FDIC Insurance

Mike Scarpa
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Speaker Introduction

Mike Scarpa
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PwC

Mike works as a Managing Director within the Cyber, Risk, Regulatory and Financial Crimes team at PwC. Prior to joining PwC, Mike was a Managing Director in another Big Four's Financial Services Regulatory Compliance and Risk practice, leading the Banking Safety and Soundness sub-practice and the Digital Assets practice. During his tenure, Mike was instrumental in delivering regulatory compliance and risk management engagements to traditional and challenger financial institutions and fintech firms. Mike also has extensive experience with financial institution licensure, product registration, risk and control design, capital adequacy, recovery, wind-down/resolution planning for non-banking financial technology firms, enterprise risk, state and federal banking regulations, third party/vendor risk, recordkeeping and regulatory reporting, Board/Management Reporting and three lines of defense expectations.

Mike was regulatory counsel at an institutional broker-dealer and directly supported a former OCC Large Bank Principal Examiner with regard to Asset Liability Management, Liquidity Risk Management/Contingency Funding planning, Concentration Risk Management and a myriad of other safety and soundness areas prior to joining his previous Big Four firm.

Areas of expertise

- Federal Reserve Regulations/ Supervisory Guidance
- FBO Regulatory Compliance and Risk Management
- State and Federal Examination and Supervision
- Communication and Presentation to Federal and State Regulators
- Digital Asset Risks and Controls

Agenda

- FDIC Overview
- FDIC Deposit Insurance
- Call Reporting
- Interest Rate Risk / Asset Liability Management
- Liquidity Risk Management
- Contingency Fund Planning
- Resolutions and Receiverships
- Potential Risk/Regulatory Changes following Recent Events

FDIC Overview

The Federal Deposit Insurance Corporation (FDIC) is an **independent** agency created by Congress to maintain stability and public confidence in the nation's financial system. To accomplish this mission, the FDIC

Insures deposits	**Examines and supervises financial institutions for safety, soundness, and consumer protection**	**Makes large and complex financial institutions resolvable**	**Manages receiverships**

Leadership

A five-person Board of Directors manages operations to fulfill the agency’s mission. Each board member is nominated by the President and confirmed by the Senate. The current members as of March 2023 are:

Martin J. Gruenberg
Chairman
FDIC

Travis Hill
Vice Chairman
FDIC

Jonathan McKernan
Director
FDIC

Michael J. Hsu
Director
Acting Comptroller of the Currency

Rohit Chopra
Director
Director, Consumer Finance Protection Bureau

Deposit Insurance

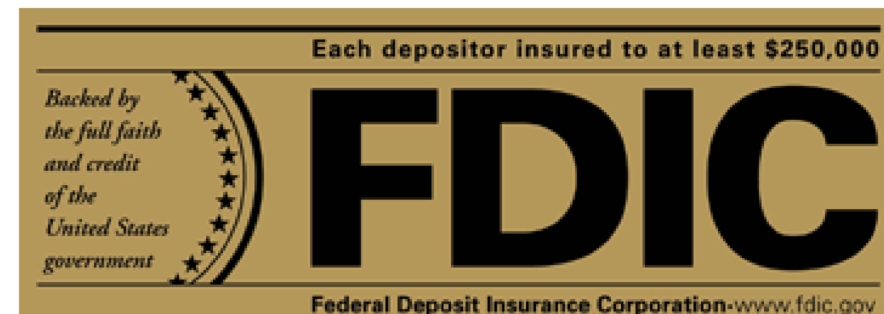
Deposit insurance is one of the significant benefits of having an account at an FDIC-insured bank. Since FDIC insurance began in 1934, no depositor has lost a single penny of insured funds due to bank failure. Depositors do not need to apply for FDIC insurance; coverage is automatic whenever a covered deposit account is opened.

FDIC insurance covers traditional deposit accounts, not securities, mutual funds, or similar types of investments. Below are common financial products which are insured by the FDIC (✓) or not insured by the FDIC (×).

- ✓ Checking accounts
- ✓ Savings accounts
- ✓ Money market deposit accounts (MMDAs)
- ✓ Time deposits, e.g., certificates of deposit (CD)
- ✓ Negotiable Order of Withdrawal (NOW) accounts
- ✓ Cashier's checks, money orders, and other official items issued by a bank
- ✓ Prepaid cards*

- × Stock investments
- × Bond investments
- × Mutual funds
- × Crypto Assets
- × Safe deposit boxes or their contents

- × Annuities
- × Municipal securities
- × Life insurance policies
- × U.S. Treasury bill, bonds, or notes^



Note: These rules are current through March 31, 2024.
**Prepaid cards assuming certain FDIC requirements are met*
^ These investments are backed by the full faith and credit of the U.S. government

Deposit Insurance

FDIC deposit insurance coverage depends on two things:
- Whether your chosen financial product is a deposit product
- Whether your bank is FDIC insured

$250,000 limit
per depositor per ownership category
per FDIC insured bank

Ownership Category	FDIC Deposit Insurance Coverage Limit
Single Accounts (owned by one person)	**$250,000** per owner
Joint Accounts (owned by two or more persons)	**$250,000** per co-owner
Certain Retirement Accounts (including IRAs)	**$250,000** per owner
Revocable Trust Accounts	**$250,000** per owner per unique beneficiary
Corporation, Partnership and Unincorporated Association Accounts	**$250,000** per corporation, partnership or unincorporated association
Revocable Trust Accounts	**$250,000** per the noncontingent interest of each unique beneficiary
Employee Benefit Plan Accounts	**$250,000** per the noncontingent interest of each plan participant
Government Accounts	**$250,000** per official custodian

What's insured?

The Electronic Deposit Insurance Estimator (EDIE) at https://edie.fdic.gov/ lets consumers and bankers know, on a per-bank basis, how the insurance rules and limits apply to a depositor's specific group of deposit accounts. Specifically,
- What's insured?
- What portion (if any) exceeds coverage limits at that bank?

Deposit Insurance

FDIC Assessment

The Deposit Insurance Fund (DIF) is funded mainly through quarterly assessments on insured banks. A bank's assessment determines how much each insured bank pays into the DIF and is calculated by multiplying its assessment rate by its assessment base.

- Small banks (generally with <$10 billion in assets) are assigned an individual rate based on a formula using financial data and CAMELS component ratings
- Large banks (generally with ≥$10 billion in assets) are assigned an individual rate based on a scorecard which incorporates:
  - CAMELS component ratings
  - Measure of loss severity that estimates the relative magnitude of potential losses to the FDIC in the event of the bank's failure
  - Financial measures of a bank's ability to withstand asset-related and funding-related stress

CAMELS

- Capital adequacy
- Asset quality
- Management
- Earnings
- Liquidity
- Sensitivity

These assessments are subject to adjustment:

Unsecured Debt Adjustment (UDA)
Decrease for issuance of long-term unsecured debt, including senior unsecured debt and subordinated debt

Depository Institution Debt Adjustment (DIDA)
Increase for holdings of long-term unsecured and subordinated debt issued by other insured banks

Brokered Deposit Adjustment (BDA)
For large banks that are not well-rated or not well-capitalized, increase for significant holdings of brokered deposits

Call Reporting

Call Report

A call report is a regulatory report of basic financial health data (balance sheet, income statement, and supporting schedules) that must be filed by banks in the U.S. on a quarterly basis with the FDIC. Call reports are publicly available and, as such, can be a resource on the health of the U.S. banking system. They include:

- **Report of Condition (RC):** balance sheet plus schedules with asset, liability, and capital account details.
- **Report of Income (RI):** income statement plus schedules with income and expenses details.

Uninsured Deposits

This information is important, yet not always clearly made available in the current reporting format.

- For larger banks (>$1billion in assets), the estimate of uninsured deposits is disclosed in Schedule RC-O.

2. Estimated amount of uninsured deposits in domestic offices of the bank and in insured branches in Puerto Rico and U.S. territories and possessions, including related interest accrued and unpaid (see instructions)[3]	151,592,000

Illustrative data from sample call report, Schedule RC-O

- For smaller banks, this must be manually estimated by finding the deposits >$250k and then removing the insured portion of that (# depositors >$250k times $250k).

For both, adjustments are then needed to remove other insured deposits (e.g., collateralized muni deposits)

Call Reporting

Sample Call Report

a. Deposit accounts (excluding retirement accounts) of $250,000 or less:[1]	
1. Amount of deposit accounts (excluding retirement accounts) of $250,000 or less...............	4,778,000
2. Number of deposit accounts (excluding retirement accounts) of $250,000 or less...............	106420
b. Deposit accounts (excluding retirement accounts) of more than $250,000:[1]	
1. Amount of deposit accounts (excluding retirement accounts) of more than $250,000..........	156,747,000
2. Number of deposit accounts (excluding retirement accounts) of more than $250,000..........	37466

Deposit information is reported separately above and below the $250,000 limit

Brokered deposits are less stable funding sources

b. Total brokered deposits..	24,458,000
c. Brokered deposits of $250,000 or less (fully insured brokered deposits)[2].....	20,020,000

2. Estimated amount of uninsured deposits in domestic offices of the bank and in insured branches in Puerto Rico and U.S. territories and possessions, including related interest accrued and unpaid (see instructions)[3]............................	151,592,000

Uninsured deposits are less stable funding sources

Call Reporting

Call reports show investment bonds by duration, as is done in National Credit Union Administration (NCUA) reporting.

(1) Three months or less........................
(2) Over three months through 12 months
(3) Over one year through three years .....
(4) Over three years through five years....
(5) Over five years through 15 years ....
(6) Over 15 years ....

Specifically, it is reported in Schedule RC-B, as shown on the right.

Schedule RC-B—Continued

Memoranda

Dollar Amounts in Thousands	RCFD	Amount	
1. Pledged securities[1]	0416		M.1.
2. Maturity and repricing data for debt securities (excluding those in nonaccrual status):			
a. Securities issued by the U.S. Treasury, U.S. Government agencies, and states and political subdivisions in the U.S.; other non-mortgage debt securities; and mortgage pass-through securities other than those backed by closed-end first lien 1–4 family residential mortgages with a remaining maturity or next repricing date of:[2, 3]			
(1) Three months or less	A549		M.2.a.(1)
(2) Over three months through 12 months	A550		M.2.a.(2)
(3) Over one year through three years	A551		M.2.a.(3)
(4) Over three years through five years	A552		M.2.a.(4)
(5) Over five years through 15 years	A553		M.2.a.(5)
(6) Over 15 years	A554		M.2.a.(6)
b. Mortgage pass-through securities backed by closed-end first lien 1–4 family residential mortgages with a remaining maturity or next repricing date of:[2, 4]			
(1) Three months or less	A555		M.2.b.(1)
(2) Over three months through 12 months	A556		M.2.b.(2)
(3) Over one year through three years	A557		M.2.b.(3)
(4) Over three years through five years	A558		M.2.b.(4)
(5) Over five years through 15 years	A559		M.2.b.(5)
(6) Over 15 years	A560		M.2.b.(6)
c. Other mortgage-backed securities (include CMOs, REMICs, and stripped MBS; exclude mortgage pass-through securities) with an expected average life of:[5]			
(1) Three years or less	A561		M.2.c.(1)
(2) Over three years	A562		M.2.c.(2)
d. Debt securities with a REMAINING MATURITY of one year or less (included in Memorandum items 2.a through 2.c above)	A248		M.2.d.

Interest Rate Risk/Asset Liability

Interest Rate Risk (IRR)

IRR is the exposure of a bank's current or future earnings and capital to adverse changes in market rates. This risk is a normal part of banking and can be an important source of profitability and shareholder value; however, excessive interest rate risk can threaten banks' earnings, capital, liquidity, and solvency. Therefore, it is important to effectively identify, measure, monitor, and control interest rate risk exposure through effective policies and risk management processes.

An IRR review commonly requests the following items:

- Asset-Liability or Funds Management Policies
- Most recent **asset-liability management committee (ALCO)** package
- Minutes of ALCO meetings since the previous examination
- Results of gap, simulation, economic value of equity (EVE), and any other IRR analysis as well as assumption details
- List of material changes to key assumptions in the last 12 months
- **Deposit Study** *(if one has been completed)*
- **Sensitivity testing** results of key assumptions
- Most recent independent review (including results of validation and back-testing of the IRR measurement system)

Asset-Liability Committee (ALCO)

An ALCO is a supervisory group which coordinates the management of a bank's assets and liabilities. It provides oversight for effectively evaluating institutional risk to ensure adequate liquidity.

Interest Rate Risk/Asset Liability

Deposit Study

The FDIC is particularly interested in:

1. understanding how **new methods** of obtaining deposits have affected deposit stability and franchise value;
2. whether they should **recommend changes** to the core and brokered deposit definitions and develop new classifications of deposits that depend on characteristics like relative stability or volatility.

As part of the study, the FDIC will be seeking input on the following:

- In times of financial stress, what types of deposits are likely to remain at an institution and what types of deposits are likely to leave the institution?
- Does the presence of certain kinds of deposits (e.g., brokered, internet, listing service) inherently increase an institution's risk? Does their presence facilitate increased risk-taking?
- What types of deposits are likely to enhance a failed institution's franchise value and what types of deposits are likely to reduce it?
- What recommendations would you make for legislative or regulatory changes with respect to core and brokered deposits?

Sensitivity Analysis

Sensitivity to market risk, primarily IRR at most community banks, is inherent to the business of banking.

Effective risk management practices often include analyzing a range of plausible scenarios such as:

- Interest rate shocks and ramps
- Changes in the yield curve
- Changes in depositor behavior
- Changes in asset prepayment speeds

Liquidity Risk Management

Liquidity Risk Management (LRM)

Liquidity reflects a financial institution's ability to fund assets and meet financial obligations. It is essential to meet customer withdrawals, compensate for balance sheet fluctuations, and provide funds for growth. Funds management involves estimating liquidity requirements and meeting those needs in a cost-efficient manner. To mitigate funding stress, it is important that institutions maintain sufficient levels of liquid assets and access to borrowing lines and other stable sources of funding to meet expected and contingent liquidity demands.

To identify potential funding gaps, banks typically monitor cash flows, assess the stability of funding sources, and project future funding needs. Common tools to measure and manage liquidity risk include:

- Cash flow projections
- Diversified funding sources
- Stress testing
- A cushion of liquid assets
- A formal, well-developed contingency funding plan

Assets	Requirements
Greater than $50 billion	Enhanced supervision and prudential standards
$10 to $50 billion	Establish a risk committee
Under $10 billion	Exempt from annual stress tests

Contingency Funding Planning

Contingency Funding Planning (CFP)

A CFP helps a financial institution identify risks from contingent funding events and establishes an operational framework to deal with those risks. These risk events are often managed based on their probability of occurrence and potential effect. Most CFPs require management to:

- Establish a liquidity event-management framework (including points of contact and public relations)
- Establish a monitoring framework
- Identify potential contingent funding events
- Identify potential funding sources
- Require stress testing
- Require periodic testing of the CFP framework

Potential funding sources for shortfalls should be readily accessible. The most important and reliable funding source is a cushion of highly liquid assets. Other common contingent funding sources include:

- Sale or securitization of assets
- Repurchase agreements
- Federal Home Loan Banks (**FHLB**) borrowings
- Federal Reserve Bank (**FRB**) borrowings through the "discount window" (FRB lending to depository institutions) including the Bank Term Funding Program (BTFP)

Note that many of these liquidity sources may become unavailable or cost prohibitive in a *stress event.*

Contingency Funding Planning

Bank Term Funding Program (BTFP)

The Bank Term Funding Program (BTFP) was created to support American businesses and households by making additional funding available to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors.

The BTFP offers loans of up to one year in length to banks, savings associations, credit unions, and other eligible depository institutions pledging any collateral eligible for purchase by the Federal Reserve Banks in open market operations, such as U.S. Treasuries, U.S. agency securities, and U.S. agency mortgage-backed securities. These assets will be valued at par.

The BTFP will be an additional source of liquidity against high-quality securities, eliminating an institution's need to quickly sell those securities in times of stress.

Recent Fed Action

On March 12, 2023, the Federal Reserve Board announced it would make available additional funding to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors.

This action bolstered the capacity of the banking system to safeguard deposits and ensured the ongoing provision of money and credit to the economy.

Current Interest Rates	*As of March 27, 2023*
Primary Credit	5.00%
Secondary Credit	5.50%
Seasonal Credit	4.80%
Fed Funds Target	4.75 – 5.00%
BTFP	**4.69%**

Resolutions & Receiverships

Resolutions

The FDIC is responsible for the orderly resolution of failing banks. In the unlikely event of a bank failure, the FDIC acts in two capacities.

1. Insurer

As the “insurer” of the bank's deposits, the FDIC pays deposit insurance to the depositors up to the insurance limit.

2. Receiver

As the "receiver" of the failed bank, the FDIC assumes the task of selling the assets of the failed bank and settling its debts, including claims for deposits in excess of the insured limit.

Recent Bank Failures

The FDIC maintains a record of U.S. failed banks.

There have only been two failures since 2021, both of which occurred earlier this month:

- March 10, 2023 – Silicon Valley Bank
- March 12, 2023 – Signature Bank

Resolutions & Receiverships

Financial Stability Oversight Council (FSOC)

The FSOC was established in 2010 under the Dodd-Frank Wall Street Reform and Consumer Protection Act. It provides comprehensive monitoring of the stability of our nation's financial system. The FSOC is charged by statute with identifying risks to the financial stability of the United States; promoting market discipline; and responding to emerging threats to the stability of the U.S. financial system.

Resolution Plans

The Dodd-Frank Act requires large banking institutions and certain other firms to periodically submit resolution plans to the Federal Reserve and FDIC. Each plan, commonly known as a living will, must describe the company's strategy for rapid and orderly resolution in the event of material financial distress or failure of the company. It includes both *public* and *confidential* sections. The requirements vary by firm size/complexity.

Organization size	Requirement
Large, most complex banking organizations	File a resolution plan every other year
Other large domestic & foreign banking organizations	File a resolution plan every three years
Third group	File an abbreviated resolution plan once every three years

Recent Activity

The FSOC most recently met to hear updates from the FDIC, FRB, and Treasury Departments on actions they were taking to stabilize the financial system and protect depositors.

Potential Risk/Regulatory Changes following Recent Events

IRR

The first half of 2022 saw the sharpest increase in interest rates in decades, which could amplify market risk exposure to earnings and capital. This occurs because a credit union's assets and liabilities do not reprice equally or concurrently. This timing (or **duration**) mismatch, combined with a sharp rise in interest rates, may result in sharply lower net economic values (NEV).

Accordingly, the National Credit Union Administration (NCUA) updated their interest rate risk supervisory framework in September 2022 (as it has done over the past decade), as follows.

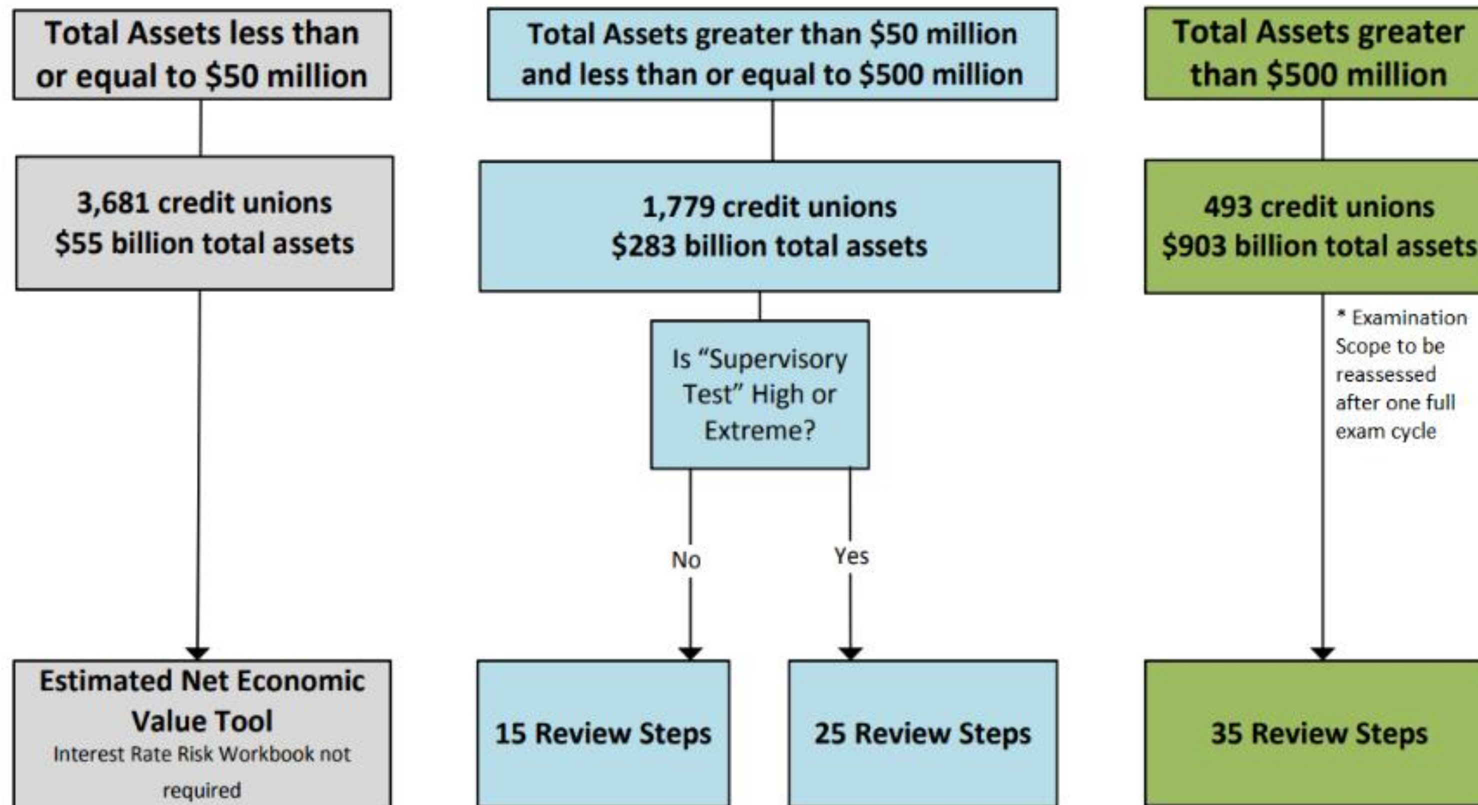
- **Revising the risk classifications** – eliminating extreme risk classification; modifying high risk classification
- **Clarifying when a Document of Resolution (DOR) to address IRR is warranted**, including removing any need for a DOR based on an IRR supervisory risk classification and need to develop a de-risking plan
- **Providing examiners more flexibility in assigning IRR supervisory risk ratings**
- **Revising examination procedures to incorporate updated review steps** when assessing how a credit union's management of IRR is adapting to changes in the economic and interest rate environment

While the banking system has no analogous rules, perhaps it could be used as a guide to update the bank rules for interest rate risk for future regulatory framework modifications, specifically with regard to capital.

Potential Risk/Regulatory Changes following Recent Events

The **NCUA Net Economic Value Supervisory Test** (NEV Test) serves as a capital-at-risk measurement that:

- Measures IRR exposure relative to capital
- Establishes a uniform and transparent measure of market risk that allows exam staff to scale the IRR scope and review procedures to match the credit union's level of risk



Potential Risk/Regulatory Changes following Recent Events

The Examiners will assign the IRR rating based on the quantitative NEV Test or ENT but may improve the rating on other factors. The IRR ratings are:

Risk Classification	Current NEV Test Post-shock NEV (%)	Current NEV Test NEV Sensitivity (%)	Revised NEV Test Post-shock NEV (%)	Revised NEV Test NEV Sensitivity (%)
Low	Above 7%	Below 40%	Above 7%	Below 40%
Moderate	4% up to 7%	40% to 65%	4% up to 7%	40% to 65%
High	2% up to 4%	65% to 85%	Below 4%	Above 65%
Extreme	Below 2%	Above 85%	Eliminated	

Presently, a 10-year UST has no credit risk so the bank capital rules would give it a 0% capital risk weighting. The NCUA would give the same bond a 0% credit risk weighting but would add a duration risk component to accurately reflect the risk of the bond. This would allow a duration risk to change the risk classification accordingly.

10-Year UST (no credit risk)	Capital Risk Weighting	Additional Risk Weighting
Bank Capital rules	0%	n/a
NCUA rules	0%	Duration risk component (more accurate)

Q&A

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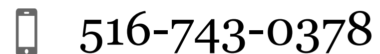

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