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

August 21, 2015

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: Second Quarter 2015 CFO Report to the Board

The attached report highlights the Corporation's financial activities and results for the quarter ended June 30, 2015.

Executive Summary

- During the second quarter of 2015, the Deposit Insurance Fund (DIF) balance increased by $2.3 billion, from $65.3 billion to $67.6 billion. This quarterly increase was primarily due to $2.3 billion of assessment revenue and a $317 million decrease in the provision for insurance losses, partially offset by $434 million of operating expenses.

- During the second quarter of 2015, the FDIC was named receiver for 1 failed institution. The assets at inception for this failed institution were $94 million with an estimated loss of $17 million. The corporate cash outlay during the second quarter for this failure was approximately $29 million.

- Through June 30, 2015, overall Corporate Operating Budget expenditures were below budget by 7 percent ($74 million). Spending in the Ongoing Operations component was $36 million, or 4 percent, under budget, largely due to underspending for salaries and compensation, equipment, and contractual services. Spending in the Receivership Funding component was $37 million, or 16 percent, under budget, primarily due to lower-than-budgeted spending for contractual services related to failed financial institutions.

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

Deposit Insurance Fund

- For the six months ending June 30, 2015, the DIF's comprehensive income totaled $4.8 billion compared to comprehensive income of $3.9 billion for the same period last year. This $941 million increase was mostly due to a $887 million decrease in provision for insurance losses.

- The provision for insurance losses was a negative $743 million for the first half of 2015. The negative provision primarily resulted from a $929 million decrease in the estimated losses for institutions that failed in current and prior years, partially offset by a $188 million increase in the estimated losses for anticipated failures.

Assessments

- During June, the DIF recognized a total of $2.3 billion in assessment revenue. Of this amount, the estimate for second quarter 2015 insurance coverage totaled $2.2 billion. Additionally, the DIF recognized a net adjustment of $151 million that increased assessment revenue. This adjustment consisted of $14 million in prior period amendments and a $137 million increase to the estimate for first quarter 2015 insurance coverage recorded at March 31, 2015. The latter adjustment was primarily due to higher than estimated assessment base and rates.

- On June 30, 2015, the FDIC collected $2.2 billion in DIF assessments for first quarter 2015 insurance coverage.

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

DIF Investment Portfolio

- On June 30, 2015, the total liquidity (also total market value) of the DIF investment portfolio stood at $58.9 billion, up $6.6 billion from its December 31, 2014, balance of $52.3 billion. During the first half of the year, interest revenue, receivership dividends, and deposit insurance assessment collections exceeded resolution-related outlays and operating expenses.

- On June 30, 2015, the DIF investment portfolio's yield was 0.76 percent, up 6 basis points from its December 31, 2014, yield of 0.70 percent. The increase largely reflected the new Treasury securities purchased during the first half of the year generally having considerably higher yields than the maturing securities.

- In accordance with the approved second quarter 2015 DIF portfolio investment strategy, staff purchased a total of 10 short-to intermediate-maturity conventional Treasury securities, all designated as available-for-sale. The 10 securities had a total par value of $6.9 billion, a weighted average yield of 0.68 percent, and a weighted average maturity of 1.60 years.

III. <u>Budget Results</u> (See pages 11 – 12 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 made during the second quarter in accordance with the authority delegated by the Board of Directors. None of these modifications changed the total 2015 Corporate Operating Budget as approved by the Board in December 2014.

- In May 2015, the CFO approved modifications to the Salaries and Compensation budgets of divisions and offices within the Ongoing Operations component based on an analysis of year-to-date spending for salaries, bonuses/lump-sum payments, and fringe benefits. That reallocation realigned existing budget authority among most divisions and offices, but resulted in no change to the total corporate budget for either the Ongoing Operations or Receivership Funding budget components. The Corporate Unassigned contingency reserve in the Ongoing Operations budget component was increased by $6 million as a result of these reallocations.

- In June 2015, the CFO approved the net reallocation of $22,756 between accounts in the Salaries and Compensation category of the Ongoing Operation component of the budget for the Office of the Inspector General (OIG). This reallocation resulted in no change to the total Ongoing Operations budget approved for the OIG.

- In June 2015, the CFO approved a reallocation within the Ongoing Operations and Receivership Funding components of the 2015 Corporate Operating Budget following corporate-wide mid-year reassessment of actual and projected spending for the first half of the year. The budgets for all major expense categories and most divisions and offices were adjusted in both budget components, with increases and decreases totaling $3 million and $1 million, respectively, in the Ongoing Operations component and $1 million and $26 million in the Receivership Funding component.

    - The most significant increase in the Ongoing Operations budget component was a net increase of over $2 million to the budget of the CIO Council to support transition costs associated with the award of new Information Technology Application Services contracts for IT systems development and maintenance. The most significant reduction within that component was a decrease of $800,000 in the budget of the Information Security and Privacy Staff due to contract re-negotiations and savings from the temporary elimination of a security subscription.

    - The most significant increase in the Receivership Funding budget component was to the budget of the Division of Information Technology (DIT), which received an increase of over $1 million to cover unbudgeted equipment purchases to support a major bank closing. The Legal Division had the largest Receivership Funding budget reduction ($26 million) as a result of an unexpected decrease in professional liability program expenses.

The mid-year budget reallocation reduced the Corporate Unassigned contingency reserve by nearly $2 million in the Ongoing Operations budget and increased it by $24 million in the Receivership Funding budget component. The unused amounts remaining within the Corporate Unassigned budgets for the Ongoing Operations and the Receivership Funding budget components were $23,519,593 and $47,008,947, respectively, as of June 30, 2015.

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 an increase of three authorized permanent positions within the Capital Market Branch of RMS. This increase to the 2015 Authorized Staffing was determined necessary to address increases in the permanent workload within the branch, including the increased volume of work associated with the implementation of the Volcker Rule.

Spending Variances

Significant spending variances by major expense category and division/office are discussed below. Significant spending variances for the six months ending June 30, 2015, are defined as those that either (1) exceed the YTD budget by $2 million and represent more than three 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 $3 million and represents more than five percent of the major expense category or total division/office budget.

Significant Spending Variances by Major Expense Category

<u>Ongoing Operations</u>

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

- Outside Services - Personnel expenditures were $8 million, or 7 percent, less than budgeted. The Division of Resolutions and Receiverships (DRR) spent $2 million less than budgeted, primarily due to delays in initiating projects in its Complex Financial Institutions and Planning and Resource Management Branches. The Division of Administration (DOA) spent $1 million less than budgeted, largely due to delays in the pay, performance, and competency modeling components of the Workforce Development Initiative. DIT spent $1 million less than budgeted, primarily due to underspending on the infrastructure services support contract. The Executive Offices spent nearly $700,000 less than budgeted because actual audit expenses were lower than projected. Corporate University also spent nearly $700,000 less than budgeted, largely due to lower-than-projected expenses for development of the new Resolutions and Receivership training curriculum.

- Equipment expenditures were approximately $8 million, or 24 percent, less than budgeted. DIT spent $6 million less than budgeted, largely due to delays in planned purchases and the processing of hardware and software maintenance contracts. In addition, DOA spent $2 million less than budgeted due to delays in the Identity, Credential, and Access Management (ICAM) project and the realization of furniture, fixtures and equipment (FF&E) cost savings through the redeployment of excess FF&E that became available as a result of the exercise of leased space contraction rights in the Dallas Regional Office.

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 were significant spending variances in two of the seven major expense categories through the second quarter in the Receivership Funding component of the 2015 Corporate Operating Budget:

- Outside Services-Personnel expenditures were $29 million, or 18 percent, less than budgeted. This variance was attributable to a decline in resolutions, asset management and marketing costs at a faster rate than projected. This resulted in lower-than-budgeted expenses for contracts supporting owned real estate, loan servicing, environmental services, asset valuation, failed bank data, and capital markets.

- Other Expenses were $3 million, or 31 percent, less than budgeted. This variance was attributable to the transfer of banking operations and the disposition of failed banks' assets more quickly than expected.

Significant Spending Variances by Division/Office

Four organizations had significant spending variances through the end of the second quarter:

- DRR spent $32 million, or 14 percent, less than budgeted, mostly due to less-than-budgeted spending for resolution and receivership workload for the reasons described above.

- DIT spent $10 million, or 10 percent, less than budgeted. This variance was largely attributable to less than anticipated spending on the infrastructure services support contract, delays in planned equipment purchases, and delays in the processing of hardware and software maintenance contracts.

- DOA spent $8 million, or 6 percent, less than budgeted. This variance was largely attributable to lower-than budgeted spending in its Ongoing Operations budget component for equipment ($2 million) for the ICAM initiative and FF&E; salaries and compensation ($1 million) due to vacancies in budgeted positions; buildings ($1 million) due to delays in the Student Residence Center plumbing project; and contractual support ($1 million) due to delays in the pay, performance and competency modeling components of the Workforce Development Initiative. In addition, DOA spent approximately $2 million less than budgeted in the Receivership Funding budget component to support bank closings.

- The Legal Division spent $8 million, or 6 percent, less than budgeted. This variance was largely due to under-spending of approximately $5 million in the Outside Services – Personnel expense category due to lower-than-projected outside counsel expenses for receivership-related litigation, and $2 million in the Salaries and Compensation expense category due to vacancies in budgeted non-permanent positions and slower-than-projected hiring to fill those vacancies.

Other Matters

An analysis of 2015 funding requirements for employee pay and benefits was completed in May in accordance with the 2015 Budget Resolution. The analysis determined that those costs had been underestimated during the preparation of the 2015 Corporate Operating Budget by approximately $6 million in the Salaries and Compensation expense category, primarily due to an unbudgeted increase in the FDIC's contribution rate for most employees under the Federal Employees Retirement System that became effective late in 2014. The CFO elected not to exercise his delegated authority to adjust the 2015 Corporate Operating Budget to address this shortfall, since the net projected budget shortfall is not material relative to the total 2015 Corporate Operating Budget, and there is excess budget authority available to cover the shortfall in other accounts within the Salaries and Compensation expense category.

Fund Financial Results

($ in Millions)

Balance Sheet	Deposit Insurance Fund				
	Unaudited Jun-15	Unaudited Mar-15	Quarterly Change	Unaudited Jun-14	Year-Over-Year Change
Cash and cash equivalents	$ 2,544	$ 3,729	$ (1,185)	$ 2,409	$ 135
Investment in U.S. Treasury obligations, net	55,850	50,591	5,259	45,416	10,434
Assessments receivable, net	2,177	2,051	126	2,204	(27)
Interest receivable on investments and other assets, net	590	373	217	577	13
Receivables from resolutions, net	14,862	17,258	(2,396)	14,211	651
Property and equipment, net	364	365	(1)	359	5
Total Assets	$ 76,387	$ 74,367	$ 2,020	$ 65,176	$ 11,211
Accounts payable and other liabilities	278	243	35	256	22
Liabilities due to resolutions	7,593	7,868	(275)	12,169	(4,576)
Postretirement benefit liability	243	243	-	194	49
Contingent liability for anticipated failures	684	717	(33)	1,493	(809)
Contingent liability for litigation losses	0	0	0	5	(5)
Total Liabilities	$ 8,798	$ 9,071	$ (273)	$ 14,117	$ (5,319)
FYI: Unrealized gain (loss) on U.S. Treasury investments, net	248	282	(34)	118	130
FYI: Unrealized postretirement benefit (loss) gain	(58)	(58)	-	(16)	(42)
Fund Balance	$ 67,589	$ 65,296	$ 2,293	$ 51,059	$ 16,530

DIF Resolution Activity

(Dollars in Billions)

	Number	Assets	Est. Losses	Outlays
YTD 2015	5	$5.4	$0.8	$1.7
2014	18	$3.0	$0.4	$0.9
2013	24	$5.8	$1.3	$1.6
2012	51	$11.8	$2.7	$4.6
2011	92	$36.6	$7.1	$9.3
2010	157	$93.2	$16.9	$32.9
2009	140	$171.2	$27.7	$48.0
2008	25	$361.6	$18.3	$31.7
Total	**512**	**$688.6**	**$75.2**	**$130.7**

- Estimated Losses exclude Transaction Account Guarantee Losses under the FDIC's Temporary Liquidity Guarantee Program.
- 2008 includes Washington Mutual failure with total assets of $299 billion and zero estimated losses and outlays to the DIF.

Fund Financial Results - continued

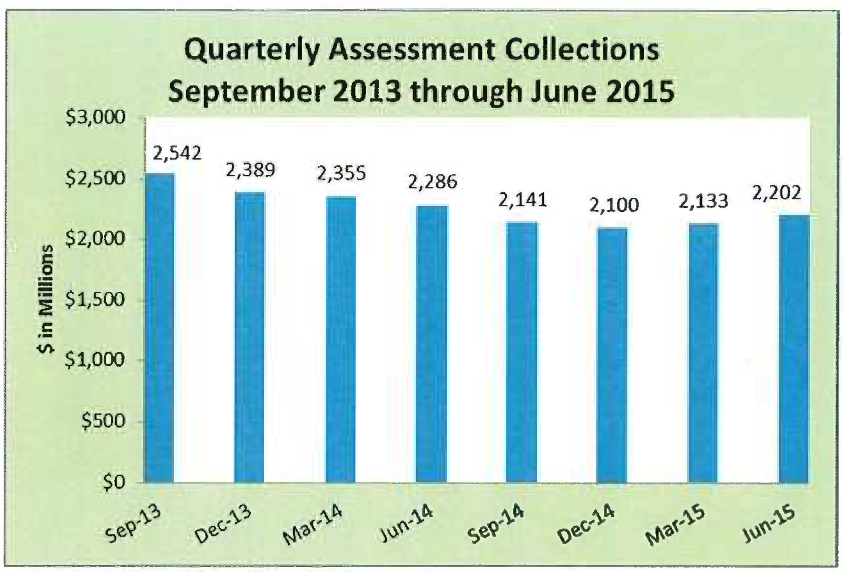
($ in Millions)

Income Statement (year-to-date)	Deposit Insurance Fund				
	Unaudited Jun-15	Unaudited Mar-15	Quarterly Change	Unaudited Jun-14	Year-Over-Year Change
Assessments	$ 4,517	$ 2,189	$ 2,328	$ 4,617	$ (100)
Interest on U.S. Treasury obligations	173	60	113	132	41
Other revenue	10	6	4	15	(5)
Total Revenue	$ 4,700	$ 2,255	$ 2,445	$ 4,764	$ (64)
Operating expenses	830	396	434	850	(20)
Provision for insurance losses	(743)	(426)	(317)	144	(887)
Insurance and other expenses	1	-	1	-	1
Total Expenses and Losses	$ 88	$ (30)	$ 118	$ 994	$ (906)
Net Income	4,612	2,285	$ 2,327	3,770	842
Unrealized gain (loss) on U.S. Treasury investments, net	197	231	(34)	98	99
Unrealized postretirement benefit gain (loss)	-	-	-	-	-
Comprehensive Income	$ 4,809	$ 2,516	$ 2,293	$ 3,868	$ 941

Selected Financial Data	FSLIC Resolution Fund				
	Unaudited Jun-15	Unaudited Mar-15	Quarterly Change	Unaudited Jun-14	Year-Over-Year Change
Cash and cash equivalents	$ 872	$ 872	$ -	$ 872	$ -
Accumulated deficit	(124,523)	(124,460)	(63)	(124,460)	(63)
Total resolution equity	872	872	-	873	(1)
Total revenue	2	1		1	1
Operating expenses	1	-		1	-
Provision for losses	-	-		(1)	1
Goodwill litigation expenses	63	-		-	63
Net Income (Loss)	$ (63)	$ 1		$ 1	$ (64)

Receivership Selected Statistics June 2015 vs. June 2014

$ in millions	DIF			FRF			ALL FUNDS		
	Jun-15	Jun-14	*Change*	Jun-15	Jun-14	*Change*	Jun-15	Jun-14	*Change*
Total Receiverships	480	489	(9)	-	-	-	480	489	(9)
Assets in Liquidation	$ 6,337	$ 9,168	$ (2,831)	$ 5	$ 5	$ -	$ 6,342	$ 9,173	$ (2,831)
YTD Collections	$ 2,001	$ 2,698	$ (697)	$ 2	$ 2	$ -	$ 2,003	$ 2,700	$ (697)
YTD Dividend/Other Pymts - Cash	$ 4,708	$ 2,897	$ 1,811	$ -	$ -	$ -	$ 4,708	$ 2,897	$ 1,811



Assessment collections decreased consecutively for six quarters from $2.5 billion to $2.1 billion, beginning in September 2013 to December 2014. This steady decline was attributable to declining assessment rates that resulted from the improved condition of insured institutions. For the first two quarters in 2015, assessment collections increased from $2.1 billion to $2.2 billion. This increase is the result of stabilizing assessment rates and an increase in the assessment base for insured institutions.

Deposit Insurance Fund Portfolio Summary (Dollar Values in Millions)			
	6/30/15	12/31/14	Change
Par Value	$57,437	$50,739	$6,698
Amortized Cost	$58,133	$51,655	$6,478
Total Market Value (including accrued interest)	$58,918	$52,302	$6,616
Primary Reserve [1]	$58,918	$52,302	$6,616
Primary Reserve % of Total Portfolio	100.0%	100.0%	0.0%
Yield-to-Maturity [2]	0.76%	0.70%	0.06%
Weighted Average Maturity (in years)	1.50	1.66	-0.16
Effective Duration (in years)			
Total Portfolio	1.47	1.63	-0.16
Available-for-Sale Securities	1.54	1.69	-0.15
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 1.8% 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)			
	6/30/15	12/31/14	Change
FRF-FSLIC			
Book Value [4]	$826	$827	($1)
Yield-to-Maturity	0.00%	0.03%	-0.03%
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)			
	6/30/15	12/31/14	Change
Book Value [5]	$10,970	$14,139	($3,169)
Effective Annual Yield	0.15%	0.11%	0.04%
Weighted Average Maturity (in days)	80	75	5

[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 2nd Quarter 2015** Purchase up to $10 billion (par value) of Treasury securities with maturity dates between September 30, 2015, and September 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 3rd Quarter 2015
	Purchase up to $11 billion (par value) of Treasury securities with maturity dates between December 31, 2015, and December 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 the 2nd 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 3rd Quarter 2015
	No strategy changes for the third quarter of 2015.

Executive Summary of 2015 Budget and Expenditures
by Major Expense Category
Through June 30, 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	$1,226,834	$593,998	$579,754	98%	($14,244)
Outside Services - Personnel	252,177	114,471	106,340	93%	(8,131)
Travel	98,816	48,522	46,293	95%	(2,229)
Buildings	94,330	44,375	43,304	98%	(1,071)
Equipment	87,259	35,106	26,821	76%	(8,285)
Outside Services - Other	17,420	9,142	7,920	87%	(1,222)
Other Expenses	16,861	7,729	6,724	87%	(1,005)
Total Ongoing Operations	**$1,793,697**	**$853,341**	**$817,156**	**96%**	**($36,185)**
Receivership Funding					
Salaries & Compensation	$90,360	$48,223	$45,843	95%	($2,380)
Outside Services - Personnel	376,053	163,695	134,647	82%	(29,048)
Travel	9,083	3,795	4,270	113%	475
Buildings	17,328	8,624	7,368	85%	(1,256)
Equipment	5,285	3,108	2,568	83%	(540)
Outside Services - Other	4,044	2,112	976	46%	(1,136)
Other Expenses	22,847	11,390	7,902	69%	(3,488)
Total Receivership Funding	**$525,000**	**$240,948**	**$203,574**	**84%**	**($37,374)**
Total Corporate Operating Budget	**$2,318,697**	**$1,094,290**	**$1,020,730**	**93%**	**($73,560)**

Executive Summary of 2015 Budget and Expenditures by Budget Component and Division/Office Through June 30, 2015 (Dollars in Thousands)					
Division/Office	Annual Budget	YTD Budget	YTD Expenditures	% of YTD Budget Used	YTD Variance
Corporate Operating Budget					
Risk Management Supervision	$574,424	$279,199	$272,113	97%	($7,086)
Resolutions & Receiverships	437,511	220,506	188,836	86%	(31,670)
Administration	268,572	129,590	121,978	94%	(7,613)
Legal	253,978	123,464	115,897	94%	(7,567)
Information Technology	226,289	105,993	95,526	90%	(10,467)
Depositor & Consumer Protection	172,111	85,445	83,512	98%	(1,933)
Insurance & Research	51,146	24,940	24,885	100%	(55)
CIO Council	52,553	24,691	24,496	99%	(195)
Finance	39,832	19,459	18,634	96%	(826)
Inspector General	33,715	16,772	15,082	90%	(1,690)
Information Security & Privacy Staff	33,856	14,440	14,196	98%	(244)
Corporate University - Corporate	25,682	12,410	11,684	94%	(726)
Executive Support [1]	26,248	12,521	11,567	92%	(954)
Corporate University - CEP	18,270	8,798	8,877	101%	79
Complex Financial Institutions	21,863	10,217	8,362	82%	(1,855)
Executive Offices [2]	12,118	5,844	5,086	87%	(758)
Corporate Unassigned	70,529	0	0	N/A	0
Total, Corporate Operating Budget	**$2,318,697**	**$1,094,290**	**$1,020,730**	**93%**	**($73,560)**

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.