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ANNUAL
REPORT



FEDERAL DEPOSIT
INSURANCE CORPORATION

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INSURANCE CORPORATION

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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:

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



MESSAGE FROM THE CHAIRMAN



Communities across the United States and our banking system have weathered enormous challenges over the course of the continuing global pandemic. In response to the economic and market volatility that ensued, the FDIC undertook a broad array of swift actions to maintain stability and public confidence in the nation's banking system. We focused on providing necessary flexibility to both banks and their customers – particularly the most heavily affected individuals and businesses – while maintaining the safety and soundness of the banking system. Throughout this period, the FDIC's supervisory activities and other essential functions continued.

Our nation's banks manifested resilience despite the persistent

challenges of the pandemic. They have continued to support individuals and businesses through lending and other financial intermediation and by distributing financial support provided by the federal government.

During 2021, the FDIC continued to respond to the economic risks related to the pandemic in order to support our banking system's ability to serve as a source of strength for Americans and to meet their financial needs. This Annual Report discusses these efforts in detail, describing our supervision and consumer protection activities, efforts to grow the deposit insurance fund and enhance our resolution readiness, in addition to providing information about FDIC finances, budget, and spending.

This Annual Report also provides a brief view into the forward-looking initiatives we have undertaken in 2021, many of which have been a focus of my chairmanship from the beginning. Top among these have been the FDIC's focus on novel ways to tackle the issues of broadening

MESSAGE FROM THE CHAIRMAN

financial inclusion and enhancing the competitiveness of our community banks. In addressing both of these goals, we have pushed ourselves to think outside the box regarding how the FDIC can use its authorities and platform to create a regulatory system that will help achieve these goals.

Reaching the “Last Mile” of Unbanked Americans

Expanding economic inclusion has been a priority during my tenure as Chairman. The pandemic further exacerbated the urgency of expanding access to banking products among the most vulnerable Americans.

The FDIC has seen meaningful improvements in recent years in reaching the “last mile” of unbanked households in this country. Based on the results of our biennial survey of households, the proportion of U.S. households that were banked in 2019 – 94.6 percent – was the highest since the survey began in 2009.

Notwithstanding these improvements, we recognize that much remains to be done. Our survey also showed that 7 million households do not have a banking relationship with which to deposit their checks or to save for unexpected expenses. Also noteworthy is that the proportion of Black and Hispanic households who do not have a checking or savings account at a bank remains substantially higher than the overall “unbanked” percentage.

As the FDIC considers additional ways to facilitate a more inclusive banking system, we recognize the tremendous benefits that financial innovation can deliver to consumers, including in the areas of payments and credit. When responsibly managed and regulated, new technologies have the potential to bring more people into the banking system, provide access to new products and services, and lower the cost of credit.

To address these challenges, the FDIC is taking a multi-pronged, novel approach. In 2021, our Office of Innovation – FDITECH – announced a tech sprint to explore new technologies and techniques that would help expand the capabilities of community banks to meet the needs of unbanked households. This tech sprint was a public challenge to banks, non-profits, private companies, and others to help us reach that “last mile” of unbanked Americans. Specifically, the FDIC asked participants to answer the following question: “Which data, tools, and other resources could help community banks meet the needs of the unbanked in a cost-effective manner, and how might the impact of this work be measured?” Teams came together for a demonstration day and presented their proposed solutions in September.

Alongside our fellow regulators, in 2021 we issued an interagency request for information on financial institutions’ use of artificial intelligence, asking whether additional regulatory clarity would be helpful. Alternative data and artificial intelligence can be especially useful for small businesses, such as sole proprietorships and smaller companies owned by

MESSAGE FROM THE CHAIRMAN

women and minorities, which often do not have a long credit history. Novel measures of creditworthiness, like income streams, can help to provide critical access to capital, particularly in difficult times.

We continued to leverage our *Money Smart* financial education curriculum during this past year and the 1,500-plus organizations that are part of our *Money Smart* Alliance to empower consumers with information about personal finance.

We further conducted a targeted public awareness pilot campaign, #GetBanked, in Atlanta and Houston to inform consumers about the benefits of developing a relationship with a bank. Having a basic checking account can be an important first step to becoming part of the financial fabric of this country and we are pleased that an increasing number of banks are offering low-cost and no-fee accounts that work for people with limited means.

Minority Depository Institutions

One of our most recent achievements is the launch of the Mission-Driven Bank Fund, which we announced in September. Based on my conversations with many Minority Depository Institutions (MDIs) and Community Development Financial Institutions (CDFIs) early in my tenure, I learned that what these institutions need most is capital. I challenged the FDIC to come up with a framework that would match these banks with investors interested in the particular challenges and opportunities facing those banks and their communities. We are pleased that Microsoft and Truist Financial Corporation are the anchor investors in this new fund, and Discovery, Inc. will become a founding investor. Combined, these investors are pledging \$120 million to support mission-driven banks and the communities they serve, with additional investments expected in the coming months. The fund will support MDIs and CDFIs to build size, scale, and capacity that will, in turn, allow them to provide affordable financial products and services to individuals and businesses. The FDIC will not manage the fund, contribute capital to the fund, or be involved in the fund's investment decisions.

Our longstanding support for MDIs has also included technical assistance, banker roundtables, and facilitating partnerships. In more recent years, the FDIC has increased MDI representation on our Community Bank Advisory Committee (CBAC), established a new MDI subcommittee of the CBAC to highlight the work of MDIs in their communities and to provide a platform for MDIs to exchange best practices, and enabled MDIs to review potential purchases of a failing MDI before non-MDI institutions are given this opportunity. These efforts were further incorporated in a Statement of Policy issued in June 2021 to update, strengthen, and clarify the agency's policies and procedures related to MDIs.

In November 2021, we created the Office of Minority and Community Development Banking – a new Office that will further support the agency's ongoing strategic and direct engagement with MDIs, CDFIs, and other mission-driven banks. The new office will further promote private sector investments in low- and moderate-income (LMI) communities.

Promoting the Competitiveness of Our Community Banks

Financial inclusion goes hand-in-hand with supporting the competitiveness of our community banks. At the FDIC, we observe in our daily work the vital role that community banks play in their local communities and in the U.S. economy overall. Despite their notable lending strengths and presence throughout our country, we know that many community banks struggle to remain competitive given the rapid pace of technological changes and the demands of increasingly tech-savvy consumers.

From the earliest days of my chairmanship, I have emphasized how important recognizing, and adapting to, changes in technology and evolving consumer demands would be to our community banks' survival and their ability to thrive. Today, as we think about the regulatory system we want to build coming out of the pandemic, innovation will be even more critical to fostering financial inclusion and the competitiveness of our community banks. The FDIC worked hard in 2021 on several novel initiatives to do its part to build this future.

Among other things, we continued our groundbreaking work on the "rapid phased prototyping competition." Through this competition, we sought to tackle the burdens that the current call reports place on supervised institutions and to enhance their value to the FDIC. Although these reports provide critical data to the FDIC, they do so with several months' delay, thereby reducing the utility of the reporting. More than 30 technology firms were invited to participate in this rapid phased prototyping competition, to develop tools for providing more timely and granular data to the FDIC on the health of the banking sector while also making such reporting less burdensome for banks. Of those 30 firms, we asked four participants to move forward in the competition by proposing a proof of concept for their technologies – either independently or jointly.

In 2021, we also actively pursued a groundbreaking approach to facilitate technology partnerships by developing the concept for a public/private standard-development organization to establish standards for due diligence of vendors and for the technologies they develop. Our goal is to standardize the due diligence process in such a way that fundamentally improves the ability of banks to partner with technology firms. At the same time, we hope it will strengthen compliance with consumer protection laws and regulations, and better allow the FDIC to engage in a horizontal review of the products, services, and risk-management practices of third-party service providers. We received many supportive comments in response to the request for information. We are pursuing the concept actively and will begin to engage our fellow regulators and the private sector more closely in order to bring this proposal to fruition.

For our community banks – and our financial system more broadly – innovation is no longer a question of "shall we; shall we not" but "how can we do it because we must." It has been my goal as Chairman that the FDIC lay the foundation for the next chapter of banking by encouraging innovation that meets consumer demand, promotes community banking,

MESSAGE FROM THE CHAIRMAN

reduces compliance burdens, and modernizes our supervision while increasing access to banking services. The upheaval caused by the pandemic has only underscored the importance of these goals.

Looking Ahead to Our “New Normal”

Though we continue to be encouraged by the state of the banking sector as we enter our “new normal,” uncertainty remains, and the FDIC will continue monitoring several industries and markets that have been directly impacted by the pandemic and the related economic shutdowns. The FDIC remains vigilant about the uneven impact of the pandemic and its recovery on different populations throughout the United States. As they have throughout this unprecedented time, the FDIC’s 5,694 dedicated employees remain committed to the agency’s mission and the financial stability of the United States, as well as its role in supporting a financial system that serves all Americans.

When I stepped into my role at the FDIC, I knew that to address the gap in financial belonging and support the competitiveness of our nation’s community banks, we – public and private sector entities alike – would have to break the mold. The FDIC staff has been working hard to do just that, and as my tenure ends, I want to express my gratitude for their efforts to join me on this journey.

Sincerely,

A handwritten signature in cursive script that reads "Jelena McWilliams". The signature is written in black ink and is positioned above a thin horizontal line.

Jelena McWilliams

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MESSAGE FROM THE CHIEF FINANCIAL OFFICER



I am pleased to present the FDIC's *2021 Annual Report*, which covers financial and program performance information and summarizes our successes for the year.

For 30 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 accomplishments and continue to consistently demonstrate discipline and accountability as stewards of these funds. We remain proactive in the execution of sound financial management by providing reliable and timely financial data to enhance decision-making and employing tools and strategies to improve the effectiveness and efficiency of our financial management operations and reporting.

2021 Financial and Program Results

Despite continued economic uncertainties related to the pandemic, the resilience of the banking industry is reflected in the continued increase in the DIF balance. The DIF balance rose to a record \$123.1 billion as of December 31, 2021, compared to the year-end 2020 balance of \$117.9 billion. The Fund balance increase was primarily due to assessment revenue, offset by a small increase in expenses. No insured financial institutions failed in 2021 and the contingent liability for anticipated failures declined to \$20.8 million as of December 31, 2021, compared to \$78.9 million as of December 31, 2020.

The DIF U.S. Treasury securities investment portfolio balance was \$114.6 billion as of December 31, 2021, an increase of \$4.1 billion over the year-end 2020 portfolio balance of \$110.5 billion. Record low rates drove a decrease of \$730 million in interest revenue on DIF investments which totaled nearly \$1 billion for 2021, compared to \$1.7 billion for 2020. Additionally, the DIF balance reflects an unrealized loss on U.S. Treasury securities of \$1.2 billion in 2021, compared to a modest unrealized gain of \$483 million in 2020.

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

FDIC expenditures remained relatively unchanged compared to 2020. Spending totaled approximately \$1.89 billion—\$422 million (or 18.2 percent) less than the 2021 FDIC Operating Budget of \$2.31 billion and just \$15 million (or 0.8 percent) more than 2020 actual spending of \$1.88 billion. The FDIC Board of Directors recently approved a 2022 FDIC Operating Budget totaling \$2.26 billion, down \$16 million (or 0.7 percent) from the 2021 budget.

The FDIC's authorized full-time equivalent staffing rose from 5,728 in 2020 to 5,853 in 2021, a 2.2 percent increase. Authorized staffing for 2022 is 5,897 full-time equivalent positions, 44 positions (or approximately 0.8 percent) higher than 2021.

During 2021, the FDIC completed an agency-wide effort to raise risk awareness and continued to mature the enterprise risk management (ERM) program and associated Risk Profile and Risk Inventory. The FDIC also enhanced contract administration and oversight management controls and increased independent testing of contract invoices and compliance with FDIC acquisition policies. In 2022, we will continue to enhance the ERM program, strengthen acquisition-related controls, and expand internal control testing efforts.

I appreciate the FDIC professionals who plan, execute, and account for the agency's resources. As evidenced by three decades of unmodified audit opinions, their commitment to ensuring sound financial management provides the foundation for our strong stewardship and ensures that reliable financial information is available to our stakeholders.

Sincerely,

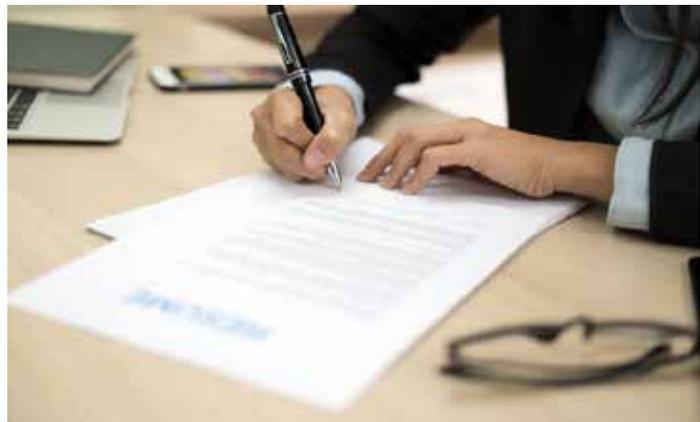
A handwritten signature in black ink that reads "Bret D. Edwards". The signature is written in a cursive, slightly slanted style.

Bret D. Edwards

CONTINUING TO ADDRESS THE IMPACT OF COVID-19

Throughout 2021, the FDIC continued to respond to economic disruptions and global financial market volatility as a result of the COVID-19 global pandemic. Following the declaration of a global pandemic by the World Health Organization in March 2020, the FDIC quickly implemented strategies to address challenges related to COVID-19 and focused on providing necessary flexibility to both banks and their customers — particularly the most heavily affected individuals and businesses — while maintaining the overall safety and soundness of the banking system. The FDIC also undertook a robust policy response to ensure that financial institutions could continue to serve the needs of households and small businesses. These efforts continued throughout 2021.

In January 2021, the FDIC, Board of Governors of the Federal Reserve System (FRB), Office of the Comptroller of the Currency (OCC), National Credit Union Administration (NCUA) and the Conference of State Bank Supervisors (CSBS) hosted a webinar for bankers to discuss recent changes to the Paycheck Protection Program (PPP). As part of the webinar, officials from the Small Business Administration (SBA) and the U.S. Department of Treasury (Treasury) provided an overview of the new features of the PPP associated with the recently passed Economic Aid to Hard-Hit Small Business, Non-Profits and Venues Act.



During 2021, the FDIC developed a Return to the Office Plan (RTO) in conjunction with guidelines released by the Centers for Disease Control and Prevention. The RTO is a three-phased approach to ensure employees remain safe and healthy when returning to physical offices and facilities. FDIC employees remained in a mandatory telework status throughout 2021, with only designated, essential personnel returning to FDIC facilities on a voluntary, as-needed basis.

FDIC developed a Return to the Office Plan.

The FDIC also created an intranet website dedicated to COVID-19 to keep employees abreast of the latest developments internally and externally related to the pandemic. The site includes information on FDIC Guidelines, Prevention/Treatment, the RTO Plan, FDIC Resources, FAQs, and other resources.



DIVERSITY, EQUITY, INCLUSION, AND ACCESSIBILITY

Diversity, equity, inclusion, and accessibility (DEIA) are fundamental aspects of the work at the FDIC. Our ability to meet our mission of preserving and promoting public confidence in the U.S. financial system requires that we understand the increasingly diverse U.S. population. Establishing and maintaining an equitable, inclusive, and accessible workplace that is as diverse as the communities we serve helps us to effectively respond to the needs of those who participate in the banking system.

The Office of Minority and Women Inclusion (OMWI) supports this commitment by ensuring equal employment opportunity and evaluating and addressing issues related to the racial, ethnic, and gender diversity of the FDIC workforce. OMWI, through its outreach efforts, works to ensure the fair inclusion and utilization of minority- and women-owned businesses (MWOBs), law firms (MWOLFs), and investors in contracting and investment opportunities. OMWI is also responsible for assessing the diversity policies and practices of FDIC-regulated financial institutions.

Workforce Diversity and Workplace Inclusion and Accessibility at the FDIC

The FDIC published a new *Diversity, Equity, and Inclusion (DEI) Strategic Plan* for 2021-23. This plan outlines strategies to promote workforce and workplace inclusion and sustainability of diversity and inclusion efforts. The plan also calls for the FDIC's Divisions and Offices to establish their own DEIA operational plans, cascading the corporate goals throughout the agency.

In 2021, the FDIC also implemented several new initiatives to increase DEIA throughout the agency, including by establishing:

- **A DEIA FDIC Performance Goal.** The FDIC implemented a new corporate performance goal that encompasses promoting DEIA in our workforce and business operations.

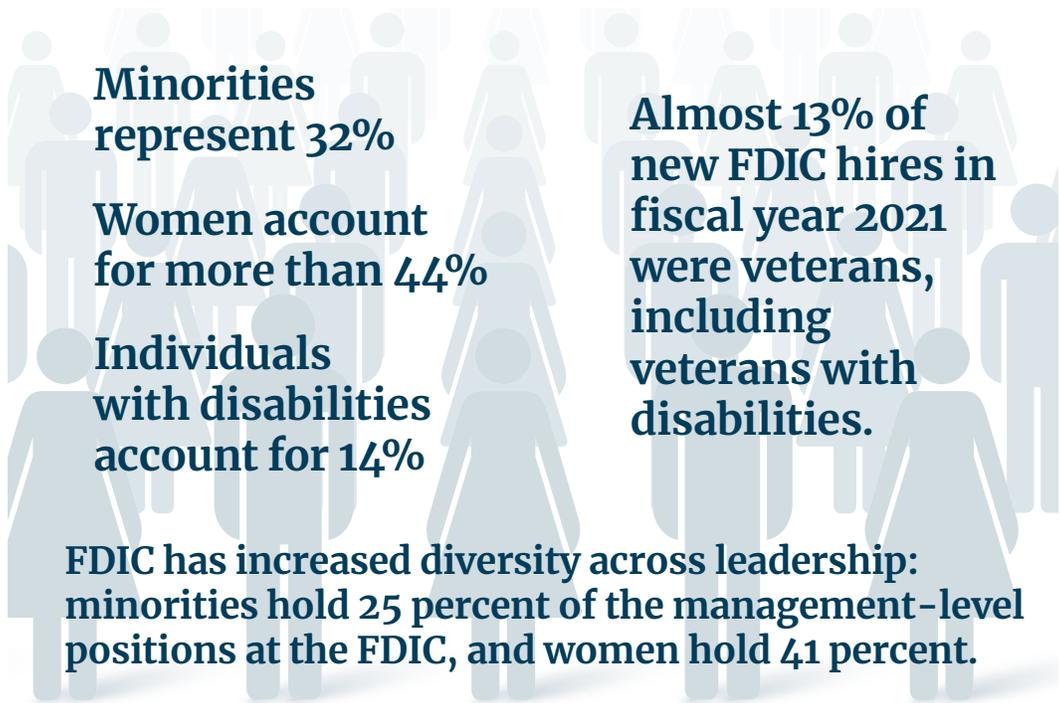
DIVERSITY AND INCLUSION

- **Enhanced Recruitment Initiatives.** The FDIC participated in various activities with the White House Initiative on Advancing Educational Equity, Excellence and Economic Opportunity for Historically Black Colleges and Universities (HBCUs) and the White House Initiative on Advancing Educational Equity, Excellence, and Economic Opportunity for Hispanics to develop and cultivate stronger relationships that will ultimately expand our talent pool.
- **New Leadership Development Programs.** The FDIC launched two new leadership development programs, which are designed to develop the next generation of leaders with a corporate-succession management focus to increase DEIA in the FDIC's leadership.
- **“Celebrating our Uniqueness” National Listening Tour.** All FDIC employees were invited to share their life experiences and discuss how these perspectives impact them in the workplace. The sessions focused on: Rural Communities, LGBTQ+, Economically Disadvantaged, First Generation Professionals, Persons with Disabilities, Veterans, Generations in the Workforce, Religious Beliefs, and Caregivers.
- **First Generation (FirstGen) Professionals Program.** The FDIC developed and implemented a FirstGen initiative to support first generation professionals in the workplace.
- **Barrier Analysis.** To improve our ability to recruit, retain, and develop employees, the FDIC engaged an independent consultant to help us identify and develop strategies to address any potential barriers to our DEIA success.
- **Pay Adjustment Review.** As a result of a pay equity review in 2020, the FDIC implemented a new system for setting incoming employees' pay. Related to the implementation of the new pay system, current employees were afforded the opportunity to request a pay adjustment review to ensure that they are paid in accordance with the principles underlying the new pay-setting system.
- **Equal Access for People with Disabilities.** The FDIC hosted a series of educational events as part of a *Mission Accessible* campaign. The campaign promoted awareness of the need for equal access to information for people with disabilities.

As a result of past and current efforts, we continue to make progress to achieve our DEIA goals. At the end of 2021, minorities represent 32 percent of the permanent workforce and women account for more than 44 percent. Individuals with disabilities account for 14 percent of the workforce, above the 12 percent federal benchmark. Further, the FDIC has increased diversity across leadership: minorities hold 25 percent of the management-level positions at the FDIC, and women hold 41 percent. Almost 13 percent of new FDIC hires in fiscal year 2021 were veterans. As a result, we increased onboard representation of veterans, including veterans with disabilities.

Despite these gains, we know there is much more to do, and we remain committed to achieving all of the goals outlined in our *DEI Strategic Plan*.

ACHIEVING FDIC WORKFORCE DEIA GOALS IN 2021



**Minorities
represent 32%**

**Women account
for more than 44%**

**Individuals
with disabilities
account for 14%**

**Almost 13% of
new FDIC hires in
fiscal year 2021
were veterans,
including
veterans with
disabilities.**

**FDIC has increased diversity across leadership:
minorities hold 25 percent of the management-level
positions at the FDIC, and women hold 41 percent.**

Minority- and Women-Owned Business Outreach

Due to COVID-19, many of the events the FDIC typically attends to engage with MWOBs were cancelled or postponed in 2021. Instead, the FDIC participated in virtual procurement outreach events and attended webinars to connect with MWOBs. The FDIC also targeted diverse publications and utilized social media platforms to market its own virtual procurement events. Additionally, the FDIC uses its website to raise and improve public awareness about the agency's procurement process and initiatives.

The FDIC's staff also served as panelists and participated in 10 procurement events, including events hosted by the U.S. Pan Asian American Chamber of Commerce and the U.S. Women's Chamber of Commerce. At these events, the FDIC's staff provided essential education and information about procurement opportunities at the FDIC, and responded to inquiries about business opportunities for MWOBs, strategies for connecting with other MWOBs and prime contractors for potential teaming and subcontracting opportunities, and challenges MWOBs face in the contracting process.

DIVERSITY AND INCLUSION

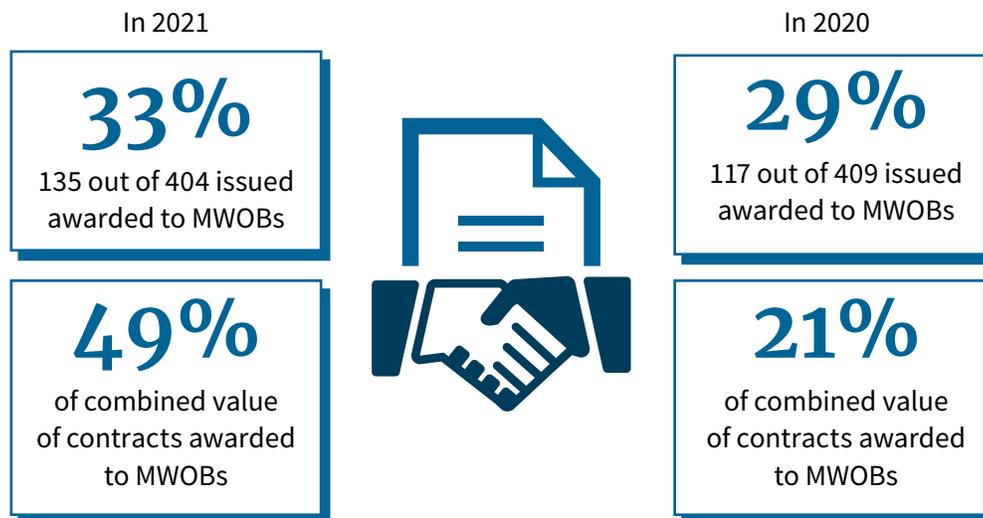
The FDIC also hosted three Pitch Day sessions and two free virtual Technical Assistance Events. The Pitch Day events allowed MWOBs to market their business capabilities to the FDIC for potential agency contracting opportunities. OMWI also worked with the FDIC's Acquisition Services Branch to host a series of virtual events that highlighted resources to enhance networking connections and best practices. These efforts better positioned companies for potential partnerships.

These events also allowed for sharing firsthand knowledge for responding to the FDIC's request for proposals, and included recommendations on how companies could articulate their added-value to the proposal. Additionally, FDIC demonstrated a mock session of the four phases of the contracting process to enhance the firms' understanding of our acquisition business model.

In 2021, the FDIC paid \$130.0 million of its total contract payments (27 percent) to MWOBs, under 226 MWOB contracts.

In 2021, the FDIC awarded 135 contracts (33 percent) to MWOBs out of a total of 404 issued. The FDIC awarded contracts with a combined value of \$845.5 million in 2021, of which 49 percent (\$416.4 million) was awarded to MWOBs. By comparison, in 2020, 117 of 409 contracts (29 percent) and \$90.0 million of \$426.7 million (21 percent) was awarded to MWOBs. In 2021, the FDIC paid \$130.0 million of its total contract payments (27 percent) to MWOBs, under 226 MWOB contracts.

MWOB CONTRACTS AWARDED



Minority- and Women-Owned Law Firm Outreach

The Legal Division's outside contracting outreach faced two major challenges in 2021—the continued decline in the need for outside counsel services and the COVID-19 pandemic. Notwithstanding the decline in bank resolution activity, the FDIC paid \$385,000 in legal fees to MWOLFs and paid \$3.2 million to diverse attorneys in 2021. Taken together, the FDIC paid \$3.56 million to MWOLFs and diverse attorneys out of a total of \$19.56 million spent on outside counsel services, for an aggregate 18 percent diversity and inclusion participation rate in outside legal contracting in 2021. The FDIC made 11 referrals to MWOLFs, which accounted for 29 percent of all legal referrals.

The Legal Division undertook several efforts in 2021 in order to offset the impact of the COVID-19 pandemic on legal contracting outreach. First, the Legal Division continued a legal contracting advertising campaign for its supplier diversity program in a well-regarded group of diversity-related publications. In addition, the Legal Division organized regular virtual meetings with current diverse legal services providers (DLSPs) on the FDIC List of Counsel Available (LCA) in order to maintain relationships with firms that are currently working with the Corporation. Lastly, the Legal Division, in cooperation with OMWI, created the Legal Division Virtual Pitch Day. This virtual event provided DLSPs a platform to present their firm's legal expertise to FDIC in-house attorneys. The FDIC Legal Division participated in seven minority bar association conferences and three stakeholder events, all of which were virtual programs. This included the Legal Division's participation in a National Association of Minority and Women Owned Law Firms (NAMWOLF) webinar about opportunities to perform work for failed bank receiverships. Each of the events provided vital networking opportunities, allowing the FDIC to maintain a seamless outreach experience and engagement with our stakeholders.

In 2021, the Legal Division partnered with NAMWOLF to interview and recruit 14 new MWOLFs in various geographic areas in the event of an increase in bank resolution activities, and increased the percentage of MWOLFs on the LCA from 30 percent to 40 percent. This step will ensure an equitable competition for all available legal contracting opportunities, and the Legal Division will continue to foster relationships between DLSPs and FDIC in-house counsel.

Financial Institution Diversity

Financial Institution Diversity (FID) is a program for assessing the diversity policies and practices of FDIC-regulated financial institutions. Financial institutions are encouraged to conduct a self-assessment annually, and share results with OMWI. In 2021, the FDIC released an automated Form 2710/05, *Diversity Self-Assessment of FDIC Regulated Financial Institutions*, which was designed to make the completion of the assessment more user-friendly and secure for financial institutions.

DIVERSITY AND INCLUSION

The FDIC received 148 self-assessments from 773 regulated institutions having 100 or more employees for the 2020 reporting period, representing 19 percent of all regulated institutions.

Analysis of the self-assessment data allows OMWI to identify exemplary practices that financial institutions have implemented as part of their workforce recruitment, supplier diversity procurement, and training practices.

Minority Depository Institutions Activities

The preservation and promotion of MDIs remains a long-standing, top priority for the FDIC. The FDIC's research study, *Minority Depository Institutions: Structure, Performance, and Social Impact*, published in 2019, found that MDIs have played a vital role in providing mortgage credit, small business lending, and other banking services to minority and low- and moderate-income (LMI) communities. MDIs are anchor institutions in their communities and play a key role in building a more inclusive financial system.

In 2021, significant new sources of private and public funding became available to support FDIC-insured MDIs and Community Development Financial Institutions (CDFIs), collectively known as "mission-driven banks." This includes up to \$9 billion in funding from Treasury through the Emergency Capital Investment Program, as well as \$3 billion in new grant funding for CDFIs, including \$1.2 billion set aside for minority lending institutions. The FDIC initiated additional capital support for MDIs and CDFIs through the standup of the Mission-Driven Bank Fund (discussed below).

During 2021, the FDIC pursued several strategies to support MDIs. These included increasing engagement and representation, facilitating partnerships to provide new capital and other tools and resources, updating policies, and promoting the MDI sector through advocacy, as well as by providing outreach, technical assistance, and education and training for MDIs.

ENGAGEMENT AND REPRESENTATION

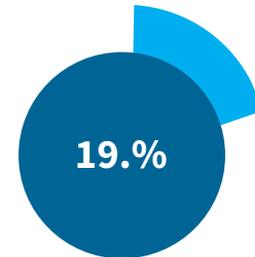
The FDIC's MDI Subcommittee of the Advisory Committee on Community Banking (CBAC) held three virtual meetings in 2021. The subcommittee is comprised of nine MDI executives

SELF-ASSESSMENT OF REGULATED INSTITUTIONS



773

Regulated institutions having 100 or more employees



19%

FDIC received 148 Self-Assessments

DIVERSITY AND INCLUSION

representing all types of MDIs and provides a venue for minority bankers to discuss key issues, share feedback on program initiatives, and showcase MDI best practices.

In addition, representatives from three MDIs serve on the 18-member CBAC to further bring MDI perspectives and issues to the table. During 2021, the FDIC also engaged in deeper relationships with mission-driven bank trade groups to facilitate effective implementation of some of the new resources becoming available to mission-driven banks.

In November 2021, the FDIC created a new permanent organization, the Office of Minority and Community Development Banking, to support the agency's ongoing strategic and direct engagement with MDIs and CDFIs. The new office will advise the Chairman and other senior leaders on FDIC activities that support mission-driven banks. It will also engage with these institutions to promote financial inclusion; encourage development and investments in LMI communities; and support FDIC-insured MDIs, CDFIs, and other financial institutions that serve LMI communities. The new office will, among other things, partner with government and private-sector organizations to build capacity in the mission-driven banking sector; expand FDIC research on mission-driven banks; develop strategies to encourage the creation of new MDIs and CDFIs; provide technical assistance that supports innovation and technology solutions for mission-driven banks; and promote partnerships between mission-driven banks, other financial institutions, and the private sector.

PARTNERSHIPS

In September 2021, the FDIC launched the Mission-Driven Bank Fund, a collaborative investment framework to drive capital investment and other funding to FDIC-insured MDIs and CDFIs that support LMI, minority, and rural communities. This new capital investment vehicle was designed to help these institutions build size, scale, and capacity, which, in turn, would allow them to:

- Provide affordable financial products and services to individuals and businesses;
- Stimulate economic and community development; and
- Build opportunity and prosperity.

The fund is a unique public-private partnership with the FDIC creating the design, mission orientation, and founding documents. As anchor investors, Microsoft and Truist Financial Corporation will lead the investment fund. In addition, Discovery, Inc. joined as a founding investor in the fund, bringing the combined initial commitment to \$120



Launched by the FDIC.

DIVERSITY AND INCLUSION

million, with additional investments expected. An independent fund manager will be hired to underwrite investments and manage the fund, with oversight from an advisory council comprised of community and business leaders and other stakeholders. The FDIC will retain an advisory role to support the fund’s mission focus, but will not contribute capital to, manage, or be involved in the fund manager selection process or investment decisions of the fund.

The FDIC also partnered with Treasury and the Community Development Financial Institutions Fund (CDFI Fund) to support new sources of funding made available to MDIs and CDFIs. For example, the FDIC developed a Capital Estimator Tool for mission-driven banks and a Regulatory Capital Guide. These offerings enabled mission-driven banks to approximate the impact of additional capital on regulatory capital ratios through various “what-if” scenarios and inform decisions on the types of capital they sought. The FDIC also co-sponsored an interagency webinar to demonstrate use of the tool and guide. In addition, the FDIC co-sponsored a webinar with the CDFI Fund and MDI and CDFI trade groups to enable institutions to learn about the benefits of CDFI designation, especially given new grant funding for minority lending institutions.

POLICIES

In June 2021, the FDIC’s Board of Directors updated and strengthened its *Statement of Policy Regarding Minority Depository Institutions*. The revised policy includes updates responsive to the public notice-and-comment process conducted in the fourth quarter of 2020. The policy statement reflects the agency’s enduring commitment to fulfilling the five statutory goals to preserve and promote MDIs and outlines the framework for the MDI program across the FDIC. Key changes include emphasis on engagement with MDIs, enhanced technical assistance, and a description of how examiners apply examination standards to the unique business models of MDIs.

In 2021, agency staff also developed training modules that will be launched in 2022 to train examiners and other staff supporting the MDI program.

ADVOCACY

It is important to promote the visibility of MDIs, to tell their stories, and showcase the important role they play in their communities. In 2021, the FDIC began planning a 2022 relaunch of its initiative to record and publish videos of MDI executives sharing their institutions’ “origin stories,” highlighting the reasons their institutions were formed, and describing how they have served their communities over time. In addition, senior agency leaders emphasized the significance of mission-driven banks in numerous external speaking engagements and through posts on a number of FDIC social media channels and websites.

OUTREACH, TECHNICAL ASSISTANCE, AND EDUCATION

The FDIC co-sponsored the biennial interagency Minority Depository Institution and CDFI Bank Conference in September 2021, along with the OCC and Federal Reserve. The conference, *Navigating the Economy with Resilience and Reinvention*, featured the agency principals

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discussing their initiatives to support mission-driven banks, panels led by MDI and CDFI CEOs sharing their perspectives, and senior agency leaders discussing current supervisory and policy issues. The conference also highlighted key points for building business relationships with corporate America, MDIs, and CDFIs; sessions on economic inclusion, innovation, and fintech; and breakout sessions during which bankers could speak with their primary federal supervisor.

During the year, the FDIC also continuously pursued efforts to improve communication and interaction with MDIs and to respond to the concerns of minority bankers. 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 conducts an annual survey to obtain feedback from MDIs and to help assess the effectiveness of the MDI program.

At the conclusion of each examination of an MDI supervised by the FDIC, the staff is available to return to the institution to provide technical assistance by reviewing areas of concern or topics of interest to the institution. The purpose of return visits is to assist management in understanding and implementing examination recommendations, not to identify new problems.

Through its public website (www.fdic.gov), the FDIC invites inquiries and provides contact information for any MDI to request technical assistance at any time.

In 2021, the FDIC provided 137 individual technical assistance sessions on approximately 29 risk management, consumer compliance, and resolution topics, including:

- Accounting,
- Applications for branch openings and closures,
- Bank Secrecy Act (BSA) and Anti-Money Laundering (AML),
- Community Reinvestment Act (CRA),
- Compliance management,
- Corporate planning,
- Current Expected Credit Losses (CECL) accounting methodology,
- Funding and liquidity,
- Information technology risk management and cybersecurity,
- Internal audit, and
- Loan modifications and Troubled Debt Restructuring.

The FDIC also held outreach, training, and educational programs for MDIs through conference calls and regional banker roundtables. In 2021, topics of discussion for these sessions included many of those listed above, as well as strategic and management succession planning, FDIC economic inclusion initiatives, emerging risks and areas of concern, IT vendor management, and innovation and emerging technology.

EMERGENCY CAPITAL INVESTMENT PROGRAM

The Emergency Capital Investment Program (ECIP) was established by Treasury pursuant to the Consolidated Appropriations Act, 2021. The Act authorizes Treasury to purchase up to \$9 billion of preferred stock and other financial instruments from LMI community financial institutions determined by Treasury to be eligible for the investment. The ECIP is designed to promote lending, grants, and forbearance for small businesses, minority-owned businesses, and consumers, especially in low-income and underserved communities that may be disproportionately impacted by the economic effects of COVID-19, by making capital investments in operating MDIs and CDFIs.

The Act requires Treasury to consult with the appropriate federal banking agency before making a capital investment pursuant to the ECIP. Accordingly, Treasury requested that the FDIC provide specific information for each FDIC-supervised institution that applied to Treasury for an ECIP investment or is a subsidiary of a bank holding company that applied for an ECIP investment. The FDIC provided information to Treasury for 79 institutions for which Treasury requested information. On December 14, 2021, Treasury announced the deployment of more than \$8.7 billion in ECIP investments in 186 MDIs and CDFIs.

On March 9, 2021, the FDIC issued a Financial Institution Letter to alert institutions to the availability of the ECIP and to provide sources of information to potential applicants. In addition, to facilitate the implementation of ECIP, the FDIC, along with the OCC and FRB, issued an interim final rule to revise applicable capital rules to provide that Treasury's investments under the ECIP would qualify as regulatory capital for insured depository institutions (IDIs) and holding companies.



I

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Overview

During 2021, the FDIC continued to fulfill its mission-critical responsibilities, while addressing challenges related to the COVID-19 pandemic. In addition, the agency worked to further strengthen the banking system, modernize its approach to supervision, and increase transparency surrounding its programs. The FDIC also continued to engage in several community banking and community development initiatives.

Cybersecurity remained a high priority for the FDIC in 2021; the agency worked to strengthen its infrastructure resiliency, manage information security risks, enhance data governance, and modernize information technology. This *Annual Report* highlights these and other accomplishments achieved during the year.

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, the FDIC developed a comprehensive, long-term DIF management plan to reduce the effects of cyclical and achieve moderate, steady assessment rates throughout economic and credit cycles, while also maintaining a positive fund balance, even during a banking crisis.

Under this plan, to increase the probability that the fund reserve ratio (the ratio of the fund balance to estimated insured deposits) would reach a level sufficient to withstand a future crisis, the FDIC Board set the Designated Reserve Ratio of the DIF at 2.0 percent. The FDIC views the 2.0 percent Designated Reserve Ratio as a long-term goal and the minimum level needed to withstand future crises of the magnitude of past crises. In December 2021, the Board voted to maintain the 2.0 percent ratio for 2022.

Additionally, as part of the long-term DIF management plan, the FDIC 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

The DIF balance continued to grow through 2021, as it has every quarter since the end of 2009, driven primarily by assessment revenue. Growth in the fund balance was offset by strong growth in insured deposits due to additional fiscal stimulus. The fund reserve ratio was 1.27 percent at September 30, 2021, three basis points lower than the previous year.

Restoration Plan

Extraordinary growth in insured deposits during the first and second quarters of 2020 caused the DIF reserve ratio to decline below the statutory minimum of 1.35 percent as of June 30, 2020. In September 2020, the FDIC Board of Directors adopted a Restoration Plan to restore the reserve ratio to at least 1.35 percent within eight years, absent extraordinary circumstances, as required by the Federal Deposit Insurance (FDI) Act. The Restoration Plan requires the FDIC to update its analysis and projections for the DIF balance and reserve ratio at least semiannually.

In 2021, insured deposit growth decelerated compared to the extraordinary growth experienced in the first half of 2020, but remained above average in the first quarter of 2021 due to subsequent additional fiscal stimulus and continued elevated savings rates. During the second and third quarters of 2021, insured deposits grew in line with recent historical averages. In its June and December 2021 semiannual updates, the FDIC continued to project that the reserve ratio, while subject to uncertainty, would return to the statutory minimum level of 1.35 percent by September 30, 2028.

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 bank examination efforts are at the core of its supervisory program. As of December 31, 2021, the FDIC was the primary federal regulator for 3,135 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, CRA, and other specialty examinations, the FDIC assesses an institution's operating condition, management practices and policies, and compliance with applicable laws and regulations.

The table on the following page illustrates the number of examinations by type, conducted from 2019 through 2021.

During the course of 2021, the FDIC conducted 1,268 statutorily required risk management examinations, and conducted all required follow-up examinations for FDIC-supervised problem institutions, within prescribed time frames. The FDIC also conducted 1,100 statutorily required CRA/consumer compliance examinations (740 joint CRA/consumer compliance examinations, 358 consumer compliance-only examinations, and two CRA-only examinations). In addition, the FDIC performed 2,831 specialty examinations, including statutorily required reviews of compliance with Bank Secrecy Act (BSA) and Anti-Money Laundering (AML) requirements, within prescribed time frames.

FDIC Examinations			
	2021	2020	2019
Risk Management (Safety and Soundness):			
State Nonmember Banks	1,139	1,219	1,310
Savings Banks	129	125	148
State Member Banks	0	0	0
Savings Associations	0	0	0
National Banks	0	1	0
Subtotal Risk Management Examinations	1,268	1,345	1,458
CRA/Consumer Compliance Examinations:			
Consumer Compliance/Community Reinvestment Act	740	805	933
Consumer Compliance-only	358	221	210
CRA-only	2	3	4
Subtotal—CRA/Compliance Examinations	1,100	1,029	1,147
Specialty Examinations:			
Trust Departments	275	308	313
Information Technology and Operations	1,271	1,345	1,466
Bank Secrecy Act	1,285	1,372	1,491
Subtotal—Specialty Examinations	2,831	3,025	3,270
TOTAL	5,199	5,399	5,875

Risk Management

All risk management examinations have been conducted in accordance with statutorily established time frames. As of September 30, 2021, 46 insured institutions with total assets of \$50.6 billion were designated as problem institutions (i.e., institutions with a composite CAMELS¹ rating of 4 or 5) for safety and soundness purposes. By comparison, on September 30, 2020, there were 56 problem institutions with total assets of \$53.9 billion. This represents an 18 percent decrease in the number of problem institutions and a 6 percent decline in problem institution assets.

For the 12 months ended September 30, 2021, 19 institutions with aggregate assets of \$2.6 billion were removed from the list of problem financial institutions, while 9 institutions with aggregate assets of \$1.7 billion were added to the list. The FDIC is the primary federal regulator for 27 of the 46 problem institutions, with total assets of \$3.5 billion.

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

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In 2021, the FDIC's Division of Risk Management Supervision (RMS) initiated 78 formal enforcement actions and 60 informal enforcement actions. Enforcement actions against institutions included, but were not limited to, seven actions under Section 8(b) of the FDI Act, one of which was a notice of charges, and 60 memoranda of understanding (MOUs). No civil money penalties or Section 39 Compliance Plans were issued. Of these enforcement actions against institutions, 13 MOUs were based, in whole or in part, on apparent violations of BSA/AML laws and regulations. In addition, enforcement actions were also initiated against individuals. These actions included, but were not limited to, 25 removal and prohibition actions under Section 8(e) of the FDI Act (21 consent orders and four notices of intention to remove/prohibit), one action under Section 8(b) of the FDI Act, and 12 civil money penalties (CMPs) (eight orders to pay and four notices of assessment).

The FDIC continues its risk-focused, forward-looking supervision program by assessing risk management practices during the examination process to address risks before they lead to financial deterioration. Examiners make supervisory recommendations, including Matters Requiring Board Attention (MRBA), in Reports of Examination to address these risks. RMS met its goal of following up on at least 90 percent of MRBAs within six months of transmittal of the Report of Examination. In addition, RMS implemented a new tracking system to gather more information about the subject of MRBAs, which will aid supervisory planning going forward.

During the COVID-19 pandemic, the FDIC adapted existing processes for virtual operations and created new processes and capabilities to address emerging needs. The agency is currently identifying and further promoting efficient and cost-effective business processes by documenting lessons learned and best practices from virtual examinations, as well as internal processes adapted to complete and process work, train and manage personnel, and communicate effectively across all levels remotely. These review activities include both an internal project to gather feedback from FDIC personnel and a Request for Information (RFI) that obtained information and comments from financial institutions for which the FDIC is the primary federal regulator.

EXAMINATION PROGRAMS

Well-managed banks engaged in traditional, non-complex activities receive periodic, point-in-time safety and soundness and consumer protection examinations that are carried out over a few weeks, while the very largest FDIC-supervised institutions (generally, those with total assets of \$10 billion or greater) are subject to continuous safety-and-soundness supervision and ongoing examination carried out through targeted reviews during the course of an examination cycle.

Point-in-Time Examinations

Approximately 98 percent of all FDIC-supervised institutions are examined under the point-in-time examination program. Risk management point-in-time examinations are conducted every 12 to 18 months, generally on an alternating basis with the appropriate State banking department. Prior to the pandemic, point-in-time examinations began with the examiner-in-charge conducting an examination planning process on an off-site basis, followed by an on-site component with the examination team traveling to the institution and engaging

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with bank management. Examiners then completed their work off-site and submitted their findings to their Regional Office case manager for review, finalization, and presentation to institution management. Since March 16, 2020, nearly all examination activity has occurred off-site. The FDIC is planning for a resumption of regular on-site examination activity as health conditions allow. It sought feedback during the year from financial institution management and examiners about lessons learned from off-site work that could be leveraged going forward to allow examiners to conduct a greater amount of examination activity off-site than the pre-pandemic period.

Continuous Examination Programs

Risk management continuous examinations are conducted throughout an annual examination cycle by a dedicated team of examiners working jointly with the appropriate State banking department. The examination team produces examination findings throughout the cycle after the completion of various targeted reviews of specific risk areas and a roll-up report of examination at the end of the annual examination cycle. Prior to the pandemic, dedicated examination teams typically worked on-site at the financial institution while conducting targeted reviews and off-site while reviewing materials or conducting ongoing supervision. As with the point-in-time examination program, dedicated examination teams have completed nearly all continuous examinations off-site since March 16, 2020. The FDIC is planning for a resumption of on-site examination activity as health conditions allow.

The number of institutions subject to continuous examinations has grown over the past few years as a result of both organic growth and merger-related activity. Given changes in industry structure and the number of large institutions supervised, RMS conducted a holistic review of its continuous examination program during 2021, focusing on thresholds, staffing, knowledge transfer, and supervisory planning. RMS will implement changes to the program over the course of 2022 based on this review.

Off-Site Monitoring

The FDIC utilizes off-site monitoring programs to supplement and guide the examination process. Off-site monitoring programs can provide an early indication that an institution's risk profile may be changing. The FDIC has developed a number of off-site monitoring tools using key data from institutions' quarterly Reports of Condition and Income, or Call Reports, to identify institutions that are experiencing rapid loan growth or reporting unusual levels or trends in problem loans, investment activities, funding strategies, earnings structure, or capital levels that merit further review.

Off-site monitoring for banks with total assets greater than \$10 billion includes the quarterly Large Insured Depository Institution (LIDI) program, which remains the primary instrument for off-site monitoring of the largest institutions supervised by the FDIC. 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. The LIDI Program focuses on institutions' potential vulnerabilities to asset, funding, and operational stresses, and supports effective large bank supervision by using individual institution information to focus resources on higher-risk areas, determine the need for

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supervisory action, and support insurance assessments and resolution planning. In 2021, the LIDI Program covered 113 institutions with total assets of \$4.2 trillion.

Shared National Credit Program

The Shared National Credit (SNC) Program is an interagency initiative administered jointly by the FDIC, OCC, and FRB to promote 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 2021, outstanding credit commitments in the SNC Program totaled more than \$5 trillion. The FDIC, OCC, and FRB report the results of their review in an annual joint public statement.

In 2021, the LIDI Program covered 113 institutions with total assets of \$4.2 trillion.

Business Process Modernization

RMS is also engaged in a business process modernization initiative to move its technology systems from an applications-based environment to a human-centered, business-process environment. This effort will reduce the amount of manual data entry surrounding supervisory activities and will also allow RMS to expand its use of machine learning (ML) technology to identify emerging trends from examination activities, among other improvements.

Consumer Compliance

As of December 31, 2021, 26 insured state nonmember institutions (collectively, with total assets of \$25 billion), about one percent of all supervised institutions, 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”; only one was rated “Substantial Noncompliance”. As of December 31, 2021, all follow-up examinations for problem institutions were performed on schedule.

As of December 31, 2021, the FDIC’s Division of Depositor and Consumer Protection (DCP) conducted and substantially achieved 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, DCP achieved its internally established time standards for the issuance of final examination reports and enforcement actions.

As of December 31, 2021, DCP initiated 21 formal enforcement actions and 24 informal enforcement actions, such as Board Resolutions and Memoranda of Understanding, to address consumer compliance examination findings. This included two consent orders to strengthen consumer compliance management systems, and 18 CMPs. The CMPs were issued against institutions to address violations of the Flood Disaster Protection Act and Section 5 of the Federal Trade Commission Act for Unfair or Deceptive Acts or Practices. CMPs totaled approximately \$2.7 million. In addition to the consumer refunds resulting from the assistance

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provided by the FDIC's Consumer Response Unit (see discussion under the Consumer Complaints and Inquiries section), consumer compliance examination findings resulted in banks making voluntary restitution of approximately \$3.2 million to 28,936 consumers and Truth in Lending Act reimbursements of approximately \$575,000 to more than 5,510 consumers.

In terms of its examination function, DCP leveraged technology as FDIC deftly ventured into fully offsite examinations to ensure it conducted all planned examinations in a timely and effective manner. In addition, DCP developed and implemented a targeted CARES Act assessment for FDIC-supervised institutions that have the most significant mortgage servicing portfolios. These were diagnostic in approach and took into account a bank's good faith efforts designed to support consumers and comply with consumer protection laws and regulations. The overall purpose of this targeted assessment was to provide financial institutions the opportunity to share their challenges, issues, and concerns related to the COVID-19 pandemic and the CARES Act; and to determine the extent to which financial institutions effectively implemented relevant CARES Act provisions. No significant issues were identified through these assessments.

Pilot Complex Bank Supervision Program

In 2021, the FDIC developed a pilot Complex Bank Supervision Program to ensure that enhanced supervision is provided to institutions with higher compliance risk. The program consists of a three-tiered, progressive supervisory approach based on an institution's risk profile and includes elements such as ongoing monitoring, risk assessments, supervisory plans, targeted reviews, and dedicated staff. For each tier, examiners create a supervisory strategy tailored to the institution that recognizes the unique characteristics of the business model and product offerings. In addition, the program provides institutions with access to a designated point of contact or examiner in charge who responds to regulatory questions, provides feedback, and clarifies guidance, and works collaboratively with bank management to identify potential risks earlier than point-in-time examinations and provides recommendations for appropriate action.

Specialty Examinations

Trust/Registered Transfer Agent/Municipal Securities Dealer/Government Securities Dealer

The FDIC examines trust, registered transfer agent (RTA), municipal securities dealer (MSD), and government securities dealer (GSD) risk management practices at institutions that engage in these activities. As of December 31, 2021, the FDIC performed 266 trust, seven RTA, one MSD, and one GSD examinations. Of the 266 trust examinations, 26 were related to entities in the continuous examination program.

Examiners assign a trust rating using the FFIEC Uniform Trust Interagency Rating System. The five trust component ratings, or MOECA, are comprised of the following components: management (M); operations, internal controls, and audit (O); earnings (E); compliance (C); and asset management (A). An overall trust composite rating is also assigned based on a careful evaluation of the institution's fiduciary activities. While earnings performance is evaluated at

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each institution, the specific earnings component rating is only assigned for institutions that have total trust assets of more than \$100 million at the time of the examination or at a non-deposit trust company. The trust rating is considered in the assignment of the management component of the CAMELS rating, in accordance with the FFIEC Uniform Financial Institutions Rating System.

In an effort to provide ongoing information about trust evaluations, FDIC staff periodically participate in fiduciary-related industry conferences. These meetings allow industry and regulatory participants to share information regarding current fiduciary hot topics and proposals and serve as a forum for discussion of trust-related topics and participant-posed questions. In 2021, however, many of these events were canceled due to ongoing pandemic restrictions.

Where applicable, FDIC examiners also conduct RTA, MSD, and GSD examinations using established work programs. The results of these examination activities are incorporated into the report of examination and considered in assigning the management component of the CAMELS rating, in accordance with the FFIEC Uniform Financial Institutions Rating System.

Information Technology and Cybersecurity

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

During 2021, the FDIC conducted 1,271 IT examinations at state nonmember institutions and issued one enforcement action.

The FDIC also examines the IT services provided to institutions by bank service providers. In addition to routine examination procedures, in 2021, the FDIC, FRB, and OCC horizontally reviewed a sample of service providers' controls to defend against advanced cyber threats. Cybersecurity is included in the scope of every service provider examination. The FDIC, FRB, and OCC use the Cybersecurity Examination Procedures, developed by the agencies, to ensure consistent evaluation of this risk.

The FDIC actively engages with both the public and private sectors to assess emerging cybersecurity threats and other operational risk issues. The information obtained from these engagements is shared with financial institutions and examiners, when appropriate. FDIC staff meet regularly with the Financial and Banking Information Infrastructure Committee, 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 to coordinate responses. For example, in 2021, the FDIC sent financial institutions alerts relating to the Solarwinds, Microsoft Exchange, Apache Log4J, and other vulnerabilities.

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On October 20, 2021, the FFIEC presented an examiner webinar on the *FFIEC IT Handbook Architecture, Infrastructure, and Operations (AIO)* booklet that provided an overview of the changes and content of the new booklet. The booklet provides expanded guidance to help financial institution examiners assess the risk profile and adequacy of an entity's IT architecture, infrastructure, and operations, and provides examiners with fundamental examination expectations regarding architecture and infrastructure planning, governance and risk management, and operations of regulated entities. On November 3, 2021, the FFIEC followed up with an industry outreach webinar on the *FFIEC IT Handbook AIO* booklet. FDIC staff presented at the event. The webinars are recorded and available on the FFIEC website.

In August, the FFIEC published new *FFIEC Guidance on Authentication and Access to Financial Institution Services and Systems*, which sets forth examples of risk management principles and practices for effective authentication of financial institutions' customers, employees, and other users. On August 3, 2021, as part of the FFIEC IT Conference, the FFIEC delivered a presentation to examiners regarding the background and key provisions of the new Authentication Guidance. On November 3, 2021, the FFIEC presented an industry outreach webinar that reviewed the new Authentication Guidance. FDIC staff presented at both events. The IT Conference presentation and the industry outreach webinar are recorded and are also available on the FFIEC website.

Bank Secrecy Act/Anti-Money Laundering

The FDIC examines institutions' compliance with BSA/AML requirements as part of each risk management examination. The FDIC also examines for BSA/AML compliance during examinations conducted by state banking authorities if the state lacks the authority or resources to conduct the examination. In total, during 2021, the FDIC conducted 1,285 BSA/AML examinations.

Throughout 2021, the FDIC, FRB, OCC, National Credit Union Administration (NCUA), and Treasury, including the Financial Crimes Enforcement Network (FinCEN) (collectively, the AML Agencies), continued to focus on improving the efficiency and effectiveness of the BSA/AML regime. The Anti-Money Laundering (AML) Act of 2020, which Congress passed on January 1, 2021, also contained many requirements with similar goals, and these requirements are also being addressed by the AML Agencies.

The goals of the AML Act are to:

- Improve coordination and information sharing among the agencies tasked with administering and examining AML and countering the financing of terrorism (CFT) requirements, federal law enforcement agencies, national security agencies, the intelligence community, and financial institutions;
- Modernize AML/CFT laws to adapt the government and private sector response to new and emerging threats;

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- Encourage technological innovation and the adoption of new technology by financial institutions to counter money laundering and the financing of terrorism more effectively;
- Reinforce that the AML/CFT policies, procedures, and controls of financial institutions must be risk-based;
- Establish uniform beneficial ownership information reporting requirements; and
- Establish a secure, nonpublic database at FinCEN for beneficial ownership information.

Time-sensitive sections of the Act require the establishment of National AML/CFT priorities, the promulgation of regulations to carry out those priorities, and the promulgation of beneficial ownership information reporting requirements.

In June 2021, FinCEN formally established AML/CFT Priorities in an effort to help all covered institutions meet their obligations under laws and regulations designed to combat money laundering and counter terrorist financing. Specifically, FinCEN established the following AML/CFT Priorities:

- Corruption;
- Cybercrime, including relevant cybersecurity and virtual currency considerations;
- Foreign and domestic terrorist financing;
- Fraud;
- Transnational criminal organization activity;
- Drug trafficking organization activity;
- Human trafficking and human smuggling; and
- Proliferation financing (the risk of raising, moving, or making available funds, other assets or economic resources, or financing, in whole or in part, to persons or entities for purposes of weapons of mass destruction proliferation, including the proliferation of their means of delivery or related material (including both dual-use technologies and dual-use goods for non-legitimate purposes)).

Once FinCEN promulgates a revised program rule, the FDIC and the other federal banking agencies plan to amend their BSA/AML compliance program rules to conform with changes to FinCEN's bank program rule.

In June 2021, the FDIC, the other federal banking agencies, and the state bank and credit union regulators issued a statement to confirm that examiners will not examine banks for the incorporation of the AML/CFT Priorities into their risk-based BSA/AML compliance programs until the effective date of final revised regulations.

Separately, the FFIEC continued to update the BSA/AML Examination Manual in 2021. In February, updates were published to sections regarding BSA/AML regulatory requirements,

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the Customer Identification Program requirements, currency transaction reporting, and transactions of exempt persons.² In June, updates were published to sections related to the purchase and sale of monetary instruments recordkeeping, special measures, reports of foreign financial accounts, and international transportation of currency or monetary instruments reporting. In November, updates to four additional sections were released, including an introduction to customer risk, independent automated teller machine owners and operators, politically exposed persons, and charities and non-profit organizations.

The FFIEC expects to release additional updates in 2022. Revised sections of the manual reinforce instructions to examiners regarding depository institutions' reasonably designed policies, procedures, and processes to meet BSA/AML requirements and safeguard institutions from money laundering, terrorist financing, and other illicit financial activity. The manual emphasizes that examiners should tailor the BSA/AML examination scope and planned procedures consistent with the depository institution's money laundering and terrorist financing risk profile.

Cyber Fraud and Financial Crimes

The FDIC has undertaken a number of initiatives in 2021 to protect the banking industry from criminal financial activities. These include hosting, with the Department of Justice, a virtual financial crimes-focused conference in May for examiners, lawyers, and others from federal banking agencies and law enforcement; helping financial institutions identify and shut down "phishing" websites that attempt to fraudulently obtain an individual's confidential personal or financial information; and publishing a *Consumer News* article that offers tips consumers can use to protect themselves from ransomware and imposter scams.

EXAMINER TRAINING AND DEVELOPMENT

In 2021, the FDIC continued to emphasize the importance of delivering timely and effective examiner training programs. While on-the-job training remained the most significant portion of developmental activities, the historical mix of classroom, virtual instructor-led, and asynchronous (such as computer-based) training was modified in 2020 in response to the pandemic. Throughout 2021, the FDIC continued to use this modified mix, and RMS and DCP, in partnership with the FDIC's Corporate University, virtually delivered all pre-commissioned examiner core training.

All training and development activities are overseen by senior and mid-level management to ensure that FDIC staff and state regulatory partners receive training that is effective, appropriate, and current. The FDIC works in collaboration with partners across the organization and at the FFIEC to ensure emerging risks and topics are incorporated and

² A bank must electronically file a Currency Transaction Report (CTR) for each transaction in currency (deposit, withdrawal, exchange of currency, or other payment or transfer) of more than \$10,000 by, through, or to the bank. However, banks may exempt certain types of customers from currency transaction reporting. Pursuant to the Money Laundering Suppression Act of 1994, FinCEN established a process for banks to designate certain customers (referred to as Phase I and Phase II exempt persons) as exempt from the requirement to report currency transactions and exempt certain types of customers from currency transaction reporting.

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conveyed. Training and development activities are targeted for all levels of examination staff. FDIC courses are mostly developed internally and delivered by a tenured and knowledgeable examiner instructor pool, in recognition of the essential role that peer-to-peer knowledge transfer plays in skills enhancement and the preservation of institutional knowledge.

IMPROVEMENTS TO REGULATORY FRAMEWORK

The FDIC finalized a number of key rulemakings in 2021, and initiated others, to improve the regulatory framework applicable to insured banks.

Final Rulemaking on Guidance

On March 2, 2021, the FDIC, FRB, OCC, Consumer Financial Protection Bureau (CFPB), and NCUA issued a final rule describing the agencies' use of supervisory guidance and codifying a 2018 statement, as amended, that, among other things, clarified the differences between regulations and guidance. The codified statement includes provisions stating that supervisory guidance does not create binding, enforceable legal obligations; stating that the agencies do not issue supervisory criticisms (which includes, in the FDIC's case, matters requiring board attention) for "violations" of or "non-compliance" with supervisory guidance; and describing the appropriate use of supervisory guidance. The FDIC finalized the proposal on January 19, 2021, codified as 12 CFR Part 302, and published in the *Federal Register* on March 2, 2021.

Final Guidelines on Appeals of Material Supervisory Determinations

On January 25, 2021, the FDIC finalized a proposal to establish a new Office of Supervisory Appeals to independently consider and decide appeals of material supervisory determinations made by examiners. The new appeals process is intended to help promote consistency among examiners across the country, ensure accountability at the agency, and ultimately, help maintain stability and public confidence in the nation's financial system.

On December 6, 2021, the FDIC's new Office of Supervisory Appeals became fully operational. The Office is fully independent of the Divisions that have authority to issue supervisory determinations and is staffed with individuals who have bank supervisory or examination experience (e.g., retired bank examiners). These individuals are FDIC employees whose sole function is hearing appeals, ensuring they have the time and capacity for the proper attention and diligence.

The FDIC continues to encourage institutions to make good-faith efforts to resolve disagreements with examiners and/or the appropriate Regional Office. If these efforts are not successful, the institution can submit a request for review to the appropriate Division Director. Upon receiving a request for review, the Division Director will have the option of issuing a written decision or sending the appeal directly to the Office of Supervisory Appeals. If the Division Director issues a decision, institutions that disagree with the decision can appeal to the Office.

Proposed Rulemaking on Offering Circulars of State Nonmember Banks and Savings Associations

On February 4, 2021, the FDIC proposed a rulemaking to rescind and remove Securities Offerings rules, which were transferred to the FDIC from the Office of Thrift Supervision (OTS) in July 2011, in connection with the implementation of Title III of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The FDIC also proposed to rescind its *Statement of Policy Regarding the Use of Offering Circulars in Connection with the Public Distribution of Bank Securities*, which provides a guide for State nonmember banks and other institutions in the preparation of offering circulars.

At the same time, the FDIC proposed a new regulation regarding securities disclosures to be made by State nonmember banks and State savings associations (FDIC-supervised institutions). In so doing, the FDIC would create a unified framework for securities disclosure requirements applicable to FDIC-supervised institutions. The proposal also included technical amendments to update related regulations to remove rules pertaining to securities offerings for state savings associations and to rescind definitions for regulations affecting state savings associations that have been removed.

Upon finalization of these rulemakings, state savings associations would be subject to the same set of federal regulations as state nonmember banks. The regulation will replace the 1996 policy statement on the use of offering circulars and certain OTS regulations that are part of the FDIC regulations. No comment letters were received in response to this proposed rulemaking, and a final rule is planned for issuance in 2022.

Proposed Rule on Tax Allocation Agreements

On May 10, 2021, the FDIC, OCC, and FRB issued a notice of proposed rulemaking that would set forth standards for tax allocation agreements (Tax Allocation NPR) applicable to institutions in a consolidated tax filing group. The Tax Allocation NPR is consistent with the agencies' existing interagency policy statement guidance, including the 1998 *Interagency Policy Statement on Income Tax Allocation* and the 2014 *Addendum to the Interagency Policy Statement on Income Tax Allocation in a Holding Company Structure*. It also includes additional elements that would further enhance the preservation of an IDI's ownership rights in, and timely receipt of, tax refunds and equitable allocation of tax liabilities within a holding company structure.

The agencies proposed that these guidelines be included in, and would be rendered enforceable as, an appendix to the agencies' standards for safety and soundness that implements Section 39 of the Federal Deposit Insurance Act or Appendix A to FDIC's Part 364—Interagency Guidelines Establishing Standards for Safety and Soundness. If adopted as final by the agencies, these guidelines would replace the prior guidelines from 1998 and 2014. The agencies are reviewing comment letters received in response to the proposed rulemaking with a final rule planned for issuance in 2022.

Proposed Rulemaking to Permit Additional Exemptions to Suspicious Activity Report Requirements

On January 22, 2021, the FDIC published in the *Federal Register* a proposed rulemaking that would amend its Suspicious Activity Report (SAR) regulation to permit the FDIC to issue additional, case-by-case exemptions from SAR filing requirements to FDIC-supervised institutions. While the FDIC's current SAR regulation allows exemptions from SAR filing requirements for physical crimes (robberies and burglaries) and lost, missing, counterfeit, or stolen securities, the proposed rule would allow the FDIC, in conjunction with the Financial Crimes Enforcement Network, to grant exemptions to FDIC-supervised institutions that develop innovative solutions to otherwise meet anti-money laundering requirements more efficiently and effectively. The FDIC proposed this rule as a proactive measure to address the likelihood that FDIC-supervised institutions will leverage existing or future technologies to report, share, or disclose suspicious activity in a different manner.

The FRB, NCUA, and OCC issued similar but independent proposed rulemakings to amend their respective SAR regulations to permit those agencies to issue additional, case-by-case exemptions from SAR filing requirements to their supervised financial institutions. The FDIC is working with the other federal banking agencies to harmonize the language of the final rules for consistency and, if possible, the publication timing. A final rule is planned for issuance in 2022.

Final Rule Amending Real Estate Lending Standards

In October 2021, after considering public comments, the FDIC approved a final rule to amend the *Interagency Guidelines for Real Estate Lending Policies*. The final rule incorporated consideration of the capital framework established in the community bank leverage ratio (CBLR) rule into the method for calculating the ratio of loans in excess of the supervisory loan-to-value limits (LTV Limits). The CBLR rule does not require electing institutions to calculate tier 2 capital or total capital. Therefore, this amendment provides a consistent approach for calculating the ratio of loans in excess of the supervisory LTV Limits at all FDIC-supervised institutions without requiring the computation of total capital. The final rule calls for calculating the ratio of loans in excess of the supervisory LTV Limits using tier 1 capital plus the appropriate allowance for credit losses in the denominator.

Interagency Statement on Issuance of National AML/CFT Priorities

As previously discussed, in June 2021, the FDIC, the other federal banking agencies, and State bank and credit union regulators issued an *Interagency Statement on the Issuance of the AML/CFT National Priorities*. This statement provides clarity for banks on the AML/CFT Priorities. The publication of the AML/CFT Priorities did not create an immediate change to BSA/AML requirements or supervisory expectations for banks. The AML Act requires the establishment of the AML/CFT Priorities and the promulgation of regulations regarding the AML/CFT Priorities. The FDIC and other federal banking agencies plan to revise the BSA/AML compliance program rule with conforming changes once FinCEN issues its bank program rule.

The statement noted that banks are not required to incorporate the AML/CFT Priorities into their risk-based BSA/AML compliance programs until the effective date of the final revised

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINCEN regulations. Nevertheless, banks could consider how they plan to incorporate the AML/CFT Priorities into their risk-based BSA/AML compliance programs by assessing the potential related risks associated with the products and services offered, the customers served, and the geographic areas in which banks operate.

The AML Act requires that banks incorporate the AML/CFT Priorities, as appropriate, into their risk-based BSA/AML compliance programs and that the banking agencies include those priorities as a measure by which a bank is supervised and examined. The interagency statement clarifies that the FDIC, other federal banking agencies, and State bank and credit union regulators will not examine banks for the incorporation of the AML/CFT Priorities into depository institutions' risk-based BSA/AML compliance programs until the effective date of final revised regulations. In addition, the FDIC and other agencies are committed to working with FinCEN to develop any corresponding guidance and examination procedures for examiners.

Computer-Security Incident Notification Rule

In November 2021, the federal banking agencies issued a joint final rule to improve the sharing of information about cyber incidents that may affect the U.S. banking system. The final rule requires a banking organization to notify its primary federal regulator of any significant computer-security incident as soon as possible and no later than 36 hours after the banking organization determines that a cyber incident has occurred. Notification is required for incidents that have materially affected—or are reasonably likely to materially affect—the viability of a banking organization's operations, its ability to deliver banking products and services, or the stability of the financial sector.

In addition, the final rule requires a bank service provider to notify affected banking organization customers as soon as possible when the provider determines that it has experienced a computer-security incident that has materially affected or is reasonably likely to materially affect banking organization customers for four or more hours.

Compliance with the final rule is required by May 1, 2022.

Final Basel III Standards

The FDIC continues to work with the other federal banking agencies to develop a proposed rulemaking that would seek comment on the implementation of the revised Basel III standards in the U.S. and expects to issue the proposed rulemaking in 2022.

The final Basel III standards to be implemented in the U.S. for the largest and most complex institutions would address concerns regarding excessive variability in the measurement of risk-weighted assets across large internationally active banking institutions.

The revisions are designed to reduce risk-weighted asset variability by enhancing the robustness and risk sensitivity of the standardized approach for credit risk and operational risk and constraining the use of internal models. In addition, the Basel III revisions will enhance the market risk framework by introducing a clearer boundary between the trading book and the banking book, an internal models approach that relies upon the use of expected

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shortfall models, separate capital requirements for risk factors that cannot be modeled, and a risk-sensitive standardized approach that is designed and calibrated to be a credible fallback to the internal models approach.

Office of Thrift Supervision Regulations

Throughout 2021, the FDIC continued to streamline FDIC regulations and eliminate unnecessary and duplicative regulations applicable to state savings associations in order to improve the public's understanding of the rules, to improve the ease of reference, and to promote parity between state savings associations and state nonmember banks.

The FDIC removed rules transferred from the OTS relating to application processing procedures, non-discrimination requirements, requirements for subordinate organizations, and directives to take prompt corrective action, and made conforming amendments to its existing regulations to reference state savings associations as appropriate.

The FDIC proposed to remove and rescind two remaining rules that were transferred from the OTS entitled *Definitions for Regulations Affecting All-State Savings Associations* and *Securities Offerings*. At the same time, as described more fully above, the FDIC proposed new rules regarding securities disclosures to be made by all covered FDIC-supervised institutions, while rescinding the *Statement of Policy Regarding the Use of Offering Circulars in Connection with the Public Distribution of Bank Securities*, which provides guidance to State nonmember banks. Upon removal of these transferred regulations, all FDIC-supervised institutions would be subject to the same set of regulations.

Brokered Deposits

At its December 2020 meeting, the FDIC Board of Directors approved a final rule that makes significant revisions to the brokered deposit rules applicable to financial institutions that are less than well-capitalized. The final rule represents the first meaningful update to the brokered deposit regulations since the rules were first put in place approximately 30 years ago. The new framework reflects the dramatic changes in technology, law, business models, and financial products over that time period.

The final rule creates a more transparent and consistent regulatory approach by establishing bright line tests for the "facilitation" component of the deposit broker definition and a formal process for the application of the primary purpose exception. The final rule is intended to encourage innovation in how banks offer services and products to customers by reducing obstacles to certain types of relationships. It continues to protect the Deposit Insurance Fund by ensuring that certain types of funding, including the specific types of deposits Section 29 of the FDIC Act was intended to address, continue to be treated as brokered deposits. The final rule became effective April 1, 2021.

The FDIC has implemented a number of steps to explain the revised rules. In March 2021, the FDIC held a webinar to discuss the changes and the new notice and application procedures for certain primary purpose exceptions and launched a new Brokered Deposit webpage as part of the FDIC's online Banker Resource Center. The webpage includes links to Section 29 (Brokered Deposits) of the Federal Deposit Insurance Act, Sections 337.6 and 337.7 of the FDIC

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Rules and Regulations containing the brokered deposit and interest rate restrictions, and the Final Rule as published in the *Federal Register* (including the Preamble to the Final Rule, that provides detailed explanations of the rule changes), complete instructions for filing notices and applications, a secure email process for submitting filings, a list of entities that have filed primary purpose exception notices, and a Questions & Answers page.

SUPERVISION POLICY

The goal of the FDIC's supervision policy is to provide clear, consistent, meaningful, and timely information to financial institutions and examiners.

Risk Management Manual of Examination Policies

In February 2021, the FDIC updated the *Risk Management Manual of Examination Policies* to provide instructions for tracking and following up on State-issued Matters Requiring Board Attention. In addition, various updates were made to enhance certain controls to mitigate the risk of regulatory capture, expand the discussions on dominant official and key person risks, and provide other updates related to strategic planning and selecting and retaining competent management.

Heightened Monitoring Programs

Economic recovery from the pandemic-driven recession was uneven across industry sectors in 2021. The FDIC continued to operate programs developed as the pandemic unfolded to provide a greater line of sight into financial institutions with exposure to impacted industries including, but not limited to, restaurants, retail, entertainment, travel and tourism, and commercial real estate.

Heightened monitoring programs have allowed examination staff to engage with management at exposed institutions to learn how the unprecedented nature of the pandemic has affected operations, assess the overall direction and level of risk in these institutions, and determine appropriate follow-up plans and strategies for each institution. In addition, the plans have helped the FDIC identify and monitor emerging pandemic-related risks across the industry that may require changes in supervisory approaches or policies.

CAPITAL MARKETS AND ACCOUNTING POLICY

London Inter-Bank Offered Rate (LIBOR) Transition

Throughout 2021, the FDIC, in coordination with fellow regulators, participated in industry outreach and monitored community and regional bank readiness for the transition from LIBOR to alternative reference rates. FDIC monitoring includes interdisciplinary supervision coordination by risk management, capital markets, policy, technology, and consumer compliance to conduct banker outreach and communication to stay abreast of the latest LIBOR transition developments. The FDIC gathers information on LIBOR transition readiness during examinations and other contacts with supervised institutions. The data are evaluated across institutions to identify trends and inform the supervisory process for areas that may require increased oversight and supervisory attention.

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To assist supervised institutions in the LIBOR transition, the FDIC established the LIBOR Transition Site on the Banker Resource Center. FDIC staff post key announcements related to the LIBOR transition as a resource to supervised banking institutions.

At the June 11, 2021 meeting of the Financial Stability Oversight Council (FSOC), FDIC Chairman McWilliams noted that “most FDIC-supervised institutions do not have material LIBOR exposures. Those that do tend to be banks with total assets exceeding \$10 billion and larger community banks that engage in commercial lending or derivative activities. These institutions have generally developed appropriate plans to move away from LIBOR and have stopped, or are on track to stop, issuing new contracts using LIBOR by year-end.” The Chairman reiterated that “the FDIC does not endorse any particular alternative reference rate.”

To provide clarity on capital implications of the LIBOR transition, on July 29, 2021, the FDIC (in coordination with the FRB and OCC) issued *Answers to Frequently Asked Questions (FAQs) about the Impact of LIBOR Transitions on Regulatory Capital Instruments*. Among other things, the FAQs address the issue of changing a reference rate from LIBOR to an alternative rate and clarify that such a transition would not change the capital treatment of the instrument, provided the alternative rate is economically equivalent with the LIBOR-based rate.

On October 20, 2021, the FDIC, FRB, OCC, NCUA, and CFPB, in conjunction with the state bank and state credit union regulators, jointly issued a statement to emphasize the expectation that supervised institutions with LIBOR exposure continue to progress toward an orderly transition away from LIBOR. The statement also included clarification regarding new LIBOR contracts, considerations when assessing the appropriateness of alternative reference rates, and expectations for fallback language.³ The agencies reiterated that failure to prepare adequately for LIBOR's discontinuance could undermine financial stability and institutions' safety and soundness and create litigation, operational, and consumer protection risks.

Current Expected Credit Losses (CECL)

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 FRB, OCC, FASB, Securities and Exchange Commission (SEC), and CSBS to answer questions regarding the implementation of CECL.

- CECL became effective for primarily larger institutions or SEC filers, excluding entities eligible to be smaller reporting companies (SRCs) starting January 1, 2020, excluding those institutions that delayed adoption in accordance with Section 4014 of the Coronavirus Aid, Relief, and Economic Security Act, as amended by the Consolidated Appropriations Act of 2021.

³ Fallback language is contractual provisions that specify the trigger events for a transition to a replacement rate, the replacement rate, and the spread adjustment to align the replacement rate with the benchmark being replaced.

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- For institutions that have not yet adopted CECL, the effective date for adoption remains fiscal years beginning after December 15, 2022, including interim periods, and thus, 2023 for most smaller reporting companies as defined by the SEC and nonpublic companies unless early adoption is elected.

MANAGEMENT OF CREDIT RISK, LIQUIDITY RISK, AND INTEREST-RATE RISK

Financial institutions showed adaptability in 2021 as economic uncertainty related to the COVID-19 pandemic and its variants continued. Loan deferrals, which institutions granted to assist borrowers as the pandemic initially unfolded, have decreased, and asset quality has improved.

Limited observed credit risk concerns are centered on loans to service industries well-known to be impacted by the pandemic, namely hospitality and retail. While the economic outlook is positive, managing credit risk remains challenging as government stimulus winds down, forbearance periods expire, and changes in consumer and business behaviors accelerated by the pandemic persist.

Deposit inflows moderated as pandemic relief programs expired, but deposit levels remain high compared to the pre-pandemic period. Ample liquidity, coupled with low loan demand outside of the Small Business Administration's guaranteed Paycheck Protection Program, has contributed to a greater mix of low-yielding assets on financial institution balance sheets. Net interest margins have contracted to record low levels. Profitably deploying liquidity and limiting the adverse impacts from a "low for long" interest rate environment are among the industry's top priorities.

Through examinations and interim contacts with state nonmember institutions, FDIC staff regularly engage in dialogue with institution management about the need to ensure that their practices to manage credit risk, liquidity risk, and interest-rate risk are effective. Where appropriate, FDIC staff work with institutions that have significant exposure to these risks and encourage them to take appropriate risk-mitigating steps. The FDIC employs 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 2021, the FDIC conducted outreach and offered technical assistance regarding these risk issues.

SUPERVISORY GUIDANCE

Regulatory Relief - Areas Affected by Severe Storms

During 2021, the FDIC issued 18 advisories through Financial Institution Letters to provide guidance to financial institutions in areas affected by hurricanes, tornadoes, flooding, wildfires, and other severe storms, and to facilitate recovery. In these advisories, the FDIC encouraged financial institutions 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.

Frequently Asked Questions on Suspicious Activity Reporting and Other Anti-Money Laundering Considerations

In January 2021, FinCEN, the FDIC, and the other federal banking agencies issued *Answers to Frequently Asked Questions (FAQs) Regarding Suspicious Activity Reports (SARs)* and other AML considerations for financial institutions covered by SAR rules.

The FAQs clarify the regulatory requirements related to SARs to assist financial institutions with their compliance obligations, while enabling those institutions to focus resources on activities that produce the greatest value to law enforcement agencies and other government users of BSA reporting. The FAQ answers were developed in response to Bank Secrecy Act Advisory Group recommendations; they neither alter existing BSA/AML legal or regulatory requirements, nor establish new supervisory expectations.

Request for Information on Artificial Intelligence

In March 2021, the FDIC, along with the FRB, OCC, CFPB, and NCUA released a RFI regarding financial institutions' use of artificial intelligence (AI). The goal of the RFI is to better understand the use of AI by financial institutions; appropriate governance, risk management, and controls over AI; challenges in developing, adopting, and managing AI; and whether any regulatory clarifications would be helpful.

The FDIC supports responsible innovation by financial institutions and recognizes that the use of new technology, such as AI, has the potential to augment decision-making and enhance services available to consumers and businesses.

The initial comment period on the RFI was extended to July 1, 2021. The FDIC has reviewed the comment letters submitted to the FDIC and is assessing potential next steps in consultation with the other agencies.

Interagency Statement on Model Risk Management for Bank Systems Supporting Bank Secrecy Act/Anti-Money Laundering Compliance

In April 2021, the FDIC and other federal banking agencies, in consultation with FinCEN and the NCUA, issued a statement regarding industry questions on model risk management. The statement addressed how the risk management principles described in the *Supervisory Guidance on Model Risk Management* relate to systems or models used by banks to assist in complying with the BSA/AML requirements.

Request for Information and Comment: Model Risk Management Support Compliance by Banks with BSA/AML and Office of Foreign Assets Control Requirements

In conjunction with issuing the *Interagency Statement on Model Risk Management for Bank Systems Supporting BSA/AML Compliance*, the agencies published an RFI seeking comment on the extent to which the principles discussed in the *Supervisory Guidance on Model Risk Management* support compliance by banks with BSA/AML and Office of Foreign Assets Control (OFAC) requirements. Specifically, the RFI sought to enhance the understanding of bank practices in this area and identify issues where additional explanations may increase transparency and effectiveness.

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A total of 12 comment letters were received with responses to 12 questions regarding banks' use of automated AML transaction and OFAC monitoring models, as well as suggested enhancements to the April statement. This feedback may be considered in the context of AML Act, Section 6209 - Testing Methods rulemaking, which requires FinCEN, in consultation with federal banking agencies, to issue a rule specifying standards by which financial institutions must test the technology and related internal processes designed to facilitate BSA/AML compliance.

Request for Information on Digital Assets

In May 2021, the FDIC issued an RFI seeking information and comments regarding insured depository institutions' current and potential digital assets activities. Specifically, the FDIC sought feedback regarding current and potential digital asset use cases involving insured institutions and their affiliates. The RFI recognized that banks are increasingly exploring several roles in the emerging digital asset ecosystem, and consumers are beginning to seek access to digital asset products and services. The FDIC understands that there are novel and unique considerations related to digital assets, and the RFI was intended to help inform the FDIC's understanding and any potential policymaking in this area. The questions posed in the RFI sought information regarding digital asset use cases, risk and compliance management functions, and considerations for supervision, deposit insurance, and resolution. The comment period ended July 16, 2021. The FDIC has reviewed the 43 comment letters received and has used the information to inform its engagement on the crypto-asset policy sprint and other supervisory work.

Joint Statement on Crypto-Asset Policy Sprint Initiative and Next Steps

The FDIC, along with the FRB and OCC issued a *Joint Statement on Crypto-Asset Policy Sprint Initiative and Next Steps*. First, the statement summarized the series of interagency "policy sprints" focused on crypto-assets, conducted by the agencies in 2021. The statement then provided a roadmap of future planned work.

As described in the statement, throughout 2022, the agencies plan to provide (1) greater clarity on whether certain activities related to crypto-assets conducted by banking organizations are legally permissible, and (2) expectations for safety and soundness, consumer protection, and compliance with existing laws and regulations related to:

- Crypto-asset safekeeping and traditional custody services,
- Ancillary custody services,
- Facilitation of customer purchases and sales of crypto-assets,
- Loans collateralized by crypto-assets,
- Issuance and distribution of stablecoins, and
- Activities involving the holding of crypto-assets on balance sheet.

The agencies also are also working to evaluate the application of bank capital and liquidity standards to crypto-assets.

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President's Working Group on Stablecoins

On November 1, 2021, the FDIC joined the President's Working Group on Financial Markets and the OCC to release a report on stablecoins to address the prudential risks of payment stablecoins. Among the recommendations in the report was a recommendation that Congress enact legislation to ensure that payment stablecoin arrangements are subject to a federal framework on a consistent and comprehensive basis.

Proposed Interagency Guidance on Third-Party Relationships

In July 2021, the FDIC, OCC, and FRB proposed interagency guidance for third-party risk management. The proposed guidance, if finalized, is intended as a resource to help banks manage their third-party relationships in a safe and sound manner and in compliance with applicable laws and regulations, including those related to consumer protection and security of customer information. The proposed guidance applies third-party risk management principles to the lifecycle of a bank's relationship with a third party (other than customer relationships), providing detailed descriptions and examples of considerations applicable to all third-party relationships, including relationships with fintech companies, while emphasizing that a bank's third-party risk management program should be commensurate with its size, complexity, risk profile, level of risk, and number of third-party relationships. Although the proposed guidance, if adopted, would replace the general third-party risk management guidance issued individually by each of the agencies (including the FDIC's *Guidance for Managing Third-Party Risk* issued in 2008), it would not affect other specific third-party risk management guidance issued by the agencies, including those relating to information technology risks.

The proposal was published in the *Federal Register* on July 19, 2021, and the agencies accepted comments until October 18, 2021. The FDIC received 74 comments; the three agencies received a total of 82 comments. The agencies are now considering those comments.

Answers to Frequently Asked Questions about the Impact of LIBOR Transitions on Regulatory Capital Instruments

As previously discussed, in July 2021, the FDIC issued answers to frequently asked questions about the impact of LIBOR transitions on regulatory capital instruments under 12 CFR 324. Among other things, the FAQs addressed the issue of changing a reference rate from LIBOR to an alternative rate and clarified that such a transition would not change the capital treatment of the instrument, provided the alternative rate is economically equivalent to the LIBOR-based rate. The OCC and the FRB issued similar FAQs.

Authentication and Access to Financial Institution Services and Systems

On August 11, 2021, the FFIEC issued new guidance entitled *Authentication and Access to Financial Institution Services and Systems*. The guidance provides financial institutions with examples of effective authentication and access risk management principles and practices. These principles and practices are for digital banking services and information systems.

The new guidance addresses a financial institution's risk assessment, which is critical for determining appropriate access and authentication practices; authentication practices for

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a wide range of users including customers, employees, third parties, and service accounts accessing financial institution systems and services; and how multi-factor authentication, or controls of equivalent strength, can be used to effectively mitigate risks of unauthorized access.

The guidance replaces the FFIEC-issued *Authentication in an Internet Banking Environment* (2005) and the *Supplement to Authentication in an Internet Banking Environment* (2011).

Request for Information on the FDIC's Supervisory Approach to Examinations During the Pandemic

On August 13, 2021, the FDIC issued an RFI seeking feedback and comments from FDIC-supervised financial institutions regarding the FDIC's supervisory approach to examinations during the pandemic, including the impact of off-site activities on institution operations, the effectiveness of technology used to carry out off-site activities, and the effectiveness of communication methods used to support off-site activities.

For a number of years prior to the pandemic, the FDIC had been leveraging technology advancements to allow examiners to conduct certain examination functions off-site that were previously performed on-site. Throughout the COVID-19 pandemic, examiners have continued the FDIC examination program despite pandemic conditions, in part by leveraging prior efforts and existing technology systems.

The RFI comment period closed on October 12, 2021. The FDIC is reviewing the 20 comments received to identify what worked well in the off-site examination context in order to inform plans for future examinations, consistent with applicable law and the purpose of examinations.

Research

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 have published papers in leading banking, finance, and economics journals, including the *American Economic Review*; *Journal of Money, Credit, and Banking*; *Journal of Consumer Affairs*; and *Journal of Financial Services Research*. In addition, CFR researchers present their research at major conferences, regulatory institutions, and universities.

The CFR also develops and maintains many financial models used throughout the FDIC, including off-site models that inform the examination process. CFR economists also provide ongoing support to RMS during on-site examinations.

In April, the CFR hosted the FDIC's first Academic Challenge. The FDIC Academic Challenge is a team competition for undergraduate students, designed to bring real-world policy

2020-2021 FDIC ACADEMIC CHALLENGE

“The Effects of Community Banks on Local Economic Development.”



Finalists

- California State University, Fullerton;
- State University of New York College at Geneseo;
- University of Chicago;
- University of Delaware;
- University of North Carolina at Chapel Hill.

questions into the classroom and address questions concerning the banking industry. The topic for the 2020-2021 FDIC Academic Challenge was “The Effects of Community Banks on Local Economic Development.” After a first-round review of written submissions, five teams were selected as finalists: California State University, Fullerton; State University of New York College at Geneseo; the University of Chicago; the University of Delaware; and the University of North Carolina at Chapel Hill. The finalists participated in an all-day virtual event where they presented their project to a panel of five judges that included community bank CEOs, a university professor, and members of the organizing committee. When the teams were not presenting their work, they met with FDIC staff to discuss careers at the FDIC and what to expect in graduate school programs, including MBA, JD, and PhD programs.

Following the presentations, the teams met with FDIC staff in a plenary session to discuss deposit insurance, bank resolutions, and current issues in banking regulation. At the end of the day, FDIC Chairman McWilliams announced the winner of the Challenge—State University of New York College at Geneseo—and met with the winning team. The 2021-2022 FDIC Academic Challenge launched in September with first-round written submissions due in November.

In December, the CFR hosted the 20th Annual Bank Research Conference with the *Journal of Financial Services Research*. FDIC Chairman McWilliams provided opening remarks for the conference. To celebrate the 20th anniversary of the conference, there were two panel discussions—one to discuss the lessons learned in the past 20 years and one to look forward to the next 20 years. A retrospective article that discusses the impact of the first 20 years of the conference on policy and research communities, financial regulation, and the banking and finance literature is forthcoming in the *Journal of Financial Services Research*.

This year’s conference paper sessions focused on safety nets, transparency, and bank behavior; understanding the industry and organizational impacts of fintech; COVID-19 and financial contagion channels; the effects of banking competition on borrowers; bank

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risk and regulation; systemic risk and bank regulation; bank funding; and climate change. The conference also included a virtual poster session in which authors recorded short presentations of their papers and a fast-track session during which authors presented six papers in a condensed timeframe.

In 2021, CFR hosted four PhD students as part of the Summer Research Fellow Program. The program targets PhD students who have completed their qualifying examinations and have well-developed research towards finishing their PhDs. Summer Research Fellows are encouraged to continue their dissertation work and build research relationships with FDIC colleagues. They participate in seminars and informal lunchtime presentations of research, engage with FDIC staff, and present their own research at the end of the summer.

The Summer Research Fellows benefit from institutional knowledge of FDIC staff, CFR expertise on modeling, and presentation opportunities. The FDIC benefits from developing relationships with emerging scholars, expanding the reach of the CFR research network, and promoting career opportunities at the FDIC.

In partnership with the American Economic Association Summer Program and Howard University, CFR hosted two undergraduate students in the summer of 2021. The summer experiential learning program offered the students an opportunity to apply their research skills to FDIC-relevant questions under the guidance of CFR economists and to develop career-long mentoring relationships. The program aims to increase diversity in the field of economics and to attract a diverse workforce to related positions.

How America Banks: Household Use of Banking and Financial Services

Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 mandates that the FDIC regularly report on unbanked populations and bank efforts to bring individuals and families into the mainstream banking system. In response, since 2009, the FDIC has conducted biennial surveys to measure the banked and unbanked populations in the U.S. and study household use of banking and financial products and services. This effort is the most comprehensive analysis of its kind. The information it generates informs the FDIC, as well as the public, financial institutions, policymakers, regulators, researchers, academics, and others.

In 2021, the FDIC finalized and administered the *2021 Survey of Household Use of Financial Services*. The 2021 survey collected new information on how households use a wide range of bank and nonbank financial services and products to meet their core banking needs. In addition, the 2021 survey also collected information on economic events that households experienced since March 2020 and asked whether those events contributed to households becoming banked or unbanked.

The FDIC continued to maintain a dedicated website that features survey results and data, and provides users with the ability to generate custom tabulations for each state and for more than one hundred Metropolitan Statistical Areas. The website also provides a wide range of preformatted information, including five-year estimates that provide additional granularity for state and local results.

National and Regional Risk Analysis

The FDIC's National and Regional Risk Analysis (NRR) Branch identifies, analyzes, monitors, and communicates developments and key risks in the economy, financial markets, and banking industry that may impact FDIC-insured institutions and the DIF. As part of this work, NRR publishes the Quarterly Banking Profile — a comprehensive summary of financial results for all FDIC-insured institutions. This report card on industry status and performance includes written analyses, graphs, and statistical tables. NRR also published the *2021 Risk Review*, summarizing key credit and market risks.

In addition, NRR publishes topical articles in the *FDIC Quarterly*. In 2021, this included seven articles:

- “Farm Banks: Resilience Through Changing Conditions,” which analyzes trends in the agricultural sector and challenges faced by agricultural lenders;
- “2020 Summary of Deposits Highlights,” which explains trends in bank deposit and branch growth;
- “The Historic Relationship Between Bank Net Interest Margins and Short-Term Interest Rates,” which explores the connection between interest rates and bank net interest margins;
- “Residential Lending During the Pandemic,” which follows key trends in the housing market and residential lending activity of banks;
- “The Importance of Technology Investments for Community Bank Lending and Deposit Taking During the Pandemic,” which describes the relationship between community bank technology investment and lending and deposit activity during the pandemic;
- “Commercial Real Estate: Resilience, Recovery, and Risks Ahead,” which assesses conditions in the commercial real estate sector and implications for banks; and
- “Implications of Record Deposit Inflows for Banks During the Pandemic,” which provides insight on the opportunities and challenges presented to banks by the increased liquidity from deposit inflows during the pandemic.

Innovation/Financial Technology

The FDIC continuously monitors developments in technology to further advance the mission of the FDIC and better understand how it may affect the financial industry.

FDITECH and FDIC Emerging Technology Steering Committee

In 2021, the FDIC's Office of Innovation — or *FDITECH* — continued its work to encourage innovation and partnerships at community banks. *FDITECH* was announced and established by Chairman McWilliams in 2019, with the following mission:

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- Engage bankers, fintechs, technologists, and other regulators on innovations that will lay the foundation for banking's future;
- Conduct “tech sprints” and pilot projects to test emerging technologies in cooperation with states and affected federal regulators;
- Support and promote the adoption of new technologies by financial institutions, particularly at community banks; and
- Expand banking services to the unbanked, underbanked, and individuals in underserved communities through new technologies.

In 2021, *FDITECH* took the following steps toward fulfilling that mission:

- In February 2021, the FDIC named its first Chief Innovation Officer, charged with leading the FDIC's efforts to promote the adoption of innovative technologies across the financial services sector. In May 2021, the FDIC also named its first Deputy Director of the Office of Innovation.
- In February 2021, the Chief Innovation Officer began a bank-focused “Listening Tour” with discussions focused on innovation, inclusion, data, and efficiency opportunities. The Listening Tour expanded to include Congress, technology companies, fintechs, trade associations, and interest groups.
- From February to year-end 2021, *FDITECH* participated in a variety of policy discussions focused on emerging technologies (e.g., AI, Quantum Computing, Digital Assets), as well as cybersecurity, internally to the FDIC, across the federal banking agencies, and across other federal agencies. Discussions centered on multi-factor authentication/authorization, better third-party technology risk management, and advancing cryptographic systems to support coming changes due to Quantum Computing (i.e., Post-Quantum Encryption).
- In the second and third quarters of 2021, *FDITECH* hosted a series of virtual “Office Hours” to hear directly from a range of bank-focused stakeholders regarding current and evolving technological innovations in the business of banking. During the same period, the Chief Innovation Officer hosted more than two dozen roundtables focused on digitization, data access and ownership, artificial intelligence and machine learning, and personalization of the banking experience.
- In June 2020, the FDIC announced a rapid prototyping competition, a type of procurement process tech sprint, to accelerate the adoption of modern technological tools to help financial institutions, particularly community banks, provide more timely and granular data to the FDIC in a more effective and efficient manner. In addition, these new tools will help the FDIC gain greater insight into the financial health of these institutions and allow for more efficient supervision. Phase one began in August 2020 with more than 30 technology firms from across the country invited to participate in the competition. With some formed into teams, the competitors developed proposed solutions that were presented to the FDIC for consideration. Competitors represent leaders in the financial

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services, data management, data analytics, and AI/ML fields. In October 2020, 15 competitors advanced to the second phase of the competition, presenting their initial prototypes. The FDIC selected 11 companies in January 2021 to compete in the third and final phase of the rapid prototyping competition. In March 2021, vendors presented their final prototypes and, by August 2021, four companies were selected to submit proposals moving into the pilot phase, which will be led by *FDITECH*.

- Starting in April 2021, the Chief Innovation Officer held five podcast talks – Banking on Innovation, Engineering Innovation in the Banking System, Building a More Resilient Banking System, Protecting the Banking System, and The Age of Quantum Banking – under the Banking on Innovation program, which can be found on the FDIC’s public website.
- In May 2021, *FDITECH* partnered with Duke University’s Pratt School of Engineering to explore new technology and financial inclusion. *FDITECH* and Duke University started a 10-week project with participants from the Master of Engineering in Financial Technology program to explore smart contracts risk analysis, digital assets, and financial inclusion, culminating in three team presentations in August 2021.
- In July 2021, *FDITECH* held its first Innovation Town Hall, discussing tech-related activities and upcoming innovations. *FDITECH* also debuted internal open channels of communication for FDIC staff to ask questions and discuss new technologies.
- *FDITECH* held two tech sprints during 2021, bringing together a diverse set of stakeholders in a collaborative setting. During August and September, the “Breaking Down Barriers: Reaching the Last Mile of the Unbanked” tech sprint was hosted by *FDITECH* with eight participant teams presenting solutions. The tech sprint had more than 20,000 combined views on LinkedIn, Twitter, and the FDIC website and more than 500 attendees at Demo Day. While some teams expanded on existing solutions, three of the teams created new solutions that are planned for release to the market within the next six months. The second tech sprint, “From Hurricanes to Ransomware: Measuring Resilience in the Banking World,” was held from September to October with six participating teams.
- In the third and fourth quarters of 2021, *FDITECH* prototyped a fully functional cloud data analytical and analysis environment that supports AI/ML. The environment supports dynamically and automatically pulling in data from various data sources, loading, processing, and enriching the data. *FDITECH* built a pilot first-iteration bank-failure model using neural networks and tensor flow constructed with public Call Report data and script-configured AI/ML. *FDITECH* dynamically generates push notification alerts from model results, and employed a commercial off-the-shelf data masking and synthetic data generation solution to successfully generate synthetic datasets using public Call Report data.
- In the third and fourth quarters of 2021, *FDITECH* collaborated with the FDIC’s Chief Information Officer Organization to build consensus on an innovative data

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strategy for the FDIC, including Azure Adoption Program, Cloud Data Management and Analytics program, and the mainframe exit.

- In the fourth quarter 2021, *FDITECH* formed a divisional outreach and governance program. Through this program, *FDITECH* worked with the Chief Financial Officer Organization to help them reach their goals using innovative technologies and strategies.
- In October 2021, *FDITECH* launched the FDIX program. FDIX is an internal ideation program to build on existing technological infrastructure to improve processes within the FDIC.
- In December 2021, *FDITECH* hosted a public live stream event with over 1,600 viewers titled Banking and Fintech: “The Future is Now” to discuss the future of financial innovation and the potential impacts to financial markets, technology, and diversity, equity, and inclusion. The event was broken down into three distinct panels made up of industry innovators, leaders, and key market stakeholders.

In addition to *FDITECH*, significant resources have been dedicated to identify and understand emerging technology and ensure the FDIC is prepared to address the changing landscape in financial services. Since 2016, these efforts have been led by the FDIC’s Emerging Technology Steering Committee, which is supported by two staff-level working groups. The committee is comprised of the Directors of RMS, DCP, the Division of Insurance and Research (DIR), the Division of Resolutions and Receiverships (DRR), and the Division of Complex Institution Supervision and Resolution (CISR), as well as the General Counsel, Chief Financial Officer, Chief Innovation Officer, Chief Risk Officer, Chief Information Officer, and the Deputy to the Chairman for Consumer Protection and Innovation.

In 2021, 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 of emerging technology on 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 2020, the Legal Division formed the Financial Technology and Innovation Group within the Office of the General Counsel. That group houses the Fintech Innovation Team of attorneys, which focuses on legal issues facing both the FDIC and its supervised and insured banks and savings associations arising from emerging forms of technology, innovative banking products

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and services, new approaches to the business of banking, and adapting relationships with third parties. The team's mission focuses on not only providing direct legal services and support to the other Divisions and *FDITECH*, but also advising on legal policy in an area of law that is dynamic and still developing. Through 2021, this team has continued to support *FDITECH*'s Tech Sprints and other programs, as well as provide direct legal support to several interagency bank activity, crypto-asset, and stablecoin policy initiatives. The team has contributed to, and at times led, various innovation efforts, such as the FDIC's supervisory approach toward bank engagement with digital assets and related technologies; the development of an interagency guide as a resource for community banks when considering entering into business relationships with fintech companies (*Conducting Due Diligence on Financial Technology Companies: A Guide for Community Banks*); and the potential use of consensus standards in banks' due diligence of fintech firms, products, and services.

Partnerships

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

- The Basel Committee on Banking Supervision's Financial Technology Group, which focuses on the impact of financial technology on banks' business models, risk management, and implications for bank supervision;
- The Financial Stability Oversight Council Digital Assets Working Group, which is examining potential policy areas as they relate to digital assets and the application of distributed ledger technology;
- The Interagency Group on Digital Assets, where agencies exchange information about digital asset and related developments;
- An interagency fintech discussion forum, which focuses on issues related to consumer compliance;
- The Global Financial Innovation Network;
- The US-UK Financial Innovation Partnership, which focuses on the exchange of information and policy discussions between U.S. and UK regulators; and
- The Financial Stability Board Financial Innovation Network, which monitors various innovative developments in financial markets, including innovation in financial technology.

FDIC Staff Education

In 2021, as part of an initiative to provide staff training and knowledge transfer, the FDIC held a series of webinars for FDIC staff on a range of emerging technology topics that the FDIC has been monitoring through the Emerging Technology Steering Committee for a number of years. Specifically, those topics included Payments Disintermediation, Consumer-Authorized Data Access, Digital Assets, Digital Only/Neo-Banks, and Digital Payments. The webinars are recorded and made available "On Demand" to FDIC staff, along with recordings of prior webinars on AI/ML and Application Programming Interfaces and Background Notes on various emerging technology topics.

Community Banking

Community banks provide traditional, relationship-based banking services in their local communities. 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.

Community banks (as defined for FDIC research purposes) made up 91 percent of all FDIC-insured institutions on September 30, 2021. While these banks hold just 12 percent of banking industry assets, community banks are of critical importance to the U.S. economy and local communities across the nation. Community banks hold 39 percent of the industry's small loans to farmers and businesses, making them the lifeline to entrepreneurs and small enterprises of all types. 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 2021, community banks held more than 75 percent of deposits in 1,144 U.S. counties. In more than 600 of these counties, the only banking offices available to consumers were those operated by community banks.

Community Banking Research

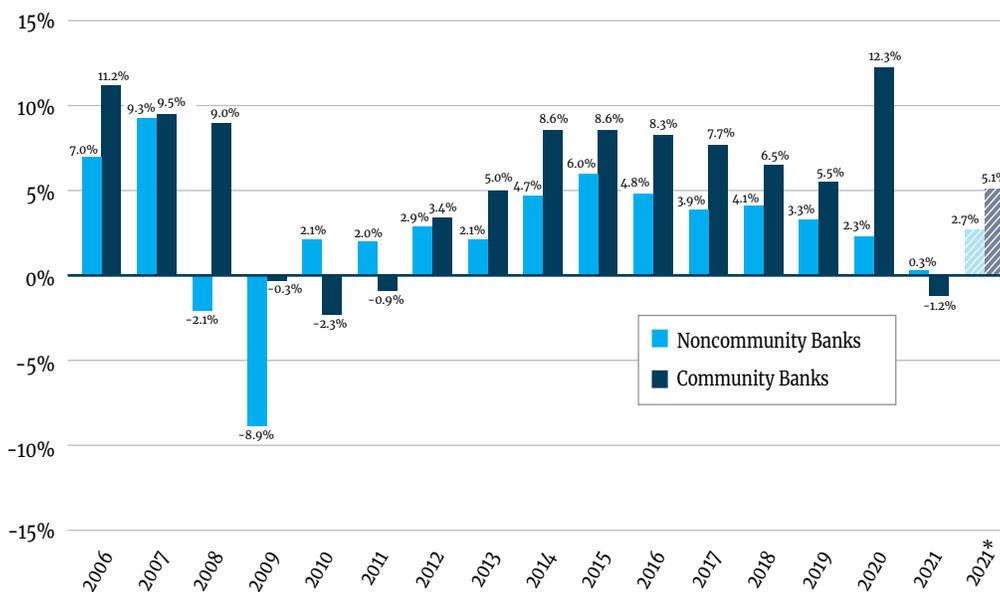
The FDIC pursues an ambitious, ongoing agenda of research and outreach focused on community banking issues. In conjunction with the 2012 and 2020 community banking studies, FDIC researchers have published more than a dozen additional studies on topics ranging from community bank technology investment to small business financing.

The FDIC *Quarterly Banking Profile* includes a section explicitly focused 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 increased 38.5 percent on a merger-adjusted basis in the first nine months of 2021 compared with the first nine months of 2020, reflecting improvement in the economy. The increase in net income during the first nine months of 2021 was due to large decreases in credit loss provisions due to the real and anticipated economic and financial improvement as the U.S. emerges from the COVID-19 pandemic.

The long-term trend of consolidation has done little to diminish the role of community banks in the banking industry. For example, while loans at community banks declined in the first nine months of 2021, on a merger-adjusted basis, loan growth at community banks exceeded the growth at noncommunity banks every year between 2012 and 2020. The decline in loans at community banks reflects the pay-downs and forgiveness of Paycheck Protection Program (PPP) loans originated in 2020 and early 2021. If PPP loans were excluded, in the first nine months of 2021, community banks would have reported annual loan growth of 5.1 percent and noncommunity banks would have reported loan growth of 2.7 percent. More than 86 percent of the community banks that merged between September 2020 and September 2021 were acquired by other community banks.

COMMUNITY BANK LOAN GROWTH HAS EXCEEDED GROWTH AT NONCOMMUNITY BANKS FOR NINE CONSECUTIVE YEARS

Merger Adjusted Annual Growth in Total Loans and Leases



Source: FDIC.

Note: Data as of third quarter for 2021 and as of year-end for all other years. 2021* hashed bars represent growth excluding paycheck Protection Program Loans.

Community Bank Advisory Committee

The FDIC’s Advisory Committee on Community Banking is an ongoing forum for discussing current issues faced by community banks and receiving valuable feedback from the industry. The Committee, which met virtually three times during 2021, is composed of as many as 18 community bank executives 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 each of the 2021 Advisory Committee meetings, there was a discussion of local banking conditions and supervisory issues, such as cybersecurity resilience, multi-factor authentication, and the future approach to examinations, as well as updates from the Minority Depository Institutions Subcommittee and the FDIC’s Office of Innovation (*FDITECH*). Further, at the July 2021 meeting, there was a financial inclusion update, a cybersecurity discussion, and a presentation from the FDIC Ombudsman on activities from 2019 to 2020. At the April and November 2021 meetings, FDIC staff also discussed community banking research.

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Advisory Committee of State Regulators

The FDIC's Advisory Committee of State Regulators is another mechanism for state regulators and the FDIC to discuss current and emerging issues that have potential implications for the regulation and supervision of state-chartered financial institutions. The Advisory Committee members include regulators of state-chartered financial institutions from across the United States as well as other individuals with expertise in the regulation of state-chartered financial institutions. The Advisory Committee met virtually twice in 2021. During both meetings, the Committee discussed state banking conditions and state-federal coordination. In addition, FDIC staff provided information on FDIC research relating to community banking, as well as *FDITECH*. At the October 2021 meeting, FDIC staff also provided an update on minority and community development banking, and cybersecurity supervision initiatives.

De Novo Banks

In 2021, the FDIC continued processing deposit insurance applications, meeting with applicants to discuss the application process and specific proposals, and making application data available on the public website. The FDIC has provided several resources to aid organizers in developing deposit insurance proposals, including draft proposals. Interested parties may access application-related information and data on applications through the FDIC's public website.

During 2021, the FDIC approved deposit insurance for 12 new community banks. The FDIC maintains an internal goal of acting on 75 percent of community bank deposit insurance applications within 120 days after receiving a substantially complete application. The FDIC acted within 120 days for 6 applications, or 50 percent of the total; another 2 were completed within 135 days. The FDIC did not meet this goal in 2021 due to complexities in certain proposals requiring more analysis and changes proposed by applicants.

Technical Assistance Program

The FDIC continued to provide a robust technical assistance program for bank directors, officers, and employees. The technical assistance program includes an online Banker Resource Center, Directors' College events held across the country, industry teleconferences and webinars, and a video program.

The FDIC continuously updates the Banker Resource Center on its website. This one-stop resource for bankers contains detailed information on supervisory topics and general information in a number of other areas for bankers and is located at <https://www.fdic.gov/resources/bankers>.

In 2021, the FDIC hosted a variety of outreach sessions in all six FDIC regions. These sessions were conducted both independently and jointly with state trade associations or other financial regulators. During the sessions, FDIC employees engaged with bank directors and officers on various topics, including risk assessment, regulatory capital, capital markets, interest-rate risk, brokered deposits, BSA, cybersecurity, emerging technologies, and consumer protection, among other topics. Additionally, five regions conducted banker roundtable events that provided a forum for bankers to receive information and raise questions about laws, regulations, or emerging risks.

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The FDIC also offered several banker events, in order to maintain open lines of communication and to keep community bank management and staff informed about important banking regulatory and emerging issues. In 2021, the FDIC offered three webinars:

- Basics of New Paycheck Protection Program (PPP) Loan Programs,
- Final Rule Revising Brokered Deposits and Interest Rate Restrictions, and
- Overview and Updates on Consumer Complaints Management.

The FDIC also issued two publications in 2021 intended to help community banks. *Consumer Compliance Supervisory Highlights* aims to enhance transparency regarding the FDIC's consumer compliance supervisory activities and provides a high-level overview of consumer compliance issues identified in 2020 through the FDIC's supervision of state non-member banks and thrifts. In addition, the FDIC, in collaboration with the FRB and the OCC, issued *Conducting Due Diligence on Financial Technology Companies: A Guide for Community Banks*, which is intended to help community banks conduct due diligence when considering relationships with financial technology companies.

Through the Technical Assistance Video Program, the FDIC provides a series of educational videos designed to provide useful information to bank directors, officers and employees on various risk management and consumer protection-related matters. The videos help FDIC-supervised institutions understand various risk management and consumer protection-related matters. In 2021, the FDIC released three new segments of the fair lending series and five new segments of the mortgage servicer rule series.

Activities Related to Large and Complex Financial Institutions, including Systemically Important Financial Institutions

The FDIC is committed to addressing the unique challenges associated with supervising, insuring the deposits of, and resolving large and complex financial institutions (LCFIs). The agency's ability to analyze and respond to risks posed by these institutions is critical, as they comprise a significant share of banking industry assets and deposits.

The Division of Complex Institution Supervision and Resolution (CISR) was established in 2019 to centralize and integrate the FDIC's operations related to the supervision and resolution of LCFIs, including systemically important financial institutions (SIFIs), financial market utilities (e.g., central counterparties), and FDIC-IDIs with assets greater than \$100 billion, for which the FDIC is not the primary federal regulatory authority.

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CISR performs ongoing risk monitoring of LCFIs in its portfolio that are domestic global systemically important banks (G-SIBs), large foreign banking organizations (FBOs), large domestic banking groups, and FSOC-designated nonbank financial companies; provides backup supervision of the firms' related IDIs; and evaluates the firms' required resolution plans. CISR also performs certain analyses that support the FDIC's role as an FSOC member.

SUPERVISION AND RISK ASSESSMENT

Monitoring and Measuring Systemic Risks

The FDIC monitors risks related to G-SIBs as well as other large domestic banks and 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 strategies structure and interdependencies, business operation and activities, management information system capabilities, and recovery and resolution capabilities. Capital and liquidity adequacy and resiliency under stressed conditions are also key parts of monitoring. Further, in response to the COVID-19 pandemic, there has been heightened risk monitoring.

The FDIC continues to work closely with the other federal banking agencies as well as foreign regulators 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, other large domestic banks and FBOs, and nonbank 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.

In addition, the FDIC has implemented and continues to expand upon various monitoring systems, including the Systemic Monitoring System (SMS), the SIFI Risk Report (SRR), and the CAMELS Verification document. The SMS provides an individual risk profile and assessment for LCFIs 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. Information from SMS and other FDIC-prepared reports are used to prioritize activities relating to LCFIs and to coordinate supervisory and resolution-related activities with the other banking agencies. The SRR identifies key vulnerabilities of systemically important firms, and the CAMELS Verification document includes an independent assessment of the appropriateness of supervisory CAMELS ratings for the IDIs held by these firms.

Backup Supervision Activities for IDIs of Systemically Important Financial Institutions

Risk monitoring is enhanced by the FDIC's backup supervision activities. In this 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 backup 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.

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At institutions where the FDIC is not the primary federal regulator, FDIC staff work closely with other regulatory authorities to identify emerging risks and assess the overall risk profile of large and complex institutions. The FDIC has assigned dedicated staff to IDIs that are LCFIs, 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.

During 2021, FDIC staff completed 76 targeted examinations and 10 horizontal review activities with the FRB or OCC involving G-SIBs, large FBOs, and large regional banks. The targeted examination activities included, but were not limited to, the evaluation of corporate governance, BSA/AML compliance, IT risk, credit risk, model risk management, operational risk, liquidity risk, counterparty risk, market risk, interest-rate risk, and third-party risk management. FDIC staff also participated in various horizontal review activities, including the FRB's 2020 Capital Plan Resubmission and 2021 Comprehensive Capital Analysis and Reviews, Liquidity Risk Management Reviews, Targeted Loan Reviews, Derivatives Resiliency Reviews, and Independent Risk Function Reviews, in addition to interagency Coordinated Cybersecurity Reviews and SNC Reviews.

RESOLUTION PLANNING

Title I Resolution Plans

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

In July 2020, the agencies provided information to the eight largest and most complex domestic banking organizations to guide their 2021 resolution plans. These eight firms submitted resolution plans on or before July 1, 2021, and each firm's resolution plan includes core elements—such as capital, liquidity, and recapitalization strategies—as well as how each firm has integrated changes to, and lessons learned from, its response to the COVID-19 pandemic. The agencies are completing the review of these plans and will assess whether the shortcomings identified for six of these firms have been addressed adequately.

In addition, on July 1, 2020, the FDIC and FRB announced that they had completed a review of "critical operations," which are operations at certain firms whose failure or discontinuance would threaten U.S. financial stability, and informed the firms of the agencies' findings. The agencies also announced their plan to complete another such review by July 2022, which will include a further, broader evaluation of the framework used to identify critical operations.

On December 9, 2020, the agencies finalized guidance for certain FBOs that are Category II firms according to their combined U.S. operations under the FRB's tailoring rule and are required to have a U.S. intermediate holding company. The final guidance included tailored expectations around resolution capital and liquidity; derivatives and trading activity; and payment, clearing, and settlement activities.

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In addition, the agencies provided information for Category II and Category III foreign and domestic banking organizations that will inform the content of their next resolution plans, which were due December 17, 2021. These targeted plans are required to discuss capital, liquidity, and recapitalization strategies, among other topics.

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 any failed or failing nonfinancial company. 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.

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 updates its systemic resolution framework to incorporate enhanced firm capabilities established through the Title I planning process and other domestic and foreign resolution planning and policy developments and continues to build out process documents to facilitate the implementation of the framework in a Title II resolution. In addition, work continues in the development of resolution strategies for financial market utilities, particularly central counterparties (CCPs).

Insured Depository Institution Resolution Planning

The FDIC also undertakes institution-specific resolution planning under the FDI Act for IDIs that are LCFIs, drawing on both IDI plans submitted by firms and follow-on engagement with the firms. The development of a large regional bank resolution framework and process builds on lessons learned from historical bank resolutions and practices developed in connection with Title II resolution readiness planning for LCFIs.

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.

In June 2021, the FDIC outlined a modified approach to implementing the IDI rule. The modified approach applies to IDIs with \$100 billion or more in total assets, extends the submission frequency to a three-year cycle, streamlines content requirements, and places enhanced emphasis on engagement with firms.

The modified approach preserves key content requirements that have helped FDIC staff develop resolution strategies for IDIs, but exempts filers from other content requirements that

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have been less useful or are obtainable through other supervisory channels. On a case-by-case basis, the FDIC also plans to exempt filers from certain content requirements based on its evaluation of how useful or material the information would be in planning to resolve each IDI.

The modified approach also places greater focus on engagement and capabilities testing by FDIC staff. This structured, periodic engagement will be used to seek further understanding of content submitted in the plan and to assess a filer's ability to produce relevant information.

For IDIs with less than \$100 billion in total assets, the moratorium on submission of IDI plans approved by the Board in April 2019 remains in effect, as indicated in the FDIC's announcement on January 19, 2021.

There were no resolution plans due to the FDIC in 2021 under Section 360.10.

Recordkeeping Requirements

The FDIC has implemented several recordkeeping regulations to support the resolvability of certain large IDIs and nonbank financial companies by requiring institutions subject to those regulations to maintain recordkeeping and reporting capabilities to enable the timely determination of deposit insurance coverage and the evaluation of Qualified Financial Contracts (QFCs). The FDIC maintains programs to test compliance with those regulations by the institutions that are subject to them.

Timely Deposit Insurance Determination

The FDIC's Recordkeeping for Timely Deposit Insurance Determination regulation (12 CFR Part 370) became effective on April 1, 2017, with an initial compliance date of April 1, 2020, that could be extended to April 1, 2021, if certain conditions were satisfied. Under this rule, an IDI that has two million or more deposit accounts for two consecutive quarters must implement the information technology system and recordkeeping capabilities needed to calculate the amount of deposit insurance coverage available for each deposit account in the event of its failure. Doing so will improve the FDIC's ability to fulfill its statutory mandates to pay deposit insurance as soon as possible after an institution's failure and to resolve an institution at the least cost to the Deposit Insurance Fund.

Qualified Financial Contracts

There are two regulations that require QFC recordkeeping. The first is the regulation promulgated by the U.S. Treasury for Qualified Financial Contracts Recordkeeping related to the FDIC Orderly Liquidation Authority (31 CFR Part 148), which requires certain nonbank financial companies to provide detailed QFC reporting to the FDIC on an ongoing basis. The second is the FDIC's Recordkeeping Requirements for Qualified Financial Contracts regulation (12 CFR Part 371), which requires IDIs meeting the definition for "troubled condition" to provide detailed QFC reporting to the FDIC. Both rules require institutions within their scope to prepare in advance to provide the information about their QFC portfolios, which may be of a significant size and complexity, to facilitate well-informed decisions about how to manage them if the FDIC ever were appointed receiver for any of those institutions, whether under the FDI Act or under the Orderly Liquidation Authority, as applicable.

Cross-Border Cooperation

Cross-border cooperation and advance planning are critical components of resolution planning for G-SIBs due to the international nature of their services and their extensive operations overseas. In 2021, the FDIC continued its robust bilateral and multilateral engagement with foreign authorities to deepen mutual understanding of the complex legal and operational issues related to cross-border resolution. This work is underpinned by an understanding that transparency and confidence in resolution planning will serve as a stabilizing force during times of stress.

In its effort to continue ongoing work with international authorities to enhance coordination on cross-border bank resolution, in 2021 the FDIC led significant principal and staff-level engagements with foreign jurisdictions to discuss cross-border issues and potential impediments that could affect the resolution of a G-SIB. For example, the FDIC engaged in ongoing trilateral work with UK and European financial regulatory authorities. Contributors to this work include senior staff and senior officials of financial regulatory agencies from the U.S. and key foreign jurisdictions.

The FDIC maintains a close working relationship on cross-border resolution planning topics with EU authorities, including through joint Working Group meetings with the European Commission (EC). Throughout the year, FDIC, FRB, and EC staffs held technical experts calls to discuss cross-border resolution planning topics.

Financial Stability Board Resolution Steering Group

The FDIC continued to enhance cooperation on cross-border resolution through its participation in the Financial Stability Board (FSB) Resolution Steering Group and its subgroups on banks, insurance, and financial market infrastructures. This year, the FDIC continued its active engagement in FSB work, in particular through the FDIC's membership in the Resolution Steering Group and its various committees, including co-chairing the Cross-Border Crisis Management Committee for Financial Market Infrastructures, by contributing to work on standards and implementation, and by contributing to work on the FSB's Evaluation of the Effects of Too Big to Fail Reforms and its final report published in April 2021.

Cross-Border Crisis Management Groups

With regard to the FDIC's institution-specific engagement, the FDIC co-chaired Cross-Border Crisis Management Groups (CMGs) of supervisors and resolution authorities for U.S. G-SIBs and CCPs participated as a host authority in the work of CMGs for foreign G-SIBs and CCPs. Work through these CMGs allows the FDIC to improve resolution preparedness by strengthening our working relationships with key authorities, providing a forum to address institution-specific resolution planning considerations, and supporting information-sharing arrangements. The FDIC, in collaboration with the FRB, held meetings for all eight U.S. G-SIB CMGs in 2021. The FDIC also held three U.S. CCP CMG meetings in 2021. Due to pandemic-related travel restrictions, these meetings were held using a virtual format.

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Joint U.S.-EU Financial Regulatory Forum

FDIC staff also participated in two Joint U.S.-EU Financial Regulatory Forum meetings held in 2021, as a member of the U.S. delegation led by Department of the Treasury staff, along with FRB, Commodity Futures Trading Commission (CFTC), SEC, and OCC staff. Staff from the EC, European Banking Authority, European Securities and Markets Authority, European Insurance and Occupational Pensions Authority, European Central Bank, Single Supervisory Mechanism, and Single Resolution Board represented the EU. The Forum meetings underscored EU and U.S. cooperation and focused on a number of themes, such as market developments, current assessments of financial stability risks, multilateral and bilateral engagement in banking, regulatory and supervisory cooperation in capital markets, financial innovation, and AML/CFT among other topics.

U.S.-UK Financial Regulatory Working Group

The FDIC also maintains a close working relationship on cross-border resolution planning topics with UK authorities, including through dialogue as a participating agency in the U.S.-UK Financial Regulatory Working Group (FRWG), which the U.S. Department of the Treasury and UK Treasury established in 2018 to serve as a forum for bilateral regulatory cooperation between the U.S. and the UK. The FDIC participates along with the FRB, OCC, SEC, and CFTC; participating UK regulators include the Bank of England and the Financial Conduct Authority. In 2021, FRWG meetings focused on a number of themes, such as international and bilateral cooperation, updates on domestic initiatives and priorities, benchmark transition, cross-border regimes, operational resilience, and banking, among other topics.

Principals Meeting of UK and U.S. Authorities Regarding CCP Resolution

In June 2021, senior officials from the FDIC, CFTC, SEC, FRB, and the Bank of England convened a virtual meeting to discuss certain issues relating to the concept of the resolution of a CCP. This meeting was one of a regular series of senior-level meetings held since 2017 to share views on CCP resolution and review the progress of an ongoing program of joint work among the agencies.

This work to date has included a review of UK and U.S. legal frameworks for resolution and analysis of the rulebooks of major UK and U.S. CCPs, thus facilitating the development of prototype resolution strategies for these CCPs. The work also has included consideration of the potential systemic impacts and operational challenges that might result from the use of resolution powers.

Over the next year, the group will continue to share analyses and discuss policy formulation in relation to CCP resolution, with the objective of facilitating progression from the development of resolution strategies to detailed operational planning.

Systemic Resolution Advisory Committee

The FDIC created the Systemic Resolution Advisory Committee (SRAC) in 2011 to provide advice and recommendations on a broad range of issues relevant to the failure and resolution of systemically important financial companies pursuant to the Dodd-Frank Act.

Members of the SRAC have a wide range of experience, including managing complex firms, serving as bankruptcy judges, and working in the legal system, accounting field, and academia. The SRAC Charter was renewed in 2021, and FDIC staff has initiated planning for the next SRAC meeting.

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.

Promoting Economic Inclusion

The FDIC is committed to expanding economic inclusion in the financial mainstream by ensuring that all Americans have access to affordable and sustainable products and services from insured depository institutions. FDIC economic inclusion initiatives are integral to our mission of maintaining stability and public confidence in the nation's financial system.

The FDIC promotes economic inclusion and community development through collaborations with financial institutions and other stakeholders committed to strategic initiatives that impact low- and moderate-income (LMI) communities.

The FDIC's *Economic Inclusion Strategic Plan* addresses five areas of opportunity: Financial Education, Insured Deposits, Consumer Credit, Mortgage Credit, and Small Business.

Advisory Committee on Economic Inclusion

The Advisory Committee on Economic Inclusion (ComE-IN) provides the FDIC with advice and recommendations on important initiatives to support expanding consumer and community access and sustainable engagement with the nation's banking system. This includes reviewing basic retail financial services (e.g., low-cost, safe transaction accounts; affordable small-dollar loans; and savings accounts), as well as demand-side factors such as consumers' perceptions of financial institutions. In 2021, the ComE-IN met and discussed the following topics:

- Expanding inclusion through technology and innovation;
- Expanding account access using the #GetBanked awareness campaign;
- The FDIC Tech Sprint designed to solicit new approaches to bringing in unbanked individuals into the mainstream banking system;
- Expanding account access by taking advantage of increased attention by consumers at tax time; and
- An update on the housing market and available housing assistance.

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Members also reported out on key challenges and opportunities for inclusion in their communities and/or for the organizations they represent.

#GetBanked Public Awareness Campaign

As part of its ongoing efforts to expand financial inclusion, in April, the FDIC launched a public awareness campaign about the benefits of opening a bank account. The first phase of the #GetBanked campaign focuses on the Houston and Atlanta areas, where research indicates that Black and Hispanic households are disproportionately unbanked. The goal of this targeted, pilot campaign is to support financial empowerment by encouraging consumers to consider opening a checking account that can result in access to safer and lower-cost financial products.

The theme - "There's a better way" - breaks down misconceptions about banks and helps people see how banks can help them meet their financial needs, potentially at a lower cost, and offer other benefits. The first phase of the campaign leveraged primarily radio and streaming audio advertising, as well as digital display banners, streaming TV, and mobile video advertising. Ads are in English and Spanish, and encourage people to visit the #GetBanked webpage and open a bank account. Coordinated internal activities, including collaborative events with Bank On Coalitions in pilot cities for consumers and banks, multiple account access events nationwide for consumers and banks, and a podcast with the Cities for Financial Empowerment Fund, support the campaign.

The COVID-19 pandemic underscored the urgency of helping people with LMI gain access to the banking system. For consumers eligible to receive economic impact payments, Child Tax Credits, or a tax refund from the Internal Revenue Service (IRS), the FDIC leveraged the #GetBanked campaign to share information about how to open a bank account and provide that bank account information to the IRS. The FDIC also conducted outreach to banks and community-based organizations to enhance consumer access to financial services that would allow receipt of government payments directly and safely.

During the pandemic, many banks offered ways to open accounts remotely - online or through a mobile app - without going to a bank branch. The FDIC's #GetBanked webpage provided consumers with all the information needed to find a bank and open an account online. The webpage includes a video that discusses the importance of establishing and maintaining a banking relationship, a printable flyer describing the top reasons to open a bank account, and a checklist to help people identify the account that best meets their needs.

The webpage and all related resources were translated into Spanish to assist Spanish-speaking consumers interested in opening a bank account. To increase the number of consumers with access to direct deposit, the IRS included a link to the FDIC's #GetBanked webpage in its consumer education materials. By year-end, the FDIC's resource pages on bank account access had received over 599,000 page views.

The FDIC continues to support coalitions nationwide that share its commitment to expanded access to safe and affordable bank accounts. The number of financial institutions offering affordable and sustainable transaction accounts without overdraft fees has increased in 2021. Banks have found these accounts work for many customers, including those without a current

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banking relationship. As of December 2021, 174 banks and credit unions offer affordable and sustainable transaction accounts that meet the Cities for Financial Empowerment Fund's Bank On National Account Standards, including eight of the ten largest banks.

Public Awareness of Deposit Insurance Coverage

Throughout 2021, the FDIC continued its efforts to educate bankers and consumers about the rules and requirements for FDIC insurance coverage. As of December 31, 2021, the FDIC conducted four banker webinars for financial institution employees on deposit insurance coverage. The FDIC also provides resources, such as the Electronic Deposit Insurance Estimator (EDIE), a web-based calculator for estimating deposit insurance coverage. Furthermore, the FDIC offers a number of educational material and training videos targeted to both bankers and consumers through the FDIC's public website.

RULEMAKING AND GUIDANCE

NPR on Deposit Insurance Simplification

In July 2021, the FDIC issued a proposed rule to amend its regulations governing deposit insurance coverage. The proposal would provide depositors and bankers with a rule for trust account coverage that is easy to understand and would help to facilitate the prompt payment of deposit insurance in the event of a failure of an IDI with a large number of trust accounts. Specifically, the proposed rule would merge the revocable and irrevocable trust categories into one trust account category. A deposit owner's trust deposits would be insured for up to \$250,000 for each of the trust beneficiaries, not to exceed five, regardless of whether a trust is revocable or irrevocable. This would provide for a maximum amount of deposit insurance coverage of \$1,250,000 per owner, per insured depository institution for trust deposits.

The proposed rule also would provide consistent treatment for all mortgage servicing account balances held to satisfy principal and interest obligations to a lender. Accounts maintained by a covered mortgage servicer that consist of payments of principal and interest would be insured for the cumulative balance paid into the account in order to satisfy principal and interest obligations to the lender, regardless of whether paid directly by the borrower or by another party, up to \$250,000 per mortgagor.

The FDIC approved the final rule in January 2022.

CRA Modernization

In early 2021, the FDIC, FRB and OCC announced plans to work toward a joint rule to modernize the agencies' regulations that implement the CRA. On July 20th, the agencies issued a press release stating in part that they are "committed to working together to jointly strengthen and modernize regulations implementing the Community Reinvestment Act (CRA)" and "Joint agency action will best achieve a consistent, modernized framework across all banks to help meet the credit needs of the communities in which they do business, including low- and moderate-income neighborhoods." The Agencies are meeting regularly to discuss issues raised by commenters in response to the FRB's CRA ANPR. The agencies plan to issue a notice of proposed rulemaking by March 2022.

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Home Mortgage Disclosure Act (HMDA)

In March 2021, the FDIC and other FFIEC members issued a revised version of *A Guide to HMDA Reporting: Getting It Right*. The 2021 version of the guide applies to HMDA data reported in 2022 and incorporates amendments made to HMDA by the Dodd-Frank Act and the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA). The guide was designed to help financial institutions better understand the HMDA requirements, including data collection and reporting provisions.



Home Mortgage data collection.

Interagency Questions and Answers Regarding Flood Insurance

In February 2019, the FDIC, FRB, OCC, NCUA, and the Farm Credit Administration issued a final rule that implemented the private flood insurance provisions of the Biggert-Waters Flood Insurance Reform Act of 2012. In March 2021, the agencies issued a notice with a request for comment on proposed new interagency Q&As Regarding Private Flood Insurance. The proposal seeks to address mandatory acceptance of private flood insurance policies, discretionary acceptance of private flood insurance policies, and general compliance issues arising from the private flood insurance requirements.

Proposed Rule Regarding False Advertising, Misrepresentations about Insured Status, and Misuse of the FDIC's Name or Logo

In April 2021, the FDIC issued a notice of proposed rulemaking implementing its statutory authority under 12 U.S.C. 1828(a)(4) to prohibit any person or organization from making misrepresentations about FDIC deposit insurance or misusing the FDIC's name or logo. The proposed rule would implement section 18(a)(4) of the FDI Act (Section 18(a)(4)), which prohibits any person or organization from: (1) making false or misleading representations about deposit insurance; (2) using the FDIC's name or logo in a manner that would imply that an uninsured financial product is insured or guaranteed by the FDIC; or (3) knowingly misrepresenting the extent and manner of deposit insurance. The proposed rule is intended to provide transparency on the FDIC's processes for investigating and resolving potential violations of these prohibitions.

Updated Examination Procedures

The FDIC approved changes to the Truth-in-Lending Act examination procedures on October 22, 2021. The changes reflect recent amendments to the Qualified Mortgage rule that amended the sunset date of the temporary qualified mortgage definition for certain loans eligible for purchase or guarantee by the government-sponsored enterprises; amended the general qualified mortgage definition, primarily by replacing its 43 percent debt-to-income ratio limit with a limit based on the loan's pricing; and created a new category of qualified mortgages, known as "seasoned qualified mortgages."

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Request for Information (RFI) on How to Modernize Sign and Advertising Requirements for Banks

In February 2020, the FDIC published a RFI in the *Federal Register* seeking input regarding potential modernization of its official sign and advertising rules. The effort was suspended due to COVID-19. In April 2021, the FDIC published another RFI in the *Federal Register* to revisit the matter, with a new comment deadline of May 24, 2021. The FDIC has reviewed and is considering the feedback received from public commenters.

Consumer Compliance Supervisory Highlights

The latest issue of the *FDIC Consumer Compliance Supervisory Highlights* was released in March 2021. The purpose of this publication is to enhance transparency regarding the FDIC's consumer compliance supervisory activities. The publication includes a high-level overview of consumer compliance issues identified by the FDIC during the prior year through the agency's supervision of State nonmember banks and thrifts.

COMMUNITY AND SMALL BUSINESS DEVELOPMENT AND AFFORDABLE MORTGAGE LENDING

The FDIC is committed to promoting community development, small business, and affordable mortgage lending in underserved communities. As of December 31, 2021, the FDIC's Community Affairs staff had engaged with banks and community organizations through more than 240 outreach events. These events increased shared knowledge and supported collaboration among financial institutions and other community, housing, and small business development organizations. This collaborative outreach facilitated banks' efforts to offer responsive, reasonably priced mortgages and small business loans to borrowers who otherwise might not have qualified for bank-sponsored loan products.

Throughout 2021, the FDIC continued to promote community development partnerships and access to capital in historically underserved markets. Community development outreach events were held across all regions of the FDIC and spanned a wide variety of topics, including community and neighborhood stabilization, workforce development, and financial capability.

The FDIC's Community Affairs Program supports the FDIC's mission to promote stability and public confidence in the nation's financial system by encouraging economic inclusion and community development initiatives that broaden access to safe and affordable credit and deposit services from IDIs, particularly for LMI consumers and small businesses. The FDIC's Affordable Mortgage Lending Center's webpage houses various resources, including the Affordable Mortgage Lending Guide, a three-part manual designed to help community banks identify and access affordable mortgage products. The Affordable Mortgage Lending Center had more than 39,019 subscribers as of December 31, 2021. The webpage is located at <https://www.fdic.gov/consumers/community/mortgagelending/index.html>.

The CRA encourages banks to offer community development loans, investments, and services to help address the needs of LMI communities with respect to housing, community services, revitalization and stabilization of neighborhoods, and economic development. The FDIC, in

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partnership with the FRB and OCC, hosted basic and advanced training sessions for bankers to enhance their understanding of the CRA and encourage them to pursue community development opportunities in their markets. In response to COVID-19, training sessions also focused on partnerships and activities that banks could engage in to support consumers and communities adversely impacted by the pandemic.

The agencies also offered basic CRA training for community-based organizations, as well as seminars on establishing effective bank and community collaborations. Finally, the FDIC hosted examiner listening sessions with local community-based organizations designed to help examiners better understand local community credit needs and opportunities for bank CRA and community development partnerships.

FINANCIAL LITERACY AND EDUCATION

Advancing Financial Education

Financial education is central to the FDIC's efforts to expand economic inclusion and promote confidence in the banking system. Effective financial education helps people gain the skills and confidence necessary to sustain a banking relationship, achieve financial goals, and improve financial well-being.

Through the *Money Smart* suite of curricula, the FDIC offers banks and community-based organizations non-copyrighted, high-quality, free financial education training resources designed to meet the financial education needs of consumers of all ages and small business owners. *Money Smart* materials are available in multiple languages, Braille, and large print. Self-paced products complement instructor-led tools delivered via video conferencing and in person. To incorporate user feedback, regulatory changes, and evolving instructional best practices, the FDIC updates *Money Smart* materials regularly.

Money Smart Improvements

In September 2021, the FDIC launched an exciting new tool to help people learn more about money. *How Money Smart Are You?* is a next-generation, self-paced *Money Smart* product that allows consumers to engage with financial education from anywhere and empowers them to learn how to better control their finances and better protect and manage their money.

How Money Smart Are You? features 14 new games. The games allow users to win virtual coins for correct answers and potentially earn a Certificate of Completion for each game.



New Interactive Tool “How Money Smart Are You”

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Users can complete banking crosswords, minimize the debt monster, balance assets and liabilities, escape the room, discover the combination lock, choose sense or nonsense, and more.

Besides the 14 games, users can access interactive tools and links to learn more about each topic. These tools include:

- Get Ready to Borrow Money,
- Calculate My Net Worth,
- Decide if I'm Ready to Buy a Home, and
- Stay Focused on My Goals.

This latest addition to the *Money Smart* product family provides practical knowledge and helps build financial skills to manage your finances with confidence.

The FDIC also released an updated version of *Money Smart for Older Adults* in collaboration with the CFPB. The enhanced version includes a new section to help people avoid romance scams and an updated resource guide. Romance scams commonly occur when a scammer creates a fake profile on a dating site or app, strikes up a relationship with a target, and asks for money. The enhancements to *Money Smart for Older Adults* are based on stakeholder feedback and recent research conducted by the FDIC and CFPB for this collaborative effort. The enhancements included the release of a new informational brochure on COVID-19-related scams.

A peer-reviewed article, "The Money Smart for Older Adults Program: A Qualitative Study of the Participants' Financial Well-Being," appeared in the *Journal of Gerontological Social Work* (Volume 64, 2021 - Issue 2) in 2021. Participants in the study reported the curriculum helped them increase awareness of their financial well-being and supported their financial decision-making. The authors encourage gerontological social workers to promote the program, while concluding that the *Money Smart* curriculum "is potentially the only option for those who are un- or under-banked and have limited access to private financial services."

Outreach Highlights

Youth employment programs offer a unique opportunity to reach out to young people with information about how banks can help them achieve their financial goals. The FDIC has continued its efforts with federal agencies and other organizations to foster more collaboration between banks and youth workforce providers that result in young people receiving financial education and an opportunity to easily open a bank account. For example, FDIC worked with banks and the City of Philadelphia to help facilitate the delivery of six financial empowerment sessions to more than 2,000 young people. The banks also offered accounts to the participants. Similarly, FDIC fostered a collaboration between a bank and an Orange County, CA, workforce program to conduct a financial education training series. The bank discussed the importance of opening a bank account and how to do so. The FDIC will continue this work into 2022.

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Other outreach highlights included collaborating with the CFPB in January 2021 to conduct a joint webinar that highlighted how the FDIC's *Money Smart* financial education products and the CFPB's *Your Money, Your Goals* empowerment toolkit can be used together. A guest speaker from a nonprofit organization described their experience using both products, particularly during tax time. Other webinars, including several conducted in conjunction with racial equity initiatives, helped financial institutions learn how to use *Money Smart for Adults*. FDIC also collaborated with NCUA on national webinars on April 27 and November 16, 2021, that aimed to increase collaboration between financial institutions and workforce providers to help young people obtain financial education and open bank accounts. As a result of the first webinar, the FDIC was able to connect two youth employment programs with financial institutions, which resulted in the launch of new programs.

The FDIC continued its support of savings initiatives, including through the *America Saves* program. The FDIC played a leadership role in the *America Saves* initiative, including by leading the *Los Angeles Saves* initiative and serving on the *America Saves Week* advisory group. More than 285,000 people set up or increased automated savings plans (based on responses from 6 percent of the participating organizations) in 2021. From their survey of participating financial institutions, *America Saves* reported that more than \$158 million was deposited into new or existing savings accounts during the week.

Starting in July 2021, the FDIC began to publish *Money Smart News* monthly, rather than quarterly. Editions of the newsletter highlight *Money Smart* success stories, including how *Money Smart* can be delivered virtually. For example, the July edition highlighted a bank's tips for other financial educators based on its experience with *Money Smart for Small Business*. The bank reported that delivering *Money Smart* to local start-ups and businesses less than three years old resulted in an increase in small business loans. The August edition highlighted *Money Smart's* pivotal role with a program designed to help people stay in their homes. *Money Smart News* is circulated to more than 92,000 subscribers every month.

This year, the FDIC hosted a banker roundtable to introduce the Wisconsin Task Force of Homeownership to banks. As a result, two banks now serve on the Foreclosure Prevention Loan Fund Committee sponsored by the Wisconsin County Treasurer's Association and Wisconsin Rural Housing (WRH). The WRH was awarded a \$700,000 grant to start a foreclosure prevention loan fund, which benefitted five counties serving LMI rural communities, including Native American homeowners in Wisconsin.

Technical assistance provided to the Bank On Connecticut Coalition helped three financial institutions complete the Cities for Financial Empowerment's National Account Standards certification process. This will further enhance the Bank On Connecticut Coalition's suite of product offerings aimed to connect more residents with a wide variety of safe and affordable bank accounts readily available across Connecticut. These three banks have also become regular and active members of the Bank On Connecticut Coalition working on account access initiatives.

Through the Spanish-Speaking Communities Initiative in 2020 and 2021, more than \$4 million in affordable small-dollar loans was provided to more than 200 Spanish-speaking

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entrepreneurs and households. Financial literacy resources were provided to approximately 500 households, and hundreds of new banking relationships were established with previously unbanked Latinos in California, Nevada, and Utah.

The Los Angeles Alliance for Economic Inclusion Volunteer Income Tax Assistance (VITA) Program delivered 2,615 hours of qualified community development services during the pandemic, facilitating critical financial support for LMI households, which resulted in an estimated 2,600 households receiving assistance in filing their 2020 tax returns. This effort helped Los Angeles VITA tax-filers secure their tax refunds, Economic Impact Payments, and prepared qualified filers for the receipt of Child Tax Credits payments.

FDIC Consumer News

The *FDIC Consumer News* is a monthly publication that provides practical guidance on how to become a smarter, safer user of financial services. The FDIC published 13 issues in 2021, which included a Special Edition on the difficulty with paying mortgages for consumers impacted by the pandemic. Selected articles define financial terms, offer helpful hints, resources, quick tips, and common-sense strategies to protect and stretch consumers' hard-earned dollars. The FDIC promotes *Consumer News* on four social media platforms, provides English and Spanish printable versions, and has more than 138,000 subscribers nationwide.

Partnerships for Access to Mainstream Banking

Across the country, the FDIC supported community development and economic inclusion partnerships at the local level by providing technical assistance and information resources, with a focus on unbanked households and LMI communities. Community Affairs staff advanced economic inclusion through FDIC-led Alliances for Economic Inclusion (AEI), as well as other local, state, and regional coalitions that promote collaboration among financial institutions, federal agency partners, and local nonprofits, including Bank On, United Way, industry trade groups, and foundations. Further, the FDIC worked with other financial regulatory agencies to provide information and technical assistance to banks and community leaders across the country.

Due to the public health impact of COVID-19, Community Affairs' outreach activities were conducted via online platforms during 2021. As of December 31, 2021, the FDIC hosted over 240 events, providing opportunities for banks to collaborate with partners on increasing consumer access to bank accounts and credit services; develop collaborative CRA strategies; expand partnerships to address the community impacts of COVID-19 and social justice issues; identify opportunities for consumers to build savings and improve credit histories; and participate in initiatives that strengthen the capability of community service providers that directly serve LMI consumers and small businesses. Through these events and other activities, the FDIC also raised awareness of pandemic-driven scams, as well as state and local assistance and recovery programs.

In 2021, the FDIC held 25 webinars in support of AEI coalitions in Austin, Boston, Houston, Los Angeles, Milwaukee, Mississippi, Southeast Michigan, and Southeast Louisiana. The FDIC currently manages 12 AEI coalitions, which support working groups of bankers and community

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leaders responding to the financial capability and services needs in their communities in various parts of the country. Twelve webinars featured the FDIC's #GetBanked resources and discussed strategies to connect consumers to safe and affordable bank accounts. In June, the Austin AEI held a webinar focused on empowering women and families through innovative financial services and discussed opportunities to support access to education, childcare, healthcare, and housing. The Los Angeles AEI held a webinar in June that focused on available resources to help mitigate the impact of the COVID-19 pandemic, specifically for rental assistance and homeownership. In October, the Milwaukee AEI partnered with the Bank of Greater Milwaukee on a webinar during which experts shared best practices on improving the financial resilience of immigrant and refugee communities through financial education and access to safe, affordable bank accounts.



FDIC held 25 webinars in support of Alliance for Economic Inclusion (AEI) Coalitions.

CONSUMER COMPLAINTS AND INQUIRIES

In May 2021, the FDIC's Deposit Insurance Section merged with the Consumer Response Center, creating the National Center for Consumer and Depositor Assistance (NCCA). The NCCA is comprised of staff on the East and West coasts, with a centrally located hub in the Kansas City Regional Office. The NCCA fulfills two mission-critical functions for the FDIC: (1) investigating and responding to consumer complaints and inquiries involving FDIC-supervised institutions; and (2) promoting public awareness and understanding of FDIC deposit insurance coverage and ensuring depositors and bankers have ready access to information regarding deposit insurance rules and requirements.

The FDIC's NCCA helps consumers by receiving, investigating, and responding to consumer complaints about FDIC-supervised institutions and answering inquiries about federal consumer banking laws and regulations, FDIC operations, and other related topics. 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.

The FDIC publishes an annual report on its Transparency & Accountability webpage regarding the nature of the FDIC's interactions with consumers and depositors and also regularly updates its performance metrics on its handling of requests from the public for FDIC assistance. The webpage can be found at www.fdic.gov/transparency/consumers.html.

17,714



24%
checking accounts



23%
consumer/business
credit cards

Consumer Complaints by Topic and Issue

In 2021, the FDIC's Consumer Response Center (CRC) handled 17,714 written and telephonic complaints and inquiries. Of the 14,236 involving written correspondence, 5,710 were referred to other agencies. The FDIC handled the remaining 8,526.



16%
consumer lines of
credit/installment
loans



8%
residential
real estate loans

\$1,292,200



in refunds and voluntary compensation
as a result of FDIC's assistance.

Consumer Complaints by Topic and Issue

As noted above, in 2021, the FDIC processed 17,714 written and telephonic complaints and inquiries. Of the 14,236 involving written correspondence, 5,710 were referred to other federal banking agencies. The FDIC handled the remaining 8,526. The FDIC responded to 99 percent of written complaints within time frames established by corporate policy and acknowledged 100 percent of all consumer complaints and inquiries within 14 days.

The most commonly identified topics in consumer complaints and inquiries about FDIC-supervised institutions, as a percent of total volume, included checking accounts (24 percent), credit cards (23 percent), consumer lines of credit/installment loans (16 percent), and residential real estate loans (8 percent). The FDIC helped consumers receive more than \$1,292,200 in refunds and voluntary compensation from financial institutions as a result of the assistance provided by the FDIC.

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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. Through December 2021, the FDIC Contact Center handled 60,724 telephone cases of which 14,593 were identified as deposit insurance-related inquiries. In addition to the telephone inquiries, the FDIC received 723 written deposit insurance inquiries from consumers and bankers. Of these inquiries, 100 percent received responses within two weeks, as required by corporate policy. The NCDA'S Deposit Insurance Unit helps depositors identify potentially fraudulent websites posing as legitimate FDIC-insured institutions. Through December 2021, the FDIC identified and took appropriate action on more than 100 websites, some of which included the Member FDIC logo, but were not operated by FDIC-member banks.

In March 2020, the FDIC began tracking incoming complaints and inquiries regarding the COVID-19 pandemic by adding specific keywords to case files. Keywords included "Coronavirus 2020" to track general concerns regarding the pandemic; "IRS Stimulus CSR" to track concerns related to the Economic Impact Payments; "SBA-CARES Act" to track business owners' concerns and issues involving the SBA's PPP, and "CARES Act Provisions" to track the cases involving specific provisions of the CARES Act that are not SBA or PPP related. Through December 31, 2021, the FDIC closed 1,305 written complaints and inquiries tagged with one or more of these key words. The following keywords, by count, were identified among the 1,305 case files: Coronavirus 2020 (1,254), IRS Stimulus CSR (329), SBA-CARES Act (272), and CARES Act Provisions (351). Additionally, 123 of the cases noted loan modification inquiries or concerns and 35 noted inquiries related to the foreclosure process.

Failure Resolution and Receivership Management

The Division of Resolutions and Receiverships is responsible for resolving the failure of IDIs with assets under \$100 billion. When an IDI fails, the chartering authority typically appoints the FDIC as receiver. The FDIC employs a variety of strategies to ensure the prompt payment of deposit insurance to insured depositors and to provide for the least costly resolution transaction to the DIF. No depositor has ever experienced a loss on their insured funds as a result of a bank failure.

FINANCIAL INSTITUTION FAILURES

During 2021, there were no insured institution failures. This is the first calendar year since 2018 during which no federally insured institutions failed.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Failure Activity Dollars in Billions			
	2021	2020	2019
Total Institutions	0	4	4
Total Assets of Failed Institutions*	\$0	\$0.5	\$0.2
Total Deposits of Failed Institutions*	\$0	\$0.4	\$0.2
Estimated Loss to the DIF	\$0	\$0.1	\$0.03

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

RECEIVERSHIP MANAGEMENT ACTIVITIES

As part of the receivership process, the FDIC as receiver manages failed IDIs and their subsidiaries with the goal of expeditiously winding up their affairs. Assets not sold to an assuming institution through the resolution process are retained by the receivership and promptly valued and liquidated through different sales channels – cash sales, securitizations, and joint venture transactions – to maximize the return to the receivership estate.

Because of the FDIC's asset marketing and collection efforts, the book value of assets in inventory decreased by \$190.5 million (67.4 percent) in 2021. Total assets in liquidation continued a downward trend, resulting in a total book value of \$92.1 million at the end of 2021.

The following chart shows the year-end balances of assets in liquidation by asset type.

Assets in Liquidation Inventory by Asset Type Dollars in Millions			
Asset Type	12/31/21	12/31/20	12/31/19
Securities	\$7	\$10	\$10
Consumer Loans	0	0	0
Commercial Loans	2	6	1
Real Estate Mortgages	2	3	19
Other Assets/Judgments	18	24	44
Owned Assets	0	1	3
Net Investments in Subsidiaries	20	20	31
Structured and Securitized Assets	43	219	416
TOTAL	\$92	\$283	\$524

Proceeds generated from asset sales and collections are used to pay receivership claimants, including depositors whose accounts exceeded the insurance limit. During 2021, receiverships paid dividends of \$536,000 to depositors whose accounts exceeded the insurance limit.

In 2021, DRR successfully terminated the ten remaining Shared Loss Agreements. These terminations mark the end of a program that was used extensively during the last crisis and

MANAGEMENT'S DISCUSSION AND ANALYSIS

was highly effective in mitigating losses on \$216 billion in loans and other assets covered under these agreements.

During 2021, DRR continued to make significant progress removing impediments to receivership terminations, including clearing 355 of 966 impediments and terminating 43 of 234 active receiverships. Despite this progress, DRR was unable to meet the annual performance target to terminate 75 percent of new receiverships that are not subject to Shared Loss Agreements, structured transactions, or other legal impediments within three years of the date of failure. Given the reduction in failure activity and considering the long-term nature of the legal impediments on recent failures, only four receiverships met the criteria for the annual performance target. DRR terminated one of the four receiverships in 2021 and started the termination process for a second that is projected to terminate in February 2022. The remaining two receiverships, from banks that failed in 2019, contained impediments that prevented them from being terminated during 2021.

The following chart shows overall receivership activity for the FDIC in 2021.

Receivership Activity

Active Receiverships as of 12/31/20	234
New Receiverships	0
Receiverships Terminated	43
Active Receiverships as of 12/31/21	191

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 that failed. The FDIC will pursue meritorious claims that are expected to be cost effective.

During 2021, the FDIC recovered \$35.1 million from professional liability claims and settlements.

The FDIC authorized one professional liability lawsuit during 2021. As of December 31, 2021, the FDIC's caseload included nine professional liability lawsuits (down from 10 at year-end 2020), four residential mortgage malpractice and fraud lawsuits (down from eight at year-end 2020), and open investigations in six claim areas out of four institutions. The FDIC completed investigations and made decisions on 96 percent of the

investigations related to the five failures that reached the 18-month point in 2021 after the institutions' failure dates, exceeding the annual performance target.

During 2021, the FDIC recovered \$35.1 million from professional liability claims and settlements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 \$6.8 million in 2021. As of December 31, 2021, there were 1,753 active restitution and forfeiture orders (down from 1,909 at year-end 2020). This includes 19 orders held by the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (i.e., orders arising out of failed financial institutions in receivership or conservatorship by the FSLIC or the Resolution Trust Corporation).

Information Technology

Information Technology (IT) is an essential component in virtually all FDIC business processes. This integration of IT with the business provides opportunities for efficiencies and requires an awareness of potential risks. In 2021, the Chief Information Officer Organization (CIOO) focused its efforts on modernizing FDIC applications and systems to support business process implementations and key stakeholders, strengthening infrastructure resiliency, and managing information security risk.

Modernizing IT and Enhancing Data Governance

The FDIC continues to provide a robust, resilient, and secure IT infrastructure that promotes efficient operations, applies modern approaches for the use and protection of data, and improves the effectiveness of the FDIC's engagement with regulated institutions. As part of this commitment, in 2021, the FDIC continued implementing the multi-year, comprehensive IT modernization effort focusing on application and data modernization initiatives identified in the IT Modernization Roadmap. In support of this commitment, the CIOO:

- Deployed iterative parts of the Structure Information Management System Redesign Release 3;
- Completed an analysis to identify the best path forward for RMS Business Process Modernization;
- Retired and decommissioned legacy Sun Solaris Unix servers;
- Implemented Release 3 of the Resolution and Receivership Management Portal; and
- Completed release 1 of the Framework for Oversight of Compliance and CRA Activities User Suite.

The FDIC also continues to mature its data governance program. For example, the CIOO developed a new test data management solution in 2021, whereby synthetic or obfuscated data were used to test selected FDIC systems in a non-production environment. The CIOO

MANAGEMENT'S DISCUSSION AND ANALYSIS

plans to mature and expand its capabilities in the area of data testing and data governance through various initiatives, such as promoting data literacy and migrating data to the cloud.

Strengthening Infrastructure Resiliency

The FDIC continues to concentrate on implementing effective strategies and solutions to enhance infrastructure security and resiliency. In support of the continued effort to improve resiliency and ensure the FDIC can continue to meet its mission in the face of emergencies or disasters, the CIOO took actions in three key areas:

Support COVID-19 Requirements

- Implemented facilities access requests to track and manage physical access to FDIC buildings and offices during the pandemic; and
- Released a ServiceNow-based COVID-19 vaccine attestation solution that captures documentation and supports reasonable accommodation requests in response to the COVID-19 Vaccine Executive Order.

Ongoing Infrastructure Resiliency Enhancements

- Developed a Surge Playbook to address IT requirements related to financial crisis preparedness.

Mission Sustainment

- Implemented a self-service password reset solution; and
- Released a new remote access Virtual Private Network software, GlobalProtect, which provides faster connectivity and enhanced security protection.

Managing Information Security Risk

The FDIC continues to place great emphasis on its risk management obligations, including identifying, assessing, and developing strategies to mitigate information security threats. Among a range of actions, in 2021, the FDIC:

- Actively managed information security, privacy, and other priority risks. The Information Technology Risk Advisory Council met regularly to discuss progress made with risk mitigation strategies, update risks in the CIOO risk inventory, and review Key Risk Indicators.
- Completed corrective actions to address internal control recommendations, strengthened internal controls, and addressed 13 audit recommendations subsequently closed by the FDIC's Office of the Inspector General (OIG). This included eight audit recommendations from the 2020 OIG Federal Information Security Modernization Act (FISMA) audit report and the OIG 2019 Privacy Audit report.
- Integrated information security and privacy into procurements, including updating a Checklist for Information Security and Privacy Contract Provisions and Clauses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Updated the Privacy Program with the Privacy Continuous Monitoring Strategy and Privacy Control Assessments.

Hybrid Work Environment

- Continued foundational implementation of a hybrid work environment by updating conference room equipment in FDIC headquarters and publishing a webpage on facilitating hybrid work.

The continued corporate-wide focus on managing information security risks through a host of projects and initiatives had a positive impact. In its 2021 audit required by the FISMA, the OIG determined that the FDIC's information security program was operating at a Maturity Level 4 (out of 5). Within the context of the maturity model, a Level 4, "Managed and Measurable," information security program is operating at an "Effective" level of security.⁴

International Outreach

The FDIC continues to play a leading role in supporting the global development of deposit insurance, bank supervision, and bank resolution systems. In 2021, 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 virtually hosting foreign officials, conducting training seminars, delivering technical assistance, 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 2021, including the development of the *2022-2026 Strategic Plan*. The FDIC chairs the Training and Technical Assistance Council Committee and the Fintech Technical Committee of IADI. The Fintech Technical Committee launched its Fintech Brief series in September 2021, with the FDIC contributing two briefs to the series. In addition, the FDIC chairs IADI's Capacity Building Technical Committee, which, among other activities, provides support for developing and facilitating virtual workshops for the Africa, Asia-Pacific, Caribbean, European, Latin American, Middle East and North Africa, and North American regions of IADI. With leadership and support from FDIC executives and senior staff, IADI technical assistance and training activities reached 1,181 participants. The FDIC also contributed to IADI papers on contingency planning and coverage.

⁴ NIST Special Publication (SP) 800-53, Rev. 4, Security and Privacy Controls for Federal Information Systems and Organizations, defines security control effectiveness as the extent to which the controls are implemented correctly, operating as intended, and producing the desired outcome with respect to meeting the security requirements for the information system in its operational environment or enforcing/mediating established security policies.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Association of Supervisors of Banks of the Americas

Senior FDIC staff chaired the ASBA Training Committee in 2021, which designs and implements ASBA's training strategy to promote the adoption of sound banking supervision policies and practices among its members. The FDIC also participated in development of the *2022-2025 Strategic Plan*. Due to COVID-19, the on-site training programs were canceled for the year; however, many courses were able to be converted to virtual events. The training program reached 115 member participants in 2021.

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 the BCBS. The FDIC's contributions include actively participating in many of the committee groups, working groups, and task forces established by the BCBS to carry out its work, which focuses on policy development, supervision and implementation, accounting, and consultation. Particular areas of focus are capital policy, accounting, operational risk, stress testing, and anti-money laundering.

International Capacity Building

Due to COVID-19-related restrictions, the FDIC's in-person direct assistance programs were canceled or postponed in 2021. However, the FDIC was able to provide technical expertise to many foreign organizations through the use of virtual technology. These engagements included supplying staff experts to provide training for the Deposit Insurance Fund of Kosovo on insurance fund thresholds, the Indonesia Deposit Insurance Fund on bank resolution matters, and the Philippines Deposit Insurance Corporation on deposit insurance target ratios. In addition, the FDIC conducted numerous virtual routine visits, most notably with the Canada Insurance Deposit Corporation five times during the year on topics related to deposit insurance and resolution matters. Likewise, the FDIC conducted visits with the European Central Bank on communication best practices, the Government of Brazil on equity partnerships, the Azerbaijan Deposit Insurance Fund on resolution matters, and the Taiwan Financial Supervisory Commission on the Industrial Loan Company (ILC) rule. Finally, the FDIC conducted its first Virtual 101, a 4-day virtual classroom event that provides an overview of bank supervision, deposit insurance, and resolutions, and was attended by 112 attendees from 35 countries and 42 separate organizations, including deposit insurers from around the globe.



Virtual 101

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 2021.

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 2021, 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

The FDIC understands that succession planning is critical to ensure that gaps in employee aspiration, engagement, and readiness for senior leadership and technical positions are addressed. The FDIC dedicates resources to strengthen and expand its internal pipeline of employees who aspire to higher-level positions, have the necessary leadership and technical skills, and are prepared to assume future leadership roles.

The FDIC conducted targeted workforce and succession-planning initiatives in mission-critical functions to ensure it has the workforce and leadership capabilities needed in a dynamic environment. The agency engaged in defining the capabilities required of subject matter experts in mission-critical roles to plan future recruitment, professional development, and retention strategies and inform human capital investments. In 2021, individual divisions and offices continued to plan and implement succession-planning activities tailored to address their unique workforce and leadership capacity needs in evolving conditions. The FDIC also launched a Retention Management Working Group to enhance the availability of data and analyses to ensure that the FDIC remains focused and effective in managing and retaining talent.

During the past few years, the FDIC has witnessed an uptick in retirements among its management and leadership ranks, requiring a greater emphasis on knowledge transfer and long-term succession planning. Additionally, RMS had a higher level of attrition in its examiner ranks during 2021 than in 2020. To ensure that critical skills are sustained, the FDIC is developing new career paths that encompass emerging skills, while offering leadership training and career development opportunities designed to increase the internal candidate

MANAGEMENT'S DISCUSSION AND ANALYSIS

pool of potential leaders at all levels. The FDIC is also undertaking innovative approaches to attract and retain a new generation of entry-level examiners with specialty and emerging skillsets.

Through these efforts, the FDIC workforce will be even better positioned to respond to dynamic financial and technological challenges, now and in the future.

Employee Learning and Development

The FDIC has a robust program to train and develop its employees throughout their careers to enhance technical proficiency and leadership capacity, supporting career progression and succession management. The FDIC is in the midst of a multi-year effort to modernize learning and development, including expanding virtual and online offerings, integrating modern learning technology, and modernizing the FDIC's Training Center.

The FDIC develops and implements comprehensive curricula for its business lines to prepare employees to meet new challenges. Employees working to become commissioned examiners or resolutions and receiverships specialists attend a prescribed set of specialized, internally developed and instructed courses. Post-commission, employees continue to further their knowledge in specialty areas with more advanced courses. The FDIC is revising examiner classroom training to better support on-the-job application and has developed a wide-ranging resolution and receivership training curriculum to support readiness.

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



Virtual Courses.

In 2021, the FDIC's Corporate University continued to convert courses to virtual delivery and support employee learning and development during mandatory telework. More than 360 virtual course offerings were delivered to more than 9,100 participants.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 feedback from employees and takes an agency-wide approach to address key issues identified in the survey. The FDIC consistently scores highly 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.

The FDIC engages employees through formal mechanisms such as the TEAM (Transparency, Empowerment, Accountability, Mission) FDIC initiative that empowers employees to identify and implement short-term projects that positively impact the FDIC workplace and support the FDIC's mission; Chairman's Diversity Advisory Councils; Employee Resource Groups; and informally through working groups, team discussions, listening sessions, and daily employee-supervisor interactions. Employee engagement plays an important role in empowering employees and helps maintain, enhance, and institutionalize a positive workplace environment.

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II.

PERFORMANCE RESULTS SUMMARY

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Summary of 2021 Performance Results by Program

The FDIC successfully achieved 35 of the 47 annual performance targets established in its *2021 Annual Performance Plan*. One target was substantially achieved, four targets were not achieved and seven targets were not applicable for 2021. There were no instances in which 2021 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.

Performance Results by Program and Strategic Goal

2021 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 IDI failures and related emerging issues.	Number of business days after an IDI failure that depositors first have access to insured funds.	Depositors have access to insured funds within one business day if the failure occurs on a Friday.	NOT APPLICABLE. NO FAILURE ACTIVITY IN 2021. SEE PG. 78.
		Insured depositor losses resulting from an IDI failure.	Depositors have access to insured funds within two business days if the failure occurs on any other day of the week.	NOT APPLICABLE. NO FAILURE ACTIVITY IN 2021. SEE PG. 78.
			Depositors do not incur any losses on insured deposits.	NOT APPLICABLE. NO FAILURE ACTIVITY IN 2021. SEE PG. 78.
			No appropriated funds are required to pay insured depositors.	NOT APPLICABLE. NO FAILURE ACTIVITY IN 2021. SEE PG. 78.

2021 Insurance Program Results (continued)

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

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
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. 52.
			Undertake industry outreach activities to inform bankers and other stakeholders about current trends, concerns, available resources, and FDIC performance metrics.	ACHIEVED. SEE PG. 52.
3	Monitor the status of the DIF reserve ratio and analyze the factors that affect fund growth. Adjust assessment rates, as necessary, to achieve a DIF reserve ratio of at least 1.35 percent of estimated insured deposits by September 30, 2028.	Updated fund balance projections and recommended changes to assessment rates.	Provide updated fund balance projections to the FDIC Board of Directors semiannually.	ACHIEVED. SEE PG. 27.
			Recommend changes to deposit insurance assessment rates to the FDIC Board of Directors, as necessary.	ACHIEVED. SEE PG. 27.
			Provide progress reports to the FDIC Board of Directors semiannually, in accordance with the Restoration Plan.	ACHIEVED. SEE PG. 28.

2021 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, institution 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. 83-84.
			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. 83-84.
			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.
5	Ensure timely consideration and efficient processing of <i>de novo</i> deposit insurance applications.	Timeliness of review and disposition of deposit insurance applications.	Act on 75 percent of deposit insurance applications within 120 days after being accepted as substantially complete.	NOT ACHIEVED. SEE PG. 59.
6	Market failing IDIs to all qualified and interested potential bidders.	Scope of qualified and interested bidders solicited.	Contact all qualified and interested bidders.	NOT APPLICABLE. NO FAILURE ACTIVITY IN 2021. SEE PG. 78.

2021 Insurance Program Results (continued)

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

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
7	Provide educational information to IDIs 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 PG. 76.
		Initiatives to increase public awareness of deposit insurance coverage changes.	Conduct at least four virtual or in-person seminars for bankers on deposit insurance coverage.	ACHIEVED. SEE PG. 69.

2021 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, ensure IDIs 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 PG. 28.
		Follow-up actions on identified problems.	For at least 90 percent of IDIs 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. 29-30.
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 PG. 28.
3	Establish regulatory capital standards that ensure institutions have sufficient loss-absorbing capacity to remain resilient under stress while reducing complexity and maximizing efficiency.	U.S. implementation of internationally agreed capital standards and other capital standards for large institutions.	Issue a Notice of Proposed Rulemaking (NPR) to implement the final Basel III standards into the U.S. regulatory capital framework.	NOT ACHIEVED. SEE PGS. 41-42.

2021 Supervision Program Results (continued)

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

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
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 to conduct horizontal reviews that focus on the IT risks in large, complex institutions and service providers.	ACHIEVED. SEE PGS. 34-35.
			Continue to use the Cybersecurity Examination Program for service provider examinations, including the most significant service provider examinations.	ACHIEVED. SEE PGS. 34-35.
			Implement a computer security incident notification final rule.	ACHIEVED. SEE PG. 41.
5	Update rules, regulations, and other guidance to enhance efficiency and transparency while maintaining the safety and soundness of the financial system.	Modernize FDIC regulations to tailor regulatory requirements and processes.	Issue a final rule related to the exemption for Suspicious Activity Reports (SARs).	NOT ACHIEVED. SEE PG. 40.
			Issue a final interagency rule on the use of supervisory guidance.	ACHIEVED. SEE PG. 38.
			Clarify the use of Model Risk Management Guidance related to systems or models used by banks to assist in complying with the BSA/AML requirements.	ACHIEVED. SEE PGS. 46-47.

2021 Supervision Program Results (continued)

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

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
6	Increase engagement and collaboration to preserve and promote FDIC-insured minority depository institutions (MDIs) and mission-driven institutions.	Enhance outreach and collaboration with FDIC-insured MDIs.	Convene meetings of the MDI Subcommittee of the Advisory Committee on Community Banking (CBAC) to gain insight into industry needs, seek input on program operations, and share best practices.	ACHIEVED. SEE PG. 21.
		Preserve and encourage minority ownership of insured financial institutions.	Establish the Mission-Driven Bank Fund as an independent funding source for FDIC-insured MDIs and Community Development Financial Institutions (CDFIs).	ACHIEVED. SEE PGS. 21-22.
			Conduct a media campaign to promote the visibility and benefits of FDIC-insured MDIs and other mission-driven institutions.	ACHIEVED. SEE PGS. 21-23.
			Promote creation of new MDIs.	ACHIEVED. SEE PG. 22.

2021 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 institutions. When violations are identified, ensure IDs promptly implement appropriate corrective programs and follow up to ensure that the violations are corrected.	Percentage of examinations conducted in accordance with the timeframes prescribed by FDIC policy.	Conduct all required examinations within the timeframes established.	ACHIEVED. SEE PG. 32.
		Implementation of corrective programs.	Conduct visits and/or follow-up examinations in accordance with established FDIC processes and timeframes to ensure that the requirements of any corrective program have been implemented and are effectively addressing identified violations.	ACHIEVED. SEE PG. 32.
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 PG. 76.
		Public availability of information on consumer complaints.	Publish, through the Consumer Response Center (CRC), an annual report regarding the nature of the FDIC's interactions with consumers and depositors.	ACHIEVED. SEE PG. 76.
			Publish, on the FDIC's public website (https://www.fdic.gov) and regularly update metrics on requests from the public for FDIC assistance.	ACHIEVED. SEE PG. 76.
3	Promote economic inclusion and access to responsible financial services through supervisory, research, policy, and consumer/community affairs initiatives.	Completion of planned initiatives.	Field the 2021 Survey of Household Use of Banking and Financial Services and begin analysis to support publication of the report in 2022.	ACHIEVED. SEE PG. 51.
			Launch "How Money Smart Are You?" an online, interactive learning game.	ACHIEVED. SEE PGS. 72-73.
			Complete a public awareness campaign to encourage unbanked individuals to establish sustainable banking relationships in two markets.	ACHIEVED. SEE PGS. 68-69.

2021 Supervision Program Results (continued)

Strategic Goal: Large, Complex Financial Institutions (LCFIs) are resolvable in an orderly manner under bankruptcy.

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
1	Identify and address risks in LCFIs, including those designated as systemically important.	IDI resolution planning.	Publish further information on the approach to IDI resolution planning.	ACHIEVED. SEE PGS. 62-63.
		Compliance with the statutory and regulatory requirements under Title I of the Dodd-Frank Act.	In collaboration with the FRB, review all resolution plans subject to the requirements of Section 165(d) of the Dodd-Frank Act to ensure their conformance to statutory and other regulatory requirements. Identify and provide feedback to firms on potential impediments in those plans to resolution under the Bankruptcy Code.	SUBSTANTIALLY ACHIEVED. SEE PG. 62.
		Compliance with the statutory and regulatory requirements under Section 360.10 of the FDIC Rules and Regulations.	Review any resolution plans submitted pursuant to the requirements of Section 360.10 of the IDI Rule to ensure their conformance to regulatory requirements.	NOT APPLICABLE. SEE PGS. 63-64.
		Risk monitoring of LCFIs, BHCs, and designated nonbanking firms.	Conduct ongoing risk analysis and monitoring of LCFIs to better understand and assess their structure, business activities, risk profiles, and resolution and recovery plans.	ACHIEVED. SEE PG. 61.

2021 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 IDIs and their subsidiaries in a timely manner to maximize net return.	Percentage of the assets marketed for each failed IDI.	For at least 95 percent of IDI failures, market at least 90 percent of the book value of its marketable assets within 90 days of the failure date (for cash sales) and within 120 days of that date if the pool of similar assets is of sufficient size to bring to market (for structured sales).	NOT APPLICABLE. NO FAILURE ACTIVITY IN 2021. SEE PG. 78.
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 transactions, or other legal impediments within three years of the date of failure.	NOT ACHIEVED. SEE PGS. 79-80.
3	Conduct investigations into all potential professional liability claim areas for all failed IDIs 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 IDI.	ACHIEVED. SEE PG. 80.
4	Ensure the FDIC's operational readiness to administer the resolution of LCFIs, including those designated as systemically important.	Refinement of resolution plans and strategies.	Continue to refine plans and strategic options to ensure the FDIC's operational readiness to administer the resolution of LCFIs.	ACHIEVED. SEE PG. 61.
		Continued cross-border coordination and cooperation in resolution planning.	Continue to deepen and strengthen working relationships with key foreign jurisdictions, both on a bilateral basis and through multilateral fora.	ACHIEVED. SEE PG. 65.

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	2020	2019	2018	2017	2016
1. Respond promptly to all IDI closings and related emerging issues.					
<ul style="list-style-type: none"> Depositors have access to insured funds within one business day if the failure occurs on a Friday. 	ACHIEVED.	ACHIEVED.	N/A – NO FAILURES.	ACHIEVED.	ACHIEVED.
<ul style="list-style-type: none"> Depositors have access to insured funds within two business days if the failure occurs on any other day of the week. 	N/A – ALL FAILURES ON FRIDAYS.	ACHIEVED.	N/A – NO FAILURES.	ACHIEVED.	ACHIEVED.
<ul style="list-style-type: none"> Depositors do not incur any losses on insured deposits. 	ACHIEVED.	ACHIEVED.	N/A – NO FAILURES.	ACHIEVED.	ACHIEVED.
<ul style="list-style-type: none"> No appropriated funds are required to pay insured depositors. 	ACHIEVED.	ACHIEVED.	N/A – NO FAILURES.	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.					
<ul style="list-style-type: none"> Disseminate results of research and analyses in a timely manner through regular publications, ad hoc reports, and other means. 	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
<ul style="list-style-type: none"> Undertake industry outreach activities to inform bankers and other stakeholders about current trends, concerns, available resources, and other FDIC performance metrics. 	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	2020	2019	2018	2017	2016
3. Monitor the status of the DIF reserve ratio and analyze the factors that affect fund growth. Adjust assessment rates, as necessary.					
<ul style="list-style-type: none"> Provide updated fund balance projections to the FDIC Board of Directors semiannually. 	ACHIEVED.	ACHIEVED.			
<ul style="list-style-type: none"> Recommend changes to deposit insurance assessment rates to the FDIC Board of Directors as necessary. 	ACHIEVED.	ACHIEVED.			
4. 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.					
<ul style="list-style-type: none"> Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2018, and December 31, 2018. 			ACHIEVED.		
<ul style="list-style-type: none"> Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2017, and December 31, 2017. 				ACHIEVED.	
<ul style="list-style-type: none"> Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2016, and December 31, 2016. 					ACHIEVED.
<ul style="list-style-type: none"> Provide progress reports to the FDIC Board of Directors by June 30, 2018, and December 31, 2018. 			ACHIEVED.		
<ul style="list-style-type: none"> Provide progress reports to the FDIC Board of Directors by June 30, 2017, and December 31, 2017. 				ACHIEVED.	
<ul style="list-style-type: none"> Provide progress reports to the FDIC Board of Directors by June 30, 2016, and December 31, 2016. 					ACHIEVED.
<ul style="list-style-type: none"> Recommend changes to deposit insurance assessment rates to the FDIC Board of Directors as necessary. 			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	2020	2019	2018	2017	2016
5. Expand and strengthen the FDIC's participation and leadership role in supporting robust and effective deposit insurance programs, resolution strategies, and banking systems worldwide.					
<ul style="list-style-type: none"> ▪ 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.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
<ul style="list-style-type: none"> ▪ Provide leadership and expertise to key international organizations and associations that promote sound deposit insurance and effective bank supervision and resolution practices. 	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	
<ul style="list-style-type: none"> ▪ 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.	ACHIEVED.	ACHIEVED.	ACHIEVED.	
<ul style="list-style-type: none"> ▪ Continue to play leadership roles within key international organizations and associations and promote sound deposit insurance, bank supervision, and resolution practices. 					ACHIEVED.
<ul style="list-style-type: none"> ▪ 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.

Insurance Program Results (continued)

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

ANNUAL PERFORMANCE GOALS AND TARGETS	2020	2019	2018	2017	2016
<ul style="list-style-type: none"> 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.
6. Ensure timely consideration and efficient processing of <i>de novo</i> deposit insurance applications.					
<ul style="list-style-type: none"> Act on 75 percent of deposit insurance applications within 120 days after receiving a substantially complete application. 	NOT ACHIEVED.				
<ul style="list-style-type: none"> Conduct six regional roundtable discussions to explain and solicit feedback on the <i>de novo</i> application process, and implement additional changes, as appropriate, based on that feedback. 		ACHIEVED.			
<ul style="list-style-type: none"> Ensure the <i>de novo</i> deposit insurance application process is streamlined and transparent. 		ACHIEVED.			
7. Market failing institutions to all qualified and interested potential bidders.					
<ul style="list-style-type: none"> Contact all qualified and interested bidders. 	ACHIEVED.	ACHIEVED.	N/A – NO FAILURES.	ACHIEVED.	ACHIEVED.
8. 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.					
<ul style="list-style-type: none"> Respond within two weeks to 95 percent of written inquiries from consumers and bankers about FDIC deposit insurance coverage. 	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
<ul style="list-style-type: none"> Conduct at least four telephone or in-person seminars for bankers on deposit insurance coverage. 	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.

Supervision Program Results

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

ANNUAL PERFORMANCE GOALS AND TARGETS	2020	2019	2018	2017	2016
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.					
<ul style="list-style-type: none"> Conduct all required risk management examinations within the timeframes prescribed by statute and FDIC policy. 	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
<ul style="list-style-type: none"> For at least 90 percent of IDIs 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.	ACHIEVED.	ACHIEVED.
2. Assist in protecting the infrastructure of the U.S. banking system against terrorist financing, money laundering, and other financial crimes.					
<ul style="list-style-type: none"> Conduct all Bank Secrecy Act examinations within the timeframes prescribed by statute and FDIC policy. 	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
3. Establish regulatory capital standards that ensure institutions have sufficient loss-absorbing capacity to remain resilient under stress while reducing complexity and maximizing efficiency.					
<ul style="list-style-type: none"> Complete, by September 30, 2019, rulemaking for a community bank leverage ratio and conforming changes to the deposit insurance assessment process. 		ACHIEVED.			

Supervision Program Results (continued)

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

ANNUAL PERFORMANCE GOALS AND TARGETS	2020	2019	2018	2017	2016
<ul style="list-style-type: none"> Finalize aspects of the interagency capital simplification proposal issued in September 2017, including changes to the regulatory capital treatment of mortgage servicing assets, deferred tax assets, investment in the capital instruments of other financial institutions, and minority interest. 		ACHIEVED.			
<ul style="list-style-type: none"> Issue an interagency final rule on holdings of total loss-absorbing capacity. 	ACHIEVED.				
<ul style="list-style-type: none"> Issue an NPR to implement the final Basel III standards into the U.S. regulatory capital framework. 	NOT ACHIEVED.				
<ul style="list-style-type: none"> Issue interagency final rules to adopt the statutory definition of high volatility commercial real estate for risk based capital. 		ACHIEVED.			
<ul style="list-style-type: none"> Reevaluate and take appropriate actions on Basel III requirements for small banks that do not meet or are not eligible for the community bank leverage ratio. 		ACHIEVED.			
<ul style="list-style-type: none"> Issue a final rule to implement the Net Stable Funding Ratio (NSFR). 	ACHIEVED.	NOT ACHIEVED.			
<ul style="list-style-type: none"> Issue interagency final rules to tailor capital requirements for large financial institutions. 		ACHIEVED.			
<ul style="list-style-type: none"> Issue interagency rulemaking to remove certain central bank deposits from the denominator of the supplementary leverage ratio for custodial banks. 		ACHIEVED.			
4. Ensure that regulatory capital standards promote banks' resilience under stress and the confidence of their counterparties.					
<ul style="list-style-type: none"> Finalize a Notice of Proposed Rulemaking (NPR) for a simplified risk-based capital framework for community banks. 			NOT ACHIEVED.		
<ul style="list-style-type: none"> Finalize the Basel III Net Stable Funding Ratio (NSFR). 			NOT ACHIEVED.		

Supervision Program Results (continued)

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

ANNUAL PERFORMANCE GOALS AND TARGETS	2020	2019	2018	2017	2016
5. More closely align regulatory capital standards with risk and ensure that capital is maintained at prudential levels.					
<ul style="list-style-type: none"> Issue a Notice of Proposed Rulemaking (NPR) for a simplified capital framework for community banks. 				ACHIEVED.	
<ul style="list-style-type: none"> Issue a final rule implementing the Basel III Net Stable Funding Ratio. 				NOT ACHIEVED.	
<ul style="list-style-type: none"> Publish in 2016, a Notice of (proposed) Rulemaking on the Basel III Net Stable Funding Ratio. 					ACHIEVED.
6. Implement strategies to promote enhanced cybersecurity, and business continuity within the banking industry.					
<ul style="list-style-type: none"> Continue to conduct horizontal reviews that focus on the IT risks in large and complex supervised institutions and in Technology Service Providers (TSPs). 	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	
<ul style="list-style-type: none"> Continue to use the Cybersecurity Examination Program for the most significant service provider examinations. 	ACHIEVED.	ACHIEVED.	ACHIEVED.		
<ul style="list-style-type: none"> Improve the analysis and sharing of cybersecurity-related threat information with financial institutions. 	ACHIEVED.	ACHIEVED.			
<ul style="list-style-type: none"> Revise and implement by December 31, 2017, the Cybersecurity Examination Tool for TSPs. 				ACHIEVED.	
<ul style="list-style-type: none"> Establish a horizontal review program that focuses on the IT risks in large and complex supervised institutions and Technology Service providers (TSPs). 					ACHIEVED.
<ul style="list-style-type: none"> 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.

Supervision Program Results (continued)

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

ANNUAL PERFORMANCE GOALS AND TARGETS	2020	2019	2018	2017	2016
7. Update rules, regulations, and other guidance to enhance efficiency and transparency while maintaining the safety and soundness of the financial system.					
<ul style="list-style-type: none"> Issue a final rule on brokered deposits. 	ACHIEVED.				
<ul style="list-style-type: none"> Issue revised stress testing guidance. 	NOT ACHIEVED.				
<ul style="list-style-type: none"> Issue a final rule to codify and amend the FDIC’s Statement of Policy on Section 19 of the Federal Deposit Insurance Act (FDI Act). 	ACHIEVED.				
<ul style="list-style-type: none"> Issue a final rule clarifying the applicability of the “valid when made” rule. 	ACHIEVED.				
<ul style="list-style-type: none"> Issue an interagency final rule to modify the treatment of covered funds under the Volcker Rule. 	ACHIEVED.				
<ul style="list-style-type: none"> Issue a final rule amending the swap margin requirements. 	ACHIEVED.				

Supervision Program Results (continued)

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

ANNUAL PERFORMANCE GOALS AND TARGETS	2020	2019	2018	2017	2016
1. Conduct on-site CRA and consumer compliance examinations to assess compliance with applicable laws and regulations by FDIC-supervised institutions. When violations are identified, promptly implement appropriate corrective programs and follow up to ensure that identified problems are corrected.					
<ul style="list-style-type: none"> Conduct all required examinations within the timeframes established. 	ACHIEVED.	ACHIEVED.	SUBSTANTIALLY ACHIEVED.	ACHIEVED.	ACHIEVED.
<ul style="list-style-type: none"> Conduct visits and/or follow-up examinations in accordance with established FDIC processes and timeframes to ensure that the requirements of any corrective program have been implemented and are effectively addressing identified violations. 	ACHIEVED.	ACHIEVED.	SUBSTANTIALLY ACHIEVED.	ACHIEVED.	ACHIEVED.
2. Effectively investigate and respond to written consumer complaints and inquiries about FDIC-supervised financial institutions.					
<ul style="list-style-type: none"> 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 acknowledgment within two weeks. 	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
<ul style="list-style-type: none"> Publish, through the Consumer Response Center (CRC), an annual report regarding the nature of the FDIC's interactions with consumers and depositors. 	ACHIEVED.	ACHIEVED.			
<ul style="list-style-type: none"> Publish, on the FDIC's website, and regularly update metrics on requests from the public for FDIC assistance. 	ACHIEVED.	ACHIEVED.			

Supervision Program Results (continued)

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

ANNUAL PERFORMANCE GOALS AND TARGETS	2020	2019	2018	2017	2016
3. Promote economic inclusion and access to responsible financial services through supervisory, research, policy, and consumer/community affairs initiatives.					
<ul style="list-style-type: none"> Issue rules and guidance to ensure that FDIC-supervised institutions meet the credit needs of their communities. 	NOT ACHIEVED.				
<ul style="list-style-type: none"> Launch “How Money Smart Are You?” an online, interactive learning game. 	NOT ACHIEVED.				
<ul style="list-style-type: none"> Publish the results of the <i>2019 Survey of the Unbanked and Underbanked Households</i>. 	ACHIEVED.	ACHIEVED.			
<ul style="list-style-type: none"> Conduct outreach to institutions and the public to expand the availability and usage of low-cost transaction accounts tailored to the needs of unbanked and underbanked households. 		ACHIEVED.			
<ul style="list-style-type: none"> Expand the reach of the new <i>Money Smart for Adults</i> through online resources, translating the curriculum into other languages, and outreach. 		ACHIEVED.			
<ul style="list-style-type: none"> Strengthen connections between small businesses and FDIC-insured institutions. 	ACHIEVED.	ACHIEVED.			
<ul style="list-style-type: none"> Increase engagement and collaboration to preserve and promote Minority Depository Institutions (MDIs). 	ACHIEVED.	ACHIEVED.			
<ul style="list-style-type: none"> Publish the results of the <i>2017 FDIC National Survey of Unbanked and Underbanked Households</i>. 			ACHIEVED.		
<ul style="list-style-type: none"> Complete planning for the <i>2019 FDIC National Survey of Unbanked and Underbanked Households</i>. 			ACHIEVED.		
<ul style="list-style-type: none"> 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.		

Supervision Program Results (continued)					
Strategic Goal: Consumers' rights are protected, and FDIC-supervised institutions invest in their communities.					
ANNUAL PERFORMANCE GOALS AND TARGETS	2020	2019	2018	2017	2016
<ul style="list-style-type: none"> ▪ Launch the revised <i>Money Smart for Adults</i> curriculum. 			ACHIEVED.		
<ul style="list-style-type: none"> ▪ Revise and administer the 2017 <i>FDIC National Survey of Unbanked and Underbanked Households</i>. 				ACHIEVED.	
<ul style="list-style-type: none"> ▪ 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.	
<ul style="list-style-type: none"> ▪ Complete and pilot a revised, instructor-led <i>Money Smart for Adults</i> product. 				ACHIEVED.	
<ul style="list-style-type: none"> ▪ Publish the results of the 2015 <i>FDIC National Survey of Unbanked and Underbanked Household</i>. 					ACHIEVED.
<ul style="list-style-type: none"> ▪ Complete and present to the Advisory Committee on Economic Inclusions (ComeE-IN) a report on the pilot Youth Savings Program (YSP) conducted jointly with the CFPB. 					ACHIEVED.
<ul style="list-style-type: none"> ▪ Promote broader awareness of the availability of low-cost transaction accounts consistent with the FDIC's Model SAFE transaction account template. 					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	2020	2019	2018	2017	2016
1. Identify and address risks in large, complex financial institutions, including those designated as systemically important.					
<ul style="list-style-type: none"> Issue an NPR and, following a review of comments, a final rule to tailor and make adjustments to the FDIC's resolution planning requirements for IDIs. 	NOT ACHIEVED.				
<ul style="list-style-type: none"> Complete interagency rulemaking with the FRB to tailor application of resolution planning requirements under Section 165(d) of the Dodd-Frank Act. 		ACHIEVED.			
<ul style="list-style-type: none"> Issue an ANPR to tailor and make adjustments to the FDIC's resolution planning requirements for IDIs. 		ACHIEVED.			
<ul style="list-style-type: none"> In collaboration with the FRB, review all resolution plans subject to the requirements of Section 165(d) of the Dodd-Frank Act to ensure their conformance to statutory and other regulatory requirements. Identify and provide feedback to firms on potential impediments in those plans to resolution under the Bankruptcy Code. 	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
<ul style="list-style-type: none"> Review resolution plans subject to the requirements of Section 360.10 of the IDI Rule to ensure their conformance to other regulatory requirements. 	NOT APPLICABLE.	ACHIEVED.			
<ul style="list-style-type: none"> Review 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. 		ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
<ul style="list-style-type: none"> 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.	ACHIEVED.	ACHIEVED.	ACHIEVED.

Receivership Management Program Results

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

ANNUAL PERFORMANCE GOALS AND TARGETS	2020	2019	2018	2017	2016
1. Value, manage, and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return.					
<ul style="list-style-type: none"> 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 that date if the pool of similar assets is of sufficient size to bring to market (for structured sales). 	ACHIEVED.	ACHIEVED.	N/A – NO FAILURES.		
<ul style="list-style-type: none"> 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.
2. Manage the receivership estate and its subsidiaries toward an orderly termination.					
<ul style="list-style-type: none"> Terminate at least 75 percent of new receiverships that are not subject to loss-share agreements, structured transactions, or other legal impediments within three years of the failure date. 	ACHIEVED.	ACHIEVED.	N/A – NO FAILURES.	ACHIEVED.	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.					
<ul style="list-style-type: none"> 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 IDI. 	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.

Receivership Management Program Results (continued)

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

ANNUAL PERFORMANCE GOALS AND TARGETS	2019	2018	2017	2016	2015
4. Ensure the FDIC’s operational readiness to administer the resolution of large financial institutions, including those designated as systemically important.					
<ul style="list-style-type: none"> Continue to refine plans to ensure the FDIC’s operational readiness to administer the resolution of large, complex financial institutions. 	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
<ul style="list-style-type: none"> Continue to deepen and strengthen working relationships with key foreign jurisdictions, both on a bilateral basis and through multilateral fora. 	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.	ACHIEVED.
<ul style="list-style-type: none"> 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.					
<ul style="list-style-type: none"> Continue to deepen and strengthen bilateral working relationships with key foreign jurisdictions. 					ACHIEVED.

III.

FINANCIAL HIGHLIGHTS



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FINANCIAL HIGHLIGHTS

In its role as insurer of bank and savings association deposits, the FDIC promotes the public's trust in 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 \$123.1 billion at December 31, 2021, an increase of \$5.2 billion from the year-end 2020 balance. The DIF's comprehensive income totaled \$5.2 billion for 2021 compared to comprehensive income of \$7.5 billion during 2020. The year-over-year decrease in comprehensive income of \$2.3 billion was primarily driven by a decrease in interest and fair value adjustments on U.S. Treasury securities of \$2.4 billion. Assessment revenue decreased nominally.

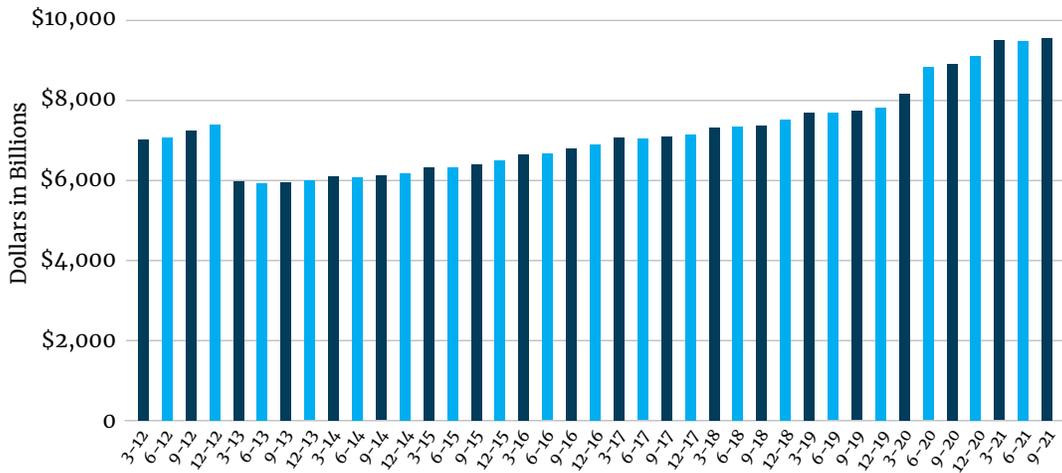
Assessment revenue was \$7.1 billion for both 2021 and 2020. The year-over-year stability was due to a combination of assessment base growth, declining assessment rates, and assessment offsets related to the Paycheck Protection Program and the Money Market Mutual Fund Liquidity Facility.

The DIF's interest revenue on U.S. Treasury securities for 2021 was nearly \$1.0 billion, compared to \$1.7 billion in 2020. The \$730 million year-over-year decrease was despite the \$4.1 billion increase in the investment portfolio, as maturities continue to be reinvested into lower yielding securities.

During 2021, the DIF recognized an unrealized loss on U.S. Treasury securities of \$1.2 billion, down from a \$483 million unrealized gain in 2020. This decrease was primarily due to yields rising, as market participants priced in the withdrawal of economic support from the Federal Reserve and potential rate hikes for 2022.

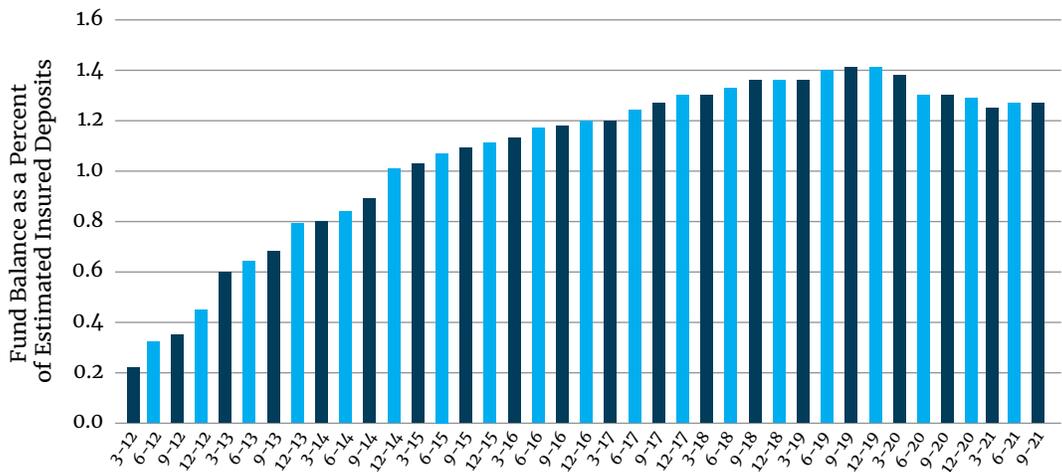
The DIF's cash, cash equivalents, and U.S. Treasury investment portfolio balances increased by \$6.3 billion during 2021 to \$120.1 billion at year-end 2021, from \$113.8 billion at year-end 2020. This increase was primarily due to assessment collections of \$7.3 billion and interest received on U.S. Treasury securities of \$3.9 billion, less operating expenses paid of \$1.8 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



FINANCIAL HIGHLIGHTS

Deposit Insurance Fund Selected Statistics			
Dollars in Millions			
	For the years ended December 31		
	2021	2020	2019
Financial Results			
Revenue	\$8,153	\$8,796	\$7,095
Operating Expenses	1,843	1,846	1,796
Insurance and Other Expenses (includes provision for losses)	(137)	(155)	(1,282)
Net Income	6,448	7,105	6,582
Comprehensive Income	5,244	7,550	7,738
Insurance Fund Balance	\$123,141	\$117,897	\$110,347
Fund as a Percentage of Insured Deposits (reserve ratio)	1.27% ¹	1.29%	1.41%
Selected Statistics			
Total DIF-Member Institutions ²	4,914 ¹	5,002	5,177
Problem Institutions	46 ¹	56	51
Total Assets of Problem Institutions	\$50,588 ¹	\$55,830	\$46,190
Institution Failures	0	4	4
Total Assets of Failed Institutions in Year ³	\$0	\$455	\$209
Number of Active Failed Institution Receiverships	191	234	248

¹ As of September 30, 2021.

² Commercial banks and savings institutions. Does not include U.S. insured branches of foreign banks.

³ Total Assets data are based upon the last Call Report filed by the institution prior to failure.

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IV.

BUDGET AND SPENDING



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FDIC Operating Budget

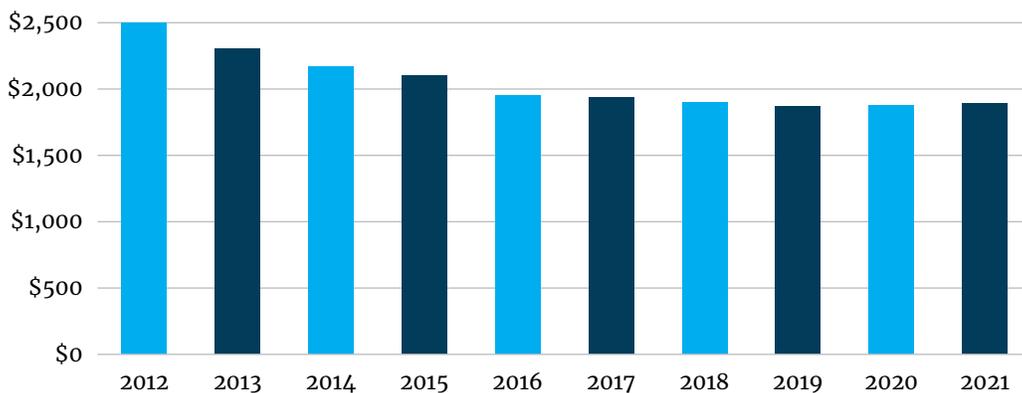
The FDIC segregates its corporate operating budget and expenses into three separate components: ongoing operations, receivership funding, and the Office of Inspector General (OIG). The receivership funding component represents expenses resulting from financial institution failures and is, therefore, largely driven by external forces and is less controllable and estimable. FDIC operating expenditures totaled \$1.9 billion in 2021, including \$1.8 billion in ongoing operations, \$41 million in receivership funding, and \$40 million for the OIG. This represented approximately 87 percent of the approved budget for ongoing operations, 23 percent of the approved budget for receivership funding, and 90 percent of the approved budget for the OIG for the year.

The approved 2022 FDIC Operating Budget of approximately \$2.3 billion consists of \$2.1 billion for ongoing operations, \$75 million for receivership funding, and \$47 million for the OIG. The level of approved ongoing operations budget for 2022 is approximately \$82 million (4 percent) higher than the 2021 ongoing operations budget, while the approved receivership funding budget is \$100 million (57 percent) lower than the 2021 receivership funding budget. The 2022 OIG budget is \$2 million (5 percent) higher than the 2021 OIG budget.

As in prior years, the 2022 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 total proposed operating budget is \$16 million (0.7 percent) lower than the 2021 FDIC Operating Budget, largely due to the elimination of the increased contingency reserves approved by the Board for 2021 to ensure the FDIC’s readiness to be able to respond quickly to potential supervisory or resolutions issues related to the ongoing pandemic.

FDIC EXPENDITURES

Dollars in Millions

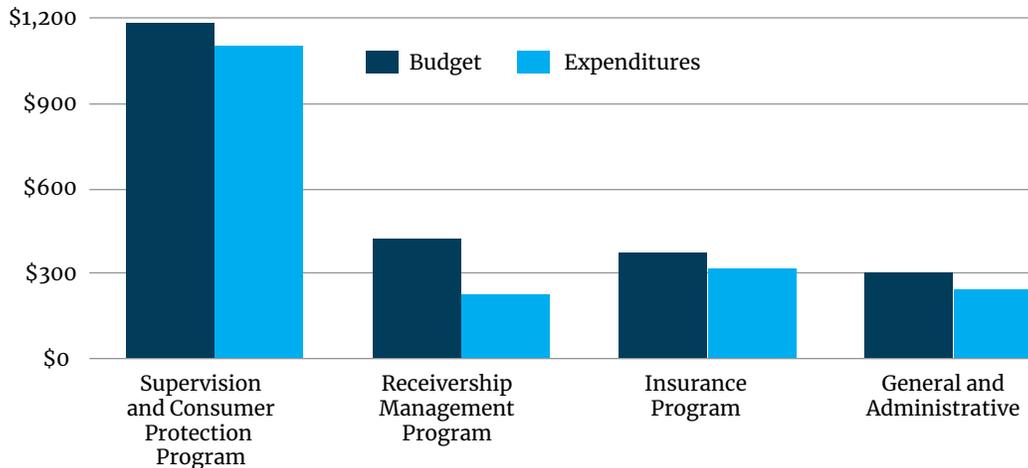


BUDGET AND SPENDING

The FDIC's Strategic Plan and Annual Performance Plan provide the basis for annual planning and budgeting for needed resources. The 2021 aggregate budget (for ongoing operations, receivership funding, OIG, and investment spending) was \$2.31 billion, while actual expenditures for the year were \$1.9 billion, about \$15 million higher than 2020 expenditures.

2021 BUDGET AND EXPENDITURES BY PROGRAM

Dollars in Millions



2021 Budget and Expenditures by Program

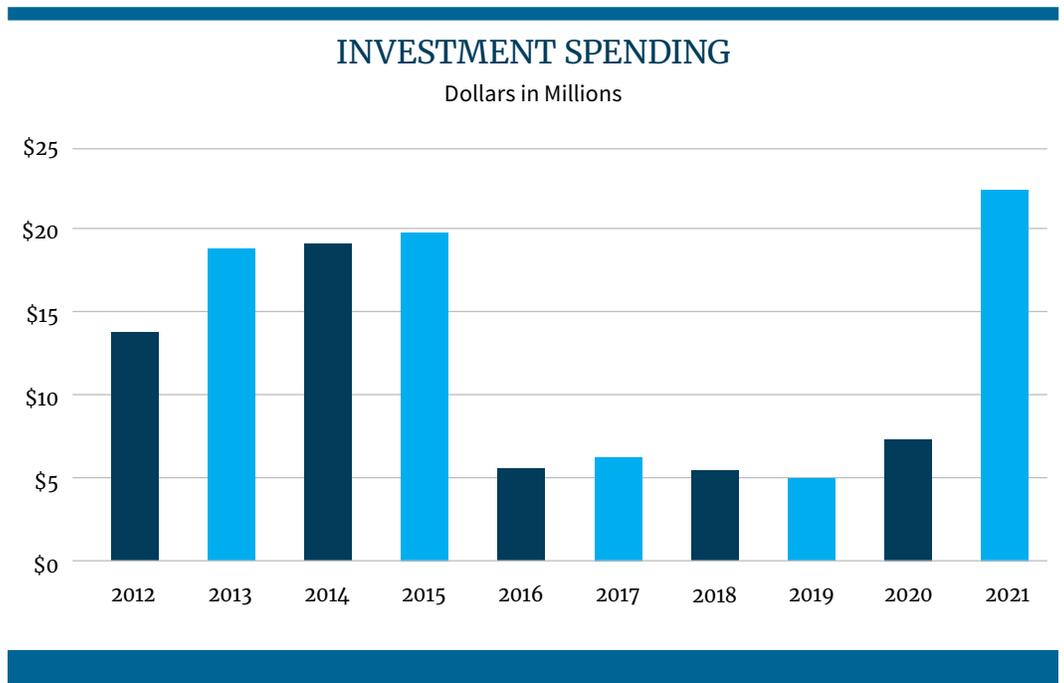
(EXCLUDING INVESTMENTS)

The FDIC corporate operating budget for 2021 totaled approximately \$2.3 billion. Budget amounts were allocated as follows: \$1.18 billion or 52 percent, to the Supervision and Consumer Protection program; \$421 million or 18 percent, to the Receivership Management program; \$373 million, or 16 percent, to the Insurance program; and \$303 million, or 13 percent, to Corporate General and Administrative expenditures.

Actual expenditures for the year totaled \$1.9 billion. Actual expenditures occurred as follows: \$1.1 billion, or 58 percent, to the Supervision and Consumer Protection program; \$227 million, or 12 percent, to the Receivership Management program; \$316 million, or 17 percent, to the Insurance program; and \$243 million, or 13 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 FDIC’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 2012-2021 investment spending totaled \$125 million, and is estimated at \$9 million for 2022.



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V.

FINANCIAL SECTION

Federal Deposit Insurance Corporation		
Deposit Insurance Fund Balance Sheet		
As of December 31		
(Dollars in Thousands)	2021	2020
ASSETS		
Cash and cash equivalents	\$ 5,562,941	\$ 3,310,527
Investment in U.S. Treasury securities (Note 3)	114,551,240	110,464,342
Assessments receivable (Note 9)	1,710,549	1,948,516
Interest receivable on investments and other assets, net	718,428	1,159,130
Receivables from resolutions, net (Note 4)	885,354	1,366,736
Property and equipment, net (Note 5)	327,127	321,080
Operating lease right-of-use assets (Note 6)	85,238	112,453
Total Assets	\$ 123,840,877	\$ 118,682,784
LIABILITIES		
Accounts payable and other liabilities	\$ 255,405	\$ 250,617
Operating lease liabilities (Note 6)	90,957	119,459
Liabilities due to resolutions	800	814
Postretirement benefit liability (Note 13)	331,599	335,977
Contingent liabilities:		
Anticipated failure of insured institutions (Note 7)	20,876	78,952
Litigation losses (Note 7)	200	200
Total Liabilities	699,837	786,019
<i>Off-balance-sheet exposure (Note 14)</i>		
FUND BALANCE		
Accumulated Net Income	123,372,878	116,924,738
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Unrealized (loss) gain on U.S. Treasury securities, net (Note 3)	(149,115)	1,069,949
Unrealized postretirement benefit (loss) (Note 13)	(82,723)	(97,922)
Total Accumulated Other Comprehensive Income	(231,838)	972,027
Total Fund Balance	123,141,040	117,896,765
Total Liabilities and Fund Balance	\$ 123,840,877	\$ 118,682,784

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

Federal Deposit Insurance Corporation
Deposit Insurance Fund Statement of Income and Fund Balance
For the Years Ended December 31

(Dollars in Thousands)	2021	2020
REVENUE		
Assessments (Note 9)	\$ 7,080,232	\$ 7,093,175
Interest on U.S. Treasury securities	953,152	1,683,063
Return of unclaimed insured deposits (Note 10)	103,439	0
Other revenue	16,665	20,240
Total Revenue	8,153,488	8,796,478
EXPENSES AND LOSSES		
Operating expenses (Note 11)	1,842,723	1,846,491
Provision for insurance losses (Note 12)	(143,681)	(157,309)
Insurance and other expenses	6,306	2,660
Total Expenses and Losses	1,705,348	1,691,842
Net Income	6,448,140	7,104,636
OTHER COMPREHENSIVE INCOME		
Unrealized (loss) gain on U.S. Treasury securities, net	(1,219,064)	482,681
Unrealized postretirement benefit gain (loss) (Note 13)	15,199	(37,490)
Total Other Comprehensive Income	(1,203,865)	445,191
Comprehensive Income	5,244,275	7,549,827
Fund Balance - Beginning	117,896,765	110,346,938
Fund Balance - Ending	\$ 123,141,040	\$ 117,896,765

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

Federal Deposit Insurance Corporation
Deposit Insurance Fund Statement of Cash Flows
For the Years Ended December 31

(Dollars in Thousands)	2021	2020
OPERATING ACTIVITIES		
Provided by:		
Assessments	\$ 7,318,198	\$ 6,375,350
Interest on U.S. Treasury securities	3,938,901	3,742,956
Recoveries from financial institution resolutions	594,356	1,439,452
Return of unclaimed insured deposits	103,439	0
Miscellaneous receipts	2,284	17,972
Used by:		
Operating expenses	(1,775,301)	(1,745,171)
Disbursements for financial institution resolutions	(7,515)	(320,501)
Miscellaneous disbursements	(14,803)	(9,485)
Net Cash Provided by Operating Activities	10,159,559	9,500,573
INVESTING ACTIVITIES		
Provided by:		
Maturity of U.S. Treasury securities	61,350,000	54,575,000
Used by:		
Purchase of U.S. Treasury securities	(69,203,406)	(66,714,039)
Purchase of property and equipment	(53,739)	(41,772)
Net Cash (Used) in Investing Activities	(7,907,145)	(12,180,811)
Net Increase (Decrease) in Cash and Cash Equivalents	2,252,414	(2,680,238)
Cash and Cash Equivalents - Beginning	3,310,527	5,990,765
Cash and Cash Equivalents - Ending	\$ 5,562,941	\$ 3,310,527

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

DEPOSIT INSURANCE FUND

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021 and 2020

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. Federally chartered IDIs are supervised by the Office of the Comptroller of the Currency; state chartered IDIs that are members of the Federal Reserve are supervised by the Federal Reserve and their state supervisors; and state chartered IDIs that are not members of the Federal Reserve are supervised by the FDIC and their state supervisors.

In addition to being the administrator of the DIF, the FDIC is the administrator of the Federal Savings and Loan Insurance Corporation (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 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 a liquidity event determination 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 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 FDIC, as administrator of the DIF, insures the deposits of IDIs and resolves 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 and interest earned on investments in U.S. Treasury securities. 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 \$222.5 billion and \$217.2 billion as of December 31, 2021 and 2020, 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,

FINANCIAL SECTION

DEPOSIT INSURANCE FUND

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; 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 straight-line method (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, modest assessment base growth and average assessment rate adjustment factors. At the subsequent quarter-end, the estimated revenue amounts are adjusted when actual assessments for the covered period are determined for each institution (see Note 9).

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).

LEASES

The Balance Sheet presents operating leases in the "Operating lease right-of-use assets" and "Operating lease liabilities" line items. Operating lease liabilities and right-of-use (ROU) assets are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. The FDIC has elected to use its risk-free rate at the commencement date in determining the present value of future payments.

The operating lease ROU asset also includes lease prepayments and excludes lease incentives received. The lease term includes options to extend or terminate the lease when it is reasonably certain that the FDIC will exercise that

option. For the DIF, the FDIC recognizes lease expense on a straight-line basis over the lease term. For lease arrangements that contain both lease and nonlease components, the FDIC has elected to account for them as a single lease component for all classes of underlying assets.

PROVISION FOR INSURANCE LOSSES

The provision for insurance losses primarily represents changes in the allowance for losses on receivables from resolutions and the contingent liability for anticipated failure of insured institutions (see Note 12).

REPORTING ON VARIABLE INTEREST ENTITIES

The receiverships engaged in structured transactions, some of which resulted in the issuance of note obligations that the FDIC guaranteed, in its corporate capacity. As the guarantor of note obligations for several structured transactions, the FDIC, in its corporate capacity, holds an interest in variable interest entities (VIEs). The FDIC conducts a qualitative assessment of its relationship with each VIE as required by the Financial Accounting Standards Board Accounting Standards Codification Topic 810, *Consolidation*. These assessments are conducted to determine if the FDIC, in its corporate capacity, has (1) the 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 tests, 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, management considered 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 assessments 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, 2021 and 2020. Therefore, consolidation is not required for the December 31, 2021 and 2020 DIF financial statements.

Note 8 under FDIC Guaranteed Debt of Structured Transactions fully describes the FDIC's involvement with VIEs.

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 standards 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 thousands).

December 31, 2021				Net	Unrealized	Unrealized	Fair
Maturity	Yield at Purchase	Face Value	Carrying Amount	Holding Gains	Holding Losses		Value
U.S. Treasury notes and bonds							
Within 1 year	0.92%	\$ 47,400,000	\$ 48,252,075	\$ 169,305	\$ (26,501)	\$	48,394,879
After 1 year through 5 years	0.47%	64,775,000	66,448,280	106,617	(398,536)		66,156,361
Total		\$ 112,175,000	\$ 114,700,355	\$ 275,922	\$ (425,037)^(a)	\$	\$ 114,551,240

(a) These unrealized losses occurred as a result of 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, 2021. However, \$18 million of the \$425 million reported as total unrealized losses occurred over a period of 12 months or longer, with a fair value of \$1.6 billion applied to the affected security. The aggregate related fair value of all securities with unrealized losses was \$86.9 billion as of December 31, 2021.

FINANCIAL SECTION

DEPOSIT INSURANCE FUND

December 31, 2020							
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	1.23%	\$ 56,100,000	\$ 57,122,288	\$ 280,526	\$ (4,521)	\$	\$ 57,398,293
After 1 year through 5 years	1.05%	51,000,000	52,272,106	795,791	(1,848)		53,066,049
Total		\$ 107,100,000	\$ 109,394,394	\$ 1,076,317	\$ (6,369) ^(a)	\$	\$ 110,464,342

(a) 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, 2020. The aggregate related fair value of securities with unrealized losses was \$12.8 billion as of December 31, 2020.

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. 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, 2021	December 31, 2020
Receivables from resolutions	\$ 56,228,805	\$ 61,340,917
Allowance for losses	(55,343,451)	(59,974,181)
Total	\$ 885,354	\$ 1,366,736

As of December 31, 2021, the FDIC, as receiver, managed 191 active receiverships; no new receiverships were established in 2021. The resolution entities held assets with a book value of \$1.5 billion as of December 31, 2021, and \$2.1 billion as of December 31, 2020 (including \$1.4 billion and \$1.8 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, which may include the following: 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.

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.

For failed institutions resolved using a whole bank purchase and assumption transaction with an accompanying shared-loss agreement (SLA), the FDIC agreed to share in future losses and recoveries experienced by the acquirer on those assets covered under the agreement. The projected shared-loss payments on the covered assets sold to the acquiring institution, which were included in the receiverships' shared-loss liabilities, were considered in calculating the DIF's allowance for loss on the receivables from these resolutions. As shared-loss claims were asserted and proven, receiverships typically satisfied these shared-loss payments using available liquidation funds.

The final SLA expired in November 2021. As a result, the related shared-loss covered assets and net estimated liability were zero at December 31, 2021, compared to \$3.1 billion and \$8 million, respectively, at December 31, 2020. The year-over-year decreases in the shared-loss covered assets and net estimated liability were primarily due to settlements of final claim certificates for expired agreements and the natural or early termination of SLAs, respectively.

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 influenced by recoveries on assets held by receiverships. As of December 31, 2021, \$43 million, or 49 percent, of assets in liquidation is concentrated in residual certificates collateralized by underlying residential mortgage-backed securities or loans (see Note 8).

5. Property and Equipment, Net

Depreciation expense was \$44 million and \$50 million for 2021 and 2020, respectively. The “Property and equipment, net” line item on the Balance Sheet consisted of the following components (dollars in thousands).

	December 31	
	2021	2020
Land	\$ 37,352	\$ 37,352
Buildings (including building and leasehold improvements)	349,066	344,002
Application software (includes work-in-process)	101,362	129,410
Furniture, fixtures, and equipment	45,221	58,363
Accumulated depreciation	(205,874)	(248,047)
Total	\$ 327,127	\$ 321,080

6. Leases

The FDIC has operating leases for office space, a data center, and certain equipment. The lease agreements generally contain escalation clauses resulting in adjustments, usually on an annual basis. Many leases contain one or more options to extend, with renewal terms that can extend the lease term from one to five years, and some leases may include options to terminate. The following table provides relevant information regarding FDIC operating leases for the years ended December 31, 2021 and 2020 (dollars in thousands).

	December 31	
	2021	2020
Operating lease cost	\$ 39,466	\$ 48,481
Cash paid for amounts included in the measurement of operating leases	\$ 48,400	48,263
ROU assets obtained in exchange for new operating lease liabilities	\$ 1,656	22,817
Weighted Average		
Remaining lease term (in years)	2.75	3.35
Discount rate	1.24%	1.38%

NOTES TO THE FINANCIAL STATEMENTS

The following table provides a maturity analysis of the FDIC’s operating lease liabilities as of December 31, 2021 (dollars in thousands).

	December 31	
	2021	
2022	\$	37,734
2023		26,111
2024		22,438
2025		5,594
2026		719
2027/Thereafter		12
Total future minimum lease payments	\$	92,608
Less: Imputed interest		(1,651)
Total operating lease liabilities	\$	90,957

As of December 31, 2021, the FDIC has additional operating leases with future payments totaling \$31 million for office space, which commence after December 31, 2021, and are not included in the amounts presented above.

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 improved in 2021 from the economic stress related to the COVID-19 pandemic that was first experienced in 2020. During 2021, no institutions failed. According to the third quarter 2021 financial data submitted by DIF-insured institutions, the banking industry reported net income for the first nine months of \$216 billion, an increase of 145 percent from the same period a year ago. The increase in net income was primarily the result of negative provision expenses as described below.

Provisions for credit losses for the first nine months of 2021 were negative \$30.4 billion, as compared to \$129.1 billion over the same time period a year ago, reflecting economic improvements and positive credit quality metrics. The total

FINANCIAL SECTION

DEPOSIT INSURANCE FUND

noncurrent loan rate was 0.94 percent as of September 30, 2021, down 23 basis points from the same quarter in 2020 and well below the most recent high of 5.46 percent in March 31, 2010.

Due to the improvement in net income as well as growth in low-risk assets, risk-based capital levels improved in 2021, as compared to the same period in 2020, with total risk-based capital increasing 27 basis points to 15.63 percent.

Despite the improvement in net income, the low interest-rate environment continues to challenge banks. During third quarter 2021, the average quarterly net interest margin (NIM) for the banking industry rose modestly to 2.56 percent, but remains one of the lowest NIMs ever reported in the FDIC's Quarterly Banking Profile.

Largely because of fiscal and monetary policy, deposits continued to grow, increasing by \$2 trillion, or 12.0 percent, since September 30, 2020.

The contingent liability decreased as of December 31, 2021, compared to December 31, 2020. The DIF recorded contingent liabilities totaling \$21 million and \$79 million as of December 31, 2021 and 2020, respectively. The decrease largely reflects improvements in the banking industry's financial condition and performance noted above.

During 2020, due to elevated risk and uncertainty arising from the effects of the COVID-19 pandemic on the banking industry, the FDIC supplemented its methodology for calculating the contingent liability to capture vulnerable institutions deemed likely to have failure risk not identified by the standard approach. That supplemental methodology incorporated a number of factors, including lending concentrations and various financial metrics, and resulted in a supplemental liability of \$44 million as of December 31, 2020 that was included in estimated losses for anticipated failures. As of December 31, 2021, the elevated risk and uncertainty that led to the need for a supplemental methodology in 2020 had subsided with regular supervision examinations. As of December 31, 2021, it was determined the standard approach appropriately captured failure risk and that a supplemental liability was not considered necessary.

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 \$68 million as of December 31, 2021, compared to \$1.1 billion at year-end 2020. The actual losses, if any, will largely depend on future economic and market conditions and could differ materially from this estimate.

During 2021, the economy supported banking conditions as Gross Domestic Product (GDP) grew to above its pre-pandemic peak. Although economic growth slowed in third quarter 2021, due to waning fiscal support to the economy and supply constraints to production, the economy continued to expand and sustain bank loan growth. The December 2021 Blue Chip Economic Indicators consensus forecast for GDP growth is 5.6 percent for full-year 2021, up from negative 3.4 percent in 2020 and well above its pre-pandemic growth rate. The labor market recovery continued, and the unemployment rate continued to decline. While the labor market has not fully recovered from deep job losses in 2020, the labor market tightened with higher wages and worker shortages in many industries. Inflation increased to multi-decade highs during the year reflecting higher energy prices, supply chain issues, and strong demand. Monetary policy remained accommodative with interest rates near zero during the year but, responding to developments in inflation and labor markets, the Federal Reserve began to tighten monetary policy in November 2021 by slowing the pace of its asset purchases. Although the improved economy boosted bank profitability, key risks for banks remain. Potential credit strains may emerge as pandemic support programs for borrowers begin to wind down and loan forbearance periods end. In addition, changing pandemic developments may shift economic conditions and interest rates, which could impact banking sector profitability. 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, 2021 and 2020, respectively. In addition, the FDIC has identified reasonably possible losses from unresolved cases of \$1 million and \$650 thousand as of December 31, 2021 and 2020, respectively.

8. Other Contingencies

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 2021 and 2020, 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 11 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.

The last guarantee terminated in December 2021 after the final repayment of the outstanding note balance. As of year-end 2020, three trusts remained with collateral balances of \$459 million and a maximum loss exposure to the FDIC, as guarantor, of \$46 million.

Any estimated loss to the DIF from the guarantees was based on an analysis of the expected guarantee payments by the FDIC. The estimated cash flows from the assets of the three remaining trusts at year-end 2020 provided sufficient coverage to fully pay the debts. Through the end of the last guarantee, the FDIC collected \$167 million in guarantee fees and made one guarantee payment of \$4 million in 2020.

The FDIC, in its corporate capacity, did not 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 and developed a comprehensive, long-term fund management plan. The long-term fund management 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. The DIF reserve ratio, which is the ratio of the DIF balance to estimated insured deposits, is a key measure of fund adequacy. Summarized below are key longer-term provisions of the plan.

- 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 2021, the FDIC published a notice maintaining the DRR at 2 percent for 2022. 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 goal for the reserve ratio.
- The FDIC suspended dividends indefinitely, and, in lieu of dividends, prescribes progressively lower assessment rates when the reserve ratio exceeds 2 percent and 2.5 percent.

The Dodd-Frank Act increased the minimum reserve ratio for the DIF to 1.35 percent, up from the previous statutory minimum of 1.15 percent. This minimum was required to be

FINANCIAL SECTION

DEPOSIT INSURANCE FUND

achieved by September 30, 2020, and the Dodd-Frank Act mandated that the FDIC offset the effect of increasing the minimum reserve ratio on institutions with less than \$10 billion in total assets (small banks). To implement this requirement, the FDIC provided for credits against quarterly assessments to small banks for their contribution to the growth in the reserve ratio from 1.15 percent to 1.35 percent. After the reserve ratio of the DIF exceeded 1.35 percent by reaching 1.36 percent as of September 30, 2018, the FDIC awarded small bank assessment credits of \$765 million. As of year-end 2020, all credits have been used (\$206 million in 2020 and \$559 million in 2019).

As a result of the impact on the economy from the COVID-19 pandemic and related stimulus programs, the FDIC took several actions, including initiating stimulus program offsets. The FDIC issued a final rule to mitigate the deposit insurance assessment effects of IDIs participating in certain stimulus programs, such as the Paycheck Protection Program. Absent the changes permitted by the final rule, some IDIs' assessments would have increased. In accordance with the final rule, the FDIC applied the changes to IDI assessments starting in the second quarter of 2020.

If the reserve ratio falls below 1.35 percent, or the FDIC projects that it will within six months, the FDIC generally must implement a Restoration Plan that will return the DIF to 1.35 percent within eight years. In September 2020, the FDIC established a Restoration Plan when the reserve ratio fell below 1.35 percent, to 1.30 percent as of June 30, 2020, due to extraordinary insured deposit growth in the first and second quarters of 2020. Under the Restoration Plan, the FDIC will maintain the current schedule of assessment rates for all IDIs and closely monitor the factors affecting the reserve ratio, updating the plan as necessary. To determine whether the reserve ratio has reached the statutory minimum, the FDIC will rely on the reserve ratio as of September 30, 2028.

ASSESSMENT REVENUE

Annual assessment rates averaged approximately 3.6 cents and 4.0 cents per \$100 of the assessment base in 2021 and 2020, respectively. 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 \$1.7 billion and \$1.9 billion represents the estimated premiums due from IDIs for the fourth quarter of 2021 and 2020, respectively. The actual deposit insurance assessments for the fourth quarter of 2021 will be billed and collected at

the end of the first quarter of 2022. The DIF recognized \$7.1 billion as assessment revenue from institutions during both 2021 and 2020.

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, 2021, the total amount of unpaid assessments (including accrued interest) was \$1.19 billion. For the years ending December 31, 2021 and 2020, the impact of this litigation is not reflected in the financial statements of the DIF.

RESERVE RATIO

As of September 30, 2021 and December 31, 2020, the DIF reserve ratio was 1.27 percent and 1.29 percent, respectively.

10. Return of Unclaimed Insured Deposits

The Unclaimed Deposits Amendments Act of 1993 (UDAA), Public Law 103-44, amended the FDI Act effective June 28, 1993 (codified as 12 U.S.C. § 1822 (e)). In accordance with the UDAA, the FDIC delivers to the appropriate states insured bank deposits not claimed within 18 months of the date when the FDIC initiates payment of insured deposits as a part of a bank failure, unless the appropriate state declines to accept custody. After receipt, states have custody of the deposits for 10 years, during which time a state treats deposits as unclaimed property. At the end of the 10 years, states are required to transfer any remaining unclaimed deposits to the FDIC and those deposits become the FDIC's property. As of December 31, 2021, states have returned \$103 million of unclaimed insured deposits to the FDIC, which the DIF recognized as revenue.

11. 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 2021	December 31 2020
Salaries and benefits	\$ 1,322,457	\$ 1,299,792
Outside services	267,279	271,885
Travel	9,548	24,990
Buildings and leased space	84,496	90,496
Software/Hardware maintenance	107,265	103,341
Depreciation of property and equipment	43,764	49,902
Other	24,569	26,227
Subtotal	1,859,378	1,866,633
Less: Expenses billed to resolution entities and others	(16,655)	(20,142)
Total	\$ 1,842,723	\$ 1,846,491

12. Provision for Insurance Losses

The “Provision for insurance losses” line item on the Statement of Income and Fund Balance is impacted by the Balance Sheet line item activity depicted in the table below. The table primarily analyzes the changes in estimated losses for actual and anticipated failures (dollars in millions).

December 31, 2021	Contingent Liabilities for:				
	Provision for Insurance Losses	Receivables from Resolutions	Allowance for Losses	Anticipated Failures	Litigation Losses
Balance at January 1, 2021	\$ 0	\$ 61,341	\$ (59,974)	\$ (79)	\$ 0
Change in contingent liability for anticipated failures, net ¹	(58)			58	
Adjustments to estimated losses for prior year failures	(85)		85		
Disbursements for prior year failures		12			
Recoveries from resolutions		(574)			
Write-offs for inactivated receiverships	(1)	(4,424)	4,425		
Other	0	(127)	121		
Balance at December 31, 2021	\$ (144)	\$ 56,228	\$ (55,343)	\$ (21)	\$ 0

¹Represents institutions that were added or removed from the contingent liability, as well as the change in the contingent liability for institutions that remained in the liability year-over-year.

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DEPOSIT INSURANCE FUND

December 31, 2020	Contingent Liabilities for:				
	Provision for Insurance Losses	Receivables from Resolutions	Allowance for Losses	Anticipated Failures	Guarantee Payments and Litigation Losses
Balance at January 1, 2020	\$ 0	\$ 63,982	\$ (61,313)	\$ (94)	\$ (34)
Estimated losses for current year failures	99		(99)		
Change in contingent liability for anticipated failures, net ¹	(15)			15	
Adjustments to estimated losses for prior year failures	(237)		237		
Disbursements for failures		167			
Recoveries from resolutions ²		(1,564)			
Write-offs for inactivated receiverships	0	(1,145)	1,145		
Other	(4)	(99)	56		34
Balance at December 31, 2020	\$ (157)	\$ 61,341	\$ (59,974)	\$ (79)	\$ 0

¹Represents institutions that were added or removed from the contingent liability, as well as the change in the contingent liability for institutions that remained in the liability year-over-year.

²Includes \$298 million of non-cash recoveries from receiverships.

13. 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 2021	December 31 2020
Civil Service Retirement System	\$ 912	\$ 1,189
Federal Employees Retirement System (Basic Benefit)	151,797	137,989
Federal Thrift Savings Plan	39,266	37,149
FDIC Savings Plan	39,978	39,578
Total	\$ 231,953	\$ 215,905

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 for 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).

NOTES TO THE FINANCIAL STATEMENTS

	December 31 2021	December 31 2020
Accumulated postretirement benefit obligation recognized in <i>Postretirement benefit liability</i>	\$ 331,599	\$ 335,977
Cumulative net actuarial (loss) recognized in accumulated other comprehensive income: <i>Unrealized postretirement benefit (loss)</i>	\$ (82,723)	\$ (97,922)
Amounts recognized in other comprehensive income: <i>Unrealized postretirement benefit gain (loss)</i>		
Actuarial gain (loss)	\$ 15,199	\$ (37,490)
Prior service credit	0	0
Total	\$ 15,199	\$ (37,490)
Net periodic benefit costs recognized in <i>Operating expenses</i>		
Service cost	\$ 6,365	\$ 5,106
Interest cost	7,128	8,766
Net amortization out of other comprehensive income	4,712	2,364
Total	\$ 18,205	\$ 16,236

The year-over-year decrease in the accumulated postretirement benefit obligation of \$4 million is primarily attributable to an increase in the discount rate used to present value expected benefit payments. The discount rate increased from 2.65 percent to 2.82 percent at year-end 2021 to reflect changes in the economic environment.

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

	December 31 2021	December 31 2020
Employer contributions	\$ 7,384	\$ 7,211
Plan participants' contributions	\$ 1,148	\$ 1,091
Benefits paid	\$ (8,532)	\$ (8,302)

The expected contributions for the year ending December 31, 2022, are \$10 million. Expected future benefit payments for each of the next 10 years are presented in the following table (dollars in thousands).

2022	2023	2024	2025	2026	2027-2031
\$9,127	\$9,663	\$10,227	\$10,742	\$11,289	\$62,810

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

	December 31 2021	December 31 2020
Discount rate for future benefits (benefit obligation)	2.82%	2.65%
Rate of compensation increase	2.22%	2.18%
Discount rate (benefit cost)	2.65%	3.46%
Dental health care cost-trend rate		
Assumed for next year	3.50%	3.50%
Ultimate	3.50%	3.50%
Year rate will reach ultimate	2022	2021

14. 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, 2021 and December 31, 2020, estimated insured deposits for the DIF were \$9.6 trillion and \$9.1 trillion, respectively.

15. Fair Value of Financial Instruments

As of December 31, 2021 and 2020, financial assets recognized and measured at fair value on a recurring basis include cash equivalents (see Note 2) of \$4 billion and \$3.3 billion, respectively, and the investment in U.S. Treasury securities (see Note 3) of \$114.6 billion and \$110.5 billion, respectively. The valuation is considered a Level 1 measurement in the fair value hierarchy, representing quoted prices in active markets for identical assets. 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.

FINANCIAL SECTION

DEPOSIT INSURANCE FUND

16. 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 2021	December 31 2020
Operating Activities		
Net Income:	\$ 6,448,140	\$ 7,104,636
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of U.S. Treasury securities	2,547,445	2,229,257
Depreciation on property and equipment	43,764	49,902
Retirement of property and equipment	3,929	617
Provision for insurance losses	(143,681)	(157,309)
Unrealized gain (loss) on postretirement benefits	15,199	(37,490)
Change in Assets and Liabilities:		
Decrease (Increase) in assessments receivable	237,967	(706,548)
Decrease (Increase) in interest receivable and other assets	441,041	(138,038)
Decrease in receivables from resolutions	566,646	1,445,147
Decrease (Increase) in operating lease right-of-use assets	27,215	(112,453)
Increase in accounts payable and other liabilities	4,788	36,166
(Decrease) Increase in operating lease liabilities	(28,502)	119,459
(Decrease) Increase in postretirement benefit liability	(4,378)	46,515
(Decrease) in guarantee payment contingent liability	0	(33,831)
(Decrease) in liabilities due to resolutions	(14)	(345,457)
Net Cash Provided by Operating Activities	\$ 10,159,559	\$ 9,500,573

17. Subsequent Events

Subsequent events have been evaluated through February 10, 2022, the date the financial statements are available to be issued. Based on management's evaluation, there were no subsequent events requiring disclosure.

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Balance Sheet

As of December 31

(Dollars in Thousands)

	2021	2020
ASSETS		
Cash and cash equivalents	\$ 907,625	\$ 906,835
Other assets	201	612
Total Assets	\$ 907,826	\$ 907,447
LIABILITIES		
Accounts payable and other liabilities	\$ 8	\$ 17
Total Liabilities	8	17
RESOLUTION EQUITY (NOTE 5)		
Contributed capital	125,469,317	125,469,317
Accumulated deficit	(124,561,499)	(124,561,887)
Total Resolution Equity	907,818	907,430
Total Liabilities and Resolution Equity	\$ 907,826	\$ 907,447

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

FINANCIAL SECTION

Federal Deposit Insurance Corporation		
FSLIC Resolution Fund Statement of Income and Accumulated Deficit		
For the Years Ended December 31		
(Dollars in Thousands)	2021	2020
REVENUE		
Interest on U.S. Treasury securities	\$ 374	\$ 3,314
Other revenue	214	721
Total Revenue	588	4,035
EXPENSES AND LOSSES		
Operating expenses	227	320
Losses related to thrift resolutions	(27)	(295)
Total Expenses and Losses	200	25
Net Income	388	4,010
Accumulated Deficit - Beginning	(124,561,887)	(124,565,897)
Accumulated Deficit - Ending	\$ (124,561,499)	\$ (124,561,887)

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

FINANCIAL SECTION

Federal Deposit Insurance Corporation			
FSLIC Resolution Fund Statement of Cash Flows			
For the Years Ended December 31			
(Dollars in Thousands)	2021	2020	
OPERATING ACTIVITIES			
Provided by:			
Interest on U.S. Treasury securities	\$ 374	\$	3,314
Recoveries from thrift resolutions	670		941
Used by:			
Operating expenses	(254)		(331)
Net Cash Provided by Operating Activities	790		3,924
FINANCING ACTIVITIES			
Used by:			
Payment to Resolution Funding Corporation (Note 5)	\$ 0	\$	(20,000)
Net Cash (Used) in Financing Activities	0		(20,000)
Net Increase (Decrease) in Cash and Cash Equivalents	790		(16,076)
Cash and Cash Equivalents - Beginning	906,835		922,911
Cash and Cash Equivalents - Ending	\$ 907,625	\$	906,835

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

FSLIC RESOLUTION FUND

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021 and 2020

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 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 Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF). As such, the FDIC is responsible for the sale of remaining assets and satisfaction of liabilities associated with the former 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. 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 26 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; and
- Affordable Housing Disposition Program monitoring (the last agreement expires no later than 2045; see Note 4).

The FRF could realize recoveries from 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.

On April 1, 2014, the FDIC concluded its role as receiver, on behalf of the FRF, when the last active receivership was

FINANCIAL SECTION

FSLIC RESOLUTION FUND

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” 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 estimate for the Affordable Housing Disposition Program indemnifications is considered significant (see Note 4).

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 standards 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.

All known goodwill cases have been litigated, including the last remaining goodwill case that was resolved in 2015. However, a determination regarding the continued need for the appropriation will be made as the FRF winds up its operations.

4. 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, 2021, 23 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.

From 2006 through 2018, two lawsuits against property owners resulted in \$23 thousand in legal expenses, which were fully reimbursed due to successful litigation. In 2019, new litigation against two property owners has thus far resulted in legal expenses of \$12 thousand. 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. AHPD guarantees will continue until the termination of the last LURA, or 2045 (whichever occurs first). As of December 31, 2021 and 2020, 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, 2021			
	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital	\$ 43,864,980	\$ 81,604,337	\$ 125,469,317
Accumulated deficit	(42,982,564)	(81,578,935)	(124,561,499)
Total Resolution Equity	\$ 882,416	\$ 25,402	\$ 907,818

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020			
	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	\$ 43,864,980	\$ 81,624,337	\$ 125,489,317
Less: Payment to REFCORP	0	(20,000)	(20,000)
Contributed capital - ending	43,864,980	81,604,337	125,469,317
Accumulated deficit	(42,982,914)	(81,578,973)	(124,561,887)
Total Resolution Equity	\$ 882,066	\$ 25,364	\$ 907,430

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, 2021, the FRF-FSLIC received a total of \$2.3 billion in goodwill appropriations, the effect of which increased contributed capital.

Through December 31, 2021, the FRF-RTC had returned \$4.6 billion to the U.S. Treasury and made payments of \$5.2 billion to the REFCORP. The most recent payment to the REFCORP was in July of 2020 for \$20 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. Fair Value of Financial Instruments

At December 31, 2021 and 2020, the FRF's financial assets measured at fair value on a recurring basis are cash equivalents (see Note 2) of \$882 million. Cash equivalents are Special U.S. Treasury Certificates with overnight maturities valued at prevailing interest rates established by the U.S.

FINANCIAL SECTION

FSLIC RESOLUTION FUND

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.

7. 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 2021	December 31 2020
Operating Activities		
Net Income:	\$ 388	\$ 4,010
Change in Assets and Liabilities:		
Decrease (Increase) in other assets	411	(87)
(Decrease) Increase in accounts payable and other liabilities	(9)	1
Net Cash Provided by Operating Activities	\$ 790	\$ 3,924

8. Subsequent Events

Subsequent events have been evaluated through February 10, 2022, the date the financial statements are available to be issued. Based on management's evaluation, there were no subsequent events requiring disclosure.



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 2021 and 2020 financial statements of the Deposit Insurance Fund (DIF) and of the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF), both of which the Federal Deposit Insurance Corporation (FDIC) administers,¹ we found

- the financial statements of the DIF and of the FRF as of and for the years ended December 31, 2021, and 2020, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- although internal controls could be improved, FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the DIF and to the FRF as of December 31, 2021; and
- with respect to the DIF and to the FRF, no reportable noncompliance for 2021 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

Opinions on the Financial Statements

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 FDIC administers. The financial statements of the DIF comprise the balance sheets as of December 31, 2021, and 2020; 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 of the FRF comprise the balance sheets as of December 31, 2021, and 2020; the related statements of income and accumulated deficit and of

¹A 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 (2010), is unfunded and did not have any transactions from its inception in 2010 through 2021.

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

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

⁴31 U.S.C. §§ 9101-9110.

FINANCIAL SECTION

cash flows for the years then ended; and the related notes to the 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, 2021, and 2020, 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, 2021, and 2020, 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

We also have audited FDIC's internal control over financial reporting relevant to the DIF and to the FRF as of December 31, 2021, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

In our opinion, although certain internal controls could be improved,

- FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the DIF as of December 31, 2021, 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, 2021, based on criteria established under FMFIA.

As discussed below in more detail, our 2021 audit continued to identify deficiencies in FDIC's controls over contract documentation and payment review processes that collectively represent a significant deficiency in FDIC's internal control over financial reporting.⁵ We considered this significant deficiency in determining the nature, timing, and extent of our audit procedures on the DIF's and the FRF's 2021 financial statements.

Although the significant deficiency in internal control did not affect our opinions on the 2021 and 2020 financial statements of the DIF and of the FRF, misstatements may occur in unaudited financial information reported internally and externally by FDIC because of this significant deficiency.

In addition to the significant deficiency in internal control over contract documentation and payment review processes, we also identified other deficiencies in FDIC's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant FDIC management's attention. We have communicated these matters to FDIC management and, where appropriate, will report on them separately.

⁵A 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. 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 significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

Significant Deficiency in Internal Control over Contract Documentation and Payment Review Processes

During our 2021 audit, we continued to identify deficiencies in contract documentation and payment review processes that collectively represent a significant deficiency in FDIC's internal control over financial reporting. Specifically, as in the prior year,⁶ FDIC did not consistently implement controls over contract documentation and payment review processes. FDIC oversight managers are responsible for verifying that contractors deliver purchased goods or services and perform their work according to contract terms and delivery schedules. Oversight managers also monitor the expenditures of funds in relation to contract dollar ceilings and approve invoices for payment. FDIC contracting officers, acting within the scope of their authority to contract on behalf of FDIC, are responsible for entering into, administering, and terminating contracts; making related decisions; and executing contract modifications. We identified several deficiencies in FDIC's implementation of these internal controls that increased the risks that improper payments could occur and operating expenses and accounts payable could be misstated. For example:

- We found five instances where an oversight manager approved and paid a contractor invoice that did not agree to the terms of the contract, resulting in an improper payment.
- We found three additional instances where the oversight managers approved contract payments without obtaining or reviewing sufficient documentation to support the invoices.
- We found three instances of ineffective controls over contract modification documentation because of a contracting officer not implementing existing FDIC acquisition policies and procedures. The three instances included (1) a contract modification that was signed by a contracting officer with insufficient warrant authority; (2) a lack of contract modification documentation for a contract ceiling increase correction; and (3) a lack of contract modification documentation reflecting a contract's expired status, as it was superseded by another contract before its initial expiration date, before it was closed out.

According to GAO's *Standards for Internal Control in the Federal Government*,⁷ agency management is responsible for establishing and maintaining effective internal control to serve as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Further, GAO's *Framework for Assessing the Acquisition Function for Federal Agencies*,⁸ states that when financial data are not useful, relevant, timely, or reliable, the acquisition function is at risk of inefficient or wasteful business practices. Without adequate contract documentation and payment review processes, FDIC cannot reasonably assure that internal controls over contract payments are operating effectively, which increases the risks of improper payments and misstatements in the financial statements.

⁶GAO, *Financial Audit: Federal Deposit Insurance Corporation Funds' 2020 and 2019 Financial Statements*, GAO-21-284R (Washington, D.C.: Feb. 18, 2021).

⁷GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: September 2014).

⁸GAO, *Framework for Assessing the Acquisition Function at Federal Agencies*, GAO-05-218G (Washington, D.C.: September 2005).

FINANCIAL SECTION

While these deficiencies do not individually or collectively constitute a material weakness, FDIC's deficiencies related to contract documentation and payment review processes are important enough to merit the attention of those charged with governance of FDIC. Thus, these deficiencies continue to represent a significant deficiency in FDIC's internal control over financial reporting as of December 31, 2021. Management commitment and attention will be essential to continue addressing these deficiencies and improving FDIC's controls over contract documentation and payment review processes.

As in the prior year,⁹ we plan to report additional details concerning the significant deficiency separately to FDIC management, along with recommendations for corrective actions.

Basis for Opinions

We conducted our audits in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting section of our report. We are required to be independent of FDIC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements and Internal Control over Financial Reporting

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 the annual report, and ensuring the consistency of that information with the audited financial statements; (3) designing, implementing, and maintaining effective internal control over financial reporting 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, 2021, included in the accompanying Management's Report on Internal Control over Financial Reporting in appendix I.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the DIF's and the FRF's ability to continue as going concerns for a reasonable period of time.

Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements or an audit of internal control over financial reporting conducted in

⁹GAO, *Management Report: Improvements Needed in FDIC's Internal Control over Contract-Payment Review Processes*, GAO-21-420R (Washington, D.C.: May 13, 2021).

FINANCIAL SECTION

accordance with U.S. generally accepted government auditing standards will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit of financial statements and an audit of internal control over financial reporting in accordance with U.S. generally accepted government auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to our audit of the financial statements in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control relevant to our audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit also considered FDIC's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA. 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Perform other procedures we consider necessary in the circumstances.
- Conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the DIF's and the FRF's ability to continue as going concerns for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the financial statement audit.

FINANCIAL SECTION

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.

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. Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. Our opinion on the DIF's and the FRF's financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibilities discussed below.

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 2021 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.

FINANCIAL SECTION

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

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for Tests of Compliance section below.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

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

Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements

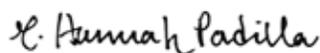
Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosures in the financial statements of the DIF and of the FRF and to perform certain other limited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

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 for the 30th consecutive year on the DIF's and the FRF's financial statements. In regard to the significant deficiency in internal control over contract documentation and payment review processes, FDIC stated that it has taken several measures during 2021 and will continue to enhance and maintain effective internal controls to prevent, detect, and mitigate the risks associated with contract payment review processes. FDIC added that its commitment to sound financial management has been and will remain a top priority. The complete text of FDIC's response is reprinted in appendix II.



M. Hannah Padilla
Director
Financial Management and Assurance

February 10, 2022

APPENDIX I



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, 2021, 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 Modernization 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, 2021, FDIC's internal control over financial reporting relevant to the DIF and the FRF was effective.

MARTIN GRUENBERG Digitally signed by MARTIN GRUENBERG

Martin J. Gruenberg
Acting Chairman

BRET EDWARDS Digitally signed by BRET EDWARDS

Bret D. Edwards
Deputy to the Chairman
and Chief Financial Officer

February 10, 2022

APPENDIX II



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

Deputy to the Chairman and CFO

February 10, 2022

Ms. M. Hannah Padilla
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, D.C. 20548

Re: FDIC Management Response to the 2021 and 2020 Financial Statements Audit Report

Dear Ms. Padilla:

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' 2021 and 2020 Financial Statements, GAO-22-104601. We are pleased that the Federal Deposit Insurance Corporation (FDIC) has received unmodified opinions for the thirtieth consecutive year on the financial statements of its funds: the Deposit Insurance Fund (DIF) and the FSLIC Resolution Fund (FRF). GAO also reported that although internal controls can be improved, the FDIC maintained, in all material respects, 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. However, GAO did report that more work was needed to address FDIC's significant deficiency in internal control over contract documentation and contract payment review processes.

The FDIC has taken several measures over the 2021 audit year to resolve the issues concerning contract documentation and contract payment review processes. These measures included creating a contracting governance project team, developing new training, and reinforcing the importance of reviewing invoices prior to payment. The FDIC will continue to enhance and maintain effective internal controls to prevent, detect, and mitigate the risks associated with contract payment review processes. Our commitment to sound financial management has been and will remain 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 2022 audit. If you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

BRET EDWARDS Digitally signed by
BRET EDWARDS

Bret D. Edwards
Deputy to the Chairman
and Chief Financial Officer

VI.

RISK MANAGEMENT AND INTERNAL CONTROLS



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

Office of the Chairman

Federal Deposit Insurance Corporation
Statement of Assurance

FDIC management is responsible for managing risks and maintaining effective internal controls. During the year, the FDIC conducted its assessment of risk and internal control in the spirit of OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on our assessment and internal management evaluations, 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 working to address a significant deficiency identified by the U.S. Government Accountability Office in our internal control over the contractor payment review process, and we are committed to maintaining effective internal controls corporate-wide in 2022.

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

MARTIN GRUENBERG Digitally signed by MARTIN GRUENBERG

Martin J. Gruenberg
Acting Chairman

February 10, 2022

RISK MANAGEMENT AND INTERNAL CONTROLS

The FDIC uses several means to identify and address enterprise risks, 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 Office of Risk Management and Internal Controls (ORMIC) oversees a corporate-wide program of risk management and internal control activities and works closely with FDIC division and office management. The FDIC has made a concerted effort to identify and assess financial, reputational, and operational risks and incorporate corresponding controls into day-to-day operations. The program also requires that divisions and offices document comprehensive procedures, thoroughly train employees, and hold supervisors accountable for performance and results. Divisions and offices monitor compliance through periodic management reviews and various activity reports distributed to all levels of management. The FDIC also takes seriously FDIC Office of Inspector General and GAO audit recommendations and strives to implement agreed upon actions promptly. The FDIC has received unmodified opinions on its financial statement audits for 30 consecutive years, and these and other positive results reflect the effectiveness of the overall management control program.

In 2021, ORMIC continued to enhance the FDIC's Enterprise Risk Management (ERM) program. The focus was raising awareness of ERM in the FDIC regional offices and initial actions to integrate the program with the FDIC's strategic planning and budget formulation process.

During 2022, ORMIC will continue to enhance the ERM program, strengthen acquisition-related controls, and expand internal control testing efforts.

Program Evaluation

ORMIC periodically evaluates selected program areas responsible for achieving FDIC strategic objectives and performance goals. During 2021, ORMIC evaluated Division of Depositor and Consumer Protection (DCP) processes for achieving a strategic objective and related performance goal from the FDIC's 2021 Annual Performance Plan. The objective and goal evaluated and summary results follow.

RISK MANAGEMENT AND INTERNAL CONTROLS

Strategic Objective: Consumers have access to accurate and easily understood information about their rights and the disclosures due them under consumer protection and fair lending laws.

Performance Goal: Effectively investigate and respond to written consumer complaints and inquiries about FDIC-supervised financial institutions.

Targets: 1) 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; 2) Publish, through the Consumer Response Center (CRC), an annual report regarding the nature of the FDIC's interactions with consumers and depositors; and 3) Publish on the FDIC's public website (<https://www.fdic.gov>) and regularly update performance metrics regarding FDIC's responsiveness to requests from the public for FDIC assistance.

The objective of ORMIC's evaluation was to determine if DCP has processes in place to achieve the performance goal and confirm that there is documentary support confirming that the performance goal was met. ORMIC reviewed the National Center for Consumer and Depositor Assistance (NCDA) Consumer Response Unit (CRU) Operations Manual, the Discrimination Complaint Investigation Procedures, the CRU Consumer Complaints and Inquires Dashboard, the Transparency and Accountability: Consumer Protection and Deposit Annual Report, the Public Requests for FDIC Assistance Report, and relevant information on FDIC's external website and DCP's internal website. DCP provided ORMIC staff a walkthrough of the consumer complaints processing system and procedures. Additionally, ORMIC held interview sessions with senior officials and examination specialists from DCP's National Center for Consumer and Depositor Assistance Section, and the Internal Control and Review Unit, respectively. ORMIC is familiar with the DCP operations from on-going risk management and internal control-related collaboration activities.

The evaluation noted that DCP has systems and processes in place to:

- Promptly record complaints in the official system of record,
- Track complaint status and resolution through closure,
- Monitor stages and response times,
- Effectuate consistency in handling correspondence with similar issues,
- Perform quality control reviews, and
- Report performance metrics and other consumer information.

ORMIC validated the timeliness of the process by random selection of a complaint entered in the system and following it through from inception to completion. ORMIC concluded that DCP has an effective process in place to achieve its performance goal and targets; responding timely to written consumer complaints and inquiries, and makes consumer complaint information publicly available.

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
- 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—from the GAO's *Standards for 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 and ensuring that preventive and detective controls are present and working as intended. Examples of transactions more susceptible to fraud include contractor payments, wire transfers, travel card purchases, and cash receipts.

As part of the Framework, management identifies potential fraud areas and implements and evaluates key controls as proactive measures to prevent fraud. Although no system of internal control provides absolute assurance, the FDIC's system of internal control provides reasonable assurance that key controls are adequate and working as intended. Monitoring activities include supervisory approvals, management reporting, 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 2021, there was no systemic fraud identified within the FDIC.

Management Report on Final Actions

As required under the provisions of Section 5 of the Inspector General Act of 1978, amended, 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 actions taken by management on audit reports for the federal fiscal year period October 1, 2020, through September 30, 2021.

**Table 1:
Management Report on Final Action on Audits
with Disallowed Costs for Fiscal Year 2021**

(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 2021**

(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 2021**

Report No. and Issue Date	OIG Audit Recommendation	Management Action	Disallowed Costs
AUD-17-001 11/2/2016	OIG recommends that the CIO should review existing resource commitments and priorities for addressing data communications (DCOM) plan of actions & milestones (POA&Ms) and take appropriate steps to ensure they are addressed in a timely manner.	The OCIO worked with teams to develop risk tolerances levels for the FDIC Policy 19-001, on Management of POA&Ms, which reflect the level of risk associated with open POA&Ms, including the acceptable amount of time needed to address them. Substantial progress has been made in closing out several aging POA&Ms. Furthermore, an Integrated Project Team has been established to work with System Owners to ensure timely remediation of POA&Ms and to conduct root cause analyses to develop a revised process to prevent overdue POA&Ms that fall outside of tolerance levels. Status: Undergoing ORMIC Review	\$0

**Table 3:
Audit Reports Without Final Actions but with Management
Decisions over One Year Old for Fiscal Year 2021 (continued)**

Report No. and Issue Date	OIG Audit Recommendation	Management Action	Disallowed Costs
AUD-20-001 10/23/2019	OIG recommends that the CIO monitor employee and contractor compliance with policy requirements for properly safeguarding sensitive electronic and hardcopy information.	<p>The CIOO has established a plan, in coordination with relevant stakeholders, to monitor the security of hardcopy information in common areas via facility walkthroughs. This plan was implemented in phases starting with facility walkthroughs of common office areas. Using existing communications channels, the CIO reminded Division and Office leadership of policy requirements applicable to protecting sensitive electronic and hardcopy information by employees and contractors.</p> <p>Status: Undergoing ORMIC Review</p>	\$0

**Table 3:
Audit Reports Without Final Actions but with Management
Decisions over One Year Old for Fiscal Year 2021 (continued)**

Report No. and Issue Date	OIG Audit Recommendation	Management Action	Disallowed Costs
EVAL-20-001 10/28/2019	OIG recommends that the Deputy to the Chairman and Chief Operating Officer provide enhanced contract portfolio reports to FDIC executives, senior management, and the Board Directors.	<p>The Division of Information Technology (DIT), working with Division of Administration (DOA) Acquisition Services Branch (ASB), developed a report: Report of Increased/ Decreased Award Amounts for Contracts and TOs (Task Orders) to capture key data to enhance the analyses and reporting to support the contracting program. Additional changes have since been made to the data within the Report and to its format based on feedback received by ASB. FDIC met with the OIG staff to discuss these changes. DOA is assessing the need to add any additional information to the Report.</p> <p>Due Date: 6/30/2022</p>	\$0

**Table 3:
Audit Reports Without Final Actions but with Management
Decisions over One Year Old for Fiscal Year 2021 (continued)**

Report No. and Issue Date	OIG Audit Recommendation	Management Action	Disallowed Costs
<p>AUD-20-003 12/18/2019</p>	<p>OIG recommends that the CIO/CPO (Chief Privacy Officer) develop and provide privacy plans for all information systems containing PII consistent with OMB Circular A-130.</p>	<p>The FDIC Privacy Program has implemented a Privacy Continuous Monitoring (PCM) program that ensures that Privacy Plans are developed and approved for all information systems containing PII consistent with OMB Circular A-130. As indicated in the FDIC’s IT systems Assessment and Authorization Process Guide (A&A Guide), the identification, selection, and periodic assessment of privacy controls has been fully integrated within FDIC’s assessment and authorization process, which incorporates a risk management framework consistent with NIST 800-37. It guides and informs the categorization of Federal information and information systems; the selection, implementation, and assessment of security and privacy controls; the authorization of information systems and common controls; and the continuous monitoring of information systems.</p> <p>Status: Undergoing ORMIC Review</p>	<p>\$0</p>

**Table 3:
Audit Reports Without Final Actions but with Management
Decisions over One Year Old for Fiscal Year 2021 (continued)**

Report No. and Issue Date	OIG Audit Recommendation	Management Action	Disallowed Costs
AUD-20-003 12/18/2019 (continued)	OIG recommends that the CIO/CPO coordinate with the Chief Operating Officer (COO) to update policies and procedures to reflect the current organizational structure of the Privacy Program and responsibilities of agency personnel and component offices that support the FDIC’s Privacy Program.	<p>The CIOO has amended Privacy Program Directive (1360.20) which, upon finalization, will supersede this existing directive and will also supersede privacy program related directives: 1360.19 (Privacy Impact Assessment Requirements), 1311.1 (Measuring and Customizing User Activity on FDIC External Websites), and 1031.1 (Administration of the Privacy Act).</p> <p>Status: Undergoing ORMIC Review</p>	\$0

**Table 3:
Audit Reports Without Final Actions but with Management
Decisions over One Year Old for Fiscal Year 2021 (continued)**

Report No. and Issue Date	OIG Audit Recommendation	Management Action	Disallowed Costs
<p>AUD-20-003 12/18/2019 (continued)</p>	<p>OIG recommends that the CIO/CPO develop and implement controls to ensure that PII stored in network shared drives and in hard copy is regularly monitored and reviewed for compliance with privacy laws, regulations, policy and guidelines.</p>	<p>All employees and contractors were sent global emails containing important guidance on protecting sensitive information. Additionally, FDIC has implemented the Physical Walkthrough Plan. To monitor compliance with policy requirements for safeguarding sensitive electronic information, the CIOO has developed and implemented a Standard Operating Procedure (SOP). The SOP includes identifying network shares with overly broad permissions, coordinating with the owning division or office, and restricting permissions appropriately.</p> <p>Status: Undergoing ORMIC Review</p>	<p>\$0</p>

**Table 3:
Audit Reports Without Final Actions but with Management
Decisions over One Year Old for Fiscal Year 2021 (continued)**

Report No. and Issue Date	OIG Audit Recommendation	Management Action	Disallowed Costs
<p>EVAL-20-003 2/4/2020</p>	<p>OIG recommends that the FDIC establish, document, and implement policy and procedures for conducting cost benefit analyses, including when and how the cost benefit analyses will be performed.</p>	<p>DIR developed a corporate directive to ensure the robust and consistent application of the principles established in the Statement of Policy on the Development and Review of Regulations and Policies approved by the FDIC Board of Directors. The directive details the process for analyzing the potential effects of regulatory actions and outlines specific roles and responsibilities for FDIC staff, including when such analysis will be performed. In addition, DIR developed staff guidance on analysis of FDIC regulations as a resource for FDIC staff involved in agency regulatory actions. The guidance outlines general concepts and best practices for regulatory analysis for staff use when preparing evaluations of the expected effects, costs and benefits of FDIC regulatory actions, and discusses how the analysis will be performed.</p> <p>Due Date: 3/31/2022</p>	<p>\$0</p>

**Table 3:
Audit Reports Without Final Actions but with Management
Decisions over One Year Old for Fiscal Year 2021 (continued)**

Report No. and Issue Date	OIG Audit Recommendation	Management Action	Disallowed Costs
EVAL-20-003 2/4/2020 (continued)	<p>OIG recommends that the FDIC establish, document, and implement policy and procedures that clearly define the roles and responsibilities for the Regulatory Analysis Section (RAS), and early involvement for the RAS in participating in and framing the initial policy direction of a rule.</p> <p>OIG recommends that the FDIC establish, document, and implement policy and procedures that clearly define the Chief Economist’s roles and responsibilities for reviewing and concurring on cost benefit analyses performed.</p>	<p>The FDIC has drafted a corporate directive and procedures for these recommendations. The directive and guidance are currently under final review.</p> <p>Due Date: 3/31/2022</p> <p>The FDIC has drafted a corporate directive and procedures addressing these recommendations. The directive and guidance are currently under final review. The cost benefit directive and cost benefit analysis guidance will be implemented when the directive is issued and the guidance is finalized.</p> <p>Due Date: 3/31/2022</p>	\$0

**Table 3:
Audit Reports Without Final Actions but with Management
Decisions over One Year Old for Fiscal Year 2021 (continued)**

Report No. and Issue Date	OIG Audit Recommendation	Management Action	Disallowed Costs
EVAL-20-003 2/4/2020 (continued)	OIG recommends that the FDIC establish, document, and implement policy and procedures that address how cost benefit analyses and supporting information, such as scope and methodology, analyses, conclusions, and reconciliation to the Agency's final policy decision will be documented and published in the <i>Federal Register</i> to ensure transparency.	The FDIC has drafted a corporate directive and procedures addressing the recommendations. The directive and guidance are currently under final review. The cost benefit directive and cost benefit analysis guidance will be implemented when the directive is issued and the guidance is finalized. Due Date: 3/31/2022	\$0

**Table 3:
Audit Reports Without Final Actions but with Management
Decisions over One Year Old for Fiscal Year 2021 (continued)**

Report No. and Issue Date	OIG Audit Recommendation	Management Action	Disallowed Costs
EVAL-20-007 9/30/2020	OIG recommends that the Director, Division of Risk Management Supervision (RMS) train examiners on the importance of understanding and documenting the independence and qualifications of internal auditor(s), and reviewing internal audit work papers and results.	RMS has completed the development of the Wheatfield Bank case study. This case study is based on the Enloe State Bank In-Depth Review and highlights the importance of early identification of risk and the subsequent use of appropriate supervisory responses. Participants analyze and discuss how unresolved weaknesses could affect various areas of the fictional bank. Participants also assess the effectiveness of regulatory supervision and consider other actions the FDIC could have taken to encourage the Board to implement timely corrective action. Status: Subsequently closed.	\$0

**Table 3:
Audit Reports Without Final Actions but with Management
Decisions over One Year Old for Fiscal Year 2021 (continued)**

Report No. and Issue Date	OIG Audit Recommendation	Management Action	Disallowed Costs
EVAL-20-007 9/30/2020 (continued)	OIG recommends that the Director, RMS train examiners on the importance of adequate annual external financial audit coverage, and under what circumstances and with what justifications banks may obtain reviews in place of audits.	RMS has completed the development of the Wheatfield Bank case study. This case study is based on the Enloe State Bank In-Depth Review and highlights the importance of early identification of risk and the subsequent use of appropriate supervisory responses. Participants analyze and discuss how unresolved weaknesses could affect various areas of the fictional bank. Participants also assess the effectiveness of regulatory supervision and consider other actions the FDIC could have taken to encourage the Board to implement timely corrective action. Status: Subsequently closed.	\$0

**Table 3:
Audit Reports Without Final Actions but with Management
Decisions over One Year Old for Fiscal Year 2021 (continued)**

Report No. and Issue Date	OIG Audit Recommendation	Management Action	Disallowed Costs
EVAL-20-007 9/30/2020 (continued)	OIG recommends that the Director, RMS enhance case study training to incorporate the lessons learned from Enloe State Bank in regard to performing additional procedures related to the bank's loan related activity.	RMS has completed the development of the Wheatfield Bank case study. This case study is based on the Enloe State Bank In-Depth Review and highlights the importance of early identification of risk and the subsequent use of appropriate supervisory responses. Participants analyze and discuss how unresolved weaknesses could affect various areas of the fictional bank. Participants also assess the effectiveness of regulatory supervision and consider other actions the FDIC could have taken to encourage the Board to implement timely corrective action. Status: Subsequently closed.	\$0

**Table 3:
Audit Reports Without Final Actions but with Management
Decisions over One Year Old for Fiscal Year 2021 (continued)**

Report No. and Issue Date	OIG Audit Recommendation	Management Action	Disallowed Costs
<p>EVAL-20-007 9/30/2020 (continued)</p>	<p>OIG recommends that the Director, RMS train examiners on the importance of ensuring that information system user access controls be adequately tested.</p> <p>OIG recommends that the Director, RMS train examiners to perform additional procedures to determine the likelihood of fraud once a dominant official designation is made at a bank with a weak internal control environment.</p>	<p>RMS conducted nationwide training for all Commissioned Examiners, Case Managers, Commissioned Examination Specialists, and RMS Managers. The comprehensive training reinforces the principles of the existing statutory framework and supervisory guidance in its case study library as well as incorporating additional elements of fraud into its case study library.</p> <p>Status: Subsequently closed.</p> <p>RMS conducted nationwide training for all Commissioned Examiners, Case Managers, Commissioned Examination Specialists, and RMS Managers. The comprehensive training reinforces the principles of the existing statutory framework and supervisory guidance in its case study library as well as incorporating additional elements of fraud into its case study library.</p> <p>Status: Subsequently closed.</p>	<p>\$0</p>

**Table 3:
Audit Reports Without Final Actions but with Management
Decisions over One Year Old for Fiscal Year 2021 (continued)**

Report No. and Issue Date	OIG Audit Recommendation	Management Action	Disallowed Costs
EVAL-20-007 9/30/2020 (continued)	OIG recommends that the Director, RMS train examiners on indicators of fraud and how individual issues identified during an examination should be considered holistically to facilitate fraud detection.	RMS conducted nationwide training for all Commissioned Examiners, Case Managers, Commissioned Examination Specialists, and RMS Managers. The comprehensive training reinforces the principles of the existing statutory framework and supervisory guidance in its case study library as well as incorporating additional elements of fraud into its case study library. Status: Subsequently closed.	\$0

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VII.

APPENDICES

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A. Key Statistics

FDIC Actions on Financial Institutions Applications			
	2021	2020	2019
Deposit Insurance	15	18	15
Approved ¹	15	18	15
Denied	0	0	0
New Branches	493	430	548
Approved	493	430	548
Denied	0	0	0
Mergers	187	159	243
Approved	187	159	243
Denied	0	0	0
Requests for Consent to Serve²	47	79	87
Approved	47	78	87
Section 19	5	11	5
Section 32	42	67	82
Denied	0	1	0
Section 19	0	0	0
Section 32	0	1	0
Notices of Change in Control	34	17	12
Letters of Intent Not to Disapprove	34	17	12
Disapproved	0	0	0
Brokered Deposit Waivers	1	4	3
Approved	1	4	3
Denied	0	0	0
Savings Association Activities³	0	0	2
Approved	0	0	2
Denied	0	0	0
State Bank Activities/Investments⁴	25	31	20
Approved	25	31	20
Denied	0	0	0
Conversion of Mutual Institutions	4	2	4
Non-Objection	4	2	4
Objection	0	0	0

¹ Includes deposit insurance applications 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			
	2021	2020	2019
Total Number of Actions Initiated by the FDIC	99	169	183
Termination of Insurance	7	10	17
Involuntary Termination	0	0	0
Sec. 8a For Violations, Unsafe/Unsound Practices or Conditions	0	0	0
Voluntary Termination	7	10	17
Sec. 8a By Order Upon Request	0	0	0
Sec. 8p No Deposits	6	8	12
Sec. 8q Deposits Assumed	1	2	5
Sec. 8b Consent and Cease-and-Desist Actions	10	23	24
Notices of Charges Issued	1	1	1
Orders to Pay Restitution	0	0	0
Consent and Cease and Desist Orders	8	20	18
Personal Cease and Desist Orders	1	2	5
Sec. 8e Removal/Prohibition of Director or Officer	25	37	34
Notices of Intention to Remove/Prohibit	4	4	1
Consent Orders	21	33	33
Sec. 8g Suspension/Removal When Charged With Crime	0	0	0
Civil Money Penalties Actions	30	21	29
Sec. 7a Call Report Penalty Orders	0	0	0
Sec. 8i Flood Act and Civil Money Penalty Orders	26	16	27
Sec. 8i Civil Money Penalty Notices of Assessment	4	5	2
Sec. 10c Orders of Investigation	2	4	11
Sec. 19 Waiver Orders	24	74	64
Approved Section 19 Waiver Orders	24	74	64
Denied Section 19 Waiver Orders	0	0	0
Sec. 32 Notices Disapproving Officer/Director's Request for Review	0	0	0
Truth-in-Lending Act Reimbursement Actions	44	41	58
Denials of Requests for Relief	0	0	0
Grants of Relief	0	0	0
Banks Making Reimbursement ¹	44	41	58
Suspicious Activity Reports (Open and closed institutions)¹	360,121	299,887	225,270
Other Actions Not Listed²	1	0	4

¹ These actions do not constitute the initiation of a formal enforcement action and, therefore, are not included in the total number of actions initiated.

² The Other Actions Not Listed were, in 2021: 1 Supervisory Prompt Corrective Action Directive; in 2020: 0; in 2019: 3 Supervisory Prompt Corrective Action Directives and 1 Other Formal Action.

**Estimated Insured Deposits and the Deposit Insurance Fund,
December 31, 1934, through September 30, 2021¹**
Dollars in Millions (except Insurance Coverage)

Year	Insurance Coverage ²	Deposits in Insured Institutions ²				Insurance Fund as a Percentage of	
		Total Domestic Deposits	Est. Insured Deposits	Percentage of Domestic Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
2021	\$250,000	\$17,676,713	\$9,577,101	54.2	\$121,934.6	0.69	1.27
2020	250,000	16,339,032	9,123,046	55.8	117,896.8	0.72	1.29
2019	250,000	13,262,843	7,828,160	59.0	110,346.9	0.83	1.41
2018	250,000	12,659,406	7,525,204	59.4	102,608.9	0.81	1.36
2017	250,000	12,129,503	7,154,379	59.0	92,747.5	0.76	1.30
2016	250,000	11,693,371	6,915,663	59.1	83,161.5	0.71	1.20
2015	250,000	10,952,922	6,518,675	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

**Estimated Insured Deposits and the Deposit Insurance Fund,
December 31, 1934, through September 30, 2021¹ (continued)**
Dollars in Millions (except Insurance Coverage)

Year	Insurance Coverage ²	Deposits in Insured Institutions ²				Insurance Fund as a Percentage of	
		Total Domestic Deposits	Est. Insured Deposits	Percentage of Domestic Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
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
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

**Estimated Insured Deposits and the Deposit Insurance Fund,
December 31, 1934, through September 30, 2021¹ (continued)**
Dollars in Millions (except Insurance Coverage)

Year	Insurance Coverage ²	Deposits in Insured Institutions ²				Insurance Fund as a Percentage of	
		Total Domestic Deposits	Est. Insured Deposits	Percentage of Domestic Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
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
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

¹For 2021, 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 2021, figures are for DIF. Amounts for 1989-2021 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.

²The 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, 2021

Dollars in Millions

Year	Income					Expenses and Losses					
	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)
TOTAL	\$277,509.1	\$204,998.5	\$12,157.2	\$84,667.8		\$154,421.7	\$106,142.1	\$38,798.5	\$9,481.2	\$139.5	\$123,226.9
2021	8,153.4	7,080.2	0.0	1,073.2	0.0358%	1,705.3	(143.7)	1,842.7	6.3	0.0	6,448.1
2020	8,796.5	7,153.9	60.7	\$1,703.3	0.0395%	1,691.9	(157.3)	1,846.5	2.7	0.0	7,104.6
2019	7,095.3	5,642.7	703.6	2,156.2	0.0312%	513.2	(1,285.5)	1,795.6	3.1	0.0	6,582.1
2018	11,170.8	9,526.7	0.0	1,644.1	0.0626%	1,205.2	(562.6)	1,764.7	3.1	0.0	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	0.0	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	0.0	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	0.0	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	0.0	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	0.0	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)	0.0	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)	0.0	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)	0.0	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	0.0	(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	0.0	(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	0.0	2,105.3
2006	2,643.5	31.9	0.0	2,611.6	0.0005%	904.3	(52.1)	950.6	5.8	0.0	1,739.2
2005	2,420.5	60.9	0.0	2,359.6	0.0010%	809.3	(160.2)	965.7	3.8	0.0	1,611.2
2004	2,240.3	104.2	0.0	2,136.1	0.0019%	607.6	(353.4)	941.3	19.7	0.0	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	0.0	2,241.3
2002	2,384.7	107.8	0.0	2,276.9	0.0023%	719.6	(243.0)	945.1	17.5	0.0	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	0.0	(393.3)
2000	2,570.1	64.3	0.0	2,505.8	0.0016%	945.2	28.0	883.9	33.3	0.0	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	0.0	369.7
1998	2,584.6	37.0	0.0	2,547.6	0.0010%	817.5	(5.7)	782.6	40.6	0.0	1,767.1
1997	2,165.5	38.6	0.0	2,126.9	0.0011%	247.3	(505.7)	677.2	75.8	0.0	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	0.0	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	0.0	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	0.0	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	0.0	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)

Income and Expenses, Deposit Insurance Fund, from Beginning of Operations, September 11, 1933, through December 31, 2021 (continued)

Dollars in Millions

Year	Income					Expenses and Losses					
	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)
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	0.0	(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	0.0	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)	0.0	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	0.0	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	0.0	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	0.0	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	0.0	1,524.8
1981	2,074.7	1,039.0	117.1	1,152.8	0.0714%	848.1	320.4	127.2	400.5	0.0	1,226.6
1980	1,310.4	951.9	521.1	879.6	0.0370%	83.6	(38.1)	118.2	3.5	0.0	1,226.8
1979	1,090.4	881.0	524.6	734.0	0.0333%	93.7	(17.2)	106.8	4.1	0.0	996.7
1978	952.1	810.1	443.1	585.1	0.0385%	148.9	36.5	103.3	9.1	0.0	803.2
1977	837.8	731.3	411.9	518.4	0.0370%	113.6	20.8	89.3	3.5	0.0	724.2
1976	764.9	676.1	379.6	468.4	0.0370%	212.3	28.0	180.4 ⁴	3.9	0.0	552.6
1975	689.3	641.3	362.4	410.4	0.0357%	97.5	27.6	67.7	2.2	0.0	591.8
1974	668.1	587.4	285.4	366.1	0.0435%	159.2	97.9	59.2	2.1	0.0	508.9
1973	561.0	529.4	283.4	315.0	0.0385%	108.2	52.5	54.4	1.3	0.0	452.8
1972	467.0	468.8	280.3	278.5	0.0333%	65.7	10.1	49.6	6.0 ⁵	0.0	401.3
1971	415.3	417.2	241.4	239.5	0.0345%	60.3	13.4	46.9	0.0	0.0	355.0
1970	382.7	369.3	210.0	223.4	0.0357%	46.0	3.8	42.2	0.0	0.0	336.7
1969	335.8	364.2	220.2	191.8	0.0333%	34.5	1.0	33.5	0.0	0.0	301.3
1968	295.0	334.5	202.1	162.6	0.0333%	29.1	0.1	29.0	0.0	0.0	265.9
1967	263.0	303.1	182.4	142.3	0.0333%	27.3	2.9	24.4	0.0	0.0	235.7
1966	241.0	284.3	172.6	129.3	0.0323%	19.9	0.1	19.8	0.0	0.0	221.1
1965	214.6	260.5	158.3	112.4	0.0323%	22.9	5.2	17.7	0.0	0.0	191.7
1964	197.1	238.2	145.2	104.1	0.0323%	18.4	2.9	15.5	0.0	0.0	178.7
1963	181.9	220.6	136.4	97.7	0.0313%	15.1	0.7	14.4	0.0	0.0	166.8
1962	161.1	203.4	126.9	84.6	0.0313%	13.8	0.1	13.7	0.0	0.0	147.3
1961	147.3	188.9	115.5	73.9	0.0323%	14.8	1.6	13.2	0.0	0.0	132.5
1960	144.6	180.4	100.8	65.0	0.0370%	12.5	0.1	12.4	0.0	0.0	132.1
1959	136.5	178.2	99.6	57.9	0.0370%	12.1	0.2	11.9	0.0	0.0	124.4
1958	126.8	166.8	93.0	53.0	0.0370%	11.6	0.0	11.6	0.0	0.0	115.2
1957	117.3	159.3	90.2	48.2	0.0357%	9.7	0.1	9.6	0.0	0.0	107.6
1956	111.9	155.5	87.3	43.7	0.0370%	9.4	0.3	9.1	0.0	0.0	102.5
1955	105.8	151.5	85.4	39.7	0.0370%	9.0	0.3	8.7	0.0	0.0	96.8
1954	99.7	144.2	81.8	37.3	0.0357%	7.8	0.1	7.7	0.0	0.0	91.9
1953	94.2	138.7	78.5	34.0	0.0357%	7.3	0.1	7.2	0.0	0.0	86.9

Income and Expenses, Deposit Insurance Fund, from Beginning of Operations, September 11, 1933, through December 31, 2021 (continued)

Dollars in Millions

Year	Income					Expenses and Losses					
	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)
1952	88.6	131.0	73.7	31.3	0.0370%	7.8	0.8	7.0	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	0.0	76.9
1950	84.8	122.9	68.7	30.6	0.0370%	7.8	1.4	6.4	0.0	0.0	77.0
1949	151.1	122.7	0.0	28.4	0.0833%	6.4	0.3	6.1	0.0	0.0	144.7
1948	145.6	119.3	0.0	26.3	0.0833%	7.0	0.7	6.3 ⁶	0.0	0.0	138.6
1947	157.5	114.4	0.0	43.1	0.0833%	9.9	0.1	9.8	0.0	0.0	147.6
1946	130.7	107.0	0.0	23.7	0.0833%	10.0	0.1	9.9	0.0	0.0	120.7
1945	121.0	93.7	0.0	27.3	0.0833%	9.4	0.1	9.3	0.0	0.0	111.6
1944	99.3	80.9	0.0	18.4	0.0833%	9.3	0.1	9.2	0.0	0.0	90.0
1943	86.6	70.0	0.0	16.6	0.0833%	9.8	0.2	9.6	0.0	0.0	76.8
1942	69.1	56.5	0.0	12.6	0.0833%	10.1	0.5	9.6	0.0	0.0	59.0
1941	62.0	51.4	0.0	10.6	0.0833%	10.1	0.6	9.5	0.0	0.0	51.9
1940	55.9	46.2	0.0	9.7	0.0833%	12.9	3.5	9.4	0.0	0.0	43.0
1939	51.2	40.7	0.0	10.5	0.0833%	16.4	7.2	9.2	0.0	0.0	34.8
1938	47.7	38.3	0.0	9.4	0.0833%	11.3	2.5	8.8	0.0	0.0	36.4
1937	48.2	38.8	0.0	9.4	0.0833%	12.2	3.7	8.5	0.0	0.0	36.0
1936	43.8	35.6	0.0	8.2	0.0833%	10.9	2.6	8.3	0.0	0.0	32.9
1935	20.8	11.5	0.0	9.3	0.0833%	11.3	2.8	8.5	0.0	0.0	9.5
1933-34	7.0	0.0	0.0	7.0	N/A	10.0	0.2	9.8	0.0	0.0	(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 2021 is based on full year assessment income divided by a four quarter average of 2021 quarterly assessment base amounts. The assessment base for fourth quarter 2021 was estimated using the third quarter 2021 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.

APPENDICES

- 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 were 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 cents per \$100 (which is shown in the table).
- 2019 Assessment income for 2019 included small bank credits of \$703.6 million.
- 2020 Assessment income for 2020 included small bank credits of \$60.7 million.

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 123 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.

Assets and Deposits of Failed or Assisted Insured Institutions and Losses to the Deposit Insurance Fund, 1934 - 2021

Dollars in Thousands

Bank and Thrift Failures ¹				
Year ²	Number of Banks/ Thrifts	Total Assets ³	Total Deposits ³	Losses to the Fund ⁴
Total	2,631	\$947,307,165	\$713,862,572	\$105,132,739
2021	0	0	0	0
2020	4	454,986	437,138	95,259
2019	4	208,767	\$190,547	27,197
2018	0	0	0	0
2017	8	5,081,737	4,683,360	1,083,350
2016	5	277,182	268,516	42,474
2015	8	6,706,038	4,870,464	859,244
2014	18	2,913,503	2,691,485	378,362
2013	24	6,044,051	5,132,246	1,204,884
2012	51	11,617,348	11,009,630	2,385,085
2011	92	34,922,997	31,071,862	6,392,952
2010 ⁵	157	92,084,988	78,290,185	15,810,119
2009 ⁵	140	169,709,160	137,835,208	25,963,909
2008 ⁵	25	371,945,480	234,321,715	17,805,073
2007	3	2,614,928	2,424,187	157,440
2006	0	0	0	0
2005	0	0	0	0
2004	4	170,099	156,733	3,917
2003	3	947,317	901,978	62,647
2002	11	2,872,720	2,512,834	413,989
2001	4	1,821,760	1,661,214	292,465
2000	7	410,160	342,584	32,138
1999	8	1,592,189	1,320,573	586,027
1998	3	290,238	260,675	221,606
1997	1	27,923	27,511	5,026
1996	6	232,634	230,390	60,615
1995	6	802,124	776,387	84,472
1994	13	1,463,874	1,397,018	179,051
1993	41	3,828,939	3,509,341	632,646
1992	120	45,357,237	39,921,310	3,674,149
1991	124	64,556,512	52,972,034	6,001,595
1990	168	16,923,462	15,124,454	2,771,489
1989	206	28,930,572	24,152,468	6,195,286
1988	200	38,402,475	26,524,014	5,377,497
1987	184	6,928,889	6,599,180	1,862,492
1986	138	7,356,544	6,638,903	1,682,538
1985	116	3,090,897	2,889,801	648,179
1934 - 1984	729	16,719,435	12,716,627	2,139,567

Assets and Deposits of Failed or Assisted Insured Institutions and Losses to the Deposit Insurance Fund, 1934 - 2021 (continued)

Dollars in Thousands

Assistance Transactions				
Year ²	Number of Banks/ Thrifts	Total Assets ³	Total Deposits ³	Losses to the Fund ⁴
	154	\$3,317,099,253	\$1,442,173,417	\$5,430,481
2010 - 2021	0	0	0	0
2009 ⁶	8	1,917,482,183	1,090,318,282	0
2008 ⁶	5	1,306,041,994	280,806,966	0
1993 - 2007	0	0	0	0
1992	2	33,831	33,117	250
1991	3	78,524	75,720	3,024
1990	1	14,206	14,628	2,338
1989	1	4,438	6,396	2,296
1988	80	15,493,939	11,793,702	1,540,642
1987	19	2,478,124	2,275,642	160,164
1986	7	712,558	585,248	93,179
1985	4	5,886,381	5,580,359	359,056
1984	2	40,470,332	29,088,247	1,116,275
1983	4	3,611,549	3,011,406	337,683
1982	10	10,509,286	9,118,382	1,042,784
1981	3	4,838,612	3,914,268	772,790
1980	1	7,953,042	5,001,755	0
1934 - 1979	4	1,490,254	549,299	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 2021, figures are for the DIF.

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

⁴ Losses to the fund include final and estimated losses. 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.

⁵ Includes amounts related to transaction account coverage under the Transaction Account Guarantee Program (TAG). The estimated losses as of December 31, 2021, for TAG accounts in 2010, 2009, and 2008 are \$362 million, \$1.1 billion, and \$12 million, respectively.

⁶ Includes institutions where assistance was provided under a systemic risk determination.

B. More About the FDIC

FDIC BOARD OF DIRECTORS



Jelena McWilliams

Jelena McWilliams was sworn in as the 21st Chairman of the FDIC on June 5, 2018. She serves a six-year term on the FDIC Board of Directors, and is 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. At Fifth Third Bank she served as a member of the executive management team and numerous bank committees including: Management Compliance, Enterprise Risk, Risk and

Compliance, Operational Risk, Enterprise Marketing, and Regulatory Change.

Prior to joining Fifth Third Bank, Ms. McWilliams worked in the U.S. 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, where she drafted consumer protection regulations, reviewed and analyzed comment letters on regulatory proposals, and responded to consumer complaints.

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. In legal practice, Ms. McWilliams advised management and boards of directors on corporate governance, compliance, and reporting requirements under the Securities Act of 1933 and the Securities Exchange Act of 1934. She also represented publicly- and privately-held companies in mergers and acquisitions, securities offerings, strategic business ventures, venture capital investments, and general corporate matters.

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.

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Martin J. Gruenberg

Martin J. Gruenberg has been the Acting Chairman of the FDIC Board of Directors since February 5, 2022. Since mid-2018, he has served as a member of the FDIC Board. Prior to that time, Mr. Gruenberg also served as 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 2005, until his confirmation as Chairman. He served as Acting Chairman from July 2011 to November 2012, and also from November 2005 to June 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. He also served as Staff Director of the Banking Committee's Subcommittee on International Finance and Monetary Policy from 1987 to 1992.

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.

In addition, Mr. Gruenberg served as Chairman of the Federal Financial Institutions Examination Council from April 2017 to June 2018.

Since June 2019, Mr. Gruenberg has served as Chairman of the Board of Directors of the Neighborhood Reinvestment Corporation (NeighborWorks America), and he has been a member of the Board since April 2018.

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.



Michael J. Hsu

Michael J. Hsu became Acting Comptroller of the Currency on May 10, 2021, upon his designation as First Deputy Comptroller by Secretary of the Treasury Janet Yellen pursuant to her authority under 12 U.S.C. 4.

As Acting Comptroller of the Currency, Mr. Hsu is the administrator of the federal banking system and chief executive officer of the Office of the Comptroller of the Currency (OCC). The OCC ensures that the federal banking system operates in a safe and sound manner, provides fair access to financial services, treats customers fairly, and complies with applicable laws and regulations. It supervises nearly 1,200 national banks, federal savings associations, and federal branches and agencies of foreign banks that serve consumers, businesses, and communities across the United States and conducts approximately 70 percent of banking activity in the country. These banks range from community banks serving local neighborhood needs to the nation's largest most internationally active banks.

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

Prior to joining the OCC, Mr. Hsu served as an Associate Director in the Division of Supervision and Regulation at the Federal Reserve Board of Governors. In that role, he chaired the Large Institution Supervision Coordinating Committee Operating Committee, which has responsibility for supervising the global systemically important banking companies operating in the United States. He co-chaired the Federal Reserve's Systemic Risk Integration Forum, served as a member of the Basel Committee Risk and Vulnerabilities Group, and co-sponsored forums promoting interagency coordination with foreign and domestic financial regulatory agencies.

His career has included serving as a Financial Sector Expert at the International Monetary Fund, Financial Economist at the U.S. Department of the Treasury helping to establish the Troubled Asset Relief Program, and Financial Economist at the Securities and Exchange Commission overseeing the largest securities firms.

Mr. Hsu began his career in 2002 as a staff attorney in the Federal Reserve Board's Legal Division. He holds of a bachelor of arts from Brown University, a master of science in finance from George Washington University, and juris doctor degree from New York University School of Law.



Rohit Chopra

Rohit Chopra was confirmed as Director of the Consumer Financial Protection Bureau on October 12, 2021. The CFPB is a unit of the Federal Reserve System charged with protecting families and honest businesses from illegal practices by financial institutions, and ensuring that markets for consumer financial products and services are fair, transparent, and competitive.

In 2018, Mr. Chopra was unanimously confirmed by the U.S. Senate as a Commissioner on the Federal Trade Commission, where he served until assuming office as CFPB Director. During his tenure at the FTC, he successfully worked to strengthen sanctions against repeat offenders, to reverse the agency's reliance on no-money, no-fault settlements in fraud cases, and to halt abuses of small businesses. He also led efforts to revitalize dormant authorities, such as those to protect the Made in USA label and to promote competition.

Mr. Chopra previously served at the CFPB from 2010 to 2015. In 2011, the Secretary of the Treasury designated him as the agency's student loan ombudsman, where he led the Bureau's efforts on student lending issues. Prior to his government service, Mr. Chopra worked at McKinsey & Company, the global management consultancy, where he consulted in the financial services, health care, and consumer technology sectors.

Mr. Chopra holds a BA from Harvard University and an MBA from the Wharton School at the University of Pennsylvania.

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Blake Paulson

Blake Paulson resigned from the FDIC Board of Directors as of May 10, 2021. Mr. Paulson had been an Acting FDIC Board member since January 14, 2021.



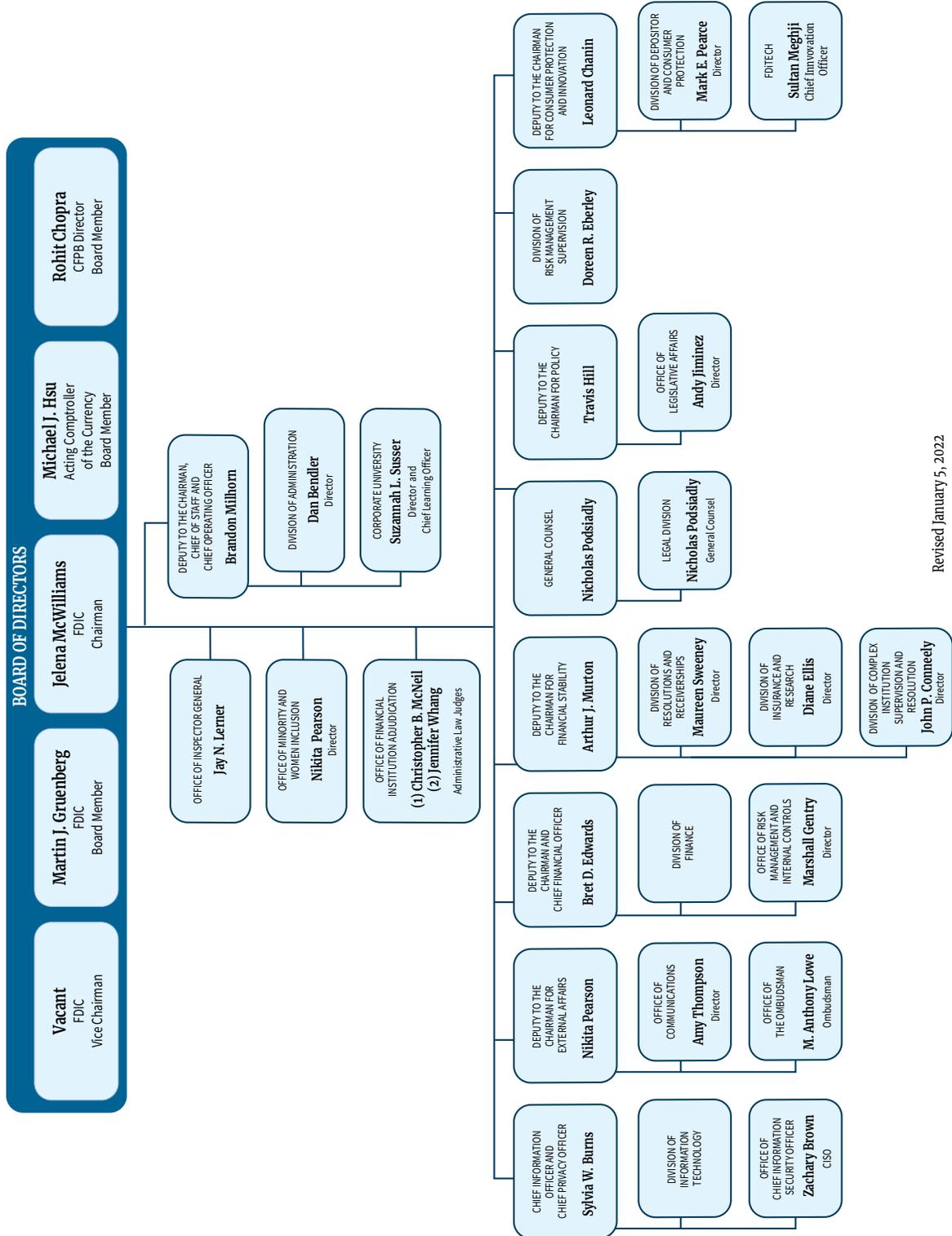
Dave Uejio

Dave Uejio resigned from the FDIC Board of Directors as of October 12, 2021. Mr. Uejio had been an Acting FDIC Board member since January 20, 2021.

Subsequent Event:

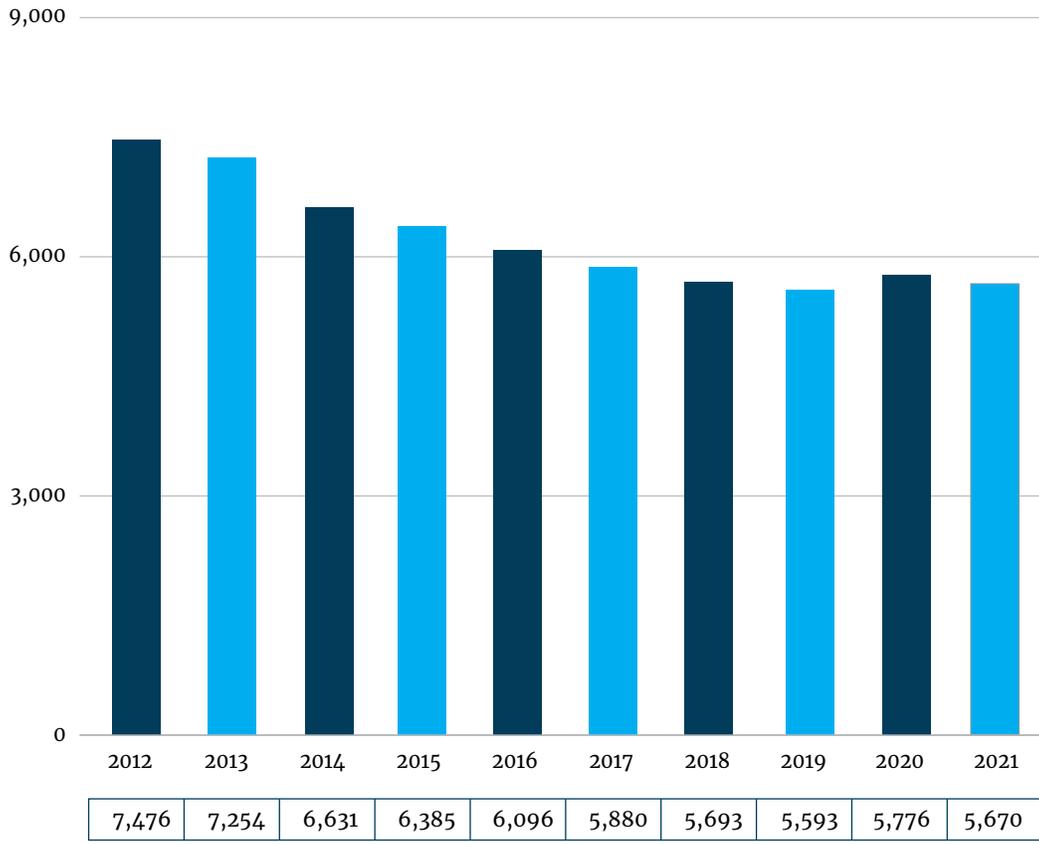
Jelena McWilliams resigned from the FDIC Board of Directors effective February 4, 2022. Director Martin Gruenberg was named Acting FDIC Chairman effective February 5, 2022.

FDIC Organizational Chart



Revised January 5, 2022

CORPORATE STAFFING TRENDS



FDIC Year-End Staffing

Note: 2012-2021 staffing totals reflect year-end full time equivalent staff.

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Number of Employees by Division/Office (Year-End) ¹						
Division or Office:	Total		Washington		Regional/Field	
	2021	2020	2021	2020	2021	2020
Division of Risk Management Supervision	2,484	2,559	159	152	2,325	2,407
Division of Depositor and Consumer Protection	787	818	115	116	672	702
Legal Division	440	438	295	293	145	145
Division of Administration	375	370	269	264	106	106
Division of Resolutions and Receiverships	317	343	90	96	228	248
Division of Information Technology	284	299	225	234	59	65
Division of Complex Institution Supervision and Resolution	280	258	130	125	150	133
Division of Insurance and Research	199	205	163	166	36	39
Division of Finance	134	154	131	150	3	4
Executive Support Offices ²	103	67	92	58	11	9
Corporate University	65	63	57	56	8	7
Office of the Chief Information Security Officer	49	48	49	48	0	0
Executive Offices ³	21	25	21	25	0	0
Office of Inspector General	132	130	84	79	48	51
TOTAL	5,670	5,776	1,879	1,860	3,792	3,916

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 Includes the Offices of the Legislative Affairs, Communications, Ombudsman, FDITECH, Financial Adjudication, Minority and Women Inclusion, and Risk Management and Internal Controls.

³ Includes the Offices of the Chairman, Vice Chairman, Director (Appointive), Chief Operating Officer, Chief Financial Officer, Chief Information Officer, Consumer Protection and Innovation, External Affairs, Policy, and Financial Stability.

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.

APPENDICES

PUBLIC INFORMATION CENTER

3501 Fairfax Drive
Room E-1021
Arlington, VA 22226

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

Regional and Area Offices

ATLANTA REGIONAL OFFICE

Frank Hughes, Acting Regional Director
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Suite 800
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(678) 916-2200

States represented:

Alabama
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Georgia
North Carolina
South Carolina
Virginia
West Virginia

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Kentucky
Michigan
Ohio
Wisconsin

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Colorado
Louisiana
Mississippi
New Mexico
Oklahoma
Tennessee
Texas

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Kansas
Minnesota
Missouri
Nebraska
North Dakota
South Dakota

APPENDICES

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350 Fifth Avenue
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States represented:

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District of Columbia
Maryland
New Jersey
New York
Pennsylvania

BOSTON AREA OFFICE

Jessica Kaemingk, Acting Regional Director
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Braintree, Massachusetts 02184
(781) 794-5500

States and territories represented:

Connecticut
Maine
Massachusetts
New Hampshire
Puerto Rico
Rhode Island
Vermont
Virgin Islands

SAN FRANCISCO REGIONAL OFFICE

Kathy L. Moe, Regional Director
25 Jessie Street at Ecker Square
Suite 2300
San Francisco, California 94105
(415) 546-0160

States and territories represented:

Alaska
American Samoa
Arizona
California
Federated States of Micronesia
Guam
Hawaii
Idaho
Montana
Nevada
Oregon
Utah
Washington
Wyoming



Top Management and Performance Challenges Facing the Federal Deposit Insurance Corporation

February 2022

☆☆☆☆☆☆☆☆
Federal Deposit Insurance Corporation
Office of Inspector General



Date: February 17, 2022

Memorandum To: Board of Directors

A handwritten signature in black ink that reads "Jay N. Lerner".

From: Jay N. Lerner
Inspector General

Subject | Top Management and Performance Challenges Facing the Federal Deposit Insurance Corporation

The Office of Inspector General (OIG) presents its annual assessment of the Top Management and Performance Challenges facing the Federal Deposit Insurance Corporation (FDIC). This document summarizes the most serious challenges facing the FDIC and briefly assesses the Agency's progress to address them.

This Challenges document is based on the OIG's experience and observations from our oversight work, reports by other oversight bodies, review of academic and relevant literature, perspectives from Government agencies and officials, and information from private-sector entities. In several instances, we discuss topic areas where the OIG had previously conducted work to evaluate, audit, and review the FDIC's progress in these Challenge areas.

We identified nine Top Challenges facing the FDIC. This document incorporates and consolidates discussions of the risks identified in prior years and updates our assessments with respect to current conditions and circumstances. This year, we added a new Challenge regarding the FDIC's collection, analysis, and use of data, and we highlighted the importance of governance to ensure the effective execution of the FDIC's mission.

The Top Challenges facing the FDIC include:

1. The FDIC's Readiness for Crises;
2. Cybersecurity for Banks and Third-Party Service Providers;
3. Supporting Underserved Communities in Banking;
4. Organizational Governance at the FDIC;
5. Information Technology Security at the FDIC;
6. Security and Privacy at the FDIC;
7. The FDIC's Collection, Analysis, and Use of Data;
8. Contracting and Supply Chain Management at the FDIC; and
9. Human Resources at the FDIC.

We believe that this researched and deliberative analysis is beneficial and constructive for policy makers, including the FDIC Board and officials, as well as Congressional oversight bodies. We further hope that it is informative for the American people regarding the programs and operations at the FDIC and the Challenges it faces.

Executive Summary

The FDIC plays a unique and vital role in support of the U.S. financial system. The FDIC insures approximately \$9.5 trillion in bank deposits at over 4,900 banks, supervises and examines more than 3,200 banks, oversees over \$123 billion in the Deposit Insurance Fund (DIF) that protects bank depositor accounts, and resolves failed and failing banks.

This Top Management and Performance Challenges (TMPC) document summarizes the most serious challenges facing the FDIC and briefly assesses the Agency's progress to address them, in accordance with the Reports Consolidation Act of 2000 and Office of Management and Budget Circular A-136 (revised August 10, 2021). This TMPC report is based on the OIG's experience and observations from our oversight work, reports by other oversight bodies, review of academic and relevant literature, perspectives from Government agencies and officials, and information from private-sector entities.

To compile this document, we considered comments from the FDIC, and while exercising our independent judgment, we incorporated suggestions where appropriate. We acknowledge several instances where the FDIC has taken steps to address the Challenge, particularly where the Agency has implemented concrete actions that demonstrate a direct relationship towards achieving a desired outcome. We also recognize that there may be other ongoing plans and intentions for future activities that might still be under development at the time of this writing.

We identified nine Top Challenges facing the FDIC:

The FDIC's Readiness for Crises. The FDIC must be prepared for all crises, because of its unique role in overseeing and administering the DIF, which insures the bank accounts of millions of depositors and consumers. The FDIC faces Challenges in fully developing its plans to respond to an unfolding crisis. Further, the FDIC should consider climate-related risks with respect to the report issued by the Financial Stability Oversight Council, and whether it will take actions in response to the report's recommendations in preparing its supervisory and examination processes. The FDIC should also be ready to respond to evolving risks associated with the current pandemic and other crises, including supervising and examining Government-guaranteed loans at banks and related fraud risks.

Cybersecurity for Banks and Third-Party Service Providers. Cybersecurity has been identified as the most significant threat to the banking sector and the critical infrastructure of the United States. The FDIC faces Challenges to ensure that examiners have the appropriate skillsets and knowledge to conduct information technology examinations that adequately identify and mitigate cybersecurity risks at banks and their third-party service providers (TSP). Further, the FDIC should establish a process to receive, analyze, and act on reports of significant cyber incidents at banks in order to adjust supervisory strategies, policies, and training for bank examiners; to warn other banks of such threats; and to prepare for potential bank failures. Mitigating cybersecurity risk is critical as a cyber incident at one bank or TSP has the potential to cause contagion within the financial sector. The FDIC also should assess the risks to banks presented by crypto assets, particularly with respect to the anonymous nature of these assets and the increased risk of money laundering and other wrongdoing.

Supporting Underserved Communities in Banking. The FDIC should ensure that its programs – including those that support Minority Depository Institutions and Community Development Financial Institutions -- are effectively designed to foster financial inclusion and reduce the number of unbanked and underbanked individuals. Further, the FDIC's examinations should continue to ensure that banks are in compliance with regulations that

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combat discriminatory lending practices against low-income borrowers and minority populations. The FDIC also should ensure that its examiners have the skills, capabilities, and procedures to assess the effect of banks' use of artificial intelligence in decision-making and minimize any undue bias related to the algorithms or historical data used.

Organizational Governance at the FDIC. Effective governance allows FDIC Board members and senior FDIC officials to manage the affairs of the Agency and its risks, formulate regulatory policy, and provide clear guidance to banks and FDIC Regional Offices. Through these processes, the FDIC can allocate resources, prioritize and improve the flow of risk information to decision-makers, and work towards achieving the FDIC's mission. The FDIC faces Challenges in providing clarity concerning the submission of motions presented to the Board of Directors for consideration and approval. Further, the FDIC should ensure that the Board, through its Audit Committee, can oversee and manage the risks identified and monitored through its Enterprise Risk Management Program. The FDIC also should clarify under what circumstances and which portions or provisions of Executive Branch policies or guidance are to be followed. In addition, the FDIC should ensure that weaknesses in FDIC programs are corrected and recommendations are addressed in a timely manner. FDIC rulemaking and guidance should also be aligned with other regulators to ensure that banks are not treated differently depending upon their primary regulator. FDIC internal guidance also should be clearly defined to ensure consistent application of FDIC program requirements. In addition, FDIC rulemaking should be a transparent process that analyzes the need for safety and soundness regulations and the compliance burden placed on banks.

Information Technology Security at the FDIC. The FDIC relies on its IT systems for day-to-day activities and especially during crises. The FDIC continues to face Challenges to ensure that it has strong information security processes to guard against persistent and increasing cyber threats against Federal agencies. Security control weaknesses of FDIC systems limit the effectiveness of FDIC controls, which places the confidentiality, integrity, and availability of FDIC systems and data at risk. The FDIC should address its outstanding corrective actions related to IT security controls, management of privileged Administrative Accounts, and oversight and monitoring of information systems. Further, the FDIC should ensure that it establishes effective security controls for its mobile devices and for the automated systems that monitor and control critical building services at facilities.

Security and Privacy at the FDIC. The FDIC employs a workforce of approximately 5,800 employees and 1,600 contract personnel at 92 FDIC facilities throughout the country, and it is custodian of 76 IT systems and voluminous hard-copy records. The FDIC should continue to manage risks associated with its personnel security and suitability processes to ensure that employees and contractors undergo appropriate and timely investigations and re-investigations commensurate with their positions. As well, the FDIC should maintain its risk-based physical security program and ensure that its policies promote an FDIC work environment that is free from discrimination, harassment, and retaliation. Further, the FDIC should have effective programs to safeguard all forms of sensitive and Personally Identifiable Information in its possession.

The FDIC's Collection, Analysis, and Use of Data. Data and information can enhance capabilities to mitigate threats against banks and the U.S. financial system. The FDIC faces Challenges in establishing effective processes to govern its sharing of threat information to guide the supervision of financial institutions. Effective sharing of threat information helps the FDIC to protect the DIF and the financial system by building situational awareness; supporting risk-informed decision-making; and influencing supervisory strategies, policies, and training.

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The FDIC should establish a written governance structure and implement a Charter to establish a common understanding of its Threat Information Sharing program and define an overall strategy and requirements for it. Further, the FDIC should develop goals, objectives, and measures to guide the performance of its Intelligence Support Program, and it should establish adequate policies and procedures to define roles and responsibilities. The FDIC faces Challenges in the four component functions of Threat Information Sharing – acquisition, analysis, dissemination, and feedback. Further, the FDIC should improve the reliability of its internal data to ensure that the FDIC Board and senior officials can depend upon the data to assess program effectiveness throughout the organization.

Contracting and Supply Chain Management at the FDIC. The FDIC awarded over \$2 billion in contracts for goods and services in 2021 in support of its mission. The FDIC faces Challenges to establish an effective contract management program that ensures the FDIC receives goods and services according to contract terms, price, and timeframes. Further, the FDIC should have processes in place to identify and ensure heightened monitoring of contracts for Critical Functions, so that the Agency maintains control of its mission functions and prevents over-reliance on contractors. The FDIC also should have programs in place to manage and mitigate security risks associated with the supply chains for contracted goods and services. Further, the FDIC should ensure notifications to contractors and sub-contractor personnel, so that they are advised about and aware of their whistleblower rights and protections, and that they know how to report allegations of misconduct, violations, and gross mismanagement.

Human Resources at the FDIC. The FDIC relies on the talents and skills of its employees to achieve its mission, and it faces Challenges in managing its human capital lifecycle. At the present time, nearly 25 percent of the FDIC workforce is eligible to retire, and this figure climbs to nearly 40 percent by 2026. These figures include personnel in key divisions supporting the FDIC mission – including the Division of Resolutions and Receiverships (over 59 percent by 2026); Division of Finance (over 55 percent by 2026); Legal Division (over 51 percent by 2026); and Division of Administration (about 49 percent by 2026). Further, the FDIC should continue to improve its program for the retention of employees, as well as the collection and analysis of relevant personnel data. In addition, the FDIC should continue to ensure diversity and inclusion among its workforce. Absent effective human capital management, the FDIC may lose valuable knowledge and leadership skill sets upon the departure of experienced examiners, managers, and executives. Meeting these Challenges is especially important as the FDIC shifts its operations to a hybrid work environment.

FDIC's Readiness for Crises

Key Areas of Concern

The primary areas of concern for this Challenge on Crisis Readiness are:

- Improving the Crisis Readiness framework at the FDIC and coordination with other financial regulators;
- Addressing climate-related risks to banks; and
- Supervising and examining banks for the risks associated with Government-guaranteed loans and fraud.

The OIG has identified Crisis Readiness as a Top Challenge for the FDIC since 2018.

The Financial Stability Oversight Council (FSOC), in its [2021 Annual Report](#) (December 2021), stated that the “risks to U.S. financial stability today are elevated compared to before the pandemic.” The FSOC Annual Report further indicated that “[s]ome episodes in financial markets [in 2021] generated unusually high volatility. . . . Vulnerabilities include structural weakness in the financial system and its regulatory framework. Vulnerabilities in the financial system can amplify the impact of an initial shock, potentially leading to substantial disruptions in the provision of financial services.” The FDIC should continue its efforts to be prepared for a wide range of crises that could affect bank operations, including cybersecurity threats, natural disasters, climate change, money laundering, and terrorism.

Improving the Crisis Readiness Framework at the FDIC and Coordination with Other Financial Regulators

The FDIC should fortify its operations and activities to address risks through the implementation of its Crisis Readiness plans. The FDIC should have agile

supervisory processes to address risks stemming from crises, including climate-related risks.

In our OIG report, [The FDIC's Readiness for Crises](#) (April 2020), we found that the FDIC did not have documented Agency policy and procedures for a crisis readiness planning process; did not have an Agency-wide all-hazards readiness plan nor Agency-wide hazard-specific readiness plans; and did not train personnel on the plans' contents. The FDIC needed to fully establish seven elements of crisis readiness to be prepared to respond to any type of crisis that may impact the banking system: (1) policies and procedures; (2) plans; (3) training; (4) exercises; (5) lessons learned; (6) maintenance; and (7) assessment and reporting.

Based upon the findings in our report, the FDIC has taken several steps to institute crisis planning policies and procedures and has established a new Crisis Readiness & Response Section within the Division of Administration. While most of our recommendations have been implemented, the FDIC has yet to implement an important recommendation from our report issued in April 2020: to establish and implement Agency-wide hazard-specific readiness plans. Hazard-specific plans address special response procedures that may be unique to a particular hazard. The FDIC plans to implement this recommendation by March 2022.

In addition, the FDIC should coordinate with FSOC and its member agencies on Crisis Readiness planning. Both the Government Accountability Office (GAO) and the International Monetary Fund (IMF) have recommended that FSOC enhance its crisis preparedness role.¹ In particular, the IMF stated that FSOC “should devote greater attention to ensuring that the [Federal banking regulatory agencies] and the

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Treasury have comprehensive and complementary organization-wide preparedness plans.” FSOC’s mandate includes responding to emerging financial stability threats and serving as a forum for coordination among its member agencies. As noted by the IMF, this design of FSOC allows for “collective crisis preparation to ensure decisive and coordinated responses from the entire FSOC community.”

The Council of Inspectors General on Financial Oversight (CIGFO)² is preparing a guidance document for FSOC that is a compilation of information and activities that are integral to pre-crisis planning and crisis management. Once issued, the CIGFO Guidance may be used to assist FSOC in fulfilling its coordination role and help identify risks to the financial stability of the United States by considering: (i) the type of crisis planning materials that are available for collection and dissemination to and from member agencies; (ii) the threats posed to financial stability relating to potential gaps in crisis planning activities; and (iii) prioritizing crisis planning. In addition, the Guidance will provide useful information to member agencies about crisis readiness practices in order to improve preparedness procedures; identify potential gaps in readiness plans; and assist in managing future crises. The FDIC, as a member agency of FSOC, is in a position to support and advance this interagency effort.

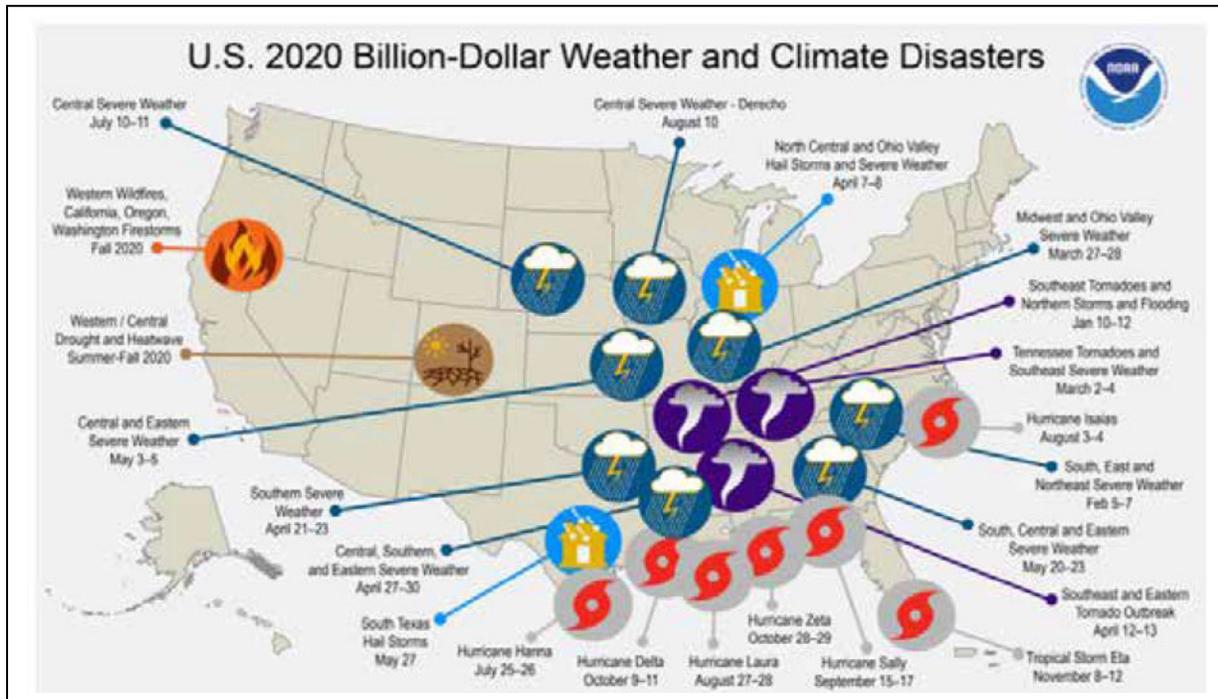
Addressing Climate-Related Risks to Banks

Banks may incur climate-related risks from exposure to losses from companies that rely on fossil fuels.³ For example, banks may face losses on loans issued to entities that invest in oil, gas, power, utilities, and agriculture. According to CNBC, the “60 largest commercial and investment banks have collectively financed \$3.8 trillion in fossil fuel company loans between 2016 and 2020.”⁴

For the first time, both FSOC and the Federal Reserve Bank of New York have reported that climate change may affect the financial sector.⁵ According to the Office of the Comptroller of the Currency (OCC), “[w]eaknesses in how banks identify, measure, monitor, and control the potential physical and transition risks associated with a changing climate could adversely affect a bank’s safety and soundness, as well as the overall financial system.”⁶

Further, bank portfolios include risk exposure to businesses and households that may suffer physical effects from climate-related risks.⁷ According to estimates from the National Oceanic and Atmospheric Administration (NOAA), the cumulative cost for the 285 weather and climate disasters in the United States in 2020 exceeded \$1.875 trillion, with 22 events resulting in at least \$1 billion in damages (Figure 1).

Figure 1: U.S. 2020 Billion-Dollar Weather and Climate Disasters



Source: NOAA National Centers for Environmental Information, U.S. Billion-Dollar Weather and Climate Disasters (2021).

On May 20, 2021, the President signed Executive Order 14030, [Climate-Related Financial Risk](#), to “advance consistent clear, intelligible, comparable, and accurate disclosure of climate-related financial risk.” This Executive Order required, among other things, an assessment of climate-related financial risk by Federal financial regulators.

On October 21, 2021, FSOC issued its [Report on Climate-Related Financial Risk](#) (FSOC Climate Report). The FSOC Climate Report characterized climate change as an “emerging threat to the financial stability of the United States” and made 30 recommendations to FSOC members related to four topic areas:

- **Building capacity and expanding efforts to address climate-related financial risks.** Agencies should invest in their capacity to define, identify, measure, monitor, assess, and report on the financial impact of climate change.
- **Filling climate-related data and methodology gaps.** Agencies

should compile an inventory of existing climate-related risk data and develop plans to acquire additional needed data through collection, sharing, or procurement.

- **Enhancing public climate-related disclosures.** Agencies should assess current public disclosure requirements and adjust them to address climate-related risks.
- **Assessing and mitigating climate-related risks that could threaten the stability of the financial system.** Agencies should use scenario analysis such as modeling to assess climate-related financial risk and assess whether additional regulations or guidance are needed to clarify supervisory expectations.

The FSOC Climate Report noted that coordination among regulators, including international bodies, should be robust in order to expand capacity, improve data and measurement, enhance disclosures, assess the scale of potential vulnerabilities, and make appropriate adjustments in regulatory

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and supervisory tools. CIGFO is currently reviewing the actions of FSOC and its member agencies regarding the implementation of Executive Order 14030 and the recommendations in the FSOC Climate Report.

The FDIC Chair (hereinafter referring to the Chair who served from June 2018 to February 2022) abstained from casting her vote on the FSOC Climate Report, explaining that “FSOC has not had an adequate opportunity to conduct sufficient analysis, fully consider broader macro consequences, and thoroughly evaluate the impact of its recommendations.”⁸ The FDIC will need to determine whether it intends to implement the recommendations contained in the FSOC Climate Report. If the FDIC plans to implement the FSOC recommendations, the Agency will need to decide how it will undertake such actions. If the FDIC does not intend to implement such recommendations, it may be out of step with other Federal financial regulators with respect to bank examinations, crisis preparedness, and risk management.

In response to performance goals noted in the FDIC [2021 Annual Performance Plan](#), FDIC economists and policy staff have been working with other regulatory agencies and international bodies on climate-related financial risks, including participation on the Task Force for Climate-Related Financial Risks of [the Basel Committee on Banking Supervision](#). The FDIC Division of Insurance and Research also has conducted research on climate-related risk to local banks and economies for six weather events in the United States. This research also assessed the impact on low- and moderate-income areas before and after each climate event.

In late 2021, the FDIC engaged with other banking regulators to draft a Request for Information and Comment (RFI/C) on climate-related financial risks. However, this RFI/C document was never issued or

published, and as a result, no comments were received.

On December 16, 2021, the OCC issued a set of draft principles designed to support the identification and management of climate-related financial risks at institutions. These risks include Credit Risk, Liquidity Risk, Operational Risk, Legal/Compliance Risk, as well as other financial and non-financial risks. FDIC Regional Risk Committees have identified climate-related risks on a regional level, but as of December 2021, the FDIC had not identified climate-related risk on its Agency-wide Risk Inventory or Risk Profile as part of its Enterprise Risk Management program.

In order to address the FSOC recommendations, the FDIC would need a coordinated effort among its Divisions and Offices, other regulators, and international organizations.⁹ In so doing, the FDIC would need to continue to gather climate-related risk data and establish processes to define, measure, monitor, assess, and report on these risks.

Further, according to the FSOC Climate Report, climate-related risk may disproportionately affect vulnerable populations and underserved communities. Additionally, the Environmental Protection Agency stated that “the most severe harms from climate change fall disproportionately upon underserved communities who are least able to prepare for, and recover from, heat waves, poor air quality, flooding and other impacts.”¹⁰ The FDIC will need to continue to consider how such risks affect its programs serving these communities.

Supervising and Examining Banks for the Risks Associated with Government-Guaranteed Loans and Fraud

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) created the Paycheck Protection Program

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(PPP) in order to provide financial relief and Government-guaranteed loans to small businesses adversely affected by the pandemic. The PPP loans are provided through our Nation's banks and the program is administered by the Small Business Administration (SBA). According to the SBA, more than 11 million PPP loans were issued by more than 5,400 lenders—primarily community banks supervised by the FDIC. These PPP loans amounted to nearly \$800 billion.¹¹ [According to a study by the University of Texas](#), it is estimated that more than seven percent of loans made by banks had indications of fraud.¹²

As of March 2021, approximately 83 percent of FDIC-supervised institutions (2,689 banks) carried PPP loans on their balance sheets. These institutions held approximately 1.5 million PPP loans totaling about \$145 billion. Based on our analysis of PPP loan data, 46 FDIC-regulated banks had PPP loan portfolios that accounted for more than 20 percent of the bank's total assets. In fact, six such banks held portfolios where PPP loans ranged from 50 to 75 percent of the bank's total assets.

As of March 2021, the U.S. Government has charged 474 defendants in 56 Federal districts with crimes related to pandemic fraud.¹³ In particular, FDIC OIG investigations resulted in more than 110 indictments and criminal complaints, resulting in 65 arrests and 41 convictions. These cases involve defendants who aim to steal funds from a Government program that was intended to help those most in need during the pandemic. The PPP fraud schemes are complex and sophisticated, and they involve the use of synthetic identities, financial technology services (FinTech), bank insiders, and criminal organizations.

In June 2020, the FDIC stated its view that, “[g]iven the 100 percent SBA guarantee, there is, in effect, no credit risk associated with loans extended under the program,

provided the lender complied with its obligations under the PPP.”¹⁴ However, because of the substantial volume of PPP loans at FDIC banks and the potential fraud associated with this program, there may be risk to banks that have not complied with the requirements of the PPP loan program. According to the program requirements, the Government may be released from its guarantee obligation if a bank fails to materially comply with program requirements, such as loan administration, underwriting, and servicing. If banks are not in compliance with program requirements, they may be required to absorb PPP loan losses. As a result, the loan guarantee is not absolute, and banks may bear credit risk for non-compliance with the PPP program.

The OCC has recognized banks' heightened compliance risks for PPP loans in its recent report [Semiannual Risk Perspectives](#) (Fall 2021), as well as in its prior OCC reports. In addition, PPP loans may pose reputational and compliance risks to financial institutions, and banks may have to set aside additional funding to address compliance and legal risks associated with potential loan revocation. We have ongoing work to review the FDIC's examination of the risks associated with PPP and other Government-guaranteed loans.

As a banking regulator that insures deposits and resolves failed banks, the FDIC must remain vigilant in preparing for future crises. The FDIC should continue to expeditiously develop and implement its Crisis Readiness framework and coordinate with other financial regulators. In so doing, the FDIC should assess and address the impact of climate-change risks in its crisis preparedness program activities and bank supervision. Further, the FDIC should closely examine the risks posed by guaranteed loan fraud.

Cybersecurity at Banks and Third-Party Service Providers

Key Areas of Concern

The primary areas of concern for this Challenge on Cybersecurity at Banks and Third-Party Service Providers (TSP) are:

- Ensuring that FDIC bank examinations adequately assess and address cybersecurity risks at financial institutions and their TSPs;
- Ensuring that banks report serious cyber security incidents to the FDIC in a timely manner, so that it can take appropriate action; and
- Supervising and managing risks associated with crypto assets.

The OIG has identified Cybersecurity in the banking sector as a Top Challenge for the FDIC since 2018, particularly with respect to TSPs and emerging technologies.

FSOC, in its [2021 Annual Report](#) (December 2021), noted that “[a] destabilizing cybersecurity incident could potentially threaten the stability of the U.S. financial system by disrupting a key financial service or utility, causing loss of confidence among a broad set of customers or market participants, or compromising the integrity of critical data.” The FSOC Annual Report continued that the financial sector “is vulnerable to ransomware and other malware attacks, denial of service attacks, data breaches, and other events. Such incidents have the potential to impact tens or even hundreds of millions of Americans and result in financial losses of billions of dollars due to disruption of operations, theft, and recovery costs.”

In April 2021, the Chairman of the Federal Reserve Board (FRB) also identified cybersecurity risk at banks as the most significant risk to financial institutions today.¹⁵ The FRB Chairman explained that “[t]here are cyber-attacks every day on all major institutions” and a successful attack

on a large institution could cause a broad part of the financial system to come to a halt. According to *the [OCC Semiannual Risk Perspective \(Fall 2021\)](#)*, banks’ expanded use of remote work for employees and increased use of TSPs increases the importance of cyber controls. [Analysis](#) by the Financial Crimes Enforcement Network (FinCEN) found that banks reported more than \$590 million in suspicious activity related to ransomware in just the first 6 months of 2021. This figure was greater than the amount reported for the entire previous year (\$416 million reported in 2020) – an increase of approximately 41 percent.

Banks may suffer cyber attacks directly at the institutions, or alternatively through interconnections with third parties that provide banks with services, such as accounting, transaction processing, loan servicing, and human resources.¹⁶ *The 2021 FSOC Annual Report* stated that “financial institutions have increased their reliance on third-party service providers for teleworking tools and services. The interdependency of these networks and technologies supporting critical operations magnifies cyber risks, threatening the operational risk mitigation capabilities not just at individual institutions, but also of the financial sector as a whole.”

In the [OCC Semiannual Risk Report \(Fall 2021\)](#), the OCC recognized that cyber actors continue to exploit “vulnerabilities in third-party hardware and software systems to conduct malicious cyber activities.” Further, the Federal Reserve noted that “[c]yber shocks may spread through the financial system through complex and often unrecognized interdependencies across firms, including a layer of exposures to shared technologies and third-party service providers.”¹⁷ For example, in December

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2021, the Cybersecurity & Infrastructure Security Agency issued an [Emergency Directive](#) regarding a vulnerability in remote software used by banks known as Apache Software Foundation's Log4j. For banks running this software, the vulnerability may allow hackers to download malware in order to steal customer login information, transfer funds, and open fraudulent accounts.¹⁸ Also, in July 2021, cyber-hackers targeted the remote software of information technology (IT) firm Kaseya, which provides software as a service to banks. As a result, hackers were able to infiltrate Kaseya customers' networks and install ransomware. The ransomware locked the victim companies' data and released it only after a ransom of \$70 million was paid in cryptocurrency.

Assessing and Addressing Cybersecurity Risks at Banks and Third-Party Service Providers

According to the Boston Consulting Group, "[f]inancial services firms are 300 times as likely as other companies to be targeted by a cyberattack."¹⁹ A study by Constella Intelligence found that between 2018 and 2021, financial services companies suffered nearly 6,500 breaches that exposed 3.3 million records, including email communications, dates of birth, credit card information, addresses, telephone numbers, and account login credentials.²⁰ Further, bank employees' remote work increases cyber risks as employees access information remotely through multiple connections.²¹ Employee wireless networks, router software, and cameras provide new means for cyber attacks.

Financial institutions of all sizes, including community banks, may be targets of cyber attacks. For example, in May 2021, two ransomware groups appear to have infiltrated the servers of three community banks, stealing data and demanding a ransom.²² In the following month, a ransomware group attacked a New Jersey

community bank. The bank stated that it was able to contain the attack, because it was made on a network that was separate from its operational systems.²³

FDIC IT examinations must be capable of identifying and addressing weaknesses in cybersecurity risk management at supervised banks and their TSPs. The FDIC conducts IT risk examinations to assess whether bank management has appropriate controls in place to mitigate cybersecurity risks and to assess financial institutions' management of TSP risk. The FDIC also examines a subset of TSPs for the soundness of their risk management and cybersecurity practices. Since 2016, the FDIC has been using the Information Technology Risk Examination (InTREx) work program²⁴ to conduct bank IT examinations and assess financial institutions' oversight of TSPs. An initial InTREx procedure, the Information Technology Profile scoring matrix, is used by examiners to determine the scope of an IT examination consistent with the bank's IT complexity and risk profile, and to allocate resources to the examination. The scope of an IT examination may increase due to, among other things, the introduction of new business lines or technology, or the addition of a TSP.

The FDIC should ensure that its assessments accurately capture current and relevant risks and reflect the scope and complexity of banks' IT security and systems. The FDIC should also ensure that it has appropriate examination processes, resources, and staff. FDIC examiners should have up-to-date information on cyber controls and threats, and the requisite skills to identify risks and complete thorough examinations.

We are currently conducting an audit of the InTREx program. The objective of our work is to determine the effectiveness of the InTREx program in assessing and addressing IT and cyber risks at FDIC-supervised financial institutions.

Reporting Cybersecurity Incidents at Banks

Banks should report cyber incidents to Federal regulators in a timely manner so that the regulators may take appropriate supervisory actions to address and mitigate the risks associated with such incidents. It is important for regulators to receive this information, as a cyber incident at one bank could result in contagion from the affected bank to another bank, and prompt similar attacks at other banks. Armed with knowledge of cyber incidents, the FDIC can warn other supervised banks of these threats and execute preparations for potential bank failures if needed. Further, cyber incident reporting may allow the FDIC to shift examination and resolution resources to address these cyber risks. The FDIC also may use these incident reports to adjust its supervisory strategies, as well as its examinations, policies, and training to assist examiners in identifying and mitigating emerging risks.

On April 30, 2020, the OIG issued a *Management Advisory Memorandum* to the FDIC uncovering a gap in regulation. Federal regulations did not require banks to report destructive cyber incidents to Federal banking regulators, even though such incidents could jeopardize the safety and soundness of an institution. In response to our OIG Management Advisory Memorandum, Federal banking regulators proposed a regulation that would require financial institutions to promptly notify their primary Federal regulator in the event of a computer security incident.²⁵

On November 18, 2021, Federal banking regulators promulgated a rule requiring that banks report computer security incidents “no later than 36 hours after the banking organization determines that a notification incident has occurred.”²⁶ The FDIC should ensure that it has clear guidance, procedures, and processes in place to

receive, evaluate, analyze, and investigate these reports from the banks.

Supervising and Managing Risks Posed by Crypto Assets

Crypto assets are a digital form of value that is issued or transferred using distributed ledger or blockchain technology.²⁷ The [2021 FSOC Annual Report](#) recognized that “the rapid growth of digital assets, including stablecoins and lending and borrowing on digital asset trading platforms, is an important potential emerging vulnerability.” The FSOC Report continued that digital assets “pose risks related to illicit financing, national security, cybersecurity, privacy, and international monetary and payment system integrity.” It has been reported that the cryptocurrency market amounted to more than \$2 trillion.²⁸

According to the [OCC Semiannual Risk Report](#) (Fall 2021), banks are exploring “the development of crypto-custody services, crypto-asset derivative products, or the provisions of access to third-party crypto-related products.” The Basel Committee on Banking Supervision stated that virtual currencies “raise financial stability concerns and increase risks faced by banks.”²⁹ Crypto assets “have exhibited a high degree of volatility, and could present risks for banks as exposures increase, including liquidity risk, credit risk, market risk, operational risk (including fraud and cyber risks), money laundering / terrorist financing risk, and legal and reputation risks.”³⁰

The U.S. regulatory landscape for digital assets is unclear and fragmented. In May 2021, the Secretary of the Treasury stated that the United States does not yet have an “adequate framework” for tackling cryptocurrency regulation.³¹

The FDIC Chair noted that stablecoins (a fungible token pegged to or redeemable for fiat currency) could also lead to “money migrating out of insured banks with

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significant ramifications for credit creation, financial stability, and bank funding.”³² The Chairman of the FRB stated that “if [stablecoins] are going to be a significant part of the payments universe . . . we need an appropriate regulatory framework, which frankly we don't have.”³³ The President's Working Group on Financial Markets' *Report on Stablecoins* noted that the prospect of a stablecoin not performing could cause mass redemption of multiple coins and fire sales of the reserve assets.³⁴ The market capitalization for stablecoins was estimated at approximately \$115 billion as of July 2021.³⁵

The FDIC should assess the risks involved with banks' entry into crypto assets and stablecoins, and determine what regulatory actions to take. The FDIC should also ensure that examiners have proper skillsets and training to understand and assess these risks. In addition, because the FDIC becomes responsible for the assets of a failed U.S. bank, the FDIC should determine how to resolve banks that hold digital assets. On May 21, 2021, the FDIC issued

a [request for information](#) soliciting comments about current and potential digital asset activities. On November 23, 2021, bank regulators, including the FDIC, summarized their work on a crypto asset policy “sprint” on crypto-asset-related activities.³⁶ The FDIC's work in this area remains ongoing.

A cyber incident at a bank or its TSP has the potential for wide disruption throughout the banking sector. The FDIC should ensure that it has the procedures and personnel with the appropriate skills to conduct effective IT examinations to assess banks' cybersecurity risks. The FDIC should receive prompt notification of bank cyber incidents in order to take appropriate supervisory action. Further, the FDIC should evaluate the risks to banks posed by cryptocurrencies and stablecoins, and adjust FDIC guidance, policies, supervisory strategies, examination procedures, and training accordingly.

Supporting Underserved Communities in Banking

Key Areas of Concern

The primary areas of concern for this Challenge on Supporting Underserved Communities are:

- Fostering financial inclusion for the unbanked and underbanked; and
- Understanding bias risk associated with technology.

The OIG has identified Supporting Underserved Communities as a Top Challenge for the FDIC since 2020.

According to the World Bank, financial inclusion is a “key enabler to reducing poverty and boosting prosperity.”³⁷ As noted by the FDIC Chair, “[w]hen talking about financial inclusion, the question before us is not merely whether a person has a checking account or a credit card but, more fundamentally, whether they are a part of the financial fabric of the United States.”³⁸

Fostering Financial Inclusion for the Unbanked and Underbanked

On January 20, 2021, the President issued Executive Order 13985, [Advancing Racial Equity and Support for Underserved Communities Through the Federal Government](#), which aims to pursue a comprehensive approach to advancing equity for all, including people of color and others who have been historically underserved, marginalized, and adversely affected by persistent poverty and inequality. The Executive Order requires that most Federal agencies “recognize and work to redress inequities in their policies and programs that serve as barriers to equal opportunity.” Such policies and programs should include those geared towards financial inclusion.

In June 2021, the FDIC Chair emphasized, however, that despite the Agency’s efforts, “millions of American households remain unbanked and millions of Americans do not have a credit score.”³⁹ The Chair noted that “[t]he persistent gap in access to the banking system has shown that we must think outside the box to create a regulatory system that will help close this gap.”

In a [study](#) published in October 2020, the FDIC found that 7.1 million U.S. households (5.4 percent) lacked a checking or savings account at an insured financial institution. Importantly, minority households were more likely to be among the unbanked. For example, 13.8 percent of Black households surveyed and 12.2 percent of Hispanic households surveyed were unbanked in 2019, as compared to only 2.5 percent of White households.

Further, as noted in the Crisis Readiness section of this Report, climate-related risk may disproportionately affect vulnerable populations and underserved communities. The Environmental Protection Agency stated that “the most severe harms from climate change fall disproportionately upon underserved communities who are least able to prepare for, and recover from, heat waves, poor air quality, flooding and other impacts.”⁴⁰ The FDIC will need to consider how climate-related risks affect its programs serving these communities.

The FDIC should also ensure that its programs designed to foster financial inclusion and reduce the number of unbanked and underbanked individuals are effective. These programs include support of Minority Depository Institutions (MDI) and Community Development Financial Institutions (CDFI) that provide financial

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products and services to individuals and businesses in minority, low-income, and rural communities. The FDIC also promotes access to banking through community affairs programs in its Regional Offices.

Further, the FDIC conducts examinations to ensure that banks are in compliance with regulations such as the Community Reinvestment Act (CRA). The CRA and its regulations aim to “combat the legacy of discriminatory lending practices against low-income borrowers and minority populations.”⁴¹

In September 2021, the FDIC launched an initiative to address unbanked households. The Mission-Driven Bank Fund is a capital investment vehicle that will channel private-sector investments to support MDIs and CDFIs. The Fund is intended to help MDIs and CDFIs raise capital. Although the FDIC does not participate in the Fund’s management or individual investment decisions, the FDIC should assess the alignment of the Fund’s ongoing operations with FDIC objectives to ensure the advancement of equity in underserved communities. In addition, in November 2021, the FDIC established a new Office of Minority and Community Development Banking to support the Agency’s engagement with MDIs, CDFIs, and other mission-driven banks.⁴² This effort remains under development.

Understanding Bias Risk Associated with Technology

According to the World Economic Forum survey of 151 global financial services companies, 85 percent are using artificial intelligence (AI) in their operations.⁴³ Banks’ use of AI includes, for example, lending decisions.⁴⁴ While AI has the potential to lower lending costs and improve the speed of credit decisions, such innovative technologies may have unintended consequences, such as the

exclusion of individuals based on biased algorithms or flawed data.⁴⁵

The Federal Reserve Bank of San Francisco noted that unchecked technological innovation can introduce a variety of risks and consumer harm.⁴⁶ Specifically, the Federal Reserve Bank of San Francisco cited a research [study](#) from the University of California at Berkley that indicated that machine learning can result in minority borrowers experiencing higher loan rates and more expensive financial products. Algorithms and complex machine learning models, such as AI, may rely on outdated or flawed data or mistakes in rule development.⁴⁷ For example, AI algorithms may perpetuate discriminatory lending practices and higher interest rates charged to African American and Latino borrowers, as reflected in historical loan data.⁴⁸

On November 29, 2021, the Chairwoman of the Committee on Financial Services, U.S. House of Representatives, and Congressman Bill Foster transmitted a [letter](#) to financial regulators, including the FDIC, noting that the use of historical data as “inputs for AI and ML [machine learning] can reveal longstanding biases, potentially creating models that discriminate against protected classes, such as race or sex, or proxies of these variables.” The Committee highlighted several principles: Transparency and Explainability; Oversight and Enforceability; Safeguarding Consumer Privacy; and Promoting Fairness and Equity in AI Usage. The letter encouraged regulators to keep pace with the rapid developments to “ensure that AI regulation and rulemaking can meaningfully address appropriate governance, risk management, and controls over AI.”

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The FDIC's consumer compliance examiners should have the proper skillsets to understand and assess the new technologies used by banks and detect potential biases. Further, examiners should have effective examination processes and procedures to monitor for technology biases.

The FDIC plays an important role in fostering economic inclusion and maintaining confidence in the U.S. banking system. It is well positioned to help support

and empower minority communities' access to capital. The FDIC should continue its efforts to assess the effectiveness of its MDI and CDFI outreach programs and continue to promote financial and technological innovations to achieve economic inclusion while at the same time avoiding potential biases.

Organizational Governance at the FDIC

Key Areas of Concern

The primary areas of concern for this Challenge on Organizational Governance are:

- Clarifying protocols for submissions to the FDIC Board of Directors;
- Incorporating important risks into the FDIC's Enterprise Risk Management (ERM) program;
- Explaining whether the FDIC will follow certain Executive Branch policies and guidance;
- Addressing recurring recommendations;
- Ensuring clarity and consistency of FDIC policies and alignment with other regulators; and
- Enhancing FDIC rulemaking.

The OIG has identified Governance as a Top Challenge for the FDIC since 2018, particularly with respect to ERM and rulemaking.

FDIC Board members and senior FDIC officials are responsible for administering the affairs of the Agency, managing its risks, establishing regulatory policy, and providing clear guidance to banks and throughout the Agency. Organizational governance refers to a management framework that incorporates operational, financial, risk management, and reporting processes so that FDIC Board members and senior officials can effectively plan, govern, and meet strategic objectives.⁴⁹ A governance framework should ensure strategic guidance, effective monitoring of management, and accountability to stakeholders.⁵⁰

FDIC Board members are appointed by the President and confirmed by the Senate, and include: the FDIC Chair, FDIC Vice Chair, Comptroller of the Currency, Director of the Bureau of Consumer Financial Protection (CFPB), and an independent Director. The FDIC Board has been operating with only

four members since 2015, and the Vice Chair position has been vacant since April 2018. On December 31, 2021, the FDIC Chair announced that she would be resigning from her position, effective February 4, 2022 – thus, leaving three remaining members of the FDIC Board (an acting FDIC Chair, CFPB Director, and acting Comptroller of the Currency). In February 2022, the FDIC's Chief of Staff and Chief Operating Officer, Chief Innovation Officer, General Counsel, and Deputy Director for Policy also announced their departures from the FDIC. The Director of the Division of Insurance and Research will also retire in 2022.

Clarifying Protocols for Submissions to the FDIC Board of Directors

FDIC Board members play a critical role in shaping FDIC policies and processes. FDIC Board members are responsible for considering and approving motions brought before the Board, such as the issuance or modification of regulations and guidance. However, the process for bringing such measures to the Board has been in dispute.

On November 26, 2021, the CFPB Director, as a member of the FDIC Board, requested that the Board take action to publish a [Request for Information and Comment](#) (RFI/C) regarding bank merger transactions; this action was also recommended by two other Board members. On the same day, the FDIC General Counsel wrote that this action was not valid, because the FDIC bylaws do not confer authority to an individual Board member to circulate an item for a vote, and such authority rests with the Executive Secretary under the supervision of the General Counsel and at the direction of the Chair.

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On December 6, 2021, the three Directors submitted written votes to approve the RFI/C, and the FDIC General Counsel reiterated his position that the CFPB Director (as a member of the FDIC Board) did not have authority to circulate an item for a vote, and that the subsequent Directors' responses did not constitute valid votes. The CFPB Director expressed his view that the FDIC Board had approved the RFI/C.

On December 9, 2021, the CFPB released the RFI/C on its [website](#), and the FDIC issued a [statement](#) that the document was not approved for publication because there was no valid vote by the FDIC Board according to longstanding FDIC internal policies and procedures.⁵¹ At a Board meeting on December 14, 2021, the CFPB Director (as a member of the FDIC Board) moved that the written vote on the RFI/C be included in the minutes of the Board meeting, and the Chair ruled that the motion was not in order.

The dispute about the authorities of the FDIC Chair and individual Board members to bring items before the FDIC Board for a vote creates uncertainty about the organizational governance and structure of the FDIC. The FDIC should clarify and resolve the requirements for consideration of actions by the FDIC Board of Directors.

Incorporating Risks into the FDIC's Enterprise Risk Management Program

The FDIC faces an array of risks that should be identified, assessed, and considered by the FDIC Board and senior FDIC officials. Enterprise Risk Management (ERM) is an essential component of governance that provides an entity-wide view of the full spectrum of internal and external risks facing an organization. Effective ERM provides information to Board members and senior FDIC officials, so that they can allocate resources appropriately, effectively

prioritize and proactively manage risk, improve the flow of risk information, and work towards achieving the FDIC's mission. ERM assists Federal agencies in the identification, assessment, and mitigation of external and internal risks. On May 25, 2021, the FDIC Board delegated ERM responsibilities to its Audit Committee, which now oversees the ERM program and is responsible for ensuring that relevant risks are identified and addressed. It is not clear or transparent the processes by which the FDIC Audit Committee will consider the range of risks facing the enterprise, and debate and deliberate over the proposed risk ratings. The Audit Committee oversees and has responsibility for the agency's ERM activities.

In our OIG evaluation, [The FDIC's Implementation of Enterprise Risk Management](#) (July 2020), we determined that ERM was not fully implemented at the FDIC, and, therefore, proper execution of program activities, roles, and responsibilities had yet to take place. Without a mature governance structure over ERM, the FDIC could not be sure that ERM would be fully integrated into the Agency and its culture, and the FDIC would develop a comprehensive portfolio view of risk at the Agency. The FDIC addressed the eight recommendations from our OIG report. In 2021, the FDIC conducted a survey of Agency personnel about the ERM program; the response rate was 22 percent. The FDIC survey noted that less than half of survey participants were familiar with the FDIC's ERM program, including the FDIC's Risk Appetite Statement and how to use it.

Further, since the issuance of our report, we have found that the FDIC's ERM process has not identified certain existing risks and not fully assessed the potential impact of other risks, for example:

- **Personnel Security and Suitability.** In our report, [The FDIC's Personnel Security and Suitability Program](#) (January 2021),

we found that the FDIC’s ERM program did not fully reflect the extent of risks associated with untimely, incomplete, or inadequate background investigations.

- Critical Functions in Contracts.** In our report, [Critical Functions in FDIC Contracts](#) (March 2021), we found that the FDIC’s ERM Risk Inventory did not recognize procured Critical Functions as a separate and distinct risk, or as an analytical factor in determining inherent or residual risk associated with cybersecurity and privacy support services. A Critical Function is an activity that is necessary for an agency to effectively perform and control its mission and operations.
- Climate-Related Financial Risk.** The ERM program has not considered or addressed the risks associated with climate change, as identified in the FSOC Climate Report (referenced in the Crisis Readiness Challenge).
- Supply Chain Risk.** The FDIC has not established an Agency-wide consideration of supply chain risk. As a result, the FDIC’s ERM does not capture certain supply chain risks that FDIC Divisions and Offices face, nor does it capture supply chain risks associated with non-IT products and services.

We also note that the FDIC’s Enterprise Risk Management program has not considered the risks associated with the requirements for Board of Directors’ consideration and approval of motions (discussed above), nor the risks related to the Agency’s review of bank mergers noted in the RFI/C submitted and approved by the three FDIC Directors.⁵² These risk factors are not part of the FDIC’s Risk Inventory nor its Risk Profile.

Explaining Whether the FDIC Will Follow Certain Executive Branch Guidance

The Executive Branch regularly issues policies and guidance for Federal agencies, in the form of Executive Orders, Presidential Directives, OMB Circulars and Memoranda, and National Institute of Standards and Technology (NIST) guidance. Such policies and guidance often address risks in operational areas such as information technology, security, privacy, contracting, and risk management. The policies and guidance provide best practices that Executive Branch agencies must implement to mitigate operational risks. In many cases, independent agencies such as the FDIC are not required to follow such requirements; however, the FDIC has, in a number of cases, chosen to voluntarily comply with all, or portions of, certain policies and guidance.

It is not clear under what circumstances and which specific portions or provisions of the policies or guidance are to be followed. Ambiguity in the FDIC’s determinations and lack of clarity may result in inconsistencies with other agencies (including other bank regulators) and may cause uncertainty and confusion among FDIC employees in the application of such policies and guidance. In addition, such determinations may not seem clear or transparent to the American public.

For example, in our OIG report, [Whistleblower Rights and Protections for FDIC Contractors](#) (January 2022), we found that the FDIC Division of Administration’s (DOA) Acquisition Services Branch voluntarily adopted some of the Federal whistleblower provisions and requirements for insertion into its contracts. However, the FDIC’s Legal Division, under its separately delegated contracting authority, did not operate consistently with the FDIC’s DOA. The FDIC Legal Division had neither adopted any whistleblower rights notification

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provisions for contractors nor included any whistleblower clauses in its contracts. Further, we found that FDIC procedures and processes were not aligned with laws, regulations, and policies designed to ensure notice to contractor and subcontractor employees about their whistleblower rights and protections.

The FDIC should clearly articulate and explain its determinations regarding whether or not to follow Executive Branch policies and guidance, and it should be transparent under what circumstances and which specific portions or provisions of the policies or guidance are to be followed. Consistent analysis and application, and centralized documentation of these decisions would enhance the confidence and transparency of FDIC operations, programs, and functions.

Further, in our recent OIG reports, we found that when the FDIC chooses not to implement certain Executive Branch policies, its programs incur risks that these policies were intended and designed to address or mitigate. For example:

- **Contracting:** The OMB issued Policy Letter 11-01 to provide Federal agencies with guidance on managing contracts for the performance of Critical Functions.⁵³ The FDIC's Legal Division concluded that the Policy Letter did not apply to the FDIC, but it may be used for guidance. In our OIG evaluation, [Critical Functions in FDIC Contracts](#) (March 2021), we found that the FDIC did not have policies and procedures for identifying Critical Functions in its contracts, as recommended by the OMB Policy Letter. Without these best practices in place, the FDIC cannot be assured that it will provide sufficient management oversight of contractors performing Critical Functions.
- **Enterprise Risk Management (ERM):** In 2016, in an effort to modernize existing agency risk management efforts across the Federal Government, the OMB updated its Circular A-123.⁵⁴ The FDIC took the position that it was not required to follow OMB Circular A-123. As noted earlier, in our OIG evaluation, [The FDIC's Implementation of Enterprise Risk Management](#) (July 2020), we found that the FDIC did not fully implement its ERM program in accordance with OMB criteria. Specifically, the FDIC did not establish a clear governance structure, and clearly define authorities, roles, and responsibilities related to ERM. Further, the FDIC did not clearly define the roles, responsibilities, and processes of the committees and groups involved in ERM.
- **Supply Chain Risk:** In our OIG report on [The FDIC's Information Security Program—2021](#) (October 2021), the FDIC stated that the NIST publications for supply chain risk management were not binding on the FDIC, but that the FDIC chose to follow the guidance. NIST guidance includes a Risk Management Framework for supply chains, and the framework is purposefully designed to be technology neutral so that the methodology can be applied to any type of information system without modification.⁵⁵ However, the FDIC's Supply Chain Risk Management (SCRM) Directive limits the applicability of the NIST framework solely to IT systems, products, and services. As a result, non-IT purchases are not assessed against the NIST framework for supply chain risks.

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- **Rulemaking Cost Benefit Analysis:** In our report, [Cost Benefit Analysis Process for Rulemaking](#) (2021), we found that the FDIC did not follow identified best practices from Executive Orders, GAO, and other Federal agencies to establish and document a process for determining when to perform cost benefit analyses and how the analyses should be conducted.

Addressing Recurring Recommendations

The FDIC Board and senior officials should also ensure that program weaknesses are promptly resolved and remediated. The FDIC has encountered several examples in which the OIG has made repeated recommendations to the FDIC in order to improve its programs and operations. Unaddressed program improvement recommendations increase the likelihood that the underlying vulnerabilities or deficiencies will continue or recur. To mitigate these risks, these recommendations should be addressed by the FDIC in a timely manner.

We have identified repeated breakdowns in controls, for example:

- **Incomplete contract files.** We made recommendations to address incomplete contract files in two reports issued between 2018 and 2019. In our OIG reviews [Payments to Pragmatics](#) (December 2018) and [Contract Oversight Management](#) (October 2019), we found that FDIC personnel did not retain appropriate contract documentation in the FDIC's contract repository known as "CE File." Without this documentation, the FDIC faces challenges in monitoring and enforcing contracts in the event of contractor noncompliance. Further, the FDIC may incur additional costs to recover or replace lost documentation, as such processes may require labor-intensive manual searches through hard-copy documentation.
- **Confidentiality Agreements for Contractors.** We identified missing or inadequate Confidentiality Agreements in three reports between 2017 and 2022. In our OIG reviews [Controls over Separating Personnel's Access to Sensitive Information](#) (September 2017), [Security of Critical Building Services at FDIC-owned Buildings](#) (March 2021), and [Whistleblower Rights and Protections for FDIC Contractors](#) (January 2022), we found that the FDIC either did not obtain Confidentiality Agreements from its contractors and contract personnel as required by the contracts, or did not use the current up-to-date Confidentiality Agreement form. Without the required Confidentiality Agreements, the FDIC has reduced assurance that contractors and subcontractors will protect sensitive FDIC information.
- **Cybersecurity.** In each of our past four annual reviews of FDIC information security (2018 through 2021), we reported weaknesses related to the FDIC's management of Administrative Accounts.⁵⁶ Weaknesses in the FDIC's processes for managing Administrative Accounts increase the risk of unauthorized activity, such as individuals accessing, modifying, deleting, or exfiltrating sensitive information. We also found that the FDIC continues to have overdue and unaddressed information security control deficiencies. Without consistently addressing control deficiencies in a timely manner, FDIC data is

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vulnerable to security exploits from unmitigated threats.

- **Personnel Security and Suitability Program.** In our OIG evaluation, [The FDIC's Personnel Security and Suitability Program](#) (PSSP) (January 2021), we found several deficiencies that were similar to those identified in previous reports -- including our OIG [evaluation](#) of the FDIC's PSSP conducted 6 years earlier in 2014.⁵⁷ Specifically, a number of issues had not been corrected, including:
 - Completing preliminary background investigations within allowed timeframes;
 - Keeping records of background investigation documentation;
 - Ensuring that background investigation levels match an individual's position risk; and
 - Ensuring the reliability of background investigation data in FDIC systems.

The FDIC should ensure that the Agency addresses programmatic weaknesses in a timely manner. Absent correction, these weaknesses continue to inhibit program performance and expose FDIC information, systems, and personnel to vulnerabilities.

Ensuring Clarity and Consistency of FDIC Policies and Alignment with Other Regulators

FDIC internal guidance to its personnel should be clearly defined and aligned, as appropriate, with other financial regulators. Without clear guidance, the FDIC cannot ensure that its personnel will consistently apply FDIC policies in a coherent, Agency-wide manner. Further, similarly-situated banks may be treated differently as FDIC guidance may be applied inconsistently or in conflict with guidance from other regulators.

In our OIG evaluation, [Termination of Bank Secrecy Act/Anti-Money Laundering Consent Orders](#) (BSA/AML) (December 2021), we found that the FDIC and the Federal Reserve Board used different guidance to assess whether to terminate BSA/AML Consent Orders. As a result, for one of our sampled Consent Orders, the FDIC and the Federal Reserve Board assessed similar facts about the bank and its holding company, but came to different conclusions regarding the timing for terminating their respective BSA/AML Consent Orders. The Federal Reserve Board maintained its Consent Order longer than the FDIC, while the FDIC terminated its Order and included uncorrected provisions in an informal enforcement action. The FDIC should align its termination criteria with other financial regulators, so that FDIC-supervised banks are treated similarly to other regulated banks.

We also found that FDIC guidance did not address how Regional Office personnel should apply key policy terms to determine whether to terminate a Consent Order. For 4 of 10 sampled Consent Order Terminations, FDIC guidance did not address how to apply the terms "substantial compliance" and "partially met." As a result, the FDIC could not be certain that these four Consent Orders were terminated using a consistent interpretation of these terms. The term, "partially met," provides extremely wide latitude to terminate a Consent Order when any portion of it is met. The FDIC should ensure consistent treatment of FDIC-supervised banks regardless of the bank's geographical location.

Further, Consent Order termination decisions were not centrally monitored. Monitoring decisions across Regional Offices would serve as an important internal control to identify the potential for inconsistent application of Consent Order termination guidance across Regional Offices. We made 10 recommendations to enhance the FDIC's guidance regarding termination of its Consent Orders, and

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related processes, monitoring, and documentation.

Enhancing FDIC Rulemaking

FDIC rulemaking should be a transparent process that analyzes the need for safety and soundness regulation and the compliance burden placed on banks. A foundational component of rulemaking is the FDIC's access to reliable information to measure a regulation's costs and benefits. Quantifying both the costs and benefits of significant financial regulations can be challenging, and it often may be imprecise and unreliable.⁵⁸ For example, performing such analysis can be difficult, because it involves theory, modeling, statistical analysis, and other tools to predict future outcomes based on certain assumptions.⁵⁹

In our OIG review, [Cost Benefit Analysis Process for Rulemaking](#) (February 2020), we found that the FDIC had not established and documented a process to determine when and how to perform cost benefit analyses in its rulemaking process. In addition, the FDIC was not transparent in publishing (i) the reason(s) why a cost benefit analysis was or was not performed; (ii) the reason(s) for the depth of analysis performed; (iii) the analytical scope and methodology used; and (iv) the analysis performed. Without transparent cost benefit analyses, stakeholders such as financial institutions, the public, and Congress may not understand the FDIC's analyses and conclusions.

Also, we found that the FDIC did not perform cost benefit analyses after issuance of a final rule. Without performing cost benefit analyses of existing rules or establishing a formal process to proactively review each final rule, the FDIC may not identify duplicative, outdated, or overly

burdensome rules in a timely manner. In addition, the FDIC may not ensure that its rules are effective and achieve their intended objectives/outcomes.

We made five recommendations in this report; however, none of them have been implemented since the report was issued in February 2020. The FDIC had originally designated an Expected Completion Date for four of these recommendations as June 30, 2021; however, the Agency has extended the time period for implementation of its corrective actions. FDIC staff indicated that the reason for the extension was to allow for the completion of the FDIC's review process for a draft directive and accompanying staff guidance on regulatory analysis.

Effective governance by the FDIC Board and executives ensures that the FDIC is prepared to meet its mission. The FDIC should clarify the protocols for submitting motions to the Board for consideration. Further, the FDIC's ERM program should assist the FDIC Board and Agency officials by identifying and assessing external and internal threats and risks in order to adjust relevant policies and controls. When such policies and controls are found to be weak, the FDIC should continue to take steps to correct these deficiencies in a timely manner and ensure that corrective actions remain effective. The FDIC should be clear about whether and to what extent it adopts Executive Branch policies. In addition, the FDIC should have clear internal policies and procedures to ensure consistent implementation of FDIC programs by its personnel. FDIC policies should be aligned with other regulators, as appropriate, to ensure consistent treatment of banks. The FDIC should also ensure that the process for rulemaking is transparent and that rules are based on sound cost benefit analysis.

IT Security at the FDIC

Key Areas of Concern

The primary areas of concern for this Challenge on IT Security are:

- Improving the FDIC's overall information security;
- Managing the security of mobile devices; and
- Improving security controls over the FDIC's critical building services.

The OIG has identified IT Security as a Top Challenge for the FDIC since 2018.

On December 6, 2021, the Office of Management and Budget (OMB) stated that “[t]he United States Government continues to face increasingly sophisticated efforts to compromise Federal IT systems, challenging current defenses and creating an urgent need to evolve to a new security paradigm.”⁶⁰ In Fiscal Year 2020, OMB reported that Federal agencies had suffered 30,819 cybersecurity incidents, an 8 percent increase over the incidents in 2019.⁶¹

On November 4, 2021, the Cybersecurity & Infrastructure Security Agency (CISA) issued a Directive stating that the United States faces persistent and increasingly sophisticated malicious cyber campaigns that threaten the American people's security and privacy.⁶² The CISA Directive stated that the Federal Government must improve its efforts to protect against these campaigns as these vulnerabilities pose a significant risk to agencies and the Federal enterprise.

FDIC IT systems support day-to-day operations of the Agency and are critical to the Agency's mission. As of August 2021, the FDIC had 76 IT systems containing significant amounts of information about FDIC employees, supervised banks, and depositors. For example, the FDIC's Failed Bank Data System holds nearly 2,500 terabytes of sensitive information from over 500 bank failures. A cyber incident at the

FDIC could severely limit its capabilities to meet mission requirements, particularly during a crisis. In addition, cyber incidents could compromise sensitive business information and Personally Identifiable Information.⁶³

Improving the FDIC's Information Security

In our OIG audit, [The FDIC's Information Security Program—2021 \(October 2021\)](#), we found that while the FDIC had established and strengthened some security controls from the prior year, there remained several security control weaknesses that limited the effectiveness of the FDIC's information security program and practices. These deficiencies placed the confidentiality, integrity, and availability of the FDIC's information systems and data at risk. The highest risk security weaknesses noted in our report included:

- **High Number of Overdue and Unaddressed High- and Moderate-Risk Plans of Action and Milestones (POA&M).** POA&Ms are used to track the progress of corrective actions pertaining to security vulnerabilities. We found that as of July 2021, 176 high- and moderate-risk POA&Ms remained unremediated. Without consistently and timely addressing control deficiencies, the FDIC will continue to face an increasing backlog of POA&Ms, leaving its data more vulnerable to security exploits from unmitigated threats and reducing its overall security posture.
- **Ad-Hoc Supply Chain Risk Management Processes at the FDIC.** The FDIC has not defined processes and procedures that support the underlying components of its SCRM directive. Without these SCRM processes and procedures, the FDIC cannot be assured

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that it will accurately identify and monitor its supply chain risks.

- **Administrative Account Management Needs Improvement.** During 2021, we identified 11 additional open POA&Ms related to privileged user access. Weaknesses in the FDIC’s processes for managing Administrative Accounts increased the risk of unauthorized activity, such as individuals accessing, modifying, deleting, or exfiltrating sensitive information.
- **Inadequate Oversight and Monitoring of FDIC Information Systems.** Federal agencies must ensure that entities operating information systems on behalf of the Federal Government meet the same security and privacy requirements as Federal agencies. Historically, several systems, components, and services that should have been assessed by the FDIC according to these requirements were instead subject to a now-rescinded assessment methodology. As a result, the FDIC did not subject these systems to a proper risk assessment, authorization to operate, or ongoing monitoring.

We made six recommendations to improve the IT security systems at the FDIC, in addition to five recommendations that remain from prior Financial Information Security Act (FISMA) reports (including one recommendation from our OIG report issued on November 2, 2016).

Managing the Security of Mobile Devices

The FDIC has issued approximately 4,700 smartphones and tablets to its employees and contractor personnel. While these mobile devices may enhance communications, they also introduce the risk of cyber threats, such as “malware” that can allow an actor to exploit vulnerabilities on the devices; eavesdrop wireless communications over public networks; and

collect and monitor data on mobile applications installed by users, such as the user’s location, contacts, and browsing history.

In our OIG report, [Security and Management of Mobile Devices](#) (August 2021), we found that the FDIC had not established or implemented effective controls and practices to secure and manage its mobile devices in three of nine areas assessed. FDIC policies, procedures, and guidance were outdated and did not reflect current business practices pertaining to mobile devices, and they did not address key elements promulgated by NIST. The FDIC policy on mobile devices was more than 18 years old—issued prior to the introduction of smartphones and tablets—and focused on obsolete technologies such as pagers.

The FDIC policies did not address its Bring Your Own Device program, nor the risks associated with personal use of FDIC-furnished mobile devices, such as non-work related applications, and texting, messaging, and video. We also found that FDIC employees and contractor personnel had downloaded non-work related applications, including dating services, shopping, sports entertainment, and movie streaming services. We made nine recommendations to strengthen the FDIC’s management of mobile devices. As of the date of this Top Challenges Report, the FDIC aims to implement these recommendations by May 2022.

Improving Security Controls over Critical Building Services

The FDIC uses building automation systems to monitor and control critical services at its facilities, such as the supply of electrical power, HVAC (heating, ventilation, and air conditioning), and water services. In our OIG audit, [Security of Critical Building Services at FDIC-owned Facilities](#) (March 2021), we found that the FDIC security

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controls over three information systems were not effective to monitor, manage, and help ensure the uninterrupted delivery of critical building services. We identified weak account management practices, the use of unsupported vendor software, and a lack of security oversight and monitoring. Such ineffective controls and practices increased the risk of unauthorized access to these three systems, which could have led to a disruption of the systems, corruption of the systems' data, or other malicious activity. We made 10 recommendations to improve the security controls over three critical building systems at the FDIC and 4 recommendations remain outstanding.

In addition, we have ongoing work to review the adequacy and effectiveness of FDIC security controls over its wireless networks and its Windows Active Directory.

The FDIC is dependent upon IT systems for day-to-day activities—especially during a banking crisis. The FDIC should ensure that its IT security can withstand increasing risks to Federal systems. Strong IT security is paramount to ensure that the FDIC can fulfill its mission and protect the sensitive information of bank customers and employees, and FDIC personnel.

Security and Privacy at the FDIC

Key Areas of Concern

The primary areas of concern for this Challenge on Security and Privacy are:

- Improving the effectiveness of the FDIC's Personnel Security and Suitability processes;
- Implementing management of Physical Security based upon risk assessments;
- Sustaining a work environment free from discrimination, harassment, and retaliation; and
- Securing sensitive and Personally Identifiable Information.

The OIG has identified Security and Privacy as a Top Challenge for the FDIC since 2019.

The FDIC is responsible for the security and safety of approximately 5,800 employees and 1,600 contract personnel who work at 92 FDIC facilities throughout the country. The FDIC is also the custodian of 76 IT systems and a large volume of hard-copy records on premises and in archival storage.

Improving the Effectiveness of the FDIC's Personnel Security and Suitability Processes

An important step in mitigating risk to the FDIC is ensuring that employees and contractors undergo appropriate security and suitability screening. In March 2021, the GAO stated that “[a] high-quality personnel security clearance process minimizes the risks of unauthorized disclosures of classified information and helps ensure that information about individuals with criminal histories or other questionable behavior is identified and assessed.”⁶⁴

The FDIC should be assured that its employees and contractors are properly

screened and investigated before being granted access to systems and entrusted with sensitive, confidential, or, in some cases, classified information. In our OIG evaluation, [The FDIC's Personnel Security and Suitability Program](#) (PSSP) (January 2021), we concluded that the FDIC's PSSP program was not fully effective in ensuring the timely completion of preliminary suitability screenings, background investigations commensurate with position risk designations, and re-investigations. We found that four contractor employees with unfavorable background investigation adjudications continued to work at the FDIC for periods ranging from nearly 8 months to 5 years (until we notified the FDIC about these cases). Further, the FDIC did not remove seven contractor personnel with unfavorable adjudications in a timely manner, did not follow its Insider Threat protocols, and conducted limited risk assessments for contractors with unfavorable adjudications.

The FDIC also did not initiate numerous required periodic reinvestigations in a timely manner. In addition, data on contractor position risks were unreliable, employee background investigations were often not commensurate with position risk, FDIC personnel security files were frequently missing some preliminary background investigation data, and the FDIC was not meeting its goals for completing preliminary background investigations within a specified timeframe. The FDIC took urgent action to address our recommendations in this report. The FDIC should sustain controls over its personnel security programs as it hires employees and contractors.

Implementing Physical Security Based on Risks

The FDIC should ensure that its facilities have appropriate physical security controls in place to safeguard personnel. According to the Congressional Research Service, Federal facilities and employees, contractors, and visitors to such facilities “face a variety of threats, including illegal weapon and explosive possession, robbery, riots, civil disturbances, homicide, and arson.”⁶⁵

The FDIC maintains 92 leased or owned facilities across the country and is in the process of assessing facility needs as it transitions to a hybrid workplace. In our OIG evaluation, [The FDIC’s Physical Security Risk Management Process](#) (April 2019), we concluded that the FDIC had not established an effective physical security risk management process to ensure that it met required standards and guidelines. We found that the FDIC frequently did not document its decisions regarding facility security risks and countermeasures, and such decisions were not guided by defined policies or procedures. Without documentation of these decisions, FDIC executives and oversight bodies were not able to fully consider and review the rationale for these determinations.

We also found that the FDIC did not conduct key activities in a timely or thorough manner for determining facility risk level, assessing security protections in the form of countermeasures, mitigating and accepting risk, and measuring program effectiveness. For example, for one of its medium-risk facilities, the FDIC began, but did not complete, an assessment more than 2½ years after the FDIC occupied the leased space. Collectively, these weaknesses limited the FDIC’s assurance that it met Federal standards for physical security over its facilities. We made nine recommendations to address the weaknesses in the FDIC’s physical security

risk management process, and the FDIC has implemented them. The FDIC should continue to monitor its physical security program controls as threats change and as the FDIC reviews and modifies its space needs for buildings and facilities.

Sustaining a Work Environment Free from Discrimination, Harassment, and Retaliation

The FDIC Chair has stated that, “[t]he FDIC does not tolerate discrimination, harassment (including sexual harassment), or retaliation, and every allegation of these unlawful behaviors is taken seriously. FDIC managers and supervisors must address harassment allegations immediately and appropriately.”⁶⁶ Sexual harassment negatively impacts workplace culture. It can undermine employee morale and can cause employee engagement and productivity to decline. According to a [survey](#) conducted by Deloitte (March 2019), 52 percent of women experienced some form of harassment within the last 5 years. Further, a [report](#) from Project Include (March 2021) found that 26 percent of respondents experienced an increase in gender-based harassment during the pandemic. On December 21, 2021, the Ranking Member of the Senate Committee on Banking, Housing and Urban Affairs noted that “federal employees at multiple agencies covered by the jurisdiction [of the Senate Banking Committee] have alleged experiencing harassment, discrimination, or other forms of abuse by agency officials in recent months.”⁶⁷

In our OIG evaluation, [Preventing and Addressing Sexual Harassment](#) (July 2020), we found that the FDIC had not developed a sexual harassment prevention program that fully aligned with the five core principles promoted by the Equal Employment Opportunity Commission. As part of our work, in April 2019, we conducted a survey of FDIC employees that indicated approximately 8 percent of FDIC

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respondents (191 of 2,376) had experienced sexual harassment at the FDIC during the period January 2015 to April 2019. This figure was similar to the results of a survey previously conducted by the Merit Systems Protection Board (MSPB) based on an earlier timeframe; the Government-wide average in this MSPB survey was 14 percent. Although 191 FDIC respondents reportedly experienced sexual harassment, the FDIC received only 12 reported sexual harassment allegations during the relevant timeframe.

Our survey further indicated that 38 percent of FDIC respondents who stated they had experienced sexual harassment said that they did not report the incident(s) for “fear of retaliation,” and nearly 40 percent of FDIC respondents did not know, or were unsure, how to report allegations of sexual harassment. We recommended that the FDIC enhance its policies, procedures, and training to facilitate the reporting of sexual harassment allegations and address reported allegations in a prompt and effective manner. The FDIC has addressed the recommendations in this report. The FDIC should continue to ensure that it maintains an effective program to combat sexual harassment.

Securing Sensitive and Personally Identifiable Information

The FDIC should have effective processes to manage, monitor, and safeguard its information and ensure the safety and privacy of the records it keeps. FDIC information includes, for example, sensitive information about banks and Personally Identifiable Information (PII) and Social Security Numbers of employees, contractors, bank management, and bank deposit holders.

Recently, the GAO reviewed the handling of PII by five Federal financial regulators, including the FDIC.⁶⁸ With regard to the FDIC, the GAO found that the FDIC “did not

establish agency-wide metrics to monitor privacy controls.” Without such controls, PII held by the FDIC may be at increased risk of compromise.

In our OIG audit, [The FDIC’s Privacy Program](#) (December 2019), we found that the FDIC had not established an effective privacy program to manage and monitor PII. The FDIC’s controls and practices for its Privacy Program did not comply with four relevant privacy laws and/or OMB policy and guidance. Specifically, the FDIC did not:

- Fully integrate privacy considerations into its risk management framework designed to categorize information systems, establish system privacy plans, and select and continuously monitor system privacy controls;
- Adequately define the responsibilities of the Deputy Chief Privacy Officer or implement Records and Information Management Unit responsibilities for supporting the Privacy Program;
- Effectively manage or secure PII stored in network shared drives and in hard copy, or dispose of PII within established timeframes; and
- Ensure that Privacy Impact Assessments were always completed, monitored, and retired in a timely manner.

These deficiencies increased the risk of PII loss, theft, and unauthorized access or disclosure, which could lead to identity theft or other forms of consumer fraud against individuals. We made 14 recommendations designed to enhance the effectiveness of the FDIC’s Privacy Program and practices.

As of the date of this Top Challenges Report, actions to remediate three

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recommendations remain unimplemented since the issuance of our report in December 2019, including those related to:

- Developing and approving privacy plans for all information systems;
- Updating policies and procedures for the current organizational structure of the Privacy Program; and
- Developing and implementing controls to ensure that PII is stored in networks and hard copy in accordance with laws, regulations, policies, and guidelines.

Further, in our OIG audit, [*The FDIC's Information Security Program – 2019*](#) (October 2019), we found that the FDIC had not adequately controlled access to sensitive information and PII stored in hard copy. For example, we identified instances in which sensitive information stored on

internal network shared drives was not restricted to authorized users. We also conducted walk-throughs of selected FDIC facilities and found significant quantities of sensitive hard-copy information stored in unlocked filing cabinets and boxes in building hallways. We recommended that employees and contractor personnel properly safeguard sensitive electronic and hardcopy information.

The security and safety of FDIC personnel, facilities, and information is critical to its mission and operations. The FDIC can continue to enhance protection in these areas through improvements to its programs to assess personnel suitability, safeguard facilities, mitigate workplace sexual harassment, and ensure the security and privacy of information held in custody by the FDIC.

The FDIC’s Collection, Analysis, and Use of Data

Key Areas of Concern

The primary areas of concern for this Challenge on Collection, Analysis, and Use of Data are:

- Establishing processes to share threat information;
- Ensuring reliable data for FDIC decision-making; and
- Managing the financial and economic impact of the pandemic.

The OIG has identified Sharing of Threat Information as a Top Challenge for the FDIC since 2018.

The U.S. Government collects and gathers significant volumes of data and information on threats facing the financial and banking sectors. This threat data and information from across the Federal Government may assist the FDIC in its mission to examine and inform banks, implement supervisory strategies, make policy determinations, allocate resources, and ensure U.S. financial stability.

The [FSOC 2021 Annual Report](#) recognized the critical importance of sharing threat information with the Financial Services Sector and among Federal Government agencies. The OCC also encouraged monitoring of information provided by law enforcement and international organizations regarding “how criminals adapt scams and money-laundering techniques to exploit new vulnerabilities created by the pandemic.”⁶⁹

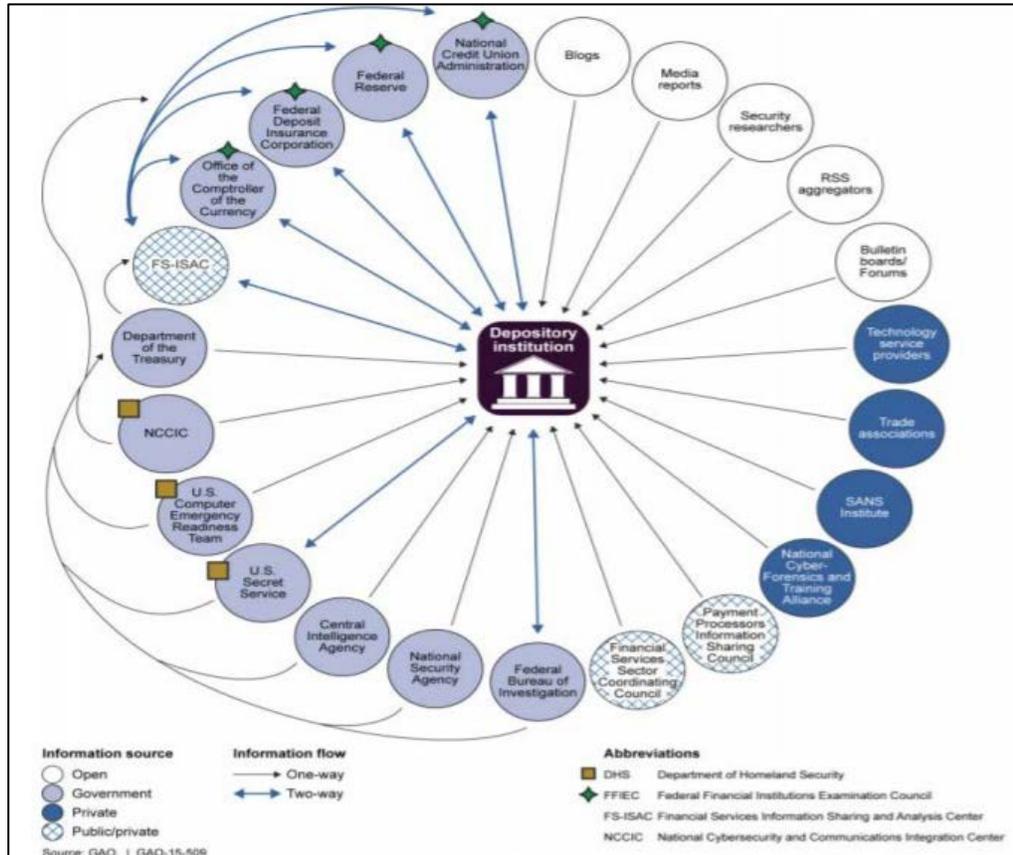
In addition, data can help Federal agencies, such as

the FDIC, understand and improve program performance.⁷⁰ Through data-driven decision-making, regulators can use data to inform their decision-making processes and validate a course of action.⁷¹ Data can also be used as an input for modeling and to identify trends. Such modeling can allow Government agencies to prevent problems rather than react to them.⁷² For the FDIC, such models may allow the FDIC to forecast financial risks to the banking sector and adjust supervisory strategies, staffing, and budgeting accordingly.

Establishing Processes to Share Threat Information

As shown in Figure 2, the GAO recognized that numerous Federal Government agencies hold information relevant to banks

Figure 2: Sources of Threat Information for Financial Institutions



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and the banking sector. In Executive Order 14028, [Improving the Nation's Cybersecurity](#) (May 12, 2021), the Administration encouraged reducing barriers to sharing threat information, specifically among Federal agencies and service providers.

The FDIC, along with its Government partners, collects and queries threat information contained within U.S. Government databases and repositories. The FDIC should acquire, analyze, and disseminate threat information to inform senior FDIC officials and decision-makers, FDIC examiners and Regional personnel, its supervisory program officials, and banks.⁷³

In our OIG audit, [Sharing of Threat Information to Guide the Supervision of Financial Institutions](#) (January 2022), we found that the FDIC did not establish effective processes to govern its sharing of threat information. Specifically, the FDIC did not establish appropriate governance through a written governance structure and complete, approve, and implement a governance Charter to establish a common understanding of the role for its Threat Information Sharing program or define an overall strategy and requirements for it.

Further, the FDIC did not develop goals, objectives, or measures to guide the performance of its Intelligence Support Program. The FDIC also did not establish adequate policies and procedures to define roles and responsibilities for key stakeholders involved in the threat information-sharing program and activities or fully consider program risks in its ERM process.

We also identified gaps in each of the four component functions of Threat Information Sharing:

- **Acquisition.** The FDIC did not develop written procedures for determining its threat information requirements. As a result, the FDIC

has limited assurance that it will acquire all relevant threat information to support its business operations and programs.

- **Analysis.** The FDIC did not establish procedures to guide its analysis of threat information. Absent such procedures, the FDIC relied solely on the discretionary judgment of certain individuals to determine the extent to which threat information should be analyzed to support FDIC business needs and the supervision of financial institutions.
- **Dissemination.** The FDIC did not develop procedures for disseminating threat information. Absent such procedures, decisions regarding what to disseminate, to whom, and when, are left solely to the discretion of individuals, which could lead to inconsistent or untimely communications. The FDIC had not established an infrastructure that would allow for secure handling of sensitive information, including transmission, storage, and disposition of such information.
- **Feedback.** The FDIC did not establish a procedure to obtain feedback from recipients of threat information to assess its utility and effectiveness. Such structured feedback could provide valuable information regarding the extent to which such threat information is timely and actionable, and FDIC personnel use threat information.

We also found numerous gaps in the FDIC's management of threat information sharing, including: Not having backup personnel for its Senior Intelligence Officer (SIO) or plans for an absence or departure; Not establishing minimum training requirements for the SIO position; Not obtaining required

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security clearance for certain senior FDIC officials; and Not properly categorizing unclassified threat information.

We made 25 recommendations to the FDIC to improve its processes for sharing threat information. We have additional work planned to assess the FDIC's sharing of threat information with its supervised banks and the banking sector.

Ensuring Reliable Data for FDIC Decision-Making

Data is a key input into the FDIC's decision-making processes. The FDIC Board and senior FDIC officials utilize various data sets to assess program performance, whether FDIC programs are meeting established goals, or whether goals or data collection should be modified. Incorrect, incomplete, and otherwise faulty data can lead to ineffective decision-making especially when data is the basis for policy determinations. Therefore, it is critical that the FDIC support and maintain the integrity of its data systems.

We found deficiencies in data reliability, collection, and analysis in a number of recent OIG reviews, for example:

- **Errors in Examination Completion and Mailing Dates.** In our OIG evaluation, [Reliability of Data in the FDIC Virtual Supervisory Information on the Net System](#) (ViSION System) (November 2021), we found that the FDIC's risk assessment used for the ViSION system data had not been reassessed or updated in over a decade, since 2009. Also, we found that of the four key data elements we tested in the FDIC's ViSION system, two were reliable and two were not reliable.⁷⁴ The unreliable data included recorded dates for the completion of bank examinations and mailing of bank examination reports. Errors in either date increase the risk of inaccurate reporting of examination performance metrics to FDIC management and the public. We made six recommendations to the FDIC to improve ViSION data reliability.
- **Exclusion of Data for Government Reporting.** In our OIG audit, [FDIC's Compliance under the Digital Accountability and Transparency Act of 2014](#) (November 2021), we found that the FDIC's submission of financial and award data excluded information for the Federal Savings and Loan Insurance Corporation Resolution Fund (FRF) and the Resolution Trust Corporation (RTC). As a result, obligation and outlay amounts for the FRF and RTC were not available for display on the Government website, USASpending.gov. We made three recommendations to clarify FDIC data reporting.
- **Unreliable Background Investigation Data.** We found FDIC data on employee and contractor background investigations was often not reliable. In our OIG evaluation, [The FDIC's Personnel Security and Suitability Program](#) (January 2021), we found that contractor position risk levels recorded in FDIC systems were unreliable. As a result, the FDIC could not determine whether these contractors received background investigations commensurate with their positions. We also found that FDIC systems were missing data for employee and contractor preliminary background investigation completion dates.
- **Incorrect BSA Reporting to the Board and other Agencies.** In our OIG evaluation, [Termination of Bank Secrecy Act/Anti-Money Laundering Consent Orders](#) (December 2021),

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we found that the FDIC did not consistently track Consent Order termination data in its system of record. As a result, the FDIC provided nine incorrect reports to the FDIC Board of Directors concerning enforcement actions; and did not report three BSA/AML Consent Order terminations in a quarterly report to the Financial Crimes Enforcement Network (FinCEN) in the Department of the Treasury.

- **Analysis of Collected Data:** In our OIG memorandum, [The FDIC's Management of Employee Talent](#) (September 2021), we found that the FDIC did not have a process for collecting and analyzing the various types of data that can be used to assess employee retention across the Agency as part of its talent management strategy. Specifically, the FDIC did not have a systematic process to holistically capture and analyze data, and to ensure that the

information flowed to the Divisions and Offices. Such a process would help the FDIC develop a coherent strategy for managing retention activities throughout the Agency, provide an Agency-wide view of the progression and movements of the FDIC workforce, and provide helpful insights on employees' decisions to stay or separate.

Timely and reliable information assists the FDIC in mitigating risks and supports data-driven and transparent decision-making. In addition, threat information from across the Federal Government may assist in examining and informing banks, implementing supervisory approaches, making policy determinations, allocating resources, and ensuring the stability of the financial system. In addition, reliable and accurate program data allows the FDIC Board and senior management to measure and assess the effectiveness of FDIC programs and to support decision-making.

Contracting and Supply Chain Management at the FDIC

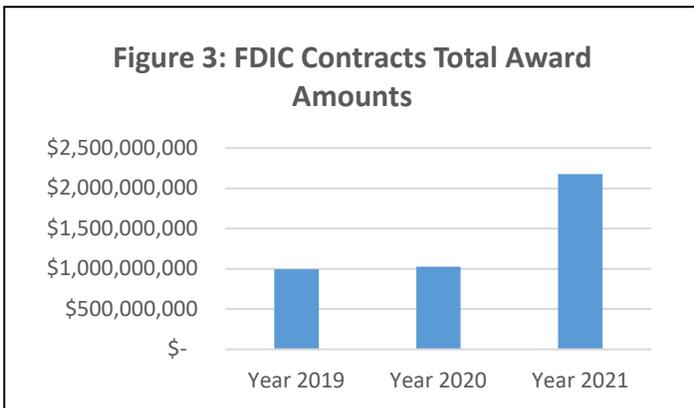
Key Areas of Concern

The primary areas of concern for this Challenge on Contracting and Supply Chain Management are:

- Improving the FDIC’s contract management process;
- Managing risks associated with the FDIC’s supply chain; and
- Ensuring whistleblower rights and protection notices for contractor personnel.

The OIG has identified Contracting as a Top Challenge for the FDIC since 2018.

According to the FDIC’s November 2021 Awards Summary Report, the FDIC issued 483 contract actions for total award amounts of over \$2 billion. As shown in Figure 3, FDIC contract award amounts doubled in 2021 when compared to 2020 (\$1.025 billion) and 2019 (\$994 million).



Source: FDIC Awards Summary Report (November 2021)

The FDIC should have strong oversight of its contracts. Contract oversight includes activities such as monitoring and validating invoices prior to payment, approving contract deliverables for goods and services, monitoring contractor activities against contractual timelines, and ensuring contractors comply with required security and confidentiality requirements.

Improving the FDIC’s Contract Management Process

In the most recent audit of the FDIC’s financial statements in 2021, the GAO identified 10 deficiencies “related to contract-payment review processes that collectively represent a significant deficiency in FDIC’s internal control over financial reporting.” In addition, the GAO noted five deficiencies in the 2020 financial statement report. The GAO concluded that the “FDIC cannot reasonably assure internal controls over contract payments are operating effectively, which increases the risks of improper payments and financial statement misstatements.”⁷⁵

We have also conducted a number of reviews that found weaknesses in FDIC contract oversight management. In our OIG evaluation, [Contract Oversight Management](#) (October 2019), we concluded that the FDIC needed to strengthen its contract oversight management, particularly in terms of its information system and contract documentation. We determined that the FDIC’s contracting management information system had limited data and reporting capabilities for Agency-wide oversight of its contract portfolio. We found that the FDIC was overseeing acquisitions on a contract-by-contract basis rather than on a portfolio basis and did not have an effective contracting management information system to readily gather, analyze, and report portfolio-wide contract information across the Agency.

As a result, FDIC Board Members and other senior management officials were not provided with a portfolio-wide view or the ability to analyze historical contracting trends across the portfolio, identify anomalies, and perform ad hoc analyses to

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identify risk or plan for future acquisitions. Therefore, we recommended that the FDIC provide enhanced contract portfolio reports to FDIC executives, senior management, and the Board of Directors. This recommendation remains unimplemented since the issuance of our report in October 2019. The FDIC had originally designated an Expected Completion Date for this recommendation as December 31, 2020.

Further, in our OIG evaluation, [Critical Functions in FDIC Contracts](#) (March 2021), we reviewed two existing FDIC contracts with Blue Canopy Group, LLC, which performed services in support of the FDIC's information security and privacy program. FDIC contracts with Blue Canopy amounted to approximately 38.3 percent (\$16.2 million) of the FDIC's annual operating expenses for Information Security (\$42.3 million) in 2019. We had previously found that "the FDIC hired [Blue Canopy] to assess certain security controls . . . for which the FDIC had also assigned the firm duties related to design and/or execution . . . [T]his arrangement limited the firm's independence and *impaired the firm's ability to conduct impartial security control assessments.*"⁷⁶ [Emphasis added.]

We found that the FDIC did not have policies and procedures to identify Critical Functions at the Agency, nor did it implement any heightened contract monitoring activities for Critical Functions. Therefore, the FDIC did not identify services provided by Blue Canopy as Critical Functions. As a result, the FDIC cannot be assured that it will provide sufficient management oversight of contractors performing Critical Functions or supervision to ensure that the Agency does not lose control of its mission or operations. We made 13 recommendations to strengthen the FDIC's identification and monitoring of contracts involving Critical Functions. As of the date of this Top Challenges Report, 12 recommendations remain unimplemented. Further, 5 of these 12 recommendations are unresolved, meaning FDIC management did

not propose acceptable corrective actions for these recommendations.

Establishing an Effective Supply Chain Risk Management Program

According to NIST, there are inherent risks associated with an agency's supply chain for contracted goods and services.⁷⁷ According to the GAO, supply chain risks include, for example:

- **Installation of hardware or software containing malicious logic** causing significant damage by allowing attackers to take control of entire systems and read, modify, or delete sensitive information; disrupt operations; launch attacks against other organizations' systems; or destroy systems.
- **Installation of counterfeit hardware or software** threatening the integrity, trustworthiness, and reliability of information systems because they fail more often and more quickly, and provide an opportunity to insert a back door to give an intruder remote access.
- **Failure or disruption in the production or distribution of critical products**, including manmade and natural disruptions of the supply of IT products critical to Federal agencies.
- **Reliance on a malicious or unqualified service provider** that can use its access to systems and data to gain access to information, commit fraud, disrupt operations, or launch attacks against other computers or networks.
- **Installation of hardware or software that contains unintentional vulnerabilities** such that defects in code or

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misconfigurations can be exploited to gain access to information systems and data and disrupt service.⁷⁸

Organizations may have reduced visibility, understanding, and control of these risks when their vendors rely on second- and third-tier suppliers and service providers. The European Union Agency for Cybersecurity reported that hackers often focus on an entity's vendor systems for supply chain attacks and predicted that supply chain cyberattacks would quadruple in 2021.⁷⁹

In our report, [The FDIC's Information Security Program—2021](#) (October 2021), the FDIC's SCRM operated at a Level 1 (Ad Hoc). We found that the FDIC's SCRM Program is still in its initial phase, and procedures that support the underlying components have not yet been defined in accordance with FISMA requirements. Specifically, the FDIC did not have procedures that defined:

- How to implement its SCRM policy or strategy and associated baseline SCRM controls;
- Obtaining assurance over external service providers' compliance with the FDIC's cybersecurity requirements, including:
 - How to identify and prioritize externally provided systems, components, and services;
 - The organizational requirements for cybersecurity and SCRM for externally provided systems, system components, and services;
 - The tools or methods used to validate that SCRM requirements are being met;
 - The risk-based processes for evaluating SCRM risks associated with suppliers;
 - How awareness is maintained over risks

stemming from upstream suppliers through monitoring activities; and

- The integration of its acquisition process and the use of contractual stipulations detailing appropriate SCRM measures for external providers.
- Management of counterfeit components, including:
 - How to detect and prevent counterfeit components;
 - How to maintain configuration control over components being repaired or serviced; and
 - The process for reporting counterfeit components.

Because the FDIC is a financial regulator and holds sensitive and nonpublic information, it is a potential target of adversaries seeking to interfere with its regulatory activities or obtain information for their own advantage. Ad hoc SCRM processes limit the FDIC's ability to identify vulnerabilities throughout its supply chain consistently, and to manage and monitor associated risks effectively.

Ensuring Whistleblower Rights and Protection Notices for Contractor Personnel

FDIC contracts should contain a provision notifying contractors that they must provide their employees with information regarding the rights and protections for whistleblowers.⁸⁰

In our OIG evaluation, [Whistleblower Rights and Protections for FDIC Contractors](#) (January 2022), we found that the FDIC had not aligned its procedures and processes with laws, regulations, and policies designed to ensure notice to contractor and subcontractor employees about their whistleblower rights and protections. The FDIC also did not always comply with the

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whistleblower rights notification requirements it established. Specifically, the FDIC did not incorporate the Whistleblower Rights Notification Clause into three of the nine contracts that we tested. Further, the FDIC's Legal Division did not adopt any whistleblower rights notification provisions for contractors or include any whistleblower clauses in its contracts. The FDIC also did not verify that contractors and subcontractors notified employees of their whistleblower rights and protections.

Without clear guidance and direction on where and to whom to report a violation of any law, rule, or regulation; gross mismanagement; gross waste of funds; abuse of authority; or a substantial and specific danger to public health and safety, FDIC contractors may not take the initiative to report such allegations. The FDIC should make it clear in its contracts that contractors must notify their employees that such

whistleblower allegations may be reported to the FDIC OIG Hotline. We made nine recommendations to improve the FDIC's compliance with legal requirements, including required contract clauses regarding contractor obligations to notify employees of whistleblower disclosure rights and protections.

Contracting is an important function at the FDIC. The FDIC should prioritize improving its oversight to ensure proper contract monitoring, especially for Critical Functions. The FDIC should also mitigate supply chain risk by establishing a robust SCRM strategy that allows the Agency to assess, evaluate, monitor, and mitigate supply chain risk. The FDIC must also ensure that it has processes in place to advise contractors and subcontractors of their whistleblower rights and protections.

Human Resources at the FDIC

Key Areas of Concern

The primary areas of concern for this Challenge on Human Resources are:

- Optimizing talent management throughout the Agency;
- Managing a wave of potential employee retirements at the FDIC; and
- Ensuring diversity and inclusion within the FDIC workforce.

The OIG has identified Human Resources as a Top Challenge at the FDIC since 2019, particularly with respect to potential retirements among FDIC personnel.

In March 2021, the GAO continued to recognize strategic human capital management as a Government-wide area of high risk.⁸¹ The GAO identified the need for Federal agencies to measure and address existing mission-critical skill gaps. A lack of strategic workforce planning may have lasting effects on the capacity of an agency's workforce and its ability to fulfill its mission.

Workforce planning is especially important as the FDIC shifts towards a hybrid work model that includes the potential for a significant increase in employees working remotely. On January 4, 2022, the FDIC reached agreement with the National Treasury Employees Union on new policies to support a hybrid work environment and expanded telework opportunities. New and enhanced skillsets may be required for this transition. According to the Society of Human Resource Management, employee traits such as adaptability, resiliency, self-motivation, communication and collaboration have become critical for successful remote work.⁸²

Optimizing Talent Management Throughout the FDIC

As part of an agency's talent management, the Office of Personnel Management (OPM) recommends retention strategies as a way to create an environment where employees understand and are committed to the mission of the organization and empowered to make a difference.⁸³ The term, "talent management," encompasses attracting and retaining talent for improving organizational performance, while also considering attrition.⁸⁴ Talent management also seeks to address competency gaps, by implementing and maintaining programs to attract, develop, promote, and retain talent, particularly for mission-critical positions and occupations.

In our OIG memorandum, [The FDIC's Management of Employee Talent](#) (September 2021), we identified concerns with the FDIC's management of its employee retention. Specifically, we found that the FDIC:

- **Did not have clear goals to manage employee retention.** The FDIC had strategic plans in place in March 2021 related to its management of employee retention. However, two of the three FDIC talent retention goals were not objective, quantifiable, and measurable. As a result, the FDIC could not assess its progress towards these goals.
- **Did not have a systematic process for collecting and analyzing employee retention data.** The FDIC did not have a systematic process to holistically capture and analyze data, and to ensure that the information flowed to

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the Divisions and Offices. Such a process would help the FDIC develop a coherent strategy for managing retention activities throughout the Agency, provide an Agency-wide view of the progression and movements of the FDIC workforce, and provide helpful insights on employees' decisions to stay or separate.

- Did not establish metrics or indicators to measure the effectiveness of its retention activities or actions.** Instead, the FDIC tracked its “inputs” – that is, the implementation status of the activities or actions designed to meet its employee retention goals. Thus, the FDIC could not determine whether or not its retention activities were working effectively.

We made three recommendations to improve the FDIC’s management of talent at the Agency.

Managing a Wave of Potential Retirements at the FDIC

The FDIC faces a wave of potential retirements among its workforce in the coming years. As shown in the Table more than 25 percent (1,536 individuals) of the FDIC workforce is currently eligible to retire. This figure climbs to nearly 40 percent (2,356 individuals) within 5 years by 2026. The FDIC’s retirement-eligibility rates are higher than the 15-percent eligibility rate last reported for the entire Federal Government.⁸⁵

The FDIC faces significant risks regarding retirement eligibility in key Divisions involved in crises readiness efforts. As noted in the Table, more than a third of the employees in four key FDIC Divisions are currently eligible to retire – that is, the Division of Resolutions and Receiverships, Division of Finance, Division of Administration, and Legal Division. Absent seasoned professionals from these Divisions with knowledge of lessons learned from past crises, the FDIC may not be sufficiently agile in executing resolution and receivership activities in future crises. Also, all FDIC Divisions have more than 18 percent of their workforce who are currently eligible to retire.

Table: FDIC Employee Retirement Eligibility

Division	2022	2023	2024	2025	2026
DOF	45.2	47.4	52.6	55.6	55.6
DRR	42.7	48.6	53.3	57	59.5
LEGAL	41.7	43.8	46.7	48.9	51.6
DOA	34.1	39.1	42.5	45.93	49
RMS	21.6	25.1	29	32.5	35
DIT	21.5	25.5	28.5	31.2	34.9
CISR	18.8	24.7	28	32.8	36
DIR	18.6	20.5	24.7	27.4	28.8
DCP	18.3	21.1	24.4	27.7	31.1
Overall for FDIC	25.3	29	32.6	35.9	38.8

Source: OIG analysis of FDIC-provided retirement eligibility as of July 2021.

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In addition, more than 36 percent of the Executives and Managers at the FDIC are eligible to retire currently. These rates climb for FDIC Executives and Managers to nearly 60 percent by 2026. Such retirements may result in gaps in leadership positions. Leadership gaps can cause delayed decision-making, reduced program oversight, and failure to achieve Agency goals.

Ensuring Diversity and Inclusion Within the FDIC Workforce

On June 25, 2021, the President issued [Executive Order 14305](#) on “Diversity, Equity, Inclusion, and Accessibility in the Federal Workforce.” This Executive Order charged Federal agencies with assessing the current state of diversity, equity, inclusion, and accessibility within their workforces and developing strategic plans to eliminate barriers faced by underserved employees.⁸⁶ The FDIC Chair has stated that “[p]romoting diversity at all levels of the FDIC’s workforce continues to be a key challenge for the agency, especially the ability to attract, retain, and advance minorities and women in our bank examiner workforce.”⁸⁷

In June 2021, the FDIC reported that 68.5 percent of all FDIC employees were White, 16.9 percent were Black/African American, 4.5 percent were Hispanic, 7.5 percent were Asian/Pacific Islander, 0.6 percent were American Indian/Alaska Native, and 2 percent were two or more races.⁸⁸ By comparison, at the end of 2020, 61.5 percent of the Federal workforce was White, 18.4 percent were Black, 9.4 percent were Hispanic, 6.9 percent were Asian/Pacific Islanders, 1.6 percent were Native American/Alaskan Native, and 1.9 percent were more than one race.⁸⁹ The FDIC’s 2021-23 Diversity, Equity, and Inclusion Strategic Plan includes prioritized actions to continue to promote FDIC workforce diversity.

The FDIC is driven by its human resources. The FDIC must continue to focus on managing its human capital lifecycle—hiring, talent management, and retirements—under its new hybrid operating structure, including promoting diversity and inclusion throughout the FDIC workforce. Without diverse, dedicated, and trained staff, it risks falling short of achieving its goals.

¹ IMF, [United States Financial System Stability Assessment](#) (August 2020); U.S. Government Accountability Office, [Financial Stability: Agencies Have Not Found Leveraged Lending to Significantly Threaten Stability but Remain Cautious Amid Pandemic](#) (GAO-21-167) (December 2020).

² The Dodd-Frank Wall Street Reform and Consumer Protection Act created CIGFO to provide oversight of the Financial Stability Oversight Council. CIGFO is chaired by the Inspector General of the Department of the Treasury and includes [nine](#) additional Inspectors General, including the Inspector General of the FDIC.

³ Federal Reserve Bank of New York Staff Report, [Climate Stress Testing](#) (September 2021); Financial Stability Oversight Council, [Report on Climate-Related Financial Risk](#) (October 21, 2021).

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Oversight Council, [Report on Climate-Related Financial Risk](#) (October 21, 2021); FSOC, [2021 Annual Report](#).

⁶ OCC Bulletin 2021-62, [Principles for Climate-Related Financial Risk Management for Large Banks](#) (December 16, 2021).

⁷ Federal Reserve Bank of New York Staff Report, [Climate Stress Testing](#) (September 2021); Financial Stability Oversight Council, [Report on Climate-Related Financial Risk](#) (October 21, 2021).

⁸ [Statement by FDIC Chairman at the Financial Stability Oversight Council Meeting](#) (October 21, 2021).

⁹ Federal Reserve Press Release, [Federal Reserve Board announces it has formally joined the Network of Central Banks and Supervisors for Greening the Financial System, or NGFS, as a member](#) (December 15, 2020); American Banker, [Will FDIC, OCC follow Fed into global climate group?](#) (May 18, 2021).

¹⁰ Environmental Protection Agency Press Release, [EPA Report Shows Disproportionate Impacts of Climate Change](#)

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[on Socially Vulnerable Populations in the United States](#) (September 2, 2021).

¹¹ SBA, Paycheck Protection Program [Report](#), Approvals through May 31, 2021.

¹² McCombs School of Business, University of Texas at Austin, [Did FinTech Lenders Facilitate PPP Fraud?](#) (December 6, 2021).

¹³ Department of Justice, [Justice Department Takes Action Against COVID-19 Fraud](#) (March 25, 2021).

¹⁴ FDIC Regional Directors Memorandum 2020-022, *Examination Considerations Related to the Paycheck Protection Program* (June 22, 2020).

¹⁵ CBS News, [Jerome Powell Full 60 Minutes Interview transcript](#) (April 2021).

¹⁶ OCC, [Semiannual Risk Perspective](#) (Fall 2021); Board of Governors of the Federal Reserve System, [Financial Stability Report](#) (November 2021).

¹⁷ Board of Governors of the Federal Reserve System, [Financial Stability Report](#) (November 2021).

¹⁸ American Banker, [Log4j Security Vulnerability Is a Double Threat to Banks](#) (December 23, 2021).

¹⁹ Boston Consulting Group, [Global Wealth 2019: Reigniting Radical Growth](#) (June 2019).

²⁰ Constella Intelligence, [Financial Services Sector Exposure Report: 2018-2021 Findings and Trends](#).

²¹ American Banker, [Bankers Must Confront Security Risk of Remote Work](#) (December 22, 2021).

²² American Banker, ['It's Very Scary': Small Banks Quietly Hit By Ransomware Attacks](#) (May 24, 2021).

²³ American Banker, [Ransomware Group Attacks A New Jersey Bank—Then Shuts Down](#) (June 16, 2021).

²⁴ The INTREx work program includes examination procedures used to determine the Uniform Rating System for Information Technology. The procedures also assess compliance with Appendix B to Part 364 of the *FDIC Rules and Regulations* entitled *Interagency Guidelines Establishing Information Security Standards* and cybersecurity preparedness.

²⁵ Notice of Proposed Rulemaking, [Computer-Security Incident Notification Requirements for Banking Organizations and Their Service Providers](#), 86 Fed. Reg. 2299 (January 12, 2021).

²⁶ [Computer-Security Incident Notification Requirements for Banking Organizations and Their Bank Service Providers](#), 86 Fed. Reg. 223 (November 23, 2021).

²⁷ These digital assets are not insured by the FDIC. 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. NIST Internal Report 8202, [Blockchain Technology Overview](#) (October 2018).

²⁸ Bloomberg, [Crypto Market Retakes \\$2 Trillion Market Cap Amid Bitcoin Gains](#) (August 15, 2021).

²⁹ Basel Committee on Banking Supervision, [Discussion Paper: Designing a Prudential Treatment for Crypto-assets](#) (May 2021).

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⁴⁰ Environmental Protection Agency Press Release, [EPA Report Shows Disproportionate Impacts of Climate Change on Socially Vulnerable Populations in the United States](#) (September 2, 2021).

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⁴² Message from FDIC Chair, *New Office and Continued Focus on Minority Depository Institutions and Other Mission-Driven Banks* (November 2, 2021).

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⁴⁴ American Banker, [Banks Warming to AI-based Lending](#) (October 21, 2019).

⁴⁵ Brookings Institution, [Reducing Bias in AI-based Financial Services](#) (July 10, 2020).

⁴⁶ Federal Reserve Bank of San Francisco, [Community Development Innovation Review, Regulation to Build a More Inclusive Financial System and Drive Financial Health](#) (August 19, 2021).

⁴⁷ Brookings Institution, [Reducing Bias in AI-based Financial Services](#) (July 10, 2020).

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⁴⁹ Deloitte, [Developing an effective governance operating model – A guide for financial services boards and management teams](#).

⁵⁰ Organization for Economic Co-operation and Development (OECD), [G20/OECD Principles of Corporate Governance](#) (2015).

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⁵¹ See [FDIC Statement on CFPB Statement](#); the [Joint Statement of the CFPB Director and FDIC Director](#) (stating that in light of extensive consolidation in the banking industry over the last 30 years, “the effectiveness of the regulatory framework in meeting the requirements of the Bank Merger Act is critical to the future safety and soundness, financial stability, community accountability, and competitiveness of the banking system.”), and [Statement of Acting Comptroller of the Currency](#).

⁵² On December 17, 2021, the Department of Justice, Antitrust Division, issued a [request](#) for public comments on its guidelines regarding bank mergers.

⁵³ OMB Office of Federal Procurement Policy, [Policy Letter 11–01, Performance of Inherently Governmental and Critical Functions](#) (September 2011).

⁵⁴ OMB Circular No. A-123, [Management’s Responsibility for Enterprise Risk Management and Internal Control](#) (July 2016).

⁵⁵ NIST SP 800-37, Revision 2, [Risk Management Framework for Information Systems and Organizations: A Systems Lifecycle Approach for Security and Privacy](#) (December 2018).

⁵⁶ [The FDIC’s Information Security Program – 2021](#); [The FDIC’s Information Security Program – 2020](#); [The FDIC’s Information Security Program – 2019](#); [The FDIC’s Information Security Program – 2018](#).

⁵⁷ Prior to March 2017, the FDIC closed recommendations without OIG review of the corrective actions. As of March 2017, the OIG now reviews all corrective actions to determine whether the FDIC’s actions satisfy the recommendation and therefore can be considered closed.

⁵⁸ Yale Law Journal Forum, [Cost-Benefit Analysis of Financial Regulation: A Reply](#) (January 22, 2015).

⁵⁹ Congressional Research Service, [Cost-Benefit Analysis and Financial Regulator Rulemaking](#) (April 12, 2017).

⁶⁰ OMB, [Fiscal Year 2021-2022 Guidance on Federal Information Security and Privacy Management Requirements](#) (December 6, 2021).

⁶¹ OMB, [Federal Information Security Modernization Act of 2014 Annual Report to Congress](#) (Fiscal Year 2020). For example, in November 2021, a hacker gained access to an FBI email system and sent more than 100,000 emails. FBI Press Release, [FBI Statement on Incident Involving Fake Emails](#) (November 13, 2021).

⁶² CISA Binding Operational Directive Advisory 22-01, [Reducing the Significant Risk of Known Exploited Vulnerabilities](#) (November 3, 2021).

⁶³ For example, in April 2021, threat actors gained access to five Federal agencies through remote connection software service provider, Ivanti. The FDIC used an Ivanti product known as Pulse Secure and took action to remediate the vulnerability. In December 2020, Federal networks were compromised by a software update from IT management services company SolarWinds. FDIC uses a SolarWinds product and FDIC officials represented that they disconnected its use. Also in December 2020, nation state actors exploited a vulnerability in VMware products that allowed attackers to forge security credentials and

gain access to protected data. The FDIC uses a VMware product and FDIC officials represented that they took action to apply the patch and reduce the risk of exploitation.

⁶⁴ GAO, [High Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-risk Areas](#), (GAO-21-119SP) (March 2021).

⁶⁵ Congressional Research Service, [Federal Building and Facility Security: Frequently Asked Questions](#) (January 27, 2021).

⁶⁶ FDIC, [Equal Employment Opportunity Policy Statement](#) (October 29, 2020).

⁶⁷ United States Senate Committee on Banking, Housing, and Urban Affairs Minority Press Release, [Toomey Encourages Federal Employees to Report Allegations of Misconduct](#) (December 20, 2021).

⁶⁸ GAO, [Federal Financial Regulators Should Take Additional Actions to Enhance Their Protection of Personal Information](#) (GAO-22-104551) (January 2022).

⁶⁹ OCC, [Semiannual Risk Report](#) (Fall 2021).

⁷⁰ GAO, [Issue Summary: Using Data and Evidence to Improve Federal Programs](#).

⁷¹ Harvard Business School, [The Advantages of Data-Driven Decision Making](#) (August 26, 2019).

⁷² Deloitte, [Anticipatory Government, Preempting Problems Through Predictive Analytics](#) (June 24, 2019).

⁷³ The Department of Homeland Security (DHS) defines the term, “threat,” as “a natural or human-created occurrence, individual, entity, or action that has or indicates the potential to harm life, information, operations, the environment and/or property.” See [DHS Risk Lexicon Terms and Definitions](#), 2017 Edition – Revision 2 (October 2017).

⁷⁴ The VISION system is an FDIC mission-essential system that supports the FDIC’s supervision and insurance responsibilities and provides users with access to financial, examination, and supervisory information on financial institutions.

⁷⁵ GAO, [Management Report: Improvements Needed in FDIC’s Internal Control over Contract-Payment Review Processes](#) (GAO-21-420R) (May 13, 2021).

⁷⁶ FDIC OIG, [Security Configuration Management of the Windows Server Operating System](#) (January 2019).

⁷⁷ NIST, Special Publication 800-161 - [Supply Chain Risk Management Practices for Federal Information Systems and Organizations](#) (April 2015). Supply chain refers to “organizations, people, activities, information and resources, possibly international in scope, that provide products or services to consumers.”

⁷⁸ GAO, [Information Security: Supply Chain Risks Affecting Federal Agencies](#), (GAO-18-667T) (July 12, 2018).

⁷⁹ Europe Union Agency for Cybersecurity, Press Release, [Understanding the Increase in Supply Chain Security Attacks](#) (July 29, 2021).

⁸⁰ Pub. L. 114-261, [An Act to Enhance Whistleblower Protection For Contractor and Grantee Employees](#) (December 14, 2016).

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⁸¹ GAO, [High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas](#) (GAO-21-119SP) (March 2021).

⁸² The Society for Human Resource Management, [4 Essential Soft Skills for Successful Remote Work](#) (November 5, 2020).

⁸³ OPM, [Guidance on Establishing an Annual Leadership Talent Management and Succession Planning Process](#) (November 2017).

⁸⁴ The McKinsey Quarterly, [The War for Talent](#) (1998 Number 3).

⁸⁵ FedWeek, [Retirement Wave? Eligibility Numbers Holding Steady](#) (January 7, 2020).

⁸⁶ Executive Order 14305, [Diversity, Equity, Inclusion, and Accessibility in the Federal Workforce](#) (June 25, 2021). The FDIC Legal Division asserted that the Executive Order is not binding on the FDIC, but that the FDIC may voluntarily implement the Executive Order's requirements.

⁸⁷ Statement of FDIC Chair, [On Oversight of Regulators: Does Our Financial System Work for Everyone?](#) (August 3, 2021).

⁸⁸ FDIC OMWI, [Total FDIC Workforce Demographics as of June 30, 2021](#).

⁸⁹ White House, [Strengthening the Federal Workforce](#) (May 2021).

D. Acronyms

AEI	Alliances for Economic Inclusion
AFS	Available-For-Sale
AHDP	Affordable Housing Disposition Program
AI	Artificial Intelligence
AIG	American International Group, Inc.
AML	Anti-Money Laundering
AML/CFT	Anti-Money Laundering and Countering the Financing of Terrorism
ANPR	Advance Notice of Proposed Rulemaking
ASBA	Association of Supervisors of Banks of the Americas
ASC	Accounting Standards Codification
BCBS	Basel Committee on Banking Supervision
BoA	Bank of America, N.A.
BSA	Bank Secrecy Act
Call Report	Consolidated Reports of Condition and Income
CAMELS	C apital adequacy; A sset quality; M anagement capability; E arnings quality; L iquidity adequacy; S ensitivity to market risk
CARES Act	Coronavirus Aid Relief and Economic Security Act
CBAC	Community Bank Advisory Committee
CCP	Central Counterparties
CDFI	Community Development Financial Institution
CECL	Current Expected Credit Losses
CEO	Chief Executive Officer
CFO Act	Chief Financial Officers' Act
CFPB	Consumer Financial Protection Bureau
CFR	Center for Financial Research
CFT	Countering the Financing of Terrorism
CFTC	Commodity Futures Trading Commission
CIO	Chief Information Officer

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CIOO	Chief Information Officer Organization
CISR	Division of Complex Institution Supervision and Resolution
CMG	Crisis Management Group
CMP	Civil Money Penalty
ComE-IN	Advisory Committee on Economic Inclusion
COVID-19	Coronavirus Disease 2019
CRA	Community Reinvestment Act
CRC	Consumer Response Center
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
DIR	Division of Insurance and Research
DIT	Division of Information Technology
DOA	Division of Administration
DRR	Division of Resolutions and Receiverships
EC	European Commission
EDIE	Electronic Deposit Insurance Estimator
EGRRCPA	Economic Growth, Regulatory Relief, and Consumer Protection Act
EU	European Union
ERM	Enterprise Risk Management
FAQs	Frequently Asked Questions
FASB	Financial Accounting Standards Board
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

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FFIEC	Federal Financial Institutions Examination Council
FFMIA	Federal Financial Management Improvement Act
FID	Financial Institution Diversity
FinCEN	Financial Crimes Enforcement Network
FinTech	Financial Technology
FIRREA	Financial Institutions Reform, Recovery and Enforcement Act
FISMA	Federal Information Security Modernization Act of 2014
FMFIA	Federal Managers' Financial Integrity Act
FRB	Board of Governors of the Federal Reserve System
FRF	FSLIC Resolution Fund
FRWG	Financial Regulatory Working Group
FSB	Financial Stability Board
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
GPRA	Government Performance and Results Act
G-SIBs	Global Systemically Important Banks
G-SIFI	Global SIFIs
HMDA	Home Mortgage Disclosure Act
IADI	International Association of Deposit Insurers
IDI	Insured Depository Institution
IMF	International Monetary Fund
IRS	Internal Revenue Service
IT	Information Technology
LCFI	Large Complex Financial Institution
LIBOR	London Inter-bank Offered Rate
LIDI	Large Insured Depository Institution

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LMI	Low- Moderate-Income
LURAs	Land Use Restriction Agreements
MDI	Minority Depository Institutions
ML	Machine Learning
MOL	Maximum Obligation Limitation
MOU	Memoranda of Understanding
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
NCDA	National Center for Consumer and Depositor Assistance
NCUA	National Credit Union Administration
NPR	Notice of Proposed Rulemaking
NSFR	Net Stable Funding Ratio
OCC	Office of the Comptroller of the Currency
OIG	Office of the Inspector General
OLF	Orderly Liquidation Fund
OMB	U.S. Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
OO	Office of the Ombudsman
OPM	Office of Personnel Management
ORMIC	Office of Risk Management and Internal Controls
OTS	Office of Thrift Supervision
PPP	Paycheck Protection Program
Q&A	Question and Answer
QFC	Qualified Financial Contract
REFCORP	Resolution Funding Corporation
RFI	Request For Information
RMS	Division of Risk Management Supervision
RTO	Return to Office

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SBA	Small Business Administration
SEC	Securities and Exchange Commission
SIFI	Systemically Important Financial Institution
SLA	Shared-Loss Agreement
SMS	Systemic Monitoring System
SNC	Shared National Credit Program
SRAC	Systemic Resolution Advisory Committee
SRR	SIFI Risk Report
SSGNs	Securitizations and Structured Sale of Guaranteed Note
TLAC	Total Loss-Absorbing Capacity
TSP	Federal Thrift Savings Plan
TSP (IT-related)	Technology Service Providers
UDAA	Unclaimed Deposits Amendments Act of 1933
UK	United Kingdom
Treasury	U.S. Treasury
VIEs	Variable Interest Entities
VITA	Volunteer Income Tax Assistance
WRH	Wisconsin Rural Housing



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