FDIC
Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, DC 20429
Deputy to the Chairman and Chief Financial Officer

November 25, 2011

TO: Board of Directors

FROM: Steven O. App
Deputy to the Chairman and
Chief Financial Officer

SUBJECT: Proposed 2012 Corporate Operating Budget

Proposal

This memorandum requests that the Board of Directors approve the proposed 2012 Corporate Operating Budget totaling $3,280,778,645, including $1,780,778,645 for ongoing operations and $1,500,000,000 for receivership funding.[1] The total proposed 2012 Corporate Operating Budget is $596,329,235 (15.4 percent) lower than the approved 2011 Corporate Operating Budget. The proposed ongoing operations component of the budget is $106,099,586 (6.3 percent) higher than the approved 2011 ongoing operations budget, while the proposed receivership funding component of the budget is $702,428,821 (31.9 percent) lower than the 2011 receivership funding budget.

Approval is also requested for a total authorized 2012 corporate staffing level of 8,704 (5,831 permanent, 2,873 non-permanent), down 565 positions from the currently-approved 2011 authorized staffing level of 9,269 (5,789 permanent, 3,480 non-permanent). This includes approval of individual division and office staffing authorizations, with the same limited flexibility that has been provided in 2011 for individual divisions and offices to temporarily exceed their permanent 2012 staffing authorizations.

[1]Certain factors that affect the Salaries and Compensation category of the proposed 2012 Corporate Operating Budget have not yet been finalized. For example, 2012 locality pay adjustments and the Corporation's share of 2012 employee health insurance costs have not yet been determined. When these factors are finally determined, they may require corresponding changes in estimated expenses for the Salaries and Compensation major expense category of the 2012 Corporate Operating Budget. As in prior years, the proposed 2012 Budget Resolution delegates authority to the Deputy to the Chairman and Chief Financial Officer to adjust the total Board-approved 2012 Corporate Operating Budget to account for such factors.

Background

Structure of the Corporate Operating Budget

In 2003, the Board adopted the concept of an annual corporate operating budget with two components: ongoing operations and receivership funding. Funds approved by the Board for one component cannot be reprogrammed to pay for expenditures incurred for the other component. The segregation of annual operating expenditures into these two components was intended to facilitate more effective cost management by isolating the Corporation's more stable ongoing operational expenses from the highly variable annual expenses associated with bank closings and subsequent asset liquidation and litigation activities.

The receivership funding component provides funding for expenses incurred in connection with the failure (or near failure) of FDIC-insured institutions and the management of receiverships established in connection with those failures.[2] The establishment of the separate receivership funding component reflected a recognition that the number of failures and the expenses associated with those failures in any year are to a large extent outside of the control of the FDIC and that the actual expenses incurred for resolutions and receivership management activities may vary considerably from the estimates made during the annual planning and budget process.

From 2003 through 2007, the ongoing operations component was by far the larger of the two budget components, constituting over 90 percent of the total corporate operating budget each year due to the low level of resolutions and receivership management activity. The Corporation budgeted $75 million annually for receivership funding expenses during this period, but actual receivership funding expenses were considerably lower, ranging from $11 million to $40 million each year. However, as the condition of banking industry deteriorated and insured institution failures began to increase rapidly after 2007, the receivership funding component of the budget rose to $150 million in 2008, $1.3 billion in 2009, and $2.5 billion in 2010, before declining to $2.202 billion in 2011. By contrast, the ongoing operations component of the budget rose much more gradually during this period, from $1,032,489,659 in 2007 to $1,674,679,059 in 2011.

2012 Workload Analysis and Projections

During 2012, the Corporation will continue to focus primarily on its historic mission responsibilities, including supervision of a large number of troubled and problem institutions and the resolution of failed insured depository institutions. In addition, the Corporation will continue to devote substantial resources in 2012 to establishing the infrastructure needed to fulfill its new responsibilities under the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (Dodd-

---

[2] Salary and benefits expenses for the permanent in-house staff associated with the Corporation's Receivership Management business line (primarily in the Division of Resolutions and Receiverships and the Legal Division) are funded from the ongoing operations component of the budget, because the maintenance of this in-house staff would be necessary, regardless of whether any failures actually occurred.

Frank Act), including monitoring the risks in large, systemically important financial institutions (SIFIs) and preparing, if necessary, to undertake their orderly liquidation. During 2012, the Corporation will participate in the review of resolution plans submitted by the first set of institutions subject to this new requirement under Section 165(d) of the Dodd-Frank Act.

As in prior years, the proposed 2012 budget and staffing authorizations are based heavily on an analysis of projected workload for each of the Corporation's three major business lines and its major program support functions. Corporate workload assumptions and guidance on planned initiatives were established at the outset of the annual planning and budget formulation process, and divisions and offices determined their budget requirements in accordance with that guidance. As the proposed budget was finalized, these resource requirements were reassessed and refined in light of updated workload projections reflecting changing industry conditions. The Division of Insurance and Research (DIR) is expected to update these workload projections, in coordination with the Division of Risk Management Supervision (RMS)[3] and the Division of Resolutions and Receiverships (DRR), at least semiannually during 2012. We will continue to monitor key workload indicators to ensure that approved budget and staffing authorizations are adequate to address the projected workload.

The Corporation's projected supervision and resolutions and receivership management workload is the primary determinant of the resource requirements reflected in the proposed 2012 budget. The Corporation's supervision workload varies based upon the total number of institutions supervised by the FDIC and the number of those institutions with composite CAMELS (risk management) ratings of 3, 4, and 5. Those two factors largely determine the number of risk management examinations to be conducted each year and the amount of examiner time spent on those examinations. The primary drivers of the Corporation's resolutions and receivership management workload are the number of failures of FDIC-insured institutions and the amount of post-failure receivership work it is managing.

The number of FDIC-supervised institutions declined by 627 (11.9 percent), from 5,527 at year-end 2007 to 4,630 at October 31, 2011, as a result of bank failures and industry consolidation and is expected to continue to decline in 2012. Although this reduced the number of risk management examinations to be conducted each year, it was offset from 2007 through 2010 by a substantial increase in the number of FDIC-supervised institutions that required more frequent and lengthy examinations and supervisory oversight because they had composite CAMELS ratings of 3, 4, or 5. The number of 3-, 4-, and 5-rated institutions has declined somewhat during 2011 (although it remains very high) and is expected to continue to decline gradually in 2012 and beyond, consistent with forecasts for a slow and gradual economic recovery. These changes are expected to have a minimal impact on the Corporation's risk management supervision

---

[3] In August 2010, the Board approved the creation of separate divisions to manage the risk management (safety and soundness) and consumer protection supervision functions previously administered by the Division of Supervision and Consumer Protection (DSC). The new Division of Risk Management Supervision (RMS) assumed responsibility for risk management supervision functions and the new Division of Depositor and Consumer Protection (DCP) assumed responsibility for consumer protection supervision functions in early 2011.

workload in 2012, but should lead to further workload reductions in future years. The number of risk management examinations is projected to decline from 2011 to 2012 by about 6.0 percent, to 2,669; the number of enforcement actions to be administered will remain very high by historical standards. Compliance and Community Reinvestment Act (CRA) examination workload is less directly affected by unfavorable CAMELS ratings and is projected be relatively stable in 2012. The proposed 2012 Corporate Operating Budget includes the resources needed to conduct an estimated 1,753 compliance and CRA examinations, down 2.1 percent from 2011.

The reduction in resolutions and receivership management workload is expected to be more significant in 2012. The proposed budget reflects an expected continuing decline in the number of insured financial institution failures in 2012, but an increasing number of post-failure receiverships being managed by the FDIC. There have been 90 failures of FDIC-insured depository institutions year-to-date through November 25, 2011, down from a total of 157 in 2010, and the Corporation's inventory of assets in liquidation has fallen from approximately $27.0 billion (book value) at the beginning of 2011 to $22.4 billion (book value) on October 31, 2011. However, the Corporation is now managing 432 active receiverships emanating from insured institution failures, up from 344 at the beginning of 2011. At the end of October, the Corporation was also overseeing 276 active loss share agreements with assets totaling approximately $142 billion (book value). A substantial volume of residual receivership management workload (asset management and sales, litigation, etc.) typically continues for several years beyond an institution's failure date.

2012 Budget Highlights

Overview of Proposed 2012 Budget by Component

The proposed 2012 Corporate Operating Budget totals $3,280,778,645, including $1,780,778,645 for ongoing operations and $1,500,000,000 for receivership funding (see Attachment 1). This represents an increase of $106,099,586 (6.3 percent) in the ongoing operations budget component and a decrease of $702,428,821 (31.9 percent) in the receivership funding budget component.

The most significant factor contributing to the proposed increase in the ongoing operations component of the budget, apart from normal annual inflation in salary and non-salary expenses, is the fact that the Corporation will incur full-year salary, benefits, and other expenses for a large number of new permanent and non-permanent employees brought onboard in 2011 in the Corporation's non-receivership business lines. This includes over 100 new employees in the Office of Complex Financial Institutions (CFI) and 95 employees transferred to the FDIC in July 2011 in conjunction with the dissolution of the Office of Thrift Supervision under provisions of the Dodd-Frank Act. The proposed budget for Outside Services-Personnel is also rising to support an expansion of systems development, security, and data storage activities and the development of policies and procedures related to the development of resolution plans and strategies for SIFIs. In addition, projected facilities expenses will increase substantially due to the addition of leased office space for a large number of new, permanent employees in the Washington and New York offices, the planned relocation of both the Memphis Area Office and the Corporation's back-up computing facility, and required upgrades to the electrical system at the Seidman Center and the HVAC system in the 550 Building. The ongoing operations component includes $24 million in an unassigned contingency reserve (1.3 percent of the proposed 2012 ongoing operations budget), to be administered by the CFO to provide funding for unanticipated operational requirements that emerge during the year, including the expected continuing refinement of staffing and other resource estimates for CFI (the 2011 ongoing operations budget initially included an unassigned contingency reserve of $25 million).

The most significant factor contributing to the proposed decrease in the receivership funding component of the proposed budget is the continued decline in financial institution failures expected in 2012, although this will be partially offset by increased post-failure receivership management workload. The Corporation will need fewer temporary employees and contractors in DRR and its supporting organizations and has already announced the scheduled closures of the temporary West Coast Satellite Office (WCSO) in January 2012 and the temporary Midwest Satellite Office (MWSO) in September 2012. These reductions are consistent with the Corporation's established business model for resolutions and receivership management, which relies primarily on contractors and staff on time-limited appointments to handle temporary upticks in workload. The proposed budget for contractor support is $1,037,412,553, down $365,359,465 (26.0 percent) from 2011. The proposed 2012 receivership funding budget is also down from 2011 levels in the salaries and compensation, travel, leased space, and equipment expense categories.

To ensure that the FDIC has the flexibility to respond quickly to unexpected changes in workload, the receivership funding budget component includes an unassigned contingency reserve of $113,079,673 (7.5 percent of the proposed receivership funding budget), to be administered by the CFO to ensure that the Corporation is prepared to respond quickly to an unexpected increase in failures or related workload that arises during the year. An unassigned contingency reserve totaling $16,703,153 was initially included in the 2011 receivership funding budget. The larger reserve for 2012 is intended to provide contingent resources in the event of economic changes that unexpectedly increased the number of institution failures.

The FDIC cannot, of course, control the variable workload associated with the receivership funding component of the annual corporate operating budget, nor can it project with certainty the specific number and type of failures that will occur in 2012 or the actual expenses that will be incurred in connection with those failures. The proposed 2012 receivership funding budget may not, therefore, prove to be a highly reliable estimate of 2012 expenses for this budget component. Based upon what is known today, the proposed receivership funding budget will be sufficient to cover 2012 resolutions and receivership management expenses. The Board will be asked to approve additional funding if it is determined during the year that increased budget authority is needed for this component.

Overview of Proposed 2012 Budget by Major Expense Category

Attachment 1 itemizes the proposed 2012 Corporate Operating Budget by major expense category. As in prior years, personnel-related expenses and contractor services constitute the largest expense categories in the proposed budget:

- The proposed 2012 Salaries and Compensation budget is $1,394,798,051, which is $27,334,030 (about 1.9 percent) lower than the 2011 Salaries and Compensation budget. This is attributable largely to the fact that the Corporation is reducing the size of its receivership workforce. The proposed 2012 budget includes funding for approximately 161 fewer full-time equivalent employees than are included in the current 2011 budget The Salaries and Compensation expense category represents 64.4 percent of the proposed 2012 ongoing operations budget, 16.6 percent of the proposed 2012 receivership funding budget, and 42.5 percent of the overall proposed 2012 Corporate Operating Budget.

- The proposed 2012 Outside Services-Personnel budget (for contractor-provided services) is $1,349,267,637, which is $315,615,328 (19.0 percent) lower than the 2011 budget. This decrease reflects primarily an expected reduction in insured institution failures in 2012 and a resulting decrease in the contractor support required to resolve failed institutions. The Outside Services-Personnel expense category represents about 17.5 percent of the proposed 2012 ongoing operations budget, 69.2 percent of the proposed 2012 receivership funding budget, and 41.1 percent of the overall proposed 2012 Corporate Operating Budget.

The remainder of the proposed 2012 Corporate Operating Budget consists of $139,106,964 for Travel expenses, down $14,607,585 (9.5 percent) from 2011, largely as a result of lower projected failure resolution activities; $186,068,659 for Buildings and Leased Space expenses, down $112,618,228 (37.7 percent) from 2011, also driven by lower resolution-related leased space requirements; $99,296,837 for Equipment expenses, down $10,087,737 (9.2 percent) from 2011, as a result of decreased receivership activity and savings from non-recurring relocation and office expansion costs incurred during 2011; $31,929,906 for Outside Services-Other expenses, down $19,195,037 (37.5 percent) from 2011, primarily due to decreased receivership activity; and $80,310,591 for Other Expenses, down $96,871,290 (54.7 percent) from 2011, primarily due to lower receivership funding activities.

<u>Overview of Proposed Changes in Authorized 2012 Staffing</u>

For the first time since 2006, the total authorized staffing level for the Corporation is proposed to decline. The proposed 2012 Corporate Operating Budget includes a total authorized staffing level of 8,704 positions (5,831 permanent, 2,873 non-permanent). This represents a net decrease of 548 positions from the authorized staffing level initially approved by the Board for 2011 and a net decrease of 565 positions from the current 2011 authorized staffing level. If approved by the Board, authorized permanent staffing would increase for 2012 by 42 positions, while authorized non-permanent staffing would decline by 607 positions from current 2011 authorized staffing levels.

The largest permanent staffing increases are proposed in CFI (24 positions) and the Office of Corporate Risk Management (10 positions). In addition, increases in non-permanent examiner and supervisory examiner staffing authorizations are proposed in DCP (30 positions). These modest adjustments are more than offset by proposed decreases in non-permanent staffing authorizations in DRR (473 positions), the Legal Division (81 positions), DOA (61 positions), and other divisions/offices (22 positions). Most of these reductions are associated with the scheduled closure of the WCSO in January 2012. Further declines in non-permanent staffing will occur in late 2012 in conjunction with the planned closure of the MWSO.

Monitoring and Resolution of Systemically Important Financial Companies

CFI was established to fulfill the Corporation's new responsibilities under the Dodd-Frank Act (with the Federal Reserve Board) to monitor the potential risks posed by SIFIs; to review the resolutions plans they submit; and to oversee their orderly liquidation, if necessary. CFI is specifically responsible for systemically important bank holding companies with more than $100 billion in assets and non-bank financial companies determined to be systemically important. In 2011, the Board authorized 156 positions (all permanent) for CFI to perform these functions. That was a net increase of 121 positions over initial 2010 authorized staffing levels (35 authorized positions were transferred from the former Division of Supervision and Consumer Protection to CFI). As Dodd-Frank rulemaking has progressed with respect to review of resolutions plans and the orderly liquidation of failed SIFIs, CFI has continued to refine its staffing and other resource requirements. The proposed 2012 budget includes an increase of 25 positions (24 permanent, 1 non-permanent) for CFI. Further refinement of staffing and other resource estimates for CFI is expected in 2012 and 2013 as covered institutions begin to submit required resolution plans and as CFI begins to develop detailed resolution strategies for these institutions.

Management of Corporate Risk

The Board established a new Office of Corporate Risk Management (OCRM) in early 2011. It authorized the hiring of a Chief Risk Officer (CRO), who was tasked with developing by the end of 2011 a proposal to define the scope of responsibilities and resource requirements for OCRO. The CRO is scheduled to present that proposal at the Board meeting on December 7, 2011. The proposed 2012 Corporate Operating Budget includes a proposed 2012 budget and staffing authorization for OCRO that is consistent with the proposal being presented.

Staffing Flexibility

In conjunction with its December 2010 approval of 2011 staffing authorizations, the Board provided all divisions and offices with limited flexibility to temporarily exceed their permanent staffing authorizations in order to address succession management and other human capital concerns. The key elements of that delegation of authority are as follows:

- Each division and office may exceed its permanent staffing authorization by up to 2 percent at any point during the year (the average annual attrition rate for most divisions and offices).[4]

- The CFO may approve a division or office request for a cap higher than 2 percent if that organization is fully staffed up to the 2 percent limit and can demonstrate to the CFO, using objective quantitative data and analysis, that its attrition is likely to exceed 2 percent during the coming year because of projected retirements[5] or other known factors.

- If an organization's current permanent staffing is already more than 2 percent above its permanent staffing authorization due to previously approved "temporary over-hire" or "incumbency only" authority, that organization may temporarily exceed the 2 percent limit until its excess permanent staffing drops below 2 percent as the result of attrition from positions designated to be abolished under the current "temporary over-hire" or "incumbency only" authorities.

In 2012, this authority will permit the corporate-wide "over-hiring" of up to 78 permanent employees nationwide above authorized 2012 permanent staffing levels (absent approval by the CFO of higher limits in certain organizations).

Projected Investment Budget Spending

In December 2002, the Board established an Investment Budget that was separate and distinct from the annual corporate operating budget. The Investment Budget consists of individual investment project budgets that are separately approved by the Board (prior to 2003, funding for such projects was included in the Corporation's annual corporate operating budget). These projects are funded on a multi-year basis, and the funds approved by the Board cannot be reprogrammed among projects or for any other purpose. The Capital Investment Review Committee (CIRC) monitors the progress of approved investment projects and reports on them quarterly to the Board.

---

[4]For RMS and DCP, this authority is based on their permanent, *non-examiner* staffing authorization, excluding all authorized permanent non-supervisory field examiner positions.
[5]Requests based on retirement projections are required to utilize the projections in the most conservative scenario in the Division of Finance's annual *FDIC Retirement Analysis*.

The Investment Budget currently includes one active information technology (IT) project, the Examiner Tool Suite project. Investment Budget spending has declined from a high of $108,192,847 in 2004 (when there were 10 approved investment projects underway) to $5,442,706 spent thus far in 2011.

Overview of Attached Exhibits

Attachment 1 displays the proposed 2012 Corporate Operating Budget by major expense category. Attachment 2 displays the proposed 2012 Corporate Operating Budget by division and office. Attachments 3 and 4 display the proposed budget by division and office for the two separate budget components (ongoing operations and receivership funding). Attachment 5 shows the projected allocation of the proposed budget by major program and funding source. Attachment 6 shows proposed 2012 staffing authorizations (permanent and non-permanent) for each division and office.

Also attached is the proposed 2012 Budget Resolution.

Contact Information

If you have questions or need additional information, please contact Thomas E. Peddicord, Deputy Director, Division of Finance, at (703) 562-6252.

Attachments