

Deputy to the Chairman and Chief Financial Officer

May 18, 2021

MEMORANDUM TO: The Board of Directors

FROM: Bret Edwards
Deputy to the Chairman
and Chief Financial Officer

SUBJECT: First Quarter 2021 CFO Report to the Board

The attached report highlights the FDIC's financial activities and results for the quarter ended March 31, 2021.

Executive Summary

- During the first quarter of 2021, the Deposit Insurance Fund (DIF) balance rose to a record \$119.4 billion as of March 31, 2021, up \$1.5 billion from the December 31, 2020 balance of \$117.9 billion. The quarterly increase was primarily due to \$1.9 billion in assessment revenue, partially offset by \$454 million in operating expenses.
- The reserve ratio, which is the ratio of the DIF balance to estimated insured deposits, was 1.25 percent at March 31, 2020. Strong estimated insured deposit growth caused the reserve ratio to decrease by our basis points from December 31, 2020.
- There were no financial institution failures during the first quarter of 2021; the last failure occurred on October 23, 2020.
- Through March 31, 2021, overall FDIC Operating Budget expenditures were below the year-to-date budget by about \$58.6 million, or 11 percent. This variance was primarily the result of underspending of \$54.1 million in the Ongoing Operations budget component. The largest variances were in the Salaries and Compensation expense category (\$24.3 million, or 7 percent) due to unfilled vacancies in authorized positions and the Travel expense category (\$11.8 million, or 85 percent) due to travel restrictions during the COVID-19 pandemic. To ensure preparedness to address the possible emergence of problems within the banking industry, FDIC divisions and offices will give priority during the second quarter to filling authorized vacancies.

I. Financial Results (See pages 6 – 7 for detailed data and charts.)

Deposit Insurance Fund

- For the first quarter of 2021, the DIF's comprehensive income totaled \$1.5 billion compared to comprehensive income of \$2.9 billion for the same period last year. While assessment revenue increased year-over-year by \$490 million, this was fully offset by a decrease in interest on U.S. Treasury (UST) securities of \$223 million and a decline in fair value adjustments on UST securities of \$1.7 billion.
- DIF incurred a \$285 million unrealized loss on UST securities during the first quarter 2021 as a result of the yield curve steepening sharply as yields beyond the 2-year tenor saw significant upward pressure, while the front end of the curve trended lower. The curve's steepening added 18bps to the 3-year tenor and 58bps to the 5-year tenor, causing subsequent unrealized losses to the securities portfolio for maturities in the latter end of 2023 and beyond.

Assessments

- During March, the DIF recognized assessment revenue of \$1.9 billion for the estimate of first quarter 2021 insurance coverage. Additionally, the DIF recognized a \$79 million adjustment for lower-than-estimated collections for the fourth quarter 2020 insurance coverage, which decreased assessment revenue.
- On March 30, 2021, the FDIC collected \$1.9 billion in DIF assessments for fourth quarter 2020 insurance coverage.

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

DIF Investment Portfolio

- On March 31, 2021, the total liquidity (also total market value) of the DIF investment portfolio stood at \$116.5 billion, up \$1.6 billion from its December 31, 2020, balance of \$114.9 billion. During the quarter, interest revenue, receivership dividends, and deposit insurance assessment collections exceeded resolution-related outlays and operating expenses.
- On March 31, 2021, the DIF investment portfolio's yield was 0.91 percent, down 20 basis points from its 1.11 percent yield on December 31, 2020. The new Treasury securities purchased during the first quarter of the year had significantly lower yields than the maturing securities' yields.
- In accordance with the approved first quarter 2021 DIF portfolio investment strategy, staff purchased fifteen conventional Treasury securities. The 15 securities had a total par value of \$20.50 billion, a weighted average yield of 0.241 percent, and a weighted average maturity of 1.95 years.

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

The 2021 Budget Resolution delegated to the Chief Financial Officer (CFO) and selected other officials the authority to make certain modifications to the 2021 FDIC Operating Budget. The following budget reallocations were approved during the first quarter in accordance with the authority delegated by the Board of Directors:

- In February, the CFO approved the realignment of \$576,130 in the Salaries and Compensation major expense category of the Ongoing Operations budget component from the Deputy to the Chairman and Chief Operating Officer (COO) to the Deputy to the Chairman for External Affairs (EA) in conjunction with the realignment of authorized positions between the two organizations.
- In March, the CFO approved offsetting adjustments to the Ongoing Operations budgets of three organizations in conjunction with transfers of responsibility for three projects among these organizations:
 - A transfer of \$1,146,151 from the Outside Services-Personnel budget of the Division of Information Technology (DIT) to the Equipment budget of Division of Administration (DOA) related to the transfer of responsibility for the Virtual Outreach Center project.
 - A transfer of \$100,000 from the Outside Services-Personnel budget of DOA to the Outside Services-Personnel budget of the Office of the Chief Information Security Officer (OCISO) to provide funding for the use of an OCISO contract resource to perform an independent security assessment for the FDIC's Insider Threat Program.
 - A transfer of \$45,000 from the Outside Services-Personnel budget of OCISO to the Outside Services-Personnel budget of DIT related to the transfer of responsibility for the Data Loss Prevention (DLP) planning project.

As a result, the DOA operating budget increased from \$293.1 million to \$294.2 million, the OCISO operating budget increased from \$40.2 million to \$40.3 million, and the DIT operating budget decreased from \$348.6 million to \$347.5 million.

- In March, the CFO also approved the realignment of funds among various projects and a combined net increase of \$7.1 million to the 2021 Ongoing Operations budgets of DIT and OCISO to address identified funding shortfalls in their 2021 budgets for both continuing operations and one-time initiatives. As a result, the 2021 DIT Ongoing Operations budget increased by about \$6.3 million, from \$347.5 million to \$353.8 million, and the 2021 OCISO Ongoing Operations budget increased by about \$800,000, from \$40.3 million to \$41.1 million.

Following these first quarter budget modifications, the balance in the Corporate Unassigned contingency reserve for the Ongoing Operation budget component declined from \$30 million to \$22.9 million (excluding the \$40 million portion of the reserve set aside to address a potential increase in bank failure activity this year). The balance in the Corporate Unassigned contingency reserve for the Receivership Funding budget component remained unchanged at \$22.5 million (excluding the \$100 million portion of the reserve set aside to address a potential increase in bank failure activity later this year).

Approved Staffing Modifications

The 2021 Budget Resolution delegated to the CFO the authority to modify approved 2021 staffing authorizations for divisions and offices, as long as those modifications do not increase the total approved 2021 FDIC Operating Budget.

- In January, the CFO approved an increase of 15 authorized DOA positions, including 14 permanent positions and one non-permanent position, to address increases in hiring and contracting workload.

- In February, following completion of a detailed annual analysis of first-line supervisory spans of control at the territory level, the CFO approved a decrease of eight authorized non-permanent Supervisory Examiner (SE) positions in Division of Risk Management Supervision (RMS). As a result, RMS's total 2021 staffing authorization decreased from 2,374 to 2,366.
- In February, following completion of a detailed annual analysis of first-line supervisory spans of control at the territory level, the CFO approved a net increase of three authorized SE positions in the Division of Depositor and Consumer Protection (DCP). This consisted of an increase of five non-permanent positions and a decrease of two permanent positions. As a result, DCP's total 2021 staffing authorization increased from 789 to 792.
- In February, the CFO approved the transfer of two permanent authorized positions from the COO to the EA.
- In March, the CFO approved an increase of one permanent and six non-permanent examiner positions in RMS's 2021 staffing authorization to address increased large bank supervisory workload. As a result, RMS's total 2021 staffing authorization increased from 2,366 to 2,373.

Subsequent to these first quarter adjustments, authorized 2021 staffing for the Corporation totaled 5,810 (5,769 permanent and 41 non-permanent), a net increase of 17 positions.

Spending Variances

Significant spending variances by major expense category and division/office are discussed below. Significant spending variances for the quarter ending March 31, 2021, are defined as those that either (1) exceeded the YTD budget for a major expense category or division/office by more than \$5 million and represented more than three percent of the major expense category or total division/office budget; or (2) were under the YTD budget for a major expense category or division/office by more than \$15 million and represented more than 15 percent of the major expense category or total division/office budget.

Significant Spending Variances by Major Expense Category

Ongoing Operations

There were no significant spending variances for the first quarter in the Ongoing Operations budget component. It is likely, however, that a significant variance will develop in the Travel expense category during the second quarter due to continued pandemic-related travel restrictions.

Receivership Funding

The Receivership Funding component of the 2021 FDIC 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 and other expenses required to ensure readiness without regard to whether failures occurred.

There were no significant spending variances for the first quarter in the Receivership Funding budget component.

Office of Inspector General

There were no significant spending variances in the first quarter of the 2021 Office of Inspector General budget component.

Significant Spending Variances by Division/Office¹

One organization had a significant spending variance in its overall budget during the first quarter of 2021. RMS underspent its budget by \$23.4 million, or 16 percent, primarily in the Salaries and Compensation and Travel expense categories in the Ongoing Operations budget component. Underspending of \$12.8 million, or 9 percent, in the Salaries and Compensation expense category was the result of a substantial number of budgeted but unfilled vacancies. RMS is working to fill the vacancies as quickly as possible. Underspending of \$9.1 million, or 89 percent, in the Travel category was due to pandemic-related travel restrictions and the decision by RMS to budget its regular travel funding evenly throughout the year.

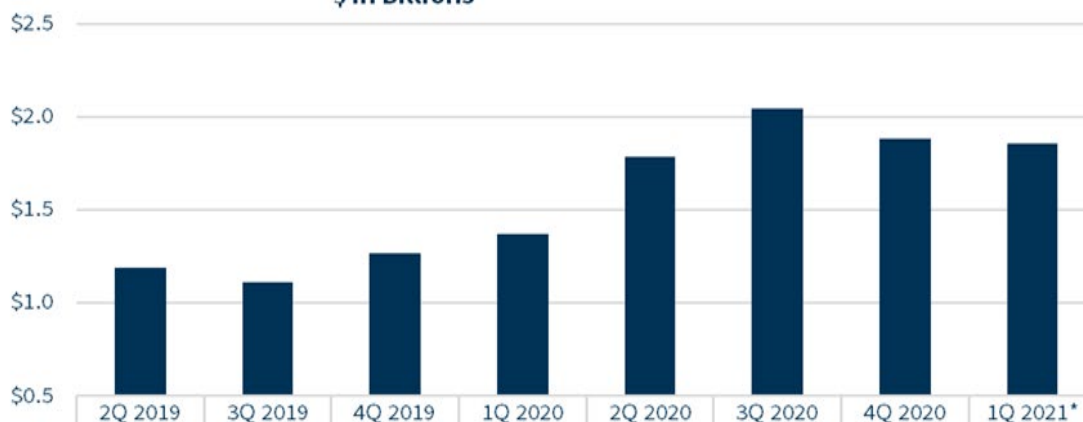
¹Information on division/office variances reflects variances in the FDIC Operating Budget and does not include variances related to approved multi-year investment projects.

Fund Financial Results

(\$ in Millions)

Balance Sheet	Deposit Insurance Fund				
	Quarterly			Year-Over-Year	
	Mar-21	Dec-20	Change	Mar-20	Change
Cash and cash equivalents	\$ 4,895	\$ 3,311	\$ 1,584	\$ 9,490	\$ (4,595)
Investment in U.S. Treasury securities	110,680	110,464	216	99,733	10,947
Assessments receivable	1,941	1,949	(8)	1,357	584
Interest receivable on investments and other assets, net	969	1,159	(190)	709	260
Receivables from resolutions, net	1,220	1,367	(147)	2,456	(1,236)
Property and equipment, net	321	321	0	326	(5)
Operating lease right-of-use assets	110	112	(2)	120	(10)
Total Assets	\$ 120,136	\$ 118,683	\$ 1,453	\$ 114,191	\$ 5,945
Accounts payable and other liabilities	255	251	4	215	40
Operating lease liabilities	117	119	(2)	127	(10)
Liabilities due to resolutions	1	1	0	213	(212)
Postretirement benefit liability	336	336	0	289	47
Contingent liability for anticipated failures	65	79	(14)	107	(42)
Contingent liability for guarantee payments and litigation losses	0	0	0	34	(34)
Total Liabilities	\$ 774	\$ 786	\$ (12)	\$ 985	\$ (211)
FYI: Unrealized gain (loss) on U.S. Treasury securities, net	785	1,070	(285)	2,037	(1,252)
FYI: Unrealized postretirement benefit (loss) gain	(98)	(98)	0	(61)	(37)
Fund Balance	\$ 119,362	\$ 117,897	\$ 1,465	\$ 113,206	\$ 6,156

Assessment Revenue \$ in Billions



■ Assessment Revenue

Effective Assessment Rate (bps)

Assessment Base

* 1Q 2021 represents estimates rather than actual.

Beginning in 4Q 2019, a combination of increases in assessment rates and the assessment base contributed to higher quarterly assessment revenue through 3Q 2020. For the subsequent two quarters, assessment revenue declined slightly due to adjustments in estimated versus actual collections for the prior quarter.

Assessment revenue was offset by small bank credits of \$320 million in 2Q 2019, \$239 million in 3Q 2019, \$149 million in 4Q 2019, \$51 million in 1Q 2020, and \$6 million in 2Q 2020.

Fund Financial Results - continued

(\$ in Millions)

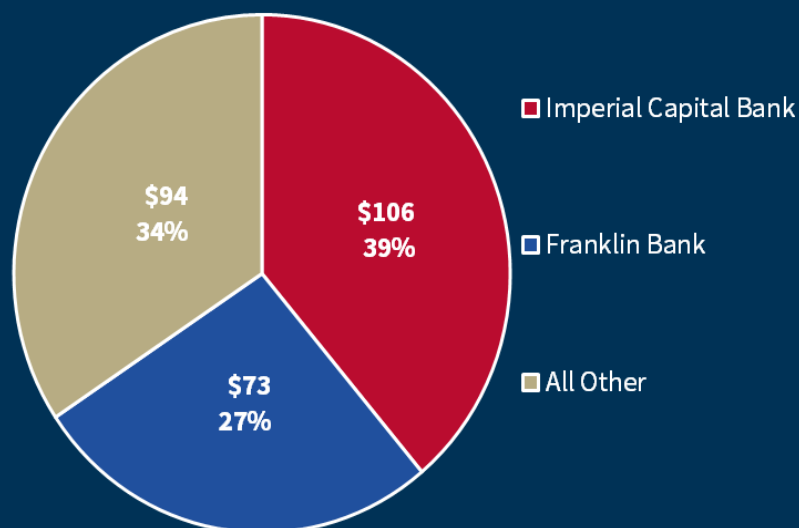
Income Statement (year-to-date)	Deposit Insurance Fund			
	Mar-21	Dec-20	Mar-20	Year-Over-Year Change
Assessments	\$ 1,862	\$ 7,093	\$ 1,372	\$ 490
Interest on U.S. Treasury securities	284	1,683	507	(223)
Other revenue	2	20	3	(1)
Total Revenue	\$ 2,148	\$ 8,796	\$ 1,882	\$ 266
Operating expenses	454	1,846	460	(6)
Provision for insurance losses	(57)	(157)	12	(69)
Insurance and other expenses	1	3	1	0
Total Expenses and Losses	\$ 398	\$ 1,692	\$ 473	\$ (75)
Net Income	\$ 1,750	\$ 7,104	\$ 1,409	\$ 341
Unrealized gain (loss) on U.S. Treasury securities, net	(285)	483	1,450	(1,735)
Unrealized postretirement benefit gain (loss)	0	(37)	0	0
Comprehensive Income	\$ 1,465	\$ 7,550	\$ 2,859	\$ (1,394)

Selected Financial Data	FSLIC Resolution Fund				
	Mar-21	Dec-20	Quarterly Change	Mar-20	Year-Over-Year Change
Cash and cash equivalents	\$ 907	\$ 907	\$ 0	\$ 926	\$ (19)
Accumulated deficit	(124,562)	(124,562)	0	(124,563)	1
Total resolution equity	907	907	0	926	(19)
Total revenue	0	4		3	(3)
Operating expenses	0	0		0	0
Recovery of tax benefits	0	0		0	0
Losses related to thrift resolutions	0	0		0	0
Net Income (Loss)	\$ 0	\$ 4		\$ 3	\$ (3)

Receivership Selected Statistics March 2021 vs. March 2020

(\$ in millions)	DIF			FRF			ALL FUNDS		
	Mar-21	Mar-20	Change	Mar-21	Mar-20	Change	Mar-21	Mar-20	Change
Total Receiverships	229	245	(16)	0	0	0	229	245	(16)
Assets in Liquidation	\$ 273	\$ 546	\$ (273)	\$ 0	\$ 1	\$ (1)	\$ 273	\$ 547	\$ (274)
YTD Collections	\$ 62	\$ 87	\$ (25)	\$ 1	\$ 0	\$ 1	\$ 63	\$ 87	\$ (24)
YTD Dividend/Other Pmts - Cash	\$ 192	\$ 189	\$ 3	\$ 0	\$ 0	\$ 0	\$ 192	\$ 189	\$ 3

Receivership-related assets in liquidation as of 3/31/2021 (Dollars in Millions)



Of the receivership-related assets in liquidation of \$273 million as of March 31, 2021, 66 percent are concentrated in two receiverships. For these two receiverships, the assets primarily consist of interests in receivership-originated structured transactions which are expected to liquidate by 2022.

**Deposit Insurance Fund Portfolio Summary
(Dollar Values in Millions)**

	3/31/21	12/31/20	Change
Par Value	\$112,485	\$110,403	\$2,082
Amortized Cost	\$114,780	\$112,698	\$2,082
Total Market Value (including accrued interest)	\$116,511	\$114,910	\$1,601
Primary Reserve ¹	\$116,511	\$114,910	\$1,601
Primary Reserve % of Total Portfolio	100.0%	100.0%	0.0%
Yield-to-Maturity	0.91%	1.11%	-0.20%
Weighted Average Maturity (in years)	1.29	1.19	0.10
Effective Duration (in years)			
Total Portfolio	1.26	1.16	0.10
Available-for-Sale Securities ²	1.32	1.20	0.12

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 Excludes any overnight investments.

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

	3/31/21	12/31/20	Change
<i>FRF-FSLIC</i>			
Book Value ³	\$882	\$882	\$0
Yield-to-Maturity	0.01%	0.06%	-0.05%
Weighted Average Maturity	overnight	overnight	no change

³ 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)**

	3/31/21	12/31/20	Change
Book Value ⁴	\$1,662	\$1,761	(\$99)
Effective Annual Yield	0.13%	0.14%	-0.01%
Weighted Average Maturity (in days)	1	1	0

⁴ Due to the short-term nature of the NLF portfolio, its Book and Market Values are identical for reporting purposes.

Investment Strategies

DEPOSIT INSURANCE FUND	Strategy for the 1st Quarter 2021
	Invest up to \$26 billion (par value) in AFS securities with maturities between June 30, 2021 and January 1, 2026.
	Strategy Changes for the 2nd Quarter 2021
	Invest up to \$16 billion (par value) in AFS securities with maturities between September 30, 2021 and April 1, 2026.
NATIONAL LIQUIDATION FUND	Strategy for the 1st Quarter 2021
	Maintain an overnight deposit target floor balance within a range of \$50 million to \$200 million. Strategically invest the remaining funds in the zero- to 12-month maturity sector.
	Strategy Changes for the 2nd Quarter 2021
	No strategy changes for the second quarter of 2021.

Executive Summary of 2021 Budget and Expenditures
by Budget Component and Major Expense Category
Through March 31, 2021
(Dollars in Thousands)

Major Expense Category	Annual Budget	YTD Budget	YTD Expenditures	% of YTD Budget Used	YTD Variance
FDIC Operating Budget					
Ongoing Operations					
Salaries & Compensation	\$1,354,676	\$338,447	\$314,142	93%	(\$24,305)
Outside Services - Personnel	378,129	77,506	70,743	91%	(6,763)
Travel	61,541	13,860	2,100	15%	(11,760)
Buildings	111,716	26,077	19,817	76%	(6,260)
Equipment	120,098	32,764	29,423	90%	(3,341)
Outside Services - Other	17,634	3,696	3,237	88%	(459)
Other Expenses	14,841	4,558	3,333	73%	(1,225)
Total Ongoing Operations	\$2,058,635	\$496,908	\$442,795	89%	(54,113)
Receivership Funding					
Salaries & Compensation	\$1,008	\$252	(\$19)	-8%	(\$271)
Outside Services - Personnel	168,364	9,748	7,178	74%	(2,570)
Travel	793	194	2	1%	(192)
Buildings	2,129	532	528	99%	(4)
Equipment	1,274	318	373	117%	55
Outside Services - Other	179	45	25	56%	(20)
Other Expenses	1,253	313	286	91%	(27)
Total Receivership Funding	\$175,000	\$11,402	\$8,373	73%	(\$3,029)
Office of Inspector General					
Salaries & Compensation	\$36,603	\$9,163	\$9,195	100%	\$32
Outside Services - Personnel	3,857	964	276	29%	(688)
Travel	1,235	309	105	34%	(204)
Buildings	0	0	0		0
Equipment	2,371	593	150	25%	(443)
Outside Services - Other	1	0	0		0
Other Expenses	846	212	55	26%	(157)
Total Office of Inspector General	\$44,913	\$11,241	\$9,781	87%	(\$1,460)
Total FDIC Operating Budget	\$2,278,548	\$519,551	\$460,949	89%	(\$58,602)

Executive Summary of 2021 Budget and Expenditures
by Division/Office
Through March 31, 2021
(Dollars in Thousands)

Division/Office	Annual Budget	YTD Budget	YTD Expenditures	% of YTD Budget Used	YTD Variance
FDIC Operating Budget					
Risk Management Supervision	\$ 590,074	\$ 150,310	\$ 126,956	84%	\$ (23,354)
Information Technology	362,689	92,143	88,420	96%	(3,723)
Administration	298,292	73,480	62,190	85%	(11,290)
Depositor & Consumer Protection	184,506	46,681	41,215	88%	(5,466)
Legal	163,220	38,160	34,721	91%	(3,439)
Resolutions & Receiverships	130,773	32,735	29,248	89%	(3,487)
Complex Institution Supervision & Resolution	101,309	21,848	21,082	96%	(766)
Insurance & Research	63,791	15,762	13,584	86%	(2,178)
Inspector General	44,913	11,241	9,780	87%	(1,461)
Chief Information Security Officer	41,077	11,573	8,357	72%	(3,216)
Executive Support ¹	39,105	8,303	8,684	105%	381
Finance	37,172	8,814	9,147	104%	333
Corporate University - Corporate	23,061	5,320	5,107	96%	(213)
Executive Offices ²	13,143	3,181	2,458	77%	(723)
Corporate Unassigned	185,423	0	0		0
Total FDIC Operating Budget	\$2,278,548	\$519,551	\$460,949	89%	(\$58,602)

1) Executive Support includes the Offices of Minority and Women Inclusion, Communications, Ombudsman, Legislative Affairs, Financial Institution Adjudication, and Risk Management and Internal Controls as well as FDiTech Lab .

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, Deputy to the Chairman for Policy, Deputy to the Chairman for External Affairs, Deputy to the Chairman for Financial Stability, Deputy to the Chairman for Consumer Protection and Innovation, and Chief Information Officer/Chief Privacy Officer.