

2016

I.

MANAGEMENT'S
DISCUSSION AND
ANALYSIS

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THE YEAR IN REVIEW

OVERVIEW

The FDIC continued to fulfill its mission-critical responsibilities during 2016. Insuring deposits, examining and supervising financial institutions, and managing receiverships are the core responsibilities of the FDIC. The agency adopted and issued final rules on key regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and engaged in several community banking and community development initiatives. Cybersecurity remained a high priority for the FDIC in 2016; the agency worked to strengthen cybersecurity oversight, help financial institutions mitigate increasing risks, and respond to cyber threats. The sections below highlight these and other accomplishments during the year.



FDIC Chairman Martin J. Gruenberg talks with an attendee at FDIC's Community Banking Conference, one of several FDIC community banking initiatives.

IMPLEMENTATION OF KEY REGULATIONS

Alternatives to Credit Ratings in the FDIC's International Banking Regulations

In June 2016, the FDIC issued a Notice of Proposed Rulemaking (NPR) to conform the FDIC's international banking regulations (Part 347) to the requirements of Section 939A of the Dodd-Frank

Act, which directs each federal agency to review and modify regulations that reference credit ratings. The NPR would replace references to credit ratings in Part 347's definition of "investment grade" with a standard of creditworthiness that has been adopted in other federal regulations. The NPR would also amend the FDIC's asset pledge requirement for insured U.S. branches of foreign banks by revising the eligibility criteria for the types of assets that may be pledged to the FDIC.

Banking Activities and Investments

In September 2016, the FDIC, OCC, and FRB submitted to Congress and the Financial Stability Oversight Council (FSOC), a study required under Section 620 of the Dodd-Frank Act of investments and activities that a banking entity may engage in under federal and state law. The study considers the types of activities in which banking entities may engage and investments they may make, associated risks, and risk mitigation activities undertaken by the banking entities with regard to those risks. In addition, each of the federal banking agencies provided recommendations and considerations for future regulatory action or supervisory guidance.

Minimum Reserve Ratio

In March 2016, the FDIC approved a final rule to implement Section 334 of the Dodd-Frank Act, which increased the minimum reserve ratio of the Deposit Insurance Fund from 1.15 percent to 1.35 percent, requires that the reserve ratio reach that level by September 30, 2020, and mandates that the FDIC offset the effect of the increase on insured depository institutions (IDIs) with assets of less than \$10 billion. The final rule imposes surcharges on IDIs with \$10 billion or more in assets and provides credits to IDIs with assets below \$10 billion for the portion of their regular assessments that contribute to growth in the reserve ratio between 1.15 percent and 1.35 percent. This rule is discussed in greater detail in the section on Deposit Insurance.

Volcker Rule Frequently Asked Questions

The “Volcker Rule” is a provision of the Dodd-Frank Act that contains restrictions and prohibitions on the ability of banks and their affiliates to engage in proprietary trading and have interests in, or relationships with, a hedge fund or a private equity fund. Banking entities that are subject to the rule are permitted to retain investments in certain collateralized debt obligations (CDOs) backed primarily by trust preferred securities. In March 2016, the FDIC, Office of the Comptroller of the Currency (OCC), Federal Reserve Board (FRB), Securities and Exchange Commission (SEC), and Commodity Futures Trading Commission (CFTC) updated their Frequently Asked Questions (FAQs) about the Volcker Rule to clarify the capital treatment of permitted investments in those CDOs.

External Audits of Internationally Active U.S. Financial Institutions

In January 2016, the FDIC, OCC, and FRB issued an advisory to indicate their support for the principles and expectations set forth in the Basel Committee on Banking Supervision’s (BCBS) March 2014 guidance on “external audits of banks.” The advisory also explains the agencies’ supervisory expectations regarding how internationally active U.S. financial institutions should address differences between the standards and practices followed in the United States and the principles and expectations in the BCBS external audit guidance. For purposes of the advisory, internationally active U.S. financial institutions include insured depository institutions with consolidated total assets of \$250 billion or more or consolidated total on-balance-sheet foreign exposure of \$10 billion or more.

Expanded Eligibility of 18-Month Examination Cycle

In December 2016, the FDIC, OCC, and FRB jointly finalized the interim final rule that increased the number of small banks and savings associations eligible for an 18-month examination cycle rather

than a 12-month cycle. Under the final rules, qualifying well-capitalized and well-managed banks and savings associations with less than \$1 billion in total assets are eligible for an 18-month examination cycle. Previously, only banks and savings associations with less than \$500 million in total assets could be eligible for the expanded examination cycle. The examination cycle changes also apply to qualifying well-capitalized and well-managed U.S. branches and agencies of foreign banks with less than \$1 billion in total assets.

The final rules increase the number of institutions that may qualify for an 18-month examination cycle by more than 600 to approximately 4,800 banks and savings associations. In addition, the final rules increase the number of U.S. branches and agencies of foreign banks that may qualify for an 18-month examination cycle by 30 branches and agencies, to a total of 89.

Use of Evaluations in Certain Real Estate-Related Financial Transactions

In March 2016, the FDIC, OCC, and FRB issued an advisory to clarify expectations for the use of property evaluations by banking institutions. The advisory responds to questions about the use of evaluations and appraisals that were raised during outreach meetings held by the agencies pursuant to the Economic Growth and Regulatory Paperwork Reduction Act. Among other things, the advisory states that regardless of the approach or method used to estimate the market value of real property, an evaluation report should contain sufficient information and analysis to support the value conclusion and the institution’s decision to engage in the transaction.

Issuance of Prepaid Cards

In March 2016, the FDIC, OCC, FRB, National Credit Union Administration (NCUA), and the Financial Crimes Enforcement Network (FinCEN) developed and issued guidance to clarify the requirements for customer identification programs (CIPs) and regulatory expectations for depository

institutions that issue certain prepaid cards. The guidance addresses the establishment of a formal account relationship and when the depository institution is responsible for collecting CIP information.

Funds Transfer Pricing Related to Funding and Contingent Liquidity Risk

In March 2016, the FDIC, OCC, and FRB issued joint guidance on Funds Transfer Pricing (FTP) to banks with assets of \$250 billion or more. The guidance describes four key principles that should comprise an FTP framework and includes examples for implementing these principles.

Net Stable Funding Ratio

In May 2016, the FDIC, OCC, and FRB jointly issued a proposed rule that would implement a liquidity requirement consistent with the net stable funding ratio agreed to by the Basel Committee on Banking Supervision and complementary to the Liquidity Coverage Ratio rule issued by the agencies in 2014. The proposal would require large, internationally active banking organizations to maintain a minimum level of stable funding over a one-year time horizon. This measure would reduce the likelihood that disruptions to a banking organization's regular sources of funding would compromise its liquidity position. The proposal also would promote improvements in the measurement and management of liquidity risk and enhance financial stability. The comment period closed on August 5, 2016, and the agencies are collaborating on a final rulemaking.

Margin and Capital Requirements for Covered Swaps

In August 2016, the FDIC, OCC, FRB, Federal Housing Finance Agency, and Farm Credit Administration issued a final rule that exempts certain commercial and financial end users from margin requirements for certain swaps not cleared through a clearinghouse. Specifically, the final rule exempts non-cleared swaps of small banks, savings associations,

Farm Credit System institutions, and credit unions with \$10 billion or less in total assets. This exemption parallels an exemption from a mandate in the Dodd-Frank Act to clear standardized swaps.

New Accounting Standard on Financial Instruments – Credit Losses

In June 2016, the FDIC, OCC, FRB, and NCUA issued a joint statement on the new accounting standard released by the Financial Accounting Standards Board (FASB) regarding Financial Instruments – Credit Losses. The statement summarizes key elements of the new standard, which introduces the current expected credit losses methodology for estimating allowances for credit losses. It also provides initial supervisory views regarding the implementation of the new accounting standard.

Qualified Master Netting Agreements

In October 2016, the FDIC issued a final rule that changes the regulatory capital and liquidity coverage ratio (LCR) rules to ensure consistency with new International Swaps and Derivatives Association (ISDA) Resolution Stay Protocols. The protocols impose a stay on cross-default and early termination rights within standard ISDA derivatives contracts. The final rule also revised the definition of “qualifying master netting agreement” and other related definitions, under the regulatory capital rules and the LCR, to reflect the recent changes to the ISDA Master Agreement. The FDIC action followed earlier rulemakings by the OCC and FRB.

Fact Sheet on Foreign Correspondent Banking

In August 2016, the U.S. Department of the Treasury issued a Fact Sheet developed jointly with the FDIC, OCC, FRB, and NCUA that outlines the agencies' anti-money laundering and economic sanctions positions with respect to foreign correspondent banking. The Fact Sheet summarizes the U.S. regulators' existing expectations regarding foreign correspondent banking relationships, the supervisory

examination process, and instances in which enforcement actions might be taken.

Enhanced Cyber Risk Management Standards

In October 2016, the FDIC, OCC, and FRB issued a joint Advance Notice of Proposed Rulemaking (ANPR) seeking comment on enhanced cybersecurity risk-management and resilience standards that would apply to large and interconnected entities under their supervision. The standards also would apply to services provided by third parties to these firms. The agencies are considering applying the enhanced standards to depository institutions and depository institution holding companies with total consolidated assets of \$50 billion or more, the U.S. operations of foreign banking organizations with total U.S. assets of \$50 billion or more, and financial market infrastructure companies and nonbank financial companies supervised by the FRB. The standards would be tiered, with an additional set of higher standards for systems that provide critical functionality to the financial sector. For these sector-critical systems, the agencies are considering requiring firms to mitigate substantially the risk of a disruption or failure due to a cyber event. The comment period will close on February 17, 2017, and the agencies will collaborate in the review of comments received.

Recordkeeping for Deposit Accounts

In November 2016, the FDIC approved a rule establishing recordkeeping requirements for FDIC-insured institutions with a large number of deposit accounts to facilitate rapid payment of insured deposits to customers if the institutions were to fail. The FDIC anticipates that the rule will become effective on April 1, 2017. The FDIC will work closely with institutions as they develop new capabilities, and intends to issue functional design assistance for system programming prior to the effective date to aid in this process.

Proposed Guidelines for Appeals of Material Supervisory Determinations

In July 2016, the FDIC published for public comment a proposal to amend its Guidelines for

Appeals of Material Supervisory Determinations. The amendments were proposed to give institutions additional avenues of redress with respect to supervisory determinations and to make the FDIC's appeals process more consistent with those of the other federal banking agencies. The comment period ended on October 3, 2016. The comments have been reviewed by the FDIC, and final action is anticipated in early 2017.

DEPOSIT INSURANCE

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

Long-Term Comprehensive Fund Management Plan

In 2010 and 2011, the FDIC developed a comprehensive, long-term DIF management plan designed to reduce the effects of cyclicity and achieve moderate, steady assessment rates throughout economic and credit cycles, while also maintaining a positive fund balance, even during a banking crisis. That plan complements the Restoration Plan, originally adopted in 2008 and subsequently revised, designed to ensure that the reserve ratio (the ratio of the fund balance to estimated insured deposits) reaches 1.35 percent by September 30, 2020, as required by the Dodd-Frank Act. The plan includes a reduction in assessment rates to take effect when the reserve ratio reaches 1.15 percent, which occurred in the second quarter of 2016 (as discussed in the *Deposit Insurance Fund Reserve Ratio* section).

Under the long-term DIF management plan, to increase the probability that the fund reserve ratio will reach a level sufficient to withstand a future crisis, the FDIC Board set the Designated Reserve Ratio (DRR) of the DIF at 2.0 percent. In September 2016, the Board voted to maintain the 2.0 percent ratio for 2017. 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.

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

State of the Deposit Insurance Fund

Estimated losses to the DIF from bank failures that occurred in 2016 totaled \$47 million. The fund balance continued to grow through 2016, as it has every quarter after the end of 2009. Assessment revenue was the primary contributor to the increase in the fund balance in 2016. The fund reserve ratio rose to 1.18 percent at September 30, 2016, from 1.09 percent a year earlier.

Deposit Insurance Fund Reserve Ratio

On June 30, 2016, the DIF reserve ratio rose to 1.17 percent from 1.13 percent on March 31, 2016. FDIC regulations provide for three major changes to deposit insurance assessments the quarter after the reserve ratio first reaches or exceeds 1.15 percent. Beginning the third quarter of 2016:

- ◆ the range of initial regular assessment rates for all institutions declined (from 5-35 basis points to 3-30 basis points) based on final rules approved by the FDIC Board on February 7, 2011, and April 26, 2016;
- ◆ surcharges on insured depository institutions with total consolidated assets of \$10 billion or more (large banks) began, pursuant to a final rule approved by the Board on March 15, 2016 (discussed in the *Minimum Reserve Ratio* section below); and
- ◆ a revised method to calculate risk-based assessment rates for established small banks went into effect, pursuant to the final rule approved by

the FDIC Board on April 26, 2016, (discussed in the *Deposit Insurance Assessment System* section).

Minimum Reserve Ratio

Section 334 of the Dodd-Frank Act, which increased the minimum reserve ratio of the DIF from 1.15 percent to 1.35 percent, requires that the reserve ratio reach that level by September 30, 2020. Section 334 also mandates that the FDIC “offset the effect of [the increase in the minimum reserve ratio] on insured depository institutions (IDIs) with total consolidated assets of less than \$10 billion.” In March 2016, the FDIC approved a final rule to implement these requirements. The final rule imposes surcharges on the quarterly assessments of IDIs with total consolidated assets of \$10 billion or more. The surcharges will continue through the quarter in which the reserve ratio first reaches or exceeds 1.35 percent. The surcharge equals an annual rate of 4.5 basis points applied to an institution’s regular quarterly deposit insurance assessment base after subtracting \$10 billion, with certain exceptions for banks with affiliated insured depository institutions. The FDIC expects that eight quarterly surcharges will be needed for the reserve ratio to reach 1.35 percent.

If, contrary to the FDIC’s expectations, the reserve ratio does not reach 1.35 percent by December 31, 2018 (but is still at least 1.15 percent), under the final rule the FDIC will impose a shortfall assessment on IDIs with total consolidated assets of \$10 billion or more on March 31, 2019.

Because the Dodd-Frank Act requires that the FDIC offset the effect of the increase in the reserve ratio from 1.15 percent to 1.35 percent on IDIs with total consolidated assets of less than \$10 billion, the final rule exempts these smaller banks from the surcharges and provides assessment credits to these institutions for the portion of their regular assessments that contribute to growth in the reserve ratio between 1.15 percent and 1.35 percent. Credits will be automatically applied to these small banks’ assessments when the reserve ratio is at or above 1.38 percent.

Deposit Insurance Assessment System

In April 2016, the FDIC approved a final rule to improve the risk-based deposit insurance assessment system applicable to established small banks to reflect risk more accurately. The final rule incorporates data from the recent financial crisis and bases assessment rates for all established small banks (generally, those with less than \$10 billion in total assets that have been federally insured for at least five years) in a statistical model that estimates a bank's probability of failure within three years. The revisions went into effect the third quarter of 2016. The final rule maintains the previously adopted ranges of assessment rates that apply once the DIF reserve ratio reaches 1.15 percent, 2 percent, and 2.5 percent, and was implemented so that aggregate assessment revenue collected from established small banks under the final rule was approximately the same as would have been collected under the small bank pricing method being replaced.

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 program is the core of its supervisory program. As of December 31, 2016, the FDIC was the primary federal regulator (PFR) for 3,790 FDIC-insured, state-chartered institutions that were not members of the Federal Reserve System [generally referred to as "state nonmember" (SNM) institutions]. Through risk management (safety and soundness), consumer compliance and the Community Reinvestment Act (CRA), and other specialty examinations, the

FDIC assesses an institution's operating condition, management practices and policies, and compliance with applicable laws and regulations.

As of December 31, 2016, the FDIC conducted 1,727 statutorily required risk management examinations and all required follow-up examinations for FDIC-supervised problem institutions within prescribed time frames. The FDIC also conducted 1,311 statutorily required CRA/compliance examinations (709 joint CRA/compliance examinations, 594 compliance-only examinations, and 8 CRA-only examinations). In addition, the FDIC performed 3,854 specialty examinations (which include reviews for Bank Secrecy Act (BSA) compliance within prescribed time frames).

The table on page 25 compares the number of examinations by type, conducted from 2014 through 2016.

Risk Management

All risk management examinations have been conducted in accordance with statutorily-established timeframes. As of September 30, 2016, 132 insured institutions with total assets of \$24.9 billion were designated as problem institutions for safety and soundness purposes (defined as those institutions having a composite CAMELS¹ rating of 4 or 5), compared to the 203 problem institutions with total assets of \$51.1 billion on September 30, 2015. This is a 35 percent decline in the number of problem institutions and a 51 percent decrease in problem institution assets. For the 12 months ending September 30, 2016, 82 institutions with aggregate assets of \$27.1 billion were removed from the list of problem financial institutions, while 11 institutions with aggregate assets of \$2.3 billion were added to the list. The FDIC is the PFR for 91 of the 132 problem institutions, with total assets of \$15.7 billion.

In 2016, the FDIC's Division of Risk Management Supervision initiated 170 formal enforcement actions

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

FDIC EXAMINATIONS 2014-2016			
	2016	2015	2014
Risk Management (Safety and Soundness):			
State Nonmember Banks	1,563	1,665	1,881
Savings Banks	164	206	206
State Member Banks	0	0	0
Savings Associations	0	0	0
National Banks	0	0	0
Subtotal – Risk Management Examinations	1,727	1,871	2,087
CRA/Compliance Examinations:			
Compliance/Community Reinvestment Act	709	859	1,019
Compliance-only	594	478	376
CRA-only	8	10	11
Subtotal – CRA/Compliance Examinations	1,311	1,347	1,406
Specialty Examinations:			
Trust Departments	351	365	428
Information Technology and Operations	1,742	1,886	2,113
Bank Secrecy Act	1,761	1,906	2,126
Subtotal – Specialty Examinations	3,854	4,157	4,667
TOTAL	6,892	7,375	8,160

and 121 informal enforcement actions. Enforcement actions against institutions included, but were not limited to, 23 actions under Section 8(b) of the FDI Act (22 consent orders and 1 notice of charges), and 121 MOUs. Of these enforcement actions against institutions, 20 consent orders, and 22 MOUs were based, in whole or in part, on apparent violations of BSA and anti-money laundering (AML) laws and regulations. In addition, enforcement actions were also initiated against individuals. These actions included, but were not limited to, 95 removal and prohibition actions under Section 8(e) of the FDI Act (87 consent orders and 8 notices of intention to remove/prohibit), 3 actions under Section 8(b) of the FDI Act (1 notice of charges to pay restitution and 2 personal cease and desist orders), and 28 civil money penalties (CMPs) (25 orders to pay and 3 notices of assessment).

The FDIC has heightened its focus on forward-looking supervision aimed at ensuring that risks are mitigated before they lead to financial deterioration.

Compliance

As of December 31, 2016, 50 insured SNM institutions, about 1 percent of all supervised institutions, with total assets of \$72 billion, were problem institutions for compliance, CRA, or both. All of the problem institutions for compliance were rated “4” for compliance purposes, with none rated “5.” For CRA purposes, the majority were rated “Needs to Improve,” and only four were rated “Substantial Noncompliance.” As of December 31, 2016, all follow-up examinations for problem institutions were performed on schedule.

As of December 31, 2016, the FDIC conducted all required compliance and CRA examinations

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

Overall, banks demonstrated strong consumer compliance programs. The most significant consumer protection issue that emerged from the 2016 compliance examinations involved banks' failure to adequately monitor third-party vendors. For example, the FDIC found violations involving unfair or deceptive acts or practices relating to issues such as failure to disclose material information about product features and limitations, deceptive marketing and sales practices, and misrepresentations about the costs of products. As a result, the FDIC issued orders requiring the payment of CMPs.

As of December 31, 2016, the FDIC's Division of Depositor and Consumer Protection initiated 15 formal enforcement actions and 23 informal enforcement actions to address compliance concerns (see chart on page 140). This included 4 consent orders, 2 removal and prohibition orders addressing safety and soundness concerns and breaching fiduciary duty, 9 CMPs, and 23 MOUs. Restitution orders are formal actions that require institutions to pay restitution in the form of consumer refunds for different violations of law. As of December 31, 2016, there were no restitution orders that required institutions to refund consumers. The CMPs totaled over \$332,654.

Large Bank Supervision Program

The FDIC also established the Large Bank Supervision Program within the Division of Risk Management Supervision to address the growing complexity of large banking organizations with assets exceeding \$10 billion and not assigned to the CFI Program. This group is responsible for both supervisory oversight and ongoing monitoring, and resolution planning, while supporting the insurance

business line. For SNM banks over \$10 billion, the FDIC generally applies a continuous examination program, whereby dedicated staff conducts ongoing onsite supervisory examinations and institution monitoring. At institutions where the FDIC is not the primary federal regulator, FDIC has dedicated onsite examination staff at select banks, working closely with other financial institution regulatory authorities to identify emerging risks and assess the overall risk profile of large institutions.

The Large Insured Depository Institution (LIDI) Program remains the primary instrument for off-site monitoring of IDIs with \$10 billion or more in total assets. The LIDI Program provides a comprehensive process to standardize data capture and reporting through nationwide quantitative and qualitative risk analysis of large and complex institutions. In 2016, the LIDI Program covered 92 institutions with total assets of \$5.4 trillion. The comprehensive LIDI Program supports effective large bank supervision because it aids the Division in using individual institution information to deploy resources most effectively to high-risk areas, determine the need for supervisory action, and support insurance assessments and resolution planning.

The Shared National Credit (SNC) Program is an interagency initiative administered jointly by the FDIC, OCC, and FRB to ensure consistency in the regulatory review of large, syndicated credits, as well as identify risk in this market, which comprises a large volume of domestic commercial lending. In 2016, outstanding credit commitments identified in the SNC Program totaled \$4.1 trillion. The FDIC, OCC, and FRB issued a joint press release detailing the results of the review in July 2016. The latest review showed the level of adversely rated assets remained higher than in previous periods of economic expansion, raising the concern that future losses and problem loans could rise considerably in the next credit cycle. The elevated level of risk observed during the recent SNC examination stems from the high inherent risk in the leveraged loan portfolio and growing credit risk in the oil and gas portfolio. Notwithstanding the riskiness

of the existing portfolio, the agencies noted improved underwriting and risk management practices related to the most recent leveraged loan originations, as underwriters continued to better align practices with regulatory expectations, and as investor risk appetite moderated away from transactions at the lower end of the credit spectrum.

Information Technology, Cyber Fraud, and Financial Crimes

To address the specialized nature of technology- and operations-related supervision, cyber risks, and controls in the banking industry, the FDIC routinely conducts information technology (IT) and operations examinations at FDIC-supervised institutions.

IT Examinations

The FDIC conducts regular IT and operations risk examinations at all FDIC-supervised financial institutions and assigns an examination rating based on the Federal Financial Institutions Examination Council's (FFIEC's) Uniform Rating System for Information Technology (URSIT). The URSIT rating is incorporated into the Management component of the Safety and Soundness rating in Reports of Examination. In 2016, the FDIC conducted 1,742 IT and operations examinations at financial institutions and technology service providers (TSPs).

In 2016, the FDIC continued to enhance its IT supervision and improve its programs to fight cyber fraud and financial crimes more generally. This year, the FDIC released updated IT and operations risk examination procedures that are more efficient and risk-focused, include a cybersecurity preparedness assessment, and provide more detailed examination results to institutions. This enhanced Information Technology Risk Examination program, or InTREx, helps ensure that financial institution management promptly identifies and effectively addresses IT and cybersecurity risks. The InTREx work program and training was completed on June 24, 2016, and fully implemented by September 30, 2016.

Supervision for Technology Service Providers

The FDIC and other banking agencies also conduct IT and operations risk examinations of TSPs, that support financial institutions. During 2016, the FDIC, OCC, and FRB piloted the newly developed Interconnectivity Horizontal Review Program with three of the largest TSPs. The program focused on the IT risks of large and complex supervised institutions and TSPs. This new program will help strengthen the FDIC's supervision of TSPs that present the most risk to the banking industry.

Other Activities

The FDIC continues to provide resources to raise awareness of cyber risks and to encourage practices that help protect the financial institutions it supervises. For example, in 2016, the FDIC hosted an industry webinar titled "Cybersecurity Resources to Help Your Customers Protect Themselves," and made available brochures with tips on how to conduct business safely online. Financial institutions can reprint these brochures for their retail banking and business customers.

Additionally, the FDIC monitors cybersecurity issues in the banking industry through regulatory and intelligence reports. The FDIC works with the Financial and Banking Information Infrastructure Committee, the Financial Services Sector Coordinating Council for Critical Infrastructure Protection, Homeland Security, the Financial Services Information Sharing and Analysis Center (FS-ISAC), other regulatory agencies, law enforcement, and others to share information regarding emerging issues and to coordinate responses.

During 2016, the FDIC served as chair of the Cybersecurity and Critical Infrastructure Working Group (CCIWG) of the FFIEC Task Force on Supervision. The CCIWG serves as a forum to address policy related to cybersecurity and critical infrastructure, enables members to communicate and collaborate on activities to support and strengthen the resilience of the financial services

sector, and provides input to FFIEC principal members regarding cybersecurity matters.

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

- ◆ Collaborated with the FRB and OCC to develop a Cybersecurity Evaluation Tool to be used during TSP examinations, and piloted the tool during the first quarter of 2016.
- ◆ Served as the event manager for a conference of IT supervisors from more than 20 countries. Participants provided updates and national perspectives on three IT supervision themes: FinTech, cybersecurity, and supervision of third-party providers.
- ◆ Conducted a workshop to consider the value and merits of cyber insurance as a risk transfer vehicle.
- ◆ Published a joint statement on safeguarding the cybersecurity of interbank messaging and wholesale payment networks.
- ◆ Issued an appendix to the Retail Payment Systems booklet of the *FFIEC Information Technology Examination Handbook* entitled “Mobile Financial Services.” The booklet is part of the IT Examination Handbook series. The appendix contains guidance on the risks associated with mobile financial services and emphasizes an enterprise-wide risk management approach to effectively manage and mitigate those risks.
- ◆ Revised the Information Security booklet of the *FFIEC IT Examination Handbook* to provide an overview of information security operations, including the need for effective threat identification, assessment and monitoring, and incident identification, assessment, and response.
- ◆ Hosted two industry webinars in recognition of October as National Cybersecurity Awareness Month. The first webinar, *Mobile Financial Services, Appendix E of the Retail Payment System Booklet*, provided information about the risks associated with mobile financial services and risk management approaches, and answered related

questions from participants. The second webinar, *Executive Leadership of Cybersecurity: Threat Intelligence and Getting the Most Out of Your FS-ISAC Membership*, provided insight on how financial institutions can strengthen their use of cyber intelligence.

- ◆ Improved information sharing on technology risks among the IT examination workforces of the FFIEC member agencies through discussions at the March 2016 annual Supervisory Strategy Meeting.

Enhancing the FDIC’s IT Security

Information security is critical to the FDIC’s ability to carry out its mission of maintaining stability and public confidence in the nation’s financial system. In 2016, the FDIC implemented policies and technologies to strengthen its own cybersecurity posture by initiating an aggressive 60-day plan to improve information security and an FDIC IT Action Plan to lay the foundation for modernizing the agency’s IT services to ensure scalability and resilience. Steps taken included:

- ◆ completely revised the Data Breach Management Guide to incorporate policy guidance promulgated in the Office of Management and Budget Memorandum (M-16-03);
- ◆ phased in a new incident tracking system that automates, centralizes, and greatly enhances management and oversight of incident response and breach-related activities;
- ◆ discontinued individuals’ ability to copy information to removable media such as CD’s, DVDs, external hard drives, and thumb drives;
- ◆ implemented new controls to limit printing of sensitive information and better monitor information printed in the highest risk areas;
- ◆ signed a memorandum of understanding to migrate to an intrusion prevention, detection, and monitoring system from the Department of Homeland Security that will help detect and block outside cyber threats;

- ◆ initiated efforts to implement Digital Rights Management software to protect the most sensitive FDIC data; and
- ◆ engaged an independent, third-party firm to conduct an end-to-end assessment of the FDIC's information security and privacy programs. This assessment encompassed key areas of the FDIC's information security program including network security, software security, host security, data protection, etc.

These actions are in addition to protections that were already in place, such as:

- ◆ encryption of some of our most sensitive information;
- ◆ encrypted laptop hard drives; and
- ◆ a Data Loss Prevention program that monitors information in emails, information being transferred to websites, and information printed.

The FDIC requires employees to take annual security and privacy training so they are aware of FDIC security standards. This is supplemented by periodic phishing tests to help ensure employees stay watchful to possible outside threats.

The FDIC will remain alert and continue to adjust security controls in light of the changing threat landscape.

Access Control Program and Personal Identity Verification Card Implementation

The FDIC's Access Control Program (ACP) was established to ensure the agency's compliance with the *Homeland Security Presidential Directive 12 (HSPD-12): Policy for a Common Identification Standard for Federal Employees and Contractors*. HSPD-12 requires the use of Personal Identity Verification (PIV) cards—smart card credentials containing data that allow the cardholder to be granted access to facilities and information systems—to assure appropriate levels of security and offer enhanced protection by requiring multifactor authentication (MFA). MFA requires two or more of the following verification mechanisms to access a user's work station or network:

- ◆ something one knows (e.g., password, personal identification number, secret question/answer),
- ◆ something one has (e.g., PIV card, security token, cell phone), or
- ◆ something one is (e.g., biometrics such as fingerprints, retina pattern).

In 2016, the FDIC expanded use of MFA for securely downloading assessment invoices and official FDIC correspondence, and performing other secure file exchanges.

This year, the FDIC successfully issued PIV cards to more than 5,300 eligible employees and contractors by partnering with the General Services Administration (GSA) USAccess program. In order to track and manage the rollout of the PIV card issuance effectively, the agency developed an Inventory Executive Dashboard by division, region, and office. By year-end 2016, approximately 94 percent of eligible FDIC employees and contractors have been issued a PIV card.

The FDIC also enforced the use of PIV cards to access the FDIC network (i.e., logical access). As of year-end 2016, PIV-based authentication is required to access the FDIC network across the agency. ACP's global communications and organizational change management efforts have resulted in approximately 90 percent of FDIC staff and contractors using their cards for logical access.

Insider Threat Program

During 2016, in support of the National Insider Threat Policy, the FDIC established an Insider Threat and Counterintelligence Program (ITCIP) to strengthen and develop new processes and technologies to combat insider threats.

An insider threat is a concern or risk posed to the FDIC that involves an individual who misuses or betrays, wittingly or unwittingly, his or her authorized access to FDIC resources. This individual may have access to sensitive, personally identifiable information and/or privileged access to critical infrastructure and/or business sensitive information (e.g., bank data).

The ITCIP blends both physical and logical safeguards to minimize the risk, likelihood, and impact of an executed insider threat.

An ITCIP Working Group was established to focus on detecting, identifying, assessing, mitigating, and preventing insider threat or external threat activity through the centralized and integrated analysis of threat information. An ITCIP Executive Committee also was established to support planning and provide oversight in the implementation of the program.

Further, the FDIC designated a senior Executive as the Senior Agency Official principally responsible for establishing a process to gather, integrate, centrally analyze, and respond to relevant information indicative of a potential insider threat.

Bank Secrecy Act/Anti-Money Laundering

In 2016, the Financial Action Task Force (FATF) completed a mutual evaluation of the U.S. anti-money laundering (AML) regime. The FDIC provided input through on-site discussions regarding the U.S. banking industry's AML supervision and enforcement and provided comments on final documents addressing the U.S. banking industry's compliance with the FATF AML standards.

Examiner Development

The FDIC has undertaken a multi-year project to expand and strengthen its examiner development programs for specialty examinations, such as information technology, BSA/AML, trust, capital markets, accounting, and anti-fraud. Due to the increased complexity of institutions, specialty skills are becoming paramount in risk assessment. In addition, this initiative is an important component of succession planning; proactively addressing knowledge transfer will enable the FDIC to mitigate the impact of the future retirement of senior technical experts.

The goal of this project is to standardize nationwide the skills needed to examine banks of varying levels of risk and complexity in each specialty area, and then to develop on-the-job training programs to

provide opportunities for examiners to develop higher level competencies in these specialty areas. This initiative will:

- ◆ offer a road map to assist employees in career planning;
- ◆ identify the skills needed for career development and potential advancement;
- ◆ provide tools to support career development;
- ◆ deliver structured training programs that include assignments designed to develop higher level competencies;
- ◆ enhance the value of a subject matter expert designation by creating a consistent definition and application; and
- ◆ provide more observable, objective, and measurable criteria for job descriptions in specialty areas.

In 2016, the FDIC validated competency models in the BSA/AML, trust, and capital markets areas, began developing specialty on-the-job training programs in BSA/AML and trust, and made progress in developing information technology and accounting competency models.

Minority Depository Institution Activities

The preservation of minority depository institutions (MDIs) remains a high priority for the FDIC. In 2016, the FDIC continued to support MDI and Community Development Financial Institution (CDFI) industry-led strategies for success. These strategies include: increased collaboration between MDI and CDFI bankers; partnering to share costs, raise capital, or pool loans; and making innovative use of federal programs. The FDIC supports this effort by providing technical assistance to MDI and CDFI bankers.

In 2016, the FDIC sponsored a discussion between trade groups representing MDIs and CDFIs and representatives of potential bank partners, focusing on CRA partnerships. In addition, the FDIC provided technical assistance to a group seeking to develop a

private equity fund to invest in MDIs. The FDIC's assistance addressed how the proposed structure might be considered under the Basel Capital Rules as well as the CRA. Both community banks and larger insured financial institutions have valuable incentives under the CRA to undertake ventures with MDIs, including capital investment and loan participations.

In 2016, the FDIC, OCC, and FRB co-hosted a webinar on strategic planning attended by approximately 50 MDIs, and began planning the 2017 Interagency MDI and CDFI Bank Conference, which the agencies will co-sponsor. The conference will be held in Los Angeles where there is a significant concentration of MDIs. The conference will feature an interactive panel with FDIC Chairman Martin J. Gruenberg, a Federal Reserve Board Governor, and Comptroller of the Currency Thomas J. Curry.

The FDIC continued its efforts to improve communication and interaction with MDIs and to respond to the concerns of minority bankers. The FDIC 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, compliance, CRA, and specialty examinations to assist bank management in understanding and implementing examination recommendations. These return visits, normally conducted 90 to 120 days after the examination, are intended to provide useful recommendations or feedback for improving operations, not to identify new issues. The FDIC's website encourages and provides contact information for any MDI to request technical assistance at any time.

In 2016, the FDIC provided 135 individual technical assistance sessions on approximately 66 risk management and compliance topics, including:

- ◆ accounting;
- ◆ Bank Secrecy Act and Anti-Money Laundering;
- ◆ Basel III Capital Rules;
- ◆ brokered deposits/waivers;
- ◆ capital planning;
- ◆ commercial real estate concentrations;
- ◆ Community Reinvestment Act;
- ◆ funding and liquidity;
- ◆ high volatility commercial real estate;
- ◆ information technology risk management and cybersecurity;
- ◆ interest-rate risk;
- ◆ loan underwriting and administration;
- ◆ mortgage lending rules;
- ◆ strategic planning; and
- ◆ third-party risk management.

The FDIC's regional offices also held outreach, training, and educational programs for MDIs through conference calls and regional banker roundtables. In 2016, topics of discussion for these sessions included many of those listed above, as well as the FDIC's National MDI Program, the FDIC's Community Banking Initiative, and the availability of Technical Assistance Videos on corporate governance, strategic planning, director responsibilities, community banking initiatives, compliance guidance, concentration risk management, and bank merger and acquisition.

Mutual Institutions

In August 2016, the FDIC and OCC co-hosted the Joint Agency Mutual Forum, which was open to all mutual banking institutions regardless of charter type. Mutually-owned related institutions represent about 9 percent of all FDIC-insured institutions and are among the oldest form of depository institution. Attended by approximately 125 participants, the forum provided an opportunity for the mutual bankers to learn about current trends and engage in a dialogue on the strengths of and challenges facing mutual institutions. The forum featured presentations and banker panels covering topics of interest relating to the mutual industry, including an economic outlook, strategic planning, cyber challenges,

regulatory compliance update, and an opportunity for each agency to hold an agency-specific session to address other current matters and respond to banker inquiries.

Cyber Fraud and Financial Crimes

The Cyber Fraud and Financial Crimes Section leads the FDIC's efforts to protect the banking industry from criminal financial activities. These efforts include managing the FDIC's background investigations for banking applications, leading financial crimes-related training programs, and assisting financial institutions in identifying and shutting down "phishing" websites that attempt to obtain fraudulently and use an individual's confidential personal or financial information. This Section serves a leading role in education and outreach, including through the development of webinars and informational publications. During 2016, the Cyber Fraud and Financial Crimes Section hosted a banking industry webinar (titled "Cybersecurity Resources to Help Your Customers Protect Themselves") held in conjunction with National Consumer Protection Week, and authored a special edition of the FDIC's *Consumer News* focused on consumer cybersecurity awareness. The Department of Homeland Security shared the *Consumer News* edition with more than 58,000 partners during October 2016 in observation of National Cybersecurity Awareness Month.

Supervision Policy

Brokered Deposits

In June 2016, the FDIC finalized updates to its FAQs regarding brokered deposits. The FAQs were updated in response to numerous questions regarding brokered deposit determinations. The FAQs address supervisory expectations for identifying, accepting, and reporting brokered deposits. The answers are based on Section 29 of the FDI Act and Section 337.6 of the FDIC Rules and Regulations, as well as explanations provided to the industry through

published advisory opinions and the FDIC's Study on Core Deposits and Brokered Deposits, issued in July 2011.

Applications for Deposit Insurance

In April 2016, the FDIC issued guidance in the form of supplemental "Questions and Answers" (Q&As) to aid applicants in developing applications for deposit insurance. The supplemental Q&As provide additional transparency to the application process and supplement guidance previously issued in November 2014.

Prudent Risk Management of Oil and Gas Exposures

In July 2016, the FDIC issued guidance to remind FDIC-supervised institutions with direct or indirect oil and gas exposures to maintain sound underwriting standards, strong credit administration practices, and effective risk management strategies. When oil and gas related borrowers experience financial difficulties, the FDIC encourages financial institutions to work constructively with borrowers to strengthen the credits and to mitigate losses where possible.

Third-Party Lending

In July 2016, the FDIC issued a request for public comment on proposed guidance for third-party lending. The proposed guidance sets forth safety and soundness and consumer compliance measures FDIC-supervised institutions should follow when lending through a business relationship with a third party. The proposed guidance is intended to supplement the FDIC's existing *Guidance for Managing Third-Party Risk*, which is applicable to a number of third-party arrangements, including lending through a third party. Public comments are being evaluated as part of the process of developing the final guidance.

FDIC Examination Findings

In July 2016, the FDIC issued guidance to emphasize the importance of open communication regarding supervisory findings. An open dialogue with bank

management is critical to ensuring the supervisory process is effective in promoting an institution's strong financial condition and safe and sound operation. The FDIC encourages bank management to provide feedback on FDIC supervisory activities and engage FDIC personnel in discussions to ensure a full understanding of the FDIC's supervisory findings and recommendations. If an institution disagrees with examination findings, there are several informal and formal avenues available to raise its concerns.

Regulatory Relief

During 2016, the FDIC issued 11 financial institution letters providing guidance to help financial institutions and to facilitate recovery in areas affected by tornadoes, flooding, wild fires, landslides, mudslides, and other severe events. In these letters, the FDIC encouraged banks to work constructively with borrowers experiencing financial difficulties as a result of natural disasters. The letters also clarified that prudent extensions or modifications of loan terms in such circumstances can contribute to the health of communities and serve the long-term interests of lending institutions.

COMMUNITY BANKING INITIATIVE

Community banks provide traditional, relationship-based banking services in their local communities. As defined in recent FDIC research, community banks made up almost 93 percent of all FDIC-insured institutions at mid-year 2016. While they hold just 13 percent of banking industry assets, community banks are of critical importance to the U.S. economy and local communities across the nation. Community banks hold 43 percent of the industry's small loans to farms and businesses, making them the lifeline to entrepreneurs and small enterprises of all types. They also hold the majority of bank deposits in U.S. rural counties and micropolitan counties with populations up to 50,000. In fact, as of June 2016, community banks held more than 75 percent of deposits in more than 1,200 U.S. counties. In more than 600 of these counties, the *only* banking offices available to consumers were those operated by community banks.

The FDIC is the primary federal supervisor for the majority of community banks, in addition to being the insurer of deposits held by all U.S. banks and thrifts. Accordingly, the FDIC has a particular responsibility for the safety and soundness of community banks, as well as a particular interest in and a commitment to the role they play in the banking system and the challenges and opportunities they face. In 2012, the FDIC launched a Community Banking Initiative focused on publishing new research on issues of importance to community banks and providing resources that will be useful to their efforts to manage risks, enhance the expertise of their staff, and better understand changes in the regulatory environment.

Community Banking Research

The FDIC continues to pursue an agenda of research and outreach focused on community banking issues. Since the 2012 publication of the *FDIC Community Banking Study*, FDIC researchers have published 10 additional studies on topics ranging from small business financing to the factors that have driven industry consolidation over the past 30 years. The Community Bank Performance section of the *FDIC Quarterly Banking Profile* (QBP), first introduced in 2014, continues to provide a detailed statistical picture of the community banking sector that can be accessed by analysts, other regulators, and bankers themselves. The most recent report shows that net income at community banks continued to grow at a healthy annual rate through the first three quarters of 2016, while total loans and leases at these institutions grew at a rate that was 2.9 percentage points higher than the rate for noncommunity banks.

Community Banking Conference

In April 2016, the FDIC hosted a community banking conference entitled "Strategies for Long-Term Success." About 250 community bankers and industry participants took part in a daylong discussion about what the future holds for community banks in the United States. In addition to addresses by FDIC Chairman Martin J. Gruenberg and Vice Chairman



FDIC Chairman Martin J. Gruenberg gave the opening and closing remarks at the Community Banking Conference in April 2016.

Thomas M. Hoenig, the conference featured four expert panels that covered, in turn, the community banking model, regulatory developments, managing technology challenges, and ownership structure and succession planning.

De Novo Banks

The FDIC is committed to working with, and providing support to, any group with interest in starting a community bank. In his remarks at the Community Banking Conference, FDIC Chairman Gruenberg discussed the FDIC's efforts to facilitate the formation of de novo banks. The FDIC has:

- ◆ Designated professional staff in each regional office to serve as subject matter experts for deposit insurance applications. These individuals are points of contact to FDIC staff, other banking agencies, industry professionals, and prospective organizing groups. These specialists serve as an important industry resource to address the FDIC's processes, generally, and to respond to specific questions.
- ◆ Reduced from seven years to three years the period of enhanced supervisory monitoring of newly insured depository institutions. The FDIC had established the seven-year period during the financial crisis in response to the disproportionate number of newly insured institutions that were experiencing difficulties or

failing. In the current environment, and in light of strengthened, forward-looking supervision, the FDIC determined it was appropriate to return to the three-year period.

As an outgrowth from the conference, the FDIC expanded on existing initiatives to facilitate the formation of *de novos* and undertook two new initiatives to support the long-term success of community banks.

During the fall, the FDIC held *de novo* outreach meetings in San Francisco, New York, and Atlanta to ensure that interested parties and industry participants are well informed about the FDIC's application process and the tools and resources available to assist organizing groups. Each of the outreach meetings addressed FDIC requirements for new bank applications, and highlighted strategies for successful formation. Based on a recommendation from the FDIC's Advisory Committee on Community Banking, the FDIC incorporated into each outreach meeting a roundtable discussion with Chief Executive Officers (CEOs) of successful *de novo* institutions. These CEO discussions were a highlight of each outreach meeting, as the CEOs provided the attendees with practical advice based on their personal experiences. Similar outreach meetings will be held in the remaining three regions during 2017.

In December 2016, the FDIC issued for public comment a publication entitled *Applying for Deposit Insurance – A Handbook for Organizers of De Novo Institutions* that is intended to help organizers become familiar with the deposit insurance application process and describe the path to obtaining deposit insurance. The handbook incorporates information on topics raised during the *de novo* outreach meetings, including advice from the CEO panels.

Continuing Community Banking Initiative Activities

To learn more about how educators and bankers can partner in developing the next generation of bankers, the FDIC hosted a roundtable discussion with more than a dozen institutions of higher education

and other industry representatives. The roundtable explored community banking educational programs and discussed challenges and best practices of these programs with the goal of exploring strategies for the industry's long-term success.

Community Bank Advisory Committee

The FDIC's Advisory Committee on Community Banking is an ongoing forum for discussing current issues and receiving valuable feedback from the industry. The committee, which met three times during 2016, is composed of 13 community bank CEOs from around the country. It is a valuable resource for input on a wide variety of topics, including examination policies and procedures, capital and other supervisory issues, credit and lending practices, deposit insurance assessments and coverage, and regulatory compliance issues. To learn more about how community banks could attract the next generation of customers, the FDIC conducted a panel discussion with millennial FDIC employees at the July 2016 meeting. The employees discussed how community banks can successfully address millennial preferences.

Community Bank Resource Kit

In preparation for the Community Banking Conference, the FDIC developed a Community Bank Resource Kit for distribution to the conference attendees. The Resource Kit contains: a copy of the FDIC's *Pocket Guide for Directors*; *Supervisory Insights* articles related to corporate governance, interest-rate risk, and cybersecurity; two cybersecurity brochures that banks may reprint and share with their customers to enhance cybersecurity savvy; a copy of the FDIC's Cyber Challenge exercise; and several pamphlets that provide information about the FDIC resources available to bank management and board members. The Community Bank Resource Kit was subsequently distributed to all FDIC-supervised institutions.

Technical Assistance Program

As part of the Community Banking Initiative, the FDIC continued to provide an extensive technical assistance program for bank directors, officers, and



At the April 2016 Community Banking Conference, FDIC Chief Economist Richard Brown (second from left) summarizes findings of a recent FDIC study.

employees to improve communication generally and provide technical training on a range of topics. The technical assistance program includes Directors' College events held across the country, industry teleconferences, and a video program.

In 2016, the FDIC hosted Directors' College events in each of its six regions. These events were typically conducted jointly with state trade associations and addressed issues such as corporate governance, regulatory capital, community banking, concentrations management, consumer protection, the Bank Secrecy Act, and interest-rate risk, among others.

In addition, the FDIC hosted 12 industry teleconferences or webinars on a range of topics of interest to community bankers, including cybersecurity, overdraft protection rules, mobile financial services, commercial real estate, and the Real Estate Settlement Procedures Act. In addition, the FDIC offered 11 deposit insurance coverage seminars for bank officers and employees in 2016. These free seminars, which were offered nationwide, particularly benefitted smaller institutions that have limited training resources. The FDIC also released three deposit insurance seminar training videos on the FDIC's website and YouTube channel.

The FDIC offers a series of banker events, intended to maintain open lines of communication to keep bank management and staff up-to-date on important banking regulatory and emerging issues in the

compliance and consumer protection area. In 2016, the FDIC offered three interagency webinars focused on the following topics: requirements and best practices regarding bank overdraft programs; interagency Community Reinvestment Act questions and answers; and Military Lending Act regulations.

The FDIC released six videos as part of its Technical Assistance Video Program, which offers in-depth technical training for bank directors, officers, and employees to view at their convenience. Updated videos were published relating to interest-rate risk (two videos), corporate governance, the ability-to-repay/qualified mortgages rule, and flood insurance. During 2016, the FDIC released a new video on outsourcing technology services.

Economic Growth and Regulatory Paperwork Reduction Act

During 2016, the FDIC, along with the other federal banking agencies and the FFIEC, continued a cooperative, three-year effort to review all of their regulations. The purpose of the regulatory review, which is mandated no less frequently than once every 10 years by the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA), is to identify and eliminate, as appropriate, outdated or otherwise unnecessary regulatory requirements that are imposed on insured depository institutions.

To facilitate the review, the agencies categorized their regulations into 12 separate groups. Over the course of two years, the groups of regulations were published for comment, through a series of *Federal Register* notices, providing industry participants, consumer and community groups, and other interested parties an opportunity to respond and identify regulatory requirements they believe are no longer needed or should be modified. The agencies also held six public outreach meetings across the country to provide an opportunity for individual bankers, consumer and community group representatives, and other interested persons to present their views directly to agency senior management and staff of the FFIEC

and the federal banking agencies on any of the regulations subject to EGRPRA review.

The agencies received 234 comment letters directly in response to the *Federal Register* notices and also received a number of additional oral and written comments from panelists and the public at the outreach meetings. The agencies have reviewed these comments and comments received during outreach meetings and will summarize the significant issues raised and the relative merits of such issues in a report that will be issued through the FFIEC to Congress.

In addition, due in part to feedback received during the EGRPRA review, the FDIC and the other FFIEC member entities are undertaking a community bank Call Report burden-reduction initiative. The objective of this initiative, which comprises actions in five areas, is to streamline and simplify regulatory reporting requirements for community banks.

As an initial step, the banking agencies, under the auspices of the FFIEC, published proposed Call Report revisions in September 2015. The agencies began implementing these revisions, which include a limited set of burden-reducing changes, in the third quarter of 2016.

As a second action, the banking agencies accelerated the start of a statutorily mandated review of the existing Call Report data items, which otherwise would have commenced in 2017. In support of this review, users of Call Report data at the FFIEC member entities are participating in a series of nine surveys of groups of Call Report schedules conducted over the 19-month period from mid-July 2015 until early February 2017. Users participating in these surveys have been asked to explain fully the need for each Call Report item they deem essential.

A third action for the FFIEC members is to understand better, through industry dialogue, the aspects of community banks' Call Report preparation processes that are significant sources of reporting burden. This outreach effort included on-site visits to nine community banks during the third quarter

of 2015. In the first quarter of 2016, two bank trade groups organized conference call meetings with small groups of community bankers in which representatives from the FFIEC members participated. During these bank visits and conference call meetings, the bankers explained how they prepare their Call Reports, identified which schedules or data items take a significant amount of time or manual processes to complete, and described the reasons for this.

Fourth, building on the outcomes of the preceding two actions, the FFIEC and its member entities developed a separate, shorter, and more streamlined Call Report to be completed by eligible small institutions, as well as certain burden-reducing revisions to two other existing versions of the Call Report. The banking agencies, under the auspices of the FFIEC, published the proposal on August 15, 2016, with a proposed effective date of March 31, 2017. After considering the comments received, the FDIC and the other FFIEC members made certain modifications to the proposal. The FFIEC notified institutions about the outcome of the proposal on December 30, 2016.

Finally, the FFIEC and the agencies will offer periodic banker training by teleconference and webinar to explain upcoming reporting changes and provide guidance on Call Report requirements that bankers find challenging.

The FDIC also streamlined and clarified certain regulations through the Office of Thrift Supervision (OTS) rule integration process. Under Section 316(b) of the Dodd-Frank Act, rules transferred from the former OTS to the FDIC and other successor agencies remain in effect “until modified, terminated, set aside, or superseded in accordance with applicable law” by the relevant successor agency, by a court of competent jurisdiction, or by operation of law. When the FDIC republished the transferred OTS regulations as new FDIC regulations applicable to state savings associations, the FDIC stated in the *Federal Register* notice that its staff would evaluate the transferred OTS rules and might later recommend incorporating the transferred OTS regulations into other FDIC

rules, amending them, or rescinding them. This process began in 2013 and continues, involving publication in the *Federal Register* of a series of NPRs and final rules. In 2016, the FDIC issued an NPR to remove one transferred OTS rule, Minimum Security Procedures, and to make technical amendments to related FDIC rules for applicability to state savings associations. The FDIC removed a former OTS rule, Frequency of Safety and Soundness Examination, because it became unnecessary after FDIC rules were amended to bring insured state savings associations within its scope. Finally, in November 2016, the FDIC’s Board approved the issuance of an NPR that proposes the removal of another OTS rule, *Consumer Protection in Sales of Insurance*, and corresponding revisions to the FDIC’s rule at 12 CFR Part 343 to ensure that Part 343 applies to FDIC-supervised state banks and savings associations.

ACTIVITIES RELATED TO SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS

The FDIC is committed to addressing the unique challenges associated with the supervision, insurance with respect to the related insured depository institutions, and potential resolution of large and complex financial institutions. The FDIC’s ability to analyze and respond to risks in these institutions is particularly important, as they comprise a significant share of banking industry assets and deposits. The FDIC’s programs provide for a consistent approach to large and complex bank supervision nationwide, allow for the identification and analysis of industry-wide and institution-specific risks and emerging issues, and enable a quick response to these risks. The FDIC has segregated these activities in two groups to both ensure that supervisory attention is risk-focused and tailored to the risks presented by the nation’s largest banks and meet the FDIC’s responsibilities under the FDI Act and the Dodd-Frank Act.

Complex Financial Institutions Program

The Dodd-Frank Act expanded the FDIC’s responsibilities pertaining to systemically important

financial institutions (SIFIs) and nonbank financial companies designated by the FSOC. The FDIC's Complex Financial Institution (CFI) program within the Division of Risk Management Supervision (RMS) performs ongoing risk monitoring of SIFIs and FSOC-designated nonbank financial companies, provides backup supervision of the firms' related insured depository institutions (IDIs), and evaluates the firms' required resolution plans. The CFI program also performs certain analyses that support the FDIC's role as an FSOC member.

Resolution Plans – Living Wills

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

Large Bank Holding Companies with Substantial Nonbank Assets

Companies subject to the rule are divided into three groups: companies with \$250 billion or more in nonbank assets, companies with nonbank assets between \$100 billion and \$250 billion, and all other companies with total consolidated assets of \$50 billion or more. Companies in the first and second group were required to submit their resolution plans by July 1, 2015. These firms included Bank of America Corporation, Bank of New York Mellon Corporation, JP Morgan Chase & Co., State Street Corporation, Wells Fargo & Company, Goldman Sachs Group, Inc., Morgan Stanley, and Citigroup, Inc.

In April 2016, the FDIC and FRB jointly announced determinations and provided firm-specific feedback on the resolution plans submitted in July 2015. The agencies also made public the Resolution Plan Assessment Framework, which explains the resolution plan requirement, provides further information on

the determinations, and demonstrates the agencies' processes for reviewing the plans. Additionally, the agencies released new guidance for the July 2017 submissions.

Regarding the July 2015 submissions, the FDIC and FRB jointly determined that each of the resolution plans of Bank of America Corporation, Bank of New York Mellon Corporation, JP Morgan Chase & Co., State Street Corporation, and Wells Fargo & Company was not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code, the statutory standard established in the Dodd-Frank Act. The agencies issued joint notices of deficiencies to these five firms detailing the deficiencies in their plans and the actions the firms must take to address them. Each firm was required remediate its deficiencies by October 1, 2016. Failure to remedy the deficiencies could subject the firms to more stringent capital, leverage, or liquidity requirements, or restrictions on the growth, activities, or operations of the firms as provided in the statute.

The agencies jointly identified weaknesses in the 2015 resolution plans of Goldman Sachs Group, Inc. and Morgan Stanley that the firms must address, but did not make joint determinations regarding the plans and their deficiencies. The FDIC determined that the plan submitted by Goldman Sachs Group, Inc. was not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code, and identified deficiencies. The FRB identified a deficiency in Morgan Stanley's plan and found that the plan was not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code.

Neither agency found that Citigroup, Inc.'s 2015 resolution plan was not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code, although the agencies did identify shortcomings that the firm must address.

All of the banking organizations that received feedback in April provided updates to their plans in October 2016. The FDIC and the FRB determined in December that Bank of America Corporation,

Bank of New York Mellon Corporation, JP Morgan Chase & Co., and State Street Corporation adequately remediated the deficiencies cited in their 2015 resolution plans.

The agencies jointly determined that Wells Fargo & Company did not adequately remedy two of the firm's three deficiencies. In light of the nature of the deficiencies and the resolvability risks posed by the firm's failure to remedy them, the agencies imposed restrictions on the growth of international and nonbank activities of Wells Fargo & Company and its subsidiaries. The firm is expected to file a revised submission addressing the remaining deficiencies by March 31, 2017. If, after reviewing the March submission, the agencies jointly determine that the deficiencies have not been adequately remedied, the agencies will limit the size of the firm's nonbank and broker-dealer assets to levels in place on September 30, 2016. If Wells Fargo & Company has not adequately remedied the deficiencies within two years, the statute provides that the agencies, in consultation with the FSOC, may jointly require the firm to divest certain assets or operations to facilitate an orderly resolution of the firm in bankruptcy.

Four foreign banking organizations (FBOs) also filed resolution plans in July 2015. The FDIC and FRB are currently reviewing those plans.

Other Large Bank Holding Company Filers

In December 2015, the third group of filers represented by 122 firms with total consolidated assets of \$50 billion or more submitted resolution plans to the agencies. Of these, 34 resolution plans were either full or tailored plans that were required to take into account guidance provided by the agencies. The FDIC and FRB are jointly developing letters with feedback to these firms and guidance for their next resolution plan submissions on December 31, 2017.

The remaining 88 resolution plans were streamlined plans that required the firms to focus on material changes to their 2014 resolution plans, actions taken to strengthen the effectiveness of those plans, and, where applicable, actions to ensure any subsidiary

insured depository institution would be adequately protected from the risk arising from the activities of nonbank affiliates of the firm. In May 2016, the agencies notified 84 firms that they would be permitted to file streamlined resolution plans for year-ends 2016 through 2018.

In December 2016, the agencies received 86 resolution plans from new filers or filers of streamlined plans. These plans include four full or tailored plans and 82 streamlined plans.

Nonbank Firms

Nonbank financial firms designated as systemically important by FSOC also are required to submit resolution plans for review by the FDIC and FRB. During December 2015, three nonbank firms—American International Group, Inc. (AIG), General Electric Capital Corporation, Inc. (GECC), and Prudential, Inc.—submitted their resolution plans for review. On June 28, 2016, GECC's systemically important financial institution designation was rescinded, and the joint review of its plan ceased. The agencies are expected to provide feedback on the remaining plans in early 2017.

In August 2016, the FDIC and FRB, in order to afford adequate time for the agencies to provide thorough feedback to the firms, and for the firms to develop responsive submissions, jointly in letters to AIG and Prudential, Inc., stated the agencies' decision to extend their 2016 annual resolution plan submission date to December 31, 2017, and indicated that their 2016 resolution plan requirement would be satisfied by the submission of the 2017 resolution plan.

MetLife, which was designated as systemically important on December 18, 2014, challenged its designation in federal court and won a ruling on March 30, 2016, that rescinded its designation. The Department of Justice on behalf of the FSOC has appealed that decision. The U.S. Court of Appeals heard oral arguments in October 2016. MetLife will not be required to submit a resolution plan unless its designation is reinstated.

Extended Deadline for Submissions for Certain Organizations' Plans

In April 2016, the FDIC and FRB jointly announced determinations and provided firm-specific feedback on the 2015 resolution plans of eight systemically important, domestic banking institutions. The deadline for the next full plan submission for all eight domestic SIFIs is extended to July 1, 2017.

In July 2016, the FDIC and FRB jointly granted one-year filing extensions to four FBOs. These FBOs will be required to submit their next resolution plans on July 1, 2017.

In August 2016, the FDIC and FRB jointly granted one-year filing extensions to 36 domestic bank holding companies and foreign banking organizations, as well as two nonbank financial companies designated by the FSOC. These firms will be required to submit their next resolution plans on December 31, 2017.

Insured Depository Institution Resolution Plans

Part 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 (IDI Rule). The IDI Rule requires each IDI meeting the criteria to submit a resolution plan that should allow the FDIC, as receiver, to resolve the IDI under Sections 11 and 13 of the Federal Deposit Insurance Act (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. The resolution plan must also describe how a selected strategy will be least costly to the Deposit Insurance Fund.

In September 2015, the FDIC received 10 IDI resolution plans and in December 2015, an additional 26 resolution plans. The FDIC's review of these plans focused on the insolvency scenario, strategy and funding, readiness, corporate governance, and the guidance that the FDIC issued in December

2014 for resolution plans required by the IDI Rule. Under the guidance, a covered IDI must provide a fully developed discussion and analysis of a range of realistic resolution strategies. To assist IDIs in writing their plans, the guidance includes direction regarding the elements that should be discussed in a fully developed resolution strategy and the cost analysis, clarification regarding assumptions made in the plan, and a list of significant obstacles to an orderly and least costly resolution that IDIs should address. The guidance applies to the resolution plans of the IDIs covered by the IDI Rule, as well as any new IDI meeting the threshold, commencing with the 2015 resolution plan submissions.

In August 2016, the FDIC extended the deadline for 10 IDI resolution plans from September 1, 2016 to October 1, 2017, and extended the deadline for 26 IDI resolution plans from December 31, 2016 to December 31, 2017. The FDIC is developing letters to these firms with feedback on their plans and guidance for their next resolution plan submissions.

In December 2016, the FDIC received two IDI plans from banks that are new filers.

Orderly Liquidation Authority – Resolution Strategy Development

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

The FDIC has been developing resolution strategies to carry out its orderly liquidation authorities. Firm-specific resolution strategies are under development

and are informed by the Title I plan submissions. In addition, preliminary work has begun to develop resolution strategies for the nonbank resolution plan filers and financial market utilities, particularly central counterparties (CCPs).

In September 2016, the FDIC conducted a second operational exercise to validate the steps involved in carrying out a Title II resolution. The first operational exercise conducted in December of 2015, focused on the initial appointment of the FDIC as receiver of a SIFI and the stabilization phase immediately following appointment. This year's exercise covered the operation of the bridge financial company and the wind down and liquidation of the firm. Both operational exercises validated the systemic resolution framework and identified areas for further work.

Monitoring and Measuring Systemic Risks

The FDIC monitors risks related to SIFIs both 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 operation and activities, management information system capabilities, and recovery and resolution capabilities.

The FDIC continues to work closely with other Federal regulators to analyze institution-specific and industry-wide conditions and trends, emerging risks and outliers, risk management, and the potential risk posed to financial stability by SIFIs and 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. SIFI 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). The SMS provides an individual risk profile and assessment for each SIFI by evaluating the level and change in metrics that serve as important barometers of overall risk. The SMS supports the identification of emerging risks within individual firms and the prioritization of supervisory and monitoring activities. The SMS also serves as an early warning system of financial vulnerability by gauging a firm's proximity and speed to resolution event. Information from FDIC-prepared reports and systems are used to prioritize activities relating to SIFIs and to coordinate and communicate with the FRB and OCC.

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

Backup Supervision Activities for IDIs of Systemically Important Financial Institutions

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

respective responsibilities, including the FDIC's role as insurer. Under this agreement, the FDIC has assigned dedicated staff to IDI subsidiaries of systemically important financial institutions 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. In 2016, staff from the FDIC's Division of Risk Management Supervision participated in 102 targeted examination activities with the FRB and 53 targeted examination activities with the OCC. The reviews included, but were not limited to, engagement in Comprehensive Capital Analysis and Reviews, Dodd-Frank Act Stress Testing, quantitative model reviews, swaps margin model reviews, credit risk-related reviews, and the Shared National Credit Reviews.

Cross-Border Efforts

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

In October 2016, the FDIC hosted the second in an ongoing series of planned exercises to enhance coordination on cross-border resolution. The exercise was the culmination of planning since late 2015 and built on ongoing work by the international authorities in the area of cross-border resolution, including a staff-level exercise conducted earlier in July 2016. The exercise also coincided with the annual international meetings in Washington, DC, sponsored by the World Bank and International Monetary Fund. Participants in the exercise included senior financial officials representing authorities in the United States, United Kingdom, and Europe, including the U.S. Department of Treasury, FRB, OCC, SEC, CFTC, Federal Reserve Bank of New York, HM Treasury,

Bank of England (BOE), U.K. Prudential Regulation Authority, the Single Resolution Board, European Commission, and European Central Bank.

The FDIC serves as a co-chair for all of the cross-border crisis management groups (CMGs) of supervisors and resolution authorities for the United States. In addition, the FDIC participates as a host authority in CMGs for foreign G-SIFIs. The FDIC and the European Commission continued their engagement through the joint Working Group, which is composed of senior executives at the FDIC and European Commission who meet to focus on both resolution and deposit insurance issues. In 2016, the Working Group discussed cross-border bank resolution and resolution of CCPs, among other topics. FDIC staff also participated in the Joint EU-US Financial Regulatory Forum (formerly the Financial Markets Regulatory Dialogue) with representatives of the European Commission and other participating European Union authorities, including the Single Resolution Board and the European Banking Authority, and staffs of the Treasury Department, FRB, SEC, CFTC, and other participating U.S. agencies.

The FDIC continued to advance its working relationships with other jurisdictions that regulate G-SIFIs, including those in Switzerland, Japan, and Germany. In 2016, the FDIC had significant staff-level engagements with these countries to discuss cross-border issues and potential impediments that could affect the resolution of a G-SIFI.

Systemic Resolution Advisory Committee

The FDIC created the Systemic Resolution Advisory Committee (SRAC) in 2011 to receive advice and recommendations on a broad range of issues regarding the resolution of systemically important financial companies pursuant to the Dodd-Frank Act. Over the years, the SRAC has provided important advice to the FDIC regarding systemic resolutions and advised the FDIC on a variety of issues, including the following:

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

Members of the SRAC have a wide range of experience, including managing complex firms, administering bankruptcies, and working in the legal system, accounting field, and academia. The SRAC met on April 14, 2016, and worked through an agenda that addressed the status of Title I Living Wills, an update on Title II Orderly Liquidation Authority, and developments in the European Union. The SRAC heard from Dr. Elke König, the first Chair of the European Union's Single Resolution Board, on developments within the EU and efforts to collaborate with the United States. and other jurisdictions.

Financial Stability Oversight Council

The FSOC was created by the Dodd-Frank Act in July 2010 to promote the financial stability of the United States. It is composed of 10 voting members, including the Chairperson of the FDIC, and five non-voting members.

The FSOC's responsibilities include the following:

- ◆ identifying risks to financial stability, responding to emerging threats in the financial system, and promoting market discipline;
- ◆ identifying and assessing threats that institutions may pose to financial stability and, if appropriate, designating a nonbank financial company to be supervised by the FRB and subject to heightened prudential standards;
- ◆ designating financial market utilities and payment, clearing, or settlement activities

that are, or are likely to become, systemically important;

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

In 2016, the FSOC issued its sixth annual report. Generally, at each of its meetings, the FSOC discusses various risk issues. In 2016, the FSOC meetings addressed, among other topics, U.S. fiscal issues, interest-rate risk, credit risk, the FRB and European bank stress tests, the United Kingdom's vote to leave the European Union (i.e., Brexit), cybersecurity, nonbank financial company designations, and housing reform.

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.

Guidance

Loans in Areas Having Special Flood Hazards

In April 2016, the FDIC, OCC, FRB, NCUA, and Farm Credit Administration jointly issued interagency

examination procedures pertaining to force placement of flood insurance, escrowing of flood insurance premiums and fees, exemptions to the mandatory flood insurance purchase requirement for detached structures, and civil money penalties.

Uniform Interagency Consumer Compliance Rating System

In 2016, the FFIEC finalized changes to the Uniform Interagency Consumer Compliance Rating System to reflect regulatory, supervisory, technological, and market changes since the system was established. The Consumer Compliance Rating System is a supervisory policy for evaluating financial institutions' adherence to consumer compliance requirements. The revisions are designed to align the rating system more fully with the FFIEC agencies' current risk-based, tailored examination approaches. The FFIEC new rating system will apply to all exams starting after March 31, 2017.

Interagency Guidance on Deposit-Reconciliation Practices

In May 2016, the FDIC, OCC, FRB, NCUA, and Consumer Financial Protection Bureau (CFPB) issued guidance to alert financial institutions to supervisory expectations regarding deposit-reconciliation practices that may be detrimental to customers. This guidance addresses a set of situations in which customers make deposits to accounts and the dollar amount that the financial institution credits to that account differs from the total of the items deposited. Such discrepancies may arise in a variety of situations, including inaccuracies on the deposit slip, encoding errors, or poor image-capture. The result may be a detriment to the customer and a benefit to the financial institution if not appropriately reconciled.

Community Reinvestment Act

In July 2016, the FDIC, OCC, and FRB (i.e., the federal bank regulatory agencies with responsibility for CRA rulemaking) published final revisions to "Interagency Questions and Answers Regarding

Community Reinvestment." The Q&A provides additional guidance to financial institutions and the public regarding the agencies' CRA regulations in the following areas: availability and effectiveness of retail banking services; innovative or flexible lending practices; community development-related issues; and responsiveness and innovativeness of an institution's loans, qualified investments, and community development services.

Privacy of Consumer Financial Information

In October 2016, the FDIC released revised interagency examination procedures for privacy of consumer financial information that reflect the statutory amendments made by the Fixing America's Surface Transportation Act (FAST Act) to the Gramm-Leach-Bliley Act annual privacy notice requirements. The procedures contain new guidance on an exception to the annual privacy notice requirement.

Military Lending Act

In October 2016, the FDIC released revised interagency examination procedures that reflect the Department of Defense's 2015 amendments to the implementing regulations of the Military Lending Act of 2006 (MLA) and its August 2016 interpretive rule that provides guidance on compliance with the MLA rule. The FDIC also provided accompanying guidance on its initial supervisory expectations in connection with its examinations of financial institutions for compliance with the MLA rule.

Promoting Economic Inclusion

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

- ◆ conducts research on the unbanked and underbanked;

- ◆ engages in research and development on models of products meeting the needs of lower-income consumers;
- ◆ supports partnerships to promote consumer access and use of banking services;
- ◆ advances financial education and literacy; 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 focused on expanding access to mainstream banking services to underserved populations. This may include reviewing basic retail financial services such as low-cost, safe transaction accounts, affordable small-dollar loans, savings accounts, and other services that promote individual asset accumulation and financial stability. In May 2016, ComE-IN met to discuss payment system modernization, banks' efforts to serve the unbanked and underbanked, new savings accounts designed to assist individuals with disabilities, and next steps planned to explore the potential of mobile financial services to further economic inclusion.

FDIC National Survey of Unbanked and Underbanked Households and Related Research

As part of its ongoing commitment to expanding economic inclusion in the United States, the FDIC works to fill the research and data gap regarding household participation in mainstream banking and the use of nonbank financial services. In addition, Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 mandates that the FDIC regularly report on underserved populations and bank efforts to bring individuals and families into the conventional banking system. In response, the FDIC regularly conducts and reports on surveys of households and banks to inform the public and enhance the understanding of financial institutions, policymakers, regulators, researchers, academics, and others.



At the 16th Annual Bank Research Conference, FDIC Chairman Martin J. Gruenberg presented findings from the 2015 National Survey of Unbanked and Underbanked Households.

During 2016, the FDIC prepared a report on the *2015 FDIC National Survey of Unbanked and Underbanked Households*, in partnership with the U.S. Census Bureau. The survey focused on basic checking and savings account ownership, but it also explored household use of alternative financial services to better understand the extent to which families are meeting their financial needs outside of mainstream financial institutions. In addition, the survey incorporated questions designed to assess the typical monthly financial services consumption patterns and to better understand households' use of bank and nonbank consumer credit instruments. A full report was issued by the FDIC to the public on October 20, 2016. Those results are available on economicinclusion.gov.

In 2016, the FDIC also published two qualitative research projects to develop further understanding of this area. In the first, the FDIC studied the economic inclusion potential of mobile financial services. The findings confirmed and provided more detailed insights into the opportunity of mobile financial services to improve the sustainability of banking relationships. As a follow-up to this report, the FDIC requested comments on opportunities to demonstrate empirically the benefits of mobile financial services. In the second project, the FDIC interviewed bankers

and other stakeholders to understand better the programs, products, and strategies that banks are finding useful for attracting and retaining unbanked households as customers. In addition to summarizing findings from these interviews, the paper suggests several implications that banks and their partners can use to enhance these efforts.

Community and Small Business Development and Affordable Mortgage Lending

In 2016, the FDIC provided technical assistance to banks and community organizations through 61 outreach events designed to increase shared knowledge and support collaboration between financial institutions and other community, housing, and small business development resources and to improve knowledge about the Community Reinvestment Act.

The FDIC's work particularly emphasized sharing information to support bank efforts to provide prudent access to responsible, affordable mortgage credit. In 2016, the FDIC released the *Affordable Mortgage Lending Guide* and launched the Affordable Mortgage Lending Center, an online resource. These resources are designed to provide a comprehensive overview of the programs and services available to community banks to support affordable mortgage lending, particularly to low- and moderate-income borrowers. By year-end 2016, the *Guide* had already been downloaded more than 3,500 times, and more than 20,000 visitors have viewed the online Affordable Mortgage Lending Center.

Also in 2016, the FDIC, other federal regulators, and federal and state housing agencies hosted 10 affordable mortgage lending forums to offer technical assistance to help expand access to mortgage credit for low- or moderate-income (LMI) households. During these events, banks and program managers shared experiences with federal mortgage guarantee and secondary market programs and state and local down payment assistance and counseling programs. They offered details of their work so that audiences

could gain a better understanding of how to address challenges and identify opportunities for expanding participation in these programs.

In addition, the FDIC sponsored sessions with interagency partners covering basic and advanced CRA training for banks. The agencies also offered CRA basics for community-based organizations as well as seminars on establishing effective bank-community collaborations for community development in more than 45 communities. The FDIC had a particular focus on encouraging community development initiatives in rural communities, including workshops that highlighted housing needs and programs, economic development programs, and community development financial institution collaborations, including those serving Native American communities.

Advancing Financial Education

Financial education helps consumers understand and use bank products effectively and sustain a banking relationship over time. The FDIC continued to be a leader in developing high-quality, free financial education resources and pursuing collaborations to use those tools to educate the public. The FDIC's work during 2016 dealt primarily with young people, consistent with the Financial Literacy and Education Commission focus on *Starting Early for Financial Success*.

Money Smart for Young People

Money Smart for Young People, a standards-aligned curriculum designed to involve teachers, students, and parents/caregivers in the learning process about money, was downloaded more than 39,000 times since its launch. In addition, 189 educators from 26 school districts received professional development training to assist them in using *Money Smart for Young People* as part of a small pilot project. The FDIC used stakeholder input to enhance the curriculum, such as by making it available to download on a lesson-by-lesson basis.

Money Smart for Older Adults

The FDIC also worked with the CFPB to launch an enhanced version of *Money Smart for Older Adults*, a free financial education curriculum first released in 2013 to help prevent elder financial exploitation. The 2016 enhancements include technical updates and revisions to the material based on input from trainers. The newly updated resource includes an expanded discussion on common types of elder financial exploitation such as tax, charity, debt collection, and grandchild imposter scams. The resource also incorporates federal resources that can be helpful on topics such as how to research an investment advisor.

Money Smart for Small Business

The FDIC continues to strengthen collaboration with the Small Business Administration (SBA) and other small business resources beyond training. In 2016, each of the six FDIC regional Community Affairs teams sponsored regional events for banks, the SBA, and the SBA Resource Partner Network (comprised of SCORE, Small Business Development Centers, Women's Business Centers, and Veteran's Business Outreach Centers) to convene and collaborate or provide technical assistance to small business leaders. Moreover, new training resources were released to encourage expanded use of *Money Smart for Small Business*, and the group of training providers identified as *Money Smart for Small Business* Alliance members continued to grow, reaching 143 at year-end.

Youth Savings Pilot Program

The FDIC continues to collaborate with the CFPB to promote youth financial capability by giving teachers trusted resources to teach financial education, empowering parents and caregivers to discuss financial topics with their children, and emphasizing hands-on activities. To promote hands-on learning, the FDIC completed a report on the two-year Youth Savings Pilot Program in 2016. The pilot was designed to identify and highlight promising approaches to linking financial education to opportunities for school-aged children to open safe, low-cost

savings accounts. The report, which draws from the experiences of 21 participating banks, describes three model approaches that have been used to build financial education programs and can be a resource for banks, schools, and others. Lessons learned from the pilot also were presented at the October 20 meeting of Come-IN. In addition, FDIC hosted a symposium on October 21 to bring together representatives of the banks, schools, and non-profit partners that participated in the Youth Savings Pilot to discuss lessons learned and promising practices.

The FDIC also developed and began to implement strategies to improve financial education and access to mainstream financial services for youth participating in youth employment programs funded through the Workforce Innovation and Opportunity Act (WIOA). For workforce providers and their partners teaching financial education, FDIC developed a tool to map *Money Smart* to WIOA's financial education element, and drafted a *Money Smart* supplement to prepare youth to open their first accounts. The FDIC also led three webinars in collaboration with the Department of Labor to increase awareness of *Money Smart* among organizations that receive federal funding for youth employment. In addition, FDIC participated in three regional events in collaboration with the Department of Labor and FRB to strengthen the capacity of workforce development organizations to work with financial institutions on financial capability initiatives.

Financial Education Webinars for Teachers

In 2016, the FDIC enhanced its Teacher Online Resource Center, a repository of resources from the FDIC and CFPB, to help teachers provide youth financial education. Five new videos that overview the key features of the curriculum were added. There were more than 27,000 visits to the site during the year. The FDIC continued to collaborate with strategic partners to increase awareness of the FDIC's free resources. For example, more than 600 people participated in four conference call/webinars held in collaboration with the Jump\$tart Coalition to make educators feel more comfortable using the curriculum.

Partnerships for Access to Mainstream Banking

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

Local collaborations are many and diverse. The FDIC sponsored or co-sponsored more than 125 events during 2016 that provided opportunities for partners to collaborate on increasing access to bank accounts and credit services, opportunities to build savings and improve credit histories, and initiatives to strengthen significantly the financial capability of community service providers who directly serve LMI consumers and very small businesses.

During 2016, the FDIC helped convene financial institutions, community organizations, local, state, and federal agencies, and other partners to support coalitions that bring unbanked and underbanked consumers and owners of small businesses into the financial mainstream through a wide range of partnership organizations. In the 14 AEI communities and in other areas, the FDIC helped committees and working groups of bankers and community leaders develop responses to the financial capability and services needs in their communities. To integrate financial capability into community services more effectively, the FDIC supported seminars and training sessions for community service providers and asset building organizations, workshops for financial coaches and counselors, promotion of savings opportunities for LMI people and communities, initiatives to expand access to savings accounts for all ages, outreach to bring larger numbers of people to expanded tax preparation assistance sites, and education for business owners to help them become bankable.

The FDIC also provided information and technical assistance in the development of safe and affordable transaction and savings accounts and worked to connect unbanked consumers to those accounts. The FDIC provided technical assistance to local *Bank On* initiatives and asset-building coalition activities designed to reduce barriers to banking and increase access to the financial mainstream in more than 28 communities and in 23 states. For example, the FDIC collaborated with the Cities for Financial Empowerment Fund to support its national efforts to work with local government and other partners to increase the access of LMI consumers to safe and affordable financial products and services. During 2016, in collaboration with Cities for Financial Empowerment and local coalitions, the FDIC worked in seven *Bank On* cities to convene 14 forums and roundtables designed to advance strategies to expand access to safe deposit accounts. The FDIC also supported efforts to link consumers to financial education and savings through activities organized for designated *Money Smart* or “financial fitness” weeks or months, involving hundreds of consumer outreach events. Moreover, working with the national, local, state, and targeted (i.e., youth, military, and minority consumer-focused) *America Saves* campaigns, the FDIC continued to link banking companies to active efforts for engaging consumers with setting savings goals at tax time and year-round.

The FDIC designed strategies to reach two particular segments of the population that the *National Survey of Unbanked and Underbanked Consumers* revealed are disproportionately unbanked and underbanked: people with disabilities and low- and moderate-income young people. The Advisory Committee on Economic Inclusion was engaged in discussions of financial education and outreach initiatives to promote economic inclusion of people with disabilities. The FDIC discussed its efforts to work with federal, nonprofit, and bank partners on the tax-advantaged savings accounts (known as ABLE Accounts), being launched by state governments. The FDIC also expanded efforts with local partners through 14 community events to bring

banks and organizations representing people with disabilities together at the state and local level.

Youth benefiting from employment programs under the WIOA, who are generally low- or moderate-income, are required to be offered financial education. To support grantees of the Department of Labor and local initiatives, the FDIC developed train-the-trainer resources and delivered webinars to enhance the capability of youth-serving employment organizations. Workforce development organizations, banks, the FRB and other partners convened in two communities to expand opportunities for young people to become financially capable and banked.

Consumer Complaints and Inquiries

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

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

Consumer Complaints by Product and Issue

The FDIC receives complaints and inquiries by telephone, fax, U.S. mail, email, and online through the FDIC's website. In 2016, the FDIC handled 19,251 written and telephonic complaints and inquiries. Of this total, 10,884 related to FDIC-supervised institutions. The FDIC responded

to nearly 98 percent of these complaints within time frames established by corporate policy, and acknowledged 100 percent of all consumer complaints and inquiries within 14 days. As part of the complaint and inquiry handling process, the FDIC works with the other federal financial regulatory agencies to ensure that complaints and inquiries are forwarded to the appropriate agencies for response. The FDIC carefully analyzes the products and issues involved in complaints about FDIC-supervised institutions. The number of complaints received about a specific bank product and issue can serve as a red flag to prompt further review of practices that may raise consumer protection or supervisory concerns.

In 2016, the four most frequently identified consumer product complaints and inquiries about FDIC-supervised institutions concerned credit cards (24 percent), consumer loans (14 percent), residential real estate (12 percent), and checking accounts (11 percent). Credit card complaints and inquiries most frequently described issues with collection practices and billing disputes, while the issues most commonly cited in correspondence about consumer loans were concerns with the reporting of erroneous information. Complaints and inquiries on residential real estate related to repossession/foreclosure and loan modification. The largest share of correspondence about checking accounts cited discrepancies in deposit accounts and refusal to cash checks or provide services.

The FDIC also investigated 84 Fair Lending complaints alleging discrimination during 2016. The number of discrimination complaints investigated has fluctuated over the past several years but averaged approximately 84 complaints per year between 2011 and 2016. Over this period, nearly 45 percent of the complaints investigated alleged discrimination based on the race, color, national origin, or ethnicity of the applicant or borrower; 24 percent related to discrimination allegations based on age; nearly 9 percent involved the sex of the borrower or applicant; and roughly 5 percent concerned disability.

Consumer refunds generally involve the financial institution offering a voluntary credit to the consumer's account, often as a direct result of complaint investigations and identification of a banking error or violation of law. In 2016, consumers received more than \$531,349 in refunds from financial institutions as a result of the assistance provided by the FDIC's Consumer Affairs Program.

Public Awareness of Deposit Insurance Coverage

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

The FDIC continued its efforts to educate bankers and consumers about the rules and requirements for FDIC insurance coverage during 2016. For example, as of December 31, 2016, the FDIC conducted six telephone seminars for bankers on deposit insurance coverage, reaching an estimated 5,282 bankers participating at approximately 1,509 bank sites throughout the country. The FDIC also created



FDIC Division of Insurance Director Diane Ellis opens the 16th Annual Bank Research Conference.

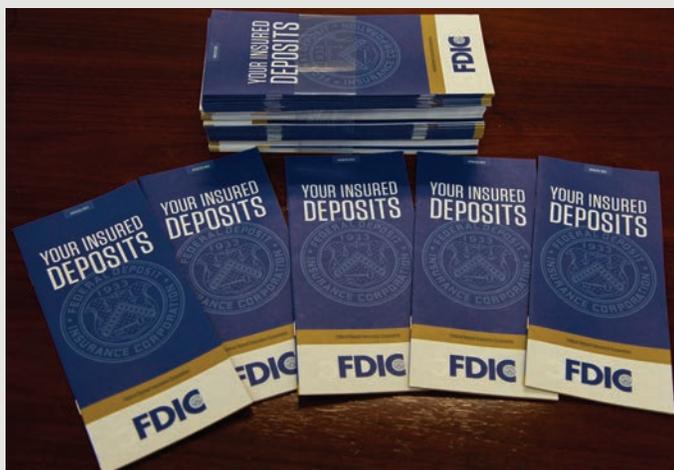
deposit insurance training videos that are available on the FDIC's website and YouTube channel.

As of December 31, 2016, the FDIC received and answered approximately 90,412 telephone inquiries from consumers and bankers regarding deposit insurance-related inquiries. The FDIC Call Center addressed 40,374 of these inquiries, and deposit insurance subject matter experts handled the other 50,038. In addition to telephone inquiries about deposit insurance coverage, the FDIC received 1,966 written inquiries from consumers and bankers. Of these inquiries, 99 percent received responses within two weeks, as required by corporate policy.

Center for Financial Research

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

In 2016, the CFR and the Journal of Financial Services Research jointly sponsored the 16th Annual Bank Research Conference. The conference



During the height of the financial crisis, more than three million copies of the brochure "Your Insured Deposits" were distributed across the nation.

organizers received more than 550 submissions for the 20 available presentation slots. Douglas Diamond, the Merton H. Miller Distinguished Service Professor of Finance at the University of Chicago, was the keynote speaker. CFR researchers also produced a number of new working papers in 2016. In addition, the CFR is administering the Small Business Lending Survey. Analysis and results of this survey will be made available in 2017.

RECEIVERSHIP MANAGEMENT

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

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

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

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

The purchase and assumption (P&A) transaction is the most commonly used resolution method. Typically, in a P&A transaction, a healthy institution purchases certain assets and assumes certain liabilities of the failed institution. However, a variety of P&A transactions can be used. Because each failing bank situation is different, P&A transactions provide flexibility to structure deals that result in obtaining the highest value for the failed institution. For each possible P&A transaction, the acquirer may acquire either all of the failing institution's deposits or only the insured portion of the deposits.

From 2008 through 2013, loss sharing was offered by the FDIC in connection with P&A transactions. In a loss-share transaction, the FDIC, as receiver, agrees to share losses on certain assets with the acquirer, absorbing a significant portion (typically 80 percent) of future losses on assets that have been designated as “shared-loss assets” for a specific period of time (e.g., five to 10 years). The economic rationale for these transactions is that keeping assets in the banking sector and resolving them over an extended period of time can produce a better net recovery than the FDIC's immediate liquidation of these assets. However, in recent years, as the markets have improved and begun to function more normally with both capital and liquidity returning to the banking industry, acquirers have become more comfortable with bidding on failing bank franchises without the protection of loss share.

The FDIC continues to monitor compliance with shared-loss agreements by validating the appropriateness of loss-share claims; reviewing acquiring institutions' efforts to maximize recoveries; ensuring consistent application of policies and procedures across both shared-loss and legacy portfolios; and confirming that the acquirers have sufficient internal controls, including adequate staff, reporting, and recordkeeping systems. At year-end 2016, there were 148 receiverships with active shared-loss agreements and \$20.8 billion in total shared-loss covered assets remained.

Deposit payoffs are only executed if all bids received for a P&A transaction (if any) are more costly to the DIF than liquidation. In the instance where no acceptable bids are received, the FDIC in its corporate capacity, makes sure that the customers of the failed institution receive the full amount of their insured deposits “as soon as possible.”

The receivership process involves performing the closing functions at the failed institution; liquidating any remaining failed institution assets; and distributing any proceeds of the liquidation to the FDIC, uninsured depositors, and other creditors of the receivership. In its role as receiver, the FDIC uses a wide variety of strategies and tools to manage and sell retained assets. These include, but are not limited to, asset sales, securitizations, and structured transactions.

Financial Institution Failures

During 2016, there were five institution failures compared to eight failures in 2015.

In all five transactions, the FDIC successfully contacted all known, qualified, and interested bidders to market these institutions, and also made insured funds available to all depositors within one business day of the failure. 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 2014–2016			
Dollars in Billions			
	2016	2015	2014
Total Institutions	5	8	18
Total Assets of Failed Institutions*	\$0.3	\$6.7	\$2.9
Total Deposits of Failed Institutions*	\$0.3	\$4.9	\$2.7
Estimated Loss to the DIF	\$0.05	\$0.9	\$0.4

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

Asset Management and Sales

As part of its resolution process, the FDIC tries to sell as many assets-in-liquidation as possible to an assuming institution. Assets that are retained by the receivership are promptly valued and liquidated in order to maximize the return to the receivership estate. For 95 percent of failed institutions, at least 90 percent of the book value of marketable assets is marketed for sale within 90 days of an institution’s failure for cash sales and within 120 days for structured sales.

Cash sales of assets for banks that failed in 2016 totaled \$28.0 million in book value.

As a result of the FDIC’s marketing and collection efforts, the book value of assets in inventory decreased by \$1.5 billion (31 percent) in 2016.

The following chart shows the assets-in-liquidation inventory of these assets by asset type.

ASSETS-IN-LIQUIDATION INVENTORY			
BY ASSET TYPE			
Dollars in Millions			
Asset Type	12/31/16	12/31/15	12/31/14
Securities	\$183	\$393	\$470
Consumer Loans	8	22	36
Commercial Loans	19	62	123
Real Estate Mortgages	85	173	697
Other Assets/ Judgments	268	398	957
Owned Assets	40	113	120
Net Investments in Subsidiaries	100	122	123
Structured and Securitized Assets	2,614	3,524	5,150
TOTAL	\$3,317	\$4,807	\$7,676

Receivership Management Activities

The FDIC, as receiver, manages failed banks and their subsidiaries with the goal of expeditiously winding up their affairs. The oversight and prompt termination of receiverships help to preserve value for the

uninsured depositors and other creditors by reducing overhead and other holding costs. Once the assets of a failed institution have been sold and its liabilities extinguished, the final distribution of any proceeds is made, and the FDIC terminates the receivership. In 2016, the number of receiverships under management decreased by 68 (15 percent) to 378. The significant increase in termination activity from 2015 was driven by the early termination of shared-loss agreements.

The following chart shows overall receivership activity for the FDIC in 2016.

RECEIVERSHIP ACTIVITY	
Active Receiverships as of 12/31/15	446
New Receiverships	5
Receiverships Terminated	73
Active Receiverships as of 12/31/16	378

Protecting Insured Depositors

The FDIC's ability to attract healthy institutions to assume deposits and purchase assets of failed banks and savings associations at the time of failure minimizes the disruption to customers and allows assets to be returned to the private sector immediately. Assets remaining after resolution are liquidated by the FDIC in an orderly manner, and the proceeds are used to pay receivership creditors, including depositors whose accounts exceeded the insurance limit. During 2016, the FDIC paid dividends of \$1.0 million to depositors whose accounts exceeded the insurance limit.

Professional Liability and Financial Crimes Recoveries

The FDIC works to identify potential claims against directors, officers, securities underwriters and issuers, fidelity bond insurance carriers, appraisers, attorneys, accountants, mortgage loan brokers, title insurance companies, and other professionals who may have caused losses to an insured depository institution. Once a claim is determined to be meritorious and

is expected to be cost-effective, the FDIC pursues those claims against the appropriate parties.

During 2016, the FDIC recovered \$463 million from professional liability claims and settlements. The FDIC also authorized lawsuits related to one failed institutions against six individuals for director and officer liability, and authorized another lawsuit for fidelity bond, liability insurance, attorney malpractice, appraiser malpractice, and securities law violations for residential mortgage-backed securities. As of December 31, 2016, the FDIC's caseload included 28 professional liability lawsuits (down from 50 at year-end 2015), 42 residential mortgage malpractice and fraud lawsuits (down from 87), and 173 open investigations (down from 264). The FDIC seeks to complete professional liability investigations and make decisions expeditiously on whether to pursue potential professional liability claims. During 2016, it completed investigations and made decisions on 91 percent of the investigations related to failures that reached the 18-month point after the institution's failure date, exceeding its annual performance target.

As part of the sentencing process for those convicted of criminal wrongdoing against an 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, collected \$7.1 million from criminal restitution and forfeiture orders through December 31, 2016. Also as of that date, there were 3,991 active restitution and forfeiture orders (up from 3,831 at year-end 2015). This includes 111 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).

MINORITY AND WOMEN INCLUSION

Consistent with the provisions of the Dodd-Frank Act, the FDIC continues to enhance its longstanding commitment to promote diversity and inclusion in

employment opportunities and all business areas of the agency. The Office of Minority and Women Inclusion supports the FDIC's mission through outreach efforts to ensure the fair inclusion and utilization of minority- and women-owned businesses, law firms, and investors in contracting and investment opportunities.

The FDIC relies on contractors to help meet its mission. In 2016, the FDIC awarded 287 (24 percent) contracts to minority- and women-owned businesses (MWOBs) out of a total of 1,181 issued. The FDIC awarded contracts with a combined value of \$509 million in 2016, of which 18 percent (\$94 million) were awarded to MWOBs, compared to 25 percent for all of 2015. The FDIC paid \$112 million of its total contract payments (27 percent) to MWOBs, under 461 active contracts. Referrals to minority- and women-owned law firms (MWOLFs) accounted for 44 percent of all legal referrals in 2016. Total payments to MWOLFs were \$11 million in 2016 which is 14 percent of all payments to outside counsel, compared to 12 percent for all of 2015.

In 2016, the FDIC participated in five minority bar association conferences and two stakeholder events in support of maximizing the participation of MWOLFs in FDIC legal contracting. Pursuant to Section 342 of the Dodd-Frank Act, which requires an assessment of legal contractors' internal workforce diversity practices, the Legal Division refined and continued to implement a system of compliance reviews of the top ten billing law firms (both majority-owned and MWOLFs). In addition, the FDIC advised the National Association of Credit Unions, the Federal Home Loan Bank Board, and State Farm Life Insurance Company on developing MWOLF outreach programs that mirror the FDIC's.

In 2016, the FDIC participated in a total of 38 business expos, one-on-one matchmaking sessions, and panel presentations. At these events, FDIC staff provided information and responded to inquiries regarding FDIC business opportunities for minorities and women. In addition to targeting

MWOBs and MWOLFs, these efforts also targeted veteran-owned and small, disadvantaged businesses. Vendors were provided with the FDIC's general contracting procedures, prime contractors' contact information, and forecasts of possible upcoming solicitations. Also, vendors were encouraged to register through the FDIC's Contractor Resource List (a principal database for vendors interested in doing business with the FDIC).

During 2016, the FDIC's Office of Minority and Women Inclusion (OMWI) and the Division of Resolutions and Receiverships (DRR) collaborated to present three FDIC-sponsored asset purchaser workshops that were marketed extensively to minority- and women-owned investors and companies interested in learning about DRR's sales processes. DRR speakers with strong backgrounds in their respective programs provided details on the various tools used by DRR to market assets and presented information to attendees on how to participate in the transactions and bid on assets offered for sale.

The asset purchaser workshops were held in San Juan, PR, Memphis, TN, and Jackson, TN. The events were attended by 76 prospective investors and included a special focus on owned real estate (ORE) investment opportunities to support a DRR auction of real estate properties scheduled after the outreach workshop. A segment regarding contracting services was also part of the event. Information regarding the Minority and Women Outreach Program can be found on the FDIC's website at www.fdic.gov/mwop.

In addition, OMWI worked closely with the OMWIs of the OCC, FRB, CFPB, NCUA, and SEC to implement further Section 342(b)(2)(C) of the Dodd-Frank Act, which requires the agencies to develop standards to assess the diversity policies and practices of the entities they regulate. After finalizing of the Interagency Policy Statement Establishing Joint Standards for Assessing the Diversity Policies and Practices of Entities Regulated by the Agencies, the OMWI agencies received approval from the Office of Management and Budget (OMB) on February 18, 2016, as required by the Paperwork Reduction

Act of 1995, to collect information from their regulated entities. Regulated entities were notified of the collection approval through the *Federal Register* on July 13, 2016, and they may now submit self-assessments of their diversity policies and practices to the OMWI Director of their primary federal financial regulator.

To facilitate uniform and systematic collection of information, OMWI developed and sought public comment on a diversity self-assessment template for regulated entities to use as they voluntarily assess their diversity policies and practices. When the comment period closed, OMWI requested approval to use the template from OMB. In the meantime, some regulated entities began submitting voluntary self-assessments to the FDIC OMWI Director in October 2016. The FDIC plans to use self-assessment information provided by its regulated entities to monitor progress and trends in the financial services industry, and to identify and publicize promising diversity policies and practices.

INTERNATIONAL OUTREACH

In 2016, the FDIC continued to play a leading role in supporting and promoting the global development of effective deposit insurance, bank supervision, and resolution regimes as integral components of the financial safety net. The FDIC worked with several standard-setting, regulatory, supervisory, and multi-lateral organizations, such as the Association of Supervisors of Banks of the Americas (ASBA), BCBS, Financial Services Volunteer Corps (FSVC), Financial Stability Board (FSB), International Association of Deposit Insurers (IADI), International Monetary Fund (IMF), and World Bank. FDIC staff also: facilitated training for several hundred participants from counterpart agencies around the world; participated in technical assistance missions to several countries; and conducted secondment programs to further the international community's understanding and implementation of best practices in deposit insurance, bank supervision, and failure resolutions.

International Association of Deposit Insurers

The IADI contributes to global financial stability by promoting international cooperation in the field of deposit insurance; providing guidance for establishing new, and enhancing existing, deposit insurance systems; and encouraging wide international contact among deposit insurers and other interested parties. IADI is now recognized as the standard-setting body for deposit insurance by major international financial institutions, including the FSB, BCBS, IMF, World Bank, and the European Community. Since its founding in 2002, IADI has grown from 26 members to 83 deposit insurers from nearly 80 jurisdictions. FDIC Chairman Martin J. Gruenberg served as the President of IADI and Chair of its Executive Council from November 2007 to October 2012. In October 2015, FDIC Vice Chairman Thomas M. Hoenig was elected to a two-year term to serve as President of IADI and Chair of its Executive Council.

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

Subsequently, an IADI drafting team, led by FDIC staff, revised the *Handbook for the Assessment of Compliance with the Core Principles*. The handbook, which was approved by IADI in early 2016, is designed as a "how-to" guide, providing additional guidance on assessing a jurisdiction's compliance with the *Core Principles* and includes lessons learned from collaboration with IMF and World Bank Financial Sector Assessment Program (FSAP) review teams, IADI Core Principles Regional Workshops, and IADI Self-Assessment Technical Assistance Program (SATAP) reviews.

The IMF and World Bank use the *Core Principles* and handbook in the context of the FSAP reviews, to assess the effectiveness of jurisdictions' deposit insurance systems and practices. This represents an important milestone in the growing global acceptance of the role of effective deposit insurance systems in maintaining financial stability. IADI, under FDIC leadership of the Training and Conference Committee, has trained more than 300 staff members from more than 74 jurisdictions in conducting self-assessments for compliance with the *Core Principles*. FDIC executives and subject-matter experts partnered with IADI to develop and deliver several international programs in 2016. In April 2016, for example, Vice Chairman Thomas M. Hoenig joined global bank resolution and deposit insurance leaders at a conference jointly hosted by IADI's North American, Latin American, and Caribbean Regional Committees entitled the "First Americas Deposit Insurance Forum." The conference explored key issues related to safety net relationships and resolution. In addition, as IADI President and Chair of its Executive Council, the Vice Chairman led IADI's 15th Annual General Meeting and Conference in October 2016, in Seoul, Korea. In supporting the Vice Chairman in this role, FDIC staff provides strategic guidance and leadership to multiple IADI standing committees, subcommittees, and working groups.

Association of Supervisors of Banks of the Americas

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

In 2016, senior FDIC staff chaired the ASBA Training and Technical Committee, which is responsible for

designing and implementing ASBA's training strategy that advances the adoption of sound bank supervision policies and practices among members. ASBA's training program reaches more than 600 members annually, with FDIC support, both as chair and training provider.

Basel Committee on Banking Supervision

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

- ◆ Policy Development Group (PDG) and its:
 - Coherence and Calibration Task Force
 - Working Group on Capital
 - Trading Book Group
 - Leverage Ratio Group
 - Working Group on Liquidity
 - Risk Measurement Group
 - Ratings and Securitization Work Stream
 - Task Force on Standardized Approaches
 - Task Force on Interest Rate Risk in the Banking Book
 - Task Force on Scope of Regulatory Consolidation
 - Research Task Force
 - Quantitative Impact Study Working Group
- ◆ Supervision and Implementation Group and its:
 - Working Group on Operational Risk
 - Standards Implementation Group – Banking Book
 - Standards Implementation Group – Trading Book
 - Task Force on Supervisory Colleges
 - Task Force on Pillar 2
- ◆ Macroprudential Supervision Group
- ◆ Accounting Experts Group and its:
 - Audit Subgroup



Participants in the FDIC 101 class held in October 2016.

- ◆ Anti-Money Laundering Expert Group
- ◆ Task Force on Simplicity and Comparability
- ◆ Task Force on Sovereign Exposures
- ◆ Working Group on Margining Requirements
- ◆ Over-the-Counter (OTC) Derivatives Regulators' Forum
- ◆ OTC Derivatives Supervisor Group
- ◆ OTC Derivatives Assessment Team
- ◆ Joint Central Counterparties Task Force
- ◆ Task Force on Securitization Markets

International Derivatives Work

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

International Capacity Building

The FDIC's international efforts supporting the development of effective deposit insurance systems, bank supervisory practices, and bank resolution strategies continued to grow in 2016. FDIC staff contributed to international capacity building by providing study tours, secondments, and technical assistance to foreign counterparts. These engagements

resulted in an enhanced dialogue between the FDIC and foreign counterparts in significant areas such as bank supervision and regulatory developments post crisis, the legal framework and operations for bank resolutions, and optimal funding strategies for deposit insurers.

FDIC management and staff hosted study tours for 267 individuals representing 28 jurisdictions during the year. In addition, the FDIC's Corporate University provided training in bank supervision and information technology to 78 foreign delegates from 16 jurisdictions. In 2015, the FDIC launched a new training program for foreign regulatory officials, *FDIC 101: An Introduction to Deposit Insurance, Bank Supervision, and Resolutions* (FDIC 101), designed to provide a structured and comprehensive view of how the FDIC executes its key business functions. The FDIC held two sessions of FDIC 101 in 2016, which were attended by 62 students representing 31 jurisdictions and the World Bank.

The FDIC contributes to global and domestic bank supervision, deposit insurance, and resolution initiatives by providing staff to support long-term projects and technical assistance missions led by the IMF, U.S. Treasury Department, FSVC, and World Bank. The FDIC continued longstanding programs for staffing details with the Treasury Department's Office of International Banking and Securities Markets and secondments with FSVC to assist other

countries with financial regulation development. While at Treasury, FDIC detailees lend expertise in supervision, resolutions, deposit insurance, policy-making, and regulation for international banking. FSVC programs are often funded by other U.S. government offices and included project work on anti-money laundering during the year.

The FDIC also completed short-term technical assistance missions to Greece and Kosovo to provide consultative assistance. The FDIC partnered with the World Bank to provide technical assistance to the Indonesia Deposit Insurance Corporation and with the Association of Supervisors of Banks of the Americas to provide training in deposit insurance and resolution systems to ASBA member countries.

The FDIC expands and strengthens international engagement by providing secondment opportunities to foreign officials to engage in long-term consultation with FDIC subject matter experts in areas related to bank supervision, deposit insurance, and resolutions. In 2016, two officials from the Deposit Insurance Corporation of Japan and the Korea Deposit Insurance Corporation concluded their secondments to the FDIC, and two new secondees from these agencies joined the FDIC, each for one-year assignments. Singapore also began a secondment with the FDIC in 2016.

Key International Engagements

The FDIC continued to advance policy making priorities and strengthen its relationships with key jurisdictions worldwide through its participation in a number of interagency dialogues in 2016. Jurisdictions participating in these dialogues included China, India, and member countries of the North American Free Trade Agreement (NAFTA).

EFFECTIVE MANAGEMENT OF STRATEGIC RESOURCES

The FDIC recognizes that it must effectively manage its human, financial, and technological resources

to carry out its mission successfully 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 2016.

Human Capital Management

The FDIC's human capital management programs are designed to attract, train and develop, reward, and retain a highly skilled, diverse, and results-oriented workforce. In 2016, the FDIC workforce planning initiatives emphasized the need to plan for employees to fulfill current and future capabilities and leadership needs. This focus ensures that the FDIC has a workforce positioned to meet today's core responsibilities and prepared to fulfill its mission in the years ahead.

Strategic Workforce Planning and Readiness

During 2016, the FDIC continued to develop and implement the Workforce Development Initiative, an integrated strategy to address workforce challenges and opportunities. The effort is focused on four broad objectives:

1. attract and develop talented employees across the agency;
2. enhance the capabilities of employees through training and diverse work experiences;
3. encourage employees to engage in active career development planning and seek leadership roles in the FDIC; and
4. build on and strengthen the FDIC's operations to support these efforts.

In 2016, the FDIC continued to develop the infrastructure, governance, programs, and processes to help meet its long-term workforce and leadership needs. The FDIC is committed to building and



FDIC's Workplace Development Initiative Ambassadors meet at headquarters, joining a nationwide outreach effort.

expanding its talent pipeline to ensure succession challenges are met. To that end, the agency expanded its succession planning review process in 2016 to include all managers. The effort began with a survey to assess the level of aspiration among current managers. More than two-thirds of current managers reported that they were interested in seeking higher-level positions at the FDIC, demonstrating their ongoing interest in leadership development. Senior FDIC leaders from across the agency then convened to discuss leadership needs and strategies to address them, including efforts to develop the pipeline of the FDIC's aspiring leadership pool.

As a result of the succession planning review process, FDIC managers received recommendations to participate in diverse programs to enhance their leadership capabilities, including the Leadership Mentoring Program, external educational opportunities through Harvard's Kennedy School of Government, executive coaching, and enriched management training.

The FDIC also continued to focus on ensuring the availability of a workforce equipped to meet today's responsibilities, while simultaneously preparing for future capability needs. The FDIC furthered development of a Career Paths initiative, targeted at non-supervisory employees at all levels, to promote the acquisition of cross-organizational skills and knowledge. Additional support is provided

to employees seeking professional development opportunities through expanded career management services.

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

Corporate Employee Program

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

their career path to become commissioned examiners or resolutions and receiverships specialists.

The CEP is an essential part of the FDIC's ability to provide continual cross-divisional staff mobility. Since the CEP's inception in 2005, 1,600 individuals have joined the FDIC through this multi-discipline program, and more than 770 have become commissioned examiners after successfully completing the program's requirements.

The FDIC continues to sponsor the Financial Management Scholars Program (FMSP), an additional hiring source for the CEP. Participants in the FMSP complete an internship with the FDIC the summer following the conclusion of their junior year in college. The program serves as an additional venue to recruit talent.

Employee Learning and Development

The FDIC is committed to the learning and development of its employees throughout their careers to enrich technical proficiency and leadership capacity, supporting career progression and succession management. In 2016, the FDIC focused on developing and implementing comprehensive curricula for its business lines to prepare employees to meet new challenges. Such training, which includes both classroom and online instruction for maximum flexibility, is a critical part of workforce and succession planning as more experienced employees become eligible for retirement.

The FDIC also offers a comprehensive leadership development program that combines core courses, electives, and other enrichment opportunities to develop employees at all levels. From new employees to new executives, the FDIC provides employees with targeted leadership development opportunities that align with key leadership competencies. In addition to a broad array of internally developed and administered courses, the FDIC also provides its employees with funds and/or time to participate in external training to support their career development.

Corporate Risk Management

During 2016, the Office of Corporate Risk Management (OCRM) worked with divisions and offices to advance common agency-wide processes for identifying, managing, and mitigating risks to the FDIC. OCRM assisted and supported the Enterprise Risk Committee, Executive Management Committee, External Risk Forum, and Management Risk Roundtable in reviewing risks across the agency. OCRM monitors material risks and mitigation activities, including the following:

- ◆ Risks posed by national and international economic, regulatory, and technological trends and developments that could potentially affect consumers, depositors, and the safety and soundness of the financial services industry.
- ◆ Risks to the agency's ability to conduct its mission essential functions under all threats and conditions, as described in its Continuity of Operations Plan and Business Continuity Plan.
- ◆ Risks to the financial system posed by the extended current low level of interest rates.
- ◆ Risks posed by the analytical models used by the FDIC in identifying and managing risk. During 2016, OCRM and FDIC model owners developed tailored validation programs for all corporate models and began a series of model validations to assure soundness and mitigate model risk.
- ◆ Risks associated with governance and development of large-scale IT projects.
- ◆ Risks posed to the agency and to the financial services industry by concerted attempts to penetrate, compromise, and disrupt the information systems that are essential to their effective operation.

Employee Engagement

The FDIC continually evaluates its human capital programs and strategies to ensure that the agency remains an employer of choice and that all of its



Photo credit: Audrey Lew Photography

Director of the Division of Administration Arleas Upton Kea and Deputy to the Chairman and Chief Operating Officer Barbara A. Ryan accept the award for Best Places to Work in the Federal Government for mid-sized federal agencies from Max Stier, President and CEO of Partnership for Public Service.

employees are fully engaged and aligned with the mission. The FDIC uses the Federal Employee Viewpoint Survey mandated by Congress to solicit information from employees, and takes an agency-wide approach to address key issues identified in the

survey. In December 2016, the FDIC received an award from the Partnership for Public Service for being ranked number one among mid-sized federal agencies on the *Best Places to Work in the Federal Government*[®] list. Effective leadership is the primary factor driving employee satisfaction and commitment in the federal workplace, according to a report by the Partnership for Public Service.

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

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