RESULTS

Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.

ANNUAL PERFORMANCE GOALS AND TARGETS	2018	2017	2016	2015	2014
1. Respond promptly to all insured financial institution closings and related emerging issues.					
◆ Depositors have access to insured funds within one business day if the failure occurs on a Friday.	N/A – NO FAILURES.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
◆ Depositors have access to insured funds within two business days if the failure occurs on any other day of the week.	N/A – NO FAILURES.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
◆ Depositors do not incur any losses on insured deposits.	N/A – NO FAILURES.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
◆ No appropriated funds are required to pay insured depositors.	N/A – NO FAILURES.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
2. Disseminate data and analyses on issues and risks affecting the financial services industry to bankers, supervisors, the public, and other stakeholders on an ongoing basis.					
◆ Disseminate results of research and analyses in a timely manner through regular publications, ad hoc reports, and other means.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
◆ Undertake industry outreach activities to inform bankers and other stakeholders about current trends, concerns, and other available FDIC resources.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
3. Adjust assessment rates, as necessary, to achieve a DIF reserve ratio of at least 1.35 percent of estimated insured deposits by September 30, 2020.					
◆ Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2018, and December 31, 2018.	ACHIEVED.				
◆ Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2017, and December 31, 2017.		ACHIEVED.			
◆ Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2016, and December 31, 2016.			ACHIEVED.		
◆ Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2015, and December 31, 2015.				ACHIEVED.	

INSURANCE PROGRAM RESULTS (continued)

Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.

Annual Performance Goals and Targets	2018	2017	2016	2015	2014
◆ Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2014, and December 31, 2014.					ACHIEVED.
◆ Provide progress reports to the FDIC Board of Directors by June 30, 2018, and December 31, 2018.	ACHIEVED.				
◆ Provide progress reports to the FDIC Board of Directors by June 30, 2017, and December 31, 2017.		ACHIEVED.			
◆ Provide progress reports to the FDIC Board of Directors by June 30, 2016, and December 31, 2016.			ACHIEVED.		
◆ Provide progress reports to the FDIC Board of Directors by June 30, 2015, and December 31, 2015.				ACHIEVED.	
◆ Provide progress reports to the FDIC Board of Directors by June 30, 2014, and December 31, 2014.					ACHIEVED.
◆ Recommend changes to deposit insurance assessment rates to the FDIC Board of Directors as necessary.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
4. Expand and strengthen the FDIC's participation and leadership role in supporting robust and effective deposit insurance programs, resolution strategies, and banking systems worldwide.					
◆ Foster strong relationships with international banking regulators, deposit insurers, and other relevant authorities by engaging with strategically important jurisdictions and organizations on international financial safety net issues.	ACHIEVED.	ACHIEVED.	ACHIEVED.		
◆ Provide leadership and expertise to key international organizations and associations that promote sound deposit insurance and effective bank supervision and resolution practices.	ACHIEVED.	ACHIEVED.			
◆ Promote international standards and expertise in financial regulatory practices and stability through the provision of technical assistance and training to global financial system authorities.	ACHIEVED.	ACHIEVED.			
◆ Continue to play leadership roles within key international organizations and associations and promote sound deposit insurance, bank supervision, and resolution practices.			ACHIEVED.		
◆ Promote continued enhancement of international standards and expertise in financial regulatory practices and stability through the provision of technical assistance and training to global financial system authorities.			ACHIEVED.		

INSURANCE PROGRAM RESULTS (continued)

Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.

Annual Performance Goals and Targets	2018	2017	2016	2015	2014
◆ Develop and foster closer relationships with bank supervisors in the reviews through the provision of technical assistance and by leading governance efforts in the Association of Supervisors of Banks of the Americas (ASBA).			ACHIEVED.		
◆ Maintain open dialogue with counterparts in strategically important jurisdictions, international financial organizations and institutions, and partner U.S. agencies; and actively participate in bilateral interagency regulatory dialogues.				ACHIEVED.	
◆ Maintain open dialogue with counterparts in strategically important jurisdictions, international financial organizations and institutions, and partner U.S. agencies.					ACHIEVED.
◆ Maintain a leadership position in the International Association of Deposit Insurers (IADI) by conducting workshops and performing assessments of deposit insurance systems based on the methodology for assessment of compliance with the IADI <i>Core Principles for Effective Deposit Insurance Systems (Core Principles)</i> , developing and conducting training on priority topics identified by IADI members, and actively participating in IADI's Executive Council and Standing Committees.				ACHIEVED.	ACHIEVED.
◆ Maintain open dialogue with the Association of Supervisors of Banks of the Americas (ASBA) to develop and foster relationships with bank supervisors in the region by providing assistance when necessary.				ACHIEVED.	
◆ Engage with authorities responsible for resolutions and resolutions planning in priority foreign jurisdictions and contribute to the resolution-related agenda of the Financial Stability Board (FSB) through active participation in the FSB's Resolution Steering Group (ReSG).				ACHIEVED.	
◆ Engage with authorities responsible for resolutions and resolutions planning in priority foreign jurisdictions.					ACHIEVED.
◆ Contribute to the resolution-related agenda of the Financial Stability Board (FSB) through active participation in the FSB's Resolution Steering Group and its working groups.					ACHIEVED.

INSURANCE PROGRAM RESULTS (continued)

Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.

Annual Performance Goals and Targets	2018	2017	2016	2015	2014
◆ Actively participate in bilateral interagency regulatory dialogues.					ACHIEVED.
◆ Support visits, study tours, secondments, and longer-term technical assistance and training programs for representatives for foreign jurisdictions to strengthen their deposit insurance organizations, central banks, bank supervisors, and resolution authorities.				ACHIEVED.	ACHIEVED.
5. Market failing institutions to all known qualified and interested potential bidders.					
◆ Contact all known qualified and interested bidders.	N/A – NO FAILURES.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
6. Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts.					
◆ Respond within two weeks to 95 percent of written inquiries from consumers and bankers about FDIC deposit insurance coverage.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
◆ Conduct at least four telephone or in-person seminars for bankers on deposit insurance coverage.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	
◆ Conduct at least 12 telephone or in-person seminars for bankers on deposit insurance coverage.					ACHIEVED.
◆ Complete and post on the FDIC website videos for bankers and consumers on deposit insurance coverage.				ACHIEVED.	

SUPERVISION PROGRAM RESULTS

Strategic Goal: FDIC-insured institutions are safe and sound.

ANNUAL PERFORMANCE GOALS AND TARGETS	2018	2017	2016	2015	2014
1. Conduct on-site risk management examinations to assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions. When problems are identified, promptly implement appropriate corrective programs, and follow up to ensure that identified problems are corrected.					
◆ Conduct all required risk management examinations within the time frames prescribed by statute and FDIC policy.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
◆ For at least 90 percent of institutions that are assigned a composite CAMELS rating of 2 and for which the examination report identifies “Matters Requiring Board Attention” (MRBAs), review progress reports and follow up with the institution within six months of the issuance of the examination report to ensure that all MRBAs are being addressed.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	
◆ Implement formal or informal enforcement actions within 60 days for at least 90 percent of all institutions that are newly downgraded to a composite Uniform Financial Institutions Rating of 3, 4, or 5.					SUBSTANTIAL- TIAL- LY ACHIEVED.
2. Assist in protecting the infrastructure of the U.S. banking system against terrorist financing, money laundering, and other financial crimes.					
◆ Conduct all Bank Secrecy Act examinations within the time frames prescribed by statute and FDIC policy.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
3. Ensure that regulatory capital standards promote banks’ resilience under stress and the confidence of their counterparties.					
◆ Finalize a Notice of Proposed Rulemaking (NPR) for a simplified risk-based capital framework for community banks.	NOT ACHIEVED.				
◆ Finalize the Basel III Net Stable Funding Ratio (NSFR).	NOT ACHIEVED.				

SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: FDIC-insured institutions are safe and sound.

Annual Performance Goals and Targets	2018	2017	2016	2015	2014
4. More closely align regulatory capital standards with risk and ensure that capital is maintained at prudential levels.					
◆ Issue a Notice of Proposed Rulemaking (NPR) for a simplified capital framework for community banks.		ACHIEVED.			
◆ Issue a final rule implementing the Basel III Net Stable Funding Ratio.		NOT ACHIEVED.			
◆ Publish in 2016, a Notice of (proposed) Rulemaking on the Basel III Net Stable Funding Ratio.			ACHIEVED.		
◆ Publish by December 31, 2015, an interagency Notice of Proposed Rulemaking on implementation of the Basel III Net Stable Funding Ratio.				NOT ACHIEVED.	
◆ Finalize Basel III reporting instructions in time to ensure that institutions that are using the advanced approaches can implement Basel III in the first quarter of 2014 and that all IDIs can implement the standardized approach in the first quarter of 2015.					ACHIEVED.
◆ Publish a final Basel Liquidity Coverage Rule, in collaboration with other regulators by December 31, 2014.					ACHIEVED.
◆ Publish a final rule implementing the Basel III capital accord in collaboration with other regulators, by December 31, 2014.					ACHIEVED.
◆ Finalize, in collaboration with other regulators, an enhanced U.S. supplementary leverage ratio standard by December 31, 2014.					ACHIEVED.
5. Implement strategies to promote enhanced information security, cybersecurity, and business continuity within the banking industry.					
◆ Continue implementation of a horizontal review program that focuses on the IT risks in large and complex supervised institutions and Technology Service Providers (TSPs).	ACHIEVED.	ACHIEVED.			
◆ Continue implementation of the Cybersecurity Examination Program for the most significant service provider examinations.	ACHIEVED.				
◆ Revise and implement by December 31, 2017, the Cybersecurity Examination Tool for TSPs.		ACHIEVED.			
◆ Establish a horizontal review program that focuses on the IT risks in large and complex supervised institutions and Technology Service providers (TSPs).			ACHIEVED.		

SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: FDIC-insured institutions are safe and sound.

Annual Performance Goals and Targets	2018	2017	2016	2015	2014
◆ Complete by June 30, 2016, examiner training and implement by September 30, 2016, the new IT examination work program to enhance focus on information security, cybersecurity, and business continuity.			ACHIEVED.		
◆ Enhance the technical expertise of the IT supervisory workforce.				ACHIEVED.	
◆ Working with FFIEC counterparts, update and strengthen IT guidance to the industry on cybersecurity preparedness.				ACHIEVED.	
◆ Working with the FFIEC counterparts, update and strengthen IT examination work programs for institutions and technology service providers (TSPs) to evaluate cybersecurity preparedness and cyber resiliency.				ACHIEVED.	
◆ Improve information sharing on identified technology risks among the IT examination workforces of FFIEC member agencies.				ACHIEVED.	
◆ In coordination with the FFIEC, implement recommendations to enhance the FDIC's supervision of the IT risks at insured depository institutions and their technology service providers.					ACHIEVED.
6. Identify and address risks in financial institutions designated as systemically important.					
◆ Conduct ongoing risk analysis and monitoring of SIFIs to understand their structure, business activities and risk profiles, and their resolution and recovery capabilities.					ACHIEVED.
◆ Complete, in collaboration with the Federal Reserve Board and in accordance with statutory and regulatory timeframes, all required actions associated with the review of resolution plans submitted by financial companies subject to the requirements of Section 165 (d) of the Dodd-Frank Act.					ACHIEVED.
◆ Hold at least one meeting of the Systemic Resolution Advisory Committee to obtain feedback on resolving SIFIs.					ACHIEVED.

SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: Consumers' rights are protected, and FDIC-supervised institutions invest in their communities.

ANNUAL PERFORMANCE GOALS AND TARGETS	2018	2017	2016	2015	2014
1. Conduct on-site CRA and consumer compliance examinations to assess compliance with applicable laws and regulations by FDIC-supervised depository institutions. When violations are identified, promptly implement appropriate corrective programs and follow up to ensure that identified problems are corrected.					
◆ Conduct all required examinations within the time frames established by FDIC policy.	SUBSTANTIALLY ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	
◆ Conduct visits and/or follow-up examinations in accordance with established FDIC policies to ensure that the requirements of any required corrective program have been implemented and are effectively addressing identified violations.	SUBSTANTIALLY ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
◆ Conduct 100 percent of required examinations within the time frames established by FDIC policy.					SUBSTANTIALLY ACHIEVED.
2. Effectively investigate and respond to written consumer complaints and inquiries about FDIC-supervised financial institutions.					
◆ Respond to 95 percent of written consumer complaints and inquiries within time frames established by policy, with all complaints and inquiries receiving at least an initial acknowledgment within two weeks.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
3. Promote economic inclusion and access to responsible financial services through supervisory, research, policy, and consumer/community affairs initiatives.					
◆ Publish the results of the <i>2017 FDIC National Survey of Unbanked and Underbanked Households</i> .	ACHIEVED.				
◆ Complete planning for the <i>2019 FDIC National Survey of Unbanked and Underbanked Households</i> .	ACHIEVED.				

SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: FDIC-insured institutions are safe and sound.

Annual Performance Goals and Targets	2018	2017	2016	2015	2014
◆ Continue to promote broader access to and use of low-cost transaction and savings accounts to build banking relationships that will meet the needs of unbanked and underbanked households by increasing the current level of engagement from 10 communities to 15 communities.	ACHIEVED.				
◆ Launch the revised <i>Money Smart for Adults</i> curriculum.	ACHIEVED.				
◆ Revise and administer the 2017 <i>FDIC National Survey of Unbanked and Underbanked Households</i> .		ACHIEVED.			
◆ Continue and expand efforts to promote broader awareness of the availability of low-cost transaction accounts consistent with the FDIC's Model SAFE transaction account template.		ACHIEVED.			
◆ Complete and pilot a revised, instructor-led <i>Money Smart for Adults</i> product.		ACHIEVED.			
◆ Publish the results of the 2015 <i>FDIC National Survey of Unbanked and Underbanked Household</i> .			ACHIEVED.		
◆ Complete and present to the Advisory Committee on Economic Inclusions (ComE-IN) a report on the pilot Youth Savings Program (YSP) conducted jointly with the CFPB.			ACHIEVED.		
◆ Revise, test, and administer the 2015 <i>FDIC National Survey of Unbanked and Underbanked Household</i> .				ACHIEVED.	
◆ Publish the results of the 2013 <i>FDIC National Survey of Unbanked and Underbanked Households</i> (conducted jointly with the U.S. Census Bureau).					ACHIEVED.
◆ Promote broader awareness of the availability of low-cost transaction accounts consistent with the FDIC's Model SAFE transaction account template.			ACHIEVED.		
◆ Support the Advisory Committee on Economic Inclusion in expanding the availability and awareness of low-cost transaction accounts, consistent with the FDIC's SAFE account template.				ACHIEVED.	
◆ Implement the strategy outlined in the work plan approved by the Advisory Committee on Economic Inclusion to support the expanded availability of SAFE accounts and the responsible use of technology, to expand banking services to the underbanked.					ACHIEVED.

SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: FDIC-insured institutions are safe and sound.

Annual Performance Goals and Targets	2018	2017	2016	2015	2014
<ul style="list-style-type: none"> ◆ In partnership with the Consumer Financial Protection Bureau, enhance financial capability among school-age children through (1) development and delivery of tailored financial education materials; (2) resources and outreach targeted to youth, parents, and teachers; and (3) implementation of a pilot youth savings program. 				ACHIEVED.	
<ul style="list-style-type: none"> ◆ Facilitate opportunities for banks and community stakeholders to address issues concerning access to financial services, community development, and financial education. 					ACHIEVED.

SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: Large and complex financial institutions are resolvable in an orderly manner under bankruptcy.

ANNUAL PERFORMANCE GOALS AND TARGETS	2018	2017	2016	2015	2014
1. Identify and address risks in large and complex financial institutions, including those designated as systemically important.					
◆ In collaboration with the FRB continue to review all resolution plans subject to the requirements of Section 165(d) of the DFA to ensure their conformance to statutory and other regulatory requirements. Identify potential impediments in those plans to resolution under the Bankruptcy Code.	ACHIEVED.	ACHIEVED.	ACHIEVED.		
◆ Continue to review all resolution plans subject to the requirements of Section 360.10 of the IDI rule to ensure their conformance to statutory and other regulatory requirements. Identify potential impediments to resolvability under the Federal Deposit Insurance (FDI) Act.	ACHIEVED.	ACHIEVED.	ACHIEVED.		
◆ Conduct ongoing risk analysis and monitoring of large, complex financial institutions to understand and assess their structure, business activities, risk profiles, and resolution and recovery plans.	ACHIEVED.	ACHIEVED.	ACHIEVED.		
◆ Conduct ongoing risk analysis and monitoring of large, complex financial institutions to understand and assess their structure, business activities, risk profiles, and resolution and recovery plans.				ACHIEVED.	
◆ Complete, in collaboration with the FRB and in accordance with statutory and regulatory time frames, a review of resolution plans submitted by individual financial companies subject to the requirements of section 165 (d) of DFA and Part 360.10 of the FDIC Rules and Regulations.				ACHIEVED.	

RECEIVERSHIP MANAGEMENT PROGRAM RESULTS

Strategic Goal: *Resolutions are orderly and receiverships are managed effectively.*

ANNUAL PERFORMANCE GOALS AND TARGETS	2018	2017	2016	2015	2014
1. Value, manage, and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return.					
<ul style="list-style-type: none"> ◆ For at least 95 percent of insured institution failures, market at least 90 percent of the book value of the institution's marketable assets within 90 days of the failure date (for cash sales) or 120 days of the date that the pool of similar assets is of sufficient size to bring to market (for structured sales). 	N/A – NO FAILURES.				
<ul style="list-style-type: none"> ◆ For at least 95 percent of insured institution failures, market at least 90 percent of the book value of the institution's marketable assets within 90 days of the failure date (for cash sales) or 120 days of the failure date (for structured sales). 		ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
2. Manage the receivership estate and its subsidiaries toward an orderly termination.					
<ul style="list-style-type: none"> ◆ Terminate at least 75 percent of new receiverships that are not subject to loss-share agreements, structured sales, or other legal impediments, within three years of the date of failure. 	N/A – NO FAILURES.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
3. Conduct investigations into all potential professional liability claim areas for all failed insured depository institutions, and decide as promptly as possible, to close or pursue each claim, considering the size and complexity of the institution.					
<ul style="list-style-type: none"> ◆ For 80 percent of all claim areas, make a decision to close or pursue professional liability claims within 18 months of the failure date of an insured depository institution. 	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
4. Ensure the FDIC's operational readiness to administer the resolution of large financial institutions, including those designated as systemically important.					
<ul style="list-style-type: none"> ◆ Continue to refine plans to ensure the FDIC's operational readiness to administer the resolution of large financial institutions under Title II of the DFA, including those nonbank financial companies designated as systemically important. 	ACHIEVED.	ACHIEVED.			
<ul style="list-style-type: none"> ◆ Refine plans to ensure the FDIC's operational readiness to administer the resolution of large financial institutions including those designated as systemically important. 			ACHIEVED.		

RECEIVERSHIP MANAGEMENT PROGRAM RESULTS (continued)

Strategic Goal: Resolutions are orderly and receiverships are managed effectively.

Annual Performance Goals and Targets	2018	2017	2016	2015	2014
◆ Continue to deepen and strengthen bilateral working relationships with key foreign jurisdictions.	ACHIEVED.	ACHIEVED.	ACHIEVED.		
◆ Hold a meeting of the Systemic Resolution Advisory Committee in early 2016 to obtain feedback on resolving SIFIs.			ACHIEVED.		
5. Ensure the FDIC's operational readiness to resolve a large, complex financial institution using the orderly liquidation authority in Title II of the DFA.					
◆ Update and refine firm-specific resolutions plans and strategies and develop operational procedures for the administration of a Title II receivership.				ACHIEVED.	
◆ Prepare for an early 2016 meeting of the Systemic Resolution Advisory Committee to obtain feedback on resolving SIFIs.				ACHIEVED.	
◆ Continue to deepen and strengthen bilateral working relationships with key foreign jurisdictions.			ACHIEVED.	ACHIEVED.	

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III.



FINANCIAL HIGHLIGHTS

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In its role as insurer of bank and savings association deposits, the FDIC promotes the safety and soundness of insured depository institutions. The following financial highlights address the performance of the Deposit Insurance Fund.

DEPOSIT INSURANCE FUND PERFORMANCE

The DIF balance was \$110.3 billion at December 31, 2019, an increase of \$7.7 billion from the year-end 2018 balance of \$102.6 billion. The DIF's comprehensive income totaled \$7.7 billion for 2019 compared to comprehensive income of \$9.9 billion during 2018. The \$2.2 billion year-over-year decrease was primarily due to a \$4.6 billion decrease in assessment revenue partially offset by a \$1.8 billion increase in interest and unrealized gains on U.S. Treasury securities.

Assessment revenue was \$4.9 billion for 2019, compared to \$9.5 billion for 2018. The \$4.6 billion year-over-year decrease was primarily due to the cessation of the surcharge assessment on large institutions effective October 1, 2018, as a result of the reserve ratio exceeding the required minimum of 1.35 percent as of September 30, 2018. In addition, assessment revenue was reduced in 2019 for actual and expected small bank assessment credit usage of \$704 million.

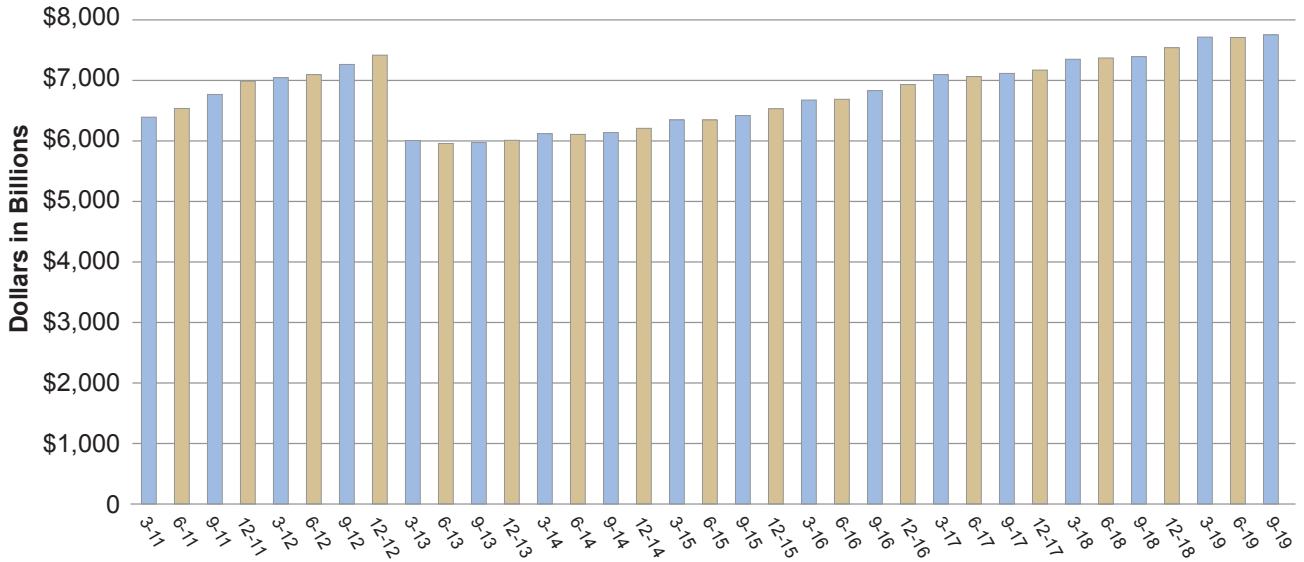
The DIF's interest revenue on U.S. Treasury securities for 2019 was \$2.1 billion, compared to \$1.6 billion in 2018. The \$484 million year-over-year increase resulted primarily from a steady growth in the investment portfolio balance.

In addition, the DIF recognized an unrealized gain on U.S. Treasury securities of \$1.2 billion, up from a \$136 million unrealized loss in 2018. The unrealized gain in 2019 was the result of yields declining across all maturity sectors of the Treasury yield curve, resulting in increases in the securities' market values relative to their book values.

The provision for insurance losses was a negative \$1.3 billion for 2019, compared to negative \$563 million for 2018. The negative provision for 2019 primarily resulted from a decrease to the estimated losses for prior year failures, attributable to: (1) a decrease in receivership shared-loss liability cost estimates of \$575 million primarily due to lower-than-anticipated losses on covered assets, reductions in shared-loss cost estimates from expirations and early terminations of shared-loss agreements during the year, and higher true-up recoveries (projected to be received at expiration if actual losses at expiration are lower than originally estimated); (2) \$465 million of unanticipated recoveries received by receiverships from litigation settlements and professional liability claims; and (3) a \$118 million reduction in future receivership expense estimates.

The DIF's cash, cash equivalents, and U.S. Treasury investment portfolio balances increased by \$7.6 billion during 2019 to \$106.1 billion at year-end 2019, from \$98.5 billion at year-end 2018. This increase was primarily due to assessment collections of \$5.1 billion, interest received on U.S. Treasury securities of \$2.0 billion, and recoveries from resolutions of \$1.7 billion, less operating expenses paid of \$1.7 billion.

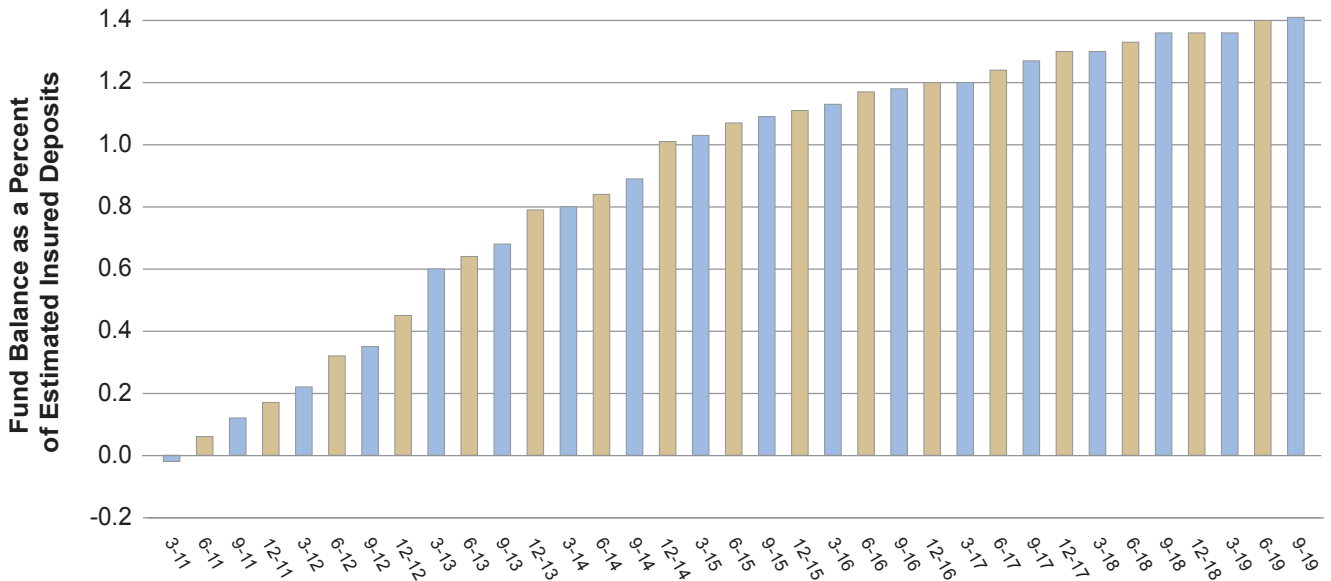
ESTIMATED DIF INSURED DEPOSITS



SOURCE: Commercial Bank Call and Thrift Financial Reports

Note: Beginning in fourth quarter 2010 through fourth quarter 2012, estimated insured deposits include the entire balance of noninterest-bearing transaction accounts.

DEPOSIT INSURANCE FUND RESERVE RATIOS



DEPOSIT INSURANCE FUND SELECTED STATISTICS

Dollars in Millions

For the years ended December 31

	2019	2018	2017
Financial Results			
Revenue	\$7,095	\$11,171	\$11,664
Operating Expenses	1,796	1,765	1,739
Insurance and Other Expenses (includes provision for losses)	(1,282)	(560)	(181)
Net Income	6,582	9,966	10,105
Comprehensive Income	7,738	9,861	9,586
Insurance Fund Balance	\$110,347	\$102,609	\$92,747
Fund as a Percentage of Insured Deposits (reserve ratio)	1.41% ¹	1.36%	1.30%
Selected Statistics			
Total DIF-Member Institutions ²	5,256 ¹	5,406	5,670
Problem Institutions	55 ¹	60	95
Total Assets of Problem Institutions	\$48,779 ¹	\$48,489	\$13,939
Institution Failures	4	0	8
Total Assets of Failed Institutions in Year ³	\$209	\$0	\$5,082
Number of Active Failed Institution Receiverships	248	272	338

¹ As of September 30, 2019.² Commercial banks and savings institutions. Does not include U.S. insured branches of foreign banks.³ Total Assets data are based upon the last Call Report filed by the institution prior to failure.

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IV.



BUDGET AND SPENDING

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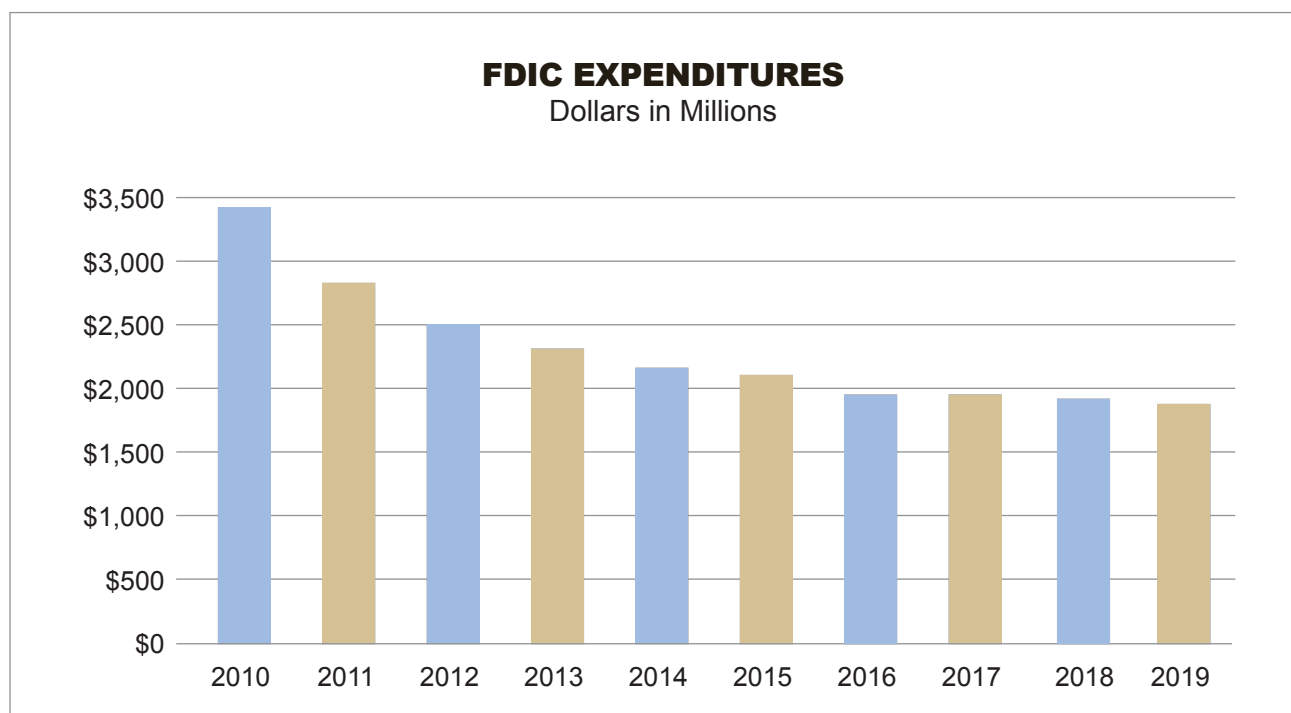
FDIC OPERATING BUDGET

The FDIC segregates its corporate operating budget and expenses into three discrete components: ongoing operations, receivership funding, and the Office of Inspector General (OIG). The receivership funding component represents expenses resulting from financial institution failures and is, therefore, largely driven by external forces and is less controllable and estimable. FDIC operating expenditures totaled \$1.9 billion in 2019, including \$1.8 billion in ongoing operations, \$75 million in receivership funding, and \$38 million for the OIG. This represented approximately 96 percent of the approved budget for ongoing operations, 43 percent of the approved budget for receivership funding, and 88 percent of the approved budget for the OIG for the year.

The approved 2020 FDIC Operating Budget of approximately \$2.0 billion consists of \$1.9 billion for ongoing operations, \$75 million for receivership funding,

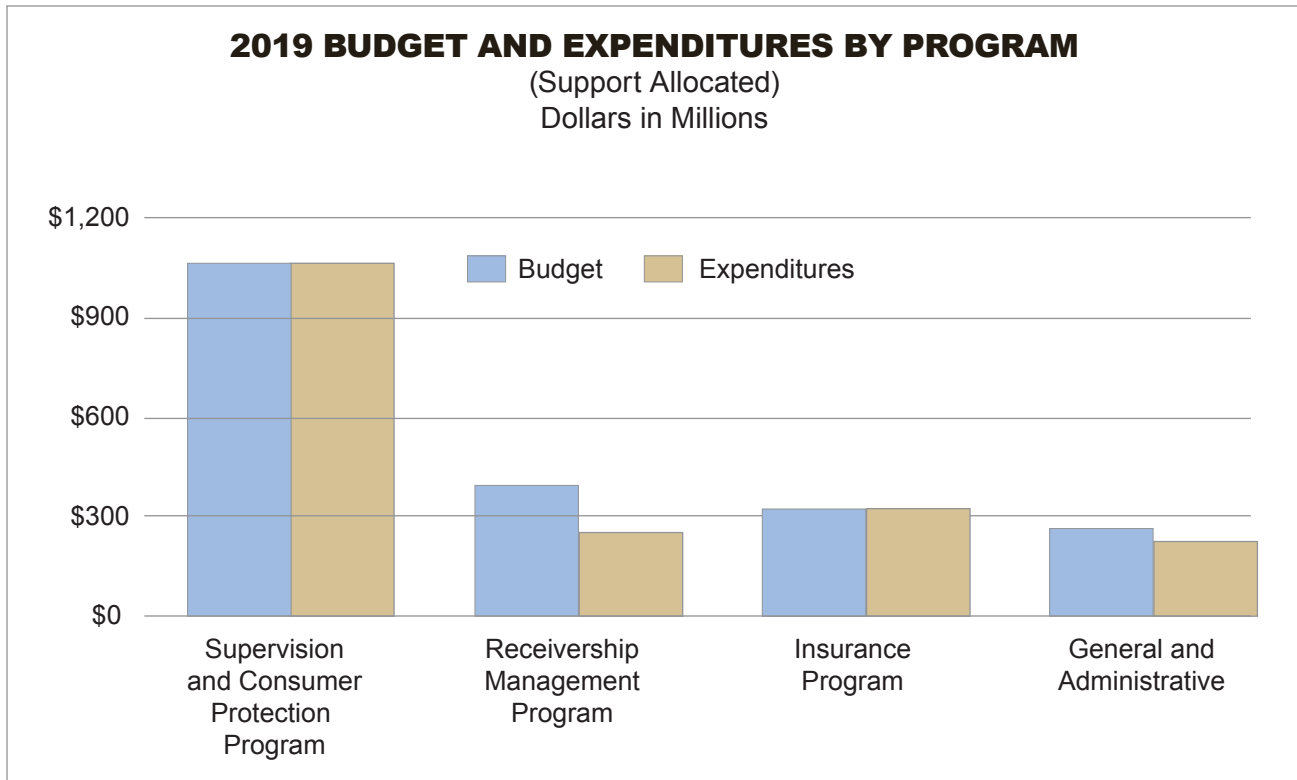
and \$43 million for the OIG. The level of approved ongoing operations budget for 2020 is approximately \$74 million (4.1 percent) higher than the 2019 ongoing operations budget, while the approved receivership funding budget is \$100 million (57 percent) lower than the 2019 receivership funding budget. The 2020 OIG budget is unchanged from the 2019 OIG budget.

As in prior years, the 2020 budget was formulated primarily on the basis of an analysis of projected workload for each of the FDIC’s three major business lines and its program support functions. The most significant factor contributing to the decrease in the FDIC Operating Budget is the improving health of the industry and the resultant reduction in failure related workload. Although savings in this area are being realized, the 2020 receivership funding budget provides resources for contractor support should workload in these areas require an immediate response.



The FDIC’s *Strategic Plan* and *Annual Performance Plan* provide the basis for annual planning and budgeting for needed resources. The 2019 aggregate budget (for ongoing operations, receivership funding, OIG, and investment spending) was \$2.04 billion, while actual expenditures for the year were \$1.86 billion, about \$34 million less than 2018 expenditures.

Over the past decade the FDIC’s expenditures have varied in response to workload. During the last several years, expenditures have fallen, largely due to decreasing resolution and receivership activity. To a lesser extent decreased expenses have resulted from supervision-related costs associated with the oversight of fewer troubled institutions.



2019 BUDGET AND EXPENDITURES BY PROGRAM

(Excluding Investments)

The FDIC budget for 2019 totaled approximately \$2.04 billion. Budget amounts were allocated as follows: \$1.06 billion, or 52 percent, to the Supervision and Consumer Protection program; \$394 million, or 19 percent, to the Receivership Management program; \$323 million, or 16 percent, to the Insurance program; and \$264 million,

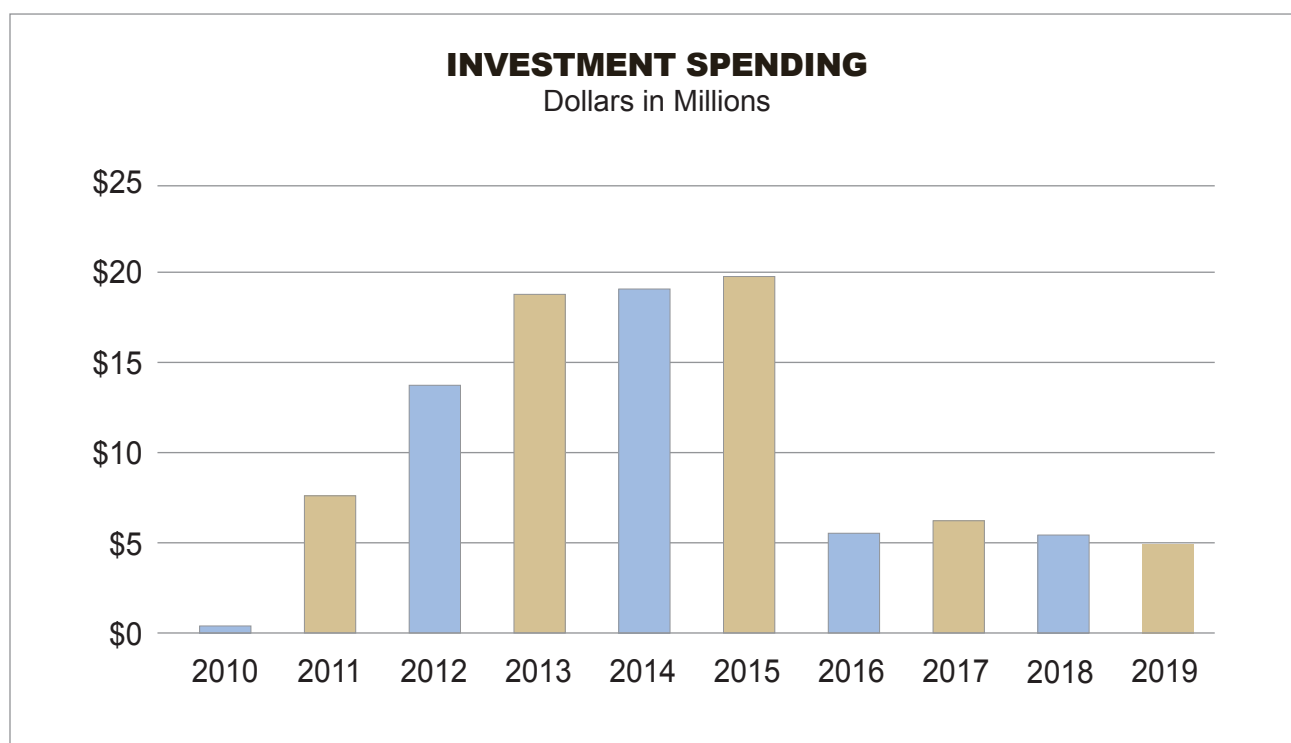
or 13 percent, to Corporate General and Administrative expenditures.

Actual expenditures for the year totaled \$1.86 billion. Actual expenditures amounts were allocated as follows: \$1.06 billion, or 57 percent, to the Supervision and Consumer Protection program; \$252 million, or 14 percent, to the Receivership Management program; \$324 million, or 17 percent, to the Insurance program; and \$225 million, or 12 percent, to Corporate General and Administrative expenditures.

INVESTMENT SPENDING

The FDIC instituted a separate Investment Budget in 2003 to provide enhanced governance of major multi-year development efforts. It has a disciplined process for reviewing proposed new investment projects and managing the construction and implementation of approved projects. Proposed IT projects are carefully reviewed to ensure that they are consistent with the FDIC’s enterprise architecture. The project

approval and monitoring processes also enable the FDIC to be aware of risks to the major capital investment projects and facilitate appropriate, timely intervention to address these risks throughout the development process. An investment portfolio performance review is provided to the FDIC’s Board of Directors on a quarterly basis. From 2010-2019, investment spending totaled \$103 million and is estimated at \$11 million for 2020.



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V.



FINANCIAL SECTION

DEPOSIT INSURANCE FUND (DIF)

Federal Deposit Insurance Corporation
Deposit Insurance Fund Balance Sheet
As of December 31

(Dollars in Thousands)	2019	2018
ASSETS		
Cash and cash equivalents	\$ 5,990,765	\$ 5,773,995
Investment in U.S. Treasury securities (Note 3)	100,071,880	92,708,356
Assessments receivable (Note 9)	1,241,968	1,376,341
Interest receivable on investments and other assets, net	1,020,947	549,791
Receivables from resolutions, net (Note 4)	2,669,270	3,058,241
Property and equipment, net (Note 5)	329,828	328,530
Total Assets	\$ 111,324,658	\$ 103,795,254
LIABILITIES		
Accounts payable and other liabilities	\$ 214,451	\$ 198,072
Liabilities due to resolutions (Note 6)	346,271	604,776
Postretirement benefit liability (Note 12)	289,462	235,935
Contingent liabilities:		
Anticipated failure of insured institutions (Note 7)	93,505	113,936
Guarantee payments and litigation losses (Notes 7 and 8)	34,031	33,611
Total Liabilities	977,720	1,186,330
<i>Commitments and off-balance-sheet exposure (Note 13)</i>		
FUND BALANCE		
Accumulated Net Income	109,820,102	103,238,013
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Unrealized gain (loss) on U.S. Treasury securities, net (Note 3)	587,268	(615,549)
Unrealized postretirement benefit (loss) (Note 12)	(60,432)	(13,540)
Total Accumulated Other Comprehensive Income (Loss)	526,836	(629,089)
Total Fund Balance	110,346,938	102,608,924
Total Liabilities and Fund Balance	\$ 111,324,658	\$ 103,795,254

The accompanying notes are an integral part of these financial statements.

DEPOSIT INSURANCE FUND (DIF)

Federal Deposit Insurance Corporation

Deposit Insurance Fund Statement of Income and Fund Balance

For the Years Ended December 31

(Dollars in Thousands)	2019	2018
REVENUE		
Assessments (Note 9)	\$ 4,939,063	\$ 9,526,723
Interest on U.S. Treasury securities	2,116,504	1,632,863
Other revenue	39,745	11,208
Total Revenue	7,095,312	11,170,794
EXPENSES AND LOSSES		
Operating expenses (Note 10)	1,795,605	1,764,748
Provision for insurance losses (Note 11)	(1,285,531)	(562,622)
Insurance and other expenses	3,149	3,102
Total Expenses and Losses	513,223	1,205,228
Net Income	6,582,089	9,965,566
OTHER COMPREHENSIVE INCOME		
Unrealized gain (loss) on U.S. Treasury securities, net	1,202,817	(136,187)
Unrealized postretirement benefit (loss) gain (Note 12)	(46,892)	32,050
Total Other Comprehensive Income (Loss)	1,155,925	(104,137)
Comprehensive Income	7,738,014	9,861,429
Fund Balance - Beginning	102,608,924	92,747,495
Fund Balance - Ending	\$ 110,346,938	\$ 102,608,924

The accompanying notes are an integral part of these financial statements.

DEPOSIT INSURANCE FUND (DIF)

Federal Deposit Insurance Corporation

Deposit Insurance Fund Statement of Cash Flows

For the Years Ended December 31

(Dollars in Thousands)	2019	2018
OPERATING ACTIVITIES		
Provided by:		
Assessments	\$ 5,079,563	\$ 10,766,890
Interest on U.S. Treasury securities	1,988,763	1,837,400
Recoveries from financial institution resolutions	1,674,857	3,254,230
Miscellaneous receipts	27,895	18,290
Used by:		
Operating expenses	(1,746,598)	(1,744,274)
Disbursements for financial institution resolutions	(256,773)	(353,448)
Miscellaneous disbursements	(2,262)	(3,694)
Net Cash Provided by Operating Activities	6,765,445	13,775,394
INVESTING ACTIVITIES		
Provided by:		
Maturity of U.S. Treasury securities	34,250,000	27,354,816
Used by:		
Purchase of U.S. Treasury securities	(40,749,953)	(37,140,141)
Purchase of property and equipment	(48,722)	(45,272)
Net Cash (Used) by Investing Activities	(6,548,675)	(9,830,597)
Net Increase in Cash and Cash Equivalents	216,770	3,944,797
Cash and Cash Equivalents - Beginning	5,773,995	1,829,198
Cash and Cash Equivalents - Ending	\$ 5,990,765	\$ 5,773,995

The accompanying notes are an integral part of these financial statements.

DEPOSIT INSURANCE FUND

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

1. Operations of the Deposit Insurance Fund

OVERVIEW

The Federal Deposit Insurance Corporation (FDIC) is the independent deposit insurance agency created by Congress in 1933 to maintain stability and public confidence in the nation's banking system. Provisions that govern the FDIC's operations are generally found in the Federal Deposit Insurance (FDI) Act, as amended (12 U.S.C. 1811, *et seq.*). In accordance with the FDI Act, the FDIC, as administrator of the Deposit Insurance Fund (DIF), insures the deposits of banks and savings associations (insured depository institutions). In cooperation with other federal and state agencies, the FDIC promotes the safety and soundness of insured depository institutions (IDIs) by identifying, monitoring, and addressing risks to the DIF. Commercial banks, savings banks and savings associations (known as "thrifts") are supervised by either the FDIC, the Office of the Comptroller of the Currency, or the Federal Reserve Board.

In addition to being the administrator of the DIF, the FDIC is the administrator of the FSLIC Resolution Fund (FRF). The FRF is a resolution fund responsible for the sale of the remaining assets and the satisfaction of the liabilities associated with the former Federal Savings and Loan Insurance Corporation (FSLIC) and the former Resolution Trust Corporation. The FDIC maintains the DIF and the FRF separately to support their respective functions.

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), the FDIC also manages the Orderly Liquidation Fund (OLF). Established as a separate fund in the U.S. Treasury (Treasury), the OLF is inactive and unfunded until the FDIC is appointed as receiver for a covered financial company. A covered financial company is a failing financial company (for example, a bank holding company or nonbank financial company) for which a systemic risk determination has been made as set forth in section 203 of the Dodd-Frank Act.

The Dodd-Frank Act (Public Law 111-203) granted the FDIC authority to establish a widely available program to guarantee obligations of solvent IDIs or solvent depository institution holding companies (including affiliates) upon the systemic risk determination of a liquidity event during times of severe economic distress. The program would not be funded by the DIF but rather by fees and assessments paid by all participants in the program. If fees are insufficient to cover losses or expenses, the FDIC must impose a special assessment on

participants as necessary to cover the shortfall. Any excess funds at the end of the liquidity event program would be deposited in the General Fund of the Treasury.

The Dodd-Frank Act also created the Financial Stability Oversight Council of which the Chairman of the FDIC is a member and expanded the FDIC's responsibilities to include supervisory review of resolution plans (known as living wills) and backup examination authority for systemically important bank holding companies and nonbank financial companies supervised by the Federal Reserve Board. The living wills provide for an entity's rapid and orderly resolution in the event of material financial distress or failure.

OPERATIONS OF THE DIF

The primary purposes of the DIF are to (1) insure the deposits and protect the depositors of IDIs and (2) resolve failed IDIs upon appointment of the FDIC as receiver in a manner that will result in the least possible cost to the DIF.

The DIF is primarily funded from deposit insurance assessments and interest earned on investments in U.S. Treasury securities. Other available funding sources, if necessary, are borrowings from the Treasury, the Federal Financing Bank (FFB), Federal Home Loan Banks, and IDIs. The FDIC has borrowing authority of \$100 billion from the Treasury and a Note Purchase Agreement with the FFB, not to exceed \$100 billion, to enhance the DIF's ability to fund deposit insurance.

A statutory formula, known as the Maximum Obligation Limitation (MOL), limits the amount of obligations the DIF can incur to the sum of its cash, 90 percent of the fair market value of other assets, and the amount authorized to be borrowed from the Treasury. The MOL for the DIF was \$209.5 billion and \$201.8 billion as of December 31, 2019 and 2018, respectively.

OPERATIONS OF RESOLUTION ENTITIES

The FDIC, as receiver, is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receiverships, conservatorships, and bridge institutions (collectively, resolution entities), and the claims against them, are accounted for separately from the DIF assets and liabilities to ensure that proceeds from these entities are distributed according to applicable laws and regulations. Therefore, income and expenses attributable to resolution entities are

DEPOSIT INSURANCE FUND

accounted for as transactions of those entities. The FDIC, as administrator of the DIF, bills resolution entities for services provided on their behalf.

2. Summary of Significant Accounting Policies

GENERAL

The financial statements include the financial position, results of operations, and cash flows of the DIF and are presented in accordance with U.S. generally accepted accounting principles (GAAP). These statements do not include reporting for assets and liabilities of resolution entities because these entities are legally separate and distinct, and the DIF does not have any ownership or beneficial interests in them. Periodic and final accounting reports of resolution entities are furnished to courts, supervisory authorities, and others upon request.

USE OF ESTIMATES

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and disclosure of contingent liabilities. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such potential changes in estimates have been disclosed. The more significant estimates include the assessments receivable and associated revenue; the allowance for loss on receivables from resolutions (which considers the impact of shared-loss agreements); the guarantee obligations for structured transactions; the postretirement benefit obligation; and the estimated losses for anticipated failures.

CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments consisting primarily of U.S. Treasury Overnight Certificates.

INVESTMENT IN U.S. TREASURY SECURITIES

The FDI Act requires that the DIF funds be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States. The Secretary of the Treasury must approve all such investments in excess of \$100,000 and has granted the FDIC approval to invest the DIF funds only in U.S. Treasury obligations that are purchased or sold exclusively through the Treasury's Bureau of the Fiscal Service's Government Account Series program.

The DIF's investments in U.S. Treasury securities are classified as available-for-sale (AFS). Securities designated as AFS are shown at fair value. Unrealized gains and losses are reported as other comprehensive income. Any realized gains and losses are included in the Statement of Income and Fund

Balance as components of net income. Income on securities is calculated and recorded daily using the effective interest or straight-line method depending on the maturity of the security (see Note 3).

REVENUE RECOGNITION FOR ASSESSMENTS

Assessment revenue is recognized for the quarterly period of insurance coverage based on an estimate. The estimate is derived from an institution's regular risk-based assessment rate and assessment base for the prior quarter adjusted for certain changes in supervisory examination ratings for larger institutions, modest assessment base growth and average assessment rate adjustment factors, and any assessment credits expected to be applied. At the subsequent quarter-end, the estimated revenue amounts are adjusted when actual assessments for the covered period are determined for each institution (see Note 9).

CAPITAL ASSETS AND DEPRECIATION

The FDIC buildings are depreciated on a straight-line basis over a 35- to 50-year estimated life. Building improvements are capitalized and depreciated over the estimated useful life of the improvements. Leasehold improvements are capitalized and depreciated over the lesser of the remaining life of the lease or the estimated useful life of the improvements, if determined to be material. Capital assets depreciated on a straight-line basis over a five-year estimated useful life include mainframe equipment; furniture, fixtures, and general equipment; and internal-use software. Computer equipment is depreciated on a straight-line basis over a three-year estimated useful life (see Note 5).

PROVISION FOR INSURANCE LOSSES

The provision for insurance losses primarily represents changes in the allowance for losses on receivables from closed banks and the contingent liability for anticipated failure of insured institutions (see Note 11).

REPORTING ON VARIABLE INTEREST ENTITIES

The receiverships engaged in structured transactions, some of which resulted in the issuance of note obligations that were guaranteed by the FDIC, in its corporate capacity. As the guarantor of note obligations for several structured transactions, the FDIC, in its corporate capacity, holds an interest in many variable interest entities (VIEs). The FDIC conducts a qualitative assessment of its relationship with each VIE as required by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 810, *Consolidation*. These assessments are conducted to determine if the FDIC, in its corporate capacity, has (1) the power to direct the activities that most significantly affect the economic performance of the VIE and (2) an obligation to absorb losses of the VIE or the right to receive benefits from

NOTES TO THE FINANCIAL STATEMENTS

the VIE that could potentially be significant to the VIE. When a variable interest holder has met both of these characteristics, the enterprise is considered the primary beneficiary and must consolidate the VIE. In accordance with the provisions of FASB ASC Topic 810, an assessment of the terms of the legal agreement for each VIE was conducted to determine whether any of the terms had been activated or modified in a manner that would cause the FDIC, in its corporate capacity, to be characterized as a primary beneficiary. In making that determination, consideration was given to which, if any, activities were significant to each VIE. Often, the right to service collateral, to liquidate collateral, or to unilaterally dissolve the VIE was determined to be the most significant activity. In other cases, it was determined that the structured transactions did not include such significant activities and that the design of the entity was the best indicator of which party was the primary beneficiary.

The conclusion of these analyses was that the FDIC, in its corporate capacity, has not engaged in any activity that would cause the FDIC to be characterized as a primary beneficiary to any VIE with which it was involved as of December 31, 2019 and 2018. Therefore, consolidation is not required for the December 31, 2019 and 2018 DIF financial statements. In the future, the FDIC, in its corporate capacity, may become the primary beneficiary upon the activation of provisional contract rights that extend to the FDIC if payments are made on guarantee claims. Ongoing analyses will be required to monitor consolidation implications under FASB ASC Topic 810.

The FDIC's involvement with VIEs is fully described in Note 8 under FDIC Guaranteed Debt of Structured Transactions.

RELATED PARTIES

The nature of related parties and a description of related party transactions are discussed in Note 1 and disclosed throughout the financial statements and footnotes.

APPLICATION OF RECENT ACCOUNTING STANDARDS

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU will replace the incurred loss impairment model with a new expected credit loss model for financial assets measured at amortized cost and for off-balance-sheet credit exposures. The guidance also amends the AFS debt securities impairment model by requiring the use of an allowance to record estimated credit losses (and subsequent recoveries) related to AFS debt securities. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, that changed the effective date of ASU 2016-13 for the DIF to January 1, 2023. The FDIC does not expect the ASU to

have a material effect on the DIF's financial position and results of operations. However, changes to the balance sheet and certain disclosures will be required.

Other recent accounting standards have been deemed not applicable or material to the financial statements as presented.

3. Investment in U.S. Treasury Securities

The "Investment in U.S. Treasury securities" line item on the Balance Sheet consisted of the following components by maturity (dollars in millions).

December 31, 2019	Yield at Purchase	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
U.S. Treasury notes and bonds						
Within 1 year	1.93%	\$ 45,550	\$ 45,928	\$ 50	\$(11)	\$ 45,967
After 1 year through 5 years	2.08%	52,900	53,557	555	(7)	54,105
Total		\$ 98,450	\$ 99,485	\$ 605	\$(18)^(a)	\$ 100,072

(a) These unrealized losses occurred as a result of temporary changes in market interest rates. The FDIC does not intend to sell the securities and is not likely to be required to sell them before their maturity date, thus, the FDIC does not consider these securities to be other than temporarily impaired at December 31, 2019. As of December 31, 2019, securities with a continuous unrealized loss position of less than 12 months had an aggregate related fair value and unrealized loss of \$8.6 billion and \$8 million, respectively. For those with a continuous unrealized loss position of 12 months or longer, their aggregate related fair value and unrealized losses were \$13.1 billion and \$10 million, respectively.

December 31, 2018	Yield at Purchase	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
U.S. Treasury notes and bonds						
Within 1 year	1.90%	\$ 28,950	\$ 28,997	\$ 0	\$(104)	\$ 28,893
After 1 year through 5 years	2.08%	64,650	64,327	137	(649)	63,815
Total		\$ 93,600	\$ 93,324	\$ 137	\$(753)^(a)	\$ 92,708

(a) These unrealized losses occurred as a result of temporary changes in market interest rates. The FDIC does not intend to sell the securities and is not likely to be required to sell them before their maturity date, thus, the FDIC does not consider these securities to be other than temporarily impaired at December 31, 2018. As of December 31, 2018, securities with a continuous unrealized loss position of less than 12 months had an aggregate related fair value and unrealized loss of \$21.6 billion and \$77 million, respectively. For those with a continuous unrealized loss position of 12 months or longer, their aggregate related fair value and unrealized losses were \$53.1 billion and \$676 million, respectively.

4. Receivables from Resolutions, Net

The receivables from resolutions result from DIF payments to cover obligations to insured depositors (subrogated claims), advances to resolution entities for working capital, and administrative expenses paid on behalf of resolution entities. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. Estimated future payments on

DEPOSIT INSURANCE FUND

losses incurred on assets sold to an acquiring institution under a shared-loss agreement (SLA) are factored into the computation of the expected repayment. Assets held by resolution entities (including structured transaction-related assets; see Note 8) are the main source of repayment of the DIF's receivables from resolutions. The "Receivables from resolutions, net" line item on the Balance Sheet consisted of the following components (dollars in thousands).

	December 31 2019	December 31 2018
Receivables from closed banks	\$ 63,981,989	\$ 68,267,737
Allowance for losses	(61,312,719)	(65,209,496)
Total	\$ 2,669,270	\$ 3,058,241

As of December 31, 2019, the FDIC, as receiver, managed 248 active receiverships; four new receiverships were established in 2019. The resolution entities held assets with a book value of \$3.4 billion as of December 31, 2019, and \$5.1 billion as of December 31, 2018 (including \$2.9 billion and \$4.0 billion, respectively, of cash, investments, receivables due from the DIF, and other receivables).

Estimated cash recoveries from the management and disposition of assets that are used to determine the allowance for losses are based on asset recovery rates from several sources, which may include the following: actual or pending institution-specific asset disposition data, failed institution-specific asset valuation data, aggregate asset valuation data on several recently failed or troubled institutions, sampled asset valuation data, and empirical asset recovery data based on failures since 2007. Methodologies for determining the asset recovery rates incorporate estimating future cash recoveries, net of applicable liquidation cost estimates, and discounting based on market-based risk factors applicable to a given asset's type and quality. The resulting estimated cash recoveries are then used to derive the allowance for loss on the receivables from these resolutions.

For failed institutions resolved using a whole bank purchase and assumption transaction with an accompanying SLA, the projected shared-loss payments and the end of agreement true-up recoveries on the covered residential and commercial loan assets sold to the acquiring institution under the agreement are considered in determining the allowance for loss on the receivables from these resolutions. The shared-loss cost projections are based on the covered assets' intrinsic value, which is determined using financial models that consider the quality and type of covered assets, current and future market conditions, risk factors, and estimated asset holding periods. True-up recoveries are projected to be received at expiration in accordance with the terms of the SLA,

if actual losses at expiration are lower than originally estimated.

For December 31, 2019, the shared-loss cost estimates were updated for 59 receiverships with active SLAs. Note that all commercial asset shared-loss coverage expired as of year-end 2018. The updated shared-loss cost projections on the \$4.2 billion of remaining residential shared-loss covered assets were based on the FDIC's historical loss experience that also factors in the remaining time period of shared-loss coverage.

In 2019, there were three changes to the calculation of the allowance for loss on receivables from resolutions. The calculation for estimating the servicing fee component of the true-up recoveries was updated from an upfront estimate of initial assets to an estimate based on actual asset balances over the life of the agreement to more closely reflect end-of-agreement expected results. In addition, shared-loss cost projections are based on the FDIC's historical loss experience and no longer include pending sales activity; this change was made to address the seasoned nature of this portfolio. Finally, the projection of future receivership expenses was adjusted to reflect lower expected liquidation cost estimates. The effect of these changes resulted in a reduction of \$213 million to the estimated losses for failed institutions.

Note that estimated asset recoveries are regularly evaluated during the year, but remain subject to uncertainties because of potential changes in economic and market conditions, which may cause the DIF's actual recoveries to vary significantly from current estimates.

WHOLE BANK PURCHASE AND ASSUMPTION TRANSACTIONS WITH SHARED-LOSS AGREEMENTS

Since the beginning of 2008 through 2013, the FDIC resolved 304 failures using whole bank purchase and assumption resolution transactions with accompanying SLAs on total assets of \$215.6 billion purchased by the financial institution acquirers. The acquirer typically assumed all of the deposits and purchased essentially all of the assets of a failed institution. The majority of the commercial and residential loan assets were purchased under an SLA, where the FDIC agreed to share in future losses and recoveries experienced by the acquirer on those assets covered under the agreement.

Losses on the covered assets of failed institutions are shared between the acquirer and the FDIC, in its receivership capacity, when losses occur through the sale, foreclosure, loan modification, or charge-off of loans under the terms of the SLA. The majority of the agreements cover commercial and single-family loans over a five- to ten-year shared-loss period, respectively, with the receiver covering 80 percent of the losses incurred by the acquirer and the acquiring institution

NOTES TO THE FINANCIAL STATEMENTS

covering 20 percent. Prior to March 26, 2010, most SLAs included a threshold amount, above which the receiver covered 95 percent of the losses incurred by the acquirer. Recoveries by the acquirer on covered commercial and single-family SLA losses are also shared over an eight- to ten-year period, respectively. Note that future recoveries on SLA losses are not factored into the DIF allowance for loss calculation because the amount and timing of such receipts are not determinable.

The estimated shared-loss liability is accounted for by the receiver and is included in the calculation of the DIF's allowance for loss against the corporate receivable from the resolution. As shared-loss claims are asserted and proven, receiverships satisfy these shared-loss payments using available liquidation funds and/or by drawing on amounts due from the DIF for funding the deposits assumed by the acquirer (see Note 6).

Receivership shared-loss transactions are summarized as follows (dollars in thousands).

	December 31 2019	December 31 2018
Remaining shared-loss covered assets	\$ 4,205,256	\$ 9,602,069
Shared-loss payments made to date, net of recoveries	\$ 29,116,846	\$ 29,088,461
Estimated remaining shared-loss liability	\$ 31,458	\$ 566,194
Estimated true-up recoveries	\$ (477,130)	\$ (390,987)
Projected shared-loss payments, net of true-up recoveries	\$ (445,672)	\$ 175,207

The \$5.4 billion reduction in the remaining shared-loss covered assets from 2018 to 2019 is primarily due to the liquidation of covered assets from active SLAs and natural or early termination of SLAs impacting 22 receiverships during 2019. As of December 31, 2019, the shared-loss coverage period has expired for \$3.8 billion or 91 percent of the total remaining covered assets, however, related balances are included in the above table pending receipt and disposition of final claim certificates. Projected remaining shared-loss payments are less than estimated end-of-agreement true-up recoveries in 2019 as the majority of the expected shared-loss payments by receiverships with SLAs nearing expiration have already been paid.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the DIF to concentrations of credit risk are receivables from resolutions. The repayment of these receivables is primarily influenced by recoveries on assets held by receiverships and payments on

the covered assets under SLAs. Of the \$519 million of assets in liquidation and \$4.2 billion of shared-loss covered assets as of December 31, 2019, 19 percent or \$900 million, were related to receiverships that have fully repaid DIF's subrogated claims, thereby mitigating further loss exposure. The remaining assets primarily originated from failed institutions located in California (\$3.2 billion).

5. Property and Equipment, Net

Depreciation expense was \$49 million and \$51 million for 2019 and 2018, respectively. The "Property and equipment, net" line item on the Balance Sheet consisted of the following components (dollars in thousands).

	December 31 2019	December 31 2018
Land	\$ 37,352	\$ 37,352
Buildings (including building and leasehold improvements)	342,071	328,787
Application software (includes work-in-process)	108,006	103,543
Furniture, fixtures, and equipment	66,970	66,889
Accumulated depreciation	(224,571)	(208,041)
Total	\$ 329,828	\$ 328,530

6. Liabilities Due to Resolutions

As of December 31, 2019 and 2018, the DIF recorded liabilities totaling \$343 million and \$601 million, respectively, to resolution entities representing the agreed-upon value of assets transferred from the receiverships, at the time of failure, to the acquirers/bridge institutions for use in funding the deposits assumed by the acquirers/bridge institutions. Ninety-five percent of these liabilities are due to failures resolved under whole-bank purchase and assumption transactions, most with an accompanying SLA. The DIF satisfies these liabilities either by sending cash directly to a receivership to fund shared-loss and other expenses or by offsetting receivables from resolutions when a receivership declares a dividend.

In addition, there were \$3 million and \$4 million in unpaid deposit claims related to multiple receiverships as of December 31, 2019 and 2018, respectively. The DIF pays these liabilities when the claims are approved.

7. Contingent Liabilities

ANTICIPATED FAILURE OF INSURED INSTITUTIONS

The DIF records a contingent liability and a loss provision for DIF-insured institutions that are likely to fail when the liability

DEPOSIT INSURANCE FUND

is probable and reasonably estimable, absent some favorable event such as obtaining additional capital or merging. The contingent liability is derived by applying expected failure rates and loss rates to the institutions based on supervisory ratings, balance sheet characteristics, and projected capital levels.

The banking industry's financial condition and performance were generally positive in 2019. According to the most recent quarterly financial data submitted by DIF-insured institutions, the industry's capital levels continued to improve, and the percentage of total loans that were noncurrent at September 30 is at its lowest level since second quarter 2007. The industry reported total net income of \$180.3 billion for the first nine months of 2019, an increase of 1.5 percent over the comparable period one year ago.

Consistent with the positive performance of the banking industry, the contingent liability remained relatively stable as of December 31, 2019 compared to December 31, 2018. The DIF recorded contingent liabilities totaling \$94 million and \$114 million as of December 31, 2019 and 2018, respectively.

In addition to the recorded contingent liabilities, the FDIC has identified risks in the financial services industry that could result in additional losses to the DIF, should potentially vulnerable insured institutions ultimately fail. As a result of these risks, the FDIC believes that it is reasonably possible that the DIF could incur additional estimated losses of approximately \$57 million as of December 31, 2019, compared to \$227 million as of year-end 2018. The actual losses, if any, will largely depend on future economic and market conditions and could differ materially from this estimate.

Four financial institutions failed in 2019, with total assets of \$209 million and an estimated loss to the DIF at December 31, 2019, of \$31 million.

The improvement in financial performance and condition of the banking industry of the past year should continue if market conditions remain favorable. However, the operating environment poses several key challenges. Interest rates declined in the first half of 2019, and there are signs of growing credit and liquidity risk. Revenue growth and net interest margins have benefited from interest rate hikes in recent years; however, margins may be squeezed now as short-term interest rates have declined. Economic conditions that challenge the banking sector include the impact of slower global economic growth; the impact of trade tariffs on manufacturing and exports; the impact of continued weak commodity prices on local markets; and the risk of market volatility from global economic and geopolitical

developments. The FDIC continues to evaluate ongoing risks to affected institutions in light of existing economic and financial conditions, and the extent to which such risks may put stress on the resources of the insurance fund.

LITIGATION LOSSES

The DIF records an estimated loss for unresolved legal cases to the extent that those losses are considered probable and reasonably estimable. The FDIC recorded probable litigation losses of \$200 thousand for the DIF as of December 31, 2019 and 2018. In addition, the FDIC has identified no reasonably possible losses from unresolved cases as of December 31, 2019 and 2018.

8. Other Contingencies

PURCHASE AND ASSUMPTION INDEMNIFICATION

In connection with purchase and assumption agreements for resolutions, the FDIC, in its receivership capacity, generally indemnifies the purchaser of a failed institution's assets and liabilities in the event a third party asserts a claim against the purchaser unrelated to the explicit assets purchased or liabilities assumed at the time of failure. The FDIC, in its corporate capacity, is a secondary guarantor if a receivership is unable to pay. These indemnifications generally extend for a term of six years after the date of institution failure. The FDIC is unable to estimate the maximum potential liability for these types of guarantees as the agreements do not specify a maximum amount and any payments are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. During 2019 and 2018, the FDIC, in its corporate capacity, made no indemnification payments under such agreements, and no amount has been accrued in the accompanying financial statements with respect to these indemnification guarantees.

FDIC GUARANTEED DEBT OF STRUCTURED TRANSACTIONS

The FDIC, as receiver, used structured transactions (securitizations and structured sales of guaranteed notes (SSGNs) or collectively, "trusts") to dispose of residential mortgage loans, commercial loans, and mortgage-backed securities held by the receiverships.

For these transactions, certain loans or securities from failed institutions were pooled and transferred into a trust structure. The trusts issued senior and/or subordinated debt instruments and owner trust or residual certificates collateralized by the underlying mortgage-backed securities or loans.

NOTES TO THE FINANCIAL STATEMENTS

From March 2010 through March 2013, the receiverships transferred a portfolio of loans with an unpaid principal balance of \$2.4 billion and mortgage-backed securities with a book value of \$6.4 billion to the trusts. Private investors purchased the senior notes issued by the trusts for \$6.2 billion in cash and the receiverships held the subordinated debt instruments and owner trust or residual certificates. In exchange for a fee, the FDIC, in its corporate capacity, guarantees the timely payment of principal and interest due on the senior notes, with the last guarantee expected to terminate in 2022. If the FDIC is required to perform under its guarantees, it acquires an interest in the cash flows of the trust equal to the amount of guarantee payments made plus accrued interest. The subordinated note holders and owner trust or residual certificate holders receive cash flows from the trust only after all expenses have been paid, the guaranteed notes have been satisfied, and the FDIC has been reimbursed for any guarantee payments.

The following table provides the maximum loss exposure to the FDIC, as guarantor, total guarantee fees collected, guarantee fees receivable, and other information related to the FDIC guaranteed debt for the trusts as of December 31, 2019 and 2018 (dollars in millions).

	December 31 2019	December 31 2018
Number of trusts		
Initial	11	11
Current	6	8
Trust collateral balances		
Initial	\$ 8,780	\$ 8,780
Current	\$ 878	\$ 1,643
Guaranteed note balances		
Initial	\$ 6,196	\$ 6,196
Current (maximum loss exposure)	\$ 195	\$ 404
Guarantee fees collected to date	\$ 166	\$ 163
Amounts recognized in Interest receivable on investments and other assets, net		
Receivable for guarantee fees	\$ 1	\$ 4
Receivable for guarantee payments, net	\$ 32	\$ 28
Amounts recognized in Contingent liabilities: Guarantee payments and litigation losses		
Contingent liability for guarantee payments	\$ 34	\$ 33
Amounts recognized in Accounts payable and other liabilities		
Deferred revenue for guarantee fees ^a	\$ 1	\$ 4

(a) All guarantee fees are recorded as deferred revenue and recognized as revenue primarily on a straight-line basis over the term of the notes.

Except as presented above, the DIF records no other structured transaction-related assets or liabilities on its balance sheet.

ESTIMATED LOSS FROM GUARANTEE PAYMENTS

Any estimated loss to the DIF from the guarantees is based on an analysis of the expected guarantee payments by the FDIC, net of reimbursements to the FDIC for such guarantee payments. The DIF recorded a contingent liability of \$34 million as of December 31, 2019 for estimated payments under the guarantee for one SSGN transaction, up from \$33 million at December 31, 2018. As guarantor, the FDIC, in its corporate capacity, is entitled to reimbursement from the trust for any guarantee payments; therefore, a corresponding receivable has been recorded. The related allowance for loss on this receivable is \$2 million and \$5 million as of December 31, 2019 and 2018, reflecting the expected shortfall of proceeds available for reimbursement after liquidation of the SSGN's underlying collateral at note maturity. Guarantee payments are expected to be made at note maturity in December 2020.

For all of the remaining transactions, the estimated cash flows from the trust assets provide sufficient coverage to fully pay the debts. To date, the FDIC, in its corporate capacity, has not provided, and does not intend to provide, any form of financial or other type of support for structured transactions that it was not previously contractually required to provide.

9. Assessments

The FDIC deposit insurance assessment system is mandated by section 7 of the FDI Act and governed by part 327 of title 12 of the Code of Federal Regulations (12 CFR Part 327). The risk-based system requires the payment of quarterly assessments by all IDIs.

In response to the Dodd-Frank Act, the FDIC implemented several changes to the assessment system, amended its Restoration Plan (which is required when the ratio of the DIF balance to estimated insured deposits, or reserve ratio, is below the statutorily mandated minimum), and developed a comprehensive, long-term fund management plan.

The Dodd-Frank Act established the minimum reserve ratio for the DIF at 1.35 percent, up from the previous statutory minimum of 1.15 percent. If the reserve ratio falls below 1.35 percent, or the FDIC projects that it will within 6 months, the FDIC generally must implement a restoration plan that will return the DIF to 1.35 percent within 8 years.

The long-term fund management plan is designed to restore and maintain a positive fund balance for the DIF even during

DEPOSIT INSURANCE FUND

a banking crisis and achieve moderate, steady assessment rates throughout any economic cycle. Summarized below are key longer-term provisions of the plan.

- The FDIC Board of Directors designates a reserve ratio for the DIF and publishes the designated reserve ratio (DRR) before the beginning of each calendar year, as required by the FDI Act. Accordingly, in December 2019, the FDIC published a notice maintaining the DRR at 2 percent for 2020. The DRR is an integral part of the FDIC's comprehensive, long-term management plan for the DIF and is viewed as a long-range, minimum target for the reserve ratio.
- The FDIC suspended dividends indefinitely, and, in lieu of dividends, prescribes progressively lower assessment rates when the reserve ratio exceeds 2 percent and 2.5 percent.

As noted above, the Dodd-Frank Act increased the minimum reserve ratio from 1.15 percent to 1.35 percent. This increase was required to be achieved by September 30, 2020, and the Dodd-Frank Act mandated that the FDIC offset the effect of increasing the minimum reserve ratio on institutions with less than \$10 billion in total assets (small banks). To implement this requirement, the FDIC imposed a surcharge to the regular quarterly assessments of IDIs with \$10 billion or more in total consolidated assets (large banks) beginning with the quarter ending September 30, 2016, and provided for credits to small banks for their contribution to the growth in the reserve ratio from 1.15 percent to 1.35 percent.

As of September 30, 2018, the reserve ratio of the DIF exceeded the required minimum of 1.35 percent by reaching 1.36 percent. As a result, the requirements of the amended Restoration Plan were achieved, the surcharge assessment on large banks ended effective October 1, 2018, and small bank assessment credits of \$765 million were awarded. As long as the reserve ratio is at a prescribed level, small bank credits are automatically applied to reduce the regular quarterly deposit insurance assessment up to the full amount of the credits or assessment, whichever is less.

In November 2019, the FDIC approved a final rule that amended the requirements for applying small bank assessment credits, effective beginning with the third quarter 2019 assessments. Under the rule, once the FDIC begins applying small bank credits to quarterly assessments when the reserve ratio is at least 1.38 percent, credits will be applied for three additional quarters when the reserve ratio is at least 1.35 percent. The final rule also requires the FDIC to remit the full nominal value of any remaining small bank credits to each IDI holding such credits after four quarterly assessment

periods of application in the next assessment period in which the reserve ratio is at least 1.35 percent.

In the second quarter of 2019, the reserve ratio rose to 1.40 percent and the FDIC began applying small bank credits against quarterly assessments. Of the total \$765 million credits awarded, \$559 million were applied in 2019 to reduce assessments paid by small banks. In addition, the year-end 2019 assessment receivable and related assessment revenue have been reduced by \$145 million, reflecting expected credit use in the fourth quarter assessment collection at the end of March 2020. If the reserve ratio remains at least 1.35 percent for the first quarter of 2020, an estimated \$55 million in assessment credits will be applied against the first quarter assessment. The FDIC estimates that approximately \$6 million in small bank credits will be remitted.

ASSESSMENT REVENUE

Annual assessment rates averaged approximately 3.1 cents per \$100 of the assessment base during 2019. Annual assessment rates averaged approximately 7.2 cents per \$100 of the assessment base through September 30, 2018. Annual assessment rates averaged approximately 3.5 cents per \$100 for the fourth quarter of 2018, reflecting the end of surcharges on larger institutions beginning October 1, 2018. The assessment base is generally defined as average consolidated total assets minus average tangible equity (measured as Tier 1 capital) of an IDI during the assessment period.

The "Assessments receivable" line item on the Balance Sheet of \$1.2 billion and \$1.4 billion represents the estimated premiums due from IDIs for the fourth quarter of 2019 and 2018, respectively. The actual deposit insurance assessments for the fourth quarter of 2019 will be billed and collected at the end of the first quarter of 2020. During 2019 and 2018, \$4.9 billion and \$9.5 billion, respectively, were recognized as assessment revenue from institutions, including \$3.8 billion in surcharges from large IDIs in 2018. In total, surcharges of \$11.2 billion were collected over nine quarters.

PENDING LITIGATION FOR UNDERPAID ASSESSMENTS

On January 9, 2017, the FDIC filed suit in the United States District Court for the District of Columbia (and amended this complaint on April 7, 2017), alleging that Bank of America, N.A. (BoA) underpaid its insurance assessments for multiple quarters based on the underreporting of counterparty exposures. In total, the FDIC alleges that BoA underpaid insurance assessments by \$1.12 billion, including interest for the quarters ending March 2012 through December 2014. The FDIC invoiced BoA for \$542 million and \$583 million representing claims in the initial suit and the amended complaint, respectively. BoA has failed to pay these past due amounts. Pending resolution of this matter, BoA has fully

NOTES TO THE FINANCIAL STATEMENTS

pledged security with a third-party custodian pursuant to a security agreement with the FDIC. As of December 31, 2019, the total amount of unpaid assessments (including accrued interest) was \$1.18 billion. For the years ending December 31, 2019 and 2018, the impact of this litigation is not reflected in the financial statements of the DIF.

RESERVE RATIO

As of September 30, 2019 and December 31, 2018, the DIF reserve ratio was 1.41 percent and 1.36 percent, respectively.

ASSESSMENTS RELATED TO FICO

Assessments are levied on institutions for payments of the interest on bond obligations issued by the Financing Corporation (FICO). The FDIC collected the final FICO assessment in March 2019 pursuant to a final rule issued in December 2018 by the Federal Housing Finance Agency, the agency authorized by Congress to prescribe regulations relating to the FICO. The FICO was established as a mixed-ownership government corporation to function solely as a financing vehicle for the former FSLIC. The FICO assessment has no financial impact on the DIF and is separate from deposit insurance assessments. The FDIC, as administrator of the DIF, acts solely as a collection agent for the FICO. Interest obligations collected and remitted to the FICO were \$47 million and \$460 million for 2019 and 2018, respectively.

10. Operating Expenses

The "Operating expenses" line item on the Statement of Income and Fund Balance consisted of the following components (dollars in thousands).

	December 31 2019	December 31 2018
Salaries and benefits	\$ 1,225,753	\$ 1,221,138
Outside services	268,093	268,693
Travel	80,684	89,443
Buildings and leased space	89,552	86,795
Software/Hardware maintenance	94,761	83,276
Depreciation of property and equipment	48,547	51,316
Other	27,175	26,666
Subtotal	1,834,565	1,827,327
Less: Expenses billed to resolution entities and others	(38,960)	(62,579)
Total	\$ 1,795,605	\$ 1,764,748

11. Provision for Insurance Losses

The provision for insurance losses was a negative \$1.3 billion for 2019, compared to negative \$563 million for 2018. The negative provision for 2019 primarily resulted from a decrease to the estimated losses for prior year failures.

As described in Note 4, the estimated recoveries from assets held by receiverships and estimated payments related to assets sold by receiverships to acquiring institutions under shared-loss agreements (SLAs) are used to derive the loss allowance on the receivables from resolutions. Summarized below are the three primary components that comprise the majority of the decrease in estimated losses for prior year failures.

- Receivership shared-loss liability cost estimates decreased \$575 million primarily due to lower-than-anticipated losses on covered assets, reductions in shared-loss cost estimates from expirations and early terminations of SLAs during the year, and higher true-up recoveries (projected to be received at expiration if actual losses at expiration are lower than originally estimated).
- Receiverships received \$465 million of unanticipated recoveries from litigation settlements and professional liability claims. These recoveries are typically not recognized in the allowance for loss estimate until the cash is received by receiverships, or collectability is assured, since significant uncertainties surround their recovery.
- Reduction in projected future receiverships expenses, resulted in a loss estimate decrease of \$118 million.

12. Employee Benefits

PENSION BENEFITS AND SAVINGS PLANS

Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by the federal government retirement plans, either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Although the DIF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The DIF also does not have actuarial data for accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported on and accounted for by the U.S. Office of Personnel Management (OPM).

DEPOSIT INSURANCE FUND

Under the Federal Thrift Savings Plan (TSP), the FDIC provides FERS employees with an automatic contribution of 1 percent of pay and an additional matching contribution up to 4 percent of pay. CSRS employees also can contribute to the TSP, but they do not receive agency matching contributions. Eligible FDIC employees may also participate in an FDIC-sponsored tax-deferred 401(k) savings plan with an automatic contribution of 1 percent of pay and an additional matching contribution up to 4 percent of pay. The expenses for these plans are presented in the table below (dollars in thousands).

	December 31 2019	December 31 2018
Civil Service Retirement System	\$ 1,806	\$ 2,089
Federal Employees Retirement System (Basic Benefit)	116,899	111,926
Federal Thrift Savings Plan	36,149	35,564
FDIC Savings Plan	39,873	39,466
Total	\$ 194,727	\$ 189,045

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The DIF has no postretirement health insurance liability since all eligible retirees are covered by the Federal Employees Health Benefits (FEHB) program. The FEHB is administered and accounted for by the OPM. In addition, OPM pays the employer share of the retiree's health insurance premiums.

The FDIC provides certain life and dental insurance coverage for its eligible retirees, the retirees' beneficiaries, and covered dependents. Retirees eligible for life and dental insurance coverage are those who have qualified due to (1) immediate enrollment upon appointment or five years of participation in the plan and (2) eligibility for an immediate annuity. The life insurance program provides basic coverage at no cost to retirees and allows for converting optional coverage to direct-pay plans. For the dental coverage, retirees are responsible for a portion of the premium.

The FDIC has elected not to fund the postretirement life and dental benefit liabilities. As a result, the DIF recognized the underfunded status (the difference between the accumulated postretirement benefit obligation and the plan assets at fair value) as a liability. Since there are no plan assets, the plan's benefit liability is equal to the accumulated postretirement benefit obligation.

Postretirement benefit obligation, gain and loss, and expense information included in the Balance Sheet and Statement of Income and Fund Balance are summarized as follows (dollars in thousands).

	December 31 2019	December 31 2018
Accumulated postretirement benefit obligation recognized in Postretirement benefit liability	\$ 289,462	\$ 235,935
Amounts recognized in accumulated other comprehensive income: Unrealized postretirement benefit loss		
Cumulative net actuarial loss	\$ (60,432)	\$ (13,155)
Prior service cost	0	(385)
Total	\$ (60,432)	\$ (13,540)
Amounts recognized in other comprehensive income: Unrealized postretirement benefit (loss) gain		
Actuarial (loss) gain	\$ (47,277)	\$ 31,475
Prior service credit	385	575
Total	\$ (46,892)	\$ 32,050
Net periodic benefit costs recognized in Operating expenses		
Service cost	\$ 3,775	\$ 4,625
Interest cost	10,360	9,334
Net amortization out of other comprehensive income	385	2,064
Total	\$ 14,520	\$ 16,023

The year-over-year increase in the accumulated postretirement benefit obligation as of December 31, 2019, is primarily attributable to a decrease in the discount rate.

The annual postretirement contributions and benefits paid are included in the table below (dollars in thousands).

	December 31 2019	December 31 2018
Employer contributions	\$ 7,885	\$ 7,354
Plan participants' contributions	\$ 871	\$ 846
Benefits paid	\$ (8,756)	\$ (8,200)

The expected contributions for the year ending December 31, 2020, are \$9 million. Expected future benefit payments for each of the next 10 years are presented in the following table (dollars in thousands).

2020	2021	2022	2023	2024	2025-2029
\$8,297	\$8,841	\$9,400	\$9,962	\$10,550	\$60,730

NOTES TO THE FINANCIAL STATEMENTS

Assumptions used to determine the amount of the accumulated postretirement benefit obligation and the net periodic benefit costs are summarized as follows.

	December 31 2019	December 31 2018
Discount rate for future benefits (benefit obligation)	3.46%	4.81%
Rate of compensation increase	3.49%	3.49%
Discount rate (benefit cost)	4.81%	4.03%
Dental health care cost-trend rate		
Assumed for next year	3.50%	3.80%
Ultimate	3.50%	3.80%
Year rate will reach ultimate	2020	2019

13. Commitments and Off-Balance-Sheet Exposure

COMMITMENTS:

Leased Space

The DIF leased space expense totaled \$45 million and \$44 million for 2019 and 2018. The FDIC's lease commitments total \$134 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. Future minimum lease commitments are as follows (dollars in thousands).

2020	2021	2022	2023	2024	2025/Thereafter
\$42,603	\$33,603	\$20,774	\$18,304	\$16,824	\$1,724

OFF-BALANCE-SHEET EXPOSURE:

Deposit Insurance

Estimates of insured deposits are derived primarily from quarterly financial data submitted by IDIs to the FDIC and represent the accounting loss that would be realized if all IDIs were to fail and the acquired assets provided no recoveries. As of September 30, 2019 and December 31, 2018, estimated insured deposits for the DIF were \$7.7 trillion and \$7.5 trillion, respectively.

14. Fair Value of Financial Instruments

As of December 31, 2019 and 2018, financial assets recognized and measured at fair value on a recurring basis include cash equivalents (see Note 2) of \$6 billion and \$5.7 billion, respectively, and the investment in U.S. Treasury securities (see Note 3) of \$100.1 billion and \$92.7 billion, respectively. The valuation is considered a Level 1 measurements in the fair value hierarchy, representing quoted prices in active markets for identical assets. Other financial assets and liabilities, measured at amortized cost, are

the receivables from resolutions, assessments receivable, interest receivable on investments, other short-term receivables, and accounts payable and other liabilities.

15. Information Relating to the Statement of Cash Flows

The following table presents a reconciliation of net income to net cash from operating activities (dollars in thousands).

	December 31 2019	December 31 2018
Operating Activities		
Net Income:	\$ 6,582,089	\$ 9,965,566
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of U.S. Treasury securities	339,247	246,725
Treasury Inflation-Protected Securities inflation adjustment	0	(2,980)
Depreciation on property and equipment	48,547	51,316
Loss on retirement of property and equipment	(1,124)	(524)
Provision for insurance losses	(1,285,531)	(562,622)
Unrealized (loss) gain on postretirement benefits	(46,892)	32,050
Change in Assets and Liabilities:		
Decrease in assessments receivable	134,373	1,258,045
(Increase) in interest receivable and other assets	(470,766)	(43,889)
Decrease in receivables from resolutions	1,653,681	3,493,375
Increase (Decrease) in accounts payable and other liabilities	16,379	(38,899)
Increase (Decrease) in postretirement benefit liability	53,527	(23,381)
Increase (Decrease) in contingent liabilities - guarantee payments and litigation losses	420	(904)
(Decrease) in liabilities due to resolutions	(258,505)	(598,484)
Net Cash Provided by Operating Activities	\$ 6,765,445	\$ 13,775,394

16. Subsequent Events

Subsequent events have been evaluated through February 6, 2020, the date the financial statements are available to be issued. Based on management's evaluation, there were no subsequent events requiring disclosure.

FSLIC RESOLUTION FUND (FRF)

Federal Deposit Insurance Corporation
FSLIC Resolution Fund Balance Sheet
As of December 31

(Dollars in Thousands)	2019	2018
ASSETS		
Cash and cash equivalents	\$ 922,911	\$ 901,562
Other assets, net	525	746
Total Assets	\$ 923,436	\$ 902,308
LIABILITIES		
Accounts payable and other liabilities	\$ 16	\$ 9
Total Liabilities	16	9
RESOLUTION EQUITY (NOTE 5)		
Contributed capital	125,489,317	125,489,317
Accumulated deficit	(124,565,897)	(124,587,018)
Total Resolution Equity	923,420	902,299
Total Liabilities and Resolution Equity	\$ 923,436	\$ 902,308

The accompanying notes are an integral part of these financial statements.

FSLIC RESOLUTION FUND (FRF)

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statement of Income and Accumulated Deficit

For the Years Ended December 31

(Dollars in Thousands)	2019	2018
REVENUE		
Interest on U.S. Treasury securities	\$ 18,673	\$ 15,818
Other revenue (Note 6)	1,775	808
Total Revenue	20,448	16,626
EXPENSES AND LOSSES		
Operating expenses	523	425
Recovery of tax benefits (Note 7)	(1,200)	0
Losses related to thrift resolutions	4	(313)
Total Expenses and Losses	(673)	112
Net Income	21,121	16,514
Accumulated Deficit - Beginning	(124,587,018)	(124,603,532)
Accumulated Deficit - Ending	\$ (124,565,897)	\$ (124,587,018)

The accompanying notes are an integral part of these financial statements.

FSLIC RESOLUTION FUND (FRF)

Federal Deposit Insurance Corporation
FSLIC Resolution Fund Statement of Cash Flows
For the Years Ended December 31

(Dollars in Thousands)	2019	2018
OPERATING ACTIVITIES		
Provided by:		
Interest on U.S. Treasury securities	\$ 18,673	\$ 15,818
Recovery of tax benefits	1,200	0
Recoveries from thrift resolutions	1,835	832
Miscellaneous receipts	0	3
Used by:		
Operating expenses	(358)	(452)
Miscellaneous disbursements	(1)	(19)
Net Cash Provided by Operating Activities	21,349	16,182
Net Increase in Cash and Cash Equivalents	21,349	16,182
Cash and Cash Equivalents - Beginning	901,562	885,380
Cash and Cash Equivalents - Ending	\$ 922,911	\$ 901,562

The accompanying notes are an integral part of these financial statements.

FSLIC RESOLUTION FUND

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

1. Operations/Dissolution of the FSLIC Resolution Fund

OVERVIEW

The Federal Deposit Insurance Corporation (FDIC) is the independent deposit insurance agency created by Congress in 1933 to maintain stability and public confidence in the nation's banking system. Provisions that govern the FDIC's operations are generally found in the Federal Deposit Insurance (FDI) Act, as amended (12 U.S.C. 1811, *et seq.*). In accordance with the FDI Act, the FDIC, as administrator of the Deposit Insurance Fund (DIF), insures the deposits of banks and savings associations (insured depository institutions). In cooperation with other federal and state agencies, the FDIC promotes the safety and soundness of insured depository institutions (IDIs) by identifying, monitoring, and addressing risks to the DIF.

In addition to being the administrator of the DIF, the FDIC is the administrator of the FSLIC Resolution Fund (FRF). As such, the FDIC is responsible for the sale of remaining assets and satisfaction of liabilities associated with the former Federal Savings and Loan Insurance Corporation (FSLIC) and the former Resolution Trust Corporation (RTC). The FDIC maintains the DIF and the FRF separately to support their respective functions.

The FSLIC was created through the enactment of the National Housing Act of 1934. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) abolished the insolvent FSLIC and created the FRF. At that time, the assets and liabilities of the FSLIC were transferred to the FRF – except those assets and liabilities transferred to the newly created RTC – effective on August 9, 1989. Further, the FIRREA established the Resolution Funding Corporation (REFCORP) to provide part of the initial funds used by the RTC for thrift resolutions by authorizing REFCORP to issue debt obligations. The REFCORP issued debt obligations in the form of long-term bonds ranging in maturity from 2019 to 2030.

The RTC Completion Act of 1993 terminated the RTC as of December 31, 1995. All remaining assets and liabilities of the RTC were transferred to the FRF on January 1, 1996. Today, the FRF consists of two distinct pools of assets and liabilities: one composed of the assets and liabilities of the FSLIC transferred to the FRF upon the dissolution of the FSLIC (FRF-FSLIC), and the other composed of the RTC assets and liabilities (FRF-RTC). The assets of one pool are not available to satisfy obligations of the other.

OPERATIONS/DISSOLUTION OF THE FRF

The FRF will continue operations until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. Any funds remaining in the FRF-FSLIC will be paid to the U.S. Treasury. Any remaining funds of the FRF-RTC will be distributed to the REFCORP to pay interest on the REFCORP bonds. In addition, the FRF-FSLIC has available until expended \$602 million in appropriations to facilitate, if required, efforts to wind up the resolution activity of the FRF-FSLIC.

The FDIC has extensively reviewed and cataloged the FRF's remaining assets and liabilities. Some of the unresolved issues are:

- criminal restitution orders (generally have from 1 to 27 years remaining to enforce);
- collections of judgments obtained against officers and directors and other professionals responsible for causing or contributing to thrift losses (generally have up to 10 years remaining to enforce, unless the judgments are renewed or are covered by the Federal Debt Collections Procedures Act, which will result in significantly longer periods for collection of some judgments);
- liquidation/disposition of residual assets purchased by the FRF from terminated receiverships;
- a potential tax liability associated with a fully adjudicated goodwill litigation case (see Note 3); and
- Affordable Housing Disposition Program monitoring (the last agreement expires no later than 2045; see Note 4).

The FRF could realize recoveries from criminal restitution orders and professional liability claims. However, any potential recoveries are not reflected in the FRF's financial statements, given the significant uncertainties surrounding the ultimate outcome.

On April 1, 2014, the FDIC concluded its role as receiver, on behalf of the FRF, when the last active receivership was terminated. In total, 850 receiverships were liquidated by the FRF and the RTC. To facilitate receivership terminations, the FRF, in its corporate capacity, acquired the remaining receivership assets that could not be liquidated during the life

FSLIC RESOLUTION FUND

of the receiverships due to restrictive clauses and other impediments. These assets are included in the “Other assets, net” line item on the Balance Sheet.

During the years of receivership activity, the assets held by receivership entities, and the claims against them, were accounted for separately from the FRF’s assets and liabilities to ensure that receivership proceeds were distributed in accordance with applicable laws and regulations. Also, the income and expenses attributable to receiverships were accounted for as transactions of those receiverships. The FDIC, as administrator of the FRF, billed receiverships for services provided on their behalf.

2. Summary of Significant Accounting Policies

GENERAL

The financial statements include the financial position, results of operations, and cash flows of the FRF and are presented in accordance with U.S. generally accepted accounting principles (GAAP). During the years of receivership activity, these statements did not include reporting for assets and liabilities of receivership entities because these entities were legally separate and distinct, and the FRF did not have any ownership or beneficial interest in them.

The FRF is a limited-life entity, however, it does not meet the requirements for presenting financial statements using the liquidation basis of accounting. According to Accounting Standards Codification Topic 205, *Presentation of Financial Statements*, a limited-life entity should apply the liquidation basis of accounting only if a change in the entity’s governing plan has occurred since its inception. By statute, the FRF is a limited-life entity whose dissolution will occur upon the satisfaction of all liabilities and the disposition of all assets. No changes to this statutory plan have occurred since inception of the FRF.

USE OF ESTIMATES

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and disclosure of contingent liabilities. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such potential changes in estimates have been disclosed. The estimates for other assets, goodwill litigation, and indemnifications are considered significant.

CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments consisting primarily of U.S. Treasury Overnight Certificates.

RELATED PARTIES

The nature of related parties and a description of related party transactions are discussed in Note 1 and disclosed throughout the financial statements and footnotes.

APPLICATION OF RECENT ACCOUNTING STANDARDS

Recent accounting standards have been deemed not applicable or material to the financial statements as presented.

3. Goodwill Litigation

In *United States v. Winstar Corp.*, 518 U.S. 839 (1996), the Supreme Court held that when it became impossible following the enactment of FIRREA in 1989 for the federal government to perform certain agreements to count goodwill toward regulatory capital, the plaintiffs were entitled to recover damages from the United States. The contingent liability associated with the nonperformance of these agreements was transferred to the FRF on August 9, 1989, upon the dissolution of the FSLIC.

The FRF can draw from an appropriation provided by Section 110 of the Department of Justice Appropriations Act, 2000 (Public Law 106-113, Appendix A, Title I, 113 Stat. 1501A-3, 1501A-20), such sums as may be necessary for the payment of judgments and compromise settlements in the goodwill litigation. This appropriation is to remain available until expended. Because an appropriation is available to pay such judgments and settlements, any estimated liability for goodwill litigation will have a corresponding receivable from the U.S. Treasury and therefore have no net impact on the financial condition of the FRF.

The last remaining goodwill case was resolved in 2015. However, for another case fully adjudicated in 2012, an estimated loss of \$4 million as of December 31, 2019, compared to \$5 million as of year-end 2018, for the court-ordered reimbursement of potential tax liabilities to the plaintiff is reasonably possible.

The FRF-FSLIC paid goodwill litigation expenses incurred by the Department of Justice (DOJ), the entity that defended these lawsuits against the United States, based on a Memorandum of Understanding dated October 2, 1998, between the FDIC and the DOJ. These expenses were paid in advance by the FRF-FSLIC and any unused funds were carried over by the DOJ and applied toward the next fiscal year

NOTES TO THE FINANCIAL STATEMENTS

charges. The DOJ returned all unused funds in September 2016 except for \$250 thousand retained to cover future administrative expenses. In September 2019, after reducing for expenses incurred, the DOJ returned the remaining \$234 thousand of unused funds to the FRF-FSLIC (see Note 6).

4. Affordable Housing Disposition Program

Required by FIRREA under section 501, the Affordable Housing Disposition Program (AHDP) was established in 1989 to ensure the preservation of affordable housing for low-income households. The FDIC, in its capacity as administrator of the FRF-RTC, assumed responsibility for monitoring property owner compliance with land use restriction agreements (LURAs). To enforce the property owners' LURA obligation, the RTC, prior to its dissolution, entered into Memoranda of Understanding with 34 monitoring agencies to oversee these LURAs. As of December 31, 2019, 24 monitoring agencies oversee these LURAs. The FDIC, through the FRF, has agreed to indemnify the monitoring agencies for all losses related to LURA legal enforcement proceedings.

From 2006 through 2018, two lawsuits against property owners resulted in \$23 thousand in legal expenses, which were fully reimbursed due to successful litigation. In 2019, new litigation against two property owners has thus far resulted in legal expenses of \$7 thousand. The maximum potential exposure to the FRF cannot be estimated as it is contingent upon future legal proceedings. However, loss mitigation factors include: (1) the indemnification may become void if the FDIC is not immediately informed upon receiving notice of any legal proceedings and (2) the FDIC is entitled to reimbursement of any legal expenses incurred for successful litigation against a property owner. AHDP guarantees will continue until the termination of the last LURA, or 2045 (whichever occurs first). As of December 31, 2019 and 2018, no contingent liability for this indemnification has been recorded.

5. Resolution Equity

As stated in the Overview section of Note 1, the FRF is composed of two distinct pools: the FRF-FSLIC and the FRF-RTC. The FRF-FSLIC consists of the assets and liabilities of the former FSLIC. The FRF-RTC consists of the assets and liabilities of the former RTC. Pursuant to legal restrictions, the two pools are maintained separately and the assets of one pool are not available to satisfy obligations of the other.

Contributed capital, accumulated deficit, and resolution equity consisted of the following components by each pool (dollars in thousands).

December 31, 2019			
	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	\$ 43,864,980	\$ 81,624,337	\$ 125,489,317
Contributed capital - ending	43,864,980	81,624,337	125,489,317
Accumulated deficit	(42,986,401)	(81,579,496)	(124,565,897)
Total Resolution Equity	\$ 878,579	\$ 44,841	\$ 923,420
December 31, 2018			
	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	\$ 43,864,980	\$ 81,624,337	\$ 125,489,317
Contributed capital - ending	43,864,980	81,624,337	125,489,317
Accumulated deficit	(43,006,464)	(81,580,554)	(124,587,018)
Total Resolution Equity	\$ 858,516	\$ 43,783	\$ 902,299

CONTRIBUTED CAPITAL

The FRF-FSLIC and the former RTC received \$43.5 billion and \$60.1 billion from the U.S. Treasury, respectively, to fund losses from thrift resolutions prior to July 1, 1995. Additionally, the FRF-FSLIC issued \$670 million in capital certificates to the Financing Corporation (a mixed-ownership government corporation established to function solely as a financing vehicle for the FSLIC) and the RTC issued \$31.3 billion of these instruments to the REFCORP. FIRREA prohibited the payment of dividends on any of these capital certificates. Through December 31, 2019, the FRF-FSLIC received a total of \$2.3 billion in goodwill appropriations, the effect of which increased contributed capital.

Through December 31, 2019, the FRF-RTC had returned \$4.6 billion to the U.S. Treasury and made payments of \$5.1 billion to the REFCORP. The most recent payment to the REFCORP was in July of 2013 for \$125 million. In addition, the FDIC returned \$2.6 billion to the U.S. Treasury on behalf of the FRF-FSLIC in 2013. These actions reduced contributed capital.

ACCUMULATED DEFICIT

The accumulated deficit represents the cumulative excess of expenses and losses over revenue for activity related to the FRF-FSLIC and the FRF-RTC. Approximately \$29.8 billion and \$87.9 billion were brought forward from the former FSLIC and the former RTC on August 9, 1989, and January 1, 1996, respectively. Since the dissolution dates, the FRF-FSLIC accumulated deficit increased by \$13.2 billion, whereas the FRF-RTC accumulated deficit decreased by \$6.3 billion.

FSLIC RESOLUTION FUND

6. Other Revenue

Other revenue primarily represents recoveries from assets acquired from terminated receiverships, such as professional liability and criminal restitution claims, and unclaimed property escheatments. Additionally, in 2019, the return of unused goodwill litigation expense funds from the DOJ is included. Other revenue was \$2 million for 2019, compared to \$808 thousand for 2018.

7. Recovery of Tax Benefits

Recovery of tax benefits represents receipts based on underlying tax provisions from entities that either entered into assistance agreements with the former FSLIC, or have subsequently purchased financial institutions that had prior agreements with the FSLIC. In 2019, FRF received \$1 million from the settlement of the last remaining FSLIC tax benefits sharing agreement.

8. Fair Value of Financial Instruments

At December 31, 2019 and 2018, the FRF's financial assets measured at fair value on a recurring basis are cash equivalents (see Note 2) of \$878 million and \$857 million, respectively. Cash equivalents are Special U.S. Treasury Certificates with overnight maturities valued at prevailing interest rates established by the U.S. Treasury's Bureau of the Fiscal Service. The valuation is considered a Level 1 measurement in the fair value hierarchy, representing quoted prices in active markets for identical assets.

9. Information Relating to the Statement of Cash Flows

The following table presents a reconciliation of net income to net cash from operating activities (dollars in thousands).

	December 31 2019	December 31 2018
Operating Activities		
Net Income:	\$ 21,121	\$ 16,514
Change in Assets and Liabilities:		
Decrease (Increase) in other assets	221	(249)
Increase (Decrease) in accounts payable and other liabilities	7	(83)
Net Cash Provided by Operating Activities	\$ 21,349	\$ 16,182

10. Subsequent Events

Subsequent events have been evaluated through February 6, 2020, the date the financial statements are available to be issued. Based on management's evaluation, there were no subsequent events requiring disclosure.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT



U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

Independent Auditor's Report

To the Board of Directors
The Federal Deposit Insurance Corporation

In our audits of the 2019 and 2018 financial statements of the Deposit Insurance Fund (DIF) and of the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF), both of which the Federal Deposit Insurance Corporation (FDIC) administers,¹ we found

- the financial statements of the DIF and of the FRF as of and for the years ended December 31, 2019, and 2018, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the DIF and to the FRF as of December 31, 2019; and
- with respect to the DIF and to the FRF, no reportable noncompliance for 2019 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements and on internal control over financial reporting and other information included with the financial statements;² (2) our report on compliance with laws, regulations, contracts, and grant agreements; and (3) agency comments.

Report on the Financial Statements and on Internal Control over Financial Reporting

In accordance with Section 17 of the Federal Deposit Insurance Act, as amended,³ and the Government Corporation Control Act,⁴ we have audited the financial statements of the DIF and of the FRF, both of which FDIC administers. The financial statements of the DIF comprise the balance sheets as of December 31, 2019, and 2018; the related statements of income and fund balance and of cash flows for the years then ended; and the related notes to the financial statements. The financial statements of the FRF comprise the balance sheets as of December 31, 2019, and 2018; the related statements of income and accumulated deficit and of cash flows for the years then ended; and the related notes to the financial statements. We also have audited FDIC's internal control over financial reporting relevant to the DIF and to the FRF as of December 31, 2019, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

¹A third fund managed by FDIC, the Orderly Liquidation Fund, established by Section 210(n) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376, 1506 (July 21, 2010), is unfunded and did not have any transactions from its inception in 2010 through 2019.

²Other information consists of information included with the financial statements, other than the auditor's report.

³Act of September 21, 1950, Pub. L. No. 797, § 2[17], 64 Stat. 873, 890, *classified as amended at* 12 U.S.C. § 1827.

⁴31 U.S.C. §§ 9101-9110.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT (continued)

We conducted our audits in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

FDIC management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements; (3) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (4) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (5) its assessment about the effectiveness of internal control over financial reporting as of December 31, 2019, included in the accompanying Management's Report on Internal Control over Financial Reporting in appendix I.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements and opinions on FDIC's internal control over financial reporting relevant to the DIF and to the FRF based on our audits. U.S. generally accepted government auditing standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement, and whether effective internal control over financial reporting was maintained in all material respects. We are also responsible for applying certain limited procedures to other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists.⁵ The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also includes obtaining an understanding of internal control over financial reporting and evaluating and testing the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered FDIC's process for evaluating and reporting on internal control

⁵A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

GOVERNMENT ACCOUNTABILITY OFFICE

AUDITOR'S REPORT (continued)

over financial reporting based on criteria established under FMFIA. Our audits also included performing such other procedures as we considered necessary in the circumstances.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Opinions on Financial Statements

In our opinion,

- the DIF's financial statements present fairly, in all material respects, the DIF's financial position as of December 31, 2019, and 2018, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles, and
- the FRF's financial statements present fairly, in all material respects, the FRF's financial position as of December 31, 2019, and 2018, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Opinions on Internal Control over Financial Reporting

In our opinion,

- FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the DIF as of December 31, 2019, based on criteria established under FMFIA, and
- FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the FRF as of December 31, 2019, based on criteria established under FMFIA.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT (continued)

During our 2019 audit, we identified deficiencies in FDIC's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies.⁶ Nonetheless, these deficiencies warrant FDIC management's attention. We have communicated these matters to FDIC management and, where appropriate, will report on them separately.

Other Matters

Other Information

FDIC's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming opinions on the DIF's and the FRF's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of the financial statements of the DIF and of the FRF, both of which FDIC administers, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

FDIC management is responsible for complying with applicable laws, regulations, contracts, and grant agreements.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosures in the financial statements of the DIF and of the FRF and to perform certain other limited procedures. Accordingly, we did not test FDIC's compliance with all applicable laws, regulations, contracts, and grant agreements.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for 2019 that would be reportable, with respect to the DIF and to the FRF, under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with applicable laws, regulations, contracts, and grant agreements. Accordingly, we do not express such an opinion.

⁶A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT (continued)

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

In commenting on a draft of this report, FDIC stated that it was pleased to receive unmodified opinions on the DIF's and the FRF's financial statements, and noted that we reported that FDIC had effective internal control over financial reporting and that there was no reportable noncompliance with tested provisions of applicable laws, regulations, contracts, and grant agreements. FDIC also stated that it recognizes the essential role a strong internal control program plays in an agency achieving its mission and that its commitment to sound financial management has been and will remain a top priority. The complete text of FDIC's response is reprinted in appendix II.



James R. Dalkin
Director
Financial Management and Assurance

February 6, 2020

Appendix I

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING



Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Office of the Chairman


Management's Report on Internal Control over Financial Reporting

The Federal Deposit Insurance Corporation's (FDIC's) internal control over financial reporting relevant to the Deposit Insurance Fund (DIF) and the FSLIC Resolution Fund (FRF) is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

FDIC management is responsible for establishing and maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. FDIC management evaluated the effectiveness of the FDIC's internal control over financial reporting relevant to the DIF and the FRF as of December 31, 2019, based on the criteria established under 31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act (FMFIA)). FDIC management performed this evaluation through its corporate risk management program that seeks to comply with the spirit of the following laws, standards, and guidance from the Office of Management and Budget (OMB) among others: FMFIA; Chief Financial Officers Act (CFO Act); Government Performance and Results Act (GPRA); Federal Information Security Management Act (FISMA); and OMB Circular A-123. In addition, other standards that the FDIC considers are the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission's *Internal Control – Integrated Framework* and the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*.

Based on the above evaluation, management concludes that, as of December 31, 2019, FDIC's internal control over financial reporting relevant to the DIF and the FRF was effective.


Jelena McWilliams
Chairman


Bret D. Edwards
Deputy to the Chairman
and Chief Financial Officer

February 6, 2020

Appendix II

**MANAGEMENT'S RESPONSE TO
THE AUDITOR'S REPORT**

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Deputy to the Chairman and CFO

February 6, 2020

Mr. James Dalkin
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, D.C. 20548

Re: FDIC Management Response to the 2019 and 2018 Financial Statements Audit Report

Dear Mr. Dalkin:

Thank you for the opportunity to review and comment on the U.S. Government Accountability Office's (GAO's) draft report titled, Financial Audit: Federal Deposit Insurance Corporation Funds' 2019 and 2018 Financial Statements, GAO-20-328R. We are pleased that the Federal Deposit Insurance Corporation (FDIC) has received unmodified opinions for the twenty-eighth consecutive year on the financial statements of its funds: the Deposit Insurance Fund (DIF) and the FSLIC Resolution Fund (FRF). Also, GAO reported that the FDIC had effective internal control over financial reporting, and that there was no reportable noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements that were tested.

FDIC management and staff worked to improve the internal control environment during the year and will continue to focus on this area in the coming audit year. FDIC recognizes the essential role a strong internal control program plays in an agency achieving its mission. Our commitment to sound financial management has been and will remain a top priority.

In complying with audit standards that require management to provide a written assessment about the effectiveness of its internal control over financial reporting, the FDIC has prepared Management's Report on Internal Control over Financial Reporting. The report acknowledges management's responsibility for establishing and maintaining internal control over financial reporting and provides the FDIC's conclusion regarding the effectiveness of its internal control.

We want to thank the GAO staff for their professionalism and dedication during the audit and look forward to another positive and productive relationship during the 2020 audit. If you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink that reads "Bret D. Edwards".

Bret D. Edwards
Deputy to the Chairman
and Chief Financial Officer

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VI.



RISK MANAGEMENT AND INTERNAL CONTROLS

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The FDIC uses several means to identify and address enterprise risks, maintain comprehensive internal controls, ensure the overall effectiveness and efficiency of operations, and otherwise comply as necessary with the following federal standards, among others:

- ◆ Chief Financial Officers Act (CFO Act)
- ◆ Federal Managers' Financial Integrity Act (FMFIA)
- ◆ Federal Financial Management Improvement Act (FFMIA)
- ◆ Government Performance and Results Act (GPRA)
- ◆ Federal Information Security Modernization Act of 2014 (FISMA)
- ◆ OMB Circular A-123
- ◆ GAO's *Standards for Internal Control in the Federal Government*

As a foundation for these efforts, the Division of Finance, Risk Management and Internal Controls Branch (DOF-RMIC) oversees a corporate-wide program of risk management and internal control activities and works closely with FDIC division and office management. The FDIC has made a concerted effort to identify and assess financial, reputational, and operational risks and incorporate corresponding controls into day-to-day operations. The program also requires that divisions and offices document comprehensive procedures, thoroughly train employees, and hold supervisors accountable for performance and results. Divisions and offices monitor compliance through periodic management reviews and various activity reports distributed to all levels of management. The FDIC also takes seriously FDIC Office of Inspector General and GAO audit recommendations and strives to implement agreed upon actions promptly. The FDIC has received unmodified opinions on its financial statement audits for 28 consecutive years, and these and other positive results reflect the effectiveness of the overall internal control program.

In 2019, DOF-RMIC continued to enhance the FDIC's Enterprise Risk Management program. ERM program accomplishments include, but were not limited to:

- ◆ Enhancing the ERM program's governance structure,
- ◆ Confirming the FDIC's risk appetite statement and risk profile,
- ◆ Relaunching the Model Risk Management program, and
- ◆ Providing Project Risk Manager support for certain complex IT projects.

During 2020, DOF-RMIC will continue enhancing the ERM program. DOF-RMIC will focus on raising ERM awareness in the FDIC regional offices, better integrating the ERM program with FDIC's strategic planning and budget process, enhancing the internal control program, and exploring opportunities for process improvements.

PROGRAM EVALUATION

DOF-RMIC periodically evaluates selected program areas responsible for achieving FDIC strategic objectives and performance goals. During 2019, DOF-RMIC evaluated DRR processes responsible for achieving two Insurance Program strategic objectives and related performance goals.

Strategic Objective and Related Performance Goal Evaluated:

- ◆ The FDIC resolves failed IDIs in the manner least-costly to the DIF.
 - Market failing institutions to all known qualified and interested potential bidders.

The FDIC maintains a database of qualified and interested potential bidders for failed financial institutions. In developing the potential bidders list, the FDIC identifies well-capitalized and well-managed banks that are expected to be interested in acquiring the failing institution. During 2019, four financial institutions failed. FDIC marketed these institutions using a secured web-based virtual data room. This approach allowed the FDIC to effectively and efficiently market the failing institution and its assets to potential bidders in a confidential manner. We confirmed in each case that the marketing process was competitive and multiple interested banks submitted bids.

Strategic Objective and Related Performance Goals Evaluated:

- ◆ Customers of failed IDIs have timely access to insured funds and financial services.
 - Depositors have access to insured funds within one business day if the failure occurs on a Friday.
 - Depositors have access to insured funds within two business days if the failure occurs on any other day of the week.
 - Depositors do not incur any losses on insured deposits.
 - No appropriated funds are required to pay insured depositors.

The FDIC has procedures in place to ensure that customers have timely access to insured funds and financial services, such as automated teller machines, safe deposit boxes, and wire services. If an institution failure occurs on a Friday, FDIC’s target for access to insured funds by customers is one business day. If a failure occurs on any other day of the week, the target is two business days. We confirmed that procedures were up-to-date and appropriate. In 2019, four banks failed. The acquiring institution in three of the failures assumed all deposits and the fourth acquiring institution assumed insured deposits only. In all cases, DRR completed the deposit insurance determination timely and the acquiring institutions re-opened for business by the first business day immediately following the Friday failure. Moreover, no depositors incurred losses on insured deposits and no appropriated funds were used to pay insured deposits.

FRAUD REDUCTION AND DATA ANALYTICS ACT OF 2015

The Fraud Reduction and Data Analytics Act of 2015 was signed into law on June 30, 2016. The law is intended to improve federal agency financial and administrative controls and procedures to assess and mitigate fraud risks, and to improve federal agencies’ development and use of

data analytics for the purpose of identifying, preventing, and responding to fraud, including improper payments.

The FDIC’s enterprise risk management and internal control program considers the potential for fraud and incorporates elements of Principle 8—Assess Fraud Risk—from the GAO *Standards of Internal Control in the Federal Government*. The FDIC implemented a Fraud Risk Assessment Framework as a basis for identifying potential financial fraud risks and schemes and ensuring that preventive and detective controls are present and working as intended. Examples of transactions more susceptible to fraud include contractor payments, wire transfers, travel card purchases, and cash receipts.

As part of the Framework, management identifies potential fraud areas and implements and evaluates key controls as proactive measures for fraud prevention. Although no system of internal control provides absolute assurance, the FDIC’s system of internal control provides reasonable assurance that key controls are adequate and working as intended. Monitoring activities include supervisory approvals, management reports, and exception reporting.

FDIC management performs due diligence in areas of suspected or alleged fraud. At the conclusion of due diligence, the matter is either closed or referred to the Office of Inspector General for investigation.

During 2019, there was no systemic fraud identified within the FDIC.

MANAGEMENT REPORT ON FINAL ACTIONS

As required under the provisions of Section 5 (as amended) of the Inspector General Act of 1978, the FDIC must report information on final action taken by management on certain audit reports. The tables on the following pages provide information on final action taken by management on audit reports for the federal fiscal year period October 1, 2018, through September 30, 2019.

**TABLE 1:
MANAGEMENT REPORT ON FINAL ACTION ON AUDITS
WITH DISALLOWED COSTS FOR FISCAL YEAR 2019**

Dollars in Thousands

(There were no audit reports in this category.)

**TABLE 2:
MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH RECOMMENDATIONS
TO PUT FUNDS TO BETTER USE FOR FISCAL YEAR 2019**

Dollars in Thousands

(There were no audit reports in this category.)

**TABLE 3:
AUDIT REPORTS WITHOUT FINAL ACTIONS BUT WITH MANAGEMENT DECISIONS
OVER ONE YEAR OLD FOR FISCAL YEAR 2019**

Report No. and Issue Date	OIG Audit Recommendation	Management Action	Disallowed Costs
AUD-16-001 10/28/2015	The Acting CIO should assess the Information Security Manager (ISM) Outsourced Information Service Provider Assessment Methodology processes supporting information service provider assessments to determine and implement any needed improvements to ensure timely completion of assessments.	The CIOO updated its assessment methodology to help ensure timely completion of assessments and completed assessments consistent with its implementation plan. Status: Completed. Undergoing OIG review.	\$0
AUD-17-001 11/2/2016	OIG recommends that the CIO should review existing resource commitments and priorities for addressing data communications Plans of Action and Milestones (POA&Ms) and take appropriate steps to ensure they are addressed in a timely manner.	The CIOO developed and documented its policy risk tolerance levels and timeframes for remediating POA&Ms. The FDIC has achieved a substantial reduction in several aging POA&M performance metrics. Additional time is needed to refine and meet performance benchmarks. Due Date: 6/26/2020.	\$0
EVAL-17-007 9/18/2017	The Director, DOA should incorporate a risk assessment of individual separating employees into the FDIC's pre-exit clearance process.	DOA established procedures and protocols for incorporating an employee-specific risk assessment as part of the pre-exit clearance process. Status: Subsequently closed.	\$0

**TABLE 3:
AUDIT REPORTS WITHOUT FINAL ACTIONS BUT WITH MANAGEMENT DECISIONS
OVER ONE YEAR OLD FOR FISCAL YEAR 2019 (continued)**

Report No. and Issue Date	OIG Audit Recommendation	Management Action	Disallowed Costs
<p>AUD-18-001 10/25/2017</p>	<p>The CIO should implement the Information Security Risk Advisory (ISRA) Council’s responsibilities to develop a method and strategy for use by FDIC divisions and offices in the classification of risk ratings and risk profiles of corporate applications and systems.</p> <p>The CIO should implement the ISRA Council’s responsibilities to develop and communicate the FDIC’s information security risk tolerance level and risk profile used to prioritize risk mitigation activities.</p> <p>The CIO should ensure that the improvements to the FDIC’s patch management process result in systems being patched in accordance with FDIC’s patch management policy and National Institute of Standards and Technology recommended practices.</p>	<p>The CIOO developed a new methodology for categorizing applications and systems based on their risk profile. However, additional time is needed to fully implement the new methodology.</p> <p>Due Date: 1/31/2020</p> <p>The FDIC issued its Corporate Risk Appetite Statement, which includes a discussion of technology risk. The CIOO developed risk tolerances and metrics for monitoring key risk indicators.</p> <p>Due Date: 1/28/2020</p> <p>The FDIC established patch management risk tolerances and is monitoring to ensure that systems are patched within established timeframes. In addition, the FDIC updated its patching policy to incorporate a new process for documenting deferrals and acceptances of risk, when appropriate. Further, the FDIC developed work instructions to ensure the process of monitoring vulnerabilities and tolerance levels is repeatable.</p> <p>Status: Subsequently closed.</p>	<p>\$0</p>

**TABLE 3:
AUDIT REPORTS WITHOUT FINAL ACTIONS BUT WITH MANAGEMENT DECISIONS
OVER ONE YEAR OLD FOR FISCAL YEAR 2019 (continued)**

Report No. and Issue Date	OIG Audit Recommendation	Management Action	Disallowed Costs
AUD-18-001 10/25/2017 (continued)	<p>The CIO should review and enhance the FDIC's vulnerability scanning processes to ensure that issues associated with conducting credentialed scans are resolved in a timely manner.</p> <p>The CIO should develop an approach and implementing procedures for evaluating risk associated with known security weaknesses and vulnerabilities to ensure they collectively remain within established risk tolerance levels.</p>	<p>The FDIC revised its standard operating procedure for addressing authentication failures. The procedure now requires evidence of successful authentication prior to closing change control tickets generated as a result of authentication failures. The FDIC still needs to demonstrate consistent, effective performance of the new procedures.</p> <p>Due Date: 5/29/2020</p> <p>The CIOO developed standard risk tolerances for information security vulnerabilities, developed a framework to quantify risk, and integrated these items into the CIOO's risk management processes. Additionally, the CIOO updated its Information Security Risk Management directive to align roles, responsibilities, and expectations for reporting risk levels that approach or exceed risk tolerance limits. The CIOO will finalize and publish the directive once the directives review process is complete.</p> <p>Due Date: 5/29/2020</p>	\$0

**TABLE 3:
AUDIT REPORTS WITHOUT FINAL ACTIONS BUT WITH MANAGEMENT DECISIONS
OVER ONE YEAR OLD FOR FISCAL YEAR 2019 (continued)**

Report No. and Issue Date	OIG Audit Recommendation	Management Action	Disallowed Costs
<p>AUD-18-004 7/26/18</p>	<p>The CIO should implement an enterprise architecture that is part of the FDIC's IT Governance Framework and used to guide IT decision-making.</p> <p>The CIO should incorporate the revised IT governance processes into applicable FDIC policies, procedures, and charters.</p> <p>The CIO should identify and document the IT resources and expertise needed to execute the FDIC's IT Strategic Plan.</p>	<p>The CIO implemented an enterprise architecture that is part of the FDIC's IT Governance Framework and used to guide IT decision-making.</p> <p>Status: Subsequently closed.</p> <p>The CIOO combined existing IT governance policies into one overarching directive which will define the FDIC's IT decision-making framework for governing and managing IT resources for enterprise architecture, IT strategy, IT planning, data management, and IT project management. The CIOO will finalize and publish the directive once the directives review process is complete.</p> <p>Due Date: 3/31/2020</p> <p>The CIOO developed a workforce planning guide that outlines the process that will be used to document the IT resources and expertise needed to execute the FDIC's IT Strategic Plan. The CIOO will perform the IT workforce assessment against future IT workforce needs as defined in the FDIC's IT Modernization Plan and target IT architecture.</p> <p>Due Date: 9/30/2020</p>	<p>\$0</p>
<p>EVAL-18-004 8/8/2018</p>	<p>The Director, Division of Risk Management Supervision should issue a comprehensive policy guidance document defining Forward-Looking Supervision, including its purpose, goals, roles, and responsibilities.</p>	<p>RMS issued a comprehensive document describing its risk-focused supervision program, including how the FDIC implemented Forward-Looking Supervision concepts.</p> <p>Status: Subsequently closed.</p>	<p>\$0</p>

VII.



APPENDICES

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A. KEY STATISTICS

FDIC ACTIONS ON FINANCIAL INSTITUTIONS APPLICATIONS			
	2019	2018	2017
Deposit Insurance	15	17	12
Approved ¹	15	17	12
Denied	0	0	0
New Branches	548	533	500
Approved	548	533	500
Denied	0	0	0
Mergers	243	224	218
Approved	243	224	218
Denied	0	0	0
Requests for Consent to Serve²	87	120	104
Approved	87	120	104
Section 19	5	7	1
Section 32	82	113	103
Denied	0	0	0
Section 19	0	0	0
Section 32	0	0	0
Notices of Change in Control	12	21	17
Letters of Intent Not to Disapprove	12	21	17
Disapproved	0	0	0
Brokered Deposit Waivers	3	5	12
Approved	3	5	11
Denied	0	0	1
Savings Association Activities³	2	0	1
Approved	2	0	1
Denied	0	0	0
State Bank Activities/Investments⁴	20	9	2
Approved	20	9	2
Denied	0	0	0
Conversion of Mutual Institutions	4	2	5
Non-Objection	4	2	5
Objection	0	0	0

¹ Includes deposit insurance application filed on behalf of (1) newly organized institutions, (2) existing uninsured financial services companies seeking establishment as an insured institution, and (3) interim institutions established to facilitate merger or conversion transactions, and applications to facilitate the establishment of thrift holding companies.

² Under Section 19 of the Federal Deposit Insurance (FDI) Act, an insured institution must receive FDIC approval before employing a person convicted of dishonesty or breach of trust. Under Section 32, the FDIC must approve any change of directors or senior executive officers at a state nonmember bank that is not in compliance with capital requirements or is otherwise in troubled condition.

³ Section 28 of the FDI Act, in general, prohibits a federally-insured state savings association from engaging in an activity not permissible for a federal savings association and requires notices or applications to be filed with the FDIC.

⁴ Section 24 of the FDI Act, in general, prohibits a federally-insured state bank from engaging in an activity not permissible for a national bank and requires notices or applications to be filed with the FDIC.

COMBINED RISK AND CONSUMER ENFORCEMENT ACTIONS			
	2019	2018	2017
Total Number of Actions Initiated by the FDIC	182	177	231
Termination of Insurance	17	8	9
Involuntary Termination	0	0	0
Sec. 8a For Violations, Unsafe/Unsound Practices or Conditions	0	0	0
Voluntary Termination	17	8	9
Sec. 8a By Order Upon Request	0	0	0
Sec. 8p No Deposits	12	7	8
Sec. 8q Deposits Assumed	5	1	1
Sec. 8b Cease-and-Desist Actions	24	23	26
Notices of Charges Issued	1	1	0
Orders to Pay Restitution	0	5	4
Consent Orders	18	17	14
Personal Cease and Desist Orders	5	0	8
Sec. 8e Removal/Prohibition of Director or Officer	34	52	65
Notices of Intention to Remove/Prohibit	1	2	7
Consent Orders	33	50	58
Sec. 8g Suspension/Removal When Charged With Crime	0	0	0
Civil Money Penalties Issued	29	25	47
Sec. 7a Call Report Penalties	0	0	0
Sec. 8i Civil Money Penalties	27	23	42
Sec. 8i Civil Money Penalty Notices of Assessment	2	2	5
Sec. 10c Orders of Investigation	11	6	9
Sec. 19 Waiver Orders	64	59	71
Approved Section 19 Waiver Orders	64	59	71
Denied Section 19 Waiver Orders	0	0	0
Sec. 32 Notices Disapproving Officer/Director's Request for Review	0	0	0
Truth-in-Lending Act Reimbursement Actions	58	91	135
Denials of Requests for Relief	0	0	0
Grants of Relief	0	0	0
Banks Making Reimbursement ¹	58	91	135
Suspicious Activity Reports (Open and closed institutions)¹	225,270	193,585	182,647
Other Actions Not Listed²	3	4	4

¹ These actions do not constitute the initiation of a formal enforcement action and, therefore, are not included in the total number of actions initiated.

² The Other Actions Not Listed were, in 2019: 3 Supervisory Prompt Corrective Action Directives and 1 Other Formal Action; in 2018: 2 Supervisory Prompt Corrective Action Directives, 1 Temporary Cease and Desist Order and 1 Other Formal Action; and 2017: 1 Supervisory Prompt Corrective Action Directive and 3 Other Formal Actions.

**ESTIMATED INSURED DEPOSITS AND THE DEPOSIT INSURANCE FUND,
DECEMBER 31, 1934, THROUGH SEPTEMBER 30, 2019¹**

Dollars in Millions (except Insurance Coverage)

Year	Insurance Coverage ²	Deposits in Insured Institutions ²			Insurance Fund as a Percentage of		
		Total Domestic Deposits	Est. Insured Deposits	Percentage of Domestic Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
2019	\$250,000	\$13,018,939	\$7,736,888	59.4	\$108,939.7	0.84	1.41
2018	250,000	12,659,395	7,525,393	59.4	102,608.9	0.81	1.36
2017	250,000	12,129,503	7,156,067	59.0	92,747.5	0.76	1.30
2016	250,000	11,693,371	6,917,200	59.2	83,161.5	0.71	1.20
2015	250,000	10,952,922	6,518,675	59.5	72,600.2	0.66	1.11
2014	250,000	10,410,687	6,195,554	59.5	62,780.2	0.60	1.01
2013	250,000	9,825,479	5,998,238	61.0	47,190.8	0.48	0.79
2012	250,000	9,474,720	7,402,053	78.1	32,957.8	0.35	0.45
2011	250,000	8,782,291	6,973,483	79.4	11,826.5	0.13	0.17
2010	250,000	7,887,858	6,301,542	79.9	(7,352.2)	(0.09)	(0.12)
2009	250,000	7,705,354	5,407,773	70.2	(20,861.8)	(0.27)	(0.39)
2008	100,000	7,505,408	4,750,783	63.3	17,276.3	0.23	0.36
2007	100,000	6,921,678	4,292,211	62.0	52,413.0	0.76	1.22
2006	100,000	6,640,097	4,153,808	62.6	50,165.3	0.76	1.21
2005	100,000	6,229,753	3,890,930	62.5	48,596.6	0.78	1.25
2004	100,000	5,724,621	3,622,059	63.3	47,506.8	0.83	1.31
2003	100,000	5,223,922	3,452,497	66.1	46,022.3	0.88	1.33
2002	100,000	4,916,078	3,383,598	68.8	43,797.0	0.89	1.29
2001	100,000	4,564,064	3,215,581	70.5	41,373.8	0.91	1.29
2000	100,000	4,211,895	3,055,108	72.5	41,733.8	0.99	1.37
1999	100,000	3,885,826	2,869,208	73.8	39,694.9	1.02	1.38
1998	100,000	3,817,150	2,850,452	74.7	39,452.1	1.03	1.38
1997	100,000	3,602,189	2,746,477	76.2	37,660.8	1.05	1.37
1996	100,000	3,454,556	2,690,439	77.9	35,742.8	1.03	1.33
1995	100,000	3,318,595	2,663,873	80.3	28,811.5	0.87	1.08
1994	100,000	3,184,410	2,588,619	81.3	23,784.5	0.75	0.92
1993	100,000	3,220,302	2,602,781	80.8	14,277.3	0.44	0.55
1992	100,000	3,275,530	2,677,709	81.7	178.4	0.01	0.01
1991	100,000	3,331,312	2,733,387	82.1	(6,934.0)	(0.21)	(0.25)
1990	100,000	3,415,464	2,784,838	81.5	4,062.7	0.12	0.15
1989	100,000	3,412,503	2,755,471	80.7	13,209.5	0.39	0.48
1988	100,000	2,337,080	1,756,771	75.2	14,061.1	0.60	0.80
1987	100,000	2,198,648	1,657,291	75.4	18,301.8	0.83	1.10
1986	100,000	2,162,687	1,636,915	75.7	18,253.3	0.84	1.12

**ESTIMATED INSURED DEPOSITS AND THE DEPOSIT INSURANCE FUND,
DECEMBER 31, 1934, THROUGH SEPTEMBER 30, 2019¹ (continued)**

Dollars in Millions (except Insurance Coverage)

Year	Insurance Coverage ²	Deposits in Insured Institutions ²			Insurance Fund as a Percentage of		
		Total Domestic Deposits	Est. Insured Deposits	Percentage of Domestic Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
1985	100,000	1,975,030	1,510,496	76.5	17,956.9	0.91	1.19
1984	100,000	1,805,334	1,393,421	77.2	16,529.4	0.92	1.19
1983	100,000	1,690,576	1,268,332	75.0	15,429.1	0.91	1.22
1982	100,000	1,544,697	1,134,221	73.4	13,770.9	0.89	1.21
1981	100,000	1,409,322	988,898	70.2	12,246.1	0.87	1.24
1980	100,000	1,324,463	948,717	71.6	11,019.5	0.83	1.16
1979	40,000	1,226,943	808,555	65.9	9,792.7	0.80	1.21
1978	40,000	1,145,835	760,706	66.4	8,796.0	0.77	1.16
1977	40,000	1,050,435	692,533	65.9	7,992.8	0.76	1.15
1976	40,000	941,923	628,263	66.7	7,268.8	0.77	1.16
1975	40,000	875,985	569,101	65.0	6,716.0	0.77	1.18
1974	40,000	833,277	520,309	62.4	6,124.2	0.73	1.18
1973	20,000	766,509	465,600	60.7	5,615.3	0.73	1.21
1972	20,000	697,480	419,756	60.2	5,158.7	0.74	1.23
1971	20,000	610,685	374,568	61.3	4,739.9	0.78	1.27
1970	20,000	545,198	349,581	64.1	4,379.6	0.80	1.25
1969	20,000	495,858	313,085	63.1	4,051.1	0.82	1.29
1968	15,000	491,513	296,701	60.4	3,749.2	0.76	1.26
1967	15,000	448,709	261,149	58.2	3,485.5	0.78	1.33
1966	15,000	401,096	234,150	58.4	3,252.0	0.81	1.39
1965	10,000	377,400	209,690	55.6	3,036.3	0.80	1.45
1964	10,000	348,981	191,787	55.0	2,844.7	0.82	1.48
1963	10,000	313,304	177,381	56.6	2,667.9	0.85	1.50
1962	10,000	297,548	170,210	57.2	2,502.0	0.84	1.47
1961	10,000	281,304	160,309	57.0	2,353.8	0.84	1.47
1960	10,000	260,495	149,684	57.5	2,222.2	0.85	1.48
1959	10,000	247,589	142,131	57.4	2,089.8	0.84	1.47
1958	10,000	242,445	137,698	56.8	1,965.4	0.81	1.43
1957	10,000	225,507	127,055	56.3	1,850.5	0.82	1.46
1956	10,000	219,393	121,008	55.2	1,742.1	0.79	1.44
1955	10,000	212,226	116,380	54.8	1,639.6	0.77	1.41
1954	10,000	203,195	110,973	54.6	1,542.7	0.76	1.39
1953	10,000	193,466	105,610	54.6	1,450.7	0.75	1.37
1952	10,000	188,142	101,841	54.1	1,363.5	0.72	1.34

**ESTIMATED INSURED DEPOSITS AND THE DEPOSIT INSURANCE FUND,
DECEMBER 31, 1934, THROUGH SEPTEMBER 30, 2019¹ (continued)**
Dollars in Millions (except Insurance Coverage)

Year	Insurance Coverage ²	Deposits in Insured Institutions ²				Insurance Fund as a Percentage of	
		Total Domestic Deposits	Est. Insured Deposits	Percentage of Domestic Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
1951	10,000	178,540	96,713	54.2	1,282.2	0.72	1.33
1950	10,000	167,818	91,359	54.4	1,243.9	0.74	1.36
1949	5,000	156,786	76,589	48.8	1,203.9	0.77	1.57
1948	5,000	153,454	75,320	49.1	1,065.9	0.69	1.42
1947	5,000	154,096	76,254	49.5	1,006.1	0.65	1.32
1946	5,000	148,458	73,759	49.7	1,058.5	0.71	1.44
1945	5,000	157,174	67,021	42.6	929.2	0.59	1.39
1944	5,000	134,662	56,398	41.9	804.3	0.60	1.43
1943	5,000	111,650	48,440	43.4	703.1	0.63	1.45
1942	5,000	89,869	32,837	36.5	616.9	0.69	1.88
1941	5,000	71,209	28,249	39.7	553.5	0.78	1.96
1940	5,000	65,288	26,638	40.8	496.0	0.76	1.86
1939	5,000	57,485	24,650	42.9	452.7	0.79	1.84
1938	5,000	50,791	23,121	45.5	420.5	0.83	1.82
1937	5,000	48,228	22,557	46.8	383.1	0.79	1.70
1936	5,000	50,281	22,330	44.4	343.4	0.68	1.54
1935	5,000	45,125	20,158	44.7	306.0	0.68	1.52
1934	5,000	40,060	18,075	45.1	291.7	0.73	1.61

¹For 2019, figures are as of September 30; all other prior years are as of December 31. Prior to 1989, figures are for the Bank Insurance Fund (BIF) only and exclude insured branches of foreign banks. For 1989 to 2005, figures represent the sum of the BIF and Savings Association Insurance Fund (SAIF) amounts; for 2006 to 2019, figures are for DIF. Amounts for 1989-2019 include insured branches of foreign banks. Prior to year-end 1991, insured deposits were estimated using percentages determined from June Call and Thrift Financial Reports.

² The year-end 2008 coverage limit and estimated insured deposits do not reflect the temporary increase to \$250,000 then in effect under the Emergency Economic Stabilization Act of 2008. The Dodd-Frank Wall Street Reform and Consumer Protection (Dodd-Frank) Act made this coverage limit permanent. The year-end 2009 coverage limit and estimated insured deposits reflect the \$250,000 coverage limit. The Dodd-Frank Act also temporarily provided unlimited coverage for non-interest bearing transaction accounts for two years beginning December 31, 2010. Coverage for certain retirement accounts increased to \$250,000 in 2006. Initial coverage limit was \$2,500 from January 1 to June 30, 1934.

**INCOME AND EXPENSES, DEPOSIT INSURANCE FUND,
FROM BEGINNING OF OPERATIONS,
SEPTEMBER 11, 1933, THROUGH DECEMBER 31, 2019**
Dollars in Millions

Year	Income					Expenses and Losses					
	Total	Assessment Income	Assessment Credits	Investment and Other	Effective Assessment Rate ¹	Total	Provision for Ins. Losses	Admin. and Operating Expenses ²	Interest & Other Ins. Expenses	Funding Transfer from the FSLIC Resolution Fund	Net Income/ (Loss)
TOTAL	\$260,559.2	\$190,764.4	\$12,096.5	\$81,891.3		\$151,024.5	\$106,443.1	\$35,109.3	\$9,472.2	\$139.5	\$109,674.2
2019	7,095.3	5,642.7	703.6	2,156.2	0.0313%	513.2	(1,285.5)	1,795.6	3.1	0	6,582.1
2018	11,170.8	9,526.7	0.0	1,644.1	0.0626%	1,205.2	(562.6)	1,764.7	3.1	0	9,965.6
2017	11,663.7	10,594.8	0.0	1,068.9	0.0716%	1,558.2	(183.1)	1,739.4	2.0	0	10,105.5
2016	10,674.1	9,986.6	0.0	687.5	0.0699%	150.6	(1,567.9)	1,715.0	3.5	0	10,523.5
2015	9,303.5	8,846.8	0.0	456.7	0.0647%	(553.2)	(2,251.3)	1,687.2	10.9	0	9,856.7
2014	8,965.1	8,656.1	0.0	309.0	0.0663%	(6,634.7)	(8,305.5)	1,664.3	6.5	0	15,599.8
2013	10,458.9	9,734.2	0.0	724.7	0.0775%	(4,045.9)	(5,659.4)	1,608.7	4.8	0	14,504.8
2012	18,522.3	12,397.2	0.2	6,125.3	0.1012%	(2,599.0)	(4,222.6)	1,777.5	(153.9)	0	21,121.3
2011	16,342.0	13,499.5	0.9	2,843.4	0.1115%	(2,915.4)	(4,413.6)	1,625.4	(127.2)	0	19,257.4
2010	13,379.9	13,611.2	0.8	(230.5)	0.1772%	75.0	(847.8)	1,592.6	(669.8)	0	13,304.9
2009	24,706.4	17,865.4	148.0	6,989.0	0.2330%	60,709.0	57,711.8	1,271.1	1,726.1	0	(36,002.6)
2008	7,306.3	4,410.4	1,445.9	4,341.8	0.0418%	44,339.5	41,838.8	1,033.5	1,467.2	0	(37,033.2)
2007	3,196.2	3,730.9	3,088.0	2,553.3	0.0093%	1,090.9	95.0	992.6	3.3	0	2,105.3
2006	2,643.5	31.9	0.0	2,611.6	0.0005%	904.3	(52.1)	950.6	5.8	0	1,739.2
2005	2,420.5	60.9	0.0	2,359.6	0.0010%	809.3	(160.2)	965.7	3.8	0	1,611.2
2004	2,240.3	104.2	0.0	2,136.1	0.0019%	607.6	(353.4)	941.3	19.7	0	1,632.7
2003	2,173.6	94.8	0.0	2,078.8	0.0019%	(67.7)	(1,010.5)	935.5	7.3	0	2,241.3
2002	2,384.7	107.8	0.0	2,276.9	0.0023%	719.6	(243.0)	945.1	17.5	0	1,665.1
2001	2,730.1	83.2	0.0	2,646.9	0.0019%	3,123.4	2,199.3	887.9	36.2	0	(393.3)
2000	2,570.1	64.3	0.0	2,505.8	0.0016%	945.2	28.0	883.9	33.3	0	1,624.9
1999	2,416.7	48.4	0.0	2,368.3	0.0013%	2,047.0	1,199.7	823.4	23.9	0	369.7
1998	2,584.6	37.0	0.0	2,547.6	0.0010%	817.5	(5.7)	782.6	40.6	0	1,767.1
1997	2,165.5	38.6	0.0	2,126.9	0.0011%	247.3	(505.7)	677.2	75.8	0	1,918.2
1996	7,156.8	5,294.2	0.0	1,862.6	0.1622%	353.6	(417.2)	568.3	202.5	0	6,803.2
1995	5,229.2	3,877.0	0.0	1,352.2	0.1238%	202.2	(354.2)	510.6	45.8	0	5,027.0
1994	7,682.1	6,722.7	0.0	959.4	0.2192%	(1,825.1)	(2,459.4)	443.2	191.1	0	9,507.2
1993	7,354.5	6,682.0	0.0	672.5	0.2157%	(6,744.4)	(7,660.4)	418.5	497.5	0	14,098.9
1992	6,479.3	5,758.6	0.0	720.7	0.1815%	(596.8)	(2,274.7)	614.8 ³	1,063.1	35.4	7,111.5
1991	5,886.5	5,254.0	0.0	632.5	0.1613%	16,925.3	15,496.2	326.1	1,103.0	42.4	(10,996.4)
1990	3,855.3	2,872.3	0.0	983.0	0.0868%	13,059.3	12,133.1	275.6	650.6	56.1	(9,147.9)
1989	3,494.8	1,885.0	0.0	1,609.8	0.0816%	4,352.2	3,811.3	219.9	321.0	5.6	(851.8)
1988	3,347.7	1,773.0	0.0	1,574.7	0.0825%	7,588.4	6,298.3	223.9	1,066.2	0	(4,240.7)
1987	3,319.4	1,696.0	0.0	1,623.4	0.0833%	3,270.9	2,996.9	204.9	69.1	0	48.5
1986	3,260.1	1,516.9	0.0	1,743.2	0.0787%	2,963.7	2,827.7	180.3	(44.3)	0	296.4
1985	3,385.5	1,433.5	0.0	1,952.0	0.0815%	1,957.9	1,569.0	179.2	209.7	0	1,427.6
1984	3,099.5	1,321.5	0.0	1,778.0	0.0800%	1,999.2	1,633.4	151.2	214.6	0	1,100.3
1983	2,628.1	1,214.9	164.0	1,577.2	0.0714%	969.9	675.1	135.7	159.1	0	1,658.2

**INCOME AND EXPENSES, DEPOSIT INSURANCE FUND,
FROM BEGINNING OF OPERATIONS,
SEPTEMBER 11, 1933, THROUGH DECEMBER 31, 2019 (continued)**

Dollars in Millions

Year	Income					Expenses and Losses					
	Total	Assessment Income	Assessment Credits	Investment and Other	Effective Assessment Rate ¹	Total	Provision for Ins. Losses	Admin. and Operating Expenses ²	Interest & Other Ins. Expenses	Funding Transfer from the FSLIC Resolu tion Fund	Net Income/ (Loss)
1982	2,524.6	1,108.9	96.2	1,511.9	0.0769%	999.8	126.4	129.9	743.5	0	1,524.8
1981	2,074.7	1,039.0	117.1	1,152.8	0.0714%	848.1	320.4	127.2	400.5	0	1,226.6
1980	1,310.4	951.9	521.1	879.6	0.0370%	83.6	(38.1)	118.2	3.5	0	1,226.8
1979	1,090.4	881.0	524.6	734.0	0.0333%	93.7	(17.2)	106.8	4.1	0	996.7
1978	952.1	810.1	443.1	585.1	0.0385%	148.9	36.5	103.3	9.1	0	803.2
1977	837.8	731.3	411.9	518.4	0.0370%	113.6	20.8	89.3	3.5	0	724.2
1976	764.9	676.1	379.6	468.4	0.0370%	212.3	28.0	180.4 ⁴	3.9	0	552.6
1975	689.3	641.3	362.4	410.4	0.0357%	97.5	27.6	67.7	2.2	0	591.8
1974	668.1	587.4	285.4	366.1	0.0435%	159.2	97.9	59.2	2.1	0	508.9
1973	561.0	529.4	283.4	315.0	0.0385%	108.2	52.5	54.4	1.3	0	452.8
1972	467.0	468.8	280.3	278.5	0.0333%	65.7	10.1	49.6	6.0 ⁵	0	401.3
1971	415.3	417.2	241.4	239.5	0.0345%	60.3	13.4	46.9	0.0	0	355.0
1970	382.7	369.3	210.0	223.4	0.0357%	46.0	3.8	42.2	0.0	0	336.7
1969	335.8	364.2	220.2	191.8	0.0333%	34.5	1.0	33.5	0.0	0	301.3
1968	295.0	334.5	202.1	162.6	0.0333%	29.1	0.1	29.0	0.0	0	265.9
1967	263.0	303.1	182.4	142.3	0.0333%	27.3	2.9	24.4	0.0	0	235.7
1966	241.0	284.3	172.6	129.3	0.0323%	19.9	0.1	19.8	0.0	0	221.1
1965	214.6	260.5	158.3	112.4	0.0323%	22.9	5.2	17.7	0.0	0	191.7
1964	197.1	238.2	145.2	104.1	0.0323%	18.4	2.9	15.5	0.0	0	178.7
1963	181.9	220.6	136.4	97.7	0.0313%	15.1	0.7	14.4	0.0	0	166.8
1962	161.1	203.4	126.9	84.6	0.0313%	13.8	0.1	13.7	0.0	0	147.3
1961	147.3	188.9	115.5	73.9	0.0323%	14.8	1.6	13.2	0.0	0	132.5
1960	144.6	180.4	100.8	65.0	0.0370%	12.5	0.1	12.4	0.0	0	132.1
1959	136.5	178.2	99.6	57.9	0.0370%	12.1	0.2	11.9	0.0	0	124.4
1958	126.8	166.8	93.0	53.0	0.0370%	11.6	0.0	11.6	0.0	0	115.2
1957	117.3	159.3	90.2	48.2	0.0357%	9.7	0.1	9.6	0.0	0	107.6
1956	111.9	155.5	87.3	43.7	0.0370%	9.4	0.3	9.1	0.0	0	102.5
1955	105.8	151.5	85.4	39.7	0.0370%	9.0	0.3	8.7	0.0	0	96.8
1954	99.7	144.2	81.8	37.3	0.0357%	7.8	0.1	7.7	0.0	0	91.9
1953	94.2	138.7	78.5	34.0	0.0357%	7.3	0.1	7.2	0.0	0	86.9
1952	88.6	131.0	73.7	31.3	0.0370%	7.8	0.8	7.0	0.0	0	80.8
1951	83.5	124.3	70.0	29.2	0.0370%	6.6	0.0	6.6	0.0	0	76.9
1950	84.8	122.9	68.7	30.6	0.0370%	7.8	1.4	6.4	0.0	0	77.0
1949	151.1	122.7	0.0	28.4	0.0833%	6.4	0.3	6.1	0.0	0	144.7
1948	145.6	119.3	0.0	26.3	0.0833%	7.0	0.7	6.3 ⁶	0.0	0	138.6
1947	157.5	114.4	0.0	43.1	0.0833%	9.9	0.1	9.8	0.0	0	147.6
1946	130.7	107.0	0.0	23.7	0.0833%	10.0	0.1	9.9	0.0	0	120.7
1945	121.0	93.7	0.0	27.3	0.0833%	9.4	0.1	9.3	0.0	0	111.6

**INCOME AND EXPENSES, DEPOSIT INSURANCE FUND,
FROM BEGINNING OF OPERATIONS,
SEPTEMBER 11, 1933, THROUGH DECEMBER 31, 2019 (continued)**

Dollars in Millions

Year	Income					Expenses and Losses					
	Total	Assessment Income	Assessment Credits	Investment and Other	Effective Assessment Rate ¹	Total	Provision for Ins. Losses	Admin. and Operating Expenses ²	Interest & Other Ins. Expenses	Funding Transfer from the FSLIC Resolution Fund	Net Income/ (Loss)
1944	99.3	80.9	0.0	18.4	0.0833%	9.3	0.1	9.2	0.0	0	90.0
1943	86.6	70.0	0.0	16.6	0.0833%	9.8	0.2	9.6	0.0	0	76.8
1942	69.1	56.5	0.0	12.6	0.0833%	10.1	0.5	9.6	0.0	0	59.0
1941	62.0	51.4	0.0	10.6	0.0833%	10.1	0.6	9.5	0.0	0	51.9
1940	55.9	46.2	0.0	9.7	0.0833%	12.9	3.5	9.4	0.0	0	43.0
1939	51.2	40.7	0.0	10.5	0.0833%	16.4	7.2	9.2	0.0	0	34.8
1938	47.7	38.3	0.0	9.4	0.0833%	11.3	2.5	8.8	0.0	0	36.4
1937	48.2	38.8	0.0	9.4	0.0833%	12.2	3.7	8.5	0.0	0	36.0
1936	43.8	35.6	0.0	8.2	0.0833%	10.9	2.6	8.3	0.0	0	32.9
1935	20.8	11.5	0.0	9.3	0.0833%	11.3	2.8	8.5	0.0	0	9.5
1933-34	7.0	0.0	0.0	7.0	N/A	10.0	0.2	9.8	0.0	0	(3.0)

¹ The effective assessment rate is calculated from annual assessment income (net of assessment credits), excluding transfers to the Financing Corporation (FICO), Resolution Funding Corporation (REFCORP) and FSLIC Resolution Fund, divided by the average assessment base. Figures represent only BIF-insured institutions prior to 1990, and BIF- and SAIF-insured institutions from 1990 through 2005. After 1995, all thrift closings became the responsibility of the FDIC and amounts are reflected in the SAIF. Beginning in 2006, figures are for the DIF.

The annualized assessment rate for 2019 is based on full year assessment income divided by a four quarter average of 2019 quarterly assessment base amounts. The assessment base for fourth quarter 2019 was estimated using the third quarter 2019 assessment base and an assumed quarterly growth rate of one percent.

Historical Assessment Rates:

1934 – 1949 The statutory assessment rate was 0.0833 percent.

1950 – 1984 The effective assessment rates varied from the statutory rate of 0.0833 percent due to assessment credits provided in those years.

1985 – 1989 The statutory assessment rate was 0.0833 percent (no credits were given).

1990 The statutory rate increased to 0.12 percent.

1991 – 1992 The statutory rate increased to a minimum of 0.15 percent. The effective rates in 1991 and 1992 varied because the FDIC exercised new authority to increase assessments above the statutory minimum rate when needed.

1993 – 2006 Beginning in 1993, the effective rate was based on a risk-related premium system under which institutions paid assessments in the range of 0.23 percent to 0.31 percent. In May 1995, the BIF reached the mandatory recapitalization level of 1.25 percent. As a result, BIF assessment rates were reduced to a range of 0.04 percent to 0.31 percent of assessable deposits, effective June 1995, and assessments totaling \$1.5 billion were refunded in September 1995. Assessment rates for the BIF were lowered again to a range of 0 to 0.27 percent of assessable deposits, effective the start

of 1996. In 1996, the SAIF collected a one-time special assessment of \$4.5 billion. Subsequently, assessment rates for the SAIF were lowered to the same range as the BIF, effective October 1996. This range of rates remained unchanged for both funds through 2006.

2007 – 2008 As part of the implementation of the Federal Deposit Insurance Reform Act of 2005, assessment rates were increased to a range of 0.05 percent to 0.43 percent of assessable deposits effective at the start of 2007, but many institutions received a one-time assessment credit (\$4.7 billion in total) to offset the new assessments.

2009 – 2011 For the first quarter of 2009, assessment rates were increased to a range of 0.12 percent to 0.50 percent of assessable deposits. On June 30, 2009, a special assessment was imposed on all insured banks and thrifts, which amounted in aggregate to approximately \$5.4 billion. For 8,106 institutions, with \$9.3 trillion in assets, the special assessment was 5 basis points of each insured institution's assets minus tier one capital; 89 other institutions, with assets of \$4.0 trillion, had their special assessment capped at 10 basis points of their second quarter assessment base. From the second quarter of 2009 through the first quarter of 2011, initial assessment rates ranged between 0.12 percent and 0.45 percent of assessable deposits. Initial rates were subject to further adjustments.

- 2011 – 2016 Beginning in the second quarter of 2011, the assessment base changed to average total consolidated assets less average tangible equity (with certain adjustments for banker's banks and custodial banks), as required by the Dodd-Frank Act. The FDIC implemented a new assessment rate schedule at the same time to conform to the larger assessment base. Initial assessment rates were lowered to a range of 0.05 percent to 0.35 percent of the new base. The annualized assessment rates averaged approximately 17.6 cents per \$100 of assessable deposits for the first quarter of 2011 and 11.1 cents per \$100 of the new base for the last three quarters of 2011 (which is shown in the table).
- 2016 Beginning July 1, 2016, initial assessment rates were lowered from a range of 5 basis points to 35 basis points to a range of 3 basis points to 30 basis points, and an additional surcharge was imposed on large banks (generally institutions with \$10 billion or more in assets) of 4.5 basis points of their assessment base (after making adjustments).
- 2018 The 4.5 basis point surcharge imposed on large banks ended effective October 1, 2018. The annualized assessment rates averaged approximately 7.2 cents per \$100 of the assessable base for the first three quarters of 2018 and 3.5 cents per \$100 of the assessment base for the last quarter of 2018. The full year annualized assessment rate averaged 6.3 cents per \$100 (which is shown in the table).
- 2019 Assessment income for 2019 included the application of small bank credits in the second, third, and fourth quarters, for a total of \$704 million.

² These expenses, which are presented as operating expenses in the Statement of Income and Fund Balance, pertain to the FDIC in its corporate capacity only and do not include costs that are charged to the failed bank receiverships that are managed by the FDIC. The receivership expenses are presented as part of the "Receivables from Resolutions, net" line on the Balance Sheet. The narrative and graph presented on page 87 of this report shows the aggregate (corporate and receivership) expenditures of the FDIC.

³ Includes \$210 million for the cumulative effect of an accounting change for certain postretirement benefits (1992).

⁴ Includes a \$106 million net loss on government securities (1976).

⁵ This amount represents interest and other insurance expenses from 1933 to 1972.

⁶ Includes the aggregate amount of \$81 million of interest paid on capital stock between 1933 and 1948.

FDIC INSURED INSTITUTIONS CLOSED DURING 2019

Dollars in Thousands

Codes for Bank Class

NM = State-chartered bank that is not a member of the Federal Reserve System
N = National Bank

SB = Savings bank
SI = Stock and Mutual Savings Bank

SM = State-chartered bank that is a member of the Federal Reserve System
SA = Savings Association

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets ¹	Total Deposits ¹	Insured Deposit Funding and Other Disbursements	Estimated Loss to the DIF ²	Date of Closing or Acquisition	Receiver/Assuming Bank and Location
Purchase and Assumption - All Deposits								
Louisa Community Bank Louisa, KY	NM	1,584	\$28,163	\$25,174	\$24,673	\$4,547	10/25/19	Kentucky Farmers Bank Corporation Catlettsburg, KY
Resolute Bank Maumee, OH	SM	739	\$23,292	\$22,885	\$21,227	\$2,188	10/25/19	Buckeye State Bank Powell, OH
City National Bank of New Jersey Newark, NJ	N	10,312	\$120,574	\$111,234	\$110,647	\$2,491	11/01/19	Industrial Bank Washington, DC
Insured Deposit Transfer								
Enloe State Bank Cooper, TX	NM	1,363	\$36,738	\$31,254	\$31,094	\$21,577	05/31/19	Legend Bank, N.A. Bowie, TX

¹ Total Assets and Total Deposits data are based upon the last Call Report filed by the institution prior to failure.

² Estimated losses are as of December 31, 2019. Estimated losses are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect the asset values and projected recoveries. Represents the estimated loss to the DIF from deposit insurance obligations.

RECOVERIES AND LOSSES BY THE DEPOSIT INSURANCE FUND ON DISBURSEMENTS FOR THE PROTECTION OF DEPOSITORS, 1934 - 2019

Dollars in Thousands

Bank and Thrift Failures¹

Year ²	Number of Banks/ Thrifts	Total Assets ³	Total Deposits ³	Funding ⁴	Final and Estimated Losses ⁵
	2,627	\$946,852,179	\$713,129,053	\$582,048,662	\$104,976,605
2019	4	208,767	\$190,547	187,641	30,803
2018	0	0	0	0	0
2017	8	5,081,737	4,683,360	4,596,003	1,163,650
2016	5	277,182	268,516	262,243	42,464
2015	8	6,706,038	4,574,170	4,565,684	851,681
2014	18	2,913,503	2,691,485	2,684,528	394,526
2013	24	6,044,051	5,132,246	5,022,368	1,217,721
2012	51	11,617,348	11,009,630	11,042,913	2,411,932
2011	92	34,922,997	31,071,862	30,717,287	6,433,638
2010 ⁷	157	92,084,988	78,290,185	82,305,089	15,874,775
2009 ⁷	140	169,709,160	137,835,121	136,081,390	25,988,291
2008 ⁷	25	371,945,480	234,321,715	205,833,992	17,862,077
2007	3	2,614,928	2,424,187	1,920,200	158,534
2006	0	0	0	0	0
2005	0	0	0	0	0
2004	4	170,099	156,733	139,244	3,917
2003	3	947,317	901,978	883,772	62,647
2002	11	2,872,720	2,512,834	1,567,805	413,989
2001	4	1,821,760	1,661,214	21,131	292,465
2000	7	410,160	342,584	297,313	32,138
1999	8	1,592,189	1,320,573	1,308,316	586,027
1998	3	290,238	260,675	293,117	221,606
1997	1	27,923	27,511	25,546	5,026
1996	6	232,634	230,390	201,533	60,615
1995	6	802,124	776,387	609,043	84,472
1994	13	1,463,874	1,397,018	1,224,769	179,051
1993	41	3,828,939	3,509,341	3,841,658	632,646
1992	120	45,357,237	39,921,310	14,541,476	3,674,149
1991	124	64,556,512	52,972,034	21,501,772	6,001,595
1990	168	16,923,462	15,124,454	10,812,484	2,771,489
1989	206	28,930,572	24,152,468	11,443,281	6,195,286
1988	200	38,402,475	26,524,014	10,432,655	5,377,497
1987	184	6,928,889	6,599,180	4,876,994	1,862,492
1986	138	7,356,544	6,638,903	4,632,121	1,682,538
1985	116	3,090,897	2,889,801	2,154,955	648,179
1984	78	2,962,179	2,665,797	2,165,036	523,879
1983	44	3,580,132	2,832,184	3,042,392	1,069,355
1982	32	1,213,316	1,056,483	545,612	125,787
1981	7	108,749	100,154	114,944	8,988
1980	10	239,316	219,890	152,355	30,680
1934 - 1979	558	8,615,743	5,842,119	5,133,173	380,878

**RECOVERIES AND LOSSES BY THE DEPOSIT INSURANCE FUND ON
DISBURSEMENTS FOR THE PROTECTION OF DEPOSITORS, 1934 - 2019 (continued)**

Dollars in Thousands

Assistance Transactions¹

Year ²	Number of Banks/ Thrifts	Total Assets ³	Total Deposits ³	Funding ⁴	Recoveries ⁵	Estimated Additional Recoveries	Final and Estimated Losses ⁶
	154	\$3,317,099,253	\$1,442,173,417	\$11,630,356	\$6,199,875	\$0	\$5,430,481
2019	0	0	0	0	0	0	0
2018	0	0	0	0	0	0	0
2017	0	0	0	0	0	0	0
2016	0	0	0	0	0	0	0
2015	0	0	0	0	0	0	0
2014	0	0	0	0	0	0	0
2013	0	0	0	0	0	0	0
2012	0	0	0	0	0	0	0
2011	0	0	0	0	0	0	0
2010	0	0	0	0	0	0	0
2009 ⁸	8	1,917,482,183	1,090,318,282	0	0	0	0
2008 ⁸	5	1,306,041,994	280,806,966	0	0	0	0
2007	0	0	0	0	0	0	0
2006	0	0	0	0	0	0	0
2005	0	0	0	0	0	0	0
2004	0	0	0	0	0	0	0
2003	0	0	0	0	0	0	0
2002	0	0	0	0	0	0	0
2001	0	0	0	0	0	0	0
2000	0	0	0	0	0	0	0
1999	0	0	0	0	0	0	0
1998	0	0	0	0	0	0	0
1997	0	0	0	0	0	0	0
1996	0	0	0	0	0	0	0
1995	0	0	0	0	0	0	0
1994	0	0	0	0	0	0	0
1993	0	0	0	0	0	0	0
1992	2	33,831	33,117	1,486	1,236	0	250
1991	3	78,524	75,720	6,117	3,093	0	3,024
1990	1	14,206	14,628	4,935	2,597	0	2,338
1989	1	4,438	6,396	2,548	252	0	2,296
1988	80	15,493,939	11,793,702	1,730,351	189,709	0	1,540,642
1987	19	2,478,124	2,275,642	160,877	713	0	160,164

**RECOVERIES AND LOSSES BY THE DEPOSIT INSURANCE FUND ON
DISBURSEMENTS FOR THE PROTECTION OF DEPOSITORS, 1934 - 2019 (continued)**
Dollars in Thousands

Assistance Transactions¹ (continued)

Year ²	Number of Banks/ Thrifts	Total Assets ³	Total Deposits ³	Funding ⁴	Recoveries ⁵	Estimated Additional Recoveries	Final and Estimated Losses ⁶
1986	7	712,558	585,248	158,848	65,669	0	93,179
1985	4	5,886,381	5,580,359	765,732	406,676	0	359,056
1984	2	40,470,332	29,088,247	5,531,179	4,414,904	0	1,116,275
1983	4	3,611,549	3,011,406	764,690	427,007	0	337,683
1982	10	10,509,286	9,118,382	1,729,538	686,754	0	1,042,784
1981	3	4,838,612	3,914,268	774,055	1,265	0	772,790
1980	1	7,953,042	5,001,755	0	0	0	0
1934-1979	4	1,490,254	549,299	0	0	0	0

¹ Institutions for which the FDIC is appointed receiver, including deposit payoff, insured deposit transfer, and deposit assumption cases.

² For 1990 through 2005, amounts represent the sum of BIF and SAIF failures (excluding those handled by the RTC); prior to 1990, figures are only for the BIF. After 1995, all thrift closings became the responsibility of the FDIC and amounts are reflected in the SAIF. For 2006 to 2019, figures are for the DIF.

³ Assets and deposit data are based on the last Call Report or TFR filed before failure.

⁴ Funding represents the amounts provided by the DIF to receiverships for subrogated claims, advances for working capital, and administrative expenses paid on their behalf. Between 2008 and 2013, the DIF resolved failures using whole-bank purchase and assumption transactions, most with an accompanying shared-loss agreement (SLA). The DIF satisfies any resulting liabilities by offsetting receivables from resolutions when receiverships declare a dividend and/or sending cash directly to receiverships to fund an SLA and other expenses.

⁵ Recoveries represent cash received and dividends (cash and non-cash) declared by receiverships.

⁶ Final losses represent actual losses for unreimbursed subrogated claims of inactivated receiverships. Estimated losses generally represent the difference between the amount paid by the DIF to cover obligations to insured depositors and the estimated recoveries from the liquidation of receivership assets.

⁷ Includes amounts related to transaction account coverage under the Transaction Account Guarantee Program (TAG). The estimated losses as of December 31, 2019, for TAG accounts in 2010, 2009, and 2008 are \$363 million, \$1.1 billion, and \$12 million, respectively.

⁸ Includes institutions where assistance was provided under a systemic risk determination.

NUMBER, ASSETS, DEPOSITS, LOSSES, AND LOSS TO FUNDS OF INSURED THRIFTS TAKEN OVER OR CLOSED BECAUSE OF FINANCIAL DIFFICULTIES, 1989 THROUGH 1995¹

Dollars in Thousands

Year	Number of Institutions	Assets	Deposits	Final Receivership Loss ²	Loss to Fund ³
Total	748	\$393,986,574	\$318,328,770	\$75,977,846	\$81,579,496
1995	2	423,819	414,692	28,192	27,750
1994	2	136,815	127,508	11,472	14,599
1993	10	6,147,962	5,708,253	267,595	65,212
1992	59	44,196,946	34,773,224	3,286,908	3,832,145
1991	144	78,898,904	65,173,122	9,235,967	9,734,263
1990	213	129,662,498	98,963,962	16,062,685	19,257,578
1989 ⁴	318	134,519,630	113,168,009	47,085,027	48,647,949

¹ Beginning in 1989 through July 1, 1995, all thrift closings were the responsibility of the Resolution Trust Corporation (RTC). Since the RTC was terminated on December 31, 1995, and all assets and liabilities transferred to the FSLIC Resolution Fund (FRF), all the results of the thrift closing activity from 1989 through 1995 are now reflected on the FRF's books. Year is the year of failure, not the year of resolution.

² The Final Receivership Loss represents the loss at the fund level from receiverships for unreimbursed subrogated claims of the FRF-RTC and unpaid advances to receiverships from the FRF-RTC.

³ The Loss to Fund represents the total resolution cost of the failed thrifts in the FRF-RTC fund. In addition to the receivership losses, this includes corporate revenue and expense items such as interest expense on Federal Financing Bank debt, interest expense on escrowed funds, administrative expenses, and interest revenue on advances to receiverships.

⁴ Total for 1989 excludes nine failures of the former FSLIC.

B. MORE ABOUT THE FDIC

FDIC Board of Directors



Seated: Jelena McWilliams

Standing (left to right) Joseph M. Otting, Martin J. Gruenberg, and Kathleen L. Kraninger

Jelena McWilliams

Jelena McWilliams was sworn in as the 21st Chairman of the FDIC on June 5, 2018. She serves a six-year term on the FDIC Board of Directors, and is designated as Chairman for a term of five years.

Ms. McWilliams was Executive Vice President, Chief Legal Officer, and Corporate Secretary for Fifth Third Bank in Cincinnati, Ohio. At Fifth Third Bank she served as a member of the executive management team and numerous bank committees including: Management

Compliance, Enterprise Risk, Risk and Compliance, Operational Risk, Enterprise Marketing, and Regulatory Change.

Prior to joining Fifth Third Bank, Ms. McWilliams worked in the U.S. Senate for six years, most recently as Chief Counsel and Deputy Staff Director with the Senate Committee on Banking, Housing and Urban Affairs, and previously as Assistant Chief Counsel with the Senate Small Business and Entrepreneurship Committee.

From 2007 to 2010, Ms. McWilliams served as an attorney at the Federal Reserve Board of Governors, where she drafted consumer protection regulations, reviewed and analyzed comment letters on regulatory proposals, and responded to consumer complaints.

Before entering public service, she practiced corporate and securities law at Morrison & Foerster LLP in Palo Alto, California, and Hogan & Hartson LLP (now Hogan Lovells LLP) in Washington, D.C. In legal practice, Ms. McWilliams advised management and boards of directors on corporate governance, compliance, and reporting requirements under the Securities Act of 1933 and the Securities Exchange Act of 1934. She also represented publicly- and privately-held companies in mergers and acquisitions, securities offerings, strategic business ventures, venture capital investments, and general corporate matters.

Ms. McWilliams graduated with highest honors from the University of California at Berkeley with a B.S. in political science, and earned her law degree from U.C. Berkeley School of Law.

Martin J. Gruenberg

Martin J. Gruenberg is the 20th Chairman of the FDIC, receiving Senate confirmation on November 15, 2012, for a five-year term. Mr. Gruenberg served as Vice Chairman and Member of the FDIC Board of Directors from August 22, 2005, until his confirmation as Chairman. He served as Acting Chairman from July 9, 2011, to November 15, 2012, and also from November 16, 2005, to June 26, 2006.

Mr. Gruenberg joined the FDIC Board after broad congressional experience in the financial services and regulatory areas. He served as Senior Counsel to Senator Paul S. Sarbanes (D-MD) on the staff of the Senate Committee on Banking, Housing, and Urban Affairs from 1993 to 2005. Mr. Gruenberg advised the Senator on issues of domestic and international financial regulation, monetary policy, and trade. He also served as Staff Director of the Banking Committee's Subcommittee on International Finance and Monetary Policy from 1987 to 1992. Major legislation in which Mr. Gruenberg played an active role during his service on the Committee includes the Financial Institutions Reform, Recovery,

and Enforcement Act of 1989 (FIRREA); the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA); the Gramm-Leach-Bliley Act; and the Sarbanes-Oxley Act of 2002.

Mr. Gruenberg served as Chairman of the Executive Council and President of the International Association of Deposit Insurers (IADI) from November 2007 to November 2012. In addition, Mr. Gruenberg has served as Chairman of the Board of Directors of the Neighborhood Reinvestment Corporation (NeighborWorks America) since June 2019, and a member of the Board since April 2018.

Mr. Gruenberg holds a J.D. from Case Western Reserve Law School and an A.B. from Princeton University, Woodrow Wilson School of Public and International Affairs.

Kathleen L. Kraninger

Kathy Kraninger became Director of the Consumer Financial Protection Bureau (CFPB) in December, 2018. From her early days as a Peace Corps volunteer, to her role establishing the Department of Homeland Security (DHS), to her policy work at the Office of Management and Budget (OMB) to the CFPB, Director Kraninger has dedicated her career to public service.

Director Kraninger came to the CFPB from OMB, where as a Policy Associate Director she oversaw the budgets for executive branch agencies including the Departments of Commerce, Justice, DHS, Housing and Urban Development, Department of Transportation (DOT), and the Department of Treasury, in addition to 30 other government agencies.

Previously she worked in the U.S. Senate, where she was the Clerk for the Senate Appropriations Subcommittee on Homeland Security, which provides DHS with its \$40 billion discretionary budget. On Capitol Hill, she also worked for the House Appropriations Subcommittee on Homeland Security as well as the Senate Homeland Security and Governmental Affairs Committee.

Ms. Kraninger also served in executive branch posts with DOT. There, after the terrorist attacks on September 11, 2001, she volunteered to join the leadership team that set up the newly created DHS.

Her work at DHS led to awards including the Secretary of Homeland Security's Award of Exceptional Service, the International Police and Public Safety 9/11 Medal, and the Meritorious Public Service Award from the United States Coast Guard.

Ms. Kraninger graduated magna cum laude from Marquette University and earned a law degree from Georgetown University Law Center. She served as a U.S. Peace Corps Volunteer in Ukraine.

Joseph M. Otting

Joseph M. Otting was sworn in as the 31st Comptroller of the Currency on November 27, 2017.

The Comptroller of the Currency is the administrator of the federal banking system and chief officer of the Office of the Comptroller of the Currency (OCC). The OCC supervises nearly 1,400 national banks, federal savings associations, and federal branches and agencies of foreign banks operating in the United States. The mission of the OCC is to ensure that national banks and federal savings associations operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

The Comptroller also serves as a director of the Federal Deposit Insurance Corporation and member of the Financial Stability Oversight Council and the Federal Financial Institutions Examination Council.

Prior to becoming Comptroller of the Currency, Mr. Otting was an executive in the banking industry. He served as President of CIT Bank and Co-President of CIT Group.

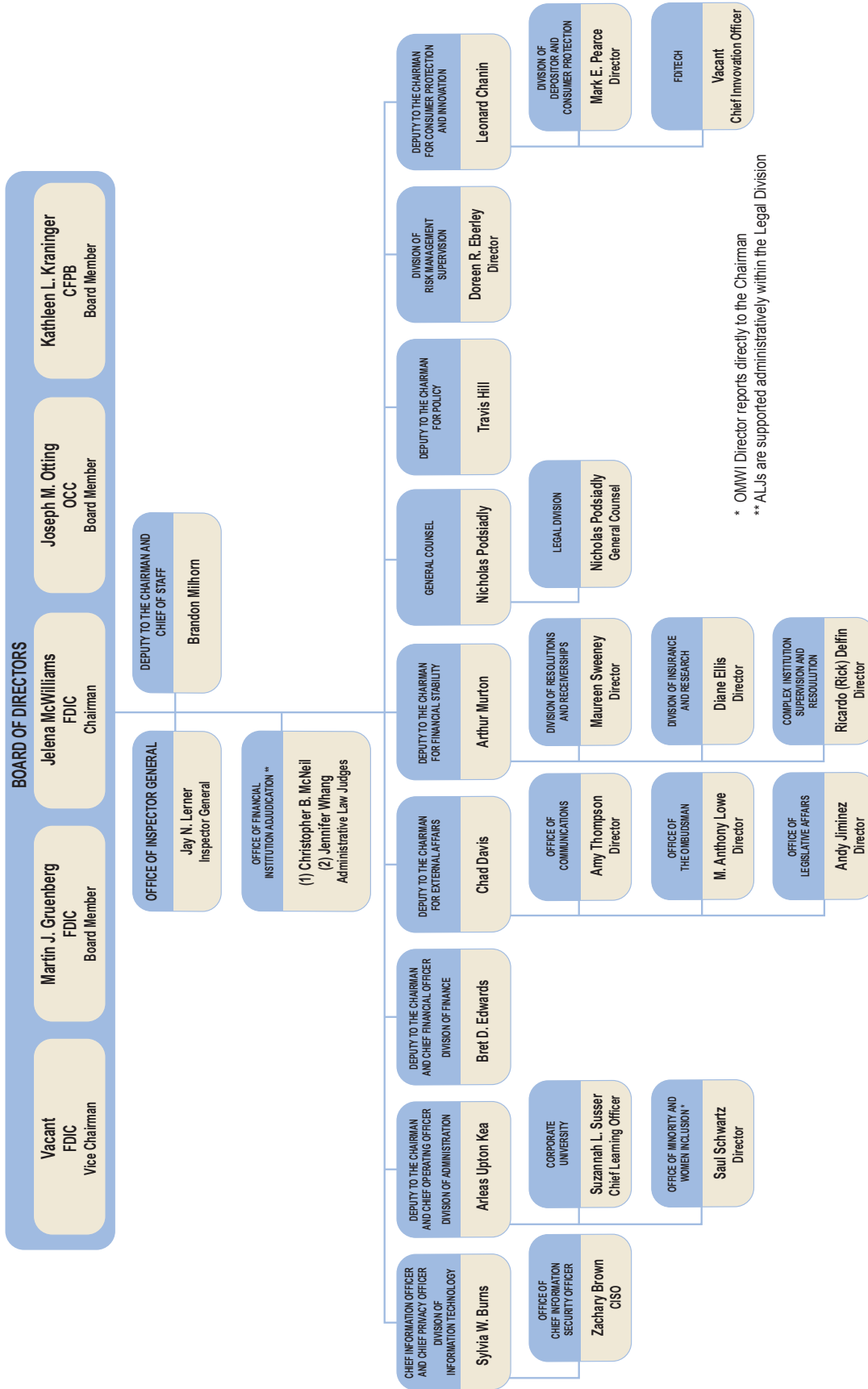
Mr. Otting previously was President, Chief Executive Officer, and a member of the Board of Directors of OneWest Bank, N.A. Prior to joining OneWest Bank, he served as Vice Chairman of U.S. Bancorp, where he managed the Commercial Banking Group and served on the Bancorp's executive management committee. He also served as a member of U.S. Bank's main subsidiary banks' Board of Directors.

From 1986 to 2001, Mr. Otting was with Union Bank of California, where he was Executive Vice President and Group Head of Commercial Banking. Before joining Union Bank, he was with Bank of America and held positions in branch management, preferred banking, and commercial lending.

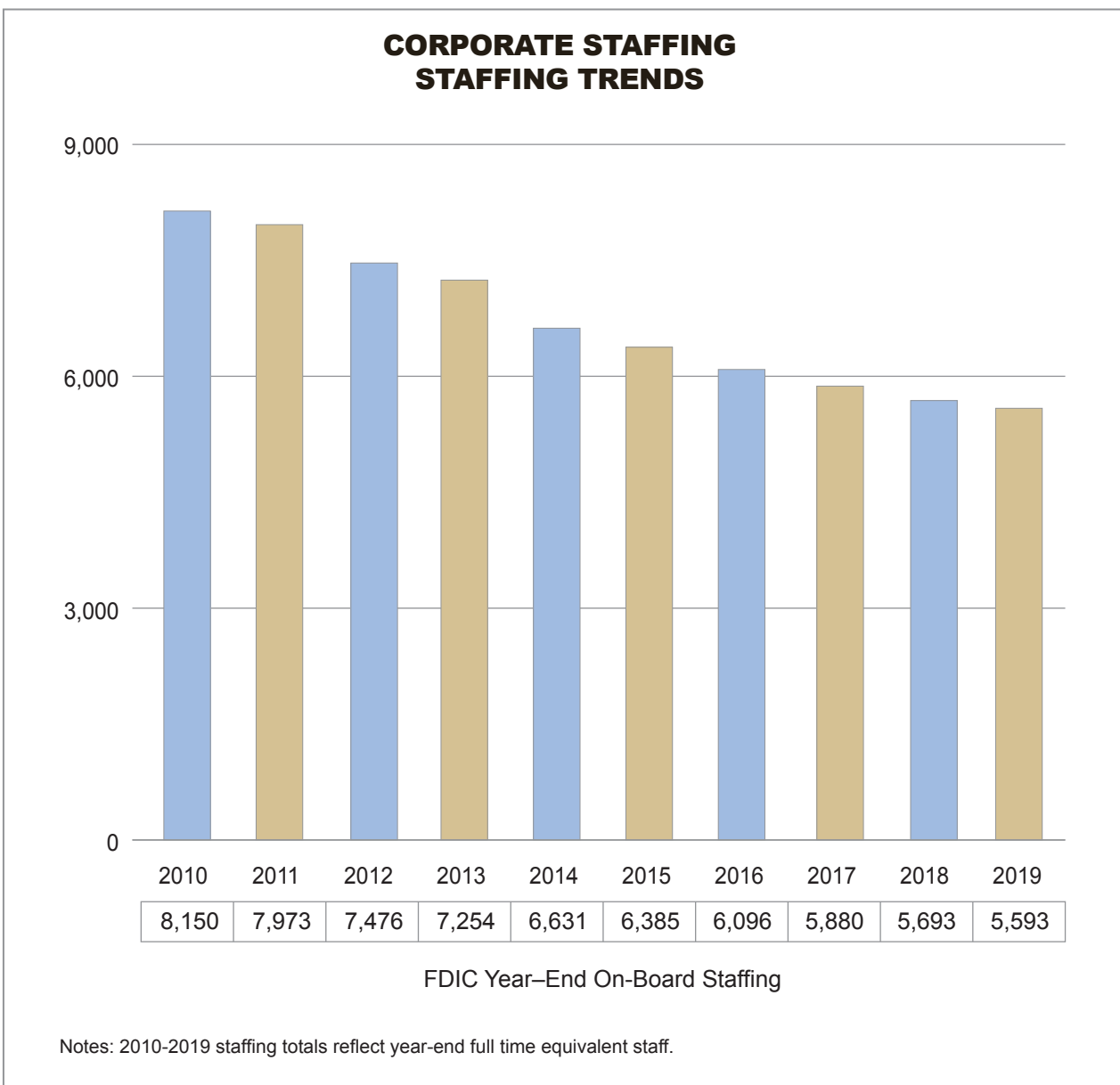
Mr. Otting has played significant roles in charitable and community development organizations. He has served as a board member for the California Chamber of Commerce, the Killebrew-Thompson Memorial foundation, the Associated Oregon Industries, the Oregon Business Council, the Portland Business Alliance, the Minnesota Chamber of Commerce, and Blue Cross Blue Shield of Oregon. He was also a member of the Financial Services Roundtable, the Los Angeles Chamber of Commerce, and the Board and Executive Committee of the Los Angeles Economic Development Corporation.

Mr. Otting holds a bachelor of arts in management from the University of Northern Iowa and is a graduate of the School of Credit and Financial Management, which was held at Dartmouth College in Hanover, New Hampshire.

FDIC ORGANIZATION CHART/OFFICIALS



* OMMWI Director reports directly to the Chairman
 ** ALJs are supported administratively within the Legal Division



NUMBER OF EMPLOYEES BY DIVISION/OFFICE (YEAR-END)¹

Division or Office:	Total		Washington		Regional	
	2019	2018	2019	2018	2019	2018
Division of Risk Management Supervision	2,318	2,499	174	207	2,145	2,293
Division of Depositor and Consumer Protection	794	816	123	122	671	694
Legal Division	440	474	298	314	142	160
Division of Administration	353	353	247	246	106	108
Division of Resolutions and Receiverships	323	387	89	119	234	268
Division of Complex Institution Supervision and Resolution ²	243	62	113	49	130	13
Division of Information Technology	237	280	173	216	64	64
Corporate University	217	204	210	197	7	7
Division of Insurance and Research	204	204	166	168	38	36
Division of Finance	156	164	152	160	4	4
Executive Support Offices ³	110	67	103	60	7	7
Office of the Chief Information Security Officer	41	37	41	37	0	0
Executive Offices ⁴	30	20	30	20	0	0
Office of Inspector General	128	126	78	80	50	46
TOTAL	5,593	5,693	1,995	1,994	3,598	3,699

¹ The FDIC reports staffing totals using a full-time equivalent methodology, which is based on an employee's scheduled work hours. Division/Office staffing has been rounded to the nearest whole FTE. Totals may not foot due to rounding.

² In 2019, the Office of Complex Financial Institution merged with parts of Risk Management Supervision and Division of Resolutions and Receivership to create this new Division.

³ Includes the Offices of the Legislative Affairs, Communications, Ombudsman, CIO Management Services, FDI Tech, Financial Adjudication and Minority and Women Inclusion.

⁴ Includes the Offices of the Chairman, Vice Chairman, Director (Appointive), Chief Operating Officer, Chief Financial Officer, Chief Information Officer, Consumer Protection and Innovation, External Affairs, Policy and Financial Stability.

SOURCES OF INFORMATION

FDIC Website

www.fdic.gov

A wide range of banking, consumer, and financial information is available on the FDIC's website. This includes the FDIC's Electronic Deposit Insurance Estimator (EDIE), which estimates an individual's deposit insurance coverage; the Institution Directory, which contains financial profiles of FDIC-insured institutions; Community Reinvestment Act evaluations and ratings for institutions supervised by the FDIC; Call Reports, which are bank reports of condition and income; and *Money Smart*, a training program to help individuals outside the financial mainstream enhance their money management skills and create positive banking relationships. Readers also can access a variety of consumer pamphlets, FDIC press releases, speeches, and other updates on the agency's activities, as well as corporate databases and customized reports of FDIC and banking industry information.

FDIC Call Center

Phone: 877-275-3342 (877-ASK-FDIC)
703-562-2222

Hearing Impaired: 800-925-4618
703-562-2289

The FDIC Call Center in Washington, DC, is the primary telephone point of contact for general questions from the banking community, the public, and FDIC employees. The Call Center directly, or with other FDIC subject-matter experts, responds to questions about deposit insurance and other consumer issues and concerns, as well as questions about FDIC programs and activities. The Call Center also refers callers to other federal and state agencies as needed. Hours of operation are 8:00 a.m. to 8:00 p.m., Eastern Time, Monday – Friday, and 9:00 a.m. to 5:00 p.m., Saturday – Sunday. Recorded information about deposit insurance and other topics is available 24 hours a day at the same telephone number.

As a customer service, the FDIC Call Center has many bilingual Spanish agents on staff and has access to a translation service, which is able to assist with over 40 different languages.

Public Information Center

3501 Fairfax Drive
Room E-1021
Arlington, VA 22226

Phone: 877-275-3342 (877-ASK-FDIC),
703-562-2200

Fax: 703-562-2296

FDIC Online Catalog: <https://catalog.fdic.gov>

E-mail: publicinfo@fdic.gov

Publications such as *FDIC Quarterly* and *Consumer News* and a variety of deposit insurance and consumer pamphlets are available at www.fdic.gov or may be ordered in hard copy through the FDIC online catalog. Other information, press releases, speeches and congressional testimony, directives to financial institutions, policy manuals, and FDIC documents are available on request through the Public Information Center. Hours of operation are 9:00 a.m. to 4:00 p.m., Eastern Time, Monday – Friday.

Office of the Ombudsman

3501 Fairfax Drive
Room E-2022
Arlington, VA 22226

Phone: 877-275-3342 (877-ASK-FDIC)

Fax: 703-562-6057

E-mail: ombudsman@fdic.gov

The Office of the Ombudsman (OO) is an independent, neutral, and confidential resource and liaison for the banking industry and the general public. The OO responds to inquiries about the FDIC in a fair, impartial, and timely manner. It researches questions and fields complaints from bankers and bank customers. OO representatives are present at all bank closings to provide accurate information to bank customers, the media, bank employees, and the general public. The OO also recommends ways to improve FDIC operations, regulations, and customer service.

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North Carolina
South Carolina
Virginia
West Virginia

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Oklahoma
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 Kansas
 Minnesota
 Missouri
 Nebraska
 North Dakota
 South Dakota

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 New Hampshire
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 District of Columbia
 Maryland
 New Jersey
 New York
 Pennsylvania
 Puerto Rico
 Virgin Islands

San Francisco Regional Office

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 San Francisco, California 94105
 (415) 546-0160

States and Territories Represented:

Alaska
 American Samoa
 Arizona
 California
 Federated States of Micronesia
 Guam
 Hawaii
 Idaho
 Montana
 Nevada
 Oregon
 Utah
 Washington
 Wyoming

**C. OFFICE OF INSPECTOR GENERAL'S ASSESSMENT OF THE
MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE FDIC**



**Top Management and Performance Challenges
Facing the Federal Deposit Insurance Corporation**

February 2020

☆☆☆☆☆☆☆☆
Federal Deposit Insurance Corporation
Office of Inspector General

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

INTRODUCTION

Each year, Federal Inspectors General are required to identify and report on the top challenges facing their respective agencies, pursuant to the Reports Consolidation Act of 2000. The Office of Inspector General (OIG) is therefore issuing this report, which identifies the Top Management and Performance Challenges (TMPC) facing the Federal Deposit Insurance Corporation (FDIC).

This TMPC report is based upon the OIG's experience and observations from our oversight work, reports by other oversight bodies, review of academic and other relevant literature, perspectives from Government agencies and officials, and information from private-sector entities. We considered this body of information in light of the current operating environment and circumstances and our independent judgment.

The FDIC faces Challenges in the following critical areas, a number of which remain from previous years:

- Keeping Pace with Emerging Financial Technologies;
- Enhancing the FDIC's Information Technology Security Program;
- Ensuring the FDIC's Readiness for Crises;
- Sharing Threat Information with Banks and Examiners;
- Strengthening the Governance of the FDIC;
- Overseeing Human Resources;
- Keeping FDIC Facilities, Information, and Personnel Safe and Secure;
- Administering the Acquisition Process; and
- Measuring Costs and Benefits of FDIC Regulations.

We believe that the FDIC should focus its attention on these Challenges, and we hope that this document informs policy makers, including the FDIC and Congressional oversight bodies, and the American public about the programs and operations at the FDIC and the Challenges it faces.

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

1 | KEEPING PACE WITH EMERGING FINANCIAL TECHNOLOGIES

Technology is re-shaping consumers' interactions with banks, changing the way banks do business, and disrupting the banking industry. Emerging technologies promise potential benefits but also introduce risk. Increased digital interconnections with multiple avenues to access banking systems elevate cybersecurity risk because an incident at one digital juncture has the potential to infect the entire banking system. The FDIC's challenge is keeping pace with new technology and the associated risks to banks, third-party service providers, and the banking system. The key is for the FDIC to align supervisory guidance, examination procedures, and supervisory strategies with rapidly evolving risks.

Use of financial technology is having a significant impact on banks and the banking industry. Global investment in financial technologies was \$37.9 billion in the first half of 2019.¹ More than half of all consumers are interacting with banks through digital means.² Person-to-person cashless transactions totaled more than \$570 billion in 2018.³ Consumers also prefer connectivity among financial management applications and their bank accounts.⁴

The FDIC Chairman has recognized that technology is “not simply transforming how customers access financial services; it is transforming the business of banking both in the way consumers interact with their financial institutions, and the way banks do business.”⁵ Banks are incorporating new technologies into bank processes and establishing partnerships with third-party financial technology companies.⁶ Community banks, in particular, are working closely with technology companies to develop solutions, such as reducing the time for loan underwriting and digital credit applications.⁷

Financial technologies offer banks potential benefits but also introduce a range of risks. According to the Financial Stability Oversight Council (FSOC),⁸ “[c]yber vulnerabilities in the financial system include vulnerabilities to malware attacks, ransomware attacks, denial of service attacks, data breaches, and other events. Such incidents have the potential to impact tens or even hundreds of millions of Americans and result in financial losses of billions of dollars due to disruption of operations, theft, and recovery costs.”⁹

The FDIC Chairman stated that “[c]ybersecurity is the biggest threat facing America’s banks.”¹⁰ The Office of the Comptroller of the Currency (OCC) similarly observed that “[o]perational risk is elevated as banks adapt to a changing and increasingly complex operating environment,” and key drivers are “the need to adapt and evolve current technology systems for ongoing

¹ KPMG, *The Pulse of Fintech 2019 – Biannual Global Analysis of Investment in Fintech*, (July 31, 2019).

² American Banker, *10 ways technology will change banking in 2019*, (January 6, 2019).

³ Forbes, *Venmo Versus Zelle: Who’s Winning the P2P Payments War?*, (February 11, 2019).

⁴ American Banker, *10 ways technology will change banking in 2019*, (January 6, 2019).

⁵ Jelena McWilliams, FDIC Chairman, Remarks at the CATO Summit on Financial Regulation, “*If You Build It, They Will Come*,” (June 12, 2019).

⁶ American Banker, *10 ways technology will change banking in 2019*, (January 6, 2019).

⁷ Bankrate, *Community Banks Step Up Tech to Compete with Big Banks, Benefiting Customers*, (May 31, 2019).

⁸ The *Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010* established FSOC, which has responsibility for identifying risks and responding to emerging threats to financial stability. FSOC brings together the expertise of Federal financial regulators (including the FDIC), an independent insurance expert, and state regulators.

⁹ FSOC, 2019 Annual Report.

¹⁰ CNN Business, *Banks could get fined for cyber breaches, top regulator says*, (August 1, 2019).

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

cybersecurity threats.”¹¹ According to reports from the Department of the Treasury’s Financial Crimes Enforcement Network (FinCEN), financial institutions reported 3,494 cyberattacks during the first half of 2019.¹² Small banks (less than \$1 billion in assets) were the victims of nearly half (47 percent) of bank-related cybercrimes between 2012 and 2017.¹³

In the Fall of 2019, the OCC recognized elevated cybersecurity risks as “malicious actors target not only bank staff and processes but also bank customers and third parties.”¹⁴ According to *Banking Technology Vision 2019* by the consulting firm Accenture, as interconnectivity among banks, consumers, and third parties grows, “the potential points of weakness and vulnerability also multiply.”¹⁵ Hackers need only a single weakness to exploit and penetrate systems.¹⁶

Banks’ use of advanced technology may also increase the risks of harm to consumers. For example, the OCC noted that banks’ deployment of new technology may result in fair lending issues.¹⁷ When banks use artificial intelligence, they often use algorithm models and rules that rely upon historical data.¹⁸ If model rules are outdated or the data used in the algorithm models are not representative of the current customer population, selection bias may occur.¹⁹

Banks also face competitive risks from technology innovations of non-bank entities. The OCC further noted that “[b]anks face strategic risks from non-depository financial institutions, use of innovative and evolving technology, and progressive data analysis capabilities.”²⁰ According to the *Global Payments Pulse Survey 2019* conducted by Accenture, approximately \$280 billion of banks’ global payment revenue is likely to be displaced by non-bank competitors in the next 6 years.²¹

Further, according to the Basel Committee on Banking Supervision, “[t]he estimated market capitalization of crypto-assets reached a historical peak exceeding \$800 billion in January 2018.”²² Non-bank entities such as Facebook²³ and Walmart²⁴ have announced plans to introduce cryptocurrencies. These privately controlled cryptocurrencies fall outside traditional

¹¹ OCC, *Semiannual Risk Perspective*, (Fall 2019).

¹² New York Times, *Capital One Breach Shows a Bank Hacker Needs Just One Gap to Wreak Havoc*, (July 30, 2019).

¹³ Forbes, *5 Cybersecurity Myths Banks Should Stop Believing*, (April 8, 2019).

¹⁴ OCC, *Semiannual Risk Perspective*, (Fall 2019).

¹⁵ Accenture, *The Dawn of Banking in the Post-Digital Era – Banking Technology Vision 2019*, (May 7, 2019).

¹⁶ New York Times, *Capital One Breach Shows How a Bank Hacker Needs Just One Gap to Wreak Havoc*, (July 30, 2019).

¹⁷ OCC, *Semiannual Risk Perspective*, (Fall 2019).

¹⁸ American Banker, *Don’t let AI trigger a fair-lending violation*, (August 6, 2019).

¹⁹ American Banker, *Don’t let AI trigger a fair-lending violation*, (August 6, 2019).

²⁰ OCC, *Semiannual Risk Perspective*, (Fall 2019).

²¹ Accenture, *Global Payment Pulse Survey 2019*.

²² Basel Committee on Banking Supervision, *Discussion Paper: Designing a Prudential Treatment for Crypto-assets*, (December 2019).

²³ Washington Post, *Why governments around the world are afraid of Libra, Facebook’s cryptocurrency*, (July 12, 2019).

²⁴ American Banker, *Walmart crypto coin patent could be a back door to banking*, (August 2, 2019). One bank, JP Morgan Chase, plans to issue its own cryptocurrency called JPM Coin that will be used for international payments for large institutional clients. See CNBC, *JP Morgan is tolling out the first US bank-backed cryptocurrency to transform payments business*, (February 14, 2019).

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

banking systems and may be beyond the reach of the current regulatory structures.²⁵ In addition, certain banks are also testing the use of blockchain and distributed ledger technologies, as well as digital currencies for cross-border transfers.²⁶

Modernizing FDIC Guidance and Understanding Risks of Financial Technology

FDIC policy makers should understand technology and its impact on the safety and soundness of institutions in order to provide guidance to both bankers and examiners. Keeping policies and guidance in step with technology is a challenge. According to the Department of the Treasury, current financial statutes and regulations may not address new technology and evolving business models.²⁷ Regulators should create an agile framework that encourages innovation and sound risk management practices.²⁸ The FDIC Chairman has stated that:

In many cases, the cost to innovation is prohibitively high for community banks, which often lack the expertise, information technology, and research and development budgets to independent[ly] develop and deploy their own technology . . . [I]f our regulatory framework does not evolve with technological advances in a manner that enables partnerships between banks and fintechs, such innovation may not occur at community banks.²⁹

Further, bank examiners need up-to-date examination procedures to effectively assess the risks associated with new financial technologies.

The FDIC also faces challenges in issuing timely guidance that is consistent with other Federal banking regulators.³⁰ The Board of Governors of the Federal Reserve System, the OCC, the Consumer Financial Protection Bureau, and the FDIC share responsibility for Federal banking regulation and supervision.³¹ These regulatory agencies work through the Federal Financial

²⁵ Washington Post, *Facebook's Zuckerberg takes broad lashing on Libra, 2020 election and civil rights at congressional hearing*, (October 23, 2019). See Commodity Futures Trading Corporation, *Backgrounder on Oversight of and Approach to Virtual Currency Futures Markets*, (January 4, 2018), "US Law does not provide for direct, comprehensive Federal oversight of underlying Bitcoin or virtual currency spot markets." US regulation includes (1) the Internal Revenue Service treating virtual currencies as property subject to capital gains tax, (2) the Department of the Treasury Financial Crimes Enforcement Network monitoring virtual currency exchanges as money transmitters for anti-money laundering purposes, and (3) the Securities and Exchange Commission treating virtual currency issuances as securities issuances.

²⁶ CNBC, *JP Morgan Is Rolling Out the First US Bank-backed Cryptocurrency to Transform Payments Business*, (February 14, 2019). Reuters, *Wells Fargo Tests Cryptocurrency for Internal Transactions*, (September 17, 2019).

²⁷ Department of the Treasury, *A Financial System That Creates Economic Opportunities: Nonbank Financials, Fintech, and Innovation*, (July 2018).

²⁸ Jelena McWilliams, FDIC Chairman, Remarks at the Institute of International Bankers' Annual Washington Conference; Washington, D.C., (March 11, 2019).

²⁹ Statement of Jelena McWilliams, FDIC Chairman, on *Oversight of Financial Regulators* before the United States Senate Committee on Banking, Housing, and Urban Affairs, (December 5, 2019).

³⁰ American Banker, *Regulators Must Issue AI Guidance or FDIC Will: McWilliams*, (August 2, 2019); and American Banker, *Blockchain crypto tech need clear rules of the road*, (August 7, 2019).

³¹ Jelena McWilliams, FDIC Chairman, "*Principles of Supervision and Your Value to our Nation's Banking System*," delivered at the Banking Institute sponsored by the University of North Carolina School of Law; Charlotte, North Carolina, (March 21, 2019).

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

Institutions Examination Council (FFIEC)³² to promote uniformity in the supervision of financial institutions. FDIC Chairman McWilliams recently noted her concern about the time required for regulators to reach consensus on artificial intelligence guidance and indicated that the FDIC may choose to issue its own guidance if regulators cannot agree on joint guidance.³³

In October 2018, the FDIC announced the development of a new FDIC Tech Lab to centralize the FDIC's knowledge of technology in order to focus on technologies in the financial services sector, help the FDIC understand how innovation can contribute to the expansion of banking services, and promote the adoption of technology. As of January 2020, the FDIC continued to implement the operational foundation for the Tech Lab, including developing governing policies and procedures and searching for a Chief Innovation Officer to lead this effort.³⁴ In addition, the FDIC is seeking a range of other technologists—including data scientists, process engineers, software developers, and network security experts—to join the agency.³⁵ We are monitoring the FDIC's progress in standing up the Tech Lab.

Ensuring Examinations Identify and Mitigate Technology Risks

According to the *Interagency Guidelines Establishing Information Security Standards*,³⁶ a financial institution is responsible for the cybersecurity of its own information technology (IT) systems. Similarly, responsibility for compliance with consumer protection laws and regulations lies with the financial institution, regardless of whether the institution or a third-party service provider controls the information.³⁷ The FDIC assesses whether bank management has appropriate controls in place to mitigate cybersecurity risks and enhance consumer protections.

According to the OCC, bank examiners note that “the most common specific control deficiencies” at banks relate to: Patch Management, Network Configuration, and Access Management.³⁸ In addition, banks and service providers report that some of the common attacks against institutions include: Phishing incidents; Compromised credentials; and Automated Teller Machine exploits.

Since 2016, the FDIC has used the Information Technology Risk Examination (InTREX) work program to conduct bank IT examinations and assess financial institutions' management of third-party service providers. The FDIC developed InTREX to enhance IT supervision by providing examiners with risk-focused examination procedures.³⁹ Examiners use work programs to observe and document processes, and test controls. The FDIC may undertake

³² The FFIEC was established on March 10, 1979, pursuant to title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978, Public Law 95-630. The Council is an interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System, the FDIC, the National Credit Union Administration, the OCC, and the Bureau of Consumer Financial Protection and to make recommendations to promote uniformity in the supervision of financial institutions.

³³ *Regulators Must Issue AI Guidance or FDIC Will: McWilliams*, American Banker, (August 2, 2019). There is also a need for regulatory clarity for blockchain and cryptocurrency. See *Blockchain crypto tech need clear rules of the road*, American Banker, (August 7, 2019)

³⁴ American Banker, *FDIC Chairman, Regulators Need New Approach to Innovation*, (October 4, 2019).

³⁵ American Banker, *FDIC Chairman, Regulators Need New Approach to Innovation*, (October 4, 2019).

³⁶ These Interagency Guidelines can be found in the FDIC Rules and Regulations, Part 364, Appendix B.

³⁷ 12 C.F.R. Part 364, Appendix B. The FDIC, OCC, and Board of Governors of the Federal Reserve issued the Interagency Guidelines Establishing Information Security Standards. Financial Institution Letter 44-2008, Guidance for Managing Third-Party Risk (June 6, 2008).

³⁸ OCC, *Semiannual Risk Perspective*, (Fall 2019).

³⁹ Financial Institution Letter 43-2016, *Information Technology Risk Examination (InTREX) Program*, (June 30, 2016).

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enforcement actions when examiners identify IT risks and weak management practices at the institutions.

From 2016 to 2018, the FDIC conducted more than 3,000 IT examinations. Examiners establish the scope of an IT examination consistent with a bank's IT complexity and risk. For example, the IT examination scope could be larger if new technology has been introduced, a new material third-party technology service provider is added, or bank information security testing identified material deficiencies.

Banks have expanded their use of advanced technologies such as person-to-person payments, cloud computing, and blockchain. These developments increased the overall IT risk profile of the banking industry and the complexity of FDIC IT examination work. As a result, the FDIC has devoted an increasing number of examination hours to IT supervision. For example, according to FDIC data for IT examinations completed by the FDIC between January 2017 and August 2018, the average number of hours per examination increased 11 percent. For that same period, the average IT examination hours for FDIC-identified banks with the highest IT risk increased 46 percent.

The increase in IT examination hours has led to geographic examiner resource gaps requiring examiners from one region to supplement examiners in another region. For example, the New York Regional Office noted that it has shortages of examiners qualified to complete IT examinations and required the assistance from other Regional Offices. The FDIC has a nationwide IT On-The-Job training program to increase the pool of qualified examiners for intermediate and advanced examinations. We have ongoing work to evaluate the FDIC's process for allocating examination staff, including examiner IT subject-matter experts, to safety and soundness examinations. Also, we plan to conduct a review of the FDIC's InTRES examination program.

Mitigating Risks Associated With Third-Party Service Providers

According to the OCC, “[b]anks increasingly rely on third-party service providers for technology and other solutions to compete in a rapidly evolving financial marketplace.”⁴⁰ In addition, “cyber crime and espionage increasingly target third-party service providers because of the potential to access multiple networks from a single point.”⁴¹ For example, in July 2019, an employee of a third-party provider of Capital One exploited a firewall and gained access to sensitive information for approximately 106 million U.S. and Canadian customers.⁴²

The OCC also noted that banks are relying on the same pool of third-party service providers for critical services such as payments, transaction processing, and maintenance of sensitive information. “[C]onsolidation in the bank technology service provider industry has resulted in fewer entities providing certain critical services.”⁴³ Thus, if one third-party provider experiences a service disruption, operations at many banks may be affected.

The FDIC—through its supervisory examination processes—evaluates banks’ monitoring of the security programs of their third-party providers. Bank management must exercise due diligence before entering into third party relationships. Due diligence includes, for example,

⁴⁰ OCC, *Semiannual Risk Perspective*, (Fall 2019).

⁴¹ OCC, *Semiannual Risk Perspective*, (Spring 2019).

⁴² CyberScoop, *Capital One is a cautionary tale for companies rushing to embrace new tech*, (July 31, 2019).

⁴³ OCC, *Semiannual Risk Perspective*, (Fall 2019).

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understanding the third-party's risk and security controls, and ensuring clear lines of responsibility between the third-party and the bank on actions to be taken in the case of an incident. According to *Banking Technology Vision 2019* by Accenture, 69 percent of 784 banking and IT executives surveyed did not know about the security at their third-party service providers.⁴⁴ We plan to conduct a review to assess whether FDIC examination processes evaluate institutions' monitoring and management of risks associated with third-party relationships.

The FDIC should understand risks associated with emerging technology to provide banks with implementation guidance that balances banking sector safeguards with innovation. The FDIC should also ensure that examinations effectively address technology risks.

2| ENHANCING THE FDIC'S INFORMATION TECHNOLOGY SECURITY PROGRAM

The FDIC continues to increase its reliance on IT systems to fulfill its mission. As of June 2018, the FDIC had 338 IT systems that collect, store, or process Personally Identifiable Information (PII) and sensitive information. A total of 174 of the FDIC's 338 IT systems contained what the Agency has determined to be "sensitive PII." Further, the FDIC has legacy systems that are becoming difficult and expensive to maintain. The FDIC is in the process of modernizing its technology and must maintain the security of information within its systems as the IT environment evolves.

According to the Office of Management and Budget (OMB), the Federal Government is a significant target of cyberattacks, and in Fiscal Year 2018, Federal agencies experienced 31,107 cybersecurity incidents.⁴⁵ A recent report issued by the data protection firm, Veritas, stated that "ransomware damage costs will reach \$20 billion by 2021."⁴⁶ Nearly 30 percent of Federal agency respondents to the Veritas survey had been directly affected by ransomware attacks in the past 3 years, and 80 percent of Federal respondents believed that ransomware and malware will be as great a concern—if not a greater concern—within the next 12 months. The report further noted that ransomware attacks at Federal agencies present risks to national security, employee productivity loss, prolonged loss of services, and loss of institutional trust. The Director of the Cybersecurity and Infrastructure Security Agency (CISA)⁴⁷ at the Department of Homeland Security (DHS) noted that ransomware attacks are "only getting worse."⁴⁸ The actors are shifting their business models and going to more coordinated attacks.

Also, in June 2019, a Senate Committee on Homeland Security and Governmental Affairs report⁴⁹ found that Federal agencies failed to comply with basic cybersecurity standards,

⁴⁴ Accenture, *Banking Technology Vision 2019*, (May 7, 2019).

⁴⁵ *Federal Information Security Modernization Act of 2014 Annual Report to Congress*, (August 2019).

⁴⁶ Veritas, [Ransomware Threats Is Your Agency Ready?](#), (December 2019).

⁴⁷ On November 16, 2018, the President signed into law the Cybersecurity and Infrastructure Security Agency Act of 2018 (Act). The Act established the Cybersecurity and Infrastructure Security Agency (CISA) within the DHS to, among other things, make the United States cyber and physical infrastructure more secure by sharing information at all levels of Government and the private and non-profit sectors. Cybersecurity and Infrastructure Security Act of 2017, House Report 115-454, 115th Congress, (December 11, 2017).

⁴⁸ FedScoop, *Survey Indicates Federal Agencies Lack Adequate Planning to Recover from Ransomware Attacks*, (December 6, 2019).

⁴⁹ [Federal Cybersecurity: America's Data At Risk, United States Senate Committee on Homeland Security and Governmental Affairs Permanent Subcommittee on Investigations](#), (June 2019). The Subcommittee reviewed the

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including deficiencies related to:

- Protecting PII;⁵⁰
- Maintaining comprehensive and accurate lists of IT assets;
- Installing required security patches; and
- Ensuring systems had valid operating authorities.

This Senate Report also noted that agencies were at increased risk when they rely on aging systems also called “legacy systems.”⁵¹ These legacy IT systems are difficult to secure and costly to maintain.

FDIC IT systems reflect a combination of legacy systems and new technologies. According to the Government Accountability Office (GAO), use of legacy systems increases the cybersecurity risk of those systems.⁵² Further, the FDIC’s Chief Information Officer Organization recognized that the “burden of maintaining the legacy environment limits the ability of staff to develop and practice new skills and pursue innovation.”⁵³

The FDIC relies heavily on IT systems to carry out its responsibilities of insuring deposits, supervising banks, and performing its resolution and receivership activities. The FDIC maintains 338 IT systems that collect, store, or process PII and sensitive information. A total of 174 of the FDIC’s 338 IT systems contain what the agency has determined to be “sensitive PII.”⁵⁴ For example, in its capacity as receiver for failed banks, the FDIC collects and maintains a significant volume of PII such as names, home addresses, SSNs, dates and places of birth, bank account numbers, and credit card information. The FDIC also maintains business proprietary information that is sensitive, including banks’ information relating to internal operations regarding counterparties, vendors, suppliers, and contractors.

In December 2019, the FDIC Chairman announced the departure of the Chief Information Officer (CIO) who led the FDIC’s IT strategic planning and modernization efforts. On January 16, 2020 the Chairman named the Deputy CIO as the new CIO to continue leadership of the implementation of the FDIC’s IT Modernization Plan. The appointment of the new CIO marks the FDIC’s eighth CIO or Acting CIO in the last decade. These senior management changes impact the direction of an organization because turnover affects management strategy, planning, budgets, and staffing. As noted by the GAO, a high turnover rate in CIOs negatively

Department of Homeland Security, the Department of State, the Department of Transportation, the Department of Housing and Urban Development, the Department of Agriculture, the Department of Health and Human Services, the Department of Education, and the Social Security Administration.

⁵⁰ PII is any information about an individual maintained by an agency, including (1) any information that can be used to distinguish or trace an individual’s identity, such as name, Social Security Number (SSN), date and place of birth, mother’s maiden name, or biometric records; and (2) any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information.

⁵¹ U.S. Government Accountability Office, *Information Technology: Agencies Need to Develop Modernization Plans for Critical Legacy Systems*, GAO-19-471, (June 2019).

⁵² U.S. Government Accountability Office, *Information Technology: Agencies Need to Develop Modernization Plans for Critical Legacy Systems*, GAO-19-471, (June 2019).

⁵³ FDIC Chief Information Officer Organization, *FDIC IT Modernization Plan 2020-2024*.

⁵⁴ According to FDIC Circular 1360.9, *Protecting Sensitive Information*, (October 2015), sensitive PII is a subset of PII that presents the highest risk of being misused for identity theft or fraud. Sensitive PII may be comprised of a single item of information, such as an SSN, or a combination of two or more items, such as full name along with financial, medical, criminal, or employment information.

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impacts their effectiveness because there is limited time to put their agenda in place or form close working relationships with agency leadership.⁵⁵

Maturing the FDIC's IT Security Program and Practices

In our annual audit report, [The FDIC's Information Security Program—2019](#) (October 2019) (FISMA Report) and other OIG reports, we identified weaknesses that limited the effectiveness of the FDIC's information security program and practices and placed the confidentiality, integrity, and availability of the FDIC's information systems and data at risk. In particular, we identified the following weaknesses and deficiencies that pose the highest risks to FDIC IT systems:

- **Network Firewalls.** According to the National Institute of Standards and Technology (NIST) guidance, firewalls are essential devices or programs that help organizations protect their networks and information systems from hostile attacks, break-ins, and malicious software.⁵⁶ The FDIC deploys firewalls at both the perimeter and interior of its network. These firewalls control the flow of inbound traffic from the internet through the use of "ingress" rules that inspect traffic and permit or deny requests for access to FDIC systems. The firewalls also control the type of traffic allowed to flow out of the network using "egress" rules. Therefore, the FDIC's firewalls are only as effective as the rules that the FDIC defines for them.

In our audit report, [Preventing and Detecting Cyber Threats](#) (May 2019), we identified weaknesses in the effectiveness of both FDIC firewalls and the Security Information and Event Management tool that works in concert with firewalls to analyze network activity and detect cyber threats. The FDIC had inadequate firewall policies and procedures that led to firewall rules lacking documented justification, unnecessary firewall rules, and an ineffective process to periodically review firewall rules. Unnecessary firewall rules pose a security risk. The FDIC undertook significant steps to address these network firewall weaknesses. However, the FDIC had not yet completed actions to document all existing network firewall rules with an approval and mission/business need, including the duration of that need, or implemented a firewall policy consistent with NIST guidance.

- **Privileged Account Management.** The FDIC assigns certain network users "administrative accounts" that have privileged access to systems and network IT resources to perform maintenance and IT troubleshooting activities. The FDIC must carefully control and monitor administrative accounts because hackers and other adversaries often target them to perform malicious activity, such as exfiltrating sensitive information.

In our audit report, [Preventing and Detecting Cyber Threats](#), we found that the FDIC did not always require administrators to uniquely identify and authenticate when they accessed network firewalls. These vulnerabilities exposed the network firewalls to increased risk of unauthorized access or malicious activity. The FDIC corrected these vulnerabilities.

- **Security Control Assessments.** Agencies are required to test and evaluate information security controls periodically in order to ensure that they are effective. The

⁵⁵ U.S. Government Accountability Office, *Federal Chief Information Officers: Responsibilities, Reporting Relationships, Tenure, and Challenges*, GAO-04-823, (July 2004).

⁵⁶ NIST SP 800-41, *Guidelines on Firewalls and Firewall Policy*, (September 2009).

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FDIC assessed its security controls following a risk-based schedule. However, in our audit, [Security Configuration Management of the Windows Server Operating System](#) (January 2019), we found instances in which security control assessors did not test the implementation of security controls, when warranted. Instead, assessors relied on narrative descriptions of controls in FDIC policies, procedures, and system security plans and/or interviews of FDIC or contractor personnel. Without testing, assessors did not have a basis for concluding on the effectiveness of security controls. We made eight recommendations, one of which remains unimplemented at the time of this report.

- **Security and Privacy Awareness Training.** FDIC policy requires employees and contractor personnel with network access to complete security and privacy awareness training within one week of employment, and annually thereafter. FDIC policy states that users who fail to comply with this requirement must have their network access revoked. We identified 29 network users who did not satisfy the FDIC's awareness training requirement but still had access to the network. We found that the FDIC was not aware of the 29 users, among approximately 7,000 network users, because the system used to monitor training compliance did not track all users required to take the annual security and privacy awareness training.

The FDIC must continue to modernize its IT systems and mature security controls to minimize risks of cyber incidents. Information security should remain a critical element of the FDIC's plan to modernize its IT systems.

3| ENSURING THE FDIC'S READINESS FOR CRISES

Banks face numerous significant risks that could affect the stability of the financial system, as well as the safety and soundness of institutions. Central to the FDIC's mission is readiness to address crises impacting the banking system and mitigation of risk through supervision. The FDIC identified two important lessons learned following the recent financial crisis: (i) the importance of crisis readiness planning; and (ii) quickly addressing emerging supervisory risks. Crisis readiness best practices identify the principles and elements of effective preparedness that collectively provide a framework for crisis planning efforts. Adopting such a framework strengthens the FDIC's ability to respond to a crisis in a timely and effective manner.

The World Economic Forum identified five categories of risk to the world economy that also impact the banking sector: (1) Technological risks, such as widespread economic disruption, failure of the internet or satellites, or large-scale data fraud or theft; (2) Economic risks, such as unsustainable prices for housing or commodities that result in sudden price drops; (3) Environmental risks, such as extreme weather events, natural disasters, or man-made disasters; (4) Geopolitical events, such as terrorist attacks or weapons of mass destruction; and (5) Societal risks, such as infectious disease pandemics.⁵⁷

The FDIC plays an important role in supervising and regulating banks that may be affected by these risks. The FDIC helps to stabilize financial markets through its examination of banks, provision of deposit insurance, and resolution of failed banks. When the FDIC acts as the receiver of a failed institution, the FDIC assumes responsibility for recovering funds through the disposition of a bank's assets.⁵⁸ The FDIC Chairman noted that during its 85-year history, the

⁵⁷ The World Economic Forum, *The Global Risks Report 2018*, 13th Edition.

⁵⁸ [FDIC 2018-2023 Strategic Plan, Receivership Management Program](#).

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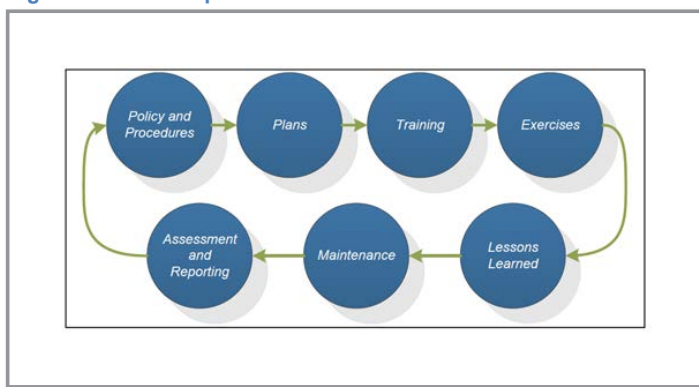
FDIC “has resolved more than 2,700 institutions with assets of more than \$1 trillion and almost \$800 billion in deposits.”⁵⁹

Planning for Crises and Resolution of Failed Banks

When early mitigation fails or events overtake mitigation efforts, the FDIC should be prepared to address bank failures. In 2017, the FDIC published a study of the Agency’s response to the financial crisis in 2008-2013. The FDIC study, *Crisis and Response: An FDIC History, 2008-2013* (Crisis and Response Report), concluded that the financial crisis presented the FDIC with unprecedented challenges and demanded creative and innovative responses from the FDIC and other financial regulatory agencies. In addition, the crisis stretched the limits of the FDIC’s capacity to supervise problem institutions, manage the Deposit Insurance Fund, and implement orderly resolutions for failed financial institutions. The Crisis and Response Report concluded that “[i]n hindsight, it might have been more effective if the FDIC, as part of its readiness planning, had built a larger and more agile infrastructure—including staff, contracts, and [information technology] systems—during the lull between the end of the previous crisis and the start of this new one.” The Crisis and Response Report indicated that, as a result, one of the most important lessons learned from the prior financial crisis was that “readiness planning is essential.”⁶⁰

Crisis readiness best practices⁶¹ identify seven elements of a readiness planning framework, as depicted in Figure 1. A crisis readiness framework identifies the principles and elements of effective preparedness and promotes a shared understanding and a common, integrated perspective of readiness across all mission areas.⁶²

Figure 1: OIG Compilation of Crisis Readiness Framework



Source: FDIC OIG.

Specifically, the seven elements of a readiness framework that agencies such as the FDIC should have include:

- **Policy and Procedures** – Agencies should have a policy with defined readiness authorities, roles, and responsibilities, including a committee responsible for overseeing

⁵⁹ Jelena McWilliams, FDIC Chairman, Keynote Remarks delivered at the 2018 Annual Conference of The Clearing House and Bank Policy Institute, (November 28, 2018).

⁶⁰ The Crisis and Response Report indicated that, as part of maintaining readiness in a stable environment, the FDIC could explore how other agencies with highly variable resource demands address their resource challenges. The report cited FEMA as an example, noting the agency has developed readiness capabilities despite the unpredictable need for disaster relief.

⁶¹ OIG-identified best practices included the Department of Homeland Security, *National Preparedness Guidelines* (September 2007); Federal Emergency Management Agency (FEMA), *FEMA Operational Planning Manual* (FEMA-P-1017) (June 2014); and the Organization for Economic Co-operation and Development, *Strategic Crisis Management* (December 2012).

⁶² FEMA, *National Disaster Recovery Framework* website summary page <https://www.fema.gov/national-disaster-recovery-framework> (October 2018).

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readiness activities. This policy helps ensure that personnel understand and implement management directives for readiness. Agencies should also have procedures for a consistent crisis readiness planning process.

- **Plans** – Agencies should have an agency-wide all-hazards readiness plan as well as plans for specific hazards as needed based on risk. These plans improve the efficiency of the readiness planning process and provide management and personnel with a comprehensive understanding of readiness planning activities across an organization.
- **Training** – Agencies’ plans should incorporate training requirements to ensure that personnel understand the content of crisis readiness plans, including the task-related responsibilities for executing the plans.
- **Exercises** – Agencies should regularly test readiness plans, document the results of all readiness plan exercises, and consistently incorporate such exercise requirements within its plans.
- **Lessons Learned** – Agencies should have a process to monitor the implementation of lessons learned and related recommendations from readiness plan training, exercises and execution during a crisis.
- **Maintenance** – Agencies should regularly review and update their readiness plans and incorporate such maintenance requirements within their plans.
- **Assessment and Reporting** – Agencies should regularly assess and report on Agency-wide progress on crisis readiness plans and activities to key decision makers within an organization.

We have work ongoing to assess the FDIC’s crisis readiness planning efforts in the context of this framework.

Promptly Identifying and Mitigating Banking Risks

An important step in avoiding crises is early risk identification and mitigation. In its review of the financial crisis, the Financial Crisis Inquiry Commission stated that “[i]n case after case after case, regulators continued to rate the institutions they oversaw as safe and sound even in the face of mounting troubles, often downgrading them just before their collapse.”⁶³

The FDIC adopted a Forward-Looking Supervision initiative to identify and mitigate risk before it impacts the financial condition of an institution. In our evaluation report, [Forward-Looking Supervision](#)⁶⁴ (August 2018) we found that for 41 examination reports sampled, examiners identified overall safety and soundness risk; however, only 27 percent of reports sampled (11 of 41) elevated concerns to the financial institution’s board of directors. Based on the financial institutions’ risk, we believe that a greater number of these concerns warranted board attention. Elevating concerns and recommendations provides greater visibility and awareness to the financial institution’s board of directors and senior management.

⁶³ Financial Crisis Inquiry Commission, *Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States* (January 21, 2011). Congress established the Financial Crisis Inquiry Commission as part of the Fraud Enforcement and Recovery Act (Public Law 111-21) to examine the causes of the financial crisis.

⁶⁴ *Forward-Looking Supervision*, EVAL-18-004, (August 2018).

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An institution's financial condition may also change between examination intervals, making the most recent examination rating outdated or inaccurate. The FDIC's Offsite Review Program (ORP) is designed for the early identification of emerging supervisory concerns and potential problems so that supervisory strategies can be adjusted quickly. The ORP includes models and other methodologies that review quarterly bank information⁶⁵ and produce the Offsite Review List (ORL) of institutions with potential emerging supervisory concerns. FDIC Regional Offices may add institutions that are not initially identified on the ORL based on Region-specific concerns. The ORP also includes a Supplemental Review List for new or emerging risks to be included in the quarterly offsite process.

In our evaluation report, [Offsite Reviews of 1- and 2-Rated Institutions](#) (December 2019), we found that the ORP identified emerging issues concerning financial institutions' rapid growth, use of noncore funding, and deteriorating financial trends, but the FDIC should evaluate additional methods and new technologies to identify financial institutions with other types of emerging supervisory concerns. For example, the FDIC should assess whether innovative technologies would provide predictive information on other types of emerging supervisory concerns, such as those related to banks' internal controls, credit administration, and management practices. We recommended that the FDIC evaluate the feasibility of using new technologies to identify institutions with emerging supervisory concerns.

The health of banks and the banking system depends upon the FDIC's and other regulators' early identification and mitigation of safety and soundness risk and the FDIC's ability to respond to banking crises. Establishing a robust readiness framework ensures the FDIC has the organizational processes, individuals, resources, and integration necessary to respond to a crisis.

4 | SHARING THREAT INFORMATION WITH BANKS AND EXAMINERS

Federal Government agencies gather a substantial volume of information related to the safety and soundness of financial institutions in the United States, and thus, relevant to FDIC supervisory activities. For example, Government agencies collect information about cyber threats, money laundering, and illicit financing activity. Bankers need to receive actionable information in order to respond to threats in a timely manner. FDIC examiners responsible for supervised institutions should be aware of threats directed toward those institutions to understand their impact and make necessary supervisory adjustments. Further, examiners should understand the nature of threats to evaluate potential gaps and determine the depth and scope of an examination. FDIC policy makers should be aware of emerging threats to ensure that relevant threat information is disseminated to banks and examiners; in addition, policy makers can adjust examination policy and procedures and assess the need for supplementing or modifying the regulatory scheme.

On April 30, 2019, the CISA identified consumer and commercial banking, and funding and liquidity services as National Critical Functions which are "so vital to the United States that their disruption, corruption, or dysfunction would have a debilitating effect on security, national economic security, national public health or safety, or any combination thereof."⁶⁶ The CISA

⁶⁵ Banks reviewed through the ORP include FDIC-supervised institutions and institutions supervised by the Federal Reserve Board or the Office of the Comptroller of the Currency.

⁶⁶ DHS Cybersecurity and Infrastructure Security Agency, *National Critical Functions – An Evolved Lens for Critical Infrastructure and Security Resilience*, (April 30, 2019).

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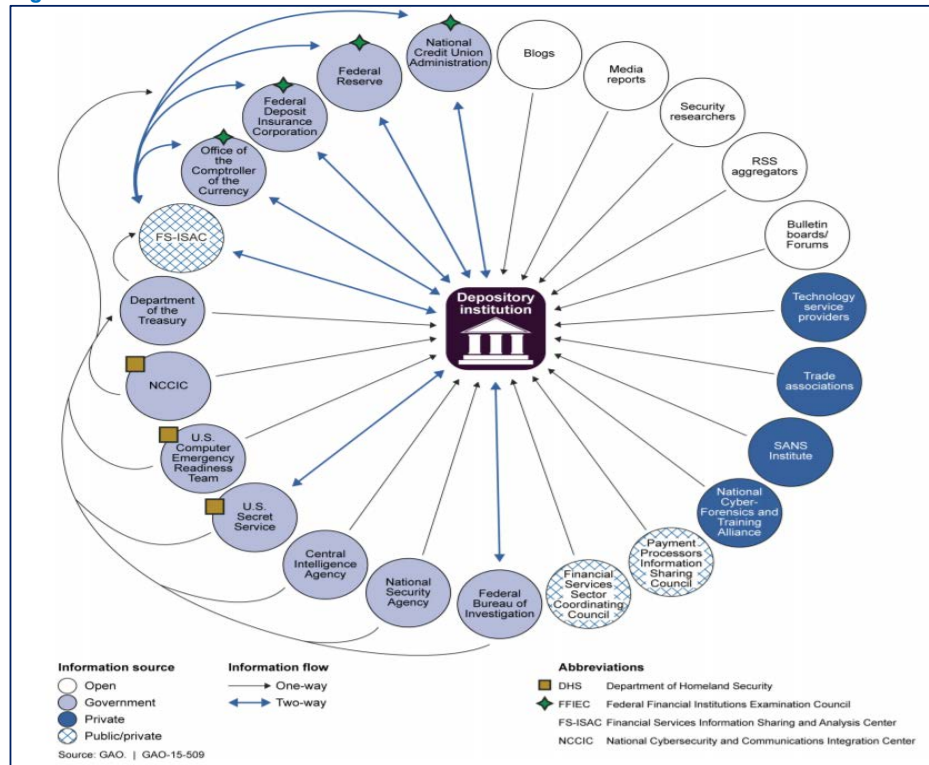
further stated that a key focus to support these National Critical Functions is collecting and sharing threat information about natural occurrences or man-made actions that represent “the potential to harm life, information, operations, the environment, and/or property.”⁶⁷

Similarly, the FSOC noted, in its 2019 Annual Report, the critical importance to the financial sector of sharing timely and actionable threat information with Federal Government agencies and the private sector. The FSOC stated that Federal agencies should “carefully consider how to appropriately share information and, where possible, continue efforts to declassify (or downgrade classification) to the extent practicable, consistent with national security imperatives.”⁶⁸

FinCEN also stressed the importance of providing the financial sector with information about illicit activity to help sector participants identify and report such activities to law enforcement.⁶⁹ This information is especially important to identify illicit actors who use virtual currency to facilitate criminal activity, such as human or drug trafficking, child exploitation, fraud, terrorist financing, or to support rogue regimes and facilitate sanctions evasion.

As shown in Figure 2, the GAO identified multiple sources of threat information.

Figure 2: Sources of Threat Information for Financial Institutions.



⁶⁷ Department of Homeland Security, *DHS Risk Lexicon*, (September 2008).

⁶⁸ FSOC 2019 Annual Report.

⁶⁹ Financial Crimes Enforcement Network, *Advisory on Illicit Activity Involving Convertible Virtual Currency*, (May 9, 2019).

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Disseminating Threat Information to Banks

The OCC noted that “[t]he potential for operational disruptions underscores the need for effective controls and operational resilience to help ensure the ongoing delivery of financial products and services in a safe and sound manner.”⁷⁰ The FFIEC provides instructions to examiners on how to examine financial institutions’ business continuity plans. These instructions note that threats should be analyzed “based upon the impact to the institution, its customers, and the financial market it serves.”⁷¹ The FFIEC notes that financial institutions should have “a means to collect data on potential threats that can assist management in its identification of information security risks.” The FDIC is responsible for evaluating bank management’s processes to receive and assess threat information, and to act on such information in order to mitigate risks.

The Cybersecurity Information Sharing Act (2015) required the Director of National Intelligence (DNI) and other agency heads to develop and issue procedures to facilitate and promote the sharing of cyber threat indicators and defensive measures. In February 2016, the DNI issued a report entitled *Sharing of Cyber Threat Indicators and Defensive Measures by the Federal Government under the Cybersecurity Information Sharing Act of 2015* (Threat Sharing Procedures), which outlined the procedures for Federal agencies to share cybersecurity information with non-Federal entities such as financial institutions.⁷² The Threat Sharing Procedures promote sharing unclassified and classified information, and best practices related to cyber security.

According to the Threat Sharing Procedures, Federal Government agencies are to make every reasonable effort to share unclassified reports of cyber threats on a timely basis. The sharing of classified threat information is dependent on the recipient’s security clearance level and must protect sources, methods, operations, and investigations. The Threat Sharing Procedures encourage Federal agencies to “downgrade, declassify, sanitize or make use of tearlines to ensure dissemination of threat information to the maximum extent possible.”⁷³

Federal agencies may use Information Sharing and Analysis Centers (ISAC) to provide threat information to other government agencies or non-Federal entities.⁷⁴ The goal of ISACs is to provide members with accurate, actionable, and relevant information, and they are organized to share sector-specific threat and vulnerability information with members.

The Financial Services Information Sharing and Analysis Center (FS-ISAC) was established to serve financial institutions. FS-ISAC has 7,000 members and its purpose is to share timely, relevant, and actionable security threat information. Federal financial-sector regulators encourage financial institutions to gain access to threat information through FS-ISAC membership.⁷⁵ Regulators also suggest that banks use other available resources from the Federal Bureau of Investigation, Department of Homeland Security, and U.S. Secret Service in

⁷⁰ OCC, *Semiannual Risk Perspective*, (Fall 2019).

⁷¹ FFIEC, Business Continuity Planning Booklet, *Risk Assessment*, (Available on the [FFIEC website](#)).

⁷² The Office of the Director of National Intelligence, The Department of Homeland Security, The Department of Defense, and The Department of Justice, *Sharing of Cyber Threat Indicators and Defensive Measures by the Federal Government under the Cybersecurity Information Sharing Act of 2015*, (February 16, 2016).

⁷³ The Office of the Director of National Intelligence, The Department of Homeland Security, The Department of Defense, and The Department of Justice, *Sharing of Cyber Threat Indicators and Defensive Measures by the Federal Government under the Cybersecurity Information Sharing Act of 2015*, (February 16, 2016).

⁷⁴ Presidential Policy Directive 63, *Critical Infrastructure Protection*, (May 22, 1998).

⁷⁵ FFIEC, *Cybersecurity and Threat and Vulnerability Monitoring and Sharing Statement*, (November 3, 2014).

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order to identify and respond to cyber attacks. Bank “management is expected to monitor and maintain sufficient awareness of cybersecurity threats and vulnerability information so they may evaluate risk and respond accordingly.”⁷⁶

As part of the FDIC’s supervisory process, examiners evaluate banks’ processes for obtaining and assessing threat information. Examiners may face challenges in assessing the effectiveness of banks’ threat identification and mitigation processes when banks are not receiving threat information through FS-ISAC membership.

Disseminating Threat Information to FDIC Policy Makers and Examiners

FDIC policy makers should be aware of threats to ensure relevant threat information is provided to banks and examiners. Further, policy makers may need to adjust examination policy and procedures to address emerging threat issues and assess the need for additional regulation. FDIC examiners should be aware of threats directed toward those institutions to understand their impact and make necessary supervisory adjustments. Understanding the nature of threats to all banks provides context for examiners to evaluate potential gaps in an institution’s processes for threat information gathering and continuity planning. Further, threat information can assist examiners in prioritizing and focusing their work on emerging issues, and modifying the depth or scope of an examination.

According to best practices,⁷⁷ recipients of threat information should have the following processes in place to assess the significance of the information and ensure that actionable information is disseminated to relevant parties:

- **Acquiring Threat information.** Threat information may be obtained from a variety of sources and methods, including information from open sources, confidential sources, law enforcement, intelligence, public and private entities, as well as investigations, assessments, and intelligence collection.
- **Analyzing Threat Information.** The significance of the threat must be assessed in the context of other threats and relevant information.
- **Disseminating and Using Actionable Threat Information.** This step includes distribution with a focus on timely delivery of relevant actionable threat information to the appropriate people. Further, information must be “marked” to ensure proper safeguarding and access restrictions.
- **Providing Feedback on Threat information.** Establishing processes for lessons learned improves the relevance, usefulness, and format of threat information.

The FDIC has access to threat information held by various Government agencies, and should have formal processes to address the four steps, referenced above, for threat information assessment and sharing. Without formal processes, the FDIC leaves the collection of information, analysis, dissemination, and feedback to staff discretion, which may lead to inconsistencies, uncertainty, and a lack of uniformity in sharing threat information.

⁷⁶ FFIEC, *Cybersecurity and Threat and Vulnerability Monitoring and Sharing Statement*, (November 3, 2014).

⁷⁷ OIG compilation based on a combination of DHS, *Critical Infrastructure Threat Information Sharing Framework, A Reference Guide for the Critical Infrastructure Community*, (October 2016); and SANS Institute, *Cyber Threat Intelligence Support to Incident Handling*, (November 2017).

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The FDIC is also challenged to set up the infrastructure needed to execute threat assessment and sharing processes. FDIC Headquarters staff has access to significant amounts of threat information held by the U.S. Government, and much of the information is confidential and highly sensitive. Given the volume of information, the FDIC faces challenges in having the appropriate number of personnel with the requisite security clearance levels to analyze, distill, and convey relevant and actionable threat information. The FDIC is also challenged to convey classified information to policy makers and examiners. In order to access, store, and handle classified information, FDIC policy makers and examiners must have relevant security clearances and secure facilities—or alternatively, the FDIC must have processes in place to declassify information in a timely manner. We have ongoing work to evaluate the effectiveness of the FDIC's procedures for the collection and dissemination of threat information.

Timely and actionable threat information allows bank management to thwart threats and the FDIC to quickly adjust supervisory strategies. Understanding the emerging threat landscape across all banks provides examiners with context to review a bank's processes to defend against threats and provides perspective to adjust examination policies and procedures. Absent information sharing, bank management, policy makers, and examiners may be unaware of threats that could affect the safety and soundness of financial institutions.

5 | STRENGTHENING THE GOVERNANCE OF THE FDIC

Effective governance is critical to ensure proper oversight of the FDIC. The Federal Deposit Insurance Act vests the management of the FDIC to its Board of Directors (FDIC Board). The FDIC Board has operated without a full membership since 2015. The FDIC Board delegates authority to FDIC senior leaders to fulfill the Agency's mission, including implementation of its Enterprise Risk Management (ERM) program. The FDIC should ensure that it is identifying and managing risks, and making data-driven acquisition decisions.

According to *Principles of Corporate Governance* issued by the Organization for Economic Co-operation and Development (OECD Governance Principles), "[t]he purpose of corporate governance is to help build an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability, and business integrity, thereby supporting stronger growth, and more inclusive societies."⁷⁸ As explained in the OECD Governance Principles, a governance framework should ensure strategic guidance, effective monitoring of management by the board, and the board's accountability to stakeholders.

One area of importance for boards is oversight of the organization's ERM. Such oversight includes accountability and responsibilities for managing risks, specifying the types and degree of risk that an organization is willing to tolerate, and the management of risks through operations and relationships. ERM is a governance issue that falls within the oversight responsibility of boards of directors.⁷⁹

⁷⁸ OECD, *G20/OECD Principles of Corporate Governance*, (2015). *The Principles* are presented in six different chapters. This document references two chapters: (1) Ensuring the basis for an effective corporate governance framework and (2) The responsibilities of the Board.

⁷⁹ Harvard Law School Forum on Corporate Governance and Financial Regulation, *Risk Management and the Board of Directors*, (March 20, 2018).

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The Federal Deposit Insurance Act⁸⁰ vests management of the FDIC in the FDIC Board. The FDIC Board consists of five members, all of whom are appointed by the President and confirmed by the Senate: the Comptroller of the Currency; the Director of the Consumer Financial Protection Bureau; and three “Appointive Directors,” including a Chairman and Vice Chairman.⁸¹ No more than three members of the Board may be from the same political party, and one member “shall have State bank supervisory experience.”⁸²

Although the FDIC Board may delegate certain powers to officers of the FDIC, the FDIC Board members should exercise oversight, remain informed about FDIC activities, and review financial statements.⁸³

Maturing Enterprise Risk Management

According to OMB Circular Number A-123, *Management’s Responsibility for Enterprise Risk Management and Internal Control*,⁸⁴ Federal agencies face internal and external risks to achieving their missions, including “economic, operational, and organizational change factors.”⁸⁵ The OMB requires that Federal agencies implement ERM to assist agencies in identifying, assessing, and mitigating internal and external risks.

The OMB defines ERM as “an effective Agency-wide approach to addressing the full spectrum of the organization’s external and internal risks by understanding the combined impact of risks as an interrelated portfolio, rather than addressing risks only within silos.”⁸⁶ The components of ERM include a risk governance structure; a methodology for developing an agency’s risk profile; and a process, guided by an organizations senior leadership, to consider risk appetite and risk tolerance levels that serve as a guide for the agency to establish strategy and select objectives.

In June 2010, the FDIC hired a consulting firm to address five key issues regarding its ERM program. In response to the firm’s recommendations, the then-FDIC Chairman appointed a Risk Steering Committee to evaluate alternatives and recommend an organizational structure for risk management. The Risk Steering Committee recommended to the FDIC Board the establishment of an Office of Corporate Risk Management (OCRM), headed by a Chief Risk Officer (CRO), with total staffing of 16. The Board approved the recommended changes, which were intended to provide an office to review internal and external risks with a system-wide perspective; facilitate sharing of information regarding existing, emerging, and potential risks; and instill risk governance as part of the FDIC’s culture.

From 2011 to 2016, the ERM program was headed by a CRO who reported directly to the then-Chairman. In May 2016, the CRO retired, and only five ERM program staff remained at the

⁸⁰ 12 U.S.C. § 1812(a)(1) (2019).

⁸¹ 12 U.S.C. § 1812(a)(1) (2019); FDIC, *Bylaws of the FDIC*, (2018). Technically designated the Chairperson and Vice Chairperson in the statute and bylaws, it is longstanding FDIC practice to refer to the positions as Chairman and Vice Chairman.

⁸² 12 U.S.C. § 1812(a)(1) (2019).

⁸³ Bylaws of the Federal Deposit Insurance Corporation, Adopted by the Board of Directors, (September 17, 2019); Wyoming Law Review, *Director Oversight and Monitoring: The Standard of Care and the Standard of Liability Post-Enron*, (2006).

⁸⁴ OMB Circular No. A-123, *Management’s Responsibility for Enterprise Risk Management and Internal Control*, (July 15, 2016).

⁸⁵ OMB Circular No. A-123, *Management’s Responsibility for Enterprise Risk Management and Internal Control*, (July 15, 2016).

⁸⁶ OMB Circular No. A-123, *Management’s Responsibility for Enterprise Risk Management and Internal Control*, (July 15, 2016).

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time. In June 2017, the FDIC reorganized the ERM program by placing the position of CRO under the Division of Finance as a Deputy Director, eliminating OCRM and moving the ERM function to a newly constituted Risk Management and Internal Controls Branch.

In October 2018, the FDIC revised its *Enterprise Risk Management and Internal Control Policy* (FDIC ERM Directive), which includes the ERM principles of OMB Circular Number A-123.⁸⁷ The FDIC ERM Directive vests the FDIC's Operating Committee with oversight of the ERM program, including "establishment of the agency's risk profile, regular assessment of risk, and development of appropriate risk response."⁸⁸ The Operating Committee includes senior-level officials, but it is not a decision-making body.

The FDIC ERM Directive instructs the CRO to work in partnership with FDIC Division and Office leaders to ensure enterprise-wide coordination, training, policy, and maintenance of ERM components (risk inventory, risk profile, and risk appetite statements). The FDIC ERM Directive states that implementation of ERM should facilitate efforts of the FDIC Board to identify, assess, and address risks. However, the FDIC ERM Directive does not envision an oversight role for the FDIC Board, nor does it describe regular reporting requirements or communications for the FDIC Board.

In our recent audit, [The FDIC's Information Security Program—2019](#) (October 2019), we found that the ERM program developed a risk appetite statement establishing the amount of risk the FDIC is willing to accept in pursuit of its mission. However, as of the time of our report, the FDIC had not yet completed an inventory of risks facing the FDIC, or a risk profile to help manage and prioritize risk mitigation activities.

Subsequent to our report, the FDIC completed a risk inventory and risk profile. FDIC management is in the process of integrating its ERM program into the FDIC's budget, strategic planning, performance reporting, and internal control processes. We have ongoing work evaluating the FDIC's ERM program to assess the extent to which the FDIC has implemented an effective ERM program consistent with guidance and best practices.

Operating Without a Full FDIC Board

The FDIC Board has been operating with four members since 2015. The Vice Chairman position on the FDIC Board of Directors has been vacant since April 30, 2018.⁸⁹ In addition, the FDIC has not had an independent Board member with "State bank supervisory experience" since 2012.⁹⁰ Nearly 80 percent of banks in the United States (approximately 4,400 institutions) are chartered by states, and the FDIC has authority to examine and supervise state-chartered banks that are not part of the Federal Reserve System.

On January 30, 2019, a bipartisan group of fifteen Members of the House of Representatives submitted a letter to the White House expressing concern that no current sitting FDIC Board

⁸⁷ FDIC Directive 4010.3, *Enterprise Risk Management and Internal Control Program* (2018). The FDIC is not required to follow OMB Circular No. A-123.

⁸⁸ FDIC Directive 4010.3, *Enterprise Risk Management and Internal Control Program* (2018).

⁸⁹ American Banker, *Pressure Grows on Administration to Fill Fed, FDIC Seats*, (November 3, 2019).

⁹⁰ Former Comptroller of the Currency Thomas Curry, who served on the FDIC Board until May 2017, was formerly the Massachusetts Banking Commissioner, but did not meet the statutory requirement for an independent Board member with supervisory experience. See American Banker, *FDIC Needs a State Regulator on Its Board*, (August 17, 2018).

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member satisfies the state banking supervisory experience requirement.⁹¹ The Congressional Members noted in the letter that state bank supervisory experience is important because both state and FDIC regulators share concurrent responsibility for the safety and soundness of certain state-chartered banks. Most state banking agencies participate in an examination program under which certain examinations are performed on an alternating basis by the state agency and the FDIC. The Members of Congress stated they believe that “having an FDIC Board member with state bank experience is an important part of that coordination.”

Overseeing Investment Decisions

In order to properly oversee investment decisions at the FDIC, the FDIC Board and senior managers should have quality data and processes. The FDIC awarded 2,400 contracts valued at more than \$1.5 billion over a 3-year period from 2016 to 2018. In our evaluation report, [Contract Oversight Management](#) (October 2019), we found that the FDIC was overseeing acquisitions on a contract-by-contract basis rather than on a portfolio basis and did not have an effective contracting management information system to readily gather, analyze, and report portfolio-wide contract information across the Agency. In addition, we found that the FDIC’s contracting system did not maintain certain key data in a manner necessary to conduct historical trend analyses, plan for future acquisition decisions, and assess risk in the FDIC’s awarded contract portfolio. As a result, FDIC Board members or other senior management officials were not provided with a portfolio-wide view or the ability to analyze historical contracting trends across the portfolio, identify anomalies, and perform ad hoc analyses to identify risk or plan for future acquisitions.

In our audit report, [The FDIC’s Governance of Information Technology Initiatives](#), (July 2018), we found that the FDIC faced a number of challenges and risks related to the governance of its IT initiatives. For example, the FDIC did not fully develop a strategy to move IT services and applications to the cloud or obtain the acceptance of key FDIC stakeholders before taking steps to initiate cloud migration projects. The FDIC also had not implemented an effective Enterprise Architecture to guide the three IT initiatives we reviewed or the FDIC’s broader transition of IT services to the cloud. The FDIC has taken action to address six of our eight recommendations and continues to work towards implementing the remaining two recommendations relating to: (1) revising IT Governance Processes into FDIC policies and procedures; and (2) identifying and documenting IT resources and expertise needed to execute the FDIC’s IT Strategic Plan.

The FDIC Board’s oversight of FDIC senior management is a critical component to promptly identifying, assessing, and responding to risks to the FDIC, and overseeing contracting activities and IT investment decisions.

⁹¹ The letter is available [here](#). Congressman Barry Loudermilk, Congressman Denny Heck, Congressman Peter King, Congressman Jim Hines, Congressman Frank Lucas, Congressman Scott Tipton, Congressman Tom Emmer, Congressman Steve Stivers, Congressman Lee Zeldin, Congressman Alex Mooney, Congressman Ted Budd, Congressman David Kustoff, Congressman Trey Hollingsworth, Congressman John Rose, and Congressman Denver Lee Riggleman III.

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6 | OVERSEEING HUMAN RESOURCES

The FDIC relies on the talents and skills of its employees to accomplish its mission. Within the next few years, the FDIC will need to navigate a potential wave of retirements, reverse attrition trends among its core examination workforce, and hire staff with skills to match technology innovation. Effective management of these challenges limits the impact of leadership and skill gaps, and the loss of institutional experience and knowledge due to retirements. The FDIC should position itself to recruit, retain, and develop future talent.

In March 2019, the GAO recognized strategic human capital management as a continuing Government-wide area of high risk.⁹² The GAO noted that 31.6 percent of the permanent Federal workforce on board as of September 30, 2017 would be eligible to retire within the next 5 years.⁹³ The GAO identified the need for Federal agencies to measure and address existing mission-critical skill gaps, and to use workforce analytics to predict and mitigate future gaps.⁹⁴ The GAO also identified five trends affecting the future Government workforce:

- (1) Technological advances that will change the way work is performed;
- (2) Increased reliance on contractors to achieve policy goals that will require new skills and competencies;
- (3) Fiscal constraints that will require agencies to review how they conduct business;
- (4) Evolving mission requirements that will require agencies to adapt their work and workforce; and
- (5) Changing demographics and shifting attitudes towards work.⁹⁵

Without careful attention to strategic and workforce planning and other approaches to managing and engaging personnel, reduced investments in human capital may have lasting effects on the capacity of an agency's workforce to meet its mission.⁹⁶

Forty-two percent of current FDIC employees (on board as of July 31, 2019) are eligible to retire within the next 5 years. These retirement figures include retirement eligibility of 60 percent for FDIC Executives and 58 percent for its Managers. Although historical FDIC projections show that employees may not retire on their eligibility date, this wave of potential retirements could deplete the FDIC's institutional experience and knowledge, especially during a crisis. Without proper succession planning strategies, these retirements can also result in leadership gaps.

Further, the FDIC's budget for 2019 marked the ninth consecutive year of lower annual staffing levels and operating budgets, reflecting the FDIC's reduced bank failure workload. The FDIC's authorized staffing level at the beginning of 2019 of 5,901 positions represented a net reduction of 182 positions from 2018 (approximately 3.1 percent) and the operating budget was reduced by 2.3 percent for the same period.

⁹² GAO, High-Risk Series: *Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, GAO-19-157SP, (March 2019).

⁹³ GAO, *Federal Workforce: Talent Management Strategies to Help Agencies Better Compete in a Tight Labor Market*, GAO-19-723T, (September 2019).

⁹⁴ GAO, High-Risk Series: *Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, GAO-19-157SP, (March 2019).

⁹⁵ GAO, *Federal Workforce: Key Talent Management Strategies for Agencies to Better Meet Their Missions*, GAO-19-181, (March 2019).

⁹⁶ GAO, *Federal Workforce: Key Talent Management Strategies for Agencies to Better Meet Their Missions*, GAO-19-181, (March 2019).

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Retirements and attrition can create opportunities for employees and allow organizations to restructure to meet program goals and fiscal realities. However, if turnover is not strategically monitored and managed, gaps can develop in an organization's institutional knowledge and leadership.⁹⁷

Navigating the Upcoming Retirement Waves in the FDIC's Primary Divisions

Approximately 91 percent of all FDIC employees work in one of the FDIC's nine primary and support Divisions. We analyzed the data regarding eligibility for retirement of the employees within these Divisions as illustrated in Table A. Based on our review, we found that 30 to 67 percent of the FDIC staff in these Divisions is eligible to retire in the next 5 years. Notably, all but one of the primary FDIC Divisions have retirement eligibility rates that are higher than the Federal Government average of 31.6 percent.

FDIC Executives and Managers in the nine Divisions have retirement eligibility rates ranging from 29 to 76 percent. For example, more than three-quarters of FDIC Executives and Managers within the Division of Finance (76 percent) are eligible to retire in the next 5 years. Similarly, 70 percent of Executives and Managers in the Division of Resolutions and Receiverships can retire in the same timeframe.

The 5-year retirement rates of Executive Managers and Corporate Managers could result in knowledge and leadership gaps at the FDIC. As recognized by the GAO, retirement waves may result in leadership gaps.⁹⁸ These mission-critical skills gaps could impede the capabilities of any agency to achieve its mission, unnecessarily delay decision-making, and reduce program management and oversight.⁹⁹

Table A: Retirement Eligibility Statistics for Key FDIC Divisions

Division	Staff Eligible to Retire in 2024	Executives and Managers Eligible to Retire in 2024
Division of Resolutions and Receiverships (DRR)	67 percent	70 percent
Division of Finance (DOF)	61 percent	76 percent
Legal Division	56 percent	44 percent
Division of Administration (DOA)	53 percent	57 percent
Division of Information Technology (DIT)	46 percent	52 percent
Division of Risk Management Supervision (RMS)	39 percent	63 percent
Division of Complex Institution Supervision & Resolutions (CISR)	35 percent	29 percent
Division of Depositor and Consumer Protection (DCP)	33 percent	51 percent
Division of Insurance and Research (DIR)	30 percent	39 percent

Source: OIG analysis of FDIC-provided data as of July 31, 2019.

⁹⁷ GAO, *Federal Workforce: Sustained Attention to Human Capital Leading Practices Can Help Improve Agency Performance*, GAO-17-627T, (May 2017).

⁹⁸ GAO, *High-Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others*, GAO-17-317, (February 2017).

⁹⁹ Southern California Law Review, *Vacant Offices: Delays In Staffing Top Agency Positions*, (2008).

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The FDIC faces significant risks regarding retirement eligibility in key Divisions involved in crises readiness efforts. For example, two-thirds of FDIC employees within DRR are eligible to retire by 2024. DRR staff is responsible for managing resolutions and receiverships when banks fail, including ensuring the prompt payment of deposit insurance funds to eligible bank customers. During the financial crisis, the FDIC had the benefit of experienced DRR employees. Absent seasoned employees with knowledge from past crises, the FDIC may not be sufficiently agile and could delay decisions and resolution determinations.

DOF, the Legal Division, DOA, and DIT also play important roles to support DRR in a crisis situation when banks fail. These Divisions also face 5-year staff retirement eligibility rates ranging from 46 to 61 percent. DOF staff manages the liquidity of the Deposit Insurance Fund to ensure that money is available to DRR to pay depositors quickly in the event of a bank failure, and attorneys in the Legal Division assist DRR in structuring resolution agreements. DOA staff provides contracting support for DRR, including, for example, the rapid hiring of temporary personnel to address crisis staffing requirements, and DIT provides IT support for necessary computers and servers during bank failures and crises.

A significant number of employees responsible for ensuring the safety and soundness of institutions and protecting consumers are also eligible to retire. Specifically, 39 percent of RMS staff is eligible to retire within 5 years, and more than 62 percent of its Executives and Managers may retire over the same period. CISR similarly addresses supervisory and resolution risks for banks with over \$100 billion in assets. Staff in CISR has a 5-year retirement eligibility rate of 35 percent. In addition, DCP conducts examinations to ensure that banks meet certain requirements for consumer protection, anti-discrimination, and community reinvestment. Thirty-three percent of its staff is eligible to retire within 5 years, and 51 percent of its Executives and Managers may retire during this same timeframe. All supervision-related Divisions are supported by the banking-sector research and analysis performed by DIR, which has a retirement eligibility rate of 30 percent within the next 5 years.

The FDIC should continue to ensure that the institutional knowledge of retirement-eligible employees is captured and passed on to new employees. The FDIC has programs underway to review succession planning and we will monitor those efforts.

Navigating the Upcoming Retirement Wave in FDIC Regional Offices

The FDIC has six Regional Offices located throughout the country. Regional Offices include members from all FDIC Divisions, but the largest representation of employees is RMS examination staff. The FDIC faces risk due to staff retirement eligibility rates within each of its Regional Offices.

Similar to the above analysis regarding each of the FDIC Divisions, we also assessed the data regarding the eligibility for retirement of employees in the Regional Offices. Based on our analysis, as shown in Table B, we found that FDIC employees in these Regional Offices are eligible to retire in the next 5 years at rates ranging from 33 to 53 percent, and retirement rates for Executives and Managers range from 44 to 77 percent. For example, in the Dallas Regional Office alone, more than half of its staff is eligible to retire in the next 5 years, and more than three-quarters of its Executives and Managers can do the same.

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Table B: Retirement Eligibility Statistics for FDIC Regional Offices

Region	Staff Eligible to Retire in 2024	Executives and Managers Eligible to Retire in 2024
Dallas	53 percent	77 percent
New York	40 percent	44 percent
Atlanta	39 percent	47 percent
San Francisco	37 percent	58 percent
Chicago	36 percent	60 percent
Kansas City	33 percent	74 percent

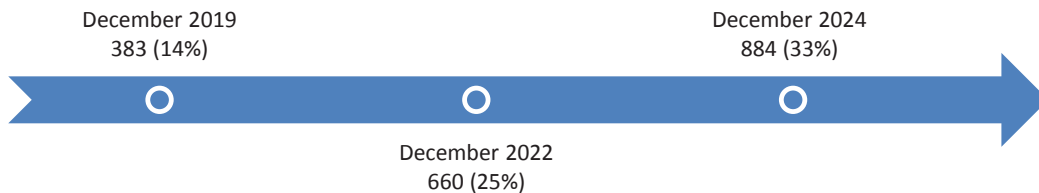
Source: OIG analysis of FDIC-provided data as of July 31, 2019.

Regional Office personnel are the critical interface between the FDIC and bank management. Regional Office examiners evaluate bank management’s controls to maintain safety and soundness, mitigate cybersecurity risks, and minimize harm to consumers. Regional Office personnel also play a significant role during financial crises. The FDIC’s Dallas Regional Office houses operational capabilities for large-scale bank failures, and it has among the highest rates of retirement eligibility at the FDIC.

Addressing Attrition Among FDIC Examiners

As of July 31, 2019, 47 percent of FDIC employees were classified as examiners. These examiners are deployed to four FDIC Divisions: RMS, DCP, DIR, and CISR, and to the FDIC’s Corporate University.¹⁰⁰ As shown in Figure 3, at the end of 2019, 14 percent of examiners were eligible to retire. However, that number of retirement-eligible examiners jumps to 25 percent within 3 years (2022) and increases further to 33 percent (one-third of the examiner workforce) in 5 years (2024).

Figure 3: FDIC Examiner Retirement Eligibility



Source: OIG analysis of FDIC retirement data.

In addition, approximately 72 percent of all FDIC examiners are assigned to safety and soundness and IT examination positions within RMS. In 2018, 11 percent of RMS examiners resigned from their position, retired, or were promoted to non-examiners positions within the FDIC; this figure represents a 9-percent increase from the prior year. According to RMS surveys of managers of departing examiners, a significant portion of the attrition rate attributable to resigning examiners was dissatisfaction with the amount of travel required to conduct examinations. The FDIC has noted that safety and soundness examiners spent an average of 89 nights per year away from home, more than 24 percent of the year.¹⁰¹

¹⁰⁰ As of July 31, 2019, the FDIC’s Corporate University had 142 employees training for examiner commissions. Examiners are assigned to Corporate University during their first year of training.

¹⁰¹ Statement of Jelena McWilliams, FDIC Chairman, on *Oversight of Financial Regulators* before the United States Senate Committee on Banking, Housing, and Urban Affairs, (December 5, 2019).

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Examiner attrition is costly. The FDIC invests an average of \$620,000 per person to train new hires to become commissioned examiners over the period of 4 years (an average of approximately \$155,000 annually per examiner).¹⁰² Historically, entry-level employees hired for examination positions must progress through the FDIC's Corporate Employee Program (CEP) rotational year, be assigned to a Division, and then meet benchmarks, complete training, and meet technical requirements to become commissioned examiners.¹⁰³

During the 4-year examiner pre-commissioning, the FDIC loses between 7 and 8 percent of participants each year at an average cost of about \$1.3 million per year. For example, according to RMS statistics, for the five CEP cohorts from 5 years ago (the class of 2014), 35 percent of participants departed before completion of the 4-year commissioning process.

In August 2019, the FDIC announced changes to its approach for recruiting, hiring, and training examiners. The planned changes are aimed at improving the process for hiring new examiners and reducing the time for an examiner to attain commission by 6 to 8 months. We have ongoing work to evaluate the FDIC's allocation and retention of human capital for the examination function.

The FDIC should also align its human capital strategy to meet the challenges of rapidly changing bank technology. Community banking is increasingly dependent on a model that relies on technology provided by third-party partners, such as credit bureaus and payment networks, but it also includes new customer-facing and back-office collaborators.¹⁰⁴ The FDIC should have examination staff that understands new technology in order to examine risks.

The FDIC should take a strategic approach to align its human capital management with current and future mission requirements, including technology changes. Addressing human capital holistically from planning through retirement allows the FDIC to maximize performance and manage the waves of retirements and attrition.

7 | KEEPING FDIC FACILITIES, INFORMATION, AND PERSONNEL SAFE AND SECURE

The FDIC is responsible for protecting approximately 6,000 employees and 3,000 contract personnel who work at 94 FDIC-owned or leased facilities throughout the country. The FDIC is also custodian of 338 systems containing sensitive information about banks and PII of employees, contractors, bank management, and bank deposit holders. A total of 174 of the FDIC's 338 IT systems contain what the agency deems to be "sensitive PII." The FDIC is challenged to have appropriate processes in place to safeguard facilities, information, and personnel.

According to the Worldwide Threat Assessment of the US Intelligence Community¹⁰⁵ (2018) (Threat Assessment), foreign intelligence agencies, terrorist groups, and criminal organizations strive to gain access to proprietary information from the finance industry and attempt to recruit sources such as trusted insiders.¹⁰⁶ According to Verizon's 2018 Data Breach Investigations

¹⁰² Average costs per examiner are based on RMS calculations for the five cohorts of new hires for 2014.

¹⁰³ The FDIC is eliminating the CEP program in 2020.

¹⁰⁴ Accenture, *Banking Technology Vision 2019*. Governor Michelle W. Bowman, *Community Banking in the Age of Innovation*, at the "Fed Family" Luncheon at the Federal Reserve Bank of San Francisco, San Francisco, California, (April 11, 2019).

¹⁰⁵ Statement for the Record: Worldwide Threat Assessment of the US Intelligence Community (February 13, 2018).

¹⁰⁶ Statement for the Record: Worldwide Threat Assessment of the US Intelligence Community (February 13, 2018).

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Report, one-third of all cyber breaches of government information is the result of privilege misuse and errors by insiders.¹⁰⁷ A Carnegie Mellon University paper entitled *Analytic Approaches to Detect Insider Threats* estimated the cost of an insider attack to be \$445,000.¹⁰⁸ With an average of 3.8 insider attacks per organization per year across all industries, annual costs to an organization can reach \$1.7 million.¹⁰⁹

According to the GAO, a background investigation program should ensure the identification and assessment of individuals with criminal histories and questionable behavior.¹¹⁰ Background investigations “minimize the risks of unauthorized disclosures of classified information and ... help ensure that information about individuals with criminal histories or other questionable behavior is identified and assessed.”¹¹¹

Also, Federal managers and supervisors are responsible for assessing facility risk, assigning facility security levels, and determining whether implemented countermeasures effectively mitigate risk.¹¹² Further, Federal agencies must protect the PII and sensitive information they possess. PII includes any information about an individual maintained by an agency, including (1) any information that can be used to distinguish or trace an individual’s identity, such as name, Social Security Number (SSN), date and place of birth, mother’s maiden name, or biometric records; and (2) any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information. PII protection includes information contained in IT systems as well as other forms. In March 2019, the GAO identified the protection of privacy and sensitive data as a major challenge for the Federal Government.¹¹³ As of June 2018, the FDIC reported that it maintained 338 information systems containing PII, including 174 systems that contain what the agency deems to be “sensitive PII.”

Implementing Risk-Based Physical Security Management

The FDIC maintains 94 leased or owned facilities across the country that house approximately 9,000 FDIC employees and contractors. In our evaluation report, [The FDIC’s Physical Security Risk Management Process](#) (April 2019), we assessed whether physical security risk management processes met Federal standards and guidelines. We concluded that the FDIC had not established an effective physical security risk management process to ensure that it met ISC standards and guidelines.

We found that the FDIC frequently did not document its decisions regarding facility security risks and countermeasures, and such decisions were not guided by defined policies or procedures. Instead, FDIC officials relied on a few experienced employees to make important decisions regarding physical security risks and countermeasures at facilities. Without documentation of

¹⁰⁷ Verizon, 2018 Data Breach Investigations Report, (11th Edition).

¹⁰⁸ Carnegie Mellon University Software Engineering Institute, *Analytic Approaches to Detect Insider Threats*, (December 9, 2015).

¹⁰⁹ Carnegie Mellon University Software Engineering Institute, *Analytic Approaches to Detect Insider Threats*, (December 9, 2015).

¹¹⁰ GAO, *High-Risk List: Substantial Efforts Need to Achieve Greater Progress on High-Risk Areas*, GAO-19-157SP, (March 6, 2019).

¹¹¹ GAO, *GAO Adds Government-wide Personnel Security Clearance Process to “High Risk List,”* GAO Press Release, (January 25, 2018).

¹¹² In 1995, President Clinton, by Executive Order 12977 (October 19, 1995), created the Interagency Security Committee (ISC) in order to issue standards, policies, and best practices to enhance the quality and effectiveness of security in non-military Federal facilities in the United States.

¹¹³ GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, GAO-19-157SP, (March 6, 2019).

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these decisions, FDIC executives and oversight bodies were unable to fully consider and review the decisions.

We also found that the FDIC did not conduct key activities in a timely or thorough manner for determining facility risk level, assessing security protections in the form of countermeasures, mitigating and accepting risk, and measuring program effectiveness. For example, for one of its medium-risk facilities, the FDIC began, but did not complete, an assessment more than 2½ years after the FDIC occupied the leased space. Collectively, these weaknesses limited the FDIC's assurance that it met Federal standards for physical security over its facilities. We made nine recommendations to address the weaknesses in the FDIC's physical security risk management process, and five remained unimplemented at the time of this report.

Securing Sensitive and Personally Identifiable Information

During 2016, the FDIC reported a series of breaches to Congress as departing employees improperly downloaded sensitive PII, including SSNs, to removable media devices shortly before leaving the FDIC. Collectively, these breaches potentially affected over 121,000 individuals. We reported on the FDIC's handling of these breaches and its associated controls in four prior reports.¹¹⁴ In our audit report, [The FDIC's Processes for Responding to Breaches of Personally Identifiable Information](#) (September 2017), we found that the FDIC had processes to evaluate the harm to individuals affected by a breach, but the FDIC did not adequately implement those processes. For example, it took the FDIC more than 9 months to notify individuals affected by a breach. Further, in our [OIG Special Inquiry](#)¹¹⁵ (April 2018) report we noted systemic weaknesses that hindered the FDIC's ability to respond to multiple information security incidents and breaches efficiently and effectively. The FDIC addressed the 20 recommendations we made in these two reports.

In our audit report, [The FDIC's Privacy Program](#) (December 2019), we assessed the effectiveness of the FDIC's Privacy Program and practices by determining whether the FDIC complied with selected provisions in privacy-related statutes and OMB policy and guidance.¹¹⁶ The FDIC's Privacy Program was effective in certain areas. Specifically, the FDIC had implemented a privacy awareness and training program; identified its privacy staffing and budgetary needs; established privacy competency requirements for key staff; and took steps to ensure contractor compliance with privacy programs. However, we found that the FDIC's controls and practices for its Privacy Program in four areas assessed were either partially effective or not effective, because they did not comply with all relevant privacy laws and/or OMB policy and guidance. Specifically, the FDIC did not:

¹¹⁴ See OIG Reports, [The FDIC's Process for Identifying and Reporting Major Information Security Incidents](#) (FDIC OIG AUD-16-004) (July 2016, revised February 2017); [The FDIC's Processes for Responding to Breaches of Personally Identifiable Information](#) (FDIC OIG AUD-17-006) (September 2017); [Controls over Separating Personnel's Access to Sensitive Information](#) (FDIC OIG EVAL-17-007) (September 2017); and [The FDIC's Response, Reporting, and Interactions with Congress Concerning Information Security Incidents and Breaches](#) (FDIC OIG-18-001) (April 2018).

¹¹⁵ [OIG Special Inquiry Report, The FDIC's Response, Reporting, and Interactions with Congress Concerning Information Security Incidents and Breaches](#) (April 2018).

¹¹⁶ Privacy Act of 1974, 5 U.S.C. § 552a; Section 208 of the E-Government Act of 2002, Pub. L. No. 107-347, 116 Stat. 2899 (codified at 44 U.S.C. § 3501 note); Section 522 of the Consolidated Appropriations Act of 2005, Pub. L. No. 108-447, 118 Stat. 2809, amended by Consolidated Appropriations Act of 2008, Pub. L. No. 110-161, 121 Stat. 1844 (codified as amended at 42 U.S.C. § 2000ee-2); [Designation of Senior Agency Officials for Privacy](#) (OMB Memorandum M-05-08) (February 11, 2005); OMB Circular A-130, [Managing Information as a Strategic Resource](#) (July 28, 2016).

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

- Fully integrate privacy considerations into its risk management framework designed to categorize information systems, establish system privacy plans, and select and continuously monitor system privacy controls;
- Adequately define the responsibilities of the Deputy Chief Privacy Officer or implement Records and Information Management Unit responsibilities for supporting the Privacy Program;
- Effectively manage or secure PII stored in network shared drives and in hard copy, or dispose of PII within established timeframes; and
- Ensure that Privacy Impact Assessments¹¹⁷ were always completed, monitored, published, and retired in a timely manner.

Weaknesses in the FDIC's Privacy Program increased the risk of PII loss, theft, and unauthorized access or disclosure, which could lead to identity theft or other forms of consumer fraud against individuals. In addition, weaknesses related to the management of Privacy Impact Assessments reduced transparency regarding the FDIC's practices for handling and protecting PII. Our report contained 14 recommendations intended to strengthen the effectiveness of the FDIC's Privacy Program and practices.

In addition, in our audit report, [*The FDIC's Information Security Program – 2019 \(October 2019\)*](#), we noted that the FDIC did not adequately control access to sensitive information and PII stored on its internal network and in hard copy. For example, we identified instances in which sensitive information stored on internal network shared drives was not restricted to authorized users. We also conducted unannounced walkthroughs of selected FDIC facilities and identified significant quantities of sensitive hard copy information stored in unlocked filing cabinets and boxes in building hallways.

The majority of unsecured sensitive information we found was stored in unlocked filing cabinets and boxes in building hallways. Examples included:

- Confidential bank examination information, such as Reports of Examination;
- Suspicious Activity Reports;
- Sensitive PII, such as reports containing names, SSNs, and dates of birth;
- Legal documents, analyses, and correspondence pertaining to investigations, litigation, claims, and settlements;
- Portable storage media, including a computer hard drive and CDs/DVDs (one of which was marked confidential); and
- Contracting and procurement sensitive information.

We recommended that employees and contractor personnel properly safeguard sensitive electronic and hardcopy information. The FDIC took immediate action to secure information identified by the OIG.

¹¹⁷ The E-Government Act of 2002 requires, among other things, that Federal agencies conduct Privacy Impact Assessments that analyze how personal information is collected, stored, shared, and managed in a Federal system. See Government Accountability Office, *Privacy: Federal Law Should Be Updated to Address Changing Technology Landscape*, GAO-12-961T, (July 31, 2012).

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

Securing the FDIC's Supply Chain

According to the GAO, the supply chain is “the set of organizations, people, activities, and resources that create and move a product from suppliers to end users.”¹¹⁸ As shown in Figure 4, an organization may have reduced visibility, understanding, and control of relationships with vendors who rely on second- and third-tier suppliers and service providers. Risks are realized when the supply chain exploits existing vulnerabilities though it may take years for such exploitation to occur or for an agency to discover the exploitation.¹¹⁹

The GAO noted that key supply chain threats include:

- **Installation of hardware or software containing malicious logic** causing significant damage by allowing attackers to take control of entire systems and read, modify, or delete sensitive information, disrupt operations, launch attacks against other organizations' systems, or destroy systems.
- **Installation of counterfeit hardware or software** threatening the integrity, trustworthiness, and reliability of information systems because they fail more often and more quickly, and provide an opportunity to insert a back door to give an intruder remote access.
- **Failure or disruption in the production or distribution of critical products**, including manmade and natural disruptions of the supply of IT products critical to federal agencies.
- **Reliance on a malicious or unqualified service provider** who can use its access to systems and data to gain access to information, commit fraud, disrupt operations, or launch attacks against other computers or networks.
- **Installation of hardware or software that contains unintentional vulnerabilities** such that defects in code or misconfigurations can be exploited to gain access to information systems and data and disrupt service.¹²⁰

An example of supply chain risk is the Federal Government's limitation on the purchase of telecommunications equipment from Huawei because of concern that the Chinese government can access phone calls and information.¹²¹

The FDIC does not have a comprehensive, FDIC-wide supply chain risk policy. The FDIC's Chief Information Officer Organization (CIOO) established a *Policy on Supply Chain Risk Management* in July 2019 that applies to CIOO employees who “participate, support, and are involved with the procurement and acquisition process of IT products.” Other FDIC Divisions and Offices are not bound by and may not be aware of the CIOO Policy. The FDIC established a Supply Chain Risk Management Steering Committee in 2019 to address this area of risk. We have work planned to assess the FDIC's supply chain risk mitigation.

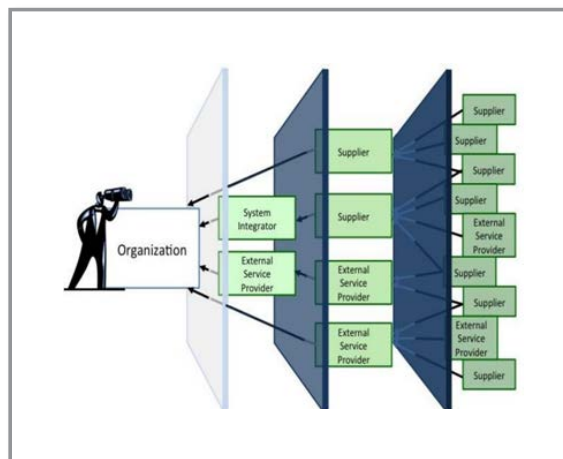
¹¹⁸ GAO, *Information Security: Supply Chain Risks Affecting Federal Agencies*, GAO-18-667T, (July 12, 2018).

¹¹⁹ National Institute of Standards and Technology (NIST) Publication 800-161, *Supply Chain Risk Management Practices for Federal Information Systems and Organizations*.

¹²⁰ GAO, *Information Security: Supply Chain Risks Affecting Federal Agencies*, GAO-18-667T, (July 12, 2018).

¹²¹ The New York Times, *U.S. Moves to Ban Huawei From Government Contracts*, (August 7, 2019).

Figure 4: Supply Chain Risk View



Source: NIST Publication 800-161, *Supply Chain Risk Management Practices for Federal Information Systems and Organizations*.

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

Sustaining a Work Environment Free from Discrimination, Harassment, and Retaliation

Federal facilities should also have working environments that are free from intimidating, hostile, or offensive behaviors. Employee behaviors such as sexual harassment can undermine an agency's mission by creating a hostile work environment that lowers productivity and morale, affects the agency's authority and credibility, and exposes the agency to litigation risk and costs.

The FDIC reported receiving a total of just 9 allegations of sexual harassment over a 3½-year period (January 2015 to June 2018). However, when the Merit Systems Protection Board (MSPB) conducted a survey in 2016 (based on data from 2014 to 2016), the MSPB found that approximately 9 percent of the 427 FDIC employees who responded to the survey (40 employees) indicated they had experienced sexual harassment. We have ongoing work to review the FDIC's program for addressing sexual harassment allegations.

Conducting Background Investigations

During late 2015 and early 2016, the FDIC experienced eight incidents as departing employees improperly took sensitive information shortly before leaving the FDIC. Seven incidents involved PII, including Social Security Numbers, and thus constituted data breaches. In the eighth incident, the departing employee took highly sensitive components of resolution plans submitted by certain large systemically important financial institutions without authorization.

FDIC employees and contractors are subject to background investigations commensurate with the sensitivity of their positions, scope of responsibility, and access to classified National Security Information.¹²² The FDIC's Personnel Security and Suitability Program (PSSP) aims to ensure that FDIC employees and contractors have suitable character, reputation, honesty, integrity, and trustworthiness. A strong PSSP reduces the risk of employee or contractor information breaches and identifies potential issues for the FDIC's Insider Threat Program.¹²³

The FDIC does not have a policy to ensure proper coordination and collaboration among its PSSP and its Insider Threat Program. As a result, program interconnections are made at the discretion of program personnel. Absent standard criteria for the referral of potential insider threat issues from the PSSP to the Insider Threat Program Manager, threat information may not be shared. We have an evaluation underway to assess the current state of the FDIC's Personnel Security and Suitability Program.

The protection of employees, contractors, facilities, and information is paramount for the execution of the FDIC's mission and the protection of the privacy of FDIC personnel and contractors as well as financial institution customers and employees. The FDIC should ensure that it implements appropriate controls to assess the suitability of its employees and contractors and provide them with safe facilities in which to conduct their work. FDIC employees and contractors must also be responsible in protecting sensitive information and individual privacy.

¹²² FDIC Circular 1610.2, *Personnel Security Policy and Procedures for FDIC Contractors*; Circular 1600.3, *National Security Program*; and Circular 2120.1, *Personnel Suitability Program*.

¹²³ Security Executive Agent Directive 3, *Reporting Requirements for Personnel with Access to Classified Information or Who Hold a Sensitive Position*, (June 12, 2017).

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

8 | ADMINISTERING THE ACQUISITION PROCESS

The FDIC relies on contractors for day-to-day support of its mission. In 2018, the FDIC spent nearly \$500 million on contracts, with the largest expenditures for IT and administrative support services. The FDIC currently oversees acquisitions on a contract-by-contract basis—rather than on a portfolio-wide basis—and it does not have an effective contracting management information system to readily gather, analyze, and report portfolio-wide contract information across the Agency and does not maintain certain key data elements. Therefore, FDIC officials cannot readily analyze historical contracting trends across the portfolio and identify anomalies. In addition, contracting demands are expected to increase as the FDIC modernizes its IT program and systems and moves to cloud computing. Further, FDIC contracting staff may experience significant spikes in contracting work during periods of crises. FDIC contract oversight should also include consideration of supply chain risks for acquired products and services.

According to the GAO, about 40 percent of the Government's discretionary spending is for goods and services contracts.¹²⁴ In Fiscal Year 2018, the Federal Government spent more than \$550 billion on these contracts, an increase of more than \$100 billion from 2015. The Administration found that major government acquisitions often failed to achieve their goals because of project management skill shortcomings among Federal procurement staff.¹²⁵ Similarly, the GAO found that Federal agencies continue to award management support service contracts but raised questions about agencies' capacity to manage those contracts.¹²⁶ Specifically, the GAO identified three challenges aligned with the contracting life cycle: (1) requirements definition, (2) competition and pricing, and (3) contractor oversight. The GAO noted that heavy workloads of contract officials at one agency made it difficult for them to oversee contracts and ensure contractors' adherence to contract terms.¹²⁷

The FDIC procures goods and services to augment its internal resources and help the Agency achieve its mission. FDIC contracting requirements increase significantly during times of crises to address the FDIC's receivership responsibilities. The FDIC DOA Acquisition Services Branch (ASB) works with Oversight Managers (OMs) from FDIC Divisions and Offices to provide oversight of FDIC procurements. As shown in Figure 5, ASB awarded more than 2,400 contracts valued at over \$1.5 billion over a 3-year period from 2016 to 2018. The average annual awarded amount per contract for these 3 years was more than \$675,000.

¹²⁴ GAO WatchBlog, Federal Government Contracting for Fiscal Year 2018 (infographic) posted May 28, 2019. GAO launched its WatchBlog in January 2014, as part of its continuing effort to reach its audiences—Congress and the American people—where they are currently looking for information.

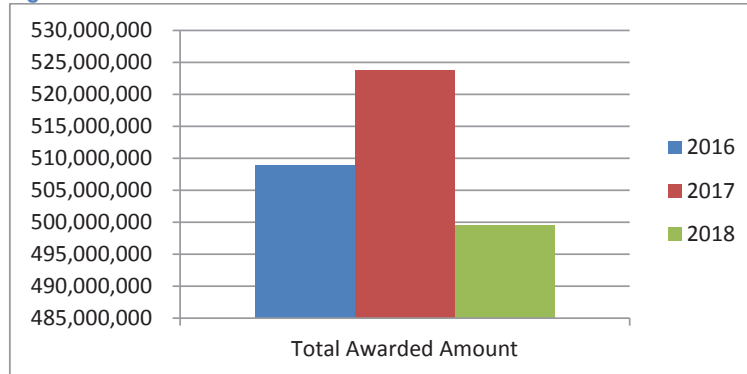
¹²⁵ President's Management Agenda, (March 20, 2018).

¹²⁶ GAO, *Federal Acquisitions: Congress and the Executive Branch Have Taken Steps to Address Key Issues, but Challenges Endure*, GAO-18-627, (September 2018).

¹²⁷ GAO, *Federal Acquisitions: Congress and the Executive Branch Have Taken Steps to Address Key Issues, but Challenges Endure*, GAO-18-627, (September 2018) (Heavy workloads were noted for the Department of Veterans Affairs.)

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

Figure 5: FDIC Total Dollar Value of Contract Awards 2016-2018



Source: FDIC Analysis of FDIC Contract Awards.

In 2018, the FDIC’s DIT, DOA, and DRR accounted for over 96 percent of contracts and contracting dollar awards. The Chief Information Officer Organization identified specific acquisition strategies to sustain legacy systems, modernize information technology, and adapt to change. DIT expects to increase contracting activity as it implements the FDIC’s *IT Modernization Plan*.

Strengthening FDIC Contract Oversight

Our evaluation report, [Contract Oversight Management](#) (October 2019), concluded that the FDIC must strengthen its contract oversight management. We found that the FDIC needed to improve its contracting management information system, contract documentation, the training and certification of certain OMs, and workload capacity of OMs for one Division.

Specifically, we found that the FDIC was overseeing acquisitions on a contract-by-contract basis rather than on a portfolio basis and did not have an effective contracting management information system to readily gather, analyze, and report portfolio-wide contract information across the Agency. For example, the FDIC’s contracting system did not maintain certain key data in a manner necessary to conduct historical trend analyses, plan for future acquisition decisions, and assess risk in the FDIC’s awarded contract portfolio. As a result, FDIC Board Members and other senior management officials were not provided with a portfolio-wide view or the ability to analyze historical contracting trends across the portfolio, identify anomalies, and perform ad hoc analyses to identify risk or plan for future acquisitions.

Additionally, 20 percent of the contracts executed between 2013 and 2017 (1,518 of 7,786) did not have contract pricing arrangement information entered into the FDIC’s Automated Procurement System. Without complete data, the FDIC cannot readily analyze the contract pricing arrangements across the FDIC’s contract portfolio.

We also found that contract files maintained by OMs were often incomplete, and that OMs were unable to produce the missing contract documentation, such as critical records relating to inspection and acceptance. Without this documentation, the FDIC could incur additional costs to recover or replace lost documentation and could have difficulty enforcing the contract in the event of contractor noncompliance.

Further, OMs improperly uploaded contractor deliverable documentation containing PII to the FDIC’s contacting system known as CEFile for one of our four sampled contracts covering

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

property management services for failed bank properties. Because CEFile was not identified as a system to retain PII, the FDIC was not monitoring CEFile for PII. Therefore, there was a risk that the PII in CEFile could be improperly accessed, printed, and removed. The FDIC subsequently took action to remove the PII from CEFile.

We also found that the workload for OMs in DIT was 67-percent higher than another FDIC Division with a similar-sized contract portfolio. DIT acknowledged that insufficient OM capacity put it at risk for ineffective oversight. We made 12 recommendations in the *Contract Oversight Management* report.

In two previous OIG evaluation reports, we identified similar issues involving DIT oversight.

- In [Payments to Pragmatics, Inc.](#) (December 2018), we determined that about 10 percent of the labor charges we reviewed were not adequately supported or allowable under the contract and related task orders. The unsupported labor charges were for hours billed by two subcontractor employees who did not access the FDIC's network or facilities on the days they charged the hours. In addition, we identified unallowable labor charges for work performed offsite, away from FDIC facilities.
- In the [FDIC's Failed Bank Data Services Project](#) (March 2017), we reviewed transition costs (\$24.4 million) of a 10-year project to replace the FDIC's information systems for processing bank data for failed financial institutions. We found that the FDIC faced challenges related to defining contract requirements, coordinating contracting and program office personnel, and establishing implementation milestones. We reported that FDIC personnel did not fully understand the requirements for transitioning failed financial institution data and services to a new contractor, or communicate these requirements to bidders in a comprehensive transition plan as part of the solicitation. Further, the FDIC did not establish clear expectations in the contract documents and did not implement a project management framework and plans.

Reviewing for Supply Chain Risk

When an agency contracts for goods and services that will be introduced into its environment, the agency might encounter risks related to product and service supply chains. Management of supply chain risk requires “ensuring the integrity, security, quality, and resilience of the supply chain and its products and services.”¹²⁸

Supply chain risk is not limited to equipment. Contractor personnel also pose security risks to organizations, especially contractors involved in systems development. Contractors with malicious intent may be able to insert harmful hardware or malicious code into FDIC systems.

NIST advises organizations to take a holistic, enterprise-wide approach to managing supply chain risks.¹²⁹ Organizational best practices include executive-level involvement in supply chain risk management decision-making and cross-functional leadership structures to break down silos. In addition, as required by statute, OMB has initiated a Federal Acquisition Security

¹²⁸ NIST, [Cyber Supply Chain Risk Management](#), (May 24, 2016).

¹²⁹ NIST Special Publication 800-161, [Supply Chain Risk Management for Federal Information Systems and Organizations](#), (April 2015).

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

Council to assist Federal agencies in determining supply chain risk, sharing supply chain risk information, and deciding on actions to mitigate risk.¹³⁰

As mentioned previously, the FDIC does not have a comprehensive, FDIC-wide supply chain risk policy. The FDIC's CIOO has a supply chain risk policy applicable to CIOO IT procurements. Thus, FDIC personnel outside the CIOO are not currently required to consider or mitigate supply chain risks as part of procurement activities.

Further, the responsibility of managing FDIC supply chain risk is not within the FDIC's contracting staff but is a collateral duty for the FDIC's Insider Threat Program Manager. As a result, supply chain risk management is not the focus of those involved in the contracting process. The FDIC established a Supply Chain Risk Management Steering Committee in 2019 to address this area of risk. We will be monitoring and assessing the FDIC's efforts in this regard.

Contracting is an important function at the FDIC because of the Agency's reliance on outsourced services, especially during times of crises. In order to establish an effective contracting oversight program, the FDIC should maintain a contracting system that can readily provide an adequate portfolio-wide view of the Agency's acquisitions. In addition, the FDIC should establish an effective program to manage and mitigate supply chain risks.

9 | MEASURING COSTS AND BENEFITS OF FDIC REGULATIONS

Financial regulations significantly affect banks and their customers. The FDIC does not currently have a consistent process in place to determine when and how to conduct cost benefit analysis in order to ensure that the benefits of a regulation justify its costs. Further, the FDIC does not have criteria in place to distinguish among rules which are sufficiently "significant" to require cost benefit analysis. Absent clear processes and criteria, demonstrating that FDIC regulations justify their costs remains a fundamental challenge. We also note that the FDIC does not conduct retrospective cost benefit analyses on existing rules. Performing such analyses would help the FDIC ensure that its rules are effective and achieve their intended objectives/outcomes.

According to a study by the Federal Reserve Bank of St. Louis, regulatory compliance costs as a percentage of overall non-interest expense for small banks are nearly twice those of larger banks.¹³¹ As shown in Figure 6, for the years of 2015 through 2017, small banks (less than \$100 million in assets) incurred total compliance costs at 9.8 percent of their noninterest expenses. By comparison, banks with \$1 to \$10 billion in assets had compliance costs at 5.3 percent of their noninterest expenses for the same period.

¹³⁰ Director of National Intelligence, *Supply Chain Risk Management*, National Supply Chain Integrity Month, (April 24, 2019). See also The Strengthening and Enhancing Cyber-capabilities by Utilizing Risk Exposure Technology Act of 2018, Public Law No. 115-390 (December 21, 2018) ("SECURE Technology Act"). Title II of the Act established the Federal Acquisition Security Council (FASC).

¹³¹ Federal Reserve Bank of St. Louis, *Compliance Costs, Economies of Scale and Compliance Performance, Evidence from a Survey of Community Banks*, (April 2018).

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

In August 2018, the FDIC Chairman stated that a top priority for the Agency was to review the regulatory burden on small banks.¹³² She further emphasized the need to balance regulatory safety and soundness requirements without impeding banks' ability to compete. The challenge, she indicated, is to ensure that FDIC regulations are appropriate to the size and complexity of the banks that the FDIC supervises.¹³³

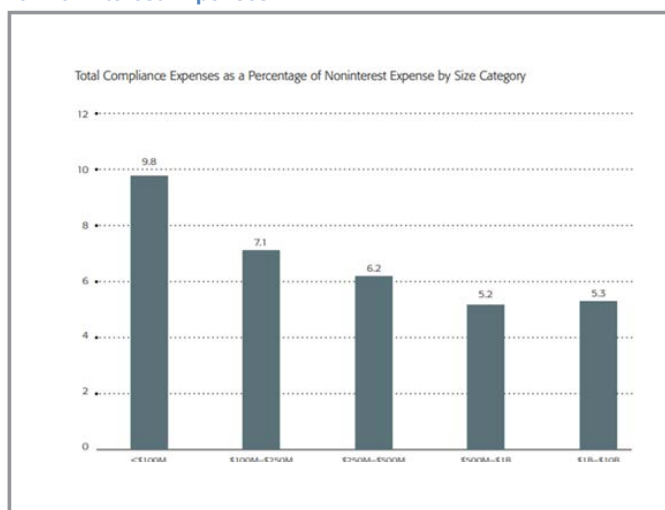
Quantifying Costs and Benefits

According to the *FDIC's Statement of Policy on the Development and Review of Regulations and Policies*, the FDIC uses available information to evaluate the costs and benefits of reasonable and potential regulations or statements of policy. Quantifying both the costs and benefits of significant financial regulations is challenging, and it often may be imprecise and unreliable.¹³⁴ Performing such analysis can be difficult, because it involves theory, modeling, statistical analysis, and other tools to predict future outcomes based on certain assumptions.¹³⁵ For example, it may be difficult to estimate the cost of a financial crisis and the benefits of regulations aimed to eliminate the crisis.¹³⁶ Congress acknowledged the difficulty in measuring costs and benefits when introducing the Independent Agency Regulatory Analysis Act (March 25, 2019). This Act requires agencies to "assess the costs and benefits of the intended rule and, recognizing that some costs and benefits are difficult to quantify, propose or adopt a rule only upon a reasoned determination that the benefits of the rule justify the costs."¹³⁷

In our evaluation report, [Cost Benefit Analysis Process for Rulemaking](#) (February 2020), we evaluated whether the FDIC's cost benefit analysis process for rules was consistent with best practices. We found that the FDIC's cost benefit analysis was not consistent with best practices, because the FDIC did not:

- Establish and document a process to determine when and how to perform a cost benefit analysis;
- Leverage the expertise of its economists when rules were initially developed;
- Require the FDIC Chief Economist to concur on the cost benefit analyses performed;
- Disclose its cost benefit analyses to the public; and
- Perform cost benefit analyses after final rule issuance.

Figure 6: Total Compliance Expenses as a Percentage of Noninterest Expenses



Source: Federal Reserve Bank of St. Louis, April 2018.

¹³² Wall Street Journal, *New FDIC Leader Joins Push to Re-Evaluate Banking Rulebook*, (August 6, 2018).

¹³³ Jelena McWilliams, FDIC Chairman, "Principles of Supervision," delivered at the American Bar Association Banking Law Committee Annual Meeting (January 11, 2019).

¹³⁴ Yale Law Review, *Cost-Benefit Analysis of Financial Regulation: A Reply*, (January 22, 2015).

¹³⁵ Congressional Research Service, *Cost-Benefit Analysis and Financial Regulator Rulemaking*, (April 12, 2017).

¹³⁶ The University of Chicago Journal of Legal Studies, *Challenges for Cost-Benefit Analysis of Financial Regulation*, (June 2014).

¹³⁷ *Independent Agency Regulatory Analysis Act*, S. 869, United States Senate, (March 26, 2019).

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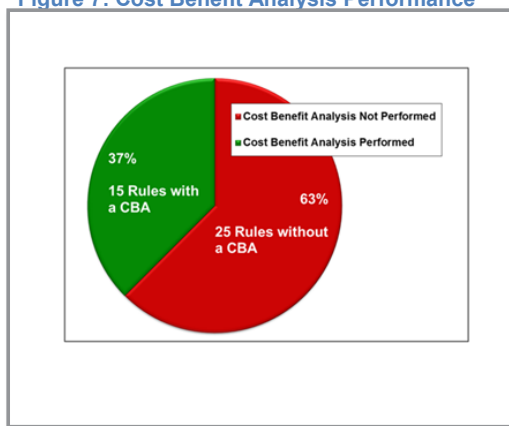
The FDIC's rulemaking process resulted in inconsistent practices for conducting cost benefit analyses. As shown in Figure 7, based on our review of rules promulgated by the FDIC from January 2016 to December 2018, we found that the FDIC performed cost benefit analyses on 37 percent of the final rules published in the Federal Register. The FDIC did not explain in the accompanying Federal Register notices why 15 rules needed a cost benefit analysis and the other 25 rules did not. These rules lacking a cost benefit analysis included both substantive rules and technical modifications.

The FDIC also did not have an established process for determining how to perform cost benefit analyses. Based on our review, we found that the FDIC performed an in-depth cost benefit analysis¹³⁸ on only 10 percent of the final rules published in the Federal Register.

In addition, the depth of analysis that the FDIC performed did not always align with the rule's degree of significance.¹³⁹ We found substantive rules without corresponding cost benefit analyses, and less substantive rules with cost benefit analyses. The process used by the FDIC did not ensure that the Agency identified and defined a proposed rule's degree of significance, and that the Agency appropriately and consistently analyzed costs and benefits.

We also noted that the FDIC did not conduct retrospective cost benefit analyses on existing rules.¹⁴⁰ Without performing cost benefit analyses of existing rules, the FDIC may not identify duplicative, outdated, or overly burdensome rules in a timely manner. In addition, the FDIC may not ensure that its rules are effective and achieve their intended objectives/outcomes. We made five recommendations to the FDIC to improve the cost benefit analysis in its rulemaking process.

Figure 7: Cost Benefit Analysis Performance



Source: **OIG analysis of FDIC rules published in the Federal register.**

¹³⁸ The OIG defines an "in-depth" cost benefit analysis as a cost benefit analysis that contains supporting quantitative and qualitative data and analysis of the proposed action and main alternatives identified.

¹³⁹ Executive Order 12866 advises Federal agencies, not including the FDIC, to conduct in-depth cost benefit analyses for certain significant regulatory actions. The order defines significant regulatory action as any regulatory action that is likely to result in a rule that may: (1) have an annual effect on the economy of \$100 million or more, or adversely affect in a material way the economy, or a sector of the economy, productivity, competition, jobs, the environment, public health or safety, or State, local, or tribal governments or communities; (2) Create a serious inconsistency or otherwise interfere with an action taken or planned by another agency; (3) Materially alter the budgetary impact of entitlements, grants, user fees, or loan programs or the rights and obligations of recipients thereof; or (4) Raise novel legal or policy issues arising out of legal mandates, the President's priorities, or the principles set forth in this order.

¹⁴⁰ Under the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA) (12 U.S.C. § 3311 (1996)), the FFIEC and certain member agencies (Federal bank regulators – FDIC, OCC, and FRB), and the NCUA (as a participating member), are directed to conduct a joint review of their regulations every 10 years and to consider whether any of those regulations are outdated, unnecessary, or unduly burdensome. Since Congress enacted EGRPRA in 1996, the FDIC (jointly with other agencies under the FFIEC) has completed two reviews and submitted two reports to Congress – the first report was submitted in 2007 and the second report was submitted in 2017. The FDIC performed these reviews over a period of several years, and commenced the second EGRPRA review in 2014. The FDIC's EGRPRA review process was a reactive review process that relied solely on public comments to identify and initiate Agency action on rules that may be outdated, unnecessary, or unduly burdensome.

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

On December 3, 2019, the FDIC issued a Request for Information seeking comment on approaches to analyzing the effects of its regulatory actions and alternatives. In addition, on November 4, 2019, the FDIC announced a reorganization that moved the regulatory analysis function from the Office of the Chief Economist to the Research and Regulatory Analysis Branch, which also houses the FDIC's Center for Financial Research. We will continue to monitor this realignment.

The FDIC should accurately measure costs and benefits to ensure that regulations strike the proper balance between the safety and soundness at institutions and regulatory burden. Also, the FDIC should have transparent processes in place to obtain and assess reliable information to measure the impact of regulatory action. Absent such processes, FDIC rules may impose burdensome costs on banks and consumers.

D. ACRONYMS AND INITIALISMS

ACLs	Allowances for Credit Losses	CIO	Chief Information Officer
AEI	Alliance for Economic Inclusion	CIOO	Chief Information Officer Organization
AFS	Available-For-Sale	CISR	Division of Complex Institution Supervision and Resolution
AHDP	Affordable Housing Disposition Program	CMG	Crisis Management Group
ALLL	Allowance for Loan and Lease Losses	CMP	Civil Money Penalty
AML	Anti-Money Laundering	ComE-IN	Advisory Committee on Economic Inclusion
ANPR	Advanced Notice of Proposed Rulemaking	CRA	Community Reinvestment Act
ASBA	Association of Supervisors of Banks of the Americas	CSBS	Conference of State Bank Supervisors
ASC	Accounting Standards Codification	CSRS	Civil Service Retirement System
BCBS	Basel Committee on Banking Supervision	D&I	Diversity and Inclusion
BDC	Backup Data Center	DCP	Division of Depositor and Consumer Protection
BoA	Bank of America	DFA	Dodd-Frank Act
BSA	Bank Secrecy Act	DHS	Department of Homeland Security
BSA/AML	Bank Secrecy Act/ Anti-Money Laundering	DIF	Deposit Insurance Fund
Call Report	Consolidated Reports of Condition and Income	DIR	Division of Insurance and Research
CAMELS	adequacy of Capital, quality of Assets, capability of Management, quality and level of Earnings, adequacy of Liquidity, and Sensitivity to market risk	DIT	Division of Information Technology
CBAC	Advisory Committee on Community Banking	DOA	Division of Administration
CBLR	Community Bank Leverage Ratio	DOJ	Department of Justice
CCP	Central Counterparties	DRR	Designated Reserve Ratio
CDFI	Community Development Financial Institution	DRR (FDIC)	Division of Resolutions and Receiverships
CECL	Current Expected Credit Losses	EAC	Executive Advisory Council
CEO	Chief Executive Officer	EDIE	Electronic Deposit Insurance Estimator
CEP	Corporate Employee Program	EGRPRA	Economic Growth and Regulatory Paperwork Reduction Act of 1996
CFI	Complex Financial Institution	EGRRCPA	Economic Growth, Regulatory Relief, and Consumer Protection Act
CFO Act	Chief Financial Officers' Act	EU	European Union
CFPB	Consumer Financial Protection Bureau	ERM	Enterprise Risk Management
CFR	Center for Financial Research	FAQ	Frequently Asked Questions
CFTC	Commodity Futures Trading Commission	FASB	Financial Accounting Standards Board
		FBIIC	Financial and Banking Information Infrastructure Committee
		FBO	Foreign Bank Organization
		FCA	Farm Credit Administration

FDI Act	Federal Deposit Insurance Act	G-SIBs	Global Systemically Important Banks
FDIC	Federal Deposit Insurance Corporation	HVCRE	High Volatility Commercial Real Estate
FDiTech	FDIC Tech Lab		
FEHB	Federal Employees Health Benefits	HMDA	Home Mortgage Disclosure Act
FEMA	Federal Emergency Management Agency	IADI	International Association of Deposit Insurers
FERS	Federal Employees Retirement System	IDI	Insured Depository Institution
FFB	Federal Financing Bank	IHCs	Intermediate Holding Companies
FFIEC	Federal Financial Institutions Examination Council	IMF	International Monetary Fund
FFMIA	Federal Financial Management Improvement Act	IMM	Internal Models Method
FHFA	Federal Housing Finance Agency	InTREx	Information Technology Risk Examination Program
FICO	Financing Corporation	ISM	Information Security Manager
FIL	Financial Institution Letter	IT	Information Technology
FinCEN	Financial Crimes Enforcement Network	LBSB	Large Bank Supervision Branch
FINRA	Financial Industry Regulatory Authority	LCFIs	Large and Complex Financial Institutions
FinTech	Financial Technology	LIBOR	London Inter-bank Offered Rate
FIRREA	Financial Institutions Reform, Recovery and Enforcement Act	LIDI	Large Insured Depository Institution
FIS	Financial Institution Specialists	LURA	Land Use Restriction Agreement
FISMA	Federal Information Security Modernization Act of 2014	MDI	Minority Depository Institutions
FMFIA	Federal Managers' Financial Integrity Act	MOL	Maximum Obligation Limitation
FRB	Board of Governors of the Federal Reserve System	MOU	Memoranda of Understanding
FRF	FSLIC Resolution Fund	MRBA	Matters Requiring Board Attention
FSB	Financial Stability Board	MWOB	Minority- and Women-Owned Business
FS-ISAC	Financial Services Information Sharing and Analysis Center	MWOLF	Minority- and Women-Owned Law Firms
FSLIC	Federal Savings and Loan Insurance Corporation	NCUA	National Credit Union Administration
FSOC	Financial Stability Oversight Council	NIST	National Institute of Standards and Technology
FTE	Full-Time Equivalent	NPR	Notice of Proposed Rulemaking
GAAP	Generally Accepted Accounting Principles	NSFR	Net Stable Funding Ratio
GAO	U.S. Government Accountability Office	OCC	Office of the Comptroller of the Currency
GPRA	Government Performance and Results Act	OCFI	Office of Complex Financial Institutions
		OIG	Office of the Inspector General
		OJT	On-the-Job Training
		OLF	Orderly Liquidation Fund
		OMB	U.S. Office of Management and Budget

OMWI	Office of Minority and Women Inclusion	SBA	Small Business Administration
OO	Office of the Ombudsman	SEC	Securities and Exchange Commission
OPM	U.S. Office of Personnel Management	SIFI	Systemically Important Financial Institution
OTACs	One-Time Assessment Credits	SLA	Shared-Loss Agreement
OTS	Office of Thrift Supervision	SMS	Systemic Monitoring System
P&A	Purchase and Assumption	SNC	Shared National Credit Program
PCM	Privacy Continuous Monitoring	SOC	Security Operations Center
PII	Personally Identifiable Information	SORNs	System of Record Notices
PTFA	Protecting Tenants at Foreclosure Act	SRAC	Systemic Resolution Advisory Committee
Q&A	Questions and Answers		
QBP	Quarterly Banking Profile	SRR	SIFI Risk Report
REFCORP	Resolution Funding Corporation	SSGN	Structured Sale of Guaranteed Note
REMA	Reasonably Expected Market Area	TILA	Truth in Lending Act
ReSG	FSB's Resolution Steering Group	TRID	TILA RESPA Integrated Disclosure Rule
RESPA	Real Estate Settlement Procedures Act		
RMIC	Risk Management and Internal Controls	TSP	Federal Thrift Savings Plan
		TSP (IT-related)	Technology Service Providers
RMS	Division of Risk Management Supervision	URSIT	Uniform Rating System for Information Technology
RTC	Resolution Trust Corporation	VIEs	Variable Interest Entities
SA-CCR	Standardized Approach for Counterparty Credit Risk	WARM	Weighted Average Remaining Maturity
		YSP	Youth Savings Program



2019

Federal Deposit Insurance Corporation

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