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

November 29, 2016

TO: Board of Directors

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

SUBJECT: Proposed 2017 FDIC Operating Budget

## Proposal

This memorandum requests that the Board of Directors approve the proposed 2017 FDIC Operating Budget totaling $2,157,822,764 including $1,821,070,025 for ongoing operations, $300,000,000 for receivership funding,[1] and $36,752,739 for the Office of the Inspector General (OIG). The total proposed 2017 FDIC Operating Budget is $52,878,291 (2.4 percent) lower than the 2016 FDIC Operating Budget, largely due to substantially reduced resource requirements for the receivership funding budget component. The proposed ongoing operations component of the budget is $44,522,210 (2.5 percent) higher than it was in 2016, while the proposed receivership funding component of the budget is $100,000,000 (25.0 percent) lower than it was in 2016. The 2017 OIG budget is $2,599,499 (7.6 percent) higher than it was in 2016.

Approval is also requested for a total authorized 2017 staffing level of 6,363 full-time equivalent (FTE) positions (5,980 permanent, 383 non-permanent), down 170 positions (net) from the currently authorized 2016 staffing level of 6,533 positions.[2] This reflects an increase from 2016 of 12 permanent positions, offset by a decrease of 182 non-permanent positions.

## Background

### *Structure of the FDIC Operating Budget*

For 2017, the FDIC's proposed annual operating budget is composed of three separate and distinct components: ongoing operations, receivership funding, and the OIG. The separate display of the OIG budget is new for 2017 and is provided for informational purposes only, since the OIG budget is separately appropriated by the Congress and is not subject to Board approval. In prior years, the OIG budget has been included in the ongoing operations budget component.

[1]Certain factors that affect the Salaries and Compensation category of the proposed 2017 FDIC Operating Budget have not yet been determined (e.g., the FDIC's share of 2017 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 2017 FDIC Operating Budget. As in prior years, the proposed 2017 Budget Resolution delegates authority to the Deputy to the Chairman and Chief Financial Officer to adjust the total Board-approved 2017 FDIC Operating Budget to account for such factors.
[2]The requested approval encompasses the proposed individual division and office staffing authorizations shown in Exhibit 6. In addition, the proposed 2017 Budget Resolution provides divisions and offices with the same limited flexibility they have in 2016 to temporarily exceed their approved permanent 2017 staffing authorizations.

Funds approved by the Board for the ongoing operations and receivership funding budget components cannot be reprogrammed to pay for expenditures incurred for the other component. The segregation of annual operating expenditures into these two 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.

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 $20 million to a high of $2.0 billion. The FDIC expects to fully recover its 2017 receivership funding expenditures through its billing of failed institution receiverships for services it provides.

***2017 Workload Analysis and Projections***

The proposed 2017 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 and its resolution and receivership management program as well as responsibilities assigned to the FDIC in 2010 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 FDIC's supervision workload varies based upon the number and size of the institutions it supervises and the number of those institutions with composite CAMELS (risk management) ratings of 3, 4, and 5.[4] The number of risk management examinations is projected to decline by 2.7 percent, from 1,676 in 2016 to 1,631 in 2017, due primarily to continuing institutional consolidation. Compliance and CRA examination workload is projected to decline by 0.1 percent, from 1,320 in 2016 to 1,303 in 2017. Although institutional consolidation is also gradually reducing the number of compliance and CRA exams to be conducted each year, the impact of consolidation is partially offset by greater variation in the number of exams that must be conducted from year to year under FDIC policy.

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[3]Salary and benefits expenses 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) 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 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. Five insured financial institutions have failed thus far in 2016, down from eight failures occurring in 2015. Receivership management workload is projected to remain somewhat elevated, however, due to the continuing work associated with post-failure receiverships and loss share agreements being managed by the FDIC. The FDIC's inventory of assets in liquidation fell from approximately $4.8 billion (book value) at the beginning of 2016 to $3.8 billion (book value) as of September 30, 2016. As of that date, however, the FDIC was still managing 404 active receiverships emanating from insured institution failures, compared to 446 receiverships at the beginning of 2016. A high level of residual receivership management work typically remains for several years beyond an institution's failure date.

## 2017 Budget Highlights

### *Overview of the Proposed 2017 Budget by Component*

The proposed 2017 FDIC Operating Budget totals $2,157,822,764 including $1,821,070,025 for ongoing operations, $300,000,000 for receivership funding, and $36,752,739 for the Office of the Inspector General. As noted earlier, this represents an increase of $44,522,210 (2.5 percent) in the ongoing operations budget component, a decrease of $100,000,000 (25.0 percent) in the receivership funding budget component, and an increase of $2,599,499 (7.6 percent) in the Inspector General's budget. The ongoing operations component of the budget includes a $25 million contingency reserve 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.[5]

The increase in the ongoing operations budget component is attributable primarily to two factors, the increase in the cost of employee salary and benefits expenses and an increase in contract expenses, largely to support enhanced information technology (IT) security. These increases are offset by a continuing decline in the number of non-permanent employees, primarily in the supervision area. In addition, the 2017 ongoing operations budget includes a substantial increase in both staffing and budgetary resources dedicated to enhanced IT security as well as funding for credit monitoring services provided in connection with IT security breaches.

The reduction in the receivership funding budget component reflects the expected continuation of the low level of new failure activity that has occurred in recent years and the continuing, gradual reduction of residual workload from the financial crisis. Based on these assumptions, the FDIC will need fewer temporary employees and contractors in the Division of Resolutions and Receiverships (DRR) and its supporting organizations next year.[6]

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[5]The 2016 ongoing operations budget approved by the Board in December 2015 included an $18 million contingency reserve. The contingency has been increased to $25 million in 2017, however, to provide funding for numerous information technology initiatives that are currently under consideration, but have not yet been finalized or approved. When approved, funds for those initiatives will be provided from this reserve.

[6]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 2017 or the actual expenses that will be incurred in connection with those failures. The proposed 2017 receivership

As noted above, the separate OIG budget component is new for 2017 and is provided for informational purposes only, since the OIG budget is separately appropriated by the Congress and is not subject to Board approval. In prior years, the OIG budget has been included in the ongoing operations budget component. The increase in the OIG budget component reflects primarily the OIG's projection that it will fill most of its current vacancies by the end of 2016 and the addition of seven authorized permanent positions each in Fiscal Years 2017 and 2018. The OIG indicates that the new positions will be used to add employees to its workforce that have the skills needed to conduct IT security audits and to address the significant increase in the number of Congressional requests the OIG has been receiving.

***Overview of Proposed 2017 Budget by Major Expense Category***

Exhibit 1 itemizes the proposed 2017 FDIC Operating Budget by major expense category. The proposed 2017 budget is lower than the 2016 budget in all expense categories except the Buildings and Leased Space category:

- The proposed 2017 Salaries and Compensation budget is $1,317,735,017, which is $1,959,326 (0.1 percent) higher than the 2016 Salaries and Compensation budget. The costs associated with average annual salary increases of 4.0 percent for most FDIC employees in 2017 will be offset by the elimination of 182 authorized non-permanent positions. The Salaries and Compensation expense category represents 61.1 percent of the proposed 2017 FDIC Operating Budget and 68.5 percent of the ongoing operations budget component.

- The proposed 2017 Outside Services-Personnel budget (for contractor-provided services) is $504,035,199, which is $34,913,358 (6.5 percent) lower than the 2016 budget. This decrease primarily reflects expectations for a continuing low level of insured institution failures and a gradual reduction in post-failure receivership management workload in 2017, both of which will reduce contractor support requirements in the receivership funding budget component. However, the budget for contract services will increase by approximately $31,176,611 (13.0 percent) from 2016 to 2017 in the ongoing operations budget component, primarily due to expenses associated with increased IT security and other IT initiatives. The Outside Services-Personnel expense category represents about 23.4 percent of the proposed 2017 FDIC Operating Budget and 14.9 percent of the ongoing operations budget component.

- The proposed 2017 Travel budget is $100,299,396, down $7,059,254 (6.6 percent) from 2016, largely due to decreased travel related to examinations and bank failures. The Travel expense category represents about 4.6 percent of the proposed 2017 FDIC Operating Budget and 5.2 percent of the ongoing operations budget component.

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funding budget may not, therefore, prove to be a reliable estimate of 2017. 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.

- The proposed 2017 Buildings and Leased Space budget is $113,133,604, up $1,733,390 (1.6 percent) from 2016, attributable entirely to the one-time cost of a $4 million legal settlement for environmental remediation to a receivership-owned real estate asset sold by the FDIC in its receivership capacity. The Buildings and Leased Space expense category represents about 5.2 percent of the proposed 2017 FDIC Operating Budget and 5.2 percent of the ongoing operations budget component.

- The proposed 2017 Equipment budget is $85,143,425, down $4,300,693 (4.8 percent) from 2016, due largely to the completion of equipment and software purchases in 2016 related to enhanced building and IT security. The Equipment expense category represents about 3.9 percent of the proposed 2017 FDIC Operating Budget and 4.5 percent of the ongoing operations budget component.

- The proposed 2017 Outside-Services-Other budget is $14,970,573, down $1,954,788 (11.5 percent) from 2016, largely due to decreased receivership management activity. The Outside Services-Other expense category represents about 0.7 percent of the proposed 2017 FDIC Operating Budget and 0.8 percent of the ongoing operations budget component.

- The proposed 2017 Other Expenses budget is $22,505,550, down $8,342,914 (27.0 percent) from 2016, due primarily to reduced receivership management activity. The Other Expenses expense category represents about 1.0 percent of the proposed 2017 FDIC Operating Budget and 0.8 percent of the ongoing operations budget component.

## 2017 Staffing Authorizations

### *Overview of Proposed Changes in Authorized 2017 Staffing*

The proposed 2017 FDIC Operating Budget includes a total authorized staffing level of 6,363 FTE positions (5,980 permanent, 383 non-permanent), as shown in Exhibit 6. This represents a net decrease of 170 positions from the current 2016 authorized staffing level. If approved by the Board, authorized permanent staffing will increase in 2017 by 12 positions, while authorized non-permanent staffing will decline by 182 positions from current 2016 authorized staffing levels.

The proposed changes in authorized permanent staffing in most cases reflect reassessments by individual divisions and offices of their permanent, post-crisis workload levels. A total of 56 new authorized positions would be added under the proposed budget. But, these increases would be largely offset by the elimination of 44 currently-authorized positions that FDIC management has determined are no longer needed on a long-term basis. In some cases, the workload associated with proposed new permanent positions is currently being performed by employees in non-permanent positions.

The largest proposed increase in permanent staffing is the proposed addition of 20 new positions in Division of Risk Management Supervision (RMS). Almost all of those positions will be dedicated to increased supervisory oversight of large, systemically important insured financial institutions that pose the greatest risk to the Deposit Insurance Fund in the event of failure. In addition, 10 new permanent positions are proposed in the Division of Administration (DOA) to augment current personnel and contract specialist staffing; seven new positions each are proposed for the Information Security and Privacy Staff (ISPS) and the Division of Depositor and Consumer Protection (DCP), and five new positions are proposed for the Legal Division. Seven new positions have been added for the OIG to be consistent with its FY 2018 appropriations request now being considered by the Congress.

These proposed increases in authorized 2017 permanent staffing are largely offset by proposed reductions of 20 permanent positions in the Division of Resolutions and Receiverships (DRR), seven positions each in the Division of Information Technology (DIT) and the Office of Complex Financial Institutions (OCFI), six positions in the Division of Finance (DOF), two positions in the Division of Insurance and Research (DIR), and one position each in the Executive Offices (EO) and the Office of Minority and Women Inclusion (OMWI).

The proposed budget reflects reductions in the non-permanent staffing authorizations for several organizations: RMS (-76 positions), the Legal Division (-63 positions), DCP (-23 positions), DRR (-10 positions), DOA (-7 positions), the Division of Insurance and Research (-2 positions), and DIT (-1 position). These non-permanent staffing reductions are largely attributable to continuing reductions in the staff resources needed to handle and support problem institutions and bank failure and receivership management activities.

Authorized field examination staffing in the RMS is proposed to decline by 50 positions from 2016, to 1,594 (1,520 permanent, 74 non-permanent). This includes 1,346 examiners (1,272 permanent, 74 non-permanent) to conduct community bank examinations, down from 1,421 in 2016, and 248 examiners (all permanent) for the supervision of banks with more than $10 billion in assets, up from 223 in 2016. These changes reflect continuing institutional consolidation among community banks and a shift of resources to place greater emphasis on large bank supervision. Authorized field examination staffing in the DCP is proposed to decline by 7 positions, to 490 (470 permanent, 20 non-permanent).

***Staffing Flexibility***

For the past five years, in conjunction with its approval of the annual FDIC operating budget and 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. Continuation of that delegation of authority is proposed for 2017. The key elements of that delegation are as follows:

- Each division and office may exceed its permanent staffing authorization by up to two percent at any point during the year (the average annual attrition rate for most divisions and offices).[7]

- The CFO may approve a division or office request for a cap higher than two percent if that organization is fully staffed up to the two percent limit and can demonstrate to the

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

CFO, using objective quantitative data and analysis, that its attrition is likely to exceed two percent during the coming year because of projected retirements[8] or other known factors.

- If an organization's current permanent staffing is already more than two 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 two percent limit only until its excess permanent staffing drops below two percent as the result of attrition from positions designated to be abolished under the current "temporary over-hire" or "incumbency only" authorizations.

Continuation of this delegation of authority in 2017 will permit the FDIC-wide "over-hiring" of up to 80 permanent employees nationwide above authorized 2016 permanent staffing levels (absent approval by the CFO of higher limits in certain organizations).

**Projected 2017 Investment Budget Spending**

In December 2002, the Board established an Investment Budget that was separate and distinct from the annual 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 Examiner Tool Suite project (which is largely complete), the Structure Information Management System Redesign project, the CAS Deposit Resolution Optimization Project, and the System of Uniform Reporting of Compliance and CRA Examinations Modernization project. Investment Budget spending has declined from a high of $108 million in 2004 (when there were 10 approved investment projects underway) to $3.2 million spent during the first nine months of 2016. Investment Budget spending is projected to be $11,069,595 in 2017.

**Overview of Attached Exhibits**

Exhibit 1 displays the proposed 2017 FDIC Operating Budget by major expense category. Exhibit 2 displays the proposed 2017 FDIC Operating Budget by division and office. Exhibit 3 displays the proposed 2017 budgets by division and office for the ongoing operations and OIG budget components. Exhibit 4 displays by division and office the proposed budgets by division and office for the receivership funding budget component. Exhibit 5 shows the projected allocation of the proposed budget by major program and funding source. Exhibit 6 shows proposed 2017 staffing authorizations (permanent and non-permanent) for each division and

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

office. Also attached is the proposed 2017 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