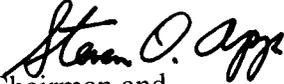




January 18, 2011

**MEMORANDUM TO:** The Board of Directors

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

**SUBJECT:** Proposed Budget Reduction

**Proposal**

This memorandum requests that the Board of Directors approve a reduction of \$83,743,269 (approximately 2.1 percent) in the 2011 Corporate Operating Budget adopted in December 2010. If approved, this reduction will fully offset the cost of planned 2011 pay increases and bonuses for FDIC employees.

**Background**

The Board of Directors on December 14, 2010, adopted the proposed 2011 Corporate Operating Budget in the amount of \$3,960,851,149. That budget included \$83,743,269 for planned salary increases and bonus payments. The President and the Congress subsequently adopted as a deficit reduction measure a two-year freeze on pay increases for Federal employees.<sup>1</sup> That legislation and an associated executive order did not apply to planned salary increases for most FDIC employees, because those salary increases are governed by the terms of a collective bargaining agreement between the FDIC and its employee union. Bonuses and other portions of the planned salary increases are exempt from the legislation and executive order.<sup>2</sup>

**Description of Proposed Changes**

In an attempt to comply with the spirit of the legislation and executive order, we are proposing that the FDIC implement an across-the-board reduction in its 2011 Corporate Operating Budget to fully offset the full amount of the funds budgeted for employee pay increases and bonuses in 2011. If approved, the 2011 Corporate Operating Budget will be reduced to \$3,877,107,880. This reduction will be applied proportionally across expense categories and organizations (see Attachments 1 through 4).

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<sup>1</sup>See Section 147 of the Continuing Appropriations Act, 2011 (Pub. L. 111-242), as amended by section 1(a) of the Continuing Appropriations and Surface Transportation Extensions Act, 2011 (Pub. L. 111-322, Dec. 22, 2010) and Executive Order 13,561, *Adjustments of Certain Rates of Pay*, Dec. 22, 2010.

<sup>2</sup>On December 30, the United States Office of Personnel Management (USOPM) issued clarifying guidance indicating that the freeze on pay increases did not apply to payments required under existing collective bargaining agreements, performance-based pay, and/or bonuses.

The reduction may present operational challenges for some organizations, but we will work with them to make appropriate budget adjustments to address any such issues. We do not believe that the proposed reductions will adversely affect the Corporation's ability to meet its mission responsibilities, absent unforeseen circumstances. The Office of Inspector General has advised us that it wishes to be included in the proposed reduction.

**Contact Information**

If you have corrections or need additional information, please call Thomas E. Peddicord at (703) 562-6252.

Attachments