



I.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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THE YEAR IN REVIEW

OVERVIEW

The FDIC continued to fulfill its mission-critical responsibilities during 2017. Insuring deposits, examining and supervising financial institutions, making large financial firms resolvable, managing receiverships, and educating consumers are the core responsibilities of the FDIC. The agency adopted and issued proposed rules on key regulations under the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA), and engaged in several community banking and community development initiatives. Cybersecurity remained a high priority for the FDIC in 2017; the agency worked to strengthen cybersecurity oversight, help financial institutions mitigate increasing risks, and respond to cyber threats. The sections below highlight these and other accomplishments during the year.

DEPOSIT INSURANCE

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

Long-Term Comprehensive Fund Management Plan

In 2010 and 2011, the FDIC developed a comprehensive, long-term DIF management plan designed to reduce the effects of cyclical and achieve moderate, steady assessment rates throughout economic and credit cycles, while also maintaining a positive fund balance, even during a banking crisis. That plan complements the Restoration Plan, originally adopted in 2008 and subsequently revised, which was designed to ensure that the reserve ratio (the ratio of the fund balance to estimated insured deposits) reaches 1.35 percent by September 30, 2020, as required by the Dodd-Frank Act. Under the plan, a reduction in assessment rates took effect in the third quarter of 2016 as a result of the reserve ratio's having surpassed 1.15 percent in the previous quarter.

Under the long-term DIF management plan, to increase the probability that the fund reserve ratio will reach a level sufficient to withstand a future crisis, the FDIC Board set the Designated Reserve Ratio (DRR) of the DIF at 2.0 percent. In September 2017, the Board voted to maintain the 2.0 percent ratio for 2018. 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.

Additionally, as part of the long-term DIF management plan, the FDIC has suspended dividends indefinitely when the fund reserve ratio exceeds 1.5 percent. In lieu of dividends, the plan prescribes progressively lower assessment rates that will become effective when the reserve ratio exceeds 2.0 percent and 2.5 percent.

State of the Deposit Insurance Fund

Estimated losses to the DIF from bank failures that occurred in 2017 totaled \$1.1 billion. The fund balance continued to grow through 2017, as it has every quarter after the end of 2009. Assessment revenue was the primary contributor to the increase in the fund balance in 2017. The fund reserve ratio rose to 1.28 percent at September 30, 2017, from 1.18 percent a year earlier.

Minimum Reserve Ratio

Section 334 of the Dodd-Frank Act, which increased the minimum reserve ratio of the DIF from 1.15 percent to 1.35 percent, requires that the reserve ratio reach that level by September 30, 2020. Section 334 also mandates that the FDIC offset the effect of the increase in the minimum reserve ratio on IDIs with total consolidated assets of less than \$10 billion. The final rule implementing these requirements took effect on July 1, 2016. It imposes surcharges on the quarterly assessments of insured depository institutions (IDIs) with total consolidated assets of \$10 billion or more. The surcharges will continue through the quarter in which the reserve ratio first

reaches or exceeds 1.35 percent. The surcharge equals an annual rate of 4.5 basis points applied to an institution's regular quarterly deposit insurance assessment base after subtracting \$10 billion, with additional adjustments for banks with affiliated IDIs. The FDIC expects the reserve ratio to reach 1.35 percent in 2018. If, contrary to the FDIC's expectations, the reserve ratio does not reach 1.35 percent by December 31, 2018 (but is still at least 1.15 percent), the final rule requires the FDIC to impose a shortfall assessment on IDIs with total consolidated assets of \$10 billion or more on March 31, 2019.

Because the Dodd-Frank Act requires that the FDIC offset the effect of the increase in the reserve ratio from 1.15 percent to 1.35 percent on IDIs with total consolidated assets of less than \$10 billion, the final rule exempts these smaller banks from the surcharges and provides assessment credits to these institutions for the portion of their regular assessments that contributes to growth in the reserve ratio between 1.15 percent and 1.35 percent. Credits will be automatically applied to these small banks' assessments when the reserve ratio is at or above 1.38 percent.

SUPERVISION

Supervision and consumer protection are cornerstones of the FDIC's efforts to ensure the stability of, and public confidence in, the nation's financial system. The FDIC's supervision program promotes the safety and soundness of FDIC-supervised financial institutions, protects consumers' rights, and promotes community investment initiatives.

Examination Program

The FDIC's strong bank examination program is the core of its supervisory program. As of December 31, 2017, the FDIC was the primary federal regulator for 3,636 FDIC-insured, state-chartered institutions

that were not members of the Federal Reserve System (generally referred to as "state nonmember" institutions). Through risk management (safety and soundness), consumer compliance and the Community Reinvestment Act (CRA), and other specialty examinations, the FDIC assesses an institution's operating condition, management practices and policies, and compliance with applicable laws and regulations.

As of December 31, 2017, the FDIC conducted 1,611 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 1,168 statutorily required CRA/compliance examinations (770 joint CRA/compliance examinations, 393 compliance-only examinations, and 5 CRA-only examinations). In addition, the FDIC performed 3,614 specialty examinations (which include reviews for BSA compliance) within prescribed time frames.

The table on the following page compares the number of examinations by type, conducted from 2015 through 2017.

Risk Management

All risk management examinations have been conducted in accordance with statutorily-established time frames. As of September 30, 2017, 104 insured institutions with total assets of \$16.0 billion were designated as problem institutions for safety and soundness purposes (defined as those institutions having a composite CAMELS¹ rating of 4 or 5), compared to the 132 problem institutions with total assets of \$24.9 billion on September 30, 2016. This is a 21 percent decline in the number of problem institutions and a 36 percent decrease in problem institution assets. For the 12 months ended September 30, 2017, 47 institutions with aggregate assets of \$15.3 billion were removed from the list of

¹The 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).

FDIC EXAMINATIONS 2015-2017			
	2017	2016	2015
Risk Management (Safety and Soundness):			
State Nonmember Banks	1,440	1,563	1,665
Savings Banks	171	164	206
State Member Banks	0	0	0
Savings Associations	0	0	0
National Banks	0	0	0
Subtotal – Risk Management Examinations	1,611	1,727	1,871
CRA/Compliance Examinations:			
Compliance/Community Reinvestment Act	770	709	859
Compliance-only	393	594	478
CRA-only	5	8	10
Subtotal – CRA/Compliance Examinations	1,168	1,311	1,347
Specialty Examinations:			
Trust Departments	347	351	365
Information Technology and Operations	1,627	1,742	1,886
Bank Secrecy Act	1,640	1,761	1,906
Subtotal – Specialty Examinations	3,614	3,854	4,157
TOTAL	6,393	6,892	7,375

problem financial institutions, while 19 institutions with aggregate assets of \$7.6 billion were added to the list. The FDIC is the primary federal regulator for 72 of the 104 problem institutions, with total assets of \$11.6 billion.

In 2017, the FDIC's Division of Risk Management Supervision (RMS) initiated 134 formal enforcement actions and 152 informal enforcement actions. Enforcement actions against institutions included, but were not limited to, 13 actions under Section 8(b) of the Federal Deposit Insurance Act (FDI Act) (all of which were consent orders), and 103 memoranda of understanding (MOUs). Of these enforcement actions against institutions, three consent orders, and 14 MOUs were based, in whole or in part, on apparent violations of BSA and anti-money laundering (AML) laws and regulations. In addition, enforcement actions were also initiated against

individuals. These actions included, but were not limited to, 65 removal and prohibition actions under Section 8(e) of the FDI Act (58 consent orders and seven notices of intention to remove/prohibit), nine actions under Section 8(b) of the FDI Act (one order to pay restitution and 8 personal cease and desist orders and 25 civil money penalties (CMPs) (22 orders to pay and 3 notices of assessment).

The FDIC continues to focus on forward-looking supervision by assessing risk management practices during the examination process to ensure that risks are mitigated before they lead to financial deterioration.

Compliance

As of December 31, 2017, 37 insured state nonmember institutions, about 1 percent of all supervised institutions, with total assets of \$58 billion, were problem institutions for compliance, CRA, or

both. All of the problem institutions for compliance were rated “4” for compliance purposes, with none rated “5.” For CRA purposes, the majority were rated “Needs to Improve,” and only two were rated “Substantial Noncompliance.” As of December 31, 2017, all follow-up examinations for problem institutions were performed on schedule.

As of December 31, 2017, the FDIC conducted all required compliance and CRA examinations and, when violations were identified, completed follow-up visits and implemented appropriate enforcement actions in accordance with FDIC policy. In completing these activities, the FDIC 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 2017 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 product features and limitations, deceptive marketing and sales practices, and misrepresentations about the costs of products. As a result, the FDIC issued orders requiring the payment of CMPs.

As of December 31, 2017, the FDIC’s Division of Depositor and Consumer Protection (DCP) initiated 26 formal enforcement actions and 22 informal enforcement actions to address compliance concerns. This included three restitution orders, one consent order, 20 CMPs, two Notices of Assessment, and 22 MOUs. Restitution orders are formal actions that require institutions to pay restitution in the form of consumer refunds for different violations of law. In 2017, these orders required the payment of approximately \$3 million to harmed consumers. As of December 31, 2017, the CMP orders totaled \$619,884.

Large Bank Supervision Program

The FDIC established the Large Bank Supervision Branch within RMS to address the growing complexity of large banking organizations with assets exceeding \$10 billion and not assigned to the Complex Financial Institution Group (CFI). This branch is responsible for supervisory oversight, ongoing monitoring, and resolution planning, while supporting the insurance business line. For state nonmember banks with assets exceeding \$10 billion, the FDIC generally applies a continuous examination program, whereby dedicated staff conducts ongoing on-site supervisory examinations and institution monitoring. At institutions where the FDIC is not the primary federal regulator, the FDIC has dedicated on-site examination staff at select banks, working closely with other financial institution regulatory authorities to identify emerging risks and assess the overall risk profile of large 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 not assigned to CFI. 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 2017, the LIDI Program covered 101 institutions with total assets of \$5.7 trillion. The comprehensive LIDI Program supports effective large bank supervision by using individual institution information to best deploy resources to high-risk areas, determining the need for supervisory action, and supporting insurance assessments and resolution planning.

The Shared National Credit (SNC) Program is an interagency initiative administered jointly by the FDIC, OCC, and FRB 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 2017, outstanding credit commitments identified in the SNC Program totaled \$4.4 trillion. The FDIC, OCC, and FRB issued a joint

press release detailing the results of the review in August 2017. The latest review showed the level of adversely rated assets remained higher than in previous periods of economic expansion, raising the concern that future losses and problem loans could rise considerably in the next credit cycle. The high level of credit risk observed during the recent SNC examination stems from leveraged borrowers, as well as distressed borrowers in the oil and gas sector or other industry sector borrowers exhibiting excessive leverage. Notwithstanding the riskiness of the existing portfolio, the agencies noted improved underwriting and risk management practices related to the most recent leveraged loan originations, as underwriters continued to better align practices with regulatory expectations and as investor risk appetite moderated away from transactions at the lower end of the credit spectrum. The agencies still identified several common weaknesses in leveraged lending underwriting including ineffective covenants, liberal repayment terms, and incremental debt provisions.

Sales Practices Review

Significant resources were allocated in 2017 to assess the retail sales practices of the large institutions. Initiatives included coordination with the OCC, FRB and Consumer Financial Protection Bureau (CFPB), in reviewing practices at the largest institutions and conducting a horizontal review of sales practices at 17 large FDIC-supervised institutions. The examinations did not find systemic problems in opening accounts without customer consent; however, institutions need to improve their risk management processes to better mitigate and identify potential sales practice weaknesses.

IT Examinations

The FDIC examines information technology (IT), including information security, at each risk management examination. Examiners assign an IT rating using the Federal Financial Institutions Examination Council's (FFIEC) Uniform Rating System for Information Technology (URSIT), and the IT rating is incorporated into the management

component of the CAMELS rating, in accordance with the FFIEC's Uniform Financial Institution Rating System (UFIRS).

The FDIC continued to enhance its IT supervision in 2017. For example, examiners used the Information Technology Risk Examination Program (InTREx) in examinations of FDIC-supervised financial institutions. InTREx is an examiner work program introduced in 2016 that provides more efficient and risk-focused examination procedures. InTREx includes a cybersecurity preparedness assessment and provides more detailed examination results to institutions to help ensure management promptly identifies and addresses IT and cybersecurity risks. The FDIC also conducted a July webinar with other FFIEC members to provide financial institutions information on updates to the FFIEC's Cybersecurity Assessment Tool (CAT). These updates provide institutions the ability to account for compensating controls used to achieve certain cybersecurity control objectives. The webinar provided financial institutions the opportunity to share their comments and questions with senior FFIEC staff and also to hear about updates to the FFIEC *IT Examination Handbook*.

The FDIC, OCC, and FRB also examine IT and other operational components of service providers that support financial institutions. During 2017, the agencies implemented a new cybersecurity examination work program to identify and assess risk at service providers of all sizes, and conducted an interconnectivity risk horizontal review of the most significant service providers.

The FDIC continues to actively engage with both the public and private sectors to assess cybersecurity and other operational risk issues to protect the financial institutions that the FDIC supervises. This work includes engaging with the Financial and Banking Information Infrastructure Committee (FBIIC), the Financial Services Sector Coordinating Council for Critical Infrastructure Protection, the Department of Homeland Security, the Financial Services Information Sharing and Analysis Center, other

regulatory agencies, and law enforcement to share information regarding emerging issues and coordinate responses.

The FDIC played a significant role in organizing FBIIC incident management communication related to the financial services sector in areas affected by hurricanes Harvey, Irma, and Maria. The FDIC also actively participated in FBIIC working groups to better understand the financial sector's vulnerability to a cybersecurity incident and consider ways to harmonize cybersecurity supervisory efforts.

Cyber Fraud and Financial Crimes

The FDIC has undertaken a number of initiatives in 2017 to protect the banking industry from criminal financial activities. These efforts include improving and automating the FDIC's background investigations for banking applications, leading financial crimes-related training programs, and assisting financial institutions in identifying and shutting down "phishing" websites that attempt to fraudulently obtain an individual's confidential personal or financial information.

In support of these efforts an article entitled "10 Scams Targeting Bank Customers: The Basics on How to Protect Yourself" (Summer 2017) was published in the FDIC's *Consumer News*.

Bank Secrecy Act/Anti-Money Laundering

In 2017, as a member of the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Expert Group, the FDIC contributed to the update of correspondent banking guidance issued by the Basel Committee on Bank Supervision. The FDIC also worked with domestic and international regulators and bankers to consider input regarding customer due diligence and beneficial ownership guidance and procedures that will coincide with the implementation of related regulations. In addition, the FDIC coordinated with the other FFIEC members to initiate revisions to the FFIEC *BSA/AML Examination Manual* by contacting various banking

trade associations for their comments and suggestions to improve the manual's content.

The Summer 2017 issue of the *Supervisory Insights Journal* included an article focused on the FDIC's BSA/AML supervision program. The article discussed trends in supervision and enforcement, and included examples of rare, but significant failures identified by FDIC examiners in BSA/AML compliance programs. The article provided examiners and bankers with perspective on BSA/AML examinations and risk.

Examiner Training and Development

Examiner training continued to receive high priority and attention in 2017 on multiple fronts. The FDIC strives to deliver effective and efficient training that includes a variety of delivery methods including on-the-job, classroom, and computer-based instruction to all learners. A cadre of highly trained and highly skilled instructors facilitates classroom learning provided to regulatory partners from international and state agencies along with FDIC examination staff. Oversight of the training program is provided by senior and mid-level management to ensure that content and delivery are effective, appropriate, and current. Working in collaboration with partners across the organization and with the FFIEC, the FDIC strives to be agile so that emerging risks and topics are incorporated and conveyed timely. Examination staff at all levels benefit from targeted and tenure-appropriate content. No less relevant to the formal training program, peer-to-peer knowledge transfer is critical to ensure that institutional knowledge and experience is preserved.

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

programs to provide opportunities for examiners to acquire higher level competencies in these specialty areas.

In 2017, the FDIC validated competency models in the accounting and IT areas, and made progress in developing specialty on-the-job training programs in BSA/AML, trust, and IT.

Minority Depository Institution Activities

The preservation of minority depository institutions (MDI) remains a high priority for the FDIC. In 2017, the FDIC continued to support MDI and Community Development Financial Institution (CDFI) industry-led strategies for success. These strategies include increasing collaboration between MDI and CDFI bankers; partnering to share costs, raise capital, or pool loans; and making innovative use of federal programs. The FDIC supports this effort by providing technical assistance to MDI and CDFI bankers.

In December 2017, the FDIC published a Financial Institution Letter (FIL) to encourage collaboration among MDIs and between MDIs and other institutions. This publication describes some of the ways that financial institutions, including community banks, can partner with MDIs to the benefit of all institutions involved, as well as the communities they serve. Both community banks and larger insured financial institutions have valuable incentives under the CRA to undertake ventures with MDIs, including capital investment and loan participations.

In February 2017, the federal banking agencies co-sponsored a two-day conference titled, “Expanding the Impact: Increasing Capacity and Influence,” for approximately 110 bankers from more than 70 MDIs around the country. Key topics discussed at the conference included strategic planning and succession management, banking and innovation, and enhancing capacity through collaboration. Bankers provided very positive feedback on the conference, which was held in Los Angeles, where there is a significant concentration of MDIs. The conference featured

an interactive panel with FDIC Chairman Martin J. Gruenberg, Federal Reserve Board Governor Jerome H. Powell, and former Comptroller of the Currency Thomas J. Curry.

Also, in 2017, the FDIC updated the information in its 2014 research study that captures the impact of structural changes on the assets controlled by MDIs. Between 2002 and 2016, the number of voluntary mergers (72) was nearly twice the number of failures (39). Among MDIs that voluntarily merged or consolidated during that same period, 54 percent of the institutions and 76 percent of total assets were acquired by another MDI. Among MDIs that failed between 2002 and 2016, 38 percent of the institutions and 86 percent of total assets were acquired by another MDI. Although the rate of acquisition by another MDI was higher for voluntary mergers than for failures, the FDIC demonstrated its commitment to the statutory goal of preserving the minority character in mergers and acquisitions and providing technical assistance to help prevent insolvency. In the event of a potential MDI failure, the FDIC contacts all MDIs nationwide that qualify to bid on failing institutions. The FDIC solicits qualified MDIs’ interest in the failing institution, discusses the bidding process, and provides technical assistance regarding completion of bid forms.

The FDIC continuously pursued efforts to improve communication and interaction with MDIs and to respond to the concerns of minority bankers in 2017. The FDIC maintains active outreach with MDI trade groups and offers to arrange annual meetings between FDIC regional management and each MDI’s board of directors to discuss issues of interest. The FDIC routinely contacts MDIs to offer return visits and technical assistance following the conclusion of FDIC safety and soundness, compliance, CRA, and specialty examinations to assist bank management in understanding and implementing examination recommendations. These return visits, normally conducted within 90 to 120 days after the examination, are intended to provide useful recommendations or feedback for improving operations, not to identify new issues.

The FDIC’s website also encourages and provides contact information for any MDI to request technical assistance at any time.

In 2017, the FDIC provided 211 individual technical assistance sessions on approximately 60 risk management and compliance topics, including:

- ◆ accounting;
- ◆ Bank Secrecy Act and Anti-Money Laundering;
- ◆ brokered deposits/waivers;
- ◆ capital planning;
- ◆ Community Reinvestment Act;
- ◆ compliance management systems;
- ◆ funding and liquidity;
- ◆ information technology risk management and cybersecurity;
- ◆ loan underwriting and administration;
- ◆ mortgage lending rules;
- ◆ troubled debt restructuring; and
- ◆ succession planning.

The FDIC also held outreach, training, and educational programs for MDIs through conference calls and regional banker roundtables. In 2017, topics of discussion for these sessions included many of those listed above, as well as MDI research, strategic planning, new products and services, BSA training, cybersecurity, and liquidity risk.

SUPERVISION POLICY

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

Interest-Rate Risk, Credit Risk, and Liquidity Risk

As the post-crisis economic expansion has progressed, there has been a resumption of loan growth in the banking industry. Institutions with concentrated portfolios are experiencing more rapid loan growth than the rest of the industry. At some banks, loan

growth has been accompanied by a reduction in holdings of liquid assets and increased reliance on funding sources other than stable core deposits. These trends have the potential to give rise to heightened credit risk and liquidity risk. In addition, an extended period of historically low interest rates and tightening net interest margins has created incentives for IDIs to reach for yield in their lending and investment portfolios by extending portfolio durations, potentially increasing their vulnerability to interest-rate risk.

Through regular on-site examinations and interim contacts with state nonmember institutions, FDIC staff regularly engages in dialogue with banks to ensure that their policies to manage credit risk, liquidity risk, and interest-rate risk are effective. Where appropriate, FDIC staff works with institutions that have significant exposure to these risks and encourages them to take appropriate risk-mitigating steps. The FDIC uses off-site monitoring to help identify institutions that are potentially more exposed to these risks and follows up with individual institutions to better understand their risk profiles.

Outreach and technical assistance efforts on these risk issues during 2017 included articles in the FDIC’s *Supervisory Insights* publication on credit risk trends and on the management of liquidity risk. The FDIC joined with the other federal banking agencies to host an interagency teleconference on November 6, 2017, with banks from around the country, regarding the management of liquidity risk. Additionally, FDIC examiners now devote additional attention during the examination process to assessing how well banks are managing the risks associated with concentrated credit exposures and concentrated funding sources. The findings of these assessments are shared with bank management in the report of examination.

Other Guidance Issued

Model Risk Management

In June 2017, the FDIC adopted the Supervisory Guidance on Model Risk Management (MRM)

previously issued by the FRB and OCC. In recent years, many FDIC-supervised institutions have increased their reliance on models. The FDIC adopted the MRM guidance to facilitate consistent understanding of model risk management principles across the banking agencies and industry. The MRM guidance indicates that an effective model risk management framework may include: disciplined and knowledgeable model development that is well documented and conceptually sound; controls and processes to ensure proper implementation and appropriate use; effective validation processes; and strong governance, policies, and controls. The FDIC does not expect that the MRM guidance will pertain to FDIC-supervised institutions with total assets under \$1 billion unless the institution's model use is significant, complex, or poses elevated risk to the institution.

Responses to Major Hurricanes

The FDIC took a number of steps to address the aftermath of hurricanes Harvey, Irma, and Maria, and their effects on banking services by issuing a series of press releases and FILs, waiving certain regulatory requirements, and releasing interagency supervisory guidance.

These included:

- ◆ Federal and State Banking Agencies Issue Statement on Supervisory Practices Regarding Financial Institutions and Borrowers Affected by Hurricane Harvey (PR-64-2017);
- ◆ Meeting the Financial Needs of Customers Affected by Hurricane Harvey and its Aftermath (FIL-38-2017);
- ◆ Federal and State Banking Agencies Issue Statement on Supervisory Practices Regarding Financial Institutions and Borrowers Affected by Hurricane Irma (PR-69-2017);
- ◆ Meeting the Financial Needs of Customers Affected by Hurricane Irma and its Aftermath (FIL-43-2017); and
- ◆ Guidance to Help Financial Institutions and Facilitate Recovery in Areas Affected by Hurricane Maria (FIL-46-2017).

Temporary Exceptions to Appraisal Requirements

On October 24, 2017, the FDIC, together with the FRB, OCC and NCUA, published an order in the *Federal Register* pursuant to their authority under Section 1123 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) to make exceptions to FIRREA's appraisal requirements for transactions involving real property located in a disaster area. The order exempts institutions from the appraisal requirements under FIRREA and its implementing regulations for any real estate-related financial transaction requiring the services of an appraiser, provided that: (1) the transaction involves real property located in an area of a state or territory that has been declared a major disaster by the President as a result of severe storms and flooding related to Hurricanes Harvey, Irma, or Maria; (2) there is a binding commitment to fund a transaction that was entered into on or after the date of each such declaration; and (3) the value of the real property supports the institution's decision to enter into the transaction. A financial institution that relies on the order should maintain sufficient information in the loan file estimating the collateral's value to support the institution's credit decision.

The FDIC will monitor institutions that rely on the order to ensure real estate-related transactions are being originated in a manner consistent with safe and sound banking practices. The order expires three years after the date each state or territory was declared a major disaster.

Interagency Supervisory Examiner Guidance for Institutions Affected by a Major Disaster

The FDIC, in conjunction with the FRB, OCC, and NCUA, published supervisory examiner guidance for institutions affected by a disaster that results in a Presidential declaration of a major disaster, as defined by the Stafford Act. The guidance describes

examination procedures for institutions directly affected by a major disaster, including institutions that may be located outside the area declared a major disaster, but have loans or investments to individuals or entities located in the area declared a major disaster.

The guidance describes expectations that examiners should have regarding how management at affected institutions conduct initial risk assessments and refine such assessments as more complete information becomes available and recovery efforts proceed. Examiners should consider the extent to which weaknesses in an institution's financial condition are caused by external problems related to the major disaster and its aftermath.

During 2017, the FDIC also issued seven FILs providing guidance to help financial institutions, and to facilitate recovery in areas affected by tornadoes, flooding, straight-line winds, landslides, mudslides, and other disasters.

Risk Management Manual of Examination Policies

On July 26, 2017, the FDIC issued FIL-31-2017 to inform the industry that the FDIC *Risk Management Manual of Examination Policies* (Examination Manual) was updated to incorporate guidance from the FDIC Board to examiners regarding supervisory recommendations, including matters requiring board attention (MRBA). The updated Examination Manual is available on the FDIC's website.

FINANCIAL TECHNOLOGY

The FDIC has established a steering committee to monitor Financial Technology (Fintech) developments, and to better understand and assess the various dimensions within the program. The Committee is comprised of the Directors of the Division of Risk Management Supervision, Division of Depositor and Consumer Protection, Division of Insurance and Research, Division of Resolutions and Receiverships, and the Office of Complex Financial Institutions, as well as the General Counsel, Chief Risk Officer, and Chief Information Officer (CIO).

In 2017, the Fintech Steering Committee established the following objectives:

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

The Fintech Steering Committee has established internal interdivisional working groups to focus on various Fintech topics, including marketplace lending, mobile and virtual deposit services, digital payments, artificial intelligence and machine learning, distributed ledger technology and smart contracts, and digital tokens.

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 roles as deposit insurer and bank supervisor. Research from CFR staff was accepted during the year for publication in leading banking, finance, and economics journals, and was presented at banking and finance seminars at major conferences, regulatory institutions, and universities.

In 2017, the CFR and the *Journal of Financial Services Research* jointly sponsored the 17th Annual Bank Research Conference. The conference organizers received more than 450 submissions for the 20 available presentation slots. CFR researchers also produced a number of new working papers in 2017. In addition, the CFR analyzed responses to the Small Business Lending Survey, and analysis and results

were discussed at the Community Bank Advisory Committee meeting in late 2017. A report of the survey's findings will be published in 2018.

COMMUNITY BANKING INITIATIVES

Community banks provide traditional, relationship-based banking services in their local communities. As defined in FDIC research, community banks comprised 92 percent of all FDIC-insured institutions as of September 2017. While they hold just 13 percent of banking industry assets, community banks are of critical importance to the U.S. economy and local communities across the nation. Community banks hold 43 percent of the industry's small loans to farms and businesses, making them the lifeline to entrepreneurs and small enterprises of all types. They also hold the majority of bank deposits in U.S. rural counties and micropolitan counties with populations up to 50,000. In fact, as of June 2017, community banks held more than 75 percent of deposits in almost 1,200 U.S. counties. In 625 of these counties, the *only* banking offices available to consumers were those operated by community banks.

The FDIC is the primary federal supervisor for the majority of community banks, in addition to being the insurer of deposits held by all U.S. banks and thrifts. Accordingly, the FDIC has a particular responsibility for the safety and soundness of community banks and for communicating the role they play in the banking system. In 2012, the FDIC launched a Community Banking Initiative focused on publishing new research on issues of importance to community banks and providing resources that will be useful to their efforts to manage risks, enhance the expertise of their staff, and better understand changes in the regulatory environment.

Community Banking Research

The FDIC continues to pursue an agenda of research and outreach focused on community banking issues. Since the 2012 publication of the *FDIC Community Banking Study*, FDIC researchers have published more

than a dozen additional studies on topics ranging from small business financing to the factors that have driven industry consolidation over the past 30 years. The Community Bank Performance Section of the *FDIC Quarterly Banking Profile* (QBP), first introduced in 2014, continues to provide a detailed statistical picture of the community banking sector that can be accessed by analysts, other regulators, and bankers themselves. The most recent report shows that net income at community banks continued to grow at a healthy annual rate through September 2017, despite the headwinds associated with narrow net interest margins.

The long-term trend of consolidation continues at both community and noncommunity banks. However, this trend has done little to diminish the role of community banks in the banking industry. More than two-thirds of the community banks that merged in 2017 were acquired by other community banks. On a merger-adjusted basis, loan growth at community banks exceeded growth at noncommunity banks in every year between 2012 and 2016. (See Chart 1 on page 35.)

On this same basis, the number of banking offices operated by community banks increased slightly in the year ending in June 2017, while offices operated by noncommunity banks declined. (See Chart 2 on page 35.)

Community Bank Advisory Committee

The FDIC's Advisory Committee on Community Banking is an ongoing forum for discussing current issues and receiving valuable feedback from the industry. The committee, which met three times during 2017, is composed of chief executive officers of 13 community banks from around the country. It 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. At the June 2017 meeting, the Division of Insurance and Research



Community Bank Advisory Committee.

(DIR) presented a range of performance and growth comparisons between community and noncommunity banks dating back to 2006. These results showed that merger-adjusted total loan growth at community banks exceeded 8 percent in 2014, 2015, and 2016, outpacing nominal U.S. Gross Domestic Product growth in all three years.

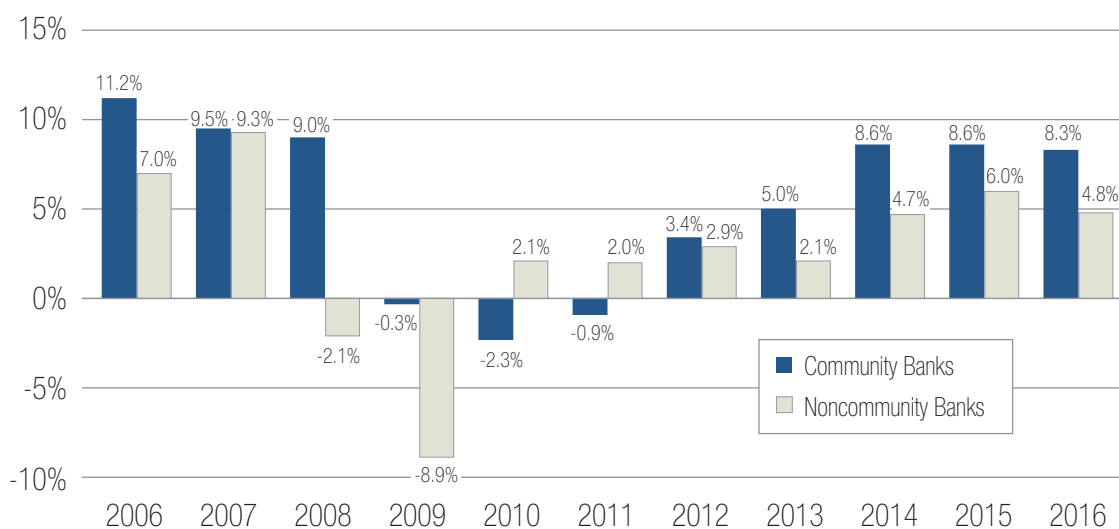
De Novo Banks

The FDIC continued multiple initiatives in fulfilling its commitment to working with, and providing support to, any group with interest in starting a bank. In general, these initiatives focused on reviewing and, as appropriate, updating the processes, procedures, and management systems by which the FDIC receives, reviews, and acts on applications. Key elements of these initiatives with respect to deposit insurance applications included completing outreach meetings, issuing a handbook for organizers, and issuing updated procedures. Specifically, the FDIC has:

- ◆ Continued to hold industry outreach meetings, which began in 2016. The meetings were designed to ensure industry participants are well informed about the FDIC's application process and are aware of the tools and resources available to assist organizing groups. Outreach meetings have been held in each FDIC Regional Office.
- ◆ Issued in final form a publication entitled, *"Applying for Deposit Insurance – A Handbook for Organizers of De Novo Institutions."* The handbook was issued for public comment in December 2016 to help organizers become familiar with the deposit insurance application process and to describe the path to obtaining deposit insurance. This publication serves as a guide for organizing groups and incorporates lessons shared by organizing officials of *de novo* institutions during the FDIC's outreach events. The publication also addresses the timeframes within which applicants may expect communication from the FDIC regarding the application review process.

CHART 1: COMMUNITY BANK LOAN GROWTH HAS EXCEEDED GROWTH AT NONCOMMUNITY BANKS FOR FIVE CONSECUTIVE YEARS

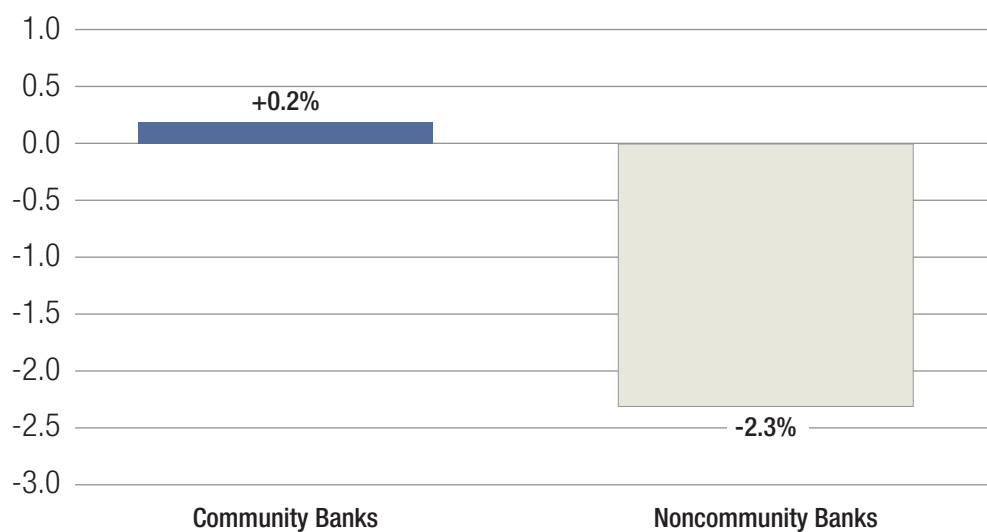
Merger Adjusted Annual Growth in Total Loans and Leases



Source: FDIC

CHART 2: PERCENT GROWTH IN TOTAL BANKING OFFICES

June 2015-June 2016



Source: FDIC. All calculations are merger adjusted.

- ◆ Issued an updated deposit insurance procedures manual for public comment. The manual provides comprehensive guidance to staff regarding the deposit insurance application process and addresses topics such as pre-filing activities, application review and acceptance, application processing, pre-opening activities, and post-opening considerations, among other important items.

Technical Assistance Program

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

In 2017, the FDIC hosted Directors' College events in each of its six regions. These events were typically conducted jointly with state trade associations and addressed issues such as corporate governance, regulatory capital, community banking, concentrations management, consumer protection, BSA, and interest-rate risk, among other topics.

The FDIC offers a series of banker events, intended to maintain open lines of communication and to keep bank management and staff up-to-date on important banking regulatory and emerging issues of interest to community bankers. In 2017, the FDIC offered 15 teleconferences or webinars focused on the following topics:

- ◆ Home Mortgage Disclosure Act (HMDA) Implementation;
- ◆ Understanding your Reasonably Expected Market Area (REMA) and CRA Assessment Area;
- ◆ CRA Best Practices for Addressing Identified Weaknesses and Documenting Community Development Activities;
- ◆ Small Business Resources for Community Banks;
- ◆ Financial Education and Financial Empowerment Resources that Support People with Disabilities;

- ◆ Affordable Mortgage Lending;
- ◆ Liquidity and Funding Risk Management;
- ◆ Proposed Simplifications to the Capital Rule Pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996;
- ◆ Revisions to the Consolidated Reports of Condition and Income (Call Report);
- ◆ Current Expected Credit Losses (CECL) Methodology; and
- ◆ An update on Risk Management – Bank Secrecy Act.

In November 2017, the FDIC participated in an interagency webinar focused on fair lending hot topics. Additionally, the FDIC offered three deposit insurance coverage seminars for bank officers and employees in 2017. These free seminars, which were offered nationwide, particularly benefitted smaller institutions that have limited training resources. The FDIC also released three deposit insurance seminar training videos on the FDIC's website and YouTube channel.

Economic Growth and Regulatory Paperwork Reduction Act

In March 2017, the FFIEC submitted a report to Congress pursuant to the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA). The report was prepared by the federal banking agencies and NCUA. Under EGRPRA, the federal banking agencies and the FFIEC are directed to conduct a joint review of regulations every ten years to determine whether any of those regulations are outdated or unnecessary.

Over the course of two years, the agencies published a series of *Federal Register* notices, 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 also held six public outreach meetings across the country to provide an opportunity for bankers, consumer and community groups, and other interested persons to

present their views on any of the regulations subject to EGRPRA review. A total of 234 comment letters were received directly in response to the *Federal Register* notices, as well as additional oral and written comments from panelists and the public at the outreach meetings. These comments formed the basis of the report that was submitted to Congress in March 2017.

The EGRPRA report described actions the agencies had already taken to address comments received during the EGRPRA process as well as actions the agencies planned to take in the future. During 2017, the FDIC along with the other FFIEC member agencies, worked together to reduce burden in the following significant areas raised during the EGRPRA reviews:

◆ **Community Bank Call Report**

During 2017, the FDIC and the other members of the FFIEC continued their initiative, launched in December 2014, to identify potential opportunities to reduce the burden associated with Call Report requirements for community banks. Effective as of the March 31, 2017 report date, a new streamlined FFIEC 051 Call Report was implemented for eligible small institutions. In general, eligible small institutions are institutions with domestic offices only and total assets of less than \$1 billion. This new report removed approximately 950, or about 40 percent, of the nearly 2,400 data items that had been included in the FFIEC 041 Call Report applicable to all institutions with domestic offices only, and reduced the reporting frequency for approximately 100 additional data items. An eligible small institution is not required to file the FFIEC 051 report, but has the option to continue filing the FFIEC 041 report. Of the approximately 5,000 eligible small institutions, more than 70 percent have elected to submit the FFIEC 051 report. Certain burden-reducing changes also were made to the existing FFIEC 031 Call Report for institutions with domestic and foreign offices and the FFIEC 041 report effective March 31, 2017.

On June 27, 2017, and on November 8, 2017, the banking agencies proposed additional burden-reducing revisions to all three versions of the Call Report. On January 3, 2018, the FFIEC announced the finalization of the June 2017 proposal. These proposals resulted from the FFIEC's ongoing efforts to ease reporting requirements and lessen reporting burden that are focused on, but not limited to, small institutions. These revisions are scheduled to take effect June 30, 2018.

◆ **Advisory on the Availability of Appraisers**

The FDIC, FRB, OCC, and NCUA issued an advisory that discusses two existing methods that may address appraiser shortages, particularly in rural areas: temporary practice permits and temporary waivers. The advisory addresses concerns raised pursuant to the EGRPRA review process.

The first method, temporary practice permits, may be granted by state appraiser regulatory agencies to allow credentialed appraisers to provide their services in states experiencing a shortage of appraisers, subject to state law. Reciprocity is a widely used practice in which one state recognizes the appraiser certification and licensing of another state, permitting state-certified and -licensed appraisers to perform appraisals across state lines. The second method, temporary waivers, sets aside requirements relating to the certification or licensing of individuals to perform appraisals under Title XI of FIRREA in states or geographic political subdivisions while there is a scarcity of certified or licensed appraisers that has caused significant delays in performing appraisals. Authority to grant temporary waiver requests rests with the Appraisal Subcommittee, and is subject to FFIEC approval. To further communicate about the availability of the waiver process and get a deeper understanding of rural appraisal issues, the Conference of State Bank Supervisors organization arranged six roundtables between federal banking regulators, state commissioners

and rural community bankers. Roundtables were held in Michigan, Tennessee, Wyoming, North Dakota, South Dakota, and Montana.

◆ **Commercial Real Estate Appraisal Threshold**

The FDIC, FRB, and OCC jointly issued an Notice of Proposed Rulemaking (NPR) entitled *Real Estate Appraisals* that was published in the *Federal Register* for a 60-day comment period, which ended on September 29, 2017. The NPR creates a new definition of, and separate category for, commercial real estate (CRE) transactions and proposes to increase the current appraisal threshold for CRE transactions from \$250,000 to \$400,000. For CRE transactions at or below the proposed threshold, the interagency appraisal regulations require financial institutions to obtain an appropriate evaluation of the real property collateral that is consistent with safe and sound banking practices, but such an evaluation does not need to be performed by a licensed or certified appraiser or meet the other Title XI appraisal standards. The agencies are in the process of reviewing the comments.

◆ **Expanded Examination Cycle**

The FDIC, FRB, and OCC jointly adopted as final – and without change – the interim final rules that expanded the examination cycle for certain small IDIs and U.S. branches and agencies of foreign banks. The final rules were published in the *Federal Register* on December 16, 2016. Section 83001 of the Fixing America’s Surface Transportation Act raised the threshold for the 18-month examination cycle from less than \$500 million to less than \$1 billion for certain well-capitalized and well-managed IDIs with an “outstanding” composite condition, and gave the agencies discretion to similarly raise this threshold for certain IDIs with an “outstanding” or “good” composite condition. The agencies exercised this discretion and issued an interim final rule that, in general, makes qualifying IDIs with less than \$1 billion in total assets eligible for an 18-month (rather than a 12-month)

examination cycle. The rules allow IDIs with up to \$1 billion in total assets, and that meet certain other criteria, to qualify for an 18-month on-site examination cycle. To qualify, IDIs must have a CAMELS composite rating of “1” or “2,” must be well-capitalized, well-managed, must not be subject to a formal enforcement proceeding, and must not have undergone any change in control during the previous 12-month period. The rule also applies to qualifying U.S. branches or agencies of a foreign bank. As a result of this new rule, the FDIC rescinded and removed a transferred Office of Thrift Supervision (OTS) Regulation, 12 CFR 390.351, Frequency of Safety and Soundness Examinations, because it was redundant.

Since BSA compliance programs are typically reviewed during safety and soundness examinations, institutions with assets between \$500 million and \$1 billion that are now eligible for a safety and soundness examination every 18-months will also generally be subject to less frequent BSA reviews.

◆ **Extension of Capital Rule Transitions**

In August 2017, the FDIC, FRB, and OCC proposed revisions to the regulatory capital rules to pause the phase-in of certain regulatory capital adjustments and deductions that are part of the Basel III capital standard. Specifically, the agencies proposed to maintain on an ongoing basis the transition treatment effective for calendar year 2017 for items subject to the 10 and 15 percent common equity tier one capital deduction thresholds, and surplus minority interest. The proposal applied to all non-advanced approaches banking organizations that are subject to the risk-based capital rules. The federal banking agencies finalized the proposed rule in November 2017.

◆ **EGRPRA Capital Proposal**

In September 2017, the FDIC issued an NPR addressing industry feedback regarding

simplification of the capital rules for small banks generally, and to clarify the existing definition of high-volatility commercial real estate. In addition, the proposed simplifications include changes to the regulatory capital treatment of mortgage servicing assets, deferred tax assets, investments in the capital instruments of other financial institutions, and minority interest.

Additionally, recognizing that regulatory burden does not emanate only from statutes and regulations, the FDIC, along with the FFIEC and its members, have initiated the FFIEC Examination Modernization project as a follow up to the review of regulations under EGRPRA. The Modernization project is focused on ways to improve the efficiency of processes, procedures, and tools related to examinations and supervisory oversight of the safety and soundness examination processes, while maintaining the quality of the process. There are three parts to the project:

1. Reviewing examination practices and processes with a particular goal of determining whether technology can be used to make existing examination activities more efficient or allow for additional safety and soundness examination work to be conducted off-site.
2. Reviewing the format of the examination report itself and determining whether there are opportunities to improve the quality and usefulness of reports.
3. Reviewing the Uniform Bank Performance Report (UBPR) and related reports and data to determine if there are ways to make them more informative, useful, and user friendly. In particular, the agencies are working to provide the ability to generate graphs and charts of key ratios.

In 2017, the Examination Modernization Project's staff met regularly to compare FFIEC agency practices and develop recommendations for the FFIEC's consideration.

ACTIVITIES RELATED TO SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS

The FDIC is committed to addressing the unique challenges associated with the supervision, insurance, and potential resolution of large and complex financial institutions. 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 and deposits. The FDIC's programs related to complex financial institutions provide for a consistent approach to large bank supervision nationwide, allow for the identification and analysis of industry-wide and institution-specific risks and emerging issues, and enable a quick response to these risks. The FDIC has segregated these activities in two groups to both ensure that supervisory attention is risk-focused and tailored to the risk presented by the nation's largest banks, and meet the FDIC's responsibilities under the FDI Act and the Dodd-Frank Act.

Complex Financial Institutions Program

The Dodd-Frank Act expanded the FDIC's responsibilities pertaining to SIFIs and nonbank financial companies designated by the Financial Stability Oversight Council (FSOC). The FDIC's CFI Group and Large Bank Supervision Branch, both within RMS, perform ongoing risk monitoring of SIFIs and FSOC-designated nonbank financial companies, provide backup supervision of the firms' related IDIs, and evaluate the firms' required resolution plans. The CFI Group also performs certain analyses that support the FDIC's role as an FSOC member.

Resolution Plans – Living Wills

Certain large banking organizations and nonbank financial companies designated by the FSOC for supervision by the FRB are periodically required to submit resolution plans to the FRB and the FDIC. Each resolution plan, commonly known as a living will, must describe the company's strategy for rapid

and orderly resolution under the U.S. Bankruptcy Code in the event of material financial distress or failure of the company.

Large Bank Holding Companies with Substantial Nonbank Assets

Companies subject to the rule are divided into three groups: companies with \$250 billion or more in nonbank assets, companies with nonbank assets between \$100 billion and \$250 billion, and all other companies with total consolidated assets of \$50 billion or more. Companies in the first and second group were generally required to submit their resolution plans by July 1, 2015. These firms included Bank of America Corporation, Bank of New York Mellon Corporation, JPMorgan Chase & Co., State Street Corporation, Wells Fargo & Company, Goldman Sachs Group, Inc., Morgan Stanley, and Citigroup, Inc. (collectively referred to as the eight domestic banking organizations); and Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, and UBS AG, (collectively referred to as the four large foreign banking organizations, or FBOs).

In April 2016, the FDIC and FRB jointly announced determinations and provided firm-specific feedback on the resolution plans submitted by the eight domestic banking organizations in July 2015. After reviewing the July 2015 submissions, the FDIC and FRB jointly determined that each of the resolution plans of Bank of America Corporation, Bank of New York Mellon Corporation, JPMorgan Chase & Co., State Street Corporation, and Wells Fargo & Company was not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code, the statutory standard established in the Dodd-Frank Act. The agencies issued joint notices of deficiencies to these five firms detailing the deficiencies in their plans and the actions the firms must take to address them. The agencies also made public the Resolution Plan Assessment Framework, which explains the resolution plan requirement, provides further information on the determinations, and outlines the agencies' processes for reviewing the plans.

Additionally, the agencies released new guidance for the July 2017 submissions.

All of the domestic banking organizations that received feedback in April 2016 provided updates to their plans in October 2016. The FDIC and the FRB determined in December 2016 that Bank of America Corporation, Bank of New York Mellon Corporation, JP Morgan Chase & Co., and State Street Corporation adequately remediated the deficiencies cited in their 2015 resolution plans.

The agencies jointly determined that Wells Fargo & Company did not adequately remedy two of the firm's three deficiencies. In light of the nature of the deficiencies and the resolvability risks posed by the firm's failure to remedy them, the agencies imposed restrictions on the growth of international and nonbank activities of Wells Fargo & Company and its subsidiaries. In April 2017, the agencies jointly determined that Wells Fargo & Company had remedied the remaining two deficiencies.

The eight domestic banking organizations submitted updated plans on or before July 1, 2017. On December 19, 2017, the FDIC and the FRB issued letters to the eight firms providing the findings of their review of those plans and information about areas where additional work needs to be done to improve resolvability. The agencies also jointly determined that the plans of four firms have "shortcomings," which are less-severe weaknesses that require additional work in their next plan.

Guidance for the FBOs was also issued in March 2017, and a workshop to review the guidance was held with FDIC staff on May 2, 2017. The FBO guidance was issued to help the FBOs improve their resolution plans and to reflect the significant restructuring that they have undertaken to form intermediate holding companies. The guidance is organized around a number of key vulnerabilities, such as capital, liquidity, and governance mechanisms. FAQs on the FBO guidance were issued in September 2017.

Other Large Bank Holding Company Filers

In March 2017, the FDIC and FRB jointly announced that the agencies had provided firm-specific feedback on the resolution plans submitted by 16 regional bank holding companies with total consolidated assets of \$50 billion or more regarding resolution plans submitted in December 2015. In December 2016, an additional 86 firms subject to the rule submitted resolution plans to the agencies. These plans included four full or tailored plans and 82 reduced content plans, which focus on material changes since their previous resolution plans, actions taken to strengthen the effectiveness of those plans, and where applicable, actions to ensure any subsidiary insured depository institution would be adequately protected from the risk arising from the activities of nonbank affiliates of the firm. In August 2017, the FDIC and FRB jointly announced that the two tailored plan filers in 2016 would be eligible to submit reduced content plans as their next submission. The FDIC and the FRB are jointly developing feedback to two domestic filers regarding their 2016 plan and to several FBOs regarding their 2015 plans. In August and September 2017, the FDIC and the FRB extended the due dates for these companies' next plans to December 31, 2018.

Nonbank Firms

Nonbank financial firms designated as systemically important by FSOC also are required to submit resolution plans for review by the FDIC and FRB. During December 2015, three nonbank firms—American International Group, Inc. (AIG), General Electric Capital Corporation, Inc. (GECC), and Prudential, Inc. (PRU) — submitted their resolution plans for review. On June 28, 2016, FSOC rescinded GECC's designation as a systemically important financial institution and joint agency review of GECC's plan ceased.

In August 2016, the FDIC and FRB jointly extended the next annual resolution plan submission date to December 31, 2017, for AIG and PRU. To allow the agencies an opportunity to consider potentially

providing guidance and to provide the firms with sufficient time to develop responsive plans in July 2017, the agencies extended the next resolution plan due date to December 31, 2018, and informed the firms that this plan would satisfy their 2016 and 2017 annual resolution plan submission requirements. Subsequently, on September 29, 2017, as part of the annual review of AIG's designation as systemically important, FSOC rescinded that designation.

MetLife, which was designated as systemically important on December 18, 2014, challenged its designation in federal court and won a ruling on March 30, 2016, that rescinded its designation. The Department of Justice on behalf of the FSOC has appealed that decision. In August 2017 the U.S. Court of Appeals ordered the appeal held in abeyance indefinitely. MetLife will not be required to submit a resolution plan unless its designation is reinstated.

Extended Deadline for Submissions for Certain Organizations' Plans

In March 2017, the agencies provided a one-year filing extension to the four large FBOs; their next resolution plans are now due on July 1, 2018.

In September 2017, the agencies extended the next resolution plan filing deadline for the eight large domestic banks by one year to July 1, 2019. The extension will provide the time needed for firms to remediate any weaknesses identified in their July 2017 submissions and to prepare and improve their next resolution plan submissions. The agencies are also extending by one year, to December 31, 2018, the next resolution plan submission deadline for 82 foreign banks with limited U.S. operations.

Insured Depository Institution Resolution Plans

Section 360.10 of the FDIC Rules and Regulations requires an IDI with total assets of \$50 billion or more to periodically submit to the FDIC a plan for its resolution in the event of its failure (IDI Rule). The IDI Rule requires each IDI meeting the criteria to

submit a resolution plan that should allow the FDIC, as receiver, to resolve the IDI under Sections 11 and 13 of the Federal Deposit Insurance Act (FDI Act) in an orderly manner that enables prompt access to insured deposits, maximizes the return from the sale or disposition of the failed IDI's assets, and minimizes losses realized by creditors. The resolution plan must also describe how a proposed strategy will be least costly to the DIF.

By September 1, 2015, the FDIC received 10 IDI resolution plans, from IDIs whose parent companies are among the group of largest SIFIs under the IDI Rule, and by December 31, 2015, 26 resolution plans were received from other IDIs with smaller parent companies.

By December 31, 2016, the FDIC received initial IDI resolution plans from two additional insured banks. The FDIC reviewed these resolution plans in a manner consistent with the IDI Rule and guidance issued by the FDIC in December 2014. In June 2017, the FDIC provided feedback letters to each covered IDI, addressing findings and establishing expectations for the next IDI resolution plan to better align the content of resolution plans with the FDIC's actual resolution experience. The FDIC also extended the due date for the next IDI resolution plan for each of these 38 insured banks to July 1, 2018.

Since the feedback letters were issued, the FDIC has established processes to improve transparency and responsiveness. The FDIC established a dedicated mailbox to receive questions, conducted two industry calls, met with one trade association, and conducted 35 meetings with individual covered IDIs.

Orderly Liquidation Authority – 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 file. If resolution under the Bankruptcy Code would result in serious adverse effects to U.S. financial stability, the

Orderly Liquidation Authority (OLA) set out in Title II of the Dodd-Frank Act provides a backup authority for resolving a company for which the bankruptcy process is not viable. 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.

The FDIC has undertaken institution-specific strategic planning to carry out its orderly liquidation authorities with respect to the largest global systemically important banks (G-SIBs) and FBOs. The strategic plans and optionality being developed for these firms are informed by the Title I plan submissions. Further, the FDIC continues to build upon the systemic resolution framework, portions of which have been shared with other authorities, and is developing process documents to facilitate the implementation of the framework in a Title II resolution. In addition, preliminary work continues in the development of resolution strategies for the nonbank resolution plan filers and financial market utilities, particularly central counterparties (CCPs).

Monitoring and Measuring Systemic Risks

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

The FDIC continues to work closely with the other federal banking agencies to analyze institution-specific and industry-wide conditions and trends, emerging risks and outliers, risk management, and the potential risk posed to financial stability by SIFIs and non-bank financial companies. To support risk monitoring that informs supervisory and resolution planning efforts, the FDIC has developed systems and reports that

make extensive use of structured and unstructured data. SIFI monitoring reports are prepared on a routine and ad-hoc basis and cover a variety of aspects that include risk components, business lines and activity, market trends, and product analysis.

Additionally, the FDIC has implemented and continues to expand upon various monitoring systems, including the Systemic Monitoring System (SMS). The SMS provides an individual risk profile and assessment for each SIFI by evaluating the level and change in metrics that serve as important indicators of overall risk. The SMS supports the identification of emerging risks within individual firms and the prioritization of supervisory and monitoring activities. The SMS also serves as an early warning system of financial vulnerability by gauging a firm's proximity and speed to resolution event. Information from FDIC-prepared reports and systems are used to prioritize activities relating to SIFIs and to coordinate and communicate with the FRB and OCC.

The FDIC also has conducted semi-annual "Day of Risk" meetings to present, discuss, and prioritize the review of emerging risks. For each major risk, executive management discussed the nature of the risk, exposures of SIFIs, and planned supervisory efforts. In 2017, RMS CFI began piloting a new SIFI Risk Report (SRR) that identifies key vulnerabilities of systemically important firms, gauges the proximity of these firms to a resolution event, and independently assesses the appropriateness of supervisory ratings for the insured deposit institutions held by these firms. Implementation of this new report is targeted for early 2018.

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

Risk monitoring is enhanced by the FDIC's back-up supervision activities. In its back-up supervisory role, as outlined in Sections 8 and 10 of the FDI Act, the FDIC has expanded resources and has developed and implemented policies and procedures to guide back-

up supervisory activities. These activities include performing analyses of industry conditions and trends, supporting insurance pricing, participating in supervisory activities with other regulatory agencies, and exercising examination and enforcement authorities when necessary. At institutions where the FDIC is not the primary federal regulator, FDIC staff works closely with other regulatory authorities to identify emerging risk and assess the overall risk profile of large and complex institutions. The FDIC has assigned dedicated staff to IDIs of SIFIs to enhance risk-identification capabilities and facilitate the communication of supervisory information. These individuals work with the staff of the FRB and OCC in monitoring risk at their assigned institutions. Through December 2017, FDIC staff participated in 43 targeted examination activities with the FRB and 46 targeted examination activities with the OCC. The reviews included, but were not limited to, engagement in evaluation of risk governance, BSA/AML reviews, quantitative model reviews, and credit risk-related reviews. FDIC staff also participated in various interagency horizontal review activities, including the FRB's Comprehensive Capital Assessment and Review, and reviews of compliance and conduct risk, model risk management, and sales practices.

Cross-Border Efforts

Advance planning and cross-border coordination for the resolution of Global-SIFIs (G-SIFIs) is essential to minimizing disruptions to global financial markets. Recognizing that the resolution of a G-SIFI creates complex international legal and operational concerns, the FDIC continues to work with foreign regulators to establish frameworks for effective cross-border cooperation, including information-sharing arrangements.

In October 2016, the FDIC hosted the second in an ongoing series of planned exercises with international authorities to enhance coordination on cross-border bank resolution. Participants in the exercise included senior financial officials representing authorities in

the United States, United Kingdom, and Europe, including the U.S. Department of Treasury, FRB, OCC, Securities and Exchange Commission (SEC), Commodity Futures Trading Commission (CFTC), Federal Reserve Bank of New York, HM Treasury, Bank of England, U.K. Prudential Regulation Authority, the Single Resolution Board (SRB), European Commission (EC), and European Central Bank. Staffs since have pursued a follow-on work plan endorsed by senior officials from these participating agencies.

The FDIC serves as a co-chair for all of the cross-border crisis management groups (CMGs) of supervisors and resolution authorities for U.S. G-SIFIs. In addition, the FDIC participates as a host authority in CMGs for foreign G-SIFIs. The FDIC and the European Commission continued their engagement through the joint Working Group, which is composed of senior executives at the FDIC and EC who meet to focus on both resolution and deposit insurance issues. In 2017, the Working Group discussed cross-border bank resolution and resolution of CCPs, among other topics. FDIC staff also participated in the Joint EU-US Financial Regulatory Forum with representatives of the EC and other participating European Union authorities, including the Single Resolution Board and the European Banking Authority, and staffs of the Treasury Department, FRB, SEC, CFTC, and other participating U.S. agencies.

The FDIC continued to advance its working relationships with authorities from other jurisdictions that regulate G-SIFIs, including those in Switzerland and Japan, and through international forums, such as the Financial Stability Board's (FSB) Resolution Steering Group. In 2017, the FDIC had significant staff-level engagements with these authorities to discuss cross-border issues and potential impediments that could affect the resolution of a G-SIFI.

Systemic Resolution Advisory Committee

The FDIC created the Systemic Resolution Advisory Committee (SRAC) in 2011 to receive advice and

recommendations on a broad range of issues regarding the resolution of systemically important financial companies pursuant to the Dodd-Frank Act. Over the years, the SRAC has provided important advice to the FDIC regarding systemic resolutions and advised 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 customers;
- ◆ The tools available to the FDIC to wind down the operations of a failed organization; and
- ◆ The tools needed to assist in cross-border relations with foreign regulators and governments when a SIFI 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 field, and academia. The last meeting of the SRAC was held on April 14, 2016. The SRAC discussed among other topics, the status of Title I Living Wills, an update on Title II Orderly Liquidation Authority, and developments in the European Union. In 2017, the charter of the SRAC was renewed. The next meeting is anticipated to be held in 2018.

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 10 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 financial 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, competitiveness, and stability of U.S. financial markets; and
- ◆ Producing annual reports describing, among other things, the Council's activities and potential emerging threats to financial stability.

The FSOC recently issued its 2017 annual report. Generally, at each of its meetings, the FSOC discusses various risk issues. In 2017, the FSOC meetings addressed, among other topics, U.S. fiscal issues, interest-rate risk, credit risk, the FRB and European bank stress tests, the United Kingdom's 2016 vote to leave the European Union (i.e., Brexit), cybersecurity, nonbank financial company designations, and housing reform.

DEPOSITOR AND CONSUMER PROTECTION

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

Rulemaking and Guidance

Community Reinvestment Act

In May 2017, the FDIC released revised publicly available examination procedures to align with internal guidance for Full and Limited Scope CRA Assessment Areas. These examination procedures provide instructions for examiners to follow when determining which assessment areas(s) should receive a full scope review and provide guidance on how to address assessment areas not selected for full scope review within a CRA performance evaluation. Assessment areas that are not reviewed using the full examination procedures are referred to as limited scope assessment areas.

In November 2017, the FDIC, OCC, and FRB issued a final rule amending their respective Community Reinvestment Act (CRA) regulations primarily to conform to changes made by the CFPB to Regulation C, which implements the Home Mortgage Disclosure Act (HMDA). In particular, the final rule revises the definitions of "home mortgage loan" and "consumer loan" in the agencies' CRA regulations, as well as the public file content requirements. These revisions will maintain consistency between the CRA regulations and the recent changes to Regulation C, which generally became effective on January 1, 2018. In addition, the final rule contains technical revisions and removes obsolete references to the Neighborhood Stabilization Program.

Home Mortgage Disclosure Act

In August 2017, the FDIC, with the other FFIEC members, issued HMDA Examiner Transaction Testing Guidelines. To support the evaluation of financial institutions' compliance with HMDA's requirements, the agencies' examiners will use these guidelines in assessing the accuracy of the HMDA data that financial institutions record and report. Used in conjunction with HMDA examination procedures, the guidelines describe how examiners validate the accuracy of HMDA data and the circumstances in which examiners may direct

institutions to correct and resubmit HMDA data in connection with HMDA rules.

In October 2017, the FDIC, FRB, and OCC issued a list of Designated Key HMDA Data Fields for examination staff to prioritize when validating HMDA data in accordance with the guidelines. The agencies will focus examination-related testing of HMDA data on certain agency-designated “key fields” considered most important to ensuring the integrity of analyses of overall HMDA data.

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 populations;
- ◆ Engages in research and development on models of products meeting the needs of lower-income consumers;

- ◆ Supports partnerships to promote consumer access to and use of banking services;
- ◆ Advances financial education and literacy; and
- ◆ Facilitates partnerships to support community and small business development.

Advisory Committee on Economic Inclusion

The Advisory Committee on Economic Inclusion (ComE-IN) provides the FDIC with advice and recommendations on important initiatives focused on expanding access to mainstream banking services to underserved populations. This may include reviewing basic retail financial services such as low-cost, safe transaction accounts; affordable small-dollar loans; savings accounts; and other services that promote individual asset accumulation and financial stability, and may also include exploring demand-side factors such as consumers’ perceptions of mainstream financial institutions.

The ComE-IN met twice during 2017. The April 27, 2017 meeting reviewed discussions from the FDIC’s Economic Inclusion Summit, explored methods for evaluating neighborhood access to bank branches, and



ComE-IN Committee meeting on October 18, 2017.

assessed resources for affordable mortgage lending. The October 18, 2017 meeting featured panel discussions on Safe Accounts, the 2016 FDIC Bank Survey results, economic inclusion for persons with disabilities, and research on neighborhood access to bank branches.

Economic Inclusion Summit

The FDIC held an Economic Inclusion Summit on April 26, 2017. The day-long event convened representatives from banks, community organizations, and researchers to discuss developments related to economic inclusion as well as next steps for the field.

FDIC National Survey of Unbanked and Underbanked Households and Related Research

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

During 2017, the FDIC conducted survey research and analysis in partnership with the U.S. Census Bureau to understand the terms and conditions of basic, entry-level checking accounts from FDIC-insured institutions, with the survey questions embedded in the FDIC Small Business Lending Survey. The survey asked about eligibility, costs, balance requirements, and other details about basic, entry-level checking and savings accounts, as well as prepaid debit card programs offered by banks. Findings from the analysis were made public on October 18, 2017, at a meeting of the ComE-IN.

In 2017, the FDIC also conducted an analysis to better understand residential neighborhood access to full-service bank branches. This work culminated on October 18, 2017, with a public presentation of an analysis of residential bank access in all metropolitan areas of the United States, at the same meeting of the ComE-IN. The presentation focused on identifying residential neighborhoods that had both relatively less convenient access to bank branches and concentrations of population segments that research has shown to disproportionately rely on branches to access their account. Examples of populations known through the 2015 FDIC *National Survey of Unbanked and Underbanked Households* to have a relatively high reliance on bank branches include older households, lower-income households, and households with lower educational attainment.

Community and Small Business Development and Affordable Mortgage Lending

In 2017, the FDIC provided technical assistance to banks and community organizations through more than 125 outreach events designed to increase shared knowledge and support collaboration between financial institutions and other community, housing, and small business development resources and to improve knowledge about the Community Reinvestment Act.

The FDIC's work emphasized sharing information to support bank efforts to provide prudent access to responsible, affordable mortgage credit. Late in 2016, the FDIC released the *Affordable Mortgage Lending Guide*, a three-part resource to help community banks identify affordable mortgage products. Part I: Federal Agencies and Government Sponsored Enterprises and Part II: State Housing Finance Agencies were released in 2016. Part III: Federal Home Loan Banks was released in April 2017. Part II was updated in July 2017, and Part I is scheduled to be updated in early 2018.

As part of this effort, the FDIC also launched the Affordable Mortgage Lending Center, a website that houses these publications and other resources.

Together these resources provide a comprehensive overview of the programs and products available to community banks to support affordable mortgage lending, particularly to low- and moderate-income borrowers. By year-end 2017, the Affordable Mortgage Lending Center:

- ◆ Had a 400 percent increase in subscribers from year-end 2016 to over 9,000;
- ◆ Experienced more than 10,000 downloads since inception; and
- ◆ Received more than 50,000 page views since inception.

Also in 2017, the FDIC, other federal regulators, and federal and state housing agencies hosted 19 affordable mortgage lending forums and conducted 35 outreach activities and events to offer technical assistance to help expand access to mortgage credit for low- and moderate-income households. Community Affairs staff in every Region exhibited at a State Bankers Association Conference. The FDIC also offered information about the *Affordable Mortgage Lending Guide* and website through participation in national conferences, including the Independent Community Bankers Association Conference and the American Bankers Association's National Conference for Community Bankers, and presented at the Council of Community Bankers Association Executives' annual meeting in March 2017.

In addition, the FDIC sponsored sessions with interagency partners covering basic and advanced CRA training for banks. The agencies also offered CRA basics for community-based organizations, as well as seminars on establishing effective bank-community collaborations for community development in more than 45 communities. The FDIC focused on encouraging community development initiatives in rural communities. This work included workshops that highlighted housing needs and programs, economic development programs, and community development financial institution collaborations, including those serving Native American communities.

Advancing Financial Education

Financial education helps consumers understand and use bank products effectively and sustain a banking relationship over time. The FDIC continued to be a leader in developing high-quality, free financial education resources and pursuing collaborations to use those tools to educate the public. In particular, the FDIC designed strategies to reach two particular segments of the population that the *National Survey of Unbanked and Underbanked Consumers* revealed are disproportionately unbanked and underbanked: low- and moderate-income young people and persons with disabilities. The FDIC's work during 2017 focusing on young people was also consistent with the Financial Literacy and Education Commission's focus on *Starting Early for Financial Success*.

Youth Financial Education

Recognizing the promise of hands-on learning approaches, the FDIC's youth work centered on helping banks understand strategies to connect financial education to savings accounts. On March 28, 2017, the FDIC released the Youth Savings Pilot report which examines the experiences of 21 diverse banks in designing and implementing youth savings programs. The report describes promising practices banks can use to develop or expand their own youth savings programs. The report is accessible through the FDIC's new Youth Banking Resource Center website, which had more than 11,000 page views between its launch in late March and the end of December. The release of the report was followed by a webinar to communicate key learnings from the pilot to financial institutions.

The FDIC also launched the Youth Banking Network to support banks as they work with school and nonprofit partners to develop youth savings programs using the knowledge gained from the pilot. The FDIC convened three network conference calls that focused on topics of interest, including program design and financial education delivery. Bankers and other experts shared their experiences and promising practices. The FDIC provided periodic assistance to members in response to specific questions.

The FDIC launched an updated version of the Teacher Online Resource Center. The site was redesigned to allow educators to more easily find *Money Smart for Young People* and other relevant resources. New videos provide a quick overview of the curriculum tools. Other enhancements to the site include links to relevant resources that can support the delivery of financial education in the classroom. The site had more than 35,000 page views during 2017.

The FDIC pursued strategies to improve financial education and access to mainstream financial services for youth participating in youth employment programs, including those funded through the Workforce Innovation and Opportunity Act (WIOA). For workforce providers and their partners teaching financial education, the FDIC developed a tool to map *Money Smart* to WIOA's financial education element. The FDIC also released a supplement to *Money Smart* designed to help prepare youth to open their first savings or transactional accounts. As a member of the Financial Literacy and Education Commission, the FDIC helped develop two resource guides for financial institutions and youth employment program providers to discuss opportunities of mutual benefit.

The FDIC led three webinars in collaboration with the Department of Labor to increase awareness of *Money Smart* among organizations that receive federal funding for youth employment. In addition, the FDIC participated in three regional events in collaboration with the Department of Labor and Federal Reserve Banks to strengthen the capacity of workforce development organizations in working with financial institutions on financial capability initiatives. The FDIC was selected to hold a “quick shop” and a panel presentation at two national workforce association meetings.

The FDIC's *Money Smart* Alliance is a network of diverse organizations that use *Money Smart* to provide financial education training to organizations, consumers, and small businesses. The FDIC hosted a national webinar on February 28, 2017, to discuss

the *Money Smart* Alliance and opportunities to join. The FDIC website also now features a searchable database of the Alliance members to help facilitate collaborations among organizations to use *Money Smart* and to help consumers find training. FDIC Community Affairs staff also continued to provide technical assistance to the Alliance members to support their implementation of *Money Smart*. For example, on June 28, 2017, a peer-to-peer learning webinar for Alliance members featured representatives of a financial institution and a non-profit organization discussing how they use *Money Smart*. A total of 350 organizations joined the *Money Smart* Alliance during 2017. A total of 614 organizations have renewed memberships or joined the Alliance since the inception of the new enrollment process in early 2016. *Money Smart for Small Business* was used by 297 of these Alliance members.

Financial Education for Persons with Disabilities

The FDIC emphasized strategies to promote economic inclusion for persons with disabilities, given this population is disproportionately unbanked and underbanked. As one element of these strategies, the FDIC expanded efforts with local partners through 15 community events to bring banks and organizations representing persons with disabilities together at the state and local levels.

Together with the CFPB, the FDIC hosted a meeting of organizations that support persons with disabilities at Gallaudet University in May 2017. The organizations are part of the CFPB's Focus on Disabilities cohort and together they learned about the CFPB's *Your Money, Your Goals* toolkit and the FDIC's *Money Smart* financial education program. The meeting was followed by two in-person trainings and two webinars to further assist members of the cohort advance financial capability for persons with disabilities.

The FDIC revised its *Guide to Presenting Money Smart for Adults* to include updated information to help instructors support participants with disabilities, including more tips about reasonable

accommodations and sample language to include on registration forms. Also, the FDIC released an Instructor's Guide Supplement including four scenarios that feature individuals with disabilities dealing with a financial situation in their lives that can be used with any financial education curriculum.

Money Smart for Adults

The FDIC began to revise and update the instructor-led *Money Smart for Adults* curriculum to ensure accuracy and relevance. Five organizations, including two banks, tested three of the draft redeveloped modules, providing the FDIC with valuable information that helped inform the redevelopment of the remaining modules. All of the modules in the redeveloped curriculum will be tested and released in 2018.

Money Smart for Small Business

The FDIC continues to highlight the *Money Smart for Small Business* curriculum with a focus on informational events for bankers, community organizations, and entrepreneurs, and on increasing partnerships at the state and local levels for small business access to credit resources. In collaboration with diverse partners, particularly the Small Business Administration (SBA) and its partner network – including the Small Business Development Centers, Women's Business Centers, and SCORE Association chapters – the FDIC convened forums and roundtables featuring safe small business products and services and provided information and technical assistance to support initiatives geared to increase access to capital for small businesses. In 2017, Community Affairs staff completed 92 events and activities primarily focused on small business.

Partnerships for Access to Mainstream Banking

The FDIC supported community development and economic inclusion partnerships at the local level by providing technical assistance and information

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

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

The FDIC worked in 10 *Bank On* communities to convene 18 forums and roundtables with almost 900 participants that helped advance strategies to expand access to safe and affordable deposit accounts and engage unbanked and underbanked consumers. The FDIC provided technical assistance to bankers, coalition leaders, and others interested in understanding opportunities for banking services designed to meet the needs of the unbanked and underbanked.

In total, the FDIC sponsored more than 165 events during 2017 that provided opportunities for partners to collaborate on increasing access to bank accounts and credit services, opportunities to build savings and improve credit histories, and initiatives to significantly

strengthen the financial capability of community service providers who directly serve low- and moderate-income consumers and small businesses.

Consumer Complaints and Inquiries

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

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

Consumer Complaints by Product and Issue

The FDIC receives complaints and inquiries by telephone, fax, U.S. mail, email, and online through the FDIC's website. In 2017, the FDIC handled 16,817 written and telephonic complaints and inquiries. Of this total, 9,460 related to FDIC-supervised institutions. The FDIC responded to 97 percent of these complaints within time frames established by corporate policy, and acknowledged 100 percent of all consumer complaints and inquiries within 14 days. As part of the complaint and inquiry handling process, the FDIC works 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 2017, the four most frequently identified consumer product complaints and inquiries about FDIC-supervised institutions concerned consumer loans (19 percent), checking accounts (15 percent), residential real estate (13 percent), and credit cards (13 percent). Consumer loan complaints and inquiries most frequently described issues with reporting erroneous information and collection practices, while the issues most commonly cited in correspondence about checking accounts were concerns with account discrepancies or transaction errors. Complaints and inquiries about residential real estate related to disclosures and repossession/foreclosure. Consumer correspondences about credit cards most often raised issues regarding billing disputes/error resolution and reporting erroneous information to the credit reporting agencies.

The FDIC also investigated 81 Fair Lending complaints alleging discrimination during 2017. The number of discrimination complaints investigated has fluctuated over the past several years but averaged approximately 80 complaints per year between 2012 and 2017. Over this period, nearly 43 percent of the complaints investigated alleged discrimination based on the race, color, national origin, or ethnicity of the applicant or borrower; 18 percent related to discrimination allegations based on age; nearly 14 percent involved the sex of the borrower or applicant; and roughly 7 percent concerned disability.

Consumer refunds generally involve the financial institution offering a voluntary credit to the consumer's account, often as a direct result of complaint investigations and identification of a banking error or violation of law. In 2017, consumers received more than \$669,000 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 2017. For example, as of December 31, 2017, the FDIC conducted four telephone seminars for bankers on deposit insurance coverage, reaching an estimated 5,513 bankers participating at approximately 1,575 bank sites throughout the country. The FDIC also features deposit insurance training videos that are available on the FDIC's website and YouTube channel.

As of December 31, 2017, the FDIC Call Center received 91,918 telephone calls, of which approximately 36,767 were identified as deposit insurance-related inquiries. The FDIC Call Center handled approximately 18,655 inquiries and Deposit Insurance subject matter experts (SME) handled 18,112 complex telephone calls identifying a total of 49,277 deposit insurance issues. In addition to telephone inquiries about deposit insurance coverage, the FDIC received 781 written inquiries from consumers and bankers identifying a total of 1,771 deposit insurance issues. Of these inquiries, 100 percent received responses within two weeks, as required by corporate policy.

RECEIVERSHIP MANAGEMENT

The FDIC has the unique mission of protecting depositors of insured banks and savings associations. No depositor has ever experienced a loss on the insured amount of his or her deposits in an FDIC-

insured institution due to a failure. When an institution closes, its chartering authority—the state for state-chartered institutions and the OCC for national banks and federal savings associations—typically appoints the FDIC as receiver, responsible for resolving the failed institution.

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

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

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

The purchase and assumption (P&A) transaction is the most commonly used resolution method. Typically, in a P&A transaction, a healthy institution purchases certain assets and assumes certain liabilities of the failed institution. However, a variety of P&A transactions can be used. Because each failing bank situation is different, P&A transactions provide flexibility to structure deals that result in obtaining the highest value for the failed institution. For each possible P&A transaction, the acquirer may acquire either all of the failing institution's deposits or only the insured portion of the deposits.

From 2008 through 2013, loss sharing was offered by the FDIC in connection with P&A transactions. In a loss-share transaction, the FDIC, as receiver, agrees to share losses on certain assets with the acquirer, absorbing a significant portion (typically 80 percent) of future losses on assets that have been designated as “shared-loss assets” for a specific period of time (e.g., five to 10 years). The economic rationale for these transactions is that keeping assets in the banking sector and resolving them over an extended period of time can produce a better net recovery than the FDIC’s immediate liquidation of these assets. However, in recent years as the markets improved and functioned more normally with both capital and liquidity returning to the banking industry, acquirers become more comfortable with bidding on failing bank franchises without the loss-sharing protection.

The FDIC continues to monitor compliance with shared-loss agreements by validating the appropriateness of loss-share claims; reviewing acquiring institutions’ efforts to maximize recoveries; ensuring consistent application of policies and procedures across both shared-loss and legacy portfolios; and confirming that the acquirers have sufficient internal controls, including adequate staff, reporting, and recordkeeping systems. At year-end 2017, there were 104 receiverships with active shared-loss agreements and \$13.9 billion in total shared-loss covered assets.

Financial Institution Failures

During 2017, there were eight institution failures, compared to five failures in 2016.

In all eight transactions, the FDIC successfully contacted all known, qualified, and interested bidders to market these institutions, and 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 past three years.

FAILURE ACTIVITY 2015–2017			
Dollars in Billions			
	2017	2016	2015
Total Institutions	8	5	8
Total Assets of Failed Institutions*	\$5.1	\$0.3	\$6.7
Total Deposits of Failed Institutions*	\$4.7	\$0.3	\$4.9
Estimated Loss to the DIF	\$1.1	\$0.05	\$0.9

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

Asset Management and Sales

As part of its resolution process, the FDIC tries to sell as many assets as possible to an assuming institution. Assets that are retained by the receivership are promptly valued and liquidated in order to maximize the return to the receivership estate. For 95 percent of 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 2017 totaled \$1.8 billion in book value.

As a result of the FDIC’s marketing and collection efforts, the book value of assets in inventory decreased by \$1.0 billion (32 percent) in 2017.

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

ASSETS-IN-LIQUIDATION INVENTORY BY ASSET TYPE

Dollars in Millions

Asset Type	12/31/17	12/31/16	12/31/15
Securities	\$160	\$183	\$393
Consumer Loans	8	8	22
Commercial Loans	50	19	62
Real Estate Mortgages	139	85	173
Other Assets/ Judgments	260	268	398
Owned Assets	47	40	113
Net Investments in Subsidiaries	157	100	122
Structured and Securitized Assets	1,449	2,614	3,524
TOTAL	\$2,271	\$3,317	\$4,807

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 its liabilities extinguished, the final distribution of any proceeds is made, and the FDIC terminates the receivership. In 2017, the number of receiverships under management decreased by 40 (11 percent) to 338.

The following chart shows overall receivership activity for the FDIC in 2017.

RECEIVERSHIP ACTIVITY

Active Receiverships as of 12/31/16	378
New Receiverships	8
Receiverships Terminated	48
Active Receiverships as of 12/31/17	338

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 receivership creditors, including depositors whose accounts exceeded the insurance limit. During 2017, receiverships paid dividends of \$953 thousand to depositors whose accounts exceeded the insurance limit.

Professional Liability and Financial Crimes Recoveries

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

During 2017, the FDIC recovered \$105 million from professional liability claims and settlements. The FDIC also authorized lawsuits related to one failed institution against three individuals for director and officer liability, and authorized another three lawsuits for fidelity bond accounting malpractice, and other claims. As of December 31, 2017, the FDIC's caseload included 24 professional liability lawsuits (down from 28 at year-end 2016), 21 residential mortgage malpractice and fraud lawsuits (down from 42), and 164 open investigations (down from 173). The FDIC seeks to complete professional liability investigations and make decisions expeditiously on whether to pursue potential professional liability claims. During 2017, it completed investigations and made decisions on 96 percent of the investigations related to failures that reached the 18-month point

after the institution's failure date, thereby exceeding its annual performance target.

As part of the sentencing process for those convicted of criminal wrongdoing against an insured institution that later failed, a court may order a defendant to pay restitution or to forfeit funds or property to the receivership. The FDIC, working with the U.S. Department of Justice, in connection with criminal restitution and forfeiture orders issued by federal courts and independently in connection with restitution orders issued by the state courts, collected \$9.6 million in 2017. As of December 31, 2017, there were 4,163 active restitution and forfeiture orders (increased from 3,991 at year-end 2016). This includes 119 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).

ENHANCING THE FDIC'S IT SECURITY

FDIC Information Technology Strategic Plan

Information Technology (IT) is a key enabler in ensuring the success of FDIC's core programs. Further, the FDIC must ensure that strong security and privacy controls protect the information used in the course of carrying out its responsibilities. In 2017, representatives from the Chief Information Officer Organization (CIOO) and the FDIC's business divisions contributed their insight and knowledge of IT challenges and opportunities with the four core principles that IT service delivery is secure, affordable, forward-thinking, and better prepares the FDIC to carry out its mission. As a result, the FDIC *Information Technology Strategic Plan (ITSP) 2017-2020* was developed to address many of the foundational issues affecting the cost and quality of IT services.

The ITSP goals are in the areas of information security and privacy, continuity of operations, enterprise mobility, information management and analytics, and

IT service delivery. The ITSP identifies opportunities for the FDIC to improve internal operations in a world of ever changing technology. The plan identifies the five major goals with supporting objectives designed to improve business capabilities and systems:

- ◆ Improve information security and privacy protections against cyber threats and data breaches;
- ◆ Ensure that the IT systems supporting mission essential functions are continuously available and provide depositors confidence that their funds are readily available in the event of a crisis or bank failure;
- ◆ Develop mobile technologies that offer opportunities for authorized users of FDIC applications to conduct their work in new ways and from remote locations;
- ◆ Create new information management and analysis capabilities to assess risk in support of the FDIC's supervisory responsibilities; and
- ◆ Improve service delivery and timely response to new business requirements. New capabilities serve both long-term institutional improvements, and the FDIC's readiness in the event of unexpected challenges.

Achieving these goals will significantly improve FDIC operations and the value the FDIC provides to the nation's financial system. During 2017, the FDIC advanced a variety of initiatives to begin fulfilling the goals set for in this plan.

Addressing FDIC Cybersecurity Risk

The FDIC is committed to strengthening and managing effective and efficient cybersecurity practices. At the foundation of these practices is risk management, which serves to proactively identify, protect, detect, and respond to threats, as well as to rapidly recover from cybersecurity incidents. During 2017, the FDIC has taken a number of actions to enhance and improve our risk management practices.

The FDIC addressed cybersecurity risk as a critical element of the ITSP. This strategic focus emphasizes the importance of cybersecurity to the mission and prompts tangible actions to sustain and improve our cybersecurity posture. To operationalize the strategy, the FDIC implemented a risk management function and assigned program- and executive-level officials to manage information risk. Ensuring that leaders are accountable for the effective planning, implementation, and monitoring of risk management enables the FDIC to identify, prioritize, communicate, and sustain the controls required to mitigate cybersecurity risks across the agency.

On May 11, 2017, the President issued an Executive Order entitled *Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure*. The Executive Order builds on existing statutory requirements under the Federal Information Security Modernization Act of 2014 (FISMA), which establishes information security obligations for federal agencies (including the FDIC).

Subsequent to the issuance of the Executive Order, the Office of Management and Budget issued *Reporting Guidance for Executive Order on Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure*, to provide agency heads with instructions for meeting the risk management reporting requirements in the Executive Order. To fulfill these requirements to strengthen cybersecurity, the FDIC:

- ◆ Designated, and reported on, the Senior Accountable Official (SAO) for cybersecurity risk;
- ◆ Developed and submitted the FY17 Annual Risk and FISMA Reports;
- ◆ Conducted a CIOO Cybersecurity Framework (CSF) self-assessment which assessed the current state of FDIC cybersecurity controls; and
- ◆ Used the identified risks from the CIOO CSF assessment and FDIC FISMA reports to develop

and submit an action plan for implementing the CSF.

Furthermore, the FDIC is restructuring corporate-wide information security guidance through the issuance of a new Information Security Policy Framework, which will align FDIC information security to industry-leading best practices, and will comply with recent cybersecurity requirements issued by the President and the U.S. Office of Management and Budget (OMB). Transitioning to the new framework will make it easier for FDIC personnel to identify applicable guidance and highlight policy areas needing improvement. The reorganization of policy information is still underway with completion expected in mid-2018.

Mobility and Strengthening of Endpoint Devices

The Enterprise Mobility objective is a comprehensive effort to deploy mobile technologies that enable FDIC authorized users to conduct their work in ways that improve efficiency and increase flexibility. This capability provides FDIC users with the ability to work securely, from any location at any time, on FDIC-owned equipment. During 2017, FDIC completed a variety of projects to support this objective, including:

- ◆ Laptop deployment — phased out desktops, eliminated use of personal computers, and issued identical and more secure government furnished equipment;
- ◆ Smartphone deployment — replaced FDIC-issued blackberry mobile devices with modern smartphones to expand mobile workforce capabilities while enhancing security; and
- ◆ Mobile Device Management (MDM) technology— implemented a FedRAMP²-compliant, cloud-based MDM solution to manage FDIC mobile devices.

²The **Federal Risk and Authorization Management Program (FedRAMP)** is an assessment and authorization process which U.S. federal agencies have been directed by the Office of Management and Budget to use to ensure security is in place when accessing cloud computing products and services.

Insider Threat and Counterintelligence Program

An insider threat is a concern or risk posed to the FDIC that involves an individual who misuses or betrays, wittingly or unwittingly, his or her authorized access to FDIC resources. This individual may have access to sensitive or personally identifiable information as well as privileged access to critical infrastructure or business sensitive information (e.g., bank data).

The FDIC established the Insider Threat and Counterintelligence Program (ITCIP) in September 2016. ITCIP is a defensive program focused on preventing and mitigating internal and external threats and risks posed to FDIC personnel, facilities, assets, resources, and both national security and sensitive information by insider and foreign intelligence entities. These threats may involve inadvertent disclosures and intentional breaches of sensitive information by personnel who may be compromised by external sources, disgruntled, seeking personal gain, intending to damage the reputation of the FDIC, or acting for some other reason. ITCIP leverages both physical and logical safeguards to minimize the risk, likelihood, and impact of an executed insider threat.

The National Insider Threat Task Force (NITTF) initiated its Federal Program Review in January 2017 to ensure the FDIC's implementation of the White House minimum standards. NITTF's independent evaluation showed that ITCIP met all minimum standards and achieved full operating capability on August 24, 2017. NITTF noted that ITCIP leads the federal government in several best practices that affect the entire workforce and serves as a model program for other independent regulators and non-Title 50 Departments and Agencies.

MINORITY AND WOMEN INCLUSION

Consistent with the provisions of the Dodd-Frank Act, the FDIC continues to enhance its longstanding commitment to promote diversity and inclusion in

employment opportunities and all business areas of the agency. The Office of Minority and Women Inclusion (OMWI) supports the FDIC's mission through outreach efforts to ensure the fair inclusion and utilization of minority- and women-owned businesses, law firms, and investors in contracting and investment opportunities.

The FDIC relies on contractors to help meet its mission. In 2017, the FDIC awarded 210 (28 percent) contracts to minority- and women-owned businesses (MWOBs) out of a total of 737 issued. The FDIC awarded contracts with a combined value of \$524 million in 2017, of which 19 percent (\$97 million) were awarded to MWOBs, compared to 18 percent for all of 2016. The FDIC paid \$110 million of its total contract payments (27 percent) to MWOBs, under 354 MWOB contracts. The FDIC made 67 referrals to minority- and women-owned law firms (MWOLFs), which accounted for 18 percent of all legal referrals in 2017. Total payments to MWOLFs were \$6.5 million in 2017, which is 11 percent of all payments to outside counsel, compared to 14 percent for all of 2016.

In 2017, the FDIC Legal Division participated in six minority bar association conferences and three stakeholder events in support of maximizing the participation of MWOLFs in FDIC legal contracting. This participation included serving on several panels and committees, such as the National Association of Minority and Women Owned Law Firms (NAMWOLF) Advisory Council, the NAMWOLF Events Committee, the NAMWOLF Diversity and Inclusion Initiative, and "How to Pitch Law Firm Services to Prospective Clients." In addition, the Legal Division conducted an MWOLF workshop at the Dallas Regional Office to encourage FDIC in-house counsel to contract with MWOLFs. In recognition of its diversity and inclusion efforts, the FDIC received the NAMWOLF 2017 Diversity Initiative Achievement Award. Also, in 2017, the Legal Division staff worked closely with several MWOLFs on partnering with large non-minority owned firms to compete for FDIC legal referrals.

Pursuant to Section 342 of the Dodd-Frank Act, which requires an assessment of legal contractors' internal workforce diversity practices, the Legal Division conducted 12 compliance reviews of the top-billing law firms (both non-minority-owned and MWOLFs). The reviews included discussions relating to the recruitment, mentoring, and promotion of diverse attorneys working on FDIC legal matters.

In 2017, the FDIC participated in a total of 35 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 and MWOLFs, these efforts also targeted veteran-owned and small disadvantaged businesses. Vendors were provided with the FDIC's general contracting procedures, prime contractors' contact information, and forecasts of possible upcoming solicitations. Also, vendors were encouraged to register through the FDIC's Contractor Resource List (the principal database for vendors interested in doing business with the FDIC).

The FDIC co-sponsored two technical assistance events. The FDIC, NCUA, and OCC hosted the *Cybersecurity Awareness and Preparedness for Your Business* event where presenters discussed cybersecurity intrusions in small businesses and what to do when a business is compromised. Cybersecurity requirements for financial institutions were discussed, as well as vendors' expectations and requirements.

The FDIC, NCUA, and OCC, in collaboration with the Virginia Procurement Technical Assistance Program, hosted the *Proposal to Pricing – Developing a Winning Strategy* technical assistance event. The presenters shared information on developing winning proposals and pricing strategies. The sponsoring agencies and various procurement trade organizations exhibited at the event.

During 2017, OMWI and the Division of Resolutions and Receiverships (DRR) collaborated to present two

FDIC-sponsored asset purchaser workshops that were marketed extensively to minority- and women-owned investors and companies interested in learning about DRR's sales processes. DRR speakers with strong backgrounds in their respective programs provided details on the various tools used by DRR to market assets and presented information to attendees on how to participate in the transactions and bid on assets offered for sale.

Two outreach events were held in 2017 in New Orleans, LA, to support asset sales resulting from the failure of First NBC Bank. The first event was an investor workshop which included discussions of cash loan sales, structured transactions, real estate liquidations, and other forms of FDIC dispositions. The investor workshop attracted 104 attendees.

The second event was conducted by Owned Real Estate (ORE) staff and was targeted to first-time homebuyers, tenants occupying non-owner occupied ORE, and other prospective purchasers of ORE in the New Orleans area. Housing counselors and lenders specialized in lower-priced home loans were available to help the 79 people who attended the event.

Information regarding the Minority and Women Outreach Program can be found on the FDIC's website at www.fdic.gov/mwop.

The FDIC's Homeownership Outreach Workshop focused on attendees receiving information on how and why the FDIC acquires properties, the types of properties, and where the properties are listed. At the conclusion of the workshop, the agency hosted a housing fair session where attendees met with representatives of financial institutions and non-profit organizations.

In addition, FDIC worked closely with the OMWIs of the OCC, FRB, CFPB, NCUA, and the SEC to further implement Section 342(b)(2)(C) of the Dodd-Frank Act, which requires the agencies to develop standards to assess the diversity policies and practices of the entities they regulate. After finalizing the Interagency Policy Statement Establishing Joint

Standards for Assessing the Diversity Policies and Practices of Entities Regulated by the Agencies in 2015, the agency OMWIs received approval from the Office of Management and Budget in 2016 as required by the Paperwork Reduction Act of 1995, to collect information from regulated entities. To facilitate the collection of information from its regulated entities, the FDIC developed an electronic diversity self-assessment instrument to assist FDIC-regulated financial institutions in assessing their diversity programs.

In October 2016, the Acting Director of OMWI distributed a letter to the presidents and Chief Executive Officers (CEOs) of 805 FDIC-regulated financial institutions identified as having 100 or more employees. The letter informed these large institutions about the process for conducting and voluntarily submitting their diversity information to the FDIC. In March 2017, a second reminder letter from the Acting Director of OMWI was distributed to financial institutions to encourage participation.

The FDIC received diversity self-assessments from 95 (12 percent) of its regulated financial institutions. The FDIC will use diversity self-assessment information provided by its regulated entities to track progress and trends in the financial services industry, and to identify exemplary diversity policies and practices.

Although OMWI is pleased with the participation of financial institutions that conducted and submitted a diversity self-assessment in its first year, it is taking steps to increase voluntary participation by augmenting outreach and participation at banking conferences, developing financial institution diversity marketing materials, and making improvements to the program website. OMWI will continue to raise awareness amongst FDIC-regulated financial institutions by identifying leading trends and establishing benchmarks designed to build a strong culture in diversity and inclusion practices.

In November 2017, the Acting Director of OMWI distributed a letter to presidents and CEOs of

regulated financial institutions encouraging them to voluntarily submit their 2017 diversity self-assessments by March 31, 2018.

INTERNATIONAL OUTREACH

FDIC played a leading role during the year in supporting the global development of deposit insurance, bank supervision, and bank resolution systems. This included working closely with regulatory and supervisory authorities from around the world, as well as international standard-setting bodies and multilateral organizations, such as the International Association of Deposit Insurers (IADI), the Association of Supervisors of Banks of the Americas (ASBA), the Basel Committee on Banking Supervision (BCBS), the Financial Stability Board (FSB), the International Monetary Fund (IMF), and the World Bank. The FDIC engaged with foreign regulatory counterparts by hosting visiting officials, conducting training seminars, delivering technical assistance abroad, and fulfilling the commitments of FDIC membership in international organizations.

International Association of Deposit Insurers

FDIC officials and subject matter experts provided continuing support for IADI programs in 2017. This included developing and facilitating technical assistance workshops for the Middle Eastern, African, European, Caribbean, North American, Eurasian, and Latin American regions of IADI; participating in reviews of IADI members' self-assessment of compliance with the Core Principles; and participating in the IADI Biennial Research Conference in June. Led and supported by FDIC executives and senior staff, IADI technical assistance and training activities reached more than 250 participants during 2017.

Association of Supervisors of Banks of the Americas

Senior FDIC staff chaired the ASBA Training and Technical Committee in 2017, which designs and implements ASBA's training strategy, promoting the adoption of sound banking supervision policies and

practices among its members. The training program reached more than 500 member participants in 2017.

Basel Committee on Banking Supervision

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

International Capacity Building

The FDIC provided technical assistance and training missions to foreign counterparts in 2017 to promote effective deposit insurance, bank supervision, and bank resolution systems. These missions included assisting the Bank of Greece and providing training for Canadian deposit insurers. These efforts also included programs for more than 200 visiting regulators and other government officials from 20 countries during the year. Structured classroom training included two presentations of *FDIC 101: An Introduction to Deposit Insurance, Bank Supervision, and Resolutions*, attended by 65 students from nearly 40 organizations.

Other International Dialogues

The FDIC advanced policy objectives with key jurisdictions worldwide by participating in high-level interagency dialogues. Counterparties included China, India, Mexico and Canada.

EFFECTIVE MANAGEMENT OF STRATEGIC RESOURCES

The FDIC recognizes that it must effectively manage its human, financial, and technological resources to successfully carry out its mission and meet the

performance goals and targets set forth in its annual performance plan. The FDIC must align these strategic resources with its mission and goals and deploy them where they are most needed to enhance its operational effectiveness and minimize potential financial risks to the DIF. Following are the FDIC's major accomplishments in improving operational efficiency and effectiveness during 2017.

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 2017, the FDIC workforce planning initiatives emphasized the need to plan for employees to fulfill current and future capabilities and leadership needs. This focus ensures that the FDIC has a workforce positioned to meet today's core responsibilities and prepared to fulfill its mission in the years ahead.

Strategic Workforce Planning and Readiness

During 2017, the FDIC continued to develop and implement the Workforce Development Initiative, an integrated strategy to address workforce challenges and opportunities. The effort 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 support these efforts.

In 2017, the FDIC continued to develop the infrastructure, governance, programs, and processes to help meet its long-term workforce and leadership needs. The FDIC is committed to building and expanding its talent pipeline to ensure succession

challenges are met. To that end, the agency expanded its succession planning review process in 2017 to include all managers and an assessment of their leadership attributes. The effort began with a survey to assess the level of aspiration among current managers. More than two-thirds of current managers reported that they were interested in seeking higher-level positions at the FDIC, demonstrating their ongoing interest in leadership development. Senior FDIC leaders from across the agency then convened to discuss leadership needs and strategies to address them, including efforts to develop the pipeline of the FDIC's aspiring leadership pool.

As a result of the succession planning review process, FDIC managers received recommendations to participate in diverse programs to enhance their leadership capabilities, including the Leadership Mentoring Program, external educational opportunities through Harvard's Kennedy School of Government and Georgetown's Government Affairs Institute, executive coaching, and enriched management training.

The FDIC also continued to focus on ensuring the availability of a workforce equipped to meet today's responsibilities, while simultaneously preparing for future capability needs. The FDIC furthered development of a Career Paths initiative, targeted at non-supervisory employees at all levels, to promote the acquisition of cross-organizational skills and knowledge. Additional support is provided to employees seeking professional development opportunities through expanded career management services.

The FDIC's strategic workforce planning initiatives require a long-term and sustained focus to identify future workforce and leadership needs, assess current capabilities, support aspiration to management and leadership roles, and develop and source the talent to meet emerging workforce needs. 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 (FIS) in entry-level positions. The CEP encompasses major FDIC divisions where FIS are trained to become part of a highly effective workforce. During the first-year rotation within the program, FIS gain experience and knowledge in the core business of the FDIC, including DCP, RMS, DRR, and DIR. At the conclusion of the rotation period, FIS are placed within RMS or DCP, where they continue their career path to become commissioned examiners.

The CEP is an essential part of the FDIC's ability to provide highly-trained staff for its core occupational series, and ultimately for its future senior technical and leadership positions. Since the CEP's inception in 2005, nearly 500 individuals are active in this multi-discipline program, and 875 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 in college. The program serves as an additional avenue to recruit talent.

Employee Learning and Development

The FDIC is committed to training and developing its employees throughout their careers to enhance technical proficiency and leadership capacity, supporting career progression and succession management. The FDIC is focused on developing and implementing comprehensive curricula for its business lines to 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.



FDIC Workplace Excellence Steering Committee and Division and Office Councils.

The FDIC also offers a comprehensive leadership development program that combines core courses, electives, and other enrichment opportunities to develop employees at all levels. From new employees to new executives, the FDIC provides employees with targeted leadership development opportunities that align with key leadership competencies. 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

In September 2017, the FDIC Board of Directors approved the integration of the functions of the Office of Corporate Risk Management (OCRM) into a newly-constituted Risk Management and Internal Controls Branch (RMIC) within the Division of Finance (DOF). This change enhances the effectiveness of the FDIC's enterprise risk-management function, integrates those functions with the FDIC's internal control processes, and better aligns the risk-management process with existing annual corporate planning and budget processes. The existing operations of OCRM and DOF's Corporate Management Control Branch were consolidated into RMIC. This branch will be led by a new Deputy Director, who will also carry the title of Chief Risk Officer.

Employee Engagement

The FDIC continually evaluates its human capital programs and strategies to ensure that it remains an employer of choice, and that all of its employees are fully engaged and aligned with the mission. The FDIC uses the Federal Employee Viewpoint Survey mandated by Congress to solicit information from employees, and takes an agency-wide approach to address key issues identified in the survey. The FDIC continues to rank at or near the top in all categories of the Partnership for Public Service *Best Places to Work in the Federal Government*[®] list for mid-size federal agencies. Effective leadership is the primary factor driving employee satisfaction and commitment in the federal workplace, according to a report by the Partnership for Public Service.

The FDIC'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.