U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

Comptroller General
of the United States

May 19, 2025

The Honorable Travis Hill
Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Priority Open Recommendations: Federal Deposit Insurance Corporation

Dear Acting Chairman Hill:

The purpose of this letter is to call your personal attention to two areas based on GAO's past work and four open priority recommendations, which are enclosed.[1] Additionally, there are six other GAO open recommendations that we will continue to work with your staff to address.

We are highlighting the following areas that warrant your timely and focused attention. Specifically:

Bank supervision. The 2023 failures of Silicon Valley Bank and Signature Bank raised questions about whether the federal banking regulators took sufficient action to ensure that financial institutions promptly addressed supervisory concerns, such as weak liquidity and risk management practices. In November 2024, we recommended that the Federal Deposit Insurance Corporation (FDIC) establish procedures—such as vetting meetings—to ensure that managers formally consult with the examination team and relevant stakeholders before making substantive changes to examination findings for certain institutions. We also recommended that FDIC consider periodic assignment rotations for certain case managers. By implementing these two recommendations, FDIC could better ensure that its escalation decisions are independent and evidence-based.

Blockchain technology. In 2023, we found that financial regulators lacked an ongoing coordination mechanism for addressing blockchain risks in a timely manner. For example, regulators identified financial stability risks posed by stablecoins in 2019 but did not identify the need for action to address these risks until November 2021. We recommended that FDIC and the other federal financial regulators jointly establish or adapt an existing formal coordination mechanism to identify and address risks posed by blockchain-related products and services. Such a mechanism would help FDIC and the other regulators collectively identify risks and develop and implement a regulatory response in a timely manner.

[1]GAO considers a recommendation to be a priority if, when implemented, it may significantly improve government operations—for example, by realizing large dollar savings; eliminating mismanagement, fraud, and abuse; or making progress toward addressing a high-risk or duplication issue.

Please see Enclosure 1 for additional details about the status and actions needed to fully implement the four open priority recommendations out of the 10 total recommendations that remain open. These include a priority recommendation on financial technology.

Please see Enclosure 2 for additional information on FDIC's recommendation implementation rate, as well as implemented, closed, and new priority recommendations since our April 2024 letter to Chairman Gruenberg. The enclosure also discusses relevant management challenges from our High-Risk List that apply to FDIC. Additionally, in response to legislation enacted in December 2022, the enclosure includes information on any additional congressional oversight actions that can help agencies implement priority recommendations and address any underlying issues related to such implementation.

Copies of this letter are being sent to the appropriate congressional committees. The letter will also be available on the GAO website at Priority Recommendations | U.S. GAO.

If you have any questions or would like to discuss any of the issues outlined in this letter, please do not hesitate to contact me or Daniel Garcia-Diaz, Managing Director, Financial Markets and Community Investment, at GarciaDiazD@gao.gov. Contact points for our offices of Congressional Relations and Public Affairs may be found on the last page of this letter. Our teams will continue to coordinate with your staff on addressing the four priority recommendations and the remaining six open recommendations. I appreciate FDIC's continued commitment and thank you for your personal attention to these important issues.

Sincerely,

//SIGNED//

Gene L. Dodaro
Comptroller General
of the United States

Enclosures – 2

Enclosure 1

Priority Open Recommendations to the Federal Deposit Insurance Corporation

Bank Supervision

Bank Supervision: Federal Reserve and FDIC Should Address Weaknesses in Their Process for Escalating Supervisory Concerns. GAO-25-106771. Washington, D.C.: November 19, 2024 (reissued with revisions on November 25, 2024).

Year Recommendations Made: 2025

Recommendation: The Chair of the Federal Deposit Insurance Corporation (FDIC) should establish procedures, such as vetting meetings, for the Continuous Examination process program to ensure that managers formally consult with the examination team and relevant stakeholders before making substantive changes to examination findings. Such vetting meetings should be documented and include any divergent views that arise.[2]

Actions Needed: FDIC generally agreed with the recommendation. In its comment letter, FDIC stated it will enhance procedures for communication between the examination team and relevant stakeholders, including field office and regional management, case managers, and Washington Office review staff and management. FDIC plans to formalize the process through which the examination team members and relevant stakeholders can discuss and document their views on supervisory ratings and findings before substantive changes are made to the examination findings. In its comment letter, FDIC stated the procedures will be updated and communicated to staff by June 30, 2025.

To fully implement this recommendation, FDIC needs to establish procedures for managers—including case managers, assistant regional directors, and regional directors—to consult with the entire Continuous Examination process examination team and relevant stakeholders before making substantive changes to examination findings. By doing so, FDIC could better ensure its escalation decisions are independent and grounded in the evidence gathered during examinations.

Recommendation: The Chair of FDIC should consider a requirement that case managers for Continuous Examination process institutions periodically rotate assignments.

Actions Needed: FDIC disagreed with the recommendation. In its comment letter, FDIC stated the case manager position is a separate and important part of FDIC's lines of defense against both regulatory capture and inconsistency with examination policies. However, the evidence we found led us to consider the potential risk of capture to FDIC management, including case managers, assistant regional directors, and regional directors. We found the risk of capture of case managers exists, particularly regarding FDIC supervision of Continuous Examination process institutions. We continue to believe that rotation requirements for case managers at these institutions would be an important protection against capture.

To fully implement this recommendation, FDIC needs to consider a rotation requirement for Continuous Examination process case managers after a certain number of years. This

[2]The Continuous Examination process program is an examination program for which staff are dedicated to a specific bank and use a continuous examination process due to the size and complexity of the supervised institutions.

requirement could help FDIC prevent regulatory capture and ensure that case managers for Continuous Examination process institutions maintain their supervisory independence.

High-Risk Area: Modernizing the U.S. Financial Regulatory System

Director: Michael E. Clements, Financial Markets and Community Investment

Contact Information: clementsm@gao.gov

Blockchain Technology

Blockchain in Finance: Legislative and Regulatory Actions Are Needed to Ensure Comprehensive Oversight of Crypto Assets. GAO-23-105346. Washington, D.C.: June 22, 2023.

Year Recommendation Made: 2023

Recommendation: The Chairman of FDIC should jointly establish or adapt an existing formal coordination mechanism with the Consumer Financial Protection Bureau, Commodity Futures Trading Commission, Board of Governors of the Federal Reserve System, National Credit Union Administration, Office of the Comptroller of the Currency, and Securities and Exchange Commission for collectively identifying risks posed by blockchain-related products and services and formulating a timely regulatory response. To facilitate these objectives, this mechanism could include formal planning documents that establish the frequency of meetings and processes for identifying risks and responding to them within agreed-upon time frames.

Actions Needed: FDIC neither agreed nor disagreed with the recommendation. In April 2024, FDIC officials told us that the Financial Stability Oversight Council, of which FDIC is a member, established a coordination mechanism through the creation of the Digital Asset Working Group. The group was formed to promote information sharing and enhance interagency coordination in identifying potential financial stability-related risks in the digital asset space.

In July 2024, the agencies provided documentation demonstrating that the working group meets regularly and has developed and implemented processes for identifying risks and regulatory challenges concerning blockchain-related products and services.

To fully implement the recommendation, the agencies should continue to work toward developing processes for responding to those risks and challenges that cross regulatory jurisdictions within agreed-upon time frames. Such a mechanism would help FDIC and the other regulators collectively identify risks and develop and implement a regulatory response in a timely manner.

High-Risk Area: Modernizing the U.S. Financial Regulatory System

Director: Michael E. Clements, Financial Markets and Community Investment

Contact Information: clementsm@gao.gov

Financial Technology

Financial Technology: Agencies Should Provide Clarification on Lenders' Use of Alternative Data. GAO-19-111. Washington, D.C.: December 19, 2018 (reissued with revisions on March 12, 2019).

Year Recommendation Made: 2019

Recommendation: The Chairman of FDIC should, in coordination with the other federal banking regulators and the Consumer Financial Protection Bureau and with input from relevant stakeholders, communicate in writing to banks that engage in third-party relationships with financial technology (fintech) lenders on the appropriate use of alternative data in the underwriting process, including issues to consider when selecting types of alternative data to use.

Actions Needed: FDIC agreed with the recommendation. In June 2023, FDIC—along with the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency—issued interagency guidance on third-party risk management. In March 2024, the regulators said they believe this action fulfills the recommendation.

However, the guidance does not include specific direction to banks that engage in third-party relationships with fintech lenders regarding the appropriate use of alternative data in the underwriting process. Instead, the guidance broadly applies to all topics and third-party relationships. As a result, it does not address specific topics, such as use of alternative data, or specific types of third-party relationships, such as those with fintech companies. As of February 2025, FDIC has not taken additional actions to fully implement the recommendation.[3]

To fully implement the recommendation, FDIC needs to coordinate with other federal banking regulators and the Consumer Financial Protection Bureau to finalize written communication providing banks with specific direction on the appropriate use of alternative data in underwriting when partnering with fintech lenders. Such communication would give fintech lenders greater certainty about their compliance with consumer protection laws and help banks manage the risks associated with these partnerships.

Director: Michael E. Clements, Financial Markets and Community Investment

Contact Information: clementsm@gao.gov

[3]In July 2024, the federal bank regulators issued a joint statement on banks' arrangements with third parties to deliver bank deposit products and services. The statement reemphasized existing guidance and did not address the appropriate use of alternative data in underwriting. The regulators also published a request for information on bank-fintech arrangements involving products and services distributed to consumers and businesses. Request for Information on Bank-Fintech Arrangements Involving Banking Products and Services Distributed to Consumers and Businesses, 89 Fed. Reg. 61577 (July 31, 2024). The request for information mentions the risks of the use of alternative data in bank-fintech arrangements and sought comments on the description of those risks—among others—and how to address them, but regulators have not taken additional action.

Enclosure 2

Key Information About the Status of GAO Recommendations and Improving Agency Operations

Federal Deposit Insurance Corporation's (FDIC) Recommendation Implementation Rate

In November 2024, we reported that, on a government-wide basis, 70 percent of our recommendations made 4 years ago were implemented.[4] FDIC's recommendation implementation rate was 80 percent.[5] As of April 2025, FDIC had 10 open recommendations.

Implemented, Closed, and New Priority Recommendations

Our April 2024 letter to Chairman Gruenberg identified two priority recommendations.[6] Since then, neither of the two recommendations were implemented, and we added two new priority recommendations.

New priority recommendations: The two new priority recommendations are in the area of bank supervision (see Enclosure 1).

High-Risk List

In February 2025, we issued our biennial update to our High-Risk List.[7] This list identifies government operations with greater vulnerabilities to fraud, waste, abuse, and mismanagement. It also identifies the need for transformation to address economy, efficiency, or effectiveness challenges. One of our high-risk areas—modernizing the U.S. financial regulatory system—relates directly to FDIC. Specifically, we urge your attention to the effective and efficient oversight of financial institutions and activities.

Several other government-wide, high-risk areas also have direct implications for FDIC and its operations. These include improving management of IT acquisitions and operations, improving strategic human capital management, improving the personnel security clearance process, managing federal real property, and ensuring the cybersecurity of the nation.

In addition to FDIC's high-risk area, we urge your continued attention to these other government-wide, high-risk issues as they relate to FDIC. Progress on high-risk issues has been possible through the concerted actions and efforts of Congress, the Office of Management and Budget, and the leadership and staff in agencies, including within FDIC. In March 2022, we

[4]GAO, *Performance and Accountability Report, Fiscal Year 2024,* GAO-25-900570 (Washington, D.C.: Nov. 15, 2024).

[5]We calculated the implementation rate based on the total number of recommendations we made 4 years ago that we have closed as implemented.

[6]GAO, *Priority Open Recommendations: Federal Deposit Insurance Corporation*, GAO-24-107275 (Washington, D.C.: Apr. 30, 2024).

[7]GAO, *High-Risk Series: Heightened Attention Could Save Billions More and Improve Government Efficiency and Effectiveness*, GAO-25-107743 (Washington, D.C.: Feb. 25, 2025).

issued a report on key practices to successfully address high-risk areas, which can be a helpful resource as your agency continues to make progress to address high-risk issues.[8]

Congress's Role on GAO Recommendations

We also recognize the key role Congress plays in providing oversight and maintaining focus on our recommendations to ensure they are implemented and produce their desired results. Legislation enacted in December 2022 includes a provision for GAO to identify any additional congressional oversight actions that can help agencies implement priority recommendations and address any underlying issues relating to such implementation.[9]

Congress can use various strategies to address our recommendations, such as incorporating them into legislation. Congress can also use its oversight processes to incentivize FDIC to act on our recommendations and monitor its progress. For example, Congress can hold hearings focused on FDIC's progress in implementing GAO's priority recommendations or take other actions to provide incentives for FDIC to act.

Congress also plays a key role in addressing any underlying issues related to the implementation of these recommendations. For example, Congress can pass legislation providing an agency explicit authority to implement a recommendation or requiring an agency to take certain actions to implement a recommendation.

---

[8]GAO, *High-Risk Series: Key Practices to Successfully Address High-Risk Areas and Remove Them from the List*, GAO-22-105184 (Washington, D.C.: Mar. 3, 2022).

[9]James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Pub. L. No. 117-263, § 7211(a)(2), 136 Stat. 2395, 3668 (2022); H.R. Rep. No. 117-389 (2022) (accompanying Legislative Branch Appropriations Act, H.R. 8237, 117th Cong. (2022)).

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through our website. Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. You can also subscribe to GAO's email updates to receive notification of newly posted products.

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, https://www.gao.gov/ordering.htm.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on X, LinkedIn, Instagram, and YouTube.
Subscribe to our Email Updates. Listen to our Podcasts.
Visit GAO on the web at https://www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact FraudNet:

Website: https://www.gao.gov/about/what-gao-does/fraudnet

Automated answering system: (800) 424-5454

Media Relations

Sarah Kaczmarek, Managing Director, Media@gao.gov

Congressional Relations

A. Nicole Clowers, Managing Director, CongRel@gao.gov

General Inquiries

https://www.gao.gov/about/contact-us