MESSAGE FROM THE CHAIRMAN

Since my appointment as the 21st Chairman, I have been honored to serve alongside the dedicated and passionate men and women of the Federal Deposit Insurance Corporation. Our mission is vital to the economy of the United States, and our accomplishments serve as a bulwark to financial stability around the world.

The United States banking industry continued its strong performance in 2018. The industry posted record profits, net interest margins increased, loan balances grew, and loan performance improved. There were no bank failures in 2018, and the number of banks on the FDIC's problem bank list declined to the lowest level since third quarter 2007. The Deposit Insurance Fund increased to over $100 billion, and the reserve ratio increased to 1.36 percent in third quarter 2018, exceeding the statutorily required minimum reserve ratio of 1.35 percent two years ahead of the required date.

FDIC supervision programs continued to protect our Nation's financial institutions and consumers. Our examiners started all examinations within established statutory or FDIC requirements, and examination results indicate that the vast majority of FDIC-supervised institutions are operating in a safe and sound manner and effectively managing their consumer protection responsibilities.

One of my top priorities as FDIC Chairman is to encourage more *de novo* formation, and we are hard at work to make this a reality. Among other initiatives, the FDIC has requested public comment on the deposit insurance application process to identify potential improvements. We are also working to streamline our evaluation of deposit insurance applications, and have launched a process to receive and review draft deposit insurance proposals. Through these initiatives, we seek to improve the quality of submissions and reduce the time necessary to review and process applications, particularly those involving complex proposals. *De novo* banks are a key source of new capital, talent, ideas, and ways to serve customers, and the FDIC will do its part to support this segment of the industry.

The FDIC also took robust steps this year to reduce the regulatory burden on community banks, without sacrificing safety and soundness or consumer protections. We eliminated over one-half of the more than 800 pieces of supervisory guidance outstanding. We also launched a pilot program to use technology to reduce the number of onsite days needed to conduct an examination, and took other steps to reduce the costs of examinations to our regulated institutions.

As part of this effort, the FDIC has worked toward quickly implementing many provisions of the Economic Growth, Regulatory Relief, and Consumer Protection Act. This includes proposed rulemakings to establish a community bank leverage ratio for highly capitalized community banks, tailor the application of existing capital and liquidity rules for regional banks, modify the capital treatment of certain commercial real estate loans, modify the threshold for mortgage loans to be exempt from appraisal requirements, simplify reporting requirements for community banks with less than $5 billion in assets, and exempt community banks from the Volcker Rule. The FDIC has also issued a final rule to extend the exam cycle to 18 months for banks with less than $3 billion in assets.

The FDIC continued to evaluate firm-developed resolution plans, and to develop our own strategies and capabilities to facilitate, if necessary, the orderly resolution of large, complex financial institutions without taxpayer support or market breakdowns. To support this effort, the FDIC and Federal Reserve Board provided feedback regarding Title I resolution plans submitted by 23 foreign banking organizations and two domestic regional bank holding companies, and assessed plans submitted by another 16 domestic regional bank holding companies. The agencies also released for public comment revised guidance for the eight largest domestic firms. The FDIC also worked to enhance our preparedness to use backup Title II Orderly Liquidation Authority, including strengthening our working relationships with international authorities.

Traditional resolution activity for insured depository institutions in 2018 included the monitoring of several institutions near failure, the execution of deposit insurance processing system improvements, the liquidation of more than $1 billion in legacy assets, the termination of 66 receiverships, and the processing of almost $3 billion in dividend payments to creditors. Substantial progress was made in the evaluation of the resolution plans of 41 large banks, and in the development of the FDIC's capabilities around bridge bank governance, including executive search and onboarding, bridge bank exit strategies, human capital transitioning, crisis communication, claims administration, and large transaction accounting.

In October, I announced my first public initiative as Chairman, "Trust through Transparency," an agency-wide effort that unites the FDIC behind the goals of being accessible, understandable, responsive, and accountable. Transparency is pivotal to maintaining the public's trust in the safety and soundness of the entire banking system and in our ability to accomplish our mission. The first step in this initiative was to launch a new section of our website (https://www.fdic.gov/transparency/) where we publish FDIC performance metrics. These are quantifiable measurements of performance, such as turnaround times for examinations and applications, call center response rates, and guidelines and decisions related to appeals of material supervisory determinations and deposit insurance assessments. In the same place on our website, we posted other policies and procedures regarding how we conduct our work.

Publishing this information provides transparency to the banking industry and the public on our performance. In its first two months, our new "Trust through Transparency" website received more than 34,000 page views. During the remainder of my chairmanship, we will continue to update this information, provide more data, and make it easier for the public to hold us accountable. We will provide information that anyone – not just technical experts – can understand. We will solicit and respond to public feedback, and continue to provide real, quantifiable performance measures. If you like what we are doing, or if you have concerns, we also established an email account to gather your feedback: Transparency@FDIC.gov.

Looking forward to 2019, we have set forth a robust agenda for the agency.

We will continue to focus on reducing unnecessary regulatory burdens for community banks without sacrificing consumer protections or prudential requirements. My "Back to Basics" initiative is designed to tailor regulatory requirements to the risk presented by these smaller institutions, thus reducing their cost of compliance. When we make these adjustments, we allow banks to focus on the business of banking, not on the unraveling of red tape.

In addition, we are in the process of establishing an Office of Innovation that will partner with banks and non-banks to understand how technology is changing the business of banking. The Office will be tasked with addressing four fundamental questions:

1. How can the FDIC provide a safe regulatory environment to promote the technological innovation that is already occurring?
2. How can the FDIC promote technological development at community banks that often have limited research and development funding to support independent efforts?
3. What changes in policy – particularly in the areas of identity management, data quality and integrity, and data usage or analysis – must occur to support innovation while promoting safe and secure financial services and institutions?
4. How can the FDIC transform – in terms of our technology, examination processes, and culture – to enhance the stability of the financial system, protect consumers, and reduce the compliance burden on our regulated institutions?

Through increased collaboration with FDIC-regulated institutions, consumers, and financial services innovators, we will help increase the velocity of innovation in our business.

As the banking industry evolves, so must the FDIC. That is why I have directed FDIC leadership to conduct a comprehensive review of our current supervisory processes, as well as the organization, workforce structure, and capabilities supporting our supervisory mission. Through focused adoption of new technologies and processes, we can improve the transparency, efficiency, and effectiveness of our consumer and prudential examinations. We look forward to working with experts in information technology and banking – from the private sector, academia, and government – for input on how the FDIC can improve our supervision efforts.

In 2019, we will also increase our focus on underserved or unbanked communities. We will expand our engagement with Minority Depository Institutions (MDIs), so that they are in a better position to serve their communities. At the same time, we will work with all FDIC-supervised institutions to promote the safe adoption of additional products and services that bring these underserved communities more fully into the banking fold. The FDIC has issued a request for information soliciting feedback on steps the agency can take to better enable FDIC-supervised banks to offer small dollar credit to consumers.

The current positive economic cycle will not last forever. The actions that the FDIC has taken in 2018 and our planned agenda for 2019 will strengthen the stability of our institutions should a downturn occur sooner than expected.

I am genuinely honored to serve as your FDIC Chairman, and I look forward to working with all of you to ensure that our Nation's banks remain strong and that the FDIC maintains its longstanding tradition of distinguished public service.

Sincerely,

Jelena McWilliams

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