FDIC Federal Deposit Insurance Corporation

Deputy to the Chairman and Chief Financial Officer

August 27, 2021

MEMORANDUM TO: The Board of Directors

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

SUBJECT: Second Quarter 2021 CFO Report to the Board

The attached report highlights the FDIC's financial activities and results for the quarter ended June 30, 2021.

Executive Summary

- During the second quarter of 2021, the Deposit Insurance Fund (DIF) balance rose to a record $120.5 billion as of June 30, 2021, up $1.2 billion from the March 31, 2021 balance of $119.4 billion. The quarterly increase was primarily due to a $1.6 billion increase in assessment revenue, partially offset by a $466 million increase in operating expenses.

- The reserve ratio, which is the ratio of the DIF balance to estimated insured deposits, was 1.27 percent at June 30, 2021. Estimated insured deposits declined which caused the reserve ratio to increase by two basis points from March 31, 2021.

- There were no FDIC-insured financial institution failures during the second quarter of 2021; the last failure occurred on October 23, 2020.

- Through June 30, 2021, overall FDIC Operating Budget expenditures were below the year-to-date budget by about $109.2 million, or 10 percent. This variance was primarily the result of underspending of $102.3 million in the Ongoing Operations budget component. The largest variances were in three expense categories:

  - Salaries and Compensation ($30.3 million, or 5 percent) due to unfilled vacancies in authorized positions

  - Travel ($24.4 million, or 86 percent) due to the continuation of travel restrictions during the COVID-19 pandemic and,

  - Outside Services – Personnel ($24.3 million, or 15 percent) due to reduced or delayed utilization of contract services in various organizations.

I. <u>Financial Results</u> (See pages 7 – 8 for detailed data and charts.)

Deposit Insurance Fund

- For the six months ending June 30, 2021, the DIF's comprehensive income totaled $2.6 billion compared to comprehensive income of $4.3 billion for the same period last year, a decrease of $1.7 billion. While assessment revenue increased year-over-year by $289 million, this increase was offset by a decrease in interest on U.S. Treasury (UST) securities of $426 million and a decline in fair value adjustments on UST securities of $1.6 billion.

- During the first half of 2021, the DIF incurred a $518 million unrealized loss on its portfolio of UST securities due to yields rising across all investable maturity sectors of the Treasury yield curve.

Assessments

- During June, the DIF recognized assessment revenue of $1.8 billion for the estimate of second quarter 2021 insurance coverage. Additionally, the DIF recognized a $166 million adjustment for lower-than-estimated collections for the first quarter 2021 insurance coverage, which decreased assessment revenue.

- On June 30, 2021, the FDIC collected $1.8 billion in DIF assessments for first quarter 2021 insurance coverage.

II. <u>Investment Results</u> (See pages 9 – 10 for detailed data and charts.)

DIF Investment Portfolio

- On June 30, 2021, the total liquidity (also total market value) of the DIF investment portfolio stood at $118.16 billion, up $3.25 billion from its December 31, 2020, balance of $114.91 billion. During the quarter, interest revenue, receivership dividends, and deposit insurance assessment collections exceeded resolution-related outlays and operating expenses.

- On June 30, 2021, the DIF investment portfolio's yield was 0.816 percent, down 29.7 basis points from its 1.113 percent yield on December 31, 2020. The new Treasury securities purchased during the second quarter of the year had significantly lower yields than the maturing securities' yields.

- In accordance with the approved second quarter 2021 DIF portfolio investment strategy, staff purchased a total of seven conventional Treasury securities. The seven securities had a total par value of $10.50 billion, a weighted average yield of 0.230 percent, and a weighted average maturity of 1.99 years.

III. <u>Budget Results</u> (See pages 11 – 12 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 CFO approved the following budget reallocations during the second quarter, in accordance with the authority delegated by the Board of Directors:

- In April, the CFO approved an increase of $9.2 million, from $5.3 million to $14.5 million, in the Ongoing Operations budget of the FDIC Tech Lab (FDITECH), primarily in the Salaries and Compensation and Outside Services-Personnel major expense categories. This increase supports the new Chief Innovation Officer's agenda and funds salaries and benefits for seven newly established permanent positions and a substantial expansion of contract services for planned 2021 FDITECH activities.

- In June, the CFO approved the following mid-year adjustments to 2021 Ongoing Operations budgets, which resulted in a net increase of $7.1 million to the Ongoing Operations budgets of the affected divisions and offices:

  - A net increase of $1.8 million in the budget for the Division of Information Technology (DIT) to address updated cost estimates for several projects and provide funding for a small number of high priority new projects.

  - A net increase of $4.2 million in the budget for the Division of Administration (DOA) to provide funding for the electronic conversion of Official Personnel Folders, an expansion of consulting services for performance management and compensation programs, consulting support for the new Crisis Readiness and Response Program, the acquisition of additional digital library subscriptions, and the purchase of software to support remote onboarding of new employees.

  - A net increase of $765,500 in the budget for the Legal Division. This included increases of $753,000 in the Outside Services–Personnel expense category, primarily to provide funding to support establishment of the Mission Driven Fund (2020 funding for this purpose was not spent) and a Standard Developing Organization, and $12,500 in the Outside Services–Other category to provide funding for FDI Act website enhancement and Honors Attorneys recruiting events.

  - An increase of $150,000 in the budget for the Office of Communications in the Outside Services–Personnel expense category to fund contract services for the new Virtual Outreach Center.

  - An increase of $200,000 in the budget for the Office of Risk Management and Internal Controls in the Outside Services–Personnel expense category to fund an increase in the number of independent validations of corporate models this year.

- In June, the CFO also approved realignments in the Salaries and Compensation budgets of several organizations to address projected surpluses and shortfalls. These adjustments resulted in no net change to the corporate-wide Salaries and Compensation budget.

Following these second quarter budget modifications, the balances in the Corporate Unassigned contingency reserve for the Ongoing Operations budget component declined from $22.9 million to $7.2 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. The CFO approved the following modifications to staffing authorizations during the second quarter, in accordance with the authority delegated by the Board of Directors:

- In April, the CFO approved an increase of seven permanent positions, from two to nine, in FDITECH to support the planned innovation program of the new Chief Innovation Officer.

- In June, the CFO approved the following adjustments to the 2021 staffing authorizations of four organizations:

  - An increase of one permanent position in DIT's staffing authorization to provide dedicated acquisitions support to FDITECH. This increased total authorized staffing in DIT from 325 to 326 permanent positions.

  - An increase of 14 permanent positions and two non-permanent positions in DOA to augment staffing and classification capabilities in the human resources organization, facilitate technological innovation, strengthen oversight management of contracts, and strengthen the corporate crisis readiness program. This increased total authorized staffing for DOA to 414 positions, including 411 permanent and three non-permanent positions.

  - An increase of one supervisory position for Corporate University (CU) to mitigate the supervisory burden in Examiner Learning Programs. This increased total authorized staffing in CU to 67 permanent positions.

  - A decrease of one position in the Office of Legislative Affairs (OLA) in recognition of the transfer of an administrative specialist position to DOA. This decreased total authorized staffing for OLA to 11 permanent positions.

Subsequent to these second quarter adjustments, authorized 2021 staffing for the Corporation totaled 5,834 positions (5,791 permanent and 43 non-permanent), a net increase of 24 positions.

Significant Spending Variances by Major Expense Category

<u>Ongoing Operations</u>

Overall spending for the Ongoing Operations budget component was $102.3 million, or 10 percent, below budget through the second quarter in 2021. There were significant spending variances in four major expense categories:

- Spending in the Travel expense category was under budget by $24.4 million, or 86 percent, primarily due to underspending in the Division of Risk Management Supervision (RMS) and the Division of Depositor and

Consumer Protection. The variance in the Travel expense category reflects the continuation of pandemic-related FDIC travel restrictions during the first half of the year.

- Spending in the Outside Services – Personnel expense category was under budget by $24.3 million, or 15 percent. The variance was largely attributable to underspending in the following divisions and offices:

  - The DIT underspent its budget by $8.4 million, with $4.7 million attributable to delays on IT Modernization initiatives and $3.7 million attributable to lower-than-projected spending on cloud platform operations and maintenance.

  - The FDIC Tech Lab (FDITECH) underspent its budget by $3.9 million as a result of delays in starting several budgeted projects due to extended discussions with participating divisions and offices on project scope and approach and consultations with the Legal Division and the Acquisition Services Branch in the DOA about the appropriate procurement approaches.

  - The Division of Complex Institution Supervision and Resolution underspent its budget by $2.6 million because of delays in initiating procurement actions to acquire strategic communications and human resources advisory services and other planned contractual services.

  - The Office of the Chief Information Security Officer underspent its budget by $2.5 million, principally due to delays in onboarding new security contract personnel.

  - RMS underspent its budget by $1.7 million, primarily due to lower-than-anticipated usage of scanning and imaging services and FBI finger printing services during mandatory telework.

  - The Legal Division underspent its budget by $1.4 million due to a slower-than-anticipated pace of cases in litigation. It projects that the pace of litigation will speed up and expenses will normalize by year-end.

- Spending in the Equipment expense category was under budget by $10.6 million, or 16 percent. This was mostly attributable to delays in hardware refresh purchases by DIT and digital library subscription and furniture purchases by the DOA during mandatory telework.

- Spending in the Buildings and Leased Space expense category was under budget by $10.4 million, or 20 percent. The underspending was attributable primarily to the reduced use of facilities and related service contracts during mandatory telework ($5.3 million), a delay in the Bair Auditorium Upgrade project ($1.3 million), the decision to discontinue leasing space at 1750 New York Avenue ($1 million), and delays in modifying an architectural and engineering support contract ($1 million).

<u>Receivership Funding</u>

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 occur.

There were no significant spending variances through the second quarter in the Receivership Funding budget component.

Office of Inspector General

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

Significant Spending Variances by Division/Office[1]

There were two organizations with significant spending variances through the end of the second quarter:

- RMS spent $38.1 million, or 13 percent, less than its YTD budget. This variance was primarily attributable to underspending of $18 million in the Travel expense category due to pandemic related travel restrictions, $17 million in the Salaries and Compensation expense category due to vacancies in budgeted positions, and $1.7 million in the Outside Services-Personnel category due to lower-than-projected usage of contract services, as noted above.

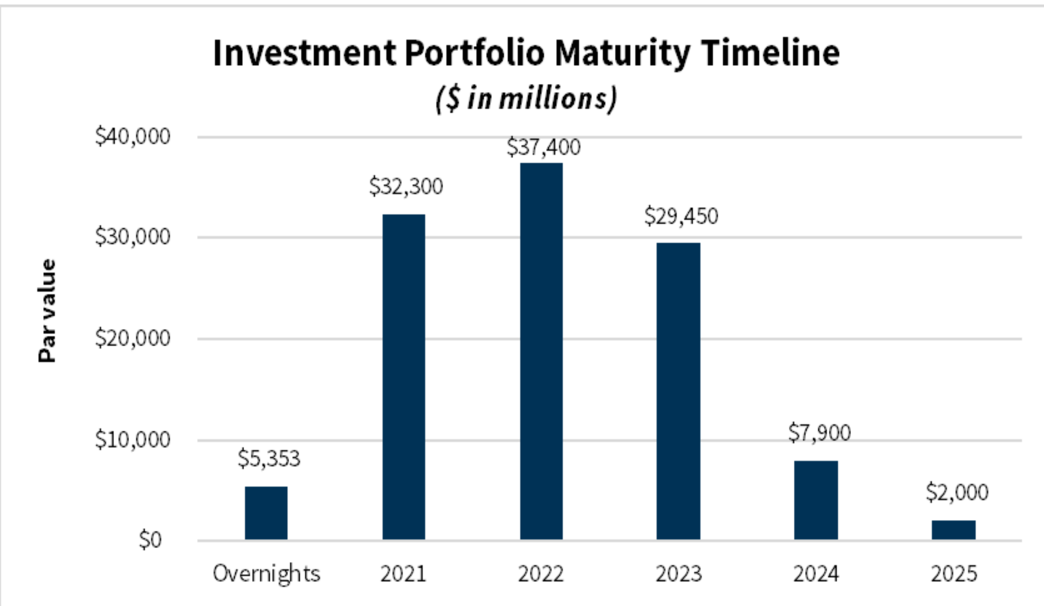
- DOA underspent its budget by $16.0 million, or 11 percent, through the end of the second quarter. This included underspending of $10.3 million in the Outside Services – Personnel expense category and $1.4 million in the Equipment expense category for the reasons identified above and $2.8 million in the Salaries and Compensation expense category due to vacancies in budgeted positions, primarily in DOA's regional offices and its Corporate Services and Acquisition Services Branches.

[1]Information 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				
	Jun-21	Mar-21	Quarterly Change	Jun-20	Year-Over-Year Change
Cash and cash equivalents	$ 5,361	$ 4,895	$ 466	$ 5,144	$ 217
Investment in U.S. Treasury securities	111,991	110,680	1,311	105,024	6,967
Assessments receivable	1,755	1,941	(186)	1,632	123
Interest receivable on investments and other assets, net	832	969	(137)	1,369	(537)
Receivables from resolutions, net	908	1,220	(312)	1,860	(952)
Property and equipment, net	320	321	(1)	320	0
Operating lease right-of-use assets	100	110	(10)	118	(18)
Total Assets	$ 121,267	$ 120,136	$ 1,131	$ 115,467	$ 5,800
Accounts payable and other liabilities	235	255	(20)	221	14
Operating lease liabilities	107	117	(10)	127	(20)
Liabilities due to resolutions	7	1	6	73	(66)
Postretirement benefit liability	336	336	0	289	47
Contingent liability for anticipated failures	35	65	(30)	74	(39)
Contingent liability for guarantee payments and litigation losses	0	0	0	32	(32)
Total Liabilities	$ 720	$ 774	$ (54)	$ 816	$ (96)
FYI: Unrealized gain (loss) on U.S. Treasury securities, net	552	785	(233)	1,654	(1,102)
FYI: Unrealized postretirement benefit (loss) gain	(98)	(98)	0	(61)	(37)
Fund Balance	$ 120,547	$ 119,362	$ 1,185	$ 114,651	$ 5,896



- Nearly 30% of the DIF investment portfolio is expected to mature before year-end.
- The dollar volume of maturities is approximately equally divided between the third and fourth quarters.
- These securities are yielding 1.007%, on a weighted average basis.

Fund Financial Results - continued

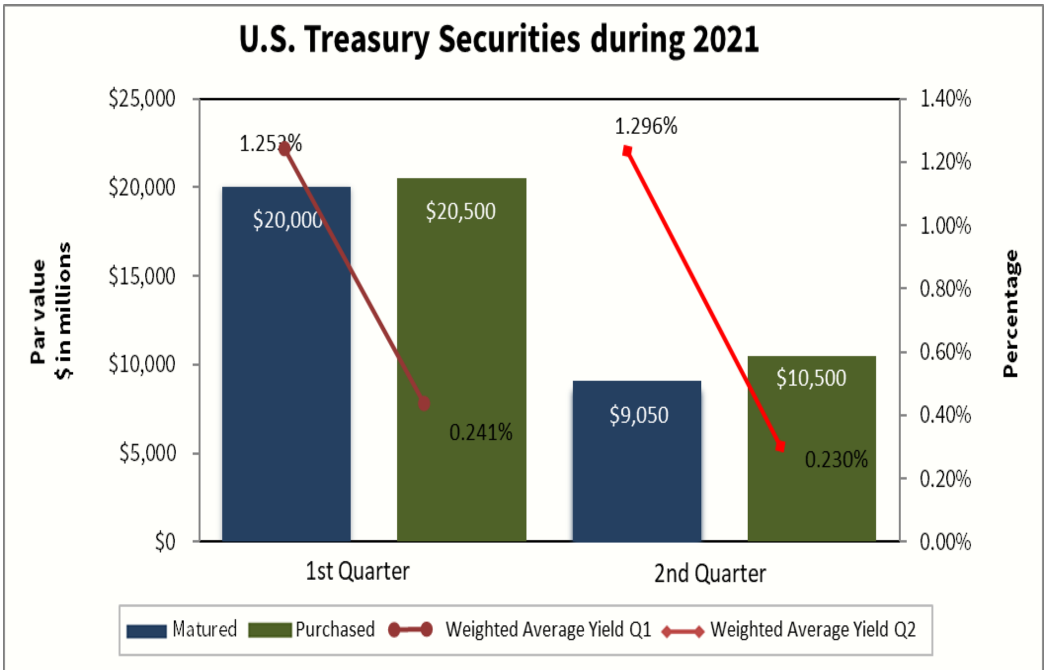
($ in Millions)

Income Statement (year-to-date)	Deposit Insurance Fund				
	Jun-21	Mar-21	Quarterly Change	Jun-20	Year-Over-Year Change
Assessments	$ 3,451	$ 1,862	$ 1,589	$ 3,162	$ 289
Interest on U.S. Treasury securities	535	284	251	961	(426)
Other revenue	7	2	5	6	1
Total Revenue	$ 3,993	$ 2,148	$ 1,845	$ 4,129	$ (136)
Operating expenses	920	454	466	925	(5)
Provision for insurance losses	(99)	(57)	(42)	(35)	(64)
Insurance and other expenses	4	1	3	2	2
Total Expenses and Losses	$ 825	$ 398	$ 427	$ 892	$ (67)
Net Income	$ 3,168	$ 1,750	$ 1,418	$ 3,237	$ (69)
Unrealized gain (loss) on U.S. Treasury securities, net	(518)	(285)	(233)	1,067	(1,585)
Unrealized postretirement benefit gain (loss)	0	0	0	0	0
Comprehensive Income	$ 2,650	$ 1,465	$ 1,185	$ 4,304	$ (1,654)

Selected Financial Data	FSLIC Resolution Fund				
	Jun-21	Mar-21	Quarterly Change	Jun-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	907	0
Total revenue	0	0	0	3	(3)
Operating expenses	0	0	0	0	0
Recovery of tax benefits	0	0	0	0	0
Losses related to thrift resolutions	0	0	0	0	0
Net Income (Loss)	$ 0	$ 0	$ 0	$ 3	$ (3)

Receivership Selected Statistics June 2021 vs. June 2020

	DIF			FRF			ALL FUNDS		
($ in millions)	Jun-21	Jun-20	*Change*	Jun-21	Jun-20	*Change*	Jun-21	Jun-20	*Change*
Total Receiverships	220	244	(24)	0	0	0	220	244	(24)
Assets in Liquidation	$ 206	$ 380	$ (174)	$ 0	$ 1	$ (1)	$ 206	$ 381	$ (175)
YTD Collections	$ 176	$ 285	$ (109)	$ 1	$ 1	$ 0	$ 177	$ 286	$ (109)
YTD Dividend/Other Pmts - Cash	$ 525	$ 797	$ (272)	$ 0	$ 0	$ 0	$ 525	$ 797	$ (272)



- Treasury securities' yields remain at historic low levels, as the Federal Reserve's accommodative stance continues.
- The yield on maturing securities are above 100 basis points (on a weighted average basis), while the yield on securities available for reinvestment hover between 10 to 85 basis points, depending on the duration.
- The overall DIF portfolio's yield will likely continue to decline until interest rates begin to climb.

Deposit Insurance Fund Portfolio Summary (Dollar Values in Millions)			
	6/30/21	12/31/20	Change
Par Value	$114,403	$110,403	$4,000
Amortized Cost	$116,793	$112,698	$4,096
Total Market Value (including accrued interest)	$118,155	$114,910	$3,245
Primary Reserve [1]	$118,155	$114,910	$3,245
Primary Reserve % of Total Portfolio	100.0%	100.0%	0.0%
Yield-to-Maturity	0.816%	1.113%	-0.297%
Weighted Average Maturity (in years)	1.22	1.19	0.03
Effective Duration (in years)			
Total Portfolio	1.19	1.16	0.03
Available-for-Sale Securities [2]	1.25	1.20	0.05

[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)			
	6/30/21	12/31/20	Change
FRF-FSLIC			
Book Value [3]	$882	$882	$0
Yield-to-Maturity	0.04%	0.06%	-0.02%
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 [4] (Dollar Values in Millions)			
	6/30/21	12/31/20	Change
Book Value [5]	$1,345	$1,761	($416)
Effective Annual Yield	0.06%	0.14%	-0.07%
Weighted Average Maturity (in days)	1	1	0

[4] The NLF is comprised of the collective cash holdings of all active failed bank receivesrhips managed by the FDIC.

[5] 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 2nd Quarter 2021**
	Invest up to $16 billion (par value) in AFS securities with maturities between September 30, 2021 and April 1, 2026.
	Strategy Changes for the 3rd Quarter 2021
	Invest up to $24 billion (par value) in AFS securities with maturities between December 31, 2021 and July 1, 2026.
NATIONAL LIQUIDATION FUND	**Strategy for the 2nd 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 3rd Quarter 2021
	Maintain an overnight deposit target floor balance within a range of $10 million to $100 million. Strategically invest the remaining funds in the zero- to 12-month maturity sector.

Executive Summary of 2021 Budget and Expenditures by Budget Component and Major Expense Category Through June 30, 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	$1,355,812	$671,451	$641,195	95%	($30,256)
Outside Services - Personnel	376,751	164,425	140,080	85%	(24,345)
Travel	61,552	28,564	4,131	14%	(24,433)
Buildings	111,716	52,291	41,851	80%	(10,440)
Equipment	120,511	67,782	57,182	84%	(10,600)
Outside Services - Other	17,688	7,994	8,597	108%	603
Other Expenses	14,607	7,945	5,158	65%	(2,787)
Total Ongoing Operations	**$2,058,637**	**$1,000,452**	**$898,194**	**90%**	**(102,258)**
Receivership Funding					
Salaries & Compensation	$1,008	$504	($11)	-2%	($515)
Outside Services - Personnel	168,589	19,937	16,503	83%	(3,434)
Travel	793	389	10	3%	(379)
Buildings	2,129	1,064	1,058	99%	(6)
Equipment	1,273	637	739	116%	102
Outside Services - Other	179	89	52	58%	(37)
Other Expenses	1,028	595	770	129%	175
Total Receivership Funding	**$174,999** [1]	**$23,215**	**$19,121**	**82%**	**($4,094)**
Office of Inspector General					
Salaries & Compensation	$36,603	$18,251	$18,097	99%	($154)
Outside Services - Personnel	3,857	1,929	684	35%	(1,245)
Travel	1,235	618	265	43%	(353)
Buildings	0	0	0		0
Equipment	2,370	1,185	349	29%	(836)
Outside Services - Other	1	1	0	0%	(1)
Other Expenses	846	423	208	49%	(215)
Total Office of Inspector General	**$44,912**	**$22,407**	**$19,603**	**87%**	**($2,804)**
Total FDIC Operating Budget	**$2,278,548**	**$1,046,074**	**$936,918**	**90%**	**($109,156)**

1) The total annual budget for Receivership Funding includes the Board approved $100 million contingency funding in the event of an uptick in pandemic-related resolution activity.

Executive Summary of 2021 Budget and Expenditures by Division/Office Through June 30, 2021 (Dollars in Thousands)

Division/Office	Annual Budget	YTD Budget	YTD Expenditures	% of YTD Budget Used	YTD Variance
FDIC Operating Budget					
Risk Management Supervision	$ 581,168	$ 296,468	$ 258,404	87%	$ (38,064)
Information Technology	364,420	188,117	176,558	94%	(11,559)
Administration	302,464	145,985	130,014	89%	(15,971)
Depositor & Consumer Protection	185,250	92,256	84,117	91%	(8,139)
Legal	163,986	77,124	70,492	91%	(6,632)
Resolutions & Receiverships	133,065	65,130	60,045	92%	(5,085)
Complex Institution Supervision & Resolution	101,686	46,697	41,460	89%	(5,237)
Insurance & Research	63,791	31,468	28,268	90%	(3,200)
Inspector General	44,913	22,406	19,603	87%	(2,803)
Chief Information Security Officer	41,077	21,431	17,592	82%	(3,839)
Executive Support [1]	51,543	23,770	17,079	72%	(6,691)
Finance	37,961	18,079	17,435	96%	(644)
Corporate University - Corporate	23,094	10,797	10,215	95%	(582)
Executive Offices [2]	14,447	6,346	5,636	89%	(710)
Corporate Unassigned [3]	169,683	0	0		0
Total FDIC Operating Budget	**$2,278,548**	**$1,046,074**	**$936,918**	**90%**	**($109,156)**

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.

3) The Corporate Unassigned contingency reserve includes $140 million ($40 million in Ongoing Operations and $100 million in Receivership Funding portions of the budget) in funds budgeted to ensure that FDIC is prepared to respond quickly to potential pandemic-related problems within the banking industry. Those funds are not available for use for any other purpose.