MESSAGE FROM THE CHAIRMAN

For 83 years, the FDIC has carried out its mission of maintaining public confidence and stability in the U.S. financial system. The FDIC does this by insuring deposits; supervising and examining financial institutions for safety, soundness, and consumer protection; and managing receiverships when banks fail.

At the end of September 2016, the FDIC insured deposits of $6.8 trillion in almost 600 million accounts at nearly 6,000 institutions, supervised 3,827 institutions, and managed 404 active receiverships having total assets of $3.759 billion.

The U.S. economy and the banking industry continued to improve in 2016. After experiencing the most severe financial crisis and economic downturn since the 1930s, the United States is now well into the recovery. The economy is expanding, although the pace of economic growth has been weaker than the long-term trend, and bank profitability remains lower than pre-crisis levels. Still, the industry has been strengthening balance sheets by building capital and enhancing liquidity.

Stronger balance sheets indicate ample capacity for FDIC-insured institutions to continue to support the economic recovery. During the 12 months ended September 30, loan balances at banks increased by $591 billion, the largest 12-month dollar gain since the year ending June 2008. Moreover, that growth was broad-based, with all major loan categories posting increases, and more than three-quarters of all institutions reporting larger loan balances. Loan growth was strongest at community banks, which posted a 9.4 percent gain versus 6.8 percent for the industry overall. Rising loan demand and a recent pickup in the pace of economic activity are creating favorable conditions for FDIC-insured institutions, although the global economic outlook remains uncertain and poses a potential downside risk for the U.S. economy and financial system.

The number of both failed and problem institutions declined again in 2016, and the Deposit Insurance Fund (DIF) balance, which was almost $21 billion in the red during the financial crisis, was $83.2 billion in the black at year-end.

The FDIC is working to wind down the receiverships of failed institutions, address emerging supervisory challenges and cybersecurity threats, and support the formation of new banks. This shift is indicative of the move from a post-crisis recovery environment to one of expanding economic growth and financial activity. Following is an overview of the FDIC's important accomplishments over the past year, as well as the strategic challenges we face.

REBUILDING THE DIF AND RESOLVING FAILED BANKS

Under a restoration plan that reflects Dodd-Frank Act requirements to rebuild the DIF, the fund balance has increased every quarter since the end of 2009, when it reached an all-time low. In 2016, the DIF balance increased to $83.2 billion, owing primarily to assessment income, as well as lower than estimated losses for past bank failures. On September 30, 2016, the reserve ratio—the ratio of the DIF balance to estimated insured deposits—was 1.18 percent, the highest level in more than eight years.

The Dodd-Frank Act raised the minimum reserve ratio of the DIF from 1.15 percent to 1.35 percent, and requires that the reserve ratio reach that level by September 30, 2020. The Dodd-Frank Act also makes banks with $10 billion or more in total assets responsible for the increase.

To ensure that the reserve ratio reaches 1.35 percent by the statutory deadline, the FDIC adopted a rule in March 2016 that imposes a temporary surcharge on banks with at least $10 billion in assets. The surcharge is 4.5 cents per $100 of each bank's assessment base per annum, after making certain adjustments. The rule became effective on July 1 of this year. As a result, the FDIC expects the reserve ratio to reach 1.35 percent in approximately two years, well ahead of the statutory deadline.

The FDIC also has worked to ensure that the costs of maintaining a strong Deposit Insurance Fund are better allocated across the industry. In early 2011, the FDIC adopted a rule that reduces regular assessment rates for all banks when the reserve ratio reaches 1.15 percent. In April of this year, the FDIC reaffirmed that decision with a rule that revises the FDIC's methodology for determining risk-based assessments to better reflect risks and to help ensure that banks that take on greater risks pay more for deposit insurance than their less risky counterparts. The rule went into effect on July 1 of this year, after the reserve ratio surpassed 1.15 percent, and resulted in lower assessment rates for approximately 93 percent of banks with less than $10 billion in assets.

Bank failures in 2016 totaled five, down dramatically from a peak of 157 in 2010, while the number of banks on the problem bank list (banks rated 4 or 5 on the CAMELS rating scale) fell to 132 at the end of September 2016 from a high of 888 in March 2011. The United States continues to approach pre-crisis levels for failed banks and problem banks.

During 2016, the FDIC successfully used various resolution strategies to protect insured depositors of failed institutions at the least cost to the DIF. The FDIC actively marketed failing institutions and sold them to other financial institutions. These strategies protected insured depositors and preserved banking relationships in many communities, providing depositors and customers with uninterrupted access to essential banking services.

MANAGING FDIC RESOURCES

As the banking industry continues to recover, the FDIC requires fewer resources. The agency's authorized workforce for 2016 was 6,533 full-time equivalent positions compared with 6,886 the year before. The 2016 FDIC Operating Budget was $2.21 billion, a decrease of 4.7 percent from 2015.

The FDIC remains committed to fulfilling its mission while prudently managing costs. We reduced our budget for 2017 from the prior year by 2.4 percent to $2.16 billion and reduced authorized staffing by approximately 2.6 percent to 6,363 positions, in anticipation of a further drop in bank failure activity in the years ahead. This is the seventh consecutive reduction in the FDIC's annual operating budget. However, contingent resources are included in the budget to ensure readiness should economic conditions unexpectedly deteriorate.

FOCUSING ON INTEREST-RATE RISK AND CREDIT RISK

While the banking industry continues to improve, evidence of growing interest-rate risk and credit risk merit attention. In an effort to alleviate the impact of low interest rates and increase net interest margins, banks have been investing in longer-term assets and increasing the mismatch between asset and liability maturities. Lending in higher-risk loan categories has been growing as well. The recent Shared National Credits review of large syndicated loans noted that credit risk in the portfolio remains elevated. Such risk stems from the "high inherent risk in the leveraged loan portfolio and growing credit risk in the oil and gas (O&G) portfolio," the Shared National Credits report, issued in July 2016, said.

At the same time risk profiles have been rising, banks have not seen corresponding growth in overall revenue.

These examples of increasing interest-rate risk and credit risk are noteworthy as it is during this phase of the credit cycle when underwriting and investment decisions are made that may lead to losses in the future. Addressing these risks before losses materialize will benefit banks and contribute to the stability and resilience of the industry. We will continue to focus our supervisory attention on these risk areas going forward.

STRENGTHENING BANK RESILIENCE AND PUBLIC CONFIDENCE

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 Net Stable Funding Ratio 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.

In addition, the FDIC with four other federal agencies established margin requirements for non-cleared swaps. The margin rule, applicable to dealers and major participants in swaps, was finalized in October 2015 and began to be phased in starting in September 2016. The margin requirements promote financial stability and help ensure the safety and soundness of banks engaging in significant swap activity.

At the same time, the FDIC must be prepared to provide depositors with prompt access to their funds in the event of a large bank failure. This is essential to maintaining public confidence in the banking system. For the typical bank resolved by the FDIC, insured deposits are available the next business day. However, for a bank with a large number of deposit accounts, payment might be delayed if the bank's records are unclear or incomplete.

To address this type of scenario, the FDIC in November issued a final rule requiring depository institutions with more than two million deposit accounts to improve the quality of their deposit data and make certain changes to their information systems. This rule bolsters the FDIC's ability to provide depositors at banks with a large number of deposit accounts the same rapid access to their insured funds in the case of a failure as the FDIC does in smaller resolutions. We will work closely with institutions as they develop new capabilities, and intend to issue functional design assistance for system programming prior to the effective date to aid in this process.

ADDRESSING CYBERSECURITY RISK

The rapidly evolving nature of cybersecurity risks reinforces the need for regulators, financial institutions, and critical technology service providers to have appropriate procedures to effectively respond to cybersecurity risk. The FDIC collaborates with other federal agencies, law enforcement, and a number of government groups and industry coordinating councils to analyze and respond to emerging cyber threats, security breaches, and other harmful or disruptive technology-related incidents.

In October 2016, the FDIC, the Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency (OCC) issued an Advance Notice of Proposed Rulemaking inviting comment on a proposed set of enhanced cybersecurity risk-management and resilience standards that would apply to large and interconnected entities under their supervision. The standards would apply to services provided by third parties to these firms as well. Feedback on the notice will inform development of a proposed rule.

Throughout the year, the FDIC added to the cybersecurity risk-management resources it provides to the industry.

- We produced a new video, "Vendor Management – Outsourcing Technology Services," to help community bank directors and senior management develop a comprehensive vendor-management program and understand their responsibilities and regulatory requirements when outsourcing technology services.

- We enhanced our "Cyber Challenge: A Community Bank Cyber Exercise," a tool that can help start an important dialogue between bank management and staff about operational risk and techniques to mitigate it.
- We co-authored updates to the FFIEC *Information Technology Examination Handbook*. The new version, published in September 2016, outlines a framework for assessing security risks in information systems and evaluating an information security program's integration into overall risk management. Other updates to the handbook focus on risks associated with mobile financial services.
- Finally, in conjunction with National Consumer Protection Week, we launched an expanded cybersecurity awareness website that provides access to a wide range of presentations, brochures, and tips to help consumers understand and avoid cybersecurity risks.

The FDIC monitors cybersecurity issues on a regular basis through on-site bank examinations. In July 2016, we introduced the Information Technology Risk Examination (InTREx) program to enhance our ability to identify, assess, and validate information technology and operations risks in financial institutions. The program also gathers data about information technology that the FDIC can use to improve industry-wide safety and soundness. The InTREx program will allow the FDIC to provide more granular ratings with respect to information technology, which can help financial institutions address the most important examination recommendations first.

Information security is critical to the FDIC's ability to carry out its mission of maintaining stability and public confidence in the nation's financial system.

This year, the FDIC also implemented policies and technologies to strengthen its own cybersecurity posture.

For example, the FDIC:

- expanded our use of multi-factor authentication for securely downloading assessment invoices and official FDIC correspondence, and performing other secure file exchanges;
- discontinued individuals' ability to copy information to removable media such as CDs, DVDs, external hard drives, and thumb drives;
- signed a memorandum of understanding to migrate to an intrusion prevention, detection, and monitoring system from the Department of Homeland Security that will help detect and block outside cyber threats;
- launched an Insider Threat and Counterintelligence Program as part of the FDIC's efforts to safeguard employees, information, operations, and facilities;
- implemented new controls to limit printing of sensitive information and better monitor information printed in the highest risk areas; and
- engaged an independent, third-party firm to conduct an end-to-end assessment of the FDIC IT security and privacy programs.

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

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

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

Information security will remain a top priority at the FDIC. We will continue to enhance our security controls in light of the changing threat landscape.

REVIEWING REGULATION

The Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA) requires that regulations adopted by the Federal Financial Institutions Examination Council (FFIEC) and the federal banking agencies, including the FDIC, be reviewed by the agencies at least once every 10 years. The current cycle began in late 2014, and a report to Congress with findings and recommendations will be issued by the agencies soon. The purpose of this review is to identify and eliminate, as appropriate, outdated or otherwise unnecessary regulatory requirements that are imposed on insured depository institutions, while, at the same time, ensuring that safety and soundness and consumer compliance standards are maintained.

The regulatory review process is one we take very seriously. Over the course of the review, the federal banking agencies hosted six public outreach meetings nationwide to hear firsthand from insured depository institutions, trade associations, consumer and community groups, and other interested parties. The agencies received numerous oral and written comments from panelists and the public at these outreach meetings. In addition, the agencies sought comment through the issuance of four *Federal Register* notices, which garnered more than 230 comment letters. The agencies have summarized and reviewed these comments, and considered appropriate changes to reduce regulatory burdens on institutions. The FDIC recognizes that regulatory burden does not result solely from statutes and regulations, so we also explored opportunities to improve the transparency and clarity of our supervisory policies and procedures, especially as they apply to community banks.

Together with the other federal banking agencies on the FFIEC, we have already taken significant steps to reduce the regulatory burden on supervised institutions. For example, the agencies finalized revisions to streamline the Call Report and proposed a new, streamlined Call Report for institutions that do not have a foreign office and hold total assets of less than $1 billion. This new Call Report would take effect March 31, 2017, would be optional for eligible small institutions, would reduce the length of the Call Report for eligible small institutions from 85 pages to 61 pages, and would remove approximately 40 percent of the data items currently required by the Call Report for all institutions with domestic offices only.

In addition to streamlining the Call Report, in December of this year, the agencies finalized a rule to increase the number of small banks and savings associations eligible for an 18-month examination cycle rather than a 12-month cycle. As a result, approximately 4,800 well-capitalized and well-managed banks and savings associations are now eligible for the expanded examination cycle.

The federal banking agencies also are jointly developing simplifications to the regulatory capital rules, including modifications of high volatility commercial real estate (HVCRE) and select other revisions to the agencies' generally applicable capital rules, and would seek industry comment on these changes through the notice and comment process. In addition, the agencies are developing a proposal to increase the threshold for requiring an appraisal on commercial real estate loans to reduce regulatory burden in a manner consistent with safety and soundness.

The FFIEC agencies also revisited and issued revised guidance on the Community Reinvestment Act (CRA) this year. In July, the FFIEC issued the revised guidance which aims to:

- Improve consistency of examinations across and within the agencies,
- Clarify the activities considered to meet the test for qualifying economic development activities,
- Distinguish between community development services and retail products tailored to meet the needs of low- and moderate-income individuals, and

- Provide examples of the types of activities that are eligible for CRA consideration.

We are also working jointly with the other federal banking agencies on flood insurance guidance, amendments to the rules implementing Depository Institution Management Interlocks Act, and guidance on Regulation O.

The FDIC has also taken independent action this year to reduce regulatory burden. For example, a particular interest to the FDIC is the impact of our regulations on new banks. In 2016, we reduced the period of enhanced supervision for newly insured depository institutions (i.e., *de novo* banks) from seven years to three. We also issued updated guidance on the deposit insurance application process and identified subject matter experts in each of the Regional Offices to assist with deposit insurance applications.

We also implemented an electronic pre-examination planning tool for both risk-management and compliance examinations that allows examiners to tailor request lists to ensure that only those items that are necessary for the examination process are requested from each institution, minimizing the burden for supervised institutions and reducing on-site examination hours.

In 2016, we also enhanced our information technology (IT) examination procedures to require less pre-examination information from bankers. The revised IT Officer's Questionnaire that is completed by bankers prior to an examination, asks 65 percent fewer questions, reducing the amount of time needed to prepare for an examination. We also established a process to allow for our institutions to submit audit reports electronically, eliminating the need for institutions to mail hard copies.

In addition, we issued a Financial Institution Letter (FIL) to supervised institutions, clarifying our treatment of requests from S-corporation institutions to pay dividends to their shareholders to cover taxes on their pass-through share of bank earnings. We told banks that, unless there are significant safety and soundness concerns, we will generally approve those requests.

COMMUNITY BANKING INITIATIVE

Community banks are critically important to our economy and the banking system. Community banks account for 13 percent of the banking assets in the United States, but also account for 43 percent of the small loans to businesses and farms made by all banks, making them key partners in supporting local economic development and job creation. Because the FDIC is the primary federal supervisor of the majority of community banks in the United States, community banking will continue to be an important focus of FDIC supervision, technical assistance, and research.

In 2016, the FDIC hosted a conference that brought together community bankers, regulators, researchers, and others to discuss the community banking model, regulatory developments affecting community banks, management of technology challenges, and ownership structure and succession planning. We also hosted a Joint Mutual Forum with the OCC to promote and support the operations of mutual depository institutions and discuss industry trends, the economic outlook, technology challenges, and regulatory compliance topics. The community banking sector continues to demonstrate resilience and innovation in meeting new challenges and competing in an evolving financial marketplace.

The FDIC's Community Banking Initiative includes an extensive technical assistance program for bank directors, officers, and employees. We continue to expand and enhance our series of online videos to help community bankers better understand their responsibilities. New or updated videos in 2016 address corporate governance, vendor management, outsourcing technology services, interest-rate risk, mortgage rules, and flood insurance. We also distributed a *Community Bank Resource Kit*, which includes a variety of useful tools for community bankers, to FDIC-supervised institutions.

In addition, this year, we launched an online resource, the Affordable Mortgage Lending Center, which community bankers can use to understand and compare the mortgage-lending products and services offered by federal and state housing finance agencies, the Federal Home Loan Banks, and government-sponsored enterprises.

Further, in 2016, the FDIC launched a new survey regarding banks' small business lending practices. This survey is designed to provide information on the general characteristics of banks' small business borrowers, the types of credit offered to small businesses, and the relative importance of commercial lending for banks of different sizes and business models. It is important to understand how banks of all sizes are lending to small businesses, which is crucial to job creation. I look forward to seeing the results of the survey in 2017.

Finally, the FDIC's Advisory Committee on Community Banking is an ongoing forum for discussing current issues and receiving valuable feedback from the industry. The committee, which met three times during 2016 with the FDIC Board, is composed of 15 community bank CEOs from around the country. It is a valuable resource for input on a wide variety of topics, including examination policies and procedures, capital and other supervisory issues, credit and lending practices, deposit insurance assessments and coverage, and regulatory compliance issues.

Supporting *De Novo* Banks

De novo institutions fill important gaps in local banking markets, provide credit and services to communities that may be overlooked by larger institutions, and help to preserve the vitality of the community banking sector. The FDIC is committed to working with, and providing support to, any group with an interest in starting a *de novo* bank, and welcomes applications for deposit insurance.

The current environment, with low interest rates and narrow net interest margins, is challenging for the formation of new banks. Nevertheless, we have seen tentative signs of an uptick in *de novo* formations, including increased interest from prospective organizing groups in filing applications for new insured depository institutions. To encourage this interest and help organizing groups navigate the application process, this year the FDIC hosted outreach meetings throughout the country to discuss FDIC requirements for new bank applications and highlight strategies for successful business models, supplemented its Deposit Insurance Q&As, and issued for public comment a handbook to guide organizing groups through the application process.

In April, the FDIC reduced from seven years to three years the period of enhanced supervisory monitoring of state nonmember *de novo* institutions. The seven-year period was established during the financial crisis in response to the disproportionate number of *de novo* institutions that were experiencing difficulties or failing. In the current environment, and in light of strengthened, forward-looking supervision, it is appropriate to return to the three-year period.

RESOLUTION OF SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS

The FDIC continues to make progress toward developing strategies to facilitate the orderly failure of large, complex, systemically important financial institutions without taxpayer support and market breakdowns.

Living Wills

In 2016, the FDIC remained committed to carrying out the statutory mandate that systemically important financial institutions (SIFIs) demonstrate a clear path to an orderly failure under bankruptcy at no cost to taxpayers. Under the Dodd-Frank Act, bankruptcy is the statutory first option for resolving a SIFI, and the largest bank holding companies and certain non-bank financial companies are required to prepare resolution plans, also referred to as "living wills." These living wills must demonstrate that the firm could be resolved under bankruptcy without severe adverse consequences for the financial system or the U.S. economy.

The FDIC and the Federal Reserve Board are charged with reviewing and assessing each firm's resolution plan. In 2016, we reviewed the resolution plans submitted by the eight U.S. SIFIs in 2015 and provided firm-specific feedback on the plans. The agencies jointly determined that five of those plans were not credible or would not facilitate an orderly resolution under the Bankruptcy Code. The agencies issued joint notices of deficiencies in July 2016 to the five firms detailing the deficiencies in their plans and the actions the firms must take to address them. Each firm was required to remedy its deficiencies by October 1, 2016, or risk being subject to more stringent prudential requirements or to restrictions on activities, growth, or operations.

The agencies received and reviewed those submissions, and determined that four of the firms had satisfactorily remediated their deficiencies. The agencies jointly determined that one firm did not adequately remedy two of the firm's three deficiencies. In light of the nature of the deficiencies and the resolvability risks posed by the firm's failure to remedy them, the agencies jointly determined to impose restrictions on the growth of international and non-bank activities of the firm and its subsidiaries. The firm is expected to file a revised submission addressing the remaining deficiencies by March 31, 2017 or risk facing limits to the size of the firm's non-bank and broker-dealer assets.

All eight SIFIs must submit their next plan in July 2017, in which they must address identified shortcomings and additional guidance from the agencies.

With the release of the joint findings, the agencies took a number of important steps to make the resolution planning process more transparent to the public and the market. This is important because it allows for the development of realistic market expectations about how the resolution of a SIFI might proceed. To this end, the Federal Reserve Board as the holding company supervisor released to the public decision letters regarding the 2015 submissions and remediation of the 2016 joint deficiencies, which included the actions the eight U.S. firms are required to take. Further, the agencies released the assessment framework under which the Federal Reserve Board and the FDIC review each firm's plan and the guidance provided by the agencies to the firms to assist them with the development of their 2017 plans.

These actions have provided transparency to both firms and the public regarding the agencies' assessment framework, the important changes firms have made to their structure and operations to improve resolvability, and the agencies' expectations for further improvement in these plans. Our expectation is that these collaborative efforts will continue, and that the agencies will continue to prioritize transparency for firms and the public.

Overall, the living will process has proved to be an important means for identifying and implementing measures to enhance SIFIs' resolvability. We have seen firms make significant changes, including restructurings, operational continuity planning, and options for separating assets, business lines, and entities from a failing company. Firms also have improved their management information systems capabilities, financial resource measurement and process development, and resolution planning governance, all of which are key elements for enhancing resolvability.

Orderly Liquidation Authority

Given the challenges and the uncertainty surrounding any particular failure scenario, Title II of the Dodd-Frank Act provides the Orderly Liquidation Authority, which is a public-sector special resolution regime, as a backstop to the bankruptcy process for institutions whose failure or distress would pose significant risks to U.S. financial stability.

The Orderly Liquidation Authority 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 in an orderly way, while ensuring that shareholders, creditors, and culpable management are held accountable and taxpayers do not bear losses. In the years since enactment of Dodd-Frank, the FDIC has made significant progress in developing the operational capabilities to carry out a resolution if needed.

As in the United States, the other leading jurisdictions of the world have enacted expanded authorities for the resolution of SIFIs. The FDIC has worked closely with all the major financial jurisdictions, including the United Kingdom, the European Banking Union, Switzerland, and Japan.

In 2016, the FDIC hosted a Trilateral Principals Level Exercise involving the United States, the United Kingdom, and the European Banking Union. The purpose of the exercise was to identify issues and address obstacles to cross-border resolution. U.S. participants included senior officials from the Treasury Department, the Board of Governors of the Federal Reserve System, the OCC, the Securities and Exchange Commission, the Commodity Futures Trading Commission, and the Federal Reserve Bank of New York. Participants from Europe included senior officials from HM Treasury, the Bank of England, the U.K. Prudential Regulation Authority, the Single Resolution Board, the European Commission, and the European Central Bank. Deepening our relationships with key foreign jurisdictions is an ongoing priority for the FDIC's work on systemic resolution, and includes not only this exercise, but also our continuing engagement in cross-border Working Groups, Crisis Management Groups, and Resolution Colleges.

In September, the FDIC Board and senior staff from across the agency took part in an operational exercise designed to test and enhance our policies and protocols for the liquidation and wind down of a systemically important financial institution. The 2016 operational exercise followed a similar event held in 2015, and highlighted the agency's significant ongoing progress in this vital area.

EXPANDING ACCESS TO BANKING SERVICES AND PROTECTING CONSUMERS

Expanding access to mainstream banking services helps strengthen confidence in the nation's financial system, a fundamental component of the FDIC's mission. This year, we released the 2015 FDIC National Survey of Unbanked and Underbanked Households, a biennial survey conducted with the U.S. Census Bureau that provides detailed national, state, and local data to inform economic inclusion efforts. There were positive indications for consumers: The unbanked rate fell to 7 percent in 2015, down from 8.2 percent in 2011. The decline occurred broadly, across population segments, and outpaces what one would expect even in light of improving economic conditions.

The survey also made significant findings about the role of mobile banking in economic inclusion. Underbanked households are more likely to own a smartphone, more likely to use it to access their bank account, and more likely to use it as their primary means of managing their account than fully banked households. These findings echo a report released at a meeting of the FDIC's Advisory Committee on Economic Inclusion this year, which found that mobile financial services may help banks address many of the core financial service needs of underserved consumers, including more timely information about balances and transactions and more control over their financial lives.

The FDIC is committed to ensuring that all U.S. households have access to safe and affordable banking services. In 2016 we provided information and technical assistance on safe and affordable transaction and savings accounts, otherwise known as SAFE Accounts, to local initiatives in more than 28 communities in 23 states. We also partnered with the Cities for Financial Empowerment Fund and the Bank On programs to provide outreach to representatives of more than 300 community-based organizations and more than 230 bankers at 14 outreach events across the country. Bringing these groups together creates opportunities to identify strategies to reach unbanked populations by lowering the barriers to accessing banking services.

As of the end of 2016, nearly nine out of every 10 people in the United States lives in a county with a full-service branch of a bank that offers a SAFE transaction account. The Model SAFE account can be accessed through a convenient card without overdraft or insufficient funds fees, while including low initial and monthly maintenance costs and transparent disclosures.

We also continued our efforts to provide and promote effective financial education for young people. For example, through our Youth Savings Pilot Program, we have been able to study the financial education programs offered by 21 banks in partnership with local schools over a two-year period. These programs tie financial education with the opportunity to open a safe, low-cost savings account at bank branches, some of which are located in the schools and run by students. Many of these programs employ the FDIC's *Money Smart for Young People* financial education curriculum, as well as the Model SAFE account template. A recent symposium brought together representatives from banks, non-profits, and school partners to discuss lessons learned from the pilot. We gathered these insights for a report we plan to publish in early 2017 that will offer a roadmap for banks and schools that are teaming up to link financial education with opportunities to save.

Our *Money Smart* program is one example of our ongoing efforts to collaborate with other federal agencies to develop and promote financial education. For example, *Money Smart for Older Adults*, a resource developed jointly by the FDIC and the Consumer Financial Protection Bureau, was enhanced this year to help people age 62 and older guard against financial exploitation and make informed financial decisions.

We also partnered with the U.S. Small Business Administration to make enhancements to *Money Smart for Small Business*, a resource that provides practical guidance for starting and managing a business. In response to feedback from the small business community, three new modules were added: managing cash flow, planning for a healthy business, and determining if owning a business is a good fit. The Strategic Alliance Memorandum between the FDIC and SBA ensures this collaboration will continue through 2018.

Money Smart for Young People, a curriculum that involves educators, parents/caregivers, and young people in the learning process and is available in English and Spanish, continues to be well received. There have been more than 39,000 downloads of the curriculum since its launch in 2015. We also have begun to identify how our *Money Smart* resources can be helpful to workforce development organizations in providing financial education to young people.

CONCLUSION

During 2016, the U.S. banking industry continued its recovery from the recent financial crisis. The industry benefited from stronger balance sheets, fewer problem banks and bank closings, increased lending activity, and a larger balance in the DIF. At the same time, it remains important for bankers and supervisors to heed the lessons of the recent crisis by maintaining a steady focus on risk management.

In 2017, the FDIC will continue to work to fulfill its mission of maintaining public confidence and stability in the nation's financial system.

The workforce of the FDIC remains committed to the agency's mission. I am very grateful to the dedicated professionals of the FDIC for their commitment to public service and for the high level at which they carry out their important responsibilities.

Sincerely,

Martin J. Gruenberg

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