MESSAGE FROM THE CHAIRMAN

Communities across the United States and our banking system have weathered enormous challenges over the course of the continuing global pandemic. In response to the economic and market volatility that ensued, the FDIC undertook a broad array of swift actions to maintain stability and public confidence in the nation's banking system. We focused on providing necessary flexibility to both banks and their customers – particularly the most heavily affected individuals and businesses – while maintaining the safety and soundness of the banking system. Throughout this period, the FDIC's supervisory activities and other essential functions continued.

Our nation's banks manifested resilience despite the persistent challenges of the pandemic. They have continued to support individuals and businesses through lending and other financial intermediation and by distributing financial support provided by the federal government.

During 2021, the FDIC continued to respond to the economic risks related to the pandemic in order to support our banking system's ability to serve as a source of strength for Americans and to meet their financial needs. This Annual Report discusses these efforts in detail, describing our supervision and consumer protection activities, efforts to grow the deposit insurance fund and enhance our resolution readiness, in addition to providing information about FDIC finances, budget, and spending.

This Annual Report also provides a brief view into the forward-looking initiatives we have undertaken in 2021, many of which have been a focus of my chairmanship from the beginning. Top among these have been the FDIC's focus on novel ways to tackle the issues of broadening financial inclusion and enhancing the competitiveness of our community banks. In addressing both of these goals, we have pushed ourselves to think outside the box regarding how the FDIC can use its authorities and platform to create a regulatory system that will help achieve these goals.

Reaching the "Last Mile" of Unbanked Americans

Expanding economic inclusion has been a priority during my tenure as Chairman. The pandemic further exacerbated the urgency of expanding access to banking products among the most vulnerable Americans.

The FDIC has seen meaningful improvements in recent years in reaching the "last mile" of unbanked households in this country. Based on the results of our biennial survey of households, the proportion of U.S. households that were banked in 2019 – 94.6 percent – was the highest since the survey began in 2009.

Notwithstanding these improvements, we recognize that much remains to be done. Our survey also showed that 7 million households do not have a banking relationship with which to deposit their checks or to save for unexpected expenses. Also noteworthy is that the proportion of Black and Hispanic households who do not have a checking or savings account at a bank remains substantially higher than the overall "unbanked" percentage.

As the FDIC considers additional ways to facilitate a more inclusive banking system, we recognize the tremendous benefits that financial innovation can deliver to consumers, including in the areas of payments and credit. When responsibly managed and regulated, new technologies have the potential to bring more people into the banking system, provide access to new products and services, and lower the cost of credit.

To address these challenges, the FDIC is taking a multi-pronged, novel approach. In 2021, our Office of Innovation – FDITECH – announced a tech sprint to explore new technologies and techniques that would help expand the capabilities of community banks to meet the needs of unbanked households. This tech sprint was a public challenge to banks, non-profits, private companies, and others to help us reach that "last mile" of unbanked Americans. Specifically, the FDIC asked participants to answer the following question: "Which data, tools, and other resources could help community banks meet the needs of the unbanked in a cost-effective manner, and how might the impact of this work be measured?" Teams came together for a demonstration day and presented their proposed solutions in September.

Alongside our fellow regulators, in 2021 we issued an interagency request for information on financial institutions' use of artificial intelligence, asking whether additional regulatory clarity would be helpful. Alternative data and artificial intelligence can be especially useful for small businesses, such as sole proprietorships and smaller companies owned by women and minorities, which often do not have a long credit history. Novel measures of creditworthiness, like income streams, can help to provide critical access to capital, particularly in difficult times.

We continued to leverage our *Money Smart* financial education curriculum during this past year and the 1,500-plus organizations that are part of our *Money Smart* Alliance to empower consumers with information about personal finance.

We further conducted a targeted public awareness pilot campaign, #GetBanked, in Atlanta and Houston to inform consumers about the benefits of developing a relationship with a bank. Having a basic checking account can be an important first step to becoming part of the financial fabric of this country and we are pleased that an increasing number of banks are offering low-cost and no-fee accounts that work for people with limited means.

Minority Depository Institutions

One of our most recent achievements is the launch of the Mission-Driven Bank Fund, which we announced in September. Based on my conversations with many Minority Depository Institutions (MDIs) and Community Development Financial Institutions (CDFIs) early in my tenure, I learned that what these institutions need most is capital. I challenged the FDIC to come up with a framework that would match these banks with investors interested in the particular challenges and opportunities facing those banks and their communities. We are pleased that Microsoft and Truist Financial Corporation are the anchor investors in this new fund, and Discovery, Inc. will become a founding investor. Combined, these investors are pledging $120 million to support mission-driven banks and the communities they serve, with additional investments expected in the coming months. The fund will support MDIs and CDFIs to build size, scale, and capacity that will, in turn, allow them to provide affordable financial products and services to individuals and businesses. The FDIC will not manage the fund, contribute capital to the fund, or be involved in the fund's investment decisions.

Our longstanding support for MDIs has also included technical assistance, banker roundtables, and facilitating partnerships. In more recent years, the FDIC has increased MDI representation on our Community Bank Advisory Committee (CBAC), established a new MDI subcommittee of the CBAC to highlight the work of MDIs in their communities and to provide a platform for MDIs to exchange best practices, and enabled MDIs to review potential purchases of a failing MDI before non-MDI institutions are given this opportunity. These efforts were further incorporated in a Statement of Policy issued in June 2021 to update, strengthen, and clarify the agency's policies and procedures related to MDIs.

In November 2021, we created the Office of Minority and Community Development Banking – a new Office that will further support the agency's ongoing strategic and direct engagement with MDIs, CDFIs, and other mission-driven banks. The new office will further promote private sector investments in low- and moderate-income (LMI) communities.

Promoting the Competitivenes of Our Community Banks

Financial inclusion goes hand-in-hand with supporting the competitiveness of our community banks. At the FDIC, we observe in our daily work the vital role that community banks play in their local communities and in the U.S. economy overall. Despite their notable lending strengths and presence throughout our country, we know that many community banks struggle to remain competitive given the rapid pace of technological changes and the demands of increasingly tech-savvy consumers.

From the earliest days of my chairmanship, I have emphasized how important recognizing, and adapting to, changes in technology and evolving consumer demands would be to our community banks' survival and their ability to thrive. Today, as we think about the regulatory system we want to build coming out of the pandemic, innovation will be even more critical to fostering financial inclusion and the competitiveness of our community banks. The FDIC worked hard in 2021 on several novel initiatives to do its part to build this future.

Among other things, we continued our groundbreaking work on the "rapid phased prototyping competition." Through this competition, we sought to tackle the burdens that the current call reports place on supervised institutions and to enhance their value to the FDIC. Although these reports provide critical data to the FDIC, they do so with several months' delay, thereby reducing the utility of the reporting. More than 30 technology firms were invited to participate in this rapid phased prototyping competition, to develop tools for providing more timely and granular data to the FDIC on the health of the banking sector while also making such reporting less burdensome for banks. Of those 30 firms, we asked four participants to move forward in the competition by proposing a proof of concept for their technologies – either independently or jointly.

In 2021, we also actively pursued a groundbreaking approach to facilitate technology partnerships by developing the concept for a public/private standard-development organization to establish standards for due diligence of vendors and for the technologies they develop. Our goal is to standardize the due diligence process in such a way that fundamentally improves the ability of banks to partner with technology firms. At the same time, we hope it will strengthen compliance with consumer protection laws and regulations, and better allow the FDIC to engage in a horizontal review of the products, services, and risk-management practices of third-party service providers. We received many supportive comments in response to the request for information. We are pursuing the concept actively and will begin to engage our fellow regulators and the private sector more closely in order to bring this proposal to fruition.

For our community banks – and our financial system more broadly – innovation is no longer a question of "shall we; shall we not" but "how can we do it because we must." It has been my goal as Chairman that the FDIC lay the foundation for the next chapter of banking by encouraging innovation that meets consumer demand, promotes community banking, reduces compliance burdens, and modernizes our supervision while increasing access to banking services. The upheaval caused by the pandemic has only underscored the importance of these goals.

Looking Ahead to Our "New Normal"

Though we continue to be encouraged by the state of the banking sector as we enter our "new normal," uncertainty remains, and the FDIC will continue monitoring several industries and markets that have been directly impacted by the pandemic and the related economic shutdowns. The FDIC remains vigilant about the uneven impact of the pandemic and its recovery on different populations throughout the United States. As they have throughout this unprecedented time, the FDIC's 5,694 dedicated employees remain committed to the agency's mission and the financial stability of the United States, as well as its role in supporting a financial system that serves all Americans.

When I stepped into my role at the FDIC, I knew that to address the gap in financial belonging and support the competitiveness of our nation's community banks, we – public and private sector entities alike – would have to break the mold. The FDIC staff has been working hard to do just that, and as my tenure ends, I want to express my gratitude for their efforts to join me on this journey.

Sincerely,

Jelena McWilliams

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