

IADI Contingency Planning Workshop

Bucharest, Romania

25-26 September, 2013



International Association
of Deposit Insurers

Contingency Planning

Federal Deposit Insurance Corporation



Washington, DC FDIC Headquarters



HEADQUARTERS
Washington, DC

Dallas, Texas Receivership Operations



Dallas, Texas USA





Agency Level

- Event affecting all or many FDIC facilities or infrastructure
 - IT system failure
 - Catastrophe impacting multiple key executives
- National or international event impacting FDIC's ability to carry out its mission
 - Terrorist event
- Devolution of Headquarters essential functions if necessary

Local Level

- Catastrophic event affecting FDIC local office
 - Weather catastrophe
 - Localized terrorist event
- Local contingency planning focuses on 3 options:
 - Increased teleworking
 - Temporary transfer of essential functions to back up location
 - Temporary relocation of office staff

Bank Resolutions

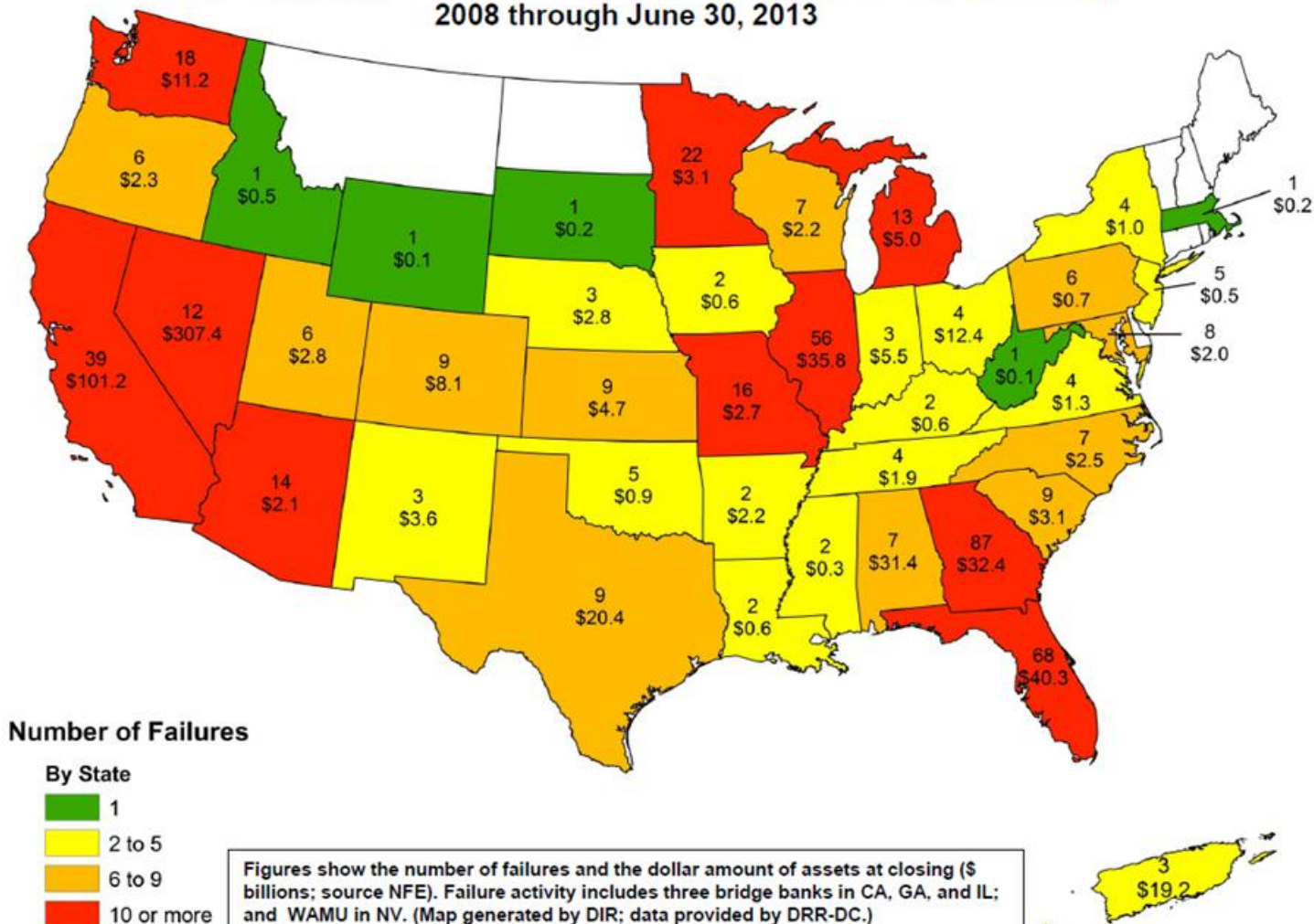
- Relatively common, but each requires significant planning for contingencies
- Direct impact on FDIC mission of maintaining confidence in the US banking system and preserving depositors' access to insured funds



Failure Activity Assets and Institutions

Exhibit A

Failure Activity: Total Assets and Number of Institutions 2008 through June 30, 2013



Number of Failures

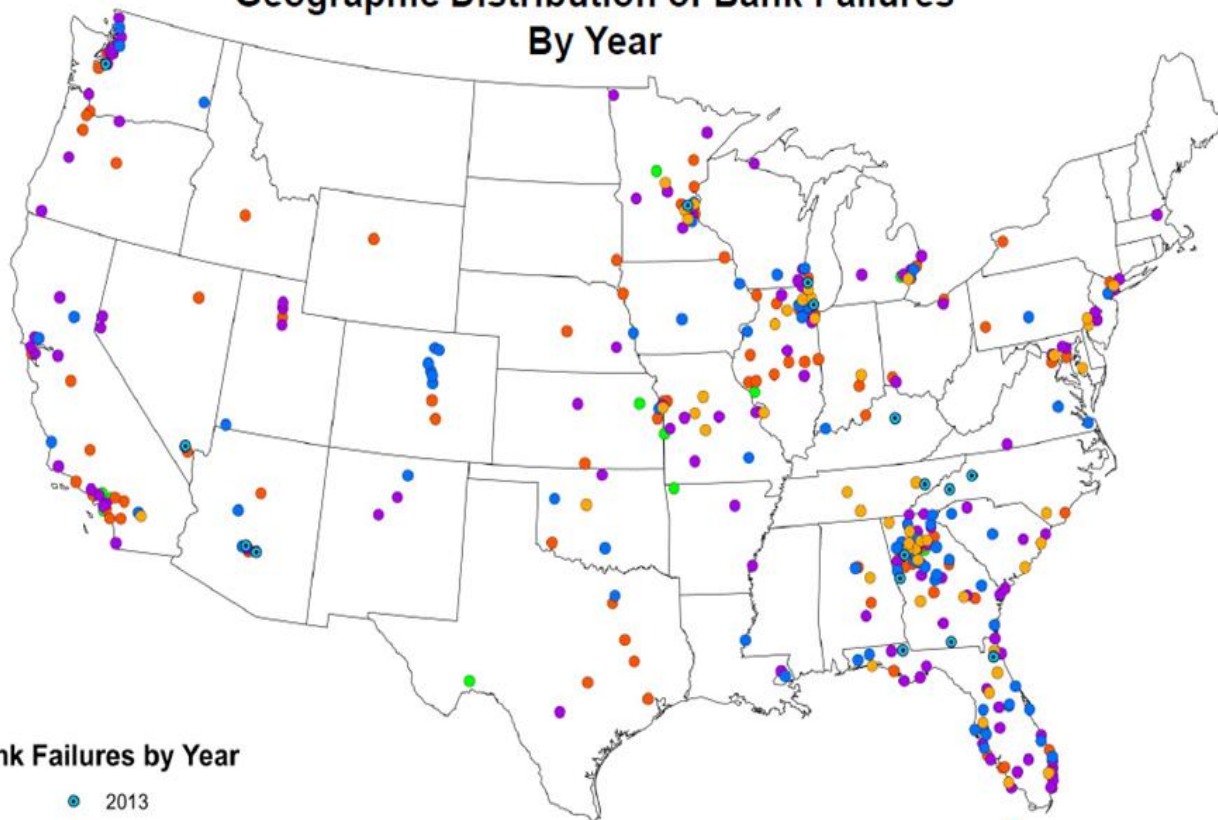
By State

- 1
- 2 to 5
- 6 to 9
- 10 or more

Figures show the number of failures and the dollar amount of assets at closing (\$ billions; source NFE). Failure activity includes three bridge banks in CA, GA, and IL; and WAMU in NV. (Map generated by DIR; data provided by DRR-DC.)

Failure Activity 2007 - 2013

Exhibit C
Geographic Distribution of Bank Failures
By Year



Bank Failures by Year

- 2013
- 2012
- 2011
- 2010
- 2009
- 2008

DRR-DC Monitoring and Risk Analysis

**Current
Open Insured
Institutions
5,887**

**Failures
Since 2007
485**

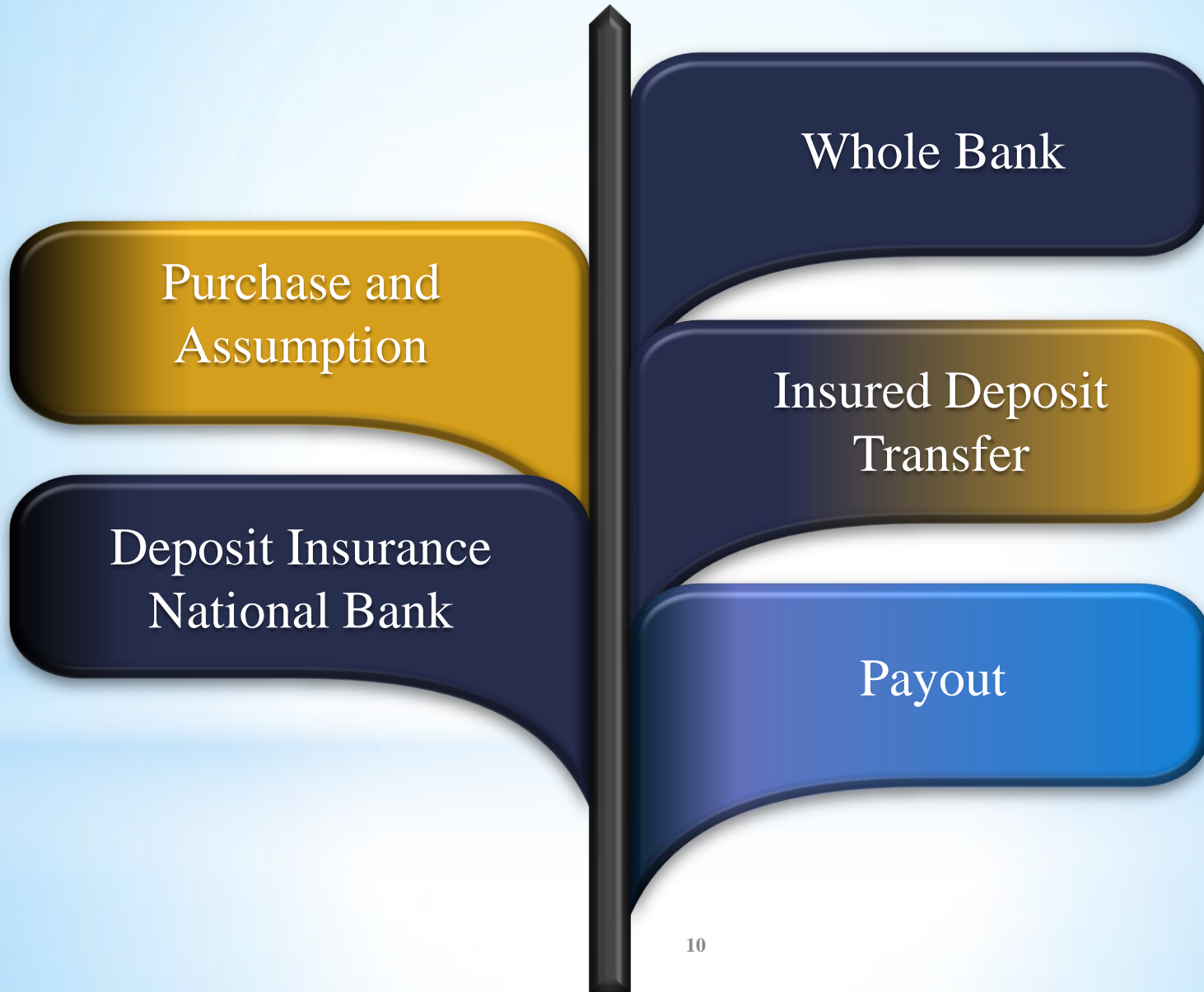


FDIC Bank Resolution Timeline

(approximate, for illustrative purposes – not a statutory timeline)

1. Watch List (bank is notified it needs to raise capital)
2. Critical List
3. FDIC examiners and selected specialists enter the bank to gather information (for FDIC and potential bidders/buyers)
Contingency planning starts here
4. Market the bank – FDIC solicits bids (different types of transactions are offered)
5. Bidders gather information and perform due diligence
6. FDIC analyzes bids and awards franchise to best bidder
(in some cases there are no bidders, in which case the FDIC will assume control)
7. Bank fails - primary regulator places the bank into receivership with the FDIC as the Receiver
8. Assuming bank takes over the operations of the failed bank
9. FDIC pays depositors (either through assumption of deposits by assuming bank or direct payment, if no assuming bank)
10. FDIC executes bank closing to establish beginning receivership balance sheet and gathers documentation for assets and liabilities assumed by FDIC (generally takes 4 days to several weeks, depending on size and complexity)

Types of Bank Resolutions





The Contingency Planning Process

Plans

Different types of resolutions require different contingency plans

FDIC Goal

Resolve the failed bank with as little disruption to the depositors as possible while accomplishing the resolution with the least cost to the FDIC Deposit Insurance Fund

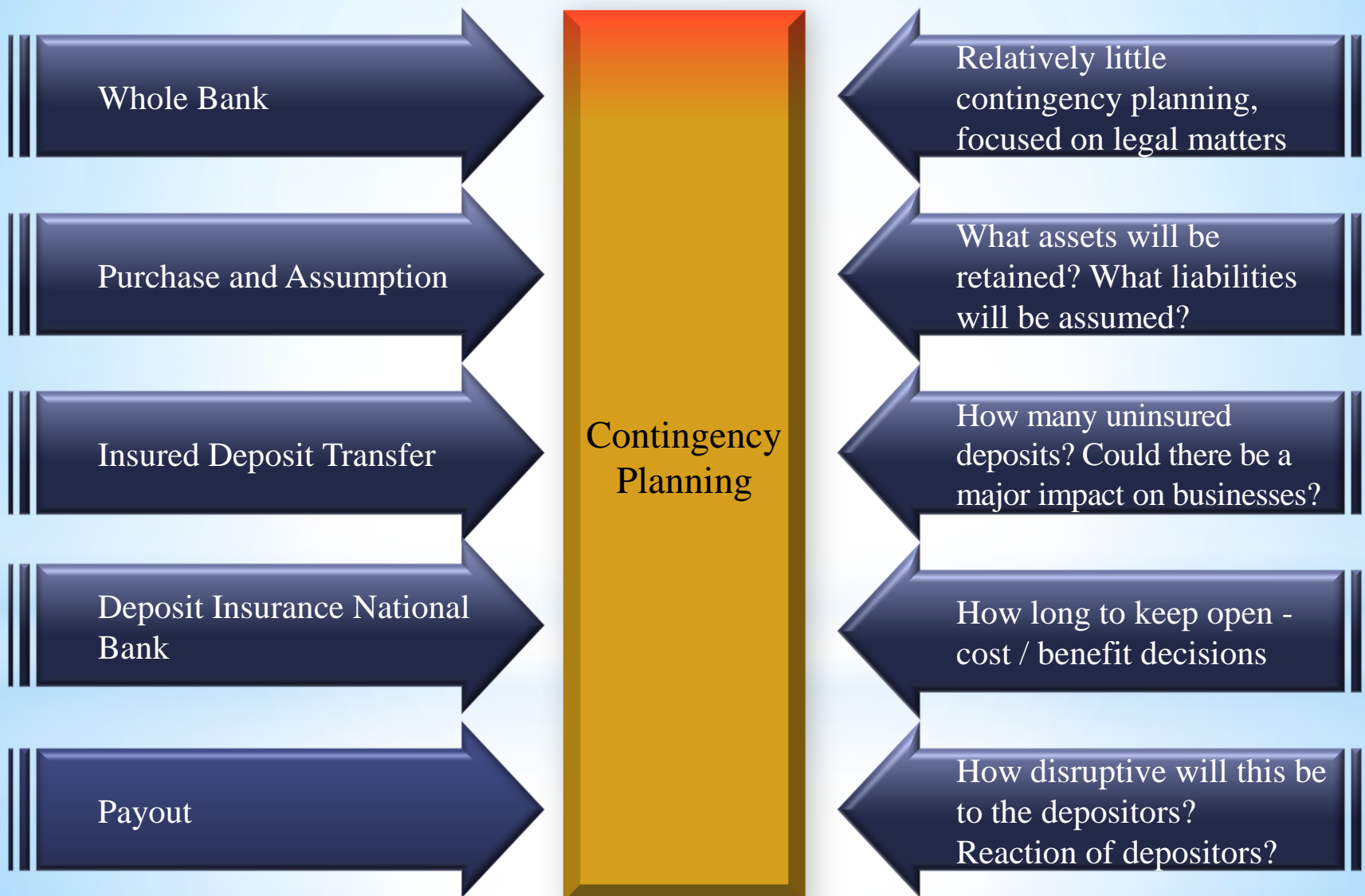
Timing

Contingency Planning starts at the time the bank is placed in critical status

Continues up to the point of failure – and in some cases, after failure



Resolution Options



Case Study

NOVA Bank - Payout

Located in Berwyn, Pennsylvania (suburban Philadelphia)

Failure Date – 26 October, 2012

Size: \$473 million assets,
\$418 million deposits

Number of branches - 12

Significant Issues -

Money Service Business (MSB)

- 252 businesses
- Significant cash needs

Low core deposits

Very little interest from potential acquirers



Payout Transaction



No Assuming Institution to handle operational issues

Hiring of failed bank staff, including payroll and insurance issues

Support for IT systems

Money Service Business Concerns

Loan servicing requirements

Arranging for the settlement of government electronic payments
(Social Security, veterans' benefits)

Make up of depositor base. Number of brokered deposits, reliability of
bank depositor records

Significant cash concerns



Cash Concerns

MSB Accounts

Cash needs – starting as soon as Saturday morning

Coordinating communication to MSBs

Possibility of contributing to, or causing the failure of one or more of these businesses

Emergency Cash for Depositors

Arranged 2 days before the closing to have a local bank (National Penn Bank) service any emergency cash needs of NOVA customers

Arranged for all US government electronic payments to post to National Penn starting the Monday after closing

Pre-funded \$100,000 to National Penn for emergency cash

Arranged emergency cash procedures with National Penn and FDIC branch managers.

Branch Cash

Cash had to be counted at each branch and reconciled to the general ledger

Cash then scheduled to be picked up by armored car and deposited into the failed bank's account (now FDIC) at the Federal Reserve Bank

Insurance Determination

Insured Deposit Determination had to be completed by Sunday afternoon

Deposit records of NOVA had to be scrubbed and matched to US Deposit Insurance laws

Payout to Depositors

Funding arrangements with FDIC corporate – from FDIC Insurance Fund

Deposit base of \$418 million had to be paid “at the soonest practical date” – generally interpreted by the FDIC as payment by check mailed on Monday morning

Approximately 12,000 checks

Wire transfers to brokered depositors

Hurricane Sandy





Additional Hurricane Contingencies

- As of Thursday, the hurricane was still expected to mainly hit the New York area and points north, but would it impact the Philadelphia area?
- FDIC Staff and Bank Employee safety
- Could we complete an insurance determination by Sunday night?
- Was the US Treasury going to be operating? – On Monday, would we be able to wire funds from FDIC’s Treasury account into the FDIC *bank payout* bank account?
- Was our primary bank – Federal Home Loan Bank of New York going to be operating? Could we wire funds to brokered depositors?
- When we mailed checks to depositors – would they be deliverable? Where were the bulk of depositors located?
- Reaffirmed communication plans with all staff



FDIC Primary Bank Accounts

Receivership

Federal Home Loan Bank –New York

- Primary account – deposit account for all funds received
- Fund overnight investments
- All AP disbursements – check, EFT, wire

Federal Home Loan Bank – Chicago

- Fund payout checks and wires

JPMorgan Chase

- Zero balance account
- Clear all checks and EFTs

Corporation:

US Treasury (fund receivership deposits)

Hurricane Sandy - Landfall What Happened

Friday, 26 October through Wednesday, 31 October, 2012

Emergency communication plans were made with all staff on Friday morning

NOVA Bank failed on Friday, as scheduled

The weather continued to deteriorate through the weekend

By Sunday, power outages were being experienced throughout Philadelphia, including the NOVA Bank buildings and hotels where FDIC staff were staying

Hurricane Sandy hit late on Sunday night

Some hotels retained power and staff worked as best as possible from hotel rooms

Flooding occurred in much of Philadelphia, neighboring New Jersey and New York City

FDIC staff were instructed to stay in hotels. They remained in their hotels until Tuesday. Staff returned to NOVA offices on Tuesday



Hurricane Sandy

What Happened

Friday, 26 October through Wednesday, 31 October, 2012

Friday night, as the hurricane approached, citizens, including NOVA customers, began to prepare for the storm

Many customers attempted ATM withdrawals Friday night and early Saturday – but NOVA accounts were frozen

Emergency cash available at the branches helped ease the situation

Upon request, a depositor would be approved by an FDIC branch manager to obtain a cash advance by going to the branch of a designated bank

Total of \$1 million in cash at branches and ATM's

Money Service businesses had cash deliveries scheduled starting Saturday

Armored car service was not available in most areas due to storm conditions



Hurricane Sandy

What Happened

Friday, 26 October, through Wednesday, 31 October, 2012

Flooding occurred in lower Manhattan.

FHLB-New York temporarily lost power and their primary connection to the Federal Reserve Bank, thus crippling their ability to conduct wire transfers

The back-up internet connection of FHLB ran through the same building in NY City as the primary connection - both were flooded

Wire transfer ability was severely reduced

This event now impacted all FDIC receivership operations – not just those related to NOVA Bank

The FDIC switched wire transfer operations to a back-up account at JPMorgan Chase

Treasury was unable to complete the transfer of funds to the FDIC account on Monday, October 29th

FDIC used funds that had been transferred in advance to the back-up account at FHLB-Chicago to fund deposits

Daily AP disbursements (JPMorgan Chase)

Brokered deposit wire transfers

Payout checks mailed on Sunday.



Hurricane Sandy

Payout Checks

12,000 checks were printed in Dallas and delivered to the US Postal Service late Sunday night

USPS informed FDIC staff that mail was not being delivered to the Philadelphia region

Mail was delivered to Philadelphia region by Wednesday, but many post offices were not functioning

FDIC kept in close contact with the Philadelphia region of the USPS on the status of mail delivery

Some FDIC checks to depositors apparently ended up under water, as they were returned to the FDIC, undeliverable still damp

FDIC Staff continually review outstanding check status and follow up as possible

As of August 31, 2013
14 checks remained outstanding:
\$231,000

One depositor blogged the following –

“Despite a hurricane coming through, I got my insurance check from the FDIC 4 business days after Nova saying it closed down. Who said that the government doesn’t work for you?”



What Went Well

Back up funds were put in place at FHLB-Chicago in case funds could not be moved out of US Treasury account

Emergency cash was funded and available for depositors at a designated bank, and procedures were in place with that bank to handle emergency cash situations

Back up wire transfer capability was in place in the event FHLB-NY could not operate

What Did Not Go Well

Cash counted at branches could not be moved to the Federal Reserve Bank until late the following week

One FDIC staff member had an outside security guard pull a gun on him while counting cash located in a remote ATM

Lesson Learned

In a major crisis – FDIC regulatory priorities take a back seat to life events

Questions



Thank You!

