

441 G St. N.W.
Washington, DC 20548**Comptroller General
of the United States**

May 24, 2021

The Honorable Jelena McWilliams
Chairman
Federal Deposit Insurance Corporation
550 17th St., NW
Washington, DC 20429**Priority Open Recommendations: Federal Deposit Insurance Corporation**

Dear Ms. Chairman:

The purpose of this letter is to provide an update on the overall status of the Federal Deposit Insurance Corporation's (FDIC) implementation of GAO recommendations and to call your personal attention to open recommendations that should be given high priority.¹ In November 2020, we reported that on a government-wide basis, 77 percent of our recommendations made 4 years ago were implemented.² FDIC's implementation rate for these recommendations was 96 percent. As of April 2021, FDIC had six open recommendations overall. Fully implementing these open recommendations could significantly improve FDIC's efforts to more effectively oversee risks to consumers and the safety and soundness of the U.S. banking system.

Since our April 2020 letter, FDIC has implemented two of our three priority recommendations. In doing so, FDIC has

- collaborated with other relevant financial regulators to clarify how consumer protection laws are applied for customers that may experience harm when their accounts are aggregated by financial technology firms; and
- jointly conducted a retrospective review with other federal banking regulators and the Financial Crimes Enforcement Network of Bank Secrecy Act/anti-money laundering regulations to help ensure that the regulatory objectives are being met in the most effective and least burdensome way.

We are not adding any additional priority recommendations this year. We ask your attention to the remaining open priority recommendation, which is related to financial technology (fintech). (See enclosure for the recommendation).

In December 2018, we recommended that FDIC coordinate with other federal banking regulators and the Consumer Financial Protection Bureau (CFPB) to communicate in writing to

¹Priority recommendations are those that GAO believes warrant priority attention from heads of key departments or agencies. They are highlighted because, upon implementation, they may significantly improve government operation, for example, by realizing large dollar savings; eliminating mismanagement, fraud, and abuse; or making progress toward addressing a [high-risk](#) or duplication issue.

²GAO, *Performance and Accountability Report: Fiscal Year 2020*, [GAO-21-4SP](#) (Washington, D.C.: Nov. 16, 2020).

banks that engage in third-party relationships with fintech lenders on the appropriate use of alternative data in the underwriting process, including issues to consider when selecting types of alternative data to use. FDIC and other banking regulators have issued an interagency statement that highlights potential benefits and risks of using alternative data and encourages firms to responsibly use the data. However, the statement does not provide firms or banks specific direction on the appropriate use of that data, including issues to consider when selecting types of alternative data to use. To fully implement our recommendation, FDIC needs to provide—in coordination with other federal banking regulators and CFPB—written communication that gives banks in relationships with fintech lenders specific direction on the appropriate use of alternative data in the underwriting process.

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In March 2021, we issued our biennial update to our [High-Risk-List](#), which identifies government operations with greater vulnerabilities to fraud, waste, abuse, and mismanagement or the need for transformation to address economy, efficiency, or effectiveness challenges.³ One of our high-risk areas—modernizing the U.S. financial regulatory system—centers directly on FDIC.

Several other government-wide high-risk areas also have direct implications for FDIC and its operations. These include (1) [improving the management of IT acquisitions and operations](#), (2) [improving strategic human capital management](#), (3) [managing federal real property](#), (4) [ensuring the cybersecurity of the nation](#), and (5) [government-wide personnel security clearance process](#). We urge your attention to the modernizing the U.S. financial regulatory system and other government-wide issues as they relate to FDIC. Progress on high-risk issues has been possible through the concerted actions and efforts of Congress, OMB, and the leadership and staff in agencies, including within FDIC.

We are sending copies of this report to the Director of the Office of Management and Budget and appropriate congressional committees, including the Committees on Appropriations, Banking, Housing, and Urban Affairs, Budget, and Homeland Security and Governmental Affairs, United States Senate; and the Committees on Appropriations, Budget, Financial Services, and Oversight and Reform, House of Representatives. In addition, the report will be available on the GAO website at <https://www.gao.gov>.

³GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, [GAO-21-119SP](#) (Washington, D.C.: Mar. 2, 2021).

I appreciate FDIC's commitment to these important issues. If you have any questions or would like to discuss any of the issues outlined in this letter, please do not hesitate to contact me or Daniel Garcia-Diaz, Managing Director, Financial Markets and Community Investment at garciadiazd@gao.gov or 202-512-8678. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Our teams will continue to coordinate with your staff on all six open recommendations, as well as those recommendations in the high-risk areas for which FDIC has a leading role. Thank you for your attention to these matters.

Sincerely yours,

A handwritten signature in black ink that reads "Gene L. Dodaro". The signature is written in a cursive style with a large, prominent "D" and a long horizontal flourish extending to the right.

Gene L. Dodaro
Comptroller General
of the United States

Enclosure – 1

cc: The Honorable Shalanda Young, Acting Director, Office of Management and Budget

Priority Open Recommendation to the Federal Deposit Insurance Corporation

Financial Technology: Agencies Should Provide Clarification on Lenders' Use of Alternative Data. [GAO-19-111](#). Washington, D.C.: December 19, 2018 (reissued with revisions on March 12, 2019).

Recommendation: The Chairman of the Federal Deposit Insurance Corporation (FDIC) should, in coordination with the other federal banking regulators and the Consumer Financial Protection Bureau (CFPB) and with input from relevant stakeholders, communicate in writing to banks that engage in third-party relationships with fintech lenders on the appropriate use of alternative data in the underwriting process, including issues to consider when selecting types of alternative data to use.

Action Needed: FDIC agreed with the recommendation. In December 2019, FDIC and other banking regulators issued an interagency statement on the use of alternative data in credit underwriting. The statement broadly highlights some potential benefits and risks of using alternative data and encourages firms to responsibly use alternative data. However, the statement does not provide firms or banks with specific direction on the appropriate use of that data, including issues to consider when selecting types of alternative data to use. To fully implement our recommendation, FDIC needs to provide—in coordination with other federal banking regulators and CFPB—written communication that gives banks that engage in third-party relationships with fintech lenders specific direction on the appropriate use of alternative data in the underwriting process. We will continue to monitor the actions FDIC takes to provide specific direction on the appropriate use of alternative data.

Director: Michael E. Clements, Financial Markets and Community Investment

Contact Information: clementsm@gao.gov or 202-512-8678

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