FDIC *Federal Deposit Insurance Corporation*

Deputy to the Chairman and Chief Financial Officer

May 3, 2022

MEMORANDUM TO: The Board of Directors

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

SUBJECT: First Quarter 2022 CFO Report to the Board

The attached report highlights the FDIC's financial activities and results for the quarter ended March 31, 2022.

Executive Summary

- During the first quarter of 2022, the Deposit Insurance Fund (DIF) balance declined to $123.0 billion as of March 31, 2022, down $102 million from the December 31, 2021 balance of $123.1 billion. The quarterly decrease was primarily attributable to an unrealized loss on U.S. Treasury (UST) securities of $1.7 billion, offset by assessment revenue of $1.9 billion and operating expenses of $453 million.

- There were no FDIC-insured financial institution failures during the first quarter of 2022; the last failure occurred on October 23, 2020.

- Through March 31, 2022, overall FDIC Operating Budget expenditures were below the year-to-date budget by about $63.4 million, or 12 percent. This variance was primarily the result of underspending of $56.0 million in the Ongoing Operations budget component, including $27.5 million in the Salaries and Compensation expense category due to unfilled vacancies in budgeted positions, $10.4 million in Outside Services-Personnel expense category due to project delays and reductions to workplace services, $9.5 million in Buildings and Leased Space expense category due to delays in construction projects, and $7.3 million in Travel expense category due to pandemic-related FDIC travel restrictions. There were no significant spending variances for any FDIC organization or any major expense category.

I. **Financial Results** (See pages 5 – 6 for detailed data and charts.)

Deposit Insurance Fund

- For the first quarter of 2022, the DIF's comprehensive loss totaled $102 million compared to comprehensive income of $1.5 billion for the same period last year. This year-over-year decline was primarily due to a decline in market value adjustments on UST securities of $1.4 billion.

- During the first quarter of 2022, the DIF incurred a $1.7 billion unrealized loss on its portfolio of UST securities due to yields rising across all investable maturity sectors of the Treasury yield curve.

Assessments

- During March, the DIF recognized assessment revenue of $1.8 billion for the estimate of first quarter 2022 insurance coverage. Additionally, the DIF recognized a $120 million adjustment for higher-than-estimated collections for the fourth quarter 2021 insurance coverage, which increased assessment revenue.

- On March 30, 2022, the FDIC collected $1.8 billion in DIF assessments for fourth quarter 2021 insurance coverage.

II. **Investment Results** (See pages 7 – 8 for detailed data and charts.)

DIF Investment Portfolio

- On March 31, 2022, the total liquidity (also total market value) of the DIF investment portfolio stood at $120.77 billion, down $24 million from its December 31, 2021, balance of $120.80 billion. During the quarter, interest revenue, receivership dividends, and deposit insurance assessment collections exceeded resolution-related outlays and operating expenses; however, mark-to-market losses occurred due to rising rates.

- On March 31, 2022, the DIF investment portfolio's yield was 0.641 percent, up 0.8 basis points from its 0.633 percent yield on December 31, 2021. The new Treasury securities purchased during the first quarter of the year had higher yields than securities purchased in the previous quarter.

- In accordance with the approved first quarter 2022 DIF portfolio investment strategy, staff purchased a total of 11 conventional Treasury securities. The 11 securities had a total par value of $12.50 billion, a weighted average yield of 1.062 percent, and a weighted average maturity of 1.29 years.

III. **Budget Results** (See pages 9 – 10 for detailed data.)

Approved Budget Modifications

The 2022 Budget Resolution delegated to the Chief Financial Officer (CFO) the authority to make certain modifications to the 2022 FDIC Operating Budget. The CFO did not approve any budget reallocations during the first quarter under the authority delegated by the Board of Directors.

Approved Staffing Modifications

The 2022 Budget Resolution delegated to the CFO the authority to modify approved 2022 staffing authorizations for divisions and offices, as long as those modifications did not increase the total approved Ongoing Operations or Receivership Funding components of the 2022 FDIC Operating Budget.

- In January, the CFO approved an increase of three authorized permanent positions in the Division of Risk Management Supervision (RMS) to provide additional staffing for the new Office of Minority and Community Development Banking (OMCDB), which is administratively housed in RMS.

- In January, the CFO also approved the addition of an authorized non-permanent position in DCP to support the implementation of the *Framework for Oversight of Compliance and CRA Activities User Suite* (FOCUS) application. That brings to six the number of authorized non-permanent positions in DCP dedicated to the FOCUS project.

- In February, the CFO approved an increase of two authorized permanent positions in RMS to support the substantial growth in RMS' workload in the policy and capital markets areas.

- In March, the CFO approved an increase of five authorized permanent and two non-permanent Supervisory Examiner (SE) positions in RMS and one authorized permanent and two non-permanent SE positions in DCP to maintain effective first-line supervision of field examination staff (including the large number of pre-commissioned examiners).

- In March, the CFO approved an increase of three permanent authorized positions in DCP to address the impact on consumer complaint workload that is expected to result from the shift of primary supervisory responsibility for a large insured depository institution from the Consumer Financial Protection Bureau to the FDIC.

Subsequent to these adjustments, authorized 2022 staffing for the Corporation totaled 5,916 positions (5,858 permanent and 58 non-permanent), a net increase of 19 positions.

Spending Variances

Significant spending variances by major expense category and division/office are discussed below. Significant spending variances for the quarter ending March 31, 2022, are defined as those that either (1) exceeded the YTD budget for a major expense category or division/office by more than $5 million and represented more than three percent of the major expense category or total division/office budget; or (2) were under the YTD budget for a major expense category or division/office by more than $15 million and represented more than 15 percent of the major expense category or total division/office budget.

Significant Spending Variances by Major Expense Category

<u>Ongoing Operations</u>

There were no significant spending variances in the first quarter in any major expense category of the Ongoing Operations budget component.

Receivership Funding

The Receivership Funding component of the 2022 FDIC Operating Budget includes funding for expenses that are incurred in conjunction with institution failures and the management and disposition of the assets and liabilities of the ensuing receiverships, except for salary and benefits expenses for permanent employees assigned to the receivership management function and other expenses required to ensure readiness without regard to whether failures occur.

There were no significant spending variances in the first quarter in any major expense category of the Receivership Funding budget component.

Office of Inspector General

There were no significant spending variances in the first quarter in any major expense category of the Office of Inspector General (OIG) budget component.

Significant Spending Variances by Division/Office[1]

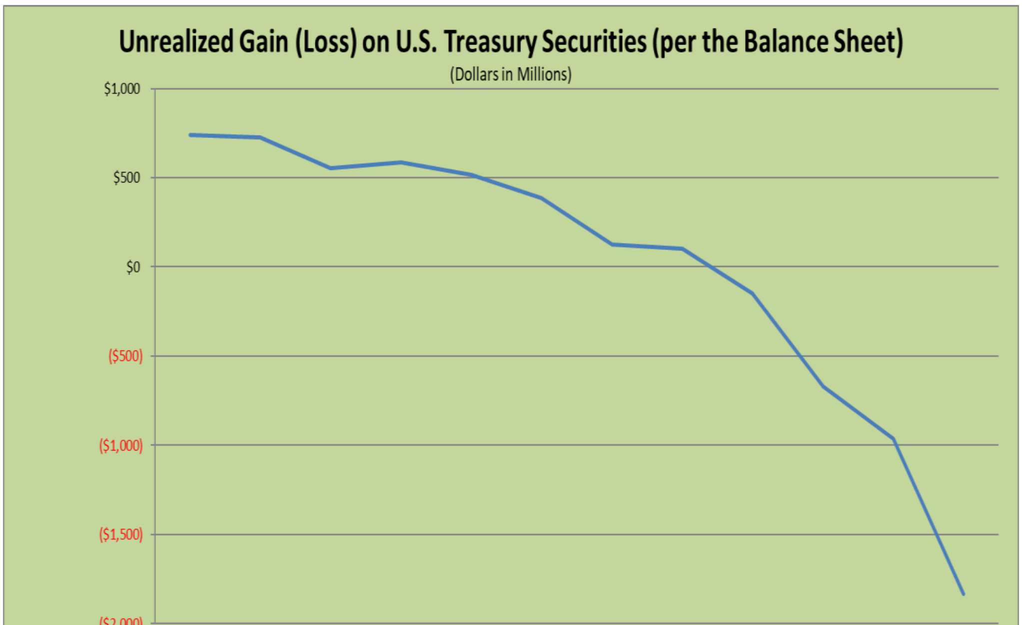
There were no significant spending variances for any division or office in its overall budget in the first quarter.

[1]Information on division/office variances reflects variances in the FDIC Operating Budget and does not include variances related to approved multi-year investment projects.

Fund Financial Results

($ in Millions)

Balance Sheet	Deposit Insurance Fund				
	Mar-22	Dec-21	Quarterly Change	Mar-21	Year-Over-Year Change
Cash and cash equivalents	$ 5,802	$ 5,563	$ 239	$ 4,895	$ 907
Investment in U.S. Treasury securities	114,230	114,551	(321)	110,680	3,550
Assessments receivable	1,818	1,711	107	1,941	(123)
Interest receivable on investments and other assets, net	776	718	58	969	(193)
Receivables from resolutions, net	815	885	(70)	1,220	(405)
Property and equipment, net	326	327	(1)	321	5
Operating lease right-of-use assets	80	85	(5)	110	(30)
Total Assets	$ 123,847	$ 123,840	$ 7	$ 120,136	$ 3,711
Accounts payable and other liabilities	245	255	(10)	255	(10)
Operating lease liabilities	85	91	(6)	117	(32)
Liabilities due to resolutions	1	0	1	1	0
Postretirement benefit liability	332	332	0	336	(4)
Contingent liability for anticipated failures	145	21	124	65	80
Contingent liability for litigation losses	0	0	0	0	0
Total Liabilities	$ 808	$ 699	$ 109	$ 774	$ 34
FYI: Unrealized gain (loss) on U.S. Treasury securities, net	(1,835)	(149)	(1,686)	785	(2,620)
FYI: Unrealized postretirement benefit (loss) gain	(83)	(83)	0	(98)	15
Fund Balance	$ 123,039	$ 123,141	$ (102)	$ 119,362	$ 3,677



	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22
Unrealized Gain (Loss) on UST Securities	$738	$726	$552	$584	$518	$387	126	101	($149)	($669)	($964)	($1,835)

Throughout the first quarter, the treasury securities portfolio experienced continued mark-to-market losses as persistent high inflation drove the Federal Reserve's decision to raise rates. Yields along the entire curve increased substantially, with some tenors exceeding pre-pandemic levels and gaining over 100 basis points. Market participants are expecting the Fed to continue with rate hikes for the majority of the FOMC meetings this year with a possible 50 basis points for both the May and June meetings. These unrealized losses may persist, depending on how much Fed action and inflation is already reflected in current rates.

Fund Financial Results - continued

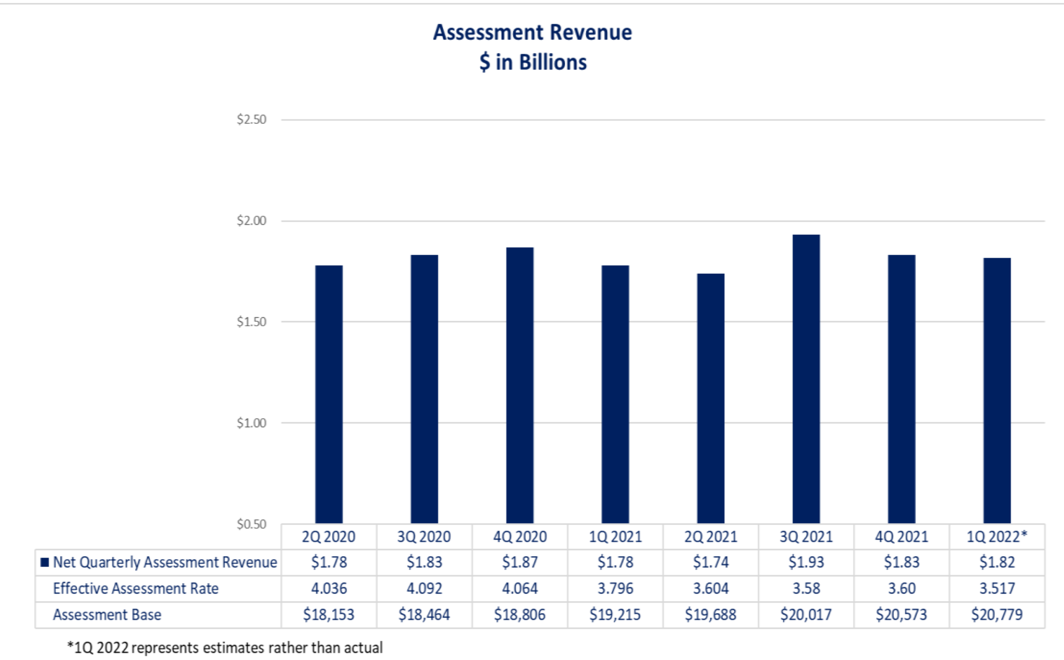
($ in Millions)

Income Statement (year-to-date)	Mar-22	Dec-21	Quarterly Change	Mar-21	Year-Over-Year Change
	Deposit Insurance Fund				
Assessments	$ 1,938	$ 7,080		$ 1,862	$ 76
Interest on U.S. Treasury securities	191	953		284	(93)
Return of unclaimed insured deposits	6	103		0	6
Other revenue	2	17		2	0
Total Revenue	$ 2,137	$ 8,153		$ 2,148	$ (11)
Operating expenses	453	1,843		454	(1)
Provision for insurance losses	100	(144)		(57)	157
Insurance and other expenses	0	6		1	(1)
Total Expenses and Losses	$ 553	$ 1,705		$ 398	$ 155
Net Income	$ 1,584	$ 6,448		$ 1,750	$ (166)
Unrealized gain (loss) on U.S. Treasury securities, net	(1,686)	(1,219)		(285)	(1,401)
Unrealized postretirement benefit gain (loss)	0	15		0	0
Comprehensive Income	$ (102)	$ 5,244		$ 1,465	$ (1,567)

Selected Financial Data	Mar-22	Dec-21	Quarterly Change	Mar-21	Year-Over-Year Change
	FSLIC Resolution Fund				
Cash and cash equivalents	$ 908	$ 908	$ 0	$ 907	$ 1
Accumulated deficit	(124,562)	(124,562)	0	(124,562)	0
Total resolution equity	908	908	0	907	1
Total revenue	0	0		0	0
Operating expenses	0	0		0	0
Recovery of tax benefits	0	0		0	0
Losses related to thrift resolutions	0	0		0	0
Net Income (Loss)	$ 0	$ 0		$ 0	$ 0

Receivership Selected Statistics March 2022 vs. March 2021

	DIF			**FRF**			**ALL FUNDS**		
($ in millions)	Mar-22	Mar-21	*Change*	Mar-22	Mar-21	*Change*	Mar-22	Mar-21	*Change*
Total Receiverships	188	229	(41)	0	0	0	188	229	(41)
Assets in Liquidation	$ 86	$ 273	$ (187)	$ 0	$ 0	$ 0	$ 86	$ 273	$ (187)
YTD Collections	$ 34	$ 62	$ (28)	$ 0	$ 1	$ (1)	$ 34	$ 63	$ (29)
YTD Dividend/Other Pmts - Cash	$ 103	$ 192	$ (89)	$ 0	$ 0	$ 0	$ 103	$ 192	$ (89)



Over the past 8 quarters gross assessment revenue has been fairly constant. Although the effective assessment rate has declined from 4.036 to 3.517, the gross assessment revenue has remained steady primarily due to an increase in the total assessment base.

Deposit Insurance Fund Portfolio Summary
(Dollar Values in Millions)

	3/31/22	12/31/21	Change
Par Value	$119,708	$117,716	$1,992
Amortized Cost	$121,849	$120,242	$1,607
Total Market Value (including accrued interest)	$120,773	$120,797	($24)
Primary Reserve [1]	$120,773	$120,797	($24)
Primary Reserve % of Total Portfolio	100.0%	100.0%	0.0%
Yield-to-Maturity	0.641%	0.633%	0.008%
Weighted Average Maturity (in years)	1.11	1.24	-0.13
Effective Duration (in years)			
Total Portfolio	1.09	1.22	-0.13
Available-for-Sale Securities [2]	1.14	1.28	-0.14

[1] Primary Reserve is the total market value (including accrued interest) of overnight investments, all available-for-sale securities, and held-to-maturity securities maturing within three months.

[2] Excludes any overnight investments.

Summary of Other Corporate Investment Portfolios
(Dollar Values in Millions)

	3/31/22	12/31/21	Change
FRF-FSLIC			
Book Value [3]	$882	$882	$0
Yield-to-Maturity	0.13%	0.06%	0.07%
Weighted Average Maturity	overnight	overnight	no change

[3] Due to the current short-term nature of this portfolio, its respective Par, Book, and Market Values are identical for reporting purposes.

National Liquidation Fund (NLF) Investment Portfolio Summary
(Dollar Values in Millions)

	3/31/22	12/31/21	Change
Book Value [4]	$1,328	$1,409	($81)
Effective Annual Yield	0.36%	0.06%	0.30%
Weighted Average Maturity (in days)	22	1	21

[4] Due to the short-term nature of the NLF portfolio, its Book and Market Values are identical for reporting purposes.

Investment Strategies

DEPOSIT INSURANCE FUND	**Strategy for the 1st Quarter 2022**
	Invest up to $16 billion (par value) in AFS securities with maturities between June 30, 2022 and January 1, 2027.
	Strategy Changes for the 2nd Quarter 2022
	Invest up to $15 billion (par value) in AFS securities with maturities between September 30, 2022 and April 1, 2027.
NATIONAL LIQUIDATION FUND	**Strategy for the 1st Quarter 2022**
	Maintain an overnight deposit target floor balance within a range of $10 million to $100 million. Strategically invest the remaining funds in the zero- to 12-month maturity sector.
	Strategy Changes for the 2nd Quarter 2022
	No strategy changes for the second quarter of 2022.

Executive Summary of 2022 Budget and Expenditures
by Budget Component and Major Expense Category
Through March 31, 2022
(Dollars in Thousands)

Major Expense Category	Annual Budget	YTD Budget	YTD Expenditures	% of YTD Budget Used	YTD Variance
FDIC Operating Budget					
Ongoing Operations					
Salaries & Compensation	$1,382,070	$339,786	$312,316	92%	($27,470)
Outside Services - Personnel	363,746	75,618	65,198	86%	(10,420)
Travel	64,051	9,236	1,906	21%	(7,330)
Buildings	158,673	27,733	18,250	66%	(9,483)
Equipment	138,700	31,774	32,922	104%	1,148
Outside Services - Other	18,355	3,801	2,658	70%	(1,143)
Other Expenses	14,768	5,272	3,996	76%	(1,276)
Total Ongoing Operations	**$2,140,363**	**$493,220**	**$437,246**	**89%**	**(55,974)**
Receivership Funding					
Salaries & Compensation	$543	$135	$4	3%	($131)
Outside Services - Personnel	70,786	10,734	5,691	53%	(5,043)
Travel	448	115	35	30%	(80)
Buildings	177	44	18	41%	(26)
Equipment	1,830	457	416	91%	(41)
Outside Services - Other	159	40	24	60%	(16)
Other Expenses	1,057	264	7	3%	(257)
Total Receivership Funding	**$75,000**	**$11,789**	**$6,195**	**53%**	**($5,594)**
Office of Inspector General					
Salaries & Compensation	$39,279	$9,820	$9,373	95%	($447)
Outside Services - Personnel	3,540	885	166	19%	(719)
Travel	1,420	355	274	77%	(81)
Buildings	0	0	0		0
Equipment	1,975	494	60	12%	(434)
Outside Services - Other	5	1	0	0%	(1)
Other Expenses	757	189	83	44%	(106)
Total Office of Inspector General	**$46,976**	**$11,744**	**$9,956**	**85%**	**($1,788)**
Total FDIC Operating Budget	**$2,262,339**	**$516,753**	**$453,397**	**88%**	**($63,356)**

Executive Summary of 2022 Budget and Expenditures
by Division/Office
Through March 31, 2022
(Dollars in Thousands)

Division/Office	Annual Budget	YTD Budget	YTD Expenditures	% of YTD Budget Used	YTD Variance
FDIC Operating Budget					
Risk Management Supervision	$ 584,352	$ 139,422	$ 125,110	90%	$ (14,312)
Information Technology	383,007	89,409	81,898	92%	(7,511)
Administration	370,121	76,822	64,505	84%	(12,317)
Depositor & Consumer Protection	187,339	47,249	39,780	84%	(7,469)
Legal	164,011	38,430	34,461	90%	(3,969)
Resolutions & Receiverships	132,614	32,971	26,923	82%	(6,048)
Complex Institution Supervision & Resolution	105,133	24,160	21,623	89%	(2,537)
Insurance & Research	65,051	15,804	13,709	87%	(2,095)
Inspector General	46,976	11,744	9,957	85%	(1,787)
Chief Information Security Officer	43,822	10,206	9,900	97%	(306)
Executive Support [1]	57,421	12,292	9,661	79%	(2,631)
Finance	38,088	9,245	8,340	90%	(905)
Corporate University - Corporate	25,283	6,029	5,384	89%	(645)
Executive Offices [2]	12,940	2,970	2,146	72%	(824)
Corporate Unassigned [3]	46,181	$0	0	0%	0
Total FDIC Operating Budget	**$2,262,339**	**$516,753**	**$453,397**	**88%**	**($63,356)**

1) Executive Support includes the Offices of Minority and Women Inclusion, Communications, Ombudsman, Legislative Affairs, Financial Institution Adjudication, and Risk Management and Internal Controls as well as the FDIC Tech Lab. The Acting Chairman made a decision in February 2022 to realign the FDIC Tech Lab as a subordinate organization within the Division of Information Technology; beginning in the second quarter, the FDIC Tech Lab will no longer be reported as a separate Executive Support organization.

2) Executive Offices include the offices of the Chairman, Vice Chairman, Independent Director, Deputy to the Chairman and Chief Operating Officer, Deputy to the Chairman and Chief Financial Officer, Deputy to the Chairman for Policy, Deputy to the Chairman for External Affairs, Deputy to the Chairman for Financial Stability, Deputy to the Chairman for Consumer Protection and Innovation, and Chief Information Officer/Chief Privacy Officer.

3) This includes a $30 million contingency reserve in the Ongoing Operations budget component and a $16.2 million contingency reserve in the Receivership Funding budget component to meet unanticipated budget requirements that may arise during the year.