



March 1, 2006

**TO:** Board of Directors

**FROM:** Steven O. App  
Deputy to the Chairman and  
Chief Financial Officer

**SUBJECT:** Proposed Increase to the 2006 Corporate Operating Budget

**Proposal**

This memorandum requests that the Board of Directors approve an increase of \$9,050,000 in the 2006 Corporate Operating Budget to cover the estimated costs associated with implementing the deposit insurance reform legislation recently passed by the Congress. This adjustment will increase the ongoing operations portion of the budget from the previously approved \$975,075,522 to \$984,125,522. The receivership funding portion of the Corporate Operating Budget remains unchanged at \$75,000,000.

Budget Component	(Dollars in Millions)		
	Approved 2006	Proposed Increase	Proposed 2006
Corporate Operating Budget:			
Ongoing Operations	\$ 975	\$9	\$984
Receivership Funding	<u>75</u>	<u>0</u>	<u>75</u>
TOTAL	\$1,050	\$9	\$1,059

**Background**

When the Board approved the 2006 Corporate Operating Budget on December 5, 2005, deposit insurance reform legislation was still pending in the Congress. The Board was advised that the proposed budget did not include funds to implement the pending legislation and that a supplemental budget request would be submitted if the legislation was subsequently enacted. The legislation was passed by the Congress and signed by the President on February 8, 2006 (Public Law 109-171).

There are several key features of the legislation that are required to be implemented within a 270-day period:

- Merger of the Bank Insurance Fund and the Savings Association Insurance Fund into a new Deposit Insurance Fund.
- Changes in insurance coverage limits for retirement accounts.
- Enhanced deposit insurance pricing authority.
- Establishment of a system of assessment credits and dividends to individual insured institutions.

### **Projected Budgetary Impact**

Additional funds will be required in three areas in connection with the implementation of deposit insurance reform:

- 1. Staffing.** An increase of two authorized positions (and associated funding of \$300,000) is requested for the Division of Insurance and Research (DIR). These two new positions will be required on a permanent basis to administer and perform the analytical work associated with the deposit insurance pricing, dividend, and credit and rebate models expected to be used for most insured institutions under the new legislation. Although additional staff will be required to perform analysis and deposit insurance pricing responsibilities for the largest insured institutions, these staffing requirements will be met by reassigning several staff from the Division of Supervision and Consumer Protection to DIR.
- 2. New Deposit Insurance Brochures and Signage.** As a result of changes in insurance coverage limits for retirement accounts enacted under the new legislation, the Corporation will have to print and send to all insured depository institutions updated deposit insurance brochures and new signage on insurance coverage limits. An estimated \$2.25 million is required for this purpose, including \$250,000 in additional funds for postage to distribute these updated materials.
- 3. System Changes.** Deposit insurance reform will require changes to an estimated 19 existing information technology systems. In addition, two new systems may be required to support the new credit and dividend features of the deposit insurance program. The costs associated with these system changes are expected to be substantial. Unfortunately, it is not possible to estimate these costs with precision at this time, because many of the changes depend upon specific implementation decisions that have yet to be made through rulemaking. Attachments 1 and 2 provide an overview of the systems that will be affected and a preliminary estimate of the level of effort expected to be required. Preliminary cost estimates for these system changes, excluding the costs associated with a new credit/dividend system, total more than \$9.6 million for outside services, including \$6.5 million in 2006 and the remainder in 2007. Although these cost estimates are not final, additional funding is needed now to allow the required systems analysis work to get underway. Accordingly, we are proposing that the Board approve an immediate increase

in the Outside Services-Personnel category of the 2006 Corporate Operating Budget of \$6.5 million for system changes, to be added to the budget of the Division of Information Technology (DIT).

We feel it is important, however, to acknowledge the substantial uncertainty that still exists with respect to the full cost of the required system changes. Therefore, we are proposing that the Board approve the \$9,050,000 in funding requested in this memorandum subject to a restriction that these funds may be used only for activities in support of the implementation of deposit insurance reform and may not be reallocated for another purpose. As an added control, we propose that the allocation of any of these funds to make changes to existing systems or to design and develop new systems must be jointly approved by the Director, DIT, and the Director, Division of Insurance and Research.

If additional funds are determined later in 2006 to be necessary in connection with the required system changes, the Corporation will either reprogram funds within the ongoing operations of the approved 2006 Corporate Operating Budget or submit to the Board another request for supplemental 2006 funding. If funds are reprogrammed for this purpose, the Chief Financial Officer shall advise the Board of the reprogramming action and amount in his next regular quarterly report to the Board.

A summary of the total proposed increase in the 2006 Corporate Operating Budget by organization and major expense category is shown in Attachment 3.

### **Contact Information**

If you have questions or need additional information, please contact Thomas E. Peddicord at (703) 562-6252.

Attachment 1

This attachment contains procurement sensitive information and has been redacted.

Attachment 2

This attachment contains procurement sensitive information and has been redacted.

**Summary of Proposed Budget Changes  
By Organization and Major Expense Category**

<b>Division</b>	<b>Amount</b>
Division of Information Technology	\$ 6,500,000
Division of Administration	2,250,000
Division of Insurance and Research	<u>300,000</u>
Total	\$ 9,050,000

<b>Major Expense Category</b>	<b>Amount</b>
Salaries and Compensation	\$ 300,000
Outside Services - Personnel	6,500,000
Outside Services – Other	<u>2,250,000</u>
Total	\$ 9,050,000