



## MEMO

**TO:** Board of Directors

**FROM:** E. Marshall Gentry  
Deputy to the Chairman and Chief Financial Officer

**DATE:** December 16, 2024

**RE:** Proposed 2025 FDIC Operating Budget

### **Proposal**

This memorandum requests that the Board of Directors approve the proposed 2025 FDIC Operating Budget totaling \$3,025,691,258. The proposed budget is \$64,156,727 (2.2 percent) higher than the 2024 FDIC Operating Budget. It includes \$2,722,367,258 for ongoing operations, an increase of \$161,369,977 (6.3 percent) from 2024; \$250,000,000 for receivership funding, a decrease of \$100,000,000 (28.6 percent) from 2024; and \$53,324,000 for the Office of Inspector General (OIG), an increase of \$2,786,750 (5.5 percent) from 2024. Approval is also requested for a total authorized 2025 staffing level of 6,876 full-time equivalent (FTE) positions (6,532 permanent, 344 non-permanent), a net decrease of seven positions from the currently-authorized 2024 staffing level of 6,883 positions (6,530 permanent, 353 non-permanent).<sup>1</sup>

Apart from scheduled salary and benefit increases under the existing compensation agreement with the FDIC's employee union and other inflationary allowances, the largest component of the proposed 2025 ongoing operations budget increase is resources to implement the Action Plan for a Safe, Fair, and Inclusive Work Environment (Action Plan), including recommendations from the Office of the Inspector General (OIG) and the independent third-party review conducted by Cleary, Gottlieb, Steen, and Hamilton, LLP. These resources include staffing and budget authorizations for the new Offices of Professional Conduct (OPC) and Equal Employment Opportunity (OEEEO), funding to continue and enhance mandatory training for all FDIC employees, continued engagement with an outside advisor to assist with the implementation of workplace culture change initiatives, and support for the Independent Transformation Monitor.

### **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 one budget component cannot be reprogrammed to another component. The segregation of annual

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<sup>1</sup>The requested approval encompasses the proposed individual division and office staffing authorizations shown in Exhibit 5.

operating expenditures into these three components facilitates more effective cost management by isolating the FDIC's more stable ongoing operational expenses from the potentially highly variable annual expenses associated with bank closings and subsequent receivership management activities. It also reflects the separate appropriations process applicable to the OIG.<sup>2</sup>

The receivership funding component provides resources to address the failure or near failure of FDIC-insured institutions and the management of receiverships established in connection with those failures.<sup>3</sup> The separation of the receivership funding component from the ongoing operations component is an acknowledgement that the number of failures and the expenses associated with those 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 2014 through 2023, annual receivership funding expenses ranged from a high of \$684 million to a low of \$25 million. The FDIC recovers most receivership funding expenditures through the billing of failed institution receiverships for FDIC-provided services, although these recoveries are largely offset by reductions in recoveries on subrogated claims.

### ***2025 Workload Analysis and Projections***

The FDIC's proposed annual operating budget and staffing authorizations are 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 FDIC's supervisory and resolutions/receivership management workloads largely reflect economic conditions within the banking industry. While the financial condition of the banking industry remains strong, certain emerging economic concerns could lead to banking sector deterioration in 2025, most notably stress within the commercial real estate sector of the economy and the effect of high interest rates on leveraged borrowers and bank earnings.

The FDIC's risk management supervision workload varies primarily based on the number, size, and complexity of the institutions it supervises. While the number of FDIC-supervised institutions continues to decline, industry assets and the size and complexity of insured institutions have increased significantly in recent years as a result of organic growth; mergers and acquisitions; and the addition of new products, services, and technologies. Over 50 percent of FDIC-supervised assets are now in institutions with total assets above \$10 billion.

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<sup>2</sup>The references in this memorandum 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>3</sup>Expenses for the salaries and benefits of permanent staff associated with the FDIC's receivership management business line (primarily in the Division of Resolutions and Receiverships, the Division of Complex Institution Supervision and Resolution, and the Legal Division) and for the maintenance of other base resolution and receivership management capabilities, such as information systems development and maintenance and readiness-related contractor support, are funded from the ongoing operations component of the budget, because they would be incurred regardless of whether any failures actually occurred.

As of November 30, 2024, the FDIC was the primary Federal regulator for 2,876 insured depository institutions (IDIs) with approximately \$4.23 trillion in combined assets, including 56 IDIs with more than \$10 billion each in assets. Since the beginning of 2024, the number of FDIC-supervised IDIs has declined by 69, including three institutions with more than \$10 billion each in assets. In addition, there are also 1,641 IDIs with approximately \$20.08 trillion in combined assets for which the FDIC is not the primary Federal regulator but has back-up supervisory responsibilities as insurer. This compares to 1,662 IDIs with \$19.28 trillion in combined assets at the start of 2024. The trend toward fewer but larger, more complex FDIC-insured and -supervised institutions is expected to persist into the future.

Risk management supervision workload is also a function of the number of problem banks the FDIC supervises. The length and frequency of risk management examinations and the extent of ongoing supervisory contacts increase substantially for institutions in troubled financial condition, including those supervised by other Federal regulators. As reported in the most recent Quarterly Banking Profile, there were 68 problem institutions with approximately \$87.3 billion in combined assets as of September 30, 2024, compared to 52 institutions with approximately \$66 billion in combined assets at the beginning of 2024. This number is expected to continue to rise gradually during 2025. As a result of the reduction in the number of FDIC-supervised institutions, partially offset by a slightly less favorable risk profile for FDIC-supervised institutions, the number of risk management (safety and soundness) examinations that the FDIC expects to conduct will decline by 0.9 percent, from 1,241 in 2024 to 1,230 in 2025.

The FDIC's consumer compliance and Community Reinvestment Act (CRA) supervisory workload is based largely on the number of institutions supervised by the FDIC. Consumer compliance and CRA ratings have only a limited impact on this workload. The number of consumer compliance and fair lending examinations to be conducted by the FDIC in any given year varies based on individual exam schedule requirements and examiner staffing availability. During 2023 and 2024, the FDIC waived a large number of low-risk compliance examinations for well-rated banks due to a shortage of commissioned examiners. The FDIC plans to implement a similar process in 2025 before returning to its normal examination schedule in 2026 as more examiners are commissioned or close to being commissioned. The number of compliance and CRA exams is projected to rise modestly from 902 in 2024 to 920 in 2025.

The primary drivers of the FDIC's resolution and receivership management workload are the number and complexity of both failures and near-failures of FDIC-insured institutions,<sup>4</sup> the number of active receiverships being managed by the FDIC, and the remaining post-failure workload for those receiverships. Thus far in 2024, two financial institutions with \$6.1 billion in total assets have failed. As of November 30, 2024, there were 59 active receiverships and approximately \$28.9 billion (book value) of assets in liquidation, compared to 74 active receiverships with \$84.6 billion (book value) in assets at the beginning of the year. The number of active receiverships is projected to reach a long-term low of 45 by the end of 2025. The FDIC does not currently foresee substantial failure activity in 2025, but will be prepared to respond quickly to any increase in new insured institution failures that might occur.

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<sup>4</sup>The FDIC can expend considerable effort preparing for a bank failure that ultimately does not occur.

## **Highlights of the Proposed 2025 Operating Budget**

### ***Overview of the Proposed 2025 Budget by Component***

As noted above, the proposed 2025 FDIC Operating Budget totals \$3,025,691,258, including \$2,722,367,258 for ongoing operations, \$250,000,000 for receivership funding, and \$53,324,000 for the OIG. This represents an increase of \$161,369,977 (6.3 percent) in the ongoing operations budget component, a decrease of \$100,000,000 (28.6 percent) in the receivership funding budget component, and an increase of \$2,786,750 (5.5 percent) in the budget for the OIG.

The increase in the proposed ongoing operations budget results primarily from increases in salaries and benefits costs attributable to the current compensation agreement with the FDIC's employee union.<sup>5</sup> The increase in estimated salary and benefits costs for currently-authorized positions totals approximately \$111.4 million in 2025. In addition, the ongoing operations increase reflects approximately \$34 million in new resources for Action Plan implementation; a 2.2 percent inflationary allowance for most non-salary expenses; an increase in the projected cost of IT operational expenses for equipment and services; the planned relocation of the New York Regional Office; and restoration of the Corporate Unassigned contingency reserve to \$30 million, the amount budgeted in 2024 and prior years to address unanticipated business requirements that arise during the year.

The proposed receivership funding budget is down \$100,000,000 (28.6 percent) from 2024 and provides funding for expected new failure activity and continuation of receivership management activities associated with past bank failures. A Corporate Unassigned contingency reserve is also included in the receivership funding budget component to ensure that the FDIC has the resources to respond quickly to an unexpected increase in new bank failure activity. The amount of that reserve is based on the funding required to bring the proposed receivership budget up to a total of \$250,000,000 after accounting for the estimated 2025 budget requirements submitted by individual divisions and offices.

As noted previously, the 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>6</sup> The increase in the OIG budget component primarily reflects a \$2.5 million (5.6 percent) increase in the Salaries and Compensation major expense category, reflecting the increased cost of pay and benefits and planned hiring to fill authorized vacancies.

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<sup>5</sup>That agreement, covering the three-year period from 2023 through 2025 provided for annual merit pay and bonus increases that were substantially higher than the prior agreement. Those increases were adopted to address the impact of inflation on employee salaries and the statutory requirement under FIRREA that the FDIC seek to maintain comparability with the salaries and benefits of other bank regulatory agencies.

<sup>6</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 the OIG's proposed 2025 FDIC budget is based on its FY 2025 appropriation request (currently pending approval by the Congress), and 25 percent is based upon its proposed FY 2026 appropriation request now under review by the U.S. Office of Management and Budget.

**Overview of the Proposed 2025 Budget by Major Expense Category**

Overall, the proposed 2025 FDIC Operating Budget is \$64,156,727 (2.2 percent) higher than the 2024 budget. Exhibit 1 itemizes the proposed budget by major expense category.

- The proposed 2025 Salaries and Compensation budget is \$1,901,287,838, which is \$105,378,965 (5.9 percent) higher than the 2024 Salaries and Compensation budget. Nearly all of the proposed increase is attributable to scheduled 2025 salary increases for FDIC employees under the compensation agreement negotiated in 2022. The remainder is attributable to filling currently existing vacancies and on-boarding staff for the newly established OPC and OEEO. The Salaries and Compensation expense category represents 62.4 percent of the total proposed 2025 FDIC Operating Budget (excluding the OIG) and 66.9 percent of the ongoing operations budget component. It represents only 12.9 percent of the receivership funding budget component, however, since the FDIC expects to rely on contractors to perform a significant portion of its resolution and receivership management workload in 2025.
- The proposed 2025 Outside Services-Personnel budget (for contractor-provided services) is \$652,556,254, which is \$70,978,958 (9.8 percent) lower than the 2024 budget. This decrease is due to lower projected costs for the resolution of failed banks and the management of receivership assets from past bank failures. Those reductions are partially offset by increased funding to support implementation of the Action Plan, restoration of Corporate Unassigned contingency reserves to the level initially budgeted for 2024, projected cost increases for corporate litigation and IT operations, and the modernization of the FDIC's website. The proposed budget for contract services increases by \$21,574,004 (5.0 percent) from 2024 to 2025 in the ongoing operations budget component and decreases by \$93,028,967 (32.4 percent) in the receivership funding budget component. The Outside Services-Personnel expense category constitutes about 21.9 percent of the total proposed 2025 FDIC Operating Budget (excluding the OIG); 16.7 percent of the ongoing operations budget component; and 77.8 percent of the receivership funding budget component.
- The proposed 2025 Travel budget is \$79,308,170, up 2,031,629 (2.6 percent) from 2024, largely reflecting inflationary impacts and a normalization in travel requirements for examinations and other business activities following the disruption to normal business operations that occurred during the pandemic and its aftermath. The Travel expense category represents about 2.6 percent of the proposed 2025 FDIC Operating Budget (excluding the OIG); 2.8 percent of the ongoing operations budget component; and 1.2 percent of the receivership funding budget component.
- The proposed 2025 Buildings and Leased Space budget is \$150,766,369, up \$9,325,572 (6.6 percent) from 2024. This increase is largely attributable to the planned relocation of the New York Regional Office following expiration of the current lease at the end of 2025. Major 2025 expenses in this category are also projected for continuation of a multi-year field office modernization initiative and various lifecycle maintenance projects at FDIC-owned facilities in the Washington, DC, and San Francisco metropolitan areas. The Buildings and Leased Space expense category represents about 5.1 percent of the proposed 2025 FDIC Operating Budget

(excluding the OIG), 5.5 percent of the ongoing operations budget component; and 0.3 percent of the receivership funding budget component.

- The proposed 2025 Equipment budget is \$201,645,675, up \$17,898,630 (9.7 percent) from 2024, due to increasing costs for IT subscriptions and maintenance, partially offset by reduced furniture purchases in conjunction with field office modernization efforts. The Equipment expense category represents about 6.7 percent of the proposed 2025 FDIC Operating Budget (excluding the OIG); 6.7 percent of the ongoing operations budget component; and 6.7 percent of the receivership funding budget component.
- The proposed 2025 Outside Services-Other budget is \$20,071,291, down \$767,566 (3.7 percent) from 2024, due primarily to projected lower spending on shipping services and expenses to support the FDIC recruiting program, including event registration and promotional materials. The Outside Services-Other expense category represents about 0.7 percent of the proposed 2025 FDIC Operating Budget (excluding the OIG); 0.7 percent of the ongoing operations budget component; and 0.2 percent of the receivership funding budget component.
- The proposed 2025 Other Expenses budget is \$20,055,661, up \$1,268,455 (6.8 percent) from 2024. This increase is primarily due to increased costs for employee recognition and training resulting from a growing workforce. The Other Expenses category represents about 0.6 percent of the proposed 2025 FDIC Operating Budget (excluding the OIG); 0.6 percent of the ongoing operations budget component; and 0.9 percent of the receivership funding budget component.

### **Highlights of Proposed 2025 Staffing Authorizations**

The proposed 2025 FDIC Operating Budget includes a total authorized staffing level of 6,876 FTE positions (6,532 permanent, 344 non-permanent), as shown in Exhibit 5. This represents a net decrease of seven positions, or 0.1 percent, from the FDIC's current 2024 authorized staffing level.

### ***Proposed Changes in Authorized Staffing***

The proposed budget reflects a net reduction of 7 authorized positions for 2025 due to declining workload in certain organizations. The most significant staffing reductions are in two divisions:

- A net decrease of 47 permanent positions in RMS. This is the result of the elimination of 45 permanent examiner positions (-29 community bank examiners, -17 large bank examiners, +1 senior IT examiner) and two permanent case manager positions. If approved, RMS staffing would decrease from 2,843 to 2,796 (2,636 permanent, 160 non-permanent).
- A decrease of 18 vacant non-permanent positions in the Division of Resolutions and Receiverships (DRR). DRR has determined that these positions, which were authorized in mid-2023 but not filled, will not be needed to address the diminishing workload remaining from the three large regional bank failures that occurred early in that year. If approved, authorized DRR staffing would decrease from 532 to 514 (426 permanent, 88 non-permanent). No change is proposed to DRR's permanent staffing platform.

These reductions are largely offset by proposed staffing increases in other divisions and offices, primarily 53 new positions (50 permanent, 3 non-permanent) to support implementation of the Action Plan. This includes 30 permanent positions to establish OPC, 20 permanent positions to establish OEE0, and 3 non-permanent positions in Corporate University (CU) to provide logistical and other support for training to be designed and conducted by OPC and OEE0.<sup>7</sup>

### ***Proposed Changes in Examiner Staffing Authorizations***

Nearly one-third of the FDIC's workforce is composed of non-supervisory field examination positions. During 2024, field examination staffing in RMS was 1,778 permanent positions (1,678 permanent, 100 non-permanent).<sup>8</sup> If the proposed staffing changes are approved, authorized 2025 field examination staffing in RMS will total 1,733 positions (1,633 permanent, 100 non-permanent<sup>9</sup>), a net decrease of 45 FTEs from 2024. This includes 1,228 permanent and 100 non-permanent FTEs to perform community bank supervision activities (a decrease of 29 FTEs from 2024); 379 FTEs (all permanent) to perform supervisory responsibilities for FDIC-supervised large banks (a decrease of 17 permanent positions from 2024); and 26 permanent information technology (IT) examiner FTEs (an increase of one permanent position from 2024). The reduction in risk management examiner staffing reflects a decline in the number of FDIC-supervised institutions over the past year.

Authorized 2025 field examination staffing in DCP is proposed to remain unchanged at 479 FTEs (all permanent). This is currently composed of 426 community bank examiner positions and 53 examiners assigned to DCP's Complex Bank Examination Program. The Complex Bank Examination Program provides increased supervisory attention to those institutions that are heavily engaged in activities that the FDIC deems to pose the greatest risk of consumer harm.

### **Proposed 2025 Action Plan Resources**

The FDIC remains deeply committed to improving its workplace culture. In late 2023, the FDIC hired the law firm Cleary, Gottlieb, Steen, and Hamilton, LLP, to conduct an independent, third-party review

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<sup>7</sup>These additional positions are partially offset by the elimination of 14 currently-authorized positions in other organizations currently performing those functions, including 9 in the Office of Minority and Women Inclusion (OMWI), 3 in the Legal Division, and 2 in the Division of Administration (DOA). If not selected for the new positions in OPC and OEE0, the incumbents of the positions to be eliminated will be temporarily assigned to other duties until placed into permanent positions elsewhere in the Corporation. The proposed budget includes continuing funding for these positions.

<sup>8</sup>Includes two CX-graded Examiners-in-Charge assigned to lead dedicated examination teams at the two largest FDIC-supervised large banks.

<sup>9</sup>Risk management examination staffing requirements for 2025 continue to include the 100 non-permanent examination positions originally authorized in 2022 to help address the disproportionate percentage of pre-commissioned examiners in the current examination workforce. Full restoration of an appropriate balance between commissioned and pre-commissioned examiners may require several years to achieve, and examination staffing requirements will remain temporarily higher during that time. While the need to recruit and train more entry-level examiners is being addressed, experienced loan review specialists are being hired on non-permanent appointments to assist with the risk management examination workload. This will allow commissioned examiners to devote more time to the training and mentoring of pre-commissioned examiners. In addition, retired examiners are being brought back into the examination workforce to assist with training and mentoring.

of its workplace environment and culture. The report produced from that review included recommendations for improvement that have been incorporated in their entirety into the Action Plan that was previously adopted, as have the recommendations from OIG audits.

In response to those recommendations, the FDIC created two new organizations, OPC and OEE0, both reporting directly to the Board of Directors, to effectuate the changes needed to realize the vision of the Action Plan. Directors from outside the FDIC were recently hired to lead each of these new offices, and significant resources are included in the proposed 2025 budget for their operations. Specifically, the proposed 2025 FDIC Operating Budget includes 30 authorized permanent positions and a budget of \$15.6 million to provide the resources for the new OPC to design and conduct training, investigate complaints of misconduct, and impose appropriate disciplinary action; an additional 20 authorized permanent positions and a budget of \$11.0 million in 2025 to provide the resources for the new OEE0 to design and conduct employee training and counseling and investigate and adjudicate equal employment opportunity complaints throughout the FDIC; and 3 non-permanent positions in Corporate University to provide logistical support to OPC and OEE0 training initiatives.

The proposed 2025 FDIC Operating Budget also includes \$7.3 million for advisory services to support implementation of other Action Plan initiatives directed toward the transformation of the FDIC's workplace culture. In addition, the FDIC's implementation of all Action Plan recommendations is being audited by an independent Transformation Monitor, and an additional \$9.3 million is included in the proposed 2025 FDIC Operating Budget for those services. In summary, the proposed 2025 FDIC Operating Budget authorizes 53 new positions and includes approximately \$48 million to support Action Plan implementation.

### **IT Modernization Program**

During 2025, the FDIC will continue a multi-year IT Modernization Program designed to align the FDIC with key Federal IT policies, including the Federal Cloud Smart Strategy, the Federal Data Strategy for advancing data as a strategic asset, and numerous IT security mandates, such as the Zero Trust Architecture framework. Under the IT Modernization Program, most FDIC systems and data are being migrated from the on-premise data center to cloud environments in order to enhance their security, scalability, and resiliency. A large number of aging application systems currently supporting the FDIC's core mission responsibilities rely on obsolete technologies. Those systems are being replaced or modernized using cloud-based, low-code/no-code platforms and tools that will speed development time and simplify application maintenance in the future. In addition, the FDIC is enhancing its management of data as a corporate asset, automating operational processes, and implementing new technologies to promote more streamlined and efficient business processes.

Substantial progress has been made in recent years to begin transitioning mission critical systems to a new, secure and resilient cloud-based infrastructure and to provide employees with the systems and tools they need to work securely and efficiently from anywhere at any time. The 2025 budget proposal includes \$74.8 million to support continuation of IT modernization efforts. This is a decrease of about \$4.4 million over the funding budgeted for this effort in 2024.



### **Facilities Modernization Initiative**

The proposed 2025 budget includes about \$76.3 million for continuation of a multi-year Facilities Modernization effort to make major capital improvements and repairs at FDIC-owned buildings and to update or renovate a large number of leased regional and field offices. The largest project planned for 2025 is the relocation of the New York Regional Office in preparation for the expiration of the current lease at the end of 2025. Approximately \$32.7 million is included in the proposed 2025 operating budget for that project. Other planned regional office projects for 2025 include completion of the expansions begun this year at the Dallas and Atlanta Regional Offices and minor leasehold improvements at the Chicago Regional Office. In addition, approximately \$19.8 million is proposed for capital improvements and major repairs to FDIC-owned buildings in the Washington, DC, and San Francisco metropolitan areas.

Approximately \$8.5 million is included in the proposed budget to complete or begin modernization of 16 FDIC field offices as part of a continuing, multi-year effort to redesign the workspace in FDIC field offices to support collaboration and hybrid work. Remaining field offices will be modernized as leases expire in 2026 and future years.

### **Projected 2025 Investment Budget Spending**

The FDIC has an Investment Budget that supports major projects and is distinct from the annual operating budget. Under the Investment Budget, the Board separately approves funding for individual projects. The approved funding remains available on a multi-year basis and is accompanied by enhanced controls and governance requirements because of the inherently higher execution risk that has historically characterized these projects. Investment budget authority is approved for each individual project and may not be reallocated to other projects. Any unused budget authority for a project expires when the project is completed. The Capital Investment Review Committee monitors the progress of approved IT investment projects and reports on them quarterly to the Board of Directors.

The Investment Budget currently has three active investment projects: the RMS Business Process Modernization project, the Cloud Infrastructure Migration project, and the Treasury Integrated Platform project. The Framework for Oversight of Compliance and CRA Activities User Suite (FOCUS) project was completed in 2024.

**Overview of Attached Exhibits**

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

- Exhibit 1 displays the proposed 2025 FDIC Operating Budget by major expense category.
- Exhibit 2 displays the proposed 2025 FDIC Operating Budget by division and office.
- Exhibit 3 displays the proposed 2025 budgets by division and office for the ongoing operations and OIG budget components.
- Exhibit 4 displays the proposed 2025 budgets by division and office for the receivership funding budget component.
- Exhibit 5 displays the proposed 2025 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 proposed 2025 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.

Attachments