

**FEDERAL DEPOSIT  
INSURANCE CORPORATION**

**2018 Annual  
Performance Plan**

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## **CHAIRMAN'S MESSAGE**

I am pleased to present the Federal Deposit Insurance Corporation's *2018 Annual Performance Plan* that outlines the FDIC's goals and priorities for this year.

The FDIC plays an important role in maintaining public confidence and stability in the U.S. financial system. For almost 85 years, it has fulfilled that mission through its deposit insurance, bank supervision, and failed bank resolution programs. As of December 31, 2017, the FDIC insured almost 600 million accounts with more than \$7.1 trillion in depositor funds at more than 5,600 institutions across the nation.

The *2017 Annual Report* describes the FDIC's many accomplishments in fulfilling its core mission responsibilities last year. In 2018, the FDIC expects the U.S. economy and the banking industry to continue their gradual recovery from the recent financial crisis. Capital levels, liquidity, asset quality, and earnings for insured institutions have all improved, but the FDIC will remain vigilant and will be prepared to address any unexpected problems that may arise.

During 2018, the FDIC will continue to focus on fulfilling its core mission responsibilities, with increased attention to cybersecurity and other new, technology-related risks in insured depository institutions. The FDIC will also continue to carry out its expanded post-crisis responsibilities (in coordination with the Federal Reserve Board) related to resolution planning for systemically important financial institutions (SIFIs). In addition, it will conduct research on and provide outreach and technical assistance to community banks.

The FDIC has been a symbol of trust for depositors in FDIC-insured financial institutions since 1933 and will carry that tradition forward in 2018.

Martin J. Gruenberg  
Chairman

**PROGRAM DESCRIPTIONS AND  
ANNUAL PERFORMANCE GOALS**

***INSURANCE***

***SUPERVISION***

***RECEIVERSHIP MANAGEMENT***

## **INSURANCE PROGRAM**

The FDIC maintains stability and public confidence in the U.S. financial system by providing deposit insurance. Through its industry and consumer awareness programs, the FDIC seeks to increase public awareness and understanding of deposit insurance rules and coverage. The FDIC and other federal regulatory agencies make sure that insured depository institutions accurately disclose uninsured products. The FDIC also informs depositors and financial institution staff about how the insurance rules and limits apply to specific deposit accounts.

Before a prospective insured depository institution can open for business, it must apply to the FDIC for federal deposit insurance. The FDIC then evaluates an applicant's potential risk to the Deposit Insurance Fund (DIF) by assessing the adequacy of its capital, future earnings potential, and the general character of its management. Before granting access to the federal deposit insurance system, the FDIC also considers the needs of the community that the applicant plans to serve and obtains input from other regulatory authorities.

Communication and coordination with the other bank regulatory agencies are top priorities for the FDIC. As the insurer, the FDIC, by statute, has special (back-up) examination authority for all insured depository institutions. If significant emerging risks or other serious concerns are identified for an insured depository institution for which the FDIC is not the primary federal supervisor, the FDIC and the institution's primary supervisor work together to address those risks or concerns.<sup>1</sup>

When an insured depository institution fails, the FDIC makes sure that the institution's customers have prompt access to their insured deposits and other services. To keep pace with the evolving banking industry and maintain its readiness to protect insured depositors, the FDIC prepares and maintains contingency plans to respond promptly to a variety of failure scenarios for insured depository institutions.

The financial crisis of 2008–09 and ensuing recession resulted in a large number of depository institution failures and high losses to the DIF. The number of problem banks peaked in 2010 and has been declining since 2011. Similarly, the number of bank failures declined from a peak of 157 in 2010 to eight in 2017. This trend has allowed the FDIC to rebuild the DIF. As of December 31, 2017, the fund balance had risen to \$92.7 billion from a low of -\$20.9 billion at the end of 2009. In addition, the reserve ratio (the fund balance as a percent of estimated insured deposits) had risen to 1.30 percent at the end of 2017 from 1.20 percent a year earlier.

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<sup>1</sup>An institution's charter and its Federal Reserve System membership status determine which federal banking agency is the institution's primary federal supervisor.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 revised the statutory authorities governing the FDIC's management of the DIF. As a result of the changes mandated by Dodd-Frank, the FDIC developed a comprehensive, long-term management plan for the DIF that sets a target reserve ratio of 2 percent and a strategy for establishing assessment rates and dividends to meet that target. The plan also aims to achieve moderate, steady assessment rates throughout economic and credit cycles to reduce pro-cyclicality while maintaining a positive fund balance even during a banking crisis. Dodd-Frank requires that the reserve ratio reach 1.35 percent by September 30, 2020, and the FDIC has adopted a Restoration Plan to ensure that the reserve ratio reaches that threshold as required.

As part of its DIF management plan, the FDIC has updated its risk-based assessment system to ensure that insurance assessments better reflect the risk that institutions pose to the DIF.

The table below depicts the strategic goal, strategic objectives, and annual performance goals for the Insurance Program.

Strategic Goal	Strategic Objectives	Annual Performance Goals
<p>Insured depositors are protected from loss without recourse to taxpayer funding.</p>	<p>Customers of failed insured depository institutions have timely access to insured funds and financial services.</p>	<p>Respond promptly to all insured financial institution closings and related emerging issues. (1.1-1)</p>
	<p>The FDIC promptly identifies and responds to potential risks to the DIF.</p>	<p>Disseminate data and analyses on issues and risks affecting the financial services industry to bankers, supervisors, the public, and other stakeholders on an ongoing basis. (1.2-1)</p>
	<p>The DIF and system remain strong and adequately financed.</p>	<p>Adjust assessment rates, as necessary, to achieve a DIF reserve ratio of at least 1.35 percent of estimated insured deposits by September 30, 2020. (1.3-1)</p>
		<p>Expand and strengthen the FDIC’s participation and leadership role in supporting robust and effective deposit insurance programs, resolution strategies, and banking systems worldwide. (1.3-2)</p>
	<p>The FDIC resolves failed insured depository institutions in the manner least-costly to the DIF.</p>	<p>Market failing institutions to all known qualified and interested potential bidders. (1.4-1)</p>
	<p>The public and FDIC-insured depository institutions have access to accurate and easily understood information about federal deposit insurance coverage.</p>	<p>Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts. (1.5-1)</p>

**STRATEGIC GOAL 1:**

Insured depositors are protected from loss without recourse to taxpayer funding.

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**STRATEGIC OBJECTIVE 1.1**

Customers of failed insured depository institutions have timely access to insured funds and financial services.

**Annual Performance Goal 1.1-1**

Respond promptly to all insured financial institution closings and related emerging issues.

Indicators and Targets

1. Number of business days after an institution failure that depositors have access to insured funds
  - *Depositors have access to insured funds within one business day if the failure occurs on a Friday.*
  - *Depositors have access to insured funds within two business days if the failure occurs on any other day of the week.*
2. Insured depositor losses resulting from a financial institution failure
  - *Depositors do not incur any losses on insured deposits.*
  - *No appropriated funds are required to pay insured depositors.*

Means and Strategies

*Operational Processes (initiatives and strategies):* When an insured institution is identified as a potential failure, the FDIC develops a plan to handle the possible resolution of the institution. This begins with an assessment of the institution's assets and liabilities. The FDIC then develops an information package that is used as a marketing tool and is provided to institutions that are interested in assuming the failed institution. The FDIC solicits proposals from approved bidders to find a buyer for the deposit franchise.

If the federal or state supervisor chooses to close the institution, the FDIC is named receiver, takes control of the failed institution, and determines which deposits are insured. Once the FDIC is appointed receiver, it initiates the resolution process for the failed institution.

If the failed institution is sold to another insured institution, the FDIC works with the assuming institution to transfer the insured deposit accounts as quickly as possible. If no assuming institution is found during the resolution process, the FDIC disburses insured deposit balances directly to customers of the failed institution. In either case, the FDIC provides the insured depositors with access to their accounts within one or two business days.

As banking industry practices and technologies evolve, so do potential risks that might affect the resolution process. The FDIC continues to review and enhance its existing plans, processes, and systems in response to those changes and potential risks.

*Human Resources (staffing and training):* For 2018, the FDIC's Division of Resolutions and Receiverships has authorized staffing of 409 employees dedicated to handling the failure of insured financial institutions and the management of ensuing receiverships. This includes 387 permanent positions and 22 nonpermanent positions. The number of nonpermanent authorized positions has decreased by 127 from 2017 staffing levels. There are still a large number of open receiverships resulting from prior-year failures. The FDIC expects to be able to fully manage the residual receivership management workload and those open receiverships with its permanent staff by 2020.

*Information Technology:* Technology is critical to making deposit insurance determinations and payments efficiently. The FDIC uses the Claims Administration System (CAS) to identify depositors' insured and uninsured funds in failing and failed banks. For every failing bank, CAS is used prior to failure to estimate the amount of uninsured deposits for the least-cost test. When an insured deposit transaction is the least-cost resolution, CAS is used to determine the amount of the depositors' funds that is insured. For all failures, CAS is the system of record for the deposits of the failed bank and subsequent claims processing and tracking.

#### Verification and Validation

If insured deposits are transferred to a successor institution, the number of business days before depositors have access to their insured funds is verified by comparing the date of failure to the date that the successor insured depository institution opens for business and makes insured funds available to the failed institution's depositors. For a deposit payout, the availability of funds is verified by comparing the date of failure with the date that deposit insurance checks are mailed to depositors or made available for pickup at the premises of the failed institution.

#### 2017 Performance Results

The FDIC successfully met the performance target for this annual performance goal for each of the eight insured institution failures that occurred in 2017. This annual performance goal and its associated performance indicators and targets are unchanged for 2018.

## STRATEGIC OBJECTIVE 1.2

The FDIC promptly identifies and responds to potential risks to the DIF.

### Annual Performance Goal 1.2-1

Disseminate data and analyses on issues and risks affecting the financial services industry to bankers, supervisors, the public, and other stakeholders on an ongoing basis.

#### Indicator and Targets

1. Scope and timeliness of information dissemination on identified or potential issues and risks
  - *Disseminate results of research and analyses in a timely manner through regular publications, ad hoc reports, and other means.*
  - *Undertake industry outreach activities to inform bankers and other stakeholders about current trends, concerns, and other available FDIC resources.*

#### Means and Strategies

*Operational Processes (initiatives and strategies):* The FDIC maintains a vigorous research and publications program that focuses on issues and topics of importance to the banking industry. Much of this research is conducted in collaboration with the academic community through the Center for Financial Research (CFR). Research findings are disseminated through meetings of the Community Bank Advisory Committee and the Advisory Committee on Economic Inclusion, *CFR Working Papers*, articles in professional journals, and presentations at conferences and other events. The FDIC also disseminates information and analyses on industry risks through periodic reports and publications (e.g., the *FDIC Quarterly Banking Profile* and the *FDIC Quarterly*), Financial Institution Letters, participation in industry events, and other outreach activities.

The FDIC conducts outreach sessions several times each year throughout the country. In addition, FDIC employees regularly attend conferences and meet with industry analysts and trade groups to exchange views and analyses. FDIC employees also present Directors' College outreach sessions to local bank board members. During these sessions, FDIC employees share information with bank directors on current risks, new regulations, and emerging issues. In addition, local FDIC offices nationwide conduct banker roundtable events that provide a forum for bankers to receive information and raise questions about new regulatory guidance or emerging risks.

*Human Resources (staffing and training):* The FDIC employs economists, financial analysts, and other staff members who monitor risks within the banking industry and communicate those risks to FDIC management, other regulators, the industry, the public, and other stakeholders through a variety of media and forums.

The risk analysis program and risk-focused examination training has been incorporated into the FDIC's examination schools.

In addition, the FDIC uses examiners and other staff located throughout the country to conduct banker outreach sessions as a collateral duty.

*Information Technology:* The FDIC's website ([www.fdic.gov](http://www.fdic.gov)) is a centralized source for FDIC research and analysis on potential areas of risk that is available to the industry, the public, and other regulators. Databases and reports provide comprehensive financial and structural information about every FDIC-insured institution. The data are provided in multiple formats, including eXtensible Business Reporting Language (XBRL), to provide access to financial institution information for all users of the data, including financial institutions, bank regulators, and the public.

#### Verification and Validation

Timely analyses of banking industry risks are included in regular publications or issued as ad hoc reports. Industry outreach activities aimed at the banking community and industry trade groups promote discussion of current trends and concerns and inform bankers about available FDIC resources. Publications and outreach events are documented through established reporting processes.

#### 2017 Performance Results

The FDIC successfully met the performance targets for this annual performance goal in 2017. This annual performance goal and its associated performance indicator and targets are unchanged for 2018.

### **STRATEGIC OBJECTIVE 1.3**

The DIF and the deposit insurance system remain strong and adequately financed.

#### **Annual Performance Goal 1.3-1**

Adjust assessment rates, as necessary, to achieve a DIF reserve ratio of at least 1.35 percent of estimated insured deposits by September 30, 2020.

#### Indicators and Targets

1. Updated fund balance projections and recommended changes to assessment rates
  - *Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2018, and December 31, 2018.*
  - *Recommend changes to deposit insurance assessment rates to the FDIC Board of Directors as necessary.*

## 2. Demonstrated progress in achieving the goals of the Restoration Plan

- *Provide progress reports to the FDIC Board of Directors by June 30, 2018, and December 31, 2018.*

### Means and Strategies

*Operational Processes (initiatives and strategies):* This rule reflects the requirements imposed by Dodd-Frank to increase the reserve ratio of the DIF. On July 1, 2016, a final rule went into effect that imposes surcharges on large banks. This rule, and the Restoration Plan adopted by the Board of Directors, will help the FDIC achieve the required 1.35 reserve ratio by September 30, 2020. As of December 31, 2017, the fund balance had risen to \$92.7 billion from its low of -\$20.9 billion at the end of 2009. The reserve ratio at December 31, 2017, was 1.30 percent.

The FDIC's Financial Risk Committee (FRC) recommends to the Chief Financial Officer a DIF contingent loss reserve for anticipated failures. The FRC regularly reviews adverse events to identify lessons or implications for monitoring and addressing risks, and consults with the other federal banking agencies in its deliberations.

The FDIC also maintains and, as necessary, enhances models that forecast failures, failure resolution costs, assessment revenue, investment revenue, operating expenses, and insured deposit growth in order to update the outlook for the insurance fund balance and reserve ratio and ensure compliance with the Restoration Plan.

In addition, the FDIC continues to enhance the techniques and methodologies used to analyze the nature of risk exposure, including scenario analysis and stress testing.

*Human Resources (staffing and training):* FDIC staff performs the analytical work associated with deposit insurance pricing and analysis of fund adequacy. The FDIC will continue to expand its ties to the academic community to broaden the information and analytical perspectives available to it as steward of the DIF.

*Information Technology:* The Risk-Related Premium System (RRPS) calculates the premiums that financial institutions are assessed for deposit insurance. RRPS is updated and tested when the insurance assessment pricing structure changes.

### Verification and Validation

Pursuant to the Federal Information Security Management Act, a security review of RRPS is conducted annually to ensure that the system identifies higher-risk institutions and appropriately assesses higher insurance premiums. In addition, the Government Accountability Office reviews annually the methodology used to determine the contingent loss reserve.

In 2018, the FRC will again conduct semiannual reviews of the contingent loss reserve methodology by analyzing the difference between projected and actual losses.

In addition, FDIC staff will report semiannually to the FDIC Board of Directors on progress made in meeting the goals of the Restoration Plan.

### 2017 Performance Results

The FDIC successfully met the performance targets for this annual performance goal in 2017. This annual performance goal and its associated performance indicators and targets are substantively unchanged, although the dates have been updated for 2018.

### **Annual Performance Goal 1.3-2**

Expand and strengthen the FDIC's participation and leadership role in supporting robust and effective deposit insurance programs, resolution strategies, and banking systems worldwide.

### Indicators and Targets

1. Activities to expand and strengthen engagement with strategically important foreign jurisdictions and key international organizations and associations, and to advance the FDIC's global leadership and participation on deposit insurance, bank supervision, resolution practices and international financial safety net issues
  - *Foster strong relationships with international banking regulators, deposit insurers, and other relevant authorities by engaging with strategically important jurisdictions and organizations on international financial safety net issues.*
  - *Provide leadership and expertise to key international organizations and associations that promote sound deposit insurance and effective bank supervision and resolution practices.*
2. Provision of technical assistance and training to foreign counterparts
  - *Promote international standards and expertise in financial regulatory practices and stability through the provision of technical assistance and training to global financial system authorities.*

### Means and Strategies

*Operational Processes (initiatives and strategies):* As a recognized global leader in promoting sound deposit insurance, bank supervision, and resolution practices, the FDIC provides technical guidance, training, consulting services, and information to governmental banking, deposit insurance, and resolutions organizations around the world. This is achieved, in part, through the FDIC's relationships with international financial institutions and regulatory agencies, and its leadership roles and participation in the International Association of Deposit Insurers (IADI), the Financial Stability Board (FSB), and the Association of Supervisors of Banks of the Americas (ASBA). The FDIC Director of the Division of Insurance and Research serves on the Executive Council of IADI and on the Core Principles Research Council Committee.

The FDIC chairs the Training and Conference Technical Committee, leading IADI's efforts to promote best practices in deposit insurance through the application of IADI Core Principles for Effective Deposit Insurance Systems (Core Principles). The FDIC also chairs the Training and Technical Committee of ASBA. In 2018, the FDIC will continue to support the governance, training, and other activities of the IADI, FSB, and ASBA.

In addition, the FDIC will engage bilaterally and multilaterally in 2018 with authorities in strategically important foreign jurisdictions to further develop resolution strategies for global systemically important financial institutions (G-SIFIs) that are chartered or have a substantial presence in the U.S. This includes, among other things, participation in the FDIC-European Commission working group; close work with the Bank of England's Resolution Directorate and the Single Resolution Board; tabletop exercises, principal-level events, and joint papers; hosting of foreign delegations; and support for missions to foreign authorities. The FDIC also will convene Crisis Management Groups (CMGs) for G-SIFIs based in the United States, attend CMGs for non-U.S. G-SIFIs with significant U.S. operations, and participate in activities intended to implement the Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes) from a U.S. perspective. The Key Attributes, endorsed by the Group of Twenty (G-20) in 2011, set out the core elements necessary for an effective resolution regime, including the ability to manage the failure of a G-SIFI in a way that minimizes systemic disruption and avoids the exposure of taxpayers to the risk of loss.

The FDIC will support visits and technical assistance for foreign counterparts that strengthen bank supervision and regulation and promote the adoption of sound deposit insurance and resolution frameworks. The FDIC will continue to promote the adoption of sound bank supervisory principles and practices in the Americas by providing subject matter experts as instructors for ASBA-sponsored training and ASBA-led research and guidance initiatives.

The FDIC will support the International Monetary Fund and World Bank in their Financial Sector Assessment Program, Reports on the Observance of Standards and Codes, and Technical Assistance by offering to provide subject matter experts for deposit insurance program reviews and resolution-related matters. The FDIC will continue its work with the FSB to develop an assessment methodology for the Key Attributes.

*Human Resources (staffing and training):* Available resources include an international affairs team dedicated to promoting the adoption of sound bank supervision, resolution, and deposit insurance principles and coordinating the FDIC's global outreach and technical assistance programs supplemented by subject matter experts within the FDIC. The International Affairs personnel will offer training to expand FDIC's staff expertise in evaluating the compliance of deposit insurance systems with IADI's Core Principles. FDIC International Affairs staff regularly coordinates and collaborates with other divisions and offices on the FDIC's major international activities and outreach in order to advance the FDIC's international agenda.

*Information Technology:* Information about the FDIC's international programs, such as technical assistance, foreign visitor, and international leadership development programs, as well as associations with international bodies including IADI, ASBA, and the European Forum of Deposit Insurers, is communicated through the FDIC's public website ([www.fdic.gov](http://www.fdic.gov)).

Verification and Validation

Progress in meeting this annual goal is reported to FDIC’s Division of Insurance and Research through established goal- and strategy-tracking processes. Quarterly reports document trends in the number of foreign visitors, foreign officials trained, technical assistance missions, and FDIC participation and leadership in key international organizations.

2017 Performance Results

The performance targets for this goal were successfully met in 2017. This annual performance goal and targets are unchanged, but the associated performance indicator has been updated for 2018.

**STRATEGIC OBJECTIVE 1.4**

The FDIC resolves the failure of insured depository institutions in the manner least costly to the DIF.

**Annual Performance Goal 1.4-1**

Market failing institutions to all known qualified and interested potential bidders.

Indicator and Target

1. Scope of qualified and interested bidders solicited
  - *Contact all known qualified and interested bidders.*

Means and Strategies

*Operational Processes (initiatives and strategies):* The FDIC markets the deposits and assets of failing institutions to all known qualified and interested potential bidders to encourage as much competition as possible. The FDIC maintains an inventory of qualified financial institutions that may be interested in bidding for a failing institution. In preparing a list of potential bidders for each failing institution, the FDIC takes into account the institution’s geographic location, competitive environment, minority-owned status, financial condition, asset size, capital level, and regulatory ratings. Potential bidders are then given the opportunity to perform due diligence on the failing institution’s assets and liabilities before determining whether to submit bids.

*Human Resources (staffing and training):* Franchise marketing is carried out primarily by specialized FDIC personnel with support, as needed, from staff in other disciplines. The FDIC’s Resolutions and Receiverships Commissioning Program ensures the future availability of trained and qualified personnel to handle this and other aspects of the resolutions and receivership management functions. Staffing requirements are continually assessed within the context of current and projected workload to ensure that the FDIC is appropriately staffed.

The FDIC also uses contractor support, nonpermanent employees, and employees temporarily assigned from divisions and offices throughout the organization to meet workload demands and mission responsibilities in this area.

*Information Technology:* The FDIC documents franchise marketing activities through its automated Franchise Marketing System (FMS).

#### Verification and Validation

Data from the FMS are used to report on marketing and sales progress.

#### 2017 Performance Results

The FDIC successfully met the performance target for this annual performance goal for each of the eight insured institution failures that occurred in 2017. This annual performance goal and its associated performance indicator and target are unchanged for 2018.

### **STRATEGIC OBJECTIVE 1.5**

The public and FDIC-insured depository institutions have access to accurate and easily understood information about federal deposit insurance coverage.

#### **Annual Performance Goal 1.5-1**

Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts.

#### Indicators and Targets

1. Timeliness of responses to deposit insurance coverage inquiries
  - *Respond within two weeks to 95 percent of written inquiries from consumers and bankers about FDIC deposit insurance coverage.*
2. Initiatives to increase public awareness of deposit insurance coverage changes
  - *Conduct at least four telephone or in-person seminars for bankers on deposit insurance coverage.*

#### Means and Strategies

*Operational Processes (initiatives and strategies):* The FDIC uses various methods to educate insured financial institution employees and depositors about FDIC deposit insurance coverage. In addition to conducting seminars for bank employees, the FDIC encourages the dissemination of educational information through the banking industry and the media.

The FDIC also (1) operates a toll-free call center (877-ASK-FDIC) to answer questions about FDIC deposit insurance coverage, (2) maintains educational and informational resources on its website, (3) publishes articles on deposit insurance coverage in *FDIC Consumer News* (a quarterly newsletter for consumers published by the FDIC), and (4) works to raise awareness of deposit insurance coverage through the national and regional news media. The call center is staffed by contractors who are trained to provide answers to many different questions about deposit insurance coverage. Complex or unique issues, or those requiring additional analysis and review, are referred by the call center to FDIC employees who specialize in deposit insurance issues and who can research the issue and respond.

In addition, the FDIC administers a public education program that includes developing and distributing a wide range of written materials, videos, electronic calculators, and other tools to help consumers and bank employees understand how FDIC deposit insurance works. The FDIC also provides training to employees of insured financial institutions.

*Human Resources (staffing and training):* The FDIC has a dedicated staff of deposit insurance specialists and contractors who respond to thousands of telephone and written inquiries from consumers and bankers about deposit insurance coverage. The call center is also supported by a dedicated staff of subject matter experts on deposit insurance issues.

The FDIC regularly reviews staffing and training needs to ensure that the resources supporting deposit insurance educational initiatives are adequate and that employees possess the skills and knowledge to implement this program effectively and successfully.

*Information Technology:* The FDIC tracks the receipt of and response to written inquiries through the Specialized Tracking and Reporting System (STARS). The FDIC also provides the Electronic Deposit Insurance Estimator (EDIE), which consumers and bankers can use to estimate deposit insurance coverage, on its public website. The FDIC continues to use the internet and the latest multi-media technology to deliver educational tools and materials to the banking community and the public.

#### Verification and Validation

Progress in meeting the performance targets for this goal will be tracked through STARS and established reporting processes.

#### 2017 Performance Results

The FDIC successfully met the performance targets for this annual performance goal in 2017. This annual performance goal and its associated indicators and targets are unchanged for 2018.

## **SUPERVISION PROGRAM**

To promote public confidence and stability in the nation's financial system, the FDIC's Supervision Program promotes the safety and soundness of insured depository institutions, protects consumer rights, and promotes community investment initiatives by FDIC-supervised institutions.

The FDIC is the primary federal regulator for state-chartered banks and savings institutions that are not members of the Federal Reserve System, generally known as state nonmember banks and state-chartered thrifts. This includes state-licensed insured branches of foreign banks and state-chartered savings institutions. As insurer, the FDIC also has special (back-up) examination authority for state member banks that are supervised by the Federal Reserve Board (FRB) and national banks and thrift institutions that are supervised by the Office of the Comptroller of the Currency (OCC). The FDIC's roles as insurer and primary supervisor are complementary and many activities undertaken by the FDIC support both the insurance and supervision programs. Through the review of examination reports, use of off-site monitoring tools, participation in examinations conducted by other federal regulators, and, where appropriate, performance of special (back-up) examination activities, the FDIC regularly monitors the potential risks at all insured institutions, including those for which it is not the primary federal regulator.

Dodd-Frank expanded the FDIC's statutory responsibilities beyond insured depository institutions to bank holding companies with more than \$50 billion in assets and nonbank financial companies that are designated as SIFIs by the Financial Stability Oversight Council (FSOC). Dodd-Frank designates the FRB as the primary supervisor of these companies, but the FDIC has established on- and off-site monitoring programs and has certain statutory back-up examination authorities for these companies. The purpose of the FDIC's monitoring and risk assessment activities for these institutions is, where possible, to mitigate identified risks; to assess the adequacy of the institution's efforts to prepare to reorganize or liquidate through bankruptcy in the event of financial distress; and be prepared, if necessary, to conduct an orderly liquidation of the company.

As the primary federal regulator of all insured state nonmember banks and state-chartered thrifts, the FDIC performs periodic risk management examinations of these institutions to assess their overall financial condition, management policies and practices, and compliance with applicable laws and regulations. The FDIC also performs Bank Secrecy Act (BSA) and information technology reviews at each risk management examination and, when applicable, conducts reviews of trust, registered transfer agent, municipal securities dealer, and government security dealer activities at these examinations.

Through the examination process, the FDIC also assesses the adequacy of an institution's management and internal control systems to identify and control risks and to detect the risks of fraud or insider abuse. In addition, the FDIC uses off-site monitoring programs to enhance its ability to promptly identify emerging safety-and-soundness issues.

The FDIC's compliance examination program promotes compliance with federal consumer protection laws, fair lending statutes, the Community Reinvestment Act (CRA), and the regulations that implement these laws and statutes. The program seeks to ensure that consumers are treated fairly and that the disclosures institutions provide to consumers are accurate and complete. To promote the most effective and efficient use of resources, the compliance examination program focuses on the bank's activities and products that pose the greatest potential risk of consumer harm or otherwise require increased supervisory attention. The FDIC conducts separate examinations for all state nonmember banks to assess the effectiveness of their compliance management systems and CRA performance. Banks that are subject to the primary jurisdiction of the Consumer Financial Protection Bureau (CFPB) are examined for compliance with the regulations that were not transferred to the CFPB, including the CRA. More information on the FDIC's relationship with CFPB can be found in Appendix D.

If weaknesses are identified through the examination process, the FDIC promptly takes appropriate supervisory action. Formal and informal enforcement actions may be issued to correct identified violations or other problems for institutions that are operating in a deteriorated financial condition; failing to comply with consumer protection, fair lending, and other statutes; or displaying other significant weaknesses, including weaknesses in operations or risk management practices. These enforcement actions remain in place until the identified weaknesses are remedied.

The FDIC also investigates consumer complaints about FDIC-supervised insured depository institutions. Consumers write or electronically submit to the FDIC complaints and inquiries regarding consumer protection and fair lending issues. Through its investigation of and response to consumer complaints and inquiries, the FDIC attempts to help consumers better understand their rights under federal consumer protection and fair lending laws. The FDIC uses surveys to monitor consumers' satisfaction with its responses to complaints and inquiries.

In addition, the FDIC acts on applications from FDIC-supervised insured depository institutions to undertake certain transactions or engage in new or expanded business activities. In reviewing these applications, the FDIC evaluates the statutory factors relevant to the application. Generally, depending on the type of application, these factors may pertain to, for instance, capital adequacy, management, financial resources, convenience and needs of the community to be served, and risk to the DIF. Consistent with the relevant statutory factors, the FDIC's evaluations consider an institution's compliance with consumer protection and fair lending requirements, as well as performance under the CRA.

Information about the FDIC's supervisory program, including laws, regulations, and regulatory guidance, is available at [www.fdic.gov](http://www.fdic.gov). The FDIC's semiannual *Supervisory Insights* journal provides information about bank supervision to bankers, bank examiners, and other practitioners. The FDIC will focus in 2018 on addressing a variety of risks to financial institutions, including potential changes in interest rates and cybersecurity risks. In addition, the FDIC will continue to implement its authorities under Dodd-Frank, as well as its ongoing community banking initiative.

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

As the post-crisis economic expansion has progressed, there has been a resumption of loan growth in the banking industry. Institutions with concentrated portfolios are experiencing more rapid loan growth rates than the rest of the industry. At some banks, loan growth has been accompanied by a reduction in holdings of liquid assets and increased reliance on funding sources other than stable core deposits. These trends have the potential to give rise to heightened credit and liquidity risks. In addition, an extended period of historically low interest rates and tightening net interest margins has 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.

Through regular on-site examinations and interim contacts with state non-member institutions, FDIC staff regularly engages in dialogue with banks to ensure that their policies to manage credit, liquidity, and interest-rate risks 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 are potentially more exposed to these risks and follows up with individual institutions to better understand their risk profiles.

FDIC examiners now devote additional attention during the examination process to assessing how well banks are managing the risks associated with concentrated credit exposures and concentrated funding sources. The findings of these assessments are shared with bank management in the report of examination. In 2018, the FDIC will continue to identify and address interest-rate risk, credit risk, and liquidity risk at FDIC-supervised institutions through off-site analysis and on-site examinations.

*Cybersecurity*

Cybersecurity remains an ongoing concern for the financial services sector because of the reliance on information technology not only in bank operations, but also as an interface with customers. The frequency and sophistication of cyber-attacks continues to increase with the financial services sector being a prime target. In response, financial institutions and their service providers are continually challenged to assess the quickly changing risks and to allocate adequate resources to mitigate the risks to an acceptable level.

The FDIC monitors cybersecurity issues on a regular basis, primarily through on-site bank examinations. During 2017, the FDIC continued to strengthen its examination program by filling 15 senior examiner positions that will be responsible for conducting examinations of complex financial institutions and significant information technology service providers. The FDIC and other federal banking agencies also implemented a revised cybersecurity work program for use in examinations of significant service providers. In 2018, the FDIC, along with the other members of the Federal Financial Institution Examination Council (FFIEC), will continue to update the *FFIEC IT Examination Handbook*, which provides examination guidelines and procedures. The FDIC, in concert with other agencies, will also assess risks horizontally at large and complex institutions to understand the level of risk in the system. Finally, the FDIC will assist banks in evaluating their own operational readiness and resilience by publishing new scenarios for the Cyber Challenge series that will include video vignettes and self-assessment resources.

The FDIC created “Cyber Challenge: A Community Bank Cyber Exercise” to encourage community financial institutions to discuss operational risk issues and the potential impact of information technology disruptions on common banking functions.

#### *Dodd-Frank Responsibilities*

In 2018, the FDIC will continue to develop its capabilities related to its responsibilities under the Dodd-Frank Act. The FDIC will conduct ongoing risk monitoring reviews of all banking organizations with more than \$100 billion in assets, as well as certain nonbank financial companies designated as systemically important by the FSOC (designated nonbank SIFIs). In addition, the FDIC will review the resolution plans submitted by insured depository institutions and bank holding companies with assets of \$50 billion or more, as well as designated nonbank SIFIs. The FDIC is responsible for ensuring that the resolution plans filed by bank holding companies and designated nonbank SIFIs provide a viable approach for reorganizing a firm or liquidating it through bankruptcy without severe adverse consequences for the financial system or the U.S. economy.

#### *Community Banking Initiative*

Finally, community bank issues will remain a high priority for 2018. The FDIC will continue to consult with the Advisory Committee on Community Banking and to follow up on the recommendations from its *Community Banking Study* to make its supervisory process more efficient, consistent, and transparent to community banks. In addition, the FDIC will release a number of new or updated videos as part of its Technical Assistance Video Program.

The following table depicts the strategic goal, strategic objective, and annual performance goals for the Risk Management component of the Supervision Program.

Strategic Goal	Strategic Objective	Annual Performance Goals
<p>FDIC-insured institutions are safe and sound.</p>	<p>The FDIC exercises its statutory authority, in cooperation with other primary federal regulators and state agencies, to ensure that all FDIC-insured institutions appropriately manage risk.</p>	<p>Conduct on-site risk management examinations to assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions.</p> <p>When problems are identified, promptly implement appropriate corrective programs, and follow up to ensure that identified problems are corrected. (2.1-1)</p>
		<p>Assist in protecting the infrastructure of the U.S. banking system against terrorist financing, money laundering, and other financial crimes. (2.1-2)</p>
		<p>Ensure that regulatory capital standards promote banks’ resilience under stress and the confidence of their counterparties. (2.1-3)</p>
		<p>Implement strategies to promote enhanced cybersecurity and business continuity within the banking industry. (2.1-4)</p>

The following table depicts the strategic goal, strategic objectives, and annual performance goals for the Compliance and Consumer Affairs components of the Supervision Program.

<b>Strategic Goal</b>	<b>Strategic Objectives</b>	<b>Annual Performance Goals</b>
Consumers' rights are protected, and FDIC-supervised institutions invest in their communities.	FDIC-supervised institutions comply with consumer protection, CRA, and fair lending laws and do not engage in unfair or deceptive practices.	Conduct on-site CRA and consumer compliance examinations to assess compliance with applicable laws and regulations by FDIC-supervised depository institutions. When violations are identified, promptly implement appropriate corrective programs, and follow up to ensure that identified problems are corrected. (3.1-1)
	Consumers have access to accurate and easily understood information about their rights and the disclosures due them under consumer protection and fair lending laws.	Effectively investigate and respond to written consumer complaints and inquiries about FDIC-supervised financial institutions. (3.2-1)
	The public has access to safe and affordable products and services from insured depository institutions and the opportunity to benefit from a banking relationship.	Promote economic inclusion and access to responsible financial services through supervisory, research, policy, and consumer/community affairs initiatives. (3.3-1)

The following table depicts the strategic goal, strategic objectives, and annual performance goals for the Resolution Planning component of the Supervision Program.

<b>Strategic Goal</b>	<b>Strategic Objective</b>	<b>Annual Performance Goal</b>
Large and complex financial institutions are resolvable in an orderly manner under bankruptcy.	Large and complex financial institutions are resolvable under the Bankruptcy Code.	Identify and address risks in large and complex financial institutions, including those designated as systemically important. (4.1-1)

**STRATEGIC GOAL 2:**  
FDIC-insured institutions are safe and sound.

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**STRATEGIC OBJECTIVE 2.1**

The FDIC exercises its statutory authority, in cooperation with primary federal regulators and state agencies, to ensure that all FDIC-insured institutions appropriately manage risk.

**Annual Performance Goal 2.1-1**

Conduct on-site risk management examinations to assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions. When problems are identified, promptly implement appropriate corrective programs and follow up to ensure that identified problems are corrected.

Indicators and Targets

1. Percentage of required examinations conducted in accordance with statutory requirements and FDIC policy
  - *Conduct all required risk management examinations within the timeframes prescribed by statute and FDIC policy.*
2. Follow-up actions on identified problems
  - *For at least 90 percent of institutions that are assigned a composite CAMELS rating of 2 and for which the examination report identifies “Matters Requiring Board Attention” (MRBAs), review progress reports and follow up with the institution within six months of the issuance of the examination report to ensure that all MRBAs are being addressed.*

Means and Strategies

*Operational Processes (initiatives and strategies):* Risk management examinations assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions. The FDIC performs safety and soundness, BSA, and information technology reviews at each risk management examination of an FDIC-supervised insured depository institution. As applicable, the FDIC also conducts reviews of trust, registered transfer agent, municipal securities dealer, and government security dealer activities at these examinations.

In 2018, the FDIC projects that it will conduct more than 1,579 risk management examinations required under statute, FDIC policy, or agreements with state supervisors. The number of risk management examinations conducted during 2018 may fluctuate as the number of FDIC-supervised insured depository institutions changes as a result of mergers, closings, newly approved charters, and other actions.

In addition, increases in asset size or changes to an institution's condition or capital levels may accelerate examination cycles and increase the number of required examinations.

The FDIC follows a risk-focused approach to examinations, which allows examiners to focus resources on those areas with the greatest potential risk. The FDIC has several analytical models to identify higher-risk financial institutions by considering factors such as rapid growth, fluctuating earnings, economic downturns, and concentrations in vulnerable industry sectors. Examiners use these off-site tools to help them focus on various risks during on-site examinations. These models are also used to identify the need for inquiries or on-site visits to FDIC-supervised institutions outside of the regular examination cycle.

On-site examinations also review technology-related activities to determine how each FDIC-supervised depository institution manages its information technology risks. The FDIC proactively monitors indicators of technology risk that may affect FDIC-supervised institutions and provides information to the industry about risks associated with technology outsourcing practices. The FDIC regularly engages with technology vendors, bank trade associations, and standards- and rule-setting entities to identify and promote effective risk management practices for emerging technologies.

The examination report identifies any corrective actions to be taken by the institution. If deemed necessary, a formal or informal enforcement action is sent to the financial institution with the report of examination. To ensure that supervisory actions are taken promptly, the FDIC monitors the time it takes to provide examination reports to FDIC-supervised institutions after the completion of an examination. In addition to an on-site visit and a subsequent examination, compliance with an enforcement action is assessed through progress reports from the institution, use of off-site monitoring tools, and direct communication with management of the financial institution.

At this point in the economic cycle, it is important to ensure that problems identified at well-rated institutions are promptly addressed before they result in more serious deficiencies requiring formal or informal corrective programs. When there are material issues and recommendations that require attention by the institution's board of directors, the examination report will identify MRBAs to highlight areas that, if not properly measured, monitored, and controlled, could adversely affect the institution. A timely response is requested from institution management to mitigate risks and correct noted deficiencies. The response is reviewed to ensure it is appropriate and that it addresses supervisory concerns.

*Human Resources (staffing and training):* In 2018, the FDIC has 1,549 authorized positions (1,520 permanent and 29 nonpermanent) in its field workforce to conduct risk management examinations. Additionally, there are 14 specialized Information Technology Examination Analyst (ITEA) positions to augment the information technology expertise within the examination workforce. Field examiners conduct on-site examinations and visits.

Staffing and training needs are reviewed regularly to ensure that the examination staff possesses the skills and knowledge to effectively identify existing and emerging risks. The FDIC is currently updating its certification training programs and subject matter expertise in the areas of information technology, trust, accounting, BSA/anti-money laundering, and capital markets.

The FDIC has cooperative agreements with most states to conduct joint or alternating risk management examinations. If a state supervisor handling an examination has scheduling, staffing, or other resource constraints, the statutory examination requirement may not be met. In such cases, the FDIC will work with the state supervisor to make sure that any delinquent examination is quickly scheduled and completed. When appropriate, the FDIC may conduct the examination instead of the state supervisor.

Case managers and other regional office officials finalize reports of examination and monitor compliance with enforcement programs. Staffing and training needs for this function are also reviewed regularly to ensure that the resources available are adequate and that employees possess the required skills and knowledge.

*Information Technology:* The FDIC's Virtual Supervisory Information on the Net (ViSION) system is used to schedule and track the completion of risk management examinations. ViSION also is used to monitor all enforcement activity and other significant events at troubled institutions and to schedule on-site visits and follow-up examinations of 3-, 4-, and 5-rated institutions.

#### Verification and Validation

The number and timing of examinations are tracked through ViSION and reported through established management processes. Enforcement actions and the timing of required on-site visits are tracked through ViSION. The FDIC uses its Regional Office Internal Control Review program to ensure that regions effectively monitor the compliance of FDIC-supervised institutions with formal and informal enforcement actions. This review incorporates various components of the supervisory process, including assessment of the appropriateness of formal and informal corrective actions and monitoring of enforcement implementation and follow-up activities. Any material exceptions noted during the reviews are brought to management's attention for appropriate action.

#### 2017 Performance Results

The FDIC successfully met the performance target for this annual performance goal in 2017. This annual performance goal and its associated performance indicators and targets are unchanged for 2018.

#### **Annual Performance Goal 2.1-2**

Assist in protecting the infrastructure of the U.S. banking system against terrorist financing, money laundering, and other financial crimes.

#### Indicator and Target

1. Percentage of required examinations conducted in accordance with statutory requirements and FDIC policy
  - *Conduct all BSA examinations within the timeframes prescribed by statute and FDIC policy.*

Means and Strategies

*Operational Processes (initiatives and strategies):* The FDIC conducts Bank Secrecy Act/Anti-Money Laundering (BSA/AML) examinations and Office of Foreign Assets Control (OFAC) reviews to assess the BSA/AML and OFAC compliance programs of FDIC-supervised financial institutions. These examinations and reviews cover sound risk management, compliance with recordkeeping and reporting requirements, the ability of the institution to identify and report suspicious activities, and compliance with trade and economic sanctions. BSA/AML examinations and OFAC reviews are performed as a part of all risk management examinations of FDIC-supervised insured depository institutions. The FDIC also completes BSA/AML examinations and OFAC reviews for states that do not conduct these examinations. The FDIC follows a risk-based approach to BSA/AML examinations and OFAC reviews, which allows examiners to focus resources on those areas with the greatest potential risk.

Guidance is provided to risk management staff through written memoranda, participation in the FFIEC BSA/AML Examination Workshop, and attendance at the FFIEC Advanced BSA/AML Specialists Conference.

*Human Resources (staffing and training):* There are 326 FDIC examiners who are designated as BSA/AML subject matter experts. Staffing and training needs are reviewed regularly to ensure the staff resources supporting the BSA/AML examination program are adequate and that employees possess the skills and knowledge to effectively and successfully assess compliance with BSA/AML requirements and detect any emerging risks. In 2017, the FDIC strengthened its BSA/AML staffing resources by establishing senior BSA/AML examiner positions in each region. In 2018, the FDIC is developing a formal on-the-job training program to develop higher-level proficiencies in the BSA/AML and OFAC examination specialty area.

*Information Technology:* ViSION is used to track the number and timing of required BSA/AML examinations. Examiners also use the Examination Tool Suite (ETS) to update BSA violation codes automatically, thereby increasing the efficiency of those examinations.

Verification and Validation

The number and timing of BSA/AML examinations are tracked in ViSION and reported through established management processes.

2017 Performance Results

The FDIC successfully met the performance target for this annual performance goal in 2017. This annual performance goal and its associated performance indicator and target are unchanged for 2018.

**Annual Performance Goal 2.1-3**

Ensure that regulatory capital standards promote banks' resilience under stress and the confidence of their counterparties.

### Indicators and Targets

1. Simplification of capital standards for community banks
  - *Finalize a Notice of Proposed Rulemaking (NPR) for a simplified risk-based capital framework for community banks.*
2. U.S. implementation of internationally agreed regulatory standards
  - *Finalize the Basel III Net Stable Funding Ratio (NSFR).*

### Means and Strategies

*Operational Processes (initiatives and strategies):* FDIC staff has been working closely with the staffs of the other federal banking agencies to develop a proposal to simplify the capital framework applicable to community banks. The federal banking agencies identified the regulatory capital framework as a regulation that could be simplified as part of their most recent review of opportunities for regulatory burden reduction conducted pursuant to the Economic Growth and Regulatory Paperwork Reduction Act. The federal banking agencies hope, in particular, to simplify and streamline the capital treatment applicable to certain commercial real estate exposures. An NPR to seek comment on simplifications to the regulatory capital framework was approved by the FDIC Board of Directors in September 2017.

During the financial crisis, a number of large banking organizations failed, or experienced serious difficulties, in part because of severe liquidity problems. In May 2016, the FDIC and other banking agencies proposed a rule that would reduce the vulnerability of large banking organizations to liquidity risk. The NSFR rule would require certain large banks to maintain sufficient levels of stable funding, including capital, long-term debt, and other stable sources over a one-year window, to account for the liquidity risks arising from their assets, derivatives, and off-balance sheet activities. Comments were received about the proposed rule's stable funding requirements for assets, liabilities, and off-balance sheet exposures, as well as the estimated costs and benefits and the empirical foundation and underpinnings supporting the proposal. The federal banking agencies are reviewing these comments and considering how to proceed with the proposed rule.

*Human Resources (staffing and training):* The breadth and depth of knowledge among FDIC staff on bank liquidity, funding, and other capital markets matters has expanded in recent years, partly through continued staff participation and active involvement in numerous Basel policy development groups. In 2018, the FDIC will continue to increase the number of staff with capital market expertise by providing internal and external training on liquidity, funding, capital, trading activities, financial modeling, and other capital market areas. The FDIC is also developing a formal on-the-job training program to develop higher-level proficiencies in the Capital Markets specialty area.

*Information Technology:* The FDIC will use existing technology to accomplish this annual performance goal.

Verification and Validation

Progress in meeting this annual performance goal will be tracked through periodic meetings and established reporting processes.

2017 Performance Results

The FDIC partially met the performance targets for this annual performance goal in 2017. The FDIC issued a proposed rule for a simplified capital framework for community banks, but a final rule to implement the proposed BASEL III NSFR is still under review. The annual performance goal and its associated performance indicators are unchanged from 2017, but one of the associated performance targets has been updated for 2018.

**Annual Performance Goal 2.1-4**

Implement strategies to promote enhanced cybersecurity and business continuity within the banking industry.

Indicator and Target

1. Enhance the cybersecurity awareness and preparedness of the banking industry
  - *Continue implementation of a horizontal review program that focuses on the information technology risks in large and complex supervised institutions and in technology service providers.*
  - *Continue implementation of the Cybersecurity Examination Program for the most significant service provider examinations.*

Means and Strategies

*Operational Processes (initiatives and strategies):* The importance of cybersecurity and business continuity management to ensure the soundness and stability of the nation's financial sector cannot be overstated. Therefore, the FDIC takes this issue extremely seriously and continually updates its procedures in order to effectively supervise financial institutions and their technology service providers. Currently, the FDIC assesses supervised institutions' ability to manage information technology risks through the Information Technology Risk Examination (InTREx) program. This program, developed in collaboration with the FRB and the Conference of State Bank Supervisors, supports examiners in evaluating cybersecurity, business continuity, incident response, audit and assessment, board and management oversight, vendor relationships, and payment systems. When weaknesses are identified in supervised financial institutions or technology service providers, the FDIC uses a range of informal and formal actions to compel correction.

The FDIC co-led an effort through the FFIEC Task Force on Supervision to develop a uniform process and tool for assessing how technology service providers manage cybersecurity risks. The Cybersecurity Examination Program was issued in August 2017 and is now being used to assess cybersecurity risk management at the most significant technology service provider examinations.

*Human Resources (staffing and training):* All of the FDIC's commissioned risk management examiners have basic information technology examination skills attained through the FDIC's training programs. The FDIC also has 63 dedicated information technology examiners, and 154 risk management examiners designated as either intermediate or advanced information technology subject matter experts based on completion of the FDIC's information technology on-the-job training program. Finally, 35 specialized ITEAs support the information technology examination process with advanced technical skills. The information technology examination function is also supported by information technology policy and examination personnel at headquarters.

*Information Technology:* ViSION is used to schedule and track the completion of risk management examinations, and to track any related enforcement actions or significant events at institutions due to noncompliance with information technology-related banking laws and regulations.

### Verification and Validation

The number and timing of information technology examinations are tracked through ViSION and reported through established management processes. Enforcement actions and the timing of required on-site visits are also tracked through ViSION.

The majority of technology service provider examinations are conducted and scheduled on an interagency basis. Planning for examinations of the largest technology service providers takes place annually with the OCC and the FRB. Examinations of smaller technology service providers are managed at the FDIC regional office level in coordination with local FRB and OCC counterparts.

All information technology examination activity (including technology service provider examinations) conducted by FDIC staff and detailed information on individual examiner participation is tracked through FDIC systems.

The FDIC uses its Regional Office Internal Control Review program to ensure that regions effectively monitor the compliance of FDIC-supervised institutions with formal and informal enforcement actions. This review incorporates various components of the supervisory process, including assessment of the appropriateness of formal and informal corrective actions and monitoring of enforcement implementation and follow-up activities. Any material exceptions noted during the reviews are brought to management's attention for appropriate action.

### 2017 Performance Results

The FDIC substantially met the performance targets for this annual performance goal in 2017. This annual performance goal and associated indicator and performance targets have been updated for 2018.

**STRATEGIC GOAL 3:**

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

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**STRATEGIC OBJECTIVE 3.1**

FDIC-supervised institutions comply with consumer protection, CRA, and fair lending laws and do not engage in unfair or deceptive practices.

**Annual Performance Goal 3.1-1**

Conduct on-site CRA and consumer compliance examinations to assess compliance with applicable laws and regulations by FDIC-supervised depository institutions. When violations are identified, promptly implement appropriate corrective programs and follow up to ensure that identified problems are corrected.

Indicators and Targets

1. Percentage of examinations conducted in accordance with the timeframes prescribed by FDIC policy
  - *Conduct all required examinations within the timeframes established by FDIC policy.*
2. Implementation of corrective programs
  - *Conduct visits and/or follow-up examinations in accordance with established FDIC policies to ensure that the requirements of any required corrective program have been implemented and are effectively addressing identified violations.*

Means and Strategies

*Operational Processes (initiatives and strategies):* The FDIC conducts CRA and compliance examinations of FDIC-supervised depository institutions to determine compliance with consumer protection and fair lending laws and performance under CRA. The frequency of compliance examinations is specified by FDIC policy. For CRA examinations, the FDIC's examination frequency policy conforms to applicable provisions of the Gramm-Leach-Bliley Act (GLBA), which establishes the CRA examination cycle for most small banks. In 2018, the FDIC estimates that it will conduct approximately 1,241 compliance and/or CRA examinations.

The FDIC's compliance examination approach emphasizes a risk-focused scoping process to look at an institution's compliance risk management practices and the potential risk of consumer harm. This approach involves an expanded review of an institution's systems and compliance policies so that transaction testing can be better targeted and focused on areas that pose the greatest risk for consumer harm. This approach creates a more efficient and effective use of examination resources, especially in financial institutions with high compliance risk profiles.

Institutions with compliance deficiencies are identified primarily through the examination process. While discussions with bank management are usually sufficient to correct these deficiencies, the FDIC has broad enforcement powers to correct practices, conditions, or violations of law that threaten an institution's compliance with consumer protection and fair lending laws or a consumer's rights under those laws.

Institutions that are subject to enforcement actions because of unfavorable ratings for compliance with consumer protection and fair lending laws and regulations are closely monitored by regional office officials. A follow-up examination or on-site visit is conducted to review compliance with supervisory actions for each institution that receives an unsatisfactory rating. Additional follow-up action is taken when the initial corrective program is determined to have been insufficient in addressing the identified problem. Progress in complying with an enforcement action is also assessed through quarterly progress reports from, and direct communication with, management of the financial institution.

*Human Resources (staffing and training):* The FDIC has 468 authorized permanent compliance examiner positions in its field examination workforce in 2018. Staffing and training needs are reviewed regularly to ensure that staff resources supporting the compliance supervision program are adequate to conduct a high-quality examination program and to ensure that employees possess the skills and knowledge to effectively implement this program.

*Information Technology:* The System of Uniform Reporting of Compliance and CRA Examinations (SOURCE) is used to schedule and track compliance examinations, support pre-examination planning, and provide management information.

#### Verification and Validation

The FDIC will analyze examination-related data collected in SOURCE to determine whether the performance target for this goal is achieved during the reporting period. Results will be reported through established management processes.

#### 2017 Performance Results

The FDIC successfully met the performance targets for the annual performance goal in 2017. This annual performance goal and its associated performance indicators and targets are unchanged for 2018.

## STRATEGIC OBJECTIVE 3.2

Consumers have access to accurate and easily understood information about their rights and the disclosures due them under consumer protection and fair lending laws.

### Annual Performance Goal 3.2-1

Effectively investigate and respond to written consumer complaints and inquiries about FDIC-supervised financial institutions.

#### Indicator and Target

1. Timely responses to written consumer complaints and inquiries

- *Respond to 95 percent of written consumer complaints and inquiries within timeframes established by policy, with all complaints and inquiries receiving at least an initial acknowledgement within two weeks.*

#### Means and Strategies

*Operational Processes (initiatives and strategies):* The FDIC has a comprehensive program to disseminate information to banks and the public on consumer rights under consumer protection and fair lending laws and regulations. It also operates a centralized Consumer Response Center (CRC) that coordinates the investigation of, and response to, consumer complaints and inquiries. For correspondence related to FDIC-supervised institutions, FDIC staff contacts the institution and reviews the bank's actions for compliance with applicable federal consumer protection regulations before providing a response. Correspondence regarding institutions under the jurisdiction of other primary federal regulators is referred to those agencies. Target response times vary by the type of inquiry or complaint.

*Human Resources (staffing and training):* The CRC is located in Kansas City and is staffed by FDIC employees. CRC staff and management work in partnership with supervisory staff in each region on consumer complaints and inquiries involving new or unusual issues or sensitive matters.

*Information Technology:* The FDIC uses an automated Customer Assistance Form on the FDIC's website to facilitate submission of consumer correspondence. Currently, the Specialized Tracking and Reporting System (STARS) is used to capture and report information regarding the FDIC's consumer assistance program, including response time. During 2018, the CRC will be implementing a new system of record, the Enterprise Public Inquiries and Complaints (EPIC) system to replace STARS. This system will provide similar functionality as STARS in capturing and reporting information regarding complaints and inquiries.

#### Verification and Validation

The FDIC closely monitors the timeliness of its acknowledgment letters and responses through STARS. Performance results are monitored through established management processes.

In addition, surveys are sent to all consumers who have filed written consumer protection and fair lending complaints about an FDIC-supervised institution to assess their satisfaction with the FDIC's investigations and responses. Established survey research methods are used to ensure the validity and reliability of the survey instrument and results.

### 2017 Performance Results

The FDIC successfully met the performance target for this annual performance goal in 2017. This annual performance goal and its associated performance indicator and target are unchanged for 2018.

## **STRATEGIC OBJECTIVE 3.3**

The public has fair access to banking services and is treated equitably by FDIC-supervised institutions.

### **Annual Performance Goal 3.3-1**

Promote economic inclusion and access to responsible financial services through supervisory, research, policy, and consumer/community affairs initiatives.

#### Indicator and Targets

##### 1. Completion of planned initiatives

- *Publish the results of the 2017 FDIC National Survey of Unbanked and Underbanked Households.*
- *Complete planning for the 2019 FDIC National Survey of Unbanked and Underbanked Households.*
- *Continue to promote broader access to and use of low-cost transaction and savings accounts to build banking relationships that will meet the needs of unbanked and underbanked households by increasing the current level of engagement from 10 communities to 15 communities.*
- *Launch the revised Money Smart for Adults curriculum.*

#### Means and Strategies

*Operational Processes (initiatives and strategies):* Approximately 27 percent of U.S. households are underserved by the banking industry, based on survey results previously published by the FDIC. This includes both “unbanked” households (i.e., those with no checking or savings accounts) and “underbanked” households (i.e., those with checking or savings accounts who have used nonbank alternative financial services and providers, such as money orders, check cashing services, payday loans, rent-to-own agreements, pawn shops, or refund anticipation loans, in the past 12 months).

During 2018, the FDIC will publish results from the *2017 FDIC National Survey of Unbanked and Underbanked Households*, conducted jointly with the U.S. Census Bureau. In addition to the survey, the FDIC also collects information to provide insights into banks' efforts to serve the unbanked and underbanked. In 2018, the FDIC will also complete planning for the 2019 iteration of the household survey. This work will include qualitative research with consumers to identify opportunities to strengthen the survey questionnaire. In 2018, the FDIC will also initiate research to gain a better understanding of factors affecting household use of mobile banking and other banking channels. Together, these efforts will enable the FDIC to provide an important set of references that will help assess progress in the area of economic inclusion, as well as remaining challenges. In addition, the FDIC will be better positioned to identify strategies that promote economic inclusion by studying opportunities to expand access to mainstream financial services, identifying the role that community banks play in meeting community needs, and increasing awareness of communities that are currently underserved or at risk of becoming underserved.

The Advisory Committee on Economic Inclusion (ComeE-IN) supports research, demonstrations, and pilot projects, and promotes sound supervisory and public policies to improve the "appropriate engagement" of underserved households with mainstream financial institutions. Appropriate engagement means that households are using financial products and services that are affordable, easy to understand, and not subject to unfair or unforeseen fees.

ComeE-IN's work will support the expanded availability of SAFE accounts and the responsible use of technology, including mobile banking, to expand banking services to the underbanked population. ComeE-IN may recommend to the FDIC specific measures of improvement, many of which may represent national objectives that require the participation and cooperation of multiple stakeholders, including other federal agencies; federal, state, and local policy makers; the financial services industry; nonprofit and philanthropic groups; and consumer groups.

During 2018, FDIC working groups will continue to conduct research, facilitate partnerships, and conduct outreach related to expanding access to mainstream banking services for underserved consumers. The FDIC may present these proposals to ComeE-IN for advice and recommendations.

*Human Resources (staffing and training):* This annual performance goal will be carried out largely by existing staff in the FDIC's consumer research, policy, and consumer and community affairs functions. ComeE-IN activities are supported by staff in several FDIC divisions. Employees in those divisions provide staff support for ComeE-IN, as needed, including support for its research and demonstration activities.

*Information Technology:* Existing technology will be used to accomplish this goal. The FDIC broadcasts ComeE-IN's public meetings on its website.

#### Verification and Validation

Progress in completing the initiatives planned for this annual performance goal will be monitored through established management reporting processes.

2017 Performance Results

The FDIC met the performance targets for this annual performance goal in 2017. This annual performance goal and its associated performance indicator are unchanged from 2017, but its performance targets have been updated for 2018.

**STRATEGIC GOAL 4:**

Large and complex financial institutions are resolvable in an orderly manner under bankruptcy.

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**STRATEGIC OBJECTIVE 4.1**

Large and complex financial institutions are resolvable under the Bankruptcy Code.

**Annual Performance Goal 4.1-1**

Identify and address risks in large, complex financial institutions, including those designated as systemically important.

Indicators and Targets

1. Compliance with the statutory and regulatory requirements under Title I of the Dodd-Frank Act and Section 360.10 of the FDIC Rules and Regulations
  - *In collaboration with the FRB, continue to review all resolution plans subject to the requirements of Section 165(d) of Dodd-Frank to ensure their conformance to statutory and other regulatory requirements. Identify potential impediments in those plans to resolution under the Bankruptcy Code.*
  - *Continue to review all resolution plans subject to the requirements of Section 360.10 of the Insured Depository Institutions (IDI) Rule to ensure their conformance to statutory and other regulatory requirements. Identify potential impediments to resolvability under the Federal Deposit Insurance (FDI) Act.*
2. Risk monitoring of large, complex financial institutions, bank holding companies, and designated nonbanking firms
  - *Conduct ongoing risk analysis and monitoring of large, complex financial institutions to understand and assess their structure, business activities, risk profiles, and resolution and recovery plans.*

Means and Strategies

*Operational Processes (initiatives and strategies):* Under Section 165(d) of Dodd-Frank, covered companies are required to submit resolution plans that provide for their rapid and orderly resolution under the Bankruptcy Code in the event of material financial distress or failure. The staffs of the FDIC and FRB have shared responsibility for the review of the plans submitted by covered companies to assess informational completeness and the resolvability of individual banks and bank holding companies.

In addition, under Section 360.10 of the FDIC Rules and Regulations, the IDI Rule requires each covered insured depository institution to provide a resolution plan that allows the FDIC as receiver to resolve the institution in an orderly manner, enable prompt access to insured deposits, maximize the return from the failed institution's assets, and minimize losses realized by creditors and the DIF. The FDIC has the authority to review those plans.

Ongoing risk analysis and monitoring is conducted by resident FDIC teams at large, complex financial institutions and off-site analytical teams composed of quantitative experts and complex financial institution specialists with resolution and supervision backgrounds. The off-site teams analyze industry and market conditions and trends to support individual institution monitoring and the consideration of broader policy issues. They attempt to identify early warning signals and triggers and the range of possible response actions by monitoring financial condition and performance, assessing institutional risk management capabilities, and reviewing recovery plans. FDIC staff also participates in collaborative risk management examinations and targeted reviews of SIFIs with other regulatory agencies.

*Human Resources (staffing and training):* The FDIC's review of resolution plans submitted under Section 165(d) of the Dodd-Frank Act is carried out by a multidisciplinary team of personnel from various divisions with expertise across all major operational and business line functions of the covered companies, both domestically and internationally. The FDIC's review of resolution plans submitted under the IDI Rule is carried out by multidisciplinary teams primarily consisting of commissioned examiners and resolution specialists. These teams are complemented by subject matter experts, as necessary. Training needs for each of these groups are reviewed regularly to ensure that these teams have the knowledge and expertise necessary to appropriately perform their assigned responsibilities.

Ongoing risk monitoring is conducted by on-site resident teams and off-site analysts who have expertise with large, complex financial institution operations.

*Information Technology:* The FDIC uses existing technology to track the submission and review of the resolution plans required under Section 165(d) of the Dodd-Frank Act and Section 360.10 of the FDIC Rules and Regulations. In addition, the FDIC uses the Systemic Monitoring System for ongoing risk monitoring of systemically important bank holding companies and nonbank financial companies.

### Verification and Validation

Progress in achieving this annual performance goal will be monitored through established management reporting processes.

### 2017 Performance Results

The FDIC successfully met the performance targets for this annual performance goal in 2017. This annual performance goal and its associated indicators and performance targets are substantively unchanged for 2018.

## **RECEIVERSHIP MANAGEMENT PROGRAM**

When an insured institution fails, the FDIC is appointed receiver. In its receivership capacity, the FDIC assumes responsibility for efficiently recovering the maximum amount possible from the disposition of the receivership's assets and the pursuit of the receivership's claims. Funds collected from the sale of assets and the disposition of valid claims are distributed to the receivership's creditors under the priorities set by law.

The FDIC focuses its receivership management efforts on the following four objectives:

- Resolving institutions in the least costly manner
- Managing and marketing failed institution assets to maximize return
- Pursuing monies due to failed institutions
- Resolving the debts of failed institutions fairly

The FDIC assesses the assets and liabilities of a failing institution to determine the institution's current market value. Using this information, the FDIC markets and sells various parts of the institution to acquiring institutions and investors. The FDIC markets failed institutions broadly, ensuring that all qualified parties are given an opportunity to present bids.

When an institution fails, it is closed by the appropriate chartering agency, and the FDIC is appointed receiver. After paying depositors their insured funds (if another institution has not assumed the deposits), the FDIC inventories and values any retained assets. It uses various strategies to sell the assets as quickly as practicable, although sales of certain complex assets can take a considerable amount of time. In the interim, the FDIC performs required asset servicing (such as maintenance of owned real estate and the collection and processing of loan payments) to maintain the value of these assets until they are sold. Throughout the asset valuation and sales processes, the FDIC also seeks payment from the debtors of the failed institution.

FDIC staff identifies and investigates claims owed to the receivership and pursues those claims on behalf of the receivership when it is cost effective to do so and/or when public policy dictates that the FDIC pursue legal action against potentially liable professionals (e.g., in certain negligence or fraud cases). The FDIC also ensures that legitimate claims against the receivership are satisfied fairly. The FDIC notifies likely claimants of the failed institution and provides them instructions on how to file a claim. Once the FDIC receives and analyzes the information, valid claims are paid under the priorities set by law.

Following the resolution of receivership claims, disposition of most assets, payment of eligible creditor claims, and allocation of any other funds on behalf of the receivership, the FDIC terminates the receivership. This involves preparation of final accounting statements and can require judicial confirmation that the obligations of the FDIC as receiver have been met.

In addition to resolutions administered using FDI Act authority, the FDIC may be called upon to carry out the orderly liquidation of certain large, systemically important financial companies under Title II of the Dodd-Frank Act. In 2018, the FDIC will continue to pursue planning and operational readiness initiatives to bolster its ability to administer, if necessary, the resolution of large financial institutions including those designated as systemically important.

The following table depicts the strategic goal, strategic objectives, and annual performance goals for the Receivership Management Program.

<b>Strategic Goal</b>	<b>Strategic Objective</b>	<b>Annual Performance Goals</b>
Resolutions are orderly and receiverships are managed effectively.	Receiverships are managed to maximize net return and terminated in an orderly and timely manner.	Value, manage, and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return. (5.1-1)
		Manage the receivership estate and its subsidiaries toward an orderly termination. (5.1-2)
	Potential recoveries, including claims against professionals, are investigated and pursued if deemed to be meritorious and expected to be cost-effective.	Conduct investigations into all potential professional liability claim areas for all failed insured depository institutions, and decide as promptly as possible to close or pursue each claim, considering the size and complexity of the institution. (5.2-1)
	Resolution of the failure of a large, complex financial institution is carried out in an orderly manner in accordance with statutory mandates.	Ensure the FDIC’s operational readiness to administer the resolution of large financial institutions, including those designated as systemically important. (5.3-1)

**STRATEGIC GOAL 5:**

Resolutions are orderly and receiverships are managed effectively.

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**STRATEGIC OBJECTIVE 5.1**

Receiverships are managed to maximize net return and terminated in an orderly and timely manner.

**Annual Performance Goal 5.1-1**

Value, manage, and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return.

Indicator and Target

1. Percentage of the assets marketed for each failed institution

- *For at least 95 percent of insured institution failures, market at least 90 percent of the book value of the institution's marketable assets within 90 days of the failure date (for cash sales) and within 120 days of the date that the pool of similar assets is of sufficient size to bring to market (for structured sales).*

Means and Strategies

*Operational Processes (initiatives and strategies):* By quickly returning the assets of a failed institution to the private sector, the FDIC maximizes net recoveries and minimizes disruption to the local community. Given adequate time, the FDIC prepares an online information package and an asset valuation review for each failing insured depository institution to help solicit bidders, analyze bids received for the assumption of deposits, and sell as many of the institution's assets as possible at resolution or shortly thereafter. The FDIC markets most of the remaining assets within 120 days after an insured institution fails. Between 2008 and 2012, whole bank loss-share transactions were used extensively to sell most of the assets of a failed bank to an acquiring bank. Because of continued improvement in the economy, the use of loss-share transactions decreased significantly in 2013. There have been no loss-share transactions since 2013.

After the resolution of the failed institution, the FDIC collects and manages the remaining assets in a cost-effective manner to maximize recoveries and preserve value until the assets can be marketed. The failed institution's assets are grouped into pools that will be most appealing to acquirers and are marketed through an internet-based platform. Potential asset purchasers are given the opportunity to view all sales information electronically before submitting bids online.

Where appropriate, the FDIC manages and disposes of the remaining assets from the failed bank location. The FDIC uses the Standard Asset Valuation Estimation (SAVE) methodology, valuation contractors, and financial advisors to value most of the assets of the failed institution and to decide how to market and dispose of them.

The SAVE methodology uses standard assumptions and market information to ensure consistency in the valuation of assets. The valuation process, methodology, and assumptions used to value assets are continually reviewed and, when necessary, updated. The FDIC will continue to update and refine its marketing strategies to market assets as quickly and efficiently as possible.

*Human Resources (staffing and training):* The FDIC has 387 permanent and 22 nonpermanent authorized positions in 2018 that carry out its resolutions and receivership management functions. When workload increases, the FDIC may add nonpermanent staff and contractor resources to help with these responsibilities. The FDIC may also deploy cross-trained employees from elsewhere within the corporation. Current and projected workload is continually assessed to ensure that adequate staff and contractor resources are available to fulfill the FDIC's receivership management responsibilities.

Contractors are used as necessary to manage and sell the assets of failed institutions. The FDIC has comprehensive policies, procedures, and internal controls that cover every phase of the contracting process. In 2018, the FDIC will continue to refine its contract support requirements and to shift work from contractors to FDIC employees, where appropriate. In addition, consistent with the requirements of Dodd-Frank, the FDIC will continue to identify and address barriers to the participation of underrepresented groups, including minority- and women-owned businesses and law firms, in FDIC contracting and asset purchase opportunities.

*Information Technology:* The FDIC uses technology extensively to make its asset management/servicing, sales strategies, and other business processes more efficient and to keep pace with changing market and business practices. The FDIC will continue to use the internet to deliver asset marketing information to potential investors and to sell assets received from failed institutions. In addition, the Franchise Marketing System (FMS) is used to track franchise marketing activities for failed financial institutions. FMS provides a comprehensive source of information on the management, valuation, marketing, and sale of assets. It extracts from ViSION up-to-date examination and supervisory information on each failed institution. The FDIC also establishes bid list criteria for each prospective transaction and identifies qualified bidders in FMS.

### Verification and Validation

Progress in meeting this annual performance goal is tracked in FMS and reported through established management reporting processes. Each primary federal regulatory agency reviews bid lists before bids are solicited to ensure that they include only those institutions that meet the established criteria for the transaction.

### 2017 Performance Results

The FDIC successfully met the performance target for this annual performance goal in 2017. This annual performance goal and its associated performance indicator are unchanged, but its performance target has been updated for 2018.

## Annual Performance Goal 5.1-2

Manage the receivership estate and its subsidiaries toward an orderly termination.

### Indicator and Target

#### 1. Timely termination of new receiverships

- *Terminate at least 75 percent of new receiverships that are not subject to loss-share agreements, structured sales, or other legal impediments within three years of the date of failure.*

### Means and Strategies

*Operational Processes (initiatives and strategies):* The oversight and prompt termination of a receivership preserves value for the uninsured depositors and other receivership claimants by reducing overhead and other holding costs. An individual action plan is established for each receivership, and staff is assigned from the appropriate functional areas (e.g., asset, liability, finance, and legal) to execute that plan. Receivership oversight staff monitors the execution of each action plan, including goals and milestones. In addition, an oversight committee consisting of department managers meets monthly to review and evaluate the progress that has been made in carrying out each plan.

To be eligible for termination, a receivership must be free of impediments that represent material financial or legal risks to the FDIC. These impediments may include outstanding contractual liabilities, outstanding offensive or defensive litigation, potential representation and warranty asset sale claims, open employee benefit plans, open subsidiary corporations where articles of dissolution have not yet been approved, and known or potential environmental contamination liabilities. Once the FDIC has disposed of all of the assets of the receivership, resolved all liabilities, and made sure that no material financial or legal risks remain, a final distribution is made to the creditors of the receivership and the receivership entity is terminated.

The FDIC continues to work to remove impediments to the termination of its remaining open receiverships. During 2017, eight new receiverships were added to the FDIC's inventory of receiverships and 48 were terminated, leaving 338 active receiverships at year end.

*Human Resources (staffing and training):* Current and projected workloads are continually assessed to ensure that adequate staff and contractor resources (if needed) are available to fulfill the FDIC's receivership management responsibilities.

*Information Technology:* The Receivership Oversight Management System (ROMS) tracks FDIC receiverships through the termination process and assists in tracking active and inactive receiverships. ROMS identifies impediments to termination as well as termination milestone dates.

Verification and Validation

The process of inactivating a receivership is tracked in FDIC systems. Monthly reports of deactivations are reviewed for accuracy. System users validate the data and any discrepancies are reconciled. Results are reported through established management processes.

2017 Performance Results

The FDIC successfully met the performance target for this annual performance goal in 2017. This annual performance goal and its associated performance indicator and target are unchanged for 2018.

**STRATEGIC OBJECTIVE 5.2**

Potential recoveries, including claims against professionals, are investigated and resolved in a fair and cost-effective manner.

**Annual Performance Goal 5.2-1**

Conduct investigations into all potential professional liability claim areas for all failed insured depository institutions and decide as promptly as possible to close or pursue each claim, considering the size and complexity of the institution.

Indicator and Target

1. Percentage of investigated claim areas for which a decision has been made to close or pursue the claim
  - *For 80 percent of all claim areas, make a decision to close or pursue professional liability claims within 18 months of the failure of an insured depository institution.*

Means and Strategies

*Operational Processes (initiatives and strategies):* The FDIC investigates potential claims against professionals (e.g., directors, officers, attorneys, and others) whose actions may have contributed to losses at a failed institution and assesses the viability of insurance policies and the carriers that provide fidelity insurance to the failed institution. Once the investigation is complete, the FDIC determines whether it has viable, cost-effective claims and whether it should pursue them. Most professional liability investigations must be completed and viable claims filed within three years following an institution's failure to meet statute of limitations requirements.

The FDIC's attorneys and investigators ensure that valid claims arising from the failure of an insured institution are fully evaluated within the prescribed time. They investigate the events that contributed to losses at the institution and research and analyze potential claims. They also determine if a recovery will exceed the estimated cost of pursuing each claim. The team then recommends to senior FDIC management whether a claim should be pursued or the investigation closed.

*Human Resources (staffing and training):* Workload requirements are regularly reassessed to ensure that staffing is sufficient to fulfill these responsibilities. The FDIC uses contractor resources (including outside legal counsel) and hires temporary staff, as needed. In 2018, the FDIC will identify training needs and provide training to investigators on topics such as analyzing insurance policies, data analytics, and advanced relativity training.

*Information Technology:* Data necessary to track failure dates of insured institutions, potential statute of limitation expiration dates, and other pertinent dates are routinely collected and stored in FDIC systems. Status information and decisions are also tracked.

### Verification and Validation

Periodic data reviews are conducted to ensure that the information in FDIC systems is current and accurate. Consistent maintenance of these systems ensures that accurate data are readily available to measure compliance with the annual performance goal. Progress in meeting this goal is reported through established management processes.

### 2017 Performance Results

The FDIC successfully met the performance target for this annual performance goal in 2017. This annual performance goal and its associated performance indicator and target are unchanged for 2018.

## **STRATEGIC OBJECTIVE 5.3**

Resolution of the failure of a large, complex financial institution is carried out in an orderly manner in accordance with statutory mandates.

### **Annual Performance Goal 5.3-1**

Ensure the FDIC's operational readiness to administer the resolution of large financial institutions, including those designated as systemically important.

### Indicators and Targets

1. Refinement of resolution plans and strategies
  - *Continue to refine plans to ensure the FDIC's operational readiness to administer the resolution of large financial institutions under Title II of the Dodd-Frank Act, including those nonbank financial companies designated as systemically important.*
2. Continued cross-border coordination and cooperation in resolution planning
  - *Continue to deepen and strengthen bilateral working relationships with key foreign jurisdictions.*

## Means and Strategies

*Operational Processes (initiatives and strategies):* The largest bank holding companies and designated nonbank financial companies are required to prepare resolution plans under Title I of the Dodd-Frank Act. These resolution plans must demonstrate that the firm could be resolved under bankruptcy without severe adverse consequences for the financial system or the U.S. economy. As a backstop, for circumstances in which an orderly bankruptcy process might not be possible, Title II of the Dodd-Frank Act provides the FDIC with Orderly Liquidation Authority (OLA) to manage the failure of the firm. This authority may only be implemented after recommendations by the appropriate federal regulatory agencies and a determination by the Secretary of the Treasury in consultation with the President.

OLA is the mechanism for ensuring that policymakers will not be faced with the same poor choices they faced in 2008. Its tools are intended to enable the FDIC to carry out the process of winding down and liquidating the firm, while ensuring that shareholders, creditors, and culpable management are held accountable and taxpayers do not bear losses. The OLA provides the FDIC with several authorities—not all of which are available under bankruptcy—that are broadly similar to those that the FDIC has to resolve the failure of insured depository institutions under the FDI Act. They include the authority to establish a bridge financial company, to stay the termination of certain financial contracts, to provide temporary liquidity that may not otherwise be available, to convert debt to equity, and to coordinate with domestic and foreign authorities in advance of a resolution to better address any cross-border impediments. In the years since enactment of the Dodd-Frank Act, the FDIC has made significant progress in developing the operational capabilities to carry out a resolution using the OLA, if necessary.

Given the challenges presented in the resolution of a large, complex financial company—especially as these companies are currently organized and operated—the FDIC initially focused its efforts on developing a resolution strategy called the single point of entry. This strategy would place the top-tier parent company of the firm into receivership while establishing a temporary bridge financial company (BFC) to hold and manage its critical operating subsidiaries for a limited period. To operate the BFC, the FDIC would appoint a new board of directors and senior management that would be charged with managing the wind-down of the firm in a way that minimizes systemic disruption. Losses would be borne by creditors, including holders of long-term debt and equity in accordance with the priorities established under the OLA. As a well-capitalized entity, the FDIC expects that the BFC and its subsidiaries would be in a position to borrow from customary sources in private markets to meet its liquidity needs.

However, if such funding was not immediately available, the law provides a dedicated, back-up source of liquidity—not capital—through the Orderly Liquidation Fund (OLF). The OLF would be used, if necessary, in the initial stage of resolution until private funding could be accessed.

There are a number of important limitations on the use of the OLF. Dodd-Frank limits the amount that can be borrowed and requires that any OLF borrowing must be repaid from recoveries on the assets of the failed firm. If that should prove insufficient, assessments would be levied on the largest financial companies. Under the law, taxpayers cannot bear losses. Instead, losses are borne by the failed company through its shareholders and creditors, and, if necessary, by the financial industry through assessments.

The FDIC also established and consults regularly with the Systemic Resolution Advisory Committee (SRAC), which advises the FDIC on a broad range of issues regarding the resolution of systemically important financial companies pursuant to the Dodd-Frank Act. Over the years, the SRAC has provided important advice to the FDIC regarding systemic resolutions and advised the FDIC on a variety of issues, including the potential effects of a large, complex financial institution failure on financial stability and economic conditions; the ways in which specific resolution strategies would affect stakeholders and their customers; the tools available to the FDIC to wind down the operations of a failed organization; and the tools needed to assist in cross-border relations with foreign regulators and governments when a systemic company has international operations. Members of the SRAC bring a wide range of knowledge and experience to these issues, including expertise in managing complex firms, administering bankruptcies, working within different legal jurisdictions, and applying accounting rules and practices. The FDIC expects to hold a meeting of the SRAC in 2018.

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

*Human Resources (staffing and training):* This annual performance goal will be carried out largely by existing FDIC staff. The training needs of staff are reviewed regularly to ensure that teams have knowledge and expertise necessary to appropriately perform their assigned responsibilities.

*Information Technology:* Existing information technology systems from the failed institution will be used in the resolution of a large, complex firm. The FDIC will continue to identify other IT needs relative to a failure of a large, complex financial institution during 2018.

#### Verification and Validation

The FDIC has extensive experience in resolving the failure of insured depository institutions and has devoted considerable time and resources to planning for the rapid and orderly resolution of a financial institution under Title II of the Dodd-Frank Act. To evaluate the effectiveness of these planning efforts and to identify areas of further development, the FDIC holds operational exercises to validate the steps involved in carrying out a systemic resolution. In addition, the resolution strategies are presented and discussed in international fora, including crisis management groups and several other international meetings of senior staff of supervisory and resolution authorities focused on resolution planning.

#### 2017 Performance Results

The FDIC substantially met the performance targets for this annual performance goal in 2017. This annual performance goal and targets are unchanged, but the second performance indicator has been updated for 2018.

## **EFFECTIVE MANAGEMENT OF STRATEGIC RESOURCES**

### **Introduction**

The FDIC recognizes that it must effectively manage many critical strategic resources to successfully carry out the annual performance goals outlined in this plan. These resources must be aligned and deployed to the areas where they are most needed. An overview of planned 2018 initiatives to enhance the FDIC's management of its key strategic resources is provided below.

### **Financial Resources Management**

The FDIC does not use taxpayer funds. Its operational expenses are predominantly paid from the DIF, which is funded from assessments paid by insured financial institutions. The FDIC takes very seriously its fiduciary responsibilities to use these funds efficiently and cost-effectively to meet its mission responsibilities. To that end, the FDIC engages annually in a rigorous planning and budget formulation process to make sure that budgeted resources are properly aligned with workload projections and designated corporate priorities (see Appendix B).

The FDIC's disciplined approach to managing its financial resources has been apparent over the past several years. From 2008 through 2010, the FDIC's annual operating budget almost quadrupled and its authorized staffing level almost doubled in response to a rapid increase in the number of problem institutions and insured depository institution failures. The FDIC relied primarily on nonpermanent staff and contractor resources to address the resulting uptick in its supervisory and resolutions workload in order to facilitate future budget and staffing reductions when workload returned to more normal levels. In subsequent years, both the annual operating budget and authorized staffing level declined substantially. For 2018, the FDIC's annual operating budget and authorized staffing are approximately 48 percent and 34 percent, respectively, below the peak levels experienced in 2010 and 2011 (see Appendix A). The FDIC will continue to carefully monitor both its supervision and receivership management workload and will take steps to further reduce expenses for these programs as underlying workload declines.

### **Human Capital Management**

The FDIC's most important resource is the "intellectual capital" that its employees contribute to achieving its mission. For that reason, the FDIC strives to attract, develop, and retain a highly skilled, diverse, and results-oriented workforce and to be regarded as a preeminent employer among federal agencies.

More than one-third of the FDIC's current permanent workforce is projected to retire over the next 10 years. This dynamic will enable the FDIC to reshape its permanent workforce to provide effective regulatory oversight and meet the emerging challenges of an increasingly complex U.S. financial system.

In 2018, the FDIC will continue to pursue several ongoing initiatives to develop its future permanent workforce while addressing its shorter-term staffing needs.

#### *Workforce Development Initiative*

Like many other federal agencies, the FDIC faces potential succession management challenges as many of its long-term, experienced employees retire. Introduced in 2013, the FDIC's Workforce Development Initiative emphasizes the need to prepare employees to fulfill current and future workforce capability and leadership needs. This focus ensures that the FDIC has a workforce positioned to meet today's core responsibilities, including its oversight responsibilities required under the Dodd-Frank Act, while preparing to fulfill its mission in the years ahead.

The Workforce Development Initiative is designed to address comprehensive succession planning needs and workforce development challenges and opportunities. The initiative is focused on four broad objectives: to attract and develop talented employees across the agency; to enhance the capabilities of employees through training and diverse work experiences; to encourage employees to engage in active career development planning and seek leadership roles in the FDIC; and to build on and strengthen the FDIC's operations to support these efforts.

In 2018, the FDIC will continue to develop and implement the strategies, programs, and infrastructure to support the attainment of these objectives in meeting its long-term workforce needs. The FDIC is in the early stages of a multi-year effort to identify future workforce and leadership requirements, assess current workforce capabilities, support employees who aspire to leadership and management roles, and develop and source the talent to meet emerging workforce needs.

The FDIC has expanded its interdivisional succession planning review to consider the current state of management talent at the FDIC and to establish developmental recommendations for aspiring senior leaders. The long-term goal of the effort is to increase the pool of capable employees eligible to apply for leadership positions through a systematic, deliberate approach to cultivating leadership talent. In 2017, the FDIC surveyed its non-supervisory employees to understand their interests in assuming leadership roles in the years to come. The FDIC plans to further the implementation of these and other efforts in 2018 to achieve the goals of the Workforce Development Initiative.

A key component of the FDIC's long-term workforce development strategy continues to be the Corporate Employee Program (CEP). The CEP is the primary vehicle used to fill new, entry-level positions in the FDIC's core bank supervision and resolutions and receivership management functions. Once employees complete the CEP training program and are commissioned in their assigned disciplines, they have numerous opportunities to further their expertise in particular specialized areas.

In 2017, the FDIC continued a multi-year effort to develop more advanced skills through rigorous and structured training programs for specialists in such areas as accounting, capital markets, information technology, BSA compliance, AML, and trust. The FDIC also provides opportunities to prepare employees for managerial and leadership positions. Another outgrowth of the FDIC's strategic workforce planning is an employee development program designed to expand the number of FDIC employees who have broad, cross-divisional experience with the largest and most complex FDIC-insured banks and bank holding companies. The program provides experience in supervision, risk analysis and monitoring, deposit insurance pricing and fund management, and resolution planning.

FDIC employees and leaders have a long tradition of responding effectively in times of crisis, while continuing to execute day-to-day mission requirements. 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.

#### *Workforce Diversity and Inclusion*

In 2018, the FDIC will continue to pursue a more comprehensive, integrated, and strategic focus on diversity and inclusion within the FDIC workforce. The FDIC Diversity and Inclusion Executive Advisory Council (D&I EAC), composed of key senior executives, oversees the implementation of the *FDIC Diversity and Inclusion Strategic Plan*, which was initially issued in 2013 and is annually reviewed and updated as needed.

The plan lays out a course for achieving workforce diversity through targeted recruiting; cultivating greater workplace inclusion through collaboration, flexibility, and fairness; and ensuring the sustainability of diversity and inclusion achievements by equipping leaders with the ability to manage diversity, monitor results, and refine approaches on the basis of actionable data. The plan details specific steps to enhance diversity and inclusion at the FDIC in the areas of recruiting, hiring, succession planning, leadership engagement, analytics and reporting, training, communications, strategic planning, and performance management rating enhancements.

In 2017, the D&I EAC approved the FDIC's first *Disability Employment Program Strategic Plan*, which established a goal to increase the percentage of persons with targeted disabilities to 2 percent or more of the FDIC workforce. In 2018, the FDIC will monitor, track, and report to the D&I EAC on the implementation of the plan with respect to the hiring and advancement of individuals with disabilities, fostering an inclusive environment for those individuals, and the progress made toward achieving an increase in the percentage of persons with targeted disabilities to 2 percent or more of the FDIC workforce.

#### *A Culture of Workplace Excellence*

Over the past several years, the FDIC has participated in annual employee surveys conducted by the U.S. Office of Personnel Management. These surveys identified major areas of strength as well as opportunities for improvement in employee satisfaction and engagement within the FDIC workforce.

Survey results have consistently demonstrated that FDIC employees have an excellent understanding of the FDIC's mission and strategic direction and know how their work fits into the organization's goals and priorities. They enjoy their work, believe it is important, and gain a sense of personal accomplishment from it. Employees also are highly satisfied with their pay and benefits, as well as the FDIC's family-friendly work-life balance programs; physical work environment; and training, technology, and other resources.

The FDIC's Workplace Excellence (WE) Program plays an important role in helping the FDIC maintain a culture of excellence. The WE Program is composed of a National WE Steering Committee and individual Division/Office WE Councils focused on maintaining, enhancing, and institutionalizing positive workplace and cultural change at the national and division/office levels at the FDIC. The WE Program enhances communication, provides additional opportunities for employee input and engagement, and promotes employee empowerment.

### *Employee Learning and Development*

The FDIC provides employees with skills-based training and leadership development opportunities to help achieve its mission. In 2018, the FDIC's Corporate University will continue to offer innovative solutions to prepare both current and new employees for the challenges ahead. It also will continue to use its learning programs as opportunities to strengthen its organizational culture, build key competencies, and reinforce corporate values.

The FDIC provides its workforce with the technical knowledge and skills necessary to examine and supervise financial institutions and manage receiverships. In 2018, the FDIC will continue to develop and implement the priority training components of the Division of Depositor and Consumer Protection and the Division of Risk Management Supervision, as approved by the divisions' Training Oversight Committee. This work will ensure that examiner curricula reflect recent regulatory changes and expand the use of distance-learning methods to provide field staff with access to training resources. In addition, the examiner training courses will be revised to better align with on-the-job training (OJT), so that new examiners start each phase of OJT more prepared for the exam tasks that they will be assigned.

The FDIC continues to provide training to resolution specialists on the multi-tiered structures of the deposit accounts, complex IT systems, and complicated financial statements they will most likely encounter during the resolution and receivership of large banks. Further, the FDIC is developing training on how to assess the requirements stipulated in 12 CFR Part 370, "Recordkeeping for Timely Deposit Insurance Determination." Under this rule, each insured depository institution that has two million or more deposit accounts is required to (1) configure its information technology system to be capable of calculating the insured and uninsured amount in each deposit account by ownership right and capacity, and (2) maintain complete and accurate information needed by the FDIC to determine deposit insurance coverage with respect to each deposit account, except as otherwise provided.

In addition to technical training, the FDIC is focused on developing employees as leaders at all levels of the organization. The FDIC has a comprehensive leadership development curriculum that consists of core courses, electives, and enrichment activities. The FDIC also provides consultative services to managers and delivers custom leadership training for intact teams. In 2018, Corporate University will continue to deliver training when and where it is needed, including developing mobile learning tools and virtual learning experiences.

Corporate University also will contribute to agency-wide crisis readiness through its strategic simulations program. In 2016 and 2017 this program supported several initiatives to gain understanding around large bank resolution through tabletops and simulations. Additional events are planned for 2018.

### **Management of Information Technology Resources**

Reliable, up-to-date, and secure information technology (IT) is essential to accomplishing the FDIC's mission. The FDIC's ability to preserve and promote confidence in the U.S. financial system requires safeguarding critical FDIC information from those who would compromise it, while providing responsive access to those with appropriate authority. Effective management of the FDIC's IT resources balances accessibility and security while providing scalable systems that are highly resilient.

In 2018, the FDIC will embark on a multifaceted effort intended to strengthen its information security and privacy, enhance continuity of operations, and improve enterprise architecture and governance, while addressing technology obsolescence risks and reducing maintenance costs by replacing obsolete platforms. This effort will optimize resources to take advantage of emerging innovative technologies.

#### *Information Security and Privacy*

Cybersecurity incidents are a growing threat to consumers, financial institutions, other businesses, and financial markets, as well as government agencies, including the FDIC. The FDIC's *2018–2021 Information Security and Privacy Strategic Plan* is the foundation upon which FDIC will enhance its cybersecurity and privacy capabilities. In 2018, the FDIC will develop a roadmap to operationalize the strategy by sequencing the activities needed to meet the strategic goals and objectives set forth in the plan. This roadmap will identify individual initiatives to be carried out over the next several years in pursuit of these goals and objectives, as well as performance measures to track and manage progress. In 2018, the FDIC will also continue to implement current and emerging federal information security regulations, policies, and practices, including those governing the collection, access, and use of data to execute the FDIC's mission.

#### *Backup Data Center*

All federal agencies must develop a contingency plan for information systems that support their missions. A catastrophic event affecting the Washington, D.C., metropolitan area or a major cyber event affecting IT systems could adversely affect the FDIC's ability to conduct bank examinations, insure deposits, and manage receiverships. The FDIC must enhance its IT operational and information security resiliency and mitigate key risk areas to ensure that its mission-critical systems and databases can be restored to operation within acceptable timeframes.

In 2017, the FDIC identified systems and databases that supported mission critical functions and had to be available within 12–72 hours of a service interruption. In 2018 and 2019, the FDIC will implement a two-year project to migrate to a new commercial backup data center and modify the designated applications and infrastructure to facilitate timely recovery.

By the end of 2018, the FDIC will contract for a replacement backup commercial data center and will have migrated at least half of the identified applications and databases to that data center. Additional security tools and capabilities will also be implemented in the new backup data center. The relocation will mitigate the risk associated with the geographic location of the FDIC data centers, mature disaster recovery expediency, and ensure stable and secure access to the data necessary to carry out the FDIC's mission-critical functions.

#### *IT Maturity, Enterprise Architecture, and Governance*

The FDIC will continue to mature its enterprise information technology capabilities in 2018. Particular attention will be focused on the areas of IT governance, enterprise architecture, strategic management, and program and portfolio management. The FDIC has commenced the implementation of a robust enterprise IT Decision Framework to support IT decision-making consistent with the goals and objectives of the FDIC Strategic Plan and FDIC IT Strategic Plan. The IT governance processes will be streamlined to ensure that governance bodies receive timely information in a transparent manner to make informed decisions regarding IT expenditures.

In 2018, the FDIC will establish a technical advisory board to govern the enterprise architecture (EA). The board will ensure consistent and transparent adoption of and adherence to technical standards and EA principles. The EA program will update architectural standards, consistent with the updated EA Blueprint and EA Principles published at the end of 2017. The EA Blueprint established the vision for the FDIC target state consistent with the IT Strategic Plan approved in 2017. In 2018, the FDIC will develop roadmaps that define the transition to the target state. The roadmaps will provide a schedule for the integrated delivery of new IT initiatives that address requirements for the replacement and upgrade of existing technology, as well as the implementation of new technology to support the FDIC's mission. In the area of strategic management, the FDIC will move toward a more structured and open strategic planning process involving stakeholders throughout the corporation. In the area of program and portfolio management, projects will be approved on a portfolio basis following the IT Decision Framework.

#### *Information Management and Analytics*

As the financial industry grows increasingly complex, so too does the expectation that the FDIC will take increasing advantage of large volumes of structured and unstructured public and non-public data. Information Management and Analytics, therefore, will be a strategic corporate focus area for the foreseeable future.

During 2018, the FDIC will actively focus attention on continuing to reduce data redundancy, enable seamless data access, and strengthen security of the overall data environment. The FDIC also will mitigate key risk areas (technology obsolescence and architecture) for the existing analytical environment used to process the large data sets the FDIC will be receiving in 2018 from federal agencies and other external sources. The FDIC also will continue to enhance data analytics capabilities as the use of large data sets expand and increase in size. This will provide the visualization and appropriate data analytics for senior executive to make the necessary decisions. Overall, these activities will help the FDIC achieve its mission in this increasingly complex financial environment.

*The Enterprise Public Inquiry and Complaints Application*

The Enterprise Public Inquiry and Complaints (EPIC) application serves as an enterprise solution to support the FDIC's public inquiry and complaints processes on a new enterprise cloud platform.

In 2017, the FDIC embarked on an effort to convert two legacy inquiry and complaint systems to EPIC: the Specialized Tracking and Reporting System (STARS) for consumer complaints and the Communication Tracking System-Ombudsman Automated Tracking System (CTS-OATS) for inquiries to the FDIC's Office of Ombudsman. EPIC became operational in January 2018. In 2018, the FDIC will convert a third legacy system, the Customer Communications and Tracking System (CCATS), to EPIC.

**Management Controls**

As an integral part of its stewardship of the DIF, the FDIC maintains a comprehensive risk management and internal controls program that is designed to improve the efficiency, effectiveness, control, and risk-focus of internal operations. Staff in the FDIC's internal controls program advise and assist with issues such as risk management, internal controls, system security, privacy, operational effectiveness and efficiency, project risk management, and audit follow-up. In 2018, the FDIC will continue to ensure that key financial operations and processes maintain sound internal controls, that these operations are appropriately managed, and that opportunities to improve the control environment are identified and implemented in an efficient and timely manner.

In 2018, the FDIC will focus on enhancing its enterprise risk management practices and improving its core business functions, with a continuing emphasis on activities associated with Dodd-Frank Title II implementation, system security management, system development risk management, enhanced performance metrics, and the operational risks accompanying client-led development.

The FDIC also will continue to review a sample of transactions and invoices to confirm management attestations that financial reporting and internal control procedures have been correctly followed. Process maps will continue to be developed for critical operations and data mining capabilities will be enhanced to monitor exposure to improper payments. All of these efforts support processes to ensure that the foundation of controls remains strong throughout the FDIC.

**APPENDICES**

**Appendix A: Program Resource Requirements**

**Appendix B: The FDIC's Planning Process**

**Appendix C: Program Evaluation**

**Appendix D: Interagency Relationships**

**Appendix E: External Factors**

## APPENDIX A

### Program Resource Requirements

The chart below breaks out the 2018 FDIC Operating Budget by the FDIC's three major program areas: insurance, supervision, and receivership management. It shows the budgetary resources that the FDIC estimates it will spend on these programs during 2018 to pursue the strategic goals and objectives and the annual performance goals in this plan and to carry out other program-related activities. The estimates include each program's share of common support services that are provided on a consolidated basis.

Supervision	\$1,064,895,487
Insurance	\$307,543,490
Receivership Management	\$449,808,506
Corporate Expenses	\$269,885,104
TOTAL	\$2,092,132,587

## **APPENDIX B**

### **The FDIC's Planning Process**

The FDIC has a long-range Strategic Plan that identifies goals and objectives for its three major programs: insurance, supervision, and receivership management. It also develops an Annual Performance Plan that identifies annual goals, indicators, and targets for each strategic objective. In January 2018, the FDIC Board of Directors approved a new *FDIC Strategic Plan, 2018–2022*, that reflects the strategic goals and objectives of the FDIC for the next five years.

In developing its Strategic and Annual Performance Plans, the FDIC uses an integrated planning process in which senior management provides guidance and direction on FDIC goals and priorities. Plans and budgets are developed to achieve those goals and priorities with input from program personnel. Business requirements, industry information, human capital, technology, and financial data are considered in preparing annual performance plans and budgets. Factors influencing the FDIC's plans include changes in the financial services industry, the findings of program evaluations and other management studies, and past performance.

The FDIC communicates its strategic goals and objectives and its annual performance goals, indicators, and targets to employees through its internal website and internal communications, such as videos, newsletters, and staff meetings. Pay and recognition programs are structured to reward employee contributions to the achievement of the FDIC's annual performance goals.

Throughout the year, FDIC senior management reviews progress reports. The FDIC submits its *Annual Report* to Congress. That report, which is posted on the FDIC's website ([www.fdic.gov](http://www.fdic.gov)), compares actual performance results to the performance targets for each annual performance goal.

## **APPENDIX C**

### **Program Evaluation**

The Risk Management and Internal Controls Branch in the Division of Finance coordinates the evaluation of the FDIC's programs with a focus on identifying material weakness or significant deficiencies. Program evaluations are interdivisional, collaborative efforts, and they involve management and staff from all affected divisions and offices. Division and office directors use the results of the program evaluations to support their annual assertions to the Chairman that operations are effective and efficient, financial data and reporting are reliable, laws and regulations are followed, and internal controls are adequate. These results are also considered in strategic planning for the FDIC.

In 2018, the FDIC will focus on enhancing the Enterprise Risk Management program to identify and mitigate risks to key operations. Additionally, the FDIC will continue to provide management scrutiny in the areas of cybersecurity, failed bank data, IT development supporting FDIC operations, infrastructure development for new operational areas, as well as process mapping and development of performance metrics in several areas. In 2018, risk-based reviews will also continue to be performed in each of the FDIC's strategic program areas. Results of these reviews will assist management by confirming that these programs are strategically aligned or by identifying changes that need to be made.

## **APPENDIX D**

### **Interagency Relationships**

The FDIC has productive working relationships with agencies at the state, federal, and international levels. It leverages those relationships to achieve the goals outlined in this plan and to promote confidence in the U.S. banking system. Listed below are examples of the many important relationships the FDIC has built with other agencies, seeking to promote strength, stability, and confidence in the financial services industry.

#### **Other Federal Financial Institution Regulatory Agencies**

The FDIC works closely with other federal financial institution regulators—principally the Board of Governors of the FRB and the OCC—to address issues and programs that transcend the jurisdiction of each agency. Regulations are, in many cases, interagency efforts. For example, interagency rules have been developed to address implementation of Basel III; revisions to risk-based and leverage capital requirements; the liquidity coverage ratio; credit risk retention; and other supervisory guidance policies, including policies addressing capital adequacy, information technology and cybersecurity risks, leveraged lending, and liquidity risk management. In addition, the OCC is a member of the FDIC Board of Directors, which facilitates crosscutting policy development and consistent regulatory practices between the FDIC and the OCC.

The FDIC also works closely with the CFPB to address consumer protection issues. The CFPB is responsible for issuing the majority of consumer protection rules and regulations. However, the CFPB is required to consult with the FDIC, the FRB, and the OCC on these matters. Enforcement jurisdiction for insured, state nonmember banks with less than \$10 billion in assets remains with the FDIC, unless the institution is an affiliate of another insured institution with \$10 billion or more in assets that is supervised by the CFPB. The CFPB Director is also a member of the FDIC Board of Directors. As with the OCC, participation on the FDIC Board facilitates crosscutting policy development and consistent regulatory practices among the FDIC, the CFPB, and the OCC.

The FDIC, FRB, and OCC also work closely with the National Credit Union Administration (NCUA), which supervises and insures credit unions; the Conference of State Bank Supervisors (CSBS), which represents the state regulatory authorities; and individual state regulatory agencies. Finally, the FDIC collaborates with the Federal Housing Finance Agency (FHFA), which is the rule-writer and supervisor for the government-sponsored enterprises and the Federal Home Loan Banks.

#### **The Federal Financial Institutions Examination Council (FFIEC)**

The FFIEC is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of financial institutions. The member agencies of the FFIEC are the FDIC, FRB, OCC, NCUA, and CFPB.

In addition, the Chair of the FFIEC State Liaison Committee serves as a member of the FFIEC (the State Liaison Committee is composed of five representatives of state supervisory agencies). To foster interagency cooperation, the FFIEC has established interagency task forces on consumer compliance, examiner education, information sharing, regulatory reports, surveillance systems, and supervision. The FFIEC has statutory responsibilities to facilitate public access to data that depository institutions must disclose under the Home Mortgage Disclosure Act of 1975 (HMDA) and the aggregation of annual HMDA data for each metropolitan statistical area. It also publishes handbooks, catalogs, and databases that provide uniform guidance and information to promote a consistent examination process among the agencies and make information available to the public. This includes maintenance of a central data repository for CRA ratings and public evaluations. The FFIEC also provides an online Consumer Help Center that connects consumers with the appropriate federal regulator for a particular financial institution.

### **State Banking Departments**

The FDIC, FRB, and OCC work with the Conference of State Bank Supervisors (CSBS) and with individual state regulatory agencies to make the bank examination process more efficient and uniform. In most states, alternating examination programs reduce the number of examinations that are conducted at insured financial institutions, thereby reducing regulatory burden. Joint examinations of larger financial institutions also optimize the use of state and FDIC resources in the examination of large, complex, and problem state nonmember banks and state-chartered thrift institutions.

### **Basel Committee on Banking Supervision (BCBS)**

The FDIC is a member of the BCBS, a forum for international cooperation on matters relating to financial institution supervision, and on numerous subcommittees of the BCBS. The BCBS aims to improve the consistency of capital regulations internationally; ensure that the regulatory capital framework for internationally active banks is risk-sensitive and includes appropriate constraints on the use of financial leverage; and promote enhanced risk management practices among large, internationally active banking organizations. Other areas of significant focus include liquidity and funds management, market risk exposure, and derivatives activities. The FDIC and the other federal banking agencies have worked closely with the BCBS to improve the Basel III Capital Accord to strengthen the resiliency of the banking sector and improve liquidity risk management.

In 2017, the BCBS published a number of final documents to continue this progress, including: a set of frequently asked questions (FAQs) on the revised market risk standard; FAQs on Basel III's NSFR; a Basel III Monitoring Report; a consultative document on the identification and management of step-in risk; a report on progress in adopting the principles for effective risk data aggregation and risk reporting; Pillar 3 disclosure requirements; details of the interim regulatory treatment of accounting provisions and standards for transitional arrangements; a consultative document on the global systemically important banks assessment framework; final guidance on the prudential treatment of problem assets (definitions of non-performing exposures and forbearance); the twelfth progress report on adoption of the Basel regulatory framework; revisions to the annex on correspondent banking; a second set of FAQs on Basel III's Liquidity Coverage Ratio (LCR); the range of practices in implementing the countercyclical capital buffer

policy; a consultative document on the simplified alternative to the standardized approach to market risk capital requirements; and a document setting out the Basel Committee's finalization of the Basel III framework.

The FDIC also provides substantial support on various BCBS quantitative impact studies, which are used to monitor the impact of proposed and final standards on banking entities.

### **International Colleges of Regulators**

The FDIC participates in several groups of international regulators to address international consistency in the implementation of over-the-counter (OTC) derivatives reforms. The OTC Derivatives Regulators' Forum is a college of regulators that discuss initiatives on derivative reforms mandated by the G-20 and FSB.

The group is heavily involved in assuring international consistency on the development of trade repositories and central counterparty clearing. It makes recommendations to standing committees, including the Committee on Payment and Settlement Systems, International Organization of Securities Commissions, BCBS, and FSB, for rulemakings. The OTC Supervisors' Group is primarily involved in changing the infrastructure of the largest dealer banks. The group is composed of supervisors of the G-SIFIs. Current efforts are focused on data repositories, dispute resolution, and client clearing. The group obtains commitments from the dealer community to make recommended changes and monitors implementation.

### **Interagency Country Exposure Review Committee (ICERC)**

The ICERC was established by the FDIC, FRB, and OCC to ensure consistent treatment of the transfer risk associated with the exposure of banks to both public and private sector entities outside the United States. The ICERC assigns ratings based on its assessment of the degree of transfer risk inherent in U.S. banks' foreign exposure.

### **International Association of Deposit Insurers (IADI)**

The FDIC plays a leading role in developing IADI into a global standard setter and the world's premier provider of technical assistance and training for deposit insurance. IADI contributes to the stability of the financial system by promoting international cooperation in the field of deposit insurance. Through IADI, the FDIC builds strong bilateral and multilateral relationships with foreign deposit insurers, resolution authorities, and international organizations. The FDIC also provides technical assistance and conducts outreach activities with foreign entities to help develop and maintain sound banking and deposit insurance systems.

### **Association of Supervisors of Banks of the Americas (ASBA)**

The FDIC plays a leadership role in the ASBA and participates in the organization's activities. ASBA develops, disseminates, and promotes sound bank supervisory practices and resilient financial systems throughout the Americas and the Caribbean in line with international standards. The FDIC supports the organization's mission and activities by contributing to ASBA's research and guidance initiatives, technical training and cooperative endeavors, and leadership building programs.

### **Shared National Credit Program**

The FDIC participates with the other federal financial institution regulatory agencies in the Shared National Credit Program, an interagency program that performs a uniform credit review twice annually of financial institution loans that exceed \$100 million and are shared by three or more financial institutions. The results of these reviews are used to identify trends in industry sectors and the credit risk management practices of banks.

The reviews are published in December of each year and include findings from both reviews to help the industry better understand economic and credit risk management trends.

### **Joint Agency Task Force on Discrimination in Lending**

The FDIC participates on the Joint Agency Task Force on Discrimination in Lending with several other federal financial institution regulators (i.e., the FRB, OCC, and NCUA) along with the CFPB, the Department of Housing and Urban Development, the Federal Housing Finance Agency (FHFA), the Department of Justice, and the Federal Trade Commission. The agencies exchange information about fair lending issues, examination and investigation techniques, and interpretations of statutes, regulations, and case precedents.

### **European Forum of Deposit Insurers**

The FDIC and the European Forum of Deposit Insurers share similar interests, and the FDIC supports the organization's mission to contribute to the stability of financial systems by promoting European cooperation in the field of deposit insurance. The FDIC openly shares its expertise and experience in deposit insurance and failed bank resolution through discussions and exchanges on issues that are of mutual interest and concern (e.g., cross-border issues, bilateral and multilateral relations, and customer protection).

### **Financial and Banking Information Infrastructure Committee (FBIIC)**

The FDIC works with the Department of Homeland Security and the Office of Cyberspace Security through the FBIIC to improve the reliability and security of the financial industry's infrastructure. Other federal government members of the FBIIC include the CFPB, FHFA, FRB, NCUA, OCC, Commodity Futures Trading Commission (CFTC), Securities and Exchange Commission, Department of the Treasury, and the Farm Credit Administration.

### **Bank Secrecy Act (BSA), Anti-Money Laundering (AML), Counter-Financing of Terrorism (CFT), and Anti-Fraud Working Groups**

The FDIC participates in several interagency groups, described below, to help combat money laundering, terrorist financing, and fraud.

- The BSA Advisory Group is a public/private partnership of agencies and organizations that meets to discuss strategies and industry efforts to address money laundering, terrorist financing, and other illicit financial activities.

Areas of focus include information technology, foreign correspondent banking activities, money services businesses, prepaid access/cards, cross-border activities, suspicious activity reporting, and other emerging risks.

- The FFIEC BSA/AML Working Group is composed of representatives from the federal bank regulatory agencies, the Financial Crimes Enforcement Network (FinCEN), and the CSBS to coordinate BSA/AML policy matters and training and to improve communications among the agencies. The BSA/AML working group builds on existing activities and works to strengthen the ongoing initiatives of other formal and informal interagency groups that oversee various BSA/AML issues. This working group meets monthly and invites other agencies, such as the SEC, CFTC, Treasury, Internal Revenue Services (IRS), and OFAC, on a quarterly basis to ensure broader coordination of BSA/AML and sanctions efforts.
- The Basel Anti-Money Laundering/Counter-Financing of Terrorism (AML/CFT) Expert Group is responsible for monitoring AML/CFT issues that have a bearing on banking supervision, coordinating with the FSB, and serving as a forum for AML/CFT experts from banking supervisory agencies.

### **Financial Literacy and Education Commission (FLEC)**

The FDIC is a member of FLEC, which was established by the Fair and Accurate Credit Transactions Act of 2003. The FDIC actively supports FLEC's efforts to improve financial literacy in America by assigning experienced staff to provide leadership and support for FLEC initiatives, including leadership of FLEC workgroups emphasizing integrating financial education into youth programs and those engaged in workforce development initiatives.

### **Financial Education Partnerships**

The FDIC collaborates with other federal, state, and local government agencies to promote financial education and capability initiatives for consumers and small businesses. These include the CFPB, Small Business Administration, and other federal and state agencies. The FDIC also promotes initiatives combining youth accounts and financial education through collaboration with local financial institutions, governmental entities, workforce development and education organizations, and other non-profit organizations.

### **Alliance for Economic Inclusion (AEI)**

The FDIC established and leads the AEI, a national initiative to bring all unbanked and underserved populations into the financial mainstream. The AEI is composed of broad-based coalitions of financial institutions, community-based organizations, and other partners in 14 markets across the country. These coalitions work to increase banking services for underserved consumers in low- and moderate-income neighborhoods, minority and immigrant communities, and rural areas. These services include savings accounts, affordable remittance products, targeted financial education programs, small-dollar loan programs, alternative delivery channels, and other asset-building programs.

**The Financial Stability Board (FSB)**

The FDIC actively participates in the work of the FSB, an international body established by the G-20 leaders in 2009. As a member of the FSB's Resolution Steering Group and its Cross-Border Crisis Management Group, the FDIC has helped develop international standards and guidance on issues relating to the resolution of G-SIFIs.

Much of this work has related to the operationalization of the FSB's Key Attributes.

**Federal Trade Commission, National Association of Insurance Commissioners, and the Securities and Exchange Commission**

The Gramm-Leach-Bliley Act (GLBA), which was enacted in 1999, permits insured financial institutions to expand the products they offer to include insurance and securities. GLBA also includes increased security requirements and disclosures to protect consumer privacy. The FDIC and other FFIEC agencies coordinate with the FTC, SEC, and the National Association of Insurance Commissioners (NAIC) to develop industry research and guidelines relating to these products.

GLBA also requires the SEC to consult and coordinate with the appropriate federal banking agencies on certain loan-loss allowance matters involving public bank and thrift holding companies. The SEC and the agencies have an established consultation process designed to fully comply with this requirement while avoiding unnecessary delays in processing holding company filings with the SEC and providing these institutions access to the securities markets.

In addition, the accounting policy staffs of the FDIC and the other FFIEC agencies and the SEC's Office of the Chief Accountant (OCA) meet quarterly to discuss accounting matters of mutual interest and maintain ongoing communications on accounting issues relevant to financial institutions. Other meetings are held with the OCA, as necessary, either on an individual agency or interagency basis.

**U.S. Small Business Administration Strategic Alliance Memorandum**

The FDIC partners with the U.S. Small Business Administration (SBA) to encourage financial institutions to prudently serve entrepreneurs and small business owners. Through a Strategic Alliance Memorandum (SAM), the FDIC and SBA collaborate by co-sponsoring events and activities to help banks become fully aware of SBA capital access programs and connect banks to opportunities to address small business training, counseling, and financial service needs.

## APPENDIX E

### External Factors: The Economy and its Impact on the Banking Industry and the FDIC

Economic conditions at the national, regional, and local levels affect banking strategies and the industry's overall performance. Business and household activity tends to be cyclical, and influences loan growth and credit performance for the banking industry. Business conditions and macroeconomic policies combine to determine the rate of inflation, domestic interest rates, equity market valuations, and the exchange value of the dollar. These, in turn, influence the lending, funding, and off-balance-sheet activities of FDIC-insured depository institutions.

***The U.S. economy continued to grow at a moderate pace in 2017, but risks to the outlook remain.*** U.S. economic activity picked up in 2017 as the adverse effects of a strong dollar and low energy prices from 2016 abated. Expectations are for near-term economic growth around 2.5 percent annually. Business investment remains low, but steady gains in the labor market have supported consumer spending. The unemployment rate was low and stable at 4.4 percent for much of 2017, and the tighter labor market has led to a modest increase in wage growth. Ongoing improvements in economic activity and steady inflation have raised expectations that the Federal Reserve will continue on its planned path to normalize monetary policy and reduce the size of its balance sheet.

The U.S. economy faces a number of ongoing challenges and key risks. As the economy improves and the Federal Reserve raises interest rates, it will seek to do so in a manner that supports both economic growth and price stability. Financial markets may encounter periods of volatility, which may adversely affect bank profitability. Even modest increases in interest rates and shifts in the yield curve can affect asset valuations and the earnings potential of depository institutions.

Globally, European banks face significant income and balance-sheet challenges that may adversely affect broader financial markets. Uncertainty about the future of global trade agreements and a slowdown of China's growth could weigh on the global economy and financial markets. If U.S. growth and monetary policies continue to diverge from those of other major countries, then the resulting impact on capital flows could adversely affect global financial markets.

Steady expansion of the U.S. economy should continue to support the performance of FDIC-insured institutions. However, the post-crisis environment still poses unique challenges and risks that merit ongoing attention by regulators.

***Insured institutions continued to show improved performance in 2017.*** The 5,670 FDIC-insured commercial banks and savings institutions that filed financial results in fourth quarter 2017 reported net income of \$164.8 billion, down \$6.0 billion (3.5 percent) from fourth quarter 2016. However, the decline in net income was largely due to one-time tax expenses resulting from changes in the new tax law.

The average return on assets was 0.97 percent in 2017, down 7 basis points from 2016. Net operating revenue was \$755 billion, up \$39.5 billion from a year earlier. Noninterest income increased \$1.8 billion (0.7 percent) in 2017 from the prior year, due to an increase in servicing fee and securitization income. The Federal Reserve raised short-term interest rates three times in 2017, which bolstered net interest margins at many banks as they were able to reinvest their shorter-term assets at higher rates. Net interest income was \$37.7 billion (8.2 percent) higher than in 2016.

Loan loss provisions were higher in 2017 than in 2016. Insured institutions set aside \$51.1 billion in provisions for loan and lease losses, a \$3.0 billion (6.2 percent) increase compared to a year earlier. Noninterest expenses were \$19.5 billion (4.6 percent) higher than in 2016, as salary expenses rose \$10.2 billion (5.1 percent).

Asset quality indicators continued to improve in 2017. At year-end 2017, noncurrent loan balances declined by \$15.6 billion (11.8 percent) from year-end 2016. Noncurrent 1-to-4 family residential mortgage loans fell by \$8.6 billion (13.1 percent), while noncurrent nonfarm nonresidential real estate loans declined by \$973 million (10.2 percent). Noncurrent construction and land development loans fell by \$558 million (24.2 percent), and noncurrent commercial and industrial loans decreased by \$6.6 billion (26.8 percent).

Net charge-offs of loans and leases totaled \$46.8 billion in 2017, up \$4.3 billion (10.3 percent) from a year earlier. Net charge-offs of credit cards increased \$5.0 billion (20.8 percent) and net charge-offs of automobile loans increased \$801 million (26.1 percent). Net charge-offs of real estate loans secured by nonfarm nonresidential real estate properties increased by \$271 million (131 percent), which was driven primarily by mid-size regional banks, while commercial and industrial loan net charge-offs decreased by \$1.1 billion (13.3 percent). Net charge-offs of 1-to-4 family residential mortgages were \$688 million (58.1 percent) lower than in 2016, and net charge-offs of home equity lines of credit declined by \$622 million (51.0 percent).

Asset growth was relatively strong in 2017. At year-end 2017, total assets of insured institutions were \$636 billion (3.8 percent) higher than a year earlier. Banks increased their investment securities portfolios by \$72 billion (2.0 percent) in 2017, as holdings of mortgage-backed securities rose by \$128 billion (6.4 percent). Insured institutions increased their balances with Federal Reserve banks by \$56 billion (5.1 percent). Total loan and lease balances increased by \$416 billion (4.5 percent), led by a \$78 billion (4.1 percent) increase in commercial and industrial loans. Real estate loans secured by nonfarm nonresidential properties were up by \$67 billion (5.1 percent), while real estate loans for acquisition, development, and construction purposes rose by \$25 billion (8.1 percent).

Much of the growth in assets was funded by increased deposit balances. Deposits in domestic offices increased by \$434 billion (3.7 percent) in the twelve months ended December 31. The growth occurred in both large- and small-denomination accounts, as estimated insured and uninsured deposits increased by \$234 billion and \$223 billion, respectively. Other borrowed funds rose by \$82.5 billion (5.8 percent) while all other liabilities declined by \$24.7 billion (4.8 percent). Equity capital rose by \$91.1 billion (4.9 percent).

As of year-end 2017, 95 insured institutions with total assets of \$14 billion were on the FDIC's "Problem Bank List." This is down from 123 problem institutions with combined assets of \$28 billion on the Problem Bank List at year-end 2016. Problem banks are those institutions with financial, operational, or managerial weaknesses that threaten their viability, although historical analysis shows that most institutions in the Problem Bank List do not fail.

Over the twelve months of 2017, eight banks failed with combined assets of \$5.1 billion. The Deposit Insurance Fund balance stood at \$92.7 billion with a reserve ratio of 1.30 percent on December 31, 2017, up from \$83.2 billion and a reserve ratio of 1.20 percent at year-end 2016.