



December 1, 2020

**MEMORANDUM TO:** Board of Directors

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

**SUBJECT:** Proposed 2021 FDIC Operating Budget

### **Proposal**

This memorandum requests that the Board of Directors approve the proposed 2021 FDIC Operating Budget totaling \$2,278,547,891. The proposed budget includes \$2,058,635,154 for ongoing operations, \$175,000,000 for receivership funding, and \$44,912,737 for the Office of the Inspector General (OIG). The total proposed operating budget is \$261,125,954 (12.9 percent) higher than the 2020 FDIC Operating Budget, largely due to the establishment of contingency reserves to address a potential increase during 2021 in supervision or resolution workload resulting from the ongoing pandemic. The proposed budget for ongoing operations is \$159,195,404 (8.4 percent) higher than in 2020, the proposed receivership funding budget is \$100,000,000 (133.3 percent) higher than in 2020, and the OIG budget is \$1,930,550 (4.5 percent) higher than in 2020.<sup>1</sup>

Approval is also requested for a total authorized 2021 staffing level of 5,793 full-time equivalent (FTE) positions (5,756 permanent, 37 non-permanent), up 65 positions (net) from the currently authorized 2020 staffing level of 5,728 positions (5,723 permanent, 5 non-permanent).<sup>2</sup> This reflects a net increase from 2020 of 33 permanent positions and 32 non-permanent positions. If needed to address any impact of pandemic-related economic deterioration on the banking industry, these authorized staffing levels could be increased during 2021 through the release of funds from the proposed contingency reserves.

### **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

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<sup>1</sup>The references in this case to the OIG budget are for informational purposes only, since the OIG budget is separately appropriated by the Congress and is not subject to Board review and approval.

<sup>2</sup>The requested approval encompasses the proposed individual division and office staffing authorizations shown in Exhibit 5.

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.

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.<sup>3</sup> The separation of the receivership funding component is an acknowledgement that the number of failures and the expenses associated with these 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. From 2010 through 2019, annual receivership funding expenses have ranged from a high of \$2.0 billion to a low of \$75 million. The FDIC recovers most receivership funding expenditures through the billing of failed institution receiverships for FDIC-provided services. However, these recoveries are largely offset by reductions in recoveries on subrogated claims.

### ***2021 Workload Analysis and Projections***

The FDIC's annual operating budget and staffing authorizations are ordinarily based on an analysis of projected workload associated with each of 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 responsibilities, and its deposit insurance and research programs. The Corporation's supervisory and resolutions/receivership management workload are generally determined by economic conditions within the banking industry. However, it is difficult to project 2021 supervisory and resolutions workload with a high level of confidence due to the uncertain economic impact of the ongoing COVID-19 pandemic.

The FDIC's risk management supervision workload varies primarily based upon the number, size, and complexity of the institutions it supervises. The number of FDIC-supervised institutions has declined each year for more than three decades. As of October 31, 2020, there were 3,242 insured depository institutions (IDIs) with approximately \$3.8 trillion in assets for which the FDIC was the primary Federal regulator (including 54 with more than \$10 billion in assets). The number of FDIC-supervised institutions with more than \$10 billion in assets increased from 48 to 54, but the total number of FDIC-supervised IDIs declined by 96, since the beginning of 2020. The trend toward fewer but larger FDIC-supervised institutions is expected to persist into the future due to continuing industry consolidation.

The FDIC's risk management supervision workload is also a function of the number of institutions with composite CAMELS (risk management) ratings of 3, 4, and 5. The length and

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<sup>3</sup>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.

frequency of risk management examinations and the extent of ongoing supervisory contacts increase substantially for institutions with ratings of 3, 4, and 5. There were fewer IDIs with composite CAMELS rating of 3, 4, and 5 on October 31, 2020, than at the beginning of 2020, and only a small number of downgrades in composite CAMELS ratings have occurred thus far this year, in spite of the FDIC's increased attention to the possible impact of the pandemic on the financial condition of FDIC-supervised institutions. . This could change as the pandemic continues and potentially causes additional economic stress that may ultimately lead to more challenging financial conditions at IDIs. The FDIC has adopted heightened monitoring programs for institutions most vulnerable to the current economic downturn and will continue to monitor closely the financial condition of all FDIC-insured and supervised institutions. The FDIC has established and tested contingency operating strategies and will be prepared to respond quickly to any potential emerging problems.

The FDIC's compliance and Community Reinvestment Act (CRA) supervisory workload is also expected to decline next year. The number of compliance and fair lending examinations is projected to decline by 4.5 percent, from 1,146 in 2020 to 1,094 in 2021, with no material change in the number of institutions with unfavorable ratings.<sup>4</sup> No immediate impact is expected on that workload as a result of the pandemic.

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 and residual workload from prior-year failures has steadily declined during 2020. As of October 31, 2020, there were 237 active receiverships, approximately \$366 million (book value) of assets in liquidation, and eight remaining loss share agreements being managed by DRR, all down from the beginning of the year. A further decline in that residual workload is projected in 2021, and resolution readiness work will continue to ensure preparedness for any future increases in insured institution failures.

The uncertain impact of the pandemic on the economy and the banking industry makes it difficult to project new failure activity. A significant increase in the number of insured institution failures is ordinarily signaled by an increase in the number of insured institutions identified as problem banks (composite CAMELS ratings of 4 or 5), and the number of problem banks has declined in 2020, as noted above. Because that could change as the pandemic continues, the FDIC will continue to closely monitor the financial condition and composite CAMELS ratings of FDIC-insured institutions throughout 2021 for early warning signs of a possible increase in bank failure activity.

### **Highlights of the Proposed 2021 Operating Budget**

#### ***Overview of the Proposed 2021 Budget by Component***

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<sup>4</sup>The projected number of compliance and 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 proposed 2021 FDIC Operating Budget totals \$2,278,547,891, including \$2,058,635,154 for ongoing operations, \$175,000,000 for receivership funding, and \$44,912,737 for the OIG. This represents an increase of \$159,195,404 (8.4 percent) in the ongoing operations budget component, an increase of \$100,000,000 (133.3 percent) in the receivership funding budget component, and an increase of \$1,930,550 (4.5 percent) in the budget for the Office of Inspector General.

The increase in the ongoing operations budget results from several factors: increased pay and benefit costs, an increase in authorized staffing in selected organizations, increased costs associated with the implementation of a comprehensive IT modernization program, and targeted overhiring and an increased contingency reserve designed to ensure the FDIC's readiness to respond, if needed, to pandemic-related problems within the banking industry. The increase in the receivership funding budget is entirely attributable to an increased contingency reserve in that budget component.

Because of uncertainty about the impact of the pandemic on the financial condition of FDIC-supervised institutions, the ongoing operations budget component includes a \$70 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. This is \$40 million higher than the contingency reserve that has typically been budgeted in prior years. If the number of FDIC-supervised institutions with composite CAMELS ratings of 3, 4, and 5 begins to increase substantially in 2021, RMS already has on board substantial surplus examination resources that can be immediately deployed to address the increased exam workload.<sup>5</sup> In addition, the proposed \$40 million increase in contingency funding would be sufficient to fill up to 200 additional temporary examination positions, if needed. Unused contingency reserve funding will expire at the end of 2021.

The increase in the receivership funding budget component includes a \$122.5 million contingency reserve, also 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 contingency reserve is \$100 million higher than would have ordinarily been proposed in this budget component due to the uncertain economic impact of the pandemic on the banking industry. This reserve is sufficient to add an estimated 280 additional temporary employees and substantially increase contractual resources in DRR, as needed, to address an increase in bank

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<sup>5</sup>Due in part to the transition from the Corporate Employee Program to direct hiring of entry-level examiner trainees in RMS and DCP, there was a one-time "bulge" in hiring in 2020. As a result, there will be an estimated 275 permanent risk management examiners on board in RMS at the beginning of 2021 in excess of its annual examiner staffing authorization. Similarly, there will be an estimated 50 permanent compliance examiners on board in DCP at the beginning of 2021 in excess of its annual examiner staffing authorization. Rather than interrupt annual entry-level examiner recruiting and hiring processes, this overhiring will be reduced gradually over a three-year period through attrition and reduced entry-level hiring in each division. In the interim, the surplus examiners provide the FDIC with immediately available resources to address any sudden increase in examination workload resulting from the economic impact of the pandemic on the banking industry.

failure activity during 2021.<sup>6</sup> Unused contingency reserve funding will expire at the end of 2021.

As noted previously, the separate OIG budget component is provided for informational purposes only since the OIG budget is separately appropriated by the Congress and is not subject to Board approval.<sup>7</sup> The increase in the OIG budget component primarily reflects a \$1.5 million (60.7 percent) increase in its Outside Services Personnel budget, including \$1.1 million for accounting and auditing services to perform material loss reviews or address other workload increases resulting from the potential economic impact of the pandemic on FDIC-insured institutions.

### ***Overview of the Proposed 2021 Budget by Major Expense Category***

Overall, the proposed 2021 FDIC Operating Budget is \$261,125,954 (12.9 percent) higher than the 2020 budget. Exhibit 1 itemizes the proposed budget by major expense category.

- The proposed 2021 Salaries and Compensation budget is \$1,392,287,099, which is \$81,658,652 (6.2 percent) higher than the 2020 Salaries and Compensation budget. This increase is primarily attributable to four factors:
  - \$25.4 million for annual merit pay and locality pay increases for employees averaging 2.8 percent.
  - \$11.9 million to fill existing vacancies as well as 43 new authorized positions to address skill gaps in the Division of Complex Institution Supervision and Resolution (CISR).
  - \$39.6 million for overhiring in RMS to ensure readiness to address any potential increase in supervisory workload, including an estimated 275 risk management examiners in excess of RMS's 2021 examiner staffing authorization (this overhiring will be reduced over time through attrition, as warranted by workload).
  - \$11.1 million for targeted overhiring in other divisions, including 24 additional full-time equivalent positions (FTEs) in the Division of Administration (DOA) to enhance readiness to address projected temporary workload increases in human resources, contracting, and other critical support functions.

These increases are partially offset by a \$7.8 million decrease from 2020, reflecting completion of the planned phase-out of the Corporate Employee Program.

The Salaries and Compensation expense category represents 60.7 percent of the proposed 2021 FDIC Operating Budget (excluding the OIG) and 65.8 percent of the ongoing operations budget component. The Salaries and Compensation expense category represents only 0.6 percent of the receivership funding budget component, since no

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<sup>6</sup>DRR has developed a detailed, position-level staffing plan to expand its workforce and its use of contractual support if needed to address a substantial increase in the number of insured institution failures in 2021.

<sup>7</sup>OIG funding is appropriated on the fiscal year basis applicable to the rest of the Federal Government (October-September). Consistent with the practice in past years, 75 percent of its proposed 2021 FDIC budget is based on its FY 2021 appropriation request pending approval by the Congress and 25 percent is based upon its proposed FY 2022 appropriation request currently under review by the U.S. Office of Management and Budget. The OIG has requested that a portion of its proposed FY 2022 appropriation be made available on a two-year basis.

temporary staffing is proposed to address resolutions and receivership management workload in 2021.

- The proposed 2021 Outside Services-Personnel budget (for contractor-provided services) is \$549,191,892, which is \$166,120,545 (43.4 percent) higher than the 2020 budget. This increase primarily reflects the establishment of contingency reserves for possible pandemic-related problem bank and/or failure activity and increased funding for the second year of a five-year information technology (IT) modernization effort. The budget for contract services will increase by \$65,599,031 (21.1 percent) from 2020 to 2021 in the ongoing operations budget component and \$99.1 million (142.9 percent) in the receivership funding budget component. The Outside Services-Personnel expense category represents about 24.4 percent of the proposed 2021 FDIC Operating Budget (excluding the OIG); 18.3 percent of the ongoing operations budget component; and 96.2 percent of the receivership funding budget component.
- The proposed 2021 Travel budget is \$64,098,071, down \$16,268,582 (20.2 percent) from 2020, largely due to reduced examination travel. While the 2021 Travel budget is down from the 2020 budget, it is \$37.5 million higher than current estimates of 2020 spending. The 2021 Travel budget reflects the assumption that reduced travel due to reliance on offsite bank examinations during the pandemic will continue through the first quarter of 2021. The Travel expense category represents about 2.8 percent of the proposed 2021 FDIC Operating Budget (excluding the OIG); 3.0 percent of the ongoing operations budget component; and 0.5 percent of the receivership funding budget component.
- The proposed 2021 Buildings and Leased Space budget is \$113,844,329, up \$12,583,359 (12.4 percent) from 2020, due largely to an increased number of planned non-capital facilities renovation projects (\$3 million); scheduled rent increases under existing leases (\$2 million); projected increases in miscellaneous operating expenses reimbursed under existing leases (\$1.6 million); and expenses associated with planned Headquarters and field office moves (\$1.7 million). The Buildings and Leased Space expense category represents about 5.1 percent of the proposed 2021 FDIC Operating Budget (excluding the OIG), 5.4 percent of the ongoing operations budget component; and 1.2 percent of the receivership funding budget component.
- The proposed 2021 Equipment budget is \$125,562,134, up \$17,123,105 (15.8 percent) from 2020. This increase reflects IT equipment and subscription and hosting costs associated with modernization initiatives, including hosting/subscription costs for cloud platforms (\$9 million) and the failed bank data system (\$4.4 million realigned from the Outside Services-Personnel budget); and facility-related equipment requirements (\$1.7 million). The Equipment expense category represents about 5.5 percent of the proposed 2021 FDIC Operating Budget (excluding the OIG); 5.9 percent of the ongoing operations budget component; and 0.7 percent of the receivership funding budget component.
- The proposed 2021 Outside Services-Other budget is \$16,344,032, down \$143,961 (0.9 percent) from 2020. The Outside Services-Other expense category represents about 0.7 percent of the proposed 2021 FDIC Operating Budget (excluding the OIG); 0.8 percent of



the ongoing operations budget component; and 0.1 percent of the receivership funding budget component.

- The proposed 2021 Other Expenses budget is \$17,220,334, up \$52,836 (0.3 percent) from 2020. The Other Expenses category represents about 0.7 percent of the proposed 2021 FDIC Operating Budget (excluding the OIG); 0.7 percent of the ongoing operations budget component; and 0.7 percent of the receivership funding budget component.

### **Highlights of Proposed 2021 Staffing Authorizations**

The proposed 2021 FDIC Operating Budget includes a total authorized staffing level of 5,793 FTE positions (5,756 permanent, 37 non-permanent), as shown in Exhibit 5. This represents a net increase of 65 positions, or 1.1 percent, from the current 2020 authorized staffing level. If approved by the Board, authorized 2021 staffing will increase by 33 permanent positions (net) and 32 non-permanent positions from current 2020 authorized staffing levels. These authorized staffing levels could be increased during 2021, if needed to address any impact of pandemic-related economic deterioration on the banking industry, through the release of funds from the proposed Ongoing Operations and Receivership Funding contingency reserves described earlier.

The proposed increase in authorized permanent staffing reflects individual division and office assessments of their projected workload in 2021 and future years. include increases of 41 positions for CISR; four positions in the Office of Communications, primarily to support a new Virtual Outreach Center; two positions (net) in DCP; two positions in the OIG; two positions in the Division of Information Technology (in addition to two positions transferred from DRR in conjunction with responsibility for the Failed Bank Data System); and one position in DOA. Partially offsetting these increases are net reductions of 15 positions in RMS; three positions in the Legal Division; and one position in the Division of Insurance and Research. The proposed increase in authorized non-permanent staffing will add 25 temporary supervisory examiners in RMS to manage and train the large number of overhired risk management examiners; five additional positions in the OIG; and two additional positions in CISR.

CISR was established in 2019 by consolidating large bank staffing and functions from RMS, DRR, and the former Office of Complex Financial Institutions. Following its establishment, CISR undertook a comprehensive organizational and workforce restructuring that was completed earlier this year. The restructured CISR management team subsequently completed an in-depth review of the knowledge and skills in its current workforce and identified numerous staffing and skill gaps that it felt limited its ability to fulfill critical mission responsibilities. The additional positions to be added to CISR will address those identified gaps and increase its capabilities to carry out mission responsibilities, particularly with respect to its readiness to resolve possible large and complex bank failures.

Authorized 2021 field examination staffing in RMS is proposed to decline to 1,484 permanent positions, a net reduction of 13 permanent positions from 2020. RMS's proposed 2021 field examination staffing authorization is composed of the following:

- 1,111 positions to perform community bank supervision responsibilities, down 42 positions from 2020 due to continued institutional consolidation within the U.S. banking industry;
- 350 positions to supervise large banks with over \$10 billion in assets, up 29 positions from 2020 due to an increase in the number of FDIC-supervised large banks; and
- 23 information technology (IT) examiner and specialist positions.

Authorized 2021 field examination staffing in DCP is proposed to decline to 434 positions (all permanent), a reduction of four permanent positions from 2020. The proposed reduction is entirely attributable to continued institutional consolidation.

### **Proposed 2021 Funding for IT Modernization**

The proposed budget continues a projected multi-year emphasis begun in 2019 on modernization of the FDIC's internal IT operations, with almost \$43.4 million in proposed one-time funding in 2021 to carry out a lengthy list of initiatives directed primarily toward modernization of the current IT infrastructure and legacy applications as well as updated data governance structures and processes. This is an increase from approximately \$35 million in one-time IT Modernization costs in the 2020 budget. These efforts are part of a five-year roadmap to fully transform FDIC IT operations by year-end 2024. This includes plans to migrate remaining applications from their current mainframe computer platforms to new commercial off-the-shelf software packages and cloud computing platforms. A substantial portion of these one-time costs represent the costs of operating and maintaining concurrent platforms during the transition period to a new IT infrastructure.

### **Projected 2021 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. Prior to 2003, incremental funding was provided for such projects through the annual operating budget, and several major projects incurred millions of dollars in expenses over multiple years before being terminated prior to completion without success.

The Investment Budget currently includes three active investment projects: the Training Center Modernization (TCM) project, the Framework for Oversight of Compliance and CRA Activities User Suite (FOCUS) project, and the Structure Information Management System (SIMS) Redesign project.



**Overview of Attached Exhibits**

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

- Exhibit 1 displays the proposed 2021 FDIC Operating Budget by major expense category.
- Exhibit 2 displays the proposed 2021 FDIC Operating Budget by division and office.
- Exhibit 3 displays the proposed 2021 budgets by division and office for the ongoing operations and OIG budget components.
- Exhibit 4 displays the proposed 2021 budgets by division and office for the receivership funding budget component.
- Exhibit 5 displays the proposed 2021 staffing authorizations (permanent and non-permanent) for each division and office.
- Exhibit 6 displays the projected allocation of the proposed budget by major program.

Also attached is the 2021 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