I. Management's Discussion and Analysis

The Year in Review

OVERVIEW

During 2014, the FDIC continued to fulfill its mission-critical responsibilities. The FDIC adopted and issued final rules on key regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The FDIC also engaged in several community banking and community development initiatives over the past year. In addition, cybersecurity remained a high priority for the FDIC as it worked to strengthen cybersecurity oversight, help financial institutions mitigate this increasing risk, and respond to cyber threats. The sections below highlight some of our accomplishments during the year.

IMPLEMENTATION OF KEY REGULATIONS

Capital Rulemaking and Guidance

In April 2014, the FDIC adopted as final its 2013 interim final capital rule implementing the Basel III capital standards. The Basel III standards strengthen the quality and required level of regulatory capital and, for advanced approaches banks, introduce a new supplementary leverage requirement. The final rule is largely identical to the final capital rule adopted by the Office of the Comptroller of the Currency (OCC) and the Board of Governors of the Federal Reserve System (FRB) in September 2013. Also in April 2014, the FDIC and the other federal banking agencies issued a final rule that strengthens the supplementary leverage capital requirements for the eight largest U.S. bank holding companies (BHCs) and their insured banks. The enhanced leverage requirements in this rule, which are significantly higher than the 3 percent level agreed to by the Basel Committee, should contribute to the stability and resilience of these large institutions and the financial system.

Basel III Final Capital Rule

At its April 2014 meeting, the FDIC Board of Directors (FDIC Board) approved the Basel III interim final rule as a final rule with no substantive changes. The FDIC had issued the July 2013 Basel III rule as an interim final rule in order to consider comments on the enhanced supplementary leverage standards. The Basel III rule became effective January 1, 2015, for banking organizations not subject to the advanced approaches risk-based capital rule. Banking organizations that are subject to the advanced approaches capital requirements have been operating under the new capital rule since January 1, 2014. For all banking organizations, the final rule provides a phase-in period for certain aspects of the rule including the new capital ratios, the capital conservation buffer, and adjustments to and deductions from regulatory capital.

The capital conservation buffer framework provides for gradually increasing limits on capital distributions as a bank's risk-based capital ratios approach regulatory minimums. S-corporation banks have expressed concern that this framework could increase the frequency with which their shareholders face a tax liability without having received dividends. Under the final rule, banks may make a dividend exception request to their primary federal regulator (PFR), and the regulator can approve the request if warranted based on safety and soundness considerations. In July 2014, the FDIC released a Financial Institution Letter (FIL) describing the factors that will be considered for such requests from S-corporation banks. Absent significant safety and soundness concerns about the requesting bank, the FDIC generally would expect to approve exception requests by well-rated S-corporation banks that are limited to the payment of dividends to cover shareholders' taxes on their portion of an S-corporation's earnings.

Regulatory Capital–Proposed Revisions Applicable to Banking Organizations Subject to the Advanced Approaches Risk-Based Capital Rule

In November 2014, the federal banking agencies issued a notice of proposed rulemaking (NPR) regarding certain technical amendments to the advanced approaches risk-based capital rule, to enhance consistency of the U.S. capital rules with international standards for the use of the advanced approaches framework.

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

In April 2014, the federal banking agencies issued a final rule that increases the supplementary leverage requirements for the largest, most systemically important banking organizations and their subsidiary insured depository institutions (IDIs). The new requirements apply to banking organizations with at least $700 billion in total consolidated assets at the top-tier BHC or at least $10 trillion in assets under custody (covered BHCs) and any IDI subsidiary of these bank holding companies (covered IDIs). For covered IDIs, the rule establishes a supplementary leverage ratio of 6 percent as a "well-capitalized" threshold for prompt corrective action (PCA). For covered BHCs, the rule establishes a capital conservation buffer composed of tier 1 capital of 2 percent of total leverage exposure; therefore, these BHCs need to maintain a supplementary leverage ratio of 5 percent to avoid restrictions on capital distributions. These levels are in excess of the Basel III requirement of a 3 percent supplementary leverage ratio, which applies to all advanced approaches banking organizations.

Supplementary Leverage Ratio Final Rule

In September 2014, the FDIC approved an interagency final rule that implements changes to the supplementary leverage ratio calculation that were proposed in April 2014. The supplementary leverage ratio applies to all banking organizations subject to the advanced approaches risk-based capital rules, including the eight entities subject to the enhanced supplementary leverage requirements. The rule aligns the agencies' rules on the calculation of the denominator of the supplementary leverage ratio with international leverage ratio standards. Among other things, the new rule:

- Incorporates in the denominator of the ratio the effective notional amount of credit derivatives and other similar instruments under which credit protection is provided.
- Modifies the calculation of total leverage exposure for derivatives and repo-style transactions.
- Revises the credit conversion factors applied to certain off-balance sheet exposures.

The rule also establishes public disclosure requirements that are effective in March 2015. Supplementary leverage ratio capital requirements incorporating the revised denominator are effective January 1, 2018.

Regulatory Reporting Under the Final Capital Rule

In March 2014, the FDIC and the other federal banking agencies implemented the first stage of revisions to the Consolidated Reports of Condition and Income (Call Report) to align the regulatory capital components and ratios portion of the regulatory capital schedule with the Basel III revised regulatory capital definitions. The agencies also revised the Federal Financial Institutions Examination Council (FFIEC) 101 regulatory capital report for advanced approaches institutions to implement changes to the advanced approaches regulatory capital rules. These regulatory capital reporting changes took effect as of the March 31, 2014, report date for advanced approaches institutions. The Call Report revisions will be applicable to all other institutions as of the March 31, 2015, report date.

In June 2014, the FDIC and the other federal banking agencies issued for comment the second stage of revisions to the Call Report regulatory capital schedule. These revisions would update the risk-weighted assets portion of the schedule to reflect the standardized approach to risk weighting in the Basel III final rules and would take effect as of the March 31, 2015, report date. Following the publication of the proposal, the agencies conducted a banker teleconference to describe the proposed reporting changes and respond to questions. The agencies have modified the report form and instructions in response to comments and technical questions received on the proposal. Final drafts of the revised risk-weighted assets report form and instructions were made available to institutions in January 2015. Subsequently, the agencies also issued the final risk-weighted asset reporting changes for comment and submitted them to the U.S. Office of Management and Budget (OMB) for approval.

In September 2014, the FDIC and the other federal banking agencies issued for comment the proposed FFIEC 102 market risk regulatory report. This new quarterly report would collect key information from the limited number of institutions subject to the Basel III market risk capital rules on how they measure and calculate market risk under these rules. The report would take effect as of the March 31, 2015, report date. After considering technical questions received on the proposal, the agencies finalized the market risk reporting requirements in January 2015, and subsequently issued a final request for comments and submitted the new report to OMB for approval.

Stress Testing Guidance

In March 2014, the FDIC, along with the other federal banking agencies, issued final guidance that outlines high-level principles for implementing Section 165(i)(2) of the Dodd-Frank Act, which requires 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.

Since the publication of the Annual Stress Test rule in October 2012, the FDIC and other federal banking agencies have received feedback from the industry regarding the resource constraints that covered banks face at the beginning and end of the calendar year arising from competing regulatory and reporting deadlines. The FDIC and other banking agencies are aware that conducting stress testing during the last quarter of a calendar year may also make it difficult for covered banks to timely modify strategic and operational plans for the following year that address any issues identified in the company-run stress test results.

For these reasons, in November 2014, the FDIC, in coordination with the FRB and the OCC, issued a final rule that modifies the dates of the stress test cycle and the corresponding reporting and publication deadlines. The shift in testing, reporting, and disclosure dates will take place for the 2016 company-run stress test cycle and each annual cycle thereafter.

Other Rulemaking and Guidance under the Dodd-Frank Act

The Dodd-Frank Act requires various agencies to publicize regulations in a number of areas. The following is a summary of significant activity relating to the Dodd-Frank Act.

Margin and Capital Requirements for Covered Swap Entities

In September 2014, the FDIC Board approved the interagency notice of proposed rulemaking (NPR) for Margin and Capital Requirements for Covered Swap Entities. This proposed rule would implement certain requirements contained in Sections 731 and 764 of the Dodd-Frank Act, which provide that the largest and most active participants in the over-the-counter derivatives market must collect initial margin and variation margin. The NPR is consistent with the international framework on margin requirements published by the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions in September 2013.

The proposed rule applies to these large entities supervised by the agencies and designated by the U.S. Commodity Futures Trading Commission (CFTC) or the U.S. Securities and Exchange Commission (SEC) as swap dealers, major swap participants, security-based swap dealers, or security-based major swap participants. The NPR calls these registered firms “covered swap entities” (CSEs). As of December 15, 2014, 15 insured depository institutions had registered with the CFTC as swap dealers, and as of that date, no IDI had registered with the CFTC as a major swap participant. The SEC has not yet imposed a registration requirement for dealers or major participants in swaps that it regulates.

A CSE would be required to exchange initial margin for non-cleared swaps that it enters into with other swap entities and with financial entities that engage in swap activity above a certain threshold. A CSE would be required to exchange variation margin for uncleared swaps it enters into with another swap entity or with any financial entity. Most community bank swap activities are in amounts too small to be affected by the proposed rule. Also, the proposed rule does not require CSEs to collect margin from commercial end users.

The proposal was published in the *Federal Register* on September 24, 2014, and the comment period ended November 24, 2014. The agencies are reviewing the comments and plan to issue a final rule in early 2015.

Credit Risk Retention for Securitizations

In October 2014, the FDIC, jointly with the OCC, the FRB, the Department of Housing and Urban Development, the SEC, and the Federal Housing Finance Agency (FHFA), approved a final rule to implement the securitization credit risk retention provisions of Section 941 of the Dodd-Frank Act, which added Section 15G to the Securities Exchange Act of 1934. 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. The final rule provides various exemptions from the risk retention requirements, some of which are required by statute. For example, as required by the Dodd-Frank Act, the final rule exempts ABS collateralized solely by “qualified residential mortgages” (QRM) from risk retention requirements.

The final rule aligns the definition of QRM with the definition of “qualified mortgage” (QM) as prescribed by the Consumer Financial Protection Bureau (CFPB). This alignment is consistent with the statutory requirement that the QRM definition be no broader than the QM definition and take into consideration underwriting and product features that historical loan performance data indicate result in lower risk of default. In addition, the final rule reduces, in some situations to zero, the risk retention requirements for ABS collateralized by commercial mortgages, commercial real estate (CRE) loans, or automobile loans that meet certain underwriting standards. The final rule also provides various transaction-specific risk retention options for revolving pool securitizations, commercial mortgage-backed securities, open market collateralized loan obligations, government-sponsored enterprises, municipal bond repackagings (known as tender option bonds), and asset-backed commercial paper conduits. The final rule prohibits hedging, transferring, or pledging required risk retention until these restrictions lapse, which varies by asset type.

The final rule was published in the *Federal Register* on December 24, 2014. Compliance with respect to residential mortgage-backed securities is required beginning one year after the date of publication in the *Federal Register*. For all other classes of ABS, compliance with the final rule is required beginning two years after the date of publication in the *Federal Register*.

The Volcker Rule

On December 10, 2013, the FDIC, along with the other federal banking agencies, and the SEC, approved a joint final rule to implement the provisions of Section 619 of the Dodd-Frank Act, also known as the “Volcker Rule.” (On that same date, for procedural reasons, the CFTC adopted an identical final rule.) The Volcker Rule, which added 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. The final rule became effective April 1, 2014.

In January 2014, the FDIC, together with the other federal banking agencies, the SEC, and the CFTC, adopted a joint interim final rule that permits banking entities subject to the Volcker Rule to retain investments in certain collateralized debt obligations backed primarily by trust preferred securities.

To help ensure consistent implementation of the Volcker Rule, the agencies have established an interagency Volcker Rule working group that meets regularly to discuss issues and the application and enforcement of the rule.

During 2014, the agencies posted various joint Frequently Asked Questions (FAQs) on their websites to address certain implementation issues presented by banking entities subject to the Volcker Rule. These FAQs have addressed such matters as:

- Annual CEO Attestation
- Conformance Period
- Foreign Public Fund Seeding Vehicles
- Loan Securitization Servicing Assets
- Metrics Reporting and Confidentiality
- Metrics Reporting Date
- Metrics Reporting During the Conformance Period
- Mortgage-Backed Securities of Government-Sponsored Enterprises
- Name-sharing Prohibition
- Trading Desks

Minimum Requirements for Appraisal Management Companies

In April 2014, the FDIC, jointly with the OCC, the FRB, the National Credit Union Administration (NCUA), the CFPB, and the FHFA, approved an NPR to implement the minimum requirements for registration and supervision of appraisal management companies (AMCs) in the Dodd-Frank Act. The proposed rule would establish the minimum requirements in Section 1473 of the Dodd-Frank Act (Section 1473) for registration and supervision of AMCs; establish the minimum requirements for AMCs that register with the State under Section 1473; require federally regulated AMCs to meet the minimum requirements of Section 1473 (other than registering with the State); and require the reporting of certain AMC information to the Appraisal Subcommittee of the FFIEC. The comment period closed in June 2014, and the agencies are reviewing and considering the comments received. The agencies expect to issue a final rule in 2015.

Joint Standards for Assessing Diversity Policies and Practices

The FDIC continued to implement the provisions of Section 342 of the Dodd-Frank Act during 2014. Section 342(b)(2)(C) of the Act requires the Office of Minority and Women Inclusion (OMWI) Director of each covered agency to develop standards for assessing the diversity policies and practices of entities regulated by such agency. To implement that requirement and develop those standards, the FDIC's OMWI continued to work closely in 2014 with the OMWI Directors of the OCC, the NCUA, the FRB, the CFPB, and the SEC. In addition, the FDIC developed standards for increasing the participation of minority- and women-owned businesses (MWOBs) in the agency's programs and contracts and standards to evaluate agency contractors' good faith efforts to include minorities and women in their workforce.

In late 2013, proposed standards were published in the *Federal Register* as a Proposed Interagency Policy Statement Establishing Joint Standards for Assessing the Diversity Policies and Practices of Entities Regulated by the Agencies. The proposed standards describe leading diversity practices for the financial services industry in four key areas: (1) organizational commitment to diversity and inclusion; (2) workforce profile and employment practices; (3) procurement and business practices – supplier diversity; and (4) practices to promote transparency of organizational diversity and inclusion.

The comment period was initially scheduled to end on December 24, 2013, but was extended to February 7, 2014, to facilitate public comment on the policy statement and questions posed by the agencies. The FDIC in coordination with the other agencies have reviewed the comments received and are in the final stages of preparing final joint standards, which will likely be issued in 2015.

Liquidity and Funds Management Rulemaking

Liquidity Coverage Ratio

In September 2014, the FDIC, together with the OCC and the FRB, issued a joint final rule to implement the Liquidity Coverage Ratio (LCR). The final rule requires certain banks to hold a minimum level of liquid assets to support contingent liquidity events that could arise within a 30-day liquidity stress horizon. It also provides a standard way of expressing a bank's on-balance sheet liquidity position to stakeholders and supervisors.

The requirement applies to large, internationally active banking organizations and their consolidated subsidiary depository institutions with $10 billion or more in total consolidated assets. Covered companies are required to notify their PFR when the LCR drops below 100 percent and develop a remediation plan if the shortfall persists. The rule establishes a shorter phase-in period than the Basel III standard, as it would require covered companies to fully meet the minimum LCR by January 1, 2017, two years earlier than the Basel III requirements. The FRB is also applying a less stringent LCR requirement to certain smaller depository institution holding companies with $50 billion to $250 billion in total assets.

Net Stable Funding Ratio

In October 2014, the BCBS published a final standard to implement the Net Stable Funding Ratio (NSFR). While the LCR focuses on having sufficient high-quality liquid asset buffers to weather a short-term severe stress, the NSFR considers funding over a longer horizon. The NSFR requires banks to maintain a stable funding profile in relation to their on- and off-balance sheet activities, comparing the amount of an entity's required stable funding to meet asset and off-balance sheet obligations against the available stable funding sources. The FDIC expects that the federal banking agencies will complete an NSFR proposal by year-end 2015.

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 DIF management plan designed to reduce the effects of cyclicality 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 (the ratio of the fund balance to estimated insured deposits) will reach 1.35 percent by September 30, 2020, as required by the Dodd-Frank Act.[1] These plans include a reduction in assessment 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—under the long-term DIF management plan—set the Designated Reserve Ratio (DRR) of the DIF at 2.0 percent. The FDIC views the 2.0 percent DRR as a long-term goal and the minimum level needed to withstand future crises of the magnitude of past crises. 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 2014 to maintain the 2.0 percent DRR for 2015—the DRR that has been in effect every year since 2011.

As part of the long-term DIF 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 much the same function as dividends, but provide more stable and predictable effective assessment rates over time.

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[1] 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 publicize a rulemaking that implements this requirement at a later date to better take into account prevailing industry conditions at the time of the offset.

State of the Deposit Insurance Fund

Estimated losses to the DIF were $0.4 billion from failures occurring in 2014; these losses were lower than losses from failures in each of the previous six years. The fund balance continued to grow through 2014, as it has every quarter starting first quarter 2010, for a total of 20 consecutive quarters. Lower than estimated losses for past bank failures together with assessment revenue contributed to the increase in the fund balance in 2014. The fund reserve ratio rose to 1.01 percent at December 31, 2014, from 0.79 percent at the previous year-end.

Deposit Insurance Assessment System

In November 2014, the FDIC finalized a rule that revises the deposit insurance system to be consistent with changes in the regulatory capital rules that go into effect January 1, 2015, and January 1, 2018. The rule conforms the capital ratios and ratio thresholds in the deposit insurance assessment system to the Basel III rule prompt corrective action capital ratios and thresholds. The rule also conforms the assessment base calculation for custodial banks to the new asset risk weights under the Basel III rule's standardized approach. In addition, for highly complex institutions, the rule requires counterparty exposure for assessment purposes to be measured using the Basel III rule's standardized approach, with a modification for certain cash collateral securing derivative exposures.

ACTIVITIES RELATED TO SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS

Complex Financial Institutions

The FDIC is committed to addressing the unique challenges associated with the supervision, insurance, and potential resolution of large and complex insured institutions. The FDIC's ability to analyze and respond to risks in these institutions is particularly important, as they comprise a significant share of banking industry assets. The FDIC's programs related to complex financial institutions provide for a consistent approach to large bank supervision nationwide, allows for the analysis of financial institution risks on an individual and comparative basis, and enables a quick response to risks identified at large institutions. Given the concentration of risk in these institutions, the FDIC has expanded its activities at the nation's largest and most complex institutions through additional and enhanced on-site and off-site monitoring and supervision.

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 BHCs and large, nonbank systemically important financial institutions (SIFIs) designated by the Financial Stability Oversight Council (FSOC) for supervision by the FRB. In 2014, the FDIC's CFI activities included ongoing risk monitoring of the largest, most complex banking organizations and backup supervision of their IDIs, as well as ongoing risk monitoring of certain nonbank financial companies. The FDIC continues to work closely with other federal regulators to better understand the risk measurement and management practices of SIFIs and assess the potential risks they pose to financial stability.

The FDIC undertakes risk monitoring activities at the company level to understand each company's: structure, business activities, and resolution/recovery capabilities to inform the FDIC's resolution planning staff; business activities and risk profile to gauge both proximity to a resolution event and the speed at which a company's condition could potentially deteriorate to a resolution event; recovery plans; early warning signals and triggers; and the range of remedial actions to be taken should a triggering event occur.

In 2014, the FDIC's off-site monitoring systems for SIFIs were expanded to enhance efforts to analyze structured and unstructured data. The FDIC developed and implemented the Systemic Monitoring System (SMS), which is an off-site monitoring tool for SIFIs that will be used to enhance risk scoping of various activities. This tool will be integrated into the FDIC's SIFI on-site monitoring and resolution planning processes. The SMS synthesizes large amounts of quantitative data from numerous sources (i.e., data that pertain to both proximity-to-default and speed-to-default), evaluates the level and change in metrics that serve as important barometers of overall risk, produces a preliminary risk assessment and comprehensive risk profile report for individual SIFIs, and identifies areas requiring further follow-up to determine the need for additional supervisory activities or accelerated resolution planning efforts. SMS risk assessments will help the FDIC to identify emerging risks in individual firms, prioritize supervisory activities, and inform the development of appropriate supervisory responses and resolution strategies in deteriorating situations. However, the SMS is not a predictive or a statistically based model; rather it is a dynamic tool that assists the FDIC in identifying risk in the largest firms.

Risk monitoring is enhanced by the FDIC's backup supervision activities. 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, exercising examination authorities, and exercising enforcement authorities when necessary. At institutions where the FDIC is not the PFR, staff works closely with other financial institution regulatory authorities to identify emerging risk and assess the overall risk profile of large and complex institutions. The FDIC, the FRB, and the OCC operate under a Memorandum of Understanding (MOU) that establishes guidelines for coordination and cooperation to carry out their respective responsibilities, including the FDIC's role as insurer and supervisor. Under this agreement, the FDIC has assigned dedicated staff to systemically important and large, complex regional banking organizations to enhance risk identification capabilities and facilitate the communication of supervisory information. These individuals work closely with PFR staff in the ongoing monitoring of risk at their assigned institutions.

Additionally, the FDIC allocates examination and analytical resources annually to the FRB's Comprehensive Capital Analysis and Review and Comprehensive Liquidity Analysis and Review programs. Also, in 2014, the FDIC expanded participation with the FRB's Supervisory Assessment of Recovery and Resolution Preparedness program in an effort to assess firms' capabilities related to resolvability planning and preparedness.

Title I Resolution Plans

Title I of the Dodd-Frank Act requires that each BHC with total consolidated assets of $50 billion or more and each nonbank financial company that the FSOC determines should be subject to supervision 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 U.S. Bankruptcy Code in the event of the company's material financial distress or failure. The FDIC and the FRB issued a joint rule, effective November 30, 2011, to implement the requirements for resolution plans filed under Section 165(d) [the 165(d) Rule].

The 165(d) Rule 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. 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 as of the effective date of the 165(d) Rule.
- Any company that becomes subject to the 165(d) Rule after November 30, 2011, (including nonbank financial companies designated by the FSOC), 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 rule (or following its designation by FSOC).

In July 2012, 11 First Wave Companies submitted initial 165(d) plans. 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.[2] The agencies also 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.

In August 2014, the agencies announced the completion of reviews of the October 2013 resolution plans submitted by the First Wave Companies. Based on the review of the 2013 plans, the FDIC Board determined that the plans were not credible and did not facilitate an orderly resolution under the U.S. Bankruptcy Code as required by Section 165(d) of the Dodd-Frank Act. Although this determination was not made jointly by the FDIC and the FRB, the agencies jointly identified and communicated to the firms, certain firm-specific shortcomings with the 2013 resolution plans and agreed that the First Wave Companies must take immediate action to improve their resolvability and reflect those improvements in their 2015 plans. The agencies further agreed that in the event that the First Wave Companies have not, on or before July 1, 2015, submitted plans responsive to the identified shortcomings, the agencies expect to use their authority under Section 165(d) to determine that a resolution plan does not meet the requirements of the Dodd-Frank Act.

In August 2014, the agencies issued joint feedback letters to each of the First Wave Companies. The letters noted some improvements from the original plans submitted by the companies, but detailed specific shortcomings of each firm's plan and the agencies expectations for the 2015 submission.

While the shortcomings of the plans varied across the First Wave Companies, the agencies identified several common features of the plans' shortcomings. These common features included: (1) assumptions that the agencies regard as unrealistic or inadequately supported, such as assumptions about the likely behavior of customers, counterparties, investors, central clearing facilities, and regulators; and (2) the failure to make, or even to identify, the kinds of changes in firm structure and practices that would be necessary to enhance the prospects for orderly resolution.

The agencies will require that the annual plans submitted by these firms in 2015 demonstrate that the firms are making significant progress to address all the shortcomings identified in the letters and are taking actions to improve their resolvability under the U.S. Bankruptcy Code.

In July 2014, the First Wave Companies and two of the Second Wave Companies submitted revised resolution plans, and the three nonbank financial companies designated by the FSOC (referred to as Fourth Wave Companies) submitted their initial resolution plans. The FRB and the FDIC granted requests for extensions to two Second Wave Companies, which submitted their plans to the agencies by October 1, 2014. The FDIC and the FRB are reviewing the plans submitted by the various companies in July and October 2014, with the exception of one plan for which the review has been completed. In November 2014, the FDIC and the FRB announced the completion of their review of this firm's 2014 resolution plan and issued a joint letter to the firm. The agencies noted improvements from the original plan submitted in 2013. The guidance given to the firm for preparation of its 2015 plan submission stated that its 2014 plan provided a basis for a resolution strategy that could facilitate an orderly liquidation under bankruptcy. If fully developed in the future, the firm's plan could reduce the risk that the company's failure would pose to the stability of the U.S. financial system. The agencies also jointly identified specific shortcomings of the 2014 resolution plan that need to be addressed in the 2015 plan. The letter detailed the specific shortcomings and the expectations of the agencies for the 2015 submission.

By December 31, 2013, 116 Third Wave Companies had submitted initial resolution plans. In August 2014, after reviewing the plans, the agencies provided each of the Third Wave Companies the following guidance for their second round submissions based on the relative size and scope of each firm's U.S. operations:

- The more complex firms are required to file a full resolution plan that takes into account and discusses potential obstacles to resolvability identified by the agencies. The obstacles include global issues, financial market utility interconnections, and funding and liquidity.

[2] http://www.fdic.gov/regulations/reform/domesticguidance.pdf

- Firms with less complex U.S. operations are permitted to file tailored plans and can use a model template issued by the agencies or follow the guidelines previously released by the agencies.
- Firms with limited U.S. operations may focus their plans on material changes to their initial plans as well as actions taken to strengthen the effectiveness of their initial plans.
- In August 2014, the agencies also released a tailored resolution plan template for the Third Wave Companies' 2014 plans. The optional template, which is intended to facilitate the preparation of tailored resolution plans, focuses on the nonbanking operations of the company and on the interconnections and interdependencies between its nonbanking and banking operations.
- By December 31, 2014, 120 Third Wave Companies submitted plans to the agencies. The FDIC and the FRB are reviewing those plans.

Insured Depository Institution Resolution Plans

The FDIC has a separate rule that requires all IDIs with assets greater than $50 billion to submit resolution plans to the FDIC (IDI Rule). The IDI Rule requires each covered institution to provide a resolution plan that should allow the FDIC as receiver to resolve the institution in an orderly manner that enables prompt access of insured deposits, maximizes the return from the failed institution's assets, and minimizes losses realized by creditors and the DIF. These plans complement those required under the 165(d) Rule.

Based upon its review of IDI plans submitted prior to and during 2014, the FDIC issued guidance in December 2014 for resolution plans required by the IDI Rule. Under the guidance, a covered institution must provide a fully developed discussion and analysis of a range of realistic resolution strategies. To assist institutions in writing their plans, the guidance includes direction regarding the elements that should be discussed in a fully developed resolution strategy and the cost analysis, clarification regarding assumptions made in the plan, and a list of significant obstacles to an orderly and least costly resolution that institutions should address. The guidance applies to the resolution plans of 36 institutions covered by the IDI Rule, as well as any new institution meeting the threshold, commencing with the 2015 resolution plan submissions.

Title II Resolution Strategy Development

Under the Dodd-Frank Act, failed or failing financial companies are expected to file for reorganization or liquidation under the U.S. Bankruptcy Code, just as any failed or failing nonfinancial company would. If resolution under the Bankruptcy Code would result in serious adverse effects to the U.S. financial stability, the Orderly Liquidation Authority (OLA) set out in Title II of the Dodd-Frank Act provides a back-up authority to the bankruptcy process. There are strict parameters on its use, however, and it can only be invoked under a statutorily prescribed recommendation and determination process, coupled with an expedited judicial review process.

Prior to the 2008 financial crisis, the FDIC's receivership role was limited to IDIs. No regulator had the authority to resolve a failing financial company, (*e.g.*, a BHC) or any of the company's non-IDI affiliates or any other nonbank financial company through the FDIC's receivership process, in order to avoid the systemic consequences that could arise from bankruptcy or other insolvency regime filing. 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 without cost to taxpayers.

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 strategies including one approach, referred to as "Single Point of Entry (SPOE)", to carry out its orderly liquidation authorities. In December 2013, the FDIC published a notice in the *Federal Register* that provides greater detail on the SPOE strategy and discusses the key issues that the FDIC could encounter in the resolution of a SIFI.[3] The notice requested public comment and views as to whether the SPOE approach can be effective in supporting

[3] Notice entitled, "Resolution of Systemically Important Financial Institutions: The Single Point of Entry Strategy," 78 Fed. Reg. 76614 (Dec. 18, 2013).

the policy objectives of minimizing moral hazard and promoting market discipline while maintaining the stability of the U.S. financial system as set forth in Title II of the Dodd-Frank Act. In 2014, the FDIC reviewed all submitted comments. Firm-specific resolution strategies continue to be developed and refined.

As part of the FDIC's efforts to develop and refine strategies that could be implemented in a Title II resolution, the FDIC and the Bank of England, in conjunction with the financial institution regulators in the respective jurisdictions, have been developing contingency plans for the failure of a U.S.- or U.K.-based SIFI that has significant operations in the United Kingdom or the United States, respectively. Of the 28 global SIFIs (G-SIFIs) identified by the Financial Stability Board (FSB) of the Group of 20 (G-20) countries, four are headquartered in the United Kingdom and eight are headquartered in the United States. Moreover, more than 80 percent of the reported foreign activities of the eight U.S. G-SIFIs emanates from the United Kingdom. In October 2014, the FDIC was host to the Secretary of the Treasury, the Chair of the Federal Reserve Board of Governors, the Chancellor of the Exchequer, and the Governor of the Bank of England, as well as leading financial regulatory bodies in the United States and United Kingdom for an exercise designed to further promote a working relationship between U.S. and U.K. authorities in the event of the failure and resolution of a G-SIFI. The exercise's high-level discussion furthered understanding among U.S. and U.K. principals regarding resolution strategies for G-SIFIs under the two countries' resolution regimes.

Cross-Border Efforts

Advance planning and cross-border coordination for the resolution of G-SIFIs will be essential to minimizing disruptions to global financial markets. Recognizing that G-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.

During 2014, the FDIC continued to coordinate with representatives from European authorities to discuss issues of mutual interest, including the resolution of European G-SIFIs and harmonization of receivership actions. The FDIC and the European Commission (E.C.) established a joint Working Group composed of FDIC and E.C. senior executives to focus on both resolution and deposit insurance issues. The Working Group meets twice a year with other interim interchanges, including the exchanging of staff members. Discussions were held concerning the FDIC's experience with bank resolutions, systemic resolution strategies, the European Union (E.U.)-wide Credit Institution and Investment Firm Recovery and Resolution Directive, the E.C.'s amendment to harmonize deposit guarantee schemes across the E.U., and the E.C.'s Single Resolution Mechanism. In June 2014, the FDIC conducted a training seminar on resolutions for resolution authorities and E.C. staff.

The FDIC continues to foster its relationships with other jurisdictions that regulate G-SIFIs, including Switzerland, Germany, France, and Japan. In 2014, 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 G-SIFI. This work will continue in 2015 with plans to host tabletop exercises with regulatory staff from these jurisdictions.

Systemic Resolution Advisory Committee

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

- ♦ 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 SRAC have a wide range of experience including managing complex firms; administering bankruptcies; and working in the legal system, accounting

SRAC member and former Chairman of the Federal Reserve Board of Governors Paul Volcker (left) and FDIC Chairman Gruenberg discussing resolution strategy.

field, and academia. A meeting of the SRAC was held in December 2014. The SRAC discussed, among other topics, living wills and bankruptcy, resolution plan transparency, international developments, ISDA protocol, and orderly liquidation updates.

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.
- ♦ Identifying and assessing threats that institutions may pose to financial stability and, if appropriate, designating a nonbank financial company for supervision by the FRB subject to heightened prudential standards.
- ♦ Designating financial market utilities 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, competiveness, 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.

In 2014, the FSOC issued its fourth annual report. Generally, at each of its meetings, the FSOC discusses various risk issues. In 2014, the FSOC meetings addressed, among other topics, U.S. fiscal issues, market environment and developments in the Ukraine, an asset management industry conference hosted by the FSOC, short-term wholesale funding markets, money market mutual fund reforms, and nonbank financial company designations.

SUPERVISION

Supervision and consumer protection are cornerstones of the FDIC's efforts to ensure the stability of and public confidence in the nation's financial system. The FDIC's supervision program promotes the safety and soundness of FDIC-supervised 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, 2014, the FDIC was the PFR for 4,138 FDIC-insured, state-chartered institutions that were not members of the Federal Reserve System [generally referred to as "state nonmember" (SNM) 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, 2014, the FDIC conducted 2,087 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 1,406 statutorily required

FDIC EXAMINATIONS 2012 – 2014	2014	2013	2012
Risk Management (Safety and Soundness):			
State Nonmember Banks	1,881	2,077	2,310
Savings Banks	206	203	249
Savings Associations	0	0	1
National Banks	0	0	1
State Member Banks	0	4	2
Subtotal–Risk Management Examinations	2,087	2,284	2,563
CRA/Compliance Examinations:			
Compliance/Community Reinvestment Act	1,019	1,201	1,044
Compliance-only	376	371	611
CRA-only	11	4	10
Subtotal–CRA/Compliance Examinations	1,406	1,576	1,665
Specialty Examinations:			
Trust Departments	428	406	446
Information Technology and Operations	2,113	2,323	2,642
Bank Secrecy Act	2,126	2,328	2,585
Subtotal–Specialty Examinations	4,667	5,057	5,673
Total	**8,160**	**8,917**	**9,901**

CRA/compliance examinations (1,019 joint CRA/compliance examinations, 376 compliance-only examinations, and 11 CRA-only examinations), and 4,667 specialty examinations.

The table above compares the number of examinations, by type, conducted from 2012 through 2014.

Risk Management

As of December 31, 2014, 291 insured institutions with total assets of $86.7 billion were designated as problem institutions for safety and soundness purposes (defined as those institutions having a composite CAMELS[4] rating of "4" or "5"), compared to the 467 problem institutions with total assets of $152.7 billion on December 31, 2013. This constituted a 38 percent decline in the number of problem institutions and a 43 percent decrease in problem institution assets. In 2014, 202 institutions with aggregate assets of $64.4 billion were removed from the list of problem financial institutions, while 26 institutions with aggregate assets of $6.3 billion were added to the list. The National Republic Bank of Chicago, located in Chicago, Illinois, was the largest failure in 2014, with $843 million in assets. The FDIC is the PFR for 202 of the 291 problem institutions, with total assets of $58.7 billion.

During 2014, the FDIC issued the following formal and informal corrective actions to address safety and soundness concerns: 41 Consent Orders and 180 MOUs. Of these actions, 20 Consent Orders and 23 MOUs were issued, based in whole or in part, on apparent violations of the BSA.

All risk management exams were conducted in accordance with statutorily-established time frames, and related enforcement actions for newly-identified 4- and 5- rated institutions were issued in accordance with the time frames established by FDIC policy. The FDIC was slightly below its performance standard for timeliness in the issuance of enforcement actions for newly-identified 3-rated institutions.

[4] 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).

Compliance

As of December 31, 2014, 56 insured SNM institutions, about 1 percent of all supervised institutions, with total assets of $61 billion, were problem institutions for compliance, CRA, or both. Most of the existing problem institutions for compliance were rated "4" for compliance purposes, with only one rated "5." For CRA purposes, the majority are rated "Needs to Improve," and only three are rated "Substantial Noncompliance." As of December 31, 2014, all follow-up examinations for problem institutions were performed on schedule.

During 2014, the FDIC conducted all required compliance and CRA examinations and, when violations were identified, completed follow-up visits and implemented appropriate enforcement actions in full accordance with FDIC policy. In completing these activities, the FDIC substantially met its internally-established time standards for the issuance of final examination reports and enforcement actions.

Overall, banks demonstrated strong consumer compliance programs. The most significant consumer protection issue that emerged from the 2014 compliance examinations involved banks' failure to adequately monitor third-party vendors. For example, the FDIC found violations involving unfair or deceptive acts or practices relating to issues such as failure to disclose material information about new product features being offered, deceptive marketing and sales practices, and misrepresentations about the costs of products. As a result, the FDIC issued orders requiring consumer restitution and civil money penalty (CMP) actions.

During 2014, the FDIC issued the following formal and informal corrective actions to address compliance concerns: 14 Consent Orders and 42 MOUs. In certain cases, the Consent Orders contain requirements for institutions to pay restitution in the form of consumer refunds for different violations of laws. During 2014, institutions subject to Consent Orders refunded over $105 million to consumers. These refunds primarily related to unfair or deceptive practices by institutions, as discussed above. Additionally, in 2014, the FDIC issued 24 CMPs relating to consumer compliance, totaling just over $9.5 million in CMPs.

Large and Complex Financial Institutions

The FDIC established the Complex Financial Institutions and Large Bank Supervision Groups (Groups) within its Division of Risk Management Supervision in response to the growing complexity of large banking organizations. These Groups are responsible for supervisory oversight and ongoing monitoring, and support the insurance and resolutions business lines. For SNM banks over $10 billion, the FDIC generally applies a continuous examination program whereby dedicated staff conduct ongoing onsite supervisory examinations and institution monitoring, as previously discussed. At institutions where the FDIC is not the PFR, staff works closely with other financial institution regulatory authorities to identify emerging risk and assess the overall risk profile of large and complex institutions.

The Large Insured Depository Institution (LIDI) Program remains the primary instrument for off-site monitoring of IDIs with $10 billion or more in total assets. The LIDI Program provides a comprehensive process to standardize data capture and reporting through nationwide quantitative and qualitative risk analysis of large and complex institutions. In 2014, the LIDI Program encompassed 106 institutions with total assets of $12.4 trillion. The comprehensive LIDI Program is essential to effective large bank supervision because it captures information on the risks and utilizes that information to best deploy resources to high-risk areas, determine the need for supervisory action, and support insurance assessments and resolution planning.

The Shared National Credit (SNC) Program is an interagency initiative administered jointly by the FDIC, the FRB, and the OCC to ensure consistency in the regulatory review of large, syndicated credits, as well as identify risk in this market, which comprises a large volume of domestic commercial lending. In 2014, outstanding credit commitments identified in the SNC Program totaled $3.4 trillion. The FDIC, the FRB, and the OCC issued a joint release detailing the results of the review in November 2014.

In 2014, the FDIC implemented various initiatives to expand knowledge and expertise related to large bank supervisory matters. For example, a long-term program was established to expand on-the-job training and provide mentoring of select staff regarding examination processes and risk analysis at large banks. The FDIC is also focused on hiring and developing additional staff with quantitative skill sets to facilitate the evaluation of complex modeling used by the largest banks. Additionally, several training initiatives were developed and implemented in 2014 that focused on large bank supervisory risks, structures, vulnerabilities, and processes.

Bank Secrecy Act/Anti-Money Laundering

The FDIC pursued a number of BSA, Anti-Money Laundering (AML), and Counter Financing of Terrorism (CFT) initiatives in 2014.

In January and June 2014, the FDIC conducted International AML/CFT training sessions for 61 government officials from Afghanistan, Algeria, Azerbaijan, Kazakhstan, Mali, Nigeria, Pakistan, and Yemen. Additionally, in March 2014, the FDIC conducted an International AML and CFT training session in Kuala Lumpur, Malaysia, the first such training session held outside of the United States. The training was coordinated with Bank Negara Malaysia and included 59 participants representing financial regulatory agencies from Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Thailand, and Vietnam. These training sessions assisted participating jurisdictions in implementing AML/CFT standards and providing law enforcement with financial investigative and other skills necessary to combat money laundering, terrorist financing, and fraud. Specifically, each of the training sessions focused on AML/CFT controls, the AML examination process, customer due diligence, and suspicious activity monitoring. Additionally, in August 2014, the FDIC hosted the Office of Foreign Assets Control (OFAC) for an interagency teleconference to discuss recent changes to existing U.S. economic sanctions programs, as well as OFAC compliance expectations and enforcement case studies.

In December 2014, the FFIEC released the 2014 *Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Examination Manual* (BSA/AML Manual). The revised BSA/AML Manual provides current guidance on risk-based policies, procedures, and processes for banking organizations to comply with the BSA and safeguard operations from money laundering and terrorist financing. It also reflects regulatory changes and clarifies supervisory expectations that have occurred since the BSA/AML Manual was last updated. The 2014 revisions incorporate feedback from the banking industry and examination staff.

Information Technology, Cyber Fraud, and Financial Crimes

To address the specialized nature of technology- and operations-related supervision, cyber risks, and controls in the banking industry, the FDIC routinely conducts information technology (IT) and operations examinations at FDIC-supervised institutions. The FDIC and other banking agencies also conduct IT and operations examinations of technology service providers (TSPs), which support financial institutions. The result of an IT and operations examination is a rating under the FFIEC Uniform Rating System for Information Technology, which is incorporated into the Management component of the Safety and Soundness rating and the Safety and Soundness Report of Examination.

In 2014, the FDIC conducted 2,113 IT and operations 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 regularly monitors cybersecurity issues in the banking industry through on-site examinations, regulatory reports, and intelligence reports. The FDIC works with groups, such as the Financial and Banking Information Infrastructure Committee, the Financial Services Sector Coordinating Council for Critical Infrastructure Protection and Homeland Security, 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. Further, the FDIC actively participates in the FFIEC's Cybersecurity and Critical Infrastructure Working Group (CCIWG). The CCIWG was formed in 2013 and serves as a forum to address policy related to cybersecurity and critical infrastructure. It enables members to communicate and collaborate on activities to support and strengthen the resilience of the financial services sector and provides input to FFIEC principal members regarding cybersecurity matters.

In 2014, the FDIC continued a multi-year effort begun in 2010 to strengthen IT and cyber-related educational and professional development programs for the examination workforce. As part of this effort, newly commissioned examiners must complete four IT-related courses – an IT examination course as well as courses on payment systems; risk assessment, IT audit and business continuity planning; and information security. Once this course work is completed, these examiners are able to conduct IT examinations at the FDIC's least technologically complex supervised financial institutions and better understand the risks associated with the FDIC's more complex financial institution IT examinations conducted by specialized IT examiners. The FDIC now has nearly 300 commissioned examiners who have completed all four post-commission IT schools and more than 500 who have completed at least one of these schools. An additional facet of this multi-year effort is an on-the-job training program to develop additional examiners with more advanced IT examination skills. In 2014, 18 examiners received advanced certifications in IT, bringing the total of examiners with advanced IT certifications to 116.

The FDIC's major accomplishments during 2014 to promote IT security, assess risk management practices, and combat cyber fraud and other financial crimes included the following:

- ♦ Developed and distributed to all FDIC-supervised banks the FDIC's Cyber Challenge simulation exercise to encourage community banks to discuss operational risk issues and the potential impact of information technology disruptions. The exercise contained four videos that depict various operational disruptions and materials to facilitate discussion about how the bank would respond to the disruptions. Lists of reference materials where banks could obtain additional information were also included.
- ♦ Published two FDIC *Consumer News* articles: "More About How to Protect Yourself From Data Breaches" and "When People Face Tough Time, Crooks Try to Profit."
- ♦ Re-issued, as a FIL, three documents that contain practical ideas for community banks to consider when they engage in technology outsourcing.
- ♦ Hosted the FFIEC IT Examiners Conference that addressed technology and operational issues facing the federal financial regulatory agencies.
- ♦ Commenced planning a Financial Crimes Conference for staff that will focus on all types of financial fraud, and how the law enforcement community and regulators can effectively respond. The conference is co-sponsored by the U.S. Department of Justice (DOJ) and will be held in June 2015.
- ♦ 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.

Major interagency accomplishments as a member of the FFIEC included the following:

- ♦ Collaborated on the development of an FFIEC cybersecurity assessment pilot program conducted at more than 500 community banks and TSPs. The pilot program was designed to assess how well community financial institutions manage cybersecurity and their preparedness to mitigate cyber risks. The results of the assessment are instructive and will help FFIEC members make informed decisions about how they prioritize actions to enhance the effectiveness of cybersecurity-related supervisory programs, guidance, and examiner training.
- ♦ Published FFIEC statements on Cyber Attacks on ATM and Card Authorization Systems, as well as Distributed Denial of Service (DDoS) Attacks.
- ♦ Published an FFIEC Technology Alert on IT vulnerabilities.
- ♦ Co-sponsored and conducted an interagency webinar for community banks addressing senior management's role in cybersecurity. Over 5,000 chief executive officers (CEOs) and senior managers participated in the webinar.
- ♦ Issued a press release and FFIEC statement providing financial institutions with information on available resources to mitigate potential cyber threats and

recommending that institutions of all sizes participate in cyber-related information sharing forums, such as the FS-ISAC.

Minority Depository Institution Activities

The preservation of minority depository institutions (MDIs) remains a high priority for the FDIC. In July 2014, the FDIC released a study specifically on MDIs entitled, *Minority Depository Institutions: Structure, Performance, and Social Impact*. The study explores the role of MDIs in the U.S. financial system: how the industry has changed over time, how MDIs have performed financially, and how they have served their communities. The report notes that MDIs underperform non-MDIs in terms of standard industry measures of financial performance, but it concludes that MDIs often promote the economic viability of minority and underserved communities. Compared with community banks, the markets served by MDI offices include a higher share of the population living in low- or moderate-income (LMI) census tracts, as well as a higher share of minority populations. In addition, among institutions that reported data under the Home Mortgage Disclosure Act, MDIs originated a larger share of their mortgages to borrowers who live in LMI census tracts and to minority borrowers than did non-MDI community banks. These findings demonstrate the essential role MDIs play in their local communities and their high level of commitment to the populations they serve.

In 2014, the FDIC continued to advocate for MDI and Community Development Financial Institution (CDFI) industry-led strategies for success, building on the results of the 2013 Interagency Minority Depository Institution and CDFI Bank Conference. These strategies include industry-led solutions; MDI and CDFI bankers working together to tell their story; collaborative approaches to partnerships to share costs, raise capital, or pool loans; technical assistance; and innovative use of federal programs. The FDIC has begun working with the OCC and the FRB to plan for the 2015 Interagency Conference for MDI and CDFI Banks and to build upon these strategies.

The FDIC continually pursued ways to improve communication and interaction with MDIs and to respond to the concerns of minority bankers. In addition to active outreach with MDI trade groups, the FDIC annually offers to arrange meetings between regional management and each MDI's board of directors to discuss issues of interest. In addition, the FDIC routinely contacts FDIC-supervised MDIs to offer return visits and technical assistance following the conclusion of each safety and soundness, compliance, CRA, and specialty examination to assist bank management in understanding and implementing examination recommendations. These return visits, normally conducted 90 to 120 days after the examination, are to provide recommendations or feedback for improving operations, not to identify new problems or issues. MDIs also may initiate contact with the FDIC to request technical assistance at any time. In 2014, the FDIC provided 119 individual technical assistance sessions on approximately 80 risk management and compliance topics, including, but not limited to, the following:

- Bank Secrecy Act and Anti-Money Laundering.
- Basel III Capital Rules.
- Branch Opening and Closing Requirements.
- CRE Concentrations.
- Community Reinvestment Act.
- Information Technology.
- Interest Rate Risk.
- Loan Underwriting and Administration.
- New Mortgage Rules/Ability to Repay.
- Sensitivity to Market Risk.
- Third-Party Risk Management.
- Troubled Debt Restructurings.

The FDIC regional offices also held outreach, training, and educational programs for MDIs through conference calls and banker roundtables. In 2014, topics of discussion for these sessions included many of those listed above, as well as the FDIC's Technical Assistance Video Program, Capital Raising, and PCA.

Other Rulemaking and Guidance Issued

During 2014, the FDIC issued and participated in the issuance of other rulemaking and guidance in several areas as described below.

Registration of Municipal Advisors

In January 2014, the FDIC issued a FIL to advise FDIC-supervised financial institutions on the registration requirements for those institutions that meet the definition of "municipal advisor." Section 975 of the Dodd-Frank Act amended Section 15B(a) of the Securities Exchange Act of 1934 to make it unlawful for "municipal advisors," as defined in the Dodd-Frank Act, to provide certain advice to or solicit municipal entities or certain other persons without registering with the SEC. In September 2013, the SEC issued a final rule establishing a permanent registration system for municipal advisors.

Paying Agent Notification Requirements

In February 2014, the FDIC issued a FIL to alert bankers to the SEC's amendment to the Exchange Act Rule 17Ad-17 to implement the requirements of Section 929W of the Dodd-Frank Act. The amendments add a requirement that "paying agents" send a one-time notification to "unresponsive payees" stating that the agent has sent a security holder a check that has not yet been negotiated.

Income Tax Allocation in a Holding Company Structure

In June 2014, the FDIC and the other federal banking agencies issued an addendum to the 1998 Interagency Policy Statement on Income Tax Allocation in a Holding Company Structure. Since the beginning of the 2008 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 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 attributable to income earned, taxes paid, and losses incurred by the IDI, and provides a sample paragraph to accomplish this goal. The addendum also clarifies how certain requirements of Sections 23A and 23B of the Federal Reserve Act apply to tax allocation agreements between IDIs and their affiliates. Those IDIs and their holding companies subject to the 1998 Interagency Policy Statement were expected to implement the addendum no later than October 31, 2014. The FDIC will review compliance with the guidance in upcoming examinations of affected IDIs.

Economic Growth and Regulatory Paperwork Reduction Act

The FDIC, along with the other banking regulatory agencies, launched a cooperative, three-year effort to review all of their regulations. The purpose of the review, which is mandated by the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA), is to identify and eliminate any regulatory requirements that are outdated or otherwise unnecessary.

For the purpose of this review, the agencies categorized their regulations into 12 separate groups. Over the next two years, groups of regulations will be published for comment, providing industry participants, consumer and community groups, and other interested parties an opportunity to identify regulatory requirements they believe are no longer needed or should be modified. The agencies will then analyze the comments and propose amendments to their regulations where appropriate.

In June 2014, the agencies issued the first three groups of regulations for comment: Applications and Reporting, Powers and Activities, and International Operations. During the 90-day comment period, which ended September 2, 2014, 40 letters were received. Staff is reviewing and analyzing the comments.

One such comment letter resulted in the FDIC's issuance of a FIL in November 2014, which eliminates application requirements for state-chartered banks engaging in activities or investments permissible for a national bank if the bank maintains certain documentation, including that the activity is permissible under relevant state law. The FIL clarifies that this change applies to unincorporated subsidiaries of state-chartered banks operating as a limited liability company (LLC), a limited partnership, or a similar entity wishing to engage in activities permissible for a national bank. In addition, in November 2014, the FDIC issued guidance through a FIL to aid applicants in developing proposals for deposit insurance and to provide transparency to the application process.

As a part of the regulatory burden reduction effort, the agencies hosted a banker outreach meeting in December 2014, in Los Angeles, California, to facilitate awareness of the EGRPRA project and to listen to stakeholder comments and suggestions. FDIC Chairman Martin J. Gruenberg, FRB Governor Lael Brainard, and Comptroller Thomas J. Curry were featured speakers at the meeting. Staff from each of the federal banking agencies, as well as regional representatives of the major industry trade groups and community advocates, attended the meeting. The agencies plan to hold additional roundtable discussions with bankers and interested parties and will publish details about these sessions at http://www.fdic.gov/EGRPRA/index.html and http://egrpra.ffiec.gov as they are finalized.

FDIC Clarifying Supervisory Approach to Institutions Establishing Account Relationships with Third-Party Payment Processors

In July 2014, the FDIC issued guidance clarifying its supervisory approach to institutions establishing account relationships with third-party payment processors (TPPPs). The focus of the FDIC's supervisory approach to institutions establishing account relationships with TPPPs is to ensure that institutions have adequate procedures for conducting due diligence, underwriting, and ongoing monitoring of these relationships. The guidance stressed that insured institutions that properly manage customer relationships are neither prohibited nor discouraged from providing services to any customer operating in compliance with applicable law.

Interagency Guidance on Home Equity Lines of Credit Nearing Their End-of-Draw Period

In July 2014, the FDIC, jointly with the OCC, the FRB, the NCUA, and the Conference of State Bank Supervisors, issued home equity lines of credit (HELOC) guidance, which recognizes that some institutions and borrowers may face challenges as HELOCs near their end-of-draw period. Many borrowers will have the financial capacity to meet their contractual obligations as HELOCs transition from the draw period to an amortizing or balloon payment. However, some borrowers may have difficulty meeting higher payments resulting from principal amortization or an interest rate reset, while others may encounter problems refinancing an existing loan due to changes in financial circumstances, or declines in property values since the HELOC's origination date. The HELOC guidance provides a framework for managing HELOCs nearing their end-of draw period and communicating and prudently working with HELOC borrowers experiencing financial difficulties.

Prudent Management of Agricultural Credits through Economic Cycles

In July 2014, the FDIC issued a FIL reminding institutions engaged in agricultural lending to maintain sound underwriting standards, strong credit administration practices, and effective risk management strategies. The FIL encourages financial institutions to work constructively with borrowers to strengthen the credit and mitigate loss when agricultural borrowers experience financial difficulties.

Regulatory Relief

During 2014, the FDIC issued six FILs that provide guidance to help financial institutions and to facilitate recovery in areas affected by tornadoes, flooding, and other severe storms. 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.

Frequently Asked Questions for Implementing the Interagency Guidance on Leveraged Lending

In November 2014, the FDIC, jointly with the FRB and the OCC, issued Frequently Asked Questions (FAQs) through a FIL to provide clarification on the implementation and interpretation of the leveraged lending guidance issued in March 2013. The guidance is intended to help institutions strengthen risk management frameworks to ensure that leveraged lending activities do not heighten risk in the banking system through the origination and distribution of poorly underwritten and low-quality loans. The responses contained in the FAQs foster industry and examiner understanding and promote consistent application and implementation of the guidance.

Depositor and Consumer Protection Rulemaking and Guidance

Guidance on Increased Maximum Flood Insurance Coverage for "Other Residential Buildings"

The FDIC, the OCC, the FRB, the NCUA, and the Farm Credit Administration (collectively, the agencies) issued an interagency statement in May 2014 regarding the new National Flood Insurance Program (NFIP) maximum limit of flood insurance coverage for non-condominium residential buildings designed for use for five or more families (classified by the NFIP as "Other Residential Buildings"). The guidance discusses agency' expectations and financial institution responsibilities when, as a result of the increase in the maximum limit of building coverage for such properties, a financial institution determines that a building securing a designated loan is covered by flood insurance in an amount less than the amount required under federal flood insurance law.

Guidance on Unfair or Deceptive Credit Practices

In August 2014, the FDIC, the FRB, the CFPB, the NCUA, and the OCC issued guidance regarding certain consumer credit practices. This guidance was prompted by the Dodd-Frank Act's repeal of the authority to issue credit practices rules for banks, savings associations, and federal credit unions. The guidance cautioned institutions not to construe the repeal of rulemaking authority under the Federal Trade Commission Act (FTC Act) to indicate that the unfair or deceptive practices described in these former regulations are permissible. The guidance made clear that the credit practices described in these former regulations remain subject to Section 5 of the FTC Act. As such, depending on the facts and circumstances, if banks engage in the unfair or deceptive practices described in the former credit practices rules, such conduct may violate the prohibition against unfair or deceptive practices in Section 5 of the FTC Act, and Sections 1031 and 1036 of the Dodd-Frank Act.

Proposed Revisions to Interagency Question and Answers on Community Reinvestment

In September 2014, the FRB, the FDIC, and the OCC requested public comments on proposed revisions to the "Interagency Questions and Answers Regarding Community Reinvestment." The Questions and Answers provide additional guidance to financial institutions and the public on agency regulations that implement the CRA. The proposed new and revised guidance address questions raised by bankers, community organizations, and others regarding agency CRA regulations, including access to banking service, innovative or flexible lending practices, qualitative assessment factors, and community development. The new round of CRA Questions and Answers is a follow-up to final revisions to earlier Questions and Answers published in the *Federal Register* in November 2013.

Proposed Rulemaking on Flood Insurance Rule

In October 2014, the FDIC, the FRB, the NCUA, the OCC, and the Farm Credit Administration issued a proposed rule to amend regulations pertaining to loans secured by property located in special flood hazard areas. The proposed rule would implement provisions of the Homeowner Flood Insurance Affordability Act of 2014 (HFIAA) relating to escrowing flood insurance payments and the exemption of certain detached structures from the mandatory flood insurance purchase requirement. HFIAA amends the escrow provisions of the Biggert-Waters Flood Insurance Reform Act of 2012 (the Biggert-Waters Act).

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 2014, the ComE-IN met in April and October to discuss safe banking products, mobile financial services, financial education opportunities for young people, consumer demand for small dollar credit, *Bank On* programs, and the results from the FDIC National Survey of Unbanked and Underbanked Households.

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 bank 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 2014, the FDIC published a report on the 2013 FDIC National Survey of Unbanked and Underbanked Households, based on data collected 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. In addition, the report identified opportunities to better include or retain consumers as bank customers, including opportunities associated with economic transitions such as gaining or losing a job. The report was presented to the ComE-IN members in October. Also, to enhance transparency and utility of the data, the FDIC developed a web-based resource to allow bankers and other members of the public to specify and generate reports that reflect their particular interests.

The FDIC continued planning for new research to learn about bank efforts to serve unbanked and underbanked customers. During 2014, the FDIC advanced work to develop new survey questions and established relationships with external vendors that may be called upon to assist with qualitative research efforts, such as in-depth interviews with a limited number of bankers.

Partnerships to Promote Consumer Access

The FDIC, through work with Alliances for Economic Inclusion, *Bank On* initiatives, and in collaboration with many local and national organizations, supports consumer financial education and access. 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 2014, the FDIC supported 16 AEI programs across the nation. Many AEIs formed committees and working groups to address specific challenges and financial services needs in their communities. These included retail financial services for underserved populations, savings initiatives, affordable remittance products, small-dollar loan programs, targeted financial education programs, and other credit and asset-building programs.

The FDIC continued to work with a wide range of banks and nonprofit organizations in all of the AEI markets. For example, in March 2014, the FDIC, with the Small Business Administration's support, conducted a Small Business Resource Summit and Entrepreneurial Cafe in Fairmont, West Virginia. This event brought together an array of banks, training providers, nonprofit organizations, and state and federal agencies to connect small businesses with the resources they need. In January and June 2014, the Northeast Oklahoma AEI (NEOK AEI) membership conducted credit building events in Tahlequah and Tulsa. At these events, consumers reviewed their credit reports in one-on-one sessions with credit counselors, lenders, and underwriters who assisted them in interpreting, correcting and improving their credit histories. Other events in 2014 that were co-sponsored by the FDIC in four AEI markets included training sessions on the importance of credit scores and the potential for enhancing credit profiles. AEI members collaborated with the Credit Builders Alliance, a nonprofit organization that works to facilitate credit reporting for community development lenders, to train more than 200 representatives of social service organizations, local governments and banks, in greater Los Angeles, California; Milwaukee, Wisconsin; and Wilmington, Delaware, on the role of credit building for low- and moderate-income consumers.

The FDIC also provided information and technical assistance in the development of safe and affordable transaction and savings accounts and other products and services designed to meet the needs of low- and moderate-income consumers. In over 50 markets, the FDIC provided technical assistance to local *Bank On* initiatives and to asset building coalition activities designed to reduce barriers to banking and increase access to the financial mainstream. The FDIC also supported efforts to link consumers to financial education and savings through engagement in activities organized around designated "*Money Smart*" or "Financial Fitness" weeks or months that involved hundreds of consumer outreach events. Moreover, working with the national, local, state, and targeted (youth, military, and minority consumer-focused) *America Saves* campaigns, FDIC community affairs teams continued to link banking companies to active efforts for engaging consumers with setting savings goals at tax time and year round.

Banker Teleconferences

In 2014, 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 compliance and consumer protection. Teleconference participants included bank directors, officers, staff, and other banking industry professionals.

Three teleconferences were held in 2014. The topics discussed included (1) revisions to the "Interagency Questions and Answers Regarding Community Reinvestment, (2) Common Questions and Answers Pertaining to Implementation of the CFPB's Ability-to-Repay and Loan Originator Compensation Final Rules, and (3) an update on flood insurance matters.

Advancing Financial Education

The FDIC expanded its financial education efforts during 2014 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. In particular, the FDIC took steps to more closely align its financial education activities with the *Starting Early for Financial Success* focus of the Financial Literacy and Education Commission.

The FDIC signed a multi-year MOU with the CFPB in April 2014, which leverages each agency's strengths to improve financial education and decision-making skills among American youth from pre-kindergarten through age 20. Early results of the new partnership include tailored financial education resources for teachers, youth, and parents/caregivers.

As part of the new partnership, the FDIC began to develop a new instructor-led *Money Smart* curriculum series for young people, to be used as a resource for teachers. Bankers can also use these tools as they work with schools, non-profit organizations, and other youth-based audiences. The age-appropriate series, targeted for release in early 2015, will consist of four free standard-aligned curriculums that empower teachers with engaging activities to integrate financial education instruction into subjects such as math, English, and social studies. Each curriculum includes a new parent resource guide with information about the topics being covered in class, as well as at-home activities. The curriculum will be made available through the new Teacher Online Resource Center (TORC) website. (https://www.fdic.gov/consumers/education/teachers.html) that was launched in September 2014. The TORC is a central location for teachers to access resources from across the FDIC and CFPB that can support financial literacy instruction.

Also, as part of the new partnership, in August 2014, the FDIC and CFPB launched a campaign to encourage parents and caregivers to help their children build knowledge on financial matters. More than 13,000 visitors accessed the website which provides resources that parents and caregivers can use to talk about money with young people.

In August 2014, the FDIC launched a Youth Savings Pilot Program (Pilot) to identify and highlight promising approaches to offering financial education tied to the opening of safe, low-cost savings accounts for K-12 school-aged children. The FDIC selected nine institutions from a pool of bank applicants. The Pilot's first phase covers existing partnerships between institutions and schools that are in place during the 2014–15 school year. In 2015, the FDIC plans to solicit banks that intend to carry out new programs and partnerships during the 2015–16 school year to participate in the second phase of the Pilot. The Pilot will culminate in a report later in 2015 that will communicate lessons learned about ways banks may work with schools or other organizations to effectively combine financial education with access to a savings account.

The existing suite of *Money Smart* products for consumers was also enhanced with the release of a Spanish language translation of *Money Smart for Older Adults*, in partnership with the CFPB. This stand-alone training module developed by both agencies was initially released in English in 2013 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.

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 150 outreach events to promote the *Money Smart* program. More than 38,000 copies of the *Money Smart* instructor-led curriculum were distributed or downloaded, and more than 49,000 people used the computer-based or podcast curriculum, exemplifying effective results from the outreach sessions.

An example of FDIC outreach with leading organizations to achieve shared objectives is the FDIC's participation in the 2014 *America Saves* Week, which took place from February 24 to March 1. The FDIC hosted six webinars that reached more than 300 financial institutions to discuss opportunities to participate in *America Saves* Week. In addition, the FDIC supported local *America Saves* coalitions in many communities around the country by conducting financial education workshops and providing resources.

Community Development

In 2014, the FDIC provided professional guidance and technical assistance to banks and community organizations through outreach activities and events designed to foster understanding and practical relationships between financial institutions and other community development and economic inclusion stakeholders. As part of this effort, the FDIC conducted over 135 community development events linking bank and community partners with opportunities to address community credit and development needs. A particular emphasis was on low- and moderate-income consumers and small businesses.

The FDIC provided support to strategic partnering between community banks and Community Development Financial Institutions (CDFIs). In May 2014, the FDIC released a guide entitled "Strategies for Community Banks to Develop Partnerships with Community Development Financial Institutions" in an effort to strengthen outreach to encourage partnerships with CDFIs to meet community credit needs.

The FDIC also co-sponsored the 2014 National Interagency Community Reinvestment Conference in Chicago, Illinois. FDIC Chairman Gruenberg, as a plenary speaker, addressed the importance of economic inclusion and community development in his remarks. FDIC staff moderated a number of the sessions covering small business lending, CRA 101 for Community Based Organizations, financial capability, affordable housing, and economic inclusion. More than 900 bankers and community development practitioners attended the biennial conference.

Community Banking Initiatives

Community banks are those institutions that provide traditional, relationship-based banking services in their local communities. They account for about 13.3 percent of the banking assets in the United States but provide nearly 45.1 percent of the small loans that FDIC- IDIs make to businesses and farms. The FDIC is the lead federal supervisor for the majority of community banks, and the insurer of all. The FDIC has a particular responsibility for the safety and soundness of community banks, and for understanding and communicating the role they play in the banking system.

Efforts under the Community Banking Initiative continued on a number of fronts in 2014. The FDIC continued to conduct targeted research on key community banking issues, and published or presented findings related to the resilience of community banks amid banking industry consolidation, *de novo* institutions and their performance over time, the effects of long-term rural depopulation on community banks, the performance and social impact of Minority Depository Institutions (MDIs), and long-term trends in the physical banking offices operated by FDIC-insured institutions

Another important development during the year was the introduction of a new section in the FDIC *Quarterly Banking Profile* (QBP) that focuses specifically on community banks. This new section of the FDIC's flagship statistical report highlights the structure, activities, and performance of community banks as distinct from the results for larger institutions, and should provide a useful barometer by which smaller institutions can compare their own results. Combined with the FDIC's special reports on community banking topics, this enhancement to the QBP represents an ongoing commitment to an active program of research and analysis on community banking.

In response to concerns about pre- and post-examination processes, the FDIC developed a web-based tool in 2013 that generates a pre-examination document and information request tailored to a specific institution's operations and business lines. In 2014, the regional and Washington offices continued to monitor banker feedback on the enhanced pre-examination process and adjusted the tool based on banker and examiner feedback.

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 supervisory focus and regulatory changes. One key element of this resource center is a Technical Assistance Video Program that provides in-depth, technical training for bankers to view at their convenience. A new video released during 2014 focused on the new mortgage rules that became effective in 2013. The video is targeted to bank compliance officers to facilitate bank implementation of and compliance with the CFPB's ability-to-repay/qualified mortgage regulations. In addition, the FDIC's Cyber Challenge: A Community Bank Cyber Exercise was added to the Technical Assistance Video Program in 2014.

Throughout 2014, the FDIC continued to offer additional technical training opportunities on subjects of interest to community bankers. As part of this ongoing effort, the FDIC hosted Director Colleges in each region. These Colleges are typically conducted jointly with state trade associations and address topics of interest to community bankers. The FDIC hosted a banker call-in on new mortgage rules and participated in an FFIEC call-in regarding Call Report changes. The FDIC also offered a series of Deposit Insurance Coverage seminars for bank officers and employees. These free seminars, which were offered nationwide, particularly benefited smaller institutions that have limited training resources. Further, the FDIC conducted a series of roundtables with community bankers in each of its six regions. Community bank outreach and training initiatives will continue in 2015.

Additionally, in June 2014, the FDIC mailed an information packet to the chief executive officers (CEOs) of all FDIC-supervised banks. In addition to an introductory letter to the CEOs, the packet contained brochures highlighting the content of key resources and programs; a copy of the Cyber Challenge, a technical assistance product designed to assist with the assessment of operational readiness capabilities; and other information of interest to community bankers.

The FDIC's Advisory Committee on Community Banking is an ongoing forum for discussing critical issues and receiving valuable feedback and input from the industry. The advisory committee met three times during 2014. The Committee, which is composed of 15 senior leaders of community banks from around the country, is a valuable resource for input on a wide variety of topics, including examination policies and procedures, capital and other supervisory issues, credit and lending practices, deposit insurance assessments and coverage, and regulatory compliance issues.

Finally, the FDIC and the OCC co-hosted a Joint Agency Mutual Forum (Forum) on July 24, 2014, which was the first conference conducted for all mutual banking institutions, regardless of charter type. Mutually-related institutions represent about 9 percent of all FDIC-insured institutions and are among the oldest form of depository institution. Attended by approximately 125 mutual bankers, the Forum provided an opportunity for the participants to learn about current trends and engage in a dialogue on the opportunities and challenges facing mutual institutions. In June 2014, the FDIC created a new website dedicated to mutual institutions, with helpful resources, guidance, and the first ever published comprehensive listing of mutual banks and institutions owned by mutual holding companies.

Consumer Complaints and Inquiries

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

The FDIC recognizes that consumer complaints and inquiries play an important role in the development of strong public and supervisory policy. Assessing and resolving these matters helps 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, U.S. Mail, email, and online through the FDIC's website. In 2014, the FDIC handled 17,559 written and telephone complaints and inquiries. Of this total, 9,358 related to FDIC-supervised institutions. The FDIC responded to nearly 98 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 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.

In 2014, the five most frequently identified consumer product complaints and inquiries about FDIC-supervised institutions concerned credit cards (18 percent), checking accounts (14 percent), residential real estate loans (12 percent), consumer loans (13 percent), and prepaid cards (8 percent). Credit card complaints and inquiries most frequently described issues with collection practices, while the issues most commonly cited in correspondence about checking accounts related to bank overdraft fees and service charges. The largest share of complaints and inquiries about residential real estate loans related to loan modifications and foreclosures. Consumers most often identified concerns with collection practices regarding consumer loans, and a large number of complaints also involved issues related to prepaid cards.

The FDIC also investigated 76 complaints alleging discrimination during 2014. The number of discrimination complaints investigated has fluctuated over the past several years but averaged approximately 121 complaints per year between 2008 and 2014. Over this period, 36 percent of the complaints investigated alleged discrimination based on the race, color, national origin, or ethnicity of the applicant or borrower; 23 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. In 2014, consumers received more than $801,000 in refunds from financial institutions as a result of the assistance provided by the FDIC's Consumer Affairs Program.

Public Awareness of Deposit Insurance Coverage

An important part of the FDIC's deposit insurance mission is to ensure that bankers and consumers have access to accurate information about the FDIC's rules for deposit insurance coverage. The FDIC has an extensive deposit insurance education 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 during 2014. For example, the FDIC conducted 12 telephone seminars for bankers on deposit insurance coverage, reaching an estimated 20,108 bankers participating at approximately 5,745 bank locations throughout the country. In 2014, the FDIC also completed a comprehensive update of its deposit insurance coverage publications and educational tools for consumers and bankers. This included a complete revision of the FDIC's website including brochures, resource guides, and videos. In addition, new outreach materials were developed to assist depositors, including infographic diagrams for revocable and irrevocable trust deposits.

As of December 31, 2014, the FDIC received and answered approximately 88,315 telephone deposit insurance-related inquiries from consumers and bankers. The FDIC Call Center addressed 40,522 of these inquiries, and deposit insurance coverage subject-matter experts handled the other 47,793. In addition to telephone inquiries about deposit insurance coverage, the FDIC received 1,879 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 FDIC's Center for Financial Research (CFR) encourages and supports innovative research on topics that are important to the FDIC's role as deposit insurer and bank supervisor. During 2014, the FDIC's CFR co-sponsored two major conferences. Approximately 60 regulatory staff attended an Interagency Risk Quantification Forum, co-sponsored by the FDIC, the OCC, and the Federal Reserve Bank of Philadelphia, which addressed topics including securitization and creditor recovery, loss given default, and the identification of systemic risk in the banking industry.

The CFR also organized and sponsored the 14th Annual Bank Research Conference jointly with the Journal for Financial Services Research (JFSR), in October 2014. More than 120 participants attended the conference that included more than 20 presentations on topics related to global banking, financial stability, and the financial crisis.

RECEIVERSHIP MANAGEMENT

The FDIC has the unique mission of protecting depositors of insured banks and savings associations. No depositor has ever experienced a loss on the insured amount of his or her deposits in an FDIC-insured institution due to a failure. Upon closure of an institution, typically by its chartering authority—the state for state-chartered institutions and the 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. The FDIC uses two basic resolution methods: purchase and assumption transactions and deposit payoffs.

The purchase and assumption (P&A) transaction is the most commonly used resolution method. 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 FDIC 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, absorbing 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 assets in the banking sector can produce a better net recovery than the FDIC's immediate liquidation of these assets.

The FDIC monitors compliance with shared-loss agreements by validating the appropriateness of loss-share claims; reviewing efforts to maximize recoveries; ensuring consistent application of policies and procedures across both shared-loss and legacy portfolios; and confirming that the acquirer has sufficient internal controls, including adequate staff, reporting, and recordkeeping systems. At year-end 2014, there were 281 shared-loss agreements with $54.6 billion in total covered assets.

Deposit payoffs are only executed if all bids received for a P&A transaction are 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. A variation of the deposit payoff is the establishment of a New Depository Institution (NDI), as authorized by the FDI Act. An NDI is a new national bank or federal savings association with limited life and powers that assumes the insured deposits of a failed bank or savings association, allowing customers of the failed bank or savings association a brief period of time to move their deposit account(s) to other insured institutions. Though infrequently used, an NDI allows for a failed bank or savings association 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, uninsured depositors, 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, and structured transactions.

Financial Institution Failures

During 2014, there were 18 institution failures, compared to 24 failures in 2013. 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. 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 2012–2014
Dollars in Billions

	2014	2013	2012
Total Institutions	18	24	51
Total Assets of Failed Institutions[1]	$2.9	$6.0	$11.6
Total Deposits of Failed Institutions[1]	$2.7	$5.1	$11.0
Estimated Loss to the DIF	$0.4	$1.3	$2.7

[1] 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.

Asset Management and Sales

As part of its resolution process, the FDIC tries to sell as many assets as possible to an assuming institution. Assets that are retained by the receivership are 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.

Cash sales of assets for the year totaled $772 million in book value. In addition to structured and cash sales, the FDIC also uses securitizations to dispose of bank assets.

As a result of the FDIC's marketing and collection efforts, the book value of assets in inventory decreased by $3.6 billion (32 percent) in 2014. 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	12/31/14	12/31/13
Securities	$470	$893
Consumer Loans	36	69
Commercial Loans	123	274
Real Estate Mortgages	697	954
Other Assets/Judgments	957	1,145
Owned Assets	120	365
Net Investments in Subsidiaries	123	117
Structured and Securitized Assets	5,150	7,487
Total	**$7,676**	**$11,304**

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 2014, the number of receiverships under management increased by .2 percent, as a result of new failures. The following chart shows overall receivership activity for the FDIC in 2014.

RECEIVERSHIP ACTIVITY

Active Receiverships as of 12/31/13[1]	480
New Receiverships	18
Receiverships Terminated	17
Active Receiverships as of 12/31/14	481

[1] Includes one FSLIC Resolution Fund receivership at year-end 2013.

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 2014, the FDIC paid dividends of $6 million to depositors whose accounts exceeded the insurance limit.

Professional Liability and Financial Crimes Recoveries

The 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 is expected to be cost-effective to pursue, the FDIC initiates legal action against the appropriate parties. During 2014, the FDIC recovered more than $1.1 billion from professional liability claims and settlements. The FDIC also authorized lawsuits related to 17 failed institutions against 123 individuals for director and officer liability, and authorized five other lawsuits for fidelity bond, liability insurance, attorney malpractice, appraiser malpractice, and securities law violations for residential mortgage-backed securities. As of the end of 2014, 75 residential mortgage malpractice and fraud lawsuits were pending. Also, the FDIC's caseload included 102 professional liability lawsuits (down from 119 at year-end 2013) and 511 open investigations (down from 796 at year-end 2013).

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 DOJ, collected $6.4 million from criminal restitution and forfeiture orders through the end of 2014. At that time, there were 3,954 active restitution and forfeiture orders (down from 4,073 at year-end 2013). This includes 130 orders held by the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund, (i.e., orders arising out of failed financial institutions that were in receivership or conservatorship by the FSLIC or the Resolution Trust Corporation).

INTERNATIONAL OUTREACH

In 2014, the FDIC continued to play a leading role in supporting and promoting the global development of effective deposit insurance, bank supervision, and effective resolution regimes as integral components of the financial safety net. The FDIC worked with several standard-setting, regulatory, supervisory, and multi-lateral organizations such as the Association of Supervisors of Banks of the Americas (ASBA), the Basel Committee on Banking Supervision (BCBS), the Financial Services Volunteer Corps (FSVC), the International Association of Deposit Insurers (IADI), the International Monetary Fund (IMF), and the World Bank. FDIC staff also facilitated the training of several hundred bank supervisors and regulators, technical assistance missions around the world, and secondment programs to further the international community's understanding and implementation of best practices in bank supervision and regulation.

International Association of Deposit Insurers

The International Association of Deposit Insurers (IADI) contributes to global financial stability by promoting international cooperation in the field of deposit insurance and providing guidance for establishing new, and enhancing existing, deposit insurance systems, and by encouraging wide international contact among deposit insurers and other interested parties. It is recognized as the standard-setting body for deposit insurance by major international financial institutions, including the FSB, the G-20, the BCBS, the E.C., the IMF, and the World Bank. Since its founding in 2002, IADI has grown from 26 founding members to 79 deposit insurers from 76 jurisdictions. FDIC Chairman Gruenberg served as the President of IADI and Chair of its Executive Council from November 2007 to October 2012. FDIC Vice Chairman Thomas Hoenig currently serves on IADI's Executive Council.

In 2009, IADI and the BCBS jointly issued the *Core Principles for Effective Deposit Insurance Systems* and completed the accompanying *Compliance Assessment Methodology for the Core Principles* in 2010 (together, the *Core Principles*). The FSB included the *Core Principles* in its Compendium of Key Standards for Sound Financial Systems. The IMF and World Bank use the *Core Principles* in the context of the Financial Sector Assessment Program (FSAP) reviews, to assess the effectiveness of jurisdictions' deposit insurance systems and practices. This represents an important milestone in the growing global acceptance of the role of effective deposit insurance systems in maintaining financial stability. To-date, IADI has trained more than 280 staff members from over 70 jurisdictions in conducting self-assessments for compliance with the *Core Principles*.

In 2014, a Joint Working Group, comprising key representatives from the FDIC, the Canada Deposit Insurance Corporation, the BCBS, the European Forum of Deposit Insurers, the IMF, the World Bank, the E.C., and the FSB, revised the *Core Principles* and presented the revision to the IADI Executive Council, which approved it in October 2014. Subsequently, IADI submitted the updated *Core Principles* to the FSB for inclusion in its Periodic Report to the Plenary, and acceptance by the IMF and World Bank is expected in the near term. Complementing FDIC efforts with IADI and the *Core Principles*, the FDIC in partnership with the Financial Stability Institute (FSI), developed an online tutorial to assist jurisdictions in completing self-assessments of compliance with the *Core Principles* in preparation for the IMF/World Bank FSAP review.

FDIC executives and subject-matter experts partnered with IADI to make significant contributions to the development and delivery of several key international programs in 2014. Vice Chairman Hoenig and division executives joined global bank resolution and deposit insurance leaders in exploring key issues related to the use of bail-in as a resolution tool in Warsaw, Poland. The FDIC partnered with FSI to develop a seminar on bank resolution and crisis management hosted by the Bank for International Settlements in Basel, Switzerland. In collaboration with the Kenya School of Monetary Studies, the FDIC led a workshop in Nairobi, Kenya, in May 2014 for jurisdictions interested in establishing new deposit insurance systems. The FDIC helped modernize IADI's information technology infrastructure and its research capabilities and supported IADI in many leadership capacities. In addition to the Vice Chairman's role on the Executive Council, an FDIC executive chairs the IADI Training and Conference Committee (TCC), which is responsible for setting IADI's training strategy, advancing the *Core Principles* capacity building programs, and forging effective partnerships with multilateral agencies that contribute to IADI's training capabilities. One of the TCC's marquee programs is its Executive Training Seminars. In July 2014, the FDIC led a seminar on Deposit Insurance Funding for 70 participants from 35 jurisdictions.

Association of Supervisors of Banks of the Americas

The FDIC has been a member of ASBA since its founding in 1999 and supports ASBA's mission of promoting sound bank supervision and regulation throughout the Western Hemisphere. ASBA represents bank supervisors from 36 jurisdictions. The FDIC strives to lead the development of strong supervisory policies in this hemisphere through active engagement with the Association's Board, chairing the ASBA's Training and Technical Committee, and by providing leadership in many of the Association's research and guidance working groups.

Senior FDIC staff chair the ASBA Training and Technical Committee, which is responsible for designing and implementing ASBA's training strategy that advances the adoption of sound bank supervision policies and practices among members. In support of ASBA's Continental Training Program, the FDIC led two technical assistance training missions in 2014, including Supervision of Operational Risk in San Salvador, El Salvador, and Financial Institution Analysis in Tegucigalpa, Honduras. The FDIC continued to provide subject-matter experts as instructors and speakers to support ASBA-sponsored training programs, seminars, and conferences.

Basel Committee on Banking Supervision

The FDIC supported the development of sound regulatory policy through effective participation in the BCBS and its relevant subgroups. FDIC senior managers represented the FDIC in quarterly meetings of the BCBS and its Policy Development Group. Throughout the year, the FDIC was active in a number of BCBS subgroups that developed proposals for international minimum standards for capital adequacy, resolution regimes, liquidity and funding, and trading and derivatives activities for internationally active banks. These groups include the Task Force on Simplicity and Comparability, the Leverage Ratio Group, the Accounting Experts Group, the Working Group on Liquidity, the Working Group on Margining Requirements, the Cross-Border Bank Resolution Group, and the Standards Implementation Group, among others. FDIC staff contributed to active work streams and quantitative impact studies for BCBS subgroups, providing substantial support and in some instances leading the work.

International Capacity Building

The FDIC's international efforts supporting the development of effective deposit insurance systems, bank supervisory practices, and bank resolution regimes continued to grow in 2014. FDIC staff contributed to international capacity building by providing study tours, secondments, and technical assistance to foreign counterparts. These engagements resulted in an enhanced dialogue between the FDIC and foreign bank supervisors, deposit insurers, and lawmakers on significant areas such as bank supervision and regulatory development post crisis, depositor preference and resolution functions of the deposit insurance system, and optimal funding strategies for deposit insurers.

FDIC management and staff hosted study tours for 288 individuals, representing 26 jurisdictions during the year. Additionally, the FDIC's Corporate University provided training in bank supervision and information technology to 294 foreign delegates from 20 jurisdictions. In support of the FDIC's long-term partnership with the U.S. Department of State, the FDIC hosted training sessions for 111 individuals from 15 jurisdictions on Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) in 2014. These training sessions assisted participating jurisdictions in implementing AML/CFT standards, and in providing law enforcement with financial investigative skills, as well as a suite of skills necessary to combat money laundering, terrorist financing, and fraud.

The FDIC contributes to global and domestic initiatives by providing staff to support long-term projects and technical assistance missions led by the IMF, U.S. Treasury Department, the FSVC, and the World Bank. In 2014, senior FDIC staff served on long-term assignments at the U.S. Treasury Department's Office of International Bank and Securities Markets. The FDIC led six technical assistance missions sponsored by the U.S. Treasury and the FSVC. In collaboration with the U.S. Treasury Office of Technical Assistance, the FDIC advised the Banque de la République du Burundi on the development of a risk-based supervision program. In partnership with the FSVC, the FDIC participated in several technical assistance missions including assisting the Albania Deposit Insurance Agency in developing an automated system to verify deposit insurance premiums and payouts, providing expertise on the topic of savings mobilization in the financial sector to the East African Community Financial Services Providers' Council in Tanzania, and providing senior Bank of Uganda examiners with an opportunity to strengthen its supervision framework by observing an FDIC risk-management examination. The FDIC partnered with the World Bank to provide technical assistance to the Nigerian Deposit Insurance Corporation on developing a targeted fund ratio for their deposit insurance fund. The FDIC also provided technical assistance and consultation to the Central Bank of Curaçao on the disposition of larger troubled banks and strengthening its bank supervision framework.

The FDIC expands and strengthens international engagement by providing secondment opportunities to foreign officials to engage in long-term consultation with FDIC subject-matter experts in areas related to bank supervision, deposit insurance, and resolutions. In 2014, two officials from the Deposit Insurance Corporation of Japan and the Korea Deposit Insurance Corporation concluded their secondments to the FDIC, and two new secondees from these agencies joined the FDIC, each for one-year assignments.

Key International Engagements

In 2014, the FDIC took important steps to strengthen its relationships with key jurisdictions worldwide. In February, FDIC executives attended the U.S.-India Financial Regulatory Dialogue, hosted by the Securities and Exchange Bureau of India (SEBI) in Mumbai. U.S. representatives from the Treasury Department, FRB, SEC, Commodity Futures Exchange Commission, and the Federal Insurance Office met with the Indian Ministry of Finance, Reserve Bank of India, the Forward Markets Commission, and the Insurance Regulatory and Development Authority to discuss banking sector developments, commodity market and capital market issues, insurance and pension regulation, and financial regulatory reform in each country. The FDIC discussed the U.S. bank resolution regime and new resolution powers for nonbank resolutions. The Reserve Bank of India, in turn, explained its proposed banking reform legislation that would dissolve the current Deposit Insurance and Credit Guarantee Corporation and create a new resolution corporation responsible for the resolution of bank and nonbank financial institutions in India.

In July 2014, Secretary of the Treasury Jacob Lew and Secretary of State John Kerry led a delegation of senior U.S. officials to Beijing, China, to participate in the 6th U.S.-China Strategic and Economic Dialogue. Secretary Lew and Vice Premier Wang Yang led the Economic Track discussion. The FDIC was represented at the meetings, alongside a high-level delegation of Cabinet members, ministers, agency heads, and senior officials from both countries. Among key outcomes, such as commitments by China to liberalize its exchange rate regime, reduce barriers to trade, and further open its markets, China also committed to accelerate the establishment of a deposit insurance system and improve the resolution mechanism for financial institutions through issuing regulations on bank resolution.

MINORITY AND WOMEN INCLUSION

The FDIC relies on contractors to help meet its mission. In 2014, the FDIC awarded 288 (26.9 percent) contracts to minority- and women-owned businesses (MWOBs) out of a total of 1,072 issued. The FDIC awarded contracts with a combined value of $686.8 million in 2014, of which, $239.9 million, or 34.9 percent, were awarded to MWOBs, compared to 34.7 percent for all of 2013. The FDIC paid $128.2 million of its total contract payments (26.1 percent) to MWOBs, under 1,934 active contracts. Referrals to minority- and women-owned law firms (MWOLFs) accounted for 16 percent of all legal referrals in 2014, with total payments of $15.3 million going to MWOLFs, (13 percent of all payments to outside counsel) compared to 13 percent for all of 2013.

In 2014, the FDIC participated in a combined total of 21 business expos, one-on-one matchmaking sessions, and panel presentations. At these events, FDIC staff provided information and responded to inquiries regarding FDIC business opportunities for minorities and women. In addition to targeting MWOBs, these efforts also targeted veteran-owned and small disadvantaged businesses. Vendors were provided with the FDIC's general contracting procedures, prime contractors' contact information, and forecasts of possible upcoming solicitations. Also, vendors were encouraged to register through the FDIC's Contractor Resource List (a principal database for vendors interested in doing business with the FDIC). In 2014, a total of 332 MWOBs were added to the FDIC Contractor Resource List.

On December 2, 2014, the FDIC hosted a Technical Assistance Day. This event provided a venue for various business owners, including MWOBs and MWOLFs, to become better acquainted with the FDIC's contracting process, receive technical assistance on effective proposal writing, and learn about the types of technical assistance offered by the Procurement Technical Assistance Center and Minority Business Development Agency. The event also included a panel composed of Office of Minority and Women Inclusion (OMWI) Directors from the U.S. Treasury Department, the OCC, the SEC, the FHFA, the CFPB, and the FDIC, who addressed their respective programs and opportunities. Eighty-six business representatives attended.

In addition, the FDIC conducted a series of outreach events to raise awareness and provide information on how to purchase other real estate (ORE) through the FDIC's Owned Assets Marketplace and Auctions Program. The events also facilitated interaction between smaller investors and asset managers, which includes minority- and women-owned (MWO) firms.

Additionally, the FDIC conducted outreach targeting prospective asset purchasers and investors, including MWO investors, in Chicago and New York City in advance of an auction that occurred later in 2014. Information regarding the Owned Assets Marketplace and Auctions Program can be found on the FDIC's website at www.fdic.gov/mwop.

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 2014 follow.

Human Capital Management

The FDIC's human capital management programs are designed to attract, train and develop, reward, and retain a highly skilled, diverse, and results-oriented workforce. In 2014, FDIC workforce planning initiatives emphasized the need to plan for employees to fulfill current and future requirements and leadership needs. This focus ensures that the FDIC has a workforce positioned to meet today's core responsibilities while preparing to fulfill its mission in the years ahead.

Strategic Workforce Planning and Readiness

During 2014, the FDIC continued to develop and began implementation of the Workforce Development initiative. This effort began with an assessment of the current talent pipeline for senior leadership positions. Based on the findings, the FDIC elected to broaden the scope of the initiative beyond succession planning to include the development of strategies designed to address comprehensive workforce development challenges and opportunities. The initiative is focused on four broad objectives: attract and develop talented employees across the agency, enhance the capabilities of employees through training and diverse work experiences, encourage employees to engage in active career development planning and seek leadership roles in the FDIC, and build on and strengthen the FDIC's operations to best support these efforts.

In 2014, the FDIC embarked on planning and developing the infrastructure, governance, programs, and processes to help meet its long-term workforce needs. The FDIC is committed to building and maintaining its talent pipeline to ensure succession challenges are fully addressed. It will take several cycles of identifying future workforce and leadership needs; assessing current workforce capabilities; supporting aspiration to leadership and management roles; and developing and sourcing the talent to meet emerging workforce needs. As such, the FDIC's Workforce Development initiative is a dynamic process rather than a one-time, static event.

Simultaneously, the FDIC continued to focus on ensuring the availability of a workforce prepared to address today's responsibilities, especially related to the oversight of SIFIs required under the Dodd-Frank Act. As an outgrowth of strategic workforce planning, the FDIC established a new employee development program to expand the number of FDIC employees who have broad, cross-divisional experience with the largest and most complex FDIC-insured banks and BHCs. The program provides experience in supervision, risk analysis and monitoring, risk-based pricing and deposit insurance fund management, and resolution planning and resolvability. Twelve employees were selected for this rotational program in 2014.

Workforce planning efforts also addressed the need to continue winding down bank closure activities, based on the decrease in the number of financial institution failures and institutions in at-risk categories. In 2014, the FDIC continued to evaluate its staffing needs in a post-crisis environment and released some of the temporary staff as their term appointments expired. The FDIC has extended appointments only for the most critical temporary positions, where workload continues to exist, to address post-closure activity, which typically extends for five to seven years after a bank fails. The bank resolution workload is expected to slow considerably over the next few years.

The quality and commitment of FDIC employees have allowed the agency to respond effectively in times of crisis, while continuing to deliver on its core mission responsibilities. Through further development of its human capital strategies, the FDIC will work to ensure that the future FDIC workforce is as prepared, capable, and dedicated as the one it has today.

Corporate Employee Program

The FDIC's Corporate Employee Program (CEP) sponsors the development of newly hired financial institution specialists (FISs) in entry-level positions. The CEP encompasses major FDIC divisions where FISs are trained to become part of a highly effective workforce. During the first-year rotation within the program, FISs gain experience and knowledge in the core business of the FDIC, including the Division of Depositor and Consumer Protection (DCP), Division of Risk Management Supervision (RMS), the Division of Resolutions and Receiverships (DRR), and the Division of Insurance (DIR). At the conclusion of the 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 CEP 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, 1,391 individuals have joined the FDIC through this multi-discipline program and approximately 628 have become commissioned examiners after successfully completing the program's requirements.

The FDIC continues to sponsor the Financial Management Scholars Program (FMSP), an additional hiring source for the CEP. Participants in the FMSP complete an internship with the FDIC the summer following the conclusion of their junior year. As a result, the FDIC is able to recruit and hire highly talented and well-qualified students into the CEP ahead of other prospective employers. The program serves as an additional venue to recruit talent. For 2015, 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 is committed to the learning and development of its employees throughout their career to enrich technical proficiency and leadership capacity, supporting career progression and succession management. In 2014, the FDIC focused on developing and implementing comprehensive curricula for its business lines to incorporate lessons learned from the financial crises 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 comprehensive 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 align with key leadership competencies. The FDIC is expanding the use of strategic simulations to support corporate readiness and preparedness. In addition to a broad array of internally developed and administered courses, the FDIC also provides its employees with funds and/or time to participate in external training to support their career development.

Corporate Risk Management

During 2014, the Office of Corporate Risk Management (OCRM) worked with divisions and offices to advance common agency-wide processes for identifying, managing, and mitigating risks to the FDIC. OCRM assisted the Enterprise Risk Committee, Executive Management Committee, External Risk Forum, and Management Risk Roundtable in reviewing risks across the agency. OCRM monitors material risks and mitigation activities, including the following:

- Risks to the agency's ability to conduct its mission essential functions under all threats and conditions, as described in its Continuity of Operations Plan and Business Continuity Plan.
- Risks to the financial system posed by the extended current low level of interest rates.
- Risks to the deposit insurance system arising from new products and services with characteristics very different from traditional loan and deposit products.
- Risks posed by the analytical models used by the FDIC in identifying and managing risk.
- Risks associated with governance and development of large-scale IT projects.
- Risks posed to the agency and to the financial services industry by concerted attempts to penetrate, compromise, and disrupt the information systems that are essential to their 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

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Director of the Division of Administration Arleas Upton Kea and Deputy to the Chairman and Chief Operating Officer Barbara A. Ryan accept the award from Max Stier, President and CEO of Partnership for Public Service.

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 2014, the FDIC received an award from the Partnership for Public Service for being ranked number one among mid-sized federal agencies on the *Best Places to Work in the Federal Government®* 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 plays an important role in helping the FDIC engage employees. 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 agency. In addition to the WE program, the FDIC-National Treasury Employees Union 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 recognizes secure information technology (IT) solutions are a critical and transformative resource for the successful accomplishment of the agency's business objectives. The FDIC relies on the efficient, innovative, and secure business capabilities that IT provides to ensure and enhance mission achievement.

Cybersecurity (internal)

Information resources are subject to serious threats that can have wide-ranging adverse impacts on the FDIC's operations, reputation, and ultimately the ability to accomplish its mission. The continually changing landscape of threats poses significant security challenges for the FDIC, the public, and the nation. Several serious widespread vulnerabilities, including the Heartbleed, Shellshock, and POODLE vulnerabilities, were of specific concern for the FDIC in 2014. The FDIC recognizes that protections against today's numerous and sophisticated array of cyber threats requires constant vigilance and rapidly evolving security solutions.

As threats continued to intensify from cyber criminals, hacktivists, and foreign governments, multiple defenses were necessary to address each of the different motivations, intents, and capabilities of attacks. The increasing threat of cyber-attacks required the FDIC to implement improved strategies for ensuring the security of the FDIC's data (including private, personal data) and IT infrastructure. In addition, the FDIC developed new cybersecurity capabilities for detecting incidents earlier and incorporated the capabilities together in a comprehensive framework to minimize the impact on operations and critical infrastructure, resulting in reduced risk.

The Information Security and Privacy Staff protects the FDIC's networks and systems from threats and attacks.