



# I. Management's Discussion and Analysis

## The Year in Review

### OVERVIEW

Although the number of bank failures declined in 2013 compared to the previous year, the FDIC remained fully engaged in its mission-critical responsibilities. In 2013, the FDIC continued to make progress in fulfilling its responsibilities under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and related rulemakings. Also during 2013, the FDIC made progress with community banking initiatives including releasing numerous technical assistance videos on topics relating to risk management and consumer protection. The sections below highlight some of our accomplishments during the year.

### INSURANCE

The FDIC insures bank and savings association deposits. As insurer, the FDIC must continually evaluate and effectively manage how changes in the economy, the financial markets, and the 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 management plan designed to reduce the effects of cyclicalities and achieve moderate, steady assessment rates throughout economic and credit cycles, while also

maintaining a positive fund balance, even during a banking crisis. That plan is combined with the Restoration Plan, originally adopted in 2008 and subsequently revised, which is designed to ensure that the reserve ratio will reach 1.35 percent of estimated insured deposits by September 30, 2020, as required by the Dodd-Frank Act.<sup>1</sup> These plans include a reduction in rates that the FDIC Board adopted to become effective once the reserve ratio reaches 1.15 percent.

To increase the probability that the fund reserve ratio will reach a level sufficient to withstand a future crisis, the FDIC Board has—pursuant to the long-term management plan—set the Designated Reserve Ratio (DRR) for the DIF at 2.0 percent. Using historical fund loss and simulated income data from 1950 to 2010, FDIC analysis showed the reserve ratio would have had to exceed 2.0 percent before the onset of the two crises that occurred since the late 1980s to have maintained both a positive fund balance and stable assessment rates throughout both crises. The analysis assumed a moderate, long-term average industry assessment rate, consistent with the rates set forth in the plan. 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. Under provisions of the Federal Deposit Insurance Act (FDI Act) that require the FDIC Board to set the DRR for the DIF annually, the FDIC Board voted in October 2013 to maintain the 2.0 percent DRR for 2014.

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<sup>1</sup> The Act also requires that the FDIC offset the effect on institutions with less than \$10 billion in assets of increasing the reserve ratio from 1.15 percent to 1.35 percent. The FDIC will promulgate a rulemaking that implements this requirement at a later date to better take into account prevailing industry conditions at the time of the offset.

As part of the long-term management plan, the FDIC also suspended dividends indefinitely when the fund reserve ratio exceeds 1.5 percent. Instead, the plan prescribes progressively lower assessment rates that will become effective when the reserve ratio exceeds 2.0 percent and 2.5 percent. These lower assessment rates serve almost the same function as dividends, but provide more stable and predictable effective assessment rates over time.

### *State of the Deposit Insurance Fund*

Estimated losses to the DIF were \$1.2 billion from failures occurring in 2013, and were lower than losses from failures in each of the previous five years. The fund balance continued to grow throughout 2013, with 16 consecutive quarters of positive growth. Assessment revenue, a decrease in the estimate of losses from banks that have failed, and a decline in loss provisions for anticipated bank failures drove the increase in the fund balance during 2013. The fund reserve ratio rose to 0.79 percent of estimated insured deposits at December 31, 2013, from 0.44 percent at the end of 2012.

To ensure that the DIF had sufficient liquidity to handle a high volume of failures during the recent crisis, the Board issued a rule in 2009 that required insured depository institutions to prepay 13 quarters of estimated risk-based assessments.<sup>2</sup> The \$45.7 billion in assessments prepaid on December 30, 2009, resolved the FDIC's immediate liquidity needs. As required by the rule, the FDIC refunded in aggregate \$5.9 billion in remaining prepaid assessments at the end of June 2013 to 5,625 insured institutions.

### *Assessment System for Large and Highly Complex Institutions*

On October 9, 2012, the FDIC Board approved a final rule to amend the assessment system for large and highly complex institutions. The rule amends definitions adopted in the February 2011 large bank pricing rule used to identify concentrations in higher-risk assets. This rule, which became effective on April 1, 2013, amends the definitions of leveraged loans and subprime loans, which are areas

of significant potential risk. The revised definition of leveraged loans, renamed higher-risk C&I (commercial and industrial) loans and securities, focuses on large loans to the riskiest borrowers—those that are highly leveraged as the result of loans to finance a buyout, acquisition, or capital distribution. The revised definition of subprime consumer loans, renamed higher-risk consumer loans, focuses on the most important characteristic—the probability of default. The final rule resulted from concerns raised by the industry about the cost and burden of reporting under the definitions in the February 2011 rule. Nonetheless, the new definitions better reflect the risk that institutions pose to the DIF.

### *Definition of Deposit at Foreign Branches of U.S. Banks*

On September 10, 2013, the FDIC Board of Directors approved a final rule clarifying that funds on deposit in foreign branches of U.S. banks are not FDIC-insured, even though they can be deposits for purposes of the national depositor preference statute. Under the FDI Act, funds deposited in a foreign branch of a U.S. bank are not considered deposits, unless the deposits are also payable at an office of the bank in the United States (a dually payable deposit). A 2012 Consultation Paper by the United Kingdom's Prudential Regulation Authority (PRA) proposed that banks from non-European Economic Area countries that have depositor preference laws be prohibited from accepting deposits at their United Kingdom (U.K.) branches, unless the banks take steps to ensure that U.K. depositors are no worse off than depositors in the bank's home country if the bank fails. The PRA paper mentioned that such efforts could include changing deposit account agreements to make U.K. branch deposits dually payable in the United States, which would put the U.K. branch deposits on the same footing as U.S. deposits under the U.S. depositor preference statute. As a result, the FDIC anticipates that some large U.S. banks will change their deposit agreements to make their U.K. branch deposits payable in both the United Kingdom and the United States to provide depositor preference to U.K. branch deposits. The final rule clarifies that these U.K. branch deposits are not FDIC-insured.

<sup>2</sup> The cash collected from the prepayment did not initially affect the DIF balance (i.e., the DIF's net worth). Rather, each quarter, the DIF recognized as revenue prepaid amounts used to cover each institution's quarterly risk-based assessment.

## ACTIVITIES RELATED TO SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS

### *Risk Monitoring Activities for Systemically Important Financial Institutions*

The Dodd-Frank Act expanded the FDIC's responsibilities for overseeing and monitoring the largest, most complex bank holding companies and large, nonbank systemically important financial institutions (SIFIs) designated by the Financial Stability Oversight Council (FSOC) for supervision by the Board of Governors of the Federal Reserve System (FRB). In 2013, the FDIC's complex financial institution program activities included ongoing reviews of all banking organizations with more than \$100 billion in assets as well as certain nonbank financial companies. Given the scope of the FDIC's responsibilities under the Dodd-Frank Act, the FDIC developed additional risk assessment tools, processes, and procedures to better identify major risks at SIFIs, to ensure corrective actions when warranted, and to efficiently allocate resources. Additionally, the complex financial institution program prepares the FDIC to resolve insured depository institutions (IDIs) in the event of failure, including the review of IDI-prepared resolution plans.

In the FDIC's back-up supervisory role, as outlined in Sections 8 and 10 of the FDI Act and Sections 23A and 23B of the Federal Reserve Act, the FDIC has expanded resources and developed and implemented policies and procedures to guide back-up supervisory activities. These activities include participating in supervisory activities with other regulatory agencies, performing analyses of industry conditions and trends, and exercising examination and enforcement authorities, when necessary.

In addition, the FDIC continues to work closely with other federal regulators to gain a better understanding of the risk measurement and management practices of SIFIs, and assess the potential risks they pose to financial stability.

### *Title I Resolution Plans*

Title I of the Dodd-Frank Act requires that each bank holding company with total consolidated assets of \$50 billion or more, and each nonbank financial company that the FSOC determined should be subject to supervision



*Paul Volcker, former Federal Reserve Chairman, offers his perspective on Title I resolution planning at a Systemic Resolution Advisory Committee meeting.*

by the FRB, prepare a resolution plan, or “living will,” and periodically provide the plan to the FRB and the FDIC. Section 165(d) of the Dodd-Frank Act requires the company's resolution plan to provide for its rapid and orderly resolution under the bankruptcy code in the event of the company's material financial distress or failure. The FDIC and the FRB issued a joint rule to implement the requirements for resolution plans to be filed pursuant to Section 165(d) [the 165(d) Rule].

In addition to the 165(d) Rule, the FDIC issued a separate rule that requires all IDIs with greater than \$50 billion in assets to submit resolution plans to the FDIC (IDI Rule). The IDI's resolution plan should enable the FDIC, as receiver, to resolve the IDI using the FDIC's traditional resolution powers under the Federal Deposit Insurance Act (FDI Act), in a manner that ensures that depositors receive access to their insured deposits generally within one business day of the IDI's failure, maximizes the net present value return from the disposition of its assets, and minimizes the amount of any loss realized by creditors.

The 165(d) Rule was effective as of November 30, 2011, and provides for staggered initial submission dates for the



resolution plans of covered companies. Thereafter, unless otherwise agreed to by the FDIC and the FRB, each covered company must submit a plan annually, on or before the anniversary of its initial submission date. Initial submission dates for IDI resolution plans under the IDI Rule, which was effective April 1, 2012, conform to those for covered companies under the 165(d) Rule. Under the 165(d) Rule, the initial submission date is based upon nonbank assets (or for a foreign-based covered company, U.S. nonbank assets) as of November 30, 2011, and is set by the rule as follows:

- ◆ July 1, 2012: “First Wave Companies” are covered companies with \$250 billion or more in nonbank assets (or U.S. nonbank assets for foreign-based covered companies).
- ◆ July 1, 2013: “Second Wave Companies” are covered companies with \$100 billion or more in nonbank assets (or U.S. nonbank assets for foreign-based covered companies).
- ◆ December 31, 2013: “Third Wave Companies” are all other covered companies which are covered companies with less than \$100 billion in nonbank assets (or U.S. nonbank assets for foreign-based covered companies).

Any company that becomes subject to the 165(d) Rule after its effective date (including nonbank financial companies designated by the FSOC), and any IDI that becomes subject to the IDI Rule after its effective date, must submit its initial resolution plan by the next July 1 that is at least 270 days after the date it became subject to the respective rule (or following its designation by FSOC).

Eleven First Wave Companies submitted initial 165(d) plans in July 2012. Based upon review of the initial resolution plans, the FDIC and the FRB developed guidance for the First Wave Companies to permit alternate resolution strategies and to clarify information that should be included in their 2013 resolution plan submissions. This guidance is posted on the FDIC’s public Website<sup>3</sup>. In the guidance, the FDIC and the FRB identified an initial set of significant obstacles to achieving a rapid and orderly resolution that each of the First Wave companies should address in its plan, including the actions or steps the company has taken or

proposes to take to remediate or otherwise mitigate each obstacle (with a timeline for any proposed actions). The agencies extended the second submission filing date to October 1, 2013, giving the First Wave Companies additional time to develop resolution plans complying with the guidance. Each of the First Wave Companies submitted its second submission plan by the October 1 deadline, and the agencies are currently reviewing the plans.


Four Second Wave Companies submitted initial resolution plans by the July 1, 2013, submission date. The FDIC and the FRB reviewed those plans. One hundred and sixteen Third Wave Companies and twenty-two Third Wave IDIs submitted initial resolution plans by December 31, 2013. The FDIC and the FRB are currently reviewing those plans. Three nonbank SIFIs designated by the FSOC for FRB supervision are expected to submit initial resolution plans in 2014.

### *Title II Resolution Strategy Development*

The preferred approach for the resolution of a large, complex financial company is for the firm to file for reorganization or liquidation under the U.S. Bankruptcy Code, just as any failed nonfinancial company would. In certain circumstances, however, resolution under the bankruptcy code may result in serious adverse effects on financial stability in the United States. In such cases, the Orderly Liquidation Authority (OLA) set out in Title II of the Dodd-Frank Act serves as a potential alternative that could be invoked pursuant to a statutorily prescribed recommendation and determination process, coupled with an expedited judicial review process.

Prior to the recent crisis, the FDIC’s receivership authority focused on IDIs. No regulator had the authority to place the bank holding company (BHC) or affiliates of an IDI or any other nonbank financial company into an FDIC receivership to avoid systemic consequences. The OLA addresses those limitations and gives the FDIC the back-up powers necessary to potentially resolve a failing BHC or other SIFI in an orderly manner that imposes accountability on shareholders, creditors, and management of the failed company while mitigating systemic risk and imposing no cost on taxpayers.

<sup>3</sup> <http://www.fdic.gov/regulations/reform/domesticguidance.pdf>



The FDIC has largely completed the core rulemakings necessary to carry out its responsibilities under Title II of the Dodd-Frank Act. Additionally, the FDIC has been developing a strategic approach, referred to as the “Single Point of Entry (SPOE)”, to carry out those orderly liquidation authorities. During 2013, the FDIC reviewed the characteristics of each domestic company and studied previous financial downturns to determine the systemic effects and channels of contagion, and consulted with external practitioners and experts on key resolution components and options. The FDIC discussed the SPOE concept at outreach events with other domestic government agencies, the Systemic Resolution Advisory Committee, industry groups, the academic community, and international financial regulators. In December 2013, the FDIC approved publication of a notice in the *Federal Register* that provides greater detail on the SPOE strategy and discusses the key issues that will be faced in the resolution of a SIFI.<sup>4</sup> Comments are expected in early 2014, and the FDIC will consider those comments as resolution strategies continue to be developed.

### *Cross-border Efforts*

Advance planning and cross-border coordination for the resolution of globally active SIFIs will be essential to minimizing disruptions to global financial markets. Recognizing that global SIFIs create complex international legal and operational concerns, the FDIC continues to reach out to foreign regulators to establish frameworks for effective cross-border cooperation.

As part of the bilateral efforts, the FDIC and the Bank of England, in conjunction with the prudential regulators in our respective jurisdictions, have been developing contingency plans for the failure of a global SIFI that has operations in the U.S. and the U.K. Of the 28 G-SIFIs designated by the Financial Stability Board (FSB) of the G-20 countries, four are headquartered in the U.K., and another eight are headquartered in the U.S. Moreover, approximately 70 percent of the reported foreign activities of the eight U.S. G-SIFIs emanates from the U.K. The

FDIC and U.K. authorities released a joint paper on resolution strategies in December 2012, reflecting the close working relationship between the two authorities. This joint paper focuses on the application of “top-down” resolution strategies for a U.S. or a U.K. financial group in a cross-border context and addresses several common considerations to these resolution strategies. In December 2013, the FDIC and the Bank of England, including the Prudential Regulation Authority, in conjunction with the Federal Reserve Board and the Federal Reserve Bank of New York, held a staff-level tabletop exercise exploring cross-border issues and potential mitigating actions that could be taken by regulators in the event of a resolution.

The FDIC also is coordinating with representatives from European authorities to discuss issues of mutual interest, including the resolution of European global SIFIs and ways in which we can harmonize receivership actions. The FDIC and the European Commission (E.C.) have established a joint Working Group composed of senior executives from the FDIC and the E.C. to focus on both resolution and deposit insurance issues. The agreement establishing the Working Group provides for meetings twice a year with other interim interchanges and the exchange of detailees. In 2013, the Working Group convened formally twice, and there has been ongoing collaboration at the staff level, including discussions of the FDIC’s experience with resolutions, the SPOE strategy, the E.C.’s proposed European Union (E.U.)-wide Credit Institution and Investment Firm Recovery and Resolution Directive, the E.C.’s proposed amendment to harmonize further deposit guarantee schemes E.U.-wide, and the E.C.’s proposal for a Single Resolution Mechanism that would apply to Euro-area Member States, as well as any others that would opt-in. The FDIC and the E.C. also have exchanged staff members for short periods to enhance staff experience with respective resolution authorities. In 2014, at the request of the E.C., the FDIC is planning to conduct a training seminar on resolutions for E.C. staff.

The FDIC continues to foster its relationships with other jurisdictions that regulate global SIFIs, including

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<sup>4</sup> Notice entitled, “Resolution of Systemically Important Financial Institutions: The Single Point of Entry Strategy,” 78 *Federal Register* 76614 (December 18, 2013).

Switzerland, Germany, and Japan. In 2013, the FDIC had significant principal and staff-level engagements with these countries to discuss cross-border issues and potential impediments that would affect the resolution of a global SIFI. This work will continue in 2014 with plans to host tabletop exercises with staff from these authorities. The development of joint resolution strategy papers, similar to the one with the U.K., as well as possible exchanges of detailees, has also been discussed.

In a significant demonstration of cross-border cooperation on resolution issues, the FDIC signed a November 2013 joint letter with the Bank of England, the Swiss Financial Market Supervisory Authority, and the German Federal Financial Supervisory Authority, to the International Swaps and Derivatives Association, Inc. (ISDA). This letter encouraged ISDA to develop provisions in derivatives contracts that would provide for the short-term suspension of early termination rights and other remedies in the event of a G-SIFI resolution. The adoption of such changes would allow derivatives contracts to remain in effect throughout the resolution process following the implementation of a number of potential resolution strategies. International coordination and outreach and efforts to address impediments to an orderly resolution of a global SIFI are expected to continue.

## *Systemic Resolution Advisory Committee*

In 2011, the FDIC Board approved the creation of the Systemic Resolution Advisory Committee. The Committee provides important advice to the FDIC regarding systemic resolutions. The Committee advises the FDIC on a variety of issues including:

- ◆ The effects on financial stability and economic conditions resulting from the failure of a SIFI.
- ◆ The ways in which specific resolution strategies would affect stakeholders and their customers.
- ◆ The tools available to the FDIC to wind down the operations of a failed organization.
- ◆ The tools needed to assist in cross-border relations with foreign regulators and governments when a systemic company has international operations.

Members of the Committee have a wide range of experience including managing complex firms; administering bankruptcies; and working in the legal system, accounting field, and academia. A meeting of the Systemic Resolution Advisory Committee was held on December 11, 2013. The Committee discussed, among other topics, the bankruptcy process for large financial companies, the FDIC's SPOE strategy, and international coordination in financial company resolutions.



*Honored guest Paul Tucker from the Bank of England, seated to the right of Chairman Gruenberg, with several members of the Systemic Resolution Advisory Committee and FDIC Board: (seated, from left) William Donaldson, Vice Chairman Hoenig, Paul Volcker, Chairman Gruenberg, Paul Tucker, and Director Norton; (standing, from left) Simon Johnson, Michael Bradfield, Richard Herring, Anat Admati, John Koskinen, Donald Kohn, Douglas Peterson, and David Wright.*

### *Coordinating Interagency Resolution Planning*

In 2013, the FDIC continued to promote interagency information-sharing and cooperative resolution planning by holding quarterly meetings with the other federal regulatory agencies. The FDIC also conducted eight interagency outreach meetings with the financial market utilities (FMUs) that were designated by the FSOC.

### *Financial Stability Oversight Council*

The FSOC was created by the Dodd-Frank Act in July 2010 to promote the financial stability of the United States. It is composed of ten voting members, including the Chairperson of the FDIC, and five non-voting members.

The FSOC's responsibilities include the following:

- ◆ Identifying risks to financial stability, responding to emerging threats in the system, and promoting market discipline.
- ◆ Designating a nonbank financial company for supervision by the FRB subject to heightened prudential standards.
- ◆ Designating FMUs and payment, clearing, or settlement activities that are, or are likely to become, systemically important.
- ◆ Facilitating regulatory coordination and information-sharing regarding policy development, rulemaking, supervisory information, and reporting requirements.
- ◆ Monitoring domestic and international financial regulatory proposals and advising Congress and making recommendations to enhance the integrity, efficiency, competitiveness, and stability of U.S. financial markets.
- ◆ Producing annual reports describing, among other things, the Council's activities and potential emerging threats to financial stability.

During 2013, the FSOC designated three nonbank financial companies for FRB supervision, including enhanced prudential standards. Also during 2013, the FSOC issued its third annual report. Generally, at each of its meetings, the FSOC discusses various risk issues and, in 2013, the FSOC meetings addressed U.S. fiscal issues, an asset management

study prepared by the Office of Financial Research, cyber security, market volatility, market and trading disruptions, money market mutual fund reforms, and fixed income valuations, among other topics.

## SUPERVISION AND CONSUMER PROTECTION

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 IDIs, protects consumers' rights, and promotes community investment initiatives.

### *Examination Program*

The FDIC's strong bank examination program is the core of its supervisory program. As of December 31, 2013, the FDIC was the primary federal regulator for 4,316 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 and the 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. The FDIC also educates bankers and consumers on matters of interest and addresses consumer questions and concerns.

As of December 31, 2013, the FDIC conducted 2,284 statutorily required risk management examinations, including a review 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 1,986 statutorily required CRA/compliance examinations (1,585 joint CRA/compliance examinations, 396 compliance-only examinations, and 5 CRA-only examinations) and 5,057 specialty examinations. As of December 31, 2013, all CRA/compliance examinations were conducted within the time frame established by policy. The following table compares the number of examinations, by type, conducted from 2011 through 2013.



## FDIC EXAMINATIONS 2011 – 2013

	2013	2012	2011
<b>Risk Management (Safety and Soundness):</b>			
State Nonmember Banks	2,077	2,310	2,477
Savings Banks	203	249	227
Savings Associations	0	1	3
National Banks	0	1	1
State Member Banks	4	2	4
Subtotal–Risk Management Examinations	2,284	2,563	2,712
<b>CRA/Compliance Examinations:</b>			
Compliance/Community Reinvestment Act	1,585	1,044	825
Compliance-only	396	611	921
CRA-only	5	10	11
Subtotal–CRA/Compliance Examinations	1,986	1,665	1,757
<b>Specialty Examinations:</b>			
Trust Departments	406	446	466
Information Technology and Operations	2,323	2,642	2,802
Bank Secrecy Act	2,328	2,585	2,734
Subtotal–Specialty Examinations	5,057	5,673	6,002
<b>Total</b>	<b>9,327</b>	<b>9,901</b>	<b>10,471</b>

### *Risk Management*

As of December 31, 2013, there were 467 insured institutions with total assets of \$152.7 billion designated as problem institutions for safety and soundness purposes (defined as those institutions having a composite CAMELS<sup>5</sup> rating of “4” or “5”), compared to the 651 problem institutions with total assets of \$232.7 billion on December 31, 2012. This constituted a 28 percent decline in the number of problem institutions and a 34 percent decrease in problem institution assets. In 2013, 238 institutions with aggregate assets of \$78.7 billion were removed from the list of problem financial institutions, while 54 institutions with aggregate assets of \$13.9 billion were added to the list. First National Bank, located in Edinburg, Texas, was the largest failure in 2013, with \$3.1 billion in assets. The FDIC is the primary federal regulator for 306 of the 467 problem institutions, with total assets of \$93.2 billion.


During 2013, the FDIC issued the following formal and informal corrective actions to address safety and soundness concerns: 51 Consent Orders and 207 Memoranda of Understanding (MOUs). Of these actions, 22 Consent Orders and 27 MOUs were issued, based in whole or in part, on apparent violations of the BSA.

### *Compliance*

As of December 31, 2013, 66 insured state nonmember institutions, about 2 percent of all supervised institutions, with total assets of \$64 billion, were problem institutions for compliance, CRA, or both. All existing problem institutions for compliance were rated “4” for compliance purposes. For CRA purposes, the majority are rated “Needs to Improve,” and four are rated “Substantial Noncompliance.” As of December 31, 2013, all follow-up examinations for problem institutions were performed on schedule.

<sup>5</sup> The CAMELS composite rating represents the adequacy of **C**apital, the quality of **A**ssets, the capability of **M**anagement, the quality and level of **E**arnings, the adequacy of **L**iquidity, and the **S**ensitivity to market risk, and ranges from “1” (strongest) to “5” (weakest).





Overall, banks demonstrated strong consumer compliance programs. The most significant consumer protection issue that emerged from the 2013 compliance examinations involved banks' failure to adequately monitor third-party vendors. For example, we found violations involving unfair or deceptive acts or practices relating to issues such as failure to disclose material information about new products being offered, deceptive marketing and sales practices, and misrepresentations about the costs of products. As a result, the FDIC issued consumer restitution and civil money penalty actions.

During 2013, the FDIC issued the following formal and informal corrective actions to address compliance concerns: 19 Consent Orders and 55 MOUs. In certain cases, the Consent Orders issued by the FDIC contain requirements for institutions to pay restitution in the form of refunds to consumers for different violations of laws. During 2013, over \$45 million was refunded to consumers by institutions subject to Consent Orders. These refunds primarily related to unfair or deceptive practices by institutions, as discussed above. Additionally, in 2013, the FDIC issued 54 Civil Money Penalties (CMPs) relating to consumer compliance.

#### *Bank Secrecy Act/Anti-Money Laundering*

The FDIC pursued a number of BSA, Anti-Money Laundering (AML), and Counter-Terrorist Financing (CTF) initiatives in 2013.

The FDIC held a symposium for approximately one-third of the agency's 300 BSA/AML subject matter experts. Training topics covered electronic payments, suspicious activity monitoring, third-party payment processor relationships, foreign correspondent banking, money service businesses, and other higher-risk topics. In addition, a teleconference was held to discuss activity observed by the Office of Foreign Assets Control related to foreign correspondent transactions.

The FDIC conducted an International AML and CTF training session in November 2013, in the Dominican Republic, for members of the Association of Supervisors of Banks of the Americas (ASBA). The training focused on AML/CTF controls, the AML examination process, customer due

diligence, and suspicious activity monitoring, as well as AML compliance issues related to higher risk institutions, products, services, customers, and geographical locations.

#### *Information Technology, Cyber Fraud, and Financial Crimes*

To address the specialized nature of technology-related supervision, cyber risks, and controls in the banking industry, the FDIC routinely conducts information technology (IT) examinations at FDIC-supervised institutions. The FDIC and other banking agencies also conduct IT examinations of major technology service providers (TSPs) that support financial institutions. The result of an IT examination is a rating under the Federal Financial Institutions Examination Council (FFIEC) Uniform Rating System for Information Technology (URFIT).

In 2013, the FDIC conducted 2,323 IT and operations risk examinations at financial institutions and TSPs. Further, as part of its ongoing supervision process, the FDIC monitors significant events, such as data breaches and natural disasters that may affect financial institution operations or customers.

In addition to the FDIC's operations and technology examination program, the FDIC monitors cybersecurity issues in the banking industry on a regular basis through on-site examinations, regulatory reports, and intelligence reports. The FDIC works with groups such as the Financial and Banking Information Infrastructure Committee (FBIIC), the Financial Services Sector Coordinating Council for Critical Infrastructure Protection and Homeland Security (FSSCC), the Financial Services Information Sharing and Analysis Center (FS-ISAC), other regulatory agencies, law enforcement and others to share information regarding emerging issues and coordinate responses.

Throughout 2013, FDIC staff participated in workshops, sponsored by the National Institute of Standards and Technology (NIST), to develop the Cybersecurity Framework required by Executive Order 13636. The goal of the workshops was to create the initial body of standards, guidelines, best practices, tools, and procedures that will be used to populate the first draft of the Cybersecurity

Framework. Also, the FDIC has actively engaged through the FBIIC to participate in interagency discussions associated with various elements of the Executive Order.

Other major accomplishments during 2013 to promote IT security and combat cyber fraud and other financial crimes included the following:

- ◆ Held a Financial Crimes Conference for staff that focused on all types of financial fraud, and how the law enforcement community and regulators can effectively respond. The conference was co-sponsored by the U.S. Department of Justice and held in June 2013.
- ◆ Coordinated a nationwide video conference about distributed denial of service (DDoS) attacks with the FBI, financial regulatory agencies, large financial institutions, U.S. Treasury Department, and representatives from the largest technology service providers. There were over 300 participants in 35 field offices.
- ◆ Published a *Consumer News* article about using technology to manage personal finances in the Spring 2013 edition.
- ◆ Published a *Supervisory Insights* article on “The Evolution of Bank Information Technology Examinations” in the Summer 2013 edition.
- ◆ Hosted the FFIEC IT Examiners Conference that addressed technology and operational issues facing the federal financial regulatory agencies.
- ◆ Assisted financial institutions in identifying and shutting down “phishing” Websites that attempt to fraudulently obtain and use an individual’s confidential personal or financial information.
- ◆ Issued a Consumer Alert pertaining to emails fraudulently claiming to be from the FDIC.

### *Minority Depository Institution Activities*

The preservation of minority depository institutions (MDIs) remains a high priority for the FDIC. In June 2013, the FDIC hosted the 2013 Interagency Minority Depository Institution and Community Development Financial Institution Bank Conference. Every two years, the FDIC, the Office of the Comptroller of the Currency (OCC), and the FRB host this important interagency conference for FDIC-insured MDIs to help preserve and promote their

mission. The 2013 conference explored “Strategies for Success through Collaboration,” and encouraged interactive discussion among those who believe MDIs and Community Development Financial Institutions (CDFI) are uniquely positioned to create positive change in their communities. Nearly 120 MDI and CDFI bankers, representing 77 banks, attended.

In December 2012, the FDIC initiated a research-based study on MDIs. The study, conducted in earnest in 2013, sought to better understand the role MDIs play in our financial system and in our communities. It also addressed the types of challenges MDIs face in the post-crisis environment. The study followed a methodology similar to that used in the FDIC’s 2012 Community Banking Study, dividing institutions into groups of “community banks” and “non-community banks.” The study focused on structural changes in MDIs; their geography; the financial performance of MDIs over time; capital formation; and the broader community impact of these institutions. The FDIC anticipates that the study will be published in early 2014.

The FDIC continued to seek ways to improve communication and interaction with MDIs and to respond to the concerns of minority bankers. Many MDIs took advantage of FDIC technical assistance on nearly 60 bank supervision, compliance, and resolution and receivership topics, including, but not limited to, the following:

- ◆ Corporate Governance.
- ◆ New Capital Rules.
- ◆ Capital Stress Testing.
- ◆ New Mortgage Rules.
- ◆ Loan Underwriting and Administration.
- ◆ Troubled Debt Restructuring.
- ◆ Investment Policy and Investment Securities Monitoring.
- ◆ Funds Management.
- ◆ Interest Rate Risk Modeling/Stress Testing.
- ◆ Third-Party Risk.
- ◆ Internal Audit Programs.
- ◆ Information Technology Risk Assessment, Strategic Planning and Business Continuity Planning.

- ◆ Home Mortgage Disclosure Act.
- ◆ Community Reinvestment Act.
- ◆ Bank Secrecy Act and Anti-Money Laundering.
- ◆ Branch Opening and Closing Requirements.
- ◆ Mergers/Acquisition.
- ◆ Prompt Corrective Action.
- ◆ FDIC Loss Share Agreements.

The FDIC continued to offer the benefit of having an examiner or a member of regional office management return to FDIC-supervised MDIs from 90 to 120 days after an examination, to provide technical assistance to management regarding examination recommendations, or to discuss other issues of interest. Several MDIs took advantage of this initiative in 2013. Also, the FDIC regional offices held outreach training efforts and educational programs for MDIs through conference calls and banker roundtables. Topics of discussion for these sessions included both compliance and risk management matters. Additional discussions included the economy, overall banking conditions, Basel III capital rules, new mortgage rules, and other bank examination issues.

### *Capital Rulemaking and Guidance*

In July 2013, the FDIC acted on two important regulatory capital rulemakings. First, the FDIC joined the FRB and OCC in issuing rulemakings that significantly revise and strengthen risk-based capital regulations through implementation of the Basel III international accord (Basel III rulemaking). Second, these agencies also issued an NPR that would strengthen leverage capital requirements for the eight largest U.S. bank holding companies and their insured banks.

### *Basel III Rulemaking*

The Basel III rulemaking adopts with revisions the notices of proposed rulemaking (NPRs) that the banking agencies proposed in June 2012 regarding the Basel Committee on Banking Supervision capital framework, the standardized approach for risk-weighted assets, and the advanced approaches for risk-based capital. The rule strengthens the definition of regulatory capital, increases risk-based capital requirements, and makes selected changes to

the calculation of risk-weighted assets. It introduces a capital conservation buffer that, if breached, would trigger limitations on a bank's capital distributions and certain other discretionary payments. The rule also incorporates standards of creditworthiness other than external credit ratings, consistent with the Dodd-Frank Act, and establishes due diligence requirements for securitization exposures.

Banking organizations subject to the advanced approaches risk-based capital rule also must meet a 3 percent supplementary leverage ratio requirement and a countercyclical capital buffer. Additionally, several enhancements to the advanced approaches risk-based capital rule are included in the rule to incorporate aspects of Basel III, as well as requirements introduced by the Basel Committee on Banking Supervision in the "Enhancements to the Basel II Framework" (2009 Enhancements).

The rule significantly changes aspects of the NPRs to address a number of community bank comments. Specifically, unlike the NPR, the rule retains the current risk-weighting approach for residential mortgages. It allows for an opt-out from the regulatory capital recognition of accumulated other comprehensive income (AOCI), except for large banking organizations that are subject to the advanced approaches capital requirements. Finally, the FRB has adopted the grandfathering provisions of Section 171 of the Dodd-Frank Act for trust preferred securities issued by smaller bank holding companies.

The rule becomes effective January 1, 2015, for banking organizations not subject to the advanced approaches risk-based capital rule. For banking organizations that are subject to the advanced approaches capital requirements, the effective date is January 1, 2014. For all banking organizations, the interim final rule includes a phase-in period for certain aspects of the rule including the new capital ratios and adjustments to and deductions from regulatory capital.

### *Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and their Subsidiary Insured Depository Institutions*

In July 2013, the federal banking agencies issued an NPR that would raise the supplementary leverage requirements for the largest, most systemically important banking organizations and their subsidiary insured depository

institutions (IDIs). The new requirements would apply to the largest, most interconnected banking organizations with at least \$700 billion in total consolidated assets at the top-tier bank holding company or at least \$10 trillion in assets under custody [covered Bank Holding Companies (BHCs)] and any IDI subsidiary of these bank holding companies (covered IDIs). For covered IDIs, the proposed rule would establish a supplementary leverage ratio of 6 percent as a “well-capitalized” threshold for prompt corrective action. For covered BHCs, the proposed rule establishes a capital conservation buffer composed of tier 1 capital of 2 percent of total leverage exposure; therefore, these BHCs would need to maintain a supplementary leverage ratio of 5 percent to avoid restrictions on capital distributions.

The Enhanced Supplementary Leverage Ratio NPR was published in the *Federal Register* on August 20, 2013, and the comment period ended October 21, 2013. The FDIC is reviewing public comments and is working with the other federal banking agencies to develop a final rule.

### *Regulatory Reporting Under the Interim Final Capital Rule*

In August 2013, the FDIC and the other federal banking agencies issued for comment the first stage of proposed revisions to the Consolidated Reports of Condition and Income (Call Report), which would align the regulatory capital components and ratios portion of the regulatory capital schedule with the Basel III revised regulatory capital definitions. The agencies also proposed to make similar changes to the Federal Financial Institutions Examination Council - FFIEC 101 regulatory capital report for advanced approaches institutions and to revise nine risk-weighted assets schedules in this report consistent with the revised advanced approaches regulatory capital rules. These proposed regulatory capital reporting changes would take effect as of the March 31, 2014, report date for advanced approaches banking organizations. The Call Report revisions would be applicable to all other institutions as of March 31, 2015. The second stage of Call Report revisions would update the risk-weighted assets portion of the regulatory capital schedule to reflect the standardized approach to risk weighting in the Basel III final

rules effective as of the March 31, 2015, report date. The risk-weighted assets reporting proposal is expected to be published for comment in 2014.

### *Stress Testing Guidance*

In July 2013, the FDIC, along with the other federal banking agencies, issued guidance that outlines high-level principles for implementation of Section 165(i) (2) of the Dodd-Frank Act stress tests for companies with \$10 billion to \$50 billion in consolidated assets.

The guidance discusses supervisory expectations for the Dodd-Frank Act stress test practices and offers additional details about methodologies that should be employed by these companies. It also underscores the importance of stress testing as an ongoing risk management practice that supports a company’s forward-looking assessment of its risks and better equips the company to address a range of macroeconomic and financial outcomes.

The comment period on this joint proposed guidance ended on September 25, 2013, and the final guidance is being developed.

### *Other Rulemaking and Guidance under the Dodd-Frank Act*

The Dodd-Frank Act required various agencies to establish goals for the completion of rules and/or policy guidance on several topics. Although these goals were not included in the FDIC’s 2013 Annual Performance Plan, rules and guidance on these various topics were finalized or progressed in 2013. These topics include:

- ◆ Proprietary trading and other investment restrictions (often referred to as the “Volcker Rule”).
- ◆ Credit risk retention requirements for securitizations.
- ◆ Appraisal requirements for higher-priced mortgages.
- ◆ Examination standards for the classification and appraisal of securities.
- ◆ Capital, margin, and other requirements for over-the-counter (OTC) derivatives.
- ◆ Mortgage rules.



### *Volcker Rule*

On December 10, 2013, the FDIC, along with the other federal banking agencies, the Commodities Futures Trading Commission (CFTC), and the Securities and Exchange Commission (SEC), approved a joint final rule to implement the provisions of Section 619 of the Dodd-Frank Act, also known as the “Volcker Rule.” The Volcker Rule, which added new Section 13 to the BHC Act, generally prohibits any banking entity from engaging in proprietary trading or acquiring or retaining an interest in, sponsoring, or having certain relationships with, a hedge fund or private equity fund, subject to certain exemptions.

Based on comments received after issuance of the final rule, the agencies issued a joint interim final rule with request for comment on January 14, 2014, to permit banking entities to retain interests in and sponsorship of certain collateralized debt obligations backed primarily by trust preferred securities issued by community banks. Under the final rule, these investments would have met the definition of “covered funds” and would have been subject to investment prohibitions. The agencies also released a non-exclusive list of qualified collateralized debt obligations backed primarily by trust preferred securities to help banks determine compliance with the new interim final rule.

The final rule becomes effective April 1, 2014; the interim final rule would take effect on the same date. The FRB extended the conformance period until July 21, 2015. In the final rule, the agencies tailored the compliance program for banking entities engaged in covered activities based on asset size and amounts in trading assets and liabilities, and provided a phase-in of reporting of quantitative measures for covered trading activities. Beginning June 30, 2014, banking entities with \$50 billion or more in consolidated trading assets and liabilities will be required to report quantitative measurements. Banking entities with at least \$25 billion, but less than \$50 billion, in consolidated trading assets and liabilities will become subject to this requirement on April 30, 2016. Those banking entities with at least \$10 billion, but less than \$25 billion, in consolidated trading assets and liabilities will become subject to the requirement on December 31, 2016. The agencies will review the data collected prior to September 30, 2015, and revise the collection requirement as appropriate. For ease

of reference, the FDIC maintains a page on its Website dedicated to information on the Volcker Rule.

### *Credit Risk Retention for Securitizations*

In August 2013, the FDIC, jointly with the OCC, the FRB, the Department of Housing and Urban Development (HUD), the SEC, and the Federal Housing Finance Agency (FHFA), approved an NPR to implement the securitization credit risk retention provisions of Section 941 of the Dodd-Frank Act (Section 941), which added Section 15G to the Securities and Exchange Act of 1934. This was the second NPR to implement that provision. Section 15G generally requires securitizers of asset-backed securities (ABS) to retain not less than 5 percent of the credit risk of assets collateralizing ABS issuances and generally prohibits a securitizer from directly or indirectly hedging or otherwise transferring the credit risk the securitizer is required to retain. Similar to the prior NPR, the current NPR provides the sponsors of ABSs with various options for meeting the risk retention requirements. As required by the Dodd-Frank Act, the proposed rule defines a “qualified residential mortgage” (QRM), that is, a mortgage which is statutorily exempt from risk retention requirements. The NPR would align the definition of QRM with the definition of “qualified mortgage” (QM) as prescribed by the Consumer Financial Protection Bureau (CFPB) in 2013 and asked for comment on an alternative definition. In addition, the proposed rule would: provide an exemption for securitizations solely collateralized by commercial mortgages, commercial real estate loans, or automobile loans, if such loans meet certain underwriting standards; and provide various securitization structure-specific risk retention options. The public comment period ended on October 30, 2013, and comments are under review.

### *Appraisal Requirements for Higher-Priced Mortgages*

In January 2013, the FDIC, jointly with the OCC, FRB, National Credit Union Administration (NCUA), FHFA, and CFPB, issued the final rule that establishes new appraisal requirements for higher-priced mortgage loans. Under the Dodd-Frank Act, mortgage loans are higher-priced if they are secured by a consumer’s home and have interest rates above certain thresholds. The final rule became effective on January 18, 2014.

In July 2013, the FDIC, along with the OCC, FRB, NCUA, FHFA, and CFPB, issued a proposed rule that would create exemptions from certain appraisal requirements for a subset of higher-priced mortgage loans. The comment period ended on September 9, 2013. The rule was finalized in December 2013 and is effective January 18, 2014. The final rule provides that the following three types of higher-priced mortgage loans would be exempt from the Dodd-Frank Act appraisal requirements: loans of \$25,000 or less; certain “streamlined” refinancings; and certain loans secured by manufactured housing.

### *Uniform Agreement on the Classification and Appraisal of Securities Held by Financial Institutions*

In October 2013, the FDIC issued interagency guidance with the OCC and the FRB that revised examination standards for the adverse classification of securities held in bank investment portfolios. The guidance reiterates the importance of a robust investment analysis process and the agencies’ longstanding asset classification definitions. It also addresses Section 939A of the Dodd-Frank Act, which directed the agencies to remove any reference to, or requirement of reliance on, credit ratings in regulations and replace them with appropriate standards of creditworthiness. State nonmember institutions are expected to perform an investment security creditworthiness assessment that does not rely solely on external credit ratings. FDIC examiners will use the statement to determine whether an asset should be adversely classified during supervisory reviews.

### *Over-The-Counter Derivatives*

The U.S. regulators, including the FDIC, in their capacity as members of the Basel Committee on Banking Supervision, negotiated with international regulators to develop international standards that will be used to implement the margin requirements for uncleared OTC derivatives. The international convergence document was published in early September 2013, and U.S. rulemaking activities are continuing.

### *Mortgage Rules*

In January 2013, the CFPB issued, after required consultation with the FDIC and the other financial


regulatory agencies, a number of final rules to implement various provisions of the Mortgage Reform and Anti-Predatory Lending Act, i.e., Title XIV of the Dodd-Frank Act. Key areas of the new rules include: (1) determining a consumer’s ability to repay and the qualified mortgage safe harbor; (2) loan originator compensation; (3) mortgage loan servicing; (4) new escrow requirements; (5) new requirements and expanded coverage under the Home Ownership and Equity Protection Act (HOEPA); (6) new requirements under the Equal Credit Opportunity Act (ECOA); and (7) implementing Regulation B. In addition, the CFPB issued or proposed several supplemental rules during 2013 to clarify certain aspects of many of the rules. To ensure examiner preparedness and to assist FDIC-supervised institutions in their compliance planning for this significant overhaul of mortgage regulation, throughout 2013, the FDIC worked extensively to develop and issue training materials for its examiners in advance of January 2014, when the rules generally were effective. The FDIC also hosted a series of banker outreach calls, providing overviews of the new rules and answering questions, in collaboration with the CFPB.

On December 13, 2013, the FDIC, along with the OCC, FRB, and NCUA, issued a statement to clarify safety-and-soundness expectations and CRA considerations for regulated institutions engaged in residential mortgage lending in light of the CFPB’s Ability-to-Repay and Qualified Mortgage (QM) Standards Rule, which was issued January 10, 2013, and was effective on January 10, 2014. The agencies recognize that many institutions may originate both QM and non-QM residential mortgage loans, based on the institution’s business strategy and risk appetite. The agencies will not subject a residential mortgage loan to regulatory criticism based solely on the loan’s status as a QM or a non-QM.

### *Liquidity and Funds Management Rulemaking and Guidance*

#### *Liquidity Coverage Ratio*

In October 2013, the FDIC, together with the OCC and the FRB, issued an interagency proposed rule to implement the Liquidity Coverage Ratio (LCR). The proposed rule would implement a quantitative liquidity requirement consistent with the LCR established by the Basel Committee



on Banking Supervision. The requirement would apply to large, internationally active banking organizations and their consolidated subsidiary depository institutions with \$10 billion or more in total consolidated assets. The proposal requires banks to hold a minimum level of liquid assets to support contingent liquidity events and provides a standard way of expressing a bank's on-balance sheet liquidity position to stakeholders and supervisors. The proposal establishes a transition schedule that is more accelerated than the Basel standard as it would require covered companies to fully meet the minimum LCR by January 1, 2017, two years earlier than Basel requires.

The LCR proposal was published in the *Federal Register* on November 29, 2013, and comments were due by January 31, 2014.

#### *Depositor and Consumer Protection Rulemaking and Guidance*

##### *Guidance on Social Media*

In December 2013, the FFIEC, on behalf of its members (the FDIC, CFPB, FRB, NCUA, OCC, and State Liaison Committee), issued final supervisory guidance on the applicability of consumer protection and compliance laws, regulations, and policies to activities conducted via social media by banks, savings associations, and credit unions, as well as nonbank entities supervised by the CFPB and state regulators. The final guidance is intended to help financial institutions understand and manage the potential consumer compliance, legal, reputation, and operational risks associated with the use of social media. It provides considerations that financial institutions may find useful in conducting risk assessments and crafting and evaluating policies and procedures regarding social media.

##### *Revisions to Interagency Questions and Answers Regarding Community Reinvestment*

In November 2013, the FDIC, FRB, and OCC published revisions to "Interagency Questions and Answers Regarding Community Reinvestment." The Questions and Answers document provides additional guidance to financial institutions and the public on the agencies' CRA regulations. The revisions focus primarily on community development.

##### *Guidance on Reporting Financial Abuse of Older Adults*

In September 2013, the FDIC, CFPB, CFTC, Federal Trade Commission (FTC), NCUA, OCC, and SEC issued guidance to clarify that the privacy provisions of the Gramm-Leach-Bliley Act generally permit financial institutions to report suspected elder financial abuse to appropriate authorities. The Act generally requires that a financial institution notify consumers and give them an opportunity to opt out before providing nonpublic personal information to a third party. The guidance clarifies that it is generally acceptable under the law for financial institutions to report suspected elder financial abuse to appropriate local, state, or federal agencies.

##### *Other Rulemaking and Guidance Issued*

During 2013, the FDIC issued and participated in the issuance of other rulemaking and guidance in several areas as described below.

##### *Guidance on Deposit Advance Products*

In November 2013, the FDIC published supervisory guidance to FDIC-supervised financial institutions that offer or may consider offering deposit advance products. The guidance is intended to ensure that banks are aware of a variety of safety and soundness, compliance, and consumer protection risks posed by deposit advance loans. It supplements the FDIC's existing guidance on payday loans and subprime lending, and encourages banks to respond to customers' small-dollar credit needs.

##### *FDIC Supervisory Approach to Payment Processing Relationships with Merchant Customers That Engage in Higher-Risk Activities*

In September 2013, the FDIC issued guidance clarifying its policy and supervisory approach related to facilitating payment processing services directly, or indirectly through a third party, for merchant customers engaged in higher-risk activities. Facilitating payment processing for these types of merchant customers can pose risks to financial institutions; however, those that properly manage these relationships and risks are neither prohibited nor discouraged from providing payment processing services to customers operating in compliance with applicable law.

### *Modifications to the Statement of Policy for Section 19 of the Federal Deposit Insurance Act*

On February 8, 2013, the FDIC modified the Statement of Policy for Section 19 of the Federal Deposit Insurance Act. Section 19 of the Act prohibits, without prior written consent of the FDIC, a person convicted of a criminal offense involving dishonesty, breach of trust, money laundering, or who has entered into a pretrial diversion program, from participating in the affairs of an FDIC-insured institution. The updated Statement of Policy included modifications to the de minimis exceptions regarding the potential fine and the number of days of imprisonment. These modifications to the de minimis criteria are expected to reduce the number of Section 19 applications and regulatory burden, consistent with safety and soundness.

### *Recordkeeping and Confirmation Requirements for Securities Transactions*

On September 4, 2013, the FDIC published an NPR regarding the removal of Part 390, Subpart K (formerly OTS Part 551), which governs recordkeeping and confirmation requirements for securities transactions effected for customers by state savings associations. The FDIC carefully reviewed Part 390, Subpart K, and compared it with Part 344, a substantially identical FDIC regulation governing recordkeeping and confirmation requirements for securities transactions effected for customers by state nonmember banks. Although the two rules are substantively the same, one difference between Part 390, Subpart K and Part 344 concerned the number of securities transactions that could be effected by an IDI without triggering certain reporting and confirmation requirements (Small Transaction Exception). The threshold for Part 390, Subpart K's Small Transaction Exception is an average of 500 or fewer transactions over the prior three calendar year period. The NPR proposed amending Part 344 to increase the threshold for the Small Transaction Exception applicable to all FDIC-supervised institutions effecting securities transactions for customers from an average of 200 transactions to 500 transactions per calendar year over the prior three calendar year period. The FDIC supports the idea that increasing the number of securities transactions to which the Small Transaction Exception would apply will ensure parity for all FDIC-supervised institutions. Increasing the threshold

for the Small Transaction Exception also recognizes that the securities activities of FDIC-supervised depository institutions have increased over the three decades since the FDIC established the original scope of the Small Transaction Exception. The comment period for the NPR ended on November 4, 2013, with no comments having been received. Consequently, on December 10, 2013, the FDIC issued a final rule as proposed in the NPR without change; the Final Rule was effective January 21, 2014.

### *Guidance on Interest Rate Risk Management*

In October 2013, the FDIC issued a Financial Institution Letter (FIL) reiterating expectations for institutions to prudently manage their interest rate risk exposure, particularly in a challenging interest rate environment. The guidance reminds institutions that interest rate risk management should be viewed as an ongoing process that requires effective measurement and monitoring, clear communication of modeling results, conformance with policy limits, and appropriate steps to mitigate risk. The guidance states that a number of institutions report a significantly liability-sensitive balance sheet position, which means that in a rising interest rate environment, the potential exists for adverse effects to net income and, in turn, earnings performance. Additionally, for a number of FDIC-supervised institutions, the potential exists for material securities depreciation relative to capital in a rising interest rate environment.


### *Advisory on Mandatory Clearing Requirements for Over-the-Counter Interest Rate and Credit Default Swap Contracts*

On June 7, 2013, the FDIC completed a supervisory advisory on mandatory clearing requirements for over-the-counter interest rate and credit default swap contracts. This guidance was issued as an advisory because the requirements are Commodity Futures Trading Commission regulations that could impact FDIC-supervised institutions.

### *Qualified and Non-Qualified Mortgage Loans*

On December 13, 2013, the FDIC, along with the OCC, FRB, and NCUA, issued a statement to clarify safety- and soundness expectations and CRA considerations for regulated institutions engaged in residential mortgage lending in light of the CFPB's Ability-to-Repay and Qualified





Mortgage (QM) Standards Rule, which was issued January 10, 2013, and was effective on January 10, 2014. The agencies recognize that many institutions may originate both QM and non-QM residential mortgage loans, based on the institution's business strategy and risk appetite. The agencies will not subject a residential mortgage loan to regulatory criticism based solely on the loan's status as a QM or a non-QM.

#### *Interagency Guidance on Leveraged Lending*

On March 26, 2012, the FDIC and the other federal banking agencies proposed revisions to the 2001 interagency guidance on leveraged financing. The proposal's purpose was to update the existing guidance and clarify regulatory expectations in light of significant growth in the leveraged lending market, and incorporate lessons learned from the recent financial crisis. The proposal describes expectations for the sound risk management of leveraged lending activities, including well-defined underwriting standards, effective management information systems, a prudent credit limit and concentration framework, and strong pipeline management policies. In March 2013, the OCC, the FRB, and the FDIC issued final guidance on leveraged lending. This guidance outlined for agency-supervised institutions high-level principles related to safe-and-sound leveraged lending activities, including expectations for the content of credit policies, the need for well-defined underwriting and valuation standards, and the importance of credit analytics and pipeline management. This guidance was effective on March 22, 2013.

#### *Director and Officer Liability Insurance Policies*

On October 12, 2013, the FDIC issued an Advisory Statement on Director and Officer Liability Insurance Policies, Exclusions, and Indemnification for Civil Money Penalties. The advisory discusses the importance of thoroughly reviewing and understanding the risks associated with coverage exclusions contained in director and officer liability insurance policies and serves as a reminder that an insured depository institution or depository institution holding company may not purchase an insurance policy that would indemnify institution-affiliated parties (IAPs) for CMPs assessed against them. Even if the IAP agrees to reimburse the depository

institution for the cost of such coverage, the purchase of the insurance policy by the depository institution is prohibited.

#### *Interagency Supervisory Guidance on Troubled Debt Restructurings*

On October 24, 2013, the FDIC and the other federal financial institution regulatory agencies jointly issued supervisory guidance clarifying certain issues related to the accounting treatment and regulatory classification of commercial and residential real estate loans that have undergone troubled debt restructurings (TDRs). The agencies' guidance reiterates key aspects of previously issued guidance and discusses the definition of a collateral-dependent loan and the classification and charge-off treatment for impaired loans, including TDRs. It also encourages institutions to work constructively with borrowers and reaffirms that the agencies view prudent loan modifications as positive actions when they mitigate credit risk. The guidance explains that when modified loans are determined to be TDRs for accounting purposes, the TDR label does not mean that the loan is automatically required to be in nonaccrual status, or to be adversely classified, for its remaining life.

#### *Income Tax Allocation in a Holding Company Structure*

In December 2013, the FDIC and the other federal banking agencies issued for comment a proposed Addendum to the 1998 Interagency Policy Statement on Income Tax Allocation in a Holding Company Structure. Since the beginning of the financial crisis, many disputes have occurred between holding companies in bankruptcy and failed IDIs regarding the ownership of tax refunds generated by the IDIs. Certain court decisions have found that holding companies in bankruptcy own tax refunds created by failed IDIs based on language in their tax-sharing agreements that the courts interpreted as creating a debtor-creditor relationship as opposed to acknowledging an agency relationship. The proposed Addendum seeks to remedy this problem by requiring IDIs to clarify that their tax sharing agreements acknowledge that an agency relationship exists between the holding company and its subsidiary IDI with respect to tax refunds, and provides a sample paragraph to accomplish this goal. The proposed Addendum would also

clarify how certain requirements of Sections 23A and 23B of the Federal Reserve Act apply to tax allocation agreements between IDIs and their affiliates. The comment period closed on January 21, 2014.

### *Regulatory Relief*

During 2013, the FDIC issued six FILs that provide guidance to help financial institutions and facilitate recovery in areas damaged by wildfires and other natural disasters. In these FILs, 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.

On February 19, 2013, FDIC-supervised institutions were informed that they could begin submitting interagency bank merger applications, notices of change in control, and notices of change of director or senior executive officer through *FDICconnect*, a secure transaction-based Website for FDIC-insured institutions.

On July 25, 2013, the FDIC issued, jointly with the other federal banking agencies, a *Statement to Encourage Financial Institutions to Work with Student Loan Borrowers Experiencing Financial Difficulties*. In addition, on October 9, 2013, the FDIC along with other federal regulatory agencies issued a *Statement to Encourage Institutions to Work with Borrowers Affected by Government Shutdown*.

### *Banker Teleconferences*

In 2013, the FDIC hosted a series of banker teleconferences to maintain open lines of communication and update supervised institutions about related rulemakings, guidance, and emerging issues in risk management supervision, and compliance and consumer protection. Participants of the teleconferences included bank directors, officers, staff, and other banking industry professionals.

For the risk management supervision series, four teleconferences were held in 2013. The topics discussed included: (1) the Financial Accounting Standards Board's proposal to change the accounting for credit losses, (2) leveraged lending guidance, (3) the interim final capital rule, and (4) emerging technology issues for banks and servicers.

For the compliance and consumer protection series, five teleconferences were held in 2013. The topics discussed included: (1) the CFPB's final rules on the ability to repay, qualified mortgage standards, escrow requirements, and the loan originator compensation requirements involving the prohibition on mandatory arbitration clauses and single premium credit insurance, (2) the CFPB's final rules on mortgage servicing, (3) the CFPB's final rules on loan originator compensation and changes to the HOEPA, (4) consumer complaints and their role in institutions' compliance management systems; and 5) the FFIEC social media guidance.

### *Promoting Economic Inclusion*

The FDIC is strongly committed to promoting consumer access to a broad array of banking products to meet consumer financial needs. To promote financial access to responsible and sustainable products offered by IDIs, the FDIC:

- ◆ Conducts research on the unbanked and underbanked.
- ◆ Engages in research and development on models of products meeting the needs of lower-income consumers.
- ◆ Supports partnerships to promote consumer access and use of banking services.
- ◆ Advances financial education and literacy.
- ◆ 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 focused on expanding access to banking services to underserved populations. This may include reviewing basic retail financial services such as check cashing, money orders, remittances, stored value cards, small-dollar loans, savings accounts, and other services that promote individual asset accumulation and financial stability. During 2013, the Committee met in May and October to discuss savings initiatives; Safe Accounts, including bank prepaid cards, and mobile financial services. During the October meeting, staff presented to the Committee a plan for producing a white paper on IDIs' use of mobile financial services (MFS) to better serve the



*Chairman Gruenberg emphasizes a point during the May 2013 ComE-IN meeting.*

unbanked and underbanked. The presentation outlined three goals for the use of this technology: access to the banking system for the unbanked, sustainability for the underbanked or new entrants to the system, and growth of consumers' ability to deepen banking relationships and fulfill financial goals.

*FDIC National Survey of Unbanked and Underbanked Households and Survey of Banks' Efforts to Serve the Unbanked and Underbanked*

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 (Reform Act) mandates that the FDIC regularly report on banks' efforts to bring individuals and families into the conventional finance system. In response, the FDIC regularly conducts and reports on surveys of households and banks to inform the efforts of financial institutions, policymakers, regulators, researchers, academics, and others.

During 2013, the FDIC revised the household survey instrument and conducted the third nationwide survey in partnership with the U.S. Census Bureau. The survey focuses on basic checking and savings account ownership, but it also explores households' use of alternative financial services to better understand the extent to which families are meeting their financial needs outside of mainstream financial institutions. Results of the survey will be published in 2014.

The FDIC's planned initiation of work on a new survey of banks about their efforts to serve unbanked and underbanked customers was delayed until 2014. During 2013, the FDIC explored alternative methods for gathering this information from banks, including the possible incorporation of this data collection into a larger survey of banks on the challenges and opportunities they are facing (an outgrowth of the FDIC's Community Banking Initiative).

*Partnership to Promote Consumer Access: Alliance for Economic Inclusion*

The goal of the FDIC's Alliance for Economic Inclusion (AEI) initiative is to collaborate with financial institutions; community organizations; local, state, and federal agencies; and other partners in select markets, to launch broad-based coalitions to bring unbanked and underbanked consumers and owners of small businesses into the financial mainstream.

During 2013, the FDIC supported 16 AEI programs across the nation. Many AEIs formed committees and work groups to address specific challenges and financial services needs of their communities. These included retail financial series for underserved populations, savings initiatives, affordable remittance products, small-dollar loan programs, targeted financial education programs, and other asset-building programs.

In 2012, the FDIC launched AEI initiatives in two additional markets: the Appalachian region of West Virginia and Northeastern Oklahoma. In 2013, these new efforts expanded focus in two particular areas of need: small business and tribal organizations. The West Virginia AEI, working in collaboration with the Appalachian Regional Commission, collaborates with state-wide and local service providers to support financial access for small business and



microenterprise in the state. The AEI partners hosted three Small Business Resource Summits in Wheeling, Huntington, and Fairmont to provide resources and educational opportunities to the small business community. The Northeast Oklahoma AEI (NEOK AEI) serves a significant Native American community as well as the City of Tulsa, Oklahoma. Oklahoma has a larger Native American population than any state other than California, and about 60 percent of the state's Native Americans lives in the northeastern quadrant. In 2013, the NEOK AEI initiated work to support consumers interested in improving their credit profile and worked with *America Saves* in supporting the first Oklahoma Saves campaign.

The FDIC also provided program guidance and technical assistance in the expansion of 52 *Bank On* programs. *Bank On* initiatives are designed to reduce barriers to banking and increase access to the financial mainstream.

### *Advancing Financial Education*


The FDIC expanded its financial education efforts during 2013 through a strategy that included providing access to timely and high-quality financial education products, sharing best practices, and working through partnerships to reach consumers.

The existing suite of *Money Smart* products for consumers was enhanced with the release of *Money Smart for Older Adults* in partnership with the CFPB. This stand-alone training module developed by both agencies provides information to raise awareness among older adults (age 62 and older) and their caregivers on how to prevent, identify, and respond to elder financial exploitation, plan for a secure financial future, and make informed financial decisions. The instructor-led module offers practical information that can be implemented immediately. *Money Smart for Older Adults* is designed to be delivered by representatives of



*A group of dedicated individuals within both the FDIC and the CFPB joined forces to deliver a new product designed to help older Americans make informed financial decisions and avoid exploitation. Members of the FDIC team, shown here from left, are Cassandra Duhaney, Debra Stabile, Irma Matias, Lekeshia Frasure, Luke Reynolds, Ron Jauregui, James Williams, Evelyn Manley, and Glenn Gimble.*





financial institutions, adult protective service agencies, senior advocacy organizations, law enforcement, and others that serve this population. Between its release on June 12, 2013, and December 31, 2013, more than 15,000 copies were released.

Through training and technical assistance, the FDIC emphasizes the importance of pairing education with access to appropriate banking products and services. The FDIC conducted more than 173 outreach events to promote the *Money Smart* program, including 68 train-the-trainer workshops with approximately 1,200 participants. More than 35,000 *Money Smart* instructor-led curriculum copies were distributed, and more than 50,000 people used the computer-based curriculum, exemplifying effective results from the outreach sessions. The FDIC also entered into 23 new collaborative agreements with financial institutions and nonprofit organizations, to facilitate the use of the *Money Smart* program.

A series of webinars for bankers on community development and economic inclusion topics were piloted during 2013. Five webinars were conducted during 2013 and each averaged more than 400 participants.

### *Leading Community Development*

In 2013, the FDIC provided professional guidance and technical assistance to banks and community organizations in outreach activities and events designed to foster an understanding and connection between financial institutions and other community stakeholders. As such, the FDIC conducted 49 community development forums linking bank and community partners to facilitate opportunities for banks and community stakeholders to address community credit and development needs, including interagency resource forums with the OCC and the Federal Reserve Banks and other stakeholders in the recovery efforts of communities in the Northeast impacted by Superstorm Sandy. The FDIC also conducted 50 CRA roundtables that provided market-specific training for bankers and 32 workshops for nonprofit stakeholders on CRA, effectively engaging with financial institutions to promote community development.

### *Community Banking Initiatives*

The FDIC is the lead federal regulator for the majority of community banks, and the insurer of all. As such, the FDIC has an ongoing responsibility to better understand the challenges facing community banks, and to share that knowledge with bankers and the general public. Community banks play a crucial role in the American financial system. These institutions account for about 14 percent of the banking assets in our nation, but they provide nearly 46 percent of all the small loans that FDIC-insured depository institutions make to businesses and farms. They also hold the majority of industry deposits in banking offices located in rural counties and micropolitan counties with populations up to 50,000.

In 2012, the FDIC issued a comprehensive study of the evolution of community banking in the United States over the past 25 years, and commenced a review of its examination, rulemaking, and guidance processes with a goal of identifying ways to make the supervisory process more efficient, consistent, and transparent. Our 2012 activities under this initiative included a national conference on the Future of Community Banking and a series of roundtables with community bankers in each of the FDIC's six regions.

These efforts under the Community Banking Initiative continued on a number of fronts in 2013. First, the results of the 2012 *FDIC Community Banking Study* were presented to a range of industry and academic audiences, furthering our dialogue with key stakeholder groups as to the trends that are shaping this key sector of our financial system. Using our research definition of the community bank, we published updated community bank reference data on [fdic.gov](http://fdic.gov) to reflect year-end 2012 data. Employing these data, our researchers found that community banks experienced a significant decline in problem loans, loan loss provisions, and failures during 2012, while they expanded their loan portfolios and were more profitable than in any year since 2007.

FDIC researchers applied the analytical framework developed for our Community Banking Study to the case of MDIs. While MDIs represent a fairly small share of banking industry charters and assets, they were found to be highly

effective in reaching the minority and low- and moderate-income communities that they have been chartered to serve. Preliminary research results were presented in June at the 2013 Interagency Minority Depository Institution and CDFI Bank Conference, and a written report is forthcoming.

Ongoing research topics include the effects of rural depopulation on community banks and the contribution of community banks to small business lending. In October 2013, FDIC researchers presented a paper entitled “Do Community Banks Increase New Firms’ Access to Credit?” at the “Community Banking in the 21st Century,” conference co-sponsored by the FRB and the Conference of State Bank Supervisors (CSBS). These and other research initiatives will continue in 2014.

The FDIC also has continued and enhanced its examination and rulemaking review. Based on feedback received at community banker roundtables and our ongoing review of the FDIC’s bank examination process, the FDIC implemented enhancements to our supervisory and rulemaking processes in 2013. The FDIC developed a Web-based tool to tailor information requests for risk management examinations to the characteristics of the institution being examined. As a result, information requests have generally been shorter than previous examination request lists. In addition, more business transactions have been made available through *FDICconnect*, a secure, transactions-based Website, which ensures better access for bankers and supervisory staff.


The FDIC also has enhanced its efforts to actively communicate with the institutions it supervises. The FDIC developed an information package to be sent to the institution prior to the start of the pre-examination phase of compliance examinations to improve communication with the field manager and to offer resources that are available to the institution at any time throughout the examination process. The FDIC has also developed a brochure for community bankers entitled “Technical Assistance for Managing Consumer Compliance Responsibilities,” highlighting ways in which examiners can provide assistance to community banks.

The *Directors’ Resource Center*, a special section of the FDIC’s Website, is dedicated to providing useful information to bank directors, officers, and employees on areas of



*FDIC staff look at video monitors of the set during filming of the bank director videos. From left: Lou Bervid, Rob Moss, Vince Moore, and Arnie Kunkler.*

supervisory focus and regulatory changes. One key element of this resource center is a Technical Assistance Video Program. Three series of videos were released during 2013. The first series is the new director education videos; these videos cover director responsibilities and fiduciary duties as well as the FDIC examination process. The second series is a virtual version of the FDIC’s Directors’ College Program; these videos address interest rate risk, third-party risk, the CRA, the BSA, corporate governance, and information technology. The third series of videos provides more in-depth technical training on a variety of issues, including interest rate risk, appraisals and evaluations, flood insurance, the evaluation of municipal securities, fair lending, the allowance for loan and lease losses, and troubled debt restructurings.



The FDIC's Website also has a section dedicated to the Regulatory Capital Interim Final Rule. This section contains links to the rule, pertinent FILs, instructions for regulatory reporting, and other items. The FDIC conducted comprehensive outreach to community banks to inform them about the new requirements. Several resources targeted to community institutions include an educational video, an interagency community bank guide, and an expanded guide for FDIC-supervised institutions. The FDIC also responds to questions submitted to [regulatorycapital@fdic.gov](mailto:regulatorycapital@fdic.gov), a dedicated mailbox for questions on the new rule. Additionally, to supplement the online informational resources, staff hosted outreach sessions in each regional office to discuss the new requirements and address bankers' questions and concerns. On August 15, 2013, staff held a national conference call that had wide participation from bankers as well as FDIC supervisory and examination team members, with nearly 1,700 lines used for the call. In November 2013, the FDIC, with the other federal banking agencies, released an estimation tool to help community bankers evaluate the potential effects on their capital ratios from the revised capital approaches.

In addition, the FDIC's Advisory Committee on Community Banking continued to provide timely information and input to the FDIC on a variety of community bank policy and operational issues throughout 2013. The Committee held three meetings in 2013 and provided input on a number of key issues and initiatives, including the FDIC's community bank study and report, community bank outreach and technical assistance, proposed improvements to the FDIC's regulatory and supervisory processes, mobile banking issues, payment system developments and implications, information technology examination issues, vendor management issues, troubled debt restructuring guidance, the Uniform Agreement on Classification and Appraisal of Securities, bank cybersecurity issues, the *Money Smart* for Small Businesses Program, flood insurance issues, the interagency social media guidance, as well as the potential effects of various regulatory and legislative developments on community banks.

Looking forward, the FDIC will continue to make community bank issues a high priority by following up on the Community Banking Study; pursuing additional

research relating to the continued viability of community banks; and continuing our review of examination and rulemaking processes with the goal of identifying additional ways to make the supervisory process more efficient, consistent, and transparent, consistent with safe and sound banking practices. The FDIC will also be commencing a comprehensive review of all of its regulations, as required by the Economic Growth and Regulatory Paperwork Reduction Act, to identify any regulations that are outdated, unnecessary or unduly burdensome, with a focus on community banking issues.

### *Consumer Complaints and Inquiries*

The FDIC assists 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 to 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 Product and Issue*

The FDIC receives complaints and inquiries by telephone, fax, mail, email, and online through the FDIC's Website. Between January 1, 2013, and December 31, 2013, the FDIC handled 16,887 written and telephone complaints and inquiries. Of this total, 8,271 related to FDIC-supervised institutions. The FDIC responded to over 97 percent of these 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 collaboratively 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 products and issues involved in complaints about FDIC-supervised institutions. The number of complaints received about a specific bank product and issue can serve as a red flag to prompt further review of practices that may raise consumer protection or supervisory concerns.

Between January 1, 2013, and December 31, 2013, the five most frequently identified consumer product complaints about FDIC-supervised institutions concerned checking accounts (18 percent), unsecured credit cards (15 percent), residential real estate loans (14 percent), bank operations (9 percent), and business and commercial loans (7 percent). The issues most commonly cited in checking account complaints related to banks' overdraft fees and service charges. Unsecured credit card complaints most frequently described billing disputes and error resolution. The largest share of complaints about residential real estate loans related to loan modifications, while business and commercial loan complaints usually involved repossession and foreclosure. Many complaints regarding bank operations raised issues about bank management and staff.

The FDIC investigated 80 complaints alleging discrimination between January 1, 2013, and December 31, 2013. The number of discrimination complaints investigated has fluctuated over the past several years but averaged approximately 104 complaints per year between 2007 and 2013. Over this period, 37 percent of these complaints investigated alleged discrimination based on the race, color, national origin, or ethnicity of the applicant or borrower. Twenty-five percent related to discrimination allegations based on age, 8 percent involved the sex of the borrower or applicant, and 3 percent concerned a handicap or disability.

Consumer refunds generally involve the financial institution offering a voluntary credit to the consumer's account that is often a direct result of complaint investigations and identification of a banking error or violation of law. Between January 1, 2013, and December 31, 2013, consumers received a total of nearly \$5.6 million in refunds from financial institutions as a result of the FDIC's consumer response program.

### *Public Awareness of Deposit Insurance Coverage*

The FDIC provides a significant amount of education for consumers and the banking industry on the rules for 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 program consisting of seminars for bankers, electronic tools for estimating deposit insurance coverage, and written and electronic information targeted to both bankers and consumers.

The FDIC continued its efforts to educate bankers and consumers about the rules and requirements for FDIC insurance coverage. As of December 31, 2013, the FDIC conducted 15 telephone seminars for bankers on deposit insurance coverage, reaching an estimated 28,000 bankers participating at approximately 8,000 bank locations throughout the country. The FDIC also updated its deposit insurance coverage publications and educational tools for consumers and bankers, including brochures, resource guides, videos, and the Electronic Deposit Insurance Estimator (EDIE).


As of December 31, 2013, the FDIC received and answered approximately 94,677 telephone deposit insurance-related inquiries from consumers and bankers. The FDIC Call Center addressed 44,541 of these inquiries, and deposit insurance coverage subject-matter experts handled the other 50,136. In addition to telephone inquiries about deposit insurance coverage, the FDIC received 2,499 written inquiries from consumers and bankers. Of these inquiries, 99 percent received responses within two weeks, as required by corporate policy.

### *Center for Financial Research*

The Center for Financial Research (CFR) was founded by the FDIC in 2004 to encourage and support innovative research on topics that are important to the FDIC's role as deposit insurer and bank supervisor. During 2013, the CFR co-sponsored two major research conferences.

The CFR organized and sponsored the 23rd Annual Derivatives Securities and Risk Management Conference jointly with Cornell University's Johnson Graduate School





of Management and the University of Houston's Bauer College of Business. The conference was held in March 2013 at the FDIC's Seidman Center and attracted over 100 researchers from around the world. Conference presentations included credit default swap markets, term structure and credit risk, credit and contagion risk, and commodity markets.

The CFR also organized and sponsored the 13th Annual Bank Research Conference jointly with the *Journal for Financial Services Research* (JFSR), in October 2013. The conference was attended by more than 120 participants and included over 20 presentations on topics related to global banking, financial stability, and the financial crisis.

## RESOLUTIONS AND RECEIVERSHIPS

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. Upon closure of an institution, typically by its chartering authority—the state for state-chartered institutions and the Office of the Comptroller of the Currency (OCC) for national banks and federal savings associations—the FDIC is appointed receiver and is responsible for resolving the failed institution.

The FDIC uses a variety of business practices to resolve a failed institution. These practices are typically associated with either the resolution process or the receivership process. Depending on the characteristics of the institution, the FDIC may recommend 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 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 smoothly as possible. There are three basic resolution methods used by the FDIC: purchase and assumption

transactions, deposit payoffs, and Deposit Insurance National Bank (DINB) assumptions.

The purchase and assumption (P&A) transaction is the most commonly used resolution method. In a P&A transaction, a healthy institution purchases certain assets and assumes certain liabilities of the failed institution. A variety of P&A transactions can be used. Since each failing bank situation is different, P&A transactions provide flexibility to structure deals that result in the highest value for the failed institution. For each possible P&A transaction, the acquirer may either acquire all or only the insured portion of the deposits. Loss sharing may be offered by the receiver in connection with a P&A transaction. In a loss-share transaction, the FDIC as receiver agrees to share losses on certain assets with the acquirer. The FDIC usually agrees to absorb a significant portion (for example, 80 percent) of future losses on assets that have been designated as “shared loss assets” for a specific period of time (for example, five to ten years). The economic rationale for these transactions is that keeping shared loss assets in the banking sector can produce a better net recovery than the FDIC's immediate liquidation of these assets.

Deposit payoffs are only executed if a bid for a P&A transaction is more costly to the DIF than liquidation or if no bids are received, in which case the FDIC, in its corporate capacity, makes sure that the customers of the failed institution receive the full amount of their insured deposits.

The Federal Deposit Insurance Act authorizes the FDIC to establish a DINB to assume the insured deposits of a failed bank. A DINB is a new national bank with limited life and powers that allows failed-bank customers a brief period of time to move their deposit account(s) to other insured institutions. Though infrequently used, a DINB allows for a failed bank to be liquidated in an orderly fashion, minimizing disruption to local communities and financial markets.

The receivership process involves performing the closing functions at the failed institution, liquidating any remaining failed institution assets, and distributing any proceeds of the liquidation to the FDIC and other creditors of the receivership. In its role as receiver, the FDIC has used a wide variety of strategies and tools to manage and sell

retained assets. These include, but are not limited to, asset sale and/or management agreements, structured transactions, and securitizations.

### Financial Institution Failures

During 2013, there were 24 institution failures, compared to 51 failures in 2012. For the institutions that failed, the FDIC successfully contacted all known qualified and interested bidders to market these institutions. The FDIC also made insured funds available to all depositors within one business day of the failure if it occurred on a Friday, and within two business days if the failure occurred on any other day of the week. 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 last three years.

FAILURE ACTIVITY 2011–2013 Dollars in Billions			
	2013	2012	2011
Total Institutions	24	51	92
Total Assets of Failed Institutions <sup>1</sup>	\$6.0	\$11.6	\$34.9
Total Deposits of Failed Institutions <sup>1</sup>	\$5.1	\$11.0	\$31.1
Estimated Loss to the DIF <sup>2</sup>	\$1.2	\$2.8	\$7.6

<sup>1</sup> Total assets and total deposits data are based on the last Call Report or Thrift Financial Report (TFR) filed by the institution prior to failure.

<sup>2</sup> Estimated DIF losses from 2011 and 2012 failures are updated as of December 31, 2013.

### Asset Management and Sales

As part of its resolution process, the FDIC makes every effort to sell as many assets as possible to an assuming institution. Assets that are retained by the receivership are evaluated. For 95 percent of the failed institutions, at least 90 percent of the book value of marketable assets is marketed for sale within 90 days of an institution's failure for cash sales and within 120 days for structured sales.

Structured sales for 2013 totaled \$199 million in unpaid principal balances from commercial real estate and acquisition, development, and construction assets acquired from various receiverships. Cash sales of assets for the year totaled \$260 million in book value. In addition to structured and cash sales, the FDIC also uses securitizations to dispose

of bank assets. In 2013, securitization sales totaled \$954 million.

As a result of our marketing and collection efforts, the book value of assets in inventory decreased by \$5.7 billion (34 percent) in 2013. The following chart shows the beginning and ending balances of these assets by asset type.

ASSETS IN INVENTORY BY ASSET TYPE Dollars in Millions		
Asset Type	12/31/13	12/31/12
Securities	\$893	\$1,179
Consumer Loans	69	99
Commercial Loans	274	604
Real Estate Mortgages	954	1,265
Other Assets/Judgments	1,145	1,134
Owned Assets	365	417
Net Investments in Subsidiaries	117	179
Structured and Securitized Assets	7,487	12,120
<b>Total</b>	<b>\$11,304</b>	<b>\$16,997</b>

### Receivership Management Activities

The FDIC, as receiver, manages failed banks and 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. Once the assets of a failed institution have been sold and the final distribution of any proceeds is made, the FDIC terminates the receivership. In 2013, the number of receiverships under management increased by 3 percent, as a result of new failures. The following chart shows overall receivership activity for the FDIC in 2013.

RECEIVERSHIP ACTIVITY	
Active Receiverships as of 12/31/12 <sup>1</sup>	466
New Receiverships	24
Receiverships Terminated	10
Active Receiverships as of 12/31/13 <sup>1</sup>	480

<sup>1</sup> Includes one FSLIC Resolution Fund receivership at year-end 2013.



### *Minority and Women Outreach*

The FDIC relies on contractors to help meet its mission. During 2013, the FDIC has awarded 995 contracts. Of these, 282 contracts (28 percent) were awarded to minority- and women-owned businesses (MWOBs). The total value of contracts awarded in 2013 was \$573 million, of which \$199 million (35 percent) was awarded to MWOBs, compared to 30 percent for all of 2012. In 2013, the FDIC paid \$141 million of its total contract payments (25 percent) to MWOBs. Engagements of minority and women-owned law firms (MWOLFs) were 18 percent of all legal engagements for 2013, with total payments of \$13 million going to MWOLFs (13 percent) of all payments to outside counsel, compared to 13 percent for all of 2012.

In 2013, the FDIC participated in a combined total of 25 business expos, one-on-one matchmaking sessions, and panel presentations. Dissemination of information and responses to inquiries regarding FDIC business opportunities for minorities and women took place at these sessions. 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 possible upcoming solicitations. Vendors were also encouraged to register with the FDIC's Contractors Resource List (a principal database for vendors interested in doing business with the FDIC).

The FDIC participated in trade events where information was provided to MWOLFs about opportunities for legal representation and how to enter into co-counsel arrangements with majority law firms. In addition to attending nine bar association conferences during 2013, the FDIC presented a training workshop for MWOLFs entitled "Anatomy of a Bank Closing" to provide firms with ideas for marketing their services to FDIC in-house attorneys following the resolution of a financial institution. This workshop was presented at events sponsored by the National Association of Minority and Women Owned Law Firms (NAMWOLF) affinity group. These events were well-attended and received with great enthusiasm. The FDIC continues to explore new opportunities to partner with NAMWOLF.

The FDIC also conducted a series of outreach events to raise awareness, and provide information on how to purchase Owned Real Estate (ORE) through the FDIC's Owned Assets Marketplace and Auctions program. These events also facilitated interaction between smaller investors and asset managers, which includes minority and women-owned (MWO) firms. These included three informational sessions with 95 participants, and several workshops/webinars targeting small investors and MWO investors in the southeast.

In 2013, the FDIC's Office of Minority and Women Inclusion (OMWI) participated with other Dodd-Frank Act agency OMWIs in drafting an interagency policy statement for assessing the diversity policies and practices of entities regulated by their agencies. The proposed statement was posted for comments in the *Federal Register* on October 25, 2013. The comment period was extended 45 days and ended on February 7, 2014. The FDIC will continue efforts in 2014 to fully implement Section 342 of the Dodd-Frank Act.

In 2014, the FDIC will continue to encourage and foster diversity and inclusion of minorities and women in its business, procurement activities and outside counsel engagements, and MWO investors, as well as promote strong commitment to diversity inclusion within its workforce and with all financial institutions and law firms that do business with the FDIC.

### *Protecting Insured Depositors*

The FDIC's ability to attract healthy institutions to assume deposits and purchase assets of failed banks and savings associations at the time of failure minimizes the disruption to customers and allows assets to be returned to the private sector immediately. Assets remaining after resolution are liquidated by the FDIC in an orderly manner, and the proceeds are used to pay creditors, including depositors whose accounts exceeded the insurance limit. During 2013, the FDIC paid dividends of \$7 million to depositors whose accounts exceeded the insurance limit.

### *Professional Liability and Financial Crimes Recoveries*

FDIC staff works to identify potential claims against directors, officers, fidelity bond insurance carriers, appraisers, attorneys, accountants, mortgage loan brokers,

title insurance companies, securities underwriters, securities issuers, and other professionals who may have contributed to the failure of an IDI. Once a claim is determined to be meritorious and cost-effective to pursue, the FDIC initiates legal action against the appropriate parties. During 2013, the FDIC recovered more than \$674 million from professional liability claims and settlements. The FDIC also authorized lawsuits related to 42 failed institutions against 316 individuals for director and officer liability and authorized 10 other lawsuits for fidelity bond, liability insurance, attorney malpractice, appraiser malpractice, and securities law violations for residential mortgage-backed securities. Eighty-three residential mortgage malpractice and fraud lawsuits were pending as of year-end 2013. Also, by year-end 2013, the FDIC's caseload included 119 professional liability lawsuits (up from 95 at year-end 2012) and 796 open investigations (down from 1,343 at year-end 2012).

In addition, as part of the sentencing process for those convicted of criminal wrongdoing against institutions 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, collected \$8.4 million from criminal restitution and forfeiture orders through year-end 2013. As of year-end 2013, there were 4,073 active restitution and forfeiture orders (down from 4,860 at year-end 2012). This includes 126 orders held by the FSLIC Resolution Fund orders, (i.e., orders arising out of failed financial institutions that were in receivership or conservatorship by the Federal Savings and Loan Insurance Corporation or the Resolution Trust Corporation).

### *International Outreach*

Throughout 2013, the FDIC played a leading role among international standard-setting, regulatory, supervisory, and multi-lateral organizations by supporting the global development of effective deposit insurance and bank supervision systems, maintaining public confidence and financial stability, and promoting effective resolution regimes as integral components of the financial safety net. Among the key institutions the FDIC collaborated with were the Association of Supervisors of Banks of the Americas (ASBA), the Basel Committee on Banking Supervision

(BCBS), the European Forum of Deposit Insurers, the Financial Stability Board (FSB), the Financial Stability Institute (FSI), the International Association of Deposit Insurers (IADI), the International Monetary Fund (IMF), and the World Bank.

Key to the international collaboration was the ongoing dialogue among FDIC Chairman Martin J. Gruenberg, other senior FDIC leaders, and a number of policymakers and senior financial regulators from the United Kingdom (U.K.) about the implementation of the Dodd-Frank Act, Basel III, and how changes in U.S., U.K., and European Union (EU) financial regulations affect global information sharing, crisis management, and recovery and resolution activities. In light of the large number of cross-border operations of large, complex financial institutions, the primary areas of discussion and collaboration were the FDIC's OLA under Title II of the Dodd-Frank Act, and the importance of cross-border coordination in the event a SIFI begins to experience financial distress. In addition, FDIC leadership was engaged in numerous consultations with EU policymakers on creating a Banking Union in Europe to encompass bank supervision, resolution, and deposit insurance.

During 2013, the FDIC participated in both Governors and Heads of Supervision and BCBS meetings. The FDIC supported work streams, task forces, and policy development group meetings to participate in BCBS work on a variety of topics. The FDIC assisted in several quantitative analyses conducted by the BCBS, including those with respect to the leverage ratio and liquidity standards. Additionally, the FDIC participated in BCBS initiatives related to topics including comparability and simplicity within the Basel Accord, standards implementation, accounting, external audits, review of the trading book, capital planning, liquidity standards, and credit ratings and securitizations.

### *International Association of Deposit Insurers (IADI)*

Since its founding in 2002, IADI has grown from 26 founding members to 71 deposit insurers from 69 jurisdictions. IADI contributes to the security of individual depositors and global financial stability and is recognized as the standard-setting body for deposit insurance by all the major public international financial institutions, including the FSB, the





Group of 20 (G-20), the BCBS, the IMF, and the World Bank. Chairman Gruenberg served as the President of IADI and the Chair of its Executive Council from November 2007 to October 2012. FDIC Vice Chairman Thomas Hoenig currently serves on IADI's Executive Council.

Under the FDIC's leadership, IADI has made significant progress in advancing the 2009 IADI and BCBS *Core Principles for Effective Deposit Insurance Systems (Core Principles)*. In February 2011, the FSB approved the *Core Principles* and the *Core Principles Assessment Methodology* for inclusion in its Compendium of Key Standards for Sound Financial Systems. During 2013, an IADI Steering Committee led by the FDIC and the Canada Deposit Insurance Corporation was established to review and update the *Core Principles*. The Steering Committee plans to submit a revised document to the FSB in July 2014. To-date, IADI has trained over 250 staff members from over 70 jurisdictions in conducting self-assessments for compliance with the *Core Principles*.

The *Core Principles* are officially recognized by both the IMF and World Bank and are now accepted for use in their Financial Sector Assessment Program (FSAP). This represents an important milestone in the acceptance of the role of effective systems of deposit insurance in maintaining financial stability. The FDIC has also worked with senior officials at the World Bank and IMF, and formalized IADI collaboration and support of the deposit insurance review portion of the FSAP reviews. This support includes the provision of FDIC member-experts for IMF/World Bank FSAP Review Teams and the on-going training of additional IADI experts for subsequent FSAP missions. *Core Principles* regional workshops, training sessions, self-assessment reviews and Steering Committee meetings were held in Istanbul, Turkey; Manila, Philippines; Basel, Switzerland; Warsaw, Poland; Buenos Aires, Argentina; and Mumbai, India during 2013. In addition, the FDIC hosted the IADI executive training seminar, "Claims Management: Reimbursement to Insured Depositors" July 16-18, 2013, at the Seidman Center in Arlington, Virginia. Fifty-three people from 31 jurisdictions participated in the seminar.

The FDIC continued its global role in supporting the development of effective deposit insurance and banking supervision systems through the provision of training, consultations, and briefings to foreign bank supervisors,

deposit insurance authorities, international financial institutions, partner U.S. agencies, and other governmental officials. Many of these consultations were multi-day study tours that enabled delegations to receive in-depth advice on a wide range of deposit insurance issues. Officials from the European Commission, the Ukraine Deposit Guarantee Fund, the Malaysian Deposit Insurance Corporation, the Philippine Deposit Insurance Corporation, the Bank of Thailand, and the Central Bank of Kenya benefited from these extended consultations.

#### *Association of Supervisors of Banks of the Americas (ASBA)*

The FDIC has been a member of ASBA since its founding in 1999 and supports ASBA's mission of promoting sound banking supervision and regulation throughout the Western Hemisphere. In recognition of the FDIC's enduring leadership in ASBA, the General Assembly elected FDIC Director of Risk Management Supervision Sandra Thompson to serve a two-year term as Vice Chairman of ASBA in November 2011, a position she held until her departure from the FDIC in early 2013. In this capacity, Director Thompson presided over meetings of the Training and Technical Cooperation Committee, the General Assembly, and the ASBA board.

To assist ASBA in promoting capacity- and leadership-building in the Americas, the FDIC currently chairs the Association's Training and Technical Cooperation Committee, and led two ASBA technical assistance training missions in 2013, including Financial Institution Analysis in Panama City, Panama, and Anti-Money Laundering in Santo Domingo, Dominican Republic. The FDIC continued to provide subject-matter experts as instructors and speakers to support ASBA-sponsored training programs, seminars, and conferences.

In support of building institutional leadership, the FDIC hosted its second Secondment Program in the spring of 2013, designed to demonstrate how the FDIC has successfully implemented best international bank supervisory practices into its Risk Management and Supervision programs. Three ASBA members, representing bank supervisory agencies from the National Commission of Banks and Insurances of Honduras; the Bank of Jamaica; and the Superintendent of Banking, Insurance, and Private

Pension Funds Administrators of Peru, participated in this intensive eight-week study tour at the various policy and operational levels within the FDIC at headquarters, a regional office, and a field office.

In addition, to promote and influence sound bank supervision policy, and the adoption of international best practices, the FDIC actively participates in Research and Guidance Working Groups sponsored by ASBA, including those on Corporate Governance, Enterprise Risk Management, and Anti-Money Laundering and Combating the Financing of Terrorism.

### *Foreign Visitors Program*

The FDIC's international efforts supporting the development of effective deposit insurance systems, bank supervisory practices, and bank resolution regimes continued to grow in 2013. FDIC management and staff met with 533 individuals, representing over 39 jurisdictions during the year.

Discussions with European authorities were an important focus of the FDIC's international efforts this year. Senior management and subject-matter experts provided advice and consultation on a number of major European initiatives, including the Single Supervisory mechanism, the proposed bank recovery and resolution directive, and the directive on deposit guarantee schemes.

Questions about the FDIC's expanded authorities under the Dodd-Frank Act continued to be a common area of intense interest, with particular focus on how the FDIC would resolve a SIFI with cross-border operations. Other major topics discussed include the FDIC's management of the DIF, offsite monitoring methodologies, and corporate training programs.

During 2013, the FDIC provided subject-matter experts to participate in seven FSI seminars around the world. The topics included resolution planning, liquidity risk, stress testing, bank resolution, SIFI resolution, and supervising SIFIs. Additionally, 204 individuals representing over 16 jurisdictions attended training programs offered through the FDIC's Corporate University.

The FDIC made major strides in strengthening its relationships with Chinese authorities in 2013. The 5th U.S.-China Strategic and Economic Dialogue was held in Washington, D.C. in July. U.S. Treasury Secretary

Jacob Lew and Chinese Vice Premier Wang Qishan led the Economic Track discussions. FDIC Chairman Martin Gruenberg participated in the meetings alongside a high-level delegation of Cabinet members, ministers, agency heads, and senior officials from both countries. Chairman Gruenberg discussed the importance of a well-developed deposit insurance framework and bank resolution regime for financial stability. In October 2013, Chairman Gruenberg visited China to meet with Chinese officials to discuss effective deposit insurance and bank resolution systems, and how the FDIC expects to resolve U.S. SIFIs under the OLA of the Dodd-Frank Act. While there, Chairman Gruenberg signed an MOU with the People's Bank of China (PBOC) designed to extend their effective international working relationship in the areas of deposit insurance and resolution. The purpose of the MOU is to develop and expand the interaction between the FDIC and the PBOC and to demonstrate a shared commitment to cooperation among banking agencies. The MOU also seeks to enhance cooperation in analyzing cross-border financial institution recovery and resolution issues, and planning for potential recovery and resolution scenarios, including appropriate simulations, contingency planning, and other work designed to improve preparations to manage troubled institutions with operations in the United States and the People's Republic of China. In November 2013, a senior government delegation which included representatives from the Chinese State Council, visited the FDIC for a series of discussions with FDIC management, subject-matter experts, and academics about the operations of the FDIC, the benefits of an effective deposit insurance system and bank resolution regime, and advice on China's plans to implement a deposit insurance system.

### *Financial Services Volunteer Corps (FSVC)*

The FDIC placed two staff members on long-term assignments with the FSVC during 2013 as part of a continuing written agreement between the two organizations. FDIC personnel provided a variety of consulting and training services focused on risk management supervision in Angola, Egypt, and Tanzania. SME credit analysis, credit risk ratings, corporate governance best practices, risk management organization and policy, and financial education teaching aids were among the projects completed for the benefit of central



banks, training institutes, financial business associations, and commercial banking organizations. Over the past several years, the FDIC has assisted the FSVC with a wide variety of programs and projects funded in large part by the U.S. Agency for International Development to help strengthen regulatory frameworks and banking systems in developing countries.

## 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. Major accomplishments in improving the FDIC's operational efficiency and effectiveness during 2013 follow.

### *Human Capital Management*

The FDIC's human capital management programs are designed to recruit, develop, reward, and retain a highly skilled, cross-trained, diverse, and results-oriented workforce. In 2013, FDIC workforce planning initiatives shifted emphasis to restructuring the portion of the workforce that will address the requirements of Dodd-Frank, especially as it relates to the oversight of SIFIs. Workforce planning also more acutely addressed the need to start winding down bank closure activities, based on the decrease in the number of financial institution failures and institutions in at-risk categories.

### *Strategic Workforce Planning and Readiness*

In August 2010, the FDIC established its Office of Complex Financial Institutions (OCFI) in response to the requirements of the Dodd-Frank Act to supervise and be prepared to resolve SIFIs. In 2011 and 2012, the FDIC recruited complex financial institution specialists who had developed their skills in other public and private sector organizations to staff the risk management supervision section of the OCFI and redeployed current FDIC employees with the requisite skills from other parts of the agency. In 2013, the FDIC reorganized these staff from

the supervision section of OCFI into the Division of Risk Management Supervision (RMS), where the vast majority of bank supervisory expertise resides. This allows the FDIC to integrate all financial institution risk supervision into one organization that can deploy and train staff as needed for both SIFIs and smaller banks. It also allows OCFI to concentrate on policy and rule development as we continue to implement Dodd-Frank.

In 2013, the FDIC also addressed workforce planning at several levels within the agency. Given the number of senior executives in key leadership positions who are, or in the next few years will become, eligible to retire from the federal government, in 2013 the FDIC embarked on a succession planning effort focused on the Division and Office Director level. The FDIC is defining the attributes, skills, and experience needed in each of these positions, drafting a plan for developing these attributes and skills in executive managers at the next lower levels, and identifying potential candidates at those levels.

In addition, as the number of financial institution failures continued to decline in 2013, the FDIC's workforce planning efforts turned to determining the staffing needs of the agency during "normal" times and beginning to release some of the temporary staff as their term appointments expire. Although post-closure activity often continues for five to seven years after a bank fails, that activity should slow considerably over the next few years. The FDIC is in the process of extending term appointments only for the most critical staff still needed to monitor and process those actions. The FDIC is also filling vacancies for permanent staff, principally from among the ranks of these experienced term employees.

Finally, in 2013, the FDIC also refined its processes for implementing its "Pathways Programs" as a source of entry-level employees to maintain a fully-trained staff. By utilizing the intern program and the recent graduates program, as well as the normal hiring process, the FDIC has been able to recruit a well-educated and highly skilled workforce that can successfully complete the rigorous three- to four-year training program that leads to a commission as a bank examiner or resolutions specialist. By maintaining a steady pipeline of new examiner trainees, the FDIC intends to keep its future workforce in a steady state of readiness.

The FDIC utilizes the Corporate Employee Program (CEP) to sponsor the development of newly hired Financial Institution Specialists (FISs) for entry-level positions. The Program encompasses major FDIC divisions where newly hired FISs are trained to become a highly effective workforce. During their first year rotation within the Program, FISs gain experience and knowledge in the Division of Depositor and Consumer Protection (DCP), the Division of Risk Management Supervision (RMS), the Division of Resolutions and Receiverships (DRR), and the Division of Insurance and Research (DIR). At the conclusion of this rotation period, FISs are placed within RMS, DCP, or DRR, where they continue their career path to become commissioned examiners or resolutions and receiverships specialists.

The Corporate Employee Program is an essential part of the FDIC's ability to provide continual cross-divisional staff mobility. As a result, the FDIC is capable of responding rapidly to shifting priorities and changes in workload while achieving its corporate mission. Since the CEP's inception in 2005, 1,254 individuals have joined the FDIC through this multi-discipline program and approximately 540 have become commissioned examiners after successfully completing the program's requirements.

The FDIC also continues to sponsor the Financial Management Scholars Program (FMSP) that was launched in May 2011 as an additional hiring source for CEP. Participants in the FMSP are summer interns who have completed their junior year of college. The level of FMSP participants increased significantly in 2012 and 2013. This program allows the FDIC to recruit and hire highly talented and well-qualified students into the CEP earlier than the agency has been able to in the past, and serves as an additional venue to recruit talent. For 2014, the FDIC will continue to augment its workforce by fully utilizing the capacity of the CEP, including the FMSP.

### *Employee Learning and Development*

The FDIC provides its employees with a broad array of learning and development opportunities throughout their career to grow both in technical proficiency and leadership capacity, supporting career progression and succession management. In 2013, the FDIC focused on developing and

implementing comprehensive curricula for its business lines to incorporate lessons learned from the financial crisis and prepare employees to meet new challenges. Such training, which includes both classroom and online instruction for maximum flexibility, is a critical part of workforce and succession planning as more experienced employees become eligible for retirement.

The FDIC also offers a holistic leadership development program that combines core courses, electives, and other enrichment opportunities to develop employees at all levels. From new employees to new managers, the FDIC provides employees with targeted leadership development opportunities that are aligned with key leadership competencies. The FDIC is also expanding the use of strategic simulations within its leadership development program to support corporate readiness and preparedness.

In addition to extensive internally developed and administered courses, the FDIC also offers its employees with funds and/or time to participate in external offerings in support of their career development. The FDIC offers learning and development opportunities in support of the FDIC mission for employees at all levels and stages of their career. In 2013, FDIC employees completed approximately 39,000 sessions in the classroom and online, through internal and external courses.

### *Continuity of Operations*

In accordance with guidance in Executive Order 12656, Assignment of Emergency Preparedness Responsibilities; National Security Presidential Directive-51/Homeland Security Presidential Directive-20, National Continuity Policy; and other pertinent Federal Executive Branch continuity guidance, in 2013, the FDIC implemented a new Continuity of Operations Plan that addresses two central priorities:

- ◆ Reduce the potential for loss of life and safeguard the FDIC workforce.
- ◆ Minimize and mitigate disruptions to FDIC operations to enable continuous performance of essential FDIC functions.

The FDIC's Continuity of Operations Plan meets these central priorities by:



- ◆ Ensuring continuity facilities are prepared to carry out essential actions.
- ◆ Facilitating succession to key positions by enunciating clear policies and procedures.
- ◆ Identifying, safeguarding, and ensuring the availability of all essential records that support FDIC essential functions.
- ◆ Protecting facilities, equipment, essential records, and other assets.
- ◆ Facilitating a timely and orderly transition from emergency operations to ordinary operations and resumption of full service to the public.
- ◆ Ensuring and validating readiness through an effective continuity test, training, and exercise program.

As a result of these efforts, the FDIC has the enhanced ability to maintain a comprehensive and effective continuity capability to support the preservation of our form of government under the Constitution and the continuing performance of Nation Essential Functions under all conditions.

### *Corporate Risk Management*

During 2013, the Office of Corporate Risk Management (OCRM) worked with Divisions and Offices to develop common agency-wide processes for identifying, managing, and mitigating risks to the FDIC. The Office supported both the Enterprise Risk Committee and the Executive Management Committee in reviewing material risks across the FDIC, including:

- ◆ Risks to the financial system posed by the current very low level of interest rates, and from the potential disruptions which could arise from sudden and sharp increases in rates.
- ◆ Risks to the deposit insurance system arising from new products and services with characteristics very different from traditional time and demand deposits.
- ◆ Risks posed by the analytical models used by both the financial services industry and the FDIC in identifying and managing risk.

- ◆ Internal operational risks associated with both large-scale IT system development efforts and smaller-scale IT applications developed by individual Divisions and Offices.
- ◆ Coordination risks arising from new organizational units created to manage the range of new functions assigned to the FDIC by the Dodd-Frank Act.
- ◆ Risks posed to the FDIC and to the financial services industry by concerted attempts to penetrate, compromise, and disrupt the information systems that are essential to effective operation.

### *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. In December 2013, the FDIC received an award from the Partnership for Public Service for being



*Chairman Martin J. Gruenberg and Arleas Upton Kea, Director of the Division of Administration, accept the award from Max Stier, President and CEO of the Partnership for Public Service.*

ranked number one among mid-sized federal agencies on the *Best Places to Work in the Federal Government*<sup>®</sup> list. 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's Workplace Excellence (WE) Program played an important role in helping the FDIC achieve this ranking. The WE Program is composed of a national-level WE Steering Committee and Division/Office WE Councils that are focused on maintaining, enhancing, and institutionalizing a positive workplace environment throughout the FDIC. In addition to the WE Program, the FDIC-NTEU Labor-Management Forum serves as a mechanism for the union and employees to have pre-decisional input on workplace matters. The WE Program and Labor Management Forum enhances communication, provides additional opportunities for employee input and engagement, and improves employee empowerment.

### *Information Technology Management*

The FDIC continues to heavily leverage Information Technology (IT) to achieve its mission and has improved both the structure of IT leadership and the protection of sensitive digital information from cyber threats in 2013.

### *IT Leadership Structural Changes*

Because the importance of digital information to FDIC operations continues to grow, an assessment of IT leadership structure was completed, and corresponding improvements were implemented. First, the assessment concluded that the requirements of the Chief Information Officer (CIO) role have grown to require a full-time incumbent in addition to a full time incumbent in the role of IT division director. The new CIO role, which reports directly to the Chairman, was separated from the IT division director role and is responsible for strategic alignment of IT resources to securely produce objectively measurable business value. The IT division director, in turn, reports to the CIO and manages IT operations and development. Second, the assessment concluded that the information security and privacy functions continue to grow in importance and warranted separation under the CIO from

the IT division. Both of these changes will help to elevate and integrate IT and information security management commensurate with their increasing importance in achieving the FDIC's mission.

### *Sensitive Digital Information Protection*

The FDIC continued to enhance its security posture under a new cross-divisional leadership team to combat the increased number and sophistication of security threats. Several specific projects were completed during the year including an independent assessment of the FDIC's IT security, employee training improvements, and the introduction of simulation exercises to routinely identify potential enhancements to the FDIC security profile.

An independent assessment of the FDIC's IT security was completed and improvements were initiated in response to the assessment's findings. The assessment confirmed the overall high quality of the FDIC's security mechanisms but also identified refinements that could be efficiently implemented, ranging from improvements to access controls to enhancements of incident monitoring tools. Several of the recommendations have already been implemented and the remainder will be completed in 2014.

The new cross-divisional leadership team has also overseen improvements to employee security training during the year. Specifically, better monitoring of employee completion of general security training was implemented and exercises to help employees identify fraudulent emails were increased. Also, educational presentations to the leadership team were completed throughout the year to raise awareness and understanding of types of threats and preventative measures, both at the FDIC and at financial institutions.

Simulation exercises contributed significantly to identifying areas to improve in current policy and procedure relative to varying threat scenarios. For example, in November simulations of a successful fraud perpetration on the FDIC data center were completed that helped identify needed changes to incident response procedures. These changes are now being implemented. Additional simulations are planned for 2014 and on an ongoing basis to continually evaluate the efficacy of FDIC security and privacy procedures.