FDIC

Federal Deposit Insurance Corporation
550 17th Street, N.W., Washington, D.C. 20429-9990 Deputy to the Chairman and CFO

November 5, 2015

MEMORANDUM TO: The Board of Directors

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

Craig R. Jarvill
Director, Division of Finance

SUBJECT: Third Quarter 2015 CFO Report to the Board

The attached report highlights the Corporation's financial activities and results for the quarter ended September 30, 2015.

Executive Summary

- During the third quarter of 2015, the DIF balance increased by $2.5 billion, from $67.6 billion to $70.1 billion. This quarterly increase was primarily due to $2.2 billion of assessment revenue, $122 million in interest on U.S. Treasury obligations, and a $578 million decrease in the provision for insurance losses, partially offset by $410 million of operating expenses.

- During the third quarter of 2015, the FDIC was named receiver for one failed institution. The assets at inception for this institution totaled $29 million with an estimated loss of $4 million. The corporate cash outlay during the third quarter for this failure was approximately $7 million.

- Through September 30, 2015, overall Corporate Operating Budget expenditures were below budget by 9 percent ($155 million). Spending in the Ongoing Operations component was $98 million, or 7 percent, under budget, largely due to underspending in the salaries and compensation, equipment, and contractual services major expense categories. Spending in the Receivership Funding component was $56 million, or 16 percent, under budget, primarily due to lower-than-budgeted contract expenses attributable to fewer bank failures and less costly resolutions and to lower-than-anticipated asset management and marketing costs.

I. Corporate Fund Financial Results (See pages 6 - 7 for detailed data and charts.)

Deposit Insurance Fund

- For the nine months ending September 30, 2015, the DIF's comprehensive income totaled $7.3 billion compared to comprehensive income of $7.1 billion for the same period last year. This $206 million increase was primarily due to a $337 million increase in earnings (interest and net unrealized gains) on U.S. Treasury obligations and a $61 million increase in assessment revenue, partially offset by a $198 million increase in provision for losses.

- Provision for insurance losses was a negative $1.3 billion as of the third quarter of 2015. The negative provision primarily resulted from unanticipated recoveries of $884 million in litigation settlements, professional liability claims, and tax refunds by the receiverships. Such recoveries are not recognized until the cash is received since significant uncertainties surround their recovery. Lower-than-expected estimated losses of $535 million for current year failures also contributed to the negative provision for 2015.

Assessments

- During September, the DIF recognized a total of $2.2 billion in assessment revenue, representing the estimate for third quarter 2015 insurance coverage. Additionally, the DIF recognized a net adjustment of $19 million that decreased assessment revenue. This adjustment consisted of $7 million in prior period amendments and a $12 million decrease to the estimate for second quarter 2015 insurance coverage recorded at June 30, 2015. The latter adjustment was primarily due to lower than estimated assessment base.

- On September 30, 2015, the FDIC collected $2.2 billion in DIF assessments for second quarter 2015 insurance coverage.

II. Investment Results (See pages 8 - 9 for detailed data and charts.)

DIF Investment Portfolio

- On September 30, 2015, the total liquidity (also total market value) of the DIF investment portfolio stood at $61.5 billion, up $9.2 billion from its December 31, 2014, balance of $52.3 billion. During the first three quarters of the year, interest revenue, receivership dividends, and deposit insurance assessment collections exceeded resolution-related outlays and operating expenses.

- On September 30, 2015, the DIF investment portfolio's yield was 0.83 percent, up 13 basis points from its December 31, 2014, yield of 0.70 percent. The increase largely reflected the new Treasury securities purchased during the first three quarters of the year generally having considerably higher yields than the maturing securities' yields.

- In accordance with the approved third quarter 2015 DIF portfolio investment strategy, staff purchased a total of 13 short- to intermediate-maturity conventional Treasury securities, all designated as available-for-sale. The 13 securities had a total par value of $8.6 billion, a weighted average yield of 0.85 percent, and a weighted average maturity of 2.04 years.

III. **Budget Results** (See pages 10 - 11 for detailed data.)

Approved Staffing Modifications

The 2015 Budget Resolution delegated to the CFO the authority to modify approved 2015 staffing authorizations for divisions and offices, as long as those modifications did not increase the total approved 2015 Corporate Operating Budget. The following changes were approved by the CFO in accordance with the authority delegated to him by the Board of Directors:

- In August, the CFO approved an increase of seven non-permanent authorized positions in Division of Risk Management and Supervision (RMS). Six positions were added to hire one CM-1 Supervisory Examiner (IT) in each region. This increase provided for appropriate Supervisory Examiner (IT) spans of control in all regions following the addition of 30 new, non-permanent IT Examination Analyst positions at the beginning of 2015. In addition, the CFO approved the addition of a non-permanent Section Chief position in the Accounting and Securities Disclosure Section to handle the Chief Accountant's day-to-day supervision and management responsibilities for the next three years while the Chief Accountant is engaged in significant accounting policy issues related to the Basel Accords and implementation of expected new standards from the Financial Accounting Standards Board.

- In August, the CFO approved an increase of one non-permanent position for a Senior Consumer Affairs Specialist in the Deposit and Consumer Protection (DCP) regional office in Kansas City. This position was needed for temporarily elevated call center workload.

No reallocations of funds were made as there were sufficient funds to cover these positions in the Ongoing Operations budgets of both divisions.

Spending Variances

Significant spending variances by major expense category and division/office are discussed below. Significant spending variances for the nine months ending September 30, 2015, are defined as those that either (1) exceed the YTD budget by $1 million and represent more than two percent of a major expense category or total division/office budget; or (2) are under the YTD budget for a major expense category or division/office by an amount that exceeds $2 million and represents more than four percent of the major expense category or total division/office budget.

Significant Spending Variances by Major Expense Category

Ongoing Operations

There were significant spending variances in four of the seven major expense categories in the Ongoing Operations component of the 2015 Corporate Operating Budget through the third quarter.

- Salaries and Compensation ($44 million, or 5 percent, less than budgeted). The most significant variances in this expense category were in RMS ($17 million), the Legal Division ($5 million), the Division of Information Technology (DIT) ($3 million), the Division of Administration (DOA) ($3 million), the Division of Resolutions and Receivership (DRR) ($3 million), and DCP ($3 million). Under spending in this expense category was largely attributable to vacancies in budgeted positions.

- Outside Services – Personnel ($16 million, or 9 percent, less than budgeted). DOA spent $3 million less than budgeted, largely due to delays in the salary structure review project and the nationwide rollout of the new badging system; and to lower-than-anticipated costs for contracted administrative support services due to high turnover among contractor employees and delays in bringing replacement contractor personnel on board. DIT spent $2 million less than budgeted, primarily due to less than anticipated spending on the Infrastructure Services Contract. The Information Security & Privacy Staff spent $2 million less than budgeted, largely due to delays in completing new contract awards and background investigations of new contractors. DRR spent $2 million less than budgeted primarily due to delays in initiating projects in its Complex Financial Institutions and Planning and Resource Management branches. Corporate University spent $1 million less than budgeted primarily due to lower than projected expenditures for projects in the Dallas Learning Center and the Schools of Corporate Operations, Leadership Development, and Supervision. In addition, the combined Executive Support Offices spent $1 million less than budgeted for contractual services on a number of smaller projects.

- Equipment expenditures ($28 million, or 39 percent, less than budgeted). DIT spent $23 million less than budgeted, primarily because of delays in planned purchases of hardware and software from its technical refresh allowance. Those purchases are now expected to occur in the fourth quarter. In addition, DOA spent $4 million less than budgeted due to lower than projected equipment costs associated with its new badging initiative, significant savings realized from reusing instead of purchasing new furniture, and fluctuation in on-line information services usage.

- Other Expenses ($2 million, or 19 percent, less than budgeted). This variance was mostly due to underutilization of Professional Learning Accounts by employees and lower-than-projected office supply purchases across the Corporation.

<u>Receivership Funding</u>

The Receivership Funding component of the 2015 Corporate Operating Budget includes funding for expenses that are incurred in conjunction with institution failures and the management and disposition of the assets and liabilities of the ensuing receiverships, except for salary and benefits and related expenses for permanent employees assigned to the receivership management function.

There were significant spending variances in this budget component in three of the seven major expense categories through the third quarter.

- Salaries and Compensation ($5 million, or 7 percent, less than budgeted). This variance was largely attributable to early departures from term positions not being renewed.

- Outside Services-Personnel ($43 million, or 17 percent, less than budgeted). DRR spent $37 million less than budgeted as resolutions, asset management and marketing costs declined at a faster rate than projected. This resulted in lower than budgeted expenses for contracts supporting Owned Real Estate, Loan Servicing, Loss Share Agreement Monitoring, and Capital Markets.

- Other Expenses ($5 million, or 31 percent, less than budgeted). This variance was attributable to the transfer of banking operations and the disposition of failed bank assets more quickly than expected.

Significant Spending Variances by Division/Office

Nine organizations had significant spending variances through the end of the third quarter:

- DRR ($52 million, or 16 percent, less than budgeted). Approximately $47 million of this under-spending was in the Receivership Funding Budget component due to lower than anticipated resolutions and receivership expenses and workload.

- DIT ($31 million, or 17 percent, less than budgeted). This variance was largely attributable to vacancies in budgeted positions, delays in hardware and software purchases, and lower-than-budgeted support costs for failed financial institutions.

- RMS ($20 million, or 5 percent, less than budgeted). This variance was largely attributable to vacancies in budgeted positions and lower than budgeted examination travel expenses associated with those vacancies.

- DOA ($17 million, or 8 percent, less than budgeted). This variance was largely attributable to lower than budgeted spending in its Ongoing Operations budget component for salaries and compensation ($3 million) due to vacancies in budgeted positions; equipment ($4 million) due to less-than-budgeted expenses for the new badging initiative, furniture, and online information services; buildings ($3 million) due to delays in the Student Residence Center plumbing project and the data center air handler replacement project; and contractual support ($3 million) due to delays in starting the salary structure review project and the nationwide rollout of the new badging initiative. In addition, DOA spent approximately $2 million less than budgeted in the Receivership Funding budget component to support bank closings.

- Legal Division ($12 million, or 6 percent, less than budgeted). This variance was due to under-spending of approximately $7 million for salaries and compensation category ($5 million in the Ongoing Operations budget component and $2 million in the Receivership Funding budget component) due to vacancies in budgeted non-permanent positions and slower than projected hiring to fill those vacancies, and $5 million for outside counsel to support receivership-related litigation.

- Office of Complex Financial Institutions ($3 million, or 22 percent, less than budgeted). This variance was largely attributable to vacancies in budgeted positions and lower than budgeted travel expenses associated with those vacancies.

- Information Security and Privacy Staff ($3 million or 13 percent less than budgeted). This variance was primarily attributable to delays in completing new contract awards and background investigations of new contractors.

- Office of Inspector General ($3 million, or 11 percent, less than budgeted). This variance was attributable to vacancies in budgeted positions and slower than expected hiring to fill those vacancies.

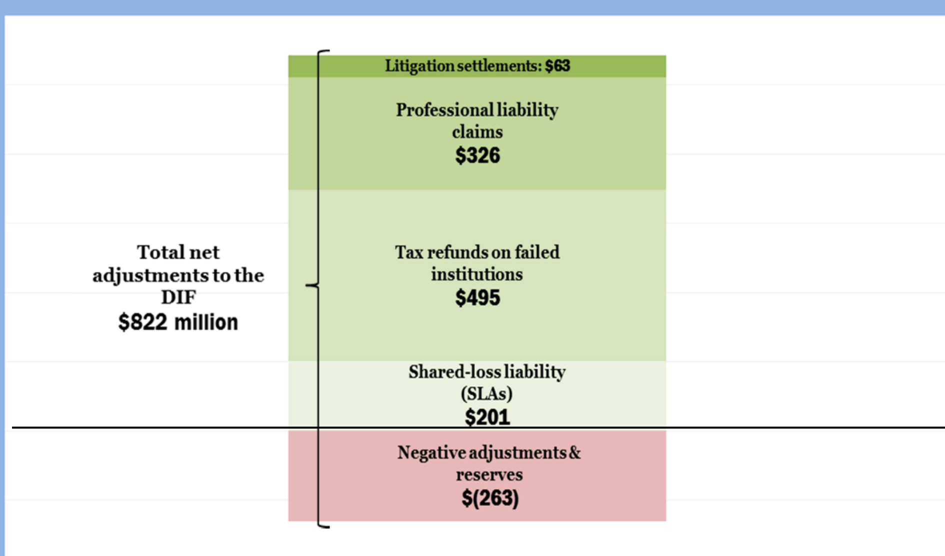
- The Executive Support Offices ($2 million, or 11 percent, less than budgeted). This variance was mostly attributable to slower-than-projected hiring to fill vacant positions and lower-than-budgeted spending for contract services.

Fund Financial Results

($ in Millions)

Balance Sheet	Deposit Insurance Fund				
	Unaudited Sep-15	Unaudited Jun-15	Quarterly Change	Unaudited Sep-14	Year-Over-Year Change
Cash and cash equivalents	$ 2,450	$ 2,544	$ (94)	$ 2,115	$ 335
Investment in U.S. Treasury obligations, net	58,552	55,850	2,702	47,783	10,769
Assessments receivable, net	2,188	2,177	11	2,072	116
Interest receivable on investments and other assets, net	534	590	(56)	382	152
Receivables from resolutions, net	13,877	14,862	(985)	15,227	(1,350)
Property and equipment, net	359	364	(5)	357	2
Total Assets	$ 77,960	$ 76,387	$ 1,573	$ 67,936	$ 10,024
Accounts payable and other liabilities	351	278	73	255	96
Liabilities due to resolutions	6,727	7,593	(866)	11,260	(4,533)
Postretirement benefit liability	243	243	-	194	49
Contingent liability for anticipated failures	524	684	(160)	1,902	(1,378)
Contingent liability for litigation losses	0	0	0	5	(5)
Total Liabilities	$ 7,845	$ 8,798	$ (953)	$ 13,616	$ (5,771)
FYI: Unrealized gain (loss) on U.S. Treasury investments, net	312	248	64	27	285
FYI: Unrealized postretirement benefit (loss) gain	(58)	(58)	-	(16)	(42)
Fund Balance	$ 70,115	$ 67,589	$ 2,526	$ 54,320	$ 15,795

Positive Impact on the Fund Balance from the 2015 Adjustments to Estimated Losses for Failed Banks (Dollars in Millions)



The estimated recoveries from assets held by receiverships and estimated payments related to shared-loss covered assets are used to derive the loss allowance on the receivables from resolutions.

The YTD $201 million decrease in the receivership's shared-loss liability is attributable to lower-than-anticipated losses from terminated SLAs.

The YTD $884 million in unanticipated recoveries from failed financial institutions (litigation settlements, professional liability claims, and tax refunds) are not recognized until the cash is received since significant uncertainties surround their recovery.

The YTD negative $263 million adjustment resulted from an increase in legal and rep & warranty reserves and lower loan recovery rates.

Fund Financial Results - continued

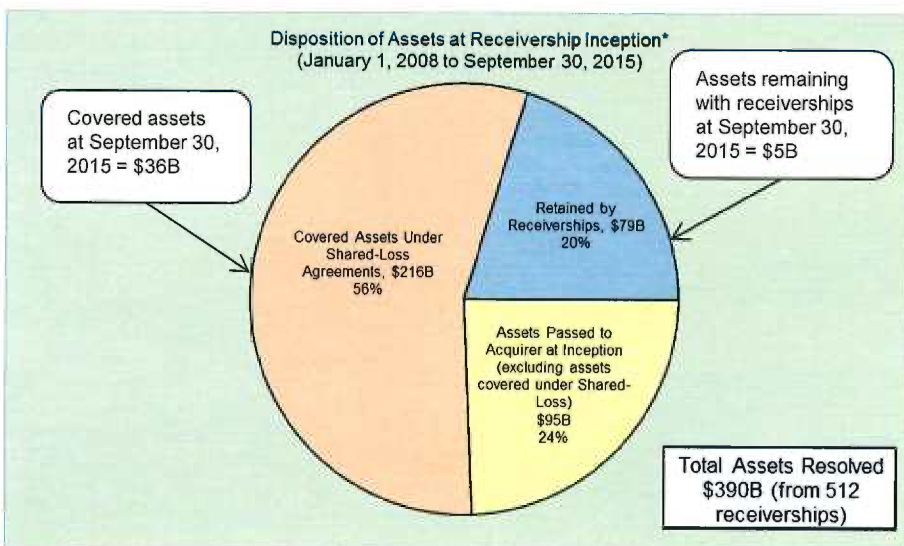
($ in Millions)

Income Statement (year-to-date)	Deposit Insurance Fund Unaudited Sep-15	Unaudited Jun-15	Quarterly Change	Unaudited Sep-14	Year-Over-Year Change
Assessments	$ 6,687	$ 4,517	$ 2,170	$ 6,626	$ 61
Interest on U.S. Treasury obligations	295	173	122	212	83
Other revenue	15	10	5	22	(7)
Total Revenue	$ 6,997	$ 4,700	$ 2,297	$ 6,860	$ 137
Operating expenses	1,240	830	410	1,256	(16)
Provision for insurance losses	(1,321)	(743)	(578)	(1,519)	198
Insurance and other expenses	4	1	3	1	3
Total Expenses and Losses	$ (77)	$ 88	$ (165)	$ (262)	$ 185
Net Income	7,074	4,612	$ 2,462	7,122	(48)
Unrealized gain (loss) on U.S. Treasury investments, net	261	197	64	7	254
Unrealized postretirement benefit gain (loss)	-	-	-	-	-
Comprehensive Income	$ 7,335	$ 4,809	$ 2,526	$ 7,129	$ 206

Selected Financial Data	FSLIC Resolution Fund Unaudited Sep-15	Unaudited Jun-15	Quarterly Change	Unaudited Sep-14	Year-Over-Year Change
Cash and cash equivalents	$ 872	$ 872	$ -	$ 871	$ 1
Accumulated deficit	(124,642)	(124,523)	(119)	(124,461)	(181)
Total resolution equity	872	872	-	872	-
Total revenue	2	2	-	1	1
Operating expenses	2	1	1	1	1
Provision for losses	-	-	-	(1)	1
Goodwill litigation expenses	182	63	119	-	182
Net Income (Loss)	$ (182)	$ (63)	(119)	$ -	$ (182)

Receivership Selected Statistics September 2015 vs. September 2014

$ in millions	DIF			FRF			ALL FUNDS		
	Sep-15	Sep-14	*Change*	Sep-15	Sep-14	*Change*	Sep-15	Sep-14	*Change*
Total Receiverships	470	487	(17)	-	-	-	470	487	(17)
Assets in Liquidation	$ 5,447	$ 8,336	$ (2,889)	$ 5	$ 5	$ -	$ 5,452	$ 8,341	$ (2,889)
YTD Collections	$ 2,511	$ 4,036	$ (1,525)	$ 2	$ 2	$ -	$ 2,513	$ 4,038	$ (1,525)
YTD Dividend/Other Pymts - Cash	$ 5,388	$ 3,311	$ 2,077	$ -	$ -	$ -	$ 5,388	$ 3,311	$ 2,077



*Excludes WAMU with total assets of $299 billion and zero estimated losses to the DIF

Deposit Insurance Fund Portfolio Summary
(Dollar Values in Millions)

	9/30/15	12/31/14	Change
Par Value	$60,096	$50,739	$9,357
Amortized Cost	$60,672	$51,655	$9,017
Total Market Value (including accrued interest)	$61,469	$52,302	$9,167
Primary Reserve [1]	$61,469	$52,302	$9,167
Primary Reserve % of Total Portfolio	100.0%	100.0%	0.0%
Yield-to-Maturity [2]	0.83%	0.70%	0.13%
Weighted Average Maturity (in years)	1.50	1.66	-0.16
Effective Duration (in years)			
Total Portfolio	1.47	1.63	-0.16
Available-for-Sale Securities	1.53	1.69	-0.16
Held-to-Maturity Securities [3]	not applicable	not applicable	not applicable

[1] Primary Reserve is the total market value (including accrued interest) of overnight investments, all available-for-sale securities, and held-to-maturity securities maturing within three months.

[2] The Yield-to-Maturity includes the potential yield of Treasury Inflation-Protected Securities (TIPS), which presently assumes an average 1.8% annual increase in the CPI over the remaining life of each TIPS.

[3] In early August 2008, management reclassified all of the DIF portfolio's HTM securities as AFS securities effective as of June 30, 2008, because the FDIC could no longer assert it had the positive intent and ability to hold its HTM securities until their maturity dates.

Summary of Other Corporate Investment Portfolios
(Dollar Values in Millions)

	9/30/15	12/31/14	Change
FRF-FSLIC			
Book Value [4]	$828	$827	$1
Yield-to-Maturity	0.00%	0.03%	-0.03%
Weighted Average Maturity	overnight	overnight	no change

[4] Due to the current short-term nature of this portfolio, its respective Par, Book, and Market Values are identical for reporting purposes.

National Liquidation Fund (NLF) Investment Portfolio Summary
(Dollar Values in Millions)

	9/30/15	12/31/14	Change
Book Value [5]	$10,548	$14,139	($3,591)
Effective Annual Yield	0.19%	0.11%	0.08%
Weighted Average Maturity (in days)	81	75	6

[5] Due to the short-term nature of the NLF portfolio, its Book and Market Values are identical for reporting purposes.

Investment Strategies	
DEPOSIT INSURANCE FUND	**Strategy for the 3rd Quarter 2015** Purchase up to $11 billion (par value) of Treasury securities with maturity dates between December 31, 2015, and December 31, 2020, subject to the following additional provisions: all newly purchased securities will be designated as available-for-sale (AFS); and no more than $2 billion (adjusted par value) of such securities shall consist of Treasury Inflation-Protected Securities (TIPS). **Strategy Changes for the 4th Quarter 2015** Purchase up to $11 billion (par value) of Treasury securities with maturity dates between <u>March 31, 2016</u>, and <u>March 31, 2021</u>, subject to the following additional provisions: all newly purchased securities will be designated as available-for-sale (AFS); and no more than $2 billion (adjusted par value) of such securities shall consist of Treasury Inflation-Protected Securities (TIPS).
NATIONAL LIQUIDATION FUND	**Strategy for the 3rd Quarter 2015** Maintain an overnight deposit target floor balance within a range of $100 million to $300 million. Strategically invest the remaining funds in the zero- to 12-month maturity sector. **Strategy Changes for the 4th Quarter 2015** No strategy changes for the fourth quarter of 2015.

Executive Summary of 2015 Budget and Expenditures by Major Expense Category Through September 30, 2015 (Dollars in Thousands)

Major Expense Category	Annual Budget	YTD Budget	YTD Expenditures	% of YTD Budget Used	YTD Variance
Corporate Operating Budget					
Ongoing Operations					
Salaries & Compensation	$1,226,834	$907,285	$862,816	95%	($44,469)
Outside Services - Personnel	252,177	175,339	159,692	91%	(15,647)
Travel	98,816	73,954	70,759	96%	(3,195)
Buildings	94,330	69,918	67,107	96%	(2,811)
Equipment	87,259	72,462	44,181	61%	(28,281)
Outside Services - Other	17,420	12,870	11,367	88%	(1,503)
Other Expenses	16,861	11,683	9,407	81%	(2,276)
Total Ongoing Operations	**$1,793,697**	**$1,323,510**	**$1,225,329**	**93%**	**($98,181)**
Receivership Funding					
Salaries & Compensation	$90,360	$70,525	$65,330	93%	($5,195)
Outside Services - Personnel	376,053	246,536	203,914	83%	(42,622)
Travel	9,083	6,443	5,509	85%	(934)
Buildings	17,328	13,020	12,480	96%	(540)
Equipment	5,285	3,909	3,455	88%	(454)
Outside Services - Other	4,044	2,886	1,601	55%	(1,285)
Other Expenses	22,847	17,117	11,815	69%	(5,302)
Total Receivership Funding	**$525,000**	**$360,437**	**$304,104**	**84%**	**($56,333)**
Total Corporate Operating Budget	**$2,318,697**	**$1,683,947**	**$1,529,433**	**91%**	**($154,514)**

Executive Summary of 2015 Budget and Expenditures by Budget Component and Division/Office Through September 30, 2015 (Dollars in Thousands)					
Division/Office	Annual Budget	YTD Budget	YTD Expenditures	% of YTD Budget Used	YTD Variance
Corporate Operating Budget					
Risk Management Supervision	$574,424	$426,171	$406,001	95%	($20,170)
Resolutions & Receiverships	437,511	330,160	277,864	84%	(52,296)
Administration	268,572	201,417	184,329	92%	(17,088)
Legal	253,978	188,806	177,068	94%	(11,738)
Information Technology	226,289	175,655	145,015	83%	(30,640)
Depositor & Consumer Protection	172,111	128,914	124,700	97%	(4,214)
CIO Council	52,553	37,747	37,912	100%	164
Insurance & Research	51,146	38,223	36,593	96%	(1,630)
Finance	39,832	29,645	27,809	94%	(1,836)
Inspector General	33,715	25,243	22,495	89%	(2,748)
Information Security & Privacy Staff	33,856	24,831	21,565	87%	(3,266)
Corporate University - Corporate	25,681	18,947	17,415	92%	(1,533)
Executive Support [1]	26,248	19,395	17,221	89%	(2,174)
Corporate University - CEP	18,270	13,817	13,620	99%	(197)
Complex Financial Institutions	21,863	15,994	12,497	78%	(3,497)
Executive Offices [2]	12,118	8,981	7,330	82%	(1,651)
Corporate Unassigned	70,529	0	0	N/A	0
Total, Corporate Operating Budget	**$2,318,697**	**$1,683,947**	**$1,529,433**	**91%**	**($154,514)**

1) Executive Support includes the Offices of Minority and Women Inclusion, Communications, Ombudsman, Legislative Affairs, Corporate Risk Management, and Financial Institution Adjudication.

2) Executive Offices include the offices of the Chairman, Vice Chairman, Independent Director, Deputy to the Chairman and Chief Operating Officer, Deputy to the Chairman and Chief Financial Officer, and Chief Information Officer.