MESSAGE FROM THE CHAIRMAN

2019 was my first full year as Federal Deposit Insurance Corporation (FDIC) Chairman, and I am proud of all that we have accomplished thanks to the hard work and dedication of the FDIC's talented workforce. We continue to fulfill our vital mission to maintain stability and public confidence in the nation's financial system by achieving high standards in all areas of operation: insuring deposits, examining and supervising financial institutions for safety and soundness and consumer protection, making large and complex financial institutions resolvable, and managing receiverships.

The banking industry remains strong and well-positioned to support economic growth. In 2019, net income, net operating revenue, and loan growth were positive, and the number of banks on the FDIC's problem bank list declined to its lowest level since 2007. The Deposit Insurance Fund grew to over $110 billion at year end, and the reserve ratio increased to 1.41 percent as of the third quarter, the highest level since 1999.

During 2019, 13 new banks opened their doors while only four banks failed, and the FDIC approved nine applications for deposit insurance.

Over the past year, the FDIC has focused on three overarching goals:

1. Strengthening the banking system as it continues to evolve;
2. Tailoring regulations to ensure that our rules are commensurate with the risk profile of the institutions we supervise; and
3. Encouraging innovation at the FDIC and community banks.

STRENGTHENING THE BANKING SYSTEM

Over the past year, the FDIC has worked to strengthen the banking system by modernizing our approach to supervision and regulation. These efforts seek to enhance efficiency and transparency while maintaining the safety and soundness of the system.

When I joined the agency, I asked staff to identify rules and regulations that have not been updated in 10 or more years. To have a strong financial system – and strong economic growth – banks must be able to meet the needs of consumers and businesses across the nation. This ability, in turn, requires that regulators modernize our rules as the industry evolves.

Last year, we began a comprehensive review of our longstanding regulatory framework for brokered deposits, which was implemented in 1989. Those regulations have not been revised to meaningfully address the significant changes in technology, business models, and products across the financial services industry over those 30 years. Our review resulted in a proposal that would establish a new, transparent framework for determining what qualifies as a brokered deposit. These changes would have a real impact on how banks deliver products and services to consumers, including the more than 20 million unbanked Americans who could have greater access to banking services.

We also worked with our regulatory partners to issue a proposal to modernize our regulations under the Community Reinvestment Act (CRA), which have not been substantively updated for nearly 25 years. The proposal, which seeks to encourage greater lending and investment in low- and moderate-income communities where there is significant need for credit, would clarify what activities qualify for CRA credit. In addition, the proposal would recognize the evolution of the banking system, including the emergence of digital banks, by adding a test to determine whether banks need to establish additional CRA assessment areas. We look forward to receiving feedback on these proposals as we work to improve and finalize them in 2020.

With respect to supervision, FDIC examination teams are leveraging technology to reduce the amount of time they spend on-site at supervised institutions. This reduces the compliance burden for institutions – especially community banks – without sacrificing the quality of our supervision. We also took several steps to support *de novo* bank formation, including revamping our internal processes to provide more transparency and help organizers navigate the deposit insurance application process. The results we have seen thus far are encouraging with nine new deposit insurance applications approved in 2019 and 14 in 2018 – the largest numbers since 2008.

In addition, we established two new subcommittees to our Community Bank Advisory Committee:

- Subcommittee on Supervision Modernization, comprised of bankers, technologists, former regulators, and legal experts to consider how the FDIC can improve the efficiency of the examination process; and
- Subcommittee on Minority Depository Institutions (MDIs), comprised of FDIC-regulated institutions to focus on the unique nature, needs and benefits of MDIs and a supervisory framework that can support them.

TAILORING REGULATIONS

As we continue to think about ways to strengthen the banking system, the appropriate calibration of our regulatory framework remains a top priority. It is critical that regulators continuously evaluate whether our rules are appropriately addressing risks in our financial system as the system itself and the regulated entities within it evolve over time.

In 2019, the FDIC completed all of its statutorily mandated rules pursuant to the Economic Growth, Regulatory Relief, and Consumer Protection Act, including an interagency rule that establishes four risk-based categories for determining capital and liquidity requirements. This framework better aligns our regulatory requirements for large banks with their risk profiles, taking into account their size and complexity. In addition, we issued a rule to improve the efficiency and effectiveness of the resolution planning process. Under both rules, the largest, most systemically important institutions remain subject to the most stringent standards, and requirements for all other institutions are tiered based on each bank's risk profile.

Simultaneously, we are taking steps to reduce regulatory burden at community banks, recognizing that community bankers should focus more time on the business of banking and less time navigating complex regulatory issues. In November, we issued a rule that establishes a simple leverage ratio for qualifying community banks. The rule provides meaningful regulatory compliance burden relief by allowing these banks to avoid complex risk-based capital calculations and reporting. In addition, we issued a rule that simplifies the Call Report for community banks and expands eligibility to file the streamlined Call Report.

FOSTERING INNOVATION

Perhaps no issue is more important – or more central to the future of banking – than technological innovation. Regulators must be proactive in engaging with all stakeholders, including banks, consumer groups, trade associations, and technology companies to understand and help foster the safe adoption of technology across the banking system, especially at community banks.

The cost of innovation and regulatory uncertainty are the two primary hurdles that are keeping community banks from developing and utilizing new technologies.

Partnerships with financial technology companies, or fintechs, can help community banks overcome the first hurdle, but in order for them to overcome the second, the FDIC must ensure that our regulatory framework enables those partnerships.

In 2019, we established a new office – the FDIC Tech Lab, or FDiTech – to address these issues. FDiTech's goal is to eliminate regulatory uncertainty through engagement and technical assistance, while encouraging the market to develop technology that improves the operations of financial institutions. Through events like tech sprints and pilot programs, FDiTech will collaborate with banks and technology companies to tackle difficult challenges facing the financial services industry and the FDIC.

Importantly, FDiTech will also engage directly with community banks to discuss how technological developments could impact their businesses. As part of this effort and to further expand on the efforts of the Subcommittee on Supervision Modernization, we plan to host a series of community bank-focused roundtables that will bring bankers together with technologists and technology service providers.

It is my goal that the FDIC lays the foundation for the next chapter of banking by encouraging innovation that meets consumer demand, promotes community banking, reduces compliance burdens, and modernizes our supervision.

PROMOTING DIVERSITY AND INCLUSION

My personal and professional experiences have underscored the importance of a workplace that is free from discrimination and that supports diversity and inclusion. In furtherance of the FDIC's longstanding commitment to diversity and inclusion, we have created an executive-level taskforce on diversity to help to ensure our recruiting resources, hiring decisions, interviewing processes, retention efforts, and advancement pools reflect a purposeful and intentional effort to leverage diversity to maintain a high-performing workforce.

The racial and gender diversity of the FDIC workforce continues to increase, and we will work to consistently improve diversity at all levels of the agency, fostering an environment without barriers in which all employees feel welcomed, valued, respected, and engaged.

LOOKING AHEAD

When I joined the FDIC, I committed to visiting all 50 states to engage with bankers, state regulators, and consumers on their own turf. Through the end of 2019, I had visited 28 states and received invaluable feedback regarding the challenges banks face in different parts of the country. In 2020, we will continue to advance the goals of strengthening our banking system, fostering innovation, and ensuring that banks can meet the needs of businesses and consumers across the nation.

These are ambitious goals, and I know that the dedicated employees of the FDIC will rise to the challenge. I remain honored to serve alongside the men and women of the FDIC who endeavor every day to fulfill our vital mission.

Sincerely,

Jelena McWilliams

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