MESSAGE FROM THE CHAIRMAN

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

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

RESPONDING TO ECONOMIC RISKS RELATED TO COVID-19

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

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

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

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

SUPPORTING COMMUNITIES IN NEED

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

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

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

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

PROMOTING DIVERSITY AND INCLUSION AT THE FDIC

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

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

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

FINALIZING OUTSTANDING RULEMAKINGS

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

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

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

FOSTERING TECHNOLOGY SOLUTIONS AND ENCOURAGING INNOVATION

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

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

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

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

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

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

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

ENHANCING RESOLUTION READINESS

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

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

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

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

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

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

LOOKING AHEAD

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

Sincerely,

Jelena McWilliams

Jelena McWilliams