I

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 cyclicality 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 CAMELS[1] 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).

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 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 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 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 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.

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;

- 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, 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.

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

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 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

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.

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.

- 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.

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.

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 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

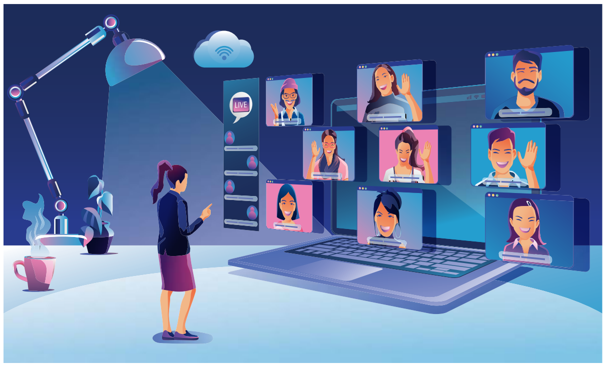
The FDIC's Center for Financial Research (CFR) encourages, supports, and conducts innovative research on topics that inform the FDIC's key functions of deposit insurance, supervision, and the resolution of failed banks. CFR researchers have published papers in leading banking, finance, and economics 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 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 (NRRA) 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, NRRA 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. NRRA also published the *2021 Risk Review*, summarizing key credit and market risks.

In addition, NRRA 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:

- 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

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

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 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

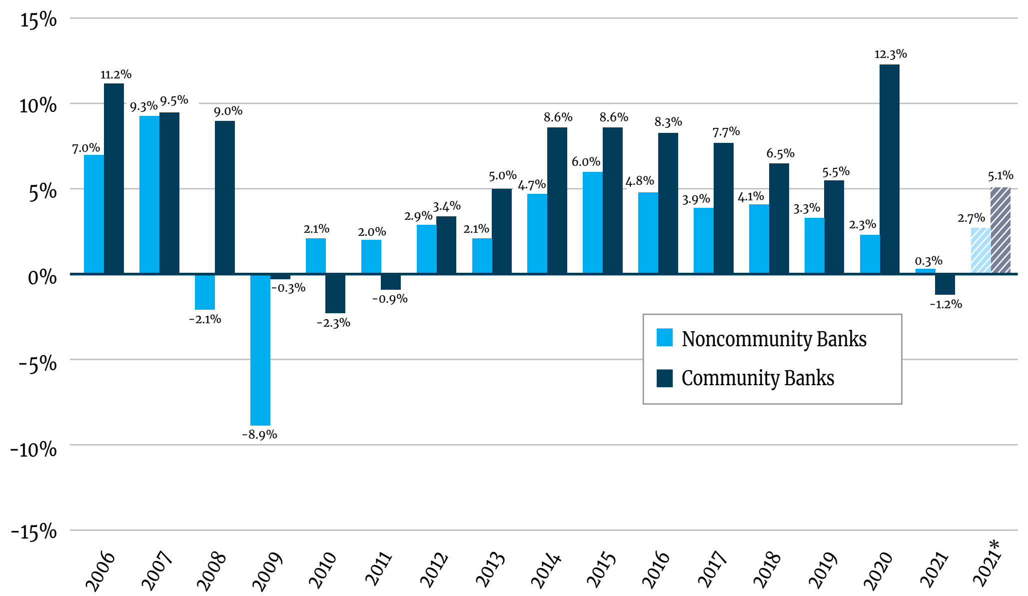
The FDIC pursues an ambitious, ongoing agenda of research and outreach focused on community banking issues. In conjunction with the 2012 and 2020 community banking studies, FDIC researchers have published more than a dozen additional studies on topics ranging from community bank technology investment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

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.

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.

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.

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.

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 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.

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.

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 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.

Home Mortgage Disclosure Act (HMDA)

Home Mortgage data collection.

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.

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."

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 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"*

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.

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 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 volunteers (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

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

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.

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 (NCDA). The NCDA is comprised of staff on the East and West coasts, with a centrally located hub in the Kansas City Regional Office. The NCDA 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 NCDA 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

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.

24% checking accounts

23% consumer/business credit cards

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.

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 inquires 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.

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 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.

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 plans to mature and expand its capabilities in the area of data testing and data governance though 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.

- 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.

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 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.

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.