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**I.**  
**Management's**  
**Discussion**  
**and Analysis**

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# THE YEAR IN REVIEW

## OVERVIEW

The FDIC continued to fulfill its mission-critical responsibilities during 2015. The agency adopted and issued final rules on key regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and engaged in several community banking and community development initiatives. Cybersecurity remained a high priority for the FDIC in 2015; the agency worked to strengthen cybersecurity oversight, help financial institutions mitigate increasing risks, and respond to cyber threats. The sections below highlight these and some of our other accomplishments during the year.



Photo credit: Courtesy ABA Banking Journal

*An Interview with the FDIC's Chairman Martin J. Gruenberg*  
American Bankers Association President and CEO Frank Keating asks for the FDIC Chairman's views on the future of community banking, cybersecurity threats, regulatory burden, too-big-to-fail, and more.

## IMPLEMENTATION OF KEY REGULATIONS

### *Capital Rulemaking and Guidance*

The revised capital rules, which generally implemented Basel III international capital standards and addressed the removal of references to external credit ratings as standards of creditworthiness,

became effective for community banks on January 1, 2015. The FDIC and other federal banking agencies continued efforts to implement the revised capital rules, including finalizing regulatory reporting, making technical corrections to the rule, and issuing guidance throughout 2015. In February 2015, the FDIC adopted another aspect of Basel III regarding certain regulatory reporting under the final capital rule. In June 2015, the FDIC adopted as final its amendments to the advanced approaches risk-based capital rule. The rule addresses certain technical adjustments to the advanced approaches risk-based capital rule to enhance consistency of the U.S. capital rules with international standards for the use of the advanced approaches framework. The agencies also provided capital guidance to banks by issuing a calculation tool that helps certain institutions determine risk-weighted assets and by releasing frequently asked questions (FAQs) on the revised rules. Finally, the agencies issued joint supervisory guidance in November 2015 concerning the capital treatment for certain covered funds under the final rule implementing Section 13 of the Bank Holding Company Act (Volcker Rule).

### **Regulatory Reporting Under the Final Capital Rule**

In February 2015, the FDIC, the Federal Reserve Board (FRB), and the Office of the Comptroller of the Currency (OCC), under the auspices of the Federal Financial Institutions Examination Council (FFIEC), announced changes to regulatory capital reporting on the Consolidated Reports of Condition and Income (Call Report). The changes update the risk-weighted assets portion of the regulatory capital schedule to reflect the standardized approach to risk weighting in the revised capital rules. These regulatory capital reporting changes were effective as of the March 31, 2015 report date for all institutions. As of the same report date, the revisions to the regulatory capital components and ratios portion of the Call Report regulatory capital schedule that were effective as of March 31, 2014, for advanced

approaches institutions became applicable to all other institutions.

In February and December 2015, the FDIC and the other banking agencies, under the auspices of the FFIEC, held national teleconferences for depository institutions to help them better understand the revisions to the regulatory capital schedule. More than 2,600 people participated in the February call, and 1,200 took part in the December event.

In March 2015, the FDIC and the other federal banking agencies also implemented the new FFIEC 102 market risk regulatory report. This quarterly report collects key information from the limited number of institutions subject to the Basel III market risk capital rules on how they measure and calculate market risk under these rules. The report was approved by the Office of Management and Budget (OMB) and took effect as of the March 31, 2015, report date.

### **Regulatory Capital — Revisions Applicable to Banking Organizations Subject to the Advanced Approaches Risk-Based Capital Rule**

In June 2015, the FDIC Board approved a joint final rule that made technical corrections to the advanced approaches risk-based capital rules and rectified certain missing internal ratings-based requirements that were identified as part of the Regulatory Consistency Assessment Program. The final rule was published in the *Federal Register* on July 15, 2015.

### **Regulatory Capital Guidance**

The FDIC led the development of a calculation tool to help institutions that have securitization exposures calculate their risk-weighted assets under the Simplified Supervisory Formula Approach. The FDIC released the calculator in February 2015, through a Financial Institution Letter (FIL), and the tool is available on the FDIC's website as well as the websites of the other federal banking agencies.

In addition, in April 2015, the federal banking agencies released an initial set of FAQs on the revised capital rules, many of which are focused on

community bank issues. The capital FAQs are posted on the FDIC website and are expanded as additional questions are raised.

### **Capital Deduction Guidance for Non-Legacy Covered Funds Under the Volcker Rule**

In November 2015, the FDIC, jointly with the FRB and OCC, issued guidance that clarifies the interaction between the regulatory capital rule and the Volcker Rule with respect to the appropriate capital treatment for investments in certain private equity funds and hedge funds (covered funds). The FDIC issued FIL 50-2015 titled *Supervisory Guidance on the Capital Treatment of Certain Investments in Covered Transactions* to notify FDIC-supervised institutions of the calculations. The Volcker Rule prohibits banking organizations from holding ownership interests in covered funds after the relevant conformance period, unless such ownership interests are covered under certain exceptions/exemptions in the final rule. An exception is permitted for ownership interests arising from sponsoring covered funds totaling less than 3 percent of Tier 1 capital and subject to certain seeding period provisions. Under the rule, investments in covered funds purchased or acquired after December 31, 2013, must be deducted from Tier 1 capital after an initial conformance period that ended on July 21, 2015. The conformance period for legacy covered funds will end in July 2017. The guidance and instructions regarding legacy covered funds will be available at a later time. The November supervisory guidance describes the mechanics for making capital deductions under the Volcker Rule and how these relate to deductions required under the regulatory capital rule for investments in the capital instruments of unconsolidated financial institutions. These mechanics are intended to ensure no "double deductions" from Tier 1 capital.

### ***Other Rulemaking and Guidance Under the Dodd-Frank Act***

The Dodd-Frank Act requires various agencies to publish regulations in a number of areas. The following is a summary of significant rulemaking

activity relating to the Dodd-Frank Act and other accomplishments during the year.

### **Minimum Requirements for Appraisal Management Companies**

In April 2015, the FDIC, jointly with the OCC, FRB, National Credit Union Administration (NCUA), Consumer Financial Protection Bureau (CFPB), and the Federal Housing Finance Agency (FHFA), issued a final rule to implement the minimum requirements for registration and supervision of appraisal management companies (AMCs) under the Dodd-Frank Act. The final rule establishes the minimum requirements set forth in Section 1473 of the Act (Section 1473) for state registration and supervision of AMCs; outlines the minimum requirements for AMCs that register with a state under Section 1473; requires federally regulated AMCs to meet the minimum requirements of Section 1473 (other than registering with a state); and requires the reporting of certain AMC information to the Appraisal Subcommittee of the FFIEC. The final rule was published in the *Federal Register* on June 9, 2015, and the effective date was August 10, 2015.

### **The Volcker Rule**

The Volcker Rule (Rule) contains restrictions and prohibitions on the ability of banks and their affiliates to engage in proprietary trading and have interests in, or relationships with, a hedge fund or a private equity fund. The Rule was adopted on December 10, 2013, and became effective on April 1, 2014. The Volcker Rule was subject to an extended conformance period that expired on July 21, 2015. In April and December of 2014, the FRB issued Orders announcing that it planned to extend the conformance period for certain covered funds for two additional one-year periods, so that the conformance period for these “legacy” covered funds would end July 21, 2017.

In January 2014, the Volcker Rule agencies [FDIC, OCC, FRB, Commodity Futures Trading Commission (CFTC), and Securities and Exchange Commission (SEC)] adopted a joint interim final

rule that permits banking entities subject to the Rule to retain investments in certain collateralized debt obligations backed primarily by trust preferred securities.

To help ensure consistent implementation of the Volcker Rule, the agencies established an interagency working group that meets regularly to discuss issues and the application and enforcement of the Rule. During 2015, the interagency Volcker Rule working group posted 11 joint FAQs on their websites to address certain implementation issues presented by banking entities subject to the Rule. The questions addressed such matters as:

- Chief Executive Officer Certification for Prime Brokerage Transactions
- Compliance for Market Making and the Identification of Covered Funds
- Termination of Market-Making Activity: Treatment of Residual Positions
- Conformance Period
- Seeding Period Treatment of Registered Investment Companies and Foreign Public Funds
- Foreign Public Funds Sponsored by a Banking Entity
- Joint Venture Exclusion for Covered Funds
- Solely Outside the United States Covered Fund Exemption: Marketing Restriction
- Applicability of the Restrictions in Section 13(f) of the Bank Holding Company Act (Super 23A)
- 30-Day Metrics Reporting During the Conformance Period
- Treasury Separate Trading of Registered Interest and Principal Securities (STRIPS)

### **Margin and Capital Requirements for Covered Swaps Entities**

In October 2015, the FDIC approved a final rule to establish margin requirements for swaps that are not cleared through a clearinghouse. The final rule takes into account the risk posed by a swaps dealer’s

counterparties in establishing the minimum amount of initial and variation margin that the covered swaps entity must exchange with such counterparties.

The final rule was issued jointly with the OCC, the FRB, the Farm Credit Administration (FCA), and the FHFA. The rule will apply to entities supervised by these agencies that register with the CFTC or SEC as a dealer or major participant in swaps. The joint final rule was developed in consultation with the CFTC and the SEC, as required by the Dodd-Frank Act.

The final rule implements certain requirements contained in Sections 731 and 764 of the Dodd-Frank Act, which requires the prudential regulators to establish initial and variation margin requirements for the largest and most active participants in the over-the-counter (OTC) derivatives market. The Dodd-Frank Act required the agencies to impose margin requirements to help ensure the safety and soundness of swaps dealers in light of the risk to the financial system associated with non-cleared swaps activity. The rule is also consistent with the international framework on margin requirements published in September 2013 by the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions.

The final rule requires insured depository institutions (IDIs) that are covered swaps entities—the large dealers subject to the rule—to collect and post initial margin on non-cleared swaps entered into with other dealers, and with financial end users that have at least \$8 billion, notional, in non-cleared swaps. The final rule also requires covered swaps entities to post and collect daily variation margin for swaps with other swaps entities or with financial end-user counterparties, regardless of the level of swaps exposure if the required amount of variation margin and initial margin exceeds \$500,000. For non-cleared swaps with financial affiliates, an IDI swaps dealer would be required to post and collect daily variation margin, but only collect initial margin from the affiliate. The final margin rule will be phased in beginning September 2016 and applies

only to new swaps entered into after the applicable compliance dates.

Also in October 2015, the agencies approved an interim final rule, as required by Title III of the Terrorism Risk Insurance Program Reauthorization Act of 2015, so that the margin requirements do not apply to non-cleared swaps that a covered swaps entity enters into with a commercial end user, a small financial institution with total assets of \$10 billion or less, or certain cooperatives if the counterparty uses the swaps for hedging purposes. This exemption parallels an exemption from a mandate in the Dodd-Frank Act to clear standardized swaps. The interim final rule is effective April 1, 2016.

Capital requirements under Sections 731 and 764 have been previously incorporated in the agencies' capital rules, with the exception of the FCA.

### *Liquidity and Funds Management Rulemaking*

#### **Net Stable Funding Ratio**

The net stable funding ratio (NSFR) is designed to complement the liquidity coverage ratio (LCR), which took effect January 1, 2015. While the LCR focuses on having sufficient liquid asset holdings to weather a short-term severe stress, the goal of the NSFR is to stabilize funding over a longer horizon. Specifically, the NSFR would require the largest banks to maintain a stable funding profile in relation to their on- and off-balance sheet activities, comparing an entity's available stable funding sources over a one-year horizon against asset and off-balance sheet obligations. In October 2014, the BCBS published a final standard to implement the NSFR. Throughout 2015, the FDIC, the OCC, and the FRB devoted substantial resources to develop an interagency notice of proposed rulemaking (NPR) to implement the NSFR rule, with a target of issuing the NPR by year-end 2015. However, the agencies decided in late 2015 to delay issuance of the NPR until 2016 to allow additional analysis.

## Financial Sector Assessment Program

The FDIC participated in the International Monetary Fund's (IMF) Financial Sector Assessment Program (FSAP). The goal of FSAP assessments is twofold: (1) to gauge the stability of the financial sector and (2) to assess its potential contribution to growth and development. To assess the stability of the financial sector, FSAP teams examine the soundness and resilience of the banking and other financial sectors; conduct stress tests and analyze linkages among financial institutions, including across borders; rate the quality of bank, insurance, and financial market supervision against accepted international standards; and evaluate the ability of supervisors. In addition, FSAPs examine the quality of the legal framework and of financial infrastructure, such as the payments and settlements system; identify obstacles to the competitiveness and efficiency of the sector; and examine its contribution to economic growth and development. FDIC staff provided expertise and comprehensive feedback to the IMF to support the FSAP as it related to the FDIC's Banking, Insurance, and Resolution business lines. The FDIC worked collaboratively with other U.S. financial institution regulatory authorities throughout this review to provide data. The results of the FSAP review were detailed in a report published on July 7, 2015. The report states that the banking agencies have improved effectiveness since the 2010 FSAP assessment and have achieved a high degree of compliance with international banking standards, although some recommendations for improvement were noted. The FDIC worked with other federal banking regulators to provide a consolidated response to IMF findings.

## DEPOSIT INSURANCE

As insurer of bank and savings association deposits, the FDIC must continually evaluate and effectively manage how changes in the economy, the financial markets, and the banking system affect the adequacy and the viability of the Deposit Insurance Fund (DIF).

## Long-Term Comprehensive Fund Management Plan

In 2010 and 2011, the FDIC developed a comprehensive, long-term DIF management plan designed to reduce the effects of cyclical and achieve moderate, steady assessment rates throughout economic and credit cycles, while also maintaining a positive fund balance, even during a banking crisis. That plan complements the Restoration Plan, originally adopted in 2008 and subsequently revised, which is designed to ensure that the reserve ratio (the ratio of the fund balance to estimated insured deposits) reaches 1.35 percent by September 30, 2020, as required by the Dodd-Frank Act. (As discussed in the *Minimum Reserve Ratio* section below, the Act also requires that the FDIC offset the effect on institutions with less than \$10 billion in assets of increasing the reserve ratio from 1.15 percent to 1.35 percent.) These plans include a reduction in assessment rates that the FDIC Board of Directors (FDIC Board) adopted to become effective once the reserve ratio reaches 1.15 percent.

Under the long-term DIF management plan, to increase the probability that the fund reserve ratio will reach a level sufficient to withstand a future crisis, the FDIC Board has set the Designated Reserve Ratio (DRR) of the DIF at 2.0 percent. The FDIC views the 2.0 percent DRR as a long-term goal and the minimum level needed to withstand future crises of the magnitude of past crises. Under provisions of the Federal Deposit Insurance Act (FDI Act) that require the FDIC Board to set the DRR for the DIF annually, the FDIC Board voted in October 2015 to maintain the 2.0 percent DRR for 2016—the ratio that has been in effect every year since 2011.

Also as part of the long-term DIF management plan, the FDIC has suspended dividends indefinitely when the fund reserve ratio exceeds 1.5 percent. Instead, the plan prescribes progressively lower assessment rates that will become effective when the reserve ratio exceeds 2.0 percent and 2.5 percent. These lower assessment rates serve much the same function as dividends, but provide more stable and predictable effective assessment rates over time.

## State of the Deposit Insurance Fund

Estimated losses to the DIF from bank failures that occurred in 2015 totaled \$829 million. The fund balance continued to grow through 2015, as it has every quarter after the end of 2009, for a total of 24 consecutive quarters. Lower than estimated losses for bank failures together with assessment revenue contributed to the increase in the fund balance in 2015. The fund reserve ratio rose to 1.09 percent at September 30, 2015, from 0.88 percent a year earlier.

## Minimum Reserve Ratio

In October 2015, the FDIC approved an NPR that would implement section 334 of the Dodd-Frank Act, which increases the minimum reserve ratio from 1.15 percent to 1.35 percent, requires that the reserve ratio reach that level by September 30, 2020, and mandates that the FDIC “offset the effect of (the increase in the minimum reserve ratio from 1.15 percent to 1.35 percent) on IDIs with total consolidated assets of less than \$10 billion.”

To implement these requirements, the proposed rule would impose surcharges on the quarterly assessments of IDIs with total consolidated assets of \$10 billion or more. The surcharges would begin the calendar quarter after the reserve ratio of the DIF first reaches or exceeds 1.15 percent—the same time that lower regular quarterly deposit insurance assessment (regular assessment) rates take effect under current regulations—or the quarter in which a final rule takes effect, whichever occurs later, and would continue through the quarter that the reserve ratio first reaches or exceeds 1.35 percent. In general, the surcharge would equal an annual rate of 4.5 basis points applied to the institution’s regular quarterly deposit insurance assessment base, after making certain adjustments specifically for the surcharge. The FDIC expects that eight quarterly surcharges would be needed for the reserve ratio to reach 1.35 percent.

If, contrary to the FDIC’s expectations, the reserve ratio does not reach 1.35 percent by December 31,

2018 (but has reached at least 1.15 percent), the NPR would impose a shortfall assessment on IDIs with total consolidated assets of \$10 billion or more on March 31, 2019.

Because the Dodd-Frank Act requires that the FDIC offset the effect of the increase in the reserve ratio from 1.15 percent to 1.35 percent on IDIs with total consolidated assets of less than \$10 billion, the NPR would provide assessment credits to these institutions for the portion of their regular assessments that contribute to growth in the reserve ratio between 1.15 percent and 1.35 percent.

## Deposit Insurance Assessment System

In June 2015, the FDIC approved an NPR to refine the deposit insurance assessment system for established small banks (generally, those with less than \$10 billion in total assets that have been federally insured for at least five years). In January 2016, the FDIC approved a second NPR that would revise parts of the proposal adopted by the FDIC in June 2015. The primary purpose of these NPRs is to improve the risk-based deposit insurance assessment system applicable to established small banks to more accurately reflect risk. The NPRs would incorporate newer data from the recent financial crisis and base assessment rates for all established small banks on a statistical model that estimates a bank’s probability of failure within three years. The NPRs propose that the revisions would go into effect the quarter after the reserve ratio of the DIF reaches 1.15 percent (or the first quarter after a final rule is adopted and the rule can take effect, whichever is later). The NPRs would maintain the range of assessment rates that will apply once the DIF reserve ratio reaches 1.15 percent, 2 percent, and 2.5 percent, and would be implemented in a manner such that aggregate assessment revenue collected from established small banks under the NPRs would be approximately the same as would be collected under the current small bank pricing method for calculating assessments after the reserve ratio reaches 1.15 percent.



## **ACTIVITIES RELATED TO SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS**

### *Complex Financial Institutions Program*

The FDIC is committed to addressing the unique challenges associated with the supervision, insurance, and potential resolution of large and complex financial institutions. The FDIC's ability to analyze and respond to risks in these institutions is particularly important, as they comprise a significant share of banking industry assets and deposits. The FDIC's programs related to complex financial institutions provide for a consistent approach to large bank supervision nationwide, allow for the identification and analysis of industry-wide and institution-specific risks and emerging issues, and enable a quick response to these risks. Given the concentration of risk in these institutions, the FDIC has expanded its activities at the nation's largest and most complex institutions through additional and enhanced on-site and off-site monitoring and supervision as well as close coordination with other federal agencies.

The Dodd-Frank Act expanded the FDIC's responsibilities pertaining to systemically important financial institutions (SIFIs) and non-bank financial companies designated by the Financial Stability Oversight Council (FSOC). With regard to the largest, most complex SIFIs, the FDIC's Complex Financial Institutions (CFI) program activities include ongoing risk monitoring, backup supervision of their related IDIs, and evaluation of required resolution plans. CFI program activities related to FSOC-designated non-bank companies also include ongoing risk monitoring and evaluation of required resolution plans. In addition, the CFI program performs other analyses that support the FDIC's role as an FSOC member.

### *Risk Monitoring Activities for Systemically Important Financial Institutions*

The FDIC monitors risks related to SIFIs at both the individual company level and industry wide to inform supervisory attention and response, policy and guidance considerations, and resolution planning efforts. To do this, the FDIC analyzes each company's risk profile, governance and risk management capabilities, structure and interdependencies, business operation and activities, management information system capabilities, and recovery and resolution capabilities.

The FDIC continues to work closely with other federal regulators to analyze institution-specific and industry-wide conditions and trends, emerging risks and outliers, risk management and the potential risk posed to financial stability by SIFIs and non-bank financial companies. In 2015, FDIC staff participated in 70 examinations with the FRB and OCC, including, but not limited to, engagement in Comprehensive Capital Analysis and Reviews (CCAR)/Dodd-Frank Act Stress Testing (DFAST), Comprehensive Liquidity Analysis and Reviews (CLAR), and the Shared National Credit (SNC) Reviews. Additionally, the FDIC added resources with quantitative modeling expertise, which supported many of the aforementioned efforts and additional activities that included Basel qualification reviews, quantitative model reviews, model validation reviews, and internal training. Also, in 2015, the FDIC participated in the FRB's Supervisory Assessment of Recovery and Resolution Preparedness program in an effort to assess firms' management information system capabilities related to recovery and resolution. Lastly, the FDIC collaborated with the FRB on Dodd-Frank Act Title I resolution plan assessments.

To support risk monitoring that informs supervisory and resolution planning efforts, the FDIC developed systems and reports that make extensive use of

structured and unstructured data. SIFI monitoring reports are prepared on a routine and ad-hoc basis and cover a variety of aspects that include risk component, business line and activity, market trends, and product analysis. Additionally, the FDIC has implemented and continues to expand upon various systems, including the Systemic Monitoring System (SMS). The SMS provides an individual risk profile and assessment for each SIFI by evaluating the level and change in metrics that serve as important barometers of overall risk. The SMS supports the identification of emerging risks within individual firms and the prioritization of supervisory and monitoring activities. The SMS also serves as an early warning system of financial vulnerability by gauging a firm's proximity and speed to resolution event. Information from FDIC-prepared reports and systems are used to prioritize activities relating to SIFIs and coordinate and communicate with the FRB and OCC.

The FDIC also conducted semi-annual "Day of Risk" meetings to present, discuss, and prioritize the review of emerging risks. For each major risk, executive management discussed the nature of the risk, exposures of SIFIs, and planned supervisory efforts.

### *Backup Supervision Activities for IDIs of Systemically Important Financial Institutions*

Risk monitoring is enhanced by the FDIC's backup supervision activities. In the FDIC's backup supervisory role, as outlined in Sections 8 and 10 of the FDI Act, the FDIC has expanded resources and developed and implemented policies and procedures to guide backup supervisory activities. These activities include performing analyses of industry conditions and trends, insurance pricing support, participating in supervisory activities with other regulatory agencies, and exercising examination and enforcement authorities when necessary. At institutions where the FDIC is not the primary federal regulator (PFR), staff works closely with other financial institution regulatory authorities to identify emerging risk and assess the overall risk profile of large and complex institutions. The FDIC, the FRB, and the OCC operate under a Memorandum of Understanding

(MOU) that establishes guidelines for coordination and cooperation to carry out their respective responsibilities, including the FDIC's role as insurer and supervisor. Under this agreement, the FDIC has assigned dedicated staff to systemically important and large, complex regional banking organizations to enhance risk identification capabilities and facilitate the communication of supervisory information. These individuals work closely with PFR staff in the ongoing monitoring of risk at their assigned institutions.

### *Title I Resolution Plans*

The Dodd-Frank Act requires that certain large banking organizations and nonbank financial companies designated by the FSOC for supervision by the FRB periodically submit resolution plans to the FRB and the FDIC. Each Title I resolution plan, commonly known as a living will, must describe the company's strategy for rapid and orderly resolution in the event of material financial distress or failure of the company. Twelve large and complex banking organizations must file resolution plans in July and the remaining firms file plans in December.

### **July Filers**

The 12 firms filing in July are Bank of America Corporation, Bank of New York Mellon Corporation, Barclays PLC, Citigroup Inc., Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group, Inc., JPMorgan Chase & Co., Morgan Stanley, State Street Corporation, UBS AG, and Wells Fargo & Company.

As a follow-up to the specific feedback the FRB and the FDIC provided to these firms in August 2014, the agencies initiated measures to improve communication with the firms regarding expectations for the July 1, 2015, resolution plan submissions. In fourth quarter 2014, the agencies provided the 12 firms with the opportunity to submit a preview of the key aspects of their planned July 2015 Title I resolution plan submissions.

Almost all firms submitted preview documents to the agencies by year-end 2014, and the agencies

provided written feedback on the documents to the firms in February. In addition, the agencies held a joint meeting with the firms on February 25, 2015, to answer questions and communicate industry-wide issues regarding resolution plans. The agencies' staff also met with the firms individually, on several occasions, during the first and second quarters of 2015 to discuss their upcoming submissions. The FDIC and the FRB are now reviewing the 2015 plan submissions from the 12 firms.

### December Filers

By December 31, 2014, the December filers had submitted their second resolution plans. In July 2015, after reviewing those plans, the FDIC and the FRB provided the 119 firms with guidance, clarification, and direction for their 2015 submissions based on the relative size and scope of each firm's U.S. operations. Plan requirements were tiered, with less complex firms filing more streamlined plans as follows:

- Twenty-nine of the more complex firms were required to file either full or tailored resolution plans that take into account guidance identified by the agencies.
- Ninety firms with limited U.S. operations were allowed to file plans that focus on material changes to their 2014 resolution plans; actions taken to strengthen the effectiveness of those plans; and, where applicable, actions to ensure any subsidiary insured depository institution is adequately protected from the risk arising from the activities of nonbank affiliates of the firm.

In July 2015, the agencies also released an updated tailored resolution plan template for the December filers' plans. The optional template, which is intended to facilitate the preparation of tailored resolution plans, focuses on the nonbanking operations of the company and on the interconnections and interdependencies between its nonbanking and banking operations.

By December 31, 2015, 122 December filers had submitted plans to the agencies. The FDIC and the FRB are reviewing those plans.

### Nonbank Firms

On July 28, 2015, the FRB and the FDIC provided feedback by joint letter to American International Group, Inc. (AIG), General Electric Capital Corporation, Inc. (GECC), and Prudential, Inc., regarding their initial resolution plans and guidance for their year-end 2015 filings. The agencies tailored their feedback to account for each company's unique business, structure, and operations. In addition to the specific guidance given to each company, the letters included some common themes that the firms should address. Those areas included the need for more detailed information on, and analysis of, obstacles to resolvability, including global cooperation, interconnectedness, and adequate funding and liquidity. Further, the agencies instructed the firms to describe in their resolution plans the progress they are making, and the steps remaining, to be more resolvable. Finally, the agencies directed the firms to strengthen the public portions of the firms' 2015 resolution plans.

The three nonbank firms submitted the second version of their annual resolution plans in December 2015. The FRB and the FDIC are currently reviewing those plans.

On March 26, 2015, the agencies permanently adjusted the annual resolution plan filing deadline for nonbank financial companies—AIG, GECC, MetLife, Inc., and Prudential, Inc.—from July 1 to December 31, beginning in 2016. The agencies had temporarily extended the 2015 resolution plan deadlines for the nonbank firms to December 31<sup>st</sup>. In addition, MetLife was designated as systemically important on December 18, 2014, and will submit its first resolution plan by December 31, 2016.

### *Insured Depository Institution Resolution Plans*

Section 360.10 of the FDIC Rules and Regulations requires all IDIs with assets greater than \$50 billion to submit resolution plans to the FDIC (IDI Rule). The IDI Rule requires each IDI meeting the criteria to provide a resolution plan that should allow the FDIC



as receiver to resolve the IDI in an orderly manner that enables prompt access of insured deposits, maximizes the return from the failed IDI's assets, and minimizes losses realized by creditors and the DIF.

Based upon a review of IDI plans submitted before and during 2014, the FDIC issued guidance in December 2014 for resolution plans required by the IDI Rule. Under the guidance, a covered IDI must provide a fully developed discussion and analysis of a range of realistic resolution strategies. To assist IDIs in writing their plans, the guidance includes direction regarding the elements that should be discussed in a fully developed resolution strategy and the cost analysis, clarification regarding assumptions made in the plan, and a list of significant obstacles to an orderly and least costly resolution that IDIs should address. The guidance applies to the resolution plans of 36 IDIs covered by the IDI Rule, as well as any new IDI meeting the threshold, commencing with the 2015 resolution plan submissions. The FDIC is reviewing the 10 IDI resolution plans that were submitted by September 1, 2015, and the 26 remaining IDI resolution plans that were submitted by December 31, 2015. The FDIC is conducting a review focused on the insolvency scenario, strategy and funding, readiness, and corporate governance.

### *Title II Resolution Strategy Development*

Under the Dodd-Frank Act, failed or failing financial companies are expected to file for reorganization or liquidation under the U.S. Bankruptcy Code, just as any failed or failing nonfinancial company would file. If resolution under the Bankruptcy Code would result in serious adverse effects to U.S. financial stability, the Orderly Liquidation Authority (OLA) set out in Title II of the Dodd-Frank Act provides a backup authority to the bankruptcy process. There are strict parameters on its use, however, and it can only be invoked under a statutorily prescribed recommendation and determination process, coupled with an expedited judicial review process.

The FDIC has been developing strategies, including an approach referred to as "Single Point of Entry," to carry out its orderly liquidation authorities. Firm-specific resolution strategies for each SIFI continue to be developed and refined. In addition, preliminary work has begun with respect to developing resolution strategies for the nonbank firms and systemically important financial market utilities, particularly central counterparties (CCP).

To evaluate the requirements for carrying out a Title II resolution, and to identify areas of further development, the FDIC conducted an operational exercise in 2015. This exercise included senior FDIC managers and staff representing areas within the organization that would be responsible for executing a resolution under Title II of the Dodd-Frank Act. Participants discussed the primary actions that would occur during the initial appointment of the FDIC as receiver of a SIFI and the stabilization phase immediately following appointment. The exercise validated the current Title II planning efforts and enhanced organizational cooperation and awareness, in addition to identifying areas for further work.

### *Cross-Border Efforts*

Advance planning and cross-border coordination for the resolution of global-SIFIs (G-SIFIs) will be essential to minimizing disruptions to global financial markets. Recognizing that G-SIFIs create complex international legal and operational concerns, the FDIC continues to work with foreign regulators to establish frameworks for effective cross-border cooperation.

During 2015, the FDIC continued to coordinate with representatives from European authorities to discuss issues of mutual interest, including the resolution of European G-SIFIs and harmonization of receivership actions. The FDIC and the European Commission (EC) continued their engagement through the joint Working Group, which is composed of FDIC and EC senior executives who meet to focus on both resolution and deposit insurance issues.

The Working Group meets twice a year with other interim interchanges, including the exchanging of staff members. Discussions were held in 2015 concerning cross-border bank resolution and CCP resolution, among other topics. The FDIC also continued its deep cooperation with the Single Resolution Board on technical aspects of resolution, including through staff level exchanges.

The FDIC continued its relationships with other jurisdictions that regulate G-SIFIs, including the United Kingdom (U.K.), Switzerland, Germany, France, and Japan. In 2015, the FDIC had significant principal and staff-level engagements with these countries to discuss cross-border issues and potential impediments that would affect the resolution of a G-SIFI. This included hosting a delegation from Japan in February to discuss cross-border issues related to resolution in both respective jurisdictions. Similar staff-level engagements took place with the U.K. and Switzerland, such as the U.K.-U.S. Financial Market Infrastructure working group, which meets to discuss resolvability considerations and develop common approaches concerning financial market infrastructures in the United Kingdom and the United States. This work will continue in 2016 with plans to host tabletop exercises with regulatory staff from certain of these jurisdictions.

### *Systemic Resolution Advisory Committee*

In 2011, the FDIC Board approved the creation of the Systemic Resolution Advisory Committee (SRAC). The SRAC provides important advice to the FDIC regarding systemic resolutions and advises the FDIC on a variety of issues, including the following:

- The effects on financial stability and economic conditions resulting from the failure of a SIFI.
- The ways in which specific resolution strategies would affect stakeholders and their customers.
- The tools available to the FDIC to wind down the operations of a failed organization.
- The tools needed to assist in cross-border relations with foreign regulators and governments when a systemic company has international operations.



*SRAC members (from left) Paul Volcker, Simon Johnson, and Anat Admati confer with Chairman Gruenberg during a break between panel discussions at the December 2014 meeting.*

Members of the SRAC have a wide range of experience, including managing complex firms; administering bankruptcies; and working in the legal system, accounting field, and academia. The last meeting of the SRAC was held in December 2014. The SRAC discussed, among other topics, resolution plans and bankruptcy, resolution plan transparency, international developments, International Swaps and Derivatives Association protocol, and orderly liquidation updates. In 2015, the charter of the SRAC was renewed. The next meeting is scheduled to be held in 2016.

### *Financial Stability Oversight Council*

The FSOC was created by the Dodd-Frank Act in July 2010 to promote the financial stability of the United States. It is composed of ten voting members, including the Chairperson of the FDIC, and five non-voting members.

The FSOC's responsibilities include the following:

- Identifying risks to financial stability, responding to emerging threats in the financial system, and promoting market discipline.
- Identifying and assessing threats that institutions may pose to financial stability and, if appropriate, designating a nonbank financial company for supervision by the FRB subject to heightened prudential standards.
- Designating financial market utilities and payment, clearing, or settlement activities that are, or are likely to become, systemically important.

- Facilitating regulatory coordination and information-sharing regarding policy development, rulemaking, supervisory information, and reporting requirements.
- Monitoring domestic and international financial regulatory proposals and advising Congress and making recommendations to enhance the integrity, efficiency, competitiveness, and stability of U.S. financial markets.
- Producing annual reports describing, among other things, the Council's activities and potential emerging threats to financial stability.

In 2015, the FSOC issued its fifth annual report. Generally, at each of its meetings, the FSOC discusses various risk issues. In 2015, the FSOC meetings addressed, among other topics, U.S. fiscal issues, interest rate risk, credit risk, cybersecurity, and nonbank financial company designations.

## SUPERVISION

Supervision and consumer protection are cornerstones of the FDIC's efforts to ensure the stability of, and public confidence in, the nation's financial system. The FDIC's supervision program promotes the safety and soundness of FDIC-supervised IDIs, protects consumers' rights, and promotes community investment initiatives.

### *Examination Program*

The FDIC's strong bank examination program is the core of its supervisory program. As of December 31, 2015, the FDIC was the primary federal regulator (PFR) for 4,008 FDIC-insured, state-chartered institutions that were not members of the Federal Reserve System [generally referred to as "state nonmember" (SNM) institutions]. Through risk management (safety and soundness), consumer compliance and the Community Reinvestment Act (CRA), and other specialty examinations, the FDIC assesses an institution's operating condition,

management practices and policies, and compliance with applicable laws and regulations.

As of December 31, 2015, the FDIC conducted 1,871 statutorily required risk management examinations, including a review of Bank Secrecy Act (BSA) compliance, and all required follow-up examinations for FDIC-supervised problem institutions, within prescribed time frames. The FDIC also conducted 1,347 statutorily required CRA/compliance examinations (859 joint CRA/compliance examinations, 478 compliance-only examinations, and 10 CRA-only examinations). In addition, the FDIC performed 4,157 specialty examinations.

The table on page 27 compares the number of examinations, by type, conducted from 2013 through 2015.

### **Risk Management**

All risk management examinations have been conducted in accordance with statutorily established timeframes. As of September 30, 2015, 203 insured institutions with total assets of \$51.1 billion were designated as problem institutions for safety and soundness purposes (defined as those institutions having a composite CAMELS<sup>1</sup> rating of 4 or 5), compared to the 329 problem institutions with total assets of \$102.3 billion on September 30, 2014. This is a 38 percent decline in the number of problem institutions and a 50 percent decrease in problem institution assets. For the twelve months ending September 30, 2015, 142 institutions with aggregate assets of \$51.8 billion were removed from the list of problem financial institutions, while 16 institutions with aggregate assets of \$3.0 billion were added to the list. The FDIC is the PFR for 133 of the 203 problem institutions, with total assets of \$24.5 billion.

In 2015, the FDIC's Division of Risk Management Supervision initiated 233 formal enforcement actions and 165 informal enforcement actions. Enforcement actions against institutions included, but were not limited to, 28 actions under Section 8(b) of the FDI

<sup>1</sup> The CAMELS composite rating represents the adequacy of **C**apital, the quality of **A**ssets, the capability of **M**anagement, the quality and level of **E**arnings, the adequacy of **L**iquidity, and the **S**ensitivity to market risk, and ranges from "1" (strongest) to "5" (weakest).

## FDIC EXAMINATIONS 2013-2015

	2015	2014	2013
<b>Risk Management (Safety and Soundness):</b>			
State Nonmember Banks	1,665	1,881	2,077
Savings Banks	206	206	203
State Member Banks	0	0	4
Savings Association	0	0	0
National Banks	0	0	0
Subtotal—Risk Management Examinations	1,871	2,087	2,284
<b>CRA/Compliance Examinations:</b>			
Compliance/Community Reinvestment Act	859	1,019	1,201
Compliance-only	478	376	371
CRA-only	10	11	4
Subtotal—CRA/Compliance Examinations	1,347	1,406	1,576
<b>Specialty Examinations:</b>			
Trust Departments	365	428	406
Information Technology and Operations	1,886	2,113	2,323
Bank Secrecy Act	1,906	2,126	2,328
Subtotal—Specialty Examinations	4,157	4,667	5,057
<b>Total</b>	<b>7,375</b>	<b>8,160</b>	<b>8,917</b>

Act (27 consent orders and 1 notice of charges), 3 civil money penalty (CMP) actions, and 165 MOUs. Of these enforcement actions against institutions, 17 consent orders, 2 CMPs, and 22 MOUs were based, in whole or in part, on apparent violations of BSA and anti-money laundering (AML) laws and regulations. In addition, enforcement actions were also initiated against individuals. These actions included, but were not limited to, 88 removal and prohibition actions under Section 8(e) of the FDI Act (84 consent orders and 4 notices of intention to remove/prohibit), 4 actions under Section 8(b) of the FDI Act (2 restitution orders and 2 notices of charges), and 24 CMPs (15 orders to pay and 9 notices of assessment).

The FDIC has heightened its focus on forward-looking supervision aimed at ensuring that risks are mitigated before they lead to financial deterioration. In 2015, the FDIC concluded a two-year effort to train risk management supervision staff on forward-looking approaches to supervising institutions.

### Compliance

As of December 31, 2015, 51 insured SNM institutions, about 1 percent of all supervised institutions, with total assets of \$61 billion, were problem institutions for compliance, CRA, or both. All of the problem institutions for compliance were rated “4” for compliance purposes, with none rated “5.” For CRA purposes, the majority were rated “Needs to Improve,” and only five were rated “Substantial Noncompliance.” As of December 31, 2015, all follow-up examinations for problem institutions were performed on schedule.

During 2015, the FDIC conducted all required compliance and CRA examinations and, when violations were identified, completed follow-up visits and implemented appropriate enforcement actions in accordance with FDIC policy. In completing these activities, the FDIC substantially met its internally established time standards for the issuance of final examination reports and enforcement actions.

Overall, banks demonstrated strong consumer compliance programs. The most significant consumer protection issue that emerged from the 2015 compliance examinations involved banks' failure to adequately monitor third-party vendors. For example, the FDIC found violations involving unfair or deceptive acts or practices, relating to issues such as failure to disclose material information about product features and limitations, deceptive marketing and sales practices, and misrepresentations about the costs of products. As a result, the FDIC issued orders requiring consumer restitution and the payment of civil money penalties (CMPs).

During 2015, the FDIC initiated 35 formal enforcement actions and 28 informal enforcement actions to address compliance concerns (see chart on page 138). This included 10 consent orders (including one that also addressed safety and soundness concerns), 7 restitution orders, 18 CMPs, and 28 MOUs. Restitution orders are formal actions that require institutions to pay restitution in the form of consumer refunds for different violations of law. In 2015, these restitution orders required institutions to refund approximately \$99.6 million to consumers, primarily related to unfair and deceptive practices by the institutions. The CMPs totaled just over \$12.8 million.

### *Large and Complex Financial Institutions*

The FDIC established the Large Bank Supervision Branch within the Division of Risk Management Supervision in response to the growing complexity of large banking organizations. This branch is responsible for both supervisory oversight and ongoing monitoring, and it supports the insurance and resolutions business lines. For SNM banks over \$10 billion, the FDIC generally applies a continuous examination program, whereby dedicated staff conduct ongoing onsite supervisory examinations and institution monitoring. At institutions where the FDIC is not the PFR, staff works closely with other financial institution regulatory authorities to identify emerging risks and assess the overall risk profile of large and complex institutions.

The Large Insured Depository Institution (LIDI) Program remains the primary instrument for off-site monitoring of IDIs with \$10 billion or more in total assets. The LIDI Program provides a comprehensive process to standardize data capture and reporting through nationwide quantitative and qualitative risk analysis of large and complex institutions. In 2015, the LIDI Program covered 108 institutions with total assets of \$12.8 trillion. The comprehensive LIDI Program is essential to effective large bank supervision because it captures information on the risks and uses that information to best deploy resources to high-risk areas, determine the need for supervisory action, and support insurance assessments and resolution planning.

The Shared National Credit (SNC) Program is an interagency initiative administered jointly by the FDIC, the FRB, and the OCC to ensure consistency in the regulatory review of large, syndicated credits, as well as identify risk in this market, which comprises a large volume of domestic commercial lending. In 2015, outstanding credit commitments identified in the SNC Program totaled \$3.9 trillion. The FDIC, the FRB, and the OCC issued a joint press release detailing the results of the review in November 2015. The interagency SNC review indicated credit risk in the portfolio remains high, despite a relatively favorable economic environment. The agencies noted a significant increase in leveraged lending volumes and continued loose underwriting, as evidenced by weak capital structures and provisions that limit the lender's ability to manage risk. While some improvement in underwriting practices was evident in the second half of the year, weakness in leveraged lending transactions drove an increase in classified commitments. Also, in 2015 the agencies agreed to change the program timing from an annual review to a semi-annual review. A pilot was conducted in September 2015, and the 2016 reviews will be completed in February and August.

In 2015, the FDIC continued with various initiatives to expand knowledge and expertise related to large bank supervisory matters. For example, a long-term program established in 2014 to expand on-the-

job training and provide mentoring of select staff regarding examination processes and risk analysis at large banks continues as a mechanism to develop expertise. The FDIC is also focused on hiring and developing additional staff with quantitative skill sets to facilitate the evaluation of complex modeling used by the largest banks. In addition, several training initiatives were developed and implemented in 2015 that focused on large bank supervisory risks, structures, vulnerabilities, and processes.

### *Bank Secrecy Act/Anti-Money Laundering*

The FDIC, with support from the FRB, OCC, and NCUA, facilitated the Spanish translation of the *FFIEC BSA/AML Examination Manual* (BSA/AML Manual). The Spanish version of the BSA/AML Manual was made public on the FFIEC InfoBase in October 2015. The BSA/AML Manual provides current guidance on risk-based policies, procedures, and processes for banking organizations to comply with the BSA and safeguard operations from money laundering and terrorist financing.

In July 2015, the FDIC hosted an Office of Foreign Assets Control (OFAC) representative who provided training to 30 examiners on recent changes to existing U.S. economic sanctions programs, as well as OFAC compliance expectations and enforcement case studies. The FDIC also participated in the Financial Action Task Force's mutual evaluation of the United States' system for preventing money laundering abuse of the financial system.

### *Information Technology, Cyber Fraud, and Financial Crimes*

To highlight the importance and rapidly evolving nature of cybersecurity and information technology-related risks, a new Operational Risk Branch was created within the Division of Risk Management Supervision. The new branch has responsibility for information technology policy and examinations as well as cybersecurity and critical infrastructure protection initiatives.

To address the specialized nature of technology- and operations-related supervision, cyber risks, and controls in the banking industry, the FDIC routinely conducts information technology (IT) and operations examinations at FDIC-supervised institutions. The FDIC and other banking agencies also conduct IT and operations examinations of technology service providers (TSPs), which support financial institutions. The result of an IT and operations examination is a rating under the FFIEC Uniform Rating System for Information Technology, which is incorporated into the Management component of the Safety and Soundness rating and the Safety and Soundness Report of Examination.

In 2015, the FDIC conducted 1,886 IT and operations examinations at financial institutions and TSPs. Further, as part of its ongoing supervision process, the FDIC monitors significant events, such as data breaches and natural disasters that may affect financial institution operations or customers.

In addition to the FDIC's operations and technology examination program, the FDIC regularly monitors cybersecurity issues in the banking industry through on-site examinations, regulatory reports, and intelligence reports. The FDIC works with the Financial and Banking Information Infrastructure Committee, the Financial Services Sector Coordinating Council for Critical Infrastructure Protection, Homeland Security, the Financial Services Information Sharing and Analysis Center (FS-ISAC), other regulatory agencies, law enforcement, and others to share information regarding emerging issues and coordinate responses. Further, the FDIC actively participates in the FFIEC's Cybersecurity and Critical Infrastructure Working Group (CCIWG). The CCIWG serves as a forum to address policy related to cybersecurity and critical infrastructure, enables members to communicate and collaborate on activities to support and strengthen the resilience of the financial services sector, and provides input to FFIEC principal members regarding cybersecurity matters.

The FDIC's major accomplishments during 2015 to promote IT security, assess risk management practices, and combat cyber fraud and other financial crimes included the following:

- Provided nationwide cybersecurity awareness training for financial institution management and all risk management examination staff at all six FDIC regional office locations and by teleconference. The training focused on the need for banks to establish a culture of managerial and directorate collaboration to address cybersecurity risks, particularly given the increasing volume and sophistication of cyber attacks.
- Produced a video on cybersecurity awareness as part of the FDIC's Community Banking Initiative. The video provides useful information to bank directors, officers, and employees on cybersecurity.
- Hosted a nationwide teleconference to discuss the FDIC's regulatory expectations regarding cybersecurity preparedness. During the teleconference, industry participants submitted and asked questions. The call was held in October 2015 in support of National Cybersecurity Awareness Month.
- Added three new scenarios to the FDIC's Cyber Challenge simulation exercise. The exercise encourages community banks to discuss operational risk issues and the potential impact of information technology disruptions. The exercise now contains seven videos that depict various operational disruptions and materials to facilitate discussion about how the bank would respond to the disruptions. Lists of reference materials where banks can obtain additional information are also included.
- Published three FDIC *Consumer News* articles: "Computer Security Tips for Bank Customers: A Basic Checklist," "Mobile Banking and Payments: New Uses for Phones...and Even Watches," and "Beware of Thieves Who Target Loan and Credit Card Shoppers."
- Conducted training for all FDIC IT Examiners that addressed technology and operational issues facing the federal financial regulatory agencies.

- Assisted financial institutions in identifying and shutting down "phishing" websites that attempt to fraudulently obtain and use an individual's confidential personal or financial information.
- Hired 30 additional IT Examination Analysts to enhance the technical expertise of the IT supervisory workforce in areas of forensic analysis, network systems, payment systems, applications development, and business continuity planning/disaster recovery.

Major interagency accomplishments as a member of the FFIEC included the following:

- Published a Cybersecurity Assessment Tool to help financial institutions identify risks and determine their cybersecurity preparedness. The Assessment Tool provides a repeatable and measurable process for financial institutions to measure their cybersecurity preparedness over time.
- Collaborated with the FRB and OCC to develop a Cybersecurity Evaluation Tool to be used during TSP examinations.
- Published FFIEC statements on Cyber Attacks Compromising Credentials and Destructive Malware.
- Issued an appendix to the Business Continuity Planning (BCP) booklet of the *FFIEC Information Technology Examination Handbook* entitled "Strengthening the Resilience of Outsourced Technology Services." The booklet is part of the IT Examination Handbook series. The appendix highlights and strengthens the BCP Booklet in four specific areas: Third-Party Management, Third-Party Capacity, Testing with Technology Service Providers, and Cyber Resilience.
- Revised the Management booklet of the *FFIEC IT Examination Handbook* to incorporate cybersecurity and cyber resiliency concepts as part of information security.
- Improved information sharing on identified technology risks among the IT examination workforces of the FFIEC member agencies through discussions at the March 2015 annual Supervisory Strategy meeting.



### *Minority Depository Institution Activities*

The preservation of minority depository institutions (MDIs) remains a high priority for the FDIC.

In 2015, the FDIC continued to advocate for MDI and Community Development Financial Institution (CDFI) industry-led strategies for success. The institutions were encouraged to build on the results of the 2013 Interagency MDI and CDFI Bank Conference and the FDIC's 2014 study on MDIs entitled *Minority Depository Institutions: Structure, Performance and Social Impact*. These strategies include industry-led solutions; MDI and CDFI bankers working together to tell their story; collaborative approaches to partnerships to share costs, raise capital, or pool loans; technical assistance; and innovative use of federal programs.

In June 2015, the FDIC sponsored a roundtable in Salt Lake City, Utah, with three trade groups representing nearly 100 MDIs and CDFIs and approximately 20 representatives of potential bank partners to discuss CRA partnerships. The FDIC provided an overview of five CRA community development activities related to minority and women-owned financial institutions. The trade groups outlined the community development needs of their members that might be opportunities for the banks to invest in or develop partnerships. The banks had the opportunity to engage in dialog with the MDI representatives. The trade groups and the banks will continue to build upon these initial discussions following the roundtable.

The FDIC co-sponsored with the OCC and the FRB the 2015 Interagency MDI and CDFI Bank Conference, held in July. Nearly 110 bankers from 72 banks attended the *Celebrate 150 Years of Minority Depository Institutions: Changes, Challenges and Opportunities* conference. The conference featured an interactive panel with FDIC Chairman Martin J. Gruenberg, Federal Reserve Board Governor Lael Brainard, and Comptroller of the Currency Thomas J. Curry. The conference encouraged interactive discussion among those who believe MDIs and

CDFIs are uniquely positioned to create positive change in their communities. In addition, senior officials from federal agencies provided updates on programs and policies that can help MDIs and CDFIs achieve goals.

The FDIC also continues to pursue ways to improve communication and interaction with MDIs and to respond to the concerns of minority bankers. In addition to active outreach with MDI trade groups, the FDIC annually offers to arrange meetings between regional management and each MDI's board of directors to discuss issues of interest. In addition, the FDIC routinely contacts MDIs to offer return visits and technical assistance following the conclusion of FDIC safety and soundness, compliance, CRA, and specialty examinations to assist bank management in understanding and implementing examination recommendations. These return visits, normally conducted 90 to 120 days after the examination, are to provide recommendations or feedback for improving operations, not to identify new issues. MDIs also may initiate contact with the FDIC to request technical assistance at any time. In 2015, the FDIC provided 101 individual technical assistance sessions on approximately 50 risk management and compliance topics, including the following:

- Accounting
- Bank Secrecy Act and Anti-Money Laundering
- Basel III Capital Rules
- Brokered Deposits/Waivers
- Capital Planning
- Commercial Real Estate Concentrations
- Community Reinvestment Act
- Funding and Liquidity
- Global Cash Flow
- High Volatility Commercial Real Estate
- Information Technology Risk Management and Security
- Interest Rate Risk
- Loan Underwriting and Administration

- Qualified Mortgage Rules
- Strategic Planning
- Third-Party Risk Management

The FDIC regional offices also held outreach, training, and educational programs for MDIs through conference calls and banker roundtables. In 2015, topics of discussion for these sessions included many of those listed above, as well as cybersecurity, vendor management, and the FDIC's Community Banking Initiative, including the Technical Assistance Videos.

### *Economic Growth and Regulatory Paperwork Reduction Act*

The FDIC, along with the other banking regulatory agencies, launched a cooperative, three-year effort to review all of their regulations. This review started in 2014 and continued throughout 2015. The purpose of the review, which is mandated by the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA), is to identify and eliminate any regulatory requirements that are outdated or otherwise unnecessary.

To facilitate the review, the agencies categorized their regulations into 12 separate groups. Over the course of two years, the groups of regulations are being published for comment, providing industry participants, consumer and community groups, and other interested parties an opportunity to identify regulatory requirements they believe are no longer needed or should be modified. The agencies are analyzing the comments received and considering amendments to their regulations where appropriate.

On May 14, 2015, the public comment period closed for the regulations in the categories of Banking Operations, Capital, and the Community Reinvestment Act; approximately 23 comment letters were received.

On September 3, 2015, the comment period closed for rules relating to Consumer Protection; Directors, Officers and Employees; and Anti-Money Laundering. Approximately 16 comment letters were received.

On December 23, 2015, the agencies published the fourth *Federal Register* notice requesting comment on regulations regarding Securities, Safety and Soundness, and Rules of Procedure as well as all regulations the agencies have recently finalized, including those rules that the agencies have yet to fully implement. The comment period closes on March 22, 2016.

As a part of the regulatory burden reduction effort, the agencies hosted five nationwide outreach meetings during 2015 to facilitate awareness of the EGRPRA project and to listen to stakeholder comments and suggestions. Each meeting featured three banker panels covering the 12 categories of regulations and a consumer/community group panel. The outreach meetings were held at the Federal Reserve Banks in Dallas, Texas; Boston, Massachusetts; Kansas City, Missouri; and Chicago, Illinois; and at the FDIC in Arlington, Virginia. More than 1,030 individuals participated in the meetings in-person, by telephone, or via webcast. The Kansas City meeting focused on rural bank issues.

Several themes have emerged through the EGRPRA process that could affect community banks. One consistent item has been the discussion of whether laws and regulations based on long-standing thresholds should be changed.

In addition, due in part to feedback received as part of the EGRPRA review, the FDIC and the other FFIEC member entities are undertaking a community bank Call Report burden-reduction initiative. The objective of this initiative, which comprises actions in five areas, is to streamline and simplify regulatory reporting requirements for community banks. As an initial step, the banking agencies, under the auspices of the FFIEC, published proposed Call Report revisions, including a first set of proposed burden-reducing changes, on September 18, 2015. The agencies are evaluating the comments on the proposal and would begin to implement the revisions in the third quarter of 2016. As a second action, the banking agencies have accelerated the start of a statutorily mandated review of the existing Call

Report data items, which otherwise would have commenced in 2017. Third, the FFIEC member entities are considering the feasibility and merits of creating a less burdensome version of the Call Report for small institutions. A fourth action for the FFIEC member entities is to better understand, through industry, the aspects of community banks' Call Report preparation processes that are significant sources of reporting burden. This outreach effort included on-site visits to nine community banks during third quarter 2015 to learn about their reporting processes. Finally, the FFIEC and the agencies will offer periodic banker training by teleconferences and webinars to explain upcoming reporting changes and provide guidance on Call Report requirements that bankers find challenging.

Under Section 316(b) of the Dodd-Frank Act, rules transferred from the Office of Thrift Supervision (OTS) to the FDIC and other successor agencies remain in effect "until modified, terminated, set aside, or superseded in accordance with applicable law" by the relevant successor agency, by a court of competent jurisdiction, or by operation of law. When the FDIC republished the transferred OTS regulations as new FDIC regulations applicable to state savings associations, the FDIC stated in the *Federal Register* notice that its staff would evaluate the transferred OTS rules and might later recommend incorporating the transferred OTS regulations into other FDIC rules, amending them, or rescinding them. This process began in 2013 and continues, involving publication in the *Federal Register* of a series of NPRs and rulemakings. In 2015, the FDIC removed ten transferred OTS rules while making technical amendments to related FDIC rules for applicability to state savings associations. In addition, the FDIC repealed two transferred OTS rules that did not have corresponding FDIC rules and were deemed unnecessary to retain. The rules repealed were Possession by Conservators and Receivers for Federal and State Savings Associations, and Electronic Operations.

## *Other Rulemaking and Guidance Issued*

During 2015, the FDIC issued and participated in the issuance of other rulemaking and guidance in several areas as described below.

### **Brokered Deposit Guidance**

In January 2015, the FDIC issued FIL-2-2015 titled *Guidance on Identifying, Accepting, and Reporting Brokered Deposits* due to numerous questions regarding brokered deposit determinations. This FIL provided a series of FAQs regarding identifying, accepting, and reporting brokered deposits. The FAQs are based on Section 29 of the FDI Act and Section 337.6 of the FDIC Rules and Regulations, as well as on advisory opinions and the *Study on Core Deposits and Brokered Deposits*, which the FDIC issued in July 2011. The FDIC issued the FAQs in a plain language summary of previously issued guidance that is conveniently located in one place. In response to follow-up inquiries, the FDIC hosted an industry call on April 22, 2015, to further discuss the FIL and FAQs. Further, on November 13, 2015, the FDIC issued an update to the FAQs document in response to additional inquiries and requested public comments on those FAQs. The comment period on the updated document closed on December 28, 2015.

### **Statement on Providing Banking Services**

In January 2015, the FDIC issued the *Statement on Providing Banking Services* (FIL-5-2015) to encourage institutions to take a risk-based approach in assessing individual customer relationships rather than declining to provide banking services to entire categories of customers, without regard to the risks presented by an individual customer or the financial institution's ability to manage the risk.

### **Guidance on Private Student Loans with Graduated Repayment Terms at Loan Origination**

In February 2015, the FDIC, jointly with the FRB, CFPB, NCUA, and the OCC and in conjunction with the State Liaison Committee (SLC), issued student

loan guidance, which provides principles that financial institutions should consider in their policies and procedures for originating private student loans with graduated repayment terms. The guidance recognizes that students leaving a higher education program may prefer more flexibility with their payments as they transition into the labor market. It also reminds financial institutions that originate private student loans with graduated repayment terms to prudently underwrite the loans and provide disclosures that clearly communicate the timing and the amount of payments to facilitate a borrower's understanding of the loan's terms and features.

### **Filing Requirements and Processing Procedures for Changes in Control**

In October 2015, the FDIC approved a final rule that amends Part 303 of the FDIC Rules and Regulations for filing requirements and processing procedures for notices filed under the Change in Bank Control Act (Notices). The final rule consolidated into one subpart the requirements and procedures for Notices filed with respect to state nonmember banks and state savings associations and eliminated Part 391, subpart E. The final rule also adopted certain practices of related regulations of the OCC and the FRB. The final rule clarifies the FDIC's requirements and procedures based on its experience interpreting and implementing the existing regulation and is part of the FDIC's continuing review of its regulations under EGRPRA.

### **Rescission of the Temporary Liquidity Guarantee Program**

In October 2015, the FDIC rescinded Part 370 of the FDIC Rules and Regulations, which implemented the Temporary Liquidity Guarantee Program (TLGP). The TLGP was composed of two distinct components, the Debt Guarantee Program (DGP) and the Transaction Account Guarantee Program (TAGP). The DGP provided a temporary FDIC guarantee for all newly issued senior unsecured debt issued by participating entities up to prescribed

limits, and the TAGP provided for the extension of unlimited deposit insurance for noninterest-bearing transaction accounts. Both programs had previously expired.

### **Clarifying Approach to Banks Offering Products and Services, such as Deposit Accounts and Extensions of Credit, to Nonbank Payday Lenders**

In November 2015, the FDIC issued FIL-52-2015 clarifying its approach to banks offering products and services to nonbank payday lenders. The FIL reissued and updated FIL-14-2005, *Payday Lending Programs: Revised Examination Guidance*, and its attachment, *Revised Guidelines for Payday Lending*. The guidance was revised to make clear that it applies only to banks making payday loans. It does not apply to banks offering products and services, such as deposit accounts and extensions of credit, to nonbank payday lenders.

In addition, the aforementioned FILs reiterate the FDIC's longstanding policy that financial institutions that properly manage customer relationships and effectively mitigate risks are neither prohibited nor discouraged from providing services to any category of customer accounts or individual customer operating in compliance with applicable state and federal law.

### **Advisory on Effective Risk Management Practices for Purchased Loans and Purchased Loan Participations**

In November 2015, the FDIC issued FIL-49-2015 to update and replace the FDIC *Advisory on Effective Credit Risk Management Practices for Purchased Loan Participations* (FIL-38-2012, issued in September 2012). The updated Advisory reminds FDIC-supervised institutions of the importance of underwriting and administering purchased loans and loan participations in the same diligent manner as if they were being directly originated by the purchasing institution. It also outlines areas that should be considered before purchasing a loan or participation or entering into a third-party arrangement to purchase or participate in loans. More specifically, FDIC-

supervised institutions should: (1) ensure that loan policies address the purchases; (2) understand the terms and limitations of agreements; (3) perform appropriate due diligence; and (4) obtain necessary board or committee approvals. Finally, the Advisory reminds institutions that third-party arrangements to facilitate loan and loan participation purchases should be managed by an effective third-party risk management process. The Advisory is based on existing guidance, including Guidance for Managing Third-Party Risk and Interagency Guidelines Establishing Standards for Safety and Soundness (Appendix A to Part 364 of the FDIC Rules and Regulations).

### **Statement on Prudent Risk Management for Commercial Real Estate Lending**

In December 2015, the FDIC, FRB, and OCC jointly issued a statement to remind financial institutions of existing regulatory guidance on prudent risk management practices for commercial real estate (CRE) lending activity through economic cycles.

The guidance reminds financial institutions that they should maintain underwriting discipline and exercise prudent risk management practices that identify, manage, monitor, and control the risks arising from their CRE lending activity.

### **Regulatory Relief**

During 2015, the FDIC issued ten FILs that provide guidance to help financial institutions and to facilitate recovery in areas affected by tornadoes, flooding, wild fires, landslides, mudslides, and other severe events. In these FILs, the FDIC encouraged banks to work constructively with borrowers experiencing financial difficulties as a result of natural disasters. The FILs also clarified that prudent extensions or modifications of loan terms in such circumstances can contribute to the health of communities and serve the long-term interests of lending institutions.

## *Depositor and Consumer Protection Rulemaking and Guidance*

### **Joint Final Rule on Loans in Areas Having Special Flood Hazards**

In June 2015, the FDIC issued a final rule, jointly with the OCC, FRB, NCUA, and FCA, amending the FDIC's flood insurance regulation and implementing certain provisions in the Biggert-Waters Flood Insurance Reform Act of 2012 and the Homeowner Flood Insurance Affordability Act of 2014. Specifically, the final rule addressed detached structures, force placement of flood insurance, escrowing flood insurance premiums and fees, and notice of special flood hazards.

### **Interagency Examination Procedures for the Truth in Lending Act (Regulation Z) and Real Estate Settlement Procedures Act (Regulation X) Mortgage Rules**

In June 2015, the FDIC released revised interagency examination procedures for the new Truth in Lending Act (TILA) - Real Estate Settlement Procedures Act (RESPA) Integrated Disclosure Rule (TRID Rule), as well as amendments to other provisions of TILA Regulation Z and RESPA Regulation X. The procedures were developed in coordination with member agencies of the FFIEC. The examination procedures should help financial institutions better understand the areas on which the FDIC will focus as part of the examination process.

### **Financial Institution Letter Regarding Military Lending Act Final Rule**

In September 2015, the FDIC issued FIL-37-2015 to notify FDIC-supervised institutions that the Department of Defense (DOD) promulgated a final rule amending the implementing regulations of the Military Lending Act of 2006 (MLA). The final rule expands specific protections provided to service members and their families under the MLA and addresses a wider range of credit products than the DOD's previous regulation. FDIC-supervised

institutions and other creditors must comply with the rule for new covered transactions beginning October 3, 2016. For credit extended in a new credit card account under an open-end consumer credit plan, compliance is required beginning October 3, 2017.

### **Guidance on Supervisory Expectations for Financial Institutions Implementing the Truth in Lending Act (Regulation Z) and Real Estate Settlement Procedures Act (Regulation X) Integrated Disclosure Rule**

In October 2015, the FDIC issued FIL-43-2015 providing guidance on initial supervisory expectations in connection with examinations of financial institutions for compliance with the TRID Rule, which became effective on October 3, 2015. During initial examinations for compliance with the TRID Rule, FDIC examiners will evaluate an institution's compliance management system and overall efforts to come into compliance, recognizing the scope and scale of changes necessary for each supervised institution to achieve effective compliance. The FDIC's supervisory approach regarding the TRID Rule is similar to the approach the FDIC took in initial examinations for compliance with the Ability-to-Repay/Qualified Mortgage rules that became effective in January 2014.

### *Promoting Economic Inclusion*

The FDIC is strongly committed to promoting consumer access to a broad array of banking products to meet consumer financial needs. To promote financial access to responsible and sustainable products offered by IDIs, the FDIC:

- Conducts research on the unbanked and underbanked.
- Engages in research and development on models of products meeting the needs of lower-income consumers.
- Supports partnerships to promote consumer access and use of banking services.
- Advances financial education and literacy.
- Facilitates partnerships to support community and small business development.

### **Advisory Committee on Economic Inclusion**

The Advisory Committee on Economic Inclusion (ComE-IN) provides the FDIC with advice and recommendations on important initiatives focused on expanding access to mainstream banking services to underserved populations. This may include reviewing basic retail financial services such as low-cost, safe transaction accounts, affordable small-dollar loans, savings accounts, and other services that promote individual asset accumulation and financial stability. During 2015, the ComE-IN met in May and October to discuss approaches to expanding access to Safe accounts, the economic inclusion potential of mobile financial services, financial education opportunities for young people, qualitative research into economic inclusion strategies for individuals with disabilities, and *Money Smart for Small Business*.



*Progress was noted on several fronts by the Economic Inclusion Committee. FDIC Chairman Martin J. Gruenberg presided over the meeting.*

### **FDIC National Survey of Unbanked and Underbanked Households and Related Research**

As part of its ongoing commitment to expanding economic inclusion in the United States, the FDIC works to fill the research and data gap regarding household participation in mainstream banking and the use of nonbank financial services. In addition, Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (Reform Act) mandates that the FDIC regularly report on underserved populations and bank efforts to bring



individuals and families into the conventional finance system. In response, the FDIC regularly conducts and reports on surveys of households and banks to inform the efforts of financial institutions, policymakers, regulators, researchers, academics, and others.

During 2015, the FDIC revised, tested, and administered the 2015 FDIC *National Survey of Unbanked and Underbanked Households*, in partnership with the U.S. Census Bureau. The survey focuses on basic checking and savings account ownership, but it also explores household use of alternative financial services to better understand the extent to which families are meeting their financial needs outside of mainstream financial institutions. In addition, the survey incorporated questions designed to assess the typical monthly financial services consumption patterns and to better understand household use of bank and nonbank consumer credit instruments. A full report is expected in 2016.

In 2015, the FDIC also launched two qualitative research projects to further develop insights in this area. In the first, the FDIC conducted consumer research to better understand the economic inclusion potential of mobile financial services. Initial findings confirmed and provided more detailed insights into the opportunity of mobile financial services to improve the sustainability of banking relationships. In the second, the FDIC initiated interviews with bankers and other stakeholders to better understand the programs, products, and strategies that banks are finding useful for attracting and retaining unbanked households as customers.

### **Partnerships for Access to Mainstream Banking**

The FDIC supports broadening consumer access to mainstream banking through work with the Alliances for Economic Inclusion (AEI), *Bank On* initiatives, local and state government, and in collaboration with federal partners and many local and national organizations. The FDIC also collaborates with other financial regulatory agencies to provide information and technical assistance on community development.

Local collaborations are many and diverse. The FDIC sponsored or co-sponsored more than 98 events during 2015 that provided opportunities for partners to collaborate on increasing access to bank accounts and credit services, opportunities to build savings and improve credit histories, and initiatives to significantly strengthen financial capability of community service providers who directly serve low- and moderate-income consumers.

During 2015, the FDIC helped convene financial institutions, community organizations, local, state, and federal agencies, and other partners to support coalitions that bring unbanked and underbanked consumers and owners of small businesses into the financial mainstream through the FDIC's 14 area AEIs. AEI committees and working groups addressed specific challenges and financial services needs in their communities including education on the specific needs of unbanked and underbanked consumers, credit building training and seminars for community service providers and asset building organizations, workshops for financial coaches and counselors, promotion of savings opportunities for low- and moderate-income people and communities, outreach to bring larger numbers of people to expanded tax preparation assistance sites, and education for business owners to help them become bankable.

The FDIC also provided information and technical assistance in the development of safe and affordable transaction and savings accounts. In over 30 markets, the FDIC provided technical assistance to local *Bank On* initiatives and asset building coalition activities designed to reduce barriers to banking and increase access to the financial mainstream. For example, the FDIC collaborated with the Cities for Financial Empowerment Fund to support its national efforts to work with local government and other partners to increase the access of low- or moderate-income (LMI) consumers to safe and affordable financial products and services. In October 2015, FDIC Chairman Martin J. Gruenberg addressed the national launch of *Bank On's* national account standards in San Francisco to advance strategies to expand access to products that are consistent with the FDIC's Safe Account model.

The FDIC also supported efforts to link consumers to financial education and savings through activities organized for designated *Money Smart* or “financial fitness” weeks or months, involving hundreds of consumer outreach events. Moreover, working with the national, local, state, and targeted (youth, military, and minority consumer-focused) *America Saves* campaigns, the FDIC continued to link banking companies to active efforts for engaging consumers with setting savings goals at tax time and year round.

### *Advancing Financial Education*

Financial education helps consumers understand and use bank products effectively and sustain a banking relationship over time. The FDIC continued to be a leader in developing high-quality, free financial education resources and pursuing collaborations to use those tools to educate the public. The FDIC’s work during 2015 dealt primarily with young people, consistent with the Financial Literacy and Education Commission’s focus on *Starting Early for Financial Success*.

In April 2015, the FDIC and the CFPB launched new educational tools for parents, students, and teachers. The new *Money Smart for Young People* series consists of four new age-appropriate curricula that are aligned with key academic standards. Unlike previous *Money Smart* products, these new tools involve educators, parents/caregivers, and young people in the learning process.



Chairman Gruenberg unveils the *Money Smart for Young People* education curriculum at a Jump\$tart@ Coalition meeting.

Strategic collaborations continue to be a critical component of the FDIC’s financial education efforts. The FDIC emphasizes the importance of pairing education with access to appropriate banking products and services through outreach. Working through coalitions, the FDIC participated as a speaker or exhibitor at 28 conferences and events that reached an estimated 10,000 people. As part of a small pilot project, the FDIC also provided training to 60 teachers in three jurisdictions on *Money Smart for Young People* as part of an initiative to better understand how the curriculum can be used and supported.

During 2015, the FDIC launched the second phase of the Youth Savings Pilot Program, aimed at identifying and highlighting promising approaches to offering financial education tied to the opening of safe, low-cost savings accounts for school-aged children. In the second phase, the FDIC selected 12 banks to join with the 9 banks selected in 2014 for the first phase. The FDIC facilitated discussions and knowledge sharing among the Pilot participants to talk about program design and structure, such as approaches to program evaluation, offering incentives, and opening accounts. The FDIC also responded to a range of inquiries from banks on technical issues to support their youth savings initiatives. The Pilot will culminate with a report in the fall of 2016 that will communicate lessons learned and offer promising practices for banks to work with schools or other organizations to combine financial education with access to savings accounts.

To support these types of collaborations, the FDIC, the FRB, the NCUA, the OCC, and the U.S. Department of the Treasury’s Financial Crimes Enforcement Network (FinCEN) issued *Interagency Guidance to Encourage Financial Institution Youth Savings Programs and Address Related Frequently Asked Questions* in February 2015. The guidance is intended to encourage financial institutions to develop and implement programs to expand the financial capability of youth and build opportunities for financial inclusion for more families. It also addresses frequently asked questions that may arise as financial



institutions collaborate with schools, local and state governments, nonprofit organizations, or corporate entities to facilitate youth savings and financial education programs.

While youth materials were the strategic focus during 2015, the FDIC also enhanced *Money Smart* program products for other audiences. For example, the instructor-led *Money Smart* materials for adults were updated to reflect the new mortgage disclosure rules. In addition, three new modules were added to the *Money Smart for Small Business* curriculum, using feedback from the small business technical assistance organizations that are also *Money Smart* Alliance members. The three new modules, developed jointly with the Small Business Administration (SBA), were added to help aspiring entrepreneurs learn about business ownership, gain a realistic perspective on costs of starting a business, and understand the purpose of cash flow management. In addition, the entire small business curriculum was made available in Spanish during 2015.

The FDIC continues to strengthen collaboration with the SBA and other small business resources beyond training. In 2015, each of the six FDIC regional Community Affairs teams sponsored 25 regional events for banks and the SBA and its SBA Resource Partner Network (SCORE, Small Business Development Centers and Women's Business Centers, and Veteran's Business Outreach Centers) to convene and discuss collaborations or provide technical assistance to small business leaders.

### *Community Development*

In 2015, the FDIC provided technical assistance to banks and community organizations through 111 outreach events designed to foster understanding and practical relationships between financial institutions and other community development resources and stakeholders and to improve knowledge about the CRA.

The FDIC's work particularly emphasized sharing information to support bank efforts to provide prudent access to responsible mortgage credit in

underserved markets and improve the banking connections of small businesses. In addition, the FDIC sponsored sessions with interagency partners covering basic and advanced CRA training for banks. The agencies also offered CRA basics for community-based organizations as well as seminars on establishing effective bank-community collaborations for community development.

During 2015, the FDIC, other federal regulators, and federal and state housing agencies hosted two housing roundtable discussions and two housing workshops to offer technical assistance to help expand access to mortgage credit for LMI households. During these events, banks and program managers shared experiences with federal mortgage guarantee and secondary market programs and state and local down payment assistance and counseling programs. They offered details of their work so that audiences could gain a better understanding of how to address challenges and identify opportunities for expanding participation in these programs.

### *Community Banking Initiatives*

Community banks provide traditional, relationship-based banking services in their local communities. These banks accounted for 13 percent of banking industry assets; however, this measure vastly understates the importance of these institutions to the U.S. economy and local communities across the nation. For example, community banks hold 44 percent of the industry's small loans to farms and businesses, making them the lifeline to entrepreneurs and small enterprises of all types. Community banks also hold the majority of bank deposits in U.S. rural counties and micropolitan counties with populations up to 50,000. In fact, as of June 2015, community banks held more than 75 percent of deposits in more than 1,200 U.S. counties. In over 600 of these counties, the *only* banking offices available to consumers were those operated by community banks.

The FDIC is the lead federal supervisor for the majority of community banks and the insurer of all IDs. The FDIC has a particular responsibility for



the safety and soundness of community banks and for understanding and communicating the role they play in the banking system. Accordingly, the FDIC in 2012 launched a Community Banking Initiative focused on publishing new research on issues of importance to community banks and providing resources that will be useful to their efforts to manage risks, enhance the expertise of their staff, and better understand changes in the regulatory environment.

The FDIC continues to pursue an ambitious research agenda on community banks. Since the 2012 publication of the *FDIC Community Banking Study*, FDIC researchers have published ten additional studies on topics ranging from small business financing to the factors that have driven industry consolidation over the past 30 years. During 2015, the FDIC published studies on recent trends in branch banking; the challenges and opportunities facing small, closely held community banks; and an updated model of economies of scale at community banks. The Community Bank Performance section of the *FDIC Quarterly Banking Profile* (QBP), first introduced in 2014, continues to provide a detailed statistical picture of the community banking sector that can be accessed by analysts, other regulators, and bankers themselves. The most recent report shows that net income at community banks continued to grow at double-digit annual rates in 2015, while total loans and leases at these institutions grew at a rate that was substantially faster than the industry as a whole.

### *Community Banking Research Highlights from 2015*

In 2015, FDIC economists published important research analyzing branch banking and the management and closely held ownership among community banks.

#### **Branch Banking**

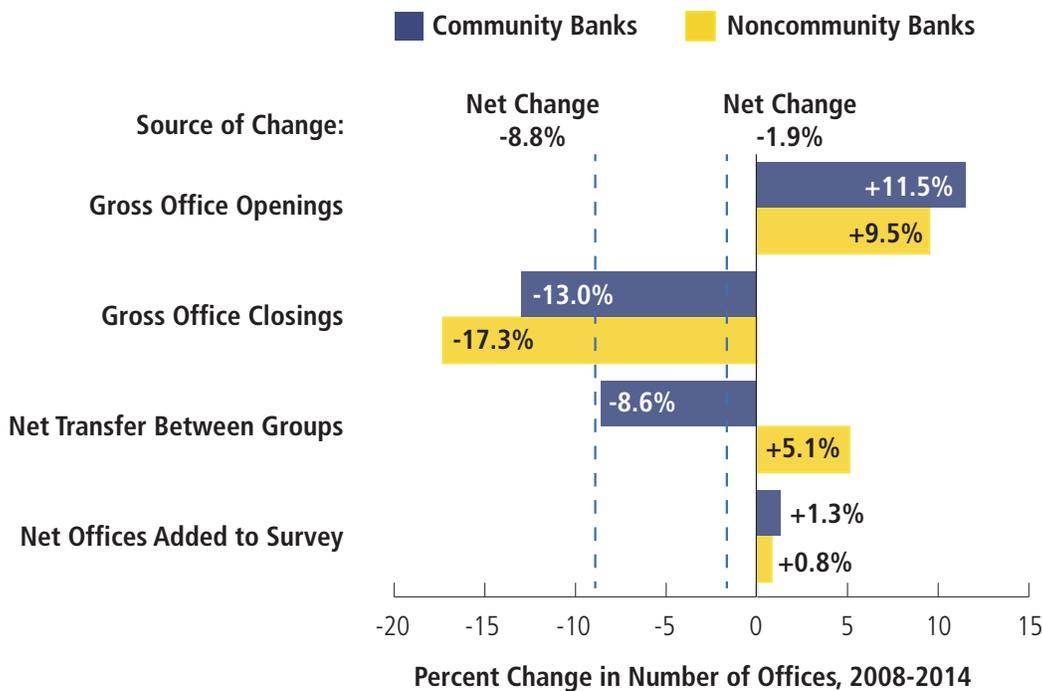
During the historic period of charter consolidation in U.S. banking since 1985, the number of banks and thrifts has declined by almost two-thirds. Yet, FDIC-insured institutions continue to operate about 93,000

banking offices—only 6 percent fewer than the all-time high reached in 2009. Even after the waves of new banking technologies introduced in recent decades, the density of U.S. banking offices per capita stands higher today than at any time before 1977. This relative stability in brick-and-mortar offices suggests that they remain useful in providing banking services even in the era of mobile banking. This is especially the case for community banks, which were shown to open new banking offices more frequently and to close existing banking offices less frequently than larger noncommunity banks (see chart on page 41). Even as technology marches forward, branch offices appear to remain an integral channel through which banks serve their customers and earn their trust.

#### **Closely Held Ownership**

Small, closely held banks are often thought to experience certain disadvantages compared to their larger competitors. They seldom have ready access to the capital markets, and may find it hard to recruit management talent from outside the bank. Yet a new FDIC study shows that small, closely held community banks have consistently outperformed widely held institutions in recent years in terms of return on assets (see chart on page 42) and operational efficiency. What is the secret of their success? In a sample of nearly 1,400 community banks in three supervisory regions, nearly 75 percent were deemed by FDIC examiners to be “closely held” by an ownership group that was almost always based on family or community ties, or both. In almost 60 percent of these institutions, the key officer that managed the bank was either part of or affiliated with the ownership group. Moreover, this set of institutions—where ownership and management overlap—has reported the highest financial performance since 2009, suggesting that bank profitability may improve if ownership and management share the same goals. The real challenge for small, closely held banks may be to find equally qualified successors to manage the institution over the long run.

## COMMUNITY BANKS HAVE TENDED TO OPEN MORE NEW OFFICES AND CLOSE FEWER EXISTING OFFICES THAN NONCOMMUNITY BANKS



Source: Breitenstein, Eric C. and John M. McGee, "Brick-and-Mortar Banking Remains Prevalent in an Increasingly Virtual World," *FDIC Quarterly*, Vol. 9, No. 1, 2015. FDIC calculations based on Summary of Deposits (SOD) data.

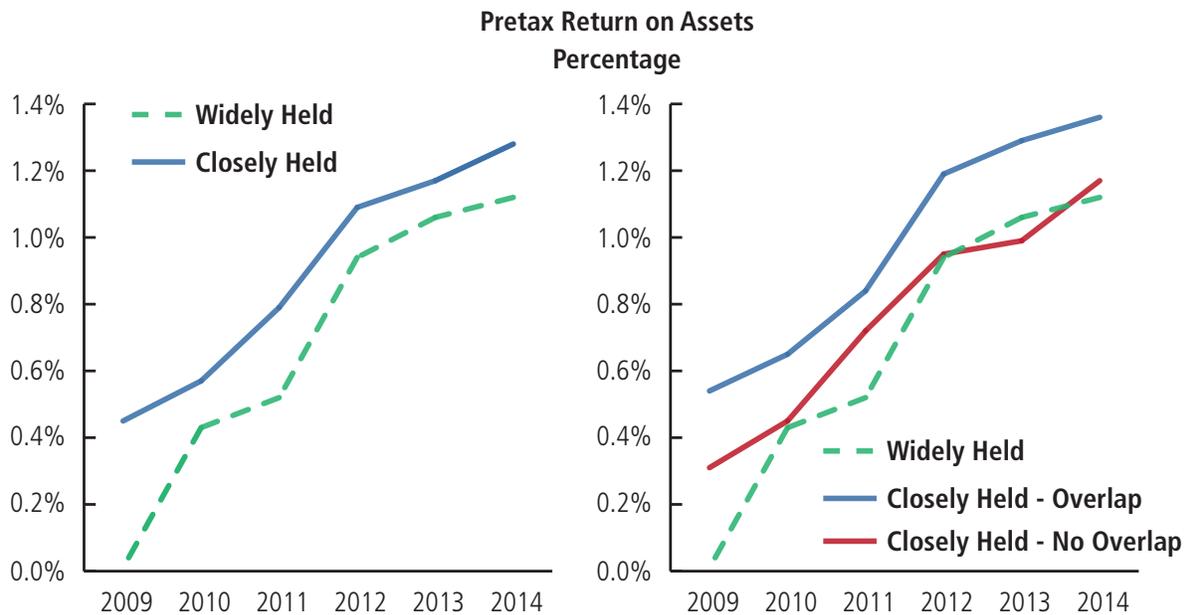
Apart from research, the Community Bank Initiative includes a robust technical assistance program for bank directors, officers, and employees. The technical assistance program includes Directors' College events held across the country, industry teleconferences, and a video program.

In 2015, the FDIC hosted 47 Directors' College events. These events were typically conducted jointly with state trade associations and addressed issues such as corporate governance, regulatory capital, community banking, concentrations management, consumer protection, the Bank Secrecy Act, and interest rate risk, among others. In addition, the FDIC hosted five industry teleconferences on a range of topics of interest to community bankers, including brokered deposits, cybersecurity awareness, the implementation of CFPB's mortgage rules, the interagency rule on loans in areas with special flood

hazards, and youth savings programs. The FDIC also participated in two FFIEC industry teleconferences regarding regulatory capital reporting changes. In addition, the FDIC offered four deposit insurance coverage seminars for bank officers and employees in 2015. These free seminars, which were offered nationwide, particularly benefitted smaller institutions that have limited training resources. The FDIC also released three deposit insurance seminar training videos on the FDIC's website and YouTube channel.

Among other FDIC technical assistance initiatives is the *Directors' Resource Center*, a special section of the FDIC's website that provides useful information to bank directors, officers, and employees on areas of supervisory focus and regulatory changes. One key element of this resource center is a Technical Assistance Video Program that offers in-depth, technical training for bankers to view at their

## CLOSELY HELD COMMUNITY BANKS WHERE OWNERSHIP AND MANAGERIAL CONTROL OVERLAP HAVE CONSISTENTLY REPORTED HIGHER PROFITABILITY



Source: Anderlik, John, M., Richard A. Brown, and Kathryn L. Fritzdixon. "Financial Performance and Management Structure of Small, Closely Held Banks," *FDIC Quarterly*, Vol. 10, No. 1, 2016.

Closely held community banks are owned by an identifiable primary owner or ownership group. Closely held banks where there is overlap are run by a key officer that is part of or affiliated with that ownership group.

convenience. During 2015, the FDIC released three technical assistance videos on cybersecurity awareness, the Loan Originator Compensation Rule, and the Servicing Rule. In addition, the FDIC expanded an existing resource—the FDIC’s Cyber Challenge: A Community Bank Cyber Exercise—to include three additional exercises. In 2015, the FDIC surveyed almost 800 financial institutions to obtain feedback on the Technical Assistance Video Program. The survey requested comments on the program as a whole and on individual videos within the program and asked for suggestions for the program, including topics for new videos. The FDIC is evaluating the feedback received.

Finally, the FDIC’s Advisory Committee on Community Banking is an ongoing forum for discussing current issues and receiving valuable feedback from the industry. The committee, which

met three times during 2015, is composed of 15 community bank CEOs from around the country. It is a valuable resource for input on a wide variety of topics, including examination policies and procedures, capital and other supervisory issues, credit and lending practices, deposit insurance assessments and coverage, and regulatory compliance issues.

The FDIC continues to promote open communication with industry members during these meetings, including feedback on the pre-examination planning process. The FDIC’s electronic pre-examination planning package, launched in 2013, has enabled examiners to tailor examination information requests to the particular characteristics and risk profile of the institution, thereby reducing the amount of the information requested. The FDIC continues to monitor industry feedback on this process from outreach events and through the Post

Examination Survey, and communicate best practices to examination staff regarding information requests and use of the information received.

### *Consumer Complaints and Inquiries*

The FDIC helps consumers by receiving, investigating, and responding to consumer complaints about FDIC-supervised institutions and answering inquiries about banking laws and regulations, FDIC operations, and other related topics. In addition, the FDIC provides analytical reports and information on complaint data for internal and external use, and conducts outreach activities to educate consumers.

The FDIC recognizes that consumer complaints and inquiries play an important role in the development of strong public and supervisory policy. Assessing and resolving these matters helps the agency identify trends or problems affecting consumer rights, understand the public perception of consumer protection issues, formulate policy that aids consumers, and foster confidence in the banking system by educating consumers about the protection they receive under certain consumer protection laws and regulations.

### **Consumer Complaints by Product and Issue**

The FDIC receives complaints and inquiries by telephone, fax, U.S. mail, email, and online through the FDIC's website. In 2015, the FDIC handled 18,118 written and telephone complaints and inquiries. Of this total, 9,042 related to FDIC-supervised institutions. The FDIC responded to nearly 98 percent of these complaints within time frames established by corporate policy, and acknowledged 100 percent of all consumer complaints and inquiries within 14 days. As part of the complaint and inquiry handling process, the FDIC works with the other federal financial regulatory agencies to ensure that complaints and inquiries are forwarded to the appropriate agencies for response.

The FDIC carefully analyzes the products and issues involved in complaints about FDIC-supervised

institutions. The number of complaints received about a specific bank product and issue can serve as a red flag to prompt further review of practices that may raise consumer protection or supervisory concerns.

In 2015, the five most frequently identified consumer product complaints and inquiries about FDIC-supervised institutions concerned credit cards (22 percent), consumer loans (15 percent), checking accounts (13 percent), residential real estate loans (11 percent), and prepaid cards (6 percent). Credit card complaints and inquiries most frequently described issues with billing disputes and error resolution, while the issues most commonly cited in correspondence about consumer loans were concerns with the reporting of erroneous information. Complaints and inquiries on checking accounts related to discrepancies or transaction errors on the account. The largest share of correspondence about residential real estate loans cited loan modifications and foreclosures as the main concern. Lastly, consumers most often identified issues with the release of funds in relation to prepaid cards.

The FDIC also investigated 89 complaints alleging discrimination during 2015. The number of discrimination complaints investigated has fluctuated over the past several years but averaged approximately 117 complaints per year between 2008 and 2015. Over this period, nearly 37 percent of the complaints investigated alleged discrimination based on the race, color, national origin, or ethnicity of the applicant or borrower; 22 percent related to discrimination allegations based on age; 8 percent involved the sex of the borrower or applicant; and roughly 5 percent concerned marital status.

Consumer refunds generally involve the financial institution offering a voluntary credit to the consumer's account, often as a direct result of complaint investigations and identification of a banking error or violation of law. In 2015, consumers received more than \$636,792 in refunds from financial institutions as a result of the assistance provided by the FDIC's Consumer Affairs Program.

## *Public Awareness of Deposit Insurance Coverage*

An important part of the FDIC's deposit insurance mission is to ensure that bankers and consumers have access to accurate information about the FDIC's rules for deposit insurance coverage. The FDIC has an extensive deposit insurance education program consisting of seminars for bankers, electronic tools for estimating deposit insurance coverage, and written and electronic information targeted to both bankers and consumers.

The FDIC continued its efforts to educate bankers and consumers about the rules and requirements for FDIC insurance coverage during 2015. For example, the FDIC conducted four telephone seminars for bankers on deposit insurance coverage, reaching an estimated 4,449 bankers participating at approximately 1,271 bank sites throughout the country. The FDIC also created deposit insurance training videos that are available on the FDIC's website and YouTube channel.

During 2015, the FDIC received and answered approximately 90,429 telephone deposit insurance-related inquiries from consumers and bankers. The FDIC Call Center addressed 38,662 of these inquiries, and deposit insurance coverage subject-matter experts handled the other 51,767. In addition to telephone inquiries about deposit insurance coverage, the FDIC received 1,859 written inquiries from consumers and bankers. Of these inquiries, 99 percent received responses within two weeks, as required by corporate policy.

## *Center for Financial Research*

The FDIC's Center for Financial Research (CFR) encourages and supports innovative research on topics that are important to the FDIC's roles as deposit insurer and bank supervisor. Research from CFR staff was accepted during the year for publication in leading banking, finance, and economics journals, and was presented at banking and finance seminars at major conferences, regulatory institutions, and

universities. CFR researchers also produced a number of new working papers in 2015.

In addition, the CFR organized and sponsored the 15th Annual Bank Research Conference jointly with the Journal for Financial Services Research. More than 120 participants attended the conference, which was held in September 2015 and included more than 15 presentations on topics related to bank capital, liquidity, lending, dividend policy, systemic risk, and macroprudential regulation.

## **RECEIVERSHIP MANAGEMENT**

The FDIC has the unique mission of protecting depositors of insured banks and savings associations. No depositor has ever experienced a loss on the insured amount of his or her deposits in an FDIC-insured institution due to a failure. Upon closure of an institution, typically by its chartering authority—the state for state-chartered institutions and the OCC for national banks and federal savings associations—the FDIC is appointed receiver and is responsible for resolving the failed institution.

The FDIC uses a variety of business practices to resolve a failed institution. These practices are typically associated with either the resolution process or the receivership process. Depending on the characteristics of the institution, the FDIC may recommend several of these methods to ensure the prompt and smooth payment of deposit insurance to insured depositors, to minimize the impact on the DIF, and to speed dividend payments to uninsured depositors and other creditors of the failed institution.

The resolution process involves evaluating and marketing a failing institution, soliciting and accepting bids for the sale of the institution, determining which bid is least costly to the DIF, and working with the acquiring institution through the closing process.

To minimize disruption to the local community, the resolution process must be performed as quickly and smoothly as possible. The FDIC uses two basic resolution methods: purchase and assumption transactions and deposit payoffs.

The purchase and assumption (P&A) transaction is the most commonly used resolution method. In a P&A transaction, a healthy institution purchases certain assets and assumes certain liabilities of the failed institution. A variety of P&A transactions can be used. Since each failing bank situation is different, P&A transactions provide flexibility to structure deals that result in the highest value for the failed institution. For each possible P&A transaction, the acquirer may either acquire all or only the insured portion of the deposits. From 2008 through 2013, loss sharing was offered by the FDIC in connection with P&A transactions. In a loss-share transaction, the FDIC as receiver agrees to share losses on certain assets with the acquirer, absorbing a significant portion (typically 80 percent) of future losses on assets that have been designated as “shared-loss assets” for a specific period of time (five to ten years). The economic rationale for these transactions is that keeping assets in the banking sector can produce a better net recovery than the FDIC’s immediate liquidation of these assets. As the markets improve and function more normally with capital and liquidity returning, acquirers become more comfortable with bidding without the loss sharing protection.

The FDIC continues to monitor compliance with shared-loss agreements by validating the appropriateness of loss-share claims; reviewing efforts to maximize recoveries; ensuring consistent application of policies and procedures across both shared-loss and legacy portfolios; and confirming that the acquirer has sufficient internal controls, including adequate staff, reporting, and recordkeeping systems. At year-end 2015, there were 215 receiverships with active shared-loss agreements with \$31.5 billion in total covered assets.

Deposit payoffs are only executed if all bids received for a P&A transaction are more costly to the DIF than liquidation or if no bids are received, in which case the FDIC, in its corporate capacity, makes sure that the customers of the failed institution receive the full amount of their insured deposits.

The receivership process involves performing the closing functions at the failed institution;

liquidating any remaining failed institution assets; and distributing any proceeds of the liquidation to the FDIC, uninsured depositors, and other creditors of the receivership. In its role as receiver, the FDIC has used a wide variety of strategies and tools to manage and sell retained assets. These include asset sale and/or management agreements and structured transactions.

### *Financial Institution Failures*

During 2015, eight institutions failed, including one large institution (greater than \$5 billion in total assets), compared to 18 failures in 2014. The large failure in 2015 was unique because the majority of the institution’s assets and liabilities were sold to multiple buyers through an alliance partnership arrangement. The FDIC executed one P&A agreement with a lead buyer who then simultaneously sold portions of what they acquired to their alliance members. Asset buyers were also given an opportunity to bid on the institution’s assets prior to the institution failing.

In all FDIC transactions, the FDIC successfully contacted all known qualified and interested bidders to market these institutions and also made insured funds available to all depositors within one business day of the failure. No losses were incurred on insured deposits, and no appropriated funds were required to pay insured deposits.

The following chart provides a comparison of failure activity over the past three years.

FAILURE ACTIVITY 2013–2015			
Dollars in Billions			
	2015	2014	2013
Total Institutions	8	18	24
Total Assets of Failed Institutions*	\$6.7	\$2.9	\$6.0
Total Deposits of Failed Institutions*	\$4.9	\$2.7	\$5.1
Estimated Loss to the DIF	\$0.8	\$0.4	\$1.3

\*Total assets and total deposits data are based on the last Call Report or Thrift Financial Report (TFR) filed by the institution prior to failure.

## Asset Management and Sales

As part of its resolution process, the FDIC tries to sell as many assets as possible to an assuming institution. Assets that are retained by the receivership are evaluated. For 95 percent of the failed institutions, at least 90 percent of the book value of marketable assets is marketed for sale within 90 days of an institution's failure for cash sales and within 120 days for structured sales.

Cash sales of assets for the year totaled \$1.7 billion in book value. In addition to structured and cash sales, the FDIC also uses securitizations to dispose of bank assets.

As a result of the FDIC's marketing and collection efforts, the book value of assets in inventory decreased by \$2.9 billion (37.4 percent) in 2015. The following chart shows the beginning and ending balances of these assets by asset type.

ASSETS IN INVENTORY BY ASSET TYPE Dollars in Millions		
Asset Type	12/31/15	12/31/14
Securities	\$393	\$470
Consumer Loans	22	36
Commercial Loans	62	123
Real Estate Mortgages	173	697
Other Assets/Judgments	398	957
Owned Assets	113	120
Net Investments in Subsidiaries	122	123
Structured and Securitized Assets	3,524	5,150
<b>Total</b>	<b>\$4,807</b>	<b>\$7,676</b>

## Receivership Management Activities

The FDIC, as receiver, manages failed banks and their subsidiaries with the goal of expeditiously winding up their affairs. The oversight and prompt termination of receiverships help to preserve value for the uninsured depositors and other creditors by reducing overhead and other holding costs. Once the assets of a failed institution have been sold and the final distribution

of any proceeds is made, the FDIC terminates the receivership. In 2015, the number of receiverships under management decreased by 7.3 percent, due to receiverships being terminated. The following chart shows overall receivership activity for the FDIC in 2015.

RECEIVERSHIP ACTIVITY	
Active Receiverships as of 12/31/14	481
New Receiverships	8
Receiverships Terminated	43
Active Receiverships as of 12/31/15	446

## Protecting Insured Depositors

The FDIC's ability to attract healthy institutions to assume deposits and purchase assets of failed banks and savings associations at the time of failure minimizes the disruption to customers and allows assets to be returned to the private sector immediately. Assets remaining after resolution are liquidated by the FDIC in an orderly manner, and the proceeds are used to pay creditors, including depositors whose accounts exceeded the insurance limit. During 2015, the FDIC paid dividends of \$5.7 million to depositors whose accounts exceeded the insurance limit.

## Professional Liability and Financial Crimes Recoveries

The FDIC works to identify potential claims against directors, officers, securities underwriters and issuers, fidelity bond insurance carriers, appraisers, attorneys, accountants, mortgage loan brokers, title insurance companies, and other professionals who may have caused losses to an IDI. Once a claim is determined to be meritorious and is expected to be cost-effective to pursue, the FDIC initiates legal action against the appropriate parties. During 2015, the FDIC recovered \$450.3 million from professional liability claims and settlements. The FDIC also authorized lawsuits related to two failed institutions against 26 individuals for director and officer liability, and authorized nine other lawsuits for fidelity bond, liability insurance, attorney malpractice,

appraiser malpractice, and securities law violations for residential mortgage-backed securities. As of December 31, 2015, the FDIC's caseload included 50 professional liability lawsuits (down from 102 at year-end 2014), 87 residential mortgage malpractice and fraud lawsuits (up from 75), and 264 open investigations (down from 511). The FDIC seeks to complete professional liability investigations and make decisions expeditiously on whether to pursue potential professional liability claims. During 2015, it completed investigations and made decisions on over 80 percent of the investigations related to failures that reached the 18-month point after the institution's failure date, exceeding its annual performance target.

As part of the sentencing process for those convicted of criminal wrongdoing against an institution that later failed, a court may order a defendant to pay restitution or to forfeit funds or property to the receivership. The FDIC, working with the U.S. Department of Justice, collected \$7.8 million from criminal restitution and forfeiture orders through the end of December 31, 2015. Also as of that same date, there were 3,831 active restitution and forfeiture orders (down from 3,954 at year-end 2014). This includes 126 orders held by the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund, (i.e., orders arising out of failed financial institutions that were in receivership or conservatorship by the FSLIC or the Resolution Trust Corporation).

## INTERNATIONAL OUTREACH

In 2015, the FDIC continued to play a leading role in supporting and promoting the global development of effective deposit insurance, bank supervision, and resolution regimes as integral components of the financial safety net. The FDIC worked with several standard-setting, regulatory, supervisory, and multi-lateral organizations such as the Association of Supervisors of Banks of the Americas (ASBA), the BCBS, the Financial Services Volunteer Corps (FSVC), the Financial Stability Board (FSB), the International Association of Deposit Insurers (IADI), the International Monetary Fund (IMF), and the

World Bank. FDIC staff also: facilitated training for several hundred participants from counterpart agencies around the world; participated in technical assistance missions to several countries; and conducted secondment programs to further the international community's understanding and implementation of best practices in deposit insurance, bank supervision, and failure resolutions.

### International Association of Deposit Insurers

The IADI contributes to global financial stability by promoting international cooperation in the field of deposit insurance; providing guidance for establishing new, and enhancing existing, deposit insurance systems; and encouraging wide international contact among deposit insurers and other interested parties. IADI is now recognized as the standard-setting body for deposit insurance by major international financial institutions, including the FSB, the BCBS, the IMF, the World Bank, and the European Community. Since its founding in 2002, IADI has grown from 26 members to 80 deposit insurers from 77 jurisdictions. FDIC Chairman Martin J. Gruenberg served as the President of IADI and Chair of its Executive Council from November 2007 to October 2012. In October 2015, FDIC Vice Chairman Thomas M. Hoenig was elected to a two-year term to serve as President of IADI and Chair of its Executive Council.

IADI and the BCBS jointly issued the *Core Principles for Effective Deposit Insurance Systems* in 2009 and completed the accompanying *Compliance Assessment Methodology for the Core Principles* in 2010 (together, the *Core Principles*). The FSB later included the *Core Principles* as part of its Compendium of Key Standards for Sound Financial Systems. During the fall of 2014, IADI's Executive Council and the FSB approved a revised set of *Core Principles* that replaced the original (2009) version.

Subsequently, an IADI drafting team, led by FDIC staff, began revising the *Handbook for the Assessment of Compliance with the Core Principles (Handbook)*. The *Handbook* is being designed as a "how-to" guide, which will provide additional guidance on assessing a jurisdiction's compliance with the *Core Principles* and

will include lessons learned from collaboration with IMF and World Bank Financial Sector Assessment Program (FSAP) review teams, IADI Core Principles Regional Workshops, and IADI Self-Assessment Technical Assistance Program (SATAP) reviews.

The IMF and World Bank use the *Core Principles* in the context of the FSAP reviews, to assess the effectiveness of jurisdictions' deposit insurance systems and practices. This represents an important milestone in the growing global acceptance of the role of effective deposit insurance systems in maintaining financial stability. IADI, under FDIC leadership of the Training and Conference Committee, has trained more than 300 staff members from over 74 jurisdictions in conducting self-assessments for compliance with the *Core Principles*. In collaboration with the Deposit Insurance Fund of Kosovo, the FDIC led a Regional Workshop in Pristina, Kosovo, during May 2015 on Assessment of Compliance with the Revised Core Principles. In June 2015, the FDIC led a team of experts on an IADI SATAP review of the Korea Deposit Insurance Corporation in Seoul, Korea.

FDIC executives and subject-matter experts partnered with IADI in helping to develop and deliver several international programs in 2015. In September 2015, for example, Vice Chairman Thomas M. Hoenig joined global bank resolution and deposit insurance leaders at a conference hosted jointly by IADI and the Financial Stability Institute Conference. The conference, which was held at the Bank for International Settlements in Basel, Switzerland, explored key issues related to resolution and crisis management. The FDIC also led the organizing committee for IADI's Biennial Research Conference held in June 2015, in Basel, Switzerland. Vice Chairman Hoenig presented at the conference, along with several FDIC subject-matter experts. Finally, in addition to the Vice Chairman's new role as IADI President and Chair of its Executive Council, FDIC staff provides strategic guidance and leadership to multiple IADI standing committees, subcommittees, and working groups.

## **Association of Supervisors of Banks of the Americas**

The FDIC has been a member of ASBA since its founding in 1999 and supports ASBA's mission of promoting sound bank supervision and regulation throughout the Western Hemisphere. ASBA represents bank supervisors from 36 jurisdictions. The FDIC strives to lead the development of strong supervisory policies in this hemisphere through actively engaging with the Board, chairing ASBA's Training and Technical Committee, and providing leadership in many of the Association's research and guidance working groups.

In 2015, senior FDIC staff chaired the ASBA Training and Technical Committee, which is responsible for designing and implementing ASBA's training strategy that advances the adoption of sound bank supervision policies and practices among members. ASBA's training program reaches more than 600 members annually, with FDIC support, both as chair and training provider. In support of ASBA's training program, the FDIC led a technical assistance training mission in Guatemala City, Guatemala, titled *Banking Crisis and Resolutions* in 2015. During the year, the FDIC also partnered with the U.S. Treasury Department and ASBA to promote stronger cooperation and information sharing between deposit insurers and bank supervisors in Latin America and the Caribbean.

## **Basel Committee on Banking Supervision**

The FDIC supported the development of sound regulatory policy through effective participation in the BCBS and its relevant groups, subgroups, and task forces. Major work areas for the BCBS include those conducted by the:

- Policy Development Group (PDG) and its:
  - Coherence and Calibration Task Force
  - Working Group on Capital
  - Trading Book Group
  - Leverage Ratio Group

- Working Group on Liquidity
- Risk Measurement Group
- Ratings and Securitization Work Stream
- Task Force on Standardized Approaches
- Task Force on Interest Rate Risk in the Banking Book
- Task Force on Scope of Regulatory Consolidation
- Research Task Force
- Quantitative Impact Study Working Group
- Supervision and Implementation Group and its:
  - Working Group on Operational Risk
  - Standards Implementation Group – Banking Book
  - Standards Implementation Group – Trading Book
  - Task Force on Supervisory Colleges
  - Task Force on Pillar 2
- Macroprudential Supervision Group
- Accounting Experts Group and its:
  - Audit Subgroup
- Anti-Money Laundering Expert Group
- Task Force on Simplicity and Comparability
- Task Force on Sovereign Exposures
- Working Group on Margining Requirements
- OTC Derivatives Regulators’ Forum
- OTC Derivatives Supervisor Group
- OTC Derivatives Assessment Team
- Joint Central Counterparties Task Force
- Task Force on Securitization Markets

### **International Derivatives Work**

For many years, the FDIC has been actively engaged in cooperation with market, prudential, and financial stability authorities in policy development and regulatory activities in the derivatives markets. The FDIC also participates in the work of Derivatives Regulators’ Forum and the OTC Derivatives Supervisors Group.

### **International Capacity Building**

The FDIC’s international efforts supporting the development of effective deposit insurance systems, bank supervisory practices, and bank resolution regimes continued to grow in 2015. FDIC staff contributed to international capacity building by providing study tours, secondments, and technical assistance to foreign counterparts. These engagements resulted in an enhanced dialogue between the FDIC and foreign counterparts in significant areas such as bank supervision and regulatory developments post crisis, the legal framework and operations for bank resolutions, and optimal funding strategies for deposit insurers.

FDIC management and staff hosted study tours for 214 people representing 31 jurisdictions during the year. In addition, the FDIC’s Corporate University provided training in bank supervision and information technology to 173 foreign delegates from 20 jurisdictions. In 2015, the FDIC also launched a new training program for foreign regulatory officials, *FDIC 101: An Introduction to Deposit Insurance, Bank Supervision, and Resolutions (FDIC 101)*, designed to provide a structured and comprehensive view of how the FDIC executes its key business functions. *FDIC 101* incorporates technical expertise from across the Corporation into a semi-annual, five-day intensive course.

The FDIC contributes to global and domestic bank supervision, deposit insurance, and resolution initiatives by providing staff to support long-term projects and technical assistance missions led by the IMF, U.S. Treasury Department, the FSVC, and the World Bank. The FDIC also continued long-established programs for staffing multiple details with the U.S. Treasury Department’s Office of International Banking and Securities Markets and with the FSVC to work on a variety of technical assistance programs. The FSVC’s long-term assignments included on-site project work on lending to small-to-medium-sized enterprises and anti-money laundering in Indonesia, Angola, Tanzania, Jordan, and Egypt.



The FDIC also completed short-term technical assistance missions to Egypt to promote access to credit, and to Poland to assist with the deposit insurer's organizational development. The FDIC partnered with the World Bank to provide technical assistance to the Nigeria Deposit Insurance Corporation and the Zimbabwe Deposit Protection Corporation on the development of quantitative models to estimate appropriate target fund ratios for their deposit insurance funds. The FDIC also partnered with the World Bank to provide technical assistance to Mexico's bank supervisor, Comisión Nacional Bancaria y de Valores, on off-site risk-based supervision.

The FDIC expands and strengthens international engagement by providing secondment opportunities to foreign officials to engage in long-term consultation with FDIC subject-matter experts in areas related to bank supervision, deposit insurance, and resolutions. In 2015, two officials from the Deposit Insurance Corporation of Japan and the Korea Deposit Insurance Corporation concluded their secondments to the FDIC, and two new secondees from these agencies joined the FDIC, each for one-year assignments.

### **Key International Engagements**

The FDIC continued to advance policy making priorities and strengthen its relationships with key jurisdictions worldwide through its participation in interagency dialogues in 2015.

In January 2015, FDIC executives traveled to Beijing to participate in the 11th U.S.-China Joint Economic Committee Meeting to discuss with their Chinese counterparts issues related to deposit insurance and the U.S. bank resolution regime. FDIC representatives, alongside representatives from the other U.S. financial regulatory authorities, also participated in the annual U.S.-India Financial Regulatory Dialogue in January to discuss issues related to bank resolution and financial inclusion. In April 2015, representatives from the FDIC, FRB, and OCC met with delegates from the China Banking Regulatory Commission (CBRC) for the eighth

annual CBRC-U.S. Supervisors' Bilateral Conference to discuss supervisory issues of mutual interest.

In May 2015, the FDIC joined other U.S., Canadian, and Mexican financial sector regulators in Ottawa for the 20<sup>th</sup> meeting of the North American Free Trade Agreement (NAFTA) Financial Services Committee (FSC). The participants discussed financial sector regulation, key policy issues, current cross-border financial sector issues, and recent developments in financial service regulations. The FDIC led the discussion on cross-border resolution, which included a discussion of resolution planning, resolution plans, and cross-border coordination efforts.

The 7<sup>th</sup> U.S.-China Strategic and Economic Dialogue was held in Washington D.C. in June 2015. FDIC Chairman Martin J. Gruenberg participated, alongside other leaders from U.S. and Chinese government agencies, giving remarks during the session on financial sector reform. Chairman Gruenberg commended China on the adoption of a deposit insurance system and emphasized the importance of strong bilateral cooperation and robust resolution regimes for global financial stability.

## **MINORITY AND WOMEN INCLUSION**

The FDIC relies on contractors to help meet its mission. In 2015, the FDIC awarded 346 (29.9 percent) contracts to minority- and women-owned businesses (MWOBs) out of a total of 1,159 issued. The FDIC awarded contracts with a combined value of \$858.4 million in 2015, of which, \$211.6 million, or 24.7 percent, were awarded to MWOBs, compared to 34.9 percent for all of 2014. The FDIC paid \$142.5 million of its total contract payments (28.1 percent) to MWOBs, under 591 active contracts. Referrals to minority- and women-owned law firms (MWOLFs) accounted for 40 percent of all legal referrals in 2015, with total payments of \$12 million going to MWOLFs, 12 percent of all payments to outside counsel, compared to 13 percent for all of 2014.



*Representatives of the eight OMWI agencies gather at the first interagency OMWI technical assistance event.*

In 2015, the FDIC participated in a combined total of 34 business expos, one-on-one matchmaking sessions, and panel presentations. At these events, FDIC staff provided information and responded to inquiries regarding FDIC business opportunities for minorities and women. In addition to targeting MWOBs and MWOLFs, these efforts also targeted veteran-owned and small disadvantaged businesses. Vendors were provided with the FDIC's general contracting procedures, prime contractors' contact information, and forecasts of possible upcoming solicitations. Also, vendors were encouraged to register through the FDIC's Contractor Resource List (a principal database for vendors interested in doing business with the FDIC).

In August 2015, the FDIC, along with seven other agencies, co-hosted "Collaborating for Success," a technical assistance event, in conjunction with the Northern Virginia Procurement Technical Assistance Program (PTAP). The purpose of the event was to network with MWOBs that are interested in federal contracting activities, and to provide meaningful information to help them build and grow their federal contracting opportunities. This event supports one of the key provisions of Section 342 of the Dodd-Frank Act requiring the Office of Minority and Women Inclusion (OMWI) agencies to increase and ensure the fair participation of MWOBs, and ensure MWOBs receive technical assistance and guidance about the procurement process within those agencies. This was the first Interagency Procurement Technical Assistance Event, with joint participation of eight OMWI agencies. A total of 344 vendors attended.

During 2015, OMWI and the Division of Resolutions and Receiverships (DRR) collaborated to present two

FDIC-sponsored asset purchaser workshops that were marketed extensively to minority- and women-owned investors and companies interested in learning about DRR's sales processes. DRR speakers with strong backgrounds in their respective programs provided details on the various tools used by DRR to market assets and presented information to attendees on how to participate in the transactions and bid on assets offered for sale.

Following the Doral Bank failure in Puerto Rico in February 2015 and highlighting interdivisional collaboration, the Division of Depositor and Consumer Protection (DCP) joined with DRR and OMWI to sponsor workshops for both investors and homeowners. More than 160 people attended these events, which included presentations by: DRR, OMWI, and DCP staff; Puerto Rico's Commissioner Blanco-Latorre from the Office of the Commissioner of Financial Institutions; and representatives from both the Department of Housing and Urban Development and the Commonwealth of Puerto Rico Housing Finance Authority.

Another asset purchaser workshop held in Atlanta, Georgia, was attended by 42 prospective investors. This event included a special focus on Owned Real Estate (ORE) investment opportunities to support a DRR auction of real estate properties scheduled two weeks after the outreach workshop. A segment regarding contracting services was also part of the event.

In August, through OMWI's logistical support and funding, DRR participated in a Mortgage Housing Fair in Puerto Rico. The Housing Fair was organized by a small group of business professionals from the

banking and insurance community on the island, and drew an audience of over one thousand attendees. Representatives from DRR educated participants on the process of purchasing ORE properties from the FDIC, provided a general overview on deposit insurance, and publicized the scheduled ORE auction in October. The FDIC team also included members from RMS Examinations (Puerto Rico). Over the course of the event, the FDIC directly engaged over 500 attendees, and indirectly informed many more through 30-minute presentations on the main stage each day. Presentations focused on deposit insurance and how to buy ORE from the FDIC. Information regarding the Minority and Women Outreach Program can be found on the FDIC's website at [www.fdic.gov/mwop](http://www.fdic.gov/mwop).

In addition, the FDIC worked to further implement Section 342(b)(2)(C) of the Dodd-Frank Act in 2015, which requires the OMWI Director of each covered agency to develop standards for assessing the diversity policies and practices of entities regulated by such agency. To implement that requirement and develop those standards, the FDIC continued to work closely with the OMWI Directors of the OCC, the NCUA, the FRB, the CFPB, and the SEC. On June 10, 2015, the Final Interagency Policy Statement Establishing Joint Standards for Assessing the Diversity Policies and Practices of Entities Regulated by the Agencies became effective.

## **EFFECTIVE MANAGEMENT OF STRATEGIC RESOURCES**

The FDIC recognizes that it must effectively manage its human, financial, and technological resources to successfully carry out its mission and meet the performance goals and targets set forth in its annual performance plan. The FDIC must align these strategic resources with its mission and goals and deploy them where they are most needed to enhance its operational effectiveness and minimize potential financial risks to the DIF. Following are the FDIC's major accomplishments in improving operational efficiency and effectiveness during 2015.

### *Human Capital Management*

The FDIC's human capital management programs are designed to attract, train and develop, reward, and retain a highly skilled, diverse, and results-oriented workforce. In 2015, the FDIC workforce planning initiatives emphasized the need to plan for employees to fulfill current and future capabilities and leadership needs. This focus ensures that the FDIC has a workforce positioned to meet today's core responsibilities while preparing to fulfill its mission in the years ahead.

### **Strategic Workforce Planning and Readiness**

During 2015, the FDIC continued to develop and implement the Workforce Development Initiative, an integrated strategy to address workforce challenges and opportunities. The effort is focused on four broad objectives: (1) attract and develop talented employees across the agency; (2) enhance the capabilities of employees through training and diverse work experiences; (3) encourage employees to engage in active career development planning and seek leadership roles in the FDIC; and (4) build on and strengthen the FDIC's operations to support these efforts.

In 2015, the FDIC continued to develop the infrastructure, governance, programs, and processes to help meet its long-term workforce and leadership needs. The FDIC is committed to building and expanding its talent pipeline to ensure succession challenges are met. To that end, the agency conducted a cross-divisional succession planning review and talent strategy development process. Senior FDIC leaders convened to discuss emerging talent needs and strategies to address them, including efforts to develop the pipeline of the FDIC's aspiring leadership pool. Several programs were launched in 2015 focused on enhancing leadership capabilities, including the Leadership Mentoring and Onboarding Programs, expanded external educational opportunities through Harvard's Kennedy School of Government, and enriched management training.



The FDIC continued to focus on ensuring the availability of a workforce equipped to meet today's responsibilities, while simultaneously preparing for future capability needs. The FDIC established a Career Paths initiative, targeted at nonsupervisory employees at all levels, to promote the acquisition of cross-organizational skills and knowledge. Additional support is provided to employees seeking professional development opportunities through expanded career management services. Following up on a pilot program launched in 2014, the FDIC evaluated its first-year experience with an effort to increase FDIC employees' exposure to large bank operations across the agency. Based on initial feedback, the pilot program will be expanded to add six detail opportunities to the ten offered in 2014 to support the growth of the FDIC's capabilities related to the oversight of SIFIs required under the Dodd-Frank Act.

The FDIC's strategic workforce planning initiatives require a long-term and sustained focus to identify future workforce and leadership needs, assess current capabilities, support aspiration to management and leadership roles, and develop and source the talent to meet emerging workforce needs. Through further development of its human capital strategies, the FDIC will work to ensure that the future FDIC workforce is as prepared, capable, and dedicated as the one it has today.

### **Corporate Employee Program**

The FDIC's Corporate Employee Program (CEP) sponsors the development of newly hired Financial Institution Specialists (FISs) in entry-level positions. The CEP encompasses major FDIC divisions where FISs are trained to become part of a highly effective workforce. During the first-year rotation within the program, FISs gain experience and knowledge in the core business of the FDIC, including the Division of Depositor and Consumer Protection (DCP), the Division of Risk Management Supervision (RMS), the Division of Resolutions and Receiverships (DRR), and the Division of Insurance (DIR). At the conclusion of the rotation period, FISs are placed

within RMS, DCP, or DRR, where they continue their career path to become commissioned examiners or resolutions and receiverships specialists.

The CEP, which celebrated its 10<sup>th</sup> anniversary in 2015, is an essential part of the FDIC's ability to provide continual cross-divisional staff mobility. Since the CEP's inception in 2005, 1,516 individuals have joined the FDIC through this multi-discipline program and more than 700 have become commissioned examiners after successfully completing the program's requirements.

The FDIC continues to sponsor the Financial Management Scholars Program (FMSP), an additional hiring source for the CEP. Participants in the FMSP complete an internship with the FDIC the summer following the conclusion of their junior year. As a result, the FDIC is able to recruit and hire highly talented and well-qualified students into the CEP ahead of other prospective employers. The program serves as an additional venue to recruit talent.

### **Employee Learning and Development**

The FDIC is committed to the learning and development of its employees throughout their careers to enrich technical proficiency and leadership capacity, supporting career progression and succession management. In 2015, the FDIC focused on developing and implementing comprehensive curricula for its business lines to incorporate lessons learned from the financial crises and preparing employees to meet new challenges. Such training, which includes both classroom and online instruction for maximum flexibility, is a critical part of workforce and succession planning as more experienced employees become eligible for retirement.

The FDIC also offers a comprehensive leadership development program that combines core courses, electives, and other enrichment opportunities to develop employees at all levels. From new employees to new managers, the FDIC provides employees with targeted leadership development opportunities that align with key leadership competencies. In addition to a broad array of internally developed

and administered courses, the FDIC also provides its employees with funds and/or time to participate in external training to support their career development.

### Corporate Risk Management

During 2015, the Office of Corporate Risk Management (OCRM) worked with divisions and offices to advance common agency-wide processes for identifying, managing, and mitigating risks to the FDIC. OCRM assisted the Enterprise Risk Committee, Executive Management Committee, External Risk Forum, and Management Risk Roundtable in reviewing risks across the agency. OCRM monitors material risks and mitigation activities, including the following:

- Risks to the agency's ability to conduct its mission essential functions under all threats and conditions, as described in its Continuity of Operations Plan and Business Continuity Plan.
- Risks to the financial system posed by the extended current low level of interest rates.
- Risks posed by the analytical models used by the FDIC in identifying and managing risk. During 2015, the FDIC enhanced policies and controls to govern internal decision support models. The comprehensive, corporate-wide model validation program will ensure that FDIC models are sound through routine testing and evaluation carried out according to tailored model validation programs.
- Risks associated with governance and development of large-scale IT projects.
- Risks posed to the agency and to the financial services industry by concerted attempts to penetrate, compromise, and disrupt the information systems that are essential to their effective operation.

### Employee Engagement

The FDIC continually evaluates its human capital programs and strategies to ensure that it remains an employer of choice and that all of its employees are fully engaged and aligned with the mission. The FDIC uses the Federal Employee Viewpoint Survey mandated by Congress to solicit information from

employees and takes an agency-wide approach to address key issues identified in the survey. In December 2015, the FDIC received an award from the Partnership for Public Service for being ranked number one among mid-sized federal agencies on the *Best Places to Work in the Federal Government*<sup>®</sup> list. Effective leadership is the primary factor driving employee satisfaction and commitment in the federal workplace, according to a report by the Partnership for Public Service.



Photo credit: Aaron Clamage/Clamagephoto.com

Director of the Division of Administration Arleas Upton Kea and Deputy to the Chairman and Chief Operating Officer Barbara A. Ryan accept the award from Max Stier, President and CEO of Partnership for Public Service.

The FDIC's Workplace Excellence (WE) program plays an important role in helping the FDIC engage employees. The WE program is composed of a national-level WE Steering Committee and Division/Office WE Councils that are focused on maintaining, enhancing, and institutionalizing a positive workplace environment throughout the agency. In addition to the WE program, the FDIC-National Treasury Employees Union Labor Management Forum serves as a mechanism for the union and employees to have pre-decisional input on workplace matters. The WE program and Labor Management Forum enhance communication, provide additional opportunities for employee input and engagement, and improve employee empowerment.

## *Information Technology Management*

The FDIC recognizes that secure information technology (IT) solutions are a critical and transformative resource for the successful accomplishment of the agency's business objectives. The FDIC relies on the efficient, innovative, and secure business capabilities that IT provides to ensure and enhance mission achievement.

### **Information Technology – Innovative Mission Support**

In 2015, the FDIC developed and implemented innovative software that enabled our examination stakeholders at the FDIC, FRB, and state banking agencies to better address current and future business challenges. The new Examination Tools Suite (ETS) provides the Corporation with cost and time savings in administration and deployment efforts; ETS also reduces maintenance expenses by centralizing functionality and reducing the overall number of systems supporting the program. ETS introduces wireless on-site networks that enhance the security and accuracy of shared examination data while reducing data redundancy. ETS addresses the risk of technological obsolescence by using technology consistent with the FDIC's current Enterprise Architecture standards and industry best practices.

The Claims Administration System (CAS) is a system that FDIC personnel use to identify depositors' insured and uninsured funds in failing and failed financial institutions. For every failing institution, CAS is used before the failure to estimate the amount of uninsured deposits for the least-cost test. When an insured deposit transaction is the least-cost resolution, CAS is used to determine the amount of the depositors' funds that are insured and that can be transferred to the acquiring institution or paid out directly to the depositor. For all failures, CAS is the system of record for the deposits of the failed institution. During 2015, the FDIC enhanced CAS capabilities in order to "future-proof" the FDIC's ability to efficiently and effectively manage the

increased data requirements for SIFIs that the agency may need to address during the resolution process as required by Dodd-Frank Act regulations.

During 2015, the FDIC strengthened access controls of one of its primary systems for exchanging information with financial institutions, examiners, and other regulators by implementing Multi-Factor Authentication (MFA). MFA is a method to authenticate users by requiring the presentation of two or all of the three following authentication factors: (1) a knowledge factor (something the user knows, such as a password); (2) a possession factor (something the user has, such as a token); or (3) an inherence factor (something the user is, such as a fingerprint). To improve remote access security for these FDIC customers, approximately 18,000 external users were provided MFA technology during the year.

### *Keeping the FDIC Secure – Cybersecurity (Internal)*

Like all citizens in our increasingly connected world, the FDIC continues to face serious, wide-ranging threats to our operations, data, and reputation. During 2015, the FDIC continued to improve and evolve a strong and proactive IT security program to effectively mitigate these risks in our cybersecurity landscape.

Phishing and other email scams continue to rise at a steady rate. The FDIC will likely see continued and heightened levels of malicious attacks through email. To strengthen email-related cybersecurity, the FDIC implemented improved data loss prevention controls and products that protect not only the FDIC's reputation and data assets but also provide protection to the public by helping to ensure only the legitimate use of FDIC credentials.

Finally, the FDIC enhanced its capabilities for quantifying risks posed by IT-related cybersecurity events. To provide management with up-to-date metrics and reporting mechanisms for monitoring their risk and the remediation of that risk, the FDIC



implemented changes to its monitoring system to display the numeric Common Vulnerability Scoring System<sup>2</sup> (CVSS) scores for all open findings. These scores provide management with a clear numerical

representation of their finding's risk level so that they can better prioritize agency resources for remediating those risks.

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<sup>2</sup> The CVSS provides an open framework for communicating the characteristics and impacts of IT vulnerabilities.