



December 7, 2015

TO: Board of Directors

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

SUBJECT: Proposed 2016 FDIC Operating Budget

Proposal

This memorandum requests that the Board of Directors approve the proposed 2016 FDIC Operating Budget totaling \$2,210,701,055 including \$1,810,701,055 for ongoing operations and \$400,000,000 for receivership funding.¹ The total proposed 2016 FDIC Operating Budget is \$107,995,858 (4.7 percent) lower than the 2015 FDIC Operating Budget, largely due to substantially reduced resource requirements for the receivership funding budget component. The proposed ongoing operations component of the budget is \$17,004,142 (0.9 percent) higher than the 2015 ongoing operations budget, while the proposed receivership funding component of the budget is \$125,000,000 (23.8 percent) lower than the 2015 receivership funding budget.

Approval is also requested for a total authorized 2016 staffing level of 6,569 full-time equivalent (FTE) positions (5,961 permanent, 608 non-permanent), down 317 positions (net) from the currently authorized 2015 staffing level of 6,886 positions.² This reflects an increase from 2015 of 17 permanent positions, offset by a decrease of 334 non-permanent positions.

Background

Structure of the FDIC Operating Budget

The FDIC's annual operating budget is composed of two separate and distinct 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 facilitates more effective cost management by isolating the FDIC's more stable ongoing operational expenses

¹Certain factors that affect the Salaries and Compensation category of the proposed 2016 FDIC Operating Budget have not yet been determined (e.g., the FDIC's share of 2016 employee health insurance costs). When these factors are finally determined, they may require corresponding changes in estimated expenses for the Salaries and Compensation major expense category of the 2016 FDIC Operating Budget. As in prior years, the proposed 2016 Budget Resolution delegates authority to the Deputy to the Chairman and Chief Financial Officer to adjust the total Board-approved 2016 FDIC Operating Budget to account for such factors.

²The requested approval encompasses the proposed individual division and office staffing authorizations shown in Exhibit 6. In addition, the proposed 2016 Budget Resolution provides divisions and offices the same limited flexibility they have in 2015 to temporarily exceed their approved permanent 2016 staffing authorizations.

from the highly variable annual expenses associated with bank closings and subsequent receivership management 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.³ The separation of the receivership funding component is an acknowledgement 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. Over the past decade, annual receivership funding expenses have ranged from a low of \$11 million to a high of \$2.0 billion. The FDIC expects to fully recover its 2016 receivership funding expenditures through its billing of failed institution receiverships for services it provides.

2016 Workload Analysis and Projections

The proposed 2016 budget and staffing authorizations are based on an analysis of projected workload associated with the FDIC's major ongoing mission responsibilities. These include the FDIC's risk management and consumer protection supervision programs and its resolution and receivership management program as well as responsibilities assigned to the FDIC by the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (DFA). The latter include monitoring the risks in large, systemically important financial institutions (SIFIs), reviewing the resolution plans submitted by companies covered by DFA, and preparing, if necessary, to undertake their orderly liquidation.

The FDIC's supervision workload varies based upon the number and size of the institutions it supervises and the number of those institutions with composite CAMELS (risk management) ratings of 3, 4, and 5. Those factors largely determine the number of risk management and compliance examinations to be conducted each year and the amount of examiner time spent on those examinations.⁴ The primary drivers of the FDIC's resolutions and receivership management workload are the number and complexity of failures of FDIC-insured institutions, the number of active receiverships being managed by the FDIC, and the amount of post-failure workload remaining for those receiverships.

The number of FDIC-supervised institutions declined substantially during the recent financial crisis due to bank failures and industry consolidation, from 5,257 at year-end 2007 to 3,995 on September 30, 2015, a reduction of 1,262 insured institutions (24.0 percent). Although the number of institution failures has dropped substantially since 2010, industry consolidation is expected to continue to reduce the number of FDIC-supervised institutions in 2016 and beyond. The reduction in the number of supervised institutions did not initially reduce the FDIC's

³Salary and benefits expenses for the permanent in-house staff associated with the FDIC'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.

⁴The projected number of compliance and Community Reinvestment Act (CRA) examinations to be conducted annually is based largely on the number of institutions supervised by the FDIC. Compliance and CRA ratings have only a limited impact on this workload.

supervision workload, because this factor was more than offset from 2007 through 2010 by the dramatic increase in the number of troubled and problem institutions that required more frequent and lengthy examinations and supervisory oversight. Since 2010, however, the number of 3-, 4-, and 5-rated institutions has declined substantially (although it remains elevated by historical norms) and is expected to continue a steady decline in 2016 and beyond.

As a result, the number of risk management examinations will decline by a projected 12 percent, from 2,117 in 2015 to 1,862 in 2016.⁵ This will permit a significant decrease in the authorized non-permanent supervision staff for risk management in 2016, with further reductions in non-permanent risk management supervision positions projected in 2017 and beyond. Compliance and CRA examination workload is less directly affected by unfavorable ratings and is projected to be relatively stable in 2016. The proposed 2016 FDIC Operating Budget includes the resources needed to conduct an estimated 1,375 compliance and CRA examinations, remaining constant with current 2015 estimates.

The FDIC's resolutions and receivership management workload is also expected to continue to decline in 2016. Insured institution failures fell to pre-crisis levels this year, with only 8 failures occurring through November 30, 2015 (down from 18 in 2014). No change is expected next year in this downward trend. Receivership management workload is projected to remain elevated for several years, however, due to the continuing work associated with post-failure receiverships and loss share agreements being managed by the FDIC. The FDIC's inventory of assets in liquidation fell from approximately \$7.7 billion (book value) at the beginning of 2015 to \$5.3 billion (book value) as of October 31, 2015. As of that date, however, the FDIC was still managing 460 active receiverships and overseeing 236 active loss share agreements emanating from insured institution failures, compared to 481 receiverships and 281 loss share agreements at the beginning of 2015.⁶ A high level of residual receivership management work typically remains for several years beyond an institution's failure date.

2016 Budget Highlights

Overview of the Proposed 2016 Budget by Component

The proposed 2016 FDIC Operating Budget totals \$2,210,701,055, including \$1,810,701,055 for ongoing operations and \$400,000,000 for receivership funding. As noted earlier, this represents an increase of \$17,004,143 (0.9 percent) in the ongoing operations budget component and a decrease of \$125,000,000 (23.8 percent) in the receivership funding budget component.

In the ongoing operations budget component, a negotiated 4.0 percent increase in the average salaries of most FDIC employees in 2016 will be substantially offset by the elimination of authorized non-permanent positions dedicated to risk management supervision and reductions in the budgets for contractor services and equipment. Most of the proposed budget reductions for contractor services and equipment will occur in the Division of Information Technology (DIT) and Division of Administration (DOA). The ongoing operations component of the budget also

⁵The workload associated with enforcement activity has declined somewhat more slowly than exam workload because of the long timeframes associated with individual enforcement actions.

⁶The value of the assets covered by the loss share agreements fell from approximately \$78.2 billion at the beginning of 2015 to \$60.6 billion (book value) on September 30, 2015.

includes a small contingency reserve (\$18 million, or 1.0 percent of the proposed 2016 ongoing operations budget),⁷ to be administered by the Deputy to the Chairman and Chief Financial Officer (CFO) to provide funding for unanticipated operational requirements that emerge during the year.

The most significant factor contributing to the decrease in the proposed receivership funding budget is the expected decline in insured financial institution failures in 2016. The FDIC will need fewer temporary employees and contractors in the Division of Resolutions and Receiverships (DRR) and its supporting organizations next year. The proposed reductions are consistent with the FDIC's established business model for resolutions and receivership management, which relies primarily on contractors and staff on time-limited appointments to handle temporary spikes in workload.

The proposed 2016 receivership funding budgets for the Salaries and Compensation and Outside Services-Personnel expense categories are approximately \$61 million and \$297 million, down over \$29 million and \$79 million, respectively, from 2015. The proposed 2016 receivership funding budget is also down from 2015 levels in the Travel, Buildings and Leased Space, Equipment, Outside Services-Other and Other Expenses categories. The receivership funding budget includes a contingency reserve of \$27,407,582 or 6.9 percent of the proposed receivership funding budget, to be administered by the CFO to address unforeseen requirements which may arise during 2016.

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 2016 or the actual expenses that will be incurred in connection with those failures. The proposed 2016 receivership funding budget may not, therefore, prove to be a reliable estimate of 2016 expenses for this budget component. Based upon what is known today, however, the proposed receivership funding budget will be sufficient to cover 2016 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 the receivership funding component.

Overview of Proposed 2016 Budget by Major Expense Category

Exhibit 1 itemizes the proposed 2016 FDIC 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 2016 Salaries and Compensation budget is \$1,315,770,159, which is \$1,424,535 (0.1 percent) lower than the 2015 Salaries and Compensation budget. This is attributable largely to the fact that the FDIC is reducing the size of its receivership workforce. The proposed 2016 budget includes funding for 317 fewer FTEs (net) than are included in the 2015 budget. The Salaries and Compensation expense category represents 69.3 percent of the proposed 2016 ongoing operations budget, 15.3 percent of

⁷The 2015 ongoing operations budget approved by the Board in December 2014 included a \$25 million contingency reserve that has been largely unspent.

the proposed 2016 receivership funding budget, and 59.5 percent of the overall proposed 2016 FDIC Operating Budget.

- The proposed 2016 Outside Services-Personnel budget (for contractor-provided services) is \$544,659,430 which is \$83,570,097 (13.3 percent) lower than the 2015 budget. This decrease primarily reflects expectations for a continuing low level of insured institution failures and a gradual reduction in post-failure receivership management workload in 2016, both of which will reduce contractor support requirements. The Outside Services-Personnel expense category represents about 13.7 percent of the proposed 2016 ongoing operations budget, 74.2 percent of the proposed 2016 receivership funding budget, and 24.6 percent of the overall proposed 2016 FDIC Operating Budget.

The remainder of the proposed 2016 FDIC Operating Budget consists of \$107,029,422 for Travel expenses, down \$870,183 (0.8 percent) from 2015, largely due to decreased failure activity; \$110,023,678 for Buildings and Leased Space expenses, down \$1,633,499 (1.5 percent) from 2015, driven by lower leased space requirements at the site of failures; \$84,299,066 for Equipment expenses, down \$8,245,194 (8.9 percent) from 2015, as a result of reduced receivership management activity and 2016 one-time purchases; \$17,706,597 for Outside Services-Other expenses, down \$3,757,283 (17.5 percent) from 2015, primarily due to decreased receivership management activity; and \$31,212,703 for Other Expenses, down \$8,495,067 (21.4 percent) from 2015, primarily due to reduced receivership management activity.

2016 Staffing Authorizations

Overview of Proposed Changes in Authorized 2016 Staffing

The proposed 2016 FDIC Operating Budget includes a total authorized staffing level of 6,569 FTE positions (5,961 permanent, 608 non-permanent), as shown in Exhibit 6. This represents a net decrease of 317 positions from the current 2015 authorized staffing level. If approved by the Board, authorized permanent staffing will increase in 2016 by 17 positions, while authorized non-permanent staffing will decline by 334 positions from current 2015 authorized staffing levels. Authorized field examination staffing in RMS declines by 36 positions from 2015, to 1,693 (1,520 permanent, 173 non-permanent)⁸. This reflects a decrease of 78 positions (to 1,470) performing community bank examinations and an increase of 42 positions (to 223) for supervision of banks with more than \$10 billion in assets. Authorized field examination staffing in DCP declines by 14 positions, to 497 (470 permanent, 27 non-permanent).

The largest increase in permanent staffing is the proposed addition of 8 positions in the Chief Information Officer (CIO) organizations, 3 in the Immediate Office of the CIO and 5 in the Information Security and Privacy Staff (ISPS). In addition, 6 new positions are proposed in the Division of Risk Management Supervision (RMS) to support increased workload associated with Title I plan reviews; 4 in the Division of Depositor and Consumer Protection (DCP), primarily to address increased deposit insurance inquiries; and 3 in the Legal Division, largely to address increased legal support requirements associated with the FDIC's implementation of its new

⁸Excludes 30 non-permanent IT Examination Analyst positions added last year to assist with Type III and IV IT examinations.

responsibilities under DFA. These increases are partially offset by a decrease of 4 authorized positions in the Division of Finance.

The proposed budget reflects reductions in the non-permanent staffing authorizations for several organizations: DRR (-192 positions), RMS (-43 positions); the Legal Division (-42 positions), DIT (-16 positions), DCP (-27 positions), ISPS (-5 positions), DOA (-2 positions), the Office of the Ombudsman (-2 positions), the Office of Complex Financial Institutions (-2 positions), the Division of Insurance and Research (-1 position), the Division of Finance (-1 position), and Corporate University (-1 position). These non-permanent staffing reductions are largely attributable to continuing reductions in the staff resources needed to handle and support bank failure activities and problem institutions .

Staffing Flexibility

For the past four years, in conjunction with its approval of the annual FDIC operating budget and staffing authorizations, the Board has provided divisions and offices with limited flexibility to temporarily exceed their permanent staffing authorizations in order to address succession management and other human capital concerns. Continuation of that delegation of authority is proposed for 2016. The key elements of that delegation are as follows:

- Each division and office may exceed its permanent staffing authorization by up to two percent at any point during the year (the average annual attrition rate for most divisions and offices).⁹
- The CFO may approve a division or office request for a cap higher than two percent if that organization is fully staffed up to the two percent limit and can demonstrate to the CFO, using objective quantitative data and analysis, that its attrition is likely to exceed two percent during the coming year because of projected retirements¹⁰ or other known factors.
- If an organization's current permanent staffing is already more than two percent above its permanent staffing authorization due to previously approved "temporary over-hire" or "incumbency only" authorizations, that organization's "over-hire" authority is temporarily "grandfathered" at the higher level, and it may temporarily exceed the two percent limit only until its excess permanent staffing drops below two percent as the result of attrition from positions designated to be abolished under the current "temporary over-hire" or "incumbency only" authorizations.

⁹For RMS and DCP, this authority is based on their permanent, non-examiner staffing authorization, excluding all authorized permanent non-supervisory field examination positions. In addition, in accordance with a special authorization approved by the Chairman in 2013, RMS and DCP may each temporarily exceed their permanent field examiner staffing authorizations by 10 positions in 2015. This authorization will expire at the end of 2016.

¹⁰Requests based on retirement projections are required to utilize the projections in the Division of Finance's annual *FDIC Retirement Analysis*.

Continuation of this delegation of authority in 2016 will permit the FDIC-wide “over-hiring” of up to 79 permanent employees nationwide above authorized 2016 permanent staffing levels (absent approval by the CFO of higher limits in certain organizations).

Projected 2016 Investment Budget Spending

In December 2002, the Board established an Investment Budget that was separate and distinct from the annual operating budget. The Investment Budget provides funding on a multi-year basis for major investment projects (mostly IT systems development projects) that are individually approved by the Board. Funds may not be reallocated among projects, and any unused budget authority for a project expires when it is completed. The Capital Investment Review Committee (CIRC) monitors the progress of approved IT investment projects and reports on them quarterly to the Board.

The Investment Budget currently includes four active investment projects: the Examination Tools Suite project, the CAS Deposit Resolution Optimization Project, the Claims Administration System project, and the 550 HVAC Retrofit project. Investment Budget spending has declined from a high of \$108 million in 2004 (when there were 10 approved investment projects underway) to \$15.2 million spent during the first 10 months of 2015. Investment Budget spending is projected to be \$8,786,273 in 2016.

Overview of Attached Exhibits

Exhibit 1 displays the proposed 2016 FDIC Operating Budget by major expense category. Exhibit 2 displays the proposed 2016 FDIC Operating Budget by division and office. Exhibits 3 and 4 display the proposed budget by division and office for the two separate budget components (ongoing operations and receivership funding). Exhibit 5 shows the projected allocation of the proposed budget by major program and funding source. Exhibit 6 shows proposed 2016 staffing authorizations (permanent and non-permanent) for each division and office. Also attached is the proposed 2016 Budget Resolution reflecting the recommendations outlined above.

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