FDIC
Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, DC 20429

November 25, 2013

TO: Board of Directors

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

SUBJECT: Proposed 2014 Corporate Operating Budget

Proposal

This memorandum requests that the Board of Directors approve the proposed 2014 Corporate Operating Budget totaling $2,391,452,391, including $1,791,452,391 for ongoing operations and $600,000,000 for receivership funding.[1] The total proposed 2014 Corporate Operating Budget is $291,186,343 (10.9 percent) lower than the 2013 Corporate Operating Budget, largely due to substantially reduced resource requirements for the receivership funding budget component. The proposed ongoing operations component of the budget is $8,813,657 (0.5 percent) higher than the 2013 ongoing operations budget, while the proposed receivership funding component of the budget is $300,000,000 (33.3 percent) lower than the 2013 receivership funding budget.

Approval is also requested for a total authorized 2014 corporate staffing level of 7,199 full-time equivalent (FTE) positions (5,879 permanent, 1,320 non-permanent), down 854 positions from the currently-approved 2013 authorized staffing level of 8,053 FTE positions (5,839 permanent, 2,214 non-permanent). This includes approval of the proposed individual division and office staffing authorizations shown in Exhibit 6.[2]

Background

Structure of the Corporate Operating Budget

The FDIC's annual operating budget is composed of two separate and distinct components: ongoing operations and receivership funding. Funds approved by the Board for one component cannot be reprogrammed to pay for expenditures incurred for the other component. The

[1]Certain factors that affect the Salaries and Compensation category of the proposed 2014 Corporate Operating Budget have not yet been determined (e.g., the Corporation's share of 2014 employee health insurance costs). When these factors are finally determined, they may require corresponding changes in estimated expenses for the Salaries and Compensation major expense category of the 2014 Corporate Operating Budget. As in prior years, the proposed 2014 Budget Resolution delegates authority to the Deputy to the Chairman and Chief Financial Officer to adjust the total Board-approved 2014 Corporate Operating Budget to account for such factors.
[2]The proposed 2014 Budget Resolution provides divisions and offices with the same limited flexibility they have in 2013 to temporarily exceed their approved permanent 2014 staffing authorizations.

segregation of annual operating expenditures into these two components facilitates more effective cost management by isolating the Corporation's more stable ongoing operational expenses from the highly variable annual expenses associated with bank closings and subsequent receivership management activities.

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 those 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 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 vary considerably from the estimates made during the annual planning and budget process. Over the past decade, annual receivership funding expenses have ranged from a low of $11 million to a high of $2.0 billion.

2014 Workload Analysis and Projections

The proposed 2014 budget and staffing authorizations are based on an analysis of projected workload associated with the FDIC's major ongoing mission responsibilities. These include the Corporation's established risk management and consumer protection supervision programs and its resolution and receivership management program as well as significant new responsibilities assigned to the Corporation by the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (DFA). The latter include monitoring the risks in large, systemically important financial institutions (SIFIs), reviewing the resolution plans submitted by companies covered by DFA, and preparing, if necessary, to undertake their orderly liquidation.

The Corporation's projected supervision and resolutions and receivership management responsibilities are the primary determinants of the resource requirements reflected in the proposed 2014 budget. The Corporation's supervision workload varies based upon the number and size of the institutions supervised by the FDIC and the number of those institutions with composite CAMELS (risk management) ratings of 3, 4, and 5. Those factors largely determine the number of risk management and compliance examinations to be conducted each year and the amount of examiner time spent on those examinations.[4] The primary drivers of the Corporation's resolutions and receivership management workload are the number 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.

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[3]Salary and benefits expenses for the permanent in-house staff associated with the Corporation's Receivership Management business line (primarily in the Division of Resolutions and Receiverships and the Legal Division) are funded from the ongoing operations component of the budget, because the maintenance of this in-house staff would be necessary, regardless of whether any failures actually occurred.

[4]The projected number of compliance and Community Reinvestment Act (CRA) examinations to be conducted annually is based largely on the number of institutions supervised by the FDIC. Compliance and CRA ratings have only a limited impact on this workload.

The number of FDIC-supervised institutions declined substantially during the recent financial crisis due to bank failures and industry consolidation, from 5,527 at year-end 2007 to 4,335 on November 7, 2013, a reduction of 1,192 insured institutions (21.6 percent). Although the number of institution failures has dropped substantially since 2010, industry consolidation is expected to continue to reduce the number of FDIC-supervised institutions in 2014 and beyond. The reduction in the number of supervised institutions did not initially reduce the FDIC's supervision workload, because this factor was more than offset from 2007 through 2010 by the dramatic increase in the number of troubled and problem institutions that required more frequent and lengthy examinations and supervisory oversight. Since 2010, however, the number of 3-, 4-, and 5-rated institutions has declined substantially (although it remains elevated by historical norms) and is expected to continue a steady decline in 2014 and beyond.

As a result, the number of risk management examinations will decline by a projected 9.3 percent, from 2,559 in 2013 to 2,322 in 2014.[5] This will permit a significant decrease in the authorized non-permanent supervision staff for risk management in 2014, with further reductions in non-permanent risk management supervision positions projected in 2015 and beyond. Compliance and CRA examination workload is less directly affected by unfavorable ratings and is projected to be relatively stable in 2014. The proposed 2014 Corporate Operating Budget includes the resources needed to conduct an estimated 1,663 compliance and CRA examinations, down 0.4 percent from current estimates for 2013.

The FDIC's resolutions and receivership management workload is also expected to continue to decline in 2014. Insured institution failures fell to pre-crisis levels this year, with only 23 failures occurring through November 14, 2013 (down from 51 in 2012), and no change in this downward trend is expected next year. Receivership management workload is projected to remain elevated for several years, however, due to the continuing work associated with post-failure receiverships and loss share agreements being managed by the FDIC. The Corporation's inventory of assets in liquidation fell from approximately $17.0 billion (book value) at the beginning of 2013 to $13.8 billion (book value) as of September 30, 2013, but the Corporation was managing 484 active receiverships and overseeing 294 active loss share agreements emanating from insured institution failures on that date, compared to 466 receiverships and 298 loss share agreements at the beginning of 2013.[6] A high level of residual receivership management work (asset management and sales, litigation, etc.) typically remains for several years beyond an institution's failure date.

2014 Budget Highlights

Overview of the Proposed 2014 Budget by Component

The proposed 2014 Corporate Operating Budget totals $2,391,452,391, including $1,791,452,391 for ongoing operations and $600,000,000 for receivership funding. As noted above, this

[5]The workload associated with enforcement activity has declined somewhat more slowly than exam workload because of the long timeframes associated with individual enforcement actions.

[6]The value of the assets covered by the loss share agreements fell from approximately $103.7 billion at the beginning of 2013 to $85.7 billion (book value) on September 30, 2013.

represents an increase of $8,813,657 (0.5 percent) in the ongoing operations budget component and a decrease of $300,000,000 (33.3 percent) in the receivership funding budget component.

In the ongoing operations budget component, a negotiated 4.0 percent increase in the average salaries of most FDIC employees in 2014 will be largely offset by the elimination of authorized non-permanent positions dedicated to risk management supervision and by a significant reduction in the budget for Outside Services-Personnel (down $9.8 million, or 3.5 percent). Most of the proposed reductions in Outside Services-Personnel will occur in the CIO Council budget, reflecting a more measured approach to systems development. The ongoing operations component of the budget also includes a small contingency reserve ($25 million, or 1.4 percent of the proposed 2014 ongoing operations budget),[7] to be administered by the Deputy to the Chairman and Chief Financial Officer (CFO) to provide funding for unanticipated operational requirements that emerge during the year.

The most significant factor contributing to the proposed decrease in the proposed receivership funding budget is the expected decline in insured financial institution failures in 2014. The Corporation will need fewer temporary employees and contractors in the Division of Resolutions and Receiverships (DRR) and its supporting organizations next year and has already announced plans to close its temporary East Coast Satellite Office (ECSO) in April 2014. The proposed reductions are consistent with the Corporation's established business model for resolutions and receivership management, which relies primarily on contractors and staff on time-limited appointments to handle temporary spikes in workload.

The proposed 2014 receivership funding budgets for the Salaries and Compensation and Outside Services-Personnel expenses categories are approximately $125 million and $400 million, respectively, in 2014, down almost $65 million and $200 million from 2013. The proposed 2014 receivership funding budget is also down significantly from 2013 levels in the Travel, Buildings and Leased Space, Equipment, Outside Services-Other and Other expense categories. The receivership funding budget includes a small contingency reserve ($246,923, or 0.04 percent of the proposed receivership funding budget), to be administered by the CFO.

The FDIC cannot, of course, control the variable workload associated with the receivership funding component of the annual corporate operating budget, nor can it project with certainty the specific number and type of failures that will occur in 2014 or the actual expenses that will be incurred in connection with those failures. The proposed 2014 receivership funding budget may not, therefore, prove to be a reliable estimate of 2014 expenses for this budget component. Based upon what is known today, however, the proposed receivership funding budget will be sufficient to cover 2014 resolutions and receivership management 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.

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[7]The 2013 ongoing operations budget approved by the Board in December 2012 also included a $25 million contingency reserve which has been largely unspent..

Overview of Proposed 2014 Budget by Major Expense Category

Exhibit 1 itemizes the proposed 2014 Corporate Operating Budget by major expense category. As in prior years, personnel-related expenses and contractor services constitute the largest expense categories in the proposed budget:

- The proposed 2014 Salaries and Compensation budget is $1,331,033,977, which is $42,180,064 (3.1 percent) lower than the 2013 Salaries and Compensation budget. This is attributable largely to the fact that the Corporation is reducing the size of its receivership workforce. The proposed 2014 budget includes funding for approximately 684 fewer full-time equivalent employees than are included in the current 2013 budget. The Salaries and Compensation expense category represents 67.3 percent of the proposed 2014 ongoing operations budget, 20.8 percent of the proposed 2014 receivership funding budget, and 55.7 percent of the overall proposed 2014 Corporate Operating Budget.

- The proposed 2014 Outside Services-Personnel budget (for contractor-provided services) is $669,178,029, which is $202,560,571 (23.2 percent) lower than the 2013 budget. This decrease primarily reflects expectations for a continuing reduction in insured institution failures and a gradual reduction in post-failure receivership management workload in 2014, both of which will reduce contractor support requirements. The Outside Services-Personnel expense category represents about 15.0 percent of the proposed 2014 ongoing operations budget, 66.6 percent of the proposed 2014 receivership funding budget, and 28.0 percent of the overall proposed 2014 Corporate Operating Budget.

The remainder of the proposed 2014 Corporate Operating Budget consists of $116,168,376 for Travel expenses, down $15,158,347 (11.5 percent) from 2013, largely due to lower projected failure activity and reductions in non-permanent risk management supervision staffing; $117,734,995 for Buildings and Leased Space expenses, down $11,317,472 (8.8 percent) from 2013, driven by lower leased space requirements at the site of failures; $93,808,269 for Equipment expenses, down $368,163 (0.4 percent) from 2013, as a result of reduced receivership management activity; $22,829,933 for Outside Services-Other expenses, down $1,585,127 (6.5 percent) from 2013, primarily due to decreased receivership management activity; and $40,698,812 for Other Expenses, down $18,016,599 (30.7 percent) from 2013, primarily due to reduced receivership management activity.

2014 Staffing Authorizations

Overview of Proposed Changes in Authorized 2014 Staffing

The proposed 2014 Corporate Operating Budget includes a total authorized staffing level of 7,199 FTE positions (5,879 permanent, 1,320 non-permanent), as shown in Exhibit 6. This represents a net decrease of 827 positions from the authorized staffing level initially approved by the Board for 2013 and a net decrease of 854 positions from the current 2013 authorized staffing level. If approved by the Board, authorized permanent staffing would increase in 2014 by 40 positions, while authorized non-permanent staffing would decline by 894 positions from current 2013 authorized staffing levels.

The largest increase in permanent staffing is the proposed addition of 51 senior risk management examiner positions in the Division of Risk Management Supervision (RMS) to provide increased resources for risk management examinations and other supervisory oversight activities at the 27 insured depository institutions with more than $10 billion in assets for which the FDIC is the primary Federal regulator. Those resources will permit about a 41 percent increase in the current level of examiner staffing devoted to those institutions. The proposed increase is consistent with substantial staffing increases approved by the Board over the past several years to provide increased resources to monitor and assess risk in the largest and most complex insured institutions, including the staff resources added to carry out the FDIC's new responsibilities under DFA.

Other proposed 2014 permanent staffing increases include one additional position in RMS, six in the Division of Depositor and Consumer Protection (DCP), four in the Division of Administration (DOA), and one each in the Office of the Chief Information Officer (CIO) and the Information Security and Privacy Staff (ISPS). These proposed permanent 2014 staffing increases are partially offset by proposed permanent staffing reductions in DRR (-15 positions in conjunction with the initial phase of the planned reconfiguration of its permanent staffing platform), the Division of Finance (-5 positions), the Division of Insurance and Research (-3 positions), and the Office of Minority and Women Inclusion (-1 position).

One additional authorized non-permanent position is proposed for both the Office of Complex Financial Institutions and ISPS. Net reductions in authorized non-permanent staffing are proposed in several other organizations: DRR (-532 positions), RMS (-237 positions), the Legal Division (-84 positions), DOA (-18 positions), DIT (-12 positions), DCP (-5 positions), the Office of the Ombudsman (-4 positions), DOF (-2 positions) and Corporate University (-2 positions). These non-permanent reductions are largely attributable to continuing reductions in the staff resources needed to handle bank failure activities and conduct risk management examinations of troubled and problem institutions.

Staffing Flexibility

For the past three years, in conjunction with its approval of the annual corporate operating budget (including staffing authorizations), the Board has provided divisions and offices with limited flexibility to temporarily exceed their permanent staffing authorizations in order to address succession management and other human capital concerns. We propose to continue that delegation of authority in 2014. The key elements of that delegation are as follows:

- Each division and office may exceed its permanent staffing authorization by up to 2 percent at any point during the year (the average annual attrition rate for most divisions and offices).[8]

[8]For RMS and DCP, this authority is based on their permanent, non-examiner staffing authorization, excluding all authorized permanent non-supervisory field examination positions. In addition, RMS and DCP received authority in

- The CFO may approve a division or office request for a cap higher than 2 percent if that organization is fully staffed up to the 2 percent limit and can demonstrate to the CFO, using objective quantitative data and analysis, that its attrition is likely to exceed 2 percent during the coming year because of projected retirements[9] or other known factors.

- If an organization's current permanent staffing is already more than 2 percent above its permanent staffing authorization due to previously approved "temporary over-hire" or "incumbency only" authorizations, that organization's "over-hire" authority is temporarily "grandfathered" at the higher level, and it may temporarily exceed the 2 percent limit until its excess permanent staffing drops below 2 percent as the result of attrition from positions designated to be abolished under the current "temporary over-hire" or "incumbency only" authorities.

If the Board continues this delegation of authority in 2014, it will permit the corporate-wide "over-hiring" of up to 78 permanent employees nationwide above authorized 2014 permanent staffing levels (absent approval by the CFO of higher limits in certain organizations).

Projected 2014 Investment Budget Spending

In December 2002, the Board established an Investment Budget that was separate and distinct from the annual corporate operating budget. The Investment Budget provides funding on a multi-year basis for major investment projects (mostly IT systems development projects) that are individually approved by the Board. Funds may not be reallocated among projects, and 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.

The Investment Budget currently includes four active investment projects; the Examination Tools Suite project, the Claims Administration System project, the System of Uniform Reporting of Compliance and CRA Exams (SOURCE) Modernization project, and the 550 HVAC Retrofit project. Investment Budget spending has declined from a high of $108 million in 2004 (when there were 10 approved investment projects underway) to $16 million spent during the first 10 months of 2013.

Overview of Attached Exhibits

Exhibit 1 displays the proposed 2014 Corporate Operating Budget by major expense category. Exhibit 2 displays the proposed 2014 Corporate Operating Budget by division and office. Exhibits 3 and 4 display the proposed budget by division and office for the two separate budget

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2013 to exceed temporarily their permanent field examiner staffing authorization by 90 positions and 30 positions, respectively. This overhire authority will be phased out over three years.

[9]Requests based on retirement projections are required to utilize the projections in the Division of Finance's annual *FDIC Retirement Analysis*.

components (ongoing operations and receivership funding). Exhibit 5 shows the projected allocation of the proposed budget by major program and funding source. Exhibit 6 shows proposed 2014 staffing authorizations (permanent and non-permanent) for each division and office. Also attached is the proposed 2014 Budget Resolution reflecting the recommendations 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