

# I. MANAGEMENT'S DISCUSSION AND ANALYSIS



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## THE YEAR IN REVIEW

### OVERVIEW

During 2018, the FDIC continued to fulfill its mission-critical responsibilities. In addition, the agency adopted and issued proposed rules on key regulations under the Economic Growth, Regulatory Relief and Consumer Protection Act (EGRRCPA) and the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA), and engaged in several community banking and community development initiatives.

Cybersecurity remained a high priority for the FDIC in 2018; the agency worked to strengthen cybersecurity oversight, help financial institutions mitigate risk, and respond to cyber threats. The sections below highlight these and other accomplishments during the year.

In May 2018, Jelena McWilliams was confirmed as the 21<sup>st</sup> Chairman of the FDIC, and has met with bankers from across the country in the intervening months to discuss the diverse needs of bank customers and how to meet those needs.

### DEPOSIT INSURANCE

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

#### *Long-Term Comprehensive Fund Management Plan*

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 DIF Restoration Plan, originally adopted in 2008 and subsequently revised, which was designed to ensure that the reserve ratio (the ratio of the fund balance to estimated insured deposits) would reach 1.35 percent by September 30, 2020, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).



*Picture provided by the Kansas Bankers Association*

*Chairman Jelena McWilliams (center), with bankers from New Hampshire, Iowa, and Kansas.*

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. The FDIC views the 2.0 percent DRR as a long-term goal and the minimum level needed to withstand future crises of the magnitude of past crises. In December 2018, the Board voted to maintain the 2.0 percent ratio for 2019.

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. In lieu of dividends, the plan prescribes progressively lower assessment rates that will become effective when the reserve ratio exceeds 2.0 percent and 2.5 percent.

### ***State of the Deposit Insurance Fund***

There were no bank failures in 2018. The fund balance continued to grow through 2018, as it has every quarter after the end of 2009. Assessment revenue was the primary contributor to the increase in the fund balance in 2018. The fund reserve ratio rose to 1.36 percent at September 30, 2018, from 1.27 percent a year earlier.

### ***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, mandates that the reserve ratio reach that level by September 30, 2020.

To achieve this ratio, the FDIC imposed surcharges on the quarterly assessments of insured depository institutions (IDIs) with total consolidated assets of \$10 billion or more (large banks). The surcharge equaled an annual rate of 4.5 basis points applied to an institution's regular quarterly deposit insurance assessment base after subtracting \$10 billion, with additional adjustments for banks with affiliated IDIs.

As of September 30, 2018, the reserve ratio exceeded the required minimum of 1.35 percent, and the surcharges were suspended.

Because the Dodd-Frank Act mandates that the FDIC offset the effect of the increase in the reserve ratio on small banks (i.e., banks with assets less than \$10 billion), these banks were exempt from the surcharges. Furthermore, assessment credits are provided to small banks for the portion of their regular assessments that contributed to growth in the reserve ratio between 1.15 percent and 1.35 percent. The FDIC has calculated the aggregate amount of credits to be \$765 million. Each quarter the reserve ratio is at least 1.38 percent, the FDIC will automatically apply a small bank's credits to reduce its regular assessment up to the entire amount of the assessment.

## **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 at the core of its supervisory program. As of December 31, 2018, the FDIC was the primary federal regulator for 3,495 FDIC-insured, state-chartered institutions that were not members of the Federal Reserve System (generally referred to as "state nonmember" institutions). Through risk management (safety and soundness), consumer compliance, 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, 2018, the FDIC conducted 1,492 statutorily required risk management examinations, including reviews of Bank Secrecy Act (BSA) compliance, and all required follow-up examinations for FDIC-supervised problem institutions, within prescribed time frames. The FDIC also conducted

1,215 statutorily required CRA/consumer compliance examinations (876 joint CRA/consumer compliance examinations, 337 consumer compliance-only examinations, and two CRA-only examinations). In addition, the FDIC performed 3,334 specialty examinations (which include reviews for BSA compliance) within prescribed time frames.

The table below illustrates the number of examinations by type, conducted from 2016 through 2018.

### **Risk Management**

All risk management examinations have been conducted in accordance with statutorily-established time frames. As of September 30, 2018, 71 insured institutions with total assets of \$53.3 billion were designated as problem institutions for safety and

soundness purposes (defined as those institutions having a composite CAMELS<sup>1</sup> rating of 4 or 5). By comparison, on September 30, 2017, there were 104 problem institutions with total assets of \$16.0 billion. This represents a 32 percent decline in the number of problem institutions and a 233 percent increase in problem institution assets.

For the 12 months ended September 30, 2018, 45 institutions with aggregate assets of \$7.4 billion were removed from the list of problem financial institutions, while 12 institutions with aggregate assets of \$45.6 billion were added to the list. The FDIC is the primary federal regulator for 52 of the 71 problem institutions, with total assets of \$7.3 billion.

In 2018, the FDIC's Division of Risk Management Supervision (RMS) initiated 156 formal enforcement actions and 95 informal enforcement actions.

<b>FDIC EXAMINATIONS 2016-2018</b>			
	2018	2017	2016
<b>Risk Management (Safety and Soundness):</b>			
State Nonmember Banks	1,333	1,440	1,563
Savings Banks	159	171	164
State Member Banks	0	0	0
Savings Associations	0	0	0
National Banks	0	0	0
Subtotal–Risk Management Examinations	1,492	1,611	1,727
<b>CRA/Consumer Compliance Examinations:</b>			
Consumer Compliance/Community Reinvestment Act	876	770	709
Consumer Compliance-only	337	393	594
CRA-only	2	5	8
Subtotal–CRA/Compliance Examinations	1,215	1,168	1,311
<b>Specialty Examinations:</b>			
Trust Departments	308	347	351
Information Technology and Operations	1,503	1,627	1,742
Bank Secrecy Act	1,523	1,640	1,761
Subtotal–Specialty Examinations	3,334	3,614	3,854
<b>TOTAL</b>	<b>6,041</b>	<b>6,393</b>	<b>6,892</b>

<sup>1</sup> The CAMELS composite rating represents the adequacy of Capital, the quality of Assets, the capability of Management, the quality and level of Earnings, the adequacy of Liquidity, and the Sensitivity to market risk, and ranges from “1” (strongest) to “5” (weakest).

Enforcement actions against institutions included, but were not limited to 13 actions under Section 8(b) of the Federal Deposit Insurance Act (FDI Act), all of which were consent orders, and 94 memoranda of understanding (MOUs). Of these enforcement actions against institutions, eight consent orders and 20 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, 52 removal and prohibition actions under Section 8(e) of the FDI Act (50 consent orders and two notices of intention to remove/prohibit), three actions under Section 8(b) of the FDI Act (two orders to pay restitution, and one notice of charges), and 11 civil money penalty (CMPs) (10 orders to pay and one notice of assessment).

The FDIC continues its risk-focused, forward-looking supervision program by assessing risk management practices during the examination process to ensure that risks are mitigated before they lead to financial deterioration.

### **Consumer Compliance**

As of December 31, 2018, 35 insured state nonmember institutions, about 1 percent of all supervised institutions, with total assets of \$39 billion, were problem institutions for consumer compliance, CRA, or both. All of the problem institutions for consumer compliance were rated “4” for consumer compliance purposes, with none rated “5.” For CRA purposes, the majority were rated “Needs to Improve,” and only one was rated “Substantial Noncompliance.” As of December 31, 2018, all follow-up examinations for problem institutions were performed on schedule.

As of December 31, 2018, the FDIC conducted substantially all required consumer compliance and CRA examinations and, when violations were identified, completed follow-up visits and implemented appropriate enforcement actions in accordance with FDIC policy. In completing these

activities, the FDIC 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 2018 consumer compliance examinations involved banks’ failure to adequately monitor third-party vendors. For example, the FDIC found violations involving unfair or deceptive acts or practices, such as failure to disclose material information about product features and limitations, deceptive marketing and sales practices, and misrepresentations about the costs of products. The FDIC issued orders requiring the payment of CMPs to address these violations.

As of December 31, 2018, the FDIC’s Division of Depositor and Consumer Protection (DCP) initiated 21 formal enforcement actions and 13 informal enforcement actions to address consumer compliance concerns. This included three restitution orders, four consent orders, 13 CMPs, one Notice of Assessment, and 13 MOUs. Restitution orders are formal actions that require institutions to pay restitution in the form of consumer refunds for violations of law. In 2018, these orders required the payment of approximately \$21.3 million to harmed consumers. As of December 31, 2018, the CMP orders totaled \$3,556,766.

### **Large Bank Supervision Program**

The Large Bank Supervision Branch within RMS addresses the growing complexity of large banking organizations with assets exceeding \$10 billion and not assigned to the Complex Financial Institution (CFI) Group. This branch is responsible for supervisory oversight, ongoing monitoring, and resolution planning, while supporting the insurance business line. For state nonmember banks with assets exceeding \$10 billion, the FDIC generally applies a continuous examination program, whereby dedicated staff conducts ongoing on-site supervisory examinations and institution monitoring. The FDIC also has dedicated on-site examination staff at select

banks for which the FDIC is not the primary federal regulator. These examiners work 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 not assigned to CFI Group. The LIDI Program provides a comprehensive process to standardize data capture and reporting for large and complex institutions nationwide, allowing for quantitative and qualitative risk analysis. In 2018, the LIDI Program covered 116 institutions with total assets of \$6.2 trillion. The LIDI Program supports effective large bank supervision by using individual institution information to focus resources on higher-risk areas, determine the need for supervisory action, and support insurance assessments and resolution planning.

The Shared National Credit (SNC) Program is an interagency initiative administered jointly by the FDIC, the Office of the Comptroller of the Currency (OCC), and the Federal Reserve Board (FRB) to ensure consistency in the regulatory review of large, syndicated credits, as well as to identify risk in this market, which comprises a large volume of domestic commercial lending. In 2018, outstanding credit commitments identified in the SNC Program totaled \$4.4 trillion. The FDIC, OCC, and FRB report the results of their review in an annual, joint public statement.

In the first quarter of 2018, the Large Bank Supervision Branch completed a horizontal credit-risk rating assessment at 16 large FDIC-supervised institutions to evaluate transparency and effectiveness of their internal credit risk rating systems. The findings of this horizontal assessment were summarized in a *Supervisory Insights* article published in September 2018.<sup>2</sup>

## Operational Risk Supervision Program

### *Information Technology and Cybersecurity*

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

The FDIC continued to enhance its IT supervision in 2018. Examiners used the Information Technology Risk Examination Program (InTREx), which includes cybersecurity components, to conduct IT examinations. Examiners provided results and recommended actions to institutions to address IT, cybersecurity, and other operational risks. During the year, the FDIC also analyzed the effectiveness and efficiency of this examination program by reviewing workpapers and reports of examination comments. Together with the Federal Reserve and the Conference of State Bank Supervisors, adjustments to InTREx are being considered and implemented. In addition, the FDIC held an IT Security Training Conference to provide continuing education to RMS IT subject matter experts and IT examiners on risks facing the industry, and examination policy.

In October 2018, the FDIC and other FFIEC members conducted a webinar and published a *Cybersecurity Resource Guide for Financial Institutions* to raise awareness about the importance of cybersecurity. The webinar provided an overview of the resource guide, and featured a guest speaker from the Department of Homeland Security National Cybersecurity and Technical Services (NCATS) team who provided information on the NCATS' Cyber Hygiene program. This program's goal is to secure internet-accessible systems by continuously scanning

<sup>2</sup> Sandra Macias, "Credit Risk Grading Systems: Observations From a Horizontal Assessment," *Supervisory Insights* 15 no. 1, Summer 2018, <https://www.fdic.gov/regulations/examinations/supervisory/insights/sisum18/si-summer-2018-article02.pdf>.

for known vulnerabilities and configuration errors at no cost to financial institutions.

In October 2018, the FDIC also published new vignettes for *Cyber Challenge: A Community Bank Cyber Exercise*. *Cyber Challenge* is a series of video vignettes and discussion material that can help bank management and staff learn more about operational risk and mitigation techniques.

The FDIC, OCC, and FRB also examine IT and other operational components of service providers that support financial institutions via the continued implementation of the Cybersecurity Examination Program. During 2018, the agencies completed a horizontal interconnectivity review, as well as individual cybersecurity reviews at all significant service providers.

The FDIC continues to actively engage with both the public and private sectors to assess cybersecurity and other operational risk issues. This work includes regular meetings with the Financial and Banking Information Infrastructure Committee (FBIIC), the Financial Services Sector Coordinating Council for Critical Infrastructure Protection, the Department of Homeland Security, the Financial Services Information Sharing and Analysis Center, other regulatory agencies, and law enforcement to share information regarding emerging issues and coordinate responses.

The FDIC played a significant role in organizing FBIIC incident management communication related to areas affected by hurricanes Florence and Michael. The FDIC also actively participated in FBIIC working groups to better understand the financial sector's vulnerability to a cybersecurity incident, and consider ways to harmonize cybersecurity supervisory efforts.

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

In 2018, the FDIC and the other federal banking agencies issued examination procedures for the customer due diligence and beneficial ownership

rules, which were effective May 11. These procedures supersede similar examination instructions and procedures in the 2014 version of the FFIEC *BSA/AML Examination Manual*.

The FDIC, other federal banking agencies, and Financial Crimes Enforcement Network (FinCEN) evaluated opportunities to increase the efficiency and effectiveness of the BSA/AML examination process. During the year, these agencies issued two statements. The first statement discussed how banks with a community focus, less-complex operations, and lower risk profiles may share BSA resources. The second statement expressed support for banks' innovative efforts with respect to BSA/AML compliance.

### **Cyber Fraud and Financial Crimes**

The FDIC has undertaken a number of initiatives in 2018 to protect the banking industry from criminal financial activities. For example, the FDIC developed, sponsored, and presented a financial crimes conference that was attended by examiners, lawyers, other interested personnel from the FDIC, other banking agencies, and law enforcement agencies. The FDIC also helped financial institutions identify and shut down "phishing" websites that attempt to fraudulently obtain an individual's confidential personal or financial information. Finally, the FDIC published an article titled "Beware of ATM, Debit and Credit Card 'Skimming' Schemes" in the Winter 2018 edition of the *Consumer News*.<sup>3</sup>

### **Examiner Training and Development**

Examiner training continued to receive high priority and attention in 2018 on multiple fronts. The FDIC strives to deliver effective and efficient on-the-job, classroom, and computer-based instruction. A cadre of highly trained and skilled instructors provides classroom learning to FDIC examination staff, as well as staff of regulatory partners from international and state agencies. Oversight of the training program is provided by senior and mid-level management to ensure that content and delivery are effective,

<sup>3</sup> "Beware of ATM, Debit, and Credit Card 'Skimming' Schemes," *FDIC Consumer News*, Winter 2018, <https://www.fdic.gov/consumers/consumer/news/cnwin18/cardskimming.html>.

appropriate, and current. The FDIC works in collaboration with partners across the organization and with the FFIEC to ensure that emerging risks and topics are incorporated and conveyed timely. Examination staff at all levels benefit from targeted and tenure-appropriate content. The FDIC also recognizes the critical role peer-to-peer knowledge transfer plays in preserving institutional knowledge and experience, and encourages opportunities for employees to learn from each other.

The FDIC has undertaken a multi-year project to expand and strengthen its examiner development programs for specializations, such as IT, BSA/AML, trust, capital markets, and accounting. As banks become more specialized, enhancing examiner skills in these areas is key to ensuring an effective examination program. The goal of this project is to standardize the skills needed to examine banks of varying levels of risk and complexity in each specialty area, and to develop on-the-job training (OJT) programs to provide opportunities for examiners to acquire higher level competencies in these specialty areas.

In 2018, the FDIC drafted specialty OJT programs in accounting, capital markets, BSA/AML, and trust. These drafts are under management review and are targeted for implementation in 2019. The agency also implemented a new intermediate IT OJT program and updated its advanced IT OJT program.

In addition, a Current Expected Credit Losses (CECL) Examiner Training and Development Plan was launched in 2018 to begin a multi-year initiative to ensure examination staff understands the requirements of the new credit losses accounting standard and are consistent in conveying the FDIC's expectations with respect to banks' CECL implementation efforts.

## Minority Depository Institution Activities

The preservation of minority depository institutions (MDI) remains a high priority for the FDIC. In 2018, the FDIC continued to promote and support MDI and Community Development Financial Institution (CDFI) industry-led strategies for success.

These strategies include increasing collaboration between MDI and CDFI bankers and other financial institutions; partnering to share costs, raise capital, or pool loans; and making innovative use of available federal programs. The FDIC supports this effort by providing outreach, education and training, and technical assistance to MDI and CDFI banks.

During 2018, the FDIC led discussions with MDI bankers and its Advisory Committee on Community Banking (CBAC) about the FDIC's Resource Guide for Collaboration with Minority Depository Institutions. This guide, published in December 2017, encourages collaboration among MDIs and between MDIs and other institutions. The publication describes some of the ways that financial institutions, including community banks, can partner with MDIs to the benefit of all institutions involved, as well as the communities they serve. 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 2018, the FDIC began preparations to host roundtables and other events that would enable MDIs to engage with potential collaboration partners in 2019.

The FDIC added additional minority bankers to its CBAC to bring more diverse perspectives and input to these discussions. In addition, the agency began updating its 2014 study, "Minority Depository Institutions: Structure, Performance, and Social Impact," for publication in 2019. In support of its statutory goal to preserve the minority character in mergers and acquisitions, the FDIC hosted outreach sessions with MDI bankers to provide an overview of the process for bidding on failed minority banks, and to offer technical assistance to banks desiring to place a bid on a failed MDI franchise. The FDIC also began planning for the 2019 Interagency Minority Depository Institution and CDFI Bank Conference, which the FDIC will host in collaboration with the OCC and FRB.

The FDIC also continuously pursued efforts to improve communication and interaction with MDIs

and to respond to the concerns of minority bankers in 2018. The agency maintains active outreach with MDI trade groups and offers to arrange annual meetings between FDIC regional management and each MDI's board of directors to discuss issues of interest. The FDIC routinely contacts MDIs to offer return visits and technical assistance following the conclusion of FDIC safety and soundness, compliance, CRA, and specialty examinations to help bank management understand and implement examination recommendations. These return visits, normally conducted within 90 to 120 days after the examination, are intended to provide useful recommendations or feedback for improving operations, not to identify new issues.

The FDIC's website invites inquiries and provides contact information for any MDI to request technical assistance at any time.

In 2018, the FDIC provided 149 individual technical assistance sessions on nearly 50 risk management and compliance topics, including:

- ◆ Accounting,
- ◆ Bank Secrecy Act and Anti-Money Laundering,
- ◆ Community Reinvestment Act,
- ◆ Funding and liquidity,
- ◆ Information technology risk management and cybersecurity,
- ◆ Third-party oversight, and
- ◆ Troubled debt restructuring.

The FDIC also held outreach, training, and educational programs for MDIs through conference calls and regional banker roundtables. In 2018, topics of discussion for these sessions included many of those listed above, as well as collaboration and partnerships, capital markets, cybersecurity, liquidity risk, and Ombudsman services. In addition, the FDIC assisted four MDIs in the early termination of Shared Loss Agreements related to the purchase of failed bank franchises during the crisis.

## Mutual Institution Activities

In July 2018, the FDIC and OCC co-hosted the 2018 Joint Mutual Forum, which was open to all mutual banking institutions regardless of charter type. Mutually owned institutions represent about 9 percent of all FDIC-insured institutions and are among the oldest form of depository institution. Attended by approximately 135 participants, the forum provided an opportunity for mutual bankers to learn about current trends and engage in a dialogue on the strengths of and challenges facing mutual institutions. The forum opened with remarks by FDIC Chairman Jelena McWilliams and Comptroller of the Currency Joseph M. Otting and featured presentations and banker panels covering topics of interest relating to the mutual industry. Key sessions focused on: Being a Mutual in Today's Financial Services Environment, Strategic Thinking: Liquidity and Interest Rate Risk Management, a 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.

## SUPERVISION POLICY

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

### Risk-Focused Supervision Program

During 2018, RMS undertook initiatives to enhance its risk-focused supervision programs, including a study of post-crisis bank failures, and an in-depth evaluation of examination processes.

RMS studied post-crisis bank failures for lessons that could be used to enhance risk-focused supervision activities going forward. The study reinforced the importance of a comprehensive and vigilant approach to continuous risk-focused, forward-looking supervision. As a result, case study analyses were presented to supervisory staff, and training sessions were held to communicate lessons learned from the

study that would help examiners identify deficiencies or weaknesses and work with institutions to correct their root causes.

The FDIC also initiated an Examination Workstream project to review risk-focused examination practices. The Conference of State Bank Supervisors (CSBS) participated in the initiative, which also leveraged feedback from other sources, and developed numerous recommendations to enhance the risk-focused supervision program.

## Current Expected Credit Losses Implementation

In June 2016, the Financial Accounting Standards Board (FASB) introduced the CECL methodology for estimating allowances for credit losses, replacing the current incurred-loss methodology.

Since then, the FDIC has worked collaboratively with the other federal banking agencies, the FASB, the Securities and Exchange Commission (SEC), and the CSBS to answer questions regarding the implementation of CECL.

- ◆ In February 2018, the FDIC and FRB, in conjunction with the FASB, SEC, and CSBS, jointly hosted two CECL webinars—one for examiners and another for bankers—entitled “Practical Examples of How Smaller, Less Complex Community Banks Can Implement the Current Expected Credit Losses Methodology.” The webinars addressed loan loss rate methods that such institutions can use to implement CECL, as well as related data considerations and controls. The banker webinar had more than 8,000 participants. Materials have been archived for viewing, and a transcript of the banker webinar is available.
- ◆ In May 2018, the FDIC, FRB, and OCC issued a notice of proposed rulemaking (the CECL NPR), that proposed a revision to the regulatory capital rules for the implementation of, and capital transition to, the CECL methodology.

- ◆ In July 2018, the three banking agencies, together with the FASB, SEC, and CSBS, conducted a Q&A webinar that addressed various CECL questions the agencies have received from community bankers. The July webinar had more than 3,300 participants. The webinar materials and a transcript of the presentation have also been archived for viewing.

In September 2018, the FDIC, jointly with the other federal banking agencies, published a *Federal Register* notice requesting comment on proposed revisions to the Call Report and other regulatory reports to address, among other things, changes in the accounting for credit losses under the CECL methodology. The notice also proposed changes to the Call Report’s regulatory capital schedule and changes to another report to align these reports with the agencies’ May 14, 2018, CECL NPR. The agencies issued the CECL final rule in December 2018. The final rule allows banks to transition the day one effects of the CECL accounting standard on regulatory capital over three years. The final rule also revises the agencies’ regulatory capital rule and other rules to take into consideration differences between the new accounting standard and existing U.S. generally accepted accounting principles.

## Alternative Reference Rates

The FDIC, along with the other FFIEC members, launched an initiative to raise awareness and educate supervised financial institutions and examiners about reference rate alternatives to the London Inter-bank Offered Rate (LIBOR). The FFIEC members hosted an introductory webinar in December 2018, and plan to follow with additional outreach via webinars and other efforts as new information develops.

## Credit Risk, Liquidity Risk, and Interest-Rate Risk

Loan volume continues to grow as the economy expands for the tenth consecutive year. A large majority of insured institutions grew their loan

portfolios over the past year, and some institutions have further increased existing concentrations. Loan growth accompanied by a reduction in holdings of liquid assets and increased reliance on funding sources other than traditionally stable deposits is particularly prevalent among institutions with rising or elevated concentration levels. These trends have the potential to give rise to heightened credit and liquidity risk.

While interest rates are beginning to rise, asset maturities remain lengthened. A lengthy period of historically low interest rates and tightening net interest margins created incentives for insured depository institutions to reach for yield in their lending and investment portfolios by extending portfolio durations, potentially increasing their vulnerability to interest-rate risk. Banks must continue to be diligent in their efforts to identify, manage, and monitor credit risk, liquidity risk, and interest-rate risk.

Through regular on-site examinations and interim contacts with state nonmember institutions, FDIC staff regularly engages in dialogue with institution management to ensure that their policies to manage credit risk, liquidity risk, and interest-rate risk are effective. Where appropriate, FDIC staff works with institutions that have significant exposure to these risks and encourages them to take appropriate risk-mitigating steps. The FDIC uses off-site monitoring to help identify institutions that may have heightened exposure to these risks, and follows up with them to better understand their risk profiles.

Throughout 2018, the FDIC conducted outreach and offered technical assistance regarding these risk issues, including *Supervisory Insights* articles on credit risk grading systems and on the risk management practices of insured banks active in oil and gas lending. In addition, FDIC examiners now devote additional attention during the examination process to assessing how well banks are managing the risks associated with concentrations in credit exposures and funding sources. The findings of these assessments are shared with bank management in the Report of Examination.

## Industry Guidance

### *Interagency Statement on Accounting and Reporting Implications of the New Tax Law*

In January 2018, the FDIC, jointly with the FRB and OCC, issued an interagency statement containing guidance on the accounting implications of the new tax law, which was enacted on December 22, 2017, and related matters. The statement provided instructions on the application of FASB Accounting Standards Codification (ASC) Topic 740, “Income Taxes,” and did not represent new rules or regulations of the agencies. The changes enacted in the new tax law were relevant to financial statements and regulatory reports, such as the Call Report and the Consolidated Financial Statements for Holding Companies (FR Y-9C Report).

### *Interagency Statement Clarifying the Role of Supervisory Guidance*

In September 2018, the FDIC, jointly with the FRB, OCC, National Credit Union Administration (NCUA), and Consumer Financial Protection Bureau (CFPB), issued an interagency statement explaining the role of supervisory guidance and describing the agencies’ approach to supervisory guidance. The statement reaffirmed the purpose of supervisory guidance to articulate the agencies’ general views regarding appropriate practices for a given subject area. Unlike a statute or regulation, supervisory guidance does not have the force and effect of law, and the agencies do not take enforcement actions based on supposed “violations” of supervisory guidance.

### *Regulatory Relief*

During 2018, the FDIC issued 13 FILs to provide guidance to financial institutions in areas affected by hurricanes, tornadoes, flooding, wildfires, and other severe storms, and to facilitate recovery. In these FILs, the FDIC encouraged banks to work constructively with borrowers experiencing financial difficulties as a result of natural disasters, and clarified that prudent extensions

or modifications of loan terms in such circumstances can contribute to the health of communities and serve the long-term interests of lending institutions.

## **Rulemakings to Implement the Economic Growth, Regulatory Relief, and Consumer Protection Act**

In May 2018, the EGRRCPA was signed into law, and the FDIC immediately began efforts to implement various provisions of the new law.

### ***Community Bank Leverage Ratio***

In November 2018, the FDIC, OCC, and FRB issued a notice of proposed rulemaking to implement Section 201 of EGRRCPA to establish a leverage ratio for qualifying community banks. If a qualifying community bank exceeds this leverage ratio, it would be deemed to meet the generally applicable leverage and risk-based capital requirements and the well-capitalized ratio requirements under the prompt corrective action framework. Comments will be accepted for 60 days following publication in the *Federal Register*.

In December 2018, the FDIC published a notice of proposed rulemaking to amend the deposit insurance assessment system to address the application of the leverage ratio for qualifying community banks. Comments will be accepted for 60 days following publication in the *Federal Register*.

### ***Appraisal Threshold for Residential Real Estate Loans***

In December 2018, the FDIC, OCC, and FRB published a proposed rule to amend the agencies' regulations requiring appraisals for certain real estate-related transactions. The proposed rule would raise the threshold from \$250,000 to \$400,000 at which appraisals would be required for residential real estate-related transactions. The proposed rule would also make conforming changes to exempt certain transactions secured by residential property in rural areas from the agencies' appraisal requirement

pursuant to the EGRRCPA. Pursuant to the Dodd-Frank Act, the proposed rule would amend the agencies' appraisal regulations and require institutions to review appraisals for federally related transactions for compliance with the Uniform Standards of Professional Appraisal Practice. The comment period closed on February 5, 2019.

### ***Reciprocal Deposits***

Section 202 of EGRRCPA amended Section 29 of the FDI Act with respect to reciprocal brokered deposits. On September 12, 2018, the FDIC approved an NPR on the treatment of reciprocal deposits to conform Section 337.6 of the FDIC Rules and Regulations to Section 202. The NPR was published in the *Federal Register* on September 26, 2018. The 30-day comment period closed on October 26, 2018.

After reviewing the 13 comments received, the FDIC Board approved a final rule on December 18, 2018, for publication in the *Federal Register*. This final rule adopts the NPR as proposed.

The final rule incorporates the Section 202 statutory language into the regulation. In summary, the final rule provides an exception for a capped amount of reciprocal brokered deposits from treatment as brokered deposits for certain IDIs, and confirms that the current statutory and regulatory rate restrictions for less than well-capitalized institutions apply to reciprocal deposits that are excepted from treatment as brokered deposits. The final rule also includes conforming amendments to the insurance assessment regulations, Part 327 of the FDIC Rules and Regulations, to be consistent with the statutory definition of reciprocal deposits.

### ***Volcker Rule***

In December 2018, the FDIC, OCC, FRB and SEC issued an NPR to implement Section 203 of EGRRCPA. Section 203 amends Section 13 of the Bank Holding Company Act to create an exclusion for certain banks and their holding companies from the prohibitions of the Volcker Rule. To qualify,

neither the IDI nor any controlling company may have more than \$10 billion in total consolidated assets, or total trading assets and trading liabilities of more than 5 percent of total consolidated assets, as reported on the most recent regulatory filing. The NPR would also implement Section 204 of EGRRCPA to amend the restrictions applicable to the naming of a hedge fund or private equity fund to permit certain banking entities that are not banks or bank holding companies to share a name with the fund under certain circumstances. Comments will be accepted for 30 days following publication in the *Federal Register*.

### **Short Form Call Reports**

In November 2018, the FDIC, together with the FRB and OCC, published in the *Federal Register* an NPR to implement Section 205 of EGRRCPA, that would increase the existing asset-size limit from less than \$1 billion to less than \$5 billion for eligibility to file the streamlined FFIEC 051 Call Report, provided other criteria are met, and establish reduced reporting for all IDIs that file this version of the Call Report.

To further reduce reporting requirements in the FFIEC 051 Call Report, the agencies also proposed exempting approximately 37 percent of data items from being reported in the FFIEC 051 Call Report in the first and third quarters. The principal areas proposed for reduced reporting include data items related to categories of risk-weighting of various types of assets and other exposures under the agencies' regulatory capital rules, fiduciary and related services assets and income, and troubled debt restructurings by loan category. As of June 30, 2018, almost 90 percent of IDIs reported less than \$1 billion in total assets and were already eligible to file the FFIEC 051 Call Report based on asset size. By raising the threshold for filing the FFIEC 051 to less than \$5 billion in total assets, approximately 95 percent of all IDIs would be eligible to file this streamlined Call Report. The 60-day comment period closed on January 18, 2019.

### **Expanded Examination Cycle**

In December 2018, the FDIC, FRB, and OCC jointly published final rules to expand the examination cycle for certain small IDIs and U.S. branches and agencies of foreign banks. The final rules did not differ from the interim rules that were published in the *Federal Register* on August 29, 2018.

Section 210 of the EGRRCPA raised the asset-size threshold for the 18-month examination cycle from less than \$1 billion in assets to less than \$3 billion in assets for certain well-capitalized and well-managed IDIs with an “outstanding” composite condition, and gave the agencies discretion to similarly raise this threshold for certain IDIs with an “outstanding” or “good” composite condition. The agencies exercised this discretion and issued final rules that, in general, make qualifying IDIs with less than \$3 billion in total assets eligible for an 18-month (rather than a 12-month) examination cycle.

To qualify, IDIs must have a CAMELS composite rating of “1” or “2,” and be well-capitalized, well-managed, not subject to a formal enforcement proceeding, and must not have undergone any change in control during the previous 12-month period. The rule also applies to qualifying U.S. branches or agencies of a foreign bank.

Since BSA compliance programs are required to be reviewed during safety and soundness examinations, institutions with assets up to \$3 billion that are now eligible for the 18-month safety-and-soundness examination cycle will also generally be subject to less frequent BSA reviews.

### **High Volatility Commercial Real Estate**

The FDIC worked with the FRB and OCC to issue an NPR, published in the *Federal Register* on September 28, 2018, to incorporate the new definition of high-volatility commercial real estate acquisition, development or construction loan included in Section 214 of EGRRCPA. The 60-day comment period ended on November 27, 2018.

### ***Liquidity Coverage Ratio Rule: Treatment of Certain Municipal Obligations as High-Quality Liquid Assets***

Section 403 of EGRRCPA amended Section 18 of the FDI Act, requiring the FDIC, OCC, and FRB (collectively, the agencies) to amend their liquidity coverage ratio (LCR) rules, and any other regulation that incorporates a definition of the term “high-quality liquid asset” (HQLA), to treat a municipal obligation as HQLA that is a level 2B liquid asset if the obligation, as of the calculation date, is liquid and readily-marketable and investment grade. On August 31, 2018, the agencies published an interim final rule in the *Federal Register* in compliance with Section 403. The comment period for the interim final rule closed October 1, 2018. The agencies are reviewing the comments received.

### **Other Rulemakings**

#### ***Removal of Credit Ratings from International Banking Regulations***

In March 2018, the FDIC published a final rule amending its international banking regulations related to permissible investment activities and the pledging of assets. The final rule removes references to “external credit ratings” and replaces them with “appropriate standards of creditworthiness.” The changes in the FDIC Rules and Regulations Part 347, Subparts A and B, are consistent with Section 939A of the Dodd-Frank Act.

#### ***Securities Transaction Settlement Cycle***

In June 2018, the FDIC and OCC published a final rule to amend the rules to generally require supervised institutions to settle securities transactions within the number of business days in the standard settlement cycle followed by registered broker dealers in the United States. The final rule, which became effective on October 1, 2018, responds to an industry-wide shift in the standard settlement cycle from three days after the trade date (“T+3”) to two days (“T+2”), as mandated by the SEC’s recent amendments to SEC Rule 15c6-1(a). By requiring FDIC-supervised

institutions to settle securities transactions within the standard settlement cycle as provided in SEC Rule 15c6-1(a), the final rule effectively conforms the FDIC’s rules to the current T+2 and accommodates future shifts in the standard settlement cycle.

#### ***Proposed Changes to Applicability Thresholds for Regulatory Capital Requirements and Liquidity Requirements***

In December 2018, the FDIC, FRB, and OCC published an NPR that would establish a revised framework for applying the regulatory capital rule, liquidity coverage ratio rule, and proposed net stable funding ratio rule. Under the proposal, application of the rules would depend on the risk profile of each large U.S. banking organization and its subsidiary institutions. The proposal would establish four categories of standards for banking organizations with total assets of \$100 billion or more, and would apply capital and liquidity requirements tailored for banking organizations subject to each category. The 30-day comment period ended on January 22, 2019.

#### ***Modifications to the Statement of Policy for Section 19***

On July 19, 2018, after considering public comments, the FDIC Board of Directors approved modifications to the Statement of Policy for Section 19 of the Federal Deposit Insurance Act to revise the criteria that define *de minimis* offenses, clarify existing statements, and remove outdated references to the Office of Thrift Supervision. The modifications are intended to reduce regulatory burden, promote public awareness of the law, and decrease the number of covered offenses that will require an application. In addition, the FDIC revised the Section 19 application form and published an informational brochure: “Your Complete Guide to Section 19.” The modifications to the statement of policy, revised application form, and informational brochure were announced in FIL-68-2018.

#### ***Brokered Deposits***

The FDIC continues to receive questions about the application of the brokered deposit regulation (Section 337.6 of the FDIC Rules and Regulations). Except

for the December 2018 update for reciprocal deposits, FDIC last amended its brokered deposit regulation – specifically the interest rate restrictions– in 2009. Since that time, technology, law, business models, and product ranges have evolved. In order to determine what additional changes to Section 337.6 may be warranted, the FDIC approved an Advance NPR on December 18, 2018, to seek comment on the brokered deposit regulation more generally. The comment period will end 90 days after publication in the *Federal Register*.

## FINANCIAL TECHNOLOGY

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

### Center for Financial Research

The FDIC’s Center for Financial Research (CFR) encourages, supports, and conducts innovative research on topics that inform the FDIC’s key functions of deposit insurance, supervision, and the resolution of failed banks. CFR researchers produced a number of new and innovative working papers in 2018. Many of these were published in leading banking, finance, and economics journals, and presented in banking and finance seminars at major conferences, regulatory institutions, and universities.



*FDIC Chairman Jelena McWilliams delivers opening remarks at the 18th Annual Bank Research Conference.*

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

In September 2018, the CFR and the *Journal of Financial Services Research* jointly sponsored the 18th Annual Bank Research Conference. FDIC Chairman Jelena McWilliams kicked-off the conference by highlighting the importance of research in supporting the FDIC’s role in maintaining stability and public confidence in the nation’s financial system. The conference has become a premier forum in its field. Conference organizers received more than 450 submissions for the 26 available presentation slots, and approximately 220 participants attended. Discussion sessions focused on tradeoffs in bank regulation, segmentation of the lending markets, FinTech, and depositor reactions to increased risk at banks, among other things.

In October 2018, the CFR published the *Small Business Lending Survey*, which presented findings from a nationally representative survey of U.S. banks



about their small business lending practices. The report provided new information about the amount of loans that banks extend to small businesses; how banks engage with their small business customers, including start-ups; the competitive environment for

small business loans; and how banks of different sizes compete in the small business lending market. Presentations of the findings were made to banking organizations and regulatory agencies, and the full report is available at <https://www.fdic.gov/sbls>.

## FDIC Emerging Technology Steering Committee

The FDIC's Emerging Technology Steering Committee, supported by two staff-level subcommittees, continues to monitor and assess the various dimensions of emerging technology developments. The committee is comprised of the Directors of RMS, DCP, Division of Insurance and Research (DIR), Division of Resolutions and Receiverships (DRR), and the Office of Complex Financial Institutions (OCFI), as well as the General Counsel, the Chief Risk Officer, and the Chief Information Officer.

In 2018, the Emerging Technology Steering Committee continued work on its established objectives:

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

In May 2018, the FDIC hosted a forum on the Use of Technology in the Business of Banking. The forum brought together a range of stakeholders, including banks, technology firms, financial technology (fintech) firms, trade associations, consumer groups, and other regulators, to explore emerging technology issues, specifically as they relate to the business of banking. The goals of the forum were to better understand emerging technologies that banks are using or considering for future use; gain a deeper understanding of how banks are leveraging (or

can leverage) those emerging technologies to seize opportunities for their business and their customers, as well as methods to mitigate risks; and facilitate candid discussion of emerging issues related to the use of financial technology in banking. Panelists represented banks of all sizes, from small community banks to large banks, as well as other firms and organizations involved with emerging technology. Together, they offered a range of perspectives on many new technologies and the associated opportunities and potential risks.

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

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

## FinTech Legal Group

In 2018, the General Counsel announced a Legal Division initiative and formed a FinTech Legal Group comprised of attorneys from across the Division. The initiative will support the Legal Division and the FDIC, including its internal agency working groups with respect to emerging and novel legal issues arising from new digital and other forms of technology. In particular, the FinTech Legal Group considers developments that may transform the traditional banking business model, operations, systems, and vendor and consumer relationships; impact application of current laws and regulations; affect the risk profiles of FDIC-insured and FDIC-supervised institutions; and introduce new considerations in resolving failed institutions.

## COMMUNITY BANKING INITIATIVES

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

As defined for FDIC research purposes, community banks made up 92 percent of all FDIC-insured institutions at mid-year 2018. While these banks 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. They hold 42 percent of the industry's small loans to farmers and businesses, making them the lifeline to entrepreneurs and small enterprises of all types, and they hold the majority of bank deposits in U.S. rural counties and micropolitan counties with populations up to 50,000. In fact, as of June 2018, 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.

In 2012, the FDIC launched a Community Banking Initiative to better understand and support these institutions. As part of the initiative, the FDIC publishes research on issues of importance to community banks, and provides them with resources to manage risk, enhance the expertise of their staff, and adapt to changes in the regulatory environment.

### **Community Banking Research**

The FDIC pursues an ambitious, ongoing agenda of research and outreach focused on community banking issues. Since the 2012 publication of the *FDIC Community Banking Study*, FDIC researchers have published more than a dozen additional studies on topics ranging from small business financing to the factors that have driven industry consolidation over the past 30 years.

The *FDIC Quarterly Banking Profile* (QBP) includes a section focused specifically on community bank

performance, providing a detailed statistical picture of the community banking sector that can be accessed by analysts, other regulators, and bankers themselves. The most recent report shows that net income at community banks continued to grow at a healthy annual rate in the first three quarters of 2018.

The long-term trend of consolidation has done little to diminish the role of community banks in the banking industry. More than three-quarters of the community banks that merged in 2017 and early 2018 were acquired by other community banks. On a merger adjusted basis, loan growth at community banks exceeded growth at noncommunity banks in every year between 2012 and 2017. (See Chart 1 on Page 29.) From June 2017 to June 2018, currently operating noncommunity banks closed far more offices than they acquired. In contrast, currently operating community banks acquired offices and opened still more offices, on net, during the year. (See Table 1 on page 29.)

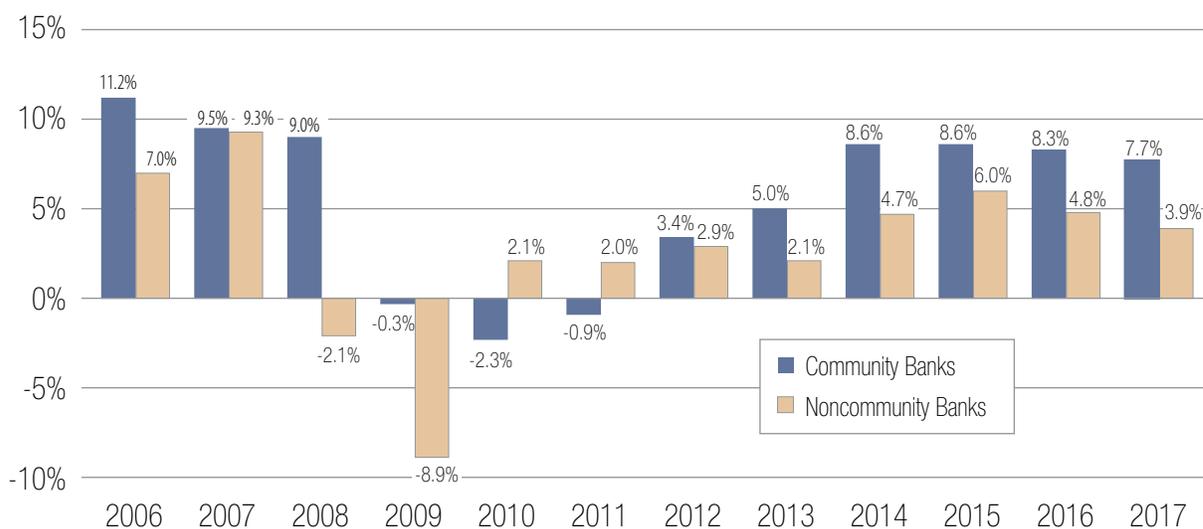
### **Community Bank Advisory Committee**

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 twice during 2018, is composed of as many as 18 community bank CEOs from around the country. It is a valuable resource for information on a wide range of topics, including examination policies and procedures, capital and other supervisory issues, credit and lending practices, deposit insurance assessments and coverage, and regulatory compliance issues.

At the July 2018 meeting, DIR discussed the current financial performance of community banks, and how selected risk indicators compare to those seen before the financial crisis. As compared to the pre-crisis years, community banks have higher capital ratios than noncommunity banks, and far fewer of community banks have extremely high concentrations in construction lending. The presenters also noted, however, that community banks are holding generally more loans, fewer liquid assets, and face potential pressures on deposit costs as interest rates increase.

### CHART 1: COMMUNITY BANK LOAN GROWTH HAS EXCEEDED GROWTH AT NONCOMMUNITY BANKS FOR SIX CONSECUTIVE YEARS

Merger Adjusted Annual Growth in Total Loans and Leases  
2006-2017



Source: FDIC. All calculations are merger adjusted.

**TABLE 1. COMMUNITY BANKS ADDED OFFICES WHILE NONCOMMUNITY BANKS CLOSED OFFICES FROM JUNE 2017 TO JUNE 2018**

	Offices of the June 2018 Group of Institutions in June 2017	Offices of Banks Acquired	Number of Offices in June 2017 Merger-adjusted	New Offices Opened	Offices Closed	Net Offices Purchased or Sold	Number of Offices in June 2018
<b>Community Banks</b>	29,832	619	30,451	585	500	15	30,551
<b>Noncommunity banks</b>	57,886	1,481	59,367	404	2,254	-15	57,502
<b>TOTAL</b>	<b>87,718</b>	<b>2,100</b>	<b>89,818</b>	<b>989</b>	<b>2,754</b>	<b>0</b>	<b>88,053</b>

Source: FDIC

Committee members indicated that deposit pricing pressures had been relatively modest, but that further interest rate increases could begin to pressure their deposit costs.

#### **De Novo Banks**

In 2018, the FDIC pursued multiple initiatives to fulfill its commitment to working with, and providing support to, any group with interest in starting a bank.

In general, these initiatives focused on reviewing and, as appropriate, updating the processes, procedures, and management systems by which the FDIC receives, reviews, and acts on applications.

Most significantly, in December 2018, the FDIC announced new measures to promote a more transparent, streamlined, and accountable process for all *de novo* applications submitted to the agency. Specifically, the FDIC issued a Request

for Information soliciting comments on the deposit insurance application process, including the transparency and efficiency of the process, and any unnecessary burdens that impede the process.

The agency also established a process to receive and review draft deposit insurance proposals. This process will help organizers of new financial institutions by providing an early opportunity for both the FDIC and organizers to identify potential challenges with respect to the statutory criteria, areas that may require further detail or support, and potential issues or concerns. It will also promote a more transparent and efficient deposit insurance application process. The FDIC also established an Applications Mailbox as an additional means by which bankers and other applicants may pose questions regarding a specific application or the application process.

Other measures to support *de novo* formation, included:

- ◆ Re-publishing time frame guidelines for processing applications, notices, requests, and other filings submitted on behalf of proposed and existing institutions and other parties to help applicants in their planning.
- ◆ Updating the *Applying for Deposit Insurance – A Handbook for Organizers of De Novo Institutions*. The handbook was designed to help organizers become familiar with the deposit insurance application process.
- ◆ Updating the *Deposit Insurance Applications Procedures Manual*. The manual provides comprehensive instruction to staff regarding the review and processing of deposit insurance applications.

### **Technical Assistance Program**

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

In 2018, the FDIC hosted Directors' College events in five 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, BSA, and interest-rate risk, among other topics.

The FDIC also offers a series of banker events, in order to maintain open lines of communication and to keep bank management and staff up-to-date on important banking regulatory and emerging issues of interest to community bankers. In 2018, the FDIC offered 11 teleconferences or webinars focused on the following topics:

- ◆ Understanding Reasonably Expected Market Area (REMA) and Community Reinvestment Act (CRA) Assessment area,
- ◆ Liquidity and funding risk management,
- ◆ Current Expected Credit Losses (CECL) accounting methodology,
- ◆ The impact of rising interest rates on asset/liability management,
- ◆ *Money Smart for Small Businesses*,
- ◆ Regulatory and accounting update,
- ◆ Common exam findings,
- ◆ Update on compliance and CRA, and
- ◆ Information sharing on standardized export of imaged loan documents.

In October 2018, the FDIC hosted a teleconference to provide information about EGRRCPA implementation, and to answer questions. The call was part of the FDIC's consumer compliance teleconference and webinar series, which allows the FDIC to communicate important information to supervised institutions on a variety of topics and to respond to industry questions.

In November 2018, the FDIC hosted another teleconference to discuss results of the *2017 National Survey of Unbanked and Underbanked Households*. During this call, participants also discussed economic

inclusion resources pertinent to community banks, including the *Money Smart for Adults* financial education program, and CRA consideration for activities that benefit underserved communities.

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

The Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) directs the federal banking agencies and the FFIEC to conduct a joint review of regulations every 10 years to determine whether any of those regulations are outdated or unnecessary.

In March 2017, the FFIEC submitted a report to Congress that described actions the agencies had already taken to address comments received during the EGRPRA process as well as actions the agencies planned to take in the future. During 2018, the FDIC along with the other FFIEC member agencies, continued to work together to reduce burden in the following areas raised during the EGRPRA review process.

#### ◆ **Capital Simplification Proposal**

In 2017, the federal banking agencies issued an NPR to seek comment on simplifications to the capital framework as part of the agencies' EGRPRA efforts. Parts of the proposed rulemaking was superseded by certain capital framework provisions of the Economic Growth, Regulatory Relief and Consumer Protection Act. As a result, the federal banking agencies issued in September 2018 an NPR to seek comment on implementation of the revised statutory definition of High Volatility Commercial Real Estate and issued in November 2018 an additional NPR to seek comment on the leverage ratio for qualifying community banks. FDIC staff, along with the staff of other federal banking agencies, continued to review comments received in response to the 2017 NPR to simplify the capital rules for small banks not eligible for the community bank leverage ratio, including the regulatory capital treatment of mortgage servicing assets, deferred tax assets, investments in the capital instruments

of other financial institutions, and minority interest. FDIC staff, along with the staff of other federal banking agencies, plan to put forth final rules on both of these capital simplification efforts in 2019 and explore other areas of regulatory capital rules that may be simplified or streamlined.

#### ◆ **Commercial and Residential Real Estate Appraisal Thresholds**

On April 9, 2018, the FDIC, FRB, and OCC jointly published a final rule that raised the threshold for requiring an appraisal on commercial real estate transactions from \$250,000 to \$500,000.

Similarly, on December 7, 2018, the FDIC, FRB, and OCC jointly published an NPR requesting comment on an increase in the threshold for requiring an appraisal on residential real estate transactions from \$250,000 to \$400,000.

#### ◆ **Frequently Asked Questions (FAQs) on the Appraisal Regulations and the Interagency Appraisal and Evaluation Guidelines**

In October 2018, the FDIC, FRB, and OCC jointly issued FAQs on real estate appraisals and evaluations, in response to questions raised during the EGRPRA process about the agencies' appraisal regulations and guidance. The FAQs do not introduce new policy or guidance, but instead assemble previously communicated policy and interpretations. The FAQs complement the agencies' appraisal regulations, the real estate lending standards, the *Interagency Appraisal and Evaluation Guidelines*, the *Interagency Advisory on the Use of Evaluations in Real Estate-Related Financial Transactions*, and other regulations and advisories related to appraisals and evaluations. The FAQs rescinded and replaced FAQs that the agencies previously issued in March 2005.

#### ◆ **Advisory on the Availability of Appraisers**

The FDIC, FRB, OCC, and NCUA issued an advisory that discusses two existing methods that may address appraiser shortages, particularly

in rural areas: temporary practice permits and temporary waivers. The advisory addresses concerns raised pursuant to the EGRPRA review process.

The first method, temporary practice permits, may be granted by state appraiser regulatory agencies to allow credentialed appraisers to provide their services in states experiencing a shortage of appraisers, subject to state law. Reciprocity is a widely used practice in which one state recognizes the appraiser certification and licensing of another state, permitting state-certified and -licensed appraisers to perform appraisals across state lines. The second method, temporary waivers, sets aside requirements relating to the certification or licensing of individuals to perform appraisals under Title XI of FIRREA in states or geographic political subdivisions while there is a scarcity of certified or licensed appraisers that has caused significant delays in performing appraisals. Authority to grant temporary waiver requests rests with the FFIEC's Appraisal Subcommittee, and is subject to FFIEC approval. To further communicate about the availability of the waiver process and get a deeper understanding of rural appraisal issues, the Conference of State Bank Supervisors organization arranged six roundtables between federal banking regulators, state commissioners and rural community bankers. Roundtables were held in Michigan, Tennessee, Wyoming, North Dakota, South Dakota, and Montana.

#### ◆ **Call Report Burden Reduction**

Effective with the June 30, 2018, reporting date, burden-reducing revisions were made to all three versions of the Call Report (FFIEC 051, FFIEC 041, and FFIEC 031 Call Reports). These changes were the result of multi-phase review of the data collected in all Call Report schedules, the re-evaluation of certain previously reviewed schedules, and consideration of industry comments and feedback. These changes were designed to ease reporting requirements and

lessen the reporting burden for small and large institutions.

Additionally, during 2018 the FFIEC's Task Force on Reports developed options for expanding eligibility to file the FFIEC 051 Call Report beyond the initial asset size eligibility threshold of \$1 billion. This effort included analyzing Call Report data from institutions with domestic offices only and \$1 billion or more in total assets. Section 205 of the EGRRCPA requires the banking agencies to issue regulations that allow for a reduced reporting requirement in the first and third quarter Call Reports for institutions that have less than \$5 billion in total assets and satisfy other appropriate criteria established by the agencies. An NPR to expand eligibility for filing FFIEC 051 and to reduce the quarterly reporting frequency for some items to semiannual (i.e., June and December only) was published in November 2018. As of June 30, 2018, approximately 90 percent of IDIs were eligible to file the FFIEC 051 Call Report. If the rule is finalized as proposed, approximately 95 percent of IDIs would be eligible to file the FFIEC 051 Call Report.

#### ◆ **Part 350 Disclosure of Financial and Other Information**

In October 2018, the FDIC published an NPR to rescind and remove Part 350 of its regulations, which requires insured state nonmember banks and insured state-licensed branches of foreign banks to prepare an annual disclosure statement containing specified financial information and make it available to the public. The FDIC determined that widespread access to the internet allows interested persons to readily access more extensive and timely financial information about individual institutions than an annual disclosure statement, and that the burden of providing this annual disclosure statement is no longer justified.

#### ◆ **Management Official Interlocks**

In December 2018, the FDIC, OCC, and FRB approved a proposed rule that would

increase the major assets prohibition thresholds for management interlocks in the agencies' rules implementing the Depository Institution Management Interlocks Act (DIMIA). The DIMIA major assets prohibition prohibits a management official of a depository organization with total assets exceeding \$2.5 billion (or any affiliate of such an organization) from serving at the same time as a management official of an unaffiliated depository organization with total assets exceeding \$1.5 billion (or any affiliate of such an organization). Raising the thresholds will account for changes in the U.S. banking market and inflation since the current thresholds were established in 1996, and relieve certain institutions (i.e., those below the adjusted threshold) from having to ask the agencies for an exemption from the major assets prohibition. The agencies proposed three alternative approaches to increasing the thresholds, and do not expect the proposal to materially increase anticompetitive risk.

#### ◆ **Retirement of Certain Financial Institution Letters**

Financial Institution Letters (FILs) serve as the primary tool for delivering information to financial institutions about new regulations, supervisory guidance, management tools, regulatory relief, and other subjects of interest. As part of a continuing effort to reduce regulatory burden, in December 2018, the FDIC retired 374 risk management supervision-related FILs and 119 FILs related to consumer protection that were issued between 1995 and 2017. The retired FILs were identified as being outdated or as conveying regulations or other information that is still in effect but available elsewhere on the FDIC's website.

#### ◆ **Examination Modernization**

Recognizing that regulatory burden does not emanate only from statutes and regulations, the FDIC, along with the FFIEC, continued the

FFIEC Examination Modernization project in 2018 as a follow-up to the review of regulations under EGRPRA. The project is focused on identifying ways to improve the efficiency of processes, procedures, and tools related to safety-and-soundness examinations and supervisory oversight, while maintaining the quality of the examination process.

In March 2018, the FFIEC issued an update on the Examination Modernization project, which noted that, in response to feedback from both bankers and examiners, the FFIEC would initially focus on the following measures to reduce supervisory burden:

1. Highlight and reinforce regulator communication objectives before, during, and after examinations.
2. Continue to tailor examinations based on risk.
3. Leverage technology and shift, as appropriate, examination work from on-site to off-site.
4. Improve electronic file transfer systems to facilitate the secure exchange of information between institutions and supervisory offices or examiners.

As a first step, and to address the first theme, the FDIC and other banking agencies issued a statement describing the principles of communication the agencies follow during the examination process, and committed to issue guidance to examination staff to reinforce and clarify the importance of being clear and transparent with community bankers during the examination process.

In April 2018, the FDIC conducted an information sharing session to introduce a methodology for examiners to review standardized imaged loan files off-site. This technology is designed to reduce the amount of time examiners must spend onsite during a bank examination. A pilot program began in May, and several institutions have participated.

Also in 2018, the Examination Modernization project team reviewed and compared principles and processes for risk-focusing examinations of community banks. This review concluded that the agencies have developed and implemented similar programs and processes for risk-tailoring examinations.

On November 27, 2018, the FFIEC issued a statement to update the industry on efforts to reduce supervisory burden by tailoring examinations based on risk. In this statement, the FDIC and other agencies committed to issue reinforcing and clarifying guidance to examiners on risk-focused examination principles.

#### ◆ **OTS Rule Integration**

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, former OTS rules remain in effect “until modified, terminated, set aside, or superseded in accordance with applicable law” by the relevant successor agency, a court of competent jurisdiction, or 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 them 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 April 2018, two transferred OTS rules, Prompt Corrective Action and Capital, were removed as part of Basel III implementation. Additionally, in May 2018, the FDIC issued final rules to remove two transferred OTS rules, Minimum Security Procedures and Consumer Protection in Sales of Insurance, and to make technical amendments to related FDIC rules for applicability to FDIC-supervised state banks

and savings associations. In November 2018, the FDIC issued a final rule to remove the transferred OTS rule regarding Fiduciary Powers of State Savings Associations, and to amend and revise rules regarding Consent Requirements for the Exercise of Trust Powers. The final rule makes all FDIC-supervised institutions subject to the same application procedures for obtaining consent to exercise trust powers.

Finally, in December 2018, the FDIC approved an NPR seeking comment on the removal of a transferred rule regarding lending and investment that is duplicative of standards in existing FDIC regulations. The NPR also seeks to remove rules related to the registration of residential mortgage loan originators in light of Title X of the Dodd-Frank Act, which transferred this authority to the CFPB. Staff will continue to review the remaining nine transferred regulations.

## ACTIVITIES RELATED TO SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS

The FDIC is committed to addressing the unique challenges associated with the supervision, insurance, and potential resolution of large and complex financial institutions. The agency’s ability to analyze and respond to risks in these institutions is particularly important, as they comprise a significant share of banking industry assets and deposits. We have developed a consistent approach to large bank supervision nationwide that allows us to identify, analyze, and quickly respond to industry-wide and institution-specific risks and emerging issues. The FDIC has segregated these activities in two groups to both ensure that supervisory attention is risk-focused and tailored to the risk presented by the nation’s largest banks, and to meet our 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 systematically important financial institutions (SIFIs) and nonbank financial

companies designated by FSOC. The FDIC's CFI Group and Large Bank Supervision Branch, both within RMS, perform ongoing risk monitoring of Global Systemically Important Banks (G-SIBs), large Foreign Banking Organizations (FBOs), and FSOC-designated nonbank financial companies, provide backup supervision of the firms' related IDIs, and evaluate the firms' required resolution plans. The CFI Group also performs certain analyses that support the FDIC's role as an FSOC member.

## Resolution Plans – Title I Living Wills

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

Companies subject to Title I are divided into three groups: 1) companies with \$250 billion or more in nonbank assets, 2) companies with nonbank assets between \$100 billion and \$250 billion, and 3) all other companies with total consolidated assets of \$50 billion or more.<sup>4</sup> Large bank holding companies with substantial nonbank assets file in July. Other large bank holding companies file in December.

### ***Large Bank Holding Companies with Substantial Nonbank Assets***

July filers include Bank of America Corporation, Bank of New York Mellon Corporation, JPMorgan Chase & Co., State Street Corporation, Wells Fargo & Company, Goldman Sachs Group, Inc., Morgan Stanley, and Citigroup, Inc. (collectively referred to as the eight domestic G-SIBs); and Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, and UBS AG, (collectively referred to as the four large FBOs).

The four FBOs submitted resolution plans on or before July 1, 2018. On December 18, 2018, the FDIC and FRB issued letters to the four firms providing their review findings and information about areas where additional work needs to be done to improve resolvability. The agencies also extended the next resolution plan filing deadline for FBOs from July 1, 2019, to July 1, 2020. The extensions will allow additional time for the agencies to provide feedback to the firms on their last submissions and for the firms to produce their next plans.

On July 29, 2018, the agencies issued for public comment revised resolution plan guidance for the eight domestic banking organizations. The proposed guidance updates to the agencies' expectations for how a firm's resolution strategy should address derivatives and trading activities, and payment, clearing, and settlement activities. The comment period closed on September 14, 2018. The agencies issued final guidance on December 18, 2018.

### ***Other Large Bank Holding Company Filers***

In January 2018, the FDIC, jointly with the FRB, provided feedback to 19 foreign-based banking organizations with total consolidated assets of \$50 billion or more regarding resolution plans submitted in December 2015. In March 2018, the FDIC, and FRB, provided feedback to two regional bank holding companies which submitted their resolution plans in December 2016. In May 2018, the FDIC and FRB granted an extension to 14 regional bank holding companies, extending the due date for their next resolution plan from December 2018 to December 2019.

### ***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. Prudential, Inc., the only remaining designated

<sup>4</sup> In 2018, the EGRRCPA increased the threshold for resolution plan requirements under Section 165(d) of the Dodd-Frank Act. The FDIC and FRB have announced their intention to propose amendments to current regulations and tailor certain future plan submission requirements in 2019.

nonbank at the start of 2018, was required to submit its plan on December 31, 2018, pursuant to a previous extension. However, on October 16, 2018, FSOC rescinded Prudential's designation as a SIFI.

## Insured Depository Institution Resolution Plans

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

Forty-one large insured banks covered by the IDI rule submitted their resolution plans by July 1, 2018. In the time period leading up to the submission deadline, the FDIC had undertaken measures to improve transparency and responsiveness. Specifically, the FDIC established a dedicated mailbox to receive questions and responded to more than 200 individual questions from banks, conducted three industry calls, met with one trade association, and conducted numerous meetings with individual covered IDIs. The resolution plans submitted by the IDIs have been reviewed and potential impediments to resolvability identified. Letters will be sent to the firms in early 2019.

The FDIC expects to issue an advance notice of proposed rulemaking relating to the IDI rule for public comment during the first quarter of 2019.

## Monitoring and Measuring Systemic Risks

The FDIC monitors risks related to G-SIBs and large FBOs at the firm level and industry wide to inform supervisory planning and response, policy

and guidance considerations, and resolution planning efforts. As part of this monitoring, the FDIC analyzes each company's risk profile, governance and risk management capabilities, structure and interdependencies, business operation and activities, management information system capabilities, and recovery and resolution capabilities.

The FDIC continues to work closely with the other federal banking agencies to analyze institution-specific and industry-wide conditions and trends, emerging risks and outliers, risk management, and the potential risk posed to financial stability by G-SIBs and large FBOs and non-bank financial companies. To support risk monitoring that informs supervisory and resolution planning efforts, the FDIC has developed systems and reports that make extensive use of structured and unstructured data. Monitoring reports are prepared on a routine and ad-hoc basis and cover a variety of aspects that include risk components, business lines and activity, market trends, and product analysis.

Additionally, the FDIC has implemented and continues to expand upon various monitoring systems, including the Systemic Monitoring System (SMS). The SMS provides an individual risk profile and assessment for each G-SIB and large FBO by evaluating the level and change in metrics that serve as important indicators of overall risk. The SMS supports the identification of emerging and outsized risks within individual firms and the prioritization of supervisory and monitoring activities. The SMS also serves as an early warning system of financial vulnerability. Information from SMS and other FDIC-prepared reports are used to prioritize activities relating to SIFIs and to coordinate supervisory and resolution-related activities with the other banking agencies.

The FDIC also conducts semi-annual "Day of Risk" meetings to present, discuss, and prioritize the review of emerging risks. In some cases, these discussions can lead to shifts in supervisory focus or priorities. In 2018, RMS CFI Group implemented a new SIFI Risk Report that identifies key vulnerabilities of

systemically important firms, gauges the proximity of these firms to a resolution event, and independently assesses the appropriateness of supervisory CAMELS ratings for the insured deposit institutions held by these firms.

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

Risk monitoring is enhanced by the FDIC's back-up supervision activities. In its back-up supervisory role, as outlined in Sections 8 and 10 of the FDI Act, the FDIC has expanded resources and has developed and implemented policies and procedures to guide back-up supervisory activities. These activities include performing analyses of industry conditions and trends, supporting insurance pricing, participating in supervisory activities with other regulatory agencies, and exercising examination and enforcement authorities when necessary.

At institutions where the FDIC is not the primary federal regulator, FDIC staff works closely with other regulatory authorities to identify emerging risk and assess the overall risk profile of large and complex institutions. The FDIC has assigned dedicated staff to IDIs of G-SIBs and large FBOs and certain other large IDIs to enhance risk-identification capabilities and facilitate the communication of supervisory information. These individuals work with the staff of the FRB and OCC in monitoring risk at their assigned institutions.

Through December 2018, FDIC staff participated in 112 targeted examination activities with the FRB or OCC in G-SIBS, large FBOs, and large regional banks. The reviews included, but were not limited to, engagement in evaluation of risk management, corporate governance, BSA/AML reviews, credit risk reviews, quantitative model reviews, and cybersecurity risk and operational risk reviews. FDIC staff also participated in various interagency horizontal review activities, including the FRB's Comprehensive Capital Assessment and Review, reviews of model risk management, and independent pricing of fair-valued assets.

## **Title II Orderly Liquidation Authority**

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

### ***Resolution Strategy Development***

The FDIC has undertaken institution-specific strategic planning to carry out its orderly liquidation authorities with respect to the largest G-SIBs operating in the United States. The strategic plans and optionality being developed for these firms are informed by the Title I plan submissions. Further, the FDIC continues to build its systemic resolution framework, portions of which have been shared with other authorities, and is developing process documents to facilitate the implementation of the framework in a Title II resolution. In addition, preliminary work continues in the development of resolution strategies for financial market utilities, particularly central counterparties (CCPs).

### ***Cross-Border Efforts***

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

The FDIC continued to advance its working relationships with authorities from other jurisdictions that supervise G-SIFIs, and through international forums, such as the Financial Stability Board's Resolution Steering Group and its various subgroups. In 2018, the FDIC continued its ongoing work with international authorities to enhance coordination on cross-border bank resolution. This work included participation by senior financial officials and staff from the United States and key foreign jurisdictions. FDIC staff continues to pursue follow-on work endorsed by senior officials from participating agencies.

The FDIC serves as a co-chair for all of the cross-border crisis management groups (CMGs) of supervisors and resolution authorities for U.S. G-SIFIs. In addition, the FDIC participates as a host authority in CMGs for foreign G-SIFIs. The FDIC and the European Commission (EC) continued their engagement through a joint working group, which is composed of senior executives at the FDIC and EC who meet to focus on both resolution and deposit insurance issues. In 2018, the working group discussed cross-border bank resolution and resolution of CCPs, among other topics.

FDIC staff also participated in the joint U.S.-EU Financial Regulatory Forum meetings, one held in Washington, D.C., in January 2018, and another held in Brussels in June 2018, with representatives of the EC and other participating European Union authorities, and staffs of the Department of Treasury, FRB, SEC, Commodities Futures Trading Commission (CFTC), and other participating U.S. agencies. Discussions addressed the outlook for financial regulatory reforms and future priorities, including those involving standards relevant to banks and cooperation on cross-border issues relevant to capital markets such as those involving CCPs.

In 2018, FDIC staff also participated in the inaugural meeting of the U.S.-UK Financial Regulatory Working Group in London, which was formed to support financial stability and related matters. This

cooperation is especially important given transition in the UK's regulatory relationships as it withdraws from the European Union.

## 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 advised the FDIC on a variety of issues, including:

- ◆ 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 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 SIFI 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 last meeting of the SRAC was held on December 6, 2018. Agenda topics included updates to the Title I Living Wills, Title II Orderly Liquidation Authority, and international developments.

## 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 for supervision by the FRB subject to heightened prudential standards;
- ◆ Designating financial market utilities and payment, clearing, or settlement activities that are, or are likely to become, systemically important;
- ◆ Facilitating regulatory coordination and information sharing regarding policy development, rulemaking, supervisory information, and reporting requirements;
- ◆ Monitoring domestic and international financial regulatory proposals and advising Congress and making recommendations to enhance the integrity, efficiency, competitiveness, and stability of U.S. financial markets; and
- ◆ Producing annual reports describing, among other things, the Council’s activities and potential emerging threats to financial stability.

In December 2018, the FSOC issued its 2018 annual report. Generally, at each of its meetings, the FSOC discusses various risk issues. In 2018, the FSOC meetings addressed, among other topics: the process for considering applications from bank holding companies or their successors under section 117 of the Dodd-Frank Act, the annual reevaluation of its designation of a nonbank financial company, financial market volatility, fluctuations in various asset classes (including cryptocurrency futures) and the impacts on financial institutions and markets, the progress of the United Kingdom’s efforts to leave the European Union (i.e., “Brexit”) and potential changes that could affect U.S. financial markets or institutions, and alternative reference rates, including the adoption of the Secured Overnight Financing Rate. Additionally, in early 2018, the Council established a working group to study a digital asset and distributed ledger technology. The working group brings together federal financial regulators whose jurisdictions are relevant to the oversight of digital assets and their underlying technologies.

## 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.

### Rulemaking and Guidance

#### *Home Mortgage Disclosure Act*

In March 2018, the FDIC and other FFIEC members revised *A Guide to HMDA Reporting: Getting It Right!* The guide was updated to reflect changes to the Home Mortgage Disclosure Act (HMDA) in October 2015, and further amendments made in 2017. The guide was designed to help financial institutions better understand the HMDA requirements, including data collection and reporting provisions.

In July 2018, the FDIC released a statement on the impact of the EGRRCPA on HMDA. EGRRCPA provides partial exemptions for some insured depository institutions and insured credit unions from certain HMDA requirements. The FDIC noted that the CFPB would be providing further guidance on the applicability of the EGRRCPA to HMDA data collected in 2018. The agencies retained their diagnostic examination approach regarding HMDA data collected in 2018 and reported in 2019.

#### *Updated Examination Procedures*

Updated examination procedures were communicated through revisions to the *FDIC Compliance Examination Manual* that is publicly available on the FDIC’s website.

In February 2018:

- ◆ Truth in Lending Act (TILA) (V-1.1): Several TILA thresholds were updated. Specifically, the

escrow exemption and the appraisal exemption thresholds for higher priced mortgages were increased and dollar amounts for provisions in Regulation Z related to qualified mortgages and Home Ownership and Equity Protection Act loans were updated. The exemption threshold for consumer credit and lease transactions were also increased. The Credit Card Penalty Fee Safe Harbor remained the same as the prior year.

- ◆ Home Mortgage Disclosure Act (HMDA) (V-9.1): The asset size exemption thresholds were updated. Additional information regarding implementation of the 2015 HMDA Final Rule and subsequent rulemakings was added.
- ◆ Consumer Leasing Act (V-10.1): The exemption threshold for consumer credit and lease transactions was updated.
- ◆ Community Reinvestment Act (XI-1.1): Asset-based definitions for “small banks” and “intermediate small banks” were updated.

In May 2018:

- ◆ Truth in Lending Act (TILA) (V-1.1): The interagency TILA examination procedures were updated to reflect the 2016 amendments to the Mortgage Servicing Rule originally issued in 2013.
- ◆ Real Estate Settlement Procedures Act (RESPA) (V-3.1): The interagency RESPA examination procedures were updated to reflect the 2016 amendments to the Mortgage Servicing Rule originally issued in 2013.
- ◆ Servicemembers Civil Relief Act (SCRA) (V-11.1): The SCRA chapter was updated to reflect a statutory amendment extending the sunset date of certain expanded protections for members of uniformed services relating to mortgages and mortgage foreclosure available under the Servicemembers Civil Relief Act.

In June 2018:

- ◆ Retail Insurance Sales (IX-2.1): The Retail Insurance Sales chapter was updated to reflect changes to Part 343 to reflect the scope of the

FDIC’s current supervisory responsibilities as the appropriate federal banking agency for state savings associations that were previously regulated by the Office of Thrift Supervision.

In August 2018:

- ◆ Expedited Funds Availability Act (VI-1.1): The Expedited Funds Availability Act chapter was updated to reflect amendments to Regulation CC regarding check collections and return provisions.

## Promoting Economic Inclusion

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

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

### *Advisory Committee on Economic Inclusion*

The Advisory Committee on Economic Inclusion (ComE-IN) provides the FDIC with advice and recommendations on important initiatives to expand access to mainstream banking services to underserved populations. This includes reviewing basic retail financial services (e.g., low-cost, safe transaction accounts; affordable small-dollar loans; savings accounts; and other services), as well as demand-side factors such as consumers’ perceptions of mainstream financial institutions.

In October 2018, the ComE-IN held a meeting that included a discussion of the results from the 2017 *FDIC National Survey of Unbanked and Underbanked Households*. The committee also heard a presentation

on research from the United Kingdom's Financial Conduct Authority into the effectiveness of mobile text notifications sent to help consumers avoid unwanted fees. In addition, the committee heard a presentation on opportunities to extend economic inclusion in the banking system through youth employment programs.

In December 2018, the FDIC renewed the ComE-IN charter pursuant to the requirements of the Federal Advisory Committee Act (5 U.S.C. App. 2).

### ***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 mainstream 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.

In 2018, the FDIC published results from the 2017 *FDIC National Survey of Unbanked and Underbanked Households*. In addition to updating key reference measurements on participation in the banking system, the report analyzed the methods through which households access their bank accounts, examined consumer use of various mobile banking functions, measured bank branch utilization, and examined household use of and demand for mainstream credit. This information provided a basis for identifying additional opportunities in the report to expand economic inclusion in the banking system. The FDIC made full results and respondent-level data available on <https://economicinclusion.gov> and also provided users with the ability to generate

custom tabulations and to access a wide range of pre-formatted information, including new five-year estimates that provide additional granularity for state and local results. In addition, planning for the 2019 *FDIC National Survey of Unbanked and Underbanked Households* is complete. A November 2018 notice in the *Federal Register* proposed the use of a revised questionnaire.

## **Community and Small Business Development and Affordable Mortgage Lending**

In 2018, the FDIC provided technical assistance to banks and community organizations through more than 254 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 CRA.

The FDIC's work emphasized sharing information to support bank efforts to prudently provide affordable mortgages, small business credit, and access to safe accounts and financial education.

As part of this effort, the FDIC also launched the Affordable Mortgage Lending Center, a website that houses a number of resources, including the *Affordable Mortgage Lending Guide*, a three-part guide designed to help community banks identify affordable mortgage products.

By year-end 2018, the Affordable Mortgage Lending Center had more than 15,000 subscribers. Materials from the center have been downloaded more than 12,000 times, and the site has had more than 68,000 page views since its inception.

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 in more than 27 communities. The FDIC also focused on encouraging community development initiatives in

rural communities. This work included workshops to highlight 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. In 2018, 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 *Money Smart* series of products is available to organizations and individuals who want to teach financial concepts to consumers of all ages; individuals can also use the products to learn the concepts on their own. In particular, the newly updated *Money Smart for Adults* can help adults build the fundamental financial knowledge, skills, and confidence they need to use banking services effectively.

### Youth Financial Education

The FDIC's Youth Banking Network provides opportunities for 66 banks to learn from one another and FDIC staff about promising strategies to teach financial education concepts to school-aged children using hands-on approaches.

In 2018, Youth Banking Network members participated in periodic learning calls to discuss helpful strategies and resources. For example, the April 2018 call highlighted practical approaches in conducting reality fairs, a strategy to help young people understand the tradeoffs of money choices that they can expect to experience as they enter adulthood.

The FDIC also engaged network participants to develop an operational toolkit of resources that can support the development of new youth savings collaborations. The FDIC drafted new resources for the network based on consultations with members that included:

- ◆ Answers to frequently asked questions about operating youth banking programs;
- ◆ A tip sheet to help banks communicate with parents and caregivers about the financial education provided through schools;
- ◆ A tip sheet to help banks communicate with teachers and administrators to secure an agreement to educate students;
- ◆ Strategies bankers can use to make financial education relevant when visiting classrooms to talk about money;
- ◆ A guide to reality fairs; and
- ◆ A guide to measuring outcomes of youth savings programs.

Many youth banking programs provide financial education training based on FDIC's *Money Smart for Young People* curriculum. As part of the FDIC's ongoing efforts to improve the curriculum, the FDIC obtained feedback from 26 educators who taught 83 *Money Smart for Young People* sessions as part of a special project. The participating educators overwhelmingly reported that the materials were structured well, easy to use, and initiated critical thinking among students. They also provided valuable suggestions for improvement, such as including more activities, updating the content, and reorganizing content to make it more useful.

The FDIC has begun to revise *Money Smart for Young People* based on this teacher feedback and other curriculum assessments with a goal of releasing a redesigned and strengthened curriculum tool in mid-2019. As part of our collaboration with the CFPB to promote youth financial capability, the FDIC is exploring how to integrate the CFPB's research-based *Building Blocks for Youth Financial Capability* activities into the updated materials.

### Financial Education Outreach

Highlights of our outreach include collaboration with members of the Federal Financial Literacy and Education Commission (FLEC). During Financial Capability Month (April), the members shared and

promoted financial education resources using the #FinancialFuture2018 hashtag on social media. During a webinar hosted by FLEC, 200 participants learned about the FDIC's financial education resources.

The FDIC also collaborated with the U.S. Department of Education and other FLEC agencies on the "Financial Education in America's Schools" convening on April 27, 2018. This event promoted the exchange of ideas among state and local leaders and highlighted federal resources that support promising ideas.

In addition, the FDIC engaged with youth employment programs to use the *Money Smart* financial education materials to reach young workers. For example, FDIC staff visited a Job Corps site in Washington, D.C., to provide technical assistance, and later conducted a *Money Smart* train-the-trainer session for 10 staff members, and planned a banker roundtable.

The FDIC also developed a brochure for workforce program organizations that included tips on how to engage financial institutions to provide financial education or deposit account opportunities for young people. The FDIC joined with NCUA to engage more than 15 cities to participate in the *America Saves for Young Workers* initiative and learn how to connect young workers with basic deposit accounts at insured financial institutions.



From left, Salvador Arbujo, Tina Queen, April Atkins, and Alberto Cornejo discuss an activity during a *Money Smart* Train-the-Trainer session for the Community Affairs Branch staff.

The FDIC collaborated with the CFPB to release a Spanish translation of *Money Smart for Older Adults*. This material had been updated in 2017 to include information and resources to help older adults and their caregivers avoid financial exploitation through fraud and scams.

Finally, the format of the FDIC Consumer News has changed from a quarterly printed newsletter to an electronic monthly article release with printable versions. This allows for more frequent contact with consumers and consistent timely releases of information. It also provides an opportunity to attract new readers through the use of social media in an easy to read format for mobile devices. Through digitation the FDIC can measure and improve communication and outreach efforts.

### ***Money Smart for Adults***

In November 2018, the FDIC updated the *Money Smart for Adults* curriculum, building on insights gained from more than 17 years of experience with the *Money Smart* program. The revised curriculum, field-tested twice with community organizations and banks, features 14 modules that cover basic financial topics for use during group training or one-on-one work. Specifically, the updated curriculum features:

- ◆ Expanded content on topics such as mobile banking, reading a pay statement, renting an apartment, creative ways to save money, and updated information on standard topics such as credit reports and scores;
- ◆ Vibrant graphics and discrete sections so instructors can create effective training sessions by choosing topics of interest to training participants;
- ◆ "Try It" activities that provide engaging opportunities for participants to practice what they're learning during training in many contexts, including realistic scenarios;
- ◆ "Apply It" activities to help participants apply what they have learned to their own lives, either during or after training;

- ◆ “Key Takeaways” that briefly summarize the main message of each section;
- ◆ A “Take Action” section in every module that encourages participants to identify at least one thing they plan to do because of what they learned during the training;
- ◆ A new *Guide to Presenting Money Smart for Adults* that includes tools to help instructors present interactive, non-biased training using the updated curriculum, such as “roadmaps” to create customized training across modules, fun and engaging introductory activities to energize participants to learn, and detailed checklists to prepare for training; and
- ◆ An updated supplement with scenarios featuring individuals with disabilities thinking about a financial decision.

More than 1,500 organizations were trained on the updated materials before year-end, including during two national webinars, and plans are underway to provide training to many more organizations.

In addition, the FDIC plans to release a self-paced online learning tool based on the updated curriculum in 2020.

### ***Money Smart for Small Business***

The FDIC convened forums and roundtables featuring safe small business products and services, and provided information and technical assistance to support initiatives geared to increase access to capital for small businesses. In 2018, the FDIC completed 74 events and activities primarily focused on small business.

The Small Business Administration (SBA) and its partner networks – including the Small Business Development Centers, Women’s Business Centers and SCORE Chapters – the Federal Trade Commission, CFPB, and other stakeholders collaborated with the FDIC to produce a revised version of the *Money Smart for Small Business* Credit and Banking Modules to address information needs in response to a lending marketplace where entrepreneurs may be unaware

of safe and affordable financing options and may be engaging in financing with terms they do not fully understand.

### ***Money Smart Alliance***

The maximum potential of the curriculum is reached when banks collaborate with non-profits or other community-based organizations to bring *Money Smart* training to local communities, and, when appropriate, connect the training to banking products and services that respond to the needs of participants. Through the *Money Smart* Alliance, the FDIC recognizes organizations that commit to using *Money Smart* and that want to receive regular updates and training tips to enhance their use of the curriculum.

More than 450 organizations joined the Alliance during 2018, bringing the total members to 1,062. The Alliance experienced a 34 percent growth during 2018 compared to year-end 2017. This growth is largely attributable to the *Money Smart* Advance Team effort that built engagement with organizations that have or will deliver *Money Smart* to adults.

The FDIC engaged Alliance members through quarterly webinars and one-on-one calls. Alliance members also learned about the updated *Money Smart for Adults* curriculum (and had the opportunity for early review of the modules) starting in September 2018, several weeks before the broader public release.

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

The FDIC supported community development and economic inclusion partnerships at the local level by providing technical assistance and information resources throughout the country, with a focus on unbanked and underbanked households and low- and moderate-income communities. Community Affairs staff support economic inclusion through work with the Alliances for Economic Inclusion (AEI), *Bank On* initiatives, and other coalitions originated by local and state governments, and in collaboration with federal partners and many local and national non-profit organizations. The FDIC also partners with other

financial regulatory agencies to provide information and technical assistance on community development to banks and community leaders across the country.

In the 12 AEI communities and in other areas, the FDIC helped 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 low- and moderate-income 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 worked across the nation, including in 16 targeted communities, to convene 12 forums and 19 roundtables that helped advance strategies to expand access to safe and affordable deposit accounts and engage unbanked and underbanked consumers. The FDIC provided technical assistance to bankers, coalition leaders, and others interested in understanding opportunities for banking services designed to meet the needs of the unbanked and underbanked.

In total, the FDIC sponsored more than 55 events, 80 outreach activities, and 13 speaking engagements and exhibitions during 2018 that provided opportunities for partners to collaborate on increasing access to bank accounts and credit services, opportunities to build savings and improve credit histories, and initiatives to significantly strengthen the financial capability of community service providers who directly serve consumers with low or moderate incomes and small businesses.

## 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 2018, the FDIC handled 18,334 written and telephonic complaints and inquiries. Of the 12,016 involving written correspondence, 5,306 were referred to other agencies and 6,710 were handled by the FDIC. The FDIC responded to 97 percent of written 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 topics and issues involved in complaints about FDIC-supervised institutions. The number of complaints received about a specific bank topic and issue can serve as a red flag to prompt further review of practices that may raise consumer protection or supervisory concerns.

In 2018, the four most frequently identified topics in consumer complaints and inquiries about FDIC-supervised institutions concerned checking accounts (19 percent), consumer line of credit/installment

loans (15 percent), credit cards consumer/business (14 percent), and residential real estate (10 percent). Issues most commonly cited in correspondence about checking accounts were concerns with account discrepancies or transaction errors, and fees and service charges. Consumer loan complaints and inquiries most frequently described issues with reporting erroneous account information and collection practices, while consumer correspondence about credit cards most often raised issues regarding reporting of erroneous account information and billing disputes/error resolution. Correspondence regarding residential real estate related to disclosures, inaccurate appraisal reports, and loan modifications.

The FDIC also investigated 63 Fair Lending complaints alleging discrimination during 2018. The number of discrimination complaints investigated has fluctuated over the past several years but averaged approximately 67 complaints per year between 2013 and 2018. Over this period, 47 percent of the complaints investigated alleged discrimination based on the race, color, national origin, or ethnicity of the applicant or borrower; 14 percent related to discrimination allegations based on age; 13 percent involved the sex of the borrower or applicant; and 8 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. Through December 2018, consumers received more than \$448,500 in refunds from financial institutions as a result of the assistance provided by the FDIC's Consumer Response Center.

## 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 2018. For example, as of December 31, 2018, the FDIC conducted four telephone seminars for bankers on deposit insurance coverage, reaching an estimated 4,473 bankers participating at approximately 1,278 bank sites throughout the country. The FDIC also features deposit insurance training videos that are available on the FDIC's website and YouTube channel.

As of December 31, 2018, the FDIC Call Center received 96,703 telephone calls, of which approximately 38,681 were identified as deposit insurance-related inquiries. The FDIC Call Center handled approximately 20,102 inquiries and Deposit Insurance subject matter experts (SMEs) handled 18,579 complex telephone calls identifying a total of 50,548 deposit insurance issues. In addition to telephone inquiries about deposit insurance coverage, the FDIC received 1,339 written inquiries from consumers and bankers identifying a total of 2,248 deposit insurance issues. Of these inquiries, 100 percent received responses within two weeks, as required by corporate policy.

## 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 as 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 improved and functioned 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 loss-sharing protection.

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 2018, there were 81 receiverships with active shared-loss agreements and \$9.6 billion in total shared-loss covered assets.

## Financial Institution Failures

During 2018, there were no institution failures, compared to eight failures in 2017.

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.

<b>FAILURE ACTIVITY 2016 – 2018</b>			
Dollars in Billions			
	2018	2017	2016
Total Institutions	0	8	5
Total Assets of Failed Institutions*	\$0.0	\$5.1	\$0.3
Total Deposits of Failed Institutions*	\$0.0	\$4.7	\$0.3
Estimated Loss to the DIF	\$0.0	\$1.2	\$0.04

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

## Asset Management and Sales

As part of its resolution process, the FDIC tries to sell as many assets as possible to an assuming institution. Assets that are retained by the receivership are 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 2018 totaled \$38.6 million in book value.

As a result of the FDIC's marketing and collection efforts, the book value of assets in inventory decreased by \$1.1 billion (48 percent) in 2018.

The following chart shows the beginning and ending balances of these assets by asset type.

ASSETS-IN-LIQUIDATION INVENTORY BY ASSET TYPE Dollars in Millions			
Asset Type	12/31/18	12/31/17	12/31/16
Securities	\$50	\$160	\$183
Consumer Loans	0	8	8
Commercial Loans	34	50	19
Real Estate Mortgages	67	139	85
Other Assets/Judgments	151	260	268
Owned Assets	3	47	40
Net Investments in Subsidiaries	19	157	100
Structured and Securitized Assets	854	1,449	2,614
<b>TOTAL</b>	<b>\$1,178</b>	<b>\$2,271</b>	<b>\$3,317</b>

## Receivership Management Activities

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

uninsured depositors and other creditors by reducing overhead and other holding costs. Once the assets of a failed institution have been sold and its liabilities extinguished, the final distribution of any proceeds is made, and the FDIC terminates the receivership. In 2018, the number of receiverships under management decreased by 66 (19.5 percent) to 272.

The following chart shows overall receivership activity for the FDIC in 2018.

RECEIVERSHIP ACTIVITY	
Active Receiverships as of 12/31/17	338
New Receiverships	0
Receiverships Terminated	66
Active Receiverships as of 12/31/18	272

## 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 2018, receiverships paid dividends of \$4.6 million to depositors whose accounts exceeded the insurance limit.

## Professional Liability and Financial Crimes Recoveries

The FDIC investigates bank failures to identify potential claims against directors, officers, securities underwriters and issuers, fidelity bond insurance carriers, appraisers, attorneys, accountants, mortgage loan brokers, title insurance companies, and other professionals who may have caused losses to insured depository institutions and FDIC receiverships. The FDIC will pursue meritorious claims that are expected to be cost-effective.

During 2018, the FDIC recovered \$116.2 million from professional liability claims and settlements. The FDIC did not authorize any professional liability lawsuits during 2018. As of December 31, 2018, the FDIC's caseload included 62 open institutions (not including institutions open for collection only), 21 professional liability lawsuits (down from 24 at year-end 2017), nine residential mortgage malpractice and fraud lawsuits (down from 21), and open investigations in 27 claim areas out of 18 institutions. The FDIC seeks to complete professional liability investigations and make decisions expeditiously on whether to pursue potential professional liability claims. The FDIC completed investigations and made decisions on 92 percent of the investigations related to failures that reached the 18-month point after the institution's failure date in 2018, thereby 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, in connection with criminal restitution and forfeiture orders issued by federal courts and independently in connection with restitution orders issued by the state courts, collected \$8.3 million in 2018. As of December 31, 2018, there were 2,346 active restitution and forfeiture orders (decreased from 4,163 at year-end 2017). This includes 101 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).

## ENHANCING THE FDIC'S IT SECURITY

Information technology (IT) is an essential component in virtually all FDIC business processes. This integration with the business provides opportunities for efficiencies but also requires an awareness of potential risks. In 2018, the Chief

Information Officer Organization focused its efforts on addressing cybersecurity risk, strengthening infrastructure resiliency, and improving IT governance.

## Addressing FDIC Cybersecurity Risk

The FDIC's Information Security Program is critical to the agency's ability to carry out the mission of maintaining stability and public confidence in the nation's financial system. The Information Security Program relies on effective and efficient cybersecurity practices that are designed to detect, identify, respond, and recover from cybersecurity incidents as rapidly as possible with minimal disruption to stakeholders, and to protect against future incidents. The FDIC continues to strengthen and expand its cybersecurity program and practices.

On May 11, 2017, the President issued an Executive Order 13800 entitled *Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure*. The Executive Order builds on existing statutory requirements under the Federal Information Security Modernization Act of 2014, which establishes information security obligations for Federal agencies (including the FDIC). Subsequent to the issuance of the Executive Order, OMB issued *Reporting Guidance for Executive Order on Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure*, M-17-25 (May 19, 2017) to provide agency heads with instructions for meeting the risk management reporting requirements in the Executive Order. To fulfill these requirements and strengthen cybersecurity, the FDIC:

- ◆ Reorganized the Information Security function by creating the Office of the Chief Information Security Officer which includes a new Deputy Chief Information Security Officer position and a new Privacy Section Chief position that report directly to the Chief Information Security Officer;
- ◆ Implemented the Cybersecurity Framework (CSF) according to OMB M-17-25 requirements;

- ◆ Conducted the CSF cybersecurity assessment to capture, assess, report, and monitor the current state of FDIC cybersecurity controls;
- ◆ Established an agency-wide Incident Response Plan;
- ◆ Updated the agency's Breach Response Plan to address new Federal policy requirements; and
- ◆ Developed and submitted the Annual Risk and FISMA Reports for 2018.

Cybersecurity continues to be a top management priority at the FDIC. During 2018, the FDIC has taken a number of actions to enhance and improve our risk management practices.

We developed and implemented an *Information Security and Privacy Strategic Plan* to guide our efforts through 2021. This plan aligns with the *FDIC Information Technology Strategic Plan: 2017 – 2020*, and defines the core strategies needed to sustain and improve the FDIC's cybersecurity posture.

To operationalize the strategy, the FDIC implemented a risk management function and assigned program, and executive-level officials to manage information risk. Ensuring that leaders are accountable for the effective planning, implementation, and monitoring of risk management enables the FDIC to identify, prioritize, communicate, and sustain the information security and privacy controls required to mitigate cybersecurity risks across the agency.

## Strengthening Infrastructure Resiliency

Infrastructure resiliency requires that the FDIC be able to provide and maintain an acceptable level of service in the face of threats and challenges to normal computer and network operations. Threats and challenges for services can range from simple misconfigurations, unforeseen large scale natural disasters, to targeted attacks. The FDIC works to ensure that its infrastructure can anticipate, absorb, adapt to, and/or rapidly recover from a potentially disruptive event.

In 2018, the FDIC launched a comprehensive initiative to expand and enhance its existing disaster recovery and business continuity capabilities to ensure that designated IT systems and applications that support mission-essential functions can be recovered within targeted timeframes. As part of this multi-year project, the FDIC is migrating key IT systems and applications to a new and larger backup data center (BDC). This effort will help mitigate the current risk posed by the geographic proximity of the FDIC's BDC to its primary data center.

The new facility will enhance security capabilities that are not available at the current recovery site, including enterprise logging, vulnerability identification, file integrity monitoring, forensic analysis, threat management, and security operational risk management. These security enhancements will allow security operations and other key security functions to be carried out at the new site without interruption, in the event of a failure or other contingency at the primary data center. The new BDC will also provide flexibility and scalability for future growth and increased computing requirements. It will also accommodate potential future changes in the configuration of the network and provide connectivity to cloud providers.

Additionally, the new BDC will provide for the rapid restoration (failover) of mission-critical business applications. Restoration processes will be automated to minimize manual intervention, and equipment will be maintained in a higher availability mode to enable faster restoration. As a result, the FDIC will be better positioned to preempt and rapidly recover from an outage or threat.

## Improving IT Governance

The purpose of IT governance at the FDIC is to ensure that IT resources are used effectively and efficiently to achieve the FDIC's goals and mission. IT governance enables the alignment of the FDIC's strategies and goals with IT services, infrastructure, and environment.

During 2018, the FDIC implemented changes to enhance, consolidate, and streamline IT governance processes. The Security and Enterprise Architecture Technical Advisory Board (SEATAB) was established, (replacing three other groups) and became the one governance body that was chartered to oversee and manage all architecture and technical decisions around FDIC's technology infrastructure, platforms, systems, and applications.

The implementation of the SEATAB was just one of the changes made in IT governance. The Chief Information Officer (CIO) Council charter was also revised to include increased business division membership. The CIO Council is the principal advisory body to the CIO, with members having the delegated authority to agree to and authorize IT decisions on behalf of the division or the office that the member represents.

Additionally, an IT Operating Committee Sub-Charter was established to reflect its strategic role in IT governance. The Operating Committee also assumed the responsibilities of the Intelligence and Critical Infrastructure Protection Committee (ICIPC). The Operating Committee, as the executive leadership of FDIC divisions and offices, is consulted and informed on corporate-wide IT matters. This ensures that there is consensus on those IT decisions that impact business priorities and corporate-wide operations and that these decisions are in the best interest of the FDIC.

The changes made in IT governance, along with the use of the IT Decision Framework which serves as the foundation for IT architecture, development policies, and standards decisions ensure the integration and alignment of the FDIC information technology and security management processes with the agency's strategic planning.

## Insider Threat and Counterintelligence Program

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 or personally identifiable information, as well as privileged access to critical infrastructure or business sensitive information (e.g., bank data).

The FDIC established the Insider Threat and Counterintelligence Program (ITCIP) in September 2016. ITCIP is a defensive program focused on preventing and mitigating internal and external threats and risks posed to FDIC personnel, facilities, assets, resources, and both national security and sensitive information by insider and foreign intelligence entities. These threats may involve inadvertent disclosures and intentional breaches of sensitive information by personnel who may be compromised by external sources, disgruntled, seeking personal gain, intending to damage the reputation of the FDIC, or acting for some other reason. ITCIP leverages both physical and logical safeguards to minimize the risk, likelihood, and impact of an executed insider threat.

The National Insider Threat Task Force (NITTF) initiated its Federal Program Review in January 2017 to ensure the FDIC's implementation of the White House minimum standards. NITTF's independent evaluation showed that FDIC's ITCIP met all minimum standards and achieved full operating capability. NITTF also noted that FDIC's ITCIP leads the federal government in several best practices that affect the entire workforce and serves as a model program for other independent regulators and non-Title 50 departments and agencies. The FDIC is moving forward with several important new steps to further advance the agency's ITCIP during 2019 and beyond.

## 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 (OMWI) 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. The FDIC awarded 166 (29.4 percent) contracts to minority- and women-owned businesses (MWOBs) out of a total of 565 issued. The FDIC awarded contracts with a combined value of \$499.5 million in 2018, of which 24.5 percent (\$122.5 million) were awarded to MWOBs, compared to 18.5 percent for all of 2017. The FDIC paid \$98.0 million of its total contract payments (22.8 percent) to MWOBs, under 299 MWOB contracts.

The Legal Division's legal contracting program endeavors to maximize the participation of both minority- and women-owned law firms (MWOLFs) and minority and women partners and associates employed at majority owned firms (Diverse Attorneys) in legal contracting. This approach is consistent with Section 342 of the Dodd-Frank Act that encourages diversity and inclusion at all levels. For both MWOLFs and Diverse Attorneys, FDIC legal matters provide important learning and professional client development opportunities that can be quite meaningful to career advancement. For the year 2018, the Legal Division has an aggregate 26.4 percent diversity and inclusion participation rate in legal contracting as set forth below.

The FDIC made 29 referrals to MWOLFs, which accounted for 28 percent of all legal referrals. Total payments to MWOLFs were \$3.7 million in 2018, which is 7.7 percent of all payments to outside counsel, compared to 11 percent for all of 2017. In 2018, Diverse Attorneys earned \$8.9 million in legal fees, which is 18.6 percent of all payments to outside counsel. Taken together, FDIC paid \$12.7 million to MWOLF firms and Diverse Attorneys out of a total of \$48.0 million dollars spent on outside counsel services in 2018. This number represents 26.4 percent of total outside counsel fees.

The keystone of the Legal Division diversity and inclusion outreach is the FDIC's partnerships with minority bar associations and specialized stakeholder organizations. In 2018, the FDIC Legal Division participated in six minority bar association conferences and three stakeholder events in support of maximizing the participation of MWOLFs and Diverse Attorneys in FDIC legal contracting. Stakeholder event participation included service on several panels and committees, such as the National Association of Minority and Women Owned Law Firms (NAMWOLF) Advisory Council, the NAMWOLF Events Committee, the NAMWOLF Law Firm Admissions Committee, and the NAMWOLF Diversity and Inclusion Initiative.

In 2018, NAMWOLF formally recognized the FDIC as a principal member of, and major contributor to, its Inclusion Initiative, a collaborative program among law departments of major corporations designed to increase the participation of MWOLF firms in legal contracting. Members of the Inclusion Initiative have spent over \$1 billion with MWOLF firms since its inception. The FDIC participates in the Inclusion Initiative along with major corporations.

The Legal Division recognizes the value of involving FDIC in-house counsel in its MWOLF outreach. In 2018, the Legal Division collaborated with a top rated New York MWOLF firm to present a full day continuing legal education seminar on cutting edge legal issues in the capital markets area to FDIC attorneys who are responsible for engaging outside counsel. The program was designed to showcase the MWOLF's expertise while providing the firm with valuable opportunities to build meaningful relationships with FDIC oversight attorneys in the field offices and at the headquarters office. In its ongoing diversity and inclusion efforts, the Legal Division continues to seek more opportunities to highlight the expertise of MWOLF firms in accordance with the needs of the FDIC at any given point in time. Also in 2018, the Legal Division presented an MWOLF Utilization Workshop for the closed bank oversight attorneys at the Dallas Regional

Office. These attorneys are responsible for assigning work to MWOLFs. The program included a review of the prior year's MWOLF statistics, planned projects, question and answers, and the solicitation of ideas from the attorneys for improving the selection and retention of outside counsel.

Pursuant to Section 342 of the Dodd-Frank Act, which requires an assessment of legal contractors' internal workforce diversity practices, the Legal Division conducted nine compliance reviews of the top-billing law firms (both non-minority-owned and MWOLFs). The reviews included discussions that focused on associate and partner recruitment, retention rates of minority and women associates and partners, and partnership offers to minority and women attorneys working on FDIC legal matters. The site visit discussions are instrumental in gathering diversity data for ongoing monitoring efforts as well as the exchange of ideas to enhance diversity initiatives.

In addition to the outreach efforts noted above, the Legal Division continues to provide technical assistance to other related government agencies on developing MWOLF outreach programs that mirror FDIC's program. The Legal Division evaluated and approved six new MWOLF applications in 2018. Firms from various geographic areas were added to the FDIC List of Counsel Available in order to be eligible to receive legal contracting work.

In 2018, the FDIC participated in a total of 33 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 (the principal database for vendors interested

in doing business with the FDIC). The Office of Minority and Women Inclusion (OMWI) Director and Chief of the Minority and Women Business and Diversity Inclusion Branch made panel presentations and attended a number of these events to enhance OMWI's outreach efforts.

The FDIC, in conjunction with the other OMWI agencies, partnered with the Minority Business Development Agency Business Center of San Antonio, University of Texas at San Antonio, and the Institute for Economic Development to host the *Smart Contacts – Smart Contracts* technical assistance event. The presenters shared information about tools for competing for government contracting opportunities and developing winning proposals. The OMWI Director, Chief of the Minority and Women Business Diversity Inclusion Branch, and leaders from other OMWI financial agencies made panel presentations to explain contracting opportunities. The OMWI agencies also hosted a panel on *Doing Business with the OMWI Agencies*. The final panel presentation consisted of representatives from various local minority/women trade organizations sharing their outreach mission and outreach services with the 199 attendees. In addition, the sponsoring agencies and various procurement trade organizations exhibited at the event.

Information regarding the Minority and Women Outreach Program can be found on the FDIC's website at [www.fdic.gov/mwop](http://www.fdic.gov/mwop).

In addition, FDIC worked closely with the OMWIs of the OCC, FRB, CFPB, NCUA, SEC, and the Department of Treasury to further implement 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 publishing Joint Standards in 2015, the FDIC developed an electronic diversity self-assessment instrument to assist FDIC-regulated financial institutions in systematically assessing their diversity programs.

The FDIC started collecting voluntary self-assessments from its regulated financial institutions in 2017. The FDIC received 95 of 805 (11.8 percent) self-assessments in 2017 for the 2016 reporting period. In 2018, the FDIC received 137 of 820 (16.7 percent) self-assessments from its regulated institutions for the 2017 reporting period. OMWI analyzed the self-assessment responses for the 2016 reporting period and posted this analysis on its internal and external web sites.

While the FDIC is pleased with the increased participation of financial institutions in 2018, it will continue to take steps to increase voluntary participation by augmenting outreach at banking conferences, developing financial institution diversity marketing materials, and making improvements to the program website.

On September 13, 2018, the FDIC along with the OMWI agencies hosted an outreach event entitled “Financial Regulatory Agencies Diversity Summit” in New York, New York. The 109 individuals that attended the event were from various financial institutions that are regulated by the financial agencies. The event focused on the value of conducting voluntary self-assessments, annually submitting assessment results to OMWI Directors, and making diversity information transparent to the public. The OMWI agencies also outlined how the self-assessments will be used to identify leading trends and establish benchmarks that will assist financial institutions in assessing and enhancing their diversity programs. The OMWI FDIC Director, along with Directors from other OMWI financial agencies, made a panel presentation concerning the analysis of self-assessments received for the 2016 and 2017 reporting periods and associated issues.

## INTERNATIONAL OUTREACH

The FDIC played a leading role during the year in supporting the global development of deposit insurance, bank supervision, and bank resolution systems. This included working closely with regulatory and supervisory authorities from around

the world, as well as international standard-setting bodies and multilateral organizations, such as the International Association of Deposit Insurers (IADI), the Association of Supervisors of Banks of the Americas (ASBA), the Basel Committee on Banking Supervision (BCBS), the Financial Stability Board (FSB), the International Monetary Fund (IMF), and The World Bank. The FDIC engaged with foreign regulatory counterparts by hosting visiting officials, conducting training seminars, delivering technical assistance abroad, and fulfilling the commitments of FDIC membership in international organizations. The FDIC also advanced policy objectives with key jurisdictions by participating in high-level interagency dialogues.

### *International Association of Deposit Insurers*

FDIC officials and subject matter experts provided continuing support for IADI programs in 2018. This included chairing IADI’s Training and Conference Technical Committee, which provided support for developing and facilitating technical assistance workshops for the Middle Eastern, African, European, Eurasian, Asia-Pacific, Caribbean, North American, and Latin American regions of IADI. The FDIC also participated in reviews of IADI members’ self-assessments of compliance with the *Core Principles* and assisted in the development of a *Core Principles* workshop for officials and senior management of deposit insurance and other financial regulatory authorities in conjunction with the IADI Annual General Meeting. Led and supported by FDIC executives and senior staff, IADI technical assistance and training activities reached approximately 500 participants during 2018.

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

Senior FDIC staff chaired the ASBA Training and Technical Committee in 2018, which designs and implements ASBA’s training strategy, promoting the adoption of sound banking supervision policies and practices among its members. The training program reached more than 500 member participants in 2018.

### ***Basel Committee on Banking Supervision***

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

### ***International Capacity Building***

During the year, FDIC provided direct assistance to many foreign organizations through the provision of technical expertise. These engagements included providing staff experts to advise the European Union's Single Resolution Board, the De Nederlandsche Bank, and the IMF. FDIC also hosted more than 170 visiting regulators and other government officials from 20 countries during the year, including in-depth technical visits from the Indonesia Deposit Insurance Corporation and Bank of Ghana. Two sessions of *FDIC 101: An Introduction to Deposit Insurance, Bank Supervision, and Resolutions*, a structured learning program for senior foreign officials, were offered in 2018 and attended by 65 participants from more than 45 organizations. FDIC's Corporate University also makes supervisory courses available to foreign participants and trained 129 students this year.

## **EFFECTIVE MANAGEMENT OF STRATEGIC RESOURCES**

The FDIC recognizes that it must effectively manage its human, financial, and technological resources to successfully carry out its mission and meet the performance goals and targets set forth in its annual performance plan. The FDIC must align these strategic resources with its mission and goals and deploy them where they are most needed to enhance

its operational effectiveness and minimize potential financial risks to the DIF. Following are the FDIC's major accomplishments in improving operational efficiency and effectiveness during 2018.

### **Human Capital Management**

The FDIC's human capital management programs are designed to attract, train, develop, reward, and retain a highly skilled, diverse, and results-oriented workforce. In 2018, the FDIC workforce planning initiatives emphasized the need to plan for employees to fulfill current and future capability and leadership needs. This focus ensures that the FDIC has a workforce positioned to meet today's core responsibilities and prepared to fulfill its mission in the years ahead.

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

During 2018, the FDIC continued to develop and implement integrated workforce development strategies to address workforce challenges and opportunities. The effort is focused on four broad objectives:

- ◆ Attract and develop talented employees across the agency;
- ◆ Enhance the capabilities of employees through training and diverse work experiences;
- ◆ Encourage employees to engage in active career development planning and seek leadership roles in the FDIC; and
- ◆ Build on and strengthen the FDIC's operations to support these efforts.

In 2018, the FDIC continued to develop the programs and processes to help meet its long-term workforce and leadership needs. The FDIC is committed to building and growing its talent pipeline to ensure succession challenges are met. To that end, the agency expanded its succession planning efforts in 2018 to include a survey of 4,000 non-supervisory employees occupying positions that could feed into the agency's longer-term pipeline for management

positions. The survey was designed to identify the population's aspiration to higher-level and management roles, their perceptions of readiness for these opportunities, and actions they have taken to prepare themselves.

Nearly two-thirds of mid-level non-supervisor respondents reported that they were interested in seeking higher-level positions at the FDIC. Of these, more than three-quarters believe they have the talents and skills for higher-level positions and plan to apply for promotions and details over the next five years, demonstrating their ongoing interest in career development. The FDIC also learned that less than half of respondents have discussed their career interests and plans with a manager.

As a result of the survey findings, the FDIC plans to further develop the longer-term pipeline of the FDIC's aspiring leadership pool. Plans include supervisory training in succession management techniques, developing resources to support career planning discussions between managers and staff, and promoting emerging manager coaching through FDIC's Career Management Program.

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 (FIS) in entry-level positions. During the first-year rotation within the program, FIS gain experience and knowledge in the core business of the FDIC, including DCP, RMS, DRR, and DIR. At the conclusion of the rotation period, FIS are placed

within RMS or DCP, where they continue their career path to become commissioned examiners.

The CEP is an essential part of the FDIC's ability to provide highly-trained staff for its core occupational series, and ultimately for its future senior technical and leadership positions. Nearly 500 individuals are active in this multi-discipline program. Since the CEP's inception in 2005, more than 980 employees 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 avenue to recruit talent.

### ***Employee Learning and Development***

The FDIC is committed to training and developing its employees throughout their careers to enhance technical proficiency and leadership capacity, supporting career progression and succession management. The FDIC is 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.

## *Employee Engagement*

The FDIC continually evaluates its human capital programs and strategies to ensure that it remains an employer of choice, and that all of its employees are fully engaged and aligned with the mission. The FDIC uses the Federal Employee Viewpoint Survey mandated by Congress to solicit information from employees, and takes an agency-wide approach to address key issues identified in the survey. The FDIC continues to rank near the top in all categories of the Partnership for Public Service *Best Places to Work*



*Photo credit: Partnership for Public Service*

*Deputy to the Chairman and Chief Operating Officer and Director of the Division of Administration Arleas Upton Kea receives 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.*

*in the Federal Government®* list for mid-size federal agencies. Effective leadership is the primary factor driving employee satisfaction and commitment in the federal workplace, according to a report by the Partnership for Public Service.

The FDIC engages employees through formal mechanisms such as the Workplace Excellence program, Chairman's Diversity Advisory Councils, and Employee Resource Groups; and informally through working groups, team discussions, and daily employee-supervisor interactions. Employee engagement plays an important role in empowering employees and helps maintain, enhance, and institutionalize a positive workplace environment.



*Employee Resource Groups bring people together.*