



Federal Deposit Insurance Corporation

550 17th Street, N.W., Washington, D.C. 20429-9990

Deputy to the Chairman and CFO

November 17, 2020

MEMORANDUM TO: The Board of Directors

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

SUBJECT: Third Quarter 2020 CFO Report to the Board

The attached report highlights the FDIC's financial activities and results for the quarter ended September 30, 2020.

Executive Summary

- During the third quarter of 2020, the Deposit Insurance Fund (DIF) balance rose to \$116.4 billion, up \$1.8 billion from the June 30, 2020 balance. The quarterly increase was primarily due to \$2.0 billion in assessment revenue partially offset by a \$284 million unrealized loss on U.S. Treasury securities.
- The reserve ratio, which is the ratio of the DIF balance to estimated insured deposits, was 1.30 percent at September 30, 2020, unchanged from the previous quarter.
- With a fund balance of \$116.4 billion as of September 30, 2020, the DIF is currently well-positioned to cover possible short and mid-term risks that may occur. However, there remains uncertainty about the effects of the COVID-19 health crisis on the economy and the banking industry over the long-term. Effects from a weakened economic outlook, elevated unemployment levels, and diminished repayment capacity of borrowers may stress the balance sheets of several institutions across the United States. The FDIC continues to evaluate a range of possible outcomes for economic stress, the risks those outcomes pose to insured financial institutions, and the extent to which such risks may draw on the resources of the DIF.
- There were no financial institution failures during the third quarter of 2020; the last failure occurred on April 3, 2020.
- Through September 30, 2020, overall FDIC Operating Budget expenditures were below the year-to-date budget by about \$109.8 million, or seven percent. This variance was primarily the result of underspending of \$93 million in the Ongoing Operations budget component. The largest variances were in the Travel expense category (\$37.4 million, or 64 percent) due to travel restrictions during the COVID-19 pandemic and the Salaries and Compensation expense category (\$24.8 million, or 3 percent) due to unfilled vacancies in authorized positions.

I. Financial Results (See pages 5 – 6 for detailed data and charts.)

Deposit Insurance Fund

- For the nine months ending September 30, 2020, the DIF's comprehensive income totaled \$6.1 billion, compared to comprehensive income of \$6.3 billion for the same period last year, a decrease of \$244 million. Although assessment revenue increased year-over-year by \$1.5 billion, this was more than offset by a \$233 million year-over-year decrease in interest on U.S. Treasury securities, a \$418 million year-over-year decrease in the unrealized gain on U.S. Treasury securities, and a year-over-year change in negative provision for insurance losses of \$1.1 billion. The provision balance for 2020 is a negative \$109 million, reflecting adjustments to loss estimates for prior year failures largely as a result of unanticipated recoveries from professional liability claims by receiverships and reductions to receivership future expense estimates. In contrast, the provision balance for 2019, a negative \$1 billion, reflected large decreases in loss estimates for prior year bank failures, primarily arising from shared-loss liability reductions and unanticipated recoveries from litigation settlements and professional liability claims by receiverships.

Assessments

- During September, the DIF recognized assessment revenue of \$1.9 billion for the estimate of third quarter 2020 insurance coverage. Additionally, the DIF recognized a \$144 million adjustment for higher-than-estimated collections for the second quarter 2020 insurance coverage, which increased assessment revenue.
- On September 30, 2020, the FDIC collected \$1.8 billion in DIF assessments for second quarter 2020 insurance coverage.

II. Investment Results (See pages 7 – 8 for detailed data and charts.)

DIF Investment Portfolio

- On September 30, 2020, the total liquidity (also total market value) of the DIF investment portfolio stood at \$113.4 billion, up \$6.4 billion from its December 31, 2019, balance of \$107.0 billion. During the quarter, interest revenue, receivership dividends, and deposit insurance assessment collections far exceeded resolution-related outlays and operating expenses.
- On September 30, 2020, the DIF investment portfolio's yield was 1.22 percent, down 76 basis points from its 1.98 percent yield on December 31, 2019. The new Treasury securities purchased during the third quarter of the year had significantly lower yields than the maturing securities' yields.
- In accordance with the approved third quarter 2020 DIF portfolio investment strategy, staff purchased a total of 15 conventional Treasury securities. The 15 securities had a total par value of \$24.4 billion, a weighted average yield of 0.184 percent, and a weighted average maturity of 2.20 years.

III. Budget Results (See pages 9 – 10 for detailed data.)

Approved Budget Modifications

The 2020 Budget Resolution delegated to the Chief Financial Officer (CFO) and selected other officials the authority to make certain modifications to the 2020 FDIC Operating Budget. The following budget reallocations were approved during the third quarter in accordance with the authority delegated by the Board of Directors:

In August, the CFO approved the following adjustments to 2020 Ongoing Operations budgets:

- A decrease of \$910,000 in the budget of the Division of Information Technology (DIT) and an increase of the same amount in the budget of the Office of Communications to correct an error made during the mid-year budget review. These adjustments did not change the total corporate budget.
- An increase of \$500,000 in the budget of the Office of the Chief Information Security Officer (OCISO) to support the transition to a new support contract. As a result, the Corporate Unassigned contingency reserve in the Ongoing Operations budget component was decreased by \$500,000.

Following these third quarter budget modifications, the balances in the Corporate Unassigned contingency reserves were \$16,703,552 in the Ongoing Operations budget component and \$18,917,515 in the Receivership Funding budget component.

Approved Staffing Modifications

The 2020 Budget Resolution delegated to the CFO the authority to modify approved 2020 staffing authorizations for divisions and offices, as long as those modifications did not increase the total approved 2020 FDIC Operating Budget.

- In July, the CFO approved a net decrease of 48 positions, to 2,358 positions, in the permanent staffing authorization for the Division of Risk Management Supervision (RMS) to support RMS's workforce reshaping plans. Those plans included the establishment of 26 new authorized positions and the elimination of 74 authorized positions. The eliminated positions that are currently occupied were designated as "incumbency-only," to be eliminated when they become vacant. The new positions add needed skills in the areas of application and supervisory oversight, capital markets data analytics and risk monitoring, examiner training, and emerging risk monitoring, primarily in RMS's Washington office.
- In July, the CFO approved the realignment of two authorized permanent positions among the Office of the Deputy to the Chairman and Chief Operating Officer, the Office of Minority and Women Inclusion, and the Division of Administration. There was no immediate impact on total budget or authorized staffing levels for the FDIC.

Following these changes, total authorized staffing for the Corporation totaled 5,722 (comprised of 5,717 permanent and 5 non-permanent positions).

Spending Variances

Significant spending variances by major expense category and division/office are discussed below. Significant spending variances for the quarter ending September 30, 2020, are defined as those that either (1) exceeded the YTD budget for a major expense category or division/office by more than \$1 million and represented more than two 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 \$7 million and represented more than seven percent of the major expense category or total division/office budget.

Significant Spending Variances by Major Expense Category

Ongoing Operations

There were significant spending variances through the third quarter in two major expense categories of the Ongoing Operations budget component.

- Spending in the Travel expense category was under the YTD budget by \$37.4 million, or 64 percent. This variance was primarily attributable to the mandatory telework and travel restrictions that were implemented in March 2020 in response to the COVID-19 pandemic. The variance largely reflects underspending for travel related to examinations and other supervisory activities by RMS (\$24.6 million, or 64 percent of its 2020 YTD budget), the Division of Depositor and Consumer Protection (DCP) (\$6.5 million, or 65 percent of its 2020 YTD

budget), Corporate University – Corporate Employee Program (\$1.9 million, or 72 percent of its 2020 YTD budget), and the Division of Complex Institution Supervision and Resolution (\$1.9 million, or 83 percent of its 2020 YTD budget).

- Spending in the Equipment expense category was under the YTD budget by \$11.2 million, or 14 percent. The variance was attributable primarily to underspending by DIT and OCISO of \$8.3 million and \$2.1 million, respectively, due to later-than-anticipated ordering and delivery of IT equipment.

Receivership Funding

There was a significant spending variance through the third quarter in one major expense category of the Receivership Funding budget component.

- Spending in the Outside Services-Personnel expense category was under the YTD budget by \$13.6 million, or 35 percent. The variance was primarily attributable to underspending by the Legal Division of \$11.1 million, or 53 percent of its YTD budget, and by the Division of Resolutions and Receiverships (DRR) of \$2.7 million, or 16 percent of its 2020 YTD budget. The Legal Division's underspending was the result of reduced use of outside legal services due to settlements, a decision to perform new professional liability investigations with FDIC staff, and delays in pending litigation due to the COVID-19 pandemic. DRR's underspending was largely due to fewer-than-budgeted bank closings and the small size of closed institutions.

Significant Spending Variances by Division/Office¹

Three organizations had significant spending variances through the end of third quarter.

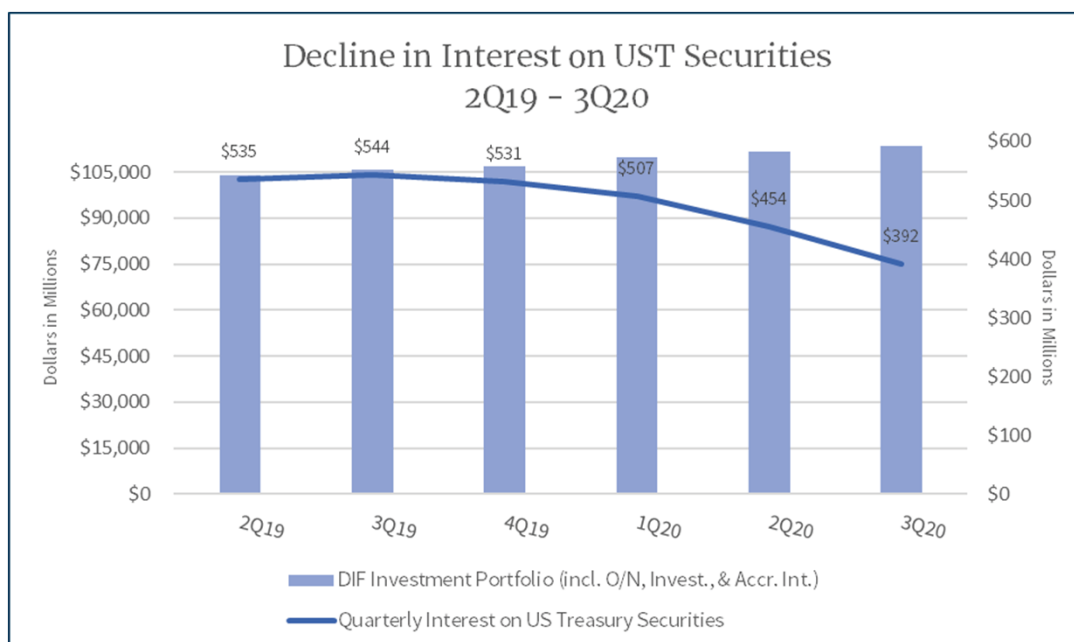
- The Legal Division underspent its YTD budget by \$17.1 million, or 14 percent, primarily in the Outside Services-Personnel major expense category in the Receivership Funding budget component, for the reasons noted above. It also underspent its YTD Salaries and Compensation budget in the Ongoing Operations budget component due to a high number of vacancies in budgeted positions.
- DCP underspent its YTD budget by \$11.1 million, or eight percent, primarily in the Travel and Outside Services-Personnel major expense categories in the Ongoing Operations budget component due to the impact of mandatory telework and delays in planned contractual services for MoneySmart. In addition, it underspent its YTD Salaries and Compensation budget due to vacancies in budgeted positions and low utilization of its awards budget.
- DRR underspent its YTD budget by \$8.4 million or eight percent, primarily in the Outside Services-Personnel major expense category in the Receivership Funding budget component, for the reasons noted above. In addition, in the Ongoing Operations budget component, it underspent its Outside Services-Personnel budget due to an accounting error and a delay in the onboarding of contractor resources for IT Resolutions and Receivership Support, and its Salaries and Compensation budget due to delays in filling vacancies in budgeted positions and lower-than-anticipated overtime expenses.

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				
	Sep-20	Jun-20	Quarterly Change	Sep-19	Year-Over-Year Change
Cash and cash equivalents	\$ 6,801	\$ 5,144	\$ 1,657	\$ 4,268	\$ 2,533
Investment in U.S. Treasury securities	105,830	105,024	806	100,873	4,957
Assessments receivable	1,902	1,632	270	1,115	787
Interest receivable on investments and other assets, net	864	1,369	(505)	582	282
Receivables from resolutions, net	1,352	1,860	(508)	2,801	(1,449)
Property and equipment, net	314	320	(6)	317	(3)
Operating lease right-of-use assets	115	118	(3)	0	115
Total Assets	\$ 117,178	\$ 115,467	\$ 1,711	\$ 109,956	\$ 7,222
Accounts payable and other liabilities	234	221	13	212	22
Operating lease liabilities	122	127	(5)	0	122
Liabilities due to resolutions	5	73	(68)	427	(422)
Postretirement benefit liability	289	289	0	236	53
Contingent liability for anticipated failures	62	74	(12)	108	(46)
Contingent liability for guarantee payments and litigation losses	32	32	0	33	(1)
Total Liabilities	\$ 744	\$ 816	\$ (72)	\$ 1,016	\$ (272)
FYI: Unrealized gain (loss) on U.S. Treasury securities, net	1,370	1,654	(284)	586	784
FYI: Unrealized postretirement benefit (loss) gain	(61)	(61)	0	(14)	(47)
Fund Balance	\$ 116,434	\$ 114,651	\$ 1,783	\$ 108,940	\$ 7,494



The DIF has experienced a 9% growth in the market value of its investment portfolio from second quarter of 2019 through the third quarter of 2020. However that growth has failed to translate into higher interest earned, as yields plummeted to record lows in the second quarter of 2020 and will remain there for what is anticipated to be the next 2 to 3 years. Overnight interest, beginning in April of this year and through the third quarter and likely beyond, is a fraction of what was earned prior to March.

Fund Financial Results - continued

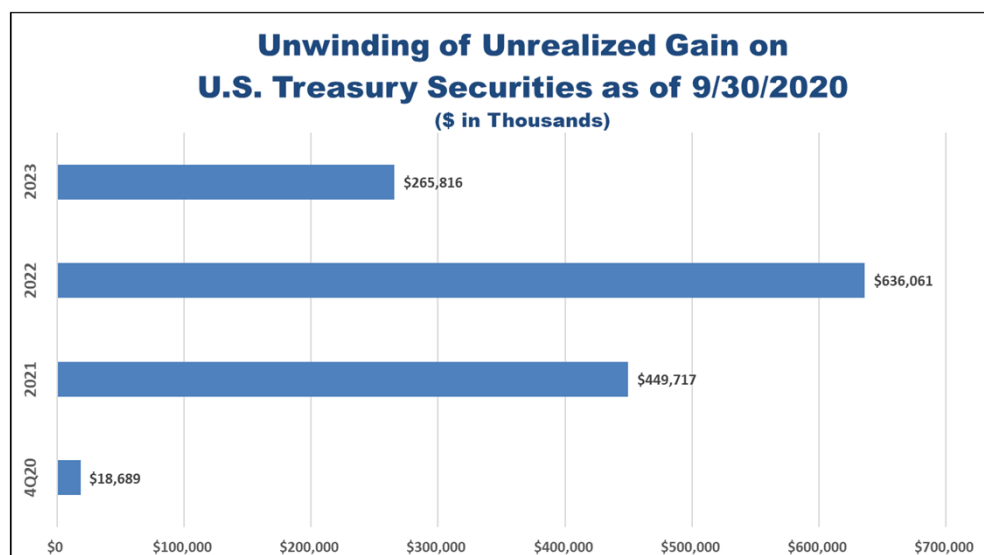
(\$ in Millions)

Income Statement (year-to-date)	Deposit Insurance Fund				
	Sep-20	Jun-20	Quarterly Change	Sep-19	Year-Over-Year Change
Assessments	\$ 5,209	\$ 3,162	\$ 2,047	\$ 3,667	\$ 1,542
Interest on U.S. Treasury securities	1,353	961	392	1,586	(233)
Other revenue	12	6	6	17	(5)
Total Revenue	\$ 6,574	\$ 4,129	\$ 2,445	\$ 5,270	\$ 1,304
Operating expenses	1,376	925	451	1,336	40
Provision for insurance losses	(109)	(35)	(74)	(1,198)	1,089
Insurance and other expenses	3	2	0	2	1
Total Expenses and Losses	\$ 1,270	\$ 892	\$ 378	\$ 140	\$ 1,130
Net Income	\$ 5,304	\$ 3,237	\$ 2,067	\$ 5,130	\$ 174
Unrealized gain (loss) on U.S. Treasury securities, net	783	1,067	(284)	1,201	(418)
Unrealized postretirement benefit gain (loss)	0	0	0	0	0
Comprehensive Income	\$ 6,087	\$ 4,304	\$ 1,783	\$ 6,331	\$ (244)

Selected Financial Data	FSLIC Resolution Fund				
	Sep-20	Jun-20	Quarterly Change	Sep-19	Year-Over-Year Change
Cash and cash equivalents	\$ 907	\$ 926	\$ (19)	\$ 918	\$ (11)
Accumulated deficit	(124,562)	(124,563)	1	(124,570)	8
Total resolution equity	907	907	0	919	(12)
Total revenue	4	3	1	17	(13)
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)	\$ 4	\$ 3	\$ 1	\$ 17	\$ (13)

Receivership Selected Statistics September 2020 vs. September 2019

(\$ in millions)	DIF			FRF			ALL FUNDS		
	Sep-20	Sep-19	Change	Sep-20	Sep-19	Change	Sep-20	Sep-19	Change
Total Receiverships	238	252	(14)	0	0	0	238	252	(14)
Assets in Liquidation	\$ 370	\$ 575	\$ (205)	\$ 0	\$ 2	\$ (2)	\$ 370	\$ 577	\$ (207)
YTD Collections	\$ 338	\$ 1,113	\$ (775)	\$ 1	\$ 2	\$ (1)	\$ 339	\$ 1,115	\$ (776)
YTD Dividend/Other Pmts - Cash	\$ 1,301	\$ 1,374	\$ (73)	\$ 0	\$ 0	\$ 0	\$ 1,301	\$ 1,374	\$ (73)



The total unrealized gains have decreased since the end of the first quarter of 2020, as the second and third quarters saw an aggregate of approximately \$31.9BN in par value mature. Proceeds were subsequently reinvested at much lower yields. With \$20.0BN of par value expected to mature in the first quarter of 2021, those unrealized gains have seen significant reduction as they approach maturity.

Deposit Insurance Fund Portfolio Summary (Dollar Values in Millions)

	9/30/20	12/31/19	Change
Par Value	\$108,949	\$104,429	\$4,520
Amortized Cost	\$111,259	\$105,464	\$5,795
Total Market Value (including accrued interest)	\$113,442	\$107,024	\$6,418
Primary Reserve ¹	\$113,442	\$107,024	\$6,418
Primary Reserve % of Total Portfolio	100.0%	100.0%	0.0%
Yield-to-Maturity	1.22%	1.98%	-0.76%
Weighted Average Maturity (in years)	1.27	1.18	0.09
Effective Duration (in years)			
Total Portfolio	1.24	1.15	0.09
Available-for-Sale Securities ²	1.32	1.22	0.10

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

² Excludes any overnight investments.

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

	9/30/20	12/31/19	Change
<i>ERF-FSLIC</i>			
Book Value ³	\$881	\$878	\$3
Yield-to-Maturity	0.07%	1.51%	-1.44%
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)

	9/30/20	12/31/19	Change
Book Value ⁴	\$1,657	\$2,128	(\$471)
Effective Annual Yield	0.27%	1.76%	-1.49%
Weighted Average Maturity (in days)	6	32	(26)

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 3rd Quarter 2020
	Invest up to \$32 billion (par value) in AFS securities with maturities between December 31, 2020 and July 1, 2025.
	Strategy Changes for the 4th Quarter 2020
	Invest up to \$17 billion (par value) in AFS securities with maturities between March 31, 2021 and October 1, 2025.
NATIONAL LIQUIDATION FUND	Strategy for the 3rd Quarter 2020
	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 4th Quarter 2020
	No strategy changes for the fourth quarter of 2020.

**Executive Summary of 2020 Budget and Expenditures
by Budget Component and Major Expense Category
Through September 30, 2020
(Dollars in Thousands)**

Major Expense Category	Annual Budget	YTD Budget	YTD Expenditures	% of YTD Budget Used	YTD Variance
FDIC Operating Budget					
<i>Ongoing Operations</i>					
Salaries & Compensation	\$1,272,831	\$962,607	\$937,857	97%	(\$24,750)
Outside Services - Personnel	311,371	221,857	208,605	94%	(13,252)
Travel	78,301	58,524	21,149	36%	(37,375)
Buildings	99,034	74,562	71,302	96%	(3,260)
Equipment	106,543	82,143	70,980	86%	(11,163)
Outside Services - Other	15,917	12,040	12,531	104%	491
Other Expenses	15,443	11,635	7,766	67%	(3,869)
Total Ongoing Operations	\$1,899,440	\$1,423,368	\$1,330,190	93%	(\$93,178)
<i>Receivership Funding</i>					
Salaries & Compensation	\$765	\$500	\$963	193%	\$463
Outside Services - Personnel	69,300	39,014	25,390	65%	(13,624)
Travel	1,030	783	404	52%	(379)
Buildings	2,227	1,669	1,694	101%	25
Equipment	8	6	4	67%	(2)
Outside Services - Other	571	427	278	65%	(149)
Other Expenses	1,099	823	905	110%	82
Total Receivership Funding	\$75,000	\$43,222	\$29,638	69%	(\$13,584)
<i>Office of Inspector General</i>					
Salaries & Compensation	\$37,033	\$27,775	\$25,888	93%	(\$1,887)
Outside Services - Personnel	2,400	1,800	1,418	79%	(382)
Travel	1,035	777	599	77%	(178)
Buildings	0	0	0		0
Equipment	1,888	1,416	929	66%	(487)
Outside Services - Other	0	0	4		4
Other Expenses	626	469	408	87%	(61)
Total Office of Inspector General	\$42,982	\$32,237	\$29,246	91%	(\$2,991)
Total FDIC Operating Budget	\$2,017,422	\$1,498,827	\$1,389,074	93%	(\$109,753)

**Executive Summary of 2020 Budget and Expenditures
by Division/Office
Through September 30, 2020
(Dollars in Thousands)**

Division/Office	Annual Budget	YTD Budget	YTD Expenditures	% of YTD Budget Used	YTD Variance
FDIC Operating Budget					
Risk Management Supervision	\$546,948	\$414,024	\$390,770	94%	(\$23,254)
Information Technology	319,914	244,838	238,795	98%	(6,043)
Administration	273,690	203,026	190,079	94%	(12,947)
Depositor & Consumer Protection	185,003	140,061	128,929	92%	(11,132)
Legal	158,929	120,582	103,451	86%	(17,131)
Resolutions & Receiverships	147,249	110,752	102,369	92%	(8,383)
Complex Institution Supervision & Resolution	85,608	64,105	58,578	91%	(5,527)
Insurance & Research	59,499	44,719	42,400	95%	(2,319)
Inspector General	42,982	32,237	29,246	91%	(2,991)
Finance	42,939	32,280	29,427	91%	(2,853)
Chief Information Security Officer	40,620	32,016	28,470	89%	(3,546)
Executive Support ¹	30,343	23,031	17,511	76%	(5,520)
Corporate University - Corporate	23,604	17,174	14,700	86%	(2,474)
Executive Offices ²	13,079	9,651	8,617	89%	(1,034)
Corporate University - CEP	11,394	10,331	5,732	55%	(4,599)
Corporate Unassigned ³	35,621	0	0		0
Total FDIC Operating Budget	\$2,017,422	\$1,498,827	\$1,389,074	93%	(\$109,753)

1) Executive Support includes the Offices of Minority and Women Inclusion, Communications, Ombudsman, Legislative Affairs, Financial Institution Adjudication, FDiTech Lab, and the former Office of CIO Management Services.

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.