FDIC

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

May 15, 2015

MEMORANDUM TO: The Board of Directors

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

Craig R. Jarvill
Director, Division of Finance

SUBJECT: First Quarter 2015 CFO Report to the Board

The attached report highlights the Corporation's financial activities and results for the quarter ended March 31, 2015.

Executive Summary

- During the first quarter of 2015, the Deposit Insurance Fund (DIF) balance increased by $2.5 billion, from $62.8 billion to $65.3 billion. This quarterly increase was primarily due to $2.2 billion of assessment revenue and a $426 million decrease in the provision for insurance losses, partially offset by $396 million in operating expenses.

- During the first quarter of 2015, the FDIC was named receiver for 4 failed institutions. Doral Bank, which failed on February 27, 2015 and had assets at time of failure of $4.9 billion, was the largest bank failure since April 2010. The combined assets at inception for all four failed institutions totaled $5.3 billion with a total estimated loss of $848 million. The corporate cash outlay during the first quarter for these failures was approximately $1.7 billion.

- Through March 31, 2015, overall Corporate Operating Budget expenditures were below budget by 12 percent ($64 million). This variance was primarily the result of vacancies in budgeted positions, lower spending in the Equipment and Outside Services – Personnel categories in the Ongoing Operations component of the budget, and lower-than-budgeted spending for contractual services in the Receivership Funding component of the budget.

I. <u>Corporate Fund Financial Results</u> (See pages 6 – 7 for detailed data and charts.)

Deposit Insurance Fund

- For the three months ending March 31, 2015, the DIF's comprehensive income totaled $2.5 billion compared to comprehensive income of $1.7 billion for the same period last year. This $814 million increase was mostly due to a $774 million year-to-year decrease in provision for insurance losses (negative $426 million for the first quarter 2015 vs. $348 million for the same period in 2014) and a $206 million increase in the unrealized gain on U.S. Treasury investments, partially offset by a $204 million decrease in assessment revenue.

- The provision for insurance losses was a negative $426 million for the first quarter of 2015. The negative provision primarily resulted from a $640 million decrease in the estimated losses for institutions that failed in current and prior years, partially offset by a $220 million increase in the estimated losses for future failures.

Assessments

- During March, the DIF recognized a total of $2.2 billion in assessment revenue. Of this amount, the estimate for first quarter 2015 insurance coverage totaled $2.1 billion. Additionally, the DIF recognized a net adjustment of $138 million that increased assessment revenue. This adjustment consisted of a $9 million increase from prior period amendments and a $129 million increase to the estimate for fourth quarter 2014 insurance coverage recorded at December 31, 2014. The latter adjustment was primarily due to higher than estimated rates and higher than estimated assessment base.

- On March 30, 2015, the FDIC collected $2.1 billion in DIF assessments for fourth quarter 2014 insurance coverage.

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

DIF Investment Portfolio

- On March 31, 2015, the total liquidity (also total market value) of the DIF investment portfolio stood at $54.6 billion, up $2.3 billion from its December 31, 2014, balance of $52.3 billion. During the first quarter, interest revenue, receivership dividends, and deposit insurance assessment collections exceeded resolution-related outlays and operating expenses.

- On March 31, 2015, the DIF investment portfolio's yield was 0.72 percent, up 2 basis points from its December 31, 2014, yield of 0.70 percent. The increase largely reflected the new Treasury securities purchased during the quarter generally having considerably higher yields than the maturing securities.

- In accordance with the approved first quarter 2015 DIF portfolio investment strategy, staff purchased a total of 16 short- to intermediate-maturity conventional Treasury securities, all designated as available-for-sale. The 16 securities had a total par value of $7.5 billion, a weighted average yield of 0.76 percent, and a weighted average maturity of 2.02 years.

III. <u>Budget Results</u> (See pages 10 – 11 for detailed data.)

Approved Budget Modifications

The 2015 Budget Resolution delegated to the Chief Financial Officer (CFO) and selected other officials the authority to make certain modifications to the 2015 Corporate Operating Budget. The following budget reallocations were approved during the first quarter in accordance with the authority delegated by the Board of Directors.

- In January 2015, the Division of Information Technology (DIT), the Office of Minority and Women Inclusion, the Division of Insurance and Research, the Information Security and Privacy Staff (ISPS), and the CIO Council reallocated budget authority among major expense categories within their approved Ongoing Operations budgets, and the Division of Resolutions and Receiverships (DRR) reallocated budget authority among major expense categories within its approved Receivership Funding budget. None of the budget realignments increased or decreased the total Board-approved budget, or the Ongoing Operations or Receivership Funding components of their budgets.

- In March 2015, the CFO approved the reallocation of $780,566 within the Ongoing Operations budget component from the Legal Division to the newly established Office of Financial Institution Adjudication (OFIA) for Salaries and Compensation ($737,967), Travel ($40,000), and Other Expenses ($2,599). OFIA, although independent, was previously a part of the Legal Division for administrative purposes. It is now a separate organizational entity within the Executive Support Offices reporting directly to the Chief Operating Officer.

- In March 2015, the CFO approved a $5,860,000 transfer of budget authority from the Corporate Unassigned contingency reserve to the Outside Services – Personnel and Equipment expense categories in the Ongoing Operations budget of DIT to fund an independent assessment of the FDIC's IT program; an update of the IT strategic plan; the purchase of new file storage capacity and related services for the extended retention of e-mails and other documents; and the purchase of software licenses to support new security capabilities.

- In March 2015, the CIO approved the realignment of funds within the CIO Council budget between the Outside Services – Personnel (-$24,000) and Travel (+$24,000) expense categories to provide travel funds for the Receivership Oversight project.

Following these budget reallocations, the amounts remaining available within the Corporate Unassigned budgets for the Ongoing Operations and the Receivership Funding budget components were $19,140,000 and $22,710,143, respectively.

Approved Staffing Modifications

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

- In March 2015, the CFO approved the transfer of three authorized positions (two permanent, one non-permanent) from the Legal Division to OFIA in conjunction with the establishment of OFIA as a separate office within the Executive Support Offices.

Spending Variances

Significant spending variances by major expense category and division/office are discussed below. Significant spending variances for the three months ending March 31, 2015, are defined as those that either (1) exceed the YTD budget by $3 million and represent more than five percent of a major expense category or total division/office budget; or (2) are under the YTD budget for a major expense category or division/office by an amount that exceeds $5 million and represents more than ten percent of the major expense category or total division/office budget.

Significant Spending Variances by Major Expense Category

Ongoing Operations

There was a significant spending variance during the first quarter in two major expense categories of the Ongoing Operations component of the 2015 Corporate Operating Budget:

- Outside Services-Personnel expenditures were $8 million, or 14 percent, less than budgeted. The Division of Administration (DOA) spent $4 million less than budgeted largely due to (1) the failure to fully accrue expenses for the new security guard services contract, (2) fewer background investigations than anticipated, and (3) delays in completing the succession planning project and related pay, performance, and competency modeling projects. DRR spent $1 million less than budgeted, primarily due to delays in initiating projects in its Complex Financial Institutions and Planning and Resource Management Branches. In addition, Corporate University spent $1 million less than budgeted primarily due to lower-than-projected expenditures for projects in the Dallas Learning Center and the Schools of Corporate Operations, Leadership Development, and Supervision.

- Equipment expenditures were $10 million, or 61 percent, less than budgeted. DIT spent $7 million less than budgeted for hardware and software maintenance due to a slow start in purchasing equipment and processing hardware and software maintenance contracts. About half of these planned first quarter expenses were actually incurred in April. In addition, DOA spent $2 million less than budgeted due to lower spending for online information services and under-spending for furniture, fixture and equipment.

Receivership Funding

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

There was a significant spending variance in only one of the seven major expense categories during the first quarter in the Receivership Funding component of the 2015 Corporate Operating Budget:

- Outside Services-Personnel expenditures were $27 million, or 30 percent, less than budgeted. DRR spent $16 million less than budgeted in the first quarter as resolutions, asset management and marketing costs declined at a faster rate than projected. This included lower expenses for contracts supporting Owned Real Estate, Loan Servicing, Environmental, Failed Bank Data and Capital Markets related contracts. In addition, the Legal Division spent $11 million less than budgeted due primarily to an unexpected decrease in the professional liability expenses during the first quarter that was attributable to pre-trial settlements, temporary stays in some cases, and other factors. We will reassess the Outside Services – Personnel funding levels for DRR and the Legal Division at mid-year.

Significant Spending Variances by Division/Office[1]

Only four organizations had significant spending variances through the end of the first quarter:

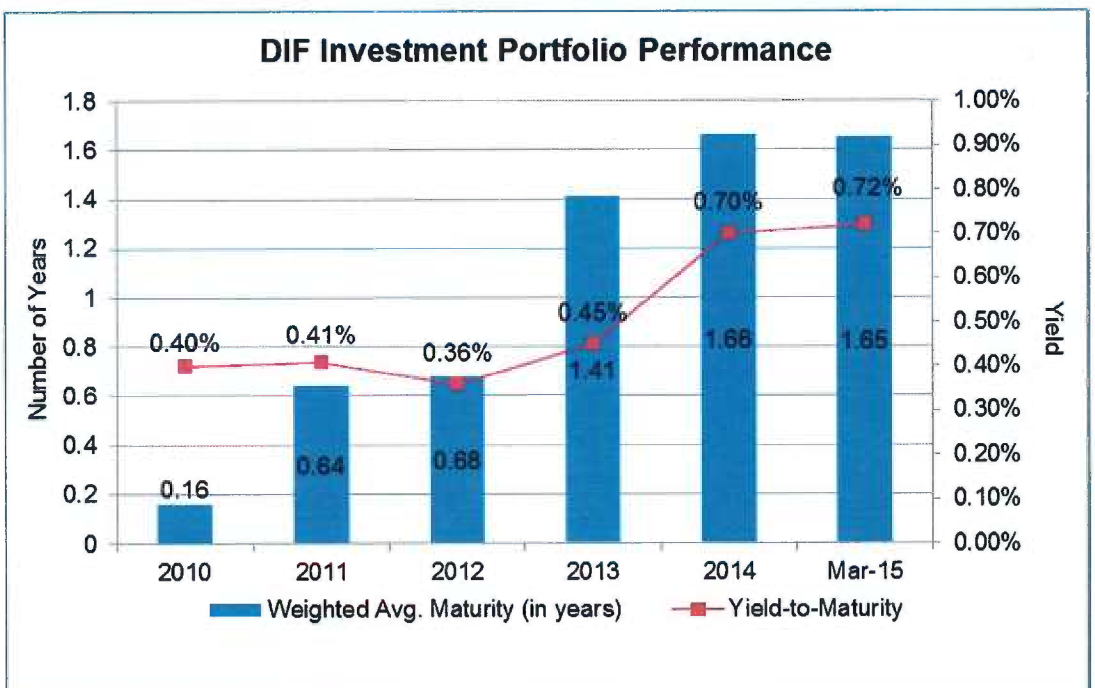
- DRR spent $21 million, or 19 percent, less than budgeted, mostly due to less than budgeted spending for resolution and receivership workload for the reasons described above.
- The Legal Division spent $13 million, or 18 percent, less than budgeted. Approximately $11 million of this variance was in the Receivership Funding budget component and was largely attributable to lower-than-budgeted spending for legal services contracting due to an unexpected decrease in the professional liability expenses during the first quarter that was attributable to pre-trial settlements, temporary stays in some cases, and other factors. Additionally, there was a $1 million variance in the Ongoing Operations budget component due to slower-than-projected hiring.
- DIT spent $9 million, or 19 percent, less than budgeted. This variance was largely attributable to delays in the timing of budgeted purchases and processing hardware and software maintenance contracts in the equipment category.
- DOA spent $8 million, or 12 percent, less than budgeted. This variance was largely attributable to lower-than-budgeted spending for contractor support ($4 million) and equipment expenses ($2 million) in its Ongoing Operations Budget component.

[1] Information on division/office variances reflects variances in the Corporate Operating Budget.

Fund Financial Results

($ in Millions)

Balance Sheet	Deposit Insurance Fund				
	Unaudited Mar-15	Audited Dec-14	Quarterly Change	Unaudited Mar-14	Year-Over-Year Change
Cash and cash equivalents	$ 3,729	$ 1,914	$ 1,815	$ 511	$ 3,218
Investment in U.S. Treasury obligations, net	50,591	49,806	785	44,215	6,376
Assessments receivable, net	2,051	2,003	48	2,266	(215)
Interest receivable on investments and other assets, net	373	652	(279)	424	(51)
Receivables from resolutions, net	17,258	18,181	(923)	15,580	1,678
Property and equipment, net	365	373	(8)	368	(3)
Total Assets	$ 74,367	$ 72,929	$ 1,438	$ 63,364	$ 11,003
Accounts payable and other liabilities	243	291	(48)	257	(14)
Liabilities due to resolutions	7,868	7,799	69	12,438	(4,570)
Postretirement benefit liability	243	243	-	194	49
Contingent liability for anticipated failures	717	1,815	(1,098)	1,577	(860)
Contingent liability for litigation losses	-	1	(1)	5	(5)
Total Liabilities	$ 9,071	$ 10,149	$ (1,078)	$ 14,471	$ (5,400)
FYI: Unrealized gain (loss) on U.S. Treasury investments, net	282	51	231	45	237
FYI: Unrealized postretirement benefit (loss) gain	(58)	(58)	-	(16)	(42)
Fund Balance	$ 65,296	$ 62,780	$ 2,516	$ 48,893	$ 16,403



Fund Financial Results - continued

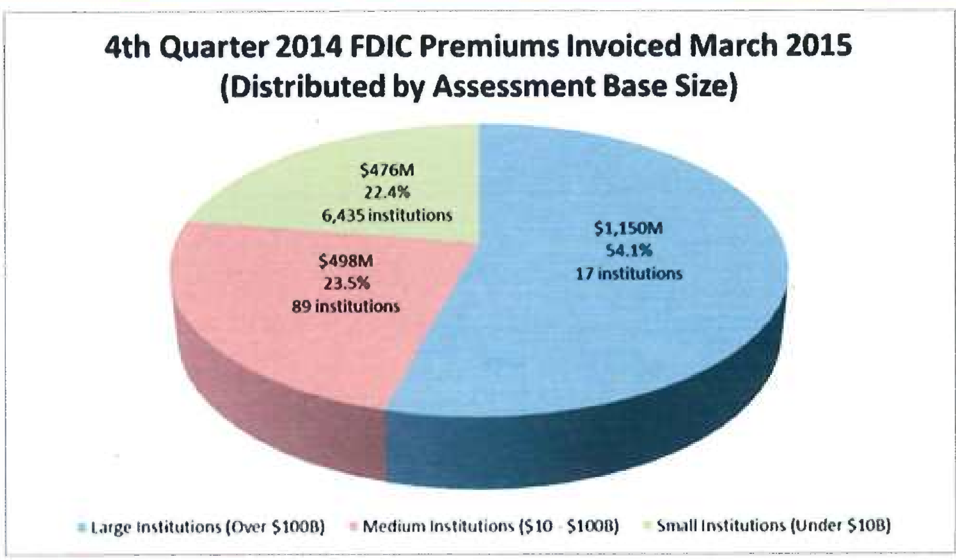
($ in Millions)

Income Statement (year-to-date)	Deposit Insurance Fund Unaudited Mar-15	Audited Dec-14	Unaudited Mar-14	Year-Over-Year Change
Assessments	$ 2,189	$ 8,656	$ 2,393	$ (204)
Interest on U.S. Treasury obligations	60	282	45	15
Other revenue	6	27	9	(3)
Total Revenue	$ 2,255	$ 8,965	$ 2,447	$ (192)
Operating expenses	396	1,664	422	(26)
Provision for insurance losses	(426)	(8,305)	348	(774)
Insurance and other expenses	-	6	-	-
Total Expenses and Losses	$ (30)	$ (6,635)	$ 770	$ (800)
Net Income	2,285	15,600	1,677	608
Unrealized gain (loss) on U.S. Treasury investments, net	231	31	25	206
Unrealized postretirement benefit gain (loss)	-	(42)	-	-
Comprehensive Income	$ 2,516	$ 15,589	$ 1,702	$ 814

Selected Financial Data	FSLIC Resolution Fund Unaudited Mar-15	Audited Dec-14	Quarterly Change	Unaudited Mar-14	Year-Over-Year Change
Cash and cash equivalents	$ 872	$ 871	$ 1	$ 872	$ -
Accumulated deficit	(124,460)	(124,461)	1	(124,460)	-
Total resolution equity	872	871	1	873	(1)
Total revenue	1	1		-	1
Operating expenses	-	2		-	-
Provision for losses	-	(1)		(1)	1
Net Income (Loss)	$ 1	$ (1)		$ 1	$ -

Receivership Selected Statistics March 2015 vs. March 2014

$ in millions	DIF			FRF			ALL FUNDS		
	Mar-15	Mar-14	Change	Mar-15	Mar-14	Change	Mar-15	Mar-14	Change
Total Receiverships	483	484	(1)	-	1	(1)	483	485	(2)
Assets in Liquidation	$ 7,289	$ 10,246	$ (2,957)	$ 5	$ 5	$ -	$ 7,294	$ 10,251	$ (2,957)
YTD Collections	$ 1,365	$ 1,157	$ 208	$ -	$ 1	$ (1)	$ 1,365	$ 1,158	$ 207
YTD Dividend/Other Pymts - Cash	$ 2,170	$ 1,078	$ 1,092	$ -	$ -	$ -	$ 2,170	$ 1,078	$ 1,092



Deposit Insurance Fund Portfolio Summary (Dollar Values in Millions)			
	3/31/15	12/31/14	Change
Par Value	$53,226	$50,739	$2,487
Amortized Cost	$54,028	$51,655	$2,373
Total Market Value (including accrued interest)	$54,626	$52,302	$2,324
Primary Reserve [1]	$54,626	$52,302	$2,324
Primary Reserve % of Total Portfolio	100.0%	100.0%	0.0%
Yield-to-Maturity [2]	0.72%	0.70%	0.02%
Weighted Average Maturity (in years)	1.65	1.66	-0.01
Effective Duration (in years)			
Total Portfolio	1.62	1.63	-0.01
Available-for-Sale Securities	1.74	1.69	0.05
Held-to-Maturity Securities [3]	not applicable	not applicable	not applicable

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

[2] The Yield-to-Maturity includes the potential yield of Treasury Inflation-Protected Securities (TIPS), which presently assumes an average 2.0% annual increase in the CPI over the remaining life of each TIPS.

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

Summary of Other Corporate Investment Portfolios (Dollar Values in Millions)			
	3/31/15	12/31/14	Change
FRF-FSLIC			
Book Value [4]	$827	$827	$0
Yield-to-Maturity	0.02%	0.03%	-0.01%
Weighted Average Maturity	overnight	overnight	no change

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

National Liquidation Fund (NLF) Investment Portfolio Summary (Dollar Values in Millions)			
	3/31/15	12/31/14	Change
Book Value [5]	$13,265	$14,139	($874)
Effective Annual Yield	0.13%	0.11%	0.02%
Weighted Average Maturity (in days)	77	75	2

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

Investment Strategies	
DEPOSIT INSURANCE FUND	**Strategy for the 1st Quarter 2015** Purchase up to $8 billion (par value) of Treasury securities with maturity dates between June 30, 2015, and June 30, 2020, subject to the following additional provisions: all newly purchased securities will be designated as available-for-sale (AFS); and no more than $2 billion (adjusted par value) of such securities shall consist of Treasury Inflation-Protected Securities (TIPS). **Strategy Changes for the 2nd Quarter 2015** Purchase up to <u>$10 billion (par value)</u> of Treasury securities with maturity dates between <u>September 30, 2015</u>, and <u>September 30, 2020</u>, subject to the following additional provisions: all newly purchased securities will be designated as available-for-sale (AFS); and no more than $2 billion (adjusted par value) of such securities shall consist of Treasury Inflation-Protected Securities (TIPS).
NATIONAL LIQUIDATION FUND	**Strategy for the 1st Quarter 2015** Maintain an overnight deposit target floor balance within a range of $100 million to $300 million. Strategically invest the remaining funds in the zero- to 12-month maturity sector. **Strategy Changes for the 2nd Quarter 2015** No strategy changes for the second quarter of 2015.

Executive Summary of 2015 Budget and Expenditures
by Major Expense Category
Through March 31, 2015
(Dollars in Thousands)

Major Expense Category	Annual Budget	YTD Budget	YTD Expenditures	% of YTD Budget Used	YTD Variance
Corporate Operating Budget					
Ongoing Operations					
Salaries & Compensation	$1,226,509	$298,903	$285,127	95%	($13,776)
Outside Services - Personnel	254,021	53,335	45,741	86%	(7,594)
Travel	97,749	23,907	21,972	92%	(1,935)
Buildings	93,895	21,011	20,907	100%	(104)
Equipment	87,242	16,088	6,322	39%	(9,766)
Outside Services - Other	17,420	4,595	3,170	69%	(1,425)
Other Expenses	16,861	3,537	3,596	102%	59
Total Ongoing Operations	**$1,793,697**	**$421,375**	**$386,835**	**92%**	**($34,540)**
Receivership Funding					
Salaries & Compensation	$89,088	$24,384	$23,552	97%	($832)
Outside Services - Personnel	380,797	89,532	63,032	70%	(26,500)
Travel	6,806	1,706	2,359	138%	653
Buildings	17,328	4,312	3,771	87%	(541)
Equipment	4,091	710	1,207	170%	497
Outside Services - Other	4,044	1,118	486	43%	(632)
Other Expenses	22,847	5,695	3,361	59%	(2,334)
Total Receivership Funding	**$525,000**	**$127,457**	**$97,768**	**77%**	**($29,689)**
Total Corporate Operating Budget	**$2,318,697**	**$548,832**	**$484,603**	**88%**	**($64,229)**

Executive Summary of 2015 Budget and Expenditures by Budget Component and Division/Office Through March 31, 2015 (Dollars in Thousands)					
Division/Office	Annual Budget	YTD Budget	YTD Expenditures	% of YTD Budget Used	YTD Variance
Corporate Operating Budget					
Risk Management Supervision	$578,983	$140,916	$133,635	95%	($7,280)
Resolutions & Receiverships	438,154	110,815	89,765	81%	(21,050)
Legal	280,497	69,603	56,834	82%	(12,769)
Administration	268,883	64,172	56,201	88%	(7,970)
Depositor & Consumer Protection	172,827	43,306	41,401	96%	(1,905)
Information Technology	225,405	47,934	39,031	81%	(8,903)
CIO Council	50,977	11,143	11,954	107%	812
Insurance & Research	51,293	12,091	11,116	92%	(975)
Finance	40,329	9,950	9,124	92%	(826)
Inspector General	33,715	8,411	7,325	87%	(1,086)
Information Security & Privacy Staff	34,793	7,088	6,447	91%	(641)
Executive Support [1]	26,185	6,128	5,604	91%	(524)
Corporate University - Corporate	21,649	4,867	5,215	107%	348
Complex Financial Institutions	22,594	5,049	4,251	84%	(798)
Corporate University - CEP	18,440	4,260	4,132	97%	(128)
Executive Offices [2]	12,124	3,100	2,566	83%	(534)
Corporate Unassigned	41,850	0	0	N/A	0
Total, Corporate Operating Budget	**$2,318,697**	**$548,832**	**$484,603**	**88%**	**($64,229)**

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

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