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

November 18, 2014

MEMORANDUM TO: The Board of Directors

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

Craig R. Jarvill
Director, Division of Finance

SUBJECT: Third Quarter 2014 CFO Report to the Board

The attached report highlights the Corporation's financial activities and results for the quarter ended September 30, 2014.

Executive Summary

- During the third quarter of 2014, the DIF balance increased by $3.2 billion, from $51.1 billion at June 30, 2014 to an all-time high of $54.3 billion. The previous high point of the DIF was at the end of the first quarter 2008 with a balance of $52.8 billion. The quarterly increase was primarily due to $2.0 billion of assessment revenue and a $1.7 billion decrease in the provision for insurance losses, partially offset by $406 million of operating expenses.

- During the third quarter of 2014, the FDIC was named receiver for 2 failed institutions. The combined assets at inception for these institutions totaled $238 million with a total estimated loss of $48 million. The corporate cash outlay during the third quarter for these failures was approximately $86 million.

- Through September 30, 2014, overall Corporate Operating Budget expenditures were below budget by 10 percent ($170 million). Spending in the Ongoing Operations component was $119 million, or 9 percent, under budget, largely due to underspending in the salaries and compensation, contractual services, and equipment categories. The variance in the Receivership Funding component was $51 million, or 11 percent, under budget, primarily due to lower-than-budgeted contract expenses attributable to less costly resolutions, and lower-than-anticipated asset management and marketing costs.

I. Corporate Fund Financial Results (See pages 7 - 8 for detailed data and charts.)

Deposit Insurance Fund

- For the nine months ending September 30, 2014, the DIF's comprehensive income totaled $7.129 billion compared to comprehensive income of $7.800 billion for the same period last year. This $671 million decrease was mostly due to an $884 million decrease in assessment revenue and an $83 million increase in operating expenses that was partially offset by a $448 million decrease in the provision for insurance losses.

- The provision for insurance losses was a negative $1.5 billion for 2014. The negative provision for 2014 primarily resulted from a decrease of $2.5 billion in the estimated losses for institutions that failed in prior years, partially offset by an increase of $918 million in the contingent liability for anticipated failures.

  The $2.5 billion reduction in the estimated losses from failures was primarily attributable to two components. The first component was unanticipated recoveries of $1.6 billion in litigation settlements, professional liability claims, and tax refunds by the receiverships, which are not recognized until the cash is received since significant uncertainties surround their recovery. The second component was asset recoveries that exceeded projections and higher valuations on remaining receivership assets totaling $1.1 billion.

Assessments

- During September, the DIF recognized a total of $2.0 billion in assessment revenue. Of this amount, the estimate for third quarter 2014 insurance coverage totaled $2.1 billion. Additionally, the DIF recognized a net adjustment of $63 million that decreased assessment revenue. This adjustment consisted of an $18 million decrease from prior period amendments and a $45 million decrease to the estimate for second quarter 2014 insurance coverage recorded at June 30, 2014. The latter adjustment was primarily due to lower than estimated rates for large institutions.

- On September 30, 2014, the FDIC collected $2.1 billion in DIF assessments for second quarter 2014 insurance coverage.

II. Investment Results (See pages 9 - 10 for detailed data and charts.)

DIF Investment Portfolio

- On September 30, 2014, the total liquidity (also total market value) of the DIF investment portfolio stood at $50.2 billion, higher than its December 31, 2013, balance of $42.5 billion. During the first three quarters of 2014, interest revenue, receivership dividends, and deposit insurance assessment collections exceeded resolution-related outlays and operating expenses.

- On September 30, 2014, the DIF investment portfolio's yield was 0.68 percent, up 23 basis points from its December 31, 2013, yield of 0.45 percent. Two factors primarily contributed to the increase. During the nine-month period, newly purchased Treasury securities generally had higher yields than maturing securities. Low yielding overnight investments comprised a smaller percentage of the portfolio at period end.

- In accordance with the approved third quarter 2014 DIF portfolio investment strategy, staff purchased a total of 18 short- to intermediate-maturity conventional Treasury securities, all designated as available-for-sale (AFS). The 18 securities had a total par value of $7.0 billion, a weighted average yield of 0.90 percent, and a weighted average maturity (WAM) of 2.58 years.

III. <u>Budget Results</u> (See pages 11 – 12 for detailed data.)

Approved Budget Modifications

The 2014 Budget Resolution delegated to the Chief Financial Officer (CFO) and selected other officials the authority to make certain modifications to the 2014 Corporate Operating Budget. The following budget reallocations were approved during the third quarter in accordance with the authority delegated by the Board of Directors. None of these modifications changed the total 2014 Corporate Operating Budget as approved by the Board in December 2013:

- In September, the CFO approved the reallocation of $800,000 in budget authority in the Salaries and Compensation expense category within the Ongoing Operations component from the Division of Insurance and Research (DIR) to the Office of Communications (+$100,000), the Office of Corporate Risk Management (+$100,000), and Corporate University - Corporate Employee Program (+$600,000), for salary and fringe benefit costs that were greater than previously projected.

- In September, the CFO also separately approved the reallocation of $168,128 in budget authority within the Ongoing Operations budget from the Corporate Unassigned reserve to the Division of Depositor and Consumer Protection (DCP) to provide funding for FDIC-sponsored conference costs.

Following these reallocations, the amounts remaining available within the Corporate Unassigned budgets for the Ongoing Operations and Receivership Funding budget components were $28,842,810 and $2,742,619, respectively.

Spending Variances

Significant spending variances by major expense category and division/office are discussed below. Significant spending variances for the nine months ending September 30, 2014, are defined as those that either (1) exceed the YTD budget by $1 million and represent more than two 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 $2 million and represents more than four percent of the major expense category or total division/office budget.

Significant Spending Variances by Major Expense Category

<u>Ongoing Operations</u>

There were significant spending variances in all major expense categories in the Ongoing Operations component of the 2014 Corporate Operating Budget through the third quarter.

- Salaries and Compensation ($49 million, or 5 percent, less than budgeted). The most significant variances in this expense category were in the Division of Risk Management Supervision (RMS) ($16 million), the Legal Division ($7 million), the Division of Information Technology (DIT) ($4 million), the Division of Resolutions and Receivership (DRR) ($4 million), DCP ($3 million), and DIR ($3 million). Under spending in this expense category was largely attributable to vacancies in budgeted positions.

- Outside Services – Personnel ($29 million, or 16 percent, less than budgeted). The Division of Administration (DOA) spent $7 million less than budgeted, largely due to lower-than-anticipated expenses for the nationwide print-shop and mail-room services contract; delays in starting the workforce development initiative; lower-than-anticipated contract costs resulting from high turnover among contractor employees and delays in completing background investigations of replacement employees; and delays in expenses associated with the nationwide rollout of the Identity Credentials and Access Management initiative. The CIO Council spent $5 million less than budgeted, largely due to lower-than-planned spending on discretionary systems development projects and the Information Management and Compliance (IMAC) project. DRR spent $4 million less than budgeted for planning related to the possible orderly liquidation of a systemically important financial institution. The Legal Division spent $3 million less than budgeted, largely due to lower-than-projected expenses related to FOIA and Privacy Act requests, defensive litigation, and other legal fees. In addition, Corporate University-Corporate (CU-Corporate) spent $2 million less than budgeted, largely due to lower-than-projected expenses for various training and development projects.

- Travel expenditures ($10 million, or 13 percent, less than budgeted). This variance was largely due to vacancies in non-permanent field examination positions in RMS and DCP that led to lower-than-projected regular duty and relocation travel expenses. Spending in this category by the Office of Complex Financial Institutions (OCFI) was also $1 million lower than anticipated for regular duty travel and relocation costs.

- Building expenditures ($6 million, or 8 percent, less than budgeted). This variance was largely due to delays in the Student Residence Center pipe replacement project and various office moves and lower-than-projected expenses related to field office lease renewals. Some of these expenses are expected to be incurred later in the year.

- Equipment expenditures ($20 million, or 32 percent, less than budgeted). DIT spent $14 million less than budgeted primarily because of delays in planned purchases of hardware and software, including hardware/software from its technical refresh allowance. Those purchases are expected to occur in the fourth quarter. In addition, DOA spent $6 million less than budgeted due to intentional deferral of furniture purchases until later in the year.

- Outside Services – Other expenditures ($2 million, or 16 percent, less than budgeted). This variance was largely due to lower-than-budgeted insurance premiums, catering expenses for conferences, and costs for mail related services.

- Other Expenses ($3 million, or 25 percent, less than budgeted). This variance was mostly due to substantial underutilization of the Professional Learning Accounts by employees and lower-than-projected corporate office supply purchases by DOA.

<u>Receivership Funding</u>

The Receivership Funding component of the 2014 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 and related expenses for permanent employees assigned to the receivership management function.

There were significant spending variances in this budget component in four of the seven major expense categories through the third quarter.

- Outside Services-Personnel ($44 million, or 15 percent, less than budgeted). This variance was attributable to less costly resolutions expenses and lower-than-anticipated asset management and marketing costs incurred under contracts for receivership assistance, due diligence, owned real estate management, loan servicing, review of shared-loss agreements, and securitizations.

- Travel ($3 million, or 36 percent, less than budgeted). This variance was attributable to lower-than-budgeted failed bank activity.

- Buildings ($6 million, or 29 percent, less than budgeted). This variance was attributable to lower-than-budgeted failed bank activity.

- Other Expenses ($9 million, or 49 percent, more than budgeted). This variance was due to $10 million paid in conjunction with receivership litigation judgments.

Significant Spending Variances by Division/Office[1]

Fourteen organizations had significant spending variances through the end of the third quarter 2014:

- DRR ($40 million, or 10 percent, less than budgeted). Approximately $32 million of this under spending was in the Receivership Funding Budget component due to lower-than-anticipated resolutions and receivership expenses and workload.

- DIT ($25 million, or 14 percent, less than budgeted). This variance was largely attributable to delays in hardware and software purchases, lower-than-budgeted support costs for failed financial institutions, and vacancies in budgeted positions.

- DOA ($26 million, or 13 percent, less than budgeted). This variance was largely attributable to lower-than-anticipated expenses in the Outside Services-Personnel, Buildings, and Equipment expense categories, as previously explained.

- Legal Division ($22 million, or 10 percent, less than budgeted). This variance was due to under spending of approximately $12 million in the Outside Services – Personnel category, largely due to lower-than-projected outside counsel expenses for receivership-related litigation, and $10 million in the Salaries and Compensation category ($7 million in the Ongoing Operations budget component and $3 million in the Receivership Funding budget component), mostly due to vacancies in budgeted non-permanent positions and slower-than-projected hiring to fill those vacancies.

- RMS ($21 million, or 5 percent, less than budgeted). This variance was largely attributable to vacancies in budgeted non-permanent field examination positions and lower-than-budgeted examination travel expenses associated with those vacancies.

- DCP ($6 million or 5 percent less than budgeted). This variance was primarily attributable to vacancies in budgeted field examination and Washington office positions and lower-than-budgeted spending for regular duty and relocation travel associated with those vacancies.

[1] Information on division/office variances reflects variances in both the Ongoing Operations and Receivership Funding components of the 2014 Corporate Operating Budget.

- CIO Council ($5 million, or 11 percent, less than budgeted). This variance was largely due to lower-than-planned spending on discretionary systems development projects and the IMAC project.

- DIR ($5 million, or 14 percent, less than budgeted). This variance was primarily attributable to vacancies in budgeted positions and slower-than-projected hiring to fill those vacancies.

- OCFI ($4 million, or 26 percent, less than budgeted). This variance was largely attributable to vacancies in budgeted positions and lower-than-budgeted spending for contractual services and relocation travel.

- The combined Executive Support Offices ($4 million, or 9 percent, less than budgeted). This variance was mostly attributable to slower-than-projected hiring to fill budgeted positions in the Office of Minority and Women Inclusion and the Office of the Ombudsman.

- CU-Corporate ($3 million, or 17 percent, less than budgeted). This variance was primarily due to lower-than-budgeted expenses for various training and development projects and vacancies in permanent positions.

- OIG ($3 million, or 13 percent, less than budgeted). This variance was attributable to vacancies in budgeted positions and lower-than-projected travel expenses.

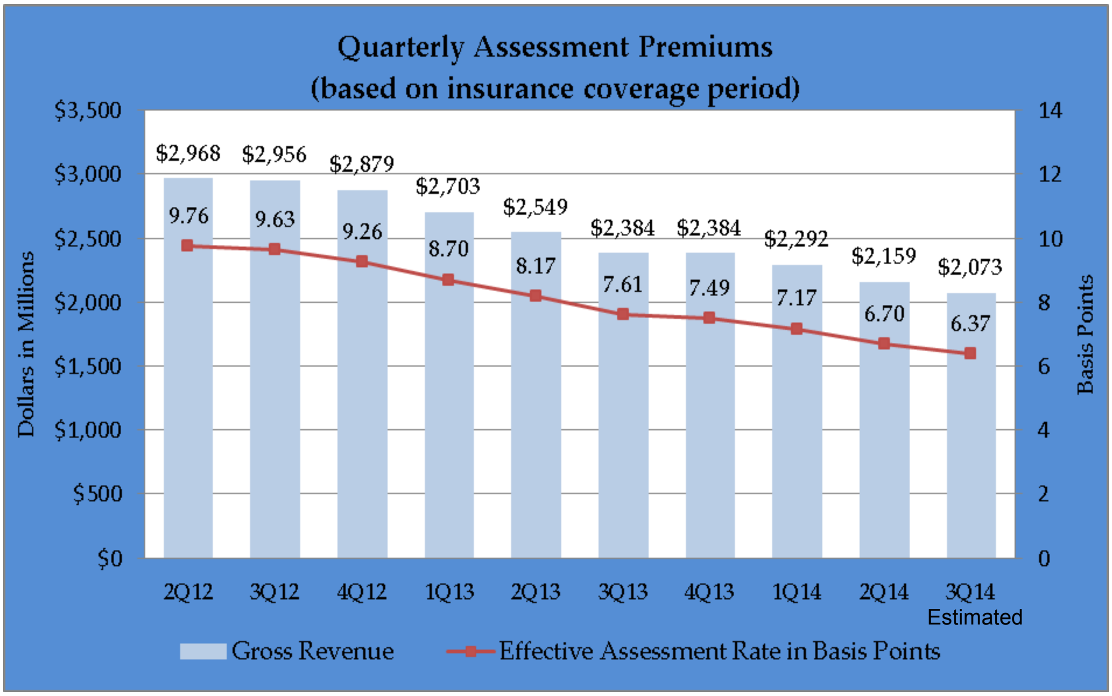
- The Division of Finance (DOF) ($2 million, or 8 percent, less than budgeted). This variance was attributable to vacancies in budgeted positions and slower-than-expected hiring to fill those vacancies.

- The Executive Offices ($2 million, or 21 percent, less than budgeted). This variance included approximately $2 million in under spending for Outside Services-Personnel due to lower than anticipated expenses to date for the GAO audit work.

Fund Financial Results

($ in Millions)

Balance Sheet	Deposit Insurance Fund				
	Unaudited Sep-14	Unaudited Jun-14	Quarterly Change	Unaudited Sep-13	Year-Over-Year Change
Cash and cash equivalents	$ 2,115	$ 2,409	$ (294)	$ 5,330	$ (3,215)
Investment in U.S. Treasury obligations, net	47,783	45,416	2,367	32,729	15,054
Assessments receivable, net	2,072	2,204	(132)	2,391	(319)
Interest receivable on investments and other assets, net	382	577	(195)	409	(27)
Receivables from resolutions, net	15,227	14,211	1,016	16,938	(1,711)
Property and equipment, net	357	359	(2)	373	(16)
Total Assets	$ 67,936	$ 65,176	$ 2,760	$ 58,170	$ 9,766
Accounts payable and other liabilities	255	256	(1)	265	(10)
Liabilities due to resolutions	11,260	12,169	(909)	15,754	(4,494)
Postretirement benefit liability	194	194	-	224	(30)
Contingent liability for anticipated failures	1,902	1,493	409	1,164	738
Contingent liability for litigation losses	5	5	-	5	-
Total Liabilities	$ 13,616	$ 14,117	$ (501)	$ 17,412	$ (3,796)
FYI: Unrealized gain (loss) on U.S. Treasury investments, net	27	118	(91)	39	(12)
FYI: Unrealized gain (loss) on trust preferred securities	-	-	-	-	-
FYI: Unrealized postretirement benefit (loss) gain	(16)	(16)	-	(61)	45
Fund Balance	$ 54,320	$ 51,059	$ 3,261	$ 40,758	$ 13,562



Assessment revenue has been decreasing due to lower effective assessment rates, which reflect the improving health of the banking industry.

Fund Financial Results - continued

($ in Millions)

Income Statement (year-to-date)	Deposit Insurance Fund				
	Unaudited Sep-14	Unaudited Jun-14	Quarterly Change	Unaudited Sep-13	Year-Over-Year Change
Assessments	$ 6,626	$ 4,617	2,009	$ 7,510	$ (884)
Interest on U.S. Treasury obligations	212	132	80	79	133
Realized gain on sale of trust preferred securities	-	-	-	458	(458)
Other revenue	22	15	7	156	(134)
Total Revenue	$ 6,860	$ 4,764	2,096	$ 8,203	$ (1,343)
Operating expenses	1,256	850	406	1,173	83
Provision for insurance losses	(1,519)	144	(1,663)	(1,071)	(448)
Insurance and other expenses	1	-	1	4	(3)
Total Expenses and Losses	$ (262)	$ 994	(1,256)	$ 106	$ (368)
Net Income	7,122	3,770	3,352	8,097	(975)
Unrealized gain (loss) on U.S. Treasury investments, net	7	98	(91)	5	2
Unrealized gain (loss) on trust preferred securities	-	-	-	(302)	302
Unrealized postretirement benefit gain (loss)	-	-	-	-	-
Comprehensive Income	$ 7,129	$ 3,868	3,261	$ 7,800	$ (671)

Selected Financial Data	FSLIC Resolution Fund				
	Unaudited Sep-14	Unaudited Jun-14	Quarterly Change	Unaudited Sep-13	Year-Over-Year Change
Cash and cash equivalents	$ 871	$ 872	$ (1)	$ 871	$ -
Accumulated deficit	(124,461)	(124,460)	(1)	(124,459)	(2)
Total resolution equity	872	873	(1)	874	(2)
Total revenue	1	1	-	2	(1)
Operating expenses	1	1	-	1	-
Goodwill litigation expenses	-	-	-	1	(1)
Provision for losses	(1)	(1)	-	(3)	2
Net Income (Loss)	$ -	$ 1	$ (1)	$ 1	$ (1)

Receivership Selected Statistics September 2014 vs. September 2013

$ in millions	DIF			FRF			ALL FUNDS		
	Sep-14	Sep-13	*Change*	Sep-14	Sep-13	*Change*	Sep-14	Sep-13	*Change*
Total Receiverships	487	482	5	-	2	(2)	487	484	3
Assets in Liquidation	$ 8,336	$ 13,783	$ (5,447)	$ 5	$ 6	$ (1)	$ 8,341	$ 13,789	$ (5,448)
YTD Collections	$ 4,036	$ 5,483	$ (1,447)	$ 2	$ 3	$ (1)	$ 4,038	$ 5,486	$ (1,448)
YTD Dividend/Other Pymts - Cash	$ 3,311	$ 3,173	$ 138	$ -	$ -	$ -	$ 3,311	$ 3,173	$ 138

Deposit Insurance Fund Portfolio Summary
(Dollar Values in Millions)

	9/30/14	12/31/13	Change
Par Value	$48,750	$40,682	$8,068
Amortized Cost	$49,858	$42,025	$7,833
Total Market Value (including accrued interest)	$50,200	$42,461	$7,739
Primary Reserve [1]	$50,200	$42,461	$7,739
Primary Reserve % of Total Portfolio	100.0%	100.0%	0.0%
Yield-to-Maturity [2]	0.68%	0.45%	0.23%
Weighted Average Maturity (in years)	1.75	1.41	0.34
Effective Duration (in years)			
Total Portfolio	1.72	1.36	0.36
Available-for-Sale Securities	1.79	1.49	0.30
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)

	9/30/14	12/31/13	Change
FRF-FSLIC			
Book Value [4]	$827	$826	$1
Yield-to-Maturity	0.01%	0.01%	0.00%
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)

	9/30/14	12/31/13	Change
Book Value [5]	$13,276	$13,657	($381)
Effective Annual Yield	0.10%	0.10%	0.00%
Weighted Average Maturity (in days)	62	62	0

[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 3rd Quarter 2014** Purchase up to $9 billion (par value) of Treasury securities with maturity dates between December 31, 2014, and December 31, 2019, subject to the following additional provisions: all newly purchased securities will be designated as available-for-sale (AFS); and no more than $3 billion (adjusted par value) of such securities shall consist of Treasury Inflation-Protected Securities (TIPS). **Strategy Changes for 4th Quarter 2014** Purchase up to $8 billion (par value) of Treasury securities with maturity dates between March 31, 2015, and March 31, 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).
NATIONAL LIQUIDATION FUND	**Strategy for 3rd Quarter 2014** 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 4th Quarter 2014** No strategy changes for the fourth quarter of 2014.

Executive Summary of 2014 Budget and Expenditures
by Major Expense Category
Through September 30, 2014
(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	$1,206,502	$897,357	$848,366	95%	($48,991)
Outside Services - Personnel	268,734	188,367	159,066	84%	(29,301)
Travel	105,770	76,943	66,791	87%	(10,152)
Buildings	89,155	65,578	60,060	92%	(5,518)
Equipment	86,042	62,270	42,233	68%	(20,037)
Outside Services - Other	18,152	13,729	11,589	84%	(2,140)
Other Expenses	17,097	12,134	9,082	75%	(3,052)
Total Ongoing Operations	**$1,791,452**	**$1,316,378**	**$1,197,187**	**91%**	**($119,191)**
Receivership Funding					
Salaries & Compensation	$124,532	$96,453	$92,633	96%	($3,820)
Outside Services - Personnel	400,107	299,851	255,917	85%	(43,934)
Travel	10,414	8,472	5,437	64%	(3,035)
Buildings	28,580	21,898	15,652	71%	(6,246)
Equipment	7,745	3,076	1,811	59%	(1,265)
Outside Services - Other	4,999	3,911	2,700	69%	(1,211)
Other Expenses	23,623	17,758	26,385	149%	8,627
Total Receivership Funding	**$600,000**	**$451,420**	**$400,535**	**89%**	**($50,885)**
Total Corporate Operating Budget	**$2,391,452**	**$1,767,798**	**$1,597,722**	**90%**	**($170,076)**

Executive Summary of 2014 Budget and Expenditures by Budget Component and Division/Office Through September 30, 2014 (Dollars in Thousands)

Division/Office	Annual Budget	YTD Budget	YTD Expenditures	% of YTD Budget Used	YTD Variance
Corporate Operating Budget					
Risk Management Supervision	$566,194	$422,689	$401,338	95%	($21,351)
Resolutions & Receiverships	505,484	383,918	343,657	90%	(40,262)
Legal	299,292	224,309	202,104	90%	(22,205)
Administration	269,405	201,796	175,539	87%	(26,257)
Information Technology	238,051	174,360	149,804	86%	(24,557)
Depositor & Consumer Protection	169,231	127,108	120,783	95%	(6,325)
CIO Council	59,237	44,713	39,841	89%	(4,872)
Executive Support [1]	56,170	41,157	37,352	91%	(3,805)
Insurance & Research	47,871	34,910	30,071	86%	(4,839)
Finance	40,050	29,794	27,484	92%	(2,310)
Inspector General	33,698	25,245	21,948	87%	(3,297)
Corporate University - Corporate	24,717	18,839	15,681	83%	(3,157)
Corporate University - CEP	17,442	13,392	12,716	95%	(676)
Complex Financial Institutions	21,388	16,107	11,972	74%	(4,135)
Executive Offices [2]	11,637	9,460	7,432	79%	(2,028)
Corporate Unassigned	31,585	0	0	N/A	0
Total, Corporate Operating Budget	**$2,391,452**	**$1,767,798**	**$1,597,722**	**90%**	**($170,076)**

1) Executive Support includes the Offices of Minority and Women Inclusion, Communications, Ombudsman, Legislative Affairs, Corporate Risk Management, and Information Security and Privacy Staff.

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.