ANNUAL REPORT 2020

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FEDERAL DEPOSIT INSURANCE CORPORATION
550 17th Street NW, Washington, DC 20429 OFFICE OF THE CHAIRMAN

February 18, 2021

Dear Sir/Madam:

The Federal Deposit Insurance Corporation (FDIC) is pleased to submit its *2020 Annual Report* (also referred to as the *Performance and Accountability Report*), which includes the audited financial statements of the Deposit Insurance Fund and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund. This report is produced in accordance with:

- Section 17(a) of the Federal Deposit Insurance (FDI) Act,
- the Chief Financial Officers Act of 1990 (Public Law 101-576),
- the Government Performance and Results Act (GPRA) of 1993 (as amended) and the GPRA Modernization Act of 2010,
- Section 5 of the Inspector General Act of 1978, as amended,
- the Reports Consolidation Act of 2000, and
- the Fraud Reduction and Data Analytics Act of 2015.

In accordance with the Reports Consolidation Act of 2000, the FDIC assessed the reliability of the performance data contained in this report. We found no material inadequacies and the data are considered to be complete and reliable.

Based on internal management evaluations, and in conjunction with the results of independent financial statement audits, we can provide reasonable assurance that the objectives of Section 2 (internal controls) and Section 4 (financial management systems) of the Federal Managers' Financial Integrity Act of 1982 have been achieved, and that the FDIC has no material weaknesses. However, the U.S. Government Accountability Office did identify internal control over the contractor payment review process as a significant deficiency. The FDIC has efforts underway to address this deficiency. We are committed to maintaining effective internal controls corporate-wide in 2021.

Sincerely,

Jelena McWilliams

Jelena McWilliams
Chairman

The President of the United States
The President of the United States Senate
The Speaker of the United States House of Representatives

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MISSION, VISION, AND VALUES

MISSION

The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress to maintain stability and public confidence in the nation's financial system by:

- Insuring deposits,
- Examining and supervising financial institutions for safety and soundness and consumer protection,
- Making large and complex financial institutions resolvable, and
- Managing receiverships.

VISION

The FDIC is a recognized leader in promoting sound public policies; addressing risks in the nation's financial system; and carrying out its insurance, supervisory, consumer protection, resolution planning, and receivership management responsibilities.

VALUES

The FDIC and its employees have a tradition of distinguished public service. Six core values guide us in accomplishing our mission:

Integrity We adhere to the highest ethical and professional standards.

Competence We are a highly skilled, dedicated, and diverse workforce that is empowered to achieve outstanding results.

Teamwork We communicate and collaborate effectively with one another and with other regulatory agencies.

Effectiveness We respond quickly and successfully to risks in insured depository institutions and the financial system.

Accountability We are accountable to each other and to our stakeholders to operate in a financially responsible and operationally effective manner.

Fairness We respect individual viewpoints and treat one another and our stakeholders with impartiality, dignity, and trust.

MESSAGE FROM THE CHAIRMAN

Last year was truly unprecedented in many respects. In the face of the COVID-19 pandemic and corresponding shutdowns across the globe, financial markets and the broader economy experienced significant stress and volatility. Although considerable uncertainty remains about the path of the economy, our banking system has served as a source of strength throughout this period. In response to the challenges posed by the pandemic, the Federal Deposit Insurance Corporation (FDIC) has worked to maintain stability and public confidence in the U.S. financial system, and I could not be more proud of our unwavering commitment to this mission.

In addition to responding to economic risks related to COVID-19, the FDIC has made significant progress in several areas over the past year: supporting communities in need; promoting diversity and inclusion at the FDIC; finalizing outstanding rulemakings; fostering technology solutions and encouraging innovation; and enhancing resolution readiness.

RESPONDING TO ECONOMIC RISKS RELATED TO COVID-19

Concurrent with the declaration of the national emergency in early March related to the COVID-19 pandemic, economic and banking conditions took a sharp turn. The economy shifted dramatically from the longest-lasting economic expansion in U.S. history to the most severe recession in recent history, as many states implemented broad stay-at-home orders and businesses abruptly closed. Financial markets experienced broad sell-offs across all major markets, reducing market liquidity and impairing trading of even the safest markets, such as U.S. Treasury securities and agency mortgage-backed securities.

Beginning in early March, the FDIC took a series of swift, decisive actions that helped maintain stability in financial markets. These actions focused on providing necessary flexibility to both banks and their borrowers – particularly the most heavily affected individuals and businesses – while maintaining the overall safety and soundness of the banking system. To support the ability of banks to meet customer needs, we made targeted, temporary regulatory changes to facilitate lending and other financial intermediation and took supervisory actions to encourage banks to work with their borrowers. For example, the FDIC worked with the other banking agencies and the Financial Accounting Standards Board (FASB) to provide relief from troubled debt restructuring (TDR) accounting treatment for loan modifications related to COVID-19, and issued multiple interim final rules providing flexibility under the capital rules to enable the banks to support creditworthy businesses and consumers.

In addition, we worked to foster small business lending, including through the Small Business Administration's Paycheck Protection Program (PPP). This program has highlighted the vital role of our nation's banks — especially community banks — in supporting small businesses through commercial and industrial (C&I)

lending. Banks hold the vast majority of PPP loans, and community banks held approximately 31 percent of these loans as of the third quarter, a significant share relative to their 15 percent of total industry loans and 13 percent of total C&I loans.

SUPPORTING COMMUNITIES IN NEED

As the pandemic continues to disrupt the daily lives of all Americans, we are particularly mindful that minority and low- and moderate-income (LMI) communities have suffered disproportionately, from both a health and an economic perspective. As the nation's deposit insurer and primary supervisor of community banks, including minority depository institutions (MDIs), the FDIC plays an important role in helping ensure these institutions can meet the needs of their customers and communities.

A significant part of my focus as FDIC Chairman has been bridging the gap between those that actively participate in the financial system and those that do not. The need to create a financial system of inclusion and belonging is not theoretical or merely academic to me; as an immigrant who arrived in this country as an 18-year-old with just $500 in my pocket, it is personal.

We know that individuals from LMI communities are often the least likely to have banking and financial services. With respect to minority communities in particular, despite meaningful improvements in recent years, the rates for Black and Hispanic households who do not have a checking or savings account at a bank remain substantially higher than the overall "unbanked" rate.

We have embraced our statutory responsibility to promote and preserve the health of MDIs by seeking new and innovative ways to engage with these institutions and better understand their needs. One of the options we are exploring to support MDIs and Community Development Financial Institutions (CDFIs) is a framework that would match these banks with investors interested in the particular challenges and opportunities facing those institutions and their communities. The Mission-Driven Bank Fund will provide a vehicle through which investors' funds can be invested in or with MDIs and CDFIs, including direct equity, structured transactions, funding commitments to loan participations, or potential loss-share arrangements.

PROMOTING DIVERSITY AND INCLUSION AT THE FDIC

The FDIC is deeply committed to fostering a diverse workforce and inclusive work environment. The racial, ethnic, and gender diversity of the FDIC workforce, including our leadership, continues to steadily increase.

In addition to increasing the diversity of our workforce, we have continued to promote the participation of minority- and women-owned businesses (MWOBs) in FDIC contracting actions. In 2020, we took a number of actions to improve the ability of MWOBs to compete for contracts.

While we have had success with recent initiatives, we are not yet satisfied with our progress or the pace of change. We have announced the first corporate performance goal dedicated to improving diversity, equity, and inclusion. We will soon release a comprehensive *Diversity, Equity, and Inclusion Strategic Plan*, incorporating extensive feedback from our employees and external stakeholders. Our *Strategic Plan* will detail concrete steps the FDIC plans to take over the next several years to promote diversity, equity, and inclusion in our workforce, in our operations, and in the banking system.

FINALIZING OUTSTANDING RULEMAKINGS

The FDIC continues to focus our efforts on modernizing and improving our regulatory framework to promote economic growth and an efficient and resilient financial system. In addition to the series of rulemakings related to the pandemic, the FDIC finalized a number of key rulemakings that:

- Established a new framework for regulating brokered deposits, the first meaningful, comprehensive update to the brokered deposits regulation in 30 years;
- Amended the methodology for calculating interest rate caps applicable to less than well-capitalized institutions;
- Streamlined the "covered funds" provisions of the Volcker Rule to improve access to capital for businesses;

- Codified longstanding FDIC legal interpretations that the permissibility of an interest rate is not affected by subsequent events, such as the sale or transfer of the loan; and
- Established minimum conditions and commitments for industrial banks and their parent companies to enter into as a condition for approval for deposit insurance.

FOSTERING TECHNOLOGY SOLUTIONS AND ENCOURAGING INNOVATION

As we consider additional ways to create a more inclusive banking system, we recognize the tremendous benefits that financial innovation can deliver to consumers, including in the areas of payments and credit. New technologies have the potential to bring more people into the banking system, provide access to new products and services, and lower the cost of products and services.

For example, in October we released our latest biennial survey on household use of banking and financial services, which shows that individuals have been increasingly moving to digital banking.[1] Mobile banking and online banking are now the primary methods used to access bank accounts for more than 56 percent of banked households, while use of bank tellers is the primary method for 21 percent of banked households. Because the survey was conducted in June 2019, it does not reflect changes in consumer behavior associated with the COVID-19 pandemic.

As these trends continue, regulators should aim to foster the development of new technologies that improve the way banks operate by working to remove unnecessary barriers that create operational and regulatory uncertainty for institutions that want to innovate, but are reluctant to do so.

For some community banks, including MDIs, the path to innovation can be challenging, particularly because the cost to innovate is often prohibitively high. They may lack the expertise, information technology infrastructure, or research and development budgets to independently develop and deploy their own technology.

To help overcome these challenges, we established an office of innovation – FDiTech – in 2019, and began working on several initiatives to promote innovation and support financial inclusion, including:

- Encouraging the use of alternative data in credit underwriting;
- Encouraging financial institutions to offer responsible small-dollar loans;
- Facilitating partnerships between banks and fintechs, including by initiating a proposal to create a standard setting organization (or “SSO”) to establish standards for due diligence of vendors and for the technologies they develop; and
- Launching a competition to develop technologies that will provide more regular and granular financial information without increasing reporting burdens or costs on those institutions that choose to participate.

These are only a few of the actions we are taking to facilitate the introduction of innovative technology into the banking industry. We expect them to make banks more efficient and to help introduce new products and services to the market that are safe, affordable, and accessible.

ENHANCING RESOLUTION READINESS

As we responded to the immediate impact of the COVID-19 pandemic, we also focused on enhancing our resolution readiness in several ways. Although we entered the pandemic with a historically low number of bank failures, we recognized that the absence of failures could not last forever.

Accordingly, the FDIC has taken steps to improve our resolution-related capabilities by:

- Centralizing our supervision and resolution activities for the largest banks;
- Coordinating with our international counterparts on cross-border resolutions for global systemically important banks;
- Carrying out targeted engagement and capabilities testing with select firms on an as-needed basis;

[1] *How America Banks: Household Use of Banking and Financial Services* can be accessed at https://www.fdic.gov/analysis/household-survey/.

- Regularly reviewing institution and financial industry data to inform FDIC resource management decisions and prepare for potential surge activities, if necessary; and
- Finalizing rules that will improve our resolution-related activities.

The FDIC has established a new approach to bank closing activities to help protect the health of our employees during the pandemic, successfully executing three resolutions at institutions that failed since March due to enduring financial challenges unrelated to COVID-19. Lessons learned from these resolutions are being incorporated into plans for future supervisory and resolution activities that may be required on-site at financial institutions during the pandemic.

LOOKING AHEAD

As we have responded to risks posed by the pandemic, the 5,800 dedicated employees of the FDIC have risen to the occasion to fulfill the agency's critical mission. I remain honored to serve alongside them as we continue to navigate these challenges together.

Sincerely,

Jelena McWilliams

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to present the FDIC's *2020 Annual Report*, which covers financial and program performance information and summarizes our successes for the year.

For 29 consecutive years, the U.S. Government Accountability Office has issued unmodified audit opinions for the two funds administered by the FDIC: the Deposit Insurance Fund (DIF) and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF). We take pride in our accomplishments and continue to consistently demonstrate discipline and accountability as stewards of these funds. We remain proactive in the execution of sound financial management and in providing reliable and timely financial data to enhance decision-making.

2020 FINANCIAL AND PROGRAM RESULTS

The DIF balance rose to a record $117.9 billion as of December 31, 2020, compared to the year-end 2019 balance of $110.3 billion. The Fund balance increase was primarily due to assessment revenue. Four insured financial institutions failed in 2020, with total assets of $455 million.

The DIF U.S. Treasury securities investment portfolio balance was $110.5 billion as of December 31, 2020, an increase of $10.4 billion over the year-end 2019 portfolio balance of $100.1 billion. Interest revenue on DIF investments was $1.7 billion for 2020, compared to $2.1 billion for 2019.

FDIC expenditures remained relatively unchanged in 2020 compared to 2019. Spending totaled approximately $1.87 billion—$148 million (or 7.3 percent) less than the 2020 FDIC Operating Budget of $2.02 billion and just $6 million (or 0.3 percent) more than 2019 actual spending of $1.86 billion. The FDIC Board of Directors recently approved a 2021 FDIC Operating Budget totaling $2.28 billion, up $261 million (or 12.9 percent) from the 2020 budget. This annual operating budget increase, which reverses the trend of ten consecutive years of decline, is largely due to the establishment of contingency reserves designed to ensure agency readiness to address any potential increase in supervision or resolution workload resulting from the ongoing pandemic.

The FDIC's authorized full-time equivalent staffing dropped from 5,915 in 2019 to 5,728 in 2020, a 3.2 percent reduction. Authorized staffing for 2021 is 5,793 full-time equivalent positons, 65 positions (or 1.1 percent) higher than 2020.

During 2020, the FDIC used its enterprise risk management (ERM) risk profile and risk inventory to measure and monitor risks and updated these tools to reflect the operational effects of the COVID-19 pandemic. The FDIC also conducted risk reviews, obtained regional office risk perspectives, enhanced ERM reporting capabilities, and provided ERM training. In 2021, we will continue to enhance the ERM program with active collaboration among all FDIC divisions and offices.

I appreciate the FDIC professionals who plan, execute, and account for the agency's resources. Their commitment to ensuring sound financial management provides the foundation for our strong stewardship and ensures reliable financial information is available to our stakeholders.

Sincerely,

Bret D. Edwards

Bret D. Edwards

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RESPONSE TO CORONAVIRUS DISEASE 2019 (COVID-19)

In January 2020, a novel coronavirus, SARS-CoV-2, was identified as the cause of an outbreak of viral pneumonia in Wuhan, China. The disease, later named coronavirus disease 2019 (COVID-19), subsequently spread globally. The rapid spread of the virus disrupted the economy and increased volatility in global financial markets.

By March 11, 2020, the World Health Organization (WHO) declared COVID-19 a global pandemic. The FDIC implemented strategies to address challenges related to COVID-19 to maintain stability and public confidence in the nation's financial system. These actions have focused on providing necessary flexibility to both banks and their customers —particularly the most heavily affected individuals and businesses — while maintaining the overall safety and soundness of the banking system.

In February 2020, the FDIC established a Coronavirus Working Group and named a Pandemic Coordinator, shortly after credible information and reports from the Centers for Disease Control and Prevention and the WHO revealed the seriousness and widespread impact of COVID-19. The FDIC’s pre-planning efforts and early decisions proved to be extremely helpful in positioning the agency to communicate information and guidance to the workforce, implement proactive measures, provide recommendations to senior leadership, and marshal resources where needed. Among several key actions, the FDIC:

- Restricted non-mission-essential travel;
- Created a Health and Safety Working Group;
- Created a COVID-19 webpage;
- Issued a mandatory telework policy for employees;
- Approved flexible telework arrangements;
- Provided global messaging, call-ins, and videos for employees;
- Approved the ability for employees to conduct examinations and supervisory functions off-site;
- Provided virtual training for bank examiners;
- Modified on-site contracts to accommodate remote work;
- Re-negotiated contracts for reduced services and prices;
- Hired a contractor specializing in preparedness, response, and recovery for public health emergencies to assist with health and safety issues and questions;
- Enhanced the use of Microsoft® Teams for collaboration;
- Instituted virtual hiring and onboarding;
- Developed a new approach to bank closings; and
- Created a Return to the Office Plan.

In March 2020, the FDIC created a page on our public website (www.fdic.gov) to help consumers and bankers to stay abreast of current events related to COVID-19 and to remind Americans that FDIC-insured banks remain the safest place to keep their money. The FDIC also warned consumers of scams involving imposters pretending to be agency representatives to perpetrate fraudulent schemes.

RULEMAKING AND GUIDANCE ISSUED

As it became clear that the public health emergency caused by COVID-19 would lead to a significant economic disruption, the FDIC worked to (1) encourage banks to work with affected customers and communities, (2) increase flexibility for banks to meet the needs of their customers, (3) foster small business lending, (4) protect consumers and increase financial options, and (5) actively monitor the financial system.

On March 9, 2020, the FDIC, Board of Governors of the Federal Reserve System (FRB), Office of the Comptroller of the Currency (OCC), Consumer Financial Protection Bureau (CFPB), National Credit Union Administration (NCUA), and the Conference of State Bank Supervisors (CSBS) issued a press release encouraging financial institutions to meet the financial needs of customers and members affected by the coronavirus. The agencies recognized the potential impact of the coronavirus on the customers, members, and operations of many

financial institutions and stated they would provide appropriate regulatory assistance to affected institutions subject to their supervision. The agencies noted that financial institutions should work constructively with borrowers and other customers in affected communities and prudent efforts that are consistent with safe and sound lending practices would not be subject to examiner criticism. The agencies further stated that they understand that many financial institutions may face staffing and other challenges. In cases in which operational challenges persisted, regulators would expedite, as appropriate, any request to provide more convenient availability of services in affected communities. The regulators also stated that they would work with affected financial institutions in scheduling examinations or inspections to minimize disruption and burden.

On March 13, 2020, the FDIC issued an FDIC-only statement encouraging institutions to take prudent steps to assist customers and communities affected by COVID-19. The FDIC acknowledged that this unique and evolving situation could pose significant temporary business disruptions and challenges, and encouraged financial institutions to work with all borrowers, especially borrowers from industry sectors particularly vulnerable to the volatility in the current economic environment and small businesses and independent contractors that are reliant on affected industries. The FDIC advised that a financial institution's prudent efforts to modify the terms on existing loans for affected customers will not be subject to examiner criticism, and committed to work with affected financial institutions to reduce burden when scheduling examinations, including making greater use of off-site reviews, consistent with applicable legal and regulatory requirements. The FDIC further stated it stood ready to work with financial institutions that may experience challenges fulfilling their regulatory reporting responsibilities and would act expeditiously if institutions needed to temporarily close facilities. The FDIC also announced that it had launched a COVID-19 webpage on its public website to provide useful information to bankers, consumers, and others. The website is located at https://www.fdic.gov/coronavirus/index.html.

On March 16, 2020, the FDIC, FRB, and OCC released a statement encouraging banks to use the Federal Reserve's "discount window" so that they can continue supporting households and businesses. By providing ready access to funding, the discount window helps banks manage their liquidity risks efficiently and avoid actions that have negative consequences for their customers. Thus, the discount window supports the smooth flow of credit to households and businesses.

On March 17, 2020, the FDIC, FRB, and OCC announced two actions to support the U.S. economy and allow banks to continue lending to households and businesses. The actions included:

- A statement encouraging banks to use their capital and liquidity buffers to support households and businesses; and
- An interim final rule that facilitates the use of a bank's capital buffers to promote lending activity to households and businesses.

The statement noted that banks have more than doubled their capital and liquidity levels over the past decade and are now substantially safer and stronger than they were previously. As a result, the agencies encouraged banks to use that strength to support households and businesses. The interim final rule was a technical change to the definition of eligible retained income in the capital conservation buffer. The revised definition of eligible retained income made any automatic limitations on capital distributions that could apply under the agencies' capital rules more gradual. On March 20, 2020, this interim final rule was published in the *Federal Register*. On October 8, 2020, a final rule was published that adopted the interim final rule without changes to the definition of eligible retained income, with an effective date of January 1, 2021.

On March 19, 2020, the FDIC, FRB, and OCC announced an interim final rule to ensure banks could effectively use the Money Market Mutual Fund Liquidity Facility (MMLF). The interim final rule modified the agencies' capital rules by permitting a bank to exclude exposures acquired as part of the MMLF from the bank's total leverage exposure, average total consolidated assets, advanced approaches total risk-weighted assets, and standardized total risk-weighted assets, as applicable. On March 23, 2020, this interim final rule was published in the *Federal Register*. On October 28, 2020, a final rule was published that adopted the interim rule with no changes, with an effective date of December 28, 2020.

On March 19, 2020, Chairman McWilliams wrote a letter to the Financial Accounting Standards Board (FASB) advocating several actions in light of the unprecedented business conditions related to COVID-19. Specifically, Chairman McWilliams urged FASB to (1) exclude COVID-19 related modifications from being categorized as troubled debt restructurings (TDRs), (2) allow banks that are currently subject to current expected credit losses (CECL) the option to postpone implementation of CECL, and (3) impose a moratorium on the effective date for CECL for institutions not yet subject to CECL. Such actions would allow financial institutions to work with their borrowers, support lending in their communities, and focus on the immediate business challenges related to the pandemic.

On March 22, 2020, the FDIC, FRB, OCC, CFPB, NCUA, and the CSBS issued the *Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus.* The statement encouraged financial institutions to work constructively with borrowers affected by COVID-19 and provided additional information regarding loan modifications. The statement emphasized that not all modifications of loan terms result in a TDR. The agencies noted that they confirmed with FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. The statement indicates that the agencies' examiners will exercise judgment in reviewing loan modifications, including TDRs, and will not automatically adversely risk rate credits that are affected, including those considered TDRs. Regardless of whether modifications are considered TDRs or are adversely classified, the statement makes clear that agency examiners will not criticize prudent efforts to modify terms on existing loans for affected customers.

On March 26, 2020, the FDIC, FRB, OCC, CFPB, and NCUA issued the *Joint Statement Encouraging Responsible Small-Dollar Lending in Response to COVID-19*. The statement recognizes that responsible small-dollar loans can play an important role in meeting customers' credit needs because of temporary cash-flow imbalances, unexpected expenses, or income disruptions during periods of economic stress or disaster recoveries. Such loans can be offered through a variety of structures including open-end lines of credit, closed-end installment loans, or appropriately structured single payment loans. The agencies stated that loans should be offered in a manner that provides fair treatment of consumers, complies with applicable laws and regulations, and is consistent with safe and sound practices. For borrowers who experience unexpected circumstances and cannot repay a loan as structured, financial institutions are further encouraged to consider workout strategies designed to help borrowers to repay the principal of the loan while mitigating the need to re-borrow. In May, the FDIC, FRB, OCC, and NCUA issued further guidance related to small-dollar lending, as described later in this report.

On March 27, 2020, the FDIC, FRB, and OCC announced two actions to support the U.S economy and allow banking organizations to continue lending to households and businesses. The actions included:

- Early adoption of the "standardized approach for measuring counterparty credit risk" rule, also known as SA-CCR.
- An interim final rule that allows banks to mitigate the effects of the "current expected credit loss," or CECL, accounting standard on their regulatory capital.

SA-CCR, was finalized by the agencies in November 2019, with an effective date of April 1, 2020. It reflects improvements made to the derivatives market since the 2007-2008 financial crisis, such as central clearing and margin requirements. To help improve current market liquidity and smooth disruptions, the agencies permitted banks to early adopt SA-CCR for the reporting period ending March 31, 2020.

The interim final rule allowed banks that are required under U.S. accounting standards to adopt CECL in 2020 to mitigate the estimated cumulative regulatory capital effects for up to two years. This is in addition to the three-year transition period already in place. On March 31, 2020, this interim final rule was published in the *Federal Register*. On September 30, 2020, the agencies adopted the final rule consistent with the interim final rule with some clarifications and adjustments related to the calculation of the transitions and the eligibility criteria for using the 2020 CECL transition provision.

On April 3, 2020, the FDIC, FRB, OCC, CFPB, NCUA, and CSBS issued the *Joint Statement on Supervisory and Enforcement Practices Regarding the Mortgage Servicing Rules in Response to the COVID-19 Emergency and the CARES Act.* The statement informed servicers of the agencies' flexible supervisory and enforcement approach during the COVID-19 pandemic regarding certain communications to consumers required by the mortgage servicing rules. The statement facilitated mortgage servicers' ability to place consumers in short-term payment forbearance programs such as the one established by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The statement clarified that the agencies do not intend to take supervisory or enforcement action against mortgage servicers for delays in sending certain early intervention and loss mitigation notices and taking certain actions relating to loss mitigation set out in the mortgage servicing rules, provided that servicers are making good faith efforts to provide these notices and take these actions within a reasonable time. To further enable short-term payment forbearance programs or short-term repayment plans, mortgage servicers offering these programs or plans will not have to provide an acknowledgement notice within 5 days of receipt of an incomplete application, provided the servicer sends the acknowledgment notice before the end of the forbearance or repayment period. The guidance also reminds servicers that there is existing flexibility in the rules with respect to the content of certain notices. Finally, to assist servicers experiencing high call volumes from consumers seeking help, the statement also confirms that the agencies do not intend to take supervisory or enforcement action against mortgage servicers for delays in sending annual escrow statements, provided that servicers are making good faith efforts to provide these statements within a reasonable time.

On April 6, 2020, the FDIC, FRB, and OCC announced two interim final rules to provide temporary relief to community banking organizations. The two rules modified the community bank leverage ratio framework so that:

- Beginning in the second quarter 2020 and until the end of the year, a banking organization that has a leverage ratio of 8 percent or greater and meets certain other criteria may elect to use the community bank leverage ratio framework; and
- Community banking organizations will have until January 1, 2022, before the community bank leverage ratio requirement is re-established at greater than 9 percent.

Under these interim final rules, the community bank leverage ratio is 8 percent beginning in the second quarter and for the remainder of calendar year 2020, 8.5 percent for calendar year 2021, and 9 percent thereafter. These interim final rules also maintained a two-quarter grace period for a qualifying community banks whose leverage ratio falls no more than 1 percent below the applicable community bank leverage ratio. The agencies provided community banks with a clear and gradual transition back to the 9 percent leverage ratio requirement previously established by the agencies. This transition allowed community banks to focus on supporting lending to creditworthy households and businesses given strains on the U.S. economy caused by the coronavirus. On April 23, 2020, these interim final rules were published in the *Federal Register.* On October 9, 2020, a final rule was published in the *Federal Register* that adopted these interim rules with no changes, with an effective date of November 9, 2020.

On April 7, 2020, the FDIC, FRB, CFPB, NCUA, and OCC, in consultation with state financial regulators, issued the *Interagency Statement on Loan Modifications and Reporting for Financial Institutions with Customers Affected by the Coronavirus (Revised).* The revised statement clarified the interaction between the interagency statement issued on March 22, 2020 and the temporary relief provided by Section 4013 of the CARES Act, which was signed into law on March 27, 2020. Section 4013 allowed financial institutions to suspend the requirements to classify loan modifications as TDRs if the loan modification is (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date of termination of the National Emergency or (B) December 31, 2020. The revised statement also provided supervisory interpretations on past due and nonaccrual regulatory reporting of loan modification programs and regulatory capital.

On April 9, 2020 the FDIC, FRB, and OCC announced an interim final rule to neutralize the regulatory capital effect of participation in the Paycheck Protection Program Liquidity Facility (PPPLF). The interim final

rule permitted a bank to exclude exposures pledged as collateral to the PPPLF from the bank's total leverage exposure, average total consolidated assets, advanced approaches total risk-weighted assets, and standardized total risk-weighted assets, as applicable. Additionally, the interim final rule provided that a bank must apply a zero percent risk weight to PPP covered loans, as required by Section 1102 of the CARES Act. A bank must apply a zero percent risk weight to PPP covered loans regardless of whether they are pledged under the PPPLF. On April 13, 2020, this interim final rule was published in the *Federal Register*. On October 28, 2020, a final rule was published in the *Federal Register* that adopted the interim rule with no changes, with an effective date of December 28, 2020.

On April 14, 2020, the FDIC, FRB, OCC, NCUA, and CFPB announced an interim final rule to temporarily defer real estate-related appraisals and evaluations under the agencies' interagency appraisal regulations. The agencies provided this temporary relief to allow regulated institutions to extend financing to creditworthy households and businesses quickly in the wake of the national emergency declared in connection with COVID-19. The agencies deferred certain appraisals and evaluations for up to 120 days after closing of residential or commercial real estate loan transactions. Transactions involving acquisition, development, and construction of real estate were excluded from this interim rule. On April 17, 2020, this interim final rule was published in the *Federal Register*. On October 16, 2020, a final rule was published in the *Federal Register* that adopted the interim rule with one revision, with an effective date of October 16, 2020 through December 31, 2020. The agencies also issued the *Interagency Statement on Appraisals and Evaluations for Real Estate Related Financial Transactions Affected by the Coronavirus*. This statement outlined existing flexibilities provided by industry appraisal standards and the agencies' appraisal regulations – including that interior inspections are not required. An appraiser can determine the characteristics of a property through any combination of property inspection, asset records, photographs, property sketches and recorded media.

For consumers who were eligible to receive economic impact payments authorized by the CARES Act from the Internal Revenue Service (IRS), the FDIC provided information about how to open a bank account and provide that bank account information to the IRS. During the pandemic many banks offered ways to open accounts remotely — online or through a mobile app — without going to a bank branch. The FDIC developed a webpage to provide consumers with all the information needed to find a bank and open an account online. To increase the number of consumers with access to direct deposit, the IRS included a link to the FDIC's economic impact payment landing webpage (now #GetBanked). By year-end, the FDIC's resource pages on bank account access had received more than 800,000 page views.

On May 5, 2020, the FDIC, FRB, and OCC announced an interim final rule that modifies the agencies' Liquidity Coverage Ratio (LCR) rule to support banking organizations' participation in the Federal Reserve's Money Market Mutual Fund Liquidity Facility (MMLF) and the PPPLF. The interim final rule required a covered company to neutralize the LCR effects of the advances made by the MMLF and PPPLF together with the assets securing these advances. On May 6, 2020, this interim rule was published in the *Federal Register.* On October 28, 2020, a final rule was published in the *Federal Register* that adopted the interim rules with no changes, with an effective date of December 28, 2020.

On May 15, 2020, the FDIC, FRB, and OCC announced an interim final rule for temporary changes to their supplementary leverage ratio rule. The supplementary leverage ratio generally applies to subsidiaries of bank holding companies with more than $250 billion in total consolidated assets. In order to facilitate banks' significant increases in reserve balances resulting from the Federal Reserve's asset purchases and the establishment of various programs to support the flow of credit to the economy, as well as the continued need to accept exceptionally high levels of customer deposits, the interim final rule provided certain banks subject to the supplementary leverage ratio the option to elect to exclude temporarily Treasuries and deposits at Federal Reserve Banks from total leverage exposure through March 31, 2021. Under the interim final rule, a bank that opts into this treatment is required to obtain prior approval of distributions from its primary Federal banking regulator. The change is effective as of June 1, 2020 and will be in effect through March 31, 2021. On June 1, 2020, this interim final rule was published in the *Federal Register.*

On June 23, 2020, the FDIC, FRB, OCC, NCUA, and State Financial Regulators issued *Interagency Examiner*

Guidance for Assessing Safety and Soundness Considering the Effect of the COVID-19 Pandemic on Institutions. The interagency guidance instructed examiners to consider the unique, evolving, and potentially long-term nature of the issues confronting financial institutions due to the COVID-19 pandemic and to exercise appropriate flexibility in their supervisory response. The agencies also made clear that appropriate actions taken by institutions in good faith reliance on statements issued by the agencies during the pandemic, within applicable timeframes described in such statements, will not be subject to criticism or other supervisory action.

On August 3, 2020, the Federal Financial Institutions Examination Council (FFIEC), on behalf of its members, issued a statement to provide prudent risk management and consumer protection principles for financial institutions to consider while working with borrowers as loans near the end of the initial loan accommodation periods provided during the COVID-19 pandemic. The statement also addressed issues relative to accounting and regulatory reporting and internal control systems. Specifically, FFIEC members encouraged financial institutions to consider prudent accommodation options that can ease cash flow pressures on affected borrowers, improve their capacity to service debt, and facilitate institutions' ability to collect loans, consistent with applicable laws and regulations. The statement advised that such arrangements may mitigate the long-term impact of a financial challenge on borrowers by helping to avoid delinquencies or other adverse consequences. Further, the agencies stated that effective risk management practices include providing clear, conspicuous, and accurate communications and disclosures to inform borrowers of affordable and sustainable accommodation options prior to the end of the accommodation period. The statement advised that in accordance with U.S. Generally Accepted Accounting Principles (GAAP), financial institution management should consider the effects of external events, such as the COVID-19 pandemic, in its allowance estimation processes. Finally, the statement noted that internal controls for initial and additional accommodation periods should include quality assurance, credit risk review, operational risk management, compliance risk management, and internal audit functions that are commensurate with the size, complexity, and risk of a financial institution's activities.

On October 20, 2020, the FDIC announced an interim final rule to provide temporary relief from Part 363 Audits and Reporting requirements for institutions experiencing growth due to participation in the PPP, PPPLF, or MMLF, or other factors, such as other stimulus activities. The interim final rule allowed institutions to determine the applicability of Part 363 for fiscal years ending in 2021 based on the lesser of the institution's (a) consolidated total assets as of December 31, 2019, or (b) consolidated total assets as of the beginning of their fiscal years ending in 2021. Notwithstanding any temporary relief provided by this interim final rule, an institution would continue to be subject to any otherwise applicable statutory and regulatory audit and reporting requirements. This interim final rule also reserved authority for the FDIC to require an institution to comply with one or more requirements of Part 363 if the FDIC determines that asset growth was related to a merger or acquisition. The interim final rule is effective through December 31, 2021, unless otherwise extended by the FDIC. On October 23, 2020, this interim final rule was published in the *Federal Register.*

On November 20, 2020, the FDIC, FRB, and OCC announced an interim final rule that provided similar temporary relief from several other regulations applicable to institutions with $10 billion or less in total consolidated assets. The interim final rule amended such rules by allowing institutions to calculate their asset size for applicable thresholds during calendar years 2020 and 2021 based on the lower of either total assets as of December 31, 2019 or total assets as of the normal measurement date. The temporary relief applied to the community bank leverage ratio, the FDIC's rule regarding management official interlocks, the FFIEC 051 Report of Condition and Income, and rules regarding examination frequency. On December 2, 2020, this interim final rule was published in the *Federal Register*. The interim final rule became effective as of December 2, 2020.

EXAMINATION PROCEDURES AND GUIDANCE

The FDIC maintained its supervisory programs for both safety and soundness and consumer protection by establishing temporary processes and adding flexibility that allowed examiners to continue conducting examinations despite the pandemic. These actions

— in addition to technological advancements and solutions adopted by the FDIC in the years leading up to the pandemic — were critical to the agency's ability to conduct examination activities off-site and fulfill our supervisory obligations uninterrupted.

Recognizing the challenges financial institution management faced in the early days of the pandemic, the FDIC provided institution management the option to temporarily delay examination activities, including examination planning. Although most financial institutions chose to continue with examinations as scheduled, a small number opted for a temporary delay due to operational considerations.

We will continue to conduct examination activities predominantly off-site, but have developed plans for resuming on-site examination work when public health guidelines permit.

DIVERSITY AND INCLUSION

The FDIC has long been committed to the principles of diversity, equity, and inclusion — in our workplace, our interactions with contractors and other third parties, and at the financial institutions we supervise.

The Office of Minority and Women Inclusion (OMWI) supports this commitment by ensuring equal employment opportunity and evaluating and addressing issues related to the racial, ethnic, and gender diversity of the FDIC workforce and senior management of the agency. OMWI, through its outreach efforts, works to ensure the fair inclusion and utilization of minority- and women-owned businesses (MWOBs), law firms (MWOLFs), and investors in contracting and investment opportunities. OMWI is also responsible for assessing the diversity policies and practices of FDIC-regulated financial institutions.

WORKFORCE DIVERSITY AND WORKPLACE INCLUSION AT THE FDIC

The *FDIC Diversity and Inclusion (D&I) Strategic Plan* delineates strategies to promote workforce and workplace inclusion and sustainability of diversity and inclusion efforts. The D&I Executive Advisory Council oversees the plan's implementation and promotes the coordination and awareness of diversity and inclusion initiatives as an FDIC priority. Additionally, employees provide input on these efforts by serving on the regional and headquarters Chairman's Diversity Advisory Councils or joining one of the nine Employee Resource Groups. The plan is evaluated regularly to assess its effectiveness and to measure our success against stated goals, and is updated regularly to ensure that it reflects current operations and challenges.

In 2020, Chairman McWilliams announced several new initiatives to increase diversity in the FDIC workforce and leadership, create a culture of excellence that supports and sustains high performance, educate all employees on the importance of D&I, and identify and eliminate barriers to successfully meeting strategic objectives.

As a result of past and current efforts, the racial, ethnic, and gender diversity of the FDIC workforce has improved–but we know that there is much room for improvement. At the end of 2020, minorities represented 32 percent of the permanent workforce and women accounted for 44 percent. The FDIC has also increased diversity across leadership: minorities hold 23 percent of the management-level positions at the FDIC, and women hold 40 percent (up from almost 16 percent and 30 percent, respectively, since the enactment of Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act)). Notwithstanding this progress to close longstanding gaps, more needs to be done, and the FDIC is fully committed to doing what it takes to succeed.

With the potential for increased retirements and hiring activity over the next few years, the FDIC is now well positioned to continue the diversity transformation of the workforce. Improved recruiting and retention efforts have already produced results, and new initiatives in these areas will further strengthen diversity and inclusion.

MINORITY- AND WOMEN-OWNED BUSINESS OUTREACH

Due to COVID-19, many of the events the FDIC typically attends to engage with minority- and women-owned businesses were cancelled or postponed. Instead, the FDIC participated in virtual procurement outreach events, attended webinars and hosted outreach to minority- and women-owned businesses. The FDIC also targeted diverse publications to market its own virtual procurement events and utilized social media platforms, as well as the FDIC website to improve awareness of the agency's procurement process and initiatives.

The FDIC participated in one business expo, six one-on-one matchmaking sessions, and three panel presentations. FDIC panelists also participated in various procurement events, including the National 8(a) Conference, National Small Business Federal Contracting Summit, and the U.S. Women's Chamber of Commerce Summit. At these events, FDIC staff provided information and responded to inquiries about the FDIC's business opportunities for minorities and women.

The FDIC also hosted two free virtual events: the inaugural Pitch Day and the *Getting to Success: Marketing Your Business* Technical Assistance Event. The Pitch Day event allowed MWOBs to market their business capabilities to the FDIC that meet potential agency requirements. In addition, OMWI hosted the virtual *Getting to Success: Marketing Your Business* Technical Assistance Event, which highlighted marketing best practices, discussed digital and traditional marketing, and provided a checklist tool for participants to evaluate current messaging and marketing strategies.

In 2020, the FDIC awarded 117 (29 percent) contracts to MWOBs out of a total of 409 issued. The FDIC awarded contracts with a combined value of $426.7 million in 2020, of which 21 percent ($90 million) was awarded to MWOBs. By comparison, in 2019, 152 of 518 contracts (29 percent) and $173.5 million of $554.0 million (31 percent) was awarded to MWOBs. In 2020, the FDIC paid $106.5 million of its total contract payments (22 percent) to MWOBs, under 250 MWOB contracts.

MINORITY- AND WOMEN-OWNED LAW FIRM OUTREACH

The FDIC paid $397,000 in legal fees to MWOLFs and paid $3.61 million to diverse attorneys in 2020. Taken together, the FDIC paid $4.0 million to MWOLFs and diverse attorneys out of a total of $18.34 million spent on outside counsel services, for an aggregate 22 percent diversity and inclusion participation rate in outside legal contracting in 2020. The FDIC made 17 referrals to MWOLFs, which accounted for 26 percent of all legal referrals. Total payments to MWOLFs were $397,000 in 2020, which is 2 percent of all payments to outside counsel.

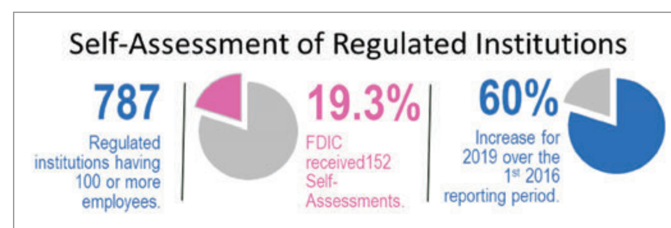
In 2020, the FDIC Legal Division participated in two minority bar association conferences and three stakeholder events, two of which were virtual events. In order to offset the impact of the canceled events, the Legal Division created a legal contracting advertising campaign to advertise the Legal Division's supplier diversity program in a well-regarded group of diversity-related publications. In addition, the Legal Division organized several virtual meetings with current MWOLFs on the FDIC List of Counsel Available in order to maintain relationships with firms that are currently working with the Corporation. The Legal Division also participated in virtual projects to strengthen the pipeline of diverse attorneys entering the legal profession in connection with a historically black college or university law school.

The Legal Division interviewed and recruited 15 MWOLFs in the event of an increase in bank resolution activities. FDIC in-house attorneys participated in a virtual stakeholder event to build relationships with MWOLFs. In addition, the Legal Division conducted compliance reviews to assess the diversity policies and practices of the 10 top-billing law firms (both non-minority-owned and MWOLFs) pursuant to Section 342(b)(2)(C) of the Dodd-Frank Act.

FINANCIAL INSTITUTION DIVERSITY

Financial Institution Diversity (FID) is a program for assessing the diversity policies and practices of FDIC regulated financial institutions. Financial institutions are encouraged to conduct a self-assessment annually, and share results with OMWI. In 2020, the FDIC released an automated Form 2710/05, *Diversity Self-Assessment of FDIC Regulated Financial Institutions,* via the new Financial Institution Diversity Self-Assessment (FID-SA) application that is accessible through the *FDICconnect* portal. FID-SA was designed to make the completion of the assessment more user-friendly for financial institutions and more secure.

The FDIC received 152 self-assessments from 787 regulated institutions having 100 or more employees for the 2019 reporting period, representing 19.3 percent of all regulated institutions and a 60 percent increase in participation over the first 2016 reporting period.



Analysis of the self-assessment data allows OMWI to identify exemplary practices that financial institutions have implemented as part of their workforce recruitment, supplier diversity procurement, and training practices.

Despite the challenges presented by the pandemic, OMWI successfully completed the following outreach initiatives in 2020:

- Created a dedicated resources page and prepared material to help financial institutions develop or strengthen their diversity and inclusion practices and policies;
- Presented the FID Program to the FDIC's Advisory Committee on Community Banks and to the FDIC's Advisory Committee on Economic Inclusion; and
- Participated in the American Bankers Association's (ABA's) Unconventional Convention, and Diversity, Equity, and Inclusion Summit.

Through these outreach efforts, the FDIC reinforces the value of conducting voluntary self-assessments and making diversity information transparent to the public.

More Information about the FDIC's efforts related to diversity and inclusion is located at www.fdic.gov/about/diversity.

MINORITY DEPOSITORY INSTITUTIONS ACTIVITIES

The preservation and promotion of MDIs remains a long-standing, top priority for the FDIC. The FDIC's research study, *Minority Depository Institutions: Structure, Performance, and Social Impact*, published in 2019, found that MDIs have played a vital role in providing mortgage credit, small business lending, and other banking services to minority and low- and moderate-income communities.

In 2020, the FDIC pursued several strategies to support MDIs including increasing engagement and representation, facilitating partnerships, updating policies, and promoting the MDI sector through advocacy, as well as by providing outreach, technical assistance, and education and training for MDIs.

Engagement and Representation

The FDIC's MDI Subcommittee of the Advisory Committee on Community Banking (CBAC), was formed in 2019 and held two virtual meetings in 2020. The MDI Subcommittee, comprised of nine MDI executives representing all types of MDIs, provides a venue for minority bankers to discuss key issues and share feedback on program initiatives, including the FDIC's revised Statement of Policy Regarding Minority Depository Institutions. The MDI Subcommittee also provides a platform to showcase MDI best practices.

In addition, three MDIs serve on the 18-member CBAC to further bring MDI perspectives and issues to the table.

Partnerships

In 2019, the FDIC facilitated a number of networking roundtables to bring together MDIs and large banks, and these networking opportunities continued to bear fruit in 2020 with more than $10 million in additional deposits into MDIs.

In October 2020 the FDIC published a resource guide, *Investing in the Future of Mission-Driven Banks: A Guide to Facilitating New Partnerships*, as well as an MDI and CDFI Bank Locator to help private investors develop partnerships with MDIs and other mission-driven banks. The resource guide outlines the important role FDIC-insured MDIs and CDFIs play in the financial system, describes the business needs of these banks, and outlines strategies for private companies and philanthropic organizations to consider in supporting MDIs and CDFIs through equity investments, grants, deposits, creation of an investment fund, technology support, and other partnership opportunities. These strategies can help MDIs build capacity and scale.

The FDIC issued a resource guide in October 2020 to help private investors develop partnerships with MDIs and other mission-driven banks.

In December 2020, the FDIC reviewed proposals to engage a financial services advisory firm to work with law firms retained by the FDIC to begin standing up the Mission-Driven Bank Fund, which will channel private investment funds into FDIC-insured mission-driven banks such as MDIs and CDFIs. The fund will provide opportunities for FDIC-insured mission-

driven banks to pitch proposals for equity capital, loan participations, and other ways to build capacity and scale. With significant investment commitments by private companies, philanthropic organizations, and other financial institutions, it is anticipated that the fund will provide a sizeable source of capital and other helpful tools that can help MDIs and CDFIs grow their operations and expand their impact in minority communities. The FDIC intends to launch the fund in 2021. The FDIC will not be an investor or play a role in hiring the independent fund manager or investment committee.

Policies

The FDIC's Board of Directors updated and strengthened its Statement of Policy Regarding Minority Depository Institutions in August and published it for public notice-and-comment in September 2020. The policy statement reflects the agency's enduring commitment to fulfilling the five statutory goals to preserve and promote MDIs and outlines the framework for the MDI program across the FDIC. Key changes include emphasis on engagement with MDIs, enhanced technical assistance, and a description of how examiners apply examination standards to the unique business models of MDIs. The public comment period closed in November 2020, and after reviewing and considering the comments, the FDIC will issue the final Statement of Policy in 2021.

Advocacy

It is important to promote the visibility of MDIs, to tell their stories, and showcase the important role they play in their communities. In early 2020, the FDIC began recording and publishing videos of MDI executives sharing their institutions' "origin stories," highlighting the reasons their institutions were formed, and describing how they have served their communities over time. In addition, the FDIC recorded and promoted a number of videos and podcasts centered on MDIs, and agency leaders emphasized the significance of MDIs in numerous public speaking engagements.

Outreach, Technical Assistance, Education

The FDIC also continuously pursued efforts to improve communication and interaction with MDIs and to respond to the concerns of minority bankers in 2020. The agency maintains active outreach with MDI trade groups and offers to arrange annual meetings between FDIC regional management and each MDI's board of directors to discuss issues of interest. The FDIC routinely contacts MDIs to offer return visits and technical assistance following the conclusion of FDIC safety and soundness, consumer compliance, Community Reinvestment Act (CRA), and other specialty examinations to help bank management better understand and implement examination

FDIC Chairman Jelena McWilliams (center) participates in the Freedman's Bank Forum, an event held at the U.S. Treasury on March 3, 2020, to commemorate the 155th anniversary of the bank's founding. From left, NCUA Chairman Rodney Hood, Treasury Assistant Secretary Bimal Patel, Comptroller of the Currency Joseph M. Otting, and Federal Reserve Governor Michelle W. Bowman.

recommendations. These return visits, normally conducted within 90 to 120 days after the examination, are intended to provide useful recommendations or feedback for improving operations, not to identify new issues.

Through its public website (www.fdic.gov), the FDIC invites inquiries and provides contact information for any MDI to request technical assistance at any time.

In 2020, the FDIC provided 135 individual technical assistance sessions on approximately 40 risk management, consumer compliance, and resolution topics, including:

- Accounting,
- Bank Secrecy Act (BSA) and Anti-Money Laundering (AML),
- Business continuity planning,
- Community Reinvestment Act,
- Compliance management,
- Funding and liquidity,
- Information technology risk management and cybersecurity,
- Internal audit,
- Loan modifications and Troubled Debt Restructuring, and
- Pandemic contingency planning.

The FDIC also held outreach, training, and educational programs for MDIs through conference calls and regional banker roundtables. In 2020, topics of discussion for these sessions included many of those listed above, as well as collaboration and partnerships, CECL accounting methodology, IT vendor management, cybersecurity, CRA, innovation, BSA, CDFI Fund Programs, and emerging technology.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

During 2020, the FDIC continued to fulfill its mission-critical responsibilities while also addressing unprecedented challenges related to the COVID-19 pandemic. In addition, the agency worked to further strengthen the banking system, modernize its approach to supervision, and increase transparency surrounding its programs. The FDIC also continued to engage in several community banking and community development initiatives.

Cybersecurity remained a high priority for the FDIC in 2020; the agency worked to strengthen infrastructure resiliency, manage information security risks, enhance data governance, help financial institutions mitigate risk, and respond to cyber threats. This *Annual Report* highlights these and other accomplishments during the year.

DEPOSIT INSURANCE

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

Long-Term Comprehensive Fund Management Plan

Nearly a decade ago, the FDIC developed a comprehensive, long-term DIF management plan to reduce the effects of cyclicality and achieve moderate, steady assessment rates throughout economic and credit cycles, while also maintaining a positive fund balance, even during a banking crisis.

Under the long-term DIF management plan, to increase the probability that the fund reserve ratio (the ratio of the fund balance to estimated insured deposits) would reach a level sufficient to withstand a future crisis, the FDIC Board 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. In November 2020, the Board voted to maintain the 2.0 percent ratio for 2021.

Additionally, as part of the long-term DIF management plan, the FDIC suspended dividends indefinitely. In lieu of dividends, the plan prescribes progressively lower assessment rates that will become effective when the reserve ratio exceeds 2.0 percent and 2.5 percent.

State of the Deposit Insurance Fund

Extraordinary growth in insured deposits during the first and second quarters of 2020 caused the reserve ratio to decline below the statutory minimum to 1.30 percent as of June 30, 2020. The decline in the reserve ratio during the first half of 2020 was solely a result of extraordinary insured deposit growth, as the DIF balance grew and did not experience material losses over this period. Assessment revenue was the primary contributor to the increase in the fund balance, and four institutions with total assets of approximately $455 million failed during 2020. The fund reserve ratio was 1.30 percent at September 30, 2020, down from 1.41 percent a year earlier.

Restoration Plan

As of June 30, 2020, the DIF reserve ratio was 1.30 percent, below the statutory minimum of 1.35 percent. In September, as required by the Federal Deposit Insurance Act (FDI Act), the FDIC adopted a Restoration Plan to restore the reserve ratio to at least 1.35 percent within eight years, absent extraordinary circumstances, as required by the FDI Act. The Restoration Plan maintains the current schedule of assessment rates for all insured depository institutions (IDIs), and directs the FDIC to monitor deposit balance trends, potential losses, and other factors that affect the reserve ratio and provide semiannual updates to the FDIC Board. While subject to considerable uncertainty, based on a range of reasonable estimates of future losses, and assuming a return to normal insured deposit growth, the Plan forecasts that the reserve ratio will return to the statutory minimum level of 1.35 percent without further action by the FDIC within the eight-year period.

Conclusion of Small Bank Assessment Credits

FDIC regulations provided assessment credits to small banks for the portion of their regular assessments that contributed to growth in the reserve ratio between 1.15 percent and 1.35 percent, the new minimum reserve ratio as mandated by the Dodd-Frank Act. Upon achieving this minimum reserve ratio as of September 30, 2018, the FDIC applied small bank assessment credits to offset assessment invoices for four quarterly

assessment periods, starting with second quarter 2019 deposit insurance assessments through first quarter 2020 deposit insurance assessments.

As noted above, the reserve ratio declined to 1.30 percent as of June 30, 2020, below the 1.35 percent required for remittance of remaining assessment credits. Nevertheless, in September 2020, the Board waived the provision of the FDIC's assessment regulations requiring that the reserve ratio must be at least 1.35 percent for the FDIC to remit the full nominal value of an IDI's remaining assessment credits. In so doing, the FDIC was able to remit to IDIs the full nominal value of remaining credits in the deposit insurance assessment period that ended on June 30, 2020, with an invoice payment date of September 30, 2020. This remittance eliminates the small bank assessment credits.

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 financial institutions, protects consumers' rights, and promotes community investment initiatives.

Examination Program

The FDIC's strong bank examination efforts are at the core of its supervisory program. As of December 31, 2020, the FDIC was the primary federal regulator for 3,230 FDIC-insured, state-chartered institutions that were not members of the Federal Reserve System (generally referred to as "state nonmember" institutions). Through risk management (safety and soundness), consumer compliance, CRA, and other specialty examinations, the FDIC assesses an institution's operating condition, management practices and policies, and compliance with applicable laws and regulations.

During the course of 2020, the FDIC conducted 1,345 statutorily required risk management examinations, including reviews of BSA compliance, and all required follow-up examinations for FDIC-supervised problem institutions, within prescribed time frames. The FDIC also conducted 1,029 CRA/consumer compliance examinations (805 joint CRA/consumer compliance examinations, 221 consumer compliance-only examinations, and three CRA-only examinations). In addition, the FDIC performed 3,025 specialty examinations (which include reviews for BSA compliance) within prescribed timeframes.

The table on the following page illustrates the number of examinations by type, conducted from 2018 through 2020.

Risk Management

All risk management examinations have been conducted in accordance with statutorily-established timeframes. As of September 30, 2020, 56 insured institutions with total assets of $53.9 billion were designated as problem institutions (i.e., institutions with a composite CAMELS[2] rating of 4 or 5) for safety and soundness purposes. By comparison, on September 30, 2019, there were 55 problem institutions with total assets of $48.8 billion. This represents a 2 percent increase in the number of problem institutions and a 10 percent increase in problem institution assets.

For the 12 months ended September 30, 2020, 13 institutions with aggregate assets of $1.5 billion were removed from the list of problem financial institutions, while 14 institutions with aggregate assets of $3.4 billion were added to the list. The FDIC is the primary federal regulator for 40 of the 56 problem institutions, with total assets of $5.3 billion.

In 2020, the FDIC's Division of Risk Management Supervision (RMS) initiated 87 formal enforcement actions and 66 informal enforcement actions. Enforcement actions against institutions included, but were not limited to 18 actions under Section 8(b) of the FDI Act (one of which was a notice of charges), 3 civil money penalties (CMPs), 65 memoranda of understanding (MOUs), and one Section 39 Compliance Plan. Of these enforcement actions against institutions, 11 consent orders, one adjudicated cease and desist order, 3 CMPs, and 11 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

[2] The CAMELS composite rating represents an institution's adequacy of **C**apital, quality of **A**ssets, capability of **M**anagement, quality and level of **E**arnings, adequacy of **L**iquidity, and **S**ensitivity to market risk, and ranges from "1" (strongest) to "5" (weakest).

FDIC EXAMINATIONS

	2020	2019	2018
Risk Management (Safety and Soundness):			
State Nonmember Banks	1,219	1,310	1,333
Savings Banks	125	148	159
State Member Banks	0	0	0
Savings Associations	0	0	0
National Banks	1	0	0
Subtotal–Risk Management Examinations	1,345	1,458	1,492
CRA/Consumer Compliance Examinations:			
Consumer Compliance/Community Reinvestment Act	805	933	876
Consumer Compliance-only	221	210	337
CRA-only	3	4	2
Subtotal–CRA/Compliance Examinations	1,029	1,147	1,215
Specialty Examinations:			
Trust Departments	308	313	308
Information Technology and Operations	1,345	1,466	1,503
Bank Secrecy Act	1,372	1,491	1,523
Subtotal–Specialty Examinations	3,025	3,270	3,334
TOTAL	**5,399**	**5,875**	**6,041**

to, 37 removal and prohibition actions under Section 8(e) of the FDI Act (33 consent orders and 4 notices of intention to remove/prohibit), 2 actions under Section 8(b) of the FDI Act, and 13 CMPs (9 orders to pay and 4 notices of assessment), including one CMP related to BSA.

The FDIC continues its risk-focused, forward-looking supervision program by assessing risk management practices during the examination process to address risks before they lead to financial deterioration. Examiners make supervisory recommendations, including Matters Requiring Board Attention (MRBA), in their Reports of Examination to address these risks. The FDIC's RMS met its goal of following up on at least 90 percent of these supervisory recommendations within six months of transmittal of the Report of Examination. RMS additionally established a new tracking system to gather more information about the subject of MRBA supervisory recommendations, which will aid supervisory planning going forward.

While mindful of the unique challenges the pandemic presented to both institutions and examination staff, during the year, RMS implemented enhanced monitoring procedures to assess pandemic-related impacts on financial institutions. Initial efforts focused on institutions' ability to adapt to the operational challenges of working off-site while continuing to meet customers' needs and their ability to withstand the effects of the economic shock caused by the pandemic. As financial markets calmed and financial institutions were able to implement modified operating plans, the focus shifted, and RMS adopted new procedures to better understand the challenges being faced by institutions of all sizes.

RMS is also engaged in a business process modernization initiative to move its technology systems from an applications-based environment to a business-process environment. This effort will allow RMS to expand its use of machine learning technology to identify emerging trends from examination activities, among other improvements.

Consumer Compliance

As of December 31, 2020, 36 insured state nonmember institutions (collectively, with total assets of $21 billion), about 1 percent of all supervised institutions, were problem institutions for consumer compliance, CRA,

or both. All of the problem institutions for consumer compliance were rated “4” for consumer compliance purposes, with none rated “5.” For CRA purposes, the majority were rated “Needs to Improve;” only two were rated “Substantial Noncompliance.” As of December 31, 2020, all follow-up examinations for problem institutions were performed on schedule.

As of December 31, 2020, the FDIC conducted and achieved all required consumer 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 achieved its internally established time standards for the issuance of final examination reports and enforcement actions.

As of December 31, 2020, the FDIC’s Division of Depositor and Consumer Protection (DCP) initiated eight formal enforcement actions and 16 informal enforcement actions to address consumer compliance examination findings. This included two consent orders to strengthen consumer compliance management systems, and one cease and desist order to take corrective action in a number of areas, one notice of assessment, four CMPs, and 11 MOUs. The CMPs were issued against institutions to address violations of the Flood Disaster Protection Act. The CMP orders totaled in excess of $63,400. In addition to the consumer refunds resulting from the assistance provided by the FDIC’s Consumer Response Center (see discussion under the Consumer Complaints and Inquiries section), consumer compliance examination findings resulted in banks making voluntary restitution of approximately $7.4 million to more than 67,300 consumers and Truth-in-Lending Act (TILA) reimbursements of approximately $575,000 to more than 2,600 consumers.

Large Bank Supervision

For state nonmember banks with assets exceeding $10 billion, the FDIC generally employs a continuous risk management examination program, whereby dedicated staff conduct targeted examinations and ongoing institution monitoring based on a comprehensive annual supervisory planning process. Consumer protection and CRA examinations are generally conducted on a point-in-time basis, although DCP initiated a pilot program during 2020 to employ a continuous supervision model.

The Large Insured Depository Institution (LIDI) Program remains the primary instrument for off-site monitoring of these institutions. The LIDI Program provides a comprehensive process to standardize data capture and reporting for large and complex institutions nationwide, allowing for quantitative and qualitative risk analysis. The LIDI Program focuses on institutions’ potential vulnerabilities to asset, funding, and operational stresses, and supports effective large bank supervision by using individual institution information to focus resources on higher-risk areas, determine the need for supervisory action, and support insurance assessments and resolution planning. In 2020, the LIDI Program covered 106 institutions with total assets of $3.7 trillion.

The Shared National Credit (SNC) Program is an interagency initiative administered jointly by the FDIC, OCC, and FRB to promote consistency in the regulatory review of large, syndicated credits, as well as to identify risk in this market, which comprises a large volume of domestic commercial lending. In 2020, outstanding credit commitments in the SNC Program totaled over $5 trillion. The FDIC, FRB, and OCC report the results of their review in an annual joint public statement.

Information Technology and Cybersecurity

The FDIC examines information technology (IT) risk management practices, including cybersecurity, at each bank it supervises as part of the risk management examination. Examiners assign an IT rating using the FFIEC Uniform Rating System for Information Technology (URSIT). The IT rating is incorporated into the management component of the CAMELS rating, in accordance with the FFIEC Uniform Financial Institutions Rating System.

During 2020, the FDIC conducted 1,319 IT examinations at state nonmember institutions, issuing 24 enforcement actions.

The FDIC also examines the services provided to institutions by bank service providers. In addition to routine examination procedures, this year the FDIC, FRB, and OCC horizontally reviewed services provided by a sample of service providers to understand system capabilities for a potential zero interest rate environment, to assess readiness for the transition from LIBOR as the standard reference rate, and to obtain a high-level understanding of their ability to manage applicable aspects of the CARES Act.

The FDIC also continued to build its IT examination workforce. Following the creation of an entry-level IT and Cyber Risk Management Analyst (ITCA) position in 2019, the first 26 ITCAs were hired in 2020. The ITCAs will focus only on IT (including cybersecurity) examinations, and are expected to reach proficiency at those tasks more quickly than entry level examiners who have broader responsibilities.

The FDIC actively engages with both the public and private sectors to assess emerging cybersecurity threats and other operational risk issues. The information obtained from these engagements is shared with financial institutions and examiners, when appropriate. FDIC staff meet regularly with the Financial and Banking Information Infrastructure Committee, the Financial Services Sector Coordinating Council for Critical Infrastructure Protection, the Department of Homeland Security (DHS), the Financial Services Information Sharing and Analysis Center, other regulatory agencies, and law enforcement to share information regarding emerging issues and to coordinate responses. For example, in January 2020, the FDIC, FRB, OCC, and CSBS sent a DHS cybersecurity alert to all FDIC-insured institutions highlighting the need to defend against a rise in malicious cyber activity directed at the United States. Additionally, in October 2020, in order to improve the analysis and sharing of cybersecurity threat information with financial institutions, the FDIC and other FFIEC members conducted a webinar on heightened cybersecurity risks. Finally, in response to the SolarWinds compromise discovered in December 2020, the FDIC with other agencies communicated with banks to point them to authoritative government sources for related information, and with examiners to help them evaluate the impact on banks and service providers.

Bank Secrecy Act/Anti-Money Laundering

The FDIC examines institutions' compliance with the requirements of the BSA and the FDIC's implementing regulations at each bank it supervises as part of the risk management examination. The FDIC also examines BSA compliance during examinations conducted by State banking authorities if the State is unable to do so. During 2020, the FDIC conducted BSA examinations at 1,372 state nonmember institutions.

Throughout 2020, the FDIC, FRB, OCC, NCUA, and the Department of the Treasury (including the Financial Crimes Enforcement Network (FinCEN)), continued to focus on improving the efficiency and effectiveness of the BSA/AML regime. In August 2020, the Federal banking agencies issued an updated joint statement on the enforcement of BSA/AML requirements, describing circumstances in which an agency will issue a mandatory cease and desist order to address noncompliance. The FDIC, FRB, NCUA, OCC, and FinCEN also issued a statement on BSA due diligence requirements for customers whom banks may consider to be politically exposed persons. Additionally, in October 2020 the FDIC, FRB, OCC, and NCUA — with the concurrence of FinCEN — granted an exemption from the requirements of the customer identification program rules for loans extended by banks and their subsidiaries to all customers to facilitate purchases of property and casualty insurance policies.

The FFIEC further updated the FFIEC BSA/AML Examination Manual in 2020. In April 2020 updates were published to sections on scoping and planning, BSA/AML risk assessment, assessing the BSA/AML compliance program, developing conclusions, and finalizing the examination. The FFIEC conducted examiner and industry outreach webinars in April and June 2020, respectively, to discuss the 2020 updates to the FFIEC BSA/AML Examination Manual. The FFIEC expects to release the next set of updates in 2021. Revised sections of the manual reinforce instructions to examiners regarding depository institutions' reasonably designed policies, procedures, and processes to meet the requirements of the BSA and safeguard institutions from money laundering, terrorist financing, and other illicit financial activity. The manual emphasizes that examiners should tailor the BSA/AML examination scope and planned procedures consistent with the money laundering and terrorist financing risk profile of the depository institution.

Cyber Fraud and Financial Crimes

The FDIC has undertaken a number of initiatives in 2020 to protect the banking industry from criminal financial activities. These include preparing to host a financial crimes-focused conference in 2021 for examiners, lawyers, and others from federal banking and law enforcement agencies; helping financial institutions identify and shut down "phishing" websites that attempt to fraudulently obtain an individual's confidential personal or financial information; and publishing

a number of *Consumer News* articles that offer tips consumers can use to protect themselves from imposter scams and phishing.

Examiner Training and Development

In 2020, the FDIC continued to emphasize the importance of delivering timely and effective examiner training programs. While on-the-job training remained the most significant portion of developmental activities, the historical mix of classroom, virtual instructor-led, and asynchronous (such as computer-based) training was modified in response to the pandemic. The inability to offer classroom-based instruction beginning in mid-March led to a significant effort to convert the entire curriculum of pre-commissioned examiner core training to a virtual delivery format, resulting in the successful conversion of 10 courses and rescheduling of 58 sessions. By year-end 2020, RMS and DCP, in partnership with FDIC's Corporate University, were able to deliver all pre-commissioned examiner training originally scheduled for the year.

All training and development activities are overseen by senior and mid-level management to ensure that FDIC staff and state regulatory partners receive training that is effective, appropriate, and current. The FDIC works in collaboration with partners across the organization and at the FFIEC to ensure emerging risks and topics are incorporated and conveyed timely. FDIC courses are mostly developed internally and delivered by a tenured and knowledgeable examiner instructor pool. Training and development activities are targeted for all levels of examination staff. As an additional informal component to development, the FDIC acknowledges the essential role that peer-to-peer knowledge transfer plays in skills enhancement and the preservation of institutional knowledge.

London Inter-bank Offered Rate (LIBOR) Transition

In 2020, the FDIC, in coordination with the FFIEC, participated in industry outreach and monitored community and regional bank readiness for the transition from LIBOR to alternative reference rates. FDIC monitoring includes interdisciplinary supervision coordination by risk management, capital markets, policy, technology, and consumer compliance to conduct banker outreach and communication to stay abreast of the latest LIBOR transition developments. The FDIC gathers information on LIBOR transition readiness during examinations and other contacts with FDIC supervised institutions. The data are evaluated across institutions to identify trends and inform the supervisory process for areas that may require increased oversight and supervisory attention.

On July 1, 2020 the FFIEC issued a statement highlighting the risks that will result from the transition away from LIBOR and encouraging banks to continue their efforts to transition to alternative reference rates. On November 6, 2020, the FDIC, FRB, and OCC issued a statement reiterating that they are not endorsing a specific replacement rate for LIBOR for loans and that a bank may use any reference rate for its loans that a bank determines to be appropriate for its funding model and customer needs; however, banks should include robust fallback language in its lending contracts to mitigate the risks associated with the discontinuation of LIBOR. The banking agencies issued an additional statement on November 30, 2020, encouraging banks to transition away from LIBOR as soon as practicable as the administrator of LIBOR had announced its intention to cease the publication of key LIBOR rates beginning on December 31, 2021.

During 2020, the Alternative Reference Rates Committee (ARRC), continued the development of the Secured Overnight Financing Rate (SOFR) as a replacement for LIBOR. To address concerns related to the lack of a credit spread for loan products, on February 25, 2020, the banking agencies, the Federal Reserve Bank of New York, and the Department of the Treasury established a Credit Sensitivity Group (CSG) comprised of representatives from a number of U.S. banks to discuss ways to support the transition of loan products away from LIBOR. During the year, the CSG held a series of working sessions to explore the development of a credit risk sensitive spread to SOFR.

Appeals of Material Supervisory Determinations

Section 309(a) of the Riegle Community Development and Regulatory Improvement Act of 1994 required each of the federal banking agencies to establish an independent intra-agency appellate process to review supervisory determinations. To satisfy this requirement, the FDIC established a Board level committee, the

Supervision Appeals Review Committee (SARC), and adopted related guidelines for appeals. In 2019, the FDIC explored potential improvements to the current supervisory appeals process. As part of this review, the FDIC Ombudsman hosted a webinar and in-person listening sessions in each FDIC Region, which offered bankers and other interested parties an opportunity to provide input and recommendations.

After considering all of the feedback received, on September 1, 2020, the FDIC published in the *Federal Register*, a Notice and Request for Comment on proposed changes to its Guidelines for Appeals of Material Supervisory Determinations. The proposal would establish an independent office, which would be known as the Office of Supervisory Appeals (Office) that would generally replace the existing Supervision Appeals Review Committee. As proposed, the Office would report to the Office of the FDIC Chairman and would have delegated authority to independently consider and resolve intra-agency supervisory appeals. The Office would be fully independent of the Divisions that have authority to issue supervisory determinations. The Office would be staffed with individuals who have bank supervisory or examination experience (e.g., retired bank examiners). These individuals would be hired as FDIC employees and may serve staggered terms.

Under the proposed process, the FDIC would continue to encourage institutions to make good-faith efforts to resolve disagreements with examiners and/or the appropriate Regional Office. If these efforts are not successful, the institution could submit a request for review to the appropriate Division Director. Upon receiving a request for review, the Division Director would have the option of issuing a written decision or sending the appeal directly to the Office of Supervisory Appeals. If the Division Director issues a decision, institutions that disagree with the decision could appeal to the Office. The comment period for this proposal closed on October 20, 2020, and the FDIC issued final procedures on January 25, 2021.

Improvements to Regulatory Framework

In addition to the Covid-19-related rulemakings described above, the FDIC finalized a number of key rulemakings in 2020 to improve the regulatory framework applicable to insured banks.

Brokered Deposits

At its December 2020 meeting, the FDIC Board approved a final rule that makes significant revisions to the brokered deposit rules applicable to IDIs that are less than well capitalized. The final rule represents the first meaningful update to the brokered deposits regulations since the rules were first put in place approximately thirty years ago. The new framework reflects the dramatic changes in technology, law, business models, and financial products over that time period.

The final rule creates a more transparent and consistent regulatory approach by establishing bright line tests for the “facilitation” component of the deposit broker definition and a formal process for application of the primary purpose exception. The final rule is intended to encourage innovation in how banks offer services and products to customers by reducing obstacles to certain types of partnerships. And it would continue to protect the Deposit Insurance Fund by ensuring that certain types of funding, including the specific types of deposits Section 29 was intended to address, continue to be treated as brokered deposits.

Interest-Rate Restrictions

In December 2020, as part of the brokered deposit rulemaking described above, the FDIC Board approved modifications to the calculation of interest rate restrictions applicable to banks that are less than well capitalized. Under the final rule, the national rate cap will generally be the higher of (1) the average rate paid on deposits (including credit unions), plus 75 basis points, or (2) 120 percent of U.S. Treasury obligations, plus 75 basis points. This combines the FDIC’s original methodology for interest rate restrictions, in effect from 1992 through 2009, and the current methodology, in effect since 2010, with slight modifications. While neither methodology proved durable on its own through a range of interest rate environments, the methodology adopted by the final rule is designed to more accurately reflect rates offered in both high- or rising-rate environments and low- or falling-rate environments.

The rule also amends the calculation of the local rate cap, which is defined by the rule as 90 percent of the highest offered rate in the institution’s local market area for a specific deposit product. A less than well-capitalized institution is generally permitted to offer a

rate that is above the national rate cap on new deposits if the rate is below the local rate cap.

Federal Interest Rate Authority

In June 2020, the FDIC Board approved a final rule that clarifies the law governing the interest rates that state-chartered banks and insured branches of foreign banks may charge. The final rule codifies longstanding legal interpretations of the FDI Act and provides that a permissible interest rate on a loan, as permitted by the law where the bank is located, would not be affected by subsequent events, such as a change in state law, a change in the relevant commercial paper rate, or the sale/assignment/transfer of the loan.

Parent Companies of Industrial Banks

In March 2020, the FDIC Board issued a final rule to establish a framework to approve filings for deposit insurance, mergers, and changes in bank control involving industrial banks. The rule requires each industrial bank and its parent company to enter into one or more written agreements with the FDIC to ensure the safe and sound operation of the industrial bank. Through the written agreements and restrictions, the rule imposes certain conditions and commitments, and prohibits the industrial bank from taking certain actions without the FDIC's prior written approval. This includes a requirement that a parent company commit to maintaining the capital and liquidity of a subsidiary bank at such levels as the FDIC deems appropriate. The rule generally codifies existing practices utilized by the FDIC and ensures that a parent company can serve as a source of strength for a subsidiary industrial bank. The rule provides important safety and soundness protections to the industrial bank and the DIF without imposing undue costs and provides transparency to interested parties concerning the FDIC's determinations on filings involving industrial banks.

Volcker Rule

In June 2020, the FDIC, FRB, OCC, SEC, and Commodity Futures Trading Commission approved a final rule to modify regulations implementing the Volcker Rule's general prohibition on banking entities investing in or sponsoring hedge funds or private equity funds – known as "covered funds." The final rule was broadly similar to a notice of proposed rulemaking issued in January 2020. The rule aims to improve and streamline the covered funds portion of the rule, address the treatment of certain foreign funds, and permit banking entities to offer financial services and engage in other permissible activities that do not raise concerns that the Volcker Rule was intended to address. The rule is intended to facilitate capital formation by enabling banking entities to provide credit through fund investments that will increase the availability of capital for businesses. The final rule became effective in October 2020.

Net Stable Funding Ratio

In October 2020, the FDIC, FRB, and OCC approved a final rule to implement the net stable funding ratio (NSFR), a one-year liquidity standard that examines the stability of a bank's funding profile. The NSFR complements the liquidity coverage ratio rule, which requires large banking organizations to hold a minimum amount of high-quality liquid assets that can be easily and quickly converted into cash to meet net cash outflows over a 30-day stress period. The NSFR requirement is designed to reduce the likelihood that disruptions to a banking organization's regular sources of funding will compromise its liquidity position, as well as to promote improvements in the measurement and management of liquidity risk. Consistent with the agencies' tailoring rule, issued in November 2019, the NSFR would apply based on a bank's size, risk profile, and systemic footprint.

Total Loss-Absorbing Capacity Requirement

In October 2020, the FDIC, FRB, and OCC issued a final rule to limit the interconnectedness of the largest banking organizations and mitigate the impact on financial stability from failure that could arise from the largest banking organizations holding the total loss-absorbing capacity (TLAC) debt of a global systemically important bank holding company (G-SIB). The final rule is substantially similar to the proposal issued in 2019 and complements other measures the agencies have taken to limit interconnectedness among the largest banking organizations.

U.S. G-SIBs, as well as U.S. intermediate holding companies of foreign G-SIBs, are required to issue debt with certain features under the Federal Reserve Board's TLAC rule. That debt could be used to recapitalize the holding company during bankruptcy or resolution if it were to fail. To discourage the largest banking organizations from purchasing TLAC debt, the final rule prescribes a more stringent regulatory capital

treatment for such banks' holdings of TLAC debt. This rulemaking also will require G-SIBs to report publicly their outstanding TLAC debt. The final rule is effective on April 1, 2021.

Swap Margin Rule

In June 2020, the FDIC, FRB, OCC, Farm Credit Administration, and Federal Housing Finance Agency issued a final rule amending the agencies' swap margin rule to facilitate the implementation of prudent risk management strategies at banks and other entities with significant swap activities, among other purposes. Under the final rule, a depository institution is no longer required to hold a specific amount of initial margin for uncleared swaps with affiliates so long as the depository institution's total exposure to all affiliates does not exceeds 15 percent of its Tier 1 capital. Inter-affiliate swaps typically are used for internal risk management purposes by transferring risk to a centralized risk management function within the firm. The final rule will give firms additional flexibility to allocate collateral internally and support prudent risk management and safety and soundness. Under the final rule, inter-affiliate swaps will still remain subject to variation margin requirements.

To help transition from LIBOR to alternative reference rates, the final rule allows swap entities to amend legacy swaps to replace the reference to LIBOR or other reference rates that are expected to end without triggering margin exchange requirements. The final rule also clarifies that swap entities may conduct risk-reducing portfolio compression or make certain other non-substantive amendments to their legacy swap portfolios without altering their legacy status. For smaller swap market participants, the agencies finalized as proposed the additional phased compliance period for the smallest covered swap entities and financial end-user counterparties.

Simultaneously with the final rule, the agencies issued an interim final rule that extend the compliance date of the initial margin requirements of the swap margin rules to September 1, 2021 for swap entities and counterparties with average annual notional swap portfolios of $50 billion to $750 billion. This interim final rule also extends the initial margin compliance date to September 1, 2022, for counterparties with average annual notional swap portfolios of $8 billion to $50 billion.

Final Basel III Standards

The FDIC continues to work with the other federal banking agencies to develop a proposed rulemaking that would seek comment on the implementation of the revised Basel III standards in the U.S. and expect to issue the proposed rulemaking in 2021. The final Basel III standards to be implemented in the United States for the largest and most complex institutions would address concerns regarding excessive variability in the measurement of risk-weighted assets (RWAs) across large internationally active banking institutions. These revisions are designed to reduce RWA variability by enhancing the robustness and risk sensitivity of the standardized approach for credit risk and operational risk and constraining the use of internal models. In addition, the Basel III revisions will enhance the market risk framework by introducing: a clearer boundary between the trading book and the banking book, an internal models approach that relies upon the use of expected shortfall models, separate capital requirements for risk factors that cannot be modeled, and a risk-sensitive standardized approach that is designed and calibrated to be a credible fallback to the internal models approach.

Codification of Section 19 Statement of Policy

In July 2020, after considering public comments, the FDIC approved a final rule to revise and codify the FDIC's existing Statement of Policy for Section 19 of the FDI Act regarding individuals with a record of certain criminal offenses who seek employment in the banking industry. The final rule is intended to enhance transparency and accountability concerning the FDIC's Section 19 application process and reduce burden for financial institutions and individuals impacted by Section 19. The changes narrow the circumstances under which the FDIC's written consent is required for a financial institution to hire individuals with minor criminal offenses. The final rule became effective on September 21, 2020, superseding existing policy.

Rulemaking on Guidance

On November 5, 2020, the FDIC, FRB, OCC, CFPB, and NCUA issued a proposed rule describing the agencies' use of supervisory guidance and codifying a statement, as amended, issued in 2018 that, among other things, clarified the differences between regulations and guidance. The codified Statement includes provisions

stating that supervisory guidance does not create binding, enforceable legal obligations; that the agencies do not issue supervisory criticisms (which includes, in the FDIC's case, matters requiring board attention (MRBAs)) for "violations" of or "non-compliance" with supervisory guidance; and describes the appropriate use of supervisory guidance. The FDIC finalized the proposal in January 2021.

Statements of Policy on National Historic Preservation Act and National Environmental Policy Act

In October 2020, the FDIC adopted amendments to its regulations regarding the establishment and relocation of branches and offices, including the establishment of branches in connection with deposit insurance applications. The amendments removed historic preservation and environmental policy requirements that were previously addressed in application procedures and related statements of policy. These actions reduced the burden on proposed and existing institutions and ensure consistency with the application procedures for national banks and insured state member banks supervised by the OCC and FRB, respectively.

Office of Thrift Supervision Regulations

Throughout 2020, the FDIC continued to streamline FDIC regulations and eliminate unnecessary and duplicative regulations applicable to state savings associations in order to improve the public's understanding of the rules, to improve the ease of reference and to promote parity between state savings associations and state nonmember banks. The FDIC removed rules transferred from the Office of Thrift Supervision relating to application processing procedures, non-discrimination requirements, requirements for subordinate organizations, and directives to take prompt corrective action, and made conforming amendments to its existing regulations to reference state savings associations as appropriate. Upon removal of these transferred regulations, all FDIC-supervised institutions would be subject to the same set of regulations.

Supervision Policy

The goal of supervision policy is to provide clear, consistent, meaningful, and timely information to financial institutions and examiners.

Examination Documentation Modules

In late 2019, RMS updated the Risk Management Manual of Examination Policies by inserting Part VI, Appendix: Examination Processes and Tools, Examination Documentation Modules. The Examination Documentation Modules were developed in 1997 by the FDIC, FRB, and the state banking supervisors to provide examiners with common tools to identify and assess the range of matters considered during safety and soundness examination activities. The modules direct examiners to use a risk-focused approach in conducting examination activities, thereby facilitating an efficient and effective supervisory program.

In 2020, the FDIC updated its documentation processes to establish completion of the Core Analysis Decision Factors within the primary Examination Documentation Modules as the national standard for documenting a full-scope examination for FDIC-supervised institutions. The FDIC adopted this policy to promote nationwide consistency in documentation standards, to promote consistency in examination practices of state chartered institutions, to support the eventual migration to a more modern "end-to-end" supervision process as part of a business process modernization initiative, and to serve as an internal control for examination practices during the period when all examination activity has been conducted off-site.

Risk Management Manual of Examination Policies

In January 2020, the FDIC memorialized more robust examination planning procedures in a new section of the Risk Management Manual of Examination Policies titled "Examination Planning." Additionally, various updates were undertaken to address recent changes to accounting standards and capital rules, reinforce instructions to examination staff regarding the conduct of interim contacts and director involvement, and make various other technical edits.

Management of Credit Risk, Liquidity Risk, and Interest-Rate Risk

Financial institutions showed resiliency in 2020 despite economic stress related to the COVID-19 pandemic. Institutions entered the period of stress with low loan portfolio delinquency rates. Loan deferrals, made to assist borrowers as segments of the economy closed, kept delinquency rates low.

The system also saw loan growth that was primarily driven by banks of all sizes supporting their customers and communities by originating Small Business Administration (SBA)-guaranteed PPP loans. The PPP provided businesses with low-cost funds to pay employees and support operations during the slowdown in business or temporary closures related to stay-at-home orders. Financial institutions facilitated the PPP, generating fee income and in many cases using the FRB's PPP Liquidity Facility to provide the loans.

Temporary and permanent business closures caused by physical-distancing requirements and consumer reaction to the pandemic are impacting borrower balance sheets. The continued economic strains, uncertainty about asset quality when loan deferral periods end, and behavioral shifts caused by the pandemic create a challenging environment for managing credit risk.

As individuals and businesses sought safety during the uncertain economic environment, banks experienced record new deposit growth. These inflows demonstrate public confidence in the banking system in what could become a "low for long" interest rate environment. Notwithstanding the banking industry's strengthened liquidity, the retention rate of these new deposits remains unclear.

Supervisory Guidance

Regulatory Relief - Areas Affected by Severe Storms

During 2020, the FDIC issued 16 advisories through FILs to provide guidance to financial institutions in areas affected by hurricanes, tornadoes, flooding, wildfires, and other severe storms, and to facilitate recovery. In these advisories, the FDIC encouraged banks to work constructively with borrowers experiencing financial difficulties as a result of natural disasters, and 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.

Allowance for Credit Losses

In June 2020, the FDIC, OCC, FRB and NCUA, with input from CSBS, released the Final Interagency Policy Statement on Allowances for Credit Losses (Final ACL Policy Statement) in response to CECL, to replace the agencies' December 2006 Interagency Policy Statement on the Allowance for Loan and Lease Losses (ALLL) and the July 2001 Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions (collectively, the 2006 and 2001 ALLL Policy Statements).

The new policy statement addresses most of the topics covered in the 2006 and 2001 ALLL Policy Statements, but in the context of CECL. Thus, the Final ACL Policy Statement describes:

- The measurement of expected credit losses under CECL and the accounting for impairment on available-for-sale (AFS) debt securities in accordance with the new credit losses accounting standard;
- Principles related to designing, documenting, and validating expected credit loss estimation processes, including the internal controls over these processes;
- Maintaining appropriate ACLs;
- The responsibilities of boards of directors and management; and
- Examiner reviews of ACLs.

The principles outlined in the Final ACL Policy Statement will become applicable to an institution upon the institution's adoption of CECL. Once CECL is effective for all institutions, the agencies will rescind the 2006 and 2001 ALLL Policy Statements. The agencies may individually issue additional information to provide clarification beyond what is presented in the final policy statement as deemed necessary.

Credit Risk Review

In May 2020, the FDIC, FRB, OCC, and NCUA, issued *Interagency Guidance on Credit Risk Review Systems* (credit risk review guidance), which updates, replaces, and issues as a standalone document, guidance that was previously codified in *Attachment 1 - Loan Review Systems* - to the 2006 *Interagency Policy Statement on the Allowance for Loan and Lease Losses.*

The guidance articulates a broad set of practices, which include a system of qualified, independent, ongoing

credit risk review and communication to management and the board of directors regarding the performance of the institution's loan portfolio. The guidance also reflects current industry practices and terminology associated with the CECL methodology. It describes principles to be considered when developing and maintaining a credit risk review system, including the qualifications and independence of credit risk review personnel; the frequency, scope, and depth of reviews; and the review, follow–up, communication, and distribution of results. The expectations for effective credit review systems are scalable to an institution's size, risk profile, loan type, and risk management practices; and the principles are consistent with the *Interagency Guidelines Establishing Standards for Safety and Soundness, Appendix A of Part 364 of FDIC Rules and Regulations.*

Stress Testing Guidance

The FDIC staff worked with staff from the other banking agencies to update the interagency stress testing guidance, which was issued in 2012. Revisions were delayed to refocus resources during the pandemic.

RESEARCH

Center for Financial Research

The FDIC's Center for Financial Research (CFR) encourages, supports, and conducts innovative research on topics that inform the FDIC's key functions of deposit insurance, supervision, and the resolution of failed banks. CFR researchers have published papers in leading banking, finance, and economics journals, including the American Economic Review, Review of Economic Dynamics, and The Journal of Law and Economics. In addition, CFR researchers presented their research at major conferences, regulatory institutions, and universities.

The CFR also developed and maintained many financial models used throughout the FDIC, including off-site models that inform the examination process. CFR economists also provided ongoing support to RMS through on-site examinations.

In October 2020, the CFR hosted the 10th Annual Consumer Research Symposium virtually using virtual conferencing technology. FDIC Chairman McWilliams opened the conference by highlighting the importance of scholarly research in providing a solid foundation on which to make good public policy. Discussion sessions focused on the puzzle presented by the coexistence of high cost credit and low yield savings on consumer balance sheets, behavioral household finance, consumer credit under distress, consumption and credit, and financial decision-making in mortgage markets, among other topics. Each session included presentations by leading researchers from academia and the public sector. The symposium was attended by more than 200 researchers and practitioners from academia, government, and private-sector organizations.

Chairman Jelena McWilliams delivered opening remarks at the 10th Annual Consumer Research Symposium.

How America Banks: Household Use of Banking and Financial Services

Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 mandates that the FDIC regularly report on unbanked populations and bank efforts to bring individuals and families into the mainstream banking system. In response, since 2009, the FDIC has conducted biennial surveys to measure the banked and unbanked populations in the U.S. and study household use of banking and financial products and services. This efforts is the most comprehensive analysis of its kind. The information it generates informs the FDIC, as well as the public, financial institutions, policymakers, regulators, researchers, academics, and others.

The most recent survey was conducted in 2019 and reached more than 33,000 U.S. households. Results were reported in October 2020, in *How America Banks: Household Use of Banking and Financial Services*. The report provided updated banked and unbanked rates for

U.S. households at the national and state levels and for more than 100 Metropolitan Statistical Areas (MSAs). The report also analyzed the methods used by households to access their bank accounts, households' visits to bank branches, and their use of prepaid cards, nonbank financial services, and bank and nonbank credit.

Results of the most recent survey — and all previous surveys — are available at the FDIC's website at https://economicinclusion.gov. In addition, this public website provides users with the ability to generate custom tabulations and access a wide range of pre-formatted information, including five-year estimates that provide additional granularity for state and MSA results.

The FDIC will be implementing several revisions to the survey questionnaire for the 2021 survey. These revisions were discussed in a November 2020 notice in the *Federal Register*.

National and Regional Risk Analysis

The FDIC's National and Regional Risk Analysis Branch identifies, analyzes, monitors, and communicates developments and key risks in the economy, financial markets, and banking industry that may impact FDIC-insured institutions and the DIF. As part of this work, the Branch publishes the Quarterly Banking Profile — a comprehensive summary of financial results for all FDIC-insured institutions. This report card on industry status and performance includes written analyses, graphs, and statistical tables.

In addition, the branch publishes topical quarterly articles. In 2020, this included "2019 Summary of Deposits Highlights," which highlights trends in bank deposit and branch growth and "The Importance of Community Banks in Paycheck Protection Program Lending," which describes the role that community banks played in supporting small businesses through the SBA's Paycheck Protection Program.

INNOVATION/FINANCIAL TECHNOLOGY

The FDIC continuously monitors developments in technology to better understand how it may affect the financial industry.

FDiTech and FDIC Emerging Technology Steering Committee

In 2020, the FDIC's Office of Innovation — or FDiTech — continued its work to encourage innovation and partnerships at community banks. FDiTech was announced and established by Chairman McWilliams in 2019, with the following mission:

- Engage bankers, fintechs, technologists, and other regulators on innovations that will lay the foundation for banking's future;
- Conduct "tech sprints" and pilot projects to test emerging technologies in cooperation with states and affected federal regulators;
- Support and promote the adoption of new technologies by financial institutions, particularly at community banks; and
- Expand banking services to the unbanked, underbanked, and individuals in underserved communities through new technologies.

FDiTech took the following steps in 2020 toward fulfilling that mission:

- In February 2020, FDiTech released a guide to help financial technology companies and others partner with banks. *Conducting Business with Banks: A Guide for Third Parties* is designed to help third parties understand the environment in which banks operate and navigate the requirements unique to banking.
- In June 2020, the FDIC announced a rapid prototyping competition, a type of procurement process tech sprint, to develop a new and innovative approach to real-time financial reporting, particularly for community banks. More than 30 technology firms were invited to participate in the competition, representing leaders in the financial services, data management, data analytics, and artificial intelligence/machine learning fields. Competitors developed proposed solutions that were presented to the FDIC for consideration. The competition is intended to lead to the development of modern tools that will help make financial reporting seamless and less burdensome for banks, provide more timely and granular data to the FDIC on industry health, and promote more efficient

supervision of individual banks. In October, 14 competitors advanced to the second phase of the competition.

- In July 2020, as part of the FDiTech initiative, the FDIC issued a Request for Information to seek the public's input on the potential for a public/private standard-setting partnership and voluntary certification program to promote the efficient and effective adoption of innovative technologies, such as models, at FDIC-supervised financial institutions and to create efficiencies in the due diligence process of on-boarding third-party service providers of technological products and services. Given rapid technological developments and evolving consumer behavior, this public/private partnership model program has the potential to help promote innovation across the banking sector and streamline a costly and often duplicative system for both banks and technology firms. The FDIC is considering the comments received and the next steps with regard to the formation, structure and utility of establishing a standard setting organization and certification organization and program.

In addition to FDiTech, the agency has dedicated significant resources to identify and understand emerging technology and ensure the agency is prepared to address the changing landscape in financial services. Since 2016, these efforts have been led by the FDIC's Emerging Technology Steering Committee, which is supported by two staff-level working groups. The committee is comprised of the Directors of RMS, DCP, Division of Insurance and Research (DIR), Division of Resolutions and Receiverships (DRR), and Division of Complex Institution Supervision and Resolution (CISR), as well as the General Counsel, the Chief Financial Officer, the Chief Risk Officer, and the Chief Information Officer.

In 2020, the Emerging Technology Steering Committee continued work on its established objectives:

- Comprehend, assess, and monitor the current emerging technology activities, risks, and trends;
- Evaluate the projected impact of emerging technology on the banking system, the deposit insurance system, effective regulatory oversight, economic inclusion, and consumer protection;
- Oversee internal working groups monitoring particular aspects of emerging technology;
- Recommend follow-up actions, as appropriate, and monitor implementation; and
- Help formulate strategies to respond to opportunities and challenges presented by emerging technology, and to ensure developments align with regulatory goals.

The FDIC also participates on several working groups related to financial technology:

- The Basel Committee on Banking Supervision's Task Force on Financial Technology, which focuses on the impact of financial technology on banks' business models, risk management, and implications for bank supervision;
- The Financial Stability Oversight Council (FSOC) Digital Assets Working Group, which is examining potential policy areas as they relate to digital assets and the application of distributed ledger technology;
- An interagency fintech discussion forum, which focuses on issues related to consumer compliance;
- The Global Financial Innovation Network;
- The US-UK Financial Innovation Partnership; and
- The Financial Stability Board Financial Innovation Network.

In 2020, the Legal Division formed the Financial Technology and Innovation Group within the Office of the General Counsel. That group houses the FinTech Innovation Team of attorneys, which focuses on legal issues facing both the FDIC and its supervised and insured banks and savings associations arising from emerging forms of technology, innovative banking products and services, new approaches to the business of banking, and adapting relationships with third-parties. The Team's mission focuses on not only providing direct legal services and support to the other Divisions and FDiTech, but also advising on legal policy in an area of law that is dynamic and still developing.

In addition, the FDIC Supervision Modernization Subcommittee considered how the FDIC can leverage technology and refine processes to make the examination program more efficient, as well as manage and train a geographically dispersed workforce.

COMMUNITY BANKING RESEARCH PROGRAM

Community banks provide traditional, relationship-based banking services in their local communities, and as the primary federal supervisor for the majority of community banks, the FDIC has a particular responsibility for the safety and soundness of this segment of the banking system.

As defined for FDIC research purposes, community banks made up 91 percent of all FDIC-insured institutions at September 30, 2020. While these banks hold just 12 percent of banking industry assets, community banks are of critical importance to the U.S. economy and local communities across the nation. They hold 39 percent of the industry's small loans to farmers and businesses, making them the lifeline to entrepreneurs and small enterprises of all types. They 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 2020, community banks held more than 75 percent of deposits in 1,152 U.S. counties. In more than 600 of these counties, the only banking offices available to consumers were those operated by community banks.

Community Banking Research

The FDIC pursues an ambitious, ongoing agenda of research and outreach focused on community banking issues. Since the 2012 publication of *the FDIC Community Banking Study*, FDIC researchers have published more than a dozen additional studies on topics ranging from small business financing to the factors that have driven industry consolidation over the past 30 years. The FDIC published a study of community banks in 2020, that updates the 2012 study on the same topic. The 2020 study reviews several areas covered previously, including community-bank financial performance, trends in community-bank consolidation, and community-bank lending strategies. The 2020 study also includes a discussion of demographic changes affecting community banks, adoption of new technologies, and the effect of regulatory changes.

The FDIC Quarterly Banking Profile includes a section focused specifically on community bank performance, providing 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 declined 1.9 percent on a merger-adjusted basis in the first nine months of 2020 compared with the first nine months of 2019, in the face of the recession which began in the first quarter. The decline in net income during the first nine months of 2020 was due to a sharp rise in provisions for credit losses as a result of the economic and financial uncertainty associated with the COVID-19 pandemic.

The long-term trend of consolidation has done little to diminish the role of community banks in the banking industry. Just over 75 percent of the community banks that merged between September 2019 and September 2020, were acquired by other community banks. On a merger-adjusted basis, loan growth at community banks exceeded growth at noncommunity banks in every year between 2012 and 2020. (See the chart on the following page.) From June 2019 to June 2020, on a merger-adjusted basis noncommunity banks reduced the number of offices they operate by 2.5 percent. In contrast, the number of offices operated by community banks increased slightly on a merger-adjusted basis.

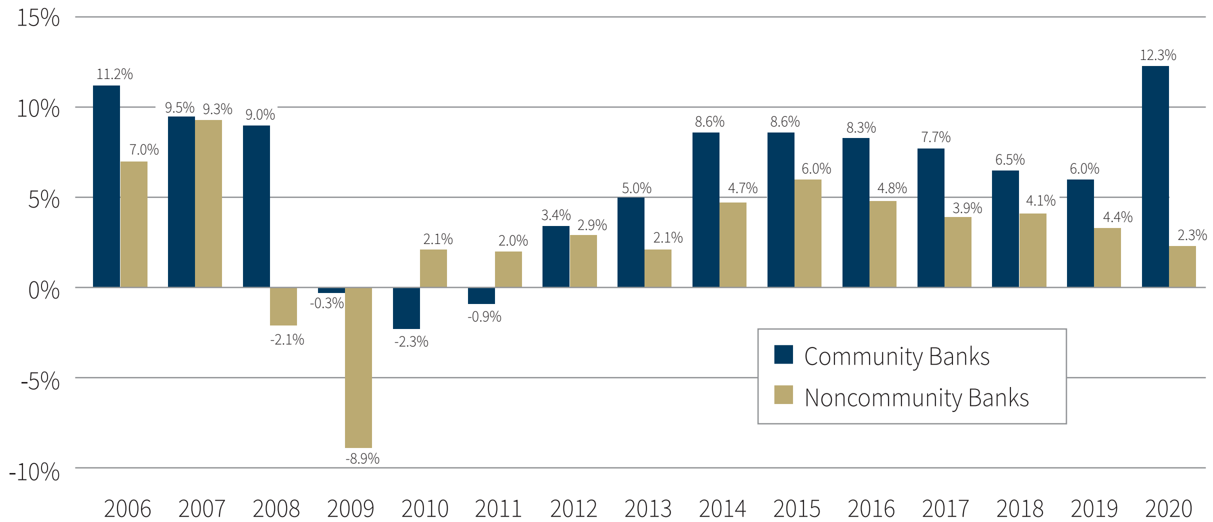
Community Bank Advisory Committee

The FDIC's Advisory Committee on Community Banking is an ongoing forum for discussing current issues faced by community banks and receiving valuable feedback from the industry. The Committee, which met virtually twice during 2020, is composed of as many as 18 community bank executives from around the country. It is a valuable resource for information on a wide range 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.

At both of the 2020 Advisory Committee meetings, there was a discussion of local banking conditions, supervisory issues, insurance and research matters, and the FDIC's Rapid Prototyping Technology Competition as well as an update from the Minority Depository Institutions Subcommittee. Further, at the July 2020 meeting, there was a discussion of diversity and inclusion at financial institutions, and representatives from the Financial Accounting Standards Board provided an update on the CECL accounting standard. At the October 2020 meeting, FDIC staff also discussed proposed changes

COMMUNITY BANK LOAN GROWTH HAS EXCEEDED GROWTH AT NONCOMMUNITY BANKS FOR NINE CONSECUTIVE YEARS

Merger Adjusted Annual Growth in Total Loans and Leases



Source: FDIC.

Note: Data as of third quarter for 2020 and as of year-end for all other years.

COMMUNITY BANKS ADDED OFFICES WHILE NONCOMMUNITY BANKS CLOSED OFFICES JUNE 2019 TO JUNE 2020

	Offices of Currently-Operating Banks in June 2019	Offices of Acquired Banks	Number of Offices in June 2019 (Merger-adjusted)	New Offices Opened	Offices Closed	Net Offices Purchased or Sold	Number of Offices in June 2020
Community Banks	28,317	569	28,886	606	440	15	29,067
Noncommunity Banks	54,805	2,626	57,431	607	2,050	-15	55,973
TOTAL	**83,122**	**3,195**	**86,317**	**1,213**	**2,900**	**0**	**85,040**

Source: FDIC Summary of Deposits Data as of June 2020.

to the supervisory appeals process and a request for information on a proposed voluntary certification program to promote new technologies.

De Novo Banks

Throughout 2020, the FDIC continued multiple initiatives aimed at streamlining the deposit insurance application process, and ensuring timely consideration and efficient processing of deposit insurance applications.

During 2020, the FDIC released a number of resources to aid organizers in developing draft deposit insurance proposals. The resources update the process that the FDIC introduced in December 2018 and provide information regarding the FDIC experience in receiving and reviewing draft proposals. Further, the resources highlight practices that support the submission of effective draft proposals and detail the procedures by which FDIC staff reviews proposals. The draft review

process is available to all organizing groups, but may be particularly helpful for organizers pursuing deposit insurance proposals that present novel, unusual, or complex aspects, and for organizers seeking technical assistance. Interested parties may access application-related information through the FDIC's Bank Applications webpage located at https://www.fdic.gov/resources/supervision-and-examinations/bank-applications/index.html.

In February 2020, the FDIC released a Supplement to its *Deposit Insurance Application Procedures Manual* that addresses deposit insurance applications that involve unique or complex proposals, including proposals from applicants that are not traditional community banks. The supplement provides insights into the review of such applications, including the evaluation of statutory factors and the use of approval conditions and written agreements, and reflects the agency's commitment to transparency in its processes and decision-making.

The FDIC has established a goal of acting on 75 percent of deposit insurance applications within 120 days after the application is accepted as substantially complete. The FDIC received 22 applications in 2020, 15 of which are still in process. Of the remaining seven, five applications were returned or withdrawn before being accepted as substantially complete. The remaining two applications were approved in excess of 120 days, one in 128 days and one in 134 days. Processing of these applications was delayed while awaiting additional information from the applicants. In addition, the FDIC approved 14 applications for deposit insurance that were received during 2019, while 8 applications received in 2019 were returned or withdrawn in 2020, but these applications were not subject to the 2020 Annual Performance Goal.

Technical Assistance Program

As part of the Community Banking Initiative, the FDIC continued to provide a robust technical assistance program for bank directors, officers, and employees. The technical assistance program includes a Banker Resource Center, Directors' College events held across the country, industry teleconferences and webinars, and a video program.

In June 2020, the FDIC launched a new Banker Resource Center on its website. This one-stop resource for bankers. It contains detailed information on almost 20 supervisory topics and general information in a number of other areas for bankers and is located at https://www.fdic.gov/resources/bankers.

In 2020, the FDIC hosted Directors' College events in five of its six regions. These events were conducted jointly with state trade associations and addressed issues such as corporate governance, regulatory capital, community banking, concentrations management, consumer protection, BSA, and interest-rate risk, among other topics.

The FDIC also offered a series of banker events, in order to maintain open lines of communication and to keep bank management and staff informed regarding important banking regulatory and emerging issues of interest to community bankers. In 2020, the FDIC offered 12 teleconferences or webinars focused on the following topics:

- How to Become a Paycheck Protection Program (PPP) Lender (with the FRB, OCC, and NCUA);
- Revised Statement on Loan Modifications and Reporting for Institutions Working with Customers Affected by the Coronavirus (with the FRB, OCC, and NCUA);
- New Transition Provision to Delay the Impact of CECL on Regulatory Capital for Institutions Required to Adopt CECL in 2020 (with the FRB and OCC);
- Community Bank Leverage Ratio Framework;
- Current Expected Credit Losses (CECL) accounting methodology;
- Banks' Use of Artificial Intelligence, including Machine Learning;
- The Business Continuity Management Booklet of the IT Handbook, through FFIEC;
- Additional Loan Accommodations (with the FRB and OCC);
- 2020 updates to the FFIEC BSA/AML Manual, through FFIEC;
- Loan Forgiveness and Other Matters Relative to the Paycheck Protection Program;
- Loan modifications – Coronavirus (COVID-19) Information for Bankers; and
- New Standardized Approach for Calculating the Exposure Amount of Derivatives Contracts.

Finally, in 2020, the FDIC released six videos as a high-level overview to help FDIC-supervised institutions understand how FDIC examiners look at fair lending compliance, and provide resources that may assist institutions in assessing and mitigating different types of fair lending risks.

Advisory Committee of State Regulators

In October 2020, the FDIC held the inaugural meeting of its Advisory Committee of State Regulators. The FDIC Board of Directors approved the formation of this advisory committee in November 2019, as another mechanism for state regulators and the FDIC to discuss current and emerging issues that have potential implications for the regulation and supervision of state-chartered financial institutions. The Advisory Committee members include regulators of state-chartered financial institutions from across the United States as well as other individuals with expertise in the regulation of state-chartered financial institutions. At the meeting, the Committee discussed state banking conditions, community bank consolidation, state-federal coordination, financial inclusion efforts, the FDIC's Rapid Prototyping Technology Competition, and a request for information on a proposed voluntary certification program to promote new technologies.

ACTIVITIES RELATED TO LARGE AND COMPLEX FINANCIAL INSTITUTIONS, INCLUDING SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS

The FDIC is committed to addressing the unique challenges associated with the supervision, deposit insurance, and potential resolution of large and complex financial institutions. The agency'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 Division of Complex Institution Supervision and Resolution (CISR) was established in 2019 to centralize and integrate the FDIC's operations related to the supervision and resolution of large and complex financial institutions, including systemically important financial institutions (SIFIs), financial market utilities (e.g., central counterparties), and all FDIC-IDIs with assets above $100 billion for which the FDIC is not the primary federal regulatory authority (i.e., large complex financial institutions (LCFIs) in the CISR portfolio).

CISR performs ongoing risk monitoring of G-SIBs, large foreign banking organizations (FBOs), other large domestic banks in the FDIC's portfolio, and FSOC-designated nonbank financial companies; provides backup supervision of the firms' related IDIs; and evaluates the firms' required resolution plans. CISR also performs certain analyses that support the FDIC's role as an FSOC member.

Resolution Plans – Title I Living Wills

Certain large banking organizations and nonbank financial companies designated by FSOC for supervision by the FRB are periodically required to submit resolution plans to the FDIC and FRB. Each resolution plan, commonly known as a "living will," must describe the company's strategy for rapid and orderly resolution under the U.S. Bankruptcy Code in the event of material financial distress or failure of the company.

Recent Title I Submissions

In December 2019, the FDIC and FRB jointly announced that their review of the 2019 resolution plans of the eight largest and most complex domestic banking organizations did not find any deficiencies; however, plans from six of the eight banking organizations had shortcomings. The shortcomings related to the ability of the firms to reliably produce, in stressed conditions, data needed to execute their resolution strategies. Action plans to address the shortcomings were due to the agencies by April 30, 2020. The action plans demonstrated progress towards addressing the shortcomings. The agencies will review whether the shortcomings have been addressed adequately, in connection with their review of the firms' 2021 Targeted Plans.

In light of the challenges arising from the COVID-19 pandemic, in May 2020, the FDIC and FRB extended the 2020 resolution plan submission deadline by 90 days, to September 29, 2020, for four FBOs. By that extended submission deadline, the four FBOs submitted their resolution plans to remediate certain weaknesses — deemed "shortcomings" — previously identified by

the agencies. The agencies announced on December 9, 2020, that weaknesses previously identified in the resolution plans of those four FBOs had been remediated. Additionally, the agencies extended the 2021 targeted resolution plan submission deadline for foreign and domestic banks in Category II and Category III under the agencies' tailoring rule.

In July 2020, the agencies provided information to the eight largest and most complex domestic banking organizations to guide their next resolution plans, which are due by July 1, 2021. The 2021 plans will be required to include core elements of a firm's resolution plan—such as capital, liquidity, and recapitalization strategies—as well as how each firm has integrated changes to, and lessons learned from, its response to COVID-19 into its resolution planning process.

Additionally, on July 1, 2020, the FDIC and FRB announced that they had completed a review of "critical operations," at certain firms whose failure or discontinuance would threaten U.S. financial stability, and informed the firms of their findings. The agencies also announced their plan to complete another such review by July 2022, and this review will include a further, broader evaluation of the framework used to identify critical operations.

Furthermore, in 2020, the FDIC and FRB hosted Crisis Management Group (CMG) meetings for U.S. G-SIBs to discuss home-and-host resolvability assessments for the firms to facilitate cross-border resolution planning.

Other Large Bank Holding Company Filers

On December 9, 2020, the agencies finalized guidance for certain foreign banking organizations that are Category II firms according to their combined U.S. operations under the Federal Reserve Board's tailoring rule and are required to have a U.S. intermediate holding company. The final guidance included tailored expectations around resolution capital and liquidity, derivatives and trading activity, as well as payment, clearing and settlement activities. Additionally, the agencies provided information for Category II and Category III foreign and domestic banking organizations that will inform the content of their next resolution plans, which are due December 17, 2021. These targeted plans will be required to discuss capital, liquidity, and recapitalization strategies, among other things.

Insured Depository Institution Resolution Planning

Section 360.10 of the FDIC Rules and Regulations requires an IDI with total assets of $50 billion or more, to periodically submit to the FDIC a plan for its resolution in the event of its failure (the "IDI rule"). The IDI rule requires covered IDIs to submit a resolution plan that would allow the FDIC, as receiver, to resolve the institution under Sections 11 and 13 of the FDI Act in an orderly manner that enables prompt access to insured deposits, maximizes the return from the sale or disposition of the failed IDI's assets, and minimizes losses realized by creditors.

In April 2019, the FDIC issued an ANPR seeking comments on potential changes to the IDI rule requirements and adopted a resolution extending the due date for future plans submissions, pending completion of the rulemaking process.

In May 2020, the FDIC issued a statement announcing plans to carry out targeted engagement and capabilities testing with certain IDIs on an as-needed basis. The statement noted the approach was consistent with both the requirements of the FDIC's existing IDI Plan rule and the approach envisioned under the ANPR.

In January 2021, the FDIC announced plans to resume requiring resolution plan submissions from IDIs with $100 billion or more in total consolidated assets.

Monitoring and Measuring Systemic Risks

The FDIC monitors risks related to G-SIBs as well as other large domestic banks and FBOs at the firm level and industry wide to inform supervisory planning and response, policy and guidance considerations, and resolution planning efforts. As part of this monitoring, the FDIC analyzes each company's risk profile, governance and risk management capabilities, structure and interdependencies, business operations and activities, management information system capabilities, and recovery and resolution capabilities. Capital and liquidity adequacy and resiliency under stressed conditions are also key parts of monitoring. Further, because of the COVID-19 pandemic there has been heightened risk monitoring.

The FDIC continues to work closely with the other federal banking agencies as well as foreign 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 G-SIBs, other large domestic banks and FBOs, and nonbank financial companies. To support risk monitoring that informs supervisory and resolution planning efforts, the FDIC has developed systems and reports that make extensive use of structured and unstructured data. Monitoring reports are prepared on a routine and ad-hoc basis and cover a variety of aspects that include risk components, business lines and activity, market trends, and product analysis.

Additionally, the FDIC has implemented and continues to expand upon various monitoring systems, including the Systemic Monitoring System (SMS) and the SIFI Risk Report (SRR). The SMS provides an individual risk profile and assessment for LCFIs by evaluating the level and change in metrics that serve as important indicators of overall risk. The SMS supports the identification of emerging and outsized risks within individual firms and the prioritization of supervisory and monitoring activities. Information from SMS and other FDIC-prepared reports is used to prioritize activities relating to LCFIs and to coordinate supervisory and resolution-related activities with the other banking agencies. The SRR identifies key vulnerabilities of systemically important firms, and includes an independent assessment of the appropriateness of supervisory CAMELS ratings for the IDIs held by these firms.

Back-up Supervision Activities for IDIs of Systemically Important Financial Institutions

Risk monitoring is enhanced by the FDIC's back-up supervision activities. In this role, as outlined in Sections 8 and 10 of the FDI Act, the FDIC has expanded resources and has developed and implemented policies and procedures to guide back-up supervisory activities. These activities include performing analyses of industry conditions and trends, supporting insurance pricing, 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, FDIC staff work closely with other regulatory authorities to identify emerging risks and assess the overall risk profile of large and complex institutions. The FDIC has assigned dedicated staff to IDIs that are LCFIs, to enhance risk-identification capabilities and facilitate the communication of supervisory information. These individuals work with the staff of the FRB and OCC in monitoring risk at their assigned institutions.

Through December 2020, FDIC staff participated in 90 targeted and 8 horizontal examination activities with the FRB or OCC in G-SIBs, large FBOs, and large regional banks. The reviews included, but were not limited to, engagement in the evaluation of corporate governance, BSA/AML compliance, credit risk, model risk management, market risk, interest-rate risk, capital adequacy, asset management, and third-party risk management. FDIC staff also participated in various interagency horizontal review activities, including the FRB's Comprehensive Capital Analysis and Review, Comprehensive Liquidity Analysis and Review, and Pandemic Capital Examination, as well as SNC reviews, and examinations of model risk management, risk appetite and risk limits, insider threat, and cyber, and operational resiliency.

Title II Orderly Liquidation Authority

Under the Dodd-Frank Act, failed or failing financial companies are expected to file for reorganization or liquidation under the U.S. Bankruptcy Code, similar to what 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, Title II of the Dodd-Frank Act provides a back-up authority for resolving a company for which the bankruptcy process is not viable. There are strict parameters on the use of the Title II Orderly Liquidation Authority, however, and it can only be invoked under a statutorily prescribed recommendation and determination process, coupled with an expedited judicial review process.

Resolution Strategy Development

The FDIC has undertaken institution-specific strategic planning to carry out its orderly liquidation authorities with respect to the largest G-SIBs operating in the United States. The strategic plans and optionality being developed for these firms are informed by the Title I plan submissions. Further, the FDIC is updating its systemic resolution framework to incorporate enhanced firm capabilities established through the Title I planning process and other domestic and foreign resolution planning and policy developments. The FDIC continues to build out process documents to facilitate the

implementation of the framework in a Title II resolution. In addition, work continues in the development of resolution strategies for financial market utilities, particularly central counterparties (CCPs).

The FDIC also undertakes institution-specific resolution planning under the FDI Act for IDIs that are LCFIs, drawing on both IDI plans submitted by firms and follow-on engagement with the firms. A large regional bank resolution framework is being developed, building on lessons learned from historical bank resolutions and practices developed in connection with Title II resolution readiness planning for LCFIs.

Cross-Border Cooperation

Cross-border cooperation and advance planning are critical components of resolution planning for G-SIFIs due to the international nature of their services and their extensive operations overseas. In 2020, the FDIC continued its robust engagement with foreign authorities to deepen mutual understanding of the complex legal and operational issues related to cross-border resolution. This work is underpinned by an understanding that transparency and confidence in resolution planning will serve as a stabilizing force during times of stress.

The FDIC continued to enhance cooperation on cross-border resolution through institution specific engagement, as well as through bilateral and multilateral outreach, including through international fora such as the Financial Stability Board's (FSB's) Resolution Steering Group and its subgroups on banks, insurance, and financial market infrastructures. This year, the FDIC continued to show leadership in FSB work, in particular through the FDIC's membership in the Resolution Steering Group and its various committees, including co-chairing the Cross-Border CMG for financial market infrastructures and working on standards and implementation, and through work on the FSB's report Evaluation of the Effects of Too Big to Fail Reforms.

With regard to the FDIC's institution-specific engagement, the FDIC co-chaired Cross-Border CMGs of supervisors and resolution authorities for U.S. G-SIFIs and participated as a host authority in CMGs for foreign G-SIFIs. Work through these CMGs allows the FDIC to improve resolution preparedness by strengthening our working relationships with key authorities, providing a forum to address institution-specific resolution planning considerations, and supporting information-sharing arrangements. The FDIC held meetings of four U.S. G-SIB CMGs in the April/May 2020 timeframe and meetings of two U.S. CCP CMGs in June 2020, having successfully transitioned to using a virtual format due to pandemic-related travel restrictions.

In addition to firm-specific work on resolution planning for U.S. CCPs through CMGs, the FDIC works with staff from the FRB, CFTC, and SEC, and with foreign supervisors and resolution authorities and within international groups, to understand risks, identify resolution options, and address related CCP resolution planning issues.

The FDIC also continued its bilateral and multilateral outreach through ongoing resolution-related dialogues with key foreign counterparts. In 2020, the FDIC led significant principal and staff-level engagements with foreign jurisdictions to discuss cross-border issues and potential impediments that could affect the resolution of a G-SIB. For example, in 2020, the FDIC participated in ongoing trilateral work with UK and European financial regulatory authorities. The FDIC also continued its ongoing work with international authorities to enhance coordination on cross-border bank resolution. Participants included senior staff from the U.S. and key foreign jurisdictions. FDIC staff continued to pursue follow-on work endorsed by senior officials from participating agencies.

The FDIC maintains a close working relationship on cross-border resolution planning topics with EU authorities, including through joint Working Group meetings with the European Commission (EC). FDIC, FRB, and EC staffs held phone sessions to discuss cross-border resolution planning topics. FDIC staff also participated in two Joint US-EU Financial Regulatory Forum meetings held in 2020, as a member of the U.S. delegation led by Department of the Treasury staff, along with FRB, CFTC, SEC, and OCC staff. Staff from the EC, European Banking Authority, European Securities and Markets Authority, European Insurance and Occupational Pensions Authority, European Central Bank, Single Supervisory Mechanism, and Single Resolution Board represented the EU. The Forum meetings addressed the economic response to, and potential financial stability implications of, the COVID-19 pandemic, supervisory and

regulatory cooperation in capital markets (including in the areas of derivatives, central clearing, and benchmark transition), multilateral and bilateral engagement in banking, CCP recovery and resolution, and other topics.

The FDIC also maintains a close working relationship on cross-border resolution planning topics with UK authorities, including through dialogue as a participating agency in the U.S.-UK Financial Regulatory Working Group (FRWG), which the Department of the Treasury and Her Majesty's Treasury established in 2018 to serve as a forum for bilateral regulatory cooperation between the U.S. and the UK. In addition to the FDIC, participating U.S. regulators include the FRB, OCC, SEC, and CFTC; participating UK regulators include the Bank of England and the Financial Conduct Authority. In 2020, FRWG participants met once to discuss topics across the key themes of the economic response to, and potential financial stability impacts of, the COVID-19 pandemic, international cooperation and 2021 priorities; cross-border rules and overseas recognition/equivalence/substituted compliance regimes; sustainable finance; and financial innovation.

Title II Broker Dealer Rule

Title II of the Dodd-Frank Act provides the authority for the appointment of the FDIC as receiver to conduct the orderly liquidation of systemically important financial companies. Section 205 of Title II of the Act sets forth certain provisions specifically relating to the orderly liquidation of systemically important brokers or dealers. Section 205(h) of the Act requires the FDIC and the SEC, in consultation with the Securities Investor Protection Corporation (SIPC), jointly to issue rules to implement Section 205. On July 24, 2020, the FDIC and SEC adopted a final rule, implementing Section 205.

In keeping with the statutory mandate, the final rule:

- Clarifies how the relevant provisions of the Securities Investor Protection Act of 1970 (15 U.S.C. 78aaa-lll) (SIPA) would be incorporated into a Title II proceeding;
- Specifies the purpose and content of the application for a protective decree required by section 205 of the Dodd-Frank Act;
- Clarifies the FDIC's powers as receiver with respect to the transfer of assets of a covered broker or dealer to a bridge broker or dealer;
- Specifies the roles of the FDIC as receiver and SIPC as trustee with respect to a covered broker or dealer;
- Describes the claims process applicable to customers and other creditors of a covered broker or dealer, including the interaction of the determination of customer claims under SIPA with the Title II claims process;
- Provides for SIPC's administrative expenses; and
- Provides that the treatment of qualified financial contracts of the covered broker or dealer is governed exclusively by section 210 of the Dodd-Frank Act.

Systemic Resolution Advisory Committee

The FDIC created the Systemic Resolution Advisory Committee (SRAC) in 2011 to provide advice and recommendations on a broad range of issues relevant to the failure and resolution of systemically important financial companies pursuant to the Dodd-Frank Act.

Members of the SRAC have a wide range of experience, including managing complex firms, serving as bankruptcy judges, and working in the legal system, accounting field, and academia. The SRAC Charter was renewed in 2019, and this year's SRAC meeting was held virtually on October 1, 2020.

DEPOSITOR AND CONSUMER PROTECTION

A major component of the FDIC's mission is to ensure that financial institutions treat consumers and depositors fairly, and operate in compliance with federal consumer protection, anti-discrimination, and community reinvestment laws. The FDIC also promotes economic inclusion to build and strengthen positive connections between insured financial institutions and consumers, depositors, small businesses, and communities.

Promoting Economic Inclusion

The FDIC is strongly committed to promoting access to a broad array of responsible and sustainable banking products to meet consumers' financial needs. In support of this goal, the FDIC:

- Conducts research on consumer use of financial services to inform efforts to expand and sustain participation in the banking system;
- Researches strategies, products, and services that banks can use to meet the needs of lower-income consumers;
- Supports bank consideration of opportunities to offer additional products and services that have the potential to support, expand, and sustain consumer participation in the banking system;
- Supports partnerships to promote consumer access to and use of banking services;
- Advances financial education and literacy; and
- 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 to support expanding consumer and community access and sustainable engagement with the nation's banking system. This includes reviewing basic retail financial services (e.g., low-cost, safe transaction accounts; affordable small-dollar loans; and savings accounts), as well as demand-side factors such as consumers' perceptions of financial institutions.

In 2020, the ComE-IN met and discussed the following topics: 1) results of a 2019 FDIC national household survey and an accompanying report entitled "How America Banks"; 2) the changing circumstances of consumers during the COVID-19 pandemic; and 3) the role of minority-owned depository institutions and the importance of diverse bank workforces in ensuring the banking sector is well-positioned to address the needs of the nation.

Expanding Account Access

In 2020, in addition to the resources provided to consumers related to economic impact payments noted above, FDIC also conducted outreach to banks and community-based organizations to enhance consumer access to financial services that would allow receipt of economic impact payments directly and safely. The FDIC supports coalitions nationwide that share its commitment to expanded access to safe and affordable bank accounts. Additional consumer outreach raised awareness of pandemic-driven scams, while promoting financial education as well as state and local assistance and recovery programs.

As of December 31, 2020, the FDIC hosted more than 122 events, which provided opportunities for partners to collaborate on ways to increase consumer access to FDIC-insured bank accounts and credit services; opportunities to build savings and improve credit histories; and initiatives to strengthen the financial capability of community service providers that directly serve low- and moderate-income (LMI) consumers and small businesses.

Public Awareness Campaign

The FDIC developed the strategy, messaging, and communications plan for a new public awareness campaign to motivate unbanked consumers in two metropolitan statistical areas (MSAs) to join the banking system. The two areas are the Atlanta-Sandy Springs-Alpharetta MSA in Georgia, and the Houston-The Woodlands-Sugar Land MSA in Texas.

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 FDIC rules for deposit insurance coverage. The FDIC has an extensive deposit insurance education outreach program consisting of seminars for bankers, a web-based calculator for estimating deposit insurance coverage, and written and other web-based resources targeted to both bankers and consumers. For example, bankers and consumers can use the FDIC's BankFind tool to verify whether a website is operated by a legitimate FDIC-member bank. Through December 31, 2020, the FDIC identified and took appropriate action on more than 100 websites, some of which included the Member FDIC logo, but were not operated by FDIC-member banks.

During 2020, the FDIC continued its efforts to educate bankers and consumers about the rules and requirements for FDIC insurance coverage. For example, as of December 31, 2020, the FDIC held four telephone seminars for bankers on deposit insurance coverage. Approximately 4,855 bankers were in attendance,

representing 1,872 bank sites. The FDIC also provides deposit insurance training videos on its public website and YouTube channel.

As of December 31, 2020, the FDIC Call Center had received 141,607 telephone calls, 27,417 of those were identified as deposit insurance-related inquiries. In addition to telephone inquiries about deposit insurance coverage, the FDIC received 1,472 written inquiries from consumers and bankers. Of these inquiries, 99 percent received responses within two weeks, as required by corporate policy.

Rulemaking and Guidance

Interagency Lending Principles for Offering Responsible Small-Dollar Loans

In May 2020, the FDIC, FRB, OCC, and NCUA issued interagency guidance to recognize the role small-dollar loans can play in helping borrowers meet credit needs due to cash-flow imbalances, unexpected expenses, or temporary income shortfalls. The guidance establishes a set of core lending principles and clarifies regulatory expectations in a manner that encourages financial institutions to offer responsible small-dollar loans.

CRA Modernization

In December 2019, the FDIC and OCC announced a proposal to modernize the regulations under the CRA. Staffs of the FDIC and OCC reviewed the many comments received in response to the proposal and worked collaboratively. In May, the OCC released their final rule on the CRA, and the FDIC Chairman announced that while the FDIC strongly supports the efforts to make the CRA rules clearer, more transparent, and less subjective, in light of the COVID-19 pandemic, the agency did not believe it was appropriate to finalize the CRA proposal during 2020.

Home Mortgage Disclosure Act

In February 2020, the FDIC and other FFIEC members issued a revised version of *A Guide to HMDA Reporting: Getting It Right.* The 2020 edition of the *Guide* applies to 2020 Home Mortgage Disclosure Act (HMDA) data reported in 2021 and incorporates amendments made to HMDA by the Dodd-Frank Act and the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA). The *Guide* was designed to help financial institutions better understand the HMDA requirements, including data collection and reporting provisions.

Interagency Questions and Answers Regarding Flood Insurance

In June 2020, the FDIC, FRB, OCC, and NCUA, issued a notice with a request for comment on proposed new and revised Interagency Q&As Regarding Flood Insurance. The proposal seeks to incorporate amendments to federal flood insurance laws regarding the escrow of flood insurance premiums, the detached structure exemption, and force placement of insurance. The notice is intended to help lenders meet their responsibilities pursuant to the federal flood insurance laws.

Updated Examination Procedures

Throughout 2020, the FDIC reviewed and updated the examination procedures outlined in the *FDIC Consumer Compliance Examination Manual* with respect to Truth-in-Lending. These procedures were updated to reflect the CFPB's 2017 and 2018 TILA-RESPA Integrated Disclosure Rule amendments to Regulation Z. The procedures also include amendments to TILA relating to the EGRRCPA.

Consumer Compliance Supervisory Highlights

The second issue of the *FDIC Consumer Compliance Supervisory Highlights* was released in April 2020. The purpose of this publication is to enhance transparency regarding the FDIC's consumer compliance supervisory activities. The publication includes a high-level overview of consumer compliance issues identified during 2019 through the FDIC's supervision of state non-member banks and thrifts.

FFIEC Federal Disclosure Computational Tools

In April 2020, the FFIEC, on behalf of its member entities, announced the availability of FFIEC Federal Disclosure Computational Tools, including the Annual Percentage Rate Computational Tool and the Annual Percentage Yield Computational Tool. The FDIC and other FFIEC member agencies collaborated to develop the Federal Disclosure Computational Tools, which will help financial institutions in their efforts to comply with consumer protection laws and regulations. The FFIEC Federal Disclosure Computational Tools are available at https://www.ffiec.gov/calculators.htm.

Community and Small Business Development and Affordable Mortgage Lending

The FDIC is committed to promoting community development, small business and affordable mortgage lending in underserved communities. As of December 31, 2020, the FDIC Community Affairs staff had engaged with banks and community organizations through more than 131 outreach events. These events increased shared knowledge and supported collaboration among financial institutions and other community, housing, and small business development organizations. These collaboration efforts enabled banks to offer responsive, reasonably priced mortgages and small business loans to borrowers who otherwise might not have qualified for bank-sponsored loan products.

The FDIC promoted community development partnerships and access to capital in historically underserved markets. Community development outreach events were held across all regions of the FDIC and spanned a wide variety of topics including community and neighborhood stabilization, workforce development, and financial capability.

The FDIC's Community Affairs Program supports the FDIC's mission to promote stability and public confidence in the nation's financial system by encouraging economic inclusion and community development initiatives that broaden access to safe and affordable credit and deposit services from IDIs, particularly for LMI consumers and small businesses. The FDIC's Affordable Mortgage Lending Center's webpage houses various resources, including the Affordable Mortgage Lending Guide, a three-part manual designed to help community banks identify and access affordable mortgage products. The Affordable Mortgage Lending Center had more than 274,800 subscribers as of December 31, 2020. The webpage is located at https://www.fdic.gov/consumers/community/mortgagelending/index.html.

The CRA encourages banks to offer community development loans, investments, and services to help address the needs of LMI communities with respect to housing, community services, revitalization and stabilization of neighborhoods, and economic development. The FDIC, in partnership with the FRB and OCC, hosted basic and advanced training sessions for bankers to enhance their understanding of the regulation and to encourage them to pursue community development opportunities in their markets. In response to COVID-19, training sessions also focused on partnerships and activities that banks could engage in to support consumers and communities adversely impacted.

The agencies also offered basic CRA training for community-based organizations as well as seminars on establishing effective bank and community collaborations. Finally, the FDIC hosted examiner listening sessions with local community-based organizations designed to help examiners better understand local community credit needs and opportunities for bank CRA and community development partnerships.

Advancing Financial Education

Financial education is central to FDIC efforts to expand economic inclusion and promote confidence in the banking system. Effective financial education helps people gain the skills and confidence necessary to sustain a banking relationship, achieve financial goals, and improve financial well-being.

Through the *Money Smart* suite of curricula, the FDIC offers banks and community-based organizations non-copyrighted, high-quality, free financial education training resources designed to meet the financial education needs of consumers of all ages and small business owners. *Money Smart* materials are available in multiple languages, Braille, and large print. Self-paced products complement instructor-led tools delivered via video conferencing and in person. To incorporate user feedback, regulatory changes, and evolving instructional best practices, the FDIC updates *Money Smart* materials regularly.

Money Smart Improvements

In 2020, the FDIC developed an online suite of 14 games and related resources about everyday financial topics called "How Money Smart Are You?" These new self-paced tools, expected for widespread public release in 2021, will allow adults of all ages to learn about financial topics of interest by playing the educational games or using the varied resources that support the games. *How*

Money Smart Are You? eventually will replace the *Money Smart* computer-based instruction product currently available.

The FDIC used feedback from *Money Smart* Alliance members to improve instructor-led tools. For example, to make it easier for potential trainers to use the instructor-led curriculum, *Money Smart* staff recorded and posted train-the-trainer webinars for each of the 14 *Money Smart for Adults* modules. In response to the pandemic, staff pivoted outreach early in the year to help *Money Smart* Alliance members use *Money Smar*t tools to provide remote engagement.

Finally, the *Money Smart* website was redesigned to improve usability. The FDIC Online Catalog, the website feature that allows people to order or download *Money Smart* and deposit insurance resources, was replaced with a cloud-based solution that improves the user experience, while reducing maintenance costs.

Outreach Highlights

The Winter issue of *Money Smart News* recognized four *Money Smart* Alliance members for their innovative use of *Money Smart* materials:

- University of Wyoming Extension used *Money Smart for Adults* to train staff from community organizations across Wyoming to teach money management and provide individual coaching.
- First Commonwealth Bank of Indiana, and Pennsylvania, partnered with Goodwill of Southwestern Pennsylvania in Pittsburgh to provide financial education for nonviolent offenders participating in a Goodwill Community Reintegration program.
- Haven Neighborhood Services of Los Angeles engaged incarcerated women and other people struggling financially, often in collaboration with area banks.
- JPMorgan Chase Bank, N.A. provided monthly workshops with Samaritas House Heartline in Detroit, Michigan, an organization that provides shelter, food, and other assistance to women who are homeless or leaving the correctional system.

While 2020 focused on supporting existing Alliance members, activities attracted new organizations to the Alliance family. More than 175 organizations joined the Alliance during 2020, bringing the total number of members to 1,600. In addition, more than 3,500 prospective trainers learned more about using *Money Smart* via training sessions/webinars.

FDIC Consumer News

FDIC Consumer News is a monthly publication that provides practical guidance on how to become a smarter, safer user of financial services. The FDIC released 12 issues in 2020, along with a Special Edition on the impacts of COVID-19. Selected articles define financial terms, offer helpful hints, resources, quick tips and common–sense strategies to protect and stretch consumers' money. The FDIC promotes *FDIC Consumer News* on four social media platforms, provides English and Spanish printable versions, and has more than 148,000 subscribers nationwide.

Partnerships for Access to Mainstream Banking

Across the country, the FDIC supported community development and economic inclusion partnerships at the local level by providing technical assistance and information resources, with a focus on unbanked households and LMI communities. Community Affairs staff advanced economic inclusion through FDIC-led Alliances for Economic Inclusion (AEI), as well as other local, state and regional coalitions that promote collaboration among financial institutions, federal agency partners, and local non-profit organizations. Among others, the FDIC worked with *Bank On,* United Way, industry trade groups, and other foundations. Further, the FDIC worked with fellow financial regulatory agencies to provide information and technical assistance on community development to banks and community leaders across the country.

The FDIC hosted 25 outreach events with 12 AEI coalitions to support working groups of bankers and community leaders responding to the financial capability and services needs in their communities. The Los Angeles AEI conducted eight events at public libraries to promote savings by automatic deposit during *America Saves* Week in February. In March, the Boston AEI conducted a forum on Healthy Homes, a holistic, resident-centered strategy that connects the health and wellbeing of residents to safe, secure housing. Webinars hosted by the Oklahoma and Mississippi AEIs connected

DCP Senior Community Affairs Specialist Mary Duron (center) at an event celebrating America Saves/Los Angeles Saves Week in the County and City of Los Angeles.

small businesses with banks and other resources to help in their economic recovery.

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. 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.

The FDIC publishes an annual report regarding the nature of the FDIC's interactions with consumers and depositors and also regularly updates metrics on requests from the public for FDIC assistance.[3]

Consumer Complaints by Topic and Issue

In 2020, the FDIC's Consumer Response Center (CRC) handled 15,213 written and telephonic complaints and inquiries. Of the 12,153 involving written correspondence, 4,414 were referred to other agencies. The FDIC handled the remaining 7,739.

The FDIC responded to 99 percent of written complaints within time frames established by corporate policy, and acknowledged 100 percent of all consumer complaints and inquiries within 14 days.

In 2020, the four most frequently identified topics in consumer complaints and inquiries about FDIC-supervised institutions concerned checking accounts (25 percent), consumer/business credit cards (18 percent), consumer lines of credit/installment loans (14 percent), and residential real estate (8 percent).

Through December 2020, consumers received more than $942,518 in refunds and voluntary compensation from financial institutions as a result of the assistance provided by the FDIC's Consumer Response Center.

In March 2020, the FDIC began tracking incoming complaints and inquiries regarding the COVID-19

[3] The Transparency and Accountability: Consumer Protection and Deposit Insurance 2019 Annual Report is available at https://www.fdic.gov/transparency/trans-account-2019-annual-report.pdf.

pandemic by adding specific keywords to case files. Keyword included “Coronavirus 2020” to track general concerns regarding the pandemic; “IRS Stimulus CSR” to track concerns related to the Economic Impact Payments; and “SBA-CARES Act” to track business owners’ concerns. Through December 31, 2020, the CRC received 1,493 complaints and inquiries tagged with one or more of these key words, of which 755 cases involved FDIC-supervised institutions.

FAILURE RESOLUTION AND RECEIVERSHIP MANAGEMENT

The Division of Resolutions and Receiverships is responsible for resolving the failure of IDIs with assets under $100 billion. When an IDI fails, the respective chartering authority—the state for state-chartered institutions and the OCC for national banks and federal savings associations—typically appoints the FDIC as receiver.

To resolve a failed IDI, the FDIC employs a variety of strategies to ensure the prompt and smooth payment of deposit insurance to insured depositors, minimize the impact on the DIF, and speed dividend payments to uninsured depositors and other creditors of the failed institution. No depositor has ever experienced a loss on the insured amount of their deposits in an FDIC-insured institution due to a failure.

The FDIC evaluates and markets a failing IDI by soliciting and accepting bids to determine which bid (if any) is least costly to the DIF. The FDIC uses two basic resolution methods: purchase and assumption (P&A) transactions and deposit payouts, with the P&A transaction being the most commonly used resolution method. Typically, in a P&A transaction, a healthy institution purchases certain assets and assumes certain liabilities of the failed IDI, including the option of acquiring either all deposits or only the insured portion. Because each failing IDI is different, P&A transactions provide flexibility to structure resolution transactions that result in obtaining the highest value. For example, a P&A transaction could include a shared-loss feature, in which the FDIC as receiver agrees to share in losses on certain assets with the acquirer for a specified period (e.g., five to 10 years). The FDIC used shared-loss P&A transactions extensively during periods of economic distress, when asset values became highly uncertain. While shared-loss P&A transactions have not been offered since 2013, the FDIC continues to monitor existing agreements that remain in place. At year-end 2020, there were 19 receiverships active in the shared-loss program. Total assets covered under the shared-loss program were reduced by $1.1 billion to $3.1 billion.

Financial Institution Failures

During 2020, there were four institution failures. In each case, the FDIC successfully contacted all qualified and interested bidders to market and sell these institutions. In all four IDI failures, the assuming institution assumed all deposits and all depositors had access to insured funds within one business day, as all failures occurred on a Friday.

Further, there were no losses 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
Dollars in Billions

	2020	2019	2018
Total Institutions	4	4	0
Total Assets of Failed Institutions*	$0.5	$0.2	$0.0
Total Deposits of Failed Institutions*	$0.4	$0.2	$0.0
Estimated Loss to the DIF	$0.1	$0.03	$0.0

*Total assets and total deposits data are based on the last quarterly report filed by the institution prior to failure.

Receivership Management Activities

As part of the receivership process, the FDIC as receiver manages failed IDIs and their subsidiaries with the goal of expeditiously winding up their affairs. Assets that are not sold to an assuming institution through the resolution process are retained by the receivership and promptly valued and liquidated in order to maximize the return to the receivership estate.

As a result of the FDIC’s asset marketing and collection efforts, the book value of assets in inventory decreased by $241 million (46 percent) in 2020. Total assets in

liquidation continued a downward trend, resulting in a total book value of $283 million at the end of 2020.

Also, during 2020, for 95 percent of failed institutions, at least 90 percent of the book value of marketable assets was marketed for sale within 90 days of an institution's failure for cash sales, and within 120 days for structured sales.

The following chart shows the year-end balances of assets in liquidation by asset type.

ASSETS-IN-LIQUIDATION INVENTORY BY ASSET TYPE
Dollars in Millions

Asset Type	12/31/20	12/31/19	12/31/18
Securities	$10	$10	$50
Consumer Loans	0	0	0
Commercial Loans	6	1	34
Real Estate Mortgages	3	19	67
Other Assets/Judgments	24	44	151
Owned Assets	1	3	3
Net Investments in Subsidiaries	20	31	19
Structured and Securitized Assets	219	416	854
TOTAL	**$283**	**$524**	**$1,178**

Proceeds generated from asset sales and collections are used to pay receivership claimants, including depositors whose accounts exceeded the insurance limit. During 2020, receiverships paid dividends of $25,000 to depositors whose accounts exceeded the insurance limit.

Once the assets of a failed institution have been sold and liabilities extinguished, the final distribution of any proceeds is made, and the FDIC terminates the receivership. In 2020, a total of 18 receiverships were terminated, which resulted in a net decrease of 14 active receiverships under management. Further, the FDIC terminated 75 percent of new receiverships within three years of the date of failure.

The following chart shows overall receivership activity for the FDIC in 2020.

RECEIVERSHIP ACTIVITY

Active Receiverships as of 12/31/19	248
New Receiverships	4
Receiverships Terminated	18
Active Receiverships as of 12/31/20	234

Professional Liability and Financial Crimes Recoveries

The FDIC investigates bank failures 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 IDIs and FDIC receiverships. The FDIC will pursue meritorious claims that are expected to be cost-effective.

During 2020, the FDIC recovered $47.4 million from professional liability claims and settlements. The FDIC authorized two professional liability lawsuits during 2020. As of December 31, 2020, the FDIC's caseload included 10 professional liability lawsuits (down from 11 at year-end 2019), eight residential mortgage malpractice and fraud lawsuits (no change), and open investigations in 53 claim areas out of nine institutions. The FDIC completed investigations and made decisions on 82 percent of the investigations related to the one failure that reached the 18-month point in 2020 after the institution's failure date, thereby exceeding the annual performance target.

As part of the sentencing process, for those convicted of criminal wrongdoing against an insured 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 in connection with criminal restitution and forfeiture orders issued by federal courts and independently in connection with restitution orders issued by the state courts, collected $3.2 million in 2020. As of December 31, 2020, there were 1,909 active restitution and forfeiture orders (down from 2,187 at year-end 2019). This includes 19 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).

INFORMATION TECHNOLOGY

Information technology (IT) is an essential component in virtually all FDIC business processes. This integration with the business provides opportunities for efficiencies but also requires an awareness of potential risks. In 2020, the Chief Information Officer Organization (CIOO) focused its efforts on managing information security risk, strengthening infrastructure resiliency, and modernizing FDIC applications and systems to support the FDIC's business processes and key stakeholders.

Managing Information Security Risk

The FDIC's information security program is integral to the agency's ability to carry out its mission of maintaining stability and public confidence in the nation's financial system. The information security program relies on effective and efficient policies and practices to protect the agency's information assets and to protect, detect, respond to, and recover from incidents as rapidly as possible with minimal disruption to stakeholders.

The FDIC continues to focus time and resources on maturing and strengthening its risk management capabilities and internal controls. In 2020, the FDIC:

- Implemented Network Access Controls across the enterprise to prevent unauthorized entities from connecting to FDIC networks;
- Strengthened information security and privacy risk management by introducing new policies and procedures for patching, risk assessments, Plans of Action and Milestones, remediation plans, firewall and network security, and security and privacy control assessments;
- Supported closure of OIG audit findings involving several areas by expanding internal controls and risk mitigation strategies including maturing the FDIC Privacy Program and implementing the Privacy Continuous Monitoring Strategy;
- Continued to implement Department of Homeland Security Continuous Diagnostics and Mitigation service requests, enhancing the FDIC's cybersecurity posture by providing monitoring and detection information to the federal dashboard; and
- Strengthened monitoring practices to ensure that network users complete required IT security and privacy awareness training.

Information Security continues to be a top management priority at the FDIC.

Strengthening Infrastructure Resiliency

The FDIC must be able to provide and maintain an acceptable level of service in the face of threats and challenges to normal computer and network operations. The latest challenge was the agency-wide mandatory telework requirement caused by the COVID-19 pandemic. In short order, the FDIC pivoted to provide remote access for the majority of our employees. The FDIC successfully transitioned almost 5,800 employees and more than 1,000 contractors to a teleworking model, over a weekend, without a break in critical services. This effort provided a prime example of the benefits of a continued focus on infrastructure resiliency enhancements. In support of the transition to mandatory telework, the CIOO took several actions to help ensure the FDIC's employees could continue to deliver on its mission:

Mandatory Telework Enhancements:

- Expanded the lines on the main teleconference bridge;
- Increased Internet capacity in the main and backup data centers;
- Enhanced infrastructural and foundational capabilities (including various Microsoft Office 365 components and electronic signatures) to better support ongoing telework;
- Accelerated the implementation of internal and external digital signature and online forms solutions; and
- Identified needed updates for several applications to enhance remote access capabilities.

Ongoing Infrastructure Resiliency Enhancements:

- Planned and developed applications for Divisions and Offices to strengthen emergency preparedness; and

- Continued the modernization of public-facing applications to improve resiliency, availability, and functionality for public outreach.

Mission Sustainment:

- Created a virtual on-boarding process to enable the distribution of laptops and other electronic equipment to new employees to limit travel to FDIC offices;
- Facilitated safe incoming and outgoing correspondence with banks and other external stakeholders through the use of secure electronic communications (e.g., ZixMail, Enterprise File Exchange (EFX) and FDICconnect Examination File Exchange (FCX-EFE));
- Approved the use of DocuSign for external electronic signatures; and
- Leveraged FDICLearn and other applications to virtualize all mission critical training.

Modernizing IT and Enhancing Data Governance

The FDIC is committed to providing a robust, resilient, and secure IT infrastructure that promotes efficient operations, applies modern approaches to the use and protection of data, and improves the effectiveness of the FDIC's engagement with regulated institutions. As part of this commitment, the FDIC began the implementation of application and data modernization initiatives identified in the IT Modernization Roadmap. In support of this commitment the FDIC:

- Released the Common Business Process Management Platform required to facilitate the replacement of legacy applications;
- Delivered the FDIC Artificial Intelligence strategy, roadmap and initiative recommendations;
- Launched a Cloud Technology Migration Modernization project and migrated applications for two divisions;
- Established the Enterprise Data Governance Framework and Enterprise Data Council to effectively manage data from a holistic perspective;
- Conducted a data literacy assessment of all employees;
- Hired a dedicated Chief Data Officer; and
- Migrated SharePoint to the cloud.

INTERNATIONAL OUTREACH

The FDIC continues to play a leading role in supporting the global development of deposit insurance, bank supervision, and bank resolution systems. This included working closely with regulatory and supervisory authorities from around the world, as well as international standard- setting bodies and multilateral organizations, such as the International Association of Deposit Insurers (IADI), the Association of Supervisors of Banks of the Americas (ASBA), the Basel Committee on Banking Supervision (BCBS), the Financial Stability Board (FSB), the International Monetary Fund (IMF), and the World Bank. The FDIC engaged with foreign regulatory counterparts by virtually hosting foreign officials, conducting training seminars, delivering technical assistance, and fulfilling the commitments of FDIC membership in international organizations. The FDIC also advanced policy objectives with key jurisdictions by participating in high-level interagency dialogues.

International Association of Deposit Insurers

FDIC officials and subject matter experts provided continuing support for IADI programs in 2020. This included chairing IADI's Capacity Building Technical Committee, which, among other activities, provided support for developing and facilitating virtual workshops for the Asia-Pacific, and Latin American regions of IADI. The FDIC also chaired IADI's Differential Premium Systems Technical Committee, which published a paper on evaluating the effectiveness of differential deposit insurance premium systems. Additionally, the FDIC began chairing the Training and Technical Assistance Council Committee and the newly established Financial Technology Technical Committee. Led and supported by FDIC executives and senior staff, IADI technical assistance and training activities reached approximately 520 participants.

Association of Supervisors of Banks of the Americas

Senior FDIC staff chaired the ASBA Training Committee in 2020, which designs and implements ASBA's training strategy to promote the adoption of sound banking supervision policies and practices among its members. In February a meeting was held with training officials in the ASBA jurisdictions to begin a restructuring of the ASBA training program. Due to COVID-19, the on-site

training programs were cancelled for the year, however, many courses were able to be converted to virtual events. The training program reached 453 member participants in 2020.

Basel Committee on Banking Supervision

The FDIC supports and contributes to the development of international standards, guidelines, and sound practices for prudential regulation and supervision of banks through its longstanding membership in BCBS. The FDIC's contributions include actively participating in many of the committee groups, working groups, and task forces established by BCBS to carry out its work, which focus on policy development, supervision and implementation, accounting, and consultation.

International Capacity Building

Due to COVID-19, most of the FDIC's direct assistance programs were cancelled or postponed in 2020. However, the FDIC was able to provide technical expertise to many foreign organizations through the use of virtual technology. These engagements included supplying staff experts to provide training in bank resolution and planning for the Albania Deposit Insurance Agency and the Bank of Albania, the Hong Kong Monetary Authority, the Central Bank of Brazil, and the Kenya Deposit Insurance Corporation; discussion of data modernization and institutional arrangements in resolution with the Financial Stability Institute; discussion of early warning systems and other topics with the Kenya Deposit Insurance Corporation; discussion of pass-through deposit insurance coverage with the International Monetary Fund; and discussion of legal issues for the transfer of title in a purchase-and-assumption transaction with the Nigeria Deposit Insurance Corporation. The FDIC also hosted eight visiting regulators and other government officials from Japan and Spain early in the year.

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 2020.

Human Capital Management

The FDIC's human capital management programs are designed to attract, train, develop, reward, and retain a highly skilled, diverse, and results-oriented workforce. In 2020, the FDIC workforce planning initiatives emphasized the need to plan for employees to fulfill current and future capability and leadership needs. This focus ensures that the FDIC has a workforce positioned to meet today's core responsibilities and prepared to fulfill its mission in the years ahead.

Strategic Workforce Planning and Readiness

The FDIC understands that succession planning is critical to ensure that gaps in employee aspiration, engagement, and readiness for senior leadership and technical positions are addressed. The FDIC dedicates resources to strengthen and expand its internal pipeline of employees who aspire to higher-level positions, have the necessary leadership and technical skills and are prepared to assume future leadership roles.

The FDIC conducted targeted workforce and succession-planning initiatives in mission-critical functions to ensure it has the workforce and leadership capabilities needed in a dynamic environment. The agency engaged in defining the capabilities required of subject matter experts in mission-critical roles to plan future recruitment, professional development, and retention strategies and inform human capital investments. Individual divisions and offices continued to plan and implement succession-planning activities tailored to address their unique workforce and leadership capacity needs in evolving conditions.

During the past few years, the FDIC has witnessed an uptick in retirements among its management and leadership ranks, requiring a greater emphasis on knowledge transfer and long-term succession planning. To ensure that critical skills are sustained, the FDIC is developing new career paths that encompass emerging skills, while offering leadership training and career development opportunities designed to increase the internal candidate pool of potential leaders at all levels.

The FDIC is also undertaking innovative approaches to attract and retain a new generation of entry-level examiners with specialty and emerging skillsets.

Through these efforts, the FDIC workforce will be even better positioned to respond to dynamic financial and technological challenges, now and in the future.

Employee Learning and Development

The FDIC has a robust program to train and develop its employees throughout their careers to enhance technical proficiency and leadership capacity, supporting career progression and succession management. The FDIC is in the midst of a multi-year effort to modernize learning and development, including expanding virtual and online offerings, integrating modern learning technology, and modernizing the FDIC's training center.

The FDIC develops and implements comprehensive curricula for its business lines to prepare employees to meet new challenges. Employees working to become commissioned examiners or resolutions and receiverships specialists attend a prescribed set of specialized, internally-developed and instructed courses. Post-commission, employees continue to further their knowledge in specialty areas with more advanced courses. The FDIC is revising examiner classroom training to better support on-the-job application and has developed a wide-ranging resolution and receivership training curriculum to support readiness.

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 executives, the FDIC provides employees with targeted opportunities that align with key leadership competencies. In addition to a broad array of internally developed and administered courses, the FDIC provides its employees with funds to participate in external training to support their career development.

In 2020, the FDIC's Corporate University quickly pivoted to convert more than 850 hours of essential training to virtual delivery, including all 10 core training courses for pre-commissioned examiners. More than 200 virtual course offerings were delivered to more than 5,000 participants.

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. The FDIC consistently scores highly in all categories of the Partnership for Public Service *Best Places to Work in the Federal Government®* list for mid-size federal agencies. 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.

The FDIC engages employees through formal mechanisms such as the TEAM (Transparency, Empowerment, Accountability, Mission) FDIC initiative that empowers employees to identify and implement short-term projects that positively impact the FDIC workplace and support the FDIC's mission; Chairman's Diversity Advisory Councils; Employee Resource Groups; and informally through working groups, team discussions, and daily employee-supervisor interactions. Employee engagement plays an important role in empowering employees and helps maintain, enhance, and institutionalize a positive workplace environment.

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PERFORMANCE RESULTS SUMMARY

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SUMMARY OF 2020 PERFORMANCE RESULTS BY PROGRAM

The FDIC successfully achieved 41 of the 49 annual performance targets established in its *2020 Annual Performance Plan*. Six targets were not achieved and two targets were not applicable for 2020. There were no instances in which 2020 performance had a material adverse effect on the successful achievement of the FDIC's mission or its strategic goals and objectives regarding its major program responsibilities.

PERFORMANCE RESULTS BY PROGRAM AND STRATEGIC GOAL

2020 INSURANCE PROGRAM RESULTS

Strategic Goal: *Insured depositors are protected from loss without recourse to taxpayer funding.*

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
1	Respond promptly to all IDI closings and related emerging issues.	Number of business days after an institution failure that depositors first have access to insured funds.	Depositors have access to insured funds within one business day if the failure occurs on a Friday.	**ACHIEVED.** **SEE PG. 52.**
			Depositors have access to insured funds within two business days if the failure occurs on any other day of the week.	**NOT APPLICABLE.** **SEE PG. 52.**
		Insured depositor losses resulting from a financial institution failure.	Depositors do not incur any losses on insured deposits.	**ACHIEVED.** **SEE PG. 52.**
			No appropriated funds are required to pay insured depositors.	**ACHIEVED.** **SEE PG. 52.**
2	Disseminate data and analyses on issues and risks affecting the financial services industry to bankers, supervisors, the public, and other stakeholders on an ongoing basis.	Scope and timeliness of information dissemination on identified or potential issues and risks.	Disseminate results of research and analyses in a timely manner through regular publications, ad hoc reports, and other means.	**ACHIEVED.** **SEE PGS. 36-37.**
			Undertake industry outreach activities to inform bankers and other stakeholders about current trends, concerns, available resources, and FDIC performance metrics.	**ACHIEVED.** **SEE PGS. 36-37.**
3	Monitor the status of the DIF reserve ratio and analyze the factors that affect fund growth. Adjust assessment rates, as necessary.	Updated fund balance projections and recommended changes to assessment rates, as necessary.	Provide updated fund balance projections to the FDIC Board of Directors semiannually.	**ACHIEVED.** **SEE PGS. 25-26.**
			Recommend changes to deposit insurance assessment rates to the FDIC Board of Directors as necessary.	**ACHIEVED.** **SEE PGS. 25-26.**

2020 INSURANCE PROGRAM RESULTS (continued)

Strategic Goal: *Insured depositors are protected from loss without recourse to taxpayer funding.*

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
4	Expand and strengthen the FDIC's participation and leadership role in supporting robust and effective deposit insurance programs, resolution strategies, and banking systems worldwide.	Activities to expand and strengthen engagement with strategically important foreign jurisdictions and key international organizations and associations, and to advance the FDIC's global leadership and participation on deposit insurance, institution supervision, resolution practices and international financial safety net issues.	Foster strong relationships with international banking regulators, deposit insurers, and other relevant authorities by engaging with strategically important jurisdictions and organizations on international financial safety net issues.	**ACHIEVED. SEE PGS. 55-56.**
			Provide leadership and expertise to key international organizations and associations that promote sound deposit insurance and effective bank supervision and resolution practices.	**ACHIEVED. SEE PGS. 55-56.**
		Provision of technical assistance and training to foreign counterparts.	Promote international standards and expertise in financial regulatory practices and stability through the provision of technical assistance and training to global financial system authorities.	**ACHIEVED. SEE PGS. 55-56.**
5	Ensure timely consideration and efficient processing of *de novo* deposit insurance applications.	Timeliness of review and disposition of deposit insurance applications.	Act on 75 percent of deposit insurance applications within 120 days after receiving a substantially complete application.	**NOT ACHIEVED. SEE PG. 41.**
6	Market failing institutions to all qualified and interested potential bidders.	Scope of qualified and interested bidders solicited.	Contact all qualified and interested bidders.	**ACHIEVED. SEE PG. 52.**
7	Provide educational information to IDIs and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts.	Timeliness of responses to deposit insurance coverage inquiries.	Respond within two weeks to 95 percent of written inquiries from consumers and bankers about FDIC deposit insurance coverage.	**ACHIEVED. SEE PGS. 47-48.**
		Initiatives to increase public awareness of deposit insurance coverage changes.	Conduct at least four telephone or in-person seminars for bankers on deposit insurance coverage.	**ACHIEVED. SEE PGS. 47-48.**

2020 SUPERVISION PROGRAM RESULTS

Strategic Goal: *FDIC-insured institutions are safe and sound.*

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
1	Conduct on-site risk management examinations to assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions. When problems are identified, promptly implement appropriate corrective programs and follow up to ensure that identified problems are corrected.	Percentage of required examinations conducted in accordance with statutory requirements and FDIC policy.	Conduct all required risk management examinations within the timeframes prescribed by statute and FDIC policy.	**ACHIEVED. SEE PGS. 26-27.**
		Follow-up actions on identified problems.	For at least 90 percent of IDIs that are assigned a composite CAMELS rating of 2 and for which the examination report identifies "Matters Requiring Board Attention" (MRBAs), review progress reports and follow up with the institution within six months of the issuance of the examination report to ensure that all MRBAs are being addressed.	**ACHIEVED. SEE PG. 27.**
2	Assist in protecting the infrastructure of the U.S. banking system against terrorist financing, money laundering, and other financial crimes.	Percentage of required examinations conducted in accordance with statutory requirements and FDIC policy.	Conduct all BSA examinations within the timeframes prescribed by statute and FDIC policy.	**ACHIEVED. SEE PG. 26.**
3	Establish regulatory capital standards that ensure institutions have sufficient loss-absorbing capacity to remain resilient under stress while reducing complexity and maximizing efficiency.	U.S. implementation of internationally agreed capital standards and other capital standards for large institutions.	Issue an interagency final rule on holdings of total loss-absorbing capacity.	**ACHIEVED. SEE PGS. 32-33.**
			Issue an NPR to implement the final Basel III standards into the U.S. regulatory capital framework.	**NOT ACHIEVED. SEE PG. 33.**
			Issue a final rule to implement the Net Stable Funding Ratio (NSFR).	**ACHIEVED. SEE PG. 32.**

2020 SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: *FDIC-insured institutions are safe and sound.*

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
4	Implement strategies to promote enhanced cybersecurity and business continuity within the banking industry.	Enhance the cybersecurity awareness and preparedness of the banking industry.	Continue to conduct horizontal reviews that focus on the IT risks in large and complex supervised institutions and in technology service providers.	**ACHIEVED. SEE PGS. 28-30.**
			Continue to use the Cybersecurity Examination Program for the most significant service provider examinations.	**ACHIEVED. SEE PGS. 28-30.**
			Improve the analysis and sharing of cybersecurity-related threat information with financial institutions.	**ACHIEVED. SEE PGS. 28-30.**
5	Update rules, regulations, and other guidance to enhance efficiency and transparency while maintaining the safety and soundness of the financial system.	Modernize FDIC regulations to tailor regulatory requirements and processes.	Issue a final rule on brokered deposits.	**ACHIEVED. SEE PG. 31.**
			Issue revised stress testing guidance.	**NOT ACHIEVED. SEE PG. 36.**
		Revise and clarify FDIC policies, procedures, and guidance.	Issue a final rule to codify and amend the FDIC's Statement of Policy on Section 19 of the Federal Deposit Insurance Act (FDI Act).	**ACHIEVED. SEE PG. 33.**
			Issue a final rule clarifying the applicability of the "valid when made" rule.	**ACHIEVED. SEE PG. 32.**
		Complete rulemakings related to large, complex financial institutions.	Issue an interagency final rule to modify the treatment of covered funds under the Volcker Rule.	**ACHIEVED. SEE PG. 32.**
			Issue a final rule amending the swap margin requirements.	**ACHIEVED. SEE PG. 33.**

2020 SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: *Consumers' rights are protected, and FDIC-supervised institutions invest in their communities.*

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
1	Conduct on-site CRA and consumer compliance examinations to assess compliance with applicable laws and regulations by FDIC-supervised institutions. When violations are identified, promptly implement appropriate corrective programs and follow up to ensure that identified problems are corrected.	Percentage of examinations conducted in accordance with the timeframes prescribed by FDIC policy.	Conduct all required examinations within the timeframes established.	**ACHIEVED. SEE PGS. 27-28.**
		Implementation of corrective programs.	Conduct visits and/or follow-up examinations in accordance with established FDIC processes and timeframes to ensure that the requirements of any corrective program have been implemented and are effectively addressing identified violations.	**ACHIEVED. SEE PGS. 27-28.**
2	Effectively investigate and respond to written consumer complaints and inquiries about FDIC-supervised financial institutions.	Timely responses to written consumer complaints and inquiries.	Respond to 95 percent of written consumer complaints and inquiries within timeframes established by policy, with all complaints and inquiries receiving at least an initial acknowledgement within two weeks.	**ACHIEVED. SEE PG. 51.**
		Public availability of information on consumer complaints.	Publish, through the Consumer Response Center (CRC), an annual report regarding the nature of the FDIC's interactions with consumers and depositors.	**ACHIEVED. SEE PG. 51.**
			Publish, on the FDIC's website, and regularly update metrics on requests from the public for FDIC assistance.	**ACHIEVED. SEE PG. 51.**

2020 SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: *Consumers' rights are protected, and FDIC-supervised institutions invest in their communities.*

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
3	Promote economic inclusion and access to responsible financial services through supervisory, research, policy, and consumer/community affairs initiatives.	Completion of planned initiatives.	Issue rules and guidance to ensure that FDIC-supervised institutions meet the credit needs of their communities.	**NOT ACHIEVED. SEE PG. 48.**
			Publish the results of the *2019 Survey of the Unbanked and Underbanked Households.*	**ACHIEVED. SEE PGS. 36-37.**
			Launch *"How Money Smart Are You?"* an online, interactive learning game.	**NOT ACHIEVED. SEE PGS. 49-50.**
			Strengthen connections between small businesses and FDIC-insured institutions.	**ACHIEVED. SEE PGS. 49-51.**
			Increase engagement and collaboration to preserve and promote Minority Depository Institutions (MDIs).	**ACHIEVED. SEE PGS. 20-22.**

2020 SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: *Large and complex financial institutions are resolvable in an orderly manner under bankruptcy.*

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
1	Identify and address risks in large, complex financial institutions, including those designated as systemically important.	Rulemaking for resolution planning requirements.	Issue an NPR and, following a review of comments, a final rule to tailor and make adjustments to the FDIC's resolution planning requirements for IDIs.	**NOT ACHIEVED. SEE PG. 43.**
		Compliance with the statutory and regulatory requirements under Title I of the Dodd-Frank Act and Section 360.10 of the FDIC Rules and Regulations.	In collaboration with the FRB, review all resolution plans subject to the requirements of Section 165(d) of the Dodd-Frank Act to ensure their conformance to statutory and other regulatory requirements. Identify and provide feedback to firms on potential impediments in those plans to resolution under the Bankruptcy Code.	**ACHIEVED. SEE PGS. 42-43.**
			Review resolution plans subject to the requirements of Section 360.10 of the IDI Rule to ensure their conformance to other regulatory requirements.	**NOT APPLICABLE. SEE PG. 43.**
		Risk monitoring of large, complex financial institutions, bank holding companies (BHCs), and designated nonbanking firms.	Conduct ongoing risk analysis and monitoring of large, complex financial institutions to understand and assess their structure, business activities, risk profiles, and resolution and recovery plans.	**ACHIEVED. SEE PGS. 43-44.**

2020 RECEIVERSHIP MANAGEMENT PROGRAM RESULTS

Strategic Goal: *Resolutions are orderly and receiverships are managed effectively.*

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
1	Value, manage, and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return.	Percentage of the assets marketed for each failed institution.	For at least 95 percent of insured institution failures, market at least 90 percent of the book value of the institution's marketable assets within 90 days of the failure date (for cash sales) and within 120 days of that date if the pool of similar assets is of sufficient size to bring to market (for structured sales).	**ACHIEVED. SEE PGS. 52-53.**
2	Manage the receivership estate and its subsidiaries toward an orderly termination.	Timely termination of new receiverships.	Terminate at least 75 percent of new receiverships that are not subject to loss-share agreements, structured transactions, or other legal impediments within three years of the date of failure.	**ACHIEVED. SEE PG. 53.**
3	Conduct investigations into all potential professional liability claim areas for all failed IDIs and decide as promptly as possible to close or pursue each claim, considering the size and complexity of the institution.	Percentage of investigated claim areas for which a decision has been made to close or pursue the claim.	For 80 percent of all claim areas, make a decision to close or pursue professional liability claims within 18 months of the failure of an IDI.	**ACHIEVED. SEE PG. 53.**
4	Ensure the FDIC's operational readiness to administer the resolution of large financial institutions, including those designated as systemically important.	Refinement of resolution plans and strategies.	Continue to refine plans to ensure the FDIC's operational readiness to administer the resolution of large, complex financial institutions.	**ACHIEVED. SEE PGS. 44-45.**
		Continued cross-border coordination and cooperation in resolution planning.	Continue to deepen and strengthen working relationships with key foreign jurisdictions, both on a bilateral basis and through multilateral fora.	**ACHIEVED. SEE PGS. 45-46.**

PRIOR YEARS' PERFORMANCE RESULTS

Refer to the respective full Annual Report of prior years, located on the FDIC's website for more information on performance results for those years. Shaded areas indicate no such target existed for that respective year.

INSURANCE PROGRAM RESULTS

Strategic Goal: *Insured depositors are protected from loss without recourse to taxpayer funding.*

ANNUAL PERFORMANCE GOALS AND TARGETS	2019	2018	2017	2016	2015
1. Respond promptly to all insured financial institution closings and related emerging issues.					
♦ Depositors have access to insured funds within one business day if the failure occurs on a Friday.	ACHIEVED.	N/A – NO FAILURES.	ACHIEVED.	ACHIEVED.	ACHIEVED.
♦ Depositors have access to insured funds within two business days if the failure occurs on any other day of the week.	ACHIEVED.	N/A – NO FAILURES.	ACHIEVED.	ACHIEVED.	ACHIEVED.
♦ Depositors do not incur any losses on insured deposits.	ACHIEVED.	N/A – NO FAILURES.	ACHIEVED.	ACHIEVED.	ACHIEVED.
♦ No appropriated funds are required to pay insured depositors.	ACHIEVED.	N/A – NO FAILURES.	ACHIEVED.	ACHIEVED.	ACHIEVED.
2. Disseminate data and analyses on issues and risks affecting the financial services industry to bankers, supervisors, the public, and other stakeholders on an ongoing basis.					
♦ Disseminate results of research and analyses in a timely manner through regular publications, ad hoc reports, and other means.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
♦ Undertake industry outreach activities to inform bankers and other stakeholders about current trends, concerns, and other available FDIC resources.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
3. Monitor the status of the DIF reserve ratio and analyze the factors that affect fund growth. Adjust assessment rates, as necessary.					
♦ Provide updated fund balance projections to the FDIC Board of Directors semiannually.	ACHIEVED.				
♦ Recommend changes to deposit insurance assessment rates to the FDIC Board of Directors as necessary.	ACHIEVED.				
4. Adjust assessment rates, as necessary, to achieve a DIF reserve ratio of at least 1.35 percent of estimated insured deposits by September 30, 2020.					
♦ Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2018, and December 31, 2018.		ACHIEVED.			

INSURANCE PROGRAM RESULTS (continued)

Strategic Goal: *Insured depositors are protected from loss without recourse to taxpayer funding.*

Annual Performance Goals and Targets	2019	2018	2017	2016	2015
♦ Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2017, and December 31, 2017.			ACHIEVED.		
♦ Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2016, and December 31, 2016.				ACHIEVED.	
♦ Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2015, and December 31, 2015.					ACHIEVED.
♦ Provide progress reports to the FDIC Board of Directors by June 30, 2018, and December 31, 2018.		ACHIEVED.			
♦ Provide progress reports to the FDIC Board of Directors by June 30, 2017, and December 31, 2017.			ACHIEVED.		
♦ Provide progress reports to the FDIC Board of Directors by June 30, 2016, and December 31, 2016.				ACHIEVED.	
♦ Provide progress reports to the FDIC Board of Directors by June 30, 2015, and December 31, 2015.					ACHIEVED.
♦ Recommend changes to deposit insurance assessment rates to the FDIC Board of Directors as necessary.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
5. Expand and strengthen the FDIC's participation and leadership role in supporting robust and effective deposit insurance programs, resolution strategies, and banking systems worldwide.					
♦ Foster strong relationships with international banking regulators, deposit insurers, and other relevant authorities by engaging with strategically important jurisdictions and organizations on international financial safety net issues.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	

INSURANCE PROGRAM RESULTS (continued)

Strategic Goal: *Insured depositors are protected from loss without recourse to taxpayer funding.*

Annual Performance Goals and Targets	2019	2018	2017	2016	2015
♦ Provide leadership and expertise to key international organizations and associations that promote sound deposit insurance and effective bank supervision and resolution practices.	ACHIEVED.	ACHIEVED.	ACHIEVED.		
♦ Promote international standards and expertise in financial regulatory practices and stability through the provision of technical assistance and training to global financial system authorities.	ACHIEVED.	ACHIEVED.	ACHIEVED.		
♦ Continue to play leadership roles within key international organizations and associations and promote sound deposit insurance, bank supervision, and resolution practices.				ACHIEVED.	
♦ Promote continued enhancement of international standards and expertise in financial regulatory practices and stability through the provision of technical assistance and training to global financial system authorities.				ACHIEVED.	
♦ Develop and foster closer relationships with bank supervisors in the reviews through the provision of technical assistance and by leading governance efforts in the Association of Supervisors of Banks of the Americas (ASBA).				ACHIEVED.	
♦ Maintain open dialogue with counterparts in strategically important jurisdictions, international financial organizations and institutions, and partner U.S. agencies; and actively participate in bilateral interagency regulatory dialogues.					ACHIEVED.
♦ Maintain a leadership position in the International Association of Deposit Insurers (IADI) by conducting workshops and performing assessments of deposit insurance systems based on the methodology for assessment of compliance with the IADI *Core Principles for Effective Deposit Insurance Systems (Core Principles*), developing and conducting training on priority topics identified by IADI members, and actively participating in IADI's Executive Council and Standing Committees.					ACHIEVED.
♦ Maintain open dialogue with the Association of Supervisors of Banks of the Americas (ASBA) to develop and foster relationships with bank supervisors in the region by providing assistance when necessary.					ACHIEVED.

INSURANCE PROGRAM RESULTS (continued)

Strategic Goal: *Insured depositors are protected from loss without recourse to taxpayer funding.*

Annual Performance Goals and Targets	2019	2018	2017	2016	2015
♦ Engage with authorities responsible for resolutions and resolutions planning in priority foreign jurisdictions and contribute to the resolution-related agenda of the Financial Stability Board (FSB) through active participation in the FSB's Resolution Steering Group (ReSG).					ACHIEVED.
♦ Support visits, study tours, secondments, and longer-term technical assistance and training programs for representatives for foreign jurisdictions to strengthen their deposit insurance organizations, central banks, bank supervisors, and resolution authorities.					ACHIEVED.
6. Ensure timely consideration and efficient processing of *de novo* deposit insurance applications.					
♦ Conduct six regional roundtable discussions to explain and solicit feedback on the *de novo* application process, and implement additional changes, as appropriate, based on that feedback.	ACHIEVED.				
♦ Ensure the *de novo* deposit insurance application process is streamlined and transparent.	ACHIEVED.				
7. Market failing institutions to all known qualified and interested potential bidders.					
♦ Contact all known qualified and interested bidders.	ACHIEVED.	N/A – NO FAILURES.	ACHIEVED.	ACHIEVED.	ACHIEVED.
8. Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts.					
♦ Respond within two weeks to 95 percent of written inquiries from consumers and bankers about FDIC deposit insurance coverage.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
♦ Conduct at least four telephone or in-person seminars for bankers on deposit insurance coverage.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
♦ Complete and post on the FDIC website videos for bankers and consumers on deposit insurance coverage.					ACHIEVED.

SUPERVISION PROGRAM RESULTS

Strategic Goal: *FDIC-insured institutions are safe and sound.*

ANNUAL PERFORMANCE GOALS AND TARGETS	2019	2018	2017	2016	2015
1. Conduct on-site risk management examinations to assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions. When problems are identified, promptly implement appropriate corrective programs, and follow up to ensure that identified problems are corrected.					
♦ Conduct all required risk management examinations within the timeframes prescribed by statute and FDIC policy.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
♦ For at least 90 percent of institutions that are assigned a composite CAMELS rating of 2 and for which the examination report identifies "Matters Requiring Board Attention" (MRBAs), review progress reports and follow up with the institution within six months of the issuance of the examination report to ensure that all MRBAs are being addressed.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
2. Assist in protecting the infrastructure of the U.S. banking system against terrorist financing, money laundering, and other financial crimes.					
♦ Conduct all Bank Secrecy Act examinations within the timeframes prescribed by statute and FDIC policy.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
3. Establish regulatory capital standards that ensure institutions have sufficient loss-absorbing capacity to remain resilient under stress while reducing complexity and maximizing efficiency.					
♦ Complete, by September 30, 2019, rulemaking for a community bank leverage ratio and conforming changes to the deposit insurance assessment process.	ACHIEVED.				
♦ Finalize aspects of the interagency capital simplification proposal issued in September 2017, including changes to the regulatory capital treatment of mortgage servicing assets, deferred tax assets, investment in the capital instruments of other financial institutions, and minority interest.	ACHIEVED.				
♦ Issue interagency final rules to adopt the statutory definition of high volatility commercial real estate for risk based capital.	ACHIEVED.				
♦ Reevaluate and take appropriate actions on Basel III requirements for small banks that do not meet or are not eligible for the community bank leverage ratio.	ACHIEVED.				
♦ Issue a final rule, by December 31, 2019, to implement the Net Stable Funding Ratio (NSFR).	NOT ACHIEVED.				

SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: *FDIC-insured institutions are safe and sound.*

Annual Performance Goals and Targets	2019	2018	2017	2016	2015
♦ Issue interagency final rules to tailor capital requirements for large financial institutions.	ACHIEVED.				
♦ Issue interagency rulemaking to remove certain central bank deposits from the denominator of the supplementary leverage ratio for custodial banks.	ACHIEVED.				
4. Ensure that regulatory capital standards promote banks' resilience under stress and the confidence of their counterparties.					
♦ Finalize a Notice of Proposed Rulemaking (NPR) for a simplified risk-based capital framework for community banks.		NOT ACHIEVED.			
♦ Finalize the Basel III Net Stable Funding Ratio (NSFR).		NOT ACHIEVED.			
5. More closely align regulatory capital standards with risk and ensure that capital is maintained at prudential levels.					
♦ Issue a Notice of Proposed Rulemaking (NPR) for a simplified capital framework for community banks.			ACHIEVED.		
♦ Issue a final rule implementing the Basel III Net Stable Funding Ratio.			NOT ACHIEVED.		
♦ Publish in 2016, a Notice of (proposed) Rulemaking on the Basel III Net Stable Funding Ratio.				ACHIEVED.	
♦ Publish by December 31, 2015, an interagency Notice of Proposed Rulemaking on implementation of the Basel III Net Stable Funding Ratio.					NOT ACHIEVED.
6. Implement strategies to promote enhanced information security, cybersecurity, and business continuity within the banking industry.					
♦ Continue implementation of a horizontal review program that focuses on the IT risks in large and complex supervised institutions and Technology Service Providers (TSPs).	ACHIEVED.	ACHIEVED.	ACHIEVED.		
♦ Continue to use the Cybersecurity Examination Program for the most significant service provider examinations.	ACHIEVED.	ACHIEVED.			
♦ Improve the analysis and sharing of cybersecurity-related threat information with financial institutions.	ACHIEVED.				
♦ Revise and implement by December 31, 2017, the Cybersecurity Examination Tool for TSPs.			ACHIEVED.		

SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: *FDIC-insured institutions are safe and sound.*

Annual Performance Goals and Targets	2019	2018	2017	2016	2015
♦ Establish a horizontal review program that focuses on the IT risks in large and complex supervised institutions and Technology Service providers (TSPs).				ACHIEVED.	
♦ Complete by June 30, 2016, examiner training and implement by September 30, 2016, the new IT examination work program to enhance focus on information security, cybersecurity, and business continuity.				ACHIEVED.	
♦ Enhance the technical expertise of the IT supervisory workforce.					ACHIEVED.
♦ Working with FFIEC counterparts, update and strengthen IT guidance to the industry on cybersecurity preparedness.					ACHIEVED.
♦ Working with the FFIEC counterparts, update and strengthen IT examination work programs for institutions and technology service providers (TSPs) to evaluate cybersecurity preparedness and cyber resiliency.					ACHIEVED.
♦ Improve information sharing on identified technology risks among the IT examination workforces of FFIEC member agencies.					ACHIEVED.

SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: *Consumers' rights are protected, and FDIC-supervised institutions invest in their communities.*

ANNUAL PERFORMANCE GOALS AND TARGETS	2019	2018	2017	2016	2015
1. Conduct on-site CRA and consumer compliance examinations to assess compliance with applicable laws and regulations by FDIC-supervised depository institutions. When violations are identified, promptly implement appropriate corrective programs and follow up to ensure that identified problems are corrected.					
♦ Conduct all required examinations within the timeframes established by FDIC policy.	ACHIEVED.	SUBSTANTIALLY ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
♦ Conduct visits and/or follow-up examinations in accordance with established FDIC policies to ensure that the requirements of any required corrective program have been implemented and are effectively addressing identified violations.	ACHIEVED.	SUBSTANTIALLY ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
2. Effectively investigate and respond to written consumer complaints and inquiries about FDIC-supervised financial institutions.					
♦ Respond to 95 percent of written consumer complaints and inquiries within time frames established by policy, with all complaints and inquiries receiving at least an initial acknowledgment within two weeks.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
♦ Publish, through the Consumer Response Center (CRC), an annual report regarding the nature of the FDIC's interactions with consumers and depositors.	ACHIEVED.				
♦ Publish, on the FDIC's website, and regularly update metrics on requests from the public for FDIC assistance.	ACHIEVED.				
3. Promote economic inclusion and access to responsible financial services through supervisory, research, policy, and consumer/community affairs initiatives.					
♦ Administer the *2019 Survey of the Unbanked and Underbanked Households.*	ACHIEVED.				
♦ Conduct outreach to institutions and the public to expand the availability and usage of low-cost transaction accounts tailored to the needs of unbanked and underbanked households.	ACHIEVED.				
♦ Expand the reach of the new *Money Smart for Adults* through online resources, translating the curriculum into other languages, and outreach.	ACHIEVED.				
♦ Strengthen connections between small businesses and FDIC-insured institutions.	ACHIEVED.				
♦ Increase engagement and collaboration with, and provide support for, Minority Depository Institutions (MDIs).	ACHIEVED.				

SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: *Consumers' rights are protected, and FDIC-supervised institutions invest in their communities.*

Annual Performance Goals and Targets	2019	2018	2017	2016	2015
♦ Publish the results of the *2017 FDIC National Survey of Unbanked and Underbanked Households.*		ACHIEVED.			
♦ Complete planning for the *2019 FDIC National Survey of Unbanked and Underbanked Households.*		ACHIEVED.			
♦ Continue to promote broader access to and use of low-cost transaction and savings accounts to build banking relationships that will meet the needs of unbanked and underbanked households by increasing the current level of engagement from 10 communities to 15 communities.		ACHIEVED.			
♦ Launch the revised *Money Smart for Adults* curriculum.		ACHIEVED.			
♦ Revise and administer the 2017 *FDIC National Survey of Unbanked and Underbanked Households.*			ACHIEVED.		
♦ Continue and expand efforts to promote broader awareness of the availability of low-cost transaction accounts consistent with the FDIC's Model SAFE transaction account template.			ACHIEVED.		
♦ Complete and pilot a revised, instructor-led *Money Smart for Adults* product.			ACHIEVED.		
♦ Publish the results of the 2015 *FDIC National Survey of Unbanked and Underbanked Household.*				ACHIEVED.	
♦ Complete and present to the Advisory Committee on Economic Inclusions (ComE-IN) a report on the pilot Youth Savings Program (YSP) conducted jointly with the CFPB.				ACHIEVED.	
♦ Revise, test, and administer the 2015 *FDIC National Survey of Unbanked and Underbanked Household.*					ACHIEVED.
♦ Promote broader awareness of the availability of low-cost transaction accounts consistent with the FDIC's Model SAFE transaction account template.				ACHIEVED.	
♦ Support the Advisory Committee on Economic Inclusion in expanding the availability and awareness of low-cost transaction accounts, consistent with the FDIC's SAFE account template.					ACHIEVED.
♦ In partnership with the Consumer Financial Protection Bureau, enhance financial capability among school-age children through (1) development and delivery of tailored financial education materials; (2) resources and outreach targeted to youth, parents, and teachers; and (3) implementation of a pilot youth savings program.					ACHIEVED.

SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: *Large and complex financial institutions are resolvable in an orderly manner under the Bankruptcy Code.*

ANNUAL PERFORMANCE GOALS AND TARGETS	2019	2018	2017	2016	2015
1. Identify and address risks in large, complex financial institutions, including those designated as systemically important.					
♦ Complete interagency rulemaking with the FRB to tailor application of resolution planning requirements under Section 165(d) of the Dodd-Frank Act.	ACHIEVED.				
♦ Issue an ANPR to tailor and make adjustments to the FDIC's resolution planning requirements for IDIs.	ACHIEVED.				
♦ In collaboration with the FRB continue to review all resolution plans subject to the requirements of Section 165(d) of the Dodd-Frank Act to ensure their conformance to statutory and other regulatory requirements. Identify and provide feedback to firms on potential impediments in those plans to resolution under the Bankruptcy Code.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	
♦ Review resolution plans subject to the requirements of Section 360.10 of the IDI rule to ensure their conformance to statutory and other regulatory requirements.	ACHIEVED.				
♦ Review all resolution plans subject to the requirements of Section 360.10 of the IDI rule to ensure their conformance to statutory and other regulatory requirements. Identify potential impediments to resolvability under the Federal Deposit Insurance (FDI) Act.		ACHIEVED.	ACHIEVED.	ACHIEVED.	
♦ Conduct ongoing risk analysis and monitoring of large, complex financial institutions to understand and assess their structure, business activities, risk profiles, and resolution and recovery plans.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	
♦ Conduct ongoing risk analysis and monitoring of large, complex financial institutions to understand and assess their structure, business activities, risk profiles, and resolution and recovery plans.					ACHIEVED.
♦ Complete, in collaboration with the FRB and in accordance with statutory and regulatory time frames, a review of resolution plans submitted by individual financial companies subject to the requirements of section 165 (d) of DFA and Part 360.10 of the FDIC Rules and Regulations.					ACHIEVED.

RECEIVERSHIP MANAGEMENT PROGRAM RESULTS

Strategic Goal: *Resolutions are orderly and receiverships are managed effectively.*

ANNUAL PERFORMANCE GOALS AND TARGETS	2019	2018	2017	2016	2015
1. Value, manage, and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return.					
♦ For at least 95 percent of insured institution failures, market at least 90 percent of the book value of the institution's marketable assets within 90 days of the failure date (for cash sales) or 120 days of the date that the pool of similar assets is of sufficient size to bring to market (for structured sales).	ACHIEVED.	N/A – NO FAILURES.			
♦ For at least 95 percent of insured institution failures, market at least 90 percent of the book value of the institution's marketable assets within 90 days of the failure date (for cash sales) or 120 days of the failure date (for structured sales).			ACHIEVED.	ACHIEVED.	ACHIEVED.
2. Manage the receivership estate and its subsidiaries toward an orderly termination.					
♦ Terminate at least 75 percent of new receiverships that are not subject to loss-share agreements, structured sales, or other legal impediments, within three years of the date of failure.	ACHIEVED.	N/A – NO FAILURES.	ACHIEVED.	ACHIEVED.	ACHIEVED.
3. Conduct investigations into all potential professional liability claim areas for all failed insured depository institutions, and decide as promptly as possible, to close or pursue each claim, considering the size and complexity of the institution.					
♦ For 80 percent of all claim areas, make a decision to close or pursue professional liability claims within 18 months of the failure date of an insured depository institution.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
4. Ensure the FDIC's operational readiness to administer the resolution of large financial institutions, including those designated as systemically important.					
♦ Continue to refine plans to ensure the FDIC's operational readiness to administer the resolution of large financial institutions.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	
♦ Continue to deepen and strengthen bilateral working relationships with key foreign jurisdictions both on a bilateral basis and through multilateral fora.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	
♦ Hold a meeting of the Systemic Resolution Advisory Committee in early 2016 to obtain feedback on resolving SIFIs.				ACHIEVED.	

RECEIVERSHIP MANAGEMENT PROGRAM RESULTS (continued)

Strategic Goal: *Resolutions are orderly and receiverships are managed effectively.*

Annual Performance Goals and Targets	2019	2018	2017	2016	2015
5. Ensure the FDIC's operational readiness to resolve a large, complex financial institution using the orderly liquidation authority in Title II of the DFA.					
♦ Update and refine firm-specific resolutions plans and strategies and develop operational procedures for the administration of a Title II receivership.					ACHIEVED.
♦ Prepare for an early 2016 meeting of the Systemic Resolution Advisory Committee to obtain feedback on resolving SIFIs.					ACHIEVED.
♦ Continue to deepen and strengthen bilateral working relationships with key foreign jurisdictions.				ACHIEVED.	ACHIEVED.

III.

FINANCIAL HIGHLIGHTS

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In its role as insurer of bank and savings association deposits, the FDIC promotes the public's trust in the safety and soundness of IDIs. The following financial highlights address the performance of the Deposit Insurance Fund.

DEPOSIT INSURANCE FUND PERFORMANCE

The DIF balance was $117.9 billion at December 31, 2020, an increase of $7.5 billion from the year-end 2019 balance. The DIF's comprehensive income totaled $7.5 billion for 2020 compared to comprehensive income of $7.7 billion during 2019. While assessment revenue increased year-over-year by $2.2 billion, this was fully offset by a year-over-year reduction in the negative provision for insurance losses of $1.1 billion and a decrease in interest and unrealized gains on U.S. Treasury securities of $1.2 billion.

Assessment revenue was $7.1 billion for 2020, compared to $4.9 billion for 2019. The $2.2 billion year-over-year increase was primarily due to the combination of assessment base growth, higher assessment rates, and the wind-down of small bank assessment credit usage.

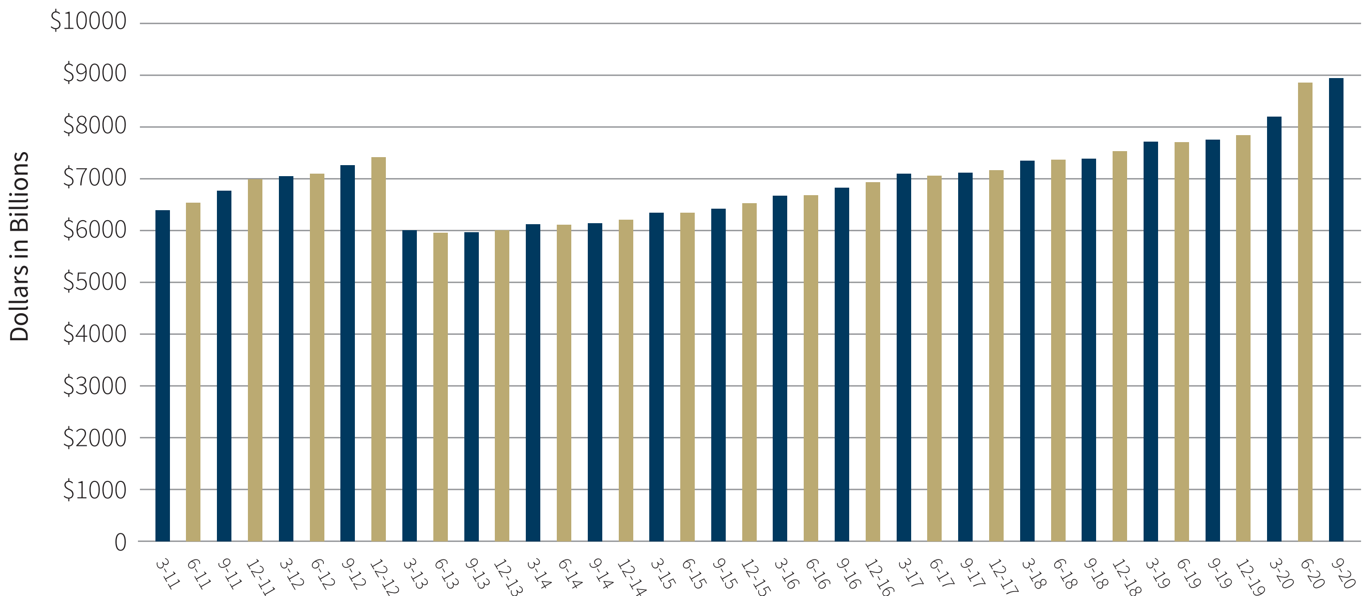
The DIF's interest revenue on U.S. Treasury securities for 2020 was $1.7 billion, compared to $2.1 billion in 2019. The $0.4 billion year-over-year decrease resulted from record low yields even though the investment portfolio was $10.4 billion larger at year-end 2020 than year-end 2019.

The provision for insurance losses was a negative $157 million for 2020, compared to negative $1.3 billion for 2019. The negative provision of $157 million in 2020 reflected adjustments to loss estimates for prior year failures largely as a result of unanticipated recoveries from professional liability claims and litigation settlements by receiverships, as well as reductions to receivership future liquidation expense estimates. The provision balance for 2019 reflected much larger decreases in loss estimates for prior year bank failures primarily arising from shared-loss liability reductions as well as unanticipated recoveries from litigation settlements and professional liability claims by receiverships.

During 2020, the DIF recognized an unrealized gain on U.S. Treasury securities of $483 million, down from a $1.2 billion unrealized gain in 2019. This decline is due to the fact that a significant portion of the securities in the portfolio with unrealized gains matured during 2020 (or will do so in the first quarter of 2021). As each U.S. Treasury security reaches or nears its maturity, the market value approaches the par value, and the unrealized gain reduces to zero.

The DIF's cash, cash equivalents, and U.S. Treasury investment portfolio balances increased by $7.7 billion during 2020 to $113.8 billion at year-end 2020, from $106.1 billion at year-end 2019. This increase was primarily due to assessment collections of $6.4 billion, interest received on U.S. Treasury securities of $3.7 billion, and recoveries from resolutions of $1.4 billion, less operating expenses paid of $1.7 billion.

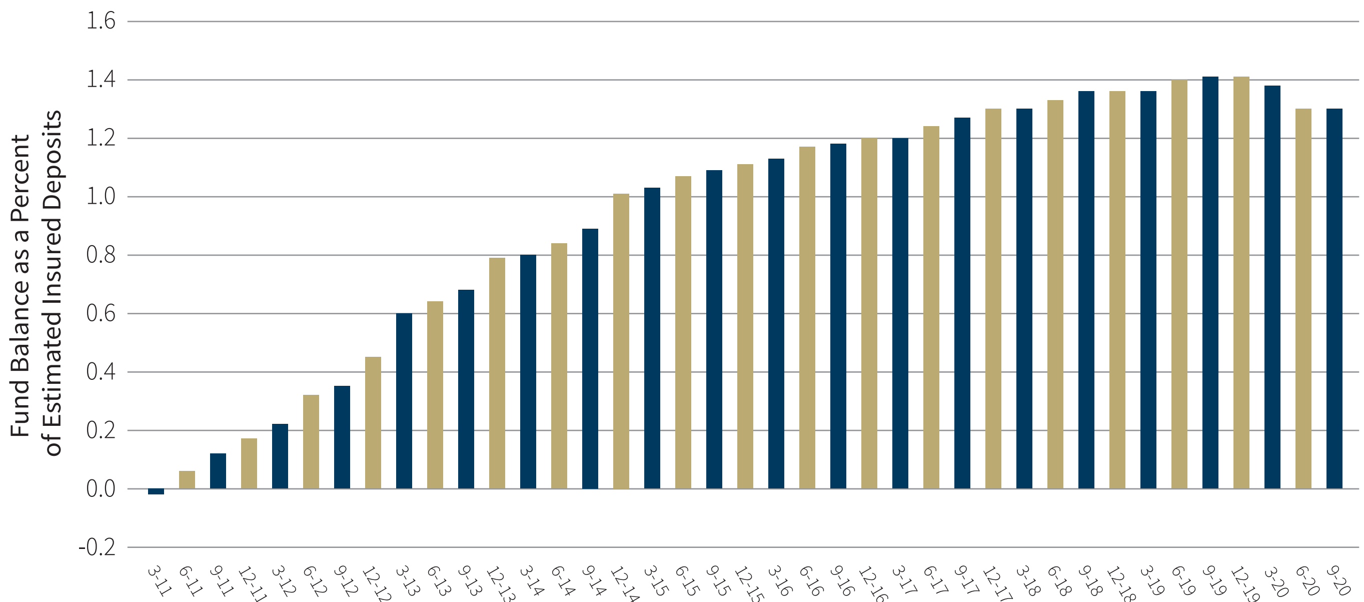
ESTIMATED DIF INSURED DEPOSITS



SOURCE: Commercial Bank Call and Thrift Financial Reports

Note: Beginning in fourth quarter 2010 through fourth quarter 2012, estimated insured deposits include the entire balance of noninterest-bearing transaction accounts.

DEPOSIT INSURANCE FUND RESERVE RATIOS



DEPOSIT INSURANCE FUND SELECTED STATISTICS

Dollars in Millions

	For the years ended December 31		
	2020	2019	2018
Financial Results			
Revenue	$8,796	$7,095	$11,171
Operating Expenses	1,846	1,796	1,765
Insurance and Other Expenses (includes provision for losses)	(155)	(1,282)	(560)
Net Income	7,105	6,582	9,966
Comprehensive Income	7,550	7,738	9,861
Insurance Fund Balance	$117,897	$110,347	$102,609
Fund as a Percentage of Insured Deposits (reserve ratio)	1.30%[1]	1.41%	1.36%
Selected Statistics			
Total DIF-Member Institutions[2]	5,033[1]	5,177	5,406
Problem Institutions	56[1]	51	60
Total Assets of Problem Institutions	$53,884[1]	$46,190	$48,489
Institution Failures	4	4	0
Total Assets of Failed Institutions in Year[3]	$455	$209	$0
Number of Active Failed Institution Receiverships	234	248	272

[1] As of September 30, 2020.

[2] Commercial banks and savings institutions. Does not include U.S. insured branches of foreign banks.

[3] Total Assets data are based upon the last Call Report filed by the institution prior to failure.

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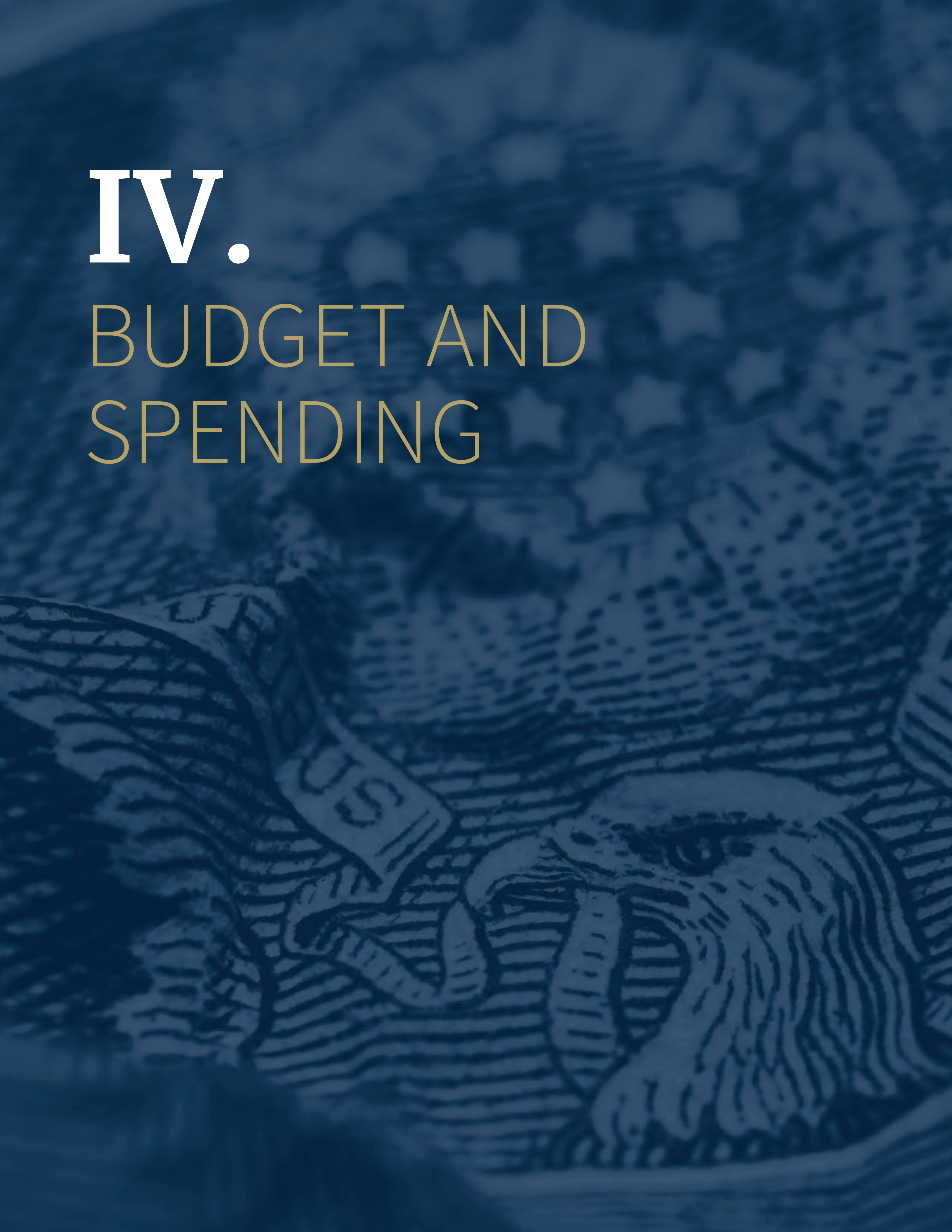

IV.

BUDGET AND SPENDING

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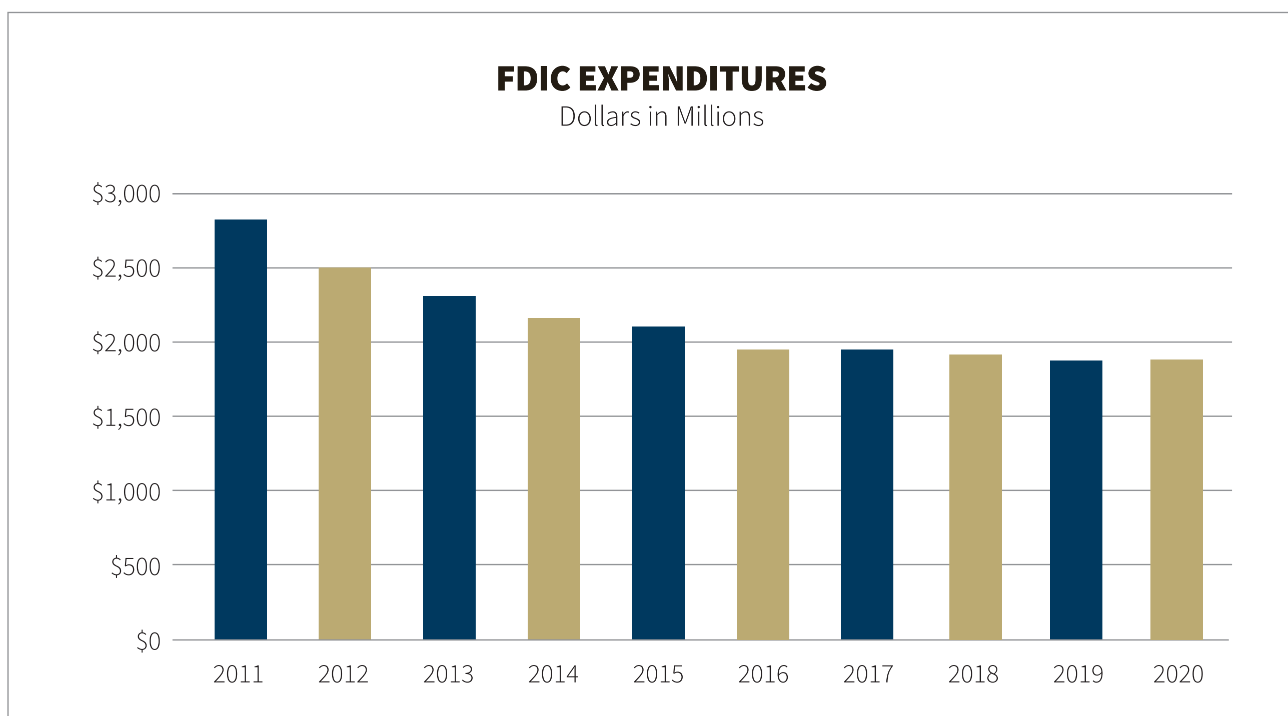
FDIC OPERATING BUDGET

The FDIC segregates its corporate operating budget and expenses into three discrete components: ongoing operations, receivership funding, and the Office of Inspector General (OIG). The receivership funding component represents expenses resulting from financial institution failures and is, therefore, largely driven by external forces and is less controllable and estimable. FDIC operating expenditures totaled $1.9 billion in 2020, including $1.8 billion in ongoing operations, $41 million in receivership funding, and $40 million for the OIG. This represented approximately 94 percent of the approved budget for ongoing operations, 54 percent of the approved budget for receivership funding, and 94 percent of the approved budget for the OIG for the year.

The approved 2021 FDIC Operating Budget of approximately $2.3 billion consists of $2.1 billion for ongoing operations, $175 million for receivership funding, and $45 million for the OIG. The level of approved ongoing operations budget for 2021 is approximately $159 million (8.4 percent) higher than the 2020 ongoing operations budget, while the approved receivership funding budget is $100 million (133 percent) higher than the 2020 receivership funding budget. The 2021 OIG budget is $2 million (4.5 percent) higher than the 2020 OIG budget.

As in prior years, the 2021 budget was formulated primarily on the basis of an analysis of projected workload for each of the Corporation's three major business lines and its program support functions. The most significant factor contributing to the increase in the FDIC Operating Budget is the establishment of contingency reserves designed to address potential increases in supervision and failure related workload, which may result from the ongoing pandemic.

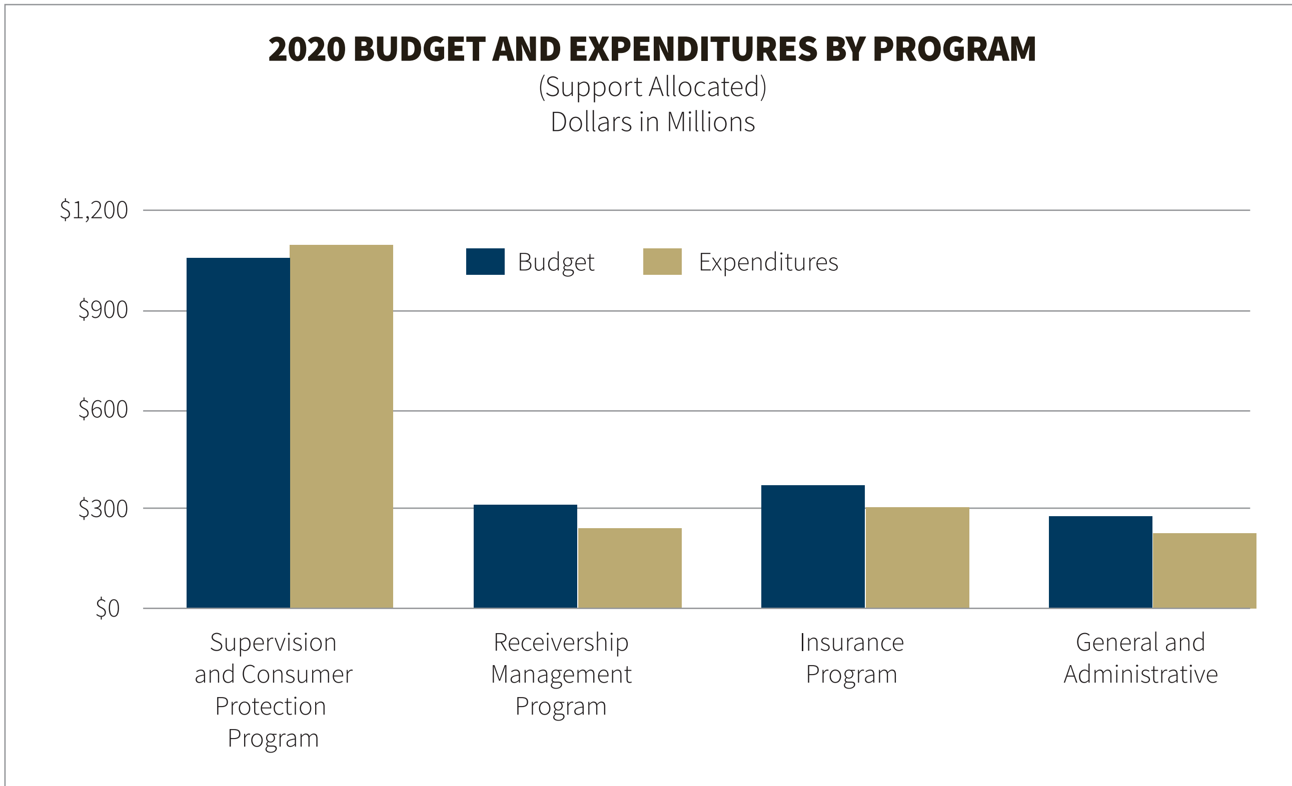


The FDIC's *Strategic Plan* and *Annual Performance Plan* provide the basis for annual planning and budgeting for needed resources. The 2020 aggregate budget (for ongoing operations, receivership funding, OIG, and investment spending) was $2.03 billion, while actual expenditures for the year were $1.9 billion, about $8 million higher than 2019 expenditures.

Over the past decade the FDIC's expenditures have varied in response to workload. During the last several years, expenditures have fallen, largely due to decreasing resolution and receivership activity. To a lesser extent decreased expenses have resulted from supervision-related costs associated with the oversight of fewer troubled institutions.

2020 BUDGET AND EXPENDITURES BY PROGRAM

(Support Allocated)
Dollars in Millions



2020 BUDGET AND EXPENDITURES BY PROGRAM

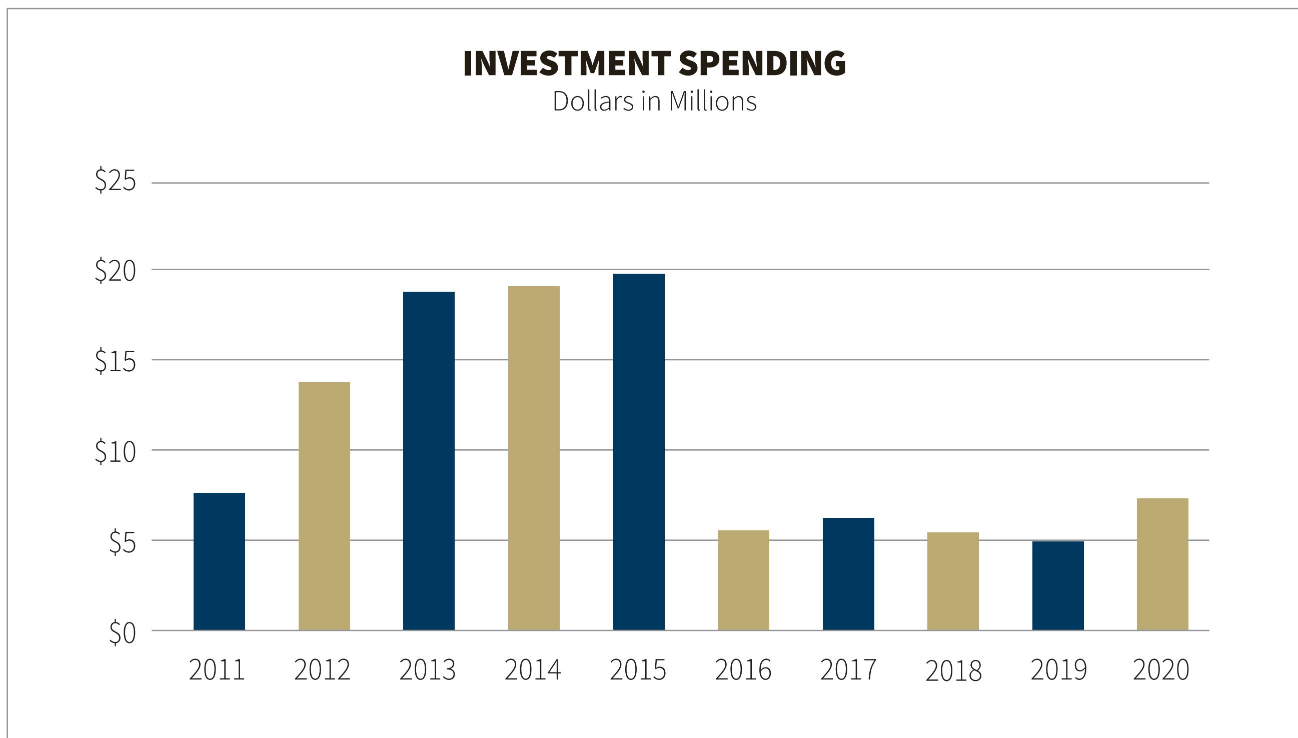
(Excluding Investments)

The FDIC corporate operating budget for 2020 totaled approximately $2.02 billion. Budget amounts were allocated as follows: $1.06 billion or 52 percent, to the Supervision and Consumer Protection program; $312 million or 16 percent, to the Receivership Management program; $371 million, or 18 percent, to the Insurance program; and $278 million, or 14 percent, to Corporate General and Administrative expenditures.

Actual expenditures for the year totaled $1.9 billion. Actual expenditures occurred as follows: $1.1 billion, or 59 percent, to the Supervision and Consumer Protection program; $242 million, or 13 percent, to the Receivership Management program; $305 million, or 16 percent, to the Insurance program; and $226 million, or 12 percent, to Corporate General and Administrative expenditures.

INVESTMENT SPENDING

The FDIC instituted a separate Investment Budget in 2003 to provide enhanced governance of major multi-year development efforts. It has a disciplined process for reviewing proposed new investment projects and managing the construction and implementation of approved projects. Proposed IT projects are carefully reviewed to ensure that they are consistent with the FDIC's enterprise architecture. The project approval and monitoring processes also enable the FDIC to be aware of risks to the major capital investment projects and facilitate appropriate, timely intervention to address these risks throughout the development process. An investment portfolio performance review is provided to the FDIC's Board of Directors on a quarterly basis. From 2011-2020 investment spending totaled $110 million and is estimated at $33 million for 2021.



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FINANCIAL SECTION

Federal Deposit Insurance Corporation

Deposit Insurance Fund Balance Sheet

As of December 31

(Dollars in Thousands)		2020		2019
ASSETS				
Cash and cash equivalents	$	3,310,527	$	5,990,765
Investment in U.S. Treasury securities (Note 3)		110,464,342		100,071,880
Assessments receivable (Note 10)		1,948,516		1,241,968
Interest receivable on investments and other assets, net		1,159,130		1,020,947
Receivables from resolutions, net (Note 4)		1,366,736		2,669,270
Property and equipment, net (Note 5)		321,080		329,828
Operating lease right-of-use assets (Note 6)		112,453		0
Total Assets	**$**	**118,682,784**	**$**	**111,324,658**
LIABILITIES				
Accounts payable and other liabilities	$	250,617	$	214,451
Operating lease liabilities (Note 6)		119,459		0
Liabilities due to resolutions (Note 7)		814		346,271
Postretirement benefit liability (Note 13)		335,977		289,462
Contingent liabilities:				
Anticipated failure of insured institutions (Note 8)		78,952		93,505
Guarantee payments and litigation losses (Notes 8 and 9)		200		34,031
Total Liabilities		**786,019**		**977,720**
Off-balance-sheet exposure (Note 14)				
FUND BALANCE				
Accumulated Net Income		116,924,738		109,820,102
ACCUMULATED OTHER COMPREHENSIVE INCOME				
Unrealized gain on U.S. Treasury securities, net (Note 3)		1,069,949		587,268
Unrealized postretirement benefit (loss) (Note 13)		(97,922)		(60,432)
Total Accumulated Other Comprehensive Income		**972,027**		**526,836**
Total Fund Balance		**117,896,765**		**110,346,938**
Total Liabilities and Fund Balance	**$**	**118,682,784**	**$**	**111,324,658**

The accompanying notes are an integral part of these financial statements.

Federal Deposit Insurance Corporation

Deposit Insurance Fund Statement of Income and Fund Balance

For the Years Ended December 31

(Dollars in Thousands)	2020	2019
REVENUE		
Assessments (Note 10)	$ 7,093,175	$ 4,939,063
Interest on U.S. Treasury securities	1,683,063	2,116,504
Other revenue	20,240	39,745
Total Revenue	**8,796,478**	**7,095,312**
EXPENSES AND LOSSES		
Operating expenses (Note 11)	1,846,491	1,795,605
Provision for insurance losses (Note 12)	(157,309)	(1,285,531)
Insurance and other expenses	2,660	3,149
Total Expenses and Losses	**1,691,842**	**513,223**
Net Income	**7,104,636**	**6,582,089**
OTHER COMPREHENSIVE INCOME		
Unrealized gain on U.S. Treasury securities, net	482,681	1,202,817
Unrealized postretirement benefit (loss) (Note 13)	(37,490)	(46,892)
Total Other Comprehensive Income	**445,191**	**1,155,925**
Comprehensive Income	**7,549,827**	**7,738,014**
Fund Balance - Beginning	**110,346,938**	**102,608,924**
Fund Balance - Ending	**$ 117,896,765**	**$ 110,346,938**

The accompanying notes are an integral part of these financial statements.

Federal Deposit Insurance Corporation

Deposit Insurance Fund Statement of Cash Flows

For the Years Ended December 31

(Dollars in Thousands)	2020	2019
OPERATING ACTIVITIES		
Provided by:		
Assessments	$ 6,375,350	$ 5,079,563
Interest on U.S. Treasury securities	3,742,956	1,988,763
Recoveries from financial institution resolutions	1,439,452	1,665,574
Miscellaneous receipts	17,972	27,895
Used by:		
Operating expenses	(1,745,171)	(1,746,598)
Disbursements for financial institution resolutions	(320,501)	(247,490)
Miscellaneous disbursements	(9,485)	(2,262)
Net Cash Provided by Operating Activities	**9,500,573**	**6,765,445**
INVESTING ACTIVITIES		
Provided by:		
Maturity of U.S. Treasury securities	54,575,000	34,250,000
Used by:		
Purchase of U.S. Treasury securities	(66,714,039)	(40,749,953)
Purchase of property and equipment	(41,772)	(48,722)
Net Cash (Used) in Investing Activities	**(12,180,811)**	**(6,548,675)**
Net (Decrease) Increase in Cash and Cash Equivalents	**(2,680,238)**	**216,770**
Cash and Cash Equivalents - Beginning	**5,990,765**	**5,773,995**
Cash and Cash Equivalents - Ending	**$ 3,310,527**	**$ 5,990,765**

The accompanying notes are an integral part of these financial statements.

DEPOSIT INSURANCE FUND

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020 and 2019

1. Operations of the Deposit Insurance Fund

OVERVIEW

The Federal Deposit Insurance Corporation (FDIC) is the independent deposit insurance agency created by Congress in 1933 to maintain stability and public confidence in the nation's banking system. Provisions that govern the FDIC's operations are generally found in the Federal Deposit Insurance (FDI) Act, as amended (12 U.S.C. 1811, *et seq*). In accordance with the FDI Act, the FDIC, as administrator of the Deposit Insurance Fund (DIF), insures the deposits of banks and savings associations (insured depository institutions). In cooperation with other federal and state agencies, the FDIC promotes the safety and soundness of insured depository institutions (IDIs) by identifying, monitoring, and addressing risks to the DIF. Federally chartered IDIs are supervised by the Office of the Comptroller of the Currency; state chartered IDIs that are members of the Federal Reserve are supervised by the Federal Reserve and their state supervisors; and state chartered IDIs that are not members of the Federal Reserve are supervised by the FDIC and their state supervisors.

In addition to being the administrator of the DIF, the FDIC is the administrator of the FSLIC Resolution Fund (FRF). The FRF is a resolution fund responsible for the sale of the remaining assets and the satisfaction of the liabilities associated with the former Federal Savings and Loan Insurance Corporation (FSLIC) and the former Resolution Trust Corporation. The FDIC maintains the DIF and the FRF separately to support their respective functions.

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), the FDIC also manages the Orderly Liquidation Fund (OLF). Established as a separate fund in the U.S. Treasury (Treasury), the OLF is inactive and unfunded until the FDIC is appointed as receiver for a covered financial company. A covered financial company is a failing financial company (for example, a bank holding company or nonbank financial company) for which a systemic risk determination has been made as set forth in section 203 of the Dodd-Frank Act.

The Dodd-Frank Act (Public Law 111-203) granted the FDIC authority to establish a widely available program to guarantee obligations of solvent IDIs or solvent depository institution holding companies (including affiliates) upon the systemic risk determination of a liquidity event during times of severe economic distress. The program would not be funded by the DIF but rather by fees and assessments paid by all participants in the program. If fees are insufficient to cover losses or expenses, the FDIC must impose a special assessment on participants as necessary to cover the shortfall. Any excess funds at the end of the liquidity event program would be deposited in the General Fund of the Treasury.

The Dodd-Frank Act also created the Financial Stability Oversight Council of which the Chairman of the FDIC is a member and expanded the FDIC's responsibilities to include supervisory review of resolution plans (known as living wills) and backup examination authority for systemically important bank holding companies and nonbank financial companies supervised by the Federal Reserve Board. The living wills provide for an entity's rapid and orderly resolution in the event of material financial distress or failure.

OPERATIONS OF THE DIF

The FDIC, as administrator of the DIF, insures the deposits of IDIs and resolves failed IDIs upon appointment of the FDIC as receiver in a manner that will result in the least possible cost to the DIF.

The DIF is primarily funded from deposit insurance assessments and interest earned on investments in U.S. Treasury securities. Other available funding sources, if necessary, are borrowings from the Treasury, the Federal Financing Bank (FFB), Federal Home Loan Banks, and IDIs. The FDIC has borrowing authority of $100 billion from the Treasury and a Note Purchase Agreement with the FFB, not to exceed $100 billion, to enhance the DIF's ability to fund deposit insurance.

A statutory formula, known as the Maximum Obligation Limitation (MOL), limits the amount of obligations the DIF can incur to the sum of its cash, 90 percent of the fair market value of other assets, and the amount authorized to be borrowed from the Treasury. The MOL for the DIF was $217.2 billion and $209.5 billion as of December 31, 2020 and 2019, respectively.

OPERATIONS OF RESOLUTION ENTITIES

The FDIC, as receiver, is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receiverships, conservatorships, and bridge institutions (collectively,

resolution entities), and the claims against them, are accounted for separately from the DIF assets and liabilities to ensure that proceeds from these entities are distributed according to applicable laws and regulations. Therefore, income and expenses attributable to resolution entities are accounted for as transactions of those entities. The FDIC, as administrator of the DIF, bills resolution entities for services provided on their behalf.

2. Summary of Significant Accounting Policies

GENERAL

The financial statements include the financial position, results of operations, and cash flows of the DIF and are presented in accordance with U.S. generally accepted accounting principles (GAAP). These statements do not include reporting for assets and liabilities of resolution entities because these entities are legally separate and distinct, and the DIF does not have any ownership or beneficial interests in them. Periodic and final accounting reports of resolution entities are furnished to courts, supervisory authorities, and others upon request.

USE OF ESTIMATES

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and disclosure of contingent liabilities. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such potential changes in estimates have been disclosed. The more significant estimates include the assessments receivable and associated revenue; the allowance for loss on receivables from resolutions; the guarantee obligations for structured transactions; the postretirement benefit obligation; and the estimated losses for anticipated failures.

CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments consisting primarily of U.S. Treasury Overnight Certificates.

INVESTMENT IN U.S. TREASURY SECURITIES

The FDI Act requires that the DIF funds be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States. The Secretary of the Treasury must approve all such investments in excess of $100,000 and has granted the FDIC approval to invest the DIF funds only in U.S. Treasury obligations that are purchased or sold exclusively through the Treasury's Bureau of the Fiscal Service's Government Account Series program.

The DIF's investments in U.S. Treasury securities are classified as available-for-sale (AFS). Securities designated as AFS are shown at fair value. Unrealized gains and losses are reported as other comprehensive income. Any realized gains and losses are included in the Statement of Income and Fund Balance as components of net income. Income on securities is calculated and recorded daily using the effective interest or straight-line method depending on the maturity of the security (see Note 3).

REVENUE RECOGNITION FOR ASSESSMENTS

Assessment revenue is recognized for the quarterly period of insurance coverage based on an estimate. The estimate is derived from an institution's regular risk-based assessment rate and assessment base for the prior quarter adjusted for certain changes in supervisory examination ratings for larger institutions, modest assessment base growth and average assessment rate adjustment factors, and assessment credits expected to be applied. At the subsequent quarter-end, the estimated revenue amounts are adjusted when actual assessments for the covered period are determined for each institution (see Note 10).

CAPITAL ASSETS AND DEPRECIATION

The FDIC buildings are depreciated on a straight-line basis over a 35- to 50-year estimated life. Building improvements are capitalized and depreciated over the estimated useful life of the improvements. Leasehold improvements are capitalized and depreciated over the lesser of the remaining life of the lease or the estimated useful life of the improvements, if determined to be material. Capital assets depreciated on a straight-line basis over a five-year estimated useful life include mainframe equipment; furniture, fixtures, and general equipment; and internal-use software. Computer equipment is depreciated on a straight-line basis over a three-year estimated useful life (see Note 5).

LEASES

The Balance Sheet presents operating leases in the "Operating lease right-of-use assets" and "Operating lease liabilities" line items. Operating lease liabilities and right-of-use (ROU) assets are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. The FDIC has elected to use its risk-free rate at the commencement date in determining the present value of future payments.

The operating lease ROU asset also includes lease prepayments and excludes lease incentives received. The lease term includes options to extend or terminate the lease when it is reasonably certain that the FDIC will exercise that option. For the DIF, the FDIC recognizes lease expense on a straight-line basis over the lease term. For lease arrangements that contain both lease and nonlease components, the FDIC has elected to account for them as a single lease component for all classes of underlying assets.

PROVISION FOR INSURANCE LOSSES

The provision for insurance losses primarily represents changes in the allowance for losses on receivables from resolutions and the contingent liability for anticipated failure of insured institutions (see Note 12).

REPORTING ON VARIABLE INTEREST ENTITIES

The receiverships engaged in structured transactions, some of which resulted in the issuance of note obligations that the FDIC guaranteed, in its corporate capacity. As the guarantor of note obligations for several structured transactions, the FDIC, in its corporate capacity, holds an interest in many variable interest entities (VIEs). The FDIC conducts a qualitative assessment of its relationship with each VIE as required by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 810, *Consolidation*. These assessments are conducted to determine if the FDIC, in its corporate capacity, has (1) the power to direct the activities that most significantly affect the economic performance of the VIE and (2) an obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. When a variable interest holder has met both of these characteristics, the enterprise is considered the primary beneficiary and must consolidate the VIE.

In accordance with the provisions of FASB ASC Topic 810, an assessment of the terms of the legal agreement for each VIE was conducted to determine whether any of the terms had been activated or modified in a manner that would cause the FDIC, in its corporate capacity, to be characterized as a primary beneficiary. In making that determination, management considered which, if any, activities were significant to each VIE. Often, the right to service collateral, to liquidate collateral, or to unilaterally dissolve the VIE was determined to be the most significant activity. In other cases, it was determined that the structured transactions did not include such significant activities and that the design of the entity was the best indicator of which party was the primary beneficiary.

The conclusion of these analyses was that the FDIC, in its corporate capacity, has not engaged in any activity that would cause the FDIC to be characterized as a primary beneficiary to any VIE with which it was involved as of December 31, 2020 and 2019. Therefore, consolidation is not required for the December 31, 2020 and 2019, DIF financial statements. In the future, the FDIC, in its corporate capacity, may become the primary beneficiary upon the activation of provisional contract rights that extend to the FDIC if it makes payments on guarantee claims. Ongoing analyses will be required to monitor consolidation implications under FASB ASC Topic 810.

Note 9 under FDIC Guaranteed Debt of Structured Transactions fully describes the FDIC's involvement with VIEs.

RELATED PARTIES

The nature of related parties and a description of related party transactions are discussed in Note 1 and disclosed throughout the financial statements and footnotes.

APPLICATION OF RECENT ACCOUNTING STANDARDS

The FDIC adopted ASU 2016-02, *Leases (Topic 842)*, as of January 1, 2020 (see Note 6). Other recent accounting standards have been deemed not applicable or material to the financial statements as presented.

PRESENTATION OF STATEMENT OF CASH FLOWS

In 2020, the FDIC changed the presentation of the DIF's receipt of receivership dividends to enhance the transparency of the Statement of Cash Flows. For comparative purposes, the FDIC conformed 2019 to the new presentation; as such, the FDIC reduced the recoveries from and disbursements for financial institution resolutions line items by $9 million with no net impact to the DIF's cash provided by operating activities.

3. Investment in U.S. Treasury Securities

The "Investment in U.S. Treasury securities" line item on the Balance Sheet consisted of the following components by maturity (dollars in millions).

December 31, 2020 Maturity	Yield at Purchase		Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses		Fair Value
U.S. Treasury notes and bonds								
Within 1 year	1.23%	$	56,100 $	57,122 $	280 $	(4)	$	57,398
After 1 year through 5 years	1.05%		51,000	52,272	796	(2)		53,066
Total		**$**	**107,100 $**	**109,394 $**	**1,076 $**	**(6)** [(a)]	**$**	**110,464**

(a) These unrealized losses occurred over a period of less than a year as a result of temporary changes in market interest rates. The FDIC does not intend to sell the securities and is not likely to be required to sell them before their maturity date, thus, the FDIC does not consider these securities to be other than temporarily impaired at December 31, 2020. The aggregate related fair value of securities with unrealized losses was $12.8 billion as of December 31, 2020.

December 31, 2019 Maturity	Yield at Purchase		Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses		Fair Value
U.S. Treasury notes and bonds								
Within 1 year	1.93%	$	45,550 $	45,928 $	50 $	(11)	$	45,967
After 1 year through 5 years	2.08%		52,900	53,557	555	(7)		54,105
Total		**$**	**98,450 $**	**99,485 $**	**605 $**	**(18)** [(a)]	**$**	**100,072**

(a) These unrealized losses occurred as a result of temporary changes in market interest rates. The FDIC does not intend to sell the securities and is not likely to be required to sell them before their maturity date, thus, the FDIC does not consider these securities to be other than temporarily impaired at December 31, 2019. As of December 31, 2019, securities with a continuous unrealized loss position of less than 12 months had an aggregate related fair value and unrealized loss of $8.6 billion and $8 million, respectively. For those with a continuous unrealized loss position of 12 months or longer, their aggregate related fair value and unrealized losses were $13.1 billion and $10 million, respectively.

4. Receivables from Resolutions, Net

The receivables from resolutions result from DIF payments to cover obligations to insured depositors (subrogated claims), advances to resolution entities for working capital, and administrative expenses paid on behalf of resolution entities. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. Assets held by resolution entities (including structured transaction-related assets; see Note 9) are the main source of repayment of the DIF's receivables from resolutions. The "Receivables from resolutions, net" line item on the Balance Sheet consisted of the following components (dollars in thousands).

		December 31 2020		December 31 2019
Receivables from resolutions	$	61,340,917	$	63,981,989
Allowance for losses		(59,974,181)		(61,312,719)
Total	**$**	**1,366,736**	**$**	**2,669,270**

As of December 31, 2020, the FDIC, as receiver, managed 234 active receiverships; four new receiverships were established in 2020. The resolution entities held assets with a book value of $2.1 billion as of December 31, 2020, and $3.4 billion as of December 31, 2019 (including $1.8 billion and $2.9 billion, respectively, of cash, investments, receivables due from the DIF, and other receivables).

Estimated cash recoveries from the management and disposition of assets that are used to determine the allowance for losses are based on asset recovery rates from several sources, which may include the following: actual or pending institution-specific asset disposition data, failed institution-specific asset valuation data, aggregate asset valuation data on several recently failed or troubled institutions, sampled asset valuation data, and empirical asset recovery data based on failures since 2007. Methodologies for determining the asset recovery rates incorporate estimating future cash recoveries, net of applicable liquidation cost estimates, and discounting based on market-based risk factors applicable to a given asset's type and quality. The resulting estimated cash recoveries are then used to derive the allowance for loss on the receivables from these resolutions.

Note that estimated asset recoveries are regularly evaluated during the year, but remain subject to uncertainties because of potential changes in economic and market conditions, which may cause the DIF's actual recoveries to vary significantly from current estimates.

For failed institutions resolved using a whole bank purchase and assumption transaction with an accompanying shared-loss agreement (SLA), the FDIC agreed to share in future losses and recoveries experienced by the acquirer on those assets covered under the agreement. The projected shared-loss payments and the end of agreement true-up recoveries on the covered residential and commercial loan assets sold to the acquiring institution under the agreement are considered in determining the allowance for loss on the receivables from these resolutions. True-up recoveries are projected to be received at expiration in accordance with the terms of the SLA, if actual losses at expiration are lower than originally estimated.

For December 31, 2020, the shared-loss cost estimates were updated for 19 receiverships. Note that all commercial asset shared-loss coverage expired as of year-end 2018 and the last residential SLA expires in December 2022. The updated cost projections on the $3.1 billion of remaining residential shared-loss covered assets were based on the FDIC's historical loss experience that also factors in the remaining time period of shared-loss coverage as well as assessments of final claim certificates for expired agreements.

The estimated shared-loss liability is accounted for by the receiverships and is included in the calculation of the DIF's allowance for loss against the corporate receivable from the resolution. As shared-loss claims are asserted and proven, receiverships satisfy these shared-loss payments using available liquidation funds and/or by drawing on amounts due from the DIF for funding the deposits assumed by the acquirer (see Note 7).

Receivership shared-loss transactions are summarized as follows (dollars in thousands).

	December 31 2020	December 31 2019
Remaining shared-loss covered assets	$ 3,099,750	$ 4,205,256
Shared-loss payments made to date, net of recoveries	28,649,769	29,116,846
Estimated remaining shared-loss liability	$ 26,609	$ 31,458
Estimated true-up recoveries	$ (18,361)	$ (477,130)
Projected shared-loss payments, net of true-up recoveries	$ 8,248	$ (445,672)

The $1.1 billion reduction in the remaining shared-loss covered assets from 2019 to 2020 is primarily due to the liquidation of covered assets from active SLAs and natural or early termination of SLAs impacting 40 receiverships during 2020. As of December 31, 2020, the shared-loss coverage period has expired for $3 billion or 98 percent of the total remaining covered assets, however, related balances are included in the above table pending disposition of final claim certificates. In contrast with 2019, projected remaining shared-loss payments exceed estimated end-of-agreement true-up recoveries at year-end 2020 due to the receipt of $468 million in true-up recoveries from the natural or early termination of SLAs in 2020.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the DIF to concentrations of credit risk are receivables from resolutions. The repayment of these receivables is primarily influenced by recoveries on assets held by receiverships. As of December 31, 2020, the majority of the $277 million of assets in liquidation is concentrated in residual certificates collateralized by underlying residential mortgage-backed securities or loans (see Note 9).

5. Property and Equipment, Net

Depreciation expense was $50 million and $49 million for 2020 and 2019, respectively. The "Property and equipment, net" line item on the Balance Sheet consisted of the following components (dollars in thousands).

	December 31 2020	December 31 2019
Land	$ 37,352	$ 37,352
Buildings (including building and leasehold improvements)	344,002	342,071
Application software (includes work-in-process)	129,410	108,006
Furniture, fixtures, and equipment	58,363	66,970
Accumulated depreciation	(248,047)	(224,571)
Total	**$ 321,080**	**$ 329,828**

6. Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which increased the transparency and comparability of accounting for leases. As such, the ASU, and its related amendments, requires lessees to report substantially all leases on the balance sheet through the recognition of an ROU asset and a corresponding lease liability. The ASU also requires expanded quantitative and qualitative disclosures and key information regarding leasing arrangements.

The FDIC adopted ASU 2016-02 prospectively, as of January 1, 2020, and elected the optional transition method to apply a cumulative-effect adjustment at the beginning of the year of adoption. As a result, no previously reported amounts have been adjusted for adoption of the guidance. Additionally, the FDIC elected the practical expedients to (1) not reassess whether contracts are or contain leases and (2) retain the classification of existing leases as operating. Because of the adoption of ASU 2016-02, the DIF recognized operating lease ROU assets of $132 million and lease liabilities of $139 million as of January 1, 2020. The related operating lease ROU assets

differ from operating lease liabilities due to differences between accrued lease expenses and actual payments made.

The FDIC has operating leases for office space, a data center, and certain equipment. The lease agreements generally contain escalation clauses resulting in adjustments, usually on an annual basis. Many leases contain one or more options to extend, with renewal terms that can extend the lease term from one to five years, and some leases may include options to terminate. The following table provides relevant information regarding FDIC operating leases for the year ended December 31, 2020 (dollars in thousands).

		December 31 2020
Operating lease cost	$	48,481
Cash paid for amounts included in the measurement of operating leases	$	48,263
ROU assets obtained in exchange for new operating lease liabilities	$	22,817
Weighted Average		
Remaining lease term (in years)		3.35
Discount rate		1.38%

The following table provides a maturity analysis of the FDIC's operating lease liabilities as of December 31, 2020 (dollars in thousands).

		December 31 2020
2021	$	45,012
2022		31,093
2023		22,856
2024		20,046
2025		3,295
2026/Thereafter		0
Total future minimum lease payments	**$**	**122,302**
Less: Imputed interest		(2,843)
Total operating lease liabilities	**$**	**119,459**

In 2019, the DIF leased space expense totaled $45 million. As of December 31, 2019, total lease commitments totaled $134 million for future years. Future minimum lease commitments in 2019 were as follows (dollars in thousands).

2020	2021	2022	2023	2024	2025/Thereafter
$42,603	$33,603	$20,774	$18,304	$16,824	$1,724

7. Liabilities Due to Resolutions

The DIF records liabilities to resolution entities representing the agreed-upon value of assets transferred from the receiverships, at the time of failure, to the acquirers/bridge institutions for use in funding the deposits assumed by the acquirers/bridge institutions. The DIF satisfies these liabilities either by sending cash directly to a receivership to fund shared-loss and other expenses or by offsetting receivables from resolutions when a receivership declares a dividend. The liabilities decreased from $343 million at year-end 2019 to $14 thousand at year-end 2020 primarily due to receivership dividends of $298 million.

In addition, there were $800 thousand and $3 million in unpaid deposit claims related to multiple receiverships as of December 31, 2020 and 2019, respectively. The DIF pays these liabilities when the claims are approved.

8. Contingent Liabilities

ANTICIPATED FAILURE OF INSURED INSTITUTIONS

The DIF records a contingent liability and a loss provision for DIF-insured institutions that are likely to fail when the liability is probable and reasonably estimable, absent some favorable event such as obtaining additional capital or merging. The contingent liability is derived by applying expected failure rates and loss rates to the institutions based on supervisory ratings, balance sheet characteristics, and projected capital levels.

Due to elevated risk and uncertainty arising from the effects of the COVID-19 pandemic on the banking industry, the FDIC supplemented its methodology for calculating the contingent liability to capture vulnerable institutions deemed likely to have failure risk not identified by the standard approach. This supplemental methodology incorporated a number of factors, including lending concentrations and various financial metrics, and resulted in an additional $44 million in estimated losses for anticipated failures.

The banking industry's financial condition and performance was affected by economic stress related to the COVID-19 pandemic during the first nine months of 2020. According to the third quarter 2020 financial data submitted by DIF-insured institutions, the banking industry reported net income for the first nine months of $88.4 billion, a decline of 51 percent from a year ago. The decline in net income was primarily the result of higher provision expenses.

Provisions for credit losses increased $88 billion to $129 billion in the first nine months of 2020 as compared to the same time period a year ago, reflecting the economic uncertainties caused by the COVID-19 pandemic as well as adoption of the new Current Expected Credit Losses accounting guidance. Despite this increase, credit quality metrics remain favorable. The total noncurrent loan rate was 1.17 percent as of September 30, 2020, below the most recent high of 5.46 percent in March 31, 2010.

In addition, the low interest-rate environment created challenges for banks. During third quarter 2020, the average quarterly net interest margin (NIM) for the banking industry declined to 2.68 percent, the lowest NIM ever reported in the FDIC's Quarterly Banking Profile.

Despite a decline in net income, risk-based capital levels improved in 2020, as compared to the same period in 2019, due to growth in low-risk assets, such as cash, with total risk-based capital increasing 69 basis points to 15.36 percent. This current level is 16 basis points below the highest level recorded in first quarter 2011.

Due to fiscal and monetary policy, as well as economic uncertainty, deposits grew by almost $3 trillion, or 20 percent, since September 30, 2019.

While the COVID-19 pandemic created stresses on the banking industry in 2020, the contingent liability remained relatively stable as of December 31, 2020 compared to December 31, 2019. The DIF recorded contingent liabilities totaling $79 million and $94 million as of December 31, 2020 and 2019, respectively.

In addition to the recorded contingent liabilities, the FDIC has identified risks in the financial services industry that could result in additional losses to the DIF, should potentially vulnerable insured institutions ultimately fail. As a result of these risks, the FDIC believes that it is reasonably possible that the DIF could incur additional estimated losses of approximately $1.1 billion as of December 31, 2020, compared to $57 million at year-end 2019. The actual losses, if any, will largely depend on future economic and market conditions and could differ materially from this estimate.

Four financial institutions failed in 2020, with total assets of $455 million and an estimated loss to the DIF at December 31, 2020, of $99 million.

The deterioration in economic activity and the effects of the COVID-19 pandemic poses challenges to the banking industry. Interest rates declined to near zero in March 2020, placing pressure on net interest margins. The unemployment rate is elevated, GDP and consumer spending are below trend, and the COVID-19 pandemic has adversely affected global economies. Continued economic uncertainty may require additional provisions for credit losses, which already have been substantial. Despite these challenges, the banking industry maintained strong capital and liquidity levels during the first nine months of 2020. The FDIC continues to evaluate ongoing risks to affected institutions in light of existing economic and financial conditions, and the extent to which such risks may put stress on the resources of the insurance fund.

LITIGATION LOSSES

The DIF records an estimated loss for unresolved legal cases to the extent that those losses are considered probable and reasonably estimable. The FDIC recorded probable litigation losses of $200 thousand for the DIF as of December 31, 2020 and 2019. In addition, the FDIC has identified reasonably possible losses from unresolved cases of $650 thousand and zero as of December 31, 2020 and 2019, respectively.

9. Other Contingencies

PURCHASE AND ASSUMPTION INDEMNIFICATION

In connection with purchase and assumption agreements for resolutions, the FDIC, in its receivership capacity, generally indemnifies the purchaser of a failed institution's assets and liabilities in the event a third party asserts a claim against the purchaser unrelated to the explicit assets purchased or liabilities assumed at the time of failure. The FDIC, in its corporate capacity, is a secondary guarantor if a receivership is unable to pay. These indemnifications generally extend for a term of six years after the date of institution failure. The FDIC is unable to estimate the maximum potential liability for these types of guarantees as the agreements do not specify a maximum amount and any payments are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. During 2020 and 2019, the FDIC, in its corporate capacity, made no indemnification payments under such agreements, and no amount has been accrued in the accompanying financial statements with respect to these indemnification guarantees.

FDIC GUARANTEED DEBT OF STRUCTURED TRANSACTIONS

The FDIC, as receiver, used structured transactions (securitizations and structured sales of guaranteed notes (SSGNs) or collectively, "trusts") to dispose of residential

mortgage loans, commercial loans, and mortgage-backed securities held by the receiverships.

For these transactions, certain loans or securities from failed institutions were pooled and transferred into a trust structure. The trusts issued senior and/or subordinated debt instruments and owner trust or residual certificates collateralized by the underlying mortgage-backed securities or loans.

From March 2010 through March 2013, the receiverships transferred a portfolio of loans with an unpaid principal balance of $2.4 billion and mortgage-backed securities with a book value of $6.4 billion to the trusts. Private investors purchased the senior notes issued by the trusts for $6.2 billion in cash and the receiverships held the subordinated debt instruments and owner trust or residual certificates. In exchange for a fee, the FDIC, in its corporate capacity, guarantees the timely payment of principal and interest due on the senior notes, with the last guarantee expected to terminate in 2022. If the FDIC is required to perform under its guarantees, it acquires an interest in the cash flows of the trust equal to the amount of guarantee payments made plus accrued interest. The subordinated note holders and owner trust or residual certificate holders receive cash flows from the trust only after all expenses have been paid, the guaranteed notes have been satisfied, and the FDIC has been reimbursed for any guarantee payments.

The following table provides the maximum loss exposure to the FDIC, as guarantor, total guarantee fees collected, guarantee fees receivable, and other information related to the FDIC guaranteed debt for the trusts as of December 31, 2020 and 2019 (dollars in millions).

	December 31 2020	December 31 2019
Number of trusts		
Initial	11	11
Current	3	6
Trust collateral balances		
Initial	$ 8,780	$ 8,780
Current	$ 459	$ 878
Guaranteed note balances		
Initial	$ 6,196	$ 6,196
Current (maximum loss exposure)	$ 46	$ 195
Guarantee payments made by the DIF	$ 4	$ 0
Guarantee fees collected to date	$ 167	$ 166
Amounts recognized in *Interest receivable on investments and other assets, net*		
Receivable for guarantee fees	$ 0	$ 1
Receivable for guarantee payments, net	$ 0	$ 32
Amounts recognized in *Contingent liabilities: Guarantee payments and litigation losses*		
Contingent liability for guarantee payments	$ 0	$ 34
Amounts recognized in *Accounts payable and other liabilities*		
Deferred revenue for guarantee fees[a]	$ 0	$ 1

(a) All guarantee fees are recorded as deferred revenue and recognized as revenue primarily on a straight-line basis over the term of the notes.

Except as presented above, the DIF records no other structured transaction-related assets or liabilities on its balance sheet.

In December 2020, the DIF made a $4 million guarantee payment for one SSGN transaction, which represented the shortfall of proceeds required to retire the guaranteed senior note. The shortfall resulted because the proceeds from the liquidation of the collateral by the Trustee were insufficient to pay the note upon maturity. This unreimbursed guarantee payment resulted in an actual loss of $4 million compared to the estimated loss of $2 million at year-end 2019. Once the DIF made the guarantee payment and the note was paid in full, the guarantee agreement terminated, and the FDIC's

relationship as guarantor with and variable interest in the Trust concluded.

Any estimated loss to the DIF from the guarantees is based on an analysis of the expected guarantee payments by the FDIC. For the three active transactions, the estimated cash flows from the trust assets provide sufficient coverage to fully pay the debts.

To date, the FDIC, in its corporate capacity, has not provided, and does not intend to provide, any form of financial or other type of support for structured transactions that it was not previously contractually required to provide.

10. Assessments

The FDIC deposit insurance assessment system is mandated by section 7 of the FDI Act and governed by part 327 of title 12 of the Code of Federal Regulations (12 CFR Part 327). The risk-based system requires the payment of quarterly assessments by all IDIs.

In response to the Dodd-Frank Act, the FDIC implemented several changes to the assessment system and developed a comprehensive, long-term fund management plan.

The long-term fund management plan is designed to restore and maintain a positive fund balance for the DIF even during a banking crisis and achieve moderate, steady assessment rates throughout any economic cycle. The DIF reserve ratio, which is the ratio of the DIF balance to estimated insured deposits, is a key measure of fund adequacy. Summarized below are key longer-term provisions of the plan.

- The FDIC Board of Directors designates a reserve ratio for the DIF and publishes the designated reserve ratio (DRR) before the beginning of each calendar year, as required by the FDI Act. Accordingly, in November 2020, the FDIC published a notice maintaining the DRR at 2 percent for 2021. The DRR is an integral part of the FDIC's comprehensive, long-term management plan for the DIF and is viewed as a long-range, minimum goal for the reserve ratio.

- The FDIC suspended dividends indefinitely, and, in lieu of dividends, prescribes progressively lower assessment rates when the reserve ratio exceeds 2 percent and 2.5 percent.

The Dodd-Frank Act increased the minimum reserve ratio for the DIF to 1.35 percent, up from the previous statutory minimum of 1.15 percent. This minimum was required to be achieved by September 30, 2020, and the Dodd-Frank Act mandated that the FDIC offset the effect of increasing the minimum reserve ratio on institutions with less than $10 billion in total assets (small banks). To implement this requirement, the FDIC imposed a surcharge to the regular quarterly assessments of IDIs with $10 billion or more in total consolidated assets (large banks) beginning with the quarter ending September 30, 2016, and provided for credits to small banks for their contribution to the growth in the reserve ratio from 1.15 percent to 1.35 percent. As of September 30, 2018, the reserve ratio of the DIF exceeded the required minimum of 1.35 percent by reaching 1.36 percent. As a result, the surcharge assessment on large banks ended and the FDIC awarded small bank assessment credits of $765 million. The FDIC began applying the small bank credits to reduce quarterly assessments beginning with the second quarter 2019 assessment collection. As of year-end 2020, all credits have been used ($206 million in 2020 and $559 million in 2019).

As a result of the impact on the economy from the COVID-19 pandemic and related stimulus programs, the FDIC took several actions, including stimulus program offsets. The FDIC issued a final rule to mitigate the deposit insurance assessment effects of IDIs participating in certain stimulus programs, such as the Paycheck Protection Program. Absent the changes permitted by the final rule, some IDIs' assessments would have increased. In accordance with the final rule, the FDIC applied the changes to IDI assessments starting in the second quarter of 2020.

If the reserve ratio falls below 1.35 percent, or the FDIC projects that it will within six months, the FDIC generally must implement a Restoration Plan that will return the DIF to 1.35 percent within eight years. In September 2020, the FDIC established a Restoration Plan when the reserve ratio fell below 1.35 percent, to 1.30 percent, due to extraordinary insured deposit growth in the first and second quarters of 2020. Under the Restoration Plan, the FDIC will maintain the current schedule of assessment rates for all IDIs and closely monitor the factors affecting the reserve ratio, updating the plan as necessary. To determine whether the reserve ratio has reached the statutory minimum, the FDIC will rely on the reserve ratio as of September 30, 2028.

ASSESSMENT REVENUE

Annual assessment rates averaged approximately 4.0 cents and 3.1 cents per $100 of the assessment base in 2020 and

2019, respectively. The assessment base is generally defined as average consolidated total assets minus average tangible equity (measured as Tier 1 capital) of an IDI during the assessment period.

The "Assessments receivable" line item on the Balance Sheet of $1.9 billion and $1.2 billion represents the estimated premiums due from IDIs for the fourth quarter of 2020 and 2019, respectively. The actual deposit insurance assessments for the fourth quarter of 2020 will be billed and collected at the end of the first quarter of 2021. The DIF recognized $7.1 billion and $4.9 billion as assessment revenue from institutions during 2020 and 2019, respectively.

PENDING LITIGATION FOR UNDERPAID ASSESSMENTS

On January 9, 2017, the FDIC filed suit in the United States District Court for the District of Columbia (and amended this complaint on April 7, 2017), alleging that Bank of America, N.A. (BoA) underpaid its insurance assessments for multiple quarters based on the underreporting of counterparty exposures. In total, the FDIC alleges that BoA underpaid insurance assessments by $1.12 billion, including interest for the quarters ending March 2012 through December 2014. The FDIC invoiced BoA for $542 million and $583 million representing claims in the initial suit and the amended complaint, respectively. BoA has failed to pay these past due amounts. Pending resolution of this matter, BoA has fully pledged security with a third-party custodian pursuant to a security agreement with the FDIC. As of December 31, 2020, the total amount of unpaid assessments (including accrued interest) was $1.19 billion. For the years ending December 31, 2020 and 2019, the impact of this litigation is not reflected in the financial statements of the DIF.

RESERVE RATIO

As of September 30, 2020 and December 31, 2019, the DIF reserve ratio was 1.30 percent and 1.41 percent, respectively.

11. Operating Expenses

The "Operating expenses" line item on the Statement of Income and Fund Balance consisted of the following components (dollars in thousands).

	December 31 2020	December 31 2019
Salaries and benefits	$ 1,299,792	$ 1,225,753
Outside services	271,885	268,093
Travel	24,990	80,684
Buildings and leased space	90,496	89,552
Software/Hardware maintenance	103,341	94,761
Depreciation of property and equipment	49,902	48,547
Other	26,227	27,175
Subtotal	**1,866,633**	**1,834,565**
Less: Expenses billed to resolution entities and others	(20,142)	(38,960)
Total	**$ 1,846,491**	**$ 1,795,605**

12. Provision for Insurance Losses

The "Provision for insurance losses" line item on the Statement of Income and Fund Balance is impacted by the Balance Sheet line item activity depicted in the table below.

The table primarily analyzes the changes in estimated losses for actual and anticipated failures (dollars in millions).

December 31, 2020				Contingent Liabilities for:	
	Provision for Insurance Losses	Receivables from Resolutions	Allowance for Losses	Anticipated Failures	Guarantee Payments and Litigation Losses
Balance at January 1, 2020	**$ 0**	**$ 63,982**	**$ (61,313)**	**$ (94)**	**$ (34)**
Estimated losses for current year failures	99		(99)		
Change in contingent liability for anticipated failures, net [1]	(15)			15	
Adjustments to estimated losses for prior year failures	(237)		237		
Disbursements for failures		167			
Recoveries from resolutions [2]		(1,564)			
Write-offs for inactivated receiverships	0	(1,145)	1,145		
Other	(4)	(99)	56		34
Balance at December 31, 2020	**$ (157)**	**$ 61,341**	**$ (59,974)**	**$ (79)**	**$ 0**

[1]Represents institutions that were added or removed from the contingent liability, as well as the change in the contingent liability for institutions that remained in the liability year-over-year.
[2]Includes $298 million of non-cash recoveries from receiverships (see Note 7).

December 31, 2019				Contingent Liabilities for:	
	Provision for Insurance Losses	Receivables from Resolutions	Allowance for Losses	Anticipated Failures	Guarantee Payments and Litigation Losses
Balance at January 1, 2019	**$ 0**	**$ 68,268**	**$ (65,209)**	**$ (114)**	**$ (34)**
Estimated losses for current year failures	31		(31)		
Change in contingent liability for anticipated failures, net [1]	(20)			20	
Adjustments to estimated losses for prior year failures	(1,287)		1,287		
Disbursements for failures		222			
Recoveries from resolutions [2]		(1,836)			
Write-offs for inactivated receiverships	(4)	(2,491)	2,495		
Other	(6)	(181)	145		0
Balance at December 31, 2019	**$ (1,286)**	**$ 63,982**	**$ (61,313)**	**$ (94)**	**$ (34)**

[1]Represents institutions that were added or removed from the contingent liability, as well as the change in the contingent liability for institutions that remained in the liability year-over-year.
[2]Includes $366 million of non-cash recoveries from receiverships (see Note 7).

13. Employee Benefits

PENSION BENEFITS AND SAVINGS PLANS

Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by the federal government retirement plans, either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Although the DIF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The DIF also does not have actuarial data for accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported on and accounted for by the U.S. Office of Personnel Management (OPM).

Under the Federal Thrift Savings Plan (TSP), the FDIC provides FERS employees with an automatic contribution of 1 percent of pay and an additional matching contribution up to 4 percent of pay. CSRS employees also can contribute to the TSP, but they do not receive agency matching contributions. Eligible FDIC employees may also participate in an FDIC-sponsored tax-deferred 401(k) savings plan with an automatic contribution of 1 percent of pay and an additional matching contribution up to 4 percent of pay. The expenses for these plans are presented in the table below (dollars in thousands).

	December 31 2020	December 31 2019
Civil Service Retirement System	$ 1,189	$ 1,806
Federal Employees Retirement System (Basic Benefit)	137,989	116,899
Federal Thrift Savings Plan	37,149	36,149
FDIC Savings Plan	39,578	39,873
Total	**$ 215,905**	**$ 194,727**

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The DIF has no postretirement health insurance liability since all eligible retirees are covered by the Federal Employees Health Benefits (FEHB) program. The FEHB is administered and accounted for by the OPM. In addition, OPM pays the employer share of the retiree's health insurance premiums.

The FDIC provides certain life and dental insurance coverage for its eligible retirees, the retirees' beneficiaries, and covered dependents. Retirees eligible for life and dental insurance coverage are those who have qualified due to (1) immediate enrollment upon appointment or five years of participation in the plan and (2) eligibility for an immediate annuity. The life insurance program provides basic coverage at no cost to retirees and allows for converting optional coverage to direct-pay plans. For the dental coverage, retirees are responsible for a portion of the premium.

The FDIC has elected not to fund the postretirement life and dental benefit liabilities. As a result, the DIF recognized the underfunded status (the difference between the accumulated postretirement benefit obligation and the plan assets at fair value) as a liability. Since there are no plan assets, the plan's benefit liability is equal to the accumulated postretirement benefit obligation.

Postretirement benefit obligation, gain and loss, and expense information included in the Balance Sheet and Statement of Income and Fund Balance are summarized as follows (dollars in thousands).

	December 31 2020	December 31 2019
Accumulated postretirement benefit obligation recognized in *Postretirement benefit liability*	**$ 335,977**	**$ 289,462**
Cumulative net actuarial (loss) recognized in accumulated other comprehensive income: *Unrealized postretirement benefit (loss)*	**$ (97,922)**	**$ (60,432)**
Amounts recognized in other comprehensive income: *Unrealized postretirement benefit (loss)*		
Actuarial (loss)	$ (37,490)	$ (47,277)
Prior service credit	0	385
Total	**$ (37,490)**	**$ (46,892)**
Net periodic benefit costs recognized in *Operating expenses*		
Service cost	$ 5,106	$ 3,775
Interest cost	8,766	10,360
Net amortization out of other comprehensive income	2,364	385
Total	**$ 16,236**	**$ 14,520**

The year-over-year increase in the accumulated postretirement benefit obligation of $47 million is primarily attributable to a decrease in the discount rate used to present value expected benefit payments. The discount rate decreased from 3.46 percent to 2.65 percent at year-end 2020 to reflect changes in the economic environment and the transition to a yield curve with rates of return that better match the timing and amount of expected benefit payments.

The annual postretirement contributions and benefits paid are included in the table below (dollars in thousands).

	December 31 2020	December 31 2019
Employer contributions	$ 7,211	$ 7,885
Plan participants' contributions	$ 1,091	$ 871
Benefits paid	$ (8,302)	$ (8,756)

The expected contributions for the year ending December 31, 2021, are $10 million. Expected future benefit payments for each of the next 10 years are presented in the following table (dollars in thousands).

2021	2022	2023	2024	2025	2026-2030
$8,641	$9,187	$9,725	$10,287	$10,806	$61,208

Assumptions used to determine the amount of the accumulated postretirement benefit obligation and the net periodic benefit costs are summarized as follows.

	December 31 2020	December 31 2019
Discount rate for future benefits (benefit obligation)	2.65%	3.46%
Rate of compensation increase	2.20%	3.49%
Discount rate (benefit cost)	3.46%	4.81%
Dental health care cost-trend rate		
Assumed for next year	3.50%	3.50%
Ultimate	3.50%	3.50%
Year rate will reach ultimate	2021	2020

14. Off-Balance-Sheet Exposure

DEPOSIT INSURANCE

Estimates of insured deposits are derived primarily from quarterly financial data submitted by IDIs to the FDIC and represent the accounting loss that would be realized if all IDIs were to fail and the acquired assets provided no recoveries. As of September 30, 2020 and December 31, 2019, estimated insured deposits for the DIF were $8.9 trillion and $7.8 trillion, respectively.

15. Fair Value of Financial Instruments

As of December 31, 2020 and 2019, financial assets recognized and measured at fair value on a recurring basis include cash equivalents (see Note 2) of $3.3 billion and $6 billion, respectively, and the investment in U.S. Treasury securities (see Note 3) of $110.5 billion and $100.1 billion, respectively. The valuation is considered a Level 1 measurement in the fair value hierarchy, representing quoted prices in active markets for identical assets. Other financial assets and liabilities, measured at amortized cost, are the receivables from resolutions, assessments receivable, interest receivable on investments, other short-term receivables, and accounts payable and other liabilities.

16. Information Relating to the Statement of Cash Flows

The following table presents a reconciliation of net income to net cash from operating activities (dollars in thousands).

	December 31 2020	December 31 2019
Operating Activities		
Net Income:	**$ 7,104,636**	**$ 6,582,089**
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of U.S. Treasury securities	2,229,257	339,247
Depreciation on property and equipment	49,902	48,547
Retirement of property and equipment	617	(1,124)
Provision for insurance losses	(157,309)	(1,285,531)
Unrealized (loss) on postretirement benefits	(37,490)	(46,892)
Change in Assets and Liabilities:		
(Increase) Decrease in assessments receivable	(706,548)	134,373
(Increase) in interest receivable and other assets	(138,038)	(470,766)
Decrease in receivables from resolutions	1,445,147	1,653,681
(Increase) in operating lease right-of-use assets	(112,453)	0
Increase in accounts payable and other liabilities	36,166	16,379
Increase in operating lease liabilities	119,459	0
Increase in postretirement benefit liability	46,515	53,527
(Decrease) Increase in contingent liabilities - guarantee payments and litigation losses	(33,831)	420
(Decrease) in liabilities due to resolutions	(345,457)	(258,505)
Net Cash Provided by Operating Activities	**$ 9,500,573**	**$ 6,765,445**

17. Subsequent Events

Subsequent events have been evaluated through February 11, 2021, the date the financial statements are available to be issued. Based on management's evaluation, there were no subsequent events requiring disclosure.

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Balance Sheet

As of December 31

(Dollars in Thousands)	2020	2019
ASSETS		
Cash and cash equivalents	$ 906,835	$ 922,911
Other assets	612	525
Total Assets	**$ 907,447**	**$ 923,436**
LIABILITIES		
Accounts payable and other liabilities	$ 17	$ 16
Total Liabilities	**17**	**16**
RESOLUTION EQUITY (NOTE 5)		
Contributed capital	125,469,317	125,489,317
Accumulated deficit	(124,561,887)	(124,565,897)
Total Resolution Equity	**907,430**	**923,420**
Total Liabilities and Resolution Equity	**$ 907,447**	**$ 923,436**

The accompanying notes are an integral part of these financial statements.

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statement of Income and Accumulated Deficit

For the Years Ended Deccember 31

(Dollars in Thousands)		2020		2019
REVENUE				
Interest on U.S. Treasury securities	$	3,314	$	18,673
Other revenue (Note 6)		721		1,775
Total Revenue		**4,035**		**20,448**
EXPENSES AND LOSSES				
Operating expenses		320		523
Recovery of tax benefits (Note 7)		0		(1,200)
Losses related to thrift resolutions		(295)		4
Total Expenses and Losses		**25**		**(673)**
Net Income		**4,010**		**21,121**
Accumulated Deficit - Beginning		**(124,565,897)**		**(124,587,018)**
Accumulated Deficit - Ending	$	**(124,561,887)**	$	**(124,565,897)**

The accompanying notes are an integral part of these financial statements.

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statement of Cash Flows

For the Years Ended Deccember 31

(Dollars in Thousands)	2020	2019
OPERATING ACTIVITIES		
Provided by:		
Interest on U.S. Treasury securities	$ 3,314	$ 18,673
Recovery of tax benefits	0	1,200
Recoveries from thrift resolutions	941	1,835
Used by:		
Operating expenses	(331)	(358)
Miscellaneous disbursements	0	(1)
Net Cash Provided by Operating Activities	**3,924**	**21,349**
FINANCING ACTIVITIES		
Used by:		
Payment to Resolution Funding Corporation (Note 5)	$ (20,000)	$ 0
Net Cash (Used) in Financing Activities	**(20,000)**	**0**
Net (Decrease) Increase in Cash and Cash Equivalents	**(16,076)**	**21,349**
Cash and Cash Equivalents - Beginning	**922,911**	**901,562**
Cash and Cash Equivalents - Ending	$ **906,835**	$ **922,911**

The accompanying notes are an integral part of these financial statements.

FSLIC RESOLUTION FUND

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020 and 2019

1. Operations/Dissolution of the FSLIC Resolution Fund

OVERVIEW

The Federal Deposit Insurance Corporation (FDIC) is the independent deposit insurance agency created by Congress in 1933 to maintain stability and public confidence in the nation's banking system. Provisions that govern the FDIC's operations are generally found in the Federal Deposit Insurance (FDI) Act, as amended (12 U.S.C. 1811, *et seq*). In accordance with the FDI Act, the FDIC, as administrator of the Deposit Insurance Fund (DIF), insures the deposits of banks and savings associations (insured depository institutions). In cooperation with other federal and state agencies, the FDIC promotes the safety and soundness of insured depository institutions by identifying, monitoring, and addressing risks to the DIF.

In addition to being the administrator of the DIF, the FDIC is the administrator of the FSLIC Resolution Fund (FRF). As such, the FDIC is responsible for the sale of remaining assets and satisfaction of liabilities associated with the former Federal Savings and Loan Insurance Corporation (FSLIC) and the former Resolution Trust Corporation (RTC). The FDIC maintains the DIF and the FRF separately to support their respective functions.

The FSLIC was created through the enactment of the National Housing Act of 1934. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) abolished the insolvent FSLIC and created the FRF. At that time, the assets and liabilities of the FSLIC were transferred to the FRF – except those assets and liabilities transferred to the newly created RTC – effective on August 9, 1989. Further, the FIRREA established the Resolution Funding Corporation (REFCORP) to provide part of the initial funds used by the RTC for thrift resolutions by authorizing REFCORP to issue debt obligations. The REFCORP issued debt obligations in the form of long-term bonds ranging in maturity from 2019 to 2030.

The RTC Completion Act of 1993 terminated the RTC as of December 31, 1995. All remaining assets and liabilities of the RTC were transferred to the FRF on January 1, 1996. Today, the FRF consists of two distinct pools of assets and liabilities: one composed of the assets and liabilities of the FSLIC transferred to the FRF upon the dissolution of the FSLIC (FRF-FSLIC), and the other composed of the RTC assets and liabilities (FRF-RTC). The assets of one pool are not available to satisfy obligations of the other.

OPERATIONS/DISSOLUTION OF THE FRF

The FRF will continue operations until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. Any funds remaining in the FRF-FSLIC will be paid to the U.S. Treasury. Any remaining funds of the FRF-RTC will be distributed to the REFCORP to pay interest on the REFCORP bonds. In addition, the FRF-FSLIC has available until expended $602 million in appropriations to facilitate, if required, efforts to wind up the resolution activity of the FRF-FSLIC.

The FDIC has extensively reviewed and cataloged the FRF's remaining assets and liabilities. Some of the unresolved issues are:

- criminal restitution orders (generally have from 1 to 27 years remaining to enforce);
- collections of judgments obtained against officers and directors and other professionals responsible for causing or contributing to thrift losses (generally have up to 10 years remaining to enforce, unless the judgments are renewed or are covered by the Federal Debt Collections Procedures Act, which will result in significantly longer periods for collection of some judgments);
- liquidation/disposition of residual assets purchased by the FRF from terminated receiverships;
- a potential tax liability associated with a fully adjudicated goodwill litigation case (see Note 3); and
- Affordable Housing Disposition Program monitoring (the last agreement expires no later than 2045; see Note 4).

The FRF could realize recoveries from criminal restitution orders and professional liability claims. However, any potential recoveries are not reflected in the FRF's financial

statements, given the significant uncertainties surrounding the ultimate outcome.

On April 1, 2014, the FDIC concluded its role as receiver, on behalf of the FRF, when the last active receivership was terminated. In total, 850 receiverships were liquidated by the FRF and the RTC. To facilitate receivership terminations, the FRF, in its corporate capacity, acquired the remaining receivership assets that could not be liquidated during the life of the receiverships due to restrictive clauses and other impediments. These assets are included in the "Other assets" line item on the Balance Sheet.

During the years of receivership activity, the assets held by receivership entities, and the claims against them, were accounted for separately from the FRF's assets and liabilities to ensure that receivership proceeds were distributed in accordance with applicable laws and regulations. Also, the income and expenses attributable to receiverships were accounted for as transactions of those receiverships. The FDIC, as administrator of the FRF, billed receiverships for services provided on their behalf.

2. Summary of Significant Accounting Policies

GENERAL

The financial statements include the financial position, results of operations, and cash flows of the FRF and are presented in accordance with U.S. generally accepted accounting principles (GAAP). During the years of receivership activity, these statements did not include reporting for assets and liabilities of receivership entities because these entities were legally separate and distinct, and the FRF did not have any ownership or beneficial interest in them.

The FRF is a limited-life entity, however, it does not meet the requirements for presenting financial statements using the liquidation basis of accounting. According to Accounting Standards Codification Topic 205, *Presentation of Financial Statements*, a limited-life entity should apply the liquidation basis of accounting only if a change in the entity's governing plan has occurred since its inception. By statute, the FRF is a limited-life entity whose dissolution will occur upon the satisfaction of all liabilities and the disposition of all assets. No changes to this statutory plan have occurred since inception of the FRF.

USE OF ESTIMATES

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and disclosure of contingent liabilities. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such potential changes in estimates have been disclosed. The estimates for other assets, goodwill litigation, and indemnifications are considered significant.

CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments consisting primarily of U.S. Treasury Overnight Certificates.

RELATED PARTIES

The nature of related parties and a description of related party transactions are discussed in Note 1 and disclosed throughout the financial statements and footnotes.

APPLICATION OF RECENT ACCOUNTING STANDARDS

Recent accounting standards have been deemed not applicable or material to the financial statements as presented.

3. Goodwill Litigation

In *United States v. Winstar Corp*., 518 U.S. 839 (1996), the Supreme Court held that when it became impossible following the enactment of FIRREA in 1989 for the federal government to perform certain agreements to count goodwill toward regulatory capital, the plaintiffs were entitled to recover damages from the United States. The contingent liability associated with the nonperformance of these agreements was transferred to the FRF on August 9, 1989, upon the dissolution of the FSLIC.

The FRF can draw from an appropriation provided by Section 110 of the Department of Justice Appropriations Act, 2000 (Public Law 106-113, Appendix A, Title I, 113 Stat. 1501A-3, 1501A-20), such sums as may be necessary for the payment of judgments and compromise settlements in the goodwill litigation. This appropriation is to remain available until expended.

The last remaining goodwill case was resolved in 2015. However, for another case fully adjudicated in 2012, an estimated loss for the court-ordered reimbursement of

potential tax liabilities to the plaintiff was considered remote as of December 31, 2020, compared to a $4 million reasonably possible loss as of year-end 2019. The remote consideration was based on a series of assessed circumstances and conditions that render a loss unlikely.

4. Affordable Housing Disposition Program

Required by FIRREA under section 501, the Affordable Housing Disposition Program (AHDP) was established in 1989 to ensure the preservation of affordable housing for low-income households. The FDIC, in its capacity as administrator of the FRF-RTC, assumed responsibility for monitoring property owner compliance with land use restriction agreements (LURAs). To enforce the property owners' LURA obligation, the RTC, prior to its dissolution, entered into Memoranda of Understanding with 34 monitoring agencies to oversee these LURAs. As of December 31, 2020, 23 monitoring agencies oversee these LURAs. The FDIC, through the FRF, has agreed to indemnify the monitoring agencies for all losses related to LURA legal enforcement proceedings.

From 2006 through 2018, two lawsuits against property owners resulted in $23 thousand in legal expenses, which were fully reimbursed due to successful litigation. In 2019, new litigation against two property owners has thus far resulted in legal expenses of $12 thousand. The maximum potential exposure to the FRF cannot be estimated as it is contingent upon future legal proceedings. However, loss mitigation factors include: (1) the indemnification may become void if the FDIC is not immediately informed upon receiving notice of any legal proceedings and (2) the FDIC is entitled to reimbursement of any legal expenses incurred for successful litigation against a property owner. AHDP guarantees will continue until the termination of the last LURA, or 2045 (whichever occurs first). As of December 31, 2020 and 2019, no contingent liability for this indemnification has been recorded.

5. Resolution Equity

As stated in the Overview section of Note 1, the FRF is composed of two distinct pools: the FRF-FSLIC and the FRF-RTC. The FRF-FSLIC consists of the assets and liabilities of the former FSLIC. The FRF-RTC consists of the assets and liabilities of the former RTC. Pursuant to legal restrictions, the two pools are maintained separately and the assets of one pool are not available to satisfy obligations of the other.

Contributed capital, accumulated deficit, and resolution equity consisted of the following components by each pool (dollars in thousands).

December 31, 2020	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	$ 43,864,980	$ 81,624,337	$ 125,489,317
Less: Payment to REFCORP	0	(20,000)	(20,000)
Contributed capital - ending	**43,864,980**	**81,604,337**	**125,469,317**
Accumulated deficit	(42,982,914)	(81,578,973)	(124,561,887)
Total Resolution Equity	**$ 882,066**	**$ 25,364**	**$ 907,430**

December 31, 2019	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	$ 43,864,980	$ 81,624,337	$ 125,489,317
Contributed capital - ending	**43,864,980**	**81,624,337**	**125,489,317**
Accumulated deficit	(42,986,401)	(81,579,496)	(124,565,897)
Total Resolution Equity	**$ 878,579**	**$ 44,841**	**$ 923,420**

CONTRIBUTED CAPITAL

The FRF-FSLIC and the former RTC received $43.5 billion and $60.1 billion from the U.S. Treasury, respectively, to fund losses from thrift resolutions prior to July 1, 1995. Additionally, the FRF-FSLIC issued $670 million in capital certificates to the Financing Corporation (a mixed-ownership government corporation established to function solely as a financing vehicle for the FSLIC) and the RTC issued $31.3 billion of these instruments to the REFCORP. FIRREA prohibited the payment of dividends on any of these capital certificates. Through December 31, 2020, the FRF-FSLIC received a total of $2.3 billion in goodwill appropriations, the effect of which increased contributed capital.

Through December 31, 2020, the FRF-RTC had returned $4.6 billion to the U.S. Treasury and made payments of $5.2 billion to the REFCORP. The most recent payment to the REFCORP was in July of 2020 for $20 million. In addition, the FDIC returned $2.6 billion to the U.S. Treasury on behalf of the FRF-FSLIC in 2013. These actions reduced contributed capital.

ACCUMULATED DEFICIT

The accumulated deficit represents the cumulative excess of expenses and losses over revenue for activity related to the FRF-FSLIC and the FRF-RTC. Approximately $29.8 billion and

$87.9 billion were brought forward from the former FSLIC and the former RTC on August 9, 1989, and January 1, 1996, respectively. Since the dissolution dates, the FRF-FSLIC accumulated deficit increased by $13.2 billion, whereas the FRF-RTC accumulated deficit decreased by $6.3 billion.

6. Other Revenue

Other revenue primarily represents recoveries from assets acquired from terminated receiverships, such as professional liability and criminal restitution claims, and unclaimed property escheatments. Other revenue was $721 thousand for 2020, compared to $2 million for 2019.

7. Recovery of Tax Benefits

Recovery of tax benefits represents receipts based on underlying tax provisions from entities that either entered into assistance agreements with the former FSLIC, or have subsequently purchased financial institutions that had prior agreements with the FSLIC. In 2019, FRF received $1 million from the settlement of the last remaining FSLIC tax benefits sharing agreement.

8. Fair Value of Financial Instruments

At December 31, 2020 and 2019, the FRF's financial assets measured at fair value on a recurring basis are cash equivalents (see Note 2) of $882 million and $878 million, respectively. Cash equivalents are Special U.S. Treasury Certificates with overnight maturities valued at prevailing interest rates established by the U.S. Treasury's Bureau of the Fiscal Service. The valuation is considered a Level 1 measurement in the fair value hierarchy, representing quoted prices in active markets for identical assets.

9. Information Relating to the Statement of Cash Flows

The following table presents a reconciliation of net income to net cash from operating activities (dollars in thousands).

	December 31 2020	December 31 2019
Operating Activities		
Net Income:	$ 4,010	$ 21,121
Change in Assets and Liabilities:		
(Increase) Decrease in other assets	(87)	221
Increase in accounts payable and other liabilities	1	7
Net Cash Provided by Operating Activities	**$ 3,924**	**$ 21,349**

10. Subsequent Events

Subsequent events have been evaluated through February 11, 2021, the date the financial statements are available to be issued. Based on management's evaluation, there were no subsequent events requiring disclosure.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT

441 G St. N.W.
Washington, DC 20548

Independent Auditor's Report

To the Board of Directors
The Federal Deposit Insurance Corporation

In our audits of the 2020 and 2019 financial statements of the Deposit Insurance Fund (DIF) and of the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF), both of which the Federal Deposit Insurance Corporation (FDIC) administers,[1] we found

- the financial statements of the DIF and of the FRF as of and for the years ended December 31, 2020, and 2019, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- although internal controls could be improved, FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the DIF and to the FRF as of December 31, 2020; and
- with respect to the DIF and to the FRF, no reportable noncompliance for 2020 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements and on internal control over financial reporting and other information included with the financial statements;[2] (2) our report on compliance with laws, regulations, contracts, and grant agreements; and (3) agency comments.

Report on the Financial Statements and on Internal Control over Financial Reporting

In accordance with Section 17 of the Federal Deposit Insurance Act, as amended,[3] and the Government Corporation Control Act,[4] we have audited the financial statements of the DIF and of the FRF, both of which FDIC administers. The financial statements of the DIF comprise the balance sheets as of December 31, 2020, and 2019; the related statements of income and fund balance and of cash flows for the years then ended; and the related notes to the financial statements. The financial statements of the FRF comprise the balance sheets as of December 31, 2020, and 2019; the related statements of income and accumulated deficit and of cash flows for the years then ended; and the related notes to the financial statements. We also have audited FDIC's internal control over financial reporting relevant to the DIF and to the FRF as of December 31, 2020, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

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[1]A third fund managed by FDIC, the Orderly Liquidation Fund, established by Section 210(n) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376, 1506 (July 21, 2010), is unfunded and did not have any transactions from its inception in 2010 through 2020.

[2]Other information consists of information included with the financial statements, other than the auditor's report.

[3]Act of September 21, 1950, Pub. L. No. 797, § 2[17], 64 Stat. 873, 890, *classified as amended at* 12 U.S.C. § 1827.

[4]31 U.S.C. §§ 9101-9110.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT (continued)

We conducted our audits in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

FDIC management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements; (3) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (4) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (5) its assessment about the effectiveness of internal control over financial reporting as of December 31, 2020, included in the accompanying Management's Report on Internal Control over Financial Reporting in appendix I.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements and opinions on FDIC's internal control over financial reporting relevant to the DIF and to the FRF based on our audits. U.S. generally accepted government auditing standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement, and whether effective internal control over financial reporting was maintained in all material respects. We are also responsible for applying certain limited procedures to other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists.[5] The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also includes obtaining an understanding of internal control over financial reporting and evaluating and testing the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered FDIC's process for evaluating and reporting on internal control

[5]A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT (continued)

over financial reporting based on criteria established under FMFIA. Our audits also included performing such other procedures as we considered necessary in the circumstances.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Opinions on Financial Statements

In our opinion,

- the DIF's financial statements present fairly, in all material respects, the DIF's financial position as of December 31, 2020, and 2019, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles, and
- the FRF's financial statements present fairly, in all material respects, the FRF's financial position as of December 31, 2020, and 2019, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Opinions on Internal Control over Financial Reporting

In our opinion, although certain internal controls could be improved,

- FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the DIF as of December 31, 2020, based on criteria established under FMFIA, and
- FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the FRF as of December 31, 2020, based on criteria established under FMFIA.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT (continued)

As discussed below in more detail, our 2020 audit identified deficiencies in FDIC's controls over contract payment review processes that collectively represent a significant deficiency in FDIC's internal control over financial reporting.[6] We considered this significant deficiency in determining the nature, timing, and extent of our audit procedures on the DIF's and the FRF's financial statements.

Although the significant deficiency in internal control did not affect our opinions on the 2020 financial statements of the DIF and of the FRF, misstatements may occur in unaudited financial information reported internally and externally by FDIC because of this significant deficiency.

In addition to the significant deficiency in internal control over contract payment review processes, we also identified other deficiencies in FDIC's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant FDIC management's attention. We have communicated these matters to FDIC management and, where appropriate, will report on them separately.

Significant Deficiency in Internal Control over Contract Payment Review Processes

During our 2020 audit, we identified deficiencies in contract payment review processes that collectively represent a significant deficiency in FDIC's internal control over financial reporting. Specifically, FDIC did not consistently implement controls over contract payment review processes. FDIC oversight managers are responsible for verifying that contractors deliver purchased goods or services and perform their work according to contracts and delivery schedules. Oversight managers also monitor the expenditures of funds in relation to contract dollar ceilings and approve invoices for payment. We identified deficiencies in FDIC's implementation of these internal controls that increased the risks that improper payments could occur and operating expenses and accounts payable could be misstated. For example:

- A Disbursement Operations Section processor incorrectly entered a manually calculated payment discount into FDIC's New Financial Environment, which was in addition to the discount automatically applied by the financial system. The oversight manager and Disbursement Operations Section approver did not detect the payment error,[7] and FDIC made an improper payment to the contractor.
- An oversight manager approved a contractor invoice, even though supporting documentation was inconsistent with FDIC's total payment. While we were able to obtain evidence that the proper amount was paid, the oversight manager did not investigate, resolve, and document the inconsistencies before approving and paying the invoice.
- We found two additional instances where the oversight managers approved contract payments without sufficient documentation to support the invoices; one of these instances involved a small payment error.

[6]A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

[7]The Disbursement Operations Section approver is responsible for reviewing and approving the payment entered into FDIC's New Financial Environment for processing, which then automatically routes to the oversight manager for final approval.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT (continued)

According to GAO's *Standards for Internal Control in the Federal Government*,[8] agency management is responsible for establishing and maintaining effective internal control to serve as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Further, GAO's *Framework for Assessing the Acquisition Function for Federal Agencies*,[9] states that when financial data are not useful, relevant, timely, or reliable, the acquisition function is at risk of inefficient or wasteful business practices. Without adequate contract payment review processes, FDIC cannot reasonably assure that internal controls over contract payments are operating effectively, which increases the risks of improper payments and misstatements in the financial statements.

While these deficiencies do not individually or collectively constitute a material weakness, FDIC's deficiencies related to contract payment review processes are important enough to merit the attention of those charged with governance of FDIC. Thus, these deficiencies represent a significant deficiency in FDIC's internal control over financial reporting as of December 31, 2020. Management commitment and attention will be essential to addressing these deficiencies and improving FDIC's controls over contract payment review processes.

Other Matters

Other Information

FDIC's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming opinions on the DIF's and the FRF's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of the financial statements of the DIF and of the FRF, both of which FDIC administers, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

FDIC management is responsible for complying with applicable laws, regulations, contracts, and grant agreements.

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[8]GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: September 2014).

[9]GAO, *Framework for Assessing the Acquisition Function at Federal Agencies*, GAO-05-218G (Washington, D.C.: September 2005).

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT (continued)

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosures in the financial statements of the DIF and of the FRF and to perform certain other limited procedures. Accordingly, we did not test FDIC's compliance with all applicable laws, regulations, contracts, and grant agreements.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for 2020 that would be reportable, with respect to the DIF and to the FRF, under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with applicable laws, regulations, contracts, and grant agreements. Accordingly, we do not express such an opinion.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

In commenting on a draft of this report, FDIC stated that it was pleased to receive unmodified opinions on the DIF's and the FRF's financial statements. In regard to the significant deficiency in internal control over contract payment review processes, FDIC stated that it began taking steps to address this issue and will work to enhance control activities and expand monitoring capabilities in this area. Further, FDIC stated that it recognizes the essential role a strong internal control program plays in an agency achieving its mission. FDIC added that its commitment to sound financial management has been and will remain a top priority. The complete text of FDIC's response is reprinted in appendix II.

James R. Dalkin
Director
Financial Management and Assurance

February 11, 2021

Appendix I

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990
Office of the Chairman

Management's Report on Internal Control over Financial Reporting

The Federal Deposit Insurance Corporation's (FDIC's) internal control over financial reporting relevant to the Deposit Insurance Fund (DIF) and the FSLIC Resolution Fund (FRF) is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

FDIC management is responsible for establishing and maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. FDIC management evaluated the effectiveness of the FDIC's internal control over financial reporting relevant to the DIF and the FRF as of December 31, 2020, based on the criteria established under 31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act (FMFIA)). FDIC management performed this evaluation through its corporate risk management program that seeks to comply with the spirit of the following laws, standards, and guidance from the Office of Management and Budget (OMB) among others: FMFIA; Chief Financial Officers Act (CFO Act); Government Performance and Results Act (GPRA); Federal Information Security Modernization Act (FISMA); and OMB Circular A-123. In addition, other standards that the FDIC considers are the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission's *Internal Control – Integrated Framework* and the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government.*

Based on the above evaluation, management concludes that, as of December 31, 2020, FDIC's internal control over financial reporting relevant to the DIF and the FRF was effective.

Jelena McWilliams
Chairman

BRET EDWARDS Digitally signed by BRET EDWARDS

Bret D. Edwards
Deputy to the Chairman
and Chief Financial Officer

February 11, 2021

Appendix II

MANAGEMENT'S RESPONSE TO THE AUDITOR'S REPORT

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Deputy to the Chairman and CFO

February 11, 2021

Mr. James Dalkin
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, D.C. 20548

Re: FDIC Management Response to the 2020 and 2019 Financial Statements Audit Report

Dear Mr. Dalkin:

Thank you for the opportunity to review and comment on the U.S. Government Accountability Office's (GAO's) draft report titled, Financial Audit: Federal Deposit Insurance Corporation Funds' 2020 and 2019 Financial Statements, GAO-21-284R. We are pleased that the Federal Deposit Insurance Corporation (FDIC) has received unmodified opinions for the twenty-ninth consecutive year on the financial statements of its funds: the Deposit Insurance Fund (DIF) and the FSLIC Resolution Fund (FRF). GAO also reported that although internal controls can be improved, the FDIC maintained, in all material respects, effective internal control over financial reporting, and that there was no reportable noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements that were tested. GAO did report a significant deficiency in internal control over contract payment review processes.

During the audit year, the FDIC began taking steps to address issues concerning the contract payment review process. In the coming year, the FDIC will work to enhance the control activities and will expand monitoring capabilities in this area to address the identified weakness. The FDIC recognizes the essential role a strong internal control program plays in an agency achieving its mission. Our commitment to sound financial management has been and will remain a top priority.

In complying with audit standards that require management to provide a written assessment about the effectiveness of its internal control over financial reporting, the FDIC has prepared Management's Report on Internal Control over Financial Reporting. The report acknowledges management's responsibility for establishing and maintaining internal control over financial reporting and provides the FDIC's conclusion regarding the effectiveness of its internal control.

We want to thank the GAO staff for their professionalism and dedication during the audit and look forward to another positive and productive relationship during the 2021 audit. If you have any questions or concerns, please do not hesitate to contact me.

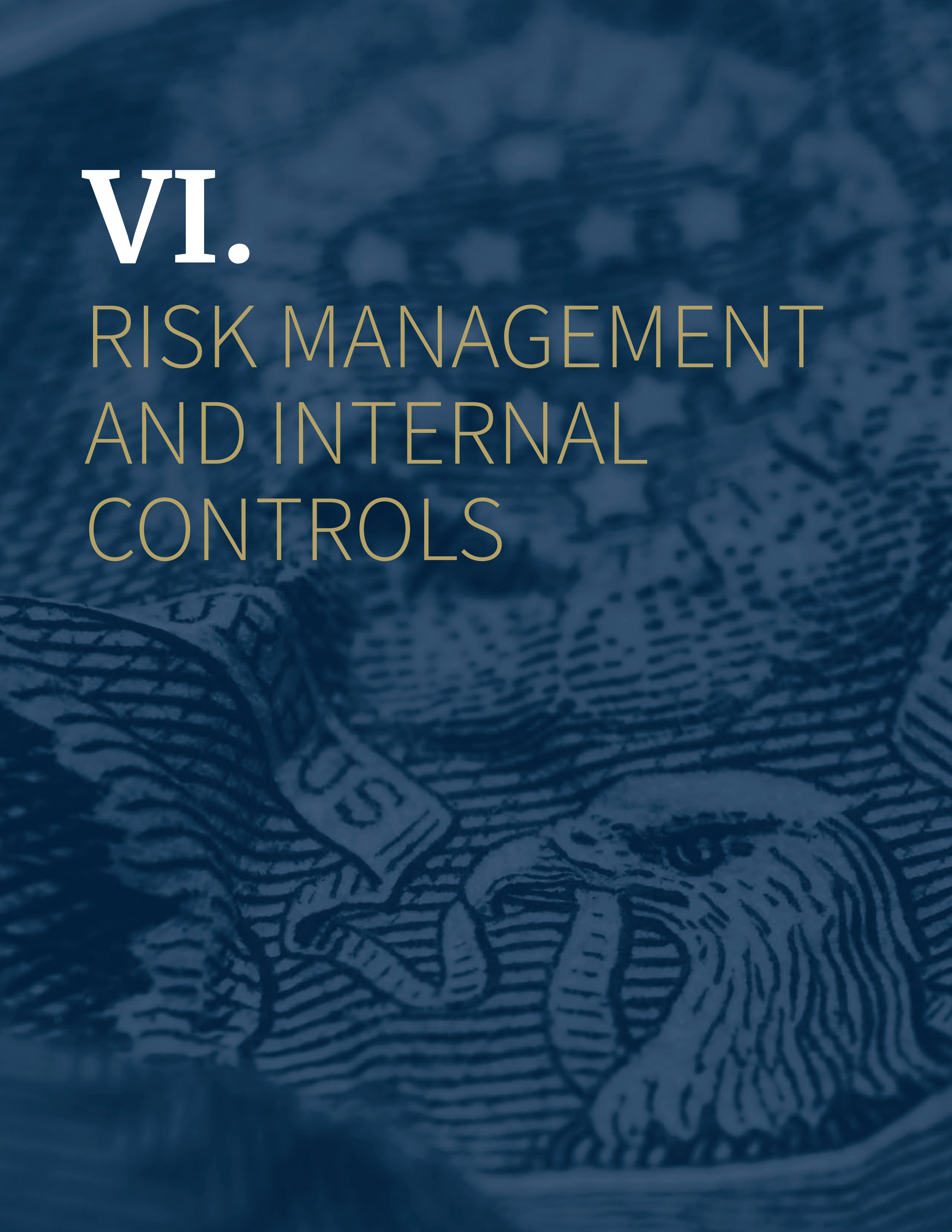
Sincerely,

BRET EDWARDS Digitally signed by BRET EDWARDS

Bret D. Edwards
Deputy to the Chairman
and Chief Financial Officer

VI.

RISK MANAGEMENT AND INTERNAL CONTROLS



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The FDIC uses several means to identify and address enterprise risks, maintain comprehensive internal controls, ensure the overall effectiveness and efficiency of operations, and otherwise comply as necessary with the following federal standards, among others:

- Chief Financial Officers Act (CFO Act)
- Federal Managers' Financial Integrity Act (FMFIA)
- Federal Financial Management Improvement Act (FFMIA)
- Government Performance and Results Act (GPRA)
- Federal Information Security Modernization Act of 2014 (FISMA)
- OMB Circular A-123
- GAO's *Standards for Internal Control in the Federal Government*

As a foundation for these efforts, the Division of Finance, Risk Management and Internal Controls Branch (DOF-RMIC) oversees a corporate-wide program of risk management and internal control activities and works closely with FDIC division and office management. The FDIC has made a concerted effort to identify and assess financial, reputational, and operational risks and incorporate corresponding controls into day-to-day operations. The program also requires that divisions and offices document comprehensive procedures, thoroughly train employees, and hold supervisors accountable for performance and results. Divisions and offices monitor compliance through periodic management reviews and various activity reports distributed to all levels of management. The FDIC also takes seriously FDIC Office of Inspector General and GAO audit recommendations and strives to implement agreed upon actions promptly. The FDIC has received unmodified opinions on its financial statement audits for 29 consecutive years, and these and other positive results reflect the effectiveness of the overall management control program.

In 2020, DOF-RMIC continued to enhance the FDIC's Enterprise Risk Management (ERM) program. The focus was raising awareness of ERM in the FDIC regional offices and initial actions to integrate the program with the FDIC's strategic planning and budget process.

During 2021, DOF-RMIC will continue integrating the ERM program with FDIC's strategic planning and budget process, enhancing the internal control program, and exploring opportunities for process improvements.

PROGRAM EVALUATION

DOF-RMIC periodically evaluates selected program areas responsible for achieving FDIC strategic objectives and performance goals. During 2020, DOF-RMIC evaluated DIR processes for achieving one of the Insurance Program's strategic objectives and related performance goals from the FDIC's 2020 Annual Performance Plan. The objective and goal evaluated and summary results follow.

Strategic Objective: The DIF and system remain strong and adequately financed.

Performance Goal: Monitor the status of the DIF reserve ratio and analyze the factors that affect fund growth. Adjust assessment rates as necessary.

Targets: 1) Provide updated fund balance projections to the FDIC Board of Directors semiannually; and 2) Recommend changes to deposit insurance assessment rates to the FDIC Board of Directors, as necessary.

The objective of DOF-RMIC's evaluation was to determine if DIR has effective processes in place to achieve the performance goal. DOF-RMIC reviewed FDIC Board briefing materials for the semiannual projection of the DIF balance and Reserve Ratio, the FDIC Quarterly Banking Profile, the Summary of Assessments Changes Report, a DIR memorandum to the FDIC Board regarding Restoration Plan recommendations, and relevant information on DIR's internal website. Additionally, DOF-RMIC held interview sessions with senior officials and economists from DIR's Financial Risk Management, Large Bank Pricing, and Banking and Regulatory Policy sections. DOF-RMIC is familiar with the DIR operations from ongoing risk management and internal control-related collaboration activities.

The evaluation noted that DIR has systems and processes in place to:

- Compute assessments based on risk profiles of insured institutions,

- Monitor growth in the assessment base and changes in the assessment rates,
- Track overall banking industry trends,
- Forecast future investment income, and
- Collaborate and review data on problem institutions and potential bank failures.

DOF-RMIC concluded that DIR has an effective process in place to achieve the performance goal and targets and to make sound DIF and reserve ratio projections and recommendations to the FDIC Board.

FRAUD REDUCTION AND DATA ANALYTICS ACT OF 2015

The Fraud Reduction and Data Analytics Act of 2015 was signed into law on June 30, 2016. The law is intended to improve federal agency financial and administrative controls and procedures to assess and mitigate fraud risks, and to improve federal agencies' development and use of data analytics for the purpose of identifying, preventing, and responding to fraud, including improper payments.

The FDIC's ERM and internal control program considers the potential for fraud and incorporates elements of Principle 8—Assess Fraud Risk—from the GAO's *Standards for Internal Control in the Federal Government*. The FDIC implemented a Fraud Risk Assessment Framework as a basis for identifying potential financial fraud risks and schemes and ensuring that preventive and detective controls are present and working as intended. Examples of transactions more susceptible to fraud include contractor payments, wire transfers, travel card purchases, and cash receipts.

As part of the Framework, management identifies potential fraud areas and implements and evaluates key controls as proactive measures to prevent fraud. Although no system of internal control provides absolute assurance, the FDIC's system of internal control provides reasonable assurance that key controls are adequate and working as intended. Monitoring activities include supervisory approvals, management reports, and exception reporting.

FDIC management performs due diligence in areas of suspected or alleged fraud. At the conclusion of due diligence, the matter is either closed or referred to the Office of Inspector General for investigation.

During 2020, there was no systemic fraud identified within the FDIC.

MANAGEMENT REPORT ON FINAL ACTIONS

As required under the provisions of Section 5 of the Inspector General Act of 1978, as amended, the FDIC must report information on final action taken by management on certain audit reports. The tables on the following pages provide information on final action taken by management on audit reports for the federal fiscal year period October 1, 2019, through September 30, 2020.

TABLE 1: MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH DISALLOWED COSTS FOR FISCAL YEAR 2020

	Audit Reports	Number of Reports	Disallowed Costs
A.	Management decisions – final action not taken at beginning of period	0	$0
B.	Management decisions made during the period	1	$47,489
C.	**Total reports pending final action during the period (A and B)**	**1**	**$47,489**
D.	Final action taken during the period:		
	1. Recoveries:		
	(a) Collections & offsets	1	$0
	(b) Other	0	0
	2. Write-offs	0	0
	3. Total of 1 & 2	**1**	**$0**
E.	Audit reports needing final action at the end of the period	1	$47,489

TABLE 2: MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE FOR FISCAL YEAR 2020

(There were no audit reports in this category.)

TABLE 3: AUDIT REPORTS WITHOUT FINAL ACTIONS BUT WITH MANAGEMENT DECISIONS OVER ONE YEAR OLD FOR FISCAL YEAR 2020

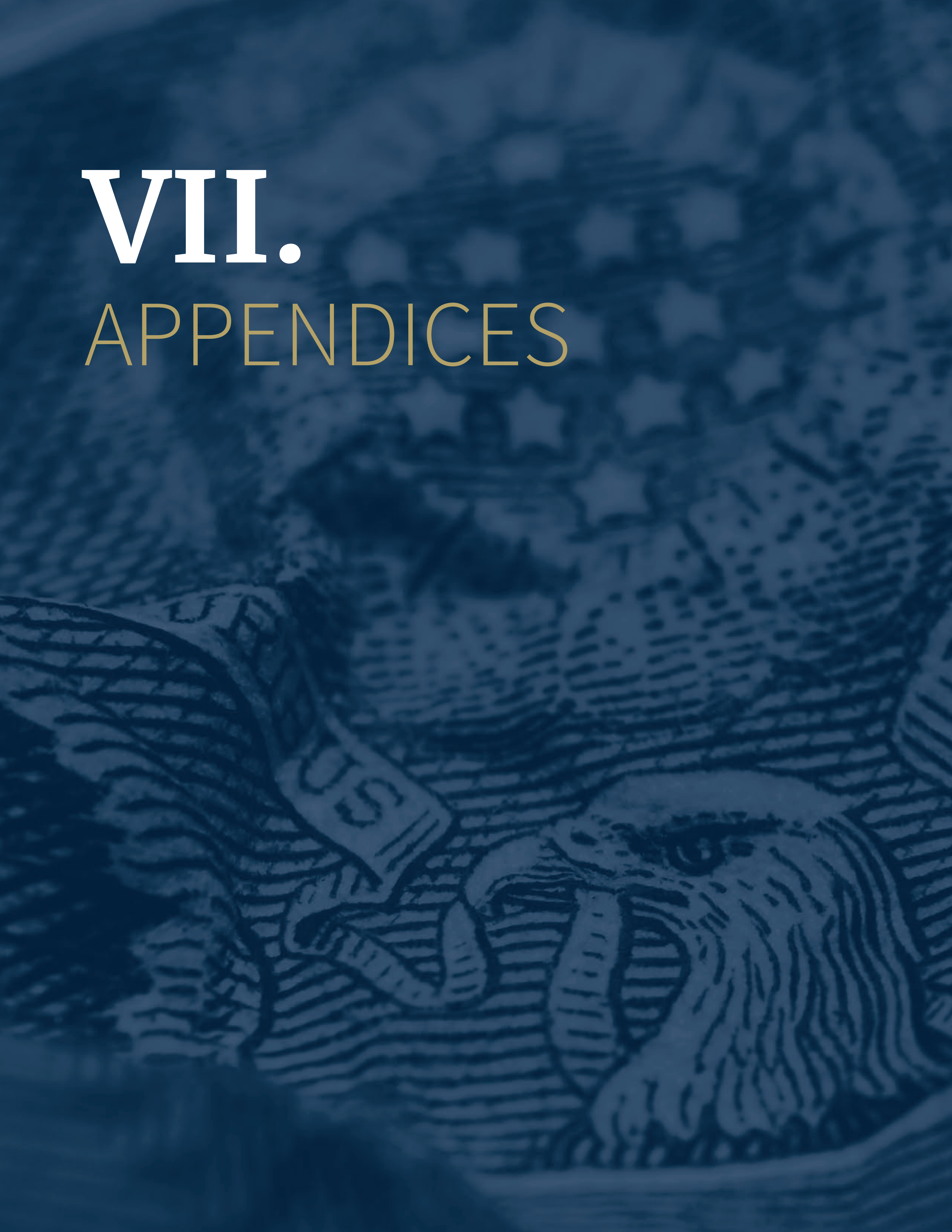
Report No. and Issue Date	OIG Audit Recommendation	Management Action	Disallowed Costs
AUD-17-001 11/2/2016	OIG recommends that the CIO should review existing resource commitments and priorities for addressing data communications (DCOM) plan of actions & milestones (POA&Ms) and take appropriate steps to ensure they are addressed in a timely manner.	The CIOO worked with teams to develop risk tolerances levels for the FDIC Policy 19-001, on Management of POA&Ms, which reflect the level of risk associated with open POA&Ms, including the acceptable amount of time needed to address them. Furthermore, an Integrated Project Team has been established to work with System Owners to ensure timely remediation of POA&Ms and to conduct root cause analyses to develop a revised process to prevent overdue POA&Ms that fall outside of tolerance levels. Substantial progress in addressing DCOM POA&Ms in a timely manner has been achieved. Due Date: 6/30/2021	$0
AUD-18-004 7/26/2018	The CIO should identify and document the IT resources and expertise needed to execute the FDIC's IT Strategic Plan.	The CIOO developed a workforce planning guide that outlines the process that will be used to document the IT resources and expertise needed to execute the FDIC's IT Strategic Plan. Status: Completed. Undergoing OIG review.	$0

TABLE 3: AUDIT REPORTS WITHOUT FINAL ACTIONS BUT WITH MANAGEMENT DECISIONS OVER ONE YEAR OLD FOR FISCAL YEAR 2020 (continued)

Report No. and Issue Date	OIG Audit Recommendation	Management Action	Disallowed Costs
AUD-19-003 12/10/2018	The Deputy to the Chairman and Chief Operating Officer should determine the portion of the $7,510 in unsupported labor charges that should be disallowed and recover that amount. The Deputy to the Chairman and Chief Operating Officer should determine whether the remaining labor charges under Task Orders 4 and 5 are unsupported charges that should be disallowed. The Deputy to the Chairman and Chief Operating Officer should determine the portion of the $39,979 in unallowable labor charges that should be disallowed and recover that amount. The Deputy to the Chairman and Chief Operating Officer should determine whether additional labor charges should be disallowed for off-site work performed under Task Orders 4 and 5 that were not covered by the audit.	On June 23, 2020, DOA sent a demand letter to Pragmatics identifying $103,634.36 in unsupported and disallowed labor charges invoiced to the FDIC. Pragmatics agreed to pay back the $103,634.36. The funds have been collected from Pragmatics. Status: Subsequently closed.	$47,489
EVAL-19-001 4/9/2019	The Deputy to the Chairman and Chief Operating Officer should document the justifications for the physical security activities that the FDIC has taken in response to recommendations, including decisions to accept risk or regarding expenditures for security countermeasures above the recommended standards for an assigned facility security level.	The revised Circular 1610.1 is in the directives review process. Comments have been received and are being reviewed. Status: Subsequently closed.	$0

TABLE 3: AUDIT REPORTS WITHOUT FINAL ACTIONS BUT WITH MANAGEMENT DECISIONS OVER ONE YEAR OLD FOR FISCAL YEAR 2020 (continued)

Report No. and Issue Date	OIG Audit Recommendation	Management Action	Disallowed Costs
EVAL-19-002 9/24/2019	We recommend that the Directors of RMS and DCP establish, implement, and document a process to assess the effectiveness of the MDI Program supervisory strategies. We recommend that the Directors of RMS and DCP issue guidance to the Regional Offices defining the types of activities that comprise technical assistance, as distinct from training, education, and outreach.	RMS and DCP updated examiner instructions to require preparation of a separate written document, at the conclusion of each examination, which outlines the elements of the prior supervisory strategy, evaluates the effectiveness of those elements and recommends any changes in strategy or escalation of responses. These assessments will be submitted to the MDI Program Office, which will conduct periodic horizontal reviews of the individual assessments. Any key trends or findings from the horizontal reviews will be communicated back to the regional offices for use in enhancing future supervisory strategies. In developing the instructions, the FDIC reviewed prior supervisory strategies to incorporate best practices. Status: Subsequently closed. RMS and DCP have prepared the definitions for technical assistance, training and education, and outreach and they are contained in an update to the MDI Regional Director Memo. Status: Subsequently closed.	$0



VII.
APPENDICES

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A. KEY STATISTICS

FDIC ACTIONS ON FINANCIAL INSTITUTIONS APPLICATIONS	2020	2019	2018
Deposit Insurance	**18**	**15**	**17**
Approved[1]	18	15	17
Denied	0	0	0
New Branches	**430**	**548**	**533**
Approved	430	548	533
Denied	0	0	0
Mergers	**159**	**243**	**224**
Approved	159	243	224
Denied	0	0	0
Requests for Consent to Serve[2]	**79**	**87**	**120**
Approved	78	87	120
Section 19	11	5	7
Section 32	67	82	113
Denied	1	0	0
Section 19	0	0	0
Section 32	1	0	0
Notices of Change in Control	**17**	**12**	**21**
Letters of Intent Not to Disapprove	17	12	21
Disapproved	0	0	0
Brokered Deposit Waivers	**4**	**3**	**5**
Approved	4	3	5
Denied	0	0	0
Savings Association Activities[3]	**0**	**2**	**0**
Approved	0	2	0
Denied	0	0	0
State Bank Activities/Investments[4]	**31**	**20**	**9**
Approved	31	20	9
Denied	0	0	0
Conversion of Mutual Institutions	**2**	**4**	**2**
Non-Objection	2	4	2
Objection	0	0	0

[1] Includes deposit insurance applications filed on behalf of (1) newly organized institutions, (2) existing uninsured financial services companies seeking establishment as an insured institution, and (3) interim institutions established to facilitate merger or conversion transactions, and applications to facilitate the establishment of thrift holding companies.

[2] Under Section 19 of the Federal Deposit Insurance (FDI) Act, an insured institution must receive FDIC approval before employing a person convicted of dishonesty or breach of trust. Under Section 32, the FDIC must approve any change of directors or senior executive officers at a state nonmember bank that is not in compliance with capital requirements or is otherwise in troubled condition.

[3] Section 28 of the FDI Act, in general, prohibits a federally-insured state savings association from engaging in an activity not permissible for a federal savings association and requires notices or applications to be filed with the FDIC.

[4] Section 24 of the FDI Act, in general, prohibits a federally-insured state bank from engaging in an activity not permissible for a national bank and requires notices or applications to be filed with the FDIC.

COMBINED RISK AND CONSUMER ENFORCEMENT ACTIONS

	2020	2019	2018
Total Number of Actions Initiated by the FDIC	**169**	**183**	**177**
Termination of Insurance	**10**	**17**	**8**
Involuntary Termination	**0**	**0**	**0**
Sec. 8a For Violations, Unsafe/Unsound Practices or Conditions	0	0	0
Voluntary Termination	**10**	**17**	**8**
Sec. 8a By Order Upon Request	0	0	0
Sec. 8p No Deposits	8	12	7
Sec. 8q Deposits Assumed	2	5	1
Sec. 8b Cease-and-Desist Actions	**23**	**24**	**23**
Notices of Charges Issued	1	1	1
Orders to Pay Restitution	0	0	5
Consent Orders	20	18	17
Personal Cease and Desist Orders	2	5	0
Sec. 8e Removal/Prohibition of Director or Officer	**37**	**34**	**52**
Notices of Intention to Remove/Prohibit	4	1	2
Consent Orders	33	33	50
Sec. 8g Suspension/Removal When Charged With Crime	**0**	**0**	**0**
Civil Money Penalties Issued	**21**	**29**	**25**
Sec. 7a Call Report Penalties	0	0	0
Sec. 8i Civil Money Penalties	16	27	23
Sec. 8i Civil Money Penalty Notices of Assessment	5	2	2
Sec. 10c Orders of Investigation	**4**	**11**	**6**
Sec. 19 Waiver Orders	**74**	**64**	**59**
Approved Section 19 Waiver Orders	74	64	59
Denied Section 19 Waiver Orders	0	0	0
Sec. 32 Notices Disapproving Officer/Director's Request for Review	**0**	**0**	**0**
Truth-in-Lending Act Reimbursement Actions	**41**	**58**	**91**
Denials of Requests for Relief	0	0	0
Grants of Relief	0	0	0
Banks Making Reimbursement[1]	41	58	91
Suspicious Activity Reports (Open and closed institutions)[1]	**299,887**	**225,270**	**193,585**
Other Actions Not Listed[2]	**0**	**4**	**4**

[1] These actions do not constitute the initiation of a formal enforcement action and, therefore, are not included in the total number of actions initiated.

[2] The Other Actions Not Listed were, in 2020: 0; in 2019: 3 Supervisory Prompt Corrective Action Directives and 1 Other Formal Action; in 2018: 2 Supervisory Prompt Corrective Action Directives, 1 Temporary Cease and Desist Order and 1 Other Formal Action.

FDIC INSURED INSTITUTIONS CLOSED DURING 2020

Dollars in Thousands

Codes for Bank Class

NM	**=**	**State-chartered bank that is not a member of the Federal Reserve System**	**SB**	**=**	**Savings bank**	**SM = State-chartered bank that is a member of the Federal Reserve System**	
N	**=**	**National Bank**	**SI**	**=**	**Stock and Mutual Savings Bank**	**SA = Savings Association**	

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets[1]	Total Deposits[1]	Estimated Loss to the DIF[2]	Date of Closing or Acquisition	Receiver/Assuming Bank and Location
Purchase and Assumption - All Deposits							
Ericson State Bank Ericson, NE	NM	2,928	$100,879	$95,159	$23,921	02/14/2020	Farmers and Merchants Bank Milford, NE
The First State Bank Barboursville, WV	NM	8,213	$151,808	$143,102	$47,317	04/03/2020	MVB Bank, Inc. Fairmont, WV
First City Bank of Florida Fort Walton Beach, FL	NM	5,035	$136,566	$133,936	$9,957	10/16/2020	United Fidelity Bank, FSB Evansville, IN
Almena State Bank Almena, KS	NM	2,015	$65,733	$64,941	$18,260	10/23/2020	Equity Bank Andover, KS

[1] Total Assets and Total Deposits data are based upon the last Call Report filed by the institution prior to failure.

[2] Estimated losses are as of December 31, 2020. Estimated losses are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect the asset values and projected recoveries. Represents the estimated loss to the DIF from deposit insurance obligations.

ESTIMATED INSURED DEPOSITS AND THE DEPOSIT INSURANCE FUND, DECEMBER 31, 1934, THROUGH SEPTEMBER 30, 2020[1]

Dollars in Millions (except Insurance Coverage)

	Deposits in Insured Institutions[2]					Insurance Fund as a Percentage of	
Year	Insurance Coverage[2]	Total Domestic Deposits	Est. Insured Deposits	Percentage of Domestic Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
2020	$250,000	$15,714,977	$8,926,625	56.8	$116,433.6	0.74	1.30
2019	250,000	13,262,206	7,825,347	59.0	110,346.9	0.83	1.41
2018	250,000	12,659,406	7,522,441	59.4	102,608.9	0.81	1.36
2017	250,000	12,129,503	7,154,379	59.0	92,747.5	0.76	1.30
2016	250,000	11,693,371	6,915,663	59.1	83,161.5	0.71	1.20
2015	250,000	10,952,922	6,518,675	59.5	72,600.2	0.66	1.11
2014	250,000	10,410,687	6,195,554	59.5	62,780.2	0.60	1.01
2013	250,000	9,825,479	5,998,238	61.0	47,190.8	0.48	0.79
2012	250,000	9,474,720	7,402,053	78.1	32,957.8	0.35	0.45
2011	250,000	8,782,291	6,973,483	79.4	11,826.5	0.13	0.17
2010	250,000	7,887,858	6,301,542	79.9	(7,352.2)	(0.09)	(0.12)
2009	250,000	7,705,354	5,407,773	70.2	(20,861.8)	(0.27)	(0.39)
2008	100,000	7,505,408	4,750,783	63.3	17,276.3	0.23	0.36
2007	100,000	6,921,678	4,292,211	62.0	52,413.0	0.76	1.22
2006	100,000	6,640,097	4,153,808	62.6	50,165.3	0.76	1.21
2005	100,000	6,229,753	3,890,930	62.5	48,596.6	0.78	1.25
2004	100,000	5,724,621	3,622,059	63.3	47,506.8	0.83	1.31
2003	100,000	5,223,922	3,452,497	66.1	46,022.3	0.88	1.33
2002	100,000	4,916,078	3,383,598	68.8	43,797.0	0.89	1.29
2001	100,000	4,564,064	3,215,581	70.5	41,373.8	0.91	1.29
2000	100,000	4,211,895	3,055,108	72.5	41,733.8	0.99	1.37
1999	100,000	3,885,826	2,869,208	73.8	39,694.9	1.02	1.38
1998	100,000	3,817,150	2,850,452	74.7	39,452.1	1.03	1.38
1997	100,000	3,602,189	2,746,477	76.2	37,660.8	1.05	1.37
1996	100,000	3,454,556	2,690,439	77.9	35,742.8	1.03	1.33
1995	100,000	3,318,595	2,663,873	80.3	28,811.5	0.87	1.08
1994	100,000	3,184,410	2,588,619	81.3	23,784.5	0.75	0.92
1993	100,000	3,220,302	2,602,781	80.8	14,277.3	0.44	0.55
1992	100,000	3,275,530	2,677,709	81.7	178.4	0.01	0.01
1991	100,000	3,331,312	2,733,387	82.1	(6,934.0)	(0.21)	(0.25)
1990	100,000	3,415,464	2,784,838	81.5	4,062.7	0.12	0.15
1989	100,000	3,412,503	2,755,471	80.7	13,209.5	0.39	0.48
1988	100,000	2,337,080	1,756,771	75.2	14,061.1	0.60	0.80

ESTIMATED INSURED DEPOSITS AND THE DEPOSIT INSURANCE FUND, DECEMBER 31, 1934, THROUGH SEPTEMBER 30, 2020[1] (continued)

Dollars in Millions (except Insurance Coverage)

	Deposits in Insured Institutions[2]					Insurance Fund as a Percentage of	
Year	Insurance Coverage[2]	Total Domestic Deposits	Est. Insured Deposits	Percentage of Domestic Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
1987	100,000	2,198,648	1,657,291	75.4	18,301.8	0.83	1.10
1986	100,000	2,162,687	1,636,915	75.7	18,253.3	0.84	1.12
1985	100,000	1,975,030	1,510,496	76.5	17,956.9	0.91	1.19
1984	100,000	1,805,334	1,393,421	77.2	16,529.4	0.92	1.19
1983	100,000	1,690,576	1,268,332	75.0	15,429.1	0.91	1.22
1982	100,000	1,544,697	1,134,221	73.4	13,770.9	0.89	1.21
1981	100,000	1,409,322	988,898	70.2	12,246.1	0.87	1.24
1980	100,000	1,324,463	948,717	71.6	11,019.5	0.83	1.16
1979	40,000	1,226,943	808,555	65.9	9,792.7	0.80	1.21
1978	40,000	1,145,835	760,706	66.4	8,796.0	0.77	1.16
1977	40,000	1,050,435	692,533	65.9	7,992.8	0.76	1.15
1976	40,000	941,923	628,263	66.7	7,268.8	0.77	1.16
1975	40,000	875,985	569,101	65.0	6,716.0	0.77	1.18
1974	40,000	833,277	520,309	62.4	6,124.2	0.73	1.18
1973	20,000	766,509	465,600	60.7	5,615.3	0.73	1.21
1972	20,000	697,480	419,756	60.2	5,158.7	0.74	1.23
1971	20,000	610,685	374,568	61.3	4,739.9	0.78	1.27
1970	20,000	545,198	349,581	64.1	4,379.6	0.80	1.25
1969	20,000	495,858	313,085	63.1	4,051.1	0.82	1.29
1968	15,000	491,513	296,701	60.4	3,749.2	0.76	1.26
1967	15,000	448,709	261,149	58.2	3,485.5	0.78	1.33
1966	15,000	401,096	234,150	58.4	3,252.0	0.81	1.39
1965	10,000	377,400	209,690	55.6	3,036.3	0.80	1.45
1964	10,000	348,981	191,787	55.0	2,844.7	0.82	1.48
1963	10,000	313,304	177,381	56.6	2,667.9	0.85	1.50
1962	10,000	297,548	170,210	57.2	2,502.0	0.84	1.47
1961	10,000	281,304	160,309	57.0	2,353.8	0.84	1.47
1960	10,000	260,495	149,684	57.5	2,222.2	0.85	1.48
1959	10,000	247,589	142,131	57.4	2,089.8	0.84	1.47
1958	10,000	242,445	137,698	56.8	1,965.4	0.81	1.43
1957	10,000	225,507	127,055	56.3	1,850.5	0.82	1.46
1956	10,000	219,393	121,008	55.2	1,742.1	0.79	1.44
1955	10,000	212,226	116,380	54.8	1,639.6	0.77	1.41

ESTIMATED INSURED DEPOSITS AND THE DEPOSIT INSURANCE FUND, DECEMBER 31, 1934, THROUGH SEPTEMBER 30, 2020[1] (continued)

Dollars in Millions (except Insurance Coverage)

	Deposits in Insured Institutions[2]					Insurance Fund as a Percentage of	
Year	Insurance Coverage[2]	Total Domestic Deposits	Est. Insured Deposits	Percentage of Domestic Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
1954	10,000	203,195	110,973	54.6	1,542.7	0.76	1.39
1953	10,000	193,466	105,610	54.6	1,450.7	0.75	1.37
1952	10,000	188,142	101,841	54.1	1,363.5	0.72	1.34
1951	10,000	178,540	96,713	54.2	1,282.2	0.72	1.33
1950	10,000	167,818	91,359	54.4	1,243.9	0.74	1.36
1949	5,000	156,786	76,589	48.8	1,203.9	0.77	1.57
1948	5,000	153,454	75,320	49.1	1,065.9	0.69	1.42
1947	5,000	154,096	76,254	49.5	1,006.1	0.65	1.32
1946	5,000	148,458	73,759	49.7	1,058.5	0.71	1.44
1945	5,000	157,174	67,021	42.6	929.2	0.59	1.39
1944	5,000	134,662	56,398	41.9	804.3	0.60	1.43
1943	5,000	111,650	48,440	43.4	703.1	0.63	1.45
1942	5,000	89,869	32,837	36.5	616.9	0.69	1.88
1941	5,000	71,209	28,249	39.7	553.5	0.78	1.96
1940	5,000	65,288	26,638	40.8	496.0	0.76	1.86
1939	5,000	57,485	24,650	42.9	452.7	0.79	1.84
1938	5,000	50,791	23,121	45.5	420.5	0.83	1.82
1937	5,000	48,228	22,557	46.8	383.1	0.79	1.70
1936	5,000	50,281	22,330	44.4	343.4	0.68	1.54
1935	5,000	45,125	20,158	44.7	306.0	0.68	1.52
1934	5,000	40,060	18,075	45.1	291.7	0.73	1.61

[1] For 2020, figures are as of September 30; all other prior years are as of December 31. Prior to 1989, figures are for the Bank Insurance Fund (BIF) only and exclude insured branches of foreign banks. For 1989 to 2005, figures represent the sum of the BIF and Savings Association Insurance Fund (SAIF) amounts; for 2006 to 2020, figures are for DIF. Amounts for 1989-2020 include insured branches of foreign banks. Prior to year-end 1991, insured deposits were estimated using percentages determined from June Call and Thrift Financial Reports.

[2] The year-end 2008 coverage limit and estimated insured deposits do not reflect the temporary increase to $250,000 then in effect under the Emergency Economic Stabilization Act of 2008. The Dodd-Frank Wall Street Reform and Consumer Protection (Dodd-Frank) Act made this coverage limit permanent. The year-end 2009 coverage limit and estimated insured deposits reflect the $250,000 coverage limit. The Dodd-Frank Act also temporarily provided unlimited coverage for non-interest bearing transaction accounts for two years beginning December 31, 2010. Coverage for certain retirement accounts increased to $250,000 in 2006. Initial coverage limit was $2,500 from January 1 to June 30, 1934.

INCOME AND EXPENSES, DEPOSIT INSURANCE FUND, FROM BEGINNING OF OPERATIONS, SEPTEMBER 11, 1933, THROUGH DECEMBER 31, 2020

Dollars in Millions

	Income					Expenses and Losses					
Year	Total	Assessment Income	Assessment Credits	Investment and Other	Effective Assessment Rate[1]	Total	Provision for Ins. Losses	Admin. and Operating Expenses[2]	Interest & Other Ins. Expenses	Funding Transfer from the FSLIC Resolution Fund	Net Income/ (Loss)
TOTAL	**$269,355.7**	**$197,918.3**	**$12,157.2**	**$83,594.6**		**$152,716.4**	**$106,285.8**	**$36,955.8**	**$9,474.9**	**$139.5**	**$116,778.8**
2020	8,796.5	7,153.9	60.7	$1,703.3	0.0395%	1,691.9	(157.3)	1,846.5	2.7	0.0	7,104.6
2019	7,095.3	5,642.7	703.6	2,156.2	0.0312%	513.2	(1,285.5)	1,795.6	3.1	0.0	6,582.1
2018	11,170.8	9,526.7	0.0	1,644.1	0.0626%	1,205.2	(562.6)	1,764.7	3.1	0.0	9,965.6
2017	11,663.7	10,594.8	0.0	1,068.9	0.0716%	1,558.2	(183.1)	1,739.4	2.0	0.0	10,105.5
2016	10,674.1	9,986.6	0.0	687.5	0.0699%	150.6	(1,567.9)	1,715.0	3.5	0.0	10,523.5
2015	9,303.5	8,846.8	0.0	456.7	0.0647%	(553.2)	(2,251.3)	1,687.2	10.9	0.0	9,856.7
2014	8,965.1	8,656.1	0.0	309.0	0.0663%	(6,634.7)	(8,305.5)	1,664.3	6.5	0.0	15,599.8
2013	10,458.9	9,734.2	0.0	724.7	0.0775%	(4,045.9)	(5,659.4)	1,608.7	4.8	0.0	14,504.8
2012	18,522.3	12,397.2	0.2	6,125.3	0.1012%	(2,599.0)	(4,222.6)	1,777.5	(153.9)	0.0	21,121.3
2011	16,342.0	13,499.5	0.9	2,843.4	0.1115%	(2,915.4)	(4,413.6)	1,625.4	(127.2)	0.0	19,257.4
2010	13,379.9	13,611.2	0.8	(230.5)	0.1772%	75.0	(847.8)	1,592.6	(669.8)	0.0	13,304.9
2009	24,706.4	17,865.4	148.0	6,989.0	0.2330%	60,709.0	57,711.8	1,271.1	1,726.1	0.0	(36,002.6)
2008	7,306.3	4,410.4	1,445.9	4,341.8	0.0418%	44,339.5	41,838.8	1,033.5	1,467.2	0.0	(37,033.2)
2007	3,196.2	3,730.9	3,088.0	2,553.3	0.0093%	1,090.9	95.0	992.6	3.3	0.0	2,105.3
2006	2,643.5	31.9	0.0	2,611.6	0.0005%	904.3	(52.1)	950.6	5.8	0.0	1,739.2
2005	2,420.5	60.9	0.0	2,359.6	0.0010%	809.3	(160.2)	965.7	3.8	0.0	1,611.2
2004	2,240.3	104.2	0.0	2,136.1	0.0019%	607.6	(353.4)	941.3	19.7	0.0	1,632.7
2003	2,173.6	94.8	0.0	2,078.8	0.0019%	(67.7)	(1,010.5)	935.5	7.3	0.0	2,241.3
2002	2,384.7	107.8	0.0	2,276.9	0.0023%	719.6	(243.0)	945.1	17.5	0.0	1,665.1
2001	2,730.1	83.2	0.0	2,646.9	0.0019%	3,123.4	2,199.3	887.9	36.2	0.0	(393.3)
2000	2,570.1	64.3	0.0	2,505.8	0.0016%	945.2	28.0	883.9	33.3	0.0	1,624.9
1999	2,416.7	48.4	0.0	2,368.3	0.0013%	2,047.0	1,199.7	823.4	23.9	0.0	369.7
1998	2,584.6	37.0	0.0	2,547.6	0.0010%	817.5	(5.7)	782.6	40.6	0.0	1,767.1
1997	2,165.5	38.6	0.0	2,126.9	0.0011%	247.3	(505.7)	677.2	75.8	0.0	1,918.2
1996	7,156.8	5,294.2	0.0	1,862.6	0.1622%	353.6	(417.2)	568.3	202.5	0.0	6,803.2
1995	5,229.2	3,877.0	0.0	1,352.2	0.1238%	202.2	(354.2)	510.6	45.8	0.0	5,027.0
1994	7,682.1	6,722.7	0.0	959.4	0.2192%	(1,825.1)	(2,459.4)	443.2	191.1	0.0	9,507.2
1993	7,354.5	6,682.0	0.0	672.5	0.2157%	(6,744.4)	(7,660.4)	418.5	497.5	0.0	14,098.9
1992	6,479.3	5,758.6	0.0	720.7	0.1815%	(596.8)	(2,274.7)	614.8[3]	1,063.1	35.4	7,111.5
1991	5,886.5	5,254.0	0.0	632.5	0.1613%	16,925.3	15,496.2	326.1	1,103.0	42.4	(10,996.4)
1990	3,855.3	2,872.3	0.0	983.0	0.0868%	13,059.3	12,133.1	275.6	650.6	56.1	(9,147.9)
1989	3,494.8	1,885.0	0.0	1,609.8	0.0816%	4,352.2	3,811.3	219.9	321.0	5.6	(851.8)
1988	3,347.7	1,773.0	0.0	1,574.7	0.0825%	7,588.4	6,298.3	223.9	1,066.2	0.0	(4,240.7)
1987	3,319.4	1,696.0	0.0	1,623.4	0.0833%	3,270.9	2,996.9	204.9	69.1	0.0	48.5
1986	3,260.1	1,516.9	0.0	1,743.2	0.0787%	2,963.7	2,827.7	180.3	(44.3)	0.0	296.4

INCOME AND EXPENSES, DEPOSIT INSURANCE FUND, FROM BEGINNING OF OPERATIONS, SEPTEMBER 11, 1933, THROUGH DECEMBER 31, 2020 (continued)

Dollars in Millions

	Income					Expenses and Losses					
Year	Total	Assessment Income	Assessment Credits	Investment and Other	Effective Assessment Rate[1]	Total	Provision for Ins. Losses	Admin. and Operating Expenses[2]	Interest & Other Ins. Expenses	Funding Transfer from the FSLIC Resolution Fund	Net Income/ (Loss)
1985	3,385.5	1,433.5	0.0	1,952.0	0.0815%	1,957.9	1,569.0	179.2	209.7	0.0	1,427.6
1984	3,099.5	1,321.5	0.0	1,778.0	0.0800%	1,999.2	1,633.4	151.2	214.6	0.0	1,100.3
1983	2,628.1	1,214.9	164.0	1,577.2	0.0714%	969.9	675.1	135.7	159.1	0.0	1,658.2
1982	2,524.6	1,108.9	96.2	1,511.9	0.0769%	999.8	126.4	129.9	743.5	0.0	1,524.8
1981	2,074.7	1,039.0	117.1	1,152.8	0.0714%	848.1	320.4	127.2	400.5	0.0	1,226.6
1980	1,310.4	951.9	521.1	879.6	0.0370%	83.6	(38.1)	118.2	3.5	0.0	1,226.8
1979	1,090.4	881.0	524.6	734.0	0.0333%	93.7	(17.2)	106.8	4.1	0.0	996.7
1978	952.1	810.1	443.1	585.1	0.0385%	148.9	36.5	103.3	9.1	0.0	803.2
1977	837.8	731.3	411.9	518.4	0.0370%	113.6	20.8	89.3	3.5	0.0	724.2
1976	764.9	676.1	379.6	468.4	0.0370%	212.3	28.0	180.4[4]	3.9	0.0	552.6
1975	689.3	641.3	362.4	410.4	0.0357%	97.5	27.6	67.7	2.2	0.0	591.8
1974	668.1	587.4	285.4	366.1	0.0435%	159.2	97.9	59.2	2.1	0.0	508.9
1973	561.0	529.4	283.4	315.0	0.0385%	108.2	52.5	54.4	1.3	0.0	452.8
1972	467.0	468.8	280.3	278.5	0.0333%	65.7	10.1	49.6	6.0[5]	0.0	401.3
1971	415.3	417.2	241.4	239.5	0.0345%	60.3	13.4	46.9	0.0	0.0	355.0
1970	382.7	369.3	210.0	223.4	0.0357%	46.0	3.8	42.2	0.0	0.0	336.7
1969	335.8	364.2	220.2	191.8	0.0333%	34.5	1.0	33.5	0.0	0.0	301.3
1968	295.0	334.5	202.1	162.6	0.0333%	29.1	0.1	29.0	0.0	0.0	265.9
1967	263.0	303.1	182.4	142.3	0.0333%	27.3	2.9	24.4	0.0	0.0	235.7
1966	241.0	284.3	172.6	129.3	0.0323%	19.9	0.1	19.8	0.0	0.0	221.1
1965	214.6	260.5	158.3	112.4	0.0323%	22.9	5.2	17.7	0.0	0.0	191.7
1964	197.1	238.2	145.2	104.1	0.0323%	18.4	2.9	15.5	0.0	0.0	178.7
1963	181.9	220.6	136.4	97.7	0.0313%	15.1	0.7	14.4	0.0	0.0	166.8
1962	161.1	203.4	126.9	84.6	0.0313%	13.8	0.1	13.7	0.0	0.0	147.3
1961	147.3	188.9	115.5	73.9	0.0323%	14.8	1.6	13.2	0.0	0.0	132.5
1960	144.6	180.4	100.8	65.0	0.0370%	12.5	0.1	12.4	0.0	0.0	132.1
1959	136.5	178.2	99.6	57.9	0.0370%	12.1	0.2	11.9	0.0	0.0	124.4
1958	126.8	166.8	93.0	53.0	0.0370%	11.6	0.0	11.6	0.0	0.0	115.2
1957	117.3	159.3	90.2	48.2	0.0357%	9.7	0.1	9.6	0.0	0.0	107.6
1956	111.9	155.5	87.3	43.7	0.0370%	9.4	0.3	9.1	0.0	0.0	102.5
1955	105.8	151.5	85.4	39.7	0.0370%	9.0	0.3	8.7	0.0	0.0	96.8
1954	99.7	144.2	81.8	37.3	0.0357%	7.8	0.1	7.7	0.0	0.0	91.9
1953	94.2	138.7	78.5	34.0	0.0357%	7.3	0.1	7.2	0.0	0.0	86.9
1952	88.6	131.0	73.7	31.3	0.0370%	7.8	0.8	7.0	0.0	0.0	80.8
1951	83.5	124.3	70.0	29.2	0.0370%	6.6	0.0	6.6	0.0	0.0	76.9
1950	84.8	122.9	68.7	30.6	0.0370%	7.8	1.4	6.4	0.0	0.0	77.0
1949	151.1	122.7	0.0	28.4	0.0833%	6.4	0.3	6.1	0.0	0.0	144.7

INCOME AND EXPENSES, DEPOSIT INSURANCE FUND, FROM BEGINNING OF OPERATIONS, SEPTEMBER 11, 1933, THROUGH DECEMBER 31, 2020 (continued)

Dollars in Millions

	Income					Expenses and Losses					
Year	Total	Assessment Income	Assessment Credits	Investment and Other	Effective Assessment Rate[1]	Total	Provision for Ins. Losses	Admin. and Operating Expenses[2]	Interest & Other Ins. Expenses	Funding Transfer from the FSLIC Resolution Fund	Net Income/ (Loss)
1948	145.6	119.3	0.0	26.3	0.0833%	7.0	0.7	6.3[6]	0.0	0.0	138.6
1947	157.5	114.4	0.0	43.1	0.0833%	9.9	0.1	9.8	0.0	0.0	147.6
1946	130.7	107.0	0.0	23.7	0.0833%	10.0	0.1	9.9	0.0	0.0	120.7
1945	121.0	93.7	0.0	27.3	0.0833%	9.4	0.1	9.3	0.0	0.0	111.6
1944	99.3	80.9	0.0	18.4	0.0833%	9.3	0.1	9.2	0.0	0.0	90.0
1943	86.6	70.0	0.0	16.6	0.0833%	9.8	0.2	9.6	0.0	0.0	76.8
1942	69.1	56.5	0.0	12.6	0.0833%	10.1	0.5	9.6	0.0	0.0	59.0
1941	62.0	51.4	0.0	10.6	0.0833%	10.1	0.6	9.5	0.0	0.0	51.9
1940	55.9	46.2	0.0	9.7	0.0833%	12.9	3.5	9.4	0.0	0.0	43.0
1939	51.2	40.7	0.0	10.5	0.0833%	16.4	7.2	9.2	0.0	0.0	34.8
1938	47.7	38.3	0.0	9.4	0.0833%	11.3	2.5	8.8	0.0	0.0	36.4
1937	48.2	38.8	0.0	9.4	0.0833%	12.2	3.7	8.5	0.0	0.0	36.0
1936	43.8	35.6	0.0	8.2	0.0833%	10.9	2.6	8.3	0.0	0.0	32.9
1935	20.8	11.5	0.0	9.3	0.0833%	11.3	2.8	8.5	0.0	0.0	9.5
1933-34	7.0	0.0	0.0	7.0	N/A	10.0	0.2	9.8	0.0	0.0	(3.0)

[1] The effective assessment rate is calculated from annual assessment income (net of assessment credits), excluding transfers to the Financing Corporation (FICO), Resolution Funding Corporation (REFCORP) and FSLIC Resolution Fund, divided by the average assessment base. Figures represent only BIF-insured institutions prior to 1990, and BIF- and SAIF-insured institutions from 1990 through 2005. After 1995, all thrift closings became the responsibility of the FDIC and amounts are reflected in the SAIF. Beginning in 2006, figures are for the DIF.

The annualized assessment rate for 2020 is based on full year assessment income divided by a four quarter average of 2020 quarterly assessment base amounts. The assessment base for fourth quarter 2020 was estimated using the third quarter 2020 assessment base and an assumed quarterly growth rate of one percent.

Historical Assessment Rates:

1934 – 1949 The statutory assessment rate was 0.0833 percent.

1950 – 1984 The effective assessment rates varied from the statutory rate of 0.0833 percent due to assessment credits provided in those years.

1985 – 1989 The statutory assessment rate was 0.0833 percent (no credits were given).

1990 The statutory rate increased to 0.12 percent.

1991 – 1992 The statutory rate increased to a minimum of 0.15 percent. The effective rates in 1991 and 1992 varied because the FDIC exercised new authority to increase assessments above the statutory minimum rate when needed.

1993 – 2006 Beginning in 1993, the effective rate was based on a risk-related premium system under which institutions paid assessments in the range of 0.23 percent to 0.31 percent. In May 1995, the BIF reached the mandatory recapitalization level of 1.25 percent. As a result, BIF assessment rates were reduced to a range of 0.04 percent to 0.31 percent of assessable deposits, effective June 1995, and assessments totaling $1.5 billion were refunded in September 1995. Assessment rates for the BIF were lowered again to a range of 0 to 0.27 percent of assessable deposits, effective the start of 1996. In 1996, the SAIF collected a one-time special assessment of $4.5 billion. Subsequently, assessment rates for the SAIF were lowered to the same range as the BIF, effective October 1996. This range of rates remained unchanged for both funds through 2006.

2007 – 2008 As part of the implementation of the Federal Deposit Insurance Reform Act of 2005, assessment rates were increased to a range of 0.05 percent to 0.43 percent of assessable deposits effective at the start of 2007, but many institutions received a one-time assessment credit ($4.7 billion in total) to offset the new assessments.

2009 – 2011 For the first quarter of 2009, assessment rates were increased to a range of 0.12 percent to 0.50 percent of assessable deposits. On June 30, 2009, a special assessment was imposed on all insured banks and thrifts, which amounted in aggregate to approximately $5.4 billion. For 8,106 institutions, with $9.3 trillion in assets, the special assessment

was 5 basis points of each insured institution's assets minus tier one capital; 89 other institutions, with assets of $4.0 trillion, had their special assessment capped at 10 basis points of their second quarter assessment base. From the second quarter of 2009 through the first quarter of 2011, initial assessment rates ranged between 0.12 percent and 0.45 percent of assessable deposits. Initial rates were subject to further adjustments.

2011 – 2016 Beginning in the second quarter of 2011, the assessment base changed to average total consolidated assets less average tangible equity (with certain adjustments for banker's banks and custodial banks), as required by the Dodd-Frank Act. The FDIC implemented a new assessment rate schedule at the same time to conform to the larger assessment base. Initial assessment rates were lowered to a range of 0.05 percent to 0.35 percent of the new base. The annualized assessment rates averaged approximately 17.6 cents per $100 of assessable deposits for the first quarter of 2011 and 11.1 cents per $100 of the new base for the last three quarters of 2011 (which is shown in the table).

2016 Beginning July 1, 2016, initial assessment rates were lowered from a range of 5 basis points to 35 basis points to a range of 3 basis points to 30 basis points, and an additional surcharge was imposed on large banks (generally institutions with $10 billion or more in assets) of 4.5 basis points of their assessment base (after making adjustments).

2018 The 4.5 basis point surcharge imposed on large banks ended effective October 1, 2018. The annualized assessment rates averaged approximately 7.2 cents per $100 of the assessable base for the first three quarters of 2018 and 3.5 cents per $100 of the assessment base for the last quarter of 2018. The full year annualized assessment rate averaged 6.3 cents per $100 (which is shown in the table).

2019 Assessment income for 2019 included small bank credits of $703.6 million.

2020 Assessment income for 2020 included small bank credits of $60.7 million.

[2] These expenses, which are presented as operating expenses in the Statement of Income and Fund Balance, pertain to the FDIC in its corporate capacity only and do not include costs that are charged to the failed bank receiverships that are managed by the FDIC. The receivership expenses are presented as part of the "Receivables from Resolutions, net" line on the Balance Sheet. The narrative and graph presented on page 89 of this report shows the aggregate (corporate and receivership) expenditures of the FDIC.

[3] Includes $210 million for the cumulative effect of an accounting change for certain postretirement benefits (1992).

[4] Includes a $106 million net loss on government securities (1976).

[5] This amount represents interest and other insurance expenses from 1933 to 1972.

[6] Includes the aggregate amount of $81 million of interest paid on capital stock between 1933 and 1948.

ASSETS AND DEPOSITS OF FAILED OR ASSISTED INSURED INSTITUTIONS AND LOSSES TO THE DEPOSIT INSURANCE FUND, 1934 - 2020

Dollars in Thousands

Bank and Thrift Failures[1]

Year[2]	Number of Banks/Thrifts	Total Assets[3]	Total Deposits[3]	Losses to the Fund[4]
	2,631	**$947,307,165**	**$713,566,191**	**$105,217,866**
2020	4	454,986	437,138	99,455
2019	4	208,767	190,547	30,576
2018	0	0	0	0
2017	8	5,081,737	4,683,360	1,107,455
2016	5	277,182	268,516	42,474
2015	8	6,706,038	4,574,170	850,588
2014	18	2,913,503	2,691,485	378,283
2013	24	6,044,051	5,132,246	1,212,465
2012	51	11,617,348	11,009,630	2,391,530
2011	92	34,922,997	31,071,862	6,411,680
2010[5]	157	92,084,988	78,290,185	15,810,522
2009[5]	140	169,709,160	137,835,121	25,979,466
2008[5]	25	371,945,480	234,321,715	17,817,916
2007	3	2,614,928	2,424,187	158,065
2006	0	0	0	0
2005	0	0	0	0
2004	4	170,099	156,733	3,917
2003	3	947,317	901,978	62,647
2002	11	2,872,720	2,512,834	413,989
2001	4	1,821,760	1,661,214	292,465
2000	7	410,160	342,584	32,138
1999	8	1,592,189	1,320,573	586,027
1998	3	290,238	260,675	221,606
1997	1	27,923	27,511	5,026
1996	6	232,634	230,390	60,615
1995	6	802,124	776,387	84,472
1994	13	1,463,874	1,397,018	179,051
1993	41	3,828,939	3,509,341	632,646
1992	120	45,357,237	39,921,310	3,674,149
1991	124	64,556,512	52,972,034	6,001,595
1990	168	16,923,462	15,124,454	2,771,489
1989	206	28,930,572	24,152,468	6,195,286
1988	200	38,402,475	26,524,014	5,377,497
1987	184	6,928,889	6,599,180	1,862,492
1986	138	7,356,544	6,638,903	1,682,538
1985	116	3,090,897	2,889,801	648,179
1934 - 1984	729	16,719,435	12,716,627	2,139,567

ASSETS AND DEPOSITS OF FAILED OR ASSISTED INSURED INSTITUTIONS AND LOSSES TO THE DEPOSIT INSURANCE FUND, 1934 - 2020 (continued)

Dollars in Thousands

Assistance Transactions

Year[2]	Number of Banks/Thrifts	Total Assets[3]	Total Deposits[3]	Losses to the fund[4]
	154	**$3,317,099,253**	**$1,442,173,417**	**$5,430,481**
2010 - 2020	0	0	0	0
2009[6]	8	1,917,482,183	1,090,318,282	0
2008[6]	5	1,306,041,994	280,806,966	0
1993 - 2007	0	0	0	0
1992	2	33,831	33,117	250
1991	3	78,524	75,720	3,024
1990	1	14,206	14,628	2,338
1989	1	4,438	6,396	2,296
1988	80	15,493,939	11,793,702	1,540,642
1987	19	2,478,124	2,275,642	160,164
1986	7	712,558	585,248	93,179
1985	4	5,886,381	5,580,359	359,056
1984	2	40,470,332	29,088,247	1,116,275
1983	4	3,611,549	3,011,406	337,683
1982	10	10,509,286	9,118,382	1,042,784
1981	3	4,838,612	3,914,268	772,790
1980	1	7,953,042	5,001,755	0
1934 - 1979	4	1,490,254	549,299	0

[1] Institutions for which the FDIC is appointed receiver, including deposit payoff, insured deposit transfer, and deposit assumption cases.

[2] For 1990 through 2005, amounts represent the sum of BIF and SAIF failures (excluding those handled by the RTC); prior to 1990, figures are only for the BIF. After 1995, all thrift closings became the responsibility of the FDIC and amounts are reflected in the SAIF. For 2006 to 2020, figures are for the DIF.

[3] Assets and deposit data are based on the last Call Report or TFR filed before failure.

[4] Losses to the fund include final and estimated losses. Final losses represent actual losses for unreimbursed subrogated claims of inactivated receiverships. Estimated losses generally represent the difference between the amount paid by the DIF to cover obligations to insured depositors and the estimated recoveries from the liquidation of receivership assets.

[5] Includes amounts related to transaction account coverage under the Transaction Account Guarantee Program (TAG). The estimated losses as of December 31, 2020, for TAG accounts in 2010, 2009, and 2008 are $362 million, $1.1 billion, and $12 million, respectively.

[6] Includes institutions where assistance was provided under a systemic risk determination.

B. MORE ABOUT THE FDIC

FDIC Board of Directors

Jelena McWilliams

Jelena McWilliams was sworn in as the 21st Chairman of the FDIC on June 5, 2018. She serves a six-year term on the FDIC Board of Directors, and is designated as Chairman for a term of five years.

Ms. McWilliams was Executive Vice President, Chief Legal Officer, and Corporate Secretary for Fifth Third Bank in Cincinnati, Ohio. At Fifth Third Bank she served as a member of the executive management team and numerous bank committees including: Management Compliance, Enterprise Risk, Risk and Compliance, Operational Risk, Enterprise Marketing, and Regulatory Change.

Prior to joining Fifth Third Bank, Ms. McWilliams worked in the U.S. Senate for six years, most recently as Chief Counsel and Deputy Staff Director with the Senate Committee on Banking, Housing and Urban Affairs, and previously as Assistant Chief Counsel with the Senate Small Business and Entrepreneurship Committee.

From 2007 to 2010, Ms. McWilliams served as an attorney at the Federal Reserve Board of Governors, where she drafted consumer protection regulations, reviewed and analyzed comment letters on regulatory proposals, and responded to consumer complaints.

Before entering public service, she practiced corporate and securities law at Morrison & Foerster LLP in Palo Alto, California, and Hogan & Hartson LLP (now Hogan Lovells LLP) in Washington, D.C. In legal practice, Ms. McWilliams advised management and boards of directors on corporate governance, compliance, and reporting requirements under the Securities Act of 1933 and the Securities Exchange Act of 1934. She also represented publicly- and privately-held companies in mergers and acquisitions, securities offerings, strategic business ventures, venture capital investments, and general corporate matters.

Ms. McWilliams graduated with highest honors from the University of California at Berkeley with a B.S. in political science, and earned her law degree from U.C. Berkeley School of Law.

Martin J. Gruenberg

Martin J. Gruenberg is a member of the FDIC Board of Directors. Previously, he served as Chairman of the FDIC, receiving Senate confirmation on November 15, 2012, for a five-year term. Mr. Gruenberg served as Vice Chairman and Member of the FDIC Board of Directors from August 22, 2005, until his confirmation as Chairman. He served as Acting Chairman from July 9, 2011, to November 15, 2012, and also from November 16, 2005, to June 26, 2006.

Mr. Gruenberg joined the FDIC Board after broad congressional experience in the financial services and regulatory areas. He served as Senior Counsel to Senator Paul S. Sarbanes (D-MD) on the staff of the Senate Committee on Banking, Housing, and Urban Affairs from 1993 to 2005. Mr. Gruenberg advised the Senator on issues of domestic and international financial regulation, monetary policy, and trade. He also served as Staff Director of the Banking Committee's Subcommittee on International Finance and Monetary Policy from 1987 to 1992. Major legislation in which Mr. Gruenberg played an active role during his service on the Committee includes the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA); the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA); the Gramm-Leach-Bliley Act; and the Sarbanes-Oxley Act of 2002.

Mr. Gruenberg served as Chairman of the Executive Council and President of the International Association of Deposit Insurers (IADI) from November 2007 to November 2012.

In addition, Mr. Gruenberg served as Chairman of the Federal Financial Institutions Examination Council from April 2017 to June 2018.

Mr. Gruenberg has served as Chairman of the Board of Directors of the Neighborhood Reinvestment Corporation (NeighborWorks America) since June 2019, and a member of the Board since April 2018.

Mr. Gruenberg holds a J.D. from Case Western Reserve Law School and an A.B. from Princeton University, Woodrow Wilson School of Public and International Affairs.

Blake Paulson

Blake Paulson became Acting Comptroller of the Currency on January 14, 2021, upon the resignation of Acting Comptroller of the Currency Brian P. Brooks. As Acting Comptroller of the Currency, Mr. Paulson is the administrator of the federal banking system and chief officer of the Office of the Comptroller of the Currency (OCC). The OCC supervises nearly 1,200 national banks, federal savings associations, and federal branches and agencies of foreign banks that conduct approximately 70 percent of all banking business in the United States. The mission of the OCC is to ensure that national banks and federal savings associations operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

The Comptroller also serves as a director of the Federal Deposit Insurance Corporation and a member of the Financial Stability Oversight Council and the Federal Financial Institutions Examination Council.

Mr. Paulson also serves as the Senior Deputy Comptroller and Chief Operating Officer at the OCC. In this role, he oversees OCC bank supervision and OCC management operations, as well as staff responsible for Systemic Risk Identification Support and Specialty Supervision, and Supervision System and Analytical Support. He serves as a member of the OCC's Executive Committee and was designated the Chief National Bank Examiner in April 2020.

Mr. Paulson previously served as the Senior Deputy Comptroller for Midsize and Community Bank Supervision, where he was responsible for supervising nearly 1,100 national banks and federal savings associations, as well as nearly 1,600 OCC employees. He also previously served as the Deputy Comptroller for the agency's Central District where he was responsible for the oversight of community banks and federal savings associations, independent data service providers and trust companies across the upper Midwest.

Before serving as Deputy Comptroller, Mr. Paulson served as Associate Deputy Comptroller in the Central District, where oversaw nine field offices, and was an Assistant Deputy Comptroller for Midsize Bank Supervision where he was responsible for a portfolio of national banks with total assets between $10 billion and $30 billion.

Mr. Paulson joined the OCC in 1986 in Sioux Falls, South Dakota, and has since held a variety of positions throughout the Midwest supervising community, midsize, and large banks.

Mr. Paulson has a Bachelor of Science in Business Administration from the University of South Dakota.

David Uejio

David Uejio became Acting Director of the Consumer Financial Protection Bureau (CFPB) on January 20, 2021, upon the resignation of CFPB Director Kathy Kraninger.

Having been with the Bureau since 2012, Acting Director Uejio will focus on taking all available measures to protect consumers, particularly vulnerable ones, negatively affected by the pandemic; he also will work to utilize the tools of the Bureau to tackle racial disparities and inequalities laid bare by the pandemic.

Prior to becoming Acting Director, Mr. Uejio served the Bureau as Acting Chief of Staff, as Lead for Talent Acquisition, and, most recently, as the Bureau's Chief Strategy Officer.

In addition, to his experience at the Bureau, Acting Director Uejio has served in Human Resources capacities

at the National Institutes of Health, the Office of Personnel Management, and the Office of the Secretary of Defense. Acting Director

Uejio began his career in government service in 2006, when he joined the NIH as a Presidential Management Fellow.

Acting Director Uejio is devoted to public service both as a profession and a calling. He co-chairs the Federal Innovation Council, which is a leading federal government interagency body to drive public sector innovation. He also co-founded the largest event to connect, develop, and inspire emerging public service leaders, the Next Generation of Government Summit.

Acting Director Uejio received a master's degree in public policy from the University of Minnesota and a Bachelor of Arts degree from the University of California, Santa Barbara.

Kathleen L. Kraninger

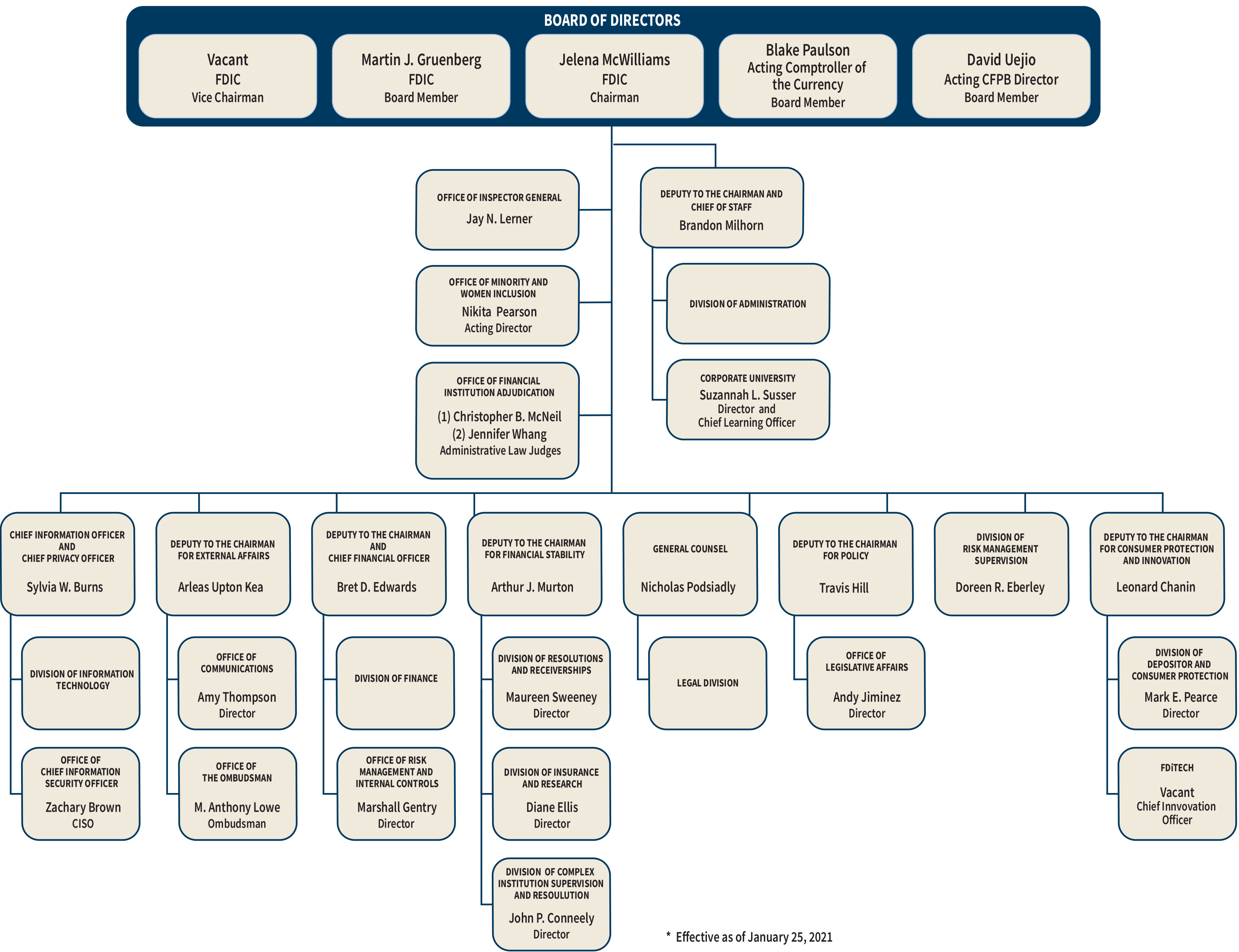
Kathy Kraninger resigned from the FDIC Board of Directors as of January 20, 2021. Ms. Kraninger had been a Board member since December, 2018.

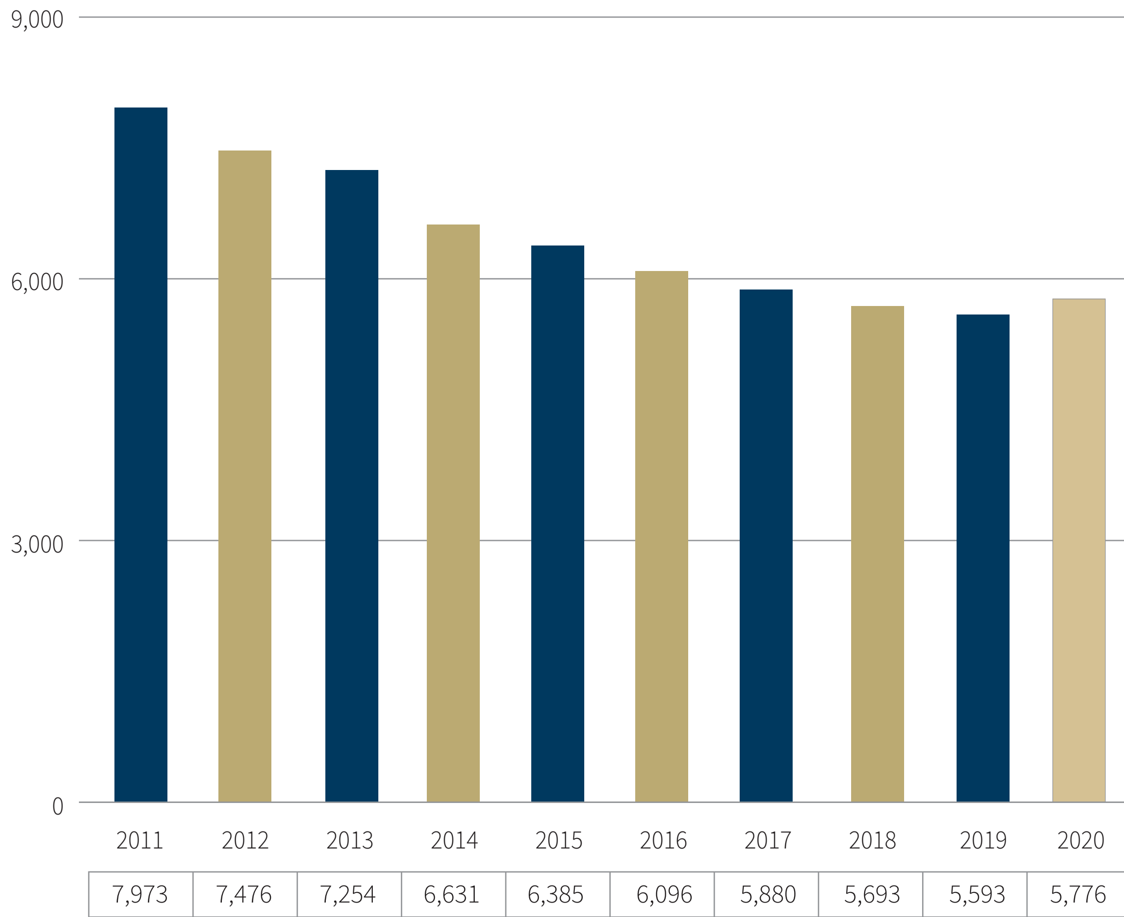
Brian P. Brooks

Brian P. Brooks resigned from the FDIC Board of Directors as of January 14, 2021. Mr. Brooks had been a Board member since June 1, 2020.

Joseph M. Otting

Joseph M. Otting resigned from the FDIC Board of Directors as of May 29, 2020. Mr. Otting had been a Board member since November 27, 2017.


FDIC ORGANIZATIONAL CHART*
BOARD OF DIRECTORS
Vacant FDIC Vice Chairman
Martin J. Gruenberg FDIC Board Member
Jelena McWilliams FDIC Chairman
Blake Paulson Acting Comptroller of the Currency Board Member
David Uejio Acting CFPB Director Board Member
OFFICE OF INSPECTOR GENERAL Jay N. Lerner
OFFICE OF MINORITY AND WOMEN INCLUSION Nikita Pearson Acting Director
OFFICE OF FINANCIAL INSTITUTION ADJUDICATION (1) Christopher B. McNeil (2) Jennifer Whang Administrative Law Judges
DEPUTY TO THE CHAIRMAN AND CHIEF OF STAFF Brandon Milhorn
DIVISION OF ADMINISTRATION
CORPORATE UNIVERSITY Suzannah L. Susser Director and Chief Learning Officer
CHIEF INFORMATION OFFICER AND CHIEF PRIVACY OFFICER Sylvia W. Burns
DIVISION OF INFORMATION TECHNOLOGY
OFFICE OF CHIEF INFORMATION SECURITY OFFICER Zachary Brown CISO
DEPUTY TO THE CHAIRMAN FOR EXTERNAL AFFAIRS Arleas Upton Kea
OFFICE OF COMMUNICATIONS Amy Thompson Director
OFFICE OF THE OMBUDSMAN M. Anthony Lowe Ombudsman
DEPUTY TO THE CHAIRMAN AND CHIEF FINANCIAL OFFICER Bret D. Edwards
DIVISION OF FINANCE
OFFICE OF RISK MANAGEMENT AND INTERNAL CONTROLS Marshall Gentry Director
DEPUTY TO THE CHAIRMAN FOR FINANCIAL STABILITY Arthur J. Murton
DIVISION OF RESOLUTIONS AND RECEIVERSHIPS Maureen Sweeney Director
DIVISION OF INSURANCE AND RESEARCH Diane Ellis Director
DIVISION OF COMPLEX INSTITUTION SUPERVISION AND RESOLUTION John P. Conneely Director
GENERAL COUNSEL Nicholas Podsiadly
LEGAL DIVISION
DEPUTY TO THE CHAIRMAN FOR POLICY Travis Hill
OFFICE OF LEGISLATIVE AFFAIRS Andy Jiminez Director
DIVISION OF RISK MANAGEMENT SUPERVISION Doreen R. Eberley
DEPUTY TO THE CHAIRMAN FOR CONSUMER PROTECTION AND INNOVATION Leonard Chanin
DIVISION OF DEPOSITOR AND CONSUMER PROTECTION Mark E. Pearce Director
FDiTECH Vacant Chief Innovation Officer
* Effective as of January 25, 2021



2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
7,973	7,476	7,254	6,631	6,385	6,096	5,880	5,693	5,593	5,776

NUMBER OF EMPLOYEES BY DIVISION/OFFICE (YEAR-END)[1]

	Total		Washington		Regional	
Division or Office:	2020	2019	2020	2019	2020	2019
Division of Risk Management Supervision	2,559	2,318	152	174	2,407	2,145
Division of Depositor and Consumer Protection	818	794	116	123	702	671
Legal Division	438	440	293	298	145	142
Division of Administration	370	353	264	247	106	106
Division of Resolutions and Receiverships	343	323	96	89	248	234
Division of Information Technology	299	237	234	173	65	64
Division of Complex Institution Supervision and Resolution	258	243	125	113	133	130
Division of Insurance and Research	205	204	166	166	39	38
Division of Finance	154	156	150	152	4	4
Executive Support Offices[2]	67	110	58	103	9	7
Corporate University[3]	63	217	56	210	7	7
Office of the Chief Information Security Officer	48	41	48	41	0	0
Executive Offices[4]	25	30	25	30	0	0
Office of Inspector General	130	128	79	78	51	50
TOTAL	**5,776**	**5,593**	**1,860**	**1,995**	**3,916**	**3,598**

[1] The FDIC reports staffing totals using a full-time equivalent methodology, which is based on an employee's scheduled work hours. Division/Office staffing has been rounded to the nearest whole FTE. Totals may not foot due to rounding.

[2] Includes the Offices of the Legislative Affairs, Communications, Ombudsman, FDI Tech, Financial Adjudication and Minority and Women Inclusion.

[3] The Corporate Employee Program (CEP) program that was administered by Corporate University was discontinued in 2019.

[4] Includes the Offices of the Chairman, Vice Chairman, Director (Appointive), Chief Operating Officer, Chief Chief Financial Officer, Chief Information Officer, Consumer Protection and Innovation, External Affairs, Policy and Financial Stablilty.

SOURCES OF INFORMATION

FDIC Website

www.fdic.gov

A wide range of banking, consumer, and financial information is available on the FDIC's website. This includes the FDIC's Electronic Deposit Insurance Estimator (EDIE), which estimates an individual's deposit insurance coverage; the Institution Directory, which contains financial profiles of FDIC-insured institutions; Community Reinvestment Act evaluations and ratings for institutions supervised by the FDIC; Call Reports, which are bank reports of condition and income; and *Money Smart*, a training program to help individuals outside the financial mainstream enhance their money management skills and create positive banking relationships. Readers also can access a variety of consumer pamphlets, FDIC press releases, speeches, and other updates on the agency's activities, as well as corporate databases and customized reports of FDIC and banking industry information.

FDIC Call Center

Phone: 877-275-3342 (877-ASK-FDIC)
703-562-2222

Hearing Impaired: 800-925-4618
703-562-2289

The FDIC Call Center in Washington, DC, is the primary telephone point of contact for general questions from the banking community, the public, and FDIC employees. The Call Center directly, or with other FDIC subject-matter experts, responds to questions about deposit insurance and other consumer issues and concerns, as well as questions about FDIC programs and activities. The Call Center also refers callers to other federal and state agencies as needed. Hours of operation are 8:00 a.m. to 8:00 p.m., Eastern Time, Monday – Friday, and 9:00 a.m. to 5:00 p.m., Saturday – Sunday. Recorded information about deposit insurance and other topics is available 24 hours a day at the same telephone number.

As a customer service, the FDIC Call Center has many bilingual Spanish agents on staff and has access to a translation service, which is able to assist with over 40 different languages.

Public Information Center

3501 North Fairfax Drive
Room E-1021
Arlington, VA 22226

Phone: 877-275-3342 (877-ASK-FDIC),
703-562-2200

Fax: 703-562-2296

FDIC Online Catalog: https://catalog.fdic.gov

E-mail: publicinfo@fdic.gov

Publications such as *FDIC Quarterly and Consumer News* and a variety of deposit insurance and consumer pamphlets are available at www.fdic.gov or may be ordered in hard copy through the FDIC online catalog. Other information, press releases, speeches and congressional testimony, directives to financial institutions, policy manuals, and FDIC documents are available on request through the Public Information Center. Hours of operation are 9:00 a.m. to 4:00 p.m., Eastern Time, Monday – Friday.

Office of the Ombudsman

3501 North Fairfax Drive
Room E-2022
Arlington, VA 22226

Phone: 877-275-3342 (877-ASK-FDIC)

Fax: 703-562-6057

E-mail: ombudsman@fdic.gov

The Office of the Ombudsman (OO) is an independent, neutral, and confidential resource and liaison for the banking industry and the general public. The OO responds to inquiries about the FDIC in a fair, impartial, and timely manner. It researches questions and fields complaints from bankers and bank customers. OO representatives are present at all bank closings to provide accurate information to bank customers, the media, bank employees, and the general public. The OO also recommends ways to improve FDIC operations, regulations, and customer service.

REGIONAL AND AREA OFFICES

Atlanta Regional Office

John Henrie, Regional Director
10 Tenth Street, NE
Suite 800
Atlanta, Georgia 30309
(678) 916-2200

States represented:

Alabama
Florida
Georgia
North Carolina
South Carolina
Virginia
West Virginia

Chicago Regional Office

Teresa M. Sabanty, Acting Regional Director
300 South Riverside Plaza
Suite 1700
Chicago, Illinois 60606
(312) 382-6000

States represented:

Illinois
Indiana
Kentucky
Michigan
Ohio
Wisconsin

Dallas Regional Office

Kristie K. Elmquist, Regional Director
1601 Bryan Street
Dallas, Texas 75201
(214) 754-0098

States represented:

Colorado
New Mexico
Oklahoma
Texas

Memphis Area Office

Kristie K. Elmquist, Director
6060 Primacy Parkway
Suite 300
Memphis, Tennessee 38119
(901) 685-1603

States represented:

Arkansas
Louisiana
Mississippi
Tennessee

Kansas City Regional Office

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C. OFFICE OF INSPECTOR GENERAL'S ASSESSMENT OF THE MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE FDIC

Top Management and Performance Challenges Facing the Federal Deposit Insurance Corporation

February 2021

Federal Deposit Insurance Corporation
Office of Inspector General

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

INTRODUCTION

The Office of Inspector General (OIG) presents this report, to identify the Top Management and Performance Challenges (TMPC) facing the Federal Deposit Insurance Corporation (FDIC). The purpose of this document is to summarize the most serious challenges facing the FDIC, and to briefly assess the Agency's progress to address them, pursuant to the Reports Consolidation Act of 2000 and the Office of Management and Budget Circular A-136 (revised August 27, 2020).

This TMPC document is based on the OIG's experience and observations from our oversight work, reports by other oversight bodies, review of academic and relevant literature, perspectives from Government agencies and officials, and information from private-sector entities.

We identified ten Challenges facing the FDIC. These Challenges include nine Challenges that we reported last year, with updates and revisions to identify changes resulting from the current pandemic, economic conditions, and other circumstances, as well as one additional Challenge on Supporting Diversity in Banking. We provide a brief introductory summary and a detailed discussion for each Challenge in the following document. The Challenges include:

1. Ensuring Readiness in a Pandemic Environment;
2. Mitigating Cybersecurity Risks in the Banking Sector;
3. Improving IT Security Within the FDIC;
4. Securing FDIC Personnel, Facilities, and Information;
5. Ensuring and Aligning Strong Governance at the FDIC;
6. Augmenting the FDIC's Sharing of Threat Information;
7. Supporting Diversity in Banking;
8. Managing Human Resources and Planning for the Future Workforce;
9. Overseeing Contracts and Managing Supply Chain Risk; and
10. Enhancing Rulemaking at the FDIC.

To compile this document, we received input and considered comments from the FDIC, and while exercising our independent judgment, we incorporated suggestions where appropriate and fair. In several instances, we discuss topic areas where the OIG had previously conducted work to evaluate and audit the FDIC's progress in these Challenge areas. We commend the FDIC for taking steps in some areas to address certain Challenges, and we note many of these actions in the attached document, particularly where the Agency has taken concrete and measurable steps that demonstrate a clear and direct relationship towards achieving positive results and a desired outcome. We also recognize that there may be other ongoing plans, inputs, intentions, or future activities that might still be under development at the time of this writing.

We believe that this researched and deliberative analysis will be beneficial and constructive for policy makers, including the FDIC and Congressional oversight bodies. We further hope that it is informative for the American people regarding the programs and operations at the FDIC and the Challenges it faces.

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Challenge 1: Ensuring Readiness in a Pandemic Environment

Global economies are experiencing stress from the Covid-19 pandemic. In the United States, more than 30 million small businesses have been affected by current economic conditions, and claims for unemployment compensation have risen sharply. As a result, individuals and businesses may not be able to meet their debt obligations to financial institutions. Loan defaults may increase as pandemic-related economic pressures continue, and banks may struggle. The FDIC should continue to stand ready to fulfill its mission to maintain financial stability in the banking system, and to identify and mitigate risks through examinations. The FDIC should also prepare for bank failures in the event that losses overwhelm banks. Further, through its supervisory processes, the FDIC should review banks' adherence to Government-guaranteed loan program requirements (like the Paycheck Protection Program) and identify fraud, operational, legal, and reputational risks that may affect the safety and soundness of a financial institution.

The Financial Stability Oversight Council (FSOC)[1] stated that the pandemic has been "an extraordinary shock to the global financial system."[2] The World Bank projects that protracted viral outbreaks may disrupt economic activity, thus causing businesses to confront difficulties in servicing debt and increasing the cost of borrowing.[3] As a result, bankruptcies and defaults may increase, and banks may struggle.[4]

In the United States, pandemic-related unemployment and reduced business activity have already affected the ability of households and businesses to meet their financial obligations. FSOC noted that nearly $2 trillion in corporate debt has been downgraded, and default rates on loans and corporate bonds have increased considerably.[5] Certain loan categories such as commercial real estate loans reportedly had delinquency rates

[1] FSOC was created by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and is responsible for identifying threats to the financial stability of the country, promoting market discipline, and responding to emerging risks to the stability of the nation's financial system. Pub. L. No. 111-203, §111, 124 Stat 1376, 1392-3 (2010). FSOC consists of 10 voting members and 5 non-voting members. FSOC voting members include: The Secretary of the Treasury, Chairman of the Board of Governors of the Federal Reserve System, Comptroller of the Currency, Director of the Bureau of Consumer Financial Protection, Chairman of the Securities and Exchange Commission, Chairman of the Federal Deposit Insurance Corporation, Chairman of the Commodity Futures Trading Commission, Director of the Federal Housing Finance Agency, Chairman of the National Credit Union Administration, and an independent member having insurance expertise who is appointed by the President and confirmed by the Senate for a 6-year term. The non-voting members include the Director of the Office of Financial Research, the Director of the Federal Insurance Office, a state banking supervisor, state insurance commissioner, and state securities commissioner.

[2] FSOC, *Annual Report 2020*, (December 3, 2020).

[3] The World Bank, *The Global Economic Outlook During the COVID-19 Pandemic: A Changed World*, (June 8, 2020).

[4] The World Bank, *The Global Economic Outlook During the COVID-19 Pandemic: A Changed World*, (June 8, 2020).

[5] FSOC, *Annual Report 2020*, (December 3, 2020).

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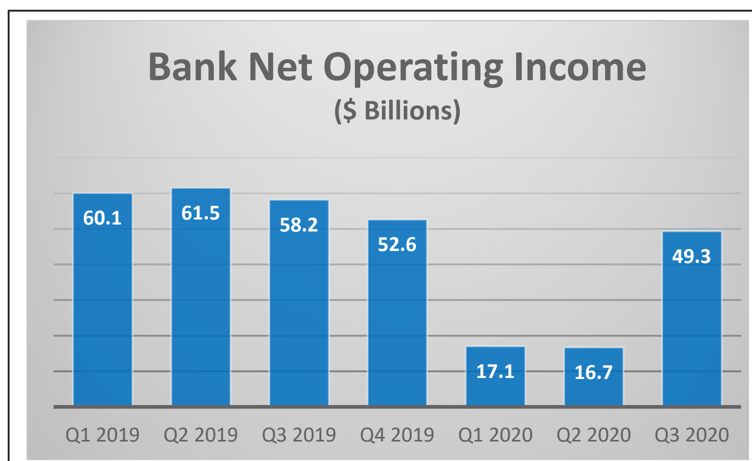
of 8.3 percent (representing $45 billion in loans) as of October 2020;[6] about 40 percent of community banks' loan portfolios are comprised of commercial real estate loans.[7] As of December 2020, the data analytics firm Black Knight reported that 5.2 percent of home mortgages in the United States (2.75 million homeowners) were in forbearance programs that allowed them to delay monthly mortgage payments.[8]

As shown in Figure 1, net operating income at banks declined 67 percent from the fourth quarter of 2019 to the first quarter of 2020. Bank net operating income declined further to $16.7 billion in the second quarter of 2020. Although it improved to $49.3 billion in the third quarter of 2020, it remained $8.9 billion less than the $58.2 billion during the same period in 2019.

Figure 1: Bank Net Operating Income 2019-2020 by Quarter



Source: FDIC Quarterly Banking Profile, Third Quarter 2020 Chart 1.

The duration and severity of the pandemic's impact on the economy is uncertain at the present time. A study of small business conducted by researchers at Yale, Princeton, and Oxford Universities found that loan defaults and delinquencies may continue to rise with banks suffering additional losses.[9] In June 2020, the Congressional Research Service noted that 87 banks were in danger of becoming seriously distressed,[10] and in November 2020, it was reported that 50 banks were considered to be troubled, meaning that they may not have sufficient capital to cover their losses.[11] As of the third quarter of 2020, the FDIC reported 56 banks were on the FDIC's problem bank list, an increase from 52 banks in the second quarter of 2020.[12]

The mission of the FDIC is to maintain the stability of the nation's financial system by examining and supervising financial institutions, insuring customer deposits, and managing the Deposit Insurance Fund. The FDIC examines the safety and soundness

[6] The Washington Post, *Mounting Commercial Real Estate Losses Threaten Banks, Recovery*, (November 11, 2020).
[7] FSOC, *Annual Report 2020*, (December 3, 2020).
[8] Black Knight, *New Forbearance Starts Increase as Overall Volumes See First Monthly Rise Since Early June*, (December 11, 2020).
[9] Yale News, *Survey Shows Pandemic's Severe Impact on U.S. Small Businesses*, (May1,2020), noting a study projecting that 25 percent of small business owners do not expect to recover from the pandemic and 31 percent believe they have a 50-percent chance of going bankrupt.
[10] Congressional Research Service, *COVID-19 and the Banking Industry: Risks and Policy Responses*, (June 18, 2020).
[11] USA Today, *Two Small Banks Failed in October, They Won't Be The Last If COVID Leaves Some Businesses Struggling To Pay Loans*, (November 20, 2020).
[12] FDIC Quarterly Banking Profile, Third Quarter 2020, Chart 8. Problem banks "refer to institutions that exhibit deficiencies in practices or performance so severe that failure is either a distinct possibility (4 rating) or likely (5 rating) unless the deficiencies are corrected." FDIC, *Crisis and Response: An FDIC History, 2008-2013*.

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of its supervised financial institutions by assessing banks' practices to manage and address risks at the institutions. The FDIC oversees banks' risk management in a variety of risk areas, including, for example, credit, liquidity, interest rate, operational, reputational, and compliance risk.

To accomplish its mission, the FDIC examines most of the financial institutions in the country (approximately 3,500 of the 5,000 banks). Also, the FDIC manages the resolution and receivership of failed banks, and its Deposit Insurance Fund (more than $116 billion as of the third quarter of 2020) insures approximately $8.9 trillion in customer deposit accounts held at domestic banks. The FDIC anticipates and is preparing for increased hiring to ensure readiness for any potential increase in supervisory workload, bank failure activity, and administrative support. The FDIC's Operating Budget for 2021 rose by $261 million (12.9 percent), largely due to "contingency reserves to address a potential increase during 2021 in supervision or resolution workload resulting from the ongoing pandemic."[13]

Identifying and Mitigating Risks to the Safety and Soundness of Institutions

FDIC bank examinations "play a key role in the supervisory process by helping the FDIC identify the cause and severity of problems at individual banks and emerging risks in the financial-services industry."[14] According to the Federal Reserve Bank of New York, "[t]he overarching objective of supervision is to identify and remediate conditions that could threaten banks' immediate health or long-term viability."[15] The FDIC uses models and examinations to identify banks' risks and assess whether banks mitigate these risks before they affect the safety and soundness, and condition of financial institutions.

Modeling Effects on Financial Institutions. The FDIC should continue to monitor the health of the banking sector in order to identify and respond to emerging economic strain and growing systemic risks. Timely risk identification allows the FDIC to adjust supervisory strategies and prepare for possible bank failures.

To do so, the FDIC relies upon data from a number of sources, including banks' quarterly Consolidated Reports of Condition and Income (Call Reports), which include banks' balance sheets, income statements, and supporting schedules.[16] FDIC economists and analysts face challenges in making real-time assessments of banks' current health and projecting future economic impact, because there is a lag time between the bank's actual financial condition and when the Call Report is submitted to the FDIC. This delay is nearly 4 months. The FDIC Chairman compared this information gap to a doctor trying to assess a patient's health today, but getting lab results 4 months later.[17] As a result, the FDIC is challenged to assess the current financial condition of an institution, in order to identify "key indicators of economic strain

[13] *Proposed 2021 FDIC Operating Budget,* (December 1, 2020).
[14] FDIC Division of Risk Management Supervision, *Risk Management Manual of Examination Policies*.
[15] Federal Reserve Bank of New York Staff Report, *The Impact of Supervision on Bank Performance*, (May 2019).
[16] 12 C.F.R. §304.3(a). The FDIC also uses a number of tools to monitor banks' liquidity and interest rate risk.
[17] FDIC Chairman Jelena McWilliams op-ed published in the American Banker's "BankThink" blog, *FDIC Chief on Why Call Reports Are Getting a Makeover* (July 1, 2020).

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in the economy, growing stress across the financial system, and emerging risk at individual institutions."[18]

In addition, Call Reports do not capture certain information necessary for the FDIC to assess banking risk to the safety and soundness of institutions. For example, Call Report data do not identify high concentration exposures to certain sectors of the economy. A bank's concentration in particular types of loans may indicate undue risk at the institution. The FDIC should also consider using additional economic and financial information from other Government agencies and the private sector in order to enhance its current modeling and measurement of banking conditions and to evaluate the safety and soundness of institutions. We have work planned to assess FDIC modeling and its analysis of relevant information.

In June 2020, the FDIC announced a competition to improve financial reporting from banks. The FDIC asked certain technology companies for ideas and suggestions regarding new approaches to financial reporting, particularly for community banks.[19] As the FDIC considers this information received, it should also look for ways to improve its modeling capabilities and to anticipate weaknesses in the safety and soundness at banks, potential failures or closures, and risk factors facing the institutions.

Conducting Examinations Remotely. The Federal Deposit Insurance Act requires on-site, full-scope examinations of every FDIC-insured financial institution at least once during each 12-month period (with certain limited exceptions).[20] In March 2020, the FDIC mandated telework for its staff and continued all examination activities off site. Remote examinations may limit examiners' ability to conduct transaction testing. For example, examiners may not be able to observe processes in order to ensure that bank staff execute activities consistent with the bank's written policies and procedures.[21]

In May 2020, the FDIC modified its processes to allow for off-site examination activities to qualify as full-scope examinations under certain circumstances.[22] As part of these modifications, the FDIC used technology to observe certain bank processes such as examiners' assessments of banks' physical security through remote facility tours and remote access. If examiners could not complete examination modules or assign a rating without an on-site presence, then the examination would be "held in abeyance." A total of 39 FDIC examinations (2.9 percent of all FDIC examination starts) were held in abeyance for short periods of time during 2020. None of these examinations were held in abeyance at the end of the year.

Current social distancing guidelines also place an unexpected reliance on information technology (IT) systems to conduct FDIC examinations. A significant portion of bank examinations involve the exchange of documents and sensitive data, including bank information and customer data. Although the FDIC frequently exchanges data with banks through file exchange systems, the FDIC should continue to ensure that its

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[18] FDIC Chairman Jelena McWilliams op-ed published in the American Banker's "BankThink" blog, *FDIC Chief on Why Call Reports Are Getting a Makeover* (July 1, 2020).
[19] FDIC Press Release, *FDIC Launches Competition to Modernize Bank Financial Reporting*, (June 30, 2020).
[20] 12 C.F.R. § 337.12.
[21] Bloomberg Law, *Bank Exams May Lose Punch as Coronavirus Restrictions Linger*, (March 18, 2020).
[22] FDIC Memorandum, *Temporary Examination Processes,* (May 5, 2020).

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systems can accommodate the increased data flow and volume, as well as ensure the IT security and privacy associated with such transfers. Smaller banks may not have digital records[23] and staff capacity to transition from traditional mail-in records to secure online portals.[24] Such dependence on remote off-site examinations places a greater emphasis and focus on information security protocols and the reliability of the FDIC's information systems.

Ensuring the FDIC's Readiness for Crises

The FDIC should be prepared for a broad range of crises that could impact the banking system, and readiness plans and activities are an important part of this preparation. Readiness planning provides the ability to respond timely and effectively to crisis events. In our recent report, *The FDIC's Readiness for Crises* (April 2020), we found that the FDIC should fully establish seven elements of crisis readiness to be prepared for any type of crisis that may impact the banking system, including a pandemic. Specifically, we determined that the FDIC could improve the following elements of its crisis readiness framework:

- **Policy and Procedures:** The FDIC did not have a documented Agency policy that defined readiness authorities, roles, and responsibilities, including those of a committee responsible for overseeing readiness activities.
- **Plans:** The FDIC should develop an Agency-wide all-hazards readiness plan that identifies the critical common functions and tasks necessary regardless of the crisis scenario, as well as Agency-wide hazard-specific plans, as needed, to integrate divisional plans containing requirements unique to certain types of crises.
- **Training:** The FDIC did not train personnel to understand the content of crisis readiness plans, including their task-related responsibilities in executing the plans. Further, the FDIC did not incorporate a requirement within eight readiness plans to train responsible personnel to understand the plan, and how to carry out the objectives and tasks specific to the plan.
- **Exercises:** The FDIC should document the important results of all readiness plan exercises and consistently incorporate within the plans a requirement for regular exercises.
- **Lessons Learned:** The FDIC did not have a documented monitoring process that prioritized and tracked recommendations to improve readiness.
- **Maintenance:** The FDIC should consistently review and update readiness plans, incorporate maintenance requirements in the plans, and establish a central repository of plans to facilitate periodic maintenance.
- **Assessment and Reporting:** The FDIC should regularly assess and report on Agency-wide progress on crisis readiness plans and activities to key decision makers, such as the FDIC Chairman and senior management.

We made 11 recommendations to the FDIC to improve crisis readiness planning. The FDIC concurred or partially concurred with all of the recommendations. According to

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[23] American Banker, *Will coronavirus hasten arrival of fully remote bank exams?,* (May 1, 2020).
[24] FDIC Financial Institution Letter, *Temporary Alternative Procedures for Sending Supervision-Related Mail and Email to the FDIC* (FIL-27-2020) (March 26, 2020).

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FDIC officials, the Agency is in the process of addressing the recommendations, and it has hired outside consultants to assist in this effort. The FDIC also indicated that it has revised its resolution procedures to address the health and safety of on-site personnel and current pandemic conditions.

Resolving Financial Institutions

When a financial institution fails, the FDIC is responsible for facilitating the transfer of the institution's insured deposits to an assuming institution or paying insured depositors directly. Carrying out this responsibility during the pandemic necessitates health and safety considerations, because some resolution activities require FDIC personnel to be present at the failed bank offices and branches.

During 2020, the FDIC resolved several banks using a modified resolution process that the FDIC stated addressed pandemic health and safety requirements. The FDIC should be prepared to scale these new resolution processes for large bank or multi-bank failures and re-evaluate on-site procedures in light of evolving pandemic health and safety requirements.

In addition, in 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) provided the FDIC with additional resolution authority for large complex financial companies known as systemically important financial institutions (SIFI). These provisions allow for liquidation of a bank where its bankruptcy would have serious adverse consequences on the financial stability of the United States, and where there is no private-sector alternative to prevent default.

Under Dodd-Frank Act authority, the FDIC is appointed as a receiver to carry out the liquidation of SIFIs. As such, the FDIC may take steps to transfer or sell assets, create bridge financial organizations to assume assets or liabilities, and approve claims against the failed bank. To help fund this liquidation process, the Dodd-Frank Act includes a separate Orderly Liquidation Fund created by the Department of the Treasury. In the event of an orderly liquidation of a SIFI, the FDIC should ensure that the Department of the Treasury has the required funds available for FDIC borrowings. Although the FDIC and other Federal agencies have conducted simulations of Dodd-Frank Act processes, the Federal Government has never invoked these Orderly Liquidation authorities.

Assessing Banks' Risk Regarding Government-Backed Loans

In response to the current pandemic, in March 2020, the Federal Government established the Paycheck Protection Program (PPP), among other programs, under the Coronavirus Aid, Relief, and Economic Security (CARES) Act.[25] The CARES Act was intended to provide economic relief to those in need during the pandemic.[26]

[25] The PPP was established by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). PL 116-136, 134 Stat 281 (2020). The program is implemented by the Small Business Administration with support from the Department of the Treasury. The program provides small businesses with funds to pay up to 8 weeks of payroll costs, including benefits. Funds can also be used to pay interest on mortgages, rent, and utilities.

[26] SBA, *Business Loan Program Temporary Changes: Paycheck Protection Act*, 85 Fed. Reg. 73 (April 15, 2020).

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To date, the PPP has allocated more than $800 billion for banks to provide Government-guaranteed loans to eligible small businesses. As of the end of Fiscal Year 2020, 5,460 banks had processed 5.2 million PPP loans.[27] FDIC-supervised community banks originated over half of these PPP loans totaling more than $230 billion, and balance sheets at some banks grew by more than 25 percent as a result of these loans.[28]

Guaranteed-loan programs could lead to safety and soundness risk at financial institutions. For example, banks may suffer legal and reputational risk if banks do not follow Government-backed loan issuance requirements or where loan proceeds are used to facilitate financial fraud or other wrongdoing. According to the Small Business Administration Office of Inspector General (SBA OIG), approximately $3.6 billion in PPP loans were provided to potentially ineligible recipients,[29] and as of December 2020, the Department of Justice had initiated more than 65 criminal fraud charges related to the PPP involving over $250 million in PPP loans.

We recognize that the initial PPP was constructed in an effort to meet the urgent needs of small businesses and their employees. The banks nevertheless retain responsibilities to maintain strong compliance programs and internal controls over their loan portfolios. These responsibilities are not intended to deter, delay, or hamper bank loans to those in need, limit loans to eligible borrowers, nor hinder the implementation of the Government program. Through its supervisory processes, the FDIC should continue to examine banks' adherence to Government-guaranteed loan program requirements, and assess the risk of these loan portfolios. The FDIC provided guidance to examination staff on examiner considerations for the PPP.[30]

The impact of the pandemic on the banking system remains uncertain. Economic pressures may require that banks absorb additional losses that could result in bank weaknesses or failures. The FDIC should continue to identify and address emerging risks—including those related to Government-guaranteed loans—and be prepared to address bank failures.

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[27] SBA OIG, *Top Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2021*, (October 16, 2020).
[28] American Banker, *Regulators Grant Relief to Banks Pushed Past Key Asset Limits by PPP*, (November 20, 2020).
[29] SBA OIG, *Top Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2021*, (October 16, 2020); SBA OIG, *Paycheck Protection Program Loan Recipients on the Department of Treasury's Do Not Pay List,* (January 11, 2021).
[30] FDIC, Risk Management Supervision Memorandum, Examination Considerations Related to the Paycheck Protection Program, (June 22, 2020).

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Challenge 2: Mitigating Cybersecurity Risks in the Banking Sector

In recent months, cyberattacks against banks have increased with growing frequency and severity. The Federal Reserve Bank of New York estimated that financial services firms face up to 300 times the cybersecurity risk than do other businesses. This risk may intensify with remote work by employees at financial firms and enhanced customer convenience and access during the pandemic. The FDIC should ensure that it has IT examination processes and staff with the requisite skills to identify and mitigate cybersecurity risks at banks, including those associated with third-party service providers. Further, FDIC examination and resolution policies should keep pace with emerging cybersecurity issues facing the banking sector.

In April 2020, the Financial Stability Board (FSB) noted that cybersecurity incidents could undermine the integrity of global financial markets, causing losses to investors and the public.[31] In January 2020, the FDIC and Office of the Comptroller of the Currency (OCC) released a joint statement warning banks that "disruptive and destructive attacks against financial institutions have increased in frequency and severity in recent years."[32] A study by the Federal Reserve Bank of New York noted that financial services firms face up to "300 times more cyberattacks per year than other firms."[33]

The OCC expects cyber threats to banks, customers, and third parties to increase for the foreseeable future,[34] including destructive malware,[35] ransomware,[36] and phishing.[37] The Federal Bureau of Investigation's (FBI) Internet Crime Complaint Center[38] reported that in 2019, it received 2,047 complaints of ransomware.[39] According to a report by the cybersecurity company Arctic Wolf, in the first 3 months of the pandemic (between March and June 2020), ransomware and phishing attacks at banks increased by 520 percent.[40]

In October 2020, the Financial Crimes Enforcement Network (FinCEN) and the Office of Foreign Asset Control issued alerts to financial institutions about indicators of

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[31] Financial Stability Board, *Effective Practices for Cyber Incident Response and Recovery: Consultative Document,* (April 20, 2020).
[32] FDIC and OCC, *Joint Statement on Heightened Cybersecurity Risk*, (January 16, 2020).
[33] Federal Reserve Bank of New York Staff Report, *Cyber Risk and the U.S. Financial System: A Pre-Mortem Analysis*, (January 2020).
[34] OCC, *Semiannual Risk Perspective*, (Spring 2020).
[35] Malware includes viruses, malicious code, spyware, and other computer programs that are covertly placed on a computer or systems "to compromise the confidentiality, integrity, or availability of data, applications, or operating systems." See National Institute of Standards and Technology, Glossary of Terms.
[36] Ransomware refers to computer software covertly placed on a computer or system that denies access to a user's data by encrypting the data. The data are released when the user pays a ransom to the hacker to receive the key to unlock the encryption. See National Institute of Standards and Technology, Glossary of Terms.
[37] Phishing is a technique to acquire access to a system through fraudulent solicitation in an email or website. See National Institute of Standards and Technology, Glossary of Terms.
[38] The FBI's IC3 provides the public with a mechanism for reporting information concerning suspected Internet-facilitated criminal activity.
[39] FBI, *Internet Crime Report 2019*.
[40] Artic Wolf, 2020 *Security Operations Annual Report*.

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ransomware and associated money laundering activities and sanction risks for facilitating ransomware payments.[41] Further, in April 2020, the Department of Homeland Security (DHS) released a joint alert with the United Kingdom's National Cyber Security Centre, to warn individuals and organizations about exploitation involving phishing schemes designed to look like they originated from a bank.[42] Also, in the same month, the FBI warned the public of an anticipated increase in phishing schemes known as Business Email Compromise schemes.[43]

According to the OCC's *Semiannual Risk Perspective* (Spring 2020),[44] banks have increased the integration of new technologies and technical capacity into their operations in order to accommodate customers' need for physical distancing and remote transactions. For example, banks are enabling new online and mobile banking services for customers' convenience, and allowing telework capabilities for bank personnel.[45] In April 2020, according to Fidelity National Information Services, mobile banking traffic increased 85 percent.[46]

The OCC warned that cyberattacks on financial institutions often focus on the use of virtual private networks, teleconferencing services, and remote telecommunication technologies.[47] Remote access systems that are not properly secured can "serve as gateways from the internet into internal networks, often offering immediate, highly privileged access to attackers."[48]

In addition, financial institutions, especially community banks, are relying on third-party service providers (TSP) to deliver such technology services.[49] These new technologies and third-party relationships increase the number of ways that cyberattacks can occur and their many entry points. For example, the OCC noted that cybercriminals circumvent bank cyber controls by targeting third-party providers.[50]

Financial institutions are increasingly reliant on TSPs to provide specialized products and critical IT services to supplement or increase their capabilities.[51] For example, the

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[41] U.S. Department of the Treasury, Financial Crimes Enforcement Network, *Advisory on Ransomware and the Use of the Financial System to Facilitate Ransom Payments*, (October 1, 2020); U.S. Department of the Treasury, Office of Foreign Asset Control, *Advisory on Potential Sanctions for Facilitating Ransomware Payments*, (October 1, 2020). FinCEN is a component of the Department of the Treasury that collects and analyzes financial transaction information provided by the financial industry to combat money laundering, terrorist financing, and other financial crimes. FinCEN issues public and non-public advisories to financial institutions detailing activities and factors related to money laundering and terrorist financing threats and vulnerabilities so that financial institutions can use that information to enhance their anti-money laundering programs.
[42] DHS, CISA, and United Kingdom's National Cyber Security Centre Alert, *COVID-19 Exploited by Malicious Cyber Actors*, (April 8, 2020).
[43] Forbes, *Business Email Compromise Is Extremely Costly and Increasingly Preventable*, (April 15, 2020).
[44] OCC, *Semiannual Risk Perspective*, (Spring 2020).
[45] OCC, *Semiannual Risk Perspective*, (Spring 2020).
[46] CNBC, *Coronavirus Crisis Mobile Banking Surge Is a Shift That's Likely to Stick*, (May 27, 2020).
[47] OCC, *Semiannual Risk Perspective*, (Spring 2020).
[48] NextGov, *NSA Warns China IS Targeting Flaws in U.S. National Security Systems*, (October 20, 2020).
[49] Michelle W. Bowman, Governor, Board of Governors of the Federal Reserve System, *"Empowering Community Banks,"* delivered at the Conference for Community Bankers sponsored by The American Bankers Association; Orlando, Florida, (February 10, 2020).
[50] OCC, *Semiannual Risk Report*, (Fall 2019).
[51] OCC, *Semiannual Risk Perspective*, (Fall 2019); FSOC, *Annual Report 2020*.

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OCC's *Semiannual Risk Perspective* (Spring 2020) noted that banks are further leveraging TSPs in this pandemic environment, in order to support remote work capabilities, technological capacity, and solutions to maintain operations virtually.[52] In addition, significant consolidation among TSPs drives large numbers of banks—especially community banks supervised by the FDIC—to rely on a few large service providers for core systems and operations support.[53] Therefore, a cybersecurity incident at one TSP has the potential to affect multiple financial institutions that could cause "widespread disruption in access to financial data and could impair the flow of financial transactions."[54]

Ensuring that Examinations Detect and Mitigate Cybersecurity Risk

According to the *Interagency Guidelines Establishing Information Security Standards* issued by Federal financial regulators,[55] a financial institution is responsible for the cybersecurity of its IT systems. Similarly, responsibility for compliance with consumer protection laws and regulations lies with the financial institution, regardless of whether the institution or a TSP controls the information.[56]

The FDIC assesses whether bank management has appropriate controls in place to mitigate cybersecurity risks through its IT risk examinations. Since 2016, the FDIC has used the Information Technology Risk Examination (InTREx) work program to conduct bank IT examinations and assess financial institutions' management of TSPs. The FDIC developed InTREx to enhance its IT supervision by utilizing a risk-focused examination approach. Examiners determine the scope of an IT examination consistent with a bank's IT complexity and risk. For example, the scope of an IT examination may increase due to, among other things, the introduction of new technology or the addition of a TSP. The FDIC should ensure that its assessments accurately capture banks' IT complexity and that it has the processes, resources, and staff with appropriate skills to complete thorough examinations in a timely manner. We have work planned to assess the InTREx program.

Addressing Risks Posed by Third-Party Service Providers

The FDIC requires financial institutions to manage the risks associated with using TSPs. Bank management should demonstrate that appropriate controls are in place to manage system interconnections, interfaces, and access of TSPs and their sub-contractors.[57] Yet, many community banks often lack the resources to exercise appropriate due diligence in their selection of TSPs and maintain adequate oversight of TSPs.[58] A Governor of the Federal Reserve Board recognized this burden on community banks,

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[52] OCC, *Semiannual Risk Perspective*, (Spring 2020).
[53] OCC, *Semiannual Risk Perspective*, (Spring 2018).
[54] FSOC, *Annual Report 2020*.
[55] These Interagency Guidelines can be found in the FDIC Rules and Regulations, Part 364, Appendix B.
[56] 12 C.F.R. Part 364, Appendix B. The FDIC, OCC, and Board of Governors of the Federal Reserve issued the Interagency Guidelines Establishing Information Security Standards. Financial Institution Letter 44-2008, Guidance for Managing Third-Party Risk (June 6, 2008).
[57] OCC, *Semiannual Risk Perspective*, (Spring 2018).
[58] Michelle W. Bowman, Governor, Board of Governors of the Federal Reserve System, *"Empowering Community Banks,"* delivered at the Conference for Community Bankers sponsored by The American Bankers Association; Orlando, Florida, (February 10, 2020).

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stating that "due diligence for new third-party relationships, even those that are not start-ups, can require a community bank to collect and analyze a significant amount of complex information [and] annual monitoring that is required adds an additional significant and ongoing burden." [59]

The FDIC assesses the risk associated with services provided by TSPs to banks through an examiner's assessment of the financial institution's management of TSP risk and, in certain cases, through direct examination of the services provided.[60] The FDIC Chairman has observed that "the FDIC had 'limited ability' to examine third-party service providers."[61] FSOC noted in its 2020 Annual Report, that the authority to supervise TSPs varies among financial regulators. Bank regulators, for example, write rules, publish guidance, and enforce compliance respecting banks' interactions with TSPs, but they do not regulate the TSPs.[62] FSOC recommended that agencies be authorized to oversee TSPs with examination and enforcement powers. For the time being, the FDIC is relying on its examination program to evaluate TSP security controls.

The FDIC plays an important role in supervising, examining, and addressing cybersecurity risks at financial institutions. These risks have the potential to threaten the safety and soundness of institutions as well as the stability of the financial system. The FDIC should continue to ensure it has the proper procedures and personnel with the appropriate skills, experience, and background in order to conduct effective IT examinations and assess management of cybersecurity risks, including risks associated with TSPs.

Challenge 3: Improving IT Security Within the FDIC

Federal agencies face a growing risk of cybersecurity incidents. In Fiscal Year 2019, Federal agencies reported 28,581 cybersecurity incidents. The rapid transition to remote work in response to pandemic protocols amplifies the Government's reliance on IT systems and accelerates implementation of technologies. Similarly, over the past year, the FDIC moved to a fully remote workforce and began implementing a 5-year plan to modernize its IT systems. The FDIC must have robust controls to secure its systems and ensure the protection of its information and data.

[59] Michelle W. Bowman, Governor, Board of Governors of the Federal Reserve System, *"Empowering Community Banks,"* delivered at the Conference for Community Bankers sponsored by The American Bankers Association; Orlando, Florida, (February 10, 2020).
[60] Under the Bank Service Company Act, certain services provided to banks may be subject to interagency examination by Federal regulators, including the FDIC. 12 U.S.C.§ 1867 (2011); *see* Federal Regulatory Agencies' Administrative Guidelines, *Implementation of Interagency Programs for the Supervision of Technology Service Providers*, (October 2012).
[61] CNN, *Banks could get fined for cyber breaches, top regulator says*, (August 1, 2019).
[62] Congressional Research Service, *Fintech: Overview of Financial Regulators and Recent Policy Approaches*, (April 28, 2020).

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In its Annual Report to Congress, the Office of Management and Budget (OMB) reported that 28,581 cybersecurity incidents occurred at Federal agencies in Fiscal Year 2019. The Government Accountability Office (GAO) has identified cybersecurity as a High Risk across the Federal Government each year since 1997.[63] According to the GAO, "Federal agencies face a growing number of cyber threats to their systems and data."[64] These dangers include insider threats from both bad actors and unwitting employees, escalating and emerging threats from around the globe, and the emergence of new and destructive attacks. The pandemic has exacerbated cybersecurity threats targeting Federal agencies, including financial regulators, whose workforces transitioned to remote work.[65]

Recent events emphasize the vulnerability of Federal networks. In December 2020, it was reported that Federal Government agency networks were compromised by a software update from the IT management services company SolarWinds,[66] and that nation-state actors had inserted malicious code into the software update, which gave hackers access to Government systems.[67] The Cybersecurity and Infrastructure Security Agency (CISA) issued Emergency Directive 21-01, *Mitigate SolarWinds Orion Code Compromise*, to Federal agencies "to review their networks for indicators of compromise and disconnect or power down their SolarWinds Orion products immediately."[68] CISA reported that the threat from the SolarWinds compromise poses a great risk to the Federal Government.[69]

The FDIC uses a SolarWinds product. Following the issuance of the Emergency Directive, FDIC officials represented that they had disconnected the FDIC SolarWinds product and that they were in the process of conducting an internal review.

Also in December 2020, the National Security Agency (NSA) issued a Cybersecurity Advisory that nation state actors exploited a vulnerability in VMware products that allows attackers to forge security credentials and gain access to protected data.[70] The Cybersecurity Advisory recommended application of a vendor-issued patch. The FDIC

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[63] GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, GAO-19-157SP, (March 2019).
[64] GAO, *Cybersecurity: Agencies Need to Fully Establish Risk Management Programs and Address Challenges*, GAO-19-384, (July 2019).
[65] U.S. House of Representatives, Committee on Financial Services, Subcommittee on Oversight and Investigations, Republican Staff Report, "*Securing the New Normal: An Examination of Cybersecurity Issues Related to Remote Work and the Transition to a Digital Supervisory Relationship* (Jan. 11, 2021); *see also* Jelena McWilliams, Chairman, Federal Deposit Insurance Corporation, *FDIC Response to House Committee on Financial Services Ranking Member's Request,* May 19, 2020 (reporting an increase in cyber threats associated with COVID-19 and FDIC actions to notify financial institutions and service providers critical to the banking industry).
[66] The Washington Post, *Russian Government Hackers are Behind a Broad Espionage Campaign That Has Compromised U.S. Agencies, Including Treasury and Commerce,* (December 14, 2020).
[67] The New York Times*, Scope of Russian Hack Becomes Clear: Multiple U.S. Agencies Were Hit,* (December 14, 2020).
[68] CISA*, CISA Issues Emergency Directive To Mitigate The Compromise Of SolarWinds Orion Network Management Products*, (December 13, 2020).
[69] CISA Cyber Activity Alert, *Advanced Persistent Threat Compromise of Government Agencies, Critical Infrastructure, and Private Sector Organizations*, (December 17, 2020); The New York Times, *Scope of Russian Hack Becomes Clear: Multiple U.S. Agencies Were Hit,* (December 14, 2020). Politico, *How Suspected Russian Hackers Outed Their Massive Cyberattack*, (December 16, 2020).
[70] NSA Cybersecurity Advisory, *Russian State-Sponsored Malicious Cyber Actors Exploit Known Vulnerability in Virtual Workspaces*, (December 7, 2020).

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uses a VMware product, and FDIC officials represented that they took action to apply the patch and reduce the risk of exploitation for the FDIC VMware product.

In addition, the DHS recognized that "ransomware has rapidly emerged as the most visible cybersecurity risk playing out across our Nation's networks."[71] In a survey conducted by the data-protection firm Veritas, nearly 30 percent of Federal agency respondents reported that they were directly affected by ransomware attacks in the past 3 years. In addition, 80 percent of Federal respondents believe that ransomware and malware will be as great a concern—if not a greater concern—within the next 12 months.[72] We have work planned to review the FDIC's preparedness to handle a possible ransomware attack.

As of October 2020, the FDIC had 14 cloud-based systems. According to the GAO, cloud-based systems offer benefits but also pose cybersecurity risks. [73] For example, risks arise when agencies and cloud service providers fail to effectively implement security controls over cloud services. We have work planned to assess the FDIC's cloud solutions.

Enhancing the FDIC's Information Security Program and Practices

In our annual audit report, *The FDIC's Information Security Program- 2020* (October 2020), we identified control weaknesses that limited the effectiveness of the FDIC's information security program and practices and placed the confidentiality, integrity, and availability of the FDIC's information systems and data at risk. The weaknesses include:

- **Risk Management.** We found that the FDIC had not fully defined its Enterprise Risk Management governance, roles, and responsibilities.[74] In addition, the FDIC had not yet implemented recommendations to integrate privacy into its Risk Management Framework, nor did the FDIC always address Plans of Action and Milestones[75] in a timely manner.
- **Risk Acceptance Decisions Not Consistently Re-assessed.** We found that the FDIC did not consistently review its risk acceptance decisions or submit them to the FDIC's Authorizing Official for re-approval. As a result, the FDIC cannot effectively assess the level of risk it is incurring relative to established Risk Tolerance levels.
- **Unauthorized Software on the Network.** In May 2020, the FDIC found that an unauthorized commercial software application had been installed on 32 desktop workstations. The use of unauthorized software increases the risk of a security incident and the interruption to the safe operation of the FDIC's network and applications.
- **Privacy Control Weaknesses Not Fully Addressed.** The FDIC established a number of Data Protection and Privacy controls; however, it had not addressed 12 of

[71] DHS's CISA Insights, *Ransomware Outbreak*, (August 21, 2019).
[72] Veritas, *Ransomware Threats Is Your Agency Ready?*, (December 2019).
[73] GAO, *Cloud Computing Security, Agencies Increased Their Use of the Federal Authorization Program, but Improved Oversight and Implementation Are Needed*, GAO-20-126, (December 2019).
[74] See additional discussion of governance-related issues in Challenge 5 – Promoting and Aligning Strong Governance at the FDIC.
[75] A Plan of Action and Milestones is a management tool used by agency CIOs, security personnel, program officials, and others to track the progress of corrective actions pertaining to security vulnerabilities identified through security control assessments and other sources.

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the 14 recommendations contained in our audit, *The FDIC's Privacy Program* (December 2019). These outstanding recommendations include, for example, monitoring employee and contractor compliance with policies for properly safeguarding sensitive electronic information; developing privacy plans for all information systems containing Personally Identifiable Information (PII)[76] consistent with OMB guidance; and implementing a privacy continuous monitoring program to regularly assess the effectiveness of privacy controls.

- **Oversight and Monitoring of Outsourced Systems Not Adequate.** We found that the FDIC had not properly categorized some of its outsourced information systems, or subjected these systems to a proper risk assessment, authorization to operate, and ongoing monitoring.
- **Cloud-based Systems Not Subject to Annual Control Assessments.** FDIC guidance requires security and privacy controls for cloud-based systems be assessed on a 3-year cycle, with at least some controls tested each year. However, we found that in two cases, the FDIC had not completed annual control assessments for more than 3 years after the FDIC authorized the systems to operate. Without annual control assessments, the FDIC cannot be sure that it will identify and remediate security and privacy weaknesses in a timely manner; these vulnerabilities may threaten the confidentiality, integrity, and availability of cloud-based systems.

We made eight recommendations to strengthen the effectiveness of the FDIC's information security program controls and practices. In addition, as of December 2020, there were 14 other unimplemented IT- and privacy-related recommendations from prior OIG reports.

In our audit report, *Security Controls Over the Federal Deposit Insurance Corporation's Regional Automated Document Distribution and Imaging System* (RADD) (June 2020), we assessed the effectiveness of selected security controls for protecting the confidentiality, integrity, and availability of the information in RADD against security controls in National Institute of Standards and Technology (NIST) guidance.[77] The RADD system contains over 5 million electronic records and serves as the official recordkeeping and electronic filing system for the FDIC's supervisory business records. We found that the FDIC's controls and practices in three security control areas were not fully effective, because either they did not comply with FDIC policy requirements or they were not implemented in a manner consistent with relevant NIST security guidance. The lack of documented roles, responsibilities, and procedures for audit logging caused the FDIC to be dependent upon the knowledge and experience of a limited number of staff. We made two recommendations for the FDIC to improve these security controls; these recommendations have been implemented.

FDIC IT systems are essential components of FDIC business processes. Absent effective IT security, the FDIC places the confidentiality, integrity, and availability of its information systems and data at risk.

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[76] PII is any information about an individual maintained by an agency, including (1) any information that can be used to distinguish or trace an individual's identity, such as name, Social Security Number (SSN), date and place of birth, mother's maiden name, or biometric records; and (2) any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information.

[77] The 8 NIST security control areas are: (1) Plans of Action and Milestones (POA&Ms), (2) Configuration Management, (3) Access Management, (4) Removable Media, (5) Encryption, (6) Audit Logging, (7) Security Authorization and Continuous Monitoring, and (8) Contingency Planning.

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Challenge 4: Securing FDIC Personnel, Facilities, and Information

The FDIC is responsible for protecting a workforce of approximately 5,800 employees and 1,600 contract personnel who work at 94 FDIC facilities throughout the country. The FDIC should continue to strengthen its programs to ensure that its facilities are secure, that staff meet suitability requirements, and that the FDIC work environment is safe and free from discrimination and sexual harassment. The FDIC is also the custodian of 81 systems as well as hard-copy records containing sensitive information about banks and PII of employees, contractors, bank management, and bank deposit holders. The FDIC should control access to such information and maintain its security.

Based on an analysis conducted by Carnegie Mellon University, more than half of all Federal Government insider threats involved fraud.[78] Such incidents included the theft of PII for employees and non-employees, or sensitive Government databases. In most incidents, the individuals who stole the information had worked for their respective organization for more than 5 years and abused their privileged access.[79]

Federal agencies should have security measures in place to protect their people, property, and information. These security measures include processes to identify and assess individuals with criminal histories and questionable behavior.[80] The President's Management Agenda noted the importance of personnel security and suitability programs "to anticipate, detect, and counter both internal and external threats, such as those posed by trusted insiders who may seek to do harm to the Federal Government's policies, processes, and information systems."[81]

Further, Federal facilities should establish security measures commensurate with their internal and external risk[82] and have working environments that are free from discriminating, intimidating, hostile, or offensive behaviors. These behaviors can undermine an agency's mission by creating a hostile work environment that lowers productivity and morale, affects the agency's authority and credibility, and exposes the agency to litigation risk and costs.[83] Federal agencies also must safeguard and protect the privacy and sensitive data in their custody and possession.[84]

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[78] Carnegie Mellon University, Software Engineering Institute, *Insider Threats in the Federal Government* (Part 3 of 9: Insider Threats Across Industry Sectors), (November 5, 2018).
[79] Carnegie Mellon University, Software Engineering Institute, *Insider Threats in the Federal Government* (Part 3 of 9: Insider Threats Across Industry Sectors), (November 5, 2018).
[80] GAO, *Key Issues: Government-wide Personnel Security Clearance Process – High-Risk Issue.*
[81] President's Management Agenda, *Security Clearance, Suitability/Fitness, and Credentialing Reform*.
[82] In 1995, President Clinton by Executive Order 12977 (October 19, 1995) created the Interagency Security Committee (ISC) in order to issue standards, policies, and best practices to enhance the quality and effectiveness of security in non-military Federal facilities in the United States.
[83] U.S. Merit Systems Protection Board Research Brief, *Update on Sexual Harassment in the Federal Workplace*, (March 2018) and 29 C.F.R. § 1604.11 (2015).
[84] In 2015 GAO expanded its Government-wide cybersecurity risk to include protecting the privacy of PII. See, GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, GAO-19-157SP, (March 2019).

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Improving the Effectiveness of the FDIC's Personnel Security and Suitability Processes

FDIC employees and contractors are subject to background investigations commensurate with the sensitivity of their positions, scope of responsibility, and access to classified National Security Information. The FDIC's Personnel Security and Suitability Program (PSSP) strives to ensure that FDIC employees and contractors have suitable character, reputation, honesty, integrity, and trustworthiness. A strong and effective PSSP reduces the risk of employee or contractor information breaches and identifies potential issues for the FDIC's Insider Threat Program.

In our OIG evaluation, *The FDIC's Personnel Security and Suitability Program* (January 2021), we assessed the effectiveness of the FDIC's PSSP. We determined that the FDIC's PSSP program was not fully effective in ensuring the timely completion of preliminary suitability screenings; background investigations commensurate with position risk designations; and re-investigations. Specifically, we found that:

- Four contractors with unfavorable background investigation adjudications continued to work at the FDIC from nearly 8 months to 5 years (until we notified the FDIC about these cases);
- The FDIC did not remove seven contractors with unfavorable adjudications in a timely manner;
- The FDIC did not follow its Insider Threat protocols and conducted limited risk assessments for contractors with unfavorable adjudications;
- The FDIC did not initiate numerous required periodic reinvestigations in a timely manner;
- Data on contractor position risks were unreliable;
- Employee background investigations were often not commensurate with position risk;
- The FDIC files were frequently missing some preliminary background investigation data; and
- The FDIC was not meeting its goals for completing preliminary background investigations within a specified timeframe.

We made 21 recommendations to strengthen PSSP controls and ensure the FDIC's compliance with Federal requirements. The FDIC should ensure that it satisfactorily addresses the risks associated with the PSSP, because the FDIC may increase hiring in response to the economic conditions caused by the current pandemic. As noted earlier, the FDIC Board approved an additional $261 million in contingency reserves in 2021 in order to ensure readiness for any potential increase in supervisory workload, bank failure activity, and administrative support.[85] A significant rise in hiring and use of contractors will dramatically increase the number of suitability screenings and background investigations processed through the FDIC's PSSP.

[85] *Proposed 2021 FDIC Operating Budget*, (December 1, 2020).

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Sustaining a Work Environment Free from Discrimination, Harassment, and Retaliation

Sexual harassment within an organization can have profound effects and serious consequences for the harassed individual, fellow colleagues, and the agency as a whole. In certain instances, a harassed individual may risk losing a job or the chance for a promotion, and it may lead the employee to suffer emotional and physical consequences.

In our OIG evaluation, *Preventing and Addressing Sexual Harassment* (July 2020), we assessed the FDIC's sexual harassment-related policy, procedures, training, and practices for the period January 2015 through April 2019. We found that the FDIC had not established an adequate sexual harassment prevention program and should improve its policies, procedures, and training to facilitate the reporting of sexual harassment allegations and address reported allegations in a prompt and effective manner. Specifically, we found that the FDIC had not developed a sexual harassment prevention program that fully aligned with the five core principles promoted by the Equal Employment Opportunity Commission: (1) committed and engaged leadership; (2) strong and comprehensive harassment policies; (3) trusted and accessible complaint procedures; (4) regular, interactive training tailored to the audience and the organization; and (5) consistent and demonstrated accountability.

As part of our evaluation, we conducted a voluntary survey of FDIC employees. The survey responses provided insight into employee understanding of what constitutes sexual harassment, instances of sexual harassment experienced or observed at the FDIC, impediments to reporting, and the adequacy of training. Our survey found that approximately 8 percent of FDIC respondents (191 of 2,376) said that they had experienced sexual harassment at the FDIC during the period January 2015 to April 2019. Similarly, the Merit Systems Protection Board (MSPB) survey of FDIC employees, conducted in 2016 (based on data from 2014 to 2016), indicated that approximately 9 percent of FDIC respondents (40 of 427) had experienced sexual harassment. By comparison, the Government-wide average for Federal employees in this MSPB survey was 14 percent.

Although 191 FDIC respondents to the OIG survey reportedly experienced sexual harassment, the FDIC only received 12 reported sexual harassment allegations, including both formal complaints and misconduct allegations from January 2015 to April 2019. This response suggests that there may have been an underreporting of sexual harassment allegations.

Our survey further indicated that 38 percent of FDIC respondents who stated they had experienced sexual harassment said that they did not report the incident(s) for "fear of retaliation." Nearly 40 percent of FDIC respondents did not know, or were unsure of, how to report allegations of sexual harassment. Further, almost 44 percent of the FDIC respondents to the OIG survey felt that the FDIC should provide additional training on sexual harassment.

We made 15 recommendations to improve the FDIC's policies and procedures relating to the FDIC's actions in response to sexual harassment misconduct allegations; promote a culture in which sexual harassment is not tolerated and such allegations are promptly

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investigated and resolved; ensure consistent discipline; and enhance training for employees and supervisors. At the time of this document, the FDIC had closed 2 of our 15 recommendations, and FDIC officials indicated that they are working towards addressing the remaining 13 recommendations.

Implementing Risk-Based Physical Security Management

In our OIG evaluation, *The FDIC's Physical Security Risk Management Process* (April 2019), we assessed whether physical security risk management processes met Federal standards and guidelines. We concluded that the FDIC had not established an effective physical security risk management process to ensure that it met Federal standards and guidelines.

We found that the FDIC did not conduct key activities in a timely or thorough manner for determining facility risk level, assessing security protections in the form of countermeasures, mitigating and accepting risk, and measuring program effectiveness. For example, for one of its medium-risk facilities, the FDIC began, but did not complete, an assessment more than 2½ years after the FDIC occupied the leased space. Collectively, these weaknesses limited the FDIC's assurance that it met Federal standards for physical security over its facilities. The FDIC completed the recommended actions from this report. We have work ongoing to assess whether the FDIC implemented effective controls to protect electrical power; heating, ventilation, and air conditioning; and water services at its Virginia Square office buildings.

Securing Sensitive and Personally Identifiable Information

In our OIG audit, *The FDIC's Privacy Program* (December 2019), we assessed the effectiveness of the FDIC's Privacy Program and practices by determining whether the FDIC complied with selected provisions in privacy-related statutes and OMB policy and guidance. We examined eight areas of the FDIC's Privacy Program and found that the FDIC faced challenges with respect to controls and practices in four areas. Specifically, the FDIC did not:

- Fully integrate privacy considerations into its risk management framework designed to categorize information systems, establish system privacy plans, and select and continuously monitor system privacy controls;
- Adequately define the responsibilities of the Deputy Chief Privacy Officer or implement Records and Information Management Unit responsibilities for supporting the Privacy Program;
- Effectively manage or secure PII stored in network shared drives and in hard copy, or dispose of PII within established timeframes; and
- Ensure that Privacy Impact Assessments were always completed, monitored, published, and retired in a timely manner.

Weaknesses in the FDIC's Privacy Program increased the risk of PII loss, theft, and unauthorized access or disclosure, which could lead to identity theft or other forms of consumer fraud against individuals. In addition, weaknesses related to the management of Privacy Impact Assessments reduced transparency regarding the FDIC's practices for handling and protecting PII.

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We made 14 recommendations intended to strengthen the effectiveness of the FDIC's Privacy Program and practices. These recommendations address the FDIC's need to implement information controls, monitor privacy controls, and complete policy and process documents. At the time of this writing, the FDIC has closed 3 of 14 recommendations and FDIC officials indicated that they were working towards addressing the remaining 11 recommendations.

In addition, in our OIG audit, *The FDIC's Information Security Program – 2019* (October 2019), we noted that the FDIC had not adequately controlled access to sensitive information and PII stored on its internal network and in hard copy. For example, we identified instances in which sensitive information stored on internal network shared drives was not restricted to authorized users.

We also conducted walkthroughs of selected FDIC facilities and found significant quantities of sensitive hard-copy information stored in unlocked filing cabinets and boxes in building hallways. We recommended that employees and contractor personnel properly safeguard sensitive electronic and hardcopy information. The FDIC has indicated that it secured the information identified by the OIG.

Mandatory telework at the FDIC increases the need for additional information security controls. As recognized by NIST, "[t]elework and remote access technologies often need additional protection because their nature generally places them at higher exposure to external threats compared to technologies that are only accessed from inside the organization."[86] Telework risks include a lack of physical security over mobile devices (such as laptops and tablets) and the use of unsecured network access.

The security and safety of FDIC personnel, facilities, and information is integral to the Agency's ability to execute its mission to maintain stability and public confidence in the Nation's financial system. The FDIC should have adequate safeguards in place to protect FDIC personnel, facilities, and information.

Challenge 5: Ensuring and Aligning Strong Governance at the FDIC

Effective governance is critical to ensure that the FDIC assesses risks and consistently implements its policies. The FDIC should ensure the establishment and proper function of its governance processes, including an Enterprise Risk Management (ERM) program. The pandemic demonstrated the importance of governance, and the need to quickly assess the risks to FDIC operations and make adjustments to its processes in order to maintain mission readiness. Quality data is also a critical component of FDIC governance to allow the Board, Executives, and Managers to assess the effectiveness of FDIC programs.

[86] NIST ITL Bulletin, *Security for Enterprise Telework, Remote Access, and Bring Your Own Device (BYOD) Solutions*, (March 2020).

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Governance encompasses the ways in which an organization functions and how it is structured, overseen, managed, and operated.[87] A governance framework should ensure strategic guidance, effective monitoring of management by the board, and the board's accountability to stakeholders.[88]

The Federal Deposit Insurance Act[89] vests management of the FDIC to the FDIC Board. By statute, the FDIC Board is intended to consist of five members, all of whom are appointed by the President and confirmed by the Senate: the Comptroller of the Currency; the Director of the Bureau of Consumer Financial Protection; the FDIC Chairman and Vice Chairman; and another Appointive Director.[90] The FDIC Board has been operating with four members since 2015, and the Vice Chairman position has been vacant since April 2018.[91] Further, with the recent change in the Administration, the Board members from the Office of the Comptroller of the Currency and the Bureau of Consumer Financial Protection recently changed. Although the FDIC Board may delegate certain powers to officers of the FDIC, the FDIC Board members should exercise their oversight responsibilities, remain informed about FDIC activities, and review relevant documentation and financial statements.[92]

An important role for Board oversight is the Agency's ERM program.[93] ERM provides an entity-wide view of the full spectrum of internal and external risks to an organization.[94] An entity-wide assessment of risk allows boards and management to effectively allocate resources, prioritize and proactively manage risk, improve the flow of risk information to decision makers, and work towards successful accomplishment of their missions.

Data is the foundation for strong governance and an effective ERM program.[95] The FDIC should have accurate, reliable, and comprehensive data collection at each level of the organization in order to allow the Board, senior Executives, and Managers to monitor, oversee, and manage risk at the enterprise, as well as at the program level.

The pandemic presents unique challenges to the FDIC's ERM. For example, FDIC Board Members and Executives had to quickly identify and understand the many varied risks associated with the pandemic. These risks include those associated with the health, safety, and security of FDIC personnel and operations; the proper reconstitution

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[87] American Bar Association, Business Law Today, *The Interplay Between Corporate Governance Issues and Litigation: What is Corporate Governance and How Does it Affect Litigation?*, (December 20, 2016).
[88] Organization for Economic Co-operation and Development (OECD), *G20/OECD Principles of Corporate Governance*, (2015).
[89] 12 U.S.C. § 1812(a)(1) (2019).
[90] 12 U.S.C. § 1812(a)(1) (2019); FDIC, *Bylaws of the FDIC*, (2018). Technically designated the Chairperson and Vice Chairperson in the statute and bylaws, it is longstanding FDIC practice to refer to the positions as Chairman and Vice Chairman. No more than three members of the Board may be from the same political party, and one member "shall have State bank supervisory experience."
[91] American Banker, *Pressure Grows on Administration to Fill Fed, FDIC Seats*, (November 3, 2019).
[92] Bylaws of the Federal Deposit Insurance Corporation, Adopted by the Board of Directors, (September 17, 2019); Wyoming Law Review, *Director Oversight and Monitoring: The Standard of Care and the Standard of Liability Post-Enron*, (2006).
[93] ERM is a governance issue that falls within the oversight responsibility of boards of directors. See Harvard Law School Forum on Corporate Governance and Financial Regulation, *Risk Management and the Board of Directors*, (March 20, 2018).
[94] Committee of Sponsoring Organizations of the Treadway Commission, *Enterprise Risk Management Integrating with Strategy and Performance,* (June 2017).
[95] Moody's Analytics, *Enterprise Risk Management: The Critical importance of Data*, (May 27, 2014).

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of an office environment following an extended period of remote work; appropriate flexibilities for the workforce; a framework for the Agency's future protocols and culture to connect the organization; the effectiveness of the Agency's remote bank examinations and closures of failed banks; cybersecurity measures with personnel working remotely; capabilities to communicate in a virtual environment and use collaboration tools; and communications strategies for the Board's oversight of management and management's oversight of employees' work and performance.[96]

Aligning Enterprise Risk Management with Best Practices

According to OMB Circular Number A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, ERM is "an effective Agency-wide approach to addressing the full spectrum of the organization's external and internal risks by understanding the combined impact of risks as an interrelated portfolio, rather than addressing risks only within silos."[97] The OMB requires that Federal agencies implement ERM to assist agencies in identifying, assessing, and mitigating internal and external risks.[98] Key components of ERM include: a Risk Appetite, Risk Tolerance, Risk Inventory, and Risk Profile.[99]

The FDIC Board appointed the FDIC's Operating Committee as the "focal point" for the coordination of risk management at the FDIC. The Operating Committee is comprised of Division and Office Directors and Deputies to the Chairman. The FDIC further designated the Operating Committee as the FDIC's Risk Management Council and the oversight body for ERM.[100]

In our OIG evaluation, *The FDIC's Implementation of Enterprise Risk Management* (July 2020) (ERM Report), we assessed the FDIC's implementation of ERM against relevant criteria and best practices. We reported that the FDIC needed to establish a clear governance structure, and clearly define authorities, roles, and responsibilities related to ERM. Importantly, the FDIC did not clearly articulate in its policies and procedures how the Operating Committee, as the FDIC's designated Risk Management Council, performs its responsibilities. We also found that the FDIC had not clearly defined the roles, responsibilities, and processes of other risk committees and groups involved in ERM, including the FDIC Board.

As a result, we determined that ERM was not fully implemented at the FDIC, and, therefore, proper execution of program activities, roles, and responsibilities has yet to take place. Without a clear governance structure over ERM, the FDIC cannot ensure that ERM will fully mature and be integrated into the Agency and its culture. If ERM is

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[96] Harvard Law School Forum on Corporate Governance, *COVID-19 and Corporate Governance: Key Issues for Public Company Directors*, (April 29, 2020); EY, *COVID-19: Five ways boards can help businesses improve their resilience*, (April 23, 2020).
[97] OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, (July 15, 2016).
[98] OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, (July 15, 2016).
[99] Risk Appetite is the risk an organization is willing to accept in pursuit of its mission; risk tolerance is the acceptable level of variance in performance relative to the achievement of objectives; risk inventory is a list of the risks facing the agency; and a risk profile is a prioritized inventory of significant risks identified and assessed by an agency through its risk assessment process.
[100] FDIC Directive 4010.3, *Enterprise Risk Management and Internal Control Program,* (October 25, 2018).

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not fully matured and integrated into the Agency, there is a risk that the FDIC may not develop a comprehensive portfolio view of risk that would allow the FDIC to make efficient and effective decisions related to strategic planning, resource allocation, policy, and operations. We made eight recommendations to the FDIC to improve its ERM program. FDIC officials recently provided information indicating how the FDIC plans to address these recommendations, including revised Standard Operating Procedures. As of the date of this document, we are reviewing the information provided in order to assess whether the FDIC's proposed corrective actions align with our findings and satisfy the recommendations.

The ERM framework incorporates an agency's internal controls because controls are developed to mitigate risks.[101] As noted by the GAO in its FDIC financial statement auditor's report included in this Annual Report, the FDIC was found to have a significant internal control deficiency over financial reporting related to contract payment review processes. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance. Without adequate contract payment review processes, the FDIC cannot reasonably assure that internal controls over contract payments are operating effectively, thereby increasing the risks that improper payments could occur and misstate the financial statements.

Additionally, another report reflects the need for the FDIC to instill ERM as part of the FDIC's culture and to ensure the full and comprehensive consideration of risks facing the Agency. In our evaluation report, *The FDIC's Personnel Security and Suitability Program* (January 2021), we found that the FDIC's ERM program did not fully address the level of risk in its Personnel Security and Suitability Program (PSSP). Specifically, we did not believe that the FDIC's risk assessment fully considered the various risks identified in our evaluation results, including operational, compliance, reporting, and reputational risks. For example, the FDIC was aware of programmatic failures to remove high-risk IT and armed guard contractors who had unfavorable adjudications. However, the FDIC did not integrate these programmatic shortcomings into its assessment of program risk.

On December 15, 2020, the FDIC announced an organizational change to make the Office of Risk Management and Internal Controls an independent office, and have the Chief Risk Officer report directly to the Deputy to the Chairman and Chief Financial Officer.

Ensuring and Maintaining Quality Data for Risk Oversight

FDIC Board members, Executives, and Managers need quality data to properly oversee the Agency and its Divisions, Offices, programs, and operations. Quality data should include at least the following five dimensions: accuracy, completeness, consistency, timeliness, and validity.

In several recent OIG reports, we found that FDIC systems data did not afford the FDIC with accurate, complete, reliable, and comprehensive data and information in order to effectively oversee Agency programs and operations.

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[101] Committee of Sponsoring Organizations of the Treadway Commission, *FAQs for COSO Enterprise Risk Management – Integrated Framework.*

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- *FDIC's Personnel Security and Suitability Program* (January 2021). We found that missing and inaccurate data impacted the ability of FDIC management to monitor the program. For example, FDIC systems did not contain preliminary approval dates and results for a total of 787 employees and contractors for the period from 1994 to 2019. Preliminary approval is required before the FDIC grants employees and contractors access to FDIC facilities and IT systems. We also found that FDIC systems did not accurately reflect contractors' position risk levels. Absent risk levels, the FDIC cannot ensure that it conducts appropriate background investigations for contractors employed at the FDIC.

- *Contract Oversight Management* (October 2019). We found that the FDIC was overseeing acquisitions on a contract-by-contract basis rather than on a portfolio basis and did not have an effective contracting management information system to readily gather, analyze, and report portfolio-wide contract information across the Agency. In addition, we found that the FDIC's contracting system did not maintain certain key data in a manner necessary to conduct historical trend analyses, plan for future acquisition decisions, and assess risk in the FDIC's awarded contract portfolio. As a result, FDIC Board members and other senior management officials were not provided with a portfolio-wide view or the ability to analyze historical contracting trends across the portfolio, identify anomalies, and perform ad hoc analyses to identify risk or plan for future acquisitions.

In 2019, the FDIC launched an Enterprise Data Governance Initiative to assess the Agency's data quality and availability.[102] The FDIC also created a new Chief Data Officer position to lead the FDIC's data strategy. The Chief Data Officer will aim to develop and maintain the FDIC's data inventory and support the FDIC's move towards using artificial intelligence and machine learning.[103] The FDIC continues to work towards improving data quality at the Agency.

The FDIC relies on data to make mission-critical decisions from program assessments and staffing analytics to projections for bank failures and losses to the Deposit Insurance Fund. Absent quality data, the FDIC Board and its Executives, Managers, and staff may make decisions based on faulty or incomplete information. These decisions may impact the effectiveness of the FDIC's mission execution.

Timely Implementation of Corrective Actions

OIG audits and evaluations strive to prevent, deter, and detect waste, fraud, abuse, and mismanagement in the FDIC's programs and operations and to promote economy, efficiency, and effectiveness at the Agency. Our reports include recommendations addressed to FDIC management to address and mitigate program shortcomings, deficiencies, and vulnerabilities. In recent reports, we have noted instances where we found deficiencies or vulnerabilities in FDIC programs and operations that were similar to those identified in prior reports. These examples indicate that the previous corrective actions either were not sufficient to correct the underlying issues or were not supported and maintained over time. As a result, program deficiencies and vulnerabilities persist over many years.

[102] FDIC, *2019 Annual Report*.
[103] FDIC, *CIO Organization Strategic Plan 2020-2023: FDIC Business Challenges*.

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- *The FDIC Personnel Security and Suitability Program* (January 2021). In our 2021 Report, we found that the FDIC's PSSP was not fully effective despite prior reports identifying similar program shortcomings and recommending comparable program changes. We found that the FDIC was still working to implement process changes to address findings from our 2014 evaluation report,[104] nearly 7 years ago. Specifically, we continued to identify repetitive problems with program data reliability, missing documentation, timeliness of processes, and a matching of background investigations with position risk. Our 2014 report included 10 recommendations to strengthen controls in program administration, oversight of contractor personnel, records management, and information systems reliability and controls. The FDIC closed these recommendations without further review by the OIG.[105] In 2013, the FDIC engaged a contractor to assess the status of the FDIC's PSSP, and the contractor found similar concerns related to lost and misplaced data, multiple systems that were not interconnected, and an inability to determine the status of contractor background investigations.

- *The FDIC's Implementation of Enterprise Risk Management* (July 2020). In our 2020 report, we found that the FDIC had not fully implemented an ERM program despite prior reports that identified and recommended program changes. Our 2020 evaluation was the third report within the last 13 years that included recommendations for the FDIC's implementation of an ERM program. In 2010, the FDIC engaged a consulting firm to evaluate its risk management practices. The consulting firm identified several gaps in the FDIC's risk management structure and recommended that the FDIC should establish a centralized, independent risk management organization; assign responsibility to the Chairman and Board of Directors to provide oversight of the Agency's risk management program; and develop comprehensive policies and guidelines to govern day-to-day risk management.

  Also, in 2007, we issued a report entitled, *The FDIC's Internal Risk Management Program* (November 2007), finding that the FDIC's approach to focus solely on internal risks was contrary to the ERM Framework. The report made seven recommendations intended to address the variances between FDIC practices and approaches and those advocated by the ERM Framework and applicable guidance; and to add clarity and structure to ERM. The FDIC, at that time, agreed with two of the seven recommendations and non-concurred with five recommendations.

- *The FDIC' Information Security Program—2020* (November 2020). We found that the FDIC had not addressed a recommendation made in our earlier report, *Audit of the FDIC's Information Security Program—2016*, to take appropriate steps to ensure that Data Communications Plans of Action and Milestones (POA&M) are addressed in a timely manner. A POA&M is a management tool used by agency Chief Information Officers, security personnel, program officials, and others to track the progress of corrective actions pertaining to security vulnerabilities identified through security control assessments and other sources.

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[104] OIG Report, *The FDIC's Personnel Security and Suitability Program*, (August 2014).
[105] At that time, the FDIC closed recommendations without OIG review of the corrective actions. The OIG did not review all corrective actions before recommendations were closed. The OIG has since revised its processes, and the OIG now reviews all corrective actions to determine whether the FDIC's actions satisfy the recommendation and therefore it can be considered closed.

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POA&Ms assist agencies in identifying, assessing, prioritizing, and monitoring the progress of corrective actions pertaining to security vulnerabilities. Open POA&Ms indicate that the FDIC has not completed action to remediate identified vulnerabilities.

Improved Oversight of IT Initiatives

IT governance provides organizations with a structured decision-making process underlying IT investment decisions and promotes accountability, due diligence, and the efficient and economic delivery of IT services.[106] When an organization does not maintain effective governance over its IT functions and operations, it can lead to negative results, including investments that do not align with the organization's mission, goals, or objectives; information systems that do not satisfy stakeholder needs; and IT projects that do not meet cost, schedule, or performance expectations.

In our report, *Governance of the FDIC's Mobile Device Management Solution* (December 2020), we assessed the adequacy of the FDIC's governance over a cloud-based mobile device management (MDM) solution to secure and manage smartphones and tablets. On October 4, 2019, the FDIC awarded a contract valued at $965,000, and in November 2019, the FDIC decided to terminate the contract, because the FDIC could not validate whether the MDM solution satisfied FDIC security requirements. Although the MDM project team coordinated with FDIC IT governance bodies, the Chief Information Officer Organization (CIOO) did not:

- Identify elevated and growing risks associated with the proposed MDM solution in reports describing the health and status of the project that were provided to CIOO Executives and other FDIC stakeholders;
- Resolve security concerns identified by the Office of the Chief Information Security Officer prior to procuring the proposed MDM solution; or
- Establish roles and responsibilities in its procedures for managing the use of Limited Authorizations to Operate (ATO).[107]

In addition to internal and contractor resources expended on the project, the FDIC compensated the vendor $343,533 for the proposed MDM solution. The FDIC never used the solution for which it had signed a contract to purchase. We made five recommendations to improve the FDIC's identification, assessment, and prompt reporting of project risks. By implementing our recommendation to require the concurrence of security and privacy officials before procuring new technologies, the FDIC can put $361,533 to better use.

In our OIG audit, *The FDIC's Governance of Information Technology Initiatives* (July 2018), we found that the FDIC faced a number of challenges and risks related to the governance of its IT initiatives. For example, the FDIC did not fully develop a

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[106] See IT Governance Institute, *Board Briefing on IT Governance*, 2nd Edition. The IT Governance Institute is a nonprofit corporation that conducts research on global IT governance practices. The organization helps leaders understand how effective governance can assist in ensuring that IT supports business goals, optimizes IT-related business investment, and appropriately manages IT-related risks and opportunities.

[107] According to NIST SP 800-37, Revision 2, *Risk Management Framework for Information Systems and Organizations: A System Life Cycle Approach for Security and Privacy*, (December 2018), Authorizing Officials may issue an ATO or an Interim Authority to Test when authorizing their information systems to operate. FDIC guidance refers to an Interim Authority to Test as a Limited ATO.

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strategy to move IT services and applications to the cloud or obtain the acceptance of key FDIC stakeholders before taking steps to initiate cloud migration projects. The FDIC also had not implemented an effective Enterprise Architecture to guide the three IT initiatives we reviewed or the FDIC's broader transition of IT services to the cloud. The FDIC continues to work towards implementing one of our recommendations to identify and document IT resources and expertise needed to execute the FDIC's IT Strategic Plan.

The FDIC should ensure the establishment and proper function of its governance processes, including ERM. Effective governance allows the FDIC to assess and address risk and ensure consistent, nationwide, implementation of policies to fulfill the FDIC's mission. Quality data is a critical component to assess risk and measure the effectiveness of these governance activities. The FDIC should also ensure that corrective actions are taken and sustained to confirm that FDIC program weaknesses are remedied.

Challenge 6: Augmenting the FDIC's Sharing of Threat Information

Financial institutions and the FDIC both face a number of significant threats to their integrity, including the recent pandemic. Sharing threat information is critical to ensuring that banks and examiners have the necessary information to protect financial institutions, the banking sector, and the economy. Timely and actionable threat information allows bank management to mitigate risks and thwart dangers, and prompts the FDIC to adjust supervisory strategies in a timely fashion. Understanding the emerging threat landscape across all banks provides examiners with context to review a bank's processes. Also, threat information provides FDIC policy makers with perspective and context to adjust supervisory policies and examination procedures. Without effective threat information sharing, policy makers, bank examiners, and bank management may be unaware of threats that could affect the integrity, safety, and soundness of financial institutions.

The Cybersecurity and Infrastructure Security Agency identified consumer and commercial banking as a National Critical Function, defined as functions of the Government and private sector "so vital to the United States that their disruption, corruption, or dysfunction would have a debilitating effect on security, national economic security, national public health or safety, or any combination thereof."[108] CISA further recognized funding and liquidity services as a National Critical Function as well.

A report by the Carnegie Endowment for International Peace identified numerous Information sharing gaps among the financial, national security, and diplomatic communities.[109] The report noted that financial regulatory authorities around the world

[108] DHS Cybersecurity and Infrastructure Security Agency, *National Critical Functions – An Evolved Lens for Critical Infrastructure Security and Resilience*, (April 30, 2019).
[109] Carnegie Endowment for International Peace, *International Strategy to Better Protect the Financial System Against Cyber Threats*, (November 18, 2020).

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must regularly interact with law enforcement and national security agencies whose involvement is necessary to tackle cybersecurity threats.[110]

Collection and sharing of threat information is a key requirement to support National Critical Functions such as the banking system.[111] According to NIST guidance, the benefits of information sharing include: shared situational awareness, improved security posture, knowledge maturation, and greater defensive agility.[112] Information sharing also allows organizations to leverage "knowledge, expertise, and capabilities … to gain a more complete understanding of threats" and allow for threat-informed decision making.[113] Further, multiple sources of threat information can allow an organization to enrich existing information and make it actionable. NIST guidance also recognized that threat information sharing should be multi-directional among Federal agencies and respective private-sector stakeholders.[114]

In its Annual Report for 2020, FSOC recognized the critical importance of sharing threat information with the Financial Services Sector and among Federal Government agencies.[115] Further, in its report, *Semiannual Risk Perspective* (Spring 2020), the OCC encouraged banks to monitor information provided by law enforcement and international organizations regarding the "ways criminals are adapting scams and money laundering techniques to exploit vulnerabilities created by the pandemic."[116]

Threat information about money laundering is particularly important to banks, because the Bank Secrecy Act requires that banks help Government agencies detect and prevent money laundering by, among other things, having effective compliance programs to monitor and report suspicious activities. FinCEN recently issued an advisory to banks to encourage information sharing related to transactions that may involve terrorist financing or money laundering.[117] Specifically, the advisory provided banks with potential indicators of ransomware and money laundering activities because of the critical role banks play in the collection of ransomware payments.

The FDIC's Sharing of Threat Information with Banks

Banks are required to have "a means to collect data on potential threats that can assist management in its identification of information security risks."[118] Threat information allows banks to combat and mitigate threats.[119] Also, since threat actors often attack more than one organization in an industry, information sharing among organizations in a

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[110] Carnegie Endowment for International Peace, *International Strategy to Better Protect the Financial System Against Cyber Threats*, (November 18, 2020).
[111] DHS defines a threat as "a natural or man-made occurrence, individual, entity, or action that has or indicates the potential to harm life, information, operations, the environment and/or property." DHS, *DHS Risk Lexicon*, (September 2008). DHS Cybersecurity and Infrastructure Security Agency, *National Critical Functions – An Evolved Lens for Critical Infrastructure Security and Resilience*, (April 30, 2019).
[112] NIST, Special Publication 800-150, *Guide to Cyber Threat Information Sharing*, (October 2016).
[113] NIST, Special Publication 800-150, *Guide to Cyber Threat Information Sharing*, (October 2016).
[114] NIST, Special Publication 800-150, *Guide to Cyber Threat Information Sharing*, (October 2016).
[115] FSOC, *2020 Annual Report.*
[116] OCC, *Semiannual Risk Perspective*, (Spring 2020).
[117] Financial Crimes Enforcement Network, *Advisory on Ransomware and the Use of the Financial System to Facilitate Ransom Payments*, (October 1, 2020).
[118] FFIEC, Business Continuity Planning Booklet, *Risk Assessment*, (available on the FFIEC website).
[119] FS-ISAC, *Threat Information Sharing and GDPR: A Lawful Activity that Protects Personal Data*.

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particular sector, in real time, may warn other entities and allow them to address and mitigate vulnerabilities.[120]

Federal law required the Director of National Intelligence and other Federal agencies to issue procedures to facilitate and promote threat information sharing.[121] In February 2016, procedures were outlined for Federal agencies to share unclassified and classified cybersecurity information with non-Federal entities, such as financial institutions.[122] These procedures require that Federal Government agencies make every reasonable effort to share cyber threat information on a timely basis. When threat information is classified, the procedures encourage Federal agencies to "downgrade, declassify, sanitize or make use of tearlines to ensure dissemination of threat information to the maximum extent possible."[123]

The Federal Financial Institutions Examination Council (FFIEC)[124] recommends that financial institutions should receive threat information from multiple sources. For example, the FFIEC recommends that banks join the Financial Services Information Sharing and Analysis Center (FS-ISAC). ISACs serve as a central resource for member organizations to gather and exchange cyber-threat information. Financial institutions are encouraged to use FS-ISAC and other resources to "monitor cyber threats and vulnerabilities and to enhance their risk management and internal controls."[125] The FFIEC also encourages banks to collect and gather information from the FBI, the Cybersecurity and Infrastructure Security Agency, and the U.S. Secret Service Cyber Fraud Task Force.[126]

FDIC examination guidance requires that examiners evaluate banks' processes for obtaining and assessing threat information. Examiners may face challenges in assessing whether the threat information received by a bank is sufficient to assess the effectiveness of banks' threat identification and mitigation processes if banks do not receive information from FFIEC-recommended sources.

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[120] FS-ISAC, *Threat Information Sharing and GDPR: A Lawful Activity that Protects Personal Data*.
[121] The Cybersecurity Information Sharing Act (2015).
[122] Office of the Director of National Intelligence, DHS, Department of Defense, and Department of Justice, *Sharing of Cyber Threat Indicators and Defensive Measures by the Federal Government under the Cybersecurity Information Sharing Act of 2015*, (February 16, 2016).
[123] Intelligence Community Directive 209, *Tearline Production and Dissemination*, (September 6, 2012), defines tearlines as "portions of an intelligence report or product that provide the substance of a more highly classified or controls report without identifying sensitive sources, methods, or other operational information."
[124] The FFIEC was established on March 10, 1979, pursuant to title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978, Public Law 95-630. The Council is an interagency body empowered to prescribe uniform principles, standards, and report forms for the Federal examination of financial institutions by the Board of Governors of the Federal Reserve System, the FDIC, the National Credit Union Administration, the OCC, and the Bureau of Consumer Financial Protection and to make recommendations to promote uniformity in the supervision of financial institutions. FFIEC, *Cybersecurity and Threat and Vulnerability Monitoring and Sharing Statement*, (November 3, 2014).
[125] FFIEC, *Cybersecurity and Threat and Vulnerability Monitoring and Sharing Statement*, (November 3, 2014).
[126] See FFIEC, *Cybersecurity and Threat and Vulnerability Monitoring and Sharing Statement*, (November 3, 2014). Banks can connect to the FBI's Infraguard system in a partnership between the FBI and the private sector to provide, among other things, information sharing. The Cybersecurity and Infrastructure Security Agency provides alerts and education concerning cybersecurity. The U.S. Secret Service Cyber Fraud Task Force aims to improve information sharing and best practices on investigations of financially motivated cybercrime.

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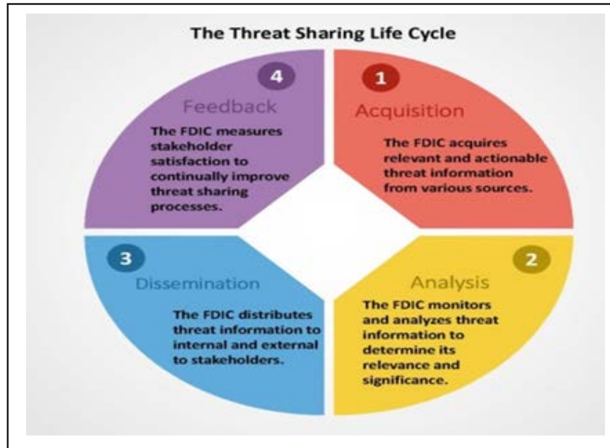
Creating a Framework to Share Threat Information with Examiners and Policy Makers

The key to the exchange of threat information is establishing and implementing a framework for sharing threat information. As shown in Figure 2, we identified four phases of a threat information sharing framework based upon a review of the best practices from Government and other authoritative sources.
It is important that examiners and policy makers are aware of threats facing financial institutions to identify gaps in banks' threat analyses and to adjust examination policies for emerging threats.

Figure 2: Threat Sharing Lifecycle at the FDIC



Source: OIG Analysis of FDIC Threat Sharing.

Certain FDIC staff at Headquarters have access to specific threat information held by the U.S. Government, and much of the information is confidential and sensitive. The FDIC, however, should have procedures in place to share such threat information effectively. Without formal processes, the FDIC cannot assess whether it is appropriately acquiring, analyzing, and disseminating timely threat information to banks and to FDIC examiners and policy makers.

Absent a threat information sharing framework, the FDIC leaves threat information acquisition, analysis, dissemination, and feedback to the discretion of a limited number of employees. In addition, it is important that staff charged with threat sharing responsibilities have received the proper guidance, procedures, background, and training to conduct thorough analysis of the information, assess the risks to financial institutions, and disseminate the information to other FDIC personnel who need to know.

Moreover, the FDIC faces challenges in transmitting relevant information from classified sources to key examiners and policy makers in Regional and Field Offices. In order to access, store, and handle classified information, FDIC policy makers and examiners either must have relevant security clearances and secure facilities—or alternatively, the FDIC must have processes in place to distribute similar information that is available in an unclassified format to policy makers and examiners. We have work ongoing to assess the effectiveness of the FDIC's threat sharing efforts.

Limited Requirements for Banks to Report Cyber Threats

The FDIC should be aware of cyber incidents targeted towards insured banks. For example, we identified two instances in which FDIC-supervised financial institutions fell victim to ransomware attacks but did not notify the FDIC. In one instance, the FDIC did not learn about the attack until state examiners discovered it during an examination. In the second instance, the FDIC did not learn about the attack until after the institution

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disclosed it in a Suspicious Activity Report (SAR) filed with FinCEN. While these mechanisms may provide information about cyberattacks, they are not designed to ensure prompt and timely notification to the FDIC (or other primary federal regulators) about cyber incidents affecting the safety and soundness of institutions.[127]

In addition, threats are rarely specific to one organization.[128] The Federal Reserve Bank of Boston's Cyber Threat Sharing Forum notes that "a malicious actor often uses the same tactics and techniques that they've used to attack one financial institution on the next, and so on."[129] A threat to one bank also has the potential to affect numerous banks through interconnected systems, such as shared TSPs.

The *Interagency Guidelines Establishing Information Security Standards*[130] (Interagency Guidelines) state that every financial institution should develop and implement a Response Program to address incidents of unauthorized access to customer information whether at the bank or the institution's TSP.[131] According to the Interagency Guidelines and supplemental guidance, an institution's Response Program should include procedures for "notifying its primary Federal regulator as soon as possible when the institution becomes aware of an incident involving unauthorized access to or use of sensitive customer information." However, this reporting requirement applies only to incidents that compromised customer information. Federal regulations did not address reporting to Federal bank regulators for other types of destructive cyber incidents that could jeopardize the safety and soundness of an institution. Further, the FFIEC recommended, but Federal regulators did not require, that financial institutions that were victims of cyberattacks involving extortion notify their primary regulator.[132]

On April 30, 2020, we issued a Management Advisory Memorandum to the FDIC noting the absence of a Federal requirement for banks to promptly report instances of disruptive or destructive cyber incidents to Federal banking regulators. Such a requirement would provide the FDIC and other Federal banking regulators consistent information to assess threats and implement supervisory actions in a timely manner. This information would also assist the FDIC in its role as receiver for failed financial institutions, as it would allow for timely preparation for a potential resolution especially as cyberattacks can rapidly impact a bank's operations.

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[127] Institutions are required to file a SAR within 30 calendar days following initial detection of facts triggering the SAR filing requirement. The SAR filing deadline may be extended an additional 30 days (up to a total of 60 calendar days) if no suspect is identified. 12 C.F.R. § 353.3.

[128] American Bar Association, SciTech Lawyer, *Threat Sharing Under GDPR*, (Spring 2019).

[129] Federal Reserve Bank of Boston, *Cyber-threat Sharing Forum Fosters Open Dialogue, Non-competitive Environment, Financial Services Organizations Share Information to Thwart Cybercrime*, (October 24, 2017).

[130] Interagency Guidance on Response Programs for Unauthorized Access to Customer Information and Customer Notice, Part 364, App. B (Supp. A). The FDIC, OCC, Board of Governors of the Federal Reserve System (FRB), and former Office of Thrift Supervision (OTS) issued this supplemental guidance to interpret the requirements of section 501(b) of the Gramm-Leach-Bliley Act and the Interagency Guidelines. The Interagency Guidelines are promulgated by the FDIC, OCC, FRB, and former OTS. The FDIC published the Interagency Guidelines for the entities subject to its jurisdiction in 12 CFR Part 364, App. B and 12 CFR Part 391, subpart B, App. B.

[131] 12 CFR Part 364 defines customer information as any record containing non-public personal information about a customer that is maintained by or on behalf of the institution.

[132] FFIEC Joint Statement, *Cyber Attacks Involving Extortion*, (November 2015).

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In response to our Management Advisory Memorandum, on December 15, 2020, the FDIC, Department of the Treasury, and Federal Reserve issued a notice of proposed rulemaking requiring banks to notify their primary banking regulator of computer-security-related incidents.[133] The proposed rule requires that banks report an incident "as soon as possible and no later than 36 hours after the banking organization believes in good faith that the incident occurred." Further, the proposed rule would require that TSPs notify affected banking organizations immediately when the TSP experiences computer security incidents that materially disrupt, degrade, or impair provided services.

The sharing of threat information enhances the resiliency of the banking sector by allowing bank management to identify and thwart threats. The FDIC should ensure that banks, examiners, and policy makers receive timely and actionable threat information to mitigate threats and to adjust supervisory strategies to address emerging risks.

Challenge 7: Supporting Diversity in Banking

Access to the financial system by minority communities is vital to fostering economic prosperity. Minority communities and businesses have suffered significantly during the pandemic. The FDIC plays an important role to support Minority Depository Institutions that serve and promote minority and low- and moderate-income communities. This work can be enhanced with the FDIC's continued commitment to diversity and inclusion in the Federal regulatory process, which is critical for the FDIC to foster greater financial inclusion for all Americans.

Federal financial regulators can influence economic inclusion through their support of Minority Depository Institutions (MDI).[134] MDIs promote the economic viability of minority and underserved communities and foster financial inclusion by expanding credit to give more Americans the opportunity to build businesses, afford higher education, achieve homeownership, and create strong, vibrant communities.[135]

Minority-owned businesses have been disproportionately affected by the pandemic. According to a study by the Federal Reserve Bank of New York (FRB-NY), the number of active small businesses fell by 22 percent between February and April 2020. African American businesses suffered a 41-percent drop, Latinx businesses fell by 32 percent, and Asian businesses decreased by 26 percent.[136]

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[133] Computer-Security Incident Notification Requirements for Banking Organizations and Their Bank Service Providers, 86 Fed. Reg. 2299 (January 12, 2021).
[134] MDIs include Federally-insured depository institutions where 51 percent or more of the bank's voting stock is owned by minority individuals who are citizens or permanent legal residents of the United States; and/or a majority of the institution's Board of Directors is minority and the community that the institution serves is predominantly minority.
[135] cnbc.com, *Black Families have 10 times less wealth than whites and the gap is widening – here's why* (December 19, 2018); *see also* McKinsey & Co., *The case for accelerating financial inclusion in black communities*, (February 25, 2020).
[136] Federal Reserve Bank of New York, *Double Jeopardy: COVID-19's Concentrated Health and Wealth Effects in Black Communities*, (August 2020).

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In addition, according to the FRB-NY, the Federal Government's PPP loans designed to assist small businesses reached only 20 percent of eligible companies in states with the highest numbers of African American-owned businesses.[137] The FRB-NY stated that this coverage gap is the result of minority businesses lacking established banking relationships or representing only a small portion of community banks' market share.[138] Such disparities emphasize the role financial regulators play in influencing and enhancing financial inclusion for all Americans through the requirements of the Community Reinvestment Act (CRA)[139] and fulfilling the goals of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA).[140]

The FDIC's activities in support of FIRREA include facilitating partnerships to provide outreach, technical assistance, education, and training to MDIs; encourage the creation of new MDIs; facilitate the preservation of the minority character if an MDI fails; and advocate for MDIs through research and highlighting the important role these banks play in their communities. The CRA is intended to encourage financial institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound banking operations.

Also, members of minority communities face challenges in accessing banking services. The FDIC Chairman noted that:

> Despite meaningful improvements in recent years, the rates for black and Hispanic households who do not have a checking or savings account at a bank remain substantially higher than the overall 'unbanked' rate. Similarly, black and Hispanic households are less likely to have mainstream credit (*i.e.*, credit products that are likely reported to credit bureaus) across all income levels. And savings rates remain lower among these households, which results in greater difficulty dealing with unexpected expenses.[141]

The FDIC recognized the importance of expanding access to quality financial services. In a 2019 study, *How America Banks: Household Use of Banking and Financial Services*, the FDIC found that 5.4 percent (about 7.1 million) of U.S. households lacked a checking or savings account at an insured financial institution.[142] This was the lowest unbanked rate since the survey began in 2009. Minority households were more likely to be among the unbanked. For example, 13.8 percent of Black households and 12.2 of Hispanic households were unbanked in 2019 compared to 2.5 percent of White households.

Notwithstanding this improvement, the FDIC predicted that the rapid and dramatic increase in the unemployment rate due to the pandemic will result in an increase in the

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[137] Federal Reserve Bank of New York, *Double Jeopardy: COVID-19's Concentrated Health and Wealth Effects in Black Communities*, (August 2020).
[138] Federal Reserve Bank of New York, *Double Jeopardy: COVID-19's Concentrated Health and Wealth Effects in Black Communities*, (August 2020).
[139] 12 U.S.C. 2901, *et seq.*; *see also* 12 C.F.R. Parts 25, 228, 345, and 195 (implementing regulations).
[140] *See* FDIC Policy Statement Regarding Minority Depository Institutions, 67 Fed. Reg. 18620 (April 16, 2002).
[141] Jelena McWilliams, FDIC Chairman, Keynote speech before the University of Chicago Law School and American Financial Exchange Webinar on *The Role of Minority Depository Institutions and Innovation in the Age of COVID-19, Creating a Financial System of Inclusion and* Belonging, (August 26, 2020).
[142] FDIC, *How America Banks: Household Use of Banking and Financial Services – 2019 FDIC Survey.*

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

unbanked rate from its level just before the pandemic.[143] This forecast was based upon two considerations: (1) changes in the socioeconomic circumstances of U.S. households have contributed to changes in the unbanked rate; and (2) the unbanked rates have been higher among certain segments of the population, including lower-income households, unemployed households, and households with volatile income. From the peak of the unbanked rate in 2011 to the lowest unbanked rate in 2019, approximately two-thirds of the decline was associated with improvements in the socioeconomic circumstances of U.S. households. Relevant to the current economic conditions resulting from the pandemic, the FDIC noted in its most recent unbanked Americans report that a recent disruption resulting in significant income loss or job loss is a contributing event resulting in households becoming unbanked.[144]

Supporting Minority Depository Institutions

MDIs play a vital role in assisting minority and under-served communities. MDIs are resources to foster the economic viability of these communities by providing banking and credit services. The primary challenge for the FDIC is to measure the effectiveness of its efforts in supporting MDIs, including the assistance provided to under-served, unbanked, and underbanked communities.

The FDIC plays an important role in preserving and promoting MDIs. In our report, *Minority Depository Institution Program at the FDIC* (September 2019), we reviewed the FDIC's actions to preserve and promote MDIs and assessed achievement of the MDI Program goals. We found that the FDIC took actions to preserve and promote MDIs, and preserve the minority character of MDIs; provided technical assistance to MDIs; encouraged the creation of new MDIs; and provided MDI training sessions, education, and outreach efforts.

However, the FDIC did not evaluate the effectiveness of some key MDI program activities. Specifically, the FDIC did not assess the effectiveness of its supervisory strategies and MDI technical assistance. We also determined that the FDIC should further assess the effectiveness of its MDI training sessions, education, and outreach, including the benefit and value they provide. We further found that FDIC Headquarters did not define the types of activities that it considered to be technical assistance, as distinct from training, education, and outreach events. In addition, while the FDIC provided training, education, and outreach events, the MDI banks, FDIC Regional Coordinators for MDIs, and representatives from MDI trade associations requested that the FDIC provide more such events. The FDIC implemented changes in response to our five recommendations.

As part of its program changes and in response to our OIG report, on August 21, 2020, the FDIC Board approved *Proposed Revisions to its Statement of Policy Regarding Minority Depository Institutions*. Through these Proposed Revisions, the FDIC indicated its intent to establish new requirements to measure the effectiveness of the MDI

[143] FDIC, *How America Banks: Household Use of Banking and Financial Services – 2019 FDIC Survey*, (reporting that the FDIC 2013 survey of unbanked Americans found that one in three households (34.1 percent) that became unbanked in the prior 12 months experienced either a significant income loss or a job loss that contributed to their becoming unbanked).
[144] FDIC, *How America Banks: Household Use of Banking and Financial Services – 2019 FDIC Survey*.

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

program. The FDIC also stated that it has taken additional steps to increase MDI representation on the FDIC Community Bank Advisory Committee (CBAC);[145] established a new CBAC subcommittee to focus on the work of MDIs;[146] and enabled MDIs to review potential purchases of a failing MDI before non-MDI institutions have an opportunity to consider such purchases.[147] We have not yet reviewed the effectiveness of these changes to the MDI program, but will continue to monitor the FDIC's efforts to support its MDI program.

Ensuring Minority Representation Among Policy Makers

Federal financial regulators determine public policy, mindful of an array of considerations, including the allocation and cost of capital, public interest over narrower investor interests, protecting a diverse public that necessitates clear disclosures for individuals from differing backgrounds, and determining who is eligible to receive Government assistance in times of economic distress. At times, Federal regulatory policy has been made without the benefit of minority representation at the decision-making table.[148] For example, according to an analysis from the Georgetown University Law Center, African Americans represented 3 percent (10 of 327) of Federal financial regulatory appointments requiring Senate confirmation.[149] As of July 2020, there was one African American appointee among 21 financial regulators.[150] Further, about 4 percent (5 of 120) of Federal regulatory senior policy staff is African American – in comparison to 13.4 percent of the overall U.S. population.[151] A study by the Brookings Institution stated that "[t]he absence of African American financial regulators poses enormous challenges from the standpoint of participatory democracy and economic inclusion."[152]

At the FDIC, the Chairman recently testified that within the Agency's entire workforce, minorities represented over 30 percent of permanent employees (as of the end of 2019).[153] In 2019, the FDIC permanent and non-permanent workforce included more

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[145] *See* *FDIC Advisory Committee on Community Banking*. The FDIC's Advisory Committee on Community Banking MDI Subcommittee members represent a diverse range of MDIs, including African American, Hispanic, Asian American, and Native American institutions differing in business model, size, and location. The nine members of the MDI Subcommittee represent about 20 percent of all 96 MDIs supervised by the FDIC.

[146] *See* *MDI Subcommittee to FDIC's Advisory Committee on Community Banking.* The new MDI Subcommittee is intended to provide feedback on the FDIC's strategies in fulfilling its five statutory goals for MDIs (as required by Section 308 of FIRREA), to promote collaboration, partnerships and best practices; and to identify ways to highlight the work of MDIs in their communities.

[147] Testimony of FDIC Chairman Jelena McWilliams before the Senate Committee on Banking, Housing, and Urban Affairs on *Oversight of Financial Regulators*, (November 10, 2020).

[148] Brookings Institution, *The Absence of Black Financial Regulators*, (September 2, 2020).

[149] The Georgetown University Law Center, *What do the Data Reveal about (the Absence of Black) Financial Regulators?*, (July 20, 2020).

[150] The Wall Street Journal, *Black Regulators Rarely Appointed to Oversee Wall Street*, (July 21, 2020).

[151] The Georgetown University Law Center, *What do the Data Reveal about (the Absence of Black) Financial Regulators?*, (July 20, 2020).

[152] Brookings Institution, *The Absence of Black Financial Regulators*, (September 2, 2020).

[153] Testimony of FDIC Chairman Jelena McWilliams before the Senate Committee on Banking, Housing, and Urban Affairs on *Oversight of Financial Regulators*, (November 10, 2020); *see also* Statement of Nikita Pearson, Acting Director, Office of Minority and Women Inclusion, Federal Deposit Insurance Corporation on *Holding Financial Regulators Accountable for Diversity and Inclusion: Perspectives from the Offices of Minority and Women Inclusion*, before the Subcommittee on Diversity and Inclusion of the Committee on Financial Services, U.S. House of Representatives (September 8, 2020).

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

than 17 percent Black American, 4 percent Hispanic American, 6 percent Asian American, 0.6 percent American Indian or Alaska Native, and 1.7 percent for individuals of two or more races. Among the FDIC's Executive Managers, Black Americans represented 12.3 percent, Asian Americans 2.2 percent, Hispanic Americans represented 1.4 percent, and 0.7 percent of Executives were American Indian or Alaska Native.[154]

In our OIG report, *The FDIC's Efforts to Provide Equal Opportunity and Achieve Senior Management Diversity* (November 2014), we assessed the Agency's operations and efforts to provide equal opportunity for minorities and women to obtain senior management positions. We reported the underrepresentation of female, Hispanic, and Asian FDIC employees at the Executive Manager (EM) level as compared to the Federal Senior Executive Service (SES) workforce. Specifically, 28 percent of EMs at the FDIC were female, but the population of female executives across Federal agencies was 34 percent; 2 percent of FDIC EMs were Hispanic versus 4 percent across Federal agencies; and 2 percent of FDIC EMs were Asian while the Federal SES Asian population was 3 percent. The FDIC addressed the nine recommendations in this report.

According to the FDIC, as of November 2020 EM representation now includes 37 percent female, 3.9 percent Hispanic, and 5.5 percent Asian. According to FDIC officials, in 2021, the FDIC will announce the first FDIC Performance Goal dedicated to improving diversity, equity, and inclusion. Also, the FDIC has recently implemented a new performance standard for managers that focuses on cultivating an inclusive, harassment-free work environment.

The FDIC plays an important role in supporting and empowering minority communities' access to capital. The FDIC should continue to assess its MDI supervisory and outreach programs to encourage and preserve MDIs. Also, the FDIC should continue its efforts to enhance diversity and inclusion among senior decision makers to ensure that multiple viewpoints are considered in its policy making decisions.

[154] FDIC, Office of Minority and Women Inclusion, *Section 342 Dodd-Frank Wall Street Reform and Consumer Protection Act Report to Congress* (2019) (FDIC-07-2020).

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

Challenge 8: Managing Human Resources and Planning for the Future Workforce

The FDIC has approximately 5,800 employees in six Regional Offices across the country, and 42 percent of FDIC employees (nearly 2,400 individuals) are eligible to retire within 5 years. The FDIC faces retirement rates of almost 60 percent for FDIC Executives and Managers over that same time period. The FDIC should continue to manage the agency's exposure to gaps in leadership and mission-critical skills, especially given the significant investments in, and time required for, bank examiner commissioning.

Approximately 15 percent of the nearly 2.1 million Federal workforce are reportedly eligible to retire.[155] In March 2019, the GAO recognized strategic human capital management as a continuing Government-wide area of high risk.[156] The GAO identified the need for Federal agencies to measure and address existing mission-critical skill gaps, and to use workforce analytics to predict and mitigate future gaps.[157] A lack of strategic workforce planning may have lasting effects on the capacity of an agency's workforce and its ability to fulfill its mission.[158]

Over the next 5 years, through 2025, approximately 42 percent of current FDIC employees will be eligible to retire, and approximately 60 percent of current FDIC Executives and Managers will be eligible to retire. Without proper strategies to plan for succession and to manage turnover, these retirements can result in organizational gaps in knowledge, experience, and leadership.[159] Also, retirements could impact skills gaps for specialized positions such as bank examiners.[160]

On March 5, 2020, the FDIC Chairman announced a voluntary separation incentive and early retirement program intended to "increase the agility and effectiveness of the FDIC workforce, and to ensure that we can appropriately transition the skills, tools, and leadership necessary to fulfill mission-critical readiness."[161] According to the FDIC, the program could facilitate orderly succession management by providing the Agency with an opportunity to accelerate its transition to new skills, tools, and leadership that will be needed in the future to fulfill the FDIC's mission responsibilities.

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[155] FedWeek, *Retirement Wave? Eligibility Numbers Holding Steady*, (January 7, 2020).
[156] GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, GAO-19-157SP, (March 2019).
[157] GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, GAO-19-157SP, (March 2019).
[158] GAO, *Federal Workforce: Key Talent Management Strategies for Agencies to Better Meet Their Missions*, GAO-19-181, (March 2019).
[159] GAO, *Federal Workforce: Sustained Attention to Human Capital Leading Practices Can Help Improve Agency Performance*, GAO-17-627T, (May 2017).
[160] GAO, *Human Capital: Improving Federal Recruiting and Hiring Efforts*, GAO-19-696T, (July 2019).
[161] Memorandum from Chairman McWilliams to FDIC Employees, *Reshaping the FDIC for the Future and Improving Our Preparedness*, (March 5, 2020).

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On March 16, 2020, however, the program was suspended so that the Agency could assess the impact of the pandemic on the banking industry. In October 2020, the Chairman stated that "[a]ny decision to implement [the separation incentive or early retirement program] in 2021 would likely target a much smaller group of employees as the Agency continues to respond to the pandemic."[162]

Assessing Potential Retirement Waves in the FDIC's Primary Divisions

The FDIC must continue to manage the Agency's exposure to personnel retirements in key divisions. Although the FDIC's overall retirement-eligible population is 42 percent, five key Divisions have staff retirement-eligible rates ranging from 44 to 68 percent. Absent proper management, retirements may lead to gaps in leadership and mission-critical skills, especially given the significant investments in, and time required for, bank examiner commissioning.

Approximately 93 percent of all FDIC employees work in one of the FDIC's nine primary and support Divisions. As shown in Table A, 30 to 68 percent of the FDIC staff in these Divisions are eligible to retire in the next 5 years. Notably, all nine FDIC Divisions have retirement eligibility rates that are higher than the Federal Government-wide rate of 15 percent.

Table A: Retirement Eligibility Statistics for Key FDIC Divisions

Division	Staff Eligible to Retire in 2025	Executives and Managers Eligible to Retire in 2025
Division of Resolutions and Receiverships (DRR)	68 percent	66 percent
Division of Finance (DOF)	55 percent	75 percent
Legal Division	55 percent	52 percent
Division of Administration (DOA)	56 percent	64 percent
Division of Information Technology (DIT)	44 percent	39 percent
Division of Risk Management Supervision (RMS)	39 percent	68 percent
Division of Complex Institution Supervision & Resolutions (CISR)	35 percent	28 percent
Division of Depositor and Consumer Protection (DCP)	34 percent	57 percent
Division of Insurance and Research (DIR)	30 percent	48 percent

Source: OIG analysis of FDIC-provided data as of June 1, 2020.

Division Executives and Managers have retirement eligibility rates ranging from 28 to 75 percent. For instance, approximately 75 percent of Executives and Managers within DOF are eligible to retire in the next 5 years. DOF staff manages the liquidity of the Deposit Insurance Fund to ensure that money is available to the DRR to pay depositors quickly in the event of a bank failure, and attorneys in the Legal Division assist the DRR in structuring resolution agreements.

Similarly, approximately 66 percent of Executives and Managers in the DRR and approximately 68 percent of Executives and Managers in the RMS can retire within the same timeframe. DRR staff is responsible for managing failed bank resolutions and

[162] Chairman's Town Hall Teleconference (October 7, 2020).

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

receiverships, including ensuring the prompt payment of deposit insurance funds to eligible bank customers. Absent seasoned professionals with knowledge of lessons learned from past crises, the FDIC may not be sufficiently agile in executing resolution and receivership activities in future bank failures. The FDIC faces significant risks regarding retirement eligibility in key Divisions that support crises readiness efforts.

As recognized by the GAO, retirement waves may result in leadership gaps.[163] The 5-year retirement eligibility rates of Executives and Managers presents a risk that the FDIC could experience knowledge and leadership gaps. These gaps may impede the capabilities of the FDIC to achieve its mission, unnecessarily delay decision making, and reduce program management and oversight.[164]

A significant number of FDIC employees responsible for ensuring the safety and soundness of institutions and protecting consumers are also eligible to retire. Approximately 39 percent of RMS staff is eligible to retire within 5 years. Replacing retiring examiners requires lead time, as it generally takes 3 to 4 years for an examiner to complete training. Further, examiners play an important role during financial crises, as they increase bank monitoring and draft required enforcement actions. The FDIC has been over-hiring examiner personnel to address this issue.

Similarly, approximately 34 percent of DCP staff will be eligible to retire within 5 years. The DCP conducts examinations to ensure that banks meet certain requirements for consumer protection, anti-discrimination, and community reinvestment. The FDIC should ensure that there is an effective process for the transfer of the knowledge of seasoned retirement-eligible examiners to junior examiners.

Assessing Potential Retirement Waves in the FDIC's Regional Offices

The FDIC maintains six Regional Offices located throughout the country. Regional Offices include members from all FDIC Divisions, but the largest representation of employees is RMS examination staff. The FDIC faces risks due to staff retirement eligibility rates within each of its Regional Offices.

Based on our analysis, as shown in Table B, we found that FDIC employees in these Regional Offices are eligible to retire within the next 5 years at rates ranging from 33 to 49 percent, and retirement rates for Executives and Managers range from 47 to 76 percent.

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[163] GAO, *High-Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others*, GAO-17-317, (February 2017).
[164] Southern California Law Review, *Vacant Offices: Delays In Staffing Top Agency Positions*, (2008).

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Table B: Retirement Eligibility Statistics for FDIC Regional Offices

Region	Total Employees	Staff Eligible to Retire in 2025	Executives and Managers Eligible to Retire in 2025
Atlanta	479	35 percent	48 percent
Chicago	538	38 percent	68 percent
Dallas	764	49 percent	70 percent
Kansas City	500	33 percent	76 percent
New York	600	35 percent	47 percent
San Francisco	473	36 percent	61 percent

Source: OIG analysis of FDIC retirement data as of June 1, 2020.

Regional Office personnel are the critical interface between the FDIC and bank management. Regional Office examiners evaluate bank management's controls to maintain safety and soundness, mitigate cybersecurity risks, and minimize harm to consumers. Regional Office personnel also play a significant role during financial crises. For example, the FDIC's resolution and receivership activities are centralized in the Dallas Regional Office where almost half of its staff and 70 percent of Executives and Managers are eligible to retire in the next 5 years. Retirement waves may result in imbalances of senior staff among Regional Offices even where the FDIC increases hiring.

The management of human capital is critical to the FDIC's achieving its mission. The FDIC should continue to manage and align its human capital lifecycle activities – workforce planning, recruitment, hiring, orientation, compensation, engagement, succession planning, and retirement programs – to achieve its mission and goals effectively.

Challenge 9: Overseeing Contracts and Managing Supply Chain Risk

The FDIC is increasingly reliant on contractors for day-to-day support of its mission. Contracting activity escalates during times of crises. The FDIC's budget for 2021 includes an increase of more than $166 million (43.4 percent) for all contractor-provided services. The FDIC should execute a contracting program that ensures effective oversight of the Agency's acquisition of goods and services. In addition, the FDIC should ensure that it adequately manages and mitigates supply chain risks associated with Agency contracts.

The FDIC procures goods and services to augment its internal resources and help the Agency achieve its mission. The FDIC DOA Acquisition Services Branch (ASB) works with Oversight Managers (OM) from FDIC Divisions and Offices to provide oversight of FDIC procurements.

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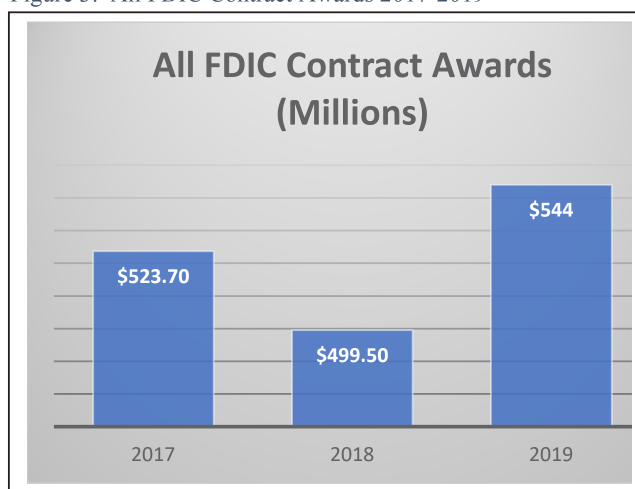
As shown in Figure 3, the FDIC increased contract spending between 2017 and 2019. During this 3-year period, the FDIC awarded larger contracts to fewer companies. Between 2017 and 2019, the FDIC reduced the number of contracts by 30 percent from 737 to 518.

Figure 3: All FDIC Contract Awards 2017-2019



Source: FDIC Division of Administration.

In addition, the FDIC's budget for 2021 includes an increase of more than $166 million (43.4 percent) for contractor-provided services, as reflected in "the establishment of contingency reserves for possible pandemic-related problem bank and/or failure activity" and increased funding for IT modernization. FDIC contracting requirements increase significantly during times of crises due to the FDIC's receivership responsibilities.

Additionally, the FDIC entered into contracts as a result of the pandemic. According to the DOA, as of November 2020, the FDIC spent more than $2 million in pandemic-related contracts, including the purchase of personal protective equipment, specialized cleaning of FDIC Headquarters and Regional Offices, and a management support contract for Covid-19 protocol information.

Strengthening FDIC Contract Oversight

The FDIC may see a further increase in contracting activity as a result of the pandemic. As noted by the GAO in its FDIC financial statement auditor's report included in this Annual Report, the FDIC was found to have a significant internal control deficiency over financial reporting related to contract payment review processes. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance. Without adequate contract payment review processes, the FDIC cannot reasonably assure that internal controls over contract payments are operating effectively, thereby increasing the risks that improper payments could occur and misstate the financial statements.

In our OIG evaluation, *Contract Oversight Management* (October 2019), we concluded that the FDIC needs to strengthen its contract oversight management. Specifically, we found that the FDIC was overseeing acquisitions on a contract-by-contract basis rather than on a portfolio basis and did not have an effective contracting management information system to readily gather, analyze, and report portfolio-wide contract information across the Agency. As a result, FDIC Board Members and other senior management officials were not provided with a portfolio-wide view or the ability to analyze historical contracting trends across the portfolio, identify anomalies, and perform ad hoc analyses to identify risk or plan for future acquisitions.

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

Additionally, 20 percent of the contracts executed between 2013 and 2017 (1,518 of 7,786) did not have contract pricing arrangement information entered into the FDIC's Automated Procurement System. We also found that contract files maintained by OMs were often incomplete, and that OMs were unable to produce the missing contract documentation, such as critical records relating to inspection and acceptance. Without this documentation, the FDIC could incur additional costs to recover or replace lost documentation and could have difficulty enforcing the contract in the event of contractor noncompliance. The FDIC implemented 12 of the 15 recommendations we made to improve the FDIC's contract management, and FDIC officials stated that they are working towards addressing the remaining 3 recommendations, including a new procurement system that will allow for portfolio-wide analysis.

In our ongoing OIG evaluation of the FDIC's Oversight of Blue Canopy, we are assessing whether service contracts between the FDIC and Blue Canopy were for Critical Functions[165] and whether the FDIC performed heightened contract monitoring for Critical Functions. It is important for the FDIC to have a process for identifying Critical Functions during the course of the acquisition planning process. Blue Canopy provides a range of cybersecurity and privacy support services for the FDIC, including continuous monitoring, vulnerability management, internal control reviews, and privacy assessments. These services are critical to ensuring the security and protection of the FDIC's IT infrastructure and data. A breach or disruption in these services could affect the security, confidentiality, integrity, and availability of the information and data at the FDIC.

It is also important for the FDIC to have heightened contract monitoring activities for Critical Functions. Without these practices in place, the FDIC may not retain oversight resources at a sufficient level of capacity and capability, including an adequate number of its employees with the appropriate training and experience. In addition, the FDIC may not conduct proper oversight to understand the Agency's requirements, formulate alternatives, manage work products, and monitor contractors used to support the Federal workforce.

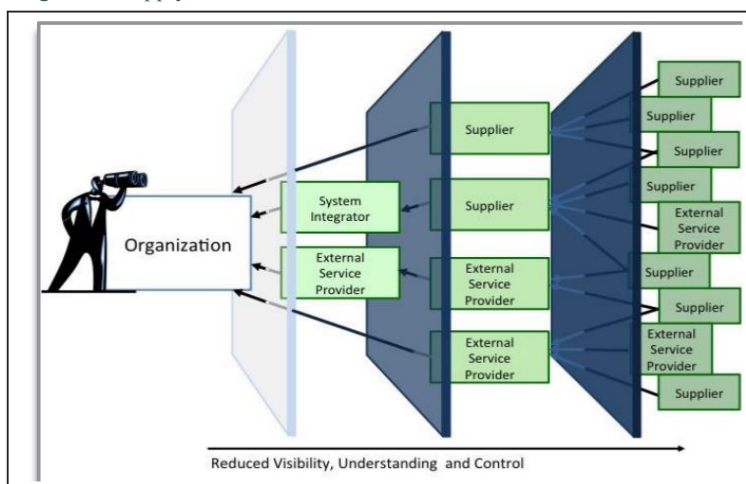
[165] A critical function is a function that is necessary to the Agency being able to effectively perform and maintain control of its mission and operations. Typically, critical functions are recurring and long-term in duration. *See* OMB Policy Letter 11-01, *Performance of Inherently Governmental and Critical Functions*, 76 Fed. Reg. 56227 (September 11, 2011).

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

Assessing Supply Chain Risk

When an agency contracts for goods and services that will be introduced into its environment, the agency might encounter risks related to product and service supply chains.[166] As shown in Figure 4, an organization may have reduced visibility, understanding, and control of relationships with vendors who rely on second- and third-tier suppliers and service providers.

Figure 4: Supply Chain Risk



Source: NIST Publication 800-161.

Risks are realized when the supply chain exploits existing vulnerabilities, though it may take years for such exploitation to occur or for an agency to discover the exploitation. The GAO noted that key supply chain threats include, for example, hardware and software installations that allow hackers to take control and counterfeit hardware and software that threaten systems integrity and reliability.[167] Further, supply chain production and service risks can disrupt the supply of critical IT products and allow malicious or unqualified service providers to disrupt operations.[168]

According to NIST guidance, management of supply chain risk requires "ensuring the integrity, security, quality, and resilience of the supply chain and its products and services."[169] NIST guidance describes supply chain risk as including an "organization's decreased visibility into, and understanding of how the technology that they acquire is developed, integrated, and deployed." NIST guidance further advises organizations to take a holistic, enterprise-wide approach to managing supply chain risks.[170] The OMB required agencies to implement information and communications technology supply chain risk management principles.[171]

On July 14, 2020, the Department of Defense, General Services Administration, and National Aeronautics and Space Administration issued a joint Interim Rule[172] addressing

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[166] NIST, *Cyber Supply Chain Risk Management,* (May 24, 2016).
[167] GAO, *Information Security: Supply Chain Risks Affecting Federal Agencies*, GAO-18-667T, (July 12, 2018).
[168] GAO, *Information Security: Supply Chain Risks Affecting Federal Agencies*, GAO-18-667T, (July 12, 2018).
[169] NIST, *Cyber Supply Chain Risk Management*, (May 24, 2016).
[170] NIST Special Publication 800-161, *Supply Chain Risk Management for Federal Information Systems and Organizations*, (April 2015).
[171] OMB, *Circular A-130, Managing Information as a Strategic Resource*, (July 2016).
[172] The Office of the Federal Register's, *Guide to the Rulemaking Process,* defines an Interim Rule as a final rule that is published without first publishing a proposed rule for notice and comment.

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the Federal Government's procurement supply chain risks for telecommunication and video surveillance services or equipment.[173] Effective August 13, 2020, the Interim Rule prohibits Federal Executive Agencies that follow the Federal Acquisition Regulations from contracting with certain Chinese companies, including Huawei and ZTE.[174]

As mentioned previously, in December 2020, it was reported that Federal Government agency networks were compromised by a software update from the IT management services company SolarWinds.[175] By exploiting supply chain vulnerabilities, nation-state actors inserted malicious code into a SolarWinds software update, which gave hackers access to Government systems.[176] The Cybersecurity and Infrastructure Security Agency (CISA) issued an Emergency Directive to Federal agencies "to review their networks for indicators of compromise and disconnect or power down their SolarWinds Orion products immediately."[177] CISA stated that the threat of the SolarWinds compromise poses a great risk to the Federal Government.[178]

The FDIC uses a SolarWinds product. Following the issuance of the Emergency Directive, FDIC officials represented that they had disconnected the FDIC SolarWinds product and that they were in the process of conducting an internal review.

Also in December 2020, the National Security Agency (NSA) issued a Cybersecurity Advisory that nation state actors exploited a vulnerability in VMware products that allows attackers to forge security credentials and gain access to protected data.[179] The Cybersecurity Advisory recommended application of a vendor-issued patch. The FDIC uses a VMware product, and FDIC officials represented that they took action to apply the patch and reduce the risk of exploitation for the FDIC VMware product.

In November 2019, the FDIC initiated the Supply Chain Risk Management Implementation Project (SCRM Project) to build a supply chain risk-aware culture and establish an SCRM framework and governance structure. The SCRM Project is

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[173] Federal Acquisition Regulation: *Prohibition on Contracting with Entities Using Certain Telecommunications and Video Surveillance Services or Equipment*, 85 Fed. Reg. 42665 (July 14, 2020). The interim rule implements section 889(a)(1)(B) of the John S. McCain National Defense Authorization Act (NDAA) for Fiscal Year 2019 (Pub. L. 115–232).

[174] Federal Acquisition Regulation*: Prohibition on Contracting with Entities Using Certain Telecommunications and Video Surveillance Services or Equipment*, 85 Fed. Reg. 42665 (July 14, 2020). The statute covers certain telecommunications equipment and services produced or provided by Huawei Technologies Company or ZTE Corporation (or any subsidiary or affiliate of those entities) and certain video surveillance products or telecommunications equipment and services produced or provided by Hytera Communications Corporation, Hangzhou Hikvision Digital Technology Company, or Dahua Technology Company (or any subsidiary or affiliate of those entities).

[175] The Washington Post, *Russian Government Hackers are Behind a Broad Espionage Campaign That Has Compromised U.S. Agencies Including Treasury and Commerce*, (December 14, 2020).

[176] The New York Times*, Scope of Russian Hack Becomes Clear: Multiple U.S. Agencies Were Hit*, (December 14, 2020).

[177] CISA*, CISA Issues Emergency Directive To Mitigate The Compromise Of SolarWinds Orion Network Management Products*, (December 14, 2020).

[178] CISA Cyber Activity Alert, *Advanced Persistent Threat Compromise of Government Agencies, Critical Infrastructure, and Private Sector Organizations*, (December 17, 2020); The New York Times*, Scope of Russian Hack Becomes Clear: Multiple U.S. Agencies Were Hit*, (December 14, 2020). Politico, *How Suspected Russian Hackers Outed Their Massive Cyberattack*, (December 16, 2020).

[179] NSA Cybersecurity Advisory, *Russian State-Sponsored Malicious Cyber Actors Exploit Known Vulnerability in Virtual Workspaces*, (December 7, 2020).

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

governed by a steering committee,[180] coordinated by a project manager, and executed by a working group. The SCRM project manager uses a project plan to manage SCRM tasks. According to the FDIC, in 2020, the SCRM officials issued a Procurement Administrative Bulletin requiring SCRM-related provisions and clauses in all future FDIC solicitations and awards, as well as any contract extensions or updates of existing contracts. SCRM officials also indicated that they had a draft FDIC directive on supply chain management that is currently under review. We will continue monitoring and assessing the FDIC's efforts in this regard.

The FDIC should ensure effective oversight of its increasing contractor portfolio. Contract oversight strengthens prudent management of FDIC resources and ensures that the FDIC receives expected goods and services. FDIC contracting should also take into consideration supply chain risk in order to keep FDIC information, assets, and personnel safe and secure.

Challenge 10: Enhancing Rulemaking at the FDIC

FDIC rulemaking places requirements upon supervised banks, and such impositions often affect individual deposit holders as well. The FDIC should have a transparent rulemaking process that balances the need for safety and soundness regulation and the burden on financial institutions' regulatory compliance. It is also important to ensure that rulemakings do not promote regulatory capture by serving the interest of banks at the expense of the public. A foundational component of rulemaking is the FDIC's access to reliable information to measure a regulation's costs and benefits.

The GAO estimates that "Federal agencies publish on average 3,700 proposed rules yearly."[181] The cost of compliance with regulations impacts financial institutions. According to the International Banker, annual bank compliance cost is estimated to be $270 billion.[182] Further, a study by the Federal Reserve Bank of St. Louis found that regulatory compliance costs as a percentage of overall non-interest expense for small banks are nearly twice those for larger banks.[183]

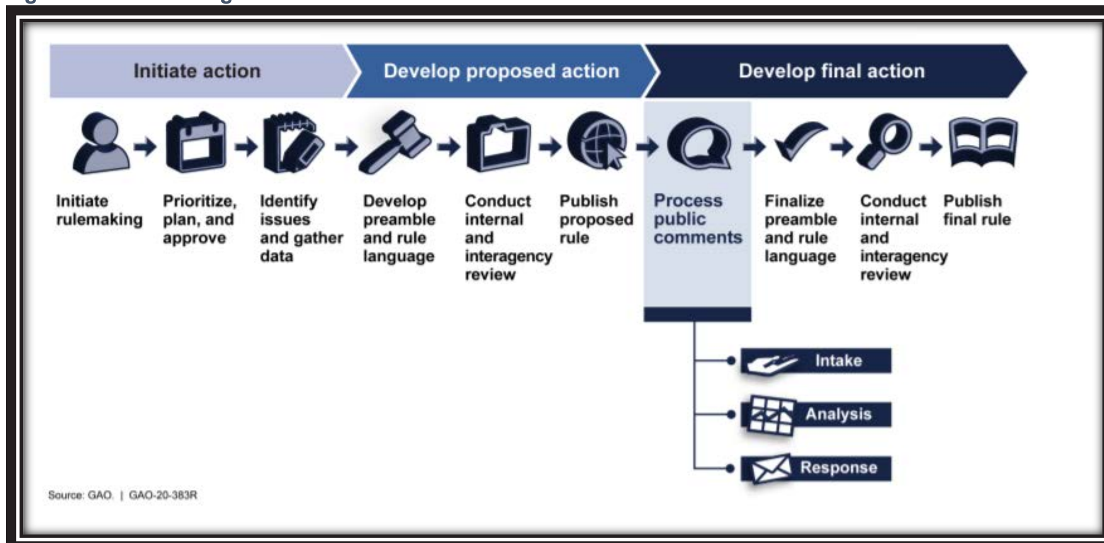
[180] Steering Committee membership includes Assistant General Counsel, Legal Division, Corporate and Legal Operations Section; Associate Director, Division of Resolutions and Receiverships, Receivership Operations Branch; Deputy Director, CIO Acquisition Strategy and Innovation Branch; Chief Risk Officer and Deputy Director, Division of Finance, Risk Management and Internal Controls Branch; Deputy Director, Division of Administration, Acquisition Services Branch; and Special Advisor to the Chief Operating Officer.
[181] Statement of Seto J. Bagdoyan, Director of Audits, Forensic Audits and Investigative Service, before the Permanent Subcommittee on Investigations and the Subcommittee on Regulatory Affairs and Federal Management, Committee on Homeland Security and Governmental Affairs, United States Senate, *Federal Rulemaking: Selected Agencies Should Clearly Communicate Public Comment Posting Practices Associated with Identity Information*, GAO-20-105T, (October 24, 2019).
[182] International Banker, *Cost of Compliance*, (November 7, 2018).
[183] Federal Reserve Bank of St. Louis, *Compliance Costs, Economies of Scale and Compliance Performance, Evidence from a Survey of Community Banks*, (April 2018).

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

Improving the FDIC's Rulemaking Process

Federal agencies must follow the requirements of the Administrative Procedure Act (APA), which governs Federal rulemaking and outlines processes that Federal agencies must complete when promulgating regulations. Agencies have their own rulemaking policies and practices for implementing the APA procedures.[184] Figure 5 provides an overview of the process agencies use for rulemaking notice and comments.[185]

Figure 5: Rulemaking Notice and Comment Process



The Banking Act of 1933 provided the FDIC with the authority to issue rules to fulfill the Agency's mission. Agencies, like the FDIC, develop rules to achieve agency goals and objectives, and implement Federal statutes. The FDIC's resource and process guide entitled, *Development of FDIC Rules and Statements of Policy* (July 2018) states that the "rulemaking process is most effective and efficient when rulemaking analytical requirements are addressed beginning in the early phases of a rule's development and revisited as necessary while development progresses."

Improving Cost Benefit Analysis. Measuring the costs and benefits of regulations is an important rulemaking function. According to the *FDIC's Statement of Policy on the Development and Review of Regulations and Policies*, the FDIC uses available information to evaluate the costs and benefits of reasonable and potential regulations or statements of policy. Quantifying both the costs and benefits of significant financial regulations is challenging, and it often may be imprecise and unreliable.[186] For example, the process does not take into account environmental impacts, and large industries or companies with resources may easily produce cost data while agencies may have

[184] GAO, Federal Rulemaking: Information on Selected Agencies' Management of Public Comments, GAO-20-383R, (April 16, 2020).
[185] GAO, Federal Rulemaking: Information on Selected Agencies' Management of Public Comments, GAO-20-383R, (April 16, 2020).
[186] Yale Law Journal Forum, Cost-Benefit Analysis of Financial Regulation: A Reply, (January 22, 2015).

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

difficulty quantifying broad societal benefits.[187] Performing such analysis can be difficult, because it involves theory, modeling, statistical analysis, and other tools to predict future outcomes based upon certain assumptions.[188] To illustrate, it may be difficult to estimate the cost of a financial crisis and the benefits of regulations aimed to mitigate the risks associated with a crisis.[189]

In our OIG evaluation, *Cost Benefit Analysis Process for Rulemaking* (February 2020), we found that the FDIC's rulemaking processes were inconsistent with five identified best practices. The FDIC:

- Had not established and documented a process to determine when and how to perform cost benefit analyses;
- Did not leverage the expertise of its economists during initial rule development;
- Did not require the FDIC Chief Economist to concur on the cost benefit analyses performed;
- Was not transparent in its disclosure of cost benefit analyses to the public; and
- Did not perform cost benefit analyses after final rule issuance.

As a result, the FDIC's rulemaking process resulted in inconsistent practices for conducting cost benefit analyses. Based on our review of rules finalized by the FDIC from January 2016 to December 2018, we found that the FDIC performed cost benefit analyses on 15 of 40 final rules (37 percent) published in the Federal Register. The FDIC did not publish its rationale as to why 25 rules issued by the FDIC did not warrant cost benefit analysis. Further, we found that the FDIC performed an in-depth cost benefit analysis on only 4 of 40 final rules (10 percent) published in the Federal Register. In addition, the FDIC's depth of analysis for a particular rule did not always align with the rule's substance. Without thorough and consistent cost benefit analyses, the FDIC could implement or enforce poorly conceived or overly burdensome rules. The FDIC has provided a timeline to implement corrective actions to address our recommendations.

Conducting Retrospective Review of Regulations. Best practices support that agencies should establish and document a process to perform retrospective analyses of their issued rules or, at a minimum, perform a regulatory risk assessment to identify those rules or rule provisions that are at higher risk of being outdated, duplicative, or unduly burdensome.[190] Risk assessment may allow agencies to identify those rules or rule provisions that should be subject to a more thorough retrospective cost benefit analysis. These analyses can inform policy-maker judgments about whether to modify, expand, streamline, or repeal such regulations. Retrospective cost benefit analysis can also provide valuable insight on the strengths and weaknesses of the agency's rulemaking, by facilitating a comparative analysis of expected effects to actual effects, which can be used to enhance the agency's analytic capability.

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[187] Center for American Progress, *Reckoning With Conservatives' Bad Faith Cost-Benefit Analysis*, (August 14, 2020).
[188] Congressional Research Service, *Cost-Benefit Analysis and Financial Regulator Rulemaking*, (April 12, 2017).
[189] The University of Chicago Journal of Legal Studies, *Challenges for Cost-Benefit Analysis of Financial Regulation*, (June 2014).
[190] According to Executive Order 13579 and OMB Memorandum M-11-28, independent regulatory agencies are encouraged to engage in a retrospective analysis of the costs and benefits (both quantitative and qualitative) of regulations chosen for review.

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

In our evaluation, *Cost Benefit Analysis Process for Rulemaking* (February 2020), we found that the FDIC did not perform cost benefit analyses after issuance of the rule. Without performing cost benefit analyses of existing rules or establishing a formal process to proactively review each final rule, the FDIC may not identify duplicative, outdated, or overly burdensome rules in a timely manner. In addition, the FDIC may not ensure that its rules are effective and continue to achieve their intended objectives and outcomes.

FDIC rulemaking should be transparent and grounded in analysis demonstrating that a rule's benefits outweigh its costs. By obtaining concrete, valid, and reliable data, the FDIC can analyze the costs and benefits of regulations before implementing a rule. Further, retrospective analysis of the costs and benefits of issued rules would allow the FDIC to determine whether the rule should be modified or repealed.

D. ACRONYMS AND INITIALISMS

Acronym	Meaning
ACL	Allowance for Credit Losses
AEI	Alliances for Economic Inclusion
AFS	Available-For-Sale
AIG	American International Group, Inc.
ALLL	Allowance for Loan Lease Losses
AML	Anti-Money Laundering
AML/CFT	Anti-Money Laundering and Countering the Financing of Terrorism
ANPR	Advance Notice of Proposed Rulemaking
ASBA	Association of Supervisors of Banks of the Americas
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
BCBS	Basel Committee on Banking Supervision
BDC	Backup Data Center
BoA	Bank of America
BSA	Bank Secrecy Act
Call Report	Consolidated Reports of Condition and Income
CAMELS	**C**apital adequacy; **A**sset quality; **M**anagement capability; **E**arnings quality; **L**iquidity adequacy; **S**ensitivity to market risk
CARES Act	Coronavirus Aid Relief and Economic Security Act
CAT	Cybersecurity Assessment Tool
CBAC	Advisory Committee on Community Banking
CCP	Central Counterparties
CDFI	Community Development Financial Institution
CECL	Current Expected Credit Losses
CEO	Chief Executive Officer
CEP	Corporate Employee Program
CFI	Complex Financial Institution
CFO Act	Chief Financial Officers Act
CFPB	Consumer Financial Protection Bureau
CFR	Center for Financial Research
CFTC	Commodity Futures Trading Commission
CIO	Chief Information Officer
CIOO	Chief Information Officer Organization
CISO	Chief Information Security Officer
CISR	Division of Complex Institution Supervision and Resolution
CMG	Crisis Management Group
CMP	Civil Money Penalty
ComE-IN	Advisory Committee on Economic Inclusion
COVID-19	Coronavirus Disease 2019
CPI-U	Consumer Price Index for All Urban Consumers
CRA	Community Reinvestment Act
CRC	Consumer Response Center
CRE	Commercial Real Estate
CSBS	Conference of State Bank Supervisors
CSF	Cybersecurity Framework
CSIRT	Computer Security Incident Response Team
CSRS	Civil Service Retirement System
DCP	Division of Depositor and Consumer Protection
DFA	Dodd-Frank Act
DHS	Department of Homeland Security
DIF	Deposit Insurance Fund
DIMIA	Depository Institution Management Interlocks Act
DIR	Division of Insurance and Research
DIT	Division of Information Technology
DLP	Data Loss Prevention
DOA	Division of Administration
DRR	Designated Reserve Ratio
DRR (FDIC)	Division of Resolutions and Receiverships

EC	European Commission
EDIE	Electronic Deposit Insurance Estimator
EGRPRA	Economic Growth and Regulatory Paperwork Reduction Act of 1996
EGRRCPA	Economic Growth, Regulatory Relief, and Consumer Protection Act
EU	European Union
ERM	Enterprise Risk Management
FAQs	Frequently Asked Questions
FASB	Financial Accounting Standards Board
FBIIC	Financial and Banking Information Infrastructure Committee
FBO	Foreign Bank Organization
FDI Act	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FEHB	Federal Employees Health Benefits
FERS	Federal Employees Retirement System
FFB	Federal Financing Bank
FFIEC	Federal Financial Institutions Examination Council
FFMIA	Federal Financial Management Improvement Act
FHLB	Federal Home Loan Banks
FICO	Financing Corporation
FID	Financial Institution Diversity
FIL	Financial Institution Letter
FinCEN	Financial Crimes Enforcement Network
FinTech	Financial Technology
FIRREA	Financial Institutions Reform, Recovery and Enforcement Act
FIs	Financial Institutions
FISs	Financial Institution Specialists
FISMA	Federal Information Security Modernization Act of 2014
FLEC	Federal Financial Literacy and Education Commission
FMFIA	Federal Managers' Financial Integrity Act
FMSP	Financial Management Scholars Program
FRB	Board of Governors of the Federal Reserve System
FRF	FSLIC Resolution Fund
FRWG	Financial Regulatory Working Group
FSB	Financial Stability Board
FS-ISAC	Financial Services Information Sharing and Analysis Center
FSLIC	Federal Savings and Loan Insurance Corporation
FSOC	Financial Stability Oversight Council
FTE	Full-Time Employee
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
GDP	Gross Domestic Product
GECC	General Electric Capital Corporation, Inc.
GPRA	Government Performance and Results Act
G-SIBs	Global Systemically Important Banks
G-SIFI	Global SIFIs
HMDA	Home Mortgage Disclosure Act
HQLA	High quality Liquid Asset
IADI	International Association of Deposit Insurers
ICIPC	Intelligence and Critical Infrastructure Protection Committee
IDI	Insured Depository Institution
IMF	International Monetary Fund
IMFB	IndyMac Federal Bank
InTREx	Information Technology Risk Examination Program
ISM	Information Security Manager
IT	Information Technology
ITCIP	Insider Threat and Counterintelligence Program
ITSP	Information Technology Strategic Plan
LBSB	Large Bank Supervision Branch
LCFI	Large Complex Financial Institution
LCR	Liquidity Coverage Ratio

LIBOR	London Inter-bank Offered Rate
LIDI	Large Insured Depository Institution
LLC	Limited Liability Company
LMI	Low- Moderate-Income
MDI	Minority Depository Institutions
MOL	Maximum Obligation Limitation
MOU	Memoranda of Understanding
MRBA	Matters Requiring Board Attention
MRM	Model Risk Management
MWOB	Minority- and Women-Owned Business
MWOLF	Minority-and Women-Owned Law Firms
NAMWOLF	National Association of Minority-and Women-Owned Law Firms
NCATS	National Cybersecurity and Technical Services
NCUA	National Credit Union Administration
NITTF	National Insider Threat Task Force
NPR	Notice of Proposed Rulemaking
NSFR	Net Stable Funding Ratio
OCC	Office of the Comptroller of the Currency
OCFI	Office of Complex Financial Institutions
OIG	Office of the Inspector General
OJT	On-the-Job Training
OLA	Orderly Liquidation Authority
OLF	Orderly Liquidation Fund
OMB	U.S. Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
OO	Office of the Ombudsman
OPM	Office of Personnel Management
ORE	Owned Real Estate
OTS	Office of Thrift Supervision
P&A	Purchase and Assumption
PIV	Personal Identity Verification
PPP	Paycheck Protection Program
Q&A	Question and Answer
QBP	Quarterly Banking Profile
QFC	Qualified Financial Contracts
REMA	Reasonably Expected Market Area
ReSG	FSB’s Resolution Steering Committee
RESPA	Real Estate Settlement Procedures Act
RMIC	Risk Management and Internal Controls
RMS	Division of Risk Management Supervision
RTC	Resolution Trust Corporation
SARC	Supervision Appeals Review Committee
SBA	Small Business Administration
SCRA	Servicemembers Civil Relief Act
SEATAB	Security and Enterprise Architecture Technical Advisory Board
SEC	Securities and Exchange Commission
SIFA	Securities Investor Protection Act
SIFI	Systemically Important Financial Institution
SIPC	Securities Investor Protection Corporation
SLA	Shared-Loss Agreement
SME	Subject Matter Expert
SMS	Systemic Monitoring System
SNC	Shared National Credit Program
SRAC	Systemic Resolution Advisory Committee
SRB	Single Resolution Board
SRR	SIFI Risk Report
SSGN	Structured Sale of Guaranteed Note
TDR	Troubled Debt Restructuring
TILA	Truth-in-Lending Act
TIPS	Treasury Inflation-Protected Securities
TLAC	Total Loss-Absorbing Capacity
TSP	Federal Thrift Savings Plan
TSP (IT-related)	Technology Service Providers
UBPR	Uniform Bank Performance Report

UFIRS	Uniform Financial Institutions Rating System
UK	United Kingdom
URSIT	Uniform Rating System for Information Technology
VIEs	Variable Interest Entities
WE	Workplace Excellence
WHO	World Health Organization
WIOA	Workforce Investment Opportunity Act
YSP	Youth Savings Program

2020

Federal Deposit Insurance Corporation

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