U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

February 14, 2019

The Honorable Michael Crapo
Chairman
The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Maxine Waters
Chairwoman
The Honorable Patrick T. McHenry
Ranking Member
Committee on Financial Services
House of Representatives

Financial Audit: Federal Deposit Insurance Corporation Funds' 2018 and 2017 Financial Statements

This report transmits the GAO auditor's report on the results of our audits of the 2018 and 2017 financial statements for the two funds that the Federal Deposit Insurance Corporation (FDIC) administers—the Deposit Insurance Fund (DIF) and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF). The auditor's report is incorporated in the enclosed *Federal Deposit Insurance Corporation 2018 Annual Report*.

As discussed more fully in the auditor's report that begins on page 119 of the enclosed agency annual report, we found

- the financial statements of the DIF and of the FRF as of and for the years ended December 31, 2018, and 2017, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the DIF and to the FRF as of December 31, 2018; and
- with respect to the DIF and to the FRF, no reportable instances of noncompliance for 2018 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

Section 17 of the Federal Deposit Insurance Act, as amended, requires GAO to annually audit the financial statements of the DIF and of the FRF.[1] In addition, the Government Corporation Control Act requires that FDIC annually prepare and submit audited financial statements to Congress, and provides GAO authority to perform the audit.[2] This report responds to these requirements.

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[1]Act of September 21, 1950, Pub. L. No. 797, § 2[17], 64 Stat. 873, 890, *classified as amended at* 12 U.S.C. § 1827.

[2]31 U.S.C. §§ 9101-9110.

We are sending copies of this report to the Chairman of the Board of Directors of the Federal Deposit Insurance Corporation, the Chairman of the FDIC Audit Committee, the Chairman of the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Secretary of the Treasury, the Director of the Office of Management and Budget, interested congressional committees and members, and other interested parties. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staffs have any questions concerning this report, please contact me at (202) 512-3133 or dalkinj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

James R. Dalkin
Director
Financial Management and Assurance

Enclosure

(102573)

FDIC

FEDERAL DEPOSIT INSURANCE CORPORATION

2018 ANNUAL REPORT

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FDIC

FEDERAL DEPOSIT INSURANCE CORPORATION

2018 ANNUAL REPORT

FEDERAL DEPOSIT INSURANCE CORPORATION
550 17th Street NW, Washington, DC 20429 OFFICE OF THE CHAIRMAN

February 14, 2019

Dear Sir/Madam,

The Federal Deposit Insurance Corporation (FDIC) is pleased to submit its *2018 Annual Report* (also referred to as the *Performance and Accountability Report*), which includes the audited financial statements of the Deposit Insurance Fund and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund. This report is produced in accordance with:

- Section 17(a) of the Federal Deposit Insurance Act,
- the Chief Financial Officers Act of 1990, Public Law 101-576,
- the Government Performance and Results Act of 1993 (as amended) and the GPRA Modernization Act of 2010,
- Section 5 (as amended) of the Inspector General Act of 1978,
- the Reports Consolidation Act of 2000, and
- the Fraud Reduction and Data Analytics Act of 2015.

In accordance with the Reports Consolidation Act of 2000, the FDIC assessed the reliability of the performance data contained in this report. We found no material inadequacies, and the data are considered to be complete and reliable.

Based on internal management evaluations, and in conjunction with the results of independent financial statement audits, we can provide reasonable assurance that the objectives of Section 2 (internal controls) and Section 4 (financial management systems) of the Federal Managers' Financial Integrity Act of 1982 have been achieved, and that the FDIC has no material weaknesses. We are committed to maintaining effective internal controls corporate-wide in 2019.

Sincerely,

Jelena McWilliams
Chairman

The President of the United States
The President of the United States Senate
The Speaker of the United States House of Representatives

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MISSION, VISION, AND VALUES

MISSION

The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress to maintain stability and public confidence in the nation's financial system by:

- Insuring deposits,
- Examining and supervising financial institutions for safety and soundness and consumer protection,
- Making large and complex financial institutions resolvable, and
- Managing receiverships.

VISION

The FDIC is a recognized leader in promoting sound public policies; addressing risks in the nation's financial system; and carrying out its insurance, supervisory, consumer protection, resolution planning, and receivership management responsibilities.

VALUES

The FDIC and its employees have a tradition of distinguished public service. Six core values guide us in accomplishing our mission:

Integrity	We adhere to the highest ethical and professional standards.
Competence	We are a highly skilled, dedicated, and diverse workforce that is empowered to achieve outstanding results.
Teamwork	We communicate and collaborate effectively with one another and with other regulatory agencies.
Effectiveness	We respond quickly and successfully to risks in insured depository institutions and the financial system.
Accountability	We are accountable to each other and to our stakeholders to operate in a financially responsible and operationally effective manner.
Fairness	We respect individual viewpoints and treat one another and our stakeholders with impartiality, dignity, and trust.

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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MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to present the FDIC's 2018 *Annual Report*, which covers financial and program performance information and summarizes our successes for the year.

For 27 consecutive years, the U.S. Government Accountability Office has issued unmodified audit opinions for the two funds administered by the FDIC: the Deposit Insurance Fund (DIF) and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF). We take pride in our responsibility and demonstrate discipline and accountability as stewards of these funds. We remain proactive in the execution of sound financial management and in providing reliable financial data.

2018 FINANCIAL AND PROGRAM RESULTS

The DIF balance (the net worth of the Fund) rose to a record $102.6 billion as of December 31, 2018, compared to the year-end 2017 balance of $92.7 billion. The Fund balance increase was primarily due to assessment revenue. No insured financial institutions failed in 2018.

The DIF U.S. Treasury securities investment portfolio balance was $92.7 billion as of December 31, 2018, an increase of $9.4 billion over the year-end 2017 portfolio balance of $83.3 billion. Interest revenue on DIF investments was $1.6 billion for 2018, compared to $1.1 billion for 2017.

In 2018, the FDIC continued to reduce operating costs and prudently manage the funds that it administers. The FDIC Operating Budget for 2018 totaled approximately $2.09 billion, which represented a decrease of $66 million (3.0 percent) from 2017. Actual 2018 spending totaled approximately $1.90 billion. On December 18, 2018, the FDIC Board of Directors approved a 2019 FDIC Operating Budget totaling $2.04 billion, down $49 million (2.3 percent) from the 2018 budget. Including 2019, the annual operating budget has declined for nine consecutive years, consistent with a steadily declining workload.

The FDIC continues to reduce staffing levels, as conditions in the banking industry improve and the FDIC requires fewer resources. The FDIC's authorized full-time equivalent staffing dropped from 6,363 in 2017 to 6,083 in 2018, a 4.4 percent reduction. The FDIC Board of Directors recently approved an authorized staffing level of 5,901 full-time equivalent positons for 2019, a 3.0 percent reduction from 2018.

The FDIC also took important steps in 2018 to enhance its enterprise risk management program by updating our enterprise risk management and internal control corporate directive, drafting a risk appetite statement, and updating our risk profile. We will continue to implement enhancements to the program during 2019 to ensure the FDIC identifies and addresses enterprise risks proactively. We will remain focused on implementing sound financial management techniques, effective internal controls, and appropriate risk responses.

Sincerely,

Steven O. App

FDIC SENIOR LEADERS

Seated *(left to right): Arleas Upton Kea, Barbara A. Ryan, Chairman Jelena McWilliams, Director Martin J. Gruenberg, and Doreen R. Eberley.*

Standing 1st Row *(left to right): Jay N. Lerner, Arthur J. Murton, Jason C. Cave, Diane Ellis, Mark E. Pearce, Saul Schwartz, and Andy Jiminez. 2nd Row (left to right): Craig R. Jarvill, Kymberly K. Copa, M. Anthony Lowe, Howard G. Whyte, Charles Yi, Bret D. Edwards, Russell G. Pittman, Ricardo Delfin, Zachary N. Brown, and David Barr.*

Not pictured: *Brandon Milhorn, Steven O. App, Chad Davis, Suzannah L. Susser, and Robert D. Harris.*

I. MANAGEMENT'S DISCUSSION AND ANALYSIS

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THE YEAR IN REVIEW

OVERVIEW

During 2018, the FDIC continued to fulfill its mission-critical responsibilities. In addition, the agency adopted and issued proposed rules on key regulations under the Economic Growth, Regulatory Relief and Consumer Protection Act (EGRRCPA) and the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA), and engaged in several community banking and community development initiatives.

Cybersecurity remained a high priority for the FDIC in 2018; the agency worked to strengthen cybersecurity oversight, help financial institutions mitigate risk, and respond to cyber threats. The sections below highlight these and other accomplishments during the year.

In May 2018, Jelena McWilliams was confirmed as the 21st Chairman of the FDIC, and has met with bankers from across the country in the intervening months to discuss the diverse needs of bank customers and how to meet those needs.

DEPOSIT INSURANCE

As insurer of bank and savings association deposits, the FDIC must continually evaluate and effectively manage how changes in the economy, financial markets, and banking system affect the adequacy and the viability of the Deposit Insurance Fund (DIF).

Long-Term Comprehensive Fund Management Plan

In 2010 and 2011, the FDIC developed a comprehensive, long-term DIF management plan designed to reduce the effects of cyclicality and achieve moderate, steady assessment rates throughout economic and credit cycles, while also maintaining a positive fund balance, even during a banking crisis. That plan complements the DIF Restoration Plan, originally adopted in 2008 and subsequently revised, which was designed to ensure that the reserve ratio (the ratio of the fund balance to estimated insured deposits) would reach 1.35 percent by September 30, 2020, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

Picture provided by the Kansas Bankers Association

Chairman Jelena McWilliams (center), with bankers from New Hampshire, Iowa, and Kansas.

Under the long-term DIF management plan, to increase the probability that the fund reserve ratio will reach a level sufficient to withstand a future crisis, the FDIC Board set the Designated Reserve Ratio (DRR) of the DIF at 2.0 percent. The FDIC views the 2.0 percent DRR as a long-term goal and the minimum level needed to withstand future crises of the magnitude of past crises. In December 2018, the Board voted to maintain the 2.0 percent ratio for 2019.

Additionally, as part of the long-term DIF management plan, the FDIC has suspended dividends indefinitely when the fund reserve ratio exceeds 1.5 percent. In lieu of dividends, the plan prescribes progressively lower assessment rates that will become effective when the reserve ratio exceeds 2.0 percent and 2.5 percent.

State of the Deposit Insurance Fund

There were no bank failures in 2018. The fund balance continued to grow through 2018, as it has every quarter after the end of 2009. Assessment revenue was the primary contributor to the increase in the fund balance in 2018. The fund reserve ratio rose to 1.36 percent at September 30, 2018, from 1.27 percent a year earlier.

Minimum Reserve Ratio

Section 334 of the Dodd-Frank Act, which increased the minimum reserve ratio of the DIF from 1.15 percent to 1.35 percent, mandates that the reserve ratio reach that level by September 30, 2020.

To achieve this ratio, the FDIC imposed surcharges on the quarterly assessments of insured depository institutions (IDIs) with total consolidated assets of $10 billion or more (large banks). The surcharge equaled an annual rate of 4.5 basis points applied to an institution's regular quarterly deposit insurance assessment base after subtracting $10 billion, with additional adjustments for banks with affiliated IDIs.

As of September 30, 2018, the reserve ratio exceeded the required minimum of 1.35 percent, and the surcharges were suspended.

Because the Dodd-Frank Act mandates that the FDIC offset the effect of the increase in the reserve ratio on small banks (i.e., banks with assets less than $10 billion), these banks were exempt from the surcharges. Furthermore, assessment credits are provided to small banks for the portion of their regular assessments that contributed to growth in the reserve ratio between 1.15 percent and 1.35 percent. The FDIC has calculated the aggregate amount of credits to be $765 million. Each quarter the reserve ratio is at least 1.38 percent, the FDIC will automatically apply a small bank's credits to reduce its regular assessment up to the entire amount of the assessment.

SUPERVISION

Supervision and consumer protection are cornerstones of the FDIC's efforts to ensure the stability of, and public confidence in, the nation's financial system. The FDIC's supervision program promotes the safety and soundness of FDIC-supervised financial institutions, protects consumers' rights, and promotes community investment initiatives.

Examination Program

The FDIC's strong bank examination program is at the core of its supervisory program. As of December 31, 2018, the FDIC was the primary federal regulator for 3,495 FDIC-insured, state-chartered institutions that were not members of the Federal Reserve System (generally referred to as "state nonmember" institutions). Through risk management (safety and soundness), consumer compliance, Community Reinvestment Act (CRA), and other specialty examinations, the FDIC assesses an institution's operating condition, management practices and policies, and compliance with applicable laws and regulations.

As of December 31, 2018, the FDIC conducted 1,492 statutorily required risk management examinations, including reviews of Bank Secrecy Act (BSA) compliance, and all required follow-up examinations for FDIC-supervised problem institutions, within prescribed time frames. The FDIC also conducted

1,215 statutorily required CRA/consumer compliance examinations (876 joint CRA/consumer compliance examinations, 337 consumer compliance-only examinations, and two CRA-only examinations). In addition, the FDIC performed 3,334 specialty examinations (which include reviews for BSA compliance) within prescribed time frames.

The table below illustrates the number of examinations by type, conducted from 2016 through 2018.

Risk Management

All risk management examinations have been conducted in accordance with statutorily-established time frames. As of September 30, 2018, 71 insured institutions with total assets of $53.3 billion were designated as problem institutions for safety and soundness purposes (defined as those institutions having a composite CAMELS[1] rating of 4 or 5). By comparison, on September 30, 2017, there were 104 problem institutions with total assets of $16.0 billion. This represents a 32 percent decline in the number of problem institutions and a 233 percent increase in problem institution assets.

For the 12 months ended September 30, 2018, 45 institutions with aggregate assets of $7.4 billion were removed from the list of problem financial institutions, while 12 institutions with aggregate assets of $45.6 billion were added to the list. The FDIC is the primary federal regulator for 52 of the 71 problem institutions, with total assets of $7.3 billion.

In 2018, the FDIC's Division of Risk Management Supervision (RMS) initiated 156 formal enforcement actions and 95 informal enforcement actions.

FDIC EXAMINATIONS 2016-2018

	2018	2017	2016
Risk Management (Safety and Soundness):			
State Nonmember Banks	1,333	1,440	1,563
Savings Banks	159	171	164
State Member Banks	0	0	0
Savings Associations	0	0	0
National Banks	0	0	0
Subtotal–Risk Management Examinations	1,492	1,611	1,727
CRA/Consumer Compliance Examinations:			
Consumer Compliance/Community Reinvestment Act	876	770	709
Consumer Compliance-only	337	393	594
CRA-only	2	5	8
Subtotal–CRA/Compliance Examinations	1,215	1,168	1,311
Specialty Examinations:			
Trust Departments	308	347	351
Information Technology and Operations	1,503	1,627	1,742
Bank Secrecy Act	1,523	1,640	1,761
Subtotal–Specialty Examinations	3,334	3,614	3,854
TOTAL	**6,041**	**6,393**	**6,892**

[1] The CAMELS composite rating represents the adequacy of **C**apital, the quality of **A**ssets, the capability of **M**anagement, the quality and level of **E**arnings, the adequacy of **L**iquidity, and the **S**ensitivity to market risk, and ranges from "1" (strongest) to "5" (weakest).

Enforcement actions against institutions included, but were not limited to 13 actions under Section 8(b) of the Federal Deposit Insurance Act (FDI Act), all of which were consent orders, and 94 memoranda of understanding (MOUs). Of these enforcement actions against institutions, eight consent orders and 20 MOUs were based, in whole or in part, on apparent violations of BSA and anti-money laundering (AML) laws and regulations. In addition, enforcement actions were also initiated against individuals. These actions included, but were not limited to, 52 removal and prohibition actions under Section 8(e) of the FDI Act (50 consent orders and two notices of intention to remove/prohibit), three actions under Section 8(b) of the FDI Act (two orders to pay restitution, and one notice of charges), and 11 civil money penalty (CMPs) (10 orders to pay and one notice of assessment).

The FDIC continues its risk-focused, forward-looking supervision program by assessing risk management practices during the examination process to ensure that risks are mitigated before they lead to financial deterioration.

Consumer Compliance

As of December 31, 2018, 35 insured state nonmember institutions, about 1 percent of all supervised institutions, with total assets of $39 billion, were problem institutions for consumer compliance, CRA, or both. All of the problem institutions for consumer compliance were rated "4" for consumer compliance purposes, with none rated "5." For CRA purposes, the majority were rated "Needs to Improve," and only one was rated "Substantial Noncompliance." As of December 31, 2018, all follow-up examinations for problem institutions were performed on schedule.

As of December 31, 2018, the FDIC conducted substantially all required consumer compliance and CRA examinations and, when violations were identified, completed follow-up visits and implemented appropriate enforcement actions in accordance with FDIC policy. In completing these activities, the FDIC substantially met its internally-established time standards for the issuance of final examination reports and enforcement actions.

Overall, banks demonstrated strong consumer compliance programs. The most significant consumer protection issue that emerged from the 2018 consumer compliance examinations involved banks' failure to adequately monitor third-party vendors. For example, the FDIC found violations involving unfair or deceptive acts or practices, such as failure to disclose material information about product features and limitations, deceptive marketing and sales practices, and misrepresentations about the costs of products. The FDIC issued orders requiring the payment of CMPs to address these violations.

As of December 31, 2018, the FDIC's Division of Depositor and Consumer Protection (DCP) initiated 21 formal enforcement actions and 13 informal enforcement actions to address consumer compliance concerns. This included three restitution orders, four consent orders, 13 CMPs, one Notice of Assessment, and 13 MOUs. Restitution orders are formal actions that require institutions to pay restitution in the form of consumer refunds for violations of law. In 2018, these orders required the payment of approximately $21.3 million to harmed consumers. As of December 31, 2018, the CMP orders totaled $3,556,766.

Large Bank Supervision Program

The Large Bank Supervision Branch within RMS addresses the growing complexity of large banking organizations with assets exceeding $10 billion and not assigned to the Complex Financial Institution (CFI) Group. This branch is responsible for supervisory oversight, ongoing monitoring, and resolution planning, while supporting the insurance business line. For state nonmember banks with assets exceeding $10 billion, the FDIC generally applies a continuous examination program, whereby dedicated staff conducts ongoing on-site supervisory examinations and institution monitoring. The FDIC also has dedicated on-site examination staff at select

banks for which the FDIC is not the primary federal regulator. These examiners work closely with other financial institution regulatory authorities to identify emerging risks and assess the overall risk profile of large institutions.

The Large Insured Depository Institution (LIDI) Program remains the primary instrument for off-site monitoring of IDIs with $10 billion or more in total assets not assigned to CFI Group. The LIDI Program provides a comprehensive process to standardize data capture and reporting for large and complex institutions nationwide, allowing for quantitative and qualitative risk analysis. In 2018, the LIDI Program covered 116 institutions with total assets of $6.2 trillion. The LIDI Program supports effective large bank supervision by using individual institution information to focus resources on higher-risk areas, determine the need for supervisory action, and support insurance assessments and resolution planning.

The Shared National Credit (SNC) Program is an interagency initiative administered jointly by the FDIC, the Office of the Comptroller of the Currency (OCC), and the Federal Reserve Board (FRB) to ensure consistency in the regulatory review of large, syndicated credits, as well as to identify risk in this market, which comprises a large volume of domestic commercial lending. In 2018, outstanding credit commitments identified in the SNC Program totaled $4.4 trillion. The FDIC, OCC, and FRB report the results of their review in an annual, joint public statement.

In the first quarter of 2018, the Large Bank Supervision Branch completed a horizontal credit-risk rating assessment at 16 large FDIC-supervised institutions to evaluate transparency and effectiveness of their internal credit risk rating systems. The findings of this horizontal assessment were summarized in a *Supervisory Insights* article published in September 2018.[2]

Operational Risk Supervision Program

Information Technology and Cybersecurity

The FDIC examines information technology (IT), including cybersecurity, at each bank it supervises as part of the risk management examination. Examiners assign an IT rating using the Federal Financial Institutions Examination Council's (FFIEC) Uniform Rating System for Information Technology (URSIT), and the IT rating is incorporated into the management component of the CAMELS rating, in accordance with the FFIEC's Uniform Financial Institutions Rating System (UFIRS).

The FDIC continued to enhance its IT supervision in 2018. Examiners used the Information Technology Risk Examination Program (InTREx), which includes cybersecurity components, to conduct IT examinations. Examiners provided results and recommended actions to institutions to address IT, cybersecurity, and other operational risks. During the year, the FDIC also analyzed the effectiveness and efficiency of this examination program by reviewing workpapers and reports of examination comments. Together with the Federal Reserve and the Conference of State Bank Supervisors, adjustments to InTREx are being considered and implemented. In addition, the FDIC held an IT Security Training Conference to provide continuing education to RMS IT subject matter experts and IT examiners on risks facing the industry, and examination policy.

In October 2018, the FDIC and other FFIEC members conducted a webinar and published a *Cybersecurity Resource Guide for Financial Institutions* to raise awareness about the importance of cybersecurity. The webinar provided an overview of the resource guide, and featured a guest speaker from the Department of Homeland Security National Cybersecurity and Technical Services (NCATS) team who provided information on the NCATS' Cyber Hygiene program. This program's goal is to secure internet-accessible systems by continuously scanning

[2] Sandra Macias, "Credit Risk Grading Systems: Observations From a Horizontal Assessment," *Supervisory Insights* 15 no. 1, Summer 2018, https://www.fdic.gov/regulations/examinations/supervisory/insights/sisum18/si-summer-2018-article02.pdf.

for known vulnerabilities and configuration errors at no cost to financial institutions.

In October 2018, the FDIC also published new vignettes for *Cyber Challenge: A Community Bank Cyber Exercise*. *Cyber Challenge* is a series of video vignettes and discussion material that can help bank management and staff learn more about operational risk and mitigation techniques.

The FDIC, OCC, and FRB also examine IT and other operational components of service providers that support financial institutions via the continued implementation of the Cybersecurity Examination Program. During 2018, the agencies completed a horizontal interconnectivity review, as well as individual cybersecurity reviews at all significant service providers.

The FDIC continues to actively engage with both the public and private sectors to assess cybersecurity and other operational risk issues. This work includes regular meetings with the Financial and Banking Information Infrastructure Committee (FBIIC), the Financial Services Sector Coordinating Council for Critical Infrastructure Protection, the Department of Homeland Security, the Financial Services Information Sharing and Analysis Center, other regulatory agencies, and law enforcement to share information regarding emerging issues and coordinate responses.

The FDIC played a significant role in organizing FBIIC incident management communication related to areas affected by hurricanes Florence and Michael. The FDIC also actively participated in FBIIC working groups to better understand the financial sector's vulnerability to a cybersecurity incident, and consider ways to harmonize cybersecurity supervisory efforts.

Bank Secrecy Act/Anti-Money Laundering

In 2018, the FDIC and the other federal banking agencies issued examination procedures for the customer due diligence and beneficial ownership rules, which were effective May 11. These procedures supersede similar examination instructions and procedures in the 2014 version of the FFIEC *BSA/AML Examination Manual*.

The FDIC, other federal banking agencies, and Financial Crimes Enforcement Network (FinCEN) evaluated opportunities to increase the efficiency and effectiveness of the BSA/AML examination process. During the year, these agencies issued two statements. The first statement discussed how banks with a community focus, less-complex operations, and lower risk profiles may share BSA resources. The second statement expressed support for banks' innovative efforts with respect to BSA/AML compliance.

Cyber Fraud and Financial Crimes

The FDIC has undertaken a number of initiatives in 2018 to protect the banking industry from criminal financial activities. For example, the FDIC developed, sponsored, and presented a financial crimes conference that was attended by examiners, lawyers, other interested personnel from the FDIC, other banking agencies, and law enforcement agencies. The FDIC also helped financial institutions identify and shut down "phishing" websites that attempt to fraudulently obtain an individual's confidential personal or financial information. Finally, the FDIC published an article titled "Beware of ATM, Debit and Credit Card 'Skimming' Schemes" in the Winter 2018 edition of the *Consumer News*. [3]

Examiner Training and Development

Examiner training continued to receive high priority and attention in 2018 on multiple fronts. The FDIC strives to deliver effective and efficient on-the-job, classroom, and computer-based instruction. A cadre of highly trained and skilled instructors provides classroom learning to FDIC examination staff, as well as staff of regulatory partners from international and state agencies. Oversight of the training program is provided by senior and mid-level management to ensure that content and delivery are effective,

[3] "Beware of ATM, Debit, and Credit Card 'Skimming' Schemes," *FDIC Consumer News*, Winter 2018, https://www.fdic.gov/consumers/consumer/news/cnwin18/cardskimming.html.

appropriate, and current. The FDIC works in collaboration with partners across the organization and with the FFIEC to ensure that emerging risks and topics are incorporated and conveyed timely. Examination staff at all levels benefit from targeted and tenure-appropriate content. The FDIC also recognizes the critical role peer-to-peer knowledge transfer plays in preserving institutional knowledge and experience, and encourages opportunities for employees to learn from each other.

The FDIC has undertaken a multi-year project to expand and strengthen its examiner development programs for specializations, such as IT, BSA/AML, trust, capital markets, and accounting. As banks become more specialized, enhancing examiner skills in these areas is key to ensuring an effective examination program. The goal of this project is to standardize the skills needed to examine banks of varying levels of risk and complexity in each specialty area, and to develop on-the-job training (OJT) programs to provide opportunities for examiners to acquire higher level competencies in these specialty areas.

In 2018, the FDIC drafted specialty OJT programs in accounting, capital markets, BSA/AML, and trust. These drafts are under management review and are targeted for implementation in 2019. The agency also implemented a new intermediate IT OJT program and updated its advanced IT OJT program.

In addition, a Current Expected Credit Losses (CECL) Examiner Training and Development Plan was launched in 2018 to begin a multi-year initiative to ensure examination staff understands the requirements of the new credit losses accounting standard and are consistent in conveying the FDIC's expectations with respect to banks' CECL implementation efforts.

Minority Depository Institution Activities

The preservation of minority depository institutions (MDI) remains a high priority for the FDIC. In 2018, the FDIC continued to promote and support MDI and Community Development Financial Institution (CDFI) industry-led strategies for success. These strategies include increasing collaboration between MDI and CDFI bankers and other financial institutions; partnering to share costs, raise capital, or pool loans; and making innovative use of available federal programs. The FDIC supports this effort by providing outreach, education and training, and technical assistance to MDI and CDFI banks.

During 2018, the FDIC led discussions with MDI bankers and its Advisory Committee on Community Banking (CBAC) about the FDIC's Resource Guide for Collaboration with Minority Depository Institutions. This guide, published in December 2017, encourages collaboration among MDIs and between MDIs and other institutions. The publication describes some of the ways that financial institutions, including community banks, can partner with MDIs to the benefit of all institutions involved, as well as the communities they serve. Both community banks and larger insured financial institutions have valuable incentives under the CRA to undertake ventures with MDIs, including capital investment and loan participations. In 2018, the FDIC began preparations to host roundtables and other events that would enable MDIs to engage with potential collaboration partners in 2019.

The FDIC added additional minority bankers to its CBAC to bring more diverse perspectives and input to these discussions. In addition, the agency began updating its 2014 study, "Minority Depository Institutions: Structure, Performance, and Social Impact," for publication in 2019. In support of its statutory goal to preserve the minority character in mergers and acquisitions, the FDIC hosted outreach sessions with MDI bankers to provide an overview of the process for bidding on failed minority banks, and to offer technical assistance to banks desiring to place a bid on a failed MDI franchise. The FDIC also began planning for the 2019 Interagency Minority Depository Institution and CDFI Bank Conference, which the FDIC will host in collaboration with the OCC and FRB.

The FDIC also continuously pursued efforts to improve communication and interaction with MDIs

and to respond to the concerns of minority bankers in 2018. The agency maintains active outreach with MDI trade groups and offers to arrange annual meetings between FDIC regional management and each MDI's board of directors to discuss issues of interest. The FDIC routinely contacts MDIs to offer return visits and technical assistance following the conclusion of FDIC safety and soundness, compliance, CRA, and specialty examinations to help bank management understand and implement examination recommendations. These return visits, normally conducted within 90 to 120 days after the examination, are intended to provide useful recommendations or feedback for improving operations, not to identify new issues.

The FDIC's website invites inquiries and provides contact information for any MDI to request technical assistance at any time.

In 2018, the FDIC provided 149 individual technical assistance sessions on nearly 50 risk management and compliance topics, including:

- Accounting,
- Bank Secrecy Act and Anti-Money Laundering,
- Community Reinvestment Act,
- Funding and liquidity,
- Information technology risk management and cybersecurity,
- Third-party oversight, and
- Troubled debt restructuring.

The FDIC also held outreach, training, and educational programs for MDIs through conference calls and regional banker roundtables. In 2018, topics of discussion for these sessions included many of those listed above, as well as collaboration and partnerships, capital markets, cybersecurity, liquidity risk, and Ombudsman services. In addition, the FDIC assisted four MDIs in the early termination of Shared Loss Agreements related to the purchase of failed bank franchises during the crisis.

Mutual Institution Activities

In July 2018, the FDIC and OCC co-hosted the 2018 Joint Mutual Forum, which was open to all mutual banking institutions regardless of charter type. Mutually owned institutions represent about 9 percent of all FDIC-insured institutions and are among the oldest form of depository institution. Attended by approximately 135 participants, the forum provided an opportunity for mutual bankers to learn about current trends and engage in a dialogue on the strengths of and challenges facing mutual institutions. The forum opened with remarks by FDIC Chairman Jelena McWilliams and Comptroller of the Currency Joseph M. Otting and featured presentations and banker panels covering topics of interest relating to the mutual industry. Key sessions focused on: Being a Mutual in Today's Financial Services Environment, Strategic Thinking: Liquidity and Interest Rate Risk Management, a regulatory Compliance Update, and an opportunity for each agency to hold an agency-specific session to address other current matters and respond to banker inquiries.

SUPERVISION POLICY

The goal of supervision policy is to provide clear, consistent, meaningful, and timely information to financial institutions.

Risk-Focused Supervision Program

During 2018, RMS undertook initiatives to enhance its risk-focused supervision programs, including a study of post-crisis bank failures, and an in-depth evaluation of examination processes.

RMS studied post-crisis bank failures for lessons that could be used to enhance risk-focused supervision activities going forward. The study reinforced the importance of a comprehensive and vigilant approach to continuous risk-focused, forward-looking supervision. As a result, case study analyses were presented to supervisory staff, and training sessions were held to communicate lessons learned from the

study that would help examiners identify deficiencies or weaknesses and work with institutions to correct their root causes.

The FDIC also initiated an Examination Workstream project to review risk-focused examination practices. The Conference of State Bank Supervisors (CSBS) participated in the initiative, which also leveraged feedback from other sources, and developed numerous recommendations to enhance the risk-focused supervision program.

Current Expected Credit Losses Implementation

In June 2016, the Financial Accounting Standards Board (FASB) introduced the CECL methodology for estimating allowances for credit losses, replacing the current incurred-loss methodology.

Since then, the FDIC has worked collaboratively with the other federal banking agencies, the FASB, the Securities and Exchange Commission (SEC), and the CSBS to answer questions regarding the implementation of CECL.

- In February 2018, the FDIC and FRB, in conjunction with the FASB, SEC, and CSBS, jointly hosted two CECL webinars—one for examiners and another for bankers—entitled "Practical Examples of How Smaller, Less Complex Community Banks Can Implement the Current Expected Credit Losses Methodology." The webinars addressed loan loss rate methods that such institutions can use to implement CECL, as well as related data considerations and controls. The banker webinar had more than 8,000 participants. Materials have been archived for viewing, and a transcript of the banker webinar is available.
- In May 2018, the FDIC, FRB, and OCC issued a notice of proposed rulemaking (the CECL NPR), that proposed a revision to the regulatory capital rules for the implementation of, and capital transition to, the CECL methodology.
- In July 2018, the three banking agencies, together with the FASB, SEC, and CSBS, conducted a Q&A webinar that addressed various CECL questions the agencies have received from community bankers. The July webinar had more than 3,300 participants. The webinar materials and a transcript of the presentation have also been archived for viewing.

In September 2018, the FDIC, jointly with the other federal banking agencies, published a *Federal Register* notice requesting comment on proposed revisions to the Call Report and other regulatory reports to address, among other things, changes in the accounting for credit losses under the CECL methodology. The notice also proposed changes to the Call Report's regulatory capital schedule and changes to another report to align these reports with the agencies' May 14, 2018, CECL NPR. The agencies issued the CECL final rule in December 2018. The final rule allows banks to transition the day one effects of the CECL accounting standard on regulatory capital over three years. The final rule also revises the agencies' regulatory capital rule and other rules to take into consideration differences between the new accounting standard and existing U.S. generally accepted accounting principles.

Alternative Reference Rates

The FDIC, along with the other FFIEC members, launched an initiative to raise awareness and educate supervised financial institutions and examiners about reference rate alternatives to the London Inter-bank Offered Rate (LIBOR). The FFIEC members hosted an introductory webinar in December 2018, and plan to follow with additional outreach via webinars and other efforts as new information develops.

Credit Risk, Liquidity Risk, and Interest-Rate Risk

Loan volume continues to grow as the economy expands for the tenth consecutive year. A large majority of insured institutions grew their loan

portfolios over the past year, and some institutions have further increased existing concentrations. Loan growth accompanied by a reduction in holdings of liquid assets and increased reliance on funding sources other than traditionally stable deposits is particularly prevalent among institutions with rising or elevated concentration levels. These trends have the potential to give rise to heightened credit and liquidity risk.

While interest rates are beginning to rise, asset maturities remain lengthened. A lengthy period of historically low interest rates and tightening net interest margins created incentives for insured depository institutions to reach for yield in their lending and investment portfolios by extending portfolio durations, potentially increasing their vulnerability to interest-rate risk. Banks must continue to be diligent in their efforts to identify, manage, and monitor credit risk, liquidity risk, and interest-rate risk.

Through regular on-site examinations and interim contacts with state nonmember institutions, FDIC staff regularly engages in dialogue with institution management to ensure that their policies to manage credit risk, liquidity risk, and interest-rate risk are effective. Where appropriate, FDIC staff works with institutions that have significant exposure to these risks and encourages them to take appropriate risk-mitigating steps. The FDIC uses off-site monitoring to help identify institutions that may have heightened exposure to these risks, and follows up with them to better understand their risk profiles.

Throughout 2018, the FDIC conducted outreach and offered technical assistance regarding these risk issues, including *Supervisory Insights* articles on credit risk grading systems and on the risk management practices of insured banks active in oil and gas lending. In addition, FDIC examiners now devote additional attention during the examination process to assessing how well banks are managing the risks associated with concentrations in credit exposures and funding sources. The findings of these assessments are shared with bank management in the Report of Examination.

Industry Guidance

Interagency Statement on Accounting and Reporting Implications of the New Tax Law

In January 2018, the FDIC, jointly with the FRB and OCC, issued an interagency statement containing guidance on the accounting implications of the new tax law, which was enacted on December 22, 2017, and related matters. The statement provided instructions on the application of FASB Accounting Standards Codification (ASC) Topic 740, "Income Taxes," and did not represent new rules or regulations of the agencies. The changes enacted in the new tax law were relevant to financial statements and regulatory reports, such as the Call Report and the Consolidated Financial Statements for Holding Companies (FR Y-9C Report).

Interagency Statement Clarifying the Role of Supervisory Guidance

In September 2018, the FDIC, jointly with the FRB, OCC, National Credit Union Administration (NCUA), and Consumer Financial Protection Bureau (CFPB), issued an interagency statement explaining the role of supervisory guidance and describing the agencies' approach to supervisory guidance. The statement reaffirmed the purpose of supervisory guidance to articulate the agencies' general views regarding appropriate practices for a given subject area. Unlike a statute or regulation, supervisory guidance does not have the force and effect of law, and the agencies do not take enforcement actions based on supposed "violations" of supervisory guidance.

Regulatory Relief

During 2018, the FDIC issued 13 FILs to provide guidance to financial institutions in areas affected by hurricanes, tornadoes, flooding, wildfires, and other severe storms, and to facilitate recovery. In these FILs, the FDIC encouraged banks to work constructively with borrowers experiencing financial difficulties as a result of natural disasters, and clarified that prudent extensions

or modifications of loan terms in such circumstances can contribute to the health of communities and serve the long-term interests of lending institutions.

Rulemakings to Implement the Economic Growth, Regulatory Relief, and Consumer Protection Act

In May 2018, the EGRRCPA was signed into law, and the FDIC immediately began efforts to implement various provisions of the new law.

Community Bank Leverage Ratio

In November 2018, the FDIC, OCC, and FRB issued a notice of proposed rulemaking to implement Section 201 of EGRRCPA to establish a leverage ratio for qualifying community banks. If a qualifying community bank exceeds this leverage ratio, it would be deemed to meet the generally applicable leverage and risk-based capital requirements and the well-capitalized ratio requirements under the prompt corrective action framework. Comments will be accepted for 60 days following publication in the *Federal Register.*

In December 2018, the FDIC published a notice of proposed rulemaking to amend the deposit insurance assessment system to address the application of the leverage ratio for qualifying community banks. Comments will be accepted for 60 days following publication in the *Federal Register.*

Appraisal Threshold for Residential Real Estate Loans

In December 2018, the FDIC, OCC, and FRB published a proposed rule to amend the agencies' regulations requiring appraisals for certain real estate-related transactions. The proposed rule would raise the threshold from $250,000 to $400,000 at which appraisals would be required for residential real estate-related transactions. The proposed rule would also make conforming changes to exempt certain transactions secured by residential property in rural areas from the agencies' appraisal requirement pursuant to the EGRRCPA. Pursuant to the Dodd-Frank Act, the proposed rule would amend the agencies' appraisal regulations and require institutions to review appraisals for federally related transactions for compliance with the Uniform Standards of Professional Appraisal Practice. The comment period closed on February 5, 2019.

Reciprocal Deposits

Section 202 of EGRRCPA amended Section 29 of the FDI Act with respect to reciprocal brokered deposits. On September 12, 2018, the FDIC approved an NPR on the treatment of reciprocal deposits to conform Section 337.6 of the FDIC Rules and Regulations to Section 202. The NPR was published in the *Federal Register* on September 26, 2018. The 30-day comment period closed on October 26, 2018.

After reviewing the 13 comments received, the FDIC Board approved a final rule on December 18, 2018, for publication in the *Federal Register*. This final rule adopts the NPR as proposed.

The final rule incorporates the Section 202 statutory language into the regulation. In summary, the final rule provides an exception for a capped amount of reciprocal brokered deposits from treatment as brokered deposits for certain IDIs, and confirms that the current statutory and regulatory rate restrictions for less than well-capitalized institutions apply to reciprocal deposits that are excepted from treatment as brokered deposits. The final rule also includes conforming amendments to the insurance assessment regulations, Part 327 of the FDIC Rules and Regulations, to be consistent with the statutory definition of reciprocal deposits.

Volcker Rule

In December 2018, the FDIC, OCC, FRB and SEC issued an NPR to implement Section 203 of EGRRCPA. Section 203 amends Section 13 of the Bank Holding Company Act to create an exclusion for certain banks and their holding companies from the prohibitions of the Volcker Rule. To qualify,

neither the IDI nor any controlling company may have more than $10 billion in total consolidated assets, or total trading assets and trading liabilities of more than 5 percent of total consolidated assets, as reported on the most recent regulatory filing. The NPR would also implement Section 204 of EGRRCPA to amend the restrictions applicable to the naming of a hedge fund or private equity fund to permit certain banking entities that are not banks or bank holding companies to share a name with the fund under certain circumstances. Comments will be accepted for 30 days following publication in the *Federal Register.*

Short Form Call Reports

In November 2018, the FDIC, together with the FRB and OCC, published in the *Federal Register* an NPR to implement Section 205 of EGRRCPA, that would increase the existing asset-size limit from less than $1 billion to less than $5 billion for eligibility to file the streamlined FFIEC 051 Call Report, provided other criteria are met, and establish reduced reporting for all IDIs that file this version of the Call Report.

To further reduce reporting requirements in the FFIEC 051 Call Report, the agencies also proposed exempting approximately 37 percent of data items from being reported in the FFIEC 051 Call Report in the first and third quarters. The principal areas proposed for reduced reporting include data items related to categories of risk-weighting of various types of assets and other exposures under the agencies' regulatory capital rules, fiduciary and related services assets and income, and troubled debt restructurings by loan category. As of June 30, 2018, almost 90 percent of IDIs reported less than $1 billion in total assets and were already eligible to file the FFIEC 051 Call Report based on asset size. By raising the threshold for filing the FFIEC 051 to less than $5 billion in total assets, approximately 95 percent of all IDIs would be eligible to file this streamlined Call Report. The 60-day comment period closed on January 18, 2019.

Expanded Examination Cycle

In December 2018, the FDIC, FRB, and OCC jointly published final rules to expand the examination cycle for certain small IDIs and U.S. branches and agencies of foreign banks. The final rules did not differ from the interim rules that were published in the *Federal Register* on August 29, 2018.

Section 210 of the EGRRCPA raised the asset-size threshold for the 18-month examination cycle from less than $1 billion in assets to less than $3 billion in assets for certain well-capitalized and well-managed IDIs with an "outstanding" composite condition, and gave the agencies discretion to similarly raise this threshold for certain IDIs with an "outstanding" or "good" composite condition. The agencies exercised this discretion and issued final rules that, in general, make qualifying IDIs with less than $3 billion in total assets eligible for an 18-month (rather than a 12-month) examination cycle.

To qualify, IDIs must have a CAMELS composite rating of "1" or "2," and be well-capitalized, well-managed, not subject to a formal enforcement proceeding, and must not have undergone any change in control during the previous 12-month period. The rule also applies to qualifying U.S. branches or agencies of a foreign bank.

Since BSA compliance programs are required to be reviewed during safety and soundness examinations, institutions with assets up to $3 billion that are now eligible for the 18-month safety-and-soundness examination cycle will also generally be subject to less frequent BSA reviews.

High Volatility Commercial Real Estate

The FDIC worked with the FRB and OCC to issue an NPR, published in the *Federal Register* on September 28, 2018, to incorporate the new definition of high-volatility commercial real estate acquisition, development or construction loan included in Section 214 of EGRRCPA. The 60-day comment period ended on November 27, 2018.

Liquidity Coverage Ratio Rule: Treatment of Certain Municipal Obligations as High-Quality Liquid Assets

Section 403 of EGRRCPA amended Section 18 of the FDI Act, requiring the FDIC, OCC, and FRB (collectively, the agencies) to amend their liquidity coverage ratio (LCR) rules, and any other regulation that incorporates a definition of the term "high-quality liquid asset" (HQLA), to treat a municipal obligation as HQLA that is a level 2B liquid asset if the obligation, as of the calculation date, is liquid and readily-marketable and investment grade. On August 31, 2018, the agencies published an interim final rule in the *Federal Register* in compliance with Section 403. The comment period for the interim final rule closed October 1, 2018. The agencies are reviewing the comments received.

Other Rulemakings

Removal of Credit Ratings from International Banking Regulations

In March 2018, the FDIC published a final rule amending its international banking regulations related to permissible investment activities and the pledging of assets. The final rule removes references to "external credit ratings" and replaces them with "appropriate standards of creditworthiness." The changes in the FDIC Rules and Regulations Part 347, Subparts A and B, are consistent with Section 939A of the Dodd-Frank Act.

Securities Transaction Settlement Cycle

In June 2018, the FDIC and OCC published a final rule to amend the rules to generally require supervised institutions to settle securities transactions within the number of business days in the standard settlement cycle followed by registered broker dealers in the United States. The final rule, which became effective on October 1, 2018, responds to an industry-wide shift in the standard settlement cycle from three days after the trade date ("T+3") to two days ("T+2"), as mandated by the SEC's recent amendments to SEC Rule 15c6-1(a). By requiring FDIC-supervised institutions to settle securities transactions within the standard settlement cycle as provided in SEC Rule 15c6-1(a), the final rule effectively conforms the FDIC's rules to the current T+2 and accommodates future shifts in the standard settlement cycle.

Proposed Changes to Applicability Thresholds for Regulatory Capital Requirements and Liquidity Requirements

In December 2018, the FDIC, FRB, and OCC published an NPR that would establish a revised framework for applying the regulatory capital rule, liquidity coverage ratio rule, and proposed net stable funding ratio rule. Under the proposal, application of the rules would depend on the risk profile of each large U.S. banking organization and its subsidiary institutions. The proposal would establish four categories of standards for banking organizations with total assets of $100 billion or more, and would apply capital and liquidity requirements tailored for banking organizations subject to each category. The 30-day comment period ended on January 22, 2019.

Modifications to the Statement of Policy for Section 19

On July 19, 2018, after considering public comments, the FDIC Board of Directors approved modifications to the Statement of Policy for Section 19 of the Federal Deposit Insurance Act to revise the criteria that define *de minimis* offenses, clarify existing statements, and remove outdated references to the Office of Thrift Supervision. The modifications are intended to reduce regulatory burden, promote public awareness of the law, and decrease the number of covered offenses that will require an application. In addition, the FDIC revised the Section 19 application form and published an informational brochure: "Your Complete Guide to Section 19." The modifications to the statement of policy, revised application form, and informational brochure were announced in FIL-68-2018.

Brokered Deposits

The FDIC continues to receive questions about the application of the brokered deposit regulation (Section 337.6 of the FDIC Rules and Regulations). Except

for the December 2018 update for reciprocal deposits, FDIC last amended its brokered deposit regulation – specifically the interest rate restrictions– in 2009. Since that time, technology, law, business models, and product ranges have evolved. In order to determine what additional changes to Section 337.6 may be warranted, the FDIC approved an Advance NPR on December 18, 2018, to seek comment on the brokered deposit regulation more generally. The comment period will end 90 days after publication in the *Federal Register*.

FINANCIAL TECHNOLOGY

The FDIC continuously monitors developments in technology to better understand how it may affect the financial industry.

Center for Financial Research

The FDIC's Center for Financial Research (CFR) encourages, supports, and conducts innovative research on topics that inform the FDIC's key functions of deposit insurance, supervision, and the resolution of failed banks. CFR researchers produced a number of new and innovative working papers in 2018. Many of these were published in leading banking, finance, and economics journals, and presented in banking and finance seminars at major conferences, regulatory institutions, and universities.

FDIC Chairman Jelena McWilliams delivers opening remarks at the 18th Annual Bank Research Conference.

The CFR also developed and maintained many financial models used throughout the FDIC, including off-site models that inform the examination process. CFR economists also provided ongoing support to RMS through on-site examinations.

In September 2018, the CFR and the *Journal of Financial Services Research* jointly sponsored the 18th Annual Bank Research Conference. FDIC Chairman Jelena McWilliams kicked-off the conference by highlighting the importance of research in supporting the FDIC's role in maintaining stability and public confidence in the nation's financial system. The conference has become a premier forum in its field. Conference organizers received more than 450 submissions for the 26 available presentation slots, and approximately 220 participants attended. Discussion sessions focused on tradeoffs in bank regulation, segmentation of the lending markets, FinTech, and depositor reactions to increased risk at banks, among other things.

In October 2018, the CFR published the *Small Business Lending Survey*, which presented findings from a nationally representative survey of U.S. banks about their small business lending practices. The report provided new information about the amount of loans that banks extend to small businesses; how banks engage with their small business customers, including start-ups; the competitive environment for small business loans; and how banks of different sizes compete in the small business lending market. Presentations of the findings were made to banking organizations and regulatory agencies, and the full report is available at https://www.fdic.gov/sbls.

FDIC Emerging Technology Steering Committee

The FDIC's Emerging Technology Steering Committee, supported by two staff-level subcommittees, continues to monitor and assess the various dimensions of emerging technology developments. The committee is comprised of the Directors of RMS, DCP, Division of Insurance and Research (DIR), Division of Resolutions and Receiverships (DRR), and the Office of Complex Financial Institutions (OCFI), as well as the General Counsel, the Chief Risk Officer, and the Chief Information Officer.

In 2018, the Emerging Technology Steering Committee continued work on its established objectives:

- Comprehend, assess, and monitor the current emerging technology activities, risks, and trends;
- Evaluate the projected impact to the banking system, the deposit insurance system, effective regulatory oversight, economic inclusion, and consumer protection;
- Oversee internal working groups monitoring particular aspects of emerging technology;
- Recommend follow-up actions, as appropriate, and monitor implementation; and
- Help formulate strategies to respond to opportunities and challenges presented by emerging technology, and to ensure developments align with regulatory goals.

In May 2018, the FDIC hosted a forum on the Use of Technology in the Business of Banking. The forum brought together a range of stakeholders, including banks, technology firms, financial technology (fintech) firms, trade associations, consumer groups, and other regulators, to explore emerging technology issues, specifically as they relate to the business of banking. The goals of the forum were to better understand emerging technologies that banks are using or considering for future use; gain a deeper understanding of how banks are leveraging (or can leverage) those emerging technologies to seize opportunities for their business and their customers, as well as methods to mitigate risks; and facilitate candid discussion of emerging issues related to the use of financial technology in banking. Panelists represented banks of all sizes, from small community banks to large banks, as well as other firms and organizations involved with emerging technology. Together, they offered a range of perspectives on many new technologies and the associated opportunities and potential risks.

The FDIC also participates on several working groups related to financial technology:

- The Basel Committee on Banking Supervision's Task Force on Financial Technology, which focuses on the impact of financial technology on banks' business models, risk management and implications for bank supervision;
- The Financial Stability Oversight Council (FSOC) Digital Assets Working Group, which is examining potential policy areas as they relate to digital assets and the application of distributed ledger technology; and
- An interagency FinTech discussion forum, which focuses on issues related to consumer compliance.

FinTech Legal Group

In 2018, the General Counsel announced a Legal Division initiative and formed a FinTech Legal Group comprised of attorneys from across the Division. The initiative will support the Legal Division and the FDIC, including its internal agency working groups with respect to emerging and novel legal issues arising from new digital and other forms of technology. In particular, the FinTech Legal Group considers developments that may transform the traditional banking business model, operations, systems, and vendor and consumer relationships; impact application of current laws and regulations; affect the risk profiles of FDIC-insured and FDIC-supervised institutions; and introduce new considerations in resolving failed institutions.

COMMUNITY BANKING INITIATIVES

Community banks provide traditional, relationship-based banking services in their local communities, and as the primary federal supervisor for the majority of community banks, the FDIC has a particular responsibility for the safety and soundness of this segment of the banking system.

As defined for FDIC research purposes, community banks made up 92 percent of all FDIC-insured institutions at mid-year 2018. While these banks hold just 13 percent of banking industry assets, community banks are of critical importance to the U.S. economy and local communities across the nation. They hold 42 percent of the industry's small loans to farmers and businesses, making them the lifeline to entrepreneurs and small enterprises of all types, and they hold the majority of bank deposits in U.S. rural counties and micropolitan counties with populations up to 50,000. In fact, as of June 2018, community banks held more than 75 percent of deposits in more than 1,200 U.S. counties. In more than 600 of these counties, the *only* banking offices available to consumers were those operated by community banks.

In 2012, the FDIC launched a Community Banking Initiative to better understand and support these institutions. As part of the initiative, the FDIC publishes research on issues of importance to community banks, and provides them with resources to manage risk, enhance the expertise of their staff, and adapt to changes in the regulatory environment.

Community Banking Research

The FDIC pursues an ambitious, ongoing agenda of research and outreach focused on community banking issues. Since the 2012 publication of the *FDIC Community Banking Study*, FDIC researchers have published more than a dozen additional studies on topics ranging from small business financing to the factors that have driven industry consolidation over the past 30 years.

The *FDIC Quarterly Banking Profile* (QBP) includes a section focused specifically on community bank performance, providing a detailed statistical picture of the community banking sector that can be accessed by analysts, other regulators, and bankers themselves. The most recent report shows that net income at community banks continued to grow at a healthy annual rate in the first three quarters of 2018.

The long-term trend of consolidation has done little to diminish the role of community banks in the banking industry. More than three-quarters of the community banks that merged in 2017 and early 2018 were acquired by other community banks. On a merger adjusted basis, loan growth at community banks exceeded growth at noncommunity banks in every year between 2012 and 2017. (See Chart 1 on Page 29.) From June 2017 to June 2018, currently operating noncommunity banks closed far more offices than they acquired. In contrast, currently operating community banks acquired offices and opened still more offices, on net, during the year.
(See Table 1 on page 29.)

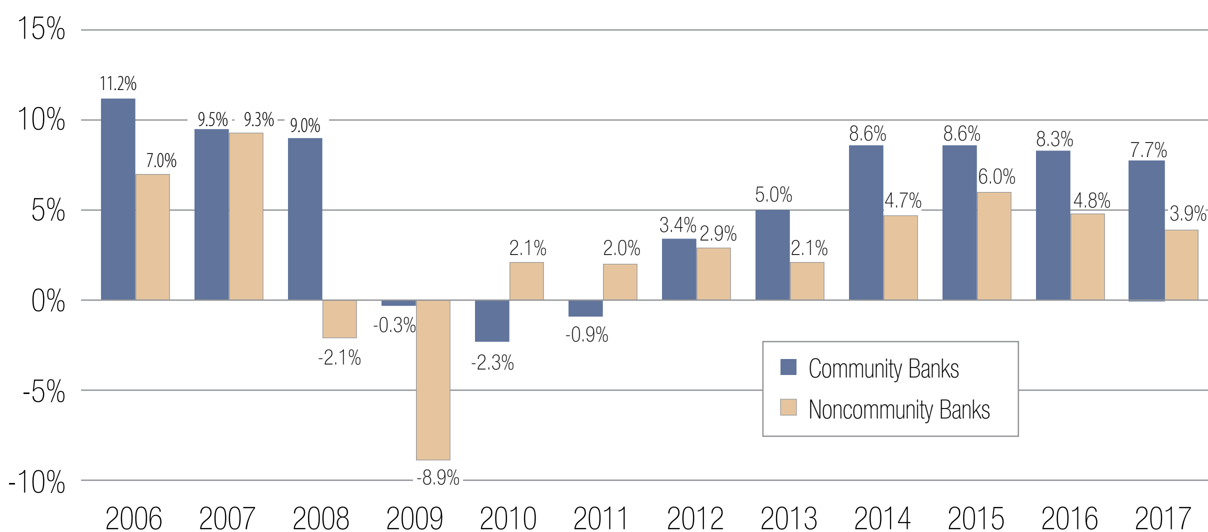
Community Bank Advisory Committee

The FDIC's Advisory Committee on Community Banking is an ongoing forum for discussing current issues and receiving valuable feedback from the industry. The committee, which met twice during 2018, is composed of as many as 18 community bank CEOs from around the country. It is a valuable resource for information on a wide range of topics, including examination policies and procedures, capital and other supervisory issues, credit and lending practices, deposit insurance assessments and coverage, and regulatory compliance issues.

At the July 2018 meeting, DIR discussed the current financial performance of community banks, and how selected risk indicators compare to those seen before the financial crisis. As compared to the pre-crisis years, community banks have higher capital ratios than noncommunity banks, and far fewer of community banks have extremely high concentrations in construction lending. The presenters also noted, however, that community banks are holding generally more loans, fewer liquid assets, and face potential pressures on deposit costs as interest rates increase.

CHART 1: COMMUNITY BANK LOAN GROWTH HAS EXCEEDED GROWTH AT NONCOMMUNITY BANKS FOR SIX CONSECUTIVE YEARS

Merger Adjusted Annual Growth in Total Loans and Leases
2006-2017



Source: FDIC. All calculations are merger adjusted.

TABLE 1. COMMUNITY BANKS ADDED OFFICES WHILE NONCOMMUNITY BANKS CLOSED OFFICES FROM JUNE 2017 TO JUNE 2108

	Offices of the June 2018 Group of Institutions in June 2017	Offices of Banks Acquired	Number of Offices in June 2017 Merger-adjusted	New Offices Opened	Offices Closed	Net Offices Purchased or Sold	Number of Offices in June 2018
Community Banks	29,832	619	30,451	585	500	15	30,551
Noncommunity banks	57,886	1,481	59,367	404	2,254	-15	57,502
TOTAL	**87,718**	**2,100**	**89,818**	**989**	**2,754**	**0**	**88,053**

Source: FDIC

Committee members indicated that deposit pricing pressures had been relatively modest, but that further interest rate increases could begin to pressure their deposit costs.

De Novo Banks

In 2018, the FDIC pursued multiple initiatives to fulfill its commitment to working with, and providing support to, any group with interest in starting a bank. In general, these initiatives focused on reviewing and, as appropriate, updating the processes, procedures, and management systems by which the FDIC receives, reviews, and acts on applications.

Most significantly, in December 2018, the FDIC announced new measures to promote a more transparent, streamlined, and accountable process for all *de novo* applications submitted to the agency. Specifically, the FDIC issued a Request

for Information soliciting comments on the deposit insurance application process, including the transparency and efficiency of the process, and any unnecessary burdens that impede the process.

The agency also established a process to receive and review draft deposit insurance proposals. This process will help organizers of new financial institutions by providing an early opportunity for both the FDIC and organizers to identify potential challenges with respect to the statutory criteria, areas that may require further detail or support, and potential issues or concerns. It will also promote a more transparent and efficient deposit insurance application process. The FDIC also established an Applications Mailbox as an additional means by which bankers and other applicants may pose questions regarding a specific application or the application process.

Other measures to support *de novo* formation, included:

- Re-publishing time frame guidelines for processing applications, notices, requests, and other filings submitted on behalf of proposed and existing institutions and other parties to help applicants in their planning.
- Updating the *Applying for Deposit Insurance – A Handbook for Organizers of De Novo Institutions*. The handbook was designed to help organizers become familiar with the deposit insurance application process.
- Updating the *Deposit Insurance Applications Procedures Manual*. The manual provides comprehensive instruction to staff regarding the review and processing of deposit insurance applications.

Technical Assistance Program

As part of the Community Banking Initiative, the FDIC continued to provide a robust technical assistance program for bank directors, officers, and employees. The technical assistance program includes Directors' College events held across the country, industry teleconferences and webinars, and a video program.

In 2018, the FDIC hosted Directors' College events in five of its six regions. These events were typically conducted jointly with state trade associations and addressed issues such as corporate governance, regulatory capital, community banking, concentrations management, consumer protection, BSA, and interest-rate risk, among other topics.

The FDIC also offers a series of banker events, in order to maintain open lines of communication and to keep bank management and staff up-to-date on important banking regulatory and emerging issues of interest to community bankers. In 2018, the FDIC offered 11 teleconferences or webinars focused on the following topics:

- Understanding Reasonably Expected Market Area (REMA) and Community Reinvestment Act (CRA) Assessment area,
- Liquidity and funding risk management,
- Current Expected Credit Losses (CECL) accounting methodology,
- The impact of rising interest rates on asset/liability management,
- *Money Smart for Small Businesses,*
- Regulatory and accounting update,
- Common exam findings,
- Update on compliance and CRA, and
- Information sharing on standardized export of imaged loan documents.

In October 2018, the FDIC hosted a teleconference to provide information about EGRRCPA implementation, and to answer questions. The call was part of the FDIC's consumer compliance teleconference and webinar series, which allows the FDIC to communicate important information to supervised institutions on a variety of topics and to respond to industry questions.

In November 2018, the FDIC hosted another teleconference to discuss results of the *2017 National Survey of Unbanked and Underbanked Households*. During this call, participants also discussed economic

inclusion resources pertinent to community banks, including the *Money Smart for Adults* financial education program, and CRA consideration for activities that benefit underserved communities.

Economic Growth and Regulatory Paperwork Reduction Act

The Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) directs the federal banking agencies and the FFIEC to conduct a joint review of regulations every 10 years to determine whether any of those regulations are outdated or unnecessary.

In March 2017, the FFIEC submitted a report to Congress that described actions the agencies had already taken to address comments received during the EGRPRA process as well as actions the agencies planned to take in the future. During 2018, the FDIC along with the other FFIEC member agencies, continued to work together to reduce burden in the following areas raised during the EGRPRA review process.

- **Capital Simplification Proposal**

  In 2017, the federal banking agencies issued an NPR to seek comment on simplifications to the capital framework as part of the agencies' EGRPRA efforts. Parts of the proposed rulemaking was superseded by certain capital framework provisions of the Economic Growth, Regulatory Relief and Consumer Protection Act. As a result, the federal banking agencies issued in September 2018 an NPR to seek comment on implementation of the revised statutory definition of High Volatility Commercial Real Estate and issued in November 2018 an additional NPR to seek comment on the leverage ratio for qualifying community banks. FDIC staff, along with the staff of other federal banking agencies, continued to review comments received in response to the 2017 NPR to simplify the capital rules for small banks not eligible for the community bank leverage ratio, including the regulatory capital treatment of mortgage servicing assets, deferred tax assets, investments in the capital instruments of other financial institutions, and minority interest. FDIC staff, along with the staff of other federal banking agencies, plan to put forth final rules on both of these capital simplification efforts in 2019 and explore other areas of regulatory capital rules that may be simplified or streamlined.

- **Commercial and Residential Real Estate Appraisal Thresholds**

  On April 9, 2018, the FDIC, FRB, and OCC jointly published a final rule that raised the threshold for requiring an appraisal on commercial real estate transactions from $250,000 to $500,000.

  Similarly, on December 7, 2018, the FDIC, FRB, and OCC jointly published an NPR requesting comment on an increase in the threshold for requiring an appraisal on residential real estate transactions from $250,000 to $400,000.

- **Frequently Asked Questions (FAQs) on the Appraisal Regulations and the Interagency Appraisal and Evaluation Guidelines**

  In October 2018, the FDIC, FRB, and OCC jointly issued FAQs on real estate appraisals and evaluations, in response to questions raised during the EGRPRA process about the agencies' appraisal regulations and guidance. The FAQs do not introduce new policy or guidance, but instead assemble previously communicated policy and interpretations. The FAQs complement the agencies' appraisal regulations, the real estate lending standards, the *Interagency Appraisal and Evaluation Guidelines*, the *Interagency Advisory on the Use of Evaluations in Real Estate-Related Financial Transactions*, and other regulations and advisories related to appraisals and evaluations. The FAQs rescinded and replaced FAQs that the agencies previously issued in March 2005.

- **Advisory on the Availability of Appraisers**

  The FDIC, FRB, OCC, and NCUA issued an advisory that discusses two existing methods that may address appraiser shortages, particularly

in rural areas: temporary practice permits and temporary waivers. The advisory addresses concerns raised pursuant to the EGRPRA review process.

The first method, temporary practice permits, may be granted by state appraiser regulatory agencies to allow credentialed appraisers to provide their services in states experiencing a shortage of appraisers, subject to state law. Reciprocity is a widely used practice in which one state recognizes the appraiser certification and licensing of another state, permitting state-certified and -licensed appraisers to perform appraisals across state lines. The second method, temporary waivers, sets aside requirements relating to the certification or licensing of individuals to perform appraisals under Title XI of FIRREA in states or geographic political subdivisions while there is a scarcity of certified or licensed appraisers that has caused significant delays in performing appraisals. Authority to grant temporary waiver requests rests with the FFIEC's Appraisal Subcommittee, and is subject to FFIEC approval. To further communicate about the availability of the waiver process and get a deeper understanding of rural appraisal issues, the Conference of State Bank Supervisors organization arranged six roundtables between federal banking regulators, state commissioners and rural community bankers. Roundtables were held in Michigan, Tennessee, Wyoming, North Dakota, South Dakota, and Montana.

- **Call Report Burden Reduction**

Effective with the June 30, 2018, reporting date, burden-reducing revisions were made to all three versions of the Call Report (FFIEC 051, FFIEC 041, and FFIEC 031 Call Reports). These changes were the result of multi-phase review of the data collected in all Call Report schedules, the re-evaluation of certain previously reviewed schedules, and consideration of industry comments and feedback. These changes were designed to ease reporting requirements and lessen the reporting burden for small and large institutions.

Additionally, during 2018 the FFIEC's Task Force on Reports developed options for expanding eligibility to file the FFIEC 051 Call Report beyond the initial asset size eligibility threshold of $1 billion. This effort included analyzing Call Report data from institutions with domestic offices only and $1 billion or more in total assets. Section 205 of the EGRRCPA requires the banking agencies to issue regulations that allow for a reduced reporting requirement in the first and third quarter Call Reports for institutions that have less than $5 billion in total assets and satisfy other appropriate criteria established by the agencies. An NPR to expand eligibility for filing FFIEC 051 and to reduce the quarterly reporting frequency for some items to semiannual (i.e., June and December only) was published in November 2018. As of June 30, 2018, approximately 90 percent of IDIs were eligible to file the FFIEC 051 Call Report. If the rule is finalized as proposed, approximately 95 percent of IDIs would be eligible to file the FFIEC 051 Call Report.

- **Part 350 Disclosure of Financial and Other Information**

In October 2018, the FDIC published an NPR to rescind and remove Part 350 of its regulations, which requires insured state nonmember banks and insured state-licensed branches of foreign banks to prepare an annual disclosure statement containing specified financial information and make it available to the public. The FDIC determined that widespread access to the internet allows interested persons to readily access more extensive and timely financial information about individual institutions than an annual disclosure statement, and that the burden of providing this annual disclosure statement is no longer justified.

- **Management Official Interlocks**

In December 2018, the FDIC, OCC, and FRB approved a proposed rule that would

increase the major assets prohibition thresholds for management interlocks in the agencies' rules implementing the Depository Institution Management Interlocks Act (DIMIA). The DIMIA major assets prohibition prohibits a management official of a depository organization with total assets exceeding $2.5 billion (or any affiliate of such an organization) from serving at the same time as a management official of an unaffiliated depository organization with total assets exceeding $1.5 billion (or any affiliate of such an organization). Raising the thresholds will account for changes in the U.S. banking market and inflation since the current thresholds were established in 1996, and relieve certain institutions (i.e., those below the adjusted threshold) from having to ask the agencies for an exemption from the major assets prohibition. The agencies proposed three alternative approaches to increasing the thresholds, and do not expect the proposal to materially increase anticompetitive risk.

- **Retirement of Certain Financial Institution Letters**

  Financial Institution Letters (FILs) serve as the primary tool for delivering information to financial institutions about new regulations, supervisory guidance, management tools, regulatory relief, and other subjects of interest. As part of a continuing effort to reduce regulatory burden, in December 2018, the FDIC retired 374 risk management supervision-related FILs and 119 FILs related to consumer protection that were issued between 1995 and 2017. The retired FILs were identified as being outdated or as conveying regulations or other information that is still in effect but available elsewhere on the FDIC's website.

- **Examination Modernization**

  Recognizing that regulatory burden does not emanate only from statutes and regulations, the FDIC, along with the FFIEC, continued the FFIEC Examination Modernization project in 2018 as a follow-up to the review of regulations under EGRPRA. The project is focused on identifying ways to improve the efficiency of processes, procedures, and tools related to safety-and-soundness examinations and supervisory oversight, while maintaining the quality of the examination process.

  In March 2018, the FFIEC issued an update on the Examination Modernization project, which noted that, in response to feedback from both bankers and examiners, the FFIEC would initially focus on the following measures to reduce supervisory burden:

  1. Highlight and reinforce regulator communication objectives before, during, and after examinations.
  2. Continue to tailor examinations based on risk.
  3. Leverage technology and shift, as appropriate, examination work from on-site to off-site.
  4. Improve electronic file transfer systems to facilitate the secure exchange of information between institutions and supervisory offices or examiners.

  As a first step, and to address the first theme, the FDIC and other banking agencies issued a statement describing the principles of communication the agencies follow during the examination process, and committed to issue guidance to examination staff to reinforce and clarify the importance of being clear and transparent with community bankers during the examination process.

  In April 2018, the FDIC conducted an information sharing session to introduce a methodology for examiners to review standardized imaged loan files off-site. This technology is designed to reduce the amount of time examiners must spend onsite during a bank examination. A pilot program began in May, and several institutions have participated.

Also in 2018, the Examination Modernization project team reviewed and compared principles and processes for risk-focusing examinations of community banks. This review concluded that the agencies have developed and implemented similar programs and processes for risk-tailoring examinations.

On November 27, 2018, the FFIEC issued a statement to update the industry on efforts to reduce supervisory burden by tailoring examinations based on risk. In this statement, the FDIC and other agencies committed to issue reinforcing and clarifying guidance to examiners on risk-focused examination principles.

♦ **OTS Rule Integration**

The FDIC also streamlined and clarified certain regulations through the Office of Thrift Supervision (OTS) rule integration process. Under Section 316(b) of the Dodd-Frank Act, former OTS rules remain in effect "until modified, terminated, set aside, or superseded in accordance with applicable law" by the relevant successor agency, a court of competent jurisdiction, or operation of law. When the FDIC republished the transferred OTS regulations as new FDIC regulations applicable to state savings associations, the FDIC stated in the *Federal Register* notice that its staff would evaluate the transferred OTS rules and might later recommend incorporating them into other FDIC rules, amending them, or rescinding them. This process began in 2013 and continues, involving publication in the *Federal Register* of a series of NPRs and final rules.

In April 2018, two transferred OTS rules, Prompt Corrective Action and Capital, were removed as part of Basel III implementation. Additionally, in May 2018, the FDIC issued final rules to remove two transferred OTS rules, Minimum Security Procedures and Consumer Protection in Sales of Insurance, and to make technical amendments to related FDIC rules for applicability to FDIC-supervised state banks and savings associations. In November 2018, the FDIC issued a final rule to remove the transferred OTS rule regarding Fiduciary Powers of State Savings Associations, and to amend and revise rules regarding Consent Requirements for the Exercise of Trust Powers. The final rule makes all FDIC-supervised institutions subject to the same application procedures for obtaining consent to exercise trust powers.

Finally, in December 2018, the FDIC approved an NPR seeking comment on the removal of a transferred rule regarding lending and investment that is duplicative of standards in existing FDIC regulations. The NPR also seeks to remove rules related to the registration of residential mortgage loan originators in light of Title X of the Dodd-Frank Act, which transferred this authority to the CFPB. Staff will continue to review the remaining nine transferred regulations.

ACTIVITIES RELATED TO SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS

The FDIC is committed to addressing the unique challenges associated with the supervision, insurance, and potential resolution of large and complex financial institutions. The agency's ability to analyze and respond to risks in these institutions is particularly important, as they comprise a significant share of banking industry assets and deposits. We have developed a consistent approach to large bank supervision nationwide that allows us to identify, analyze, and quickly respond to industry-wide and institution-specific risks and emerging issues. The FDIC has segregated these activities in two groups to both ensure that supervisory attention is risk-focused and tailored to the risk presented by the nation's largest banks, and to meet our responsibilities under the FDI Act and the Dodd-Frank Act.

Complex Financial Institutions Program

The Dodd-Frank Act expanded the FDIC's responsibilities pertaining to systematically important financial institutions (SIFIs) and nonbank financial

companies designated by FSOC. The FDIC's CFI Group and Large Bank Supervision Branch, both within RMS, perform ongoing risk monitoring of Global Systemically Important Banks (G-SIBs), large Foreign Banking Organizations (FBOs), and FSOC-designated nonbank financial companies, provide backup supervision of the firms' related IDIs, and evaluate the firms' required resolution plans. The CFI Group also performs certain analyses that support the FDIC's role as an FSOC member.

Resolution Plans – Title I Living Wills

Certain large banking organizations and nonbank financial companies designated by the FSOC for supervision by the FRB are periodically required to submit resolution plans to the FRB and the FDIC. Each resolution plan, commonly known as a "living will," must describe the company's strategy for rapid and orderly resolution under the U.S. Bankruptcy Code in the event of material financial distress or failure of the company.

Companies subject to Title I are divided into three groups: 1) companies with $250 billion or more in nonbank assets, 2) companies with nonbank assets between $100 billion and $250 billion, and 3) all other companies with total consolidated assets of $50 billion or more.[4] Large bank holding companies with substantial nonbank assets file in July. Other large bank holding companies file in December.

Large Bank Holding Companies with Substantial Nonbank Assets

July filers include Bank of America Corporation, Bank of New York Mellon Corporation, JPMorgan Chase & Co., State Street Corporation, Wells Fargo & Company, Goldman Sachs Group, Inc., Morgan Stanley, and Citigroup, Inc. (collectively referred to as the eight domestic G-SIBs); and Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, and UBS AG, (collectively referred to as the four large FBOs).

The four FBOs submitted resolution plans on or before July 1, 2018. On December 18, 2018, the FDIC and FRB issued letters to the four firms providing their review findings and information about areas where additional work needs to be done to improve resolvability. The agencies also extended the next resolution plan filing deadline for FBOs from July 1, 2019, to July 1, 2020. The extensions will allow additional time for the agencies to provide feedback to the firms on their last submissions and for the firms to produce their next plans.

On July 29, 2018, the agencies issued for public comment revised resolution plan guidance for the eight domestic banking organizations. The proposed guidance updates to the agencies' expectations for how a firm's resolution strategy should address derivatives and trading activities, and payment, clearing, and settlement activities. The comment period closed on September 14, 2018. The agencies issued final guidance on December 18, 2018.

Other Large Bank Holding Company Filers

In January 2018, the FDIC, jointly with the FRB, provided feedback to 19 foreign-based banking organizations with total consolidated assets of $50 billion or more regarding resolution plans submitted in December 2015. In March 2018, the FDIC, and FRB, provided feedback to two regional bank holding companies which submitted their resolution plans in December 2016. In May 2018, the FDIC and FRB granted an extension to 14 regional bank holding companies, extending the due date for their next resolution plan from December 2018 to December 2019.

Nonbank Firms

Nonbank financial firms designated as systemically important by FSOC also are required to submit resolution plans for review by the FDIC and FRB. Prudential, Inc., the only remaining designated

[4] In 2018, the EGRRCPA increased the threshold for resolution plan requirements under Section 165(d) of the Dodd-Frank Act. The FDIC and FRB have announced their intention to propose amendments to current regulations and tailor certain future plan submission requirements in 2019.

nonbank at the start of 2018, was required to submit its plan on December 31, 2018, pursuant to a previous extension. However, on October 16, 2018, FSOC rescinded Prudential's designation as a SIFI.

Insured Depository Institution Resolution Plans

Section 360.10 of the FDIC Rules and Regulations requires an IDI with total assets of $50 billion or more to periodically submit to the FDIC a plan for its resolution in the event of its failure (the "IDI rule"). The IDI rule requires covered IDIs to submit a resolution plan that would allow the FDIC, as receiver, to resolve the institution under Sections 11 and 13 of the FDI Act in an orderly manner that enables prompt access to insured deposits, maximizes the return from the sale or disposition of the failed IDI's assets, and minimizes losses realized by creditors. The resolution plan must also describe how a proposed strategy will be least costly to the Deposit Insurance Fund.

Forty-one large insured banks covered by the IDI rule submitted their resolution plans by July 1, 2018. In the time period leading up to the submission deadline, the FDIC had undertaken measures to improve transparency and responsiveness. Specifically, the FDIC established a dedicated mailbox to receive questions and responded to more than 200 individual questions from banks, conducted three industry calls, met with one trade association, and conducted numerous meetings with individual covered IDIs. The resolution plans submitted by the IDIs have been reviewed and potential impediments to resolvability identified. Letters will be sent to the firms in early 2019.

The FDIC expects to issue an advance notice of proposed rulemaking relating to the IDI rule for public comment during the first quarter of 2019.

Monitoring and Measuring Systemic Risks

The FDIC monitors risks related to G-SIBs and large FBOs at the firm level and industry wide to inform supervisory planning and response, policy and guidance considerations, and resolution planning efforts. As part of this monitoring, the FDIC analyzes each company's risk profile, governance and risk management capabilities, structure and interdependencies, business operation and activities, management information system capabilities, and recovery and resolution capabilities.

The FDIC continues to work closely with the other federal banking agencies to analyze institution-specific and industry-wide conditions and trends, emerging risks and outliers, risk management, and the potential risk posed to financial stability by G-SIBs and large FBOs and non-bank financial companies. To support risk monitoring that informs supervisory and resolution planning efforts, the FDIC has developed systems and reports that make extensive use of structured and unstructured data. Monitoring reports are prepared on a routine and ad-hoc basis and cover a variety of aspects that include risk components, business lines and activity, market trends, and product analysis.

Additionally, the FDIC has implemented and continues to expand upon various monitoring systems, including the Systemic Monitoring System (SMS). The SMS provides an individual risk profile and assessment for each G-SIB and large FBO by evaluating the level and change in metrics that serve as important indicators of overall risk. The SMS supports the identification of emerging and outsized risks within individual firms and the prioritization of supervisory and monitoring activities. The SMS also serves as an early warning system of financial vulnerability. Information from SMS and other FDIC-prepared reports are used to prioritize activities relating to SIFIs and to coordinate supervisory and resolution-related activities with the other banking agencies.

The FDIC also conducts semi-annual "Day of Risk" meetings to present, discuss, and prioritize the review of emerging risks. In some cases, these discussions can lead to shifts in supervisory focus or priorities. In 2018, RMS CFI Group implemented a new SIFI Risk Report that identifies key vulnerabilities of

systemically important firms, gauges the proximity of these firms to a resolution event, and independently assesses the appropriateness of supervisory CAMELS ratings for the insured deposit institutions held by these firms.

Back-up Supervision Activities for IDIs of Systemically Important Financial Institutions

Risk monitoring is enhanced by the FDIC's back-up supervision activities. In its back-up supervisory role, as outlined in Sections 8 and 10 of the FDI Act, the FDIC has expanded resources and has developed and implemented policies and procedures to guide back-up supervisory activities. These activities include performing analyses of industry conditions and trends, supporting insurance pricing, participating in supervisory activities with other regulatory agencies, and exercising examination and enforcement authorities when necessary.

At institutions where the FDIC is not the primary federal regulator, FDIC staff works closely with other regulatory authorities to identify emerging risk and assess the overall risk profile of large and complex institutions. The FDIC has assigned dedicated staff to IDIs of G-SIBs and large FBOs and certain other large IDIs to enhance risk-identification capabilities and facilitate the communication of supervisory information. These individuals work with the staff of the FRB and OCC in monitoring risk at their assigned institutions.

Through December 2018, FDIC staff participated in 112 targeted examination activities with the FRB or OCC in G-SIBS, large FBOs, and large regional banks. The reviews included, but were not limited to, engagement in evaluation of risk management, corporate governance, BSA/AML reviews, credit risk reviews, quantitative model reviews, and cybersecurity risk and operational risk reviews. FDIC staff also participated in various interagency horizontal review activities, including the FRB's Comprehensive Capital Assessment and Review, reviews of model risk management, and independent pricing of fair-valued assets.

Title II Orderly Liquidation Authority

Under the Dodd-Frank Act, failed or failing financial companies are expected to file for reorganization or liquidation under the U.S. Bankruptcy Code, similar to what any failed or failing nonfinancial company would file. If resolution under the Bankruptcy Code would result in serious adverse effects to U.S. financial stability, Title II of the Dodd-Frank Act provides a backup authority for resolving a company for which the bankruptcy process is not viable. There are strict parameters on the use of the Title II Orderly Liquidation Authority, however, and it can only be invoked under a statutorily prescribed recommendation and determination process, coupled with an expedited judicial review process.

Resolution Strategy Development

The FDIC has undertaken institution-specific strategic planning to carry out its orderly liquidation authorities with respect to the largest G-SIBs operating in the United States. The strategic plans and optionality being developed for these firms are informed by the Title I plan submissions. Further, the FDIC continues to build its systemic resolution framework, portions of which have been shared with other authorities, and is developing process documents to facilitate the implementation of the framework in a Title II resolution. In addition, preliminary work continues in the development of resolution strategies for financial market utilities, particularly central counterparties (CCPs).

Cross-Border Efforts

Advance planning and cross-border coordination for the resolution of Global Systemically Important Financial Institutions (G-SIFIs) is essential to minimizing disruptions to global financial markets. Recognizing that the resolution of a G-SIFI creates complex cross-border legal and operational concerns, the FDIC continues to work with foreign regulators to establish frameworks for effective cooperation, including information-sharing arrangements.

The FDIC continued to advance its working relationships with authorities from other jurisdictions that supervise G-SIFIs, and through international forums, such as the Financial Stability Board's Resolution Steering Group and its various subgroups. In 2018, the FDIC continued its ongoing work with international authorities to enhance coordination on cross-border bank resolution. This work included participation by senior financial officials and staff from the United States and key foreign jurisdictions. FDIC staff continues to pursue follow-on work endorsed by senior officials from participating agencies.

The FDIC serves as a co-chair for all of the cross-border crisis management groups (CMGs) of supervisors and resolution authorities for U.S. G-SIFIs. In addition, the FDIC participates as a host authority in CMGs for foreign G-SIFIs. The FDIC and the European Commission (EC) continued their engagement through a joint working group, which is composed of senior executives at the FDIC and EC who meet to focus on both resolution and deposit insurance issues. In 2018, the working group discussed cross-border bank resolution and resolution of CCPs, among other topics.

FDIC staff also participated in the joint U.S.-EU Financial Regulatory Forum meetings, one held in Washington, D.C., in January 2018, and another held in Brussels in June 2018, with representatives of the EC and other participating European Union authorities, and staffs of the Department of Treasury, FRB, SEC, Commodities Futures Trading Commission (CFTC), and other participating U.S. agencies. Discussions addressed the outlook for financial regulatory reforms and future priorities, including those involving standards relevant to banks and cooperation on cross-border issues relevant to capital markets such as those involving CCPs.

In 2018, FDIC staff also participated in the inaugural meeting of the U.S.-UK Financial Regulatory Working Group in London, which was formed to support financial stability and related matters. This cooperation is especially important given transition in the UK's regulatory relationships as it withdraws from the European Union.

Systemic Resolution Advisory Committee

The FDIC created the Systemic Resolution Advisory Committee (SRAC) in 2011 to receive advice and recommendations on a broad range of issues regarding the resolution of systemically important financial companies pursuant to the Dodd-Frank Act. Over the years, the SRAC has advised the FDIC on a variety of issues, including:

- The effects on financial stability and economic conditions resulting from the failure of a SIFI,
- The ways in which specific resolution strategies would affect stakeholders and customers,
- The tools available to the FDIC to wind down the operations of a failed organization, and
- The tools needed to assist in cross-border relations with foreign regulators and governments when a SIFI has international operations.

Members of the SRAC have a wide range of experience, including managing complex firms, administering bankruptcies, and working in the legal system, accounting field, and academia. The last meeting of the SRAC was held on December 6, 2018. Agenda topics included updates to the Title I Living Wills, Title II Orderly Liquidation Authority, and international developments.

Financial Stability Oversight Council

The FSOC was created by the Dodd-Frank Act in July 2010 to promote the financial stability of the United States. It is composed of 10 voting members, including the Chairperson of the FDIC, and five non-voting members.

The FSOC's responsibilities include the following:

- Identifying risks to financial stability, responding to emerging threats in the financial system, and promoting market discipline;

- Identifying and assessing threats that institutions may pose to financial stability and, if appropriate, designating a nonbank financial company for supervision by the FRB subject to heightened prudential standards;
- Designating financial market utilities and payment, clearing, or settlement activities that are, or are likely to become, systemically important;
- Facilitating regulatory coordination and information sharing regarding policy development, rulemaking, supervisory information, and reporting requirements;
- Monitoring domestic and international financial regulatory proposals and advising Congress and making recommendations to enhance the integrity, efficiency, competitiveness, and stability of U.S. financial markets; and
- Producing annual reports describing, among other things, the Council's activities and potential emerging threats to financial stability.

In December 2018, the FSOC issued its 2018 annual report. Generally, at each of its meetings, the FSOC discusses various risk issues. In 2018, the FSOC meetings addressed, among other topics: the process for considering applications from bank holding companies or their successors under section 117 of the Dodd-Frank Act, the annual reevaluation of its designation of a nonbank financial company, financial market volatility, fluctuations in various asset classes (including cryptocurrency futures) and the impacts on financial institutions and markets, the progress of the United Kingdom's efforts to leave the European Union (i.e., "Brexit") and potential changes that could affect U.S. financial markets or institutions, and alternative reference rates, including the adoption of the Secured Overnight Financing Rate. Additionally, in early 2018, the Council established a working group to study a digital asset and distributed ledger technology. The working group brings together federal financial regulators whose jurisdictions are relevant to the oversight of digital assets and their underlying technologies.

DEPOSITOR AND CONSUMER PROTECTION

A major component of the FDIC's mission is to ensure that financial institutions treat consumers and depositors fairly, and operate in compliance with federal consumer protection, anti-discrimination, and community reinvestment laws. The FDIC also promotes economic inclusion to build and strengthen positive connections between insured financial institutions and consumers, depositors, small businesses, and communities.

Rulemaking and Guidance

Home Mortgage Disclosure Act

In March 2018, the FDIC and other FFIEC members revised *A Guide to HMDA Reporting: Getting It Right!* The guide was updated to reflect changes to the Home Mortgage Disclosure Act (HMDA) in October 2015, and further amendments made in 2017. The guide was designed to help financial institutions better understand the HMDA requirements, including data collection and reporting provisions.

In July 2018, the FDIC released a statement on the impact of the EGRRCPA on HMDA. EGRRCPA provides partial exemptions for some insured depository institutions and insured credit unions from certain HMDA requirements. The FDIC noted that the CFPB would be providing further guidance on the applicability of the EGRRCPA to HMDA data collected in 2018. The agencies retained their diagnostic examination approach regarding HMDA data collected in 2018 and reported in 2019.

Updated Examination Procedures

Updated examination procedures were communicated through revisions to the *FDIC Compliance Examination Manual* that is publicly available on the FDIC's website.

In February 2018:

- Truth in Lending Act (TILA) (V-1.1): Several TILA thresholds were updated. Specifically, the

escrow exemption and the appraisal exemption thresholds for higher priced mortgages were increased and dollar amounts for provisions in Regulation Z related to qualified mortgages and Home Ownership and Equity Protection Act loans were updated. The exemption threshold for consumer credit and lease transactions were also increased. The Credit Card Penalty Fee Safe Harbor remained the same as the prior year.

- Home Mortgage Disclosure Act (HMDA) (V-9.1): The asset size exemption thresholds were updated. Additional information regarding implementation of the 2015 HMDA Final Rule and subsequent rulemakings was added.
- Consumer Leasing Act (V-10.1): The exemption threshold for consumer credit and lease transactions was updated.
- Community Reinvestment Act (XI-1.1): Asset-based definitions for "small banks" and "intermediate small banks" were updated.

In May 2018:

- Truth in Lending Act (TILA) (V-1.1): The interagency TILA examination procedures were updated to reflect the 2016 amendments to the Mortgage Servicing Rule originally issued in 2013.
- Real Estate Settlement Procedures Act (RESPA) (V-3.1): The interagency RESPA examination procedures were updated to reflect the 2016 amendments to the Mortgage Servicing Rule originally issued in 2013.
- Servicemembers Civil Relief Act (SCRA) (V-11.1): The SCRA chapter was updated to reflect a statutory amendment extending the sunset date of certain expanded protections for members of uniformed services relating to mortgages and mortgage foreclosure available under the Servicemembers Civil Relief Act.

In June 2018:

- Retail Insurance Sales (IX-2.1): The Retail Insurance Sales chapter was updated to reflect changes to Part 343 to reflect the scope of the FDIC's current supervisory responsibilities as the appropriate federal banking agency for state savings associations that were previously regulated by the Office of Thrift Supervision.

In August 2018:

- Expedited Funds Availability Act (VI-1.1): The Expedited Funds Availability Act chapter was updated to reflect amendments to Regulation CC regarding check collections and return provisions.

Promoting Economic Inclusion

The FDIC is strongly committed to promoting access to a broad array of responsible and sustainable banking products to meet consumer's financial needs. In support of this goal, the FDIC:

- Conducts research on the unbanked and underbanked populations,
- Engages in research and development on models of products meeting the needs of lower-income consumers,
- Supports partnerships to promote consumer access to and use of banking services,
- Advances financial education and literacy, and
- Facilitates partnerships to support community and small business development.

Advisory Committee on Economic Inclusion

The Advisory Committee on Economic Inclusion (ComE-IN) provides the FDIC with advice and recommendations on important initiatives to expand access to mainstream banking services to underserved populations. This includes reviewing basic retail financial services (e.g., low-cost, safe transaction accounts; affordable small-dollar loans; savings accounts; and other services), as well as demand-side factors such as consumers' perceptions of mainstream financial institutions.

In October 2018, the ComE-IN held a meeting that included a discussion of the results from the 2017 *FDIC National Survey of Unbanked and Underbanked Households*. The committee also heard a presentation

on research from the United Kingdom's Financial Conduct Authority into the effectiveness of mobile text notifications sent to help consumers avoid unwanted fees. In addition, the committee heard a presentation on opportunities to extend economic inclusion in the banking system through youth employment programs.

In December 2018, the FDIC renewed the ComE-IN charter pursuant to the requirements of the Federal Advisory Committee Act (5 U.S.C. App. 2).

FDIC National Survey of Unbanked and Underbanked Households and Related Research

As part of its ongoing commitment to expanding economic inclusion in the United States, the FDIC works to fill the research and data gap regarding household participation in mainstream banking and the use of nonbank financial services. In addition, Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 mandates that the FDIC regularly report on underserved populations and bank efforts to bring individuals and families into the mainstream banking system. In response, the FDIC regularly conducts and reports on surveys of households and banks to inform the public and enhance the understanding of financial institutions, policymakers, regulators, researchers, academics, and others.

In 2018, the FDIC published results from the 2017 *FDIC National Survey of Unbanked and Underbanked Households*. In addition to updating key reference measurements on participation in the banking system, the report analyzed the methods through which households access their bank accounts, examined consumer use of various mobile banking functions, measured bank branch utilization, and examined household use of and demand for mainstream credit. This information provided a basis for identifying additional opportunities in the report to expand economic inclusion in the banking system. The FDIC made full results and respondent-level data available on https://economicinclusion.gov and also provided users with the ability to generate custom tabulations and to access a wide range of pre-formatted information, including new five-year estimates that provide additional granularity for state and local results. In addition, planning for the *2019 FDIC National Survey of Unbanked and Underbanked Households* is complete. A November 2018 notice in the *Federal Register* proposed the use of a revised questionnaire.

Community and Small Business Development and Affordable Mortgage Lending

In 2018, the FDIC provided technical assistance to banks and community organizations through more than 254 outreach events designed to increase shared knowledge and support collaboration between financial institutions and other community, housing, and small business development resources and to improve knowledge about CRA.

The FDIC's work emphasized sharing information to support bank efforts to prudently provide affordable mortgages, small business credit, and access to safe accounts and financial education.

As part of this effort, the FDIC also launched the Affordable Mortgage Lending Center, a website that houses a number of resources, including the *Affordable Mortgage Lending Guide*, a three-part guide designed to help community banks identify affordable mortgage products.

By year-end 2018, the Affordable Mortgage Lending Center had more than 15,000 subscribers. Materials from the center have been downloaded more than 12,000 times, and the site has had more than 68,000 page views since its inception.

In addition, the FDIC sponsored sessions with interagency partners covering basic and advanced CRA training for banks. The agencies also offered CRA basics for community-based organizations, as well as seminars on establishing effective bank/community collaborations in more than 27 communities. The FDIC also focused on encouraging community development initiatives in

rural communities. This work included workshops to highlight housing needs and programs, economic development programs, and community development financial institution collaborations, including those serving Native American communities.

Advancing Financial Education

Financial education helps consumers understand and use bank products effectively and sustain a banking relationship. In 2018, the FDIC continued to be a leader in developing high-quality, free financial education resources and pursuing collaborations to use those tools to educate the public.

The *Money Smart* series of products is available to organizations and individuals who want to teach financial concepts to consumers of all ages; individuals can also use the products to learn the concepts on their own. In particular, the newly updated *Money Smart for Adults* can help adults build the fundamental financial knowledge, skills, and confidence they need to use banking services effectively.

Youth Financial Education

The FDIC's Youth Banking Network provides opportunities for 66 banks to learn from one another and FDIC staff about promising strategies to teach financial education concepts to school-aged children using hands-on approaches.

In 2018, Youth Banking Network members participated in periodic learning calls to discuss helpful strategies and resources. For example, the April 2018 call highlighted practical approaches in conducting reality fairs, a strategy to help young people understand the tradeoffs of money choices that they can expect to experience as they enter adulthood.

The FDIC also engaged network participants to develop an operational toolkit of resources that can support the development of new youth savings collaborations. The FDIC drafted new resources for the network based on consultations with members that included:

- Answers to frequently asked questions about operating youth banking programs;
- A tip sheet to help banks communicate with parents and caregivers about the financial education provided through schools;
- A tip sheet to help banks communicate with teachers and administrators to secure an agreement to educate students;
- Strategies bankers can use to make financial education relevant when visiting classrooms to talk about money;
- A guide to reality fairs; and
- A guide to measuring outcomes of youth savings programs.

Many youth banking programs provide financial education training based on FDIC's *Money Smart for Young People* curriculum. As part of the FDIC's ongoing efforts to improve the curriculum, the FDIC obtained feedback from 26 educators who taught 83 *Money Smart for Young People* sessions as part of a special project. The participating educators overwhelmingly reported that the materials were structured well, easy to use, and initiated critical thinking among students. They also provided valuable suggestions for improvement, such as including more activities, updating the content, and reorganizing content to make it more useful.

The FDIC has begun to revise *Money Smart for Young People* based on this teacher feedback and other curriculum assessments with a goal of releasing a redesigned and strengthened curriculum tool in mid-2019. As part of our collaboration with the CFPB to promote youth financial capability, the FDIC is exploring how to integrate the CFPB's research-based *Building Blocks for Youth Financial Capability* activities into the updated materials.

Financial Education Outreach

Highlights of our outreach include collaboration with members of the Federal Financial Literacy and Education Commission (FLEC). During Financial Capability Month (April), the members shared and

promoted financial education resources using the #FinancialFuture2018 hashtag on social media. During a webinar hosted by FLEC, 200 participants learned about the FDIC's financial education resources.

The FDIC also collaborated with the U.S. Department of Education and other FLEC agencies on the "Financial Education in America's Schools" convening on April 27, 2018. This event promoted the exchange of ideas among state and local leaders and highlighted federal resources that support promising ideas.

In addition, the FDIC engaged with youth employment programs to use the *Money Smart* financial education materials to reach young workers. For example, FDIC staff visited a Job Corps site in Washington, D.C., to provide technical assistance, and later conducted a *Money Smart* train-the-trainer session for 10 staff members, and planned a banker roundtable.

The FDIC also developed a brochure for workforce program organizations that included tips on how to engage financial institutions to provide financial education or deposit account opportunities for young people. The FDIC joined with NCUA to engage more than 15 cities to participate in the *America Saves for Young Workers* initiative and learn how to connect young workers with basic deposit accounts at insured financial institutions.

From left, Salvador Arbujo, Tina Queen, April Atkins, and Alberto Cornejo discuss an activity during a Money Smart Train-the-Trainer session for the Community Affairs Branch staff.

The FDIC collaborated with the CFPB to release a Spanish translation of *Money Smart for Older Adults*. This material had been updated in 2017 to include information and resources to help older adults and their caregivers avoid financial exploitation through fraud and scams.

Finally, the format of the FDIC Consumer News has changed from a quarterly printed newsletter to an electronic monthly article release with printable versions. This allows for more frequent contact with consumers and consistent timely releases of information. It also provides an opportunity to attract new readers through the use of social media in an easy to read format for mobile devices. Through digitation the FDIC can measure and improve communication and outreach efforts.

Money Smart for Adults

In November 2018, the FDIC updated the *Money Smart for Adults* curriculum, building on insights gained from more than 17 years of experience with the *Money Smart* program. The revised curriculum, field-tested twice with community organizations and banks, features 14 modules that cover basic financial topics for use during group training or one-on-one work. Specifically, the updated curriculum features:

- Expanded content on topics such as mobile banking, reading a pay statement, renting an apartment, creative ways to save money, and updated information on standard topics such as credit reports and scores;
- Vibrant graphics and discrete sections so instructors can create effective training sessions by choosing topics of interest to training participants;
- "Try It" activities that provide engaging opportunities for participants to practice what they're learning during training in many contexts, including realistic scenarios;
- "Apply It" activities to help participants apply what they have learned to their own lives, either during or after training;

- "Key Takeaways" that briefly summarize the main message of each section;
- A "Take Action" section in every module that encourages participants to identify at least one thing they plan to do because of what they learned during the training;
- A new *Guide to Presenting Money Smart for Adults* that includes tools to help instructors present interactive, non-biased training using the updated curriculum, such as "roadmaps" to create customized training across modules, fun and engaging introductory activities to energize participants to learn, and detailed checklists to prepare for training; and
- An updated supplement with scenarios featuring individuals with disabilities thinking about a financial decision.

More than 1,500 organizations were trained on the updated materials before year-end, including during two national webinars, and plans are underway to provide training to many more organizations.

In addition, the FDIC plans to release a self-paced online learning tool based on the updated curriculum in 2020.

Money Smart for Small Business

The FDIC convened forums and roundtables featuring safe small business products and services, and provided information and technical assistance to support initiatives geared to increase access to capital for small businesses. In 2018, the FDIC completed 74 events and activities primarily focused on small business.

The Small Business Administration (SBA) and its partner networks – including the Small Business Development Centers, Women's Business Centers and SCORE Chapters – the Federal Trade Commission, CFPB, and other stakeholders collaborated with the FDIC to produce a revised version of the *Money Smart for Small Business* Credit and Banking Modules to address information needs in response to a lending marketplace where entrepreneurs may be unaware of safe and affordable financing options and may be engaging in financing with terms they do not fully understand.

Money Smart Alliance

The maximum potential of the curriculum is reached when banks collaborate with non-profits or other community-based organizations to bring *Money Smart* training to local communities, and, when appropriate, connect the training to banking products and services that respond to the needs of participants. Through the *Money Smart* Alliance, the FDIC recognizes organizations that commit to using *Money Smart* and that want to receive regular updates and training tips to enhance their use of the curriculum.

More than 450 organizations joined the Alliance during 2018, bringing the total members to 1,062. The Alliance experienced a 34 percent growth during 2018 compared to year-end 2017. This growth is largely attributable to the *Money Smart* Advance Team effort that built engagement with organizations that have or will deliver *Money Smart* to adults.

The FDIC engaged Alliance members through quarterly webinars and one-on-one calls. Alliance members also learned about the updated *Money Smart for Adults* curriculum (and had the opportunity for early review of the modules) starting in September 2018, several weeks before the broader public release.

Partnerships for Access to Mainstream Banking

The FDIC supported community development and economic inclusion partnerships at the local level by providing technical assistance and information resources throughout the country, with a focus on unbanked and underbanked households and low- and moderate-income communities. Community Affairs staff support economic inclusion through work with the Alliances for Economic Inclusion (AEI), *Bank On* initiatives, and other coalitions originated by local and state governments, and in collaboration with federal partners and many local and national non-profit organizations. The FDIC also partners with other

financial regulatory agencies to provide information and technical assistance on community development to banks and community leaders across the country.

In the 12 AEI communities and in other areas, the FDIC helped working groups of bankers and community leaders develop responses to the financial capability and services needs in their communities. To integrate financial capability into community services more effectively, the FDIC supported seminars and training sessions for community service providers and asset-building organizations, workshops for financial coaches and counselors, promotion of savings opportunities for low- and moderate-income people and communities, initiatives to expand access to savings accounts for all ages, outreach to bring larger numbers of people to expanded tax preparation assistance sites, and education for business owners to help them become bankable.

The FDIC worked across the nation, including in 16 targeted communities, to convene 12 forums and 19 roundtables that helped advance strategies to expand access to safe and affordable deposit accounts and engage unbanked and underbanked consumers. The FDIC provided technical assistance to bankers, coalition leaders, and others interested in understanding opportunities for banking services designed to meet the needs of the unbanked and underbanked.

In total, the FDIC sponsored more than 55 events, 80 outreach activities, and 13 speaking engagements and exhibitions during 2018 that provided opportunities for partners to collaborate on increasing access to bank accounts and credit services, opportunities to build savings and improve credit histories, and initiatives to significantly strengthen the financial capability of community service providers who directly serve consumers with low or moderate incomes and small businesses.

Consumer Complaints and Inquiries

The FDIC helps consumers by receiving, investigating, and responding to consumer complaints about FDIC-supervised institutions and answering inquiries about banking laws and regulations, FDIC operations, and other related topics. In addition, the FDIC provides analytical reports and information on complaint data for internal and external use, and conducts outreach activities to educate consumers.

The FDIC recognizes that consumer complaints and inquiries play an important role in the development of strong public and supervisory policy. Assessing and resolving these matters helps the agency identify trends or problems affecting consumer rights, understand the public perception of consumer protection issues, formulate policy that aids consumers, and foster confidence in the banking system by educating consumers about the protection they receive under certain consumer protection laws and regulations.

Consumer Complaints by Product and Issue

The FDIC receives complaints and inquiries by telephone, fax, U.S. mail, email, and online through the FDIC's website. In 2018, the FDIC handled 18,334 written and telephonic complaints and inquiries. Of the 12,016 involving written correspondence, 5,306 were referred to other agencies and 6,710 were handled by the FDIC. The FDIC responded to 97 percent of written complaints within time frames established by corporate policy, and acknowledged 100 percent of all consumer complaints and inquiries within 14 days. As part of the complaint and inquiry handling process, the FDIC works with the other federal financial regulatory agencies to ensure that complaints and inquiries are forwarded to the appropriate agencies for response. The FDIC carefully analyzes the topics and issues involved in complaints about FDIC-supervised institutions. The number of complaints received about a specific bank topic and issue can serve as a red flag to prompt further review of practices that may raise consumer protection or supervisory concerns.

In 2018, the four most frequently identified topics in consumer complaints and inquiries about FDIC-supervised institutions concerned checking accounts (19 percent), consumer line of credit/installment

loans (15 percent), credit cards consumer/business (14 percent), and residential real estate (10 percent). Issues most commonly cited in correspondence about checking accounts were concerns with account discrepancies or transaction errors, and fees and service charges. Consumer loan complaints and inquiries most frequently described issues with reporting erroneous account information and collection practices, while consumer correspondence about credit cards most often raised issues regarding reporting of erroneous account information and billing disputes/error resolution. Correspondence regarding residential real estate related to disclosures, inaccurate appraisal reports, and loan modifications.

The FDIC also investigated 63 Fair Lending complaints alleging discrimination during 2018. The number of discrimination complaints investigated has fluctuated over the past several years but averaged approximately 67 complaints per year between 2013 and 2018. Over this period, 47 percent of the complaints investigated alleged discrimination based on the race, color, national origin, or ethnicity of the applicant or borrower; 14 percent related to discrimination allegations based on age; 13 percent involved the sex of the borrower or applicant; and 8 percent concerned disability.

Consumer refunds generally involve the financial institution offering a voluntary credit to the consumer's account, often as a direct result of complaint investigations and identification of a banking error or violation of law. Through December 2018, consumers received more than $448,500 in refunds from financial institutions as a result of the assistance provided by the FDIC's Consumer Response Center.

Public Awareness of Deposit Insurance Coverage

An important part of the FDIC's deposit insurance mission is to ensure that bankers and consumers have access to accurate information about the FDIC's rules for deposit insurance coverage. The FDIC has an extensive deposit insurance education program consisting of seminars for bankers, electronic tools for estimating deposit insurance coverage, and written and electronic information targeted to both bankers and consumers.

The FDIC continued its efforts to educate bankers and consumers about the rules and requirements for FDIC insurance coverage during 2018. For example, as of December 31, 2018, the FDIC conducted four telephone seminars for bankers on deposit insurance coverage, reaching an estimated 4,473 bankers participating at approximately 1,278 bank sites throughout the country. The FDIC also features deposit insurance training videos that are available on the FDIC's website and YouTube channel.

As of December 31, 2018, the FDIC Call Center received 96,703 telephone calls, of which approximately 38,681 were identified as deposit insurance-related inquiries. The FDIC Call Center handled approximately 20,102 inquiries and Deposit Insurance subject matter experts (SMEs) handled 18,579 complex telephone calls identifying a total of 50,548 deposit insurance issues. In addition to telephone inquiries about deposit insurance coverage, the FDIC received 1,339 written inquiries from consumers and bankers identifying a total of 2,248 deposit insurance issues. Of these inquiries, 100 percent received responses within two weeks, as required by corporate policy.

RECEIVERSHIP MANAGEMENT

The FDIC has the unique mission of protecting depositors of insured banks and savings associations. No depositor has ever experienced a loss on the insured amount of his or her deposits in an FDIC-insured institution due to a failure. When an institution closes, its chartering authority—the state for state-chartered institutions and the OCC for national banks and federal savings associations—typically appoints the FDIC as receiver, responsible for resolving the failed institution.

The FDIC employs a variety of strategies and business practices to resolve a failed institution. These

strategies and practices are typically associated with either the resolution process or the receivership process. Depending on the characteristics of the institution, the FDIC may utilize several of these methods to ensure the prompt and smooth payment of deposit insurance to insured depositors, to minimize the impact on the DIF, and to speed dividend payments to uninsured depositors and other creditors of the failed institution.

The resolution process involves evaluating and marketing a failing institution, soliciting and accepting bids for the sale of the institution, determining which bid (if any) is least costly to the DIF, and working with the acquiring institution through the closing process.

To minimize disruption to the local community, the resolution process must be performed as quickly and efficiently as possible. The FDIC uses two basic resolution methods: purchase and assumption transactions and deposit payoffs.

The purchase and assumption (P&A) transaction is the most commonly used resolution method. Typically, in a P&A transaction, a healthy institution purchases certain assets and assumes certain liabilities of the failed institution. However, a variety of P&A transactions can be used. Because each failing bank situation is different, P&A transactions provide flexibility to structure deals that result in obtaining the highest value for the failed institution. For each possible P&A transaction, the acquirer may acquire either all of the failing institution's deposits or only the insured portion of the deposits.

From 2008 through 2013, loss sharing was offered by the FDIC in connection with P&A transactions. In a loss-share transaction, the FDIC, as receiver, agrees to share losses on certain assets with the acquirer, absorbing a significant portion (typically 80 percent) of future losses on assets that have been designated as "shared-loss assets" for a specific period of time (e.g., five to 10 years). The economic rationale for these transactions is that keeping assets in the banking sector and resolving them over an extended period of time can produce a better net recovery than the FDIC's immediate liquidation of these assets. However, in recent years as the markets improved and functioned more normally with both capital and liquidity returning to the banking industry, acquirers have become more comfortable with bidding on failing bank franchises without the loss-sharing protection.

The FDIC continues to monitor compliance with shared-loss agreements by validating the appropriateness of loss-share claims; reviewing acquiring institutions' efforts to maximize recoveries; ensuring consistent application of policies and procedures across both shared-loss and legacy portfolios; and confirming that the acquirers have sufficient internal controls, including adequate staff, reporting, and recordkeeping systems. At year-end 2018, there were 81 receiverships with active shared-loss agreements and $9.6 billion in total shared-loss covered assets.

Financial Institution Failures

During 2018, there were no institution failures, compared to eight failures in 2017.

There were no losses on insured deposits, and no appropriated funds were required to pay insured deposits.

The following chart provides a comparison of failure activity over the past three years.

FAILURE ACTIVITY 2016 – 2018
Dollars in Billions

	2018	2017	2016
Total Institutions	0	8	5
Total Assets of Failed Institutions*	$0.0	$5.1	$0.3
Total Deposits of Failed Institutions*	$0.0	$4.7	$0.3
Estimated Loss to the DIF	$0.0	$1.2	$0.04

*Total assets and total deposits data are based on the last quarterly report filed by the institution prior to failure.

Asset Management and Sales

As part of its resolution process, the FDIC tries to sell as many assets as possible to an assuming institution. Assets that are retained by the receivership are promptly valued and liquidated in order to maximize the return to the receivership estate. For 95 percent of failed institutions, at least 90 percent of the book value of marketable assets is marketed for sale within 90 days of an institution's failure for cash sales, and within 120 days for structured sales.

Cash sales of assets for 2018 totaled $38.6 million in book value.

As a result of the FDIC's marketing and collection efforts, the book value of assets in inventory decreased by $1.1 billion (48 percent) in 2018.

The following chart shows the beginning and ending balances of these assets by asset type.

ASSETS-IN-LIQUIDATION INVENTORY BY ASSET TYPE
Dollars in Millions

Asset Type	12/31/18	12/31/17	12/31/16
Securities	$50	$160	$183
Consumer Loans	0	8	8
Commercial Loans	34	50	19
Real Estate Mortgages	67	139	85
Other Assets/Judgments	151	260	268
Owned Assets	3	47	40
Net Investments in Subsidiaries	19	157	100
Structured and Securitized Assets	854	1,449	2,614
TOTAL	**$1,178**	**$2,271**	**$3,317**

Receivership Management Activities

The FDIC, as receiver, manages failed banks and their subsidiaries with the goal of expeditiously winding up their affairs. The oversight and prompt termination of receiverships help to preserve value for the uninsured depositors and other creditors by reducing overhead and other holding costs. Once the assets of a failed institution have been sold and its liabilities extinguished, the final distribution of any proceeds is made, and the FDIC terminates the receivership. In 2018, the number of receiverships under management decreased by 66 (19.5 percent) to 272.

The following chart shows overall receivership activity for the FDIC in 2018.

RECEIVERSHIP ACTIVITY	
Active Receiverships as of 12/31/17	338
New Receiverships	0
Receiverships Terminated	66
Active Receiverships as of 12/31/18	272

Protecting Insured Depositors

The FDIC's ability to attract healthy institutions to assume deposits and purchase assets of failed banks and savings associations at the time of failure minimizes the disruption to customers and allows assets to be returned to the private sector immediately. Assets remaining after resolution are liquidated by the FDIC in an orderly manner, and the proceeds are used to pay receivership creditors, including depositors whose accounts exceeded the insurance limit. During 2018, receiverships paid dividends of $4.6 million to depositors whose accounts exceeded the insurance limit.

Professional Liability and Financial Crimes Recoveries

The FDIC investigates bank failures to identify potential claims against directors, officers, securities underwriters and issuers, fidelity bond insurance carriers, appraisers, attorneys, accountants, mortgage loan brokers, title insurance companies, and other professionals who may have caused losses to insured depository institutions and FDIC receiverships. The FDIC will pursue meritorious claims that are expected to be cost-effective.

During 2018, the FDIC recovered $116.2 million from professional liability claims and settlements. The FDIC did not authorize any professional liability lawsuits during 2018. As of December 31, 2018, the FDIC's caseload included 62 open institutions (not including institutions open for collection only), 21 professional liability lawsuits (down from 24 at year-end 2017), nine residential mortgage malpractice and fraud lawsuits (down from 21), and open investigations in 27 claim areas out of 18 institutions. The FDIC seeks to complete professional liability investigations and make decisions expeditiously on whether to pursue potential professional liability claims. The FDIC completed investigations and made decisions on 92 percent of the investigations related to failures that reached the 18-month point after the institution's failure date in 2018, thereby exceeding its annual performance target.

As part of the sentencing process, for those convicted of criminal wrongdoing against an insured institution that later failed, a court may order a defendant to pay restitution or to forfeit funds or property to the receivership. The FDIC, working with the U.S. Department of Justice, in connection with criminal restitution and forfeiture orders issued by federal courts and independently in connection with restitution orders issued by the state courts, collected $8.3 million in 2018. As of December 31, 2018, there were 2,346 active restitution and forfeiture orders (decreased from 4,163 at year-end 2017). This includes 101 orders held by the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund, (i.e., orders arising out of failed financial institutions that were in receivership or conservatorship by the FSLIC or the Resolution Trust Corporation).

ENHANCING THE FDIC's IT SECURITY

Information technology (IT) is an essential component in virtually all FDIC business processes. This integration with the business provides opportunities for efficiencies but also requires an awareness of potential risks. In 2018, the Chief Information Officer Organization focused its efforts on addressing cybersecurity risk, strengthening infrastructure resiliency, and improving IT governance.

Addressing FDIC Cybersecurity Risk

The FDIC's Information Security Program is critical to the agency's ability to carry out the mission of maintaining stability and public confidence in the nation's financial system. The Information Security Program relies on effective and efficient cybersecurity practices that are designed to detect, identify, respond, and recover from cybersecurity incidents as rapidly as possible with minimal disruption to stakeholders, and to protect against future incidents. The FDIC continues to strengthen and expand its cybersecurity program and practices.

On May 11, 2017, the President issued an Executive Order 13800 entitled *Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure.* The Executive Order builds on existing statutory requirements under the Federal Information Security Modernization Act of 2014, which establishes information security obligations for Federal agencies (including the FDIC). Subsequent to the issuance of the Executive Order, OMB issued *Reporting Guidance for Executive Order on Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure*, M-17-25 (May 19, 2017) to provide agency heads with instructions for meeting the risk management reporting requirements in the Executive Order. To fulfill these requirements and strengthen cybersecurity, the FDIC:

- Reorganized the Information Security function by creating the Office of the Chief Information Security Officer which includes a new Deputy Chief Information Security Officer position and a new Privacy Section Chief position that report directly to the Chief Information Security Officer;
- Implemented the Cybersecurity Framework (CSF) according to OMB M-17-25 requirements;

- Conducted the CSF cybersecurity assessment to capture, assess, report, and monitor the current state of FDIC cybersecurity controls;
- Established an agency-wide Incident Response Plan;
- Updated the agency's Breach Response Plan to address new Federal policy requirements; and
- Developed and submitted the Annual Risk and FISMA Reports for 2018.

Cybersecurity continues to be a top management priority at the FDIC. During 2018, the FDIC has taken a number of actions to enhance and improve our risk management practices.

We developed and implemented an *Information Security and Privacy Strategic Plan* to guide our efforts through 2021. This plan aligns with the *FDIC Information Technology Strategic Plan: 2017 – 2020*, and defines the core strategies needed to sustain and improve the FDIC's cybersecurity posture.

To operationalize the strategy, the FDIC implemented a risk management function and assigned program, and executive-level officials to manage information risk. Ensuring that leaders are accountable for the effective planning, implementation, and monitoring of risk management enables the FDIC to identify, prioritize, communicate, and sustain the information security and privacy controls required to mitigate cybersecurity risks across the agency.

Strengthening Infrastructure Resiliency

Infrastructure resilience requires that the FDIC be able to provide and maintain an acceptable level of service in the face of threats and challenges to normal computer and network operations. Threats and challenges for services can range from simple misconfigurations, unforeseen large scale natural disasters, to targeted attacks. The FDIC works to ensure that its infrastructure can anticipate, absorb, adapt to, and/or rapidly recover from a potentially disruptive event.

In 2018, the FDIC launched a comprehensive initiative to expand and enhance its existing disaster recovery and business continuity capabilities to ensure that designated IT systems and applications that support mission-essential functions can be recovered within targeted timeframes. As part of this multi-year project, the FDIC is migrating key IT systems and applications to a new and larger backup data center (BDC). This effort will help mitigate the current risk posed by the geographic proximity of the FDIC's BDC to its primary data center.

The new facility will enhance security capabilities that are not available at the current recovery site, including enterprise logging, vulnerability identification, file integrity monitoring, forensic analysis, threat management, and security operational risk management. These security enhancements will allow security operations and other key security functions to be carried out at the new site without interruption, in the event of a failure or other contingency at the primary data center. The new BDC will also provide flexibility and scalability for future growth and increased computing requirements. It will also accommodate potential future changes in the configuration of the network and provide connectivity to cloud providers.

Additionally, the new BDC will provide for the rapid restoration (failover) of mission-critical business applications. Restoration processes will be automated to minimize manual intervention, and equipment will be maintained in a higher availability mode to enable faster restoration. As a result, the FDIC will be better positioned to preempt and rapidly recover from an outage or threat.

Improving IT Governance

The purpose of IT governance at the FDIC is to ensure that IT resources are used effectively and efficiently to achieve the FDIC's goals and mission. IT governance enables the alignment of the FDIC's strategies and goals with IT services, infrastructure, and environment.

During 2018, the FDIC implemented changes to enhance, consolidate, and streamline IT governance processes. The Security and Enterprise Architecture Technical Advisory Board (SEATAB) was established, (replacing three other groups) and became the one governance body that was chartered to oversee and manage all architecture and technical decisions around FDIC's technology infrastructure, platforms, systems, and applications.

The implementation of the SEATAB was just one of the changes made in IT governance. The Chief Information Officer (CIO) Council charter was also revised to include increased business division membership. The CIO Council is the principal advisory body to the CIO, with members having the delegated authority to agree to and authorize IT decisions on behalf of the division or the office that the member represents.

Additionally, an IT Operating Commitee Sub-Charter was established to reflect its strategic role in IT governance. The Operating Committee also assumed the responsibilities of the Intelligence and Critical Infrastructure Protection Committee (ICIPC). The Operating Committee, as the executive leadership of FDIC divisions and offices, is consulted and informed on corporate-wide IT matters. This ensures that there is consensus on those IT decisions that impact business priorities and corporate-wide operations and that these decisions are in the best interest of the FDIC.

The changes made in IT governance, along with the use of the IT Decision Framework which serves as the foundation for IT architecture, development policies, and standards decisions ensure the integration and alignment of the FDIC information technology and security management processes with the agency's strategic planning.

Insider Threat and Counterintelligence Program

An insider threat is a concern or risk posed to the FDIC that involves an individual who misuses or betrays, wittingly or unwittingly, his or her authorized access to FDIC resources. This individual may have access to sensitive or personally identifiable information, as well as privileged access to critical infrastructure or business sensitive information (e.g., bank data).

The FDIC established the Insider Threat and Counterintelligence Program (ITCIP) in September 2016. ITCIP is a defensive program focused on preventing and mitigating internal and external threats and risks posed to FDIC personnel, facilities, assets, resources, and both national security and sensitive information by insider and foreign intelligence entities. These threats may involve inadvertent disclosures and intentional breaches of sensitive information by personnel who may be compromised by external sources, disgruntled, seeking personal gain, intending to damage the reputation of the FDIC, or acting for some other reason. ITCIP leverages both physical and logical safeguards to minimize the risk, likelihood, and impact of an executed insider threat.

The National Insider Threat Task Force (NITTF) initiated its Federal Program Review in January 2017 to ensure the FDIC's implementation of the White House minimum standards. NITTF's independent evaluation showed that FDIC's ITCIP met all minimum standards and achieved full operating capability. NITTF also noted that FDIC's ITCIP leads the federal government in several best practices that affect the entire workforce and serves as a model program for other independent regulators and non-Title 50 departments and agencies. The FDIC is moving forward with several important new steps to further advance the agency's ITCIP during 2019 and beyond.

MINORITY AND WOMEN INCLUSION

Consistent with the provisions of the Dodd-Frank Act, the FDIC continues to enhance its longstanding commitment to promote diversity and inclusion in employment opportunities and all business areas of the agency. The Office of Minority and Women Inclusion (OMWI) supports the FDIC's mission

through outreach efforts to ensure the fair inclusion and utilization of minority- and women-owned businesses, law firms, and investors in contracting and investment opportunities.

The FDIC relies on contractors to help meet its mission. The FDIC awarded 166 (29.4 percent) contracts to minority- and women-owned businesses (MWOBs) out of a total of 565 issued. The FDIC awarded contracts with a combined value of $499.5 million in 2018, of which 24.5 percent ($122.5 million) were awarded to MWOBs, compared to 18.5 percent for all of 2017. The FDIC paid $98.0 million of its total contract payments (22.8 percent) to MWOBs, under 299 MWOB contracts.

The Legal Division's legal contracting program endeavors to maximize the participation of both minority- and women-owned law firms (MWOLFs) and minority and women partners and associates employed at majority owned firms (Diverse Attorneys) in legal contracting. This approach is consistent with Section 342 of the Dodd-Frank Act that encourages diversity and inclusion at all levels. For both MWOLFs and Diverse Attorneys, FDIC legal matters provide important learning and professional client development opportunities that can be quite meaningful to career advancement. For the year 2018, the Legal Division has an aggregate 26.4 percent diversity and inclusion participation rate in legal contracting as set forth below.

The FDIC made 29 referrals to MWOLFs, which accounted for 28 percent of all legal referrals. Total payments to MWOLFs were $3.7 million in 2018, which is 7.7 percent of all payments to outside counsel, compared to 11 percent for all of 2017. In 2018, Diverse Attorneys earned $8.9 million in legal fees, which is 18.6 percent of all payments to outside counsel. Taken together, FDIC paid $12.7 million to MWOLF firms and Diverse Attorneys out of a total of $48.0 million dollars spent on outside counsel services in 2018. This number represents 26.4 percent of total outside counsel fees.

The keystone of the Legal Division diversity and inclusion outreach is the FDIC's partnerships with minority bar associations and specialized stakeholder organizations. In 2018, the FDIC Legal Division participated in six minority bar association conferences and three stakeholder events in support of maximizing the participation of MWOLFs and Diverse Attorneys in FDIC legal contracting. Stakeholder event participation included service on several panels and committees, such as the National Association of Minority and Women Owned Law Firms (NAMWOLF) Advisory Council, the NAMWOLF Events Committee, the NAMWOLF Law Firm Admissions Committee, and the NAMWOLF Diversity and Inclusion Initiative.

In 2018, NAMWOLF formally recognized the FDIC as a principal member of, and major contributor to, its Inclusion Initiative, a collaborative program among law departments of major corporations designed to increase the participation of MWOLF firms in legal contracting. Members of the Inclusion Initiative have spent over $1 billion with MWOLF firms since its inception. The FDIC participates in the Inclusion Initiative along with major corporations.

The Legal Division recognizes the value of involving FDIC in-house counsel in its MWOLF outreach. In 2018, the Legal Division collaborated with a top rated New York MWOLF firm to present a full day continuing legal education seminar on cutting edge legal issues in the capital markets area to FDIC attorneys who are responsible for engaging outside counsel. The program was designed to showcase the MWOLF's expertise while providing the firm with valuable opportunities to build meaningful relationships with FDIC oversight attorneys in the field offices and at the headquarters office. In its ongoing diversity and inclusion efforts, the Legal Division continues to seek more opportunities to highlight the expertise of MWOLF firms in accordance with the needs of the FDIC at any given point in time. Also in 2018, the Legal Division presented an MWOLF Utilization Workshop for the closed bank oversight attorneys at the Dallas Regional

Office. These attorneys are responsible for assigning work to MWOLFs. The program included a review of the prior year's MWOLF statistics, planned projects, question and answers, and the solicitation of ideas from the attorneys for improving the selection and retention of outside counsel.

Pursuant to Section 342 of the Dodd-Frank Act, which requires an assessment of legal contractors' internal workforce diversity practices, the Legal Division conducted nine compliance reviews of the top-billing law firms (both non-minority-owned and MWOLFs). The reviews included discussions that focused on associate and partner recruitment, retention rates of minority and women associates and partners, and partnership offers to minority and women attorneys working on FDIC legal matters. The site visit discussions are instrumental in gathering diversity data for ongoing monitoring efforts as well as the exchange of ideas to enhance diversity initiatives.

In addition to the outreach efforts noted above, the Legal Division continues to provide technical assistance to other related government agencies on developing MWOLF outreach programs that mirror FDIC's program. The Legal Division evaluated and approved six new MWOLF applications in 2018. Firms from various geographic areas were added to the FDIC List of Counsel Available in order to be eligible to receive legal contracting work.

In 2018, the FDIC participated in a total of 33 business expos, one-on-one matchmaking sessions, and panel presentations. At these events, FDIC staff provided information and responded to inquiries regarding FDIC business opportunities for minorities and women. In addition to targeting MWOBs and MWOLFs, these efforts also targeted veteran-owned and small disadvantaged businesses. Vendors were provided with the FDIC's general contracting procedures, prime contractors' contact information, and forecasts of possible upcoming solicitations. Also, vendors were encouraged to register through the FDIC's Contractor Resource List (the principal database for vendors interested in doing business with the FDIC). The Office of Minority and Women Inclusion (OMWI) Director and Chief of the Minority and Women Business and Diversity Inclusion Branch made panel presentations and attended a number of these events to enhance OMWI's outreach efforts.

The FDIC, in conjunction with the other OMWI agencies, partnered with the Minority Business Development Agency Business Center of San Antonio, University of Texas at San Antonio, and the Institute for Economic Development to host the *Smart Contacts – Smart Contracts* technical assistance event. The presenters shared information about tools for competing for government contracting opportunities and developing winning proposals. The OMWI Director, Chief of the Minority and Women Business Diversity Inclusion Branch, and leaders from other OMWI financial agencies made panel presentations to explain contracting opportunities. The OMWI agencies also hosted a panel on *Doing Business with the OMWI Agencies*. The final panel presentation consisted of representatives from various local minority/women trade organizations sharing their outreach mission and outreach services with the 199 attendees. In addition, the sponsoring agencies and various procurement trade organizations exhibited at the event.

Information regarding the Minority and Women Outreach Program can be found on the FDIC's website at www.fdic.gov/mwop.

In addition, FDIC worked closely with the OMWIs of the OCC, FRB, CFPB, NCUA, SEC, and the Department of Treasury to further implement Section 342(b)(2)(C) of the Dodd-Frank Act, which requires the agencies to develop standards to assess the diversity policies and practices of the entities they regulate. After publishing Joint Standards in 2015, the FDIC developed an electronic diversity self-assessment instrument to assist FDIC-regulated financial institutions in systematically assessing their diversity programs.

The FDIC started collecting voluntary self-assessments from its regulated financial institutions in 2017. The FDIC received 95 of 805 (11.8 percent) self-assessments in 2017 for the 2016 reporting period. In 2018, the FDIC received 137 of 820 (16.7 percent) self-assessments from its regulated institutions for the 2017 reporting period. OMWI analyzed the self-assessment responses for the 2016 reporting period and posted this analysis on its internal and external web sites.

While the FDIC is pleased with the increased participation of financial institutions in 2018, it will continue to take steps to increase voluntary participation by augmenting outreach at banking conferences, developing financial institution diversity marketing materials, and making improvements to the program website.

On September 13, 2018, the FDIC along with the OMWI agencies hosted an outreach event entitled "Financial Regulatory Agencies Diversity Summit" in New York, New York. The 109 individuals that attended the event were from various financial institutions that are regulated by the financial agencies. The event focused on the value of conducting voluntary self-assessments, annually submitting assessment results to OMWI Directors, and making diversity information transparent to the public. The OMWI agencies also outlined how the self-assessments will be used to identify leading trends and establish benchmarks that will assist financial institutions in assessing and enhancing their diversity programs. The OMWI FDIC Director, along with Directors from other OMWI financial agencies, made a panel presentation concerning the analysis of self-assessments received for the 2016 and 2017 reporting periods and associated issues.

INTERNATIONAL OUTREACH

The FDIC played a leading role during the year in supporting the global development of deposit insurance, bank supervision, and bank resolution systems. This included working closely with regulatory and supervisory authorities from around the world, as well as international standard-setting bodies and multilateral organizations, such as the International Association of Deposit Insurers (IADI), the Association of Supervisors of Banks of the Americas (ASBA), the Basel Committee on Banking Supervision (BCBS), the Financial Stability Board (FSB), the International Monetary Fund (IMF), and The World Bank. The FDIC engaged with foreign regulatory counterparts by hosting visiting officials, conducting training seminars, delivering technical assistance abroad, and fulfilling the commitments of FDIC membership in international organizations. The FDIC also advanced policy objectives with key jurisdictions by participating in high-level interagency dialogues.

International Association of Deposit Insurers

FDIC officials and subject matter experts provided continuing support for IADI programs in 2018. This included chairing IADI's Training and Conference Technical Committee, which provided support for developing and facilitating technical assistance workshops for the Middle Eastern, African, European, Eurasian, Asia-Pacific, Caribbean, North American, and Latin American regions of IADI. The FDIC also participated in reviews of IADI members' self-assessments of compliance with the *Core Principles* and assisted in the development of a *Core Principles* workshop for officials and senior management of deposit insurance and other financial regulatory authorities in conjunction with the IADI Annual General Meeting. Led and supported by FDIC executives and senior staff, IADI technical assistance and training activities reached approximately 500 participants during 2018.

Association of Supervisors of Banks of the Americas

Senior FDIC staff chaired the ASBA Training and Technical Committee in 2018, which designs and implements ASBA's training strategy, promoting the adoption of sound banking supervision policies and practices among its members. The training program reached more than 500 member participants in 2018.

Basel Committee on Banking Supervision

The FDIC supports and contributes to the development of international standards, guidelines, and sound practices for prudential regulation and supervision of banks through its longstanding membership in BCBS. The contribution includes actively participating in many of the committee groups, working groups, and task forces established by BCBS to carry out its work, which focused on policy development, supervision and implementation, macroprudential supervision, accounting, and consultation.

International Capacity Building

During the year, FDIC provided direct assistance to many foreign organizations through the provision of technical expertise. These engagements included providing staff experts to advise the European Union's Single Resolution Board, the De Nederlandsche Bank, and the IMF. FDIC also hosted more than 170 visiting regulators and other government officials from 20 countries during the year, including in-depth technical visits from the Indonesia Deposit Insurance Corporation and Bank of Ghana. Two sessions of *FDIC 101: An Introduction to Deposit Insurance, Bank Supervision, and Resolutions,* a structured learning program for senior foreign officials, were offered in 2018 and attended by 65 participants from more than 45 organizations. FDIC's Corporate University also makes supervisory courses available to foreign participants and trained 129 students this year.

EFFECTIVE MANAGEMENT OF STRATEGIC RESOURCES

The FDIC recognizes that it must effectively manage its human, financial, and technological resources to successfully carry out its mission and meet the performance goals and targets set forth in its annual performance plan. The FDIC must align these strategic resources with its mission and goals and deploy them where they are most needed to enhance its operational effectiveness and minimize potential financial risks to the DIF. Following are the FDIC's major accomplishments in improving operational efficiency and effectiveness during 2018.

Human Capital Management

The FDIC's human capital management programs are designed to attract, train, develop, reward, and retain a highly skilled, diverse, and results-oriented workforce. In 2018, the FDIC workforce planning initiatives emphasized the need to plan for employees to fulfill current and future capability and leadership needs. This focus ensures that the FDIC has a workforce positioned to meet today's core responsibilities and prepared to fulfill its mission in the years ahead.

Strategic Workforce Planning and Readiness

During 2018, the FDIC continued to develop and implement integrated workforce development strategies to address workforce challenges and opportunities. The effort is focused on four broad objectives:

- Attract and develop talented employees across the agency;
- Enhance the capabilities of employees through training and diverse work experiences;
- Encourage employees to engage in active career development planning and seek leadership roles in the FDIC; and
- Build on and strengthen the FDIC's operations to support these efforts.

In 2018, the FDIC continued to develop the programs and processes to help meet its long-term workforce and leadership needs. The FDIC is committed to building and growing its talent pipeline to ensure succession challenges are met. To that end, the agency expanded its succession planning efforts in 2018 to include a survey of 4,000 non-supervisory employees occupying positions that could feed into the agency's longer-term pipeline for management

positions. The survey was designed to identify the population's aspiration to higher-level and management roles, their perceptions of readiness for these opportunities, and actions they have taken to prepare themselves.

Nearly two-thirds of mid-level non-supervisor respondents reported that they were interested in seeking higher-level positions at the FDIC. Of these, more than three-quarters believe they have the talents and skills for higher-level positions and plan to apply for promotions and details over the next five years, demonstrating their ongoing interest in career development. The FDIC also learned that less than half of respondents have discussed their career interests and plans with a manager.

As a result of the survey findings, the FDIC plans to further develop the longer-term pipeline of the FDIC's aspiring leadership pool. Plans include supervisory training in succession management techniques, developing resources to support career planning discussions between managers and staff, and promoting emerging manager coaching through FDIC's Career Management Program.

The FDIC's strategic workforce planning initiatives require a long-term and sustained focus to identify future workforce and leadership needs, assess current capabilities, support aspiration to management and leadership roles, and develop and source the talent to meet emerging workforce needs. Through further development of its human capital strategies, the FDIC will work to ensure that the future FDIC workforce is as prepared, capable, and dedicated as the one it has today.

Corporate Employee Program

The FDIC's Corporate Employee Program (CEP) sponsors the development of newly hired Financial Institution Specialists (FIS) in entry-level positions. During the first-year rotation within the program, FIS gain experience and knowledge in the core business of the FDIC, including DCP, RMS, DRR, and DIR. At the conclusion of the rotation period, FIS are placed within RMS or DCP, where they continue their career path to become commissioned examiners.

The CEP is an essential part of the FDIC's ability to provide highly-trained staff for its core occupational series, and ultimately for its future senior technical and leadership positions. Nearly 500 individuals are active in this multi-discipline program. Since the CEP's inception in 2005, more than 980 employees have become commissioned examiners after successfully completing the program's requirements.

The FDIC continues to sponsor the Financial Management Scholars Program (FMSP), an additional hiring source for the CEP. Participants in the FMSP complete an internship with the FDIC the summer following the conclusion of their junior year in college. The program serves as an additional avenue to recruit talent.

Employee Learning and Development

The FDIC is committed to training and developing its employees throughout their careers to enhance technical proficiency and leadership capacity, supporting career progression and succession management. The FDIC is focused on developing and implementing comprehensive curricula for its business lines to prepare employees to meet new challenges. Such training, which includes both classroom and online instruction for maximum flexibility, is a critical part of workforce and succession planning as more experienced employees become eligible for retirement.

The FDIC also offers a comprehensive leadership development program that combines core courses, electives, and other enrichment opportunities to develop employees at all levels. From new employees to new executives, the FDIC provides employees with targeted leadership development opportunities that align with key leadership competencies. In addition to a broad array of internally developed and administered courses, the FDIC also provides its employees with funds and/or time to participate in external training to support their career development.

Employee Engagement

The FDIC continually evaluates its human capital programs and strategies to ensure that it remains an employer of choice, and that all of its employees are fully engaged and aligned with the mission. The FDIC uses the Federal Employee Viewpoint Survey mandated by Congress to solicit information from employees, and takes an agency-wide approach to address key issues identified in the survey. The FDIC continues to rank near the top in all categories of the Partnership for Public Service *Best Places to Work in the Federal Government®* list for mid-size federal agencies. Effective leadership is the primary factor driving employee satisfaction and commitment in the federal workplace, according to a report by the Partnership for Public Service.

Photo credit: Partnership for Public Service

Deputy to the Chairman and Chief Operating Officer and Director of the Division of Administration Arleas Upton Kea receives the award for Best Places to Work in the Federal Government for mid-sized federal agencies from Max Stier, President and CEO of Partnership for Public Service.

The FDIC engages employees through formal mechanisms such as the Workplace Excellence program, Chairman's Diversity Advisory Councils, and Employee Resource Groups; and informally through working groups, team discussions, and daily employee-supervisor interactions. Employee engagement plays an important role in empowering employees and helps maintain, enhance, and institutionalize a positive workplace environment.

Employee Resource Groups bring people together.

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II. PERFORMANCE RESULTS SUMMARY

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SUMMARY OF 2018 PERFORMANCE RESULTS BY PROGRAM

The FDIC successfully achieved 26 of the 37 annual performance targets established in its 2018 Annual Performance Plan. Seven of the targets were not applicable since there were no bank failures in 2018. Two targets were substantially achieved, which involved conducting consumer compliance and CRA examinations and implementing corrective programs within timeframes established by FDIC policy. Two targets were not met, which involved finalizing rulemaking in regard to regulatory capital standards. There were no instances in which 2018 performance had a material adverse effect on the successful achievement of the FDIC's mission or its strategic goals and objectives regarding its major program responsibilities.

Additional key accomplishments are noted below.

PROGRAM AREA	PERFORMANCE RESULTS
Insurance	♦ Updated the FDIC Board of Directors on loss, income, and reserve ratio projections for the Deposit Insurance Fund (DIF) at the March and December meetings. ♦ Briefed the FDIC Board of Directors in March and December on progress in meeting the goals of the Restoration Plan. ♦ Completed reviews of the recent accuracy of the contingent loss reserve. ♦ Researched and analyzed emerging risks and trends in the banking sector, financial markets, and the overall economy to identify issues affecting the banking industry and the DIF. ♦ Provided policy research and analysis to FDIC leadership in support of the implementation of financial industry regulation, as well as support for testimony and speeches. ♦ Published economic and banking information and analyses through the *FDIC Quarterly, FDIC Quarterly Banking Profile (QBP), FDIC State Profiles, Perspectives*, and the Center for Financial Research *Working Papers.* ♦ Operated the Electronic Deposit Insurance Estimator (EDIE), which had 777,655 user sessions in 2018.

PROGRAM AREA	PERFORMANCE RESULTS
Supervision	♦ A total of 398 institutions were assigned a composite CAMELS rating of 2 and had Matters Requiring Board Attention (MRBAs) identified in the examination reports. To ensure that MRBAs are being appropriately addressed at these institutions, the FDIC timely reviews progress reports and follows up with bank management as needed. More specifically, within six months of issuing the examination reports, the FDIC conducted appropriate follow up and review of these MRBAs at 383 (96 percent) of these institutions. Follow up and review of the MRBAs at the remaining 15 institutions (4 percent) occurred more than six months after issuing the examination reports primarily due to delayed responses from some banks as well as the need for additional information in order to complete a full review. ♦ Participated on the examinations of selected financial institutions, for which the FDIC is not the primary federal regulator, to assess risk to the DIF. ♦ Implemented the strategy outlined in the work plan approved by the Advisory Committee on Economic Inclusion to support the expanded availability of Safe Accounts and the responsible use of technology, to expand banking services to the underbanked.
Receivership Management	♦ Terminated at least 75 percent of new receiverships that are not subject to loss-share agreements, structured sales, or other legal impediments, within three years of the date of failure. ♦ Continued to enhance the FDIC's ability to administer deposit insurance claims at large insured deposit institutions. ♦ Evaluated within 120 days all termination offers from Limited Liability Corporation (LLC) managing members to determine whether to pursue dissolution of those LLCs that are determined to be in the best overall economic interest of the participating receiverships.

PERFORMANCE RESULTS BY PROGRAM AND STRATEGIC GOAL

2018 INSURANCE PROGRAM RESULTS

Strategic Goal: *Insured depositors are protected from loss without recourse to taxpayer funding.*

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
1	Respond promptly to all insured financial institution closings and related emerging issues.	Number of business days after an institution failure that depositors have access to insured funds.	Depositors have access to insured funds within one business day if the failure occurs on a Friday.	N/A – NO FAILURES. SEE PG. 47.
			Depositors have access to insured funds within two business days if the failure occurs on any other day of the week.	N/A – NO FAILURES. SEE PG. 47.
		Insured depositor losses resulting from a financial institution failure.	Depositors do not incur any losses on insured deposits.	N/A – NO FAILURES. SEE PG. 47.
			No appropriated funds are required to pay insured depositors.	N/A – NO FAILURES. SEE PG. 47.
2	Disseminate data and analyses on issues and risks affecting the financial services industry to bankers, supervisors, the public, and other stakeholders on an ongoing basis.	Scope and timeliness of information dissemination on identified or potential issues and risks.	Disseminate results of research and analyses in a timely manner through regular publications, ad hoc reports, and other means.	ACHIEVED. SEE PG. 61.
			Undertake industry outreach activities to inform bankers and other stakeholders about current trends, concerns, and other available FDIC resources.	ACHIEVED. SEE PG. 61.
3	Adjust assessment rates, as necessary, to achieve a DIF reserve ratio of at least 1.35 percent of estimated insured deposits by September 30, 2020.	Updated fund balance projections and recommended changes to assessment rates.	Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2018, and December 31, 2018.	ACHIEVED. SEE PGS. 13,14,61.
			Recommend changes to deposit insurance assessment rates to the FDIC Board of Directors as necessary.	ACHIEVED. SEE PGS. 13,14,61.
		Demonstrated progress in achieving the goals of the Restoration Plan.	Provide progress reports to the FDIC Board of Directors by June 30, 2018, and December 31, 2018.	ACHIEVED. SEE PGS. 13,14,61.

2018 INSURANCE PROGRAM RESULTS (continued)

Strategic Goal: *Insured depositors are protected from loss without recourse to taxpayer funding.*

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
4	Expand and strengthen the FDIC's participation and leadership role in supporting robust and effective deposit insurance programs, resolution strategies, and banking systems worldwide.	Activities to expand and strengthen engagement with strategically important foreign jurisdictions and key international organizations and associations, and to advance the FDIC's global leadership and participation on deposit insurance, bank supervision, resolution practices and international financial safety net issues.	Foster strong relationships with international banking regulators, deposit insurers, and other relevant authorities by engaging with strategically important jurisdictions and organizations on international financial safety net issues.	ACHIEVED. SEE PGS. 54-55.
			Provide leadership and expertise to key international organizations and associations that promote sound deposit insurance and effective bank supervision and resolution practices.	ACHIEVED. SEE PGS. 54-55.
		Provision of technical assistance and training to foreign counterparts.	Promote international standards and expertise in financial regulatory practices and stability through the provision of technical assistance and training to global financial system authorities.	ACHIEVED. SEE PGS. 54-55.
5	Market failing institutions to all known qualified and interested potential bidders.	Scope of qualified and interested bidders solicited.	Contact all known qualified and interested bidders.	N/A – NO FAILURES. SEE PG. 47.
6	Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts.	Timeliness of responses to deposit insurance coverage inquiries.	Respond within two weeks to 95 percent of written inquiries from consumers and bankers about FDIC deposit insurance coverage.	ACHIEVED. SEE PGS. 45-46.
		Initiatives to increase public awareness of deposit insurance coverage changes.	Conduct at least four telephone or in-person seminars for bankers on deposit insurance coverage.	ACHIEVED. SEE PG. 46.

2018 SUPERVISION PROGRAM RESULTS

Strategic Goal: *FDIC-insured institutions are safe and sound.*

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
1	Conduct on-site risk management examinations to assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions. When problems are identified, promptly implement appropriate corrective programs, and follow up to ensure that identified problems are corrected.	Percentage of required examinations conducted in accordance with statutory requirements and FDIC policy.	Conduct all required risk management examinations within the timeframes prescribed by statute and FDIC policy.	ACHIEVED. SEE PGS. 14-15.
		Follow-up actions on identified problems.	For at least 90 percent of institutions that are assigned a composite CAMELS rating of 2 and for which the examination report identifies "Matters Requiring Board Attention" (MRBAs), review progress reports and follow up with the institution within six months of the issuance of the examination report to ensure that all MRBAs are being addressed.	ACHIEVED. SEE PGS. 14-15.
2	Assist in protecting the infrastructure of the U.S. banking system against terrorist financing, money laundering, and other financial crimes.	Percentage of required examinations conducted in accordance with statutory requirements and FDIC policy.	Conduct all BSA examinations within the timeframes prescribed by statute and FDIC policy.	ACHIEVED. SEE PGS. 14-15.
3	Ensure that regulatory capital standards promote banks' resilience under stress and the confidence of their counterparties.	Simplification of capital standards for community banks.	Finalize a Notice of Proposed Rulemaking (NPR) for a simplified risk-based capital framework for community banks.	NOT ACHIEVED. SEE PG. 31.
		U.S. implementation of internationally agreed regulatory standards.	Finalize the Basel III Net Stable Funding Ratio (NSFR).	NOT ACHIEVED. SEE PG. 25.
4	Implement strategies to promote enhanced cybersecurity and business continuity within the banking industry.	Enhance the cybersecurity awareness and preparedness of the banking industry.	Continue implementation of a horizontal review program that focuses on the information technology risks in large and complex supervised institutions and in technology service providers.	ACHIEVED. SEE PG. 18.
			Continue implementation of the Cybersecurity Examination Program for the most significant service provider examinations.	ACHIEVED. SEE PG. 18.

2018 SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: *Consumers' rights are protected, and FDIC-supervised institutions invest in their communities.*

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
1	Conduct on-site CRA and consumer compliance examinations to assess compliance with applicable laws and regulations by FDIC-supervised depository institutions. When violations are identified, promptly implement appropriate corrective programs and follow up to ensure that identified problems are corrected.	Percentage of examinations conducted in accordance with the timeframes prescribed by FDIC policy.	Conduct all required examinations within the timeframes established by FDIC policy.	**SUBSTANTIALLY ACHIEVED. SEE PG. 16.**
		Implementation of corrective programs.	Conduct visits and/or follow-up examinations in accordance with established FDIC policies to ensure that the requirements of any required corrective program have been implemented and are effectively addressing identified violations.	**SUBSTANTIALLY ACHIEVED. SEE PG. 16.**
2	Effectively investigate and respond to written consumer complaints and inquiries about FDIC-supervised financial institutions.	Timely responses to written consumer complaints and inquiries.	Respond to 95 percent of written consumer complaints and inquiries within timeframes established by policy, with all complaints and inquiries receiving at least an initial acknowledgement within two weeks.	**ACHIEVED. SEE PGS. 45-46.**
3	Promote economic inclusion and access to responsible financial services through supervisory, research, policy, and consumer/community affairs initiatives.	Completion of planned initiatives.	Publish the results of the *2017 FDIC National Survey of Unbanked and Underbanked Households.*	**ACHIEVED. SEE PG. 41.**
			Complete planning for the *2019 FDIC National Survey of Unbanked and Underbanked Households.*	**ACHIEVED. SEE PG. 41.**
			Continue to promote broader access to and use of low-cost transaction and savings accounts to build banking relationships that will meet the needs of unbanked and underbanked households by increasing the current level of engagement from 10 communities to 15 communities.	**ACHIEVED. SEE PGS. 41-42**
			Launch the revised *Money Smart for Adults* curriculum.	**ACHIEVED. SEE PGS. 43-44.**

2018 SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: *Large and complex financial institutions are resolvable in an orderly manner under bankruptcy.*

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
1	Identify and address risks in large, complex financial institutions, including those designated as systemically important.	Compliance with the statutory and regulatory requirements under Title I of the Dodd-Frank Act and Section 360.10 of the FDIC Rules and Regulations.	In collaboration with the FRB, continue to review all resolution plans subject to the requirements of Section 165(d) of Dodd-Frank to ensure their conformance to statutory and other regulatory requirements. Identify potential impediments in those plans to resolution under the Bankruptcy Code.	**ACHIEVED.** **SEE PGS. 34-36.**
			Continue to review all resolution plans subject to the requirements of Section 360.10 of the Insured Depository Institutions (IDI) Rule to ensure their conformance to statutory and other regulatory requirements. Identify potential impediments to resolvability under the Federal Deposit Insurance (FDI) Act.	**ACHIEVED.** **SEE PGS. 36-37.**
		Risk monitoring of large, complex financial institutions, bank holding companies, and designated nonbanking firms.	Conduct ongoing risk analysis and monitoring of large, complex financial institutions to understand and assess their structure, business activities, risk profiles, and resolution and recovery plans.	**ACHIEVED.** **SEE PG. 37.**

2018 RECEIVERSHIP MANAGEMENT PROGRAM RESULTS

Strategic Goal: *Resolutions are orderly and receiverships are managed effectively.*

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
1	Value, manage, and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return.	Percentage of the assets marketed for each failed institution.	For at least 95 percent of insured institution failures, market at least 90 percent of the book value of the institution's marketable assets within 90 days of the failure date (for cash sales) and within 120 days of the date that the pool of similar assets is of sufficient size to bring to market (for structured sales).	N/A – NO FAILURES. SEE PG. 47.
2	Manage the receivership estate and its subsidiaries toward an orderly termination.	Timely termination of new receiverships.	Terminate at least 75 percent of new receiverships that are not subject to loss-share agreements, structured sales, or other legal impediments within three years of the date of failure.	N/A – NO FAILURES. SEE PG. 47.
3	Conduct investigations into all potential professional liability claim areas for all failed insured depository institutions, and decide as promptly as possible to close or pursue each claim, considering the size and complexity of the institution.	Percentage of investigated claim areas for which a decision has been made to close or pursue the claim.	For 80 percent of all claim areas, make a decision to close or pursue professional liability claims within 18 months of the failure of an insured depository institution.	ACHIEVED. SEE PG. 49.
4	Ensure the FDIC's operational readiness to administer the resolution of large financial institutions, including those designated as systemically important.	Refinement of resolution plans and strategies.	Continue to refine plans to ensure the FDIC's operational readiness to administer the resolution of large financial institutions under Title II of the Dodd-Frank Act, including those nonbank financial companies designated as systemically important.	ACHIEVED. SEE PG. 37.
		Continued cross-border coordination and cooperation in resolution planning.	Continue to deepen and strengthen bilateral working relationships with key foreign jurisdictions.	ACHIEVED. SEE PGS. 37-38.

PRIOR YEARS' PERFORMANCE RESULTS

Refer to the respective full Annual Report of prior years, located on the FDIC's website for more information on performance results for those years.

Shaded areas indicate no such target existed for that respective year.

INSURANCE PROGRAM RESULTS

Strategic Goal: *Insured depositors are protected from loss without recourse to taxpayer funding.*

ANNUAL PERFORMANCE GOALS AND TARGETS	2017	2016	2015	2014	2013
1. Respond promptly to all insured financial institution closings and related emerging issues.					
♦ Depositors have access to insured funds within one business day if the failure occurs on a Friday.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
♦ Depositors have access to insured funds within two business days if the failure occurs on any other day of the week.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
♦ Depositors do not incur any losses on insured deposits.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
♦ No appropriated funds are required to pay insured depositors.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
2. Disseminate data and analyses on issues and risks affecting the financial services industry to bankers, supervisors, the public, and other stakeholders on an ongoing basis.					
♦ Disseminate results of research and analyses in a timely manner through regular publications, ad hoc reports, and other means.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
♦ Undertake industry outreach activities to inform bankers and other stakeholders about current trends, concerns, and other available FDIC resources.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	
♦ Industry outreach activities are undertaken to inform bankers and other stakeholders about current trends, concerns, and other available FDIC resources.					ACHIEVED.
3. Adjust assessment rates, as necessary, to achieve a DIF reserve ratio of at least 1.35 percent of estimated insured deposits by September 30, 2020.					
♦ Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2017, and December 31, 2017.	ACHIEVED				
♦ Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2016, and December 31, 2016.		ACHIEVED.			

INSURANCE PROGRAM RESULTS (continued)					
Strategic Goal: *Insured depositors are protected from loss without recourse to taxpayer funding.*					
Annual Performance Goals and Targets	**2017**	**2016**	**2015**	**2014**	**2013**
♦ Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2015, and December 31, 2015.			ACHIEVED.		
♦ Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2014, and December 31, 2014.				ACHIEVED.	
♦ Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2013, and December 31, 2013.					ACHIEVED.
♦ Provide progress reports to the FDIC Board of Directors by June 30, 2017, and December 31, 2017.	ACHIEVED.				
♦ Provide progress reports to the FDIC Board of Directors by June 30, 2016, and December 31, 2016.		ACHIEVED.			
♦ Provide progress reports to the FDIC Board of Directors by June 30, 2015, and December 31, 2015.			ACHIEVED.		
♦ Provide progress reports to the FDIC Board of Directors by June 30, 2014, and December 31, 2014.				ACHIEVED.	
♦ Provide progress reports to the FDIC Board of Directors by June 30, 2013, and December 31, 2013.					ACHIEVED.
♦ Recommend changes to deposit insurance assessment rates to the FDIC Board of Directors as necessary.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
4. Expand and strengthen the FDIC's participation and leadership role in supporting robust and effective deposit insurance programs, resolution strategies, and banking systems worldwide.					
♦ Foster strong relationships with international banking regulators, deposit insurers, and other relevant authorities by engaging with strategically important jurisdictions and organizations on key international financial safety net issues.	ACHIEVED.	ACHIEVED.			
♦ Provide leadership and expertise to key international organizations and associations that promote sound deposit insurance and effective bank supervision and resolution practices.	ACHIEVED.				
♦ Promote international standards and expertise in financial regulatory practices and stability through the provision of technical assistance and training to global financial system authorities.	ACHIEVED.				

INSURANCE PROGRAM RESULTS (continued)

Strategic Goal: *Insured depositors are protected from loss without recourse to taxpayer funding.*

Annual Performance Goals and Targets	2017	2016	2015	2014	2013
♦ Continue to play leadership roles within key international organizations and associations and promote sound deposit insurance, bank supervision, and resolution practices.		ACHIEVED.			
♦ Promote continued enhancement of international standards and expertise in financial regulatory practices and stability through the provision of technical assistance and training to global financial system authorities.		ACHIEVED.			
♦ Develop and foster closer relationships with bank supervisors in the reviews through the provision of technical assistance and by leading governance efforts in the Association of Supervisors of Banks of the Americas (ASBA).		ACHIEVED.			
♦ Maintain open dialogue with counterparts in strategically important jurisdictions, international financial organizations and institutions, and partner U.S. agencies; and actively participate in bilateral interagency regulatory dialogues.			ACHIEVED.		
♦ Maintain open dialogue with counterparts in strategically important jurisdictions, international financial organizations and institutions, and partner U.S. agencies.				ACHIEVED.	
♦ Maintain open dialogue with counterparts in strategically important countries as well as international financial institutions and partner U.S. agencies.					ACHIEVED.
♦ Maintain a leadership position in the International Association of Deposit Insurers (IADI) by conducting workshops and performing assessments of deposit insurance systems based on the methodology for assessment of compliance with the IADI *Core Principles for Effective Deposit Insurance Systems (Core Principles)*, developing and conducting training on priority topics identified by IADI members, and actively participating in IADI's Executive Council and Standing Committees.			ACHIEVED.	ACHIEVED.	

INSURANCE PROGRAM RESULTS (continued)

Strategic Goal: *Insured depositors are protected from loss without recourse to taxpayer funding.*

Annual Performance Goals and Targets	2017	2016	2015	2014	2013
♦ Conduct workshops and assessments of deposit insurance systems based on the methodology for assessment of compliance with Basel Committee on Bank Supervisions (BCBS) and the International Association of Depositor Insurers (IADI) *Core Principles for Effective Deposit Insurance Systems.*					ACHIEVED.
♦ Maintain open dialogue with the Association of Supervisors of Banks of the Americas (ASBA) to develop and foster relationships with bank supervisors in the region by providing assistance when necessary.			ACHIEVED.		
♦ Engage with authorities responsible for resolutions and resolutions planning in priority foreign jurisdictions and contribute to the resolution-related agenda of the Financial Stability Board (FSB) through active participation in the FSB's Resolution Steering Group (ReSG).			ACHIEVED.		
♦ Engage with authorities responsible for resolutions and resolutions planning in priority foreign jurisdictions.				ACHIEVED.	
♦ Contribute to the resolution-related agenda of the Financial Stability Board (FSB) through active participation in the FSB's Resolution Steering Group and its working groups.				ACHIEVED.	
♦ Actively participate in bilateral interagency regulatory dialogues.				ACHIEVED.	
♦ Support visits, study tours, secondments, and longer-term technical assistance and training programs for representatives for foreign jurisdictions to strengthen their deposit insurance organizations, central banks, bank supervisors, and resolution authorities.			ACHIEVED.	ACHIEVED.	ACHIEVED.
5. Market failing institutions to all known qualified and interested potential bidders.					
♦ Contact all known qualified and interested bidders.	ACHIEVED	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.

INSURANCE PROGRAM RESULTS (continued)

***Strategic Goal:** Insured depositors are protected from loss without recourse to taxpayer funding.*

Annual Performance Goals and Targets	2017	2016	2015	2014	2013
6. Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts.					
♦ Respond within two weeks to 95 percent of written inquiries from consumers and bankers about FDIC deposit insurance coverage.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
♦ Conduct at least four telephone or in-person seminars for bankers on deposit insurance coverage.	ACHIEVED.	ACHIEVED.	ACHIEVED.		
♦ Conduct at least 12 telephone or in-person seminars for bankers on deposit insurance coverage.				ACHIEVED.	
♦ Conduct at least 15 telephone or in-person seminars for bankers on deposit insurance coverage.					ACHIEVED.
♦ Complete and post on the FDIC website videos for bankers and consumers on deposit insurance coverage.			ACHIEVED.		

SUPERVISION PROGRAM RESULTS

Strategic Goal: *FDIC-insured institutions are safe and sound.*

ANNUAL PERFORMANCE GOALS AND TARGETS	2017	2016	2015	2014	2013
1. Conduct on-site risk management examinations to assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions. When problems are identified, promptly implement appropriate corrective programs, and follow up to ensure that identified problems are corrected.					
♦ Conduct all required risk management examinations within the time frames prescribed by statute and FDIC policy.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
♦ For at least 90 percent of institutions that are assigned a composite CAMELS rating of 2 and for which the examination report identifies “Matters Requiring Board Attention” (MRBAs), review progress reports and follow up with the institution within six months of the issuance of the examination report to ensure that all MRBAs are being addressed.	ACHIEVED.	ACHIEVED.	ACHIEVED.		
♦ Implement formal or informal enforcement actions within 60 days for at least 90 percent of all institutions that are newly downgraded to a composite Uniform Financial Institutions Rating of 3, 4, or 5.				SUBSTANTIALLY ACHIEVED.	SUBSTANTIALLY ACHIEVED.
2. Assist in protecting the infrastructure of the U.S. banking system against terrorist financing, money laundering, and other financial crimes.					
♦ Conduct all Bank Secrecy Act examinations within the time frames prescribed by statute and FDIC policy.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
3. More closely align regulatory capital standards with risk and ensure that capital is maintained at prudential levels.					
♦ Issue a Notice of Proposed Rulemaking (NPR) for a simplified capital framework for community banks.	ACHIEVED.				
♦ Issue a final rule implementing the Basel III Net Stable Funding Ratio.	NOT ACHIEVED.				
♦ Publish in 2016, a Notice of (proposed) Rulemaking on the Basel III Net Stable Funding Ratio.		ACHIEVED.			
♦ Publish by December 31, 2015, an interagency Notice of Proposed Rulemaking on implementation of the Basel III Net Stable Funding Ratio.			NOT ACHIEVED.		

SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: *FDIC-insured institutions are safe and sound.*

Annual Performance Goals and Targets	2017	2016	2015	2014	2013
♦ Finalize Basel III reporting instructions in time to ensure that institutions that are using the advanced approaches can implement Basel III in the first quarter of 2014 and that all IDIs can implement the standardized approach in the first quarter of 2015.				ACHIEVED.	
♦ Publish a final Basel Liquidity Coverage Rule, in collaboration with other regulators by December 31, 2014.				ACHIEVED.	
♦ Publish a final rule implementing the Basel III capital accord in collaboration with other regulators, by December 31, 2014.				ACHIEVED.	
♦ Finalize, in collaboration with other regulators, an enhanced U.S. supplementary leverage ratio standard by December 31, 2014.				ACHIEVED.	
♦ Complete by June 30, 2013, the review of comments and impact analysis of June 2012 proposed interagency changes to regulatory capital rules.					ACHIEVED.
♦ Issue by December 31, 2013, final regulatory capital rules.					ACHIEVED.
4. Implement strategies to promote enhanced information security, cybersecurity, and business continuity within the banking industry.					
♦ Continue implementation of a horizontal review program that focuses on the IT risks in large and complex supervised institutions and Technology Service Providers (TSPs).	ACHIEVED.				
♦ Revise and implement by December 31, 2017, the Cybersecurity Examination Tool for TSPs.	ACHIEVED.				
♦ Establish a horizontal review program that focuses on the IT risks in large and complex supervised institutions and Technology Service providers (TSPs).		ACHIEVED.			
♦ Complete by June 30, 2016, examiner training and implement by September 30, 2016, the new IT examination work program to enhance focus on information security, cybersecurity, and business continuity.		ACHIEVED.			
♦ Enhance the technical expertise of the IT supervisory workforce.			ACHIEVED.		
♦ Working with FFIEC counterparts, update and strengthen IT guidance to the industry on cybersecurity preparedness.			ACHIEVED.		

SUPERVISION PROGRAM RESULTS (continued)					
Strategic Goal: FDIC-insured institutions are safe and sound.					
Annual Performance Goals and Targets	2017	2016	2015	2014	2013
♦ Working with the FFIEC counterparts, update and strengthen IT examination work programs for institutions and technology service providers (TSPs) to evaluate cybersecurity preparedness and cyber resiliency.			ACHIEVED.		
♦ Improve information sharing on identified technology risks among the IT examination workforces of FFIEC member agencies.			ACHIEVED.		
♦ In coordination with the FFIEC, implement recommendations to enhance the FDIC's supervision of the IT risks at insured depository institutions and their technology service providers.				ACHIEVED.	
5. Identify and address risks in financial institutions designated as systemically important.					
♦ Conduct ongoing risk analysis and monitoring of SIFIs to understand their structure, business activities and risk profiles, and their resolution and recovery capabilities.				ACHIEVED.	
♦ Complete, in collaboration with the Federal Reserve Board and in accordance with statutory and regulatory timeframes, all required actions associated with the review of resolution plans submitted by financial companies subject to the requirements of Section 165 (d) of the Dodd-Frank Act.				ACHIEVED.	
♦ Complete, in collaboration with the FRB and in accordance with statutory and regulatory time frames, all required actions associated with the review of Section 165(d) resolution plans submitted under Title 1 of DFA.					ACHIEVED.
♦ Hold at least one meeting of the Systemic Resolution Advisory Committee to obtain feedback on resolving SIFIs.				ACHIEVED.	
♦ Hold at least one meeting of the Systemic Resolution Advisory Committee to obtain feedback on resolving systemically important financial companies.					ACHIEVED.

SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: *Consumers' rights are protected, and FDIC-supervised institutions invest in their communities.*

ANNUAL PERFORMANCE GOALS AND TARGETS	2017	2016	2015	2014	2013
1. Conduct on-site CRA and consumer compliance examinations to assess compliance with applicable laws and regulations by FDIC-supervised depository institutions. When violations are identified, promptly implement appropriate corrective programs and follow up to ensure that identified problems are corrected.					
♦ Conduct all required examinations within the time frames established by FDIC policy.	ACHIEVED.	ACHIEVED.	ACHIEVED.		
♦ Conduct visits and/or follow-up examinations in accordance with established FDIC policies to ensure that the requirements of any required corrective program have been implemented and are effectively addressing identified violations.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
♦ Conduct 100 percent of required examinations within the time frames established by FDIC policy.				SUBSTAN-TIALLY-ACHIEVED.	ACHIEVED.
2. Effectively investigate and respond to written consumer complaints and inquiries about FDIC-supervised financial institutions.					
♦ Respond to 95 percent of written consumer complaints and inquiries within time frames established by policy, with all complaints and inquiries receiving at least an initial acknowledgment within two weeks.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
3. Promote economic inclusion and access to responsible financial services through supervisory, research, policy, and consumer/community affairs initiatives.					
♦ Revise and administer the 2017 *FDIC National Survey of Unbanked and Underbanked Households.*	ACHIEVED.				
♦ Continue and expand efforts to promote broader awareness of the availability of low-cost transaction accounts consistent with the FDIC's Model SAFE transaction account template.	ACHIEVED.				
♦ Complete and pilot a revised, instructor-led *Money Smart for Adults* product.	ACHIEVED.				
♦ Publish the results of the 2015 *FDIC National Survey of Unbanked and Underbanked Household.*		ACHIEVED.			
♦ Complete and present to the Advisory Committee on Economic Inclusions (ComE-IN) a report on the pilot Youth Savings Program (YSP) conducted jointly with the CFPB.		ACHIEVED.			

SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: FDIC-insured institutions are safe and sound.

Annual Performance Goals and Targets	2017	2016	2015	2014	2013
♦ Revise, test, and administer the 2015 *FDIC National Survey of Unbanked and Underbanked Household.*			ACHIEVED.		
♦ Publish the results of the 2013 *FDIC National Survey of Unbanked and Underbanked Households* (conducted jointly with the U.S. Census Bureau).				ACHIEVED.	
♦ Conduct the third biennial FDIC *National Survey of Unbanked and Underbanked Households* (conducted jointly with the U.S. Census Bureau).					ACHIEVED.
♦ Initiate work on the Survey of Banks' Efforts to Serve the Unbanked and Underbanked.					DEFERRED.
♦ Promote broader awareness of the availability of low-cost transaction accounts consistent with the FDIC's Model SAFE transaction account template.		ACHIEVED.			
♦ Support the Advisory Committee on Economic Inclusion in expanding the availability and awareness of low-cost transaction accounts, consistent with the FDIC's SAFE account template.			ACHIEVED.		
♦ Implement the strategy outlined in the work plan approved by the Advisory Committee on Economic Inclusion to support the expanded availability of SAFE accounts and the responsible use of technology, to expand banking services to the underbanked.				ACHIEVED.	ACHIEVED.
♦ In partnership with the Consumer Financial Protection Bureau, enhance financial capability among school-age children through (1) development and delivery of tailored financial education materials; (2) resources and outreach targeted to youth, parents, and teachers; and (3) implementation of a pilot youth savings program.			ACHIEVED.		
♦ Facilitate opportunities for banks and community stakeholders to address issues concerning access to financial services, community development, and financial education.				ACHIEVED.	

SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: *Large and complex financial institutions are resolvable in an orderly manner under bankruptcy.*

ANNUAL PERFORMANCE GOALS AND TARGETS	2017	2016	2015	2014	2013
1. Identify and address risks in large and complex financial institutions, including those designated as systemically important.					
♦ In collaboration with the FRB continue to review all resolution plans subject to the requirements of Section 165(d) of the DFA to ensure their conformance to statutory and other regulatory requirements. Identify potential impediments in those plans to resolution under the Bankruptcy Code.	ACHIEVED.	ACHIEVED.			
♦ Continue to review all resolution plans subject to the requirements of Section 360.10 of the IDI rule to ensure their conformance to statutory and other regulatory time frames. Identify potential impediments to resolvability under the Federal Deposit Insurance (FDI) Act.	ACHIEVED.	ACHIEVED.			
♦ Conduct ongoing risk analysis and monitoring of large, complex financial institutions to understand and assess their structure, business activities, risk profiles, and resolution and recovery plans.	ACHIEVED.	ACHIEVED.			
♦ Conduct ongoing risk analysis and monitoring of large, complex financial institutions to understand and assess their structure, business activities, risk profiles, and resolution and recovery plans.			ACHIEVED.		
♦ Complete, in collaboration with the FRB and in accordance with statutory and regulatory time frames, a review of resolution plans submitted by individual financial companies subject to the requirements of section 165 (d) of DFA and Part 360.10 of the FDIC Rules and Regulations.			ACHIEVED.		

RECEIVERSHIP MANAGEMENT PROGRAM RESULTS

Strategic Goal: *Resolutions are orderly and receiverships are managed effectively.*

ANNUAL PERFORMANCE GOALS AND TARGETS	2017	2016	2015	2014	2013
1. Value, manage, and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return.					
♦ For at least 95 percent of insured institution failures, market at least 90 percent of the book value of the institution's marketable assets within 90 days of the failure date (for cash sales) or 120 days of the failure date (for structured sales).	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
2. Manage the receivership estate and its subsidiaries toward an orderly termination.					
♦ Terminate at least 75 percent of new receiverships that are not subject to loss-share agreements, structured sales, or other legal impediments, within three years of the date of failure.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	
♦ Terminate within three years of the date of failure, at least 75 percent of new receiverships that are not subject to loss-share agreements, structured sales, or other legal impediments.					ACHIEVED.
3. Conduct investigations into all potential professional liability claim areas for all failed insured depository institutions, and decide as promptly as possible, to close or pursue each claim, considering the size and complexity of the institution.					
♦ For 80 percent of all claim areas, make a decision to close or pursue professional liability claims within 18 months of the failure of an insured depository institution.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
4. Ensure the FDIC's operational readiness to administer the resolution of large financial institutions, including those designated as systemically important.					
♦ Continue to refine plans to ensure the FDIC's operational readiness to administer the resolution of large financial institutions under Title II of the DFA, including those nonbank financial companies designated as systemically important.	ACHIEVED.				

RECEIVERSHIP MANAGEMENT PROGRAM RESULTS (continued)

Strategic Goal: *Resolutions are orderly and receiverships are managed effectively.*

Annual Performance Goals and Targets	2017	2016	2015	2014	2013
♦ Refine plans to ensure the FDIC's operational readiness to administer the resolution of large financial institutions including those designated as systemically important.		ACHIEVED.			
♦ Continue to deepen and strengthen bilateral working relationships with key foreign jurisdictions.	ACHIEVED.	ACHIEVED.			
♦ Hold a meeting of the Systemic Resolution Advisory Committee in early 2016 to obtain feedback on resolving SIFIs.		ACHIEVED.			
5. Ensure the FDIC's operational readiness to resolve a large, complex financial institution using the orderly liquidation authority in Title II of the DFA.					
♦ Update and refine firm-specific resolutions plans and strategies and develop operational procedures for the administration of a Title II receivership.			ACHIEVED.		
♦ Prepare for an early 2016 meeting of the Systemic Resolution Advisory Committee to obtain feedback on resolving SIFIs.			ACHIEVED.		
♦ Continue to deepen and strengthen bilateral working relationships with key foreign jurisdictions.		ACHIEVED	ACHIEVED.		

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III. FINANCIAL HIGHLIGHTS

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In its role as insurer of bank and savings association deposits, the FDIC promotes the safety and soundness of insured depository institutions. The following financial highlights address the performance of the Deposit Insurance Fund.

DEPOSIT INSURANCE FUND PERFORMANCE

The DIF balance was $102.6 billion at December 31, 2018, compared to $92.7 billion at year-end 2017. Assessment revenue, including assessment surcharges on large banks, drove the growth in the DIF. Comprehensive income totaled $9.9 billion for 2018, compared to comprehensive income of $9.6 billion during 2017, a $275 million year-over-year increase.

Assessment revenue was $9.5 billion for 2018, compared to $10.6 billion for 2017. The $1.1 billion year-over-year decrease was primarily due to the cessation of the surcharge assessment on large institutions effective October 1, 2018, as a result of the reserve ratio exceeding the required minimum of 1.35 percent as of September 30, 2018.

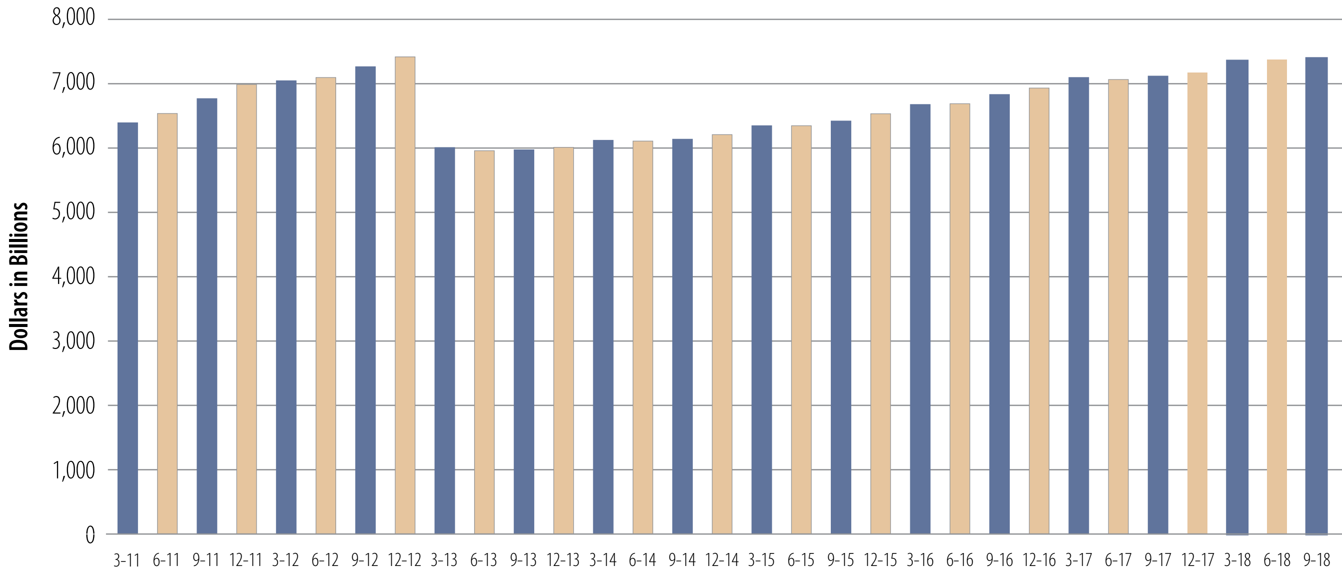
The DIF's interest revenue on U.S. Treasury securities for 2018 was $1.6 billion, compared to interest revenue of $1.1 billion in 2017. The $576 million year-over-year increase resulted from a combination of factors: (1) the Federal Reserve increased the federal funds target rate, resulting in an increase in the average overnight investment interest rate; (2) higher yields on new long-term investments purchased as older long-term investments matured; and (3) steady growth in the investment portfolio balance.

The provision for insurance losses was a negative $563 million for 2018, compared to negative $183 million for 2017. The negative provision for 2018 primarily resulted from a $570 million decrease to the estimated losses for prior year failures, attributable to: (1) a decrease in receivership shared-loss liability cost estimates of $186 million primarily due to lower-than-anticipated losses on covered assets, reductions in shared-loss cost estimates from the early termination of shared-loss agreements (SLAs) during the year, and unanticipated recoveries from SLAs where the commercial loss coverage has expired but the recovery period remains active; (2) $172 million of estimated recoveries from residual certificates retained by receiverships for structured transactions; and (3) $130 million of unanticipated recoveries received by receiverships from tax refunds, litigation settlements, and professional liability claims.

During 2018, the DIF recognized an unrealized loss on U.S. Treasury securities of $136 million, down from a $500 million unrealized loss in 2017. The unrealized loss in 2018 was the result of yields rising dramatically across all maturity sectors of the Treasury yield curve, resulting in declines in the securities' market values relative to their book values.

The DIF's cash, cash equivalents, and U.S. Treasury investment portfolio balances increased by $13.4 billion during 2018 to $98.5 billion at year-end 2018, from $85.1 billion at year-end 2017. This increase was primarily due to assessment collections of $10.8 billion, recoveries from resolutions of $3.3 billion, and interest received on U.S. Treasury securities of $1.8 billion, less operating expenses paid of $1.7 billion.

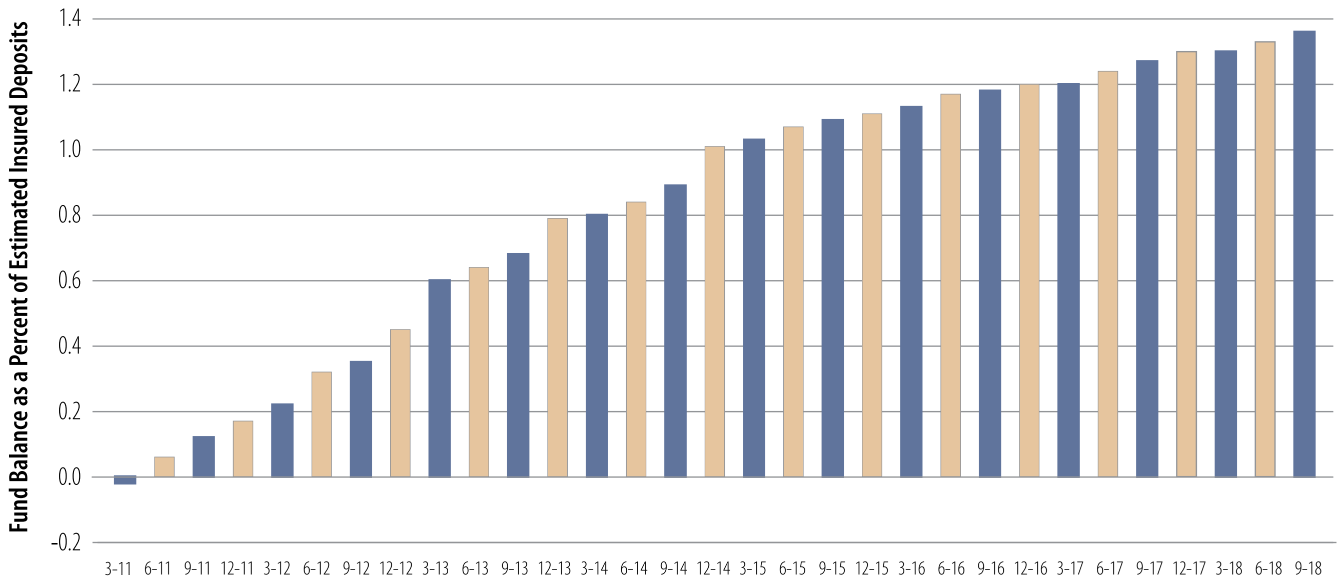
ESTIMATED DIF INSURED DEPOSITS



SOURCE: Commercial Bank Call and Thrift Financial Reports

Note: Beginning in fourth quarter 2010 through fourth quarter 2012, estimated insured deposits include the entire balance of noninterest-bearing transaction accounts.

DEPOSIT INSURANCE FUND RESERVE RATIOS



DEPOSIT INSURANCE FUND SELECTED STATISTICS

Dollars in Millions

	For the years ended December 31		
	2018	2017	2016
Financial Results			
Revenue	$11,171	$11,664	$10,674
Operating Expenses	1,765	1,739	1,715
Insurance and Other Expenses (includes provision for losses)	(560)	(181)	(1,564)
Net Income	9,966	10,105	10,524
Comprehensive Income	9,861	9,586	10,561
Insurance Fund Balance	$102,609	$92,747	$83,162
Fund as a Percentage of Insured Deposits (reserve ratio)	1.36%[3]	1.30%	1.20%
Selected Statistics			
Total DIF-Member Institutions[1]	5,477[3]	5,670	5,913
Problem Institutions	71[3]	95	123
Total Assets of Problem Institutions	$53,289[3]	$13,939	$27,624
Institution Failures	0	8	5
Total Assets of Failed Institutions in Year[2]	$0	$5,082	$277
Number of Active Failed Institution Receiverships	272	338	378

[1] Commercial banks and savings institutions. Does not include U.S. insured branches of foreign banks.

[2] Total Assets data are based upon the last Call Report filed by the institution prior to failure.

[3] As of September 30, 2018.

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IV. BUDGET AND SPENDING

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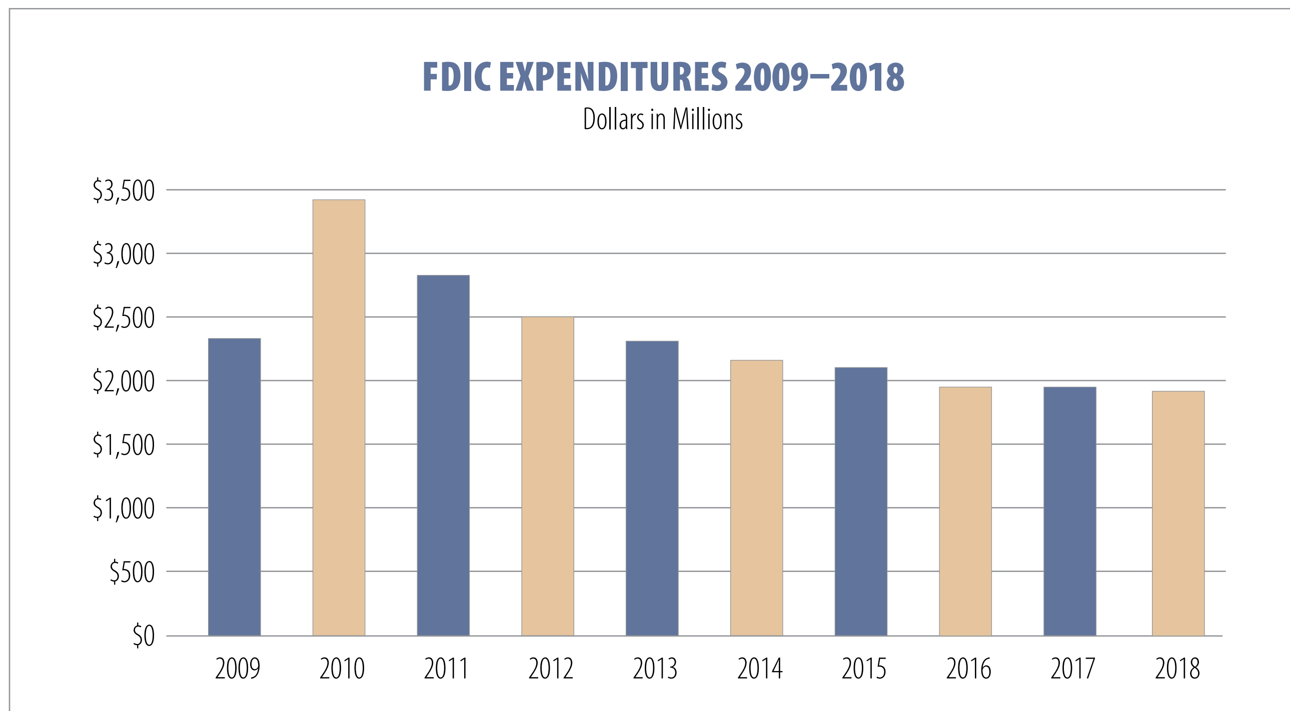
FDIC OPERATING BUDGET

The FDIC segregates its corporate operating budget and expenses into three discrete components: ongoing operations, receivership funding, and the Office of Inspector General (OIG). The receivership funding component represents expenses resulting from financial institution failures and is, therefore, largely driven by external forces and is less controllable and estimable. FDIC operating expenditures totaled $1.9 billion in 2018, including $1.7 billion in ongoing operations, $145 million in receivership funding, and $37 million for the OIG. This represented approximately 94 percent of the approved budget for ongoing operations, 64 percent of the approved budget for receivership funding, and 92 percent of the approved budget for the OIG for the year.

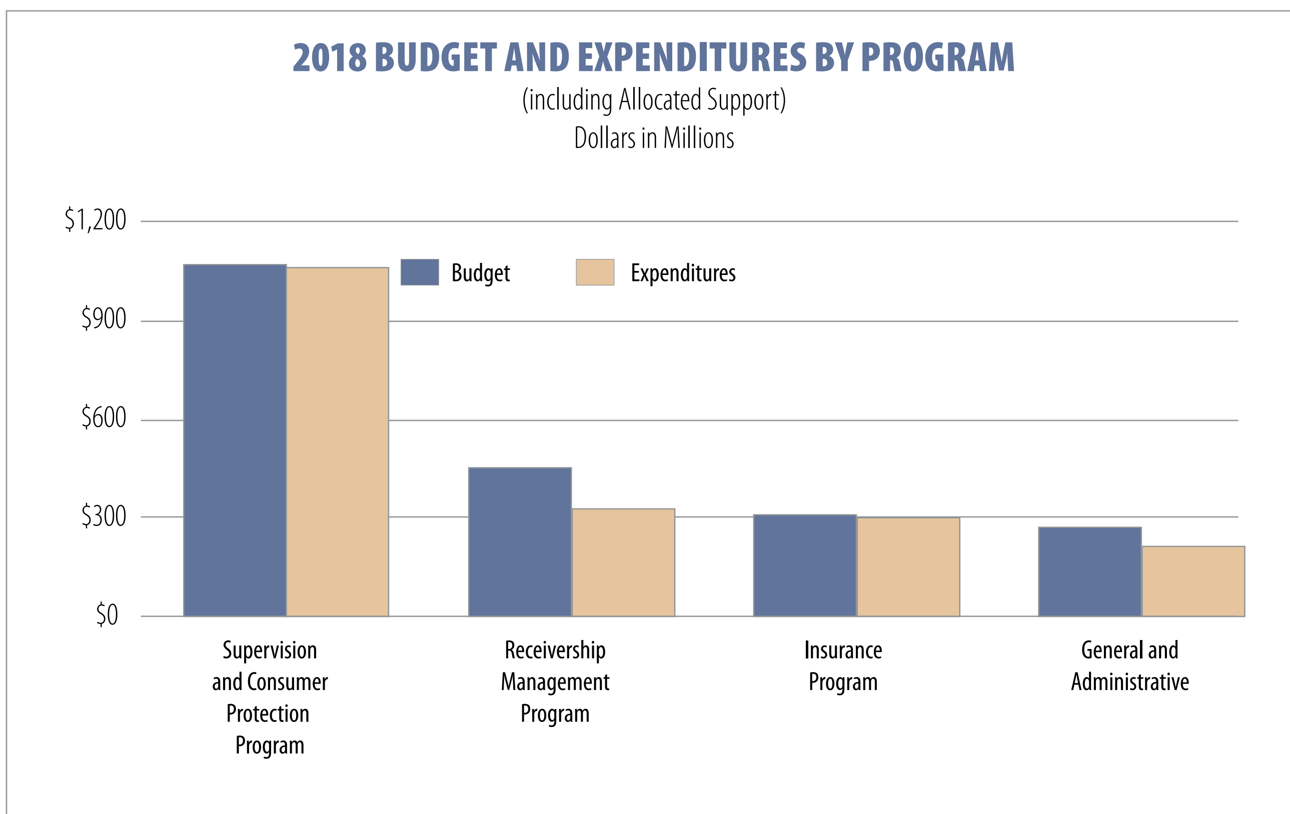
The approved 2019 FDIC Operating Budget of approximately $2.0 billion consists of $1.8 billion for ongoing operations, $175 million for receivership funding, and $43 million for the OIG. The level of approved ongoing operations budget for 2019 is approximately $2 million (0.1 percent) lower than the 2018 ongoing operations budget, while the approved receivership funding budget is $50 million (22 percent) lower than the 2018 receivership funding budget. The 2019 OIG budget is $3 million (7 percent) higher than the 2018 OIG budget.

As in prior years, the 2019 budget was formulated primarily on the basis of an analysis of projected workload for each of the Corporation's three major business lines and its program support functions. The most significant factor contributing to the decrease in the FDIC Operating Budget is the improving health of the industry and the resultant reduction in failure related workload. Although savings in this area are being realized, the 2019 receivership funding budget provides resources for contractor support should workload in these areas require an immediate response.



The FDIC's Strategic Plan and Annual Performance Plan provide the basis for annual planning and budgeting for needed resources. The 2018 aggregate budget (for ongoing operations, receivership funding, OIG, and investment spending) was $2.1 billion, while actual expenditures for the year were $1.9 billion, about $34 million less than 2017 expenditures.

Over the past decade the FDIC's expenditures have varied in response to workload. During the last several years, expenditures have fallen, largely due to decreasing resolution and receivership activity. To a lesser extent decreased expenses have resulted from supervision-related costs associated with the oversight of fewer troubled institutions.



2018 BUDGET AND EXPENDITURES BY PROGRAM

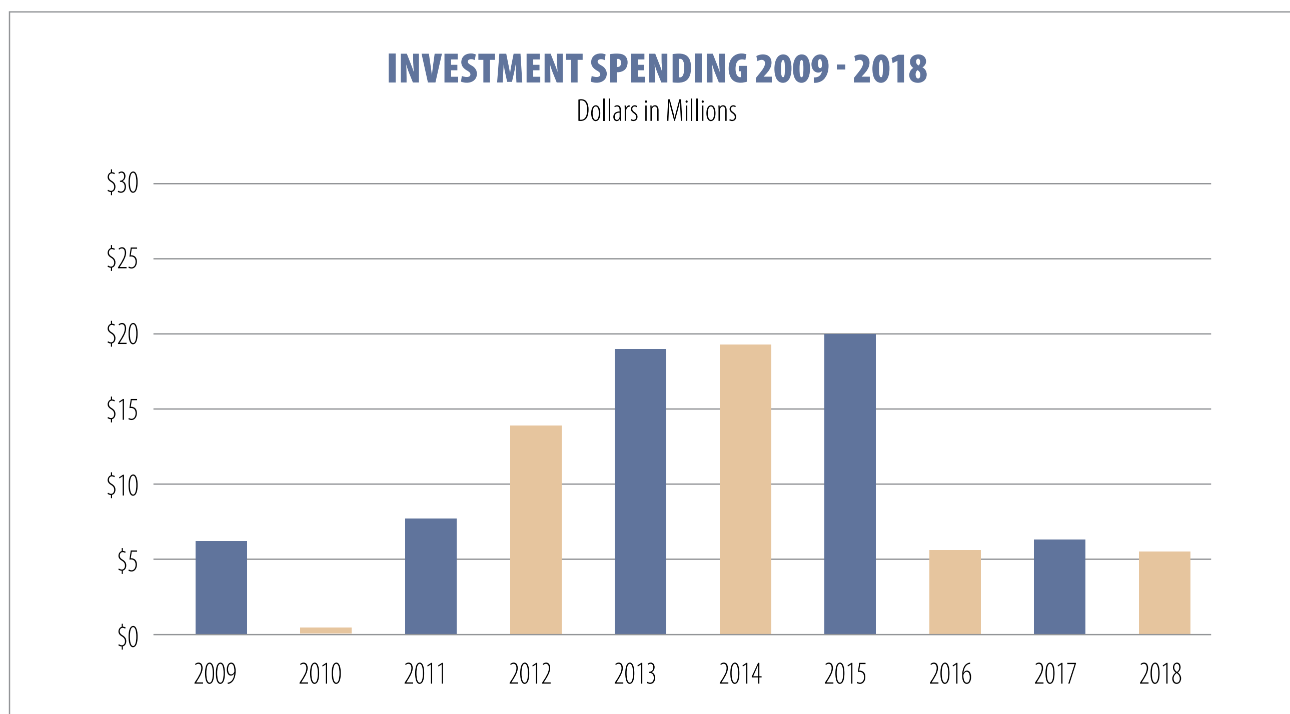
(Excluding Investments)

The FDIC budget for 2018 totaled approximately $2.1 billion. Budget amounts were allocated as follows: $1.07 billion or 51 percent, to the Supervision and Consumer Protection program; $451 million or 21 percent, to the Receivership Management program; $309 million, or 15 percent, to the Insurance program; and $271 million, or 13 percent, to Corporate General and Administrative expenditures.

Actual expenditures for the year totaled $1.9 billion. Actual expenditures amounts were allocated as follows: $1.06 billion, or 56 percent, to the Supervision and Consumer Protection program; $327 million, or 17 percent, to the Receivership Management program; $300 million, or 16 percent, to the Insurance program; and $213 million, or 11 percent, to Corporate General and Administrative expenditures.

INVESTMENT SPENDING

The FDIC instituted a separate Investment Budget in 2003 to provide enhanced governance of major multi-year development efforts. It has a disciplined process for reviewing proposed new investment projects and managing the construction and implementation of approved projects. Proposed IT projects are carefully reviewed to ensure that they are consistent with the Corporation's enterprise architecture. The project approval and monitoring processes also enable the FDIC to be aware of risks to the major capital investment projects and facilitate appropriate, timely intervention to address these risks throughout the development process. An investment portfolio performance review is provided to the FDIC's Board of Directors on a quarterly basis. From 2009-2018, investment spending totaled $104 million and is estimated at $9 million for 2019.



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V. FINANCIAL SECTION

DEPOSIT INSURANCE FUND (DIF)

Federal Deposit Insurance Corporation

Deposit Insurance Fund Balance Sheet

As of December 31

(Dollars in Thousands)		2018		2017
ASSETS				
Cash and cash equivalents	$	5,773,995	$	1,829,198
Investment in U.S. Treasury securities (Note 3)		92,708,356		83,302,963
Assessments receivable (Note 9)		1,376,341		2,634,386
Interest receivable on investments and other assets, net		549,791		505,766
Receivables from resolutions, net (Note 4)		3,058,241		5,972,971
Property and equipment, net (Note 5)		328,530		334,050
Total Assets	$	**103,795,254**	$	**94,579,334**
LIABILITIES				
Accounts payable and other liabilities	$	198,072	$	236,971
Liabilities due to resolutions (Note 6)		604,776		1,203,260
Postretirement benefit liability (Note 12)		235,935		259,316
Contingent liabilities:				
Anticipated failure of insured institutions (Note 7)		113,936		97,777
Guarantee payments and litigation losses (Notes 7 and 8)		33,611		34,515
Total Liabilities		**1,186,330**		**1,831,839**
Commitments and off-balance-sheet exposure (Note 13)				
FUND BALANCE				
Accumulated Net Income		103,238,013		93,272,447
ACCUMULATED OTHER COMPREHENSIVE INCOME				
Unrealized (loss) on U.S. Treasury securities, net (Note 3)		(615,549)		(479,362)
Unrealized postretirement benefit (loss) (Note 12)		(13,540)		(45,590)
Total Accumulated Other Comprehensive (Loss)		**(629,089)**		**(524,952)**
Total Fund Balance		**102,608,924**		**92,747,495**
Total Liabilities and Fund Balance	$	**103,795,254**	$	**94,579,334**

The accompanying notes are an integral part of these financial statements.

DEPOSIT INSURANCE FUND (DIF)

Federal Deposit Insurance Corporation

Deposit Insurance Fund Statement of Income and Fund Balance

For the Years Ended December 31

(Dollars in Thousands)	2018	2017
REVENUE		
Assessments (Note 9)	$ 9,526,723	$ 10,594,838
Interest on U.S. Treasury securities	1,632,863	1,056,989
Other revenue	11,208	11,947
Total Revenue	**11,170,794**	**11,663,774**
EXPENSES AND LOSSES		
Operating expenses (Note 10)	1,764,748	1,739,395
Provision for insurance losses (Note 11)	(562,622)	(183,149)
Insurance and other expenses	3,102	2,072
Total Expenses and Losses	**1,205,228**	**1,558,318**
Net Income	**9,965,566**	**10,105,456**
OTHER COMPREHENSIVE INCOME		
Unrealized (loss) on U.S. Treasury securities, net	(136,187)	(499,633)
Unrealized postretirement benefit gain (loss) (Note 12)	32,050	(19,843)
Total Other Comprehensive (Loss)	**(104,137)**	**(519,476)**
Comprehensive Income	**9,861,429**	**9,585,980**
Fund Balance - Beginning	**92,747,495**	**83,161,515**
Fund Balance - Ending	$ **102,608,924**	$ **92,747,495**

The accompanying notes are an integral part of these financial statements.

DEPOSIT INSURANCE FUND (DIF)

Federal Deposit Insurance Corporation

Deposit Insurance Fund Statement of Cash Flows

For the Years Ended December 31

(Dollars in Thousands)	2018	2017
OPERATING ACTIVITIES		
Provided by:		
Assessments	$ 10,766,890	$ 10,609,959
Interest on U.S. Treasury securities	1,837,400	1,622,583
Recoveries from financial institution resolutions	3,254,230	3,952,375
Miscellaneous receipts	18,290	16,853
Used by:		
Operating expenses	(1,744,274)	(1,838,673)
Disbursements for financial institution resolutions	(353,448)	(3,010,042)
Miscellaneous disbursements	(3,694)	(799)
Net Cash Provided by Operating Activities	**13,775,394**	**11,352,256**
INVESTING ACTIVITIES		
Provided by:		
Maturity of U.S. Treasury securities	27,354,816	29,931,209
Used by:		
Purchase of U.S. Treasury securities	(37,140,141)	(40,756,734)
Purchase of property and equipment	(45,272)	(30,499)
Net Cash (Used) by Investing Activities	**(9,830,597)**	**(10,856,024)**
Net Increase in Cash and Cash Equivalents	**3,944,797**	**496,232**
Cash and Cash Equivalents - Beginning	**1,829,198**	**1,332,966**
Cash and Cash Equivalents - Ending	**$ 5,773,995**	**$ 1,829,198**

The accompanying notes are an integral part of these financial statements.

DEPOSIT INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018 and 2017

1. Operations of the Deposit Insurance Fund

OVERVIEW

The Federal Deposit Insurance Corporation (FDIC) is the independent deposit insurance agency created by Congress in 1933 to maintain stability and public confidence in the nation's banking system. Provisions that govern the FDIC's operations are generally found in the Federal Deposit Insurance (FDI) Act, as amended (12 U.S.C. 1811, *et seq*). In accordance with the FDI Act, the FDIC, as administrator of the Deposit Insurance Fund (DIF), insures the deposits of banks and savings associations (insured depository institutions). In cooperation with other federal and state agencies, the FDIC promotes the safety and soundness of insured depository institutions (IDIs) by identifying, monitoring, and addressing risks to the DIF. Commercial banks, savings banks and savings associations (known as "thrifts") are supervised by either the FDIC, the Office of the Comptroller of the Currency, or the Federal Reserve Board.

In addition to being the administrator of the DIF, the FDIC is the administrator of the FSLIC Resolution Fund (FRF). The FRF is a resolution fund responsible for the sale of the remaining assets and the satisfaction of the liabilities associated with the former Federal Savings and Loan Insurance Corporation (FSLIC) and the former Resolution Trust Corporation. The FDIC maintains the DIF and the FRF separately to support their respective functions.

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), the FDIC also manages the Orderly Liquidation Fund (OLF). Established as a separate fund in the U.S. Treasury (Treasury), the OLF is inactive and unfunded until the FDIC is appointed as receiver for a covered financial company. A covered financial company is a failing financial company (for example, a bank holding company or nonbank financial company) for which a systemic risk determination has been made as set forth in section 203 of the Dodd-Frank Act.

The Dodd-Frank Act (Public Law 111-203) granted the FDIC authority to establish a widely available program to guarantee obligations of solvent IDIs or solvent depository institution holding companies (including affiliates) upon the systemic risk determination of a liquidity event during times of severe economic distress. The program would not be funded by the DIF but rather by fees and assessments paid by all participants in the program. If fees are insufficient to cover losses or expenses, the FDIC must impose a special assessment on participants as necessary to cover the shortfall. Any excess funds at the end of the liquidity event program would be deposited in the General Fund of the Treasury.

The Dodd-Frank Act also created the Financial Stability Oversight Council (FSOC) of which the Chairman of the FDIC is a member and expanded the FDIC's responsibilities to include supervisory review of resolution plans (known as living wills) and backup examination authority for systemically important bank holding companies and nonbank financial companies supervised by the Federal Reserve Board. The living wills provide for an entity's rapid and orderly resolution in the event of material financial distress or failure.

OPERATIONS OF THE DIF

The primary purposes of the DIF are to (1) insure the deposits and protect the depositors of IDIs and (2) resolve failed IDIs upon appointment of the FDIC as receiver in a manner that will result in the least possible cost to the DIF.

The DIF is primarily funded from deposit insurance assessments. Other available funding sources, if necessary, are borrowings from the Treasury, the Federal Financing Bank (FFB), Federal Home Loan Banks, and IDIs. The FDIC has borrowing authority of $100 billion from the Treasury and a Note Purchase Agreement with the FFB, not to exceed $100 billion, to enhance the DIF's ability to fund deposit insurance.

A statutory formula, known as the Maximum Obligation Limitation (MOL), limits the amount of obligations the DIF can incur to the sum of its cash, 90 percent of the fair market value of other assets, and the amount authorized to be borrowed from the Treasury. The MOL for the DIF was $201.8 billion and $191.5 billion as of December 31, 2018 and 2017, respectively.

OPERATIONS OF RESOLUTION ENTITIES

The FDIC, as receiver, is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receiverships, conservatorships, and bridge institutions (collectively, resolution entities), and the claims against them, are accounted for separately from the DIF assets and liabilities to ensure that proceeds from these entities are distributed according to applicable laws and regulations. Therefore, income and expenses attributable to resolution entities are

accounted for as transactions of those entities. The FDIC, as administrator of the DIF, bills resolution entities for services provided on their behalf.

2. Summary of Significant Accounting Policies

GENERAL

The financial statements include the financial position, results of operations, and cash flows of the DIF and are presented in accordance with U.S. generally accepted accounting principles (GAAP). These statements do not include reporting for assets and liabilities of resolution entities because these entities are legally separate and distinct, and the DIF does not have any ownership or beneficial interests in them. Periodic and final accounting reports of resolution entities are furnished to courts, supervisory authorities, and others upon request.

USE OF ESTIMATES

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and disclosure of contingent liabilities. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such potential changes in estimates have been disclosed. The more significant estimates include the assessments receivable and associated revenue; the allowance for loss on receivables from resolutions (which considers the impact of shared-loss agreements); the guarantee obligations for structured transactions; the postretirement benefit obligation; and the estimated losses for anticipated failures.

CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments consisting primarily of U.S. Treasury Overnight Certificates.

INVESTMENT IN U.S. TREASURY SECURITIES

The FDI Act requires that the DIF funds be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States. The Secretary of the Treasury must approve all such investments in excess of $100,000 and has granted the FDIC approval to invest the DIF funds only in U.S. Treasury obligations that are purchased or sold exclusively through the Treasury's Bureau of the Fiscal Service's Government Account Series program.

The DIF's investments in U.S. Treasury securities are classified as available-for-sale (AFS). Securities designated as AFS are shown at fair value. Unrealized gains and losses are reported as other comprehensive income. Any realized gains and losses are included in the Statement of Income and Fund Balance as components of net income. Income on securities is calculated and recorded daily using the effective interest or straight-line method depending on the maturity of the security (see Note 3).

REVENUE RECOGNITION FOR ASSESSMENTS

Assessment revenue is recognized for the quarterly period of insurance coverage based on an estimate. The estimate is derived from an institution's regular risk-based assessment rate and assessment base for the prior quarter adjusted for certain changes in supervisory examination ratings for larger institutions as well as modest assessment base growth and average assessment rate adjustment factors. Effective third quarter 2016 through third quarter 2018, the estimate included a surcharge for institutions with $10 billion or more in total consolidated assets (see Note 9). At the subsequent quarter-end, the estimated revenue amounts are adjusted when actual assessments for the covered period are determined for each institution.

CAPITAL ASSETS AND DEPRECIATION

The FDIC buildings are depreciated on a straight-line basis over a 35- to 50-year estimated life. Building improvements are capitalized and depreciated over the estimated useful life of the improvements. Leasehold improvements are capitalized and depreciated over the lesser of the remaining life of the lease or the estimated useful life of the improvements, if determined to be material. Capital assets depreciated on a straight-line basis over a five-year estimated useful life include mainframe equipment; furniture, fixtures, and general equipment; and internal-use software. Computer equipment is depreciated on a straight-line basis over a three-year estimated useful life (see Note 5).

PROVISION FOR INSURANCE LOSSES

The provision for insurance losses primarily represents changes in the allowance for losses on receivables from closed banks and the contingent liability for anticipated failure of insured institutions (see Note 11).

REPORTING ON VARIABLE INTEREST ENTITIES

The receiverships engaged in structured transactions, some of which resulted in the issuance of note obligations that were guaranteed by the FDIC, in its corporate capacity. As the guarantor of note obligations for several structured transactions, the FDIC, in its corporate capacity, holds an interest in many variable interest entities (VIEs). The FDIC conducts a qualitative assessment of its relationship with each VIE as required by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 810, *Consolidation*. These assessments are conducted to

determine if the FDIC, in its corporate capacity, has (1) power to direct the activities that most significantly affect the economic performance of the VIE and (2) an obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. When a variable interest holder has met both of these characteristics, the enterprise is considered the primary beneficiary and must consolidate the VIE. In accordance with the provisions of FASB ASC Topic 810, an assessment of the terms of the legal agreement for each VIE was conducted to determine whether any of the terms had been activated or modified in a manner that would cause the FDIC, in its corporate capacity, to be characterized as a primary beneficiary. In making that determination, consideration was given to which, if any, activities were significant to each VIE. Often, the right to service collateral, to liquidate collateral, or to unilaterally dissolve the VIE was determined to be the most significant activity. In other cases, it was determined that the structured transactions did not include such significant activities and that the design of the entity was the best indicator of which party was the primary beneficiary.

The conclusion of these analyses was that the FDIC, in its corporate capacity, has not engaged in any activity that would cause the FDIC to be characterized as a primary beneficiary to any VIE with which it was involved as of December 31, 2018 and 2017. Therefore, consolidation is not required for the December 31, 2018 and 2017 DIF financial statements. In the future, the FDIC, in its corporate capacity, may become the primary beneficiary upon the activation of provisional contract rights that extend to the FDIC if payments are made on guarantee claims. Ongoing analyses will be required to monitor consolidation implications under FASB ASC Topic 810.

The FDIC's involvement with VIEs is fully described in Note 8 under FDIC Guaranteed Debt of Structured Transactions.

RELATED PARTIES

The nature of related parties and a description of related party transactions are discussed in Note 1 and disclosed throughout the financial statements and footnotes.

APPLICATION OF RECENT ACCOUNTING STANDARDS

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU will replace the *incurred* loss impairment model with a new *expected* credit loss model for financial assets measured at amortized cost and for off-balance-sheet credit exposures. The guidance also amends the AFS debt securities impairment model by requiring the use of an allowance to record estimated credit losses (and subsequent recoveries) related to AFS debt securities. In November 2018, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, that changed the effective date of ASU 2016-13 for the DIF to January 1, 2022. ASU 2016-13 requires the cumulative effect of the change on the DIF's beginning fund balance when it is adopted. The FDIC continues to assess the effect ASU 2016-13 will have on the DIF's financial position and results of operations.

Other recent accounting pronouncements have been deemed not applicable or material to the financial statements as presented.

3. Investment in U.S. Treasury Securities

The "Investment in U.S. Treasury securities" line item on the Balance Sheet consisted of the following components by maturity (dollars in millions).

December 31, 2018 Maturity	Yield at Purchase	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
U.S. Treasury notes and bonds						
Within 1 year	1.90%	$ 28,950	$ 28,997	$ 0	$ (104)	$ 28,893
After 1 year through 5 years	2.08%	64,650	64,327	137	(649)	63,815
Total		**$ 93,600**	**$ 93,324**	**$ 137**	**$ (753)** [a]	**$ 92,708**

(a) These unrealized losses occurred as a result of temporary changes in market interest rates. The FDIC does not intend to sell the securities and is not likely to be required to sell them before their maturity date, thus, the FDIC does not consider these securities to be other than temporarily impaired at December 31, 2018. As of December 31, 2018, securities with a continuous unrealized loss position of less than 12 months had an aggregate related fair value and unrealized loss of $21.6 billion and $77 million, respectively. For those with a continuous unrealized loss position of 12 months or longer, their aggregate related fair value and unrealized losses were $53.1 billion and $676 million, respectively.

DEPOSIT INSURANCE FUND

December 31, 2017 Maturity	Yield at Purchase[a]		Face Value		Net Carrying Amount		Unrealized Holding Gains		Unrealized Holding Losses		Fair Value
U.S. Treasury notes and bonds											
Within 1 year	1.25%	$	26,525 [b]	$	26,661	$	0	$	(53)	$	26,608
After 1 year through 5 years	1.67%		56,500		56,694		3		(428)		56,269
Subtotal		$	83,025	$	83,355	$	3	$	(481)	$	82,877
U.S. Treasury Inflation-Protected Securities											
Within 1 year	-0.14%	$	400	$	427	$	0	$	(1)	$	426
Subtotal		$	400	$	427	$	0	$	(1)	$	426
Total		**$**	**83,425**	**$**	**83,782**	**$**	**3**	**$**	**(482)** [c]	**$**	**83,303**

(a) The Treasury Inflation-Protected Securities (TIPS) are indexed to increases or decreases in the Consumer Price Index for All Urban Consumers (CPI-U). For TIPS, the yields in the above table are stated at their real yields at purchase, not their effective yields. Effective yields on TIPS include a long-term annual inflation assumption as measured by the CPI-U. The long-term CPI-U consensus forecast is 2.0 percent, based on figures issued by the Congressional Budget Office and *Blue Chip Economic Indicators* in early 2017.

(b) Includes two Treasury notes totaling $2.1 billion which matured on Sunday, December 31, 2017. Settlements occurred the next business day, January 2, 2018.

(c) These unrealized losses occurred over a period of less than a year as a result of temporary changes in market interest rates. The FDIC does not intend to sell the securities and is not likely to be required to sell them before their maturity date, thus, the FDIC does not consider these securities to be other than temporarily impaired at December 31, 2017. The aggregate related fair value of securities with unrealized losses was $75.5 billion as of December 31, 2017.

4. Receivables from Resolutions, Net

The receivables from resolutions result from DIF payments to cover obligations to insured depositors (subrogated claims), advances to resolution entities for working capital, and administrative expenses paid on behalf of resolution entities. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. Estimated future payments on losses incurred on assets sold to an acquiring institution under a shared-loss agreement (SLA) are factored into the computation of the expected repayment. Assets held by resolution entities (including structured transaction-related assets; see Note 8) are the main source of repayment of the DIF's receivables from resolutions. The "Receivables from resolutions, net" line item on the Balance Sheet consisted of the following components (dollars in thousands).

		December 31 2018		December 31 2017
Receivables from closed banks	$	68,267,737	$	76,725,761
Allowance for losses		(65,209,496)		(70,752,790)
Total	**$**	**3,058,241**	**$**	**5,972,971**

As of December 31, 2018, the FDIC, as receiver, managed 272 active receiverships; no new receiverships were established in 2018. The resolution entities held assets with a book value of $5.1 billion as of December 31, 2018, and $8.8 billion as of December 31, 2017 (including $4.0 billion and $6.5 billion, respectively, of cash, investments, receivables due from the DIF, and other receivables).

Estimated cash recoveries from the management and disposition of assets that are used to determine the allowance for losses are based on asset recovery rates from several sources, including actual or pending institution-specific asset disposition data, failed institution-specific asset valuation data, aggregate asset valuation data on several recently failed or troubled institutions, sampled asset valuation data, and empirical asset recovery data based on failures since 2007. Methodologies for determining the asset recovery rates incorporate estimating future cash recoveries, net of applicable liquidation cost estimates, and discounting based on market-based risk factors applicable to a given asset's type and quality. The resulting estimated cash recoveries are then used to derive the allowance for loss on the receivables from these resolutions.

For failed institutions resolved using a whole bank purchase and assumption transaction with an accompanying SLA, the projected future shared-loss payments on the covered residential and commercial loan assets sold to the acquiring institution under the agreement are considered in determining the allowance for loss on the receivables from these resolutions. The shared-loss cost projections are based on the covered assets' intrinsic value, which is determined using financial models that consider the quality, condition and type of covered assets, current and future market conditions, risk factors, and estimated asset holding periods.

For year-end 2018, the shared-loss cost estimates were updated for all 81 receiverships with active SLAs. The updated shared-loss cost projections for 13 residential SLAs, which represent the majority ($5.0 billion or 52 percent) of shared-loss covered assets of $9.6 billion, were primarily based on third-party valuations estimating the cumulative loss of covered assets. The updated cost projections on the remaining residential shared-loss covered assets ($4.6 billion or 48 percent) were based on pending sales activity and the FDIC's historical loss experience that also factors in the time period based on the life of the agreement. This is a change from 2017, when the valuation methodology on such assets were either based on third-party valuations or a stratified random sample of institutions selected for third-party loss estimations and valuation results from the sampled institutions were aggregated and extrapolated to the non-sampled institutions by asset type and performance status. This change was made to address the seasoned nature of this portfolio (loss coverage will expire on 75 percent of the

remaining covered assets within one year of December 2018). The effect of this change was a $138 million decrease to the shared-loss liability. As of December 31, 2018, all commercial asset shared-loss coverage has expired. For the year ending December 31, 2017, shared-loss cost projections for commercial covered assets were based on the FDIC's historical loss experience that also factored in the time period based on the life of the agreement.

Also reflected in the allowance for loss calculation are end-of-agreement SLA "true-up" recoveries. True-up recoveries are projected to be received at expiration in accordance with the terms of the SLA, if actual losses at expiration are lower than originally estimated.

Note that estimated asset recoveries are regularly evaluated during the year, but remain subject to uncertainties because of potential changes in economic and market conditions, which may cause the DIF's actual recoveries to vary significantly from current estimates.

WHOLE BANK PURCHASE AND ASSUMPTION TRANSACTIONS WITH SHARED-LOSS AGREEMENTS

Since the beginning of 2008 through 2013, the FDIC resolved 304 failures using whole bank purchase and assumption resolution transactions with accompanying SLAs on total assets of $215.7 billion purchased by the financial institution acquirers. The acquirer typically assumed all of the deposits and purchased essentially all of the assets of a failed institution. The majority of the commercial and residential loan assets were purchased under an SLA, where the FDIC agreed to share in future losses and recoveries experienced by the acquirer on those assets covered under the agreement.

Losses on the covered assets of failed institutions are shared between the acquirer and the FDIC, in its receivership capacity, when losses occur through the sale, foreclosure, loan modification, or charge-off of loans under the terms of the SLA. The majority of the agreements cover commercial and single-family loans over a five- to ten-year shared-loss period, respectively, with the receiver covering 80 percent of the losses incurred by the acquirer and the acquiring institution covering 20 percent. Prior to March 26, 2010, most SLAs included a threshold amount, above which the receiver covered 95 percent of the losses incurred by the acquirer. Recoveries by the acquirer on covered commercial and single-family SLA losses are also shared over an eight- to ten-year period, respectively. Note that future recoveries on SLA losses are not factored into the DIF allowance for loss calculation because the amount and timing of such receipts are not determinable.

The estimated shared-loss liability is accounted for by the receiver and is included in the calculation of the DIF's allowance for loss against the corporate receivable from the resolution. As shared-loss claims are asserted and proven, receiverships satisfy these shared-loss payments using available liquidation funds and/or by drawing on amounts due from the DIF for funding the deposits assumed by the acquirer (see Note 6).

Receivership shared-loss transactions are summarized as follows (dollars in thousands).

	December 31 2018	December 31 2017
Shared-loss payments made to date, net of recoveries	$ 29,088,461	$ 29,014,957
Projected shared-loss payments, net of "true-up" recoveries	$ 175,207	$ 428,971
Total remaining shared-loss covered assets	$ 9,602,069	$ 13,896,921

The $4.3 billion reduction in the remaining shared-loss covered assets from 2017 to 2018 is primarily due to the liquidation of covered assets from active SLAs, expiration of loss coverage for two commercial loan SLAs, and early termination of SLAs impacting 20 receiverships during 2018.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the DIF to concentrations of credit risk are receivables from resolutions. The repayment of these receivables is primarily influenced by recoveries on assets held by receiverships and payments on the covered assets under SLAs. The majority of the remaining assets in liquidation ($1.2 billion) and current shared-loss covered assets ($9.6 billion), which together total $10.8 billion, are concentrated in commercial loans ($34 million), residential loans ($9.7 billion), and structured transaction-related assets ($853 million) as described in Note 8. Most of the assets originated from failed institutions located in California ($7.3 billion), Puerto Rico ($1.1 billion), and Florida ($898 million).

5. Property and Equipment, Net

Depreciation expense was $51 million and $54 million for 2018 and 2017, respectively. The "Property and equipment, net" line item on the Balance Sheet consisted of the following components (dollars in thousands).

DEPOSIT INSURANCE FUND

		December 31 2018		December 31 2017
Land	$	37,352	$	37,352
Buildings (including building and leasehold improvements)		328,787		325,322
Application software (includes work-in-process)		103,543		112,727
Furniture, fixtures, and equipment		66,889		72,384
Accumulated depreciation		(208,041)		(213,735)
Total	**$**	**328,530**	**$**	**334,050**

6. Liabilities Due to Resolutions

As of December 31, 2018 and 2017, the DIF recorded liabilities totaling $601 million and $1.2 billion, respectively, to resolution entities representing the agreed-upon value of assets transferred from the receiverships, at the time of failure, to the acquirers/bridge institutions for use in funding the deposits assumed by the acquirers/bridge institutions. Ninety-seven percent of these liabilities are due to failures resolved under whole-bank purchase and assumption transactions, most with an accompanying SLA. The DIF satisfies these liabilities either by sending cash directly to a receivership to fund shared-loss and other expenses or by offsetting receivables from resolutions when a receivership declares a dividend.

In addition, there were $4 million and $9 million in unpaid deposit claims related to multiple receiverships as of December 31, 2018 and 2017, respectively. The DIF pays these liabilities when the claims are approved.

7. Contingent Liabilities

ANTICIPATED FAILURE OF INSURED INSTITUTIONS

The DIF records a contingent liability and a loss provision for DIF-insured institutions that are likely to fail when the liability is probable and reasonably estimable, absent some favorable event such as obtaining additional capital or merging. The contingent liability is derived by applying expected failure rates and loss rates to the institutions based on supervisory ratings, balance sheet characteristics, and projected capital levels.

The banking industry's financial condition and performance were generally positive in 2018. According to the most recent quarterly financial data submitted by DIF-insured institutions, the industry's capital levels continued to improve, and the percentage of total loans that were noncurrent at September 30 fell to its lowest level since second quarter 2007. The industry reported total net income of $178.1 billion for the first nine months of 2018, an increase of 27.4 percent over the comparable period one year ago.

Consistent with the positive performance of the banking industry, the contingent liability remained relatively stable as of December 31, 2018 compared to December 31, 2017. The DIF recorded contingent liabilities totaling $114 million and $98 million as of December 31, 2018 and 2017, respectively.

In addition to the recorded contingent liabilities, the FDIC has identified risks in the financial services industry that could result in additional losses to the DIF, should potentially vulnerable insured institutions ultimately fail. As a result of these risks, the FDIC believes that it is reasonably possible that the DIF could incur additional estimated losses of approximately $227 million as of December 31, 2018, compared to $373 million as of year-end 2017. The actual losses, if any, will largely depend on future economic and market conditions and could differ materially from this estimate.

During 2018, no institutions failed. The improvement in financial performance and condition of the banking industry of the past year should continue if market conditions remain favorable. However, the operating environment poses several key challenges. Interest rates have been exceptionally low for an extended period, and there are signs of growing credit and liquidity risk. Recently, revenue growth and net interest margins have benefited from interest rate hikes; however, margins may be squeezed as deposit rates begin to increase. Economic conditions that challenge the banking sector include the potential effect of increases in interest rates on liquidity and economic activity; the impact of trade tariffs on economic growth and exports; the impact of continued weak commodity prices on local markets; and the risk of market volatility from geopolitical developments. The FDIC continues to evaluate ongoing risks to affected institutions in light of existing economic and financial conditions, and the extent to which such risks may put stress on the resources of the insurance fund.

LITIGATION LOSSES

The DIF records an estimated loss for unresolved legal cases to the extent that those losses are considered probable and reasonably estimable. The FDIC recorded probable litigation losses of $200 thousand for the DIF as of December 31, 2018 and 2017. In addition, the FDIC has identified no reasonably possible losses from unresolved cases as of December 31, 2018 and $1 million as of December 31, 2017.

8. Other Contingencies

INDYMAC FEDERAL BANK REPRESENTATION AND INDEMNIFICATION CONTINGENT LIABILITY

On March 19, 2009, the FDIC, as receiver, for IndyMac Federal Bank (IMFB) and certain subsidiaries (collectively, Sellers) sold substantially all of the assets, which included mortgage loans and servicing rights, to OneWest Bank (now known as CIT Bank) and its affiliates (collectively, Acquirers). Under the sale agreements, the Acquirers have indemnification rights to recover losses incurred as a result of third-party claims and breaches of the Sellers' representations. The FDIC, in its corporate capacity, guaranteed the Sellers' indemnification obligations under the sale agreements. Until all indemnification claims are asserted, quantified and paid, losses could continue to be incurred by the receivership and indirectly by the DIF.

The unpaid principal balances of loans in the servicing portfolios sold subject to the Sellers' indemnification obligations totaled $171.6 billion at the time of sale. The IndyMac receivership has paid cumulative claims totaling $110 million through December 31, 2018 and 2017. There were no claims accrued as of December 31, 2018 and 2017.

The Acquirers' rights to submit breach notices as well as their right to submit claims for reimbursement with respect to certain third-party claims have passed. However, the Acquirers retain the right to assert indemnification claims for losses over the life of those loans for which breach notices or third-party claim notices were timely submitted. While many loans are subject to notices of alleged breaches, not all breach allegations or third-party claims will result in an indemnifiable loss. In addition, the Acquirers retain the right to seek reimbursement for losses incurred as a result of claims alleging breaches of loan seller representations asserted by Ginnie Mae on or before March 19, 2019 for its reverse mortgage servicing portfolios. At the time of the sale to CIT the reverse loans serviced for Ginnie Mae constituted approximately 2 percent of the reverse servicing portfolio. Quantifying the contingent liability is subject to a number of uncertainties, including market conditions, the occurrence of borrower defaults and resulting foreclosures and losses, and the possible allocation of certain losses to the Acquirers. Therefore, because of these uncertainties the FDIC has determined that, while additional losses are probable, the amount is not currently estimable.

PURCHASE AND ASSUMPTION INDEMNIFICATION

In connection with purchase and assumption agreements for resolutions, the FDIC, in its receivership capacity, generally indemnifies the purchaser of a failed institution's assets and liabilities in the event a third party asserts a claim against the purchaser unrelated to the explicit assets purchased or liabilities assumed at the time of failure. The FDIC, in its corporate capacity, is a secondary guarantor if a receivership is unable to pay. These indemnifications generally extend for a term of six years after the date of institution failure. The FDIC is unable to estimate the maximum potential liability for these types of guarantees as the agreements do not specify a maximum amount and any payments are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. During 2018 and 2017, the FDIC, in its corporate capacity, made no indemnification payments under such agreements, and no amount has been accrued in the accompanying financial statements with respect to these indemnification guarantees.

FDIC GUARANTEED DEBT OF STRUCTURED TRANSACTIONS

The FDIC, as receiver, used structured transactions (securitizations and structured sales of guaranteed notes (SSGNs) or collectively, "trusts") to dispose of residential mortgage loans, commercial loans, and mortgage-backed securities held by the receiverships.

For these transactions, certain loans or securities from failed institutions were pooled and transferred into a trust structure. The trusts issued senior and/or subordinated debt instruments and owner trust or residual certificates collateralized by the underlying mortgage-backed securities or loans.

From March 2010 through March 2013, the receiverships transferred a portfolio of loans with an unpaid principal balance of $2.4 billion and mortgage-backed securities with a book value of $6.4 billion to the trusts. Private investors purchased the senior notes issued by the trusts for $6.2 billion in cash and the receiverships held the subordinated debt instruments and owner trust or residual certificates. In exchange for a fee, the FDIC, in its corporate capacity, guarantees the timely payment of principal and interest due on the senior notes, with the last guarantee expected to terminate in 2022. If the FDIC is required to perform under its guarantees, it acquires an interest in the cash flows of the trust equal to the amount of guarantee payments made plus accrued interest. The subordinated note holders and owner trust or residual certificate holders receive cash flows from the trust only after all expenses have been paid, the guaranteed notes have been satisfied, and the FDIC has been reimbursed for any guarantee payments.

The following table provides the maximum loss exposure to the FDIC, as guarantor, total guarantee fees collected, guarantee fees receivable, and other information related to the FDIC guaranteed debt for the trusts as of December 31, 2018 and 2017 (dollars in millions).

DEPOSIT INSURANCE FUND

		December 31 2018	December 31 2017
Number of trusts			
Initial		11	11
Current		8	11
Trust collateral balances			
Initial	$	8,780 $	8,780
Current	$	1,643 $	2,169
Guaranteed note balances			
Initial	$	6,196 $	6,196
Current (maximum loss exposure)	$	404 $	672
Guarantee fees collected to date	$	163 $	159
Amounts recognized in *Interest receivable on investments and other assets, net*			
Receivable for guarantee fees	$	4 $	8
Receivable for guarantee payments, net	$	28 $	20
Amounts recognized in *Contingent liabilities: Guarantee payments and litigation losses*			
Contingent liability for guarantee payments	$	33 $	34
Amounts recognized in *Accounts payable and other liabilities*			
Deferred revenue for guarantee fees[a]	$	4 $	8

(a) All guarantee fees are recorded as deferred revenue and recognized as revenue primarily on a straight-line basis over the term of the notes.

Except as presented above, the DIF records no other structured transaction-related assets or liabilities on its balance sheet.

ESTIMATED LOSS FROM GUARANTEE PAYMENTS

Any estimated loss to the DIF from the guarantees is based on an analysis of the expected guarantee payments by the FDIC, net of reimbursements to the FDIC for such guarantee payments. The DIF recorded a contingent liability of $33 million as of December 31, 2018, for estimated payments under the guarantee for one SSGN transaction, down from $34 million at December 31, 2017. As guarantor, the FDIC, in its corporate capacity, is entitled to reimbursement from the trust for any guarantee payments; therefore a corresponding receivable has been recorded. The related allowance for loss on this receivable is $5 million as of December 31, 2018, reflecting the expected shortfall of proceeds available for reimbursement after liquidation of the SSGN's underlying collateral at note maturity, as compared to the $14 million allowance recorded at year-end 2017. Guarantee payments are expected to be made at note maturity in December 2020.

For all of the remaining transactions, the estimated cash flows from the trust assets provide sufficient coverage to fully pay the debts. To date, the FDIC, in its corporate capacity, has not provided, and does not intend to provide, any form of financial or other type of support for structured transactions that it was not previously contractually required to provide.

9. Assessments

The FDIC deposit insurance assessment system is mandated by section 7 of the FDI Act and governed by part 327 of title 12 of the Code of Federal Regulations (12 CFR Part 327). The risk-based system requires the payment of quarterly assessments by all IDIs.

In response to the Dodd-Frank Act, the FDIC implemented several changes to the assessment system, amended its Restoration Plan (which is required when the ratio of the DIF balance to estimated insured deposits, or reserve ratio, is below the statutorily mandated minimum), and developed a comprehensive, long-term fund management plan. The plan is designed to restore and maintain a positive fund balance for the DIF even during a banking crisis and achieve moderate, steady assessment rates throughout any economic cycle. Summarized below are actions taken to implement requirements of the Dodd-Frank Act and provisions of the comprehensive, long-term fund management plan.

- The FDIC amended the Restoration Plan, which was intended to ensure that the reserve ratio reaches 1.35 percent by September 30, 2020, as required by the Dodd-Frank Act, in lieu of the previous statutory minimum of 1.15 percent by the end of 2016. While under the restoration plan, the FDIC updates, at least semiannually, its loss and income projections for the fund and, if needed, increases or decreases assessment rates, following notice-and-comment rulemaking, if required.

- The FDIC Board of Directors designates a reserve ratio for the DIF and publishes the designated reserve ratio (DRR) before the beginning of each calendar year, as required by the FDI Act. Accordingly, in December 2018, the FDIC published a notice maintaining the

DRR at 2 percent for 2019. The DRR is an integral part of the FDIC's comprehensive, long-term management plan for the DIF and is viewed as a long-range, minimum target for the reserve ratio.

- The FDIC adopted a final rule that suspends dividends indefinitely, and, in lieu of dividends, adopts lower assessment rate schedules when the reserve ratio reaches 1.15 percent, 2 percent, and 2.5 percent.

The Dodd-Frank Act requires that the FDIC offset the effect of increasing the minimum reserve ratio from 1.15 percent to 1.35 percent on small banks. To implement this requirement, the FDIC imposed a surcharge to the regular quarterly assessments of IDIs with $10 billion or more in total consolidated assets (larger institutions), beginning with the quarter ending September 30, 2016. Pursuant to a final rule published in March 2016:

- The surcharge generally equals an annual rate of 4.5 basis points applied to a larger institution's regular quarterly assessment base (with certain adjustments).

- The FDIC will provide assessment credits, as described in 12 CFR 327.11(c)(4), to institutions with less than $10 billion in total assets (small banks) for the portion of their assessments that contributed to the growth in the reserve ratio between 1.15 percent and 1.35 percent to ensure that the effect of reaching 1.35 percent is fully borne by the larger institutions.

As of September 30, 2018, the reserve ratio of the DIF exceeded the required minimum of 1.35 percent by reaching 1.36 percent. As a result, the requirements of the amended Restoration Plan were achieved and the surcharge assessment on large banks ended effective October 1, 2018. The total amount of small bank assessment credits is $765 million. In each quarter that the reserve ratio is at or above 1.38 percent, the FDIC will automatically apply a small bank's credits to reduce its regular assessment up to the entire amount of the assessment, until credits are exhausted.

The reserve ratio as of December 31, 2018, is not yet known, and it is uncertain whether the fourth quarter reserve ratio will be at least 1.38 percent. The year-end 2018 assessment receivable and related assessment revenue have not been reduced for the potential use of small bank assessment credits since it is only reasonably possible the small bank credits will be applied against fourth quarter assessments. The reserve ratio for December 31, 2018, will be determined before the fourth quarter assessments are billed and collected at the end of the first quarter of 2019. If the reserve ratio is at least 1.38 percent, then the FDIC expects that approximately $305 million in assessment credits will be applied against the first quarter collection in 2019, with an equal reduction to revenue at that time.

If the reserve ratio falls below 1.35 percent in the future, the FDIC would again establish and implement a restoration plan; however, under the FDI Act, the FDIC would have 8 years to restore the reserve ratio to the 1.35 percent minimum, and possibly longer if the Board finds that extraordinary circumstances warrant a longer time period [12 U.S.C. 1817(b)(3)(E)]. The FDIC must also establish and implement a restoration plan if the FDIC determines the DIF's reserve ratio will, within 6 months of such determination, fall below 1.35 percent [12 U.S.C. 1817(b)(3)(E)(i)].

ASSESSMENT REVENUE

Annual assessment rates averaged approximately 7.2 cents per $100 of the assessment base through September 30, 2018. Annual assessment rates averaged approximately 3.5 cents per $100 for the fourth quarter of 2018, reflecting the end of surcharges on larger institutions beginning October 1, 2018. Annual assessment rates averaged approximately 7.2 cents per $100 of the assessment base during 2017. The assessment base is generally defined as average consolidated total assets minus average tangible equity (measured as Tier 1 capital) of an IDI during the assessment period.

The "Assessments receivable" line item on the Balance Sheet of $1.4 billion and $2.6 billion represents the estimated premiums due from IDIs for the fourth quarter of 2018 and 2017, respectively. The actual deposit insurance assessments for the fourth quarter of 2018 will be billed and collected at the end of the first quarter of 2019. During 2018 and 2017, $9.5 billion and $10.6 billion, respectively, were recognized as assessment revenue from institutions, including $3.8 billion and $4.9 billion in surcharges from large IDIs in 2018 and 2017, respectively. In total, surcharges of $11.2 billion were collected over nine quarters.

PENDING LITIGATION FOR UNDERPAID ASSESSMENTS

On January 9, 2017, the FDIC filed suit in the United States District Court for the District of Columbia (and amended this complaint on April 7, 2017), alleging that Bank of America, N.A. (BoA) underpaid its insurance assessments for multiple quarters based on the underreporting of counterparty exposures. In total, the FDIC alleges that BoA underpaid insurance assessments by $1.12 billion, including interest for the quarters ending March 2012 through December 2014. The FDIC invoiced BoA for $542 million and $583 million representing claims in the initial suit and the amended complaint, respectively. BoA has failed to pay these past due amounts. Pending resolution of this matter, BoA has fully pledged security with a third-party custodian pursuant to a

security agreement with the FDIC. As of December 31, 2018, the total amount of unpaid assessments (including accrued interest) was $1.16 billion. For the years ending December 31, 2018 and 2017, the impact of this litigation is not reflected in the financial statements of the DIF.

RESERVE RATIO

As of September 30, 2018 and December 31, 2017, the DIF reserve ratio was 1.36 percent and 1.30 percent, respectively.

ASSESSMENTS RELATED TO FICO

Assessments are levied on institutions for payments of the interest on bond obligations issued by the Financing Corporation (FICO). The final FICO assessment is estimated to be collected in March 2019 pursuant to a final rule issued in December 2018 by the Federal Housing Finance Agency, the agency authorized by Congress to prescribe regulations relating to the FICO. The FICO was established as a mixed-ownership government corporation to function solely as a financing vehicle for the former FSLIC. The FICO assessment has no financial impact on the DIF and is separate from deposit insurance assessments. The FDIC, as administrator of the DIF, acts solely as a collection agent for the FICO. Interest obligations collected and remitted to the FICO as of December 31, 2018 and 2017, were $460 million and $760 million, respectively.

10. Operating Expenses

The "Operating expenses" line item on the Statement of Income and Fund Balance consisted of the following components (dollars in thousands).

	December 31 2018	December 31 2017
Salaries and benefits	$ 1,221,138	$ 1,222,793
Outside services	268,693	265,514
Travel	89,443	88,786
Buildings and leased space	86,795	88,465
Software/Hardware maintenance	83,276	77,911
Depreciation of property and equipment	51,316	53,639
Other	26,666	26,362
Subtotal	**1,827,327**	**1,823,470**
Less: Expenses billed to resolution entities and others	(62,579)	(84,075)
Total	**$ 1,764,748**	**$ 1,739,395**

11. Provision for Insurance Losses

The provision for insurance losses was a negative $563 million for 2018, compared to negative $183 million for 2017. The negative provision for 2018 primarily resulted from a $570 million decrease to the estimated losses for prior year failures.

As described in Note 4, the estimated recoveries from assets held by receiverships and estimated payments related to assets sold by receiverships to acquiring institutions under shared-loss agreements (SLAs) are used to derive the loss allowance on the receivables from resolutions. Summarized below are the three primary components that comprise the majority of the decrease in estimated losses for prior year failures.

- Receivership shared-loss liability cost estimates decreased $186 million primarily due to lower-than-anticipated losses on covered assets, reductions in shared-loss cost estimates from the early termination of SLAs during the year, and unanticipated recoveries from SLAs where the commercial loss coverage has expired but the recovery period remains active.

- Estimated recoveries from residual certificates retained by receiverships for structured transactions of $172 million were recognized in 2018 as uncertainties regarding collection have diminished. The likelihood of collection has increased given that the majority of the senior notes are at least 92 percent amortized as of year-end 2018 and all are projected to be fully paid within one to three years. The residual certificates will receive cash from the trust once the senior notes have been fully satisfied.

- Receiverships received $130 million of unanticipated recoveries from tax refunds, litigation settlements, and professional liability claims. These recoveries are typically not recognized in the allowance for loss estimate until the cash is received by receiverships, or collectability is assured, since significant uncertainties surround their recovery.

12. Employee Benefits

PENSION BENEFITS AND SAVINGS PLANS

Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by the federal government retirement plans, either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Although the DIF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The DIF also does not have actuarial data for accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported on and accounted for by the U.S. Office of Personnel Management (OPM).

Under the Federal Thrift Savings Plan (TSP), the FDIC provides FERS employees with an automatic contribution of 1 percent of pay and an additional matching contribution up to 4 percent of pay. CSRS employees also can contribute to the TSP, but they do not receive agency matching contributions. Eligible FDIC employees may also participate in an FDIC-sponsored tax-deferred 401(k) savings plan with an automatic contribution of 1 percent of pay and an additional matching contribution up to 4 percent of pay. The expenses for these plans are presented in the table below (dollars in thousands).

	December 31 2018	December 31 2017
Civil Service Retirement System	$ 2,089	$ 2,644
Federal Employees Retirement System (Basic Benefit)	111,926	111,228
Federal Thrift Savings Plan	35,564	35,180
FDIC Savings Plan	39,466	39,004
Total	**$ 189,045**	**$ 188,056**

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The DIF has no postretirement health insurance liability since all eligible retirees are covered by the Federal Employees Health Benefits (FEHB) program. The FEHB is administered and accounted for by the OPM. In addition, OPM pays the employer share of the retiree's health insurance premiums.

The FDIC provides certain life and dental insurance coverage for its eligible retirees, the retirees' beneficiaries, and covered dependents. Retirees eligible for life and dental insurance coverage are those who have qualified due to (1) immediate enrollment upon appointment or five years of participation in the plan and (2) eligibility for an immediate annuity. The life insurance program provides basic coverage at no cost to retirees and allows converting optional coverage to direct-pay plans. For the dental coverage, retirees are responsible for a portion of the premium.

The FDIC has elected not to fund the postretirement life and dental benefit liabilities. As a result, the DIF recognized the underfunded status (the difference between the accumulated postretirement benefit obligation and the plan assets at fair value) as a liability. Since there are no plan assets, the plan's benefit liability is equal to the accumulated postretirement benefit obligation.

Postretirement benefit obligation, gain and loss, and expense information included in the Balance Sheet and Statement of Income and Fund Balance are summarized as follows (dollars in thousands).

	December 31 2018	December 31 2017
Accumulated postretirement benefit obligation recognized in *Postretirement benefit liability*	**$ 235,935**	**$ 259,316**
Amounts recognized in accumulated other comprehensive income: *Unrealized postretirement benefit (loss)*		
Cumulative net actuarial loss	$ (13,155)	$ (44,630)
Prior service cost	(385)	(960)
Total	**$ (13,540)**	**$ (45,590)**
Amounts recognized in other comprehensive income: *Unrealized postretirement benefit gain (loss)*		
Actuarial gain (loss)	$ 31,475	$ (20,418)
Prior service credit	575	575
Total	**$ 32,050**	**$ (19,843)**
Net periodic benefit costs recognized in *Operating expenses*		
Service cost	$ 4,625	$ 4,098
Interest cost	9,334	9,241
Net amortization out of other comprehensive income	2,064	654
Total	**$ 16,023**	**$ 13,993**

Expected amortization of accumulated other comprehensive income into net periodic benefit cost over the next year is shown in the table below (dollars in thousands).

December 31, 2019	
Prior service costs	$ 385
Net actuarial loss	0
Total	**$ 385**

The annual postretirement contributions and benefits paid are included in the table below (dollars in thousands).

	December 31 2018	December 31 2017
Employer contributions	$ 7,354	$ 6,720
Plan participants' contributions	$ 846	$ 788
Benefits paid	$ (8,200)	$ (7,508)

The expected contributions for the year ending December 31, 2019, are $9 million. Expected future benefit payments for each of the next 10 years are presented in the following table (dollars in thousands).

2019	2020	2021	2022	2023	2024-2028
$7,885	$8,448	$9,004	$9,575	$10,164	$59,735

Assumptions used to determine the amount of the accumulated postretirement benefit obligation and the net periodic benefit costs are summarized as follows.

	December 31 2018	December 31 2017
Discount rate for future benefits (benefit obligation)	4.81%	4.03%
Rate of compensation increase	3.49%	3.44%
Discount rate (benefit cost)	4.03%	4.67%
Dental health care cost-trend rate		
Assumed for next year	3.80%	4.00%
Ultimate	3.80%	4.00%
Year rate will reach ultimate	2019	2018

13. Commitments and Off-Balance-Sheet Exposure

COMMITMENTS:

Leased Space

The DIF leased space expense totaled $44 million for 2018 and 2017. The FDIC's lease commitments total $127 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. Future minimum lease commitments are as follows (dollars in thousands).

2019	2020	2021	2022	2023	2024/Thereafter
$42,835	$29,795	$21,580	$11,816	$10,115	$10,432

OFF-BALANCE-SHEET EXPOSURE:

Deposit Insurance

Estimates of insured deposits are derived primarily from quarterly financial data submitted by IDIs to the FDIC and represent the accounting loss that would be realized if all IDIs were to fail and the acquired assets provided no recoveries. As of September 30, 2018 and December 31, 2017, estimated insured deposits for the DIF were $7.4 trillion and $7.2 trillion, respectively.

14. Fair Value of Financial Instruments

Financial assets recognized and measured at fair value on a recurring basis at each reporting date include cash equivalents (see Note 2) and the investment in U.S. Treasury securities (see Note 3). Other financial assets and liabilities, measured at amortized cost, are the receivables from resolutions, assessments receivable, interest receivable on investments, other short-term receivables, and accounts payable and other liabilities. The DIF's financial assets measured at fair value consisted of the following components (dollars in millions).

December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Assets				
Cash equivalents[1]	$ 5,739			$ 5,739
Available-for-Sale Debt Securities				
Investment in U.S. Treasury securities[2]	92,708			92,708
Total Assets	**$ 98,447**	**$ 0**	**$ 0**	**$ 98,447**

(1) Cash equivalents are Special U.S. Treasury Certificates with overnight maturities valued at prevailing interest rates established by the Treasury's Bureau of the Fiscal Service.

(2) The investment in U.S. Treasury securities is measured based on prevailing market yields for federal government entities.

December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Assets				
Cash equivalents[1]	$ 1,820			$ 1,820
Available-for-Sale Debt Securities				
Investment in U.S. Treasury securities[2]	83,303			83,303
Total Assets	**$ 85,123**	**$ 0**	**$ 0**	**$ 85,123**

(1) Cash equivalents are Special U.S. Treasury Certificates with overnight maturities valued at prevailing interest rates established by the Treasury's Bureau of the Fiscal Service.

(2) The investment in U.S. Treasury securities is measured based on prevailing market yields for federal government entities.

15. Information Relating to the Statement of Cash Flows

The following table presents a reconciliation of net income to net cash from operating activities (dollars in thousands).

	December 31 2018	December 31 2017
Operating Activities		
Net Income:	**$ 9,965,566**	**$ 10,105,456**
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of U.S. Treasury securities	246,725	543,445
Treasury Inflation-Protected Securities inflation adjustment	(2,980)	(8,564)
Depreciation on property and equipment	51,316	53,639
(Gain) loss on retirement of property and equipment	(524)	386
Provision for insurance losses	(562,622)	(183,149)
Unrealized gain (loss) on postretirement benefits	32,050	(19,843)
Change in Assets and Liabilities:		
Decrease in assessments receivable	1,258,045	31,881
(Increase) Decrease in interest receivable and other assets	(43,889)	21,171
Decrease in receivables from resolutions	3,493,375	1,620,258
(Decrease) in accounts payable and other liabilities	(38,899)	(1,352)
(Decrease) Increase in postretirement benefit liability	(23,381)	27,116
(Decrease) Increase in contingent liabilities - guarantee payments and litigation losses	(904)	31,927
(Decrease) in liabilities due to resolutions	(598,484)	(870,115)
Net Cash Provided by Operating Activities	**$ 13,775,394**	**$ 11,352,256**

16. Subsequent Events

Subsequent events have been evaluated through February 7, 2019, the date the financial statements are available to be issued. Based on management's evaluation, there were no subsequent events requiring disclosure.

FSLIC RESOLUTION FUND (FRF)

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Balance Sheet

As of December 31

(Dollars in Thousands)		2018		2017
ASSETS				
Cash and cash equivalents	$	901,562	$	885,380
Other assets, net		746		497
Total Assets	$	**902,308**	$	**885,877**
LIABILITIES				
Accounts payable and other liabilities	$	9	$	92
Total Liabilities		**9**		**92**
RESOLUTION EQUITY (NOTE 5)				
Contributed capital		125,489,317		125,489,317
Accumulated deficit		(124,587,018)		(124,603,532)
Total Resolution Equity		**902,299**		**885,785**
Total Liabilities and Resolution Equity	$	**902,308**	$	**885,877**

The accompanying notes are an integral part of these financial statements.

FSLIC RESOLUTION FUND (FRF)

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statement of Income and Accumulated Deficit

For the Years Ended December 31

(Dollars in Thousands)		2018		2017
REVENUE				
Interest on U.S. Treasury securities	$	15,818	$	7,065
Other revenue		808		764
Total Revenue		**16,626**		**7,829**
EXPENSES AND LOSSES				
Operating expenses		425		562
Losses related to thrift resolutions (Note 6)		(313)		21
Total Expenses and Losses		**112**		**583**
Net Income		**16,514**		**7,246**
Accumulated Deficit - Beginning		**(124,603,532)**		**(124,610,778)**
Accumulated Deficit - Ending	$	**(124,587,018)**	$	**(124,603,532)**

The accompanying notes are an integral part of these financial statements.

FSLIC RESOLUTION FUND (FRF)

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statement of Cash Flows

For the Years Ended December 31

(Dollars in Thousands)		2018		2017
OPERATING ACTIVITIES				
Provided by:				
Interest on U.S. Treasury securities	$	15,818	$	7,065
Recovery of tax benefits		0		3,750
Recoveries from thrift resolutions		832		1,001
Miscellaneous receipts		3		4
Used by:				
Operating expenses		(452)		(555)
Miscellaneous disbursements		(19)		(59)
Net Cash Provided by Operating Activities		**16,182**		**11,206**
Net Increase in Cash and Cash Equivalents		**16,182**		**11,206**
Cash and Cash Equivalents - Beginning		**885,380**		**874,174**
Cash and Cash Equivalents - Ending	$	**901,562**	$	**885,380**

The accompanying notes are an integral part of these financial statements.

FSLIC RESOLUTION FUND
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018 and 2017

1. Operations/Dissolution of the FSLIC Resolution Fund

OVERVIEW

The Federal Deposit Insurance Corporation (FDIC) is the independent deposit insurance agency created by Congress in 1933 to maintain stability and public confidence in the nation's banking system. Provisions that govern the FDIC's operations are generally found in the Federal Deposit Insurance (FDI) Act, as amended (12 U.S.C. 1811, *et seq*). In accordance with the FDI Act, the FDIC, as administrator of the Deposit Insurance Fund (DIF), insures the deposits of banks and savings associations (insured depository institutions). In cooperation with other federal and state agencies, the FDIC promotes the safety and soundness of insured depository institutions (IDIs) by identifying, monitoring, and addressing risks to the DIF.

In addition to being the administrator of the DIF, the FDIC is the administrator of the FSLIC Resolution Fund (FRF). As such, the FDIC is responsible for the sale of remaining assets and satisfaction of liabilities associated with the former Federal Savings and Loan Insurance Corporation (FSLIC) and the former Resolution Trust Corporation (RTC). The FDIC maintains the DIF and the FRF separately to support their respective functions.

The FSLIC was created through the enactment of the National Housing Act of 1934. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) abolished the insolvent FSLIC and created the FRF. At that time, the assets and liabilities of the FSLIC were transferred to the FRF – except those assets and liabilities transferred to the newly created RTC – effective on August 9, 1989. Further, the FIRREA established the Resolution Funding Corporation (REFCORP) to provide part of the initial funds used by the RTC for thrift resolutions by authorizing REFCORP to issue debt obligations. The REFCORP issued debt obligations in the form of long-term bonds ranging in maturity from 2019 to 2030.

The RTC Completion Act of 1993 terminated the RTC as of December 31, 1995. All remaining assets and liabilities of the RTC were transferred to the FRF on January 1, 1996. Today, the FRF consists of two distinct pools of assets and liabilities: one composed of the assets and liabilities of the FSLIC transferred to the FRF upon the dissolution of the FSLIC (FRF-FSLIC), and the other composed of the RTC assets and liabilities (FRF-RTC). The assets of one pool are not available to satisfy obligations of the other.

OPERATIONS/DISSOLUTION OF THE FRF

The FRF will continue operations until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. Any funds remaining in the FRF-FSLIC will be paid to the U.S. Treasury. Any remaining funds of the FRF-RTC will be distributed to the REFCORP to pay interest on the REFCORP bonds. In addition, the FRF-FSLIC has available until expended $602 million in appropriations to facilitate, if required, efforts to wind up the resolution activity of the FRF-FSLIC.

The FDIC has extensively reviewed and cataloged the FRF's remaining assets and liabilities. Some of the unresolved issues are:

- criminal restitution orders (generally have from 1 to 21 years remaining to enforce);
- collections of judgments obtained against officers and directors and other professionals responsible for causing or contributing to thrift losses (generally have up to 10 years remaining to enforce, unless the judgments are renewed or are covered by the Federal Debt Collections Procedures Act, which will result in significantly longer periods for collection of some judgments);
- liquidation/disposition of residual assets purchased by the FRF from terminated receiverships;
- one remaining issue related to assistance agreements entered into by the former FSLIC (FRF could continue to receive or refund overpayments of tax benefits sharing in future years);
- a potential tax liability associated with a fully adjudicated goodwill litigation case (see Note 3); and
- Affordable Housing Disposition Program monitoring (the last agreement expires no later than 2045; see Note 4).

The FRF could realize recoveries from tax benefits sharing, criminal restitution orders, and professional liability claims. However, any potential recoveries are not reflected in the FRF's financial statements, given the significant uncertainties surrounding the ultimate outcome.

FSLIC RESOLUTION FUND

On April 1, 2014, the FDIC concluded its role as receiver, on behalf of the FRF, when the last active receivership was terminated. In total, 850 receiverships were liquidated by the FRF and the RTC. To facilitate receivership terminations, the FRF, in its corporate capacity, acquired the remaining receivership assets that could not be liquidated during the life of the receiverships due to restrictive clauses and other impediments. These assets are included in the "Other assets, net" line item on the Balance Sheet.

During the years of receivership activity, the assets held by receivership entities, and the claims against them, were accounted for separately from the FRF's assets and liabilities to ensure that receivership proceeds were distributed in accordance with applicable laws and regulations. Also, the income and expenses attributable to receiverships were accounted for as transactions of those receiverships. The FDIC, as administrator of the FRF, billed receiverships for services provided on their behalf.

2. Summary of Significant Accounting Policies

GENERAL

The financial statements include the financial position, results of operations, and cash flows of the FRF and are presented in accordance with U.S. generally accepted accounting principles (GAAP). During the years of receivership activity, these statements did not include reporting for assets and liabilities of receivership entities because these entities were legally separate and distinct, and the FRF did not have any ownership or beneficial interest in them.

The FRF is a limited-life entity, however, it does not meet the requirements for presenting financial statements using the liquidation basis of accounting. According to Accounting Standards Codification Topic 205, *Presentation of Financial Statements*, a limited-life entity should apply the liquidation basis of accounting only if a change in the entity's governing plan has occurred since its inception. By statute, the FRF is a limited-life entity whose dissolution will occur upon the satisfaction of all liabilities and the disposition of all assets. No changes to this statutory plan have occurred since inception of the FRF.

USE OF ESTIMATES

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and disclosure of contingent liabilities. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such potential changes in estimates have been disclosed. The estimates for other assets, goodwill litigation, and guarantees are considered significant.

CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments consisting primarily of U.S. Treasury Overnight Certificates.

RELATED PARTIES

The nature of related parties and a description of related party transactions are discussed in Note 1 and disclosed throughout the financial statements and footnotes.

APPLICATION OF RECENT ACCOUNTING STANDARDS

Recent accounting pronouncements have been deemed not applicable or material to the financial statements as presented.

3. Goodwill Litigation

In *United States v. Winstar Corp*., 518 U.S. 839 (1996), the Supreme Court held that when it became impossible following the enactment of FIRREA in 1989 for the federal government to perform certain agreements to count goodwill toward regulatory capital, the plaintiffs were entitled to recover damages from the United States. The contingent liability associated with the nonperformance of these agreements was transferred to the FRF on August 9, 1989, upon the dissolution of the FSLIC.

The FRF can draw from an appropriation provided by Section 110 of the Department of Justice Appropriations Act, 2000 (Public Law 106-113, Appendix A, Title I, 113 Stat. 1501A-3, 1501A-20), such sums as may be necessary for the payment of judgments and compromise settlements in the goodwill litigation. This appropriation is to remain available until expended. Because an appropriation is available to pay such judgments and settlements, any estimated liability for goodwill litigation will have a corresponding receivable from the U.S. Treasury and therefore have no net impact on the financial condition of the FRF.

The last remaining goodwill case was resolved in 2015. However, for another case fully adjudicated in 2012, an estimated loss of $5 million as of December 31, 2018, compared to $8 million as of year-end 2017, for the court-ordered reimbursement of potential tax liabilities to the plaintiff is reasonably possible.

The FRF-FSLIC paid goodwill litigation expenses incurred by the Department of Justice (DOJ), the entity that defended these lawsuits against the United States, based on a Memorandum of Understanding (MOU) dated October 2, 1998, between the FDIC and the DOJ. These expenses were paid in advance by the FRF-FSLIC and any unused funds were carried over by the DOJ and applied toward the next fiscal year charges. The DOJ has returned all unused funds except for $250 thousand retained to cover future administrative expenses.

4. Guarantees

FANNIE MAE GUARANTEE

On May 21, 2012, the FDIC, in its capacity as administrator of the FRF, entered into an agreement with Fannie Mae for the release of $13 million of credit enhancement reserves to the FRF in exchange for indemnifying Fannie Mae from all future losses incurred on 76 multi-family mortgage loans. The former RTC had previously supplied Fannie Mae with the credit enhancement reserves to cover future losses on these mortgage loans through 2020. Based on the most current data available, as of September 30, 2018, the maximum exposure on this indemnification is the current unpaid principal balance of the remaining 9 multi-family loans totaling $288 thousand. Based on a contingent liability assessment of this portfolio as of September 30, 2018, the majority of the loans are at least 94 percent amortized, and all are scheduled to mature within one to two years. Since all of the loans are performing and no losses have occurred since 2001, future payments on this indemnification are not expected. No contingent liability for this indemnification has been recorded as of December 31, 2018 and 2017.

AFFORDABLE HOUSING DISPOSITION PROGRAM

Required by FIRREA under section 501, the Affordable Housing Disposition Program (AHDP) was established in 1989 to ensure the preservation of affordable housing for low-income households. The FDIC, in its capacity as administrator of the FRF-RTC, assumed responsibility for monitoring property owner compliance with land use restriction agreements (LURAs). To enforce the property owners' LURA obligation, the RTC, prior to its dissolution, entered into Memoranda of Understanding with 34 monitoring agencies to oversee these LURAs. As of December 31, 2018, 24 monitoring agencies oversee these LURAs. The FDIC, through the FRF, has agreed to indemnify the monitoring agencies for all losses related to LURA legal enforcement proceedings.

Since 2006, the FDIC entered into two litigations against property owners and paid $23 thousand in legal expenses, which was fully reimbursed due to successful litigation. The maximum potential exposure to the FRF cannot be estimated as it is contingent upon future legal proceedings. However, loss mitigation factors include: (1) the indemnification may become void if the FDIC is not immediately informed upon receiving notice of any legal proceedings and (2) the FDIC is entitled to reimbursement of any legal expenses incurred for successful litigation against a property owner. AHDP guarantees will continue until the termination of the last LURA, or 2045 (whichever occurs first). As of December 31, 2018 and 2017, no contingent liability for this indemnification has been recorded.

5. Resolution Equity

As stated in the Overview section of Note 1, the FRF is composed of two distinct pools: the FRF-FSLIC and the FRF-RTC. The FRF-FSLIC consists of the assets and liabilities of the former FSLIC. The FRF-RTC consists of the assets and liabilities of the former RTC. Pursuant to legal restrictions, the two pools are maintained separately and the assets of one pool are not available to satisfy obligations of the other.

Contributed capital, accumulated deficit, and resolution equity consisted of the following components by each pool (dollars in thousands).

December 31, 2018

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	$ 43,864,980	$ 81,624,337	$ 125,489,317
Contributed capital - ending	**43,864,980**	**81,624,337**	**125,489,317**
Accumulated deficit	(43,006,464)	(81,580,554)	(124,587,018)
Total Resolution Equity	**$ 858,516**	**$ 43,783**	**$ 902,299**

December 31, 2017

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	$ 43,864,980	$ 81,624,337	$ 125,489,317
Contributed capital - ending	**43,864,980**	**81,624,337**	**125,489,317**
Accumulated deficit	(43,022,301)	(81,581,231)	(124,603,532)
Total Resolution Equity	**$ 842,679**	**$ 43,106**	**$ 885,785**

FSLIC RESOLUTION FUND

CONTRIBUTED CAPITAL
The FRF-FSLIC and the former RTC received $43.5 billion and $60.1 billion from the U.S. Treasury, respectively, to fund losses from thrift resolutions prior to July 1, 1995. Additionally, the FRF-FSLIC issued $670 million in capital certificates to the Financing Corporation (a mixed-ownership government corporation established to function solely as a financing vehicle for the FSLIC) and the RTC issued $31.3 billion of these instruments to the REFCORP. FIRREA prohibited the payment of dividends on any of these capital certificates. Through December 31, 2018, the FRF-FSLIC received a total of $2.3 billion in goodwill appropriations, the effect of which increased contributed capital.

Through December 31, 2018, the FRF-RTC had returned $4.6 billion to the U.S. Treasury and made payments of $5.1 billion to the REFCORP. The most recent payment to the REFCORP was in July of 2013 for $125 million. In addition, the FDIC returned $2.6 billion to the U.S. Treasury on behalf of the FRF-FSLIC in 2013. These actions reduced contributed capital.

ACCUMULATED DEFICIT
The accumulated deficit represents the cumulative excess of expenses and losses over revenue for activity related to the FRF-FSLIC and the FRF-RTC. Approximately $29.8 billion and $87.9 billion were brought forward from the former FSLIC and the former RTC on August 9, 1989, and January 1, 1996, respectively. Since the dissolution dates, the FRF-FSLIC accumulated deficit increased by $13.2 billion, whereas the FRF-RTC accumulated deficit decreased by $6.3 billion.

6. Losses Related to Thrift Resolutions

Losses related to thrift resolutions represent changes in the estimated losses on assets acquired from terminated receiverships, as well as expenses for the disposition and administration of these assets. These losses were negative $313 thousand for 2018, compared to a positive $21 thousand for 2017.

7. Fair Value of Financial Instruments

At December 31, 2018 and 2017, the FRF's financial assets measured at fair value on a recurring basis are cash equivalents (see Note 2) of $857 million and $842 million, respectively. Cash equivalents are Special U.S. Treasury Certificates with overnight maturities valued at prevailing interest rates established by the U.S. Treasury's Bureau of the Fiscal Service. The valuation is considered a Level 1 measurement in the fair value hierarchy, representing quoted prices in active markets for identical assets.

8. Information Relating to the Statement of Cash Flows

The following table presents a reconciliation of net income to net cash from operating activities (dollars in thousands).

	December 31 2018	December 31 2017
Operating Activities		
Net Income:	$ 16,514	$ 7,246
Change in Assets and Liabilities:		
(Increase) Decrease in other assets	(249)	3,894
(Decrease) Increase in accounts payable and other liabilities	(83)	66
Net Cash Provided by Operating Activities	**$ 16,182**	**$ 11,206**

9. Subsequent Events

Subsequent events have been evaluated through February 7, 2019, the date the financial statements are available to be issued. Based on management's evaluation, there were no subsequent events requiring disclosure.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT

U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

Independent Auditor's Report

To the Board of Directors
The Federal Deposit Insurance Corporation

In our audits of the 2018 and 2017 financial statements of the Deposit Insurance Fund (DIF) and of the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF), both of which are administered by the Federal Deposit Insurance Corporation (FDIC),[1] we found

- the financial statements of the DIF and of the FRF as of and for the years ended December 31, 2018, and 2017, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the DIF and to the FRF as of December 31, 2018; and
- with respect to the DIF and to the FRF, no reportable noncompliance for 2018 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements and on internal control over financial reporting and other information included with the financial statements;[2] (2) our report on compliance with laws, regulations, contracts, and grant agreements; and (3) agency comments.

Report on the Financial Statements and on Internal Control over Financial Reporting

In accordance with Section 17 of the Federal Deposit Insurance Act, as amended,[3] and the Government Corporation Control Act,[4] we have audited the financial statements of the DIF and of the FRF, both of which are administered by FDIC. The financial statements for the DIF comprise the balance sheets as of December 31, 2018, and 2017; the related statements of income and fund balance and of cash flows for the years then ended; and the related notes to the financial statements. The financial statements for the FRF comprise the balance sheets as of December 31, 2018, and 2017; the related statements of income and accumulated deficit and of cash flows for the years then ended; and the related notes to the financial statements. We also have audited FDIC's internal control over financial reporting relevant to the DIF and to the FRF as of December 31, 2018, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

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[1]A third fund managed by FDIC, the Orderly Liquidation Fund, established by Section 210(n) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376, 1506 (July 21, 2010), is unfunded and did not have any transactions from its inception in 2010 through 2018.

[2]Other information consists of information included with the financial statements, other than the auditor's report.

[3]Act of September 21, 1950, Pub. L. No. 797, § 2[17], 64 Stat. 873, 890, *classified as amended at* 12 U.S.C. § 1827.

[4]31 U.S.C. §§ 9101-9110.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT (continued)

We conducted our audits in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

FDIC management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements; (3) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (4) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (5) its assessment about the effectiveness of internal control over financial reporting as of December 31, 2018, included in the accompanying Management's Report on Internal Control over Financial Reporting in appendix I.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements and opinions on FDIC's internal control over financial reporting relevant to the DIF and to the FRF based on our audits. U.S. generally accepted government auditing standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement, and whether effective internal control over financial reporting was maintained in all material respects. We are also responsible for applying certain limited procedures to other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists.[5] The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also includes obtaining an understanding of internal control over financial reporting, and evaluating and testing the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered FDIC's process for evaluating and reporting on internal control

[5]A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT (continued)

over financial reporting based on criteria established under FMFIA. Our audits also included performing such other procedures as we considered necessary in the circumstances.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinions on Financial Statements

In our opinion,

- the DIF's financial statements present fairly, in all material respects, the DIF's financial position as of December 31, 2018, and 2017, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles, and
- the FRF's financial statements present fairly, in all material respects, the FRF's financial position as of December 31, 2018, and 2017, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Opinions on Internal Control over Financial Reporting

In our opinion,

- FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the DIF as of December 31, 2018, based on criteria established under FMFIA, and
- FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the FRF as of December 31, 2018, based on criteria established under FMFIA.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT (continued)

During our 2018 audit, we identified deficiencies in FDIC's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies.[6] Nonetheless, these deficiencies warrant FDIC management's attention. We have communicated these matters to FDIC management and, where appropriate, will report on them separately.

Other Matters

Other Information

FDIC's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming opinions on the DIF and the FRF financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of the financial statements of the DIF and of the FRF, both of which are administered by FDIC, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

FDIC management is responsible for complying with applicable laws, regulations, contracts, and grant agreements.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosures in the financial statements of the DIF and of the FRF, and to perform certain other limited procedures. Accordingly, we did not test FDIC's compliance with all applicable laws, regulations, contracts, and grant agreements.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for 2018 that would be reportable, with respect to the DIF and to the FRF, under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with applicable laws, regulations, contracts, and grant agreements. Accordingly, we do not express such an opinion.

[6]A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

GOVERNMENT ACCOUNTABILITY OFFICE
AUDITOR'S REPORT (continued)

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

In commenting on a draft of this report, FDIC stated that it was pleased to receive unmodified opinions on the DIF's and the FRF's financial statements, and noted that we reported that FDIC had effective internal control over financial reporting and that there was no reportable noncompliance with tested provisions of applicable laws, regulations, contracts, and grant agreements. FDIC also stated that it recognizes the important role a strong internal control program plays in an agency achieving its mission and that it remains committed to ensuring sound financial management remains a top priority. The complete text of FDIC's response is reprinted in appendix II.

James R. Dalkin
Director
Financial Management and Assurance

February 7, 2019

Appendix I

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Office of the Chairman

Management's Report on Internal Control over Financial Reporting

The Federal Deposit Insurance Corporation's (FDIC's) internal control over financial reporting relevant to the Deposit Insurance Fund (DIF) and the FSLIC Resolution Fund (FRF) is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

FDIC management is responsible for establishing and maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. FDIC management evaluated the effectiveness of the FDIC's internal control over financial reporting relevant to the DIF and the FRF as of December 31, 2018, based on the criteria established under 31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act (FMFIA)). FDIC management performed this evaluation through its corporate risk management program that seeks to comply with the spirit of the following laws, standards, and guidance from the Office of Management and Budget (OMB) among others: FMFIA; Chief Financial Officers Act (CFO Act); Government Performance and Results Act (GPRA); Federal Information Security Management Act (FISMA); and OMB Circular A-123. In addition, other standards that the FDIC considers are the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission's *Internal Control – Integrated Framework* and the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government.*

Based on the above evaluation, management concludes that, as of December 31, 2018, FDIC's internal control over financial reporting relevant to the DIF and the FRF was effective.

Jelena McWilliams
Chairman

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

February 7, 2019

Appendix II

MANAGEMENT'S RESPONSE TO THE AUDITOR'S REPORT

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Deputy to the Chairman and CFO

February 7, 2019

Mr. James Dalkin
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Re: FDIC Management Response to the 2018 Financial Statements Audit Report

Dear Mr. Dalkin:

Thank you for the opportunity to review and comment on the U.S. Government Accountability Office's (GAO's) draft report titled, Financial Audit: Federal Deposit Insurance Corporation Funds' 2018 and 2017 Financial Statements, GAO-19-295R. We are pleased that the Federal Deposit Insurance Corporation (FDIC) has received unmodified opinions for the twenty-seventh consecutive year on the financial statements of its funds: the Deposit Insurance Fund (DIF) and the FSLIC Resolution Fund (FRF). Also, GAO reported that the FDIC had effective internal control over financial reporting, and that there was no reportable noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements that were tested.

During the audit year, the FDIC management and staff worked to improve the internal control environment and will continue to focus on this area in the coming audit year. FDIC recognizes the important role a strong internal control program plays in an agency achieving its mission. We remain committed to ensuring sound financial management remains a top priority.

In complying with audit standards that require management to provide a written assessment about the effectiveness of its internal control over financial reporting, the FDIC has prepared Management's Report on Internal Control over Financial Reporting. The report acknowledges management's responsibility for establishing and maintaining internal control over financial reporting and provides the FDIC's conclusion regarding the effectiveness of its internal control.

We want to thank the GAO staff for their professionalism and dedication during the audit and look forward to another positive and productive relationship during the 2019 audit. If you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

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

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VI. RISK MANAGEMENT AND INTERNAL CONTROLS

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The FDIC uses several means to maintain comprehensive internal controls, ensure the overall effectiveness and efficiency of operations, and otherwise comply as necessary with the following federal standards, among others:

- Chief Financial Officers' Act (CFO Act)
- Federal Managers' Financial Integrity Act (FMFIA)
- Federal Financial Management Improvement Act (FFMIA)
- Government Performance and Results Act (GPRA)
- Federal Information Security Modernization Act of 2014 (FISMA)
- OMB Circular A-123
- GAO's *Standards for Internal Control in the Federal Government*

As a foundation for these efforts, the Division of Finance, Risk Management and Internal Controls Branch (RMIC) oversees a corporate-wide program of relevant activities by establishing policies and working with management in each division and office in the FDIC. The FDIC has made a concerted effort to ensure that financial, reputational, and operational risks have been identified and that corresponding control needs are being incorporated into day-to-day operations. The program also requires that comprehensive procedures be documented, employees be thoroughly trained, and supervisors be held accountable for performance and results. Compliance monitoring is carried out through periodic management reviews and by the distribution of various activity reports to all levels of management. Conscientious attention is also paid to the implementation of audit recommendations made by the FDIC Office of Inspector General, the GAO, and other providers of external/audit scrutiny. The FDIC has received unmodified opinions on its financial statement audits for 27 consecutive years, and these and other positive results reflect the effectiveness of the overall management control program.

In 2018, efforts were focused on enhancing FDIC's Risk Management program (updating the enterprise risk management and internal control directive, drafting the risk appetite statement, updating the risk profile), improving data mining capabilities, identifying performance metrics, mapping key operational areas, exploring opportunities for process improvement, monitoring FDIC's internal controls over outsourced service providers, continuing efforts with stakeholders on failed bank data, and system security. Considerable energy was devoted to ensuring that the FDIC's processes and systems of control have kept pace with the workload, and that the foundation of controls throughout the FDIC remained strong.

During 2019, RMIC will focus on the Corporate Enterprise Risk Management Program, Model Risk Management validation, enhancing the internal control program, exploring opportunities for process improvement, monitoring FDIC's internal controls over outsourced service providers, and system security. Also, continued emphasis and management scrutiny will be applied to the accuracy and integrity of transactions and oversight of systems development efforts in general.

FRAUD REDUCTION AND DATA ANALYTICS ACT OF 2015

The Fraud Reduction and Data Analytics Act of 2015 was signed into law on June 30, 2016. The law is intended to improve federal agency financial and administrative controls and procedures to assess and mitigate fraud risks, and to improve federal agencies' development and use of data analytics for the purpose of identifying, preventing, and responding to fraud, including improper payments.

The FDIC's enterprise risk management and internal control program considers the potential for fraud and incorporates elements of Principle 8 – Assess Fraud Risk, of the GAO Standards of Internal Control in the Federal Government. The FDIC implemented a Fraud Risk Assessment Framework as a basis for identifying potential financial fraud risks and

schemes, ensuring that preventive and detective controls are present and working as intended. Examples of fraud risks are contractor payments, wire transfers, travel card purchases, and theft of cash receipts.

As part of the Framework, potential fraud areas are identified and key controls are evaluated/implemented as proactive measures to fraud prevention. Although no system of internal control provides absolute assurance, the FDIC's system of internal control can provide reasonable assurance that key controls are adequate and working as intended. Monitoring activities include supervisory approvals, management reports, and exception reporting.

FDIC management performs due diligence in areas of suspected or alleged fraud. At the conclusion of due diligence, the matter is either closed or referred to the Office of Inspector General for investigation.

During 2018, there was no systemic fraud identified within the FDIC.

MANAGEMENT REPORT ON FINAL ACTIONS

As required under the provisions of Section 5 (as amended) of the Inspector General Act of 1978, the FDIC must report information on final action taken by management on certain audit reports. The tables on the following pages provide information on final action taken by management on audit reports for the federal fiscal year period October 1, 2017, through September 30, 2018.

TABLE 1:
MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH DISALLOWED COSTS FOR FISCAL YEAR 2018
Dollars in Thousands

(There were no audit reports in this category.)

TABLE 2:
MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE FOR FISCAL YEAR 2018
Dollars in Thousands

(There were no audit reports in this category.)

TABLE 3:
AUDIT REPORTS WITHOUT FINAL ACTIONS BUT WITH MANAGEMENT DECISIONS OVER ONE YEAR OLD FOR FISCAL YEAR 2018

Report No. and Issue Date	OIG Audit Finding	Management Action	Disallowed Costs
AUD-16-001 10/28/2015	The Acting CIO should assess the Information Security Manager (ISM) Outsourced Information Service Provider Assessment Methodology processes supporting information service provider assessments to determine and implement any needed improvements to ensure timely completion of assessments.	The FDIC needs additional time to bring the 22 remaining contracts into compliance consistent with recently developed transition and action plans. Due Date: 4/30/2019	$0
EVAL-17-004 2/14/2017	The Director, RMS should continue to communicate to Financial Institutions (FIs) the importance of: fully considering and assessing the risks that Technology Service Providers (TSPs) could have on the FI's ability to manage its own business continuity and incident response planning efforts; ensuring that contracts with TSPs include specific provisions that address FI-identified risks, protect FI interests, and provide details necessary to allow FIs to manage their own business continuity planning and incident response and reporting efforts through TSP operations; and clearly defining key contract terms that would be important in understanding FI and TSP rights and responsibilities in the event of a business disruption or computer security incident particularly for those contracts that FIs identify as critical or that have access to sensitive or personally identifiable information.	Due to the significant coordination required with many agencies, the review and editing of the draft Federal Financial Institutions Examination Council's (FFIEC) Business Continuity Planning Booklet and FFIEC Outsourcing Booklet have experienced significant delays. The agencies are attempting to make the booklets more user-friendly. Due Date: 12/31/2019	$0

**TABLE 3:
AUDIT REPORTS WITHOUT FINAL ACTIONS BUT WITH MANAGEMENT DECISIONS
OVER ONE YEAR OLD FOR FISCAL YEAR 2018 (continued)**

Report No. and Issue Date	OIG Audit Finding	Management Action	Disallowed Costs
EVAL-17-007 9/18/2017	The Director, DOA, should incorporate a risk assessment of individual separating employees into the FDIC's pre-exit clearance process.	Additional time is needed for DOA to assess currently-available operational and analytical tools to determine what tools can be used in supporting the Insider Threat and Counterintelligence Program (ITCIP). DOA will continue to analyze existing internal analytic capabilities and work with the CIOO to establish cybersecurity monitoring and mitigation capabilities (e.g., forensics, incident management systems, and data loss prevention methodologies) while protecting individual legal and privacy rights. The procedures and protocols will be drafted for appropriate review once the tools are identified and put into place. Due Date: 3/29/2019	$0
	The Director, DOA, should work with the FDIC's Chief Information Officer to establish appropriate policy for using Data Loss Prevention (DLP) to support the FDIC's pre-exit clearance process.	More time is needed to complete the revisions to the Directive and to allow for sufficient time for the Directive Review Process. Due Date: 3/29/2019	
	The Director, DOA, should work with the FDIC's Chief Information Officer to develop an expanded and better defined use of the Data Loss Prevention (DLP) tool for separating contractors.	As the process for notification for contractor personnel is different than the process for employees, more time is needed to effectuate this change so that the Computer Security Incident Response Team (CSIRT) is notified in a timely fashion. Due Date: 2/18/2019	

VII. APPENDICES

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A. KEY STATISTICS

FDIC ACTIONS ON FINANCIAL INSTITUTIONS APPLICATIONS 2016–2018			
	2018	2017	2016
Deposit Insurance	**17**	**12**	**7**
Approved[1]	17	12	7
Denied	0	0	0
New Branches	**533**	**500**	**507**
Approved	533	500	507
Denied	0	0	0
Mergers	**224**	**218**	**245**
Approved	224	218	245
Denied	0	0	0
Requests for Consent to Serve[2]	**120**	**104**	**167**
Approved	120	104	164
Section 19	7	1	9
Section 32	113	103	155
Denied	0	0	3
Section 19	0	0	0
Section 32	0	0	3
Notices of Change in Control	**21**	**17**	**14**
Letters of Intent Not to Disapprove	21	17	14
Disapproved	0	0	0
Brokered Deposit Waivers	**5**	**12**	**14**
Approved	5	11	13
Denied	0	1	1
Savings Association Activities[3]	**0**	**1**	**0**
Approved	0	1	0
Denied	0	0	0
State Bank Activities/Investments[4]	**9**	**2**	**5**
Approved	9	2	5
Denied	0	0	0
Conversion of Mutual Institutions	**2**	**5**	**5**
Non-Objection	2	5	5
Objection	0	0	0

[1] Includes deposit insurance application filed on behalf of (1) newly organized institutions, (2) existing uninsured financial services companies seeking establishment as an insured institution, and (3) interim institutions established to facilitate merger or conversion transactions, and applications to facilitate the establishment of thrift holding companies.

[2] Under Section 19 of the Federal Deposit Insurance (FDI) Act, an insured institution must receive FDIC approval before employing a person convicted of dishonesty or breach of trust. Under Section 32, the FDIC must approve any change of directors or senior executive officers at a state nonmember bank that is not in compliance with capital requirements or is otherwise in troubled condition.

[3] Section 28 of the FDI Act, in general, prohibits a federally-insured state savings association from engaging in an activity not permissible for a federal savings association and requires notices or applications to be filed with the FDIC.

[4] Section 24 of the FDI Act, in general, prohibits a federally-insured state bank from engaging in an activity not permissible for a national bank and requires notices or applications to be filed with the FDIC.

COMBINED RISK AND CONSUMER ENFORCEMENT ACTIONS 2016–2018			
	2018	2017	2016
Total Number of Actions Initiated by the FDIC	**177**	**231**	**259**
Termination of Insurance	**8**	**9**	**5**
Involuntary Termination	**0**	**0**	**0**
Sec. 8a For Violations, Unsafe/Unsound Practices or Conditions	0	0	0
Voluntary Termination	**8**	**9**	**5**
Sec. 8a By Order Upon Request	0	0	0
Sec. 8p No Deposits	7	8	5
Sec. 8q Deposits Assumed	1	1	0
Sec. 8b Cease-and-Desist Actions	**23**	**26**	**30**
Notices of Charges Issued	1	0	2
Orders to Pay Restitution	5	4	0
Consent Orders	17	14	26
Personal Cease and Desist Orders	0	8	2
Sec. 8e Removal/Prohibition of Director or Officer	**52**	**65**	**97**
Notices of Intention to Remove/Prohibit	2	7	8
Consent Orders	50	58	89
Sec. 8g Suspension/Removal When Charged With Crime	**0**	**0**	**0**
Civil Money Penalties Issued	**25**	**47**	**37**
Sec. 7a Call Report Penalties	0	0	0
Sec. 8i Civil Money Penalties	23	42	34
Sec. 8i Civil Money Penalty Notices of Assessment	2	5	3
Sec. 10c Orders of Investigation	**6**	**9**	**10**
Sec. 19 Waiver Orders	**59**	**71**	**72**
Approved Section 19 Waiver Orders	59	71	72
Denied Section 19 Waiver Orders	0	0	0
Sec. 32 Notices Disapproving Officer/Director's Request for Review	**0**	**0**	**1**
Truth-in-Lending Act Reimbursement Actions	**91**	**135**	**83**
Denials of Requests for Relief	0	0	0
Grants of Relief	0	0	0
Banks Making Reimbursement*	91	135	83
Suspicious Activity Reports (Open and closed institutions)*	**193,585**	**182,647**	**222,836**
Other Actions Not Listed	**4**	**4**	**7**

* These actions do not constitute the initiation of a formal enforcement action and, therefore, are not included in the total number of actions initiated.

ESTIMATED INSURED DEPOSITS AND THE DEPOSIT INSURANCE FUND, DECEMBER 31, 1934, THROUGH SEPTEMBER 30, 2018[1]

Dollars in Millions (except Insurance Coverage)

		Deposits in Insured Institutions[2]				Insurance Fund as a Percentage of	
Year	Insurance Coverage[2]	Total Domestic Deposits	Est. Insured Deposits	Percentage of Domestic Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
2018	$250,000	$12,368,002	$7,376,566	59.6	$100,204.0	0.81	1.36
2017	250,000	12,129,503	7,159,748	59.0	92,747.5	0.76	1.30
2016	250,000	11,693,371	6,917,928	59.2	83,161.5	0.71	1.20
2015	250,000	10,952,922	6,519,449	59.5	72,600.2	0.66	1.11
2014	250,000	10,410,687	6,195,554	59.5	62,780.2	0.60	1.01
2013	250,000	9,825,479	5,998,238	61.0	47,190.8	0.48	0.79
2012	250,000	9,474,720	7,402,053	78.1	32,957.8	0.35	0.45
2011	250,000	8,782,291	6,973,483	79.4	11,826.5	0.13	0.17
2010	250,000	7,887,858	6,301,542	79.9	(7,352.2)	(0.09)	(0.12)
2009	250,000	7,705,354	5,407,773	70.2	(20,861.8)	(0.27)	(0.39)
2008	100,000	7,505,408	4,750,783	63.3	17,276.3	0.23	0.36
2007	100,000	6,921,678	4,292,211	62.0	52,413.0	0.76	1.22
2006	100,000	6,640,097	4,153,808	62.6	50,165.3	0.76	1.21
2005	100,000	6,229,753	3,890,930	62.5	48,596.6	0.78	1.25
2004	100,000	5,724,621	3,622,059	63.3	47,506.8	0.83	1.31
2003	100,000	5,223,922	3,452,497	66.1	46,022.3	0.88	1.33
2002	100,000	4,916,078	3,383,598	68.8	43,797.0	0.89	1.29
2001	100,000	4,564,064	3,215,581	70.5	41,373.8	0.91	1.29
2000	100,000	4,211,895	3,055,108	72.5	41,733.8	0.99	1.37
1999	100,000	3,885,826	2,869,208	73.8	39,694.9	1.02	1.38
1998	100,000	3,817,150	2,850,452	74.7	39,452.1	1.03	1.38
1997	100,000	3,602,189	2,746,477	76.2	37,660.8	1.05	1.37
1996	100,000	3,454,556	2,690,439	77.9	35,742.8	1.03	1.33
1995	100,000	3,318,595	2,663,873	80.3	28,811.5	0.87	1.08
1994	100,000	3,184,410	2,588,619	81.3	23,784.5	0.75	0.92
1993	100,000	3,220,302	2,602,781	80.8	14,277.3	0.44	0.55
1992	100,000	3,275,530	2,677,709	81.7	178.4	0.01	0.01
1991	100,000	3,331,312	2,733,387	82.1	(6,934.0)	(0.21)	(0.25)
1990	100,000	3,415,464	2,784,838	81.5	4,062.7	0.12	0.15
1989	100,000	3,412,503	2,755,471	80.7	13,209.5	0.39	0.48
1988	100,000	2,337,080	1,756,771	75.2	14,061.1	0.60	0.80
1987	100,000	2,198,648	1,657,291	75.4	18,301.8	0.83	1.10
1986	100,000	2,162,687	1,636,915	75.7	18,253.3	0.84	1.12

ESTIMATED INSURED DEPOSITS AND THE DEPOSIT INSURANCE FUND, DECEMBER 31, 1934, THROUGH SEPTEMBER 30, 2018[1] (continued)

Dollars in Millions (except Insurance Coverage)

		Deposits in Insured Institutions[2]				Insurance Fund as a Percentage of	
Year	Insurance Coverage[2]	Total Domestic Deposits	Est. Insured Deposits	Percentage of Domestic Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
1985	100,000	1,975,030	1,510,496	76.5	17,956.9	0.91	1.19
1984	100,000	1,805,334	1,393,421	77.2	16,529.4	0.92	1.19
1983	100,000	1,690,576	1,268,332	75.0	15,429.1	0.91	1.22
1982	100,000	1,544,697	1,134,221	73.4	13,770.9	0.89	1.21
1981	100,000	1,409,322	988,898	70.2	12,246.1	0.87	1.24
1980	100,000	1,324,463	948,717	71.6	11,019.5	0.83	1.16
1979	40,000	1,226,943	808,555	65.9	9,792.7	0.80	1.21
1978	40,000	1,145,835	760,706	66.4	8,796.0	0.77	1.16
1977	40,000	1,050,435	692,533	65.9	7,992.8	0.76	1.15
1976	40,000	941,923	628,263	66.7	7,268.8	0.77	1.16
1975	40,000	875,985	569,101	65.0	6,716.0	0.77	1.18
1974	40,000	833,277	520,309	62.4	6,124.2	0.73	1.18
1973	20,000	766,509	465,600	60.7	5,615.3	0.73	1.21
1972	20,000	697,480	419,756	60.2	5,158.7	0.74	1.23
1971	20,000	610,685	374,568	61.3	4,739.9	0.78	1.27
1970	20,000	545,198	349,581	64.1	4,379.6	0.80	1.25
1969	20,000	495,858	313,085	63.1	4,051.1	0.82	1.29
1968	15,000	491,513	296,701	60.4	3,749.2	0.76	1.26
1967	15,000	448,709	261,149	58.2	3,485.5	0.78	1.33
1966	15,000	401,096	234,150	58.4	3,252.0	0.81	1.39
1965	10,000	377,400	209,690	55.6	3,036.3	0.80	1.45
1964	10,000	348,981	191,787	55.0	2,844.7	0.82	1.48
1963	10,000	313,304	177,381	56.6	2,667.9	0.85	1.50
1962	10,000	297,548	170,210	57.2	2,502.0	0.84	1.47
1961	10,000	281,304	160,309	57.0	2,353.8	0.84	1.47
1960	10,000	260,495	149,684	57.5	2,222.2	0.85	1.48
1959	10,000	247,589	142,131	57.4	2,089.8	0.84	1.47
1958	10,000	242,445	137,698	56.8	1,965.4	0.81	1.43
1957	10,000	225,507	127,055	56.3	1,850.5	0.82	1.46
1956	10,000	219,393	121,008	55.2	1,742.1	0.79	1.44
1955	10,000	212,226	116,380	54.8	1,639.6	0.77	1.41
1954	10,000	203,195	110,973	54.6	1,542.7	0.76	1.39
1953	10,000	193,466	105,610	54.6	1,450.7	0.75	1.37

ESTIMATED INSURED DEPOSITS AND THE DEPOSIT INSURANCE FUND, DECEMBER 31, 1934, THROUGH SEPTEMBER 30, 2018[1] (continued)

Dollars in Millions (except Insurance Coverage)

	Deposits in Insured Institutions[2]					Insurance Fund as a Percentage of	
Year	Insurance Coverage[2]	Total Domestic Deposits	Est. Insured Deposits	Percentage of Domestic Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
1952	10,000	188,142	101,841	54.1	1,363.5	0.72	1.34
1951	10,000	178,540	96,713	54.2	1,282.2	0.72	1.33
1950	10,000	167,818	91,359	54.4	1,243.9	0.74	1.36
1949	5,000	156,786	76,589	48.8	1,203.9	0.77	1.57
1948	5,000	153,454	75,320	49.1	1,065.9	0.69	1.42
1947	5,000	154,096	76,254	49.5	1,006.1	0.65	1.32
1946	5,000	148,458	73,759	49.7	1,058.5	0.71	1.44
1945	5,000	157,174	67,021	42.6	929.2	0.59	1.39
1944	5,000	134,662	56,398	41.9	804.3	0.60	1.43
1943	5,000	111,650	48,440	43.4	703.1	0.63	1.45
1942	5,000	89,869	32,837	36.5	616.9	0.69	1.88
1941	5,000	71,209	28,249	39.7	553.5	0.78	1.96
1940	5,000	65,288	26,638	40.8	496.0	0.76	1.86
1939	5,000	57,485	24,650	42.9	452.7	0.79	1.84
1938	5,000	50,791	23,121	45.5	420.5	0.83	1.82
1937	5,000	48,228	22,557	46.8	383.1	0.79	1.70
1936	5,000	50,281	22,330	44.4	343.4	0.68	1.54
1935	5,000	45,125	20,158	44.7	306.0	0.68	1.52
1934	5,000	40,060	18,075	45.1	291.7	0.73	1.61

[1] For 2018, figures are as of September 30; all other prior years are as of December 31. Prior to 1989, figures are for the Bank Insurance Fund (BIF) only and exclude insured branches of foreign banks. For 1989 to 2005, figures represent the sum of the BIF and Savings Association Insurance Fund (SAIF) amounts; for 2006 to 2018, figures are for DIF. Amounts for 1989-2018 include insured branches of foreign banks. Prior to year-end 1991, insured deposits were estimated using percentages determined from June Call and Thrift Financial Reports.

[2] The year-end 2008 coverage limit and estimated insured deposits do not reflect the temporary increase to $250,000 then in effect under the Emergency Economic Stabilization Act of 2008. The Dodd-Frank Wall Street Reform and Consumer Protection (Dodd-Frank) Act made this coverage limit permanent. The year-end 2009 coverage limit and estimated insured deposits reflect the $250,000 coverage limit. The Dodd-Frank Act also temporarily provided unlimited coverage for non-interest bearing transaction accounts for two years beginning December 31, 2010. Coverage for certain retirement accounts increased to $250,000 in 2006. Initial coverage limit was $2,500 from January 1 to June 30, 1934.

INCOME AND EXPENSES, DEPOSIT INSURANCE FUND, FROM BEGINNING OF OPERATIONS, SEPTEMBER 11, 1933, THROUGH DECEMBER 31, 2018

Dollars in Millions

	Income					Expenses and Losses					
Year	Total	Assessment Income	Assessment Credits	Investment and Other	Effective Assessment Rate[1]	Total	Provision for Ins. Losses	Admin. and Operating Expenses[2]	Interest & Other Ins. Expenses	Funding Transfer from the FSLIC Resolu-tion Fund	Net Income/ (Loss)
TOTAL	$253,463.9	$185,121.7	$11,392.9	$79,735.1		$150,511.3	$107,728.6	$33,313.7	$9,469.1	$139.5	$103,092.1
2018	11,170.8	9,526.7	0.0	1,644.1	0.0627%	1,205.2	(562.6)	1,764.7	3.1	0	9,965.6
2017	11,663.7	10,594.8	0.0	1,068.9	0.0716%	1,558.2	(183.1)	1,739.4	2.0	0	10,105.5
2016	10,674.1	9,986.6	0.0	687.5	0.0699%	150.6	(1,567.9)	1,715.0	3.5	0	10,523.5
2015	9,303.5	8,846.8	0.0	456.7	0.0647%	(553.2)	(2,251.3)	1,687.2	10.9	0	9,856.7
2014	8,965.1	8,656.1	0.0	309.0	0.0663%	(6,634.7)	(8,305.5)	1,664.3	6.5	0	15,599.8
2013	10,458.9	9,734.2	0.0	724.7	0.0775%	(4,045.9)	(5,659.4)	1,608.7	4.8	0	14,504.8
2012	18,522.3	12,397.2	0.2	6,125.3	0.1012%	(2,599.0)	(4,222.6)	1,777.5	(153.9)	0	21,121.3
2011	16,342.0	13,499.5	0.9	2,843.4	0.1115%	(2,915.4)	(4,413.6)	1,625.4	(127.2)	0	19,257.4
2010	13,379.9	13,611.2	0.8	(230.5)	0.1772%	75.0	(847.8)	1,592.6	(669.8)	0	13,304.9
2009	24,706.4	17,865.4	148.0	6,989.0	0.2330%	60,709.0	57,711.8	1,271.1	1,726.1	0	(36,002.6)
2008	7,306.3	4,410.4	1,445.9	4,341.8	0.0418%	44,339.5	41,838.8	1,033.5	1,467.2	0	(37,033.2)
2007	3,196.2	3,730.9	3,088.0	2,553.3	0.0093%	1,090.9	95.0	992.6	3.3	0	2,105.3
2006	2,643.5	31.9	0.0	2,611.6	0.0005%	904.3	(52.1)	950.6	5.8	0	1,739.2
2005	2,420.5	60.9	0.0	2,359.6	0.0010%	809.3	(160.2)	965.7	3.8	0	1,611.2
2004	2,240.3	104.2	0.0	2,136.1	0.0019%	607.6	(353.4)	941.3	19.7	0	1,632.7
2003	2,173.6	94.8	0.0	2,078.8	0.0019%	(67.7)	(1,010.5)	935.5	7.3	0	2,241.3
2002	2,384.7	107.8	0.0	2,276.9	0.0023%	719.6	(243.0)	945.1	17.5	0	1,665.1
2001	2,730.1	83.2	0.0	2,646.9	0.0019%	3,123.4	2,199.3	887.9	36.2	0	(393.3)
2000	2,570.1	64.3	0.0	2,505.8	0.0016%	945.2	28.0	883.9	33.3	0	1,624.9
1999	2,416.7	48.4	0.0	2,368.3	0.0013%	2,047.0	1,199.7	823.4	23.9	0	369.7
1998	2,584.6	37.0	0.0	2,547.6	0.0010%	817.5	(5.7)	782.6	40.6	0	1,767.1
1997	2,165.5	38.6	0.0	2,126.9	0.0011%	247.3	(505.7)	677.2	75.8	0	1,918.2
1996	7,156.8	5,294.2	0.0	1,862.6	0.1622%	353.6	(417.2)	568.3	202.5	0	6,803.2
1995	5,229.2	3,877.0	0.0	1,352.2	0.1238%	202.2	(354.2)	510.6	45.8	0	5,027.0
1994	7,682.1	6,722.7	0.0	959.4	0.2192%	(1,825.1)	(2,459.4)	443.2	191.1	0	9,507.2
1993	7,354.5	6,682.0	0.0	672.5	0.2157%	(6,744.4)	(7,660.4)	418.5	497.5	0	14,098.9
1992	6,479.3	5,758.6	0.0	720.7	0.1815%	(596.8)	(2,274.7)	614.8[3]	1,063.1	35.4	7,111.5
1991	5,886.5	5,254.0	0.0	632.5	0.1613%	16,925.3	15,496.2	326.1	1,103.0	42.4	(10,996.4)
1990	3,855.3	2,872.3	0.0	983.0	0.0868%	13,059.3	12,133.1	275.6	650.6	56.1	(9,147.9)
1989	3,494.8	1,885.0	0.0	1,609.8	0.0816%	4,352.2	3,811.3	219.9	321.0	5.6	(851.8)
1988	3,347.7	1,773.0	0.0	1,574.7	0.0825%	7,588.4	6,298.3	223.9	1,066.2	0	(4,240.7)
1987	3,319.4	1,696.0	0.0	1,623.4	0.0833%	3,270.9	2,996.9	204.9	69.1	0	48.5
1986	3,260.1	1,516.9	0.0	1,743.2	0.0787%	2,963.7	2,827.7	180.3	(44.3)	0	296.4
1985	3,385.5	1,433.5	0.0	1,952.0	0.0815%	1,957.9	1,569.0	179.2	209.7	0	1,427.6
1984	3,099.5	1,321.5	0.0	1,778.0	0.0800%	1,999.2	1,633.4	151.2	214.6	0	1,100.3
1983	2,628.1	1,214.9	164.0	1,577.2	0.0714%	969.9	675.1	135.7	159.1	0	1,658.2
1982	2,524.6	1,108.9	96.2	1,511.9	0.0769%	999.8	126.4	129.9	743.5	0	1,524.8

INCOME AND EXPENSES, DEPOSIT INSURANCE FUND, FROM BEGINNING OF OPERATIONS, SEPTEMBER 11, 1933, THROUGH DECEMBER 31, 2018 (continued)

Dollars in Millions

	Income					Expenses and Losses					
Year	Total	Assessment Income	Assessment Credits	Investment and Other	Effective Assessment Rate[1]	Total	Provision for Ins. Losses	Admin. and Operating Expenses[2]	Interest & Other Ins. Expenses	Funding Transfer from the FSLIC Resolu-tion Fund	Net Income/ (Loss)
1981	2,074.7	1,039.0	117.1	1,152.8	0.0714%	848.1	320.4	127.2	400.5	0	1,226.6
1980	1,310.4	951.9	521.1	879.6	0.0370%	83.6	(38.1)	118.2	3.5	0	1,226.8
1979	1,090.4	881.0	524.6	734.0	0.0333%	93.7	(17.2)	106.8	4.1	0	996.7
1978	952.1	810.1	443.1	585.1	0.0385%	148.9	36.5	103.3	9.1	0	803.2
1977	837.8	731.3	411.9	518.4	0.0370%	113.6	20.8	89.3	3.5	0	724.2
1976	764.9	676.1	379.6	468.4	0.0370%	212.3	28.0	180.4[4]	3.9	0	552.6
1975	689.3	641.3	362.4	410.4	0.0357%	97.5	27.6	67.7	2.2	0	591.8
1974	668.1	587.4	285.4	366.1	0.0435%	159.2	97.9	59.2	2.1	0	508.9
1973	561.0	529.4	283.4	315.0	0.0385%	108.2	52.5	54.4	1.3	0	452.8
1972	467.0	468.8	280.3	278.5	0.0333%	65.7	10.1	49.6	6.0[5]	0	401.3
1971	415.3	417.2	241.4	239.5	0.0345%	60.3	13.4	46.9	0.0	0	355.0
1970	382.7	369.3	210.0	223.4	0.0357%	46.0	3.8	42.2	0.0	0	336.7
1969	335.8	364.2	220.2	191.8	0.0333%	34.5	1.0	33.5	0.0	0	301.3
1968	295.0	334.5	202.1	162.6	0.0333%	29.1	0.1	29.0	0.0	0	265.9
1967	263.0	303.1	182.4	142.3	0.0333%	27.3	2.9	24.4	0.0	0	235.7
1966	241.0	284.3	172.6	129.3	0.0323%	19.9	0.1	19.8	0.0	0	221.1
1965	214.6	260.5	158.3	112.4	0.0323%	22.9	5.2	17.7	0.0	0	191.7
1964	197.1	238.2	145.2	104.1	0.0323%	18.4	2.9	15.5	0.0	0	178.7
1963	181.9	220.6	136.4	97.7	0.0313%	15.1	0.7	14.4	0.0	0	166.8
1962	161.1	203.4	126.9	84.6	0.0313%	13.8	0.1	13.7	0.0	0	147.3
1961	147.3	188.9	115.5	73.9	0.0323%	14.8	1.6	13.2	0.0	0	132.5
1960	144.6	180.4	100.8	65.0	0.0370%	12.5	0.1	12.4	0.0	0	132.1
1959	136.5	178.2	99.6	57.9	0.0370%	12.1	0.2	11.9	0.0	0	124.4
1958	126.8	166.8	93.0	53.0	0.0370%	11.6	0.0	11.6	0.0	0	115.2
1957	117.3	159.3	90.2	48.2	0.0357%	9.7	0.1	9.6	0.0	0	107.6
1956	111.9	155.5	87.3	43.7	0.0370%	9.4	0.3	9.1	0.0	0	102.5
1955	105.8	151.5	85.4	39.7	0.0370%	9.0	0.3	8.7	0.0	0	96.8
1954	99.7	144.2	81.8	37.3	0.0357%	7.8	0.1	7.7	0.0	0	91.9
1953	94.2	138.7	78.5	34.0	0.0357%	7.3	0.1	7.2	0.0	0	86.9
1952	88.6	131.0	73.7	31.3	0.0370%	7.8	0.8	7.0	0.0	0	80.8
1951	83.5	124.3	70.0	29.2	0.0370%	6.6	0.0	6.6	0.0	0	76.9
1950	84.8	122.9	68.7	30.6	0.0370%	7.8	1.4	6.4	0.0	0	77.0
1949	151.1	122.7	0.0	28.4	0.0833%	6.4	0.3	6.1	0.0	0	144.7
1948	145.6	119.3	0.0	26.3	0.0833%	7.0	0.7	6.3[6]	0.0	0	138.6
1947	157.5	114.4	0.0	43.1	0.0833%	9.9	0.1	9.8	0.0	0	147.6
1946	130.7	107.0	0.0	23.7	0.0833%	10.0	0.1	9.9	0.0	0	120.7
1945	121.0	93.7	0.0	27.3	0.0833%	9.4	0.1	9.3	0.0	0	111.6
1944	99.3	80.9	0.0	18.4	0.0833%	9.3	0.1	9.2	0.0	0	90.0

INCOME AND EXPENSES, DEPOSIT INSURANCE FUND, FROM BEGINNING OF OPERATIONS, SEPTEMBER 11, 1933, THROUGH DECEMBER 31, 2018 (continued)

Dollars in Millions

	Income					Expenses and Losses					
Year	Total	Assessment Income	Assessment Credits	Investment and Other	Effective Assessment Rate[1]	Total	Provision for Ins. Losses	Admin. and Operating Expenses[2]	Interest & Other Ins. Expenses	Funding Transfer from the FSLIC Resolution Fund	Net Income/ (Loss)
1943	86.6	70.0	0.0	16.6	0.0833%	9.8	0.2	9.6	0.0	0	76.8
1942	69.1	56.5	0.0	12.6	0.0833%	10.1	0.5	9.6	0.0	0	59.0
1941	62.0	51.4	0.0	10.6	0.0833%	10.1	0.6	9.5	0.0	0	51.9
1940	55.9	46.2	0.0	9.7	0.0833%	12.9	3.5	9.4	0.0	0	43.0
1939	51.2	40.7	0.0	10.5	0.0833%	16.4	7.2	9.2	0.0	0	34.8
1938	47.7	38.3	0.0	9.4	0.0833%	11.3	2.5	8.8	0.0	0	36.4
1937	48.2	38.8	0.0	9.4	0.0833%	12.2	3.7	8.5	0.0	0	36.0
1936	43.8	35.6	0.0	8.2	0.0833%	10.9	2.6	8.3	0.0	0	32.9
1935	20.8	11.5	0.0	9.3	0.0833%	11.3	2.8	8.5	0.0	0	9.5
1933-34	7.0	0.0	0.0	7.0	N/A	10.0	0.2	9.8	0.0	0	(3.0)

[1] The effective assessment rate is calculated from annual assessment income (net of assessment credits), excluding transfers to the Financing Corporation (FICO), Resolution Funding Corporation (REFCORP) and FSLIC Resolution Fund, divided by the average assessment base. Figures represent only BIF-insured institutions prior to 1990, and BIF- and SAIF-insured institutions from 1990 through 2005. After 1995, all thrift closings became the responsibility of the FDIC and amounts are reflected in the SAIF. Beginning in 2006, figures are for the DIF.

The annualized assessment rate for 2018 is based on full year assessment income divided by a four quarter average of 2018 quarterly assessment base amounts. The assessment base for fourth quarter 2018 was estimated using the third quarter 2018 assessment base and an assumed quarterly growth rate of one percent.

Historical Assessment Rates:

1934 – 1949 The statutory assessment rate was 0.0833 percent.

1950 – 1984 The effective assessment rates varied from the statutory rate of 0.0833 percent due to assessment credits provided in those years.

1985 – 1989 The statutory assessment rate was 0.0833 percent (no credits were given).

1990 The statutory rate increased to 0.12 percent.

1991 – 1992 The statutory rate increased to a minimum of 0.15 percent. The effective rates in 1991 and 1992 varied because the FDIC exercised new authority to increase assessments above the statutory minimum rate when needed.

1993 – 2006 Beginning in 1993, the effective rate was based on a risk-related premium system under which institutions paid assessments in the range of 0.23 percent to 0.31 percent. In May 1995, the BIF reached the mandatory recapitalization level of 1.25 percent. As a result, BIF assessment rates were reduced to a range of 0.04 percent to 0.31 percent of assessable deposits, effective June 1995, and assessments totaling $1.5 billion were refunded in September 1995. Assessment rates for the BIF were lowered again to a range of 0 to 0.27 percent of assessable deposits, effective the start of 1996. In 1996, the SAIF collected a one-time special assessment of $4.5 billion. Subsequently, assessment rates for the SAIF were lowered to the same range as the BIF, effective October 1996. This range of rates remained unchanged for both funds through 2006.

2007 – 2008 As part of the implementation of the Federal Deposit Insurance Reform Act of 2005, assessment rates were increased to a range of 0.05 percent to 0.43 percent of assessable deposits effective at the start of 2007, but many institutions received a one-time assessment credit ($4.7 billion in total) to offset the new assessments.

2009 – 2011 For the first quarter of 2009, assessment rates were increased to a range of 0.12 percent to 0.50 percent of assessable deposits. On June 30, 2009, a special assessment was imposed on all insured banks and thrifts, which amounted in aggregate to approximately $5.4 billion. For 8,106 institutions, with $9.3 trillion in assets, the special assessment was 5 basis points of each insured institution's assets minus tier one capital; 89 other institutions, with assets of $4.0 trillion, had their special assessment capped at 10 basis points of their second quarter assessment base. From the second quarter of 2009 through the first quarter of 2011, initial assessment rates ranged between 0.12 percent and 0.45 percent of assessable deposits. Initial rates are subject to further adjustments.

2011 – 2016 Beginning in the second quarter of 2011, the assessment base changed to average total consolidated assets less average tangible equity (with certain adjustments for banker's banks and custodial banks), as required by the Dodd-Frank Act. The FDIC implemented a new assessment rate schedule at the same time to conform to the larger assessment base. Initial assessment rates were lowered to a range of 0.05 percent to 0.35 percent of the new base. The annualized assessment rates averaged approximately 17.6 cents per $100 of assessable deposits for the first quarter of 2011 and 11.1 cents per $100 of the new base for the last three quarters of 2011 (which is shown in the table).

2016 Beginning July 1, 2016, initial assessment rates were lowered from a range of 5 basis points to 35 basis points to a range of 3 basis points to 30 basis points, and an additional surcharge was imposed on large banks (generally institutions with $10 billion or more in assets) of 4.5 basis points of their assessment base (after making adjustments).

2018 The 4.5 basis point surcharge imposed on large banks ended effective October 1, 2018. The annualized assessment rates averaged approximately 7.2 cents per $100 of the assessable base for the first three quarters of 2018 and 3.5 cents per $100 of the assessment base for the last quarter of 2018. The full year annualized assessment rate averaged 6.3 cent per $100 (which is shown in the table).

[2] These expenses, which are presented as operating expenses in the Statement of Income and Fund Balance, pertain to the FDIC in its corporate capacity only and do not include costs that are charged to the failed bank receiverships that are managed by the FDIC. The receivership expenses are presented as part of the "Receivables from Resolutions, net" line on the Balance Sheet. The narrative and graph presented on page 91 of this report shows the aggregate (corporate and receivership) expenditures of the FDIC.

[3] Includes $210 million for the cumulative effect of an accounting change for certain postretirement benefits (1992).

[4] Includes a $106 million net loss on government securities (1976).

[5] This amount represents interest and other insurance expenses from 1933 to 1972.

[6] Includes the aggregate amount of $81 million of interest paid on capital stock between 1933 and 1948.

RECOVERIES AND LOSSES BY THE DEPOSIT INSURANCE FUND ON DISBURSEMENTS FOR THE PROTECTION OF DEPOSITORS, 1934 - 2018

Dollars in Thousands

Bank and Thrift Failures[1]

Year[2]	Number of Banks/ Thrifts	Total Assets[3]	Total Deposits[3]	Funding[4]	Recoveries[5]	Estimated Additional Recoveries	Final and Estimated Losses[6]
	2,623	**$946,643,412**	**$712,938,506**	**$586,979,457**	**$416,409,979**	**$63,951,764**	**$106,617,718**
2018	0	-	-	-	-	-	-
2017	8	5,081,737	4,683,360	4,589,179	1,712,445	1,724,535	1,152,198
2016	5	277,182	268,516	262,017	12,907	204,981	44,129
2015	8	6,706,038	4,574,170	4,564,024	848,530	2,858,451	857,043
2014	18	2,913,503	2,691,485	2,682,954	475,347	1,815,118	392,489
2013	24	6,044,051	5,132,246	5,022,388	323,205	3,470,020	1,229,163
2012	51	11,617,348	11,009,630	11,041,622	1,782,176	6,822,310	2,437,136
2011	92	34,922,997	31,071,862	30,714,170	3,267,259	20,988,008	6,458,902
2010[7]	157	92,084,988	78,290,185	82,305,089	55,641,718	10,456,842	16,206,529
2009[7]	140	169,709,160	137,835,121	136,081,390	95,397,606	14,071,401	26,612,383
2008[7]	25	371,945,480	234,321,715	205,833,992	184,490,213	3,204,012	18,139,767
2007	3	2,614,928	2,424,187	1,920,159	1,474,822	285,662	159,676
2006	0	0	0	0	0	0	0
2005	0	0	0	0	0	0	0
2004	4	170,099	156,733	139,244	134,978	349	3,917
2003	3	947,317	901,978	883,772	812,933	8,192	62,647
2002	11	2,872,720	2,512,834	1,567,805	1,711,173	(557,357)	413,989
2001	4	1,821,760	1,661,214	21,131	1,138,677	(1,410,011)	292,465
2000	7	410,160	342,584	297,313	265,175	0	32,138
1999	8	1,592,189	1,320,573	1,308,316	718,057	4,233	586,027
1998	3	290,238	260,675	293,117	69,575	1,937	221,606
1997	1	27,923	27,511	25,546	20,520	0	5,026
1996	6	232,634	230,390	201,533	140,918	0	60,615
1995	6	802,124	776,387	609,043	524,571	0	84,472
1994	13	1,463,874	1,397,018	1,224,769	1,045,718	0	179,051
1993	41	3,828,939	3,509,341	3,841,658	3,209,012	0	632,646
1992	120	45,357,237	39,921,310	14,541,476	10,866,760	567	3,674,149
1991	124	64,556,512	52,972,034	21,501,749	15,496,730	2,512	6,002,507
1990	168	16,923,462	15,124,454	10,812,484	8,040,995	0	2,771,489
1989	206	28,930,572	24,152,468	11,443,281	5,247,995	0	6,195,286
1988	200	38,402,475	26,524,014	10,432,655	5,055,158	0	5,377,497
1987	184	6,928,889	6,599,180	4,876,994	3,014,502	0	1,862,492
1986	138	7,356,544	6,638,903	4,632,121	2,949,583	0	1,682,538
1985	116	3,090,897	2,889,801	2,154,955	1,506,776	0	648,179
1984	78	2,962,179	2,665,797	2,165,036	1,641,157	0	523,879
1983	44	3,580,132	2,832,184	3,042,392	1,973,037	0	1,069,355
1982	32	1,213,316	1,056,483	545,612	419,825	0	125,787
1981	7	108,749	100,154	114,944	105,956	0	8,988
1980	10	239,316	219,890	152,355	121,675	0	30,680
1934 - 1979	558	8,615,743	5,842,119	5,133,173	4,752,295	0	380,878

RECOVERIES AND LOSSES BY THE DEPOSIT INSURANCE FUND ON DISBURSEMENTS FOR THE PROTECTION OF DEPOSITORS, 1934 - 2018 (continued)

Dollars in Thousands

Assistance Transactions[1]

Year[2]	Number of Banks/ Thrifts	Total Assets[3]	Total Deposits[3]	Funding[4]	Recoveries[5]	Estimated Additional Recoveries	Final and Estimated Losses[6]
	154	**$3,317,099,253**	**$1,442,173,417**	**$11,630,356**	**$6,199,875**	**$0**	**$5,430,481**
2018	0	0	0	0	0	0	0
2017	0	0	0	0	0	0	0
2016	0	0	0	0	0	0	0
2015	0	0	0	0	0	0	0
2014	0	0	0	0	0	0	0
2013	0	0	0	0	0	0	0
2012	0	0	0	0	0	0	0
2011	0	0	0	0	0	0	0
2010	0	0	0	0	0	0	0
2009[8]	8	1,917,482,183	1,090,318,282	0	0	0	0
2008[8]	5	1,306,041,994	280,806,966	0	0	0	0
2007	0	0	0	0	0	0	0
2006	0	0	0	0	0	0	0
2005	0	0	0	0	0	0	0
2004	0	0	0	0	0	0	0
2003	0	0	0	0	0	0	0
2002	0	0	0	0	0	0	0
2001	0	0	0	0	0	0	0
2000	0	0	0	0	0	0	0
1999	0	0	0	0	0	0	0
1998	0	0	0	0	0	0	0
1997	0	0	0	0	0	0	0
1996	0	0	0	0	0	0	0
1995	0	0	0	0	0	0	0
1994	0	0	0	0	0	0	0
1993	0	0	0	0	0	0	0
1992	2	33,831	33,117	1,486	1,236	0	250
1991	3	78,524	75,720	6,117	3,093	0	3,024
1990	1	14,206	14,628	4,935	2,597	0	2,338
1989	1	4,438	6,396	2,548	252	0	2,296
1988	80	15,493,939	11,793,702	1,730,351	189,709	0	1,540,642

RECOVERIES AND LOSSES BY THE DEPOSIT INSURANCE FUND ON DISBURSEMENTS FOR THE PROTECTION OF DEPOSITORS, 1934 - 2018 (continued)

Dollars in Thousands

Assistance Transactions[1] (continued)

Year[2]	Number of Banks/ Thrifts	Total Assets[3]	Total Deposits[3]	Funding[4]	Recoveries[5]	Estimated Additional Recoveries	Final and Estimated Losses[6]
1987	19	2,478,124	2,275,642	160,877	713	0	160,164
1986	7	712,558	585,248	158,848	65,669	0	93,179
1985	4	5,886,381	5,580,359	765,732	406,676	0	359,056
1984	2	40,470,332	29,088,247	5,531,179	4,414,904	0	1,116,275
1983	4	3,611,549	3,011,406	764,690	427,007	0	337,683
1982	10	10,509,286	9,118,382	1,729,538	686,754	0	1,042,784
1981	3	4,838,612	3,914,268	774,055	1,265	0	772,790
1980	1	7,953,042	5,001,755	0	0	0	0
1934-1979	4	1,490,254	549,299	0	0	0	0

[1] Institutions for which the FDIC is appointed receiver, including deposit payoff, insured deposit transfer, and deposit assumption cases.

[2] For 1990 through 2005, amounts represent the sum of BIF and SAIF failures (excluding those handled by the RTC); prior to 1990, figures are only for the BIF. After 1995, all thrift closings became the responsibility of the FDIC and amounts are reflected in the SAIF. For 2006 to 2018, figures are for the DIF.

[3] Assets and deposit data are based on the last Call Report or TFR filed before failure.

[4] Funding represents the amounts provided by the DIF to receiverships for subrogated claims, advances for working capital, and administrative expenses paid on their behalf. Beginning in 2008, the DIF resolves failures using whole-bank purchase and assumption transactions, most with an accompanying shared-loss agreement (SLA). The DIF satisfies any resulting liabilities by offsetting receivables from resolutions when receiverships declare a dividend and/or sending cash directly to receiverships to fund an SLA and other expenses.

[5] Recoveries represent cash received and dividends (cash and non-cash) declared by receiverships.

[6] Final losses represent actual losses for unreimbursed subrogated claims of inactivated receiverships. Estimated losses generally represent the difference between the amount paid by the DIF to cover obligations to insured depositors and the estimated recoveries from the liquidation of receivership assets.

[7] Includes amounts related to transaction account coverage under the Transaction Account Guarantee Program (TAG). The estimated losses as of December 31, 2018, for TAG accounts in 2010, 2009, and 2008 are $372 million, $1.1 billion, and $12 million, respectively.

[8] Includes institutions where assistance was provided under a systemic risk determination.

NUMBER, ASSETS, DEPOSITS, LOSSES, AND LOSS TO FUNDS OF INSURED THRIFTS TAKEN OVER OR CLOSED BECAUSE OF FINANCIAL DIFFICULTIES, 1989 THROUGH 1995[1]

Dollars in Thousands

Year	Number of Institutions	Assets	Deposits	Final Receivership Loss[2]	Loss to Fund[3]
Total	**748**	**$393,986,574**	**$318,328,770**	**$75,977,846**	**$81,580,554**
1995	2	423,819	414,692	28,192	27,750
1994	2	136,815	127,508	11,472	14,599
1993	10	6,147,962	5,708,253	267,595	65,212
1992	59	44,196,946	34,773,224	3,286,908	3,832,145
1991	144	78,898,904	65,173,122	9,235,967	9,734,263
1990	213	129,662,498	98,963,962	16,062,685	19,257,578
1989[4]	318	134,519,630	113,168,009	47,085,027	48,649,007

[1] Beginning in 1989 through July 1, 1995, all thrift closings were the responsibility of the Resolution Trust Corporation (RTC). Since the RTC was terminated on December 31, 1995, and all assets and liabilities transferred to the FSLIC Resolution Fund (FRF), all the results of the thrift closing activity from 1989 through 1995 are now reflected on the FRF's books. Year is the year of failure, not the year of resolution.

[2] The Final Receivership Loss represents the loss at the fund level from receiverships for unreimbursed subrogated claims of the FRF-RTC and unpaid advances to receiverships from the FRF-RTC.

[3] The Loss to Fund represents the total resolution cost of the failed thrifts in the FRF-RTC fund. In addition to the receivership losses, this includes corporate revenue and expense items such as interest expense on Federal Financing Bank debt, interest expense on escrowed funds, administrative expenses, and interest revenue on advances to receiverships.

[4] Total for 1989 excludes nine failures of the former FSLIC.

B. MORE ABOUT THE FDIC

FDIC Board of Directors

Jelena McWilliams

Jelena McWilliams is the 21st Chairman of the FDIC. She was nominated by President Donald J. Trump on November 30, 2017, and confirmed by the Senate on May 24, 2018, to serve a six-year term on the FDIC Board of Directors, and designated as Chairman for a term of five years.

Ms. McWilliams was Executive Vice President, Chief Legal Officer, and Corporate Secretary for Fifth Third Bank in Cincinnati, Ohio. Prior to joining Fifth Third Bank, Ms. McWilliams worked in the United States Senate for six years, most recently as Chief Counsel and Deputy Staff Director with the Senate Committee on Banking, Housing and Urban Affairs, and previously as Assistant Chief Counsel with the Senate Small Business and Entrepreneurship Committee. From 2007 to 2010, Ms. McWilliams served as an attorney at the Federal Reserve Board of Governors. Before entering public service, she practiced corporate and securities law at Morrison & Foerster LLP in Palo Alto, California, and Hogan & Hartson LLP (now Hogan Lovells LLP) in Washington, D.C.

Ms. McWilliams graduated with highest honors from the University of California at Berkeley with a B.S. in political science, and earned her law degree from U.C. Berkeley School of Law.

Martin J. Gruenberg

Martin J. Gruenberg is the 20th Chairman of the FDIC, receiving Senate confirmation on November 15, 2012, for a five-year term. Mr. Gruenberg served as Vice Chairman and Member of the FDIC Board of Directors from August 22, 2005, until his confirmation as Chairman. He served as Acting Chairman from July 9, 2011, to November 15, 2012, and also from November 16, 2005, to June 26, 2006.

Mr. Gruenberg joined the FDIC Board after broad congressional experience in the financial services and regulatory areas. He served as Senior Counsel to Senator Paul S. Sarbanes (D-MD) on the staff of the Senate Committee on Banking, Housing, and Urban Affairs from 1993 to 2005. Mr. Gruenberg advised the Senator on issues of domestic and international financial regulation, monetary policy, and trade. He also served as Staff Director of the Banking Committee's Subcommittee on International Finance and Monetary Policy from 1987 to 1992. Major legislation in which Mr. Gruenberg played an active role during his service on the Committee includes the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA); the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA); the Gramm-Leach-Bliley Act; and the Sarbanes-Oxley Act of 2002.

Mr. Gruenberg served as Chairman of the Executive Council and President of the International Association of Deposit Insurers (IADI) from November 2007 to November 2012.

Mr. Gruenberg holds a J.D. from Case Western Reserve Law School and an A.B. from Princeton University, Woodrow Wilson School of Public and International Affairs.

Kathleen L. Kraninger

Kathy Kraninger became Director of the Consumer Financial Protection Bureau (CFPB) in December, 2018. From her early days as a Peace Corps volunteer, to her role establishing the Department of Homeland Security (DHS), to her policy work at the Office of Management and Budget (OMB) to the CFPB, Director Kraninger has dedicated her career to public service.

Director Kraninger came to the CFPB from OMB, where as a Policy Associate Director she oversaw the budgets for executive branch agencies including the Departments of Commerce, Justice, DHS, Housing and Urban Development, Department of Transportation (DOT), and the Department of Treasury, in addition to 30 other government agencies.

Previously she worked in the U.S. Senate, where she was the Clerk for the Senate Appropriations Subcommittee on Homeland Security, which provides DHS with its $40 billion discretionary budget. On Capitol Hill, she also worked for the House Appropriations Subcommittee on Homeland Security as well as the Senate Homeland Security and Governmental Affairs Committee.

Ms. Kraninger also served in executive branch posts with DOT. There, after the terrorist attacks on September 11, 2001, she volunteered to join the leadership team that set up the newly created DHS. Her work at DHS led to awards including the Secretary of Homeland Security's Award of Exceptional Service, the International Police and Public Safety 9/11 Medal, and the Meritorious Public Service Award from the United States Coast Guard.

Ms. Kraninger graduated magna cum laude from Marquette University and earned a law degree from Georgetown University Law Center. She served as a U.S. Peace Corps Volunteer in Ukraine.

Joseph M. Otting

Joseph M. Otting was sworn in as the 31st Comptroller of the Currency on November 27, 2017.

The Comptroller of the Currency is the administrator of the federal banking system and chief officer of the Office of the Comptroller of the Currency (OCC). The OCC supervises nearly 1,400 national banks, federal savings associations, and federal branches and agencies of foreign banks operating in the United States. The mission of the OCC is to ensure that national banks and federal savings associations operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

The Comptroller also serves as a director of the Federal Deposit Insurance Corporation and member of the Financial Stability Oversight Council and the Federal Financial Institutions Examination Council.

Prior to becoming Comptroller of the Currency, Mr. Otting was an executive in the banking industry. He served as President of CIT Bank and Co-President of CIT Group.

Mr. Otting previously was President, Chief Executive Officer, and a member of the Board of Directors of OneWest Bank, N.A. Prior to joining OneWest

Bank, he served as Vice Chairman of U.S. Bancorp, where he managed the Commercial Banking Group and served on the Bancorp's executive management committee. He also served as a member of U.S. Bank's main subsidiary banks' Board of Directors.

From 1986 to 2001, Mr. Otting was with Union Bank of California, where he was Executive Vice President and Group Head of Commercial Banking. Before joining Union Bank, he was with Bank of America and held positions in branch management, preferred banking, and commercial lending.

Mr. Otting has played significant roles in charitable and community development organizations. He has served as a board member for the California Chamber of Commerce, the Killebrew-Thompson Memorial foundation, the Associated Oregon Industries, the Oregon Business Council, the Portland Business Alliance, the Minnesota Chamber of Commerce, and Blue Cross Blue Shield of Oregon. He was also a member of the Financial Services Roundtable, the Los Angeles Chamber of Commerce, and the Board and Executive Committee of the Los Angeles Economic Development Corporation.

Mr. Otting holds a bachelor of arts in management from the University of Northern Iowa and is a graduate of the School of Credit and Financial Management, which was held at Dartmouth College in Hanover, New Hampshire.

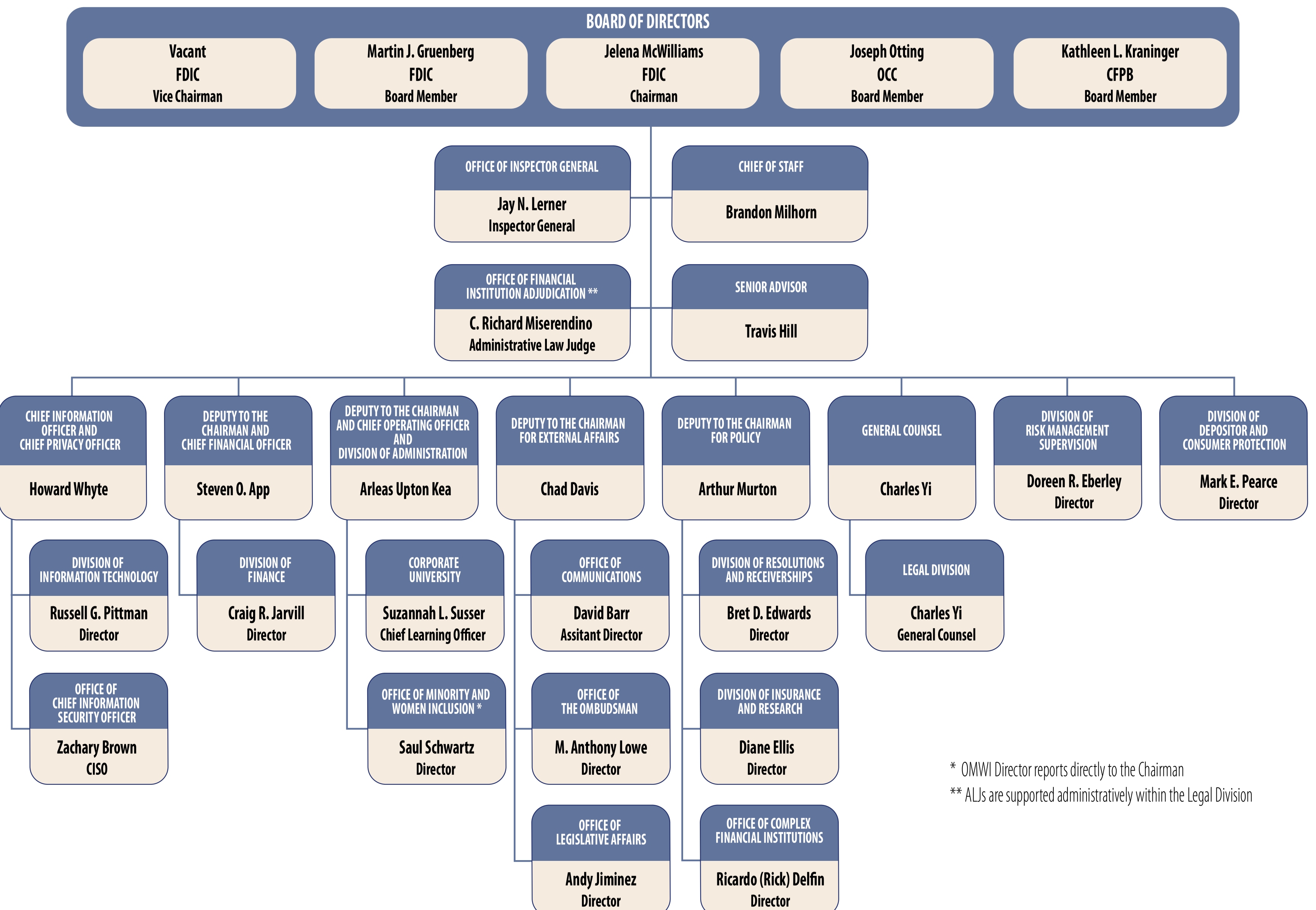
Mick Mulvaney

Mick Mulvaney, former Acting Director of the Consumer Financial Protection Bureau, resigned from the FDIC Board of Directors as of December 11, 2018. Mr. Mulvaney had been a Board member since November 25, 2017.

Thomas M. Hoenig

Thomas M. Hoenig, former Vice Chairman, resigned on April 30, 2018. Mr. Hoenig served a six-year term as FDIC Vice Chairman and member of the Board of Directors.

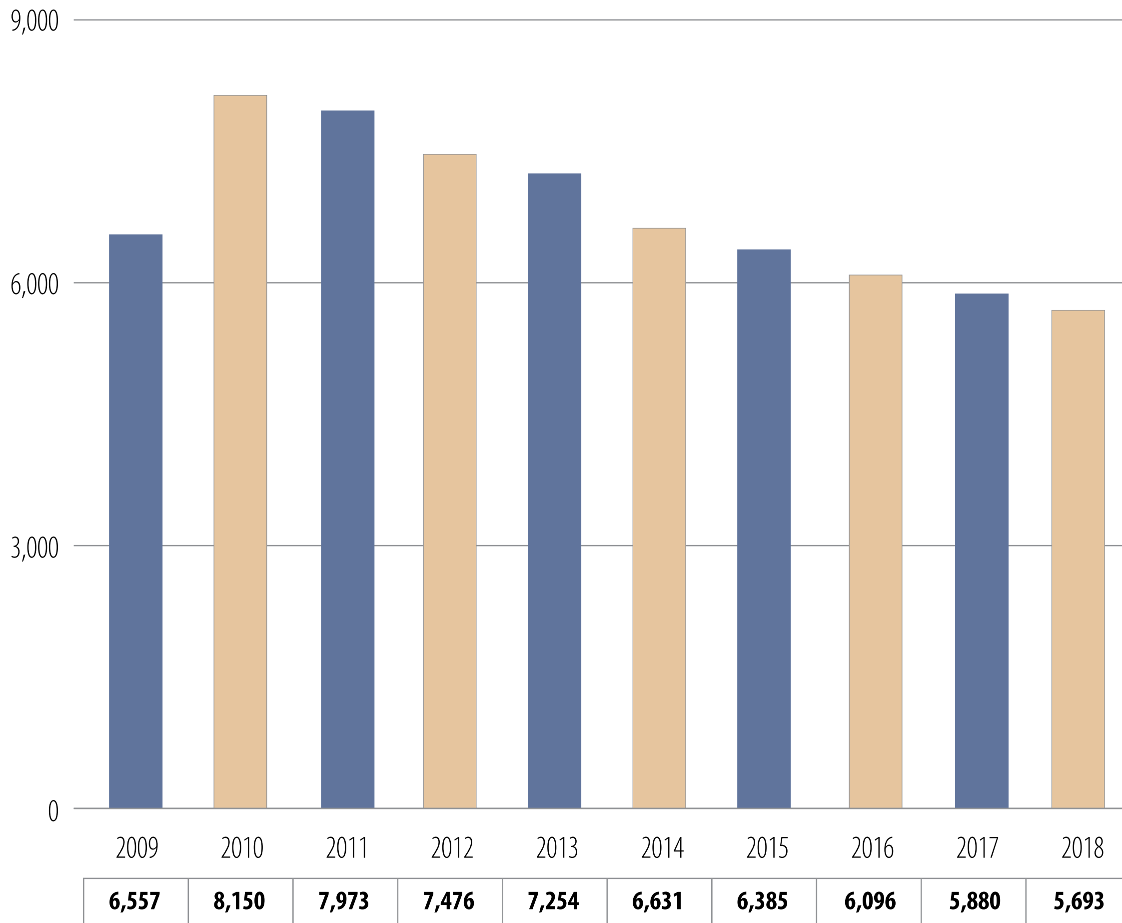
FDIC ORGANIZATION CHART/OFFICIALS



* OMWI Director reports directly to the Chairman

** ALJs are supported administratively within the Legal Division

CORPORATE STAFFING
STAFFING TRENDS 2009-2018



2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
6,557	**8,150**	**7,973**	**7,476**	**7,254**	**6,631**	**6,385**	**6,096**	**5,880**	**5,693**

FDIC Year–End On-Board Staffing

Notes: 2009-2018 staffing totals reflect year-end full time equivalent staff.

NUMBER OF EMPLOYEES BY DIVISION/OFFICE 2017 AND 2018 (YEAR-END)[1]

	Total		Washington		Regional	
Division or Office:	2018	2017	2018	2017	2018	2017
Division of Risk Management Supervision	2,499	2,558	207	197	2,293	2,361
Division of Depositor and Consumer Protection	816	831	122	120	694	711
Division of Resolutions and Receiverships	387	457	119	134	268	323
Legal Division	474	506	314	326	160	180
Division of Administration	353	358	246	246	108	112
Division of Information Technology	280	276	216	219	64	57
Corporate University	204	217	197	211	7	6
Division of Insurance and Research	204	194	168	157	36	37
Division of Finance	164	166	160	162	4	4
Office of the Chief Information Security Officer[2]	37	36	37	36	0	0
Office of Inspector General	126	126	80	78	46	48
Office of Complex Financial Institutions	62	62	49	48	13	14
Executive Offices[3]	20	26	20	26	0	0
Executive Support Offices[4]	67	68	60	60	7	8
TOTAL	**5,693**	**5,880**	**1,994**	**2,019**	**3,699**	**3,861**

[1] The FDIC reports staffing totals using a full-time equivalent methodology, which is based on an employee's scheduled work hours. Division/Office staffing has been rounded to the nearest whole FTE. Totals may not foot due to rounding.

[2] Formerly known as the Information Security and Privacy Staff.

[3] Includes the Offices of the Chairman, Vice Chairman, Director (Appointive), Chief Operating Officer, Chief Financial Officer, Chief Policy Officer, External Affairs, and Chief Information Officer.

[4] Includes the Offices of Legislative Affairs, Communications, Ombudsman, Financial Adjudication, and Minority and Women Inclusion.

SOURCES OF INFORMATION

FDIC Website

www.fdic.gov

A wide range of banking, consumer, and financial information is available on the FDIC's website. This includes the FDIC's Electronic Deposit Insurance Estimator (EDIE), which estimates an individual's deposit insurance coverage; the Institution Directory, which contains financial profiles of FDIC-insured institutions; Community Reinvestment Act evaluations and ratings for institutions supervised by the FDIC; Call Reports, which are bank reports of condition and income; and *Money Smart*, a training program to help individuals outside the financial mainstream enhance their money management skills and create positive banking relationships. Readers also can access a variety of consumer pamphlets, FDIC press releases, speeches, and other updates on the agency's activities, as well as corporate databases and customized reports of FDIC and banking industry information.

FDIC Call Center

Phone: 877-275-3342 (877-ASK-FDIC)
703-562-2222

Hearing Impaired: 800-925-4618
703-562-2289

The FDIC Call Center in Washington, DC, is the primary telephone point of contact for general questions from the banking community, the public, and FDIC employees. The Call Center directly, or with other FDIC subject-matter experts, responds to questions about deposit insurance and other consumer issues and concerns, as well as questions about FDIC programs and activities. The Call Center also refers callers to other federal and state agencies as needed. Hours of operation are 8:00 a.m. to 8:00 p.m., Eastern Time, Monday – Friday, and 9:00 a.m. to 5:00 p.m., Saturday – Sunday. Recorded information about deposit insurance and other topics is available 24 hours a day at the same telephone number.

As a customer service, the FDIC Call Center has many bilingual Spanish agents on staff and has access to a translation service, which is able to assist with over 40 different languages.

Public Information Center

3501 Fairfax Drive
Room E-1021
Arlington, VA 22226

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703-562-2200

Fax: 703-562-2296

FDIC Online Catalog: https://catalog.fdic.gov

E-mail: publicinfo@fdic.gov

Publications such as *FDIC Quarterly and Consumer News* and a variety of deposit insurance and consumer pamphlets are available at www.fdic.gov or may be ordered in hard copy through the FDIC online catalog. Other information, press releases, speeches and congressional testimony, directives to financial institutions, policy manuals, and FDIC documents are available on request through the Public Information Center. Hours of operation are 9:00 a.m. to 4:00 p.m., Eastern Time, Monday – Friday.

Office of the Ombudsman

3501 Fairfax Drive
Room E-2022
Arlington, VA 22226

Phone: 877-275-3342 (877-ASK-FDIC)

Fax: 703-562-6057

E-mail: ombudsman@fdic.gov

The Office of the Ombudsman (OO) is an independent, neutral, and confidential resource and liaison for the banking industry and the general public. The OO responds to inquiries about the FDIC in a fair, impartial, and timely manner. It researches questions and fields complaints from bankers and bank customers. OO representatives are present at all bank closings to provide accurate information to bank customers, the media, bank employees, and the general public. The OO also recommends ways to improve FDIC operations, regulations, and customer service.

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Washington
Wyoming

C. OFFICE OF INSPECTOR GENERAL'S ASSESSMENT OF THE MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE FDIC

Top Management and Performance Challenges Facing the Federal Deposit Insurance Corporation

February 2019

Federal Deposit Insurance Corporation
Office of Inspector General

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT

INTRODUCTION

Each year, Federal Inspectors General are required to identify and report on the top challenges facing their respective agencies, pursuant to the Reports Consolidation Act of 2000. The Office of Inspector General (OIG) is therefore issuing this report, which identifies the Top Management and Performance Challenges (TMPC) facing the Federal Deposit Insurance Corporation (FDIC).

This TMPC report is based upon the OIG's experience and observations from our oversight work, reports by other oversight bodies, review of academic and other relevant literature, perspectives from Government agencies and officials, and information from private-sector entities. We considered this body of information in light of the current operating environment and circumstances and our independent judgment.

The FDIC faces Challenges in several critical areas, a number of which remain from previous years:

- Enhancing Oversight of Banks' Cybersecurity Risk;
- Adapting to Financial Technology Innovation;
- Strengthening FDIC Information Security Management;
- Preparing for Crises;
- Maturing Enterprise Risk Management;
- Sharing Threat Information with Banks and Examiners;
- Managing Human Capital;
- Administering the Acquisitions Process; and
- Improving Measurement of Regulatory Costs and Benefits.

We believe that the FDIC should focus its attention on these Challenges, and we hope that this document informs policymakers, including the FDIC and Congressional oversight bodies, and the American public about the programs and operations at the FDIC and the Challenges it faces.

1 | ENHANCING OVERSIGHT OF BANKS' CYBERSECURITY RISK

Cybersecurity continues to be a critical risk facing the financial sector. Cyber risks can affect the safety and soundness of institutions and lead to the failure of banks, thus causing losses to the FDIC's Deposit Insurance Fund. For example, a cybersecurity incident could disrupt services at a bank, resulting in the exploitation of personal information in fraudulent or other illicit schemes, and an incident could start a contagion that spreads through established interconnected banking relationships. Despite increased spending on cybersecurity, banks are encountering difficulties in getting ahead of the increased frequency and sophistication of cyberattacks. The FDIC's information technology (IT) examinations should ensure strong management practices within financial institutions and at their service providers.

According to the Group of 7 industrialized countries, "cybersecurity risks to the global financial system are of critical concern," and attacks in cyberspace are "increasing in sophistication, frequency, and persistence, cyber risks are growing more dangerous and diverse, threatening to disrupt our interconnected global financial systems and the institutions that operate and support those systems."[1] The Office of the Comptroller of the Currency (OCC) echoed this sentiment in its *Semiannual Risk Perspective* (Fall 2018), finding that cybersecurity threats "target operational vulnerabilities that could expose large quantities of personally identifiable information and proprietary intellectual property, facilitate misappropriation of funds and data at the retail and wholesale levels, corrupt information, and disrupt business activities."[2] The Financial Stability Oversight Council (FSOC) similarly recognized in its 2018 Annual Report that as financial institutions increase their reliance on technology, there is an increased risk that a cybersecurity event could have "severe negative consequences, potentially entailing systemic implications for the financial sector and the U.S. economy."[3]

In February 2018, the White House Council of Economic Advisors estimated that the United States economy loses between $57 and $109 billion per year to malicious cyber activity. Cyberattacks—such as distributed denial of service and ransomware—may be global in nature and have disrupted financial services in several countries around the world.[4] Verizon Communications conducted its annual review of global data breaches across multiple sectors, including the financial sector, and reported that there were more than 53,000 security incidents and 2,200 data breaches across 65 countries between April 2017 and April 2018.[5] This review also found that these cyberattacks happen very quickly, and often surreptitiously; nearly

[1] Group of 7, *Fundamental Elements of Cybersecurity for the Financial Sector*, (October 2016). The Group of 7—Canada, France, Germany, Italy, Japan, The United Kingdom, and the United States— meet annually to discuss issues of global economic governance.
[2] OCC *Semiannual Risk Perspective*, (Fall 2018), 16.
[3] The *Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010* established the FSOC, which has responsibility for identifying risks and responding to emerging threats to financial stability. The FSOC brings together the expertise of Federal financial regulators (including the FDIC), an independent insurance expert, and state regulators.
[4] World Bank Group, *Financial Sector's Cybersecurity: Regulations and Supervision* (2018), 1.
[5] Verizon Communications Inc., *2018 Verizon Communications Data Breach Investigations Report*, 11th Edition (April 2018).

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

90 percent of the reported breaches occurred within seconds, and about 70 percent went undiscovered for months.

The American Bankers Association also noted that "as businesses ramp up their cybersecurity efforts, threat vectors such as ransomware have become more frequent and potent, affecting companies in nearly every sector and posing significant risk to financial institutions."[6] One study by the U.S. Chamber of Commerce and FICO (Fair Isaac Corporation) evaluated the cyber risk at 2,574 U.S. firms across ten sectors, including the financial sector. This study provided cybersecurity ranking scores from 300 (high risk) to 850 (low risk) for each sector as well as a national average. The cyber risks faced by the finance and banking sector exceeded eight other sectors and the national average, as shown in Figure 1.

Figure 1: Cyber Risk Scores Across Ten Sectors

Source: U.S. Chamber of Commerce and FICO, *Assessment of Business Cybersecurity* (Q4 2018).

IT Examination Programs and Resources

The FDIC Rules and Regulations, Part 364, Appendix B contains *Interagency Guidelines Establishing Information Security Standards* for bank regulators that state that an insured financial institution must "implement a comprehensive written information security program that includes administrative, technical, and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities."[7] The FDIC and other regulators conduct IT examinations using the Uniform Rating System for Information

[6] American Bankers Association Journal, *Top Bank Risks in 2018* (December 11, 2017).
[7] 12 C.F.R. Part 364, Appendix B. The FDIC, OCC, and Board of Governors of the Federal Reserve issued the *Interagency Guidelines Establishing Information Security Standards*.

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

Technology created by the Federal Financial Institutions Examination Council (FFIEC).[8] The primary purpose of the rating system is to assess risks introduced by information technology at institutions and service providers, and to identify those institutions requiring supervisory attention.[9] When examinations identify risks and weak management practices at institutions, regulators may use enforcement procedures to address such risks.[10]

The FDIC uses the Information Technology Risk Examinations (InTREx) work program to conduct IT examinations at financial institutions. The FDIC introduced InTREx in 2016 to enhance IT supervision by providing examiners with more efficient and risk-focused examination procedures.[11] From January 2016 through October 2018, FDIC examiners conducted more than 3,000 InTREx examinations by reviewing bank documentation, interviewing key personnel, testing controls, and observing. According to the Division of Risk Management Supervision (RMS) officials, FDIC personnel and other regulators are considering InTREx enhancements to increase the effectiveness of the work program. One example would be using data to review and understand cybersecurity risks across all institutions.

InTREx examinations required more hours than the prior examination methodology and impacted the FDIC's ongoing challenge to ensure that it has an appropriate number of IT examiners. For example, the New York Regional Office stated that the InTREx examination process increased an average of 67 percent over the prior IT examinations, thus adding an extra 80 hours to the examination. In its operating budget for 2019, the FDIC added 23 positions to its IT examination workforce in recognition of growing cybersecurity risks, including those posed by TSPs.

Another challenge is keeping examiner skills current and up-to-date. The FDIC aims to match examiner skills with the complexity and sophistication of IT environments at banks. Changes in technology can affect the risk profile of an individual bank. For example, in the planning phase of an IT examination, the FDIC may find that the risk profile of a bank has increased and is greater than previous FDIC projections. Therefore, the FDIC may be required to shift examination staffing resources on short notice. We have work underway to review IT examination staffing and the effectiveness of IT examinations.

Third-Party Service Providers

In addition, banks frequently hire third-party Technology Service Providers (TSP) to perform operational functions on behalf of the bank—such as IT operations and business product lines.

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[8] The FFIEC was established on March 10, 1979, pursuant to title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978, Public Law 95-630. The Council is an interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System, the FDIC, the National Credit Union Administration, the OCC, and the Bureau of Consumer Financial Protection and to make recommendations to promote uniformity in the supervision of financial institutions.
[9] FFIEC, *Uniform Rating System for Information Technology*, 64 Fed. Reg. 3109 (January 20, 1999).
[10] FDIC, *Risk Management Manual of Examination Policies*, Part I 1.1 Basic Examination Concepts and Guidelines and Part IV Administrative Enforcement Actions.
[11] Financial Institution Letter-43-2016, *Information Technology Risk Examination (InTREx) Program* (June 30, 2016).

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

TSPs may further sub-contract services to other vendors. According to the OCC, banks are increasingly reliant upon TSPs and sub-contractors, and such dependence creates a high level of risk for the banking industry.[12] The OCC indicates that TSPs are increasingly targets for cybercrimes and espionage and may provide avenues for bad actors to exploit a bank's systems and operations. For example, on December 20, 2018, two Chinese nationals were charged with computer intrusion offenses related to more than 45 service providers whose clients included the banking and finance industry and the U.S. Government. The hackers targeted service providers in order to gain unauthorized access to the computer networks of their clients and steal intellectual property and confidential business information.[13]

A financial institution must manage the interconnections, system interfaces, and systems access of TSPs and sub-contractors and must implement appropriate controls.[14] Significant consolidation among TSPs caused large numbers of banks—especially community banks supervised by the FDIC—to rely on a few large service providers for core systems and operations support.[15] As a result, a cybersecurity incident at one TSP has the potential to affect multiple financial institutions.[16]

FDIC examiners assess financial institutions' management of TSP risk through InTREx IT examinations.[17] The *Interagency Guidelines Establishing Information Security Standards* require that financial institutions:

- Exercise appropriate due diligence in selecting TSPs;
- Require TSPs to implement appropriate measures to meet the Interagency Guidelines objectives related to protecting against unauthorized access to, or use of, sensitive customer information; and
- Monitor contract compliance by the TSPs, including service provider audits, test results summaries, or other evaluations.[18]

A financial institution's Board of Directors and senior managers are responsible for the oversight of activities conducted by a TSP on their behalf to the same extent as if the activity were handled within the institution.[19]

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[12] The FFIEC described the term TSP to include "independent third parties, joint venture/limited liability corporations, and bank and credit union service corporations that provide processing services to financial institutions." Supervision of Technology Service Providers, FFIEC IT Examination Handbook InfoBase.
[13] Department of Justice Press Release, *Two Chinese Hackers Associated With the Ministry of State Security Charged with Global Computer Intrusion Campaigns Targeting Intellectual Property and Confidential Business Information* (December 20, 2018).
[14] OCC *Semiannual Risk Perspective* (Spring 2018), 18.
[15] OCC *Semiannual Risk Perspective* (Spring 2018), 18.
[16] OCC *Semiannual Risk Perspective* (Spring 2018), 18.
[17] TSPs are also subject to interagency examination by Federal regulators, including the FDIC. See Federal Regulatory Agencies' Administrative Guidelines, Implementation of Interagency Programs for the Supervision of Technology Service Providers (October 2012).
[18] These Interagency Guidelines can be found in the FDIC Rules and Regulations, Part 364, Appendix B.
[19] Financial Institution Letter 44-2008, *Guidance for Managing Third-Party Risk* (June 6, 2008).

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

In our prior OIG report entitled *Technology Service Provider Contracts with FDIC-Supervised Institutions* (2017), we did not see evidence, in the form of risk assessments or contract due diligence, that sampled financial institutions fully considered and assessed the potential impact and risk of TSPs. We made two recommendations to the FDIC. Although both remain unimplemented at the time of completion of this Top Challenges report, the FDIC has been working to address the recommendations.[20] We plan to conduct additional work in this area to assess whether FDIC programs ensure that institutions are properly managing risks associated with third-party relationships.

The FDIC plays an important role in addressing financial institutions' cybersecurity risk which, if left unchecked, could threaten the safety and soundness of institutions as well as the stability of the financial system. The FDIC must ensure that IT examinations assess how financial institutions manage cybersecurity risks, including risks associated with TSPs, and address such risks through effective supervisory strategies.

2 | ADAPTING TO FINANCIAL TECHNOLOGY INNOVATION

FDIC policymakers and examiners must keep pace with the adoption of new financial technology to assess its impact on the safety and soundness of institutions and the stability of the banking system. The pace of change and breadth of innovation requires that the FDIC create agile and nimble regulatory processes, so that it can respond to, and adjust policies, examination processes, supervisory strategies, preparedness and readiness, and resolution approaches, as needed.

The Group of Twenty's Financial Stability Board (FSB) defined financial technology as "innovation that could result in new business models, applications, processes, or products with an associated material effect on financial markets and institutions and the provision of financial services."[21] Financial technology innovation includes, for example, mobile wallets, digital currencies, and digital financial advice.[22] The rapid pace of financial technology is being driven

[20] The FDIC's OIG's Report on Unimplemented Recommendations contains information about recommendations from our audits and evaluations that the OIG has not closed because our Office has not determined that the FDIC has fully implemented recommended corrective actions. The status of each recommendation is subject to change due to the FDIC's ongoing efforts to implement them, and the OIG's independent review of information about those efforts. The Unimplemented Recommendations listing is updated monthly.

[21] *Financial Stability Implications from FinTech, Supervisory and Regulatory Issues That Merit Authorities' Attention*, (June 27, 2017), 7. The FSB was chartered by the Group of Twenty (G20) on September 25, 2009. The G20 Members include Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States, and the European Union (plus Hong Kong, Singapore, Spain and Switzerland). The FSB charter aims to promote global financial stability by coordinating the development of regulatory, supervisory, and other financial sector policies and conducts outreach to non-member countries. The G20 members represent about two-thirds of the world's population, 85 percent of global gross domestic product, and over 75 percent of global trade.

[22] Basel Committee on Banking, *Sound Practices – Implications of Fintech Developments for Banks and Bank Supervisors* (February 2018).

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by capital investment, demand for speed and convenience, and digitization.[23] According to the Department of the Treasury (Treasury Department), from 2010 to 2017, more than 3,330 new technology companies were formed to serve the financial industry.[24] The Treasury Department also estimated that one-third of online U.S. consumers use at least two financial technology services—including financial planning, savings and investment, online borrowing, or some form of money transfer and payment.[25] Further, KPMG estimated that global investment in financial technology was $57.9 billion in just the first 6 months of 2018.[26]

Regulators Need Nimble Approach to Financial Innovation

The Treasury Department encouraged "an agile approach to regulation that can evolve with innovation" and stated that regulators, including the FDIC, must be nimble to adapt regulatory approaches to banks' adoption and use of emerging technology, without creating barriers to innovation.[27] According to the Basel Committee on Banking Supervision, financial technology innovation poses three main risks to the banking sector and consumers.[28]

Cybersecurity Risk – Financial technology companies are interconnected with IT systems at banks, yet these technology companies may not be subjected to regulatory requirements for safety and soundness and may not be examined by financial regulators. Certain banks reported that between 20 and 40 percent of online banking logins are attributable to financial technology companies, and many banks represented that they cannot distinguish among computer logins, as to whether they originate from consumers, data aggregators, or even malicious actors.[29] IT system interconnections may provide a pathway for a cybersecurity incident at a financial technology company to infect the banking system.

Operational Risk – When institutions have multiple technology services and relationships, they face ambiguity and uncertainty as to the applicability of certain privacy rules, the Bank Secrecy Act (BSA) provisions and regulations, and Anti-Money Laundering (AML) standards. Banks may be unsure as to whether they or the service provider implement rules, regulations, and requirements. Moreover, financial institutions face challenges to have sufficient skilled staff and capabilities to monitor these risks and

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[23] Department of the Treasury, *A Financial System That Creates Economic Opportunities: Nonbank Financials, Fintech, and Innovation* July 2018); Basel Committee on Banking, *Sound Practices – Implications of Fintech Developments for Bank and Bank Supervisors* (February 2018).
[24] *A Financial System That Creates Economic Opportunities: Nonbank Financials, Fintech, and Innovation* (July 2018).
[25] *A Financial System That Creates Economic Opportunities: Nonbank Financials, Fintech, and Innovation* (July 2018).
[26] KPMG, *The Pulse of Fintech 2018: Biannual Global Analysis of Investment in Fintech* (July 2018). KPMG is a professional services company.
[27] *A Financial System That Creates Economic Opportunities: Nonbank Financials, Fintech, and Innovation*, 9 and 13; and *Sound Practices – Implications of Fintech Developments for Banks and Bank Supervisors* (February 2018), 24.
[28] Basel Committee on Banking, *Sound Practices – Implications of Fintech Developments for Banks and Bank Supervisors* (February 2018).
[29] Lael Brainard, Member, Board of Governors of the Federal Reserve System, *Where Do Banks Fit in the Fintech Stack?* Remarks delivered at the Northwestern Kellogg Public-Private Interface Conference on "New Developments in Consumer Finance: Research & Practice" (April 29, 2017).

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operations of financial technology companies. In addition, banks may find it difficult to authenticate customers under the BSA/AML requirements ("know your customer"), due to increased automation and distribution of services and products. Such opacity may lead to inadequate and deficient compliance with legal standards and requirements.

Strategic Risk – Traditional banks risk losing substantial market share and profits due to financial innovation. For example, large-scale use of distributed ledger technology[30] to process payments, such as the use of blockchain and Bitcoin, has the potential to disrupt the banking sector's payment system.

The FDIC should ensure that banks have proper governance and risk management practices around these technologies. The FDIC may need to increase training and adjust staffing to ensure examiners have the skills to effectively supervise the risks involved with new technology. Further, the FDIC may need to modify examination policies and procedures that pre-date financial innovation to improve supervision of financial innovation risk. The FDIC also must monitor for potential disruption to the banking sector from technological change and anticipate losses to the Deposit Insurance Fund.

The FDIC Chairman noted in October 2018 that "[w]hat is different today is the speed and tremendous impact of technological innovation *in* and *on* banking, and the potential for technology to disrupt not just an institution or two, but banking as we know it." As such, the FDIC Chairman announced that the agency was planning to set up an Office of Innovation, which would review how the FDIC can promote technological development at community banks, while still providing a safe regulatory environment.[31] We will continue to monitor the developments and activities of this new Office at the FDIC.

Financial technology innovation continues to grow and impact the banking system. Institutions must have robust and effective governance and management practices to mitigate risks associated with adoption of financial technology. The FDIC should evaluate the impact of these innovations on banks, assess emerging risks, and expeditiously adjust its processes and supervisory strategies.

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[30] According to the National Institute of Standards and Technology (NIST), distributed ledgers, such as blockchains, are tamper-resistant digital records of transactions that once established cannot be changed. Blockchain Technology Overview, NIST Internal Report 8202.

[31] FDIC Chairman McWilliams noted her plans for an Office of Innovation in remarks at the Federal Reserve Bank of Philadelphia, "Fintech and the New Financial Landscape" (November 13, 2018).

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3 | STRENGTHENING FDIC INFORMATION SECURITY MANAGEMENT

The FDIC maintains thousands of terabytes of sensitive data within its IT systems and has more than 180 IT systems that collect, store, or process Personally Identifiable Information (PII) of FDIC employees; bank officials at FDIC-supervised institutions; and bank customers, depositors, and bank officials associated with failed banks. FDIC systems also hold sensitive supervisory data about the financial health of banks, bank resolution strategies, and resolution activities. The FDIC must continue to strengthen its implementation of governance and security controls around its IT systems to ensure that information is safeguarded properly.

The U.S. Computer Emergency Readiness Team (US-CERT) reported 35,277 information security incidents for Federal Executive Branch civilian agencies in 2017. In May 2018, the Office of Management and Budget (OMB) and the Department of Homeland Security (DHS) conducted a review of Federal cybersecurity capabilities at 96 civilian agencies across 76 metrics to determine each agency's ability to identify, detect, respond, and recover from cyber incidents. The review found that 74 percent (71 agencies) had cybersecurity programs that were either "At Risk" or "High Risk.[32]

As a bank regulator, the FDIC collects and maintains a significant volume of sensitive PII, such as names, home addresses, Social Security Numbers, dates and places of birth, bank account numbers, and credit card information.[33] The FDIC also maintains business proprietary information that is sensitive, including banks' internal operations regarding counterparties, vendors, suppliers, and contractors.

The FDIC has encountered a number of information security incidents over the last several years. In August 2011, the FDIC began to experience a sophisticated, targeted attack on its own network whereby an entity gained unauthorized access to the network, escalated its privileges, and maintained an ongoing presence in the network. The attacker penetrated more than 90 workstations or servers within the FDIC's network over a significant period of time, including computers used by a former Chairman and other senior FDIC officials, and gained unauthorized access to a significant quantity of sensitive data.

During late 2015 and early 2016, the FDIC experienced eight additional incidents as departing employees improperly took sensitive information shortly before leaving the FDIC. Seven incidents involved PII, including Social Security Numbers, and thus constituted data breaches. In the eighth incident, the departing employee took highly sensitive components of resolution

[32] *Federal Cybersecurity Risk Determination Report and Action Plan* (May 2018). "At Risk" meant that some essential policies, processes, and tools were in place to mitigate overall cybersecurity risk, but significant gaps remained; and "High Risk" meant that fundamental cybersecurity policies, processes, and tools were either not in place or not deployed sufficiently.

[33] PII is any information about an individual maintained by an agency, including (1) any information that can be used to distinguish or trace an individual's identity, such as name, Social Security Number, date and place of birth, mother's maiden name, or biometric records; and (2) any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information.

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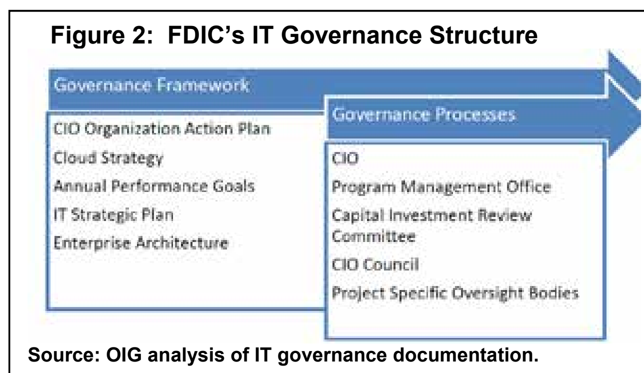
plans submitted by certain large systemically important financial institutions without authorization; this former FDIC employee was recently convicted for theft of government property.[34] Our OIG Special Inquiry[35] regarding these breaches revealed systemic weaknesses that hindered the FDIC's ability to respond to multiple information security incidents and breaches efficiently and effectively. We made 13 recommendations in our OIG Special Inquiry report; of these recommendations, 5 remained unimplemented at the time of completion of this Top Challenges report.

IT Governance

The FDIC relies extensively on IT to accomplish its mission and must subject its IT initiatives to appropriate governance and oversight. IT governance provides organizations with a structured process to support IT investment decisions while promoting accountability, due diligence, and the efficient and economic delivery of IT services.[36] As illustrated in Figure 2, the FDIC's IT governance structure consists of two principal elements:

- **The Governance Framework.** Reflects the goals and priorities of the FDIC through multiple components, including the IT Strategic Plan and Enterprise Architecture.
- **The Governance Processes**. Consist of controls and procedures to make IT capital investments and oversee individual projects.

Figure 2: FDIC's IT Governance Structure



Source: OIG analysis of IT governance documentation.

In our OIG report entitled *The FDIC's Governance of Information Technology Initiatives* (July 2018), we found that the FDIC faced a number of challenges and risks related to the governance of its IT initiatives. For example, the FDIC did not fully develop a strategy to move IT services and applications to the cloud or obtain the acceptance of key FDIC stakeholders before taking steps to initiate cloud migration projects. The FDIC also had not implemented an effective Enterprise Architecture to guide the three IT initiatives we reviewed or the FDIC's broader transition of IT services to the cloud. An ineffective Enterprise Architecture limited the FDIC's ability to communicate to business stakeholders how it intended to implement its new IT strategies. In turn, this caused stakeholders to question the decision to adopt new cloud technologies and the impact on business processes. We made eight recommendations to

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[34] United States Attorney's Office, Eastern District of New York, Department of Justice Press Release, *Former Senior Employee at FDIC Convicted of Embezzling Confidential Documents* (December 11, 2018).
[35] *OIG Special Inquiry Report, The FDIC's Response, Reporting, and Interactions with Congress Concerning Information Security Incidents and Breaches* (April 2018).
[36] OIG Report, *The FDIC's Governance of Information Technology Initiatives* (July 2018).

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improve the FDIC's governance processes, two of which remained unimplemented at the time of completion of this Top Challenges report.

Information Security Controls

In our annual Federal Information Security Modernization Act (FISMA) audit report, *The FDIC's Information Security Program – 2018* (October 2018), we identified security control weaknesses that limited the effectiveness of the FDIC's information security program and practices and placed the confidentiality, integrity, and availability of the FDIC's information systems and data at risk. Although the FDIC was working to address previously identified control weaknesses, the FDIC had not yet completed corrective actions for eight prior recommendations (as of December 2018). We made four additional recommendations in this report. The following briefly describes the highest risk areas and weaknesses that can be described in a public report:

- **Information Security Risk Management.** The FDIC had not fully defined or implemented an enterprise-wide and integrated approach to identifying, assessing, and addressing the full spectrum of internal and external risks, including those related to cybersecurity and the operation of information systems. Notably, the FDIC had not finalized a Risk Appetite, Risk Tolerance Level, and Risk Profile. Without these fundamental elements, the FDIC faced difficulties integrating risk into its budget, strategic planning, performance reporting, and internal controls.

- **Enterprise Security Architecture.** The FISMA audit report issued in 2017 recommended that the FDIC develop an enterprise security architecture and integrate it into an enterprise architecture consistent with the Federal Government's enterprise architecture requirements and the FDIC's business and mission requirements. According to NIST, an enterprise security architecture describes the structure and processes of an organization's security processes, information security systems, and responsibilities of personnel and units, and shows their alignment with the organization's mission and strategic plans. The lack of an effective enterprise security architecture increases the risk that the FDIC's information systems could be developed with inconsistent security controls that are costly to maintain. In July 2018, the FDIC provided the OIG with documentation describing its enterprise security architecture. The OIG is reviewing the corrective actions undertaken by the FDIC at the time of this Top Challenges report.

- **Security Control Assessments.** FISMA requires agencies to test and evaluate their information security controls periodically to ensure they are effectively implemented. We identified instances in which security control assessments performed by contractors did not include testing of security control implementation. Instead, assessors relied on narrative descriptions of the controls in FDIC policies, procedures, and system security plans and/or interviews of FDIC or contractor personnel. Without actual testing, assessors did not have a basis for concluding on the effectiveness of security controls. Moreover, we found that the FDIC did not

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have adequate oversight of security control assessments performed by contractor personnel.

- **Patch Management.** Software vendors release patches as needed or on a periodic basis to address faults in operating systems or applications. Vendors may also issue patches to alter functionality, address new security threats, or modify software configurations to improve security. Effective patch management is, therefore, critical to maintaining the integrity, availability, and security of the FDIC's IT infrastructure and the data that resides within it. We found that the FDIC's patch management processes were not always effective in ensuring that the FDIC implemented patches within defined timeframes. Unpatched systems increase the risk of exposing the FDIC's network to a security incident.

- **Backup and Recovery.** Our FISMA audit report issued in 2017 noted that the FDIC's IT restoration capabilities were limited, and that the FDIC had not taken timely action to address limitations in its ability to maintain or restore critical IT systems and applications during a disaster. The FDIC will continue to have limited assurance that it can maintain and restore mission-essential functions within applicable timeframes during an emergency, until the completion of the Backup Data Center Migration Project in 2019.

The FDIC has increased the 2019 Operating Budget for the Office of the Chief Information Security Officer by approximately $650,000 (1.3 percent), up to a total of $51 million. The increased funding is intended to enhance the protection of the FDIC's applications systems and databases from breaches and intrusions, and improve the FDIC's responsiveness and resilience.

In another OIG report entitled *Controls over System Interconnections with Outside Organizations*, (December 2018), we reviewed the FDIC's controls for managing system interconnections[37] with Federal agencies and non-governmental entities. We found that the FDIC's policies and procedures did not define the types of technologies and configurations that constituted a system interconnection and, therefore, required a written agreement. In addition, the FDIC's policies and procedures did not articulate the roles and responsibilities for all stakeholders involved in managing system interconnections. Also, the FDIC did not establish documentation requirements for key activities, and it did not create written agreements to govern several of its system interconnections. Further, we identified instances in which written agreements governing system interconnections had expired, even though the underlying connections remained enabled. We made seven recommendations to improve the FDIC's policies, procedures, and contracts governing system interconnections.

[37] NIST SP 800-47, *Security Guide for Interconnecting Information Technology Systems*, defines a "system interconnection" as a direct connection of two or more information technology systems for the purpose of sharing data and other information resources.

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We have a number of planned and ongoing audits of the FDIC's internal IT operations, including the FDIC's privacy program and practices; security of a system that supports the FDIC's bank supervision and consumer compliance; and security of mobile devices.

The FDIC must safeguard information held within its IT systems, much of which contains sensitive information about banks, depositors, and FDIC employees. Unauthorized access and disclosure of this information could cause significant harm to individuals, banks, and the FDIC. The FDIC must remain vigilant in its efforts to institute necessary controls and properly protect the information entrusted to it.

4 | PREPARING FOR CRISES

Central to the FDIC's mission is readiness to address crises in the banking system. The FDIC must be prepared for a broad range of crises that could impact the banking sector. These readiness activities should help to ensure the safety and soundness of institutions, as well as the stability and integrity of our nation's banking system.

Crisis readiness requires advanced preparation, regardless of whether the crisis results from financial disruption in the markets, economic turmoil, a cyber attack, natural disaster, or other event. "When the unexpected, enterprise-threatening crisis strikes, it is too late to begin the planning process. Events will quickly spin out of control, further adding to the loss of reputation and avoidable costs necessary to survive and recover with minimal damage."[38]

Although crises may be different in their cause or complexity, implementation of fundamental principles allows agencies, such as the FDIC, to plan and prepare for such events. Figure 3 illustrates the Crisis Management Preparedness Cycle, which includes the following five components:[39]

Figure 3: Crisis Management Preparedness Continuous Cycle

Source: Federal Emergency Management Agency.

[38] Hastings Business Law Journal, *The Board's Responsibility for Crisis Governance* (Spring 2017), 290.
[39] Federal Emergency Management Agency National Incident Management System.

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- **Plan –** Supports effective operations by identifying objectives, describing organizational structures, assigning tasks to achieve objectives, identifying responsibilities to accomplish tasks, and contributing to the goals.
- **Organize –** Identifies necessary skillsets and technical capabilities.
- **Train –** Provides personnel with the knowledge, skills, and abilities to respond to a crisis.
- **Exercise –** Identifies strengths and weaknesses through an assessment of gaps and shortfalls with plans, policies, and procedures to respond to a crisis.
- **Evaluate and Improve –** Compiles lessons learned, develops improvement plans, and tracks corrective actions to address gaps and deficiencies identified.

Early Risk Identification and Mitigation

The Financial Crisis Inquiry Commission stated that financial regulators "had ample power in many arenas [to protect the financial system], and they chose not to use it," thus rejecting the regulators' claim that they did not have the necessary authorities.[40] The current FDIC Director (former FDIC Chairman) noted that when banks are profitable, as in 2018, the FDIC and other regulators must maintain supervisory vigilance.[41]

In 2011, the FDIC developed a Forward-Looking Supervision initiative as part of the lessons learned from the financial crisis. The goal of the initiative was to "identify and assess the potential impact of an institution's new and/or growing risks and ensure early mitigation if necessary."[42] In our OIG evaluation report, *Forward-Looking Supervision* (August 2018), we found that the FDIC did not have a comprehensive policy guidance document on Forward-Looking Supervision and should clarify guidance associated with its purpose, goals, roles, and responsibilities. We also found that examiners identified overall concentration risk management conclusions and concerns in the examination report; however, only 27 percent of reports sampled elevated concerns to the financial institution's board of directors.

In addition, the FDIC uses other systems and risk-monitoring tools to identify financial institution emerging risks. For example, the Offsite Review Program (ORP) analyzes quarterly financial institution data against benchmark indicators developed by the FDIC. When an institution falls outside these benchmarks, FDIC examiners must review the bank's information, document the risks, and select an appropriate supervisory strategy to address the risks. We are currently conducting a review to examine the extent to which the ORP identifies supervisory concerns and potential problems, and appropriately adjusts supervisory strategies.

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[40] Financial Crisis Inquiry Commission, *Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States* (January 21, 2011). The Financial Crisis Inquiry Commission was established as part of the Fraud Enforcement and Recovery Act (Public Law 111-21) to examine the causes of the financial crisis.
[41] "Financial Regulation: A Post-Crisis Perspective", Remarks by Martin J. Gruenberg, then-Chairman of the FDIC, Brookings Institution (November 14, 2017).
[42] FDIC RMS Perspectives, Vol 1, Issue 2, (Second Quarter 2014).

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Crisis Preparedness and Planning

According to the FDIC's analysis of the 2008-2011 financial crisis, the events unfolded more quickly than the FDIC expected and were more severe than the FDIC's planning efforts anticipated.[43] For example, in July 2008, the FDIC resolved IndyMac, the most expensive FDIC failure, estimated to cost about $12.3 billion, and in September 2008, Washington Mutual, the sixth-largest FDIC-insured institution, also failed. The FDIC had not planned for several large and small banks to fail at the same time, and these failures occurred at a quicker pace than in previous crises.

Consequently, the FDIC needed to hire staff quickly to manage the escalating workload associated with what would ultimately be nearly 500 failed banks. To address its staffing shortfall, the FDIC authorized funding for additional personnel during the crisis but faced challenges expediting the hiring process to on-board needed staff. For example, in September 2008, the Division of Resolutions and Receiverships had an authorized staff of 825, but only 259 staff was on board.[44]

The FDIC also faced challenges dealing with the increased volume of contracts needed. During the financial crisis, the FDIC awarded over 6,000 contracts totaling more than $8 billion. The size of its acquisition staff was initially insufficient, which resulted in delays to modify existing contracts and issue new contracts. The FDIC needed to rapidly hire and train personnel to oversee the contracts.

Over the past several years, the FDIC developed goals and objectives to prioritize certain crisis readiness planning activities. According to the FDIC 2018-2022 Strategic Plan, the agency aims to "develop, test, and maintain contingency plans to ensure it is prepared to handle a wide range of potential failure scenarios, including the failure of a large financial institution; simultaneous, multiple failures; the failure of an institution with large international holdings; and the failure of an insured institution that operates primarily through the internet." The FDIC is developed a draft "surge staffing" plan that addresses resources needs for concurrent community bank failures in conjunction with the failure of a moderately large ($25 to $50 billion) bank.

We are conducting an evaluation to assess the FDIC's preparedness efforts to address future crises. The scope of our evaluation includes examining the FDIC's crisis readiness plans, its tools and mechanisms to implement the plans, roles and responsibilities, training on crisis response, and actions to evaluate and improve readiness.

The FDIC's ability to mitigate risk and resolve failed banks affects the safety and soundness of institutions as well as the stability of the banking system. The FDIC should maintain robust processes to plan, prepare, train, exercise, and maintain readiness for scenarios that could lead to crises.

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[43] FDIC, *Crisis and Response, An FDIC History, 2008-2013* (November 30, 2017).
[44] *Crisis and Response, An FDIC History, 2008-2013.*

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5 | MATURING ENTERPRISE RISK MANAGEMENT

Enterprise Risk Management (ERM) is a critical part of an agency's governance, as it can inform prudent decision-making at an agency, including strategic planning, budget formulation, and capital investment. ERM program requirements include identifying risks that could affect the organization (Risk Profile and Inventory), establishing the amount of risk an organization is willing to accept (Risk Appetite), prioritizing strategies to address risks in the proper sequence, and responding to and mitigating the risks. The FDIC established an ERM program office in 2011, but has neither developed the underlying ERM program requirements nor realized the benefits of a mature ERM program.

According to FDIC Directive 4010.3, *Enterprise Risk Management and Internal Control Program*, "Congress, the Office of Management and Budget (OMB), and the Government Accountability Office (GAO) have directed attention to the need for federal agencies to adopt [Enterprise Risk Management (ERM)]." OMB introduced ERM through revised government-wide circulars, including OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. The FDIC Directive states that while not legally obligated to follow executive directives, the FDIC "embrace[s] the spirit of ERM as outlined in OMB Circular No. A-123."[45]

According to OMB Circular No. A-123, Federal agencies face internal and external risks to achieving their missions, including "economic, operational, and organizational change factors, all of which would negatively impact an Agency's ability to meet goals and objectives if not resolved."[46] OMB Circular No. A-123 further requires that agencies take risk into account when designing internal controls. ERM should be an element of the agency's overall governance process that focuses specifically on the identification, assessment, and management of risk, and it should include these elements:

- A risk management governance structure;
- A methodology for developing a risk profile; and
- A process, guided by an organization's senior leadership, to consider risk appetite and risk tolerance levels that serves as a guide to establish strategy and select objectives.

OMB urges agencies to adopt an enterprise-wide view of ERM—a "big picture" perspective—thus synthesizing the management of risks into the very fabric of the organization; it should not be viewed in "silos" among different divisions or offices. ERM should integrate risk management into the agency's processes for budgeting, including strategic planning, performance planning, and performance reporting practices.

[45] OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, (July 15, 2016).
[46] OMB Circular No. A-123 (July 5, 2016), 7.

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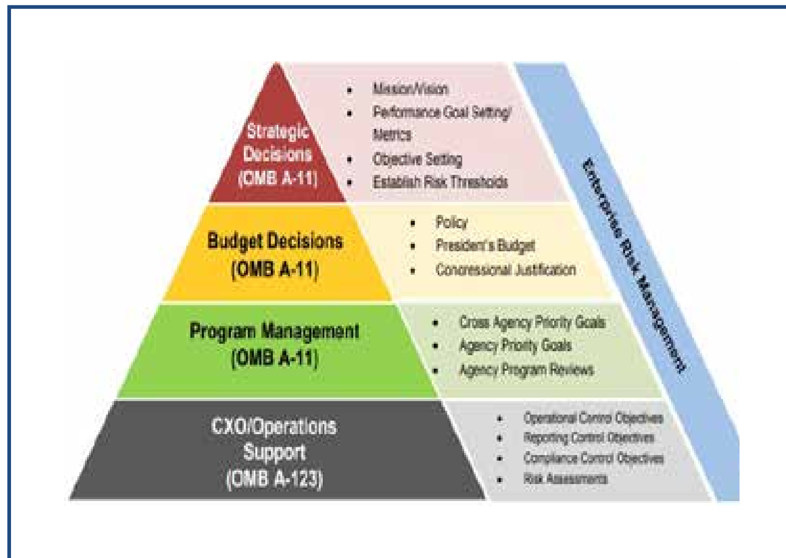
Figure 4 illustrates the manner in which ERM should be implemented in an organization, and the junctures at which it should be considered when making decisions concerning the agency's strategy, budget, program management, and operations. Effective ERM implementation starts with an agency establishing a customized ERM program that fits its organizational mission, culture, operating environment, and business processes.

Figure 4: Enterprise Risk Management Program



Source: Playbook: Enterprise Risk Management for the U.S. Federal Government.

GAO identified six essential elements to assist Federal agencies' implementation of ERM, including:[47]

1. **Align the ERM process to agency goals and objectives** – Ensuring that ERM contributes to achieving mission and results.
2. **Identify Risks** – Assembling a list of risks and opportunities that could affect the agency from achieving its goals and objectives.
3. **Assess Risks** – Prioritizing risk responses based on an assessment of the likelihood and impact of a risk on the agency's mission.
4. **Select Risk Response** – Selecting a strategy to respond to or mitigate risk based on management's risk appetite, such as acceptance, avoidance, reduction sharing, or transfer of risk.
5. **Monitor Risks** – Determining whether risks are changing and if responses are successful.
6. **Report on Risks** – Communicating with management and other stakeholders on the status of addressing risks.

The FDIC's Enterprise Risk Management Program

In June 2010, the FDIC hired a consulting firm to address five key issues regarding its ERM program: Identification and management of risks; Organizational structure; Risk management activities and processes; Capabilities and infrastructure for risk management; and Actionable transparency. The consulting report identified gaps in all five areas, recommended that the FDIC establish a Chief Risk Officer (CRO), and submitted several organizational options to be evaluated by the FDIC. In response to the firm's recommendations, the then-FDIC Chairman

[47] GAO, *Enterprise Risk Management: Selected Agencies' Experiences Illustrate Good Practices in Managing Risk*, GAO-17-63 (December 1, 2016).

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appointed a Risk Steering Committee to evaluate alternatives and recommend an organizational structure for risk management.

The Risk Steering Committee recommended to the FDIC Board the establishment of an Office of Corporate Risk Management (OCRM), headed by a CRO, with total staffing of 16. The Board approved changes recommended by the Risk Steering Committee in January 2011. The changes were intended to provide an office within the FDIC that was assigned to review internal risks with a system-wide perspective; facilitate sharing of information regarding existing, emerging, and potential risks; and instill risk governance as part of the FDIC's culture.

By May 2016, the CRO had retired and only five staff remained in OCRM by 2017. Consequently, in 2017, the FDIC initiated an organizational review of its existing ERM program to assess whether changes to the program should be made based on its experience-to-date with its ERM framework. In June 2017, the FDIC placed the CRO under the Division of Finance (DOF) as a Deputy Director, and combined OCRM with the Corporate Management Control Branch, to form a newly constituted Risk Management and Internal Controls Branch (RMIC) within DOF. RMIC responsibilities included not only ERM, but also internal control as well as management of risks in individual programs and projects.

The FDIC, in its 2018 Performance Goals, identified enterprise risk as a priority initiative.[48] However, as noted above, we reported in our recent FISMA audit, *The FDIC's Information Security Program – 2018* (October 2018) that the FDIC had not fully defined or implemented an enterprise-wide and integrated approach to identifying, assessing, and addressing the full spectrum of internal and external risks. The FDIC had not finalized its Risk Appetite, Risk Tolerance Level, and Risk Profile. Without these key fundamental elements, the FDIC faced difficulties integrating risk into its budget, strategic planning, performance reporting, and internal controls. In addition, FDIC Divisions and Offices were not able to evaluate risk determinations in the context of the agency's overall risk levels, tolerance, and profile. As a result, the FDIC could not be sure that its resources were being allocated toward addressing the most significant risks in achieving strategic objectives.

The FDIC issued its revised *Enterprise Risk Management and Internal Control Program Policy* (ERM Policy) in October 2018.[49] This ERM Policy aims to "identify, assess, and address major risks (including emerging risks) that have a potential broad impact to the FDIC's ability to achieve its goals, objectives, and mission." The ERM Policy indicates that the agency's ERM would be implemented through the FDIC's existing structure, and that FDIC Divisions and Offices would identify key activities and risks, and take actions to address these risks.

The FDIC's ERM Policy identified key requirements for the program, including establishing a Risk Appetite and Risk Profile. The ERM Policy also requires that the FDIC establish a Risk Inventory which is a "comprehensive, detailed list of risks that could affect the FDIC's ability to

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[48] 2018 FDIC Performance Goals, Priority 2018 Initiatives, Goal 6: Identify and address enterprise risk.
[49] FDIC, *Enterprise Risk Management and Internal Control Program*, Directive 4010.3 (October 25, 2018).

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meet its strategic objectives," and that the ERM program includes the following essential elements:

- Process Alignment to Goals and Objectives;
- Risk Identification;
- Risk Assessment;
- Risk Response Selection;
- Risk Monitoring; and
- Communication and Reporting.

We are initiating an evaluation of the FDIC's ERM program to assess the extent to which the FDIC has implemented an effective ERM program consistent with guidance and best practices.

The FDIC should develop an integrated approach to ERM. This ERM program should synthesize the management of risks into the FDIC's organizational culture, so that these risks may be considered and incorporated into the FDIC's budget, strategic planning, performance reporting, and internal controls for the agency as a whole.

6 | SHARING THREAT INFORMATION WITH BANKS AND EXAMINERS

Federal Government agencies and private-sector entities share information about threats to U.S. critical infrastructure sectors, including the financial sector. Sharing actionable and relevant threat information among Federal and private-sector participants protects the financial system by building threat awareness and allowing for informed decision-making. The FDIC must ensure that relevant threat information is shared with its supervised institutions and examiners as needed, in a timely manner, so that actions can be taken to address the threats. Threat information also provides FDIC examiners with context to evaluate banks' processes for risk identification and mitigation strategies.

Presidential Policy Directive 21, *Critical Infrastructure Security and Resilience*, identified the financial services sector as one of 16 critical infrastructure sectors vital to public confidence and the nation's safety, prosperity, and well-being. The FFIEC recognized that financial institutions should be prepared to address a variety of threats, including terrorists attacks, pandemics, and cybersecurity.[50] For example, cyberattacks at financial institutions prevented public access to websites, compromised personal information of tens of millions of customers, and millions of dollars were lost due to systems breaches where criminals transferred funds from customer accounts and from automated teller machines.[51] Further, information such as that provided by the Centers for Disease Control and Prevention allows financial institutions to monitor potential

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[50] FFIEC, *Business Continuity Planning* (February 2015).
[51] GAO, *Cybersecurity: Bank and Other Depository Regulators Need Better Data Analytics and Depository Institutions Want More Usable Threat Information*, GAO-15-509 (July 2015).

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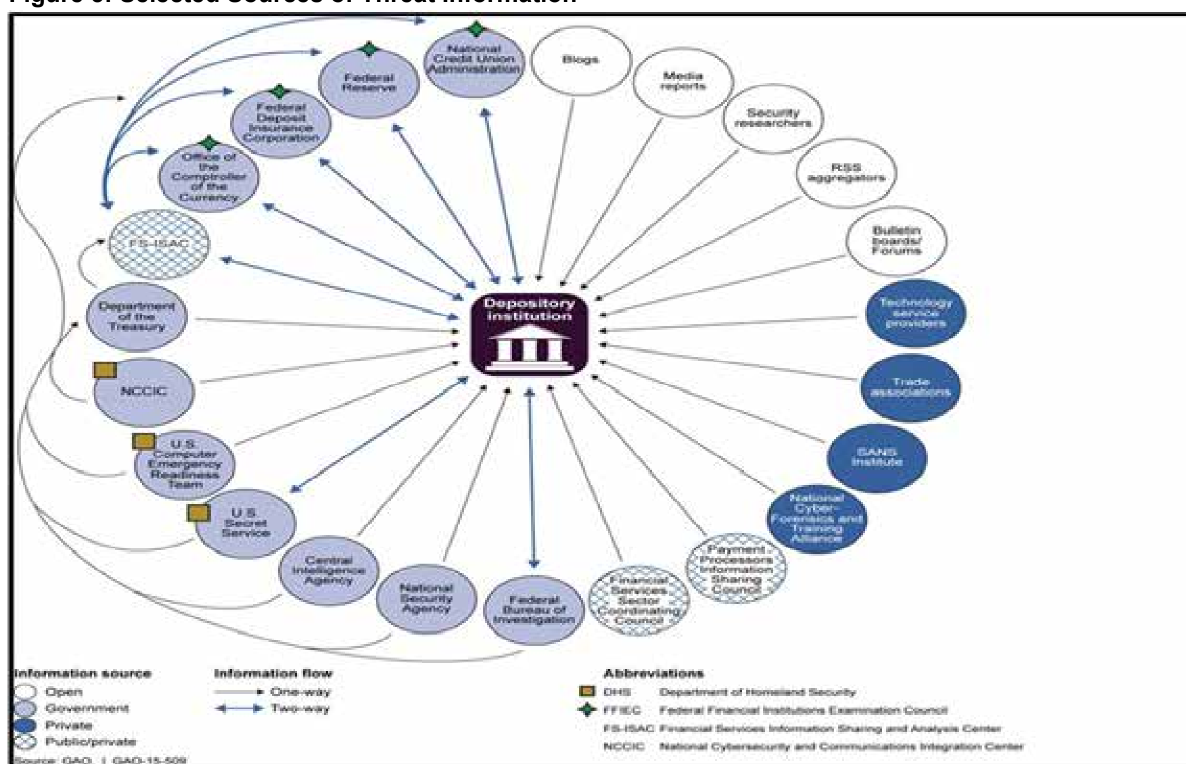
pandemic health outbreaks to ensure institutions have the capability to continue critical operations when large numbers of staff are unavailable for prolonged periods of time.[52]

FSOC noted, in its 2018 Annual Report, the critical importance of sharing timely and actionable threat information among the Federal Government and the private sector. FSOC stated that Federal agencies should consider how to share information and when possible "declassify (or downgrade classification) of information to the extent practicable, consistent with national security needs."[53] GAO also identified various sources of threat information that could be shared with financial institutions. Figure 5 illustrates how GAO captured threat information flows from multiple sources.

Figure 5: Selected Sources of Threat Information



In July 2018, DHS launched a new initiative called the National Risk Management Center (NRMC). According to DHS, the NRMC was established in response to "the increasingly complex threat environment and corresponding demand from industry for greater integrated support from the U.S. federal government."[54] The NRMC will work across industry sectors and Federal agencies, including the banking sector, so that participants can have a more comprehensive perspective on systemic risk; the goal is to promote collaborative risk strategies.

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[52] Centers for Disease Control and Prevention *Pandemic Intervals Framework*, (September 26, 2014); and FFIEC, *Business Continuity Planning*, Appendix D: Pandemic Planning.
[53] FSOC 2018 Annual Report, 7.
[54] DHS, National Risk Management Center Fact Sheet (July 2018).

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According to the FDIC's 2017 Annual Report, the FDIC continues to engage with the Financial and Banking Information Infrastructure Committee, Financial Services Sector Coordinating Council for Critical Infrastructure Protection, DHS, and other regulatory agencies and law enforcement to share information and coordinate responses.

Banks' Access to and Use of Threat Information

In November 2014, the FDIC and other FFIEC members encouraged financial institutions to join the Financial Services Information Sharing and Analysis Center (FS-ISAC), through its *Statement on Cybersecurity Threat and Vulnerability Monitoring and Sharing* (*Cybersecurity Sharing Statement*).[55] FS-ISAC is a group of 7,000 member organizations, and its purpose is to share timely, relevant, and actionable security threat information. The *Cybersecurity Sharing Statement* also suggested using other resources such as the Federal Bureau of Investigation's (FBI) InfraGard,[56] U.S. Computer Emergency Readiness Team,[57] and Secret Service Electronic Crimes Task Force.[58]

According to the FFIEC, financial institutions should have business continuity plans that "[a]nalyze threats based upon the impact to the institution, its customers, and the financial market it serves."[59] Further, the FFIEC notes that financial institutions should have "a means to collect data on potential threats that can assist management in its identification of information security risks."[60] FDIC-supervised institutions are links of the chain in the financial services system interconnections; an incident involving one community bank has the potential to affect the broader financial sector.[61] Therefore, as part of its examination process, the FDIC must ensure that supervised institutions can receive and access threat information, and that they have business continuity plans to address such threats.

FDIC and Examiners' Access to and Use of Threat Information

FDIC Headquarters staff has access to significant amounts of threat information held by the U.S. Government, and much of the information is confidential and highly sensitive. The FDIC should develop sound practices to review threat information and take necessary actions based upon such information. In doing so, the agency should ensure that it develops and maintains processes to assess the sensitivity and classification of this information.

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[55] FFIEC, *Statement on Cybersecurity Threat and Vulnerability Monitoring and Sharing*.
[56] InfraGard is a web-based portal that provides collaboration between the FBI and the private sector to exchange information about critical infrastructure.
[57] US-CERT is a component of the Department of Homeland Security; its mission is to reduce the nation's risk of systemic cybersecurity and communications challenges.
[58] The Electronic Crimes Task Force is a nationwide network designed to support and assist state, local, and Federal law enforcement agencies in order to combat criminal activity involving the use of new technology.
[59] FFIEC, Business Continuity Planning Booklet, *Risk Assessment*, (Available on the FFIEC website).
[60] FFIEC IT Examination Handbook Infobase, Information Security Booklet, II, *Information Security Program Management* (Available on the FFIEC website).
[61] Departments of the Treasury and of Homeland Security, *Financial Services Sector-Specific Plan* (2015), 9.

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In addition, the FDIC should ensure that the threat information can be disseminated to specific examiners as needed, and that such examiners are authorized to receive access to sensitive threat information. For example, if the FDIC has access to threat information about a particular FDIC-supervised bank, the examiners overseeing this institution should have access to such threat information. Given the volume of information, the FDIC faces challenges to analyze, distill, and convey relevant and actionable threat information from FDIC Headquarters to examiners in the FDIC's Regional and Field Offices.

Threat information can assist FDIC examiners in prioritizing and focusing their work on emerging issues, and modifying the depth or scope of an examination. Understanding the nature of threats provides context for examiners when evaluating financial institutions' processes for identifying and considering relevant risks and implementing risk mitigation strategies. Further, threat information may result in changes to examination policy or procedures to address emerging issues.

RMS instituted *Regional Cyber Incident Reporting and Response Guides* (Reporting and Response Guides) to outline the steps to be taken by Regional and Field Offices when banks report threats and incidents. These steps include gathering information about an incident; providing advice to the affected entity; determining whether the incident warrants escalation to FDIC Headquarters; and conducting ongoing monitoring and communications. RMS also has a *Cyber Incident Response Plan* for use by FDIC Headquarters staff to evaluate threats and incidents reported by banks through the Field and Regional Offices. The Plan uses predetermined criteria and thresholds to determine when threat and incident information should be escalated to FDIC senior management.

Neither the RMS *Cyber Incident Response Plan* nor the Reporting and Response Guides provide procedures for the FDIC to disseminate information *to* its Regional and Field Offices and examiners. RMS officials stated that they review threat information from multiple sources and regularly convey relevant information to Regional and Field Office examiners, depending upon the criticality and sensitivity of the information.

Based on our research, as of the end of 2018, the FDIC did not have a policy that (i) defined criteria for selecting relevant, actionable threat information, or (ii) outlined the process to share such threat information among Headquarters, Regional Offices, and examiner personnel. Without policies to guide those processes, information selection and dissemination is left to the discretion of individuals, which may lead to inconsistencies, uncertainty, and a lack of uniformity in sharing threat information. We have work planned to evaluate the effectiveness of the FDIC's procedures for the collection and dissemination of threat information.

Sharing threat information allows for the consideration of these risks in developing and examining bank mitigation strategies and continuity plans. Absent such threat information, financial institutions and examiners may not have a full understanding of the risks facing the banks, and thus, risk mitigation and supervisory strategies might have gaps which could affect the safety and soundness of institutions.

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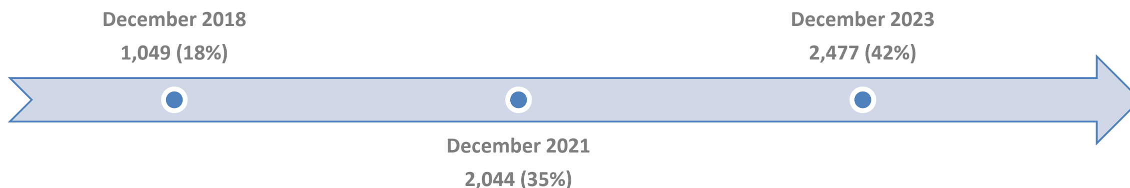
7 | MANAGING HUMAN CAPITAL

The FDIC relies on skilled personnel to fulfill its mission, and about 63 percent of the FDIC's operating budget for 2019 ($2 billion) was for salaries and associated benefits for employees. Forty-two percent of FDIC employees are eligible to retire within 5 years, which may lead to knowledge and leadership gaps. To ensure mission readiness, the FDIC should find ways to manage this impending shortfall. In addition, the FDIC should seek to hire individuals with advanced technical skills needed for IT examinations and supervision of large and complex banks.

GAO has identified human capital management as a high risk since 2001 and noted that "[m]ission-critical skills gaps within the federal workforce pose a high risk to the nation."[62] GAO noted that such gaps, if left unaddressed, can "impede the federal government from cost-effectively serving the public and achieving results." The percentage of FDIC employees eligible to retire more than doubles (2.3 times) over the next 5 years, increasing from 18 percent in 2018 to 42 percent in 2023, as shown in Figure 6.

Figure 6: FDIC Employees Eligible for Retirement between December 2018 and December 2023



Source: OIG analysis of FDIC employee information as of July 31, 2018.

These figures could lead to a wave of retirements at the FDIC in the near term. As recognized by GAO, retirement waves can result in leadership voids, which could impede the capabilities of any agency to achieve its mission, unnecessarily delay decision-making, and reduce program management and oversight.[63] According to GAO, such agencies may face gaps in skillsets, which could result in the agency not being able to complete its mission-critical work in a timely manner. Further, retirements might have financial implications for the FDIC's budget, since the FDIC would be required to expend lump-sum payments based on accumulated annual leave.[64] The FDIC should be prepared to address any resultant budget issues and gaps in skillsets and leadership.

In addition, the FDIC faces an even higher rate of potential retirements among seasoned senior and mid-level managers. As of July 31, 2018, approximately two-thirds of the Executive

[62] GAO, *High-Risk Series: Progress in Many High-Risk Areas, While Substantial Efforts Needed on Others*, GAO-17-317 (February 2017), 61.
[63] GAO, *High-Risk Series: Progress in Many High-Risk Areas, While Substantial Efforts Needed on Others*, GAO-17-317 (February 2017), 61.
[64] Office of Personnel Management, Fact Sheet: Lump Sum Payment for Annual Leave.

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Management employees (66 percent) were eligible to retire within 5 years, and another 57 percent of FDIC Corporate Managers are eligible in that same timeframe. Without proper succession planning strategies, these retirements can result in further leadership gaps.

Retirement Eligibility – Impact on Divisions (Headquarters and Regions)

Between 34 and 63 percent of employees in the following FDIC driver and primary support Divisions were eligible to retire within 5 years (as of July 31, 2018):

- 63 percent of employees within the Division of Resolutions and Receiverships (243 employees);
- 59 percent of employees within the Legal Division (268 employees);
- 57 percent of employees within the Division of Administration (201 employees);
- 45 percent of employees within the Division of Information Technology (133 employees);
- 38 percent of employees within the Division of Risk Management Supervision (929 employees); and
- 34 percent of employees within the Division of Depositor and Consumer Protection (276 employees).

While employees do not always retire when first eligible,[65] there is a risk that a wave of retirements could lead to gaps in leadership positions and skillsets at the FDIC. Leadership gaps can result in delayed decision-making, reduced program oversight, and failure to achieve goals and agency missions when positions are unfilled or leaders remain in acting status. Skillset gaps can undermine the ability of the FDIC to achieve its goals and missions.

In addition, in 2017, the Division of Insurance and Research (DIR) experienced higher than normal attrition rates of 13 percent. Over this period of time, 27 individuals (out of 208 in DIR) departed DIR, 74 percent of whom were specialized economists with advanced degrees. These unique skillsets may be more difficult to replace in an expanding economy.

Retirement Eligibility – Impact on Regional Offices

In the six FDIC Regional Offices, more than one-third of employees are eligible to retire within the next 5 years. Those retirements are predominantly for examination staff. Between 34 and 53 percent of employees in the FDIC Regional Offices were eligible to retire within this timeframe (as of July 31, 2018):

- 53 percent of employees within the FDIC Dallas Regional Office (413 employees);
- 38 percent of employees within the FDIC Atlanta Regional Office (176 employees);
- 37 percent of employees within the FDIC San Francisco Regional Office (164 employees);
- 34 percent of employees within the Chicago Regional Office (172 employees);

[65] Our analysis shows that employees tend to remain with the FDIC for approximately 8 years after their retirement eligibility date.

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- 34 percent of employees within the Kansas City Regional Office (169 employees); and
- 34 percent of employees within the New York Regional Office (195 employees).

The FDIC is working to hire and train new examiners to address the retirement shortfall, but it takes approximately 4 years from the time an employee is hired until that employee earns an examination commission. Such commissioning requires that employees meet benchmarks, training, and other technical requirements, including passing a Technical Examination.

In its review of the financial crisis of 2008-2011, the FDIC stated that one of its strengths was "a core of seasoned examiners and supervisors."[66] These experienced employees were crucial in tailoring "informal and formal enforcement actions that helped make it possible for many banks to return to health." As noted by the FDIC in its review, the crisis experience highlighted the importance of a steady flow of new examiners who can benefit from the knowledge and experience of seasoned examiners. The FDIC may be challenged to build on innovative strategies used in prior crises for any future banking crisis without these experienced examiners and supervisors or the transfer of their knowledge to newer examiners.

Even with additional hires, Regional Offices may not have sufficient experience among their examiners. As a result, senior examiners may be required to travel more frequently in order to supervise less experienced staff and sign reports of examination (since pre-commissioned examiners cannot sign those reports). In addition, experienced examiners may be required to travel more often, in order to fill staffing needs where there have been significant retirements. This increase in travel requirements could be costly and may affect the morale of examiners, since it has been cited as the top reason for voluntary attrition by examiners.

RMS also identified a need to build out skill sets. In 2012, RMS initiated a multi-year Subject Matter Expert Project to build out workforce capacity and focus on developing advanced skills in the areas of accounting, capital markets, information technology, and anti-money laundering compliance. The FDIC also recently updated employees about a Field Office Modernization initiative, aimed, in part, to maintain a reasonable work/life balance for field examiners.

In 2013, the FDIC established a Workforce Development Initiative (WDI) to address succession planning and other workforce development challenges and opportunities. Five years after its establishment, however, the FDIC noted, in its 2018 Annual Performance Plan, that the WDI is "in the early stages of a multi-year effort to identify future workforce and leadership requirements, assess current workforce capabilities, support employees who aspire to leadership and management roles, and develop and source the talent to meet emerging workforce needs."

The management of human capital is critical to the FDIC's achieving its mission. To meet its goals and objectives, the FDIC must continue to focus on managing the life cycle of human

[66] *Crisis and Response, An FDIC History, 2008-2013* (November 30, 2017), 143-144.

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capital activities – planning, recruitment, on-boarding, compensation, engagement, succession planning, and retirement programs.

8 | ADMINISTERING THE ACQUISITIONS PROCESS

The FDIC relies heavily on contractors for support of its mission, especially for IT and administrative support services. The average annual expenditure by the FDIC for contractor services over the past 5 years has been approximately $587 million. The FDIC should maintain effective controls to ensure proper oversight and management of such contracts and should conduct regular reviews of contractors. In addition, the FDIC should also perform due diligence to mitigate security risks associated with supply chains for goods and services.

According to GAO's *Framework for Assessing the Acquisition Function at Federal Agencies*, agencies should effectively manage their acquisitions process in order to ensure that contract requirements are defined clearly and all aspects of contracts are fulfilled.[67] Agencies must properly oversee contractor performance and identify any deficiencies.

In 2018, the Administration recognized the importance of improving Federal Government acquisitions in finding that such acquisitions "often fail to achieve their goals because many Federal managers lack the program management and acquisition skills to successfully manage and integrate large and complex acquisitions into their projects."[68] In 2018, GAO reported that agencies continue to award contracts warranting increased management attention.[69] In addition, GAO found that government contracting officials were carrying heavier workloads, and thus, it was more difficult for these officials to oversee complex contracts and ensure that contractors adhered to contract terms. Further, in the *Framework for Assessing the Acquisition Function at Federal Agencies*, GAO noted the importance of agencies defining their contracting needs and identifying, selecting, and managing providers of goods and services.

Federal Government agencies also should conduct due diligence to recognize potential threats in supply chains for products and services. When an organization hires contractors who, in turn, may sub-contract services to third-parties, the organization is likely to have reduced visibility, understanding, and control of the underlying relationships, as illustrated in Figure 7.

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[67] GAO, *Framework for Assessing the Acquisition Function at Federal Agencies*, GAO-05-218G (September 2005).
[68] The President's Management Agenda: Modernizing Government for the 21st Century, 12.
[69] GAO, *Federal Acquisitions: Congress and the Executive Branch have Taken Steps to Address Key Issues, but Challenges Endure*, GAO-18-627 (September 2018).

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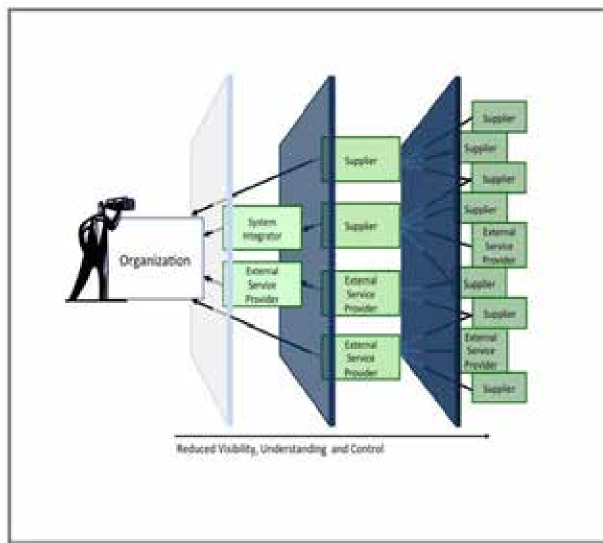
If not managed properly, organizations may face supply chain risks, including installation of malicious or counterfeit hardware or software, disruption of critical production, and reliance on nefarious or unqualified service providers.[70] Government agencies may not discover the consequences of these risks until much later, after the fraud or compromise

Figure 7: Supply Chain Risk View



Source: NIST Publication 800-161, Supply Chain Risk Management Practices for Federal Information Systems and Organizations.

Contract Oversight

The FDIC awarded $2.3 billion in contracts from January 2015 through September 2018. For the first 7 months of 2018, the FDIC issued 372 contract awards for a total of $383 million. In addition, the FDIC budget for 2019 includes more than $420 million in contracting expenses for outside services.

Between January 2015 and September 2018, the Divisions of Administration (DOA), Information Technology (DIT), and Resolutions and Receiverships (DRR) accounted for 96 percent ($1.38 billion) of all contract awards through the Acquisition Services Branch. Contracting Officers are responsible for ensuring the performance of all actions necessary for efficient and effective contracting, compliance with contract terms, and protection of the FDIC's interests in all of its contractual relationships. In addition, FDIC program offices develop contract requirements, and Oversight Managers and Technical Monitors oversee the contractor's performance and technical work.

Our OIG analysis indicates that there has been an increase in the average dollar amount per contract awarded by the FDIC from 2016 to 2017. The average contract size has increased 18 percent during this time. Over the past 2 years, DRR and DIT oversaw 127 contracts valued at $1 million or more each. Many of these contracts are for computer-related and administrative services that range in value from $1 million to $98 million. According to GAO, these types of contracts require increased oversight and management attention due to the risk that contractors may perform tasks reserved for the Government.[71]

Our work has identified a number of issues related to the FDIC's contract administration. In our OIG report, *The FDIC's Failed Bank Data Services Project* (March 2017), we reviewed transition costs ($24.4 million) of a 10-year project to change information systems on failed financial institutions. We found that the FDIC faced challenges related to defining contract requirements, coordinating contracting and program office personnel, and establishing

[70] GAO, *Information Security: Supply Chain Risks Affecting Federal Agencies*, GAO-18-667T (July 12, 2018), 7-8.
[71] GAO, *Federal Acquisitions: Congress and the Executive Branch have Taken Steps to Address Key Issues, but Challenges Endure*, GAO-18-627 (September 2018).

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implementation milestones. We reported that FDIC personnel did not fully understand the requirements for transitioning failed financial institution data and services to a new contractor, or communicate these requirements to bidders in a comprehensive transition plan as part of the solicitation. Further, the FDIC did not establish clear expectations in the contract documents and did not implement a project management framework and plans.

In addition, our OIG report on the *Follow-on Audit of the FDIC's Identity, Credential, and Access Management Program* (June 2017) found that the FDIC did not maintain current, accurate, and complete contractor personnel data needed to manage Personal Identity Verification (PIV) cards, and management had not finalized and approved a plan for retiring the FDIC's legacy PIV card system.

In our OIG Memorandum, *Infrastructure Support Contract 3 (ISC-3) with CSRA, Inc.* (July 2018), we concluded that based on limited testing, while we did not see instances of inaccurate or unsupported invoices, there was an increased risk that both errors and fraudulent activity would go undetected due to the complexity of CSRA's accounting entries for contractor and subcontractor billing. Of the seven DIT individuals overseeing the contract, two individuals never took the required training on contract oversight, and the training certificates for two other individuals had already expired in 2008.

In addition, in our OIG report, *Payments to Pragmatics, Inc.* (December 2018), we determined that about 10 percent ($47,489) of the labor charges we reviewed were not adequately supported or allowable under the contract and related task orders. The unsupported labor charges were for hours billed by two subcontractor employees who did not access the FDIC's network or facilities on the days they charged the hours. In addition, we identified unallowable labor charges for work performed offsite, away from FDIC facilities.

We currently have an ongoing evaluation to assess the FDIC's contract management oversight process. The evaluation objective includes assessing the monitoring of contracts; capacity of oversight managers to oversee assigned contracts; oversight managers' experience and qualifications; and security risks posed by contractors and their personnel.

Security and Supply Chain Risk

The FDIC also must continue to ensure that its contractors and contracting personnel meet security and suitability standards for employment and access to sensitive information. In addition, contractors must meet criteria for integrity and fitness, including the elimination of conflicts of interest, adherence to ethics obligations, and security of confidential information.[72]

These protections are important since the contractors often have access to FDIC space and information and use FDIC equipment, including sensitive information related to bank closings, as well as PII for bankers, bank customers, and FDIC employees. The FDIC's DOA (Security

[72] 12 C.F.R. Part 366.

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and Emergency Preparedness Section) is responsible for establishing and implementing the security policy for contractor personnel. DOA reviews include background investigations, evaluation of any derogatory information, adjudication, and approvals and clearances.[73]

In addition, NIST identified the best practices for organizations to manage security risks associated with supply chains of goods and services; these standards require the integration of risk management throughout an organization.[74] Currently, the FDIC does not have policy guidance with respect to these supply chain risks. In addition, the duty of managing supply chain risk is a collateral responsibility for the FDIC's Insider Threat Program Manager.

The FDIC also faces challenges to mitigate supply chain risk if threats are reported through highly sensitive security information. Currently, DOA acquisition staff does not have authorized access to highly sensitive security information. Therefore, if the FDIC learns of or identifies a threat to its supply chain through the receipt of such information, the FDIC would not have contracting personnel to respond to the threat, as the current staff is not authorized to access the underlying threat information.

The FDIC depends on contracts and contractors for its mission-critical systems and operations, especially in times of crisis. The FDIC should maintain strong contracting oversight and effective controls over its contractors. In addition, the FDIC should protect against supply chain and other risks posed by goods and services procured through third-party contractors and vendors.

9 | IMPROVING MEASUREMENT OF REGULATORY COSTS AND BENEFITS

Before issuing a rule, the FDIC should ensure that the benefits accrued from a regulation justify the costs imposed. The FDIC should establish a sound mechanism to measure both costs and benefits at the time of promulgation, and it should continue to evaluate the costs and benefits of a regulation on a regular basis, even after it has been issued.

In a report issued in February 2018, GAO noted that "representatives of community banks and credit unions expressed concerns about the burden that additional regulations create for them," such as increasing their overall compliance burden and adversely affecting lending.[75] In April 2018, the FDIC updated its *Statement of Policy on the Development and Review of Regulations and Policies*, and the revised policy states that once the FDIC has found the need for a regulation, "the FDIC evaluates benefits and costs, based on available information, and

[73] FDIC, Circular 1610.2, *Personnel Security Policy and Procedures for FDIC Contractors* (January 2010).
[74] NIST Publication 800-161, *Supply Chain Risk Management Practices for Federal Information Systems and Organizations,* 7.
[75] GAO, *Community Banks and Credit Unions: Regulators Could Take Additional Steps to Address Compliance Burdens,* GAO-18-213 (February 2018), 1-2.

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considers reasonable and possible alternatives." While some regulations implement a statutory requirement, the FDIC should develop and maintain strong processes to measure both costs and benefits.

Analysis of Costs and Benefits

The difficulties of cost-benefit analysis lie in the uncertainty over how to measure and calculate regulatory costs.[76] For example, the FDIC experienced challenges in quantifying the costs and benefits of a proposed rule on *Recordkeeping for Timely Deposit Insurance Determination.* The FDIC engaged a contractor that initially estimated the costs of this rule at $328 million, to be incurred by 36 financial institutions (80 cents per deposit account). However, the FDIC encountered difficulties in determining the benefits of the rule, explaining that "[b]ecause there is no market in which the value of these public benefits can be determined, it is not possible to monetize these benefits." Based upon the comments received on the proposed rule, the FDIC revised the total cost in the final rule to $478 million (an increase of $150 million). The estimated cost would be allocated to covered institutions at $386 million, while the remaining costs of $92 million were to be borne by bank customers (depositors) and the FDIC.

In 2018, GAO reviewed regulatory procedures for the financial regulators and found several weaknesses with analyses done by six financial regulators, including the FDIC.[77] In particular, the regulators did not account for the burden that certain rules would have on small entities. The Regulatory Flexibility Act (RFA) requires that Federal agencies, including the financial regulators, analyze the impact of proposed regulations on small entities and consider alternatives that could lessen the regulatory burden. Alternatively, the head of the agency may certify that the rule would not pose a significant impact on a substantial number of small entities.

The then-FDIC Chairman certified that a rule would not pose a significant impact on a substantial number of small entities for over 75 percent of the rules issued by the FDIC between 2010 and 2016 that were subject to RFA requirements.[78] GAO concluded that for two of the three rules it sampled, the FDIC did not provide any supporting information for the certifications. For example, GAO found that the FDIC did not include any of the Office of Advocacy's[79] suggested components: (i) a description of the number of affected entities; (ii) the size of the economic impacts; or (iii) the justification for the certification.[80]

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[76] Yale Law Journal, *Cost-Benefit and Other Analysis Requirements in the Rulemaking Process, Congressional Research Service* (2014); *Cost-Benefit Analysis of Financial Regulations Case Studies and Implications* (2015).
[77] GAO*, Financial Services Regulations: Procedures for Reviews under Regulatory Flexibility Act Need to Be Enhanced*, GAO-18-256 (January 2018).
[78] GAO focused only on the RFA sections and not the other regulatory analysis in the Federal Register notice, despite agencies being allowed by statute to combine analysis to avoid duplication.
[79] The Office of Advocacy is a component of the Small Business Administration and serves as a watchdog for the RFA.
[80] GAO*, Financial Services Regulations: Procedures for Reviews under Regulatory Flexibility Act Need to Be Enhanced*, GAO-18-256 (January 2018).

OFFICE OF INSPECTOR GENERAL'S ASSESSMENT (continued)

For the rules for which the FDIC did perform a regulatory flexibility analysis,[81] GAO reported that while the FDIC's analyses described and quantified the rules compliance costs, they did not include descriptions or assessments of regulatory alternatives, issues raised in public comments, or steps to minimize effects on small entities.[82] GAO recommended that the FDIC adopt policies and procedures to comply with RFA requirements and key aspects of Office of Advocacy and OMB guidance in order to improve consistency. The FDIC adopted additional policies and procedures in 2018; however, the GAO recommendation remains unimplemented.

In a subsequent report issued the following month, GAO found that there were additional inadequacies in the financial regulators' consideration of regulatory burden on small institutions – particularly with respect to the quantification of data and cumulative effects of regulations.[83] The Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA) requires that at least every 10 years, the FDIC must review its rules and regulations to determine if any are outdated, unnecessary, or unduly burdensome. However, GAO found that the regulators, including the FDIC, did not conduct or report on quantitative analyses as part of their EGRPRA review process. Instead, as GAO noted, "regulators generally only provided their arguments against taking actions and did not cite analysis or data to support their narrative." GAO further found that "regulators ha[d] not assessed the ways that the cumulative burden of the regulations they administer may have created overlapping or duplicative requirements." According to GAO, Congress specifically intended for EGRPRA to require regulators to measure the cumulative effect of regulations.

In August 2018, the FDIC Chairman stated that a top priority for the agency was to examine the regulatory burden on small banks. The following month, in September 2018, the FDIC issued a proposal to retire 374 of 664 Financial Institution Letters (FIL) related to risk-management supervision. These FILs contained outdated information or guidance that was available elsewhere from the FDIC. In announcing this proposal, the FDIC committed to a review of the remaining 290 FILs.[84] We are currently conducting an evaluation to determine the effectiveness of the FDIC's cost-benefit analysis process for ensuring that rules are efficient and appropriately tailored.

Financial regulations significantly affect financial institutions and bank customers, and before imposing costs on such entities, the FDIC should ensure that the benefits of the rule justify the costs associated with its implementation. To do so, the FDIC should obtain concrete, valid, and reliable data, and analyze the information, so that it can accurately measure the costs and benefits of a regulation.

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[81] For three of the four regulatory flexibility analyses it performed, the FDIC indicated that the rules were not subject to the requirements of the RFA.
[82] GAO, *Financial Services Regulations: Procedures for Reviews under Regulatory Flexibility Act Need to Be Enhanced*, GAO-18-256 (January 2018).
[83] GAO, *Community Banks and Credit Unions: Regulators Could Take Additional Steps to Address Compliance Burdens,* GAO-18-213 (February 2018).
[84] Financial Institution Letter 46-2018, *FDIC Seeks Comment on Proposed Retirement of Certain Financial Institution Letters* (September 10, 2018).

D. ACRONYMS AND INITIALISMS

AEI	Alliance for Economic Inclusion
AFS	Available-For-Sale
AIG	American International Group, Inc.
AML	Anti-Money Laundering
AML/CFT	Anti-Money Laundering and Countering the Financing of Terrorism
ASBA	Association of Supervisors of Banks of the Americas
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
BCBS	Basel Committee on Banking Supervision
BDC	Backup data center
BoA	Bank of America
BSA	Bank Secrecy Act
Call Report	Consolidated Reports of Condition and Income
CAMELS rating scale	**C**apital adequacy; **A**sset quality; **M**anagement quality; **E**arnings; **L**iquidity; **S**ensitivity to market risks
CAT	Cybersecurity Assessment Tool
CBAC	Advisory Committee on Community Banking
CCP	Central Counterparties
CDFI	Community Development Financial Institution
CECL	Current Expected Credit Losses
CEO	Chief Executive Officer
CEP	Corporate Employee Program
CFI	Complex Financial Institution
CFO Act	Chief Financial Officers' Act
CFPB	Consumer Financial Protection Bureau
CFR	Center for Financial Research
CFTC	Commodity Futures Trading Commission
CIO	Chief Information Officer
CIOO	Chief Information Officer Organization
CMG	Crisis Management Group
CMP	Civil Money Penalty
ComE-IN	Advisory Committee on Economic Inclusion
CPI-U	Consumer Price Index for All Urban Consumers
CRA	Community Reinvestment Act
CRE	Commercial Real Estate
CSIRT	Computer Security Incident Response Team
CSF	Cybersecurity Framework
CSBS	Conference of State Bank Supervisors
CSRS	Civil Service Retirement System
DCP	Division of Depositor and Consumer Protection
DFA	Dodd-Frank Act
DIF	Deposit Insurance Fund
DIMIA	Depository Institution Management Interlocks Act
DIR	Division of Insurance and Research
DIT	Division of Information Technology
DLP	Data Loss Prevention
DOA	Division of Administration
DRR	Designated Reserve Ratio
DRR (FDIC)	Division of Resolutions and Receiverships
EC	European Commission
EDIE	Electronic Deposit Insurance Estimator
EGRPRA	Economic Growth and Regulatory Paperwork Reduction Act of 1996
EGRRCPA	Economic Growth, Regulatory Relief, and Consumer Protection Act
EU	European Union
ERM	Enterprise Risk Management
FAQ	Frequently Asked Questions
FASB	Financial Accounting Standards Board
FBIIC	Financial and Banking Information Infrastructure Committee
FBO	Foreign Bank Organization

FDI Act	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FEHB	Federal Employees Health Benefits
FERS	Federal Employees Retirement System
FFB	Federal Financing Bank
FFIEC	Federal Financial Institutions Examination Council
FFMIA	Federal Financial Management Improvement Act
FHLB	Federal Home Loan Banks
FICO	Financing Corporation
FIL	Financial Institution Letter
FinCEN	Financial Crimes Enforcement Network
FinTech	Financial Technology
FIRREA	Financial Institutions Reform, Recovery and Enforcement Act
FIs	Financial Institutions
FIS	Financial Institution Specialists
FISMA	Federal Information Security Modernization Act of 2014
FLEC	Federal Financial Literacy and Education Commission
FMFIA	Federal Managers' Financial Integrity Act
FMSP	Financial Management Scholars Program
FRB	Board of Governors of the Federal Reserve System
FRF	FSLIC Resolution Fund
FSB	Financial Stability Board
FS-ISAC	Financial Services Information Sharing and Analysis Center
FSLIC	Federal Savings and Loan Insurance Corporation
FSOC	Financial Stability Oversight Council
FTE	Full-Time Employee
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
GDP	Gross Domestic Product
GECC	General Electric Capital Corporation, Inc.
GPRA	Government Performance and Results Act
G-SIBs	Global Systemically Important Banks
G-SIFI	Global SIFIs
HMDA	Home Mortgage Disclosure Act
HQLA	High quality liquid asset
IADI	International Association of Deposit Insurers
ICIPC	Intelligence and Critical Infrastructure Protection Committee
IDI	Insured Depository Institution
IMF	International Monetary Fund
IMFB	IndyMac Federal Bank
InTREx	Information Technology Risk Examination Program
ISM	Information Security Manager
IT	Information Technology
ITCIP	Insider Threat and Counterintelligence Program
ITSP	Information Technology Strategic Plan
LCR	Liquidity coverage ratio
LIBOR	London Inter-bank Offered Rate
LIDI	Large Insured Depository Institution
LLC	Limited Liability Company
MDI	Minority Depository Institutions
MOL	Maximum Obligation Limitation
MOU	Memoranda of Understanding
MRM	Model Risk Management
MRBA	Matters Requiring Board Attention
MWOB	Minority- and Women-Owned Business
MWOLF	Minority- and Women-Owned Law Firms
NAMWOLF	National Association of Minority- and Women-Owned Law Firms
NCATS	National Cybersecurity and Technical Services
NCUA	National Credit Union Administration

NITTF	National Insider Threat Task Force
NPR	Notice of Proposed Rulemaking
NSFR	Net Stable Funding Ratio
OCC	Office of the Comptroller of the Currency
OCFI	Office of Complex Financial Institutions
OIG	Office of Inspector General
OJT	On-the-Job Training
OLA	Orderly Liquidation Authority
OLF	Orderly Liquidation Fund
OMB	U.S. Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
OO	Office of the Ombudsmen
OPM	Office of Personnel Management
ORE	Owned Real Estate
OTS	Office of Thrift Supervision
P&A	Purchase and Assumption
PIV	Personal Identity Verification
Q&A	Question and Answer
QBP	Quarterly Banking Profile
QFC	Qualified Financial Contracts
REMA	Reasonably Expected Market Area
ReSG	FSB's Resolution Steering Group
RESPA	Real Estate Settlement Procedures Act
RMIC	Risk Management and Internal Controls
RMS	Division of Risk Management Supervision
RTC	Resolution Trust Corporation
SBA	Small Business Administration
SCRA	Servicemembers Civil Relief Act
SEATAB	Security and Enterprise Architecture Technical Advisory Board
SEC	Securities and Exchange Commission
SIFI	Systemically Important Financial Institution
SLA	Shared-Loss Agreement
SME	Subject Matter Expert
SMS	Systemic Monitoring System
SNC	Shared National Credit Program
SRAC	Systemic Resolution Advisory Committee
SRR	SIFI Risk Report
SRB	Single Resolution Board
SSGN	Structured Sale of Guaranteed Note
TILA	Truth in Lending Act
TIPS	Treasury Inflation-Protected Securities
TSP	Federal Thrift Savings Plan
TSP (IT-related)	Technology Service Providers
UBPR	Uniform Bank Performance Report
UFIRS	Uniform Financial Institutions Rating System
UK	United Kingdom
URSIT	Uniform Rating System for Information Technology
VIEs	Variable Interest Entities
WE	Workplace Excellence
WIOA	Workforce Investment Opportunity Act
YSP	Youth Savings Program

NOTES

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