FDIC
Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, DC 20429
Deputy to the Chairman and Chief Financial Officer

December 12, 2019

MEMORANDUM TO: Board of Directors

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

SUBJECT: Proposed 2020 FDIC Operating Budget

Proposal

This memorandum requests that the Board of Directors approve the proposed 2020 FDIC Operating Budget totaling $2,017,421,937. The proposed budget includes $1,899,439,750 for ongoing operations, $75,000,000 for receivership funding, and $42,982,187 for the Office of the Inspector General (OIG). The total proposed operating budget is $26,024,068 (1.3 percent) lower than the 2019 FDIC Operating Budget due to substantially reduced resource requirements for the receivership funding budget component. The proposed ongoing operations component of the budget is $73,975,932 (4.1 percent) higher than in 2019. The proposed receivership funding component of the budget is $100,000,000 (57.1 percent) lower than in 2019. The 2020 OIG budget is unchanged from 2019.[1]

Approval is also requested for a total authorized 2020 staffing level of 5,755 full-time equivalent (FTE) positions (5,750 permanent, 5 non-permanent), down 160 positions (net) from the currently authorized 2019 staffing level of 5,915 positions.[2] This reflects a decrease from 2019 of 156 permanent positions and 4 non-permanent positions.

Background

Structure of the FDIC Operating Budget

The FDIC's proposed annual operating budget is composed of three separate and distinct components: ongoing operations, receivership funding, and the OIG budget. Funds approved for each individual budget component cannot be reprogrammed from one budget component to another component. The segregation of annual operating expenditures into these three components facilitates more effective cost management by isolating the FDIC's more stable ongoing operational expenses from the highly variable annual expenses associated with bank closings and subsequent receivership management activities and the separate appropriations process applicable to the OIG.

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[1]The discussion in this case of the OIG budget component is for informational purposes only, since the OIG budget is separately appropriated by the Congress.
[2]The requested approval encompasses the proposed individual division and office staffing authorizations shown in Exhibit 5.

The receivership funding component provides funding for expenses incurred in connection with the failure or near failure of FDIC-insured institutions and the management of receiverships established in connection with these failures.[3] The separation of the receivership funding component is an acknowledgement that the number of failures and the expenses associated with those failures in any given year are to a large extent outside of the control of the FDIC and that the actual expenses incurred for resolutions and receivership management activities may, therefore, vary considerably from the estimates made during the annual planning and budget process. The FDIC recovers most receivership funding expenditures through the billing of failed institution receiverships for the services it provides, although those recoveries are largely offset by reductions in recoveries on subrogated claims.

2020 Workload Analysis and Projections

The proposed 2020 budget and staffing authorizations are based on an analysis of projected workload associated with the FDIC's major ongoing mission responsibilities. These include the FDIC's risk management and consumer protection supervision programs, its resolution and receivership management program, its large bank resolution planning activities, and its deposit insurance and research programs.

The FDIC's risk management supervision workload varies based upon the number, size, and complexity of the institutions it supervises and the number of those institutions with composite CAMELS (risk management) ratings of 3, 4, and 5. The number of risk management examinations is projected to decline by 5.9 percent, from 1,476 in 2019 to 1,389 in 2020, due primarily to continuing institutional consolidation. The reduction in workload resulting from the smaller number of examinations is partially offset by the additional work associated with the continuing growth in the average size and complexity of FDIC-supervised institutions, particularly those with more than $10 billion in assets.

The FDIC's compliance supervision program workload largely reflects the number of institutions supervised by the FDIC. Compliance and CRA ratings have only a limited impact on this workload. Compliance and CRA examination workload is projected to decline by 2.9 percent, from 1,180 in 2019 to 1,146 in 2020. Although the number of compliance and CRA exams has been declining gradually each year due to institutional consolidation, the impact of consolidation is partially offset in some years by variation in the number of exams that must be conducted from year to year under FDIC policy.

The primary drivers of the FDIC's resolutions and receivership management workload are the number and complexity of failures of FDIC-insured institutions, the number of active receiverships being managed by the FDIC, and the amount of post-failure workload remaining for those receiverships. Four insured financial institutions have failed thus far in 2019.

[3]Expenses for salaries and benefits for the permanent in-house staff associated with the FDIC's Receivership Management business line (primarily in the Division of Resolutions and Receiverships and the Legal Division) and for the maintenance of other base resolution and receivership management capabilities, such as fixed vendor costs and information systems development and maintenance costs, are funded from the ongoing operations component of the budget because they would be incurred regardless of whether any failures actually occurred.

Receivership management workload is projected to remain somewhat elevated in 2020 due to the continuing work associated with post-failure receiverships and loss share agreements being managed by the FDIC from prior years. The FDIC's inventory of assets in liquidation declined from approximately $1.2 billion (book value) at the beginning of 2019 to $577 million (book value) as of September 30, 2019. As of that date, the FDIC was still managing 252 active receiverships emanating from insured institution failures, compared to 272 receiverships at the beginning of 2019. Historically, a high level of residual receivership management work continues for several years beyond an institution's failure date.

In carrying out its large bank resolution planning responsibilities, the FDIC monitors the risks in large, systemically important financial institutions (SIFIs), reviews the resolution plans submitted by large banks and bank holding companies, and prepares to undertake, if necessary, their orderly liquidation. The FDIC's resolution planning workload is projected to remain relatively constant in 2020.

The workload associated with the FDIC's deposit insurance and research programs is also expected to remain constant in 2020.

Highlights of the Proposed 2020 Operating Budget

Overview of the Proposed 2020 Budget by Component

The proposed 2020 FDIC Operating Budget totals $2,017,421,937, including $1,899,439,750 for ongoing operations, $75,000,000 for receivership funding, and $42,982,187 for the OIG. As noted earlier, this represents an increase of $73,975,932 (4.1 percent) in the ongoing operations budget component, a decrease of $100,000,000 (57.1 percent) in the receivership funding budget component, and no change in the Office of Inspector General budget component. The ongoing operations component of the budget includes a $30 million contingency reserve to be administered by the Deputy to the Chairman and Chief Financial Officer (CFO) to address unanticipated funding requirements that emerge during the year.

The reduction in the receivership funding budget component reflects an expectation that the low level of new failure activity and the gradual reduction of residual workload from active receiverships that has occurred in recent years will continue in 2020 and that the FDIC will need no temporary employees and substantially less contractor support next year in the Division of Resolutions and Receiverships (DRR) and its supporting organizations to carry out its resolution and receivership management responsibilities.[4] Prior to the crisis, from 2003 through mid-2008, the annual receivership funding budget totaled $75 million. During the financial crisis that began in 2008, that budget rose quickly to a peak of $2.5 billion in 2010.

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[4]The FDIC cannot control the variable workload associated with the receivership funding component of the annual FDIC operating budget, nor can it project with certainty the specific number and type of failures that will occur in 2020 or the actual expenses that will be incurred in connection with those failures. The proposed 2020 receivership funding budget may not, therefore, prove to be a reliable estimate of 2020 expenses. The Board will be asked to approve additional funding if it is determined during the year that increased budget authority is needed for the receivership funding component.

As noted previously, the separate OIG budget component is provided for informational purposes only since the OIG budget is separately appropriated by the Congress. The OIG budget and staffing are unchanged from 2019. The OIG plans to continue to fill existing vacant positions to supplement IT expertise for audits, evaluations, and investigations.[5]

Overview of the Proposed 2020 Budget by Major Expense Category

Exhibit 1 itemizes the proposed 2020 FDIC Operating Budget by major expense category.

- The proposed 2020 Salaries and Compensation budget is $1,310,184,698, which is $37,373,285 (2.9 percent) higher than the 2019 Salaries and Compensation budget. This increase reflects the costs associated with an average annual salary increase of 3.1 percent and average bonuses of 1.0 percent for FDIC employees in 2020 and a projected $19.9 million increase in the FDIC's contributions to the Federal Employee Retirement System (FERS) for employees covered by that program. Those increases will be partially offset by the elimination of 160 authorized positions. The Salaries and Compensation expense category represents 64.9 percent of the proposed 2020 FDIC Operating Budget and 67.0 percent of the ongoing operations budget component, excluding the OIG.

- The proposed 2020 Outside Services-Personnel budget (for contractor-provided services) is $379,983,354, which is $36,760,229 (8.8 percent) lower than the 2019 budget. This decrease primarily reflects expectations for a continued low level of insured institution failures and a gradual reduction in post-failure receivership management workload in 2020, both of which will reduce contractor support requirements in the receivership funding budget component. The budget for contract services will increase by $49,512,556 (19.2 percent) from 2019 to 2020 in the ongoing operations budget component. This reflects increased funding for the contingency reserve, primarily to ensure the FDIC's ability to allocate additional resources to fund increased IT costs related to the possible transition of contracts from one vendor to another; the provision of specific budget authority for the first time to pay for readiness-related costs to ensure the immediate availability of contract support to respond to an unanticipated increase in failure activity; funding for a new Physical Security Support contract that will provide contract personnel to assist with the development of physical security policies and procedures, field security assessments, and training;[6] higher projected costs for contracts for acquisition services support, benefits, and guard services ; and initial funding for a new program to develop innovative technology solutions to improve business processes. The Outside Services-Personnel expense category represents about 18.8 percent of the proposed 2020 FDIC Operating Budget and 16.2 percent of the ongoing operations budget component, excluding the OIG.

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[5]OIG funding is appropriated on the fiscal year basis applicable to the rest of the Federal Government (October-September). Its 2020 FDIC budget is based on 75 percent of its pending FY 2020 appropriation and 25 percent of its requested FY 2021 appropriation. The OIG's FY 2021 appropriation request and staffing level are unchanged from FY 2020.

[6]This contract addresses recent OIG audit findings and recommendations.

- The proposed 2020 Travel budget is $83,213,007, down $6,436,647 (7.2 percent) from 2019, largely due to reduced examiner and examiner trainee travel. The Travel expense category represents about 4.1 percent of the proposed 2020 FDIC Operating Budget and 4.3 percent of the ongoing operations budget component, excluding the OIG.

- The proposed 2020 Buildings and Leased Space budget is $100,867,463, down $10,807,619 (9.7 percent) from 2019, due to reduced funding requirements for building-related projects in the ongoing operations component and the continuation of limited insured institution failure activity in the receivership funding budget component. The Buildings and Leased Space expense category represents about 5.0 percent of the proposed 2020 FDIC Operating Budget and 5.2 percent of the ongoing operations budget component, excluding the OIG.

- The proposed 2020 Equipment budget is $110,818,411, down $7,427,113 (6.3 percent) from 2019, due largely to the completion in 2019 of major equipment purchases for the new backup data center. The Equipment expense category represents about 5.5 percent of the proposed 2020 FDIC Operating Budget and 5.7 percent of the ongoing operations budget component, excluding the OIG.

- The proposed 2020 Outside Services-Other budget is $16,764,560, down $349,068 (2.1 percent) from 2019. The Outside Services-Other expense category represents about 0.8 percent of the proposed 2020 FDIC Operating Budget and 0.9 percent of the ongoing operations budget component, excluding the OIG.

- The proposed 2020 Other Expenses budget is $15,590,444, down $1,616,677 (9.4 percent) from 2019, due primarily to reduced receivership management activity. The Other Expenses category represents about 0.8 percent of the proposed 2020 FDIC Operating Budget and 0.7 percent of the ongoing operations budget component, excluding the OIG.

Highlights of the Proposed 2020 Staffing Authorizations

The proposed 2020 FDIC Operating Budget includes a total authorized staffing level of 5,755 FTE positions (5,750 permanent, 5 non-permanent), as shown in Exhibit 5. This represents a net decrease of 160 positions, or 2.7 percent, from the current 2019 authorized staffing level. If approved by the Board, authorized 2020 permanent staffing will decrease by 156 positions (net) and authorized 2020 non-permanent staffing will decline by four positions from current 2019 authorized staffing levels.

This reduction is largely attributable to two factors, the decision to discontinue the first-year rotational component of the Corporation's multi-year examiner training program (the Corporate Employee Program, or CEP) and a continuing decline in community bank examiner staffing requirements. Beginning in 2020, new examiner trainees will be hired directly into either the Division of Risk Management Supervision (RMS) or the Division of Depositor and Consumer Protection (DCP) and will immediately begin the training program in their assigned disciplines. Discontinuation of the first-year CEP rotational program will eliminate 124 authorized permanent positions, reduce by 6-12 months the amount of time required to commission new examiner trainees, and reduce examiner training costs by an estimated $70,000 per trainee.

The reduction in community bank examiner staffing requirements is primarily the result of continuing institutional consolidation, as discussed above. Authorized 2020 field examination staffing in RMS is proposed to decline to 1,491 permanent positions, a net reduction of 17 positions from 2019. This includes 1,176 positions to perform community bank supervision responsibilities (down 31 positions from 2019) and fill various examination analyst/specialist roles and 315 positions to perform supervision responsibilities for FDIC-supervised banks with over $10 billion in assets (up 14 positions from 2019). RMS plans to fill up to 130 of its authorized community bank supervision positions in 2020 with lower-graded loan review and IT examination analysts who will require significantly less training than risk management examiners. Authorized 2020 DCP field examination staffing is proposed to decline to 436 permanent positions, a reduction of 18 permanent positions from 2019.

In addition, proposed changes in DCP's permanent staffing authorization include a net reduction of nine permanent non-examiner positions, composed of a decrease of six field supervisory positions, the transfer of five consumer research positions from DCP to the Division of Insurance and Research (DIR), and an increase of two positions to address elevated complaint workload in the Consumer Response Center. In RMS, a net increase of two non-examiner positions is proposed, including a reduction of two field supervisory and five regional case manager positions; the addition of four new regional quantitative specialist positions and one new policy analyst position in Washington; and, in conjunction with the discontinuation of the CEP rotational program, the transfer of four positions from the Corporate University-Corporate organizational component (CU-Corporate) to RMS to assist with the hiring of examiner trainees.

The proposed changes in permanent staffing authorizations also reflect a comprehensive restructuring of the organizations reporting to the Chief Information Officer (CIO). That reorganization realigned seven positions from the Office of the CIO to the Division of Information Technology (DIT), four security-related positions from DIT to the Office of the Chief Information Security Officer (OCISO), and numerous positions among branches within DIT. Overall, the reorganization resulted in a net reduction of two executive manager positions in DIT. Proposed DIR staffing increases by seven positions, reflecting the transfer of five consumer research positions from DCP and the addition of two positions for an enhanced cost-benefit analysis program; Division of Administration (DOA) staffing increases by 10 positions to augment current human resources and acquisition services capabilities; and Office of Minority and Women Inclusion staffing decreases by one position that is no longer needed. All proposed staffing changes reflect individual division and office assessments of their projected workload in 2020 and future years.

The proposed 2020 non-permanent staffing authorization of five positions (down from nine positions in 2019) is earmarked entirely to support the System of Uniform Reporting of Compliance and CRA Examinations (SOURCE) Modernization project (to be re-named the Framework for Oversight of Compliance and CRA Activities User Suite, or FOCUS, project). One non-permanent RMS supervisory examiner position is also eliminated in 2020.

<u>2020 Funding Priorities</u>

IT Modernization

The 2019 FDIC Operating Budget included substantial funding for a wide array of initiatives intended to stabilize and enhance the resiliency of the FDIC's aging information technology (IT) infrastructure and operational processes. It also included funding to develop a five-year IT Modernization Plan and Roadmap to define improvements to the FDIC's information technology applications, infrastructure, and processes that would establish an environment that would foster business process efficiencies and innovation. In 2019, a new back-up data center became operational, and substantial progress was made in enhancing the FDIC's telecommunications and Wi-Fi infrastructure. Operational achievements included the completion of an updated IT Strategic Plan, implementation of an Application Programming Interface (API) Gateway to optimize interface programming, and the approval of a new organizational structure that will align IT resources to the designated priorities in the IT Modernization Plan and Roadmap.

The proposed 2020 budget includes over $31 million to complete some of the initiatives begun in 2019 and to begin implementation of projects included in the five-year IT Modernization Plan and Roadmap. This plan will guide virtually all systems development and enhancement for the Corporation over the next several years. To align funding with the plan, the separate budget for the CIO Council will be discontinued in 2020. Over the next five years, many business applications will be migrated from on-site servers, including the current mainframe environment, to cloud platforms and low-code or no-code applications. Ensuring the security of the FDIC's data on these new platforms will also be a major funding priority. Major systems to be modernized in 2020 under the aegis of IT Modernization include systems for conducting examinations (VISION), managing receiverships (the Controls Totals Module), supporting the evaluation of SIFIs (QFC Cloud), and supporting administrative processes (Acquisitions Management).

Resolution Preparedness

DRR's ongoing operations budget includes funding to maintain the core capabilities needed to ensure that the FDIC is prepared at all times to respond to bank failures and perform all of its receivership management functions. This readiness capability includes a permanent staffing platform of 350 authorized positions supplemented by contractor personnel who perform or support fixed operational responsibilities, including internal reporting and decision support, administration and management of failed bank data, system development and maintenance, and contractor and IT security. As the number of failures and related receivership management work has declined since the peak of the financial crisis, DRR management has recognized that a base level of contractor capacity must be maintained to ensure that it is prepared to meet its mission responsibilities in the event of an unanticipated increase in failure activity. Accordingly, selected contract resources are now kept on board and, when not fully engaged in bank failure activity, are used to perform or participate in various readiness-related tasks (e.g., simulations, process improvements). Approximately $16.3 million is budgeted in 2020 to ensure that these critical contractor capabilities are available to be deployed immediately when required by the

FDIC.[7] If the actual work performed by these contractors in 2020 supports bank failure or receivership activity, it will be charged to the receivership funding budget component; if that work supports readiness, it will be charged to the ongoing operations budget component.

Innovation

The proposed budget also provides $4.6 million to the new FDIC Tech Lab (FDiTech) to provide initial funding for initiatives that support supervision modernization and promote the adoption of innovative technologies at the FDIC and across the financial services sector. Initiatives include rapid-phased prototyping of loan review process innovations; a prize competition to encourage application of artificial intelligence to the loan review process; and a series of "tech sprints" to spur collaborative development of technological solutions to address specific industry or regulatory challenges.

Projected 2020 Investment Budget Spending

In December 2002, the Board established an Investment Budget that was separate and distinct from the annual operating budget. Under the Investment Budget, the Board approves funding for major projects (mostly IT systems development projects) on an individual basis. This funding remains available on a multi-year basis, but is accompanied by enhanced controls and governance requirements because of the inherently higher execution risk that has historically characterized these projects. Funding is approved on an individual project basis and may not be reallocated among projects. Any unused budget authority for a project expires when it is completed. The Capital Investment Review Committee (CIRC) monitors the progress of approved IT investment projects and reports on them quarterly to the Board of Directors.

The Investment Budget currently includes three active investment projects: the Structure Information Management System (SIMS) Redesign project, the Deposit Resolution Optimization (DRO) Project, and the SOURCE Modernization project (now FOCUS). The DRO project will be completed and remaining funding authority released by the end of 2019 or early 2020. Phase II of the SIMS Redesign Project will be placed into production and work will begin on Phase III in early 2020. FOCUS will be pursued on a priority basis as part of the IT Modernization Plan and Roadmap. The new platform that has been installed for the development of FOCUS will also support the development of applications to replace the existing Virtual Supervisory Information on the Net (VISION) system. The FOCUS project is expected to make substantial progress in 2020 toward replacing base SOURCE functionality, with overall project completion projected by 2022.

There are expected to be fewer IT investment projects brought to the Board over the next several years as a result of the Board's decision last year to raise the funding threshold for such projects from $3 million to $10 million. In addition, in conjunction with the FDIC's increased adoption of Agile development methodologies as a replacement for traditional IT development methods, most IT development efforts will be more appropriately funded from the annual operating budget

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[7]DRR's proposed 2020 ongoing operations budget for contractor support totals $29.5 million, including those resources dedicated to fixed operational responsibilities.

rather than the Corporation's Investment Budget. The Agile approach is characterized by smaller projects that are put into production more frequently, cross-functional teams of users and IT personnel, and continuous feedback. This results in the ability to provide usable functionality and value more quickly while mitigating risks. The project team is also expected to continually review and reassess its remaining tasks and to adjust its schedule and priorities to address the most important remaining business needs. The Agile approach also provides greater flexibility to address emerging high priority requirements and potentially slow the pace of a project if there are higher corporate priorities.

Overview of Attached Exhibits

The following is a summary of the exhibits accompanying this case:

- Exhibit 1 displays the proposed 2020 FDIC Operating Budget by major expense category.
- Exhibit 2 displays the proposed 2020 FDIC Operating Budget by division and office.
- Exhibit 3 displays the proposed 2020 budgets by division and office for the ongoing operations and OIG budget components.
- Exhibit 4 displays the proposed 2020 budgets by division and office for the receivership funding budget component.
- Exhibit 5 displays the proposed 2020 staffing authorizations (permanent and non-permanent) for each division and office.[8]
- Exhibit 6 displays the projected allocation of the proposed budget by major program.

Also attached is the proposed 2020 Budget Resolution reflecting the budget and staffing authorizations outlined above.

Contact Information

If you have questions or need additional information, please contact Thomas E. Peddicord, Deputy Director, Division of Finance, at (703) 562-6252.

Attachments

[8]Exhibit 5 provides year-to-year staffing comparisons for DIT, OCISO, and the Division of Complex Financial Institution Supervision and Resolution based on the new organizational structures that were approved in 2019.