



Federal Deposit Insurance Corporation

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

Deputy to the Chairman and CFO

June 8, 2020

MEMORANDUM TO: The Board of Directors

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

SUBJECT: First Quarter 2020 CFO Report to the Board

The attached report highlights the FDIC's financial activities and results for the quarter ended March 31, 2020.

Executive Summary

- During the first quarter of 2020, the Deposit Insurance Fund (DIF) balance rose to \$113.2 billion, up \$2.9 billion from year-end 2019. The quarterly increase was primarily due to a \$1.5 billion unrealized gain on U.S. Treasury securities and \$1.4 billion in assessment revenue.
- The reserve ratio, which is the ratio of the DIF balance to estimated insured deposits, was 1.39 percent as of March 31, 2020. The reserve ratio decreased by two basis points from December 31, 2019, as exceptionally strong growth in insured deposits more than offset the growth in the DIF.
- With a fund balance of more than \$113 billion as of March 31, 2020, the DIF is currently well-positioned to cover possible short and mid-term risks. 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.
- During the first quarter of 2020, the FDIC was named receiver for one failed financial institution. The assets at inception for this failed institution were \$98 million with an estimated loss to the DIF as of March 31, 2020, of \$14 million. The corporate cash outlay during the first quarter for this failure was approximately \$70 million.
- Through March 31, 2020, overall FDIC Operating Budget expenditures were below the year-to-date budget by about \$42.6 million, or eight percent. This variance was primarily the result of underspending in the Salaries and Compensation expense categories in the Ongoing Operations budget component due to unfilled vacancies in authorized positions. This variance may narrow in the second quarter. To ensure preparedness to address the possible emergence of problems within the banking industry, FDIC divisions and offices will give priority during the second quarter to filling authorized vacancies.

I. Financial Results (See pages 4 – 5 for detailed data and charts.)

Deposit Insurance Fund

- For the first quarter of 2020, the DIF's comprehensive income totaled \$2.9 billion, compared to comprehensive income of \$2.3 billion for the same period last year. The increase of \$598 million was primarily due to a \$1.0 billion increase in unrealized gains on U.S. Treasury securities partially offset by a \$408 million increase in the provision for insurance losses.
- The \$1.5 billion unrealized gain on U.S. Treasury securities for the first quarter 2020 was a result of yields declining considerably across most maturity sectors of the Treasury yield curve, resulting in increases in the securities' market values relative to their book values.

Assessments

- During March, the DIF recognized assessment revenue of \$1.4 billion for the estimate of first quarter 2020 insurance coverage. Gross assessment revenue of \$1.408 billion was reduced by \$51 million for expected small bank assessment credit usage. Additionally, the DIF recognized a \$15 million adjustment for higher-than-estimated collections for the fourth quarter 2019 insurance coverage, which increased assessment revenue.
- Of the total \$765 million small bank assessment credits awarded, \$707.4 million have been applied over the past three quarters to reduce assessments paid by small banks. After applying an estimated \$51 million in credits against the June 2020 assessment collection, over \$5 million will remain for remittance to those institutions with unused credits.
- On March 30, 2020, the FDIC collected \$1.3 billion in DIF assessments for fourth quarter 2019 insurance coverage.

II. Investment Results (See pages 6 – 7 for detailed data and charts.)

DIF Investment Portfolio

- On March 31, 2020, the total liquidity (also total market value) of the DIF investment portfolio stood at \$109.9 billion, up \$2.9 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 March 31, 2020, the DIF investment portfolio's yield was 1.74 percent, down 24 basis points from its 1.98 percent yield on December 31, 2019. The new Treasury securities purchased during the first quarter of the year had significantly lower yields than the maturing securities' yields.
- In accordance with the approved first quarter 2020 DIF portfolio investment strategy, staff purchased a total of 12 conventional Treasury securities. The 12 securities had a total par value of \$13.03 billion, a weighted average yield of 1.25 percent, and a weighted average maturity of 1.00 year.

III. Budget Results (See pages 8 – 9 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 first quarter in accordance with the authority delegated by the Board of Directors:

- In March, the CFO approved a budget realignment of \$8.1 million in the Outside Services – Personnel and Equipment budgets of the Ongoing Operations budget component from the Office of the Chief Information

Security Officer (OCISO) to the Division of Information Technology (DIT). This reallocation supported a realignment of responsibility for day-to-day operational security management tasks, such as firewall support and file integrity monitoring, from OCISO to DIT.

There were no changes to the Receivership Funding budgets for any organization.

The first quarter budget modification did not affect the Corporate Unassigned contingency reserve. The balances in the Corporate Unassigned contingency reserves as of March 31, 2020, were \$30,000,000 in the Ongoing Operations budget component and \$12,042,515 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 March, the CFO approved the transfer of two authorized permanent positions (with their incumbents) from OCISO to DIT in conjunction with the realignment of operational security management responsibilities referenced above. DIT has sufficient funding in its Salaries and Compensation budget to cover the two salaries associated with this transfer.

Spending Variances

Significant spending variances by major expense category and division/office are discussed below. Significant spending variances for the quarter ending March 31, 2020, are defined as those that either (1) exceeded the YTD budget for a major expense category or division/office by more than \$5 million and represented more than three percent of the major expense category or total division/office budget; or (2) were under the YTD budget for a major expense category or division/office by more than \$15 million and represented more than 15 percent of the major expense category or total division/office budget.

Significant Spending Variances by Major Expense Category

Ongoing Operations

There were no significant spending variances for the first quarter in the Ongoing Operations budget component. It is likely, however, that a significant variance will develop in the Travel expense category during the second quarter due to the virtual elimination of employee travel as part of the Corporation's pandemic response.

Receivership Funding

The Receivership Funding component of the 2020 FDIC Operating Budget includes funding for expenses that are incurred in conjunction with institution failures and the management and disposition of the assets and liabilities of the ensuing receiverships, except for salary and benefits expenses for permanent employees assigned to the receivership management function and other expenses required to ensure readiness without regard to whether failures occurred.

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

Office of Inspector General

There were no significant spending variances in the first quarter of the 2020 Office of Inspector General budget component.

Significant Spending Variances by Division/Office¹

No organizations had significant spending variances in the first quarter of 2020.

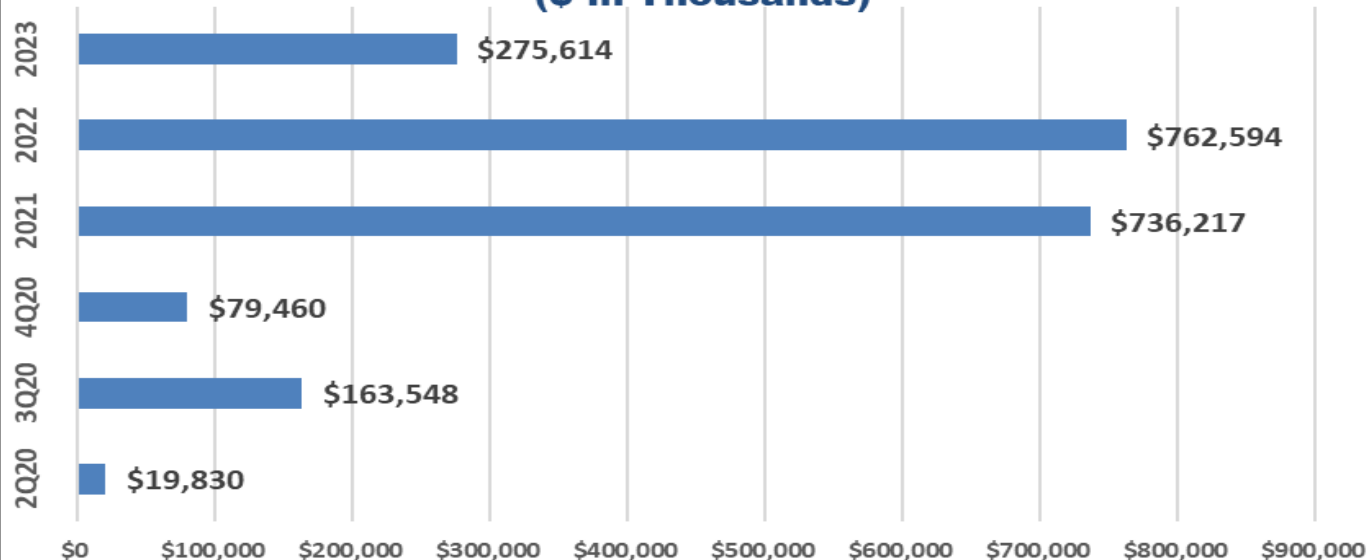
¹Information on division/office variances reflects variances in the FDIC Operating Budget and does not include variances related to approved multi-year investment projects.

Fund Financial Results

(\$ in Millions)

Balance Sheet	Deposit Insurance Fund				
	Mar-20	Dec-19	Quarterly Change	Mar-19	Year-Over-Year Change
Cash and cash equivalents	\$ 9,490	\$ 5,991	\$ 3,499	\$ 7,062	\$ 2,428
Investment in U.S. Treasury securities	99,733	100,072	(339)	93,507	6,226
Assessments receivable	1,357	1,242	115	1,372	(15)
Interest receivable on investments and other assets, net	709	1,021	(312)	567	142
Receivables from resolutions, net	2,456	2,669	(213)	3,187	(731)
Property and equipment, net	326	330	(4)	324	2
Operating lease right-of-use assets	120	0	120	0	120
Total Assets	\$ 114,191	\$ 111,325	\$ 2,866	\$ 106,019	\$ 8,172
Accounts payable and other liabilities	215	215	0	211	4
Operating lease liabilities	127	0	127	0	127
Liabilities due to resolutions	213	346	(133)	554	(341)
Postretirement benefit liability	289	289	0	236	53
Contingent liability for anticipated failures	107	94	13	115	(8)
Contingent liability for guarantee payments and litigation losses	34	34	0	33	1
Total Liabilities	\$ 985	\$ 978	\$ 7	\$ 1,149	\$ (164)
FYI: Unrealized gain (loss) on U.S. Treasury securities, net	2,037	587	1,450	(194)	2,231
FYI: Unrealized postretirement benefit (loss) gain	(61)	(61)	0	(14)	(47)
Fund Balance	\$ 113,206	\$ 110,347	\$ 2,859	\$ 104,870	\$ 8,336

Maturity Timeline of Unrealized Gain on U.S. Treasury Securities as of 3/31/2020 (\$ in Thousands)



As each US Treasury security nears its maturity, the market value will approach the par value, and the unrealized gain will reduce to zero. For those securities that mature by year end 2020, their unrealized gain as of March 31, 2020 of \$263 million, or 13 percent of total unrealized gains, will be reduced to zero.

Fund Financial Results - continued

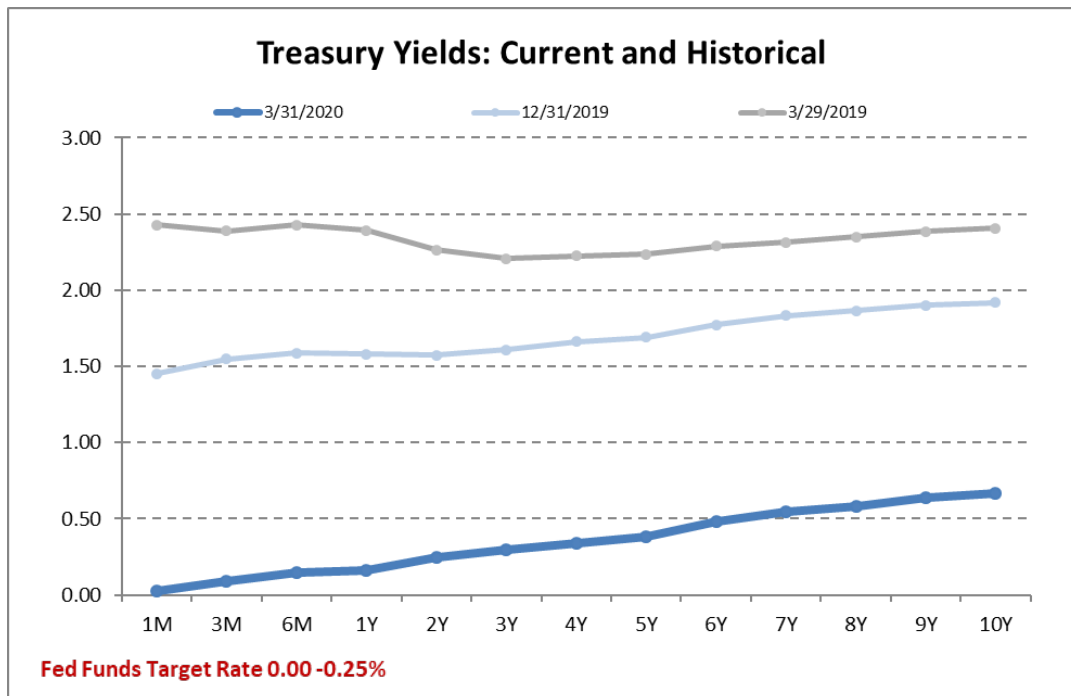
(\$ in Millions)

Income Statement (year-to-date)		Deposit Insurance Fund		
	Mar-20	Dec-19	Mar-19	Year-Over-Year Change
Assessments	\$ 1,372	\$ 4,939	\$ 1,369	\$ 3
Interest on U.S. Treasury securities	507	2,117	507	0
Other revenue	3	39	2	1
Total Revenue	\$ 1,882	\$ 7,095	\$ 1,878	\$ 4
Operating expenses	460	1,796	434	26
Provision for insurance losses	12	(1,286)	(396)	408
Insurance and other expenses	1	3	0	1
Total Expenses and Losses	\$ 473	\$ 513	\$ 38	\$ 435
Net Income	\$ 1,409	\$ 6,582	\$ 1,840	\$ (431)
Unrealized gain (loss) on U.S. Treasury securities, net	1,450	1,203	421	1,029
Unrealized postretirement benefit gain (loss)	0	(47)	0	0
Comprehensive Income	\$ 2,859	\$ 7,738	\$ 2,261	\$ 598

Selected Financial Data		FSLIC Resolution Fund			
	Mar-20	Dec-19	Quarterly Change	Mar-19	Year-Over-Year Change
Cash and cash equivalents	\$ 926	\$ 923	\$ 3	\$ 907	\$ 19
Accumulated deficit	(124,563)	(124,566)	3	(124,582)	19
Total resolution equity	926	923	3	908	18
Total revenue	3	20		5	(2)
Operating expenses	0	1		0	0
Recovery of tax benefits	0	(1)		0	0
Losses related to thrift resolutions	0	0		0	0
Net Income (Loss)	\$ 3	\$ 21		\$ 5	\$ (2)

Receivership Selected Statistics March 2020 vs. March 2019

DIF			FRF			ALL FUNDS		
Mar-20	Mar-19	Change	Mar-20	Mar-19	Change	Mar-20	Mar-19	Change
245	271	(26)	0	0	0	245	271	(26)
\$ 546	\$ 1,035	\$ (489)	\$ 1	\$ 2	\$ (1)	\$ 547	\$ 1,037	\$ (490)
\$ 87	\$ 400	\$ (313)	\$ 0	\$ 0	\$ 0	\$ 87	\$ 400	\$ (313)
\$ 189	\$ 255	\$ (66)	\$ 0	\$ 0	\$ 0	\$ 189	\$ 255	\$ (66)



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

	3/31/20	12/31/19	Change
Par Value	\$106,056	\$104,429	\$1,627
Amortized Cost	\$107,176	\$105,464	\$1,713
Total Market Value (including accrued interest)	\$109,871	\$107,024	\$2,847
Primary Reserve ¹	\$109,871	\$107,024	\$2,847
Primary Reserve % of Total Portfolio	100.0%	100.0%	0.0%
Yield-to-Maturity	1.74%	1.98%	-0.24%
Weighted Average Maturity (in years)	1.06	1.18	-0.12
Effective Duration (in years)			
Total Portfolio	1.04	1.15	-0.11
Available-for-Sale Securities ²	1.14	1.22	-0.08

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

² Excludes any overnight investments.

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

	3/31/20	12/31/19	Change
<u>FRF-FSLIC</u>			
Book Value ³	\$881	\$878	\$3
Yield-to-Maturity	0.04%	1.51%	-1.47%
Weighted Average Maturity	overnight	overnight	no change

³ Due to the current short-term nature of this portfolio, its respective Par, Book, and Market Values are identical for reporting purposes.

**National Liquidation Fund (NLF) Investment Portfolio Summary
(Dollar Values in Millions)**

	3/31/20	12/31/19	Change
Book Value ⁴	\$2,150	\$2,128	\$22
Effective Annual Yield	0.69%	1.76%	-1.07%
Weighted Average Maturity (in days)	28	32	(4)

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

Investment Strategies

DEPOSIT INSURANCE FUND	Strategy for the 1st Quarter 2020
	Invest up to \$23 billion (par value) in AFS securities with maturities between June 30, 2020 and December 31, 2024.
	Strategy Changes for the 2nd Quarter 2020
NATIONAL LIQUIDATION FUND	Strategy for the 1st Quarter 2020
	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 2nd Quarter 2020
	No strategy changes for the second quarter of 2020.

Executive Summary of 2020 Budget and Expenditures
by Budget Component and Major Expense Category
Through March 31, 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	\$1,272,827	\$334,397	\$314,297	94%	(\$20,100)
Outside Services - Personnel	308,904	67,914	62,770	92%	(5,144)
Travel	81,054	20,018	15,277	76%	(4,741)
Buildings	98,701	24,837	23,251	94%	(1,586)
Equipment	108,080	26,523	23,436	88%	(3,087)
Outside Services - Other	16,004	3,536	3,479	98%	(57)
Other Expenses	13,870	3,146	3,154	100%	8
Total Ongoing Operations	\$1,899,440	\$480,371	\$445,664	93%	(\$34,707)
<i>Receivership Funding</i>					
Salaries & Compensation	\$325	\$81	\$424	523%	\$343
Outside Services - Personnel	69,675	14,351	7,191	50%	(7,160)
Travel	1,095	272	354	130%	82
Buildings	2,227	556	499	90%	(57)
Equipment	8	2	30	1500%	28
Outside Services - Other	571	142	(4)	-3%	(146)
Other Expenses	1,099	273	245	90%	(28)
Total Receivership Funding	\$75,000	\$15,677	\$8,739	56%	(\$6,938)
<i>Office of Inspector General</i>					
Salaries & Compensation	\$37,033	\$9,258	\$8,793	95%	(\$465)
Outside Services - Personnel	2,400	600	479	80%	(121)
Travel	1,035	259	301	116%	42
Buildings	0	0	0		0
Equipment	1,888	472	138	29%	(334)
Outside Services - Other	0	0	4		4
Other Expenses	626	157	68	43%	(89)
Total Office of Inspector General	\$42,982	\$10,746	\$9,783	91%	(\$963)
Total FDIC Operating Budget	\$2,017,422	\$506,794	\$464,186	92%	(\$42,608)

Executive Summary of 2020 Budget and Expenditures
by Division/Office
Through March 31, 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	\$143,234	\$134,222	94%	(\$9,012)
Information Technology ¹	311,810	71,615	72,993	102%	1,378
Administration	273,690	70,211	61,379	87%	(8,832)
Depositor & Consumer Protection	185,003	48,504	43,680	90%	(4,824)
Legal	169,606	44,260	34,775	79%	(9,485)
Resolutions & Receiverships	144,149	37,271	35,072	94%	(2,199)
Complex Institution Supervision & Resolution	85,383	21,768	20,326	93%	(1,442)
Insurance & Research	60,294	15,473	14,628	95%	(845)
Inspector General	42,982	10,746	9,783	91%	(963)
Finance	42,779	11,047	10,136	92%	(911)
Chief Information Security Officer	38,802	12,617	9,900	78%	(2,717)
Executive Support ²	29,433	7,446	5,341	72%	(2,105)
Corporate University - Corporate	21,546	5,254	5,683	108%	429
Executive Offices ³	11,560	3,019	2,780	92%	(239)
Corporate University - CEP	11,394	4,329	3,488	81%	(841)
Corporate Unassigned ³	42,043	0	0		0
Total FDIC Operating Budget	\$2,017,422	\$506,794	\$464,186	92%	(\$42,608)

1) Expenses for DIT include YTD expenses for the Office of CIO Management Services.

2) Executive Support includes the Offices of Minority and Women Inclusion, Communications, Ombudsman, Legislative Affairs, Financial Institution Adjudication, and FDiTech Lab.

3) 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, and Chief Information Officer.