



MEMO

TO: Board of Directors

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

DATE: May 26, 2023

RE: Proposed 2023 FDIC Operating Budget Increase

Proposal

The purpose of this memorandum is to request that the Board of Directors approve a \$750 million increase in the Receivership Funding component of the 2023 FDIC Operating Budget. The proposed increase is needed to address the substantial post-closing expenses associated with the three recent large regional bank failures. If approved, this would increase the budget for the Receivership Funding budget component to \$825,000,000 and the total 2023 FDIC Operating Budget to \$3,159,078,567.

Background

The Board initially adopted the concept of an annual operating budget with two separate components (Ongoing Operations and Receivership Funding) in conjunction with its approval of the 2003 Corporate Operating Budget. In 2017, the budget for the Office of Inspector General (OIG) was separated from the Ongoing Operations budget and established as a third budget component because funding for the OIG is appropriated by the Congress and not subject to review or approval by the Board. Funds for one component cannot be reprogrammed to pay for expenditures incurred for another component.

The separate Receivership Funding component was established in recognition of the fact 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 the actual expenses incurred for resolutions and receivership management activities may vary considerably from the estimates made during the annual planning and budget formulation process. The Receivership Funding component provides funding for all expenditures that are incurred in connection with the failure (or near failure) of FDIC-insured institutions and the management of receiverships established in connection with those failures, except for the salaries and benefits and other support costs for permanent staff in the Division of Resolutions and Receiverships (DRR), the Division of Complex Institution Supervision and Resolution (CISR), the Legal Division, and other organizations that perform or support resolutions and

receivership management functions.¹ From 2010 through 2022, annual receivership funding expenses ranged from a low of \$25.0 million to a high of \$2.0 billion.

The FDIC's inability to project with certainty failures and related workload was reiterated in the case for the 2023 FDIC Operating Budget approved by the Board in December 2022. That budget anticipated the failure of only a limited number of small community banks and the continued reduction of the volume of assets in liquidation from prior-year failures. However, as you are aware, three large, FDIC-insured regional banks have failed to date this year, with total assets exceeding \$548 billion (book value). This is roughly equal to the combined \$544 billion (book value) of the assets of the 165 failures that occurred in 2008 and 2009. During those two years, the FDIC incurred \$1.25 billion in Receivership Funding expenses, or an annualized cost of just under \$625 million.

Preliminary Estimates of the 2023 Budget Impact

Receivership Funding expenses through April 30, 2023, totaled \$43,372,751, or 58 percent of the full-year budget of \$75 million. Post-closing costs associated with the three recent large regional bank failures are expected to rise significantly by the end of the second quarter and to remain elevated for the rest of the year. As a result, substantial additional budgetary authority will be needed without regard to whether additional failures occur.

The affected divisions are still in the process of collecting the information necessary to accurately estimate the total Receivership Funding expenses they will incur in 2023 as a result of the three failures. At least three divisions project substantial unbudgeted expenses during 2023, and several others are still in the process of assessing the impact of the three failures on their 2023 workload and expenses. High-level preliminary estimates of projected 2023 expenses provided by the three divisions related solely to those three failures total almost \$750 million:

- CISR had already incurred as of April 30, 2023, nearly \$18 million in expenses for advisory services and other contractual support in connection with the three failures and now estimates that a total of nearly \$50 million will be spent this year for these failures. It previously did not anticipate any Receivership Funding expenses in 2023.
- DRR is responsible for administering the receiverships that were established as a result of the three failures. In its receivership capacity, DRR must pay the final payroll and other unpaid administrative expenses for each of the failed institutions. Because of the size of those institutions, those costs will be much larger than the amounts historically paid for such expenses. In addition, DRR will have substantial continuing expenses in 2023 and beyond for contractual support for the management and disposition of the retained assets from those institutions. Its preliminary estimates of the additional 2023 expenses attributable to the three recent failures total approximately \$638 million.
- The Division of Information Technology is responsible for collecting, indexing, and storing the substantial volume of data from the three failed institutions. Its preliminary estimate is that it will incur up to \$50 million in unbudgeted expenses for those activities this year.

¹Salary and benefits expenses for the permanent in-house staff associated with the Corporation's Receivership Management business line are included in 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.

DRR is also planning to substantially increase its FDIC workforce, beginning later this year, largely by adding non-permanent employees to assist with its new receivership management workload. Other divisions are also considering whether additional staffing will be required.

It is expected to take several more weeks to accurately identify and estimate all of the expenses that will be incurred this year related to these failures. However, expenses continue to be booked, and we expect to exceed the currently-approved \$75 million Receivership Funding budget soon. Accordingly, it is imperative that the Board take immediate action to increase that budget.

Recommendation

In light of the preliminary and incomplete nature of the current expense estimates for the three recent failures, we recommend that the Board approve an increase of \$750 million, to \$825 million, in the budget for the Receivership Funding component of the 2023 FDIC Operating Budget. That amount somewhat exceeds the high-level historical reference point noted above for the costs incurred in connection with failures that occurred in 2008 and 2009 involving a comparable volume of assets, but that difference is probably attributable to the FDIC's current resolution strategy for large and complex banks, including the lead role now being played by CISR, and the higher costs resulting from current FDIC policies and practices regarding failed bank data collection and storage. An initial proposed breakdown of the requested increase by major expense category is attached, but will almost certainly have to be refined as more accurate expense estimates are developed.

If approved, the requested new budget authority will be allocated to individual divisions and offices only as they finalize their estimates of projected 2023 workload and expenses associated with the recent failures. Because the recommended increase is based entirely on the estimated expenses to be incurred for those three failures, it will also preserve the availability of the initial \$75 million in Receivership Funding budget authority approved by the Board to address any small community bank failures that might occur later this year.

We will continue to carefully manage and monitor actual Receivership Funding expenses and will provide reports to Board members every two months on actual obligations and expenditures and, to the extent known, significant planned future expenditures from the 2023 Receivership Funding budget component. In accordance with established procedures, no unused funds from the 2023 Receivership Funding budget will be available for use for non-receivership purposes, and any unused budget authority will expire at the end of the year.

A proposed initial distribution of the recommended budget increase by major expense category is attached. Also attached is a proposed Board resolution approving this recommendation.

Contact

If you have questions about the requested increase, please contact Thomas E. Peddicord, Deputy Director, Division of Finance.

Attachments

**Proposed Increase in 2023 Corporate Operating Budget
Receivership Funding Component**

Division/Office	Current Funding	Proposed Supplemental Funding*	Total
Salaries and Compensation	\$ 328,785	\$ 19,600,000	\$ 19,928,785
Outside Services - Personnel	\$ 71,490,898	\$ 276,792,000	\$ 348,282,898
Travel	\$ 336,036	\$ -	\$ 336,036
Buildings and Leased Space	\$ 205,006	\$ 200,000	\$ 405,006
Equipment	\$ 1,890,442	\$ 9,000,000	\$ 10,890,442
Outside Services - Other	\$ 174,656	\$ 24,000,000	\$ 24,174,656
Other Expenses	\$ 574,177	\$ 420,408,000	\$ 420,982,177
Total	\$ 75,000,000	\$ 750,000,000	\$ 825,000,000

*Preliminary estimates of major expense category allocation. Actual distribution will vary.